RBC Economics

Focus on Canadian Housing

HOUSING TRENDS AND AFFORDABILITY

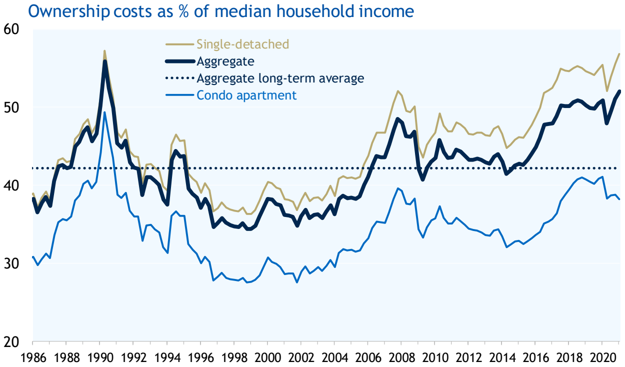
June 2021

Pandemic affordability relief was short-lived for Canadian home buyers

- **Housing mania drives RBC's affordability measure to its worst level in 31 years**: RBC's national aggregate measure rose for the third straight time in the first quarter of 2021, up 0.9 percentage points to 52.0%—last reached in 1990.
- **Few markets escape the deterioration**: Only spots in the Prairies and New Brunswick bucked the trend last quarter. Affordability worsened most in British Columbia, Ontario and Nova Scotia.
- **Prairies, parts of Atlantic Canada remain relatively affordable**: Price increases have yet to apply abnormal pressure on buyers in these regions. Ownership costs are an excessively heavy burden in Vancouver, Toronto and Victoria, and increasingly so in Montreal and Ottawa.
- **Situation to get even more challenging in the near term**: Tight demand-supply conditions maintain intense upward pressure on home prices. This is poised to raise the ownership bar higher-still for buyers in most markets, including smaller cities and rural areas that have attracted a lot of interest during the pandemic. In big cities, the affordability of condo apartments—the more viable option for many buyers—will likely erode as prices have recently begun to firm up.

RBC Housing Affordability Measures - Canada

Ownership costs as % of median household income



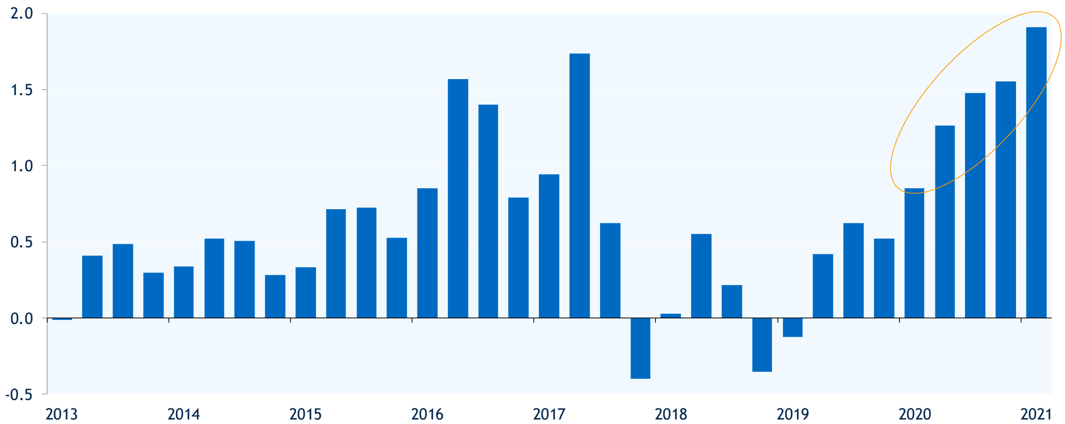
The share of income a household would need to cover ownership costs (in %)

Canada	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal
52.0	74.9	37.0	31.9	67.7	42.4	44.6

First quarter 2021

Soaring prices take a big bite out of affordability

Home prices' contribution to quarterly changes in RBC's aggregate affordability measure for Canada, in percentage points



Source: RPS, Royal LePage, Statistics Canada, Bank of Canada, RBC Economics

Hot, hot, hot isn't good for affordability

Canada's housing market heated up further in the early months of 2021, as the buying frenzy reached never-before-seen levels. Bidding wars—a phenomenon previously confined to the most expensive markets—spread to many regions, resulting in steep price escalations. The attendant rise in ownership costs far exceeded buyers' income gains in the first quarter of 2021. The ratio of ownership costs to household income—which constitutes RBC's afforda-

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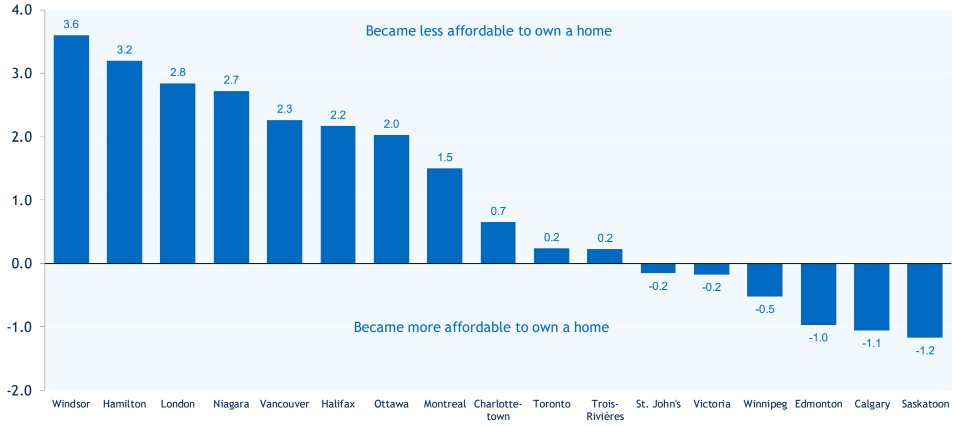
bility measure—jumped 0.9 percentage points overall in Canada to 52.0% (a rise represents a deterioration in affordability). This was the third-straight increase. And it more than reversed the material decline that occurred in the spring of 2020 when the rollout of massive government financial support boosted household income in the early stages of the pandemic. In fact, RBC's aggregate measure hit a 31-year high in the first quarter. Higher prices entirely accounted for the deterioration.

Affordability worsened in many smaller markets during the pandemic

Change in mortgage carrying costs to household income ratio between Q1 2020 and Q1 2021, in percentage points



Source: RPS, Statistics Canada, Bank of Canada, RBC Economics

More people want a single-family home, fewer can afford it

Surging demand for properties with larger living spaces continued to crank up single-family home prices and ultimately ownership costs. RBC's measure for single-detached homes surged 1.2 percentage points to 56.8% in the first quarter. Things got slightly better for condo apartments, however, with the measure easing 0.6 percentage points to 38.2%. This reflected condo price declines in several major markets.

Less affordable to own a home in most major markets

With aggregate prices rising broadly across the country, a majority of markets recorded a loss of affordability in the latest period. The deterioration was most significant in Vancouver (RBC's measure rising 1.9 percentage points), Halifax (up 1.7 percentage points) and Victoria (up 1.2 percentage points), though Montreal (up 0.9 percentage points) and Toronto (up 0.6 percentage points) weren't far behind. The situation improved in a few markets concentrated in the Prairies (led by Calgary, Edmonton and Regina) and in Saint John.

Smaller markets' affordability advantage has eroded

A strong influx of buyers—several of whom coming from big cities—has significantly boosted property values in smaller markets in Ontario, BC, Quebec and parts of Atlantic Canada. Large price gains have narrowed their affordability advantage over big cities. Since the pandemic, mortgage carrying costs have increased more as a share of household income in Windsor, Hamilton, London and Niagara than in Vancouver, Ottawa, Montreal or Toronto.

Ownership costs still manageable for average buyers in many places

Despite widespread deterioration over the last three quarters, affordability remains within historical norms in many markets. That's the case in the Prairie Provinces and most of Atlantic Canada (except Halifax) where ownership costs continue to be lower than their long-run average as a share of household income. The picture is much more difficult in the country's most expensive markets though. Average buyers must spend 74.9% of their income to cover ownership costs of a typical home in the Vancouver area, 67.7% in the Toronto area and 55.8% in Victoria. Stress is also intensifying in Montreal (44.6%) and Ottawa (42.4%).

Persistent market imbalance points to further deterioration ahead

While home resale activity is poised to moderate from unsustainably-strong levels, it won't be enough to instantly rebalance many markets across the country given how tight demand-supply conditions remain. We expect prices will continue to rise in the near term, further eroding housing affordability. We also expect condo ownership costs will pick up after easing for the better part of the last year. Buyers have recently renewed their interest in condo apartments and inventories are now shrinking.

British Columbia

Victoria – Housing boom leaves a mark

The biggest boom ever in Victoria's housing market left its mark on affordability. RBC's aggregate measure rose for three straight quarters, including a 1.2 percentage points jump in the first quarter to 55.8%. The increase was the second-largest among the markets we track, after Vancouver. Victoria is the third least affordable market in Canada. Super strong demand and low inventories are driving up prices at a faster and faster pace so far in 2021. Activity cooled a few degrees this spring though demand-supply conditions remain exceptionally tight. This will keep prices escalating in the period ahead.

Vancouver area – Affordability taking another hit

Things really got going fast in Vancouver earlier this year when demand skyrocketed amid exceptionally low interest rates and changing housing needs. This tipped the market heavily in favour of sellers and set prices climbing rapidly, raising the affordability bar even higher. Vancouver is by far the least affordable market in Canada. RBC's aggregate measure (74.9%) is more than 20 percentage points above the national average (52.0%). Vancouver's measure rose 1.9 percentage points in the first quarter, the biggest rise among the markets we track. Tentative signs of cooling emerged this spring, though, which could slow the affordability erosion if sustained.

Alberta

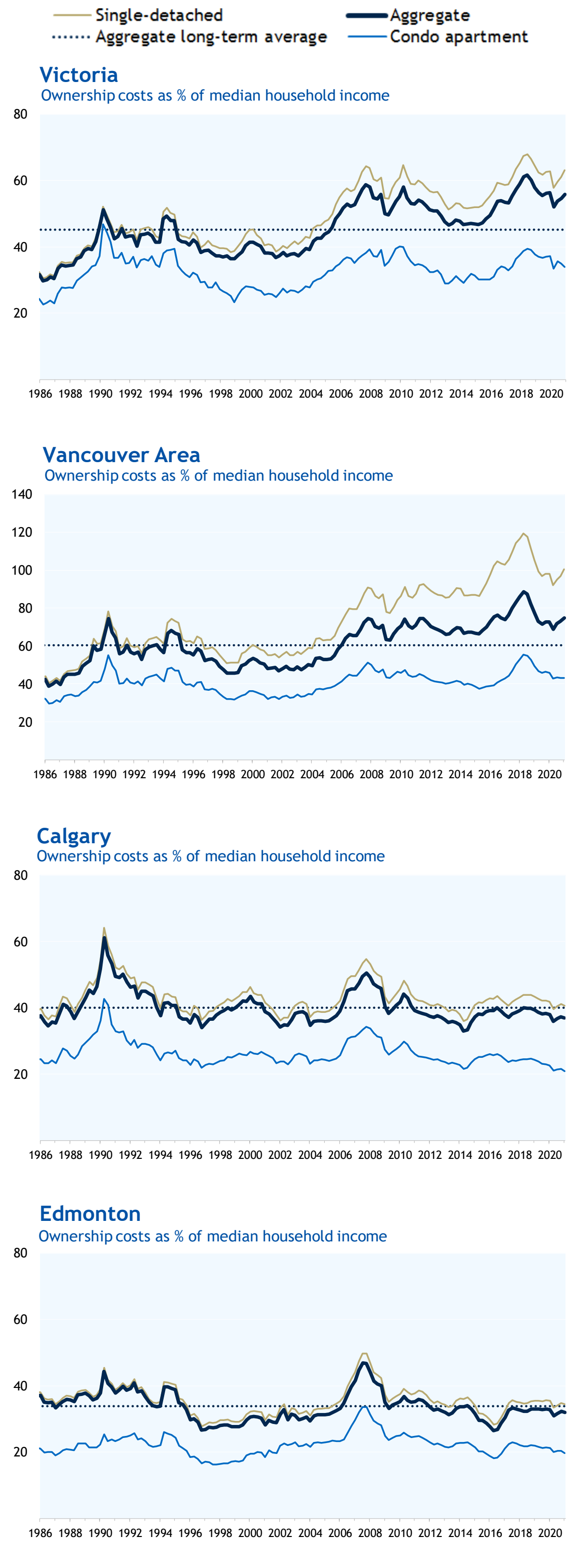
Calgary – Best of both worlds

The market continued to rally in earnest in early 2021 as buyers took advantage of unique circumstances to make a move. One contributing factor has been relatively good affordability. Despite firming prices, ownership costs have come down slightly as a share of income during the pandemic. This was again the case in the first quarter when RBC's aggregate measure edged 0.4 percentage points lower to 37.0%. This level compared favourably to the long-run average of 40.1%. With the half-decade-long slump in the rear view mirror, confidence has returned. We expect further price acceleration will soon set affordability on a deteriorating track.

Edmonton – In good standing

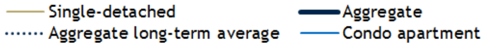
It's a similar story in Edmonton where the market has rebounded strongly while affordability remains in good standing. Tighter demand-supply conditions have driven up prices since last summer—marking an end to five years of decline—but until very recently the pace of increase has been modest. This left RBC's aggregate affordability measure (31.9% in the first quarter) relatively steady below its long-term average (33.8%). It inched slightly lower by 0.3 percentage points in the latest period. With tighter demand-supply conditions exerting more intense upward pressure on prices of late, we expect ownership costs to rise more materially in the period ahead.

RBC Housing Affordability Measures

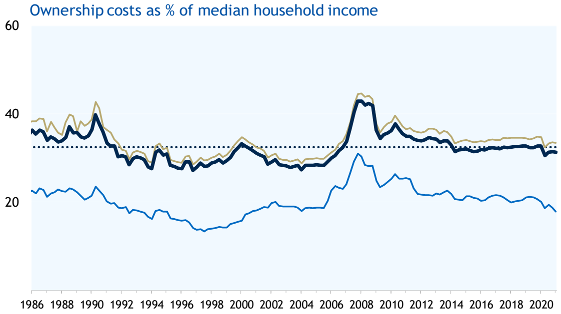


Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economics

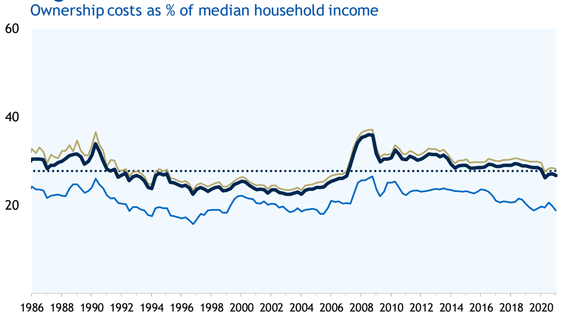
RBC Housing Affordability Measures



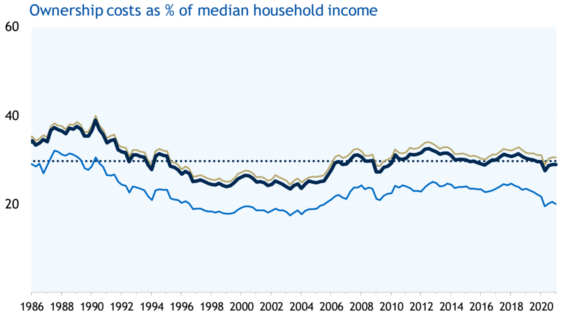
Saskatoon
Ownership costs as % of median household income



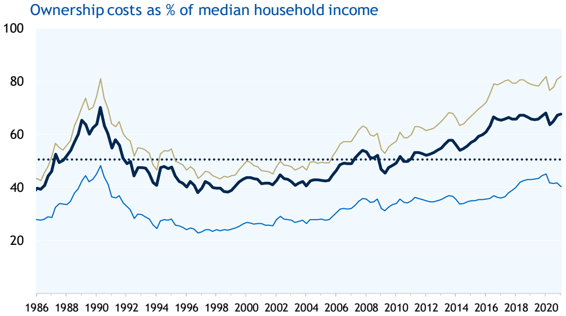
Regina
Ownership costs as % of median household income



Winnipeg
Ownership costs as % of median household income



Toronto Area
Ownership costs as % of median household income



Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economics

Saskatchewan

Saskatoon – Heat sparing affordability—so far

The Saskatoon market definitely felt the heat wave that spread across the country. Home resales soared to successive record highs earlier this year and much thinner inventories gave sellers a stronger hand to extract more from competing buyers. Yet ownership costs remained little changed as a share of household income in the first quarter. RBC's aggregate affordability measure slipped a marginal 0.1 percentage points to 31.3%—below the long-range average of 32.4%. We expect tight demand-supply conditions to drive the measure higher in the period ahead.

Regina – Hectic but still affordable

Likewise, activity got extremely hectic in Regina in early 2021 and this, too, had yet to undermine affordability in the first quarter. RBC's aggregate measure even improved slightly—falling 0.3 percentage points to 26.7%—thanks to heftier household income gains. The picture is likely to worsen going forward. We expect strong demand and lower inventories to result in faster rising prices in the near term.

Manitoba

Winnipeg – Burden of ownership costs may not stay flat much longer

Housing affordability didn't change in Winnipeg in the first quarter but the market clearly did—it got hotter. Home resales reached sky-high levels and prices picked up more steam. And it looks like tight demand-supply conditions will heat up prices some more in the near term. RBC's aggregate affordability measure remained flat at 28.9% last quarter, just a hair under its long-run average (29.6%), but is unlikely to stay that way much longer. We expect rising prices will erode affordability in the period ahead.

Ontario

Toronto area – Frenzy's knock on affordability has yet to run its course

The buying frenzy was unprecedented in the Greater Toronto Area in the early months of 2021. Rapidly escalating prices and deteriorating affordability fueled buyers with a sense of urgency to land deals before things got worse, rather than send them to the sidelines. This 'fear of missing out' contributed to the escalation of prices—and ownership costs—amid exceptionally low inventories (for the most part). RBC's aggregate affordability measure rose 0.6 percentage points to 67.7% in the first quarter. A solid household income gain in fact limited the increase. Fierce competition between buyers is poised to sustain further deterioration in the near term. We even expect condo affordability to erode slightly as buyers rekindle their interest in this category.

Ottawa – Ownership costs swelling rapidly

Ottawa is one of Canada's hotter markets. It's been in record-high territory through most of 2021 with prices still accelerating at an annual rate of more than 22% as of spring. Swelling ownership costs pose an increasing burden for buyers. RBC's aggregate affordability measure reached its worst level (42.4%) in 27 years in the first quarter, rising 0.4 percentage points from the previous period. That burden is poised to get heavier. We expect prices to continue rising in the near term amid persistently strong demand and low inventories. Despite the deteriorating trend, Ottawa's affordability still compares well to Toronto and Montreal.

Quebec

Montreal area – On a whole other level

The intense heat of Montreal's market is taking a toll on affordability. RBC's aggregate measure jumped 0.9 percentage points in the first quarter—one of the largest increases among the markets we track. At 44.6%, the measure is at its worst level since 2008. Demand-supply conditions were tight years before the pandemic hit resulting in gradually stronger property appreciation since 2017 and reaching high single-digit rates by the end of 2019. But conditions shifted to a whole other level since the pandemic. Prices soared on the Island, but even more so in Laval, and on north and south shores where buyers rushed to find homes that better suited their need for larger spaces. We expect further appreciation in the near term.

Quebec City – Prices rising yet affordability still in check

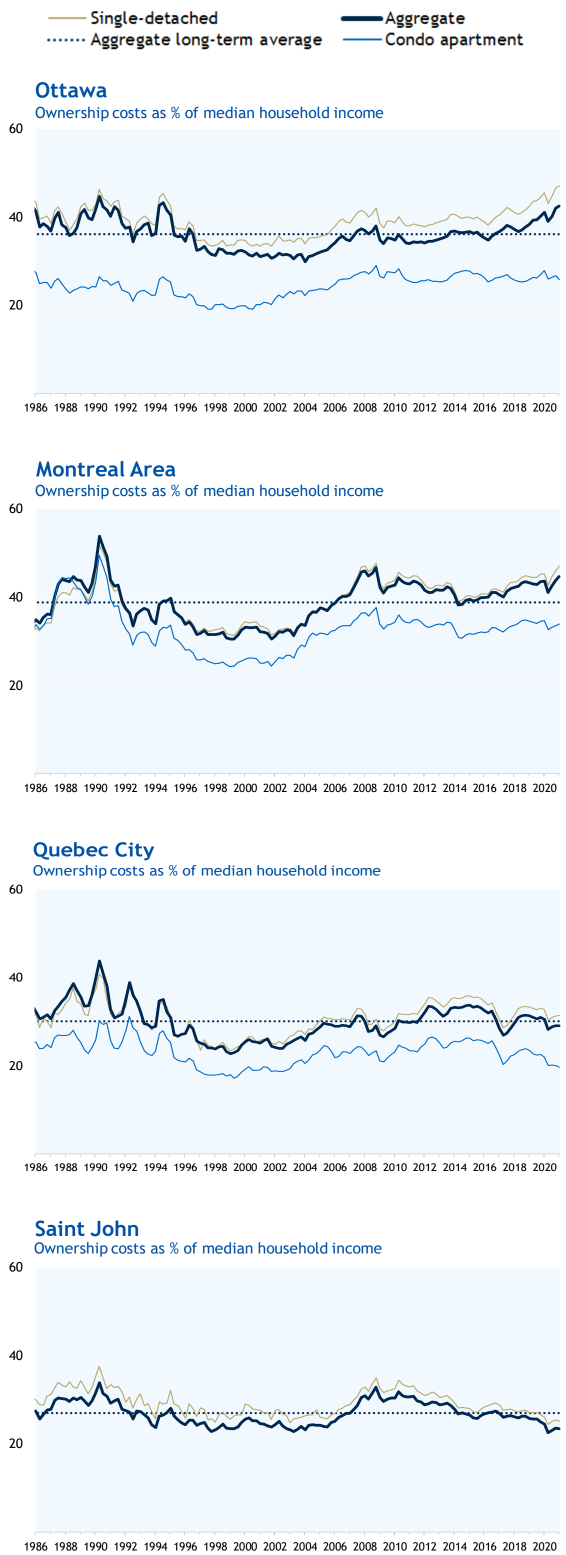
Surging demand and limited supply have placed sellers firmly in command of the market through the pandemic. Intense competition between buyers is now producing stronger price increases. Yet gains were relatively contained in the early months of 2021, keeping affordability in check. RBC's aggregate measure was little changed in the first quarter, rising just 0.1 percentage points to 29.1%. That level still compares well to the historical average of 30.1%.

Atlantic Canada

Saint John – Stellar affordability attracting buyers from all over Canada

The housing boom is showing no signs of letting up in Saint John. Home resales have remained deep in record territory so far in 2021, and demand-supply conditions are near the tightest they've ever been. Saint John's stellar affordability—it's long been the most affordable market we track—continues to attract buyers from all over the country. Things even improved marginally in the first quarter with RBC's aggregate measure inching 0.1 percentage point lower to 23.4%. We don't expect this to be sustained, however. Property values are heating up fast and will drive up ownership costs in the period ahead.

RBC Housing Affordability Measures

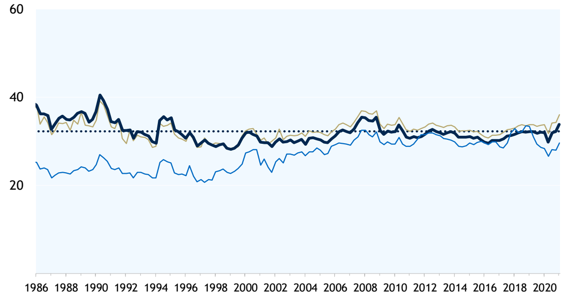


Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economics

RBC Housing Affordability Measures

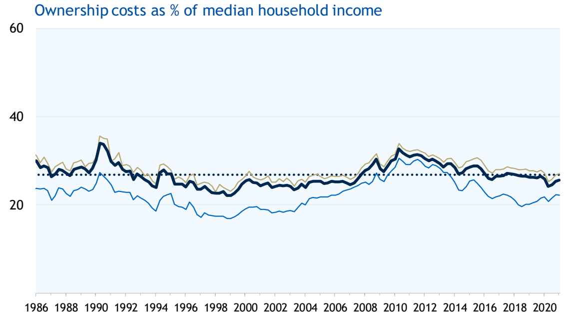
Single-detached
Aggregate
Aggregate long-term average
Condo apartment

Halifax
Ownership costs as % of median household income



Halifax – Ownership costs take biggest bite out of income in eight years
Super hot market conditions knocked down Halifax's housing affordability a few notches in the first quarter. RBC's aggregate measure soared 1.7 percentage points to 33.9%—the second largest increase among the markets we track after Vancouver. The measure surpassed its long-term average (32.2%) for the first time since 2012. Odds are it will continue to rise in the period ahead. Demand-supply conditions remain exceptionally tight at this juncture, and we see little that can change this in short order. We expect upward pressure on prices and ownership costs to persist.

St. John's
Ownership costs as % of median household income



St. John's – Continuing to surprise—in a good way
St. John's housing market has emerged as one of the few bright spots in Newfoundland and Labrador's otherwise dreary economic landscape. Home resales have set successive record highs in the first few months of 2021, and prices are now firming after years of decline. While factors spurring demand elsewhere in the country are also at play in the area, good affordability is no doubt an added element. Among other things, it's drawing in buyers from other regions of the country. At just 25.6%, RBC's aggregate measure for St. John's is the second-lowest among the markets we track. The measure increased 0.3 percentage points in the first quarter.

Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economics

How the RBC Housing Affordability Measures work

The RBC Housing Affordability Measures show the proportion of median pre-tax household income that would be required to service the cost of mortgage payments (principal and interest), property taxes, and utilities based on the average market price for single-family detached homes and condo apartments, as well as for an overall aggregate of all housing types in a given market.

Current home prices are sourced from RPS, and established from sales prices from monthly transactions, which are filtered to remove extreme values and other outliers.

The aggregate of all categories includes information on prices for housing styles not covered in this report (semi-detached, row houses, townhouses and plexes) in addition to prices for single-family detached homes and condominium apartments. In general, single-family detached homes and condo apartments represent the bulk of the owned housing stock across Canadian markets.

The affordability measures are based on a 25% down payment, a 25-year mortgage loan at a five-year fixed rate, and are estimated on a quarterly basis for 14 major urban markets in Canada and a national composite. The measures use household income rather than family income to account for the growing number of unattached individuals in the housing market. The measure is based on quarterly estimates of this annual income, created by annualizing and weighting average weekly earnings by province and by urban area. (Median household income is used instead of the arithmetic mean to avoid distortions caused by extreme values at either end of the income distribution scale. The median represents the value below and above which lays an equal number of observations.)

The RBC Housing Affordability Measure is based on gross household income estimates and, therefore, does not show the effect of various provincial property-tax credits, which could alter relative levels of affordability.

The higher the measure, the more difficult it is to afford a home. For example, an affordability measure of 50% means that home ownership costs, including mortgage payments, utilities, and property taxes take up 50% of a typical household's pre-tax income.

Summary tables

Aggregate of all categories

Market	Price			RBC Housing Affordability Measure			
	Q1 2021 ($)	Q/Q % ch.	Y/Y % ch.	Q1 2021 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	681,300	4.4	15.7	**52.0**	0.9	1.1	42.3
Victoria	895,500	3.7	11.9	**55.8**	1.2	-0.5	45.3
Vancouver area	1,184,300	4.1	16.1	**74.9**	1.9	2.1	60.6
Calgary	509,000	1.7	4.1	**37.0**	-0.4	-1.1	40.1
Edmonton	408,900	1.2	3.6	**31.9**	-0.3	-0.9	33.8
Saskatoon	381,200	0.7	2.4	**31.3**	-0.1	-1.4	32.4
Regina	322,100	-0.3	1.4	**26.7**	-0.3	-1.4	27.6
Winnipeg	339,100	1.7	8.8	**28.9**	0.0	-0.6	29.6
Toronto area	1,045,300	4.2	14.8	**67.7**	0.6	-0.3	50.6
Ottawa	595,200	5.3	21.5	**42.4**	0.4	1.4	36.1
Montreal area	532,100	3.9	16.1	**44.6**	0.9	1.0	38.8
Quebec City	325,600	2.0	7.6	**29.1**	0.1	-1.4	30.1
Saint John	223,400	1.3	5.6	**23.4**	-0.1	-0.9	26.9
Halifax	395,300	3.9	17.0	**33.9**	1.7	2.0	32.2
St. John's	302,300	1.8	4.3	**25.6**	0.3	-0.3	26.8

Single-family detached

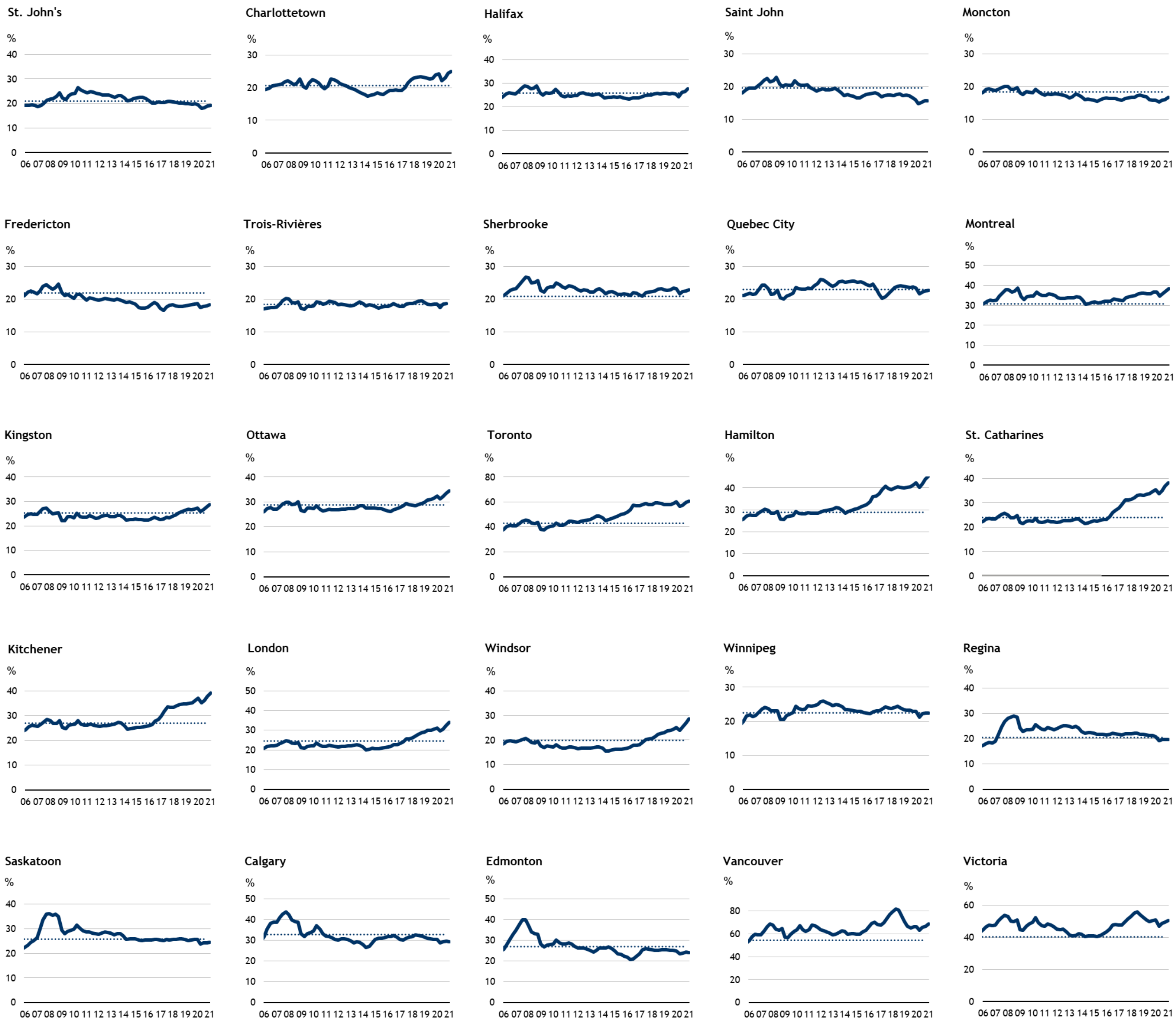
Market	Price			RBC Housing Affordability Measure			
	Q1 2021 ($)	Q/Q % ch.	Y/Y % ch.	Q1 2021 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	741,000	4.9	16.2	**56.8**	1.2	1.3	44.8
Victoria	1,013,700	4.8	13.6	**63.0**	1.9	0.3	48.8
Vancouver area	1,616,700	5.4	15.5	**100.5**	3.7	2.3	72.4
Calgary	559,100	1.5	3.8	**40.7**	-0.4	-1.2	43.1
Edmonton	439,600	1.4	3.9	**34.5**	-0.3	-0.9	35.6
Saskatoon	400,000	0.1	2.8	**33.4**	-0.2	-1.4	34.2
Regina	330,300	-0.3	1.1	**28.1**	-0.3	-1.5	28.9
Winnipeg	350,900	1.7	9.6	**30.5**	0.0	-0.5	30.8
Toronto area	1,273,500	5.0	15.6	**81.8**	1.2	0.1	58.5
Ottawa	654,000	5.2	21.8	**47.1**	0.5	1.7	39.0
Montreal area	556,000	4.4	18.9	**47.1**	1.1	1.9	39.0
Quebec City	345,100	2.2	8.6	**31.4**	0.2	-1.3	30.8
Saint John	234,000	0.2	6.2	**25.1**	-0.3	-1.0	29.2
Halifax	415,500	3.9	18.3	**36.0**	1.7	2.3	32.7
St. John's	313,100	1.9	5.5	**27.1**	0.3	0.0	28.1

Condominium apartment

Market	Price			RBC Housing Affordability Measure			
	Q1 2021 ($)	Q/Q % ch.	Y/Y % ch.	Q1 2021 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	499,400	0.5	3.6	**38.2**	-0.6	-2.9	34.2
Victoria	524,600	-2.0	1.8	**33.9**	-1.0	-3.3	32.2
Vancouver area	655,400	1.1	4.7	**43.1**	0.0	-2.8	40.4
Calgary	252,800	-2.0	-3.8	**20.9**	-0.7	-1.7	26.3
Edmonton	228,000	-2.2	-4.0	**19.7**	-0.7	-1.6	22.1
Saskatoon	198,600	-5.1	-7.1	**17.9**	-0.8	-2.1	20.4
Regina	220,700	-6.3	2.1	**18.7**	-1.1	-0.9	21.2
Winnipeg	228,800	-1.4	1.4	**19.9**	-0.5	-1.6	22.9
Toronto area	604,800	-0.5	1.5	**40.2**	-1.4	-4.9	32.4
Ottawa	354,200	-0.4	6.2	**25.8**	-0.9	-2.0	24.4
Montreal area	405,600	2.8	9.9	**33.8**	0.3	-0.9	32.6
Quebec City	221,600	-0.4	-0.7	**19.7**	-0.3	-2.3	23.1
Saint John	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
Halifax	356,700	4.8	14.0	**29.6**	1.7	1.2	26.8
St. John's	274,200	-0.6	8.4	**22.2**	-0.1	0.5	22.5

Mortgage carrying costs by city

Our standard RBC Housing Affordability Measure captures the proportion of median pre-tax household income required to service the cost of a mortgage on an existing housing unit at market prices, including principal and interest, property taxes and utilities; the modified measure used here includes the cost of servicing a mortgage, but excludes property taxes and utilities due to data constraint in the smaller CMAs. This measure is based on a 25% down payment, a 25-year mortgage loan at a five-year fixed rate, and is estimated on a quarterly basis. The higher the measure, the more difficult it is to afford a house.

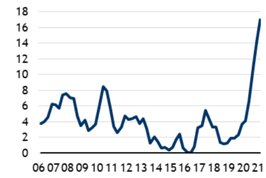


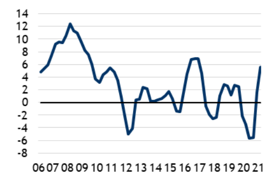
The dashed line represents the long-term average for the market.
Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economics

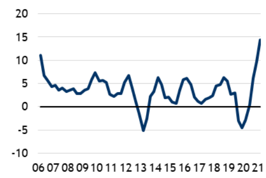
Aggregate home price

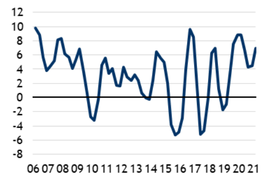
St. John's
% change, year-over-year

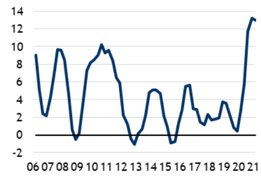

Charlottetown
% change, year-over-year

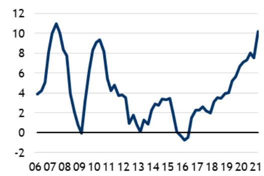

Halifax
% change, year-over-year


Saint John
% change, year-over-year


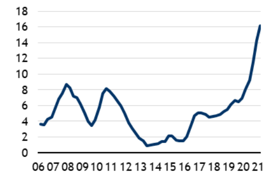
Moncton
% change, year-over-year


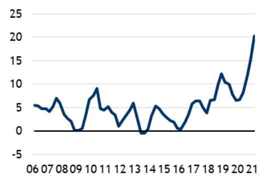
Fredericton
% change, year-over-year


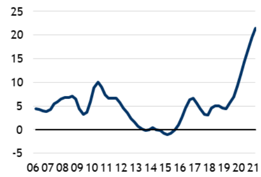
Trois-Rivières
% change, year-over-year


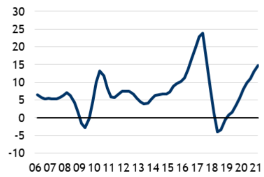
Sherbrooke
% change, year-over-year


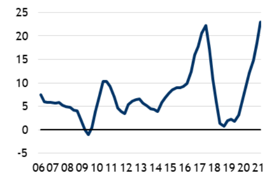
Quebec City
% change, year-over-year

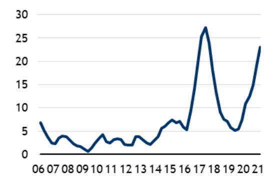

Montreal
% change, year-over-year


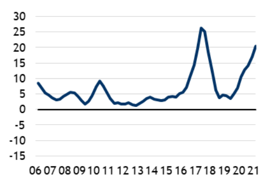
Kingston
% change, year-over-year


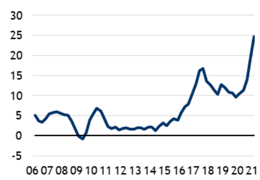
Ottawa
% change, year-over-year


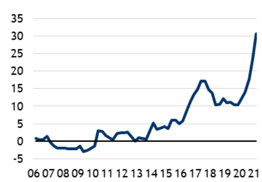
Toronto
% change, year-over-year


Hamilton
% change, year-over-year


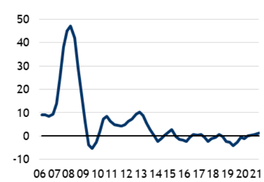
St. Catharines
% change, year-over-year


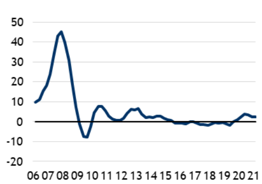
Kitchener
% change, year-over-year


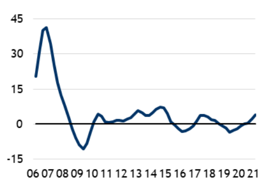
London
% change, year-over-year


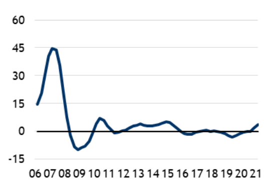
Windsor
% change, year-over-year


Winnipeg
% change, year-over-year

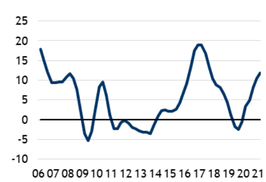

Regina
% change, year-over-year


Saskatoon
% change, year-over-year


Calgary
% change, year-over-year


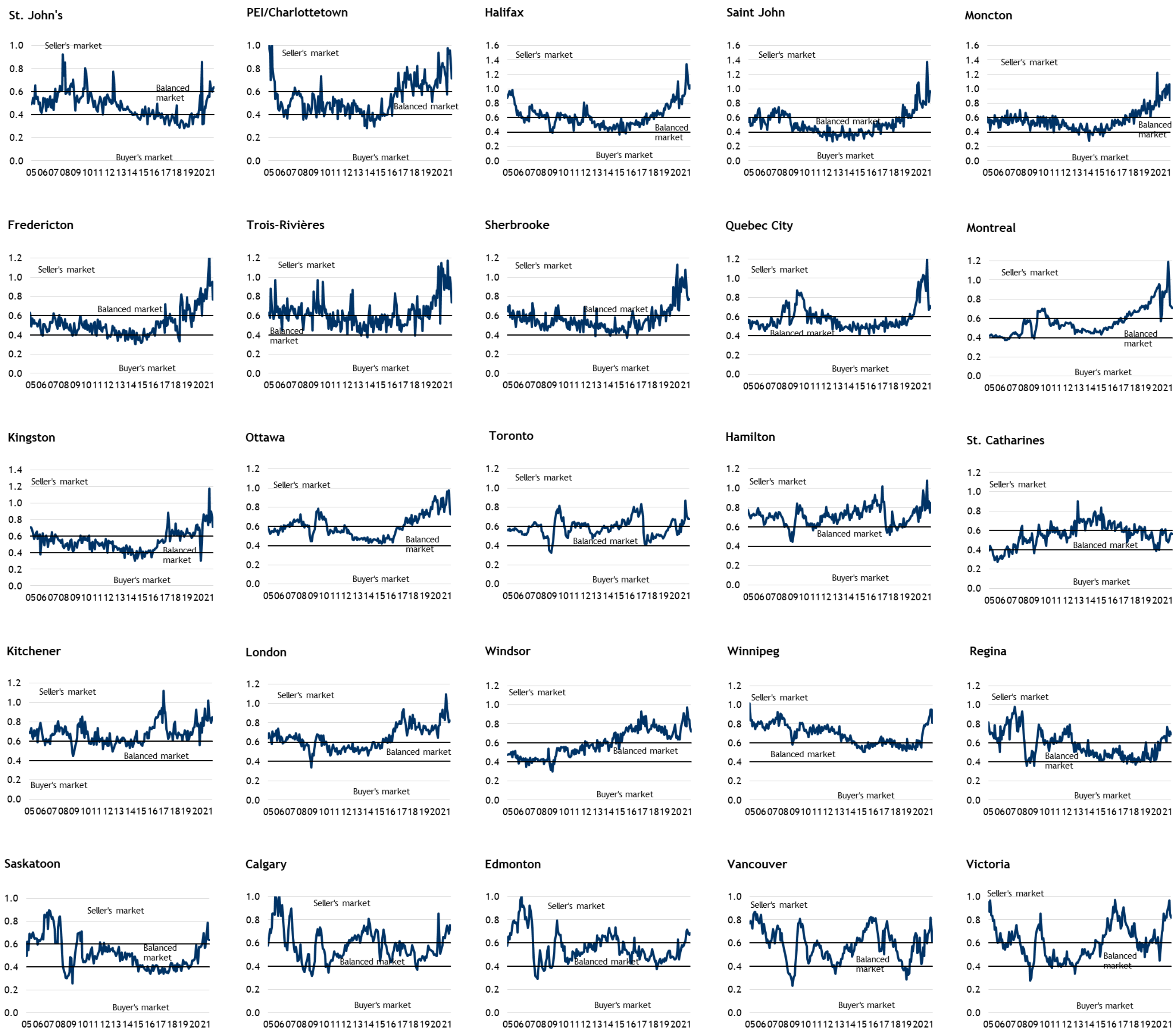
Edmonton
% change, year-over-year


Vancouver
% change, year-over-year


Victoria
% change, year-over-year


Source: RPS, RBC Economics

Home sales-to-new listings ratio



Source: Canadian Real Estate Association, RBC Economics