RBC Economics

Focus on Canadian Housing

HOUSING TRENDS AND AFFORDABILITY

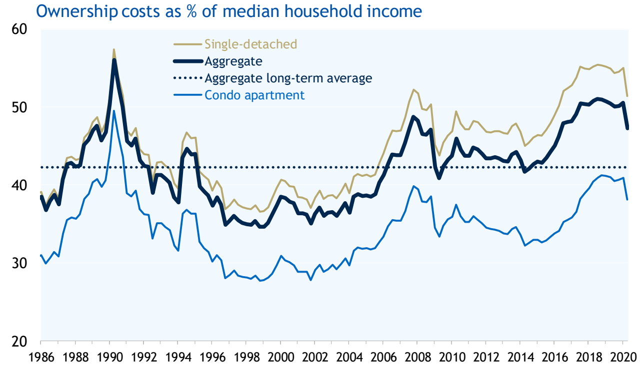
September 2020

Pandemic distorts Canada's housing affordability picture

- **Massive aid programs boosted housing affordability to a four-year best in the second quarter**: RBC's national aggregate measure dipped 3.3 percentage points to 47.3%—the most affordable level since mid-2016. Material improvements were recorded in all markets across the country.
- **Affordability would have deteriorated slightly without COVID-19 income support**: A surge in household income more than offset higher ownership costs. A drop in mortgage rates also helped.
- **An average buyer could afford an average home in the majority of markets**: This still wasn't the case in Victoria, Vancouver and Toronto, however, where sky-high prices continue to pose a major hurdle.
- **Second-quarter relief may prove fleeting**: While the timing is uncertain, governments will eventually phase out income support programs. This will unwind last quarter's income-related boost to affordability. The recent heating up in home prices could accelerate the process—though exceptionally low mortgage rates will be a moderating factor.

RBC Housing Affordability Measures - Canada

Ownership costs as % of median household income



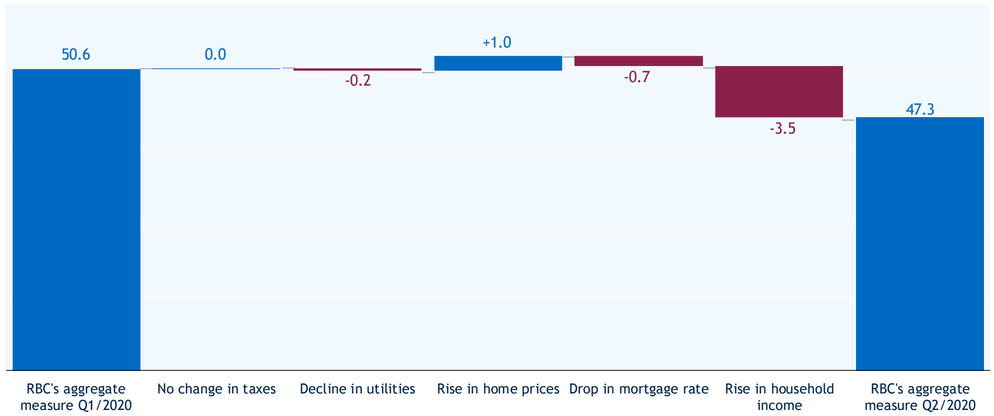
The share of income a household would need to cover ownership costs (in %)

Canada	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal
47.3	74.7	35.9	29.3	64.5	37.1	40.5

Second quarter 2020

A surge in household income was the main factor improving housing affordability in Q2

Composition of the quarterly change in RBC's aggregate affordability measure* for Canada, in percentage points



* A drop in the measure represents an improvement in affordability.

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

Unprecedented income support took centre stage

Widespread lockdowns to contain the spread of COVID-19 delivered the biggest, most sudden shock in generations to Canada's economy this spring. But they also prompted unprecedented government action to financially support households affected by the pandemic. The net result of it all has been a dramatic shift in home resale activity from spring to summer, and a (perhaps surprising) material improvement in housing affordability. Overall, Canadian households received more money ($56 billion) from govern-

Robert Hogue | Senior Economist | 416-974-6192 | robert.hogue@rbc.com

ment aid programs such as CERB and other transfers in the second quarter than they lost in wages and salaries due to the pandemic ($23 billion). On net, household disposable income spiked 11% in Canada. This substantially increased buyers' purchasing power that forms the basis of RBC's affordability measures. The income rise alone subtracted an outsized 3.5 percentage points from RBC's aggregate measure for Canada last quarter (a decline represents an improvement in affordability). This was more than the total 3.3 percentage-point quarterly drop in the measure. Lower mortgage rates and a slight decline in utilities further helped improve affordability though an increase in home prices provided a partial offset. At 47.3%, RBC's aggregate affordability measure was at its best level in four years. This no doubt greased the wheels of pent-up demand that powered the rebound in market activity this summer. Yet the temporary nature of the income swing heavily distorted the picture. RBC's measure would have deteriorated marginally last quarter had it not been for the surge in income. Moreover, the picture varied considerably among Canadians with workers in many service industries being hit particularly hard by social distancing restrictions.

It's important to note mortgage payment deferrals did not feed into the RBC measure's calculations. Our methodology assumes mortgage payments are paid in full each month.

It became more affordable to buy a home from coast to coast

The massive income boost was pervasive and drove substantial affordability improvements everywhere in Canada. Victoria, Vancouver and Toronto recorded the largest declines in RBC's measure though decade-strong drops took place in virtually all markets we track. The measure fell below its long-run average in the majority of markets, which indicates better than normal affordability in large parts of the country. But significant issues persist in Canada's largest cities. Owning a home in Vancouver, Toronto and Victoria continues to be a huge stretch for an average household despite significant improvement in the second quarter. The bar also remains high in Montreal and Ottawa. Affordability stress in these large markets is more much intense in the single-detached home category where prices are steepest. Condo apartments, on the other hand, are a generally more achievable option, especially for first-time buyers.

Second-quarter affordability boost is poised to be short-lived

We expect household income to gradually normalize as pandemic support programs are phased out, re-focused or re-calibrated. Everything else being equal, a return to pre-pandemic income levels would effectively roll back all of last quarter's substantial gain in affordability. Whether this will take place over the next few quarters is uncertain though any move in that direction will erode affordability. So will rising home prices. Tight demand-supply conditions have led to an acceleration in property values in many markets—a trend we think will be generally sustained in the near term. Recent declines in mortgage rates will provide some offset, however. Buyers in Canada's least affordable markets—Vancouver, Toronto and Victoria—are most vulnerable to any erosion of affordability given how stretched they already are. Buyers are more likely to take things in stride in most other markets.

Price trends set to diverge

The impact of COVID-19 on the housing market is complex, and we believe it will lead to diverging price trends among regions and housing categories. The pandemic is affecting demand and supply of various market segments quite differently. It is cooling demand for and boosting supply of rentals in large urban areas. This, in turn, is reducing investor interest in condos. The pandemic is also altering the housing needs of many current owners who look for more spacious properties in less crowded settings. This is simultaneously shifting demand from condo apartments to single-detached homes and other low-rise categories, and increasing the supply of smaller condos in core urban areas. Work-from-home arrangements and the lesser appeal of big-city living (with reduced cultural and socializing opportunities during these times of social distancing) are increasingly driving buyers further away from downtown locations into suburbs, exurbs and even cottage country. We believe this trend will sustain strong demand in smaller markets, putting intense pressure on their housing stock. The bottom line is we expect condo prices to weaken in larger markets next year, while we see prices for single-detached homes remaining generally resilient—albeit increasing at a slower pace.

British Columbia

Victoria – Buyers face uphill battle despite improved affordability

It may be only temporary but the surge in household income gave Victoria buyers a serious affordability boost in the second quarter. RBC's aggregate affordability measure plummeted 5.1 percentage points. Average buyers still faced an uphill battle to own a home, though, as they needed to spend a hefty 52.9% of their income to cover ownership costs—the third-highest share among the markets we track. Victoria's housing market roared back this summer, entirely reversing the spring activity losses. Demand for single-family homes has been strongest, which has kept prices on an upward track. Condo prices, on the other hand, have slipped, reflecting ample supply.

Vancouver area – Still a long way from becoming affordable

The sharp rise in household income in the second quarter further extended improving affordability trends in place since 2018. Still, with RBC's aggregate measure for Vancouver at 74.7%—down 4.9 percentage points from the first quarter—the market continues to be by far the least affordable in the country. This fact didn't hold many buyers back this summer, however. They became very active as social distancing restrictions eased and more homes came up for sale. Demand-supply conditions stayed balanced, overall, which supported steady price increases.

Alberta

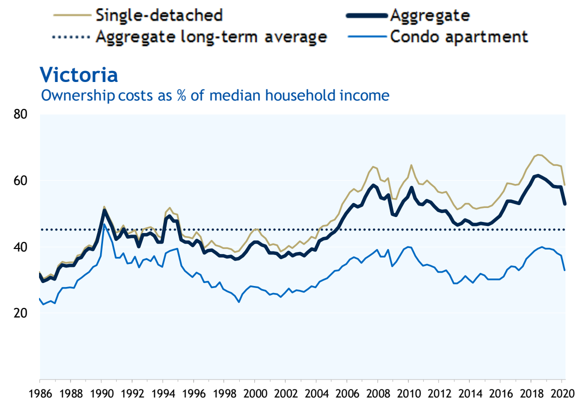
Calgary – More solid economic signs needed to sustain summer rebound

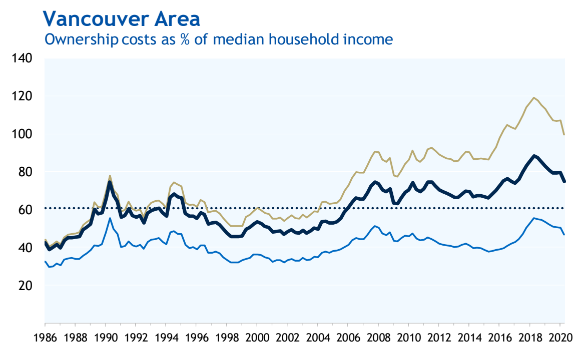
Housing affordability hasn't been a real issue in the past decade in Calgary. COVID-19 and the collapse in oil prices brought much bigger worries for local homebuyers whose already-tenuous job prospects crumbled. Calgary's labour market is in its worst shape in memory with the highest unemployment rate among metropolitan areas (14.4% in August). A marked improvement in affordability in the second quarter—RBC's aggregate measure fell 2.0 percentage points to 35.9%—no doubt helped activity rebound this summer. But more solid economic signs will be needed to sustain the pace in the period ahead.

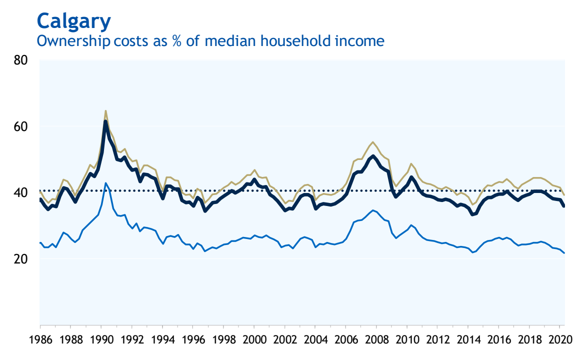
Edmonton – Not out of the woods yet

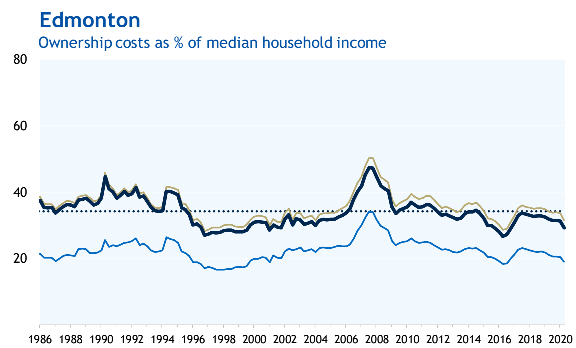
Alberta's precarious economic conditions also are top of mind in Edmonton's housing market. High unemployment and concerns about the provincial government's fiscal state (the public service makes up a large share of Edmonton's employment base) continue to taint the market's outlook. Resale activity did recover strongly this summer, however, as earlier delayed transactions took place. We expect momentum to slow later this year despite relatively good affordability. RBC's aggregate affordability measure eased again by 1.9 percentage points to 29.3% in the second quarter.

RBC Housing Affordability Measures



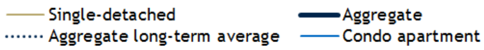




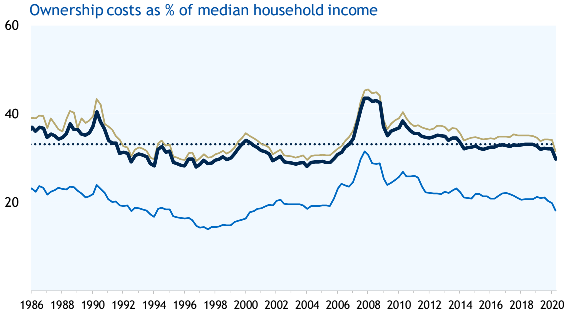


Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economics

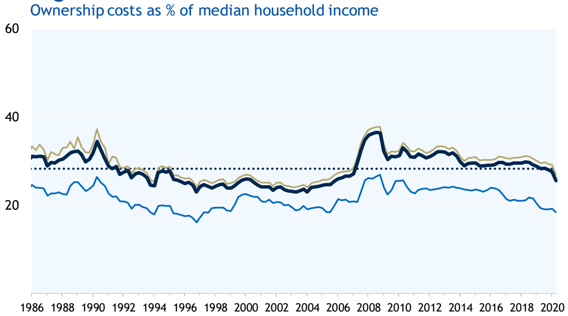
RBC Housing Affordability Measures



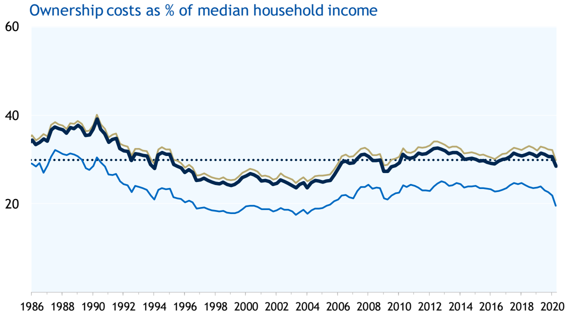
Saskatoon
Ownership costs as % of median household income



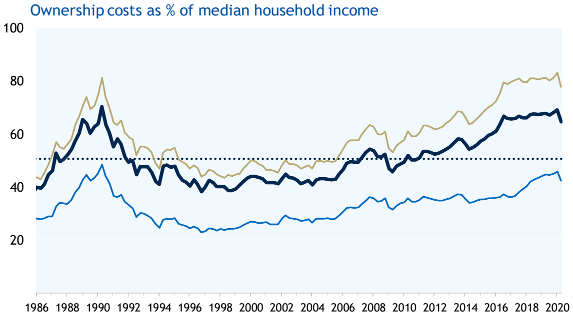
Regina
Ownership costs as % of median household income



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 – Buyers highly motivated to get deals done

Buyers rushed back to Saskatoon's market with a vengeance this summer, driving existing home sales to new heights. Low COVID-19 case counts in the province, easing restrictions and rock-bottom interest rates no doubt motivated many of them to get deals done. Attractive affordability helped too. RBC's aggregate measure improved to its best level in 15 years, down 2.3 percentage points to 29.7%. Demand-supply conditions have firmed up overall and prices are now rising, though some weakness persists in the condo segment.

Regina – Sprung back from COVID-19's lows, and then some

Regina's market also was on fire this summer. Pent-up demand propelled activity to a record high—more than making up this spring's drop. Price trends vary but the recent firming of demand-supply conditions, if sustained, should support broad-based (albeit modest) increases in the period ahead. This could raise the bar for future buyers, though that bar is at a very advantageous level currently. RBC's aggregate measure (25.5%, down 2.1 percentage points from the first quarter) is the lowest in Western Canada.

Manitoba

Winnipeg – Fundamentally solid

The Winnipeg market was on a roll before COVID-19 hit so it wasn't surprising to see many buyers jumping back in this summer when the government eased social distancing restrictions. Yet the historic rally that took place went beyond the recovery of earlier delayed transactions, which suggests demand remains fundamentally solid at this stage. This is especially true for single-family homes. The condo segment isn't as vigorous, though. Generally, average buyers can afford ownership costs in the area. RBC's aggregate measure is below it long-run average, falling 2.3 percentage points to 28.4% last quarter.

Ontario

Toronto area – COVID-19 completely altered normal seasonal patterns

The pandemic shifted peak activity to the summer months, when home resales surged to new record highs. The pandemic also altered housing preferences in the Toronto area, boosting demand for single-family homes—the least affordable category—and supply of smaller condo units downtown. Income support programs provided some temporary affordability relief (at least on paper) in the second quarter though buyers continue to face major hurdles. RBC's aggregate measure, at 64.5%, is still the second-worst in the country after Vancouver. Tight demand-supply conditions for single-detached homes and accelerating prices bode poorly for affordability in the period ahead. Nonetheless, there is scope for some improvement in the condo segment as supply rises.

Ottawa – Back on track with prices rising exceedingly fast

The hottest market in the country going into the pandemic, Ottawa didn't take long to get back on track. Home resales spiked this summer, as buyers and sellers returned from the sidelines, and changing housing needs prompted moves that wouldn't have been considered pre-pandemic. Demand-supply conditions have remained extremely tight throughout, and prices are accelerating exceedingly fast. This would normally erode affordability but the temporary bounce in household income masked the effect in the second quarter with RBC's aggregate measure diving 2.3 percentage points to 37.1%.

Quebec

Montreal area – Buyers increasingly lured by the suburbs

This spring's plunge in home resales proved very brief in the Montreal area. Activity resumed in late-May, and by August nearly all of the decline had been reversed. Growing preference for more spacious properties with a yard drew many buyers into the area's suburbs. Sales in Laval, and on the south and north shores have been particularly brisk, drawing down inventories. Changing preferences also prompted more condo owners on the Island to sell. For now, prices continue to rise solidly in all housing categories. Affordability improved in the second quarter—RBC's aggregate measure fell 3.1 percentage points to 40.5%—despite these pricing pressures. This is unlikely to be sustained.

Quebec City – Activity on pace to a new record high

The pandemic may not stop Quebec City's market from recording its best year ever. Home resales are up some 19% so far this year, firmly on track to beat the all-time high of 8,300 units reached in 2019. Rapid improvement in the local labour market is providing substantial support—employment is almost back to its February level and the jobless rate (at 6.3% in August) is the lowest in the country. Owning a home has been affordable for an average buyer for quite some time in the area. It got even more affordable in the second quarter with RBC's aggregate measure declining 2.3% to 27.7%.

Atlantic Canada

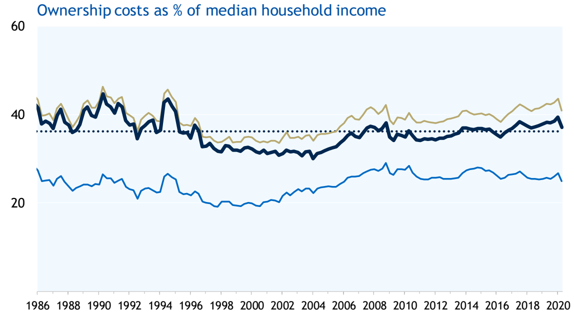
Saint John – In a strong position once again

The loosening of social distancing restrictions starting in May set Saint John's housing market on a quick path to recovery. In fact, it took only a couple of months to return to the strong position it was at the start of this year. Demand-supply conditions are the tightest they've ever been. Yet prices have remained surprisingly quiescent to date—possibly due to the uncertainty caused by the pandemic. Saint John continues to be the most affordable market we track. RBC's aggregate measure was just 21.7% in the second quarter, down 1.9 percentage points.

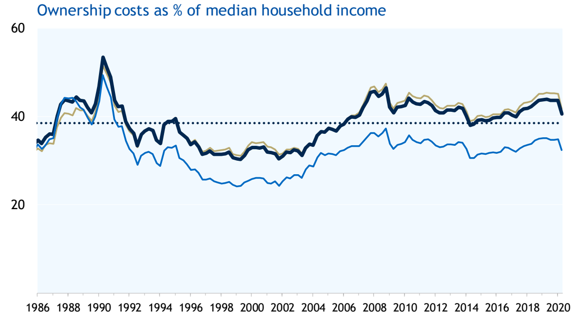
RBC Housing Affordability Measures

Single-detached
Aggregate
Aggregate long-term average
Condo apartment

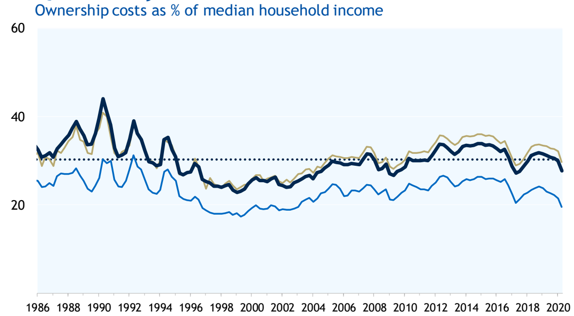
Ottawa
Ownership costs as % of median household income



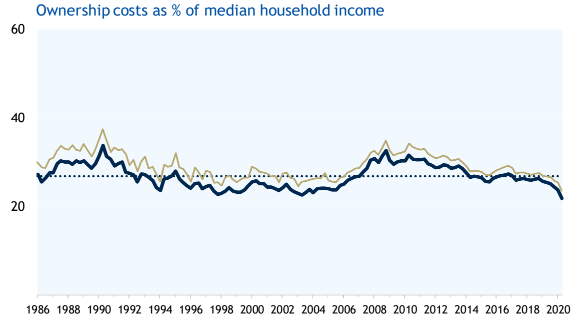
Montreal Area
Ownership costs as % of median household income



Quebec City
Ownership costs as % of median household income

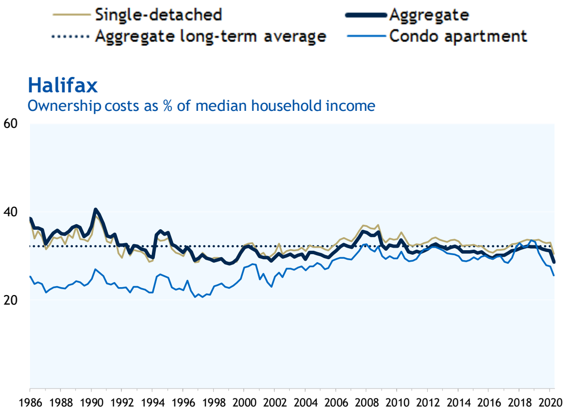


Saint John
Ownership costs as % of median household income



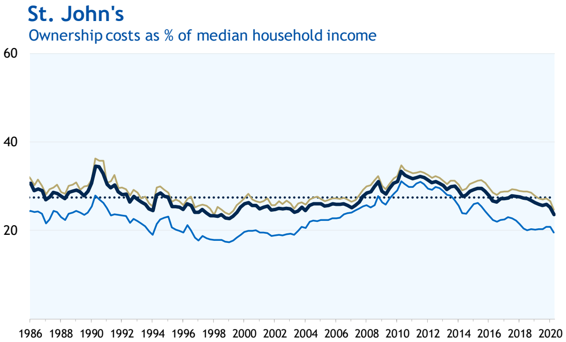
Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economics

RBC Housing Affordability Measures



Halifax – More supply unlocked the market this summer

Sellers set aside some initial hesitations and jumped right back into the market this summer, giving buyers the most options to chose from in five years. This helped unlock activity—Halifax has been one of the more supply-constrained markets in Canada throughout the pandemic—giving rise to a record number of transactions late-summer. Prices are increasing only modestly overall despite demand-supply conditions staying generally tight. That said, strong demand for single-family homes are heating up values a little more in this category. There's little concern about affordability in Halifax at this point. A temporary household income gain drove RBC's aggregate measure down 2.6 percentage points in the second quarter to 28.6%—below the 32.2% long-run average.



St. John's – Newfound market balance may not last

St. John's market staged an unexpected comeback this summer amid a bleak economic landscape around the province. Pent-up demand generated the strongest back-to-back resales advances in eight years in July and August. It restored some degree of balance in the market though this may not last once pent-up demand is exhausted. Consistently soft demand-supply conditions in the past two years have put St. John's most property values on an declining path. The upshot has been an improvement in affordability—now among the most favourable in Canada. Yet the benefit of this may be largely lost on buyers whose confidence is being brutally shaken by a historic economic contraction. RBC' aggregate measure dropped 1.7 percentage points to 23.6% in the second 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			
	Q2 2020 ($)	Q/Q % ch.	Y/Y % ch.	Q2 2020 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	602,100	2.4	7.1	**47.3**	-3.3	-3.2	42.3
Victoria	802,100	0.4	3.3	**52.9**	-5.1	-6.3	45.1
Vancouver area	1,064,200	3.5	7.1	**74.7**	-4.9	-6.2	60.6
Calgary	489,000	0.9	0.2	**35.9**	-2.0	-3.1	40.6
Edmonton	391,200	-0.3	-0.5	**29.3**	-1.9	-2.5	34.1
Saskatoon	370,500	0.3	2.8	**29.7**	-2.3	-2.3	33.1
Regina	316,400	0.1	-0.7	**25.5**	-2.1	-2.7	28.2
Winnipeg	315,100	1.2	0.8	**28.4**	-2.3	-3.1	29.9
Toronto area	936,000	2.9	9.4	**64.5**	-4.6	-3.4	50.6
Ottawa	505,600	4.4	12.4	**37.1**	-2.3	-1.2	36.1
Montreal area	461,900	1.2	6.6	**40.5**	-3.1	-3.4	38.5
Quebec City	304,400	0.4	1.7	**27.7**	-2.3	-3.5	30.3
Saint John	202,800	-1.6	-6.6	**21.7**	-1.9	-3.7	26.8
Halifax	341,100	1.3	4.4	**28.6**	-2.6	-3.4	32.2
St. John's	288,500	-0.2	-0.8	**23.6**	-1.7	-2.3	27.5

Single-family detached

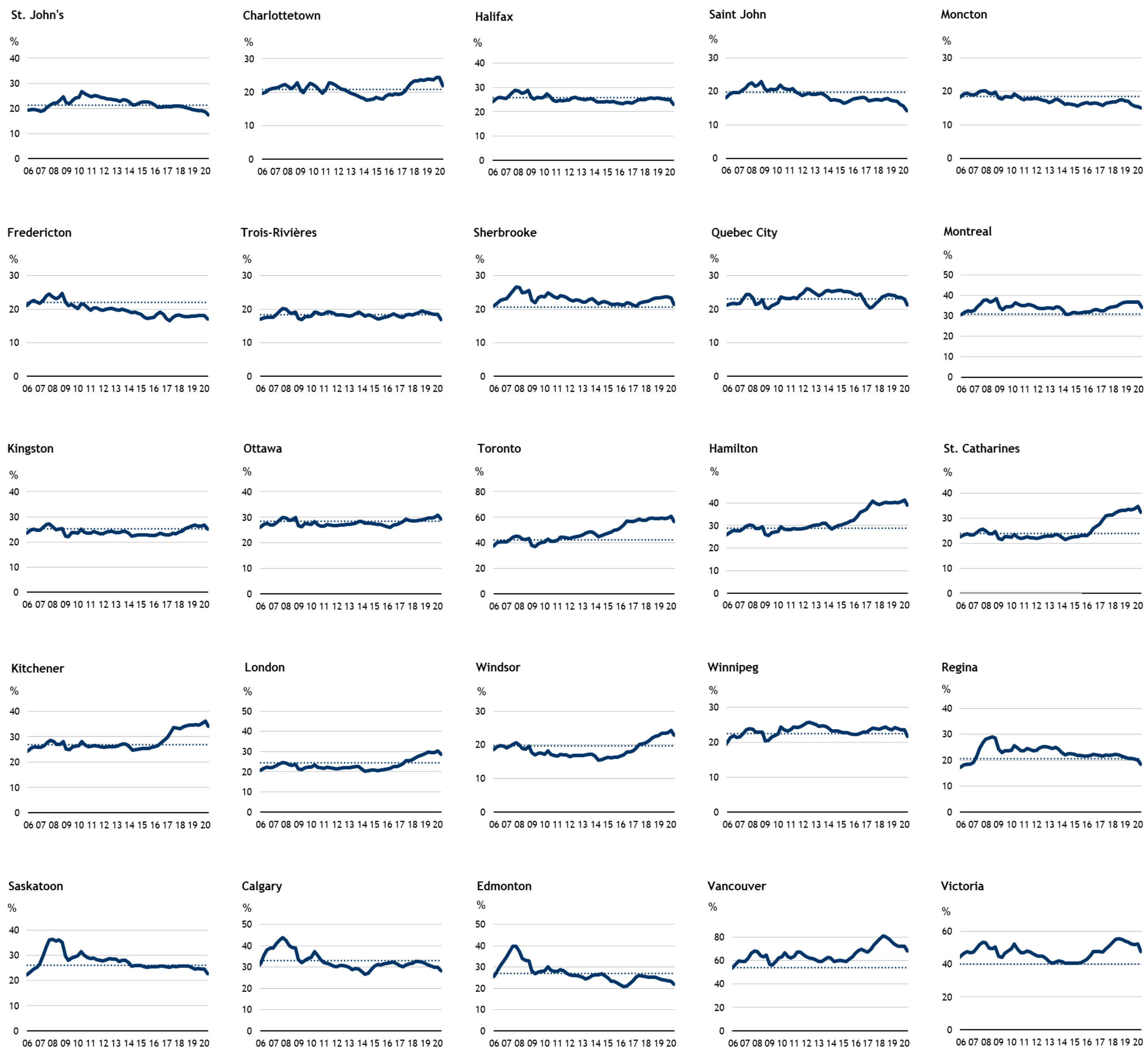
Market	Price			RBC Housing Affordability Measure			
	Q2 2020 ($)	Q/Q % ch.	Y/Y % ch.	Q2 2020 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	650,700	2.3	7.1	**51.4**	-3.7	-3.5	44.8
Victoria	889,000	0.4	3.4	**58.6**	-5.6	-6.9	48.6
Vancouver area	1,443,200	2.6	4.8	**99.6**	-7.4	-10.4	72.2
Calgary	535,100	0.4	-0.7	**39.3**	-2.3	-3.7	43.6
Edmonton	419,200	-0.3	-0.1	**31.6**	-2.0	-2.5	35.9
Saskatoon	386,000	0.0	3.2	**31.5**	-2.6	-2.3	34.9
Regina	323,300	0.0	-0.2	**26.8**	-2.2	-2.7	29.5
Winnipeg	323,500	1.3	1.3	**29.8**	-2.4	-3.1	31.1
Toronto area	1,137,000	3.0	10.3	**77.8**	-5.4	-3.4	58.5
Ottawa	550,600	3.9	11.6	**40.9**	-2.7	-1.6	39.1
Montreal area	468,400	0.8	6.4	**41.8**	-3.3	-3.6	38.7
Quebec City	319,600	0.4	2.7	**29.7**	-2.5	-3.5	30.9
Saint John	213,900	-0.3	-3.0	**23.5**	-1.8	-3.2	29.2
Halifax	359,200	2.4	6.3	**30.5**	-2.5	-3.2	32.6
St. John's	292,900	-0.9	-2.1	**24.6**	-1.9	-2.7	28.8

Condominium apartment

Market	Price			RBC Housing Affordability Measure			
	Q2 2020 ($)	Q/Q % ch.	Y/Y % ch.	Q2 2020 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	491,800	1.8	6.2	**38.1**	-2.8	-2.9	34.3
Victoria	480,900	-3.8	-4.4	**32.9**	-4.5	-6.4	32.2
Vancouver area	647,900	2.5	4.2	**46.8**	-3.6	-5.2	40.6
Calgary	270,000	1.5	-3.0	**21.8**	-1.1	-2.4	26.7
Edmonton	234,000	-1.1	-3.6	**19.0**	-1.3	-2.0	22.4
Saskatoon	210,700	-1.4	-6.9	**18.1**	-1.7	-2.8	20.8
Regina	224,500	5.4	6.2	**18.4**	-0.7	-0.9	21.6
Winnipeg	211,300	-3.7	-11.6	**19.5**	-2.4	-4.4	23.1
Toronto area	607,900	2.1	9.3	**42.4**	-3.4	-2.4	32.5
Ottawa	341,700	3.2	13.3	**25.0**	-1.8	-0.6	24.4
Montreal area	374,500	1.4	6.6	**32.4**	-2.4	-2.7	32.5
Quebec City	218,200	-1.7	-3.9	**19.5**	-2.0	-3.5	23.3
Saint John	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
Halifax	317,500	2.0	-4.0	**25.6**	-2.1	-5.1	26.8
St. John's	248,400	1.3	6.8	**19.6**	-1.1	-0.7	23.0

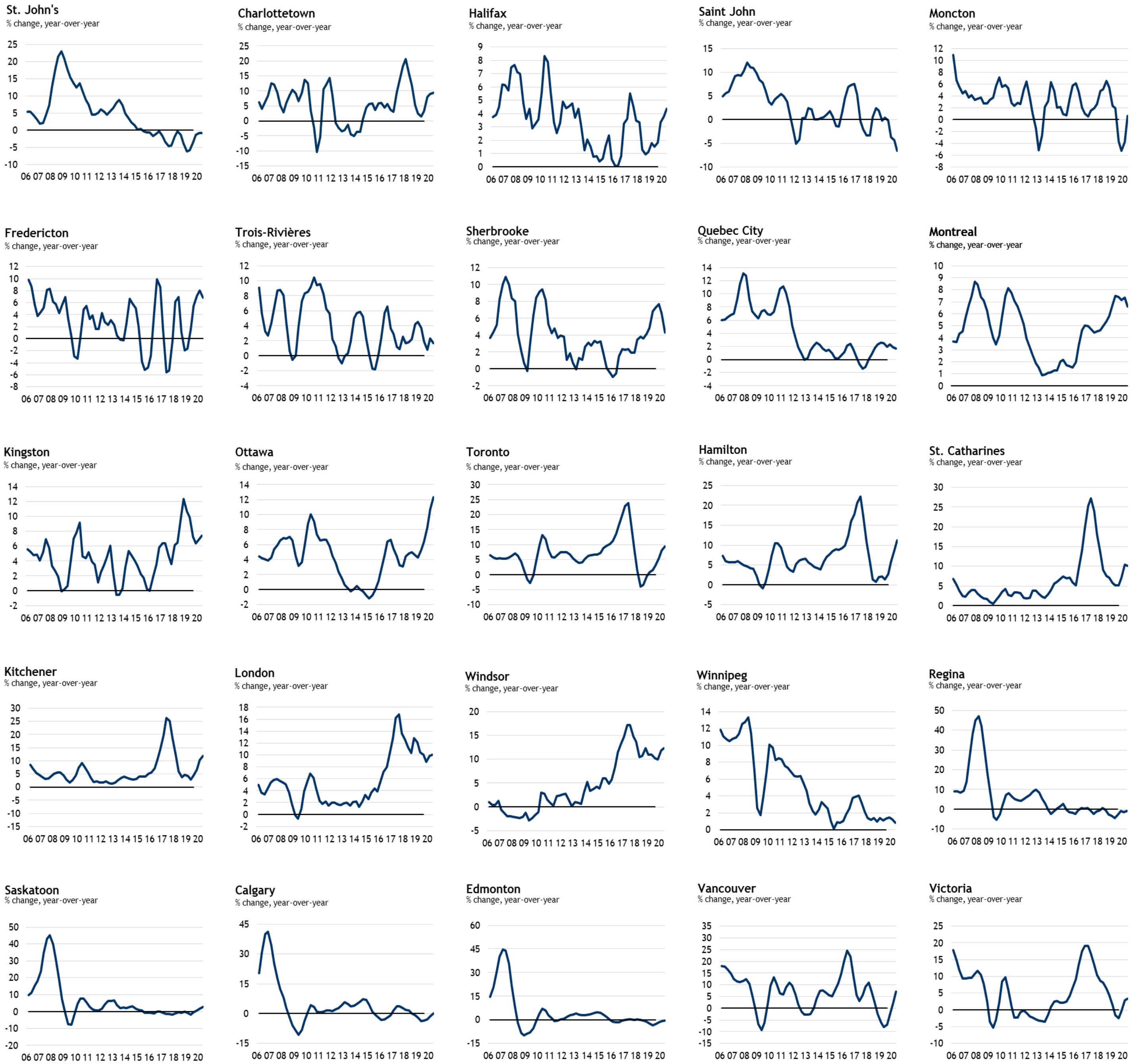
Mortgage carrying costs by city

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.



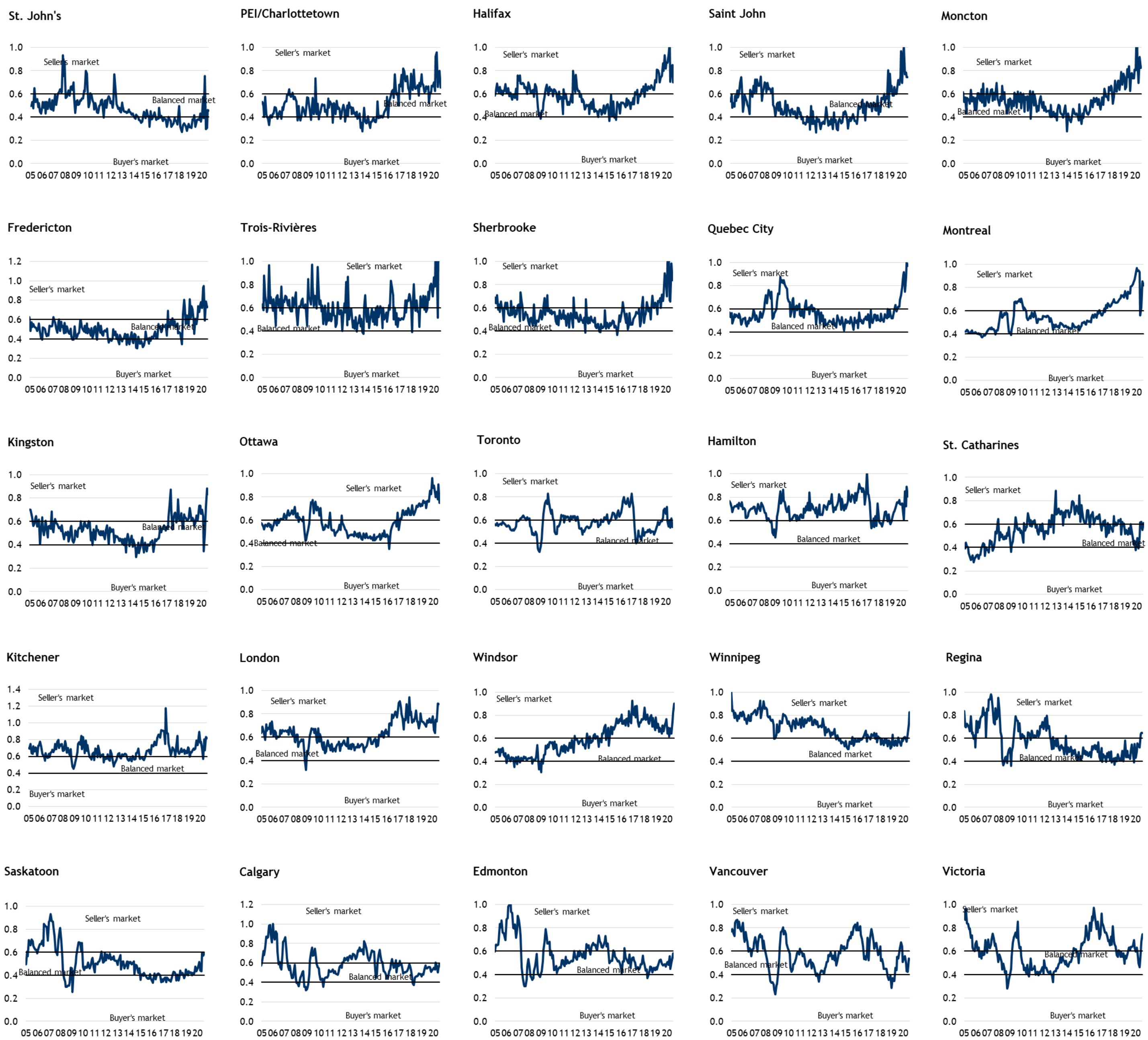
The dashed line represents the long-term average for the market.
Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economics

Aggregate home price



Source: RPS, RBC Economics

Home sales-to-new listings ratio



Source: Canadian Real Estate Association, RBC Economics