

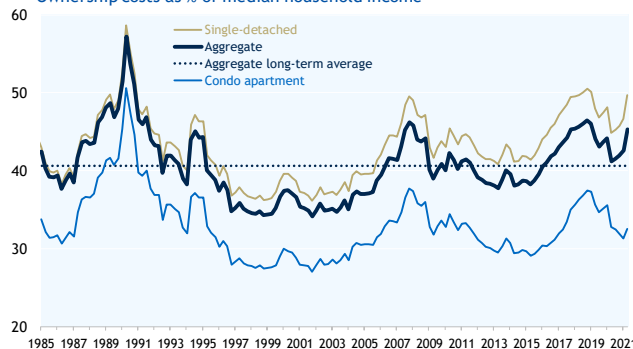
## HOUSING TRENDS AND AFFORDABILITY

September 2021

### Canadian home buyers see affordability slipping away fast

- RBC’s aggregate affordability measure worsens the most in more than 30 years:** It soared 2.7 percentage points to 45.3% Canada-wide in the second quarter. This was the fourth-straight increase, entirely rolling back the improvement that occurred at the start of the pandemic.
- Every market and housing category got less affordable:** RBC measures increased across the board. Toronto, Vancouver and Ottawa recorded the largest deterioration.
- Still, ownership costs aren’t an overly heavy burden in the Prairies and parts of Atlantic Canada:** They continue to represent a smaller-than-average share of household income in these regions. The burden is heaviest in Vancouver, Toronto and Victoria.
- Affordability to become even more strained:** We expect home prices to continue to rise in the near term, as demand-supply conditions generally remain exceptionally tight. This will further raise ownership costs across a wide spectrum of markets and housing categories. That said, the affordability deterioration is poised to moderate. The rate of price appreciation is now slowing in many places, and we project prices to flatten in 2022.

**RBC Housing Affordability Measures - Canada**  
Ownership costs as % of median household income



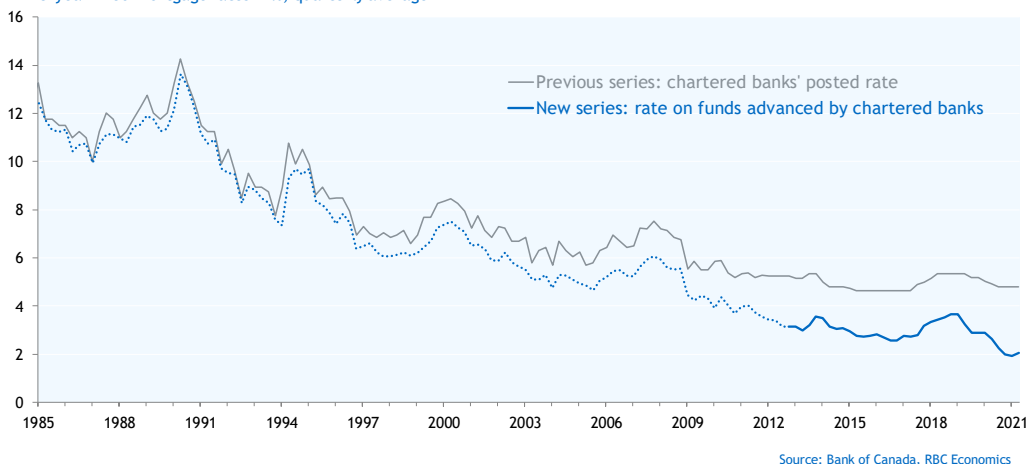
### The share of income a household would need to cover ownership costs (in %)

Canada	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal
45.3	63.5	31.7	27.4	59.1	38.5	38.4

Second quarter 2021

### RBC’s affordability measures are now based on new, lower mortgage rate series

5-year fixed mortgage rates in %, quarterly average



Source: Bank of Canada, RBC Economics

### Important revisions to RBC’s affordability measures

This instalment of Housing Trends and Affordability introduces two key changes to the calculation of RBC’s measures that will provide a better representation of the weight of ownership costs across Canada. The impact of these changes is significant, altering both levels (downwards) and trends (flatter) of the measures materially. The first change is the use of a new mortgage rate series—the rate chartered banks charge on funds advanced for 5-year fixed mortgage-



es—that better reflects what borrowers actually pay in the marketplace. Previously, RBC's measures were based on the average posted rate from chartered banks, which had become less representative of contracted client rates over the years. The wide difference between the two rate series—posted rates exceeded rates on advanced funds by a whopping 270 basis points in the second quarter—resulted in large downward revisions to mortgage payments and RBC's measures (a decline in the measures represents an improvement in affordability).

Those revisions are more substantial in recent time periods because the rate difference widened substantially over time. Using the new, lower mortgage rate series slashed 12 percentage points off the previous aggregate RBC measure for Canada in the second quarter.

The second change in our methodology is the assumption of a 20% down payment—the minimum for an uninsured conventional mortgage—instead of 25%. The higher loan-to-value going into our calculations has the effect of raising mortgage payments across all time periods. This added 2.4 percentage points to the aggregate measure in the second quarter (with similar-sized increases in earlier periods).

On net, these changes paint a more positive affordability picture, subtracting a sizable 9.6 percentage points from the national aggregate last quarter. The impact was smaller in the past—in fact negligible prior to the 2000s. Revisions to RBC's measures are more significant for pricier housing categories (e.g. single-detached homes) and more expensive markets (e.g. Vancouver and Toronto) reflecting their higher interest rate sensitivity.

### Widespread price gains deliver a huge blow to affordability

While Canada's housing market isn't as frenzied as it was at the start of this year (a good thing), it continues to operate at historically strong levels. Robust demand and extremely tight demand-supply conditions heated up property values by several more degrees in the second quarter, contributing to a generalized deterioration in affordability. RBC's aggregate measure for Canada jumped an outsized 2.7 percentage points—the biggest quarterly increase in more than three decades—to 45.3%, entirely rolling back the sharp improvement we saw at the start of the pandemic.

### Dreams of owning a single-family home are more difficult to achieve

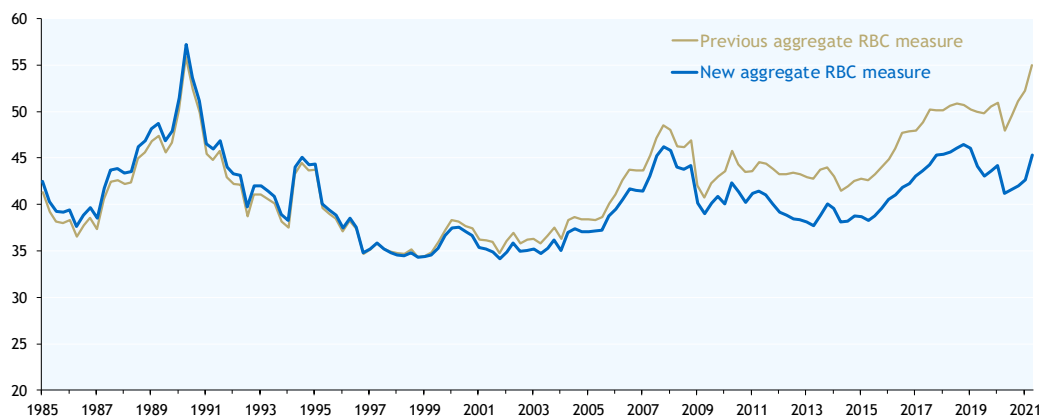
The share of income necessary to cover the costs of owning a single-detached home in Canada is not only high, it's also rising rapidly. In the second quarter, that share surged 3.0 percentage points to 49.7%—well above the long-run average of 43.1%. Soaring demand for properties with larger living spaces have lit up single-family home prices during the pandemic. Owning a condo apartment, on the other hand, continues to be relatively more affordable. RBC's national condo measure was 32.6% in the second quarter.

### Affordability eroded in all major markets but still within buyers' reach in many parts of the country

Toronto (up 4.1 percentage points), Vancouver (up 3.2 percentage points) and Ottawa (up 3.1 percentage points) recorded the largest increases in RBC's aggregate measures last quarter though the deterioration was widespread, affecting every market we track. Overall, affordability is most strained in Vancouver (ownership costs represent 63.5% of household income), Toronto (59.1%) and Victoria (48.0%). Ottawa (38.5%) and Montreal (38.4%) are two other markets where RBC's aggregate measures look historically high. The situation is more positive in many parts of the Prairies and Atlantic Canada. Despite recent increases, RBC's measures are still below their long-term average in Calgary, Edmonton, Regina, Saskatoon, Winnipeg, Saint John, Halifax and St. John's.

### Impact of revised methodology is larger in more recent periods

RBC aggregate affordability measure: ownership costs as % of median household income, Canada



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



## British Columbia

### Victoria – Heavily skewed in favour of sellers

Escalating prices this year almost entirely reversed the affordability improvement that took place at the start of the pandemic. In the second quarter, RBC's aggregate measure soared 2.7 percentage points to 48.0%—the third-worst level among the markets we track. Rapidly rising ownership costs no doubt are increasingly pinching some buyers (especially those looking for single-detached homes) and contributing to a slowdown in resale activity. Home resales have moderated markedly since reaching historical highs last fall and winter. Yet upward price pressure hasn't dissipated. Still-solid demand and low inventories keep the market heavily skewed in favour of sellers.

### Vancouver area – Condos buck the (deteriorating) trend

The Vancouver-area market last quarter recorded its biggest deterioration in affordability in nearly four years. RBC's aggregate measure jumped 3.2 percentage points to 63.5%. This is disappointing news to buyers already facing the poorest affordability picture in the country but who had seen material improvement since 2018. Odds are the situation will worsen in the near term. We expect prices to continue to rise amid tight demand-supply conditions. Some buyers however may take solace in the fact condo apartments are slightly more affordable than they've been on average since the mid-1980s.

## Alberta

### Calgary – The turnaround story continues

The market has turned around dramatically since last summer following years of stagnation. Strong demand now sustains historically high levels of activity, even if the pace is less frantic than it was earlier this year. Previously bloated inventories have largely been absorbed, and prices are firming moderately. Buyers continue to benefit from relatively good affordability. Despite rising in the second quarter (up 0.9 percentage points), RBC's aggregate measure (31.7%) is still well below its long-run average (38.7%). There's therefore room for prices to rise further without crushing buyers' ability to own a property.

### Edmonton – Closer to balance

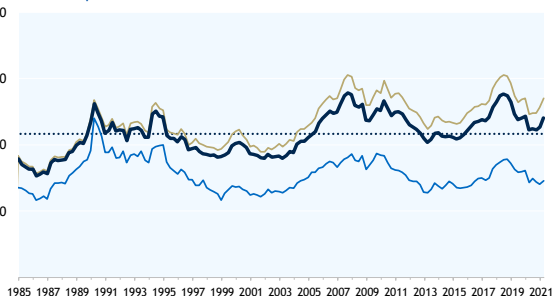
Activity slowed down this spring and summer but remains super strong. The good news is supply has picked up enough to bring the market closer to balance. Sellers still have the stronger hand but their hold isn't as tight as in many other markets. This keeps a lid on price appreciation and affordability trending sideways—at comparatively constructive levels. Despite rising 0.6 percentage points in the second quarter, RBC's aggregate measure (27.4%) was little changed from a year ago (27.1%) and comfortably below its long-term average of 32.7%. We expect those trends to persist in the near term.

## RBC Housing Affordability Measures

— Single-detached      — Aggregate  
 ..... Aggregate long-term average      — Condo apartment

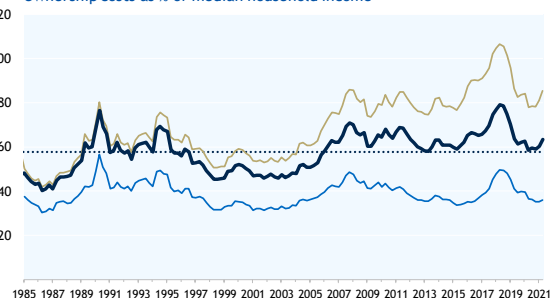
### Victoria

Ownership costs as % of median household income



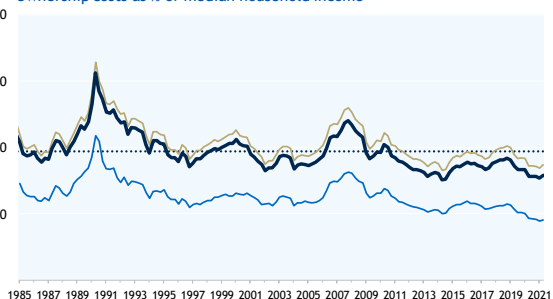
### Vancouver Area

Ownership costs as % of median household income



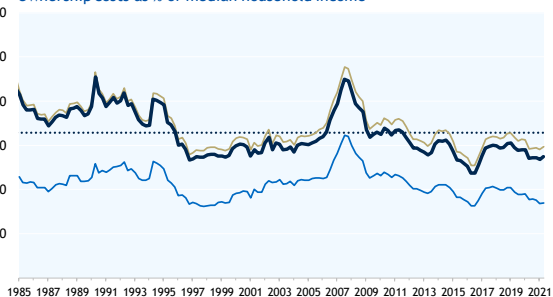
### Calgary

Ownership costs as % of median household income



### Edmonton

Ownership costs as % of median household income



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

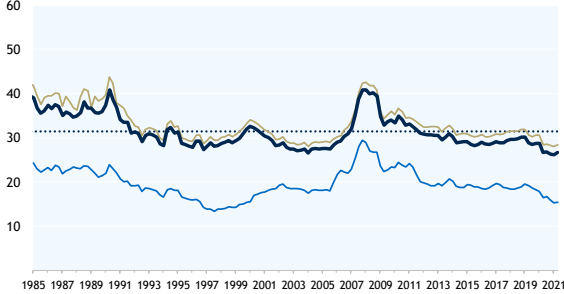


## RBC Housing Affordability Measures

— Single-detached      — Aggregate  
 ..... Aggregate long-term average      — Condo apartment

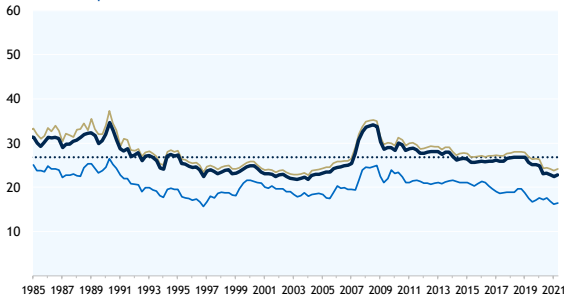
### Saskatoon

Ownership costs as % of median household income



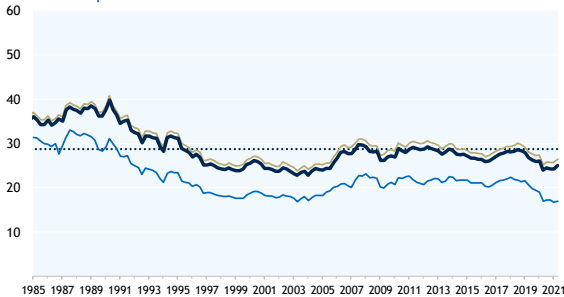
### Regina

Ownership costs as % of median household income



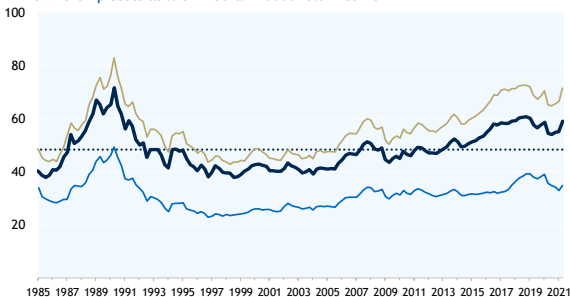
### Winnipeg

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 – Good affordability fuels brisk activity

Housing affordability is near historical best levels in Saskatoon. RBC's aggregate measure stood at 26.6% in the second quarter, up just a touch from the 26.1% all-time low point reached in the previous quarter. Buyers should thank rock-bottom interest rates for this because home prices have firmed through the pandemic (after a years-long slump). We expect mildly tight demand-supply conditions to keep prices rising modestly higher in the near term, as home resale activity stays exceptionally brisk.

### Regina – Muted price pressure upholds bright affordability picture

The same can be said for Regina where buyers enjoy the best affordability since 2004. Despite record-high resales so far in 2021, upward price pressure has remained relatively muted. RBC's aggregate measure inched 0.3 percentage points higher in the latest quarter but was still down 0.2 percentage points from a year ago—the only market we track showing a year-over-year decline. At 22.8%, the measure is the best in Western Canada and likely to keep fueling activity in the near term.

## Manitoba

### Winnipeg – On a whole different level

The pandemic took Winnipeg's housing market to a whole different level—sky-high. While activity has drifted lower since spring, it's still lofty. Inventories are running scarce, and prices are going up at their fastest pace in 13 years. Yet the impact on affordability so far has been limited. RBC's aggregate measure (25.0%) rose only 1.1 percentage points in the past year—most of it (0.8 percentage points) in the second quarter. We expect further deterioration as prices continue to escalate in the period ahead.

## Ontario

### Toronto area – Affordability on a sharply deteriorating track

The marked improvement in affordability at the outset of the pandemic (arising from drastic interest rate cuts) is now a distant memory. Soaring prices took it all away this year. RBC's aggregate measure jumped a mind-boggling 4.1 percentage points to 59.1% in the second quarter—the biggest increase in almost three decades. With extremely tight demand-supply conditions continuing to fan a fire under property values, the measure is poised to climb further to levels not seen since the late-1980s. The situation is most strained for single-family homes where red-hot demand sustains intense upward pressure on prices. We expect buyers to show increasing interest in the relatively affordable condo category.



### Ottawa – Downside of hot market is getting worse

Ottawa's housing market boom has produced some of the larger price gains in the country over the past couple of years. While this no doubt pleases existing homeowners, there's a significant downside: buyers find increasingly difficult to afford a home. The deterioration in affordability was particularly large in the second quarter. RBC's aggregate measure soared 3.1 percentage points—the biggest increase in more than 30 years. Not only that, the measure (38.5%) reached its worst level since 1995, with scope for a further worsening in the near term. We expect this will cool demand.

## Quebec

### Montreal area – A more challenging picture for buyers

The pendulum has swung back further than in most markets in Montreal after activity reached record levels at the start of this year. While still historically strong, home resales this summer slipped below pre-pandemic levels—one of the few major markets where this has taken place. The picture has become more challenging for buyers. Not only is there a dearth of listings to choose from, surging prices have pressed many against their affordability limits. RBC's aggregate measure rose for the fourth-straight time in the second quarter, up 1.8 percentage points to 38.4%. This exceeds the long-run average of 37.3% with the trend likely to worsen in the near term.

### Quebec City – Modest rise in ownership costs easily manageable

The Quebec City market, too, has calmed down significantly since spring. Yet it remains lightly supplied and sees steady (albeit relatively moderate) price gains. To date, rising ownership costs haven't posed a heavy burden for buyers. RBC's aggregate measure (25.1%) is still near historical lows. But the burden got slightly heavier in the second quarter. The measure rose 0.7 percentage points—its first increase in a year and a half. While this could mark a turning point, the situation is likely to stay positive for a while for buyers.

## Atlantic Canada

### Saint John – Sustaining its status as an affordable market

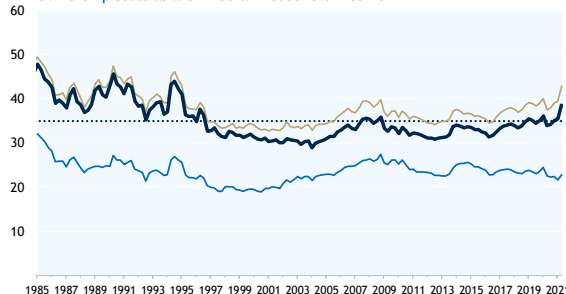
The strong housing story continues in Saint John. Activity is still booming—even if off record highs reached this spring—and property values are appreciating at their fastest clip in decades. Excellent affordability is a big part of the story and a huge draw for buyers. RBC's aggregate measure for Saint John (20.9%) is the lowest among the markets we track. Fast-rising prices caused it to increase a modest 0.6 percentage points in the second quarter though this came from historically low levels. There's little risk of Saint John losing its status as an affordable market should prices stay on an upward track (as they are likely to do in the short term).

## RBC Housing Affordability Measures

— Single-detached      — Aggregate  
 ..... Aggregate long-term average      — Condo apartment

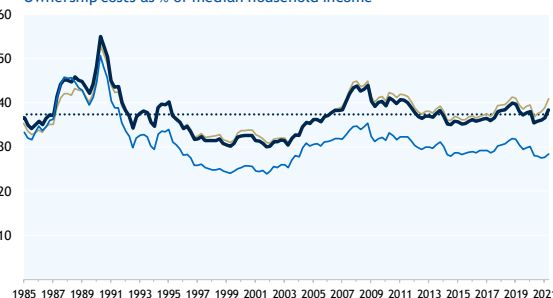
### Ottawa

Ownership costs as % of median household income



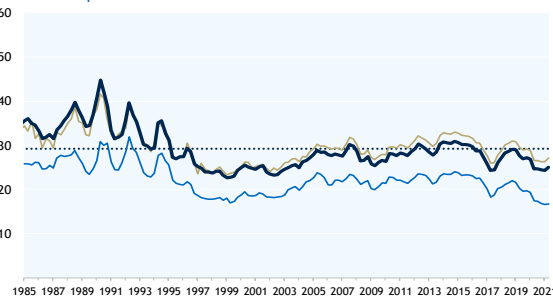
### Montreal Area

Ownership costs as % of median household income



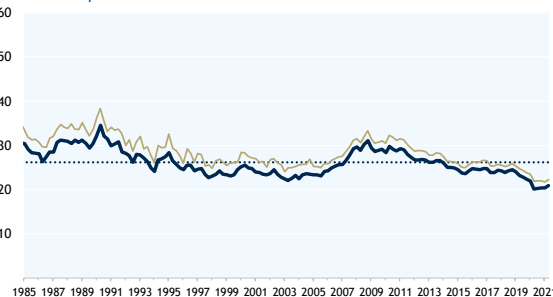
### Quebec City

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

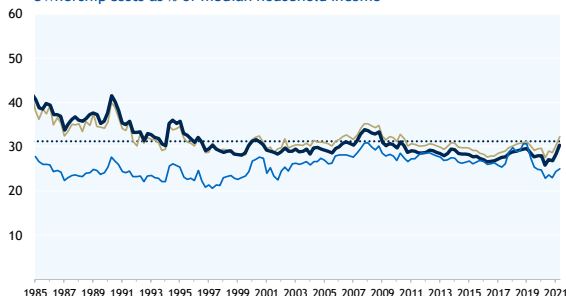


## RBC Housing Affordability Measures

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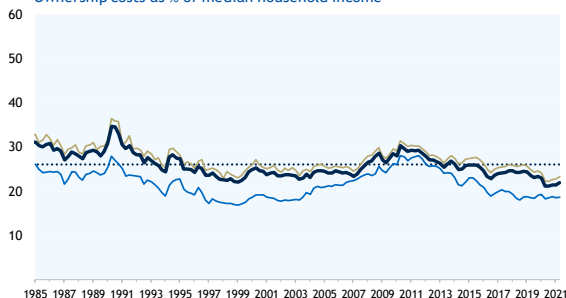
### Halifax

Ownership costs as % of median household income



### St. John's

Ownership costs as % of median household income



### Halifax – Market heat drives up ownership costs

Halifax is where affordability deteriorated the most east of Ontario in the second quarter. A spike in prices caused RBC’s aggregate measure to jump 2.0 percentage points to 30.3%—the worst level in more than a decade. The Halifax market has been on fire since summer 2020 though higher ownership costs may be dousing buyers’ fervour of late. Home resales have come down significantly in recent months. This is poised to let some steam out of prices but we expect some upward pressure to persist in the near term. Demand-supply conditions continue to be tight.

### St. John's – Superior picture endures

The historic market rally has extended into the summer with home resales staying near all-time highs. No doubt many buyers—including those arriving from outside the province—are motivated by St. John’s superior affordability. RBC’s aggregate measure (21.9%) is the second lowest (best) among the markets we track after Saint John. And it hasn’t budged much since falling to a record low last year, inching up just 0.7 percentage points over the past four quarters (including a 0.5 percentage-point advance in the latest period). We see little that would significantly change that picture. Demand-supply conditions have recently become more balanced, which should contain price appreciation.

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 cover mortgage payments (principal and interest), property taxes, and utilities based on the benchmark 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.

The aggregate of all categories includes information on semi-detached, row houses, townhouses and plexes—categories not covered in this report—in addition to single-family detached homes and condominium apartments. In general, single-family detached homes and condo apartments represent the bulk of the housing stock (excluding purpose-built rental buildings).

Mortgage payments are based on a 20% down payment, a 25-year mortgage loan and a five-year fixed mortgage rate. The latter is a weighted average of 5-year fixed rates charged by chartered banks on new insured and uninsured mortgages.

Benchmark prices are sourced from RPS Real Property Solutions.

RBC's affordability measures use household income rather than family income to account for unattached individuals. Pre-tax income don't show the effect of various provincial property-tax credits, which could alter relative levels of affordability. Quarterly income is obtained by interpolating annual data. We apply the growth in average weekly earnings to extend the income series to the latest period. The median income represents the value below and above which lays an equal number of observations.

The higher the measure, the less affordable owning a home is. For example, an affordability measure of 50% means that home ownership costs, including mortgage payments, utilities, and property taxes would take up 50% of a typical household's pre-tax income at current price and interest rate levels.

## Summary tables

Market	Aggregate of all categories						
	Price			RBC Housing Affordability Measure			
	Q2 2021 (\$)	Q/Q % ch.	Y/Y % ch.	Q2 2021 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	723,100	5.7	19.0	45.3	2.7	4.1	40.7
Victoria	949,400	5.7	16.7	48.0	2.7	3.6	43.3
Vancouver area	1,238,100	4.7	16.5	63.5	3.2	4.9	57.8
Calgary	518,800	2.0	5.6	31.7	0.9	0.4	38.7
Edmonton	414,100	1.5	4.9	27.4	0.6	0.3	32.7
Saskatoon	388,400	2.2	3.6	26.6	0.5	0.0	31.3
Regina	326,500	2.1	2.2	22.8	0.3	-0.2	26.7
Winnipeg	353,100	3.7	11.4	25.0	0.8	1.1	28.7
Toronto area	1,108,900	5.8	18.0	59.1	4.1	4.7	48.5
Ottawa	648,500	7.9	25.6	38.5	3.1	4.7	35.0
Montreal area	556,500	4.1	18.2	38.4	1.8	3.0	37.3
Quebec City	333,800	1.9	9.6	25.1	0.7	0.4	29.1
Saint John	231,900	2.8	10.3	20.9	0.6	0.8	26.1
Halifax	435,400	8.6	24.3	30.3	2.0	4.5	31.2
St. John's	303,700	1.4	4.5	21.9	0.5	0.7	25.9

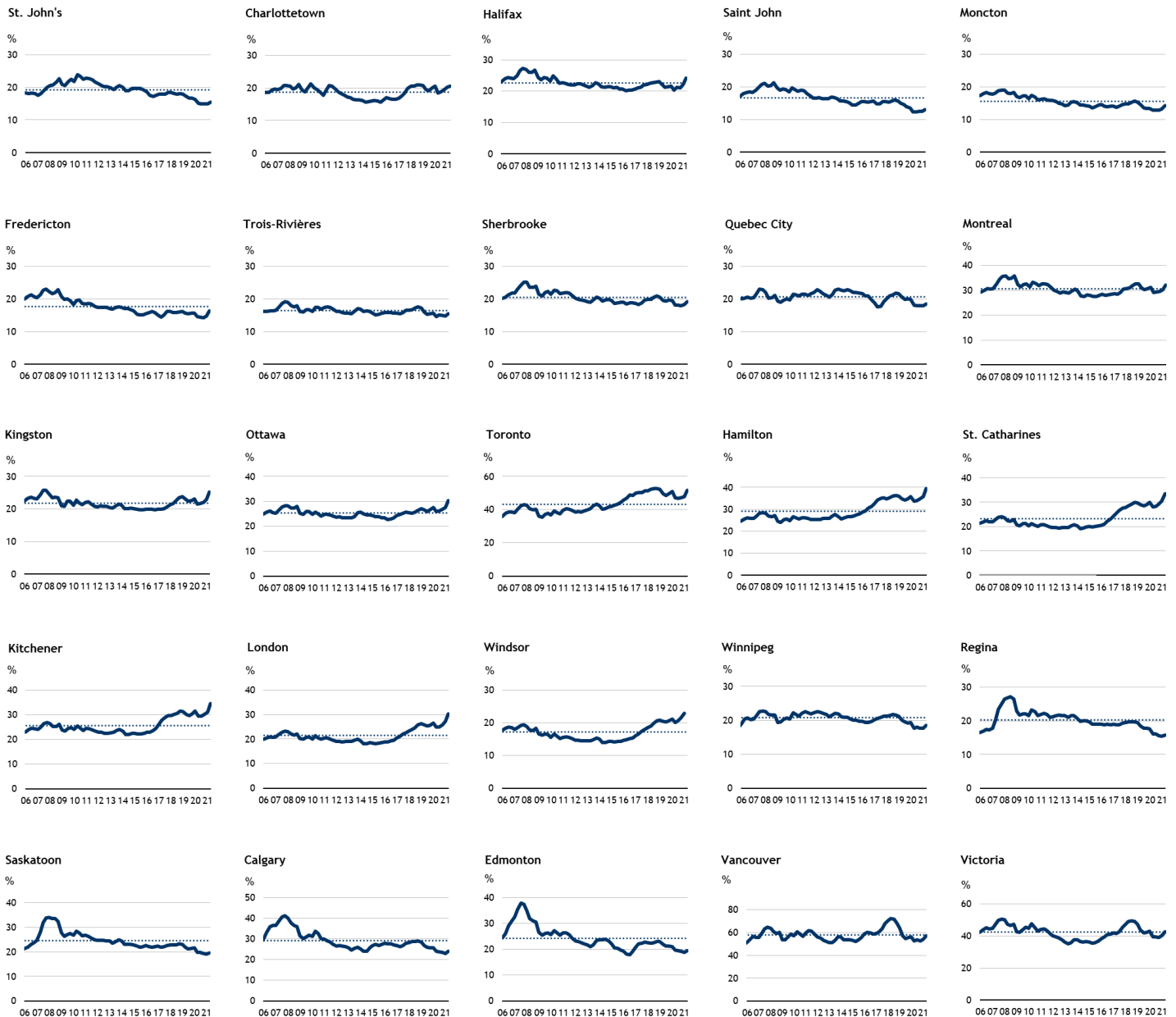
Market	Single-family detached						
	Price			RBC Housing Affordability Measure			
	Q2 2021 (\$)	Q/Q % ch.	Y/Y % ch.	Q2 2021 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	788,500	5.8	20.0	49.7	3.0	4.9	43.1
Victoria	1,069,500	5.1	18.3	53.9	2.7	4.6	46.6
Vancouver area	1,701,000	4.9	18.0	85.4	4.4	7.5	68.7
Calgary	569,400	1.8	5.4	34.7	0.8	0.3	41.6
Edmonton	445,400	1.5	5.2	29.7	0.7	0.5	34.4
Saskatoon	406,400	1.7	3.7	28.4	0.4	0.1	33.1
Regina	334,400	1.6	2.0	24.1	0.3	-0.2	27.9
Winnipeg	366,100	3.9	12.3	26.5	0.8	1.3	29.9
Toronto area	1,355,600	6.0	19.1	71.6	5.0	6.3	56.1
Ottawa	714,500	8.1	26.6	42.8	3.4	5.3	37.8
Montreal area	587,400	5.1	22.2	40.9	2.1	4.1	37.6
Quebec City	353,700	2.2	10.3	27.1	0.7	0.5	29.8
Saint John	237,500	1.4	6.7	22.2	0.5	0.4	28.4
Halifax	456,000	8.5	24.0	32.3	2.1	4.8	31.6
St. John's	315,600	1.7	6.5	23.3	0.6	1.1	27.2

Market	Condominium apartment						
	Price			RBC Housing Affordability Measure			
	Q2 2021 (\$)	Q/Q % ch.	Y/Y % ch.	Q2 2021 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	516,300	2.8	5.1	32.6	1.2	-0.2	32.9
Victoria	552,900	3.3	8.8	29.2	1.1	0.5	31.0
Vancouver area	668,200	1.6	4.5	36.0	0.8	-0.5	38.7
Calgary	257,700	1.7	-0.6	18.2	0.4	-0.4	25.5
Edmonton	226,300	-1.0	-4.6	17.0	0.1	-0.7	21.4
Saskatoon	202,100	1.4	-6.3	15.4	0.2	-1.1	19.6
Regina	231,400	2.3	-3.2	16.4	0.3	-0.8	20.5
Winnipeg	230,300	0.6	4.4	16.9	0.2	0.0	22.2
Toronto area	630,100	3.4	3.6	34.7	1.7	-1.0	31.2
Ottawa	368,800	3.3	7.7	22.7	1.1	0.2	23.5
Montreal area	412,900	1.7	9.3	28.4	0.7	0.4	31.4
Quebec City	222,200	-0.9	0.6	16.7	0.1	-0.8	22.3
Saint John	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Halifax	367,700	3.0	13.7	25.0	0.7	2.1	25.7
St. John's	272,400	-0.7	3.5	18.6	0.1	0.4	21.7



## 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 20% 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



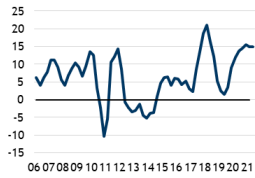


# Aggregate home price

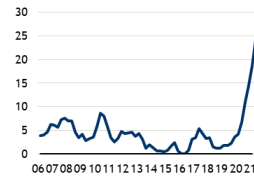
**St. John's**  
% change, year-over-year



**Charlottetown**  
% change, year-over-year



**Halifax**  
% change, year-over-year



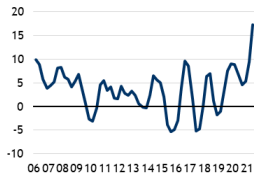
**Saint John**  
% change, year-over-year



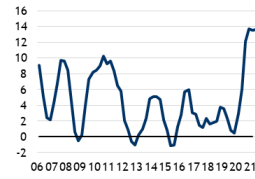
**Moncton**  
% change, year-over-year



**Fredericton**  
% change, year-over-year



**Trois-Rivières**  
% change, year-over-year



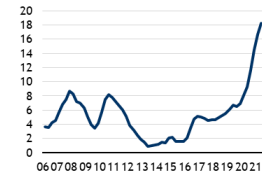
**Sherbrooke**  
% change, year-over-year



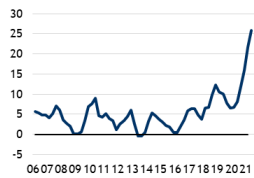
**Quebec City**  
% change, year-over-year



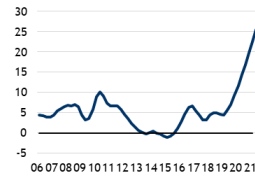
**Montreal**  
% change, year-over-year



**Kingston**  
% change, year-over-year



**Ottawa**  
% change, year-over-year



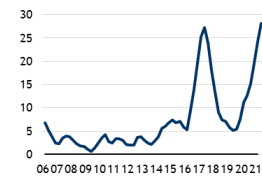
**Toronto**  
% change, year-over-year



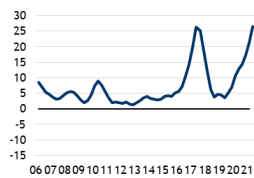
**Hamilton**  
% change, year-over-year



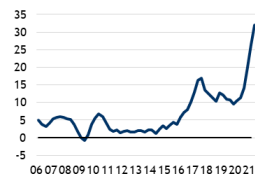
**St. Catharines**  
% change, year-over-year



**Kitchener**  
% change, year-over-year



**London**  
% change, year-over-year



**Windsor**  
% change, year-over-year



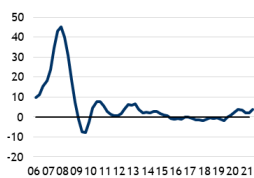
**Winnipeg**  
% change, year-over-year



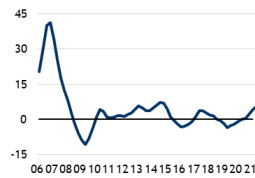
**Regina**  
% change, year-over-year



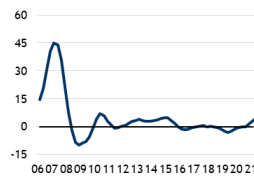
**Saskatoon**  
% change, year-over-year



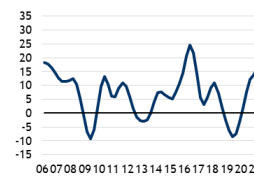
**Calgary**  
% change, year-over-year



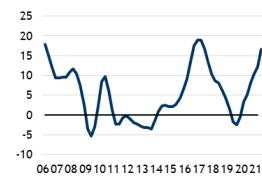
**Edmonton**  
% change, year-over-year



**Vancouver**  
% change, year-over-year

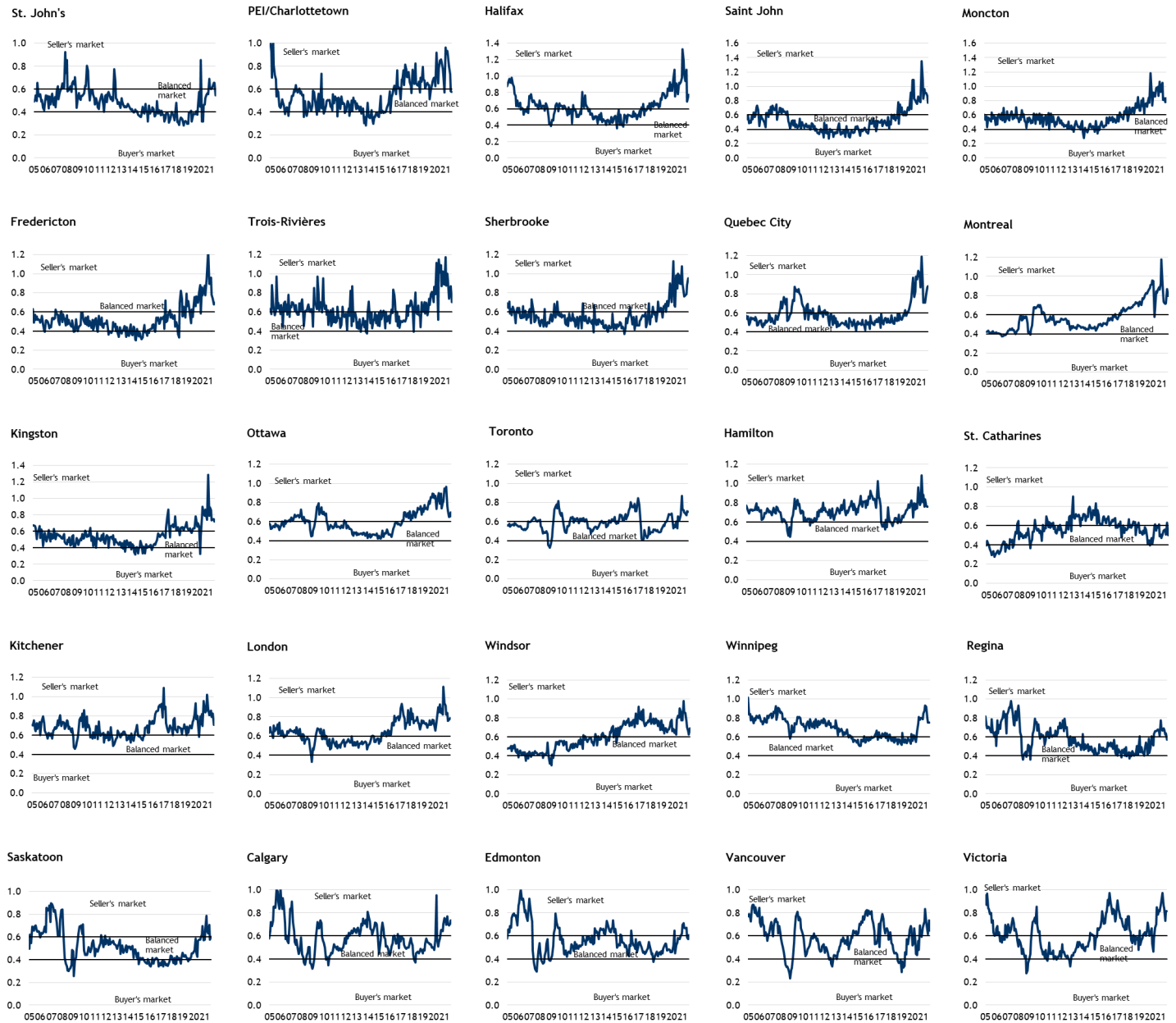


**Victoria**  
% change, year-over-year





# Home sales-to-new listings ratio



Source: Canadian Real Estate Association, RBC Economics

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