

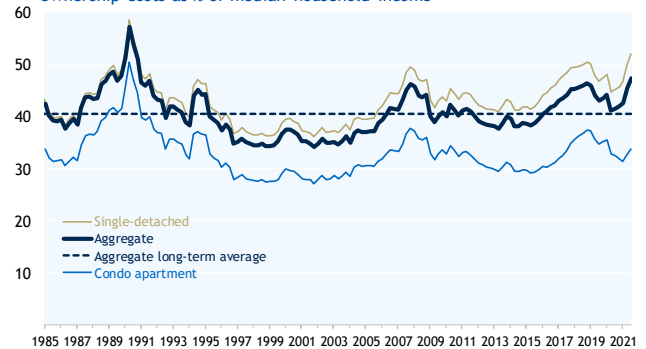
HOUSING TRENDS AND AFFORDABILITY

December 2021

The Great Affordability Squeeze? Home buyers confront rising ownership costs

- **Soaring prices, higher mortgage rates walloped affordability in the third quarter:** RBC's aggregate measure for Canada jumped 2.0 percentage points to 47.5%—the worst level in 31 years. It came on the heels of a huge 2.7 percentage increase in the second quarter that completely reversed improvements at the start of the pandemic.
- **Only St. John's bucked the deteriorating trend:** The weight of ownership costs got heavier in all other markets we track for both single-family homes and condo apartments.
- **Affordability remains well within historical norms in the Prairies and parts of Atlantic Canada despite recent erosion:** The situation has become more severe in Ontario, BC and, to a lesser extent, parts of Quebec.
- **We expect ownership costs to continue to rise quickly in the period ahead:** Home prices re-accelerated amid strong demand and scarce inventories this fall. And borrowing costs are poised to get more expensive. Fixed mortgage rates have gone up since summer and we expect the Bank of Canada to start hiking its overnight rate next spring, which would drive variable rates higher. The knock on affordability will be felt across the country.

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



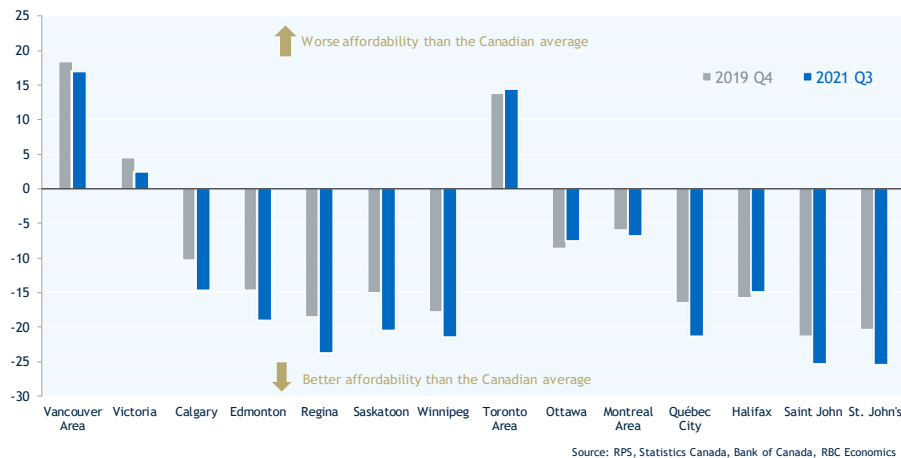
The share of income a household would need to cover ownership costs (in %)

Canada	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal
47.5	64.3	32.8	28.5	61.9	40.0	40.7

Third quarter 2021

Most markets in Atlantic Canada and the Prairies saw their affordability advantage widen

Difference with RBC's aggregate affordability measure for Canada, in percentage points



The pandemic amplified regional divergences

Broad housing trends have been remarkably similar across the country—indeed across many countries—throughout the pandemic. After a wild rollercoaster ride in 2020, it's now all about intense market heat. Homebuyer demand is supercharged and inventories are near historical lows in virtually every market, creating intense competition between buyers and pressured prices up. These conditions have widely eroded housing affordability in the past year. Yet this has been an uneven process. Some of the least affordable markets (most notably the Toronto area) experienced greater erosion, while more affordable markets (e.g. most in Atlantic Canada and the Prairies)



have worsened less. So developments in the past year have generally amplified pre-pandemic affordability divergences across Canada. More specifically they've put Toronto and other southern Ontario markets in even less enviable affordability positions relative to the rest of the country, whereas the relative picture generally improved elsewhere, especially in Atlantic Canada and the Prairies. These trends are poised to keep driving some Ontario buyers toward more affordable regions of the country.

Exceptionally tight demand-supply conditions - the story of 2021

The need for more supply has never been greater. This became clearly evident in the past year with bidding wars springing up in places that have rarely or never seen them before, and intensifying in places more accustomed to them. And until demand and supply return closer to balance, prices will continue to rise. Earlier in the pandemic, home buyers benefited from declining interest rates that offset the impact of escalating property values. That's no longer the case. In fact, interest rates even dented housing affordability most recently. A small increase in the five-year fixed mortgage rate accounted for half the 2.0 percentage-point increase in RBC's aggregate measure for Canada in the third quarter.

Much of the rebalancing adjustments to come from the demand side

The outlook for buyers is grim. We estimate rising interest rates alone could drive up our national affordability measure another 2.0 to 3.5 percentage points over the coming year. A further 5% increase in home prices would add an extra 2.0 percentage points. Income gains would provide a partial offset. A potentially significant deterioration in affordability could squeeze many buyers out of the market—or at least out of a market or housing category. That would be the market's self-correcting mechanism at work. So long as supply is slow in coming, much of rebalancing adjustments will fall on the demand side of the equation.

Shifting housing preferences: from the covid shock to the loss of affordability

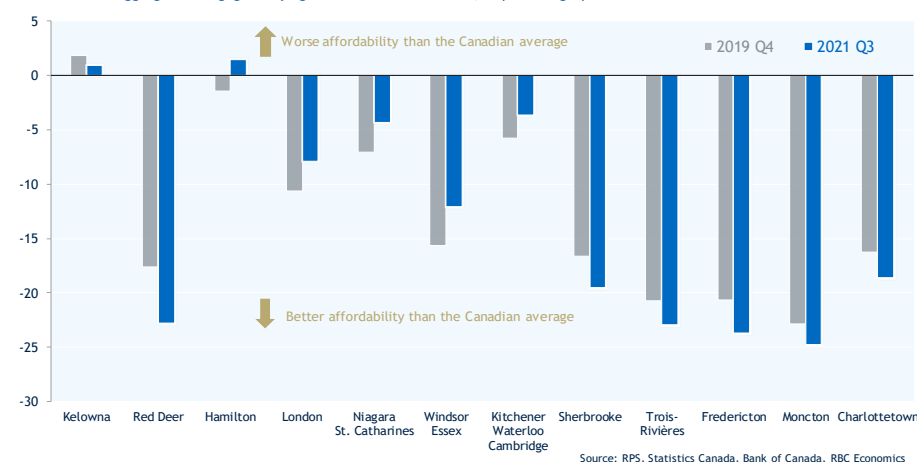
The pandemic forced Canadians to closely re-examine their housing needs and preferences over the past two years, and it will be the sharp loss of affordability that will keep the process going for new home buyers. Many will cope by driving further (including all the way to another province) until they qualify, or scale down the property they're going for, or both. Because of already challenging conditions and the fact that rising interest rates will push up ownership costs more in Canada's priciest markets, we expect buyers in Vancouver, Toronto, Victoria and, to a lesser extent, Ottawa and Montreal to be under the most pressure to reset their expectations.

Fewer compromises needed in Atlantic Canada and the Prairies

While the situation is also getting tougher for buyers in Canada's more affordable regions, owning a home there generally requires fewer compromises. In fact, most of Atlantic Canada and the Prairies still look reasonably affordable. RBC's aggregate measures remain well below their long-run averages—and are likely to remain so in the year ahead—in Calgary, Edmonton, Regina, Saskatoon, Winnipeg, Saint John and St. John's. The latter was the only market bucking the deteriorating trend in the third quarter.

Smaller Ontario markets' relative affordability has worsened during the pandemic

Difference with aggregate mortgage carrying cost measure for Canada, in percentage points





British Columbia

Victoria – Aggressive bidding further inflates ownership costs

Rapid price escalation served another blow to Victoria's housing affordability in the third quarter. Higher prices for both single-family homes and condo apartments strongly contributed to RBC's aggregate measure jumping 1.5 percentage points to 49.9%—the third-worst among the markets we track (behind Vancouver and Toronto). Ownership costs are poised to rise further in the near term as exceptionally tight demand-supply conditions force buyers to bid aggressively. Inventories are down more than 50% from a year ago in the area.

Vancouver area – Shift toward condos an enduring trend

The area still reigns supreme as Canada's least affordable market. An average household would need to allocate a stunning 64.3% of its income to cover ownership costs of an average home—clearly impossible. Owning a condo apartment would take up a still-hefty 36.0% but is a more realistic option for many. It's no surprise, then, that condos represent nearly half of resales in the Greater Vancouver area so far this year—by far the largest proportion among Canada's major markets. They've also been the fastest-growing category over the past year (up 61%) at nearly double the rate of detached homes (up 37%). We expect this trend to continue.

Alberta

Calgary – Flying high

Home resale activity continues to fly high as confidence in the market and provincial economy returns. Demand-supply conditions have tightened considerably this year (after slumping for a half-decade), and prices are now rising at a solid clip. Still, those increases so far have been a fraction of gains recorded in Ontario, BC, and parts of Quebec and Atlantic Canada. The upshot is that affordability remains generally good in Calgary despite some erosion recently. RBC's aggregate measure, at 32.8%, is still well below its long-term average of 38.7%.

Edmonton – Closer to balance

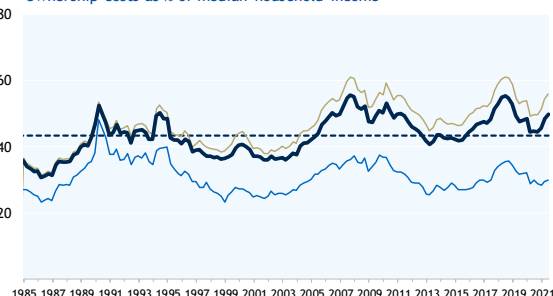
Broadly the same trends are playing out in Edmonton. Activity picked up noticeably this fall but this has yet to intensify upward price pressure in a meaningful way. Housing affordability got only slightly worse in the past two quarters. Buyers still face historically favourable conditions. RBC's aggregate measures (28.5%) is comfortably below its long-run average (32.7%). A recent dip in prices even hints at some possible improvement in the near term.

RBC Housing Affordability Measures

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

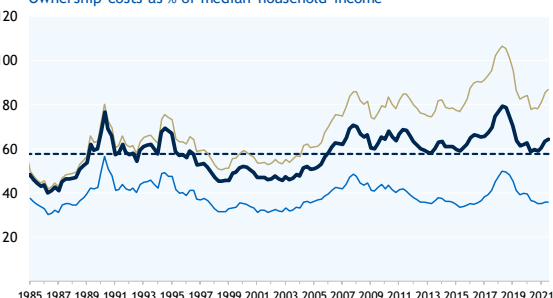
Victoria

Ownership costs as % of median household income



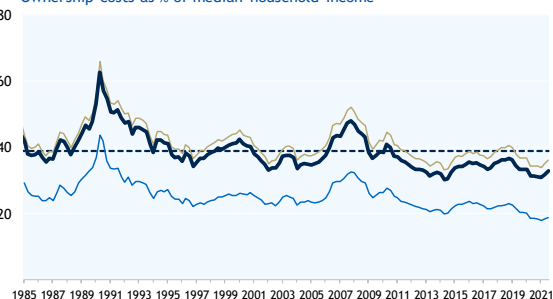
Vancouver Area

Ownership costs as % of median household income



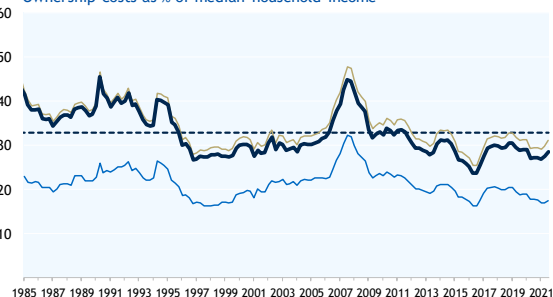
Calgary

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

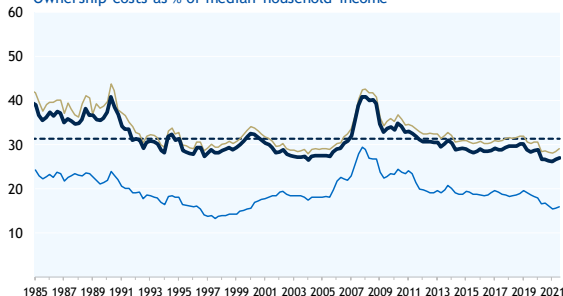


RBC Housing Affordability Measures

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 Aggregate long-term average — Condo apartment

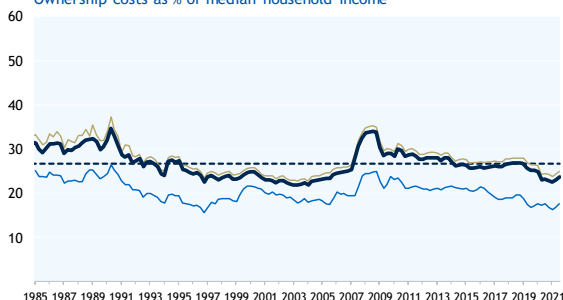
Saskatoon

Ownership costs as % of median household income



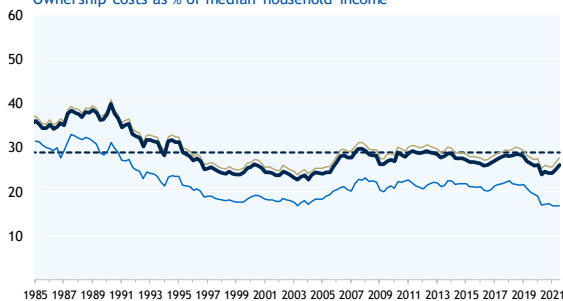
Regina

Ownership costs as % of median household income



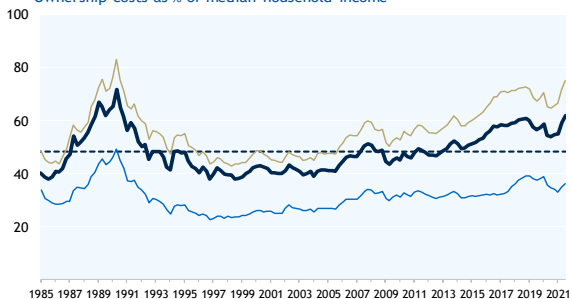
Winnipeg

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 – In overdrive

The market went into overdrive this fall after a brief cooling period in the summer. 2021 will be a new high-water mark for resales. It took just 10 months to surpass the previous record of 6,300 units set in 2014. The pandemic (and policy response) provided plenty of fuel to reach this milestone. But so did favourable affordability conditions. RBC’s aggregate measure, while inching higher in the past two quarters, remains historically low at 27.0%. We think it’s likely it will stay at favourable levels in the short term amid subdued upward price pressure.

Regina – Good affordability keeps interest in the market high

Not to be outdone, Regina’s housing market also set a new annual sales record by October. And good affordability was part of the mix too. Despite losing a little bit of its luster in the third quarter by rising 0.7 percentage points, RBC’s aggregate measure, at 23.7%, is still the best among the Western markets we track. Tighter demand-supply conditions may well dull the picture further in the near term but we see little that would drastically alter the positive affordability picture. We expect this will continue to drum up interest in the market in the period ahead.

Manitoba

Winnipeg – Full steam ahead

The market’s historic run seems unstoppable. Last year’s annual sales record was crushed in October thanks to another spike in activity this fall. Who knows how much stronger activity would be were there more homes for sale. With demand shooting through the roof, competition between buyers has intensified. Prices are going up (at a double-digit pace) as a result, making it a little harder to handle ownership costs. RBC’s aggregate measure rose modestly in the past two quarters. Nonetheless, it’s unlikely buyers are under excessive stress as the 26.1% value of the measure still compares well historically.

Ontario

Toronto area – Swelling ownership costs crimp affordability

Being the second-most expensive market in Canada, it doesn’t take much of a price increase or rise in interest rates to crimp affordability in the Toronto area. With both going up materially in the third quarter, ownership costs have soared, causing RBC’s aggregate measure to jump 2.7 percentage points—the strongest increase among markets we track. The measure (61.9%) is now at its worst level in 31 years. To date, extremely poor affordability hasn’t held back the market much (or at all). Housing activity continues to be brisk with demand far exceeding supply. But we believe the likelihood of a further sharp deterioration in the period ahead will force many buyers to reset their expectations, with some opting to postpone their decision, others to leave the market.



Ottawa – Long-running boom leaves its mark on affordability

Ottawa home buyers are facing the worst affordability conditions in a quarter-century. RBC’s aggregate measure spiked for the second-straight time in the third quarter, surging 1.5 percentage points to 40.0%. This came on the heels of a massive 3.1 percentage point increase in the second quarter. A tremendous boom in demand and run-up in prices pre-dating the pandemic are now rapidly leaving their mark on the market following years of gradual erosion in affordability. The situation is about to get worst in the near term. The market remains heavily tilted in favour in sellers, which will sustain further appreciation in property values in the coming months.

Quebec

Montreal area – Another (big) blow to buyers’ aspirations

Home ownership aspirations were served another blow in the third quarter. Soaring prices and increases in some mortgage rates required Montreal-area buyers to fork out an extra 2.1% of their income to cover the costs of an average home. This followed a similar-sized jump in the second quarter. At 40.7%, RBC’s aggregate measure is now stretching the limits of many buyers. It’s at its worst level in 13 years. We expect further rapid deterioration of affordability will weigh on market activity in the period ahead. For now, though, the pace is still very strong, with supply coming well short of demand.

Quebec City – Positive picture keeps market busy

The situation generally remains positive for Quebec City buyers, albeit slightly less so compared to a half-year ago. RBC’s aggregate affordability measure rose modestly in the past two quarters, including a 0.9 percentage-point advance in the third quarter. This came from a close to 18-year low point earlier in the pandemic, such that the measure (26.2%) still remains below its long-run average (29.1%). While the market was very busy this year, it didn’t reach a full-blown frenzied state. This kept price gains solid but manageable. We expect this to continue in the near term.

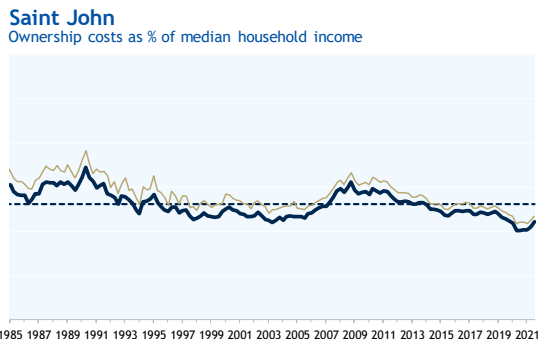
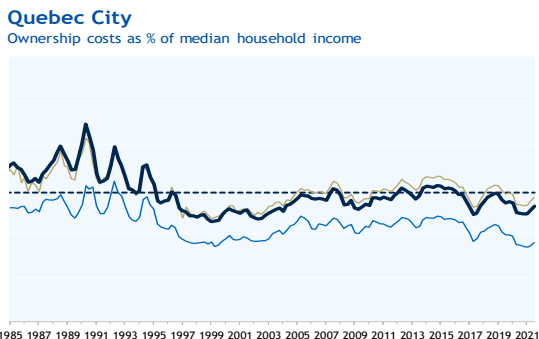
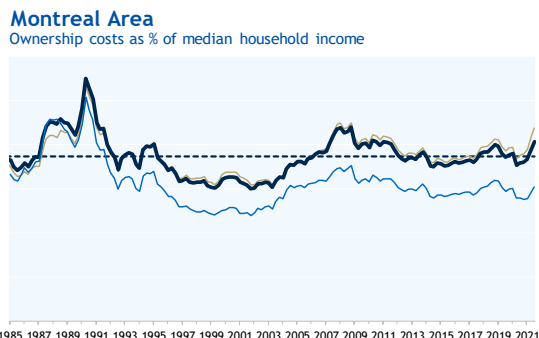
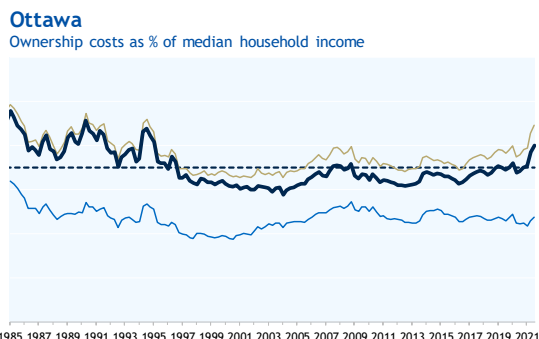
Atlantic Canada

Saint John – On a tear

The market is on a tear. It obliterated last year’s record sales activity by October! Supercharged demand has greatly depleted inventories, forcing buyers to compete fiercely over what’s available. Home prices are not only the strongest they’ve ever been but also rising at their fastest pace in memory—including a whopping 5.7% quarterly increase in the third quarter. Unsurprisingly, these conditions have taken a toll on affordability. RBC’s aggregate measure rose back-to-back in the second and third quarters. Yet the level (22.1%) remains highly favourable for buyers—close to the best in Canada. We expect this to keep fueling activity in the near term.

RBC Housing Affordability Measures

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



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

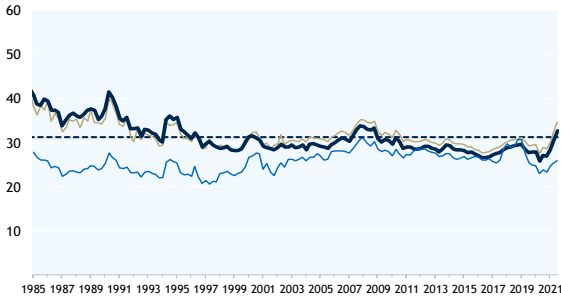


RBC Housing Affordability Measures

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 Aggregate long-term average — Condo apartment

Halifax

Ownership costs as % of median household income

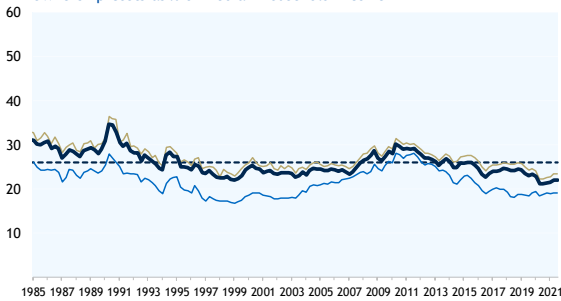


Halifax – Buyers face a more challenging landscape

It's rapidly becoming less affordable to buy a home in Halifax. Up until earlier this year, the housing boom had a largely muted impact on ownership costs. Not anymore. Soaring prices—Halifax most recently recorded the fastest quarter-to-quarter increase among markets we track—have made things much more challenging. RBC's aggregate measure jumped a massive 4.2 percentage points over the last two quarters. The measure (32.6%) now surpasses its long-term average (31.2%), suggesting buyers are under greater-than-usual strains. We see little reprieve in the short term. Property values are poised to keep escalating amid persistently tight demand-supply conditions.

St. John's

Ownership costs as % of median household income



St. John's – Bucking the trend

St. John's was the only major market in Canada where affordability didn't deteriorate in the third quarter. RBC's aggregate measure was unchanged at 22.0%—now the best among markets we track (just edging out Saint John for the title). Superior affordability no doubt contributed tremendously to this year's sky-high activity. 2021 in fact became a banner year in September, with re-sales on pace to beat the previous record by more than 40%. Upward price pressure has so far been largely contained. This may well change with demand-supply conditions having tightened considerably this fall.

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			
	Q3 2021 (\$)	Q/Q % ch.	Y/Y % ch.	Q3 2021 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	748,300	3.1	18.8	47.5	2.0	5.9	40.7
Victoria	991,400	3.4	17.9	49.9	1.5	5.1	43.3
Vancouver area	1,258,000	1.6	13.6	64.3	0.9	4.7	57.8
Calgary	525,400	1.0	6.3	32.8	1.0	1.5	38.7
Edmonton	421,700	1.6	5.8	28.5	1.0	1.3	32.7
Saskatoon	390,900	0.6	3.3	27.0	0.4	0.3	31.3
Regina	340,100	2.9	5.6	23.7	0.7	0.5	26.7
Winnipeg	361,900	2.2	11.0	26.1	1.1	1.6	28.7
Toronto area	1,142,800	2.9	18.0	61.9	2.7	7.9	48.6
Ottawa	665,900	2.7	22.9	40.0	1.5	5.8	35.0
Montreal area	580,500	3.5	18.3	40.7	2.1	4.8	37.4
Quebec City	343,200	1.9	10.4	26.2	0.9	1.6	29.1
Saint John	247,700	5.7	15.9	22.1	1.1	1.9	26.1
Halifax	465,900	5.8	26.4	32.6	2.0	5.5	31.2
St. John's	309,600	1.3	5.7	22.0	0.0	0.9	25.9

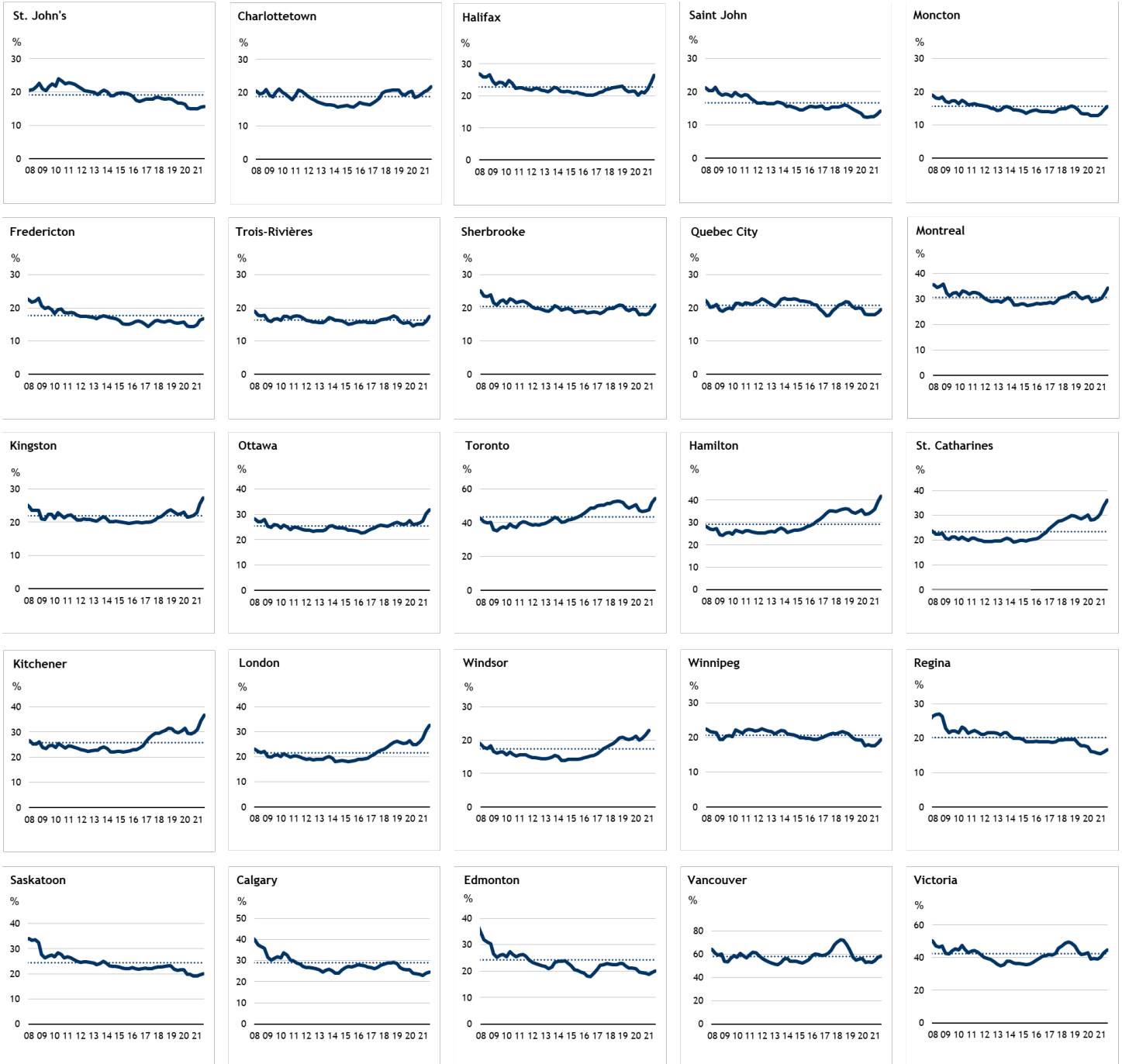
Market	Single-family detached						
	Price			RBC Housing Affordability Measure			
	Q3 2021 (\$)	Q/Q % ch.	Y/Y % ch.	Q3 2021 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	818,000	3.3	20.2	52.1	2.2	6.8	43.1
Victoria	1,111,900	3.0	19.1	55.8	1.4	6.2	46.7
Vancouver area	1,733,300	1.8	16.6	86.9	1.4	8.5	68.8
Calgary	579,600	1.3	6.5	36.2	1.3	1.8	41.5
Edmonton	457,600	2.3	7.2	31.0	1.2	1.6	34.4
Saskatoon	415,800	1.8	4.8	29.1	0.6	0.5	33.1
Regina	347,900	2.9	5.5	25.0	0.7	0.6	27.9
Winnipeg	375,300	2.3	11.6	27.6	1.1	1.8	29.9
Toronto area	1,398,300	2.9	19.4	75.0	3.2	10.2	56.2
Ottawa	734,400	2.9	23.5	44.5	1.7	6.6	37.8
Montreal area	617,200	4.2	22.0	43.7	2.5	6.1	37.7
Quebec City	362,300	1.9	10.7	28.2	1.0	1.6	29.8
Saint John	254,500	5.7	11.8	23.5	1.1	1.5	28.4
Halifax	488,600	6.1	25.8	34.7	2.2	5.7	31.6
St. John's	321,700	1.6	7.4	23.5	0.1	1.3	27.2

Market	Condominium apartment						
	Price			RBC Housing Affordability Measure			
	Q3 2021 (\$)	Q/Q % ch.	Y/Y % ch.	Q3 2021 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	528,600	2.0	6.4	33.8	1.1	1.3	32.9
Victoria	571,600	2.1	5.1	30.0	0.5	0.2	31.0
Vancouver area	670,600	0.5	3.3	36.0	0.1	-0.3	38.7
Calgary	262,100	1.5	1.5	18.9	0.7	0.3	25.4
Edmonton	226,200	0.5	-5.1	17.4	0.5	-0.4	21.3
Saskatoon	210,500	2.3	-5.6	15.9	0.3	-0.9	19.6
Regina	253,900	5.9	2.5	17.7	0.9	0.1	20.5
Winnipeg	221,600	-2.7	-0.8	16.8	0.0	-0.3	22.2
Toronto area	645,200	2.3	5.6	36.1	1.3	1.4	31.2
Ottawa	383,400	3.0	9.1	23.8	0.9	1.5	23.5
Montreal area	433,600	3.3	12.5	30.3	1.4	2.4	31.4
Quebec City	237,300	3.0	5.9	17.9	0.7	0.5	22.3
Saint John	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Halifax	375,800	0.4	11.6	25.9	0.5	2.1	25.7
St. John's	283,000	0.5	2.5	19.1	0.0	0.4	21.7



Mortgage carrying costs by city

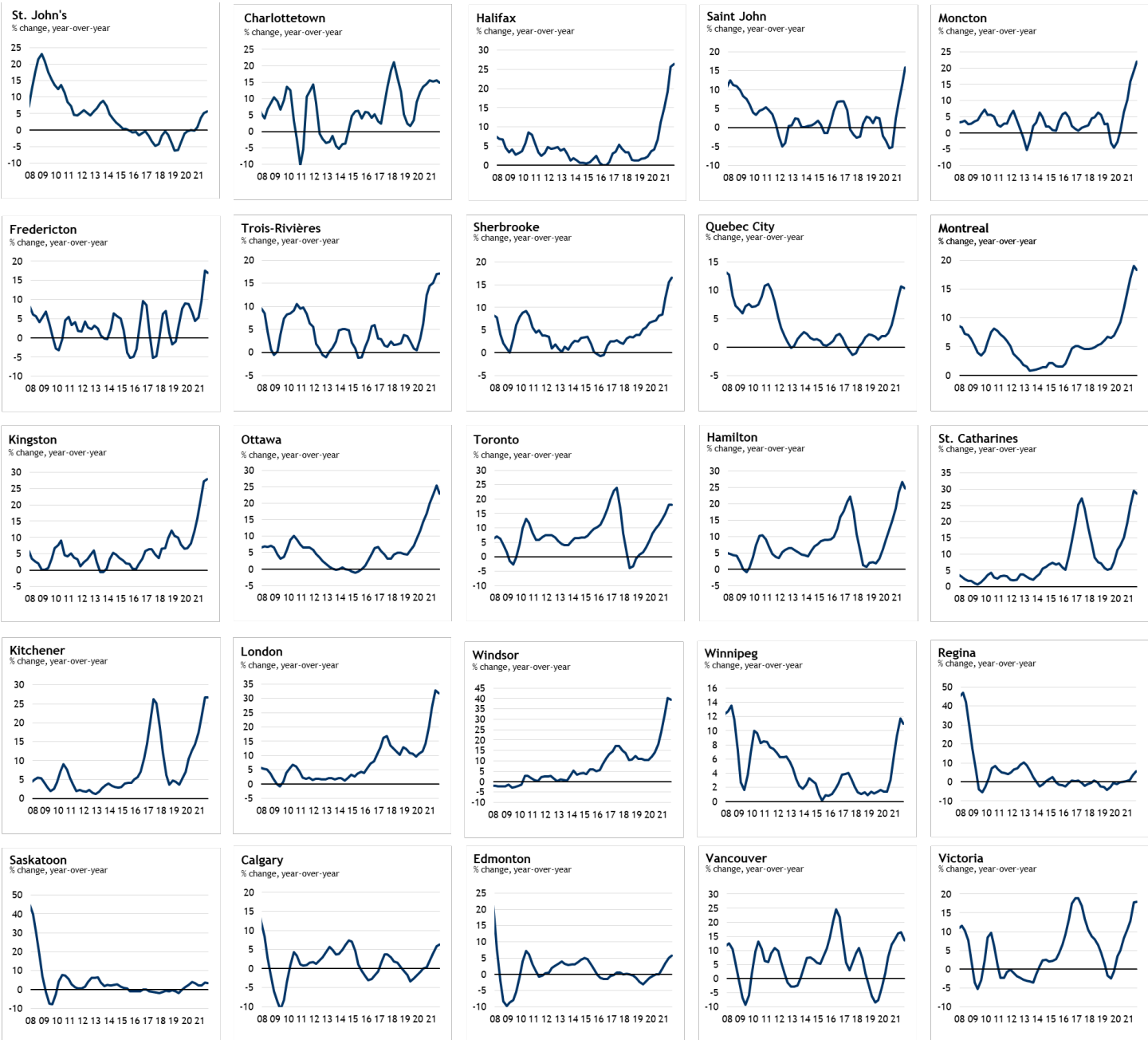
Our standard RBC Housing Affordability Measure captures the proportion of median pre-tax household income required to service the cost of a mortgage on an existing housing unit at market prices, including principal and interest, property taxes and utilities; the modified measure used here includes the 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, RBC Economics



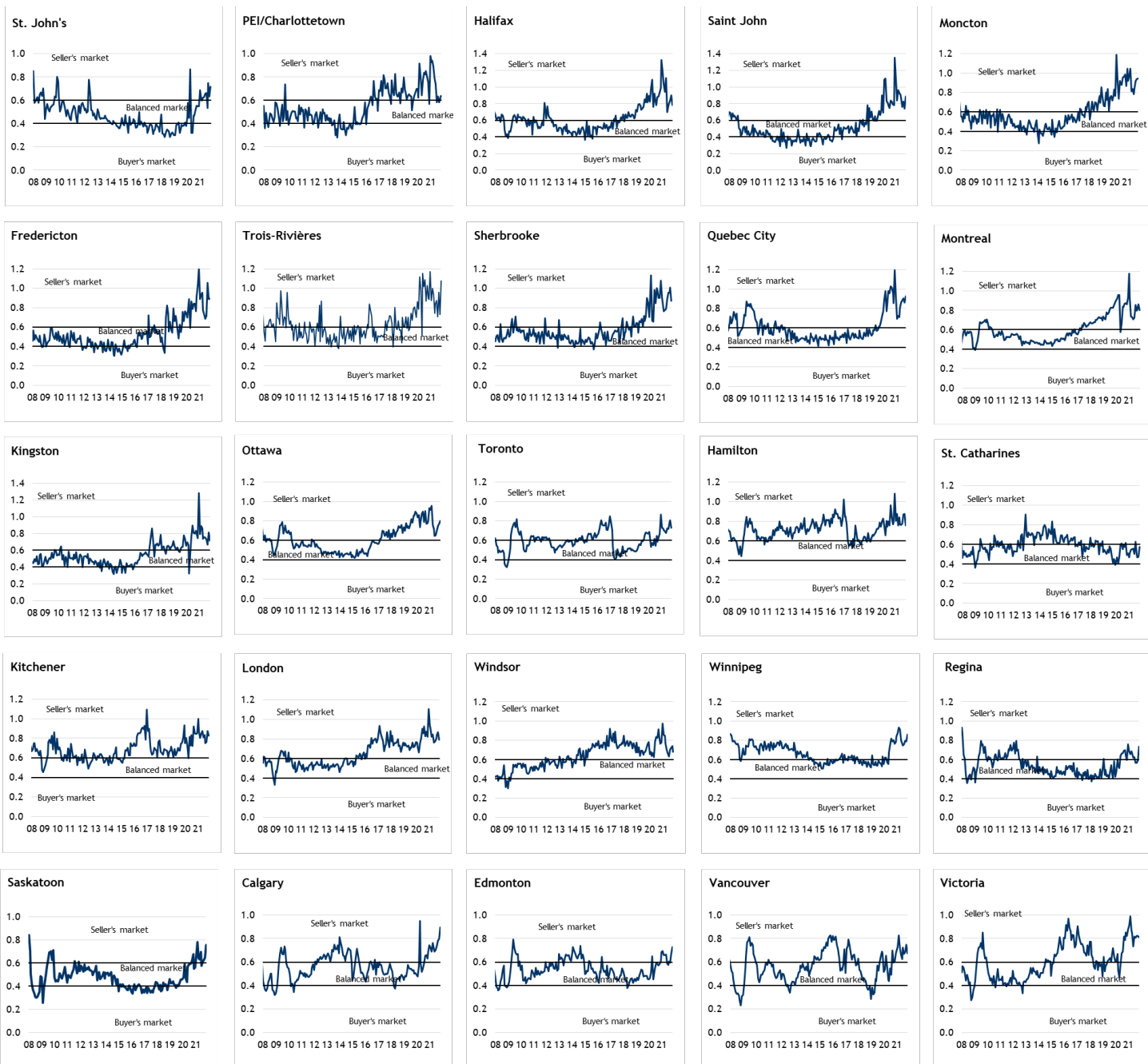
Aggregate home price



Source: RPS, RBC Economics



Home sales-to-new listings ratio



Source: Canadian Real Estate Association, RBC Economics

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