



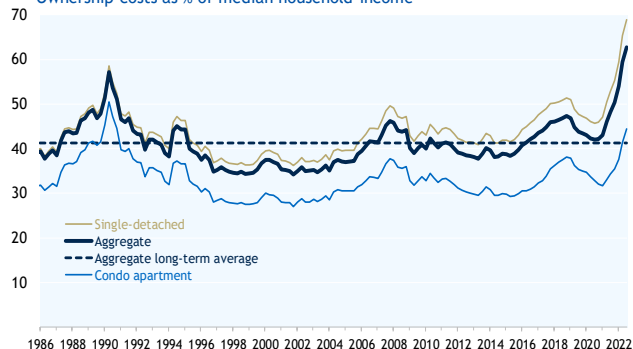
HOUSING TRENDS AND AFFORDABILITY

December 2022

Homebuyer blues: dreadful affordability gets worse in Canada

- Home ownership costs balloon as interest rates continue to soar:** The Bank of Canada's battle against inflation has made it a lot harder to buy a home in this country. Massive rate hikes since March drove RBC's aggregate affordability measure to 62.7%, its worst-ever level. The deterioration totaled an astounding 14.5 percentage points over the past year.
- No exception to the worsening trend:** Buyers face materially higher ownership costs in every market we track. The 12-month increase has been unsurpassed historically in the vast majority of cases.
- Affordability is overstretched in BC and Ontario:** And conditions are now more challenging than usual in other parts of Canada too.
- Price correction should soon bring relief to buyers:** The low point for affordability is likely close at hand. Widespread price declines—especially in Ontario and BC—should help lower ownership costs once interest rates stabilize. We expect benchmark prices to fall 14% nationwide from the peak by next spring.

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



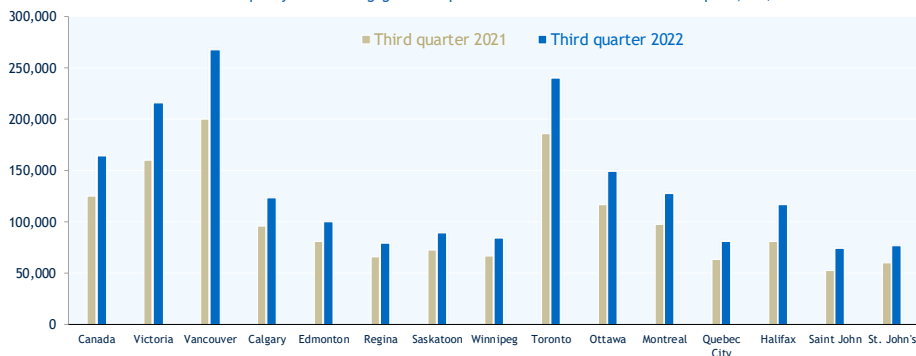
The share of income a household would need to cover ownership costs (in %)

Canada	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal
62.7	95.8	41.6	31.2	85.2	51.7	51.9

Third quarter 2022

Buyers need much higher income to qualify for a mortgage

Pre-tax income needed to qualify* for a mortgage on the purchase of a home at the benchmark price, in \$



* Based on a 20% down payment, 25-year amortization and 39% gross debt service ratio.

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

Deeper pockets necessary to handle higher rates

Sky-rocketing home prices earlier in the pandemic raised the bar by several notches for Canadian buyers. But the spike in interest rates since March served a crushing blow in parts of the country. To qualify for a mortgage on the purchase of a typical home (at the benchmark price) in the Vancouver area a buyer needed to earn a minimum of \$200,000 annually in the third quarter of 2021. A year later, the qualifying income had soared 34% to an astounding \$268,000. In the Toronto area, it was \$240,000—a 29% increase. What was already a very tough hurdle to clear is now nearly impossible for many potential purchasers. No wonder homebuyer demand has plum-



meted since the Bank of Canada initiated its rate hike campaign.

The more challenging conditions aren't limited to Canada's most expensive markets. Higher mortgage rates require deeper pockets from coast to coast. It's in fact buyers in Halifax and Saint John who have faced the biggest increases in the minimum qualifying income in the past year (up 44% and 41%, respectively)—though the required amount in Saint John (\$74,000) is still the lowest among the markets we track. To qualify for a home valued at the benchmark price, buyers in Victoria (who need at least \$216,000 to qualify), Vancouver (\$268,000), Calgary (\$123,000), Toronto (\$240,000), Ottawa (\$149,000), Montreal (\$127,000) and Halifax (\$116,000) must all have six-figure pre-tax income. These levels widely exceed the respective median household income, which ranges from \$74,000 in Montreal to \$92,000 in Calgary. In other words, it's Canadians in the upper income echelons who can afford an average home in these markets—especially so in Vancouver, Toronto and Victoria.

Worst-ever affordability levels

It's never been so unaffordable to buy a home in this country. Further interest rate increases propelled RBC's aggregate measures to yet new record highs nationally and in Victoria, Vancouver, Toronto, Ottawa and Halifax in the third quarter. (An increase in the measure represents a loss of affordability.) Montreal's measure is rapidly approaching that mark too. The situation isn't as grim in other markets though affordability levels now look more stretched than usual in all but one market (Edmonton). The national aggregate measure rose in the past eight quarters.

Housing market correction approaching its final phase?

The massive erosion of affordability has kept Canada's housing market on a major correction course since spring. Home resales have plummeted 36% nationwide—more so in BC (-43%) and Ontario (-41%)—reaching levels far below those that prevailed before the pandemic. The pace of decline has eased in recent months, though. Falling prices also appear to be slowing. These may be early signs the correction is approaching its final stage.

Intense pressures to persist for now

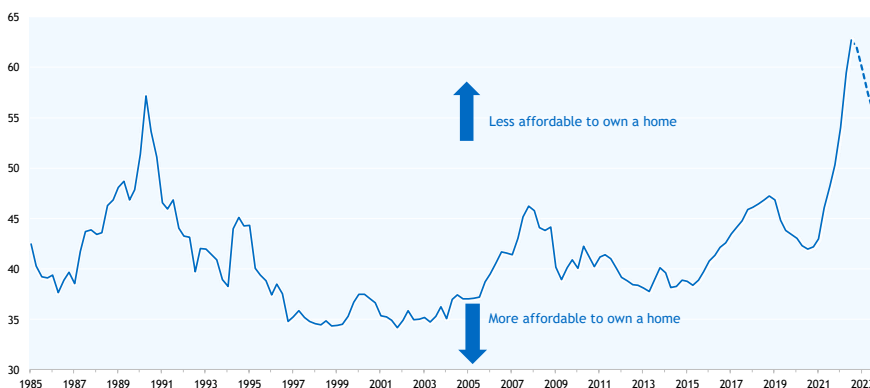
Still, headwinds will remain stiff in the near term. Affordability issues aren't likely to reverse quickly. It will take more time for the market to absorb the rise in mortgage rates. We expect the market to bottom out around spring.

Price drops will eventually help affordability

The market correction's silver lining is it's setting the stage for some affordability improvement in the year ahead. We expect the national benchmark price to fall 14% from its early 2022 peak, providing significant scope to lower ownership costs once interest rates stabilize. We think that could start in the early part of 2023—though the timing is poised to vary by market. Growing household income will partly drive the improvement process. It will likely take years to fully reverse the tremendous deterioration that took place since 2021.

Price declines to ease affordability pressure next year

Ownership costs as % of household income, Canada, composite of all housing categories



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



British Columbia

Victoria – Exceptionally high hurdle to clear

Buyers needed to allocate a record-high share of their income to cover the costs of owning a home in the third quarter. RBC’s aggregate affordability measure for Victoria soared another 5.0 percentage points to an eye-watering 71.7%. The deterioration in affordability over the past year (18.7 percentage points) has been unprecedented in the area and put buyers in an extremely difficult situation. Many have exited the market entirely, causing activity to plunge. Home resales recently reached a 10-year low (excluding the pandemic lockdown period). Demand-supply conditions have significantly loosened as a result and prices are now correcting. We expect further price declines in the near term.

Vancouver area – Setting a new (grim) record

Canada’s least affordable market got worse. The spike in interest rates further inflated the area’s gigantic ownership costs in the third quarter, propelling RBC’s aggregate affordability measure to yet another record high (95.8%). Owning a home has never been so unaffordable anywhere in Canada ever—and probably most places around the world. Buyers have gone into full-blown retreat since spring. The price correction to date has done little to ease this affordability crisis. It will take further declines to reignite the ownership dream of many who have been shut out of the market. We expect activity to stay depressed while earlier price gains are partly rolled back.

Alberta

Calgary – Buyers still able to navigate

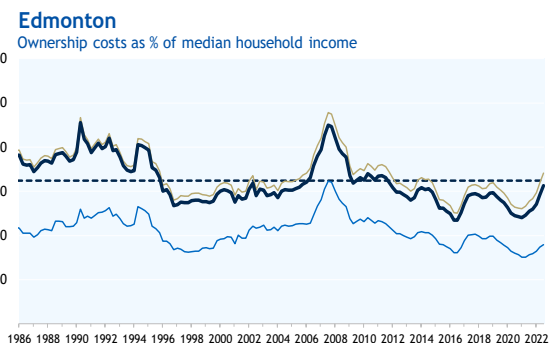
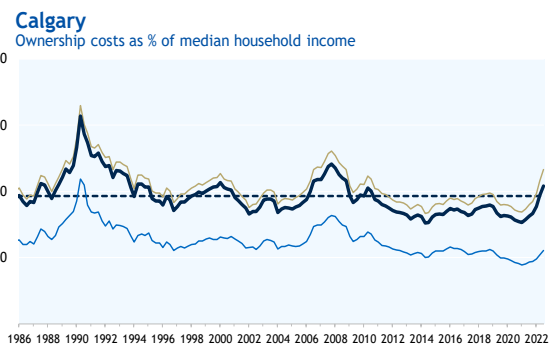
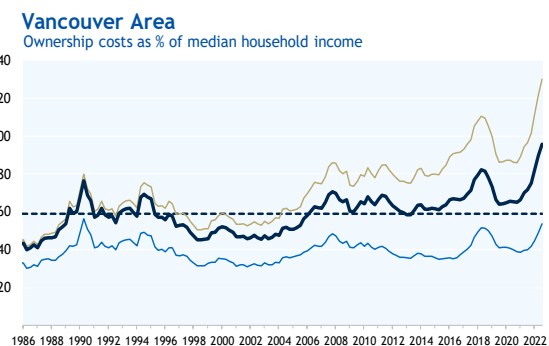
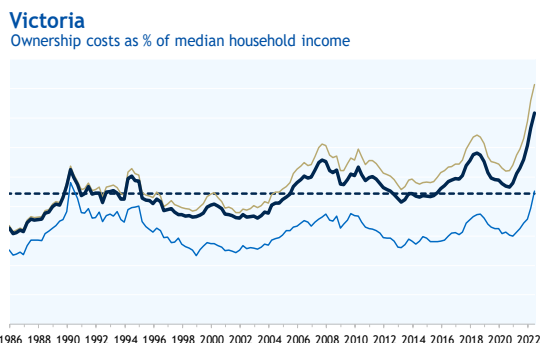
Higher interest rates sting but so far the impact has been much less severe than in other major markets. Despite deteriorating significantly in the past year, housing affordability is only now departing from historical norms with RBC’s aggregate measure (41.6%) surpassing its long-run average (38.7%) in the third quarter. That’s because the market entered the pandemic from a very favourable affordability position. Buyers continue to respond accordingly, sustaining solid demand, and keeping activity brisk and prices firm. We expect little change in the near term.

Edmonton – Ownership costs no more of a burden than usual

Buying a home is still more affordable than usual in Edmonton. RBC’s aggregate measure (31.2%) remains slightly below its long-term average (32.4%). In fact, Edmonton is the only market we track where that was the case in the third quarter. The positive picture didn’t fully protect against the broad market cooling we’ve seen across the country but likely helped home resales stay well above pre-pandemic levels. A recent string of price declines, is sustained, could lead to some improvement in affordability in the period ahead.

RBC Housing Affordability Measures

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



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



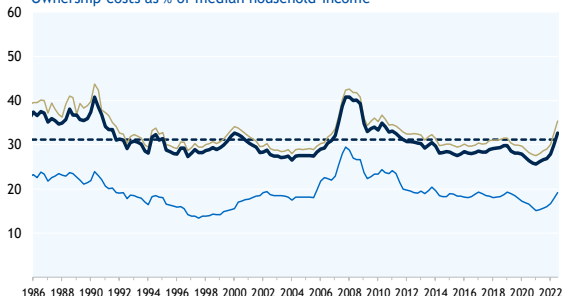
RBC Housing Affordability Measures

Saskatchewan

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

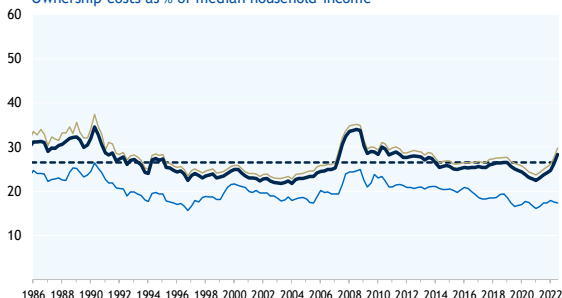
Saskatoon

Ownership costs as % of median household income



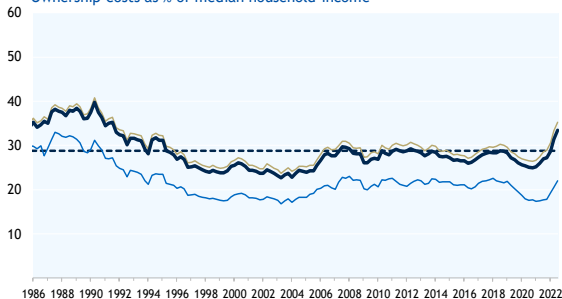
Regina

Ownership costs as % of median household income



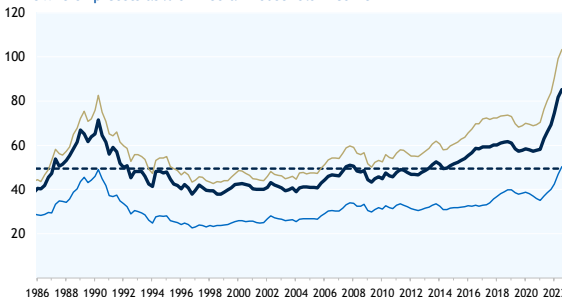
Winnipeg

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

Saskatoon – Holding up well

Spiking ownership costs are taking a toll on buyers, and this is gradually slowing down activity in the area. Still, with sky-high levels as a starting point, the market isn't weak by any measure—resales remain far above where they were before the pandemic. And as demand-supply conditions were quite tight until very recently, prices have held up better than in most markets. That began to change this fall, though. We've seen some erosion in property values of late, which could well stem the deterioration in affordability. RBC's aggregate measure rose in each of the last six quarters to 32.6%.

Regina – Modest prices sustain solid demand

The loss of affordability in the past year hasn't restrained the flow of transactions yet. It's still near all-time highs. That's perhaps because the level of affordability remains favourable for buyers. RBC's aggregate measure for Regina (28.3%) is the lowest among the markets we track in Western Canada. No doubt this keeps drawing in strong demand. A much healthier provincial economy also likely helps. Regina's modestly priced properties make ownership costs less sensitive to interest rates, which should keep activity humming near term.

Manitoba

Winnipeg – Loss of affordability dims house hunters' verve

Rising ownership costs are increasingly reducing house hunters' ability or willingness to pull the trigger on deals. Home resales have recently dip slightly below the levels that prevailed in the latter half of 2019 after setting record highs earlier in the pandemic. Having to spend the highest share of their income to cover ownership costs in 33 years—RBC's aggregate measure surged 6.4 percentage points in the past year to 33.4%—buyers are now bidding prices lower. We expect the depreciation to continue in the near term.

Ontario

Toronto area – Crisis deepens

Soaring interest rates are a big deal in Canada's second most expensive market. They've caused massive increases in already steep mortgage payments that come with the purchase of a home. This thrust RBC's aggregate affordability measure further into crisis territory in the third quarter—reaching 85.2%, a new all-time high. The shock it represents for buyers is clearly tangible. Home resales have tumbled more than 45% since February to the lowest levels in 13 years (excluding the lockdown period). Prices have declined sequentially for nine consecutive months. Demand-supply conditions have eased considerably, taking away much of sellers' bargaining power. We think a further rollback of earlier outsized price gains is in the cards. In fact we see it necessary to stabilize the market.



Ottawa – Member of the affordability-challenged club

Ottawa has joined the club of affordability-challenged markets in Canada. Huge earlier price appreciation and soaring interest rates have driven up ownership costs to heavily straining levels for buyers. RBC’s aggregate measure surged to a record-high 51.7% in the third quarter—eclipsing the early-1990s mark by more than 6 percentage points. Such a sharp turn of events sent buyers into full retreat. Home resales have plummeted as a result to levels unseen in 14 years (excluding the lockdown period). Prices are now trending lower. We see this trend continuing into 2023 in order to restore some of the affordability lost. Looser demand-supply conditions should contribute to this process.

Quebec

Montreal area – Challenging times

The situation got even more challenging for Montreal buyers in the third quarter. Higher interest rates raised the bar to home ownership to a level last seen a generation ago. Only briefly in 1990 has RBC’s aggregate measure surpassed its current reading of 51.9%. The sharp deterioration over the past year unsurprisingly deflated buyers. The slowdown in market activity began gradually but the pace of decline picked up materially since summer. Home resales have lately slumped to 14-year lows. Because inventories are still relatively tight and demand-supply conditions largely balanced, price depreciation has remained subdued to date. We think this trend will persist in the near term.

Quebec City – Affordability deteriorates but stays manageable

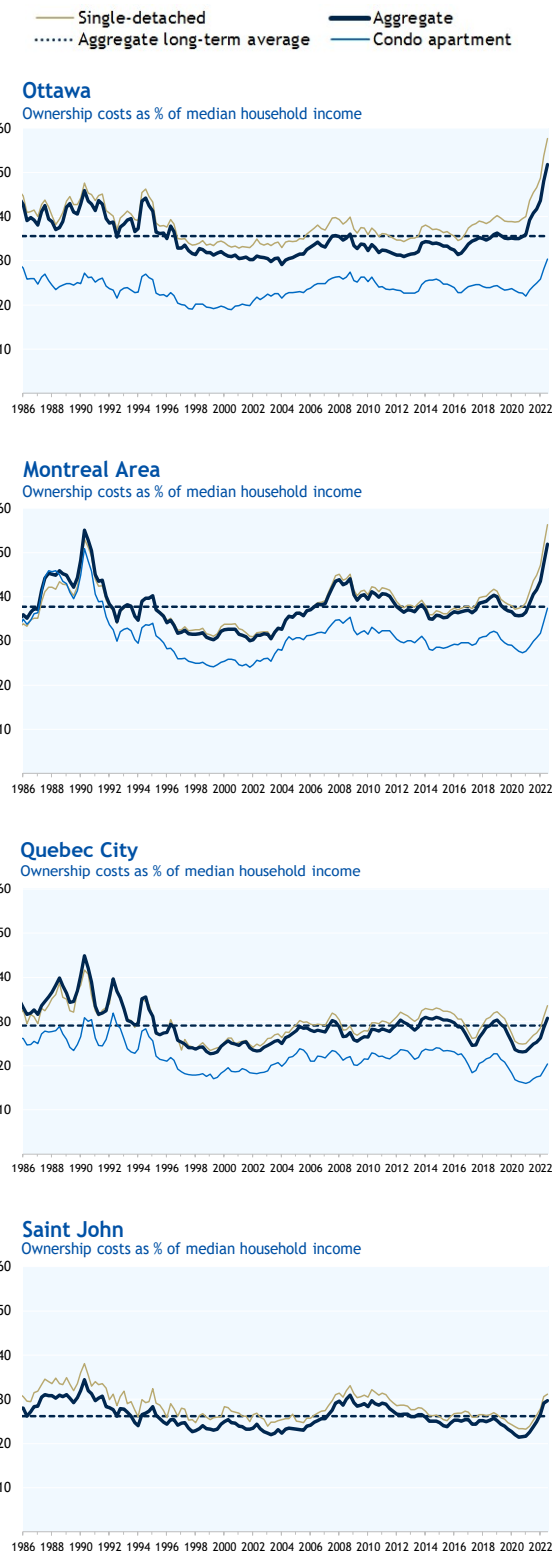
Like elsewhere it’s become less affordable to buy a home in the area. But thanks to a very favourable starting point a year ago the situation still looks broadly manageable for buyers. RBC’s aggregate measure (30.8%) just slightly exceeds its long-run average (29.1%). Nonetheless, the sharp deterioration has led many buyers to withdraw, cooling activity by several degrees and curbing price appreciation.

Atlantic Canada

Saint John – Buyer interest is waning

The tremendous buyer interest in the market during the pandemic is now waning. Home resales have fallen back to 2018 levels of late after two years of (mostly) frantic activity. A rapid rise in ownership costs has had a material cooling effect on the market. RBC’s aggregate affordability measure shot up 5.7 percentage points since the third quarter of 2021 to 29.6%—a 12-year high. Rising interest rates and the loss of affordability are beginning to weigh on property values, which appreciated at some of the fastest rates in the country earlier in the pandemic. We expect prices to moderate in the near term.

RBC Housing Affordability Measures



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

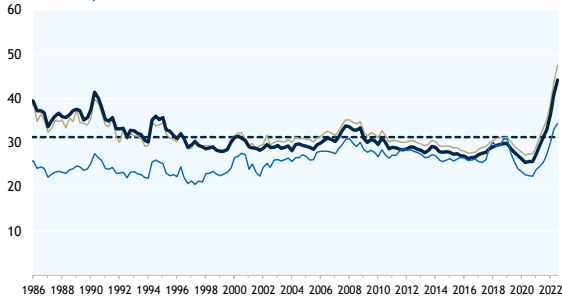


RBC Housing Affordability Measures

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

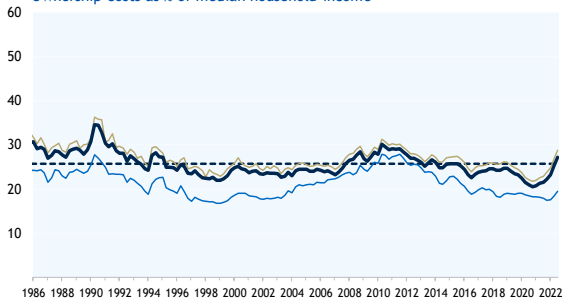
Halifax

Ownership costs as % of median household income



St. John's

Ownership costs as % of median household income



Halifax – Among the least affordable markets

The swing has been dramatic since 2021: Halifax went from one of the more affordable markets in Canada to one of the least. Soaring prices—with rates approaching 40% y/y earlier this year—first put ownership costs on a steep upward trajectory. It was then amplified by rapidly rising interest rates. RBC’s aggregate measure jumped an astounding 12.8 percentage points over the past year to 44.2%. This places Halifax sixth in our rankings of least affordable markets in the country. Buyers are feeling it. Home resales have sunk 28% since spring down to their lowest levels in seven years (excluding the shut-down period). Sellers have lost much of their grip on pricing in the process. Benchmark prices peaked this summer and we expect them to trend lower in the period ahead.

St. John's – Brisk momentum persists

The market’s momentum has stayed brisk despite decelerating this year. A favourable affordability picture no doubt continues to stimulate demand. RBC’s aggregate measure for the area (27.2%) is the best among the markets we track. But it too has considerably deteriorated since the third quarter of 2021, rising a hefty 5.7 percentage points. Relatively tight demand-supply conditions have supported steady price increases to date. But that may change if demand cools further.

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 doesn'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 2022 (\$)	Q/Q % ch.	Y/Y % ch.	Q3 2022 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	838,700	-2.9	10.9	62.7	3.3	14.5	41.2
Victoria	1,140,900	-1.6	13.6	71.7	5.0	18.7	44.4
Vancouver area	1,421,000	-2.4	11.9	95.8	6.1	24.3	59.1
Calgary	587,100	0.1	11.1	41.6	2.9	9.0	38.7
Edmonton	452,700	0.5	7.1	31.2	2.0	5.7	32.4
Saskatoon	416,800	1.9	6.0	32.6	2.6	6.0	31.1
Regina	355,200	1.4	3.7	28.3	2.1	4.6	26.5
Winnipeg	400,000	0.0	10.0	33.4	2.0	6.4	28.8
Toronto area	1,250,100	-5.1	8.4	85.2	3.4	19.1	49.5
Ottawa	724,900	-1.2	8.5	51.7	3.6	10.9	35.6
Montreal area	649,500	1.2	11.0	51.9	4.5	11.3	37.7
Quebec City	383,200	0.8	10.0	30.8	2.3	5.9	29.1
Saint John	328,300	3.2	28.6	29.6	0.5	5.7	26.2
Halifax	577,700	-0.3	22.3	44.2	3.3	12.8	31.3
St. John's	349,700	2.3	11.6	27.2	2.0	5.7	25.8

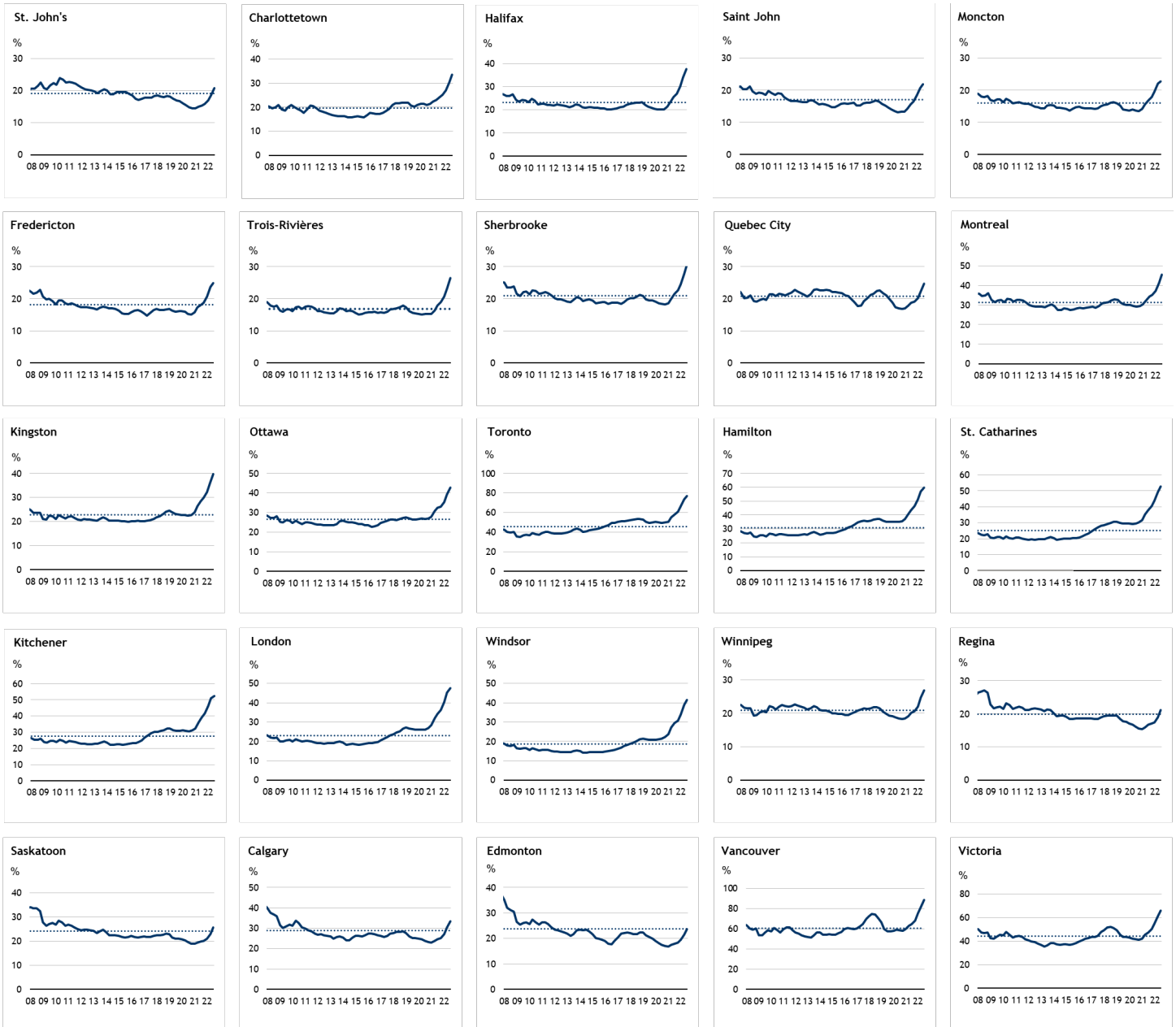
Market	Single-family detached						
	Price			RBC Housing Affordability Measure			
	Q3 2022 (\$)	Q/Q % ch.	Y/Y % ch.	Q3 2022 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	919,200	-2.9	11.3	68.9	3.6	16.0	43.7
Victoria	1,299,000	-1.9	15.1	81.4	5.5	22.0	47.9
Vancouver area	1,960,300	-2.4	12.2	130.1	8.4	33.6	70.8
Calgary	660,600	1.0	13.2	46.6	3.5	10.6	41.5
Edmonton	493,300	0.7	7.5	34.1	2.3	6.3	34.2
Saskatoon	447,900	2.2	7.3	35.4	2.9	6.7	32.9
Regina	366,000	2.0	4.5	29.8	2.2	4.9	27.8
Winnipeg	415,300	-0.7	9.9	35.2	1.9	6.6	30.0
Toronto area	1,525,300	-5.3	8.2	103.3	4.0	23.2	57.3
Ottawa	802,200	-1.3	8.9	57.7	4.1	12.3	38.5
Montreal area	702,000	1.3	12.6	56.3	4.8	12.7	38.1
Quebec City	413,200	1.2	12.0	33.6	2.6	6.7	29.8
Saint John	336,500	3.8	28.5	31.2	0.6	5.9	28.5
Halifax	615,900	0.6	24.6	47.5	3.8	14.1	31.8
St. John's	362,400	2.0	10.9	28.8	2.0	5.8	27.1

Market	Condominium apartment						
	Price			RBC Housing Affordability Measure			
	Q3 2022 (\$)	Q/Q % ch.	Y/Y % ch.	Q3 2022 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	590,800	-0.7	10.7	44.4	3.0	10.1	33.2
Victoria	701,800	6.1	18.3	45.2	5.8	12.7	31.6
Vancouver area	769,300	0.8	13.4	53.8	4.8	13.7	39.2
Calgary	272,600	0.3	3.8	22.1	1.3	3.3	25.3
Edmonton	228,200	-2.9	0.1	17.9	0.6	2.3	21.2
Saskatoon	228,000	1.3	8.0	19.2	1.3	3.5	19.5
Regina	201,800	-10.7	-19.3	17.3	-0.3	-0.1	20.3
Winnipeg	255,000	1.0	12.0	22.0	1.5	4.3	22.2
Toronto area	719,900	-1.9	10.5	50.3	3.4	11.7	31.6
Ottawa	413,100	-0.5	7.4	30.4	2.3	6.2	23.8
Montreal area	466,500	0.7	7.8	37.4	3.1	7.4	31.6
Quebec City	253,600	0.9	5.4	20.4	1.5	3.4	22.2
Saint John	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Halifax	452,300	-4.9	14.8	34.4	1.4	8.7	25.8
St. John's	247,200	0.2	-9.3	19.5	1.1	1.6	21.5



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 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 home.

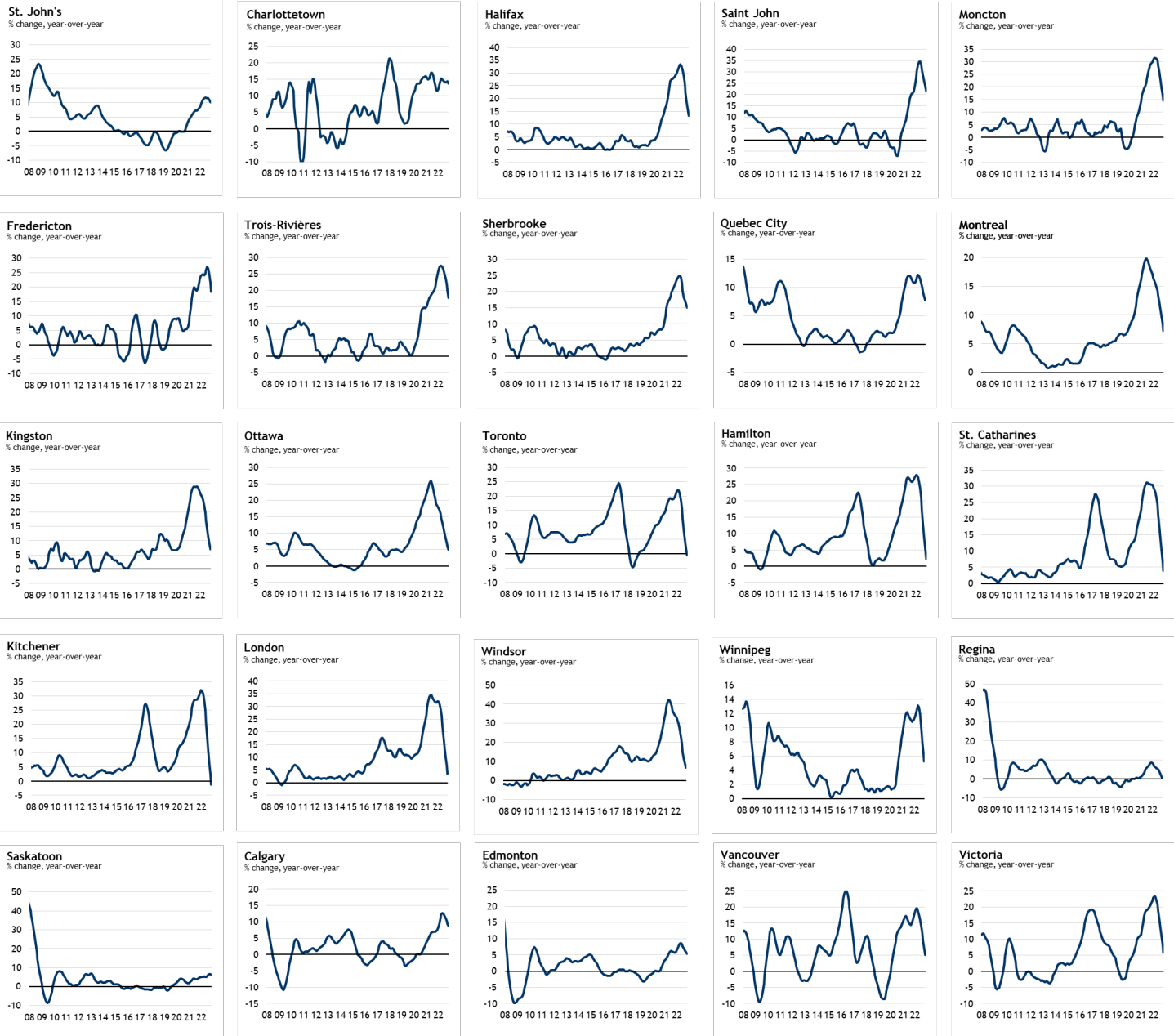


The dashed line represents the long-term average for the market.

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



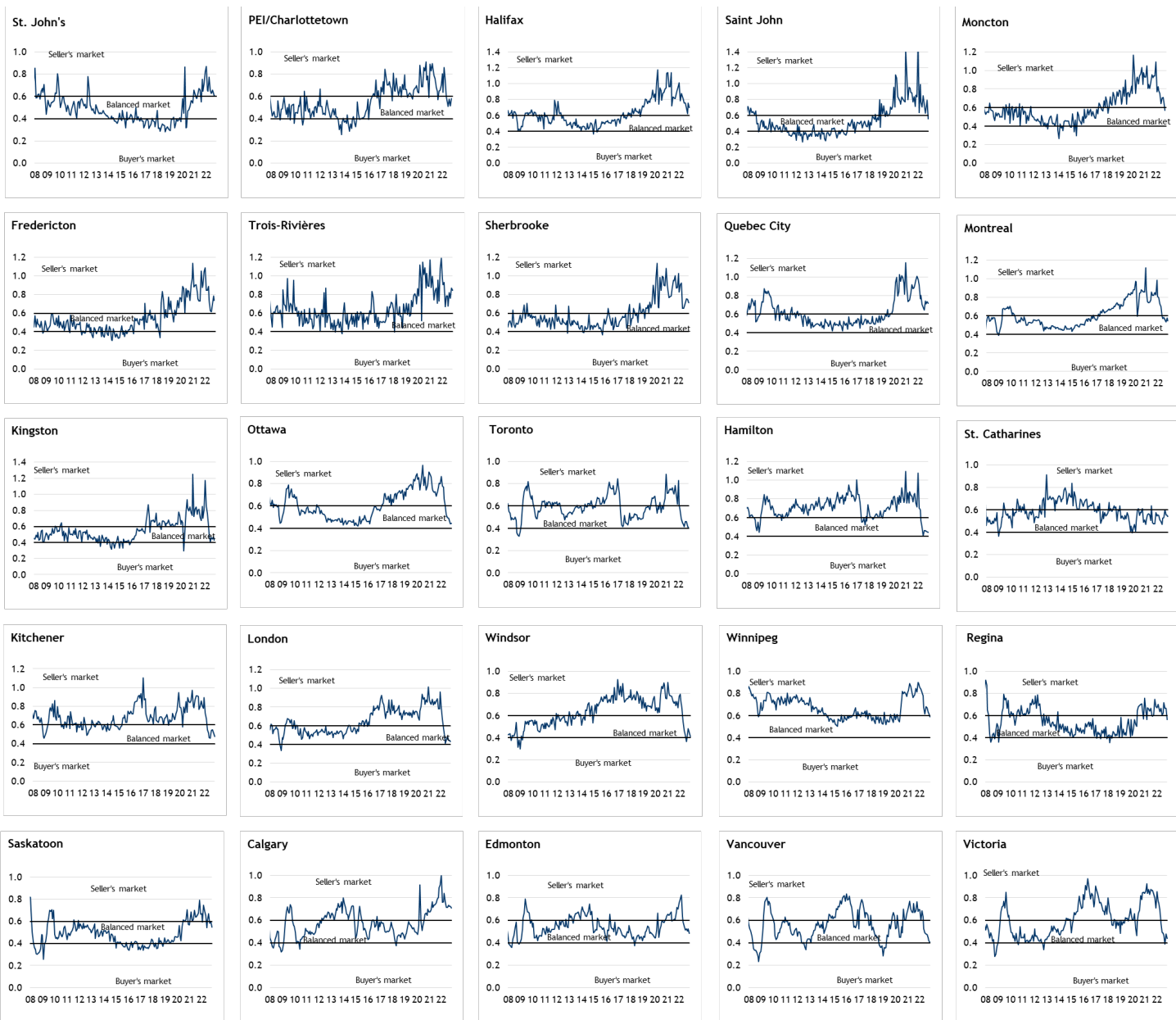
Aggregate home price



Source: RPS, RBC Economics



Home sales-to-new listings ratio



Source: Canadian Real Estate Association, RBC Economics

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