Focus on Canadian housing

HOUSING TRENDS AND AFFORDABILITY

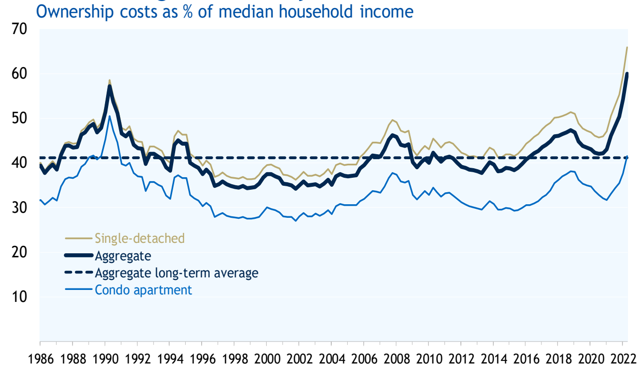
September 2022

Buying a home has never been so unaffordable in Canada

- **Surging interest rates drive ownership costs to record-high levels**: The Bank of Canada's rate hiking campaign since March has added hundreds of dollars to mortgage payments that come with a home purchase. This, along with the jump in property values during the pandemic have made it more difficult than ever to become a homeowner in Canada. RBC's national aggregate affordability measure reached 60% in the second quarter, surpassing the previous worst-ever point (57%) in 1990.
- **Affordability worsened everywhere in Canada**: The deterioration over the past year has been off the charts in most markets with only parts of the Prairies and Quebec having experienced deeper erosion in the past.
- **Ontario, BC buyers extremely challenged**: Conditions are still manageable in the Prairies and most of Atlantic Canada and Quebec though.
- **Home price declines to eventually bring relief to buyers**: The sharp housing market correction that began this spring is rolling back some of the spectacular price gains made during the pandemic. We expect benchmark prices to fall 14% nationwide by next spring—more so in Ontario and BC. This should help lower ownership costs next year. But the likelihood of further rate hikes from the Bank of Canada is poised to intensify affordability pressures before then.

RBC Housing Affordability Measures - Canada

Ownership costs as % of median household income



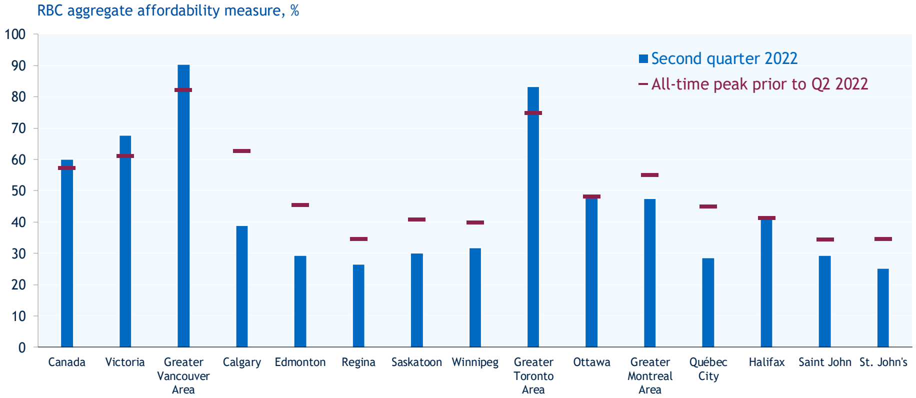
The share of income a household would need to cover ownership costs (in %)

Canada	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal
60.0	90.2	38.8	29.3	83.0	48.5	47.4

Second quarter 2022

Affordability reaches worst-ever levels in BC, Ontario and parts of Atlantic Canada

RBC aggregate affordability measure, %



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

Canada's housing markets make history—but in a bad way

The spike in interest rates since March—the policy rate is up 300 basis points to date with another 75 basis points on the way by year-end in our opinion—is raising ownership costs in every corner of the country. Most affected are expensive markets where affordability was already stretched before the Bank of Canada launched its attack on decades-high inflation.

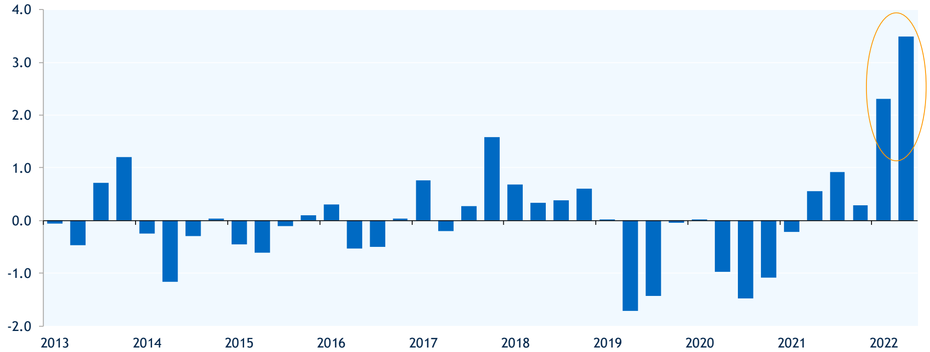
So far the impact has been historic. RBC's aggregate affordability measure was thrusted into record-high territory nationally (to 60.0%) and in Victoria (67.6%), Vancouver (90.2%) and Toronto (83.0%) in the second quarter of 2022. Smaller markets in Ontario (including Hamilton, London, St. Catharines, Kitchener-

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

Waterloo-Cambridge and Windsor) and British Columbia (including Kelowna) also reached their worst affordability levels ever based on the ratio of mortgage carrying costs to household income. Ottawa (RBC aggregate affordability measure of 48.5%) and Halifax (41.3%) hit their previous high-water mark. While the situation isn't as dire in other regions of the country—in fact, many markets in Alberta and Saskatchewan, and some in Atlantic Canada still look reasonably affordable—the rapidly deteriorating trend is universal. A rise in RBC's measure represents a loss of affordability.

Soaring interest rates take a big bite out of affordability

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



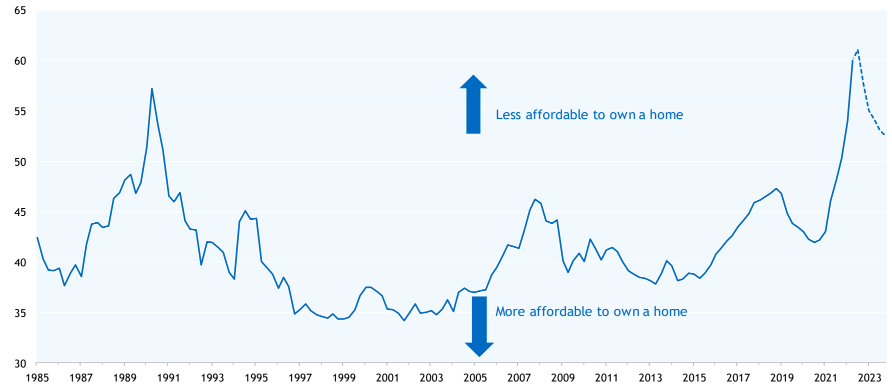
Source: RPS, Royal LePage, Statistics Canada, Bank of Canada, RBC Economics

Housing market turns down

Unsurprisingly, soaring ownership costs turned Canada's housing market on its head. The frenzy that drove resale activity and prices to incredible heights at the start of this year is gone. Many buyers have been forced to the sidelines either because they no longer qualify for a mortgage or have seen their purchasing budget drastically reduced. Home resales have plummeted more than 30% since February and prices are now softening, especially in Ontario and parts of British Columbia.

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

Rising rates still the focus for now

The impact of higher mortgage rates has yet to fully run its course. We expect increases to date, as well as further upcoming Bank of Canada hikes will intensify upward pressure on ownership costs over the second half of this year. Buying a typical home in Canada cost an additional $380 per month in the second quarter (or 5.9% of household income), of which $230 (3.5 percentage points) was due to higher mortgage rates. Buyers in Vancouver (up 8.1 percentage points as a share of income), Toronto (up 8.1 ppts), Victoria (up 6.7 ppts) and Ottawa and Halifax (both up 4.8 ppts) saw the biggest rises. Ownership costs in the first three markets (and their surrounding areas) are the most sensitive to interest rates and at risk of climbing further in the near term.

Softening prices to headline the next phase

The good news is the widespread market downturn is setting the stage for some affordability improvement down the road. We expect the softening in prices will continue and spread until a bottom is reached around spring time next year. We think this will lower ownership costs once interest rates stabilize. Our view is unaffordability will peak at the end of this year—though the timing is poised to vary by market. Growing household income will partly drive the improvement that will follow. It will likely take years to fully reversed the tremendous deterioration that took place since 2021.

British Columbia

Victoria – Buyers in a very tough spot

Affordability continued to deteriorate significantly in the second quarter. RBC's aggregate measure jumped another 6.7 percentage points to a fresh all-time high of 67.6%. The increase over the past year is an astounding 16.5 percentage points—by far the biggest in this market's history. These trends have clearly put many buyers in a very tough spot. Monthly resales have plummeted to their lowest levels in 10 years. Previously super-tight demand-supply conditions have sharply rebalanced and early signs point to a modest depreciation in property values taking hold. We expect further price weakening in the period ahead.

Vancouver area – Ownership dreams crushed

It's never been so unaffordable to buy a home in the Vancouver area—or anywhere else in Canada (and most places around the world) for that matter. RBC's aggregate measure surged for a third-straight quarter by a massive 8.1 percentage points to 90.2%. Needless to say, the rise in interest rates is making it nearly impossible for average buyers to realize their dream of home ownership. The fact that home resales cratered almost 50% since January should not be a surprise. And neither should price declines this summer. We expect property values to keep trending lower in the period ahead as extreme affordability tensions persist.

Alberta

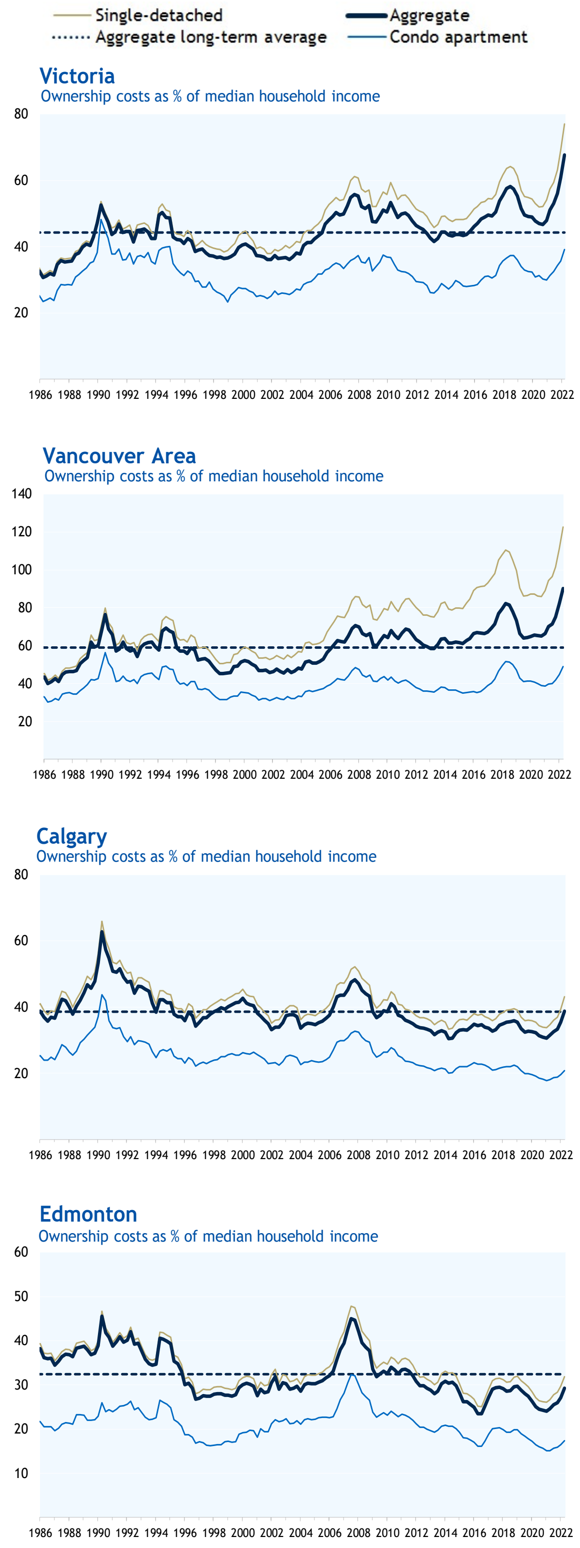
Calgary – Pressure is manageable (at this stage)

The market hasn't escape the storm that walloped buyers across the country but still maintains an impressively high degree of vigour. While down significantly from sky-high levels at the start of this year, home resales are still running some 50% above pre-pandemic levels. No doubt a relatively favourable affordability picture keeps many buyers engaged. RBC's aggregate measure (38.8%) is in line with the long-run average (38.6%), suggesting pressure isn't overly strenuous at this stage. This could change though. The likelihood of further interest rate increases threatens to dampen buyer enthusiasm.

Edmonton – Cooling from frenetic pace

Likewise, Edmonton buyers continue to enjoy relatively positive affordability conditions despite material erosion over the last five quarters. RBC's aggregate measure (29.3%) even still stands below its long-term average (32.4%). But area buyers are feeling the broad headwinds too. Demand has cooled from its earlier frenetic pace, driving down resale activity and loosening the demand-supply equation. These developments took a bite out of prices this summer. The upside is any further price drops would work to curb the erosion in affordability.

RBC Housing Affordability Measures

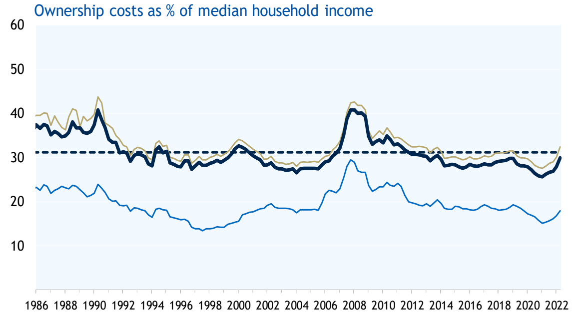


Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economics

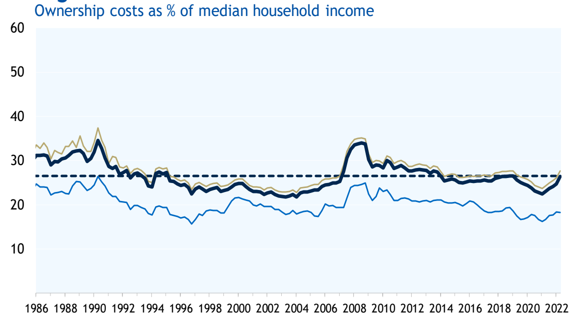
RBC Housing Affordability Measures

Single-detached
Aggregate
Aggregate long-term average
Condo apartment

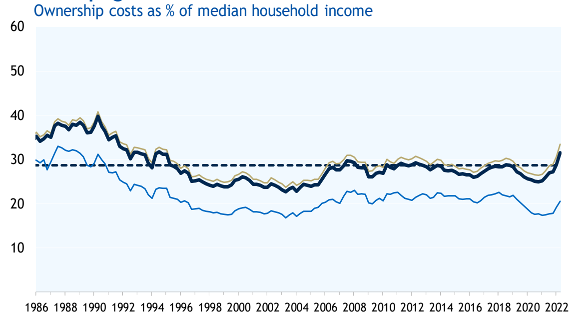
Saskatoon
Ownership costs as % of median household income



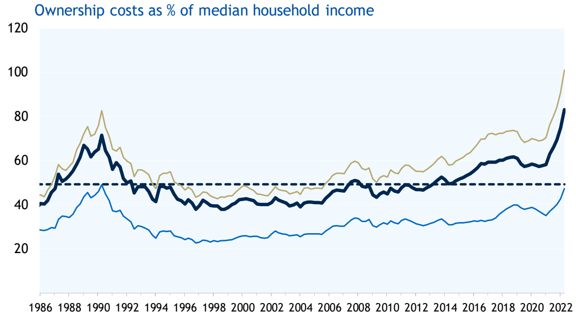
Regina
Ownership costs as % of median household income



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 – Sustaining solid momentum

Rising ownership costs have yet to slow the market's momentum in a significant way. Home resales continue to hover at levels that rival pre-pandemic peaks—and roughly 30% above those that prevailed in early-2020—demand-supply conditions are still tight and prices maintain an upward trajectory. It became more burdensome to own a home over the past year but not to the point of shutting most buyers out of the market. Despite RBC's aggregate measure rising 4.2 percentage points since hitting a historical low at the start of 2021, its value of 29.9% still compares favourably with the long-run average (31.1%). We think that's unlikely to change materially in the near term.

Regina – Comparatively less sensitive to rate hikes

The situation is similar in Regina. Resale activity continues to be brisk, running more than 30% above pre-pandemic levels. And prices are at historical highs, supported by tight demand-supply conditions. A stronger provincial economy likely stimulates housing demand but a still-good relative affordability picture doesn't hurt either. RBC's aggregate measure (26.4%) is the lowest among the markets we track in Western Canada and right in line with the market's historical norm. Regina's modestly priced properties make ownership costs less sensitive to interest rates, which should keep activity humming near term.

Manitoba

Winnipeg – Mounting ownership costs increasingly sting buyers

Hefty price appreciation over the past year and the run-up in interest rates are increasingly stinging buyers who must now spend the highest share of income to cover ownership costs in 28 years. RBC's aggregate measure surged 5.6 percentage points in the past year to 31.5%—a level last seen in 1994. These developments have considerably cooled the market. Activity recently fell back to pre-pandemic levels after setting all-time highs in 2021. And prices now appear to be plateauing. We expect headwinds to persist in the months ahead.

Ontario

Toronto area – Extremely poor affordability fuels market correction

The housing market correction is in full force in the Greater Toronto Area. Soaring ownership costs have priced hordes of potential buyers out of the market. Housing affordability, in fact, has never been this bad. It would have taken a shocking 83% of an average household's income to cover the costs of owning a typical home last quarter. That's 20 percentage points more than a year ago and almost 34 percentage points more than the average since the mid-1980s. Pricey single-detached homes account for most of the deterioration but owning condo has become a stretch too for many. Home resales have plunged 36% since February, and prices are now trending lower. We think further price drops will be necessary to stabilize the market.

Ottawa – A more cautious attitude has set in

The market has undergone a dramatic transformation since spring. Gone is the exuberance that propelled activity and prices to new heights during the pandemic. And in its place is a more cautious attitude conditioned by the toughest affordability hurdles local buyers ever encountered. Home resales recently slumped to their lowest levels since 1994 (excluding the spring 2020 lockdown period), falling 36% since February. Demand-supply conditions have rebalanced in very short order, ending the rapid price appreciation months ago. The escalation of ownership costs in the past year has had a significant cooling effect on demand. RBC's aggregate measure soared a record 9.3 percentage points in the past year to 48.5%—ranking as the fourth-highest among the markets we track. We expect little relief for buyers in the near term as interest rates head further up .

Quebec

Montreal area – Worst affordability in a generation

The worst affordability in a generation is taking an increasing toll on Montreal buyers. Higher price points and rapidly steepening borrowing costs have propelled RBC's aggregate measure to its highest level (47.7%) in 32 years—up 8.8 percentage points over the past four quarters. This has caused buyers to exit the market in greater numbers, driving activity down more than 20% from the end of last year. The resultant loosening in demand-supply conditions is beginning to take steam out prices. We expect property values will moderate in the period ahead though likely not sufficiently to offset the impact of higher interest rates, leaving buyers exposed to intensifying affordability pressure.

Quebec City – Balance of power no longer in sellers' hands

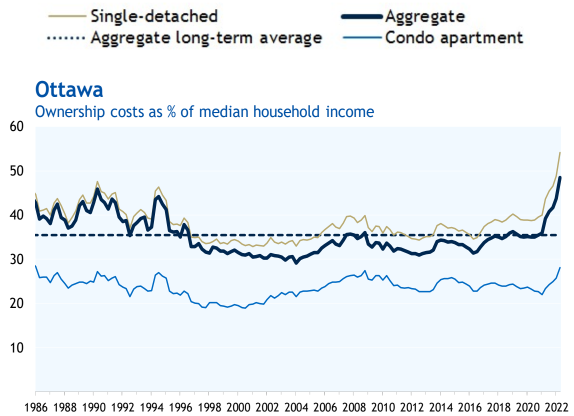
The more challenging environment for buyers is being felt in the Quebec City market too. Activity has slowed down. And with the balance of pricing power no longer in sellers' hands, property values have started to erode. The rise in ownership costs in the past year has created some tensions though they're still likely manageable at this stage. RBC's aggregate measure (28.4%) remains below its long-run average (29.1%).

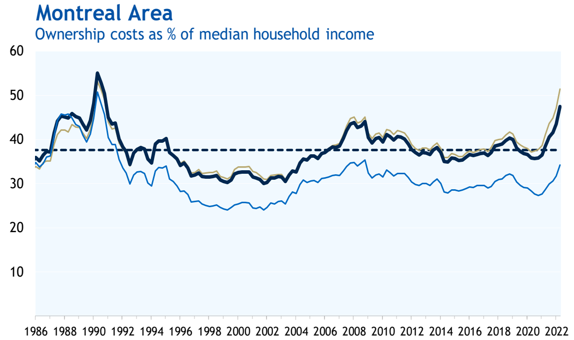
Atlantic Canada

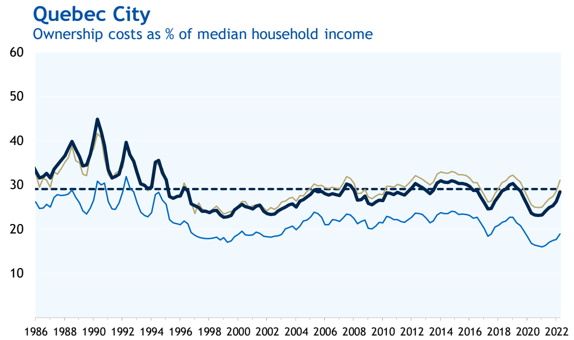
Saint John – Historic run coming to an end

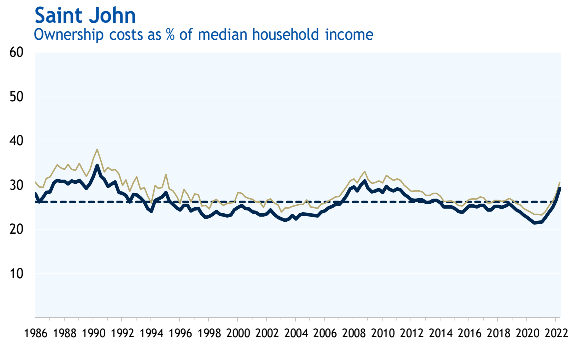
Cracks in the market are beginning to show after a tremendous run during the pandemic. Home resales have been volatile through the spring and summer though a clear downward trend has emerged of late. This is easing previously super-tight demand-supply conditions, spelling the end of rapid price escalation. Benchmark prices likely peaked this summer. A notable deterioration in affordability is largely causing those cracks. RBC's aggregate measure is up a hefty 6.7 percentage points in the past year—the biggest one-year increase ever in Saint John. At 29.2%, the measure is the highest since 2010, and well above the 26.2% historical average. We expect buyers to continue to be on the defensive in the near term.

RBC Housing Affordability Measures



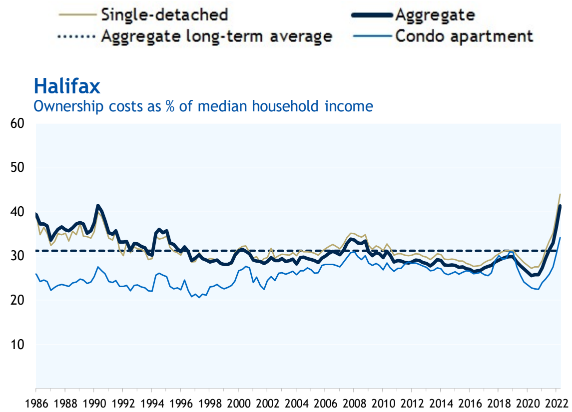


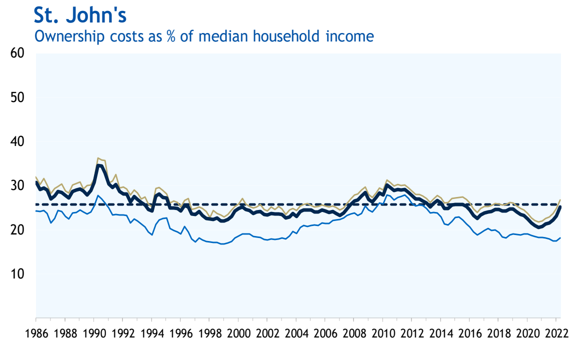




Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economics

RBC Housing Affordability Measures





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

Halifax – High ownership costs take buyers out of the market

It’s official: owning a home in Halifax is the least affordable ever (for local buyers). RBC’s aggregate measure spiked 4.8 percentage points in the second quarter to 41.3%—tying the all-time high set in 1990. The measure has skyrocketed in the past year as soaring home prices and interest rates conspired to blow up ownership costs. So much so that it’s taking many potential buyers out of the market. Home resales have plummeted 28% since the end of last year, which is also how much they’ve slumped from (solid) pre-pandemic levels. 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 – Impervious to rising rates?

While activity has moderated over the summer, it remains brisk with home resales still running far above pre-pandemic levels. Sellers continue to be in the driver’s seat thanks to low inventories and tight demand-supply conditions. There’s really nothing is holding back the ascension of home prices at this point. But that may change. Like everywhere else in Canada, housing affordability is on a deteriorating trend. So far RBC’s aggregate measure hasn’t reached problematic levels—the latest value (25.1%) is in line with the market’s historical norms, still the lowest in Canada. Any further deterioration, though, could start to weigh on demand.

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

Aggregate of all categories

Market	Price Q2 2022 ($)	Price Q/Q % ch.	Price Y/Y % ch.	RBC Housing Affordability Measure Q2 2022 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	872,800	4.4	19.9	**60.0**	5.9	13.9	41.1
Victoria	1,176,400	5.1	22.3	**67.6**	6.7	16.5	44.2
Vancouver area	1,465,000	3.9	18.2	**90.2**	8.1	20.1	58.9
Calgary	587,500	5.1	12.7	**38.8**	3.4	7.3	38.6
Edmonton	452,400	3.3	8.9	**29.3**	2.2	4.7	32.4
Saskatoon	407,900	2.3	4.8	**29.9**	2.0	3.7	31.1
Regina	353,200	1.8	6.5	**26.4**	1.6	3.4	26.5
Winnipeg	403,100	5.7	13.8	**31.5**	2.8	5.6	28.7
Toronto area	1,337,400	4.3	20.2	**83.0**	8.1	20.0	49.3
Ottawa	740,400	5.2	14.1	**48.5**	4.8	9.3	35.5
Montreal area	641,500	3.2	14.0	**47.4**	3.9	8.8	37.6
Quebec City	378,800	3.3	11.5	**28.4**	2.2	4.3	29.1
Saint John	316,900	7.6	33.6	**29.2**	2.6	6.7	26.2
Halifax	584,600	8.7	32.0	**41.3**	4.8	11.8	31.2
St. John's	339,600	3.0	10.6	**25.1**	1.9	3.8	25.8

Single-family detached

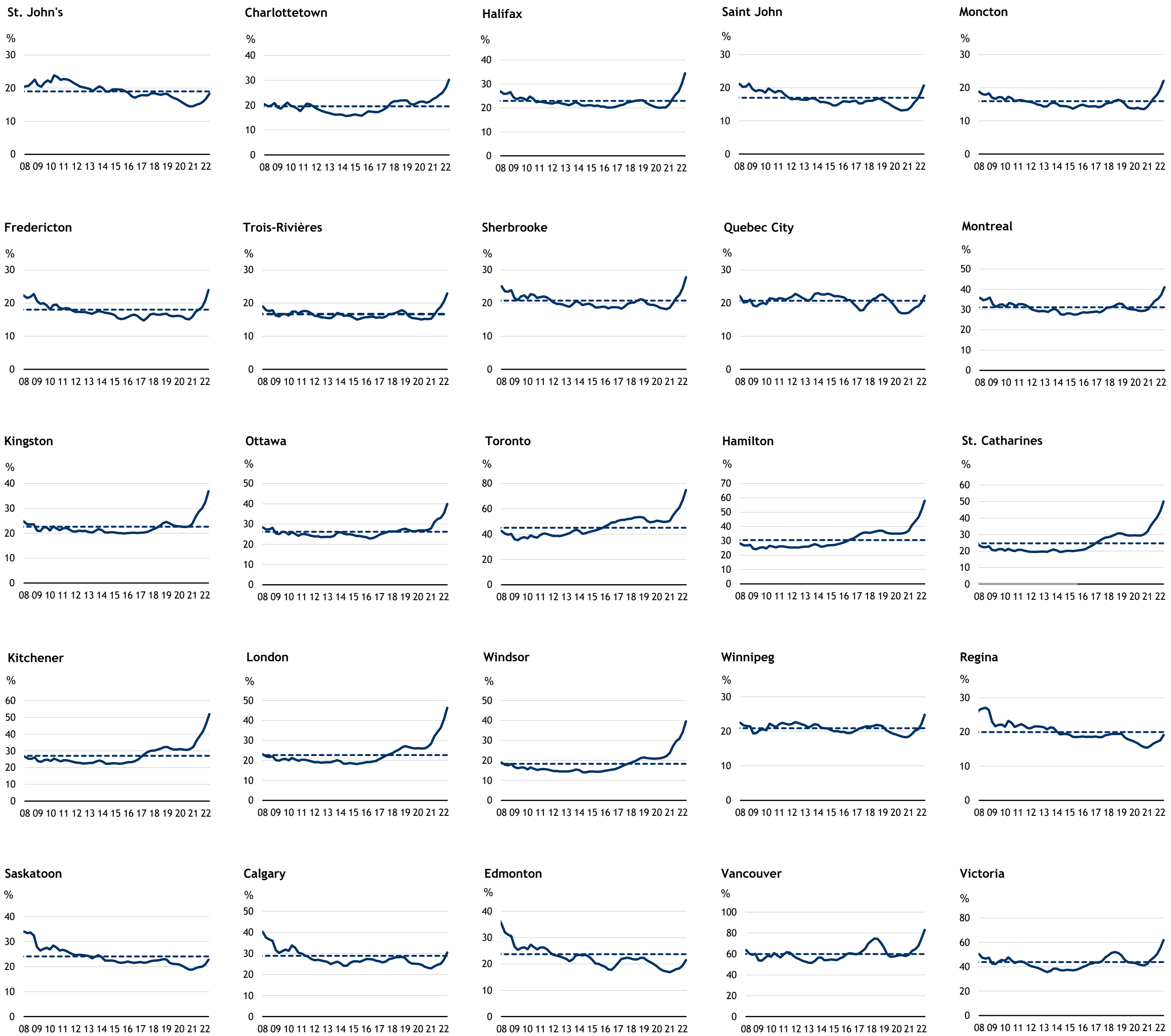
Market	Price Q2 2022 ($)	Price Q/Q % ch.	Price Y/Y % ch.	RBC Housing Affordability Measure Q2 2022 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	956,300	4.5	20.4	**65.9**	6.4	15.4	43.6
Victoria	1,343,600	5.4	23.9	**77.0**	7.9	19.6	47.7
Vancouver area	2,022,400	3.9	18.7	**122.5**	11.2	28.1	70.4
Calgary	654,600	5.1	14.2	**43.1**	3.7	8.4	41.5
Edmonton	491,300	3.0	9.7	**31.9**	2.2	5.3	34.2
Saskatoon	436,800	3.0	6.8	**32.4**	2.3	4.4	32.9
Regina	361,000	1.3	6.4	**27.7**	1.6	3.5	27.8
Winnipeg	421,200	5.6	14.6	**33.5**	2.9	6.0	29.9
Toronto area	1,635,100	4.3	20.2	**100.8**	10.0	24.5	57.1
Ottawa	820,100	5.2	14.7	**54.1**	5.3	10.5	38.4
Montreal area	692,500	3.4	16.5	**51.5**	4.4	10.3	37.9
Quebec City	407,700	3.8	13.7	**31.0**	2.5	5.0	29.8
Saint John	322,400	7.7	32.4	**30.6**	2.7	6.6	28.5
Halifax	615,600	8.4	33.1	**44.0**	5.0	12.8	31.7
St. John's	353,600	2.3	11.1	**26.7**	1.9	4.1	27.1

Condominium apartment

Market	Price Q2 2022 ($)	Price Q/Q % ch.	Price Y/Y % ch.	RBC Housing Affordability Measure Q2 2022 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	598,600	4.1	15.2	**41.6**	4.0	8.5	33.1
Victoria	656,300	4.2	16.1	**39.1**	3.4	7.8	31.5
Vancouver area	763,200	3.9	14.0	**49.1**	4.3	9.3	39.1
Calgary	271,500	2.7	4.9	**20.8**	1.3	2.7	25.3
Edmonton	237,100	1.9	5.4	**17.4**	1.0	2.3	21.2
Saskatoon	226,400	2.5	9.8	**17.9**	1.1	2.6	19.5
Regina	237,900	-7.5	-0.4	**18.3**	-0.1	1.6	20.3
Winnipeg	252,600	2.5	10.0	**20.5**	1.3	3.1	22.2
Toronto area	740,700	4.8	17.1	**47.4**	4.8	10.4	31.5
Ottawa	415,200	3.4	11.4	**28.2**	2.4	4.9	23.8
Montreal area	461,400	1.9	9.9	**34.2**	2.5	5.5	31.5
Quebec City	252,200	1.6	9.2	**18.9**	1.2	2.6	22.2
Saint John	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
Halifax	492,400	7.1	28.8	**34.2**	3.7	9.5	25.7
St. John's	242,100	-3.4	-12.6	**18.1**	0.6	-0.1	21.5

Mortgage carrying costs by city

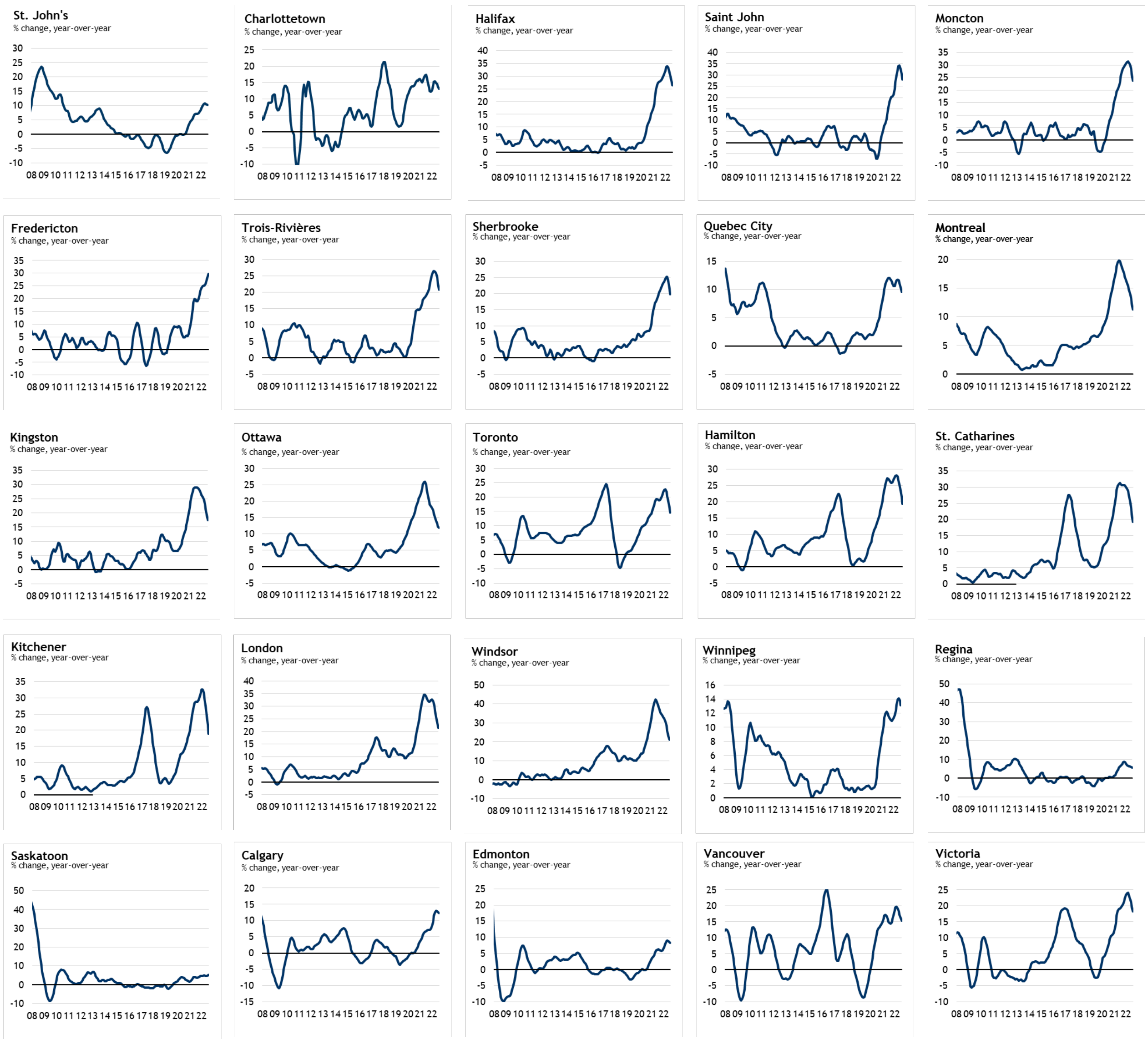
Our standard RBC Housing Affordability Measure captures the proportion of median pre-tax household income required to service the cost of a mortgage on an existing housing unit at market prices, including principal and interest, property taxes and utilities; the modified measure used here includes the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



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

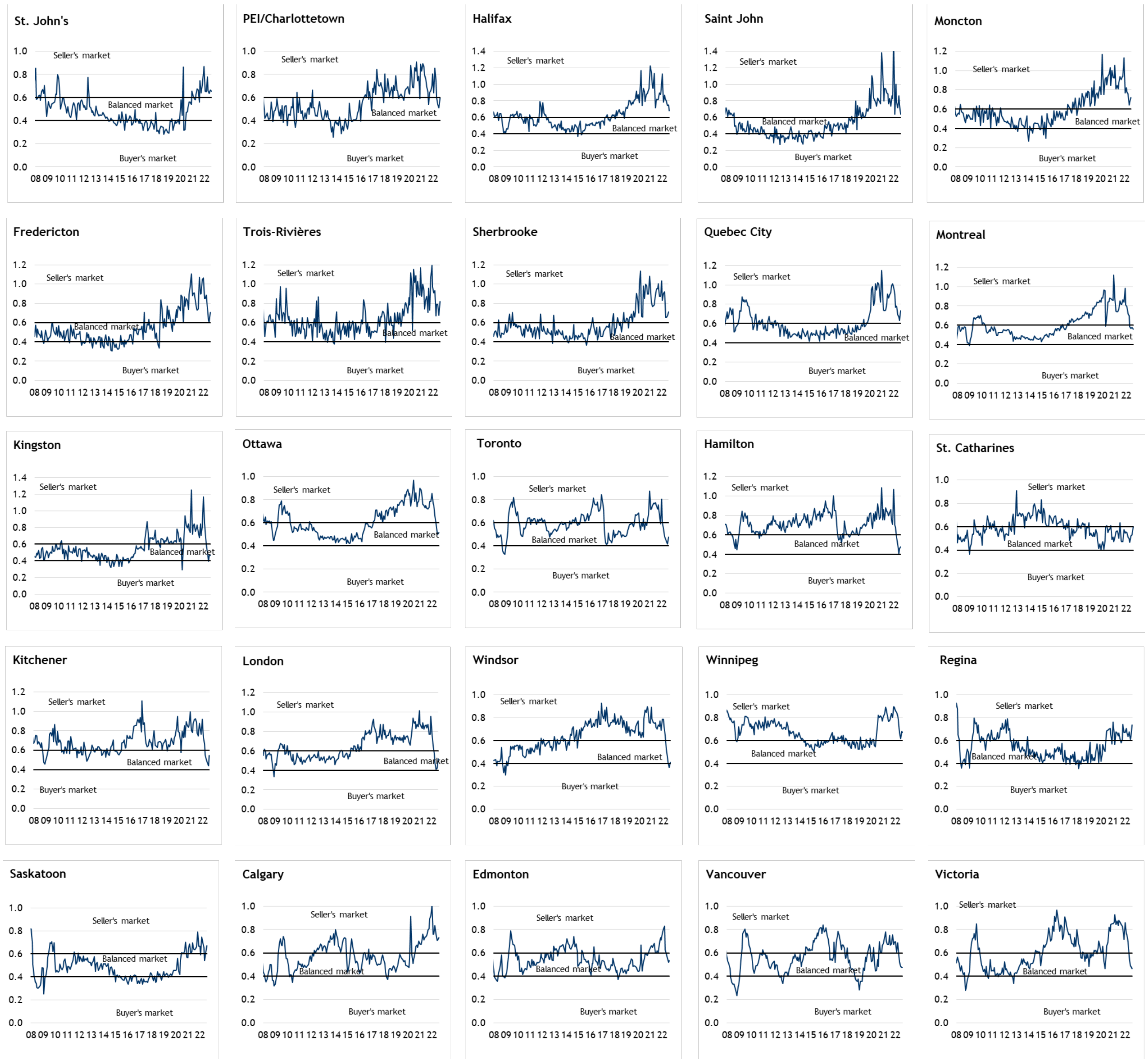
Source: RPS, Statistics Canada, Bank of Canada, RBC Economics

Aggregate home price



Source: RPS, RBC Economics

Home sales-to-new listings ratio



Source: Canadian Real Estate Association, RBC Economics