RBC Economics & Thought Leadership

Focus on Canadian housing

HOUSING TRENDS AND AFFORDABILITY

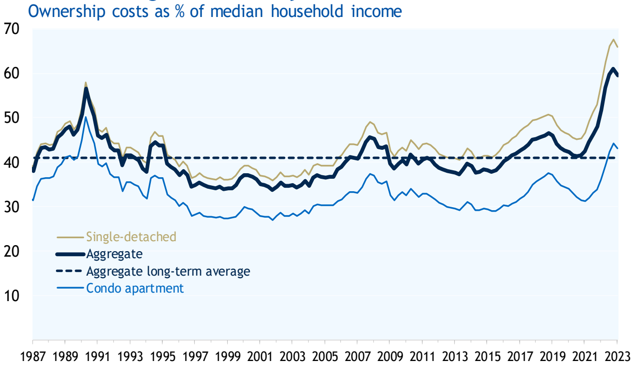
June 2023

Homeownership costs dip—a welcome shift but no game changer

- **Owning a home got more affordable at last—albeit just a little**: Broad-based declines in home prices and the Bank of Canada's rate hike pause helped lower ownership costs in the first quarter of 2023. RBC's aggregate affordability measure for Canada fell for the first time in almost three years, edging 1.6 percentage points lower to 59.5%
- **The slight improvement was generalized**: Buyers in all markets we track enjoyed some relief. Vancouver, Victoria and Toronto recorded the most significant declines in their affordability measure.
- **Still, parts of Canada remain in full-blown affordability crisis**: Any relief in the first quarter is small comfort for buyers in Vancouver, Toronto and surrounding areas who continue to face sky-high costs.
- **Reversing the loss of affordability will be a long process**: Stronger than expected activity this spring and the Bank of Canada resuming its hiking campaign in June will likely limit the extent to which affordability can improve over the coming quarters. Our base-case macroeconomic and housing market scenarios imply a decline of approximately 5 percentage points in the national affordability measure over the coming year. This would reverse only one quarter of the record 20-point increase since the middle of 2020.

RBC Housing Affordability Measures - Canada

Ownership costs as % of median household income



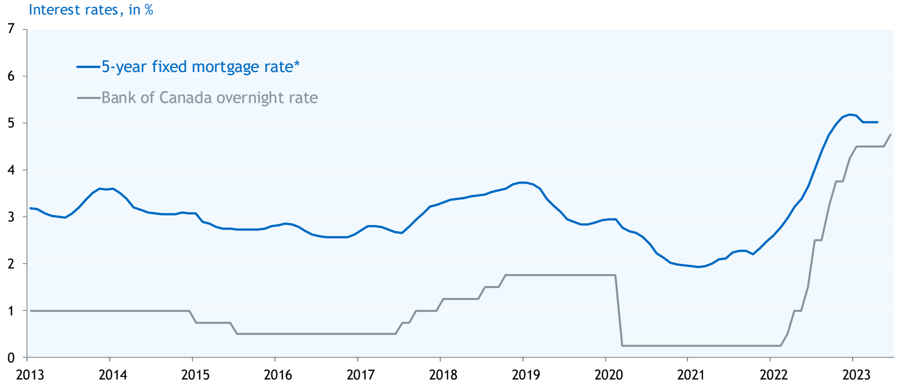
The share of income a household would need to cover ownership costs (in %)

Canada	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal
59.5	96.1	43.0	34.2	79.0	47.1	51.9

First quarter 2023

Mortgage rates stabilized at the start of 2023

Interest rates, in %



* Average rate chartered banks charge on mortgage funds advanced

Source: Bank of Canada, RBC Economics

Interest rate pause gave some breathing room

The historic monetary policy tightening our central bank has engineered since March 2022 dramatically amped up tensions created by soaring home prices—delivering a massive blow to housing affordability across the country. It kept the pressure on even as prices started to decline last year.

But the Bank of Canada's (now temporary) pause following January's rate announcement finally gave homebuyers some breathing room. The policy shift helped stabilize mortgage rates, allowing the price correction to lower ownership costs associated with a home purchase in the first quarter of 2023.

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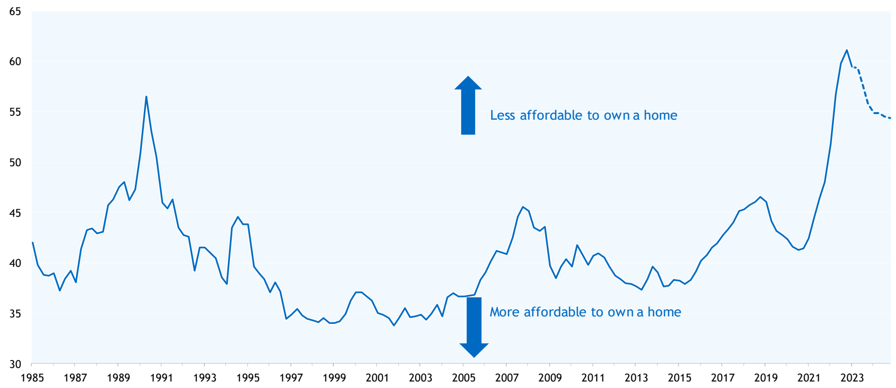
In the two previous quarters, rapidly escalating mortgage rates overwhelmed any benefits arising from declining prices. The former added an average 4.3 percentage points to RBC's national aggregate measure, eclipsing the average 2.1 percentage points the latter subtracted. (A decrease in the measure represents a gain in affordability.)

The first quarter improvement in affordability occurred despite prices falling at less than half the 3.7% average rate over the second half of 2022. It's just that this time flat mortgage rates had little impact on the measure.

Massive affordability hit expected to unwind only partially

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



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

Incredibly challenging conditions persist

While welcome, the easing in ownership costs barely makes a dent in reversing the enormous loss of affordability since mid-2020. Big picture, owning a home is still a huge (if not impossible) stretch for middle-income households in Vancouver, Victoria and Toronto, and Montreal, Ottawa and Halifax to a lesser degree. Buyers in all markets we track face a significantly worse situation than they did a year ago. And RBC's local measures universally indicate tougher than usual conditions from coast to coast.

Surprisingly solid market rebound could complicate things

The housing market bottomed this spring as we expected. What's surprising, though, is how quickly the demand-supply equation has tightened in many parts of Canada (including Ontario and British Columbia) amid strengthening demand and still-low inventories. We thought it would take until around fall for upward price pressure to build in most markets. Increasing property values could potentially stall or even reverse the improvement in affordability.

Further interest rate hikes too

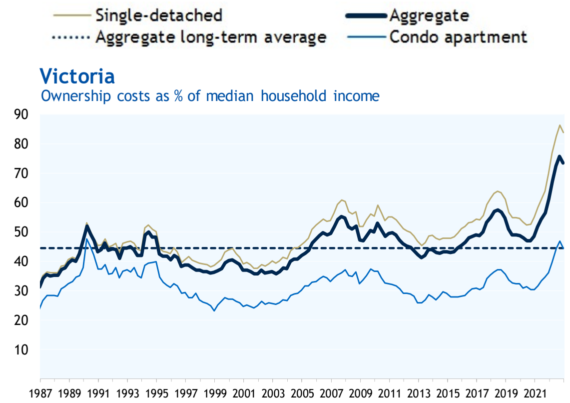
The Bank of Canada returning to hiking mode could also impact affordability adversely. At this point we think our forecast for a terminal policy rate of 5.0% won't exacerbate the situation. In fact, we believe it would restrain the rebound in demand and moderate price increases—thus keeping affordability on an improving track over the coming year. But a more aggressive policy stance than we anticipate would likely put affordability on a more challenging course, at least initially.

RBC Housing Affordability Measures

British Columbia

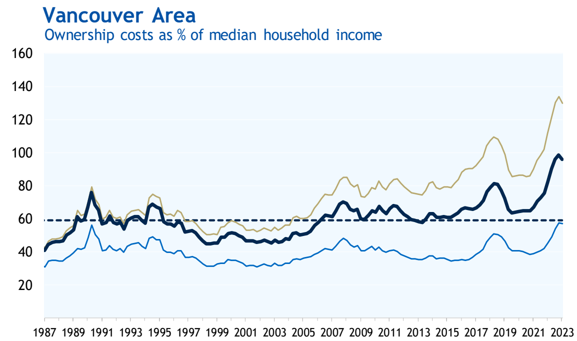
Victoria – Market wakes up

Sky-rocketing ownership costs finally stalled in the first quarter, giving buyers their first break (if we can call it that) in more than two years. RBC's aggregate affordability measure edged down 2.1 percentage points to a still-staggering 73.5%. Victoria remains the third-least affordable market we track. It seems the slight improvement was enough to wake the market up this spring. Home resales rose back to back in April and May from historical lows. But with prices beginning to rise again lately, we see limited room for ownership costs to decline further and sustain buyers' newfound energy.



Vancouver area – No longer worsening but still extremely unaffordable

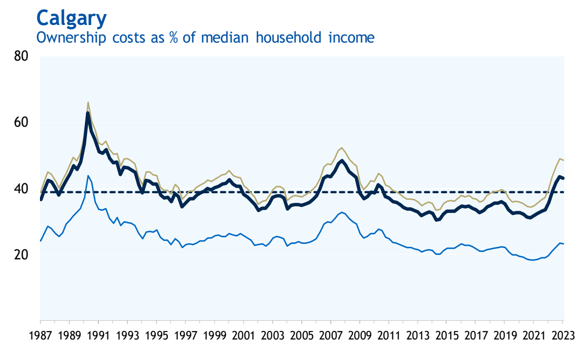
The soaring ownership cost trend has broken. RBC's aggregate measure fell (2.7 percentage points to 96.1%) for the first time since mid-2020 in the first quarter. It's no cause for celebration though. Owning a home has never been so unaffordable anywhere in Canada except in the previous quarter. Price declines and the pause in interest rates earlier this year got some buyers (and sellers) back in the game this spring. Resale activity is up 69% since January, retracing almost half the previous year's drop and returning close to pre-pandemic levels. The path forward is unlikely to be as robust. We expect the persistence of extreme unaffordability stress to cap the market's recovery.



Alberta

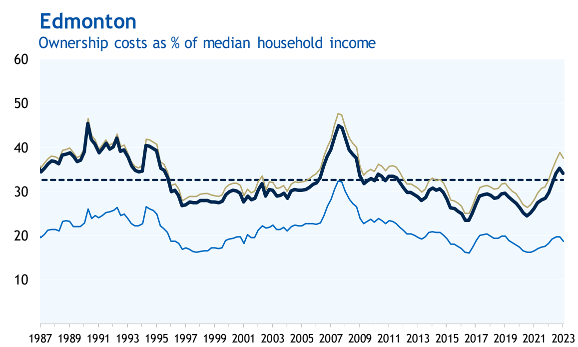
Calgary – Compares well to other major cities

Calgary has been among the stronger markets in Canada over the past year. While home resales have plummeted from early-2022 historical highs, they've stayed far above pre-pandemic levels. And prices haven't really lost ground during this period. This in part reflects renewed vigour in the local economy and demography. But it's also testament to the relatively affordable position Calgary holds against other major cities in Canada. RBC's aggregate measure for Calgary (43.0%) is well below the measures for Vancouver (96.1%), Toronto (79.0%) and Montreal (51.9%). We see this advantage continuing to draw buyers into the market in the period ahead.



Edmonton – Positive prospects

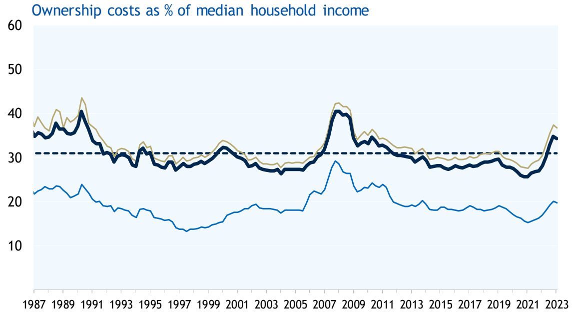
Edmonton is even more affordable than Calgary with an aggregate measure of 34.2% (down 1.1 percentage points from the fourth quarter of 2022). Property values haven't been as firm as those in Calgary in the past year, falling outright in the first quarter. Stronger activity and tighter demand-supply conditions have stemmed the price decline in recent months, though. If sustained, this may limit further improvement in affordability going forward. We don't think that would pose a big issue for buyers who are likely to continue to benefit from positive economic prospects.



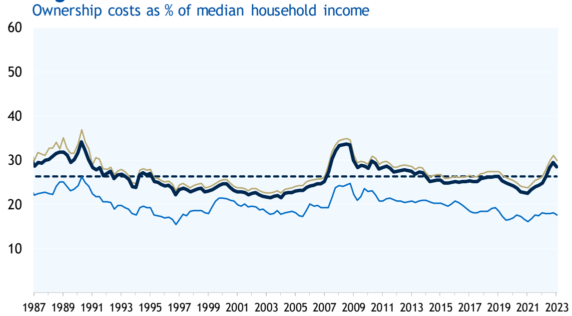
Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economics

RBC Housing Affordability Measures

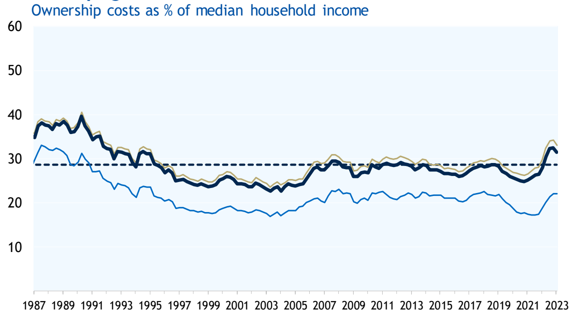
Saskatoon
Ownership costs as % of median household income



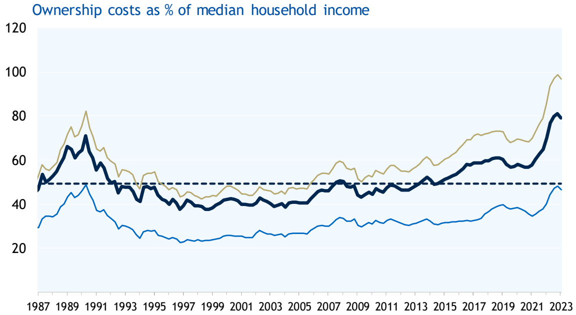
Regina
Ownership costs as % of median household income



Winnipeg
Ownership costs as % of median household income



Toronto Area
Ownership costs as % of median household income



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

Saskatchewan

Saskatoon – Dip in ownership costs sets up spring rebound

Market activity strongly rebounded this spring, reaching levels nearly matching pre-pandemic peaks. This followed a small dip in ownership costs in the first quarter which trimmed the area's aggregate affordability measure by 0.6 percentage points to 34.3%. While the measure is slightly worse than its long-run average (31.0%), it still paints a relatively favourable picture for buyers. We expect this to persist in the near term.

Regina – Affordability improved but for how long?

Owning a home in Regina became more affordable in the first quarter of 2023. RBC's aggregate measure for the area fell 1.1 percentage points to 28.4%—the best among the markets we track in Western Canada. The downturn in activity triggered by the Bank of Canada's aggressive rate hikes has hammered property values, which dropped a sizable 3.2% in the first quarter. But the impact on affordability may be short-lived. A strengthening in resale activity this spring has tightened up demand-supply conditions, sending prices higher. This could make any further affordability improvement harder to materialize.

Manitoba

Winnipeg – In recovery mode

The past year marked a dramatic shift for the market, swinging from extremely overheated conditions to 10 year-low activity levels (excluding the lockdown period) in the initial months of 2023. Soaring ownership costs accounted for much of that shift. But a small drop in ownership costs in the first quarter helped rekindle activity more recently. RBC's aggregate affordability measure for Winnipeg edged 1.0% lower for the first time in more than two years to 31.4%. Home resales are up 12% since February. We see room for further recovery in the near term.

Ontario

Toronto area – Still deeply unaffordable

Toronto buyers will be forgiven if they aren't jubilant about the small improvement in affordability in the first quarter. The 2.0 percentage-point fall in RBC's measure reversed less than on-tenth the massive increase that occurred in the previous two years. At 79.0%, the measure is still deep in crisis territory. Nonetheless, some buyers saw the first quarter development—and rate pause messaging from the Bank of Canada at the time—as their cue to jump into the fray. Sales transactions picked up noticeably this spring, which tightened demand-supply conditions and set prices on an upward trajectory more quickly than we anticipated. We think the market's firmer tone could slow down progress in restoring affordability in the period ahead.

Ottawa – Challenging situation persists

The situation continues to be very challenging for Ottawa buyers. RBC's affordability measure (47.1%) remained near worst-ever levels for the area in the first quarter. It did ease slightly by 1.6 percentage points from the fourth quarter though, which may have contributed to a runup in activity of late. Home resales jumped 24% between March and May after slumping to a 14-year low at the end of last year. But sustaining this recovery will be difficult, especially if ownership costs stay elevated. And growing evidence that prices are rising again doesn't bode well in that regard.

Quebec

Montreal area – Long way to go

The market has begun to recover from its deep slide but there's a long way to go. Home resales are still more than 30% below (solid) pre-pandemic levels. Light inventories are an issue but the huge loss of affordability in the past two years no doubt represent a bigger obstacle for buyers. RBC's aggregate measure for the Montreal area surged close to an all-time high late last year. It changed little in the first quarter, creeping just 0.8 percentage points lower to 51.9%. And with prices no longer declining, the path toward more affordable ownership costs is likely to be gradual at best. This is poised to keep many potential buyers frustrated for some time.

Quebec City – Spring brings new buying (and selling) opportunities

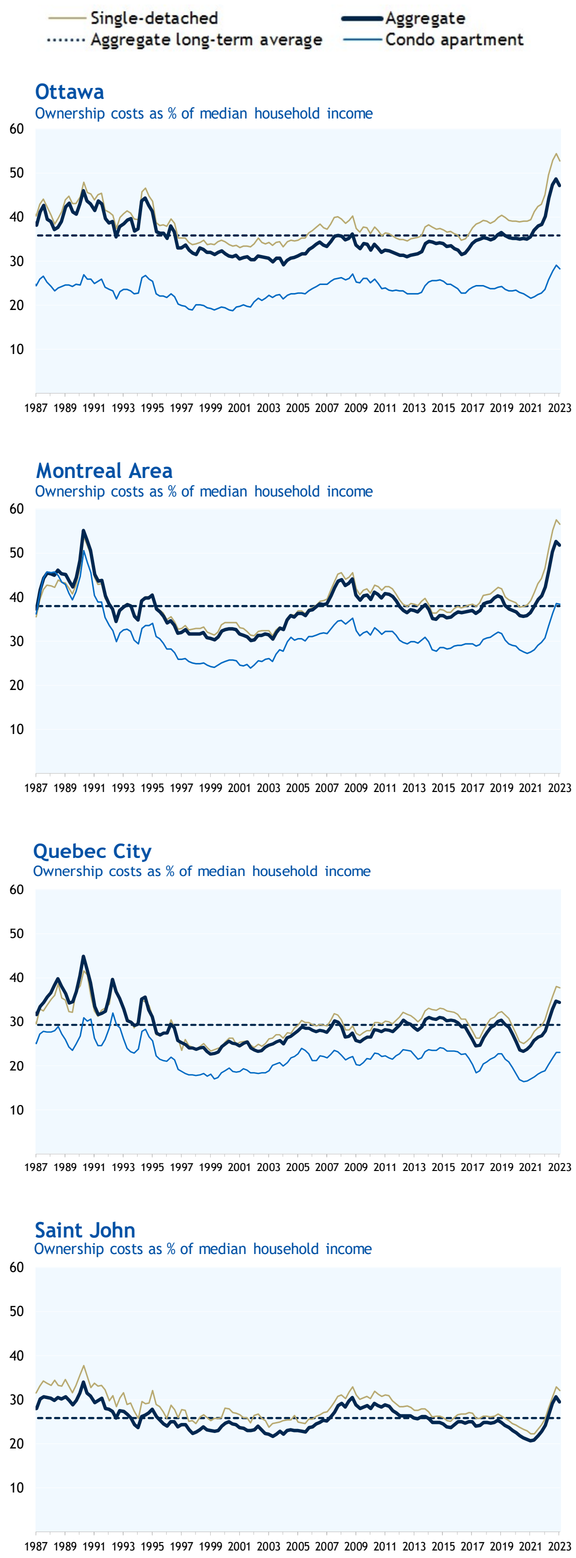
The affordability picture remained essentially unaltered in the first quarter: owning a home is significantly more expensive than it was just a couple of years ago but still within reach of average area buyers. RBC's aggregate measure inched 0.2 percentage points lower to 34.4%, or just modestly above the long-run average (29.2%). Both homebuyers and sellers stepped back into the market this spring. This pushed home resales higher and stabilized prices.

Atlantic Canada

Saint John – On the defensive

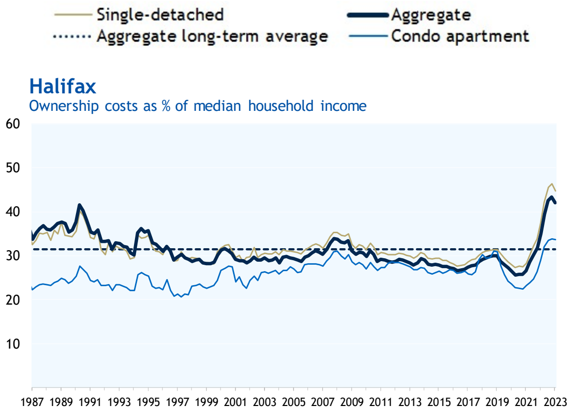
The sharp rise in ownership costs since late-2021—while less pronounced than in most other markets—has been a bitter pill to swallow for many would-be buyers in Saint John. Home resales have plummeted some 40% since the end of 2021. And spring activity has remained quiet, near five-year lows (excluding the lockdown period). Clearly homebuyers are on the defensive but so are sellers. New listings lately have sunk to decades lows. Demand-supply conditions have tightened as a result and property values ceased depreciating. This could hamper any improvement in affordability. RBC's aggregate measure eased for the first time in two years in the first quarter of 2023, decreasing 1.1 percentage points to 29.5%.

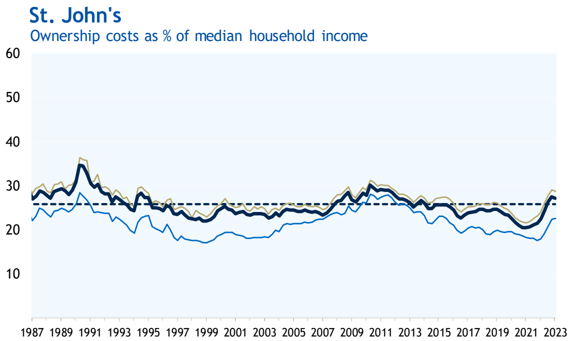
RBC Housing Affordability Measures



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 – Buyers have a high bar to clear

It's a similar story in Halifax where the biggest loss of affordability on record in the past two years has drastically quieted down the market. Spring action was largely muted this year—partly due to a drop in supply. New listings fell to a 20-year low. The bar homebuyers must clear is as high as ever in this market though it came down a touch in the first quarter. RBC's aggregate measure fell 1.2 percentage points to 42.1%. Prospects for material easing in the near are slim as tight demand-supply conditions are now pressuring up prices.

St. John's – Muddling through

Soaring interest rates in the past year did make it more challenging to purchase a home in St. John's but the pressure remained relatively manageable for average buyers. RBC's aggregate affordability measure (27.2%) only slightly exceeds the long-run average (25.8%)—and is still the lowest among the markets we track. It isn't surprising then that despite correcting materially in the past year, market activity has stayed above pre-pandemic levels. Supply has trended lower but kept in line with demand, containing price pressure. We expect the market to continue muddling through in the near term.

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			RBC Housing Affordability Measure			
	Q1 2023 ($)	Q/Q % ch.	Y/Y % ch.	Q1 2023 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	769,300	-1.8	-5.8	**59.5**	-1.6	7.7	40.9
Victoria	1,091,300	-1.8	-1.9	**73.5**	-2.1	12.3	44.4
Vancouver area	1,332,000	-1.6	-5.4	**96.1**	-2.7	13.5	59.2
Calgary	579,000	0.1	3.4	**43.0**	-0.5	7.3	38.8
Edmonton	432,600	-2.2	-1.6	**34.2**	-1.1	4.4	32.6
Saskatoon	412,200	-0.6	3.3	**34.3**	-0.6	6.2	31.0
Regina	331,200	-3.2	-4.4	**28.4**	-1.1	3.5	26.3
Winnipeg	367,500	-2.8	-3.3	**31.4**	-1.0	3.4	28.7
Toronto area	1,161,900	-1.2	-8.8	**79.0**	-2.0	8.9	49.4
Ottawa	671,200	-2.3	-3.7	**47.1**	-1.6	6.9	35.7
Montreal area	627,400	-1.2	1.4	**51.9**	-0.8	9.6	37.9
Quebec City	382,500	-0.3	4.2	**34.4**	-0.2	6.4	29.2
Saint John	313,800	-1.0	8.8	**29.5**	-1.1	5.3	25.8
Halifax	540,300	-1.8	0.9	**42.1**	-1.2	7.1	31.5
St. John's	345,600	-0.9	4.8	**27.2**	-0.2	4.8	25.8

Single-family detached

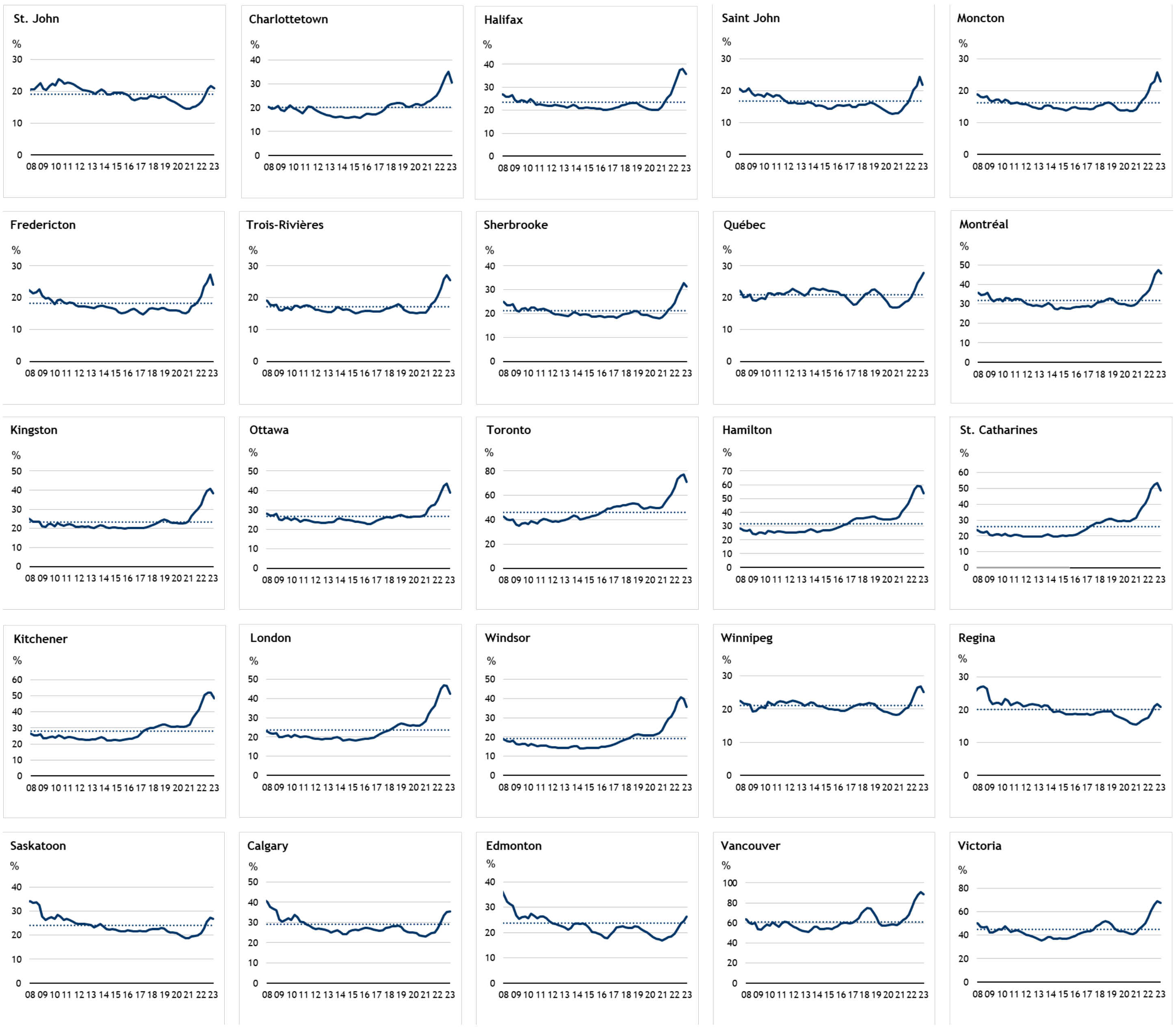
Market	Price			RBC Housing Affordability Measure			
	Q1 2023 ($)	Q/Q % ch.	Y/Y % ch.	Q1 2023 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	850,500	-1.7	-5.5	**65.9**	-1.7	8.7	43.5
Victoria	1,249,100	-2.0	-1.8	**83.8**	-2.6	14.1	48.1
Vancouver area	1,832,900	-1.7	-5.5	**130.1**	-3.8	18.3	71.1
Calgary	656,400	0.4	5.2	**48.5**	-0.4	8.9	41.7
Edmonton	475,700	-2.2	-0.5	**37.6**	-1.2	5.1	34.3
Saskatoon	434,700	-1.0	2.1	**36.7**	-0.7	6.3	32.8
Regina	339,200	-3.6	-4.7	**29.9**	-1.1	3.6	27.5
Winnipeg	380,200	-3.0	-4.3	**33.1**	-1.1	3.3	29.9
Toronto area	1,433,400	-0.7	-8.2	**96.7**	-2.0	11.4	57.4
Ottawa	746,000	-2.3	-3.7	**52.7**	-1.7	7.7	38.8
Montreal area	680,400	-1.6	0.5	**56.5**	-1.1	10.0	38.7
Quebec City	413,300	-0.4	5.3	**37.6**	-0.3	7.2	30.0
Saint John	336,500	0.6	14.0	**32.0**	-0.8	6.5	28.2
Halifax	568,600	-2.4	0.4	**44.8**	-1.5	7.4	32.0
St. John's	358,000	-1.3	3.7	**28.7**	-0.4	4.7	27.1

Condominium apartment

Market	Price			RBC Housing Affordability Measure			
	Q1 2023 ($)	Q/Q % ch.	Y/Y % ch.	Q1 2023 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	556,900	-1.3	-1.1	**43.2**	-1.0	7.2	33.0
Victoria	638,000	-4.5	1.4	**44.3**	-2.4	8.3	31.5
Vancouver area	764,100	0.0	4.5	**56.9**	-0.7	11.9	39.1
Calgary	278,200	1.5	5.2	**23.2**	-0.1	3.5	25.2
Edmonton	205,300	-4.2	-13.0	**18.7**	-1.0	0.5	21.3
Saskatoon	218,100	-0.7	-0.9	**19.7**	-0.3	2.9	19.4
Regina	188,900	-2.2	-23.9	**17.5**	-0.5	-0.5	20.1
Winnipeg	255,200	1.5	3.2	**22.1**	0.0	3.3	22.2
Toronto area	664,700	-2.8	-5.6	**46.4**	-1.9	6.3	31.6
Ottawa	392,100	-1.8	-0.9	**28.2**	-0.8	4.6	23.6
Montreal area	465,000	0.3	3.5	**38.4**	-0.1	7.6	31.5
Quebec City	256,800	0.7	3.5	**23.1**	0.0	4.2	22.3
Saint John	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
Halifax	438,300	1.1	-3.3	**33.7**	-0.2	4.7	25.9
St. John's	295,500	1.5	10.1	**22.5**	0.2	4.7	21.9

Mortgage carrying costs by city

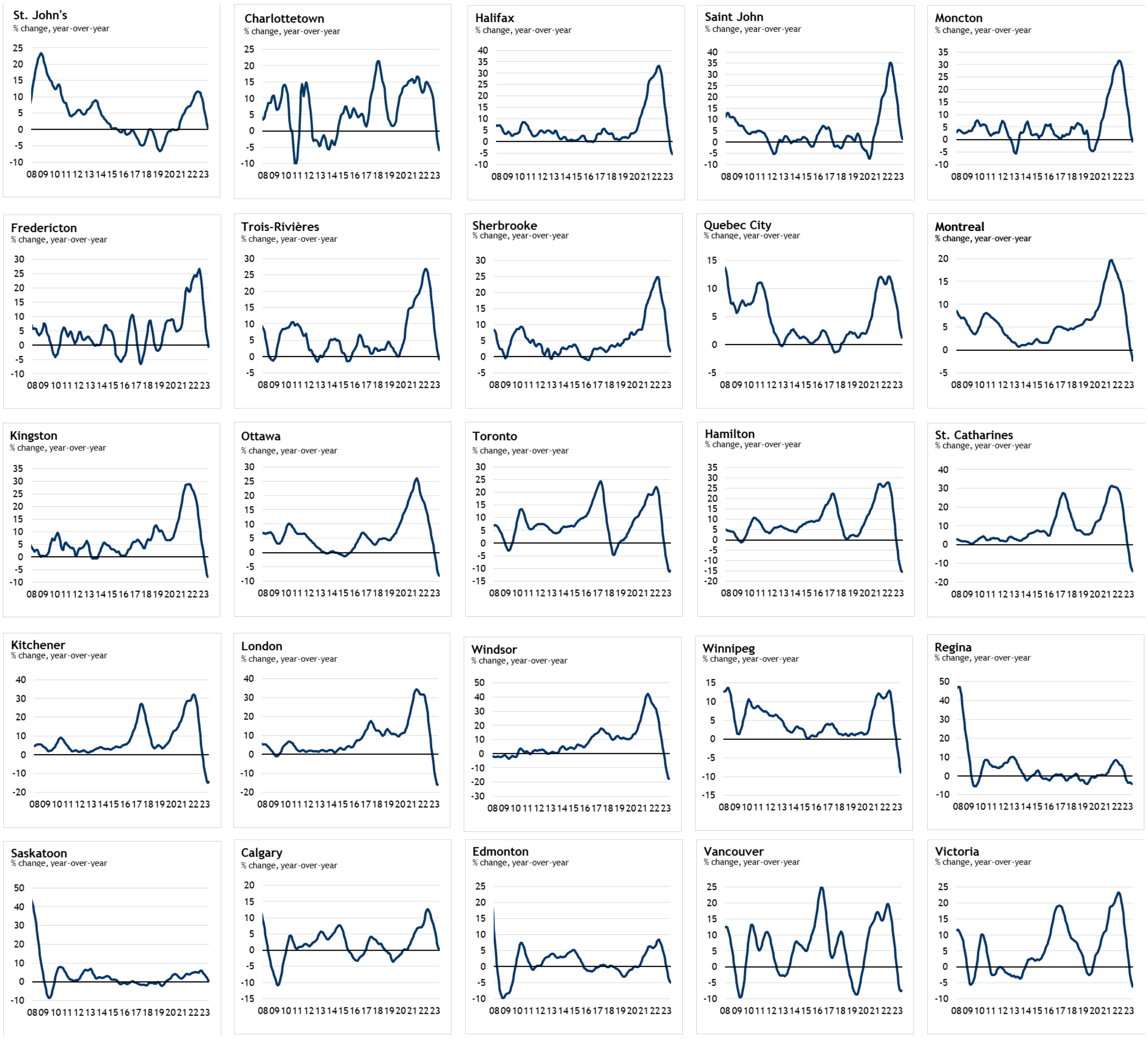
Our standard RBC Housing Affordability Measure captures the proportion of median pre-tax household income required to service the cost of a mortgage on an existing housing unit at market prices, including principal and interest, property taxes and utilities; the modified measure used here includes the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

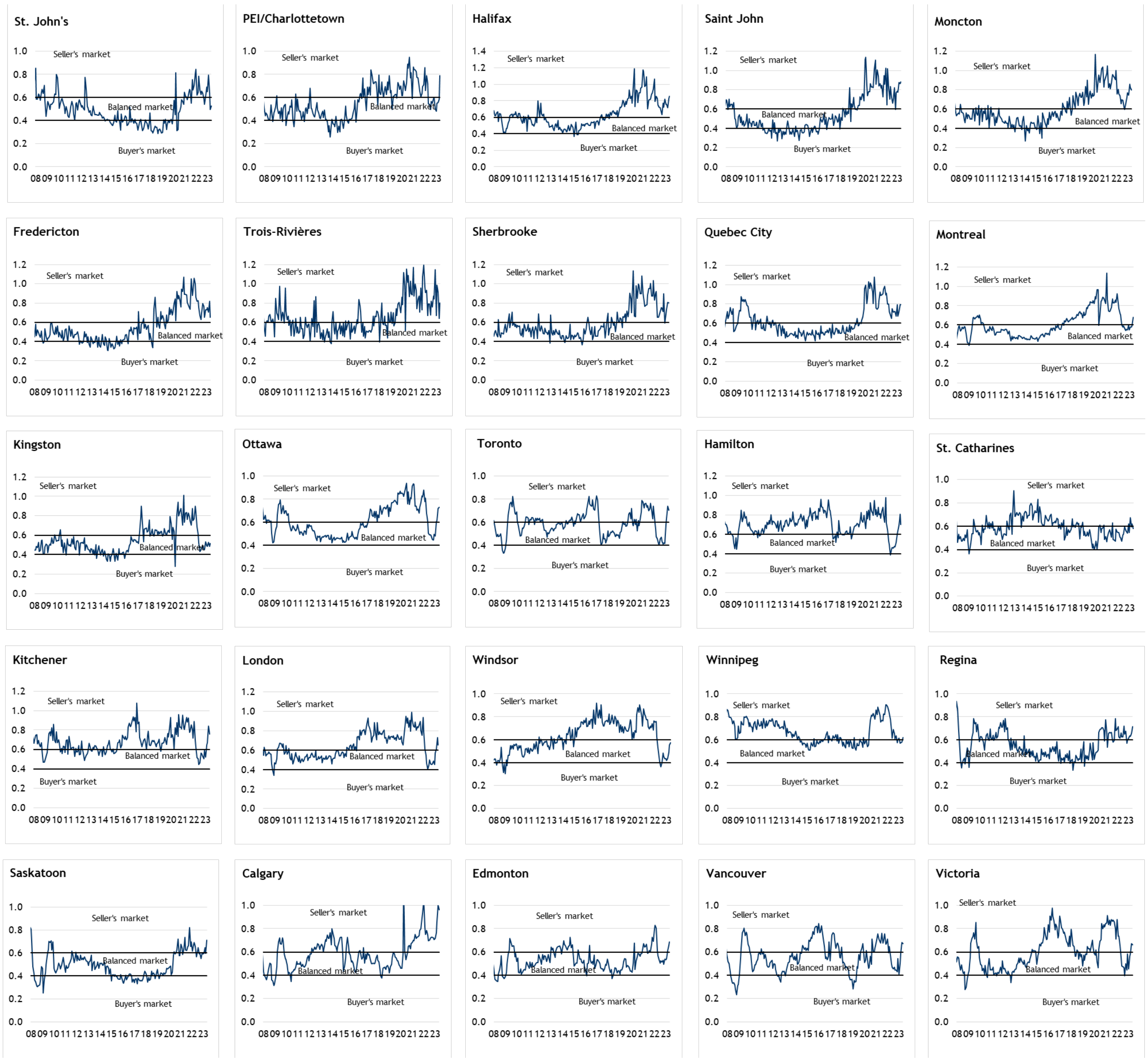
Source: RPS, Statistics Canada, Bank of Canada, RBC Economics

Aggregate home price



Source: RPS, RBC Economics

Home sales-to-new listings ratio



Source: Canadian Real Estate Association, RBC Economics