HOUSING TRENDS AND AFFORDABILITY

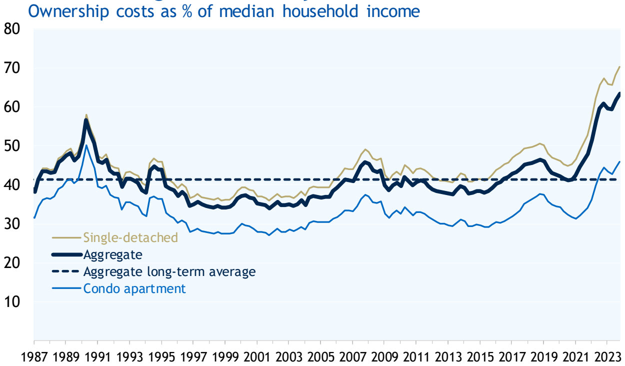
March 2024

Toughest time ever to afford a home as soaring interest costs keep raising the bar

- **High interest rates propelled ownership costs to new summit in the fourth quarter of 2023**: A household earning a median income needed to spend a staggering 63.5% of it to cover the costs of owning an average home at market price. That's up from 61.8% in the third quarter.

- **Soaring interest costs more than offset a slight price relief nationwide**: The monthly mortgage payment for the composite home (valued at $796,300) increased more than $125 (3.3%) last quarter to $3,990. This rise occurred despite the composite home price easing 0.5% q/q.

- **Affordability worsened in all markets we track**: Vancouver, Victoria and Toronto experienced the biggest deterioration, further exacerbating acute stress. The situation also became more challenging in Ottawa, Montreal and Halifax, where affordability is at, or near all-time worst levels.

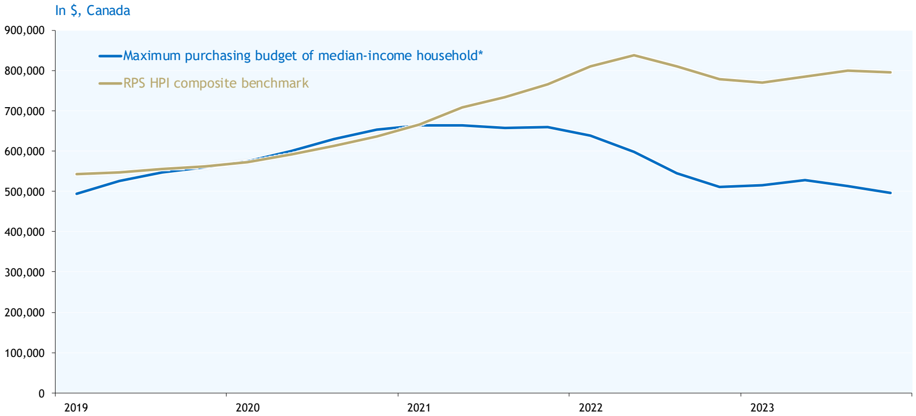


- **Anticipated Bank of Canada pivot brings hope for some respite**: We see the growing likelihood of rate cuts starting mid-year as a turning point for housing affordability in Canada. We expect lower borrowing costs will restore some of the massive losses during the pandemic. Any improvement over the coming year, though, is poised to be modest and leave budget-constrained buyers wanting.

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

Canada	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal
63.5	106.3	48.3	36.8	84.8	49.9	53.3

Fourth quarter 2023



* Based on 20% down payment, 25 years amortization, 35% GDS ratio and 5-year fixed mortgage rate.
Source: Canadian Real Estate Association, RBC Economics

House hunters' budget still heavily constrained

The Bank of Canada's historic rate hiking campaign launched in March 2022 continues to weigh heavily on our country's housing market despite pausing since summer. High rates have intensified stress for many mortgage holders contending with substantial payment increases at term renewal time.

Importantly, high rates have seriously crimped house hunters' purchasing budget. We estimate they've shrunk the maximum budget for a household with a median income ($85,400 at the end of 2023) by 22% since the first quarter of 2022 to just under $500,000 (assuming a 20% down payment and 25-year amortization period). Home prices, meanwhile,

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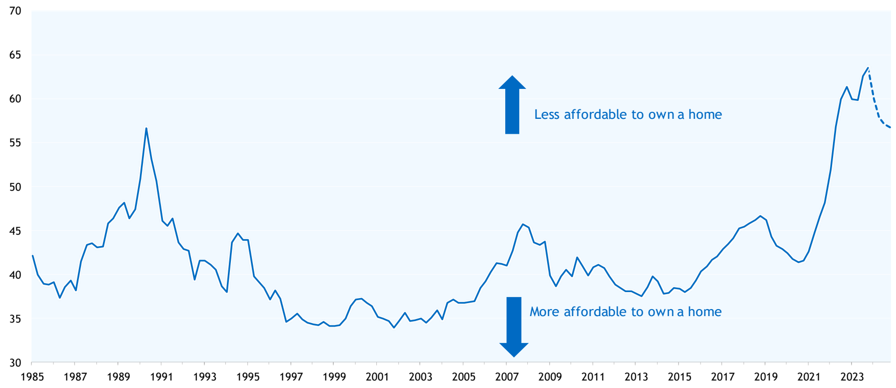
have fallen just 1.8% over the same interval. It's no wonder homebuyer demand has cooled so much. The ability of many Canadians to get into the housing market has greatly diminished.

And it's no surprise many sidelined house hunters are eagerly awaiting rate cuts. The rollback of earlier hikes will help restore some buying power and narrow the gap with market prices—provided the latter don't rise too rapidly.

Affordability set to improve modestly in the year ahead

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



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

Improving outlook for affordability

We expect Canadian homebuyers will get their wish by the middle of this year. An improvement in affordability could in fact come sooner if long-term interest rates ease ahead of our central bank policy pivot and household income continues to grow at a solid clip. The outlook will brighten the deeper the Bank of Canada's cuts get next year.

Yet, conditions will remain extremely challenging for a (long) while

The scope for improvement in the year ahead—while sufficient to rekindle some buyers' enthusiasm—will be small relative to dramatic loss of affordability that occurred during the pandemic. Under our base case scenario, the share of an average household income needed to cover ownership costs would only fall to mid-2022 levels by 2025. That would scarcely lower the bar for most potential buyers. Meaningfully restoring affordability will likely take years in many of Canada's large markets. In this context, we expect the housing market's recovery to be slow at first, before gaining momentum as interest rate cuts accumulate. See [Canada's housing market outlook: A tale of two halves in 2024] for our latest forecast.

British Columbia

Victoria – Buyers, some owners feel the squeeze

Extreme unaffordability pressures got even worse in the closing months of 2023. RBC's aggregate affordability measure for Victoria surged another 4.0 percentage points in the fourth quarter to a record-high 80.2%. (A rise in the measure represents a loss of affordability.) Those pressures weigh heavily on market in the early stages of 2024, restraining the recovery in demand and driving prices down—albeit just barely. Existing owners may also be feeling the squeeze, with some of them opting to sell. New listings—while far from excessive—have trended above pre-pandemic levels since fall. This has contributed to a softening in demand-supply conditions of late. We expect prices will stay on a slight downward trajectory in the near term.

Vancouver area – In full-blown crisis

The prospects for buying a home have long been challenging in the area. They're now at full-blown crisis levels. It's never been as expensive to own a home anywhere, anytime in Canada as it was in Vancouver in the fourth quarter. At a staggering 106.4%, the share of a median income needed to cover ownership costs (RBC's aggregate affordability measure) means that only a select few high-income earners can afford to buy—or that considerable wealth must be amassed (or received) to put down towards a purchase. This significantly narrows the potential pool of buyers in the market, keeping activity soft and prices flat recently. We see little change from this in the months ahead.

Alberta

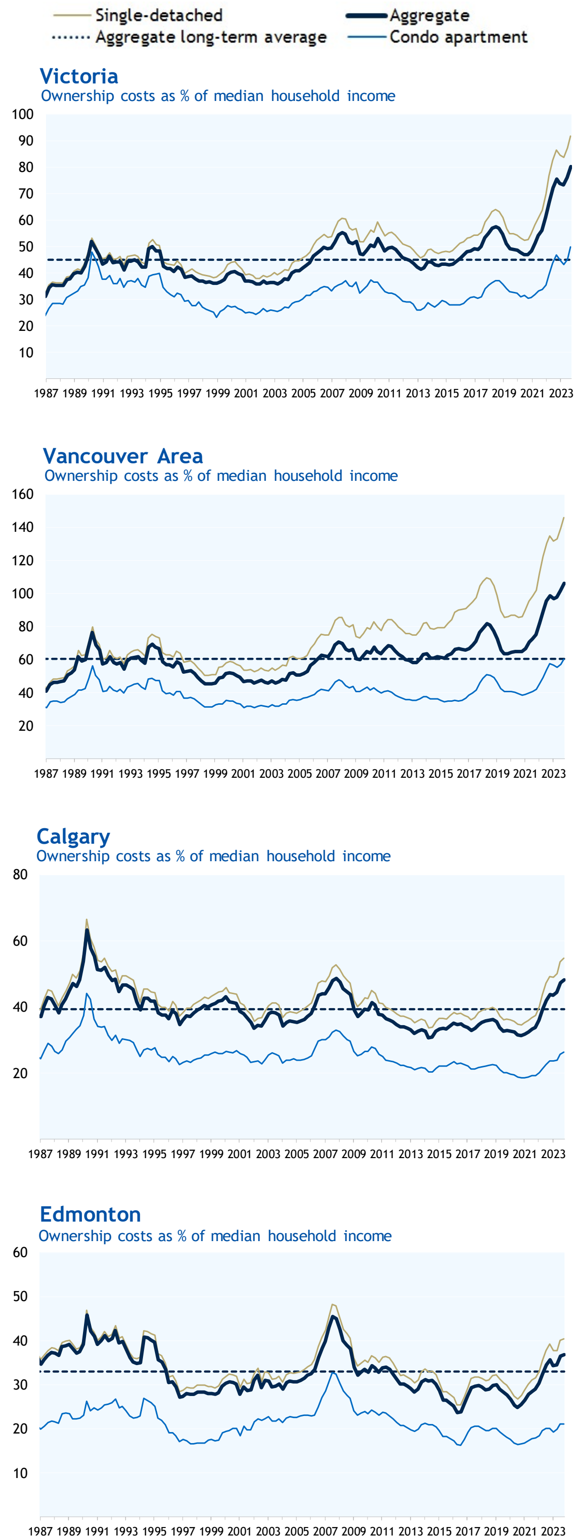
Calgary – Loss of affordability could dampen market vigour

Calgary is Canada's current housing hotspot. Resale activity in the area is buzzing and prices are appreciating at the fastest pace in the country. Still, it's becoming increasingly hard for many buyers to afford a purchase. RBC's aggregate affordability measure has deteriorated materially over the past three years, reaching at the end of 2023 its worst level (48.3%) since 2007. With solid momentum in the provincial economy and explosive population growth, the deterioration isn't undermining the market's vibrancy for now. But it could put a damper on the recovery going forward if the worsening trend persist.

Edmonton – Conditions erode but remain generally manageable

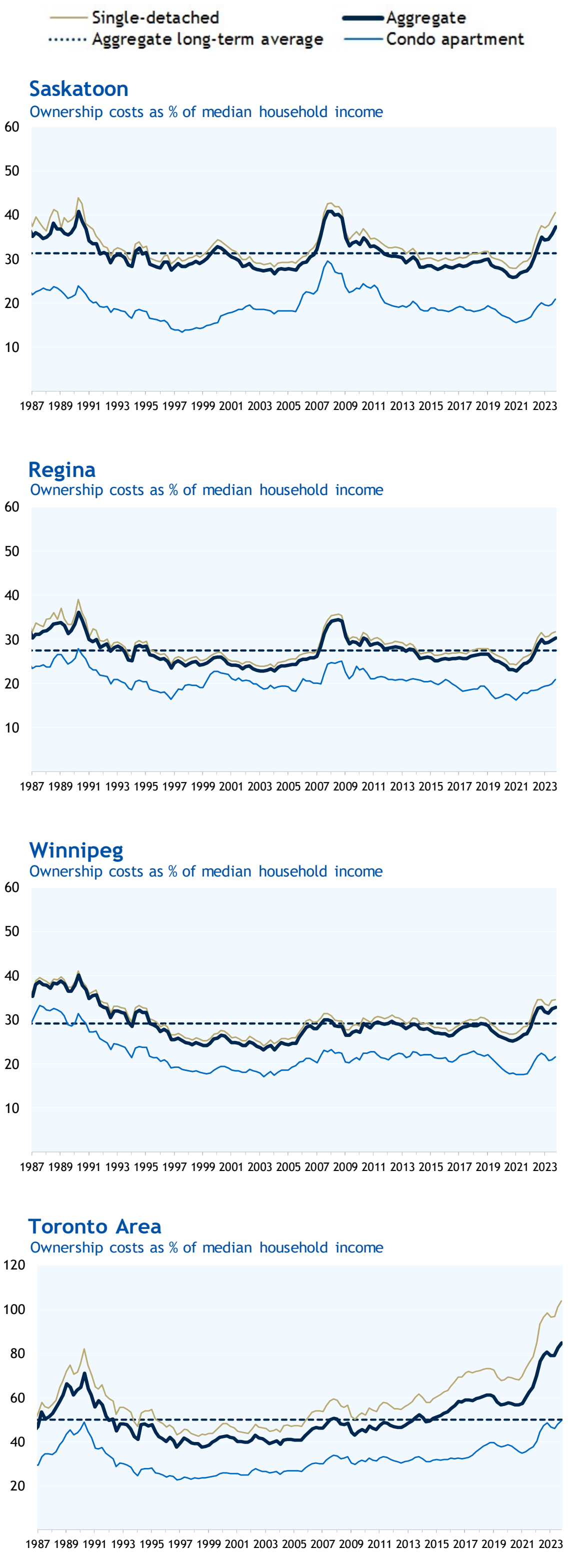
A positive economic and demographic backdrop is also taking precedence over the erosion of buyers' purchasing power in the Edmonton market at this stage. Transaction activity is historically strong and trending higher still. And, after a few bumps late last year prices have been picking up so far this year. Homeownership costs—while broadly manageable—have become more onerous for potential buyers. They represented 36.8% of a median household income in the fourth quarter—a 13-year high. We expect upcoming interest rate cuts will keep conditions from deteriorating further and the market energetic in the period ahead.

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

Saskatchewan

Saskatoon – High rates cast a shadow over buyers

The market maintains strong momentum, if moderating somewhat since summer. Home resales in recent months hovered some 20% above pre-pandemic levels. High interest rates cast a darkening shadow over buyers, though. The costs of owning a home have soared to levels unseen in 15 years in the area. RBC's aggregate affordability measure climbed in seven of the last eight quarters—including in the last three. It rose 1.6 percentage points in the fourth quarter to 37.8%. We think increasingly budget-constrained buyers are poised to push back against any appreciation in prices in the near term.

Regina – Relatively light housing cost burden keeps market humming

The volume of resale transactions has significantly recovered since spring last year, and is almost back to where it was before the Bank of Canada began hiking rates in March 2022. Area buyers aren't immune to mounting affordability tensions but the burden they face is one of the lightest among the markets we track. RBC's aggregate measure stood at 30.4% last quarter—bested only by St. John's 28.7%. A fall in home prices helped cushion the impact of higher rates in 2023. A tightening in demand-supply conditions since fall, though, points to a change in direction for property values in the period ahead.

Manitoba

Winnipeg – Budget tensions keep buyers on their toes

Last year's recovery has stalled. Home resales are stuck in a middle gear, running roughly 10% below pre-pandemic levels. And prices have edged slightly lower since fall. High interest rates and the area's deteriorating affordability picture is no doubt on the mind of many potential buyers. RBC's aggregate measure last quarter rose to its worst level (32.8%) in more than 30 years. We expect budget-related tensions will keep buyers on their toes for some time to come. This won't be an environment conducive for meaningful price gains.

Ontario

Toronto area – Intense stress isn't letting up

Skyrocketing interest costs continue to significantly challenge Toronto-area buyers—many of whom confined to the sidelines, unable to clear the extremely high ownership bar. RBC's aggregate affordability measure reached its worst level ever in the fourth quarter (84.8%). The immense burden it represents ultimately restrain home resale activity to historically low levels and weigh on prices. The market nonetheless appeared to turn a corner in the late stages of 2023 and early-2024 with activity picking up slightly and prices stabilizing. We expect any recovery will be slow and potentially bumpy at first, however. It will take several rate cuts to unlock pent-up demand in a material way.

Ottawa – Buyers face an uphill battle

The action has picked up from the cyclical low point in the fall but remains far from robust. Home resales early this year were still nearly 15% below their levels just before the pandemic. Buyers face an uphill battle getting in the market with high rates and prices crushing their ability to afford a home. RBC's aggregate measure reached 49.9% in the fourth quarter—a record high for the area. Having their hands tied this way, many buyers aren't in a position to bid up prices, if they can bid in the first place. It's no surprise then that property values have drifted lower since fall. We expect this trend will continue in the near term.

Quebec

Montreal area – Market on a gradual upward trajectory

The market recovery got back in gear in the early months of 2024 after going into reverse in the fall. An influx of supply—new listings have recently rebounding above pre-pandemic levels—may be behind the pick-up in activity. It offers more buying opportunities for house hunters whose purchasing power is significantly curtailed by high interest rates. RBC's aggregate affordability measure was at a record high of 53.3% in the fourth quarter, a level limiting the pool of potential buyers. This explains the persistent lackluster demand despite the recovery. Home resales remain still more than 25% below their levels before the pandemic. We expect the market to stay on a gradual upward trajectory.

Quebec City – Increased strains aren't holding back activity

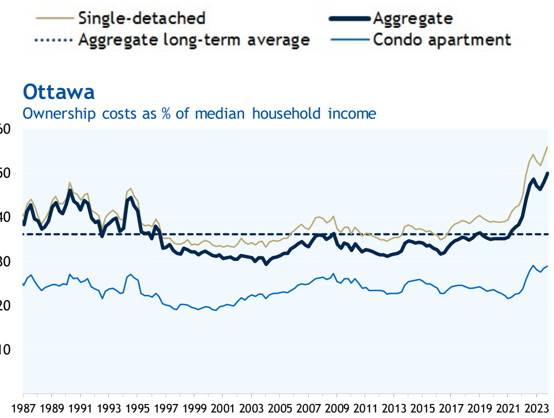
Affordability conditions are the most straining in decades but still compare favourably with most markets we track. At 35.7%, RBC's aggregate measure is just slightly more than half the Canadian average. Clearly, higher ownership costs aren't hold back buyers much, or at all at this stage. Transactions continue to run well above year-ago levels and generally low inventories are keeping prices on an incline. We see little that will change these trends in the period ahead.

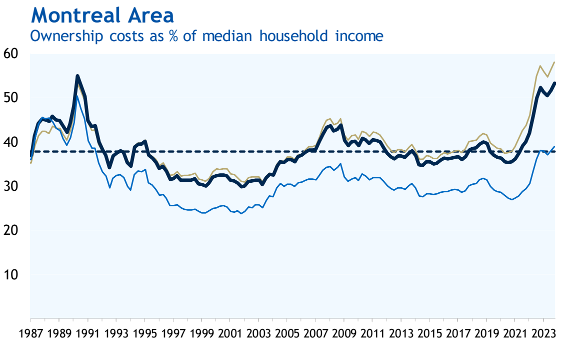
Atlantic Canada

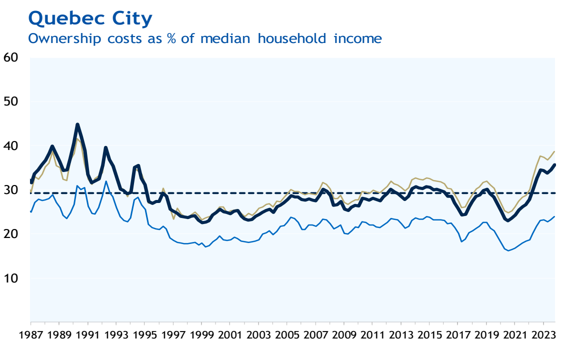
Saint John – Slow, bumpy ride

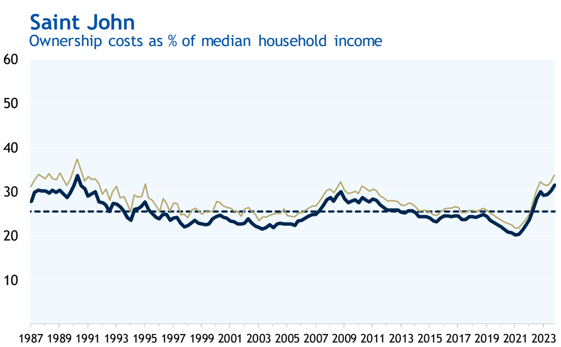
Like elsewhere in Canada, the Saint John market is feeling the pinch from higher interest costs. Home resales have slowed markedly since early-2022 and showed some volatility of late. Their levels are running some 20% below where they were before the pandemic. Housing affordability isn't terrible—it's still one of the best among the markets we track—but has deteriorated markedly in the past two years, hitting its worst point in decades at the end of 2023. RBC's aggregate measure rose 1.3 percentage points to 31.4% in the fourth quarter. Home prices have come under downward pressure in recent months and we see this likely to continue in the near term.

RBC Housing Affordability Measures



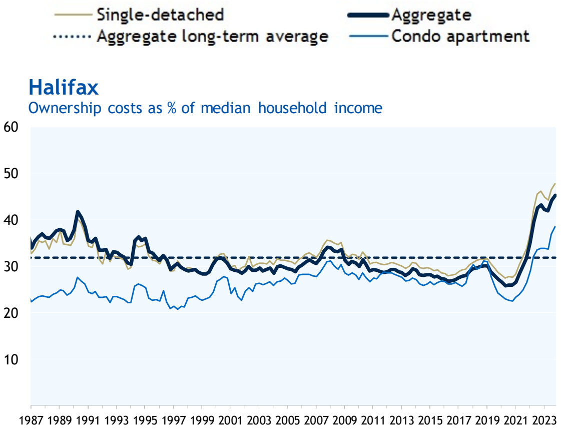


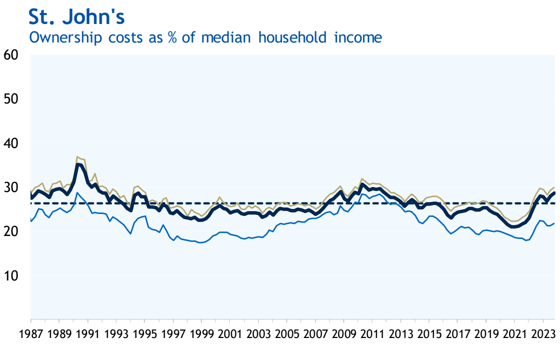




Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economics

RBC Housing Affordability Measures





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

Halifax – Record-high ownership costs are a major hurdle

The recovery may be on but action remains quiet in Halifax. The volume of transactions at the start of 2024 was still down more than 25% compared to (strong) pre-pandemic levels. Record-high ownership costs are no doubt the issue. RBC's aggregate measure jumped to 45.3% in the fourth quarter—far exceeding the long-run average of 31.9%. These high costs significantly constrain the number of buyers and their budget. Home prices have slipped as a result in recent months. We expect they will continue to do so in the coming months.

St. John's – Slumping supply is the bigger deal

Low supply is probably a bigger deal for the market than poor affordability at this stage. New listings and inventories have slumped near decade lows lately, leaving many buyers starved for more options. It's not to say ownership costs aren't pinching. It's just that the pressure is lighter than in any other markets we track. RBC's aggregate affordability measure was a nationwide low of 28.7% in the fourth quarter—and not far off its long-term average of 26.3%. While calmer than at the pandemic peak, the market remains much busier than at almost any time before 2020. We see the current upward sloping price trend persisting in the period ahead.

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 Q4 2023 ($)	Price Q/Q % ch.	Price Y/Y % ch.	RBC Housing Affordability Measure Q4 2023 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	796,300	-0.5	2.2	**63.5**	1.7	2.6	41.4
Victoria	1,168,600	1.7	5.6	**80.2**	4.0	4.7	45.1
Vancouver area	1,448,300	0.6	7.3	**106.3**	4.3	7.6	60.4
Calgary	616,400	0.5	7.0	**48.3**	0.9	4.5	39.3
Edmonton	433,400	-0.3	-1.4	**36.8**	0.3	1.2	33.0
Saskatoon	424,600	1.1	3.3	**37.3**	1.6	2.3	31.4
Regina	333,800	-2.5	-3.5	**30.4**	0.5	0.3	27.5
Winnipeg	374,400	-0.6	-0.9	**32.8**	0.3	0.0	29.2
Toronto area	1,200,300	-1.5	2.5	**84.8**	2.0	3.9	50.1
Ottawa	686,600	-0.1	0.4	**49.9**	1.9	1.3	36.1
Montreal area	636,600	0.4	0.5	**53.3**	1.6	1.0	37.9
Quebec City	394,600	0.7	2.2	**35.7**	1.2	1.1	29.2
Saint John	330,300	1.4	5.4	**31.4**	1.3	1.4	25.6
Halifax	575,600	0.2	5.2	**45.3**	1.1	2.0	31.9
St. John's	352,500	0.6	0.9	**28.7**	0.8	0.7	26.3

Single-family detached

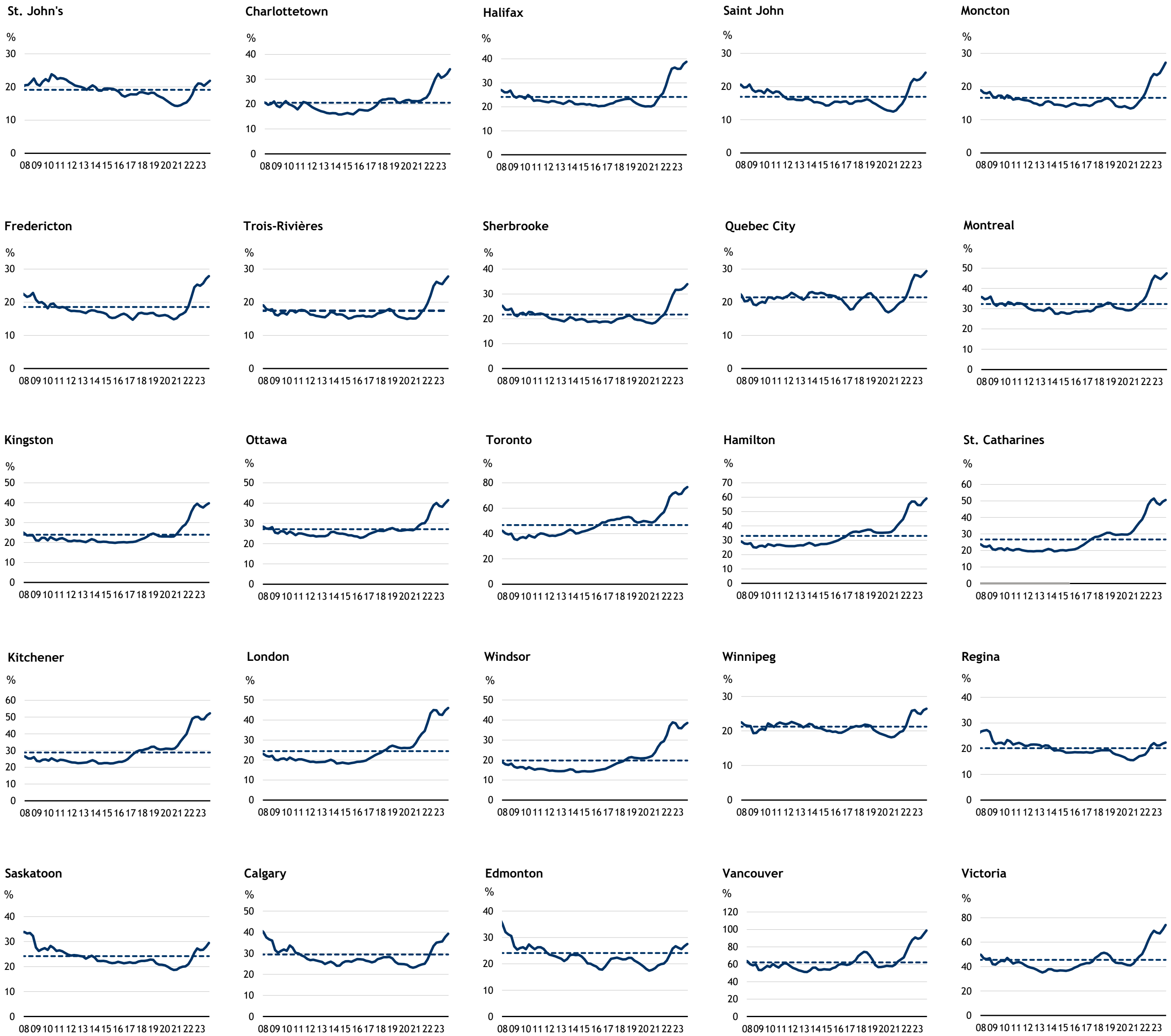
Market	Price Q4 2023 ($)	Price Q/Q % ch.	Price Y/Y % ch.	RBC Housing Affordability Measure Q4 2023 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	878,500	-0.4	2.5	**70.2**	1.9	3.0	44.0
Victoria	1,342,200	1.6	5.6	**91.9**	4.7	5.5	49.0
Vancouver area	2,019,600	0.8	7.9	**146.0**	6.2	11.4	72.7
Calgary	704,700	0.9	8.1	**54.9**	1.2	5.6	42.4
Edmonton	474,400	-0.1	-1.7	**40.4**	0.4	1.2	34.8
Saskatoon	456,900	0.2	4.8	**40.5**	1.5	2.9	33.3
Regina	339,500	-3.0	-4.5	**31.8**	0.4	0.1	28.8
Winnipeg	389,100	-0.7	-0.6	**34.7**	0.3	0.1	30.4
Toronto area	1,480,500	-1.3	3.1	**103.8**	2.7	5.4	58.2
Ottawa	764,400	0.3	0.8	**55.9**	2.3	1.6	39.1
Montreal area	689,400	0.6	0.0	**58.0**	1.8	0.8	38.7
Quebec City	423,600	0.6	1.9	**38.7**	1.1	1.0	30.0
Saint John	348,400	2.0	5.5	**33.7**	1.6	1.5	27.9
Halifax	601,200	0.4	4.0	**47.8**	1.2	1.6	32.5
St. John's	359,700	0.4	-0.6	**30.0**	0.7	0.3	27.7

Condominium apartment

Market	Price Q4 2023 ($)	Price Q/Q % ch.	Price Y/Y % ch.	RBC Housing Affordability Measure Q4 2023 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	573,000	0.3	1.3	**45.9**	1.6	1.5	33.3
Victoria	707,900	7.1	6.1	**49.8**	4.6	3.0	31.9
Vancouver area	790,100	1.4	3.5	**60.0**	2.8	2.3	39.6
Calgary	298,700	2.0	8.7	**26.3**	0.6	2.6	25.6
Edmonton	217,000	-0.3	1.6	**21.1**	0.0	1.1	21.5
Saskatoon	216,600	2.4	-0.3	**20.8**	1.0	0.6	19.6
Regina	222,600	2.4	7.6	**20.9**	1.0	1.8	20.9
Winnipeg	237,700	1.9	-6.2	**21.5**	0.5	-1.0	22.4
Toronto area	683,500	-0.4	-0.2	**49.5**	1.7	1.0	32.0
Ottawa	385,900	-2.3	-2.7	**29.0**	0.6	0.0	23.9
Montreal area	463,100	0.0	0.4	**38.8**	1.0	0.6	31.4
Quebec City	264,000	0.8	3.0	**23.9**	0.8	0.9	22.3
Saint John	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
Halifax	499,100	2.2	15.2	**38.5**	1.6	4.5	26.2
St. John's	269,000	0.2	-5.5	**21.7**	0.4	-0.6	22.2

Mortgage carrying costs by city

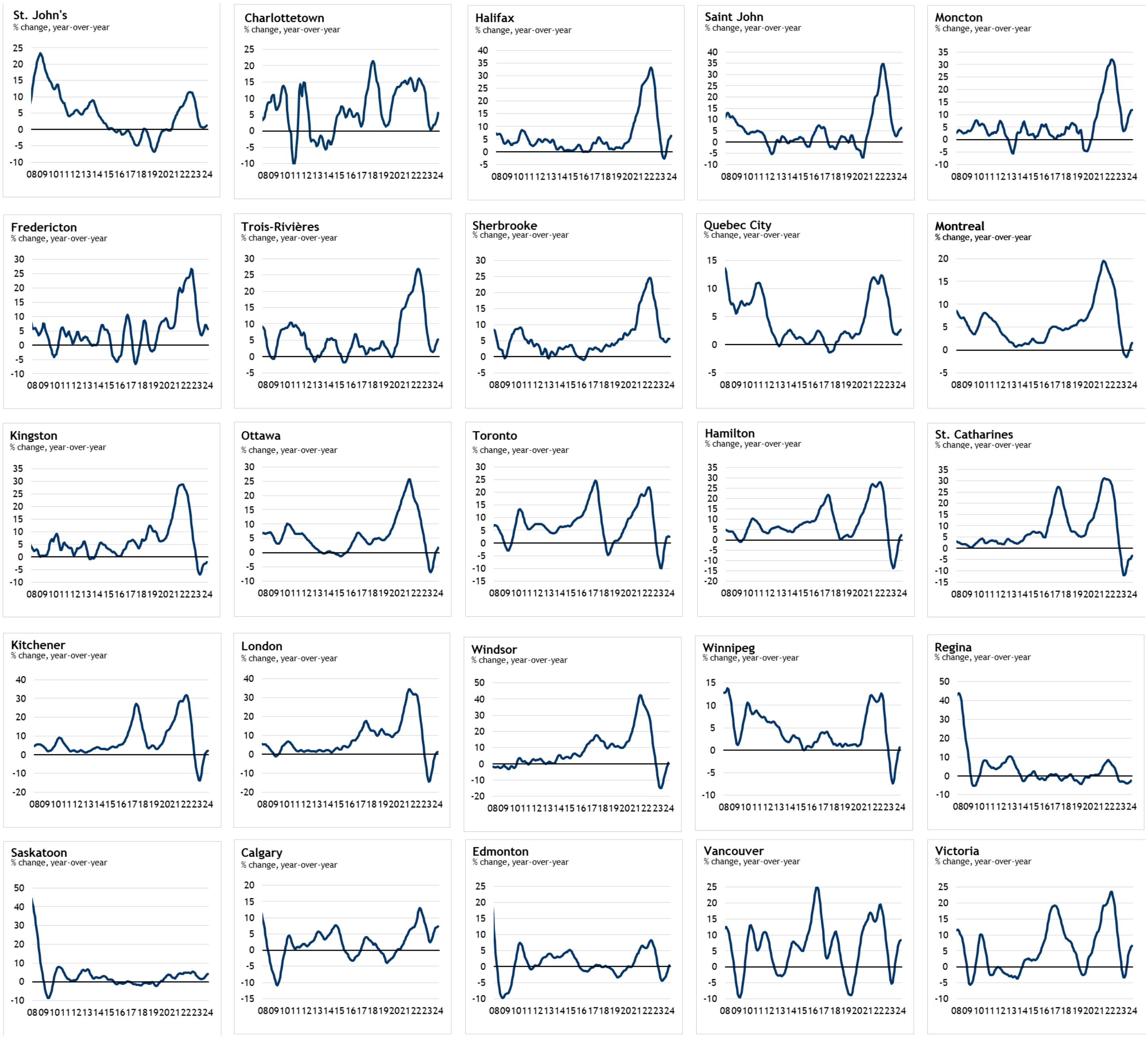
Our standard RBC Housing Affordability Measure captures the proportion of median pre-tax household income required to service the cost of a mortgage on an existing housing unit at market prices, including principal and interest, property taxes and utilities; the modified measure used here includes the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

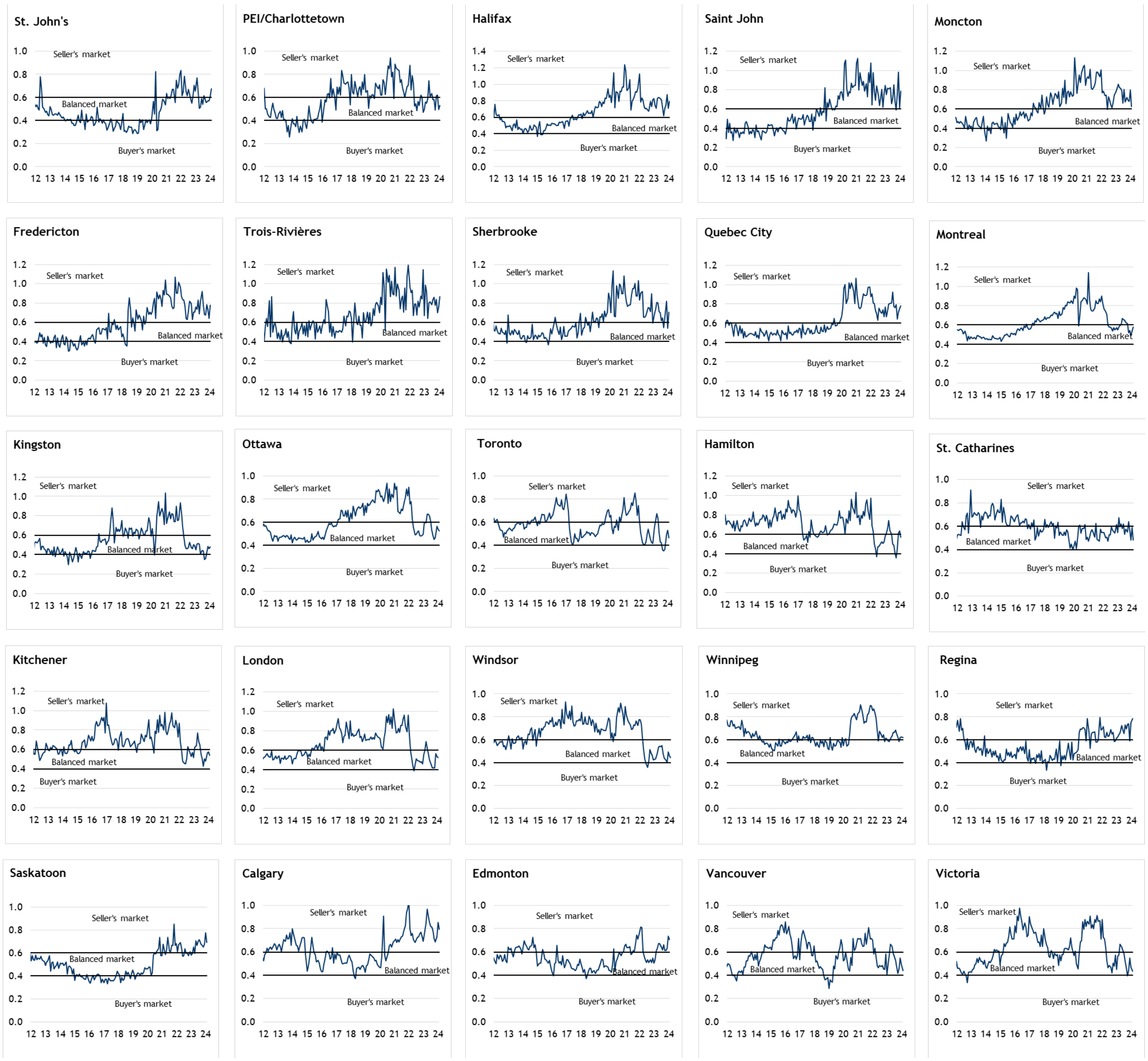
Source: RPS, Statistics Canada, Bank of Canada, RBC Economics

Aggregate home price



Source: RPS, RBC Economics

Home sales-to-new listings ratio



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