HOUSING TRENDS AND AFFORDABILITY

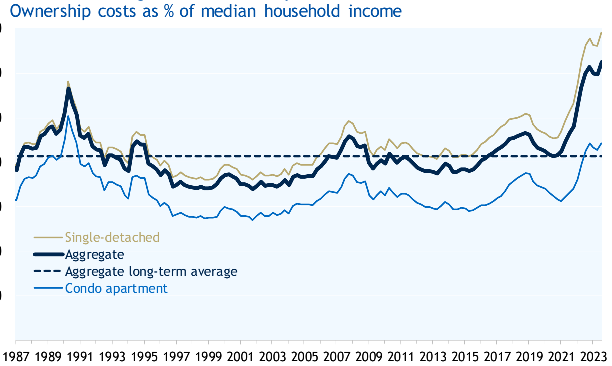
December 2023

High rates and prices make it less affordable to own a home in Canada

- **Ownership costs on the rise again in the third quarter**: Mortgage rate increases and modest appreciation in home prices drove up RBC's aggregate affordability measure for Canada by 2.8 percentage points to 62.5%. (A rise in the measure represents a loss of affordability.) This reversed a modest improvement in the second quarter.
- **At or near worst-ever affordability levels in many markets**: The situation is particularly tense in Vancouver, Victoria and Toronto where the costs of owning a home are sky-high. Ottawa, Montreal and Halifax also face challenging affordability conditions.
- **No exception to the recent deterioration**: All markets we track saw their affordability measures rise in the third quarter. Vancouver and Toronto recorded the biggest increases.
- **Hopeful signs on the horizon**: The softening in the housing market since summer is now giving way to price declines in parts of Canada. And with growing expectations the Bank of Canada's next move will be a rate cut, there's some scope for a reduction in ownership costs in the period ahead. Any improvement in affordability over the coming year, though, is likely to be modest and leave budget-constrained buyers wanting.

RBC Housing Affordability Measures - Canada

Ownership costs as % of median household income



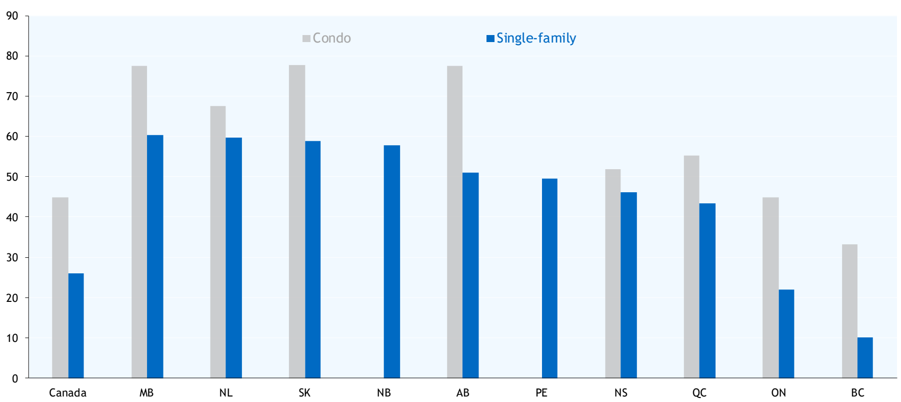
The share of income a household would need to cover ownership costs (in %)

Canada	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal
62.5	102.6	47.6	36.7	84.1	48.4	51.9

Third quarter 2023

Many households are priced out of the market, especially in BC and Ontario

Share of households with sufficient income to buy a home under current conditions, %



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

A smaller share of household can afford to buy

The significant loss of affordability during the pandemic has shrunk the pool of homebuyers in Canada. Close to 60% of all households could afford to own at least a regular condo apartment in 2019 based on their income. That share has plummeted to 45% in 2023. An even tinier 26% could now afford a (relatively more expensive) single-family home.

The national picture masks wide variations on a provincial basis, however. Between 70% and 80% of households could afford to own a modest home (condo) in Manitoba, Newfoundland and Labrador, Saskatchewan and Alberta in 2023. That proportion was slightly above 50% in Nova Scotia and Quebec, and well below

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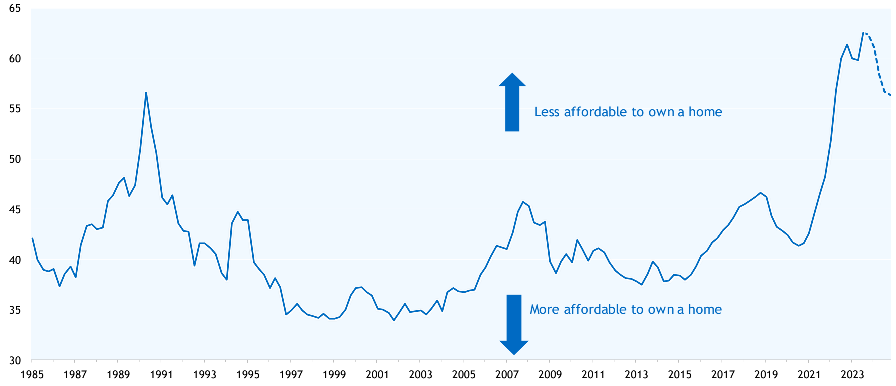
that in pricier Ontario and British Columbia. The differences are sharper when it comes to owning a single-family home. Approximately 10% of British Columbia households and 22% of Ontario households have sufficient income to own a home in that category. This compares to around 60% in Manitoba, Newfoundland and Labrador, Saskatchewan, New Brunswick. And closer to 50% in Alberta, PEI, Nova Scotia and Quebec.

It's no wonder the housing market has been softest in Ontario and British Columbia this year.

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

Modest relief in view...

The good news is the latest bout of housing affordability deterioration has likely run its course and the third quarter will prove to be the cyclical-worst point for RBC's affordability measure. We see the situation improving from now on as home prices drift lower or stabilize in the majority of markets, and household income continue to grow at a solid pace. The trend will become even friendlier once the Bank of Canada starts cutting rates—around mid-year in our view.

...but the weight will remain considerable

Nonetheless, there's a very long way to go before affordability is meaningfully restored. Buyers in many of Canada's large markets will contend with extremely difficult conditions for some time. We expect home resale activity to stay especially quiet in Ontario and British Columbia until interest rates fall materially. And then, the recovery that will follow is likely to be gradual at first. Buyers in other markets may respond more quickly to easing rates. Those in the Prairies (including Calgary) still display strong confidence levels at this juncture.

British Columbia

Victoria – Bar still extremely high for buyers

So much for the slight gains in affordability in the first two quarters of this year. They were entirely reversed in the third. RBC's aggregate measure rose 2.8 percentage points to 76.1% last quarter—setting a new all-time worst level for the area. Such a high bar to homeownership is pushing many potential buyers to the sidelines. Home resales fell close to a decade low this fall (excluding the pandemic shutdown period). The resulting weakening in demand-supply conditions is now dampening property values. Victoria's benchmark price has started to edge lower lately—a trend we expect will extend into the first half of 2024.

Vancouver area – Worst-ever conditions take a serious toll

The already-dire situation got worse for buyers last quarter. A typical household needed to allocate a further 4.4 percentage points of its income to cover the costs of owning an average home at current prices and interest rates. In fact, the entire income of that (median) household wasn't enough, as RBC's aggregate affordability measure clocked in at an astounding 102.6%. The only viable option for most ordinary buyers remains a less expensive condo apartment though even this is a stretch for many. Home transaction activity is now cooling again after rebounding surprisingly this spring. And prices are coming off their summer's peak. We think the downward drift could pick up velocity in the near term in the face of excessive unaffordability pressures.

Alberta

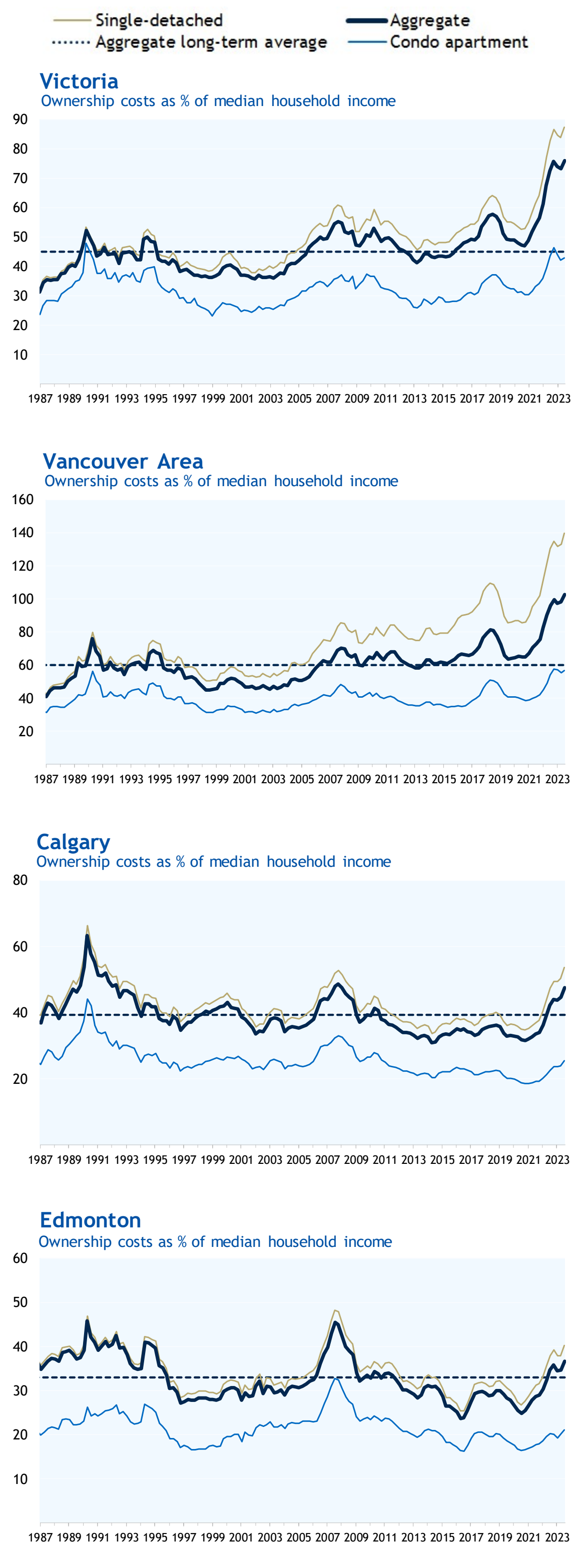
Calgary – Long-standing advantage is diminishing

Calgary's affordability position compares well to other major markets but its advantage is diminishing. RBC's aggregate measure for the area jumped 3.0 percentage points in the third quarter—the third-largest increase among the markets we track. At 47.6%, the measure could soon surpass that in Ottawa as the fifth least favourable in the country. The rapid deterioration stems in part from tight demand-supply conditions. Calgary has been Canada's housing hotspot in 2023. And with inventories persistently low, this has kept property values on a steady incline. We expect this uptrend to continue, though more balanced demand-supply conditions are likely to slow the pace down.

Edmonton – Buyers remain undeterred

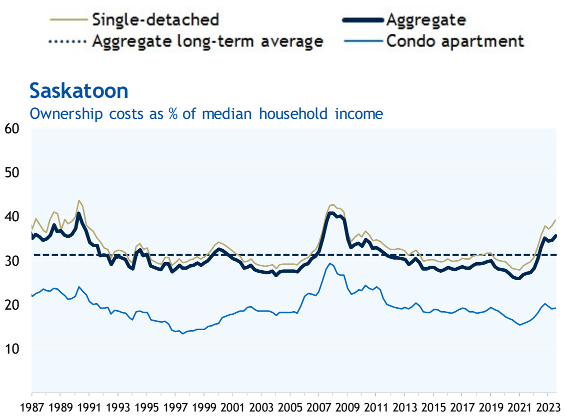
Similar pressures are building in Edmonton as well, albeit to a lesser degree. Rising prices since summer have turned the heat up on ownership costs, causing RBC's aggregate affordability measure to rise 2.0 percentage points to a 15-year high of 36.7% in the third quarter. To date, homebuyer demand has stayed solid. Home resales remain more than 50% above pre-pandemic levels and far outpace new supply. We think it would take a significantly larger loss of affordability to deter buyers at this stage given the strength in the provincial economy and demographic trends.

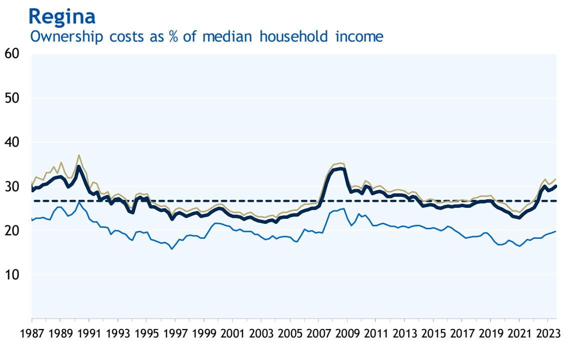
RBC Housing Affordability Measures

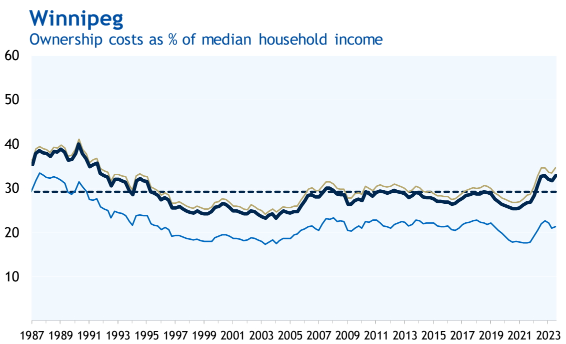


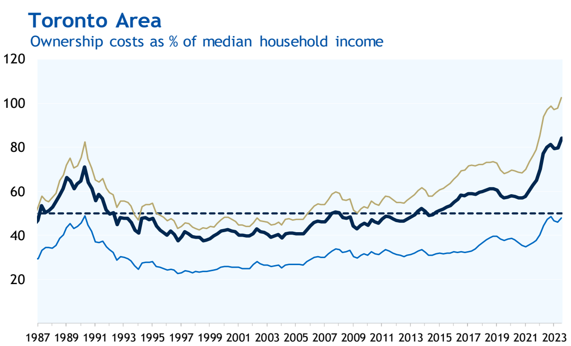
Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economics

RBC Housing Affordability Measures









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

Saskatchewan

Saskatoon – Market's resilience being tested

The market has proved quite resilient this year in the face of high interest rates. Transactions to date have been essentially flat compared to a year ago. Still, momentum has slowed this fall. No doubt mounting ownership costs are beginning to weigh more heavily on buyers. RBC's aggregate affordability measure has gone up considerably over the past two and a half years, reaching a 15-year high of 35.7% in the third quarter. We think a further moderation in resale activity is in the cards in the near term, which should temper price appreciation.

Regina – In full flight

While some of the same trends are playing out in Regina, the market isn't yet showing any signs of softening. Home resales are running more than 40% above pre-pandemic levels and demand-supply conditions are as tight as ever in the late stages of 2023. Clearly, buyers feel confident and Regina's good affordability picture may be a strongly contributing factor. Despite rising since 2021, RBC's aggregate measure isn't far off historical norms for the area and remains one of the best among the markets we track. We expect conditions will continue to support mild price increases in the period ahead.

Manitoba

Winnipeg – Tipping over to the softer side

The spring market rebound was short lived. By fall, unambiguous signs of easing had emerged for resale activity, prices and demand-supply conditions. We think they're a direct result of high interest rates and the toughest affordability environment since 1992. RBC's aggregate measure ticked 1.2-percentage points higher to 32.8% in the third quarter—fully reversing the prior two quarters' (tiny) declines. The outlook is for more of the same in the near term. We see room for prices to fall modestly until interest rate cuts next year stimulate demand and heat up property values.

Ontario

Toronto area – Ownership costs reach crushing levels

Solid price advances this summer made a tough situation even tougher for Toronto buyers. The appreciation amplified the toll exerted by higher interest rates, and cranked up ownership costs to crushing levels. RBC's aggregate measure soared 4.2 percentage points to 84.1% in the third quarter—easily surpassing the previous all-time high set at the end of 2022. This swiftly put an end to the spring rally and weighed heavily on resale activity this fall. Demand-supply conditions have swung sharply in favour of buyers as a result. Prices have recently come under renewed downward pressure. We expect this pressure to remain in effect over coming months.

Ottawa – Owning a home is still a tough proposition

A second-straight quarter of improving affordability might have energized buyers this spring but the effect will be short-lived. The fact is RBC's aggregate measure (46.5%) is still near all-time worst levels in the area—meaning that owning a home remains a very tough proposition for many. Indeed, home resales have cooled this summer, a trend that we believe will extend to the remainder of this year. A better balance between demand and supply should keep future price gains subdued. The flip side of this, however, is it won't fast-track the restoration of affordability.

Quebec

Montreal area – Affordability conditions biting hard after all

The sharp loss of affordability during the pandemic has significantly cooled homebuyer demand since early 2022. Still, a recovery has taken hold in the market this year with resales up 17% from the January low. A slight easing in ownership costs could have been what some buyers were looking for to get back into the fray. RBC's aggregate measure edged lower in each of the first two quarters of this year, including a 0.9 percentage point drop in the latest period. The recovery, however, appears to be flagging of late. We think it's a reminder that affordability conditions are still very challenging—RBC's measure, at 50.9%, continues to be way up there—and biting hard.

Quebec City – Manageable ownership costs keep buyers in the game

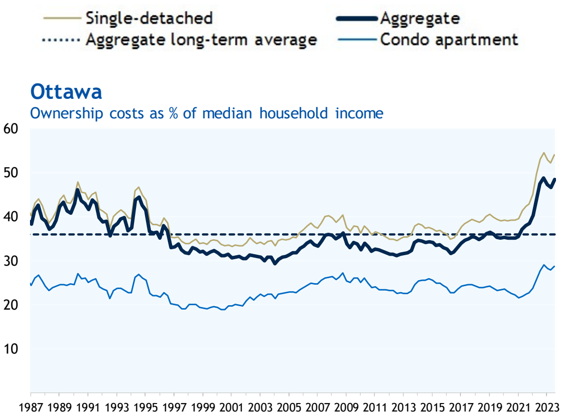
The market continues to be resilient in the face of high interest rates with transactions running above year-ago levels and generally low inventories keeping sellers in the driver's seat. Owning a home isn't as affordable as it used to be but is still manageable for average buyers. RBC's aggregate measure was 34.0% in the second quarter, which compares favourably to larger markets such as Montreal. That said, we think tight demand-supply conditions will limit the extent to which affordability can improve in the near term.

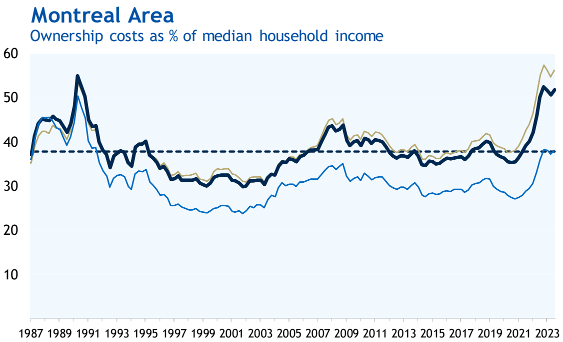
Atlantic Canada

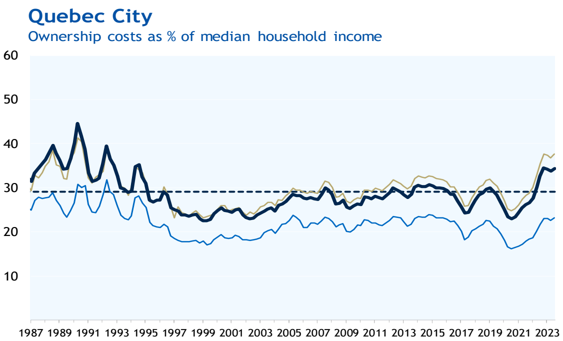
Saint John – Conditions are less hospitable but far from dire

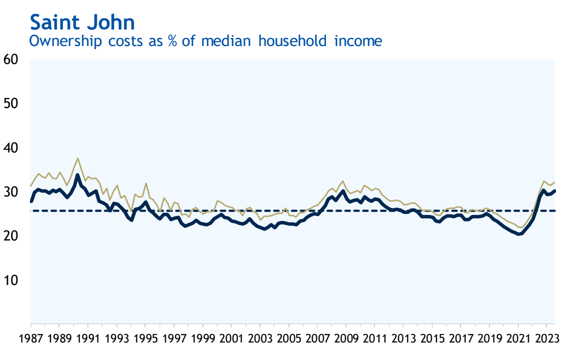
While the recovery from last year's sharp correction is ongoing, the action is quiet in Saint John's market. Home resales are down 26% year to date. The spike in ownership costs—due in part to a 56% jump in home prices—during the pandemic no doubt continues to sting potential buyers. But the situation isn't dire by any means. Saint John buyers still benefit from some of the better affordability conditions in the country. RBC's aggregate measure (29.8%) is bested by only St. John's (26.2%) and Regina (28.9%) among the markets we track. The measure was largely unchanged in the second quarter after improving slightly in the first. We think the market is poised to recover further in the period ahead, keeping prices on a upward trajectory.

RBC Housing Affordability Measures



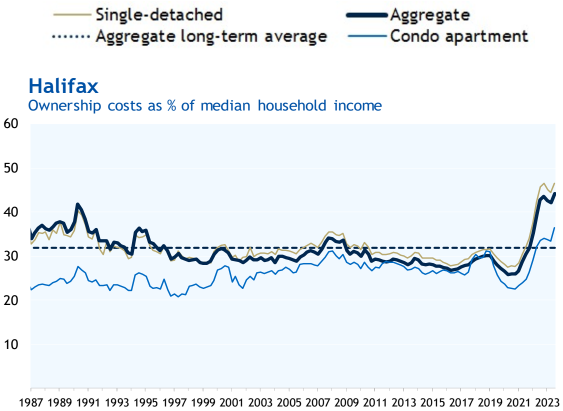


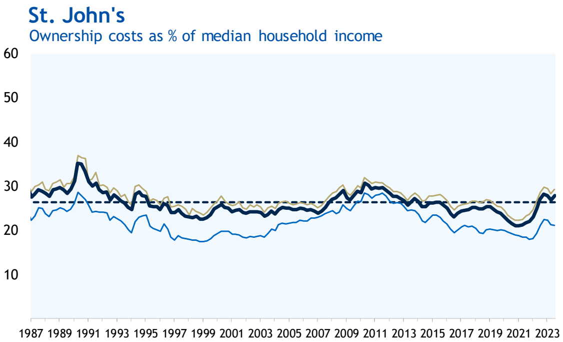




Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economics

RBC Housing Affordability Measures





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

Halifax – Some of the lustre has faded

The market is slumping this year after a wild (and historic) ride in the previous three. Part of the draw that attracted so many buyers—low housing costs—has lost some of its lustre. Housing affordability in Halifax is no longer one of the best among Canada's larger markets, as it was four years ago. RBC's aggregate measure for the area (42.1%) now ranks in the middle of the pack. For locals buyers, that's close to the biggest share of their income they ever needed to cover the costs of ownership. But the slump is also partly attributable to a lack of supply. New listings are down 21% so far this year. So despite the softness in sales, demand-supply conditions remain tight, and prices are going up.

St. John's – Good affordability an eye-catcher

The pace of transactions has picked up this summer and resales are now running more than 15% above pre-pandemic levels. St. John's is catching the eye of many buyers for its affordability. RBC's aggregate measure (26.2%) is the lowest (best) among the markets we track. And it's the one that improved the most (down 1.1 percentage points) in the second quarter. It will be hard to replicate in the period ahead, though. Supply is struggling to keep up with demand, and the market has become more competitive for buyers. Prices are now tracking higher and we expect this to continue 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			
	Q3 2023 ($)	Q/Q % ch.	Y/Y % ch.	Q3 2023 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	811,500	2.5	-0.9	**62.5**	2.7	2.5	41.3
Victoria	1,147,800	2.6	0.7	**76.1**	2.8	3.5	45.0
Vancouver area	1,450,400	3.4	2.7	**102.6**	4.4	6.5	59.9
Calgary	617,000	2.2	5.1	**47.6**	3.0	5.3	39.3
Edmonton	438,700	1.3	-2.9	**36.7**	2.0	2.1	33.0
Saskatoon	420,500	1.2	1.4	**35.7**	1.0	2.7	31.3
Regina	345,000	1.5	-2.6	**30.1**	0.8	1.3	26.7
Winnipeg	379,700	2.3	-4.1	**32.8**	1.2	0.1	29.2
Toronto area	1,241,600	3.1	0.0	**84.1**	4.2	4.1	49.9
Ottawa	694,000	2.0	-2.9	**48.4**	1.7	0.9	36.0
Montreal area	635,800	0.5	-1.3	**51.9**	1.3	1.8	37.8
Quebec City	389,500	0.3	1.6	**34.4**	0.7	1.8	29.1
Saint John	327,000	1.7	2.3	**30.2**	0.8	1.4	25.6
Halifax	575,500	2.1	0.5	**44.2**	2.1	1.5	31.8
St. John's	349,800	1.1	0.1	**27.9**	1.0	1.0	26.3

Single-family detached

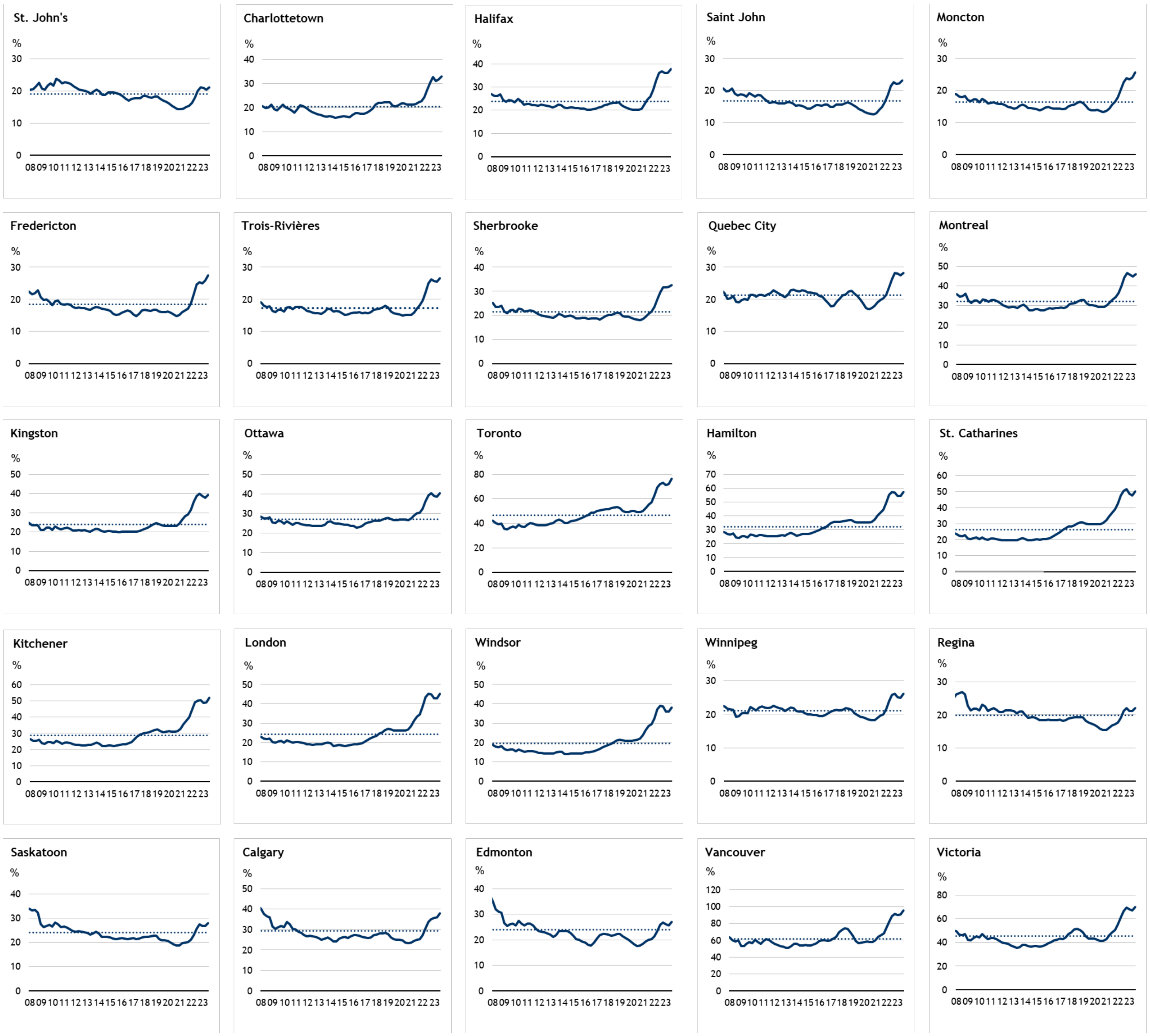
Market	Price			RBC Housing Affordability Measure			
	Q3 2023 ($)	Q/Q % ch.	Y/Y % ch.	Q3 2023 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	895,500	2.4	-0.8	**69.2**	3.0	2.9	44.0
Victoria	1,321,800	2.9	1.1	**87.3**	3.5	4.4	48.8
Vancouver area	2,005,200	3.8	2.9	**139.8**	6.7	9.2	72.1
Calgary	700,100	2.2	6.0	**53.7**	3.3	6.3	42.3
Edmonton	477,900	1.1	-2.9	**40.2**	2.2	2.4	34.8
Saskatoon	458,700	1.8	2.8	**39.2**	1.2	3.3	33.2
Regina	353,600	1.8	-3.2	**31.6**	0.9	1.2	28.0
Winnipeg	395,200	2.6	-3.8	**34.6**	1.2	0.0	30.4
Toronto area	1,525,700	2.8	0.3	**102.6**	4.8	5.4	58.1
Ottawa	769,700	1.7	-3.0	**54.0**	1.8	0.9	39.1
Montreal area	686,200	0.8	-2.6	**56.3**	1.5	1.3	38.6
Quebec City	421,200	0.5	2.0	**37.6**	0.8	2.1	29.8
Saint John	342,200	1.1	3.4	**32.1**	0.6	1.6	28.0
Halifax	599,600	1.9	-1.2	**46.6**	2.1	0.9	32.4
St. John's	358,500	0.9	-0.9	**29.2**	1.0	0.7	27.7

Condominium apartment

Market	Price			RBC Housing Affordability Measure			
	Q3 2023 ($)	Q/Q % ch.	Y/Y % ch.	Q3 2023 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	570,900	1.5	-1.1	**44.3**	1.6	1.7	33.2
Victoria	624,900	0.6	-5.9	**42.9**	0.7	-0.7	31.7
Vancouver area	774,600	1.3	1.7	**56.8**	1.3	2.9	39.5
Calgary	290,600	2.0	6.0	**25.6**	1.6	3.0	25.5
Edmonton	218,100	-0.2	-6.0	**21.1**	1.0	0.9	21.5
Saskatoon	204,200	-0.6	-8.9	**19.3**	0.2	-0.1	19.6
Regina	217,000	0.6	2.3	**19.8**	0.4	1.5	20.3
Winnipeg	237,200	-0.6	-7.8	**21.2**	0.2	-0.7	22.5
Toronto area	688,300	2.0	-3.8	**48.0**	1.9	0.7	31.9
Ottawa	399,900	1.2	-1.1	**28.7**	0.9	0.9	23.8
Montreal area	465,500	0.1	0.5	**38.0**	0.7	1.8	31.4
Quebec City	262,200	1.0	2.7	**23.2**	0.6	1.5	22.2
Saint John	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
Halifax	481,400	6.3	5.8	**36.4**	2.9	2.8	26.1
St. John's	266,000	-4.6	-4.6	**21.1**	-0.2	0.0	22.2

Mortgage carrying costs by city

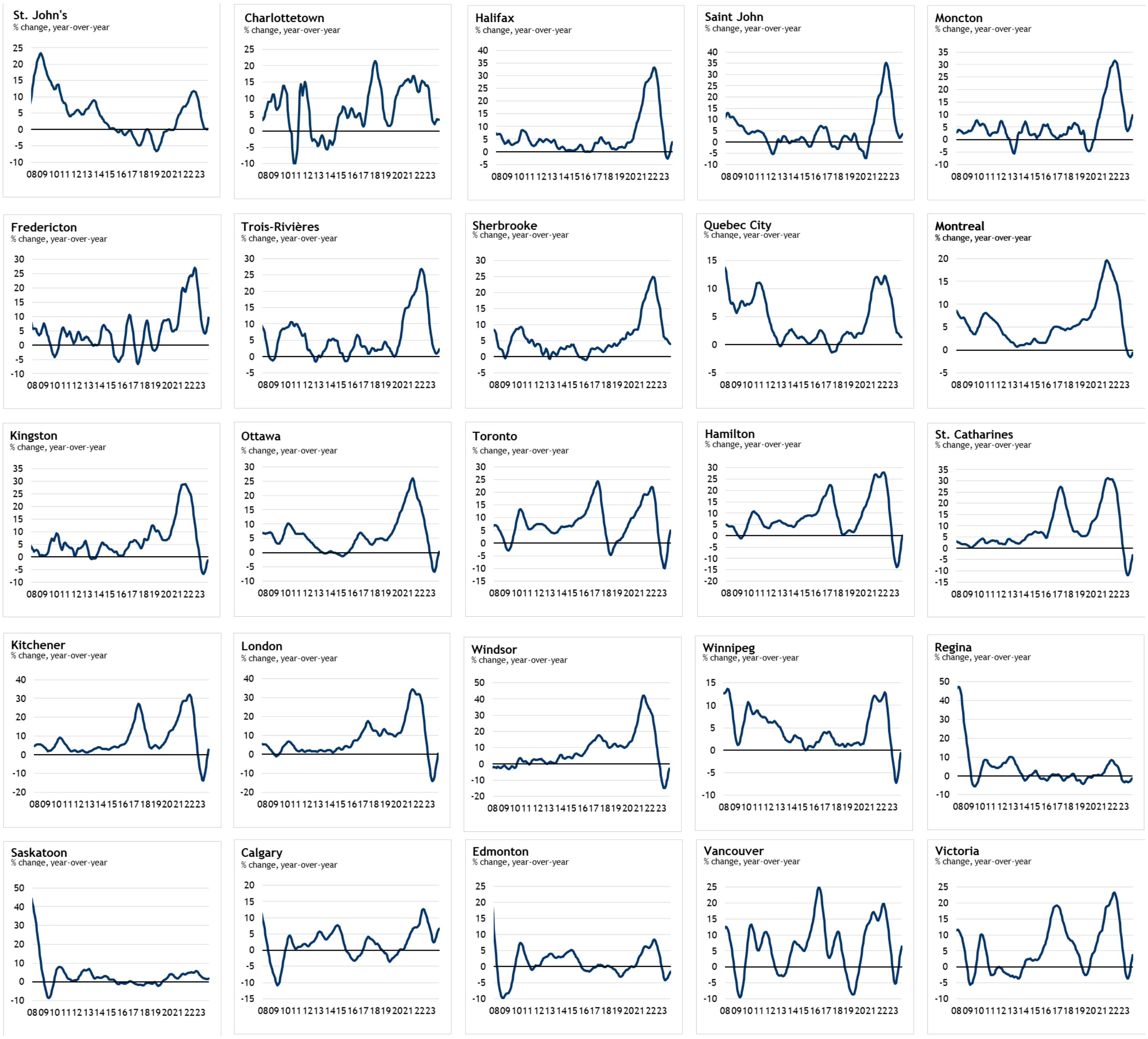
Our standard RBC Housing Affordability Measure captures the proportion of median pre-tax household income required to service the cost of a mortgage on an existing housing unit at market prices, including principal and interest, property taxes and utilities; the modified measure used here includes the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

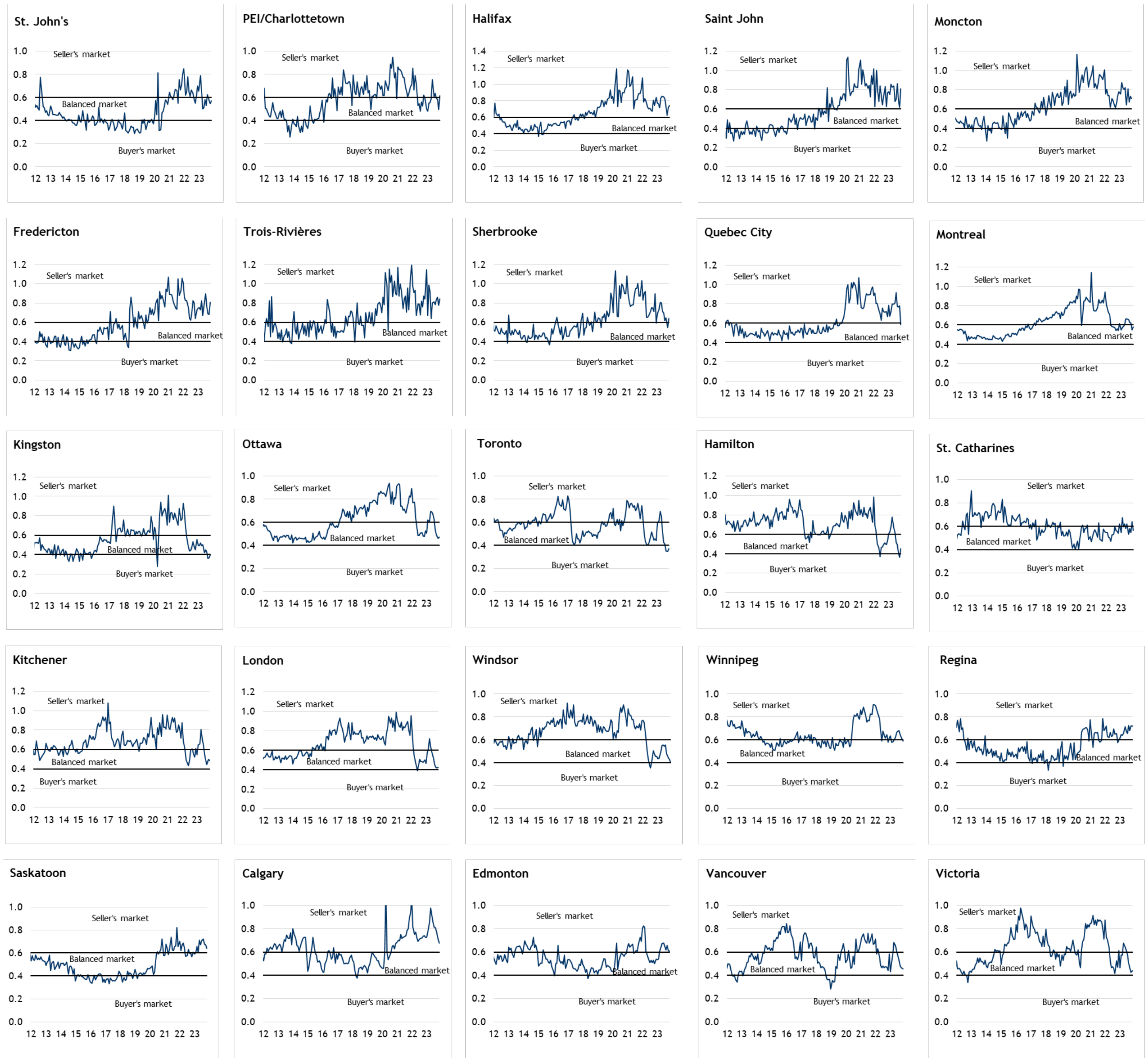
Source: RPS, Statistics Canada, Bank of Canada, RBC Economics

Aggregate home price



Source: RPS, RBC Economics

Home sales-to-new listings ratio



Source: Canadian Real Estate Association, RBC Economics