

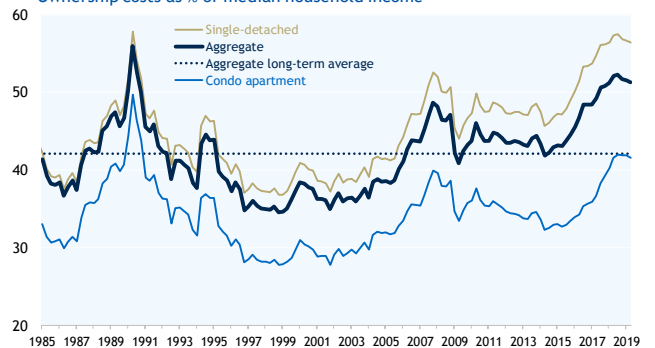
HOUSING TRENDS AND AFFORDABILITY

September 2019

More (modest) affordability relief for Canadian homebuyers

- **RBC's housing affordability measure improved for a third-consecutive quarter**, easing by 0.2 percentage point in the second quarter to 51.3%. Yet the 1.0 percentage-point drop since late-2018 reversed only a fraction of the deterioration in the previous three years.
- **Western Canada accounted for most of the relief**, thanks to further home price declines in the region. Housing affordability eroded in a few markets in Central and Atlantic Canada, including Ottawa and Toronto, but was unchanged in Montreal and Halifax.
- **Sky-high ownership costs in Vancouver, Toronto and Victoria skew the national picture.** Costs are moderately stretching buyers' budgets in Montreal and Ottawa but remain affordable everywhere else.
- **Near-term outlook is positive.** We expect low interest rates, continuing price declines in Western Canada and rising household income to keep RBC's national measure on an improving track in the period ahead.

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



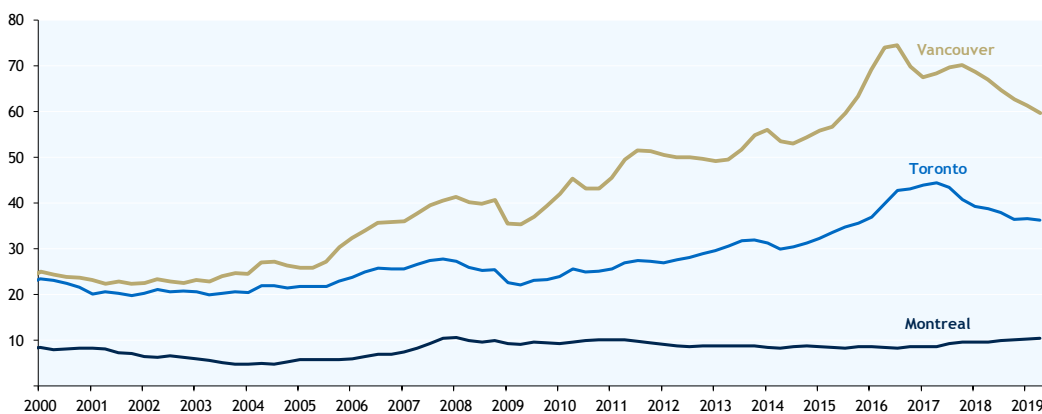
The share of income a household would need to cover ownership costs (in %)

Canada	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal
51.3	79.5	38.9	33.6	66.3	41.7	44.5

Second quarter 2019

Affordability gap narrows between single-detached and condos in Toronto and Vancouver

Difference in the affordability measures of single-detached homes and condos, in percentage points



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

Housing correction partly restored single-detached homes' relative affordability

The gap in affordability has narrowed between the most and least affordable housing categories in Canada. That's because the recent market downturn hit the more expensive properties in Vancouver and Toronto hardest. The price for a single-detached homes fell almost 9% in Vancouver and more than 4% in Toronto since the peak in 2017. Condo prices, on the other hand, declined only 5% in Vancouver and



not at all in Toronto. In fact, condo values have kept going up in the Greater Toronto Area, with only the rate of increase slowing. This hardly means that single-family homes have become bargains. They're still a wide stretch for most Canadians living the country's biggest cities. And they're still a huge step-up above condos, cost-wise. In Vancouver, an average household would need to spend an extra 60% of their income to buy a single-detached home compared to owning a condo (49.2%). That's down from a high of 74% in mid-2016. In Toronto, the single-detached home cost 'premium' has shrunk from 44% in 2017 to a still-elevated 36% in the second quarter of 2019. This compares to just 11% in Montreal where the premium has remained quite stable over the past decade. While the partial restoration of relative single-family home affordability in Vancouver and Toronto has been a positive development, it will do little to alter recent housing demand dynamics. We continue to expect large numbers of homebuyers—especially those in the market for the first time—to be drawn to the condo segment as the less affordable single-detached home category remains out of their reach.

Price declines in Western Canada was the main story in Q2

The third-straight affordability improvement in Canada in the second quarter once again had a distinct western tilt. Home price declines in markets in British Columbia, Alberta and Saskatchewan were the principal factor driving down RBC's nationwide aggregate affordability measure by 0.2 percentage points to 51.3% (a drop in the measure represents an improvement in affordability). Despite early signs of a turnaround in activity, demand-supply conditions have been quite soft until recently in many Western Canadian markets, which kept property values under downward pressure. Generally stronger market conditions in Central Canada have led to some slight deterioration in housing affordability in the region. The market recovery in the Toronto area has gained momentum and supported a gradual price acceleration. Brisk activity in Ottawa and Montreal has kept demand-supply conditions very tight and price gains solid. Rising ownership costs were matched by household income gains in Montreal, however, leaving the area's aggregate affordability measure unchanged in the second quarter. Atlantic Canada's picture remains attractive overall. Strong market conditions and property appreciation slightly eroded housing affordability in Saint-John (still the best among the markets that we track). RBC's affordability measure was unchanged in Halifax, following two consecutive quarterly declines. And the continuing slump in St. John's market drove ownership costs further down.

More affordability relief in store

We believe there's room for further incremental easing in home ownership costs in Canada in the near term, with the improvement still concentrated in the West. Declines in interest rates this year in the face of global trade uncertainty will help contain mortgage carrying costs at a time when households' income picture is brightening. Tight labour markets across most of Canada are now generating stronger wage gains. And despite the recovery in Canada's housing market gathering momentum overall, we expect downward price pressure sticking around a little longer in many western Canadian markets due to their earlier recovery stage. All in all, these factors should extend the period of affordability relief into the late-2019. Prospective homebuyers in more vibrant markets—including Ottawa, Montreal, and increasingly, Toronto—may not get much, if any reprieve, however.



British Columbia

Victoria – Affordability still improving... for now

Slightly declining property values (mainly for single-detached homes) restored some breathing room for Victoria homebuyers in the second quarter though not much. RBC’s aggregate affordability measure eased for a fourth-straight quarter by 1.2 percentage points to 57.8%. Yet it’s still the third-worst level among the markets we track. And with Victoria’s housing market now in recovery mode and demand-supply conditions tightening markedly since spring, prices are poised to stabilize or start rising modestly again soon. This could spell the end for the improvement in affordability in the period ahead.

Vancouver area – Strain is easing but buyers aren’t cheering yet

Vancouver recorded another big drop in ownership costs in the second quarter. RBC’s aggregate measure fell 2.4 percentage points, marking a slight acceleration from the average 2.1% decline in the previous three quarters. Potential buyers are unlikely to celebrate, though. The ownership bar is still extraordinarily high in the area. Owning an average home at current prices took up a jaw-dropping 79.5% of a typical household’s income. Extremely poor affordability is among key factors weighing on the market. While activity has bottomed out at decade-low levels this spring and is now recovering modestly, property values remain under heavy downward pressure at this stage.

Alberta

Calgary – Affordability won’t stand in the recovery’s way

Owning a home got a little more affordable in Calgary this year. Not that affordability was major issue to begin with. RBC’s aggregate measure has been near or below its long-term average over most of the past decade. RBC’s measure fell back-to-back in the first and second quarters to 38.9%. Soft demand-supply conditions amid turbulence in Alberta’s energy sector have kept property values on a slight downward track. Early signs of a market turnaround have appeared this summer and bode well for prices to stabilize later this year.

Edmonton – Soft economy matters more than affordability

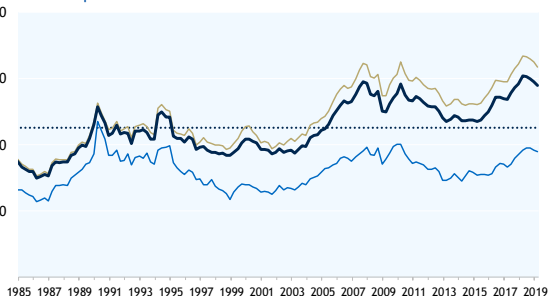
Similar market dynamics have been at play in Edmonton and produced comparable affordability results. RBC’s aggregate measure eased for the second-straight quarter by 0.7 percentage points to 33.6%—just a tad under the 34.1% long-term average. As in Calgary, economic conditions likely matter more than affordability issues for buyers. ‘Green shoots’ also emerged in Edmonton this summer. Home resales rose 8.6% in the second quarter and are poised to rise further in the third quarter. We expect home prices to stabilize as market slack is used up.

RBC Housing Affordability Measures

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

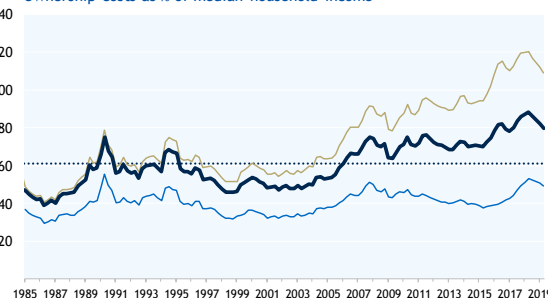
Victoria

Ownership costs as % of median household income



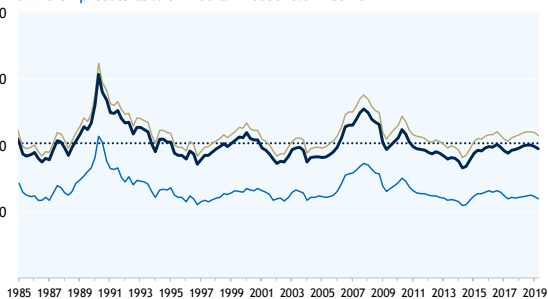
Vancouver Area

Ownership costs as % of median household income



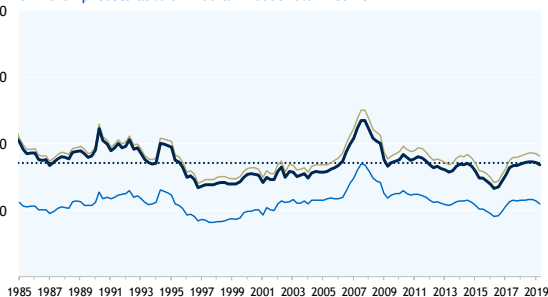
Calgary

Ownership costs as % of median household income



Edmonton

Ownership costs as % of median household income



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

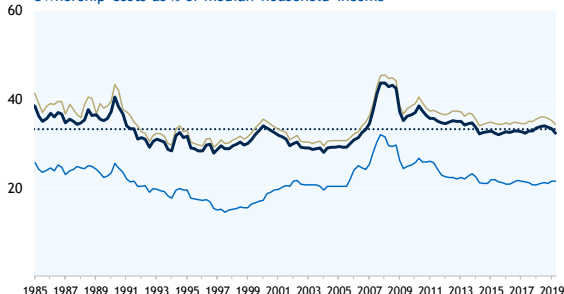


RBC Housing Affordability Measures

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

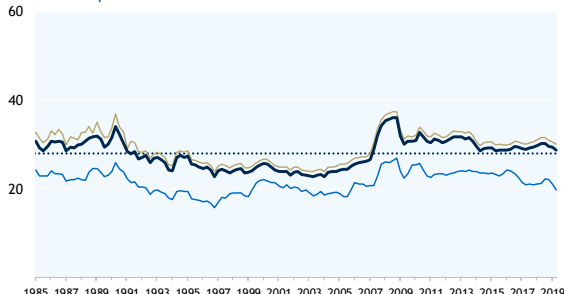
Saskatoon

Ownership costs as % of median household income



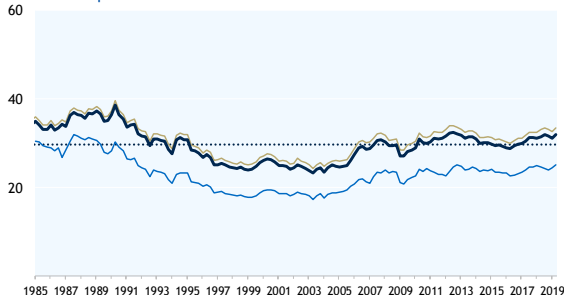
Regina

Ownership costs as % of median household income



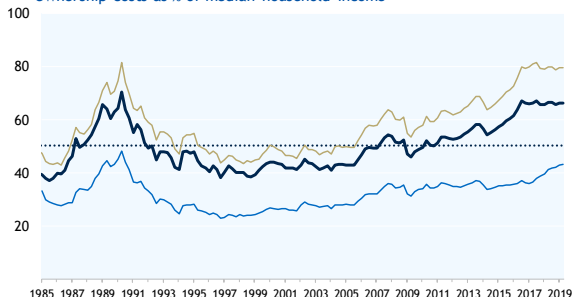
Winnipeg

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 – Lower prices further brightens affordability picture

The affordability picture got slightly more attractive in Saskatoon. RBC’s aggregate measure edged lower for a third-straight quarter to 32.3%. This is marginally lower than the long-run average of 33.1%. Despite demand-supply conditions returning to balance this year, home prices have yet to stabilize. Odds are that they will soon. Resale activity has picked up this year, so far rising 4.6% from a year ago.

Regina – Still the best affordability in the West

Much the same is going on in Regina where housing affordability remains the best in the West. RBC’s measure fell 0.7 percentage points to 28.7% on further price weakness. Downward price pressure has yet to lift since resales reached a 12-year low last year. A sharp drop in unsold inventories since spring and higher home resale levels, however, should firm up demand-supply conditions and stabilize prices in the period ahead.

Manitoba

Winnipeg – Bucking the trend

Winnipeg is the only market we track in Western Canada where affordability deteriorated (albeit just a touch) in the second quarter. RBC’s aggregate measure rose 0.8 percentage points to 31.9%. This followed two consecutive quarters of declines so the level is still close to the long-run average—suggesting that affordability pressures aren’t out of historical norms. The Winnipeg market is rebounding from 6% drop in activity last year. This has tightened up demand-supply conditions by some degree, which contributed to stem a brief period of price decline. Prices rose by 1.6% in the second quarter.

Ontario

Toronto area – Ownership costs are still steep

Thanks to the last two years’ housing correction, home ownership costs aren’t taking a rapidly increasing share of household income anymore in the Toronto area. But they aren’t declining either. RBC’s aggregate measure has been stuck near record high levels since 2017, including in the second quarter when it rose only marginally by 0.1 percentage points to 66.3%. The odds of a material improvement are low in the period ahead. Current trends—the steady recovery in market activity, drawdown in inventories and gradual heating up of property values—in fact, argue for further slight deterioration. This will be disappointing news to buyers who will continue to face some of the steepest ownership costs in the country.



RBC Housing Affordability Measures

Ottawa – Housing boom takes a toll on affordability

Ottawa’s housing market continues to heat up and it’s taking a growing toll on affordability. RBC’s aggregate measure reached a 25-year high of 41.7% in the second quarter, increasing for the 11th time in the past 12 quarters. Strong demand and very tight demand-supply conditions have led to some of the stronger price gains in Canada over the past couple of years. We see little that would change that picture in the near term. For now, affordability considerations aren’t holding back Ottawa homebuyers though that could change if the market heats up further.

Quebec

Montreal area – Income gains stem the erosion in affordability

As Montreal’s housing market continues to roar ahead and properties get pricier, the solid local economy is helping homebuyers get by. Income growth has recently matched the rise in home ownership costs, which has steadied the share of a household’s budget needed to cover the costs of owning a home. Despite properties appreciating at one of the faster rates in Canada, RBC’s aggregate measure has been flat in the past three quarters. Still, this followed a steady rise since 2015 and the current 44.5% reading is well above the long-run average of 38.6%. It’s no doubt stretching the limits of many buyers.

Quebec City – Plenty of positives, including low ownership costs

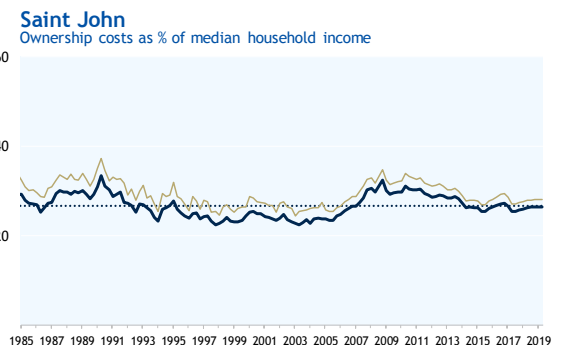
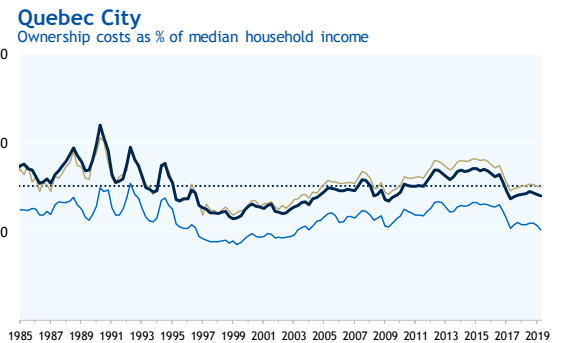
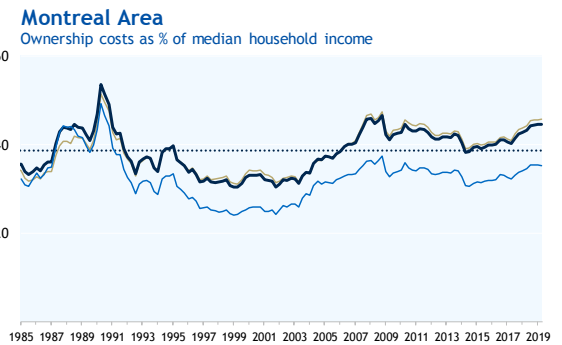
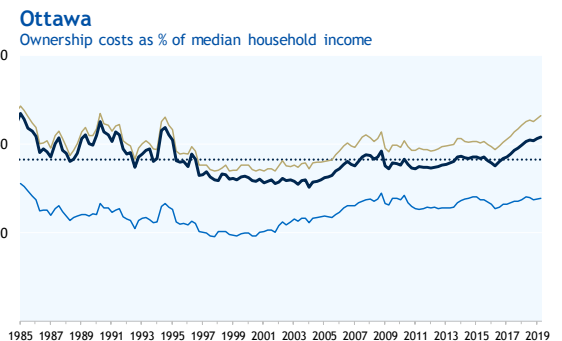
Quebec City buyers have it pretty good. Home prices are low relative to most markets we track and not going anywhere because there’s plenty of inventory. And the area’s hot job market is leading to nice income gains. These factors have given way to a noticeable improvement in already-attractive affordability over the past year. This was the case again in the second quarter when RBC’s aggregate measure eased a further 0.4 percentage points to 29.1%. Market activity has maintained solid momentum this year and we see little to slow it down in the near term.

Atlantic Canada

Saint John – No worries here

Saint John is one of the most under-appreciated markets in Canada. It’s long been the most affordable market we track. RBC’s aggregate measure for the area was little changed in the second quarter at 26.4%—the lowest among 14 markets. Activity is on a multi-year upswing with resales rising by almost 11% so far this year. Demand-supply conditions are a little tight, which sustains modest price increases. And the labour market is healthy thanks to solid employment gains and a drop in the jobless rate recorded this year. These elements should continue to underpin the market in the period ahead.

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



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

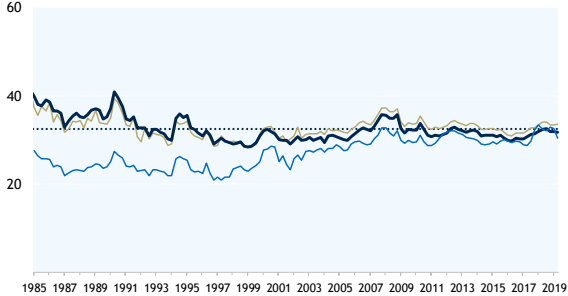


RBC Housing Affordability Measures

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

Halifax

Ownership costs as % of median household income

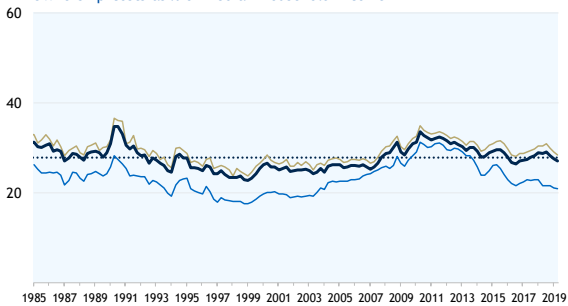


Halifax – Affordability stable despite market heat

Affordability isn't a big story in the Halifax area. Ownership costs take up a normal share of a household's income (by Halifax's standards) and that share has been quite stable. RBC's aggregate measure was unchanged at 31.8% in the second quarter, just marginally below the long-run average of 32.5%. Homebuyers are more likely to take their cues from the strong labour market (impressive job creation and lowest unemployment rate in a decade earlier this year) and accelerating population growth. Alongside Ottawa and Montreal, Halifax has been one of the hotter markets in Canada in the past year.

St. John's

Ownership costs as % of median household income



St. John's – Market revival has yet to drive up ownership costs

Home ownership costs continue to fall in St. John's despite signs that slumping home resale activity is finally turning a corner. RBC's aggregate measure has declined for three consecutive quarters by a total of 2 percentage points, including 0.5 percentage-point drop to 27.1% in the second quarter. It's been encouraging to see home resales beginning to recover (up nearly 4% over the first eight months of 2019) from the 12-year low point reached in 2018. Supply remains high relative to demand, though, which maintains intense downward price pressure. The firming up of labour market conditions bodes well for further growth in homebuyer demand 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 service the cost of mortgage payments (principal and interest), property taxes, and utilities based on the average 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.

Current home prices are sourced from RPS, and established from sales prices from monthly transactions, which are filtered to remove extreme values and other outliers.

The aggregate of all categories includes information on prices for housing styles not covered in this report (semi-detached, row houses, townhouses and plexes) in addition to prices for single-family detached homes and condominium apartments. In general, single-family detached homes and condo apartments represent the bulk of the owned housing stock across Canadian markets.

The affordability measures are based on a 25% down payment, a 25-year mortgage loan at a five-year fixed rate, and are estimated on a quarterly basis for 14 major urban markets in Canada and a national composite. The measures use household income rather than family income to account for the growing number of unattached individuals in the housing market. The measure is based on quarterly estimates of this annual income, created by annualizing and weighting average weekly earnings by province and by urban area. (Median household income is used instead of the arithmetic mean to avoid distortions caused by extreme values at either end of the income distribution scale. The median represents the value below and above which lays an equal number of observations.)

The RBC Housing Affordability Measure is based on gross household income estimates and, therefore, does not show the effect of various provincial property-tax credits, which could alter relative levels of affordability.

The higher the measure, the more difficult it is to afford a home. For example, an affordability measure of 50% means that home ownership costs, including mortgage payments, utilities, and property taxes take up 50% of a typical household's pre-tax income.

Summary tables

Aggregate of all categories							
Market	Price			RBC Housing Affordability Measure			
	Q2 2019 (\$)	Q/Q % ch.	Y/Y % ch.	Q2 2019 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	563,400	0.9	0.4	51.3	-0.2	-0.8	42.1
Victoria	780,900	-0.2	-2.1	57.8	-1.2	-2.9	45.2
Vancouver area	1,043,700	-1.3	-8.0	79.5	-2.4	-8.8	61.0
Calgary	491,300	-0.4	-3.0	38.9	-0.8	-1.1	40.6
Edmonton	393,000	-0.5	-3.2	33.6	-0.7	-0.8	34.1
Saskatoon	356,000	-1.3	-3.0	32.3	-0.9	-1.5	33.1
Regina	316,100	-0.6	-3.7	28.7	-0.7	-1.6	28.0
Winnipeg	310,600	1.6	1.4	31.9	0.8	0.4	29.6
Toronto area	863,200	1.6	1.7	66.3	0.1	-0.2	50.2
Ottawa	455,400	2.8	5.7	41.7	0.5	1.1	36.4
Montreal area	431,600	1.6	7.1	44.5	0.0	1.2	38.6
Quebec City	298,300	0.1	1.7	28.1	-0.4	-0.5	30.3
Saint John	224,800	2.8	6.2	26.4	0.1	0.1	26.7
Halifax	323,600	0.3	0.9	31.8	0.0	-0.7	32.5
St. John's	286,900	-0.8	-6.8	27.1	-0.5	-1.6	27.8

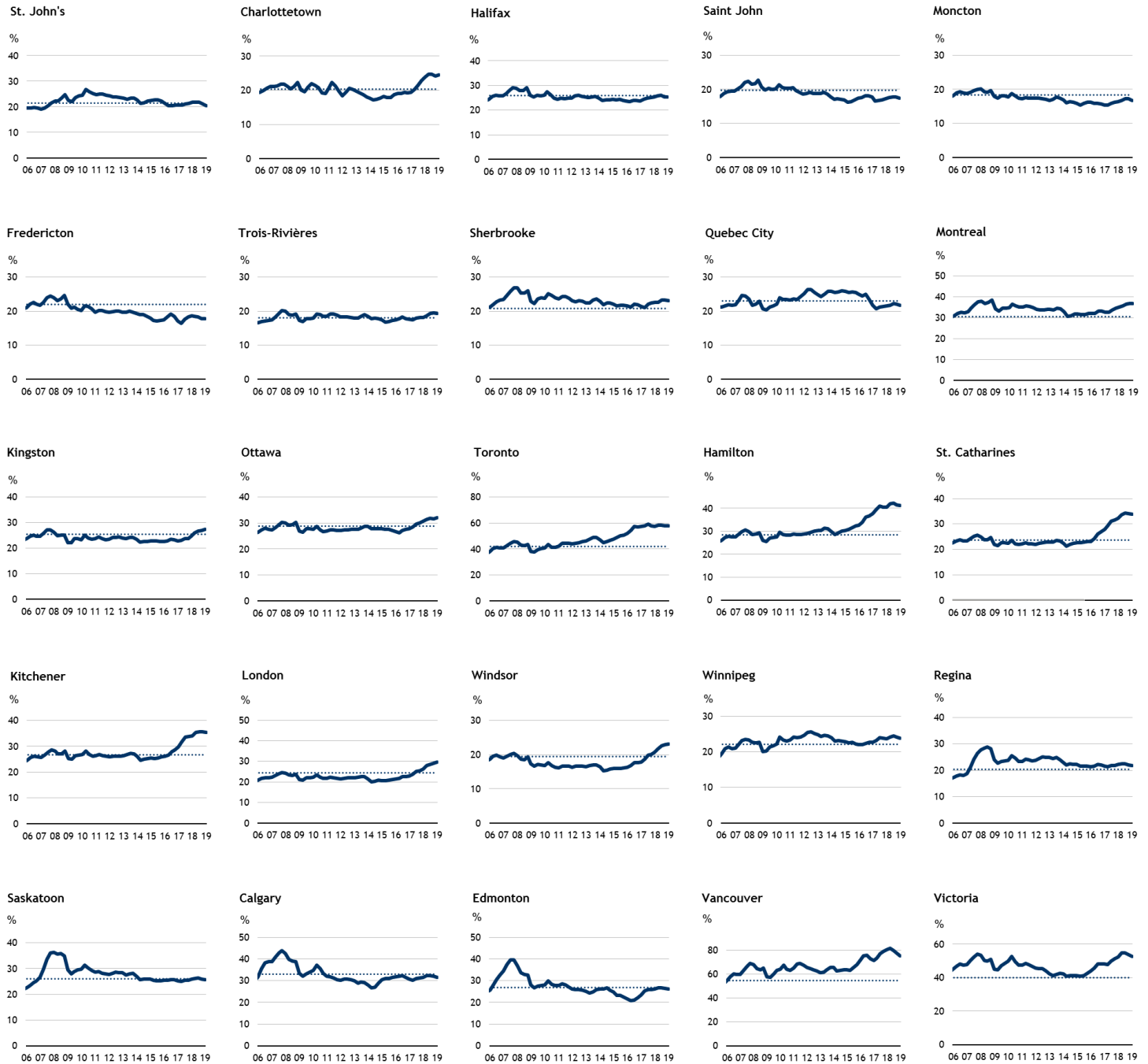
Single-family detached							
Market	Price			RBC Housing Affordability Measure			
	Q2 2019 (\$)	Q/Q % ch.	Y/Y % ch.	Q2 2019 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	617,400	0.9	0.4	56.4	-0.3	-0.9	44.9
Victoria	857,600	-0.7	-2.1	63.5	-1.5	-3.2	48.4
Vancouver area	1,455,900	-1.2	-7.2	108.9	-3.2	-11.2	72.9
Calgary	542,300	-0.4	-2.8	42.9	-1.0	-1.1	43.6
Edmonton	421,200	-0.3	-2.7	36.3	-0.6	-0.6	36.0
Saskatoon	370,000	-1.1	-3.4	34.2	-0.9	-1.6	34.9
Regina	320,900	-0.3	-3.9	30.0	-0.6	-1.6	29.3
Winnipeg	317,600	2.0	0.8	33.3	0.8	0.2	30.8
Toronto area	1,043,200	1.5	1.6	79.6	0.2	-0.3	58.0
Ottawa	501,900	3.3	6.3	46.4	0.6	1.4	39.5
Montreal area	435,200	1.9	7.9	45.8	0.2	1.6	38.6
Quebec City	311,400	0.6	2.3	30.0	-0.3	-0.4	31.1
Saint John	232,800	2.8	7.1	28.1	0.1	0.2	29.3
Halifax	337,000	1.1	2.2	33.6	0.1	-0.5	32.8
St. John's	294,100	-1.3	-7.7	28.4	-0.7	-2.0	29.2

Condominium apartment							
Market	Price			RBC Housing Affordability Measure			
	Q2 2019 (\$)	Q/Q % ch.	Y/Y % ch.	Q2 2019 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	464,200	0.7	2.4	41.6	-0.3	0.0	34.2
Victoria	497,900	0.5	1.8	37.9	-0.5	-0.5	32.2
Vancouver area	626,700	-1.5	-5.4	49.2	-1.5	-3.9	40.2
Calgary	277,600	-1.5	-4.0	23.9	-0.8	-0.8	26.8
Edmonton	236,900	-4.0	-8.4	21.8	-1.0	-1.3	22.4
Saskatoon	227,900	2.7	6.2	21.5	0.1	0.6	21.6
Regina	210,900	-6.5	-7.2	19.8	-1.3	-1.5	21.5
Winnipeg	247,900	2.0	2.1	25.0	0.6	0.4	23.1
Toronto area	555,400	2.5	8.1	43.3	0.4	2.1	32.0
Ottawa	303,200	2.0	0.8	27.7	0.1	-0.3	24.5
Montreal area	346,600	1.1	5.9	35.3	-0.1	0.7	32.5
Quebec City	221,700	-4.3	-3.2	20.4	-1.0	-1.1	23.2
Saint John	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Halifax	326,900	-7.2	-3.9	30.4	-2.1	-2.0	27.0
St. John's	225,700	0.5	-3.1	21.0	-0.2	-0.7	23.3



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 25% 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, Royal LePage, RBC Economics



Aggregate home price

St. John's
% change, year-over-year



Charlottetown
% change, year-over-year



Halifax
% change, year-over-year



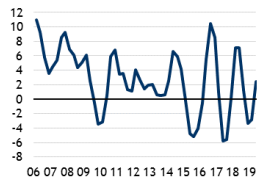
Saint John
% change, year-over-year



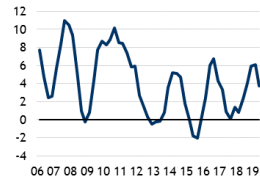
Moncton
% change, year-over-year



Fredericton
% change, year-over-year



Trois-Rivières
% change, year-over-year



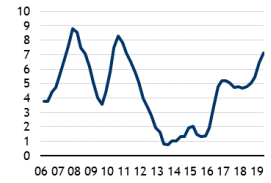
Sherbrooke
% change, year-over-year



Quebec City
% change, year-over-year



Montreal
% change, year-over-year



Kingston
% change, year-over-year



Ottawa
% change, year-over-year



Toronto
% change, year-over-year



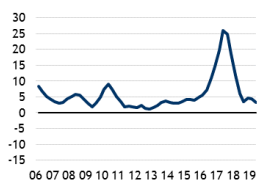
Hamilton
% change, year-over-year



St. Catharines
% change, year-over-year



Kitchener
% change, year-over-year



London
% change, year-over-year



Windsor
% change, year-over-year



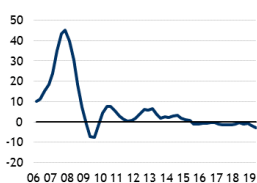
Winnipeg
% change, year-over-year



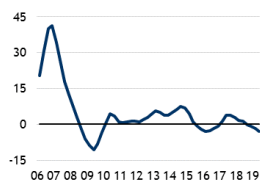
Regina
% change, year-over-year



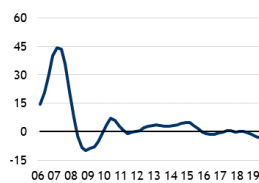
Saskatoon
% change, year-over-year



Calgary
% change, year-over-year



Edmonton
% change, year-over-year



Vancouver
% change, year-over-year



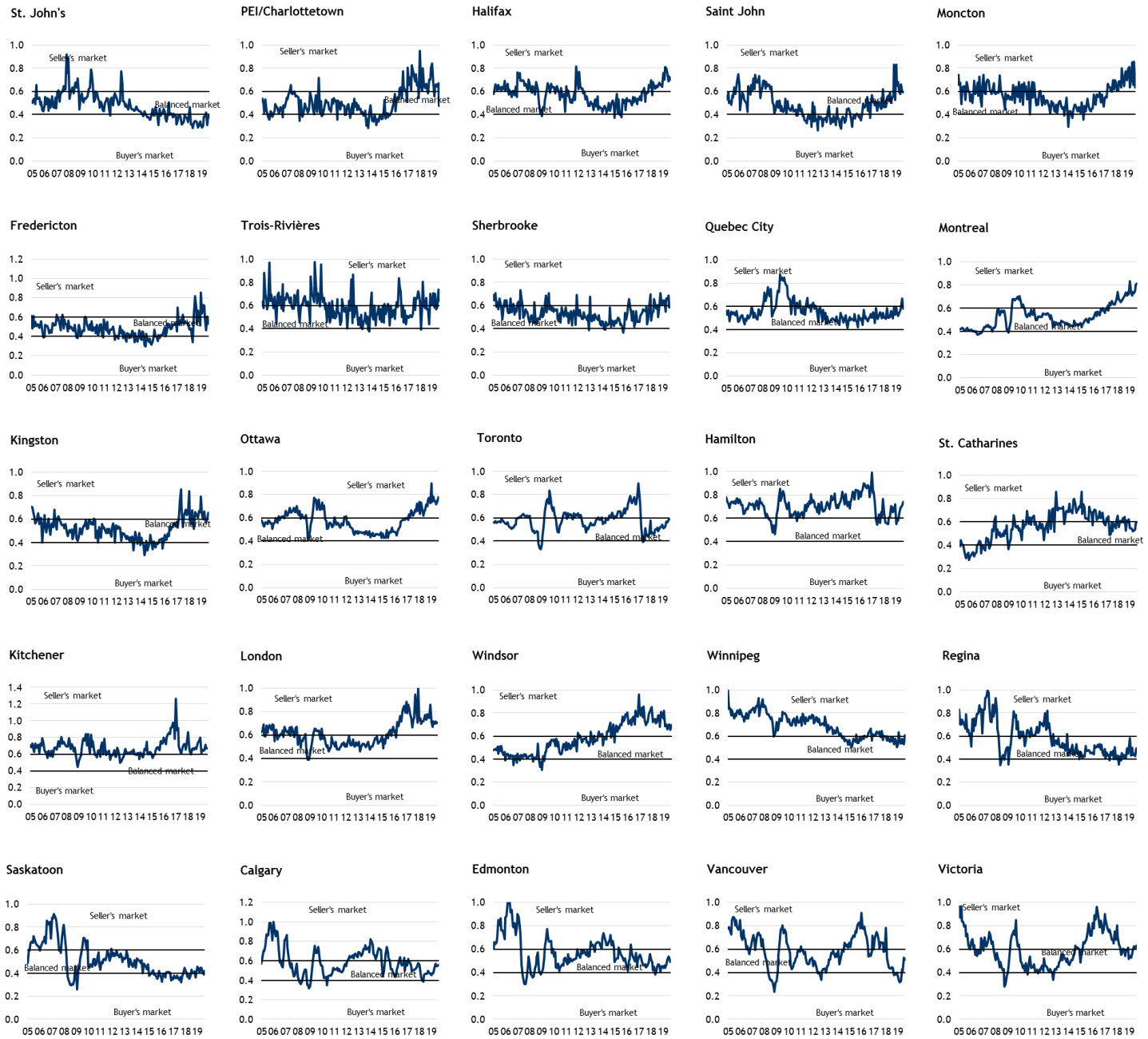
Victoria
% change, year-over-year



Source: RPS, RBC Economics



Home sales-to-new listings ratio



Source: Canadian Real Estate Association, RBC Economics

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