

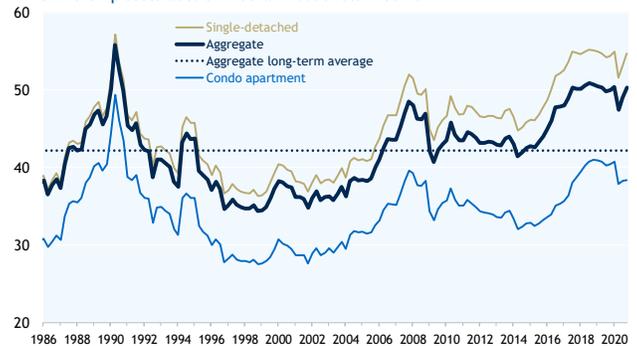
HOUSING TRENDS AND AFFORDABILITY

March 2021

Canada's housing market heat strains affordability

- Soaring home prices rolled back earlier affordability gains:** Red-hot markets led to a second-straight jump in RBC's national aggregate measure, up 1.3 percentage points to 50.3%—effectively back to where it stood before the pandemic.
- Ownership costs rose in all regions in the fourth quarter:** Toronto, Ottawa, Vancouver and Montreal recorded the largest increases among the markets we track.
- Prairies, Atlantic Canada still relatively affordable:** These markets maintained attractive positions despite some deterioration over the second half of 2020. Affordability issues are most acute in high-priced Vancouver, Toronto and Victoria.
- The near-term outlook is grim for home buyers:** Further price escalation in the early months of 2021 has made their prospects even more challenging. Smaller markets are losing some of their affordability advantage, which adds stress to buyers willing to move to a different town to find a home they can afford. Condo apartments remain the more viable option for many though we see upward price pressure building later this year.

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



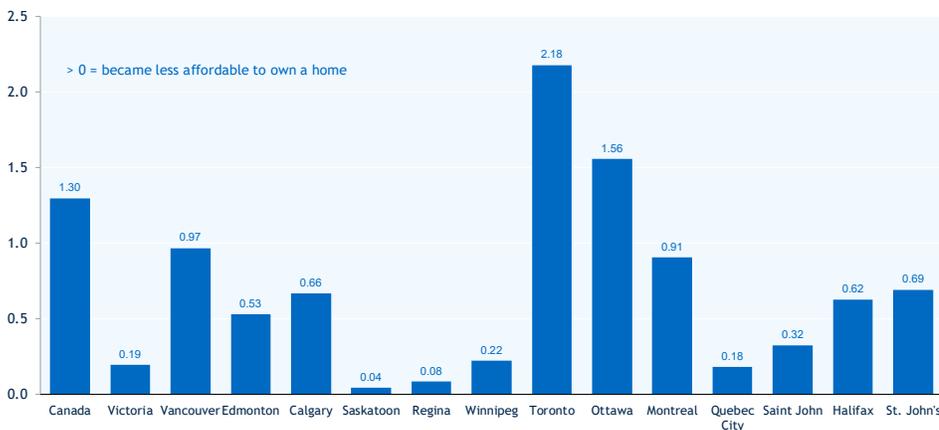
The share of income a household would need to cover ownership costs (in %)

Canada	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal
50.3	78.8	37.2	30.4	67.6	40.0	43.5

Fourth quarter 2020

It became less affordable to own a home in every market in Q4

Change in RBC's aggregate affordability measure between Q3 and Q4 of 2020, in percentage points



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

Broad-based erosion

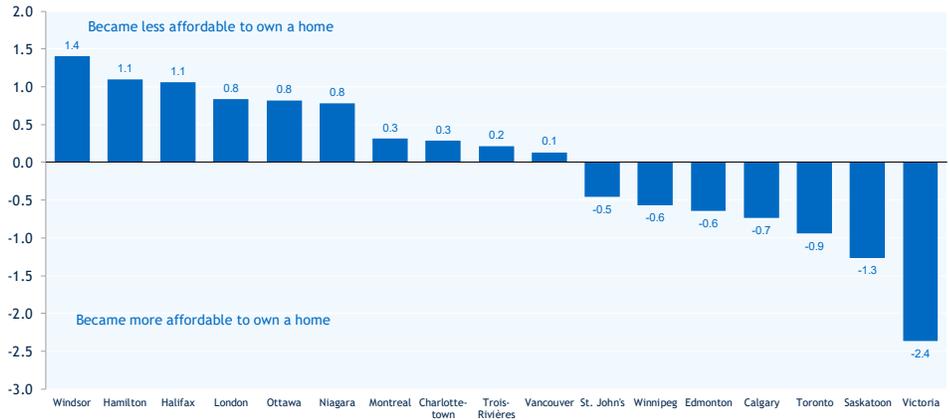
The housing fever that struck Canada last summer took a widespread, albeit uneven toll on affordability across the country in the fourth quarter. RBC's affordability measure rose in all markets we track (an increase represents a loss of affordability). Toronto, Ottawa, Vancouver and Montreal recorded the most significant deterioration, as super-tight demand-supply conditions propelled property values at the fastest rates in years. The worsening was slighter in parts of the Prairies and Atlantic Canada, however. Upward price pressures were less intense in these regions despite sellers firmly in the driver's seat. The pandemic caused a surge of interest for properties with larger



living spaces. This ultimately pumped up the price for single-detached homes—already in short supply in many parts of Canada prior to the pandemic—making it less affordable to buy them. RBC's measure for single-detached homes surged 1.4 percentage points to 54.7% in the fourth quarter. Condo apartment affordability, on the other hand, remained little changed for the most part with some markets seeing a small improvement. Condo prices slipped in Toronto, Vancouver, Edmonton and a few other markets in the face of plentiful inventories. RBC's national condo measure inched 0.1 percentage points higher to 38.4%.

Affordability worsened in many smaller markets during the pandemic

Change in mortgage carrying costs to household income ratio between Q1 and Q4 2020, in percentage points



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

Pandemic has narrowed smaller markets' affordability advantage

The search for larger living spaces, and reduced attachment to live in, or near, core urban areas took many buyers to smaller, more affordable markets. This spread the housing fever around, such that these usually calmer markets recorded some of the larger price increases—narrowing their affordability advantage over big cities. Since the pandemic, mortgage carrying costs have increased more as a share of household income in Windsor, Hamilton, Halifax and London than in Vancouver, Toronto or Montreal. Toronto's ratio, in fact, is still below pre-pandemic levels, despite rising in the fourth quarter.

Majority of major markets still within historical norms

With ownership costs rising in all markets last quarter, the relative affordability picture remained little changed. The most affordable markets in the country are found in Atlantic Canada and the Prairie Provinces. Saint John (with an RBC aggregate measure of 23.1%), St. John's (24.2%) and Regina (26.1%) continue to get top grades. Vancouver (78.8%), Toronto (67.6%) and Victoria (55.3%), on the other hand, get the poorest scores. All three are Canada's priciest markets. Following years' long erosion, Montreal (43.5%) and Ottawa (40.0%) now pose a higher degree of strain for buyers—though not extreme. Affordability in all other markets we track is near historical norms or better.

Market frenzy to keep things challenging for buyers

The pandemic—and the policies put forward to overcome its economic impact—really cranked up the heat on Canada's housing market. It's now overheating in many parts of the country with property values soaring beyond historical norms. With demand so strong and inventories so low (with some exceptions), odds are prices will continue to rise in the near term, driving up ownership costs alongside. We expect affordability pressures to build further—possibly significantly more. Rapid price escalation in smaller markets will make buyers' pursuit of a home they can afford even more challenging.



British Columbia

Victoria – Ownership costs bouncing back up

The market rally gathered more steam in the fourth quarter resulting in a second consecutive quarterly deterioration in housing affordability. Still conditions were they were a year ago. RBC's aggregate measure stood at 55.3%—the third highest score among the markets we track though down a nation-leading 2.4 percentage points from the fourth quarter of 2019. We expect ownership costs to continue to rise in the near term. Record-high resales and low supplies significantly tightened demand-supply conditions in the early months of 2021. This will keep property values on an upward track in the near term.

Vancouver area – Affordability crisis getting worse again

The affordability boost supported by recession-fighting measures in the second quarter was fully reversed as 2020 drew to a close. RBC's aggregate measure jumped 1.0 percentage point in the fourth quarter, returning to the 78.8% level that prevailed when the pandemic hit. Supercharged demand for single-family homes handed sellers a lot more bargaining power. Ample condo inventories, however, gave more options to buyers in this category and a slight (and likely short-lived) improvement in affordability. We expect demand to outpace supply in the period ahead. This will make property values even more expensive in Canada's least affordable market.

Alberta

Calgary – Heat up but in a good way—so far

Considering the massive challenges the provincial economy faced during the pandemic, the rebound in Calgary's housing market since summer has been quite remarkable. Rock-bottom interest rates, changing housing needs and high household savings proved an irresistible draw for many buyers. Relatively good affordability no doubt played a role too. RBC's aggregate measure, at 37.2%, remains comfortably below the area's long-term average of 40.3%. The measure did rise modestly by 0.7 percentage points in the fourth quarter as home prices firmed up. We expect this trend to continue in the near term.

Edmonton – Wheels of the market spinning much faster

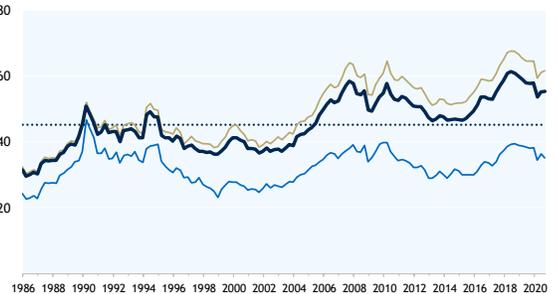
The pace got very hectic in Edmonton as well. Spiking demand has drawn down inventories and set prices on an upward course since summer in most categories. The condo segment is the only exception. RBC's aggregate affordability measure rose 0.6 percentage points last quarter to 30.4%. It's still below the long-run average of 33.8%, so the ownership bar continues to be relatively achievable from a historical perspective. That bar is poised to rise in the period ahead, though. We expect upward pressure on single-family home prices to be sustained.

RBC Housing Affordability Measures

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

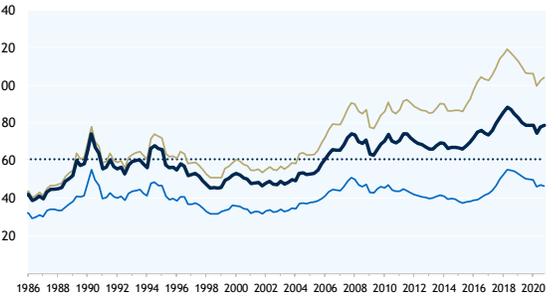
Victoria

Ownership costs as % of median household income



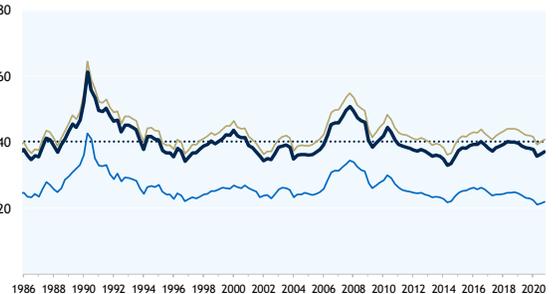
Vancouver Area

Ownership costs as % of median household income



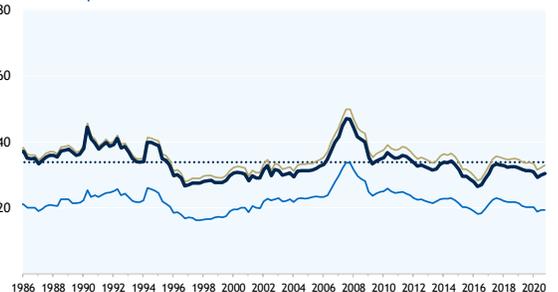
Calgary

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

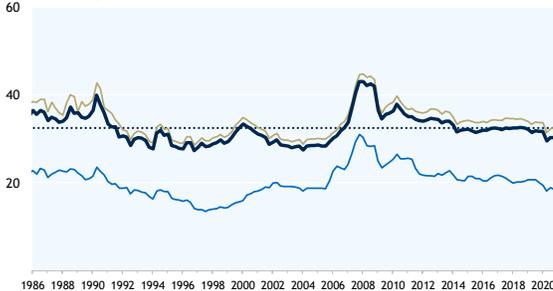


RBC Housing Affordability Measures

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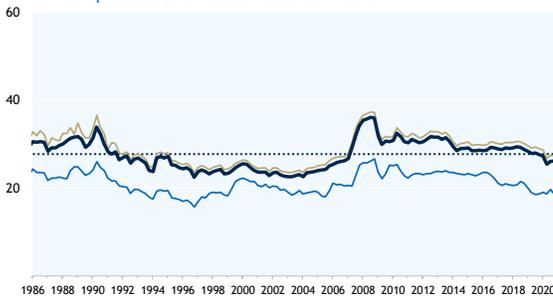
Saskatoon

Ownership costs as % of median household income



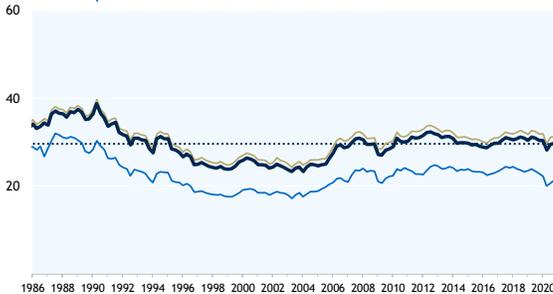
Regina

Ownership costs as % of median household income



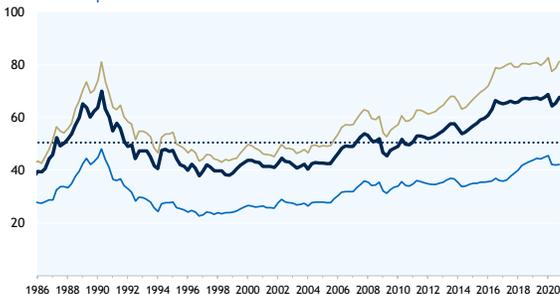
Winnipeg

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 – Flat affordability reading to be temporary

Home resale activity stayed in record-high territory, providing increasing support for prices. The strength has been uneven across categories, however. Single-detached homes got most of the heat, while condo apartments continue to lag behind. This mix kept overall affordability at a standstill in the fourth quarter. RBC's aggregate measure was unchanged at 30.3%—just below the long-run average of 32.5%. We expect tight demand-supply conditions to push the measure higher in the period ahead.

Regina – Affordability conditions remain positive

The buying spree hasn't let up despite inventories becoming more sparse. Much of the action has been for single-detached homes where prices maintained a slight upward trajectory. We see some scope for an acceleration given the high degree of market tightness. For the time being, buyers face positive affordability conditions. RBC's aggregate measure stood at 26.1% in the fourth quarter, up just 0.1 percentage points and the lowest level among the markets we track in Western Canada.

Manitoba

Winnipeg – Firing on all cylinders

The Winnipeg market has never been this strong. Demand shot through the roof since summer, leaving many buyers scrambling to pick from rapidly depleting inventories. Despite fierce buyer competition, price gains haven't yet exploded—though this may soon be the case if the current accelerating trajectory persists. Moderate appreciation in the fourth quarter took a slight toll on affordability. RBC's aggregate measure increased 0.2 percentage points to 29.7%. The toll is poised to escalate in the coming quarters, however.

Ontario

Toronto area – Soaring prices set affordability on troubling path

The temperature got boiling hot in the Toronto-area market. Buyers have been out in full force since summer, snapping up single-family homes coming to market in matter of days, if not hours. Their interest in condo apartments has also grown materially more recently. Soaring single-detached prices significantly eroded affordability. RBC's aggregate measure jumped 2.2 percentage points in the fourth quarter—the most among markets we track—to 67.6%. The ownership costs of a single-detached home would have taken up an astounding 81.2% of a typical household's income—second only to Vancouver's 104.2%. With home prices still spiraling upward, owning a home will become even less affordable in the area in the period ahead.



RBC Housing Affordability Measures

Ottawa – Worst affordability in a quarter of a century

The second wave of the pandemic came and went without deflating Ottawa's strong market one iota. Home resale activity continued to hover in record-high territory. If anything, low inventories likely held things back somewhat. Prices continued to escalate as buyers outbid one another. This was primarily the case for single-family homes but condo apartments were also the object of some serious bidding contests. These factors made it the least affordable to own a home in the area in a quarter of a century. RBC's aggregate measures easily surpassed pre-pandemic levels in the fourth quarter, rising 1.5 percentage points to 40.0%. We expect further deterioration in the period ahead.

Quebec

Montreal area – Housing fever made ownership less affordable

House-hunting reached a feverish pitch in the Montreal region. Many buyers stormed suburbs near and far in search of an affordable home as prices on the island got out of their reach after three years of solid increases, especially for single-family homes. Buyers had to act fast because there wasn't much supply out there. Bidding wars have been commonplace throughout the region—except for downtown condos which fell temporarily out of favour—driving up prices significantly. Affordability has suffered. RBC's aggregate measure (43.5% in the fourth quarter) rose in the past two quarters, fully reversing last spring's gain. The measure for single-detached homes hit the worst level in 12 years. We expect further deterioration in the near term.

Quebec City – Healthy all round

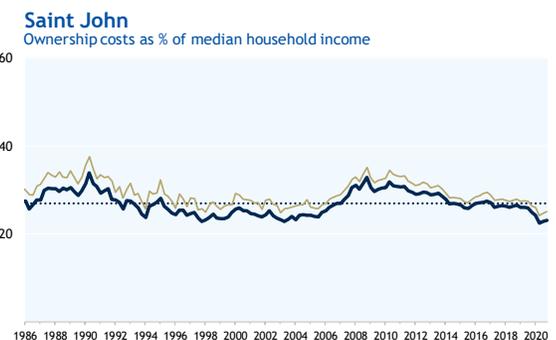
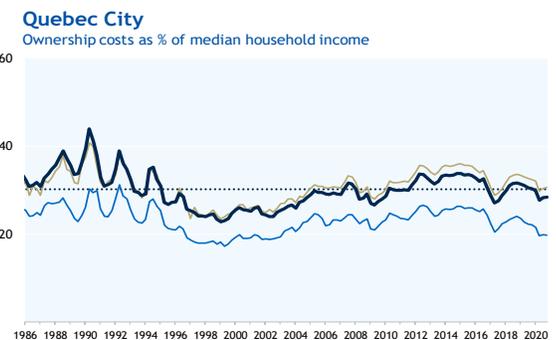
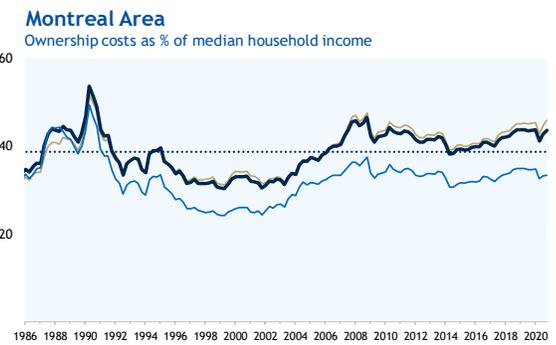
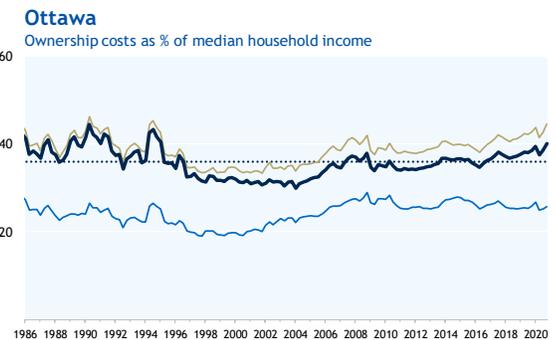
While not quite as frantic as in other parts of the province, home resale activity has been brisk in Quebec City. Property values have trended squarely upwards, with single-family homes recording the stronger gains. There's been some erosion of affordability, though the picture still looks generally positive for buyers. RBC's aggregate measures rose 0.2 percentage points to 28.4%, which is below the long-run average of 30.2%.

Atlantic Canada

Saint John – Flying high but still affordable

The market has been flying extremely high since summer with home resales successively breaking monthly records. The pandemic has generated a historic influx of buyers, many of whom undoubtedly were attracted by the area's great affordability. Saint John is the most affordable market we track. This influx of buyers has tightened demand-supply conditions considerably, though. And we see prices moving moderately higher. This has taken some of the shine off the area—just barely. RBC's aggregate measures increased 0.3 percentage points in the fourth quarter to 23.1%.

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



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

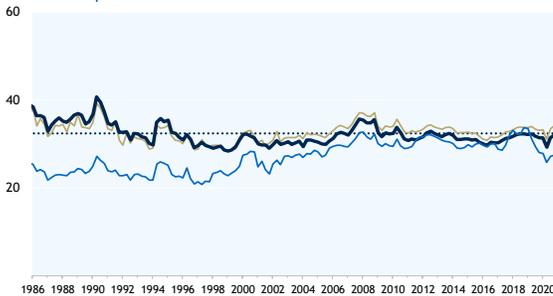


RBC Housing Affordability Measures

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

Halifax

Ownership costs as % of median household income

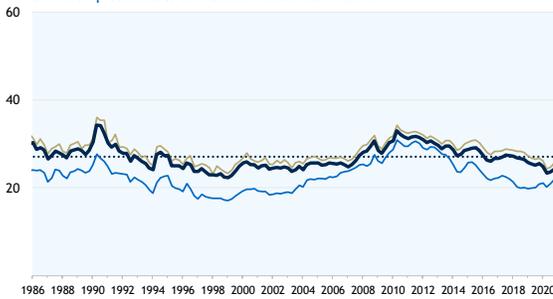


Halifax – Market heat beginning to take a toll on affordability

Already one of Canada's stronger markets before the pandemic, Halifax has boomed since summer. Revved-up demand took home resales to new heights, crushing previous records in the process. Sellers haven't kept pace and inventories have shrunk. These conditions have set home prices on a steep upward trajectory. The downside: it's become less affordable to own a home in the area. RBC's aggregate measure increased in the past two quarters, climbing 0.6 percentage points to 32.0% in the latest period. We expect it will climb further in the near term.

St. John's

Ownership costs as % of median household income



St. John's – On a tear

Despite a soft provincial economy, St. John's housing market has been on a tear. Clearly the factors spurring demand elsewhere in the country during the pandemic are also play in the area. Good affordability is also drawing in buyers—local and from other regions of Canada. The spike in home resales has reduced inventory levels, giving sellers some bargaining power. To date, home prices have increased moderately—not so much to threaten affordability, however. RBC's aggregate measure did rise in the fourth quarter, up 0.7 percentage points. But at 24.2%, the measure remains comfortably below the long-term average (27.0%).



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			
	Q4 2020 (\$)	Q/Q % ch.	Y/Y % ch.	Q4 2020 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	646,800	3.0	12.0	50.3	1.3	0.3	42.2
Victoria	847,900	1.5	8.4	55.3	0.2	-2.4	45.1
Vancouver area	1,134,300	2.4	13.5	78.8	1.0	0.1	60.6
Calgary	499,800	1.1	2.1	37.2	0.7	-0.9	40.3
Edmonton	402,000	1.1	1.2	30.4	0.6	-0.8	33.8
Saskatoon	378,000	0.0	2.1	30.3	0.0	-1.4	32.5
Regina	321,900	0.1	0.2	26.1	0.1	-1.5	27.7
Winnipeg	331,600	2.0	5.9	29.7	0.2	-0.8	29.6
Toronto area	996,100	3.0	12.3	67.6	2.2	0.0	50.5
Ottawa	558,500	3.7	18.1	40.0	1.5	1.5	36.0
Montreal area	508,200	4.1	13.5	43.5	0.9	0.0	38.6
Quebec City	319,100	2.6	5.4	28.4	0.2	-1.9	30.2
Saint John	216,500	2.6	-0.2	23.1	0.3	-1.8	26.9
Halifax	376,300	2.7	12.9	32.0	0.6	0.6	32.3
St. John's	296,800	1.6	1.0	24.2	0.7	-1.3	27.0

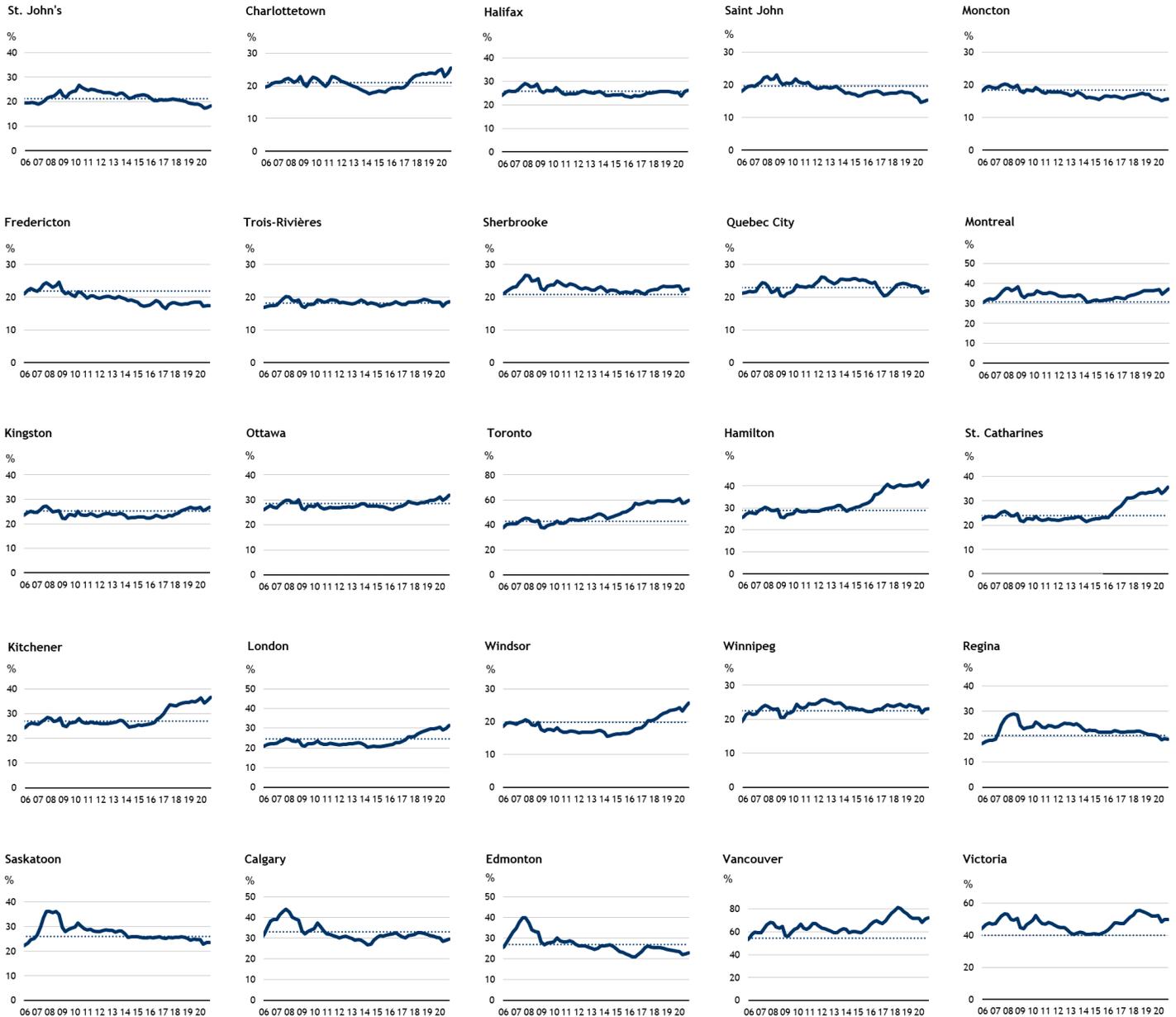
Single-family detached							
Market	Price			RBC Housing Affordability Measure			
	Q4 2020 (\$)	Q/Q % ch.	Y/Y % ch.	Q4 2020 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	699,500	3.1	12.1	54.7	1.4	0.3	44.7
Victoria	945,600	2.2	8.1	61.5	0.5	-2.9	48.6
Vancouver area	1,524,300	2.6	11.0	104.2	1.5	-1.9	72.4
Calgary	548,900	1.0	1.5	40.8	0.7	-1.2	43.2
Edmonton	431,800	1.3	1.3	32.8	0.6	-0.9	35.5
Saskatoon	399,000	0.7	3.1	32.5	0.3	-1.2	34.3
Regina	329,700	0.2	0.4	27.4	0.1	-1.5	28.9
Winnipeg	343,200	2.2	6.8	31.4	0.3	-0.5	30.8
Toronto area	1,204,000	2.9	13.0	81.2	2.6	0.5	58.4
Ottawa	614,700	3.9	18.7	44.5	1.8	1.8	38.9
Montreal area	528,700	4.8	15.5	45.8	1.2	0.6	38.8
Quebec City	337,200	2.8	6.5	30.6	0.2	-1.8	30.9
Saint John	229,700	2.4	2.9	25.0	0.3	-1.4	29.3
Halifax	395,700	2.4	14.8	34.1	0.6	1.1	32.8
St. John's	306,600	2.7	1.9	25.6	0.9	-1.1	28.4

Condominium apartment							
Market	Price			RBC Housing Affordability Measure			
	Q4 2020 (\$)	Q/Q % ch.	Y/Y % ch.	Q4 2020 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	495,600	0.1	4.7	38.4	0.1	-2.0	34.2
Victoria	523,400	-2.8	4.3	35.2	-1.2	-2.8	32.2
Vancouver area	644,600	-0.3	4.0	46.4	-0.5	-3.8	40.5
Calgary	265,100	1.7	-1.0	21.9	0.5	-1.0	26.4
Edmonton	233,200	-1.4	-1.9	19.3	0.1	-0.8	22.1
Saskatoon	215,700	-2.9	-2.9	18.5	-0.3	-1.5	20.4
Regina	227,000	-7.2	8.7	18.7	-0.9	0.1	21.3
Winnipeg	234,600	4.9	-0.3	21.3	0.6	-1.5	22.9
Toronto area	607,200	-0.5	4.5	42.1	0.1	-2.7	32.4
Ottawa	355,100	1.3	11.8	25.7	0.5	-0.1	24.3
Montreal area	391,500	2.2	8.7	33.3	0.2	-1.2	32.5
Quebec City	224,700	0.9	-0.7	19.8	-0.1	-2.3	23.2
Saint John	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Halifax	331,700	1.6	6.7	27.4	0.3	-0.7	26.9
St. John's	282,300	3.4	14.3	21.8	0.9	1.0	22.7



Mortgage carrying costs by city

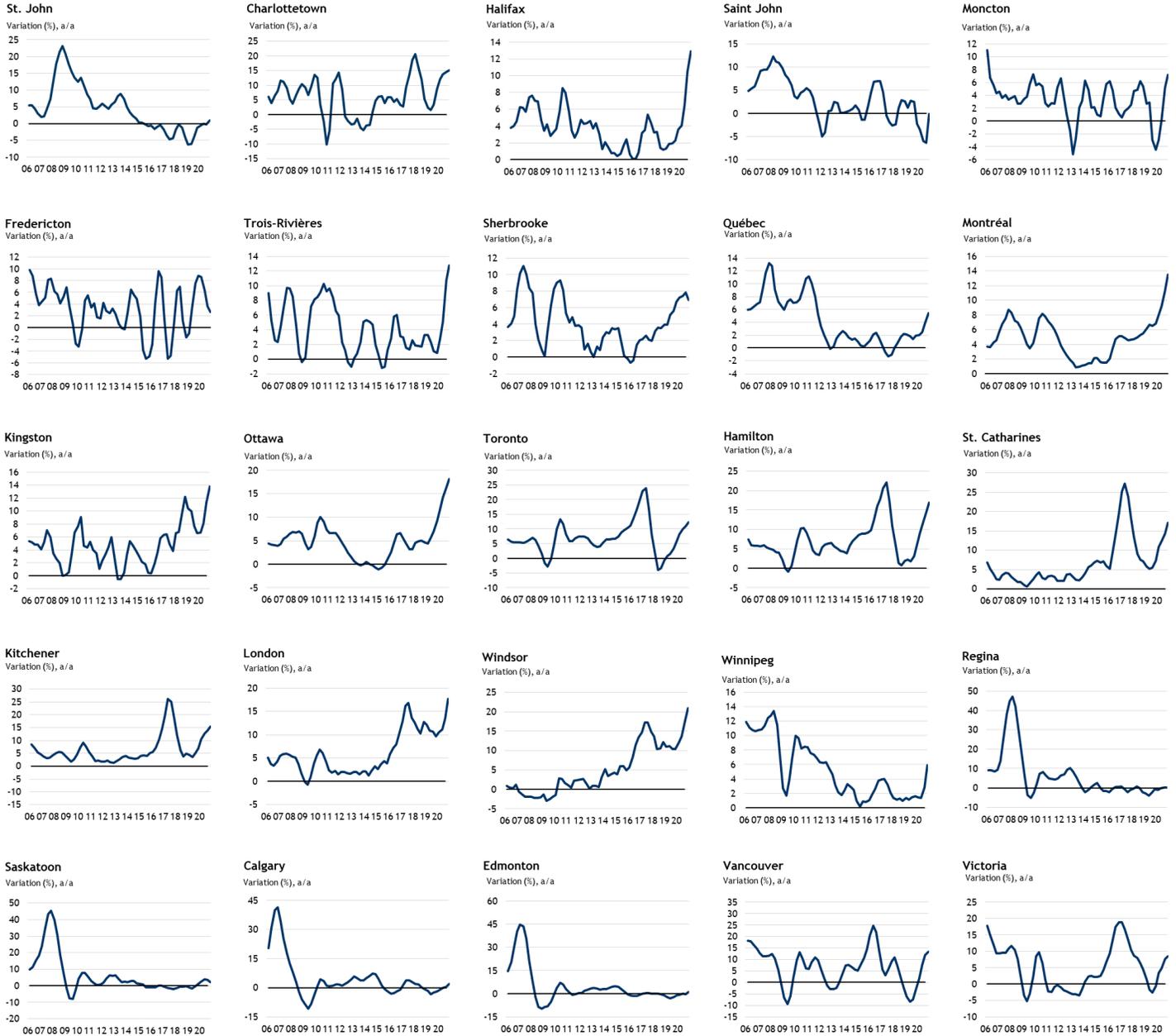
Our standard RBC Housing Affordability Measure captures the proportion of median pre-tax household income required to service the cost of a mortgage on an existing housing unit at market prices, including principal and interest, property taxes and utilities; the modified measure used here includes the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



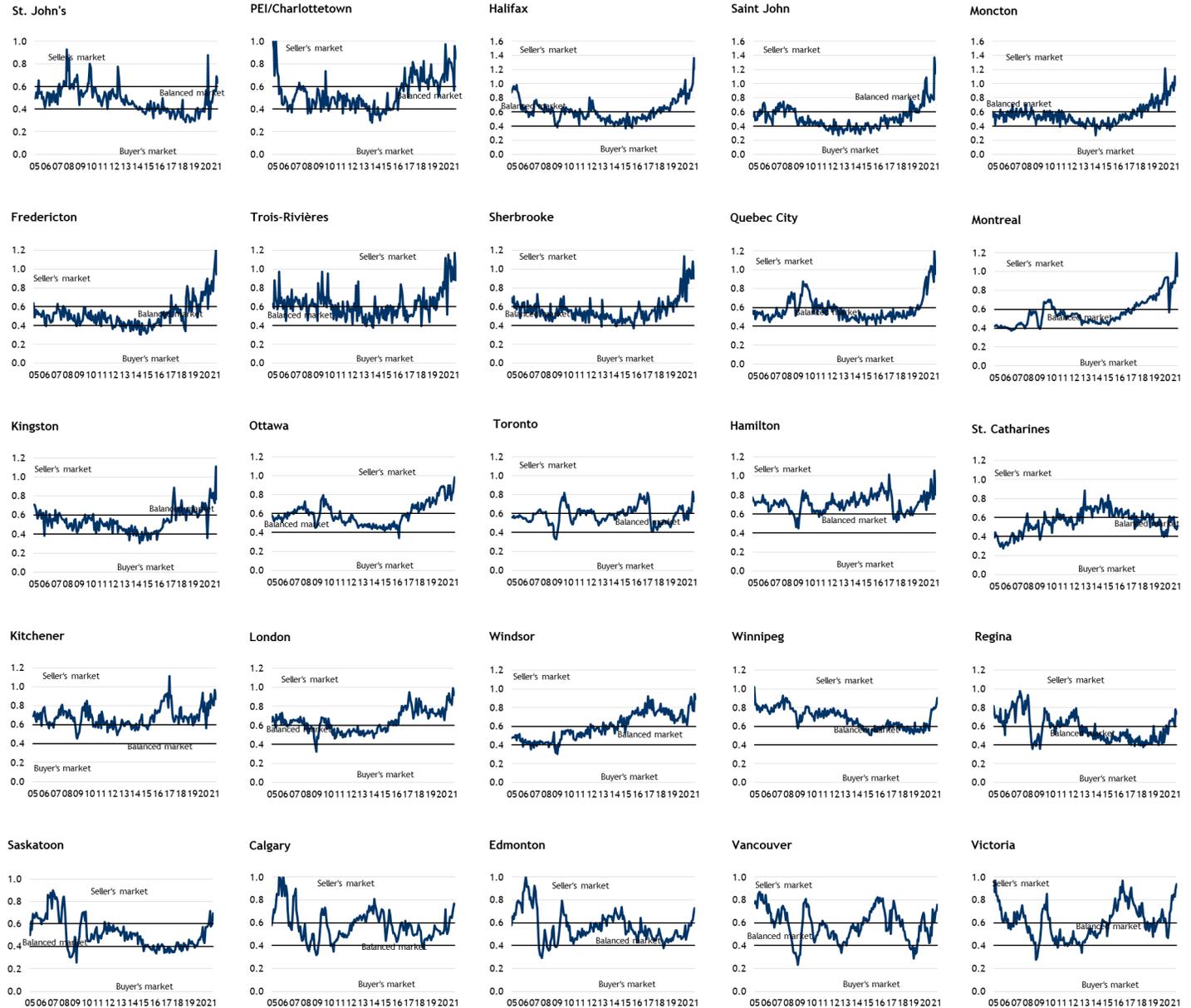
Aggregate home price



Source: RPS, RBC Economics



Home sales-to-new listings ratio



Source: Canadian Real Estate Association, RBC Economics

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