HOUSING TRENDS AND AFFORDABILITY

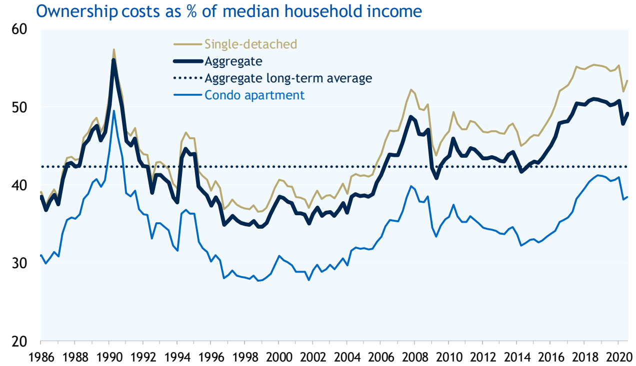
December 2020

Historic housing market rally made it less affordable to own a home in Canada

- **Price upswing partly rolled back earlier affordability gain**: RBC's national aggregate measure rose 1.3 percentage points to 49.1% in the third quarter, reversing part of the 3.0 percentage point decline in the second quarter. Strong price increases in a majority of markets contributed to the deterioration.
- **Temporary boost to household income began to fade**: Unprecedented government transfers eased slightly, making it harder for many to cover rising ownership costs.
- **Owning a home still affordable in most of Canada**: Huge issues persist, though, for buyers in high-priced Vancouver, Toronto and Victoria.
- **Accelerating price gains signal further loss of affordability ahead**: Demand-supply conditions remained incredibly tight overall into the late stages of 2020. This will keep most property types appreciating rapidly in the near term. The main exception will be downtown condos in Canada's biggest cities where ample supply will keep prices muted. Smaller markets could face material affordability erosion if recent strong price increases persist.

RBC Housing Affordability Measures - Canada

Ownership costs as % of median household income



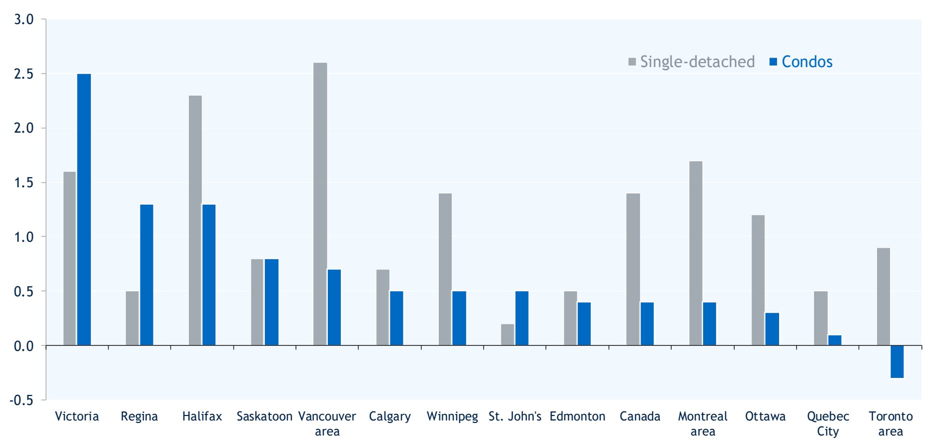
The share of income a household would need to cover ownership costs (in %)

Canada	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal
49.1	78.5	36.7	30.1	65.7	38.6	42.5

Third quarter 2020

The loss of affordability was generally greater for single-detached than condo apartments in Q3

Change in RBC Affordabiity Measure between the second and third quarter of 2020, in percentage points



Source: RPS, Royal LePage, Statistics Canada, Bank of Canada, RBC Economic Research

Surge in demand for detached homes raises affordability bar

The pandemic tremendously disrupted Canada's housing market, though it ultimately hasn't destroyed activity. Spring transactions were shifted to the summer and fall. The displacement, rather than loss, of activity cranked up the market's heat in the third quarter, propelling prices to new heights and rolling back some of the second quarter's affordability gains. All markets we track saw an overall deterioration in ownership affordability. Perhaps more noteworthy, the pandemic created new market dynamics impacting affordability trends differently across categories. Chief among them are soaring demand for larger living spaces and reduced attachment

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to live in, or near, core urban areas. Single-detached and other low-rise homes have become highly coveted and pricier as a result. And the ability to work from home has helped spread the heat—and affordability erosion—to many markets. RBC's single-detached affordability measure increased across the board in the third quarter, rising between 0.2 percentage points (St. John's) and 2.7 percentage points (Vancouver). (A rise in the measure represents a loss of affordability.) In the majority of cases, the deterioration far exceeded that in the condo measure, reflecting comparatively softer market conditions for the latter—especially in Canada's largest cities. Our measure for condo apartments fell in the Toronto area where supply ballooned during the pandemic.

Second quarter's income effect partly reversed

Rising home prices weren't the only factor eroding affordability last quarter. Declining household income also contributed. This came on the heels of a record 11% increase in the second quarter when governments rolled out unprecedented financial aid to Canadians in the face of soaring unemployment. A partial retracement in government transfers caused household disposable income to fall 3.1% in the third quarter. With the imminent start of mass vaccinations brightening the economic outlook in 2021, we expect a further dialing down of transfers in the period ahead.

Big picture for affordability largely unchanged across Canada

While the share of income needed to cover ownership costs increased unevenly from market to market in the third quarter—with Vancouver (up 2.8 percentage points) and Victoria (up 1.5 percentage points) recording the bigger increases—the overall picture hasn't changed much. It was still more affordable to own a home compared to the same period a year ago in virtually all markets (Ottawa being the lone exception). Affordability continued to be in line with historical norms in the majority of markets. Vancouver, Toronto and Victoria kept their standings as the least affordable markets in Canada, with some moderate strains persisting in Montreal and Ottawa. Much of the affordability stress in these larger markets is due to high prices for single-detached homes. Condo apartments are a generally more achievable option for buyers.

Second-quarter affordability gain to unwind further

We expect a gradual re-normalization in government transfers to households and sustained property appreciation to further unwind the sharp affordability gain that occurred in the second quarter. Recent declines in mortgage rates will provide a partial offset. Buyers in Canada's least affordable markets—Vancouver, Toronto and Victoria—are most vulnerable to any erosion in affordability given how stretched they already are, especially when shopping for a single-detached home. Local buyers in many smaller markets may also be challenged by rapid price increases. Strong demand is putting intense pressure on their housing stock.

British Columbia

Victoria – Buyers still better off than they were a year ago

Victoria home prices increased sharply in the third quarter as activity sprung back to near-record levels. This contributed to reverse part of the second quarter's material gain in affordability. RBC's aggregate affordability measures rose 1.5 percentage points to 55.1%—Canada's third-worst level after Vancouver and Toronto. Nonetheless, Victoria buyers are still better off than they were a year ago when they needed to spend 58.3% of their income to cover ownership costs. Demand-supply conditions continue to be very tight. Home prices are poised to appreciate further in the near term.

Vancouver area – Improving affordability trend on track—for now

RBC's aggregate measure for Vancouver deteriorated the most among the markets we track in the latest period—up 2.8 percentage points to 78.5%, though this didn't thrown the two year-long improving trend off course. The re-acceleration in detached home prices could well do that in the period ahead. The market rebounded strongly since summer and demand-supply conditions for low-rise categories have tightened considerably. Any worsening of affordability spells bad news for Vancouver buyers who face the highest ownership costs in the country.

Alberta

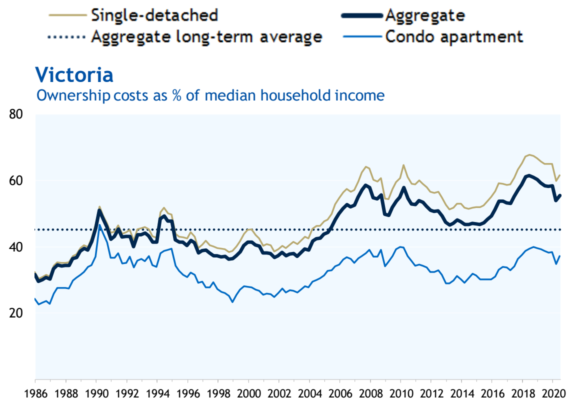
Calgary – Staging a notable comeback

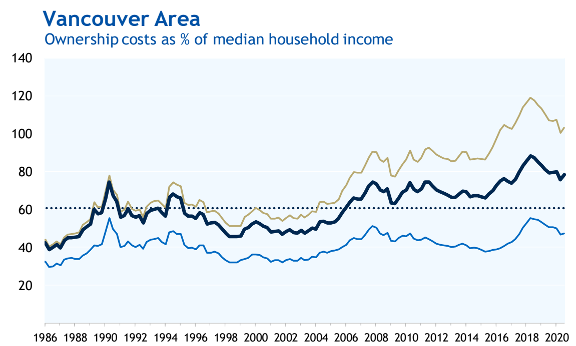
Despite the huge economic shock COVID-19 delivered, Calgary's housing market staged a fairly solid comeback since summer. Rock-bottom interest rates and savings built up during the pandemic helped reinvigorate demand and drive down inventories. Home prices got a modest boost, lifting them above year-ago levels for the first time in two years—condo prices are still trending lower, however. Housing affordability is largely favourable to local buyers. RBC's aggregate measure, at 36.7% in the third quarter, compares favourably to the area's long-run average (40.5%).

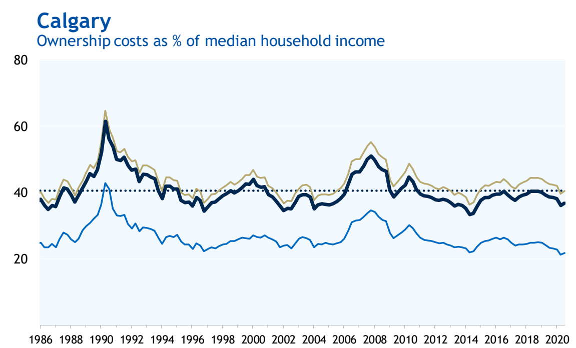
Edmonton – Firming property values aren't threatening affordability

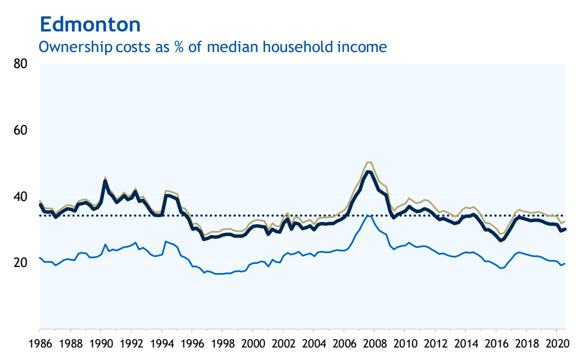
Edmonton's market also showed impressive vigour since the end of the pandemic's first wave. Home resales surged to decade-high levels as the fall season got underway. Demand-supply conditions have firmed as a result, yet remained generally balanced, setting the stage for modest property appreciation. As in Calgary, home prices are at reasonably affordable levels for local buyers. Despite eroding slightly in the third quarter, RBC's aggregate measure (30.1%) is comfortably below the long-term average of 34.1%.

RBC Housing Affordability Measures







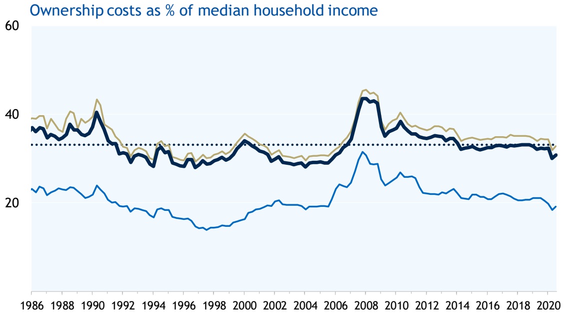


Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economics

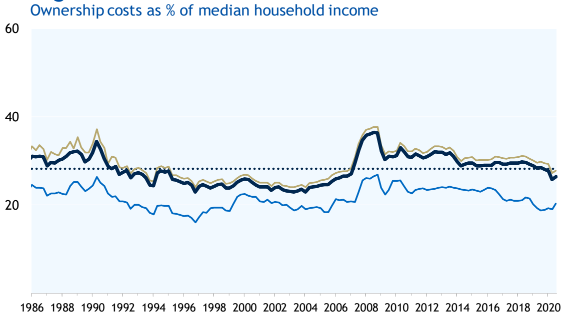
RBC Housing Affordability Measures

Single-detached
Aggregate
Aggregate long-term average
Condo apartment

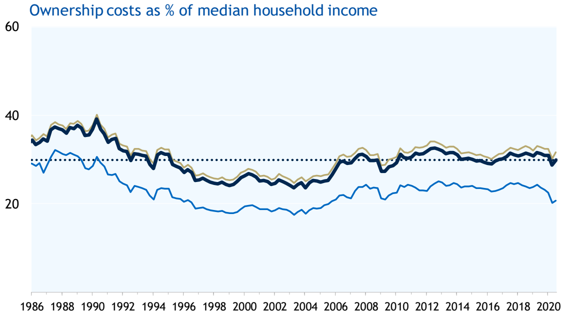
Saskatoon
Ownership costs as % of median household income



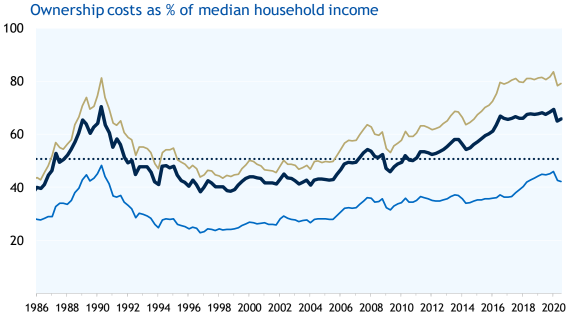
Regina
Ownership costs as % of median household income



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 – Prices remain affordable despite historic market upswing

This summer was the busiest ever for Saskatoon's market. Home resales skyrocketed, propelled by highly motivated buyers taking advantage of historically low interest rates. A build-up in savings certainly helped too. Modest increases in otherwise generally affordable prices gave buyers an additional incentive to act. RBC's aggregate measure eroded slightly in the third quarter—up 0.8 percentage points to 30.8%. Should demand-supply conditions continue to tighten, though, a more significant deterioration could be in store.

Regina – Spectacular rebound hasn't dented good affordability status

The rebound in Regina's market from the spring's low point has been nothing short of spectacular. Home resales set successive monthly records since July, significantly drawing down inventories in the process. By the fall, demand-supply conditions had tightened the most in eight years. The sudden turn of events has yet to prop up prices materially but this could change if these conditions persist. Ownership costs are relatively affordable in the area. RBC's aggregate measure is the lowest in Western Canada at 26.4% .

Manitoba

Winnipeg – A year for the record books; affordability still fine

Winnipeg's housing market started 2020 on a strong note andt after a brief COVID-19-induced pause this spring, things got a lot stronger. Home resales are now on track for a record year by a wide margin—though the pandemic's troubling second wave could be a last-minute obstacle. As buyers snapped up supply at a frantic pace since summer, inventories have become scarce and properties pricier. Despite some erosion in the third quarter, it's still affordable for a typical buyer to own a home in the area. RBC's aggregate measure is at its long-term average of 29.9%.

Ontario

Toronto area – A tale of two housing markets… and affordability trends

The recovery from the spring lockdowns has been a tale of two housing markets in the Toronto area. Activity sprung back dramatically for single-detached and other low-rise home categories, quickly reinstating serious pre-pandemic supply shortages. Things have been much softer for the downtown condo market where supply has ballooned amid a downturn in the rental business (both long– and short-term). These developments put home prices on divergent paths: squarely upwards for low-rise categories and flat for condos. RBC's affordability measures have reflected those divergences. The condo apartment measure was in fact the only one improving (slightly) in the third quarter among all the categories and markets we track. RBC's aggregate measure, at 65.7%, still indicates intense affordability stress overall for an average buyer.

Ottawa – Affordability under control despite rapid price increases

2020 will be a fifth-straight record year for Ottawa's market (unless the second wave of the pandemic unexpectedly throws it off course in the closing weeks). Property values have sustained one of the fastest rates of appreciation in the country throughout the pandemic. We see little that will slow them down near term given how tight demand-supply conditions continue to be. Still, affordability isn't getting out of control. While a little strained—RBC's aggregate measure (38.6%) is modestly above its long-run average (36.1%) and is just slightly worse than it was a year ago (38.9%).

Quebec

Montreal area – Supercharged and poised to get even pricier

Not even the re-imposition of stricter restrictions on the economy this fall has cooled Montreal's housing market. Activity remained supercharged in the region with buyers showing tremendous interest in suburbs near and far. The work-from-home phenomenon and search for larger living space really cranked up the heat in areas surrounding the Island of Montreal where properties tend to be more affordable. Exceptionally low inventories have become a big issue, driving prices to record highs. Overall affordability in the Montreal region is moderately stretched with RBC's aggregate measure (42.5%) above its long-term average (38.6%). We expect the situation to worsen.

Quebec City – Buyers taking full advantage of good affordability

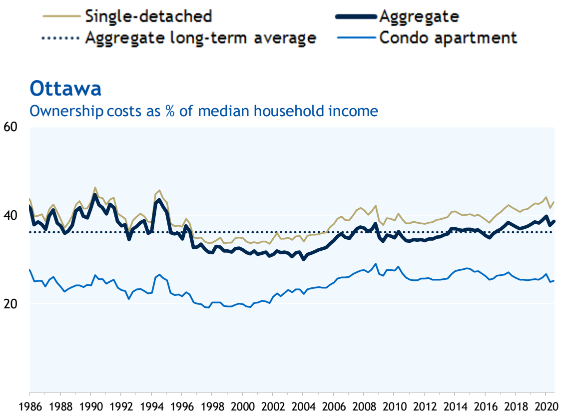
Quebec City is a relatively affordable housing market. RBC's aggregate measures, at 28.2%, is one of the lower ones among the markets we track. Buyers have taken advantage of this fact in a big way in 2020. They entered the market in record numbers, driving home resales an astounding 27% higher in the first 11 months of the year. And that's despite a pandemic grounding activity to a virtual halt in the spring. Home prices have begun to heat up, which could well erode affordability in the period ahead.

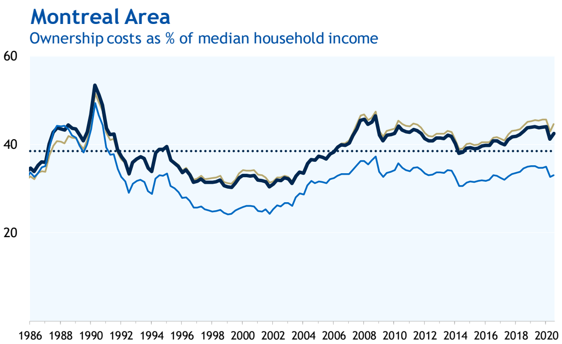
Atlantic Canada

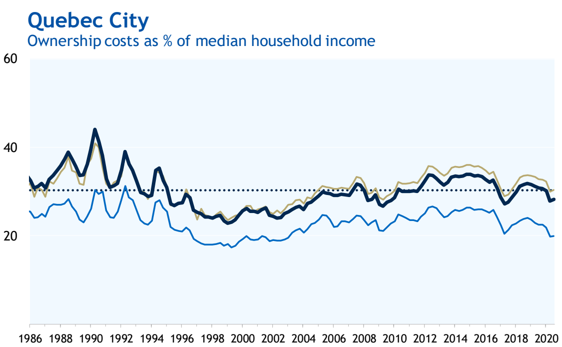
Saint John – Buyer-friendly conditions grease the wheels of recovery

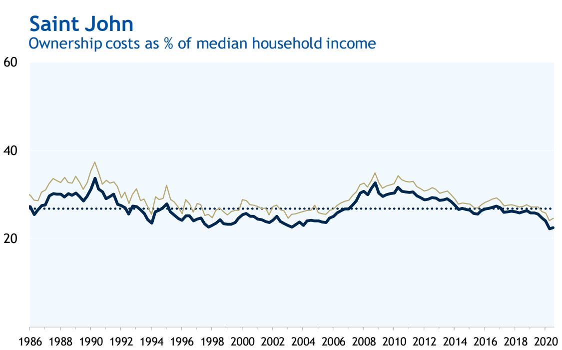
Saint John has long been the most affordable market we track. Things got even better in the past year. Our aggregate measure fell to 22.5% in the third quarter, the second-lowest level on record (after the 22.2% recorded in the previous quarter). Buyer-friendly conditions no doubt greased the wheels of the market's recovery following the spring interruption. Home resale activity has been on a tear ever since, on track to an impressive double-digit gain on the year. The frenzy has run down inventories, though, and property values are starting to climb. Further increases will take some of the shine off the area's affordability.

RBC Housing Affordability Measures



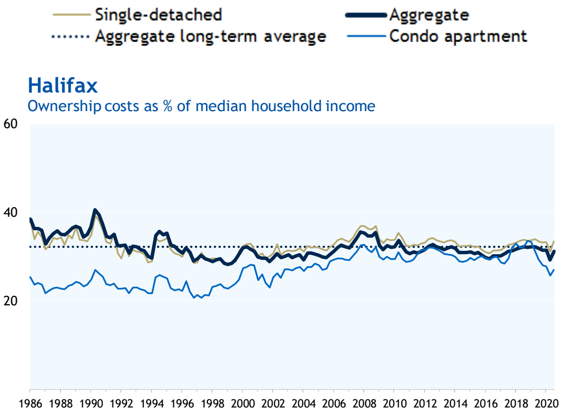






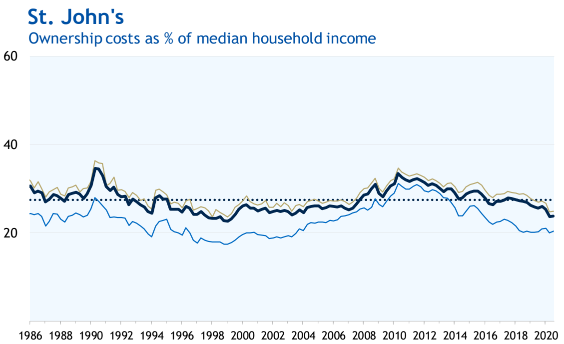
Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economics

RBC Housing Affordability Measures



Halifax – Scorching market heat could burn affordability

Halifax's housing market is scorching hot. Buyers ran back in as soon as the government eased COVID-19's restrictions this summer, propelling activity to never-before-seen levels. The fall didn't bring any cooling and supply is running short. Strong competition for available properties is taking prices higher at a faster and faster rate. So far affordability has remained well anchored near historical norms—RBC's aggregate measure (31.2%) is still slightly lower than its long-run average (32.3%). However, a noticeable deterioration in the third quarter (our measure rose 2.0 percentage points) could be a sign of things to come.



St. John's – Market sprung back but will it last?

The main issue facing St. John's market isn't affordability (it's good) or the level of activity (it's been surprisingly good), it's the weak economic backdrop for the province. We believe it will take longer for Newfoundland and Labrador to recover from the recession than most other provinces, and this will weigh on homebuyer confidence. For now, pent-up demand, low interest rates and one of the most affordable markets in Canada—RBC's aggregate measure (23.8%) is the second-lowest among the markets we track—have done wonders to get the market going. Home resales even approached record levels this fall and prices are on the cusp of rising. We doubt this will be sustained.

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

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			
	Q3 2020 ($)	Q/Q % ch.	Y/Y % ch.	Q3 2020 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	627,800	3.0	9.6	**49.1**	1.3	-1.1	42.3
Victoria	839,600	2.6	7.5	**55.5**	1.5	-2.8	45.2
Vancouver area	1,115,600	3.6	12.0	**78.5**	2.8	-0.9	60.8
Calgary	495,200	0.6	0.3	**36.7**	0.6	-1.9	40.5
Edmonton	397,600	0.5	-0.5	**30.1**	0.6	-1.5	34.1
Saskatoon	378,500	0.7	3.3	**30.8**	0.8	-1.6	33.1
Regina	321,300	0.4	-0.2	**26.4**	0.6	-2.0	28.2
Winnipeg	327,200	2.5	3.0	**29.9**	1.2	-1.4	29.9
Toronto area	967,800	2.6	10.6	**65.7**	0.7	-1.8	50.7
Ottawa	537,300	4.2	15.7	**38.6**	0.9	0.3	36.1
Montreal area	487,500	3.2	10.0	**42.5**	1.2	-1.3	38.6
Quebec City	310,300	1.4	3.0	**28.2**	0.4	-2.6	30.3
Saint John	210,500	0.6	-6.4	**22.5**	0.3	-3.1	26.8
Halifax	365,300	4.3	9.5	**31.2**	2.0	-0.6	32.3
St. John's	288,800	-0.2	-1.5	**23.8**	0.2	-1.8	27.4

Single-family detached

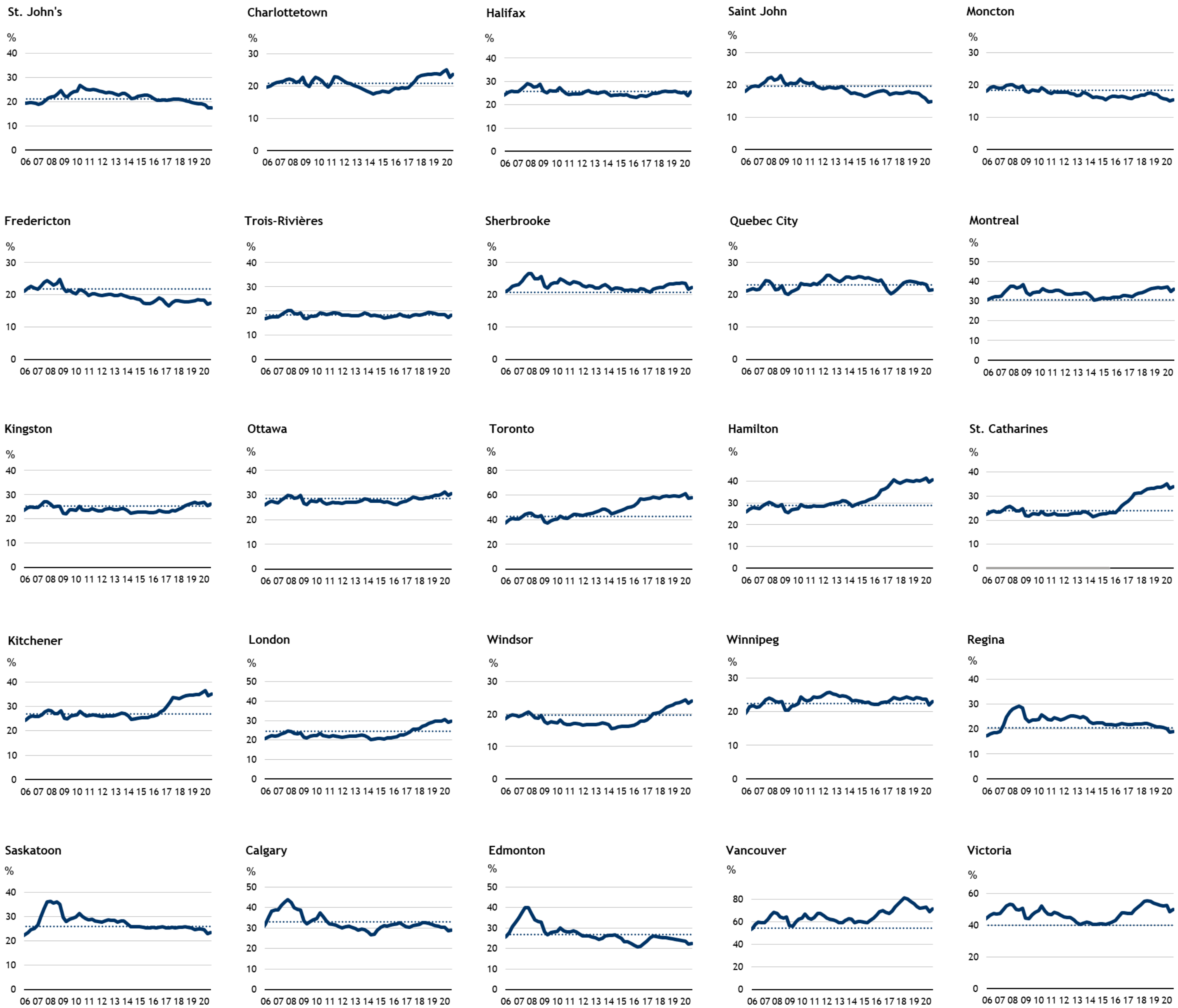
Market	Price			RBC Housing Affordability Measure			
	Q3 2020 ($)	Q/Q % ch.	Y/Y % ch.	Q3 2020 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	678,600	2.9	9.7	**53.4**	1.4	-1.2	44.9
Victoria	932,100	2.5	7.1	**61.5**	1.6	-3.4	48.7
Vancouver area	1,487,600	2.3	8.8	**103.1**	2.6	-4.0	72.5
Calgary	545,300	0.7	0.0	**40.4**	0.7	-2.2	43.6
Edmonton	425,200	0.2	-0.5	**32.4**	0.5	-1.6	35.9
Saskatoon	394,800	0.8	3.0	**32.7**	0.8	-1.8	34.9
Regina	328,600	0.0	-0.1	**27.7**	0.5	-2.1	29.5
Winnipeg	338,300	3.0	4.0	**31.6**	1.4	-1.2	31.1
Toronto area	1,174,200	2.5	11.5	**79.2**	0.9	-1.4	58.7
Ottawa	590,600	4.7	15.9	**42.9**	1.2	0.4	39.1
Montreal area	505,100	4.4	11.7	**44.6**	1.7	-0.8	38.8
Quebec City	327,400	1.7	4.2	**30.4**	0.5	-2.4	30.9
Saint John	226,200	1.4	-2.2	**24.6**	0.5	-2.5	29.2
Halifax	386,100	4.8	12.2	**33.4**	2.3	0.0	32.7
St. John's	294,300	-0.2	-2.1	**24.9**	0.2	-2.0	28.8

Condominium apartment

Market	Price			RBC Housing Affordability Measure			
	Q3 2020 ($)	Q/Q % ch.	Y/Y % ch.	Q3 2020 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	496,300	0.9	5.9	**38.5**	0.4	-2.0	34.3
Victoria	550,600	7.8	8.9	**37.2**	2.5	-1.5	32.2
Vancouver area	651,700	1.3	5.5	**47.4**	0.7	-3.3	40.7
Calgary	264,500	1.1	-3.2	**21.8**	0.5	-1.6	26.6
Edmonton	239,900	1.0	-0.6	**19.6**	0.4	-0.9	22.4
Saskatoon	221,100	3.2	-3.3	**19.2**	0.8	-1.9	20.8
Regina	250,400	6.6	23.2	**20.3**	1.3	1.5	21.6
Winnipeg	220,900	0.1	-8.4	**20.7**	0.5	-2.9	23.2
Toronto area	611,500	0.4	7.0	**42.2**	-0.3	-2.4	32.6
Ottawa	348,300	2.1	13.3	**25.2**	0.3	-0.2	24.4
Montreal area	382,200	1.0	7.2	**33.0**	0.4	-1.7	32.5
Quebec City	223,200	0.8	-1.7	**19.9**	0.1	-2.6	23.3
Saint John	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
Halifax	326,200	2.1	1.5	**27.0**	1.3	-2.3	26.8
St. John's	259,800	2.1	9.9	**20.4**	0.5	0.1	23.0

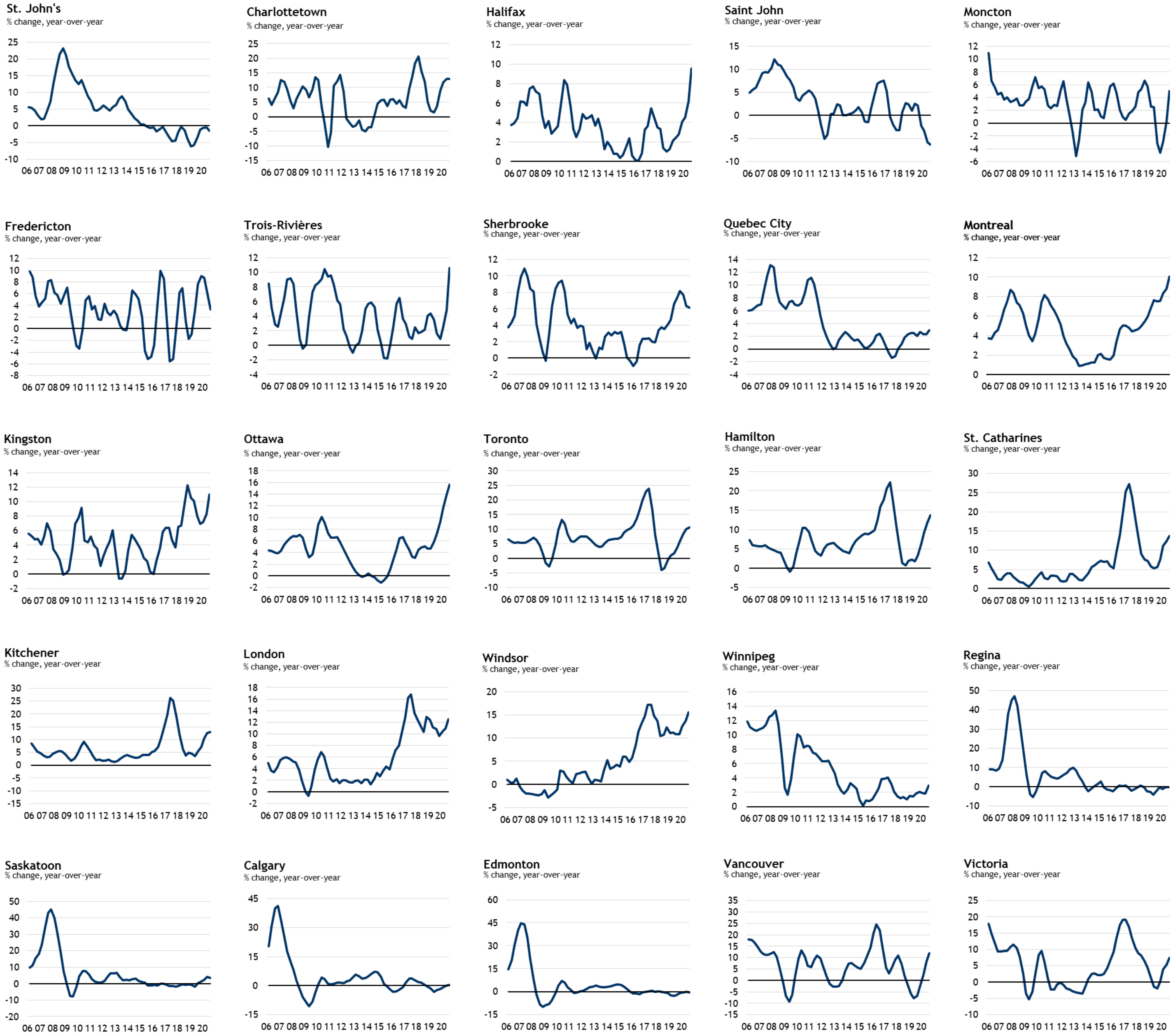
Mortgage carrying costs by city

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.



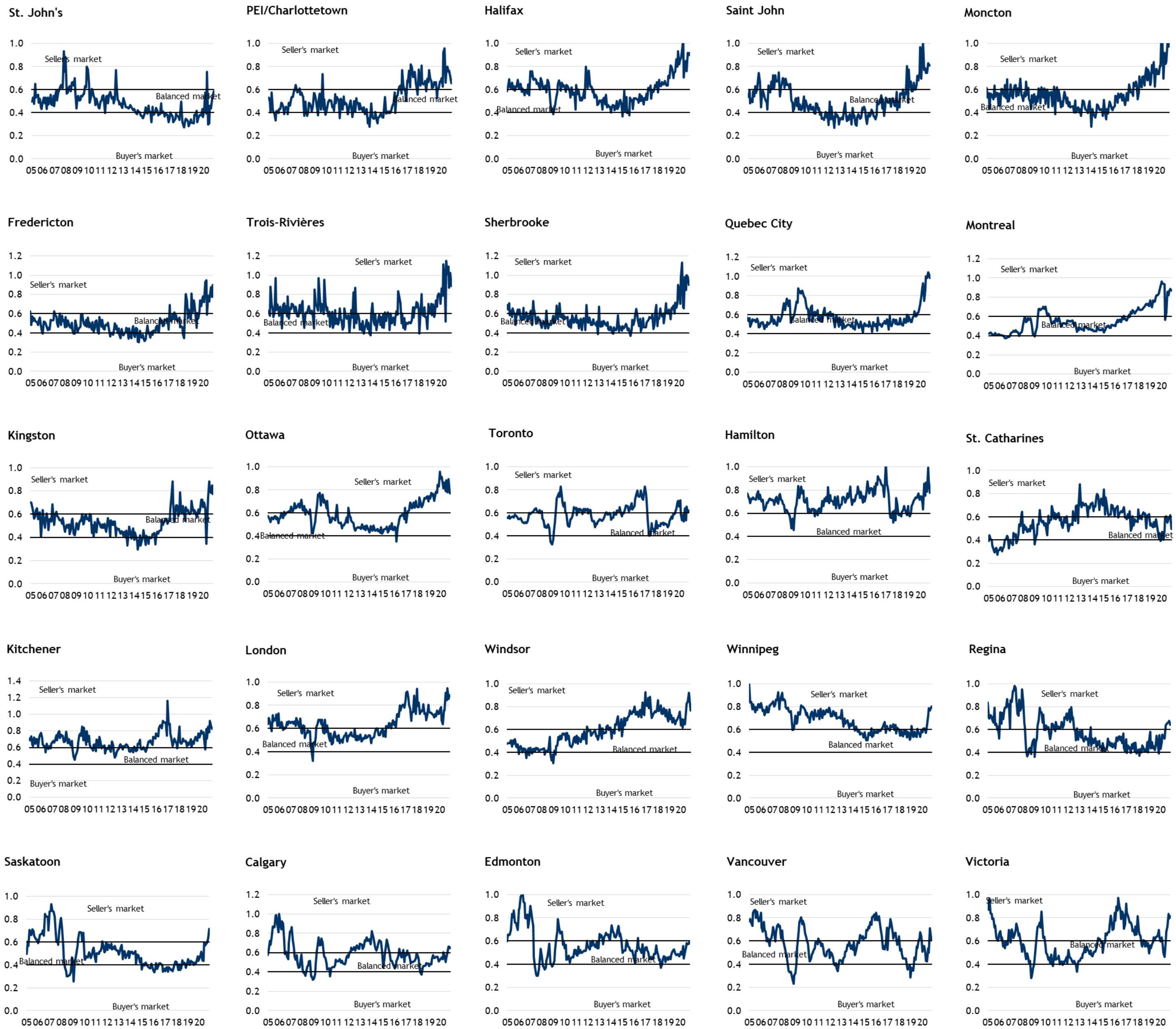
The dashed line represents the long-term average for the market.
Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economics

Aggregate home price



Source: RPS, RBC Economics

Home sales-to-new listings ratio



Source: Canadian Real Estate Association, RBC Economics