

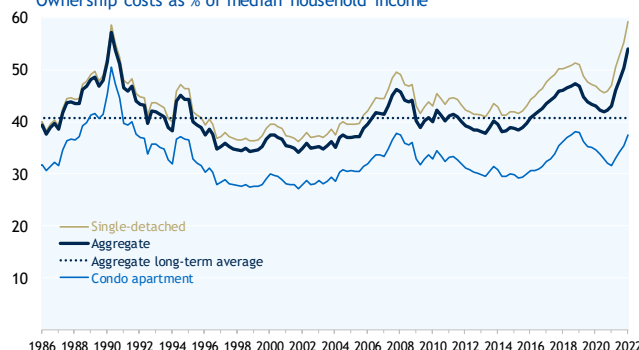
HOUSING TRENDS AND AFFORDABILITY

June 2022

Canadian home buyers face least affordable market in a generation

- **Sky-high prices and rising interest rates pummel affordability:** RBC's aggregate affordability measure for Canada surged 3.7 percentage points to 54.0% in the first quarter of 2022—the worst level of affordability since the early 1990s. Ownership costs rose in every market we track, though the degree of pain felt by buyers varies dramatically across the country.
- **Situation in Vancouver, Toronto and Victoria reaches extremes:** Becoming a home owner is now also very hard to achieve in other parts of southern Ontario and BC's Lower Mainland.
- **The Prairies and some east-coast markets still boast relatively affordable conditions:** Despite deteriorating trends, buyers in these regions can still generally manage (albeit increasingly less so in Halifax).
- **Affordability expected to worsen before getting better:** The Bank of Canada's 'forceful' interest rate hiking campaign will further inflate ownership costs in the near term, putting RBC's national affordability measure on a path to worst-ever levels. However, we see the burgeoning price correction eventually bringing some relief to buyers. Property values, already slipping, are likely to fall more than 10% in the coming 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

54.0

Vancouver

82.0

Calgary

35.3

Edmonton

27.1

Toronto

74.9

Ottawa

43.6

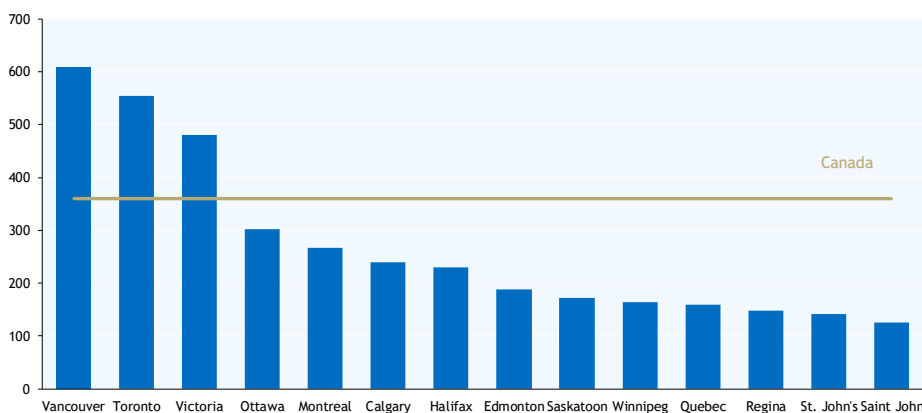
Montreal

43.2

First quarter 2022

Rising interest rates have a greater effect on monthly payments in expensive markets,...

Change in ownership costs arising from a 1 percentage-point rise in mortgage rates, in \$ per month



Source: RPS, Statistics Canada, RBC Economics

Uneven impact of higher interest rates

Interest rates are back on the rise after falling to historic lows during the pandemic. This is a game-changer for Canada's housing market, which saw prices soar on the back of rock-bottom rates. In March, the Bank of Canada initiated a hiking cycle that we expect will culminate in a 250 basis-point increase in its policy rate by the fall. As of June, half of that is still to come.

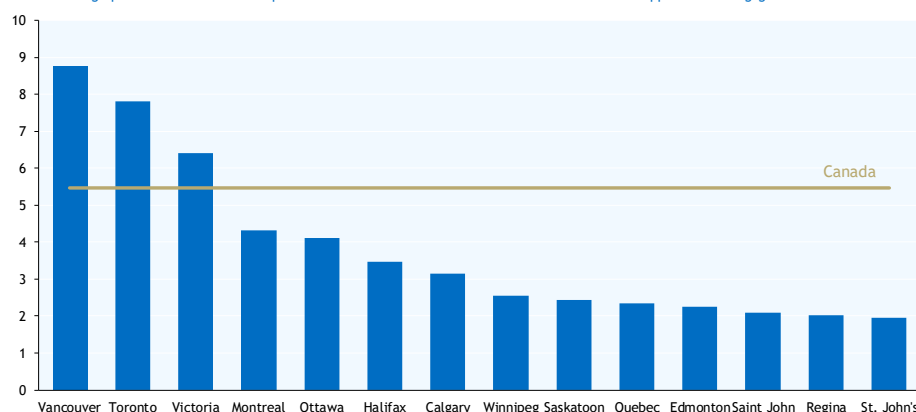
Higher rates will affect virtually every buyer across the country, hitting them with steeper monthly mortgage bills that make it harder to acquire properties. But buyers in the priciest markets will be challenged most. Elevated



property values—and more important, larger corresponding mortgage sizes—heighten sensitivity to interest rate movements. For instance, a 1 percentage-point rate increase, raises mortgage payments by more than \$600 per month in Vancouver, \$554 in Toronto and \$481 in Victoria, based on typical home prices in the first quarter (valued at \$1.4 million, \$1.3 million and \$1.1 million, respectively). These figures far exceed the \$360 a month average rise in mortgage rates in Canada. St. John's, Regina and other more modestly-priced markets are considerably less sensitive, with increases ranging from \$125 to \$160 a month.

...impairing their affordability the most

Percentage-point increase in ownership costs' share of household income that would result from a 1 ppt rise in mortgage rates



Source: RPS, Statistics Canada, RBC Economics

The impact on affordability is also uneven. A rise in RBC's affordability measure represents a deterioration in affordability. A 1 percentage-point rate increase interest rates causes the aggregate measure to spike more in Vancouver (8.8 percentage points), Toronto (7.8 percentage points) and Victoria (6.4 percentage points) than the national average (5.5 percentage points). While appreciating property values dialed up sensitivity in many Prairie, Quebec and Atlantic Canadian markets, the loss of affordability arising from a rate rise is still considerably less in those regions than the national average.

Affordability to get even uglier in Vancouver, Toronto and Victoria

This is bad news for buyers in Vancouver, Toronto and Victoria who face a further affordability squeeze as the Bank of Canada advances its rate hiking campaign. RBC's aggregate measures are likely heading deeper into record territory in all three markets, pointing to a worsening affordability crisis. Pressure is also set to intensify materially for Montreal, Ottawa and to a lesser extent Halifax house hunters, whose prospects are already the toughest in decades.

Canadians won't easily give up on their ownership dream

Sky-high prices and rising interest rates pose huge (and growing) obstacles for Canadian home buyers. Still, many will pursue every possible avenue to keep their ownership dream alive, mainly by adjusting their preferences (housing type, location, mortgage amortization period) and seeking additional support (supplementary rental income, parental help for a down payment, multi-generational household setups). We think these coping mechanisms will cushion the impact of rising rates on housing demand.

But something—prices—will have to give

These mechanisms can only do so much. Affordability tensions are already at unsustainable levels in Ontario and British Columbia, and will likely become intolerable in other parts of the country. This will cool down demand significantly, rebalance market conditions and apply downward pressure on prices—a process that began this spring.

What could turn the tide on affordability in a higher rate environment? Rapid household income growth and declining prices. The recent acceleration in wage increases will help but we think the factor most likely to move the needle is a price correction. We now expect Canada's benchmark price to fall more than 10% from peak to trough in the coming year, with more significant drops of 13% in British Columbia and Ontario. We project comparatively smaller declines in the rest of the country—between -2% and -5% (peak to trough) in the Prairies, around -7% in Quebec and between -6% and -9% in Atlantic Canada.

British Columbia

Victoria – Tumbling affordability has a chilling effect

Home buyers are in the most challenging spot ever in Victoria. RBC's aggregate affordability measure for the area jumped a hefty 4.7 percentage points in the first quarter to a record high of 60.6%. It's no surprise, then, to see many of them pulling out of the market this spring. Home resales have dropped considerably since February, slipping below pre-pandemic levels in May. Earlier super-tight demand-supply conditions have eased considerably and price momentum has slowed to a crawl. We expect affordability to deteriorate further in the near term, intensifying pressure on buyers.

Vancouver area – Matching an unflattering record

Higher prices and interest rates propelled RBC's aggregate measure for Vancouver to a whopping 82.0% last quarter, mirroring the worst score in the annals of our affordability measures for any market. The bad news is that it will likely worsen. Any further rate hikes are poised to hit local buyers disproportionately and the outlook for the market has already shifted. Resale activity has fallen by a third this spring and we see the weakening trend persisting in the months ahead. As the market rebalances, expect sellers to lose pricing power. Buyers will increasingly seek more affordable options like condos.

Alberta

Calgary – Positive picture keeps buyers engaged

Ownership costs are going up in Calgary but they have yet to fluster buyers much. RBC's aggregate measure (at 35.3%) continues to paint a relatively favourable affordability picture, with the measure remaining below the long-run average (38.6%) despite rising in four-straight quarters—including by 2.1 percentage points in the latest period. One thing is for sure: buyers remain very engaged. Home resales were remarkably strong through the spring, maintaining a pace far above pre-pandemic levels. The pace did moderate from the record highs reached at the start of this year, though. We think the moderating trend will continue as affordability erodes further.

Edmonton – Exceptional vigour dissipating only gradually

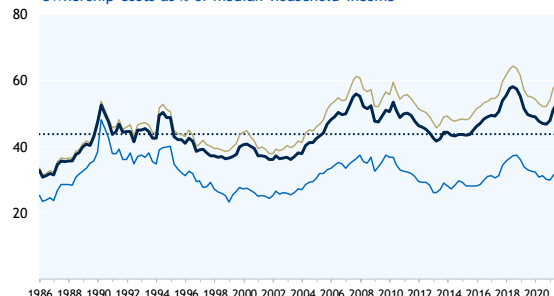
It's a similar situation in Edmonton where buyers still benefit from historically positive affordability despite some notable erosion in the past year. The 3.1 percentage-point year-over-year increase in RBC's aggregate measure wasn't enough to tip the scale unfavourably. At 27.1%, it remains well under its long-term average (32.5%). And this has sustained very strong resale activity in the area, even if slowing this spring from earlier (unsustainable) levels. We expect the market's vigour to dissipate gradually amid rising interest rates.

RBC Housing Affordability Measures

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

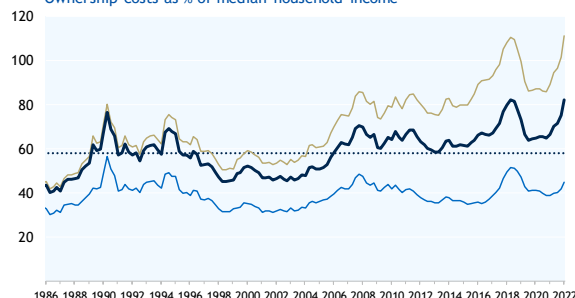
Victoria

Ownership costs as % of median household income



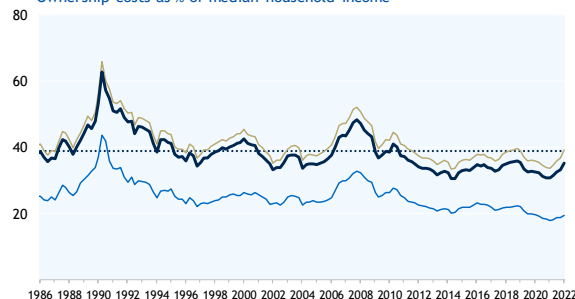
Vancouver Area

Ownership costs as % of median household income



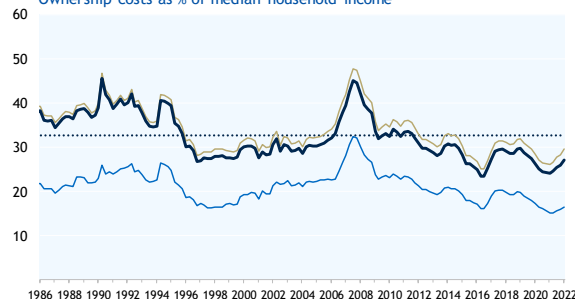
Calgary

Ownership costs as % of median household income



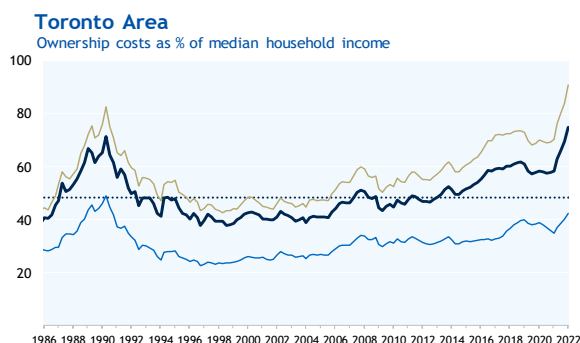
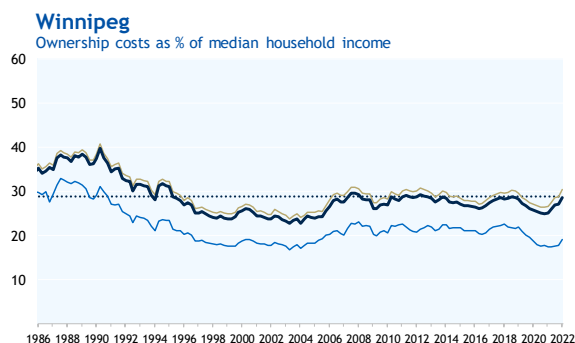
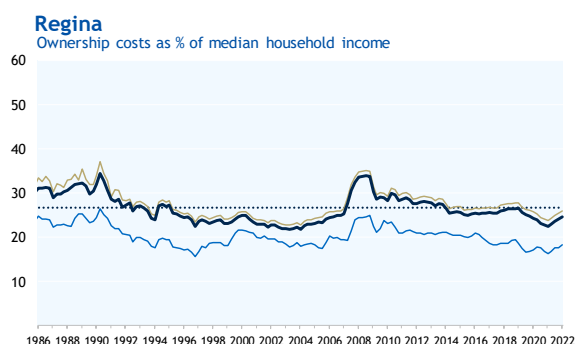
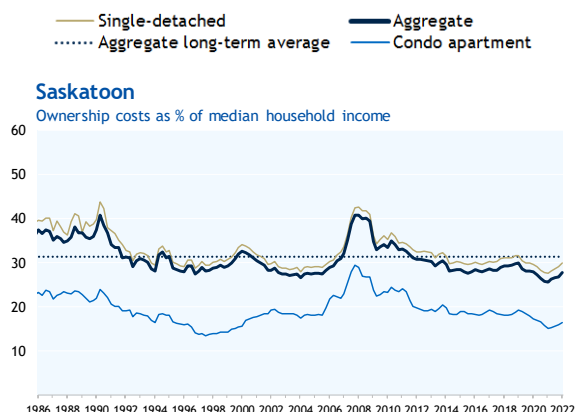
Edmonton

Ownership costs as % of median household income



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

RBC Housing Affordability Measures



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

Saskatchewan

Saskatoon – Solidly affordable

It's hard to find any signs of buyers' confidence—and motivation—fading in Saskatoon. The volume of residential transactions is still more than 40% above pre-pandemic levels. And buyers still far outnumber sellers, keeping demand-supply conditions very tight. Reasonable ownership costs are no doubt a big factor spurring buyers. While rising modestly in the past year, RBC's aggregate measure is comparatively low at 27.8%. Expected interest rate hikes will likely add some stress though not threaten Saskatoon's status as an affordable market.

Regina – Comparatively less sensitive to rate hikes

The market has stayed extremely busy so far this year as home resales continue to hover near all-time highs. Regina has long been the most affordable market we track in western Canada—and it remains so. RBC's aggregate measure was 24.6% in the first quarter up just 0.5 percentage points from the previous quarter—the smallest increase within our coverage. Comparatively inexpensive prices make area buyers less sensitive to interest rates than their counterparts in most other large markets. We believe this will keep activity humming in the period ahead.

Manitoba

Winnipeg – Affordability erosion puts a damper on strong activity

Though they may not have the same sense of urgency as they had last year but there's still a large number of buyers in Winnipeg. This sustains strong resale activity—well above pre-pandemic levels. Deteriorating affordability, however, has slowed the pace down this year. The combination of higher prices and rising interest rates drove RBC's aggregate measure to 28.5% in the first quarter—the highest reading in almost four years. We expect further erosion in the near term, increasingly holding back buyers.

Ontario

Toronto area – Soaring ownership costs mark a turning point

The market reacted strongly to hikes in interest rates—and resulting soaring ownership costs—this spring. Home resales have plunged 33% since February and previously super-tight demand-supply conditions have sharply re-balanced. Signs of a price correction have emerged as bullish market sentiment sours. This dramatic turn of events isn't surprising when considering how hard affordability has been hit. RBC's aggregate measure jumped 5.5 percentage points last quarter, expanding the total increase to an astounding 16.7 percentage points over the past year—and taking the total measure to 74.9%, a new record high for the area. Unfortunately, the situation is likely to get even tougher as interest rates climb. We expect the market to cool further.



RBC Housing Affordability Measures

Ottawa – Record-breaking run ending

The market landscape is changing fast in Ottawa. Higher prices and rising rates have pounded affordability since the fall, and this is threatening to put an end to the record-breaking run the market has sustained over the past five years (only briefly interrupted at the onset of the pandemic). Demand-supply conditions have swung closer to a balance this spring, giving buyers more bargaining power. We expect home prices to come under increasing downward pressure as affordability issues intensify. RBC's aggregate measure reached its worst level in 18 years (43.6%) in the first quarter, and we believe it will stay on a deteriorating trajectory as interest rates rise further.

Quebec

Montreal area – Rising ownership costs take a toll on buyers

Affordability tensions continue to build in the Montreal area. RBC's aggregate measure rose for the sixth-straight time in the first quarter to 43.2%—to hit a 14-year high. Odds are it will rise even more in the near term. Growing tensions have weighed on the market since last year, steadily slowing resale activity. So far in 2022, residential transactions are down close to 9%. Despite it all, sellers have kept their hold on prices. Until this spring, that is. A wave of homes listed for sale recently eased demand-supply conditions markedly. We believe this will temper property values if sustained.

Quebec City – Picture dims but is still bright

The market remains quite vibrant despite some moderation this spring. Quebec City buyers benefit from relatively affordable home prices, which makes them less sensitive to rising interest rates than counterparts in more expensive cities. Nonetheless, the positive affordability picture has eroded somewhat in the past year. RBC's aggregate measure rose 3.0 percentage points to 26.2% over that interval. We see further near-term deterioration putting some stress on buyers, compelling them to pose more resistance to price increases.

Atlantic Canada

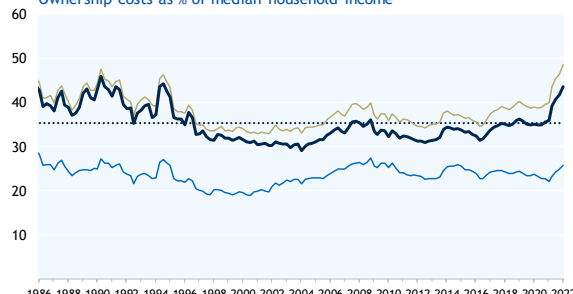
Saint John – Soaring prices take some of the shine off

Saint John attracts a lot of attention from home buyers, which sustains historically-high activity. One of the main draws is good affordability. The market has long compared very well against other Canadian cities in that respect. This continues to be the case, though soaring prices in the past year and, now, rising interest rates have taken some shine off the area. RBC's aggregate measure is up 4.5 percentage points from a year ago and now matches the long-run average of 26.2%. We see that trend persisting in the period ahead. Sellers are still firmly in the driver's seat at this stage, which will keep property values boiling for a while longer.

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

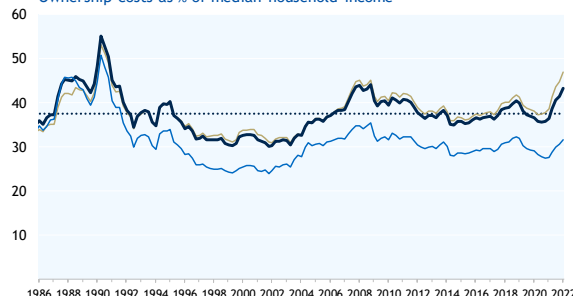
Ottawa

Ownership costs as % of median household income



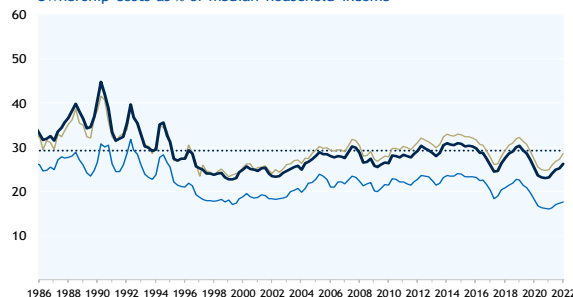
Montreal Area

Ownership costs as % of median household income



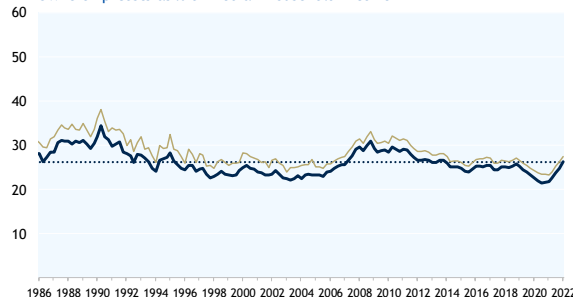
Quebec City

Ownership costs as % of median household income



Saint John

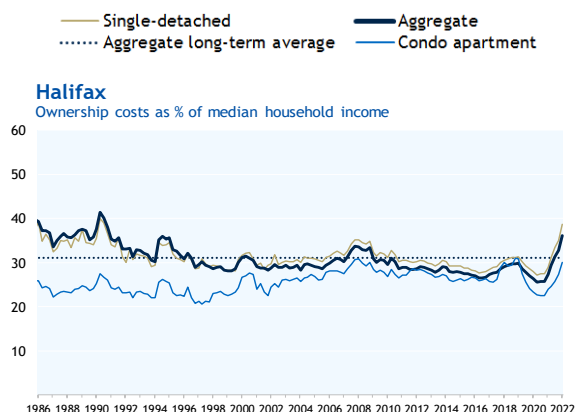
Ownership costs as % of median household income



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

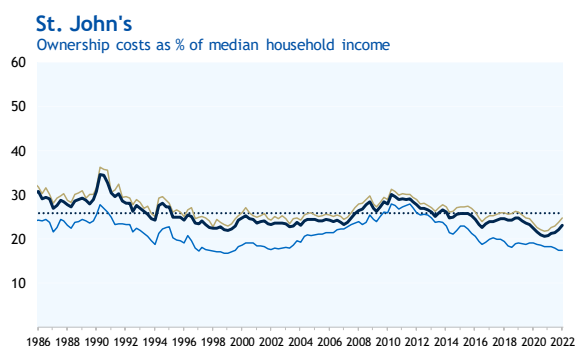


RBC Housing Affordability Measures



Halifax – Sharp affordability loss increasingly stings

Scarce inventories have been the main source of frustration for Halifax buyers. More and more, though, the rapid loss of affordability is becoming top of mind. RBC's aggregate measure soared 8.8 percentage points in the past year to a three-decade high of 36.1% in the first quarter. Sky-rocketing prices—the local benchmark is up more than 31% year-over-year—have driven up ownership costs at the fastest-ever pace in the area. And there are likely more increases to come. A lack of supply has held back activity since last year. And we think cooling demand will be the restraining factor going forward.



St. John's – No signs of slowing down

The market has never been this strong. Home resales are running some 80% above pre-pandemic levels. Inventories have melted to historic lows. And demand-supply conditions are incredibly tight, handing sellers full control over prices. To date, affordability has remained the best in the country—largely explaining the high degree of buyer interest in St. John's. But it's been eroding modestly. RBC's aggregate measure is up 2.4 percentage points from a year ago. We expect the modest erosion to continue as prices keep appreciating in the near term and interest rates rise further.

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 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			
	Q1 2022 (\$)	Q/Q % ch.	Y/Y % ch.	Q1 2022 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	833,100	5.9	21.5	54.0	3.7	11.0	40.9
Victoria	1,112,800	6.1	23.0	60.6	4.7	12.7	44.1
Vancouver area	1,408,200	7.0	19.2	82.0	6.9	15.5	58.7
Calgary	555,900	3.9	9.2	35.3	2.1	4.6	38.6
Edmonton	436,400	2.1	6.8	27.1	1.2	3.1	32.5
Saskatoon	397,200	0.8	4.4	27.8	1.0	2.1	31.1
Regina	342,600	-1.7	6.5	24.6	0.5	2.2	26.5
Winnipeg	377,800	2.4	10.8	28.5	1.3	3.3	28.7
Toronto area	1,281,500	6.5	22.2	74.9	5.5	16.7	49.0
Ottawa	699,400	3.7	16.4	43.6	1.9	7.7	35.4
Montreal area	617,100	2.5	15.1	43.2	1.7	6.7	37.5
Quebec City	366,800	2.9	11.2	26.2	0.9	3.0	29.1
Saint John	288,900	7.3	27.3	26.2	1.4	4.5	26.2
Halifax	530,600	7.1	31.4	36.1	3.3	8.8	31.1
St. John's	327,700	2.7	8.6	23.1	1.0	2.4	25.8

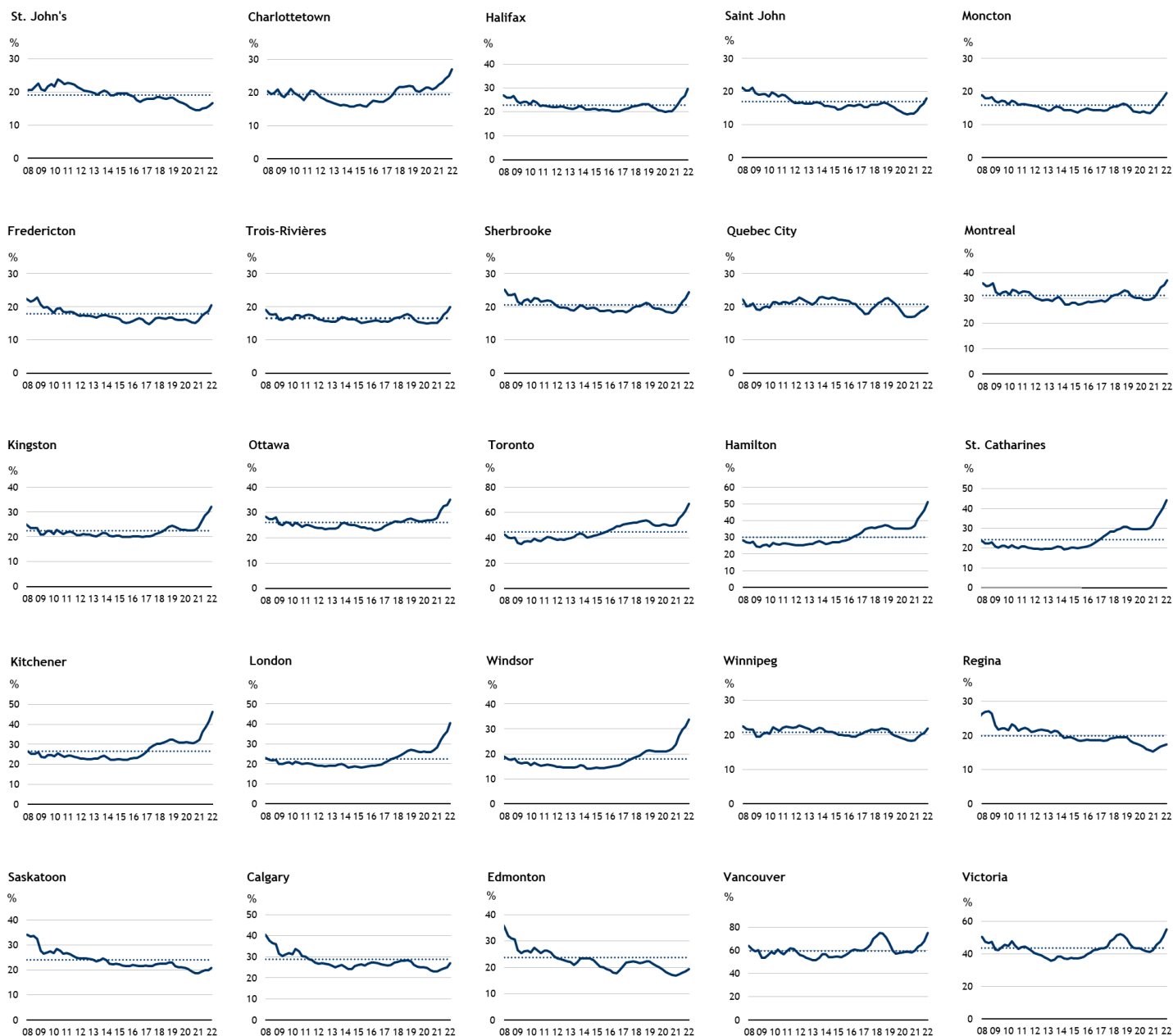
Single-family detached							
Market	Price			RBC Housing Affordability Measure			
	Q1 2022 (\$)	Q/Q % ch.	Y/Y % ch.	Q1 2022 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	912,000	6.0	22.1	59.3	4.1	12.2	43.4
Victoria	1,264,000	6.6	23.3	68.6	5.6	14.5	47.5
Vancouver area	1,942,500	7.2	19.9	111.1	9.8	21.9	70.0
Calgary	620,000	4.2	10.6	39.2	2.3	5.5	41.5
Edmonton	475,700	2.1	8.2	29.6	1.3	3.6	34.2
Saskatoon	421,300	0.3	5.1	29.9	0.9	2.4	32.9
Regina	351,700	-1.9	6.4	25.9	0.4	2.2	27.7
Winnipeg	395,300	2.9	12.0	30.4	1.6	3.8	29.9
Toronto area	1,565,800	6.6	22.3	90.8	6.8	20.4	56.8
Ottawa	774,300	3.9	17.2	48.6	2.1	8.6	38.3
Montreal area	665,500	3.1	18.7	46.9	2.1	8.3	37.8
Quebec City	393,000	3.8	13.2	28.5	1.2	3.5	29.8
Saint John	291,800	6.2	23.6	27.4	1.2	4.1	28.5
Halifax	561,100	7.3	32.9	38.6	3.5	9.6	31.6
St. John's	344,300	2.8	10.6	24.7	1.0	2.7	27.0

Condominium apartment							
Market	Price			RBC Housing Affordability Measure			
	Q1 2022 (\$)	Q/Q % ch.	Y/Y % ch.	Q1 2022 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	571,600	4.1	13.4	37.4	2.0	5.8	33.0
Victoria	619,300	0.5	14.0	35.2	1.1	5.3	31.4
Vancouver area	731,700	4.8	11.1	44.7	2.9	5.9	39.1
Calgary	262,200	0.9	2.4	19.4	0.6	1.6	25.3
Edmonton	231,500	0.8	1.2	16.4	0.5	1.3	21.2
Saskatoon	215,300	0.1	6.0	16.5	0.5	1.4	19.5
Regina	254,300	0.2	10.5	18.2	0.5	2.0	20.3
Winnipeg	244,900	6.0	6.5	19.1	1.3	1.7	22.2
Toronto area	703,200	4.7	15.3	42.5	2.4	7.5	31.4
Ottawa	399,200	2.4	11.2	25.7	0.8	3.7	23.8
Montreal area	450,200	1.2	10.2	31.6	1.0	4.0	31.5
Quebec City	246,500	-0.7	6.8	17.6	0.2	1.6	22.3
Saint John	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Halifax	452,000	6.8	22.4	30.1	2.7	6.2	25.6
St. John's	248,700	-3.2	-12.0	17.4	0.0	-0.8	21.5



Mortgage carrying costs by city

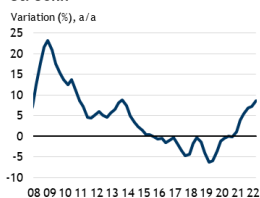
Our standard RBC Housing Affordability Measure captures the proportion of median pre-tax household income required to service the cost of a mortgage on an existing housing unit at market prices, including principal and interest, property taxes and utilities; the modified measure used here includes the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



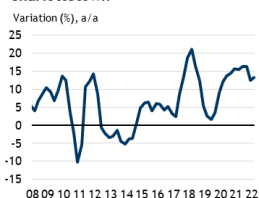
The dashed line represents the long-term average for the market.
Source: RPS, Statistics Canada, Bank of Canada, RBC Economics

Aggregate home price

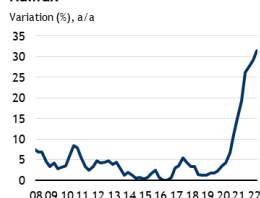
St. John



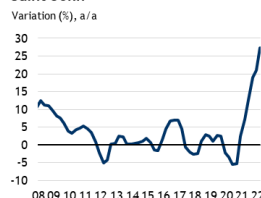
Charlottetown



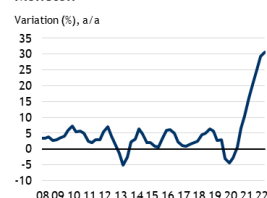
Halifax



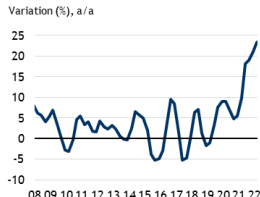
Saint John



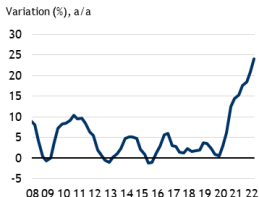
Moncton



Fredericton



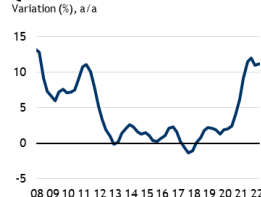
Trois-Rivières



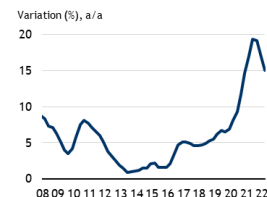
Sherbrooke



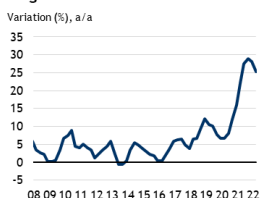
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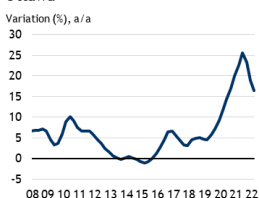
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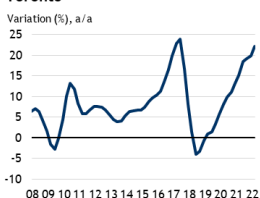
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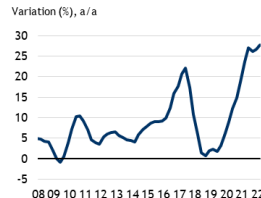
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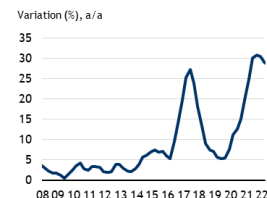
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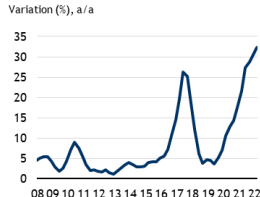
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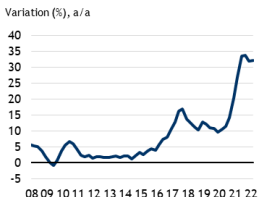
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Kitchener



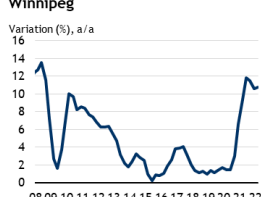
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Windsor



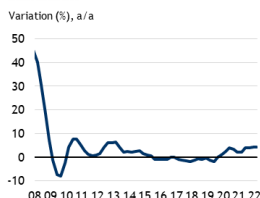
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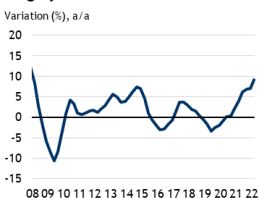
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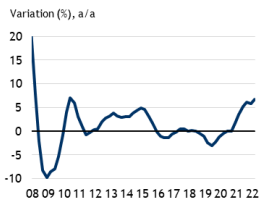
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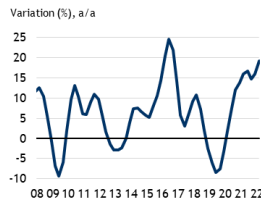
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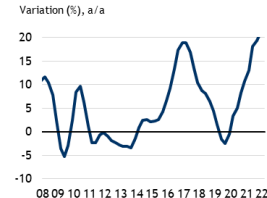
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Vancouver

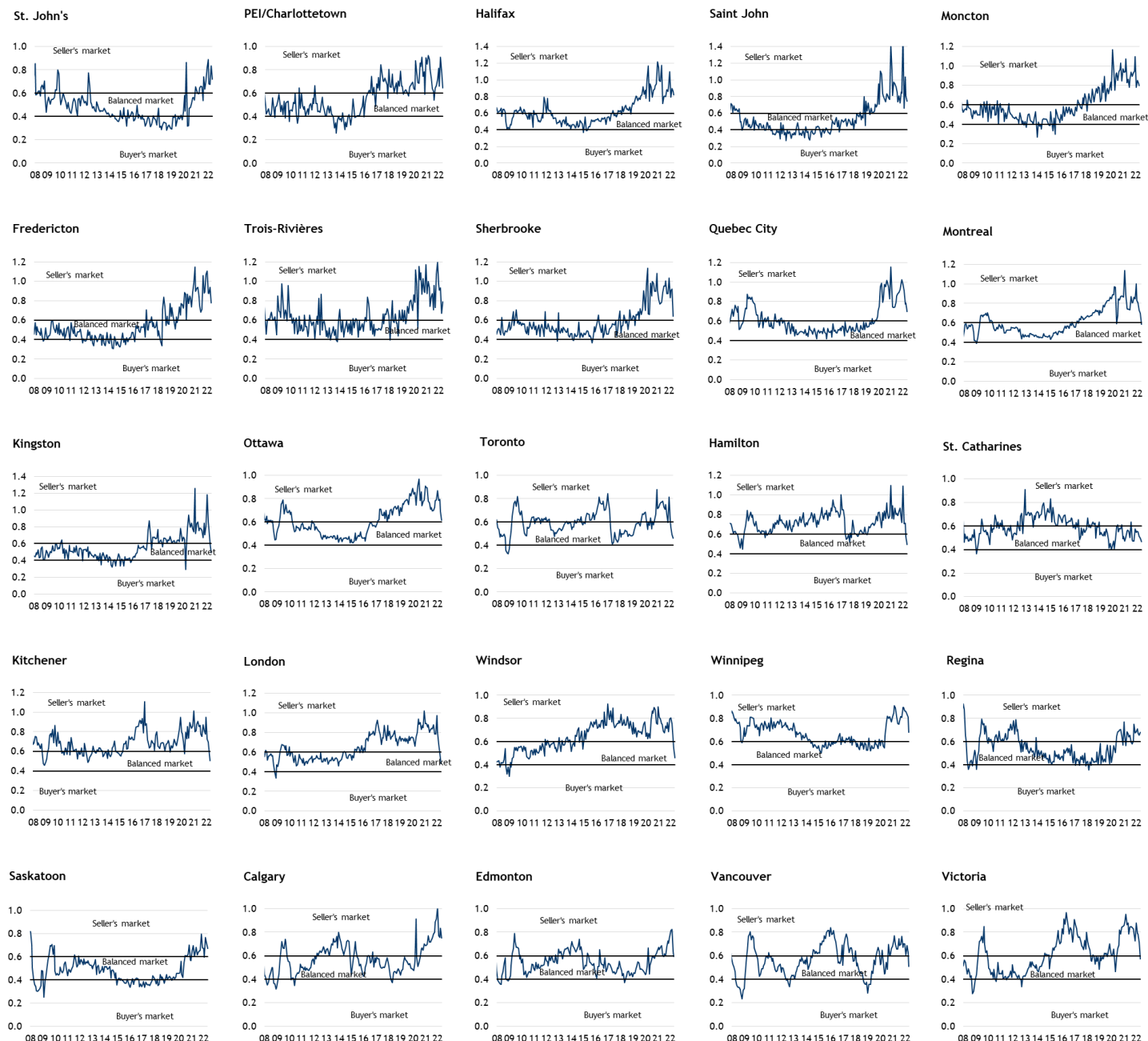


Victoria



Source: RPS, RBC Economics

Home sales-to-new listings ratio



Source: Canadian Real Estate Association, RBC Economics

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