

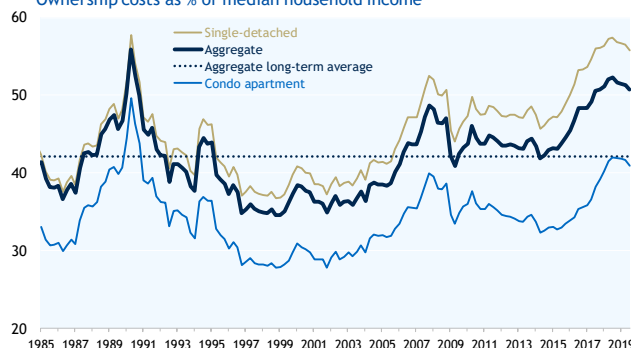
HOUSING TRENDS AND AFFORDABILITY

December 2019

Home ownership got more affordable in Canada but will it last?

- **Fourth-straight improvement in RBC's housing affordability measure:** The aggregate measure for Canada eased by 0.6 percentage points to 50.7% in the third quarter. This marked the longest declining stretch since 2009 though the cumulative 1.6 percentage-point drop only partially restored conditions.
- **There was some relief in the majority of local markets:** Solid income gains were a positive factor across most of Canada. Declining or stagnant prices further helped lower the (extremely high) bar for British Columbia buyers.
- **Severe affordability issues persist in Vancouver, Toronto and Victoria:** Ownership costs have started to pinch buyers in Montreal and Ottawa but remain affordable everywhere else.
- **The improving trend in Canada is drawing to a close:** The rising heat of Canada's market will drive up ownership costs in many local markets in the period ahead.

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



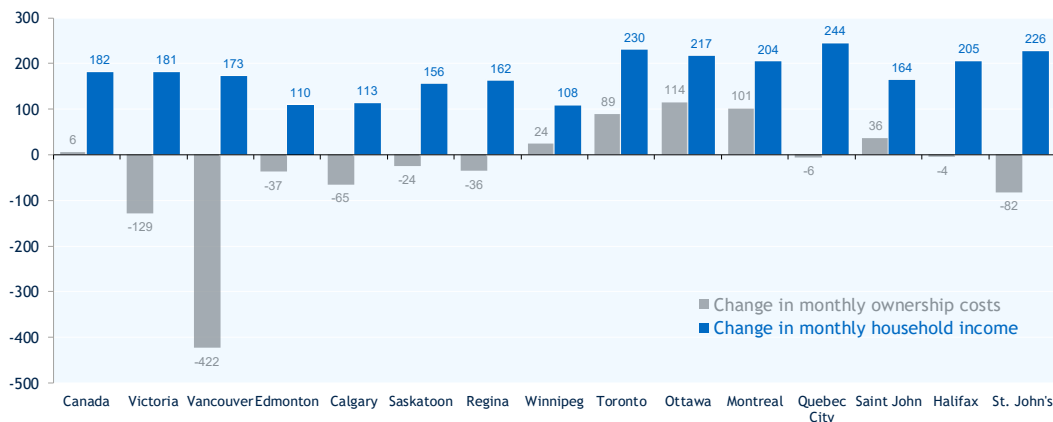
The share of income a household would need to cover ownership costs (in %)

Canada	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal
50.7	77.3	38.6	33.5	65.6	41.3	44.4

Third quarter 2019

Income gains and falling ownership costs out west bolstered affordability in the past year

Change from a year ago, \$ per month, third quarter of 2019



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

Stronger income gains help buyers afford a home

Canadian households finally saw their income grow a little faster in the past year and this enhanced their capacity to buy a home. In fact, income gains generated the entirety of the 1.6 percentage-point improvement in RBC's aggregate affordability measure over this period at the national level. That's been one of the benefits of generally strong labour market conditions. Rising wages—as well as growth in other sources of income—added more



than \$180 a month, on average, into the pockets of a typical Canadian household since the third quarter of 2018. The most significant advances were recorded in eastern Canada where labour markets have been particularly tight. Prairie households, however, took in less—much less in the case Albertans—reflecting the more challenging economic landscape in the region. Still, Prairie buyers got some material affordability relief. Declining property values and a drop in mortgage rates cut ownership costs between \$24 and \$65 a month in Alberta and Saskatchewan. Steeper home price declines gave British Columbia buyers an even bigger break. The ownership costs of a home bought at market value fell between nearly \$130 (in Victoria) to more than \$420 a month (in Vancouver) since the third quarter of 2018. This helped Vancouver and Victoria record the most significant improvement in RBC's measure over the past year (8.8 percentage points and 3.5 percentage points, respectively)—though still much more is required to fully restore affordability in both markets. Solid appreciation in property values over the past year drove up ownership costs in Ottawa (by \$114 a month), Montreal (\$101) and, to a lesser extent, Toronto (\$89). Ottawa and Montreal are the only two markets we track where RBC's affordability measures eroded in the past year. Nationwide, ownership costs have been relatively stable (rising only \$6 a month on average).

Affordability in Vancouver, Victoria and Toronto improved the most in Q3 yet still the worst in Canada

The 0.6 percentage point decline in RBC's aggregate affordability measure for Canada in the third quarter marked the longest declining stretch—four quarters—since 2009 (a drop in the measure represents an improvement in affordability). Once again, it was developments in Vancouver, Victoria and Toronto that impacted the national picture the most—all three recorded large declines in RBC's measure in the latest period. They weren't alone though. All other markets but Saskatoon, Regina and Saint John also posted drops. Buyers no doubt welcomed the improvement in ownership affordability. Yet, the bar remains high. At 50.7% in the third quarter, RBC's measure for Canada was still well above the long-run average of 42.1%. Owning a home in Vancouver, Toronto and Victoria, in particular, continues to be an impossible dream for many. And in Montreal and Ottawa, ownership costs have started to pinch. Outside these major markets, however, the bar is generally more achievable.

Broad improving affordability trend is drawing to a close

The cost of ownership is about to rise at a faster clip in the period ahead. Canada's housing market is now in full-blown recovery mode (for the most part), and firmer property values are emerging in many areas. Add in recent increases in mortgage rates and buyers will soon be looking at stiffer monthly ownership bills. The big question is whether future household income gains will be sufficient to cover the increase and keep affordability in check. Our view is that they will come short in Vancouver, Toronto and Victoria in 2020. High prices in these markets significantly amplify the impact of property appreciation and interest rate increases on ownership costs. Buyers in Ottawa and Montreal also are at risk of seeing affordability deteriorate given the likelihood of further price acceleration in the year ahead. Buyers in the Prairies and parts of Atlantic Canada are less at risk. We see little that could ignite property values and erode affordability in a material way in Alberta and Saskatchewan.



British Columbia

Victoria – More affordability relief

A rise in household income more than offset a modest price increase, and kept housing affordability improving for a fifth-straight quarter in Victoria. RBC's aggregate affordability measure eased by 1.0 percentage point in the third quarter to 56.9%, the lowest level in two years. While this was welcome news to buyers, heavy tensions remain—Victoria's affordability level is still the third worst among the markets we track. We see little room for further relief. Victoria's housing market is now recovering solidly, and demand-supply conditions have tightened considerably. We expect prices to pick up in the period ahead.

Vancouver area – Best affordability since 2015 isn't enough

The affordability picture continued to brighten somewhat for Vancouver-area buyers. RBC's aggregate measure fell a lot again in the third quarter—down 2.0 percentage points—as property values dropped further. While the 77.3% value was the lowest level since late-2015, it still indicates that owning a home is way out of reach for the average local buyer. And unfortunately for them, odds are the market won't get much more affordable in the period ahead. A strong rebound in activity since spring will soon put prices on an upward trajectory. The recent uptick in mortgage rates won't help either.

Alberta

Calgary – Lack of confidence a bigger issue than ownership costs

Calgary's modest market recovery stalled mid-year but it isn't because ownership costs are out of line. In fact, those costs take up a slightly lower share of income (38.6%) compared to the area's long-run average (40.6%). The stalling had more to do with the fragile state of Alberta's economy and lackluster homebuyer demand. Frustrations over the slow pace of pipeline expansions, in particular, have taken a toll on confidence. RBC's measure edged lower by 0.5 percentage points in the third quarter—a fourth consecutive decline.

Edmonton – Stalling market recovery reflects concerns about economy

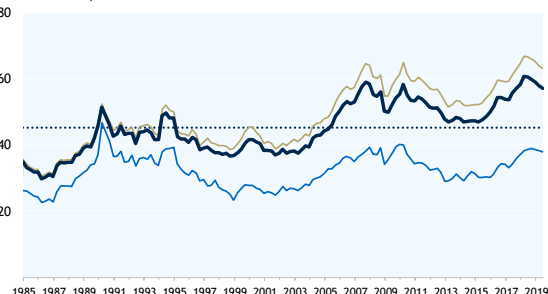
The nascent market recovery also lost its momentum in Edmonton. The energy sector's woes no doubt are weighing on homebuyer sentiment. A deterioration in the area's labour market this year is likely a big factor too. And so is the provincial government's plan to trim the public sector. Affordability, on the other hand, isn't much of an issue. RBC's aggregate measure (33.5%) continues to be slightly below the long-term average (34.1%). The measure came down 0.3 percentage points in the third quarter. We see room for further declines in the near term as high inventories keep prices under downward pressure.

RBC Housing Affordability Measures

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

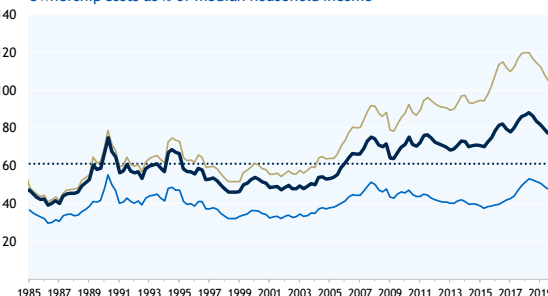
Victoria

Ownership costs as % of median household income



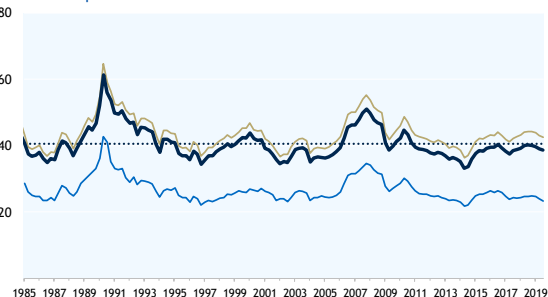
Vancouver Area

Ownership costs as % of median household income



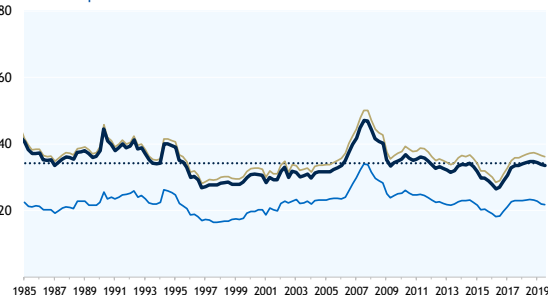
Calgary

Ownership costs as % of median household income



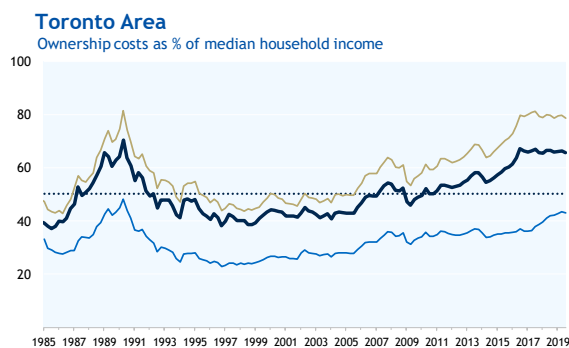
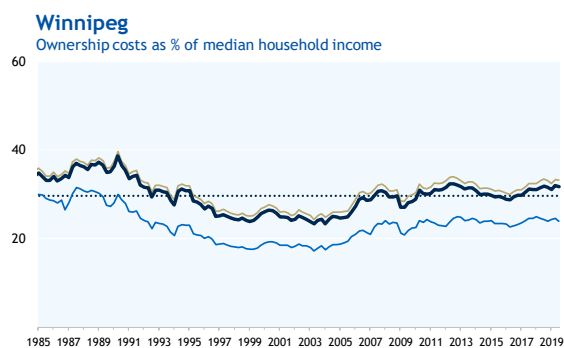
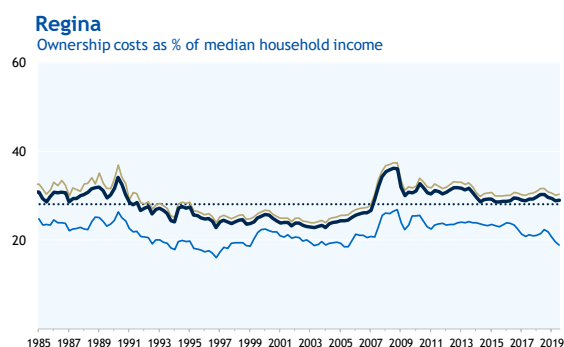
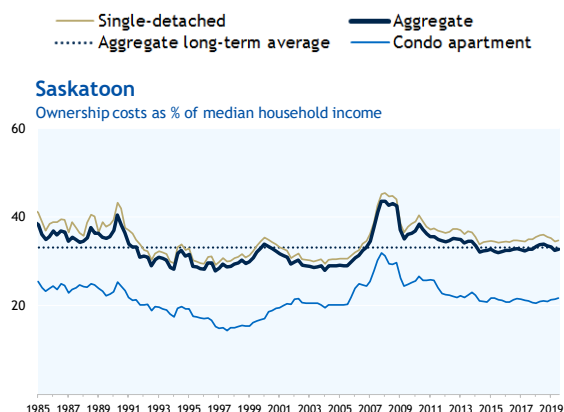
Edmonton

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 – Neutral affordability trend is buyers' friend

Housing affordability remains in a neutral position in Saskatoon despite eroding slightly in the third quarter. RBC's aggregate measure edged up 0.2 percentage points, following three quarters of modest declines. The erosion partly reflected a softening in household income. The 32.7% measure—just marginally below the 33.1% long-run average—isn't holding back buyers. Home resales are up 5.8% so far this year. We expect more balanced demand-supply conditions to stabilize prices in the year ahead.

Regina – Declining inventories are a positive sign

Regina was the only other market we track where affordability deteriorated in the third quarter. But the extent of it was minor. RBC's aggregate measure inched just 0.2 percentage point higher. And the 29.0% value was still the lowest in the West and close to Regina's historical norm. We expect the drop in unsold inventories since spring and modestly stronger homebuyer demand to gradually boost support for prices in the period ahead.

Manitoba

Winnipeg – Mostly positive affordability picture keeps buyers upbeat

Winnipeg buyers have been more active this year after the mortgage stress test sent many of them to the sidelines in 2018. Home resales climbed 6% over the first 11 months of 2019, almost entirely reversing last year's decline. Balanced demand-supply conditions continue to keep home price increases subdued, which leaves owning a home largely affordable. RBC's aggregate measure (31.6%) remained well below the national average and fairly stable over the past year. The 0.3 percentage points drop in the third quarter partly reversed a slightly larger increase in the second quarter.

Ontario

Toronto area – Condos' affordability advantage is shrinking

On the surface, little has changed for Toronto-area homebuyers gauging their ability to own a home. The bar is still extremely high—but at least it hasn't risen since 2017 for most housing types. RBC's aggregate affordability measure has been stuck near record-high levels, coming in at 65.6% in the third quarter, down 0.8 percentage points from the second quarter. That flat trend, however, masked steady deterioration for condo apartments. This is a big deal for first-time homebuyers because condos are often their more realistic option. And there's little reprieve in sight. Recovering demand and scarce supply are poised to turn up the heat on home prices in 2020.



RBC Housing Affordability Measures

Ottawa – Hot market keeps ownership costs on an upward trajectory

Ottawa's housing market is showing few signs of cooling despite ownership costs taking up a larger share of household income. Home resales are on track to another record high in 2019—the fourth-straight—and very tight demand-supply conditions are cranking up the heat on home prices. Ottawa-area buyers have been grappling with rapidly rising ownership costs in the past three years. Affordability deteriorated to its worst level in 25 years in the second quarter though a solid income gain gave a small break in the third quarter with RBC's aggregate measure easing by 0.4 percentage points to 41.3%. With sellers firmly in command of the market, we expect this improvement to be temporary.

Quebec

Montreal area – Income boost helps buyers out

Montreal is another hot housing market that has seen a material erosion in ownership affordability over the past two years. The area's strong labour market, however, helped stabilize this trend in the latest quarter. Faster-rising wages gave buyers more than enough income to handle higher ownership costs. RBC's aggregate affordability measure edged down 0.3 percentage points to 44.4%, which represented the first decline since mid-2017. Whether this will be repeated in the period ahead is unclear. We expect home prices to accelerate further in the near term given how tight the market is. So, much of the impact on affordability will depend on income keeping pace.

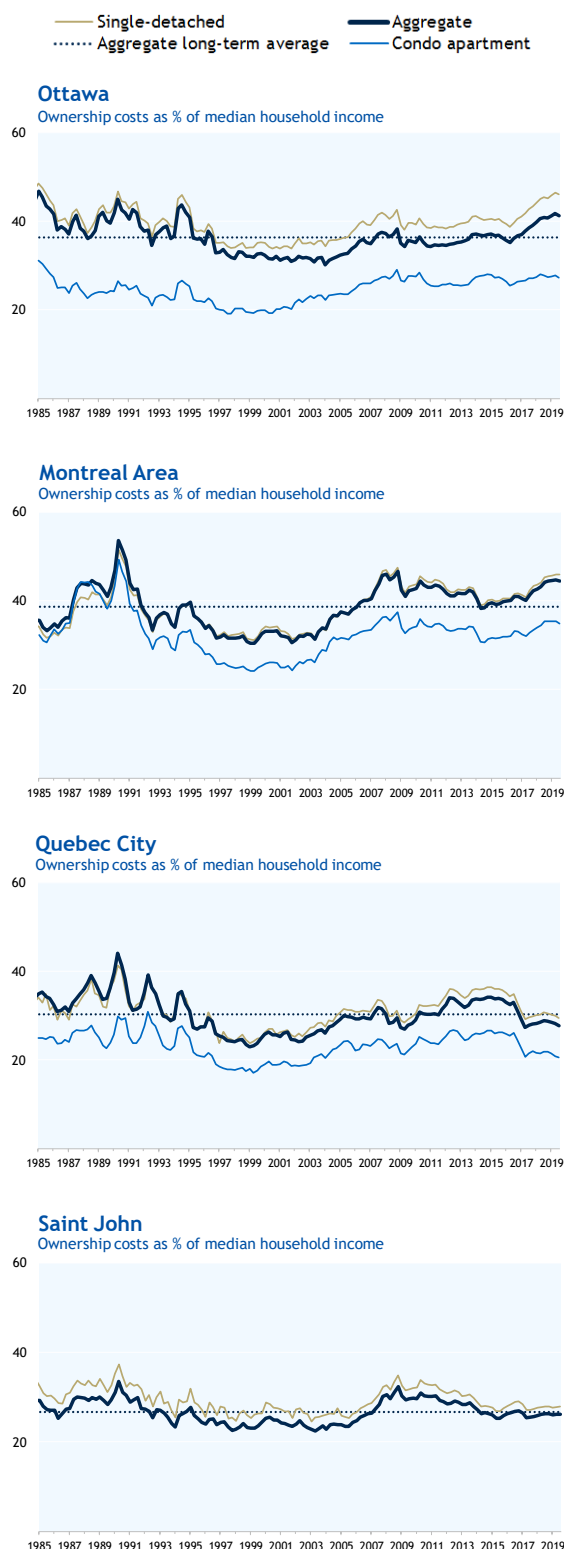
Quebec City – Buyers taking advantage of good situation

Quebec City buyers are in an enviable position. They have plenty of options—especially if they're thinking about buying a condo where inventories are high. Prices are generally low relative to most markets we track and quite stagnant. And the area's hot job market is delivering nice income gains. So not only is owning a home affordable in absolute and relative terms, it got even more affordable in the past year. RBC's aggregate measure eased a further 0.4 percentage points to 27.7% in the third quarter. Buyers are definitely taking advantage of the situation. Home resales are up almost 15% in 2019.

Atlantic Canada

Saint John – Attractive affordability underpins thriving market

The Saint John housing market is thriving. 2019 is shaping up to be the second strongest year ever for home resales, rising nearly 11% above 2018. Demand-supply conditions have been consistently tight over the past year. Yet price increases have been moderate. These increases were too small to jeopardize the area's stellar affordability—the best among markets we track. In fact, ownership affordability didn't budge at all in the third quarter. RBC's aggregate measure remained unchanged at 26.1%. A weakening in the area's job market since summer cast a shadow on the housing market's outlook. We would expect activity to cool down if it were to persist.



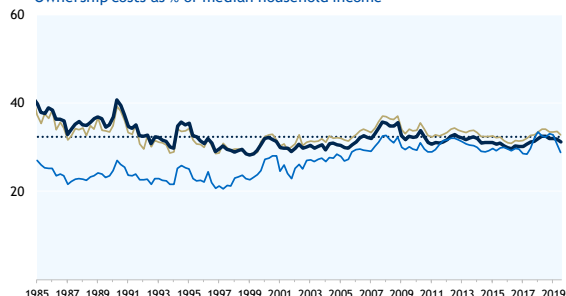
Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economics

RBC Housing Affordability Measures

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

Halifax

Ownership costs as % of median household income

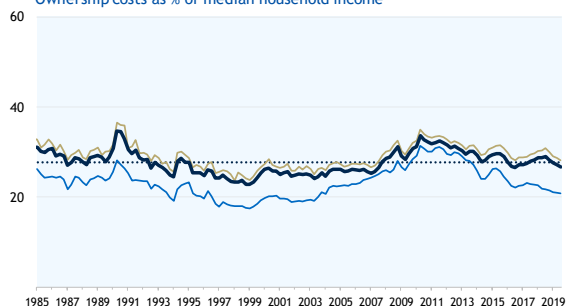


Halifax – Ownership costs under control despite market tightness

The Halifax-area market is bursting at the seams. Home resales this year haven't been this strong since 2007 and for-sale inventories are at 16-year lows. That's thanks to a strong local job market and the fastest population growth in a generation. Remarkably, prices haven't exploded. They've stayed on a modest upward trajectory—at least, up to end of the summer—keeping home ownership costs under control. RBC's aggregate affordability measure in fact eased over the past year, including in the third quarter when it dropped by 0.6 percentage points to 31.2%. Halifax's good affordability standing may come under pressure in the period ahead. Signs of much stronger price appreciation have emerged this fall.

St. John's

Ownership costs as % of median household income



St. John's – The market has finally turned a corner

Home ownership costs continue to fall in St. John's despite evidence that the local housing market has turned a corner. RBC's aggregate measure has declined for four consecutive quarters by a total of 2.3 percentage points, including 0.5 percentage-point drop to 26.7% in the third quarter. The good news is that home resales are up significantly by 9% this year, reversing most of the back-to-back declines recorded in 2017 and 2018. Supply remains high relative to demand, though, which will restrain any price recovery in the near term. 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

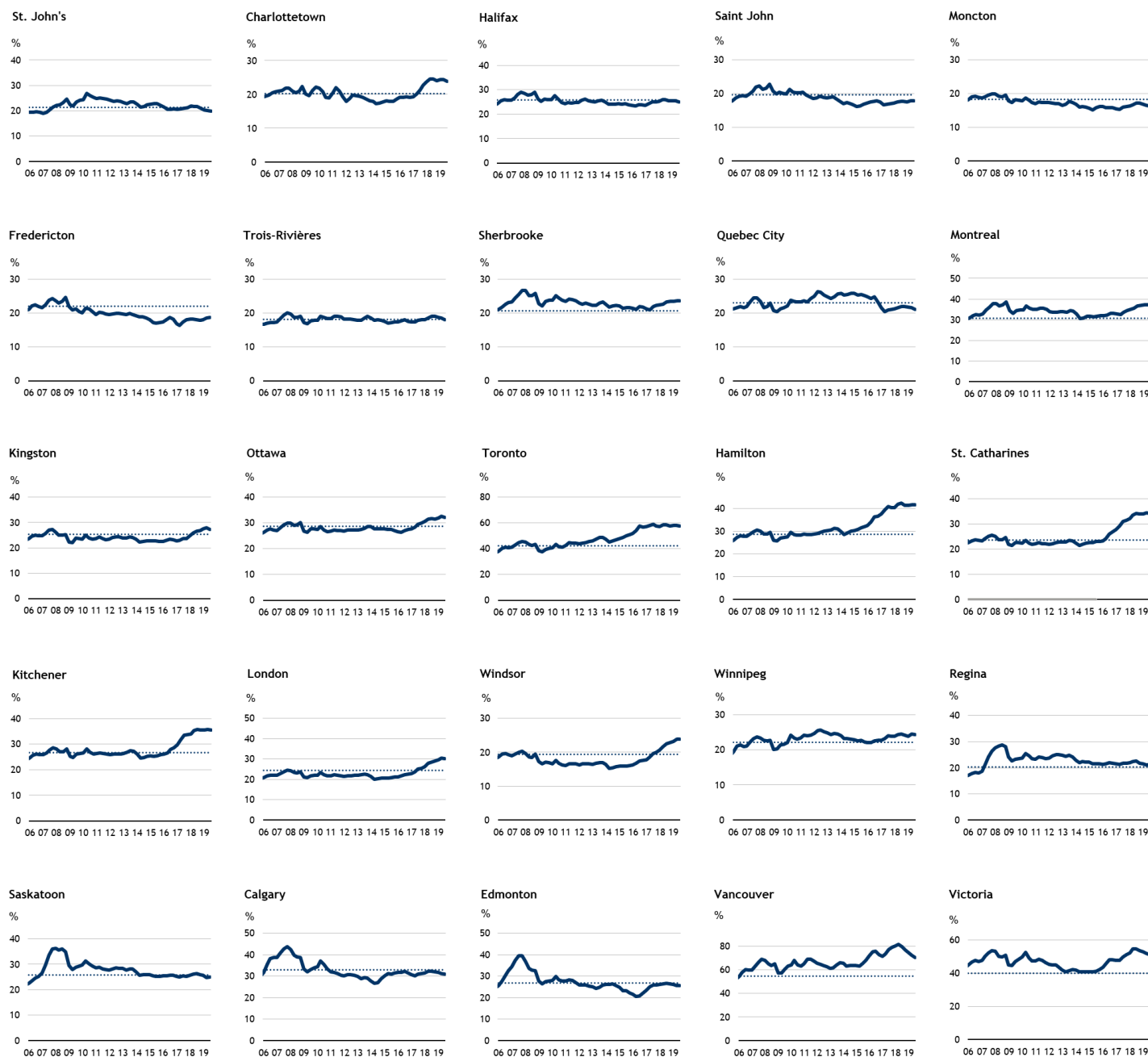
Aggregate of all categories							
Market	Price			RBC Housing Affordability Measure			
	Q3 2019 (\$)	Q/Q % ch.	Y/Y % ch.	Q3 2019 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	570,700	1.3	1.4	50.7	-0.6	-1.6	42.1
Victoria	784,700	0.5	-2.4	56.9	-1.0	-3.5	45.1
Vancouver area	1,034,500	-0.4	-7.4	77.3	-2.0	-8.8	61.1
Calgary	497,200	1.0	-1.5	38.6	-0.5	-1.6	40.6
Edmonton	399,900	1.3	-1.4	33.5	-0.3	-1.1	34.1
Saskatoon	359,900	0.6	-1.2	32.7	0.2	-1.2	33.1
Regina	318,400	0.6	-1.9	29.0	0.2	-1.3	28.0
Winnipeg	315,400	1.8	2.2	31.6	-0.3	-0.2	29.6
Toronto area	879,600	1.8	3.3	65.6	-0.8	-1.0	50.3
Ottawa	464,600	2.1	6.5	41.3	-0.4	0.4	36.4
Montreal area	440,700	1.9	7.3	44.4	-0.3	0.2	38.6
Quebec City	299,300	0.3	1.4	27.7	-0.4	-1.2	30.3
Saint John	225,400	2.4	5.6	26.1	0.0	-0.1	26.6
Halifax	326,000	0.5	1.1	31.2	-0.6	-1.2	32.3
St. John's	289,900	0.6	-4.2	26.7	-0.5	-2.3	27.7

Single-family detached							
Market	Price			RBC Housing Affordability Measure			
	Q3 2019 (\$)	Q/Q % ch.	Y/Y % ch.	Q3 2019 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	624,600	1.1	1.4	55.8	-0.7	-1.6	45.0
Victoria	869,500	1.0	-1.8	63.0	-0.8	-3.6	48.4
Vancouver area	1,429,600	-1.4	-7.2	104.9	-3.7	-12.0	73.1
Calgary	547,900	0.8	-1.7	42.5	-0.6	-1.8	43.6
Edmonton	428,400	1.4	-1.1	36.1	-0.3	-1.1	36.0
Saskatoon	376,000	0.9	-1.2	34.7	0.3	-1.2	34.9
Regina	324,600	1.0	-1.5	30.4	0.3	-1.2	29.3
Winnipeg	323,000	2.0	1.8	33.1	-0.3	-0.3	30.8
Toronto area	1,060,300	1.5	3.2	78.6	-1.1	-1.2	58.1
Ottawa	512,600	2.2	6.9	46.0	-0.4	0.6	39.4
Montreal area	447,400	2.4	8.8	45.9	-0.1	0.7	38.6
Quebec City	311,800	0.4	1.9	29.5	-0.5	-1.2	31.1
Saint John	234,000	2.7	6.3	27.8	0.0	-0.1	29.2
Halifax	336,000	0.0	1.2	32.7	-0.8	-1.3	32.7
St. John's	298,500	0.6	-5.2	28.2	-0.5	-2.6	29.1

Condominium apartment							
Market	Price			RBC Housing Affordability Measure			
	Q3 2019 (\$)	Q/Q % ch.	Y/Y % ch.	Q3 2019 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	467,500	0.7	2.0	41.0	-0.7	-1.0	34.2
Victoria	507,800	1.1	1.7	37.8	-0.4	-0.8	32.0
Vancouver area	617,400	-1.2	-6.4	47.6	-1.5	-4.7	40.2
Calgary	275,200	-1.3	-4.2	23.4	-0.7	-1.3	26.7
Edmonton	239,800	0.8	-6.7	21.7	-0.2	-1.5	22.4
Saskatoon	229,700	1.4	7.4	21.6	0.2	0.6	21.6
Regina	196,400	-5.2	-17.9	18.9	-0.6	-3.5	21.7
Winnipeg	239,200	-0.8	0.6	23.9	-0.6	-0.4	23.0
Toronto area	568,100	2.2	8.4	43.0	-0.4	1.1	32.1
Ottawa	305,500	1.1	2.5	27.2	-0.5	-0.6	24.5
Montreal area	350,500	1.0	5.0	34.9	-0.5	-0.5	32.5
Quebec City	229,900	1.5	-0.5	20.6	-0.2	-1.2	23.1
Saint John	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Halifax	314,800	-4.7	-7.6	28.7	-1.9	-3.5	26.7
St. John's	230,100	2.2	1.2	20.9	-0.1	-0.8	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



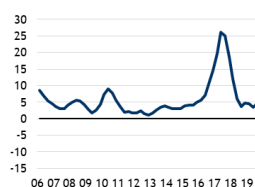
St. Catharines

% change, year-over-year



Kitchener

% change, year-over-year



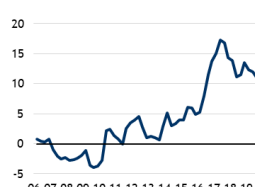
London

% change, year-over-year



Windsor

% change, year-over-year



Winnipeg

% change, year-over-year



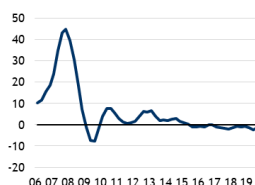
Regina

% change, year-over-year



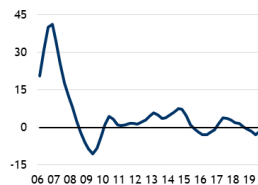
Saskatoon

% change, year-over-year



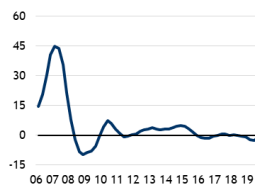
Calgary

% change, year-over-year



Edmonton

% change, year-over-year



Vancouver

% change, year-over-year



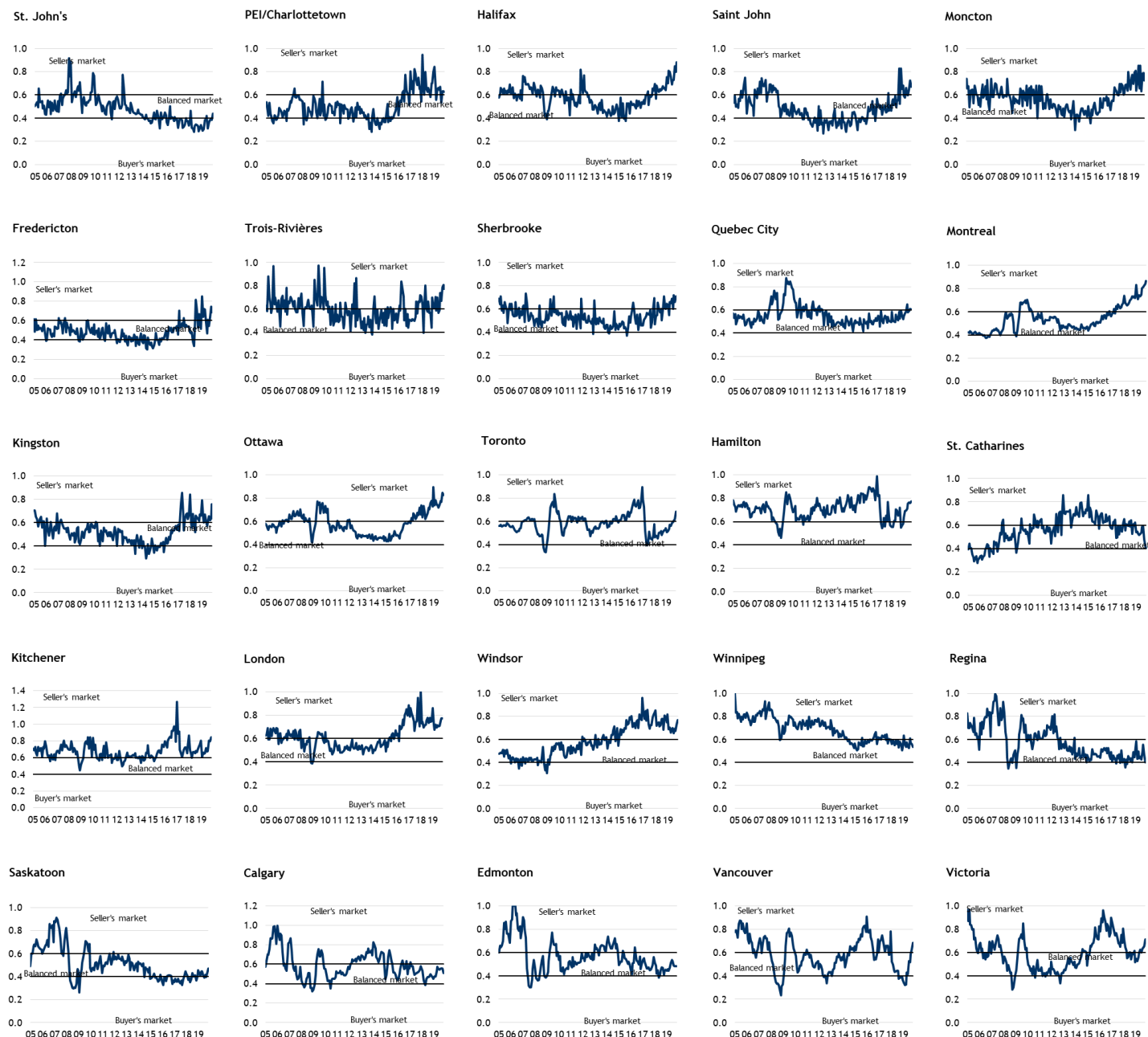
Victoria

% 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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