

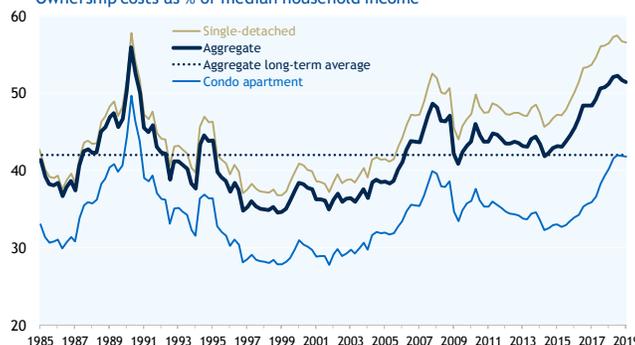
HOUSING TRENDS AND AFFORDABILITY

June 2019

Market downturn's silver lining: an affordability boost

- **RBC's housing affordability measures eased for the second-straight quarter.** The Canada-wide measure dipped by 0.3 percentage points to 51.4% in the first quarter of 2019—still historically high.
- **The improvement was widespread across local markets.** Price declines in the West and parts of Atlantic Canada, as well as rising household income helped lower the bar to ownership in most markets.
- **Affordability is still dreadful in Vancouver, Toronto and Victoria.** Minor signs of strain are apparent in Montreal and Ottawa but conditions are normal in all other markets we track.
- **We see more room for ownership costs to fall in the near term.** Interest rates are no longer set to rise and property values are still under downward pressure in Western Canada.

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



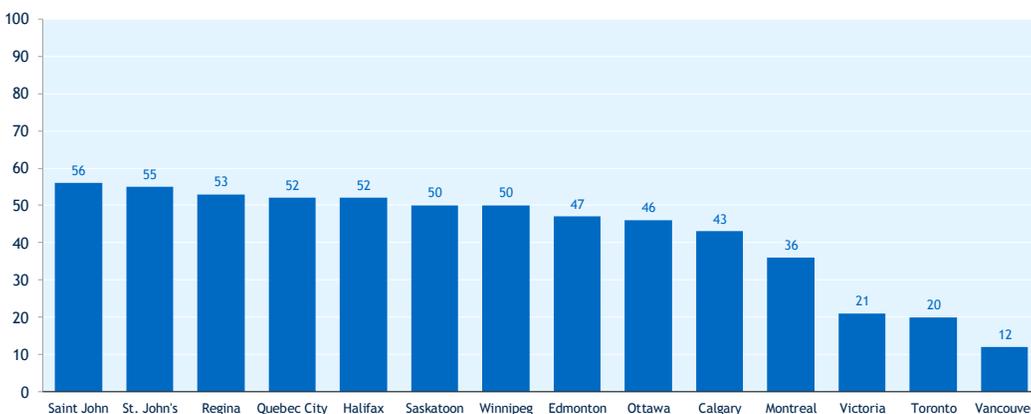
The share of income a household would need to cover ownership costs (in %)

| Canada | Vancouver | Calgary | Edmonton | Toronto | Ottawa | Montreal |
|--------|-----------|---------|----------|---------|--------|----------|
| 51.4 | 82.0 | 39.7 | 34.3 | 66.0 | 41.1 | 44.3 |

First quarter 2019

Proportion of families who can afford to own a home

% of families whose income meets debt service standards for an average home bought in Q1 2019



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

Home-ownership dream is alive in most markets

A majority or near majority of families would be able to cover the cost of owning an average home in nine of the 14 markets we track. The proportion of ownership-capable families is highest in Canada's most affordable markets—Saint John, St. John's, Regina, Quebec City and Halifax. It's a very different story for a trio of least-affordable markets. Only one in eight families earns the income necessary to manage ownership costs in the Vancouver area, and one in five families in



both the Toronto area and Victoria. And this isn't taking into account the mortgage stress test. Clearing a higher qualifying rate would drop even more families out of contention (to one in 13 in Vancouver, and one in seven in Toronto). Buying a more affordable condo apartment opens the field to close to two-thirds of families in most markets. But still just one-quarter of them would be able to cover condo-ownership costs in Vancouver, and only one-third in Toronto. Severe affordability issues remain a major obstacle for all but the wealthiest in Vancouver, Toronto and Victoria.

The back-to-back affordability improvements were intentional

Policy-makers will be encouraged by the fact that some progress is being made at repairing home ownership affordability in Canada. After all, tackling affordability crises in Vancouver and Toronto is one of their top priorities. Policy-engineered market downturns have succeeded at reversing some of the earlier massive affordability losses in Vancouver and stabilizing the situation in Toronto—though neither market is close to levels that ordinary Canadian households can afford. Downturns—and the resulting fall in property values—in other markets in Western Canada and the Atlantic region contributed to RBC's national aggregate affordability measure declining by 0.3 percentage points to 51.4% in the first quarter of 2019 (a drop in the measure represents an improvement in affordability). This marked the second decline in a row—something we haven't seen since 2013. Ottawa, Toronto and Montreal were the only three markets that we track bucking the trend. RBC's measure rose slightly in Ottawa and Toronto, and was unchanged in Montreal. In the case of Toronto, the rise followed a larger decline in the fourth quarter.

We're set for further (modest) improvements in affordability

We expect overall home-ownership costs to continue to ease in the near term, albeit incrementally. Interest rates are no longer poised to increase amid heightened global trade uncertainty. And despite signs of a cyclical market bottom emerging this spring, we expect home prices to remain under downward pressure for months to come in many western Canadian markets. These factors, along with a still-positive outlook for household income, will work to extend the stretch of affordability relief we saw in the past couple of quarters. It may not be that much, though, because Toronto's market recovery has set local property values on a modest upward trajectory, which will act to temper the impact of declines in ownership costs elsewhere in the country.



British Columbia

Victoria – Signs of a market turnaround emerge

The winter months marked a five-year low point for Victoria’s housing market. The mortgage stress test, market-cooling measures introduced last year by the BC government and poor affordability levels took many buyers (including speculators) out of play. Buyers got more active this spring, providing tentative signs the market had adjusted to policy changes. Buyers were also possibly encouraged by some modest improvement in affordability over the past three quarters. In the first quarter, RBC’s aggregate measure for Victoria fell by a full percentage point to 58.6%.

Vancouver area – The cyclical bottom at last

It’s been a rough couple of years for the Vancouver-area market but it looks like resale activity finally ended its lengthy and steep slide this spring. Not that we expect a sharp snapback anytime soon. Affordability remains in crisis and this will continue to weigh heavily on homebuyer demand for the foreseeable future. Progress on addressing this crisis has been modest to date—yet notable. RBC’s aggregate measure eased for a third-straight time in the first quarter, down 1.9 percentage points to 82.0%. Relative to a year ago, the measure is down by a sizable 5.1 percentage points.

Alberta

Calgary – Light at the end of the tunnel

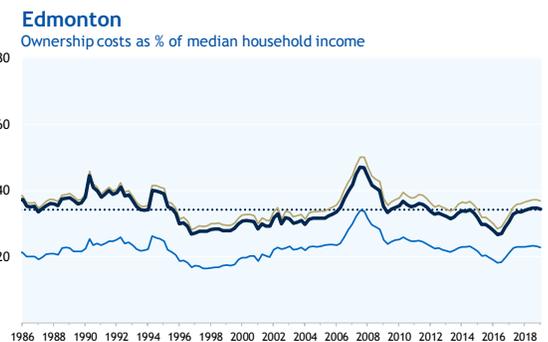
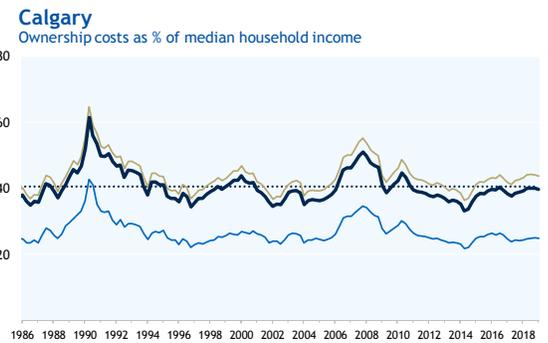
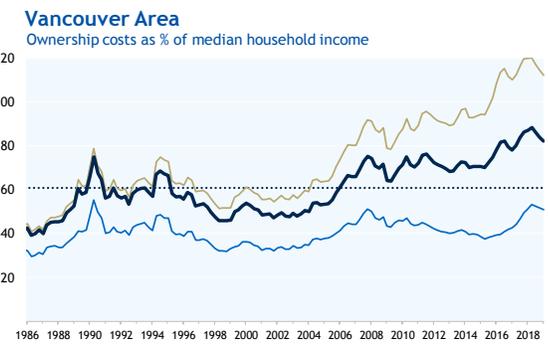
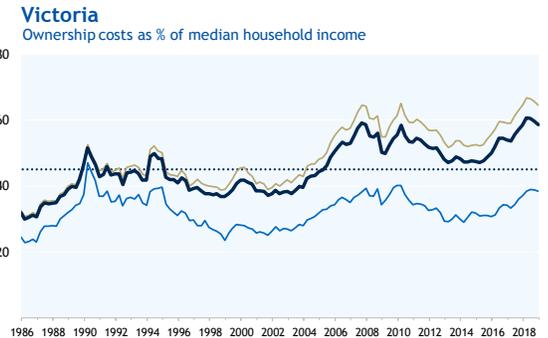
A couple of months don’t make a trend but a pick-up in resale activity in April and May augurs well for a recovery to take hold in Calgary’s market. We expect a strengthening provincial economy—following a rough start to 2019—will boost homebuyer demand over the remainder of this year. Affordability considerations are unlikely to stand in the way of any market recovery. That’s because ownership costs are largely in line with historical norms. RBC’s aggregate measure stood at 39.7% in the first quarter (down 0.4 percentage points), just marginally below the long-run average of 40.6% for the area.

Edmonton – Positive developments to bolster confidence

We see similar ‘green shoots’ popping up in the Edmonton market. Activity bounced back this spring from an eight-year low. And property values declined at slightly slower rates. If sustained, these developments should progressively bolster confidence in the market. A lack of confidence has been a bigger issue than affordability. As in Calgary, affordability is essentially at a neutral point in Edmonton with RBC’s aggregate measure (34.3% in the first quarter) very close to matching its long-term average (34.1%). The measure edged lower by 0.3 percentage points in the first quarter, marking the first decline in almost three years.

RBC Housing Affordability Measures

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



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

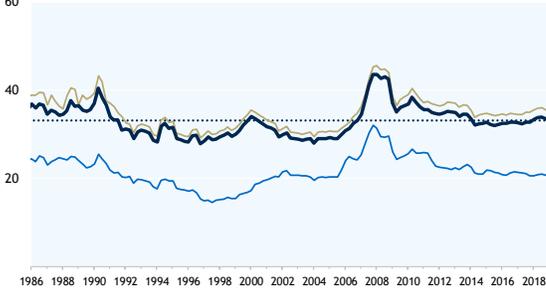


RBC Housing Affordability Measures

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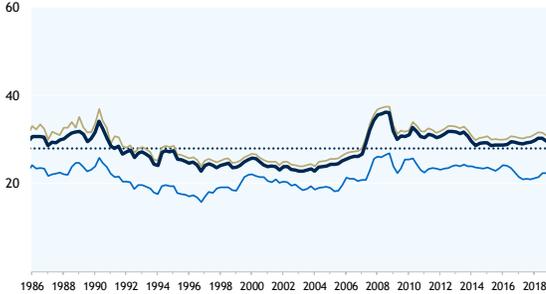
Saskatoon

Ownership costs as % of median household income



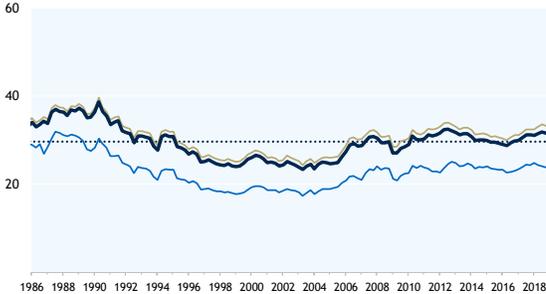
Regina

Ownership costs as % of median household income



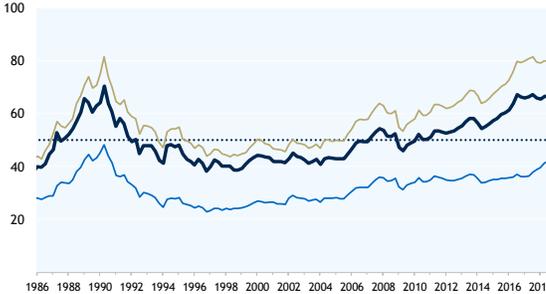
Winnipeg

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 Economic Research

Saskatchewan

Saskatoon – The gloom is beginning to lift

In Saskatoon, home resales are up a solid 8% so far this year, demand-supply conditions have returned to balance and home prices are in the early stages of stabilizing. Lingering economic uncertainty remains an issue but recent gains in the labour market should continue to boost morale. Homebuyers don't have to worry much about affordability. It's been quite steady over the past five years near historical norms. RBC's aggregate measure eased to 33.2% in the first quarter, little changed from a year ago.

Regina – Buyers warming up to an improving story

Affordability isn't much of a concern in Regina either. It continues to be the best in the West with an RBC aggregate measure of 29.4% in the first quarter. This is down slightly from 29.8% a year ago. Buyers are coming back to the market after being spooked by a sharp rise in unemployment, the stress test and higher interest rates last year, causing home resales to slump to a 12-year low. Resales rebounded by 7% in the first five months of 2019. Still-plentiful unsold inventories maintain downward pressure on prices, however.

Manitoba

Winnipeg – Modest recovery is underway

Winnipeg is another western market sending positive signals. Home resales in the area have picked up, in part fueled by a spurt in job creation. And demand-supply conditions have tightened up slightly. An earlier rise in housing construction, however, has left the market flush with newly built but unsold units. This contributed to home prices losing momentum this year. Local buyers aren't complaining, of course. Slow-rising prices keep ownership costs very manageable. RBC's aggregate measure eased again to 31.1% in the first quarter, just marginally above the long-run average of 29.6%.

Ontario

Toronto area – Bar to home ownership is as high as ever

For all the trials and tribulations of Toronto's housing market in the past couple of years, homebuyers got just a tiny break in affordability. Since reaching a generational high of 67.1% in late-2016, RBC's aggregate measure for the area eased by a grand total of only 1.1 percentage points to 66.0%—negligible. So the bar to home ownership pretty much remains as high as ever. And with prices back on a slight upward trajectory, it's unlikely to come down much, or at all, in the near term. Despite kicking into gear late, the spring season brought compelling evidence that a (slow) market recovery is now underway. This will keep demand and supply in balance, and support further modest price gains.



RBC Housing Affordability Measures

Ottawa – Affordability erosion a by-product of a thriving market

Ottawa's housing market continues to thrive with both home resales and property values up solidly from a year ago. But this also means that owning a home is becoming less affordable. RBC's aggregate measure for the area in the first quarter rose for the tenth time in the past 11 quarters to a 25-year high of 41.1%. Ottawa was, in fact, one of only two markets that saw an increase in the latest period (the other was Toronto). For now, Ottawa homebuyers aren't excessively strained. That could get worse, however, given still-tight demand-supply conditions.

Quebec

Montreal area – Brimming with confidence

The housing market's upswing is very much alive in Montreal despite ownership costs stretching the limits of many buyers. Home resales were up 7% above year-ago levels in the first five months of 2019 even as the number of homes listed for sale dropped by 16%. A vibrant economy, strong labour market and increasing international interest continue to instill confidence in the market. While much more affordable than in Vancouver and Toronto, home ownership isn't cheap in Montreal either. RBC's aggregate affordability measure, at 44.3% in the first quarter (unchanged from the fourth quarter), is near a decade-high point and markedly above the long-run average of 38.6%.

Quebec City – Job gains, low ownership costs keep momentum going

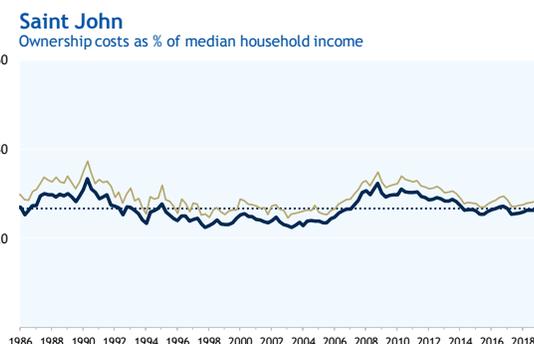
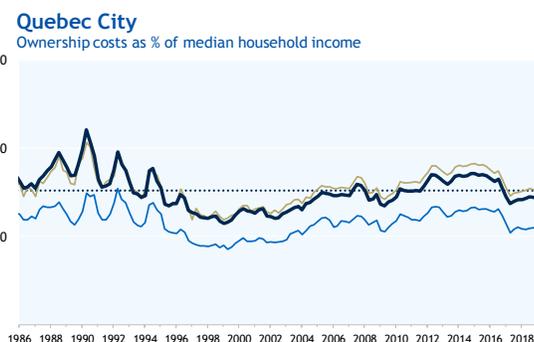
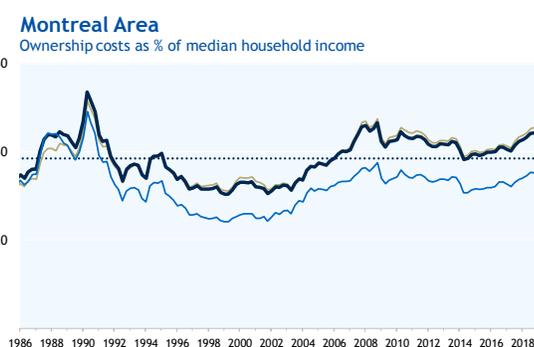
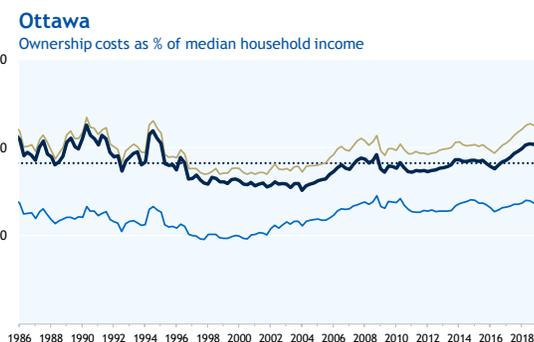
There's been very little to slow down Quebec City's market momentum. News has been particularly impressive on the jobs front lately with gains this year pushing down the area's already-low unemployment rate to 2.8%—the lowest in Canada. Home ownership costs aren't much of an obstacle for Quebec City buyers. RBC's aggregate affordability measure (28.4% in the first quarter) ranks favourably against the majority of local markets. Plentiful inventories have kept home prices and ownership costs in check in recent years.

Atlantic Canada

Saint John – Good housing story deserves greater recognition

It may not get much national attention but Saint John's housing story is quite remarkable. The area has long been the most affordable among the markets that we track. It got even more so in the first quarter with RBC's aggregate measure edged lower by 0.4 percentage points to 25.9%. While excellent affordability contributed significantly to an upswing in resale activity over the past four years, solid job creation and a near decade-low unemployment rate no doubt provided a bigger boost this year. Home resales were up by more than 9% over the first five months of 2019—on pace to reach their highest level for the year since 2007. If anything, demand-supply conditions are a bit tight, which should keep prices on a modestly upward track.

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



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

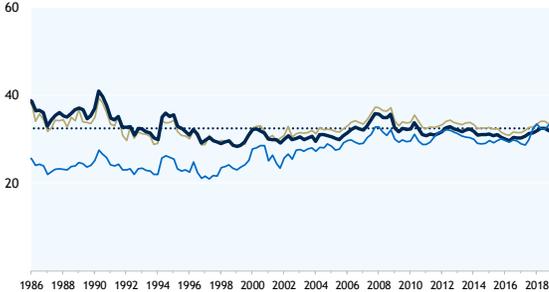


RBC Housing Affordability Measures

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

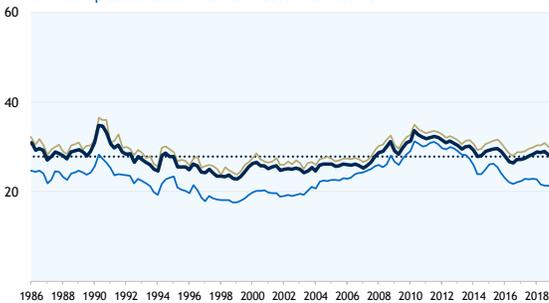
Halifax

Ownership costs as % of median household income



St. John's

Ownership costs as % of median household income



Halifax – Many factors working in its favour

Alongside Ottawa and Montreal, Halifax has been one of the stronger markets in Canada in the past year. Home resales in the area rose to a six-year high in 2018, and kept going so far in 2019—up nearly 5% in the first five months. The market has many things working in its favour: a healthy labour market, rapidly rising population and relatively attractive affordability. Demand-supply conditions are the tightest they've been in seven years but price pressure remains muted at this point. This led to a further slight improvement in affordability in the first quarter. RBC's aggregate measure inched lower for a second-straight time by 0.2 percentage points to 31.7%—still below the long-run average of 32.5%.

St. John's – Market comes back to life

St. John's housing market sprang back to life this spring after sinking to a seven-year low late last year. Home resales surged by almost 30% in the three months ending in May compared to the previous three-month period. Positive news in the labour market may have been the catalyst. Job creation picked up markedly since the fall and unemployment has come down. A high degree of affordability also likely motivated buyers. RBC's aggregate measure for St. John's is the second-lowest among the markets that we track (after Saint John). It fell to 27.4% in the first quarter amid further declines in home prices.

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



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 | | | |
| | Q1 2019 (\$) | Q/Q % ch. | Y/Y % ch. | Q1 2019 (%) | Q/Q Ppt. ch. | Y/Y Ppt. ch. | Avg. since '85 (%) |
| Canada | 557,000 | -0.3 | 0.3 | 51.4 | -0.3 | 0.2 | 42.0 |
| Victoria | 776,600 | -1.9 | 0.3 | 58.6 | -1.0 | 0.3 | 45.0 |
| Vancouver area | 1,059,100 | -2.6 | -6.7 | 82.0 | -1.9 | -5.1 | 60.8 |
| Calgary | 493,300 | -1.0 | -1.6 | 39.7 | -0.4 | 0.5 | 40.6 |
| Edmonton | 395,200 | -1.3 | -2.3 | 34.3 | -0.3 | 0.3 | 34.1 |
| Saskatoon | 360,500 | -0.8 | -1.6 | 33.2 | -0.3 | -0.1 | 33.1 |
| Regina | 318,000 | -0.3 | -2.5 | 29.4 | -0.2 | -0.4 | 28.0 |
| Winnipeg | 305,000 | -0.3 | 1.4 | 31.1 | -0.5 | 0.1 | 29.6 |
| Toronto area | 848,000 | 0.3 | 0.7 | 66.0 | 0.3 | 0.5 | 50.1 |
| Ottawa | 441,300 | 1.2 | 4.2 | 41.1 | 0.4 | 1.3 | 36.4 |
| Montreal area | 422,900 | 1.2 | 6.0 | 44.3 | 0.0 | 1.6 | 38.6 |
| Quebec City | 297,800 | -0.3 | 1.9 | 28.4 | -0.4 | 0.0 | 30.3 |
| Saint John | 213,400 | -1.3 | 2.0 | 25.9 | -0.4 | 0.0 | 26.7 |
| Halifax | 320,500 | 0.1 | 1.0 | 31.7 | -0.2 | -0.2 | 32.5 |
| St. John's | 287,000 | -2.8 | -7.8 | 27.4 | -0.8 | -1.4 | 27.8 |

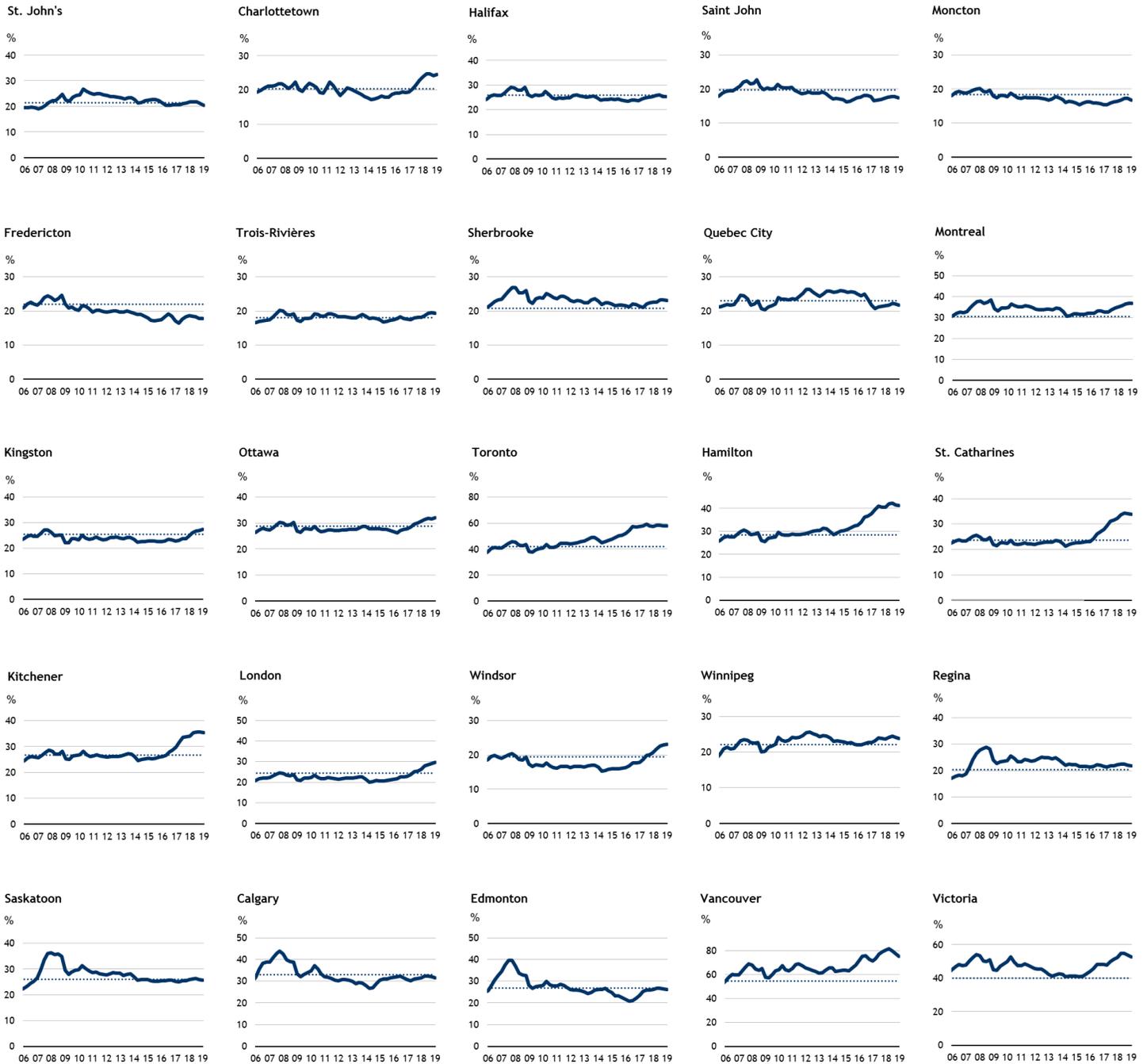
| Single-family detached | | | | | | | |
|------------------------|-----------------|--------------|--------------|-----------------------------------|-----------------|-----------------|-----------------------|
| Market | Price | | | RBC Housing Affordability Measure | | | |
| | Q1 2019 (\$) | Q/Q % ch. | Y/Y % ch. | Q1 2019 (%) | Q/Q Ppt. ch. | Y/Y Ppt. ch. | Avg. since '85 (%) |
| Canada | 610,500 | -0.2 | 0.0 | 56.6 | -0.2 | 0.1 | 44.8 |
| Victoria | 855,200 | -1.8 | -0.1 | 64.5 | -1.0 | 0.1 | 48.3 |
| Vancouver area | 1,475,500 | -2.3 | -7.1 | 112.2 | -2.3 | -7.8 | 72.7 |
| Calgary | 544,500 | -0.9 | -1.5 | 43.8 | -0.4 | 0.6 | 43.6 |
| Edmonton | 422,800 | -1.2 | -1.8 | 36.9 | -0.4 | 0.5 | 36.0 |
| Saskatoon | 374,100 | -1.1 | -2.4 | 35.1 | -0.4 | -0.3 | 34.9 |
| Regina | 321,800 | -0.4 | -2.9 | 30.6 | -0.3 | -0.5 | 29.3 |
| Winnipeg | 311,500 | -0.6 | 1.6 | 32.5 | -0.6 | 0.1 | 30.8 |
| Toronto area | 1,025,900 | 0.8 | 0.2 | 79.3 | 0.7 | 0.3 | 57.8 |
| Ottawa | 483,500 | 1.5 | 4.1 | 45.6 | 0.6 | 1.4 | 39.4 |
| Montreal area | 426,500 | 1.4 | 6.8 | 45.5 | 0.0 | 1.8 | 38.6 |
| Quebec City | 309,300 | -0.1 | 2.1 | 30.2 | -0.4 | 0.0 | 31.1 |
| Saint John | 226,600 | 0.0 | 5.1 | 28.1 | -0.2 | 0.6 | 29.3 |
| Halifax | 331,500 | 0.7 | 1.8 | 33.3 | -0.1 | -0.1 | 32.8 |
| St. John's | 296,600 | -3.1 | -7.3 | 28.9 | -1.0 | -1.4 | 29.2 |

| Condominium apartment | | | | | | | |
|-----------------------|-----------------|--------------|--------------|-----------------------------------|-----------------|-----------------|-----------------------|
| Market | Price | | | RBC Housing Affordability Measure | | | |
| | Q1 2019 (\$) | Q/Q % ch. | Y/Y % ch. | Q1 2019 (%) | Q/Q Ppt. ch. | Y/Y Ppt. ch. | Avg. since '85 (%) |
| Canada | 459,800 | 0.0 | 4.2 | 41.8 | -0.1 | 1.5 | 34.2 |
| Victoria | 494,200 | -1.6 | 3.8 | 38.3 | -0.5 | 1.3 | 32.2 |
| Vancouver area | 638,900 | -2.0 | -1.0 | 50.9 | -0.9 | -0.3 | 40.1 |
| Calgary | 284,300 | -0.9 | -1.4 | 24.8 | -0.2 | 0.4 | 26.8 |
| Edmonton | 245,400 | -2.7 | -5.1 | 22.7 | -0.5 | -0.2 | 22.4 |
| Saskatoon | 214,400 | 1.5 | 1.2 | 20.9 | 0.2 | 0.4 | 21.6 |
| Regina | 232,900 | -3.4 | 1.5 | 21.6 | -0.7 | 0.4 | 21.5 |
| Winnipeg | 239,100 | 3.6 | -2.6 | 24.1 | 0.4 | -0.7 | 23.1 |
| Toronto area | 537,800 | 1.2 | 8.6 | 42.6 | 0.5 | 3.0 | 32.0 |
| Ottawa | 296,800 | 0.7 | 1.0 | 27.6 | 0.2 | 0.2 | 24.5 |
| Montreal area | 340,000 | 0.8 | 5.2 | 35.1 | -0.2 | 1.1 | 32.4 |
| Quebec City | 232,700 | -1.4 | 0.3 | 21.4 | -0.5 | -0.2 | 23.2 |
| Saint John | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Halifax | 360,400 | 0.5 | 1.1 | 33.2 | -0.1 | -0.2 | 27.0 |
| St. John's | 215,300 | -3.6 | -13.9 | 20.5 | -0.8 | -2.3 | 23.3 |



Mortgage carrying costs by city

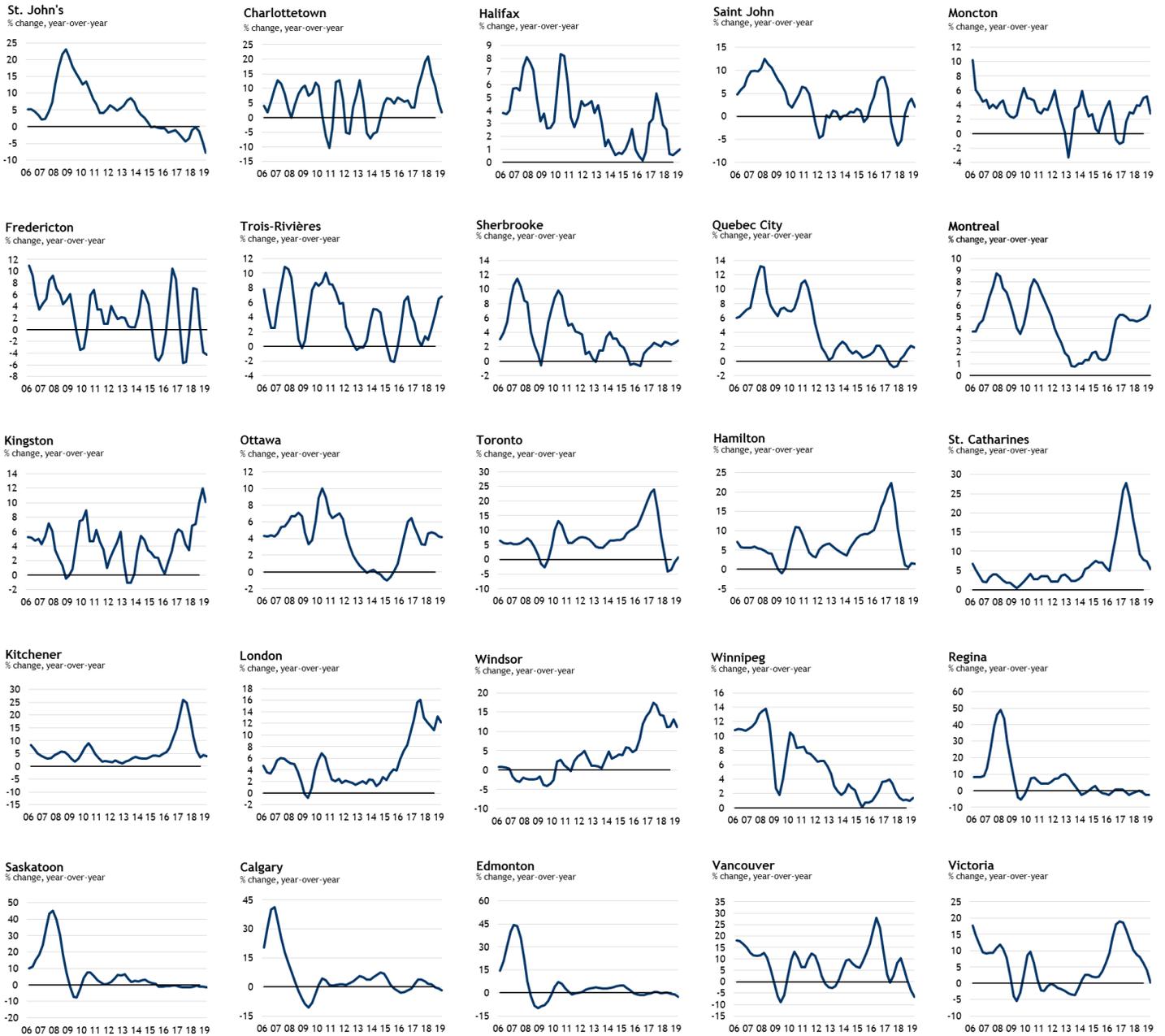
Our standard RBC Housing Affordability Measure captures the proportion of median pre-tax household income required to service the cost of a mortgage on an existing housing unit at market prices, including principal and interest, property taxes and utilities; the modified measure used here includes the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



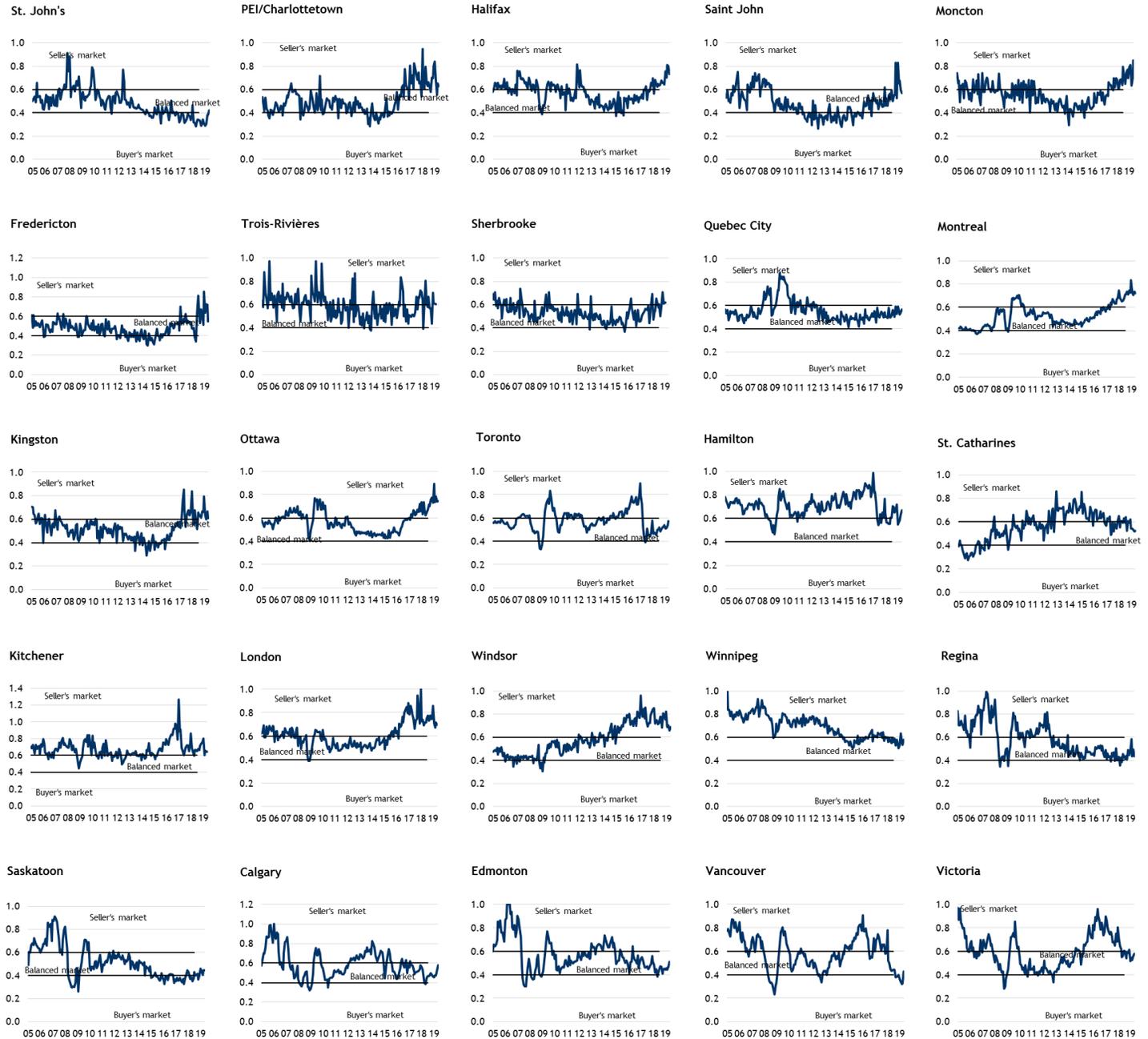
Aggregate home price



Source: RPS, RBC Economics Research



Home sales-to-new listings ratio



Source: Canadian Real Estate Association, RBC Economics Research

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