

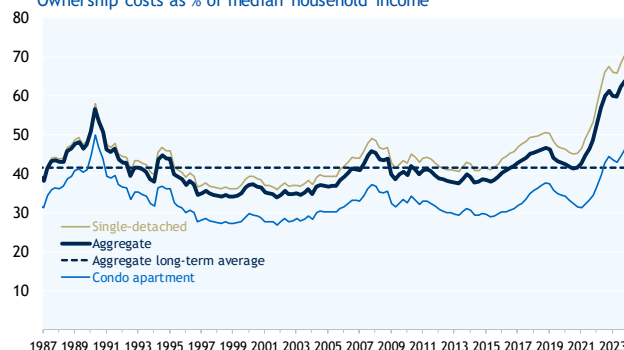
HOUSING TRENDS AND AFFORDABILITY

June 2024

Is the dip in ownership costs a turning point for housing affordability?

- **Slight drops in interest rates and home prices lowered the costs of owning a home in Canada in the first quarter.** These costs for an average of all housing types fell to 60.9% as a share of median household income from 63.8% in Q4 of 2023.
- **Still, affordability remains close to its worst point ever nationwide.** Soaring prices and interest rates during the pandemic continue to seriously constrain homebuyers. The slight relief last quarter reversed just a fraction of the massive deterioration in affordability.
- **Conditions are strained across most of Canada.** Owning a home is an especially big stretch for potential buyers in B.C., Ontario and parts of Quebec and Atlantic Canada despite modest broad-based relief in Q1.
- **There's a long way to go but affordability is heading in the right direction.** We think ownership costs have room to fall further in the period ahead. In June, the Bank of Canada initiated what we expect will amount to a full 2 percentage-point cut in its policy rate to 3% by the end of 2025, which will bring down long term rates as well (but to a lesser extent). Steady gains in household income will also help reduce some of the (intense) stress homebuyers face.

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



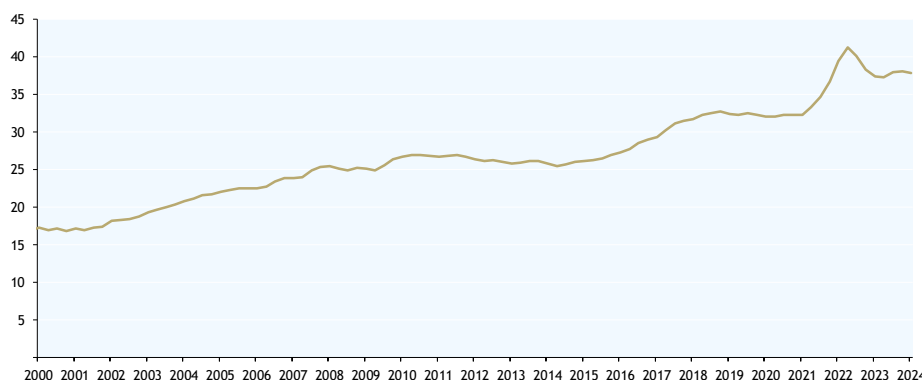
The share of income a household would need to cover ownership costs (%)

Canada	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal
60.9	100.9	43.5	35.5	78.9	49.6	50.6

Q1 2024

Ballooning downpayment on a starter home has raised the bar for first-time home buyers

Minimum downpayment for purchasing of a condo apartment with an insured mortgage, as a % of median household income, Canada



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

Steep price for entering the market

Becoming a homeowner has gotten much more difficult since the pandemic. Not only has the crushing weight of mortgage payments been a major hurdle but the price of admission into the housing market—the downpayment—shot up significantly.

The minimum downpayment for a starter home in Canada (a condo apartment) has ballooned 40% since the end of 2019. The smallest amount a buyer with an insured mortgage could put down to purchase an average condo valued at \$574,500 in Q1 was \$32,500 (5% on the first \$500,000 and 10% on the value between \$500,000 and \$999,000).

This represents a hefty 38% of the annual pre-

tax income for a typical (median) household or 6 percentage points more than before the pandemic, and 12 percentage points more than a decade ago.

The entry price is unsurprisingly much steeper in Canada's most expensive markets. The minimum downpayment was a staggering 61% of median household income in Vancouver, 47% in Victoria and 44% in Toronto in Q1—all materially higher than pre-pandemic levels.

A high cost of living makes it even more challenging for first-time homebuyers to save for a downpayment in these markets. Rents in Vancouver and Toronto are the priciest in the country. Lower interest rates on their own won't help much in this regard, unfortunately.

Further improvement in the cards but affordability to still be a huge issue

Ownership costs as % of household income, Canada, composite of all housing categories



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

Partial restoration of affordability in view

It will take time—and several interest rate cuts—for the weight of ownership costs to lighten sufficiently enough to spur many potential buyers into action. In our base case scenario, home prices will see small increases, longer-term interest rates will moderately drop and household income will grow steadily but see diminishing gains until the end of 2025. This will lead to the reversal of about a third of the massive deterioration in RBC's aggregate affordability measure that happened during the pandemic. It would only roll back the clock to early 2022 when the measure had just surpassed its previous all-time worst level set in 1990. In other words, back to a time of deeply unaffordable conditions.

Concerted efforts required to address the crisis

A broad suite of active policy measures—many of which already in the works—will be needed to more fully restore housing affordability. It won't be a quick fix. The causes of Canada's housing crisis are many and complex. Our report [The Great Rebuild: Seven ways to fix Canada's housing shortage](#) explains how we got here, looks at the ways policymakers are addressing the crisis and offers what we think are the best solutions going forward.



British Columbia

Victoria: Small pool who can afford to buy

Extremely high ownership costs are significantly dragging the market down. A median household in Victoria would need to spend a staggering 74.8% of their pre-tax income to cover mortgage payments, property taxes and utilities if buying a home with a 20% downpayment. This significantly narrows the pool of buyers—essentially to those at the top end of the income or wealth distribution. It's no surprise then that the volume of home sale transactions hasn't budged much since the middle of 2022, still about 20% below levels before the pandemic. There were few signs this spring that buyers were getting ready to jump back in despite a small improvement in affordability in Q1. Sellers, on the other hand, are growing in numbers, which helps rebalance the market and cool prices slightly.

Vancouver area: Huge affordability challenges persist

The bar prospective buyers must clear to own a home in Vancouver has long been the highest in the country. With 100.9% of a median household income needed to cover ownership costs of an average home, only a select few high-income earners can afford to buy—or that considerable wealth must be amassed (or received) to put down towards a purchase. That share came down 4.5 percentage points in Q1 but it did little to turn things around. Vancouver's housing market remains soft with prices largely flat (albeit at lofty levels). We expect this to continue in the near term.

Alberta

Calgary: Still compares well to other major markets

Home resale activity continues to be brisk but eased slightly since late last year. A lack of supply is no doubt an increasingly restraining factor. The sharp loss of affordability since the pandemic could also be weighing more heavily on some buyers too. RBC's aggregate affordability measure late last year hit a 15-year high (a rise in the measure represents a reduction in affordability). Nonetheless, at 43.5% in Q1, the measure still compares well to other major markets in Canada, which has likely contributed to explosive migration flows to the city. We see little that would threaten the market's vitality in the near term even if the upside from here is limited.

Edmonton: On a roll

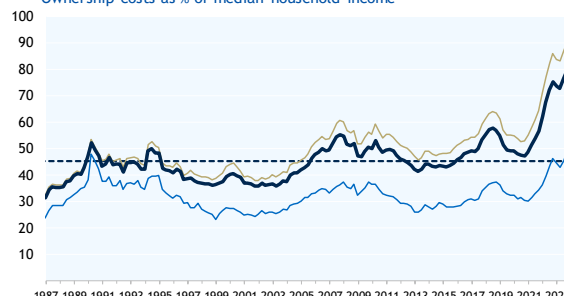
Market momentum in Edmonton is very strong with housing affordability comparing even better than Calgary's and population growth also at historic highs. Home resales were an eye-catching 66% above pre-pandemic levels this spring. Transaction volumes this high have drawn down inventories to cyclical lows, forcing buyers to act quickly. Home prices for now are rising at a moderate pace but could pick up more rapidly if supply-demand conditions remain so tight for longer. RBC's aggregate affordability measure was 35.5% in Q1, down 0.7 percentage points from Q4.

RBC Housing Affordability Measures

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

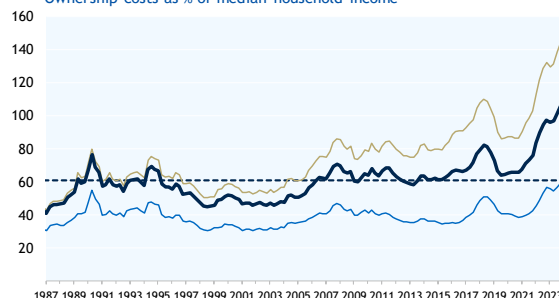
Victoria

Ownership costs as % of median household income



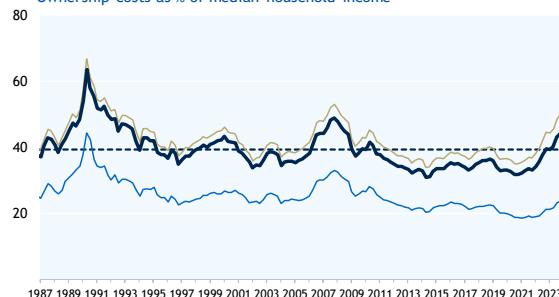
Vancouver Area

Ownership costs as % of median household income



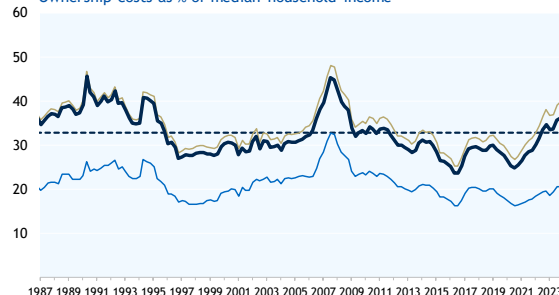
Calgary

Ownership costs as % of median household income



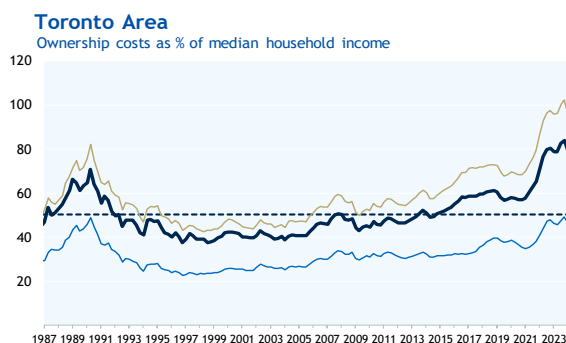
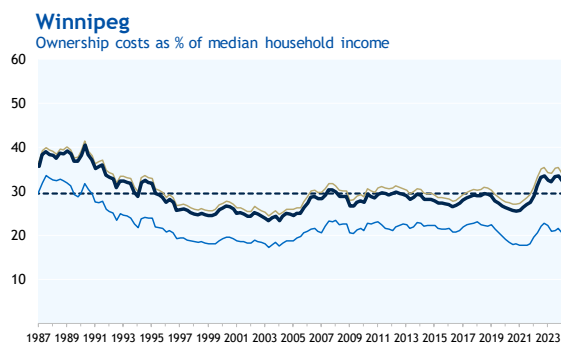
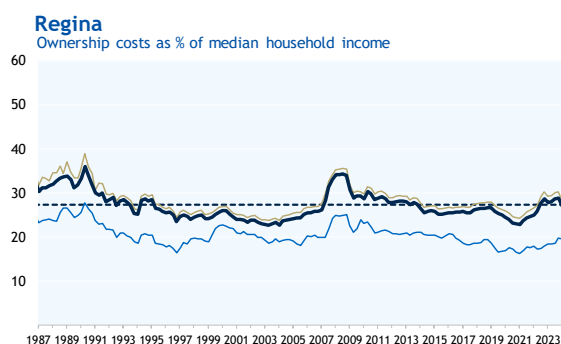
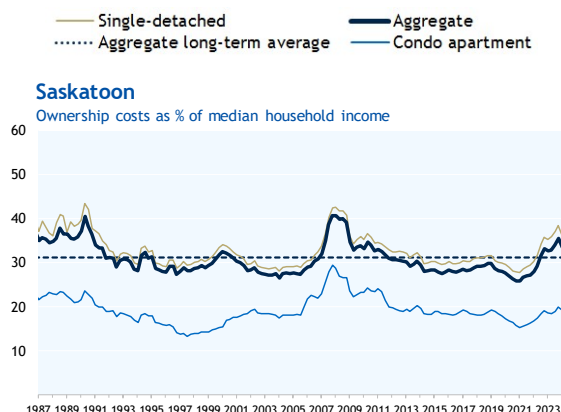
Edmonton

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: Buyers keep a cool head but for how long?

A booming population is fueling tremendous demand for housing in the area. This made the spring particularly busy with resales up 10% from a year ago, and nearly reaching pre-pandemic highs. Yet price gains have remained subdued. High interest rates and the significant rise in ownership costs during the pandemic have constrained buyers' ability to bid up property values. RBC's aggregate affordability measure (33.4%) was still close to a 15-year high despite improving slightly in Q1. Buyers may have to loosen their purse strings to land deals in the period ahead, given how scarce inventories have become.

Regina: The most affordable of Canada's large markets

Similar factors are at play in Regina where the volume of resale transactions this spring rose within an earshot of (frenzied) early-pandemic levels. Record population growth is a powerful driver of demand. Relatively affordable home prices likely helps too. RBC's aggregate measure for Regina, at 27%, is the best among the markets we track and in line with the long-run average (27.4%). But exceptionally tight supply demand conditions could heat up prices and take some of the shine off affordability in the coming months.

Manitoba

Winnipeg: Stretched affordability contains market upswing

The market has been on a mild upswing of late thanks to a massive inflow of newcomers over the past year. High interest rates and stretched affordability are keeping the rebound from being even stronger. Many potential buyers are stuck on the sidelines as RBC's aggregate measure—while improving slightly in Q1—stands close to its worst level in more than 30 years at 32.3%. Buyers could stay there for a while longer if low supply persists and heats up prices.

Ontario

Toronto area: Shockingly high ownership costs keep market quiet

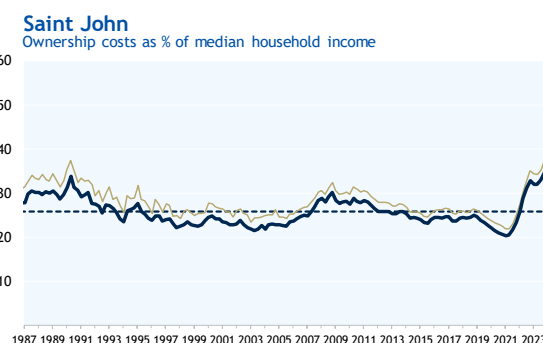
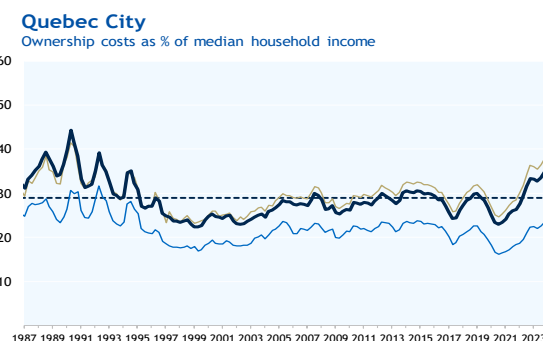
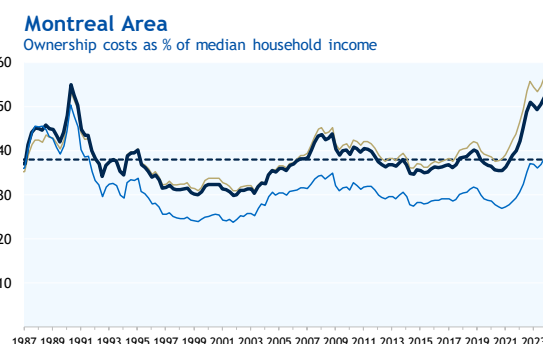
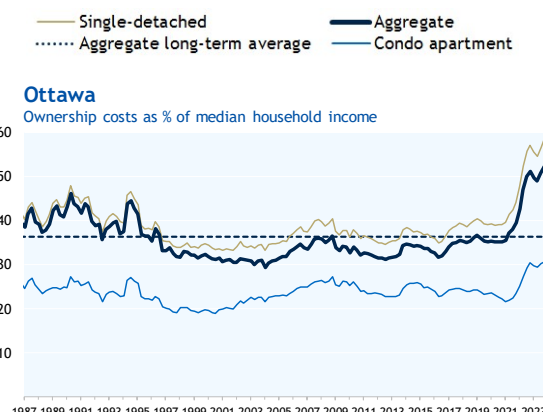
Toronto homebuyers barely noticed a drop in ownership costs in Q1. RBC's aggregate affordability measure still stood at a shockingly high 78.9%—an impossible hurdle for many—especially among those looking to own for the first time. The market unsurprisingly stayed quiet this spring. Home resales were 30% below pre-pandemic levels. Home prices levelled off amid soft demand and rapidly rising inventories. The completion of several condo projects brought many units to market. Prices could come under heavier downward pressure if this trend persists. Still, it would take a sizable price drop along with meaningful interest rate cuts to change the outlook for buyers.



Ottawa: Demand slumps amid tough affordability conditions

Not much is happening in the Ottawa market this year. Home resales are largely stationary around 20% below pre-pandemic levels and there's little movement in prices. Slumping demand has to do with very tough affordability conditions. RBC's aggregate measure just came off its worst point ever in Q1 when ownership costs for an average of all housing types took up just about half (49.6%) of the median household income. Meanwhile, the market is rebalancing from earlier tight conditions and sellers are entering in larger numbers. The increase in purchasing options affords more time for buyers to make a decision. It also tips the negotiation scale in their favour. Heightened seller competition could lead to modestly lower prices in the period ahead.

RBC Housing Affordability Measures



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

Quebec

Montreal area: Affordability entrenched near decades low

The market recovery that began last year has petered out. Spring action was light as potential buyers contended with onerous ownership costs and wondered about the timing and size of future interest rate cuts. While improving slightly in the latest period, RBC's aggregate affordability measure (50.6%) has been firmly stuck near a decades high over the past four quarters. Slow turnover put inventories on an upward trajectory but the rise is gradual and the size still smaller than it was before the pandemic. So far, this has resulted in modest price appreciation. Such support would, however, erode if inventories were to swell and demand stayed stagnant.

Quebec City: Market stays buoyant despite affordability strain

Brisk sales momentum isn't letting up in the Quebec City area. The number of transactions made in Q1 was up a solid 21% from a year earlier. Tight supply demand conditions continue to propel prices modestly higher. Strong population growth substantially contributes to the market's buoyancy, superseding the negative impact of affordability deteriorating to its most straining level in decades. That said, the strain is far from crippling buyers with RBC's aggregate measure (33.8%) roughly half the Canadian average.

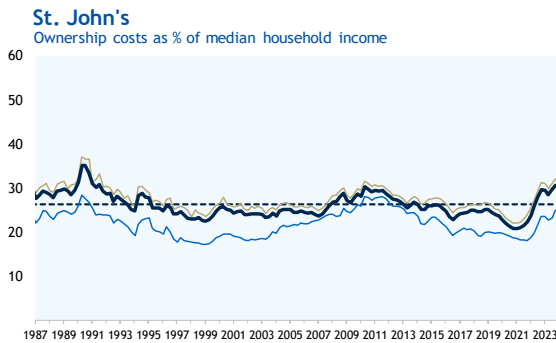
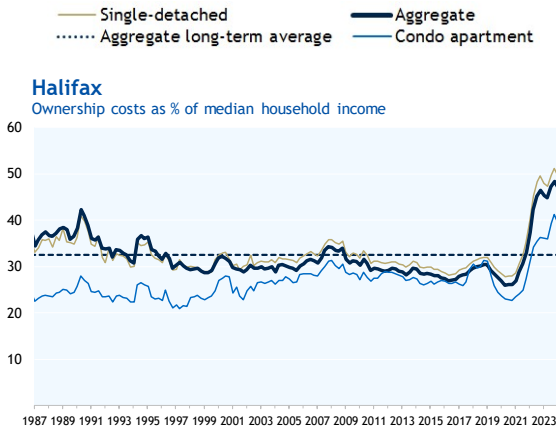
Atlantic Canada

Saint John: The slump continues

The market slump that started in mid-2022 has stretched into the spring of this year. Home resales recently were 20% below their pre-pandemic levels. Housing demand should be booming at this stage given the strong flow of newcomers. But high interest rates and the significant loss of affordability since the pandemic have significantly cooled things down. It's not to say that ownership costs are exorbitant—they're still at the lower end of the markets we track. But, they reached their highest point in decades at the end of 2023 as a percentage of the median household income. RBC's aggregate measure eased slightly by 1.4 percentage points to 31.4% in Q1.



RBC Housing Affordability Measures



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

Halifax: Tough times for buyers

These are tough times for potential buyers in the Halifax area. They effectively face record-high ownership costs—and some of the steepest in Canada (though far behind Vancouver, Victoria and Toronto). But they also struggle to find homes for sale as new listings and inventories are running historically low. The resulting scarcity of supply during the unprecedented population boom Halifax is experiencing is keeping home prices largely afloat. This trend is bound to persist until either inventories rise materially or migration inflows abate. RBC's aggregate affordability measure eased marginally by 1.5 percentage points to 46.9% in Q1.

St. John's: The market has wind in its sail

St. John's housing market is seeing a big boost with population growing at its fastest pace in memory. The number of sales transactions this spring exceeded pre-pandemic levels by more than 26%. Activity could be even stronger if it weren't for low supply. New listings have sagged this year and inventories hover near decades lows, leaving many buyers starved for more options. Higher ownership costs are pinching but much less than in other markets. RBC's aggregate affordability measure was 29.8% in Q1—the second lowest among the markets we track. We expect prices to continue to appreciate modestly 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 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

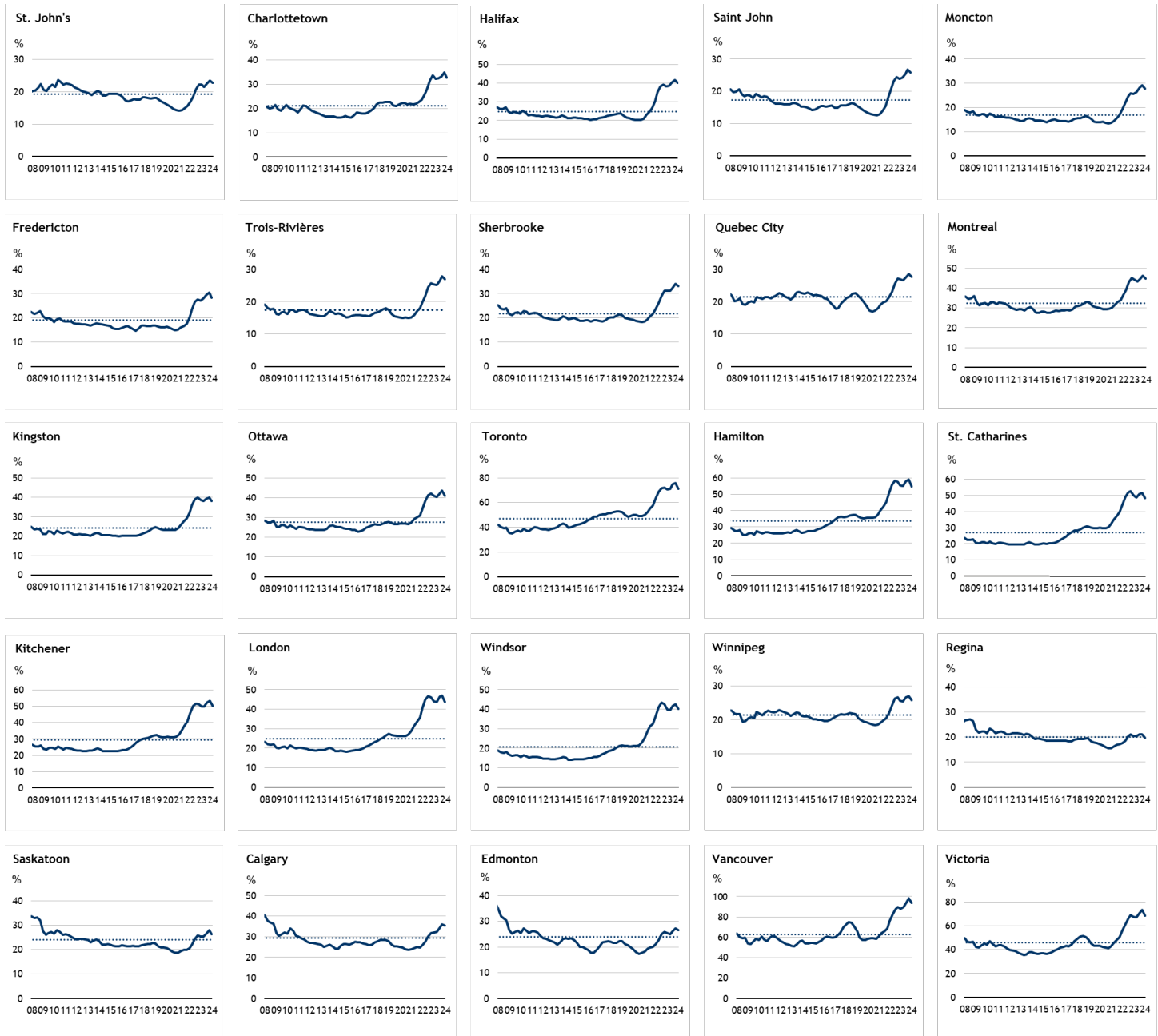
Aggregate of all categories							
Market	Price			RBC Housing Affordability Measure			
	Q1 2024 (\$)	Q/Q % ch.	Y/Y % ch.	Q1 2024 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	789,900	-0.8	2.6	60.9	-2.9	0.9	41.6
Victoria	1,145,300	-1.6	4.6	74.8	-4.9	1.3	45.4
Vancouver area	1,465,900	0.4	8.7	100.9	-4.7	5.1	60.7
Calgary	641,400	2.5	10.1	43.5	-0.6	4.2	39.3
Edmonton	444,400	1.4	3.7	35.5	-0.7	2.1	32.9
Saskatoon	424,900	-0.7	3.4	33.4	-2.0	0.8	31.2
Regina	324,300	-2.4	-4.2	27.0	-1.8	-0.8	27.4
Winnipeg	370,100	-0.9	0.8	32.3	-1.2	-0.2	29.5
Toronto area	1,174,800	-1.9	1.0	78.9	-5.0	0.1	50.2
Ottawa	675,200	-1.4	0.4	49.6	-2.7	-0.1	36.4
Montreal area	638,500	0.4	2.2	50.6	-1.6	0.5	37.9
Quebec City	397,700	0.4	3.4	33.8	-0.9	0.6	29.0
Saint John	339,800	1.3	8.7	33.3	-1.4	1.4	25.9
Halifax	583,700	0.8	6.6	46.9	-1.5	1.6	32.5
St. John's	361,000	0.9	3.5	29.8	-0.8	0.4	26.4

Single-family detached							
Market	Price			RBC Housing Affordability Measure			
	Q1 2024 (\$)	Q/Q % ch.	Y/Y % ch.	Q1 2024 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	868,600	-0.8	2.7	67.2	-3.2	1.0	44.2
Victoria	1,294,800	-2.5	3.4	84.4	-6.2	0.6	49.3
Vancouver area	2,033,200	0.2	9.7	137.8	-6.8	8.3	73.2
Calgary	730,300	2.5	10.4	49.3	-0.6	5.0	42.4
Edmonton	485,900	1.4	3.4	38.9	-0.8	2.2	34.7
Saskatoon	456,200	-0.7	4.1	36.2	-2.2	1.0	33.1
Regina	332,800	-2.0	-3.7	28.4	-1.9	-0.8	28.7
Winnipeg	384,600	-1.0	1.3	34.1	-1.3	-0.2	30.8
Toronto area	1,445,300	-1.7	1.2	96.3	-6.0	0.4	58.4
Ottawa	747,500	-1.7	0.2	55.3	-3.1	-0.2	39.4
Montreal area	688,200	0.4	1.9	54.8	-1.7	0.3	38.8
Quebec City	428,400	0.9	3.8	36.8	-0.9	0.7	29.9
Saint John	360,300	1.7	8.7	35.9	-1.3	1.5	28.2
Halifax	610,500	0.9	6.4	49.6	-1.5	1.6	33.1
St. John's	371,700	1.3	3.3	31.3	-0.8	0.3	27.8

Condominium apartment							
Market	Price			RBC Housing Affordability Measure			
	Q1 2024 (\$)	Q/Q % ch.	Y/Y % ch.	Q1 2024 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	574,500	0.1	3.0	44.4	-1.8	0.8	33.2
Victoria	707,700	0.3	9.9	47.4	-2.2	2.8	32.0
Vancouver area	802,300	1.1	5.4	57.2	-2.2	1.3	39.1
Calgary	303,800	1.6	8.7	23.3	-0.4	2.1	25.5
Edmonton	214,000	-1.4	3.0	19.8	-0.8	1.1	21.4
Saskatoon	226,600	2.4	5.5	19.3	-0.7	0.6	19.4
Regina	234,400	6.7	9.8	19.7	0.0	1.3	20.8
Winnipeg	227,100	-2.0	-7.6	20.7	-0.9	-1.6	22.6
Toronto area	675,900	-1.0	1.1	46.6	-2.5	0.1	32.0
Ottawa	390,300	0.1	-0.2	29.5	-1.1	-0.2	24.0
Montreal area	472,400	1.4	3.0	37.4	-0.8	0.5	31.4
Quebec City	266,300	0.1	2.4	22.6	-0.7	0.2	22.1
Saint John	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Halifax	498,800	-0.9	13.1	39.3	-1.9	3.3	26.6
St. John's	318,800	6.5	11.6	25.3	0.3	1.7	22.1

Mortgage carrying costs by city

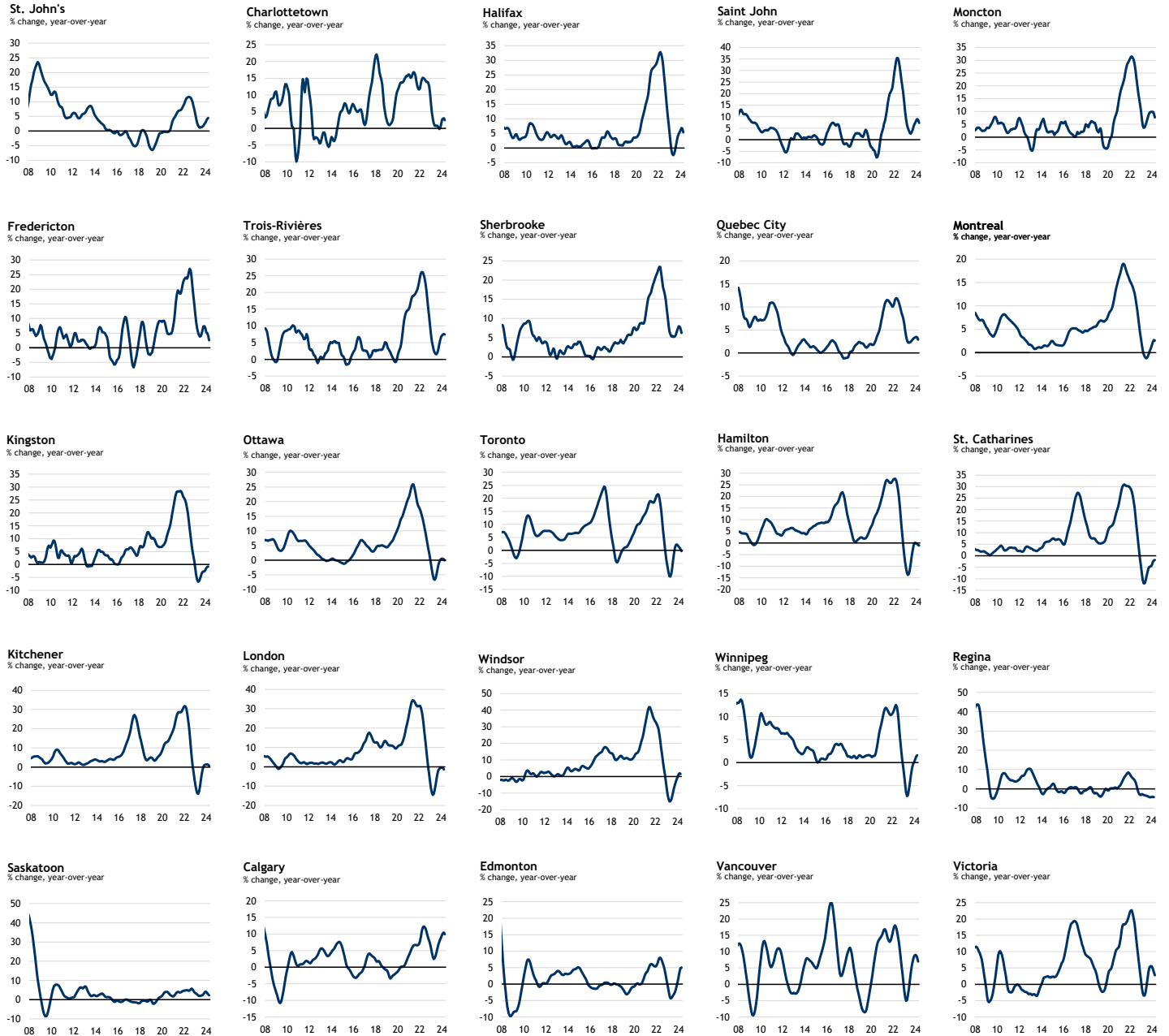
Our standard RBC Housing Affordability Measure captures the proportion of median pre-tax household income required to service the cost of a mortgage on an existing housing unit at market prices, including principal and interest, property taxes and utilities; the modified measure used here includes the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



The dashed line represents the long-term average for the market.

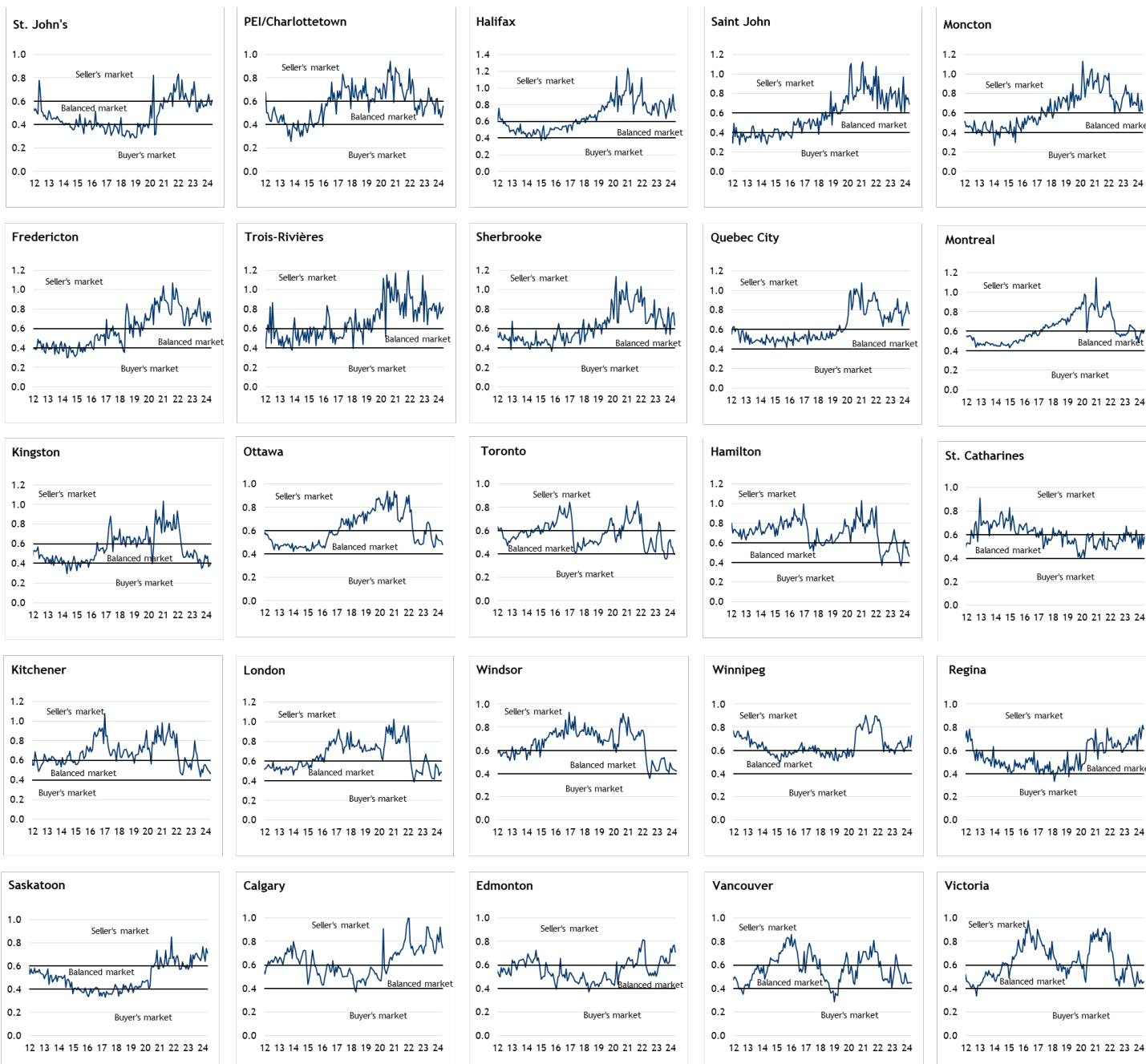
Source: RPS, Statistics Canada, Bank of Canada, RBC Economics

Aggregate home price



Source: RPS, RBC Economics

Home sales-to-new listings ratio



Source: Canadian Real Estate Association, RBC Economics

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