

## HOUSING TRENDS AND AFFORDABILITY – COVID-19 EDITION

March 2020

### Coronavirus to serve a tough but temporary blow to Canada’s housing market

**Pandemic has soured the outlook almost overnight:** Social distancing and the economic shock will cut home resale activity to a trickle near term. The timing and speed of the eventual rebound is uncertain.

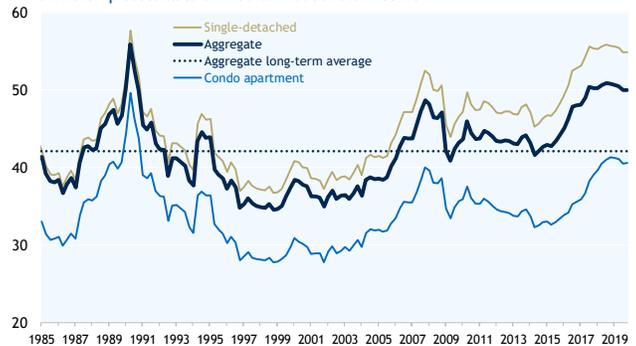
**We expect property values to fall briefly:** Surging unemployment and the market’s illiquidity will compel a growing number of squeezed sellers to make price concessions.

**Oil-producing regions are the most at risk:** The oil price plunge will compound the damage to housing demand at a time when Prairie markets still struggle with excess inventories.

**Policy response will soften the impact:** Interest rate cuts, government financial support and banks’ offer to defer mortgage payments will help many households navigate through the storm.

**Housing affordability will take a back seat:** Though it’s still a big issue in Vancouver and Toronto, the pandemic and economic turmoil will draw more attention near term. RBC’s aggregate affordability measure for Canada was unchanged at 50.0% in the fourth quarter of 2019, after improving slightly in the three previous quarters.

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



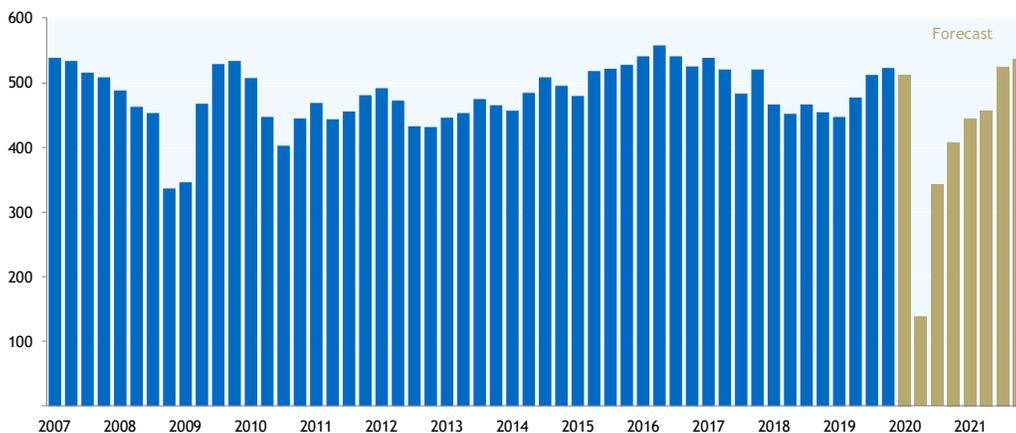
### The share of income a household would need to cover ownership costs (in %)

Canada	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal
50.0	80.4	38.5	31.6	68.2	38.7	43.4

Fourth quarter 2019

### COVID-19 to knock the wind out of the housing market this spring

Home resales in thousands of units, seasonally adjusted and annualized, Canada



Source: Canadian Real Estate Association, RBC Economics

### Social distancing to severely disrupt spring house hunting season

Canada’s housing market will slow to a crawl this spring as Canadians follow social distancing orders in order to combat the spread of COVID-19. We expect realtors to suspend open houses and cut any private showings to a bare minimum. Signs were starting to point toward a significant pullback even before governments stepped up restrictions on social gatherings and despite the adrenaline shot from the Bank of Canada’s back-to-back interest



rate cuts this month. Equity markets' freefall, mounting job losses, reduced work hours, the shutdown of Canada's borders (stemming the flow of immigrants) will hammer confidence and cool demand. Investors and speculators also are likely to sit things out for a while. There will be plenty of reasons for sellers to wait and see as well. A shock like this one makes it an inauspicious time to get full value for a property. We expect for-sale inventories to shrink, which will further contribute to the stall in market activity.

### Rising unemployment and illiquid market conditions to briefly ding prices

Annual % change in the composite price benchmark, Canada



Source: RPS, RBC Economics

### The pandemic will be a temporary shock

Housing activity will resume once the health crisis comes under control and authorities lift containment measures. The timing and speed of the recovery is uncertain at this point. We're currently penciling in early-summer as the restart date. We think the recovery will come in stages—taking buyers up to a year to regroup and rebuild confidence amid high unemployment. Based on these assumptions, we project home resales will dive by nearly 30% this year in Canada to a 20-year low of 350,000 units. We see the outlook improving markedly next year in most markets. Exceptionally low interest rates, strengthening job markets and bounce-back in immigration will generate substantial tailwind. We project home resales to surge more than 40% to 491,000 units in 2021.

### Property values will fall briefly

Property values have received strong support from tight demand-supply conditions in the majority of markets since mid-2019. We expect some degree of support to hold initially as both buyers and sellers go into hiatus. Lower interest rates, governments' financial help to vulnerable Canadians and banks offer to defer mortgage payments will provide some downside protection. This won't last. In a matter of weeks or months, surging unemployment and the market's illiquidity will compel a growing number of squeezed sellers to make price concessions. We project Canada's composite benchmark prices will fall briefly over the second half of 2020 by an average of 2.9% year over year. The surge in activity we expect in 2021 will tilt the scale back in favour of sellers and swing the price dynamics around.

### Oil price plunge puts Prairie markets at greater risk

The outlook is bleaker for markets in oil-producing regions where the plunge in oil prices will deepen and prolong economic hardship. Price declines are bound to re-accelerate significantly in Prairie markets. High inventories have been an issue for some time and the situation is likely to get worse. We see little prospect for prices to rebound anytime soon.

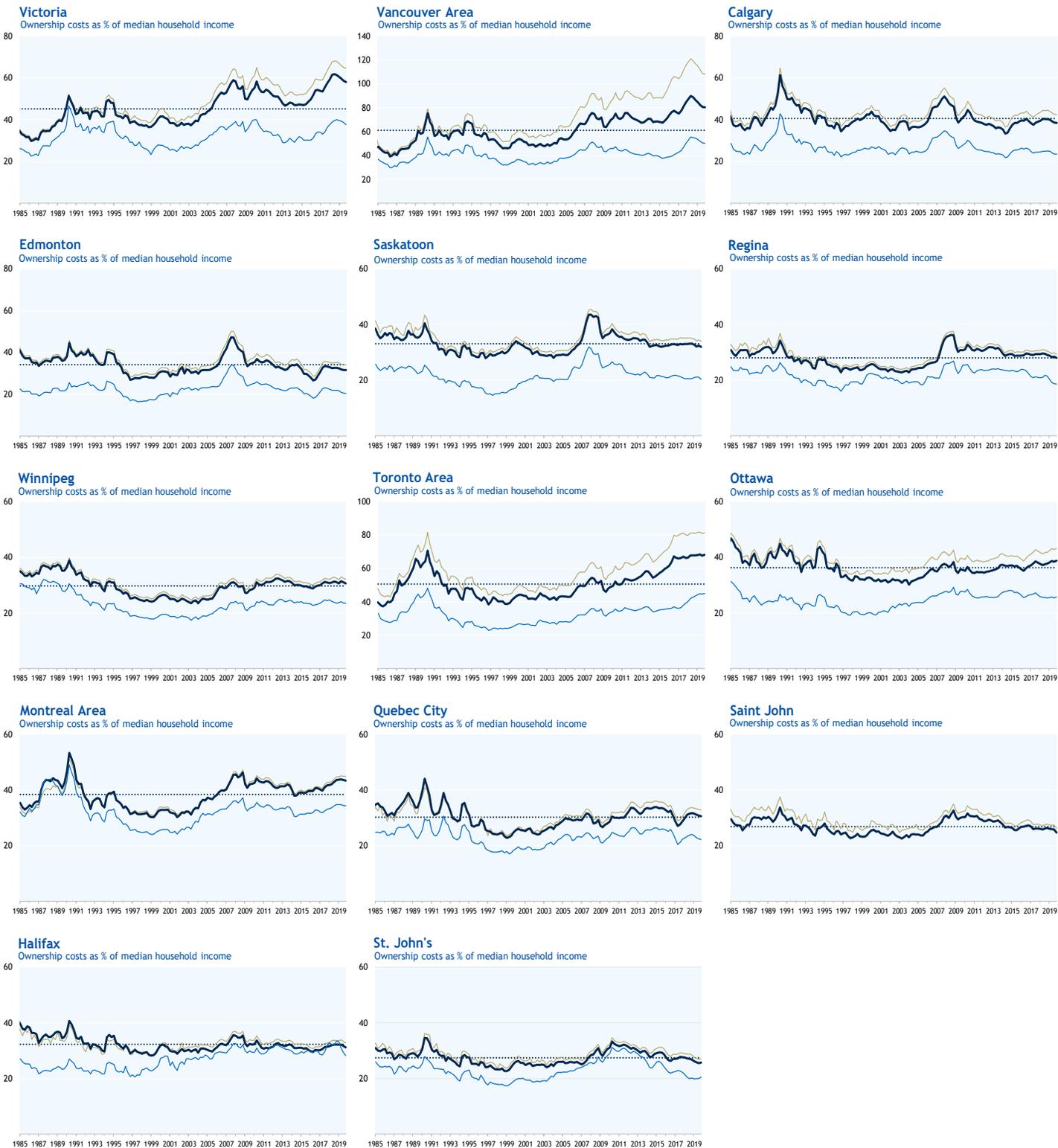
### Housing affordability picture was stable overall in the fourth quarter of 2019

The string of quarterly affordability improvement in Canada ended at three. RBC's national aggregate affordability measure stalled in the final quarter of 2019 at 50.0%. This was down slightly from 50.8% a year earlier. More significant improvements were recorded in Vancouver, Victoria, Calgary and Saint John over that period—though the changes in Vancouver and Victoria didn't alter their status as Canada's least and third-least affordable markets. RBC's measure rose the most in Toronto and Ottawa relative to the third quarter, reflecting accelerating prices. In Montreal, buyers benefitted from strong income gains which more than offset a solid price advance.



# RBC Housing Affordability Measures

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



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



## How the RBC Housing Affordability Measures work

The RBC Housing Affordability Measures show the proportion of median pre-tax household income that would be required to service the cost of mortgage payments (principal and interest), property taxes, and utilities based on the average market price for single-family detached homes and condo apartments, as well as for an overall aggregate of all housing types in a given market.

Current home prices are sourced from RPS, and established from sales prices from monthly transactions, which are filtered to remove extreme values and other outliers.

The aggregate of all categories includes information on prices for housing styles not covered in this report (semi-detached, row houses, townhouses and plexes) in addition to prices for single-family detached homes and condominium apartments. In general, single-family detached homes and condo apartments represent the bulk of the owned housing stock across Canadian markets.

The affordability measures are based on a 25% down payment, a 25-year mortgage loan at a five-year fixed rate, and are estimated on a quarterly basis for 14 major urban markets in Canada and a national composite. The measures use household income rather than family income to account for the growing number of unattached individuals in the housing market. The measure is based on quarterly estimates of this annual income, created by annualizing and weighting average weekly earnings by province and by urban area. (Median household income is used instead of the arithmetic mean to avoid distortions caused by extreme values at either end of the income distribution scale. The median represents the value below and above which lays an equal number of observations.)

The RBC Housing Affordability Measure is based on gross household income estimates and, therefore, does not show the effect of various provincial property-tax credits, which could alter relative levels of affordability.

The higher the measure, the more difficult it is to afford a home. For example, an affordability measure of 50% means that home ownership costs, including mortgage payments, utilities, and property taxes take up 50% of a typical household's pre-tax income.

## Summary tables

Market	Aggregate of all categories						
	Price			RBC Housing Affordability Measure			
	Q4 2019 (\$)	Q/Q % ch.	Y/Y % ch.	Q4 2019 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	573,900	0.8	3.1	50.0	0.0	-0.8	42.1
Victoria	783,800	0.0	-1.1	58.0	-0.5	-3.4	45.2
Vancouver area	1,018,300	0.7	-3.2	80.4	-0.2	-6.1	61.1
Calgary	491,400	-0.4	-1.5	38.5	-0.1	-1.8	40.6
Edmonton	397,800	-0.2	-0.8	31.6	0.0	-1.1	34.1
Saskatoon	365,700	0.4	-0.1	31.9	-0.5	-1.1	33.1
Regina	321,200	0.4	0.1	28.0	-0.4	-1.1	28.0
Winnipeg	311,600	-1.1	1.7	30.6	-0.5	-0.4	29.7
Toronto area	888,700	1.3	5.3	68.2	0.6	0.5	50.6
Ottawa	471,400	1.2	7.9	38.7	0.3	0.9	36.3
Montreal area	445,700	1.3	6.5	43.4	-0.2	-0.2	38.4
Quebec City	305,200	1.4	2.7	30.6	-0.2	-1.2	30.3
Saint John	218,000	-4.0	-1.9	24.8	-1.1	-1.6	26.9
Halifax	331,800	0.0	2.9	31.2	-0.5	-0.9	32.3
St. John's	292,200	0.1	-1.6	25.7	0.2	-1.1	27.5

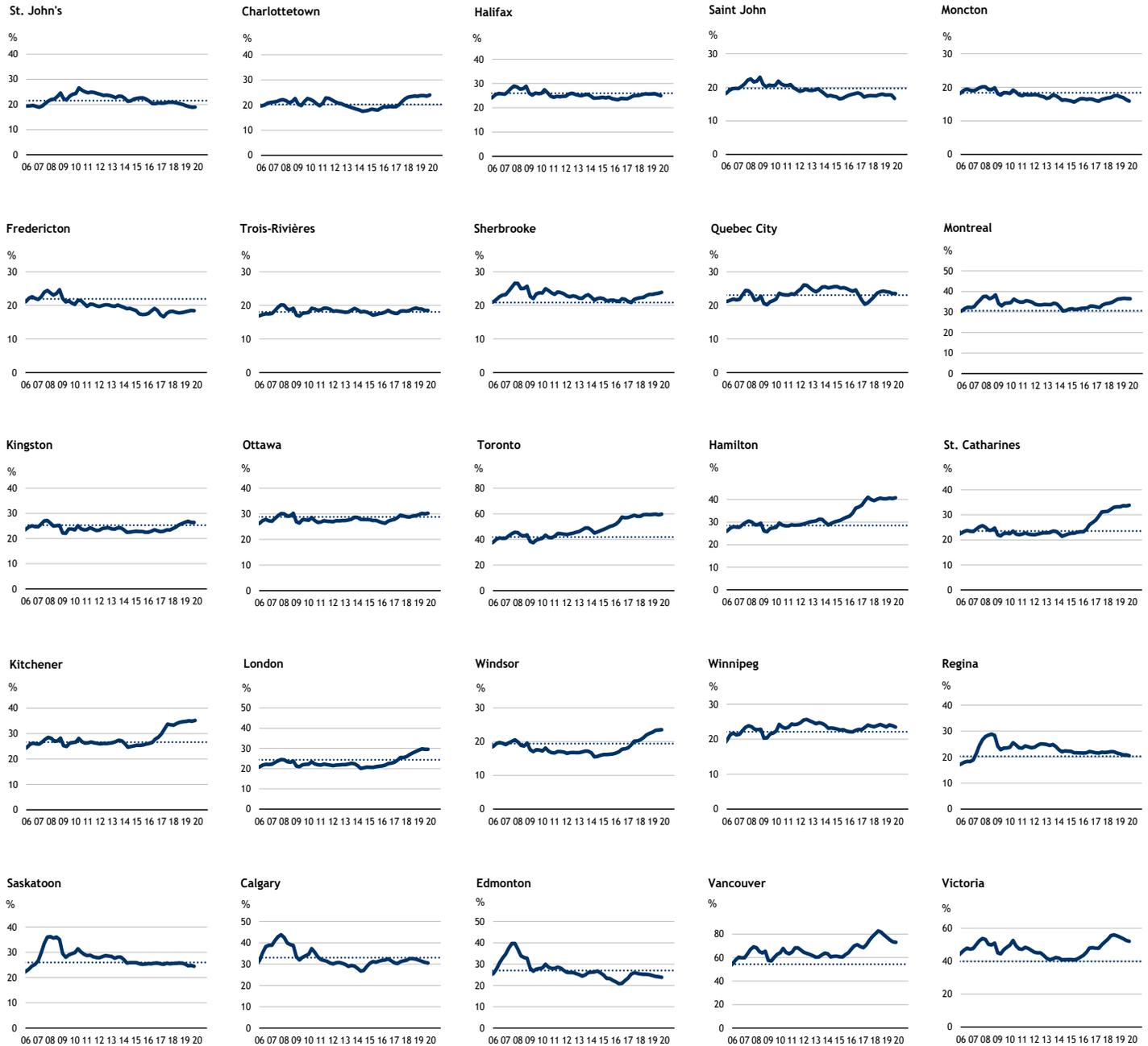
Market	Single-family detached						
	Price			RBC Housing Affordability Measure			
	Q4 2019 (\$)	Q/Q % ch.	Y/Y % ch.	Q4 2019 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	627,000	0.8	3.2	54.9	0.1	-0.8	44.9
Victoria	875,500	0.5	-0.1	64.7	-0.3	-3.1	48.6
Vancouver area	1,393,300	0.5	-3.6	108.0	-0.5	-8.8	72.8
Calgary	542,700	-0.3	-1.4	42.5	-0.1	-1.9	43.6
Edmonton	426,400	0.0	-0.5	34.1	0.1	-1.1	36.0
Saskatoon	382,100	0.3	0.5	33.9	-0.5	-1.1	34.9
Regina	327,100	0.2	0.2	29.4	-0.4	-0.9	29.3
Winnipeg	319,700	-0.9	2.0	32.1	-0.4	-0.4	30.9
Toronto area	1,068,600	1.2	5.2	81.4	0.6	0.5	58.4
Ottawa	519,400	1.0	8.7	43.1	0.3	1.3	39.3
Montreal area	452,800	1.6	7.7	44.9	0.0	0.2	38.4
Quebec City	320,300	1.7	4.0	32.8	-0.1	-0.9	31.0
Saint John	224,400	-4.0	-0.9	26.2	-1.2	-1.6	29.4
Halifax	342,500	0.2	3.5	32.8	-0.5	-0.8	32.7
St. John's	300,000	0.2	-2.8	27.1	0.3	-1.3	28.9

Market	Condominium apartment						
	Price			RBC Housing Affordability Measure			
	Q4 2019 (\$)	Q/Q % ch.	Y/Y % ch.	Q4 2019 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	472,700	0.9	2.9	40.6	0.1	-0.7	34.3
Victoria	492,700	-2.2	-2.1	37.6	-1.0	-2.4	32.2
Vancouver area	618,500	0.4	-4.2	50.3	-0.3	-4.2	40.7
Calgary	273,300	-0.4	-4.7	23.5	0.0	-1.6	26.7
Edmonton	237,200	-1.6	-6.6	20.4	-0.1	-1.5	22.4
Saskatoon	219,800	-3.7	2.5	20.2	-0.9	-0.3	21.6
Regina	203,000	1.2	-13.9	18.6	-0.1	-2.8	21.7
Winnipeg	241,200	0.3	3.6	23.5	-0.1	0.1	23.2
Toronto area	577,700	1.4	8.5	44.9	0.4	1.4	32.3
Ottawa	313,500	2.0	6.4	25.8	0.4	0.4	24.5
Montreal area	357,500	1.4	5.5	34.4	-0.1	-0.4	32.3
Quebec City	227,100	0.9	-2.8	22.2	-0.2	-1.9	23.1
Saint John	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Halifax	313,000	-2.9	-13.1	28.2	-1.2	-5.3	26.8
St. John's	238,000	2.1	5.8	20.5	0.5	0.3	23.0



## Mortgage carrying costs by city

Our standard RBC Housing Affordability Measure captures the proportion of median pre-tax household income required to service the cost of a mortgage on an existing housing unit at market prices, including principal and interest, property taxes and utilities; the modified measure used here includes the cost of servicing a mortgage, but excludes property taxes and utilities due to data constraint in the smaller CMAs. This measure is based on a 25% down payment, a 25-year mortgage loan at a five-year fixed rate, and is estimated on a quarterly basis. The higher the measure, the more difficult it is to afford a house.



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



# Aggregate home price

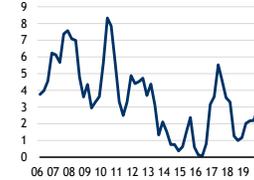
**St. John's**  
% change, year-over-year



**Charlottetown**  
% change, year-over-year



**Halifax**  
% change, year-over-year



**Saint John**  
% change, year-over-year



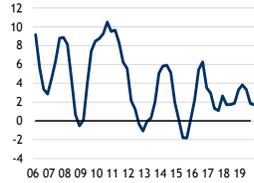
**Moncton**  
% change, year-over-year



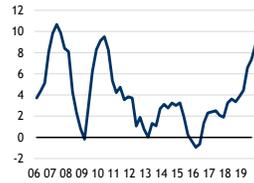
**Fredericton**  
% change, year-over-year



**Trois-Rivières**  
% change, year-over-year



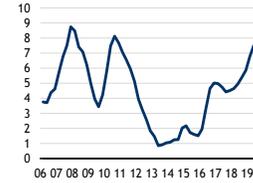
**Sherbrooke**  
% change, year-over-year



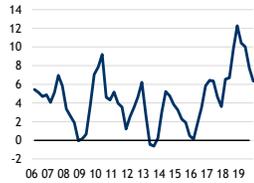
**Quebec City**  
% change, year-over-year



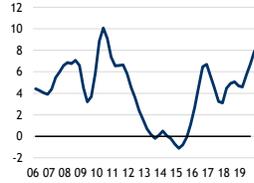
**Montreal**  
% change, year-over-year



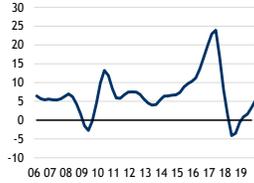
**Kingston**  
% change, year-over-year



**Ottawa**  
% change, year-over-year



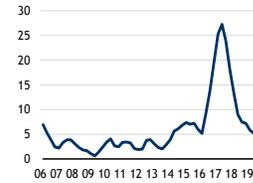
**Toronto**  
% change, year-over-year



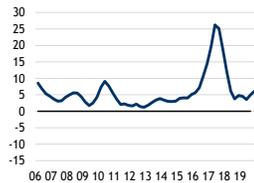
**Hamilton**  
% change, year-over-year



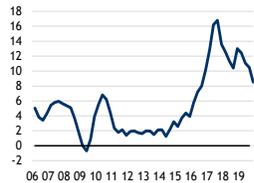
**St. Catharines**  
% change, year-over-year



**Kitchener**  
% change, year-over-year



**London**  
% change, year-over-year



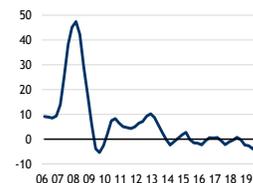
**Windsor**  
% change, year-over-year



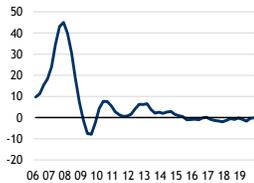
**Winnipeg**  
% change, year-over-year



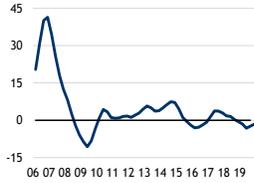
**Regina**  
% change, year-over-year



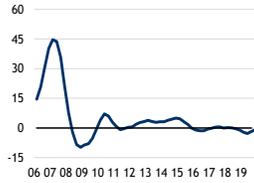
**Saskatoon**  
% change, year-over-year



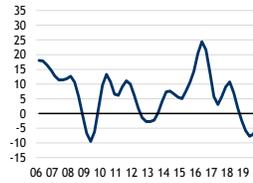
**Calgary**  
% change, year-over-year



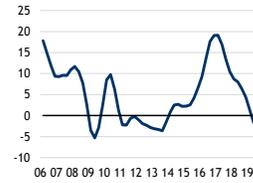
**Edmonton**  
% change, year-over-year



**Vancouver**  
% change, year-over-year



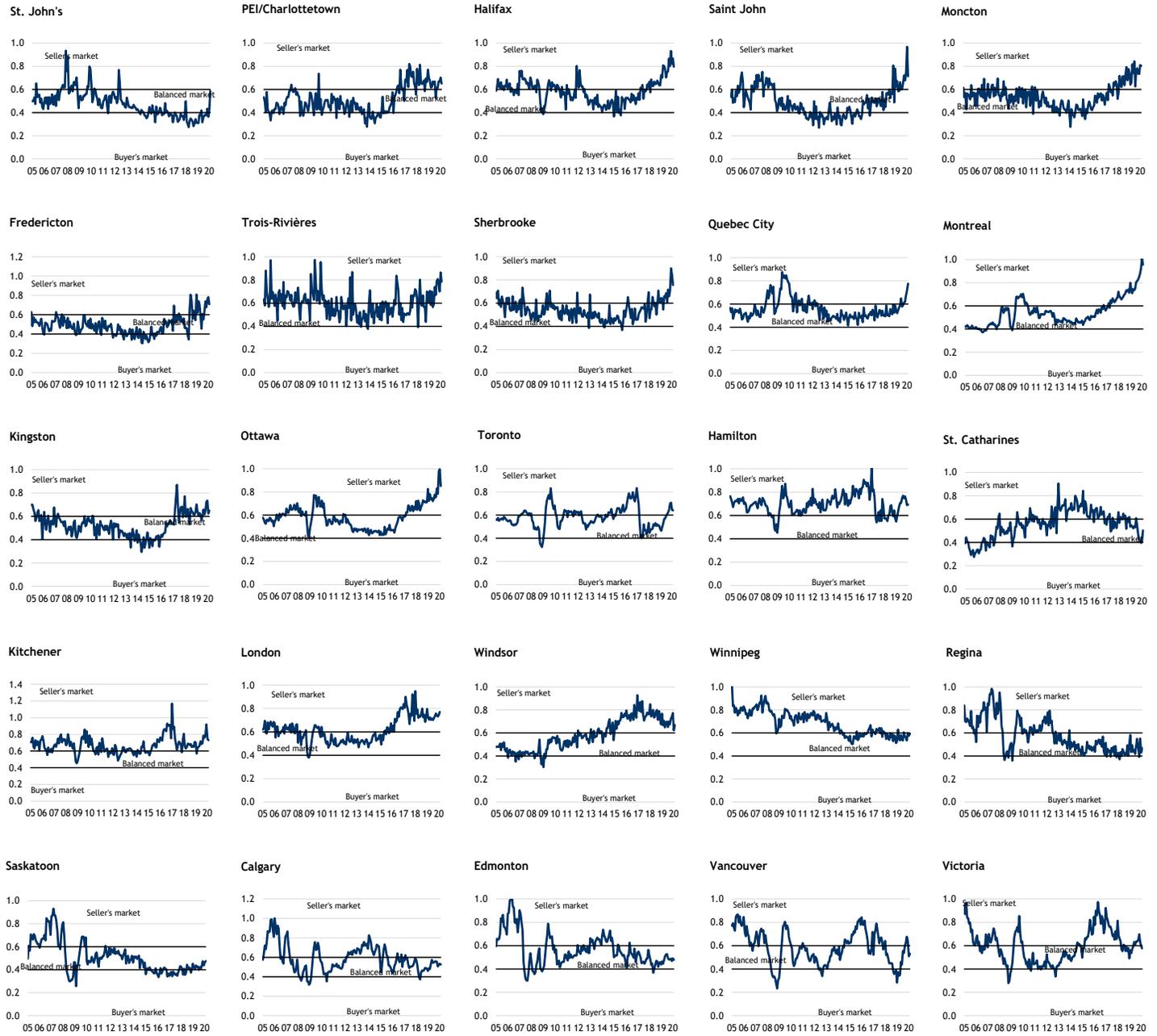
**Victoria**  
% change, year-over-year



Source: RPS, RBC Economics



# Home sales-to-new listings ratio



Source: Canadian Real Estate Association, RBC Economics

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