HOUSING TRENDS AND AFFORDABILITY

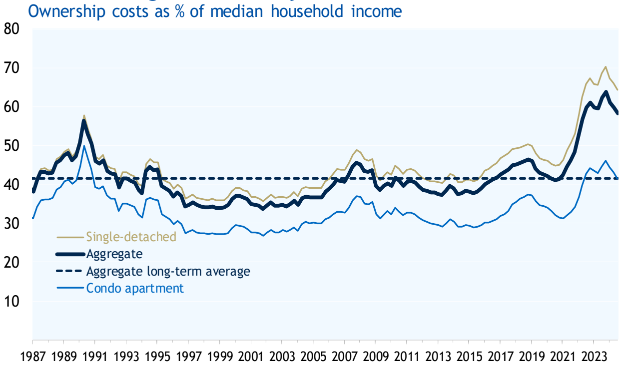
December 2024

Homebuyers get some affordability relief but strains endure

- **Homeownership costs have eased for three consecutive quarters in Canada**. The share of income a household needs to cover mortgage payments, property taxes and utilities has fallen nationwide to 58.4% by Q3 after reaching an all-time high of 63.8% in Q4 2023.
- **Still, affording a home is a stretch for average Canadians.** The massive price escalation during the pandemic and subsequent spike in interest rates considerably raised the bar to homeownership. RBC's affordability measures remain close to worst-ever levels nationally and in many major markets despite this year's improvement.
- **Affordability trends are heading in the right direction across the country**. RBC's affordability measures dipped in all markets we track in Q3. (A decline in the measure represents a gain in affordability.) Vancouver, Victoria and Toronto recorded the largest drops again.

RBC Housing Affordability Measures - Canada

Ownership costs as % of median household income



- **More relief is likely to come in 2025**. We expect the Bank of Canada will cut its policy rate further next year, which should drive down ownership costs. Steady gains in household income will also help, along with regulatory changes allowing first-time homebuyers to choose a 30-year amortizations on insured mortgages. Any sizable price increases would be a setback, though.

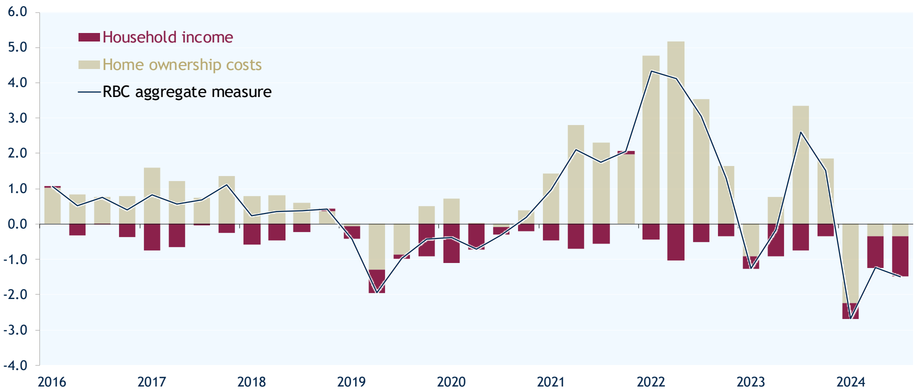
The share of income a household would need to cover ownership costs (%)

Canada	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal
58.4	96.7	42.2	33.6	75.1	47.3	49.4

Q3 2024

Growing household income significantly helped improve affordability in Q3

Contribution to quarterly changes in RBC's aggregate affordability measure for Canada, in percentage points



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

Rising income takes centre stage

The deep housing market slump got the ball rolling last year with a modest depreciation of property values easing homeownership costs. Then interest rate cuts this year more solidly set affordability trends on a restorative course.

But in the background throughout this period—or most of the time—has been the growth in household income. A boost to income generally enhances one's ability to afford a home. In the past two quarters, sizable income rises supported by firm (nominal) wage gains have delivered much of the improvement in affordability.

Our estimate of median household income in Canada was up an average 4.4% over Q2 and

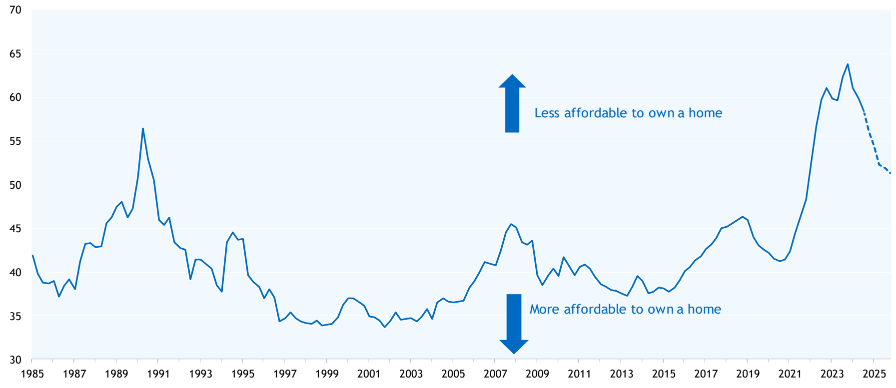
Robert Hogue | Assistant Chief Economist | 416-974-6192 | robert.hogue@rbc.com

Q3 from the same period a year ago. This shaved 0.9 percentage points and 1.2 percentage points off RBC's aggregate affordability measure in Q2 and Q3, respectively—more than double the average in the past five years.

The impact of income gains dwarfed all other factors combined, which amounted to -0.3 percentage points in each of those quarters. Slight price appreciations, however, partly offset the benefits of lower interest rates.

Further improvement on the way but affordability will remain a huge issue

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



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

Positive dynamics have longer to run

The impact of higher wages on affordability will be hard to maintain. Nominal wage gains are likely to moderate as slack in Canada's labour market continues to build over the first half of 2025. Still, we expect continued growth in household income will facilitate further improvement in affordability in the year ahead. A greater share of the progress is poised to come from lower interest rates. We see the BoC cutting its policy rate by another 125 basis points to 2% by mid-2025, which will bring mortgage rates lower.

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 more than a third of the massive deterioration in RBC's aggregate affordability measure that happened during the pandemic.

Mortgage rule changes will further ease monthly payment strains

As of Dec. 15, first-time homebuyers can amortize a mortgage over 30 years (up from 25 years) on all home purchases. As we estimated in the previous edition of Housing Trends and Affordability, this change would reduce monthly payments by approximately 8% on the purchase of a home at the national benchmark price.

British Columbia

Victoria: Progress with persistent challenges

Victoria experienced the largest drop in ownership costs in 2024, yet affordability remains a significant challenge. At 69.2% of median household income, affordability remains the third-worst among tracked markets. These high costs have suppressed transaction volumes through most of the year, though activity picked up noticeably this fall with lower interest rates drawing buyers back into the market. Higher inventories have also supported the recent pickup. Supply-demand conditions have tightened over the last few months, which could heat up prices more.

Vancouver area: Extreme affordability strains ease a little

It remains extremely difficult for average households to afford a home in the Vancouver area despite significant improvements in the affordability measure this year. The 8.8 percentage-point drop in RBC's aggregate affordability measure in the first three quarters to 96.7% reversed only a fraction of the pandemic-era spike. Exceptionally strained conditions weighed heavily on resale activity in the past two and a half years, hovering near cyclical lows. However, signs of renewed vigour emerged this fall, which will be sustained in 2025. Still, with inventories growing and market conditions generally balanced, we see prices staying largely flat in the near term.

Alberta

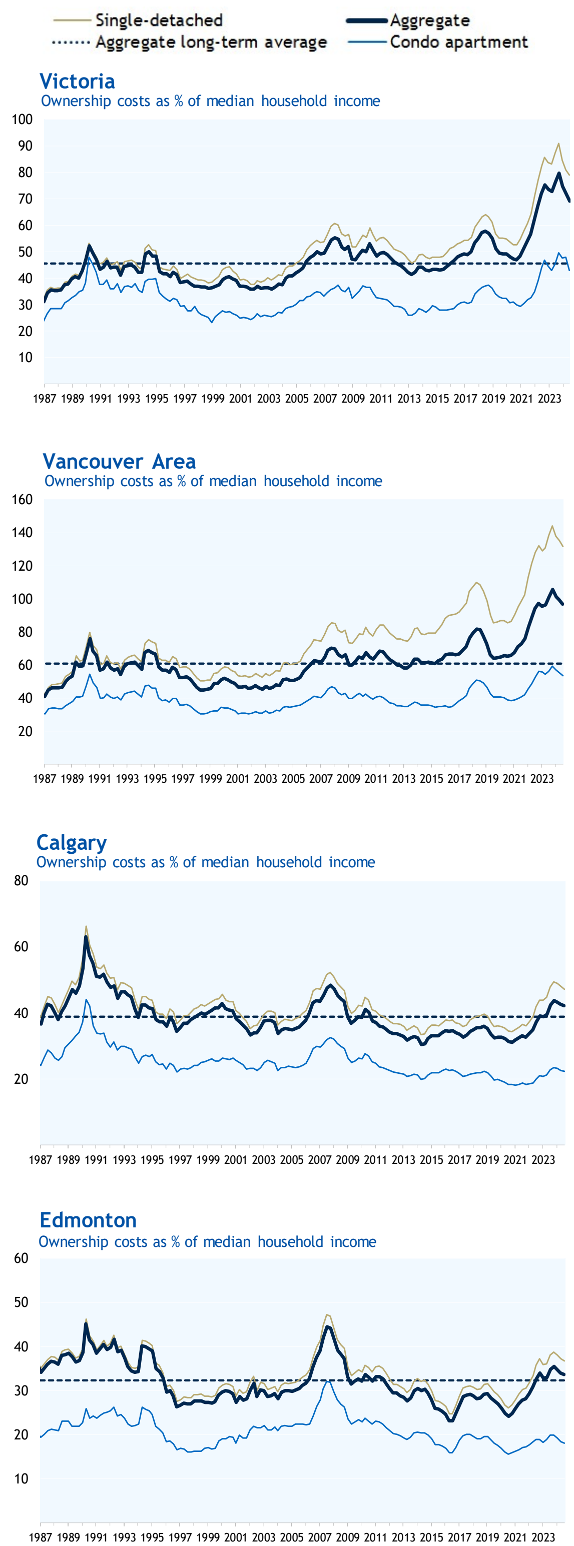
Calgary: Slight affordability gain keeps market buzzing

Calgary is a very busy housing market fueled by rapid population growth, which supports above pre-pandemic transaction levels and steady price appreciation. Earlier signs of cooling have receded this fall with lower interest rates re-energizing homebuyer demand. Affordability challenges eased in Q3 with RBC's aggregate measure dipping 0.5 percentage points to 42.2%. The measure had reached a 15-year high at the end of 2023. Inventories have been rebuilding since falling to a decade-low last year. Still, the market continues to be short on supply with sellers holding a firm grip on prices. We expect this will keep property values on an upward trajectory.

Edmonton: Stepping in the limelight

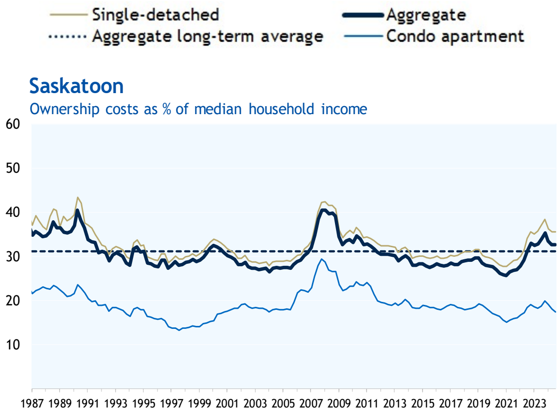
Edmonton has emerged as one of Canada's hotter markets with vibrant resale activity nearing all-time highs and relatively favourable affordability. RBC's aggregate affordability measure sits at 33.6%, marginally above the long-term average (32.3%) and just about than half the national average (58.4%). Strong in-migration, low inventories and tight supply-demand conditions are likely to sustain solid price growth in the near term.

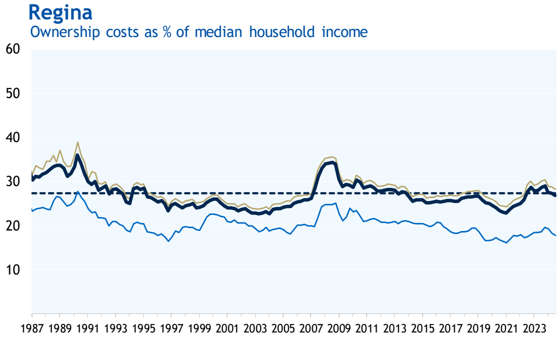
RBC Housing Affordability Measures

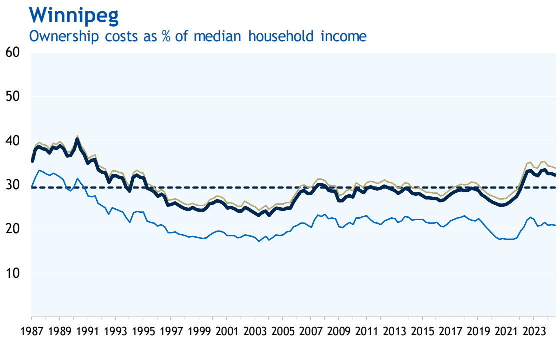


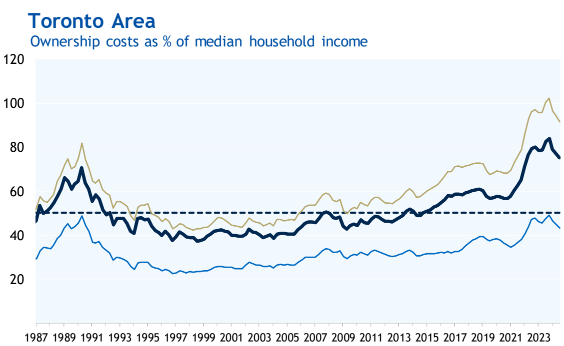
Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economics

RBC Housing Affordability Measures









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

Saskatchewan

Saskatoon: Flying high

Saskatoon's housing market is soaring. Strong population growth, declining interest rates and manageable ownership costs are driving activity near record levels. Resale transactions have grown 7% so far this year and lately stood 50% above pre-pandemic levels. The aggregate affordability measure (32.6%) is close to historical norms, suggesting barriers to entry are moderate. Supply isn't keeping up with booming demand, though, which puts the heat on property values. We expect home prices to continue to appreciate steadily.

Regina: Strong all-round

Solid fundamentals, including booming population growth and affordable housing costs, are powering Regina's market to historic heights. Resale volumes are near early-pandemic levels. RBC's aggregate affordability measure (27.1%) is the best among the markets we track. But this status will be hard to maintain. Exceptionally tight supply is poised to drive prices higher, limiting any improvement in affordability in the coming quarters.

Manitoba

Winnipeg: Carrying solid momentum despite challenges

Winnipeg has fully recovered from earlier interest rate shocks with renewed momentum this fall pushing resale activity slightly above pre-pandemic levels. Interest rate cuts since the summer no doubt have drawn more buyers to the hunt, but affordability remains stretched. Despite declining this year, RBC's aggregate measure (32.1%) hasn't come off much from its worst level in more than 30 years at the end of 2023 (33.4%). A tight supply environment is likely to keep upward pressure on prices, further slowing any reduction in homeownership costs.

Ontario

Toronto area: Long road ahead in the restoration process

Toronto homebuyers enjoyed some improvements in affordability this year, but ownership costs remain prohibitively high for many waiting on the sidelines. Covering homeownership expenses requires more than 75% of a median household's income—still far exceeding the one-third threshold usually defining an affordable proposition. Such strained conditions have held back market recovery until recently. Interest rate cuts, however, have reinvigorated activity in the past couple of months. We think a measured pace will be sustained going forward. This would support largely stable prices by keeping the overall supply-demand equation in balance. However, condo values may face further downward pressure as a wave of new units boosts supply.

Ottawa: A gradual recovery

Stretched affordability conditions have restrained the pace of Ottawa's market recovery with home resales only recently closing in on pre-pandemic levels. RBC's aggregate measure entered 2024 at an all-time high of 52.1% and has eased only modestly since then, reaching 47.3% by Q3. We expect lower interest rates will drive further affordability relief ahead, though the extent and speed at which it will occur may disappoint many potential buyers. A recent firming of supply-demand conditions may be setting the stage for hotter price appreciation, which would minimize any reduction in ownership costs.

Quebec

Montreal area: Pulling ahead

Montreal's market has shifted to higher gear since the summer—breaking from the slow recovery trend of the previous year and a half. Transaction volumes jumped 34% this fall from the same period in 2023, and are within striking distance of pre-pandemic highs. Montreal is emerging as one of the hotter markets in Canada with supply getting tighter by the day. Inventories are no longer rebuilding and prices are rising. These trends are likely to endure in the near term, but it will get harder for affordability to improve. RBC's aggregate measure fell slightly this year to 49.4% from a decades-high level of 52.4% at the end of 2023. We expect further progress to be slim until supply starts to rebuild again.

Quebec City: Resilient despite elevated costs

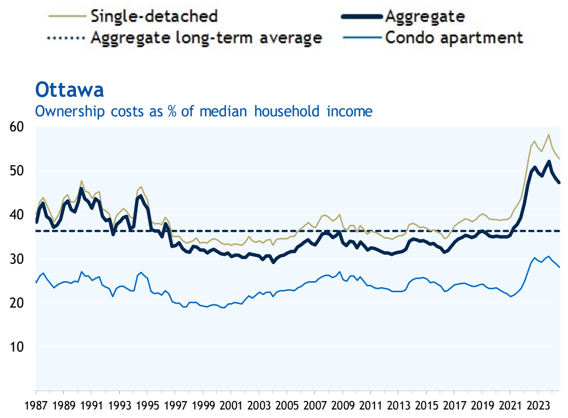
Quebec City's market remains active with transactions up 16% year-over-year despite elevated ownership costs. RBC's aggregate affordability measure of 34.2% remains close to a three-decade high. And, it hasn't budged much this year as strong price increases have largely offset the benefits of interest rate cuts. We see the market's tight supply-demand conditions continuing to drive up prices, limiting improvement in affordability.

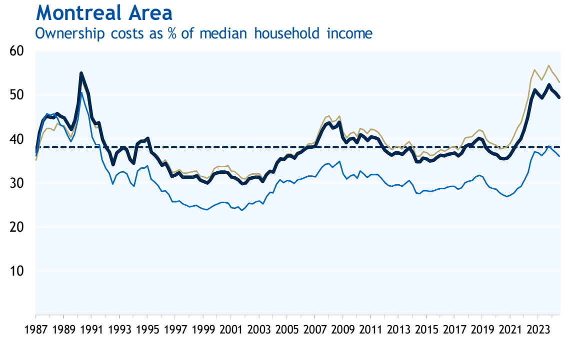
Atlantic Canada

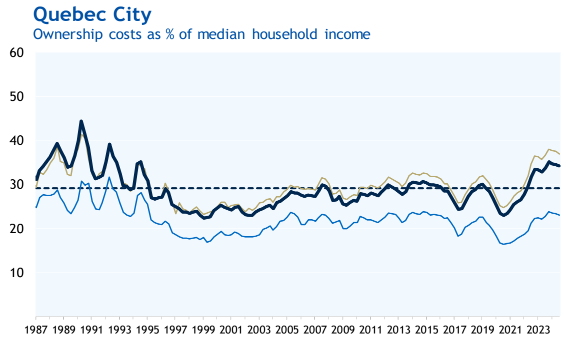
Saint John: Supply constraints generate heat

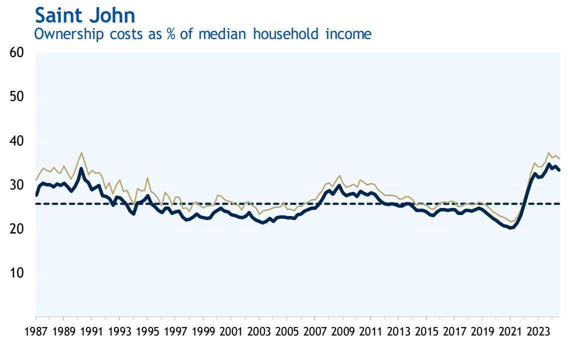
Activity has barely lifted off from cyclical lows in Saint John this year. Home resales were up just 2.6% over the first 11 months of 2024—less than half the average Canadian increase. But, buyer motivation may not be entirely at fault. Low supply seems a significant constraint. Supply-demand conditions have remained exceptionally firm, which has heightened competition between buyers and heated property values. Price gains have been especially strong this fall. Housing affordability has seen little improvement as a result. RBC's aggregate measure at 33.3% is just off its all-time high of 34.7% in Q4 2023. We think it could worsen in the period ahead if prices continue to escalate rapidly.

RBC Housing Affordability Measures



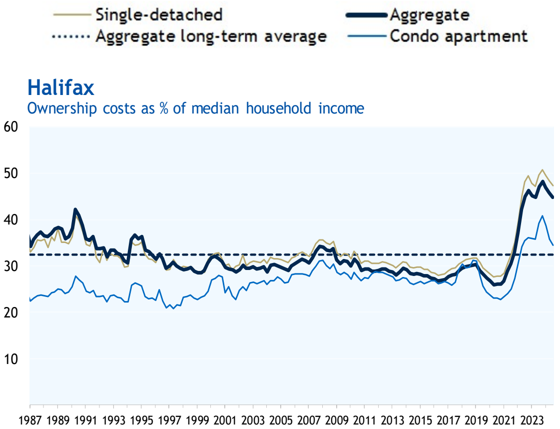


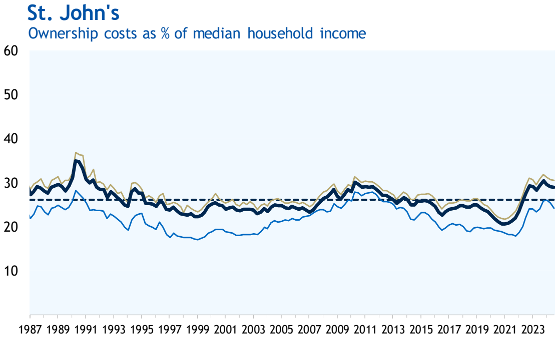




Source: RPS, Statistics Canada, Bank of Canada, Royal LePage, RBC Economics

RBC Housing Affordability Measures





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

Halifax: High costs pinch buyers

Halifax is recovering slowly with the impact of strong population growth offset by near-record ownership costs and low inventory levels. Buyers continue to have a difficult time finding a home they can afford despite affordability improving slightly this year. RBC's aggregate measure of 44.8% is far above the long-run average of 32.5%. It also means buyers have significant budget limitations to outbid the competition. This is keeping price appreciation generally muted. We expect current trends to persist in the near term and sustain further reductions in ownership costs.

St. John's: Low inventory limits options for buyers

The St. John's market is thriving on unprecedented in-migration with transactions surpassing pre-pandemic levels by more than 40%. However, low inventory limits options for buyers. Ownership costs remain relatively affordable with RBC's aggregate measure at 28.9%—the second lowest among tracked markets. Modest price gains are expected to continue.

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 Q3 2024 ($)	Price Q/Q % ch.	Price Y/Y % ch.	RBC Housing Affordability Measure Q3 2024 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	823,400	1.4	2.4	**58.4**	-1.5	-3.9	41.6
Victoria	1,132,700	-0.3	-1.7	**69.2**	-2.6	-7.1	45.6
Vancouver area	1,508,100	0.7	3.9	**96.7**	-2.7	-4.7	60.9
Calgary	695,700	2.4	12.4	**42.2**	-0.5	-0.2	38.8
Edmonton	473,700	2.6	8.2	**33.6**	-0.4	-1.2	32.3
Saskatoon	449,800	3.5	6.1	**32.6**	-0.1	-1.3	31.1
Regina	354,400	2.1	2.9	**26.9**	-0.3	-1.7	27.3
Winnipeg	401,600	2.4	6.3	**32.1**	-0.3	-1.0	29.3
Toronto area	1,217,500	1.1	-0.6	**75.1**	-2.1	-7.5	50.4
Ottawa	702,600	1.9	1.8	**47.3**	-1.0	-3.3	36.3
Montreal area	678,200	2.4	6.8	**49.4**	-1.1	-1.3	38.1
Quebec City	440,600	4.0	11.3	**34.2**	-0.3	0.4	29.1
Saint John	364,300	2.7	10.3	**33.3**	-0.8	0.4	25.7
Halifax	603,600	0.7	4.4	**44.8**	-1.0	-2.2	32.5
St. John's	377,400	1.8	6.4	**28.9**	-0.3	-0.6	26.2

Single-family detached

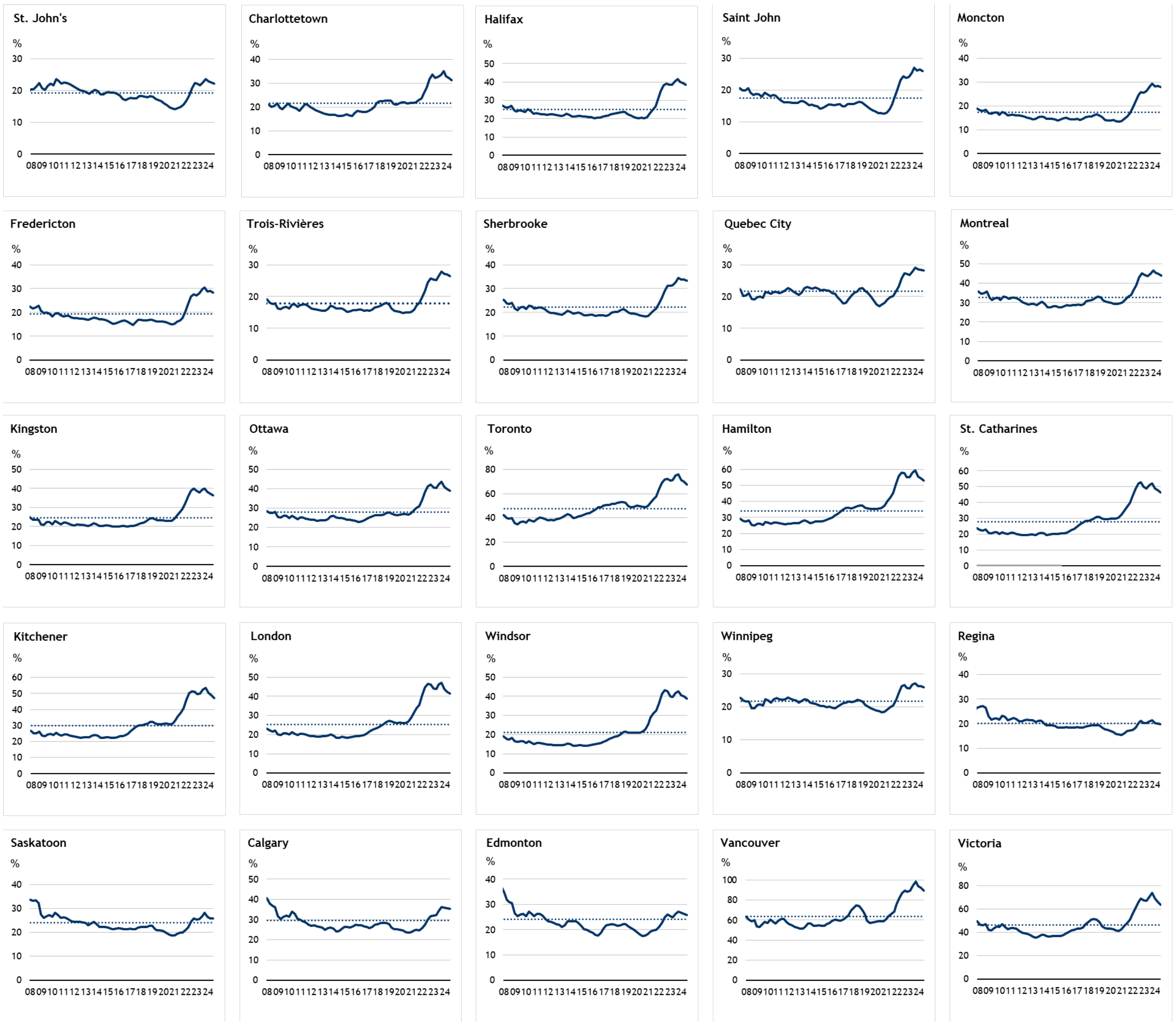
Market	Price Q3 2024 ($)	Price Q/Q % ch.	Price Y/Y % ch.	RBC Housing Affordability Measure Q3 2024 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	905,000	1.4	2.6	**64.3**	-1.7	-4.2	44.2
Victoria	1,297,800	1.0	-1.8	**79.0**	-1.9	-8.2	49.6
Vancouver area	2,087,100	0.8	3.9	**131.8**	-3.5	-6.5	73.7
Calgary	782,500	2.0	11.3	**47.2**	-0.8	-0.7	41.8
Edmonton	518,700	2.6	8.6	**36.8**	-0.4	-1.3	34.0
Saskatoon	486,100	3.9	5.8	**35.5**	0.0	-1.5	33.0
Regina	363,500	1.4	3.1	**28.3**	-0.5	-1.7	28.6
Winnipeg	414,900	2.3	5.4	**33.7**	-0.4	-1.3	30.5
Toronto area	1,495,200	1.0	-0.2	**91.6**	-2.6	-8.7	58.7
Ottawa	778,000	2.1	2.0	**52.8**	-0.9	-3.5	39.4
Montreal area	721,000	2.1	5.4	**52.9**	-1.3	-1.9	39.0
Quebec City	471,400	3.5	10.9	**37.0**	-0.5	0.3	30.0
Saint John	387,600	3.2	11.8	**35.9**	-0.7	0.8	28.0
Halifax	630,000	0.7	4.6	**47.3**	-1.0	-2.2	33.1
St. John's	389,700	1.9	7.2	**30.5**	-0.2	-0.4	27.5

Condominium apartment

Market	Price Q3 2024 ($)	Price Q/Q % ch.	Price Y/Y % ch.	RBC Housing Affordability Measure Q3 2024 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada	582,300	0.1	1.8	**41.5**	-1.6	-3.0	33.2
Victoria	683,600	-8.3	2.9	**42.9**	-5.1	-2.4	32.1
Vancouver area	800,400	-0.7	2.8	**53.3**	-2.2	-3.0	39.1
Calgary	330,800	2.4	12.9	**22.3**	-0.3	-0.4	25.1
Edmonton	219,400	1.3	0.2	**18.1**	-0.4	-1.8	20.9
Saskatoon	214,400	-2.0	0.8	**17.3**	-0.8	-1.5	19.3
Regina	222,100	-1.1	4.8	**17.7**	-0.6	-0.9	20.7
Winnipeg	251,500	3.6	11.1	**20.8**	0.0	0.1	22.4
Toronto area	682,400	0.1	-0.7	**43.3**	-1.6	-4.3	32.0
Ottawa	404,000	0.7	0.7	**28.0**	-0.8	-2.1	23.9
Montreal area	494,800	2.2	6.8	**36.1**	-0.9	-0.9	31.5
Quebec City	298,200	3.6	11.6	**23.1**	-0.3	0.3	22.2
Saint John	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
Halifax	465,900	-1.5	-4.8	**34.4**	-1.4	-4.7	26.6
St. John's	326,400	-3.1	9.8	**24.2**	-1.2	0.2	22.0

Mortgage carrying costs by city

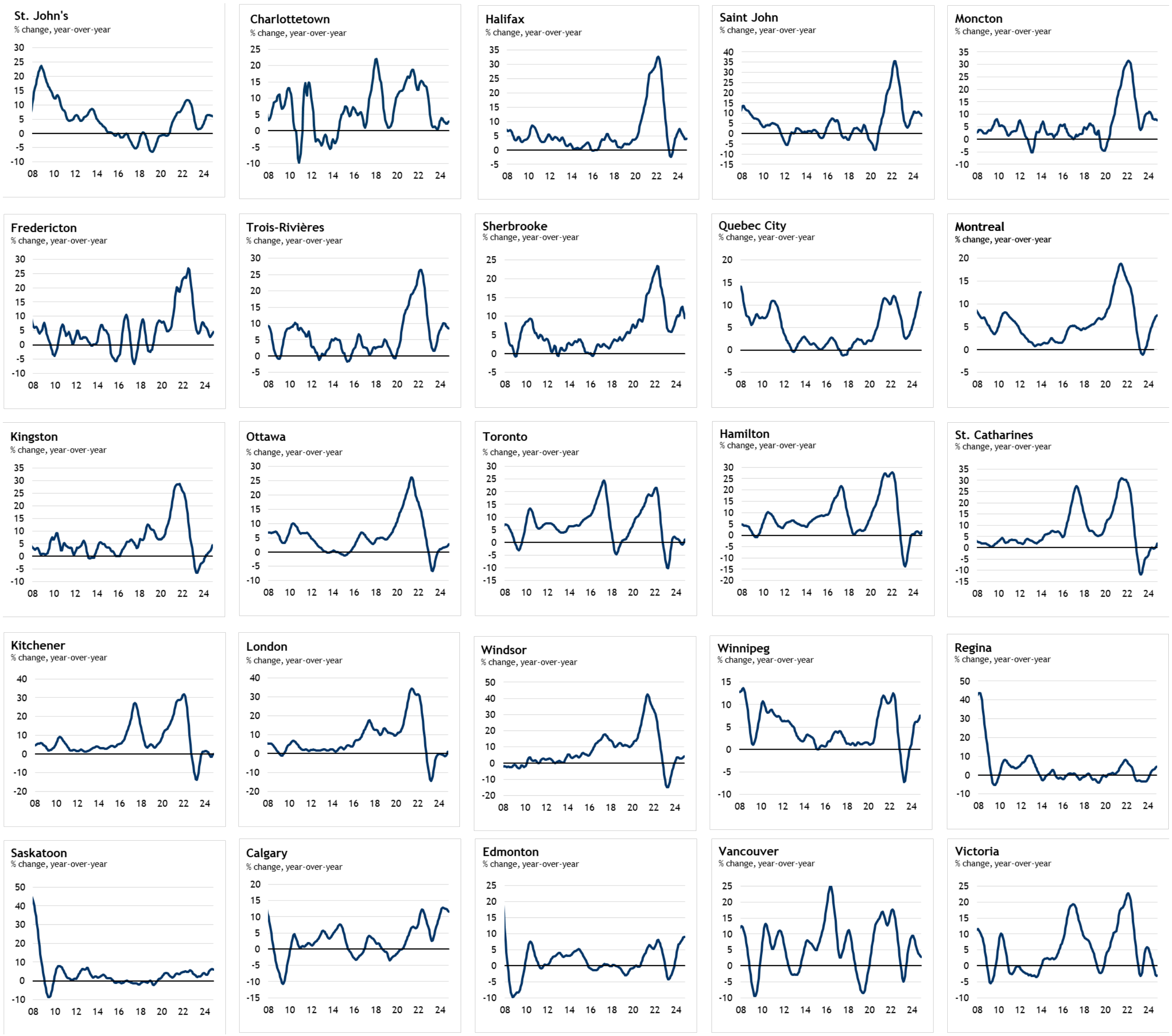
Our standard RBC Housing Affordability Measure captures the proportion of median pre-tax household income required to service the cost of a mortgage on an existing housing unit at market prices, including principal and interest, property taxes and utilities; the modified measure used here includes the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

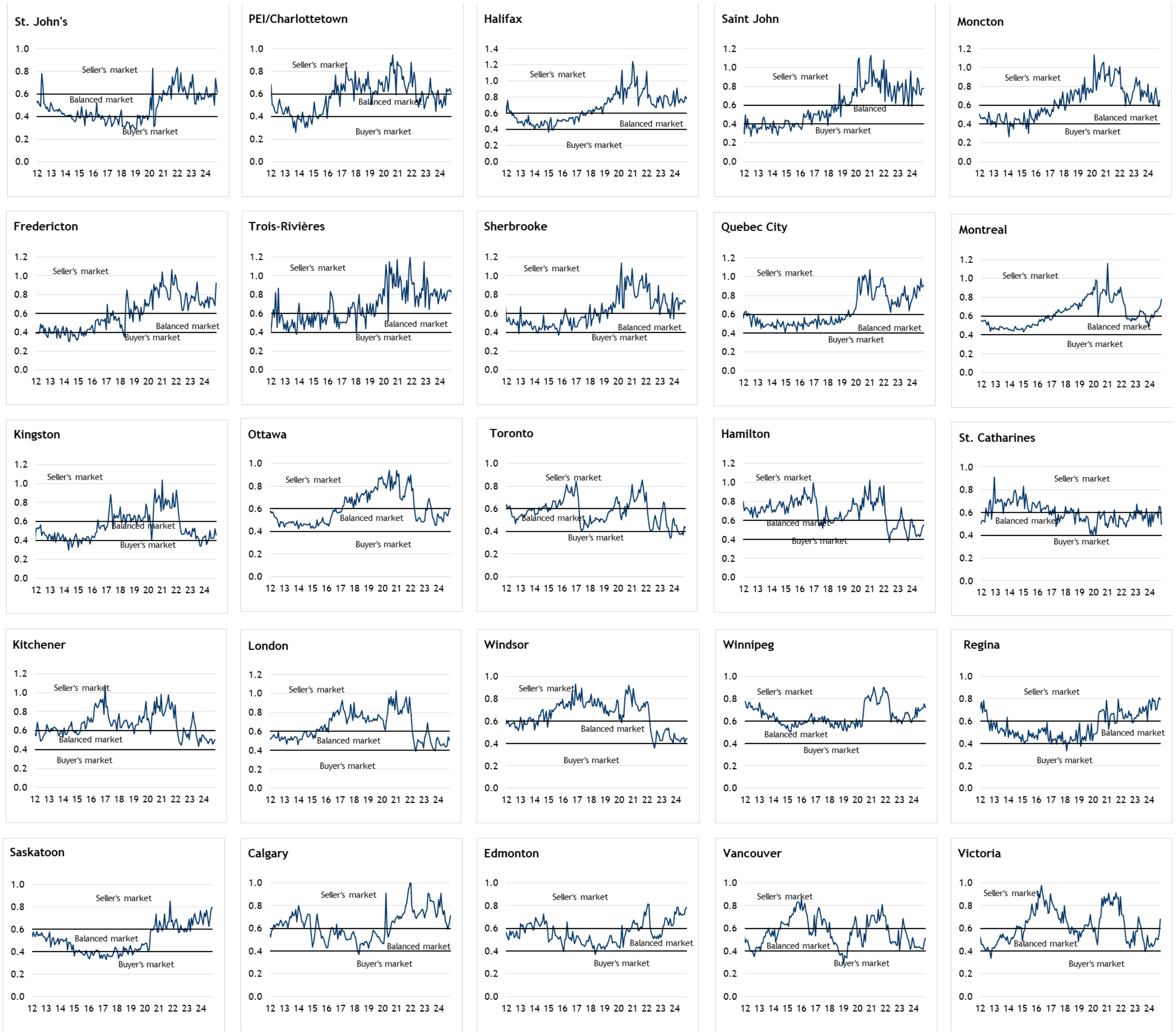
Source: RPS, Statistics Canada, Bank of Canada, RBC Economics

Aggregate home price



Source: RPS, RBC Economics

Home sales-to-new listings ratio



Source: Canadian Real Estate Association, RBC Economics