

Q2 2017: The least affordable market in 9 years

Mortgage payment as % of income:

Q2 quarter-to-quarter change: +0.3 percentage points

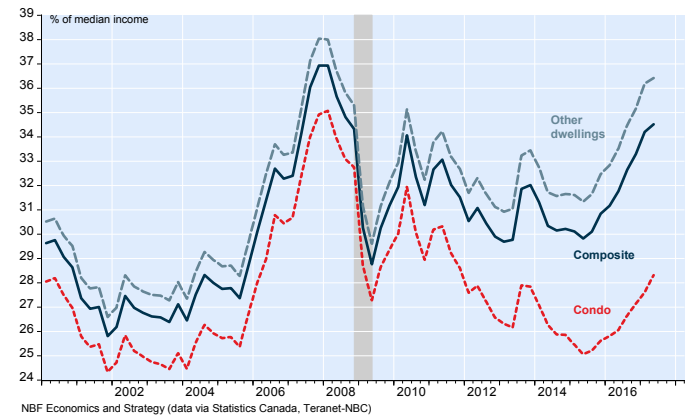
Q2 change from year earlier: +2.8 percentage points

NUMBERS: Affordability continued to deteriorate in Q2 for Canadian housing. The mortgage payment on a representative home as a percentage of income (MPPI) registered an increase of 0.3 percentage points (a higher MPPI means lower affordability) after a 0.9-point rise in Q1. The markets with the worst deterioration were Toronto (+3.2 points), Victoria (+2.3 points) and Hamilton (+1.9 points). Affordability improved in six markets: Montreal (-1 point), Quebec (-0.9 point), Calgary/Edmonton (-0.8 point), Ottawa/Gatineau (-0.6 point) and Winnipeg (-0.4 point). Countrywide, the MPPI rose in both the condo segment (+0.7 point) and the non-condo segment (+0.2 point). Seasonally adjusted Q2 home prices were up 2.9% from Q1; the benchmark mortgage rate (5-year term) was the lowest on record; and median household income was up 0.1%. The annual increase in the MPPI was 2.8 points, as a 30-basis-point decline of the mortgage rate and a 0.9% rise of median income were more than offset by a 12.6% rise of home prices. The time required to accumulate the down payment on a representative home at a savings rate of 10% was 39.4 months, versus 35.3 months a year earlier.

OPINION: The worsening of affordability in Q2 was the eighth in a row, the longest run in almost 3 decades. As a result, our national composite is the least affordable since 2008 (top chart). Canadian households have been able to fall back for some time on the condo market which was more affordable on an historical basis. However, the deterioration in Q2 was more acute in this segment compared to other dwellings. As a result, even the condo market is now the least affordable in years (worst since 2011). Yet again this quarter, there is still a significant divergence across regions with no less than 6 markets showing an improvement of the situation in contrast with British Columbia and GTA cities that experienced further deteriorations (middle chart). The deterioration of affordability in Canada over the past two years appears to be negatively impacting consumer confidence. The latter is shown by the index related to “whether it’s a good time to make a major outlay such as a house” diverging substantially from the index grouping other questions of the survey (bottom chart). We note that despite labour markets being essentially at full-employment in Ontario and British Columbia, the percentage of respondents considering it a good time to make such an outlay is barely above Alberta’s level which is still coping with the pinch of the oil shock. The mortgage rate hike observed so far in the third quarter will certainly not alleviate this sentiment going forward.

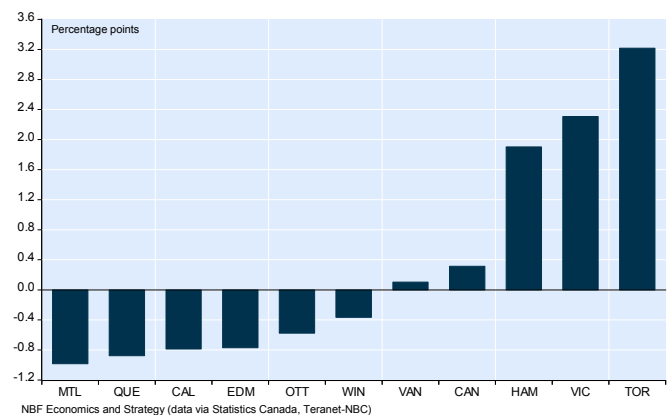
Canada : Perspective on housing affordability

Monthly mortgage payment on median home price (25 year amortization, 5-year term)



Canada : Divergence in housing affordability in Q2

Q/Q change in mortgage payment on median home price (25 year amortization, 5-year term)

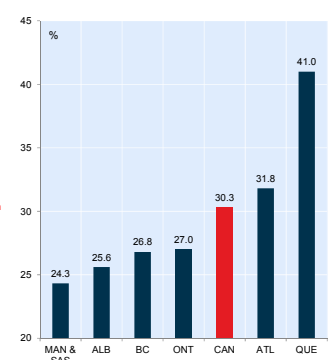


Affordability issues in BC and ON impacting consumer confidence

Breakdown of consumer confidence index



Percentage of consumers considering it's a good time to make a major outlay (home, car, etc)



NBF Economics and Strategy (data via Datastream)

Housing Affordability Monitor

Housing affordability statistics

Table 1

	A	B	C	D	E	F	G	H	I	J	K	L	M
All dwellings	Median home price	Q/Q % change	Y/Y % change	Downpayment: Months of saving	Avg. Since 2000	Mortgage payment as % of income	Q/Q diff. PP	Y/Y diff. PP	Avg. Since 2000	Qualifying annual Income	Median annual Income	Home-ownership rate (2011)	Monthly mortgage payment
Composite	\$ 423,125	2.9	12.6	39.4	24.6	34.5	0.3	2.8	30.5	\$ 69,472	\$ 64,399	69%	\$ 1,853
Toronto	\$ 833,009	7.6	27.5	105.6	38.1	66.0	3.2	12.6	44.2	\$ 136,770	\$ 66,263	68%	\$ 3,647
Montreal	\$ 309,952	-1.0	2.4	31.5	25.1	27.6	-1.0	-0.8	31.3	\$ 50,890	\$ 58,961	55%	\$ 1,357
Vancouver	\$ 974,745	1.6	9.5	127.5	51.8	75.1	0.1	4.7	59.7	\$ 160,041	\$ 68,219	65%	\$ 4,268
Calgary	\$ 468,253	-0.6	0.4	34.9	27.6	30.5	-0.8	-0.7	35.5	\$ 76,881	\$ 80,583	74%	\$ 2,050
Edmonton	\$ 385,585	-1.4	-1.6	25.9	23.1	22.7	-0.8	-1.0	30.0	\$ 63,308	\$ 89,436	71%	\$ 1,688
Ottawa/Gatineau	\$ 343,675	0.1	4.1	29.4	21.9	25.7	-0.6	0.1	27.3	\$ 56,427	\$ 70,249	68%	\$ 1,505
Quebec	\$ 249,180	-1.4	-1.5	25.5	18.3	22.4	-0.9	-1.6	22.3	\$ 40,912	\$ 58,542	60%	\$ 1,091
Winnipeg	\$ 305,097	0.6	2.5	27.8	20.1	24.3	-0.4	-0.7	24.7	\$ 50,093	\$ 65,900	68%	\$ 1,336
Hamilton	\$ 557,955	7.8	24.1	47.3	24.1	37.5	1.9	6.3	29.4	\$ 91,609	\$ 78,165	71%	\$ 2,443
Victoria	\$ 745,364	4.6	19.6	114.6	49.9	75.5	2.3	10.7	61.2	\$ 122,379	\$ 51,867	65%	\$ 3,263

Table 2

	A	B	C	D	E	F	G	H	I	J	K	L	M	N
Condo	Median home price	Q/Q % change	Y/Y % change	Downpayment: Months of saving	Avg. Since 2000	Mortgage payment as % of income	Q/Q diff. PP	Y/Y diff. PP	Avg. Since 2000	Qualifying Income	Median Income	Home-ownership rate (2011)	Monthly mortgage payment	Monthly average rent
Composite	\$ 347,070	4.6	12.6	32.3	22.1	28.3	0.7	2.3	27.7	\$ 56,984	\$ 64,399	9%	\$ 1,520	\$ 1,255
Toronto	\$ 474,934	10.1	23.3	43.0	24.3	37.7	2.6	6.1	29.8	\$ 77,978	\$ 66,263	14%	\$ 2,079	\$ 1,331
Montreal	\$ 247,810	-0.3	1.0	25.2	21.1	22.1	-0.6	-1.0	26.3	\$ 40,687	\$ 58,961	9%	\$ 1,085	\$ 795
Vancouver	\$ 533,717	4.9	17.7	49.9	29.6	41.1	1.4	5.2	37.0	\$ 87,630	\$ 68,219	23%	\$ 2,337	\$ 1,463
Calgary	\$ 287,937	-2.5	-8.1	21.4	19.6	18.8	-0.9	-2.2	25.7	\$ 47,276	\$ 80,583	14%	\$ 1,261	\$ 1,235
Edmonton	\$ 249,556	-0.6	-4.0	16.7	16.3	14.7	-0.4	-1.0	21.5	\$ 40,974	\$ 89,436	13%	\$ 1,093	\$ 1,231
Ottawa/Gatineau	\$ 219,063	0.6	2.0	18.7	15.3	16.4	-0.3	-0.3	19.2	\$ 35,967	\$ 70,249	10%	\$ 959	\$ 1,207
Quebec	\$ 205,342	-2.8	-4.1	21.0	15.9	18.4	-1.0	-1.8	19.5	\$ 33,715	\$ 58,542	8%	\$ 899	\$ 811
Winnipeg	\$ 210,646	0.3	-0.8	19.2	15.5	16.8	-0.3	-1.0	19.2	\$ 34,585	\$ 65,900	6%	\$ 922	\$ 1,071
Hamilton	\$ 398,956	7.5	22.2	30.6	18.5	26.8	1.3	4.2	22.7	\$ 65,504	\$ 78,165	11%	\$ 1,747	\$ 1,046
Victoria	\$ 416,377	4.1	19.1	48.2	29.7	42.2	1.1	5.8	38.4	\$ 68,364	\$ 51,867	14%	\$ 1,823	\$ 1,197

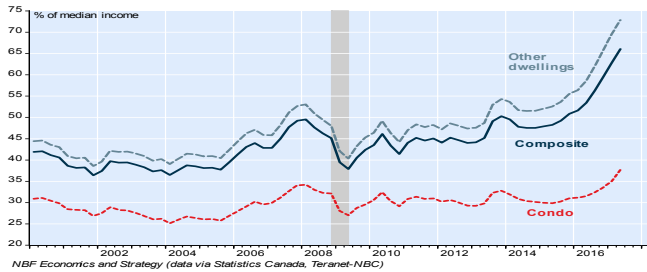
Table 3

	A	B	C	D	E	F	G	H	I	J	K	L	M
Other dwellings	Median home price	Q/Q % change	Y/Y % change	Downpayment: Months of saving	Avg. Since 2000	Mortgage payment as % of income	Q/Q diff. PP	Y/Y diff. PP	Avg. Since 2000	Qualifying Income	Median Income	Home-ownership rate (2011)	Monthly mortgage payment
Composite	\$ 446,435	2.6	12.6	41.6	25.6	36.4	0.2	2.9	31.6	\$ 73,299	\$ 64,399	60%	\$ 1,955
Toronto	\$ 918,924	7.2	28.2	121.1	41.5	72.9	3.3	14.3	47.5	\$ 150,876	\$ 66,263	54%	\$ 4,023
Montreal	\$ 323,321	-1.2	2.7	32.9	26.0	28.8	-1.1	-0.8	32.4	\$ 53,085	\$ 58,961	46%	\$ 1,416
Vancouver	\$ 1,182,129	0.7	7.3	415.9	83.0	91.0	-0.7	3.9	70.1	\$ 194,091	\$ 68,219	42%	\$ 5,176
Calgary	\$ 511,487	-0.3	1.7	38.9	29.6	33.3	-0.8	-0.3	38.0	\$ 83,980	\$ 80,583	60%	\$ 2,239
Edmonton	\$ 424,047	-1.5	-1.2	28.4	25.1	24.9	-0.9	-1.0	32.5	\$ 69,623	\$ 89,436	58%	\$ 1,857
Ottawa/Gatineau	\$ 376,643	0.0	4.3	32.2	23.8	28.2	-0.6	0.2	29.7	\$ 61,840	\$ 70,249	58%	\$ 1,649
Quebec	\$ 260,392	-1.2	-1.2	26.7	19.0	23.4	-0.9	-1.6	23.2	\$ 42,753	\$ 58,542	51%	\$ 1,140
Winnipeg	\$ 307,400	0.6	2.8	28.0	20.1	24.5	-0.4	-0.6	24.6	\$ 50,471	\$ 65,900	63%	\$ 1,346
Hamilton	\$ 603,721	7.8	24.3	54.3	26.0	40.6	2.1	6.9	31.5	\$ 99,123	\$ 78,165	61%	\$ 2,643
Victoria	\$ 826,216	4.7	19.7	133.3	55.2	83.7	2.6	11.9	66.8	\$ 135,654	\$ 51,867	51%	\$ 3,617

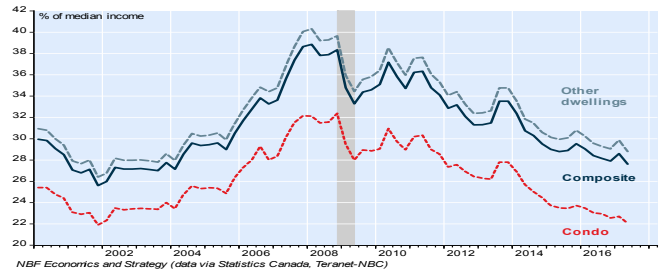
Housing Affordability Monitor

Mortgage payment for a representative home as a % of income

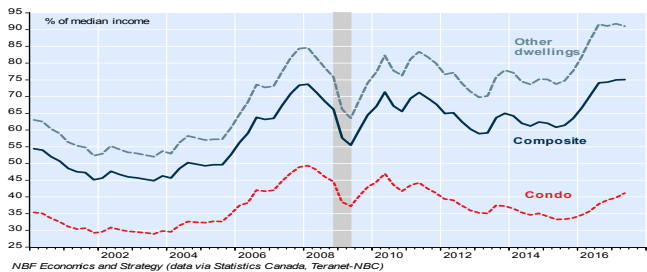
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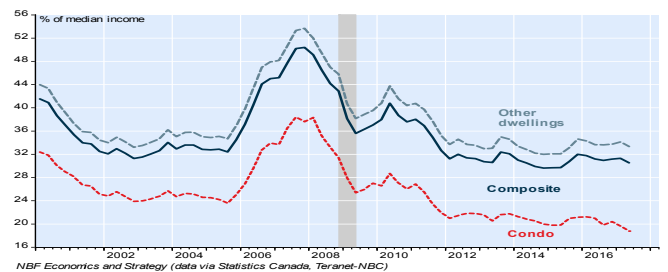
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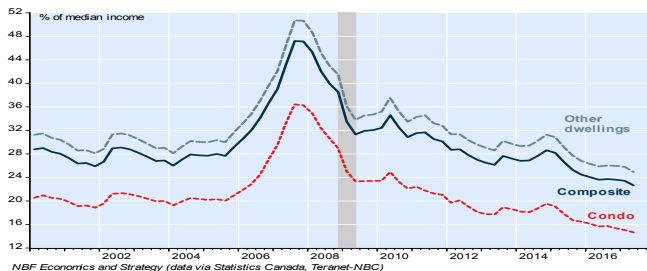
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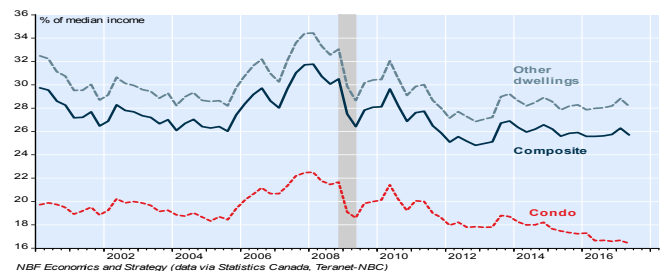
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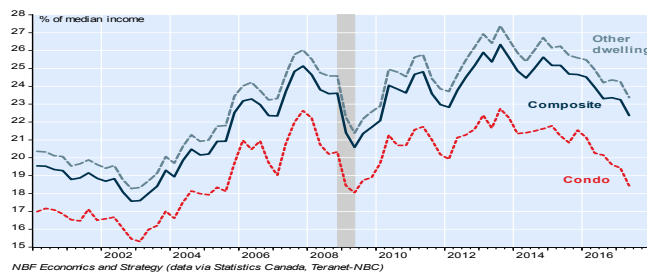
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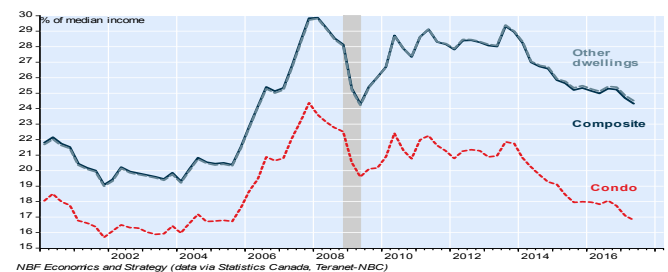
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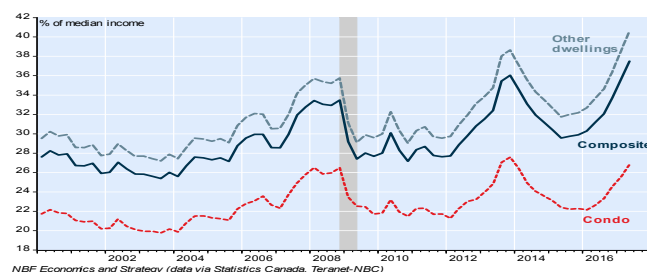
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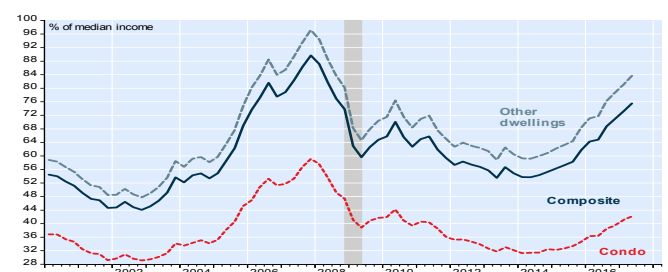
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HAMILTON



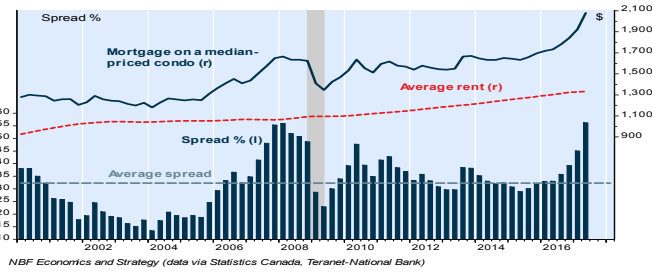
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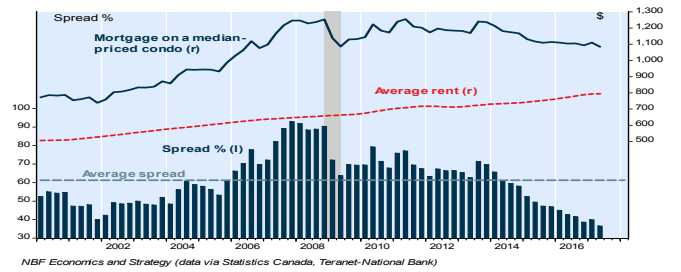
Housing Affordability Monitor

Monthly rent vs. mortgage payment for a condo

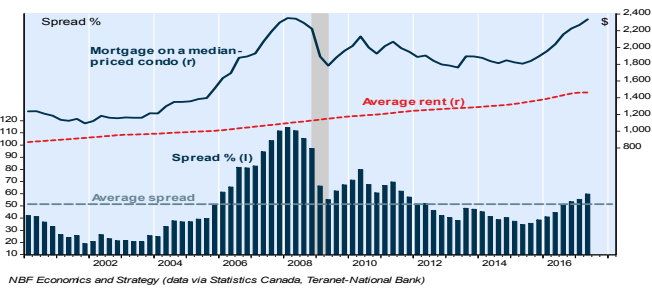
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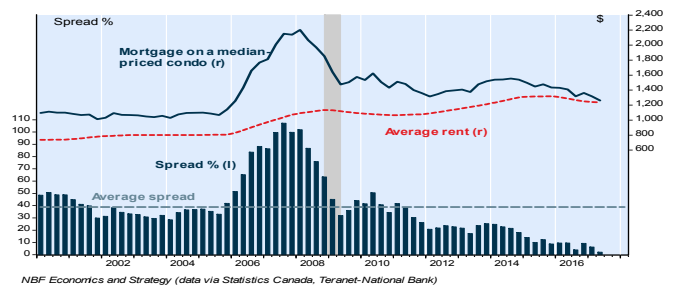
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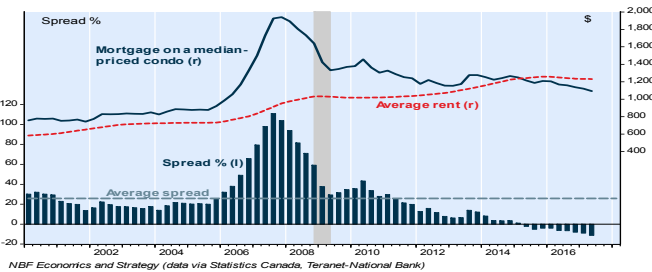
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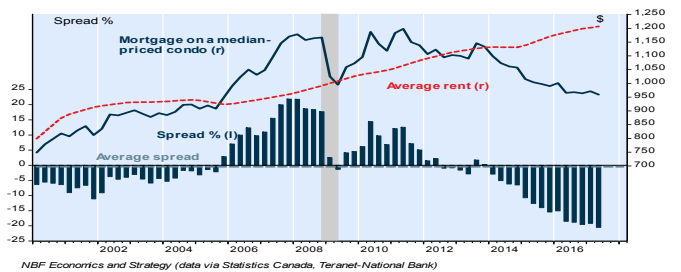
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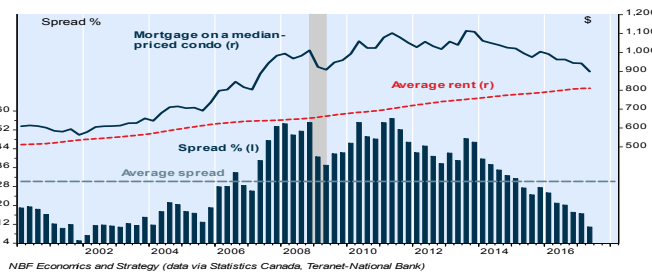
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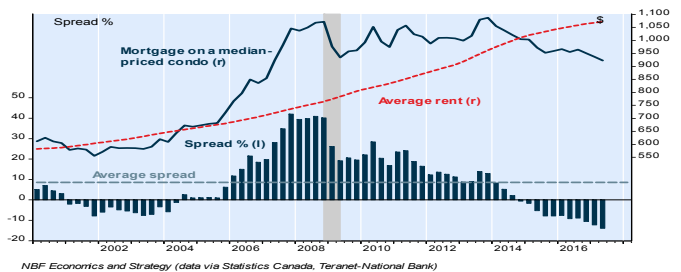
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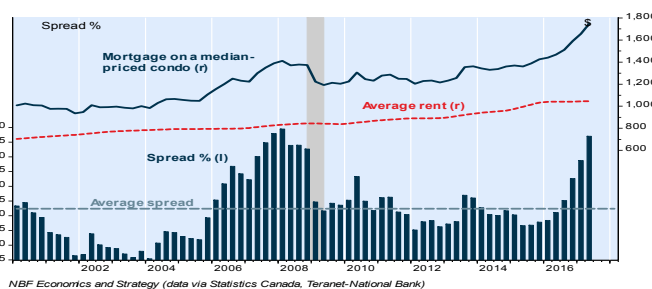
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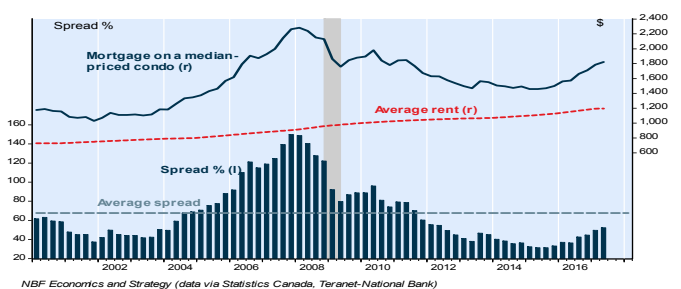
WINNIPEG



HAMILTON



VICTORIA



Methodology

The National Bank Housing Affordability Report measures housing affordability in 10 major census metropolitan areas (CMAs) and summarizes the results in a weighted-average composite of the 10 CMAs. We track the **condo market**, **other dwellings** (single detached, semi-detached) and the **market as a whole**.

We measure two hurdles for the purchase of a home. First, a household must save the **down-payment** amount. We measure this requirement as the number of months a median-income household will require to save for the minimum cash down payment (CMHC insured mortgage) of the representative home at a savings rate of 10% of its pre-tax income. We evaluate the representative home using the Teranet-National Bank House Price Index for the market in question to calculate the home price for months before and after the median home price measured by the Statistics Canada National Household Survey of 2011. For **median household income** in each CMA, we take the Statistics Canada annual data up to 2013. For subsequent months, we extend the series using average weekly earnings growth as a proxy.

The second hurdle for the purchase of a home is the monthly mortgage payment. We measure this as the monthly payment on a median-priced home assuming a 25-year amortization period and a 5-year term. The resulting amount is presented as a percentage of income calculated as described above (sometimes referred as **MPPI**). Note that we do not take the down payment into account in this calculation because there is an opportunity cost in a household's use of these funds for that purpose. Also, we do not wish policy changes in this regard to affect our indicator over time. We also calculate the income needed to purchase the median property assuming that household devote 32% of its pre-tax income for mortgage payment (defined as **qualifying income**). For the condo market, we also compare the monthly mortgage payment to the average rent for a two-bedroom apartment in the same market. We calculate that rent from annual CMHC data, updated to the current month by the rent component of the Consumer Price Index. Note that data in the report was seasonally adjusted when necessary.

Housing Affordability Monitor

Economics and Strategy

Montreal Office

514-879-2529

NBF.EconomyStrategy@nbc.ca

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