Housing affordability: The worst deterioration in 41 years in Q2 2022

By Kyle Dahms, Daren King & Alexandra Ducharme

Housing affordability in Canada worsened by 10.4 points in Q2 ’22, a sixth consecutive quarterly deterioration. The Q2 print marked the worst quarterly and annual deteriorations in 41 years. The mortgage on a representative home in Canada now takes 63.9% of income to service, the most since 1982. While home prices continued to rise in the second quarter, affordability mainly deteriorated on the back of rising mortgage interest rates. For the latter, our 5-year benchmark mortgage rate used to calculate our affordability metrics rose 123 bps in the second quarter of the year, the largest quarterly change since 1994Q2. This increase has propelled the benchmark mortgage rate to its highest level since 2011. To give an idea of scale, a 123-bps increase represents a surge of 14.4% for mortgage payments on the national composite, or an extra 500$ a month, assuming no change in home prices. Subsequently, we are noticing a considerable slowdown on the resale market, with home sales now 12.8% below their 10-year average (report). This downswing should translate into lower home prices in the months ahead with our current forecast calling for a 10% decline. This development, combined with a stabilization of the benchmark 5-year mortgage rate should improve affordability before the year end.

Canada: Perspective on housing affordability
Monthly mortgage payment on median home price, all types of dwellings (25 year amortization, 5-year term)

HIGHLIGHTS:

- Canadian housing affordability deteriorated for a sixth consecutive quarter in Q2 ’22. The mortgage payment on a representative home as a percentage of income (MPPI) rose 10.4 points after a 4.8-point increase in Q1 ’22. This was the second largest quarterly deterioration on record. Seasonally adjusted home prices increased 5.1% in Q2 ’22 from Q1 ’22; the benchmark mortgage rate (5-year term) rose 123 bps, while median household income rose 0.8%.

- Affordability deteriorated in all the ten markets covered in Q1. On a sliding scale of markets from worst deterioration to least: Victoria, Toronto, Vancouver, Hamilton, Ottawa-Gatineau, Montreal, Winnipeg, Calgary, Quebec, Edmonton (see chart on the right). This was the sixth consecutive quarter with a worsening in all markets. Countrywide, affordability deteriorated 6.4 pp in the condo portion vs. a 13.3 pp deterioration in the non-condo segment. See detailed statistics on page 2.

Canada: Q2 change in housing affordability in 10 metropolitan areas
Q/Q change in mortgage payment on median-price home (25-year amortization, 5-year term)
### Housing affordability statistics

#### Table 1

<table>
<thead>
<tr>
<th>Region</th>
<th>Median home price</th>
<th>Median annual income</th>
<th>Qualifying annual income</th>
<th>Homeownership rate (2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ottawa/Gatineau</td>
<td>$520,529</td>
<td>$78,262</td>
<td>$71,180</td>
<td>63%</td>
</tr>
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</tr>
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Housing Affordability Monitor
Economics and Strategy

Canadian perspective on housing affordability

Canada: Perspective on non-condos affordability
Monthly mortgage payment on median home price, non-condos (25 year amortization, 5-year term)

Canada: Perspective on condos affordability
Monthly mortgage payment on median home price, condos (25 year amortization, 5-year term)

Global perspective on housing affordability

World: Perspective on home price inflation
Home price percentage change year over year (Last data available)

World: Price of downtown appartements
Price per square feet in USD for downtown living* (June 2022)
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 2016 Census. 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 and apply a Hodrick-Prescott filter to smooth short-term fluctuations.

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 a household devotes 32% of its pre-tax income for a mortgage payment at the posted rate (defined as qualifying income and is adjusted for the down-payment). For the condo market, we also compare the monthly mortgage payment to the average rent for a two-bedroom condo 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.
In the Greater Toronto Area (GTA), the second quarter of 2022 was marked by the highest quarterly deterioration in affordability since 1981, the MPPI* gaining 15.4pp. This growth propelled the MPPI* to its highest level on record (91.0pp). The level of the MPPI* thus remained way above the city's 20-year average (50.0pp) and the urban composite (63.9pp). The deterioration was in part attributable to the increase in home prices, which grew 22.7% annually and 6.0% during the quarter. Both the condo and non-condo segments registered steep declines in housing affordability as prices both grew 6.0% in the quarter and interest rates climbed, pressures that a 0.7% increase in income could not offset. For both types of dwelling, the quarterly and annual deteriorations in affordability surpassed those of the composite average. *See tables page 2.

**Non-Condo**
- **Price of the representative home in the metropolitan market**: $1,408,797
- **Household annual income needed to afford the representative home**: $265,664

**Condo**
- **Price of the representative condo in the metropolitan market**: $764,876
- **Household annual income needed to afford the representative condo**: $168,159

**Mortgage payment as a % of income (MPPI)**
- **Non-Condo**: 98.2% ▲ + 16.6% Q/Q
- **Condo**: 53.3% ▲ + 9.0% Q/Q

**Premium/discount for buying compared to renting a two-bedroom condo in the GTA**
- **Premium for buying compared to the national urban composite**: 61.7%

**Toronto: Perspective on housing affordability**
- Monthly mortgage payment on median home price (25 year amortization, 5-year term)

**Toronto: Buying compared to renting**
- Premium/discount for buying compared to renting a two-bedroom condo
In the second quarter of 2022, the affordability of the housing market in Greater Montreal deteriorated for the seventh consecutive quarter to reach its worst level since the second quarter of 1990. The deterioration stemmed from both condos and non-condos (MPPI* edged up 5.2pp and 8.8pp respectively). For non-condos, the quarterly increase of the MPPI* was the fastest on record, and the average mortgage payment now jagged a record share of the median income (50.1%). Nonetheless, the increases were all smaller than for the composite average. On an annual basis, home prices in Montreal were up 18.8%, up from the last quarter and above the urban composite (+18.1%) and the 20-year average of this indicator (7.0%). This, combined with higher interest rates, resulted in the fastest annual deterioration in affordability since 1981 (MPPI* up 13.4pp), although this was still less than the urban composite (MPPI* up 19.1pp in 12 months). All in all, despite important deteriorations, the Montreal housing market remains more affordable than the Canadian average thanks to lower price levels. *See tables page 2.
Affordability in Greater Vancouver continued to worsen in the second quarter of 2022, registering steep deteriorations in all types of dwelling. Home prices grew 4.8% compared to the last quarter from their already elevated levels and interest rates continued to grow, trends that a 0.9% quarterly increase in income simply could not offset. The MPPI* consequently grew 15.4pp during the quarter, an acceleration unseen since 1981. As a result, Vancouver remained the least affordable city in Canada in which to buy a dwelling, the representative mortgage payment now notching 96.9% of the median income. This was the highest level since 1981. On a 12-month basis, home prices in Vancouver were up 17.5%, just under the urban composite (18.1%). Still, elevated price levels and an increase in interest rates contributed to deteriorate the MPPI* 28.3 pp in a year, above the national average and the highest annual deterioration since 1981. The annual deterioration in affordability in Vancouver was above the national average both for condos (+13.1 pp) and non-condos (+36.3 pp).

*See tables page 2.

**Mortgage payment as a % of income (MPPI)**

<table>
<thead>
<tr>
<th></th>
<th>Non-Cond</th>
<th>Condo</th>
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<tbody>
<tr>
<td>Non-Cond</td>
<td>121.2%</td>
<td>+ 19.5%</td>
</tr>
<tr>
<td>Condo</td>
<td>51.0%</td>
<td>+ 7.5%</td>
</tr>
</tbody>
</table>

**Price of the representative home in the metropolitan market**
- **Non-Cond**: $1,743,716
- **Condo**: $328,822

**Price of the representative condo in the metropolitan market**
- **Non-Cond**: $733,013
- **Condo**: $161,400

**Household annual income needed to afford the representative home**
- **Non-Cond**: $472
- **Condo**: 65

**Months of saving required for the down payment (saving rate of 10%)**
- **Non-Cond**: 46.8%
- **Condo**: 46.8%

**Premium/discount for buying compared to renting a two-bedroom condo in Vancouver**
- **Non-Cond**: $1,743,716 - $328,822 = $1,414,894
- **Condo**: $733,013 - $161,400 = $571,613

**Premium/discount for buying compared to the national urban composite**
- **Non-Cond**: $1,414,894 - $1,743,716 = -$328,822
- **Condo**: $571,613 - $328,822 = $242,791

Vancouver: Perspective on housing affordability

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

Vancouver: Buying compared to renting

Premium/discount for buying compared to renting a two-bedroom condo
In Calgary, home prices increased 1.9% in the quarter, the second least important home price growth behind Edmonton. This resulted in a relatively moderate deterioration of housing affordability (MPPI* up 4.5 pp), which brought the MPPI* in Calgary at its highest level since the second quarter of 2011 and in line with its long-term average (32.4% compared to 32.3% historically). Nonetheless, Calgary was still much more affordable than the urban average (63.9%). The deterioration stemmed principally from non-condos (MPPI* up 5.2pp) although condos also recorded a worsening (MPPI* up 2.5pp). On an annual basis, the affordability of the housing market in Calgary as measured by the MPPI* worsened 7.8 pp, the fastest deterioration since the second quarter of 2007, but 11.3 pp below the urban composite. Both condos (+3.5 pp) and non-condos (+9.2 pp) registered increases in their MPPI* on a 12-month basis. *See tables page 2.

Calgary: Perspective on housing affordability
Monthly mortgage payment on median home price (25 year amortization, 5-year term)

Calgary: Buying compared to renting
Premium/discount for buying compared to renting a two-bedroom condo in Calgary
Edmonton

Home prices in Edmonton dipped 1.1% during the quarter, the only decline in home prices in the markets covered. This, combined to only a moderate growth in wages and rising interest rates, contributed to increase the MPPI* by 3.3 pp in the quarter, the slowest increase amid markets covered but the fastest in this city since the third quarter of 2007. The MPPI* still stood a tad below its average since 2000 (28.7% in the first quarter of 2022, compared to 29.2% historically). Most of the deterioration in affordability is attributable to non-condos, for which the MPPI* rose 3.6 pp in the quarter compared to a 1.6 pp increase for condos. These figures all show better affordability than for the composite index. Edmonton is now the least expensive Canadian city to buy a house, surpassing Quebec city for the first time. *See tables page 2.

Mortgage payment as a % of income (MPPI)

<table>
<thead>
<tr>
<th></th>
<th>Non-Cond</th>
<th>Condo</th>
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</thead>
<tbody>
<tr>
<td>Non-Cond</td>
<td>30.9%</td>
<td>15.3%</td>
</tr>
<tr>
<td></td>
<td>▲ + 3.6%</td>
<td>▲ + 1.6%</td>
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<tr>
<td>Condo</td>
<td></td>
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<td></td>
<td>in the quarter</td>
<td>Q/Q</td>
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<td></td>
<td>in the quarter</td>
<td>Q/Q</td>
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Price of the representative home in the metropolitan market

<table>
<thead>
<tr>
<th>Non-Condo</th>
<th>$440,982</th>
</tr>
</thead>
</table>
| Price of the representative condo in the metropolitan market
| Condo      | $217,634 |
| Household annual income needed to afford the representative home
|          | $98,751  |
| Household annual income needed to afford the representative condo

|          | $48,736  |
| Months of saving required for the down payment (saving rate of 10%)
| Non-Condo | 30       |
| Condo     | 15       |

Premium/discount for buying compared to renting a two-bedroom condo in Edmonton

|          | -57.4%   |
| Premium for buying compared to the national urban composite
|          | -22.5%   |

Edmonton : Perspective on housing affordability

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

Edmonton: Buying compared to renting

Premium/discount for buying compared to renting a two-bedroom condo

NBF Economics and Strategy (data via Statistics Canada, Teranet-National Bank)
In Ottawa/Gatineau, home prices grew 6.8% during the quarter while the median income increased 0.8% and interest rates climbed. As a result, the MPPI grew 8.2 pp, a slower progression than the urban composite but still the fastest increase for this city since 1981. The average mortgage payment in Ottawa/Gatineau now represents 46.8% of the median income, above the long-term average for this indicator (29.5%) but below the composite average (63.9%). The deterioration stemmed from both non-condos and condos (MPPI up 9.0 pp and 4.8 pp, respectively), both of which were below that of the urban composite. On an annual basis, home prices were up 17.4%, also below the urban composite (+18.1%). The deterioration in affordability over this period was thus lower than the composite index (MPPI up 13.8 pp). *See tables page 2.

### Mortgage payment as a % of income (MPPI)

<table>
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<tr>
<th></th>
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<tr>
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</tr>
<tr>
<td></td>
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<td>▲ + 4.8%</td>
</tr>
<tr>
<td>Q/Q</td>
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</tr>
</tbody>
</table>

### Ottawa/Gatineau: Perspective on housing affordability

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

- **Non-Condo**
  - Price of the representative home in the metropolitan market: $726,248
  - Household annual income needed to afford the representative home

- **Condo**
  - Price of the representative condo in the metropolitan market: $159,965
  - Household annual income needed to afford the representative condo

### Ottawa/Gatineau: Buying compared to renting

**Premium/discount for buying compared to renting a two-bedroom condo in Ottawa/Gatineau**

- **Non-Condo**
  - Premium: $408,600
  - Household annual income needed to afford the non-condo: $91,499
  - Months of saving required for the down payment (saving rate of 10%): 65

- **Condo**
  - Premium: $726,248
  - Household annual income needed to afford the condo: $159,965
  - Months of saving required for the down payment (saving rate of 10%): 28

### NBF Economics and Strategy (data via Statistics Canada, Teranet-National Bank)

- **Spread %**
  - Average spread: Non-condo: 16%, Composite: 12%

- **Average spread**
  - Monthly mortgage payment on a median-priced condo (r)

- **Average monthly rent (r)**
  - Spread (l)

- **Premium/Discount for buying compared to renting a two-bedroom condo**
  - Ottawa/Gatineau: Buying compared to renting
  - Premium/discount for buying compared to renting a two-bedroom condo

**Graphs and charts showing data trends from 2008 to 2022.**
Quebec City

Housing affordability continued to deteriorate during the first quarter of the year in Quebec City, with the MPPI* increasing +4.5pp, less than half the urban composite (+10.4pp). This development caused affordability in Quebec City to reach its highest level since 1999Q3 and exceed by 6.4 percentage points its long-term average (22.8%). The MPPI now stands at 29.2% in the city, which is not the most affordable city in the markets covered anymore as it has been surpassed by Edmonton. The deterioration can be explained by home prices rising 4.2% and increasing interest rates, factors that could not be offset by a 1.0% improvement in median income. The deterioration in affordability stemmed from both condos and other dwellings, which registered rises of their MPPI* of +3.0pp and +4.7pp, respectively. *See tables page 2.

Mortgage payment as a % of income (MPPI)

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<tr>
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<tbody>
<tr>
<td>MPPI</td>
<td>30.4%</td>
<td>19.9%</td>
</tr>
<tr>
<td>▲ + 4.7%</td>
<td>▲ + 3.0%</td>
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</table>

Quebec City: Perspective on housing affordability

- **Household annual income needed to afford the representative home**
  - **Non-Condo**: $371,514
  - **Condo**: $83,194

- **Household annual income needed to afford the representative condo**
  - **Non-Condo**: $243,787
  - **Condo**: $54,592

- **Price of the representative home in the metropolitan market**
  - **Non-Condo**: $371,514
  - **Condo**: $83,194

- **Price of the representative condo in the metropolitan market**
  - **Non-Condo**: $243,787
  - **Condo**: $54,592

- **Months of saving required for the down payment (saving rate of 10%)**
  - **Non-Condo**: 30
  - **Condo**: 19

- **Premium/discount for buying compared to renting a two-bedroom condo in Quebec City**
  - **Non-Condo**: -64.1%
  - **Condo**: 11.3%

Quebec City: Buying compared to renting

- **Monthly mortgage payment on median home price (25 year amortization, 5-year term)**
- **Average monthly rent (r)**
- **Spread (%)**
- **Spread (l)**
- **Average spread**

- **Premium/discount for buying compared to the national urban composite**
  - **Non-Condo**: -64.1%
  - **Condo**: 11.3%
In Winnipeg, housing affordability worsened as the MPPI* grew 5.1 pp to 31.8%, compared to 25.0% historically. Despite this deterioration, the MPPI remained about half that of the urban composite, which stood at 63.9%. This deterioration was attributable to a 4.8% growth in home prices and to rising interest rates, factors that a 0.7% increase in income was not sufficient to offset. This was the sixth consecutive quarterly deterioration for housing affordability in Winnipeg. Both condos (+2.6 pp) and non-condos (+5.3 pp) saw a deterioration in affordability in the quarter, and from a year before (+4.5 pp and +8.9 pp respectively). *See tables page 2.

<table>
<thead>
<tr>
<th></th>
<th>Non-Cond</th>
<th>32.5%</th>
<th>+5.3%</th>
<th>Q/Q</th>
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<tbody>
<tr>
<td>Condo</td>
<td>19.2%</td>
<td>+2.6%</td>
<td>Q/Q</td>
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</table>

**Mortgage payment as a % of income (MPPI)**

- **Non-Cond**: $418,380
  - Price of the representative home in the metropolitan market
  - Household annual income needed to afford the representative home: $93,689
  - Months of saving required for the down payment (saving rate of 10%): 32 months
  - Premium/discount for buying compared to the national urban composite: -59.6%

- **Condo**: $247,762
  - Price of the representative condo in the metropolitan market
  - Household annual income needed to afford the representative condo: $55,482
  - Months of saving required for the down payment (saving rate of 10%): 19 months
  - Premium/discount for buying compared to renting a two-bedroom condo in Winnipeg: -10.7%

**Winnipeg: Perspective on housing affordability**

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

**Winnipeg: Buying compared to renting**

Premium/discount for buying compared to renting a two-bedroom condo
Hamilton recorded a 12.0pp deterioration in its MPPI* in the quarter, exceeding the variation of the urban composite. On an annual basis, the deterioration in affordability (+23.3pp) brought the MPPI* to its highest level ever recorded. Mortgage payments indeed took up 66.6% of the median pre-tax household income, which is the above the urban composite (63.9%) for the second consecutive quarter. The annual deterioration can be explained by home prices rising 27.5% in the year, the fastest growth among markets covered for the fourth consecutive quarter. On a quarterly basis, prices rose above the pace of the urban composite in all segments (+11.1% for condos, +7.3% for non-condos and +7.4% for the market as a whole), while median income rose 0.8% and interest rates grew. As a result, the MPPI* rose to record levels for both non-condos and condos. *See tables page 2.

**Mortgage payment as a % of income (MPPI)**

<table>
<thead>
<tr>
<th></th>
<th>Non-Condo</th>
<th>71.1%</th>
<th>+12.7%</th>
<th>Q/Q</th>
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<tbody>
<tr>
<td>Condo</td>
<td>50.1%</td>
<td>+9.3%</td>
<td>Q/Q</td>
<td></td>
</tr>
</tbody>
</table>

| Price of the representative home in the metropolitan market | $1,055,735 |
| Price of the representative condo in the metropolitan market | $199,086 |
| Price of the representative home in the metropolitan market | $744,302 |
| Price of the representative condo in the metropolitan market | $163,795 |

| Household annual income needed to afford the representative home | 277 |
| Months of saving required for the down payment (saving rate of 10%) | 65 |
| Premium/discount for buying compared to renting a two-bedroom condo in Hamilton | 86.8% |

**Hamilton: Perspective on housing affordability**

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

**Hamilton: Buying compared to renting**

Premium/discount for buying compared to renting a two-bedroom condo
For the fourth consecutive quarter, Victoria registered the largest annual deterioration in the MPPI* of all the markets covered (+30.6 pp). As a result, the MPPI* reached 95.6%, the second highest among markets covered after Vancouver and the highest level on record for this city. On a quarterly basis, the +15.4pp increase in the MPPI* was also the highest of all markets as home prices grew faster than the urban composite ($56.3 K vs. $39.5 K), a difference that a slightly higher income growth could not offset. The worsening of affordability was above the urban composite in both segments of the market, with the MPPI* rising +8.6 pp in the quarter for condos and +16.6 pp for non-condos. For non-condos, the average mortgage payment took up more than the median income for the first time in Victoria. *See tables page 2.
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