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Homebuyers facing 'toughest time ever' to buy a home: economist

Daniel Johnson || April 2, 2024

Prospective home buyers are facing peak unaffordable market conditions amid elevated interest rates and high prices, says one economist.

Robert Hogue, assistant chief economist at RBC, said in a report Tuesday that Canadians are experiencing the “toughest time ever to afford a home.” The report said the Bank of Canada’s historic interest rate hiking campaign, which began in March 2022, continues to weigh on the nation's housing market despite more recent moves to hold interest rates. Specifically, Hogue said higher rates have greatly diminished purchasing budgets among house hunters.

“We estimate they’ve shrunk the maximum budget for a household with a median income ($85,400 at the end of 2023) by 22 per cent since the first quarter of 2022 to just under $500,000,” Hogue said adding that those figures assume a 20 per cent down payment and a 25-year amortization.

While higher interest rates have worked to erode the budgets of prospective homebuyers, the report outlined that prices have not drastically moved lower.

“Home prices, meanwhile, have fallen just 1.8 per cent over the same interval. It’s no wonder homebuyer demand has cooled so much. The ability of many Canadians to get into the housing market has greatly diminished,” he said.

As a result of the poor affordability conditions in Canada’s real estate market, Hogue highlighted that many buyers are waiting for rates to go down before getting off the sidelines.

However, the report highlights that Canadian homebuyers could see improving market conditions ahead.

“An improvement in affordability could in fact come sooner if long-term interest rates ease ahead of our central bank policy pivot and household income continues to grow at a solid clip. The outlook will brighten the deeper the Bank of Canada’s cuts get next year,” the report said.

While some improvements in affordability could “rekindle some buyers" enthusiasm,” Hogue said they will be small when compared to the “dramatic loss of affordability that occurred during the pandemic.”

“Under our base case scenario, the share of an average household income needed to cover ownership costs would only fall to mid-2022 levels by 2025.,” the report said.