

Daily Hive – April 3, 2024

Relief could be coming as Canadians experience “the toughest time to afford a home”: RBC

National Trending Staff || April 3, 2024



fizkes/Shutterstock

After the past few years of soaring interest rates, Canadians may finally get some relief when it comes to being able to afford a home, according to a new RBC report.

The financial institution released its latest report on housing affordability in Canada on Wednesday, sharing insights that could give prospective homebuyers some hope.

The report stresses how high interest rates have negatively affected both mortgage holders and aspiring homeowners.

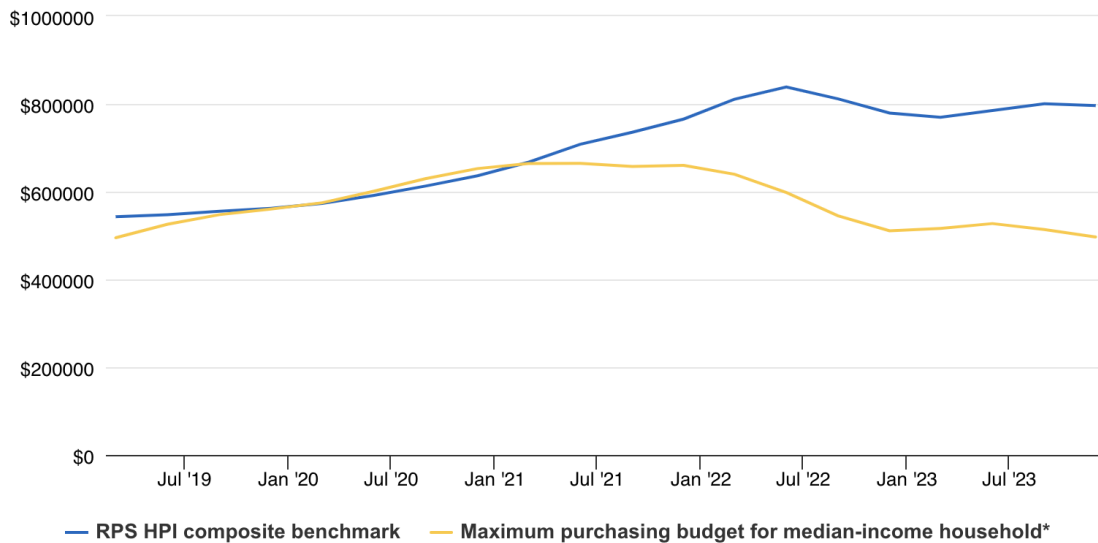
“The Bank of Canada’s historic rate hiking campaign launched in March 2022 continues to weigh heavily on our country’s housing market despite pausing since summer,” reads the report.

“High rates have intensified stress for many mortgage holders contending with substantial payment increases at term renewal time. Importantly, high rates have seriously crimped house hunters’ purchasing budget.”

RBC estimates that high interest rates have shrunk the maximum budget for a household with a median income (\$85,400 at the end of 2023) by 22% since the first quarter of 2022 to just under \$500,000 (assuming a 20% down payment and 25-year amortization period).

High interest rates have crimped buyers' purchasing power since early-2022

In \$, Canada



* Based on 20% down payment, 25 years amortization, 35% GDS ratio and 5-year fixed mortgage rate.
Source: Statistics Canada, Bank of Canada, RPS, RBC Economics

RBC

Furthermore, a household earning a median income needed to spend a staggering 63.5% of it to cover the costs of owning an average home at market price, according to the report.

Meanwhile, home prices have dropped just 1.8% over the same period.

“It’s no wonder homebuyer demand has cooled so much. The ability of many Canadians to get into the housing market has greatly diminished,” explained RBC.

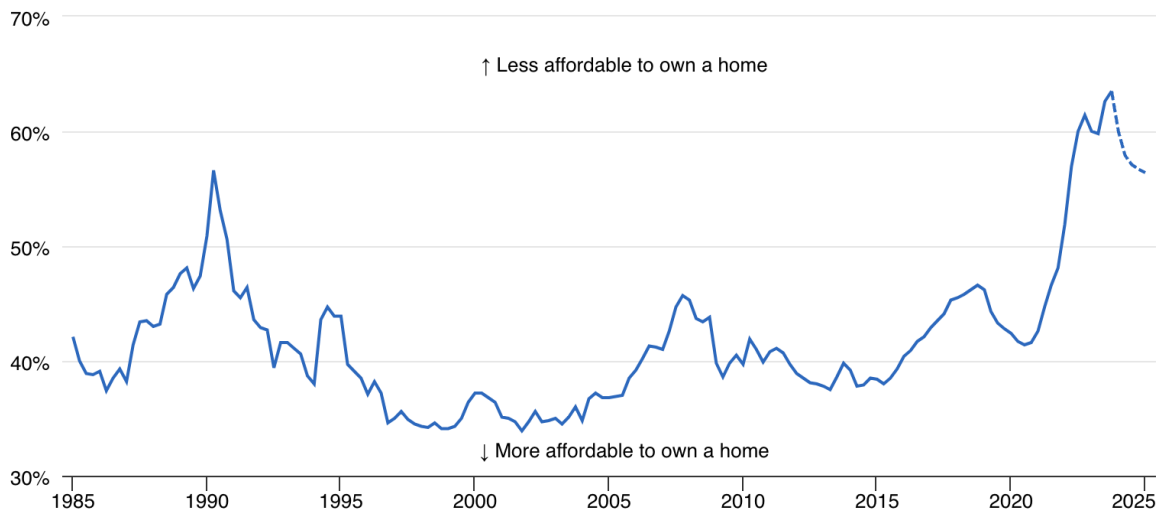
But it’s not all bad news for Canadians in 2024; the report does forecast some relief for prospective homebuyers by the middle of this year.

“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,” said RBC.

“The outlook will brighten the deeper the Bank of Canada’s cuts get next year.”

Affordability set to improve modestly in the year ahead

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



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

RBC

Next week’s Bank of Canada interest rate announcement could usher in the start of this relief, depending on whether the bank will continue to hold or begin cutting its key rate. You can read all about what to expect from the announcement [here](#).

Still, RBC doesn’t want us to get our hopes way up. The report says that the scope for improvement in the year ahead will be small relative to the “dramatic loss of affordability” that hit Canadians 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,” explained RBC. “That would scarcely lower the bar for most potential buyers.”

The report concluded that restoring housing affordability will likely take years in Canada’s largest markets.

“In this context, we expect the housing market’s recovery to be slow at first, before gaining momentum as interest rate cuts accumulate.”