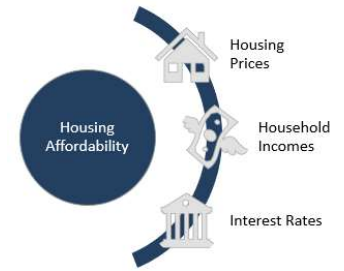




Canadian Housing Affordability – A Historic Look

Housing affordability continues to be a significant issue in Canada, affecting millions across the country. But what exactly is housing affordability and how do we measure it? Simply put, it refers to the ease with which households can purchase or rent a home without incurring excessive financial stress. The affordability of housing is influenced by several key factors, including the cost of housing, median household incomes, and interest rates.

To gauge the level of housing affordability, economists and analysts use a variety of metrics. The most widely accepted method, however, is to compare the proportion of household income needed to cover the costs associated with owning a home, typically mortgage costs or rent. This helps determine the degree of financial stress that a household faces when trying to secure a place to live.



To better illustrate the trends and fluctuations in housing affordability over the past four decades, Figure 1 showcases the historical mortgage costs for an average home as a percentage of median household income from 1980 to the present day. As the chart reveals, this measure of affordability has ebbed and flowed over the years, reaching historic highs and lows. However, what this highlights is that the current level of affordability is at its highest point since the 1980s.

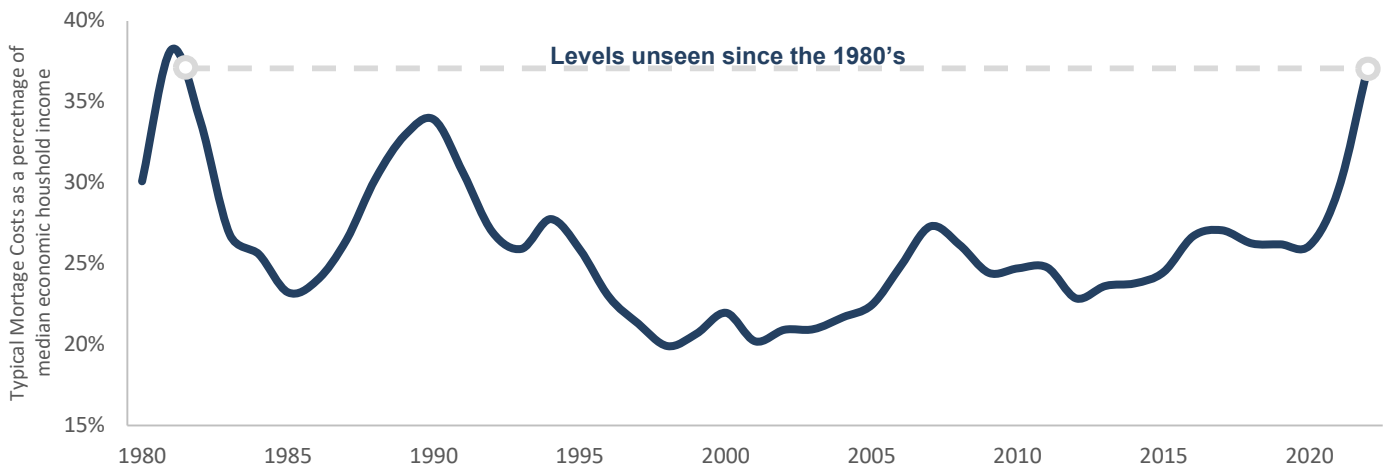


Figure 1 – Historical Canadian Housing Affordability From 1980 to 2022

To further illuminate the housing situation in Canada, Figure 2 has separated the trend of interest rates and housing prices relative to incomes. As the chart illustrates, housing prices relative to incomes have skyrocketed from a multiple of 2.5 in the 1980s to a staggering 6.5 today. Meanwhile, interest rates have been trending downwards for four decades, reaching near zero in recent years. While low-interest rates have helped to suppress debt costs and mitigate affordability issues in the past, the limited room for maneuvering in the current environment is cause for concern. With these observations in mind, we are left to ponder the future of housing affordability in Canada and what actions may be necessary to address this ongoing challenge.

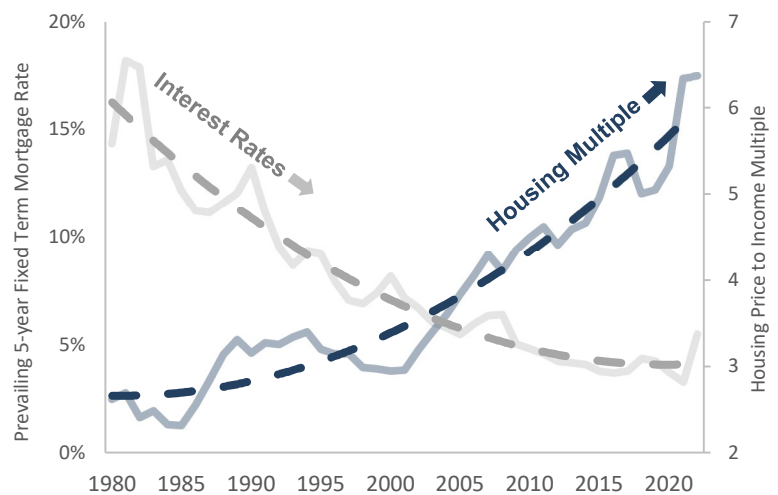


Figure 2 – Typical Mortgage Interest Rates and Housing Prices Relative to Median Incomes from 1980 to 2022

Housing Data Source: Canadian Real Estate Association (CREA)
Income & Interest Rate Data: Statistics Canada
Mortgage Assumptions: 25-year amortization, 80%, compounding bi-annually