

# Research Briefing | North America

## Housing affordability fell in Q2 and is likely to worsen

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- The Housing Affordability Indices (HAIs) show affordability deteriorated in nearly all US and Canadian metros in Q2 2021 as home price inflation outpaced income growth. Our consistent, cross-country framework points to more rapidly worsening affordability in Canada than in the US.
- Potential buyers will find homes most out of reach in Vancouver, Boise (Idaho), Toronto, Portland (Oregon), Hamilton (Ontario), Las Vegas, San Jose, and L.A.
- Our national US index rose 3 points (pts) to 0.77 in Q2 from 0.74 in Q1, meaning prices were 23% *lower* than the median income households' borrowing capacity. Higher mortgage rates and home prices more than offset stronger household incomes – a trend that will persist next year. Metro areas along the Pacific coast, particularly in California, remain the least affordable, with affordability declining sharply in Los Angeles and San Jose where prices were 45% *higher* than what the median income household could afford.
- Affordability in major metros in the neighboring Southwest & Mountains region will also decline. The HAIs of Phoenix, Denver, and Salt Lake City will rise 6pts on average through the end of 2022. But affordability will decline faster in smaller metros in the region, such as Boise, Idaho.
- Our Canada-wide HAI rose 5pts to 1.35 in Q2 2021, meaning house prices were 35% *above* median income households' borrowing capacity. Eight of nine Canadian metros saw affordability worsen in Q2, led by Vancouver (+6pts), and followed by Montreal (+5pts), Toronto (+5pts), Ottawa (+4pts), and Hamilton (+3pts). Despite our forecast for plateauing house prices, we expect rising mortgage rates will weigh heavily on affordability.

**Figure 1: Housing is least affordable in Vancouver, Boise, Toronto, and several other US West Coast metros**

Ranking North American metros by housing affordability			
Most affordable		Least affordable	
City	HAI (Q2 2021)	City	HAI (Q2 2021)
Chicago	0.62	Vancouver	1.71
Quebec City	0.65	Boise	1.61
Columbus	0.66	Toronto	1.56
Edmonton	0.67	Portland, OR	1.54
Atlanta	0.68	Hamilton	1.51
Winnipeg	0.69	Las Vegas	1.47
Raleigh	0.70	San Jose	1.45
Dallas	0.71	Los Angeles	1.45
Calgary	0.76	Ottawa	1.39
Nashville	0.80	Tampa	1.27

Note: Ranking based on the 30 North American metros for which we constructed HAIs

Source: Oxford Economics/Haver Analytics

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## North American housing markets remain tight

Robust US [existing home](#) and [new home](#) sales are outstripping homebuilder activity, keeping inventories low and causing [house prices](#) to defy gravity (**Figure 2**).

Canada's [hot housing market](#) has showed some signs of cooling, but demand-supply conditions remain tight and prices are at historic highs.

Our updated [Housing Affordability Indices](#) (HAIs) suggest elevated prices will constrain affordability in North America in 2022. As a reminder, our indices cover national-level affordability in the US and Canada, all 50 US states, the District of Columbia, and key US and Canadian metros. Our consistent cross-country methodology means affordability can be compared between the US and Canada. *HAI data is available to clients upon request.*

## Canada remains less affordable than the US

Our latest assessment indicates that housing continues to be more affordable in the US than Canada. Our forecasts – constructed using data from our [North American Metro Service](#) – anticipate affordability will worsen more quickly in Canada than the US, largely reflecting higher Canadian mortgage rates (**Figure 3**). At the local level, potential buyers will find homes most of reach in Vancouver, Boise (Idaho), Toronto, Portland (Oregon), Hamilton (Ontario), Las Vegas, San Jose, and Los Angeles among our expanded sample of 30 North American metros (**Figure 1**).

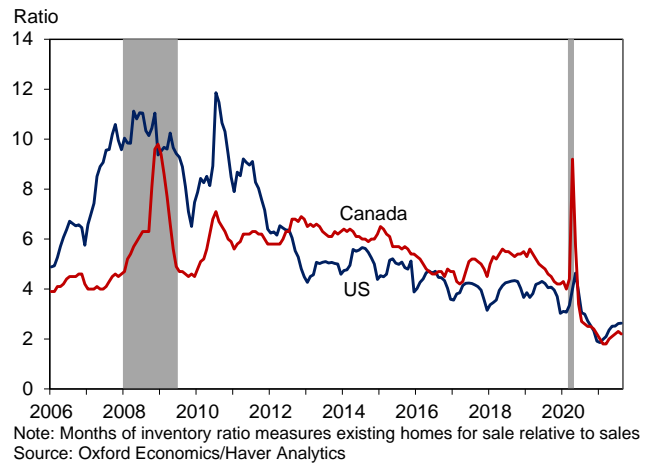
## US affordability set to fall

Our national US index shows that affordability worsened in Q2 as our index rose 3 points (pts) to 0.77 from 0.74 in Q1. The impact of higher household income was more than offset by robust house-price inflation and higher mortgage rates. This latest reading means that the typical home price was 23% lower than the borrowing capacity of median income households. Looking ahead, affordability is projected to fall, with the national index set to rise to 0.80 by end-2022, meaning home prices will be only 20% lower than what a median income household can afford as higher mortgage rates and rising home prices outweigh the impact of our projected national median household income increase.

Affordability will deteriorate fastest in the West (**Figure 4**). California's HAI will rise 6pts from 1.19 in Q2 2021 (home prices 19% above what a median income household could afford) (**Figure 5**) to 1.25 by Q4 2022. Housing in Los Angeles and San Jose will stay among the most unaffordable (**Figures 6 and 12**).

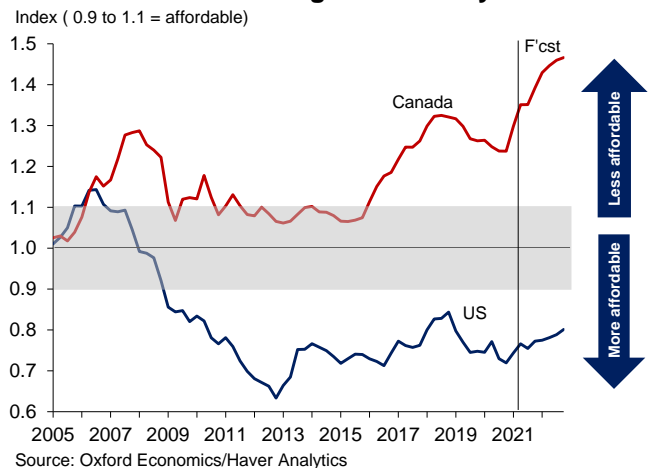
**Figure 2: Housing demand is meaningfully outpacing the stock of homes for sale**

### North America: Months of inventory



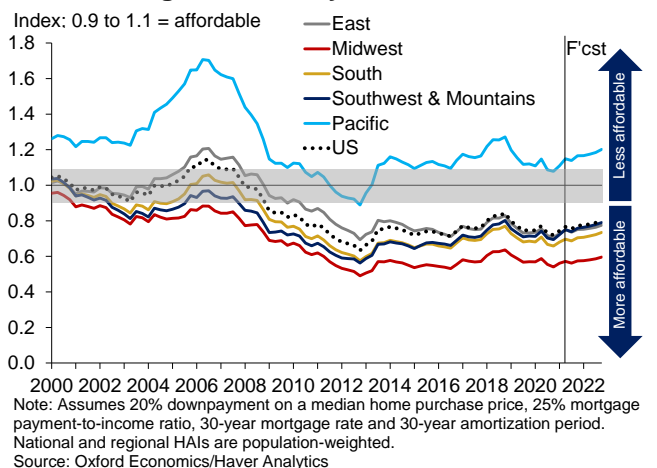
**Figure 3: Housing has been persistently more out of reach in Canada than the US**

### North America: Housing Affordability Indices



**Figure 4: No region will be immune from a decline in housing affordability**

### US: Housing Affordability Indices



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## Rising stress in the Southwest & Mountains

Declining affordability in the West isn't a phenomenon limited to California. The affordability of major metros in neighboring Southwest & Mountains states will also decline. Phoenix, Denver, and Salt Lake City are also expected to see their housing stock become less affordable (Figure 6). Higher interest rates and projected home price increases will overshadow income gains, pushing these metros' HAIs 6pts higher on average from Q2 2021 to Q4 2022.

Falling affordability will also be evident in smaller western metros whose economic boom has only strengthened in Covid's wake. Boise, Idaho, offers a clear example of quickly deteriorating housing affordability dynamics (Figure 13). Its HAI surged 34pts, from 1.27 in Q1 2020 to 1.61 by Q2 2021, and we predict it will rise to 1.72 by the end of 2022 (home prices 72% above what a median-income household can afford) – the most rapidly increasing HAI of any metro in our US projections.

## The South and Midwest offer the best bang for the buck

The South and Midwest will stay most affordable. But housing will be more out of reach for buyers in the South than the Midwest (Figure 4).

Expanding job opportunities driven by relatively low costs and business-friendly policies, as well as an inward migration from higher cost-of-living regions will cause the impact of house price inflation (and higher mortgage rates) to outweigh the borrowing capacity of median-income households in the South. Affordability in Atlanta, Miami, Nashville, Raleigh, Tampa, and Jacksonville will steadily drop through year-end 2022. Despite this decline, these metros will remain relatively more attractive. Southern metro HAIs will mostly trend below or in line with our national US HAI (Figure 6). Meanwhile, affordability will generally rise more slowly in the Midwest, with Chicago, Columbus, and Minneapolis staying within reach for potential buyers.

## Big Apple region won't get cheaper

We look for the New York metro's affordability to fall next year (Figure 14). Its HAI is set to rise 4pts, from 1.04 in Q2 2021 to 1.08 by Q4 2022 (home prices 8% above the borrowing capacity of the median-income household). However, the decline will be more modest compared to most other metros – namely those in the West. A slower recovery than other metros will limit the speed at which affordability falls next year.

Figure 5: The West was the most unaffordable region in Q2 2021

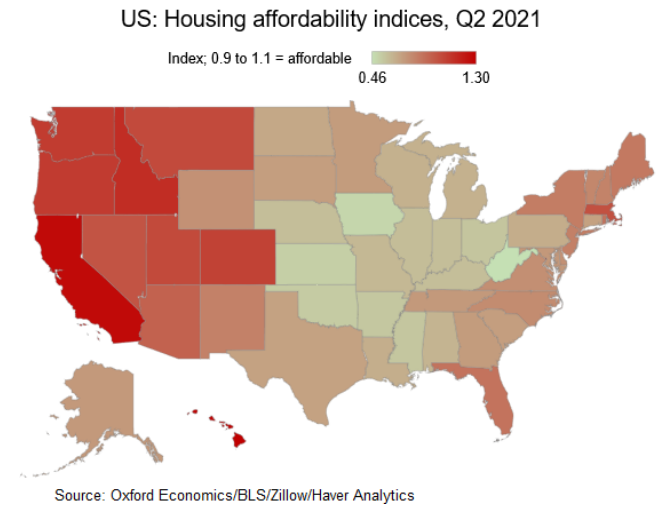


Figure 6: Nearly all metros will become less affordable in the near term

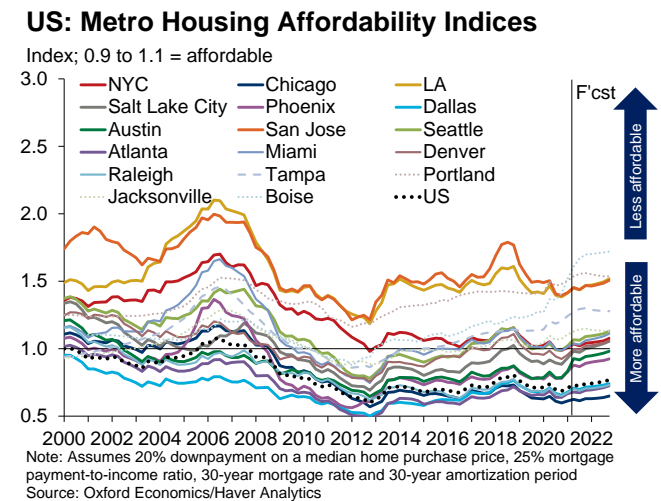
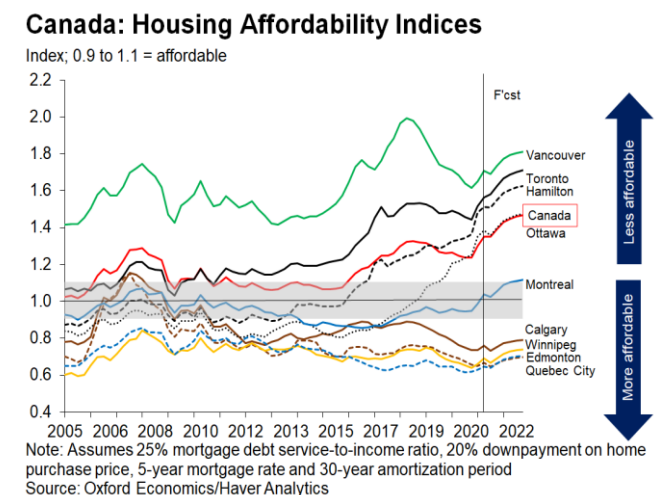


Figure 7: Canadian affordability worsened in Q2, and is set to deteriorate further as rates rise



# Housing affordability fell in Q2 and is likely to worsen

## Canadian housing affordability worsened again in Q2, a trend that is set to continue

In Canada, our national HAI rose 5pts, from 1.30 to 1.35 in Q2 2021, meaning the typical home price was 35% higher than the borrowing capacity of median income households. The index has risen 10pts over the past year, as sharply higher prices dominated the effects of lower mortgage rates and higher incomes (**Figures 7 & 8**).

Affordability is expected to worsen next year, despite our forecast for a plateauing of house prices, as mortgage rates rise from historically low levels. Our national HAI is forecast to increase another 10pts to 1.45 by Q2 2022.

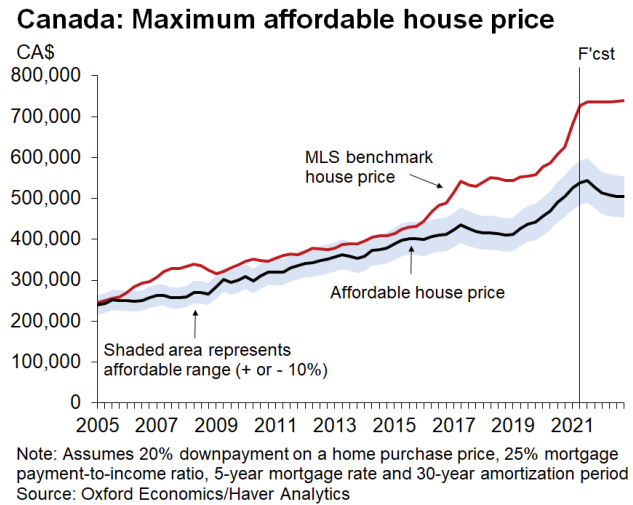
## Larger metros see biggest deterioration in affordability in Q2

Eight of nine Canadian metros for which we've built HAIs saw their affordability worsen in Q2 compared to Q1 2021. Vancouver (+6pts) saw the largest q/q increase in its HAI, followed by Montreal (+5pts), Toronto (+5pts), Ottawa (+4pts), and Hamilton (+3pts), as higher home prices in these regions were only partially offset by lower mortgage rates. Vancouver (1.71) remained the most unaffordable Canadian metro in Q2, followed by Toronto (1.56), Hamilton (1.51), Ottawa (1.39), and Montreal (1.04) (**Figure 9**).

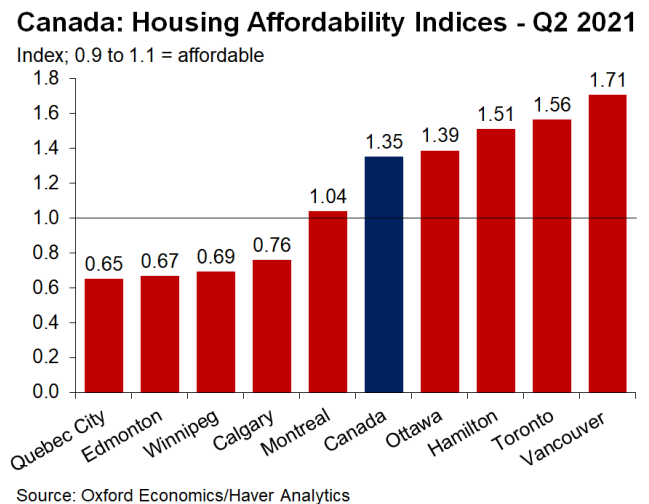
Housing affordability also deteriorated slightly in the Prairies but remained far more affordable than the rest of the country. Our Calgary and Edmonton HAIs both rose 2pts to 0.76 and 0.67, respectively, while Winnipeg's HAI held at 0.69. Although we expect housing affordability to worsen slightly in these regions over the next year, homes in the Prairies are forecast to remain well within the borrowing capacity of local households in the medium term. Quebec City continued to rank as the most affordable city in Canada in Q2 2021, with its HAI edging up 2pts to 0.65.

Our separate [Canada-specific index](#), which reflects current domestic lending practices, also worsened in Q2, increasing 4pts to 1.14 in Q2 (**Figure 10**). This measure is more comparable to our [previous work](#) on housing affordability in Canada, and uses a [39% gross debt service ratio](#) and a 25-year mortgage amortization period, the maximum term for Canada Mortgage and Housing Corporation insurance.

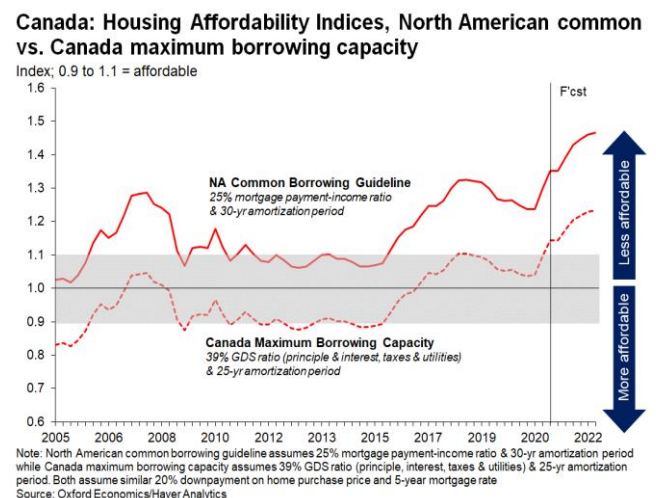
**Figure 8: House prices moved further out of reach for Canadian households in Q2**



**Figure 9: Vancouver is the most unaffordable, while Quebec City is the most affordable**



**Figure 10: Using Canada-specific assumptions, homes are more affordable, but still out of reach**

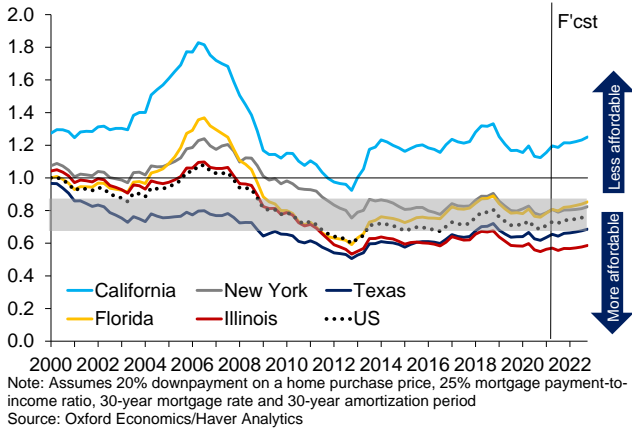


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**Figure 11: California will face persistent affordability challenges**

**US: Housing Affordability Indices**

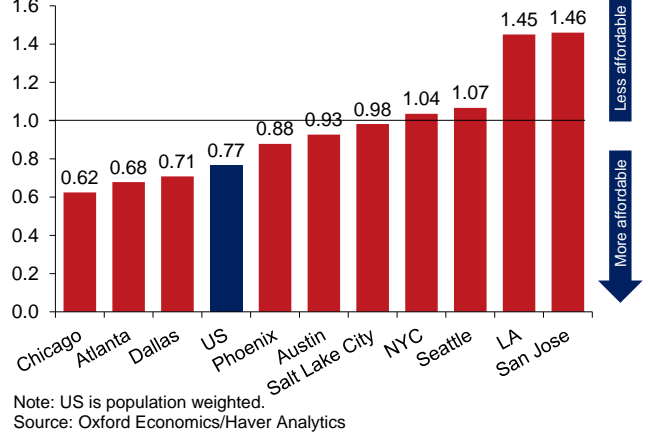
Index; 0.9 to 1.1 = affordable



**Figure 12: The Midwest and South metros remain most affordable in the US**

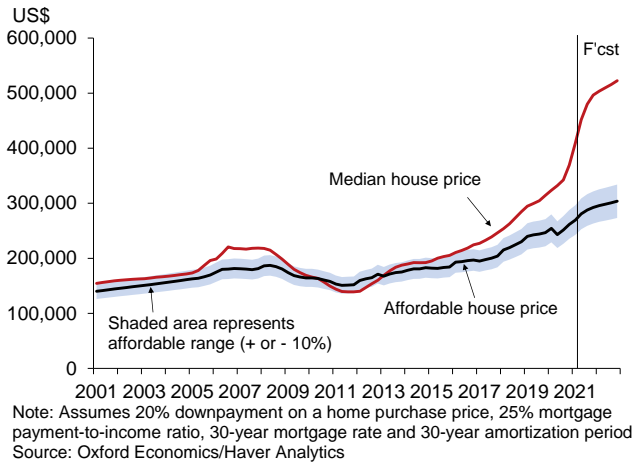
**US: Metro housing affordability - Q2 2021**

Index; 0.9 to 1.1 = affordable



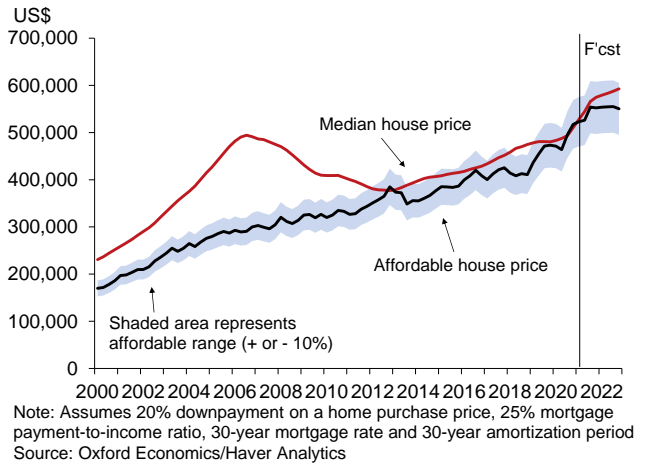
**Figure 13: Housing affordability has deteriorated sharply in Boise, Idaho**

**Boise metro: Maximum affordable house price**



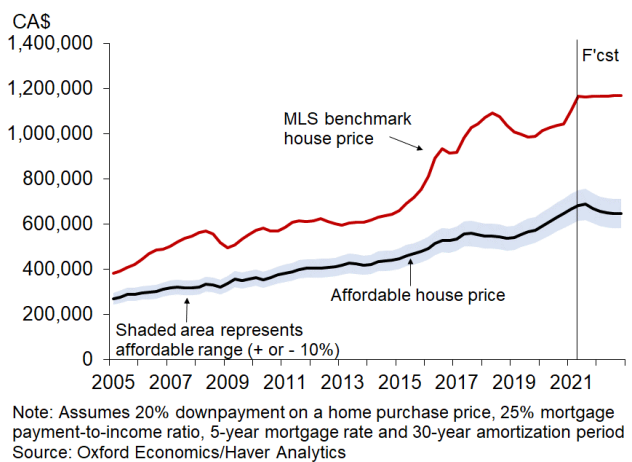
**Figure 14: The New York metro's affordability will drop**

**NYC metro: Maximum affordable house price**



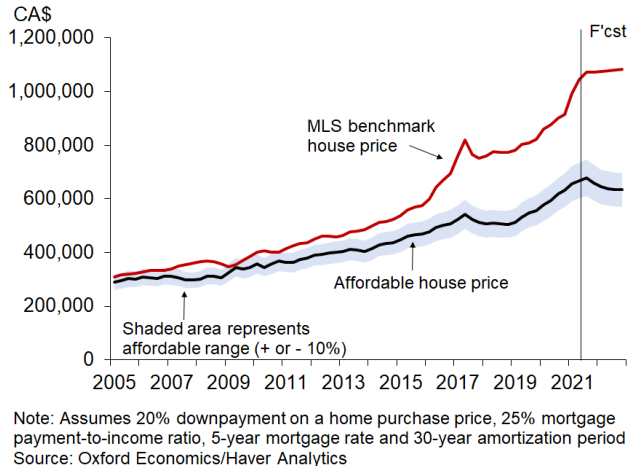
**Figure 15: Vancouver homes are the most unaffordable in North America**

**Vancouver: Maximum affordable house price**



**Figure 16: Toronto homes will remain out of reach for local households**

**Toronto: Maximum affordable house price**



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North American Housing Affordability Index (HAI)				
City	Index (Q2 2021)	Q2 2021 % q/q change	Q2 2021 % y/y change	Percent change, Q2 2021 to Q4 2022
Vancouver	1.71	3.4	5.0	6.0
Boise	1.61	5.9	17.7	7.0
Toronto	1.56	3.0	8.0	9.5
Portland	1.54	2.1	2.4	0.0
Hamilton	1.51	2.7	4.9	-2.4
Las Vegas	1.47	0.9	-1.6	-0.5
San Jose	1.45	2.8	-3.3	3.7
Los Angeles	1.45	2.7	-1.2	4.7
Ottawa	1.39	2.1	6.1	17.2
Tampa	1.27	2.5	5.6	0.4
Jacksonville	1.13	1.9	2.7	0.4
Minneapolis	1.11	0.6	0.6	-0.4
Seattle	1.07	4.4	2.6	6.0
Montreal	1.04	5.2	6.1	7.7
Miami	1.04	2.3	-1.3	7.2
New York City	1.04	2.7	-1.5	4.0
Denver	1.00	4.5	1.3	6.2
Salt Lake City	0.98	5.5	7.1	7.5
Austin	0.93	11.3	11.9	6.0
Phoenix	0.88	6.0	8.3	5.2
Nashville	0.80	3.3	-3.7	6.9
Calgary	0.76	3.0	2.7	4.0
Dallas	0.71	4.4	-0.2	4.6
Raleigh	0.70	4.0	-0.8	4.2
Winnipeg	0.69	4.5	5.4	7.2
Atlanta	0.68	1.7	-1.0	7.0
Edmonton	0.67	2.9	3.0	4.4
Columbus	0.66	2.9	0.4	4.0
Quebec City	0.65	2.8	7.1	8.8
Chicago	0.62	1.9	-3.5	4.0

Source: Oxford Economics/Haver Analytics/BLS/Zillow/Statistics Canada/CREA