

ECONOMIC VIEWPOINT

Desjardins Affordability Index

Canada's Homeownership Affordability Relief Is Already Fading

By Kari Norman, Senior Economist

HIGHLIGHTS

- ▶ Nationwide, homeownership affordability has improved recently as weak home sales have pushed down selling prices, mortgage rates have fallen and average household incomes have risen. While this improvement is welcome, it has only partly unwound the post-pandemic damage to affordability, and the picture varies widely by province.
- ▶ Looking ahead, not only are no further policy rate cuts expected, but financial markets are now pricing in rate hikes—leaving variable-rate borrowers without the tailwind that supported improved affordability through much of 2025. For those seeking the stability of a fixed-rate mortgage, the news is already worse as longer-term borrowing costs have moved higher. Many provinces should also continue to see moderate price pressures in the near term, as better affordability supports stronger demand. Taken together, affordability is likely to plateau or worsen modestly in most provinces through 2027.
- ▶ On the other hand, if a sustained rise in oil prices reignites inflation and hastens interest rate hikes, homebuying affordability will likely worsen as higher mortgage rates are expected to more than offset any savings from lower prices in a softer housing market.

Canada's homeownership affordability remains strained, even after meaningful interest rate relief.

Recent Bank of Canada (BoC) rate cuts have eased mortgage carrying costs and improved affordability metrics from their 2023 lows, but conditions remain far from comfortable for a typical household. The Desjardins Affordability Index (DAI)—which measures disposable household income relative to housing carrying costs—has improved at the national level, reflecting lower borrowing costs alongside higher incomes. (See the methodology box on page 2 for details on the DAI.) Yet affordability varies widely by region, and the scope for further improvement appears limited as market forces push longer-term interest rates higher and home prices stabilize or rebound in several provinces.

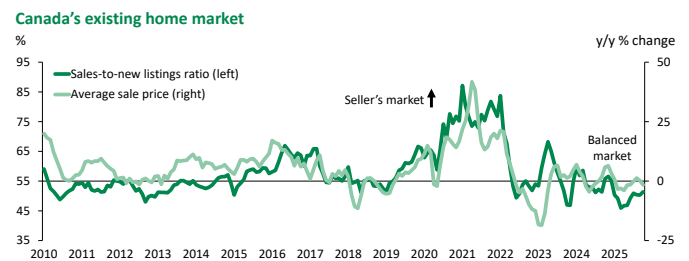
Rate Cuts Delivered Real Relief, but from a High Starting Point

The DAI deteriorated sharply between 2020 and mid-2023.

First, a strong seller's market driven by exceptionally low mortgage rates and a desire to change living arrangements during pandemic lockdowns drove average home selling prices

up at a breakneck pace (graph 1). Then, sharply rising mortgage rates pushed up monthly carrying costs as the BoC raised its policy rate by 475 basis points over less than 18 months—one of the steepest tightening cycles in history. By the peak of that cycle, the DAI reached new lows.

Graph 1
Canada's Strong Seller's Market Drove Up Home Prices in 2020–23



Canadian Real Estate Association and Desjardins Economic Studies

METHODOLOGY BOX

What is the DAI?

The DAI compares the average household after-tax disposable income with the income needed to qualify for a mortgage on an average-priced existing home. It includes typical housing-related costs such as property taxes, utilities and condo fees. The DAI uses 5-year fixed mortgage rates, a 20% down payment, no mortgage insurance and a 25-year amortization.

An index value of more than 100 indicates greater affordability, as the average household disposable income is more than enough to qualify for a mortgage on an average-priced home. A rising index means homeownership is getting more affordable.

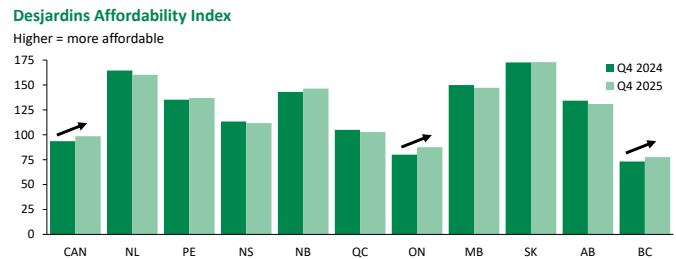
Conversely, a value under 100 means that the average household doesn't earn enough after tax to qualify for a mortgage on an average-priced home. A falling index implies homeownership is getting less affordable.

More recently, homeownership affordability has improved. This started with weak home sales pushing down selling prices at the national level, paired with rising average household incomes. Then, a series of rate cuts through 2024 and 2025 meaningfully brought down variable mortgage rates and, indirectly, fixed rates on new mortgages, easing the monthly payment burden for existing and prospective homeowners.

But relief and recovery aren't the same thing. While welcome, the gains posted recently have only partly unwound the post-pandemic damage to affordability. In Canada's most expensive cities, despite still-falling home prices, affordability remains far above the thresholds that would make homeownership financially comfortable for a typical household. Yet the forces that could push affordability back in the wrong direction are already in motion. Bond markets are driving government bond yields and, hence, fixed mortgage rates higher. And the remote risk of renewed BoC tightening effectively eliminates any hope of further relief, with the bottom of this rate-cutting cycle still well above even the highest policy rates between 2008 and 2023.

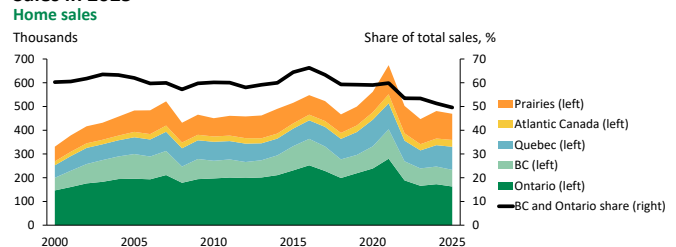
Provincially, the picture varies considerably. BC and Ontario have continued to carry the heaviest relative affordability burdens even as average home selling prices continued to fall. With ongoing buyer's markets in both provinces, home prices continued to decline year over year. Lower prices paired with rising incomes meant affordability improved modestly in both provinces (graph 2). Despite softer sales in 2025, these two provinces together still accounted for half of all homes sold (graph 3) and therefore had a significant impact on the national average. Quebec, as well as parts of the Atlantic and Prairie provinces, saw some deterioration in affordability in 2025 as rising home prices offset gains in household incomes and mortgage rates.

Graph 2
BC and Ontario Puled Up the National Affordability Average Last Year



Statistics Canada, Canadian Real Estate Association, Bank of Canada and Desjardins Economic Studies

Graph 3
Despite Weakness, BC and Ontario Still Comprised Half of All Home Sales in 2025



Canadian Real Estate Association and Desjardins Economic Studies

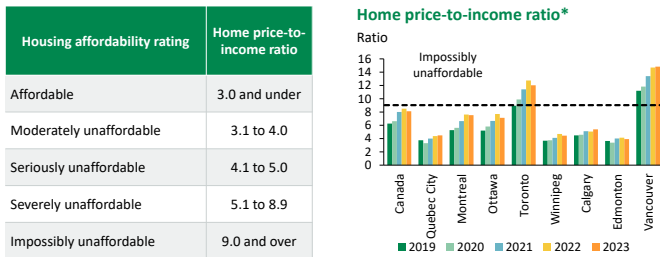
Deep Structural Imbalances Remain Across Municipalities

Comparing affordability across municipalities requires a different analytical lens than the one used at the provincial level. Additional carrying costs captured in the DAI—property taxes, utilities and condo fees—aren't reported at the census metropolitan area (CMA) level by Statistics Canada. As such, price-to-income ratios can be an alternative measure of municipal-level affordability. While the Canada Mortgage and Housing Corporation (CMHC) doesn't weigh in on affordability

thresholds for price-to-income ratios, benchmarks are well established internationally. [UN-Habitat](#) considers home prices affordable at or below three times household income, while [Demographia](#) classifies housing markets as seriously unaffordable above four times household income and impossibly unaffordable at nine times or above.

Measured against that standard, municipal price-to-income ratios highlight the structural depth of Canada’s affordability challenge. In Vancouver and Toronto—Canada’s two most expensive housing markets—the ratio of average home prices to average income stood at around 15 and 12 respectively in 2023—well above the impossibly unaffordable threshold (graph 4). While more recent data on incomes at the municipal level aren’t available, it’s likely that they have risen while home prices have continued to fall in the years since then. Even with improved mortgage rates and higher incomes in 2025, the sheer scale of prices relative to local incomes likely meant that [many households remained on the sidelines](#).

Graph 4
Vancouver and Toronto Have Been Impossibly Unaffordable



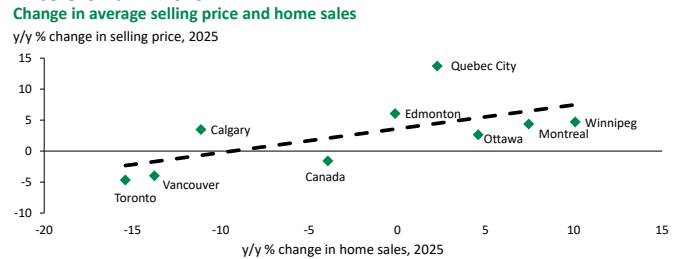
* Average residential sale price-to-median household income ratio. Demographia, Statistics Canada, Canadian Real Estate Association and Desjardins Economic Studies

More affordable municipalities tell a different story. Since higher mortgage rates have a smaller impact on the monthly budgets of homebuyers when the selling price is lower, sales have remained stronger in Quebec City, Montreal, Ottawa and Winnipeg. With stronger demand, prices have been trending higher in these previously more affordable cities (graph 5).

Storm Clouds on the Horizon

The improvement in affordability over the past year is now running into a wall of headwinds. The BoC’s easing cycle is likely over—no further cuts are expected, and financial markets are now pricing in rate hikes—leaving variable-rate borrowers without the tailwind that supported affordability through much of 2025. For those seeking the stability of a fixed-rate mortgage, the outlook is deteriorating: rising bond yields are pushing 5-year fixed mortgage rates higher even before any

Graph 5
Municipalities Outside Toronto and Vancouver Had Stronger Sales and Price Growth in 2025

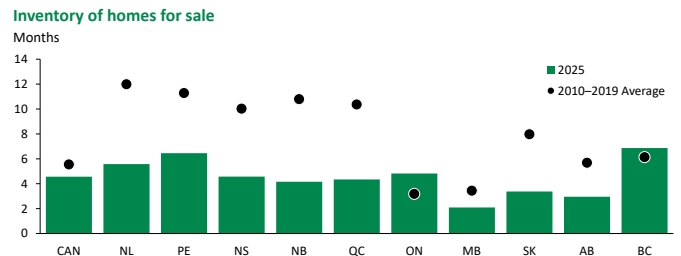


Canadian Real Estate Association, Statistics Canada, Bank of Canada and Desjardins Economic Studies

move by the BoC, though at this point [we expect](#) the Bank to remain on hold until 2027.

Strong demand outside of Ontario and BC has pushed prices higher. Demand for homes outside of Canada’s two most unaffordable provinces has been outpacing the supply of newly listed homes for sale. This has resulted in historic lows in the number of months of inventory (graph 6). Many of these provinces should continue to see moderate price pressures in the near term. (See our recent [Desjardins Housing Outlook](#) for details.)

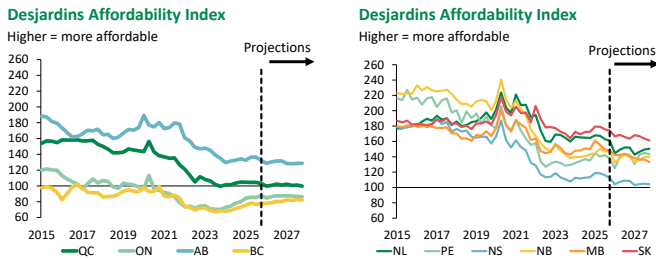
Graph 6
The Inventory of Homes Listed for Sale Remains Tight in Most Provinces



Canadian Real Estate Association and Desjardins Economic Studies

Taken together, these forces point to a DAI that is likely to plateau or worsen modestly in most provinces through 2027. BC and Ontario, where affordability is already most stretched despite recent improvements, are likely to tread water for the next two years (graph 7 on page 4). One potential offsetting factor is the rental market. Asking rents and [rent inflation](#) have softened in many Canadian cities, which may reduce some demand pressure on ownership as households on the margins of affordability opt to continue renting. However, as only a small percentage of renters are likely to be considering purchasing a home at any given time, the effect on the DAI is considered minimal.

Graph 7
Affordability Is Expected to Plateau or Worsen

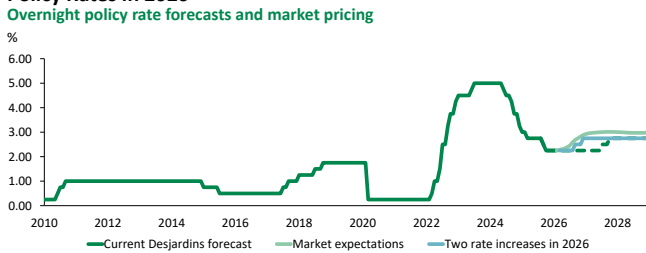


Statistics Canada, Canadian Real Estate Association, Bank of Canada and Desjardins Economic Studies

An Ongoing Oil Price Shock Makes a Difficult Situation Worse

Our base case assumes the BoC holds its policy rate steady into early 2027—but that assumption is not without risk. What if a [sustained rise in oil prices reignites inflation](#)? The central bank had hoped price pressures were largely contained. If inflation starts to run above target and expectations begin to drift, the BoC could respond by raising its policy rate. Current market expectations are broadly for a 25-basis-point rate hike in both the third and fourth quarters of 2026—earlier than we anticipate in our base case (graph 8).

Graph 8
Downside Risk: Inflation Pressures Could Result in the BoC Raising Policy Rates in 2026

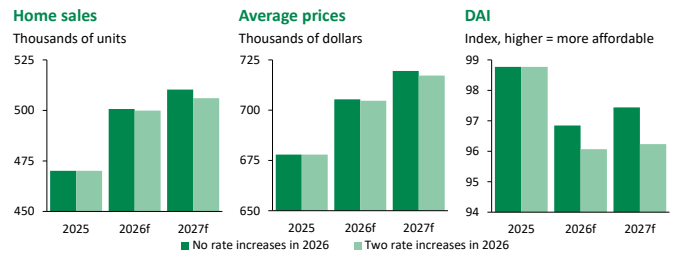


Bloomberg and Desjardins Economic Studies

The immediate effect could be a drop in sales activity. Higher borrowing costs could price out a share of prospective buyers still on the margins of qualification as well as investors who can no longer make the math work. If rate hikes were to occur in the latter part of 2026, the combined macroeconomic drag and tightening financial conditions would become more evident in the housing market in 2027. With demand retreating, home prices would likely rise at a slightly slower pace than in our base case outlook. On the surface, this might appear to offer some relief to would-be buyers. However, affordability would probably worsen even as prices decline. Higher mortgage rates

would raise the monthly cost of financing a home purchase, more than offsetting any savings from lower prices. The DAI could deteriorate moderately relative to our base case at the national level (graph 9). Two rate increases totalling 50 basis points would not erode affordability to nearly the same extent as the 425-basis-point tightening campaign of 2022 and 2023, but conditions would remain deeply unaffordable, potentially forcing deeper price concessions in those markets deemed impossible to afford.

Graph 9
Homebuying Affordability Could Worsen If the BoC Raises Rates in 2026



f: forecast
Desjardins Economic Studies

Conclusions

Canada’s housing affordability story is not yet one of recovery. The BoC’s rate-cutting cycle delivered genuine relief. But still-high monthly carrying costs have made homeownership unattainable for many Canadians. Incomes that haven’t kept pace with housing costs historically have led to elevated price-to-income ratios in some of Canada’s major municipalities despite some recent improvement. The easing rate cycle now appears to be over, well before a return to pre-pandemic affordability.

The balance of risks has shifted meaningfully against further affordability improvement. Five-year fixed mortgage rates are already rising as bond yields climb, and we expect the BoC is likely to start raising rates by early 2027. Home prices have moved higher in many centres that are in or approaching a seller’s market. Against this backdrop, the Desjardins Affordability Index forecast through 2027 reflects an environment where affordability remains strained in many provinces. If the oil price shock is sustained longer than anticipated and the BoC responds to energy-driven inflation by raising policy rates earlier—and perhaps more—than currently expected, homebuying affordability will likely continue to deteriorate.