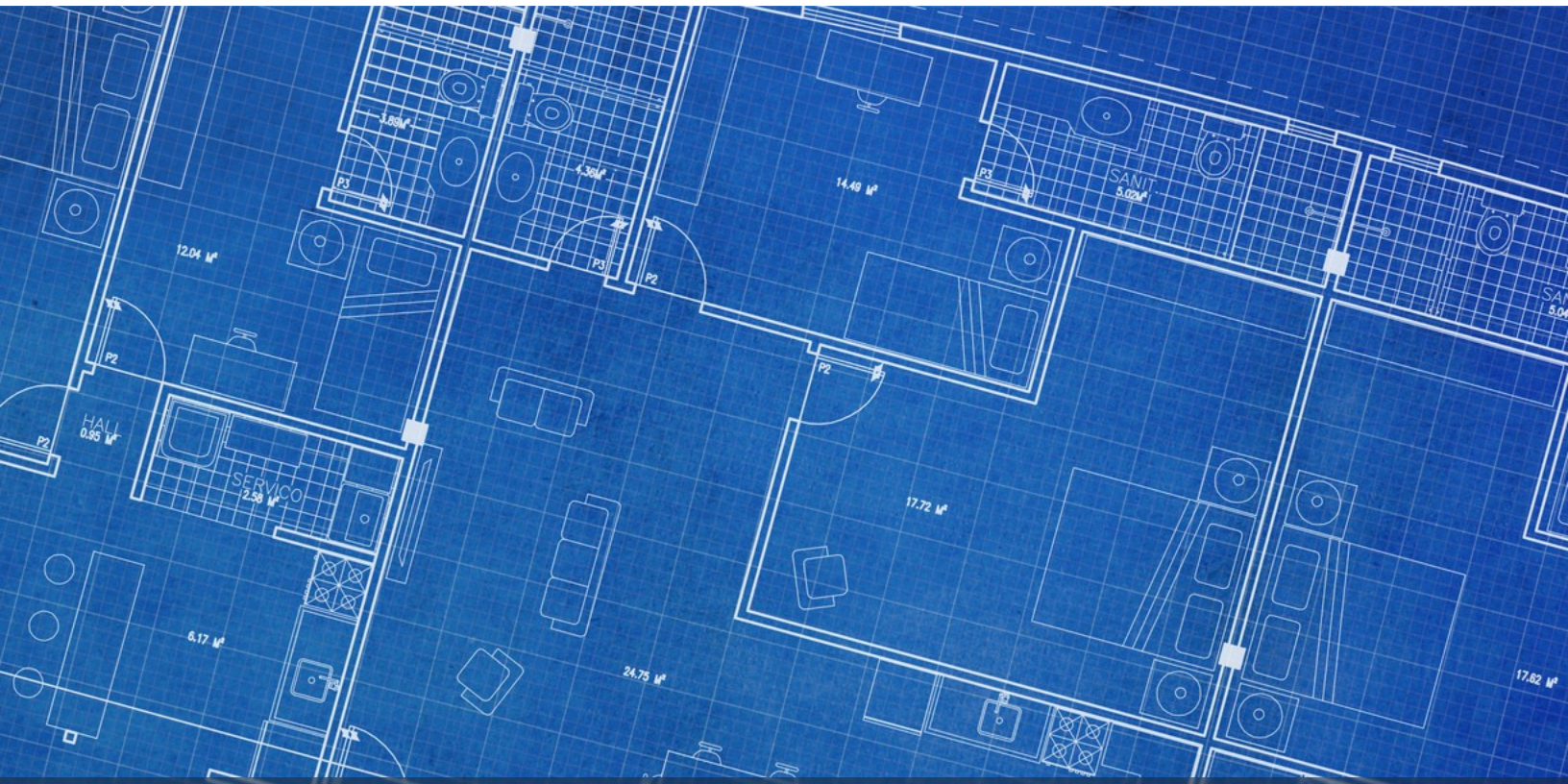
October 2, 2025

House Price Assessment

Update



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

The Parliamentary Budget Officer (PBO) supports Parliament by providing economic and financial analysis for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

This report provides an update of PBO's assessment of house prices relative to a household's capacity to borrow and pay for the purchase of a house in selected Canadian cities.

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Interim Parliamentary Budget Officer

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Highlights

While house prices at the national level remain well below their peak in early 2022, house price affordability has diverged across major Canadian cities.

In Toronto and Hamilton, the gap between average house prices and what an average household can afford has narrowed significantly since early 2022. That said, house prices in Toronto and Hamilton are still well above their estimated affordable levels.

Calgary, Montréal and Québec have seen the largest deterioration in house price affordability since early 2022. However, mortgage debt service ratios in these cities are still low compared to the most exuberant markets.

Although mortgage debt service ratios have declined for average households in Toronto, Vancouver and Victoria, they remain the most financially vulnerable of the census metropolitan areas (CMA) considered in our analysis.

Summary

This report provides an updated assessment of house prices relative to a household's capacity to borrow and pay for the purchase of a house in selected Canadian cities. We estimate the level of house prices that a household with average income would be able to afford under normal utilization of its borrowing capacity. To assess household financial vulnerability, we also examine the evolution of mortgage debt service ratios (DSRs) across selected census metropolitan areas (CMAs).

Key findings

- While house prices at the national level remain well below their peak in early 2022, house price affordability has diverged across major Canadian cities since our September 2022 assessment.

- Since early 2022, the affordability gap—the difference between the average house price and what an average household can afford—has narrowed significantly in Toronto and Hamilton. That said, house prices in Toronto and Hamilton are still well above their estimated affordable levels.

- Calgary, Montréal and Québec have seen the largest deterioration in house price affordability since early 2022. However, mortgage debt servicing ratios for the average household in these cities are still low compared to the most exuberant markets.

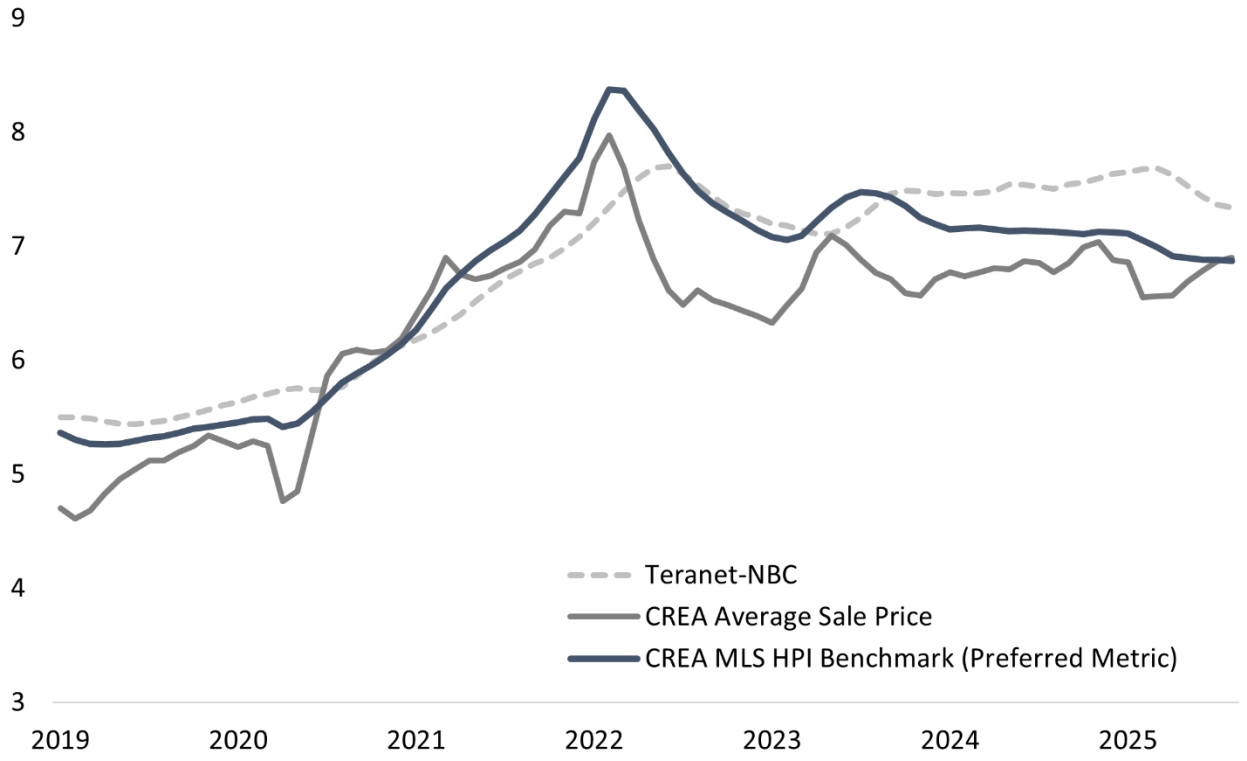
- While mortgage DSRs have declined for average households in Toronto, Vancouver and Victoria, they remain the most financially vulnerable of the CMAs considered in our analysis.
    - Mortgage DSRs for the average household in all three cities are at or close to Canada Mortgage and Housing Corporation's (CMHC's) maximum Gross Debt Service (GDS) ratio, adjusted for non-mortgage expenses.
    - Mortgage DSRs in cities where house price affordability has deteriorated since the pandemic remain well below the maximum GDS ratio adjusted for non-mortgage expenses.

Recent developments

Since our September 2022 assessment the MLS HPI Benchmark house price, our preferred measure, for Canada has remained below its February 2022 peak of $837,400, reaching $687,300 in August 2025 (Figure 1).[1]

Figure 1

National average house prices, hundreds of thousands of dollars



Source:
Canadian Real Estate Association, Teranet and Office of the Parliamentary Budget Officer.

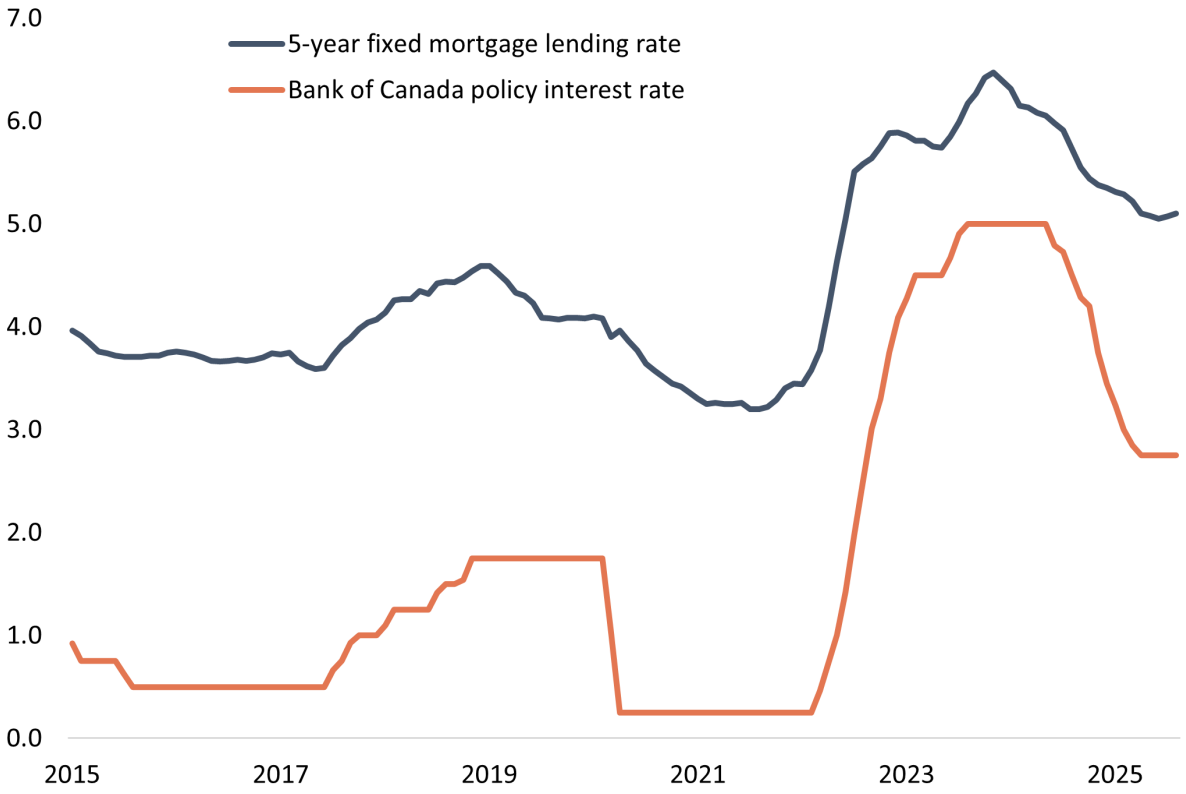
Note:
The last data point shown is August 2025. The Teranet-National Bank of Canada (NBC) House Price Index[2] was converted into levels by setting the June 2005 value of the index equal to the MLS HPI benchmark price and extrapolating forward. The Canadian Real Estate Association (CREA) average series is the seasonally adjusted residential average sale price.

Over the same period the Bank of Canada steadily increased its policy interest rate to 5.0 per cent in mid-2023 and then gradually lowered it, reaching 2.75 per cent in March 2025. The average 5-year fixed mortgage lending rate has also fallen from its high of 6.5 per cent in November 2023 to 5.1 per cent in August 2025 (Figure 2). Both the

decline in house prices from their peak and the reduction in interest rates have helped improve affordability in several CMAs, with the most significant improvements observed in markets where housing had been the most unaffordable in previous years.

Figure 2

5-year fixed mortgage rate and Bank of Canada policy rate, per cent



Source:
Canada Mortgage and Housing Corporation and Bank of Canada.

Note:
The last data point shown is August 2025.

To measure house price affordability, we estimate the house price that a household with average income would be able to afford under normal utilization of its borrowing capacity, also known as the "affordable" house price. Normal utilization of borrowing capacity is assumed to be equal to the average mortgage debt service ratio observed over 2012 to 2014. The house price affordability gap is defined as the percentage difference between actual house prices and affordable prices. House prices that exceed

affordable levels imply that a household is stretching its finances and borrowing capacity, which increases its vulnerability to adverse income and interest rate shocks.

Our analysis examines average house prices and borrowing capacity in selected census metropolitan areas (CMAs): Halifax, Québec, Montréal, Ottawa (the Ontario portion of Ottawa-Gatineau), Toronto, Hamilton, Winnipeg, Edmonton, Calgary, Vancouver and Victoria.[3]

We rely on various databases and assumptions to estimate house price affordability over 2015 to 2025. The data and assumptions used in this analysis are detailed in the appendix. The methodology used in this report is based on the borrowing capacity methodology developed at the International Monetary Fund (IMF), which was used in 2019 to estimate the affordability of house prices in Canadian cities.[4] PBO's initial house price assessment in February 2022 describes this methodology in greater detail.[5]

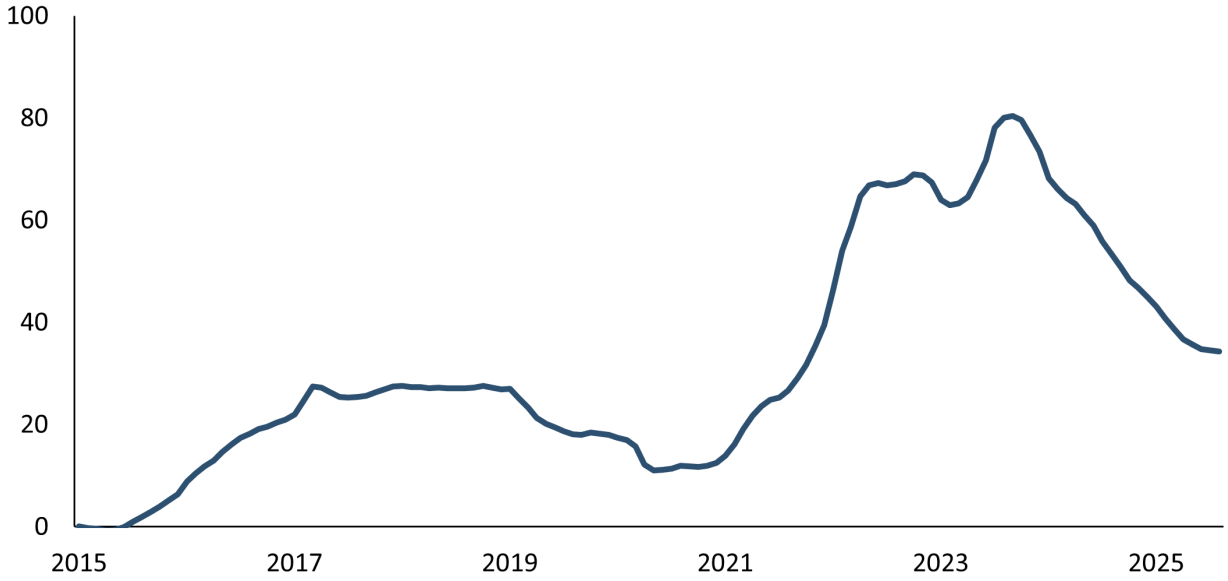
The remainder of this report provides a CMA-level analysis of how affordability gaps have evolved in recent years. The report then examines household financial vulnerability, that is the extent to which a household is stretching its finances to purchase a home.

House prices and borrowing capacity

At the national level, the house price affordability gap—the percentage difference between actual house prices and affordable house prices—has fallen from a peak of 80 per cent in September 2023 to 34 per cent in August 2025 (Figure 3).[6] At the national level house prices have remained below their February 2022 peak. Mortgage rates have also fallen from their elevated levels and household incomes have recovered, making homeownership more affordable. Although the house price affordability gap has narrowed at the national level, affordability gaps have diverged across the CMAs considered.

Figure 3

House price affordability gap – Canada, per cent



Source:

Canadian Real Estate Association, Statistics Canada, Bank of Canada and Office of the Parliamentary Budget Officer.

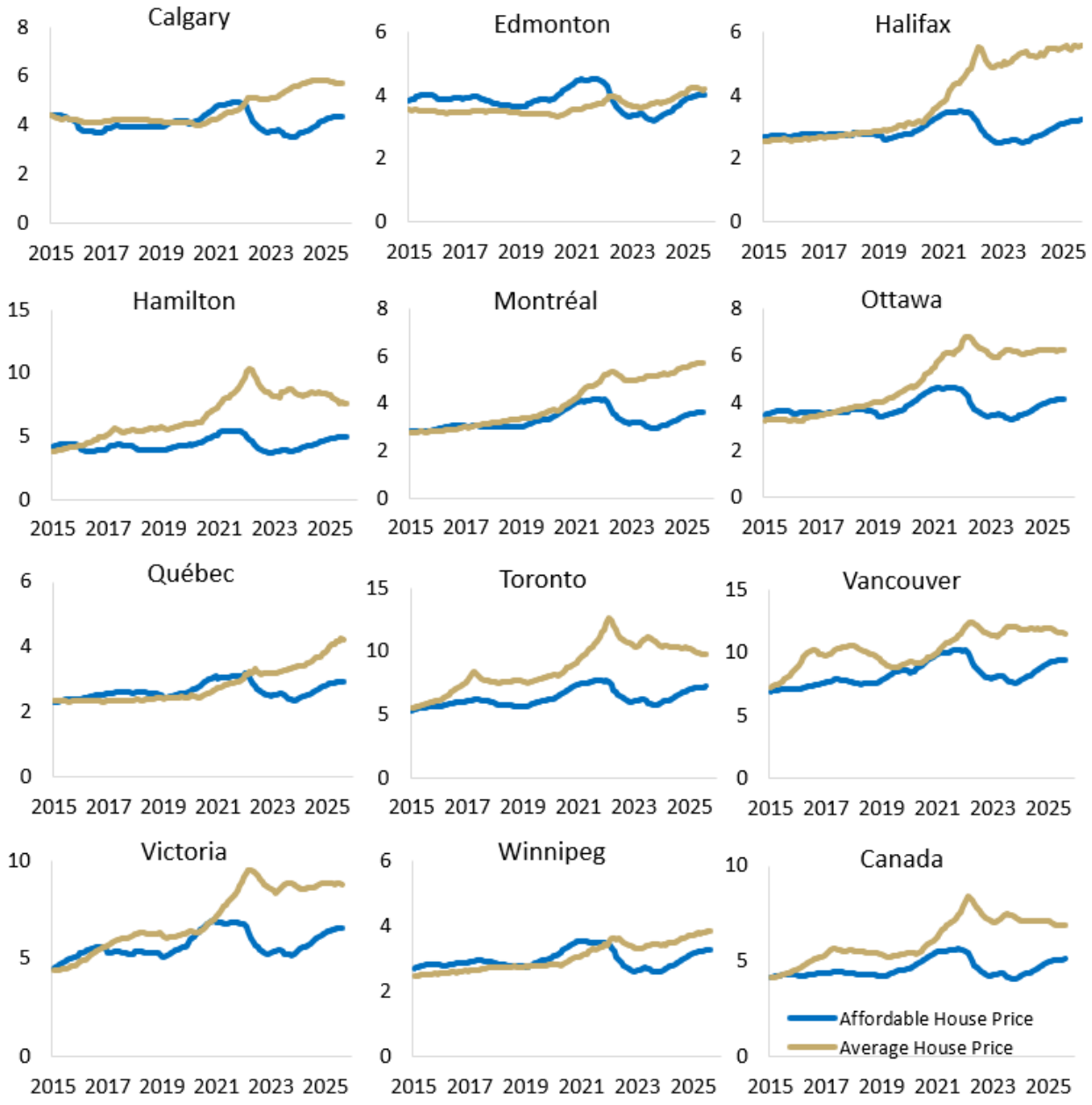
Note:

The affordability gap is the percentage difference between the national MLS HPI Benchmark house price and the estimated affordable house price. The last data point shown is August 2025.

Figure 4 plots MLS HPI Benchmark house prices along with affordable house prices based on household borrowing capacity. In line with the previous assessments, we use the average mortgage DSR observed over the 2012-2014 period as our measure of the "normal" utilization of borrowing capacity to abstract from the impacts of economic crises and commodity price fluctuations. Over the post-pandemic period, house prices have moderated in some of the most expensive CMAs but have continued to increase in other markets such as Halifax, Calgary, Montréal and Québec leading to persistent or widening affordability gaps.

Figure 4

House prices and household borrowing capacity, hundreds of thousands of dollars



Source:

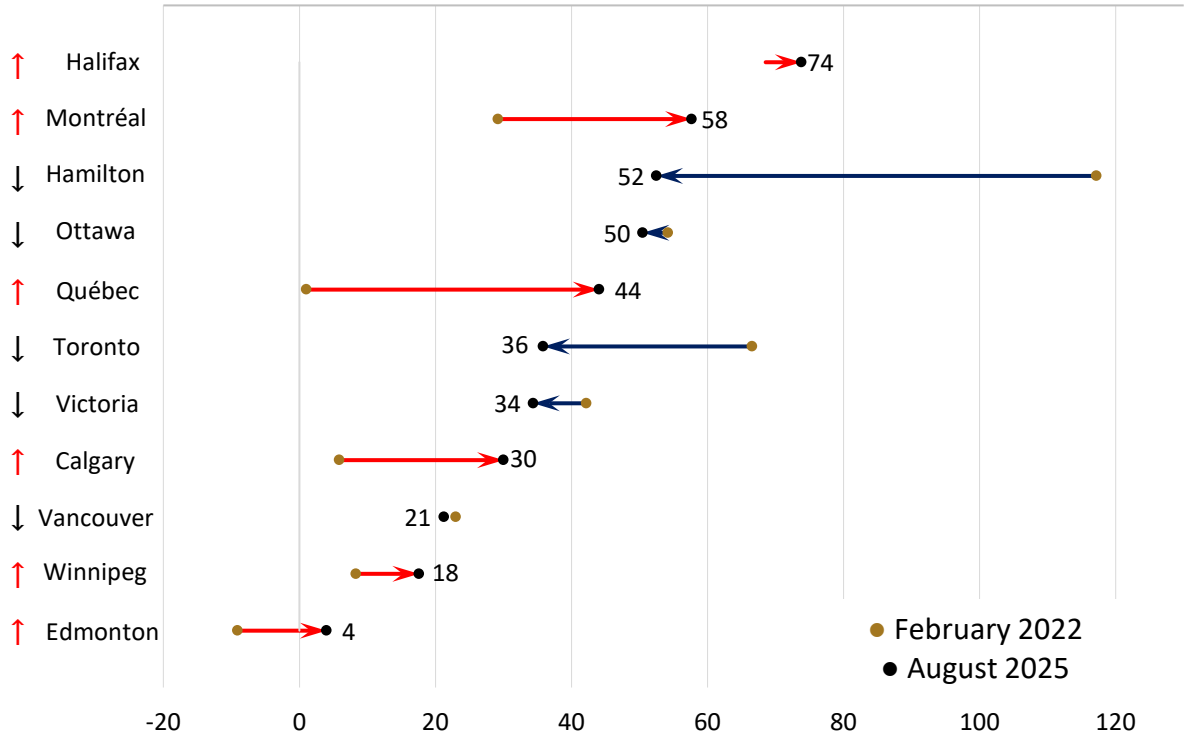
Canadian Real Estate Association, Statistics Canada, Bank of Canada and Office of the Parliamentary Budget Officer.

Note:
Average house prices shown are MLS Composite Benchmark prices from CREA. Affordable prices are based on PBO estimates. The last data point shown is August 2025.

Figure 5 focuses on the change in affordability gaps between February 2022, when the national MLS HPI Benchmark house price reached its peak, and August 2025, our most recent data point. Over this period the gap narrowed significantly for average households in Toronto and Hamilton, which previously faced some of the largest gaps. As seen in the Hamilton and Toronto panels of Figure 4, this partly reflects a slowdown in house price increases as well as an increase in the affordable house price due to lower interest rates and recovering household incomes. In both cities, however, house prices remain well above affordable levels.

Figure 5

Housing price affordability gap in selected CMAs, change from February 2022 to August 2025, per cent



Source:
Canadian Real Estate Association, Statistics Canada, Bank of Canada and Office of the Parliamentary Budget Officer.

Note:
CMAs are ordered from top to bottom based on their August 2025 affordability gaps. A positive gap indicates that house prices exceed affordable levels based on borrowing capacity. A negative gap indicates that households could afford a higher house price given their borrowing capacity.

A red arrow indicates that the affordability gap has increased between February 2022 and August 2025. A dark blue arrow indicates that the affordability gap has decreased.

The affordability gap was largely unchanged in Halifax, which now has the highest gap among CMAs considered, and increased in other areas, most notably Montréal, Québec and Calgary. Edmonton is an outlier with house prices over this period rising to just above affordable levels for the average household.

While the gaps are informative about how affordability has evolved in each CMA, it is important to acknowledge differences in normal borrowing capacity when comparing affordability gaps across CMAs since each gap is calculated based on the share of income that households within that CMA have historically spent on mortgage payments. For example, the mortgage debt service ratio for the average household in Vancouver over 2012 to 2014 was 29 per cent, well above the average household's mortgage DSR in Halifax at 11 per cent over the same period.

Debt service ratios and household financial vulnerability

To gauge the financial vulnerability of the average household purchasing the average priced home in these markets, we compute the mortgage debt service ratio implied by observed house prices, interest rates and average household incomes.[7] This represents the share of income being spent on mortgage payments (that is, principal plus interest) for a household with average income in their CMA. A high debt service ratio indicates that households are stretching their finances, spending a greater share of their income in order to afford the average house price.

Figure 6 plots the mortgage DSR for each CMA based on the assumption that the loan-to-value LTV ratio (at origination) remains constant at its 2019 national average of 67 per cent. For comparison, we also consider an LTV ratio of 80 per cent, which is the maximum possible LTV ratio for non-insured mortgages. These assumptions imply a minimum downpayment at origination of 33 per cent and 20 per cent, respectively.

We also include a threshold representing CMHC's 39 per cent maximum gross debt service (GDS) ratio (that is, housing costs relative to income) for insured mortgages, adjusted by subtracting utility costs, property taxes and condo fees so that it is comparable to our estimated mortgage DSR.[8] A mortgage DSR in excess of the adjusted maximum GDS ratio implies that a household's (average) income on its own would likely not be sufficient to qualify for a mortgage to purchase the average priced home in their CMA.

The first trend to note is the decrease in the mortgage DSR at the national level and for some of the historically most exuberant housing markets over the past two years. Mortgage debt servicing costs in Toronto, Hamilton, Vancouver and Victoria have fallen considerably since our previous assessment. That said, even with these improvements, average households in Toronto, Vancouver and Victoria have stretched their finances above their normal borrowing capacity (based on average 2012-2014 mortgage DSRs) and remain the most financially vulnerable of the CMAs considered in our analysis.

In February 2022, a household with average income in Toronto, Hamilton, Victoria and Vancouver would have approached or exceeded the maximum GDS ratio even with an LTV ratio of 67 per cent.

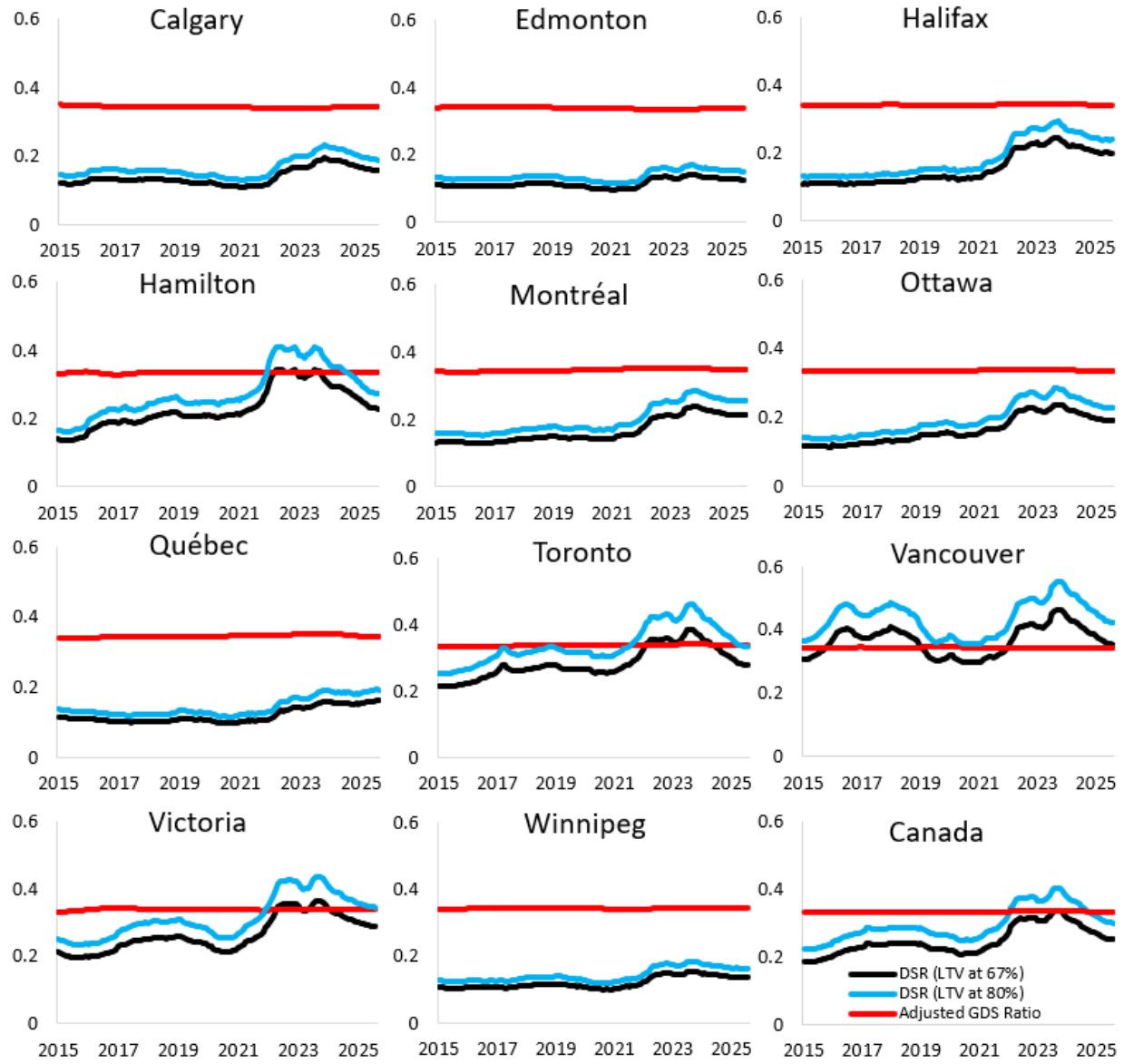
In August 2025, the average household in Hamilton would fall well below the GDS threshold, indicating a significant improvement in affordability. In Victoria and Toronto, this would apply based on an LTV ratio of 67 per cent, however, the average household's mortgage costs would be at or close to the maximum GDS ratio with an LTV ratio of 80 per cent. Despite recent improvements in Vancouver, the average household in August 2025 would be slightly above the maximum GDS ratio even with an LTV ratio of 67 per cent.

Figure 6 also shows that in many of the markets where affordability gaps are the largest and where mortgage costs have continued to increase relative to incomes since 2022, financial vulnerability remains relatively low. Markets such as Québec, Montréal and Calgary, which have seen sizeable increases in affordability gaps and mortgage DSRs, are still well below the adjusted maximum GDS ratio.

Recent analysis by CMHC indicated that a return to housing affordability levels seen in the early 2000s was no longer attainable in many regions.[9] Instead, in its housing supply analysis CMHC targeted a return to 2019 affordability levels in the most exuberant markets given current trends in demographics and housing supply conditions. In the first half of 2025 our results show significant progress in moving toward 2019 mortgage debt service ratios at the national level and in the most unaffordable housing markets. That said, mortgage debt service ratios remain well above their 2012-2014 average levels in most of the CMAs considered, suggesting that average households in these areas have stretched their finances and are more financially vulnerable.

Figure 6

Household mortgage debt service ratios, gross debt service ratios



Source:

Statistics Canada, Canadian Real Estate Association, Canada Mortgage and Housing Corporation and Office of the Parliamentary Budget Officer.

Note:

The mortgage debt service ratio (DSR) is defined as total mortgage payments (principal plus interest) relative to total household income. The last data point is August 2025. For each CMA, the gross debt service (GDS) ratio of 39 per cent has been adjusted to remove property taxes, condominium fees and heating costs (as a share of income) to ensure comparability with our estimated mortgage DSRs.

Appendix: data and assumptions

For the CMAs considered in this report, we use monthly house prices from the Canadian Real Estate Association (CREA), based on their seasonally adjusted MLS Composite HPI Benchmark series. These prices reflect all housing types (that is, single family, townhouse/row house and apartments) and are based "on a hybrid model that merges Repeat-Sales and Hedonic Price approaches".[10]

For the amortization period, we assume that an average household contemplating a house purchase would amortize their mortgage over a period of 25 years. The mortgage lending rate in each month is constructed based on the Bank of Canada's effective mortgage rate data. Previous assessments were based on the average of posted 5-year fixed rates for conventional mortgages calculated by CMHC.

We assume that the LTV ratio (at origination) remains constant at its 2019 national average of 67 per cent.[11] For comparison, we also consider an LTV ratio of 80 per cent, which is the maximum possible LTV ratio for non-insured mortgages.

Average household income over 2015 to 2023 for each CMA is taken from Statistics Canada's Canadian Income Survey (CIS). Average annual household income (excluding zero-income households) is calculated on a gross basis (that is, before taxes) and is converted to a monthly frequency.

For each CMA considered, we project average household income over 2024 to 2025 from its 2023 level based on aggregate household income data from the National Accounts, estimates of the number of households from Statistics Canada and PBO projections for both variables. By construction our approach assumes that growth in average household income in each CMA is the same as growth at the national level over 2024 to 2025. That said, differences in the levels of average household incomes across CMAs are maintained at their 2023 levels (in percentage terms).

Notes

[1] The seasonally adjusted MLS HPI Benchmark Price adjusts retroactively to changes in the typical basket of features for houses sold in the period where the Benchmark Price is measured. As such, the prices cited in this report differ from those cited (for the same period) in the September 2022 report. For more information on the methodology used to calculate the MLS HPI Benchmark Price please consult: MLS® HPI Methodology.

[2] The price measure used is the Teranet-National Bank of Canada Composite 11 smoothed house price index. To convert the index into levels, we set the June 2005 value of the index equal to the MLS HPI Benchmark Price. We then extrapolate the series from that point to obtain values for subsequent months. For more information on the methodology used to calculate the Teranet/National Bank of Canada Composite House Price Index, please consult: Our Methodology – House Price Index.

[3] Our analysis includes the same CMAs selected in the 2019 IMF working paper that assessed house prices in Canada using the borrowing capacity methodology.

[4] International Monetary Fund (November 2019). Assessing House Prices in Canada.

[5] Office of the Parliamentary Budget Officer (February 2022). House Price Assessment: A Borrowing Capacity Perspective.

[6] Due to a change in the underlying interest rate series used in our analysis, affordability gaps are not perfectly comparable to estimates published in previous assessments.

[7] In the context of mortgage debt, a financially vulnerable household is one that is required to devote a substantial portion of its income to service its debt. It faces greater exposure to shocks and is more likely to be delinquent in its mortgage payments. Our analysis considers household financial vulnerability pertaining to mortgage debt only. A broader perspective would consider a household's non-mortgage debt.

[8] According to ratehub.ca, the industry standard GDS is generally closer to 32 per cent.

[9] Canada Mortgage and Housing Corporation (June 2025). Canada's Housing Supply Shortages: Moving to a New Framework.

[10] MLS Home Price Index (HPI).

[11] The average LTV ratio (of 67 per cent) at origination was estimated based on requested data provided by CMHC and included both insured and uninsured mortgages. Given the calibration approach used to determine the average household's "normal" debt-servicing ratio, the estimated value of the affordable house price is invariant to the value assumed for the LTV ratio. All else equal, changes to the assumed LTV value are fully offset by changes to the implied DSR.

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