



# NEWS

## ALBERTA'S HOUSING MARKET RIPE FOR A SLOWDOWN IN 2008, SAYS RBC

**TORONTO, January 24, 2008** — Alberta's housing market is signaling a significant slowdown which should improve affordability in 2008, according to a new housing report issued today by RBC Economics.

"Many prospective homebuyers were priced out of the market last year as affordability conditions eroded, thereby pushing markets into unsustainable territory," said Derek Holt, assistant chief economist, RBC. "Further, the first net migration outflow in over a decade also contributed to the slowdown."

The RBC Affordability measure for Alberta, which captures the proportion of pre-tax household income needed to service the costs of owning a home, deteriorated for the detached bungalow to 43 per cent, the standard two-story home to 46 per cent, and the standard townhouse to 33 per cent. The standard condo was the only segment to witness affordability improve to 28 per cent.

According to the report, a softer migration outlook will reinforce a slowdown evident in the construction sector. Last year, housing starts plateaued at 48,000 units and this year are expected to drop by 10,000 units. Demand for new and existing homes slowed sharply at the end of 2007 and will likely continue to drop this year. Annual price gains have declined dramatically from 30 per cent in 2007, down to an expected nine per cent in 2008.

For Calgary and Edmonton, warning signs have also been mounting as housing markets soared into unsustainable territory in 2006 and 2007. However, house price gains in Calgary and Edmonton have dropped from 50 per cent last year to more recent gains hovering between 10-15 per cent. Sales-to-listings ratios in both cities have swung dramatically from a deep seller's market early in 2007 to more balanced conditions in both Calgary and Edmonton.

"Housing markets are starting to cool and affordability should start to improve in both cities for 2008," noted Holt.

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The Housing Affordability measure, which RBC has compiled since 1985, is based on the costs of owning a detached bungalow, a reasonable property benchmark for the housing market. Alternative housing types are also presented including a standard two-storey home, a standard townhouse and a standard condo. The higher the reading, the more costly it is to afford a home. For example, an Affordability reading of 50 per cent means that homeownership costs, including mortgage payments, utilities and property taxes, take up 50 per cent of a typical household's monthly pre-tax income.

The report also looked at mortgage carrying costs relative to incomes for a broader sampling of smaller cities across the country. For these smaller cities, RBC has used a narrower measure of housing affordability that only takes mortgage payments relative to income into account.

RBC's Affordability measures for a detached bungalow for Canada's largest cities are as follows: Vancouver, 72 per cent, Calgary, 46 per cent, Toronto, 46 per cent, Montreal, 37 per cent and Ottawa, 32 per cent.

Highlights from across Canada:

- **British Columbia:** Housing affordability reached into uncharted territory late last year as affordability deteriorated to its worst level since 1985 when RBC started tracking conditions. Modest improvements are expected for 2008.
- **Saskatchewan:** Housing affordability deteriorated sharply across all home segments last year as a sudden influx of migrants strained existing housing capacity. In 2008, housing affordability conditions are expected to stabilize.
- **Manitoba:** The province's housing market is still running at full tilt. Affordability should improve as rising costs start to weigh on demand and help rebalance the market in 2008.
- **Ontario:** Income growth is expected to cool amidst toughening economic conditions in the province. On balance, our affordability forecast in 2008 points to overall improving conditions as mortgage rates drift lower and price gains moderate even further.
- **Quebec:** Housing affordability continued to deteriorate last year. Stable and modest price gains combined with some mortgage rate relief this year should translate into an overall improvement in affordability conditions across all four home segments in 2008.

- 3 -

- **Atlantic region:** Strong house price gains and rising mortgage rates chipped away at affordability conditions in 2007. In 2008, Atlantic Canada is expected to move onto a softer growth trajectory as housing construction activity gears down.

The full RBC Housing Affordability report is available online, as of 8 a.m. E.S.T. today at [www.rbc.com/economics/market/pdf/house.pdf](http://www.rbc.com/economics/market/pdf/house.pdf).

- 30 -

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