NEWS

**ONTARIO ON THE BRINK OF AFFORDABILITY IMPROVEMENTS, SAYS RBC ECONOMICS**

**TORONTO, January 24, 2008** — Since the pace of price gains and construction activity topped out five years ago, Ontario's housing markets have been experiencing a soft landing relative to the rest of the country and this will be reinforced by expected improvements to housing affordability in 2008, according to a new housing report issued today by RBC Economics.

"As mortgage rates drift lower and house price gains moderate even further, Ontario should see affordability improve across all housing classes in 2008," said Derek Holt, assistant chief economist, RBC. "A slower economy this year will reinforce already softening housing market trends."

RBC's Housing Affordability measure for Ontario, which captures the proportion of pre-tax household income needed to service the costs of owning a home, deteriorated across all four housing classes last quarter as the benchmark detached bungalow moved to 38 per cent, the standard townhouse to 32 per cent, the standard condo to 29 per cent and the standard two-storey home to 44 per cent.

In 2007, higher mortgage costs contributed to a marked deterioration in affordability across all housing segments. Going forward, markets will continue to soften as housing starts are poised to drop three per cent in 2008 and a further ten per cent in 2009. Despite the soft landing, Ontario homeowners have still realized healthy annual returns of between five and seven per cent for the past several years.

Toronto's housing affordability deteriorated across all housing segments last year, but remained well below peaks reached in the housing bubble of the 1980s. With the housing market continuing to ease across the province, Toronto will likely follow suit. The softening is expected to remain steady and controlled as key fundamentals like historically low unemployment rates and healthy income gains help improve affordability. The city's hot condo market experienced rapid price growth last year along with a corresponding surge in construction activity. A larger supply of condos

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on the market should relieve affordability pressures over the next few years.

"We anticipate that the deteriorating trend will begin to reverse in 2008 as house price growth moderates and mortgage rate relief starts to materialize," said Holt.

Spurred by the strong demand for condos, new home construction was strong last year but is expected to taper off in 2008. Resale markets maintained stable growth, with annual price gains between three and seven per cent. At the end of 2007, the pace of affordability deterioration slowed significantly for all four of Ottawa's housing segments. Cooler market conditions and lower forecast mortgage rates should help improve Ottawa's housing affordability for 2008.

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 measure, the more costly it is to afford a home. For example, an Affordability measure 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 other cities across the province, including London, Kitchener, Windsor, St. Catharines, Brantford and North Bay. 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.

- **Alberta**: Many prospective homebuyers were priced out of the market last year as housing affordability conditions eroded, pushing markets into unsustainable territory. With a softer influx of migrants, the housing market is poised for a significant slowdown and improved affordability.
- **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.
- **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.
- **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.

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