



NEWS

QUEBEC'S HOUSING MARKET CONTINUES TO SOFTEN, SAYS RBC

MONTREAL, January 24, 2008 — Quebec's housing affordability continued to deteriorate throughout 2007, according to the latest Housing Affordability report released today by RBC Economics.

"Modest price gains, combined with some mortgage rate relief in 2008, should translate into an overall improvement in housing affordability," said Derek Holt, assistant chief economist, RBC. "The market is well balanced with new listings coming to market, satisfying existing demand."

The RBC Housing Affordability report, which measures the proportion of pre-tax household income needed to service the costs of owning a detached bungalow, was about 37 per cent of income in Quebec. The amount of median pre-tax income required to purchase a condo in Quebec was 29 per cent. For a standard townhouse, the measure stood at 32 per cent, and for a two-storey home at 45 per cent.

According to the RBC report, Quebec's house prices have grown consistently in the five per cent range each year and are expected to continue to do so in 2008. Central Canada's weakening economic growth will reinforce an already softening market. New home construction is expected to taper off with starts predicted to dip by 2,500 units this year and a further 7,000 units in 2009.

In contrast to a number of changing market conditions across the country, Montreal's housing affordability has remained somewhat more stable. House price growth continues to rise at an annual rate of 5 per cent across all housing segments, and household income growth has also been decent. Rising mortgage rates contributed to the deterioration in affordability last year, but the underlying housing market fundamentals are still supportive of a healthy outlook for 2008.

"Prospective homeowners in Montreal can look for modest relief as mortgage rates recede and price gains soften," Holt added. "Not much change in overall conditions is expected as sales-to-listings ratios are consistently signaling a balanced market."

Also included in the report are housing affordability conditions for Quebec City and 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.

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 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.

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.

- **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.
- **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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