



# NEWS

## ALBERTA'S HOUSING MARKET ON WATCH, SAYS RBC

**TORONTO, March 14, 2008** — After peaking midway through 2007, Alberta's housing affordability conditions improved towards the end of 2007 as a result of declining house prices, according to the latest housing report released today by RBC Economics.

"This marks the first time in over three years that Alberta's housing market witnessed broad-based affordability improvement across all housing segments," said Derek Holt, assistant chief economist, RBC. "With housing conditions continuing to improve, we expect to see more relief in the pipeline for 2008."

The RBC Affordability measure for Alberta, which captures the proportion of pretax household income needed to service the costs of owning a home, improved across all home segments with the detached bungalow dropping to 40 per cent, the standard townhouse to 32 per cent, the standard condo to 27 per cent, and the standard two-storey home to 44 per cent.

Healthy income gains of five per cent year-over-year, combined with a decline in house prices, led to an overall affordability improvement for the province. The report noted that all of the key housing measures – house prices, housing starts and resale activity – are currently in contraction mode and the sales-to-new listings ratio has swung dramatically from seller's territory into a more balanced state. Further improvements are expected as the market continues to unwind and mortgage rate relief materializes.

For Calgary and Edmonton, all housing segments showed sizeable improvements to affordability at the end of 2007, with momentum likely to continue in 2008. Sales-to-new listings ratios in both cities continue to decline and year-over-year house prices gains dropped sharply in January, to eight per cent in Calgary and 11 per cent in Edmonton. Further evidence of a rapid slowdown can be seen in the new home construction sector. Housing starts in Calgary slowed dramatically, dropping 33 per cent year-over-year at the end of 2007, with further declines unfolding in early 2008.

"For both cities, the conditions have swung quite rapidly from a red-hot seller's market to one that is decelerating at a remarkable pace," noted Holt.

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The report also presents a comparison of Canadian and U.S. household finances, and shows that Americans are still modestly richer, but much more heavily leveraged and further in debt with less liquidity. That, in turn, makes them more vulnerable to ongoing credit market turmoil and risks towards house prices than Canadians. In fact, the sharp depreciation in the U.S. dollar over the past six years has made Canadians relatively richer over time, by raising the value of what their wealth will buy in world markets compared to that of their American counterparts.

The report also looked at mortgage carrying costs relative to incomes for a broader sampling of 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 measure for a detached bungalow for Canada's largest cities is as follows: Vancouver 74 per cent, Toronto 47 per cent, Calgary 42 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 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.

#### Highlights from across Canada:

- **British Columbia:** Although affordability conditions deteriorated to their worst level on record at the end of 2007, the province is poised for some affordability relief in 2008 as a result of cooler price gains and lower interest rates.
- **Saskatchewan:** Saskatchewan has become the new Alberta. Constraints in the existing home market have pushed into overflowing demand in the new home market. As the national leader for growth in housing starts, house prices, residential building permits, and resale activity, the province saw substantial erosion in affordability in 2007. In 2008, affordability conditions should gradually stabilize.

- **Manitoba:** Housing markets across the province continue to heat up. Resale markets continue to drive strong price gains, but as household income continues to grow at the third-fastest rate in the country, affordability conditions remain steady.
- **Ontario:** Even though housing affordability deteriorated across all housing segments, the pace has slowed. The province should see improvements in 2008 from a cooling economy, lower mortgage rates, and softer price gains.
- **Quebec:** A generally balanced market has helped keep housing affordability in check. In 2008, a slower pace of house price gains and softer income growth should contribute to improved affordability conditions.
- **Atlantic region:** Affordability continued to erode in the final quarter of 2007. A combination of income growth, moderate house price gains and anticipated mortgage rate relief across all home segments should improve affordability in 2008.

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

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