



RBC SAYS B.C. HOUSING MARKET IN FULL-BLOWN CORRECTION MODE

TORONTO, December 8, 2008 — According to the latest housing report released today by RBC Economics, British Columbia's housing affordability conditions have started to improve in that last two quarters but home ownership costs are still the most inflated of all provinces.

"The situation is unraveling fast in British Columbia," said Robert Hogue, senior economist, RBC. "After extremely tight conditions built up during the boom and drove home prices sky high, the province's housing markets are now entering a correction phase that will see prices reverse recent gains, with greater affordability being restored."

The RBC Affordability measure for British Columbia, which captures the proportion of pre-tax household income needed to service the costs of owning a home, improved moderately across all housing segments in the third quarter of 2008 as the detached bungalow moved to 69.7 per cent, the standard townhouse to 53.8 per cent, the standard condo to 38.7 per cent, and the standard two-story home to 77.7 per cent.

By the first quarter of 2008, RBC's Affordability measures for the province ranged from 38 and 50 per cent above long term averages – levels that were clearly unsustainable. Elevated housing prices attracted more sellers onto the markets but eroded demand, shifting the pricing power to buyers. Prices began to decline in the spring – a trend that has gathered momentum through to early fall, helping to improve housing affordability in British Columbia.

In Vancouver, homeownership costs remain the highest in the country. Despite price declines since the first quarter of 2008, home prices are roughly double the national average for most housing types, with standard condos the lone exception at only 70 per cent above average. With the median family income estimated to exceed the Canadian norm by only eight per cent, and qualifying incomes roughly at more than \$150,000 for a standard two-storey and \$135,000 for a detached bungalow, the vast majority of Vancouver families are effectively shut out of those market segments. The condo segment remains the only option for many, as homeownership costs are not as steep, the RBC report said.

"Price drops so far this year have brought some minor relief to the Vancouver market, but more is likely to come in 2009 as the correction continues," said Hogue.

RBC's Affordability measure for a detached bungalow for Canada's largest cities is as follows: Vancouver 74.8 per cent, Toronto 53.3 per cent, Calgary 47.3 per cent, Ottawa 43.3 per cent and Montreal 40.4 per cent.

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

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:

- **Alberta:** Housing conditions have softened since prices peaked back in 2007. In the third quarter of 2008, further price declines in most housing segments contributed to improved affordability.
- **Saskatchewan:** After reaching its lowest level of affordability ever, the province's housing sector is feeling the downside effects of a frenzied market. Skyrocketing prices significantly overstepped household incomes, which is anticipated to push the housing sector into a correction phase in 2009.
- **Manitoba:** Well-positioned to weather the storm, the province's housing market is nonetheless expected to cool in 2009 amid mounting economic uncertainty.
- **Ontario:** Housing markets softened in the third quarter as several regions across the province reported notable price declines and weakening re-sale activity – evidence that the sector can no longer resist the downdraft of a souring provincial economy.
- **Quebec:** Affordability conditions improved in the third quarter but economic storm clouds are darkening the housing market outlook. Relatively strong fundamentals should help limit damages during the downturn.
- **Atlantic region:** Rapid price increases over the past two years have eroded affordability conditions in the region. St. John's, Saint John and Halifax are currently among Canada's housing hotspots.

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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