



QUEBEC HOUSING MARKET UNLIKELY TO BURN OUT, SAYS RBC

TORONTO, December 8, 2008 — Housing affordability conditions for Quebec improved in the third quarter of 2008 but economic storm clouds are on the horizon and are expected to rain on housing activity and prices in 2009, according to the latest housing report released today by RBC Economics.

“The province’s affordability conditions followed general trends and slipped over the past three to four years,” said Robert Hogue, senior economist at RBC. “Affordability conditions stand just six to nine per cent above long-run averages, which could hardly be construed as posing a significant risk. Relatively strong fundamentals heading into the storm should help limit damages to the housing market.”

The RBC Housing Affordability measure for Quebec, which captures the proportion of pre-tax household income needed to service the costs of owning a home, mildly improved across all four classes in the third quarter. Affordability of the benchmark detached bungalow in Quebec moved to 35.3 per cent, the standard townhouse to 30.2 per cent, the standard condo to 29.5 per cent and the standard two-storey home to 42.5 per cent.

Quebec’s housing market has enjoyed a steady rise over the past several years though vigour and price appreciation have paled in comparison to that of Western Canada. Now, western markets are facing significant price corrections as they shed their past excesses while Quebec’s housing market is headed for a controlled cooling with relatively little fat to lose.

In Montreal, the housing market has been chugging along with sales and prices moving marginally higher and affordability eroding gradually. The main exception being the two-storey segment where prices took off in 2007 and affordability fell to its worst level on record by year-end. While two-storey home prices have stabilized this year, that segment remains the most overstretched in the city. Montreal did see a slowdown in resale activity relative to last year, but prices have generally held up well. Nonetheless, a weaker tone should be expected going forward until clear signs of vigour in the economy emerge.

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 Montreal and Quebec City. For these 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:

- **British Columbia:** In the last two quarters, affordability conditions have started to improve. The province's housing markets are entering a correction phase that will see prices decline, reversing recent gains.
- **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.
- **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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