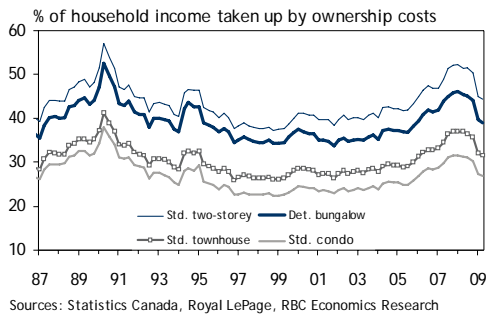


## Market overview

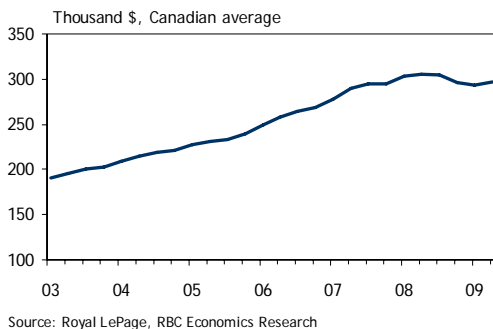
### Affordability - Canada



### Mortgage rates, conventional 5-year



### Standard bungalow price



**Robert Hogue**  
Senior Economist  
(416) 974-6192  
robert.hogue@rbc.com

## HOUSING TRENDS AND AFFORDABILITY

September 2009

### Affordability improvement running out of steam?

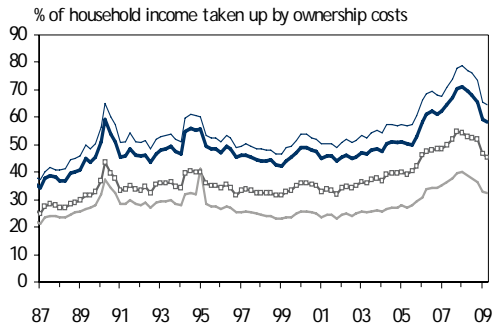
Housing affordability improved in Canada for the fifth consecutive quarter during the second quarter. RBC's affordability measures at the national level fell modestly for all housing types — down 0.4 percentage points to 26.9% for standard condominiums and 0.6 percentage points for each of detached bungalows (39.1%), standard two-storey homes (44.4%) and standard townhouses (31.5%). (The lower the measure, the more affordable is homeownership.) This follows the biggest quarterly declines on record in the first quarter when a steep drop in mortgage rates and softening housing prices significantly lowered the cost of homeownership. The latest improvement in affordability was widespread across the country and housing types. The only exception among major cities was the standard condominium segment in Vancouver, where RBC's measure rose marginally for the first time since early 2008. Ottawa posted some of the largest declines, likely playing catch-up with other cities since it joined the improving trend later than in most areas in Canada. At the national level, affordability has now been restored to pre-housing boom levels (that is, those prevailing in late 2005-early 2006).

However, this restorative phase of the affordability cycle is likely running out of steam. The two major contributors to the significant improvement during the past year or so — the decline in mortgage rates and the drift down in prices — appear to have reached turning points. After hitting generational lows (in nominal terms) in the spring, some mortgage rates (including those of five-year fixed mortgages on which the RBC measures are based) rose modestly in the summer. Also, the earlier generalized weakness in property prices has largely dissipated in recent months in most parts of the country — some areas have even begun to register gains again. While those shifting trends will cease to drive affordability improvements, the next phase in the coming quarters will not necessarily be one of wholesale deterioration with continued expected growth in household income providing some offset. More likely the period ahead will be marked by a certain levelling off in affordability.

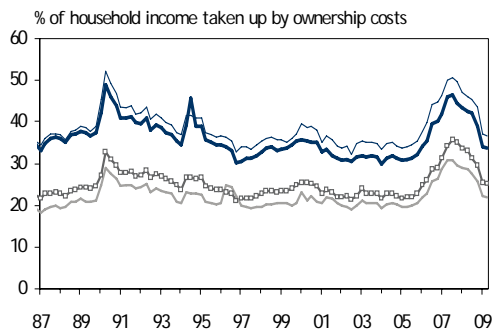
This flattening to levels close to historical averages overall is, therefore, not expected to derail the current impressive resurgence in housing activity. After sinking late last year and into early this year to the deepest depths in 10 years, the number of existing homes sold through the Multiple Listing System has surged by more than 60% through the spring and summer. Figures in June and July showed the first year-over-year increases in Canada since the end of 2007. In fact, July sales were the best on record for the month. This renewed activity is now drawing down the earlier build-up in properties for sales. The Canadian Real Estate Association reported that total listings have fallen below year-earlier levels in May, June and July. With the supply of properties for sale diminishing just as demand is bouncing back, any slack in the market is being quickly removed. This is working to heat up prices again in many parts of the country.

## RBC housing affordability measures

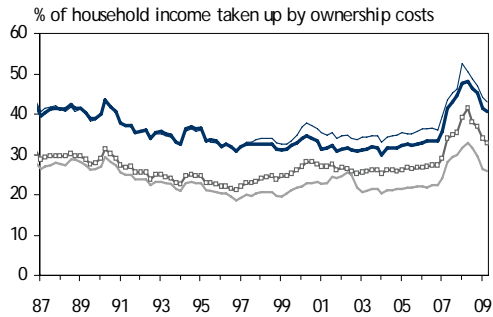
### British Columbia



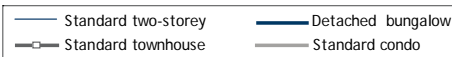
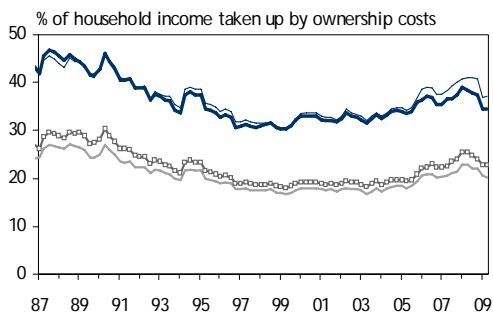
### Alberta



### Saskatchewan



### Manitoba



Sources: Statistics Canada, Royal LePage, RBC Economics Research

## British Columbia – Un-affordability easing

The cost of homeownership in British Columbia eased once more in the second quarter, further extending the downward trend since the start of 2008. However, the pace of decline slowed considerably. The RBC affordability measures edged down between 0.1 and 1.0 percentage points, in most cases the smallest movements recorded during the affordability restorative phase. While the cumulative declines in the past five quarters have been the sharpest since 1991, the latest levels are still significantly above long-term averages, suggesting that affordability in the province has yet to be fully restored. This fact has not stopped the resale market from staging a stunning rally through the spring and summer, with sales of existing homes surging by more than 125% from their cyclical trough early this year. Market conditions have consequently tightened and some firming of prices has been observed in many areas, halting the significant slide that took place during 2008 and the early part of this year.

## Alberta – Lower homeownership costs pump up resales

The biggest cumulative drop in the history of the RBC affordability measures in Alberta further deepened in the second quarter as the share of household income taken up by the costs of owning a home in the province shrank by 0.2 to 0.5 percentage points depending on the housing type. The RBC measures are now back to levels that prevailed at end of 2005-early 2006 and are below long-term averages. The significant improvement since mid-2007 greatly reflected double-digit price declines since the market peak, which have amplified the effect of the drop in mortgage rates. Buyers have strongly responded to the more palatable ownership costs and have jumped back into the housing market in a big way since the spring. Sales of existing homes in the province have soared by more than 60% between April and July, fully retracing last year's slide. Overall, property prices have yet to firm, but tightening market conditions should set the stage for some appreciation in the near future.

## Saskatchewan – Market forges on

Homeownership continued to become more accessible in Saskatchewan in the second quarter with RBC's affordability measures falling between 0.4 and 1.4 percentage points. The measures have retreated considerably since their peaks early last year. However, they are still some distance above long-term averages, although these averages might have been depressed by previously unfavourable migration flows that have since been reversed. Certainly, the current levels of affordability do not appear to have been an obstacle to buyers taking the plunge in recent months. Sales of existing homes in the province have rebounded smartly, up by more than 50% since their low in March. If sustained, this will eventually heat up property prices, which are still trending modestly lower.

## Manitoba – Affordability at a turning point

Signs have emerged in the second quarter that a broad-based restoration of affordability is near the end of the line in Manitoba. The RBC measure for two-storey homes in the province actually rose (up 0.3 percentage points) for the first time since the spring of 2008, while those for the other housing types declined only slightly by between 0.1 and 0.5 percentages points. Given that the cost of

## Regional overviews

homeownership in Manitoba had not risen as much as in other parts of the country during the housing boom, the significant easing in the past year has fully repaired affordability, at least relative to historical averages. Thus, if the latest figures were indeed to mark a turning point, it would not pose a threat to buyers at this stage. Meanwhile, resale activity picked up a few notches during the spring and summer, but not quite to the pace that prevailed a year earlier. Property prices have generally maintained their steady upward trend, supported by relatively tight market conditions.

### Ontario – Market riding higher

Ontario's housing market has been on quite a roller-coaster ride in the past year — going from a gentle descent late last summer to a plunge during the fall and winter, then to an impressive surge since the spring. The gyrations of the market have reflected the swings in the economy and the effects of the financial crisis. However, the current upturn can be largely attributed to solid improvements in affordability in the province. In the second quarter, RBC's measures further extended their downward trends ongoing since early 2008, dropping between 0.5 and 0.8 percentage points. All measures are now below historical averages, indicating that the costs of homeownership have reached attractive levels in the province. While many communities continue to face tough economic prospects that are holding back local demand, the general tone of the market has clearly turned positive. This is being reflected in notable gains in housing prices in recent months.

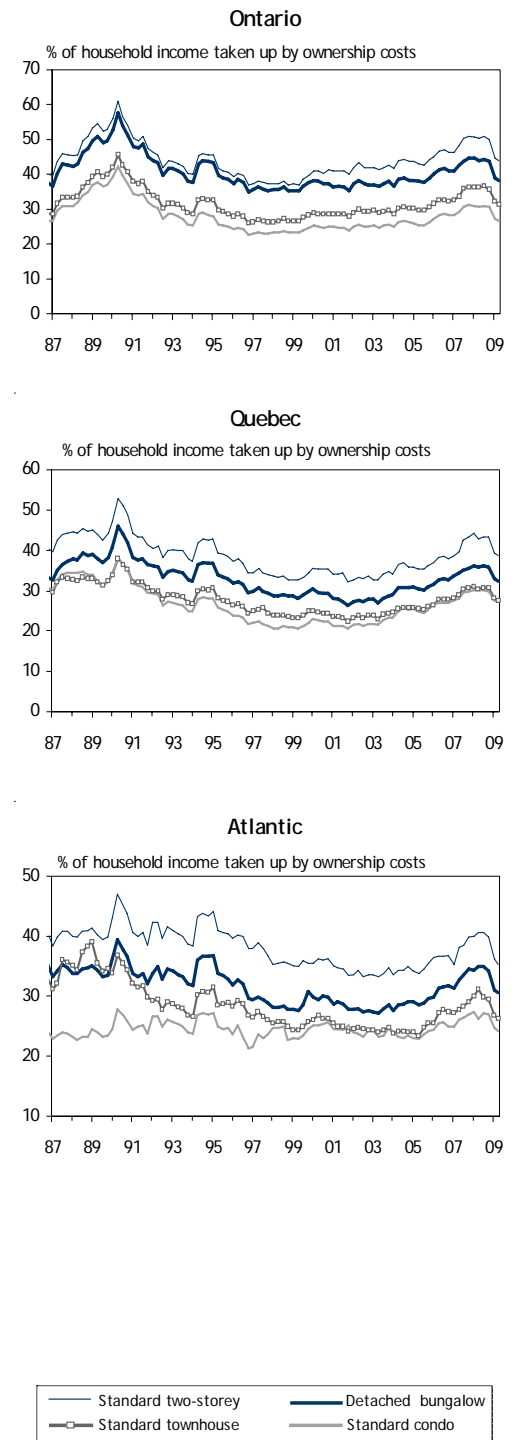
### Quebec – Back on track

With reasonably affordable housing costs stirring buyers' interest, the Quebec market looks to be back on track. Housing affordability in the province improved once again in the second quarter — RBC's measures fell between 0.4 and 0.7 percentage points — prolonging a trend that has been generally ongoing during the past year. By the second quarter, most RBC measures for Quebec had moved below long-term averages. This greater affordability has opened the door more fully to buyers who have not hesitated to spring into action. Sales of existing homes in the province have rebounded strongly by more than 40% from the cyclical low reached mid-winter, fully retracing the earlier sharp decline. Tightening demand-supply conditions and more upbeat market sentiment have redirected property prices onto the ascending path although they had barely strayed from it during the market downturn.

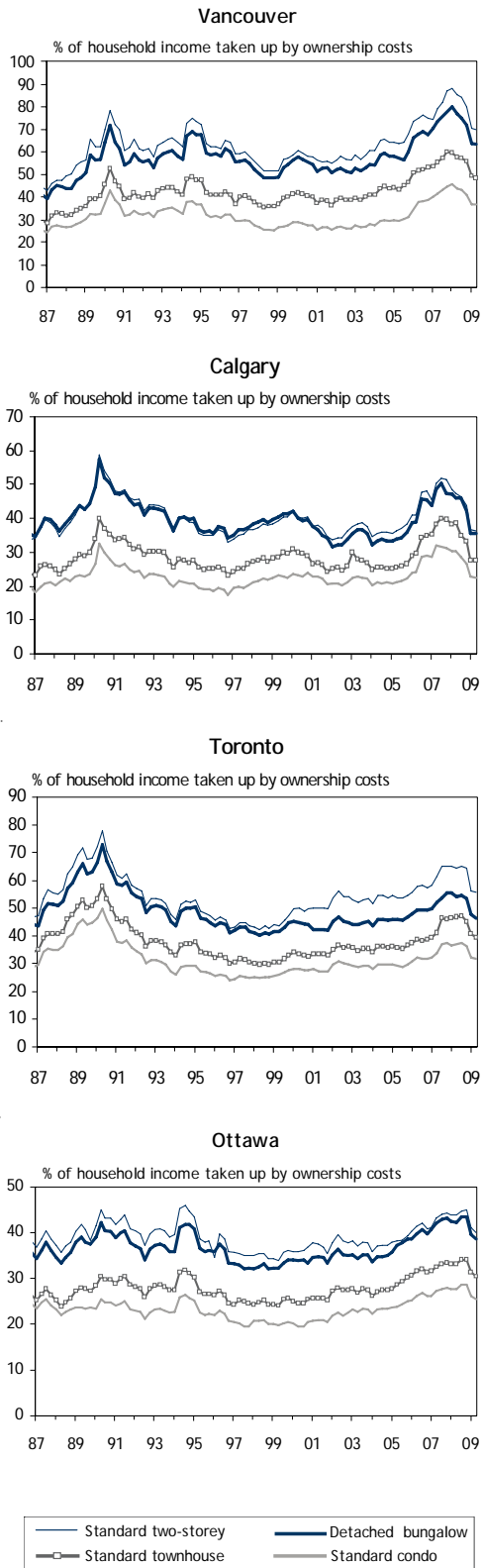
### Atlantic – All in moderation

The rebound in Atlantic Canada's housing market has so far been a more subdued affair than most other parts of the country — although the downturn had been equally more restrained. Sales of existing homes in the region have climbed by more than 18% since the low in January compared with a surge of more than 60% in the rest of the country. Similarly, the run-up in property values in recent months has erred on the side of moderation — largely reflecting the fact that prices had generally resisted declining during the downturn. St. John's continues to be among the most vibrant markets in Canada, although the pace has cooled in the past few months. Halifax, Saint John and Charlottetown display fairly balanced

## RBC housing affordability measures



## RBC housing affordability measures



Sources: Statistics Canada, Royal LePage, RBC Economics Research

market conditions. Atlantic Canada enjoys relatively attractive affordability levels, which should support activity in the period ahead. RBC's measures have declined noticeably since early last year, falling between 0.4 and 0.8 percentage points in the second quarter, and now stand below long-term averages.

### Vancouver – Staging a spectacular comeback

With RBC's affordability measures still well above long-term averages in the city, it might be thought that the Vancouver market would continue to struggle to attract buyers. This is clearly not the case as resale activity has staged one of the most spectacular comebacks in Canadian real estate history. From their lowest levels in about 19 years at the end of 2008, sales of existing homes more than tripled by July to levels just shy of peaks reached before the downturn. Even if still expensive (both historically and relative to other cities in Canada), the significant drop in the costs of homeownership in Vancouver since the spring of 2008 has been sufficient to re-energize the market. The earlier huge market slack appears to have now vaporized and prices are moving up again. In the second quarter, this has even led to the first rise in the RBC affordability measure for condominiums (up 0.1 percentage points) since early 2008, while those for other housing types have dropped much more slowly (by between 0.5 and 1.0 percentage points).

### Calgary – Climbing out of its hole

Housing market fundamentals have greatly improved in recent months in Calgary and this is helping activity to climb out of its deep hole. The sizable drop in mortgage rates and slide in property prices since the latter part of 2007 have worked to fully restore affordability in the city. RBC's affordability measures for Calgary posted some of the largest declines among major Canadian cities from the cyclical peak — easing once again in the second quarter between 0.1 and 0.3 percentage points — to levels below long-term averages. Sales of existing homes have picked up considerably through the spring and summer, which has largely depleted the earlier overhang of properties for sale. Supply and demand are, consequently, in much better balance, even slightly favouring sellers for the first time in two years. Yet the latest figures still show property values generally languishing. However, as confidence gradually returns in the city, the stage will be set for a turnaround.

### Toronto – Roaring again

The fears of a market meltdown that were common earlier this year have completely dissipated in the Greater Toronto Area. Those concerns have been replaced by stories of heated demand and bidding contests, clear signs that market sentiment has become significantly more upbeat. Sales of existing homes have soared since, touching a 10-year low late last year and early this year and, by mid-summer, had nearly retraced all of last year's slide. Property values have been on the rise again since the spring, reflecting much tighter market conditions — the result of stronger demand and fewer homes listed for sale. As elsewhere in the country, renewed buyer interest in the Toronto market can be largely attributed to much improved affordability. RBC's measures for the area have fallen significantly in the past year and one-half, edging lower again in the second quarter between 0.5 and 1.0 percentage points.

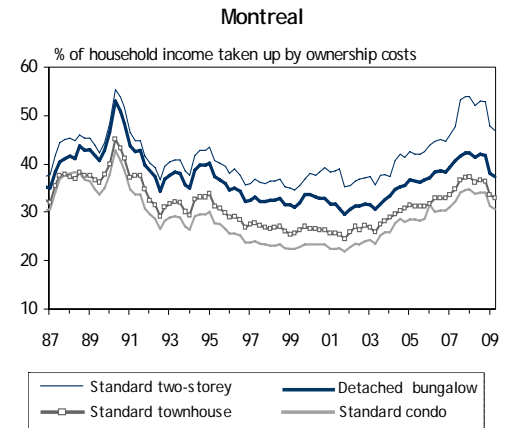
## Ottawa – Barely missed a beat

It did not take long for the Ottawa market to break new sales records once housing activity got going again this spring. Ottawa had been among the most resilient markets in Canada during the downturn, experiencing only a relatively short, modest setback in resales late last year and into early this year that barely dampened down property values. This buoyancy was owed in large part to affordability having remained quite sensible through the cycle — housing prices in the area had not experienced the same run-up during the boom as they did in other Canadian cities. The flip side of steadier property values is that affordability has not improved as much in Ottawa as in many other areas in the past year — RBC’s affordability measures for the city continue to be above long-term averages. However, some catch-up appears to have taken place recently. In the second quarter, RBC’s measures fell between 0.8 and 1.2 percentage points, representing some of the largest declines among major cities.

## Montreal – In top gear

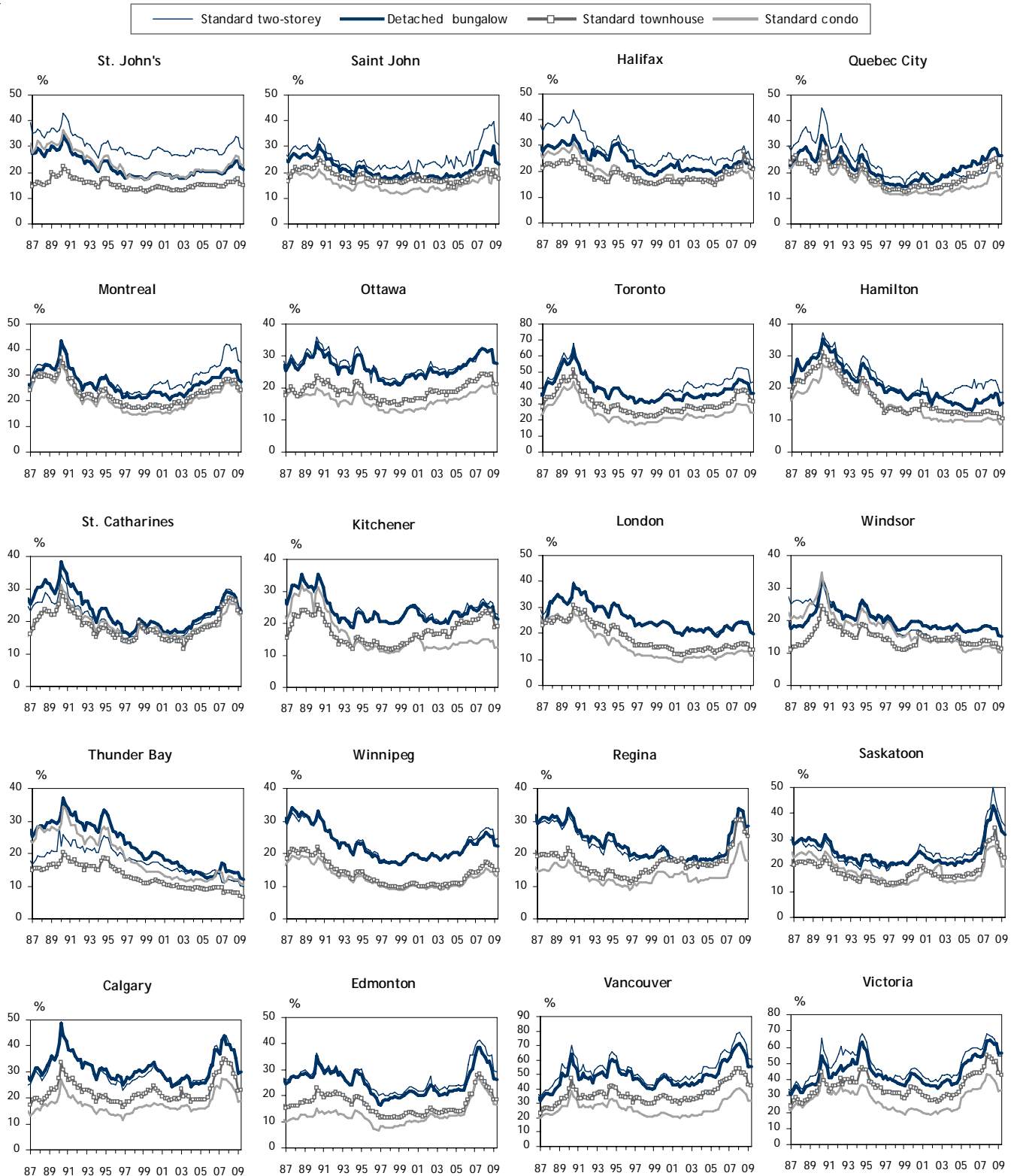
The story in Montreal is quite similar to Ottawa’s in that housing market activity is now back in top gear and prices in full recovery mode following a short period of softness in the fall and winter. Montreal, too, had shown strong resistance to the general downturn, enabling it to snap back once market conditions recovered. The resurgence in resales since the spring was supported by a year-long improvement in affordability, although the extent of that improvement has been more muted than in most other areas. In the past year, RBC’s measures for Montreal fell by 3.3 to 5.1 percentage points depending on the housing type, the least among major cities except Ottawa. The measures eased again in the second quarter between 0.6 and 1.0 percentage points but still stood above long-term averages. With tighter market conditions firming prices again and hefty declines in mortgage rates a thing of the past, affordability is unlikely to show any further significant improvement.

## RBC housing affordability measures

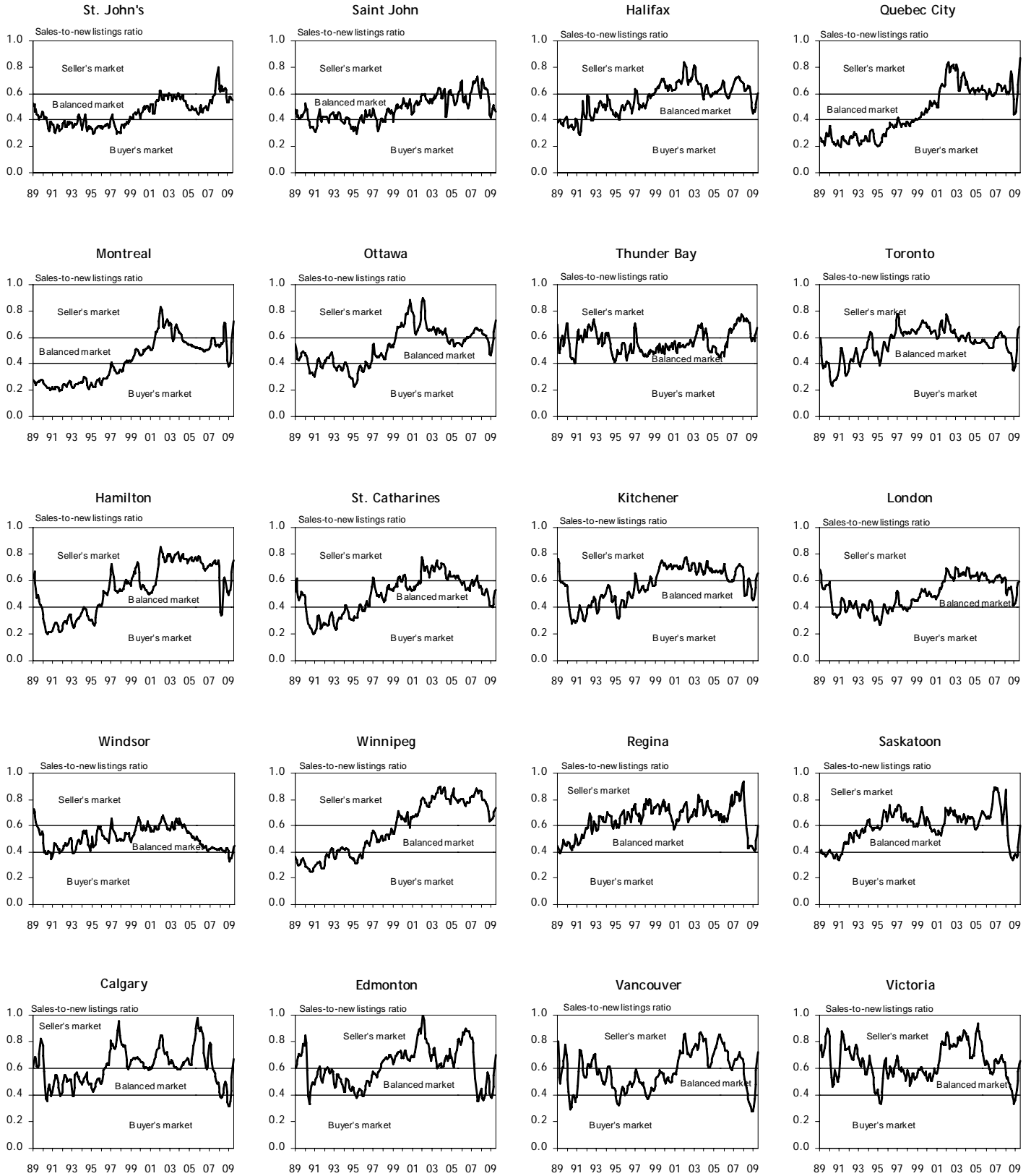


# Mortgage carrying costs by city

Our standard housing affordability measure captures the proportion of median pre-tax household income required to service the cost of a mortgage on an existing housing unit at going market price, including principal and interest, property taxes and utilities; the modified measure used here includes the cost of servicing a mortgage, but excludes property taxes and utilities due to data constraints in the smaller CMAs. This measure is based on a 25% down payment and a 25-year mortgage loan at a five-year fixed rate and is estimated on a quarterly basis. The higher the measure, the more difficult it is to afford a house.



# Resale housing market conditions in Canada's metro cities

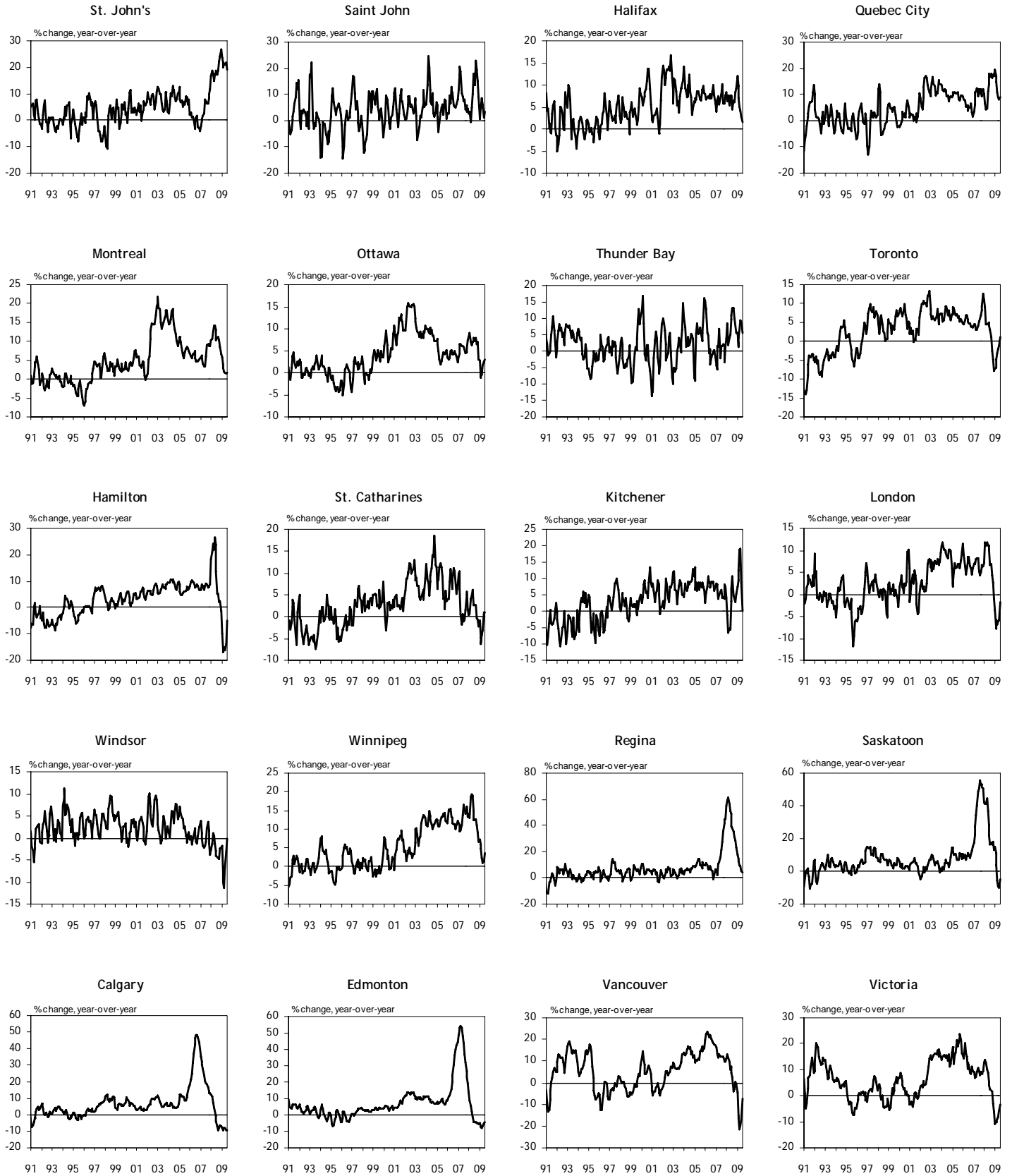


Sales-to-listings ratios are based on a three-month moving average.

Source: Canadian Real Estate Association, RBC Economics Research



# House prices in Canada's metro cities



House prices are based on a three-month moving average.

Source: Canadian Real Estate Association, RBC Economics Research





# Housing affordability summary tables

## Detached bungalow

Region	Average Price		Qualifying Income (\$) Q2 2009	Affordability Measure			
	Q2 2009 (\$)	Y/Y % ch.		Q2 2009 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada*	297,800	-2.8	67,000	39.1	-0.6	-6.3	39.0
British Columbia	489,800	-5.4	97,800	58.4	-0.7	-11.3	48.5
Alberta	339,000	-7.0	72,900	33.5	-0.5	-8.9	36.1
Saskatchewan	294,900	-5.5	67,100	40.5	-1.0	-7.7	36.2
Manitoba	223,200	1.1	55,600	34.4	-0.1	-3.9	36.8
Ontario	310,400	-2.2	72,100	38.3	-0.8	-5.6	40.4
Quebec	193,000	0.9	46,600	32.4	-0.7	-3.5	33.0
Atlantic	186,200	2.7	46,600	30.6	-0.4	-4.3	32.1
Toronto	425,700	-3.0	92,500	46.5	-1.0	-7.7	48.5
Montreal	237,600	0.5	55,200	37.3	-0.8	-4.1	36.7
Vancouver	588,600	-6.5	115,400	63.4	-0.5	-13.4	56.6
Ottawa	321,600	1.7	76,800	38.6	-0.8	-3.8	37.0
Calgary	401,600	-8.3	82,000	35.7	-0.1	-10.5	39.6
Edmonton	328,300	-4.8	72,300	33.8	-0.7	-8.0	33.8

## Standard two-storey

Region	Average Price		Qualifying Income (\$) Q2 2009	Affordability Measure			
	Q2 2009 (\$)	Y/Y % ch.		Q2 2009 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada*	335,900	-2.4	76,100	44.4	-0.6	-7.0	43.3
British Columbia	539,000	-5.9	107,900	64.4	-0.9	-12.8	53.5
Alberta	363,400	-6.3	79,600	36.6	-0.5	-9.5	38.5
Saskatchewan	302,500	-4.9	70,900	42.8	-1.4	-7.7	37.5
Manitoba	244,300	2.7	60,100	37.2	0.3	-3.7	37.5
Ontario	356,100	-1.7	82,900	44.0	-0.8	-6.3	44.0
Quebec	229,200	1.4	55,700	38.7	-0.6	-4.0	38.9
Atlantic	208,200	1.3	53,800	35.4	-0.8	-5.2	38.7
Toronto	509,300	-2.0	110,800	55.7	-0.7	-8.6	53.6
Montreal	302,300	0.7	69,300	46.8	-1.0	-5.2	41.3
Vancouver	645,600	-7.5	126,600	69.6	-0.8	-15.5	61.5
Ottawa	320,500	1.5	79,600	40.0	-1.2	-3.9	39.4
Calgary	400,200	-8.6	83,700	36.5	-0.3	-10.9	40.0
Edmonton	365,300	-2.8	81,200	38.0	-0.7	-8.3	36.8

## Standard townhouse

Region	Average Price		Qualifying Income (\$) Q2 2009	Affordability Measure			
	Q2 2009 (\$)	Y/Y % ch.		Q2 2009 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada*	240,500	-3.5	54,100	31.5	-0.6	-5.4	30.5
British Columbia	383,500	-3.0	76,400	45.6	-1.0	-7.6	36.3
Alberta	252,800	-11.7	54,500	25.0	-0.3	-8.1	25.0
Saskatchewan	234,600	-12.9	54,100	32.6	-1.4	-8.8	27.4
Manitoba	148,100	1.1	36,900	22.8	-0.1	-2.6	22.8
Ontario	256,200	-3.0	59,300	31.5	-0.7	-4.9	31.4
Quebec	164,600	1.5	39,900	27.7	-0.4	-2.8	28.1
Atlantic	161,700	-2.9	39,900	26.2	-0.6	-4.9	29.0
Toronto	367,100	-4.6	78,800	39.6	-1.0	-7.3	37.7
Montreal	210,600	1.3	48,700	32.9	-0.6	-3.4	31.6
Vancouver	447,300	-5.1	87,600	48.2	-1.0	-9.4	41.5
Ottawa	244,500	2.0	60,600	30.4	-0.9	-2.8	27.9
Calgary	309,700	-16.8	63,400	27.6	-0.1	-11.2	28.5
Edmonton	229,000	-6.4	50,900	23.8	-0.5	-6.1	22.8

## Standard condominium

Region	Average Price		Qualifying Income (\$) Q2 2009	Affordability Measure			
	Q2 2009 (\$)	Y/Y % ch.		Q2 2009 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada*	202,900	-2.7	46,200	26.9	-0.4	-4.4	26.9
British Columbia	269,400	-5.4	54,800	32.7	-0.1	-6.2	27.9
Alberta	219,500	-10.6	47,600	21.9	-0.2	-6.8	22.1
Saskatchewan	182,800	-13.0	42,900	25.9	-0.4	-6.8	24.1
Manitoba	128,900	-0.4	32,700	20.2	-0.5	-2.5	20.9
Ontario	214,600	-1.8	50,500	26.8	-0.5	-3.8	27.9
Quebec	167,400	0.8	39,100	27.2	-0.4	-3.0	27.0
Atlantic	148,800	10.0	36,800	24.2	-0.6	-2.0	24.7
Toronto	286,300	-3.3	63,000	31.7	-0.5	-5.2	31.2
Montreal	198,900	1.2	45,200	30.5	-0.8	-3.3	29.0
Vancouver	340,100	-4.9	67,000	36.9	0.1	-7.0	31.3
Ottawa	208,700	2.5	50,700	25.4	-0.8	-2.4	23.6
Calgary	252,300	-11.5	52,000	22.7	-0.1	-7.6	22.8
Edmonton	206,000	-9.3	45,700	21.4	-0.4	-6.1	18.0

\* Population weighted average

Source: Royal LePage, Statistics Canada, RBC Economics Research

## How RBC's housing affordability measures work

RBC Economics Research's housing affordability measures show the proportion of median pre-tax household income required to service the cost of mortgage payments (principal and interest), property taxes and utilities on a detached bungalow, a standard two-storey home, a standard town house and a standard condo (excluding maintenance fees).

The qualifier 'standard' is meant to distinguish between an average dwelling and an 'executive' or 'luxury' version. In terms of square footage, a standard condo has an inside floor area of 900 square feet, a town house 1,000 square feet, a bungalow 1,200 square feet and a standard two-storey 1,500 square feet.

The measures are based on a 25% down payment and a 25-year mortgage loan at a five-year fixed rate and are estimated on a quarterly basis for each province and for Montreal, Toronto, Ottawa, Calgary and Vancouver metropolitan areas. The measures use household income rather than family income to account for the growing number of unattached individuals in the housing market. The measure is based on quarterly estimates of this annual income, created by annualizing and weighting average weekly earnings by province and

by urban area. (Median household income is used instead of the arithmetic mean to avoid distortions caused by extreme values at either end of the income distribution scale. The median represents the value below and above which lie an equal number of observations.)

The housing affordability measure is based on gross household income estimates and, therefore, does not show the impact of various provincial property tax credits, which can alter relative levels of affordability.

The higher the measure, the more difficult it is to afford a house. For example, an affordability measure of 50% means that home ownership costs, including mortgage payments, utilities and property taxes, take up 50% of a typical household's pre-tax income.

Qualifying income is the minimum annual income used by lenders to measure the ability of a borrower to make mortgage payments. Typically, no more than 32% of a borrower's gross annual income should go to "mortgage expenses" — principal, interest, property taxes and heating costs (plus maintenance fees for condos).

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