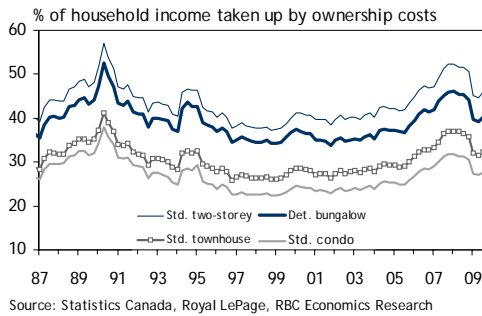


HOUSING TRENDS AND AFFORDABILITY

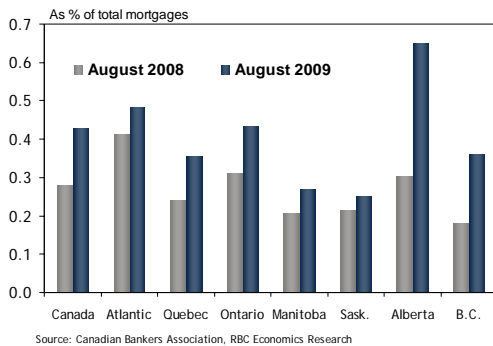
November 2009

Market overview

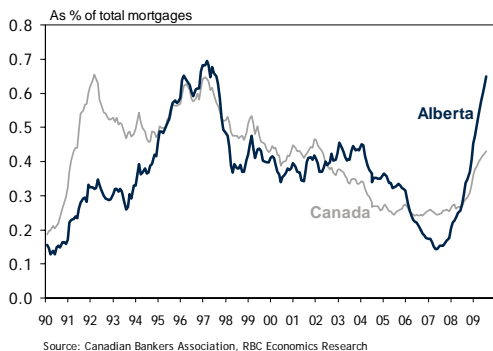
Affordability - Canada



Mortgages in arrears



Mortgages in arrears



Affordability improvements halt in third quarter

The string of significant improvements in housing affordability in Canada finally came to an end in the third quarter. RBC's affordability measures rose at the national level for the first time in six quarters for all housing types: by 0.5 percentage points to 27.6% for a standard condominium; by 0.7 percentage points to 32.3% for a standard townhouse; by 1.0 percentage point to 40.2% for a typical detached bungalow; and, by 1.2 percentage points to 45.8% for a standard two-storey home. (A rise in the measure represents a deterioration in affordability.) This follows steep declines since the spring of 2008, which had largely restored affordability levels to historical averages by mid-year this year. Despite the third-quarter increases, all measures are still down markedly from a year ago, thus maintaining homeownership at affordable rates and supporting housing demand across the country. The current levels in the RBC measures are in line with those in early 2006 when housing market activity was shifting into high gear in Canada.

All provinces and major metro markets shared in the deterioration in affordability in the third quarter. British Columbia, especially Vancouver, posted the biggest increases by far in the RBC measures. Toronto and Calgary also recorded notable increases for some housing types, while the rise in the cost of homeownership in the rest of the country has generally been modest.

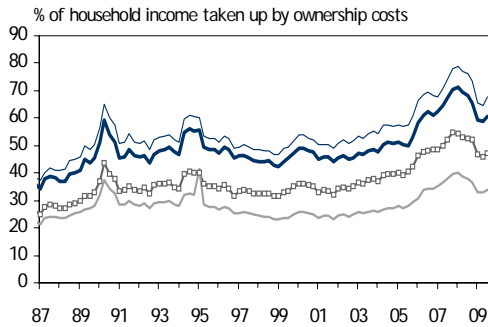
The reversal in the improving trend in affordability was caused by a recent pick-up in key mortgage rates as well as gains in property values – the earlier declines in both factors were the main factors that drove homeownership costs down through most of last year and the first half of this year. The average posted rate on five-year conventional mortgages — the basis for the calculations in the RBC measures — went up modestly from a generational low of 5.45% in the second quarter to 5.73% in the third quarter, the first quarterly increase since late last year. Also, generally strong resale market activity across the country has heated up housing prices again since mid-summer after months of widespread softness. The combination of price appreciation and slightly higher mortgage rates has resulted in mortgage carrying costs moving higher in the third quarter.

Greater access to homeownership has been a key factor contributing to the impressive rebound in housing resales since the depths of the downturn late last year and early this year. By October, the number of homes sold through the Multiple Listing System in Canada had not only recovered the ground lost during the downturn but had reached a new historical high, up an astounding 74% since January on a seasonally-adjusted basis. As demand generally outpaced the supply of homes offered for sale, market conditions have tightened considerably in many parts of the country, leading to widespread increases in property values. In markets such as Vancouver, which had been badly hurt last year, the turnaround has been nothing short of breathtaking. In that market, as well as in parts of the Greater Toronto Area, bidding contests are common again.

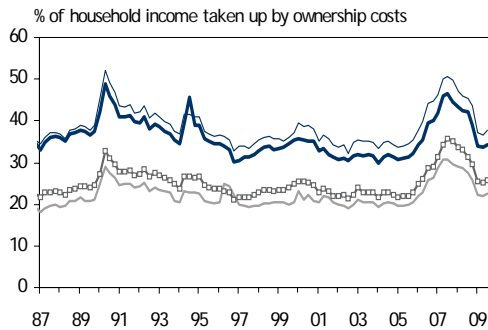
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RBC housing affordability measures

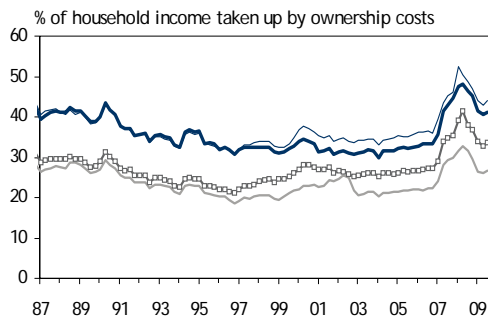
British Columbia



Alberta



Saskatchewan



Sources: Statistics Canada, Royal LePage, RBC Economics Research

With such strong market momentum across Canada, and mortgage rates having bottomed out earlier this year, it is unlikely that affordability will resume its improving trend in the near-term. At best, it will level off or deteriorate slightly in the quarters ahead.

One of the challenges of the housing market's resurgence amid still-poor labour market conditions is that mortgage obligations are becoming more difficult to meet for a growing number of Canadian households. The Canadian Bankers Association reports a rising proportion of mortgages in arrears. This is especially the case in Alberta where the earlier housing boom has saddled many households with hefty mortgages that are now harder to service in the face of surging unemployment in the province. Mortgages in arrears are likely to continue climbing across Canada until the economic recovery is well established and net job creation is sustained next year.

British Columbia – Affordability restoration stops short

The cost of homeownership in British Columbia increased in the third quarter following five consecutive declines — cumulatively the steepest drop since the early 1990s. Notable rises in home prices in the province's large urban centres and the modest pick-up in mortgage rates have boosted typical mortgage payments for the first time since early 2008. The stunning rally in the provincial housing market since the lows reached early this year is now running up faster relative to the supply of homes available for sale — which was widely outstripping demand as recently as this spring — and has led to a firming trend in prices since summer. These factors have contributed to rises in RBC's affordability measures of between 1.2 and 2.9 percentage points in the third quarter. As this development likely marks the end of the affordability restoration phase in the province, it appears that the cost of homeownership will remain well above long-term averages in British Columbia. This might emerge as a risk factor going forward.

Alberta – Affordable, but recovery still lagging

The long string of declines in the RBC affordability measures in Alberta finally ended in the third quarter. The measures rose by 0.5 to 1.3 percentage points, depending on the housing type, representing the first increases since late-2007. However, housing affordability in the province still compares favourably to historical levels because the earlier protracted slide took RBC's measures below long-term averages. Housing market activity has picked up considerably since last winter and prices have stabilized, or even shown modest gains, in parts of the province. Yet, the market recovery overall has been less pronounced than in other regions of Canada. The modest rise in the cost of homeownership in the third quarter is mostly attributable to the uptick in mortgage rates as opposed to higher property values. Continued attractive affordability levels and the expected return of economic growth next year should stimulate housing demand in Alberta in the period ahead.

Saskatchewan – Carrying strong momentum

After steadily improving for more than a year, housing affordability in Saskatchewan deteriorated modestly in the third quarter, with RBC's affordability measures climbing between 0.5 and 1.0 percentage points. This reflected higher mortgage

Regional overviews

payments that have resulted from the small increase in mortgage rates as well as stronger property values in many areas of the province. While the cost of homeownership declined substantially in the past year, it remains historically high in the province as it has only partly reversed the unprecedented increase registered during the boom from late-2006 to early-2008. However, levels that prevailed prior to the boom might have been depressed by previously unfavourable migration flows, which have since reversed. Overall, resale activity in Saskatchewan continues to carry tremendous momentum, being especially vigorous in the past few months with levels close to the records set in late-2007 and early-2008.

Manitoba – Steady as she goes

In the third quarter, Manitoba remained a relatively affordable housing market despite a slight increase in the cost of homeownership – the first since early 2008. The RBC affordability measures edged up by 0.2 to 0.4 percentage points in the third quarter, arguably the weakest deterioration among provinces. As has been typical in the province in the past several years, market conditions continue to evolve in a tempered manner, with sales of existing homes recovering at a moderate pace — after having sustained only limited losses during the downturn late last year and early this year — and prices maintaining their steady upward trend. At this stage, the market appears fairly balanced, if perhaps a little tight, which should sustain solid momentum in the near-term. The expected re-acceleration in Manitoba's economy, job growth in particular, should keep demand for housing relatively firm next year.

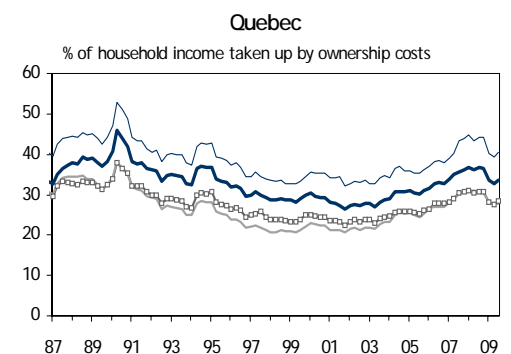
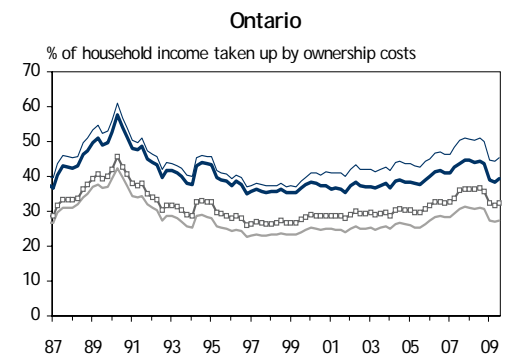
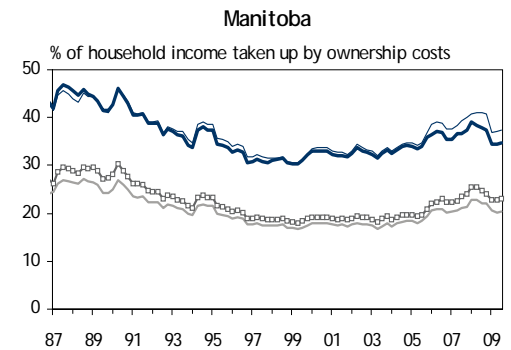
Ontario – In full recovery mode

The substantial improvement in housing affordability since early last year appears to have worked its magic in Ontario. The sudden downturn that hit the province's housing market late last year is now officially a thing of the past — resale levels have generally recovered most of the ground lost and, more importantly, prices have returned to, and in some cases surpassed, earlier peaks. While this remarkable turnaround has brought back confidence in the market — even a bit of frenzy in certain pockets around the province — the downside is that rising property values have begun to undo some of the progress made on the affordability front. In the third quarter, RBC's affordability measures for Ontario rose for the first time since early 2008, up between 0.5 and 1.0 percentage points. Nonetheless, these increases represent only modest erosion of the four to seven percentage-point declines achieved previously and affordability remains generally attractive in the province from an historical point of view.

Quebec – Widespread vigour

Quebec's housing market has displayed broad-based vigour during the past several months. Historically low mortgages, which have reduced the costs of homeownership since mid-2008 in the province, have drawn many families into the market and heated up demand for housing. Overall, sales of existing homes have fully recovered from the sharp drop late last year, recently returning to the broad range that prevailed prior to the downturn. At the same time, property values, which had barely blinked during the downturn, continue on their ascending trend, reaching new highs in many parts of the province. In fact, some of the largest price gains in recent months have been in areas such as Quebec City and other

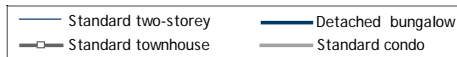
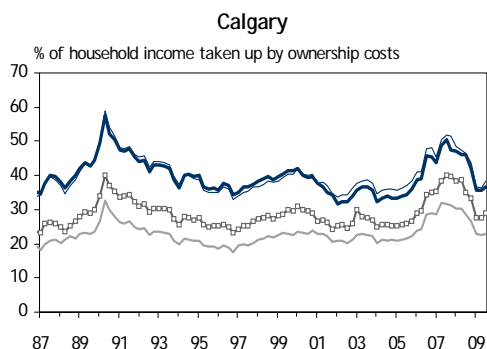
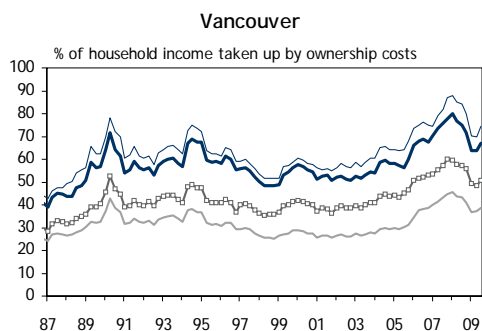
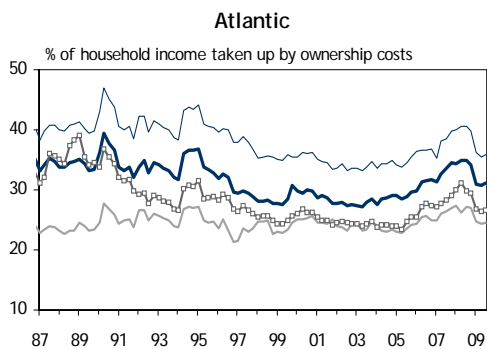
RBC housing affordability measures



Standard two-storey Detached bungalow
Standard townhouse Standard condo

Sources: Statistics Canada, Royal LePage, RBC Economics Research

RBC housing affordability measures



Sources: Statistics Canada, Royal LePage, RBC Economics Research

cities outside the Montreal region. In the third quarter, the RBC affordability measures for the province rose for the first time in more than a year, edging up between 0.1 and 1.2 percentage points, although levels still remained very close to long-term averages.

Atlantic – Sensible affordability levels help keep markets humming

The costs of owning a home in Atlantic Canada rose modestly in the third quarter, but the region's housing markets continue to be among the most affordable in the country. Depending on the housing type, the RBC affordability measures inched higher by 0.3 to 0.4 percentage points in the quarter, representing some of the smallest increases among the provinces and leaving levels still mostly well below national averages. Gains in property values have been steady but generally moderate in the past several months, limiting this first erosion in affordability in about a year in the region. Resale activity has picked up since the winter lows, but the rebound has been relatively subdued compared to other parts of the country. St. John's still stands out as one of the hottest markets in Canada, although it has shown signs of cooling recently. Momentum also is slowing a little in Halifax but is being sustained in Saint John.

Metro markets

Vancouver – Heating up rapidly

The Vancouver housing market continues to roar back in a spectacular way and property prices are now heating up closer and closer to a boil. Resale activity has surged since spring and the rebound has more than fully reversed the dramatic drop that occurred in 2008. The concomitant rise in the number of units available for sale has been more subdued, which has considerably tightened the market. In fact, the ratio of sales to new listings has returned to levels last seen in 2005 and early 2006 when prices were rising at a double-digit annual pace. This near-frenzied tone to the market is occurring despite still historically poor, and now deteriorating, levels of affordability. In the third quarter, RBC's affordability measures for Vancouver worsened for the first time since early 2008, rising between 1.7 and 4.3 percentage points. These increases were, in fact, the biggest among major cities in Canada. Even though the affordability measures fell substantially during 2008 and early 2009, they remain well above long-term averages.

Calgary – Recovery on track

The recovery in Calgary's housing market has traction, but momentum remains relatively restrained. The pace of resale activity has even moderated a little in recent months after surging from the 14-year low reached late last year and early this year. The significant re-balancing of market conditions since the trough earlier this year – with stronger resales depleting the previous glut in properties offered for sale – has, nonetheless, succeeded in stabilizing prices and even setting a modest firming trend. Reasonable affordability levels are now prevailing following the substantial improvement since late-2007, which is a key factor supporting demand. However, persisting tough economic conditions in Calgary – with the unemployment rate hovering around a 13-year since mid-summer – is casting a shadow. In the third quarter, the RBC affordability measures for Calgary rose be-

tween 0.3 and 2.0 percentage points, generally representing the first increases in almost two years.

Toronto – Back to the future

Historically strong resales levels, fast-moving properties, tight inventories of homes offered for sales, stories of bidding wars, near-record prices and rising homeownership costs – one would be forgiven for thinking this was describing the heady days of 2007 in the Toronto housing market. However, these, indeed, characterize the market in the fall of 2009! Despite difficult times in the Toronto area’s economy, full confidence in the housing market has been restored and a renewed sense of urgency is now fuelling buyers. The rising heat and its impact on property values during the past several months have begun to melt some of the improvement in affordability in the past year. In the third quarter, RBC’s affordability measures for the Greater Toronto Area rose between 1.0 and 1.9 percentage points. Still, as affordability levels remain close to long-term averages, these increases do not pose an immediate threat to the market’s rally, although, if sustained, they might eventually take some of the steam out.

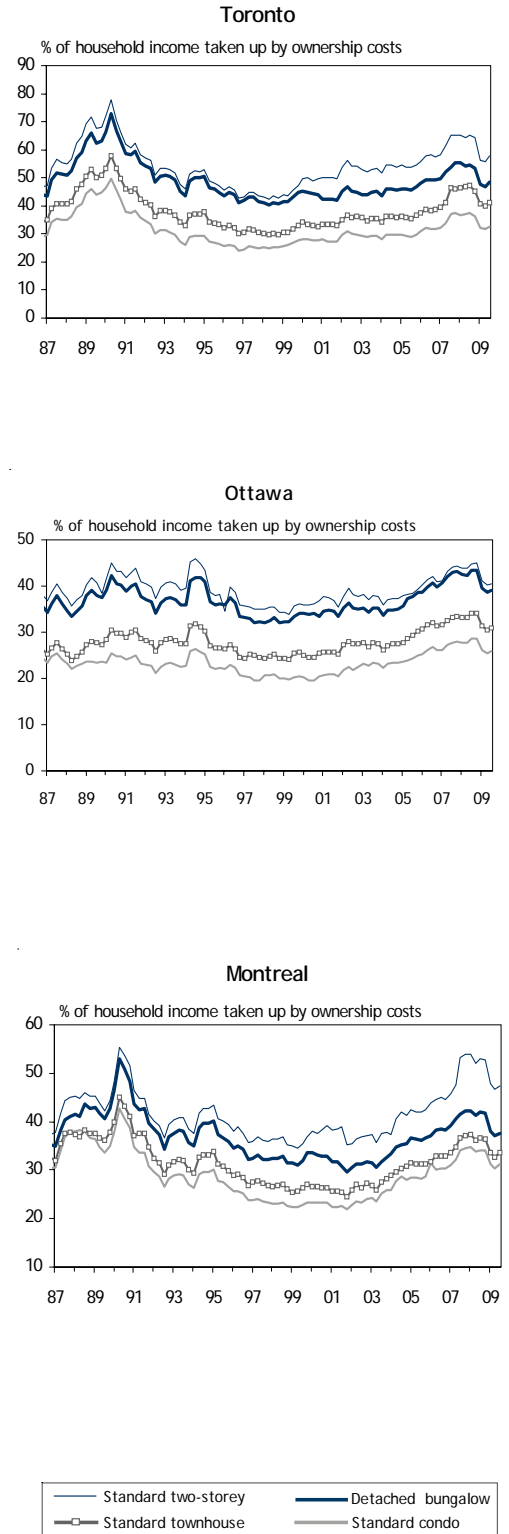
Ottawa – Still solid

Ottawa’s housing market was no exception in the third quarter and showed a slight deterioration in affordability, with its RBC affordability measures moving up 0.3 to 0.5 percentage points, depending on the housing type. These were the first increases this year and primarily reflected recent gains in property values and the modest rise in mortgage rates. The Ottawa market is among very few in the country where resales are on pace to reach an all-time high this year. It had emerged as one the most resilient markets during the downturn and quickly bounced back when activity generally picked up again in the spring. Housing prices barely flinched during the downturn and moved into record territory again by mid-summer. While this solid performance overall has been supported by relatively strong economic fundamentals without exhibiting signs of overheating, affordability measures in the area are above long-term averages and might become a restraining factor in the period ahead if they rise further.

Montreal – Riding high

Housing market activity in the Montreal area continues to display a high degree of strength with resales posting their best October on record, according to the Greater Montreal Real Estate Board, and that is keeping property values on an ascending trend. Brisk demand is supported by a year-long improvement in affordability despite its end in the third quarter when the RBC affordability measures rose between 0.4 and 0.9 percentage points. Overall, the Montreal market has essentially fully recovered from the period of softness late last year and early this year – by comparison to most other cities in Canada, the housing downturn has been a fairly mild setback in the Montreal area. However, the recent strong momentum is likely to run up against some headwinds in the period ahead as the cost of homeownership remains a little on the high side – the RBC measures have not come down to long-term averages during the past year – and is turning up again, which should gradually price some families out of the market and slow demand growth.

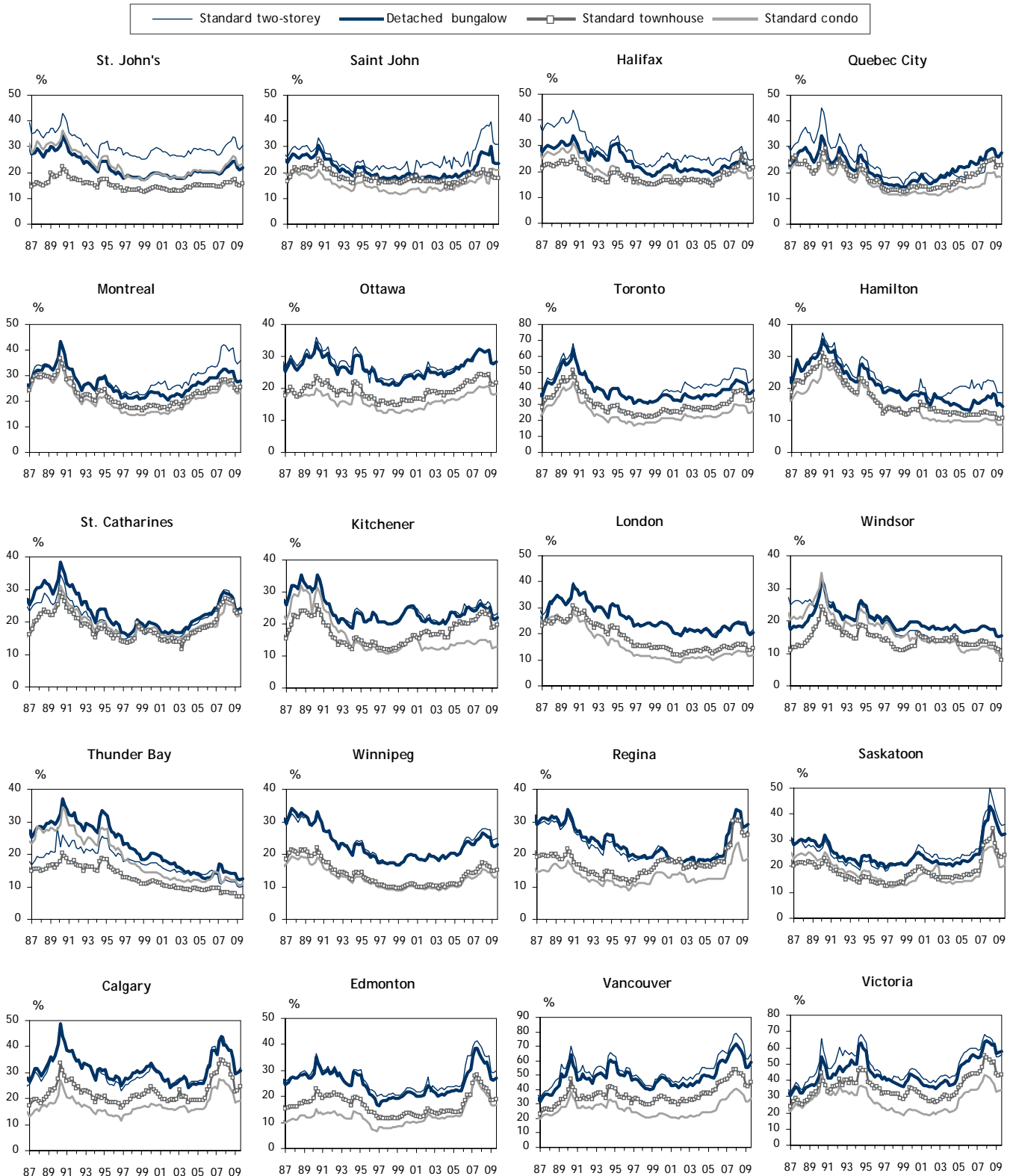
RBC housing affordability measures



Sources: Statistics Canada, Royal LePage, RBC Economics Research

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.



Source: Statistics Canada, Royal LePage, RBC Economics Research



Resale housing market conditions in Canada's metro cities

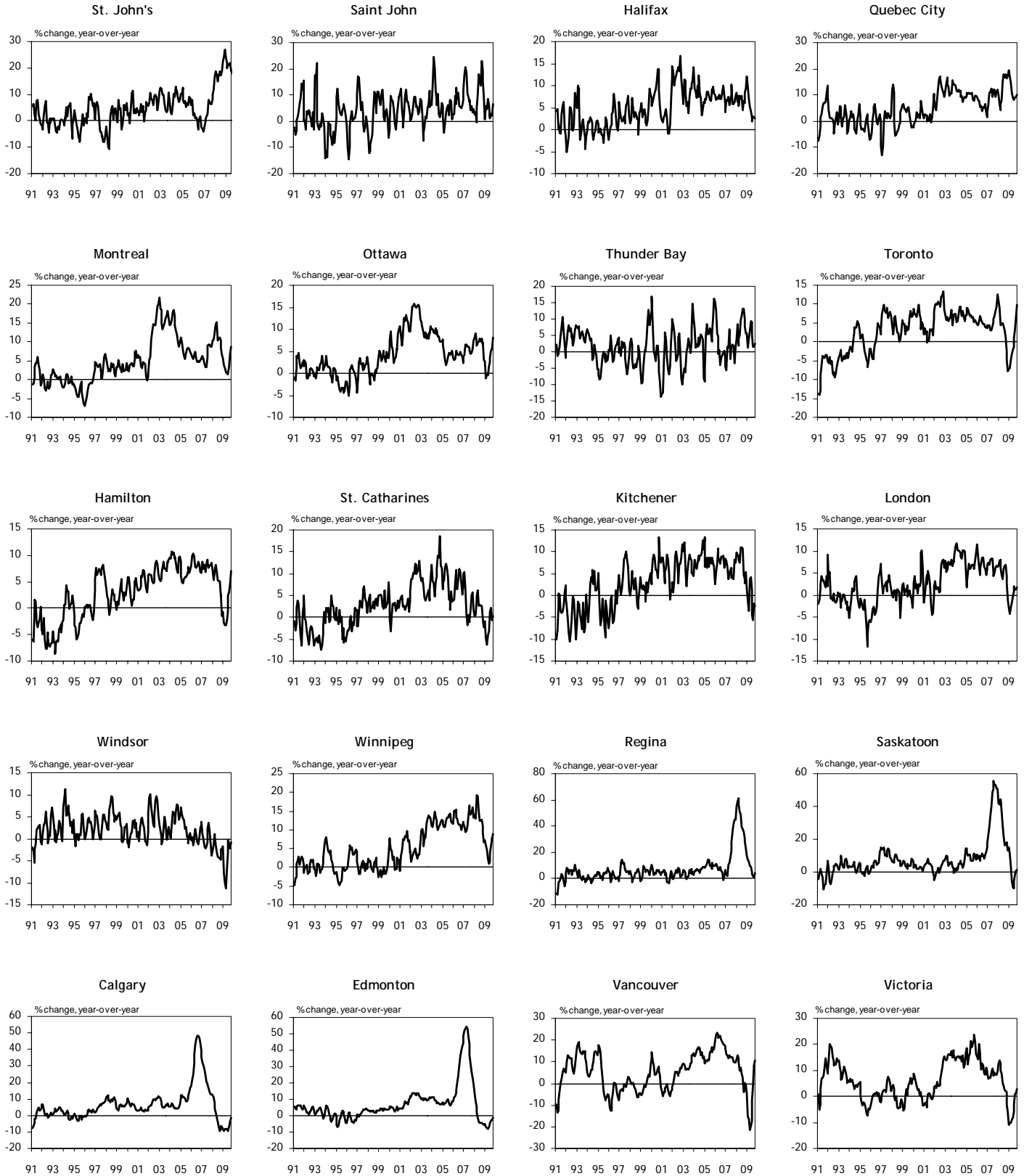


Sales-to-listings ratios are based on a three-month moving average.

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 (\$) Q3 2009	Affordability Measure			
	Q3 2009 (\$)	Y/Y % ch.		Q3 2009 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada*	303,700	-0.6	69,400	40.2	1.0	-5.1	39.0
British Columbia	501,600	-1.1	102,200	60.8	2.2	-7.5	48.6
Alberta	339,200	-7.7	74,600	34.4	0.9	-7.7	36.1
Saskatchewan	294,300	-2.5	68,600	41.2	0.5	-5.1	36.2
Manitoba	225,100	3.6	56,900	34.8	0.4	-3.1	36.8
Ontario	316,200	-0.1	74,300	39.4	1.0	-4.9	40.4
Quebec	200,400	2.9	49,000	33.5	0.8	-3.1	33.1
Atlantic	187,900	2.8	47,800	31.2	0.4	-3.7	32.1
Toronto	440,300	0.9	97,000	48.6	1.9	-5.9	48.5
Montreal	238,700	0.4	56,400	37.5	0.4	-4.5	36.7
Vancouver	610,700	-0.3	122,000	66.8	3.1	-8.1	56.7
Ottawa	322,500	1.2	78,300	39.2	0.5	-4.1	37.0
Calgary	401,900	-9.3	83,900	36.7	1.0	-9.3	39.6
Edmonton	328,300	-6.9	74,000	34.7	0.9	-7.3	33.8

Standard two-storey

Region	Average Price		Qualifying Income (\$) Q3 2009	Affordability Measure			
	Q3 2009 (\$)	Y/Y % ch.		Q3 2009 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada*	344,100	-0.3	79,100	45.8	1.2	-5.8	43.3
British Columbia	557,400	-1.2	113,600	67.6	2.9	-8.5	53.7
Alberta	368,200	-4.9	82,200	37.9	1.3	-7.5	38.5
Saskatchewan	305,500	-0.8	73,200	44.0	1.0	-4.6	37.6
Manitoba	244,900	3.5	61,300	37.5	0.3	-3.4	37.5
Ontario	362,100	-0.3	85,300	45.2	1.0	-5.8	44.0
Quebec	240,100	2.8	59,000	40.4	1.2	-3.7	39.0
Atlantic	210,000	1.3	55,000	35.9	0.4	-4.7	38.7
Toronto	522,600	0.2	115,300	57.8	1.9	-7.5	53.7
Montreal	305,800	0.7	71,300	47.4	0.8	-5.5	41.3
Vancouver	678,900	-1.9	135,500	74.2	4.3	-10.2	61.7
Ottawa	320,800	1.0	81,000	40.5	0.4	-4.4	39.5
Calgary	414,600	-4.7	88,100	38.5	2.0	-8.1	40.0
Edmonton	365,300	-2.6	83,100	38.9	0.9	-6.7	36.8

Standard townhouse

Region	Average Price		Qualifying Income (\$) Q3 2009	Affordability Measure			
	Q3 2009 (\$)	Y/Y % ch.		Q3 2009 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada*	244,200	-0.7	55,900	32.3	0.7	-4.3	30.5
British Columbia	392,700	0.4	79,800	47.4	1.6	-5.3	36.4
Alberta	255,400	-6.3	56,200	25.9	0.9	-5.5	25.0
Saskatchewan	238,200	-3.1	56,000	33.7	0.9	-4.3	27.5
Manitoba	148,800	5.5	37,600	23.0	0.2	-1.8	22.8
Ontario	259,200	-2.0	60,800	32.2	0.6	-4.6	31.4
Quebec	167,800	3.4	41,400	28.3	0.7	-2.5	28.1
Atlantic	162,900	2.9	40,800	26.7	0.4	-3.1	29.0
Toronto	374,200	-2.4	81,700	41.0	1.2	-6.2	37.7
Montreal	216,200	3.9	50,600	33.6	0.9	-3.1	31.6
Vancouver	464,400	-0.9	92,700	50.8	2.4	-6.5	41.6
Ottawa	245,000	1.2	61,700	30.9	0.4	-3.1	28.0
Calgary	318,700	-5.1	66,500	29.0	1.4	-6.2	28.5
Edmonton	229,000	-6.0	52,100	24.4	0.6	-5.0	22.8

Standard condominium

Region	Average Price		Qualifying Income (\$) Q3 2009	Affordability Measure			
	Q3 2009 (\$)	Y/Y % ch.		Q3 2009 (%)	Q/Q Ppt. ch.	Y/Y Ppt. ch.	Avg. since '85 (%)
Canada*	205,700	-1.0	47,600	27.6	0.5	-3.6	26.9
British Columbia	275,600	-0.3	57,100	34.0	1.2	-3.9	28.0
Alberta	219,300	-7.9	48,700	22.4	0.5	-5.2	22.1
Saskatchewan	186,200	-8.7	44,600	26.8	0.8	-4.7	24.1
Manitoba	130,100	4.8	33,400	20.5	0.3	-1.6	20.9
Ontario	217,200	-0.9	51,800	27.4	0.5	-3.6	27.9
Quebec	170,300	1.2	40,700	27.8	0.1	-3.0	27.0
Atlantic	149,800	4.8	37,700	24.6	0.3	-2.5	24.7
Toronto	292,700	-1.5	65,400	32.8	1.0	-4.7	31.2
Montreal	204,500	3.9	47,100	31.3	0.9	-2.8	29.0
Vancouver	351,500	0.4	70,600	38.7	1.7	-4.4	31.4
Ottawa	209,000	1.3	51,600	25.8	0.3	-2.8	23.6
Calgary	249,500	-7.3	52,700	23.0	0.3	-5.5	22.8
Edmonton	206,000	-6.8	46,800	21.9	0.5	-4.7	18.1

* 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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