

ALBERTA IS THE SECOND MOST EXPENSIVE PROVINCE FOR HOUSING, SAYS RBC ECONOMICS

Toronto, September 12, 2007 — Alberta's housing affordability experienced a significant deterioration in the second quarter of 2007, according to a new report released today by RBC Economics.

“Alberta's house prices have been growing at a pace well above incomes, and in a short time, this has created stressed affordability conditions,” said Derek Holt, assistant chief economist, RBC. “While affordability levels still remain comfortably below conditions in British Columbia, the continued deterioration is flashing warning signs.”

According to RBC, rising mortgage rates, hefty house price gains, higher utility costs and a modest increase in property taxes have collectively contributed to the deep erosion in affordability conditions experienced by the province this quarter. This pushed Alberta next to British Columbia as the least affordable province for two-storey and detached homes.

The RBC Affordability report captures the proportion of pre-tax household income needed to service the costs of owning a home. For the most recent quarter, a detached bungalow required 42 per cent of income, 28 per cent for a standard condo, and a standard townhouse is at 32 per cent. A standard two-storey home continues to remain the least affordable with a 45 per cent rating.

RBC anticipates a significant slowdown in the pace of resale activity, new home construction and price gains in the coming year. Many properties have likely overshot their true value and will return to a pace of growth closer in line to fundamentals.

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The affordability of houses in Calgary and Edmonton also eroded significantly as price gains continued to outstrip income gains. Affordability levels in Calgary are now comparable to those reached in the late 1980s at the peak of the housing bubble, which has sparked some concern about price sustainability. In Edmonton, where current affordability levels sit at record highs, detached bungalows, two-storey homes and townhomes bore the brunt of the affordability squeeze while the slide in condo affordability was relatively modest.

Holt noted that the arrival of extended amortization mortgages has changed the dynamics of the housing market. The new found ability to extend amortization up to forty year mortgages temporarily offsets affordability pressures by rolling the clock backwards on affordability conditions.

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.

Also included in the report are housing affordability conditions for a broader sampling of smaller cities across the country. For these smaller cities, RBC has used a narrower measure of housing affordability that only takes mortgage payments relative to incomes into account.

RBC's Affordability measure for a detached bungalow in Canada's largest cities is as follows: Vancouver 71 per cent, Toronto 45 per cent, Calgary 45 per cent, Montreal 36 per cent and Ottawa 31 per cent.

Highlights from across Canada:

- **British Columbia:** Housing affordability eroded further across the province as rising mortgage rates and house prices squeezed out prospective home-buyers. The relief seen in the two-storey home segment earlier this year was reversed this quarter with all four home segments witnessing deteriorations in affordability.
- **Saskatchewan:** The Saskatchewan housing market suffered its worst ever quarterly deterioration of affordability on record. At the start of the year, the influx of people caught the housing supply off guard, forcing affordability to deteriorate. This momentum continued into the second quarter as the pace of annual price gains soared into the double digit range.
- **Manitoba:** With house price gains picking up pace and mortgage rates continuing to rise, the province's housing affordability has deteriorated for a second straight quarter. Manitoba saw the greatest quarterly decline in affordability in more than a year.
- **Ontario:** After modest improvements earlier in the year, Ontario's housing affordability deteriorated sharply in the second quarter. A combination of higher house prices, rising mortgage rates and increasing utility costs have forced a substantial deterioration in affordability across all housing classes.
- **Quebec:** Despite only modest increases in house prices this past quarter, climbing mortgage rates, utilities and taxes drove an erosion in Quebec's housing affordability. However, the province's decent economic fundamentals still support housing markets, with job growth at a healthy two per cent rate this year and incomes keeping pace with gains in house prices.
- **Atlantic region:** An environment of rising mortgage rates and strong price gains created pricier second quarter housing conditions in Atlantic Canada. While each of the housing segments witnessed a significant affordability deterioration, it was the two-storey and condo segments that saw the sharpest erosion.

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.

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