

AFFORDABILITY DETERIORATES ACROSS ALL HOUSING SEGMENTS IN ATLANTIC CANADA: RBC

TORONTO, September 12, 2007 — An environment of rising mortgage rates, strong price gains, and higher utilities created pricier second quarter housing conditions in Atlantic Canada, according to the latest Housing Affordability report released today by RBC Economics.

“While all the housing segments witnessed a significant affordability deterioration, it was the two-storey and condo segments that saw the sharpest erosion,” said Derek Holt, assistant chief economist, RBC.

The RBC Housing Affordability report for the Atlantic provinces, which measures the proportion of pre-tax household income needed for maintaining the costs of owning a home, saw a deterioration in all four housing segments with the standard two-storey home standing at 37 per cent, the detached bungalow at 30 per cent, the standard townhouse at 26 per cent, and the standard condo at 26 per cent.

According to the report, there continues to be substantial variance in housing market conditions across the region. Markets in Halifax and Saint John remain tight and supportive of strong house price gains while there appears to be some room in St. John’s.

The hit to affordability conditions has created a challenging environment for Atlantic Canada. The arrival of extended amortization mortgages, has changed the near-term dynamics of the region’s housing markets. For example, a two-storey home with a 25-year mortgage currently accounts for roughly 37 per cent of the median pre-tax household income in the region. By contrast, the same home with a 40-year mortgage uses roughly 33 per cent.

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 select cities across the country, including St. John's, Saint John, and Halifax. For these select cities, RBC has used a narrower measure of housing affordability that only takes mortgage payments relative to income into account.

RBC's Affordability measure for a detached bungalow for Canada's largest cities is as follows: Vancouver 71 per cent, Calgary 45 per cent, Toronto 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.
- **Alberta:** Housing affordability deteriorated significantly in the second quarter of 2007. Alberta's house prices have been growing at a pace well above incomes and in a short time have created stressed affordability conditions.
- **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.

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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