

RBC SAYS MANITOBA'S HOUSING AFFORDABILITY WEAKENS AS HOUSING MARKET HEATS UP

TORONTO, September 12, 2007 — Manitoba's housing affordability weakened for a second straight quarter across all housing segments but the province still remains the most affordable in the country, according to the latest Housing Affordability report released today by RBC Economics.

"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," said Derek Holt, assistant chief economist, RBC. "Keeping up with the nationwide theme in the second quarter, Manitoba saw the worst quarterly affordability deterioration in more than a year."

The RBC Affordability report for Manitoba, which measures the proportion of pre-tax household income needed to service the costs of owning a home, deteriorated slightly for all housing types. The detached bungalow deteriorated slightly to 34 per cent, a standard two-storey home to 34.5 per cent, a standard townhouse to 20 per cent and a standard condo to 18 per cent.

Compared with B.C., Alberta and Saskatchewan, the report noted that Manitoba's housing market has managed to avoid severe affordability stresses. Supply and demand conditions remained healthy and do not point to an overly tight market for the next few quarters. Household incomes also continued to grow steadily. 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 back to late 2005 and early 2006 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.

The report also looked at mortgage carrying costs relative to incomes for a broader sampling of cities across the country, including Winnipeg, where affordability conditions deteriorated. For these smaller 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.
- **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.

For more information, please contact:

Derek Holt, RBC Economics, 416-974-6192

Jackie Braden, RBC Media Relations, 416-974-2124