

ONTARIO'S HOUSING AFFORDABILITY DRAMATICALLY DETERIORATES, SAYS RBC

Affordability in Toronto sharpest quarterly deterioration since 1994

TORONTO, September 12, 2007 — After some improvements earlier in the year, Ontario's housing affordability deteriorated sharply in the latest quarter, according to a new housing report issued today by RBC Economics.

"A combination of higher house prices, rising mortgage rates and increasing utility costs have forced affordability to deteriorate dramatically across all housing segments," said Derek Holt, assistant chief economist, RBC. "Despite the sudden drop, if we take a historical look back at the affordability numbers for Ontario, the cost to own a home still remains comfortably below levels witnessed in the late 1980s."

RBC's Housing Affordability report, which measures the proportion of pre-tax household income needed to service the costs of owning a home, increased across the board in Ontario to 37 per cent for the benchmark detached bungalow, 43 per cent for the standard two storey home, 30 per cent for the standard townhouse and 28 per cent for the standard condo.

According to the report, the housing cycle has been altered by the impact of extended amortization products. For example, mortgage payments for an average condo run at roughly \$1,058 per month (under standard assumptions). Extending the mortgage five years shaves off roughly \$70 from the monthly payment; an additional five-year extension shaves a further \$45 off; and extending the mortgage a full 15 years to a 40-year term, leads to a further \$30 drop in monthly payments.

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Affordability for all four housing segments eroded dramatically in the second quarter in Toronto, the sharpest deterioration since 1994. Similar to the rest of the province, sizeable gains in house prices, higher mortgage rates and higher utilities contributed to the decline. The report noted that while hot pockets in the Toronto core are driving double-digit price growth and bidding wars, the broader Toronto area continues to see healthy and fairly balanced housing market conditions.

“A more significant challenge and bigger risk to Toronto’s affordability is the combination of potentially higher property taxes and a jump in property value assessment levels, as the current freeze on assessments will be lifted in 2008,” said Holt.

Following three quarters of fairly stable conditions, Ottawa’s housing market also felt the nationwide hit, as affordability dropped across all housing segments there. According to the report, it was the sharpest decline for the region in three years. On a more positive note, while the pace of price growth has picked up modestly in 2007, price gains continue to run in line with household income gains. Slightly tighter demand will help support healthy price gains through the remainder of 2007.

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 smaller cities across the province, including London, Kitchener, Windsor, St. Catharines, Brantford and North Bay. Many of Ontario's smaller cities witnessed a broadly-based affordability deterioration. 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.
- **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.
- **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.

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- **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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