

QUEBEC'S HOUSING AFFORDABILITY FURTHER ERODES, SAYS RBC ECONOMICS

Gradual softening continues

MONTREAL, September 12, 2007 — Quebec's housing affordability deteriorated across all segments in the most recent quarter despite modest price gains, according to the latest Housing Affordability report released today by RBC Economics.

"While there was only a modest increase in house prices this past quarter, climbing mortgage rates, utilities and taxes eroded Quebec's housing affordability," said Derek Holt, assistant chief economist, RBC. "However, the province's decent economic fundamentals still support housing markets with job growth running at a healthy two per cent rate this year and incomes keeping pace with gains in house prices."

According to the RBC report, Quebec's housing market has softened gradually over the past two years. The orderly slowdown has seen the annual pace of house price gains stabilize between four and five per cent. The sales-to-listings ratio has averaged just under 0.6 per cent so far this year, pointing to a market that is roughly balancing its supply and demand conditions. 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 RBC Housing Affordability report, which measures the proportion of pre-tax household income needed to service the costs of owning a detached bungalow, was about 36 per cent of income. The amount of median pre-tax income required to purchase a condo in Quebec was about 29 per cent. For a standard townhouse, the measure stood at 31.5 per cent and for a two-storey home at 44 per cent.

In Montreal, housing affordability deteriorated across every housing segment, due to higher house prices, mortgage rates, utilities and property taxes. However, among the big cities across the country, price gains in Montreal's housing market are among the weakest at about three to four per cent for the past two years.

“Despite weak spots in the local economy, Montreal incomes are growing at a solid pace, thanks to a solid job market,” added Holt.

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 measure, 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 Quebec City and 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 income 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.
- **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.
- **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

Raymond Chouinard, RBC Media Relations, 514-874-6556

Jimmy Jean sera disponible pour des commentaires en français.