



# NEWS

## ATLANTIC CANADA'S HOUSING AFFORDABILITY TO IMPROVE, SAYS RBC ECONOMICS

**TORONTO, March 14, 2008** — Although housing affordability continued to deteriorate in the last quarter of 2007 and currently sits at its worst point in over a decade, Atlantic Canada should see some modest improvements across all home segments in 2008, according to the latest housing report by RBC Economics.

“Housing markets across the region are cruising along at a healthy speed and are generally well balanced,” said Derek Holt, assistant chief economist at RBC. “The improvements to affordability in 2008 should stem from the combination of decent income growth, moderate house price gains and anticipated mortgage rate relief.”

The RBC Housing Affordability measure for Atlantic Canada, which captures the proportion of pre-tax household income needed to service the costs of owning a home, mildly deteriorated across all four classes last quarter as the benchmark detached bungalow moved to 32 per cent, the standard townhouse to 27 per cent, the standard condo to 27 per cent and the standard two-storey home to 38 per cent.

According to the report, house price growth should stabilize around five per cent while new home construction is expected to taper off. Softer markets are likely to tilt in favour of buyers over sellers. At the end of 2007, Newfoundland's and Labrador's housing market heated up as a result of tight supply and rising prices in St. John's, resulting in affordability erosion across the region. However, the province is expected to join the rest of the Atlantic region in an overall cooling trend in 2008.

The report also presents a comparison of Canadian and U.S. household finances, and shows that Americans are still modestly richer, but much more heavily leveraged and further in debt with less liquidity. That, in turn, makes them more vulnerable to ongoing credit market turmoil and risks towards house prices than Canadians. In fact, the sharp depreciation in the U.S. dollar over the past six years has made Canadians relatively richer over time, by raising the value of what their wealth will buy in world markets compared to that of their American counterparts.

Also included in the report are housing affordability conditions for a broader sampling of cities, including St. John's, Saint John, and Halifax. For 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 74 per cent, Toronto 47 per cent, Calgary 42 per cent, Montreal 37 per cent and Ottawa 32 per cent.

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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 measure 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.

Highlights from across Canada:

- **British Columbia:** Although affordability conditions deteriorated to their worst level on record at the end of 2007, the province is poised for some affordability relief in 2008 as a result of cooler price gains and lower interest rates.
- **Alberta:** At the end of 2007, the province witnessed broad-based affordability improvements across all housing segments for the first time in over three years. Rapidly cooling prices put the province on watch, but should result in improved affordability for 2008.
- **Saskatchewan:** Saskatchewan has become the new Alberta. Constraints in the existing home market have pushed into overflowing demand in the new home market. As the national leader for growth in housing starts, house prices, residential building permits, and resale activity, the province saw substantial erosion in affordability in 2007. In 2008, affordability conditions should gradually stabilize.
- **Manitoba:** Housing markets across the province continue to heat up. Resale markets continue to drive strong price gains, but as household income continues to grow at the third-fastest rate in the country, affordability conditions remain steady.
- **Ontario:** Even though housing affordability deteriorated across all housing segments, the pace has slowed. The province should see improvements in 2008 from a cooling economy, lower mortgage rates, and softer price gains.
- **Quebec:** A generally balanced market has helped keep housing affordability in check. In 2008, a slower pace of house price gains and softer income growth should contribute to improved affordability conditions.

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](http://www.rbc.com/economics/market/pdf/house.pdf).

**For more information, please contact:**

Derek Holt, RBC Economics, 416-974-6192

Amy Goldbloom, RBC Economics, 416-974-0579

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