



SLOWING ECONOMY SHOULD IMPROVE ONTARIO'S HOUSING AFFORDABILITY, SAYS RBC ECONOMICS

TORONTO, March 14, 2008 — While Ontario's housing affordability deteriorated across all segments last quarter, the pace of deterioration has slowed, according to a new housing report issued today by RBC Economics.

"The province may well be teetering on the brink of recession and by a number of measures is nowhere near as resilient as first thought," said Derek Holt, assistant chief economist, RBC. "The impact of a weaker economy, slower job growth and lower income gains should restrain housing activity in 2008. Ontario should start to see housing affordability improve through lower mortgage rates and softer price gains."

RBC's Housing Affordability measure for Ontario, which captures the proportion of pre-tax household income needed to service the costs of owning a home, deteriorated across all four classes last quarter as the benchmark detached bungalow moved to 39 per cent, the standard townhouse to 32 per cent, the standard condo to 29 per cent and the standard two-storey home to 44 per cent respectively.

By the end of 2007, the annual pace of income growth for Ontario was the slowest among the provinces, which was one of the factors that led to the deterioration in affordability. Housing starts are expected to remain elevated but will decline from 2007 levels.

Affordability across Toronto deteriorated slightly for detached bungalows and townhouses but stabilized for condos and two-storey homes last quarter. Looking at the city's housing market, its downtown core remains tight, pushing prices higher and eroding affordability. Outside the core, several regions will see moderate house price growth for 2008. Toronto's condo market continues to be resilient with prices increasing at a 10 per cent year-over-year pace. However, with a larger supply of condos coming to market over the next two years, price growth should start to level off.

"As new home and resale markets cool and mortgage rates continue to drop, we should expect affordability for Toronto to improve in 2008," said Holt.

Elsewhere in the province, healthy fundamentals continue to stimulate Ottawa's housing market with only a mild deterioration last quarter. Reflecting the seller's market in Ottawa, the sales-to-new listings ratio is currently around 0.7 and price gains are holding steady, around five per cent year-over-year. New home construction levels remain elevated and demand for multi-unit buildings will drive housing starts in 2008. Affordability is expected to improve in 2008 as a result of relief from lower mortgage rates and slower demand for housing.

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.

The report also looked at mortgage carrying costs relative to incomes for a broader sampling of cities across the province, including London, Kitchener, Windsor, St. Catharines, Brantford and North Bay. 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 74 per cent, Toronto 47 per cent, Calgary 42 per cent, Montreal 37 per cent and Ottawa 32 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 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.
- **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.
- **Atlantic region:** Affordability continued to erode in the final quarter of 2007. A combination of income growth, moderate house price gains and anticipated mortgage rate relief across all home segments should improve affordability in 2008.

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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