NEWS

QUEBEC'S HOUSING MARKET REMAINS WELL BALANCED, SAYS RBC

MONTREAL, March 14, 2008 — The nationwide deterioration in housing affordability has not hit Quebec with the same intensity as the rest of the country. Heading into 2008, affordability in the province is expected to improve, according to the latest housing report released today by RBC Economics.

"The erosion in housing affordability seen across the country was felt in a more muted way in Quebec," said Derek Holt, assistant chief economist, RBC. "The province's generally balanced market has helped keep affordability conditions relatively in check."

The RBC Housing Affordability measure which captures the proportion of pre-tax household income needed to service the costs of owning a detached bungalow was about 37.7 per cent of income in Quebec. For a standard townhouse, the measure stood at 33.2 per cent, and for a two-storey home at 46.1 per cent. The amount of pre-tax income required to purchase a condo in Quebec was 30.6 per cent.

According to the report, Quebec's house prices continue to modestly outpace income gains. However, the gap between these two measures is expected to narrow in 2008, as price growth stabilizes around the five per cent range. New home construction is expected to slow modestly with 46,000 units in 2008, and more significantly in 2009 with only 40,000 units being built as housing markets shift into lower gear.

In contrast to market conditions across the country, Montreal's housing affordability remained somewhat steady. House price growth continues to rise at an annual five per cent rate across all housing segments. However, the combination of softening household income growth and rising mortgage rates, has led to a mild erosion in affordability. Fewer price pressures and lower mortgage rates should cause overall affordability to improve 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.

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Also included in the report are housing affordability conditions for Quebec City and a broader sampling of 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 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 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.

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.
- **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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