NEWS

ONTARIO'S HOUSING MARKET SUCCUMBS TO ECONOMIC BLUES, SAYS RBC

TORONTO, December 8, 2008 — Having peaked in the first half of 2008, housing markets in Ontario weakened in the third quarter and will continue to deteriorate until the economy stabilizes, according to the latest housing report released today by RBC Economics.

"The province's housing markets are facing a correction but it is unlikely to be as devastating as the early 1990s downturn," said Robert Hogue, senior economist at RBC. "The erosion in affordability over the past few years has been comparatively much more restrained and current affordability conditions are not as far off long-run averages as they were at the onset of the 1990s meltdown."

The RBC Housing Affordability measure for Ontario, which captures the proportion of pre-tax household income needed to service the costs of owning a home, mildly improved across all four classes last quarter as the benchmark detached bungalow moved to 44.1 per cent, the standard townhouse to 36.5 per cent, the standard condo to 30.9 per cent and the standard two-storey home to 50.7 per cent.

The report noted that a number of worrying developments have emerged in the past few months across Ontario's housing markets where several areas, including Toronto, have reported notable price declines and plummeting re-sale activity. It has become evident that the sector is no longer able to resist the downdraft from a quickly souring provincial economy. However, on a more positive note, the province's markets are entering this cyclical downturn with far less threatening imbalances compared to those that built in the late 1980s.

"For Toronto, market sentiment turned on a dime this fall," noted Hogue. "Until the end of the summer, the feeling was that local housing markets were successfully negotiating landing to a slower, more sustainable pace of activity as home resales had been gradually trending lower since peaking in mid 2007. However, reports of notable declines in home prices and activity in many communities across the region suddenly raised eyebrows and heightened concerns. The Toronto market has undoubtedly entered a phase of consolidation. Earlier tightness has eased for the most part and buyers now hold more sway. "The region's economy is facing serious headwinds and affordability, though it has improved modestly in the past few quarters, remains an obstacle to would-be buyers," Hogue noted.

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Housing market activity in the Ottawa region is holding its own so far this year. Sales of existing homes are declining at a controlled pace, easing by just five per cent in the first 10 months of the year, while remaining well above 2006 levels. Market conditions are reasonably balanced though sellers had a slight upper hand until very recently, keeping prices on a gentle upward track. Going forward into 2009, high homeownership costs will likely weigh on market performance as the economy struggles.

RBC's Affordability measure for a detached bungalow for Canada's largest cities is as follows: Vancouver 74.8 per cent, Toronto 53.3 per cent, Calgary 47.3 per cent, Ottawa 43.3 per cent and Montreal 40.4 per cent.

The report also looked at mortgage carrying costs relative to incomes for a broader sampling of cities across the country, including London, Kitchener, Windsor, St. Catharines and Thunder Bay. For these cities, RBC has used a narrower measure of housing affordability that only takes mortgage payments relative to income into account.

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.

Highlights from across Canada:

- **British Columbia**: In the last two quarters, affordability conditions have started to improve. The province's housing markets are entering a correction phase that will see prices decline, reversing recent gains.
- **Alberta**: Housing conditions have softened since prices peaked back in 2007. In the third quarter of 2008, further price declines in most housing segments contributed to improved affordability.
- **Saskatchewan**: After reaching its lowest level of affordability ever, the province's housing sector is feeling the downside effects of a frenzied market. Skyrocketing prices significantly overstepped household incomes, which is anticipated to push the housing sector into a correction phase in 2009.

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- **Manitoba**: Well-positioned to weather the storm, the province's housing market is nonetheless expected to cool in 2009 amid mounting economic uncertainty.
- **Quebec**: Affordability conditions improved in the third quarter but economic storm clouds are darkening the housing market outlook. Relatively strong fundamentals should help limit damages during the downturn.
- **Atlantic region**: Rapid price increases over the past two years have eroded affordability conditions in the region. St. John's, Saint John and Halifax are currently among Canada's housing hotspots.

The full RBC Housing Affordability report is available online, as of 8 a.m. E.S.T. today at www.rbc.com/economics/market/pdf/house.pdf.

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