NEWS

RBC SAYS ALBERTA HOUSING MARKET NOT OUT OF THE WOODS YET

TORONTO, April 16, 2009 — The downward force on Alberta's housing markets has intensified alongside the declining provincial economy since the fall though it has contributed to further restore affordability in the final quarter of 2008, according to the latest housing report released today by RBC Economics.

"Alberta's affordability conditions have been improving since mid-2007 and continued to do so in the fourth quarter of 2008, as affordability measures improved 2.3 to 3.6 percentage points," said Robert Hogue, senior economist, RBC. "Poor economic conditions have taken over as the key market driver, surpassing poor affordability which had been largely behind the initial stages of the downturn."

The RBC Affordability measure for Alberta, which captures the proportion of pretax household income needed to service the costs of owning a home, improved across all home segments. Affordability of detached bungalows in the province dropped to 39.3 per cent, the standard townhouse to 29.8 per cent, the standard condo to 25.9 per cent, and the standard two-storey home to 44 per cent.

With confidence shaken, consumers are in full retreat. The report noted that home resale activity dropped to a 12-year low at the end of 2008, rebounding modestly in early 2009. In sharp contrast to the very tight conditions that have prevailed for years, there are now plenty of properties available on the market, causing sellers to further ratchet down prices. Despite this shift, affordability in the province has yet to return to historical averages and will remain an issue in the short-term.

The sudden and precipitous drop in oil and gas prices and ensuing economic slump have thrown more cold water on Alberta's top two housing markets – Calgary and Edmonton. With the cancellation of major capital projects in the energy sector and rising unemployment upsetting consumer sentiment, housing market activity in both cities contracted sharply in the second half of 2008. Sales of existing homes tumbled after the summer which caused price declines to accelerate. Prices in Calgary dropped between 12 and 14 per cent from their peak and in Edmonton, between eight and 20 per cent.

"With low sales-to-new listings ratios giving the upper hand to buyers, further price erosion is likely to take place in 2009. However, on a brighter note, the market correction is helping to restore some degree of affordability in both cities," noted Hogue.

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RBC's Affordability measure for a detached bungalow for Canada's largest cities is as follows: Vancouver 70.3 per cent, Toronto 51.3 per cent, Calgary 42.7 per cent, Ottawa 42.7 per cent and Montreal 39.4 per cent.

The report also looked at mortgage carrying costs relative to incomes for 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.

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 condominium. 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**: Housing markets remain under heavy downward pressure, and prices and sales continue to slide. In the past year, there has been a notable improvement in affordability, though the recovery process has far to go.
- **Saskatchewan**: Market activity has cooled considerably from the frenzied pace from 2006 to early 2008 and prices have begun to decline. Nonetheless, economic and demographic fundamentals are still largely supportive of the housing market and overshadow extremely poor affordability levels.
- **Manitoba**: Manitoba's housing markets have fared much better than the vast majority in Canada: resale activity has slowed moderately and prices have either held their own or edged down just slightly. Affordability has been kept out of the danger zone, helping to minimize any downside risks.
- **Ontario**: With the recession pounding many communities, housing market conditions have deteriorated considerably. However, the impact is unlikely to develop into an all-out rout similar to that of the early 1990s. Affordability, while still causing some stress, is quickly being restored to levels closer to long-term averages.
- **Quebec**: The province's housing markets have been among the last in Canada to yield to the weakening trend. The main sign of cooling thus far has been a drop in resale activity, as prices have held up reasonably well. Some of the persisting market strength can be ascribed to sensible affordability levels, which had eroded only modestly in recent years.

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- **Atlantic region**: Markets have largely remained stable against the general housing downturn, with St. John's becoming the housing hot spot in Canada and Halifax and Saint John maintaining steady upward price momentum. The region is benefiting from improving affordability following two years of deterioration.

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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For more information, please contact:
Robert Hogue, RBC Economics Research, 416-974-6192
Jackie Braden, RBC Media Relations, 416-974-2124