RBC

NEWS

RBC SAYS RECESSION TAKING ITS TOLL ON ONTARIO'S HOUSING MARKET

TORONTO, April 16, 2009 — With the recession pounding many communities, Ontario's housing market conditions have deteriorated considerably since last year and are unlikely to rebound much in the near term, according to the latest housing report released today by RBC Economics.

"The recession will continue to be the dominant factor weighing on the province's housing markets in the coming months," said Robert Hogue, senior economist at RBC. "However, the impact is unlikely to develop into a rout similar to that of the early 1990s as housing affordability is quickly being restored to levels closer to long-term averages thanks in large part to lower mortgage rates."

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, improved across all four classes last quarter. Affordability of the benchmark detached bungalow in Ontario moved to 42.6 per cent, the standard townhouse to 34.8 per cent, the standard condo to 29.8 per cent and the standard two-storey home to 48.9 per cent.

In the province, areas particularly exposed to the woes of the manufacturing sector such as Windsor, St. Catharines and Kitchener have ranked high on the recessionary injured list with plummeting resale activity and dwindling prices. The report noted that even Toronto's housing market has entered a corrective phase. With low mortgage rates and prices slipping further, affordability should improve through 2009.

For Toronto, resale activity fell sharply and market sentiment soured in the face of worsening economic conditions in the last quarter of 2008. However, the relatively moderate pace of the price correction should alleviate fears that Toronto's housing market is on the brink of collapse. Housing prices have only retreated between two and six per cent from their peak (depending on the housing segment), which is just a portion of the cumulative 31 to 47 per cent rise seen in the past five years. While the lack of affordability remains an issue, some improvement has occurred in the past year.

"As Toronto's economy continues to struggle with the recession, in the coming months housing market conditions will likely deteriorate even further and prices will drift downwards," noted Hogue.

…/2

In recent years, Ottawa has been one of the most robust housing markets in the province. Minimal exposure to troubled manufacturing industries and strong dependence on the public sector have provided some protection against the economic downturn. However, there are signs that the city is no longer immune. Sales of existing homes dropped off notably in the final quarter of 2008, rebounding only slightly in the beginning of 2009. Feeling the cooling effects, prices are losing their upward momentum but may continue to stay above water in the very near term thanks to reasonably balanced market conditions currently. However, the weight of the recession and high homeownership costs will make it nearly impossible to maintain by year-end, noted Hogue.

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, 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 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

…/3

notable improvement in affordability, though the recovery process has far to go.

- **Alberta**: Since last fall, the declining Alberta economy has intensified the downdraft on the province's housing markets, causing home resales to drop to a 12-year low at the end of 2008 and rebound only modestly since. Affordability has been on an improving track since about the middle of 2007.
- **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.
- **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.
- **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.

- 30 -

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