NEWS

RBC SAYS QUEBEC HOUSING MARKET AMONG THE LAST TO YIELD TO THE DOWNTURN

TORONTO, April 16, 2009 — Quebec's housing markets have so far put up surprisingly strong resistance to the general downturn felt across the country, though the weight of the recession will become increasingly difficult to overcome in the coming months, according to the latest housing report released today by RBC Economics.

"Quebec markets have been among the last to yield to the weakening trend largely because the provincial housing market experienced only modest gains over the past few years," said Robert Hogue, senior economist at RBC.

The RBC Housing Affordability measure for Quebec, which captures the proportion of pre-tax household income needed to service the costs of owning a home, improved across all four housing classes in the last quarter of 2008. Affordability of the benchmark detached bungalow moved to 34.6 per cent, the standard townhouse to 29.5 per cent, the standard condo to 28.8 per cent and the standard two-storey home to 41.7 per cent.

The main sign of cooling in Quebec's housing market to date has been a drop in resale activity from near record levels from just a few months ago. Housing prices continued to hold up reasonably well overall, despite tracking slightly lower in recent months. Lower mortgage rates, higher family incomes and flat or slightly declining home prices have combined to help reverse the modest erosion in the province's affordability conditions that began back at the beginning of 2008. "At the current pace of improvement, RBC's affordability measures for the province will be back to historical averages by about mid-year, which should mitigate some of the effects of the recession," noted Hogue.

Since the end of last summer, activity in Montreal's housing market has shifted down several gears. Even with this downshift, prices have been fairly resilient but are expected to weaken in 2009. Lower mortgage rates and rising family incomes helped improve affordability in the final quarter of 2008, but still have further to go before returning to long-run averages, especially in the two-storey home segment. However the city's housing market buoyancy will be seriously tested in the coming months as the recession causes further job losses and undermines consumer confidence.

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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, including Montreal and Quebec City. 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**: 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.
- **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.

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- **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.
- **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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