



NEWS

BOOMING HOUSING MARKET UNDERMINES AFFORDABILITY IN QUEBEC: RBC ECONOMICS

TORONTO, March 15, 2010 — The strong rally in Quebec's resale housing market has resulted in higher prices and homeownership costs during the fourth quarter of 2009, according to the latest housing report released today by RBC Economics.

"Quebec's housing market has rebounded impressively from the downturn, with prices recovering to pre-recession levels," noted Robert Hogue, senior economist at RBC. "This has caused affordability measures in Quebec to deteriorate to levels exceeding long-term averages."

The RBC Housing Affordability measure for Quebec rose across all four housing classes in the fourth quarter of 2009 (the higher the measure, the more expensive it is to afford a home). Affordability of the detached bungalow benchmark edged up to 34.5 per cent (up 0.8 percentage points), the standard townhouse rose to 29 per cent (up 0.2 percentage points), the standard condo increased to 28.4 per cent (up 0.4 percentage points) and the standard two-storey home elevated to 41.4 per cent (up 1.1 percentage points).

In the Montreal area, buyers are enthusiastically jumping into the market, as existing home sales have persistently set records since fall of last year. Housing prices have hit new highs with two-storey homes and bungalows showing particularly strong gains in the fourth quarter. RBC affordability measures for the area rose 1.0 and 0.9 percentage points for two-storey homes and bungalows, respectively, in the quarter. The measures for condominiums and townhouses dipped slightly by 0.2 and 0.1 per cent.

RBC's Housing Affordability measure for a detached bungalow for Canada's largest cities is as follows: Vancouver 69 per cent (up 1.4 percentage points), Toronto 49.1 per cent (up 0.1 percentage point), Ottawa 40.4 per cent (down 0.3 percentage points), Montreal 39.1 per cent (up 0.9 percentage points), Calgary 37.1 per cent (up 0.1 percentage point) and Edmonton 32.9 per cent (down 0.4 percentage points).

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 used a narrower measure of housing affordability that only takes mortgage payments relative to income into account.

The RBC Housing Affordability measure, which has been 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:** Homeownership costs are rising in B.C. as very strong demand and a limited supply of homes for sale combine to propel prices substantially higher. All home affordability measures are above long-term averages in the province, a trend that is likely to continue in the near term.
- **Alberta:** The lagging economic recovery in Alberta, compared to other provinces, has stabilized housing affordability rates. Excessive supply left over from last year's downturn and housing slump has limited increases in housing prices. Attractive affordability levels and additional economic recovery should boost housing demand over the next year.
- **Saskatchewan:** Increased supply and lessened demand has put a damper on the housing market in the province, as the real estate market cooled from the heightened resale activity in the spring and summer. While home affordability improved in the province, the cost of owning a home still remains historically high.
- **Manitoba:** Manitoba's real estate market picked up considerably over the last quarter of 2009. Prices for condominiums and two-storey homes rose significantly, causing affordability levels to deteriorate in the province. Despite these increases, affordability levels are in line with long-term averages as Manitobans still see the costs associated with owning a home as manageable.
- **Ontario:** The housing market in Ontario has staged a remarkable recovery in the past year. Resale activity has recently reached record levels as prices have rebounded to new heights in most housing categories. Yet this has caused only limited damage to housing affordability in the province as lower mortgage rates and growth in household income kept affordability levels close to long-term averages.

- 3 -

- **Atlantic Canada:** Unlike many other parts of the country, housing affordability on the East Coast generally continued to improve in the fourth quarter. With most measures below long-term averages, activity in the housing resale market should remain elevated.

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 -

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