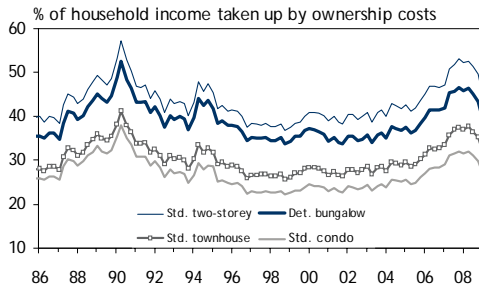


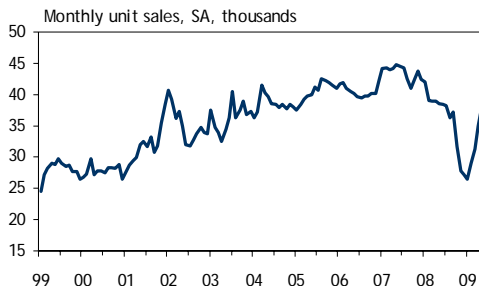
## Market overview

Affordability - Canada



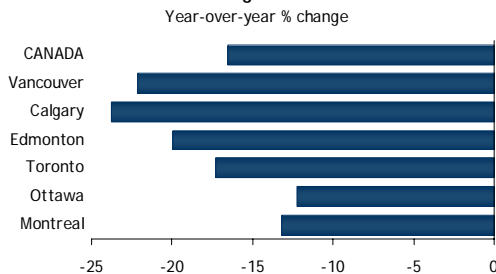
Sources: Statistics Canada, Royal LePage, RBC Economics Research

Existing home sales in Canada



Source: CREA, RBC Economics Research

Monthly mortgage payments on a detached bungalow



Sources: Statistics Canada, Royal LePage, RBC Economics

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## HOUSING TRENDS AND AFFORDABILITY

July 2009

### Improved affordability lifts Canada's housing markets

Housing affordability greatly improved in the first quarter of this year; RBC's affordability measures for all housing types recorded some of their biggest quarterly declines on record (the lower the measure, the more affordable homeownership is). At the national level, the improvement ranged from 2.8 percentage points for standard condominiums to five percentage points for two-storey homes. At the major city level, the decline was as large as 8.6 percentage points (for Vancouver's two-storey homes). This third consecutive quarterly improvement in affordability has reversed much — although not all — of the deterioration that occurred during 2006-2007 when Canada's housing markets reached a boiling point. In most areas of the country, RBC's affordability measures have now returned to, or near, long-term averages, which is consistent with more solid market fundamentals.

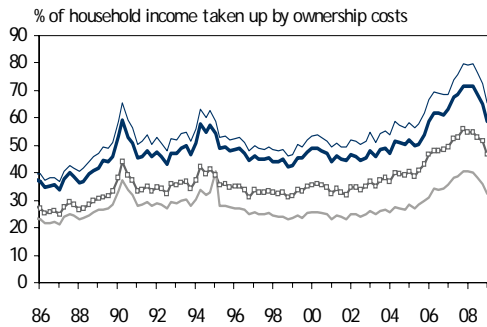
Aggressive policy action to shore up confidence in financial markets and jump start the economy are behind much of the improvement in affordability in the past year. The Bank of Canada's rate cutting campaign and the federal government's active support of the mortgage securities market have resulted in meaningfully reducing the cost of homeownership. The decline was accelerated by softening housing prices, especially in the western part of the country, which retraced some of the large gains made during the boom. Monthly payments in the first quarter on a typical detached bungalow (based on the going market value) had fallen by close to 17% from a year earlier in Canada. Among the major cities, the decline was as much as 24% in Calgary, 22% in Vancouver and 20% in Edmonton.

Such hefty "discounts" on the cost of homeownership provided powerful incentives for buyers to step back into the game. Home resale activity, based on Canadian Real Estate Association data, had plunged during the final quarter of last year and early months of this year as the violent bout of financial flu knocked the broad economy off its feet. With the turmoil in financial markets subsiding (at least partially) and the flow of credit picking up, buyers have indeed returned to the market. Home resale activity has rallied impressively since late winter, erasing more than one-half of the previous decline at the national level (more in some cities). Even more remarkable has been how widespread across all major Canadian cities the rebound has been - every single one of them has enjoyed a resurgence. Property values — which had come under heavy pressure — have recently shown signs of stabilizing in many parts of the country.

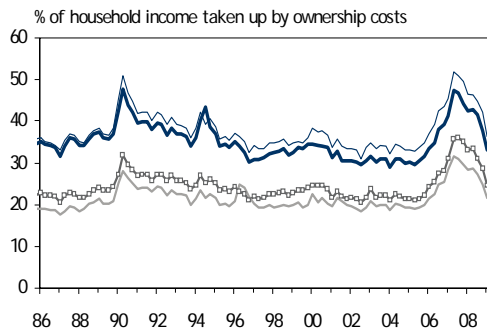
While housing markets appear to be generally on the mend in Canada, the road to full recovery still has obstacles. The rise in some mortgage rates in June is a reminder that the sizable improvement in affordability attributable to lower rates is likely behind us and, with home prices stabilizing or perhaps beginning to rise in some areas, further improvement depends on greater gains in family income, which should be supported by an improving economy in the second half of this year.

## RBC housing affordability measures

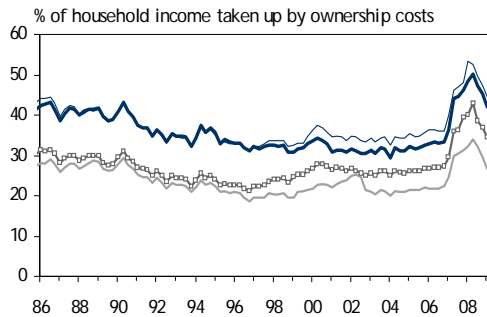
### British Columbia



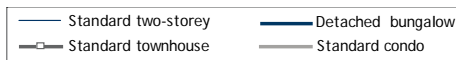
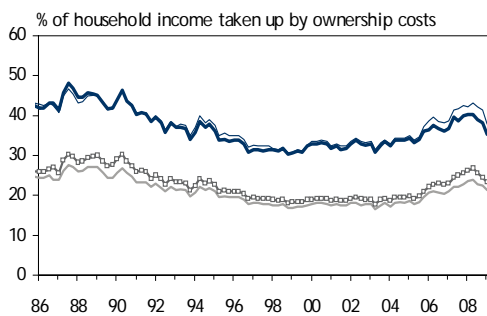
### Alberta



### Saskatchewan



### Manitoba



Sources: Statistics Canada, Royal LePage, RBC Economics Research

## British Columbia – Market springing back to life

The repair of poor affordability levels in British Columbia accelerated significantly in the first quarter of this year, with RBC's affordability measures dropping between 3.4 and 7.4 percentage points. For most housing types, the cumulative declines over the past year have been the sharpest since 1991, which has helped to set the province's housing market onto a healing course in recent months. Sales of existing homes have picked up vigorously from historical lows during the November-January period, and prices have shown hints of leveling off after generally falling since winter last year. At the same time, the pace of homes being put up for sale has slowed considerably, which has contributed to rebalance the market. With construction of new units still extremely weak and, therefore, bringing fewer homes onto the market, better balanced conditions are likely to persist and put a floor under prices in coming months.

## Alberta – Affordability restored

Declining mortgage rates and sinking home prices throughout 2008 and early 2009 worked their magic towards restoring homeownership affordability in Alberta. Following record quarterly declines in the first quarter of this year - ranging from 3.3 to 6.1 percentage points - RBC's affordability measures for the province were broadly back to their long-term averages. This has sparked renewed interest from buyers, who have made a welcome return to the market recently. Sales of existing homes have rebounded smartly this spring from their lowest point at the turn of the year since 1996. Market conditions have tightened as a result of the effect of stronger buying interest and more restraint on the part of sellers. With less supply hitting the market — housing starts have been at a 14-year low since the start of this year — and an economic backdrop that is expected to show increasing signs of recovery, Alberta's housing market is likely at the point of turning the corner.

## Saskatchewan – Finding balance

RBC's affordability measures for Saskatchewan declined again in the first quarter - between 2.5 and 3.3 percentage points - making the year-over-year drop among the largest on record for the province. Saskatchewan's housing market now appears to be negotiating its way quite deftly towards a more sustainable level of activity, putting to rest earlier concerns that it might crash following the 2006-early 2008 boom. Moderately stronger sales of existing homes this spring — after bottoming at the start of this year at still-elevated levels — and a slower pace of properties being put up for sale have restored some balance into the market. This is further helped by considerably weaker construction of new housing units in the first four months of 2009, which will bring fewer new units onto the market. The return to balanced market conditions should help stabilize prices in the period ahead.

## Manitoba – Market shows continued resilience

Supported by relatively favourable homeownership affordability levels, Manitoba's housing market continues to be among the most resilient in the country. RBC's affordability measures for the province fell again in the first quarter — by 1.2 to 3.6 percentage points — to levels mostly in line with long-term averages. The provincial market has put up strong resistance to the downturn, as sales of

## Regional overviews

existing homes dropped the least among the provinces from the most recent peak and prices withstood the downward pressure. While down significantly from levels a year ago, the sales-to-new listings ratio is still at levels consistent with a sellers' market (albeit barely so). A relatively robust economy - Manitoba is forecast to be one of only three provinces to show positive growth in 2009 - steady gains in the population and improved affordability should support housing demand in the period ahead.

### Ontario – Not so bleak anymore

Although persisting economic uncertainty is still hampering many Ontario's communities, recent developments have provided encouraging signs that the province's housing market, overall, has seen the worst of the cyclical correction. Spring resale figures have shown a surprising gush of activity in the province, retracing much of the sharp declines during the fall and early winter. Average prices for existing homes have started to rise again in recent months, climbing back to where they were mid 2008. Much of this resurgence in the overall Ontario market is owed to greater affordability following a year-long period of repair. By the first quarter of this year, some of RBC's affordability measures (e.g., for detached bungalows and condominiums) had even dropped below long-term averages. Nonetheless, for some of the hard hit areas of the province, such as Windsor, St. Catharines and London the healing process might be long and difficult.

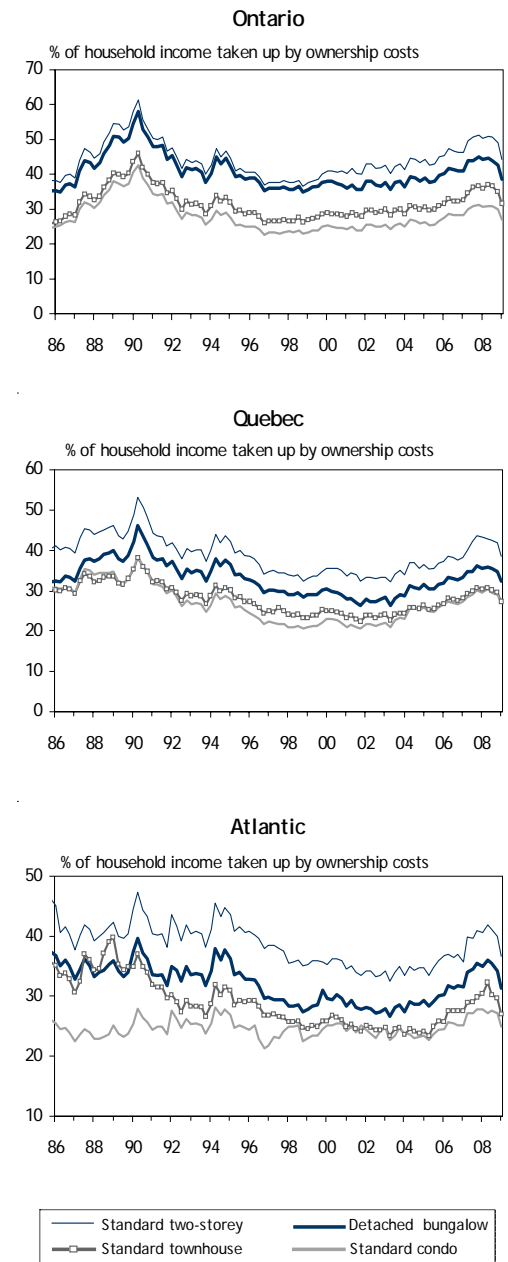
### Quebec – Was it just a temporary blip?

If the sharp rebound in resale activity during the spring truly marks the end of the housing downturn in Quebec, the province will have done surprisingly well in the context of severe market corrections elsewhere on the continent. Quebec's market had been among the last in Canada to yield to the general slump and now appears to be convalescing right alongside others. During this blip of a few months, prices barely missed a beat, generally staying their upward course (albeit at a slower pace). The fairly quick recovery in Quebec parallels the short time that has been needed to restore homeownership affordability, largely because of its relatively good standing at the onset of the downturn. RBC's affordability measures dropped between 2.1 and 3.6 percentage points in the first quarter of this year and are now below long-term averages across all housing types, indicating that homeownership has become more accessible than it has generally been the case since the mid-1980s.

### Atlantic - Little affected by the housing storm

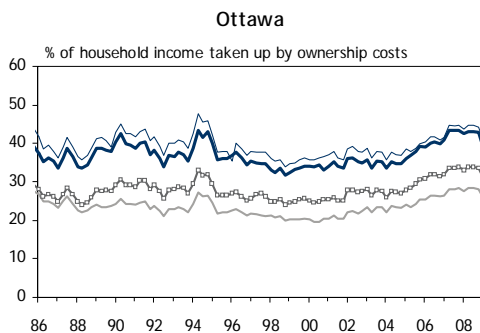
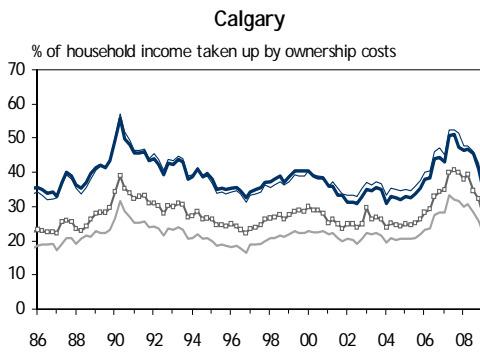
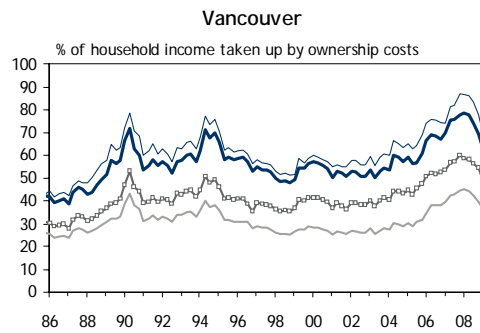
Generally favourable affordability levels in Atlantic Canada have given the region some protection against the housing storm. RBC's affordability measures declined again in the first quarter between 2.1 and 3.5 percentage points, representing the third drop in the past year for all housing types. As greater affordability sparked the interest of new buyers, resale activity picked up in the spring after moderating during the winter months. By and large, home prices sailed through the storm mostly unscathed, with very few declines reported since last fall. St. John's continues to be Canada's housing hot spot, showing significant price appreciation during the past year, although the pace of increase has cooled in recent months. Despite some volatility, other markets such as Halifax, Saint John and Charlottetown are also sustaining upward price momentum.

## RBC housing affordability measures



Sources: Statistics Canada, Royal LePage, RBC Economics Research

## RBC housing affordability measures



Sources: Statistics Canada, Royal LePage, RBC Economics Research

## Vancouver – Reviving at last

Significant improvement in affordability during the last year seems to be reviving Vancouver's housing market. Despite a soft economy and surging unemployment, greater affordability has helped resale activity rebound smartly in the last few months, retracing about one-half of the earlier dramatic 60% drop from the peak in mid-2007. The year-over-year drops in RBC's affordability measures for the city in the first quarter — ranging from 8.9 (condominiums) to 14.7 percentage points (two-storey homes) — were among the steepest in Canada. Renewed interest in the market has yet to stop the price slide, but there are signs that a bottom might be near. Extremely poor balance between supply and demand is being quickly repaired as rising demand faces fewer homes up for sale and fewer new units being built. Construction of new housing has been in a deep freeze since the start of the year in Vancouver. While the market is not out of the woods yet because the rebound came off particularly depressed levels, it does look to be on its way to finally turn the corner.

## Calgary – Recovery in the making

Calgary is another battleground of the housing downturn that is showing signs of turning the corner. While its economic backdrop, too, remains tenuous - Calgary's unemployment rate surged to a 12-year high this spring - the market is benefitting from a huge drop in the cost of homeownership since the middle of 2007. The combination of lower mortgage rates and home prices has driven down RBC's affordability measures for the city by 7.6 (condominiums) to 11.9 percentage points (two-storey homes) in the last year alone (ended in the first quarter), which brought levels below long-term averages for most housing types. Greater affordability contributed to a sharp upswing in sales of existing homes during the spring after collapsing to 14-year lows earlier in the winter. Although encouraging, renewed activity is still shy of where it was before the housing boom began and has yet to stem the decline in prices. However, the recent sharp rise in the sales-to-new listings ratio suggests that such a development might not be very far off into the future.

## Toronto – Market rally brings relief

With further sizable declines in the first quarter - ranging from 3.9 to 7.0 percentage points - RBC's affordability measures for the Toronto area have now been restored to historical averages for all housing types. This has opened the door more widely to new buyers and set the stage for a resale market rally this spring. Following a worrisome drop to a 10-year low during the fall and early winter, resale activity has since bounced back vigorously and even slightly exceeded the year-earlier pace in May for the first time since the end of 2007. Further, there has also been evidence recently that prices are moving up again. While it is still too early to wave the "all clear" sign - economic uncertainty has yet to dissipate in the region - it appears that Toronto's housing market is averting the painful crash scenarios that some had feared.

## Ottawa – Turbulence, nothing more

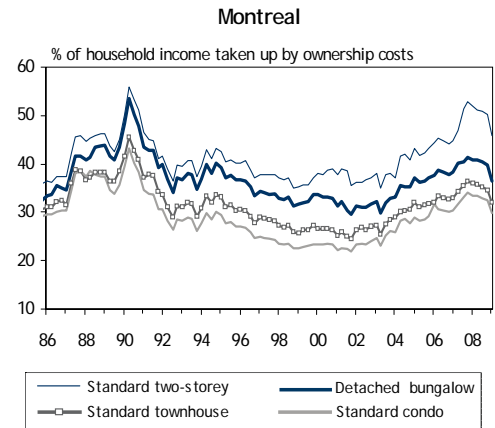
Were it not for some turbulence during the winter months, Ottawa homeowners would have hardly guessed that a severe storm has been rocking housing markets across the continent (and the world!) during the last two years. Home resale

activity in the area did decline abruptly in the November-February period, but the fall was short-lived and was fully recovered in months that followed. In fact, sales of existing homes reached a new record in May. Similarly, home prices caught a bit of a cold in the winter but showed signs of recuperating swiftly in the spring. This resilience against the general downturn - especially with respect to prices - has meant that improvements in affordability in the past year have been relatively subdued in Ottawa. Although RBC's affordability measures for the area have declined significantly in the first quarter - by 2.2 to 3.7 percentage points - they have come down less than in most other cities over the last year and still stood above long-term averages for all housing types.

## Montreal – Revving up

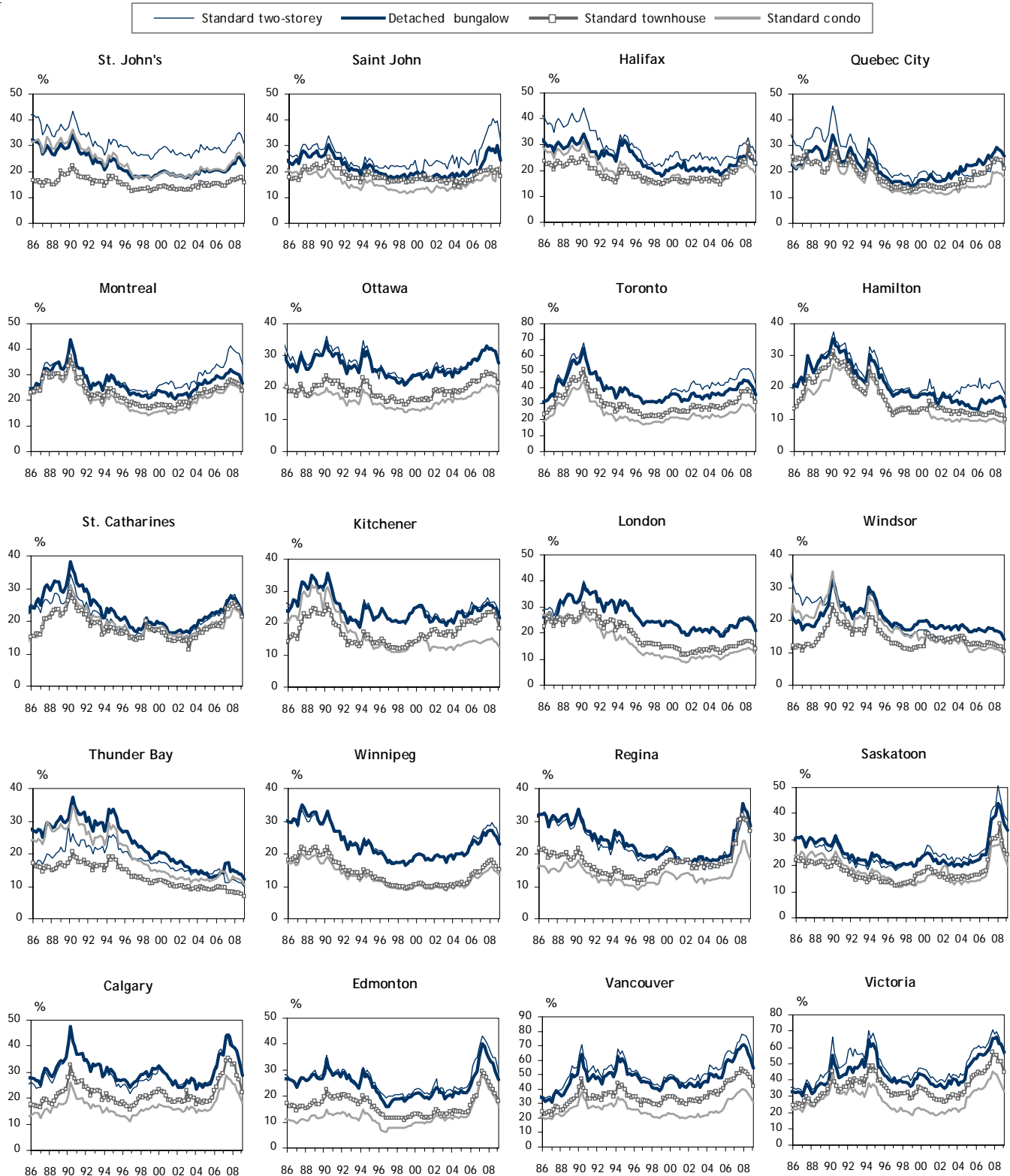
The pace of improvement in affordability accelerated in the first quarter in the Montreal area, as RBC's affordability measures fell between 2.5 and 4.5 percentage points. The cumulative effect of lower homeownership costs over the last year has contributed to rekindling buyers' interest this spring. Existing home sales revved up again after activity had downshifted to a very low gear late last year and early this year. The most recent figures show that resales have returned to the pace that prevailed at the end of last summer just before the credit market freeze-up. This has helped restore a healthy balance between supply and demand, which should provide support for prices going forward. Property values in the Montreal area have held up reasonably well over this stage of the cycle, edging down just slightly from peak levels last year and recently giving hints that they will firm up again soon.

## RBC housing affordability measures

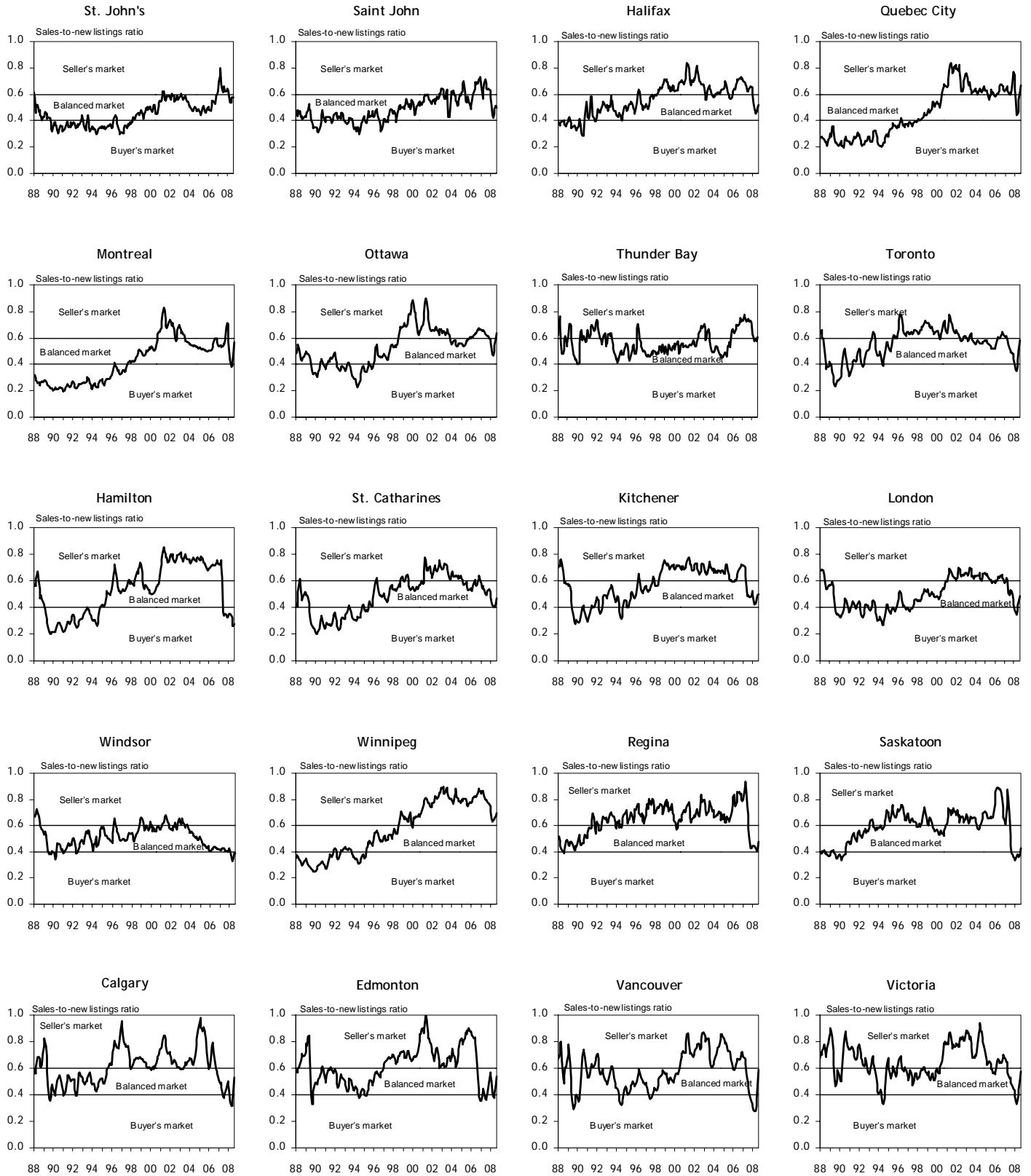


# Mortgage carrying costs by city

Our standard housing affordability measure captures the proportion of median pre-tax household income required to service the cost of a mortgage on an existing housing unit at going market price, including principal and interest, property taxes and utilities; the modified measure used here includes the cost of servicing a mortgage, but excludes property taxes and utilities due to data constraints in the smaller CMAs. This measure is based on a 25% down payment and a 25-year mortgage loan at a five-year fixed rate and is estimated on a quarterly basis. The higher the measure, the more difficult it is to afford a house.



# Resale housing market conditions in Canada's metro cities

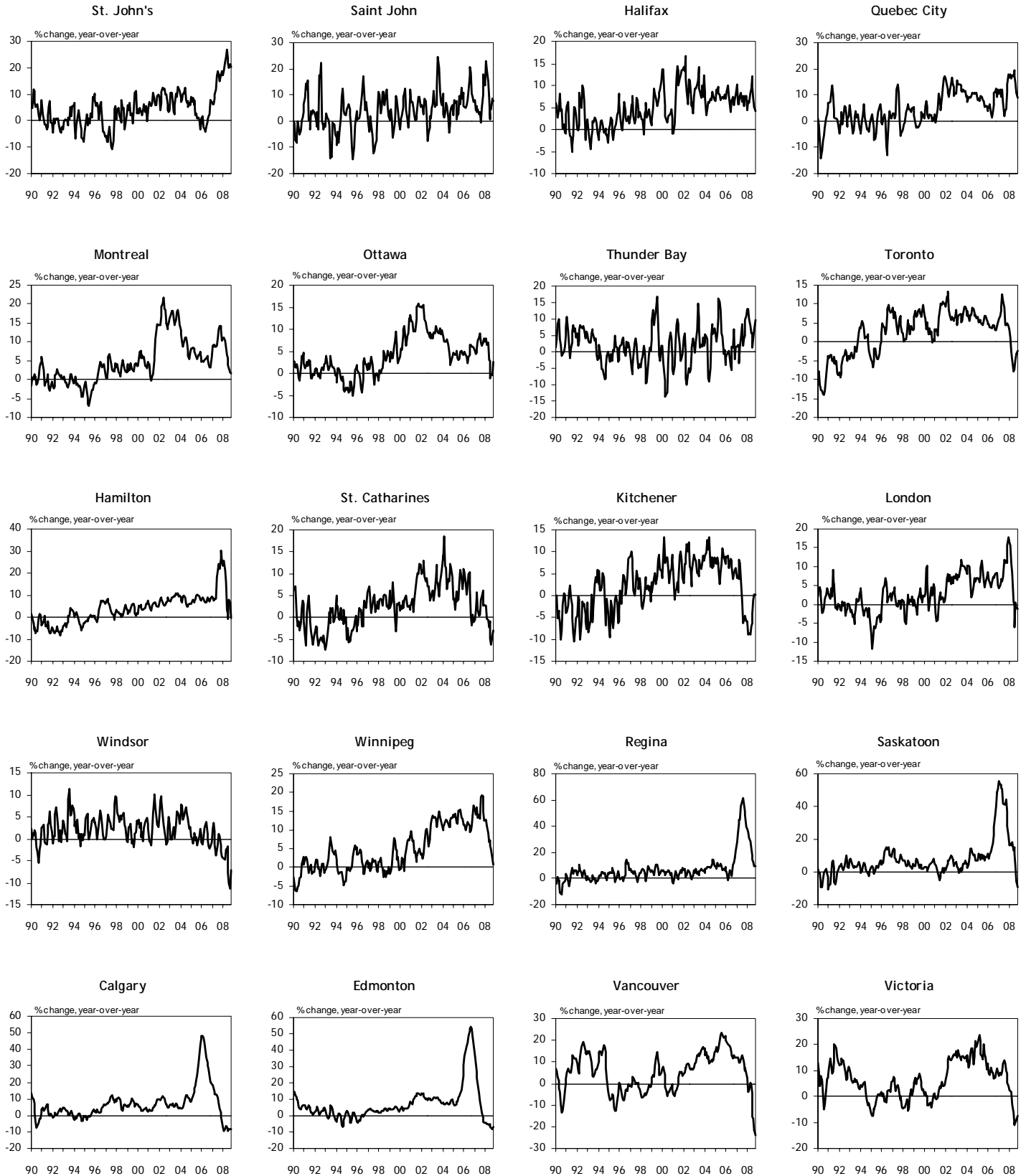


Sales-to-listings ratios are based on a 3-month moving average.

Source: Canadian Real Estate Association, RBC Economics Research



# House prices in Canada's metro cities



House prices are based on a 3-month moving average.

Source: Canadian Real Estate Association, RBC Economics Research





## Housing affordability summary tables

### Detached bungalow

Region	Average Price		Qualifying Income (\$) Q1 2009	Affordability Measure (%)	
	Q1 2009 (\$)	Y/Y % ch.		Q4 2008 (rev)	Q1 2009
Canada*	293,800	-3.1	67,200	43.4	39.4
British Columbia	480,700	-6.4	97,200	65.0	59.0
Alberta	336,100	-9.1	74,200	37.8	33.2
Saskatchewan	291,400	-0.4	67,700	45.3	42.0
Manitoba	219,400	0.7	55,400	38.2	35.3
Ontario	306,400	-2.5	72,700	42.8	38.6
Quebec	191,500	1.5	46,700	34.8	32.3
Atlantic	182,200	5.2	46,200	34.2	31.3
Toronto	417,900	-3.9	93,100	51.4	45.9
Montreal	235,700	0.8	55,300	39.7	36.5
Vancouver	575,200	-9.6	114,300	69.3	62.6
Ottawa	317,500	1.9	77,600	42.8	39.1
Calgary	391,800	-11.5	82,400	40.9	35.1
Edmonton	328,300	-7.1	73,900	38.0	34.0

### Standard two-storey

Region	Average Price		Qualifying Income (\$) Q1 2009	Affordability Measure (%)	
	Q1 2009 (\$)	Y/Y % ch.		Q4 2008 (rev)	Q1 2009
Canada*	330,100	-3.4	76,200	49.7	44.7
British Columbia	530,500	-6.3	107,600	72.7	65.3
Alberta	358,800	-9.7	80,900	42.3	36.2
Saskatchewan	301,000	-5.2	72,100	47.3	44.8
Manitoba	236,300	3.5	59,200	41.4	37.8
Ontario	348,900	-2.0	83,200	49.2	44.2
Quebec	225,100	-1.8	55,400	42.0	38.4
Atlantic	207,400	5.7	54,000	40.0	36.5
Toronto	494,600	-3.3	110,600	61.6	54.6
Montreal	299,100	-1.1	69,300	50.2	45.7
Vancouver	632,900	-9.5	125,800	77.5	68.9
Ottawa	318,500	2.8	81,000	44.3	40.8
Calgary	390,700	-12.4	84,600	42.6	36.0
Edmonton	365,300	-7.7	83,100	44.2	38.2

### Standard townhouse

Region	Average Price		Qualifying Income (\$) Q1 2009	Affordability Measure (%)	
	Q1 2009 (\$)	Y/Y % ch.		Q4 2008 (rev)	Q1 2009
Canada*	237,800	-2.4	54,400	35.1	31.9
British Columbia	381,400	-3.1	76,800	51.7	46.6
Alberta	249,300	-13.8	55,300	28.6	24.7
Saskatchewan	236,900	-1.2	55,500	36.9	34.5
Manitoba	145,400	2.3	36,700	24.6	23.4
Ontario	253,500	-0.9	59,900	35.0	31.8
Quebec	161,100	0.5	39,600	29.7	27.4
Atlantic	160,500	4.3	40,000	29.6	27.0
Toronto	362,500	-1.6	79,600	43.4	39.3
Montreal	207,800	0.6	48,600	34.6	32.0
Vancouver	443,600	-6.5	87,900	54.3	48.2
Ottawa	243,800	4.1	61,600	33.6	31.1
Calgary	301,600	-16.8	63,800	32.4	27.2
Edmonton	229,000	-11.7	52,200	27.1	24.0

### Standard condo

Region	Average Price		Qualifying Income (\$) Q1 2009	Affordability Measure (%)	
	Q1 2009 (\$)	Y/Y % ch.		Q4 2008 (rev)	Q1 2009
Canada*	199,100	-3.3	46,200	29.9	27.1
British Columbia	261,200	-8.7	53,900	36.2	32.7
Alberta	216,000	-12.6	48,300	24.9	21.6
Saskatchewan	178,100	-6.8	42,900	29.7	26.7
Manitoba	130,300	4.0	33,200	22.4	21.2
Ontario	211,000	-1.5	50,800	29.9	27.0
Quebec	164,000	1.5	38,900	29.0	26.9
Atlantic	147,900	5.9	36,900	27.1	25.0
Toronto	278,900	-2.3	63,100	35.0	31.1
Montreal	197,900	1.1	45,400	32.4	29.9
Vancouver	328,800	-8.8	65,800	39.7	36.1
Ottawa	207,800	4.9	51,600	28.2	26.0
Calgary	245,800	-12.8	52,400	26.0	22.3
Edmonton	206,000	-11.6	46,800	24.6	21.5

\* Population weighted average

Source: Royal LePage, Statistics Canada, RBC Economics Research

## How RBC's housing affordability measures work

RBC Economics Research's housing affordability measures show the proportion of median pre-tax household income required to service the cost of mortgage payments (principal and interest), property taxes and utilities on a detached bungalow, a standard two-storey home, a standard town house and a standard condo (excluding maintenance fees).

The qualifier 'standard' is meant to distinguish between an average dwelling and an 'executive' or 'luxury' version. In terms of square footage, a standard condo has an inside floor area of 900 square feet, a town house 1,000 square feet, a bungalow 1,200 square feet and a standard two-storey 1,500 square feet.

The measures are based on a 25% down payment and a 25-year mortgage loan at a five-year fixed rate and are estimated on a quarterly basis for each province and for Montreal, Toronto, Ottawa, Calgary and Vancouver metropolitan areas. The measures use household income rather than family income to account for the growing number of unattached individuals in the housing market. The measure is based on quarterly estimates of this annual income, created by annualizing and weighting average weekly earnings by province and

by urban area. (Median household income is used instead of the arithmetic mean to avoid distortions caused by extreme values at either end of the income distribution scale. The median represents the value below and above which lie an equal number of observations.)

The housing affordability measure is based on gross household income estimates and, therefore, does not show the impact of various provincial property tax credits, which can alter relative levels of affordability.

The higher the measure, the more difficult it is to afford a house. For example, an affordability measure of 50% means that home ownership costs, including mortgage payments, utilities and property taxes, take up 50% of a typical household's pre-tax income.

Qualifying income is the minimum annual income used by lenders to measure the ability of a borrower to make mortgage payments. Typically, no more than 32% of a borrower's gross annual income should go to "mortgage expenses" — principal, interest, property taxes and heating costs (plus maintenance fees for condos).

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