HOUSING MARKET OUTLOOK
Montréal CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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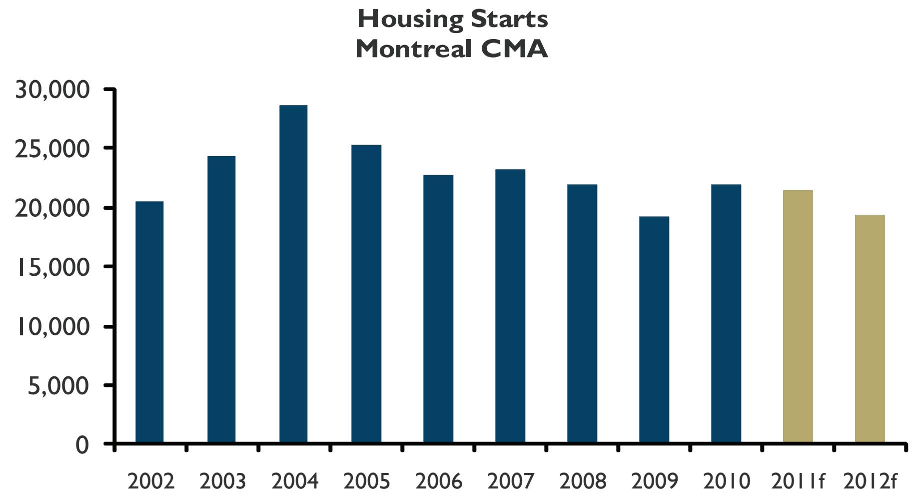
Table of Contents

Montréal area housing market in 2011 and 2012[1]

In 2011, the pace of activity on the Montréal housing market will have been marked by the repercussions of the strong housing demand that characterized the previous two years. On the resale market, the effect of demand having been moved up in 2010 was followed by a pullback and a certain decrease in transactions. After having long been conspicuously absent, listings returned in force, and this increase in supply has now changed the dynamics on the resale market, which is heading for more a balanced situation between buyers and sellers, and this is increasingly slowing the growth in prices. The new home market also

Figure 1



Source: CMHC

[1] The forecasts and historical data included in this document reflect information available as of October 5, 2011.

suffered the consequences of the past strong demand, such that housing starts fell in all market segments, with the notable exception of condominiums. Activity in this last segment once again reached a peak, which will have limited the overall decline in construction this year.

The moderate economic growth, positive net migration and relatively stable mortgage rates in 2012 will continue to support the housing market in the metropolitan area. The increase in MLS® transactions will be limited, however, by weak employment growth. As well, the rise in the number of properties for sale will cause the market to continue easing, which will definitely slow the growth in prices in all market segments. Fewer housing starts will be enumerated in 2012. The decrease in activity will be primarily felt in the condominium segment.

2011-2012 economic environment

The Quebec economy will post moderate growth in 2011 and 2012. Despite the economic and financial uncertainty, the economy will be supported by private investment and domestic demand. The high value of the Canadian dollar in relation to its U.S. counterpart and the slow economic recovery of our neighbours to the south will continue to be the major barriers to economic growth. In this context, GDP will grow by 2.3 per cent in 2011 and by 2.0 per cent in 2012.

In the Montréal census metropolitan area (CMA), the rebound in economic activity and employment in 2010 will be followed by more moderate job gains in 2011 and 2012, in line with the economic growth. The labour market will therefore continue to support housing demand, but less markedly than last year. Employment growth will reach 1.1 per cent in 2011, and then slow to 0.9 per cent in 2012. The unemployment rate will remain on a downward trend, falling to 8.2 per cent this year and then to 8.0 per cent next year.

Mortgage rates

Recent announcements by the Bank of Canada have indicated that the Bank will be leaving the target overnight interest rate unchanged at 1.0 per cent for some time to come. The Bank has been noting that in light of slowing global economic momentum and heightened financial uncertainty, the need to withdraw monetary policy stimulus has diminished. The last increase in the overnight interest rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat until late 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.4 to 3.8 per cent range, while the five-year posted mortgage rate is forecast to be within 5.2 to 5.7 per cent.

Migration

The Montréal metropolitan area will continue to receive the vast majority of newcomers to Quebec. More than 50,000 immigrants will come to settle in the province in 2011 and 2012, which will keep net migration at high levels in the metropolitan area (32,400 people in 2011 and 33,700 in 2012). Immigration will be the only positive migration factor, though, as the CMA will continue to lose more people to other regions of Quebec and Canada than gain from them.

As newcomers tend to opt for rental housing when they arrive, migration in the Montréal area will primarily support demand on the rental market.

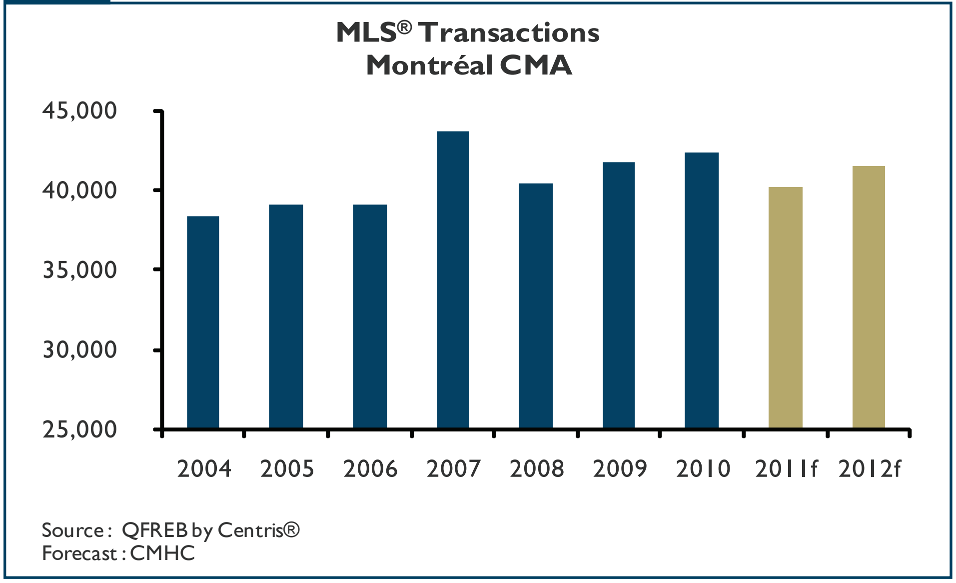
Resale market

The year 2011 has so far been marked by a pullback in MLS® transactions. The previous two years were effectively characterized by an inflated demand attributable to the rebound in economic activity and the mortgage rate increases that were anticipated (but did not occur). A portion of potential buyers for 2011 therefore moved up their purchases and met their housing needs in 2010. In 2012, the economic fundamentals—relatively stable mortgage rates, moderate economic and employment growth, migration gains—will continue to fuel housing demand and bring about a certain increase in transactions, but the volume will remain below the 2010 level. In all, 40,200 sales should be recorded this year, compared to 42,308 in 2010, for a decrease of 5.0 per cent. In 2012, 41,500 MLS® sales should be registered, or 3.2 per cent more than in 2011.

The decrease in activity in 2011 has extended to all market segments but is being especially felt in the case of single-family homes and plexes. In fact, these were the two market segments that most benefited from the effects of the earlier-than-planned purchases in 2009 and 2010. In 2012, the overall rise in transactions will come mainly from the single-family home segment, where the level of activity will move closer to the average for the last few years (about 25,000 transactions).

Condominiums remain the only segment where sales did not drop markedly in 2011. The continued high volume of transactions has been due non only to the rapid growth of the condominium housing stock, resulting from the large number of units of this type started in recent years, but also to the appeal of these dwellings among first-time home buyers, with

Figure 2



the condominium market being more affordable than the single-family home market. Condominium sales will continue to rise slightly in 2012.

On the supply side, 2011 has been marked by the rebound in active listings on the resale market. This rise in supply, which began in September 2010, is being fuelled by the slowdown in demand and the increase in new listings. In fact, after having benefited from the growth in prices in recent years, a number of households are testing the market by putting their properties up for sale, as they seek to take advantage of the low mortgage rates to change homes. We anticipate that this growth in supply will continue in 2012. While the resale market had been favouring sellers since the early 2000s, conditions on this market will become more balanced next year. Active listings will reach 24,800 units this year, up by 16.2 per cent over their 2010 level, and then rise by 8.1 per cent in 2012, to 26,800 units. Given the pace of the demand, the main consequence of this change in market conditions will be a gradual easing of the upward pressure on prices. As a result, the growth in the average MLS® price will be slightly lower in 2011 (+5.2 per cent) than in 2010 (+8.3 per cent) but will still remain relatively substantial. This growth will slow down again slightly in 2012 (+2.9 per cent), as potential buyers will see their choices grow on the market. The average price in the Montréal CMA will reach $313,000 in 2011 and $322,000 in 2012.

The condominium segment will stand out once again, by being the first to become a balanced market at the end of 2011. This segment will post the strongest increase in listings and weaker growth in prices this year and next year.

New home market

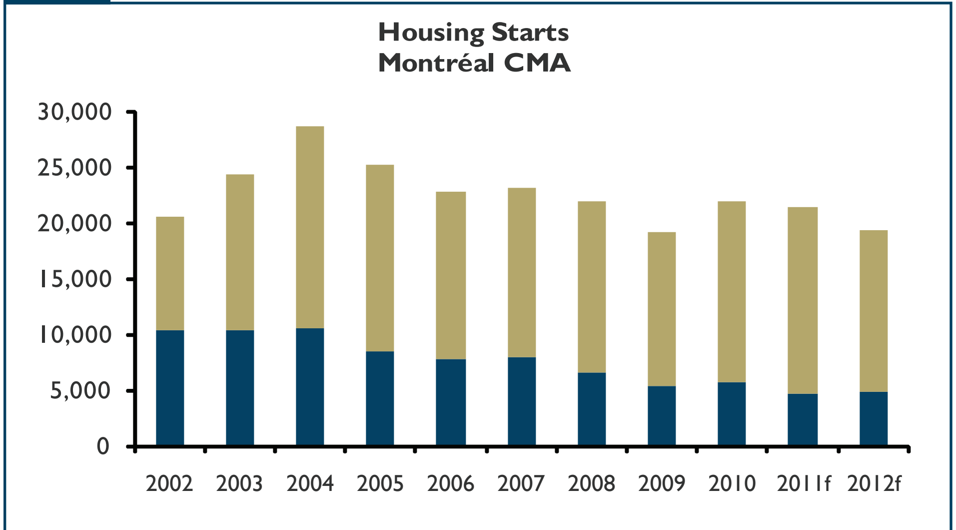
After having registered a 14-per-cent rebound in activity in 2010, observed mainly in the multiple-unit housing segment and resulting from the scarce supply on the resale market, the new home market will slow down this year and next year. In 2011, residential construction will fall in all market segments, with the notable exception of condominiums, which will set a new starts record for a second straight year. In 2012, the decline in this market segment will be mainly responsible for the overall decrease in activity. This year, the performance of the new condominium market will practically offset the declines expected in the other market segments. In fact, the construction results for 2011 will show a small decrease, as housing starts will fall by 2.7 per cent, to 21,400 units. Next year, the drop in activity will be more pronounced, with 19,400 starts expected, or 9.3 per cent fewer than in 2011.

Single-detached home starts will register the greatest decrease in 2011. The growth in prices observed for the last few years has been such that demand has shifted toward more affordable housing types, like semi-detached and row homes and condominium apartments, and also toward the resale market. As well, rising land costs in the metropolitan area are driving many developers and builders to favour multiple-unit housing. There should be 4,700 single-detached home starts this year, representing a decrease of 18.8 per cent from 2010 and the lowest level of activity recorded in the metropolitan area since 1996. In 2012, activity in this market segment will remain relatively stable, as foundations will be laid for 4,800 houses, for a small gain (+2.1 per cent) over 2011.

The continued easing of the resale market will be the main factor limiting demand for new homes next year, for both homeowner and condominium housing. The 2011 results for multi-unit housing will be on the rise, thanks to the condominium segment, as starts will reach 16,700 units, for an increase of 3.0 per cent over 2010. En 2012, the drop in condominium activity will be the main cause of the decrease recorded in the multi-unit housing segment, where 14,600 starts will be enumerated, for a decline of 12.6 per cent from 2011.

The appeal of condominiums in 2010 and 2011 has been apparent on both the resale and new home markets. It

Figure 3



Source: CMHC

should be noted that condominium sales were not significantly affected by the repercussions of the earlier-than-planned purchases and that activity has remained steady in 2011 on the existing home market. In a context where the number of new dwellings available in the short term has been relatively low and on a downward trend since 2007, the strong demand for condominiums has resulted in consistently high construction levels since the second quarter of 2010. Consequently, after a record year in 2010 (10,457 starts), condominium construction will reach a new high this year, with 11,300 new units, accounting for more than half of all dwellings started in the Montréal metropolitan area. In 2012, the new rise in the number of immediately available new condominiums and the greater choice on the resale market will cause construction to slow down in this market segment. There will still be close to 9,200 starts—the highest total after the levels reached in the previous two record years and in 2004.

The other housing types in the multiple-unit housing segment will register relatively stable levels of activity in 2011 and 2012.

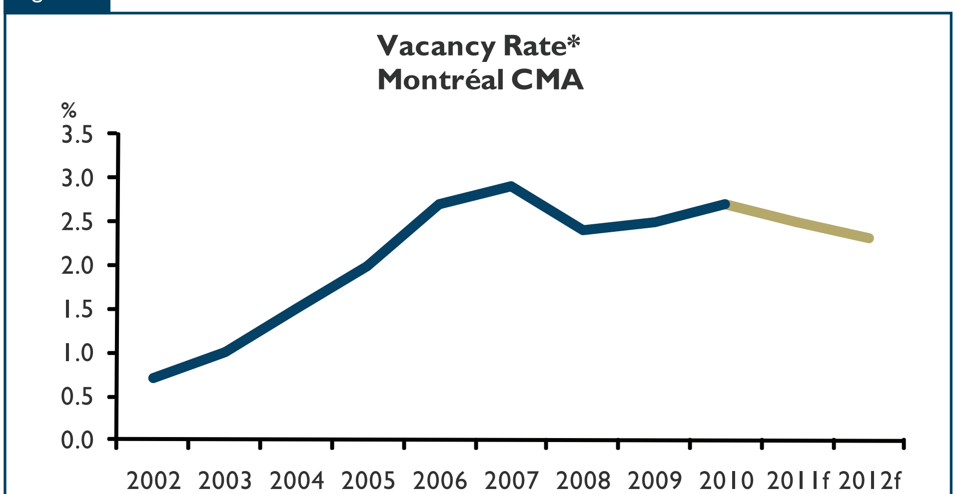
Semi-detached and row freehold home starts will fall by about 300 units (-11.1 per cent), to 2,500 units this year, and just over 2,400 units will get under way in 2012, down by 4.0 per cent from 2011.

Some 3,000 rental housing units will be started in 2011 and 2012, including 1,000 units intended for the retirement home market. The fairly stable activity in this segment results from the greater profitability of condominium construction for developers and the currently limited potential demand from the target population for retirement homes, namely, households aged 75 or older.

Rental market

In the fall of 2011, the rental housing vacancy rate in the Montréal CMA will remain relatively unchanged at 2.5 per cent, compared to 2.7 per cent in October 2010. This rate will decrease slightly in 2012 and reach 2.3 per cent. This relative stability that has lasted since 2006 is attributable to the same key factors, which will keep influencing the market, with diverging effects. On the one hand, the low mortgage rates will continue to result in a certain movement to homeownership. On the other hand, the large number of newcomers and employment growth among young people aged from 15 to 24 will maintain demand for rental housing. These factors, combined with the limited growth in rental housing supply, will more than make up for the renters leaving to become homeowners and therefore cause the vacancy rate to fall in 2012.

Figure 4



Source: CMHC
*Private structures with three or more apartments

Forecast Summary
Montréal CMA
Fall 2011

	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market[1]							
MLS® Sales	40,441	41,753	42,308	40,200	-5.0	41,500	3.2
MLS® Active Listings	23,202	23,443	21,340	24,800	16.2	26,800	8.1
MLS® Average Price ($)	262,616	274,837	297,661	313,000	5.2	322,000	2.9
New Home Market							
Starts:							
Single-Detached	6,602	5,446	5,789	4,700	-18.8	4,800	2.1
Multiples	15,325	13,805	16,212	16,700	3.0	14,600	-12.6
Semi-Detached	1,010	1,032	1,292		n/a		n/a
Row/Townhouse	1,231	973	1,160		n/a		n/a
Apartments	13,084	11,800	13,760		n/a		n/a
Starts - Total	21,927	19,251	22,001	21,400	-2.7	19,400	-9.3
Average Price ($):							
Single-Detached	340,757	355,089	343,513	356,000	3.6	360,000	1.1
Semi-Detached	239,340	257,248	258,968	273,000	5.4	278,000	1.8
New Housing Price Index (% chg.)	4.9	2.4	3.1	3.0	-	1.6	-
Rental Market[2]							
October Vacancy Rate (%)	2.4	2.5	2.7	2.5	-	2.3	-
Two-bedroom Average Rent (October) ($)	659	669	700	705	-	715	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.60	-	3.56	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.42	-	5.43	-
Annual Employment Level	1,917,200	1,905,400	1,954,200	1,975,300	1.1	1,993,000	0.9
Employment Growth (%)	0.5	-0.6	2.6	1.1	-	0.9	-
Unemployment rate (%)	7.4	9.2	8.6	8.2	-	8.0	-
Net Migration	23,889	33,425	34,130	32,400	-5.1	33,700	4.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

[1] Source: QFREB by Centris®

[2] Privately initiated rental apartment structures of three units and over

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), QFREB by Centris®. CMHC Forecast (2011-2012)

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