HOUSING MARKET OUTLOOK

Montréal

Canada Mortgage and Housing Corporation

www.cmhc.ca

SPRING - SUMMER 2002

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ECONOMIC OVERVIEW

Recovery already at our doorstep

Against all expectations, the Canadian and American economies rapidly returned on the road to growth, thereby avoiding the recession that everyone was anticipating. In fact, after stumbling in the third quarter of last year, economic activity posted a gain in the fourth quarter. As a result, technically, Canada did not have a recession, nor in fact did our neighbours to the south. Only the manufacturing sector in the United States has so far truly experienced this scenario.

Even though the U.S. economy has not completely recovered, all the indicators are now pointing in the right direction, suggesting accelerated economic growth over the coming months. In February, the Institute of Supply Management (ISM) purchasing managers' index signalled a recovery in the manufacturing sector, and the leading indicator was up for a third straight month in January, showing widespread renewed economic activity for the months to come. Also, in February, the U.S. economy generated 66,000 new jobs, bringing down the unemployment rate to 5.5 per cent. Then, in March, consumer confidence posted a spectacular rebound, the largest in 25 years.

Moreover, the best news no doubt comes from housing sector. In February, again in the United States, single-detached housing starts posted their best month in the last 20 years. Lastly, existing home sales registered record levels during the first two months of this year. In fact, the housing sector never faltered despite the economic slowdown and the events of September 11.

According to most of the indicators, the Canadian economy also appears to be heading in the right direction. It even did better than the U.S. economy in several areas. The strength of the economy in the last quarter of 2001 was even most surprising (annual rate of 2 per cent). The job market turned out to be much more solid than anticipated, and this greatly contributed to buoying up consumer confidence. All this news is most encouraging for the housing sector.

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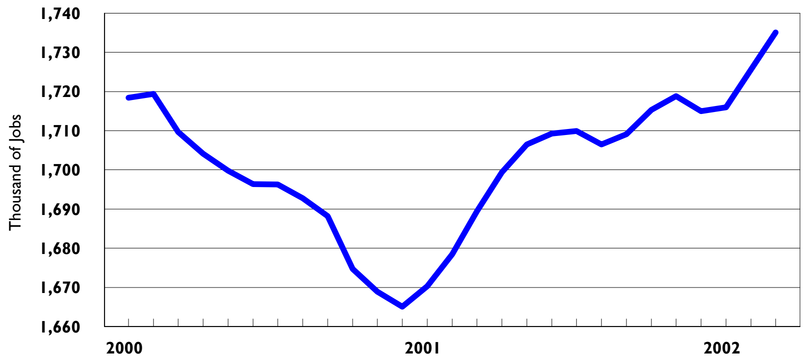
Employment holds out well

The news concerning the conditions on the labour market was surprisingly good. While, in the fall, several companies, particularly in the aeronautical, information technology and manufacturing sectors, had announced major layoffs, the job market in the Montréal area has so far managed admirably well. In fact, from September to March, according to Statistics Canada, the area posted a gain of 26,000 jobs. This is remarkable in a context where the economic slowdown caused employment to fall significantly (-0.8 per cent) on the other side of the border during the same period. Even with this job creation in Montréal, the unemployment rate still went up to 8.9 per cent in March.

With such encouraging news since the beginning of the year, we forecast that the job market will continue to progress this year and will do even better than last year when 16,000 jobs were created. The Montréal economy should generate some 30,000 more jobs this year and next year, bringing the total number of jobs in the area to 1,765,000 in 2003. Of course, this will stimulate the housing demand, from both homeowners and renters.

Remarkable Employment Performance in Montréal

- Seasonnally Ajusted Annual Rates -



Source: StatisticCanada

Mortgage rates already back on the rise

In the fall and during the first weeks of the year, mortgage rates reached their lowest levels in the last 40 years. For example, the official rate for a 5-year term then stood at 6.85 per cent. The economy has since picked up again, such that the period of monetary easing by the Bank of Canada is definitely over. Given that short-term mortgage rates are largely influenced by the bank rate, they can only go up over the next few months. For longer terms, it is the bond market that sets the tone for the mortgage rates. As economic activity will regain strength and investors will gradually return to the stock markets, the bond rates will also rise. This trend has in fact already started. For instance, at the time of printing, the 5-year mortgage rate had already gone up to 7.30 per cent. Consumers were therefore right to hurry in order to take advantage of the exceptionally low rates in recent months.

While mortgage rates may be on an upward trend, there is no need to fear an upsurge, as they will remain at historically low levels. With inflation under control, the hikes will be moderate, such that the rate trend outlook remains encouraging. The rate for a 5-year term should not exceed 8 per cent in 2002. However, this rate could rise slightly above this mark in 2003.

Real estate sector comes out a winner from the turmoil last fall

Everyone wondered about the impact of the tragic events last fall. No one could accurately predict all the repercussions on the entire North American economy, nor on the housing market. In hindsight, it has to be admitted that the most pessimistic scenarios did not come to be. Consumers remained confident, the economy picked up again and mortgage rates went down much faster than expected. For this last reason, homeownership became much more accessible and, in this regard, real estate turned out to be a winning sector.

As well, we will never be able to fully measure the psychological impacts of the attacks on the behaviour of consumers but, evidently, if there was an impact, it was the reinforcement of the cocooning trend and, possibly, a return to more traditional values like the importance of the family. When people spend more time at home, the quality of their living space becomes even more important. It is then plausible that people invested more in their home, whether in terms of purchases or renovations. Travel cancellations may also have resulted in a greater budget for renovation, a currently extremely dynamic segment of the economy.

RESALE MARKET

Heading toward another record?

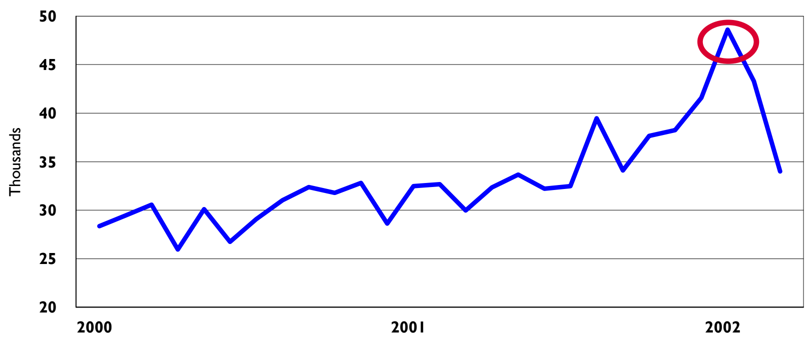
The figures speak for themselves. In January, the resale market in the Montréal area posted the best month in its history. Combined with the results for February and March, two intensely active months as well, transactions in the first quarter increased by 28 per cent over last year. This result is so exceptional that we are resolutely more optimistic in our forecasts than in the fall. There is every indication that the year that just started will see a new record level of activity, shattering the current record set in 2001. In fact, nothing seems to be stopping the resale market . . . or almost nothing.

It would be surprising if such levels of activity were maintained all year long, first of all, because mortgage rates have started to rise again. Also, with consumers increasingly better informed, many realized that they would not soon again see such favourable financing conditions as those that prevailed in recent months. In fact, consumers rightly anticipated that interest rates would go back up. Some buyers then moved up their decision to purchase, creating a sort of euphoria on the housing market. It is therefore not so much the mortgage rate increase itself that will reduce the number of transactions over the next few months as the fact that this increase had been largely anticipated, which created a time shift in the demand among consumers who moved up their decision to buy. The euphoria will therefore wane somewhat over the coming months and next year, as interest rates gradually rise again.

Record Resales in January

- Seasonally Adjusted Annual Rates -

Montréal Metropolitan Area



Sources : CMHC and GMREB

As a result, we forecast that the current year will end with a new record of 36,000 resales (+6 per cent) in the Montréal area. Condominiums will be the prefered housing type (+8 per cent). Also, more small rental structures (plexes with 2 to 5 units) will change hands this year (+8 per cent). The low rental housing vacancy rates and a market that is leaving slightly more negotiating power to buyers (compared to the single-family home and condominium segments) will attract new owners and investors. Single-family home resales, for their part, will rise by 5 per cent.

In 2003, we anticipate another very active year, although less feverish than 2002. It is expected that 33,500 transactions will be recorded on the MLS® network next year, for a decrease of 7 per cent in relation to this year. It should be pointed out that this is still a very high level, close to the one reached in 2001, which was an exceptional year.

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Access to homeownership more difficult

First-time home buyer clients are currently greatly stimulating the housing market, particularly the existing home segment. In fact, never since the late 1980s have so many buyers been looking for their first property. The scarcity of available rental housing, combined with the mortgage rate levels in recent months, prompted many renter households to buy a home. But, with the gradual rise in interest rates and the now rapid increase in home prices, access to homeownership will become more difficult for many households. There will consequently be slightly fewer first-time buyers on the market, which will of course likely bring down the number of transactions over the next few months.

Existing Single-Family Home Market

Level of % Change, 2002 to 2003, by Submarket

	Sales		Average Price		Active Listings		Sellers per buyer	
Submarket	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**
Island of Montréal	**5,600**	**5,400**	**212,000**	**223,000**	**2,000**	**1,900**	4	4
Change from previous year	**0%**	**-4%**	**9%**	**5%**	**-22%**	**-5%**	**--**	**--**
Laval and North-Shore	9,400	8,900	122,000	128,000	3,600	3,500	5	5
Change from previous year	5%	-5%	8%	5%	-19%	-3%	--	--
South-Shore	**7,400**	**6,700**	**129,000**	**134,500**	**2,700**	**2,600**	**4**	**5**
Change from previous year	**9%**	**-9%**	**6%**	**4%**	**-21%**	**-4%**	**--**	**--**
Total Montréal Area*	23,600	22,100	147,000	155,000	8,800	8,500	4	5
Change from previous year	5%	-6%	7%	5%	-20%	-3%	--	--

Prices not expected to fall any time soon

With all this being said, one should not be misled, though. The resale market will continue to be solid and therefore very active over the coming months. Mortgage rates still remain at historically low levels, the job market in Montréal continues to post net gains and the scarcity of rental housing is an inescapable reality: all these factors will contribute to supporting a strong housing demand. Also, even with the recent price hikes, homes still remain much more affordable than during the last real estate boom in the late 1980s. It should be recalled that, in the second half of that decade, borrowing costs stood at an average of 11.6 per cent (5-year rate).

And, even if the demand for existing homes will slow down over the next few months, the market will remain to the full advantage of sellers. Active listings have been free-falling for a long time, and there are no tangible indications that the supply, that is, the number of properties for sale, will rise significantly in the short term. Of course, some will be tempted to sell in order to take advantage of the firm prices on this market that is very favourable to sellers. But, as long as there are no factors like a decrease in employment or a marked increase in mortgage rates, two situations that would place some households in a precarious financial position, a significant rise in the number of listings remains improbable. However, for the time being, these two scenarios are not foreseeable in the short term. As a result, we expect that listings will remain on a downward trend both this year (-24 per cent) and next year (-4 per cent).

With no turnaround in the listings trend, the market will not start favouring buyers again any time soon. It should be noted that, with seller-to-buyer ratios as low as five to one in the case of single-family houses, four to one for condominiums and seven to one for plexes (2 to 5 units), the market is now extremely tight. In fact, never have these ratios been so low in the Montréal area since MLS® data started being compiled. Consequently, existing property prices should not be expected to fall in a market that favours sellers.

We forecast that the average price for a single-family house will go up from $137,900 to $147,000 this year, for an increase of 7 per cent. For condominiums, the increase will be slightly higher (8 per cent). However, prices will rise a little less rapidly next year. Buyers will pay an average of 5 per cent more for a single-family house and 4 per cent more for a condominium unit.

Construction gets going

Homes for sale are becoming ever scarcer. Not only is it increasingly difficult for buyers to find their dream property on the existing home market, but they have to pay more and more for it, as well. This is why a greater number of them are turning to the new home market. While this choice generally turns out to be more expensive, it offers the undeniable advantage of a getting a more modern home better suited to buyer tastes. It is therefore not surprising that second- and third-time buyers make-up most of the clients on the new home market. These clients are also currently very numerous on the market. For those who want to make the move to a more expensive property, the timing could hardly be better. With the vigorous conditions on the resale market, they can sell their current property rapidly and for a good price and, if they need mortgage refinancing for their new home, the conditions are also most favourable.

As a result, we expect that housing starts will climb to 15,600 units (+17 per cent) this year in the Montréal area. In fact, the year got off to a very good start, with the first quarter figures showing an increase of 60 per cent in housing starts in relation to last year.

The new home market will strengthen this year for all housing types. Single-family housing will post a gain (+9 per cent) to accommodate the growing demand from families wishing to move to the suburbs. The northern suburbs, as usual, will get the lion's share (see next Table) thanks to its more affordable lots. Mid-range detached houses, that is, priced between $160,000 and $250,000, in the suburbs, will remain a segment where demand will be strong.

As well, condominium construction, which has constantly shown surprising results in the last few years, will continue to rise (+12 per cent). With condominium apartments being close substitutes for rental dwellings, the scarcity on the rental market will further fuel condominium construction.

Furthermore, baby boomers are gradually starting to move to smaller dwellings as their children leave home. Condominium housing is a formula that suits them perfectly, notably because it considerably reduces the time and money spent on maintenance. Since they have already accumulated equity in their current property, they can often afford a more luxurious dwelling.

Still, the fact remains that condominium units priced from $150,000 to $200,000 on the Island of Montréal will be the ones attracting the most buyers. The market for very upscale condominiums (over $250,000) is more limited and mainly confined to the most posh districts. The supply of such dwellings is already well served by several projects, particularly in Old Montréal, Nuns' Island, Downtown and Outremont.

Next year, even more people will be working on job sites across Greater Montréal, as we expect another increase in residential construction, 4 per cent this time, for a total of 16,200 housing starts. This gain will be entirely attributable to rental housing construction (see the Rental Market section). Single-family home building and condominium construction will decline slightly, by 7 per cent each, respectively, in the wake of the mortgage rate hikes.

New Single-family Home Market

Level of % Change, 2002 to 2003, by Submarket

	Sales			Average Price / Detached			Average Price / Semi-Detached		
Submarket	**2002**	**2003**	**Chg.**	**2002**	**2003**	**Chg.**	**2002**	**2003**	**Chg.**
Island of Montréal	**1,250**	**1,100**	**-12%**	**289,000**	**300,000**	**4%**	**188,000**	**197,000**	**5%**
Laval and North-Shore	4,300	4,100	-5%	**175,000**	**183,500**	5%	**125,000**	**131,000**	5%
South-Shore	**2,200**	**2,050**	**-7%**	**172,000**	**179,000**	**4%**	**130,000**	**136,000**	**5%**
Total Montréal Area*	8,600	8,000	-7%	**186,000**	**194,000**	4%	**148,000**	**155,000**	5%

* The sum of the submarkets does not correspond to the metropolitan area on account of the MRC of Vaudreuil-Soulanges.

Source: CMHC, GMREB

RENTAL MARKET

Renewed demand

The new rental housing demand comes mainly from young people and new immigrants. When the labour market in Montréal steadily creates jobs, as has been the case in recent years, this means that more young people have the means to get their own place and that the area attracts many new households. These two client groups greatly stimulate the demand for rental housing when prevailing economic conditions are favourable. And, in fact, the recession seems to have been avoided and the job market in Montréal continues to perform surprisingly well (see the Economic Overview section). On the other hand, thousands of households took advantage of the attractive interest rates in recent months to become homeowners, thereby vacating some rental units. But, all in all, the rental market should not be counting on a weaker demand to ease its situation over the next two years.

Rental housing production steps up

With the vacancy rate at a historical low point, there are naturally a few more rental projects on drawing tables. However, developers remain hesitant. While they may be showing some interest in rental housing construction, their hesitation is largely due to the high construction costs that would require them to charge rents well above current rates in order to make their new projects profitable.

For this reason, rental housing construction will be mainly concentrated, as has been the case for a few years already, in two niches that offer profitability to developers, namely retirement homes and luxury apartments. The first segment will garner the lion's share with an aging population seeking residences with services and also having the capacity to pay. This explains the appeal of this niche where the vacancy rate is also very low.

In addition, there will be the housing units produced under the *Affordable Housing Québec* program (see the box), thanks to the rapidly reached agreement between the federal and provincial governments. It should be noted, however, that this program, launched this past March 5, will mainly increase the supply of social, cooperative and non-profit housing. These new dwellings, while they are accounted for in the housing starts figures[1], will not be included in the universe of privately initiated rental units covered by our annual rental market survey. Consequently, these social housing units will not have any direct impact on the vacancy rate measured in private buildings.

The program also has a "private" component. However, since it takes several months to plan and develop new projects, these new job sites will only get under way during the second half of this year, and mainly next year. This means that these new units will not be covered by the 2002[2] rental performance survey.

In the end, there will be slightly more rental housing starts this year in the Montréal metropolitan area. It is expected that construction will get under way on 2,800 units this year, for a gain of around 70 per cent over the low level recorded last year, when just 1,669 rental starts were enumerated. In 2003, when the affordable housing program will reach its cruising speed, rental housing starts will climb to 4,300 new units.

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[1] *Excluding recycled buildings, that is, those not initially intended for residential purposes but subsequently converted into housing.*

[2] *The rental market survey is conducted every year in October. However, for a new housing project to be covered by the survey, it must have been completed and available for rental on July 31 prior to the survey.*

Little change in the short term for the private

As such, there is little change on the horizon this year for the vacancy rate in private housing. The rental market will remain very tight. It is expected that the vacancy rate measured in October will be virtually identical (0.6 per cent) to that recorded last year. In 2003, with the new supply of housing, the vacancy rate should ease slightly (1 per cent).

Finally, in such a tight market, we will see rental increases comparable to those registered last year. We anticipate that average rents will rise by 4 per cent this year and by another 3.5 per cent next year.

AFFORDABLE HOUSING QUÉBEC program

In view of the current shortage of rental housing in many of Québec's cities, the governments of Canada and Quebec rapidly came to an agreement to implement an affordable housing program. On December 21, 2001, the two governments agreed to invest over $323.3M in order to increase the availability of affordable housing in Quebec, including $161.65M on the part of the federal government through CMHC, $104M from the government of Quebec and $57M by the municipalities concerned. The program, officially launched on March 5, 2002, will allow for the production of 6,500 affordable rental housing units across Quebec, in 2002 and 2003.

Note: The following text is an excerpt from the Leaflet «Action for Housing, Private Component, CMHC and SHQ.

A program with two components

The social and community component targets non-profit community organizations wishing to implement housing projects, and is expected to generate some 5,000 housing units for low to modest income households.

The private component is designed to stimulate the production of housing units with rents affordable to moderate income households. It applies mainly on the territories of municipalities that have low rental vacancy rates and that need a significant number of new housing units to counter the shortage.

This component of the program is intended mainly for private sector promoters and targets the production of rental housing only through new construction or the conversion of buildings not currently used for residential purposes.

Financial assistance for the production of housing units

Financial assistance (private component) takes the form of a variable lump sum of between $10,600 and $12,500 for a two-bedroom unit, depending on the location and type of housing units produced (studio, 1, 2 or 3 bedrooms, etc.).

The municipality pays 15 per cent of the total amount granted for each project.

The maximum monthly rent varies according to the type of housing unit and is set by the municipality in accordance with SHQ guidelines. It should start at around $700 for a heated two-bedroom unit.

The owner undertakes to comply with the maximum rents and subsequent authorized increases for a period of 10 years following completion of the work. During the 10-year period, the owner may not convert the housing units into condominiums.

A leading role for municipalities

The Société d'habitation du Québec (SHQ), as the agency responsible for the entire Affordable Housing Québec program, has drawn up certain basic criteria for the private component of the program. Municipalities must meet these criteria when developing their own affordable housing programs.

For example, an admissible municipality may draw up a municipal program for the production of affordable housing units on its territory. The SHQ will contribute financially to the delivery of the municipal program that it has duly approved.

For the City of Montréal

During a tour of Quebec's major cities, the government of Quebec and the municipality of Montréal met, and reviewed the financial assistance programs for which the City of Montréal is eligible in the area of housing. It was announced at the time that, with the investments tied to the affordable housing program, around half of the 6,500 new affordable housing units will be produced on the territory of the new city of Montréal this year and next year.

Partnerships with the cities of Laval and Longueuil, which are also participating in the program, were recently concluded, as well.

For more information, please contact the Société d'habitation du Québec (SHQ):

In Québec City:
(418) 643-7676

Elswhere in Québec:
1 800 463-4315 (toll-free)

www.shq.gouv.qc.ca

Source: Leaflet "Action for Housing, Private Component, Affordable Housing Québec, CMHC and SHQ

Forecast Summary

Montréal Metropolitan Area
May 2002

	2000	2001	2002*	2003*	Chg. (%) 2002 vs 2001	Chg. (%) 2003 vs 2002
RESALE MARKET						
MLS Sales (1)						
Single-family houses	20 058	22 501	**23 600**	**22 100**	**5%**	**-6%**
Condominiums	5 184	6 188	**6 700**	**6 200**	**8%**	**-7%**
Plexes (2 to 5 units)	4 313	5 295	**5 700**	**5 200**	**8%**	**-9%**
Total	29 555	33 984	**36 000**	**33 500**	**6%**	**-7%**
Active MLS listings						
Single-family houses	13 076	10 989	**8 800**	**8 500**	**-20%**	**-3%**
Condominiums	3 718	2 915	**2 200**	**2 100**	**-25%**	**-5%**
Plexes (2 to 5 units)	4 340	3 586	**2 300**	**2 200**	**-36%**	**-4%**
Total	21 133	17 490	**13 300**	**12 800**	**-24%**	**-4%**
Average MLS price						
Single-family houses	132 362	137 907	**147 000**	**155 000**	**7%**	**5%**
Condominiums	114 241	116 337	**125 500**	**131 000**	**8%**	**4%**
Plexes (2 to 5 units)	153 776	163 078	**173 000**	**182 000**	**6%**	**5%**
NEW HOME MARKET						
Housing Starts						
Single-family houses	7 551	7 868	**8 600**	**8 000**	**9%**	**-7%**
Condominiums	3 539	3 763	**4 200**	**3 900**	**12%**	**-7%**
Rental housing units	1 676	1 669	**2 800**	**4 300**	**68%**	**54%**
Total	12 766	13 300	**15 600**	**16 200**	**17%**	**4%**
Average new house price						
Detached houses	169 233	177 000	**186 000**	**194 000**	**5%**	**4%**
Semi-detached houses	129 775	140 000	**148 000**	**155 000**	**6%**	**5%**
RENTAL MARKET						
Vacancy rate (October) (%)	1,5	0,6	**0,6**	**1,0**	**--**	**--**
Change in rents (%)	1,2	4,2	**4,0**	**3,5**	**--**	**--**
ECONOMIC OVERVIEW						
Mortgage rate 1-year (4th Q.) (%)	7,8	6,1	**5,68**	**6,69**	**--**	**--**
Mortgage rate 5-year (4th Q.) (%)	8,15	7,4	**8,01**	**8,58**	**--**	**--**
Employment (in thousand)	1 690	1 706	**1 735**	**1 765**	**1,7%**	**1,7%**
Job creation or loss (in thousnad)	34	16	**29**	**30**	**--**	**--**
Unemployment rate (%)	7,7	8,2	**8,5**	**8,4**	**--**	**--**

1 The publication of MLS data is made possible thanks to the cooperation of the Greater Montréal real estate Board.
** CMHC Forecast*
Sources: CMHC, GMREB and Statistic Canada

HOUSING MARKET OUTLOOK is CMHC's forecast for new home and resale markets published twice a year for the Montréal area. Issues are released in the Spring and fall of each year. For more information, please contact Customer Service Centre at 1 866 855-5711.