HOUSING MARKET OUTLOOK

Montréal

www.cmhc.ca

Canada Mortgage and Housing Corporation

ECONOMIC OVERVIEW

FALL - WINTER 2004

U.S. economy: a little sand in the gears

The U.S. engine has just started going full tilt again, and there is already a little sand in the gears, which is pointing to an economic slowdown in 2005. Of course, the year 2004 marked the awakening of the U.S. giant in the employment sector. After three consecutive years of negative results, the labour market has monthly posted gains of some 170,000 jobs since the beginning of 2004. Also, after two quarters, the annual rate of economic growth was close to 4 per cent. However, inflation is rising faster than expected, such that the monetary tightening cycle is already under way. What's more, certain fiscal stimuli will disappear in 2005, the rise in oil prices is causing some concern, and many experts are anticipating that the real estate market will cool down. This last factor, combined with the rate hike, could discourage households from using mortgage credit to finance their consumer expenditures, as they had massively done in recent years.

Fortunately, on the world stage, growth is expected to accelerate in the major economic blocs in 2005. The United States is no longer the only driving force behind global growth. For example, we can now count on the very fast pace of development of China and India to support global economic growth.

Interest rates: recess is almost over

As mentioned above, the monetary tightening cycle in the United States is already under way. At the time of writing, the Fed had already raised its key interest rate three times between June and September, for a total increase of 75 basis points. The good news is that, this time, the Bank of Canada has room to be more patient than its American neighbour for raising its key policy interest rate. In October, this rate had in fact risen by only 50 basis points so far. With the lower inflation here, the economy still operating below capacity and a very strong Canadian dollar, the Bank of Canada can keep a certain distance from the U.S. monetary policy.

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CMHC forecasts that one-year mortgage rates will go up by about 1 percentage point from now until the fourth quarter of 2005. The impact will be slightly lesser on medium-term rates. In fact, for a five-year term, Canadians will be able to get a mortgage at around 7.15 per cent at the end of 2005, for an increase of about three quarters of a percentage point over the current rate (6.40 per cent at the time of writing). The rate hike will therefore be relatively modest, which is good news for the real estate market.

NEW HOME MARKET

Residential construction bound to slow down in 2005

According to our projections, 2004 will end with a high of 28,000 starts, or 15 per cent more than last year. But, above all, this will be the best year since 1988 for residential construction in Greater Montréal. Among other things, condominium starts will reach 9,500 units, an absolute record for this segment, which now accounts for one third of all new job sites. And, with 6,000 units anticipated this year, rental housing construction is showing surprising vigour that is exceeding our initial forecasts. However, as we will see later on, this is mainly due to a craze for the construction of apartments for seniors.

In 2005, we expect that starts in the Greater Montréal area will decline by 14 per cent, returning to a level of 24,000 units, similar to the results recorded in 2003. It is mainly multiple housing construction that will be affected. In fact, we anticipate that activity will decrease by 16 per cent in the condominium segment and by 21 per cent in the rental housing sector.

In the condominium segment, a slowdown has become necessary given the number of newly completed but unoccupied units. This balance stood at over 1,400 dwellings in September, its highest level since 1995. In addition, an increase in the number of condominiums listed on the resale market has been noted (see the resale market section). Finally, a rise in construction costs will surely lead to a significant price hike on a market where the upper price limit seems to have already been reached. All these factors are motivating our scenario of a downturn in condominium construction to 8,000 units in 2005. We are even anticipating the postponement of certain announced projects, particularly for upscale buildings downtown.

Getting back to the rise in construction costs, this is affecting concrete structures in particular, which will have an impact on multiple housing construction, including both condominium and rental housing projects. Some developers have advanced the figure of 30 per cent for the increase since the beginning of the year. This rise would appear to be attributable to two factors: a substantial increase in steel prices and a hike in labour costs. In fact, the current year has seen steel prices reach all-time highs, at the global level. And, steel is a major component of concrete structures (reinforcing bars, metal conduit for wires, electromechanical components, etc.). As well, a new collective agreement became effective on May 1 in the construction sector. Salary increases and improved benefits will drive up labour costs, especially in the sector known as heavy residential, that is, projects with four or more storeys.

New Single-family Home Market

Level of % Change, 2003 to 2004 and 2004 to 2005, by Submarket

	Starts					Average Price / Detached				
Submarket	**2003**	***2004p***	***Chg.***	***2005p***	***Chg.***	**2003**	***2004p***	***Chg.***	***2005p***	***Chg.***
Island of Montréal	**988**	***950***	***-4%***	***800***	***-16%***	**344,926**	***440,000***	***28%***	***500,000***	***14%***
Laval and North-Shore	6,411	*7,000*	***9%***	*6,450*	***-8%***	220,836	*240,000*	*9%*	*260,000*	*8%*
South-Shore	**3,187**	***2,950***	***-7%***	***2,650***	***-10%***	**183,322**	***220,000***	***20%***	***240,000***	***9%***
Total Montréal Area*	11,702	*12,200*	*4%*	*11,000*	*-10%*	219,977	*249,000*	*13%*	*272,000*	*9%*

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

Source: CMHC

RESALE MARKET

Slowly, but surely, toward a more balanced market

As we had expected, the resale market is on the way to setting a new transactions record. During 2004, some 37,000 properties will have changed hands in the Greater Montréal area, for a gain of 5 per cent over 2003. But, as the saying goes, all good things come to an end. There will be no more records in 2005. But, watch out! The market will remain very vigorous. We are anticipating 35,000 resales in 2005, or just 5 per cent fewer than this year's record. The steady increase in prices on the Montréal area market for the last three years and the gradual new rise in mortgage rates are pushing down affordability, which is mainly affecting the number of first-time home buyers.

However, the one trend that definitely seems to be turning around is the volume of listings. After falling continuously for seven years, listings started to edge up again slightly at the end of 2003, and this increase has been accelerating since then, peaking at just over 30 per cent in the third quarter of 2004. The rise in listings has extended to all housing types, but it is clearly more pronounced in the condominium segment.

Consequently, the rise in prices will turn out to be more moderate in 2005. The frantic pace of the price increase that began in 2002 is continuing as strong as ever this year, with expected hikes of 14 per cent for single-family homes, 10 per cent for condominiums and 16 per cent for plexes with two to five units. But the change of direction in the listings trend will slowly bring us toward a market where buyers have more choice and, as a result, a market that is somewhat more balanced. This is why we are anticipating that the seller-to-buyer ratios (currently at 4 to 1) will rise slightly and the price hikes will be half as significant in 2005. Single-family homes and plexes will therefore be, on average, 8 per cent more expensive, while condominium prices will rise by an average of 5 per cent.

In sum, our scenario for 2005 calls for transactions levelling off, listings consolidating their upward trend and prices continuing to rise, although more slowly than during the previous three years. We are therefore far from the catastrophic scenarios anticipated by some. At this time, given the prevailing seller's market, we feel that there is little risk of a generalized decrease in prices. However, we are not ruling out the possibility that, in the medium term, prices for certain housing types could sustain downturns. In fact, upscale condominiums are probably the most vulnerable in this regard.

Existing Single-Family Home Market

Level of % Change, 2003 to 2004 and 2004 to 2005 by Submarket

	Sales			Average Price		
Submarket	**2003**	***2004p***	***2005p***	**2003**	***2004p***	***2005p***
Island of Montréal	**5,391**	***5,600***	***5,100***	**269,213**	***307,000***	***325,000***
Change from previous year	**-3%**	***4%***	***-9%***	**18%**	***14%***	***6%***
Laval and North-Shore	9,100	*9,400*	*9,000*	154,794	*175,000*	*189,000*
Change from previous year	-4%	*3%*	*-4%*	18%	*13%*	*8%*
South-Shore	**6,647**	***6,800***	***6,500***	**160,978**	***185,000***	***199,000***
Change from previous year	**-8%**	***2%***	***-4%***	**18%**	***15%***	***8%***
Total Montréal Area*	22,387	*23,200*	*22,000*	185,883	*212,000*	*228,000*
Change from previous year	-5%	*4%*	*-5%*	18%	*14%*	*8%*

* 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

Little improvement for tenants, at least in conventional projects

After having hit an all-time low in 2001, as will be recalled, the vacancy rate in privately initiated rental projects in the Greater Montréal area has since started rising again very slowly, reaching 1.0 per cent in 2003.

Several fundamental variables, such as migration and youth employment, still underlie an upcoming increase in the number of renters. On the other hand, some renewed activity in the rental housing construction sector and, especially, the fact that a large number of people have recently accessed homeownership will act as a counterbalance. We therefore believe that the vacancy rate will rise slightly to 1.5 per cent this fall and then to 2.0 per cent in 2005.

Still according to our forecasts, the increases in average rents, in a market where negotiations favour landlords, will be just above inflation, that is, 4.0 per cent in 2004 and 3.5 per cent in 2005.

It is important to point out that rental housing construction (6,000 units in 2004 and 5,000 in 2005) will once again be concentrated in the retirement home segment. However, in this segment, developers will very soon have to curb their enthusiasm, as the current pace of this type of construction (over 2,800 units in 2003 and over 2,300 from January to September 2004) is not sustainable over the medium term. Once all these projects will have been completed, certain sectors will be saturated. For this reason, we are expecting a decrease in the number of new units for seniors next year.

Conversely, the volume of conventional rental housing construction remains low. The rents required to make such projects profitable are much higher than the current market rates. As a result, most of the conventional rental housing projects that have been added to the Montréal area housing stock in recent years are upscale buildings and therefore charge high rents.

To promote the production of affordable rental housing, CMHC has committed to providing $236,5 millions by the end of 2007-2008 to the Affordable Housing Québec program. The delivery of the units developed under this program should pick up the pace in 2005.

For further information about the Products and Services offered by the CMHC market Analysis Centre, please contact our Customer Service Group:

1 866 855-5711
Email: cam_qc@cmhc.ca

or visit our Web site: www.cmhc.ca

Forecast Summary

Montréal Metropolitan Area
October 2004

	2001	2002	2003	2004*	2005*	Chg. (%) 2004 vs 2003	Chg. (%) 2005 vs 2004
RESALE MARKET							
MLS Sales (1)							
Single-family houses	22,501	23,517	**22,387**	**23,200**	**22,000**	**4%**	**-5%**
Condominiums	6,188	6,945	**7,345**	**7,800**	**7,600**	**6%**	**-3%**
Plexes (2 to 5 units)	5,295	5,833	**5,591**	**6,000**	**5,400**	**7%**	**-10%**
Total	33,984	36,295	**35,323**	**37,000**	**35,000**	**5%**	**-5%**
Active MLS listings							
Single-family houses	10,989	6,995	**7,136**	**8,200**	**9,500**	**15%**	**16%**
Condominiums	2,915	1,902	**2,349**	**3,200**	**4,400**	**36%**	**38%**
Plexes (2 to 5 units)	3,586	2,182	**1,933**	**2,200**	**2,600**	**14%**	**18%**
Total	17,490	11,079	**11,418**	**13,600**	**16,500**	**19%**	**21%**
Average MLS price							
Single-family houses	137,907	157,440	**185,883**	**212,000**	**228,000**	**14%**	**8%**
Condominiums	116,337	139,297	**164,804**	**181,000**	**190,000**	**10%**	**5%**
Plexes (2 to 5 units)	163,078	183,942	**226,852**	**263,000**	**285,000**	**16%**	**8%**
NEW HOME MARKET							
Housing Starts							
Single-family houses	7,868	11,600	**11,702**	**12,200**	**11,000**	**4%**	**-10%**
Condominiums	3,763	5,687	**7,893**	**9,500**	**8,000**	**20%**	**-16%**
Rental housing units	1,669	3,267	**4,726**	**6,300**	**5,000**	**33%**	**-21%**
Total	13,300	20,554	**24,321**	**28,000**	**24,000**	**15%**	**-14%**
Average new house price							
Detached houses	177,399	194,502	**219,977**	**249,000**	**272,000**	**13%**	**9%**
Semi-detached houses	139,938	150,815	**171,955**	**192,000**	**204,000**	**12%**	**6%**
RENTAL MARKET							
Vacancy rate (October) (%)	0.6	0.7	**1**	**1.5**	**2.0**	**--**	**--**
Change in rents (%)	4.2	5.5	**4.2**	**4.0**	**3.5**	**--**	**--**
ECONOMIC OVERVIEW							
Mortgage rate 1-year (%)	6.1	5.2	**4.8**	**4.6**	**5.5**	**-0.2**	**0.9**
Mortgage rate 5-year (%)	7.4	7.0	**6.4**	**6.3**	**7.0**	**-0.1**	**0.7**
Employment (in thousand)	1,706	1,768	**1,796**	**1,830**	**1,865**	**1.9%**	**1.9%**
Annual employment variation (in thousands)	16	62	**28**	**37**	**35**	**--**	**--**
Unemployment rate (%)	8.2	8.4	**9.5**	**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