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Province of Quebec

Canada Mortgage and Housing Corporation

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SECOND QUARTER 2006

Small Decrease in First Quarter in Residential Construction in Quebec

After having dropped by 19 per cent in the third quarter and by 15 per cent in the fourth, residential construction in Quebec dipped 3 per cent in the first quarter of 2006, compared with the same period last year. This decrease was attributable to a significant drop in rural housing starts (-50 per cent). As for urban centres, starts were up 8 per cent, thanks to a sharp rise in March, notably in the Montréal region. Thus, the decline in Quebec residential construction continued in the first quarter and translated into 8,523 housing starts during this period.

Regionally: a Mixed Picture

As mentioned, a 50-per-cent drop in rural housing starts kept the provincial total in a declining situation in the first quarter. This decrease was observed for both single-detached and multi-housing categories. As well as signalling slowing demand, the recent rural results are explained by modifications made by CMHC to its rural sample in order to better reflect the share these regions represent.

At the urban level, home building evolved in different ways during the

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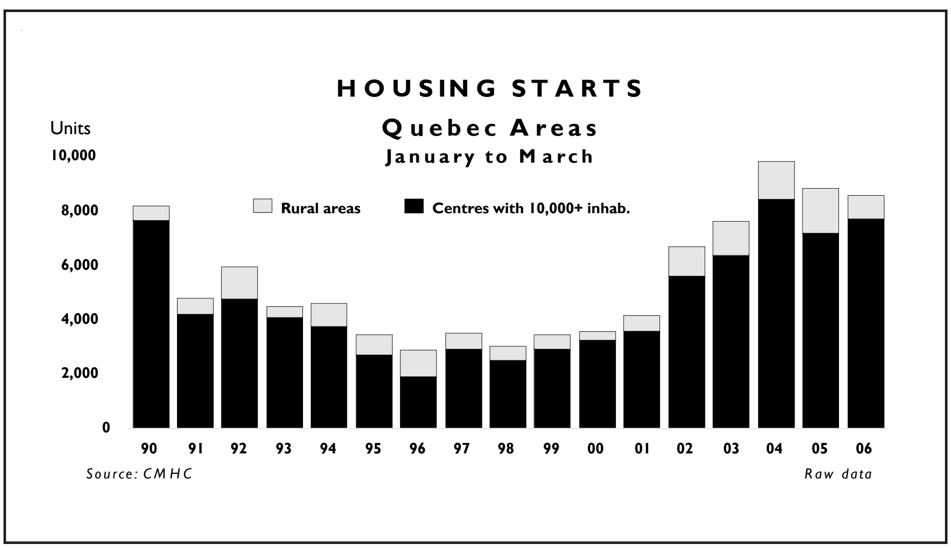

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first quarter. In fact, the first three monthly surveys of the year show that 14 of the 35 urban centres recorded decreases in starts, whereas 20 centres saw rises.

Among the centres recording major gains were the Gatineau (+39 per cent) and Trois-Rivières (+71 per cent) regions, where rises were recorded throughout the quarter, and the Montréal region, whose 9-per-cent rise was obtained thanks to a sharp increase in activity in March. The Drummondville agglomeration (+40 per cent) also registered a notable increase stemming from a spike in multi-family starts.

Notable among centres recording drops were the Québec region (-19 per cent), which saw a slowdown across all market types, and the Sherbrooke region (-17 per cent), whose weakness was confined to the freehold and condominium tenure types.

Market Segments: Multi-Family Housing Bounces Back

The main reason explaining the moderate decrease in housing starts in the first quarter, compared to those of the last two quarters, is the recent strength of multi-family construction during the past three months. Rising by over 17 per cent compared to the first quarter of 2005, building in this market segment (which includes semi-detached and row homes, as well as apartments) owes its rise to the continued activity in the condominium apartment sector. Equally notable in the multi-family category were rental starts; however, it should be pointed out that the rise in this segment came mostly from apartment starts in seniors' residences, a market that has apparently not lost any speed.

Resale Market: Slower but Holding On

While not having the same vigour as in the early 2000s, the resale market remains tenacious. According to the latest results published by the Canadian Real Estate Association (CREA), Quebec recorded 3-per-cent growth compared to the same period last year (20,075 transactions recorded on the Multiple Listing Service (MLS®) during the first quarter of 2006, compared to 19,493 in 2005). This is now the fourth quarter for which resales were greater than in the same period a year earlier. Still according to CREA, the average price of these transactions rose by 6.4 per cent during this same quarter, attaining $188,835. This latest result is in line with the slowdown that began in the summer of 2004. At that time, average price growth had dropped from 15 per cent to 9 per cent. On the listings side, CREA reports a 12-per-cent increase, which follows the upward trend of the last two years. The course taken by the resale market for over a year (slower sales and price growth, rising listings) brings this market toward a more balanced state. As a consequence, a smaller portion of potential buyers will turn to the new home market.

Rental Market: Gradual Easing

Whereas no official results have been compiled since the last annual survey held in October 2005 (results at the time revealed gradual rises in vacancy rates in most large urban centres), several trends merit attention and are thus useful in the analysis of this market. While the gradual upward trend in rental supply is measurable, that of demand is much less so because of the conflicting directions of several fundamental factors. The stimulatory effects of current migration levels and the higher price of substitute housing choices are dampened by a weaker job market, making the net effect on demand unclear. That being said, it is expected that the rental market will pursue its gradual easing in 2006.

Economy: Moderate Growth

As for previous quarters, the recent cooling in Quebec's housing markets is largely explained by a corresponding economic slowdown in prior periods, notably by weaker job growth. Currently, the economic landscape has not changed significantly. According to the first results for 2006, GDP growth remains moderate, while employment is growing at around 1 per cent. As we mentioned in previous editions of *Housing Now*, domestic demand and private sector investment in fixed capital are the main engines of Quebec's economy at the present time. The weak point remains the province's export sector, which continues to feel the effects of a higher Canadian dollar and rising energy costs.

Migration: Western Canada Drawing Power Has Effects in Quebec

According to the latest results from Statistics Canada, Quebec's net migration reached 2,213 during the last three months of 2005, a 38-per-cent drop from the same quarter in 2004. This result brought annual net migration to 28,990, a 17-per-cent drop from 2004. The most noticeable feature of Quebec's migration in 2005 was the interprovincial level. Attaining a deficit of 4,670 compared to 1,870 in 2004, the interprovincial balance was marked by an 18-per-cent rise in migration toward other provinces.

Construction Times

Residential construction times have been on an upward trend in Quebec for the past several years. Overall, in Quebec's major urban areas, it took an average of one and a half months longer to build a home in 2004 than it did in the 1990s.

Differences related to building size

The construction time mentioned above applies to all building sizes combined. Even though times increased for both single-detached homes and apartment buildings, the phenomenon is naturally more significant for larger buildings. On average, construction times are 1.4 months longer for single-detached houses and 2.7 months longer for larger buildings (50 to 99 units). Also, if the average time for 2004 is adjusted to take into account the dwellings started that year and still under construction, then this average went up by 3.9 months in relation to 1997 for buildings with 50 to 99 units.

Among the causes

In 1996, residential construction bottomed out in Quebec. In the years that followed, the starts volume rose steadily and even started climbing significantly at the beginning of the current decade. The increase in demand for new dwellings was such that supply could not keep up at times, for lack of labour. For builders, it is all the more difficult to find skilled trades during peak periods, as the wages, which are higher in the non-residential sector, often incite skilled workers to opt for the better-paying job[1].

Consequences

The longer construction times result in significant costs. First, they increase borrowing costs for builders and consequently raise home prices. Second, when buyers must vacate their current dwelling by a specific date, they must find temporary housing elsewhere if their new home is not ready on time (however, the different warranty programs cover a portion of these costs for buyers of dwellings contained in buildings with fewer than four storeys).

Change ahead

With the expected slowdown in construction and the innovations in construction methods, the situation should change over the coming years. Already, in 2005, the situation no longer felt as critical as in the previous three years. While the data for 2005 seems to be indicating a significant decrease in construction times, we will therefore have to wait several more months before getting the real picture for 2005, as close to 3,000 buildings started last year are still under construction.

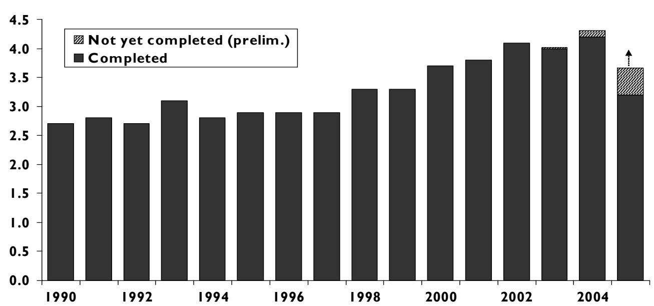
Methodological note

Construction times correspond to the difference between the date (year/month) when buildings were completed and the date when they were started and are therefore rounded to the nearest month. The calculation includes buildings that were started and completed before April 2006. In the case of buildings that have not yet been completed, the times are equal to the difference between the date when they were started and April 2006. These are consequently preliminary times and they could increase. The data reflects the situation in areas with 50,000 or more inhabitants only, as completions are not monitored for smaller areas. CMHC must have received the building permits issued by the municipalities before enumerating the starts. Since constructions sometimes get under way before the permits are received, the calculated construction times may therefore be slightly underestimated.

[1] For more details, see the *Research Highlights* issue entitled *Skills Shortages in the Residential Construction Industry*.

More Time to Build

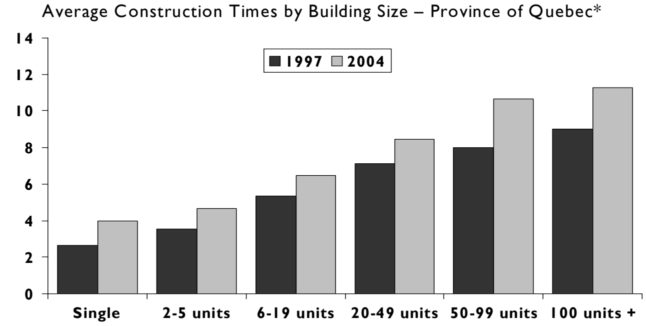
Average Construction Time – Province of Quebec*



Source: CMHC
**Areas with 50,000 or more inhabitants*
Prelim.: Preliminary time for buildings not yet completed but still under construction (time from April 2006)

All Buildings Affected by Longer Construction Times

Average Construction Times by Building Size – Province of Quebec*



Source: CMHC
**Areas with 50,000 or more inhabitants*

Definition and Concepts

Intended Markets - There are three: the Freehold market refers to Single-Family Houses (Detached, Semi-Detached and Row) owned under freehold tenure; the condominium segment comprises houses and apartments held under divided co-ownership; and finally the rental market encompasses apartment dwellings.

Housing Starts - refer to the beginning of construction work on a building, usually when the concrete has been laid for the entire footing around the structure, or at an equivalent stage where a basement will not be a part of the structure.

Under Construction - units that have been started but that are not completed. The number of units under construction at the end of a period may take into account certain adjustments that took place, for various reasons, after the starts were reported.

Completions - units where all proposed construction work has been performed or, in some cases, where ninety percent of all construction work is completed and the structure is fit for occupancy.

Unoccupied Units - new completed units that have remained unoccupied.

Total Medium-Term Supply - total supply of new units including units under construction, units that are completed but not occupied and permits issued but not started.

Absorptions - newly completed units that have been sold or rented. The number of absorptions is obtained from a survey initiated when the structure is completed. Units presold or pre-leased are not included until the completion stage. The number of absorbed units is the number of completed and unoccupied units from the previous quarter plus completions for the current month minus completed and unoccupied units for the current month.

Duration of Inventory - period necessary for the absorption of unoccupied units, i.e. the ratio between unoccupied units and absorbed units (average for the last twelve months). This figure is expressed in months.

Seasonally Adjusted Annual Rates (SAAR) - raw monthly figures, adjusted to remove normal seasonal variation and multiplied by 12.

Table 1
Summary of Activity by Area and by Intended Market
Province of Quebec

Activity / Area	Ownership (Freehold* & Condominium)		Rental		Total	
	1st Q 2006	1st Q 2005	1st Q 2006	1st Q 2005	1st Q 2006	1st Q 2005
Starts						
Metropolitan areas (1)	5,138	4,815	1,585	1,572	6,723	6,387
Urban areas (2)	605	562	372	203	977	765
Rural areas (3)	n.a.	n.a.	n.a.	n.a.	823	1,646
Total - Province of Quebec	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**8,523**	**8,798**
Completions						
Metropolitan areas (1)	4,584	4,411	1,119	1,606	5,703	6,017
Urban areas (2)	704	754	261	302	965	1,056
Rural areas (3)	n.a.	n.a.	n.a.	n.a.	1,578	1,256
Total - Province of Quebec	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**8,246**	**8,329**
Under construction**						
Metropolitan areas (1)	14,309	15,231	8,145	7,394	22,454	22,625
Urban areas (2)	999	948	1,017	877	2,016	1,825
Rural areas (3)	n.a.	n.a.	n.a.	n.a.	2,957	3,888
Total - Province of Quebec	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**27,427**	**28,338**

Source: CMHC

** Refers to single-family houses (single-detached, semi-detached and row homes) owned under freehold tenure and owner-occupied duplexes*

*** At the end of the period shown*

(1) Population of 100,000 or more

(2) Population between 10,000 and 99,999

(3) Population of 9,999 or less

Table 2
Economic Overview
Province of Quebec

	2006 1st Quarter	2005 4th Quarter	2005 3rd Quarter	2005 2nd Quarter	2005 1st Quarter
Gross domestic product (%)	1.8	1.3	2.0	2.4	2.1
Employment level - total* (000)	3,750	3,748	3,730	3,690	3,702
Employment rate* (%)	60.2	60.3	60.3	59.8	60.2
Unemployment rate* (%)	8.4	8.2	8.3	8.2	8.3
Inflation rate (%)	1.9	(0.2)	4.0	3.2	1.7
Net migration	n.a.	2,213	10,758	9,166	6,853
Mortgage rates (%) - Canada					
1-year	5.9	5.6	5.0	4.8	4.9
5-year	6.4	6.2	5.8	5.9	6.1
Resale market (MLS sales) Total residential units	n.a.	15,074	15,280	20,802	19,493
Index of Consumer Confidence* (1991=100)	115.9	108.9	99.3	122.2	123.3

Sources: Statistics Canada, Conference Board of Canada, Canadian Real Estate Association

** Seasonally adjusted annual rates*

Table 3
Housing Starts by Metropolitan Area and by Intended Market
Province of Quebec

Area / Period	Ownership: Freehold	Ownership: Condominium	Rental	Total
Saguenay				
First quarter 2006	13	0	4	17
First quarter 2005	16	0	22	38
Year-to-date 2006 (jan.-march)	13	0	4	17
Year-to-date 2005 (jan.-march)	16	0	22	38
Gatineau				
First quarter 2006	340	51	55	446
First quarter 2005	207	97	18	322
Year-to-date 2006 (jan.-march)	340	51	55	446
Year-to-date 2005 (jan.-march)	207	97	18	322
Montréal				
First quarter 2006	1,764	2,031	1,030	4,825
First quarter 2005	1,956	1,477	983	4,416
Year-to-date 2006 (jan.-march)	1,764	2,031	1,030	4,825
Year-to-date 2005 (jan.-march)	1,956	1,477	983	4,416
Québec				
First quarter 2006	556	203	314	1,073
First quarter 2005	622	281	418	1,321
Year-to-date 2006 (jan.-march)	556	203	314	1,073
Year-to-date 2005 (jan.-march)	622	281	418	1,321
Sherbrooke				
First quarter 2006	75	0	50	125
First quarter 2005	96	20	35	151
Year-to-date 2006 (jan.-march)	75	0	50	125
Year-to-date 2005 (jan.-march)	96	20	35	151
Trois-Rivières				
First quarter 2006	105	0	132	237
First quarter 2005	43	0	96	139
Year-to-date 2006 (jan.-march)	105	0	132	237
Year-to-date 2005 (jan.-march)	43	0	96	139
TOTAL - METROPOLITAN AREAS				
First quarter 2006	2,853	2,285	1,585	6,723
First quarter 2005	2,940	1,875	1,572	6,387
Year-to-date 2006 (jan.-march)	2,853	2,285	1,585	6,723
Year-to-date 2005 (jan.-march)	2,940	1,875	1,572	6,387

Source: CMHC

Table 4
Under Construction and Completions by Metropolitan Area and by Intended Market
Province of Quebec

Area / Period	Under Construction*				Completions			
	Ownership		Rental	Total	Ownership		Rental	Total
	Freehold	Condo-minium			Freehold	Condo-minium		
Saguenay								
First quarter 2006	49	0	88	137	32	5	4	41
First quarter 2005	49	0	33	82	27	0	23	50
Gatineau								
First quarter 2006	327	216	234	777	452	177	118	747
First quarter 2005	476	420	79	975	392	89	66	547
Montréal								
First quarter 2006	3,702	8,417	6,412	18,531	1,610	1,277	840	3,727
First quarter 2005	4,297	8,035	5,755	18,087	2,019	1,003	1,116	4,138
Québec								
First quarter 2006	674	732	1,092	2,498	697	178	60	935
First quarter 2005	910	806	1,270	2,986	515	225	270	1,010
Sherbrooke								
First quarter 2006	112	8	126	246	74	8	42	124
First quarter 2005	105	72	187	364	85	3	36	124
Trois-Rivières								
First quarter 2006	72	0	193	265	68	6	55	129
First quarter 2005	55	6	70	131	53	0	95	148
TOTAL - METROPOLITAN AREAS								
First quarter 2006	4,936	9,373	8,145	22,454	2,933	1,651	1,119	5,703
First quarter 2005	5,892	9,339	7,394	22,625	3,091	1,320	1,606	6,017

** At the end of the period shown*
Source: CMHC

NOTE TO READERS: Prior to July 2002, the CMHC Starts and Completions Survey consisted of a monthly enumeration of new housing activity in urban centres with a population of 10,000 persons and over. As of July 2002, the survey will be conducted monthly in urban centres with a population of 50,000 persons and over and quarterly in urban centres with a population of 10,000 to 49,999 persons. Statistical models will be used to estimate provincial and national housing starts in urban centres with a population of 10,000 persons and over, on a monthly basis. The methodology is unchanged for estimating housing starts in rural areas (areas other than urban centres with a population of 10,000 persons and over). In these areas, a sample survey is used on a quarterly basis. As was the case in the past, statistical models continue to be used to estimate national housing starts in all areas on a monthly basis.

Table 5 Housing Starts for Centres with 50,000 to 99,999 Inhabitants Province of Quebec				
	Ownership			
Centre / Period	Freehold	Condominium	Rental	Total
Drummondville				
First quarter 2006	55	25	56	136
First quarter 2005	55	0	27	82
Year-to-date 2006 (jan.-march)	55	25	56	136
Year-to-date 2005 (jan.-march)	55	0	27	82
Granby				
First quarter 2006	59	30	20	109
First quarter 2005	95	14	11	120
Year-to-date 2006 (jan.-march)	59	30	20	109
Year-to-date 2005 (jan.-march)	95	14	11	120
Saint-Jean-sur-Richelieu				
First quarter 2006	112	0	18	130
First quarter 2005	125	0	22	147
Year-to-date 2006 (jan.-march)	112	0	18	130
Year-to-date 2005 (jan.-march)	125	0	22	147
Shawinigan				
First quarter 2006	20	0	8	28
First quarter 2005	16	0	4	20
Year-to-date 2006 (jan.-march)	20	0	8	28
Year-to-date 2005 (jan.-march)	16	0	4	20

Source: CMHC

Table 6 Housing Starts for Centres with 10,000 to 49,999 Inhabitants Province of Quebec				
	Ownership			
Centre / Period	Freehold	Condominium	Rental	Total
Alma				
First quarter 2006	5	0	0	5
First quarter 2005	0	0	6	6
Year-to-date 2006 (jan.-march)	5	0	0	5
Year-to-date 2005 (jan.-march)	0	0	6	6
Baie-Comeau				
First quarter 2006	2	0	0	2
First quarter 2005	0	0	0	0
Year-to-date 2006 (jan.-march)	2	0	0	2
Year-to-date 2005 (jan.-march)	0	0	0	0
Cowansville				
First quarter 2006	3	0	7	10
First quarter 2005	2	0	0	2
Year-to-date 2006 (jan.-march)	3	0	7	10
Year-to-date 2005 (jan.-march)	2	0	0	2
Dolbeau				
First quarter 2006	11	0	4	15
First quarter 2005	3	0	0	3
Year-to-date 2006 (jan.-march)	11	0	4	15
Year-to-date 2005 (jan.-march)	3	0	0	3

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Table 6 (cont.)
Housing Starts for Centres with 10,000 to 49,999 Inhabitants
Province of Quebec

Centre / Period	Ownership: Freehold	Ownership: Condominium	Rental	Total
Joliette				
First quarter 2006	27	0	12	39
First quarter 2005	37	0	28	65
Year-to-date 2006 (janv.-mars)	27	0	12	39
Year-to-date 2005 (janv.-mars)	37	0	28	65
Lachute				
First quarter 2006	8	0	4	12
First quarter 2005	13	0	0	13
Year-to-date 2006 (janv.-mars)	8	0	4	12
Year-to-date 2005 (janv.-mars)	13	0	0	13
La Tuque				
First quarter 2006	1	0	0	1
First quarter 2005	0	0	0	0
Year-to-date 2006 (janv.-mars)	1	0	0	1
Year-to-date 2005 (janv.-mars)	0	0	0	0
Magog				
First quarter 2006	20	11	6	37
First quarter 2005	25	8	0	33
Year-to-date 2006 (janv.-mars)	20	11	6	37
Year-to-date 2005 (janv.-mars)	25	8	0	33
Matane				
First quarter 2006	6	0	6	12
First quarter 2005	0	0	0	0
Year-to-date 2006 (janv.-mars)	6	0	6	12
Year-to-date 2005 (janv.-mars)	0	0	0	0
Rimouski				
First quarter 2006	10	0	0	10
First quarter 2005	21	0	0	21
Year-to-date 2006 (jan.-march)	10	0	0	10
Year-to-date 2005 (jan.-march)	21	0	0	21
Rivière-du-Loup				
First quarter 2006	2	0	0	2
First quarter 2005	13	0	10	23
Year-to-date 2006 (jan.-march)	2	0	0	2
Year-to-date 2005 (jan.-march)	13	0	10	23
Rouyn-Noranda				
First quarter 2006	3	0	0	3
First quarter 2005	0	0	0	0
Year-to-date 2006 (jan.-march)	3	0	0	3
Year-to-date 2005 (jan.-march)	0	0	0	0
Saint-Georges				
First quarter 2006	12	0	0	12
First quarter 2005	16	0	73	89
Year-to-date 2006 (jan.-march)	12	0	0	12
Year-to-date 2005 (jan.-march)	16	0	73	89

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Table 6 (cont.) Housing Starts for Centres with 10,000 to 49,999 Inhabitants Province of Quebec				
	Ownership			
Centre / Period	Freehold	Condominium	Rental	Total
Saint-Hyacinthe				
First quarter 2006	22	0	32	54
First quarter 2005	6	0	8	14
Year-to-date 2006 (janv.-mars)	22	0	32	54
Year-to-date 2005 (janv.-mars)	6	0	8	14
Salaberry-de-Valleyfield				
First quarter 2006	6	6	13	25
First quarter 2005	9	0	0	9
Year-to-date 2006 (janv.-mars)	6	6	13	25
Year-to-date 2005 (janv.-mars)	9	0	0	9
Sept-Îles				
First quarter 2006	7	0	0	7
First quarter 2005	0	0	0	0
Year-to-date 2006 (janv.-mars)	7	0	0	7
Year-to-date 2005 (janv.-mars)	0	0	0	0
Sorel				
First quarter 2006	12	4	0	16
First quarter 2005	24	9	0	33
Year-to-date 2006 (janv.-mars)	12	4	0	16
Year-to-date 2005 (janv.-mars)	24	9	0	33
Thetford-Mines				
First quarter 2006	4	0	0	4
First quarter 2005	5	0	0	5
Year-to-date 2006 (janv.-mars)	4	0	0	4
Year-to-date 2005 (janv.-mars)	5	0	0	5
Val-d'Or				
First quarter 2006	1	0	0	1
First quarter 2005	1	0	0	1
Year-to-date 2006 (jan.-march)	1	0	0	1
Year-to-date 2005 (jan.-march)	1	0	0	1
Victoriaville				
First quarter 2006	34	0	26	60
First quarter 2005	23	0	0	23
Year-to-date 2006 (jan.-march)	34	0	26	60
Year-to-date 2005 (jan.-march)	23	0	0	23
Other urban centres*				
First quarter 2006	87	0	160	247
First quarter 2005	42	0	14	56
Year-to-date 2006 (jan.-march)	87	0	160	247
Year-to-date 2005 (jan.-march)	42	0	14	56

Source: CMHC

* Amos, Gaspé, Montmagny, Roberval, Sainte-Marie, Saint-Félicien, Saint-Lin (2003) and Hawkesbury (Quebec Part)

CMHC – HOME TO CANADIANS

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