HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Montréal CMA

Canada Mortgage and Housing Corporation

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Environment still very favourable to the real estate market

Quebec's economy will expand at a more moderate rate during the next two years, as weaker consumer spending and a struggling export sector bring down provincial GDP growth below the 2-per-cent mark in 2007. Given the new political landscape, it is difficult to anticipate the degree to which the provincial government will be able to stimulate Quebec's economy with fiscal measures. Growth in public spending is forecast to remain limited; however, several major projects are expected for 2007. Given this context, we expect GDP and employment growth in 2007 of 1.7 per cent and 1.3 per cent, respectively.

In the Montréal census metropolitan area (CMA), employment growth will continue for a 14th and 15th year in a row in 2007 and 2008, with gains of 1.5 per cent and 1.3 per cent, respectively. In particular, the service sector will keep posting good growth, but the manufacturing sector, on the other hand, will remain shaky. The results for the first quarter of 2007 show that employment has effectively continued to grow in the Montréal CMA, which will be beneficial to the residential real estate market. In the first quarter of 2007, full-time employment (+7.3 per cent) grew more significantly than part-time employment (+1.6 per cent), and people aged 25 years or older were the ones who benefited the most from the latest jobs created (+3.9 per cent), as younger people (under 25 years) were not so lucky, since they experienced a decline in employment (-4.5 per cent). Also, it should be mentioned that, in the first quarter of 2007, the unemployment rate reached 7.7 per cent, one of the lowest levels in 10 years.

The demographic factors will continue to support housing demand. Net migration will reach a similar level in 2007 as in 2006 and will then increase in 2008. In fact, the level will fall by 1 per cent to 14,600 people this year and then rise by 7 per cent to 15,600 people in 2008. Although international

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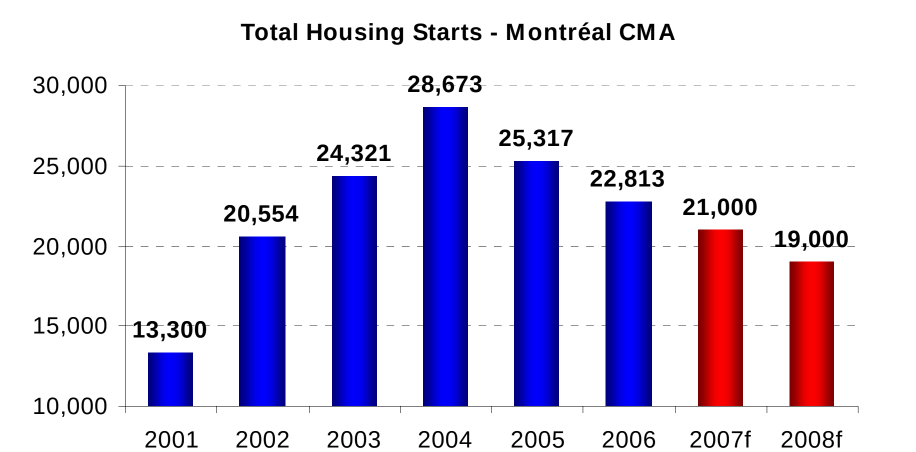
immigration will remain the principal source of migration in the Montréal CMA, fewer people will be moving out West, which should allow net migration to start increasing again in 2008.

Consumer confidence, although no longer as high as at the beginning of the current decade, should remain relatively strong. The level went up in the first quarter of 2007, as 50 per cent of consumers felt that it was a good time to make a major outlay for an item such as a home, which was slightly higher than at the end of 2006.

As well, financing conditions will remain very attractive. A combination of a slowing economy, strong Canadian dollar vis-à-vis the U.S. dollar and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2008. Short-term mortgage rates will also ease as the prime rate nudges down over the next twelve months, while long-term mortgage rates will rise slightly in line with bond rates. One-, three- and five-year posted mortgage rates are forecast to be in the 5.75-6.75, 6.00-7.00 and 6.25-7.25 per cent ranges, respectively, over the rest of this year and in 2008.

Figure 1



Source: CMHC
f: CMHC forecasts

New home market

2007 and 2008 will be very busy years

This year and next, housing starts in the overall Montréal CMA are expected to fall for a third and fourth time in a row, by 8 per cent and 10 per cent, respectively, and reach 21,000 and 19,000 units. The increase in supply on both the new and existing home markets, the fact that latent demand has been met, and the price gap between new and existing homes will contribute to slowing down residential construction. While activity will slow down in all market segments, condominium and rental housing will be slightly more affected.

Despite this anticipated slowdown, 2007 and 2008 will still be very busy years, as the levels of activity will be high, compared to the period preceding 2002. It should be recalled that, in 2002, housing starts had jumped up by over 50 per cent and surpassed the 20,000-unit mark, and this level was then exceeded year after year until 2006, thanks to a favourable context and also because there was some catching up to do. In fact, from 2002 to 2006, the creation of new dwellings exceeded household formation[1], which offset the under-production recorded from 1992 to 2001, a period that had been marked by an economic slowdown and high inventories of unoccupied rental units.

Freehold homes: more affordable dwellings to perform better

In recent years, the new home market has lost some ground to the resale market, because the price gap between new and existing homes has widened. In 2006, this gap reached 23 per cent, or close to $55,000, which prompted some households to opt for an existing home during the past year. Since this will continue to be the case in 2007 and 2008, further decreases in freehold home starts are anticipated. Such starts will therefore fall by 7 per cent in 2007 and by 5 per cent in 2008, for totals of 8,600 units and 8,200 units, respectively.

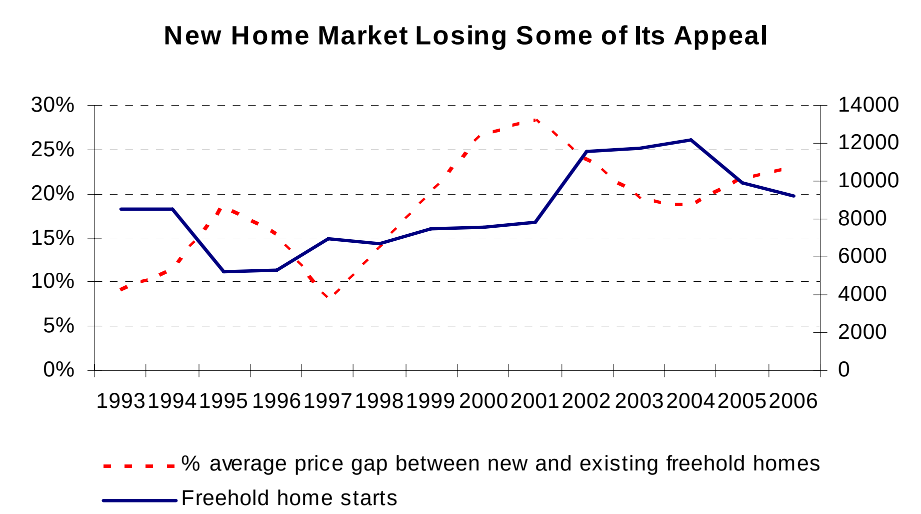
However, like in 2006, more affordable new homes, like semi-detached, row and other types of dwellings, will be more popular. Given that, in 2006, the average price for single-detached houses was almost 50 per cent higher than the average for semi-detached homes—the widest gap since 1989—and that the price of single-detached homes rose four and a half times faster than the price of semi-detached houses, it is not surprising to see that

[1] The annual household formation (21,300) is estimated using the number of dwellings occupied by usual residents at the time of the 2006 Census.

single-detached houses attracted fewer buyers last year and that they are losing ground to more affordable homes.

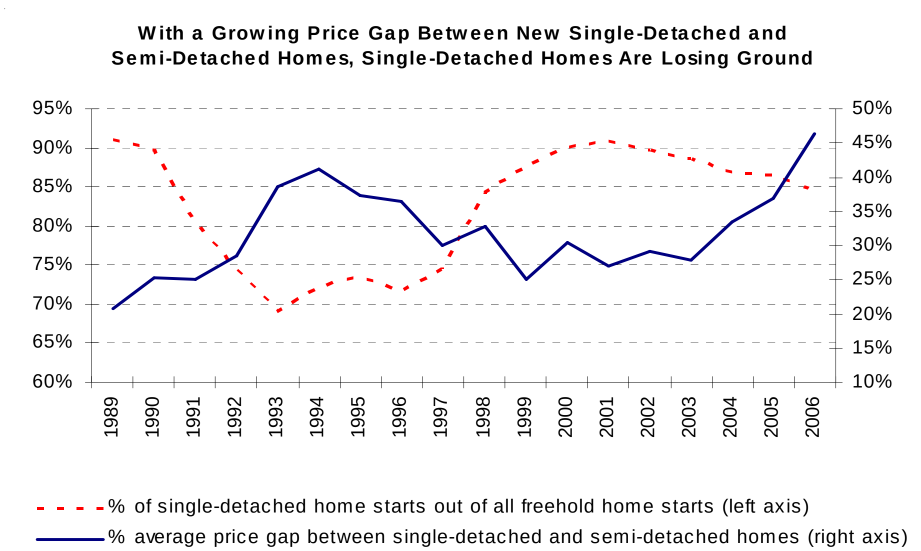
The construction of semi-detached and other types of houses will therefore increase by 5 per cent this year (to a total of 1,500 units) and will be just as active in 2008 as in 2007. However, single-detached home building will decline by 9 per cent this year and by 6 per cent in 2008, and starts should reach 7,100 units and 6,700, respectively. Prices, for their part, will keep rising more slowly for semi-detached homes (+4 per cent in 2007 and 2008) than for single-detached houses (+6 per cent in 2007 and +5 per cent in 2008).

Figure 2



Sources: CMHC and GMREB

Figure 3



Sources: CMHC and GMREB

Condominiums: activity to decline in the future

In the fall of 2006, even if there was no cause for alarm at the CMA level, the duration of supply in months[2] was getting longer. While demand for condominiums is gradually easing and starts fell during the past year, households wanting to buy a condominium still have a great deal of choice on both the new and existing home markets. As a result, condominium starts will continue to decline in 2007 and 2008, so as not to overly increase supply in relation to demand, which should help ensure a slightly more rapid absorption of new units. In all, 7,400 starts are expected in 2007 and 6,500, in 2008, for decreases of 8 per cent and 12 per cent, respectively. It should be noted that these levels of activity will still be high, as they will exceed the annual average for the last ten years (5,573 units), and that this type of housing will remain popular, accounting for close to one in three housing starts.

Downtown, the most active sector in the CMA, where the upscale units are concentrated, deserved special attention at the end of 2006, as the duration of supply exceeded 20 months there. An update of the situation indicates that there has been some improvement and that things are gradually getting back to normal. The duration of supply, while still above 20 months, decreased slightly in March 2007 from the peak reached in January, thanks to a decline in starts and a somewhat stronger demand.

[2] Number of months required to absorb the unoccupied units and 50 per cent of the units under construction, calculated as follows: Duration of Supply (in months) = (units under construction + unoccupied units) / (average number of units absorbed per month over the year)

The Sainte-Thérèse sector, where a transit-oriented development (TOD) is under way near the train station, deserves slightly more attention. The many condominium units started there in late 2006, combined with a relatively higher inventory of new unabsorbed units and a rather stagnant demand since the end of 2006, caused the duration of supply to attain almost three years (six-month average of 34 months) this past March.

Rental housing: construction to keep slowing down

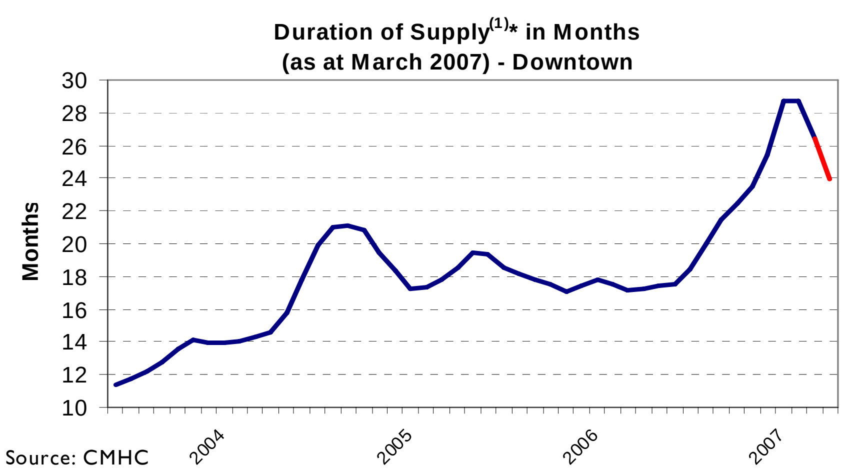
Since 2004, traditional rental starts have been slightly more numerous, but still limited, in the Montréal CMA. Thanks to various government programs, the production of cooperative, social and affordable housing was stimulated and even surpassed the construction of retirement housing. It should be pointed out that the retirement home segment has still been very active, with annual starts levels exceeding 2,000 units since 2004.

In October 2006, the vacancy rate reached 2.7 per cent, compared to 2.0 per cent in 2005, for the most significant increase since 2002. Rental housing demand was boosted by a positive net migration, even though this level has decreased by close to half since 2001-2002, and by youth employment gains. However, the higher demand was not sufficient to compensate for the units that were vacated by households who accessed homeownership and the new rental housing units that arrived on the market. Consequently, the number of unoccupied units increased.

The vacancy rate for apartment retirement homes also went up, increasing from 4.0 per cent in October 2005 to 4.7 per cent this past October. With latent demand having largely been met, the addition of many units to the retirement housing stock was the main factor that accounted for the easing of the market.

With the rise in the vacancy rate, rental housing construction should continue to slow down, in both the traditional and retirement housing segments. Decreases of 10 per cent and 14 per cent are therefore anticipated this year and next year, as starts should reach 5,000 and 4,300 units, respectively. Even though it appears that 2007 will be less active than 2006, the fact remains that several retirement housing projects have been announced for this year and many units will be built. Based on the announcements that we have identified, we have estimated that the retirement housing stock should grow by around 2,100 apartments in 2007, which represents a decrease of 13 per cent from the 2,401 units started in 2006.

Figure 4



Source: CMHC

(1) Number of months required to absorb the unoccupied units and 50 per cent of the units under construction

* Six-month moving average

Rental market

Further vacancy rate increases expected

In 2007 and 2008, the factors that influenced the rental market in 2006 will continue to interact in the same manner. As a result, the vacancy rate will rise to 3.2 per cent in 2007 and then to 3.5 per cent in 2008. However, the decreases in starts expected this year and in 2008 will limit, to a certain extent, the next vacancy rate increases in the Montréal CMA.

Resale market

Heading for a new record

The year 2007 got off to a strong start on the resale market, with transactions up by 10 per cent in the first quarter over the same period in 2006. Benefiting from a favourable environment and gaining some ground on the new home market, on account of a price gap that favours existing homes, the Montréal resale market is very likely heading for a new record in 2007. Transactions registered through the Greater Montréal Real Estate Board (GMREB) Service inter-agences / Multiple Listing Service (S.I.A. / MLS)® will rise by 4 per cent in relation to 2006 and reach 40,300 units. In 2008, the market will again benefit from favourable conditions and will therefore be just as active as in 2007.

Given their affordability, the popularity of condominiums will not wane, such that this market segment will register the strongest increase in resales in 2007 and will be the only one to post a gain in 2008. Condominium resales will rise by 5 per cent in 2007 and by 2 per cent in 2008, and will therefore surpass the 10,000-unit mark. Single-family homes, for their part, will also do well, as transactions will increase by 4 per cent to 25,300 units this year and then stabilize at this level in 2008. Most single-family home resales will take place in the suburbs, where these houses are more affordable. It should be noted that, in 2006, on average, single-family homes located in the suburbs were less expensive than condominiums situated on the Island of Montréal. Finally, in 2007, after four consecutive annual decreases, plex resales will stabilize at their 2006 level (4,800 units) but will then fall again, by 4 per cent, in 2008 (4,600 units), as the choice will continue to be limited for plex buyers.

Listings to rise modestly

The rise in listings since 2003 helped market conditions ease. In fact, there were so few properties for sale that they were selling like hot cakes, which led to a wave of major price hikes. Some homeowners took advantage of the vigorous market to get a good price for their home, which eased the market and limited the growth in prices, not to mention that the listing periods got longer. The frenzy calmed down and the rise in listings ran out of steam, and this trend will definitely continue this year and next year. Since sales will increase faster than new listings this year, the rise in listings will be slightly slower (+6 per cent) than in 2008 (+7 per cent). In the Montréal CMA, there will be an average of 23,300 "For Sale" signs every month in 2007 and 25,000, in 2008.

Condominium listings will continue to rise faster than single-family home or plex listings. In fact, condominium listings will increase by 10 per cent this year and by 12 per cent in 2008, or twice as fast as single-family home listings. Plex listings, however, will go up by just 2 per cent in 2007 and 2008.

In 2007, market conditions will remain much like in 2006 and will then ease slightly in 2008. However, this easing will not be sufficient for the market segments to change classifications. The single-family home and plex segments will therefore remain sellers' markets, and the condominium market will stay balanced.

Price increases to reflect market conditions

The growth in prices will continue to be more modest, given the less tight market conditions than in past years, but the increases will also depend on the market classifications. Since the single-family home and plex markets are categorized as sellers' markets, the price hikes will be slightly greater than on the condominium market, which is balanced. In sum, single-family home and plex prices will increase by 5 per cent this year and by 4 per cent in 2008, while the price of condominiums will rise by 4 per cent this year and by 3 per cent next year.

Forecasts - Resale market
Montréal CMA

	2006	2007f	Var. en %	2008f	% chg.
S.I.A®/ MLS® Sales					
Single Family House	24,317	25,300	4%	25,300	0%
Condominium	9,688	10,200	5%	10,400	2%
Plex	4,787	4,800	0%	4,600	-4%
Active S.I.A®/ MLS® Listings					
Unifamilial	12,717	13,400	5%	14,200	6%
Copropriété	6,551	7,200	10%	8,050	12%
Plex	2,650	2,700	2%	2,750	2%
Average S.I.A®/ MLS® Price					
Unifamilial	$236,522	$248,000	5%	$258,000	4%
Copropriété	$201,571	$210,000	4%	$216,000	3%
Plex	$310,869	$326,000	5%	$339,000	4%

Sources : CMHC and GMREB

f : CHMC forecasts

Forecast Summary Montréal CMA Spring 2007							
	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
S.I.A.® /MLS® Sales	37,912	38,654	38,792	40,300	3.9	40,300	0.0
S.I.A.® /MLS® Active Listings	15,774	19,876	21,918	23,300	6.3	25,000	7.3
S.I.A.® /MLS® Average Price ($)	209,631	223,184	236,968	248,000	4.7	256,000	3.2
New Home Market							
Starts:							
Single-Detached	10,578	8,544	7,793	7,100	-8.9	6,700	-5.6
Multiples	18,095	16,773	15,020	13,900	-7.5	12,300	-11.5
Semi-Detached	1,208	970	758	0	s.o.	0	s.o.
Row/Townhouse	757	793	665	0	s.o.	0	s.o.
Apartments	16,130	15,010	13,597	0	s.o.	0	s.o.
Starts - Total	28,673	25,317	22,813	21,000	-7.9	19,000	-9.5
Average Price ($):							
Single-Detached	251,365	276,017	300,314	318,000	5.9	334,000	5.0
Semi-Detached	190,479	200,418	204,176	212,000	3.8	220,000	3.8
Median Price ($):							
Single-Detached	220,000	248,000	270,000	0	s.o.	0	s.o.
Semi-Detached	175,000	190,000	195,000	0	s.o.	0	s.o.
New Housing Price Index (% chg.)	6.4	5.0	4.2	0.0	-	0.0	-
Rental Market							
October Vacancy Rate (%)	1.5	2.0	2.7	3.2	0.5	3.5	0.3
Two-bedroom Average Rent (October) ($)	594	616	636	650	2	660	2
One-bedroom Average Rent (October) ($)	539	562	574	0	s.o.	0	s.o.
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.40	0.10	6.29	-0.12
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	6.63	0.18	6.80	0.17
Annual Employment Level	1,804,600	1,823,500	1,856,800	1,884,652	s.o.	1,909,152	s.o.
Employment Growth (%)	0.9	1.0	1.8	1.5	s.o.	1.3	s.o.
Unemployment rate (%)	8.7	8.7	8.4	8.1	-	7.9	-
Net Migration	18,315	13,924	14,735	14,600	-0.9	15,600	6.8

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

Sources: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), GMREB, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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