HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Montréal CMA

Canada Mortgage and Housing Corporation
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Montréal housing market slows down

With the expected decline in employment, activity on both the new and existing home markets in the Montréal census metropolitan area (CMA) will slow down in 2009 and then pick up again in 2010.

Labour market easing

After having edged down by 0.1 per cent between 2007 and 2008, the average employment level in the Montréal CMA will decline again in 2009. In fact, this past April, there were 33,600 fewer jobs than at the same time in 2008 (-1.8 per cent). All the jobs lost were full-time positions, as part-time employment posted a gain of 1.2 per cent over April 2008. Young people were particularly hard hit, as the employment level registered a decrease of 6.2 per cent among people aged from 15 to 24 years.

Retail trade is one sector where the decline in employment will be particularly felt in 2009. In general, an economic slowdown, as can currently been noted, causes the growth in incomes to slow down, which tends to reduce consumption and, by the same token, retail sales. The manufacturing sector in Montréal, which is heavily geared to international trade, will also sustain a decrease in employment this year. The value of the Canadian dollar is now nearly 20 per cent lower than it was six months ago, which is helping exporters to have more competitive prices, but the positive effects of this depreciation of the loonie are being largely offset by the decline in global demand. However, the various provincial and federal infrastructure investment programs, which will provide funding for such projects as the reconstruction of the Turcot interchange, the development of the *Quartier des spectacles* and the expansion of the Museum of Fine Arts, will help support the job market in the Montréal CMA. The impact of most of the projects will be more significant during the second half of 2009 and in 2010 and will partially counter the downward pressure on the job market. Still, we

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forecast an overall decrease of 2.2 per cent in the employment level in 2009, which will push up the average unemployment rate from 7.4 per cent in 2008 to 9.2 per cent this year.

After a contraction of the economy this year, economic growth in Quebec will resume in 2010. In this context, and considering the many infrastructure projects that will get under way over the coming year, we forecast a slight increase of 0.2 per cent in the Montréal CMA employment level in 2010.

Mortgage rates to remain favourable

Mortgage rates are expected to be relatively stable throughout 2009, remaining within 25-75 basis points of their current levels. Posted mortgage rates will increase very gradually during the course of 2010, reflecting a rise in Government of Canada bond yields. For 2010, the one-year posted mortgage rate will be in the 4.75-6.00 per cent range, while the three- and five-year posted mortgage rates are forecast to be in the 5.00-6.75 per cent range.

Immigration supporting housing demand

In 2007, net migration in the Montréal CMA reached 21,690 people, the highest level in five years. This number accounted for 78 per cent of the net level for the province of Quebec that year, a particularly large share when compared to the average of 58 per cent for the previous five years. The Montréal area therefore receives a significant share of the newcomers to the province. In addition, according to Statistics Canada preliminary estimates, net migration in the province of Quebec continued to rise in 2008. Net migration in the Montréal area in 2008 probably attained about 25,000 people.

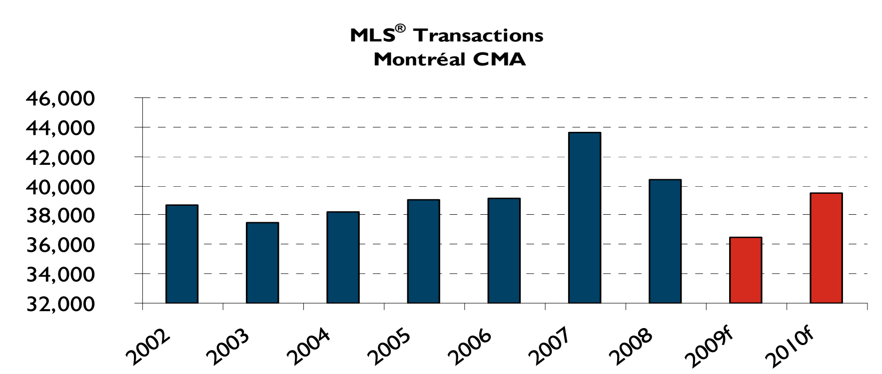
Over the next two years, net migration in the area will maintain this momentum. First, the Quebec government wants to substantially increase the number of immigrants, with a target of 55,000 newcomers by 2010, which will raise the net migration level in the CMA. Also, the recent weakening of economic conditions out West, along with the high cost of living there, will cause the number of people leaving the Montréal CMA for other provinces to decrease over the next two years. As a result, we forecast that more than 27,000 people will settle in the Montréal area in 2009 and 2010.

Resale market: conditions have changed

After having remained strong for most of 2008, sales registered through the Multiple Listing Service (MLS®) in the Montréal CMA fell sharply at the end of last year and at the beginning of 2009. From November 2008 to January 2009, sales decreased by 32 per cent compared to the same period a year earlier. While the slowdown may have eased since February, the fact remains that the state of the market has notably changed. This market, which had been favouring sellers for the last eight years, is now considered generally balanced.

As we mentioned earlier, labour market conditions will be more difficult in 2009. Even though financing costs will remain favourable, demand will be brought down by the decline in employment. We therefore expect that MLS® sales will decrease by 10 per cent this year, to 36,500 units. However, this decline will extend to all housing types (single-

Figure 1



Source: QFREB

family houses, condominiums and plexes).
Given the anticipated decrease in demand, it will be more difficult to sell homes, which will cause property listings to rise in the area. According to our forecasts, there will be an average of 27,600 homes listed throughout the year, up by 19 per cent over 2008.

Along with the economic slowdown, this easing will therefore have an undeniable impact on prices. We expect that the average price of homes on the Montréal CMA resale market will be $255,000 in 2009, down slightly from the average of $258,028 recorded in 2008. This comes in sharp contrast with the conditions that prevailed in recent years when, from 2000 to 2008, the average MLS® price of homes posted annual increases averaging at 9 per cent. The decrease in demand that we are expecting for this year will be due not only to the economic environment but also to the high prices that are making home purchases more difficult than before for some potential buyers, especially first-time buyers, who cannot count on the proceeds of the resale of a home. The weaker demand, combined with the surging supply of properties for sale on the territory, will keep the market balanced during the year. While this does not reflect our reference scenario, a greater than expected decrease in the average MLS® price can however not be excluded. In times of economic slowdown, more affordable homes (semi-detached and row houses, as well as condominiums) tend to be more popular, which brings down the overall average price and, as a result, causes a larger variation from one year to the next.

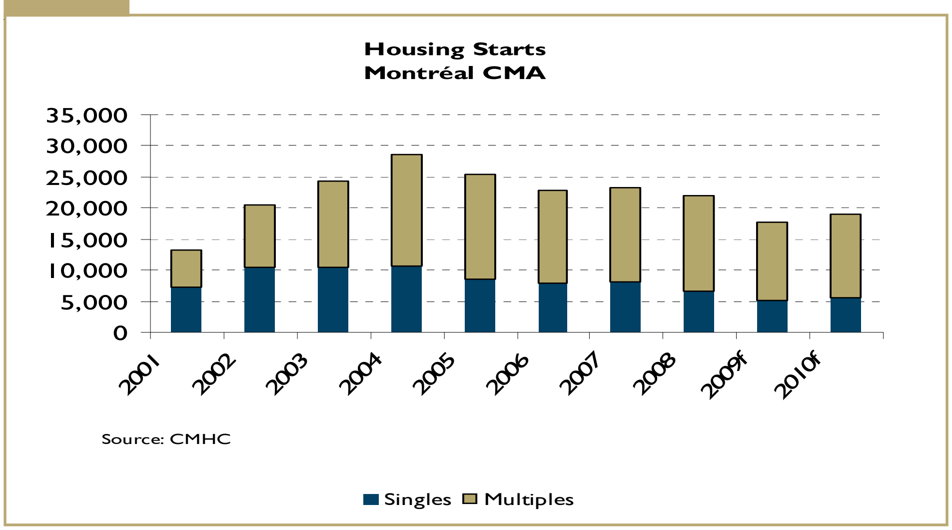
In 2010, MLS® sales will rise by 8 per cent (to 39,500 units), thanks to a recovering economy and still relatively low mortgage rates. Listings will once again be on the rise, although more moderately (11 per cent in 2010, versus 19 per cent in 2009). This increase in supply will result from the combined effect of the decrease in sales in 2009 and the anticipated growth in new listings. Market conditions should consequently stay balanced. The average price of homes in the Montréal CMA will therefore remain practically stable, edging up from $255,000 to $256,000.

Residential construction expected to decline

According to our forecasts, housing starts in the Montréal CMA should fall in 2009 and reach 17,700 units. In fact, in the first four months of the year, foundations were laid for 26 per cent fewer dwellings than during the same period last year. Several factors will lead to a decline in residential construction this year in the Montréal CMA. First, the economic uncertainty is causing some households to delay their new home purchases. Second, the increase in supply on the resale market is giving more choice to potential buyers, providing increased competition to the new home market. Third, the rate of starts has been higher than the pace of household formation for the last five years. Over the long term, housing supply cannot continually exceed the demand that is created annually. As a result, residential construction levels should adjust to favour a return to balanced conditions and be more in line with household formation in the Montréal area.

In 2009, single-detached home building will particularly decrease. From 6,602 units in 2008, starts of this type will decline by more than 1,400 units, or 21 per cent, according to our forecasts. The high price of such homes is once again the main factor accounting for this anticipated decrease in starts. The appeal of more affordable dwellings continues to have a considerable

Figure 2



effect on the market, to the detriment of single-detached homes. It should be noted, however, that there are currently still very few completed but unsold single-detached houses. As well, in the first quarter, the price of new single-detached homes in the Montréal CMA was up by 11 per cent over the first quarter of 2008. It should be taken into account that the dwellings now being absorbed on the market were started more than six months ago. Since most of these units were pre-sold, current market conditions are having almost no impact on the price recorded at this time. As the year will progress, the growth in prices will better reflect current conditions. Also considering the effects of sales of more affordable homes and the more limited construction costs, it is expected that, for 2009 overall, the price of new single-detached homes will rise by 7 per cent.

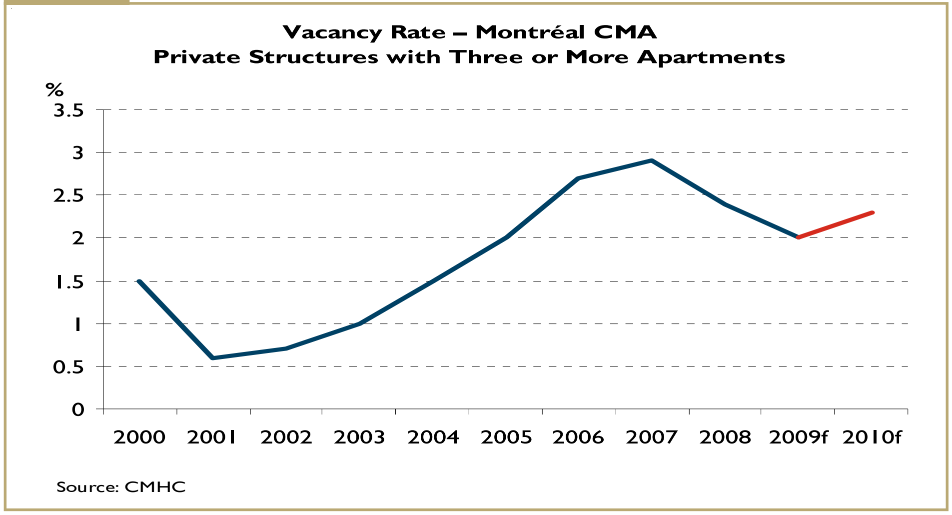
Multiple-unit (semi-detached, row and apartment) housing starts will fall by 18 per cent between 2008 and 2009 (from 15,325 to 12,500 units). This decrease will extend to all housing categories. First, although semi-detached and row homes are more affordable than single-detached houses—the price gap averaged at more than 40 per cent in 2008—they are not escaping the general downward trend in demand. As well, semi-detached houses saw their price rise by 13 per cent in the first quarter, and more than half of these homes sold for over $250,000. However, like for single-detached homes, we forecast that the upward pressure on semi-detached house prices will ease somewhat during the year, resulting in a 9-per-cent growth in these prices in 2009. Second, even if, currently, the duration of supply is only eight months, the condominium apartment segment is not being spared by the overall decline in demand as, from January to April, starts of this type were down by 26 per cent from the same period in 2008. Third, after having been intense for several years, retirement home construction is slowing down. In this segment, where the duration of supply stands at more than one year, we expect that there will be significantly fewer starts this year, while the market absorbs the units already built but still not rented. Finally, the Government of Quebec allocated considerable sums to the City of Montréal for the construction of social housing, but it is quite likely that most of the new units funded by this investment will only get under way in 2010, so this factor will not have any major impact on traditional rental housing construction this year.

For 2010, we forecast that foundations will be laid for 18,900 new housing units in the Montréal CMA, for an increase of 7 per cent over 2009. This rise will notably be due to a stabilization in the rate of single-detached home and condominium apartment construction. It will also result from the amounts allocated for the construction of social housing and the expected decrease in unabsorbed unit inventories, which, along with the aging of the population, will favour an increase in activity in the retirement home segment. Finally, thanks to the easing of the market that will come about in 2009, the growth in prices on the new home market will be generally much weaker in 2010 than in the past.

Rental market tightening

According to the latest Rental Market Survey conducted by CMHC in October 2008, the apartment vacancy rate decreased in the Montréal CMA, falling to 2.4 per cent and registering its first decrease since 2001. The main factor accounting for this drop was the high net migration levels in the previous two years. Given that most newcomers opt for a rental dwelling when they arrive in the area, demand

Figure 3



Source: CMHC

rises in this segment and puts downward pressure on the vacancy rate.
As previously mentioned, we forecast that migration will remain strong over the next two years and will continue to pull down the vacancy rates in the Montréal CMA. However, the current economic conditions are driving down employment for young people, which will cause some of them to stay with their parents longer than planned—or share accommodations—and moderate demand for rental housing.

On the supply side, a significant increase in traditional rental housing construction is not anticipated in the short term in the Montréal CMA. However, the social housing units that are expected to be built over the coming years will drive up the supply of rental housing. However, most of these units will probably not be available for rent until the end of 2010 or even 2011.

Given the anticipated demand, the vacancy rate is expected to fall in 2009 and reach 2.0 per cent. The following year, a small increase in supply, combined with the slowdown of job market, will cause the market to ease, such that the vacancy rate will rise to 2.3 per cent. As well, we forecast that the average rent for two-bedroom apartments will reach $668 in 2009 and $675 in 2010.

Forecast Summary
Montréal CMA
Spring 2009

	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market*							
MLS® Sales	39,100	43,616	40,440	36,500	-9.7	39,500	8.2
MLS® Active Listings	22,431	21,515	23,135	27,600	19.3	30,500	10.5
MLS® Average Price ($)	236,889	251,487	258,028	255,000	-1.2	256,000	0.4
New Home Market							
Starts:							
Single-Detached	7,793	8,013	6,602	5,200	-21.2	5,500	5.8
Multiples	15,020	15,220	15,325	12,500	-18.4	13,400	7.2
Semi-Detached	758	922	1,010		s.o.		s.o.
Row/Townhouse	665	1,034	1,231		s.o.		s.o.
Apartments	13,597	13,264	13,084		s.o.		s.o.
Starts - Total	22,813	23,233	21,927	17,700	-19.3	18,900	6.8
Average Price ($):							
Single-Detached	300,314	310,127	340,757	365,000	7.1	375,000	2.7
Semi-Detached	201,682	205,223	213,425	260,000	8.6	274,000	5.4
New Housing Price Index (% chg.)	4.2	4.3	4.9	2.6	-	2.4	-
Rental Market							
October Vacancy Rate (%)	2.7	2.9	2.4	2.0	-	2.3	-
Two-bedroom Average Rent (October) ($)	636	647	659	668	-	675	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.80	-	5.29	-
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.64	-	5.94	-
Annual Employment Level	1,856,800	1,902,600	1,900,100	1,858,300	-2.2	1,862,000	0.2
Employment Growth (%)	1.8	2.5	-0.1	-2.2	-	0.2	-
Unemployment rate (%)	8.4	7.0	7.4	9.2	-	9.1	-
Net Migration (1)	13,246	21,690	25,000	27,000	8.0	27,600	2.2

Sources: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), The Quebec Federation of Real Estate Boards by Centris™ (CMHC compilation), Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

* Includes single-detached homes, condominiums and plexes

(1) 2008 migration data is forecasted

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