HOUSING MARKET OUTLOOK
Montréal CMA

CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2009

Montréal housing market to stabilize

After declining significantly at the beginning of the year, the Montréal census metropolitan area (CMA) housing market has been showing signs of picking up for the past few months. This increase in activity on the housing market is coinciding with an improvement in economic conditions, as several indicators are suggesting that economic growth will soon resume. In this environment, the housing market will be relatively stable in 2010, for both residential construction and resale activity.[1]

Quebec economy to post moderate recovery but no sustained employment growth

Economic conditions have substantially improved since the beginning of the year, as the financial crisis is largely over. Governments' expansionary monetary and fiscal policies allowed for the massive injection of capital that stabilized the financial markets and revitalized the economies.

In Quebec, the economy is showing signs of an imminent recovery, and GDP is expected to grow in 2010. Employment, which tends to start growing again with some lag behind the economic cycle, should pick up slowly during 2010. The number of jobs should fall by 1.3 per cent this year, which should drive up the unemployment rate to 9.5 per cent in the Montréal CMA. After having increased rapidly since the beginning of the year, the unemployment rate has been rising more slowly in the last few months, as employment has stabilized to a certain extent. Even if the worst of the job losses is now over, the labour market will remain anemic, with a small gain in jobs (+0.4 per cent) next year, which will limit income growth and housing demand. In 2010, the unemployment rate should reach 9.6 per cent.

During the period from September 2008 to September 2009, employment in the Montréal CMA declined by 1.1 per cent from the previous twelve months, as around 21,300 jobs were eliminated. The losses were concentrated in full-time jobs

(1.3 per cent), as part-time jobs rose slightly (+0.1 per cent). As well, the job

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[1]The forecasts included in this document are based on information available as of October 1, 2009.

cuts particularly affected young people aged from 15 to 24 years (3.5 per cent) and also people aged from 25 to 44 years (1.3 per cent).

The financial sector has been the hardest hit by the job losses for the past year. In the midst of the crisis that shook the financial markets, the companies in this sector cut their workforces by more than 10 per cent in one year. In all, about 15,000 jobs were eliminated in this sector. The improvement of the situation on the financial markets now seems to have stemmed the hemorrhage of jobs in this sector.

A more significant sector in terms of number of jobs, trade—and more particularly retail trade—also registered considerable job losses in the last twelve months (7 per cent). In fact, more than 16,000 jobs were eliminated in this sector, but the situation should stabilize over the coming quarters, as economic conditions improve.

After having declined for four consecutive years, employment in the manufacturing sector seems to have stabilized in recent quarters but, with the strong Canadian dollar, the recovery in this sector remains uncertain. The slowdown of the Montréal housing market at the beginning of 2009 sharply affected employment in the construction sector, which had posted two years of solid growth. The massive investments in infrastructure will support employment in this sector in the Montréal area in 2010.

Mortgage rates to rise slowly in 2010

The Bank of Canada cut the target for the overnight rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. The Bank has committed to keeping this rate at 0.25 per cent through the middle of 2010 unless inflationary pressures warrant an increase.

Mortgage rates have fallen over the course of 2009 but are now expected to remain relatively stable for the rest of the year. Posted mortgage rates will gradually increase through 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate will be in the 3.50-4.25 per cent range, while three- and five-year posted mortgage rates are forecast to be in the 4.50-6.00 per cent range.

Net migration on the rise

Given the higher immigration targets set by the Government of Quebec and the fact that the vast majority of immigrants arriving in Quebec choose to settle in Montréal, net migration in the Montréal CMA should rise by 5 per cent in 2009 and by 3 per cent in 2010. The Government of Quebec now aims to welcome up to 55,000 immigrants by 2010. The increase in immigration will first have an impact on the rental market, as most people arriving from other countries opt to rent a dwelling. In addition, Montréal should see fewer inhabitants move to other provinces this year, as the economic slowdown was relatively less severe in Quebec than out West or in Ontario—regions of choice for people emigrating from Montréal.

Without the significant contribution of international immigration, Montréal would have negative net migration, as the area continues to lose more people to other regions of Quebec and other provinces across Canada than it attracts.

The latest actual migration data released by Statistics Canada are for 2007. That year, the Montréal CMA registered a net international immigration level of 40,615 people but lost 6,757 inhabitants to other regions of Quebec and 9,973 more individuals who left to settle elsewhere in Canada. Net migration in the Montréal CMA therefore reached 23,885 people in 2007. This level likely rose in 2008 and should continue to increase in 2009 and 2010, to 30,000 and 30,900, respectively.

Resale market shows two phases in 2009

In 2009, after beginning the year with a major decrease in transactions, the resale market was surprisingly vigorous starting in the second quarter. The market was remarkable, both in how fast it turned around and in how significantly it rebounded. Within a few months, the resale market made up a large part of the ground lost (-24 per cent) in the first quarter. The decrease in interest rates registered at the beginning of 2009 undoubtedly contributed to the vigorous demand. Many buyers who had put off purchasing a property because of the economic uncertainty took advantage of the historically low mortgage rates to buy a home. In addition, these rates very probably incited other consumers to move up their purchase by a few months.

Offsetting the low levels of activity recorded at the end of 2008 and the beginning of 2009, transactions on the resale market should continue to rise until the second quarter of 2010. Overall, sales should end 2009 very slightly behind 2008 (-0.8 per cent). However, given the rather weak economic recovery and stagnant employment level, the volume of transactions will post only a small increase in 2010 (+1 per cent). The expected monetary tightening with the anticipated increase in the Bank of Canada's target for the overnight rate as of June 2010 will also keep the resale market in check. In all, 40,500 properties will change hands in 2010.

On the supply side, after having risen significantly at the beginning of the year, active listings started to fall in the second quarter of 2009, following the major hike in the volume of transactions. Total supply is currently decreasing, all the more so since it is also being limited by the concurrent decline in new listings fuelling the housing market in recent months.

With an increase in transactions and a decrease in supply, the resale market, which seemed to be heading toward more balanced territory at the beginning of the year, has recently tightened somewhat and remains slightly favourable to sellers, for the overall CMA.

This tightening of the market will result in a stronger increase (+4.6 per cent) in the average MLS® price, which will attain $271,000 in 2009. In 2010, the anticipated small rise in mortgage rates during the second half of the year will limit the pressure on prices currently resulting from the interplay of supply and demand and will contribute to the easing of the resale market, which will again start moving toward balanced conditions. The average price will reach $279,000 (+3.0 per cent).

Residential construction

For the period from January to September, starts are down by 19 per cent from last year. However, after having decreased markedly during the first seven months of 2009, residential construction has picked up in the last few months, suggesting that activity will stabilize over the coming months.

The decline in economic activity and the growth in home prices in recent years partly explain the drop in demand for new homes this year. The job losses and economic uncertainty lowered housing demand on both the new and existing home markets. However, the fact that prices rose more significantly for new homes than for existing homes, combined with the marked increase in the supply of existing homes at the beginning of the year, prompted many buyers to turn to the resale market.

The improvement in economic conditions and the major recovery of the resale market in recent months should have repercussions on the new home market, which is forecast to stabilize in the last quarter of 2009 and in 2010. In all, 18,300 dwellings will get under way in 2009. Starts should fall slightly in 2010, to 18,100 units. While the annual starts volumes surpassed the 20,000-unit mark in the last seven years, meeting a latent demand that had not been expressed at the end of the 1990s, the starts level forecast for 2010 will be more in line with the rate of household formation in the Montréal area.

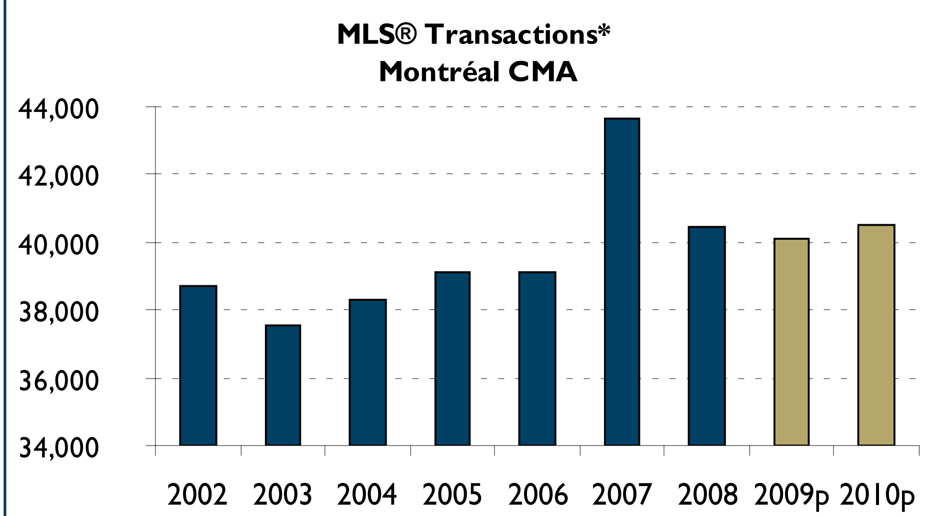
In 2009, the slowdown in residential construction will be more marked for single-detached homes. In fact, starts of this type will decline by 23 per cent in 2009, while multiple-unit (semi-detached, row and apartment) housing starts will drop by 14 per cent.

More expensive than the other housing types, single-detached homes have been a victim of the strong increase in their prices in recent years. In fact, more and more buyers are turning to more affordable property types, such as condominiums, semi-detached or row homes, or else existing single-detached houses. The market share of new single-detached homes in the Montréal CMA has been on the decline for about ten years now and will fall again this year, as 2009 will mark the first time ever that single-detached homes will account for less than 30 per cent of all starts. In 2010, with the better economic environment, starts of this type will rise by 6 per cent, to 5,400 units.

In the multi-family housing segment, starts will fall in 2010, as 12,700 new units will get under way, or 3.8 per cent fewer than in 2009. The decline will affect all dwelling types, but certain multi-unit housing categories, such as condominiums and semi-detached and row homes, will maintain very high market shares compared to past years, as they will continue to attract buyers seeking more affordable properties.

Condominium starts will sustain a decrease in 2010. The duration of supply of this housing type has been slowly falling for the past few months and now stands at seven months. While inventories of unoccupied units may be on the decline, the number of condominiums under construction is

Figure 1



Source : FCIQ
*: Single-family, condominium, plex

still high, which is inciting builders to be cautious. Lastly, the situation will be same for retirement home construction, as this segment is facing a drop in demand following years of intense construction. As well, the demand from people aged 75 years or older will be less significant over the coming years, as this group represents the demographic trough that occurred during the depression of the 1930s.

As for new home prices, the average price of new single-detached houses will reach $363,000 in 2009 and then $375,000 in 2010. This average price will therefore continue to post strong growth on account of the increasing share of upscale properties. The price of semi-detached houses will climb to $258,000 this year and then to $275,000 in 2010. The surge in the average price of properties of this type will also be due to a composition effect, as upscale semi-detached houses have seen their market share rise rapidly since 2008.

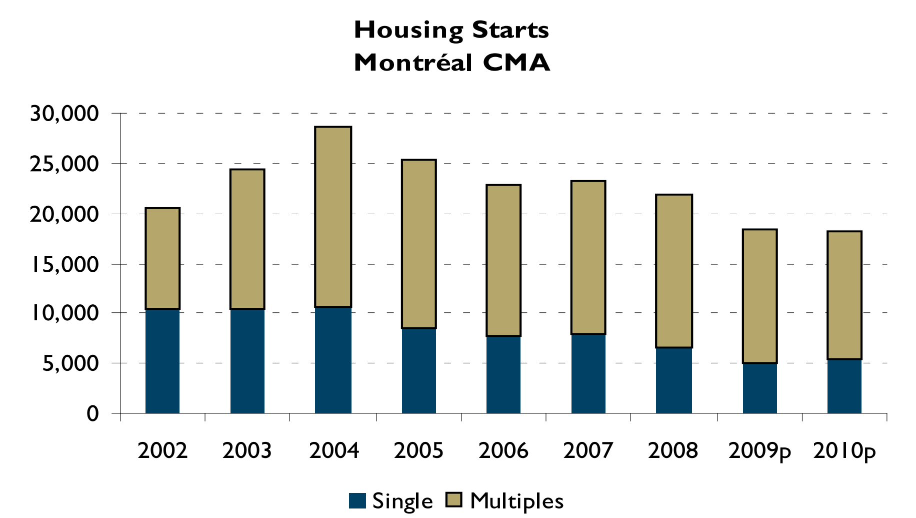
Rental market: vacancy rate to decrease

The rental market should continue to tighten this fall. In fact, we forecast that the vacancy rate in the Montréal CMA will decrease to 2.1 per cent, from 2.4 per cent in the fall of 2008. Rental housing demand will be supported by the increase in immigrants in Montréal, which will result from the higher immigration targets set by the Quebec government. Immigrants arriving in the Montréal area tend to rent a dwelling when they get here and to settle mainly on the Island, which will support demand for rental housing. In addition, the gap between the average rent and the average monthly mortgage payment (which has risen rapidly in recent years) probably caused many households to keep renting rather than buy a property.

These two factors will offset the drop in employment among people aged from 15 to 24 years. Young people in this age group tend to be renters when they no longer live with their parents. With an unemployment rate above 18 per cent for the first time since the late 1990s, fewer of these young people will be looking for a dwelling this fall and next year.

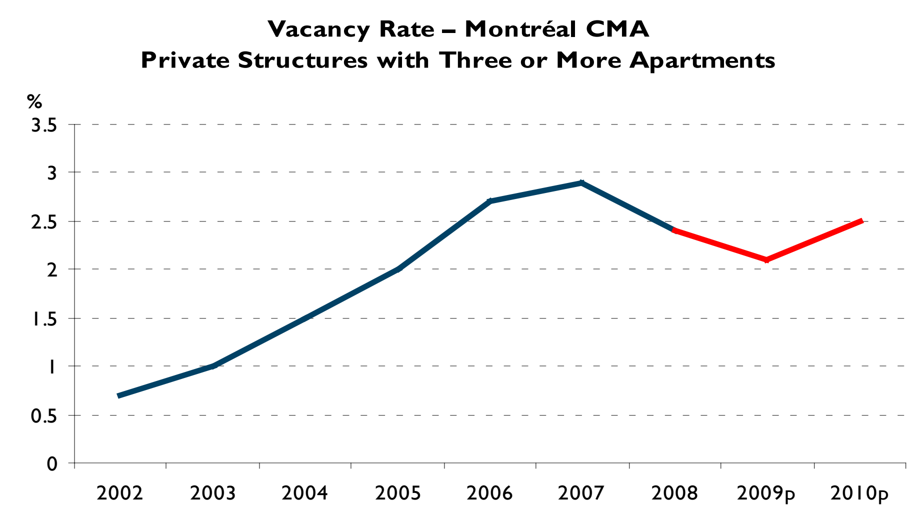
In 2010, even with the high level of immigration, the vacancy rate should rise slightly, to 2.4 per cent, as the difficult employment situation for people aged from 15 to 24 years will have an even greater impact. In fact, given that the unemployment rate will remain high over at least the first quarters of 2010, a number of young renters may not renew their leases in the summer.

Figure 2



Source: CMHC

Figure 3



Source: CMHC

Forecast Summary Montréal CMA Fall 2009							
	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market*							
MLS® Sales	39,144	43,667	40,441	40,100	-0.8	40,500	1.0
MLS® Active Listings	22,435	21,545	23,207	23,800	2.6	23,500	-1.3
MLS® Average Price ($)	235,553	250,215	259,033	271,000	4.6	279,000	3.0
New Home Market							
Starts:							
Single-Detached	7,793	8,013	6,602	5,100	-22.8	5,400	5.9
Multiples	15,020	15,220	15,325	13,200	-13.9	12,700	-3.8
Semi-Detached	758	922	1,010		s.o.		s.o.
Row/Townhouse	665	1,034	1,231		s.o.		s.o.
Apartments	13,597	13,264	13,084		s.o.		s.o.
Starts - Total	22,813	23,233	21,927	18,300	-16.5	18,100	-1.1
Average Price ($):							
Single-Detached	300,314	310,127	340,757	363,000	6.5	375,000	3.3
Semi-Detached	205,068	213,425	239,340	258,000	7.8	275,000	6.6
New Housing Price Index (% chg.)	4.2	4.3	4.9	2.4	-	2.5	-
Rental Market							
October Vacancy Rate (%)	2.7	2.9	2.4	2.1	-	2.4	-
Two-bedroom Average Rent (October) ($)	636	647	659	668	-	675	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.03	-	3.83	-
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.55	-	5.75	-
Annual Employment Level	1,856,800	1,902,600	1,900,100	1,874,500	-1.3	1,882,900	0.4
Employment Growth (%)	1.8	2.5	-0.1	-1.3	-	0.4	-
Unemployment rate (%)	8.4	7.0	7.4	9.5	-	9.6	-
Net Migration (1)	18,764	23,885	28,600	30,000	4.9	30,900	3.0

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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