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Province of Quebec

Canada Mortgage and Housing Corporation

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FOURTH QUARTER 2004

Residential construction in Quebec: pace holds up in the fourth quarter

Following gains of 19 per cent in the second quarter and 12 per cent in the third, residential construction maintained its pace, rising by 11 per cent in the final quarter of 2004, compared to the same period last year. This growth was observed on both major market segments (homeowner and condominium), in all six census metropolitan areas (CMAs) and in most of the other urban centres. In fact, after recording increases of more than 50 per cent in 2002 and 19 per cent in 2003, the Quebec residential construction sector continued to post vigorous

activity, which resulted in 58,448 housing starts in 2004, for a gain of 16 per cent over the previous year.

Regional results

During the last three months of the year, around 65 per cent of Quebec's urban areas registered increases in starts over the fourth quarter of 2003. The census metropolitan areas posted a gain of 13 per cent, while the other urban agglomerations (with 10,000 to 99,999 inhabitants) recorded a rise of 32 per cent. The rural areas, for their part, sustained a decrease

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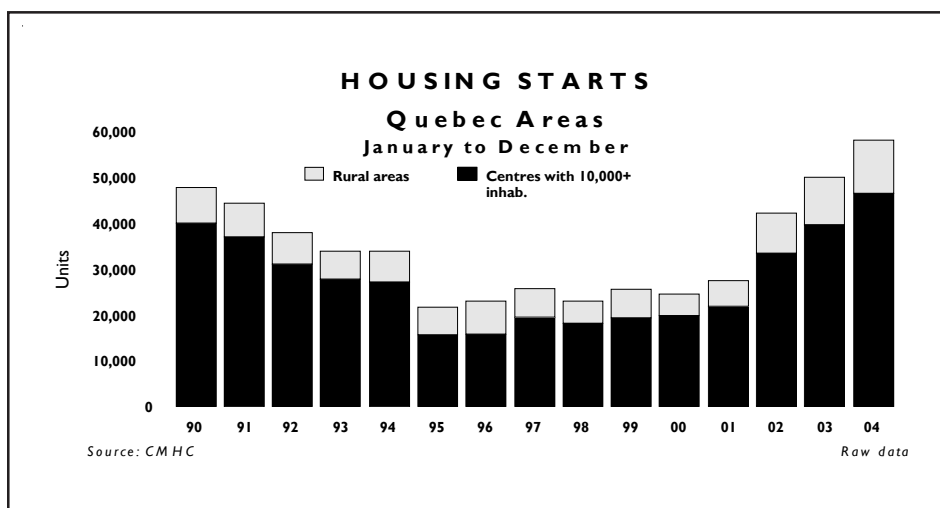
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of 6 per cent in relation to the last quarter of 2003. While urban starts went up by 16 per cent in 2004, construction in rural areas registered an increase of nearly 12 per cent, with 11,727 starts in 2004. The rural share of residential construction in Quebec continues to hover around 20 per cent.

2004 highlights

In 2004, in the major urban agglomerations, single-detached home building increased much less rapidly than multiple housing construction (5 per cent versus 28 per cent). Single-detached housing activity was, on the one hand, more affected by the less robust economic conditions and, on the other hand, attenuated by the popularity of condominiums, which are often more affordable.

The multiple housing market posted a very similar performance in 2004 as it did the year before, that is, an overall gain of about 30 per cent, with significant increases in the freehold housing, rental apartment and condominium categories. In fact, multiple housing units (semi-detached, row and apartment dwellings) are currently enjoying a wave of popularity that results not only from their greater affordability but also from the fact that they better meet the needs of certain segments of the population.

For a third straight year, condominium construction easily set a new record. While 80 per cent of these job sites are concentrated in the Montréal area, we have seen this market grow in recent years in many other urban centres, several of which are not large cities.

Economy: engines slowing down

The continued vigour on the housing markets is still showing, among other things, the impact of the economic conditions (employment growth and low mortgage rates) that prevailed in previous years. That being said, several signs suggest that the economic factors will have a less significant impact on housing demand in the short term.

For the period from January to October, the real GDP at basic prices increased by 2.0 per cent over the first ten months of 2003. For Canada, this rate is 3.1 per cent. Even if manufacturing recently posted a marginal rise, this sector continues to suffer from a weak demand, particularly for aerospace products. Although domestic demand remained relatively steady in 2004, private fixed capital investment picked up the pace, while (real) current government expenditures slowed down in relation to the first three quarters of 2003.

Even though Quebec exports started to show renewed activity in 2004, they are still suffering from the relative strength of the Canadian dollar in relation to the U.S. dollar. In this context, the bumpy road taken by the labour market in 2003 continued in 2004. Employment still registered a gain of 1.6 per cent in 2004, thanks to strong full-time job creation for people aged from 45 to 64 years. As expected, the service sector was the driving force behind employment in 2004, while the manufacturing and primary sectors sustained slowdowns. Despite consecutive monthly decreases in the consumer confidence index, the level is still relatively high. On January 24, the Bank of Canada announced that it was maintaining its target for the overnight rate at 2.5 per cent, which is pointing to another year of relatively low mortgage rates in 2005.

Migration making a significant and growing contribution

Migration has been rising considerably for the past several years and thereby contributing to the demand for housing, especially rental dwellings. We estimate that the provincial level for 2004 will be around 35,000 people. An in-depth analysis of the recent results shows a rise in immigration and an increase in net inter-provincial migration, which was largely attributable to favourable economic conditions in the province. As for intraprovincial migration, the latest results reveal that the trend observed in recent years was maintained. First, migration from Montréal to the extended suburbs (Laval, Lanaudière, Laurentides, Montérégie) continued to grow. In fact, according to the Institut de la statistique du Québec, the number of people leaving Montréal for these regions went up from about 1,000 in 1998-1999 to over 24,000 in 2003-2004. Also, it should be noted that, for the 2003-2004 period, there was a positive net level of around 4,000 people for the so-called "intermediate" zone (Québec, Outaouais, Estrie, Mauricie, etc.) and a negative level of approximately 4,000 people for the so-called "remote" area (Gaspésie, Abitibi, Nord-du-Québec).

Resale market: signs of change

According to the results released by the Canadian Real Estate Association (CREA), Quebec recorded 64,907 sales through the Multiple Listing Service / Service inter-agences (MLS® / S.I.A.®) in 2004, compared to 67,481 during the previous year. The result for 2004 therefore appears to have put an end to the rise in MLS® / S.I.A.® transactions observed in recent years. Also according to CREA, it would seem that the average price

of transactions went up by 14 per cent in 2004 to \$173,725. This would consequently mean a third consecutive year where the increase was greater than 10 per cent. As we still consider that the rise in prices is due to market fundamentals, we are still not retaining the hypothesis that the market is in a speculative bubble situation. As for new listings, CREA reported that they were up for a second year. While the markets are still qualified as seller's markets in the CMAs, certain changes, such as the slowdown in transactions, the rise in listings and the smaller increase in prices, can be noted.

Rental market gradually easing

The results of the 2004 annual survey conducted by CMHC indicate that, in October 2004, the average vacancy rate in privately initiated buildings with three or more housing units stood at 1.7 per cent, compared to 1.3 per cent at the time of the survey the year before. According to the survey, the vacancy rates went up in five of the six CMAs across Quebec in 2004, while proportion of unoccupied units remained relatively stable in centres with 50,000 to 99,999 inhabitants (2.7 per cent versus 2.6 per cent in 2003). Even though the average rate was down slightly in centres with 10,000 to 49,999 inhabitants (3.1 per cent versus 3.6 per cent in 2003), several centres in eastern Quebec and Abitibi posted significant decreases in their vacancy rates toward more balanced levels.

While certain factors, including the increase in rental housing construction, the softening of the job market for young people and the homeownership trend, contributed to easing rental market conditions, other factors, such as the significant rise in the level of

migration (particularly immigration) and the increase in prices on the homeowner and condominium markets, supported the demand for rental housing in 2004 and therefore caused the vacancy rate to rise gradually.

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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	
	4th Q 2004	4th Q 2003	4th Q 2004	4th Q 2003	4th Q 2004	4th Q 2003
Starts						
Metropolitan areas (1)	8,403	7,458	2,506	2,238	10,909	9,696
Urban areas (2)	1,164	880	783	599	1,947	1,479
Rural areas (3)	n.a.	n.a.	n.a.	n.a.	2,806	2,971
Total - Province of Quebec	n.a.	n.a.	n.a.	n.a.	15,662	14,146
Completions						
Metropolitan areas (1)	7,356	6,039	1,868	1,824	9,224	7,863
Urban areas (2)	1,110	869	412	301	1,522	1,170
Rural areas (3)	n.a.	n.a.	n.a.	n.a.	2,476	2,663
Total - Province of Quebec	n.a.	n.a.	n.a.	n.a.	13,222	11,696
Under construction**						
Metropolitan areas (1)	14,918	12,237	7,377	5,054	22,295	17,291
Urban areas (2)	1,141	917	975	838	2,116	1,755
Rural areas (3)	n.a.	n.a.	n.a.	n.a.	3,494	3,019
Total - Province of Quebec	n.a.	n.a.	n.a.	n.a.	27,905	22,065

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

	2004	2004	2004	2004	2003
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter
Gross domestic product (%)	2.9	2.9	2.6	2.4	1.6
Employment level - total* (000)	3,720.7	3,717.3	3,705.1	3,682.7	3,683.4
Employment rate* (%)	60.3	60.4	60.3	60.1	60.3
Unemployment rate* (%)	8.7	8.2	8.2	8.8	9.3
Inflation rate (%)	2.7	0.7	3.5	3.9	0.7
Net migration	n.a.	10,427.0	10,237.0	8,503.0	3,417.0
Mortgage rates (%) - Canada					
1-year	4.9	4.6	4.6	4.3	4.7
5-year	6.3	6.4	6.5	5.9	6.5
Resale market (MLS sales)					
Total residential units	n.a.	14,258	20,592	20,037	15,555
Index of Consumer Confidence* (1991=100)	116.5	121.3	121.1	125.3	117.5

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

<i>Area / Period</i>	<i>Ownership</i>		<i>Rental</i>	<i>Total</i>
	<i>Freehold</i>	<i>Condominium</i>		
Saguenay				
Fourth quarter 2004	64	0	25	89
Fourth quarter 2003	38	0	14	52
Year-to-date 2004 (Jan.-Dec.)	282	7	58	347
Year-to-date 2003 (Jan.-Dec.)	274	0	161	435
Gatineau				
Fourth quarter 2004	537	233	168	938
Fourth quarter 2003	585	138	133	856
Year-to-date 2004 (Jan.-Dec.)	2,015	806	406	3,227
Year-to-date 2003 (Jan.-Dec.)	1,885	209	707	2,801
Montréal				
Fourth quarter 2004	2,795	3,152	1,462	7,409
Fourth quarter 2003	2,921	2,368	1,735	7,024
Year-to-date 2004 (Jan.-Dec.)	12,177	10,053	6,443	28,673
Year-to-date 2003 (Jan.-Dec.)	11,702	7,893	4,726	24,321
Québec				
Fourth quarter 2004	875	387	507	1,769
Fourth quarter 2003	767	334	148	1,249
Year-to-date 2004 (Jan.-Dec.)	3,311	1,200	1,675	6,186
Year-to-date 2003 (Jan.-Dec.)	3,167	1,070	1,362	5,599
Sherbrooke				
Fourth quarter 2004	149	61	214	424
Fourth quarter 2003	165	10	147	322
Year-to-date 2004 (Jan.-Dec.)	571	129	655	1,355
Year-to-date 2003 (Jan.-Dec.)	563	34	473	1,070
Trois-Rivières				
Fourth quarter 2004	150	0	130	280
Fourth quarter 2003	126	6	61	193
Year-to-date 2004 (Jan.-Dec.)	520	0	354	874
Year-to-date 2003 (Jan.-Dec.)	449	6	180	635
TOTAL - METROPOLITAN AREAS				
Fourth quarter 2004	4,570	3,833	2,506	10,909
Fourth quarter 2003	4,602	2,856	2,238	9,696
Year-to-date 2004 (Jan.-Dec.)	18,876	12,195	9,591	40,662
Year-to-date 2003 (Jan.-Dec.)	18,040	9,212	7,609	34,861

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									
Fourth quarter 2004	59	0	34	93	73	0	4	77	
Fourth quarter 2003	42	0	0	42	82	0	97	179	
Gatineau									
Fourth quarter 2004	661	412	127	1,200	538	137	181	856	
Fourth quarter 2003	538	209	277	1,024	591	0	240	831	
Montréal									
Fourth quarter 2004	4,373	7,603	5,876	17,852	3,052	2,396	1,234	6,682	
Fourth quarter 2003	4,188	5,924	3,980	14,092	2,657	1,646	1,103	5,406	
Québec									
Fourth quarter 2004	803	789	1,083	2,675	754	119	154	1,027	
Fourth quarter 2003	535	622	592	1,749	678	147	275	1,100	
Sherbrooke									
Fourth quarter 2004	92	55	188	335	155	10	159	324	
Fourth quarter 2003	99	8	139	246	141	4	81	226	
Trois-Rivières									
Fourth quarter 2004	65	6	69	140	122	0	136	258	
Fourth quarter 2003	66	6	66	138	93	0	28	121	
TOTAL - METROPOLITAN AREAS									
Fourth quarter 2004	6,053	8,865	7,377	22,295	4,694	2,662	1,868	9,224	
Fourth quarter 2003	5,468	6,769	5,054	17,291	4,242	1,797	1,824	7,863	

* 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

<i>Centre / Period</i>	<i>Ownership</i>		<i>Rental</i>	<i>Total</i>
	<i>Freehold</i>	<i>Condominium</i>		
Drummondville				
Fourth quarter 2004	122	3	57	182
Fourth quarter 2003	126	10	54	190
Year-to-date 2004 (Jan.-Dec.)	432	6	178	616
Year-to-date 2003 (Jan.-Dec.)	391	10	168	569
Granby				
Fourth quarter 2004	141	68	57	266
Fourth quarter 2003	91	10	83	184
Year-to-date 2004 (Jan.-Dec.)	491	77	147	715
Year-to-date 2003 (Jan.-Dec.)	344	16	205	565
Saint-jean-sur-Richelieu				
Fourth quarter 2004	140	28	106	274
Fourth quarter 2003	143	19	19	181
Year-to-date 2004 (Jan.-Dec.)	589	116	364	1,069
Year-to-date 2003 (Jan.-Dec.)	628	23	211	862
Shawinigan				
Fourth quarter 2004	29	0	12	41
Fourth quarter 2003	21	0	7	28
Year-to-date 2004 (Jan.-Dec.)	109	0	16	125
Year-to-date 2003 (Jan.-Dec.)	87	0	11	98

Source: CMHC

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

<i>Centre / Period</i>	<i>Ownership</i>		<i>Rental</i>	<i>Total</i>
	<i>Freehold</i>	<i>Condominium</i>		
Alma				
Fourth quarter 2004	12	6	10	28
Fourth quarter 2003	14	0	55	69
Year-to-date 2004 (Jan.-Dec.)	84	6	33	123
Year-to-date 2003 (Jan.-Dec.)	66	0	101	167
Baie-Comeau				
Fourth quarter 2004	2	0	0	2
Fourth quarter 2003	3	0	0	3
Year-to-date 2004 (Jan.-Dec.)	2	0	0	2
Year-to-date 2003 (Jan.-Dec.)	3	0	0	3
Cowansville				
Fourth quarter 2004	7	0	4	11
Fourth quarter 2003	5	0	34	39
Year-to-date 2004 (Jan.-Dec.)	25	0	24	49
Year-to-date 2003 (Jan.-Dec.)	22	0	38	60
Dolbeau				
Fourth quarter 2004	7	0	0	7
Fourth quarter 2003	19	0	0	19
Year-to-date 2004 (Jan.-Dec.)	34	0	0	34
Year-to-date 2003 (Jan.-Dec.)	52	0	0	52

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

<i>Centre / Period</i>	<i>Ownership</i>		<i>Rental</i>	<i>Total</i>
	<i>Freehold</i>	<i>Condominium</i>		
Joliette				
Fourth quarter 2004	66	0	145	211
Fourth quarter 2003	29	8	52	89
Year-to-date 2004 (Jan.-Dec.)	246	4	302	552
Year-to-date 2003 (Jan.-Dec.)	146	13	242	401
Lachute				
Fourth quarter 2004	8	0	13	21
Fourth quarter 2003	7	0	0	7
Year-to-date 2004 (Jan.-Dec.)	35	0	13	48
Year-to-date 2003 (Jan.-Dec.)	25	0	0	25
La Tuque				
Fourth quarter 2004	4	0	0	4
Fourth quarter 2003	2	0	0	2
Year-to-date 2004 (Jan.-Dec.)	9	0	0	9
Year-to-date 2003 (Jan.-Dec.)	11	0	0	11
Magog				
Fourth quarter 2004	48	20	35	103
Fourth quarter 2003	36	4	4	44
Year-to-date 2004 (Jan.-Dec.)	179	50	144	373
Year-to-date 2003 (Jan.-Dec.)	144	49	33	226
Matane				
Fourth quarter 2004	3	0	0	3
Fourth quarter 2003	7	0	0	7
Year-to-date 2004 (Jan.-Dec.)	14	0	0	14
Year-to-date 2003 (Jan.-Dec.)	21	0	0	21
Rimouski				
Fourth quarter 2004	44	0	0	44
Fourth quarter 2003	42	0	8	50
Year-to-date 2004 (Jan.-Dec.)	167	0	34	201
Year-to-date 2003 (Jan.-Dec.)	126	0	24	150
Rivière-du-Loup				
Fourth quarter 2004	34	0	67	101
Fourth quarter 2003	21	0	73	94
Year-to-date 2004 (Jan.-Dec.)	121	24	100	245
Year-to-date 2003 (Jan.-Dec.)	98	0	127	225
Rouyn-Noranda				
Fourth quarter 2004	5	0	0	5
Fourth quarter 2003	5	0	0	5
Year-to-date 2004 (Jan.-Dec.)	42	0	0	42
Year-to-date 2003 (Jan.-Dec.)	26	0	0	26
Saint-Georges				
Fourth quarter 2004	47	0	4	51
Fourth quarter 2003	43	0	67	110
Year-to-date 2004 (Jan.-Dec.)	192	0	61	253
Year-to-date 2003 (Jan.-Dec.)	185	6	160	351

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

<i>Centre / Period</i>	<i>Ownership</i>		<i>Rental</i>	<i>Total</i>
	<i>Freehold</i>	<i>Condominium</i>		
Saint-Hyacinthe				
Fourth quarter 2004	42	24	104	170
Fourth quarter 2003	25	0	25	50
Year-to-date 2004 (Jan.-Dec.)	163	48	186	397
Year-to-date 2003 (Jan.-Dec.)	99	12	151	262
Salaberry-de-Valleyfield				
Fourth quarter 2004	18	15	84	117
Fourth quarter 2003	19	0	0	19
Year-to-date 2004 (Jan.-Dec.)	64	15	115	194
Year-to-date 2003 (Jan.-Dec.)	53	8	0	61
Sept-Îles				
Fourth quarter 2004	0	0	0	0
Fourth quarter 2003	2	0	0	2
Year-to-date 2004 (Jan.-Dec.)	23	0	0	23
Year-to-date 2003 (Jan.-Dec.)	5	0	40	45
Sorel				
Fourth quarter 2004	35	16	4	55
Fourth quarter 2003	20	0	20	40
Year-to-date 2004 (Jan.-Dec.)	83	40	8	131
Year-to-date 2003 (Jan.-Dec.)	93	0	23	116
Thetford-Mines				
Fourth quarter 2004	10	0	0	10
Fourth quarter 2003	7	0	0	7
Year-to-date 2004 (Jan.-Dec.)	32	0	0	32
Year-to-date 2003 (Jan.-Dec.)	19	0	0	19
Val-d'Or				
Fourth quarter 2004	8	0	0	8
Fourth quarter 2003	4	0	0	4
Year-to-date 2004 (Jan.-Dec.)	37	0	6	43
Year-to-date 2003 (Jan.-Dec.)	16	0	0	16
Victoriaville				
Fourth quarter 2004	58	0	34	92
Fourth quarter 2003	64	0	39	103
Year-to-date 2004 (Jan.-Dec.)	240	0	110	350
Year-to-date 2003 (Jan.-Dec.)	256	8	86	350
Other urban centres*				
Fourth quarter 2004	94	0	47	141
Fourth quarter 2003	74	0	59	133
Year-to-date 2004 (Jan.-Dec.)	353	0	66	419
Year-to-date 2003 (Jan.-Dec.)	198	30	87	315

Source: CMHC

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

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