

H

HOUSING MARKET

OUTLOOK

Canada Mortgage and Housing Corporation

Montréal

FALL - WINTER 2003

www.cmhc.ca

ECONOMIC OVERVIEW

U.S. economy progressively coming out of its torpor

The Canadian and American economies are continuing to evolve in opposite directions for the moment. For the past few months, the Canadian economy has been showing definite signs of weakness. In fact, the gross domestic product (GDP) fell slightly (-0.1 per cent) in the second quarter, while, on a less than brilliant job market, the unemployment rate was brought back to 8 per cent. The soaring loonie, weak U.S. demand for certain products from Quebec and SARS largely accounted for the poor performance of our economy, particularly the manufacturing sector. This did not fail to have repercussions on the level of employment, which has been on a downward trend since the beginning of the year in the province. In Montréal, the job market is clearly losing speed, such that the unemployment rate climbed to 10.1 per cent in September. Fortunately, the metropolitan area is still riding the wave of the 206,000 jobs created from 1997 to 2002.

While the news is not very encouraging here, a more vigorous

recovery finally seems to be taking hold for our neighbours to the south. In fact, consumer spending, business investment and public expenditures considerably stimulated Uncle Sam's economy in the second quarter (annual GDP growth rate of 3.3 per cent). In the employment sector, the U.S. labour market, which had been prey to depressed conditions (770,000 jobs lost from January to August), posted its first gain in eight months in September. One issue that is starting to raise some concerns, however, is that the size of U.S. federal budget deficit could generate significant borrowing requirements, putting upward pressure on long-term interest rates. As well, two other factors are working in favour of an increase in long-term rates: the elimination of the deflationary scenario and renewed enthusiasm on the stock markets. Lastly, it should be noted that American households are currently seeing their real disposable income rise thanks to income tax cuts. Combined with a very accommodative monetary policy, these factors are underlying a generalized recovery of the North American economy in 2004.

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HOME TO CANADIANS
Canada

Slight upturn in mortgage rates

Still, CMHC expects that interest rates will rise moderately. In Canada, these increases should reach 25 to 50 basis points this fall and another 25 to 50 basis points next year in the case of five-year mortgages. More specifically, this means that the five-year mortgage rate could slightly exceed the 7-per-cent mark by the end of 2004. Although these hikes could discourage some buyers, consumer confidence is currently at a high level as, according to the

Conference Board index, in September, 57 per cent of Quebec residents felt that it was a good time to make a major purchase such as a home. This index was down, however, by 10 percentage points in relation to September 2002. In our opinion, the impact of the mortgage rate increase will be felt mainly on the prices that consumers will be prepared to pay to buy a property because, in the end, what really matters is the monthly mortgage payments. While, in recent

months, the mortgage rate decrease had allowed for the financing of some spectacular price gains on the resale market, the new rise in rates will curb the increase in residential real estate prices in 2004.

In sum, the economic context still remains most favourable to real estate activity, in that economic growth is expected to pick up in the United States and Canada, and employment should soon post a definite recovery.

RESALE MARKET

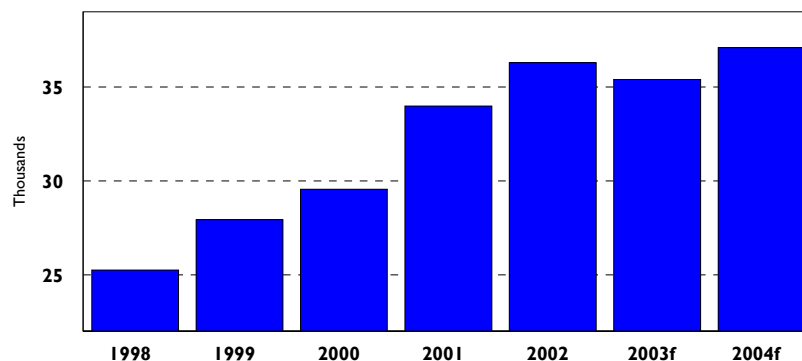
On a roll

In light of the unprecedented pace observed this past summer, the resale market should end the year on a good note in the Greater Montréal area. For example, while the year-to-date results showed a downturn of 16 per cent after five months of activity, 2003 should instead finish with a decrease of barely 2 per cent in the number of S.I.A.®/MLS transactions. There was consequently a major turnaround in the trend. As a result, just over 35,000 properties will have changed hands in 2003, a historically very high level compared, for instance, to the average of 25,000 resales recorded in the late 1990s.

As for the housing types, even though single-family homes remain the most popular with over 60 per cent of all sales, they will sustain a small decrease in activity (-5 per cent). This downturn will come mainly from the suburbs, where the competition with the new home market is greater than on the Island of Montréal.

Again for 2003, rental properties with two to five units (plexes) will also register

S.I.A.®/MLS Sales to Post High Levels Again in 2003 and 2004



Sources: CMHC and GMREB

f: forecast

a slight decrease in their number of S.I.A.®/MLS transactions (-2 per cent). As discussed further on, the substantial increase in the average resale price is pointing to a continued very strong demand for this type of housing. The decline in sales is therefore more the result of a decrease in the number of properties for sale (-13 per cent), that is, a downturn in active listings, than a lack of interest on the part of consumers.

Finally, condominiums will stand out, once again, with an increase in the number of such units having changed hands (5 per cent). With the results expected next year, condominiums will have outclassed the other housing types 13 times in the last 14 years, in terms of the growth rate of transactions. As a result, their market share has doubled, from 10 per cent to 20 per cent of all residential property resales.

Understanding 2003

Before venturing at what should await us in 2004, it is important to understand and review what the current year had in store for us since, as we have just mentioned above, a major turnaround took place in recent months.

In fact, the spring ended with low transaction volumes, particularly in the single-family home segment, where the results were comparable to those registered over five years ago. And, in the months that followed, that is, during the summer, the market posted its best performance ever recorded. So, what happened?

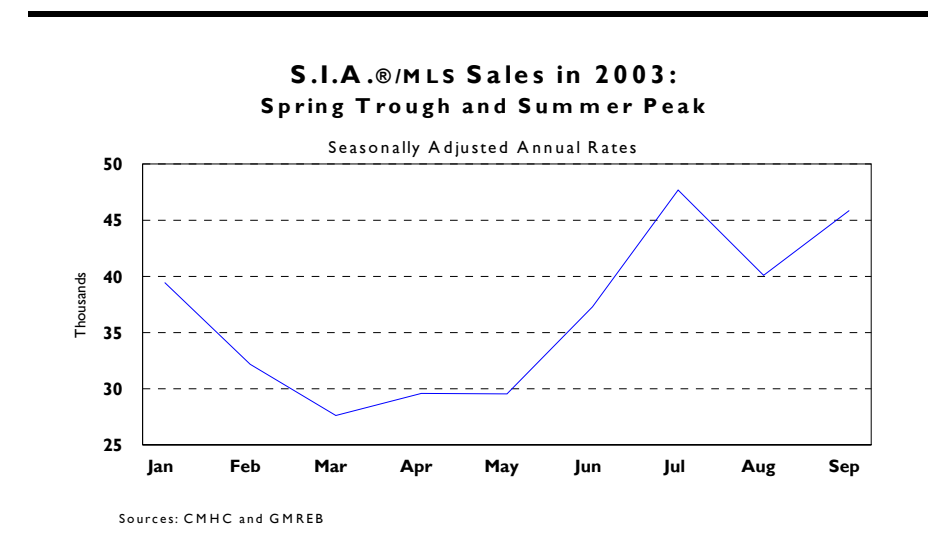
Certainly, we must take a look at the economic factors. Between January and March, mortgage rates went up slightly, from 6.4 per cent to 6.8 per cent for a five-year term. This increase is clearly too small to account for everything, however, all the more so since the job market had just posted a thriving year in 2002.

It would seem that consumer morale was undermined in the spring by the uncertainty surrounding the conflict in Iraq which, it should be recalled, had been preceded by an upsurge in oil prices in February. Households had to pay more for gasoline and they no doubt feared further substantial increases.

2004: small rebound in sight

In all likelihood, the resale market should be able to count on a small gain in S.I.A.®/MLS transactions in 2004. The increase should attain 5 per cent, following the decrease of 2 per cent recorded in 2003.

Even though the job market is losing speed and mortgage rates could be slightly raised, the appeal of homes should remain strong. The first interest rate hikes could even incite some households to move up their



A third factor, particular to the transactions conducted in the Montréal metropolitan area.

We are talking about the strong increase in prices that started in 2002. It should be noted that this progression ended precisely in March 2003, which coincided with the slowdown on the market. For example, the average price of a home in the suburbs, which was just under \$120,000 in 2001, slightly exceeded \$160,000 this past March. This increase of 33 per cent in less than two years was a major turning point for the suburbs. Over the entire previous decade, that is, from 1990 to 2000, prices had gone up by only 10 per cent. This reality is very significant, as suburban homes account for over half of all residential

transactions conducted in the Montréal metropolitan area.

And knowing that prices also rose considerably on the Island of Montréal, households no doubt wanted to take a breather and get used to the idea of having to pay more. Of course, with the improvement in the geopolitical climate and the decrease in mortgage rates, the exceptional results posted in the third quarter demonstrated that consumers in Greater Montréal are indeed getting used to the higher prices.

Based on this overview of 2003, we can now look at what is in store for us next year.

purchase, for fear of having to contend with further, more significant increases.

Certainly, the feverish pace observed in the summer of 2003 can be expected to wane progressively. But it is important to note that we can count on a better spring. The market should therefore post better months at a time when it matters the most, that is, when households are most inclined to buy a property. This

situation will account for the largest part of the gains anticipated in 2004.

As a result, sales should rise, even if the second half of the year may turn out to be less productive, as the rate hikes could be more significant. A look over the longer term, for 2005, effectively reveals the possibility of another small decrease in transactions, like in 2003.

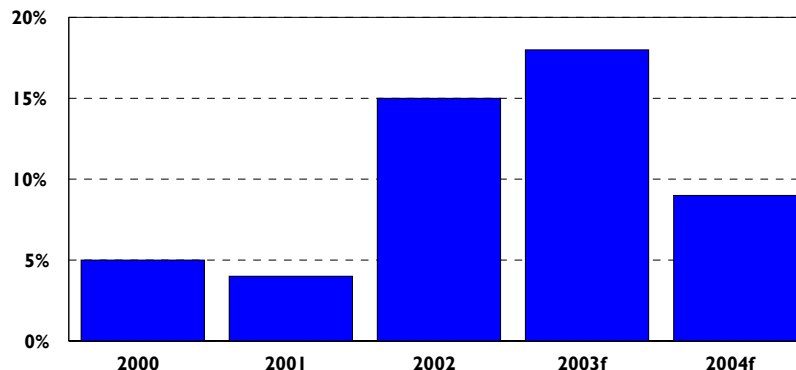
Spotlight on prices

Like last year, 2003 will end with a significant increase in the average resale price. The hikes will vary between 17 per cent and 21 per cent, depending on the housing types.

A closer look at the price trend in recent months, however, shows us that the pace began slowing down in March. With the decrease in activity in the spring and the slight upturn in listings, prices were practically stagnant for a few months in certain cases.

In this context, one could think that some sellers became less greedy as, even though they are still largely favoured by the market, the capacity to pay of households will gradually limit their ambitions. As well, the fact that existing home prices are moving closer to new home prices will have a

Prices to Rise Significantly in 2003, but More Moderately in 2004



Sources: CMHC and GMREB

f: forecast

deterrent effect on the increase in prices, and the hike will not be as great as in 2001 and 2002. Finally, upward pressure on mortgage rates and the increase in listings will also contribute to curbing the rise in prices. In 2004, the price hikes should rather range from 7 per cent to 12 per cent.

Sellers first

There is no indication of any change in the power relationship between buyers and sellers. In 2004, the market will again be characterized by a ratio of four sellers for every buyer. This

situation will be observed across the Greater Montréal area.

The greater increase in the number of active listings will not be sufficient to

really reverse the power relationship. The number of units for sale should rise by an average of 14 per cent next year.

Existing Single-Family Home Market

Level of % Change, 2003 to 2004, by Submarket

Submarket	Sales		Average Price		Active Listings		Sellers per buyer	
	2003	2004	2003	2004	2003	2004	2003	2004
Island of Montréal	5,500	5,900	266,000	291,000	1,850	2,100	4	4
Change from previous year	-1%	7%	16%	9%	8%	14%	--	--
Laval and North-Shore	9,100	9,400	155,200	172,000	2,900	3,300	4	4
Change from previous year	-4%	3%	19%	11%	3%	14%	--	--
South-Shore	6,700	7,200	159,300	176,000	1,900	2,000	3	4
Change from previous year	-7%	7%	16%	10%	-5%	5%	--	--
Total Montréal Area*	22,400	23,300	184,200	202,000	7,200	8,000	4	4
Change from previous year	-5%	4%	17%	10%	3%	11%	--	--

* The sum of the submarkets does not correspond to the metropolitan area on account of the MRC of Vaudreuil-Soulanges.

Source: CMHC, GMREB

NEW HOME MARKET

Construction to keep going full tilt

Residential construction, which has been going full tilt for nearly two years now, will continue in its stride in 2004. After posting a spectacular gain of 54 per cent in 2002, housing starts will rise again in 2003, but more modestly this time (+11 per cent), and 2004 will be another excellent year. In all, 23,000 new dwellings will be started in the Montréal metropolitan area, compared to 22,800 in 2003, for a very small increase of just under 1 per cent.

Just like for the resale market, the context will remain favourable to residential construction and, since there is still some catching up to do, the level of starts will continue to exceed the annual household formation rate. In 2005, as the catching up will be practically completed, construction should begin to decline and reach levels closer to the potential annual household formation rate.

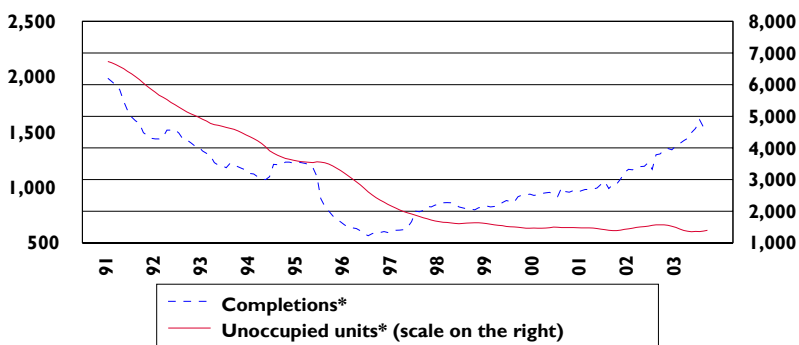
The low inventory, that is, the small number of new but unoccupied housing units, is another factor accounting for the level of activity in the residential construction sector. Even with the significant increase in

completions, demand remains strong, as the number of unoccupied dwellings is very low and has remained essentially the same for nearly five years. As well, the duration of the inventory can barely meet one month's demand, and this situation has prevailed for at least one year. During the period from January to September, completions went up by 23 per cent over the corresponding period in 2002 and, on September 30, 2003, there were approximately 300 more units in

inventory than on September 30, 2002.

It should not be forgotten that the dynamics on the resale market will continue to rub off on the new home market. Given that sales of existing homes will increase in 2004 and that prices will rise more rapidly on the existing home market than on the new home market, this will boost construction.

Even with the Increase in Completions, Inventories Remain at Very Low Levels



Source: CMHC
*12-month moving average

Single-family home building to reflect resale market

The scenario for the construction of single-family (detached, semi-detached and row) homes is the same as for the resale market. Since the gap between the selling price of an existing property and the selling price of a new home is tending to narrow, many households will be turning to the new home market when the time will come to buy another property, which will stimulate housing starts.

Customized upscale homes will continue to fill builders' order books, and more affordable housing types, like semi-detached and row homes,

will further penetrate the market. For example, for the first three quarters of 2003, the average price of a new semi-detached house stood at \$169,500 in the Montréal metropolitan area, while buyers had to pay an average of \$183,466 for an existing single-family home.

During 2003, single-family housing starts will decline slightly (-2.6 per cent) and then go back up by 4 per cent in 2004. Foundations will be laid for 11,300 single-family homes this year and 11,800 next year. Most of the new job sites will be in the suburbs.

New home prices will continue to rise on account of the labour shortage, the higher cost of construction materials and a steady demand for upscale properties. The average price for new homes will therefore increase by 12 per cent. The price for detached houses will exceed the \$200,000 mark (\$218,000) and that for semi-detached homes will reach \$167,000. In 2004, the price hike will be about 8 per cent.

New Single-family Home Market

Level of % Change, 2003 to 2004, by Submarket

Submarket	Sales			Average Price / Detached			Average Price / Semi-Detached		
	2003	2004	Chg.	2003	2004	Chg.	2003	2004	Chg.
Island of Montréal	1,150	1,200	4%	300,000	315,000	5%	205,000	215,000	5%
Laval and North-Shore	5,800	6,100	5%	220,000	238,000	8%	150,000	162,000	8%
South-Shore	3,200	3,300	3%	180,000	194,000	8%	130,000	140,000	8%
Total Montréal Area*	11,300	11,800	4%	218,000	236,000	8%	167,000	181,000	8%

* The sum of the submarkets does not correspond to the metropolitan area on account of the MRC of Vaudreuil-Soulanges.

Source: CMHC, GMREB

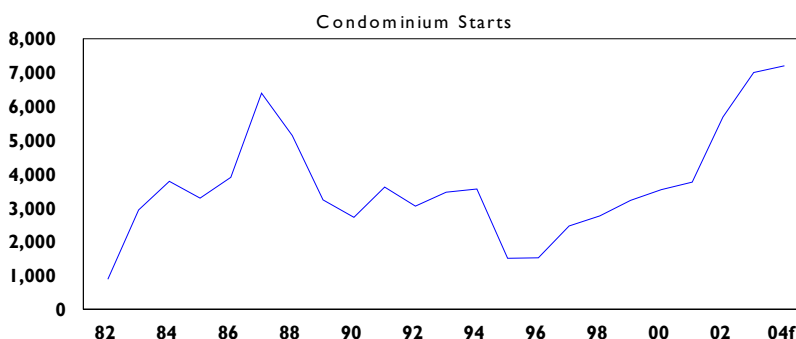
New heights for condominium construction

Condominium construction, which has been steadily on the rise since 1997, is on its way to reaching new heights. This year, the record of 6,391 starts set in 1987 will be beat, and 2004 looks even more promising. A total of 7,000 condominiums will be started this year, for a gain of 23 per cent over 2002. In 2004, this segment will be even more vigorous, as 7,200 starts will be recorded, or around 3 per cent more than in 2003.

Condominiums are still very appealing to young households accessing homeownership, especially those who choose to live on the Island of Montréal. The affordability of this formula is one of the main reasons for its popularity among young households. In a context where prices rose more rapidly on the existing home market than on the new home market, where the supply of affordable properties is practically non-existent on the resale market, and where rents are on the rise, the construction of affordable condominiums is perfectly suitable and meets a need.

Condominiums are also becoming more popular with the baby boomer generation. According to a study

New Heights for Condominium Construction



Source: CMHC
f: forecast

conducted by CMHC among households aged from 45 to 64 years in 2001*, 26 per cent of these people were condominium owners while, five years earlier, this proportion stood at 16 per cent. Taking advantage of the vigorous resale market, many are opting for mid- to upper-range condominiums when the time comes to buy another home. However, this market does not hold the same opportunities as the affordable condominium segment, as it is quite well served in the most upscale sectors of the Island of Montréal and there are

many projects under construction or about to be started, not to mention the recycling of existing buildings. As well, on the resale market, the upper-range niche (\$250,000 or more) is much less tight than the lower-range segments. In the third quarter of 2003, there were 11 sellers per buyer for upscale units, compared to a ratio of 5 to 1 in the case of condominiums priced at \$150,000 or less.

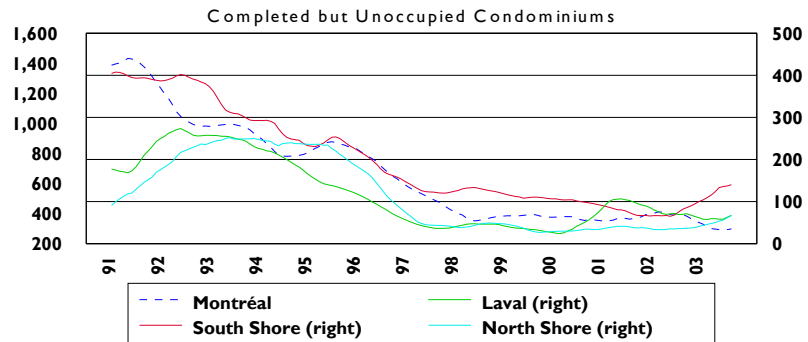
*The complete summary of this study is available free of charge on CMHC's Web site (www.cmhc.ca).

Condominium construction, which will exceed its 1987 level, may be stirring up some bad memories for certain people. The fear of reliving the same situation as in the late 1980s, that is, overbuilding, is present but, for the moment, there is no indication that this is about to recur. For the past several months, there have been few new condominiums that have not yet found takers across the metropolitan area, and most new projects get under way once a sufficient number of units have been sold.

Let's not forget that condominiums are an urban housing type, which makes sense in large cities where housing is more expensive. This is why the condominium market is concentrated and should continue to expand mainly on the Island of Montréal.

Out of the 656 units in inventory on September 30, 50 per cent were located on the Island of Montréal, with the remainder divided among the

Condominium Inventories Growing on the South Shore



suburbs. However, certain sectors require more vigilance. For the past few months, unoccupied condominium inventories have been tending to increase slightly on the South Shore, but still remain at low levels. It is in the Boucherville, Brossard, Greenfield Park, Lemoyne, Longueuil, Saint-Hubert and Saint-Lambert (central South Shore) sector that unoccupied condominiums are accumulating, as

the number of units under construction continues to grow. For the first nine months of 2003, the monthly average of unsold condominiums attained 104 units, compared to a monthly average of 60 units for 2002 and, at the end of this past September, condominiums under construction (505 units in all) were up by 49 per cent over September 2002.

RENTAL MARKET

After two years of very strong growth, rental housing construction to stabilize in 2004

After two years of strong growth, rental housing construction will stabilize starting in 2004. In 2003, there will be 4,500 rental starts, representing a significant gain of 38 per cent over 2002, and activity will then stabilize at 4,000 new units in 2004, for a decrease of 11 per cent.

The year 2003 will be marked by an interest in retirement homes, which account for more than 50 per cent of

all rental housing starts. In a context where the demographic trends are favourable and the vacancy rate is very low, it is no surprise that developers are interested in this market, all the more so since construction costs are high and, with the addition of certain services, it is easier to make this type of project profitable than a conventional rental project.

As well, a new product is making its entrance on the market. Also intended for older clients, in this case retired and semi-retired people, luxury rental housing projects offering certain services, different from those usually found in retirement homes, are starting to appear. We will see over time if there is really a demand for this new way of developing profitable conventional rental housing projects. At any rate, there currently

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seems to be a certain market for this product. According to the study conducted by CMHC among households aged from 45 to 64 years in 2001*, 25 per cent of these people intended to move within 5 to 10 years, and one in four households wanted to change tenures. More renters than homeowners wanted to change tenures (38 per cent compared to 19 per cent), and most of these renters were planning to become exclusive homeowners (87 per cent), while the homeowners were divided between renting a dwelling (38 per cent) and owning a condominium (58 per cent).

Special attention should also be paid to the market conditions for luxury housing projects. Already in October 2002, the vacancy rate for two-bedroom units renting for \$900 per month or more was on the rise (1.3 per cent in 2002 versus 0.3 per cent in 2001). And, in a context where mortgage rates were very affordable, many households took the plunge into homeownership, which contributed to freeing up some dwellings, especially expensive units, located mostly downtown. In addition, given the recent increase in resale prices, buying a condominium becomes an attractive investment, and renting loses its appeal.

For the moment, all the units that have been completed in recent months have been easily absorbed, such that inventories remain at very low levels. However, it is important to point out that the number of completions is still very limited (230 units per month on average, from January to September 2003) and that there are just over 3,300 units currently under construction that will have to be absorbed during the coming months and next year. It is therefore only in 2004 that we will really see how the demand will react to this new supply as, in addition to the needs of households, their

capacity and will to pay remain a determining factor.

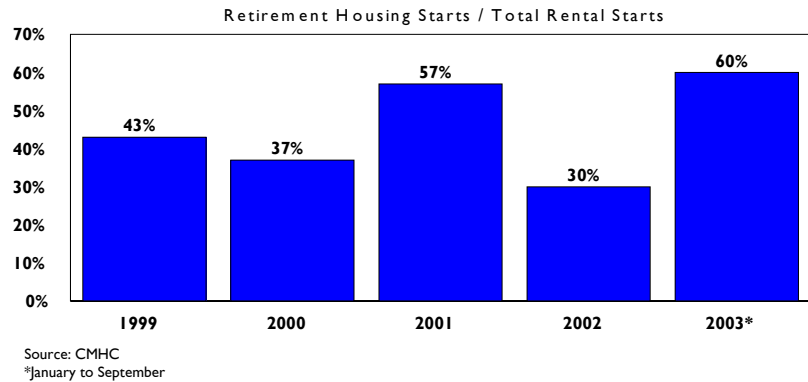
The rental housing demand will remain very strong and will continue to be stimulated by a labour market that will stay vigorous for young people and by the fact that migration will keep growing, although at a more modest pace. The few thousand units that have been added to the rental housing stock since last year, regardless of dwelling type, and the significant shift to homeownership that continued in 2003 will help give some respite to the rental market. The vacancy rate will therefore rise this October to 1.0 per cent, from 0.7 per cent in 2002. In 2004, this rate will increase again to 1.5 per cent.

Average rents will go up by 5 per cent in 2003 and 2004 on account of the market conditions, and also because many landlords will be taking advantage of this vigour to renovate their units and subsequently charge higher rents.

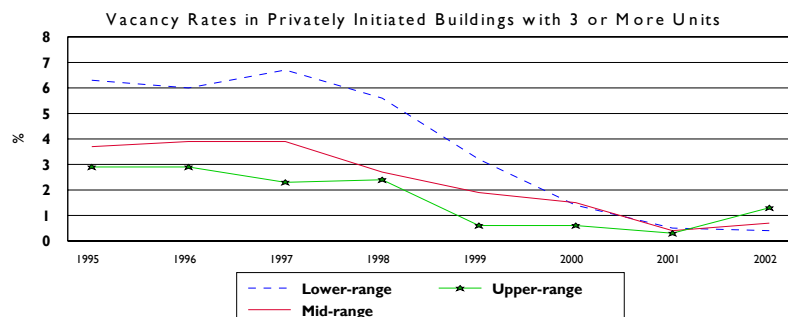
In 2004, the increase in the vacancy rate and the small upturn in mortgage rates starting in the second half of the year will dampen the enthusiasm of builders of rental housing, particularly luxury projects. However, the retirement home segment will remain quite active.

*The complete summary of this study is available free of charge on CMHC's Web site (www.cmhc.ca).

Retirement Home Construction Very Vigorous



Slightly More Upper-Range Units Available



Forecast Summary

Montréal Metropolitan Area
October 2003

	2001	2002	2003*	2004*	Chg. (%) 2003 vs 2002	Chg. (%) 2004 vs 2003
RESALE MARKET						
MLS Sales (1)						
Single-family houses	22,501	23,517	22,400	23,300	-5%	4%
Condominiums	6,188	6,945	7,300	7,800	5%	7%
Plexes (2 to 5 units)	5,295	5,833	5,700	6,000	-2%	5%
Total	33,984	36,295	35,400	37,100	-2%	5%
Active MLS listings						
Single-family houses	10,989	6,995	7,200	8,000	3%	11%
Condominiums	2,915	1,902	2,300	3,000	21%	30%
Plexes (2 to 5 units)	3,586	2,182	1,900	2,000	-13%	5%
Total	17,490	11,079	11,400	13,000	3%	14%
Average MLS price						
Single-family houses	137,907	157,440	184,200	202,000	17%	10%
Condominiums	116,337	139,297	163,800	175,000	18%	7%
Plexes (2 to 5 units)	163,078	183,942	222,800	250,000	21%	12%
NEW HOME MARKET						
Housing Starts						
Single-family houses	7,868	11,600	11,300	11,800	-3%	4%
Condominiums	3,763	5,687	7,000	7,200	23%	3%
Rental housing units	1,669	3,267	4,500	4,000	38%	-11%
Total	13,300	20,554	22,800	23,000	11%	1%
Average new house price						
Detached houses	173,163	195,805	218,000	236,000	11%	8%
Semi-detached houses	137,107	146,256	167,000	181,000	14%	8%
RENTAL MARKET						
Vacancy rate (October) (%)	0.6	0.7	1	1.5	--	--
Change in rents (%)	4.2	5.5	5.0	5.0	--	--
ECONOMIC OVERVIEW						
Mortgage rate 1-year (%)	6.1	5.2	4.9	4.9	--	--
Mortgage rate 5-year (%)	7.4	7.0	6.4	6.8	--	--
Employment (in thousand)	1,702	1,758	1,785	1,820	1.5%	2.0%
Annual employment variation (in thousands)	8	56	27	35	--	--
Unemployment rate (%)	8.1	8.5	9.6	9.7	--	--

1 The publication of MLS data is made possible thanks to the cooperation of the Greater Montréal real estate Board.

* CMHC Forecast

Sources: CMHC, GMREB and Statistic Canada

HOUSING MARKET OUTLOOK is CMHC's forecast for new home and resale markets published twice a year for the Montréal area. Issues are released in the Spring and fall of each year. For more information, please contact Customer Service Centre at 1 866 855-5711.

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