

H

OUSING MARKET

OUTLOOK

Canada Mortgage and Housing Corporation

Montréal

www.cmhc.ca

SPRING - SUMMER 2003

ECONOMIC OVERVIEW

CONTEXT WILL STAY FAVOURABLE TO THE REAL ESTATE MARKET

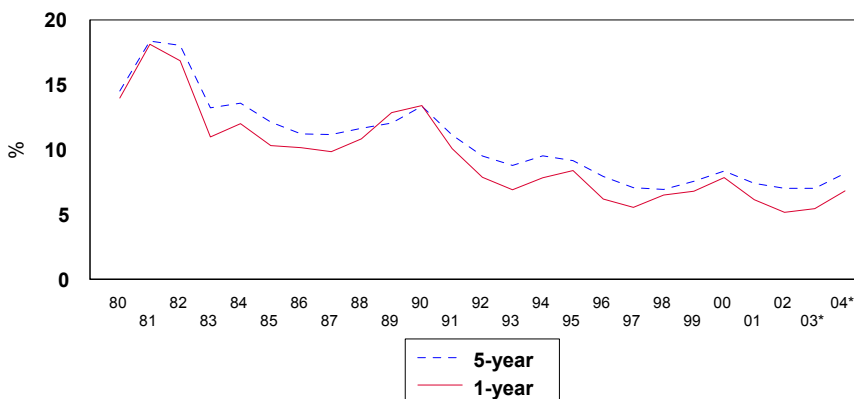
The Montréal area real estate market will continue to benefit from favourable economic leverage, which may not necessarily raise it to new heights but will certainly assure it a steady demand. While activity will begin to slow down to a certain extent, the scenario of a rapid decline, like that observed in the early 1990s, seems to be ruled out in the current context.

In fact, despite additional fast sales and a major increase in prices, interest in housing will continue to rest on solid footings, carried by fundamental choices, rather than

speculation where, we know, prices would be artificially inflated.

We will have to take another look at the interest rates factor in order to gain a good understanding of the psychology of consumers who are increasingly shopping around for a mortgage before they search for a property. While they will continue to find credit at an affordable cost, consumers should expect progressive rate hikes, especially starting in 2004. The rate for a five-year term could rise slightly above the 8-per-cent mark, as base rates will be raised and fears of inflation will be more present.

Mortgage Rates to Stay Low



Sources: CMHC, Bank of Canada, Statistics Canada
* CMHC forecast

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HOME TO CANADIANS

Canada

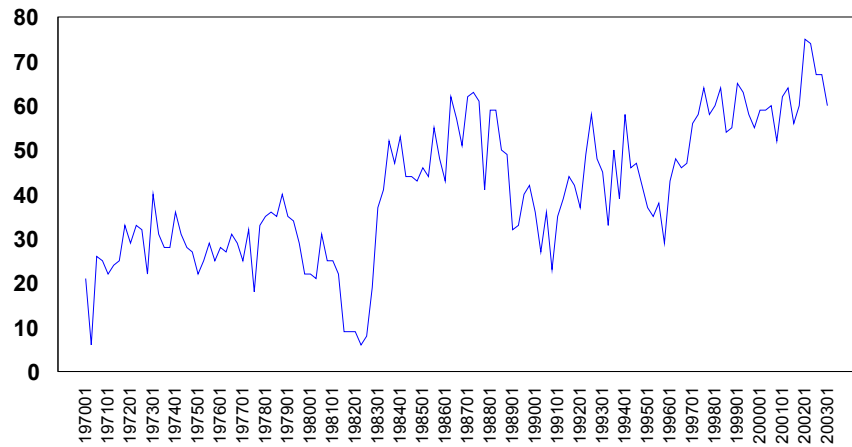
The anticipated rate increase will not be sufficient, however, to create a major downward trend in the real estate sector, as rates will remain low from a historical perspective. As well, the first hikes could be the spark that will push households to go ahead with their purchase for fear that more significant increases could be on the way. On the other hand, the market will not be benefiting from any further rate decreases that would have allowed the potential buyer pool to grow, a situation that would have been favourable to first-time home buyers.

On the employment front, the news will also have to be followed closely. While the Montréal economy did very well in 2002 with, for example, nearly 40,000 new full-time jobs, a certain levelling off was felt at the beginning of the year. The aeronautics and transport sector remains particularly fragile, as further restructuring phases could be coming.

Job creation can be expected to reach around 30,000 in 2003, and then go down to 25,000 next year. Here again, this will be a smooth landing that will not have any considerable effects on the real estate demand. The major job gains posted in recent years, in a context of economic diversification, solidified the financial bases of many households, more concerned than ever about their home.

And, while it may still be difficult to quantify this growing interest in real estate, which is notably echoed in family discussions, it can be estimated that the trend is gaining a foothold. In fact, according to the data compiled by the Conference Board of Canada, it can be noted that, for the past five years, most households have felt that the present period was a good time to make a major outlay for things such

Households Feel That Now Is a Good Time to Make a Major Outlay for Things Such as a Home



Source: Conference Board of Canada

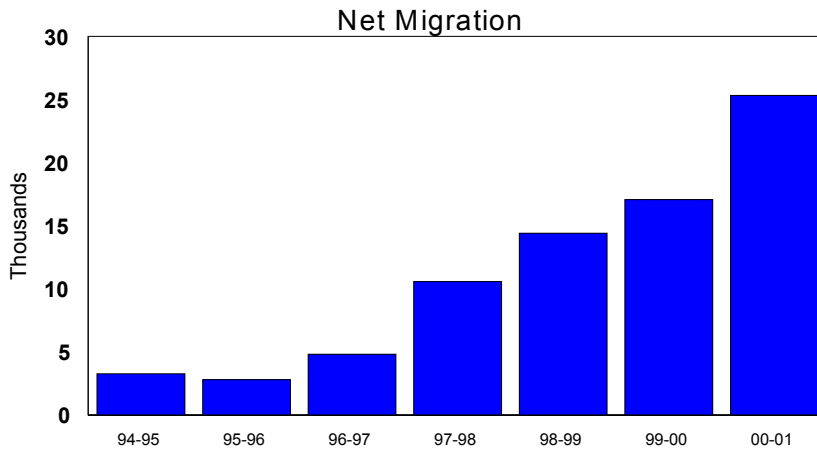
as home. This craze goes beyond current economic conditions as, even in contexts that were sometimes similar, such optimism had not been observed at all in the last three decades. As well, CMHC's new home buyer survey revealed that almost one in two respondents from the Montréal area, particularly the suburbs, fully agreed with the statement that, more than anything else, they would rather spend an evening at home. The cocooning effect, partially reflected here, should therefore be maintained over the coming years, despite the interest rate hikes.

Migration represents the last foundation stone that the real estate sector will need to ensure its support. The low birth rate will continue to limit the natural growth of the population, such that the capacity to attract and retain households will be essential, particularly for the construction industry.

Fortunately, for an area like Montréal, this dependency on population movements looks promising. The latest Statistics Canada census (2001) showed that the urbanization phenomenon has further intensified, with metropolitan areas increasingly becoming centres of attraction. Thanks in particular to its pool of quality jobs and its quality of life, Montréal will again benefit from favourable net migration levels, thereby ensuring the gradual renewal of the housing demand.

Between 1996 and 2001, the Montréal area received nearly 75,000 newcomers, most of whom were aged from 18 to 44 years, and this did not fail to boost demand for rental housing, single-family houses and condominiums. It should be pointed out that the rapid fall of the vacancy rate on the rental market coincided with the employment recovery for people aged 15 to 24 years and the steady rise in migration in the Montréal area.

Montréal Area Increasingly Attractive



Source: Statistics Canada

As well, given the difficulty in finding a dwelling and the low mortgage rates, many households moved up their home purchases, which partly explains why there will be slightly fewer buyers on the market in 2003 and 2004. According to a study conducted by CMHC among households having acquired a property in the last two years, 40 per cent had moved up their purchases on account of the low mortgage rates and 20 per cent, because of the scarcity of rental housing. The impact of these decisions on the level of activity for the next few years will not be that significant, however, as buyers moved up their purchases by an average of nine months.

RESALE MARKET

RESALE MARKET WILL BE SLIGHTLY CALMER

After having posted a memorable year in 2002, the resale market will be slightly calmer this year and next year, but this will not prevent it from remaining very lively. In 2003, sales will fall by 14 per cent from 2002, as 31,200 transactions will be recorded through the Multiple Listing Service MLS®/S.I.A.®. The resale market will continue to decline in 2004, but at a slower pace than in 2003. As a result, 29,000 transactions will be registered during 2004, for a decrease of 7 per cent in relation to 2003. The market will be less active, but the level of sales will remain well above the annual average of 22,800 units for the last 14 years.

Because properties are more and more expensive and choice is limited, activity will be less brisk on the market during 2003. For fear of paying too much, buyers will take more time to buy homes. It should be recalled, as well, that 2003 will be slightly less active as a number of households

moved up their home purchases by around nine months, which will cut into this year's level of activity to a certain extent. In addition, selling their property may pose a problem to some households since, although they may get a good price, they will have to buy another home in a seller's market, hence at a higher price. In this context, many households are becoming somewhat disillusioned and, consequently, there will be fewer buyers on the resale market. In 2004, the rise in mortgage rates will contribute to cooling down the ardour of the demand.

During 2003, resales will decline for all housing types, but single-family houses will be more affected (-16 per cent) than condominiums (-9 per cent) or plexes (-11 per cent). In fact, 19,700 single-family homes will change hands this year, compared to 6,300 condominiums and 5,200 plexes. Condominiums will be less hard hit as the affordability of this formula will

continue to appeal to many buyers. In 2004, demand for single-family houses will sustain a clearly less significant fall than in 2003 (-6 per cent), while demand for condominiums and plexes will keep declining at practically the same rate, with decreases of 8 per cent and 10 per cent, respectively. In all, 18,500 single-family homes, 5,800 condominiums and 4,700 plexes will be sold.

Again for affordability reasons, the suburbs will continue to account for the majority of single-family home transactions. With the eventual extension of the commuter train to Saint-Jérôme and the arrival of the metro in Laval, the northern suburbs will remain popular among households. As for the condominium and plex markets, they will continue to stand out on the Island of Montréal, where more than half of such sales will take place.

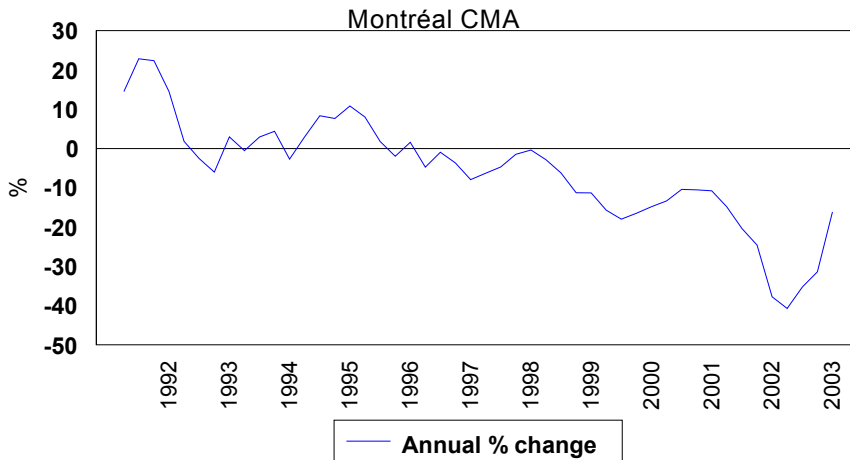
SUPPLY CHANGES DIRECTION: SLIGHTLY MORE PROPERTIES WILL BE FOR SALE

While, in recent years, supply had been steadily declining, at an increasingly faster pace, in 2003, the listings trend will post a turnaround. For the first time since the mid-1990s, supply will be back on the road to growth. Since there will be fewer buyers on the market, properties for sale will be going out more slowly, such that there will be slightly more listings, to which will be added a greater number of new listings. Even if listings will be on the rise, the supply of properties for sale will still remain at historically low levels over the next two years. In 2003, there will be an average of 11,700 active listings every month, for an increase of around 6 per cent over 2002. In 2004, the supply will be slightly more abundant, with listings going up by 11 per cent, for a monthly average of 13,000 properties for sale on the market.

So far, there is every indication that the upturn in supply is already well under way. In the first quarter of 2003, supply continued to decline but at a much slower pace than in 2002. From January to March 2003, total listings fell by 16 per cent in relation to 2002 while, one year earlier, the decrease had attained 38 per cent. In addition, according to the statistics compiled by the Canadian Real Estate Association (CREA), the new listings trend is slightly on the rise. The results for the first quarter of 2003 revealed that new listings went up by 9 per cent over 2002.

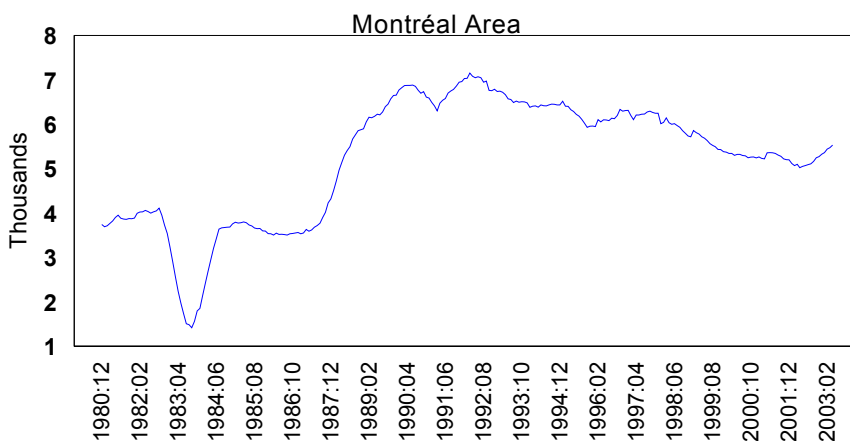
It is important to point out that, in the current context, the increase in listings is far from being a bad sign. With this upturn in supply, the market conditions that had become extremely tight will now gradually ease. This change

Listings Change Direction: Supply Declining More Slowly



Sources: CMHC and GMREB

New Listings Back on the Road to Growth



Source: CREA
Monthly trend: 12-month moving average

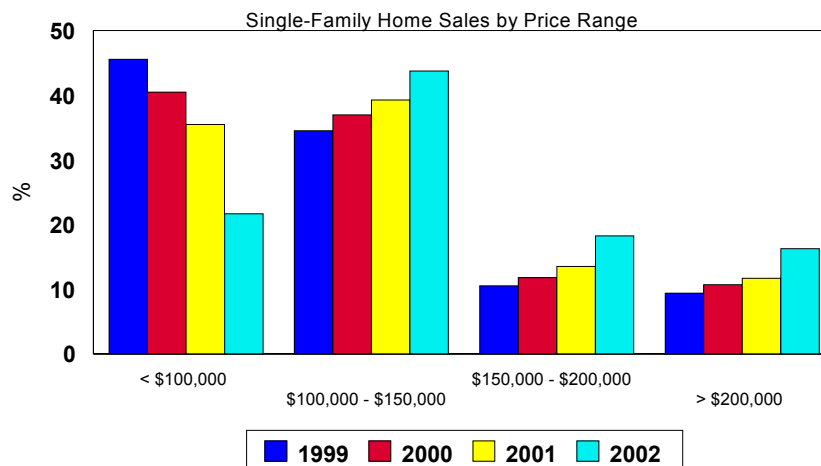
of direction marks the end of a favour sellers and should not reach a balanced level before 2006. In the short term, however, the market will continue to

PRICES WILL RISE SIGNIFICANTLY AGAIN IN 2003 BUT THE PRESSURE WILL EASE IN 2004

The year 2003 started off with an increase in prices that was just as significant as the one that marked the end of 2002, at close to 20 per cent. As of the second quarter, prices will keep rising, but more moderately. Consequently, 2003 will feature another major hike in prices. The pressure will gradually ease as supply will grow on the market, such that the price gains will be slightly smaller in 2004.

It should be pointed out that the demand mix has an impact on the increase in the average selling price. In 2002, demand for more expensive homes posted a considerable gain, to the detriment of less costly houses. Resales of single-family homes priced at \$150,000 or more went up by 43 per cent, while those of houses selling for \$150,000 or less went down by 9 per cent, which resulted in an overall increase in demand of 5 per cent in 2002. As well, 35 per cent of the demand was targeted to properties priced at \$150,000 or more, compared to a proportion of 25 per cent in 2001. The results for the first quarter of 2003 tell the same story, as sales of properties priced at \$150,000 or more were up sharply over 2002

Demand for More Expensive Homes Raises Average Selling Price



Sources: CMHC and GMREB

and represented just over 40 per cent of the demand.

During 2003, the average resale price of single-family homes will post a gain equivalent to that recorded in 2002, at 14 per cent, and thereby reach \$180,000. The average price of condominiums will register a smaller increase than last year, at 15 per cent, compared to 20 per cent in 2002, while the price of plexes will continue

on its upward trend and rise by 15 per cent, as opposed to 13 per cent in 2002. Buyers will therefore have to pay, on average, \$160,000 for a condominium and \$211,000 for a plex. In 2004, the price hikes will vary from 7 per cent to 8 per cent. The market will then finish regaining all the ground that it lost during the first half of the 1990s and start posting real growth in prices.

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	4,600	4,300	262,000	280,000	2,000	2,150	5	6
Change from previous year	-17%	-7%	15%	7%	17%	7%	--	--
Laval and North-Shore	8,200	7,800	150,000	164,000	3,000	3,200	4	5
Change from previous year	-14%	-5%	15%	9%	5%	7%	--	--
South-Shore	5,800	5,400	155,000	165,000	2,000	2,200	4	5
Change from previous year	-19%	-7%	13%	6%	1%	10%	--	--
Total Montréal Area*	19,700	18,500	180,000	193,000	7,500	8,200	5	5
Change from previous year	-16%	-6%	14%	7%	7%	9%	--	--

* 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 WILL REMAIN AT LEVELS EXCEEDING POTENTIAL HOUSEHOLD FORMATION

In the Greater Montréal area, residential construction will continue to grow in 2003, but at a much less spectacular pace than the gain of 55 per cent posted in 2002. In all, 21,200 dwellings will be started in 2003, or 3 per cent more than in 2002. A decrease in activity of 8 per cent is expected for 2004, when 19,500 housing starts should be enumerated.

Even though construction will slow down in 2004, the number of starts will still be very high, exceeding the annual potential household formation rate. During the past decade, new housing production has been below the household formation level. It should be noted, though, that the context was not favourable to residential construction. In the early 1990s, the Montréal economy was going into recession, and the new home and rental dwelling inventories were at high levels, as housing production had exceeded demand. The construction sector had no other option but to slow down the pace in order to allow the market to gradually absorb its inventories.

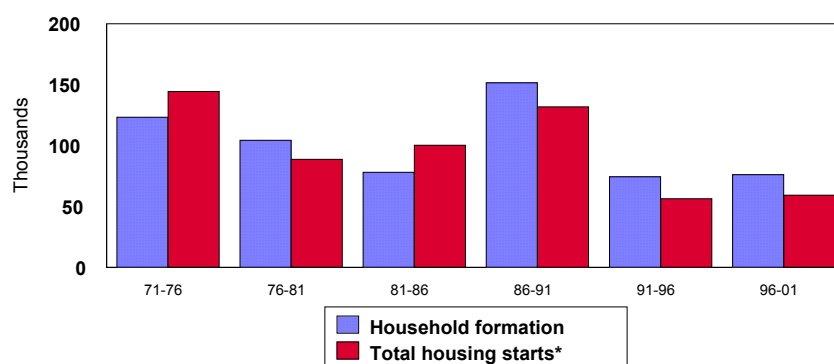
Once the inventories had been absorbed, the number of housing

starts still remained below the annual household formation level, thereby creating a latent demand. But with significant employment gains in recent years, the major increase in migration and the low mortgage rates, the latent demand expressed itself, and this resulted in shortages of dwellings for rent and existing properties for sale. Construction had some catching up to do, which explains why it did not slow down at all in 2002 and why it will continue to be very active over the next few years. At the end of 2004, the recovery should be practically

complete such that, in 2005, residential construction will continue to decline, reaching levels much closer to the annual potential household formation rate.

The production of such a considerable number of dwellings is all the more justified in that the inventory is being maintained at a low level (under 1,500 units) and that its duration can barely meet one month's demand (0.9 months).

Residential Construction Has Some Catching up to Do



Sources: CMHC and Statistics Canada
* Excluding recycled dwellings, retirement home room-and-board units, student residences and demolitions

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	1,000	-13%	315,000	330,000	5%	188,000	195,000	4%
Laval and North-Shore	5,408	4,876	-10%	210,000	220,000	5%	145,000	152,000	5%
South-Shore	2,704	2,300	-15%	170,000	177,000	4%	123,000	128,000	4%
Total Montréal Area*	10,400	9,200	-12%	208,000	218,000	5%	156,000	163,000	4%

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

Source: CMHC, GMREB

SINGLE-FAMILY HOME BUILDING WILL SLOW DOWN BUT CONDOMINIUM CONSTRUCTION WILL KEEP UP THE PACE

Single-family home building will take a break this year and next year, while condominium construction will keep up the pace. The difficulty in finding a property on the existing home market and the major increase in prices were beneficial to single-family home construction, such that starts went up by 47 per cent in 2002. In 2003 and 2004, the dynamics on the resale market will rub off on the new home market, and starts will decline by 10 per cent in 2003 and by 12 per cent in 2004. Overall, the housing stock will grow by 10,400 single-family homes this year and by 9,200 next year. Since the resale market will slow down, there will be fewer sellers who will need to rehouse themselves, which will curb demand for new homes. However, customized upscale houses will continue to fill the order books of builders.

The popularity of the condominium formula is not about to wane. The construction of this type of housing will keep up the pace this year and next year, thereby allowing many households to access homeownership or else baby boomers to fulfill their wishes for less space and maintenance. This year, condominium starts will rise by 2 per cent over 2002, reaching 5,800 units and, in 2004, such job sites will be just as active as in 2003.

The market will be concentrated on the middle and upper ranges (\$150,000 or more for detached houses and \$125,000 or more for semi-detached homes). The average price of detached homes will rise by 7 per cent to surpass the \$200,000 level (\$208,000). The average price of semi-detached houses will reach \$156,000, for an increase of 5 per

cent. In 2004, the price hikes will vary from 4 per cent to 5 per cent.

In the case of condominiums, most of the units arriving on the market will be mid-range. The upscale market will remain relatively limited, as this segment is quite well served, in addition to the few hundred units already under construction. In the same manner and for the same reasons as existing home sales, single-family home building will be more dynamic in the suburbs, and condominium construction will be more active on the Island of Montréal.

RENTAL MARKET

RENTAL HOUSING CONSTRUCTION WILL POST VERY STRONG GROWTH

The renewed activity in the rental housing construction sector, which began in 2002, will give way to another very nice gain in 2003. In fact, 5,000 rental housing units will get under way, for an increase of 53 per cent over the 3,267 starts recorded last year.

The retirement home niche will continue to stand out, garnering a significant share of the rental housing market. Already, for the first four months of 2003, nearly 80 per cent of all rental housing starts are apartments intended for senior clients, and several more projects, either announced or else on the drawing board, are aimed at this market. The more interesting

demographic trends and financial outlook for this segment than for the conventional rental market are not failing to attract investors, not to mention that the rental performance of such projects remains exceptional. This past October, the vacancy rate for apartment retirement homes was just 1.3 per cent in Greater Montréal, compared to 1.5 per cent in 2001. It should be recalled that, 10 years ago, this rate was very close to 10 per cent and even exceeded 12 per cent in 1991.

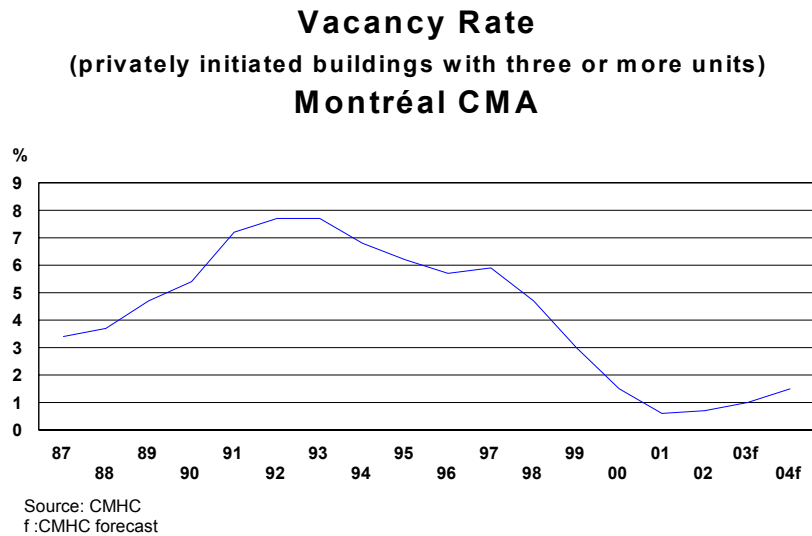
Luxury conventional rental housing construction, for its part, will continue to make headway downtown, and new social housing units will be started, as

well. Several cooperative housing projects have been announced, and some 400 dwellings should get under way under the private component of the federal-provincial affordable housing program.

In 2004, with the hike in interest rates, rental housing construction will slow down, and activity will decline by 10 per cent in relation to 2003. In all, 4,500 rental dwellings will be started, including nearly 800 units under the private component of the federal-provincial affordable housing program.

RENTAL MARKET WILL STILL REMAIN TIGHT

Still, signs of tension will continue to be observed on the Montréal rental market. The vacancy rate will remain low, and the rental increase will be comparable to that registered in 2002, at around 5 per cent. Next October, the vacancy rate will post a small gain in relation to 2002, as it will go up from 0.7 per cent to 1.0 per cent, and should then reach 1.5 per cent in 2004. Given the significant activity on the new and existing home markets, many households will continue to free up some dwellings, leaving room for others. The rental housing demand will remain steady as, in general, the context will continue to be favourable.



THE RETIREMENT HOME MARKET STUDY

The Canada Mortgage and Housing Corporation's Market Analysis Center publishes reports on the Retirement Homes for six Metropolitan Areas in Québec (Saguenay, Gatineau, Montréal, Québec, Sherbrooke and Trois-Rivières).

These are the most comprehensive tools for developers and investors interested in this promising real estate segment and are based on the latest CMHC's data available in 2002.

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Forecast Summary

Montréal Metropolitan Area
May 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	19,700	18,500	-16%	-6%
Condominiums	6,188	6,945	6,300	5,800	-9%	-8%
Plexes (2 to 5 units)	5,295	5,833	5,200	4,700	-11%	-10%
Total	33,984	36,295	31,200	29,000	-14%	-7%
Active MLS listings						
Single-family houses	10,989	6,995	7,500	8,200	7%	9%
Condominiums	2,915	1,902	2,200	2,500	16%	14%
Plexes (2 to 5 units)	3,586	2,182	2,000	2,300	-8%	15%
Total	17,490	11,079	11,700	13,000	6%	11%
Average MLS price						
Single-family houses	137,907	157,440	180,000	193,000	14%	7%
Condominiums	116,337	139,297	160,000	173,000	15%	8%
Plexes (2 to 5 units)	163,078	183,942	211,000	227,000	15%	8%
NEW HOME MARKET						
Housing Starts						
Single-family houses	7,868	11,600	10,400	9,200	-10%	-12%
Condominiums	3,763	5,687	5,800	5,800	2%	0%
Rental housing units	1,669	3,267	5,000	4,500	53%	-10%
Total	13,300	20,554	21,200	19,500	3%	-8%
Average new house price						
Detached houses	177,399	194,502	208,000	218,000	7%	5%
Semi-detached houses	139,938	148,770	156,000	163,000	5%	4%
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	5.4	6.8	--	--
Mortgage rate 5-year (%)	7.4	7.0	7.0	8.2	--	--
Employment (in thousand)	1,706	1,767	1,797	1,822	1.7%	1.4%
Job creation or loss (in thousand)	16	62	30	25	--	--
Unemployment rate (%)	8.2	8.4	8.9	8.2	--	--

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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