HOUSING MARKET OUTLOOK

Montréal

www.cmhc.ca

Canada Mortgage and Housing Corporation

SPRING - SUMMER 2004

ECONOMIC OVERVIEW

Interest rates provide a nice surprise this spring

Against all expectations, not only did mortgage rates not rise as most experts were anticipating, but they even continued to fall. Medium-term mortgage rates (three-year and five-year) went down on account of the decrease in bond rates for the same terms. As a result, this past March, the rate for a five-year mortgage reached 5.7 per cent, a level not seen since 1955.

As for short-term interest rates, the Bank of Canada cut its key rate seven times since July 2003, bringing down the rates for six-month mortgages and variable-rate mortgages at the same time. With inflation below the 2-per-cent target, the economy weaker than expected and, especially, a very strong loonie, the Bank of Canada was able to further ease monetary conditions.

However, interest rates are once again expected to rise. This scenario has suddenly become much more probable for our neighbours to the south. Not only did Uncle Sam's economy finally come out of its torpor in the second half of 2003, but the growth was spectacular to say the least (annual rate of 6.1 per cent) during these two quarters. Also, while the employment statistics were generally disappointing, the U.S. labour market rebounded in March (308,000 jobs created), and inflation, which was thought to be on the floor, also showed signs of going back up in March (+1.7 per cent at annual rate). These recent results are now working in favour of an increase in short-term interest rates. Medium-term bond rates (three-year and five-year), which determine mortgage rate levels, are also bound to rise. In the same stride, the Canadian rates will follow the upward movement, but more moderately.

CMHC therefore anticipates that five-year mortgage rates in Canada will reach 6.2 per cent in the fourth quarter of this year and continue to rise next year, ending the year (fourth quarter of 2005) at about 7.1 per cent.

In the meantime, during these spring months, usually the busiest period for house hunting, the very low mortgage rates are excellent news for the housing market. It is essentially thanks to these low rates that the expansion phase of the current real estate cycle will keep going in 2004.

IN THIS ISSUE

CMHC SCHL

HOME TO CANADIANS

Canada

NEW HOME MARKET

Another year where growth will dominate

Residential construction will continue to have the wind in its sails. It should be recalled that 2003 ended up with the best performance in 14 years in this sector. But, regardless, the current year will be even better. The new home market is still benefiting from the extremely tight resale market, where prices have literally exploded in the last two years (+36 per cent). Even if new home prices have also risen rapidly (+24 per cent in two years), in relative terms, new housing has become more competitive.

We forecast that 26,000 new housing units will be built in the Montréal area this year, or 7 per cent more than the 24,321 dwellings recorded in 2003. However, this will mark the peak of the current cycle, as we anticipate a decrease in activity next year, with 23,500 starts. There will be little change in the construction volumes for single-family homes (12,000 units) and rental dwellings (4,500 units). Consequently, the bulk of the growth will be attributable to the condominium segment.

Condominiums to beat all records this year

In the Montréal area, condominium construction posted an absolute record in 2003. With a total of 7,893 such starts, the previous record set in 1987 was easily eclipsed. But we have not seen anything yet. We are anticipating the construction of no fewer than 9,500 condominium units this year, for a gain of 20 per cent over last year.

If the condominium segment has been a roll for the last few years, it is mainly thanks to three factors. First, the lack of available rental dwellings, combined with the low mortgage rates, has prompted many households to consider buying instead of renting. In fact, condominium apartments are often close substitutes for rental dwellings, for the wealthier renters, it goes without saying. While these two factors are mainly related to current economic conditions, another element, this one structural, is fuelling demand for condominiums. The aging of the population, particularly the baby boomers, is generating a significant demand for condominiums intended for second- and third-time buyers. This would mean generally more expensive products, resulting in the development of a market for upscale condominiums. Luxury condominium projects have in fact multiplied in recent years, especially downtown and on Nuns' Island.

Lastly, it should be mentioned that, in addition to being extremely dynamic on the Island of Montréal, condominium construction is also growing in several suburbs, mainly those in the so-called first crown (e.g. Laval and Brossard). This phenomenon will continue, as the affordability issue is prompting many households to consider the suburbs, which are definitely less expensive.

New Single-family Home Market
Level of % Change, 2003 to 2004, by Submarket

	Sales			Average Price / Detached		
Submarket	**2003**	**2004**	**Chg.**	**2003**	**2004**	**Chg.**
Island of Montréal	**988**	**900**	**-9%**	**296,816**	**317,000**	**7%**
Laval and North-Shore	6,411	6,800	6%	220,836	242,000	10%
South-Shore	**3,187**	**3,100**	**-3%**	**184,254**	**198,000**	**7%**
Total Montréal Area*	11,702	12,000	3%	219,977	240,000	9%

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

Source: CMHC

RESALE MARKET

Sales: an even better vintage in 2004

After nine years of growth, property resales levelled off (-3 per cent) in 2003. But, one would be wrong to assume that the resale market has no more surprises in store. We expect the number of transactions to reach a new peak in 2004, with 37,000 resales. The results for the first quarter seem to confirm our forecast. In three months, transactions have risen by 4 per cent. It is, of course, the decrease in interest rates at the beginning of this year that will breathe new life into the resale market, but the increase in listings will, as well.

Listings: Montréal homeowners finally open the floodgates

At last, homebuyers will have more choice this year. The level of active listings finally bottomed in 2002 and 2003, when an average of just over 11,000 properties were up for sale every month. We are expecting the level of listings to rise by close to 20 per cent both this year and next year. It is especially in the condominium segment that buyers will see more options made available to them when they will be shopping around for their new home. It should also be noted that the supply of new condominiums is abundant at this time and that completed but unoccupied units may well find themselves in the hands of real estate agents, contributing to the increase in listings.

Slightly more listings per sale

With this new rise in listings, it is expected that the number of listings per sale (or sellers per buyer) will start going up again, although very modestly for the moment. We feel that this turnaround is effectively under way and that it will continue in 2005, giving slightly more respite to buyers during negotiations. But, make no mistake, the existing home market will still remain very clearly a seller's market. In fact, in the first quarter, all housing types (single-family homes, condominiums and plexes) posted 4 listings for every sale while, on a balanced market, this number varies between 8 and 10. In such a context, sizable price hikes should be anticipated once again.

Prices: moderation will be in good taste

It is common knowledge that, for the past two years, the housing market has been characterized by significant price increases (36 per cent, on average, for all products). This pace, which is certainly not sustainable over the long run, represents nearly eight times the general rate of inflation during the same period. Given the seller's market, the price hikes should inevitably remain very strong in the short term. However, with the drop in mortgage rates now over, this factor has finished subsidizing the increases in home prices. The gradual rise in rates, combined with the substantial price gains that have already been recorded, will start to weigh down on the shoulders of buyers, particularly first-time home buyers. Housing affordability is already on the decline. For example, a household who would have bought a typical single-family home on the North Shore in 2001 would have had to pay monthly mortgage payments of $725[1]. If the same household had purchased two years later, the mortgage payments would have been $885. With the rates embarking on an upward course, it is clear that buyers will end up being less inclined to give in to sellers' demands, all the more so since their negotiating power will be somewhat reinforced by a larger pool of listings.

As a result, the price hikes will slowly begin to wane. In the case of single-family homes, we are anticipating increases of 12 per cent and 6 per cent, respectively, this year and next year. Condominiums, which will post a larger increase in listings, will be more affected. According to our forecasts, the price of condominiums will rise by 9 per cent in 2004 and by only 4 per cent in 2005.

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[1]Assuming a down payment of 10 per cent and a loan taken out at the posted rate, for a five-year term, amortized over 25 years.

Existing Single-Family Home Market
Level of % Change, 2003 to 2004, by Submarket

Submarket	Sales 2003	Sales 2004	Sales Chg.	Average Price 2003	Average Price 2004	Average Price Chg.	Sellers per buyer 2003	Sellers per buyer 2004
Island of Montréal	**5,391**	**5,550**	**3%**	**269,213**	**296,000**	**10%**	**4**	**5**
Laval and North-Shore	9,100	9,450	**4%**	154,794	175,000	**13%**	4	4
South-Shore	**6,647**	**6,900**	**4%**	**160,978**	**179,000**	**11%**	**3**	**4**
Total Montréal Area*	22,387	23,200	**4%**	185,883	208,000	**12%**	4	4

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

Source: CMHC, GMREB

RENTAL MARKET

Little change in sight

In 2004 and 2005, rental housing construction will stabilize at around 4,500 units per year. The increase in the number of affordable dwellings built will be offset by a decrease in starts of privately initiated retirement rental housing units. In this last segment, construction was vigorous, to say the least, in 2003, with nearly 3,000 units. Several housing projects are still under construction or have recently been completed, but have not been fully rented up. Developers will therefore have to cool down their ardour somewhat over the coming months in order to let the market absorb these units.

As for the vacancy rate, it would be very surprising to see any major changes at the time of our next survey in October 2004. The rental market will remain tight, but the situation will still improve progressively for renters seeking a new apartment. We believe that the vacancy rate in Greater Montréal will rise slightly, going from 1.0 per cent in 2003 to 1.5 per cent in 2004 and then to 2.0 per cent in 2005.

This increase in the vacancy rate will be mainly attributable to the movement of wealthier renters toward homeownership. It must be understood that the current low mortgage rates are seen as a bargain by consumers, who still feel that now is a good time to buy a home, despite the fact that the increase in prices has considerably reduced housing affordability.

To a lesser extent, the recent renewed interest on the part of developers in rental housing construction will slightly ease the market. By attracting tenants, their new projects (whether they are retirement homes, conventional rental buildings or affordable housing) will necessarily contribute to freeing up other dwellings.

Of course, the anticipated small rise in the vacancy rate will not do much to change the power relationship between tenants and landlords when the time will come to negotiate rental increases. These hikes will be limited, however, by the existing provincial regulations. The average rent for a two-bedroom (4½-room) apartment will go up by about 4.0 per cent in 2004 and 3.5 per cent in 2005. It should be noted that this is an average for all dwellings on the market, including those in new buildings. Since these last units are significantly more expensive, they draw the average upwards.

Forecast Summary

Montréal Metropolitan Area
May 2004

	2001	2002	2003	2004*	2005*	Chg. (%) 2004 vs 2003	Chg. (%) 2005 vs 2004
RESALE MARKET							
MLS Sales (1)							
Single-family houses	22,501	23,517	22,387	23,200	22,000	4%	-5%
Condominiums	6,188	6,945	7,345	7,800	7,600	6%	-3%
Plexes (2 to 5 units)	5,295	5,833	5,591	6,000	5,400	7%	-10%
Total	33,984	36,295	35,323	37,000	35,000	5%	-5%
Active MLS listings							
Single-family houses	10,989	6,995	7,136	8,200	9,500	15%	16%
Condominiums	2,915	1,902	2,349	3,200	4,400	36%	38%
Plexes (2 to 5 units)	3,586	2,182	1,933	2,200	2,600	14%	18%
Total	17,490	11,079	11,418	13,600	16,500	19%	21%
Average MLS price							
Single-family houses	137,907	157,440	185,883	208,000	220,000	12%	6%
Condominiums	116,337	139,297	164,804	180,000	188,000	9%	4%
Plexes (2 to 5 units)	163,078	183,942	226,852	257,000	275,000	13%	7%
NEW HOME MARKET							
Housing Starts							
Single-family houses	7,868	11,600	11,702	12,000	11,000	3%	-8%
Condominiums	3,763	5,687	7,893	9,500	8,000	20%	-16%
Rental housing units	1,669	3,267	4,726	4,500	4,500	-5%	0%
Total	13,300	20,554	24,321	26,000	23,500	7%	-10%
Average new house price							
Detached houses	173,163	195,805	219,977	240,000	258,000	9%	8%
Semi-detached houses	137,107	146,256	171,955	185,000	196,000	8%	6%
RENTAL MARKET							
Vacancy rate (October) (%)	0.6	0.7	1	1.5	2.0	--	--
Change in rents (%)	4.2	5.5	4.2	4.0	3.5	--	--
ECONOMIC OVERVIEW							
Mortgage rate 1-year (%)	6.1	5.2	4.8	4.2	4.6	-0.6	0.4
Mortgage rate 5-year (%)	7.4	7.0	6.4	6.1	6.7	-0.3	0.6
Employment (in thousand)	1,702	1,758	1,793	1,830	1,875	2.1%	2.5%
Annual employment variation (in thousands)	8	56	35	37	45	--	--
Unemployment rate (%)	8.1	8.5	9.5	9.7	9.9	--	--

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