



HOUSING MARKET

OUTLOOK

Québec

Low mortgage rates and employment growth continue to prevail

Canada Mortgage and Housing Corporation

www.cmhc.ca

Mortgage rates will remain low in 2005 and rise moderately next year. The level of inflation and a strong Canadian dollar in relation to the US dollar will limit the extent and pace of any increase in these rates in 2005 and 2006.

Short-term rates should go up by 25 to 35 basis points in 2005, while long-term rates, for their part, will go down by a similar proportion. While still at historically low levels, mortgage rates should rise gradually by 25 to 50 basis points in 2006. One-year and five-year rates could reach 5.75 per cent and 6.50 per cent, respectively, by the end of 2006.

In terms of employment, the Québec census metropolitan area (CMA) has posted a surprisingly dynamic economy since the beginning of 2005. In fact, after nine months, the area is showing noteworthy employment growth, with more than 16,000 jobs on an annual basis, following two years of rather moderate activity in this regard. While these results seem inflated, considering that Statistics Canada employment estimates at the CMA level may be irregular, they are still encouraging, all the more so since these are exclusively full-time jobs.

Among the sectors posting the strongest job creation levels is the Finance, Insurance and Real Estate sector. The technology sector also did well, with the arrival of companies like Ubisoft, which has been actively recruiting since setting up in the last few months. This company should be in hiring mode for the next five years. Others, such as Sarbacan, are announcing investment and extension projects for the coming years, projects that will also contribute to job creation in the metropolitan area.

In the Québec CMA, the year 2005 should end with the creation of over 10,000 jobs, for a gain of 2.8 per cent over 2004. In 2006, the pace should slow down somewhat, as close to 6,000 jobs should be created (+1.6 per cent). The unemployment rate, for its part, should be about 6.5 per cent in 2005 and 6.6 per cent next year.

A favourable job market and a small and gradual rise in mortgage rates will therefore allow residential construction to make a smooth landing and the resale and rental markets to progressively return toward balanced conditions.

FALL-WINTER 2005

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Housing starts sailing near the peaks

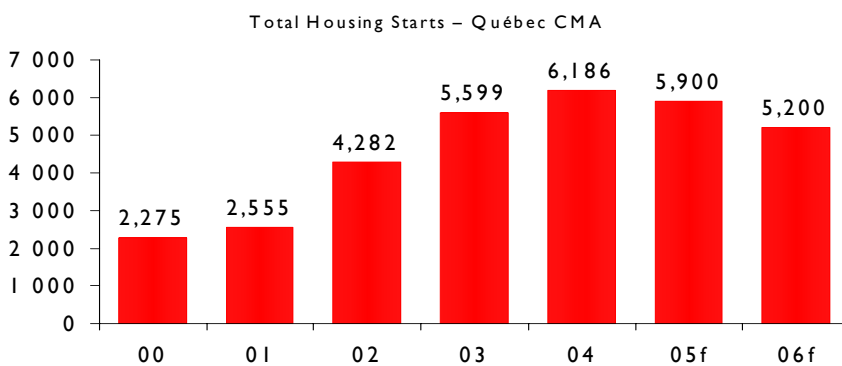
After having reached a peak in 2004, housing starts will remain very high in 2005 in the Québec CMA. In fact, thanks to the still very affordable mortgage rates and a more vigorous labour market than anticipated, the number of starts will barely decline in 2005, as 5,900 new units are expected, compared to 6,186 in 2004. The decrease will be somewhat more marked next year, with 5,200 starts forecast, for a drop of 12 per cent. The economic context will remain favourable next year, despite more modest employment growth and slightly rising mortgage rates. The volume of construction will be curbed, however, by the rise in inventories of homes for sale and dwellings for rent on the new and existing home markets and by the fact that demographic growth is tending to slow down. It should be noted that the anticipated volume of construction will still remain high in 2006 when compared to the annual average of 4,000 housing starts registered in the CMA since the beginning of the 1990s.

The construction of freehold homes¹ will be the market segment that will post the best performance this year and next year. In fact, a small increase in activity is even expected in 2005, with 3,350 new units, compared to 3,311 in 2004. The less significant rise in prices for new homes than for existing homes in recent years has made the former more competitive. In fact, between the year 2000 and the third quarter of 2005, the median MLS® price for existing homes climbed by 60 per cent, in comparison with a 30-per-cent hike according to the Statistics Canada New Housing Price Index. In addition, inventories of newly completed and unoccupied homes remain low, and the resale market is still showing a shortage of properties for sale, which is inciting some buyers to have their homes built. However, this price advantage of the new home market will tend to start diminishing in 2006, when the increase in the price of new homes will match the price hike for existing properties (around 4 per cent). It is also expected that the number of properties for sale on the existing home market will continue to rise and that this market will move closer to a balanced situa-

tion. The greater choice on the resale market will reduce the tendency of buyers to turn to the new home market. As a result, 3,100 freehold housing starts are anticipated in 2006.

In the condominium construction sector, the year 2005 will be almost as active as 2004 (1,200 units), with a volume of 1,150 units. However, the continued high volume of condominium starts will be achieved at the expense of higher inventories of unoccupied new units and a greater number of existing condominiums for sale. On the new home market, 268 unoccupied new condominiums and 704 units under construction were enumerated in September 2005, for an increase of 51 per cent over the same month in 2004. This supply would be sufficient to meet the demand for 12 months, which corresponds to the average duration of supply for the last 15 years. There is consequently no alarming surplus of new condominiums at the level of the Québec CMA. However, the duration of supply has been on the rise since the end of 2004, and there is every indication that this trend will continue, since supply is still rising and demand is levelling off. It should be noted that the situation should be watched more closely in the Sainte-Foy sector, where the duration of supply has been hovering around 19 months since the middle of 2004. On the existing home market, the number of condominiums for sale this past September (848 units) was up by 50 per cent over 2004. The number of sellers per buyer consequently reached 7.3 in the third quarter of 2005, from 5.3 one year earlier. The market is therefore rapidly moving toward balanced conditions². This situation is certainly less of a problem than in the mid-1990s, when the seller-to-buyer ratio peaked at 50 to 1, but the fact remains

Housing Starts to Remain High



Source: CMHC
f: forecasts

¹ Refers to single-family houses (detached, semi-detached and row homes) owned under freehold tenure and owner-occupied duplexes.

² The resale market is classified according to the number of sellers per buyer: overheating (less than 5), seller's (from 5 to 7), balanced (from 8 to 10), buyer's (from 11 to 15) and declining (more than 15).

that it will not be possible to maintain the pace of construction much longer without bringing about an imbalance

on the market. These higher inventories on the new and existing home markets will likely curb construction

in 2006, when 900 new units are forecast, for a decrease of 22 per cent.

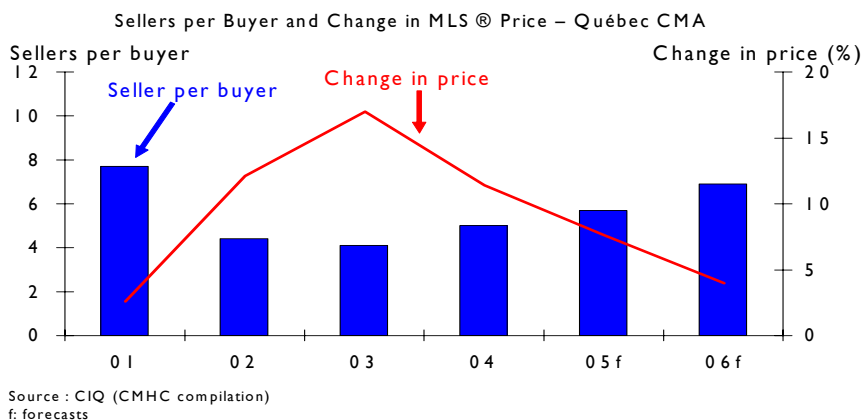
Resale market: more transactions, but more modest price increases

In the Québec area, MLS® sales reached a peak in 2002 (more than 7,000 transactions), and then declined in 2003 and 2004 (6,292 and 6,257 transactions, respectively) on account of a lack of properties for sale and an increase in sales closed without the help of a real estate agent. In fact, when the market is very favourable to sellers, more owners attempt to sell their home themselves in order to avoid paying the agent's commission. However, for the past few months, with the sustained rise in inventories of properties for sale, listing periods have increased and more sellers are calling on a real estate agent. This rise in sales handled by real estate agents, the increase in the number of properties for sale and the continued favourable economic context have allowed MLS® sales to rebound. In all, 6,900 sales are forecast for 2005, for a gain of 10 per cent. Next year, activity is expected to stay very strong, with 7,000 transactions (+1 per cent). The anticipated rise in mortgage rates will be too marginal to hold back buyers, and the market will continue to benefit from the positive spin-offs of one of the most dynamic job markets in the province.

Even though sales volumes will come very close to the record set in 2002, price increases will be slowing down. In fact, with the rising inventories, the seller-to-buyer ratio has started climbing again. From a low point of 4.1 to 1 reached in 2003, this ratio will rise to nearly 6 to 1 at the end of 2005 and 7 to 1 by the end of next year. The price hikes above 10 per cent recorded between 2002 and 2004, which reflected an overheating market, are now behind us. For 2005 and 2006, prices can be expected to rise by 7.5 per cent and by 4.0 per cent, respectively. The market will no longer be overheating but will still remain favourable to sellers, which will justify price hikes above inflation (target of 2 per cent).

Resale market conditions vary considerably, however, depending on the price range. In fact, for homes priced at under \$150,000, the market was still overheating in the third quarter of 2005, with 4 sellers for every buyer and an average listing period of 50 days. Conversely, the market turns to the advantage of buyers when the price exceeds the \$200,000 mark, with 11 sellers per buyer and a listing period of 87 days. Although all price ranges will be affected by an upward trend in the seller-to-buyer ratio by the end of 2006, the resale market will remain clearly tighter in the more affordable segment.

More Moderate Price Increases



Rental market: shortage easing

The rental housing shortage afflicting the Québec area has been easing in recent years, as the vacancy rate went from 0.3 per cent in 2002 to 1.1 per

cent in 2004. Still, the rental market remains tight, and many tenants are still having difficulty in finding an apartment that meets their needs, especially among the most affordable units. In fact, only 0.6 per cent of two-bedroom apartments renting for

under \$600 per month were available in 2004. This proportion rose to 1.0 per cent for apartments with rents between \$600 and \$899 and reached a high of 11.5 per cent in the case of units renting for \$900 or over. This explosion in the vacancy

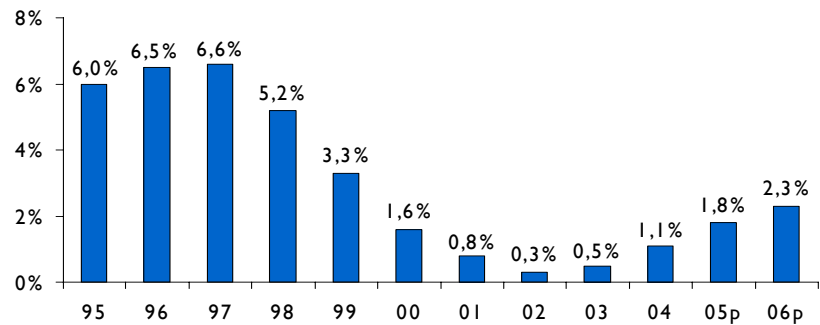
rate for expensive units resulted from the massive arrival of over 700 apartments of this type in the Sainte-Foy sector and the strong competition from home buying among the potential clients for more expensive dwellings, especially in a context of low interest rates.

This saturation of the upper-range market will somewhat curb rental housing construction in 2005, but the volume of activity will still remain strong thanks to the construction of more apartments for seniors. As a result, 1,400 rental dwellings should be built in 2005, for a decrease of 16 per cent in relation to 2004. The decline will continue in 2006, as the saturation of the retirement apartment market will compound the already glutted traditional luxury rental housing market. However, the construction of the social housing units created under the different government programs will limit the expected decline in the rental sector next year. Rental housing starts should reach 1,200 units in 2006, down by 14 per cent.

The anticipated slowdown in demand, in a context where household growth is weaker, along with a continued large supply of new housing units, will

Vacancy Rate to Keep Rising

Vacancy rate (%) – QuébecCMA



Source : CMHC
f: forecasts

drive up the vacancy rate in 2005 and 2006. This rate will reach 1.8 per cent in 2005 and 2.3 per cent in 2006. Given the high construction costs that are preventing developers from offering affordable new apartments and the low interest rates that are facilitating homeownership, it is highly likely that the vacancy rate hikes will more significantly affect units renting for over \$600. The rental housing sector may therefore increasingly become a two-tiered market characterized by a shortage of the most affordable apartments and a

growing availability as one moves toward the higher rent ranges.

As for the average rent, it can be expected to rise by 3 per cent in 2005 and 2.5 per cent in 2006, which will remain above inflation. It should be mentioned that this increase in the average rent will result in part from the arrival of many new units with higher rents and that the rent hikes will probably be less than the 3 per cent and 2.5 per cent forecasted for the existing housing stock, especially for the more expensive units.

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Forecast Summary

Québec Census Metropolitan Area

Fall-Winter 2005

	2003	2004	2005f	2006f	2004/2005	2005/2006
RESALE MARKET ¹						
MLS® sales						
Total	6,292	6,257	6,900	7,000	10.3%	1.4%
Single-detached	3,977	3,962	4,375	4,425	10.4%	1.1%
Semi-detached and row	943	887	925	950	4.3%	2.7%
Condominium	1,056	1,123	1,275	1,300	13.5%	2.0%
Duplex	316	285	325	325	14.0%	0.0%
Active MLS® listings						
Total (annual average)	2,170	2,609	3,300	4,000	26%	21%
Median MLS® price (\$)						
Total	114,271	127,281	137,000	142,500	7.6%	4.0%
Single-detached	122,499	134,850	145,000	151,000	7.5%	4.1%
Semi-detached and row	95,814	112,534	121,500	127,500	8.0%	4.9%
Condominium	98,522	108,041	117,500	120,500	8.8%	2.6%
NEW HOME MARKET						
Starts						
Total	5,599	6,186	5,900	5,200	-4.6%	-11.9%
Freehold	3,167	3,311	3,350	3,100	1.2%	-7.5%
Condominium	1,070	1,200	1,150	900	-4.2%	-21.7%
Rental	1,362	1,675	1,400	1,200	-16.4%	-14.3%
New Housing Price Index						
1997 = 100	121.9	129.3	134.5	140.5	4.0%	4.5%
RENTAL MARKET (%)						
Vacancy rate (October)	0.5	1.1	1.8	2.3	--	--
Change in rents (2-bedroom)	3.4	4.5	3.0	2.5	--	--
ECONOMIC OVERVIEW						
Mortgage rate - 1-year (%)	4.8	4.6	5.0	5.7	--	--
Mortgage rate - 5-year (%)	6.4	6.2	6.0	6.5	--	--
Employment level	360.0	364.7	375.0	381.0	2.8%	1.6%
Unemployment rate (%)	7.0	5.7	6.5	6.6	--	--

¹ The publication of MLS® data is made possible thanks to the collaboration of the Chambre immobilière de Québec (CIQ).

f: CMHC forecasts

Sources: CMHC, CIQ and Statistics Canada

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