# HOUSING MARKET OUTLOOK

# Montréal

Canada Mortgage and Housing Corporation

www.cmhc.ca

FALL-WINTER 2005

## Housing market activity to decline in 2005

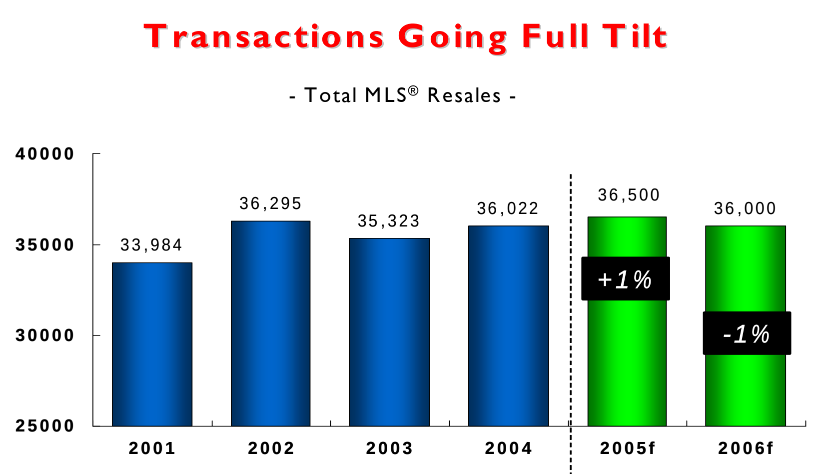
## Resale market

### Resale market indomitable

One year ago, we had anticipated a small decrease in the number of transactions on the resale market for 2005, but this is not the case at all. Against all expectations, the volume of transactions on the S.I.A.®/MLS® network in Greater Montréal in 2005 is instead on its way to edging out the record set in 2002 (36,295 sales). After three quarters, the number of resales is up by 2 per cent over last year, which is leading us to forecast some 36,500 transactions for the year overall, a new historical peak. The number of transactions has stayed at these levels for four years now, and the resale market seems unshakable.

How could there be another increase, given the major decrease in housing affordability? The answer probably has to do with the rise in listings (+23 per cent this year). The increase in the number of homes for sale in a way brought grist to the mill, as there were more properties available on the market. But also, and we will return to this later, the rise in listings caused the seller-to-buyer (or listings-to-sales) ratio to go back up and thereby helped buyers regain a little negotiating power. The surge in prices has therefore started to wane. Slightly more choice and slightly more negotiating power probably incited some buyers, who had abstained for lack of choice, to make their move.

*Figure 1*




*Sources: GMREB and CMHC*

IN THIS ISSUE

Single-family home sales will remain rather stable (0 per cent in 2005 and -3 per cent in 2006), while condominium sales (+11 per cent in 2005 and +7 per cent in 2006) will be further stimulated by the more marked rise in listings. Sales of plexes with 2 to 5 units, for their part, will sustain decreases of 7 per cent and 8 per cent, respectively, in 2005 and 2006.

### The rising of prices is less sustained

Where the resale market is undergoing major changes is at the price increase level. As we had anticipated, the price hikes—albeit still sustained—are clearly slowing down. As indicated by the trend for the first three quarters, these increases will be practically halved this year, from 14 per cent to 6 per cent for single-family homes, from 10 per cent to 5 per cent in the case of condominiums and from 17 per cent to 11 per cent for plexes. The rise in listings naturally led to increases in the listings-to-sales ratios, which, at the time of writing, stood at 6 to 1 for single-family homes and plexes and at 7 to 1 for condominiums. These markets therefore still remain favourable to sellers. This will again be the case next year, except for condominiums. This market is very close to being balanced again. The seller-to-buyer ratio in this segment should surpass the 8-to-1 mark within the coming months and could even reach 9 to 1 in the summer or fall of 2006.

Consequently, since we are anticipating that the number of properties for sale will keep rising next year (+19 per cent, overall), we are expecting, by the same token, that the price hikes will continue to wane. In Greater Montréal, single-family homes will cost an average of 4 per cent more in 2006. The increase will be 5 per cent for small rental structures with 2 to 5 units. However, the rise in condominium prices will not beat inflation and will be limited to just 2 per cent next year. The price frenzy on the Montréal housing market will therefore no longer make any headlines in 2006.

## New home market

### Decline in housing starts

After six years of growth, 2005 will mark the first decline in housing starts in Greater Montréal since 1998. This result was to be expected, sooner or later, the peak of the current cycle was bound to be reached and, as we had forecast, it happened in 2004, with an impressive total of 28,673 starts. The year 2005 is coming to an end, and it will have been another remarkable year for builders. However, a decrease is now under way, and there does not seem to be any doubt that we are now on other side of the mountain.

We therefore anticipate that 2005 will end with a total of 24,500 starts, down by 15 per cent from the peak attained in 2004. Likewise, next year, the number of new constructions will continue on a slow downward course. In fact, 21,000 starts are expected in Greater Montréal in 2006, for an additional decrease of 14 per cent in relation to the current year (see figure 2). Several factors combined are pointing to a slowdown in residential construction: inventories are accumulating in the condominium segment, the rental housing vacancy rate is slowly going back up and demand for single-family homes is running out of steam. Let's take a closer look at what this means for the different market segments.

Although it is appearing gradually, a downward trend in freehold (single-family) housing starts has been well under way for about a year now (see figure 3). In this segment, construction most often begins once the home is already sold, such that inventories are practically non-existent. In this case, the decrease in starts effectively reflects a demand that is slowly running out of steam. The decrease will be in the order of 18 per cent this year and, as another sign that this is a general trend, all geographical sectors without exception are affected. It is along this same course that freehold housing starts will decline by another 15 per cent, to a total of 8,500 units in 2006, the lowest level since the construction boom took off in 2002. All in all, it will still be a very good year for builders, but we feel that the best is behind us.

### The number of unsold new condominiums is to be watched carefully

Another segment that will be hit by a slowdown in 2006 is the condominium market. The reason is quite simple: sales of

*Figure 2*

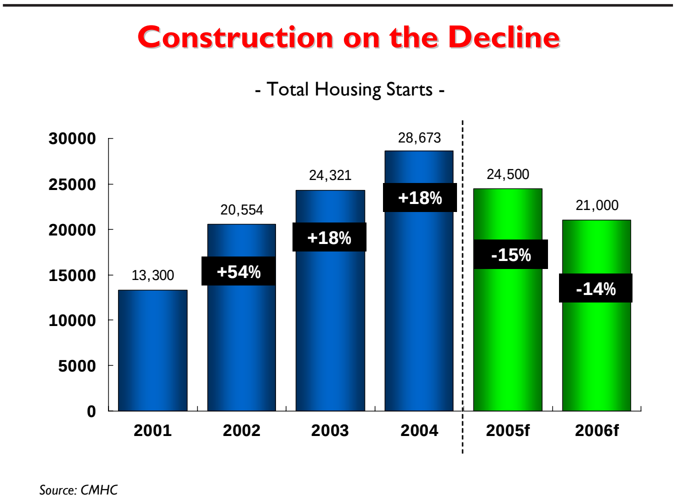
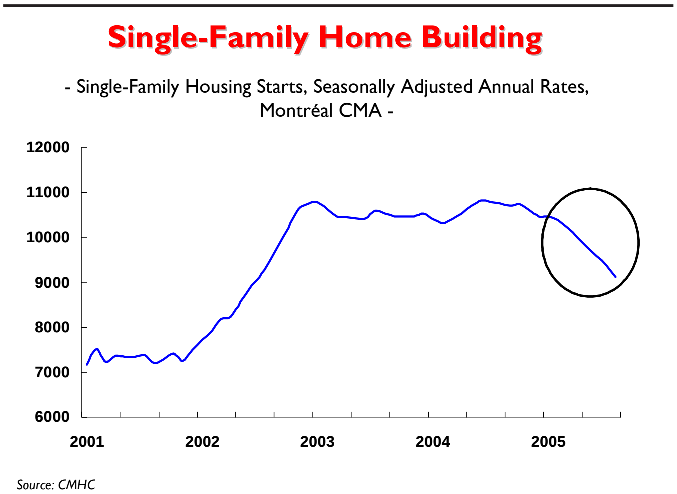


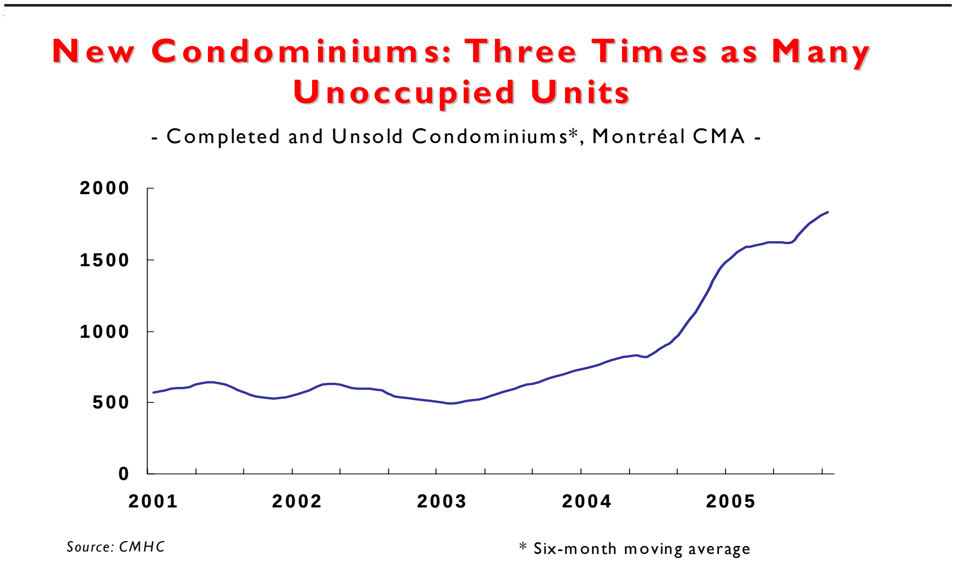

*Figure 3*



new condominiums are no longer keeping up with the frantic pace of new projects, such that inventories of unsold new condominiums have suddenly tripled in about 18 months (see figure 4). Compared to the average of 500 completed and unoccupied condominiums observed every month since the beginning of the millennium, there are now over 1,800 units. This has resulted in longer absorption periods for new projects, to the point where some developers are now calling on real estate agents to sell these units. While unoccupied unit levels do not seem alarming, with the duration of inventory not yet exceeding three months, the bubbling enthusiasm of condominium developers should give way to a little more moderation. As a result, we forecast that 7,000 condominium units will be started in 2006, down by 18 per cent from 2005, which will already end with a decrease of 15 per cent in relation to the absolute record of 10,053 starts registered in 2004.

Lastly, in the rental housing segment, there should be some 6,000 new units (-7 per cent) in 2005 and another 5,500 (-8 per cent) in 2006. This segment will therefore be less affected than the other two by the decrease in activity next year. Once again, it will be thanks to the proliferation of apartment projects for seniors that rental housing construction will post a respectable performance. This segment will account for half of the rental housing units arriving on the market. Already in 2005, developers of such residences pounced on the Laval and Longueuil sectors. Several projects are in the air for 2006, and Laval, Repentigny and Brossard are the main targets. As well, the construction of traditional rental housing will be limited to a few large projects downtown and some small, low-density (wood and brick) structures in the suburbs.

*Figure 4*




## Rental market

### "For Rent" signs gradually resurfacing

The upward trend in the vacancy rate, which began in 2002, will continue and intensify. Following marginal increases of 0.1, 0.3 and 0.5 of a percentage point, respectively, in the last three years, we believe that the vacancy rate will post a more significant hike of 1.2 percentage point in 2005. Consequently, for Greater Montréal overall, the vacancy rate in privately initiated rental structures with three or more housing units will rise from 1.5 per cent in 2004 to 2.7 per cent in 2005 and to 3.2 per cent in 2006. In fact, at the time of writing, the CMHC Rental Market Survey is in full swing, but the results will only be known around mid-December.

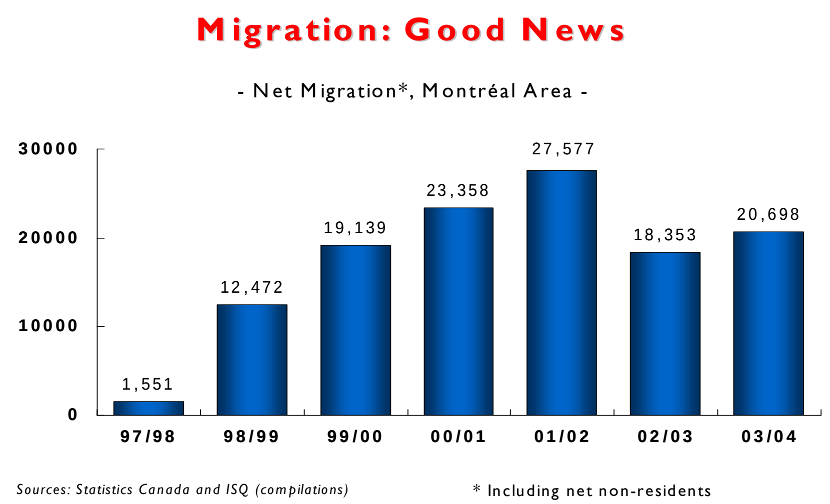
The increase in the vacancy rate has been mainly due to a strong homeownership trend, with the new homeowners thereby vacating rental units. This homeownership was mainly achieved through condominiums. It can even be said that it was condominium construction, rather than rental housing construction, that alleviated the shortage of rental housing units that had prevailed in Montréal since 2001. Developers almost totally ignored traditional rental housing in their construction projects but were very active in the condominium apartment sector. Some have even offered incentives up to the full buyback of a tenant's lease.

Although modest, the renewed activity in the rental housing construction sector also contributed to increasing supply. This was all the more true in the retirement home market segment. As a result of the wealth of new projects of this type in the Montréal area (around 3,000 new units per year for the past three years), the vacancy rate in apartment retirement homes went up from 1.1 per cent in 2003 to 2.8 per cent in 2004, even with the very strong rental housing demand.

On the demand side, there is every indication that demand has weakened. Although, in 2003-2004, the Montréal area registered an improvement in net migration (see figure 5), which, at just over 20,000 newcomers, was pointing to a sustained demand, it was a totally different story for youth employment. After posting appreciable gains since the Montréal job market had started to pick up in 1998, the number of positions occupied by young people aged from 15 to 24 years has now declined instead (see figure 6). This situation is rather unusual since, normally, youth employment and net migration tend to move in the same direction, as young people make up a significant share of intraprovincial migration. This result is also unusual as employment went up among the other age groups. These are the youth job market conditions that are leading us to forecast a greater rise in the vacancy rate this year. In 2006, the proportion of vacancies will reach 3.2 per cent, which essentially means that the market will become balanced again.

It goes without saying that the pressure on rents varies inversely with the number of unoccupied units. With vacancies back up, the average rent should rise at a slower pace in 2005 and 2006. This increase in

Figure 5




the average rent for a two-bedroom unit attained 3.3 per cent in 2004 and will likely reach 3.2 per cent this year and just 2.5 per cent in 2006, at which time the power relationship between tenants and landlords for negotiating rents will be healthier.

Finally, it is important to make a major distinction. Except for a lower vacancy rate on the North Shore, the rent ranges will be the main factor setting apart the performance of rental housing projects. Upper-range units, that is, those renting for over $900 per month for a two-bedroom apartment, are clearly suffering from the competition of new construction and homeownership. First, all newly constructed rental projects built without government assistance command high economic rents and are therefore positioned in this upper-range category from the outset. Second, and more importantly, tenants who can afford to pay such rents most often have the financial means to buy a condominium, thanks to the prevailing interest rates. The number of vacated units is therefore inevitably much higher in this segment. Likewise, we are anticipating that the rental performance will be very different depending on the rent range. The vacancy rates will remain minimal for lower-range units (under $600 for a two-bedroom apartment) and moderate for mid-range units. In the upper-range category, however, the situation will be more difficult for landlords. The vacancy rate in this range was already 3.3 per cent in 2004. We anticipate that this proportion will exceed the 4-per-cent mark this year and next year. In fact, when carefully looking through the newspapers, it is relatively easy to find offers of free months of rent, which are certainly for apartments with monthly rental rates in the four figures.

## Economic overview

### Growth in Canada: good prospects on the horizon

CMHC forecasts that the Canadian economy will grow by about 3 per cent in 2005 and 2006.

The low interest rates and the good employment growth will no longer be the main driving forces behind the economy in 2006. Business investment will take over and help the economy grow. Despite a strong Canadian dollar, it should be expected that Canadian exports will rebound following the reconstruction and renewed demand from the southern US states devastated by Hurricane Katrina.

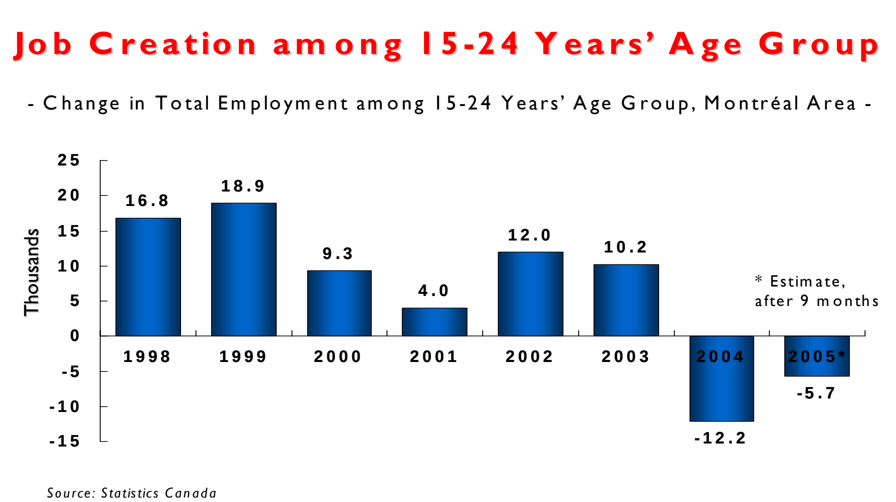
The inflation rate in Canada will also be lower than in the United States, so we are anticipating more modest interest rate hikes in Canada than in the United States from now until the end of 2006.

These forecasts are very promising for the housing sector, as low interest rates stimulate housing-related spending, whether for mortgages or renovations.

### Mortgage rates: slight rise expected in 2005 and 2006

Posted mortgage rates should rise moderately, together with interest rates, but controlled inflation, a strong Canadian dollar in relation to the US dollar, and slower economic growth in Canada will limit the extent and pace of any interest rate and mortgage rate hikes in the country during this period. One-year mortgage rates should be between 4.50 per cent and 5.75 per cent, three-year rates, between 5.25 per cent and 6.25 per cent, and five-year rates, between 5.50 per cent and 6.50 per cent, in 2005 and 2006.

Figure 6



Given the moderate and progressive nature of the increase, the degree of adaptability required from households will be low, and we believe that this rise will have a limited impact on housing demand.

## Canadian dollar continues on an upward course

Strong demand for commodities (such as oil), their high prices and the significant surpluses in the trade of these goods and in the budget of the Government of Canada (among others) will maintain the Canadian dollar at a high level in 2005 and 2006.

A strong Canadian dollar can be a source of concern for exporters, but it reduces the need to raise interest rates, which is good news for the housing market, as interest rate levels are a determining factor in housing demand.

## Growth in the United States: strong, despite the increase in energy prices

Annual growth in the United States should be 3 per cent to 3.5 per cent in 2005 and 2006, despite the negative impact of the anticipated rise in interest rates, which should be offset by a weak US dollar, the increase in home prices and the reconstruction efforts undertaken in the wake of Hurricane Katrina.

These are excellent prospects; the United States being our main partner, our good fortune depends on theirs.

## Employment situation in Montréal

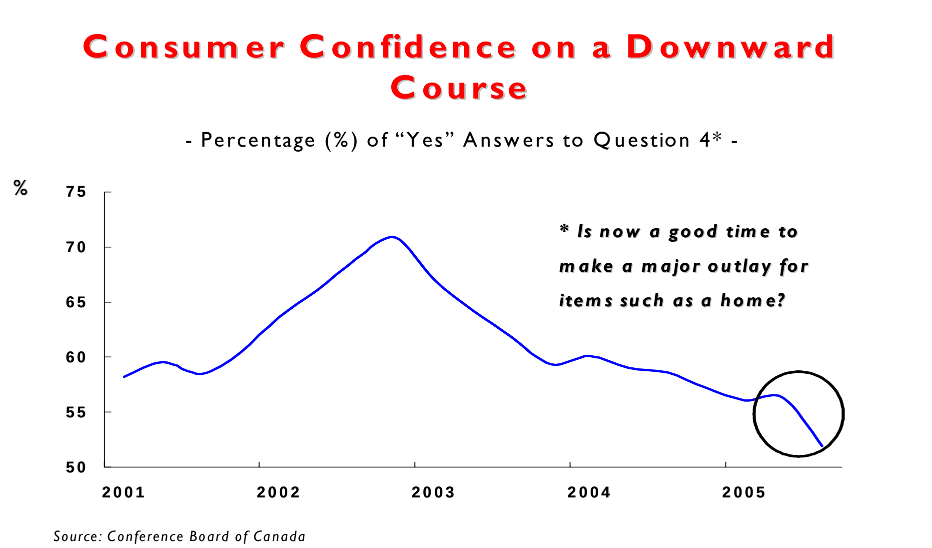
Between September 2004 and 2005, the unemployment rate in Montréal remained practically unchanged, going from 8.6 per cent to 8.7 per cent. Job losses were registered in the manufacturing and finance sectors, while the major gains were recorded in public administration and construction. The significant employment hike noted in the construction sector (+19 per cent) was in line with the increase of 28 per cent in starts observed over the same period (September 2004 to 2005) in Greater Montréal. Full-time employment remained stable, while part-time employment went up by 7.8 per cent.

According to a document produced by Emploi-Québec entitled *Le marché du travail dans la région métropolitaine de recensement de Montréal – Perspectives professionnelles 2003-2007*, on job prospects in the Montréal census metropolitan area from 2003 to 2007, 151,000 jobs will be created in the Montréal area between 2003 and 2007. The professional, scientific and technical services sectors, as well as the electrical and computer product manufacturing sectors, among others, will stand out.

## Impact of oil prices: lower confidence

Already on a slow downward course, the Quebec consumer confidence index, estimated by the Conference Board, tumbled in the third quarter (see figure 7). In fact, 52.0 per cent of Quebec residents felt that it was a good time to make a major outlay for items such as a home, compared to 58.5 per cent during the same quarter in 2004. This result was due to the fact that the index plummeted in September, at the worst of the surge in fuel prices in the wake of Hurricane Katrina. While the situation could be restored with more reasonable gas prices at the pump, consumer confidence will be an important factor to watch over the coming months, as it indicates the mood of home buyers.

*Figure 7*




***For more information about this publication, please contact our:***

**Customer Service**

at

Tel.: **1 866 855-5711**

or by Email:

**cam_qc@cmhc.ca**

## Existing Single-Family Home Market

**Level of % Change, 2004 to 2005 and 2005 to 2006 by Submarket**

| | Sales | | | Average Price | | |
|---|---|---|---|---|---|---|
| **Submarket** | **2004** | ***2005p*** | ***2006p*** | **2004** | ***2005p*** | ***2006p*** |
| **Island of Montréal** | **5,483** | ***5,200*** | ***5,050*** | **302,859** | ***315,000*** | ***328,000*** |
| **Change from previous year** | **-2%** | ***-5%*** | ***-3%*** | **13%** | ***4%*** | ***4%*** |
| Laval and North-Shore | 9,136 | *9,400* | *9,200* | 175,481 | *192,000* | *199,000* |
| Change from previous year | -0% | *3%* | *-2%* | 13% | *9%* | *4%* |
| **South-Shore** | **6,736** | ***6,800*** | ***6,500*** | **185,070** | ***203,000*** | ***209,000*** |
| **Change from previous year** | **1%** | ***1%*** | ***-4%*** | **15%** | ***10%*** | ***3%*** |
| Total Montréal Area* | 22,634 | *22,600* | *21,900* | 211,645 | *225,000* | *233,000* |
| Change from previous year | 1% | *-0%* | *-3%* | 14% | *6%* | *4%* |

______________________

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

**Source: CMHC, GMREB**

## New Single-family Home Market

**Level of % Change, 2004 to 2005 and 2005 to 2006, by Submarket**

| | Starts | | | | | Average Price / Detached | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Submarket** | **2004** | ***2005p*** | ***Chg.*** | ***2006p*** | ***Chg.*** | **2004** | ***2005p*** | ***Chg.*** | ***2006p*** | ***Chg.*** |
| **Island of Montréal** | **869** | ***600*** | ***-31%*** | ***500*** | ***-17%*** | ***434,413*** | ***484,000*** | ***11%*** | ***527,000*** | ***9%*** |
| Laval and North-Shore | 7,122 | *6,000* | *-16%* | *5,200* | *-13%* | *239,669* | *264,000* | *10%* | *288,000* | *8%* |
| **South-Shore** | **3,049** | ***2,500*** | ***-18%*** | ***2,100*** | ***-16%*** | ***221,086*** | ***242,000*** | ***9%*** | ***260,000*** | ***7%*** |
| Total Montréal Area* | **12,177** | ***10,000*** | ***-18%*** | ***8,500*** | ***-15%*** | *251,365* | *276,000* | *10%* | *298,000* | *8%* |

______________________

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

**Source: CMHC**

An event not to be missed:

**«New Foundations: Montréal and its Suburbs»**
the 2005 CMHC Montréal Housing Outlook Conference.

The biggest annual get-together of housing industry professionals will be held on

**Tuesday November 15 at the Palais des Congrès de Montréal**, starting at 7:30 a.m.

For more information, contact us at 1 866 855-5711.
**Register today!**

# Forecast Summary

**Montréal Metropolitan Area**
**October 2005**

| | 2003 | 2004 | 2005* | 2006* | Chg. (%) 2005 vs 2004 | Chg. (%) 2006 vs 2005 |
|---|---|---|---|---|---|---|
| **RESALE MARKET** | | | | | | |
| **MLS Sales (1)** | | | | | | |
| Single-family houses | 22,387 | 22,634 | **22,600** | **21,900** | **-0%** | **-3%** |
| Condominiums | 7,345 | 7,927 | **8,800** | **9,400** | **11%** | **7%** |
| Plexes (2 to 5 units) | 5,591 | 5,461 | **5,100** | **4,700** | **-7%** | **-8%** |
| Total | 35,323 | 36,022 | **36,500** | **36,000** | **1%** | **-1%** |
| **Active MLS listings** | | | | | | |
| Single-family houses | 7,136 | 8,856 | **10,500** | **12,200** | **19%** | **16%** |
| Condominiums | 2,348 | 3,646 | **5,000** | **6,200** | **37%** | **24%** |
| Plexes (2 to 5 units) | 1,933 | 2,298 | **2,700** | **3,200** | **17%** | **19%** |
| Total | 11,417 | 14,800 | **18,200** | **21,600** | **23%** | **19%** |
| **Average MLS price** | | | | | | |
| Single-family houses | 185,883 | 211,645 | **225,000** | **233,000** | **6%** | **4%** |
| Condominiums | 164,804 | 181,978 | **191,000** | **195,000** | **5%** | **2%** |
| Plexes (2 to 5 units) | 226,852 | 264,459 | **292,000** | **308,000** | **10%** | **5%** |
| **NEW HOME MARKET** | | | | | | |
| **Housing Starts** | | | | | | |
| Single-family houses | 11,702 | 12,177 | **10,000** | **8,500** | **-18%** | **-15%** |
| Condominiums | 7,893 | 10,053 | **8,500** | **7,000** | **-15%** | **-18%** |
| Rental housing units | 4,726 | 6,443 | **6,000** | **5,500** | **-7%** | **-8%** |
| Total | 24,321 | 28,673 | **24,500** | **21,000** | **-15%** | **-14%** |
| **Average new house price** | | | | | | |
| Detached houses ($) | 219,977 | 251,365 | **276,000** | **298,000** | **10%** | **8%** |
| Semi-detached houses ($) | 171,955 | 188,786 | **200,000** | **210,000** | **6%** | **5%** |
| **RENTAL MARKET** | | | | | | |
| Vacancy rate (October) (%) | 1.0 | 1.5 | **2.7** | **3.2** | **1.0** | **0.5** |
| Change in rents (%) | 4.1 | 3.3 | **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 (in thousand) | 1,786 | 1,809 | **1,825** | **1,845** | **0.9%** | **1.1%** |
| Annual employment variation (in thousands) | 25 | 23 | **16** | **20** | **--** | **--** |
| Unemployment rate (%) | 9.6 | 8.6 | **8.5** | **8.7** | **--** | **--** |

*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*