HOUSING NOW

YOUR LINK TO THE HOUSING MARKET

Province of Quebec

Canada Mortgage and Housing Corporation

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FOURTH QUARTER 2005

Residential construction in Quebec continues to decline

In Quebec, residential construction fell once again in the fourth quarter of 2005. The 13,371 dwellings started in the province from October to December brought the annual total to 50,910 units. This figure represents a decrease of 13 per cent in relation to the 2004 result. The decline was generalized and affected all housing types (singles and multiples) and tenure options (freehold, condominium, rental) in most cities across the province.

The 2005 total is in line with the forecast made the year before. As we often said, the very high level of construction observed in 2004 was not sustainable, given the slowdown of the Quebec economy in the last two years (particularly in the employment sector) and the greater availability of existing homes, not to mention stable migration. We still believe that this result marks the start of a downward trend. That said, the volume of housing starts in 2005 remained relatively high, reflecting a context where demand is still present.

At the regional level, housing starts in urban centres went down by 12 per cent in 2005. It is not surprising to learn that the census metropolitan areas (CMAs), which account for 80 per cent of urban starts, sustained an equivalent decrease. Four of the six CMAs registered lower totals than the year before. The most significant declines were observed in the CMAs of Ottawa-Gatineau (Quebec part) (-34 per cent), Sherbrooke (-21 per cent) and Montréal (-12 per cent). A similar situation (-14 per cent) was noted in the census agglomerations (CAs) with 50,000

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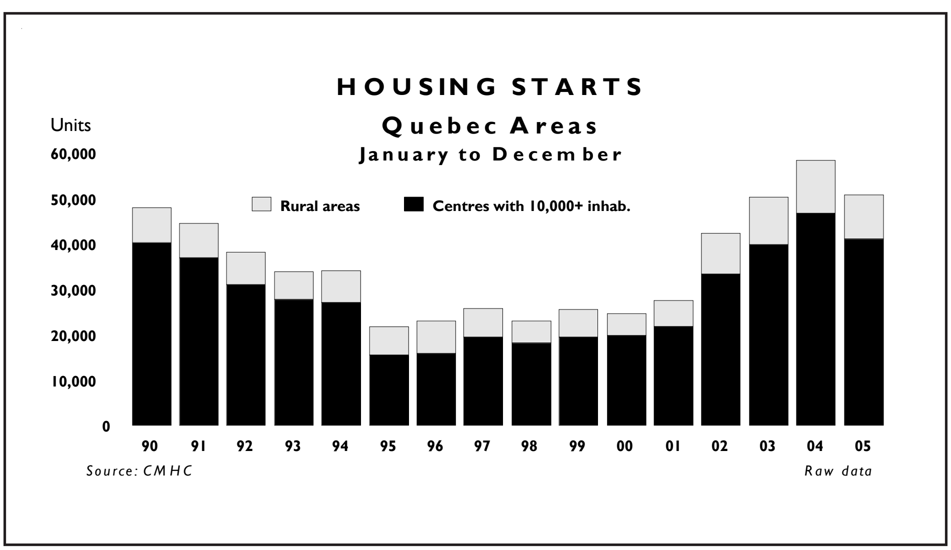

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to 99,999 inhabitants. In particular, the decreases registered in the agglomerations of Saint-Jean–Iberville (-30 per cent) and Drummondville (-17 per cent) were notable. A less significant decline (-5 per cent) was recorded for all agglomerations with 10,000 to 49,999 inhabitants. In the fourth quarter, residential construction was also down in the rural areas of the province (municipalities with fewer than 10,000 inhabitants). It is estimated that 2,375 dwellings were started, in comparison with 2,806 during the fourth quarter of 2004. In these areas of Quebec, total annual starts reached 9,658 units, down by 13 per cent from 2004.

As we mentioned in the previous issue of *Housing Now*, in addition to indicating the slowdown observed throughout the province, the recent results were also attributable to changes made by CMHC in its rural sample, to better reflect the significance of these areas.

The most affected segment was the single-detached home market. Down by 17 per cent in relation to 2004, demand for new houses of this type was not only influenced by economic fundamentals but also hindered by the greater availability of existing single-detached homes for sale.

That said, the year 2005 was marked by a decline in multiple housing construction in Quebec. The decline was particularly significant in the condominium apartment segment. In addition to the factors that curbed activity on the market overall, the rise in condominium inventories contributed to a greater slowdown in this market segment. And, while condominium construction is expected to decline in the short term, demand should be maintained in the medium term, given that this tenure option is attracting an increasingly broader client group, which now includes retirees.

While condominium construction was weaker in 2005 and will post a similar performance in the short term, we believe that this form of housing will remain popular, as it meets the needs and preferences of a growing segment of the population. We continued to see condominiums appear in smaller urban centres. And, since affordability and intensification are not determining motives in these centres, we are retaining the assumption that the motivation resides in the lifestyle afforded by condominiums for retirees. That being said, it should be noted that market penetration of new forms of housing often takes much longer than that for other consumer goods.

Economic growth still moderate

The Quebec economy continues to grow moderately. Although consumer spending remains steady, household indebtedness and an inflationary outlook (prices, interest rates) suggest that consumption is bound to slow down. With respect to private investment, companies established in Quebec are still benefiting from the relative strength of the Canadian dollar in the United States, in the hope of making productivity gains. For several industries, especially in the manufacturing sector, foreign competition is imposing an increasingly higher level of productivity.

As for government expenditures, apart from the projects that have already been announced, no major commitments should be anticipated. Finally, even though international trade—the engine of the economy—is regaining strength, growth is modest, given the exchange rate (Canada–United States) that has prevailed recently.

In such a context, it comes as no surprise that employment growth still reached 1.0 per cent in 2005 thanks, once again, to strong full-time job creation for people aged from 45 to 64 years. As expected again in 2005, the service sector was the driving force behind employment, while the manufacturing and primary sectors sustained decreases. Despite consecutive monthly declines in the consumer confidence index, this indicator remained relatively high. On January 24, the Bank of Canada announced that it was raising its target for the overnight rate by 0.25 of a percentage point to 3.50 per cent. The operating band for the overnight rate was correspondingly increased, and the Bank Rate is now 3.75 per cent.

Demographics: immigration more sensitive to economic conditions

It is undeniable that the vigorous activity observed on the Quebec housing market in recent years has been largely attributable to the aging of the population and to immigration.

Even if we will not know the full impact of aging on the housing market before another 10 years or so, we can already see the effects that the first wave of retirees are having on the type and quality of the demand. For one thing, the appeal of condominiums is growing, even outside the Montréal area. As well, retirement home construction continues to do well and accounts for a significant share of rental housing starts.

Immigration may have slowed somewhat in 2005 but remains at relatively high levels and continues to stimulate demand for rental housing. Given that a growing proportion of newcomers are defined as *economic* migrants and that there is increasing competition between the provinces to attract immigrants, we should expect that these people will be more sensitive to the economic conditions (more specifically, the labour market situation) prevailing in Quebec.

Resale market still dynamic but about to decline

Despite a slowdown on the resale market, over 70,000 transactions were recorded through the Service inter-agences / Multiple Listing Service (S.I.A.® / MLS®). According to the latest annual data from the Canadian Real Estate Association (CREA), 70,649 dwellings were sold through the MLS® in Quebec from January to December 2005, compared to 69,296 during the same period the year before.

This gap with the new home market is due to both the rise in supply and the greater affordability of existing homes. In addition, we believe that a greater proportion of households chose to sell through the MLS® given that the increase in supply is starting to weaken their advantage. The sales volume is double the level registered 10 years ago and triple that recorded in 1984. However, it has to be admitted that this market has also felt the effects of the economic slowdown in recent years, and we believe that resales will decline in 2006.

Still according to CREA, the average price of transactions went up by 8 per cent in 2005 to $184,583. Given the context described earlier, prices should be expected to rise less rapidly over the coming years (4.9 per cent in 2006 and 2.6 per cent in 2007).

As was the case in previous years, we still feel that the growth in prices was attributable to market fundamentals. Thus, we are still not retaining the hypothesis that the market is in a speculative bubble. Lastly, CREA reported that new listings rose by an average of 10.5 per cent in 2005. The markets are therefore continuing to move toward a more balanced situation.

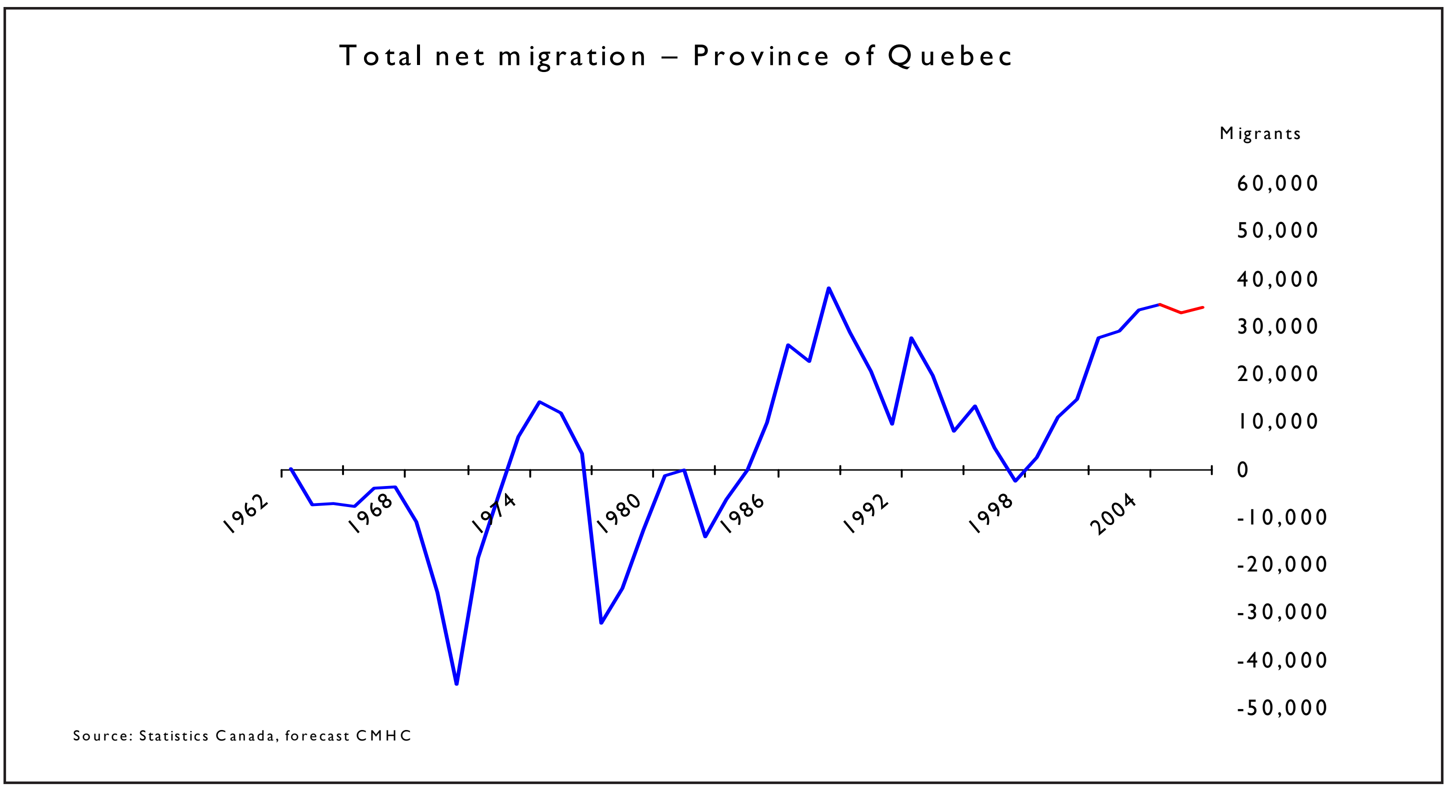
Rental market gradually easing

For another year, the results of the annual rental survey conducted by CMHC revealed that, in October 2005, the average vacancy rate in privately initiated buildings with three or more housing units stood at 2.0 per cent, compared to 1.7 per cent at the time of the survey the year before.

According to the survey results, the vacancy rates went up in five of Quebec's six CMAs in 2005, but went down slightly in urban agglomerations with 50,000 to 99,999 inhabitants (2.3 per cent, compared to 2.7 per cent in 2004), as well as agglomerations with 10,000 to 49,999 inhabitants (2.7 per cent, in relation to 3.1 per cent in 2004). In Eastern Quebec and Abitibi, several urban centres posted significant decreases in their vacancy rates, which attained more balanced levels.

Taken in a broader socio-economic context, the 2005 results indicate that the dynamics that prevailed last year are still in place, with rental markets drawn by opposing forces, on both the supply and demand sides. In fact, on the supply side, the addition of new rental housing units was not limited to the traditional segment, as evidenced by the retirement home starts.

Demand, for its part, was weakened, on the one hand, by the creation of fewer jobs for young people, but strengthened, on the other hand, by continued robust net migration and the rise in prices on the freehold and condominium markets, which made renting more attractive. Consequently, as was the case the year before, these movements had the net effect of gradually raising the vacancy rate.



Definition and Concepts

Intended Markets - There are three: the Freehold market refers to Single-Family Houses (Detached, Semi-Detached and Row) owned under freehold tenure; the condominium segment comprises houses and apartments held under divided co-ownership; and finally the rental market encompasses apartment dwellings.

Housing Starts - refer to the beginning of construction work on a building, usually when the concrete has been laid for the entire footing around the structure, or at an equivalent stage where a basement will not be a part of the structure.

Under Construction - units that have been started but that are not completed. The number of units under construction at the end of a period may take into account certain adjustments that took place, for various reasons, after the starts were reported.

Completions - units where all proposed construction work has been performed or, in some cases, where ninety percent of all construction work is completed and the structure is fit for occupancy.

Unoccupied Units - new completed units that have remained unoccupied.

Total Medium-Term Supply - total supply of new units including units under construction, units that are completed but not occupied and permits issued but not started.

Absorptions - newly completed units that have been sold or rented. The number of absorptions is obtained from a survey initiated when the structure is completed. Units presold or pre-leased are not included until the completion stage. The number of absorbed units is the number of completed and unoccupied units from the previous quarter plus completions for the current month minus completed and unoccupied units for the current month.

Duration of Inventory - period necessary for the absorption of unoccupied units, i.e. the ratio between unoccupied units and absorbed units (average for the last twelve months). This figure is expressed in months.

Seasonally Adjusted Annual Rates (SAAR) - raw monthly figures, adjusted to remove normal seasonal variation and multiplied by 12.

Interested by the Vacancy Rates and Average Rents
of the rented apartments, following the October 2005 Survey?

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RENTAL MARKET REPORT - HIGHLIGHTS

which provide a more in-depth and detailed study
of the data collected

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Table 1 Summary of Activity by Area and by Intended Market Province of Quebec						
Activity / Area	*Ownership (Freehold* & Condominium)*		*Rental*		*Total*	
	4th Q 2005	*4th Q 2004*	*4th Q 2005*	*4th Q 2004*	*4th Q 2005*	*4th Q 2004*
Starts						
Metropolitan areas (1)	6,576	8,403	2,916	2,506	9,492	10,909
Urban areas (2)	952	1,164	552	783	1,504	1,947
Rural areas (3)	n.a.	n.a.	n.a.	n.a.	2,375	2,806
Total - Province of Quebec	***n.a.***	***n.a.***	***n.a.***	***n.a.***	***13,371***	***15,662***
Completions						
Metropolitan areas (1)	6,396	7,356	1,546	1,868	7,942	9,224
Urban areas (2)	1,011	1,110	171	412	1,182	1,522
Rural areas (3)	n.a.	n.a.	n.a.	n.a.	1,756	2,476
Total - Province of Quebec	***n.a.***	***n.a.***	***n.a.***	***n.a.***	***10,880***	***13,222***
Under construction*						
Metropolitan areas (1)	13,750	14,918	7,689	7,377	21,439	22,295
Urban areas (2)	1,091	1,141	922	975	2,013	2,116
Rural areas (3)	n.a.	n.a.	n.a.	n.a.	3,818	3,494
Total - Province of Quebec	***n.a.***	***n.a.***	***n.a.***	***n.a.***	***27,270***	***27,905***

Source: CMHC

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

*** At the end of the period shown*

(1) Population of 100,000 or more

(2) Population between 10,000 and 99,999

(3) Population of 9,999 or less

Table 2 Economic Overview Province of Quebec					
	2005	***2005***	***2005***	***2005***	***2004***
	4th Quarter	***3rd Quarter***	***2nd Quarter***	***1st Quarter***	***4th Quarter***
Gross domestic product (%)	1.9	2.2	2.9	2.5	2.4
Employment level - total* (000)	3,748	3,730	3,690	3,702	3,700
Employment rate* (%)	60.3	60.3	59.8	60.2	60.3
Unemployment rate* (%)	8.2	8.3	8.2	8.3	8.7
Inflation rate (%)	(0.2)	4.0	3.2	1.7	2.7
Net migration	n.a.	10,758	9,166	6,853	3,574
Mortgage rates (%) - Canada					
1-year	5.6	5.0	4.8	4.9	4.9
5-year	6.2	5.8	5.9	6.1	6.3
Resale market (MLS sales) Total residential units	15,074	15,280	20,802	19,493	14,902
Index of Consumer Confidence* (1991=100)	108.9	99.3	122.2	123.3	116.5

Sources: Statistics Canada, Conference Board of Canada, Canadian Real Estate Association

** Seasonally adjusted annual rates*

Table 3
Housing Starts by Metropolitan Area and by Intended Market
Province of Quebec

Area / Period	Ownership: Freehold	Ownership: Condominium	Rental	Total
Saguenay				
Fourth quarter 2005	72	0	84	156
Fourth quarter 2004	64	0	25	89
Year-to-date 2005 (Jan.-Dec.)	315	5	144	464
Year-to-date 2004 (Jan.-Dec.)	282	7	58	347
Gatineau				
Fourth quarter 2005	327	80	282	689
Fourth quarter 2004	537	233	168	938
Year-to-date 2005 (Jan.-Dec.)	1,450	295	378	2,123
Year-to-date 2004 (Jan.-Dec.)	2,015	806	406	3,227
Montréal				
Fourth quarter 2005	2,399	2,406	1,814	6,619
Fourth quarter 2004	2,795	3,152	1,462	7,409
Year-to-date 2005 (Jan.-Dec.)	9,872	8,758	6,687	25,317
Year-to-date 2004 (Jan.-Dec.)	12,177	10,053	6,443	28,673
Québec				
Fourth quarter 2005	732	268	425	1,425
Fourth quarter 2004	875	387	507	1,769
Year-to-date 2005 (Jan.-Dec.)	3,284	1,131	1,420	5,835
Year-to-date 2004 (Jan.-Dec.)	3,311	1,200	1,675	6,186
Sherbrooke				
Fourth quarter 2005	151	8	137	296
Fourth quarter 2004	149	61	214	424
Year-to-date 2005 (Jan.-Dec.)	663	68	345	1,076
Year-to-date 2004 (Jan.-Dec.)	571	129	655	1,355
Trois-Rivières				
Fourth quarter 2005	133	0	174	307
Fourth quarter 2004	150	0	130	280
Year-to-date 2005 (Jan.-Dec.)	480	0	439	919
Year-to-date 2004 (Jan.-Dec.)	520	0	354	874
TOTAL - METROPOLITAN AREAS				
Fourth quarter 2005	3,814	2,762	2,916	9,492
Fourth quarter 2004	4,570	3,833	2,506	10,909
Year-to-date 2005 (Jan.-Dec.)	16,064	10,257	9,413	35,734
Year-to-date 2004 (Jan.-Dec.)	18,876	12,195	9,591	40,662

Source: CMHC

Table 4
Under Construction and Completions by Metropolitan Area and by Intended Market
Province of Quebec

Area / Period	Under Construction*				Completions			
	Ownership		Rental	Total	Ownership		Rental	Total
	Freehold	Condo-minium			Freehold	Condo-minium		
Saguenay								
Fourth quarter 2005	68	5	88	161	98	0	11	109
Fourth quarter 2004	59	0	34	93	73	0	4	77
Gatineau								
Fourth quarter 2005	442	310	327	1,079	390	48	33	471
Fourth quarter 2004	661	412	127	1,200	538	137	181	856
Montréal								
Fourth quarter 2005	3,551	7,687	6,198	17,436	2,317	2,139	1,015	5,471
Fourth quarter 2004	4,373	7,603	5,876	17,852	3,052	2,396	1,234	6,682
Québec								
Fourth quarter 2005	816	703	842	2,361	771	289	313	1,373
Fourth quarter 2004	803	789	1,083	2,675	754	119	154	1,027
Sherbrooke								
Fourth quarter 2005	111	16	118	245	174	34	81	289
Fourth quarter 2004	92	55	188	335	155	10	159	324
Trois-Rivières								
Fourth quarter 2005	35	6	116	157	136	0	93	229
Fourth quarter 2004	65	6	69	140	122	0	136	258
TOTAL - METROPOLITAN AREAS								
Fourth quarter 2005	5,023	8,727	7,689	21,439	3,886	2,510	1,546	7,942
Fourth quarter 2004	6,053	8,865	7,377	22,295	4,694	2,662	1,868	9,224

** At the end of the period shown*

Source: CMHC

NOTE TO READERS: Prior to July 2002, the CMHC Starts and Completions Survey consisted of a monthly enumeration of new housing activity in urban centres with a population of 10,000 persons and over. As of July 2002, the survey will be conducted monthly in urban centres with a population of 50,000 persons and over and quarterly in urban centres with a population of 10,000 to 49,999 persons. Statistical models will be used to estimate provincial and national housing starts in urban centres with a population of 10,000 persons and over, on a monthly basis. The methodology is unchanged for estimating housing starts in rural areas (areas other than urban centres with a population of 10,000 persons and over). In these areas, a sample survey is used on a quarterly basis. As was the case in the past, statistical models continue to be used to estimate national housing starts in all areas on a monthly basis.

Table 5 Housing Starts for Centres with 50,000 to 99,999 Inhabitants Province of Quebec				
Centre / Period	Ownership		Rental	Total
	Freehold	Condominium		
Drummondville				
Fourth quarter 2005	96	0	39	135
Fourth quarter 2004	122	3	57	182
Year-to-date 2005 (Jan.-Dec.)	375	0	138	513
Year-to-date 2004 (Jan.-Dec.)	432	6	178	616
Granby				
Fourth quarter 2005	104	8	112	224
Fourth quarter 2004	141	68	57	266
Year-to-date 2005 (Jan.-Dec.)	458	84	215	757
Year-to-date 2004 (Jan.-Dec.)	491	77	147	715
Saint-Jean-sur-Richelieu				
Fourth quarter 2005	117	9	38	164
Fourth quarter 2004	140	28	106	274
Year-to-date 2005 (Jan.-Dec.)	544	67	138	749
Year-to-date 2004 (Jan.-Dec.)	589	116	364	1,069
Shawinigan				
Fourth quarter 2005	36	0	8	44
Fourth quarter 2004	29	0	12	41
Year-to-date 2005 (Jan.-Dec.)	129	0	20	149
Year-to-date 2004 (Jan.-Dec.)	109	0	16	125

Source: CMHC

Table 6 Housing Starts for Centres with 10,000 to 49,999 Inhabitants Province of Quebec				
Centre / Period	Ownership		Rental	Total
	Freehold	Condominium		
Alma				
Fourth quarter 2005	5	0	0	5
Fourth quarter 2004	12	6	10	28
Year-to-date 2005 (Jan.-Dec.)	62	0	14	76
Year-to-date 2004 (Jan.-Dec.)	84	6	33	123
Baie-Comeau				
Fourth quarter 2005	0	0	0	0
Fourth quarter 2004	2	0	0	2
Year-to-date 2005 (Jan.-Dec.)	4	0	0	4
Year-to-date 2004 (Jan.-Dec.)	2	0	0	2
Cowansville				
Fourth quarter 2005	8	0	0	8
Fourth quarter 2004	7	0	4	11
Year-to-date 2005 (Jan.-Dec.)	55	0	71	126
Year-to-date 2004 (Jan.-Dec.)	25	0	24	49
Dolbeau				
Fourth quarter 2005	6	0	0	6
Fourth quarter 2004	7	0	0	7
Year-to-date 2005 (Jan.-Dec.)	32	0	0	32
Year-to-date 2004 (Jan.-Dec.)	34	0	0	34

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Table 6 (cont.) Housing Starts for Centres with 10,000 to 49,999 Inhabitants Province of Quebec				
	Ownership			
Centre / Period	Freehold	Condominium	Rental	Total
Joliette				
Fourth quarter 2005	54	0	8	62
Fourth quarter 2004	66	0	145	211
Year-to-date 2005 (Jan.-Dec.)	186	0	56	242
Year-to-date 2004 (Jan.-Dec.)	246	4	302	552
Lachute				
Fourth quarter 2005	8	0	0	8
Fourth quarter 2004	8	0	13	21
Year-to-date 2005 (Jan.-Dec.)	42	0	4	46
Year-to-date 2004 (Jan.-Dec.)	35	0	13	48
La Tuque				
Fourth quarter 2005	1	0	0	1
Fourth quarter 2004	4	0	0	4
Year-to-date 2005 (Jan.-Dec.)	6	0	0	6
Year-to-date 2004 (Jan.-Dec.)	9	0	0	9
Magog				
Fourth quarter 2005	40	8	12	60
Fourth quarter 2004	48	20	35	103
Year-to-date 2005 (Jan.-Dec.)	177	46	44	267
Year-to-date 2004 (Jan.-Dec.)	179	50	144	373
Matane				
Fourth quarter 2005	0	0	0	0
Fourth quarter 2004	3	0	0	3
Year-to-date 2005 (Jan.-Dec.)	11	0	0	11
Year-to-date 2004 (Jan.-Dec.)	14	0	0	14
Rimouski				
Fourth quarter 2005	71	16	0	87
Fourth quarter 2004	44	0	0	44
Year-to-date 2005 (Jan.-Dec.)	179	16	16	211
Year-to-date 2004 (Jan.-Dec.)	167	0	34	201
Rivière-du-Loup				
Fourth quarter 2005	19	0	35	54
Fourth quarter 2004	34	0	67	101
Year-to-date 2005 (Jan.-Dec.)	116	6	78	200
Year-to-date 2004 (Jan.-Dec.)	121	24	100	245
Rouyn-Noranda				
Fourth quarter 2005	7	0	0	7
Fourth quarter 2004	5	0	0	5
Year-to-date 2005 (Jan.-Dec.)	42	0	0	42
Year-to-date 2004 (Jan.-Dec.)	42	0	0	42
Saint-Georges				
Fourth quarter 2005	53	0	12	65
Fourth quarter 2004	47	0	4	51
Year-to-date 2005 (Jan.-Dec.)	209	0	174	383
Year-to-date 2004 (Jan.-Dec.)	192	0	61	253

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Table 6 (cont.) Housing Starts for Centres with 10,000 to 49,999 Inhabitants Province of Quebec				
	Ownership			
Centre / Period	Freehold	Condominium	Rental	Total
Saint-Hyacinthe				
Fourth quarter 2005	35	0	155	190
Fourth quarter 2004	42	24	104	170
Year-to-date 2005 (Jan.-Dec.)	134	39	237	410
Year-to-date 2004 (Jan.-Dec.)	163	48	186	397
Salaberry-de-Valleyfield				
Fourth quarter 2005	26	0	13	39
Fourth quarter 2004	18	15	84	117
Year-to-date 2005 (Jan.-Dec.)	102	15	21	138
Year-to-date 2004 (Jan.-Dec.)	64	15	115	194
Sept-Îles				
Fourth quarter 2005	0	0	0	0
Fourth quarter 2004	0	0	0	0
Year-to-date 2005 (Jan.-Dec.)	20	0	0	20
Year-to-date 2004 (Jan.-Dec.)	23	0	0	23
Sorel				
Fourth quarter 2005	37	12	47	96
Fourth quarter 2004	35	16	4	55
Year-to-date 2005 (Jan.-Dec.)	140	24	67	231
Year-to-date 2004 (Jan.-Dec.)	83	40	8	131
Thetford-Mines				
Fourth quarter 2005	6	0	0	6
Fourth quarter 2004	10	0	0	10
Year-to-date 2005 (Jan.-Dec.)	37	0	0	37
Year-to-date 2004 (Jan.-Dec.)	32	0	0	32
Val-d'Or				
Fourth quarter 2005	12	0	0	12
Fourth quarter 2004	8	0	0	8
Year-to-date 2005 (Jan.-Dec.)	49	0	4	53
Year-to-date 2004 (Jan.-Dec.)	37	0	6	43
Victoriaville				
Fourth quarter 2005	48	0	55	103
Fourth quarter 2004	58	0	34	92
Year-to-date 2005 (Jan.-Dec.)	214	4	87	305
Year-to-date 2004 (Jan.-Dec.)	240	0	110	350
Other urban centres*				
Fourth quarter 2005	110	0	18	128
Fourth quarter 2004	94	0	47	141
Year-to-date 2005 (Jan.-Dec.)	452	0	58	510
Year-to-date 2004 (Jan.-Dec.)	353	0	66	419

Source: CMHC

** Amos, Gaspé, Montmagny, Roberval, Sainte-Marie, Saint-Félicien, Saint-Lin (2003) and Hawkesbury (Quebec Part)*