

# Desjardins Housing Index

June 27, 2008

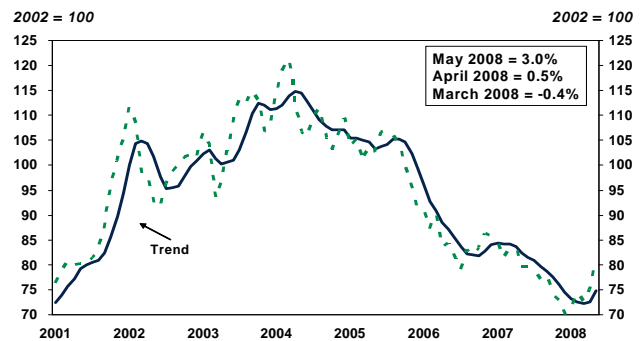
## The drop in mortgage rates drives the DHI in May (+3.0%)

The Desjardins Housing Index (DHI) literally jumped in May, posting monthly growth of 3.0%. This follows on the slight improvement (0.5%) shown the previous month. This performance stems from the big cuts to mortgage rates recorded between April and May. For example, a one-year term fell 80 basis points, its biggest monthly pullback since December of 1992 (-105 points). Added to this is lively new construction, with ground being broken for an annualized 50,300 units, an increase of 14.8% from April of 2008. However, a sharp comeback by residential activity in this province seems unlikely. In fact, after the Bank of Canada decided to hold its key rate at 3.0% on June 10, the financial institutions responded by bringing their mortgage rates up substantially. Moreover, new construction's pace should slowly fall over the next few months, as demand is softening in several Québec regions. Builders will have to be careful to pinpoint the markets that still have potential.

### NEW CONSTRUCTION

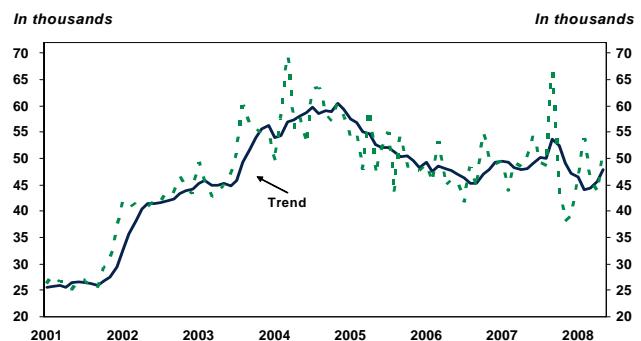
In major centres, housing starts rose 9% in May 2008 from the same period last year. The very strong demand for semi-detached and row houses (because of their affordability) was behind much of the performance. While starts posted growth of 27% in this market, they fell by 4% in the single-family dwelling market. In the Montréal metropolitan area, all segments advanced in May. The 10% increase in housing starts is primarily based on the 47% jump in rental housing and 23% jump in semi-detached and row houses. Laval saw the sharpest increase. Starts on rental housing almost quadrupled in May 2008 from May 2007, due to the launch of two projects involving over 100 units in the Chomedey sector. On the Island of Montréal, however, new construction fell 27%.

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Source: Desjardins, Economic Studies

Housing starts



Sources: Canada Mortgage and housing Corporation, Institut de la statistique du Québec and Desjardins, Economic Studies

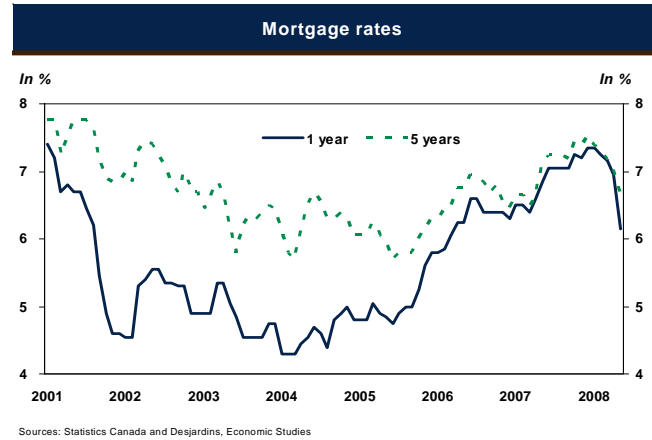
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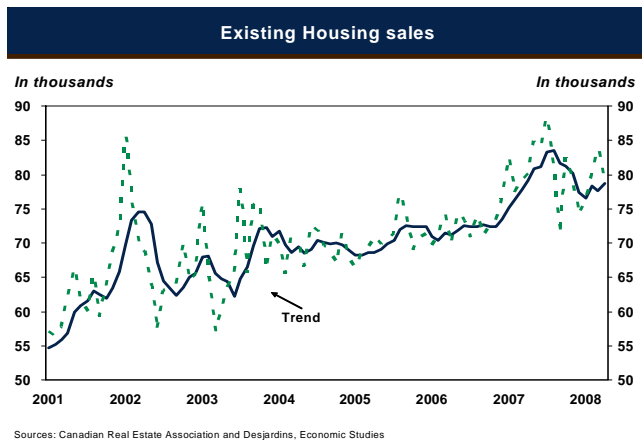
Provincial year-to-date housing starts have come down 1.6% since the year began, whereas, in the major centres, they are up 5.7%. Basing the analysis only on markets with populations of 10,000 and up could well distort the facts. The divergence is due to the fact that projects developed in outlying areas are not as profitable as developments in centres with populations of 10,000 people or more. In fact, steadily rising construction costs combined with lower rents in the regions are steering builders toward more attractive markets. New rental development projects are thus very limited outside of the major centres.

The province's vacancy rate for rental housing continued to head back toward equilibrium in April 2008, reaching 2.5%. The risks are contained, however, as there are not many new construction projects due to profitability issues, especially in the regions. Although Québec's vacancy rate has not shifted much, it fluctuated wildly in the various CMAs. In April, the tightest markets were the Québec and Trois-Rivières, with vacancy rates of 1.1% and 1.3% respectively. Saguenay saw its vacancy rate drop substantially due to the very small number of homes on the market and scarcity of places in seniors' residences, which steered clients toward traditional rental housing. Sherbrooke's vacancy rate went to 2.4% and should grow in the next few months, as supply continues to outstrip demand. The situation in the Montréal CMA has barely changed, with the vacancy rate reaching 2.9%. Only Gatineau posted a slight surplus; the rate there went from 2.8% to 4.1% between April 2007 and April 2008. Note that, according to the CMHC, the equilibrium point is 3%.



**MORTGAGERATES**

Against all expectations, the Bank of Canada left its key rate steady at 3.0% at its June 10 meeting. The hold follows two straight 50 basis point cuts in March and April. The resurgence of inflation fears brought monetary easing to an early end. Bond rates responded to the news by climbing substantially. This quickly impacted mortgage rates—financial institutions raised them in the next few days. On June 13, the one-year rate rose to 6.30% while the five-year term was at 7.10%. Note that, in May of 2008, the one-year mortgage rate was 6.15% and, for the five-year term, it was 6.65%, its lowest level since April of 2007. A key rate status quo is expected for the next few months. Although the cuts are behind us, mortgage rates should not fluctuate that much in the next few months, remaining low, historically speaking.



**RESALE**

In Québec, sales of existing homes fell 9.7% in May. According to the data compiled by the Chambre immobilière de Québec, 952 homes changed hands, compared with 1,054 in May of 2007. The average home price went to \$189,079, an increase of 14%. As in Québec, the Greater Montréal area also saw the number of transactions decline 9% during this period. The 5% surge in the condominium segment was not enough to offset the 15% drop in single-family dwellings. It is thus clear that the demand shift to more affordable housing is picking up speed.

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