

# Desjardins Housing Index

October 23, 2008

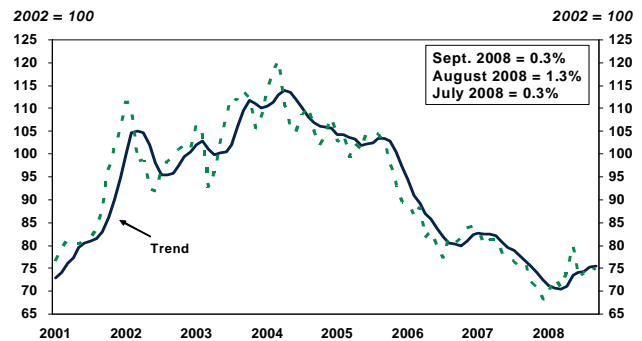
## The DHI's growth softens in September (+0.3%) The housing sector will flag

The rise by the Desjardins Housing Index (DHI) moderated in September, due to stabilization in housing starts, a smaller increase in building permits and a slight downturn in existing home sales. In the coming months, housing sector activity should thus be less sustained. The gradual slowdown contrasts with the collapse that is underway in the United States in both new construction and the resale market. To date, Québec's housing market is standing up well. Starts are oscillating around 45,000 new units, on an annual basis, every month. Sales of existing properties have not been hit by any notable decline, while price increases are holding at around 5% compared with last year. Price decreases due to a surplus are unlikely in the near future. Only a major deterioration in the labour market, harsher tightening of credit conditions or escalating interest rates (very unlikely) could upset the province's housing market. Vigilance is required, but there is no reason for premature alarm bells. The stricter rules on mortgage insurance that came into effect on October 15 could slow demand, however. Note that the economic and financial context is currently on fragile ground, which means that nothing is certain and the housing sector is not fully sheltered from repercussions from the financial upheaval.

### NEW CONSTRUCTION

The stability of starts from August to September means that the housing market is showing some strength, reassuring in this context. The slowdown is underway, however. Over the first nine months of this year, starts are down 4% from the same period last year in urban areas with populations of 10,000 and up. On this basis, September 2008 was much softer than September 2007. In the last year, Québec is down 34% while Montréal is off 52%. According to the CMHC, the tumble is due to a lull in construction of seniors residences, which was booming this time last year. In Montréal at the time, six projects totalling over 1,300 units had begun. The drop in activity from September 2007 does not mean the market has broken down; rather, things have gotten back to normal.

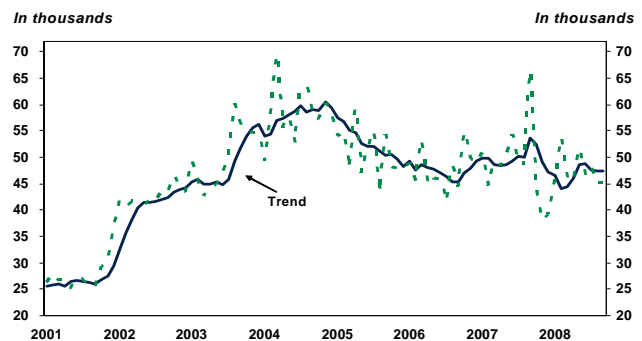
Desjardins Housing Index



Source: Desjardins, Economic Studies

The current slowdown is being characterized by a two-speed market. Affordable housing remains strong, while pricier housing is undergoing a downturn. Single-family dwellings are thus less popular with buyers. In the first half of 2008, starts on single-family dwellings fell by 5.9% from the same time last year. Semi-detached and row houses have grown more than 10% because their prices are lower. For example, in

Housing starts



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

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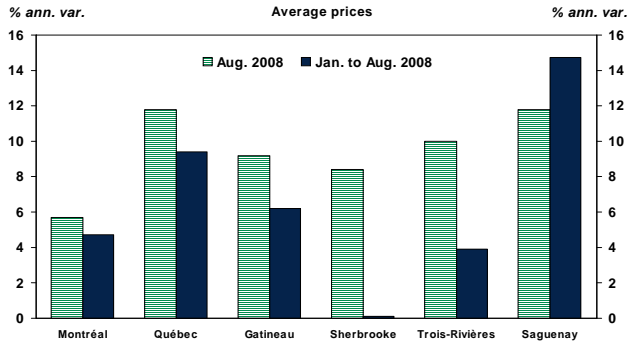
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**Price increases in Québec are sustained**



Sources: Québec Federation of Real Estate Boards and Desjardins, Economic Studies

the Montréal CMA, it costs approximately \$325,000 to build a single-family dwelling compared with \$230,000 for a semi-detached home. The biggest growth was seen in Québec condo construction, at 23% for the first half of 2008. After having fallen for three straight years, residential condominium units are growing again. This type of product not only pleases baby boomers who are changing tenure, it is also attracting an increasing number of first-time home buyers who have less room to manoeuvre.

**RESALE**

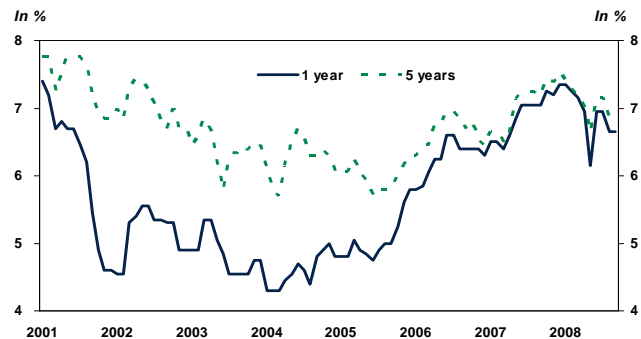
The market is slowly returning to equilibrium, with none of Québec's six metropolitan areas recording price cuts to date. Sherbrooke has been stable since the year began, however. This is also the province's least tight market. The biggest increase, close to 15%, was in Saguenay, where there are not enough homes on the market to meet demand. Prices are up by about 10% in Québec, 5% in Montréal, with Gatineau in the middle. In Trois-Rivières, the increase since the year began is almost 4%. In other words, Québec's major cities are

nowhere near the type of price decreases that are being seen in other places in Canada. As the sales-to-new-listings ratio is far from indicating a surplus situation, there is not much of a risk of price decreases. Price cuts could occur in high-end properties, however. This niche is usually the first to be hit by slowing demand and this time will be no different.

**MORTGAGERATES**

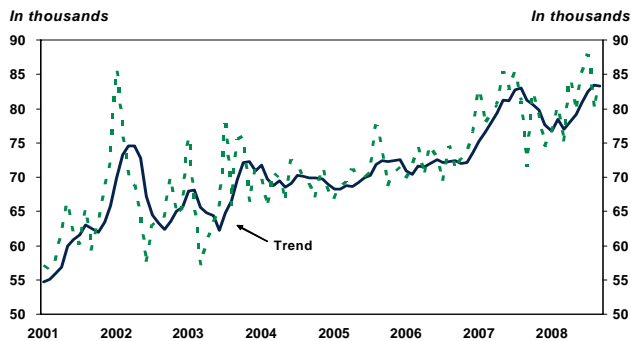
The financial crisis' vagaries have had repercussions for mortgage interest rates lately. The climate of uncertainty has made investors demand a larger risk premium, driving up financial institutions' cost of borrowing. Five-year mortgage rates also shot up at the end of September, going from 6.85% to 7.20% overnight. The premium demanded for new variable rate mortgage loans also went up, while the Bank of Canada's key rates have come down by 75 basis points to date this fall. Clearly, standard rules are being shaken up by the upheaval in the financial markets, which makes it hard to determine which way mortgage rates will move.

**Mortgage rates**



Sources: Statistics Canada and Desjardins, Economic Studies

**Existing Housing sales**



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

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