

The Economy and the Real Estate Market – Getting a Clear Picture

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Topics

1. Brief review of 2008
2. The financial crisis: its origins, its implications and its impact on the real estate market
3. Overview of what 2009 has in store

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2008 in Review

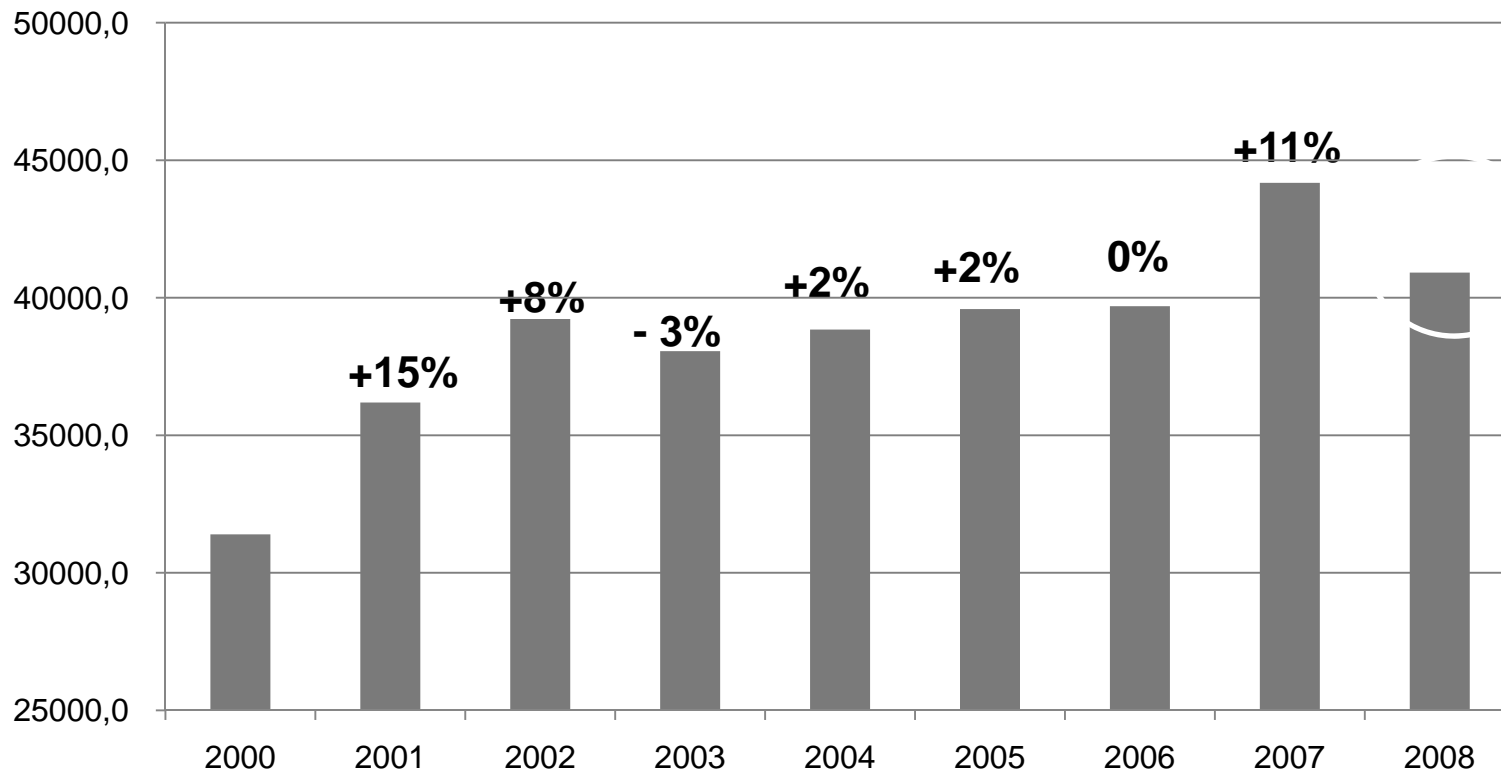
MLS® Activity – Montréal Metropolitan Area

January to December

	2008	2007	Variation
Listings			
New	76,491	72,560	5%
Active	23,987	22,472	7%
Total sales	40,916	44,176	-7%
Single-family	24,295	27,007	-10%
Condominium	11,561	11,551	0%
Plex (2 to 5 dwellings)	4,584	5,058	-9%
Volume	\$10,558,025,196	\$10,997,592,420	-4%
Median price			
Single-family	\$227,000	\$215,000	6%
Condominium	\$185,000	\$180,000	3%
Plex (2 to 5 dwellings)	\$335,000	\$317,000	6%

2008: better results than 2006

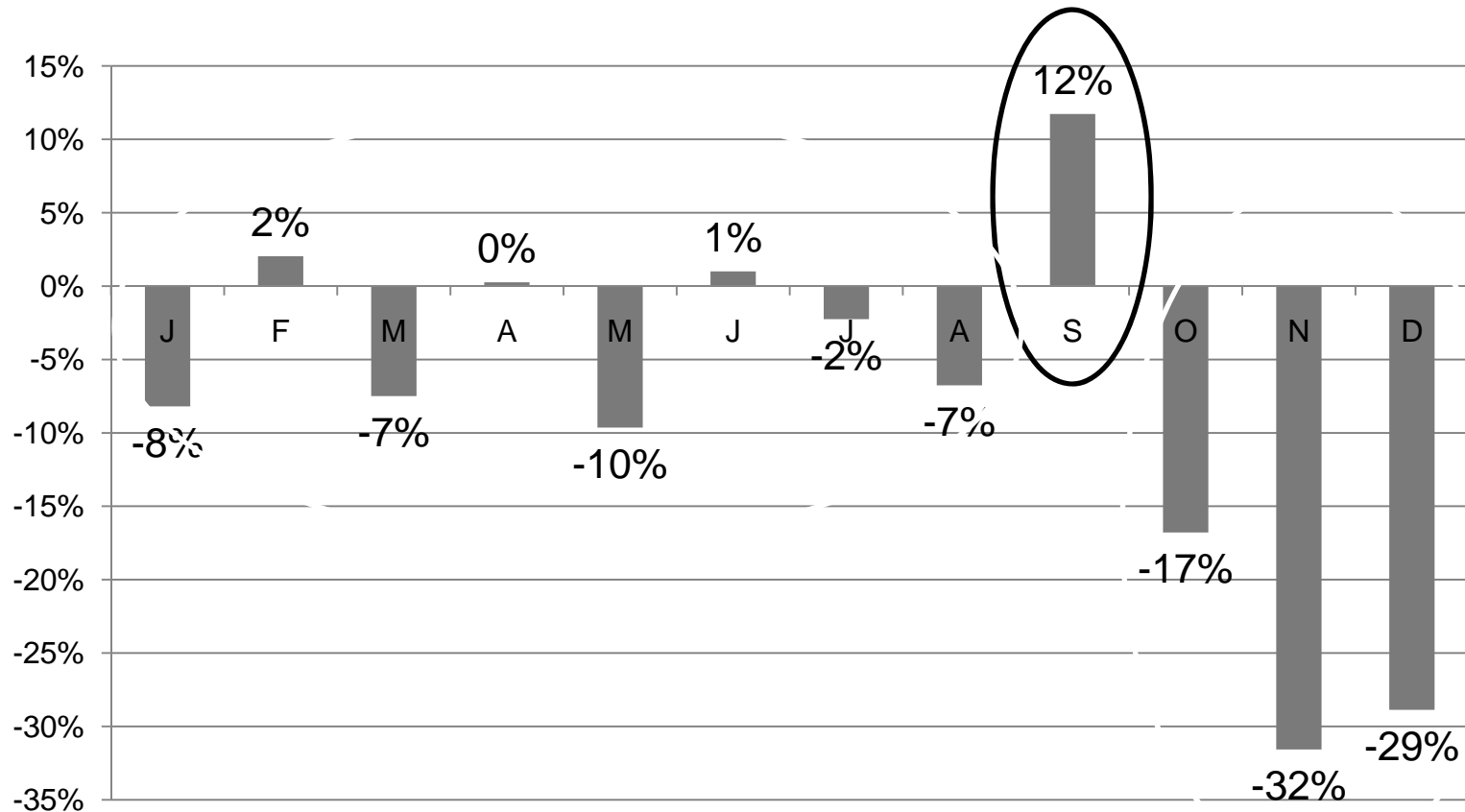
Total residential sales in the MLS[®] system, Montréal region



Source : FCIQ by CentrisTM

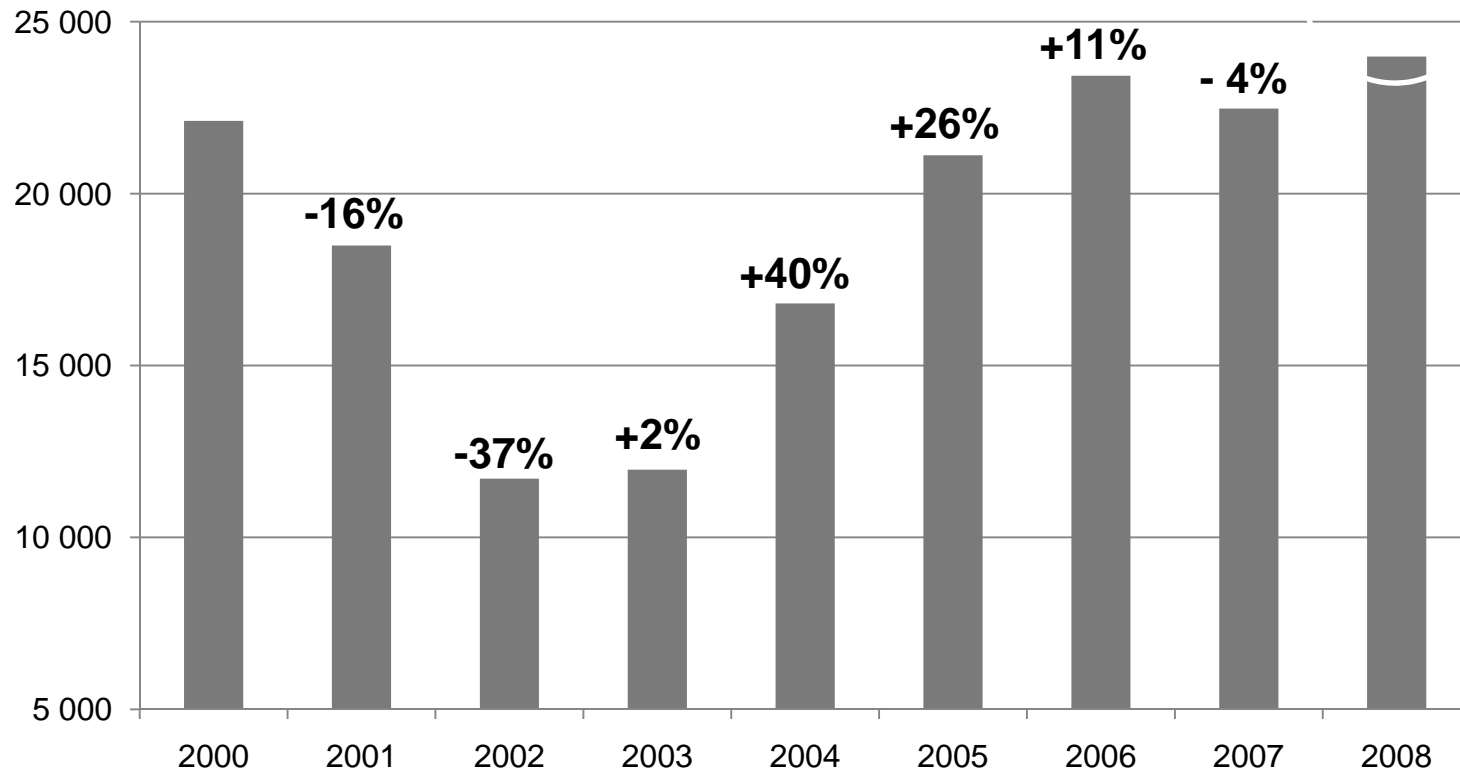
One year, three trends...

Monthly variation in residential sales (vs. 2007)



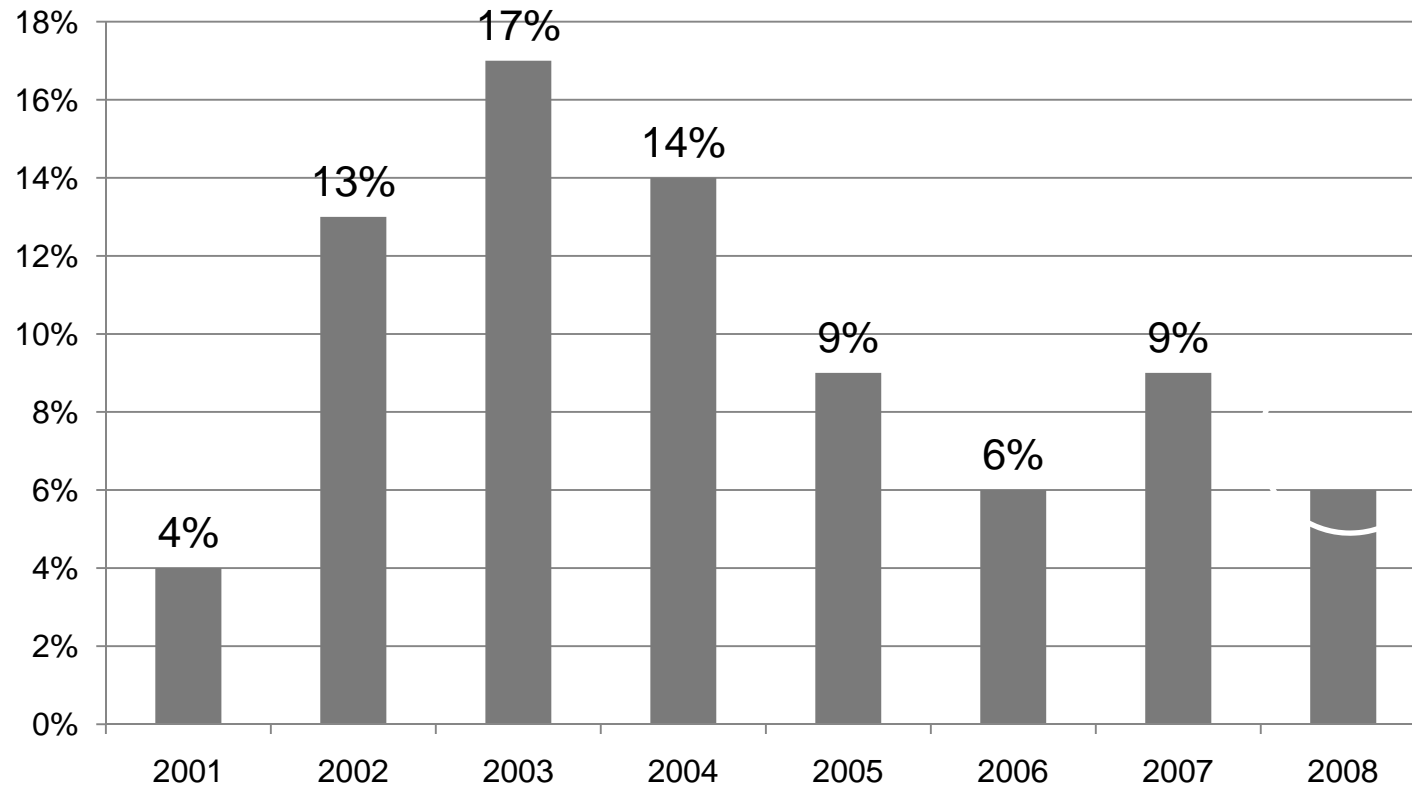
Moderate increase in listings

Active listings on the MLS[®] system



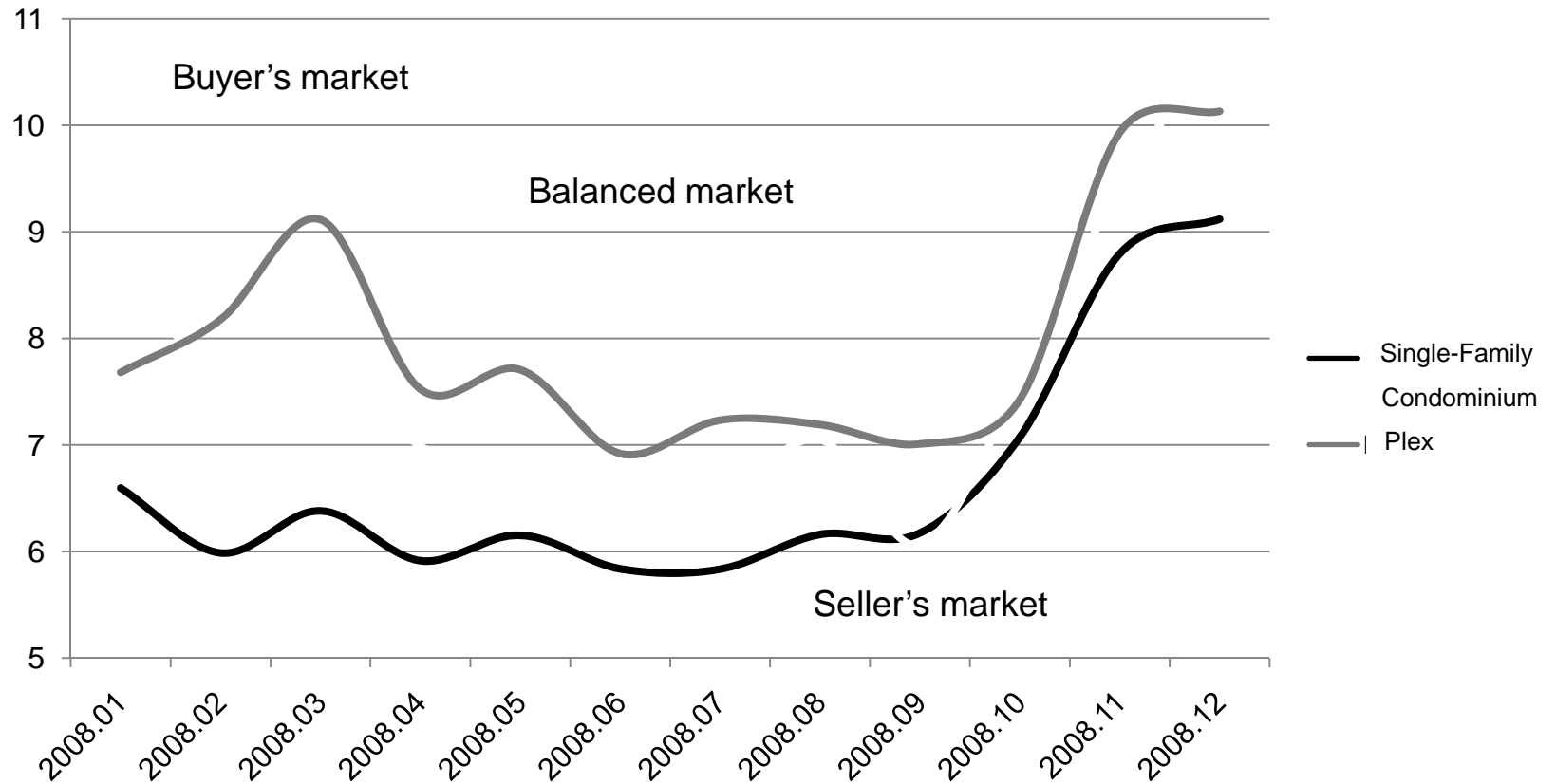
Price growth is above the inflation level...

Growth in median price of a single-family home



Sellers no longer have the advantage

Listings/sales ratio, seasonally adjusted



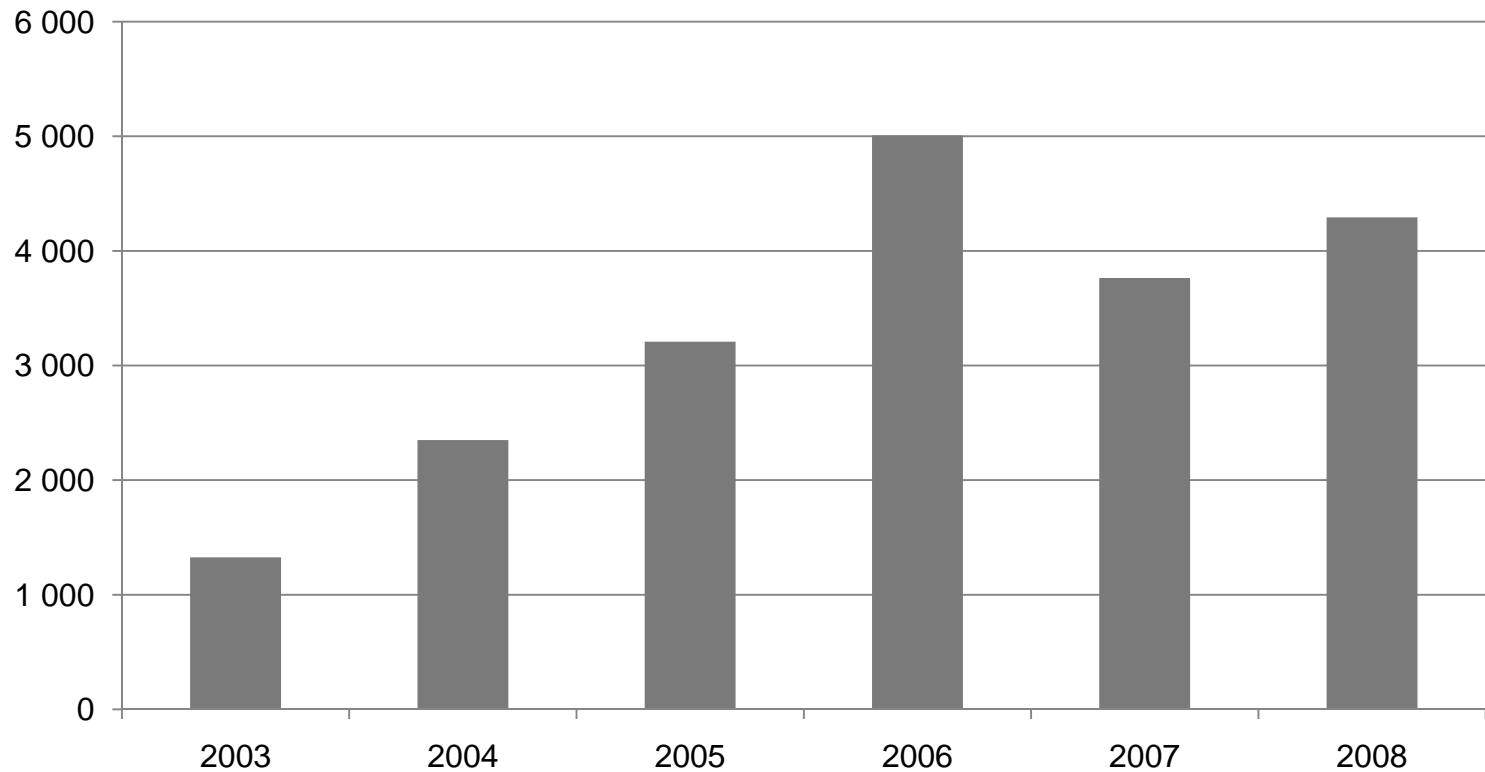
Performance by geographic sector

Sector	Variation in sales in 2008
Island of Montréal	- 8%
Laval	- 6%
North Shore	- 9%
South Shore	- 5%
Vaudreuil-Soulanges	- 9%
Montréal Metropolitan Area	- 7%

Source : FCIQ by Centris™

New dwellings: no surplus yet

Number of unabsorbed multiple dwellings, Montréal region



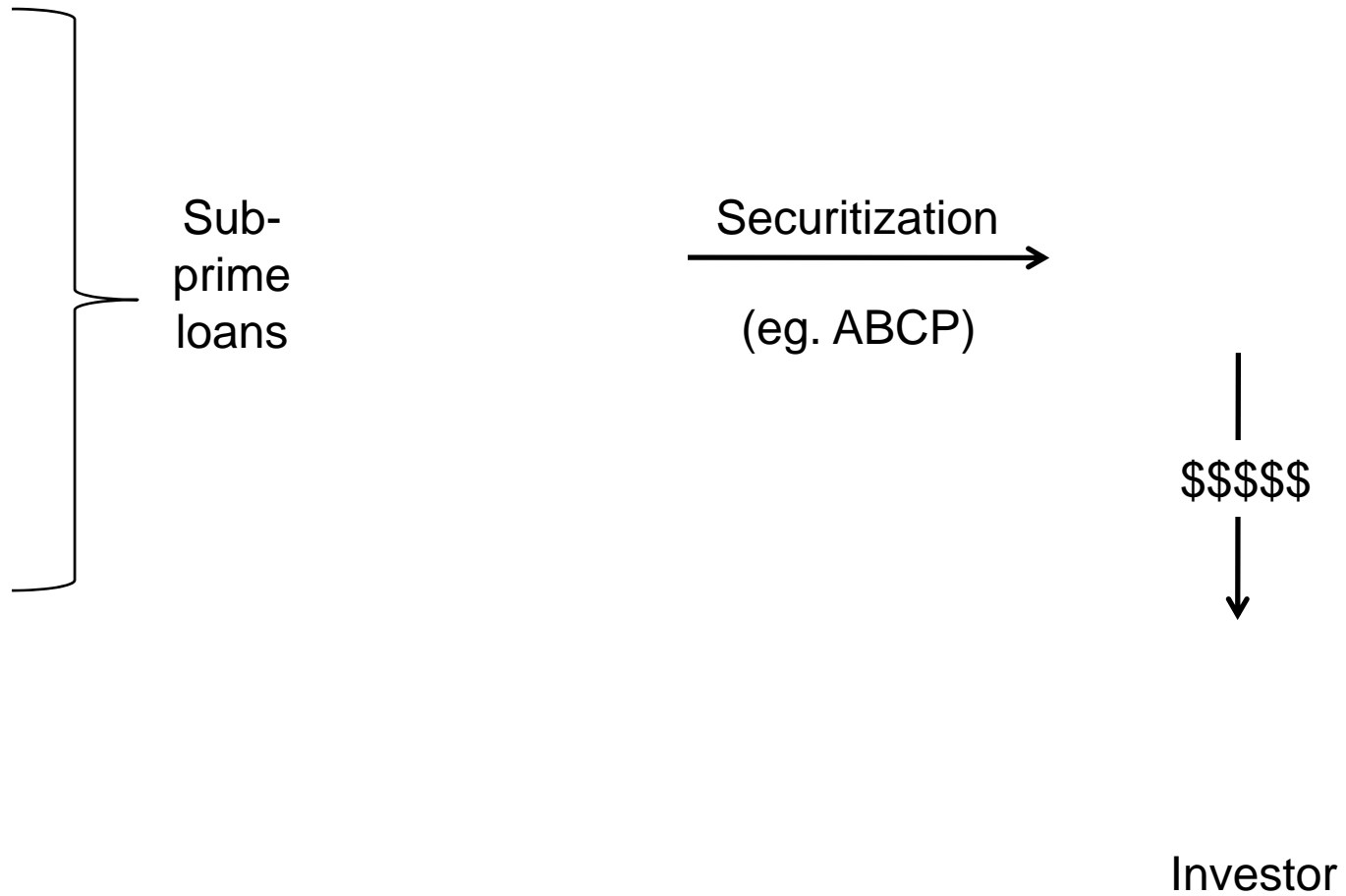
Montréal is performing well

Evolution of the real estate market in 2008		
	Sales	Median price Single-family
Toronto	- 20%	+ 2%
Calgary	- 28%	- 3%
Vancouver	- 36%	-11%
Montréal	-7%	+ 6%

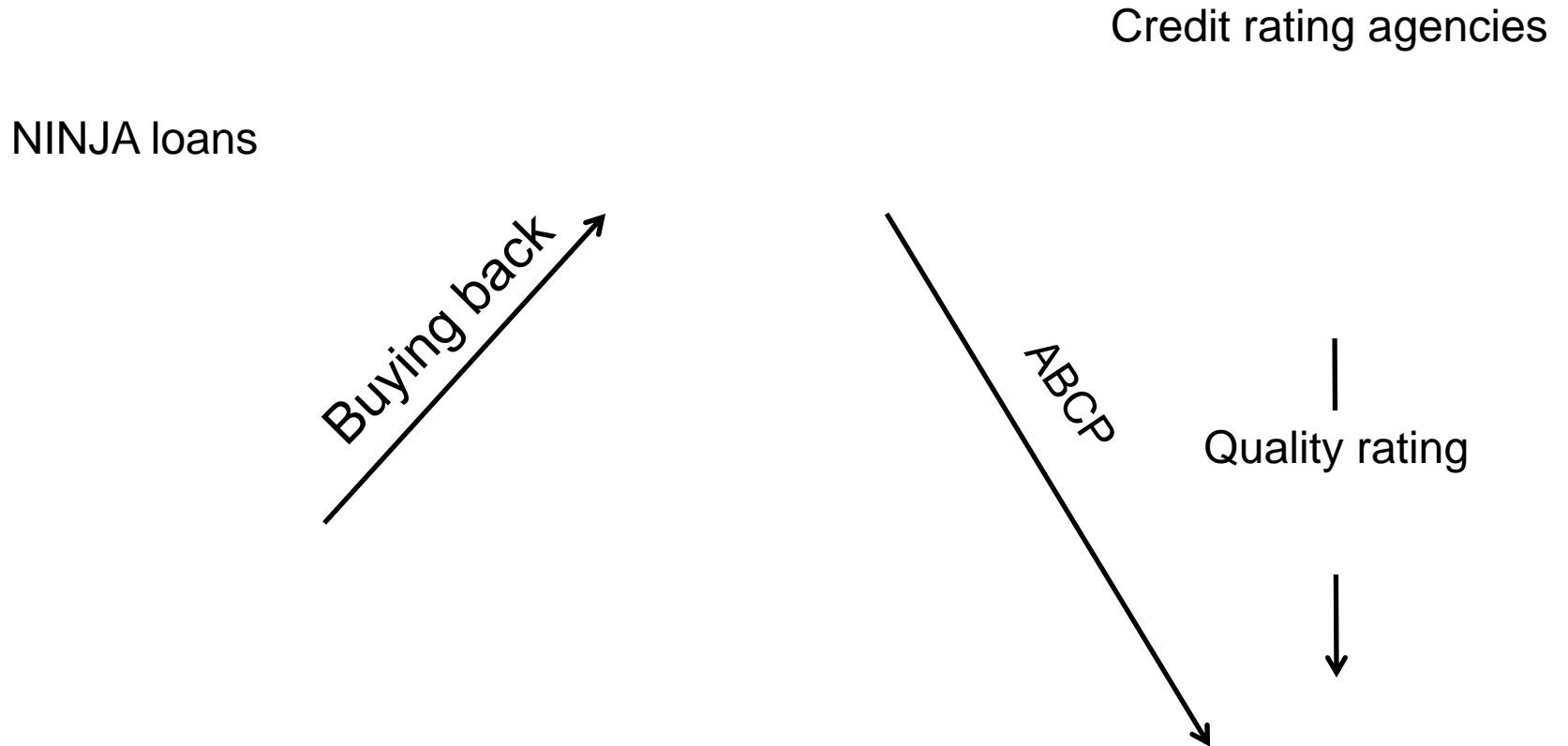
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The U.S. subprime mortgage crisis

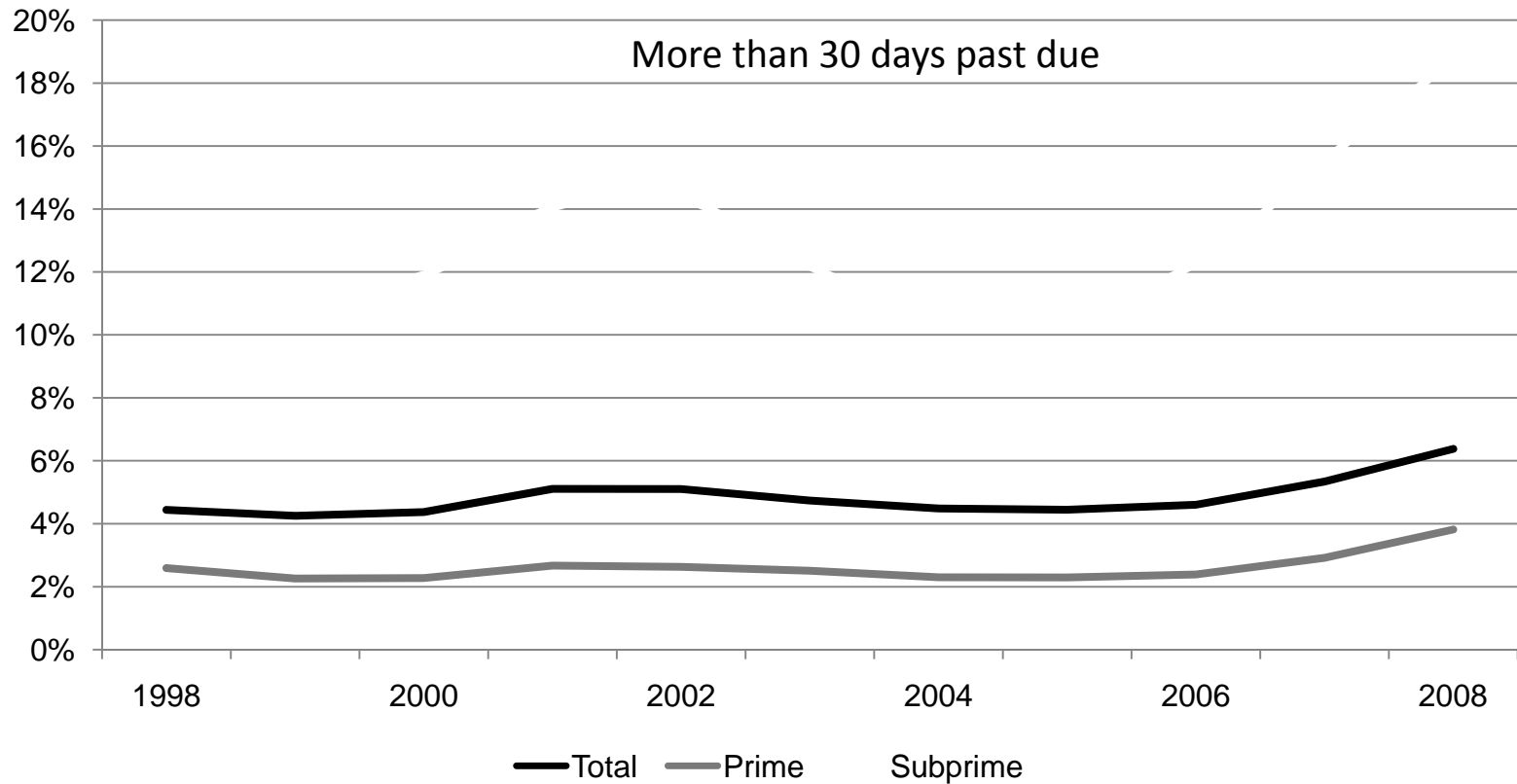


The U.S. subprime mortgage crisis



Explosion of mortgage defaults

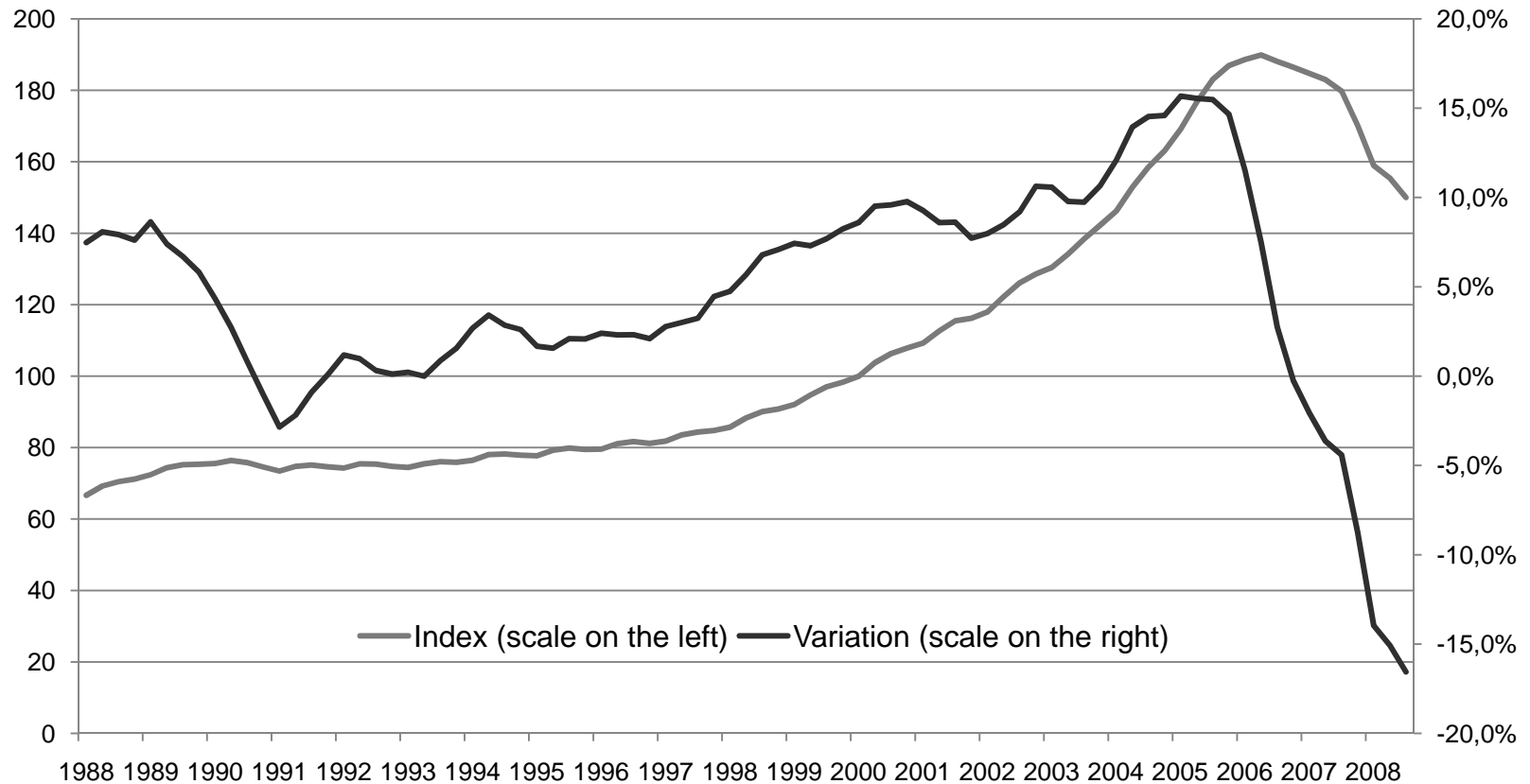
Delinquency rate on U.S. mortgage loans



Source : Mortgage Bankers Association.

Impact on housing prices

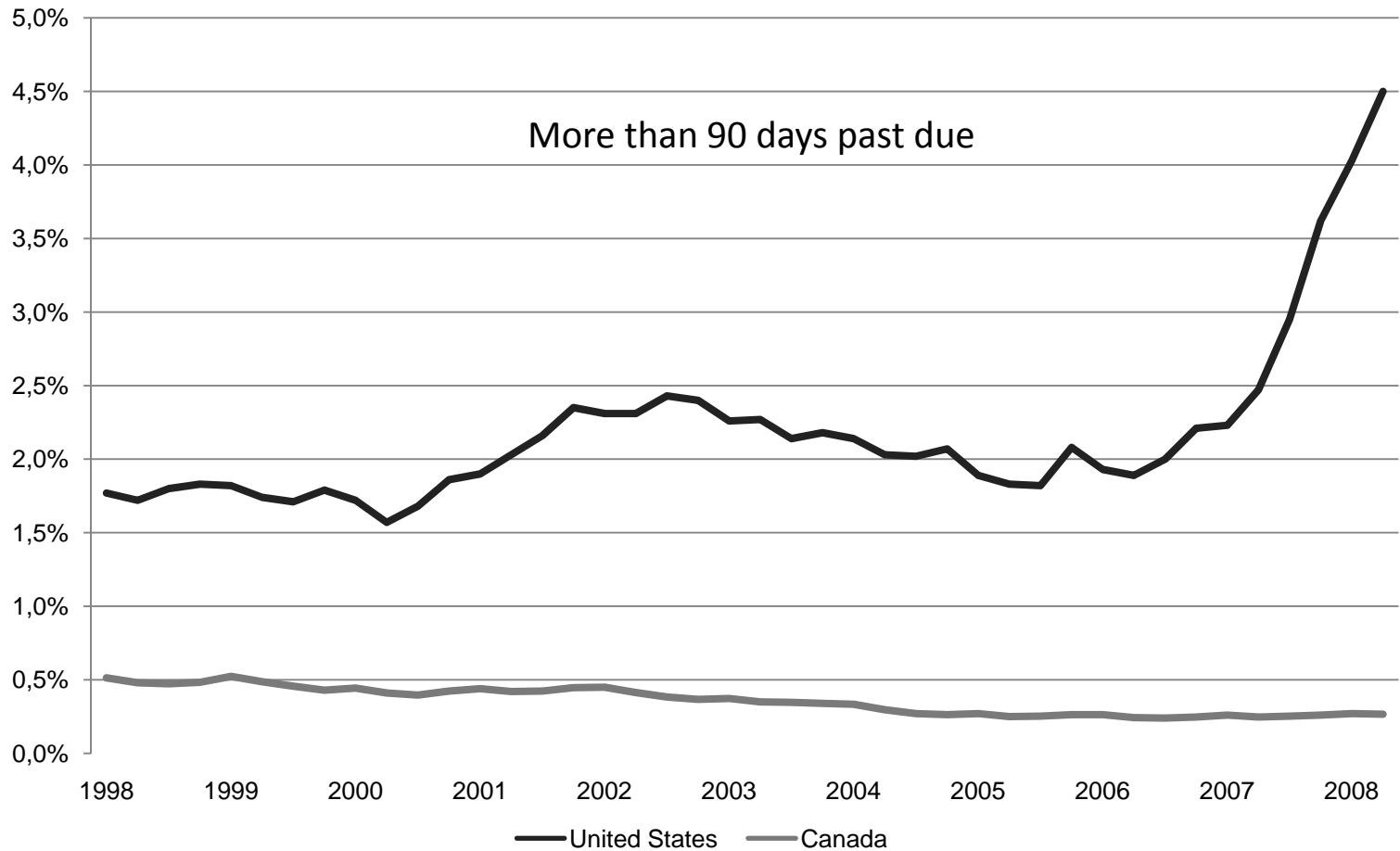
Price index (S&P/Case-Shiller) for existing homes in the United States



Source : Standard & Poor's

No mortgage crisis here

Percentage of mortgage loans in default



Sources : Mortgage Bankers Association et Association des banquiers canadiens.

United States vs. Canada – a comparison

Subprime loans		
	United States	Canada
Type of loan	NINJA	Near prime
Proportion	14%	5%
Default rate	18%	Less than 2%
Mortgage loan insurance	mandatory... but there are ways around it	mandatory

Sources: Mortgage Bankers Association, Canadian Bankers Association and CAAMP

United States vs. province of Québec – a comparison

2008 real estate market		
	United States	Québec
Sales	- 9%	- 5%
Listings		+ 12%
Price	- 13%	+ 4%
Housing starts	- 33%	-1%
Vacancy rate in rental properties	10%	2.2%
Foreclosures	4%	< 0.25%*

Sources: NAR, US Census Bureau, CMHC, Mortgage Bankers Association, GDL and QFREB

* Estimate

We're feeling the side-effects

- Consumers are worried
- Financial crisis ⇒ repercussions on banks' financing costs
- Economic slowdown in the United States ⇒ our economy is also down
- World stock markets tumble

Confidence level is hit hard

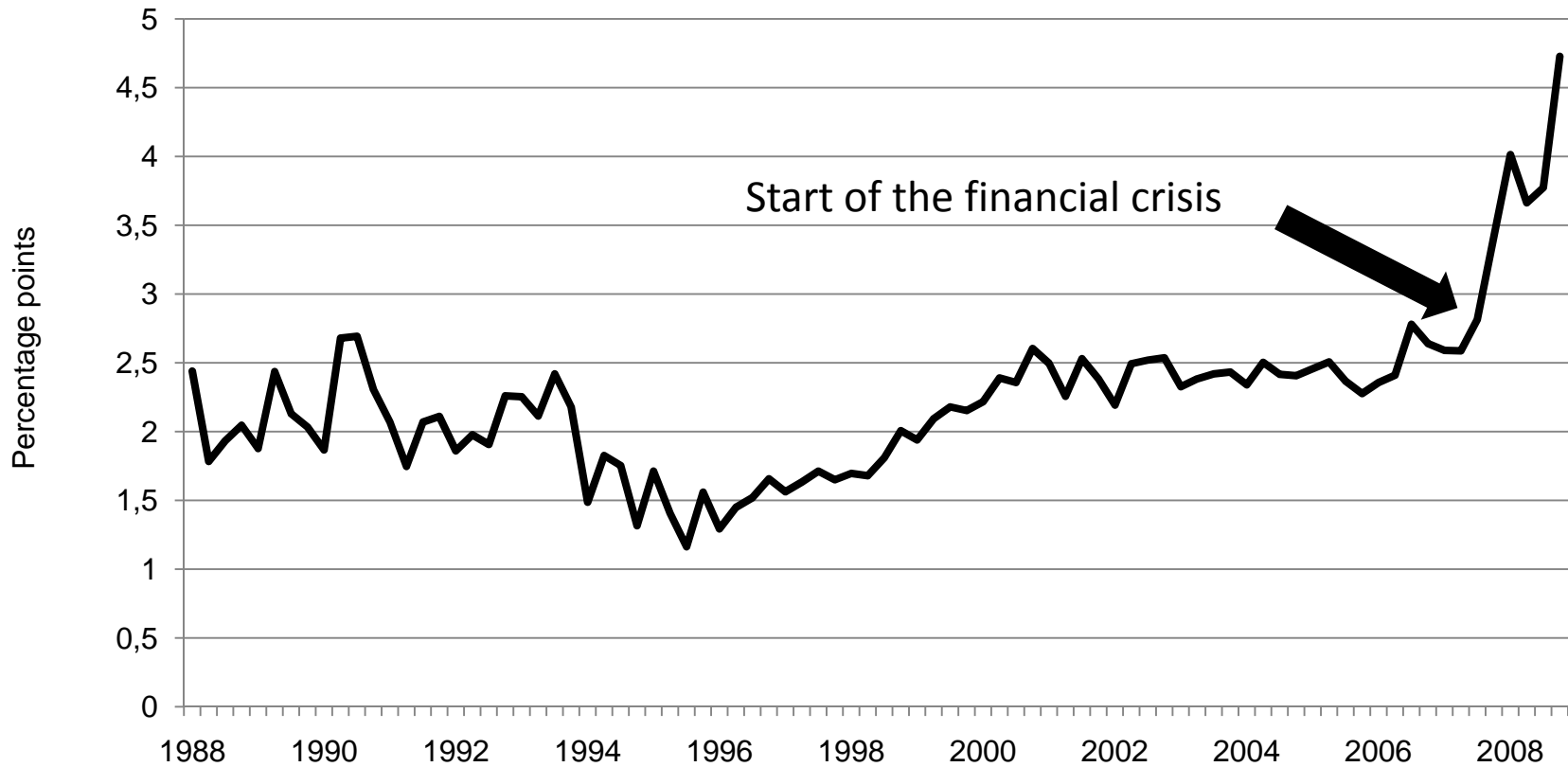
Consumer confidence index for Québec consumers



Source: Conference Board of Canada

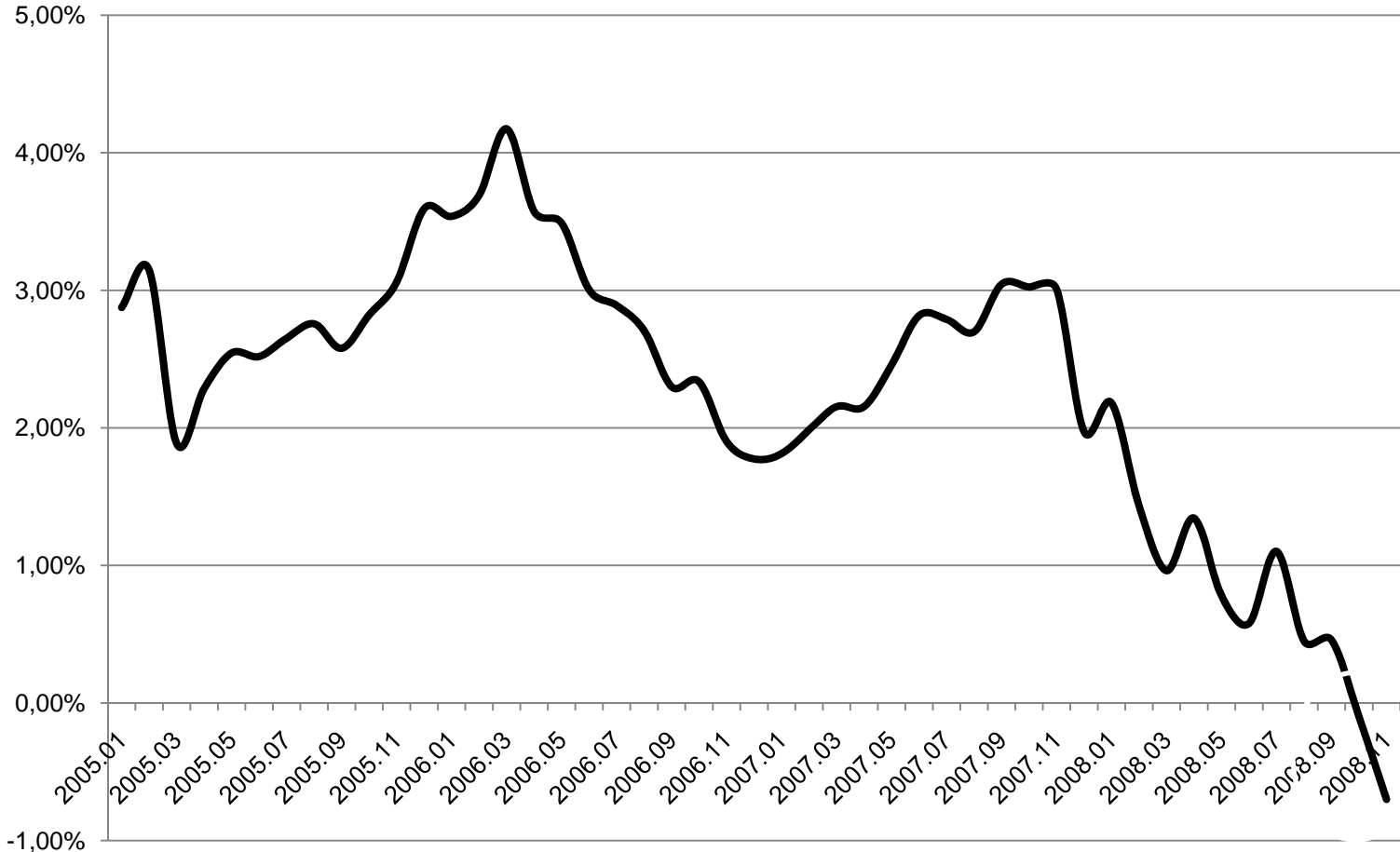
Cost of funds is increasing

Gap between mortgage rates (5 years) and the performance of Canadian bonds (5 years)



Our economy is also affected

Growth of Canadian GDP at annual rates



Source : Statistique Canada

Stock markets decline in 2008

Index	Country	Variation
FTSE100	England	-31%
TSX	Canada	-35%
S&P500	United States	-38%
NIKKEI300	Japan	-42%
IBOVESPA	Brazil	-40%
DAX	Germany	-40%
Hang Seng	China	-48%
BSE30	India	-53%

U.S. government intervention

- Key interest rate cut by more than 500 basis points since September 2007
- Fannie Mae and Freddie Mac were taken over by the government
- \$700 billion rescue plan to encourage credit (Paulson plan)
- \$600 billion buyback of mortgage-related securities
- Obama's economic stimulus plan – Vote on February 13, 2009

Canadian government intervention

- Key interest rate cut 300 basis points since January 2008
- No bailout plan for the finance sector
- Tightening of the rules for government guaranteed mortgages
- \$75 billion buyback of mortgage-related securities
- Federal budget

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Outlook for 2009: the economy

- Stabilization of the global financial system is a prerequisite for economic recovery
- Consumer uncertainty will continue as long as there is no good economic news
- First recession in almost two decades
- The employment level will drop
- Interest rates will drop even further

Outlook for 2009: the Montréal real estate market

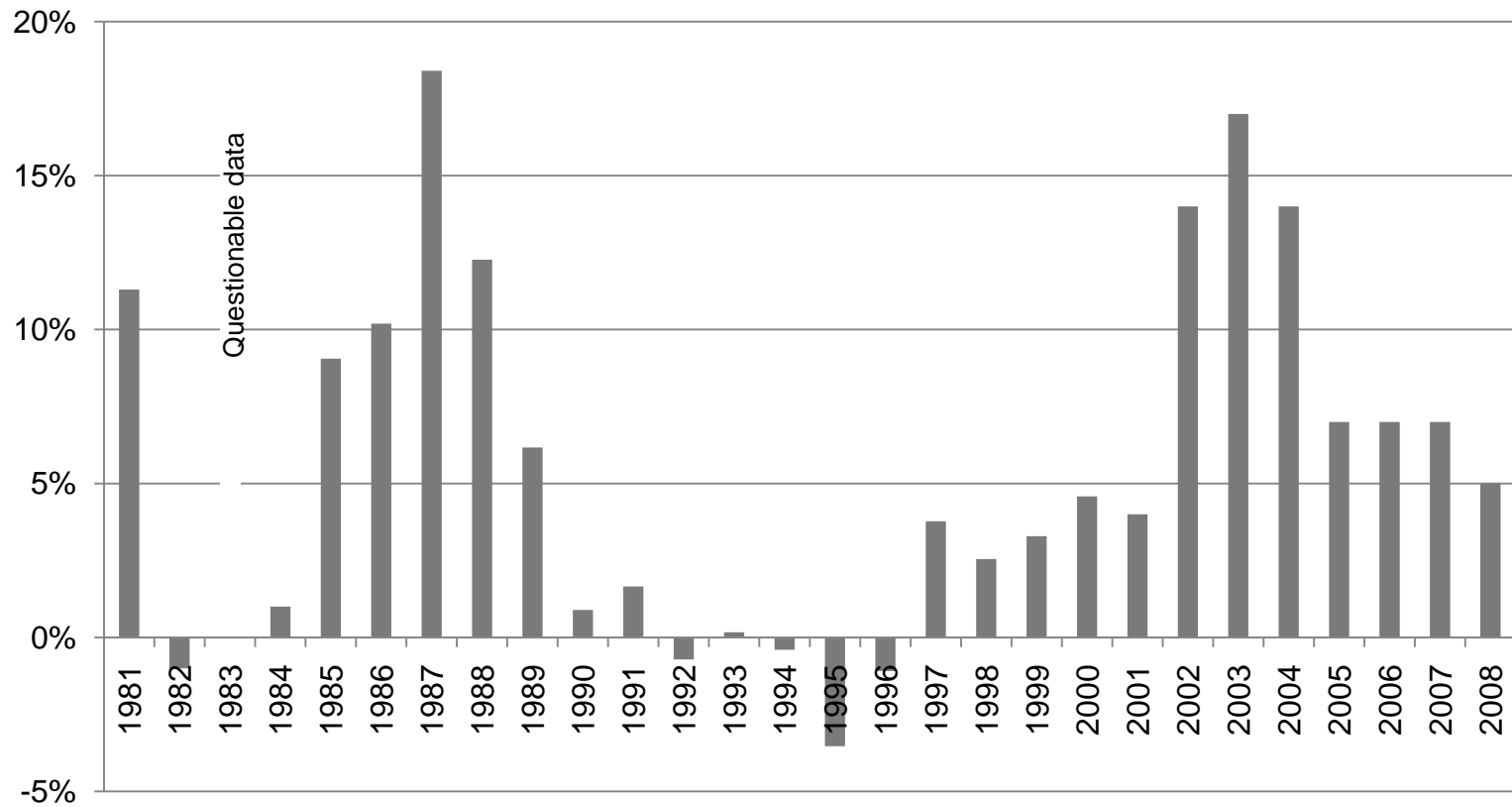
- Inevitable decline in the number of sales
- Slight acceleration in increased listings
- Sellers no longer have the advantage – will need to revise their expectations
- Longer selling times
- First-time buyers will be the most hesitant

Outlook for 2009: prices

- Prices will be more negotiable
- A moderate drop in prices is possible in the short term
- Luxury properties (\$500,000+) in the suburbs will be vulnerable to price decreases
- Condominiums as well, but to a lesser extent

Drop in prices rare in Montréal

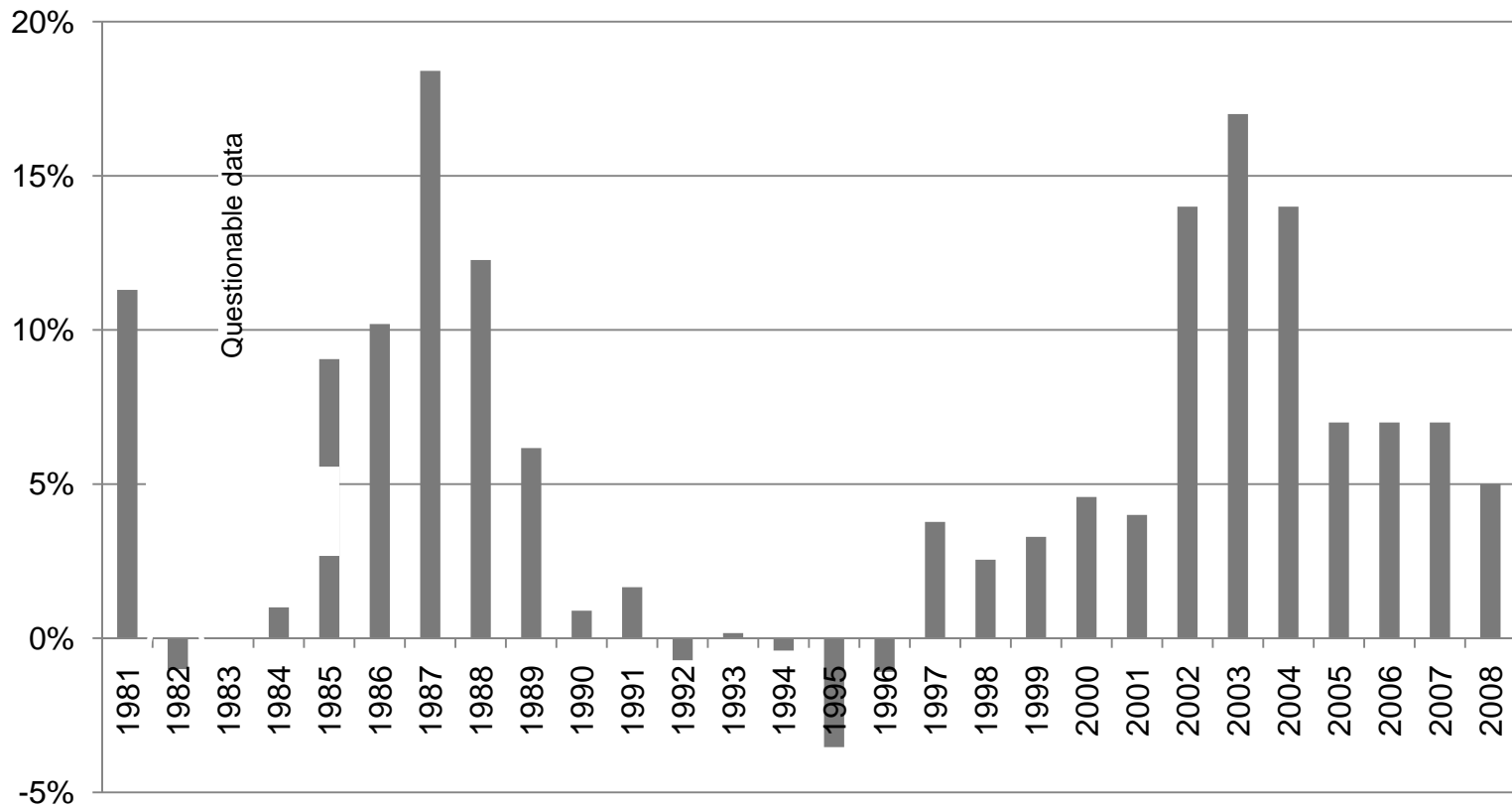
Change in the average price of existing properties



Sources: CREA and FCIQ by Centris™

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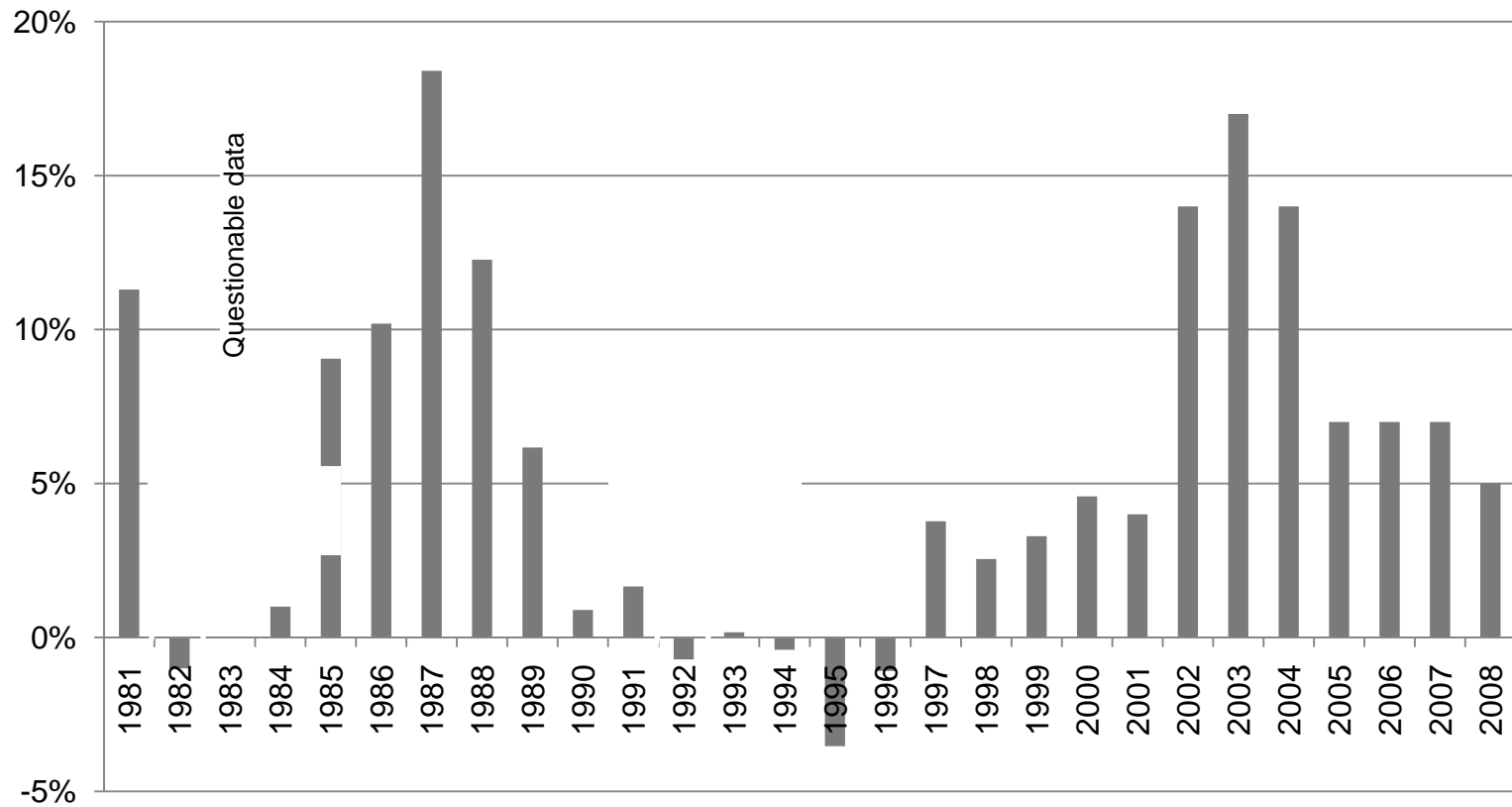
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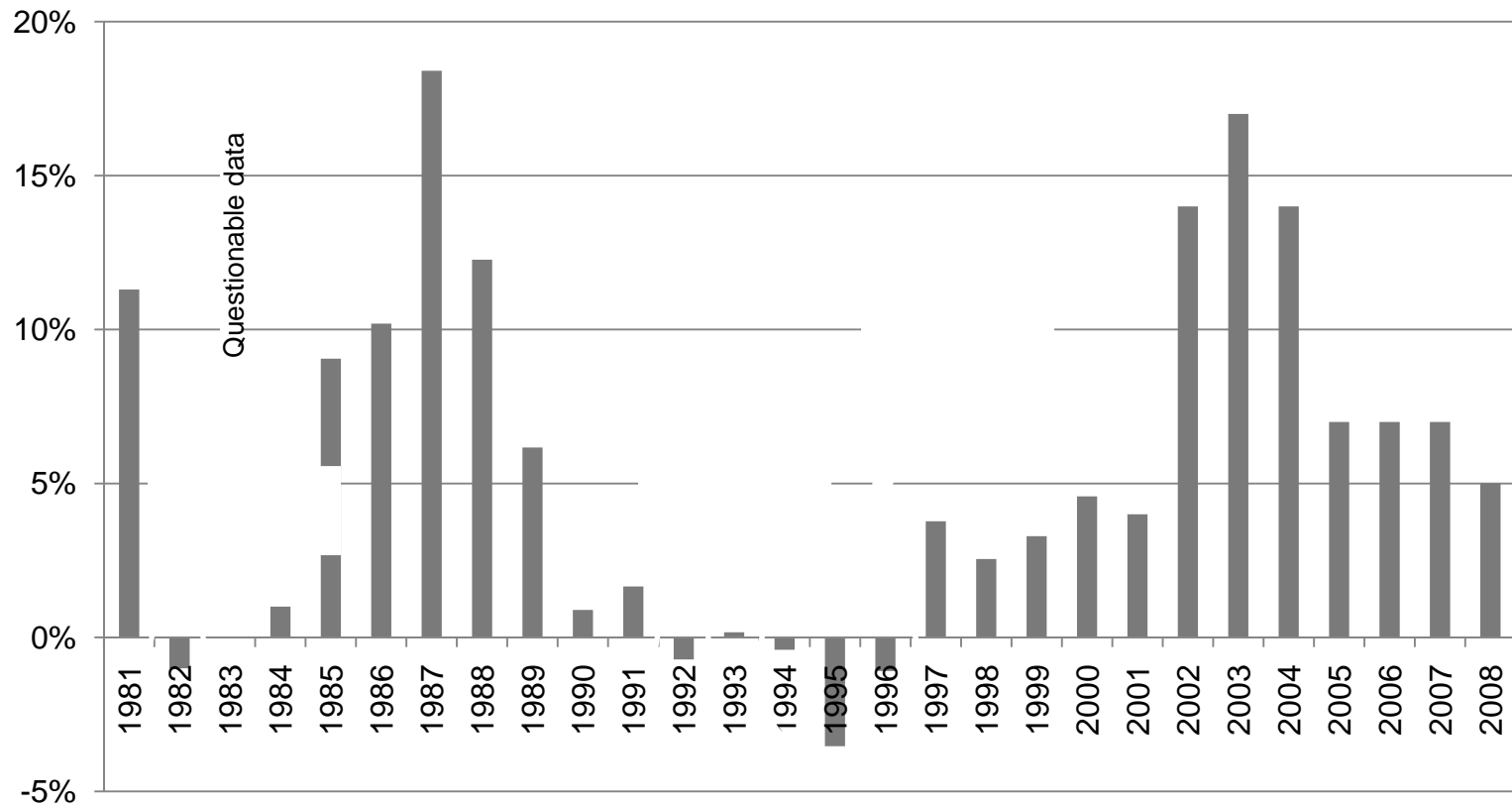
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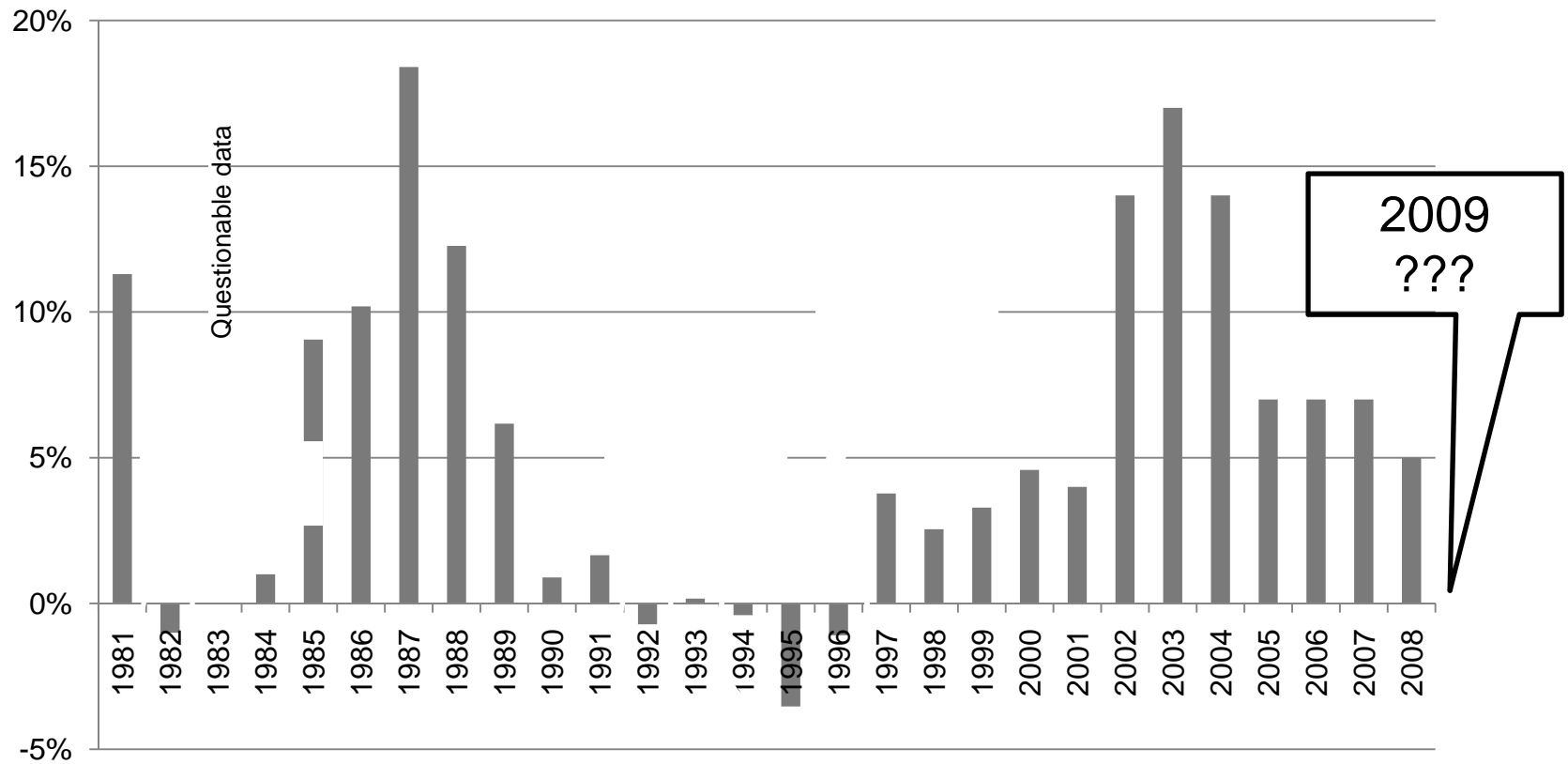
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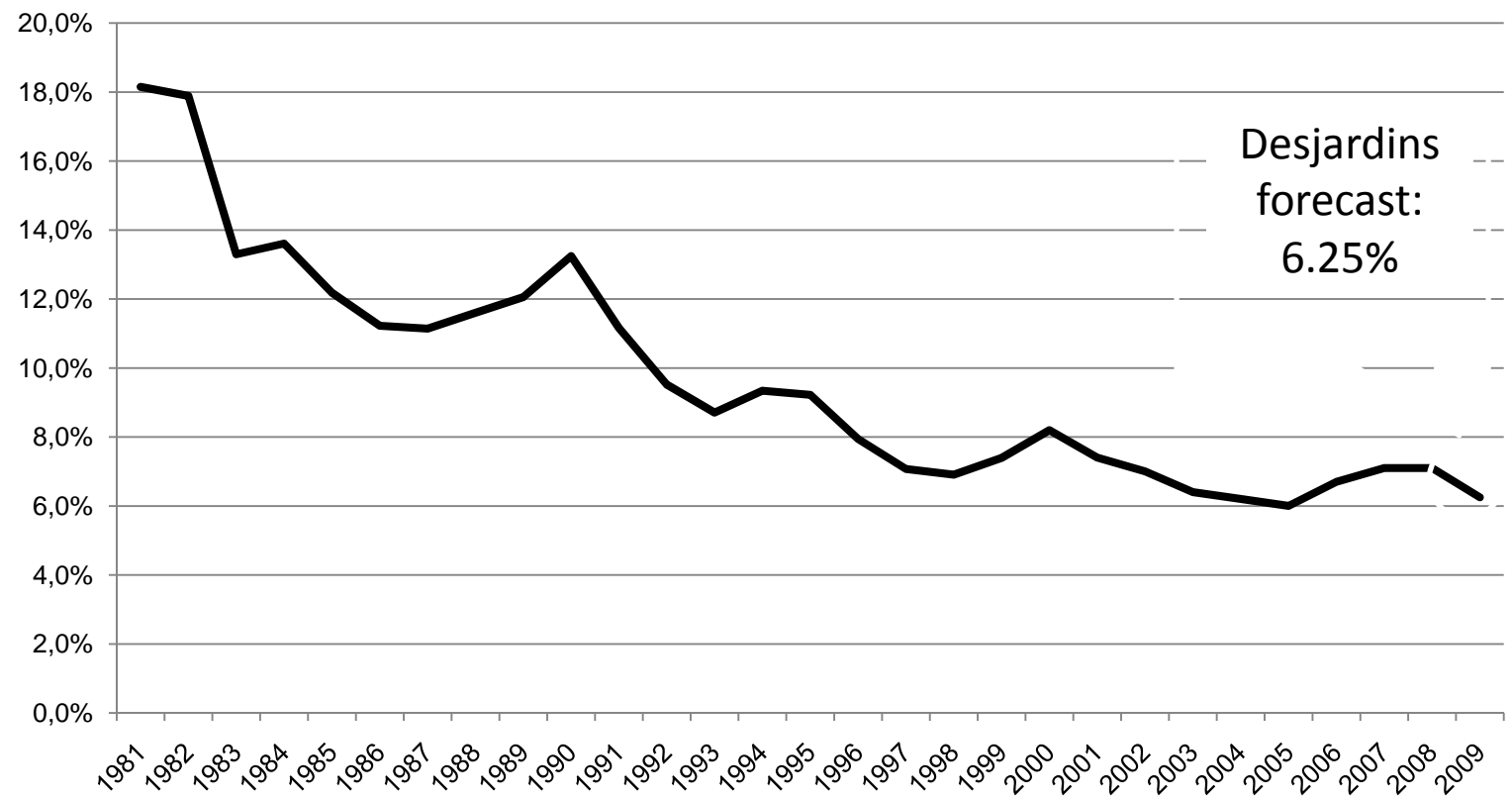
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Interest rates: a big difference

Mortgage rates for a 5-year term (annual averages)



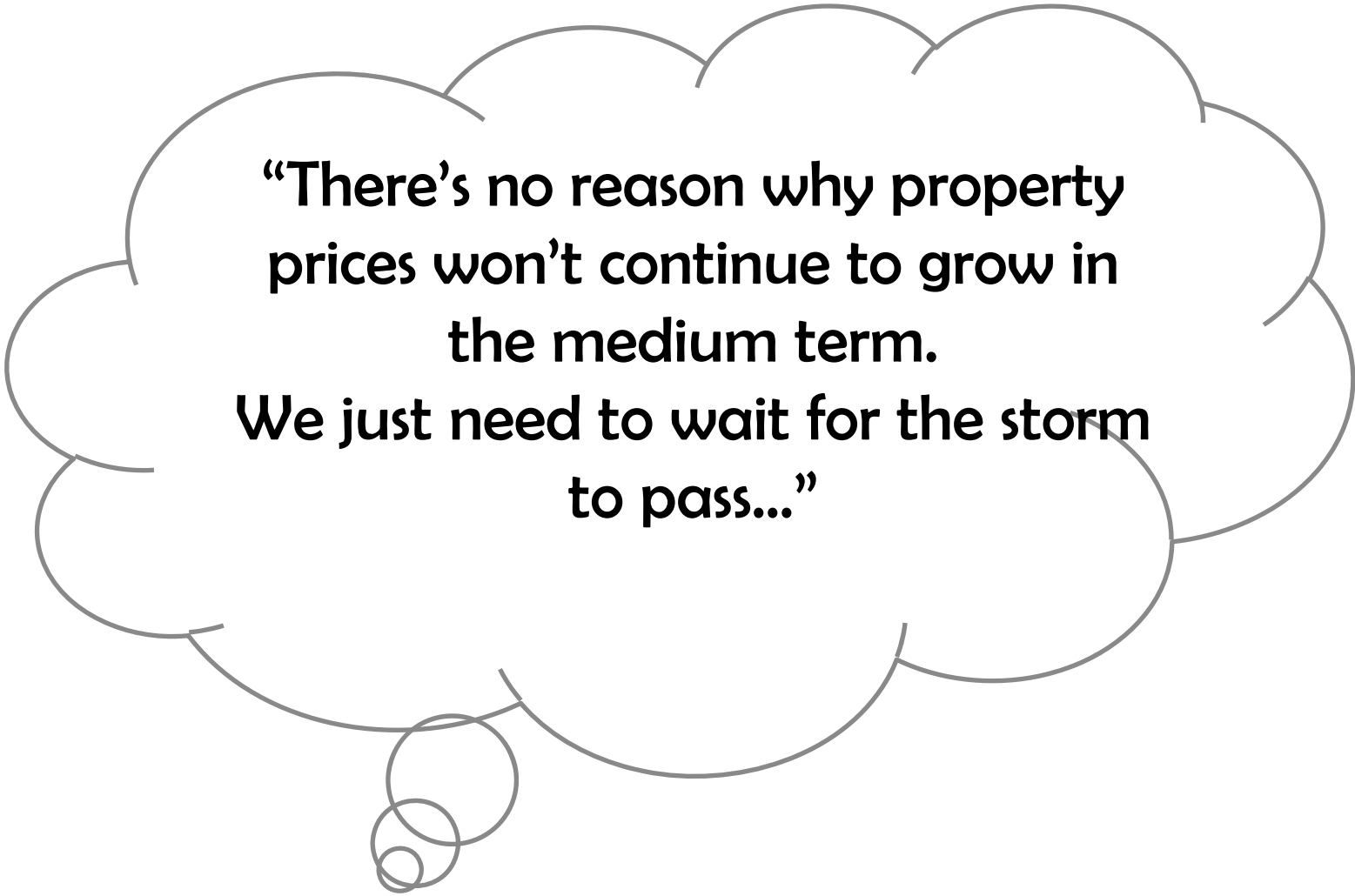
Source: CMHC

Forecasts: Desjardins

2009 economic forecast

Main economic indicators Province of Québec

	2007		2008	Var.	2009p	Var.
GDP	—	2.6%	—	0.7%	—	0.5%
Job creation	86,000	2.3%	30,000	0.6%	-10,000	-0.3%
Unemployment rate	7.2%	—	7.3%	—	8.2%	—
Inflation	—	1.6%	—	2.3%	—	1.1%
Mortgage rates (5-year)	7.1%	—	7.1%	—	6.25%	—
Housing starts	48,500	2%	47,900	-1%	43,000	-10%

A large, irregular thought bubble with a grey outline and three smaller circles at the bottom left. Inside the bubble, the text is centered and reads: "There's no reason why property prices won't continue to grow in the medium term. We just need to wait for the storm to pass..."

“There’s no reason why property prices won’t continue to grow in the medium term. We just need to wait for the storm to pass...”

2009: a good time to buy a property?

- There will be more listings
- Prices will be more negotiable
- Interest rates should drop again

... but it's the consumer confidence level that dictates what the future holds!

Watch out for...

- An analysis of the financial crisis and its consequences
- A GMREB-TV video about the outlook for 2009
- The next issue of the MLS[®] Barometer – Residential Market (new version of the Resale Market Analysis)

February 10

Questions

Thank You!