

# HOUSING MARKET OUTLOOK

## Saguenay CMA



CANADA MORTGAGE AND HOUSING CORPORATION

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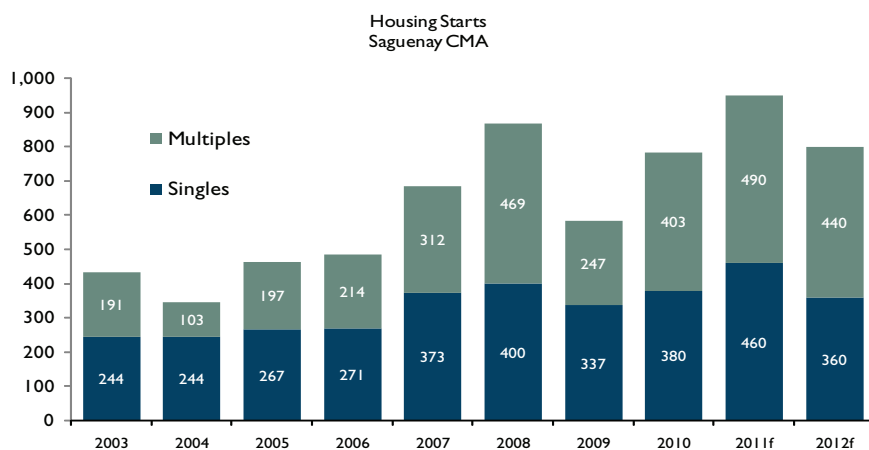
### Housing market activity to moderate<sup>1</sup>

In the Saguenay census metropolitan area (CMA), residential construction will reach a peak of 950 starts in 2011, before falling to 800 units in 2012. Despite this decrease, the pace

will remain high in relation to the average for the last few years. The current market conditions reflect the low mortgage rates and tight rental market. These factors will however come up against other circumstances that will be weighing down on residential construction, including a weakening labour market, the fact that the shift in demand from the resale

Figure 1

#### Housing Activity to Slow Down in 2012

Source: CMHC  
f: Forecasts

#### Table of Contents

- 1 Housing market activity to moderate
- 2 Labour market hesitant but will regain strength in 2012
- 2 Mortgage Rates
- 3 Demographics: from current conditions to general trends
- 3 Resale market to post renewed growth in 2012
- 3 New home market activity expected to decline in 2012 after setting a record in 2011
- 3 Single-detached homes
- 4 Multiple-unit housing
- 4 Traditional rental market conditions to remain tight
- 6 Forecast Summary

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<sup>1</sup> The forecasts and historical data included in this document reflect information available as of October 5, 2011.

market to the new home market is diminishing, and a progressive slowdown in household formation.

On the resale market, transactions will fall by 8 per cent in 2011 but then rise by 4 per cent in 2012. The less tight market conditions will ease the upward pressure on the average MLS® price for residential properties, such that the growth in prices will reach 7 per cent in 2011 and 5.6 per cent in 2012. At the end of the forecast period, the average MLS® price will have attained \$190,000.

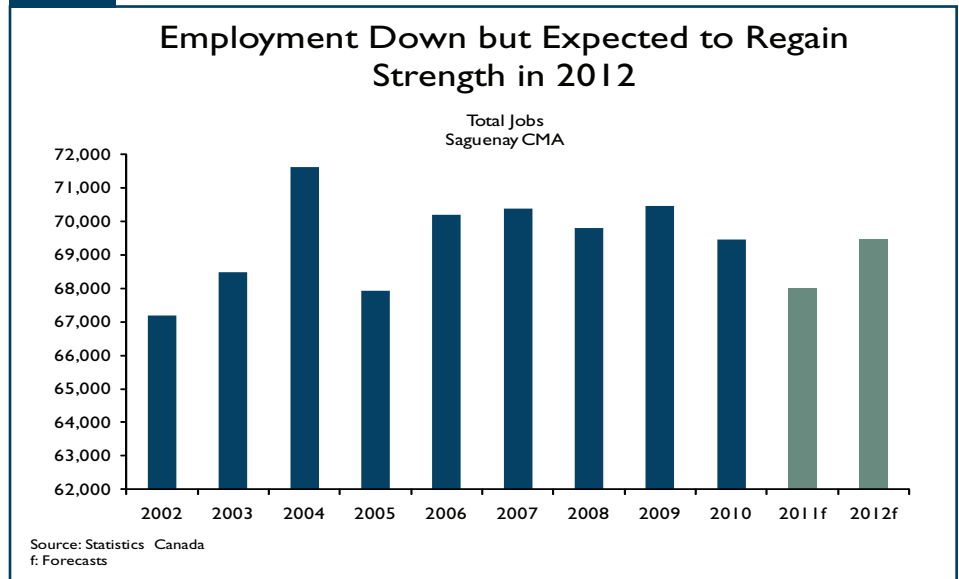
### Labour market hesitant but will regain strength in 2012

The job market in the Saguenay area has been weakening since last year. Given that the expected recovery did not occur in the spring of 2011, the average employment level continued to decline. The sluggish economy in the United States has been affecting exporters in the area. In addition, since consumers strongly stimulated economic growth with their spending in recent quarters, a decrease in their contribution could have an impact on employment.

It can further be noted that, since the second half of 2010, employment in the Saguenay area manufacturing sector has stayed at a low of more than 10 years and that the level of jobs in the trade sector is close to where it was 10 years ago. This is the first sign of weaker employment in the area. Considering the losses registered, the employment level is expected to reach 68,000 people in 2011, for a decrease of 2 per cent from 2010.

Over the course of 2012, employment should return to its 2010 level of 69,500 people, mainly on account of the new jobs created thanks to the investments in aluminum production

Figure 2



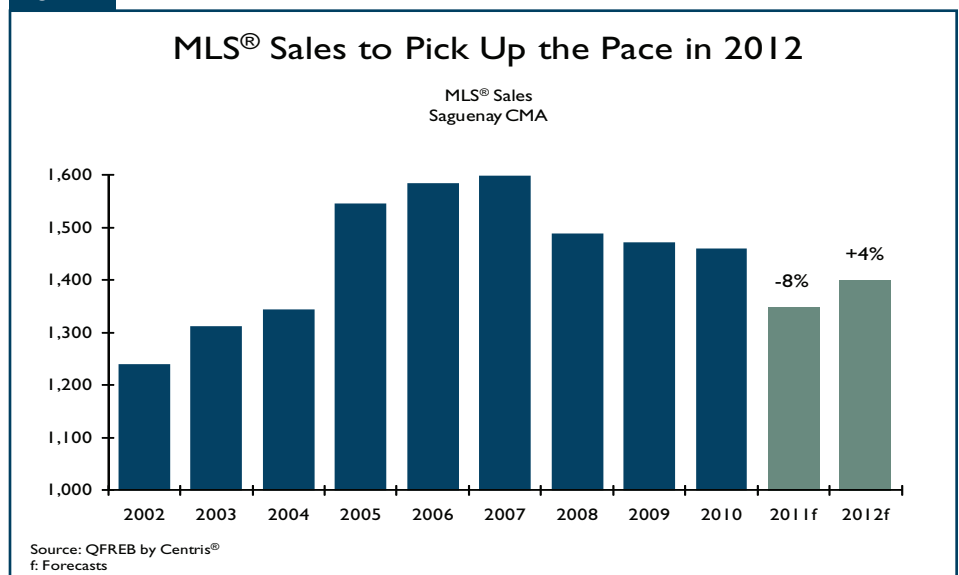
and municipal and road infrastructure. It should be noted that the global economic conditions and uncertainty could limit potential employment growth.

### Mortgage Rates

Recent announcements by the Bank of Canada have indicated that the Bank will be leaving the target overnight interest rate unchanged at 1.0 per cent for some time to come. The

Bank has been noting that in light of slowing global economic momentum and heightened financial uncertainty, the need to withdraw monetary policy stimulus has diminished. The last increase in the overnight interest rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

Figure 3



According to CMHC's base case scenario, posted mortgage rates will remain relatively flat until late 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.4 to 3.8 per cent range, while the five-year posted mortgage rate is forecast to be within 5.2 to 5.7 per cent.

### **Demographics: from current conditions to general trends**

Prevailing labour market conditions in the Saguenay CMA have a significant impact on migration flows. High employment levels since 2006 have contributed to reducing the migration deficit, which went from 1,341 people in 2005 to 342 in 2010. Consequently, the retention of young people has supported housing demand in the area. So far, the estimated job losses are limited and should not significantly change youth employment conditions. As well, the improvement in net migration should take only a short break in 2011 and then resume in 2012, supported by an increase in the level of employment.

In addition to this demographic factor that is more sensitive to current economic conditions, there are also two general trends prevailing in the Saguenay area: the decrease in the number of young adults and the aging of population. For one thing, the presence of fewer young people is bringing about a gradual decline in the demand for new homes. For another, more and more households are now part of the group aged 55 years or older. The changing housing needs in these different age groups will guide residential construction, whether towards the addition of spaces in retirement homes or the production of dwellings meeting the specific needs of baby boomers. In short, these

trends have a structural impact on the housing market. However, it should be noted that, in the short term, current economic conditions greatly influence the housing choices of households.

### **Resale market to post renewed growth in 2012**

The resale market showed signs of slowing down at the beginning of 2011 and has since remained hesitant to return to its level of recent years. This has been due, in part, to the fact that some purchases had been moved up into 2009 and 2010. Then, the significant price hikes recorded in recent years deterred demand. Above a certain price, some buyers may be tempted to turn to the new home market, given the low interest rates. As a result, sales are expected to fall to a level of 1,350 transactions in 2011, for a decrease of nearly 8 per cent from 2010.

Still, for comparable homes, the resale market generally remains less expensive than the new home market, since the existing housing stock is older. As there should be a more abundant supply of properties for sale, slower growth in existing home prices and a 1-per-cent increase in the QST applicable to new home purchases in 2012, demand for existing homes should be stronger in 2012. MLS® sales are therefore expected to increase by about 4 per cent in 2012, for an annual total of 1,400 transactions.

While sellers clearly had the edge in 2010, market conditions will be less favourable to sellers in 2011 and 2012. Despite this easing, the growth in prices will slow down (+7 per cent in 2011 and +5.6 per cent in 2012). In this environment, the average MLS® price will reach \$180,000 in 2011 and then \$190,000 in 2012.

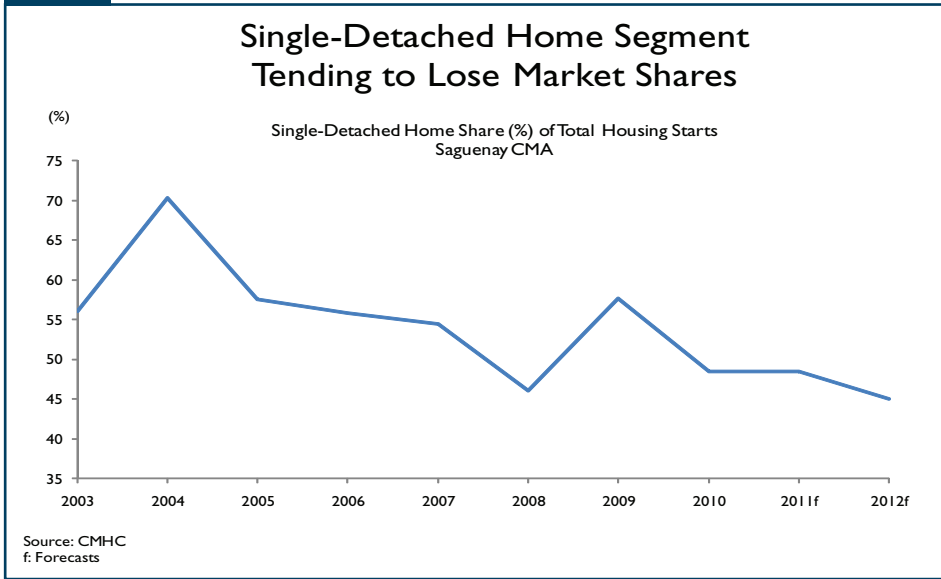
### **New home market activity expected to decline in 2012 after setting a record in 2011**

With the strong activity observed at the beginning of the year and the number of new units anticipated from now until the end of 2011, housing starts will reach a record level of 950 units this year. The current market conditions reflect the low mortgage rates and tight rental market. Activity will slow down in 2012, with construction getting under way on 800 new units, which will still be a relatively high level. The factors weighing down on these results are a weakening labour market, the fact that the shift in demand from the resale market to the new home market is diminishing, and a gradual decrease in the number of young households. The slowdown will be observed in both the single-detached and multiple-unit housing segments. In the case of apartments, there should also be a decline in the construction of rental housing (excluding retirement homes, the production of which should maintain a good pace). On the other hand, semi-detached and row home building will keep rising.

### **Single-detached homes**

In 2010, housing demand regained strength. The low mortgage rates and the fact that the employment level stayed high for several years helped support demand for new homes. In addition, the tight resale market conditions worked in favour of strong price hikes in recent years, which reduced the price gap with the new home market. A slightly greater share of the housing demand may therefore have shifted to this last market. In 2011, conditions remained similar, such that activity is expected to set a new record of 460 starts.

Figure 4



However, the pace should slow down in 2012, and starts will fall to 360 units. Given the smaller price increases anticipated on the resale market and the growing appeal of more affordable homes among first-time buyers, single-detached home construction is expected to decline by 20 per cent.

### Multiple-unit housing

In addition, the single-detached home segment is tending to lose market shares to the multiple-unit housing segment, where the dwellings are generally smaller and more affordable, as in the case of semi-detached and row houses. In addition, rental apartments and condominiums remain housing options that can meet these same criteria. Finally, it should be noted that the total number of young households is tending to decline, which is gradually limiting potential buyers of new single-detached houses.

As for rental apartments (on the

traditional and retirement home markets), there should be a total of close to 360 new units in 2011, and 270 more in 2012. Conditions have remained quite favourable for construction since 2008, given the low vacancy rates. With the new units added in recent years, construction is expected to moderate somewhat in 2012. While the addition of new dwellings will tend to drive up the vacancy rate from now until 2012, demand remains steady and will keep market conditions relatively tight.

More specifically, on the retirement home market, there have been many new units built in the Saguenay area in recent years, as conditions were generally favourable. Given the increase in supply, the vacancy rate for standard spaces<sup>2</sup> in private retirement homes went up from 1.6 per cent in 2009 to 4.6 per cent in 2011. Despite this rise, the area still had the lowest vacancy rate among all the metropolitan areas in Quebec. However, it is important to remember

that the growth in the population aged 75 years or older, the main client group for retirement homes, will be limited over the coming years. Consequently, the construction of new housing for this client group is expected to decline in the medium term.

### Traditional rental market conditions to remain tight

As was mentioned earlier, rental market conditions have been tight for the past few years. The vacancy rate for rental housing excluding retirement homes has remained below 2 per cent since 2008. Considering the upcoming changes in supply and demand, the market should stay relatively tight from now until 2012. The vacancy rate should rise from 1.8 per cent in October 2010 to 2.0 per cent in October 2011, and then to 2.2 per cent in October 2012.

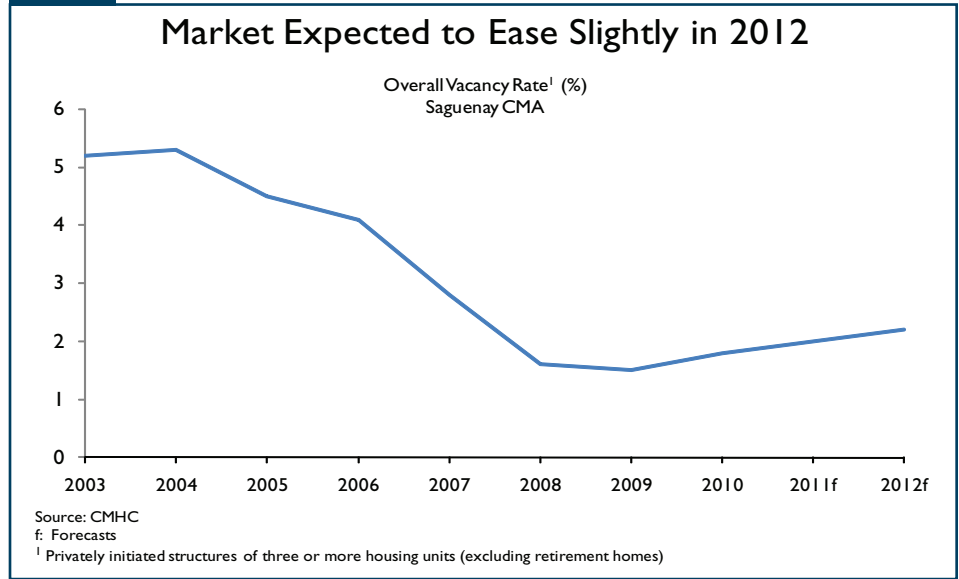
On the one hand, some factors will cause the market to ease. First, the construction of private rental housing was significant in 2010 and 2011 (but will slow down slightly in 2012). Second, the addition of new social housing will increase the rental housing stock in 2012. On the other hand, some factors will have the opposite effect. It is known that, after the age of 55, households tend to return to the rental market. Finally, the movement to homeownership may slow down over the coming years, given the high level of home prices.

However, some things remain unknown, including the uncertain economic environment. In the event that employment growth is less significant than expected, the migration deficit could increase and

<sup>2</sup> Spaces for residents needing a standard level of care (less than one and a half hours of care per day)

weaken the rental housing demand, causing market conditions to ease further from now until 2012. On the other hand, a less considerable movement to homeownership than anticipated could limit the easing of the market from now until 2012.

Figure 5



## A Broader Vision

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Forecast Summary Saguenay CMA Fall 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
<b>Resale Market</b>							
MLS® Sales	1,488	1,472	1,460	1,350	-7.5	1,400	3.7
MLS® Active Listings	654	746	712	730	2.5	730	0.0
MLS® Average Price (\$)	144,213	151,911	168,257	180,000	7.0	190,000	5.6
<b>New Home Market</b>							
<b>Starts:</b>							
Single-Detached	400	337	380	460	21.1	360	-21.7
Multiples	469	247	403	490	21.6	440	-10.2
Starts - Total	869	584	783	950	21.3	800	-15.8
<b>Average Price (\$):</b>							
Single-Detached	184,719	193,687	192,705	195,000	1.2	205,000	5.1
New Housing Price Index (% chg) (Que.)	5.0	3.1	3.1	n. a.	-	n. a.	-
<b>Rental Market</b>							
October Vacancy Rate (%)	1.6	1.5	1.8	2.0	-	2.2	-
Two-bedroom Average Rent (October) (\$)	518	518	535	545	-	555	-
<b>Economic Overview</b>							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.60	-	3.56	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.42	-	5.43	-
Annual Employment Level	69,800	70,400	69,500	68,000	-2.2	69,500	2.2
Employment Growth (%)	-0.9	0.9	-1.3	-2.2	-	2.2	-
Unemployment rate (%)	8.5	8.7	8.1	8.3	-	8.0	-
Net Migration	-381	-396	-342	-350	2.3	-325	-7.1

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), QFREB by Centris®, Statistics Canada (CANSIM)

**NOTE:** Rental universe = Privately initiated rental apartment structures of three units and over



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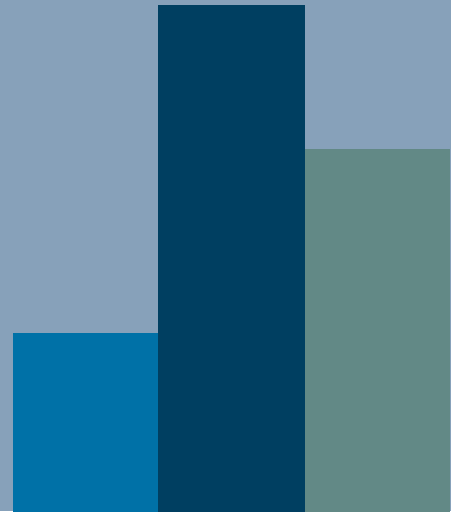
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