

HOUSING MARKET OUTLOOK

Saguenay CMA



CANADA MORTGAGE AND HOUSING CORPORATION

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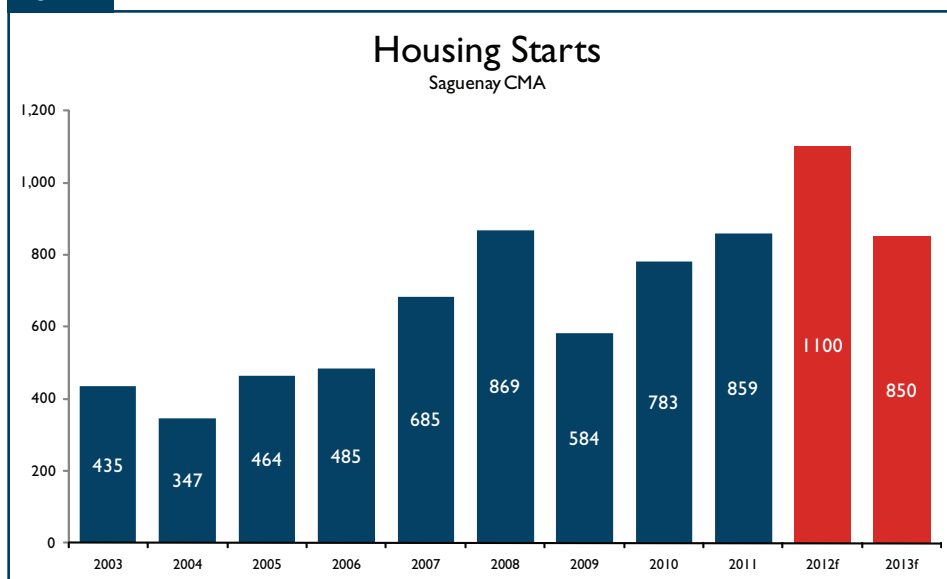
Housing demand to stay strong in Saguenay¹

In the Saguenay area, 1,100 housing starts are forecast for this year. This peak—not seen since 1990—will be reached thanks in part to the addition of several new apartment buildings. While several factors will

continue to stimulate activity on the new home market in 2013, the pace will be more moderate, as starts are expected to attain 850 units, which is still a relatively high level compared to recent years. Housing demand remains strong, and the resale market still favours sellers.

With employment rebounding and net migration improving, the volume of existing home sales will rise by

Figure 1



Source: CMHC

f: Forecasts

¹ The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts included in this document reflect information available as of October 17, 2012.

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3 per cent in 2012, to 1,400 MLS® transactions, and then by 4 per cent in 2013, to 1,450 transactions. Supported by the demand, the market will remain favourable to sellers, which will allow the average MLS® price to grow faster than inflation, with anticipated increases of 6 per cent in 2012 and 4 per cent in 2013.

The rental market has been tight for the past few years. With demand still strong, thanks to the vigorous job market and improving net migration, the vacancy rate will decrease slightly this year, falling to 1 per cent on October 2012. Since supply is growing, however, the market should subsequently ease, and the vacancy rate should rise to 1.5 per cent in 2013.

Job market to rebound in 2012 and stay strong in 2013

The job market posted a vigorous rebound this year, after sinking to its lowest level in seven years last year. In fact, the monthly estimate of the seasonally adjusted employment level hit a 10-year low in October 2011. We forecast that the average employment level will rise by 4.4 per cent, to 71,000 jobs, in 2012.

In 2013, the job level should be maintained in the area, supported by the many capital projects. However, uncertainty still looms over the strength of the recovery of economies around the world, and that is why employment is expected to remain stable next year in relation to 2012.

Several factors are contributing to the employment boom. Two sectors posted marked gains: manufacturing

and trade. In the manufacturing sector, in particular, the price of lumber is rising as a result of an increase in demand and a reduction in production capacity in recent years². Also, the greater than anticipated economic spinoffs³ from the investments in aluminum production apparently also likely favoured employment among equipment manufacturers and in the construction and transportation sectors. In addition, the many private and public investments are helping to support employment growth in construction, including in the residential sector. Overall, the resilient employment and increasingly scarce succession are making it easier for households in the area to enter the labour market and, in turn, support the housing demand.

Mortgage rates

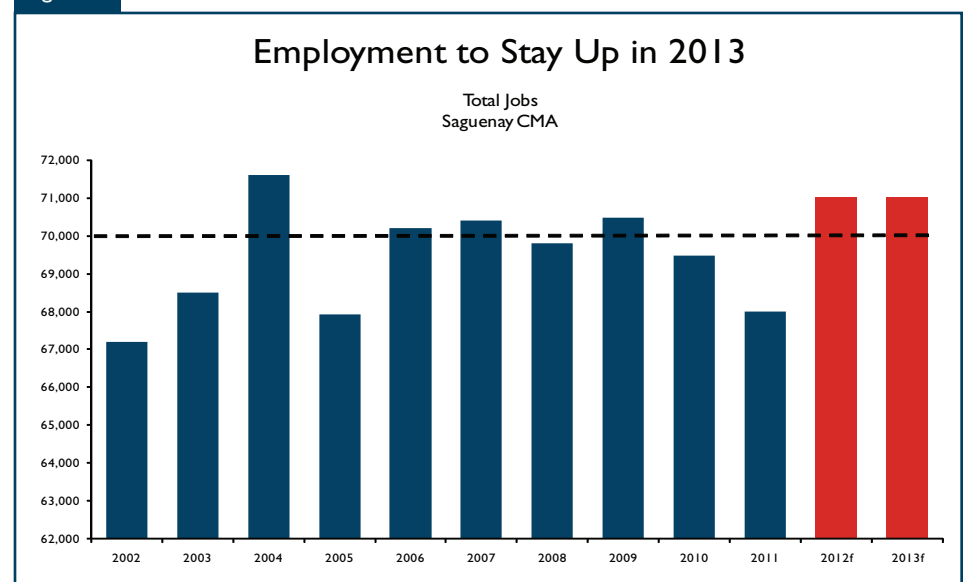
Although there is significant uncertainty, mortgage rates are not expected to change in 2012. Slight

increases are expected in 2013, but rates will remain low by historical standards. According to CMHC's base case scenario, for 2012, the one-year mortgage rate is forecasted to be within 2.75 per cent to 3.50 per cent. For 2013, the one-year posted mortgage rate is expected to rise and be in the 3.00 per cent to 4.00 per cent range, while the five-year posted mortgage rate is forecasted to be within 5.00 per cent to 5.75 per cent, consistent with higher employment and economic growth prospects in 2013.

Demographic trends continue to have influence

For the past several years in the Saguenay area, the strong labour market has been helping to reduce the migration deficit, which has decreased from -972 in 2006 to -200 in 2011 and is expected to decline further to -100 in 2013. Demand for rental housing will also be supported by

Figure 2



Source: Statistics Canada
f: Forecasts

² According to the Quebec Forest Industry Council (QFIC), Le Quotidien, October 3, 2012.

³ According to the committee to maximize regional economic spinoffs, Le Quotidien, July 19, 2012.

young people, who are tending to stay in the area more than before. In the longer term, young people will also fuel demand on the resale and new home markets.

Incidentally, according to the latest census data, the Saguenay CMA population grew by 1 per cent between 2006 and 2011. This was an improvement, as the change had been -2.1 per cent between 2001 and 2006. The increase in net migration may have contributed to this demographic upturn.

In addition, the aging of the population is inevitable, and its effects of which are being felt slowly, but surely. Among other impacts, this aging trend is generating stronger growth in the number of households aged 55 or older, some of whom see their housing needs change and may find an apartment more suitable. More specifically, the growth in the population aged 75 or older will remain modest from now until 2015, which will limit the potential increase in demand in the retirement home segment. Subsequently, it goes without saying that the demand will rise, as members of the baby boomer cohort gradually reach this age. In short, all of these demographic factors already support the housing market, and they will continue to do so.

In sum, the growth in net migration (current and future) will stimulate the demand for housing, particularly rental dwellings. Even though the major impacts of the aging of the population will be felt only later on, we can already see some signs, such as the construction of retirement housing projects.

Resale market activity expected to pick up gradually

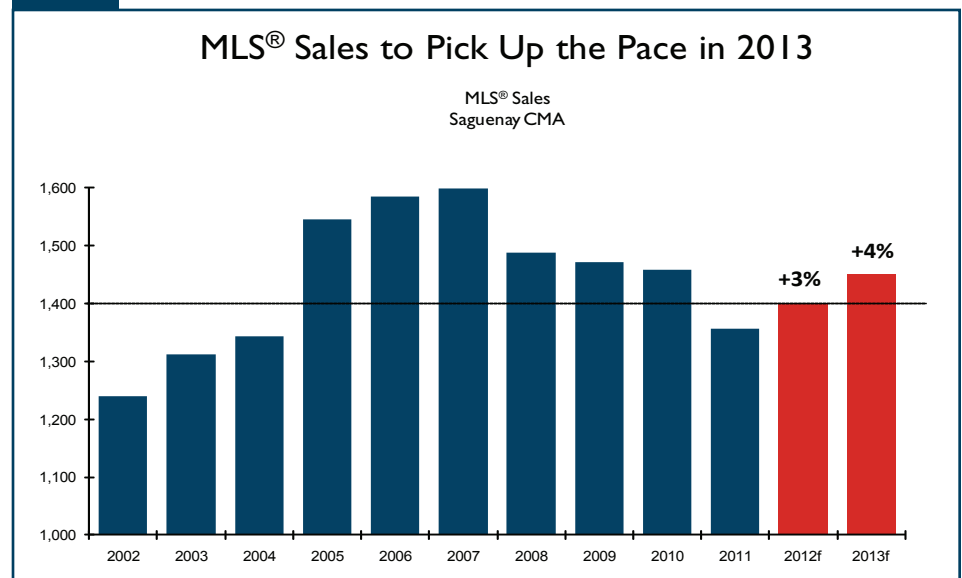
The volume of existing home sales will rise by 3 per cent in 2012, to 1,400 MLS® transactions, and then by 4 per cent in 2013, to 1,450 MLS® transactions. This increase will allow 2012 to make up for 2011, which was a rather slow year. After a pause, resale market activity will resume a more regular pace. The strong labour market combined with the demographic changes noted above will help stimulate demand on the resale market in 2013.

Overall, the existing home market remains favourable to sellers. It is estimated that the listings-to-sales ratio⁴ was 6.7 to 1, on average, for the period from January to September 2012. When the ratio is below 8 to 1, sellers have the edge, and this

more easily leads to price increases. As a result, prices are expected to climb by 6 per cent in 2012. In 2013, market conditions will tighten slightly, as demand should grow a little more than supply. Still, a gradual rise in mortgage interest rates will contribute to moderating the growth in prices on the resale market. In sum, the price increase should reach 4 per cent in 2013, a rate still above inflation, which usually hovers around 2 per cent. Consequently, the average MLS® price of residential properties will rise to \$190,000 in 2012 and then to \$198,000 in 2013.

It should be noted that market conditions remain favourable to sellers in the single-family home and plex segments while, in the condominium segment, they rather favour buyers. These conditions should stay essentially the same in 2013, although they might tighten slightly for single-family homes.

Figure 3



Source: QFREB by Centris®
f: Forecasts

⁴ This ratio is obtained by dividing the number of active listings by the average number of monthly transactions.

Residential construction to cool down in 2013

On the new home market, 1,100 housing starts are forecast for this year. This peak—not seen since 1990—will be reached thanks in part to the addition of several new apartment buildings. While several factors will continue to stimulate activity on the new home market in 2013, the pace will be more moderate, as starts are expected to attain 850 units, which is still a relatively high level compared to recent years.

For the past few years in the area, the traditional rental market (not targeted to any specific client group) has remained tight. According to the results of CMHC's annual survey, the vacancy rate was 1.4 per cent in October 2011. It is therefore not surprising to see that, in all, over 400 new rental housing units are expected in 2012 (a gain of more than 75 per cent compared to 2011), be they publicly or privately initiated, intended exclusively for seniors or not.

Demand on the traditional rental market is bound to stay strong as a result of the impact of the fundamentals (demographic and economic), which will promote continued construction in this segment. The retirement home market will be heading in a totally different direction. Many units have been added to the Saguenay housing stock in the last few years. For this reason, and on account of a slowdown in demand resulting from the current demographic conditions, the vacancy rate for standard spaces in apartment retirement homes jumped from 3.8 per cent in February 2011 up to 19.3 per cent a year later. While new

buildings are only included in the survey a year after their completion, many dwellings have still not found takers, and it will take some time before the market can absorb all the new units. In the end, more than 200 rental housing units, for all segments combined, are expected to be started in 2013.

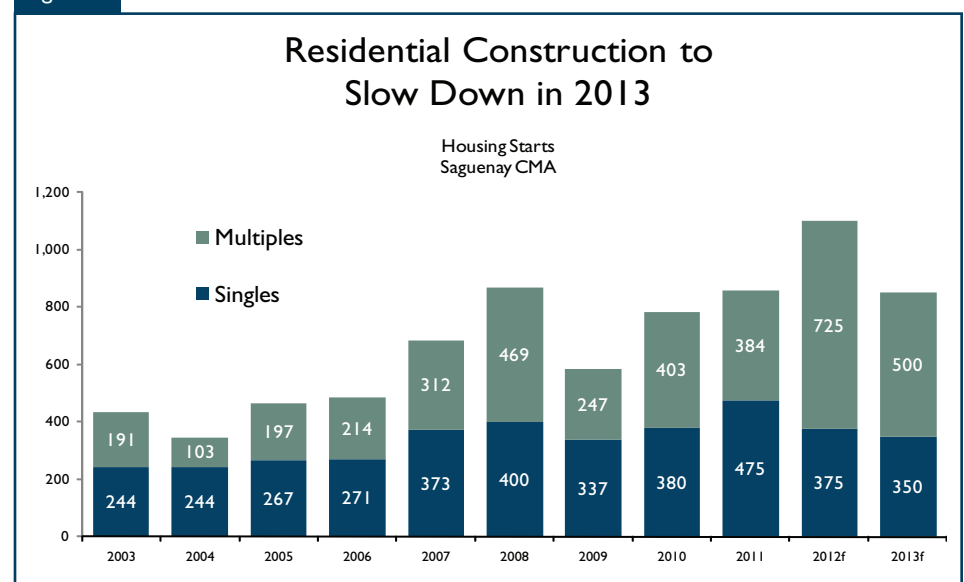
As well, it is anticipated that foundations will be laid for 375 single-detached houses in 2012, compared to 475 in 2011, for a drop of 21 per cent. In 2013, such starts should then fall by nearly 7 per cent, to 350 units.

While the higher net migration and the economic environment are supporting demand from younger households, there are fewer and fewer such households in the area on account of the aging of the population. In addition, the net effect of the decrease in interest rates is waning, and a gradual rise in these rates is anticipated toward the end of 2013,

which will likely reduce the flexibility for households to buy more expensive properties. Then, the more moderate growth in prices for existing homes will narrow the gap with new homes and contribute to slowing the demand for new housing.

Lastly, in order to adjust to the market, households can also opt for other housing types that are smaller and therefore potentially less expensive, namely, including semi-detached homes. This housing type is progressively gaining popularity in the Saguenay area, just like in several other metropolitan areas across Quebec. It is estimated that such houses accounted for 9 per cent of the freehold homes started in the Saguenay area in 2000, compared to 32 per cent in 2012 (January to September). In all, starts of multi-unit freehold housing⁵ should reach 275 units in 2012 and fall to 250 units in 2013, on account of the same factors as for single-detached houses.

Figure 4



Source: CMHC
f: Forecasts

⁵ Freehold homes refer to dwellings where the owner also holds the title of ownership to the land (single-detached, semi-detached and row houses, as well as duplexes).

As for condominium construction, starts will pick up slightly in 2012, with 40 new units, but then fall back to their level of recent years, that is, 30 units. The existing condominium market is favourable to buyers, which usually means that they have sufficient choice and will be less likely to turn to the new home market. Lastly, condominiums are not as popular in the Saguenay CMA as they might be in the Québec or Montréal areas, where they respectively account for 38 per cent and 57 per cent of all new dwellings started in 2012 (January to September). Still, it should be noted that developers are increasingly offering this type of housing in Saguenay. For example, no condominiums were added to housing stock in the area between 1995 and 2003, while such units represent 4 per cent of the homes started so far in 2012.

Rental market easing

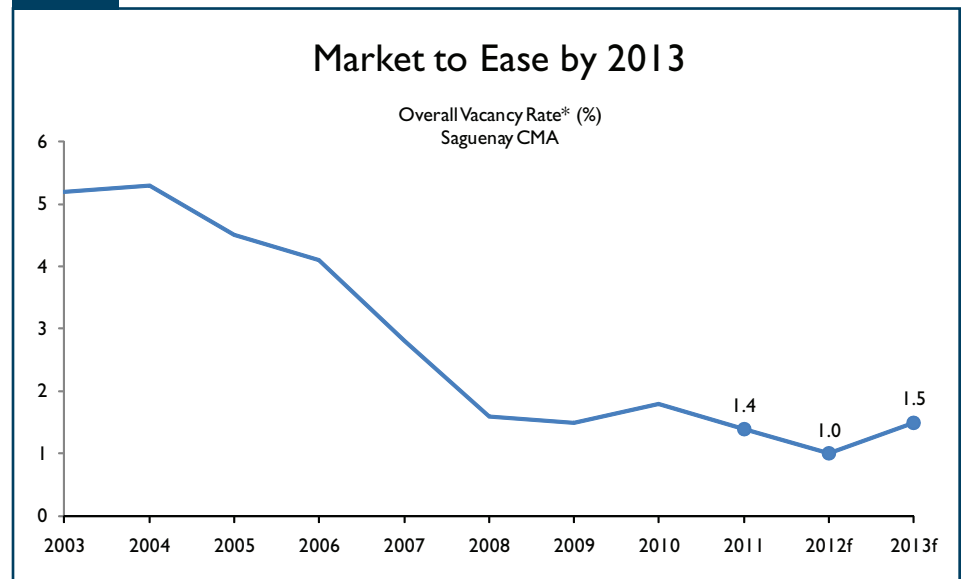
With the increase in net migration, the recent strength of the labour market and the aging of the population, demand remains vigorous on the Saguenay area rental market. Rental housing starts have in fact been

on the rise for the past few years.

Consequently, as the newly completed units will be absorbed, rental market conditions will ease, leading to an increase in the vacancy rate. This will be further reflected in the results of the October 2013 survey. The vacancy rate is therefore expected to rise from 1 per cent in October 2012 to 1.5 per cent next later.

Still, it should be noted that, in the event that the units under construction are put to market earlier than expected, the effects on market conditions may be felt sooner. Several buildings that were under construction were completed during the summer, which could keep market conditions stable or even cause them to ease before 2013.

Figure 5



Source: CMHC

f: Forecasts

*: Privately Initiated Structures of Three or More Apartments (excluding seniors' housing units)

Trends, transitions and new realities

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Forecast Summary Saguenay CMA Fall 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	1,472	1,459	1,357	1,400	3.2	1,450	3.6
MLS® Active Listings	746	713	751	770	2.5	770	0.0
MLS® Average Price (\$)	151,911	168,283	178,951	190,000	6.2	198,000	4.2
New Home Market							
Starts:							
Single-Detached	337	380	475	375	-21.1	350	-6.7
Multiples	247	403	384	725	88.8	500	-31.0
Starts - Total	584	783	859	1,100	28.1	850	-22.7
Average Price (\$):							
Single-Detached	193,687	192,705	203,165	220,000	8.3	225,000	2.3
New Housing Price Index (% chg) (Que.)	3.1	3.1	2.6	n. a.	-	n. a.	-
Rental Market							
October Vacancy Rate (%)	1.5	1.8	1.4	1.0	-	1.5	-
Two-bedroom Average Rent (October) (\$)	518	535	557	570	-	580	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	70,400	69,500	68,000	71,000	4.4	71,000	0.0
Employment Growth (%)	0.9	-1.3	-2.2	4.4	-	0.0	-
Unemployment rate (%)	8.7	8.1	7.0	6.5	-	7.0	-
Net Migration	-397	-195	-200	-150	-25.0	-100	-33.3

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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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