

HOUSING MARKET OUTLOOK

Trois-Rivières CMA



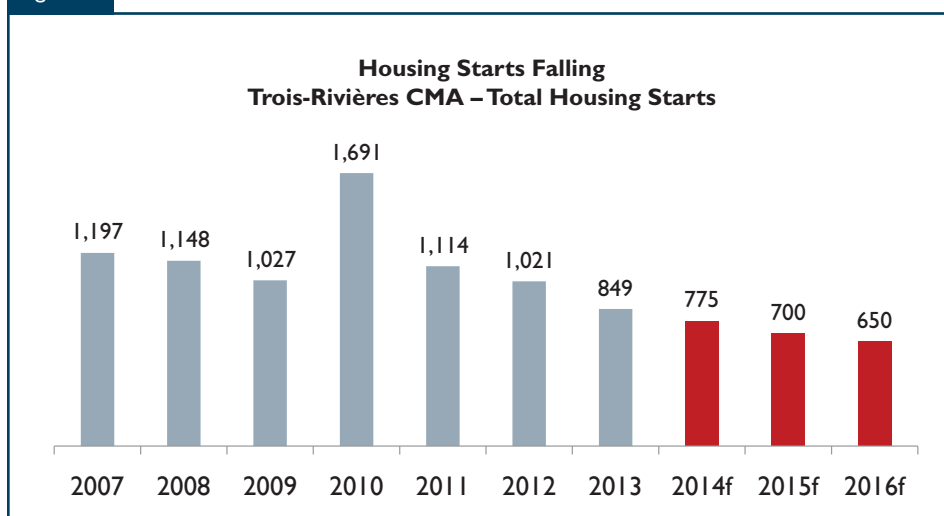
CANADA MORTGAGE AND HOUSING CORPORATION

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Highlights

- Overall, the economic and demographic environment will be moderately supportive of housing demand in the Trois-Rivières census metropolitan area (CMA).
- Resale market conditions will ease further.
- Existing home prices will register modest increases.
- Housing starts will fall in 2014 (-9 per cent), 2015 (-10 per cent) and 2016 (7 per cent).

Figure 1



Source: CMHC f: CMHC forecasts

The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents risks where appropriate. The forecasts and historical data included in this document reflect information available as of October 22, 2014.

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New home market: downward trend to continue

In the Trois-Rivières CMA, housing starts will continue to slow down. The high inventories of existing properties for sale will curb demand for new housing. In addition, the anticipated small increase in mortgage rates, combined with the tighter borrowing conditions, will contribute to limiting the movement to homeownership, already made more difficult by the significant property price hikes registered in recent years. As well, with the proportion of unoccupied rental housing units having been higher for some time now, production of such dwellings will slow down. This decline in rental housing construction will largely account for the decrease in activity expected over the coming years in the Trois-Rivières area.

Single-detached home construction, which has been on a downward trend for some time now, will continue to slow down over the next two years. Starts of semi-detached and row houses, for their part, will remain relatively stable until 2016. As for condominium construction, activity has picked up in recent years in the Trois-Rivières area and will remain strong. Annual condominium starts will double to 150 units in 2014 and then stay at that level until 2016. In this regard, the Trois-Rivières CMA in fact stands out from the other CMAs in the province, where condominium construction is slowing down. This housing type meets the needs of increasingly aging clients, among others. It can therefore be expected that condominium demand will grow over the coming years. Lastly, limited

by softer market conditions, rental housing construction will slow down.

In all, 775 housing starts should be recorded in 2014 (-9 per cent), 700 in 2015 (-10 per cent and then 650 in 2016 (-7 per cent). Starts volumes will now be below the levels recorded over the past decade (1,000 units annually, on average), which stood out with significant residential construction. Expected volumes will thus become progressively more in line with household formation levels in the CMA over the coming years, which should hover between 500 and 600 households.

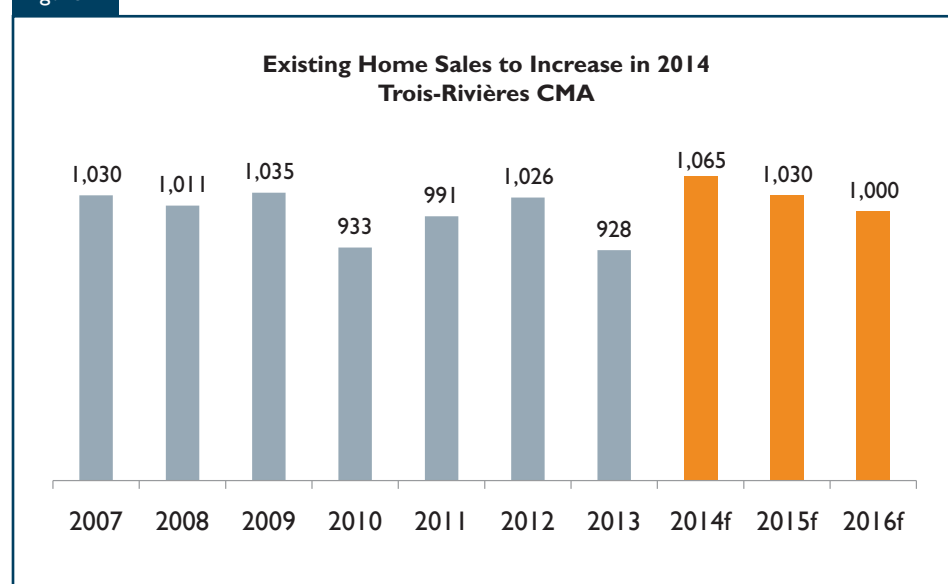
Existing home market: conditions now favourable to buyers

The modest recovery of the job market, combined with the wider choice of homes for sale, will boost activity on the resale market to some extent. However, the anticipated

increase in mortgage rates, along with the slowdown in the movement to homeownership and a smaller pool of first-time homebuyers (young households), will offset this stronger activity. Consequently, following a decline in 2013, Centris® sales will rise in 2014, before falling slightly in 2015 and 2016. Despite these small decreases, anticipated transaction levels will remain historically high. Overall, 1,065 residential properties will change hands in 2014 (+15 per cent), 1,030 in 2015 (-3 per cent) and 1,025 in 2016 (-0,5 per cent).

On the supply side, the upward trend that began some time ago will continue, allowing market conditions to ease further. This easing movement will however slow down in 2014, as a result of strong sales, before picking up again in 2015 and 2016. After having hovered within the balanced range¹ for the past two years, the seller-to-buyer ratio will favour buyers in 2015 and 2016. The continued

Figure 2



Source: QFREB by Centris® f: CMHC forecasts

¹ The balanced range is between 8 and 10 sellers per buyer, indicating a market where neither sellers nor buyers are favoured.

increase in the listing periods will reflect this less tight relationship between sellers and buyers. Already, it takes about 100 days to close a sale (some 30 more than a year ago).

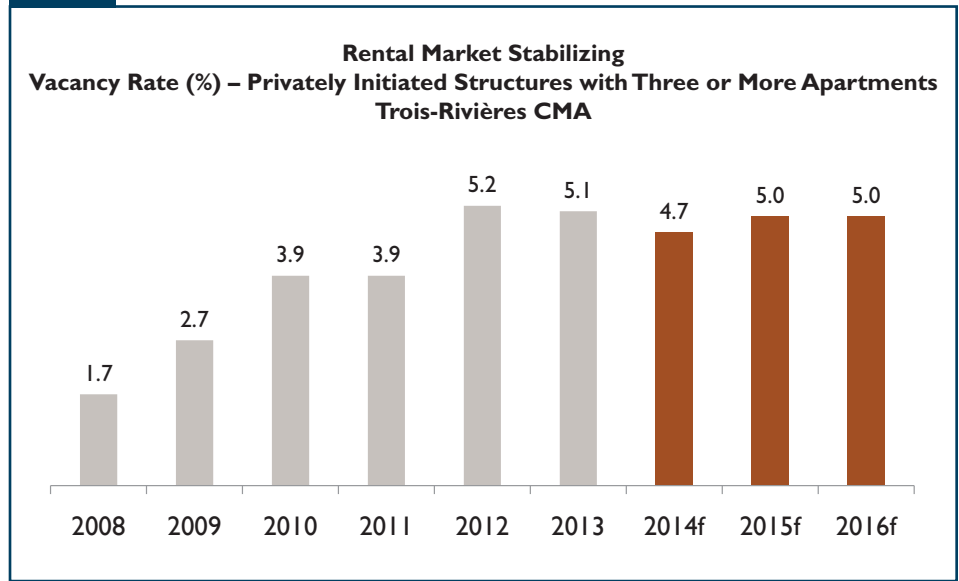
The softer market conditions will lessen the upward pressure on prices, and the increases will be more modest. In the Trois-Rivières CMA, the average price of homes will therefore reach \$165,000 in 2014 (+4.0 per cent), \$169,000 in 2015 (+2.4 per cent) and then \$171,500 in 2016 (+1.5 per cent).

Rental market: vacancy rate to remain relatively stable

Market conditions, which have eased in recent years, will remain relatively stable. The combined effect of the job market recovery and steady migration will support demand. As for supply, the slower pace of rental housing construction will bring starts back down to levels more in line with this demand. As a result, from now until 2016, the vacancy rate will hover around 5 per cent in the Trois-Rivières area. Notwithstanding this stability, it should be noted that market conditions will remain softer. This situation contrasts with the conditions that were prevailing in the area just a few years ago, as evidenced by the fact that the vacancy rate has almost doubled since 2009.

These less tight conditions will ease the upward pressure on rents, which will rise less significantly. In the Trois-Rivières area, the average rent for two-bedroom apartments will therefore reach \$560 in 2014, \$565 in 2015 and \$570 in 2016.

Figure 3



Source: CMHC f: CMHC forecasts

Economic trends: job market to pick up modestly

The job market will gradually pick up again. After two difficult years, the Trois-Rivières area economy, which is already showing signs of improvement, will post some strength. Employment is therefore expected to grow this year as well as in 2015 and 2016. However, this growth will remain moderate, as the number of positions expected by 2015 will just barely bring employment back up to the 2011 level, which was around 69,600 jobs.

The improving global economic environment will help support the job market in the area. In addition, the depreciation of the Canadian dollar against the U.S. dollar, which is creating favourable conditions for a number of companies, will give a boost to the manufacturing sector. This support will surely be well received, as the manufacturing sector in the CMA has in fact been adversely affected and on the decline for

nearly ten years. Combined with the recovery in residential construction in the United States (the largest trading partner of the manufacturing companies in Trois-Rivières), these conditions will certainly stimulate exports. As well, the service sector will be able to count on the opening of two call centres for the Desjardins financial institution, which will require the hiring of more than 400 people. This positive news will make up for other less encouraging factors, including the anticipated slowdown in the construction sector, as a result of from the decrease in starts in the area, which will continue through to the end of the forecast horizon and affect the finance, insurance and real estate sector along the way.

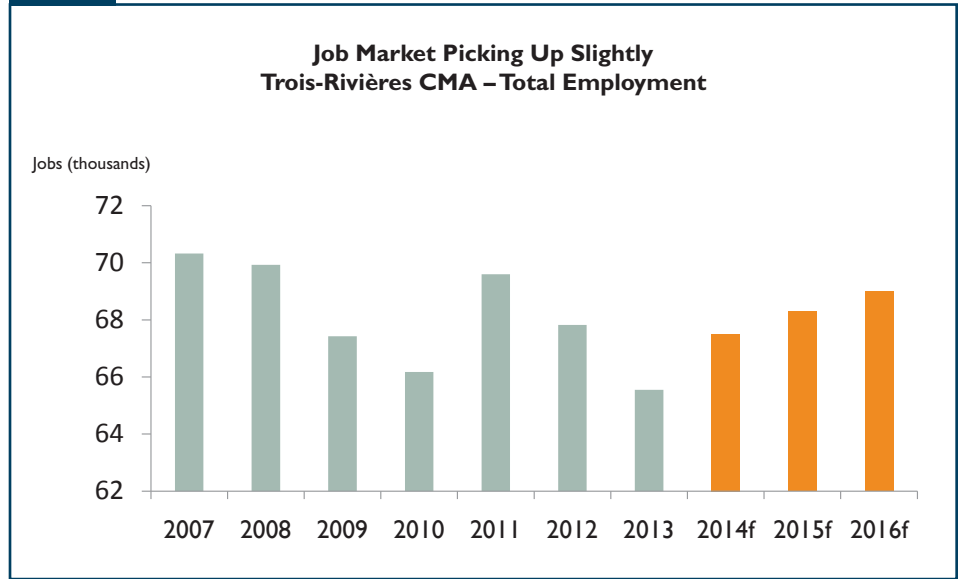
Employment should therefore grow by 3.0 per cent in 2014, by 1.2 per cent in 2015 and by 1.0 per cent in 2016. Although moderate, the job market recovery will be most welcome after some difficult years marked by company closures and job losses. It should be recalled

that the decommissioning of the Gentilly nuclear generating station and the more recent closure of the Resolute Forest Products Laurentide mill in Shawinigan resulted in the loss of hundreds of quality jobs, demonstrating the vulnerability of the regional economy. As well, the positive effects of the diversification fund of nearly \$200 million, established in response to the closure of the Gentilly-2 generating station, will be felt over the coming years and help attenuate the negative effects of the layoffs.

This modest economic recovery will contribute to maintaining the net migration level, making the area more attractive to newcomers as well as to the labour force from outside the area. Still, even with this recovery, job market conditions will remain shaky and the unemployment rate will stay high. On the whole, young people will continue to leave the area, while more and more retirees will come back to settle there, contributing to the aging of the Trois-Rivières population. Over the coming years, housing demand will therefore be progressively shaped by this client group.

Overall, the economic and demographic environment will not be very supportive of housing demand in the Trois-Rivières area in 2014, 2015 and 2016. In the medium and long term, the area's growth and economic development will depend on its ability to diversify its economy.

Figure 4



Source: Statistics Canada f: CMHC forecasts

Mortgage rates are expected to remain unchanged until the latter months of 2015

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to remain unchanged until the latter parts of 2015 and then begin to increase gradually. Gradual increases in mortgage rates from historic lows are not expected to significantly impact housing demand.

According to CMHC's base case scenario for 2014, CMHC expects the one-year mortgage rate to be in the 3.00 to 3.25 per cent range, while the five-year rate is forecast to be within the 5.00 to

5.50 per cent range. For 2015, the one-year mortgage rate is expected to be in the 3.20 to 4.00 per cent range, while the five-year rate is forecast to be within the 5.25 to 6.00 per cent range. For 2016, the one-year mortgage rate is expected to be in the 3.70 to 4.60 per cent range, while the five-year rate is forecast to be within the 5.55 to 6.45 per cent range.

Trends at a glance

| Key Factors and their Effects on Housing Starts | |
|---|---|
| Mortgage Rates | Mortgage rates will remain low by historical standards and will continue to support housing demand. |
| Employment | After two difficult years, the job market will show renewed growth in 2014, 2015 and 2016. Job creation should however be modest. |
| Income | Average weekly earnings increased at a higher rate than inflation in the Trois-Rivières CMA, which will support homeownership. |
| Population | The modest recovery of the job market will contribute to maintaining net migration, which will however remain slightly below the levels registered over the past decade and be less supportive of the residential real estate market. |
| Resale Market | The supply of existing properties will be more abundant, which will limit activity on the new home market. |
| Other (economy) | The closure of the Gentilly-2 nuclear generating station will result in numerous layoffs, spread out over several years, which will curb employment growth in the area. |

Forecast risks

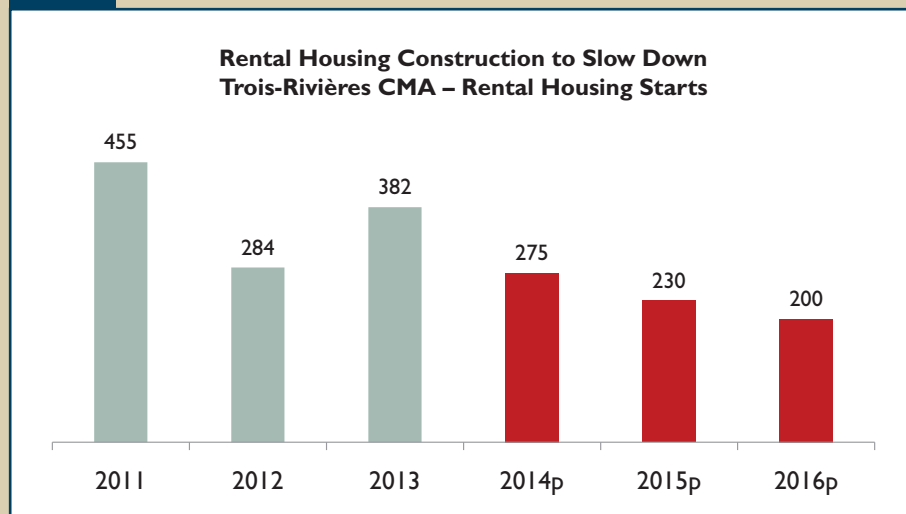
- If the economic recovery in the United States were to be less robust than expected, this would affect the local economy. Job market growth could then be weaker than anticipated. Such a situation would further limit housing demand over the next two years.
- The positive effect on the local economy of the diversification fund established in response to the closure of the Gentilly-2 nuclear generating station could be less significant than anticipated. This would limit potential job market growth.
- A greater-than-expected increase in the number of properties for sale on the resale market could cause market conditions to ease much more significantly.

Spotlight on...

Fewer rental housing starts

Rental housing construction will slow down. After almost ten years characterized by relatively strong activity, starts will decline significantly in 2014 (-28 per cent). Following this adjustment, more moderate decreases are expected in 2015 (16 per cent) and 2016 (-13 per cent). As a result, the anticipated levels of starts will contrast with the volumes registered in previous years. A real driving force behind residential construction, rental dwellings represented, until just recently, nearly half of all new homes started in the area. The particularly tight situation on the rental market, where few units were vacant, was then stimulating

Figure 5



Source: CMHC f: CMHC forecasts

construction. The environment has changed, however, and market conditions have eased, as evidenced by the fact that the vacancy rate

reached 5.1 per cent in 2013 (compared to just 1.7 per cent in 2008).

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| Forecast Summary Trois-Rivières CMA Fall 2014 | | | | | | | | | |
|---|---------|---------|---------|-------------|-------|-------------|-------|-------------|-------|
| | 2011 | 2012 | 2013 | 2014(F) | % chg | 2015(F) | % chg | 2016(F) | % chg |
| New Home Market | | | | | | | | | |
| Starts: | | | | | | | | | |
| Single-Detached | 335 | 305 | 243 | 225 | -7.4 | 220 | -2.2 | 210 | -4.5 |
| Multiples | 779 | 716 | 606 | 550 | -9.2 | 480 | -12.7 | 440 | -8.3 |
| Starts - Total | 1,114 | 1,021 | 849 | 775 | -8.7 | 700 | -9.7 | 650 | -7.1 |
| Average Price (\$): | | | | | | | | | |
| Single-Detached | 218,822 | 215,261 | 214,804 | 215,500 | 0.3 | 216,000 | 0.2 | 216,500 | 0.2 |
| Resale Market¹ | | | | | | | | | |
| Centris [®] Sales | 991 | 1,026 | 928 | 1,065 | 14.8 | 1,030 | -3.3 | 1,025 | -0.5 |
| Centris [®] New Listings | 1,663 | 1,782 | 1,767 | 1,825 | 3.3 | 1,865 | 2.2 | 1,890 | 1.3 |
| Centris [®] Active Listings | 679 | 727 | 838 | 900 | 7.4 | 945 | 5.0 | 975 | 3.2 |
| Centris [®] Average Price (\$) | 156,197 | 154,558 | 158,582 | 165,000 | 4.0 | 169,000 | 2.4 | 171,500 | 1.5 |
| Rental Market² | | | | | | | | | |
| October Vacancy Rate (%) | 3.9 | 5.2 | 5.1 | 4.7 | -0.4 | 5.0 | 0.3 | 5.0 | 0.0 |
| Two-bedroom Average Rent (October) (\$) | 547 | 550 | 555 | 560 | 0.9 | 565 | 0.9 | 570 | 0.9 |
| Economic Overview | | | | | | | | | |
| Mortgage Rate (1 year) (%) | 3.52 | 3.17 | 3.08 | 3.00 - 3.25 | - | 3.20 - 4.00 | - | 3.70 - 4.60 | - |
| Mortgage Rate (5 year) (%) | 5.37 | 5.27 | 5.24 | 5.00 - 5.50 | - | 5.25 - 6.00 | - | 5.55 - 6.45 | - |
| Annual Employment Level | 69,600 | 67,800 | 65,500 | 67,500 | 3.1 | 68,300 | 1.2 | 69,000 | 1.0 |
| Employment Growth (%) | 5.1 | -2.6 | -3.4 | 3.1 | - | 1.2 | - | 1.0 | - |
| Unemployment rate (%) | 8.7 | 7.9 | 8.5 | 8.4 | - | 8.4 | - | 8.4 | - |
| Net Migration | 1,284 | 1,108 | 1,087 | 1,100 | 1.2 | 1,000 | -9.1 | 1,000 | 0.0 |

¹The Centris[®] system contains all the listings of Québec real estate brokers.

²Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), Centris[®] Statistics. CMHC Forecast (2014-2016)

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

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:

The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:

The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:

Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:

Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:

Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:

Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:

Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:

Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October **Rental Market Survey** (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:

The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:

The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:

Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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