

HOUSING MARKET OUTLOOK

Saguenay CMA



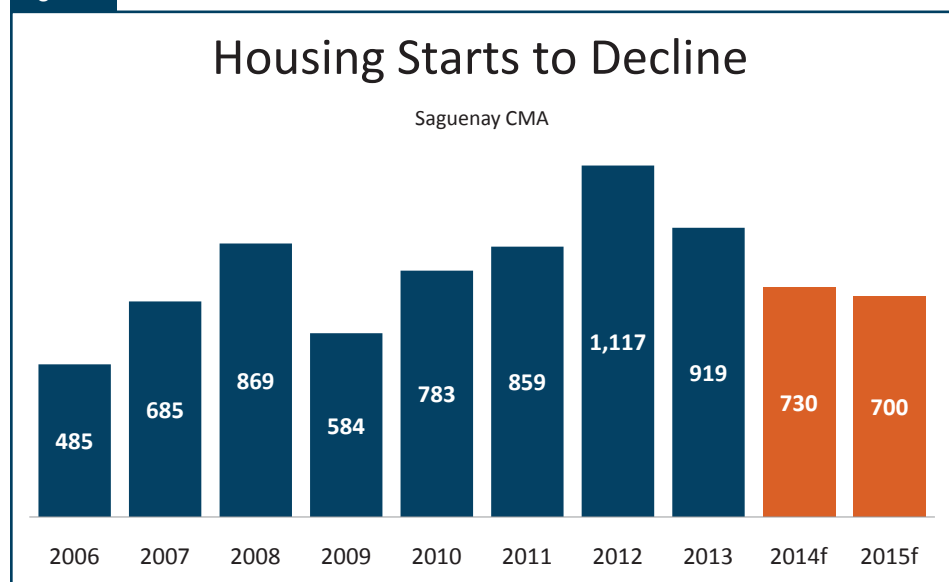
CANADA MORTGAGE AND HOUSING CORPORATION

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Highlights

- Centris® sales of residential properties in the Saguenay census metropolitan area (CMA) will fall slightly in 2014 and 2015.
- Existing home prices will register small decreases.
- Housing starts will reach lower levels than in the past.
- The rental market will ease.

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 April 30, 2014.

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New home market: residential construction to cool down

Housing starts in the Saguenay area will continue to decrease in 2014 (-21 per cent) and 2015 (-4 per cent). The weaker job market and population growth and, especially, the ever-increasing choice of properties for sale will outweigh the impact of the still attractive financing conditions and cause residential construction to decline. Given this environment, builders will have to adjust to a lower demand than in recent years.

New housing activity has been very significant in the last four years. In 2012, housing starts surged to 1,117 units, a level not seen since 1990. Then, starts began to decrease, in line with demographic needs. The pace of residential construction should continue on this downward trend, with the expected addition of 730 units this year and 700, in 2015. These levels will be close to the average for the last 10 years.¹ Demand for new housing is currently weaker than in recent years. On the resale market, buyers have choice and can negotiate, such that fewer of them are opting for new homes.

In the case of single-detached houses, foundations will be laid for 300 units in 2014 and 2015, down by 11 per cent from the 337 new units enumerated in 2013. The greater choice on the resale market and the price increases in recent years are playing a key role in the decrease in activity in this segment. In addition, the

decline in employment recorded in 2013 will have a delayed effect and will also limit housing demand.

Among the freehold homes,² it should be noted that the multi-unit housing types will not escape the downward trend in 2014 and 2015. In order to adjust to the market, households can opt for other kinds of dwellings that are smaller and therefore potentially less expensive, such as 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 3 per cent of the freehold homes started in the Saguenay area in 2009, compared to 31 per cent in 2013. However, given the increase in supply in recent years, multi-unit freehold home starts will decrease from 593 units in 2013 to close to 475 in 2014 and then to 425 in 2015.

As well, the start of construction on some new condominium units in the first months of 2014 suggests the presence of a certain demand for housing of this type in the area. However, the abundant supply on the existing condominium market, where conditions favour buyers, will reduce the need for new units. Starts will therefore fall to 30 units in 2014 and then edge up to 35 units in 2015.

Rental housing construction picked up in recent years. The increase in supply particularly contributed to pushing up the vacancy rate last year, as this rate rose from 2.0 per cent in October 2012 to 2.8 per cent

a year later. Given the many units under construction at the beginning of 2014, market conditions will ease further. The rise in supply will prompt developers to reduce their starts to 225 units in 2014 and then to 215 units in 2015.

Existing home market: conditions to become favourable to buyers

Stagnant income and employment levels, combined with the considerable increase in home prices, are factors that can partly explain the slowdown of the Saguenay area housing market last year. Also, the latest tightening of the mortgage rules in July 2012 limited the number of buyers on the resale market. This year, the existing home market will continue to decline, on account of a number of factors including weaker job market conditions and fewer new households. Centris® sales fell by nearly 5 per cent year over year in the first quarter.

We forecast that Centris® sales will decrease by 7 per cent in 2014 compared to 2013, and reach 1,100 transactions. The resale market will benefit from continued historically low mortgage rates; however, the decline in full-time jobs in recent quarters will weaken demand. Other factors will possibly limit sales on the market. In fact, the growth in prices during the previous decade lowered affordability, particularly for first-time homebuyers, whose ability to buy was also reduced by the changes made to the mortgage rules.

¹ The annual average level of housing starts in the Saguenay CMA for the period from 2004 to 2013 was 711 units.

² 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).

Overall, the existing home market is now favourable to buyers. The listings-to-sales ratio was estimated at 13 to 1, on average, for the period from January to March 2014. When this ratio is above 10 to 1, the advantage tends to shift over to buyers, which lessens the upward pressure on prices. This easing of the market also resulted in longer listing periods. Conditions should continue to favour buyers over the forecast horizon, given the still large supply of properties for sale.

The increase in listings and decrease in sales will affect prices in the CMA. After rising by 3.6 per cent in 2013, the average Centris® price will fall by 1.7 per cent this year, to \$189,000.

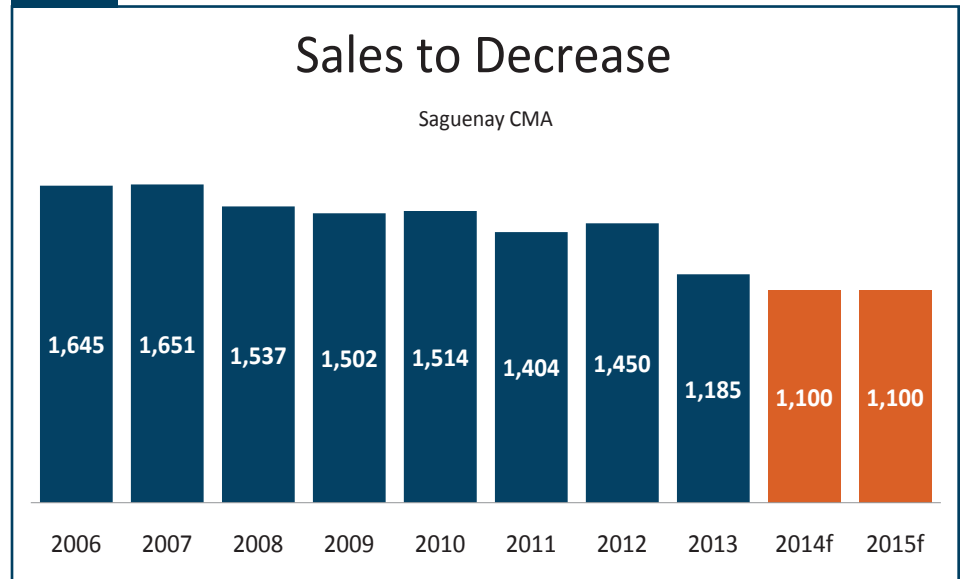
In 2015, sales will remain stable, at 1,100 transactions. With a buyer's market still in place, the average Centris® price will decrease by 2 per cent, to \$185,000.

Rental market: conditions to ease

According to the Rental Market Survey conducted in October 2013, the rental housing vacancy rate then stood at 2.8 per cent in the Saguenay CMA. In 2014 and 2015, this rate should rise slightly and reach 3.0 per cent and 3.2 per cent, respectively.

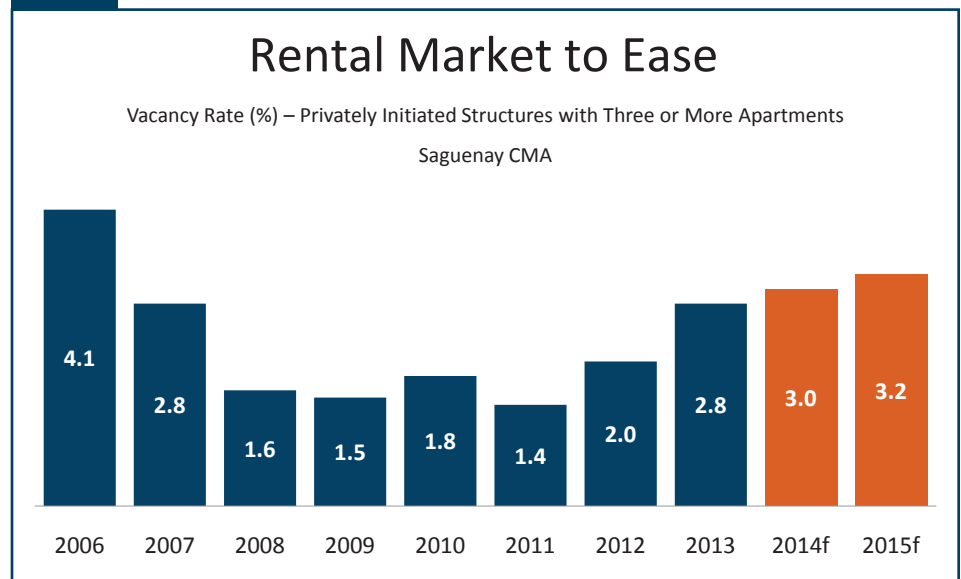
Over the next two years, demand should be down somewhat. Expected net migration levels, which will be lower than in past years, will cause rental housing demand to decrease. It is a known fact that newcomers and young people are major players on the rental market. However, the slowdown in the movement to homeownership will partially make up for the drop in demand caused by the decline in migration.

Figure 2



Source: CMHC f: CMHC forecasts

Figure 3



Source: CMHC f: CMHC forecasts

In response to these conditions, the production of housing, which has already begun a downward trend, will slow down further in 2014 and 2015.

The average rent for two-bedroom apartments will rise from \$571 in 2013 to \$590 in 2014 and then to

\$610 in 2015. Several factors will contribute to the increase in the average rent in the Saguenay area: rental market conditions that remain, all in all, relatively tight and the addition to the housing stock of new units, for which the rents are higher.

Economic trends: employment to decline and then pick up again slightly

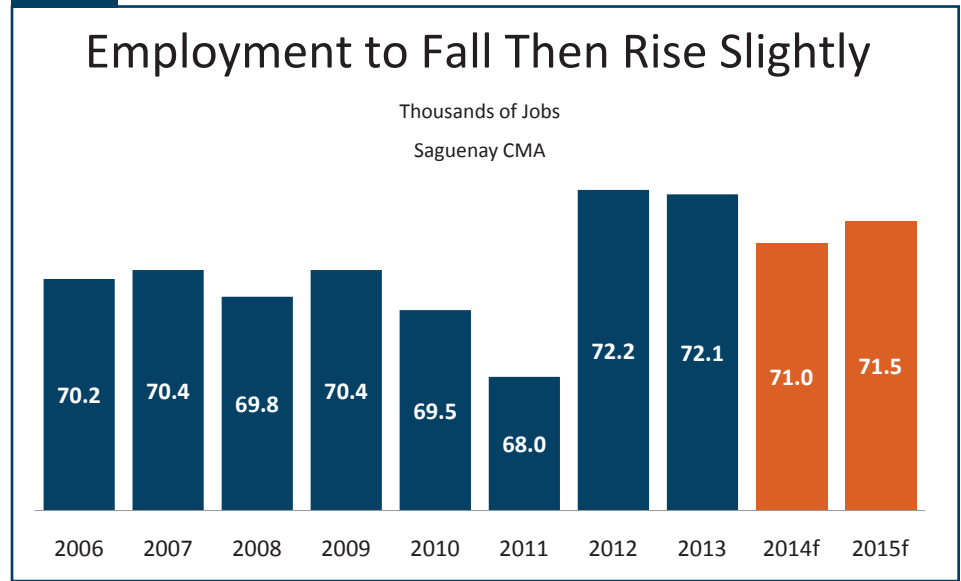
We forecast that the Saguenay CMA will register a decline in employment this year, which will dampen housing demand. Employment should fall by 1.5 per cent in 2014 and then rise by 0.7 per cent in 2015.

The job market slowed down in the area after having reached a peak in 2012. In the first quarter of 2014, the monthly seasonally adjusted employment rate reached its lowest level in two years.

Employment and activity decreased, while unemployment increased. Job losses were registered especially in the manufacturing and public administration sectors. Employment should decline again and reach 71,000 jobs in 2014. This decrease is expected, as major construction projects will not be getting under way as planned. It is known that major projects set the pace for the regional economy by contributing to employment gains in construction as well as in professional services, such as consulting engineering.

Several projects are currently on hold, pending a stronger global economic recovery and investment confirmations. For example, companies in the aluminum sector will be facing difficult market conditions on account of the increase in inventories and the decrease in the price of this metal in recent months. As well, the Institut de la statistique du Québec forecasts a 5-per-cent drop in investments in the primary metal

Figure 4



Source: Statistics Canada f: CMHC forecasts

processing sector, which will have a negative impact on employment.

In addition, the slowdown of the resale market is darkening the outlook for the finance, insurance and real estate sector, while the completion of some large projects is limiting the growth prospects in the construction industry. As a result, employment in this industry should stay on a downward trend. Lastly, the restrictions in the public sector will limit employment growth in administration.

For 2015, a slight recovery is expected, and employment should reach 71,500 jobs. The health and social services sector should keep growing on account of the aging of the population. Also, tourism should continue to be a good stimulus for the regional economy, and work on the hydroelectric complex, mining exploration projects and the

construction of a wind farm should support employment to a certain extent.

For several years, the strong labour market helped to reduce the migration deficit in the Saguenay area. Given the decrease in employment anticipated this year, few gains are expected in terms of demographic growth. In fact, net migration should decline, as more young people leave in search of employment opportunities.

From a longer-term perspective, the slowing trend in household formation will continue. Characteristic of the area, household formation is negative for the youngest households but positive for older households (65 years or over). This trend will intensify over the coming years and increasingly guide construction toward housing types better suited to an aging population, such as rental and condominium dwellings.

Mortgage rates to see gradual and modest increases by the end of 2015, but will remain low by historical standards

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to register gradual and modest increases by the latter part of the 2015 forecast horizon. This will lead to increases in mortgage rates. Despite this, mortgage rates will remain low and will continue to support housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2014, the average for the one-year posted mortgage rate is forecast to be within 3.0 per cent to 3.50 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.0 per cent to 5.5 per cent. For 2015, the average for the one-year posted mortgage rate is expected to rise and be in the 3.20 per cent to 4.25 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.0 per cent.

Trends at a glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will remain low by historical standards and supportive of housing demand.
Employment	This year and next, the labour market will be less dynamic, which will dampen the overall housing demand.
Income	Average weekly earnings rose at the same rate as inflation in the Saguenay CMA. The real income of workers therefore remained stable, which slightly limited access to homeownership.
Population	The area will show some losses in terms of net migration. This will somewhat moderate housing demand in the CMA, especially on the rental market.
Resale Market	The broad choice of properties for sale will favour the existing home market, to the detriment of the new home market.

Forecast risks

- Employment growth could be greater than expected, if certain major capital projects currently on hold are carried out. If employment is further boosted, this will result in a stronger-than-expected housing demand.
- Higher migration would stimulate demand for housing, particularly rental dwellings. Conversely, strong rental housing construction would accelerate the easing of the rental market.

Forecast Summary Saguenay CMA Spring 2014							
	2011	2012	2013	2014f	% chg	2015f	% chg
New Home Market							
Starts:							
Single-Detached	475	400	337	300	-11.0	300	0.0
Multiples	384	717	582	430	-26.1	400	-7.0
Starts - Total	859	1,117	919	730	-20.6	700	-4.1
Average Price (\$):							
Single-Detached	203,165	221,202	238,036	242,000	1.7	245,000	1.2
Median Price (\$):							
Single-Detached	180,000	200,000	225,000	235,000	4.4	240,000	2.1
New Housing Price Index (% chg) (Que.)	2.6	1.7	1.0	n.a.	-	n.a.	-
Resale Market¹							
Centris [®] Sales	1,404	1,450	1,185	1,100	-7.2	1,100	0.0
Centris [®] New Listings	2,409	2,353	2,502	2,550	1.9	2,600	2.0
Centris [®] Active Listings	810	905	1,134	1,200	5.8	1,350	12.5
Centris [®] Average Price (\$)	177,406	185,623	192,237	189,000	-1.7	185,000	-2.1
Rental Market²							
October Vacancy Rate (%)	1.4	2.0	2.8	3.0	-	3.2	-
Two-bedroom Average Rent (October) (\$)	557	549	571	590	-	610	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.50	-	3.20 - 4.25	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	68,000	72,200	72,100	71,000	-1.5	71,500	0.7
Employment Growth (%)	-2.2	6.2	-0.1	-1.5	-	0.7	-
Unemployment rate (%)	7.0	7.6	7.7	8.0	-	7.9	-
Net Migration	3	224	202	-150	-174.3	-150	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 (2013-2014)

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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