

HOUSING MARKET OUTLOOK

Gatineau¹

Canada Mortgage and Housing Corporation

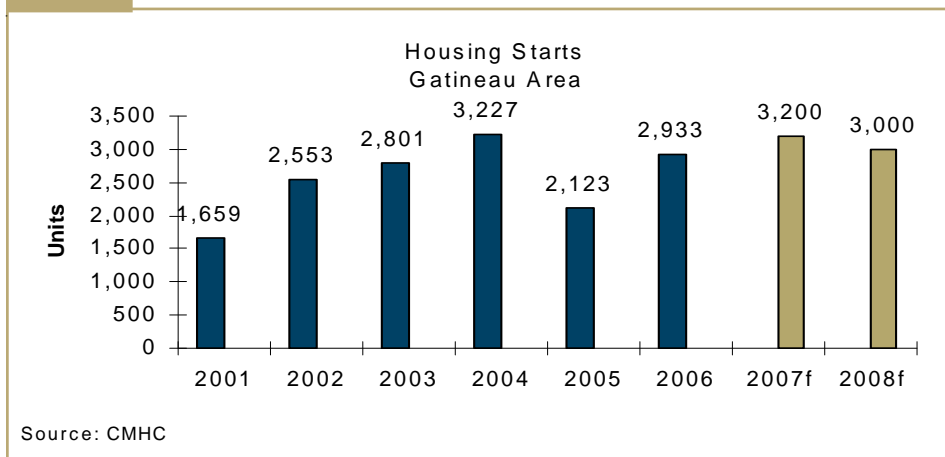
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After a very good year in 2007, construction expected to fall slightly in 2008

In the Gatineau area, residential construction has exceeded expectations in 2007 on account of a shift in the housing supply toward more affordable homes and the construction of new retirement homes. Activity will therefore post another gain, increasing by 9 per cent in 2007. However, weaker economic growth will slightly slow the surge in housing starts in 2007.

It is anticipated that 3,000 units will be started in 2008, for a decrease of 6 per cent. More specifically, single-detached home building should fall by 6 per cent to 850 units, and multi-family housing construction, by 7 per cent to 2,150 units. Despite this small decline, the level of activity will remain above the annual average of 2,100 starts for the last ten years. The Gatineau area is benefiting from

Figure 1



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¹ Quebec part of Ottawa-Gatineau CMA

a very active job market, since it is part of the National Capital Region, where the service sector offers relatively stable jobs, and also because of the current hiring trend to replace retiring civil servants.

Shift toward more affordable houses and retirement homes

The construction of luxury houses will be less active in 2008, giving way to smaller homes. The continued increase in new home prices above inflation, combined with the gradual rise in mortgage rates, has somewhat limited the capacity to pay of families. In 2007, a significant shift in demand toward semi-detached and row houses was therefore observed on both the new and existing home markets, to the detriment of single-detached houses. The proportion of single-detached houses out of all starts slid to 28 per cent in 2007,

compared to 40 per cent in 2006. The average price of single-detached houses will rise by 6 per cent in 2007 but fall by 2 per cent in 2008, as these homes will be smaller. However, the average price of new semi-detached homes will increase by 2 per cent in 2007 and 2008.

As for rental housing construction, the area saw a surge in retirement housing starts in 2007. Several expansion projects have been announced for 2008, which will support the level of activity next year. However, traditional rental housing construction will remain marginal.

Resale market still strong

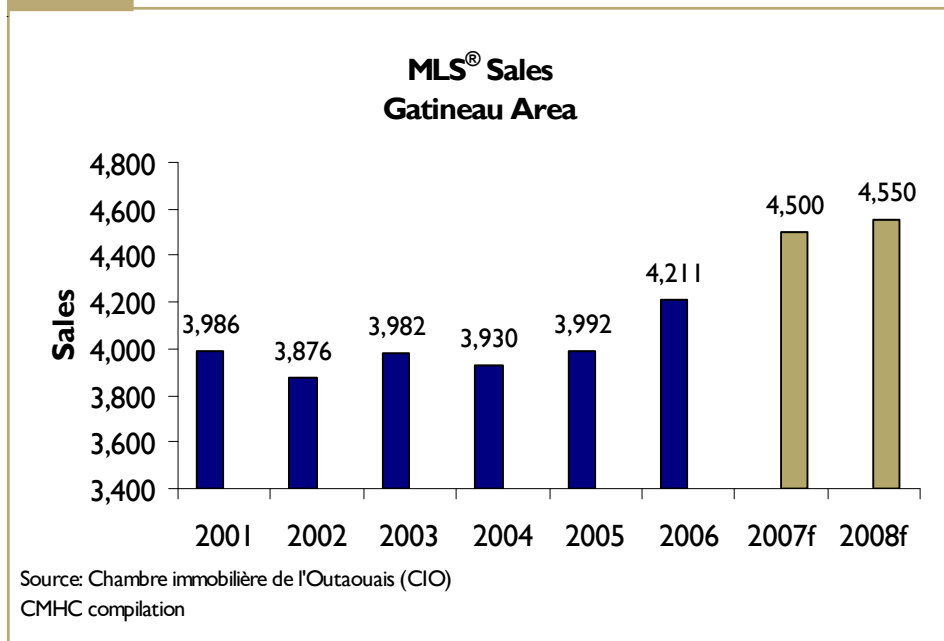
The resale market will set a new record in 2007, with 4,500 sales

registered through the Chambre immobilière de l'Outaouais (CIO), for an increase of 7 per cent over 2006. In 2008, there should be a small gain in MLS® sales (+1 per cent), reflecting moderately good job market conditions.

Market to become more balanced

The growth in the housing stock results in a gradual increase in the number of homes for sale over the years. In 2007, the seller-to-buyer ratio has been 6 to 1 for all housing types combined in Gatineau but, in 2008, a new rise in listings (+4 per cent) will provide buyers with more opportunities. This increase in listings will help the resale market become more balanced, and prices should

Figure 2



rise by 5 per cent in 2007 and then by 2 per cent in 2008.

Semi-detached and row homes remain popular

Even though the single-detached home segment accounts for more than half of the resale market, the semi-detached and row home segment is the tightest, favouring sellers. This last market segment has a seller-to-buyer ratio of 3 to 1, which is well below the balanced ratio of 8 to 1. However, the scarcity of such homes did not lead to a price increase above the average for the other housing types. In 2007, semi-detached and row home prices will rise by close to 5 per cent, the same increase as for single-detached houses. However, the strong

competition from new semi-detached and row houses is slowing the growth in prices on the existing home market.

The condominium market is also tending to become more balanced, which should result in price increases of 3 per cent in 2007 and 1.5 per cent in 2008.

Vacancy rate to fall

The rise in the vacancy rate observed since 2004 should come to an end in 2007, as this rate should fall from 4.2 per cent in 2006 to less than 3 per cent in 2007 and 2008. With the rental housing stock having practically not grown these last few years and demand having increased

as a result of the growth in employment, the market was able to absorb the surplus of rental dwellings in the Gatineau area. Rents should therefore rise at the rate of inflation.

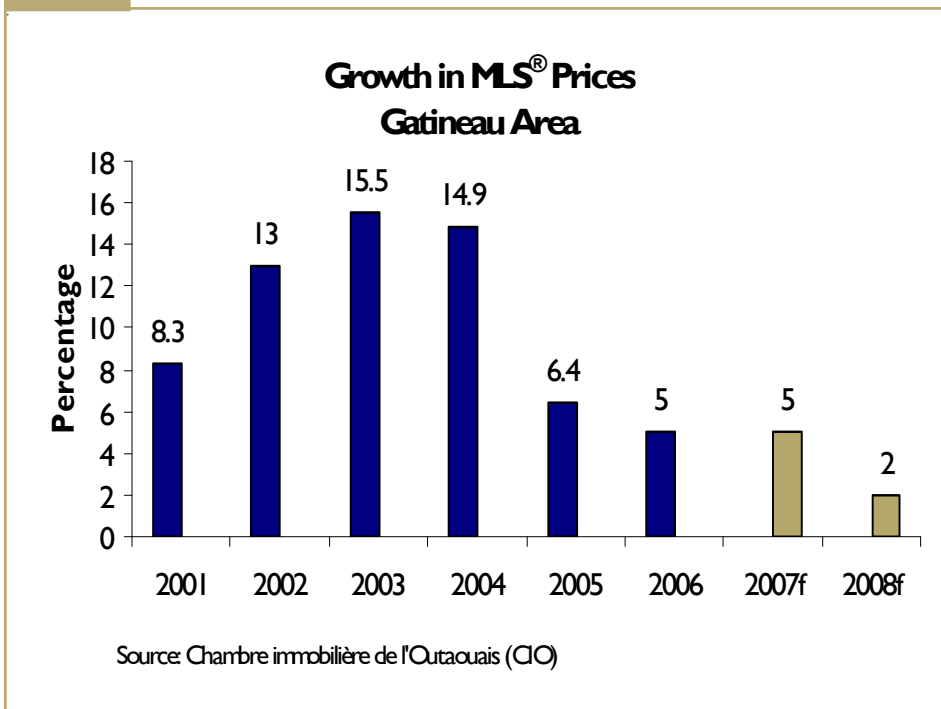
The vacancy rate in retirement homes (1.9 per cent in 2006) should fall in 2007 but rise again in 2008 with the arrival of new projects. However, there will be no surplus in this segment, given the strong potential demand for dwellings of this type and the fact that new units are added in phases.

Favourable economic conditions for the area

Employment growth

After three good years of strong employment growth in the area, this growth will slow to 2.2 per cent in 2007 and then to 2.0 per cent in 2008. However, since more than 80 per cent of the jobs in the area come from the private and government services sector, the baby boomer retirement trend will create opportunities for young professionals. Even though job creation is entering a period of more modest growth, the area will attract new families to fill the positions vacated by retirements.

Figure 3



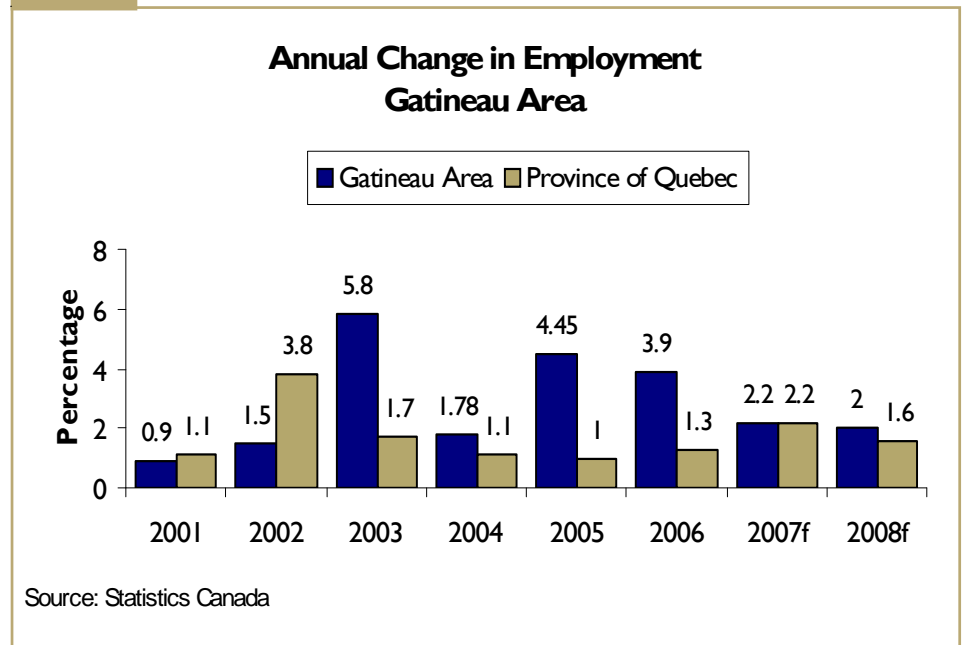
Interprovincial migration still favours Gatineau

In recent years, employment growth in Gatineau has attracted workers from other areas across Quebec and Canada. The geographic location, home prices and Quebec government programs for young families have created a welcoming environment for such families. In fact, home building has picked up significantly over the last three years. Between the 2001 and 2006 Censuses, population growth in Gatineau was among the strongest in the province of Quebec, with a growth rate of 8.5 per cent, compared to 4.3 per cent for Quebec overall. In addition, according to the latest net migration statistics, the area is gaining about 2,000 people per year from interprovincial and international migration. The trend is therefore continuing and supporting demographic growth in Gatineau.

Mortgage rates to edge up

On the economic front, mortgage rates are expected to remain flat through the end of 2007. While still low by historical norms, mortgage rates are expected to rise gradually by 25–50 basis points in 2008. The one-year posted mortgage rate is forecast to be in the 6.50–7.50 per cent range, while the three- and five-year posted mortgage rates are forecast to be in the 6.75–7.75 per cent range in 2008.

Figure 4



| Forecast Summary Gatineau CMA Fall 2007 | | | | | | | |
|--|---------|---------|---------|---------|-------|---------|-------|
| | 2004 | 2005 | 2006 | 2007f | % chg | 2008f | % chg |
| Resale Market | | | | | | | |
| MLS® Sales | 4,039 | 4,076 | 4,211 | 4,500 | 6.9 | 4,550 | 1.1 |
| MLS® New Listings | 1,622 | 2,085 | 2,196 | 2,300 | 4.7 | 2,400 | 4.3 |
| MLS® Average Price (\$) | 154,197 | 164,109 | 172,314 | 181,000 | 5.0 | 185,000 | 2.2 |
| New Home Market | | | | | | | |
| Starts: | | | | | | | |
| Single-Detached | 1,561 | 1,192 | 1,171 | 900 | -23.1 | 850 | -5.6 |
| Multiples | 1,666 | 931 | 1,762 | 2,300 | 30.5 | 2,150 | -6.5 |
| Starts - Total | 3,227 | 2,123 | 2,933 | 3,200 | 9.1 | 3,000 | -6.3 |
| Average Price (\$): | | | | | | | |
| Single-Detached | 196,088 | 208,262 | 212,375 | 226,000 | 6.4 | 221,000 | -2.2 |
| Semi-Detached | 128,282 | 138,058 | 141,056 | 143,500 | 1.7 | 146,500 | 2.1 |
| Median Price (\$): | | | | | | | |
| Single-Detached | 189,500 | 197,000 | 200,000 | 213,000 | 6.5 | 216,000 | 1.4 |
| New Housing Price Index (% chg.) (Ottawa-Gatineau) | 6.6 | 4.6 | 3.1 | 3.5 | - | 3.3 | - |
| Rental Market | | | | | | | |
| October Vacancy Rate (%) | 2.1 | 3.1 | 4.2 | 3.0 | -1.2 | 3.2 | 0.2 |
| Two-bedroom Average Rent (October) (\$) | 663 | 660 | 667 | 675 | 1.2 | 680 | 0.7 |
| Economic Overview | | | | | | | |
| Mortgage Rate (1 year) (%) | 4.80 | 5.80 | 6.30 | 6.86 | 0.6 | 7.19 | 0.3 |
| Mortgage Rate (5 year) (%) | 6.05 | 6.30 | 6.45 | 7.02 | 0.6 | 7.41 | 0.4 |
| Annual Employment Level | 147,600 | 154,200 | 160,200 | 161,000 | s.o. | 162,000 | s.o. |
| Employment Growth (%) | 1.7 | 4.5 | 3.9 | 0.5 | s.o. | 0.6 | s.o. |
| Unemployment rate (%) | 6.6 | 6.7 | 5.6 | 6.0 | - | 6.1 | - |
| Net Migration | 3,427 | 3,029 | 2,901 | 2,500 | -13.8 | 2,000 | -20.0 |

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Sources: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Chambre immobilière de l'Outaouais (MLS®), Statistics Canada (CANSIM)

* For the moment, CMHC's forecast does not yet take into account the new Gatineau by-law providing for the transfer of the costs for burying cables (electricity, telephone, cable television) to builders. CMHC will examine this issue over the coming months.

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

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