

HOUSING MARKET OUTLOOK

Saguenay CMA



Canada Mortgage and Housing Corporation

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A wind of enthusiasm is blowing over the area, but what will be the spin-offs?

Major Project Sites

Despite the fact that the Saguenay–Lac-Saint-Jean economy is still contending with problems surrounding the forest industry, it is becoming more and more obvious that the Saguenay census metropolitan area (CMA) will be in a position to overcome this crisis without too many jolts, thanks to the various investments announced in recent quarters, especially those concerning major project sites. In fact, after a few lean years for job creation, the enthusiasm is back.

After the Alcan aluminum project in Alma that got under way in 2000, regional companies turned to the Hydro-Québec Péribonka IV project where, according to the figures of the regional Comité de maximisation des retombées économiques (COMAX), a committee set up to optimize economic spin-offs of projects in the area, these companies got several contracts, even surpassing the objectives set by the committee. As well, work to widen Highway 175 to four lanes has been under way since 1995 and, here again, regional expertise is very much in demand. With these

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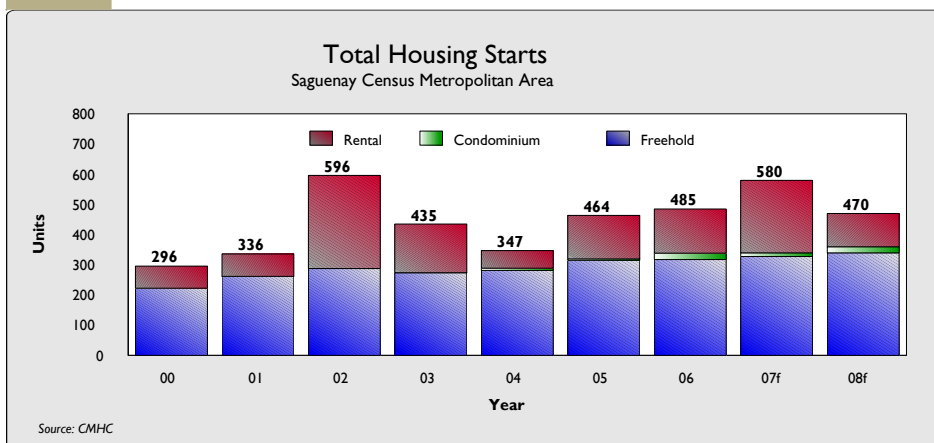
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Figure 1



project sites, the area was able to offset the losses registered in the lumber sector and maintain a relatively stable employment level over the last few quarters (more or less 69,000 jobs), which should continue to support the housing market in the short term. It is therefore anticipated that jobs will rise by 0.7 per cent in 2007 and by 1.2 per cent in 2008.

Over the medium term, regional companies will be quite busy. In fact, several major projects, like the construction of the Alcan AP50 technology plant in Jonquière, the Hydro-Québec Eastmain-1-A hydro-electric project, the construction of the Péribonka-Simard line and a few other projects, will fuel the regional economy. However, the direct spin-offs of these projects will not be felt for some time, apart from the enthusiasm sweeping over the area.

Demographic Decline

The latest demographic statistics drawn from the 2006 Census show that the Saguenay CMA population decreased by 2.1 per cent between 2001 and 2006, from 154,938 to 151,643 inhabitants. Despite this decline, a few more recent signs suggest that this result should be qualified. First, the interregional (within Quebec) net migration deficit decreased considerably over the 2005-2006 period, as the net loss went from 1,229 people in 2005 to 742 in 2006. As well, in-migration from other provinces or other countries is relatively low, even though many efforts have been made to facilitate the reception and integration of newcomers. For 2007 and 2008, it is expected that the improved job prospects will continue to help lower the net migration deficit.

Mortgage Rates to Stay Low

A combination of a slowing economy, strong Canadian dollar vis-à-vis the U.S. dollar and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2008. Short-term mortgage rates will also ease as the prime rate nudges down over the next twelve months, while long-term mortgage rates will rise slightly in line with bond rates. One-, three- and five-year posted mortgage rates are forecast to be in the 5.75-6.75, 6.00-7.00 and 6.25-7.25 per cent ranges, respectively, over the rest of this year and in 2008.

Residential Construction

Since the beginning of the decade, freehold home¹ starts have been rather stable from one year to the next. However, there has been a slight upward trend since 2005. That year, the area registered 315 freehold home starts and, in 2006, there were 318, compared to an annual average of about 275 units from 2000 to 2004. Is this a clear trend and will it continue in 2007 and 2008?

For the last few years, one of the main driving forces behind the housing market has no doubt been the low mortgage rates. This factor has incited many households, both baby boomers and first-time home buyers, to opt for a new home in line with their preferences. As mentioned earlier, the mortgage rates will stay low in 2007 and 2008, which will continue to boost demand over this period.

The labour market, while having helped to maintain some vitality in the area, will not further influence the new

home market over the coming quarters. It is rather the anticipated economic growth attributable to the major project sites, like the Alcan plant in Jonquière (where more or less 300 jobs will be created by 2010), that could prompt a few households to have a home built over the next few quarters.

The resale market could also be considered to have contributed to putting residential construction on an upward trend in recent quarters. In fact, this market has been very tight for the last few years, as well reflected by the seller-to-buyer ratio². This ratio has effectively remained below 8 to 1 since the fourth quarter of 2001 and has now reached 4.6 to 1 (first quarter of 2007). Demand is therefore strong, while supply is limited. This situation likely caused some households who would have bought an existing home, but were unable to find one in line with their tastes and needs, to turn to the new home market. And, this is probably not about to change, as there is no indication that supply will rise substantially in the short term.

On the other hand, certain factors like the new home price trend and land prices will put a little water on the fire and, as result, slightly limit the increase in starts over the next two years.

In this environment, it is highly likely that the levels of freehold home starts reached in 2007 and 2008 will be very close to the volumes registered in 2005 and 2006. It is therefore expected that 325 freehold dwellings will be built in 2007 and 340 in 2008. The forecast for 2008 takes into account a major project that is currently under review in the Larouche sector and that could get under way in 2008.

¹ Refers to single-family houses (single-detached, semi-detached and row homes) owned under freehold tenure and owner-occupied duplexes.

² The seller-to-buyer ratio indicates the power relationship between sellers and buyers. The resale market is considered to be balanced when the seller-to-buyer ratio is between 8 and 10 to 1. A ratio below 8 to 1 signifies a seller's market, while a ratio above 10 to 1 indicates a buyer's market.

For the past several years, rental housing construction (both traditional and retirement units) has caused the total starts levels to fluctuate significantly in the area. But, in the last two years, retirement home construction moved to the forefront. In fact, just over 200 units (including apartments and room-and-board units) were built during this period, all in the Jonquière sector. In 2007, activity in this market segment should shift to the Chicoutimi sector, where the expansion of a retirement home should get under way in the fall.

The year 2006 was also marked by a strong increase in condominium starts, although the total remained small (21 units). The fact that this housing type is still not very common in the area may cast doubt on its viability in locations where the population density is lower. However, the aging of the population and the rate of growth in prices, on both the new and existing home markets, are prompting us to revise this assumption, at least with regard to the medium-term demand. Condominiums could eventually take up a larger share of the market, as more and more people discover the advantages of this housing type. In addition, baby boomers who migrated to Québec or Montréal may want to move back home, which could boost the future demand for dwellings of this type.

Resale Market

In the Saguenay area³, annual sales registered through the Service inter-agences / Multiple Listing Service (S.I.A. / MLS)[®] have not stopped rising since the beginning of the current decade. Transactions went from 848 units in 2000 to 1,232 units in 2006, with each year's level beating the record from the previous year (until 2005). This

increase in sales took place as the supply of existing homes was steadily declining, with active listings reaching 371 units at the end of 2006, compared to 668 at the end of the year 2000.

The low mortgage rates have without a doubt supported the resale market in recent years, but other factors have also fuelled demand, including the improvement in net migration, the increase in the number of households aged from 25 to 34 years and the impact of the major projects on the labour market.

Assuming that these factors will continue to stimulate the market, it is anticipated that S.I.A. / MLS[®] transactions will reach 1,250 units in 2007, or a few more than in 2006, and then attain a very similar level (1,225 units) in 2008. As previously mentioned, demand for existing properties is strong, while supply is limited. This suggests that sales could be higher if supply increased. These forecasts could therefore be revised upwards if ever supplied were to improve over the coming quarters.

The limited supply, combined with a strong demand, is having a direct impact on the price of homes for sale, which rose by 9 per cent in 2005 and by 10 per cent in 2006. In the first quarter of 2007, the seller-to-buyer ratio reached 4.6 to 1, the highest level since the fourth quarter of 2004. This means that sellers still have the advantage during negotiations and that the price of existing homes can be expected to keep rising at a rate well above inflation. In this context, and since there is no indication that the number of properties for sale will rise considerably over the coming quarters (despite a small increase in the first quarter of 2007), the average

price of single-family homes⁴ should reach \$132,000 at the end of 2007 (+10 per cent). For 2008, the market should continue to favour sellers, although the growth in prices could slightly affect demand. The average selling price of single-family homes should therefore rise by 5 per cent in 2008 and attain \$138,000.

Rental Market

In the last two years, the vacancy rate fell from 5.3 per cent to 4.5 per cent and then to 4.1 per cent in October 2006, despite more or less favourable economic and demographic conditions. The increase in student enrolment at the Université du Québec à Chicoutimi over the last two years seems to have contributed to this decrease in the rate, which was observed in the Chicoutimi sector.

A review of the various factors that will affect the rental market in 2007 leads to the conclusion that this market could tighten once again, but only marginally. The forest industry crisis that is prevailing, especially in Lac-Saint-Jean, could incite laid-off workers to move to the Saguenay CMA in order to find new jobs. Consequently, the net migration deficit, which has already decreased, could be further lowered in 2007. In addition, no new retirement housing units will be added to the survey universe next October, which could put additional pressure on the traditional rental housing market. The overall vacancy rate should therefore reach 4.0 per cent in October 2007. For 2008, the potential arrival of more than 150 new retirement housing units will have a direct impact on the vacancy rate, which will rise up to 4.5 per cent, based on the rate of absorption of these new units.

³ For the resale market, the Saguenay area includes the Saguenay CMA, along with the municipalities of Saint-Ambroise, Saint-David-de-Falardeau, Valin, Sainte-Rose-du-Nord and Saint-Charles.

⁴ Single-family homes include single-detached, semi-detached and row houses.

Forecast Summary Saguenay CMA Spring 2007							
	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
MLS® Sales	1,077	1,244	1,232	1,250	1.5	1,225	-2.0
MLS® Average Price (\$)	100,371	109,419	120,238	132,000	9.8	138,000	4.5
New Home Market							
Starts:							
Single-Detached	244	267	271	280	3.3	295	5.4
Multiples	103	197	214	300	40.2	175	-41.7
Starts - Total	347	464	485	580	19.6	470	-19.0
Average Price (\$):							
Single-Detached	145,208	149,894	159,316	165,000	3.6	170,000	3.0
New Housing Price Index (% chg) (Que.)	6.3	4.9	4.4	0.0	-	0.0	-
Rental Market							
October Vacancy Rate (%)	5.3	4.5	4.1	4.0	-0.1	4.5	0.5
Two-bedroom Average Rent (October) (\$)	459	472	485	493	2	505	2
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.40	0.10	6.29	-0.12
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	6.63	0.18	6.80	0.17
Annual Employment Level	71,800	68,200	70,400	70,900	0.7	71,750	1.2
Employment Growth (%)	4.5	-5.0	3.2	0.7	2.5	1.2	0.5
Unemployment rate (%)	11.0	9.9	8.8	10.5	-	10.2	-
Net Migration	-1,335	-1,383	-1,417	-900	-36.5	-800	-11.1

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

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

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