HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Gatineau[1]

Canada Mortgage and Housing Corporation

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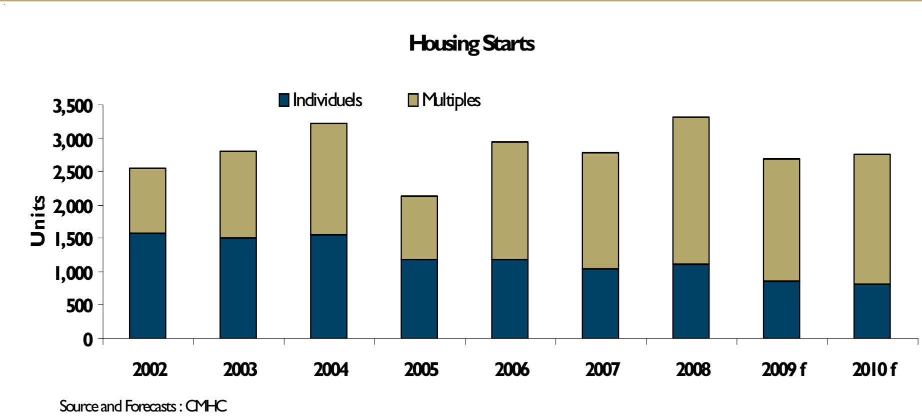
Residential construction to moderate in Gatineau in 2009

In Gatineau, unlike in the vast majority of areas across Canada, residential construction began the year on a strong note. In fact, housing starts climbed by 4 per cent in the first quarter of 2009, compared to the same quarter in 2008. This increase may have appeared to be a regional phenomenon, as the economic structure in the area is based on the public sector and so is immune to market fluctuations, but this was not the case as the Ontario part of the census metropolitan area (CMA) did not post the same pace and saw starts fall by 22 per cent year-over-year. Therefore, the gain was only observed in the Quebec part of the CMA and, according to the latest data for April, this trend is continuing. Even if the level of activity has exceeded expectations until now, a detailed analysis of the

Figure 1



[1] Quebec part of Ottawa-Gatineau CMA

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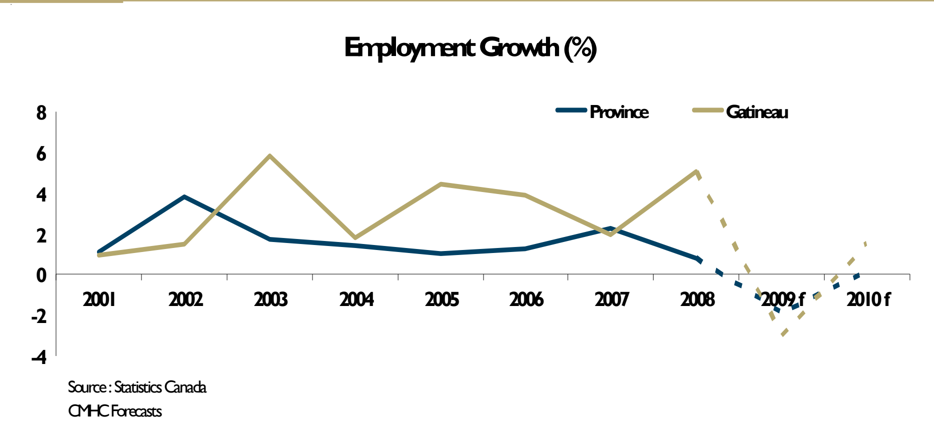
factors influencing the housing sector revealed that residential construction will slow down in the coming months and end the year below the 2008 levels.

Labour market to weaken in 2009

Employment was particularly strong in the area in the last 10 years. During that time, the number of jobs steadily increased, with the average annual growth rate exceeding 5 per cent. In 2008, there were 52,000 more jobs in the area than in 1998. This gain was mainly due to a job-generating economy, which made Gatineau the most dynamic CMA in Quebec. However, the area was not spared by the prevailing global economic conditions. Many Gatineau workers have already felt the effects, as job losses have been accumulating since July 2008. The unemployment rate, which was below 5 per cent in 2008, started to grow rapidly at the beginning of 2009 and reached 5.6 per cent in April. Over the past 12 months (from April 2008 to April 2009), close to 8,200 jobs have disappeared.

The most affected sectors were, in order, trade, construction and manufacturing. In the first sector, young people under age 25 working part-time were especially hard hit. As potential demand on the housing market depends more on full-time workers, the impact of the decrease in part-time work will not be as significant. In the second sector—construction—laid-off workers are very likely to be called back to work following the recent announcement by the different levels of government that they would invest several hundreds of millions of dollars in infrastructure projects for the Ottawa-Gatineau metropolitan area. Already, employment in the public sector has increased in the area, and most of the public funds to come are slated for construction and repair work on bridges, federal buildings, social housing and public transit. In fact, the City of Ottawa estimates that its recovery program, which includes funding from the federal and provincial governments, will help create over 8,300 jobs on its territory—which will surely benefit many Gatineau residents. In the manufacturing sector, however, the future is more uncertain. The global economic slowdown and the structural changes occurring in the manufacturing sector have led to many layoffs and could jeopardize some large businesses in the area. This is notably the case with AbitibiBowater, in the lumber and paper sector, and Nortel Networks, in the high-technology industry, two companies that were unable to reach agreements with their creditors and had to seek court protection. While both of these large employers seem to have avoided bankruptcy for the time being, major restructurings are to be expected, and the employment outlook in these sectors remains bleak. Even with government funding, the difficulties in the private sector may weigh heavily on the labour market this year, which will have an impact on housing demand.

Figure 2



Migration still positive in the area

Despite the economic slowdown, the Gatineau area posted a fairly strong performance compared to other areas across Quebec, which will ultimately allow it to retain more people. Net migration has been positive since 1991 and will remain so this year and in 2010. According to the preliminary figures for 2008, there were 2,200 more in-migrants than out-migrants, and this surplus is expected to be maintained at around 1,900 people in 2009 and 2,000 people in 2010. Newcomers will arrive mainly from elsewhere in Quebec and other countries. Of course, the Gatineau area will attract people from other provinces, particularly Ontario, but will see as many individuals leave. At the beginning of the decade, many

Ontarians were crossing the Ottawa River, but the wave has lost some momentum since 2006, even with the growing gap between the average home prices in Ottawa and Gatineau, which has now reached $95,000.

Finally, migration, combined with natural population growth, will add about 3,500 people to the Gatineau area population in 2009. Favourable labour market conditions and a new government policy to progressively increase the international immigration target for Quebec to 55,000 people by 2010 will help keep net migration positive. Numerous advantages granted to parents of preschool-age children, such as parental leaves, child benefits and the new subsidized child care spaces that will be created over the next four years, could quicken the pace of family formation—families with their own housing needs.

The population growth will be due to the increase in the number of households in the area. However, fewer new households will be formed than in 2008, as job prospects for young people will worsen throughout 2009. Therefore, more experienced workers and especially new retirees and seniors will form the bulk of the new households this year.

Even though the migration outlook is favouring demand, the economic slowdown is such that demand will decrease this year. It is anticipated that 2,700 units will be started in 2009, compared to 3,304 in 2008, for a decline of 18 per cent. Starts are expected to climb again (to 2,750 units) in 2010. In 2009, the decrease will be slightly greater in the single-detached home segment, where a 24-per-cent drop is forecast. While there will be fewer starts in 2009, the level of activity will remain high in the Gatineau area. In fact, the starts volume will be above the average for the last ten years. The same holds true for the resale market, as sales through the Multiple Listing Service (MLS®) should fall by 10 per cent, or 400 transactions, in 2009.

Mortgage rates

Mortgage rates are expected to be relatively stable throughout 2009, remaining within 25-75 basis points of their current levels. Posted mortgage rates will increase very gradually during the course of 2010, reflecting a rise in government of Canada bond yields. For 2010, the one year posted mortgage rate will be in the 4.75-6.00 per cent range, while three and five year posted mortgage rates are forecast to be in the 5.00-6.75 per cent range.

Construction sector to change and slow down in 2009

For the past few years, a significant change has been observed on the housing market. New needs linked to the aging of the population have boosted the numbers of rental units for seniors and condominiums. In addition, the large increase in prices recorded since the beginning of the decade has caused demand to shift toward more affordable units. Builders answered the call by focusing more on multiple-unit (semi-detached, row and apartment) housing. Five years ago, single-detached homes accounted for 55 per cent of all units built, compared to 35 per cent in 2008. This trend continues in 2009 as, through the first four months, single-detached dwellings accounted for only 28 per cent of all units started. It should be mentioned that the fast rise in the average price of single-detached houses also contributed to the shift in demand toward more affordable housing types. In 2008, the gap, at the time of absorption, between the average prices of single-detached and semi-detached houses was over $76,000, compared to $59,000 five years earlier. For first-time buyers, the type of housing that they must choose is becoming more obvious.

As a result of this price gap, multiple-unit housing will stay popular. Semi-detached and row home building will remain stable this year, while apartment construction should moderate. In recent years, many units for seniors were built in the area, which resulted in an oversupply. The anticipated completion of over 400 retirement housing units in 2009 will increase the number of vacant units in the short term, which could lead to a temporary reduction in starts in this market segment. The decrease in apartment starts is therefore expected to be due to a decline in new rental units for seniors. The number of new condominiums, for its part, should remain high in 2009.

After having been particularly active in 2008 and at the beginning of 2009, the pace of home construction will slow down later in 2009, before picking up slightly in 2010. It is in the freehold home segment, which is more sensitive to economic conditions, that the decline will be felt the most, as starts of this type are forecast to fall by 18 per cent in 2009 and by 24 per cent in 2010. As for multiple-family (semi-detached, row and apartment) housing starts, a 15-per-cent drop is expected, due mostly to apartments. In addition to the economic slowdown and the high home prices, other factors will also contribute to the decrease in activity in 2009. Since the beginning of the year, the volume of starts has been above the 2008 level, but many new units have yet to be sold. In fact, unabsorbed units have more than doubled since last fall. This trend shows that demand is not keeping up with supply. Given the growing gap between supply and demand, builders will have no other option but to slow down the pace in the next few months.

The strong demand for affordable homes will keep the semi-detached housing price curve slightly above inflation, while the price of single-detached houses should remain relatively stable in 2009. The economic slowdown and lower inflation will lead to a break in the rise of construction costs. Since the trend is to build smaller homes, prices will tend to stagnate. The New Housing Price Index is expected to climb by 0.5 per cent this year and by 1.5 per cent in 2010 in the greater Ottawa-Gatineau area.

Since 2007, Aylmer has been the sector with the highest volume of starts, and the same will hold true in 2009 and in 2010. The lack of buildable lots in Hull has caused construction to move to surrounding sectors, including Aylmer. We only need to look at the Plateau sector and the many lots being developed along the new major thoroughfare (Des Allumettières Boulevard).

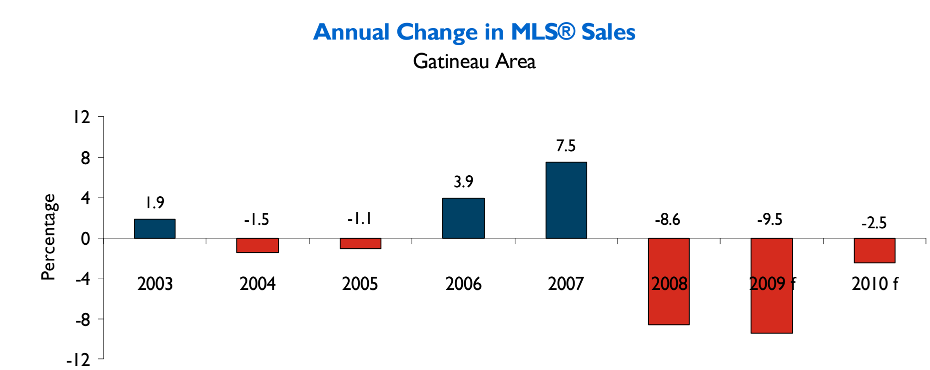
Resale market activity to decrease slightly in 2009 and 2010

Like the new home market, the resale market will record a slight decrease in 2009. Following a 10-per-cent reduction in sales registered through the Multiple Listing Service (MLS®) in 2008, transactions are expected to decrease by 9.5 per cent this year, before stabilizing in 2010. In terms of sales, close to 4,000 properties are forecast to be sold in 2009, or 400 fewer than in 2008. While relatively low interest rates are encouraging some people to borrow, several factors will have a cooling effect on consumers: the current home prices, the global economic slowdown and the uncertainty it brings, the difficulties experienced by some industries and the job losses in the area. Sales will therefore fall this year.

Weakening demand combined with increasing supply will slow the growth in prices in 2009. This decade will have been particularly prosperous for sellers, as the average price of homes has more than doubled since 2001. However, strong price hikes are now a thing of the past, since the market—once favourable to sellers—is now balanced, and this should not change in the short term. This balance between supply and demand will result in variations in line with inflation. In fact, we believe that the average price of existing properties will increase by 1.5 per cent in 2009, to $189,000, and then by 1 per cent in 2010.

Overall, the resale market will remain balanced, meaning that the seller-to-buyer ratio should be between 8 and 10 to 1. However, conditions vary with the market segments and price ranges. In fact, upscale houses will be harder to sell. Properties priced above $250,000 will be difficult to sell in 2009 and 2010. Already in the case of single-detached homes, the seller-to-buyer ratio has reached 12 to 1, indicating

Figure 3



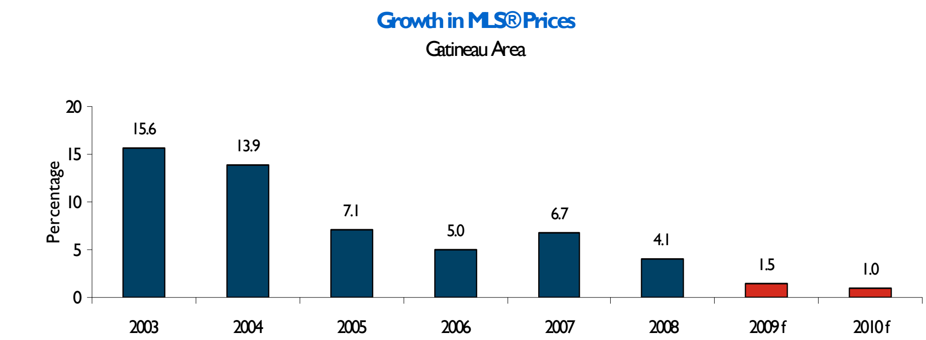
Source : Quebec Federation of Real Estate Boards (QFREB)
CMHC compilation

a buyer's market. The same holds true for condominiums selling for more than $150,000, as the number of sellers is rising faster than the number of buyers, such that the latter have the advantage. However, in the price ranges below $200,000, the single-detached home market will remain favourable to sellers. The semi-detached and row home market, where the seller-to-buyer ratio remained below 6 to 1 in 2008, will favour sellers even more. Given that buyers are seeking more affordable dwellings, demand for properties of this type will remain strong in 2009 and 2010. Consequently, semi-detached and row homes will register greater price increases than other housing types. Our observations of the resale market are consistent with our hypothesis that demand is rising in the more affordable price ranges.

Vacancy rate to remain low in 2009

The rental vacancy rate will remain very low in 2009 and 2010, at 2.5 per cent. Although job losses have impacted young people for the past six months, the rental market will stay tight for the next two years as a result of positive net migration and limited rental housing construction. The relatively few vacancies will facilitate rent increases in 2009. The average rent is expected to climb by about 2 per cent in 2009, to $690 per month.

Figure 4



Source : Quebec Federation of Real Estate Boards (QFREB)
CMHC compilation

The situation is very different in the retirement home market segment. Developers have been very busy in that segment, and the number of units for seniors has been growing steadily for the past few years. The supply of rental housing for seniors has increased more rapidly than the population aged 75 years or older. Waiting lists have therefore disappeared, and the trend observed in the past few years shows that the number of vacant units in this market segment is on the rise. The expected completion of over 400 units in 2009 will result in another short-term bump up in the vacancy rate. Retirement home construction will therefore take a break this year and next year.

Forecast Summary Gatineau CMA Spring 2009							
	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	4,468	4,802	4,390	3,975	-9.5	3,875	-2.5
MLS® Active Listings	2,609	2,558	2,495	2,600	4.2	2,700	3.8
MLS® Average Price ($)	167,655	178,890	186,212	189,000	1.5	190,900	1.0
New Home Market							
Starts:							
Single-Detached	1,171	1,037	1,120	850	-24.1	800	-5.9
Multiples	1,762	1,751	2,184	1,850	-15.3	1,950	5.4
Starts - Total	2,933	2,788	3,304	2,700	-18.3	2,750	1.9
Average Price ($):							
Single-Detached	212,375	231,136	243,887	245,500	0.7	249,000	1.4
Semi-Detached	141,056	139,774	167,580	174,000	3.8	179,000	2.9
New Housing Price Index (% chg.) (Ottawa-Gatineau)	3.1	1.8	3.8	0.5	-	1.5	-
Rental Market							
October Vacancy Rate (%)	4.2	2.9	1.9	2.5	0.6	2.5	0.0
Two-bedroom Average Rent (October) ($)	667	662	677	690	-	705	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.80	-1.90	5.29	0.49
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.64	-1.42	5.94	0.30
Annual Employment Level	160,200	163,300	171,700	166,500	s,o,	169,000	s.o.
Employment Growth (%)	3.9	1.9	5.1	-3.0	s,o,	1.5	s.o.
Unemployment rate (%)	5.6	5.5	4.8	6.3	-	5.8	-
Net Migration	1,689	1,648	2,203	1,900	-13.8	2,000	5.3

Sources: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), The Quebec Federation of Real Estate Boards by Centris™ (CMHC compilation), Statistics Canada (CANSIM)

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

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