

HOUSING MARKET OUTLOOK

Saguenay CMA



Canada Mortgage and Housing Corporation

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Saguenay housing starts to reach 645 units in 2009

The decrease in activity observed since the beginning of 2009 on the Saguenay census metropolitan area (CMA) housing market will continue throughout the year. In fact, according to our latest housing market outlook, 645 starts are expected in 2009 and 565, in 2010. Like most areas, the Saguenay–Lac-Saint-Jean region will not escape the shockwave of the global economic slowdown.

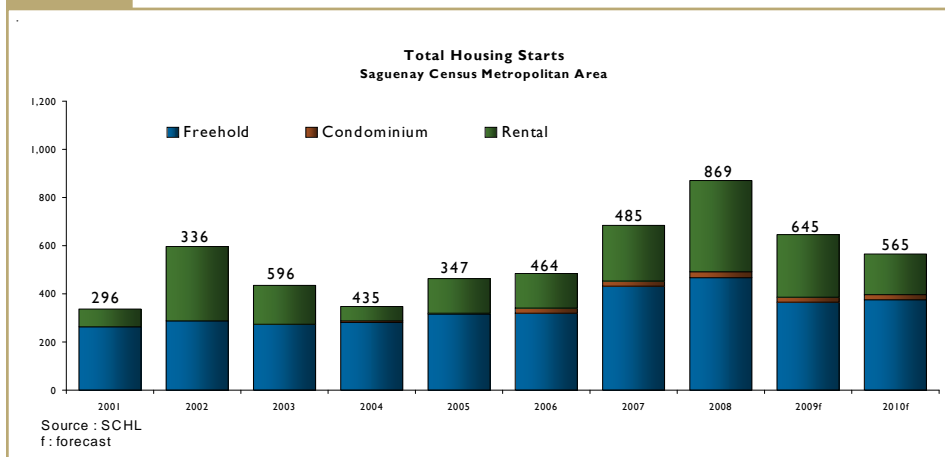
Economic and demographic environment

The economic backdrop, or the factors that influence the various segments of the housing segment, has weakened to a certain extent since the release of the last issue of this publication. Whether for the global, North American, Canadian or

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Figure 1



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Quebec economic conditions, the signs of weakness have been getting more numerous for the last few months. In Saguenay, however, the deterioration of the local indicators has not yet so much made the headlines as has the deferral of the investments by Rio Tinto Alcan (RTA), which announced that it was indefinitely shelving virtually of all its investment projects around the world, including those in Saguenay–Lac-Saint-Jean, estimated at more than \$2 billion by 2015. Still, a few hundred million dollars will be invested in 2009—thanks in part to the \$175 million in assistance provided by the Quebec government—to maintain activity on the sites (especially the AP50 pilot plant construction site) and renovate the Shipshaw hydroelectric power station.

The repercussions of the postponement of the RTA investments have already started to be felt by several subcontractors, and temporary layoffs have been announced. Even though these job losses are hardly reflected in the monthly results of the Statistics Canada Labour Force Survey, we believe that the economic slowdown will affect the Saguenay economy sooner or later, notwithstanding several investments by the different levels of government and Hydro-Québec. We therefore estimate that about 1 per cent of the jobs in the area will be lost in 2009. The impact of the economic slowdown on the housing market will come from the greater uncertainty among consumers. In 2010, with certain major projects (Eastmain-1-A and Shipshaw hydroelectric power stations) maturing and work picking

up the pace more significantly at RTA, as well as the prospects of a recovery, the regional labour market should be stimulated and the number of jobs should increase by 2.3 per cent.

The pause expected in 2009 on the Saguenay CMA labour market will therefore result in a reduced need for workers. In turn, net migration (particularly interregional migration) in the CMA will be lower. However, since practically all areas are facing a decline in demand for labour, the migration deficit in the Saguenay CMA is rather expected to remain stable. As a result, in 2009, after several consecutive yearly increases in the migration deficit, a break is expected, as 500 people should leave the area, or the same number as in 2008.

Still on the demographic front, despite the decline in the population, household formation remains positive, mainly on account of the aging of the population, as well as divorces and separations. In the Saguenay, just over 300 households will be formed annually in 2009 and 2010, almost all in the group aged 65 years or older.

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.

Housing starts volume to stay high despite slowdown

After reaching their highest level since 1991 last year, total starts in the Saguenay CMA will fall considerably in 2009. In fact, they are expected to decline by 26 per cent from the 869 new units recorded in 2008 and reach 645 units. While this is a significant decrease in residential construction compared to 2008, it marks a return to a somewhat more normal level of activity, more in line with the current demographic realities. The result anticipated for 2009 will still be the third highest in the area since the beginning of the decade. Both the freehold and rental housing segments will register declines in 2009. For the first segment, most indicators, apart from the mortgage rates, are pointing to a slowdown in activity, after a particularly strong year in 2008 on all fronts: labour market, net migration, household formation and consumer optimism. For the second, the decline in new retirement housing units will be the main cause. In all, 565 housing starts are forecast for 2010, or 12 per cent fewer than in 2009.

Freehold homes

Starts of freehold homes (mainly single-detached houses) have jumped up in the last two years in

the Saguenay CMA. In fact, after having varied between 223 and 318 units from 2000 to 2006, a period during which the unemployment rate and the migration deficit were relatively high, starts rose to 430 units in 2007 and then to 468 in 2008. Following these two exceptional years, the pace is expected to slow down, as 365 starts are forecast for this year. Even though conditions should improve next year, it is anticipated that construction will get under way on about the same number of freehold homes in 2010 (375 units) as in 2009.

This year, single-detached home building will be harder hit by the economic and demographic conditions than semi-detached, row or duplex housing construction. From 400 units in 2008, single-detached home starts will fall to 295 units in 2009, for a decrease of 26 per cent. This forecast is based on the following factors:

- 1) consumers on the alert on account of the economic slowdown;
- 2) relatively high single-detached home prices, in line with land costs;
- 3) more existing properties for sale; and
- 4) household formation practically nil among people aged under 65 years.

The results anticipated for 2009 will still be non-negligible, considering certain particular signs: historically low mortgage rates and government loans and investments in the area's driving industries. In 2010, it should not be expected that activity will return to the levels observed in 2007 and 2008, even in the event of a rapid global economic recovery.

Starts will instead remain close to their 2009 level, with 300 new units forecast in the Saguenay area. Apart from the economic environment, the other factors will have about the same impact on the single-detached home segment over the two-year forecast period as they did this year.

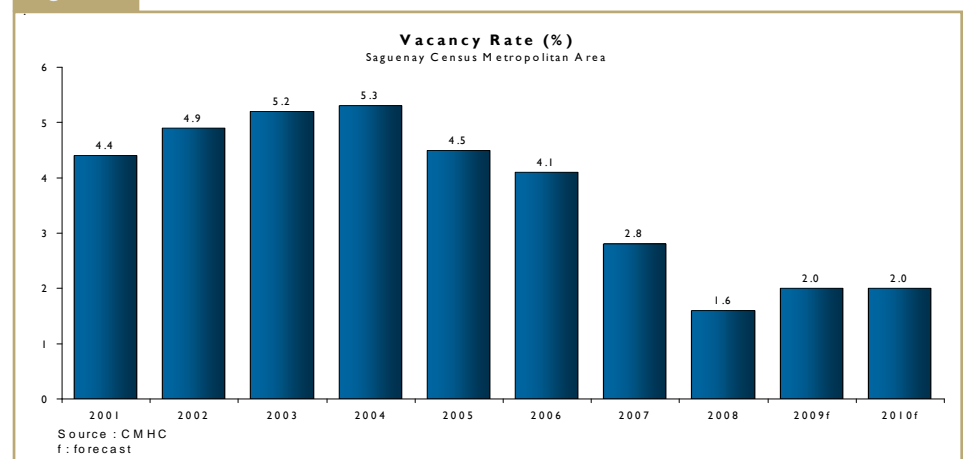
The semi-detached, row and duplex home segment, for its part, will register small increases in 2009 and 2010, thanks to the fact that these homes are more affordable than single-detached houses. Given its limited size, though, this segment should be less affected by the economic jolts. There should be 70 starts of this type in 2009, and 75 more, in 2010.

Condominium market

Condominium construction was once relatively significant in the Saguenay CMA. From 1992 to 1994, condominiums accounted for around 14 per cent of all starts in

the area. This share then fell to zero in 1995, remained there until 2003, and has now stayed between 2 per cent and 5 per cent since 2004. While there have been relatively few new units added in recent years, condominiums have the advantage of being more affordable and providing homeowners with outdoor maintenance services. They are therefore very well suited to older households who want to remain homeowners but for whom maintenance is becoming a burden. As such, since the aging of the population is expected to intensify in the area, activity in this market segment should, at the very least, remain stable in the short term. For the moment, the fact that new and existing homes are not as expensive here as in other large urban centres across Quebec, where condominiums are well implanted, is probably the main reason for the limited number of condominium starts in Saguenay. In 2009 and 2010, foundations should be laid for about 20 units of this type.

Figure 2



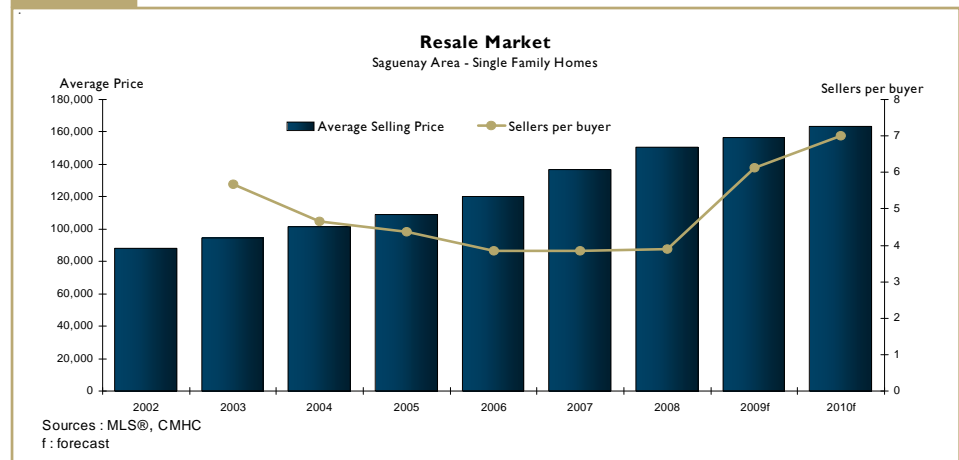
Rental market

In recent years, rental housing construction in the Saguenay CMA has been supported by the retirement home segment. In fact, 54 per cent of all new rental housing units started since the year 2000 have been intended for this client group. In a context where the traditional rental housing vacancy rate was higher than the rate for retirement rental housing, this was logical. Consequently, 854 private apartments have been added to the retirement housing stock since the year 2000, versus 622 units, to the traditional rental housing stock. The rapid growth in the number of people aged 75 years or older and very low retirement home vacancy rates in certain sectors partly explain the appeal of this segment of the rental market among developers. Given the recent development of this market, some 225 rental housing units for seniors should get under way in the Saguenay CMA in 2009 and 2010.

The growth in the supply of traditional rental housing has been rather limited in the last few years. The fact is that current construction costs, including land prices, are such that it is difficult for developers to charge rents that are competitive with average market rates, which explains the lower profitability prospects for new buildings. Since this context has not changed, we forecast that there will be about 100 traditional rental housing starts in 2009 and 2010, even if the vacancy rate is very low (1.6 per cent).

The addition of traditional and retirement housing projects will

Figure 3



bring total rental housing starts to 260 units in 2009. While down by 31 per cent from 2008, this total will still be high. In 2010, 170 new rental dwellings—traditional and retirement—should be started in the Saguenay CMA.

According to the survey conducted in October 2008, the rental market in the Saguenay CMA tightened for a fourth straight year. The vacancy rate fell from 5.3 per cent in October 2004 to 1.6 per cent in October 2008. The tightening of the Saguenay rental market in recent years has resulted from an increased demand, due to the favourable economic environment, and an insufficient supply. Investments in infrastructure have energized the labour market and, in turn, net migration—mainly the interregional component—in the CMA, accounting for the greater demand.

Although the different levels of government are intervening to support and stimulate economic activity, the area will lose a number of jobs during 2009 on account of the global slowdown, but the losses

will not be sufficient to cause the vacancy rate to go back up significantly. This rate should reach 2 per cent in October 2009, up slightly over October 2008. In 2010, the improved economic outlook and, possibly, the higher price of aluminium will allow for the resumption of the RTA projects in Saguenay–Lac-Saint-Jean. Demand for workers will then tend to increase, which should cause the vacancy rate to fall.

The average rent for two-bedroom apartments reached \$518 in October 2008—the second lowest monthly rent among Canada's CMAs. With the tightening of the market observed in recent years, the average rent should rise to \$530 in 2009 and then to \$542 in 2010.

Resale market

The resale market has been very active during the last few years in the Saguenay CMA. In 2007, a record number of residential properties changed hands (1,651 units). Activity on the market was

less intense in 2008, with demand having been affected by the deterioration of the labour market and the high prices, which have risen by more than 75 per cent since the beginning of the decade. Transactions fell by 5.7 per cent between 2007 and 2008, reaching 1,557 units.

Given that the labour market will not improve, that net migration will stagnate and that the formation of young households will be practically nil, this trend is expected to continue in the short term, at least

in 2009. Consequently, sales will reach 1,250 units, down by 20 per cent from 2008. Since we are forecasting that the economy will recover somewhat in 2010, the resale market should also follow this course, such that 1,350 transactions are anticipated.

The average selling price of single-family homes reached \$150,597 in 2008, up by 10 per cent over 2007. This increase was slightly smaller

than the hike of 13.9 per cent registered a year earlier, when a sales record had been set. The market will be more balanced in 2009, as demand will decrease while supply will increase slightly. The growth in prices is effectively expected to slow down this year, to just 4 per cent, and single-family houses should sell for an average of \$156,600. In 2010, the average price should reach \$163,600, up by 4.5 per cent over 2009.

Forecast Summary Saguenay CMA Spring 2009							
	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	1,627	1,651	1,557	1,250	-19.7	1,350	8.0
MLS® Average Price (\$)	120,141	136,881	150,597	156,600	4.0	163,600	4.5
New Home Market							
Starts:							
Single-Detached	271	373	400	295	-26.3	300	2
Multiples	214	312	469	350	-25.4	265	-24.3
Starts - Total	485	685	869	645	-25.8	565	-12.4
Average Price (\$):							
Single-Detached	159,316	178,276	184,719	188,000	1.8	195,000	3.7
New Housing Price Index (% chg) (Que.)	4.4	4.2	5.0	n.a.	-	n.a.	-
Rental Market							
October Vacancy Rate (%)	4.1	2.8	1.6	2.0	0.4	2.0	0.0
Two-bedroom Average Rent (October) (\$)	485	490	518	530	-	540	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.80	-	5.29	-
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.64	-	5.94	-
Annual Employment Level	70,400	70,200	69,100	68,400	-	70,000	-
Employment Growth (%)	3.2	-0.3	-1.6	-1.0	-	2.3	-
Unemployment rate (%)	8.8	8.8	8.5	9.0	0.5	8.7	-0.3
Net Migration ⁽¹⁾	-1,169	-794	-500	-500	-	-300	-

Source: 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

(1) 2008 migration data is forecasted

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