

HOUSING MARKET OUTLOOK

Gatineau¹



CANADA MORTGAGE AND HOUSING CORPORATION

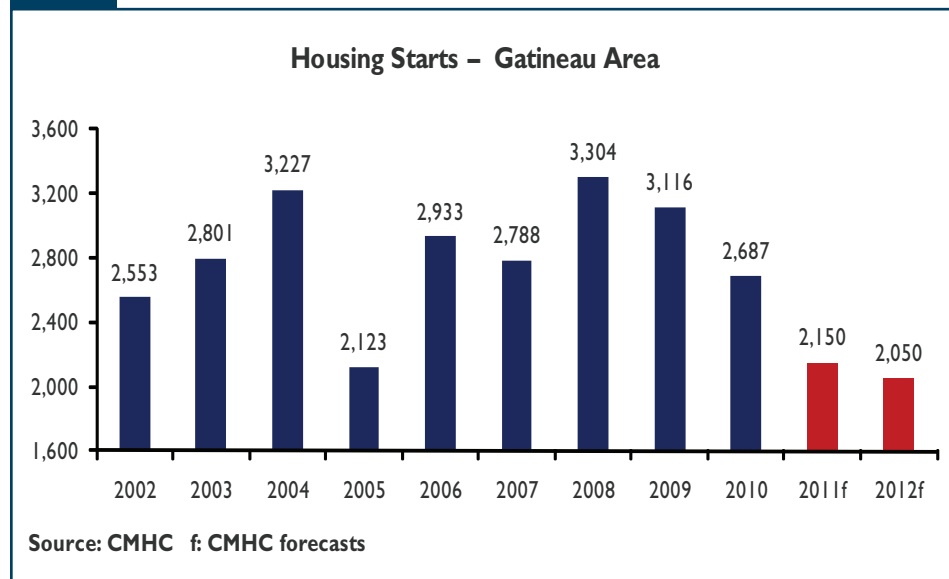
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Residential market running out of steam in the Gatineau area²

In 2010, some households, anticipating a rise in mortgage rates, had likely decided to move up their home

purchases on the Gatineau market. Even with this move-up effect, the Gatineau area, contrary to the other major metropolitan centres of the province, had recorded decreases in residential activity during this period, on both the new and existing home markets. This decline will continue in 2011, as housing construction is expected to fall by 20 per cent this

Figure 1



¹ Quebec part of Ottawa-Gatineau CMA

² The forecasts and historical data included in this document reflect information available as of October 5, 2011.

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year in the area and the number of units sold through the MLS® system will drop by 11 per cent.

In 2012, as was the case in 2010 and 2011, the housing market in Gatineau will run out of steam as a result of the end of the move-up effect and the slowing economic and demographic fundamentals, despite financing conditions that remain favourable. Consequently, housing starts are expected to dip by 5 per cent to 2,050 units in 2012. On the resale market, activity will also decrease in 2012 (-1 per cent), as MLS® sales will slide to 3,725 units.

Job market to moderate

As previously mentioned, the relative weakness of the labour market will contribute significantly to the decline of Gatineau's real estate market this year and next. Since the beginning of 2011, employment (seasonally adjusted rate) as estimated by the Statistics Canada Labour Force Survey has been fluctuating, and we do not believe that the situation will change much in 2012, given the particular economic base of the Gatineau area. Under these conditions, employment in the area should only grow slightly, reaching 170,500 jobs (+1 per cent) in 2011 and 171,500 jobs (+0.6 per cent) in 2012. During this period, employment growth will be mainly fuelled by the private sector.

In addition to the uncertainty that will be felt by Gatineau households in regard to the job market over the next two years, it should be kept in mind that the world economy is still going through major instability. All this uncertainty will no doubt cool the ardour of buyers in the Gatineau area this year and in 2012.

Net migration will decrease but remain positive

In 2010, net migration in the Gatineau area reached an all-time high of 4,133 people. This high level reflected a record number of immigrants and can be explained by Gatineau's appeal among residents from other areas of Quebec and Canada.

Over the next few years, we expect these migration components to remain, but to decrease slightly. First, from an international perspective, the demographic changes observed at the provincial level will without a doubt have an impact on net migration in the Gatineau area. Given that the area receives about 3 per cent of the immigrants arriving in Quebec each year, a lower number of new residents will settle in Gatineau.

Second, weak job prospects forecast for Gatineau in 2011 and 2012 will cause the number of Quebec and Canadian households wanting to settle in the area to decrease. However, households may continue to favour the Gatineau area over the Ottawa area, partly because dwellings are more affordable in Gatineau. In the final analysis, we expect that the housing market will benefit from gains of some 3,800 people in 2011 and 3,600 the following year. While lower than last year, these levels are still high compared to previous years.

Mortgage rates

Recent announcements by the Bank of Canada have indicated that the Bank will be leaving the target overnight interest rate unchanged at 1.0 per cent for some time to come. The Bank has been noting that in light of slowing global economic momentum and heightened financial uncertainty, the need to withdraw monetary policy stimulus has diminished. The

last increase in the overnight interest rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat until late 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.4 to 3.8 per cent range, while the five-year posted mortgage rate is forecast to be within 5.2 to 5.7 per cent.

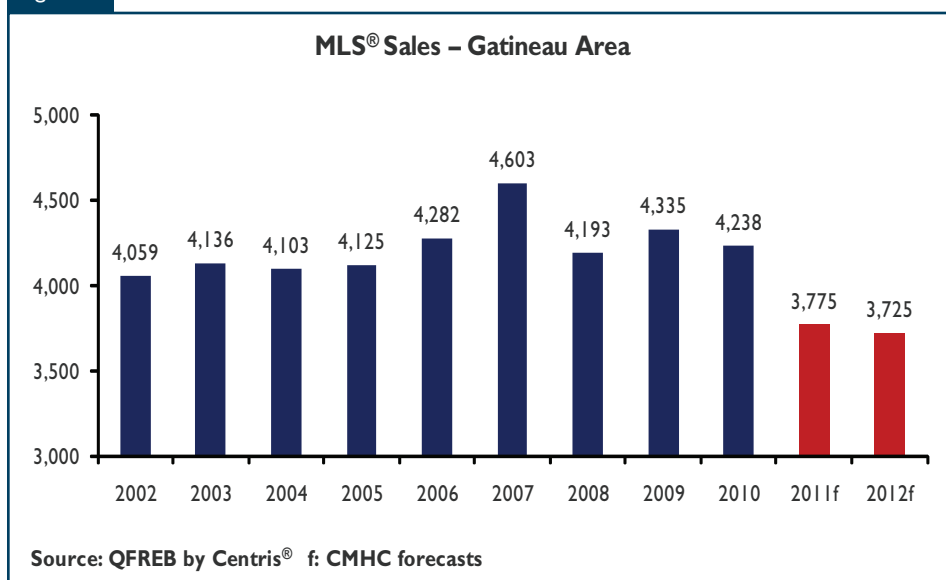
MLS® sales below 4,000 units for the first time

According to data from the Quebec Federation of Real Estate Boards (QFREB), MLS® sales levels varied between 4,059 and 4,335 transactions from 2002 to 2010, except for 2007, when the number climbed to 4,603. In 2011, for the first time since the data began being compiled, MLS® sales will drop below 4,000 units. In fact, 3,775 units are expected to change hands through the MLS® system, for a decrease of 11 per cent.

The reasons behind this decrease are almost the same as those expected in 2012. First, the more precarious job market conditions in Gatineau will likely cool the ardour of many potential buyers wanting to buy a home during this period. Lower net migration will also no doubt mean that fewer households will be looking to buy a house in the Gatineau area next year. We are therefore predicting 3,725 MLS® sales in 2012, a level slightly below this year's volume.

In addition, there seems to be another factor pushing MLS® sales downward in Gatineau. In fact, for the past few

Figure 2



years, an increasing number of existing homes have been sold directly by homeowners, and this trend appears to have grown the most in Gatineau in recent years. It should be mentioned however that, in the third quarter of 2011, for the first time in over two years, new listings increased in Gatineau. While it is too early to infer a trend, this rise could soften the expected decrease in MLS® sales, if more owners decide to opt for a real estate agent to sell their homes.

This recent increase in new listings will also help provide a greater choice of properties to Gatineau's potential buyers in 2011 and 2012. With the slowing demand, properties are also being listed longer on the MLS® system. It should also be recalled that the number of units for sale will be sustained by the ever-growing housing stock in the area.

Although demand weakened in recent months, the relatively limited supply supported price increases. From January to September 2011, the average MLS® price continued to climb, rising by 8 per cent over the same period last year, to reach

\$234,640. The Gatineau area therefore recorded the second highest price increase after the Sherbrooke CMA among Quebec's major urban centres.

In fact, the current ratio between housing supply and demand suggests that the market will remain favourable to sellers in 2012 but will be slowly trending toward a balance. This slight easing of the market will bring about a smaller increase in the average price next year (4 per cent in 2012, versus 7 per cent in 2011). The average MLS® price will then reach \$245,000.

Finally, let's mention that the analysis of the Gatineau resale market by sector should strongly resemble that of the area as a whole. However, the Hull sector, with its high concentration of condominiums, might perform better than the neighbouring sectors.

Housing starts to dip in 2012

In the first three quarters of 2011, foundations were laid for 1,715 units in the Gatineau area, down 19 per cent. This trend should continue until the end of 2011 and will result in some 2,150 housing starts at the

end of the year, for a decrease of 20 per cent from 2010. This is one of the lowest levels of activity recorded in the area since the year 2000. The moderation of Gatineau's labour market is one of the factors explaining this drop.

In 2012, no major improvement is expected on the new home market in Gatineau, as 2,050 units will be started, or 5 per cent fewer than in 2011. The reasons behind this decrease are essentially the same as those mentioned earlier for the resale market: moderation of the job market and reduced demographic needs. The limited supply on the resale market will however lessen the drop in activity on the new home market next year.

The decline in residential construction will impact both the single-detached and multiple-family housing segments. In the single-detached home segment, the less favourable employment outlook in the area, especially in the higher-paying economic sectors, will hinder these generally more expensive dwellings. The scarcity of lots will exacerbate the situation by putting upward pressure on the final prices of new homes and therefore limit demand. For these reasons, we believe that approximately 700 single-detached homes will be started in 2012, down about 20 units from 2011. A decrease in multiple-family housing construction is also expected. In fact, after a total of 1,777 units recorded in 2010, starts should dip to close to 1,450 units in 2011 and then to 1,350 units in 2012.

In 2011, the decline in housing starts posted in the multiple-family housing segment will however be attributable only to semi-detached and row homes, which will reach close to 600 new units, for an estimated drop between 35 and 40 per cent. This

decrease can be explained by the less favourable economic outlook and the fact that many home purchases were moved up in 2010 by consumers wishing to take advantage of the low mortgage rates. With net migration on the decline and few new jobs available, semi-detached and row housing starts should fall again in 2012 (-8 per cent).

With 850 units started in 2011, the apartment segment should end the year on a higher note than last year (just over 800 units). This increase will benefit both rental and condominium apartments. Next year, though, a slight decrease in apartment starts is expected (to 800 units). For rental apartments, it should be recalled that foundations were laid for a 130-unit social housing complex for seniors in 2011, which will inevitably inflate this year's numbers. Other social housing projects are however planned by 2013 in the city of Gatineau, which should translate into a very small decrease in rental apartment starts next year (375 units in 2012, versus 400 in 2011). As will be explained in the last section of this report, the vacancy rate in the area still remains relatively low, which should help stimulate rental construction.

The same holds true for condominiums; with 450 new units predicted for 2012, their starts volume should come close to the level reached in 2011 (425 units). The condominium segment should do well, given its popularity among young households and an increasingly older population. Condominiums generally remain a more affordable choice for households wanting to live in the central districts of Gatineau.

On the geographic front, the Aylmer sector will see the most construction

in 2011 and 2012 (with about 40 per cent of the housing starts), thanks to the many lots that are available there. The condominium market in the Hull sector will remain prominent, given the scarcity of lots. Again next year, activity in the eastern sector of the metropolitan area should be sluggish, given the smaller pool of first-time buyers seeking single-detached, semi-detached or row homes.

Vacancy rate to remain low in 2012

After rising slightly for two years, the rental housing vacancy rate, which climbed from 1.9 per cent in October 2008 to 2.5 per cent in October 2010, will not increase in 2011 or 2012 in the Gatineau area.

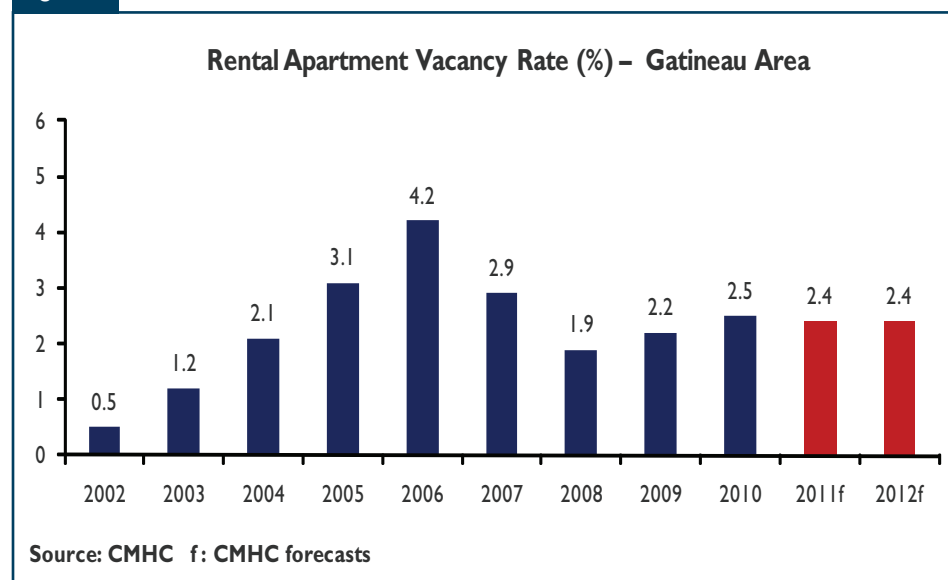
The slowdown in the movement to homeownership will support rental demand. A sign that this slowdown may have occurred in the Gatineau area, the vacancy rate had decreased slightly at the time of our April survey.

Conversely, as previously mentioned,

weak job prospects in Gatineau will combine with a slight decrease in net migration to limit pressure on the demand for rental apartments. Under these circumstances, the vacancy rate will stand at 2.4 per cent in 2011 and 2012, which represents stable market conditions compared to 2010. The relatively few vacancies will still affect the increase in rents in 2011. The average monthly rent for two-bedroom apartments is expected to reach \$725 in 2011 and \$740 in 2012.

In the retirement rental market segment, the vacancy rate (19.3 per cent) should fall in 2011 and 2012, as a result of a stable supply of units—no new privately initiated construction is planned—and an increase in the population aged 75 years or older in the area, the main client group for retirement homes. Finally, let's mention that the construction of social housing units for seniors in the city of Gatineau that occurred at the beginning of 2011 should not affect existing private residences, because they cater to different client groups.

Figure 3



³ Some large condominium projects are expected in late 2011 or early 2012. The number of condominium units started in 2011 or 2012 could therefore vary based on the start date of these major projects.

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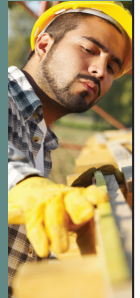
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Forecast Summary Gatineau CMA Fall 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market¹							
MLS [®] Sales	4,193	4,335	4,238	3,775	-10.9	3,725	-1.3
MLS [®] Active Listings	2,200	2,181	1,825	1,900	4.1	1,975	3.9
MLS [®] Average Price (\$)	193,911	206,005	218,620	235,000	7.5	245,000	4.3
New Home Market							
Starts:							
Single-Detached	1,120	1,056	910	720	-20.9	700	-2.8
Multiples	2,184	2,060	1,777	1,430	-19.5	1,350	-5.6
Starts - Total	3,304	3,116	2,687	2,150	-20.0	2,050	-4.7
Average Price (\$):							
Single-Detached	243,887	261,948	310,479	345,000	11.1	365,000	5.8
Semi-Detached	171,489	190,966	206,333	220,000	6.6	230,000	4.5
New Housing Price Index (% chg.) (Ottawa-Gatineau)	3.7	1.5	4.0	3.0	-	2.0	-
Rental Market²							
October Vacancy Rate (%)	1.9	2.2	2.5	2.4	-	2.4	-
Two-bedroom Average Rent (October) (\$)	677	690	711	725	-	740	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.60	-	3.56	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.42	-	5.43	-
Annual Employment Level	170,200	168,300	168,800	170,500	1.0	171,500	0.6
Employment Growth (%)	5.5	-1.1	0.3	1.0	-	0.6	-
Unemployment rate (%)	4.8	5.9	6.6	6.6	-	6.9	-
Net Migration	2,675	3,042	4,133	3,800	-8.1	3,600	-5.3

MLS[®] is a registered trademark of the Canadian Real Estate Association (CREA)

¹ Source: QFREB by Centris[®]

² Privately initiated rental apartment structures of three units and over

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), QFREB by Centris[®]. CMHC Forecast (2011-2012)

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