

HOUSING MARKET OUTLOOK

Saguenay CMA



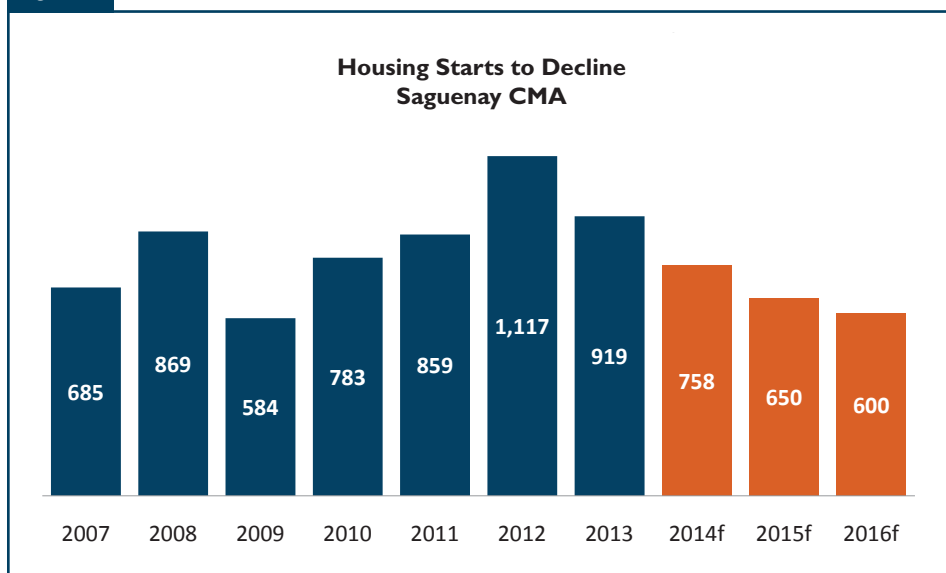
CANADA MORTGAGE AND HOUSING CORPORATION

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Highlights

- Housing starts will fall slightly in 2015 and 2016.
- Centris® sales of residential properties will decline.
- Existing home prices will register small decreases.
- The rental market will ease.

Figure 1



Source: CMHC f: CMHC forecasts

The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents risks where appropriate. The forecasts and historical data included in this document reflect information available as of October 22, 2014.

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New home market: slowdown on the horizon

This year, residential construction has been declining for a second straight year in the Saguenay census metropolitan area (CMA). The sluggish job market and less favourable demographic environment are driving down demand for new homes. In addition, buyers have a wider choice of existing and new homes for sale, which is contributing to the drop in demand for new housing.

The year 2014 will end with single-detached home starts down by 12 per cent. Activity is expected to remain rather stable in 2015, but a further decrease should be recorded in 2016, on account of a weaker demand. In all, starts of this type should reach 300 units in 2015 (+2 per cent) and 275 in 2016 (-8 per cent).

A greater drop will be observed in the semi-detached and row home segment. In all, foundations should be laid for 115 semi-detached and row homes in 2015 (23 per cent) and 105, in 2016 (-9 per cent). Several factors will contribute to the decline in such starts over the next two years, including the inventory of new homes, which are still being absorbed, given the high level of construction registered for the past few years. Also, the movement to homeownership should continue to slow down on account of the unfavourable economic conditions.

As well, it is anticipated that the number of rental dwellings started this year will be slightly lower than the level recorded last year. In 2015

and 2016, however, rental housing starts should stabilize, with 180 units started during each of these years. Several factors support this outlook, including the still significant demand (as a result of the decline in the movement to homeownership) and the fact that this market represents an interesting niche for developers who are slowing their production of freehold homes.

Overall, housing starts will decrease by 18 per cent in 2014, compared to 2013, bringing the total to 758 units. Next year, the drop will be 14 per cent, for a total of 650 new units. In 2016, the level of construction will remain limited, as a total of 600 units will be started. These levels will be slightly below the average for the last 10 years.¹

Existing home market: activity will remain slow

This year, the resale market in the CMA has continued the easing trend that began in 2013. This movement has been due to a decrease in sales (-5 per cent from 2013) and an increase in active listings (+21 per cent). Less favourable economic conditions and a slowing job market contributed to the decline in demand. As well, the steady pace of construction observed from 2010 to 2013 drove up supply on the resale market. Transactions continued to decrease until the beginning of this year and then finally stabilized. This will bring the annual total to 1,120 Centris[®] sales, down by 6 per cent from 2013. The recent trend on the resale market had several repercussions: softer market conditions, longer listing periods and slower growth in prices.

After slowing down in 2014, activity on the existing home market will keep declining. Given the weak job market and stagnant incomes, it will take a while before demand rests on a more solid foundation. In fact, employment will be below the levels registered in 2012 and 2013. In all, 1,050 homes will change hands through real estate brokers in 2015 (-6 per cent) and 1,000, in 2016 (-5 per cent). It should be noted that the anticipated levels, which will be following a marked decrease in 2013, will remain below the average for the last 10 years.² Other factors will possibly limit sales on the market. The growth in prices during the previous decade lowered affordability, particularly for first-time homebuyers, whose ability to buy was also reduced by the changes made to the mortgage financing rules. In addition, the expected increase in mortgage rates is another factor that will contribute to limiting activity on the residential resale market.

On the supply side, the level of properties for sale will remain relatively high. It should be recalled that the inventory has risen rapidly in recent years, with the number of active listings having practically doubled since 2009. This considerable increase in supply has caused the market to soften. With the combination of the anticipated decline in sales and the high level of listings, buyers will retain the edge in negotiations.

This year, the average price will remain relatively stable at \$192,700 (+0.2 per cent). Over the forecast period, with market conditions persistently favourable to buyers, small price decreases should be recorded. The average price of existing homes will therefore reach \$189,800 in 2015 (-2 per cent) and then \$186,000 in 2016 (-2 per cent).

¹ The average annual level of housing starts in the Saguenay CMA for the period from 2004 to 2013 was 711 units.

² The average annual level of Centris[®] sales in Saguenay for the period from 2004 to 2013 was 1,488 units.

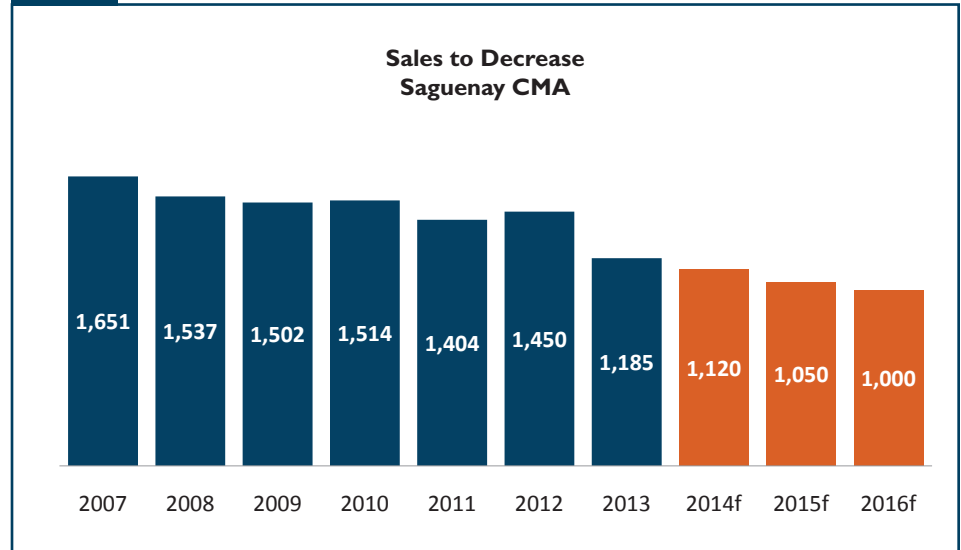
Rental market: easing will continue

For several years, the rental market had remained tight in the Saguenay area, with demand stimulated by the favourable economic conditions and supply not keeping pace. Since 2011, however, the proportion of vacant apartments in the CMA has doubled, reaching 2.8 per cent in 2013. Over this period, the increase in rental housing starts was greater than the growth in demand, which caused the easing. In fact, 759 conventional rental units³ were started from 2011 to 2013, for a hike of 100 per cent compared to the previous three-year period.

This year, lower employment and net migration levels will bring down demand. However, the movement to homeownership should continue to slow down as a result of the unfavourable economic conditions. As well, it is expected that the level of conventional rental starts will remain significant, given that this market represents an interesting niche for developers who are slowing their production of freehold homes. This addition of units will cause market conditions to ease further, and the vacancy rate will rise from 2.8 per cent to 3.1 per cent.

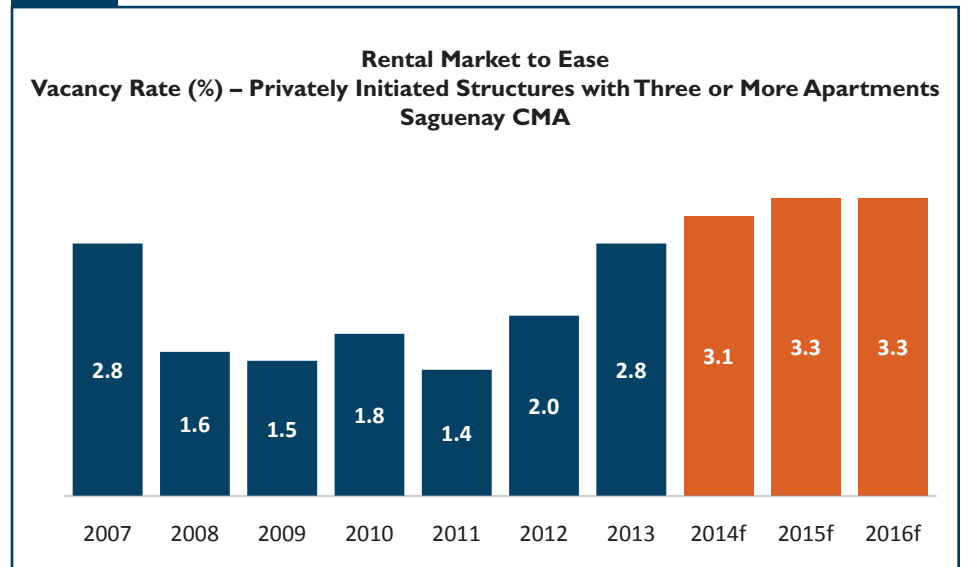
Next year, with employment and the renter population growing modestly, rental housing demand should remain stable. As for supply, the pace of rental apartment construction should remain steady. In fact, despite rather weak economic conditions, the vacancy rate in Saguenay should still be one of the lowest among Quebec's regions. However, the situation

Figure 2



Source: CMHC f: CMHC forecasts

Figure 3



Source: CMHC f: CMHC forecasts

could become more difficult for owners of older buildings, especially those where maintenance has been neglected, as the competition from recent constructions will be stronger. New units find takers quite easily, particularly among households

who would have preferred to buy a property but do not have the required financial capacity. In fact, the vacancy rate for newly built units is lower than the average for the area.⁴ And, the rate for units in older buildings increased in 2013.⁵ We therefore expect more

³ This excludes rental units in retirement homes.

⁴ The vacancy rate for structures built in 2000 or later was 2.6 per cent in 2013.

⁵ The vacancy rate for structures built between 1960 and 1974 rose from 1.7 per cent in 2012 to 4.9 per cent in 2013.

choice for renters on the market next year, with a vacancy rate that should reach 3.3 per cent.

In 2016, the number of starts will remain stable, which will allow the market to adjust to the growth in demand. We consequently forecast stable conditions on the market, and the vacancy rate should stay at 3.3 per cent.

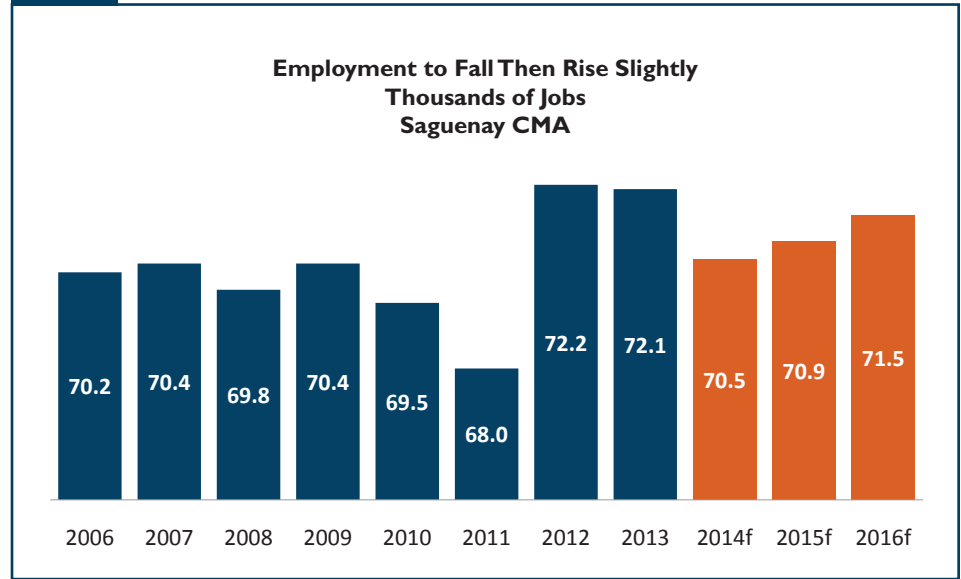
Given the softer conditions, the average rent for two-bedroom apartments will rise moderately, reaching \$590 in 2015 and \$600 in 2016.

Economic trends: employment and migration will not be very supportive of housing demand

After having posted a small decline in employment in 2013 and weak growth in personal income, the Saguenay CMA has experienced a greater slowdown this year, such that the number of jobs will fall by 2.2 per cent. This decrease in employment will cause the unemployment rate to rise to 9.2 per cent in 2014, from 7.7 per cent a year earlier. The weak job market conditions in the area result in part from the decrease in employment in the manufacturing and construction sectors. As well, the employment level reflects the moderation in residential construction and the slowdown on the resale market.

The year 2015 should see a small rebound. Both goods and services should post stronger growth next

Figure 4



Source: Statistics Canada f: CMHC forecasts

year. The manufacturing sector should recover thanks to a more vigorous U.S. economy and a slightly weaker Canadian dollar. The local manufacturing base depends heavily on forestry and aluminum production. Lumber and pulp prices have firmed up this year. Aluminum prices remain low but should stabilize this year and rise in 2015 as a result of the global economic rebound. However, the current environment suggests a tightening of public spending. All in all, employment should register a small gain of 0.5 per cent.

In 2016, the economic growth anticipated in the province and across North America will be more sustained than in 2015. Some planned major mining projects could allow the area to begin a new, slightly faster growth cycle. Overall, the labour market will post a moderate gain of about 1 per cent in 2016.

On the demographic front, the growth should remain very low. First, migration flows will reflect the weak job market. In 2014, net migration should therefore be expected to decline, as more young people leave in search of employment opportunities. In recent years, however, the improvement of the job market has reduced the number of Saguenay residents leaving the area for other regions. As a result, net migration in the area, which showed a gain of 202 people in 2013, should register annual losses of 50 people in 2015 and 2016. The growth in the Saguenay population will be attributable to natural increases. However, this growth should be weaker than in recent years and at a pace below the rates of the other metropolitan areas in the province. The outlook⁶ is pointing to a slowdown in household growth by 2016. Between the last

⁶ Institut de la statistique du Québec (ISQ), Perspectives démographiques du Québec et des régions, 2011/2061, Édition 2014.

two censuses, that is, from 2006 to 2011, the average annual growth in the number of new households was 650. Currently, the population projections for the period from 2011 to 2016 indicate an average annual formation of 440 households. It is therefore expected that housing demand will moderate.

Mortgage rates are expected to remain unchanged until the latter months of 2015

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to remain unchanged until the latter parts of 2015 and then begin to increase gradually. Gradual

increases in mortgage rates from historic lows are not expected to significantly impact housing demand.

According to CMHC's base case scenario for 2014, CMHC expects the one-year mortgage rate to be in the 3.00 to 3.25 per cent range, while the five-year rate is forecast to be within the 5.00 to 5.50 per cent range. For 2015, the one-year mortgage rate is expected to be in the 3.20 to 4.00 per cent range, while the five-year rate is forecast to be within the 5.25 to 6.00 per cent range. For 2016, the one-year mortgage rate is expected to be in the 3.70 to 4.60 per cent range, while the five-year rate is forecast to be within the 5.55 to 6.45 per cent range.

Trends at a glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will remain low by historical standards and will continue to support housing demand.
Employment	The labour market will post modest growth, which will dampen the overall housing demand.
Income	Given the job market forecasts, per capita income growth may not be sufficient to support the movement to homeownership in 2015 and 2016.
Population	Population growth in the area will remain weak, which will contribute to moderating housing demand somewhat in the CMA.
Resale Market	Softer resale market conditions will cause demand for new homes to slow down.

Forecast risks

This outlook is subject to some risks, including the following:

- Employment growth could be greater than anticipated, especially if certain major capital projects are carried out in 2015. If employment is thus further boosted, this will support a stronger-than-expected housing demand.
- A stronger-than-expected U.S. economic expansion or stronger growth in emerging countries could lead to higher global commodity prices, which would positively impact the regional economy through stronger exports. This could lead to greater momentum in housing activity than is currently forecast.
- Despite the declining demand and significant supply on the market, it is possible that the growth in prices may not slide into negative territory. This would be due to downward price rigidity, whereby households prefer not to sell their home (or to wait longer before doing so) rather than sell it at a lower price than originally asked.
- A greater shift in demand from single-detached houses to multi-unit housing could lead to a higher number of starts in the latter segment.

Spotlight on...

Semi-detached and row homes

In the past few years, semi-detached and row housing starts have posted a boom in the Saguenay metropolitan area (figure 1). Their share of freehold home starts jumped up from 4 per cent in 2008 to 39 per cent in 2013.

Numerous developers have promoted semi-detached and row homes as an affordable housing option. With the low mortgage rates and less expensive prices for such houses, the monthly mortgage payments are comparable to rental costs. Many first-time buyers consequently made the move from renting to owning. The Saguenay area therefore experienced a strong movement to homeownership, which contributed to the increase in the rental housing vacancy rate in the CMA. Since 2013, semi-detached and row housing starts have seen a significant decrease, which can be explained by several factors. On the resale market, the single-family housing segment became favourable to buyers. Buyers therefore have greater choice in this market. Also, the inventory of new units is trending upward, which means a greater selection of already built new homes for buyers (figure 2).

On the demand side, first-time buyers often turn to semi-detached and row houses, since they are less expensive. The changes made to the mortgage rules and the decrease in employment in the

area had a direct impact on the demand for such homes. In 2014, semi-detached and row housing starts can be expected to decrease and reach a lower level than in previous years.

Figure 1

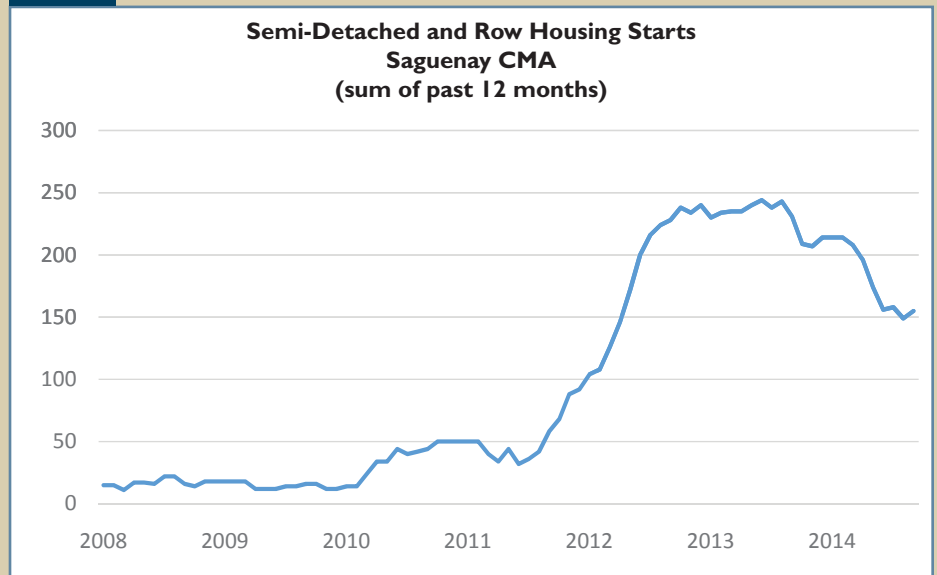
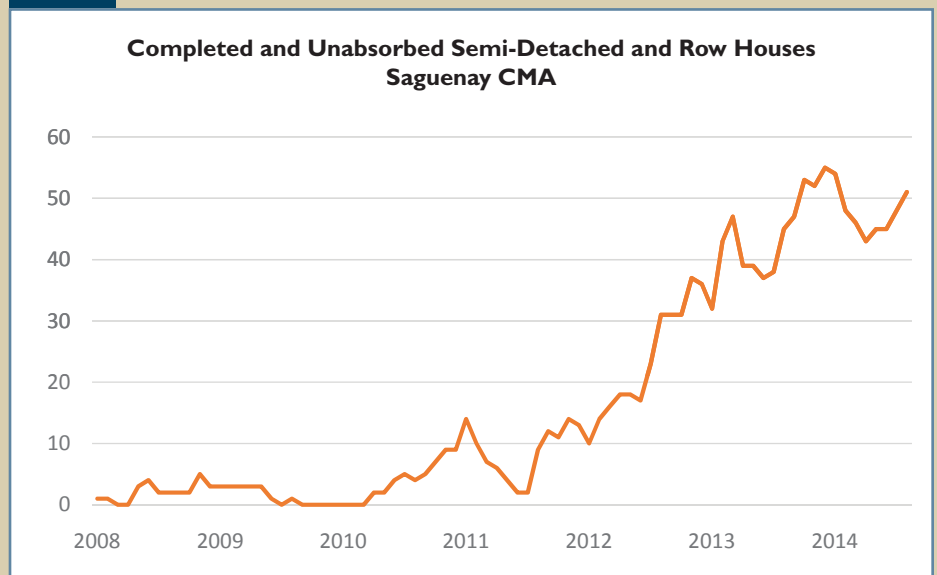


Figure 2



Forecast Summary Saguenay CMA Fall 2014									
	2011	2012	2013	2014(F)	% chg	2015(F)	% chg	2016(F)	% chg
New Home Market									
Starts:									
Single-Detached	475	400	337	295	-12.4	300	1.6	275	-8.3
Multiples	384	717	582	463	-20.5	350	-24.3	325	-7.1
Starts - Total	859	1,117	919	758	-17.5	650	-14.2	600	-7.7
Average Price (\$):									
Single-Detached	203,165	221,202	238,036	241,000	1.2	243,000	0.8	245,000	0.8
Median Price (\$):									
Single-Detached	180,000	200,000	225,000	230,000	2.2	235,000	2.2	240,000	2.1
New Housing Price Index (% chg) (Que.)	2.6	1.7	1.0	s.o.	-	s.o.	-	s.o.	-
Resale Market¹									
Centris [®] Sales	1,404	1,450	1,185	1,120	-5.5	1,050	-6.3	1,000	-4.8
Centris [®] New Listings	2,409	2,353	2,502	2,500	-0.1	2,575	3.0	2,620	1.7
Centris [®] Active Listings	810	905	1,134	1,300	14.6	1,200	-7.7	1,200	0.0
Centris [®] Average Price (\$)	177,406	185,623	192,237	192,700	0.2	189,800	-1.5	186,000	-2.0
Rental Market²									
October Vacancy Rate (%)	1.4	2.0	2.8	3.1	0.3	3.3	0.2	3.3	0.0
Two-bedroom Average Rent (October) (\$)	557	549	571	580	1.6	590	1.7	600	1.7
Economic Overview									
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.25	-	3.20 - 4.00	-	3.70 - 4.60	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-	5.55 - 6.45	-
Annual Employment Level	68,000	72,200	72,100	70,500	-2.2	70,850	0.5	71,550	1.0
Employment Growth (%)	-2.2	6.2	-0.1	-2.2	-	0.5	-	1.0	-
Unemployment rate (%)	7.0	7.6	7.7	9.2	-	8.5	-	8.0	-
Net Migration	3	224	202	-150	-174.3	-50	-66.7	-50	-7.7

¹The Centris[®] system contains all the listings of Québec real estate brokers.

²Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), Centris[®] Statistics. CMHC Forecast (2014-2016)

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

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:

The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:

The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:

Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:

Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:

Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:

Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS[®]) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris[®] listing system via the Quebec Federation of Real Estate Boards.

MLS[®] (Centris[®] in the province of Quebec) Sales:

Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS[®] (Centris[®] in the province of Quebec) Average Price:

Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October **Rental Market Survey** (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:

The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:

The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:

Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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