

HOUSING MARKET OUTLOOK

Saguenay CMA



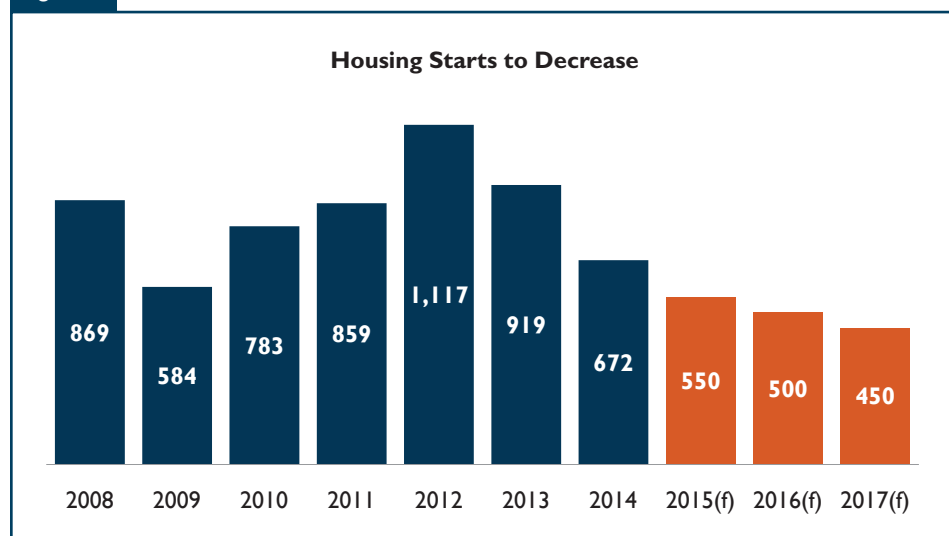
CANADA MORTGAGE AND HOUSING CORPORATION

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Highlights

- Housing starts will fall in 2016 (-9 per cent) and 2017 (-10 per cent).
- Transactions on the resale market will increase, by 9 per cent, in 2016 and 8 per cent, in 2017. However, the market will remain favourable to buyers and existing home prices will register small decreases (-2 per cent per year).
- The vacancy rate will climb slightly in 2016 and 2017 to 4.7 per cent and 5.0 per cent, respectively.
- Employment will rise moderately in 2016 and in 2017, which will slightly support housing demand.

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 September 28, 2015.

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New home market: the level of activity will remain low

In 2015, residential construction has been declining for a third straight year in the Saguenay census metropolitan area (CMA). Activity in the area was limited by the weak economic and demographic environment and increased competition from the existing home supply.

Single-detached houses

Annual results will reflect a 16-per-cent drop in single-detached housing starts and decreases will be again recorded in 2016 and 2017. The wide choice of existing homes for sale will continue to contribute to the slower pace of construction. Also, the recent decrease in prices of homes listed on the resale market has widened the gap with prices on the new home market and should push demand for new homes downward. Finally, the aging of the population and the changes in household composition are making single-detached homes less attractive.

Multi-unit housing

Multi-unit freehold homes¹ will not escape the downward trend. In all, foundations should be laid for 90 semi-detached and row homes in 2016 and 70, in 2017. The same factors applying to single-detached homes will contribute to the decrease in the level of activity in this segment over the next two years. Also, the high inventory of still unabsorbed new homes will limit construction activity.

The low number of condominium starts since the beginning of the year suggests the presence of a limited demand for housing of this type in the area. The abundant supply on the existing condominium market, where conditions favour buyers, will reduce the need for new units. Starts will therefore reach some 20 units per year.

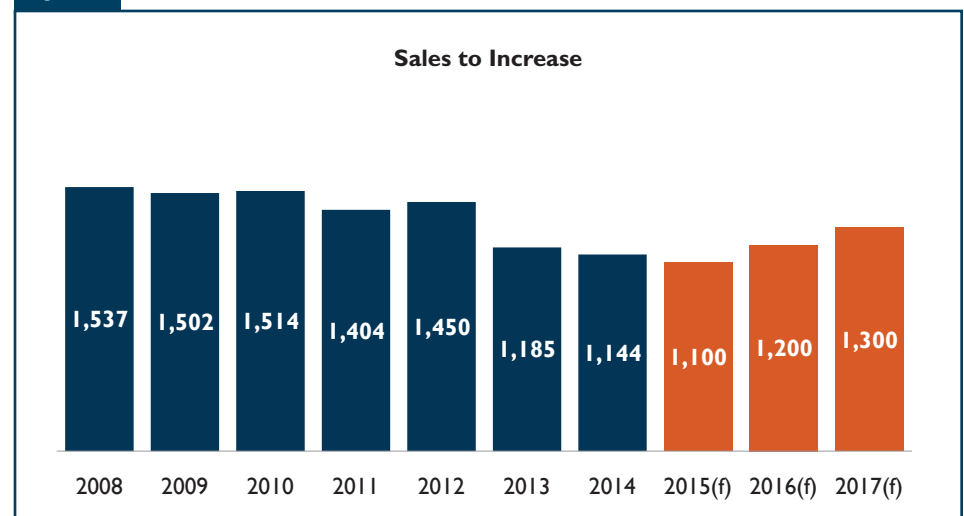
As well, it is anticipated that the number of rental dwellings started this year will be lower than the level recorded last year. In 2016 and 2017, rental housing starts should decrease slightly, with 145 and 125 units started. The rise in the vacancy rate will limit the builder's interest in adding new units to the market. However, several developers may want to benefit from the upcoming demand from baby boomers and seniors.² Also, this market will represent an interesting niche for developers who are slowing their production of freehold homes.

In all, foundations will be laid for 550 units in 2015, and decreases will again be observed in 2016 and 2017 with 500 and 450 units started annually. These levels will be close to those recorded in the early 2000s, but below the average of the last ten years.³ It should be recalled that the need for new units will be essentially lower than before in the CMA. As we have already mentioned in previous reports, household formation will be more moderate and will result in a reduced need for housing starts.

Existing home market: further price decreases are anticipated

This year, sales in the CMA will drop by 4 per cent and the resale market will continue the easing trend that began in 2013. Then, after moderating in 2015, the transaction volume will rise. In all, 1,200 homes will change

Figure 2



Source: CMHC f: CMHC forecasts

¹ Freehold homes refer to dwellings where the owner also holds the title of ownership to the land (single-detached, semi-detached and row houses, as well as duplexes).

² See text box for more details.

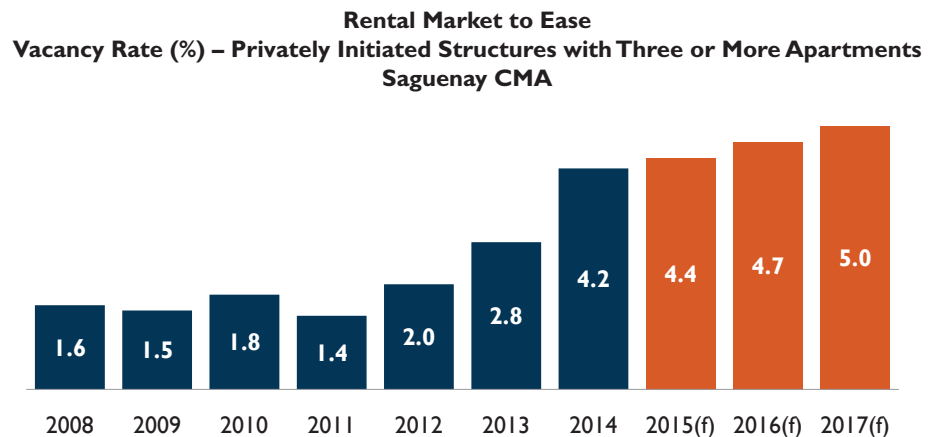
³ The average annual level of housing starts in the Saguenay CMA for the period from 2005 to 2014 was 744 units.

hands through real estate brokers in 2016 (9 per cent) and 1,300, in 2017 (8 per cent). It should be noted that the anticipated levels, which will be following two consecutive annual decreases, will remain below the average for the last ten years.⁴ Mortgage rates will remain low and continue to support sales. Also, the recent decrease in prices will widen the gap with new home prices and should attract more buyers. However, a sluggish job market will limit the increase in the volume of transactions.

On the supply side, the level of properties for sale will remain high. It should be recalled that the inventory has risen rapidly in recent years, with the number of active listings having doubled since 2008. The steady pace of construction observed from 2010 to 2013 drove up supply on the resale market. Also, the decrease in demand has kept the inventory at a high level. In 2016 and 2017, the expected sales volume will not be sufficient to lower the inventory. With the combination of the low level of sales and the high level of listings, buyers will retain the edge in negotiations, despite a slight tightening of market conditions.

Given the market conditions persistently favourable to buyers, the average price will reach \$183,000 this year, for a decrease of 3.5 per cent. For the same reason, new price decreases should be recorded over the forecast period. The average price of existing homes will therefore reach \$180,000 in 2016 (-2 per cent) and then \$177,000 in 2017 (-2 per cent). This downward adjustment can

Figure 3



Source: CMHC f: CMHC forecasts

also be explained by the significant increase in prices over the last decade and the relative weakness of fundamentals, such as demographics and the economy.

Rental market: easing will continue

Since 2011, the proportion of vacant apartments in the CMA has tripled, reaching 4.2 per cent in 2014. Over this period, the increase in rental housing starts⁵ was greater than the growth in demand, which caused the easing.

This year, the marginal growth in employment will contribute to the slight increase in rental housing demand. However, the condominium and rental single-family home market is starting to compete with conventional rental units and will limit demand. This rather recent phenomenon can be explained by the greater difficulty for builders to have new units absorbed. The supply of conventional rental apartments, for its part, will increase slightly. We expect

demand to remain rather stable and supply to increase, which will result in a vacancy rate of 4.4 per cent.

The same factors observed in 2015 will help stabilize demand in 2016 and 2017. As for supply, the pace of rental apartment construction should remain slow. We consequently forecast a slight increase in the vacancy rate, which will reach 4.7 per cent in 2016 and 5 per cent in 2017. This rate will be above the average of the last ten years and at a level similar to the beginning of the 2000s.

Finally, the average rent for two-bedroom apartments will reach \$615 in 2016 and \$625 in 2017.

Economic trends: small gains in employment will be recorded

The Saguenay job market will continue to post small gains, a trend that began in 2013. In 2015, employment is expected to increase by only 0.5 per cent. The rise in average weekly earnings, for its part, has been

⁴ The average annual level of Centris® sales in Saguenay for the period from 2005 to 2014 was 1,463 units.

⁵ In fact, 759 conventional rental units were started from 2011 to 2013, for a hike of 100 per cent compared to the previous three-year period.

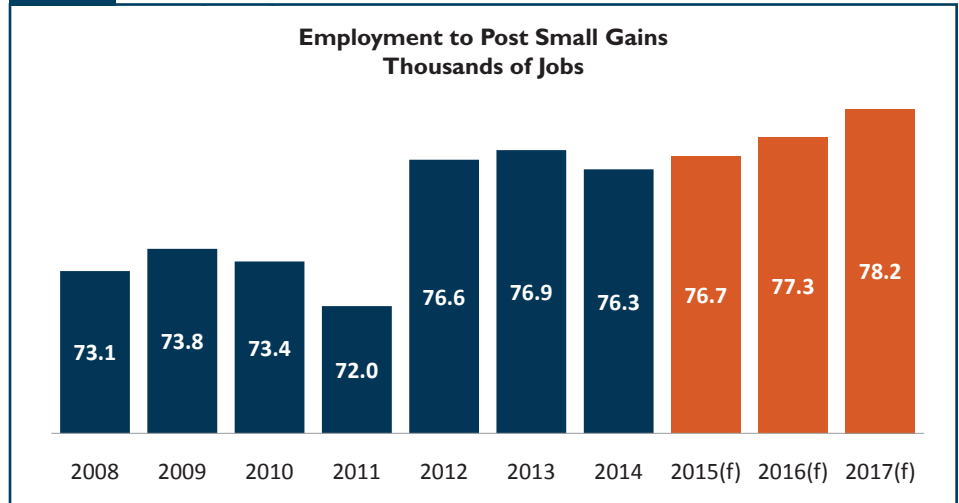
less significant since the beginning of the year. The weak job market conditions observed in 2015 in the area result, in part, from the decreased employment in the manufacturing and public administration sectors.

The year 2016 should see a small rebound. Exporting companies and the tourism industry could benefit to a certain extent from a relatively low Canadian dollar in comparison with the U.S. dollar. Also, the aging of the population will promote job creation in the health and social services sectors. However, a decrease in private and public investments should prevail as few new projects are expected. In fact, several projects are currently on hold, pending a stronger global economic recovery. Finally, companies in the aluminum sector will be facing difficult market conditions, on account of continued high inventories and the relatively low price of this metal.

The same factors than in 2016 will contribute to the weak job market in 2017. However, the economic growth anticipated in the province and across North America will be more sustained. Some planned major mining projects could allow the area to begin a new, slightly faster growth cycle. Overall, the job market will post a moderate gain of about 1 per cent in 2016 and 2017, which will slightly support housing demand as a whole.

On the demographic front, the outlook⁶ is pointing to a slowdown in household growth by 2017.

Figure 4



Source: Statistics Canada f: CMHC forecasts

Between the last two censuses, that is, from 2006 to 2011, the average annual growth in the number of new households was 650. Currently, projections for 2011 to 2017 indicate an average annual formation rate of 420 households, which will translate into a lower housing demand.

Mortgage rates are expected to begin to rise moderately from current levels late in 2016

Mortgage rates are expected to continue trending close to current levels, supporting housing demand. However, consistent with the view of Canadian economic forecasters, CMHC expects interest rates to begin to rise moderately from current levels late in 2016, contributing to a modest slowdown in housing markets.

According to CMHC's base case scenario for 2015, the one-year mortgage rate is expected to be in the 2.60 to 3.30 per cent range, while the five-year rate is forecast to be within the 4.10 to 5.20 per cent range. For 2016, the one-year mortgage rate is expected to be in the 3.00 to 3.80 per cent range, while the five-year rate is forecast to be within the 4.70 to 6.00 per cent range. For 2017, the one-year mortgage rate is expected to be in the 3.90 to 4.80 per cent range, while the five-year rate is forecast to be within the 5.10 to 6.50 per cent range.

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



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Trends at a glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will begin to rise gradually late in 2016, contributing to moderation in housing demand.
Employment	The job market will post modest growth, which will support overall housing demand.
Income	Given the job market forecasts, per capita income growth should be weak and insufficient to support the movement to homeownership in 2016 and 2017.
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:

- Given their significant in the CMA's economy, if some major capital projects were carried out in 2016 and 2017, they would promote a stronger than expected housing demand.
- Despite the declining demand and significant supply on the resale 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.
- If the current inventories of new homes are absorbed at a slower rate than expected, this could have a larger-than-anticipated negative impact on housing starts in 2016 and 2017.
- An extended decrease in the income of workers would slow down housing demand and would put downward pressure on prices.

Spotlight on...

Seniors' housing market

Several builders will benefit from the anticipated demand from seniors by starting seniors' rental apartments in the Saguenay CMA in 2016 and 2017. This phenomenon holds all the more true as the forecast horizon gets longer. In fact, over the next 20 years, the population aged 75 or older—the target client group for seniors' housing projects—will climb from 13,500 to 30,000 in the Saguenay area. The number of seniors will therefore double over that period. Also, the results of the CMHC Seniors' Housing Survey revealed that about 19 per cent of people aged 75 or older in the Saguenay area currently live in seniors' housing projects in the CMA.⁷ Assuming that this proportion (19 per cent) remains constant over the period from 2015 to 2035,⁸ starts of apartments in seniors' housing projects will have to increase substantially to meet this potential demand. Table I presents this potential demand in terms of units. Even if potential demand will only peak around the year 2035, some developers could decide to build several retirement homes in the short term in order to be already positioned on this market. Over the medium and long term, it is also possible that more members of the next generations of people aged 75 or older might decide to choose housing options other than retirement homes, such as conventional rental buildings or condominium projects offering a wide range of services. Consequently, the actual number of units in seniors' housing projects started from now until 2035 could also be lower than the levels indicated in table I.

Table I Private Retirement Home Spaces – Saguenay CMA (potential demand ranges)	
Period	Potential Demand (units)
2016-2020	400–500
2021-2025	600–700
2026-2030	650–800
2031-2035	650–800

⁷ This proportion (19 per cent) is called the capture rate.

⁸ In other words, future seniors would have the same behaviour with regard to choosing to live in a retirement home or not as today's seniors.

Forecast Summary Saguenay CMA Fall 2015									
	2012	2013	2014	2015(F)	% chg	2016(F)	% chg	2017(F)	% chg
New Home Market									
Starts:									
Single-Detached	400	337	268	225	-16.0	215	-4.4	200	-7.0
Multiples	717	582	404	325	-19.6	285	-12.3	250	-12.3
Starts - Total	1,117	919	672	550	-18.2	500	-9.1	450	-10.0
Average Price (\$):									
Single-Detached	221,202	238,036	248,638	280,000	12.6	280,000	0.0	280,000	0.0
Median Price (\$):									
Single-Detached	200,000	225,000	225,000	245,000	8.9	250,000	2.0	250,000	0.0
New Housing Price Index (% chg) (Que.)	1.7	1.0	0.3	s.o.	-	s.o.	-	s.o.	-
Resale Market¹									
Centris® Sales	1,450	1,185	1,144	1,100	-3.8	1,200	9.1	1,300	8.3
Centris® New Listings	2,409	2,353	2,502	2,600	3.9	2,650	1.9	2,650	0.0
Centris® Active Listings	905	1,135	1,355	1,450	7.0	1,500	3.4	1,550	3.3
Centris® Average Price (\$)	185,626	192,237	189,724	183,000	-3.5	180,000	-1.6	177,000	-1.7
Rental Market²									
October Vacancy Rate (%)	2.0	2.8	4.2	4.4	0.2	4.7	0.3	5.0	0.3
Two-bedroom Average Rent (October) (\$)	549	571	595	605	1.7	615	1.7	625	1.6
Economic Overview									
Mortgage Rate (1 year) (%)	3.17	3.08	3.14	2.60 to 3.30	-	3.00 to 3.80	-	3.90 to 4.80	-
Mortgage Rate (5 year) (%)	5.27	5.24	4.88	4.10 to 5.20	-	4.70 to 6.00	-	5.10 to 6.50	-
Annual Employment Level	76,600	76,900	76,300	76,700	0.5	77,300	0.8	78,200	1.2
Employment Growth (%)	6.4	0.4	-0.8	0.5	-	0.8	-	1.2	-
Unemployment rate (%)	7.6	7.7	9.6	8.5	-	8.3	-	8.0	-
Net Migration	228	-37	-59	-50	-15.3	-50	0.0	-50	-7.7

¹Source : QFREB by Centris®. The Centris® system contains all the listings of Québec real estate brokers.

²Rental universe = Privately initiated rental apartment structures of three units and over.

Sources: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), Centris® Statistics. CMHC Forecast (2015-2017)

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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