

# H OUSING MARKET OUTLOOK

Gatineau

Canada Mortgage and Housing Corporation

[www.cmhc.ca](http://www.cmhc.ca)

## Slowdown to continue

The Gatineau housing market reached a peak in terms of volume in 2004 and has since started to slow down, on account of the less vigorous economic conditions and the less rapid demographic growth, among other factors. The slowdown extends to all three market segments (resale, new home and rental) in the census metropolitan area (CMA). While the resale market is less tight and shows a slower increase in prices, the number of starts on the new home market has been declining

since the beginning of 2005 and the vacancy rate on the rental market is on the rise. Several factors, including the rise in mortgage rates expected over the coming months, a lower household formation level, and slower employment and income growth in the last twelve months, are leading us to forecast that the slowdown will continue on the housing market, although moderately, from now until the end of 2005 and in 2006.

## Less vigorous economic conditions

With the Canadian and US economies operating near capacity, the US Federal Reserve and the Bank of Canada have decided to reduce the degree of monetary easing by raising their key policy rates. In addition, the significant increase in oil prices over the past year will incite the Bank of Canada to continue the tightening process to keep inflation at the target rate of 2 per cent. The Canadian economy should grow at a rate of 2.9

per cent in 2006. CMHC anticipates that mortgage rates will rise by around 25 to 50 basis points by the end of 2006. More specifically, in 2005-2006, one-year and five-year mortgage rates will be in the 4.50-5.75 per cent and 5.50-6.50 per cent ranges, respectively. The expected rise in mortgage rates from now until the end of 2006 will certainly have an impact on the capacity of households to buy a property.

FALL-WINTER 2005

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As for the Quebec economy, the rate of growth will be more moderate next year (+2.6 per cent), partly on account of the external trade sector, which is sustaining the repercussions of the considerable increase in the value of the Canadian dollar (in relation to the US dollar and the euro). An important indicator of housing demand, the level of employment has progressed less rapidly in the last eighteen months in the Gatineau CMA. In fact, after a gain of 6 per cent in 2003, employment growth reached 2 per cent in 2004. More particularly, the public administration sector, which accounts for just over one quarter of all jobs in the area, has declined since the beginning of the year. As well, a potential departmental management reorganization could also have a negative impact on employment in this sector over the coming years. In all, CMHC anticipates a net creation of 3,000 jobs in 2005 and 1,500, in 2006, in the area. In addition, after posting rapid growth (+4 per cent) in 2003 and 2004, the average weekly income has been stagnating since the end of 2004. Finally, migration, another indicator of housing demand, will decline by 25 per cent, according to the forecasts of the Institut de la statistique du Québec (ISQ), on account of decreases in intraprovincial and interprovincial net migration levels.

It should also be mentioned that consumer confidence was undermined by the soaring energy prices over the summer. The Conference Board confidence index plummeted in September (99.3 compared to 121.3 last year) and, when asked if it was a good time to buy a home, 39 per cent of respondents replied affirmatively, compared to 56 per cent in September 2004. All in all, the major economic and demographic indicators are pointing to a continued slowdown on the housing market in 2006.

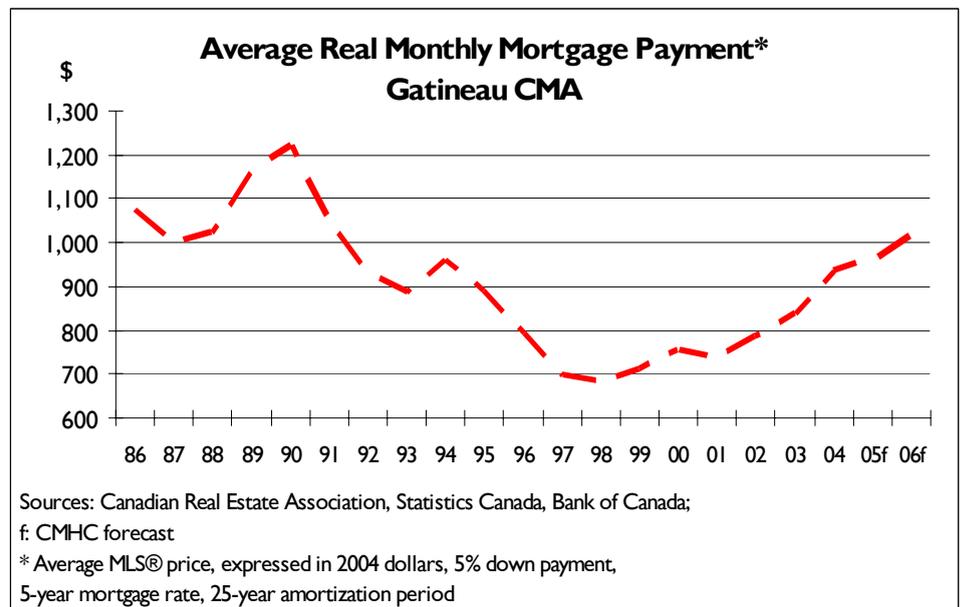
## Resale market to keep easing

The significant rise in listings since the second half of 2004 has managed to alleviate the scarcity that had been prevailing on the resale market for the last few years. The market is not as tight and the increase in prices is not as rapid as in recent years. The growing supply on the market will slow down the rise in the average price, to 7 per cent in 2005 and 4 per cent in 2006.

The much faster increase in listings than in sales has allowed the market to ease in 2005. The number of sellers per buyer went up from 4 to 6 in the last twelve months. It should be recalled that CMHC considers that a market is balanced when there are 8 sellers for every buyer. Even if the economic conditions are less favourable, the slower increase in prices and the still very low mortgage rates have probably convinced some buyers that they should purchase a property, such that the number of transactions will be essentially the same in 2005 as in 2004 (4,000 units, compared to 3,930). Although prices have gone up by about 45 per cent (in 2004 dollars) over the last

four years, the average monthly mortgage payment (in 2004 dollars) is still lower than it was in the early 1990s (see graph). In 2006, the expected rise in mortgage rates should cause the market to slow down somewhat. CMHC is anticipating a decrease of 5 per cent in the number of transactions. The significant increase in prices in recent years will continue to incite many buyers to put their homes up for sale. As a result, listings will rise by 23 per cent in 2005 and by 18 per cent in 2006.

Lastly, the difference in average prices between Ottawa and Gatineau has been relatively stable since last year, and less than what it was a few years ago (the gap was 60 per cent in the second quarter of 2005, compared to 78 per cent in 2002). Since housing accounts for a significant share of a household budget, a narrower gap will incite fewer Ontario households to come and settle in Gatineau, which will reduce the number of transactions on the resale market. While prices remain significantly lower in Gatineau, other factors are taken into account in the decision to move of Ontario residents (such as taxation differences).



The resale market will continue to progressively move away from the overheated conditions that have been prevailing in recent years, and move closer to a balanced situation. Buyers will have more and more choice and will see their negotiating power increase.

### **New home market: after a major decline in 2005, the slowdown will be more moderate in 2006**

After five years of growth, the residential construction market has slowed down significantly since the beginning of 2005. In fact, after reaching, in 2004, its highest level since 1991, with 3,227 starts, the market is showing a considerable decline in 2005 (-37 per cent after three quarters). The extent of the decline has been mainly due to the significant decreases in the condominium and rental housing segments.

Less vigorous economic conditions in 2004 and during the first half of 2005, a lower household formation level (see graph) and the significant rise in listings on the resale market will result in a weaker demand for new homes. In addition, the increase in the number of completed and unoccupied units will also contribute to curbing the enthusiasm of builders. In fact, there were 257 unoccupied dwellings in the CMA at the end of September 2005, compared to 135 in September 2004. Following a decrease of 29 per cent in the number of starts in 2005, the decline will be more moderate in 2006 (-13 per cent). CMHC is forecasting 2,300 starts this year and 2,000, next year (see table).

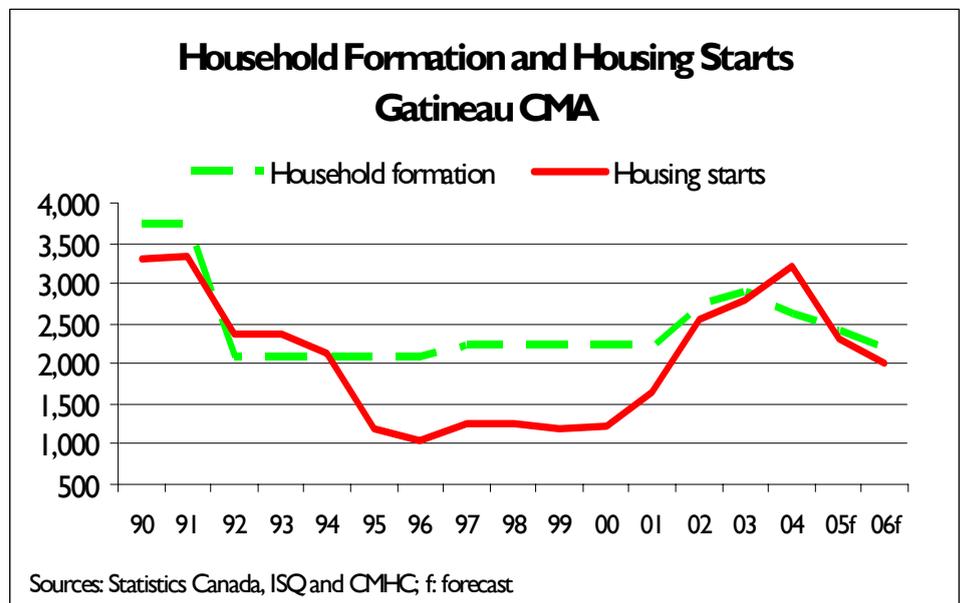
Freehold housing starts will be affected by increased competition from the existing home market, where the increase in prices has slowed down. The decline in this segment of the construction market will be less pronounced than in the condominium or rental housing segments, however, as freehold home building activity will decrease by 16 per cent in 2005 and by 12 per cent in 2006.

Condominium construction will sustain a more significant decrease, with 400 units of this type being built in 2005 and 250, in 2006. The decline in this segment is being caused by the high inventories on the market, resulting from the rise in listings on the resale market, a significant number of condominiums still under construction and the increase in the number of completed and unoccupied units. However, this type of housing remains an attractive option for young households who want to access homeownership and for older households who are selling their homes. Finally, with the increase in

the vacancy rate, rental housing starts will show a significant decrease in 2005 and be stable in 2006 (see table).

### **Rental market: vacancy rate up and rents to stagnant in 2005 and 2006**

The main indicators affecting the rental market (migration, youth employment, household formation among younger and older people) are leading us to forecast that this market will continue to ease in 2005 and then stabilize in 2006. First, on the demand side, the rise in the vacancy rate and the relatively stable rents in Ottawa will incite fewer Ontario residents to cross the river. Also, the ISQ expects that fewer people from elsewhere in Quebec will come and settle in Gatineau. In addition, the fact that many households have accessed homeownership in recent years will have a significant impact on rental housing demand.



However, the latest employment data for the 15 to 24 years' age group showed an increase in the number of jobs over the last twelve months. In all, over 1,000 jobs were created. As well, with the aging of the population, household formation among people aged 65 years or older will rise slightly, which could have an impact on demand. That being said, it remains to be seen whether people aged 65 years or older will prefer to buy a condominium than to rent a dwelling, a trend that has recently been observed in Montréal.

Landlords have less latitude to raise rents, but the significant decrease in the number of rental housing starts since the beginning of the year will allow the market to gradually ease. We are forecasting a vacancy rate of 3 per cent in 2005 and 2006. The less favourable conditions for landlords

will result in small rent increases of 2.0 per cent in 2005 and 2.5 per cent in 2006.

## Summary

After several years of rapid growth and overheated prices, the market is generally returning toward a balanced situation. In 2006, with more moderate economic conditions, slower demographic growth and the anticipated rise in mortgage rates, the market will continue to slow down moderately. As a result of a larger supply, the resale market will keep easing and the price increases will be less considerable, which will weaken demand for new housing. Lastly, the rental market will also continue to ease gradually, as the vacancy rate will attain 3 per cent and the rent hikes will be small.

## Factors that could influence the forecasts

On the new home market, although a large number of condominiums were built in 2004 and a certain demand was observed (single persons, seniors, young professionals), demand for this housing type is difficult to estimate for this year and next. This segment is relatively new in Gatineau, and it is still too early to determine how much space it will take up on the market. Condominiums are booming in the major urban centres (Vancouver, Toronto and Montréal), where the population density is much greater than in Gatineau. Finally, it is still too soon to measure the impact that energy prices will have on consumer prices and construction costs over the coming months. A faster-than-expected rise in inflation could cool domestic demand and consequently housing demand, as well.

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## Forecast Summary Gatineau Metropolitan Area Fall-Winter 2005

	2003	2004	2005f	2006f	2004/2005	2005/2006
<b>RESALE MARKET <sup>1</sup></b>						
<b>MLS® sales</b>						
Total	3,982	3,930	4,000	3,800	2 %	-5 %
Freehold	3,177	3,202	3,200	3,100	0 %	-3 %
Condominium	465	435	500	450	15 %	-10 %
Plex (2 to 5 units)	340	293	300	250	2 %	-17 %
<b>Active MLS® listings</b>						
Total	1,332	1,628	2,000	2,350	23 %	18 %
Freehold	1,064	1,277	1,550	1,800	21 %	16 %
Condominium	135	218	300	400	38 %	33 %
Plex (2 to 5 units)	133	133	150	150	13 %	0 %
<b>Average MLS® price (\$)</b>						
Total	138,050	155,099	166,000	172,500	7 %	4 %
Freehold	143,281	160,371	171,000	178,000	7 %	4 %
Condominium	104,009	111,802	117,000	119,000	5 %	2 %
Plex (2 to 5 units)	135,843	162,035	178,000	187,000	10 %	5 %
<b>NEW HOME MARKET</b>						
<b>Starts</b>						
Total	2,801	3,227	2,300	2,000	-29 %	-13 %
Freehold	1,885	2,015	1,700	1,500	-16 %	-12 %
Condominium	209	806	400	250	-50 %	-38 %
Rental	707	406	200	250	-51 %	25 %
<b>Average price (\$)</b>						
Detached houses	177,491	196,088	209,000	218,000	7 %	4 %
Semi-detached houses	118,252	128,743	135,000	140,000	5 %	4 %
<b>RENTAL MARKET (%)</b>						
Vacancy rate (October)	1.2	2.1	3.0	3.0	--	--
Change in rents (2-bedroom)	6.7	3.8	2.0	2.5	--	--
<b>ECONOMIC OVERVIEW</b>						
Mortgage rate - 1-year (%)	4.8	4.6	5.0	5.7	--	--
Mortgage rate - 5-year (%)	6.4	6.2	6.0	6.5	--	--
Job creation or loss	8,675	3,000	3,000	1,500	--	--
Unemployment rate (%)	6.5	6.5	6.6	6.7	--	--

<sup>1</sup> : The publication of MLS data is made possible thanks to the cooperation of the Quebec Federation of Real Estate Boards and the Outaouais Real estate Board. Data could differ from those published previously.

f : CMHC forecasts

Sources: CMHC, OREB and Statistics Canada

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