

# F

# ORECAST

Saguenay

## SUMMARY

Spring - Summer 2004

Canada Mortgage and Housing Corporation

### Real estate market to slow down in 2004

#### Economic overview

After having posted employment stability in 2002, the Saguenay census metropolitan area (CMA) registered a gain of 1 per cent in its number of jobs, in line with the forecasts. Since the end of 2003, however, the Saguenay area has been going through a time of economic uncertainty, caused by the announcements of two plant shutdowns. First, in December, the Port-Alfred pulp and paper mill, located in the municipality of La Baie, completely halted its operations until July 2004. The situation will be subsequently re-assessed, but there is little hope that activity will resume in the short term. Then, a few weeks later, the announcement of the premature closure of the Söderberg smelter at the Jonquière plant followed. The last

aluminium casting took place in April in this Alcan complex, and the dismantling should begin this spring. As a result of these two effective shutdowns, around 450 employees will be laid off and some 700 workers will either be reclassified or take their retirement. In addition, certain workers should be hit indirectly by these plant shutdowns, which brought about a wind of pessimism among area residents at the beginning of 2004. Overall, the real estate market in the area should suffer from these job losses over the next few quarters.

#### Mortgage rates to remain favourable to the real estate market

During the first quarter of 2004, mortgage rates reached their lowest level since 1951. The weak inflation and

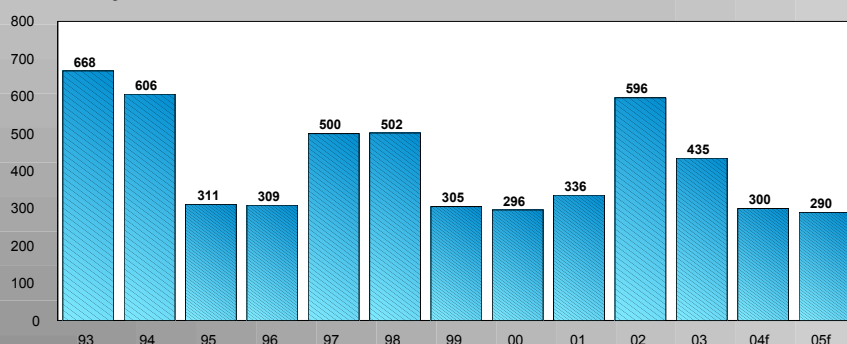
accommodative monetary policy will keep these rates at low levels throughout 2004. We forecast that mortgage rates will go up slightly as Canadian economic growth gets stronger in 2004 and 2005. The one-year mortgage rate should not exceed 5 per cent from now until the end of 2005, while the five-year mortgage rate should rise just above the 7-per-cent mark.

#### Residential construction to keep falling

In 2004 and 2005, residential construction will sustain a decrease in activity in the Saguenay CMA. Total housing starts should reach 300 units this year and 290 units next year. The decline on the market will result from several factors, including the lack of retirement housing starts, the anticipated job losses in the area, the small rise in mortgage rates, and the increase in the rental housing vacancy rate that will drive down the construction of apartments.

### Residential Construction to Keep Falling

Total housing starts



Source: CMHC  
f: CMHC forecast



HOME TO CANADIANS  
Canada

## Rental housing construction very volatile

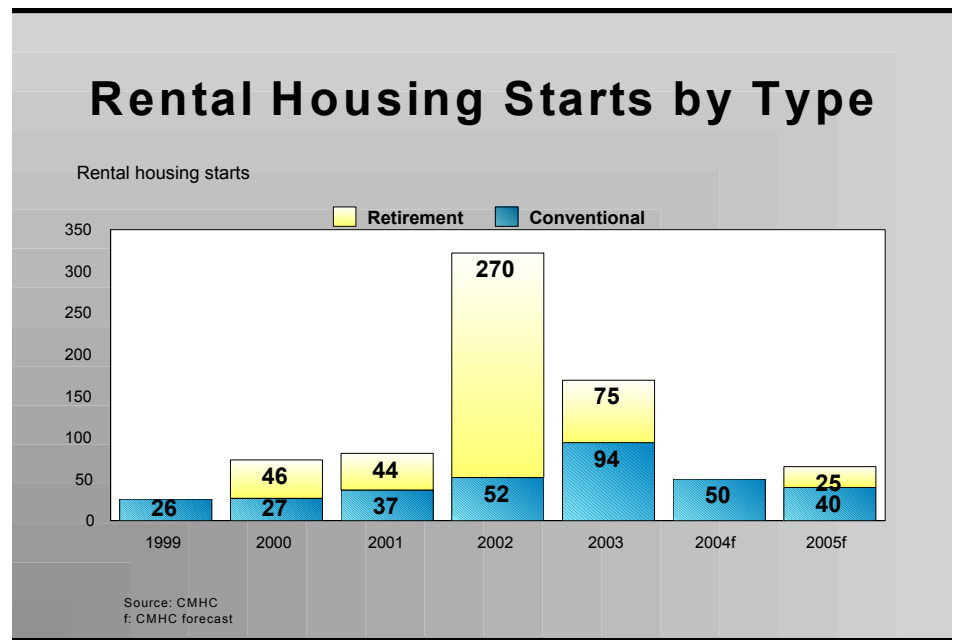
The top segment of the residential construction sector is rental housing. The increase in home building activity observed in 2002 was mainly attributable to this segment. In fact, among the 596 new dwellings that were built, 54 per cent (322 units) were apartments, compared to 24 per cent (81 such units) the previous year. In 2003, apartment starts fell by 48 per cent to 169 units, and we expect that the decline will continue, with 50 units getting under way in 2004. In 2005, rental housing construction will recover, as 65 apartments will be started.

### Retirement apartment construction non-existent in 2004

There are two types of rental housing construction: retirement homes and conventional apartments. The strong growth observed in 2002 resulted from a boom in retirement housing construction, which attained 270 units. The year 2003 ensued with 75 retirement housing starts. As these new units still have not all been rented, the overall vacancy rate on this market more than tripled (7.7 per cent in October 2003). After having posted intense activity, with the construction of many units, the retirement home market is now in a transition phase in order to leave some time for the new units to be absorbed. In this context, we are not forecasting any construction for 2004 in this market segment. In 2005, the absorption should be completed, and a few housing projects will arrive on the market (a total of 25 units) to meet the demand for this type of housing.

### Conventional apartment construction to decline

The construction of conventional rental apartments also posted a major increase



of 80 per cent, reaching 94 starts in 2003. The housing crisis affecting several areas across Quebec, along with mitigated dividend yields and very low mortgage rates, attracted many developers to the Saguenay real estate market. However, the area has been facing a surplus of rental housing units for several years, which is slowing the absorption of the newly built units. Also, following the plant shutdown announcements at the beginning of the year, many investors will prefer to observe the evolution of the market. As a result, we are expecting this market segment to sustain a significant decrease in 2004, with 50 starts, and then bottom out in 2005, with construction getting under way on 40 new conventional apartment units.

### Single-family home building to decrease slightly

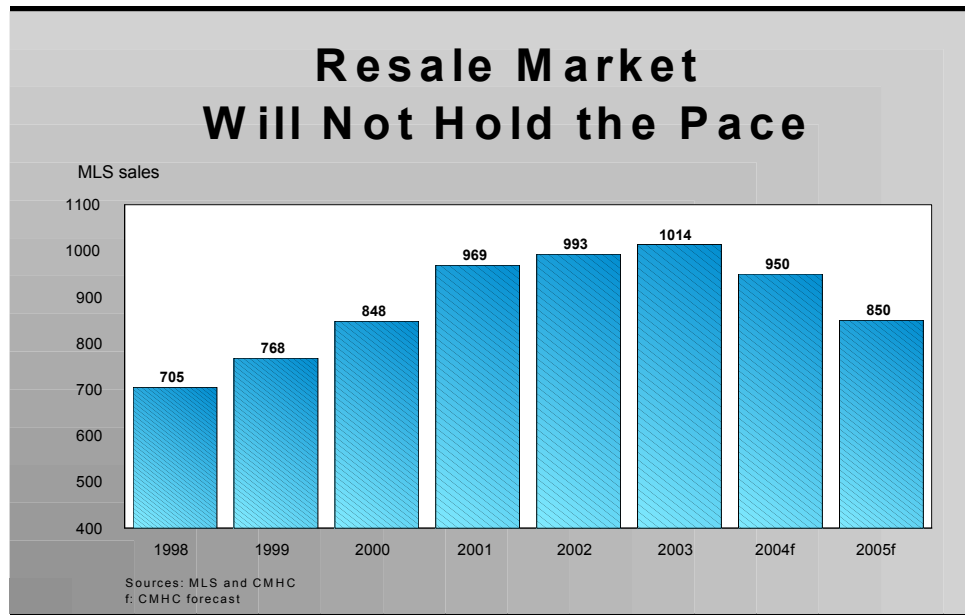
Single-family housing, the second segment of the residential construction sector, includes detached, semi-detached and row homes. We are forecasting 250 such starts in 2004,

which will mark a decrease of 6 per cent in comparison with the 266 houses built in 2003. The announced shutdowns and resulting job losses are once again significant factors in the decline on this market. Detached houses will be the hardest hit, as 220 units of this type will be started, for a drop of 11 per cent. Semi-detached and row homes, for their part, will post a gain, reaching a total of 30 starts in 2004. These dwellings, which are more affordable than detached homes, will be in greater demand. They represent an alternative for households who have difficulty finding a home on the resale market, where supply is limited and prices are on the rise. In 2005, both detached home building and semi-detached and row housing construction will decline, and a total of 225 starts will be registered.

## Resale market will not hold the pace

Stimulated by the low mortgage rates, the resale market is very active. Demand is strong; however, it is being held back by a supply that keeps on declining, and this situation is giving sellers a definite edge. The lack of properties for sale put upward pressure on the average price, which rose by 6 per cent to \$94,625 in 2003. After reaching a peak with 1,014 transactions in 2003, Multiple Listing Service (MLS®) member agents should see a downturn in sales. We expect that the price hike and the lack of properties for sale will cause the market to slow down. There will be 950 transactions in 2004, for a decrease of 6 per cent. In 2005, the market will be contending with the job losses resulting from the plant closures, slowly rising mortgage rates, a persistently limited supply of homes and continued high prices. Activity should therefore decline by about 10 per cent to a total of 850 transactions.

As for prices, they should continue to rise, but more moderately, given the slowdown on the market and their current high level. As a result, in 2004, the average price will go up by 5 per cent to \$99,000. With the anticipated



mortgage rate hike in 2005 and a decrease in demand, the average price will sustain less pressure and attain \$101,500, for an increase of 3 per cent.

## Rental housing surplus to persist

The retirement apartments built in 2002 entered our annual rental market survey in 2003. Given that the new units were not all occupied, the vacancy rate went up. In October 2003, it stood at 5.2 per cent in the Saguenay CMA. We forecast that the retirement home market will be

going through an absorption period until the middle of 2005, taking into account the 75 apartments built in 2003. We therefore expect the vacancy rate to go down in 2004, reaching 4.7 per cent. In addition to full occupancy in retirement homes, 2005 should see an increase in the rental housing demand, as a result of the downturn in homeownership caused by the mortgage rate hike and the job losses that will affect the market in 2004. At the time of our October 2005 survey, the rental housing vacancy rate should be 4.2 per cent in the Saguenay CMA.

## THE RETIREMENT HOME MARKET STUDY

CMHC's Quebec Market Analysis Center publishes annual surveys of all private retirement homes in the province's six census metropolitan areas:

**Montreal, Quebec, Gatineau, Sherbrooke, Trois-Rivières and Saguenay.**

An indispensable source of information for all decision-makers, developers and investors interested in this promising real estate sector, the reports

(based on a survey conducted in October 2003) will be available at the end of May 2004.

**Order your copy now by calling our**

**Customer Service Department**

**at 1 866 855-5711**

**or by Email: [cam\\_qc@cmhc.ca](mailto:cam_qc@cmhc.ca)**

# FORECAST SUMMARY

## Saguenay Metropolitan Area

Spring - Summer 2004

	2002	2003	2004p	2005p
<b>RESALE MARKET</b>				
MLS sales*	993	1,014	950	850
Average price (\$)	89,531	94,625	99,000	101,500
<b>NEW HOME MARKET</b>				
<b>Starts</b>				
Total	596	435	300	290
Single-family homes	274	266	250	225
Condominiums	0	0	0	0
Rental housing units	322	169	50	65
<b>Average Price</b>				
Single-family homes	121,339	141,379	148,500	156,000
Semi-detached homes	80,625	83,913	87,250	90,000
<b>RENTAL MARKET</b>				
Vacancy rate (%)	4.9	5.2	4.7	4.2
Rent for a 2-bedroom unit (\$)	440	457	462	467
<b>ECONOMIC OVERVIEW</b>				
Mortgage rate - 1-year (%)	5.17	4.84	4.18	4.59
Mortgage rate - 5-year (%)	7.02	6.39	6.13	6.73
Job creation (number)	70,175	70,850	69,800	69,500
Unemployment rate (%)	11.4	11.3	12.5	12.8

f: CMHC forecast

Data sources: CMHC, Statistics Canada, Multiple Listing Service (Chambre immobilière du Saguenay-Lac-Saint-Jean)

(\*) Resale market data is now based on MLS sales. Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association (CREA).

For more information about this publication,  
please contact our:  
**Customer Service**

at **1 866 855 5711**  
or by Email : **cam\_qc@cmhc.ca**

© 2004 Canada Mortgage and Housing Corporation. All rights reserved. No portion of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, mechanical, electronic, photocopying, recording or otherwise without the prior written permission of Canada Mortgage and Housing

Corporation. Without limiting the generality of the foregoing, no portion of this publication may be translated from English into any other language without the prior written permission of Canada Mortgage and Housing Corporation. The information, analyses and opinions contained in this publication are based on various sources

believed reliable, but their accuracy cannot be guaranteed. The information, analyses and opinions shall not be taken as representations for which Canada Mortgage and Housing Corporation or any of its employees shall incur responsibilities.