HOUSING MARKET OUTLOOK

Gatineau

Canada Mortgage and Housing Corporation

www.cmhc.ca

SPRING 2006

Fundamentals to support the Gatineau housing market

After a break in 2005, employment is back on a roll on the French-speaking side of the National Capital Region. In fact, while the job market had been growing at an annual rate of about 1 per cent since December 2005, the trend turned around, and a gain of more than 6 per cent was registered in March. The commercial construction and high-technology sectors, where activity has been picking up, will be the engines of economic growth in 2006.

Although the area has had difficulty in attracting new households in the last two years (in 2005, net migration in the Outaouais was 564 persons, or one third fewer than in 2003, and the city of Gatineau lost 401 people), this trend should be reversed by the good performance of the economy. That said, the neighbouring areas, particularly Abitibi-Témiscamingue, will not have the same fate.

This year, the determining factor for the housing market will therefore be the mortgage rates. With latent demand having been exhausted over the last three years, the real estate market will have to rely solely on current demand. Given the soaring property prices and rising interest rates, buying a home will now, more than ever, have to be a well-thought-out decision. Still, the results for the first quarter of 2006 show that real estate activity remains very strong in the Gatineau area, as the new and existing home markets posted gains of 38 per cent and 9 per cent, respectively. These results therefore contradict the consensus of forecasters calling for a generalized slowdown in the housing market. Considering the effects of these factors, however, residential construction should stabilize over the next two years, at levels similar to the volume recorded in 2005, given the demographics and, more particularly, the limited number of new households. The resale market, for its part, will continue to contend with gradual and minor corrections, but there will be some major differences depending on the sectors and housing types. By 2007, the volume of transactions should fall to 3,800 units, following decreases of 6 per cent in 2006 and 9 per cent in 2007.

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Economic Situation

The monetary policy tightening cycle will continue at a moderate pace in the United States and Canada in 2006. In both countries, short-term and long-term interest rates should rise by about 25 to 50 basis points from now until the end of 2006.

While still low by historical standards, Canadian mortgage rates are expected to rise this year. One-year and five-year mortgage rates are forecast to range from 5.75 per cent to 6.75 per cent and from 6.25 per cent to 7.25 per cent, respectively, in 2006. For 2007, interest and mortgage rates in both Canada and the United States are expected to stay within 10 to 40 basis points of their 2006 levels.

Economic growth in 2006 is forecast to be near its non-inflationary potential of 3.0 per cent in Canada, while the U.S. economy is forecast to grow by about 3.5 per cent.

Despite upward pressure on inflation from high energy costs, the overall inflation rate remains within the Bank of Canada target range of 1.0 per cent to 3.0 per cent, such that interest rate increases will stay moderate in 2006 and 2007.

Various factors will keep the Canadian dollar over 85 cents U.S. in 2006 and 2007. These include robust demand for commodities and strong commodity prices (particularly energy prices), a narrowing of the spread between U.S. and Canadian interest rates, and sizable merchandise trade and federal and provincial government budget surpluses in Canada.

Economic Conditions in Canada and Quebec

In Canada, the overall situation is quite positive. The negative effects of the trade balance should gradually wane, as they will be offset by continued strong domestic demand. The vigorous economy will have a positive impact on job creation, and households will benefit from salary increases and various government measures that should leave more money in their pockets, in particular, the retroactive cuts announced by the Liberal government in 2005 and the probable decrease in the GST promised by the Conservatives. All these factors suggest that consumer spending should keep growing in 2006. Even with the net income gains mentioned above, consumers' appetite will still decrease, though, as the wealth effect could become negative with the increase in energy prices and the slow growth in household assets. It seems clear that there will be no (or few) purchases of costly durable consumer goods, as consumers will have taken advantage of the low cost of credit in 2002 and 2003. The real estate market should therefore logically show a correction, without there being a major downturn.

Quebec is well aware that the prevailing economic conditions will not equally favour all provinces. In fact, Newfoundland and Labrador will lead the provinces in economic growth in 2006 after ranking at the bottom in 2005, while Alberta and British Columbia will post another year of strong growth. Therefore, while commodity-rich provinces will enjoy the fastest growth this year, Ontario, Quebec and the Maritimes will continue to adjust to the strong Canadian dollar. Consumption and investment will continue to be the engines of growth, but they are showing signs of slowing down. In fact, the Quebec economy will have to contend with weakening consumer demand and new housing construction, and the export-driven manufacturing sector is still facing challenges. Real GDP growth should be limited to 2.2 per cent in 2006.

In the Gatineau area, the current and future good performance of the job market is shielding the economy from unpleasant surprises. However, like elsewhere in Quebec and Canada, domestic demand is starting to show a few signs of running out of steam.

Residential Construction Refuses to Register Further Decreases

Residential construction was the first sector affected by the slowdown in the housing market, and the impact was considerable. In fact, starts fell by 34 per cent in 2005, which means that the market now seems to be trying to find a cruising speed, in line with the potential dictated by household formation. While it is expected that close to 2,600 households will be formed over the coming years, it is unlikely that starts will reach this level just yet. In general, the price factor and a greater choice of existing homes are not helping the market, particularly the new home segment, given the high production costs, which are reflected in the prices, not to mention the cost of credit, which results in higher monthly mortgage payments.

We believe that 2,300 dwellings should be started in 2006 and practically as many in 2007, for an increase of 8 per cent in relation to 2005. Over the coming years, the apparently better performance of this sector will be essentially attributable to multiple housing activity.

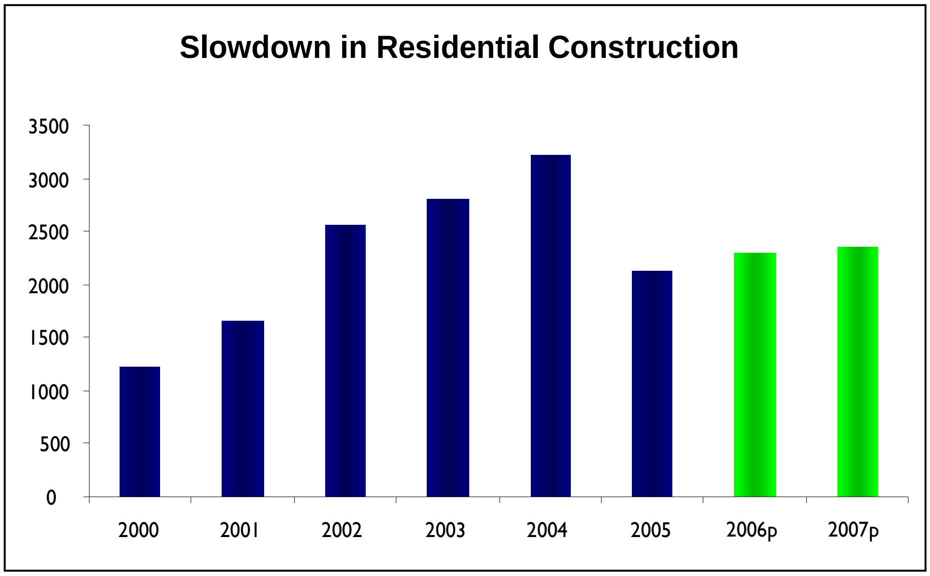
Slowdown in Residential Construction

Even though the slowdown in construction affected all housing types in 2005, condominiums were the hardest hit, relatively speaking. From now until the end of 2006, construction will get under way on only 200 condominium units. In fact, while the inventory of unabsorbed condominiums has decreased since last year (111 units in March 2006, compared to 122 in March 2005), the level remains significant. As well, there are more and more rental housing units, and rents have stopped rising. Given all these factors, even if this type of housing remains relatively affordable, it would seem that potential demand was overestimated in the area.

As for freehold homes, there is still a price gap between new and existing houses. In the first quarter, buyers had to pay an average of $16,000 more if they opted for the new home market. Even if they are attracted by the advantages of a new house that they can customize to their tastes, many buyers will still choose an existing home, on account of the price difference. Consequently, only 1,600 houses will be built in 2006 and 100 fewer next year.

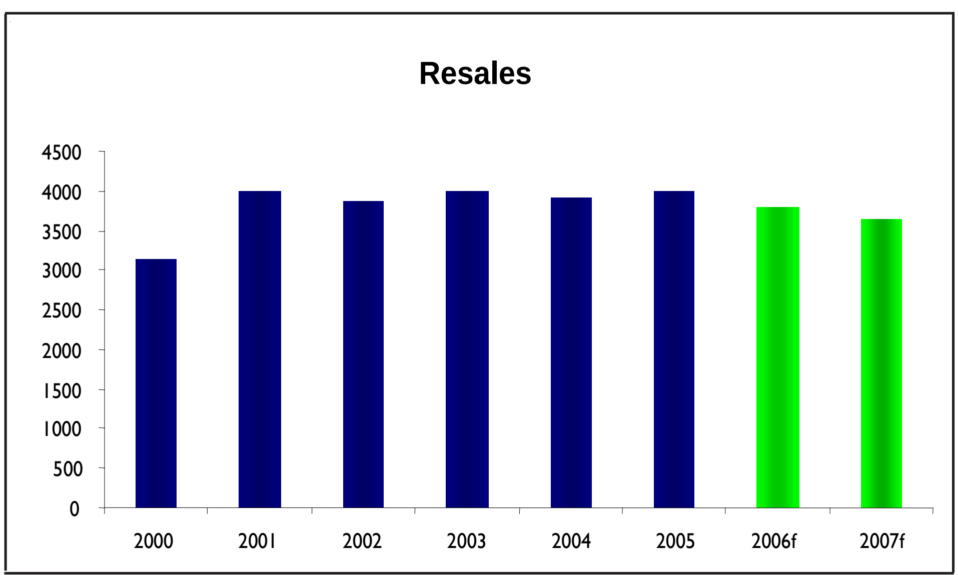
In the case of condominiums, just 200 new units will get under way in 2006. Next year, slightly fewer starts are forecast, as there should be around 150 new units. As mentioned earlier, the recent condominium absorption figures suggest that the craze for this type of property is over.

On the rental market, apartments for seniors should be at the forefront over the coming years. In fact, the vacancy rates are very low and, yet, like elsewhere across Quebec, the population is aging. Several projects are under review and, if just one gets under way in 2006, there will be around 500 rental housing starts. There should effectively be fewer traditional rental housing starts as, according to the results of our latest survey, more such units are available.



Resale Market Slows Down Slightly

Faced with a scarce supply in 2004, the resale market had shown some signs of slowing down. However, with the new rise in listings, this market was able to reach another peak in 2005, and the same trend continued in the first quarter of this year. Certainly, the increase in supply had an impact on the seller-to-buyer ratio, which gave some latitude to buyers but, with a ratio of 7 to 1, the market still favours sellers. In the first quarter, there were just seven sellers for every buyer of single-detached houses, or one more than during the same period in 2005. It should be pointed out that the increase in supply mainly affected the prices. And, even though they are still on the rise, the growth has been slowing down for a year already, from 10 per cent or more to 5 per cent for the beginning of this year.



Since the economic conditions remain favourable in the area, the resale market should be the least likely to be affected by a general slowdown in the real estate sector. The high construction costs will incite some buyers to purchase existing homes, even if it means undertaking renovations themselves. In 2006, however, the expected rise in mortgage rates should somewhat slow down the market. The job market is certainly good, but net household income (after expenses) is not really increasing, and this situation will not improve, given the rising mortgage rates, home prices and even property taxes.

CMHC therefore expects that sales will start declining in 2006, but by less than 10 per cent over the next two years. There should be a total of 3,800 sales in 2007, which is still higher than the level registered in the year 2000.

We should not forget, either, that the area will have to rely less and less on the potential migration of Ontario residents. In fact, their market started to slow down first and, even though the price difference is still huge, it has not increased in two years (less than 60 per cent).

Rental Market May Well Turn Around in 2006

Last year, the main determining factors on the rental market were suggesting further easing on this market in the near future. Migration was at its lowest level in Gatineau (-500 in 2004-2005), and youth employment showed little or no improvement. The results of our survey were in complete agreement, as the vacancy rate surpassed the 3-per-cent mark and rents remained unchanged.

However, the latest employment figures for people aged from 15 to 24 years show an increase in the number of jobs over the last twelve months. In all, more than 2,000 positions were created. As well, with the recovery of the high-technology sector, it would not be surprising to see migration pick up in the area. Lastly, it should be noted that, even if household formation is proceeding rather slowly among people aged 65 years or older, there is still some demand, while supply remains limited, both in terms of unit types and availability.

In the traditional rental housing segment, high construction costs, stable rents and rising vacancy rates are all limiting starts. Also, since access to homeownership is becoming more difficult, apartments will certainly be vacated less rapidly in 2007, which will cause the market to tighten once again. We are forecasting a vacancy rate of 3 per cent in 2006 and 2007. The slightly more favourable conditions for landlords will lead to small rent increases of 2.0 per cent in 2006 and 2.5 per cent in 2007.

Forecast Risks

Sustained high crude oil prices are moderating economic growth and posing a significant risk to consumer spending in the United States, Canada and Europe. Substantial trade and budget deficits, the heavy debt burden of consumers, high energy prices and higher inflation in the United States pose some risk to economic growth in that country, which in turn, could adversely impact the outlook for Canadian exports and economic growth. Another key risk to the forecast is the possibility of further increases in the value of the Canadian dollar against the U.S. currency, which can reduce the need for short-term interest rate increases. New health concerns or escalating geopolitical risks could also influence interest rates in the near term.

Forecast Summary
Gatineau Metropolitan Area
Fall-Winter 2005

	2003	2004	2005f	2006f	2004/2005	2005/2006
RESALE MARKET [1]						
MLS® sales						
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 %
Active MLS® listings						
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 %
Average MLS® price ($)						
Total	138,050	155,099	166,000	172,500	7 %	4 %
Freehold	143,281	160,371	171,000	178,000	7 %	4 %
Condominium	104,009	111,802	117,000	119,000	5 %	2 %
Plex (2 to 5 units)	135,843	162,035	178,000	187,000	10 %	5 %
NEW HOME MARKET						
Starts						
Total	2,801	3,227	2,300	2,000	-29 %	-13 %
Freehold	1,885	2,015	1,700	1,500	-16 %	-12 %
Condominium	209	806	400	250	-50 %	-38 %
Rental	707	406	200	250	-51 %	25 %
Average price ($)						
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 %
RENTAL MARKET (%)						
Vacancy rate (October)	1.2	2.1	3.0	3.0	--	--
Change in rents (2-bedroom)	6.7	3.8	2.0	2.5	--	--
ECONOMIC OVERVIEW						
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	--	--

[1] : 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 differe from those published previously.
f : CMHC forecasts
Sources: CMHC, OREB and Statistics Canada

CMHC – HOME TO CANADIANS

Canada Mortgage and Housing Corporation (CMHC) has been Canada's national housing agency for over 60 years.

Together with other housing stakeholders, we help ensure that Canada maintains one of the best housing systems in the world. We are committed to helping Canadians access a wide choice of quality, affordable homes, while making vibrant, healthy communities and cities a reality across the country.

For more information, visit our website at www.cmhc.ca

You can also reach us by phone at 1 800 668-2642 or by fax at 1 800 245-9274.

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