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## O R E C A S T

Gatineau

## S U M M A R Y

Canada Mortgage and Housing Corporation

**Encouraging economic conditions  
in North America**

Spring - Summer 2004

In 2003, several pitfalls came to hinder the growth of the Canadian economy. Not only were the uncertainties with regard to the duel between Iraq and the United States very present, but several imponderable events also came into play. In fact, the second quarter was marked by the SARS epidemic in Toronto, which was harmful to tourism, and a case of mad cow disease, which led to an embargo on our beef. There was no respite in the third quarter, with the hurricane in the Maritimes, the power outage in Ontario and the forest fires out West. As if all that were not enough, the surges in our loonie accentuated the burden weighing down on the economy. There is good news for 2004, though, as the probability that these natural disasters will recur is low, and the decisions made by the central bank will help ease the pressure on the dollar. The slowdown observed last year is therefore now behind us, and the economy will be more vigorous in 2004. In fact, despite the fears raised by weak job creation, U.S. economic growth is robust, supported most notably by corporate investment and even consumption. In the wake of our neighbours' activity, our economy will also be carried along the road to more rapid growth.

As well, since the job market remains promising, this is an additional asset for the Outaouais area in particular.

As for monetary policy, it is unlikely that our central bank will act before its American counterpart to raise interest rates. Also, the weak inflation will contribute to keeping the rates low. Monetary conditions will be tightened, however, as economic growth gets stronger from now until the end of 2004 and in 2005. As a result, the rates for one-year, three-year and five-year closed mortgages should remain stable or perhaps rise by 25 basis points. However, increases are anticipated next year, as interest rates will respectively range from 4.25 per cent to 5.25 per cent (one-year term), from 5.75 per cent to 6.75 per cent (three-year term) and from 6.25 per cent to 7.25 per cent (five-year term).

***No major upheavals for the real estate market***

Since the North American economy looks quite promising for the next two years, there is no reason for the housing market to stand apart.

Supported by a continued steady demand and fuelled by renewed listings, the resale market should post around 3,950 sales in 2004 and 3,500 in 2005. On the new home market, it is the multiple housing construction segment that will be contributing to the increase in activity. In fact, total starts are expected to reach 2,600 units by the end of this year and 2,300 units in 2005.

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HOME TO CANADIANS  
Canada

## **Resale market to stay firm**

The resale market posted a remarkable year in 2003, with a level of activity that will be difficult to beat in 2004. In all, 4,212 properties changed hands on this market, for an increase of 10 per cent. Listings, for their part, started picking up again last year, after free-falling since 1998, and posted a gain of 10 per cent by December 2003. This made for another fine year for the Outaouais resale market, pointing to an easier future.

### ***Renewed listings are starting to have an effect, but what effect?***

Conditions on the existing home market have been getting tighter and tighter since 1999. The situation has become even more acute in the last two years: in 2003 and early 2004, the seller-to-buyer ratio was below 5 to 1. This scarce supply could have cooled down the market, but this did not happen. With the gradual rise listings in 2003, it was anticipated that this ratio would go up, but this was not the case. The new supply is therefore meeting a persistently strong latent demand and thereby contributing to the increase in sales observed during the first quarter of 2004 (16 per cent).

### ***Property values will rise again***

New listings are certainly on the rise, but they are just stimulating sales all the more. While an increase in the seller-to-buyer ratio could have been expected, the rise in sales is such that market conditions are getting even tighter instead. Since sellers continue to have the edge, prices should be expected to go up again, but this rise will be smaller than the hikes recorded in the last two years. Consequently, while existing home prices rose by 14 per cent in 2002 and 15 per cent in 2003, the increase should remain below the 10-per-cent mark in 2004, and the slowdown should be more pronounced in 2005.

In fact, even if the new listings are not having any moderating effect on the market for the moment, this effect will become more notable as their volume increases. As well, if mortgage rates go up even slightly, price elasticity will tend to increase in absolute terms, and consumers will then be more sensitive to

changes in price. These observations therefore suggest that the market will gradually stabilize in 2004 and in 2005.

## **New directions for residential construction**

Given the current economic situation, the Outaouais area will be faced with a new phenomenon: a rise in net migration. In fact, since the job market remains vigorous, the area will continue to attract new households, and they will support demand for housing over the medium and long terms.

Residential construction should therefore be expected to end 2004 on a high note, although not quite as high as in 2003. In fact, while 2,800 starts were registered in the Gatineau CMA last year, there will be only 2,600 new units in 2004. This slowdown will continue into 2005, when 2,300 starts will be enumerated. It should be specified however that, compared to the last decade, starts volumes exceeding the 2,000-unit mark denote rather high levels of activity.

It is interesting to note that, for the next few years, especially 2004, activity on job sites will be mainly attributable to the major increase in multiple housing construction. This type of construction had been stagnating since the mid-1990s, but started picking up again in 2002, when rental housing starts posted a first gain of 100 per cent. The increase continued in 2003, with 978 new units, for an additional hike of 32 per cent.

Conversely, freehold homes will see their market share decline. While this segment had been garnering over 70 per cent of all new constructions since 2000, a shift occurred in 2003. Rental housing took away a larger piece of the pie, as its share rose from 30 per cent to 35 per cent. And, with the increase in prices, this trend will hold up. In fact, prices on the new home market have exploded over the last three years. While a detached house sold for \$122,000 in 2000, it now costs \$180,000, or 50 per cent more. This price increase was fuelled not only by supply and demand, but also by steadily rising construction costs. Following the new pay hike agreements for construction workers, the pressure of this factor on prices will remain quite strong.

With such prices, homeownership becomes more difficult for some households who would still like to see their dreams come true, as well. It is therefore this concern for affordability that brought about a greater supply of semi-detached houses (for which prices went up by just 25 per cent since 2000) and row homes, and also mid-range condominiums. Since prices are staying at high levels, this supply of more affordable, multiple housing units will continue over the next two years.

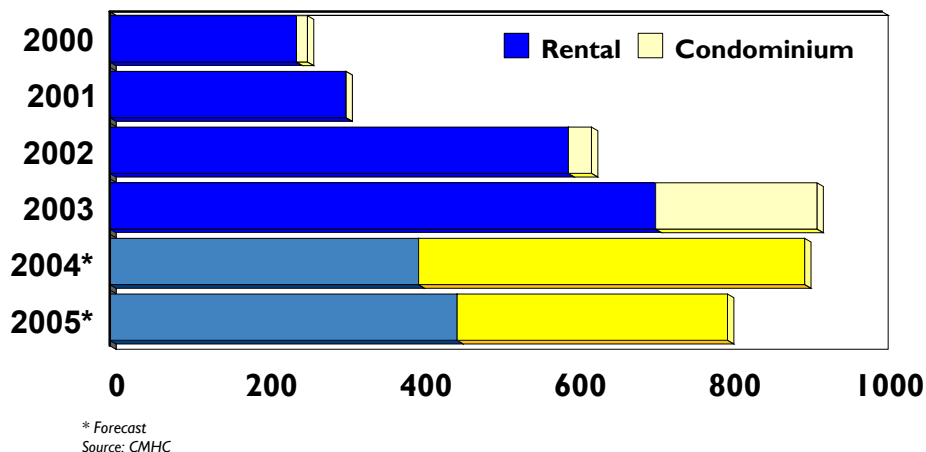
Given the high construction costs, several developers who build highrises opted for upscale dwellings in 2003. Demand for this type of housing was therefore met to a certain extent. Even if there is still some room in this niche, it should not be forgotten that the city of Gatineau remains a small market and will therefore not be able to absorb a large number of highrise buildings, unless it attracts clients from outside the area.

On the rental market, conditions will continue to ease as new units are added and also as many renters turn to homeownership. In terms of demand, the market will still be able to count on students, as well as newcomers to the area who cannot access homeownership right away. On the supply side, however, the new, high-priced constructions are bringing about a general increase in rents. Many landlords are then surprised to see that their apartments are staying unoccupied longer, as they do not realize that rents cannot be raised in any conditions. However, the trend toward upscale housing that began on the new home market should now slow down in 2004 and 2005, as this demand will be met and the market will be returning toward balanced conditions. If a residual demand subsists for this type of housing, it should be met over the long term by natural movements between the different market segments rather than by new constructions. We therefore expect that rental housing starts will fall to 500 units and 450 units, respectively, over the next two years. The vacancy rate, for its part, will rise above 2 per cent by 2005, while rental increases will not exceed 3 per cent to 5 per cent.

## Urban sprawl: the appeal of the outlying sector

The major increase in housing prices, for both buying and renting, accentuated another phenomenon in the Outaouais area: urban sprawl. In fact, some households, seeing home prices rise beyond their means, did not hesitate to move away from the central urban sectors of Gatineau, Hull and Aylmer. As a result, the outlying sector posted significant growth in 2003, on both the resale and new home markets. In the case of new constructions, the increase was around 20 per cent. Should the upward trend continue, it goes without saying that this phenomenon would grow, especially for detached houses, as land is less expensive in the outlying sector.

## Multiple Housing Starts



## The Evolution of Personal Bankruptcies or the Problem of Household Indebtedness

The significance of household indebtedness and the small increase in bankruptcies in 2003 are raising fears among many people that this problem will be on the rise this year. In Quebec, personal bankruptcies reached a peak in 1997 and have since decreased by 16 per cent. In 2003, however, a rise of 4 per cent brought this topic back to the forefront. Statistical studies have shown that bankrupts are consumers who are contending with a less than enviable financial situation (job loss, company failure). As for the factors that cause these bankruptcies, they are always linked to the debt burden. In a world where consumers are constantly incited to buy more, it is no surprise to see that they increasingly resort to credit. While the use of this tool has become almost systematic, the virtues of saving, on the other hand, seem to be forgotten. With mortgage debt included, the

level of indebtedness of taxpayers is higher than their income (\$103 of debt for every \$100 of income). From a broader perspective, the low interest rates aimed at boosting the economy tend to generate a greater demand for credit. And, it is some of these new applicants who unfortunately experience difficulties when the interest rates change.

The Superintendent of Bankruptcy of Canada established that, between 1971 and 2001, the number of bankruptcies rose from 200 per year to 3,900. During the same period, the Superintendent also noted that the level of indebtedness had almost doubled since 1985 (from 52 per cent to 103 per cent).

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# FORECAST SUMMARY

## Gatineau Census Metropolitan Area (CMA)

Spring - Summer 2004

	2002	2003	2004f	2005f	2003/2004	2004/2005
<b>RESALE MARKET</b>						
<b>Active MLS® listings</b>	1,532	1,683	2,050	2,150	29%	5%
<b>MLS® sales</b>						
Total	3,823	4,212	3,950	3,500	-5%	-12%
Single-family	N/A	N/A	N/A	N/A	N/A	N/A
Condominium	249	316	350	325	11%	-7%
<b>Average MLS® price (\$)</b>						
Single-family	N/A	N/A	N/A	N/A	N/A	N/A
Condominium	89,000	103,665	112,000	115,000	8%	3%
Overall	113,000	130,000	140,000	143,000	8%	2%
<b>NEW HOME MARKET</b>						
<b>Housing starts</b>						
Total	2,553	2,801	2,600	2,300	-7%	-11%
Freehold	1,929	1,885	1,700	1,500	-10%	-12%
Condominium	30	209	400	350	91%	-12%
Rental	594	707	500	450	-28%	-12%
<b>Average prices (\$)</b>						
Detached	146,163	177,491	190,000	196,000	7%	3%
Semi-detached	93,157	118,952	125,000	130,000	5%	4%
<b>RENTAL MARKET</b>						
Vacancy rate (%)	0.5	1.2	1.9	2.3	---	---
Change in rents from previous year (%)	4.0	7.0	5.0	3.0	---	---
<b>ECONOMIC OVERVIEW</b>						
Mortgage rate - 3-year (%)	6.30	6.30	5.79	7.11	---	---
Mortgage rate - 5-year (%)	7.00	7.00	6.40	6.80	---	---
Change in employment from previous year	1,925	3,900	2,500	2,000	---	---
Unemployment rate (%)	8.0	7.8	7.7	8.0	---	---

f: Forecast

N/A: Not available

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