Spotlight on Housing

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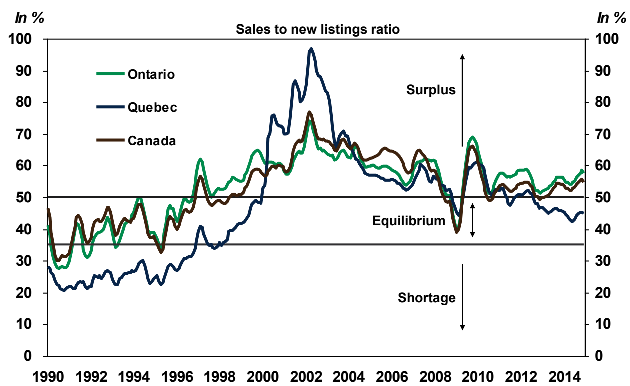
A big difference between the Quebec and Canadian housing cycles

Last year, Canada's housing market continued to beat forecasts for both activity and prices. The Bank of Canada's concerns about overvaluation in some markets even notched up. In Quebec, 2014 was characterized by some stability in housing. Housing starts only edged up, sales of existing properties crested, and average prices rose at the same pace as inflation. What does 2015 hold? A better job market and low interest rates should fuel demand for new and existing homes. In contrast, the surplus of condominium apartments, which increased last year, and the upswing in rental vacancy rates should, in principle, curb new construction projects. Overall, housing starts and resales will be fairly stable in Quebec. The resale market will remain in equilibrium, resulting in an average price increase of about 1% again this year.

SUCCESSFUL TOUCHDOWN IN QUEBEC

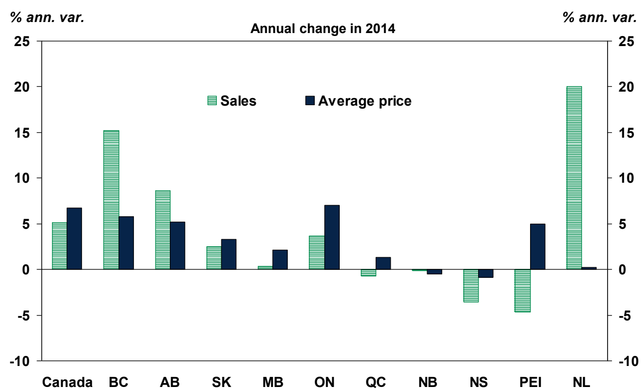
The number of properties sold in Quebec has been dropping for several years. The lull put an end to the overheating situation and enabled a slow return to equilibrium. Price growth has slowed accordingly, a sharp contrast with the acceleration that occurred in Ontario and elsewhere in Canada. Faster economic growth, which had a good impact on the job market in the rest of the country, pushed sales and prices up sharply last year (graph 1). The two markets still have a shortage (graph 2) and the slowdown that would reintroduce sounder conditions is taking its time in materializing.

Graph 2 – The resale market is balanced in Quebec, while Canada and Ontario have slight shortages



Sources: Canada Mortgage and Housing Corporation, Canadian Real Estate Association and Desjardins, Economic Studies

Graph 1 – Several provinces' existing property markets had a good year last year



Sources: Canada Real Estate Association and Desjardins, Economic Studies

Quebec has therefore had a soft landing—something not yet happening elsewhere in Canada. A lull can be expected for Canada, as dropping energy prices will affect oil-producing provinces this year. In December, Alberta's sales were already down 21.4%, which could be the start of a change in course for the housing market. Ontario's economy is accelerating, thanks in particular to a strong manufacturing sector, which will allow the resale market to perform well again this year. Price and sales growth should therefore remain solid.

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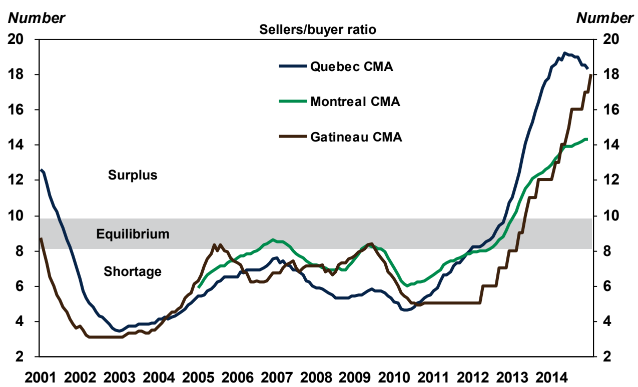
ONGOING CONDO SURPLUS

The stability in Quebec's housing sector will persist this year. The market will be characterized by two diverging trends. Single-family homes could see increasing demand from seasoned buyers thanks to the expected growth in employment and low mortgage rates. However, condo sales, which headed down last year, will continue to weaken. High prices will continue to put first-time buyers off, while older clients could be less present in the market. On one hand, the major condo surplus (graph 3), which is putting downside pressure on prices, worries potential buyers. On the other, building maintenance is sometimes neglected, generating major costs for the resulting work, which could divert some of the demand to the rental market.

Graph 3 – The existing condo market has a clear surplus



Sources: Quebec Federation of Real Estate Boards, via Centris® and Desjardins, Economic Studies

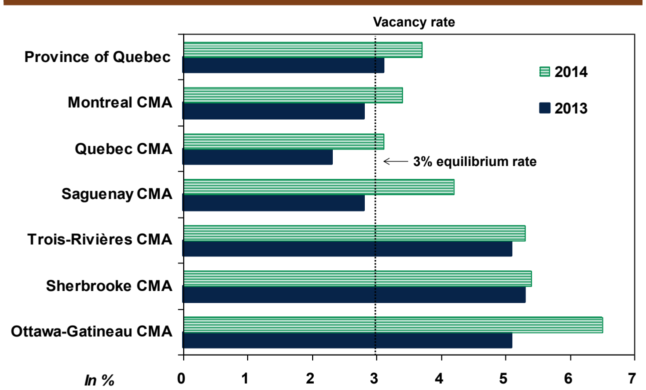
The number of condos on the market is still too big. The sellers/buyer ratio is 18 in the Quebec and Gatineau CMAs, 14 in the Montreal CMA, and 20 in downtown Montreal. This ratio is well above the equilibrium zone, which is between 8 and 10. New construction adjusted accordingly in Quebec City, with starts on condo apartments down for a second straight year in 2014. Construction accelerated by about 20% in the Montreal and Gatineau agglomerations last year. This will only delay the return of sounder conditions, which could repel some potential buyers. Logically, builders should go slowly this year, which would lead to a drop in condo starts.

Otherwise, the number of units being rented could rise again. In the Quebec CMA, 10.2% of condos are for rent, compared with 13.3% in the Montreal CMA and 22.1% downtown. The condo vacancy rate is still low, however, between 3% and 4% in most sectors in Montreal and Quebec City. Given that this market is an alternative to buying a condo or renting a conventional rental apartment, competition between the various products has intensified.

OPPOSITE MOVEMENT IN THE QUEBEC AND ONTARIO RENTAL MARKETS

The wind veered toward the traditional rental market in 2014. Construction of new apartments was important in Quebec. In most cases, the new apartments have found takers, particularly among young households for whom buying a home is out of reach financially, as well as among a diverse group of clients who prefer to live in a recent building. However, demand was not lively enough to absorb an increase of this magnitude in the housing inventory. The vacancy rate thus climbed to 3.7% in Quebec in the fall of 2014, from 3.1% the year before. All CMAs are now in surplus, which is slight in some cases, but fairly large in Trois-Rivières, Sherbrooke and Gatineau (graph 4). The rental market's future evolution is largely dependent on new construction. If developers continue to respond to the enthusiasm for new apartments, housing starts will be important again. It could be harder to rent out older buildings, which would once again push up the vacancy rate.

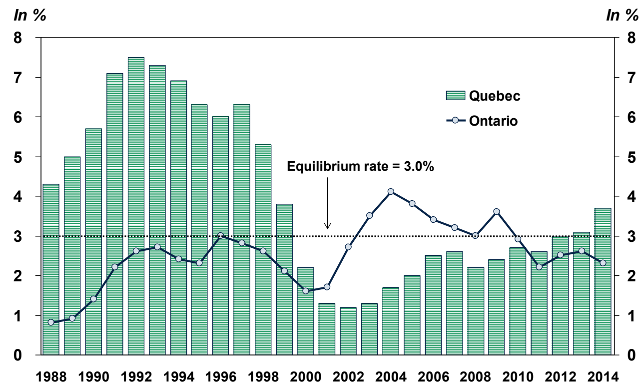
Graph 4 – Vacancy rates for rental apartments increased in all Quebec CMAs



Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

In Ontario, the vacancy rate headed in the opposite direction (graph 5), falling to 2.3% in the fall of 2014 from 2.6% a year earlier. Improved economic conditions have bolstered employment among young people, who look to rental housing. Ontario's market should firm up further this year. Strong demand will persist, with construction of traditional rental housing remaining marginal. The influx of new condos into the rental market will intensify pressure at the top end of the market. Our neighbour's housing market dynamics are very different from Quebec's. In 2015, existing property sales and prices there will be up, as will housing starts in Ontario, while the rental market will grow tighter.

Graph 5 – Vacancy rates for rental apartments in Quebec and in Ontario



Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

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Senior Economist

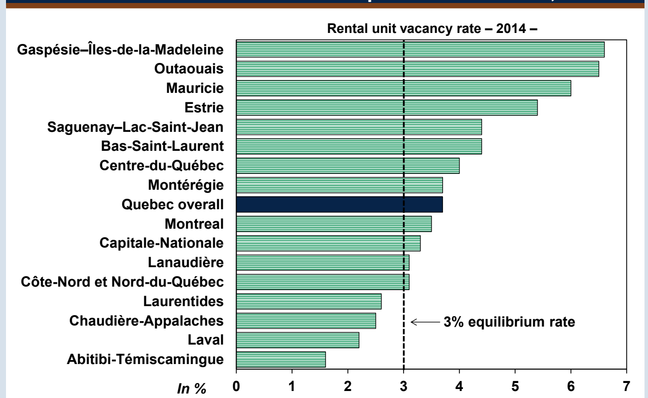
OVERVIEW OF THE REGIONS: SURPLUSES ARE EMERGING IN SEVERAL PARTS OF QUEBEC

VACANCY RATE: UP IN MOST REGIONS

In 2014, construction of rental housing was active in Quebec, mainly buoyed by lively building in Montreal, especially downtown. Rimouski, Saint-Jean-sur-Richelieu and the Quebec City CMA also contributed, but not as much. Overall, given that supply growth outstripped demand growth, the rental unit vacancy rate rose in most areas in 2014. The Côte-Nord posted the biggest increase, with its vacancy rate up to 3.1% in 2014 from 1.7% in 2013. This market had had a shortage for nine years. On the island of Montreal, the vacancy rate for rental buildings rose above equilibrium to 3.5% in 2014, its highest point since at least 2003.

However, five regions saw their vacancy rates decline or remain stable (graph A). In Chaudière-Appalaches, the Laurentides and Centre-du-Québec, new construction of rental housing shot up in 2014, but demand was there, with the result that these markets were able to absorb the influx of new units.

Graph A – In most parts of Quebec, the rental market is above the equilibrium threshold, 3%



Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

The rental housing vacancy rate should tick down in 2015 in few regions. On one hand, demand could rise again, stimulated by a livelier job market, especially for young people aged 15 to 24. On the other, the supply will keep expanding, but at a slower pace as the focus should be more on moving units.

RESALES: TRANSACTIONS REBOUND IN SEVERAL REGIONS

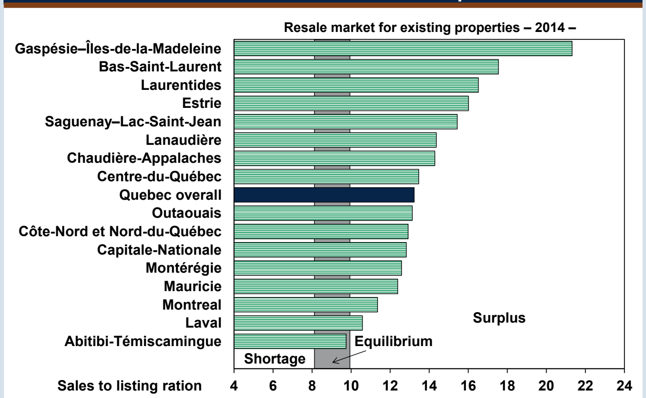
Following the widespread pullback in sales of existing properties in Quebec's 17 administrative regions in 2013, nine regions saw transactions rebound in 2014. The remaining regions fell again for a second straight year.

The 2014 resale market was lively in Eastern Quebec, particularly in Gaspésie–Îles-de-la-Madeleine. In fact, due to strong job creation, transactions posted one of the biggest surges province-wide for 2014, at 6.8%. Bas-Saint-Laurent saw a rise of 1.1%, giving the region its best growth since 2010. The Centre-du-Québec and Mauricie regions also did well—transactions there jumped by 6.5% and 6.2% respectively.

In Northern Quebec, resales were lively in Abitibi-Témiscamingue in 2014, putting it above the 1,000 transaction mark for the first time since 2002. Resales were up 19.3% from 2013. Sales advanced in Nord-du-Québec but fell in Côte-Nord. In the areas around Montreal, only the Laurentides saw transactions show a slight annual gain for 2014. The Laval, Lanaudière and Montérégie regions posted declines ranging from 1% to 7%.

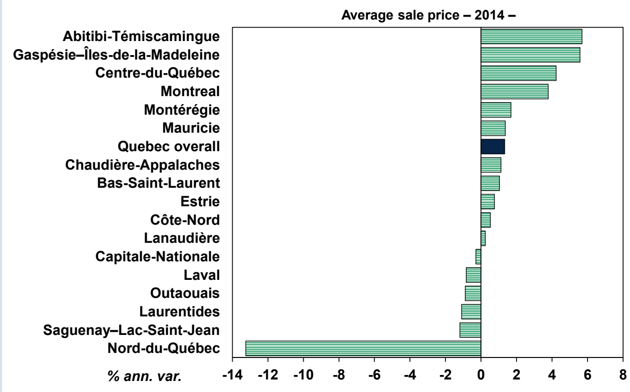
In most of Quebec's regions, the 2014 sales to listing ratios rose and all resale markets are now in surplus, except for Abitibi-Témiscamingue (graph B). Relaxed market conditions curbed growth in the average sale price in most administrative regions in 2014; six of them even posted declines (graph C). Aside from Nord-du-Québec, which tumbled (-13.2%), for the five other regions, the decrease in the average sale price oscillated between -0.3% and -1.2%.

Graph B – Except for Abitibi-Témiscamingue, all resale markets are now in surplus



Sources: Quebec Federation of Real Estate Boards, via Centris® and Desjardins, Economic Studies

Graph C – The average sale price came down in 2014 in some parts of Quebec



Sources: Quebec Federation of Real Estate Boards, via Centris® and Desjardins, Economic Studies

However, strong growth was recorded in such places as Abitibi-Témiscamingue (+5.7%) and Gaspésie–Îles-de-la-Madeleine (+5.6%).

In 2015, an improved Quebec economy should have a positive impact on employment and income growth, which means we can anticipate advances in resales in several regions. The areas around Montreal will continue to see some of the strongest demographic growth in the province, and they should do best. However, most markets will be buyers' markets this year, which will continue to rein in average sale price growth in Quebec's regions in 2015, particularly Bas-Saint-Laurent and Côte-Nord (table A).

Table A – Activity in the housing market should increase in most regions in 2015

	Rental unit vacancy rate (%)		Transactions (numbers)		Average sale price ($)	
	2014	2015f	2014	2015f	2014	2015f
Quebec overall	**3.7**	**3.9**	**70,686**	**72,000**	**271,227**	**274,481**
Bas-Saint-Laurent	4.4	4.8	1,417	1,430	142,744	143,500
Saguenay–Lac-Saint-Jean	4.4	4.7	1,678	1,705	172,833	174,560
Capitale-Nationale	3.3	3.5	6,179	6,253	256,002	260,500
Mauricie	6,0	5.8	1,889	1,900	141,257	142,528
Estrie	5.4	5.7	2,553	2,596	210,470	213,200
Montreal	3.5	3.6	13,936	14,257	411,363	418,356
Outaouais	6.5	6.5	3,863	3,902	229,594	231,430
Abitibi-Témiscamingue	1.6	2,0	1,003	900	181,603	186,145
Côte-Nord et Nord-du-Québec	3.1	3.5	581	575	160,533	164,793
Gaspésie–Îles-de-la-Madeleine	6.6	6.4	347	350	123,210	124,811
Chaudière-Appalaches	2.5	2.4	2,826	2,885	177,745	180,235
Laval	2.2	2.3	3,929	4,020	298,982	304,363
Lanaudière	3.1	2.9	5,670	5,812	216,787	220,256
Laurentides	2.6	2.5	7,661	7,830	239,885	243,485
Montérégie	3.7	3.7	15,450	15,744	256,874	260,984
Centre-du-Québec	4,0	3.8	1,704	1,711	150,431	151,183

f: Desjardins forecasts
Sources: Canada Mortgage and Housing Corporation, Quebec Federation of Real Estate Boards via Centris® and Desjardins, Economic Studies

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Economist

Quebec - Housing Market Outlook
2015-2016

	2011	2012	2013	2014	2015f	2016f
New Housing Market						
New construction (in billion $)	**10.2**	**10.2**	**9.0**	**8.8**	**8.9**	**8.6**
Annual variation (%)	3.3	0.2	-12.2	-2.2	1.6	-3.3
Housing starts	**48,387**	**47,367**	**37,758**	**38,810**	**39,000**	**38,000**
Annual variation (%)	-5.8	-2.1	-20.3	2.8	0.5	-2.6
House	**22,411**	**21,829**	**17,100**	**15,707**	**16,300**	**16,500**
Annual variation (%)	-13.6	-2.6	-21.7	-8.1	3.8	1.2
- Single-detached	**16,554**	**16,059**	**13,144.0**	**11,227.0**	-	-
Annual variation (%)	-15.3	-3.0	-18.2	-14.6	-	-
- Semi-detached	**4,002**	**3,866**	**2,835.0**	**3,083.0**	-	-
Annual variation (%)	-8.2	-3.4	-26.7	8.7	-	-
- Row housing unit	**1,855**	**1,904**	**1,121.0**	**1,397.0**	-	-
Annual variation (%)	-8.6	2.6	-41.1	24.6	-	-
Apartment	**25,976**	**25,538**	**20,658**	**23,103**	**22,700**	**21,500**
Annual variation (%)	2.2	-1.7	-19.1	11.8	-1.7	-5.3
- Condo[1]	**15,827**	**16,017**	**11,395**	**12,893**	**12,300**	**11,800**
Annual variation (%)	20.7	1.2	-28.9	13.1	-4.6	-4.1
- Rental[1]	**9,055**	**8,437**	**8,332**	**8,939**	**8,700**	**8,300**
Annual variation (%)	-17.9	-6.8	-1.2	7.3	-2.7	-4.6
- Conventional rental[2]	**5,536**	**5,455**	**6,635**	**6,204**	**6,200**	**5,800**
Annual variation (%)	-20.2	-1.5	21.6	-6.5	-0.1	-6.5
- Retirement home[2]	**2,370**	**1,885**	**1,411**	**2,438**	**2,500**	**2,500**
Annual variation (%)	-17.4	-20.5	-25.1	72.8	2.5	0.0
Resale market						
Unit sales	**77,167**	**77,373**	**71,198**	**70,686**	**72,000**	**72,500**
Annual variation (%)	-3.6	0.3	-8.0	-0.7	1.9	0.7
Weighted average price (in thousand $)	**254**	**264**	**268**	**271**	**274**	**277**
Annual variation (%)	4.9	3.9	1.3	1.3	1.2	0.9
Sales volume (in billion $)	**19.5**	**20.2**	**18.7**	**18.8**	**19.8**	**20.1**
Annual variation (%)	0.7	3.6	-7.3	0.5	5.2	1.6
Other indicators						
Vacancy rate for rental units[3] **(%)**	**2.6**	**3.0**	**3.1**	**3.7**	**3.9**	**3.8**
Average rent[3] **(in $)**	**666**	**663**	**679**	**691**	**703**	**716**
Annual variation (%)	2.8	-0.5	2.4	1.8	1.7	1.9
Renovation spending (in billion $)	**14.6**	**15.1**	**15.6**	**16.5**	**16.6**	**16.8**
Annual variation (%)	3.1	3.3	3.3	5.8	0.6	1.2

[1] Urban centres with populations of 10,000 and over. The total is slightly below the total for provincial apartments shown above.
[2] Included in rental units.
[3] Three units or more. Biannual survey of the fall.
Sources: Canada Mortgage and Housing Corporation, Canadian Real Estate Association, Québec Federation of Real Estate Boards, Statistics Canada and Desjardins, Economic Studies