

# SPOTLIGHT ON HOUSING

## Will the Second Wave Weaken the Residential Sector?

Even if the housing market was shaken in the spring of 2020, activity had picked up significantly last year. In Quebec and Ontario, property sales peaked, and average prices were up 15% from 2019. In 2020, both provinces saw housing starts reach their highest level in about 15 years. The pandemic caused many buyers to switch their preferences for bigger properties outside major centres, while condominiums in downtown Montreal and Toronto were less in demand. These trends should continue in 2021 or at least for as long as the health conditions remain difficult.

### The second wave failed to completely disrupt the market

In spring 2020, Quebec's Great Lockdown stopped in-person property showings between March 23 and May 11. Even if it was possible to close some deals virtually at the time, the numbers fell dramatically. The rules in effect have changed since the second wave began: in-person showings are allowed (but not open houses), and sales can be made remotely. Residential construction sites remain open and are generally seen as being essential. Neither new nor existing markets are expected to see activity slump the way it did in the spring of 2020 unless the rules are tightened again (graph 1).

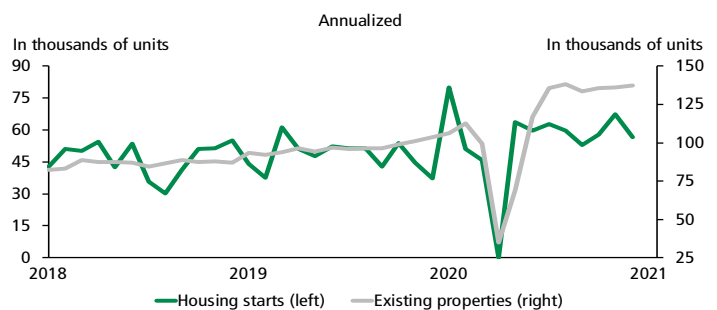
The renovation expenditures, which are considered less essential, should, nonetheless, be affected due to the limits on leaving home, just like last March and April. Still, there will be a rebound once the restrictions are lifted in a repeat of last spring.

### 2020 ended on a positive note

The number of property sales in Quebec rose 16.9% last year. Sales climbed quickly in all but one of the provinces, namely Alberta, which continues to feel the petroleum industry's pain. Quebec recorded some of the highest increases in average prices in Canada (graph 2). The small pool of available properties resulted in Quebec's resale market being the tightest in Canada (graph 3 on page 2).

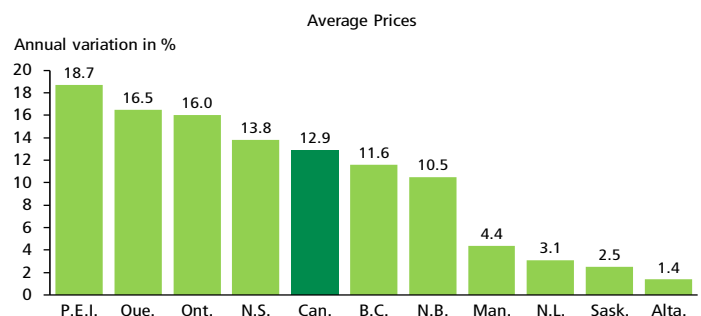
Because of Quebec's obviously inadequate supply, sales peaked several months ago, which cannot be said for the rest of the country. The limited number of new listings will prevent residential sales from increasing this year in Quebec. Still, prices will quickly rise almost 20%, considering the low inventory in available properties. Most of the province's markets are clearly still sellers' markets, which is pushing up prices.

**GRAPH 1**  
Residential real estate market in Quebec: no decline expected similar to the one that occurred in spring 2020



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

**GRAPH 2**  
Increase in prices for existing properties in 2020



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

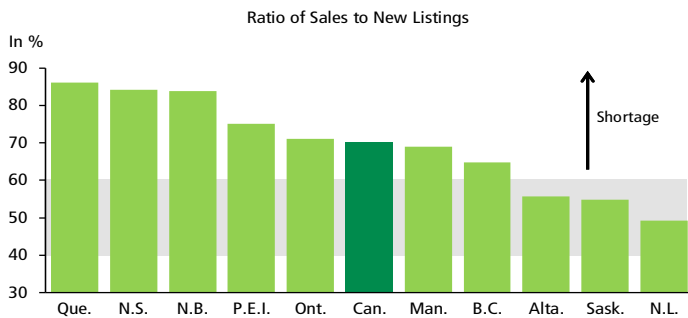
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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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**GRAPH 3**  
Resale market: extreme shortage in Quebec in 2020



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

**Downtown Montreal remains under scrutiny**

Still, the condominium markets in some Montreal districts, such as downtown and Griffintown, are the exception. Sales in the Ville-Marie district were down roughly 20% last year, even though the number of condos for sale had significantly increased. This market is balanced for now, and prices continue to rise. If the trend holds, there could soon be a glut, forcing prices to drop.

There are several reasons for this deterioration: more people migrating to the outskirts of major centres because of the

pandemic (box), fewer immigrants (workers and students) and fewer tourists, making short-term rentals less popular. The turn to large-scale teleworking has also made a difference. With no guests, some owners are selling their condos or switching to long-term rentals.

Montreal’s central areas are not the only ones to see a significant increase in the number of condos for sale in the country according to the [Canada Mortgage and Housing Corporation](#). The supply also increased in downtown Toronto and Vancouver. Still, the condo market remains a seller’s market in Ottawa and Toronto, even if demand has slowed in the last few quarters. In Toronto, some investors are selling their condos because the pandemic has made it difficult to rent.

**International immigration fell**

The drop in international immigration (permanent and temporary) also had an adverse demographic impact, especially in Montreal and Toronto. The markets bearing the brunt are rental and condo apartments in central neighbourhoods. The pause in the influx of foreign workers and students is hitting these two markets the hardest. Even if the Quebec government was counting on immigration picking up in 2021, it may end up being delayed. The rental market will adjust to this new reality, and fewer apartments will be built in the next two years. Vacancy rates that exceed those prior to the pandemic will have an impact on rents in the areas affected the most.

**BOX**

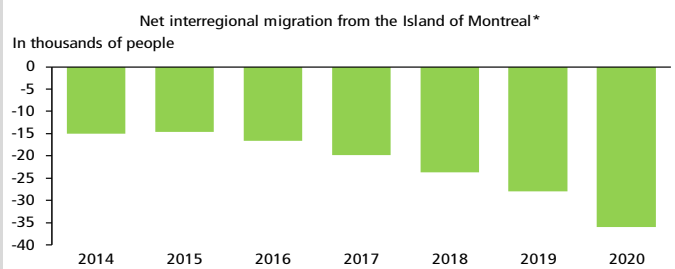
**Demographics: major urban centres less popular**

The pandemic has had some major consequences for population growth. According to a [study](#) by the Institut de la statistique du Québec (ISQ), people are moving away from major centres, especially the Island of Montreal. Net migration with Québec’s other regions is -35,900 people,<sup>1</sup> the worst result in approximately 20 years (graph 4). Not only have many residents left the island, but very few people have moved to it from other regions compared to previous years. When it comes to demographics, Lanaudière, Laurentides and Montérégie are the big winners, which reflects positively on their housing market. Without a doubt, the growing interest in vacation properties has been a determining factor.

Whereas the Island of Montreal’s central neighbourhoods used to be the main draw in terms of residential activity, the outskirts have since taken over. The same trend can be seen in Toronto, which posted a record population loss in favour of neighbouring areas according to [Statistics Canada](#). This phenomenon, which was already underway, was heightened by the pandemic. The longer the pandemic lasts, the longer the major centres will be negatively impacted. Plus, it is difficult to say if large-scale vaccination will help reverse the trend, with a significant part of the population returning to major metropolitan areas.

<sup>1</sup> Between July 2019 and July 2020.

**GRAPH 4**  
Migration within Quebec detrimental to the Island of Montreal



\* July in the year indicated compared with July of the previous year.  
Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

### Outlook

Even if the economy and population growth are feeling the effects of the pandemic, the real estate market should remain healthy overall. In Quebec, property sales will not see the dizzying growth recorded in 2020, since there is not enough supply to meet demand, which is also why prices will continue to climb (table on page 4). The markets on the outskirts of major centres will perform better than those of the major metropolitan areas, although single-family dwellings will continue to attract buyers everywhere.

Condo apartments and the traditional rental market will take some time to recover from the decline in renters in central neighbourhoods in Toronto and on the Island of Montreal. International immigration may take several years to catch up, and the eventual return of the people who moved to the outskirts of major centres is far from a sure thing. Therefore, new construction will be down during the time it takes for the effects of the pandemic to disappear. Rental and condo apartments account for roughly 70% of the total number of housing starts in Quebec, which will hit the industry hard.

**Hélène Bégin**, Senior Economist

**TABLE**  
**Quebec housing market outlook 2021–2022**

|  | 2018   | 2019   | 2020    | 2021f   | 2022f   |
|--|--------|--------|---------|---------|---------|
| <b>New housing market</b>                            |        |        |         |         |         |
| <b>New construction (\$B)</b>                        | 12.0   | 11.7   | 12.7    | 12.0    | 11.0    |
| Annual variation (%)                                 | 16.1   | -1.9   | 7.8     | -5.3    | -8.3    |
| <b>Housing starts</b>                                | 46,874 | 47,967 | 54,066  | 50,000  | 45,000  |
| Annual variation (%)                                 | 0.8    | 2.3    | 12.7    | -7.5    | -10.0   |
| <b>House</b>   | 14,968 | 13,742 | 15,995  | 17,500  | 17,000  |
| Annual variation (%)                                 | -2.6   | -8.2   | 16.4    | 9.4     | -2.9    |
| <b>Single-detached</b>                               | 10,060 | 8,989  | 10,861  | ---     | ---     |
| Annual variation (%)                                 | -6.1   | -10.6  | 20.8    | ---     | ---     |
| <b>Semi-detached</b>                                 | 2,995  | 2,966  | 3,514   | ---     | ---     |
| Annual variation (%)                                 | 6.2    | -1.0   | 18.5    | ---     | ---     |
| <b>Row housing unit</b>                              | 1,913  | 1,787  | 1,620   | ---     | ---     |
| Annual variation (%)                                 | 4.3    | -6.6   | -9.3    | ---     | ---     |
| <b>Apartment</b>                                     | 31,906 | 34,225 | 38,071  | 32,500  | 28,000  |
| Annual variation (%)                                 | 2.5    | 7.3    | 11.2    | -14.6   | -13.8   |
| <b>Condo<sup>1</sup></b>                             | 9,860  | 8,172  | 7,222   | 6,500   | 5,800   |
| Annual variation (%)                                 | -8.7   | -17.1  | -11.6   | -10.0   | -10.8   |
| <b>Rental<sup>1</sup></b>                            | 20,503 | 24,861 | 28,709  | 24,000  | 21,500  |
| Annual variation (%)                                 | 6.5    | 21.3   | 15.5    | -16.4   | -10.4   |
| <b>Resale market</b>                                 |        |        |         |         |         |
| <b>Unit sales</b>                                    | 86,451 | 96,636 | 112,971 | 115,500 | 117,000 |
| Annual variation (%)                                 | 4.7    | 11.8   | 16.9    | 2.2     | 1.3     |
| <b>Weighted average price (\$k)</b>                  | 308    | 324    | 377     | 450     | 460     |
| Annual variation (%)                                 | 5.2    | 5.2    | 16.5    | 19.4    | 2.2     |
| <b>Sales volume (\$B)</b>                            | 26.3   | 30.5   | 42.6    | 52.0    | 53.8    |
| Annual variation (%)                                 | 9.1    | 15.8   | 39.7    | 22.1    | 3.5     |
| <b>Other indicators</b>                              |        |        |         |         |         |
| <b>Vacancy rate for rental units<sup>2</sup> (%)</b> | 2.3    | 1.8    | 2.8     | 3.2     | 3.5     |
| <b>Average rent<sup>2</sup> (\$)</b>                 | 761    | 800    | 820     | 836     | 855     |
| Annual variation (%)                                 | 3.4    | 5.1    | 2.5     | 2.0     | 2.3     |
| <b>Renovation spending<sup>3</sup> (\$B)</b>         | 13.5   | 14.7   | 12.6    | 13.2    | 14.5    |
| Annual variation (%)                                 | -2.5   | 9.0    | -14.3   | 4.8     | 9.8     |

f: forecasts; <sup>1</sup> Urban centres with populations of 10,000 and over, the total is slightly below the total for provincial apartments shown above; <sup>2</sup> Three units or more, biannual survey of the fall;

<sup>3</sup> Maintenance and repair expenditures are excluded.

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