February 4, 2014

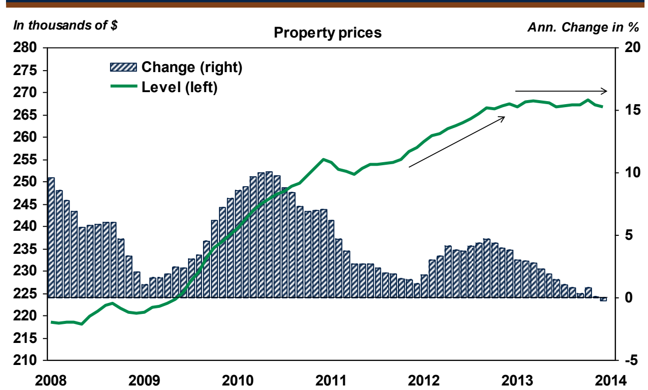
Stability sets in after the residential market downturn

The slump in new construction and resales appears to be over in Quebec. The 20.3% drop in housing starts in 2013 and the 7.9% slide in the number of broker-assisted real estate transactions lifted the pressure off the residential market. Price increases slowed to 1.3% in Quebec last year and condominium prices started to dip slightly in Greater Montreal. So what does 2014 have in store? Given that activity has stabilized in both the new and resale markets in recent months, the tone seems set for the year ahead. Even if price levels fail to rise in 2014, prices for single-family homes will increase slightly while price drops in the condo market will start to broaden. The adjustment period in this market segment will continue—no recovery in construction recovery is expected until 2015.

PRICE STAGNATION

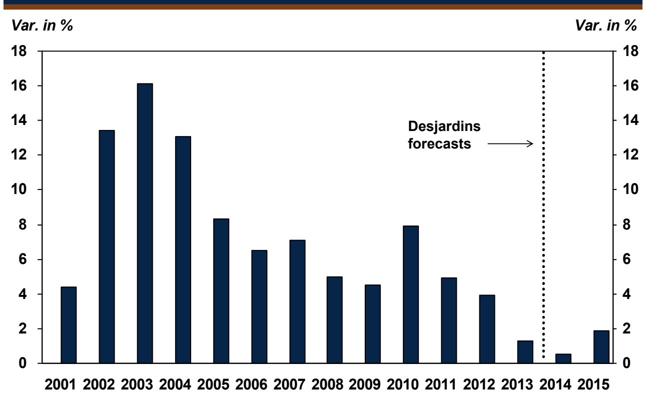
Even if the weighted average prices across Quebec rose by 1.3% in 2013, the momentum started losing steam at the end of the year (graph 1). This cooling-off period was overdue, since prices started to spiral at the start of the 2000s. The price increases last year still managed to outpace the inflation rate, which reached 0.7% (graph 2). In real terms, prices only edged up slightly last year. The reverse could occur in 2014, however. Price increases will cap at 0.5% while the inflation rate will climb back to 1.5%. This type of situation has not occurred in about 15 years, just before prices started their stratospheric ascent. In 2015, price increases will advance in step with the inflation rate, or close to 2%.

Graph 1 – Home price levels have stabilized in recent months



Sources: Canada Real Estate Association and Desjardins, Economic Studies

Graph 2 – Home price increases began to slow last year



Sources: Fédération des chambres immobilières du Québec by Centris® and Desjardins, Economic Studies

The environment for selling or buying an existing property has veered sharply from what we have seen in the past few years. The selection is wider and there are fewer takers, which prolongs the time-to-sale. In 2013, it took an average of 105 days to sell a property in Quebec—a 12-year peak. Last year, about one third of sellers had to cut their asking prices to close the sale. Now that market conditions have deteriorated, these sellers are no longer in a strong position.

François Dupuis
Vice-President and Chief Economist

Yves St-Maurice
Senior Director and Deputy Chief Economist

418-835-2450 *or* 1 866 835-8444, ext. 2450
E-mail: desjardins.economics@desjardins.com

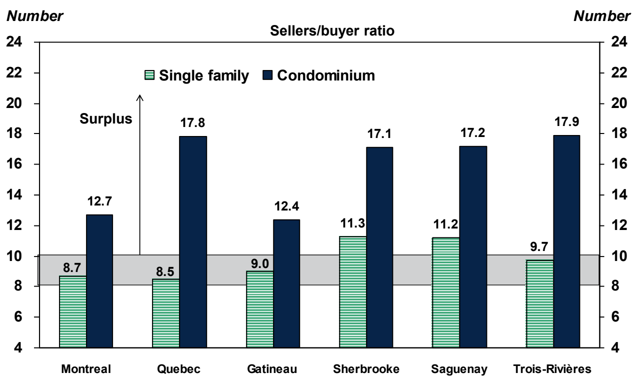
Hélène Bégin
Senior Economist

Chantal Routhier
Economist

CONDOMINIUMS: THE DETERIORATION CONTINUES

The condominium markets in Quebec's six CMAs are all in a surplus situation (graph 3). The sellers/buyer ratio continues to climb and is currently above the balanced market threshold in several zones and across almost all price points. Average prices dipped slightly by 0.6% in the Montreal CMA in 2013 due to the 1% contraction on Montreal Island. Downtown, the number of existing properties for sale exploded by 41% last year, which puts downward pressure on prices. Prices were up by 2% on the North Shore, South Shore and in Laval last year however, given the less congested nature of these markets. The pullback in average prices could reach 5 to 10% in Greater Montreal this year and ripple through to other CMAs, especially in the Quebec region. The number of existing condos for sale soared by 40% last year in the Capitale-Nationale region, and the market has tilted in favour of buyers in all sectors and prices ranges. Prices should then stabilize in 2015 in Quebec City and Montreal.

Graph 3 – Market conditions in 2013, based on CMA and market segment



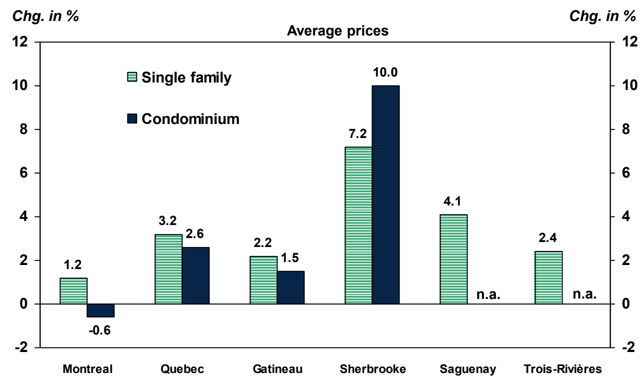
Sources: Fédération des chambres immobilières du Québec by Centris® and Desjardins, Economic Studies

The recovery period will hinge on builders' discipline. Housing starts for condominiums have already contracted by about 30% in Quebec in 2013; the drop was 43% in Quebec City, 26% in Montreal, 20% in Gatineau, 37% in Saguenay and 71% in Trois-Rivières. Sherbrooke recorded a 33% increase, however. New construction will continue to be weak this year across Quebec, with no turnaround expected until 2015. By then, the surplus of new condos should be absorbed and resale market conditions should show greater balance. The demographic trends that drive demand for this type of housing should then regain the upper hand.

SINGLE-FAMILY HOMES HOLDING UP WELL

The dynamic is different for single-family homes. Custom construction tailored to very specific buyers helped prevent the market for new homes from an excess offer, as was the case with condos, most of which remain unsold by the time a project breaks ground. The single-family segment in most CMAs is therefore balanced; this favours price advances (graph 4). In Montreal, price advances in 2013 hovered between 1% in 3% on the island, the North Shore, South Shore and in Laval. More slight upticks are expected this year. Average price increases exceeded 3% in Quebec City last year, a pace we should see again this year, or close to it. Even if single-family home prices continue to climb, the decline affecting the condo market means that prices will be at a near standstill this year.

Graph 4 – Variable price increases in 2013, based on CMA and market segment



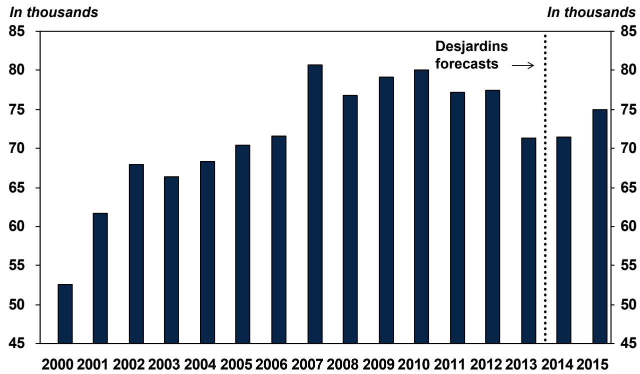
n.a.: not available
Sources: Fédération des chambres immobilières du Québec by Centris® and Desjardins, Economic Studies

NEW CONSTRUCTION: RENTALS REBOUND

Demand for new housing declined in almost all market segments in 2013. Few starts broke ground for single-family homes (-18.2%), townhouses (-26.7%) and row houses (-41.1%), much like the condo property market. The construction of conventional rental units jumped by more than 20% last year, however. The rental market is not dealing with a surplus since the apartment vacancy rate is close to the balanced threshold of 3% in Quebec. Demand seems to be on track now that young households no longer have the same financial capacity to purchase a property, meaning that they will look towards renting. The number of condos available for rent has increased in the past year, however, which means stiffer competition for traditional rentals.

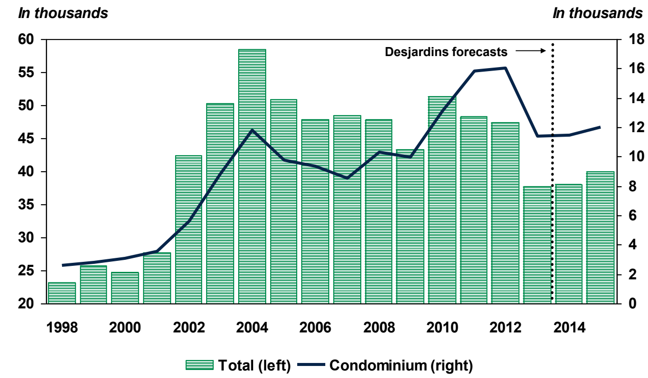
Overall, the housing market for existing property sales, new construction and prices will be stable this year. A gradual recovery is expected in 2015 (graphs 5 and 6) once the excess offer has been absorbed in most market segments.

Graph 5 – After declining in 2013, the number of sales should remain steady this year



Sources: Fédération des chambres immobilières du Québec by Centris® and Desjardins, Economic Studies

Graph 6 – Housing starts will recover in 2015 only



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

Hélène Bégin
Senior Economist

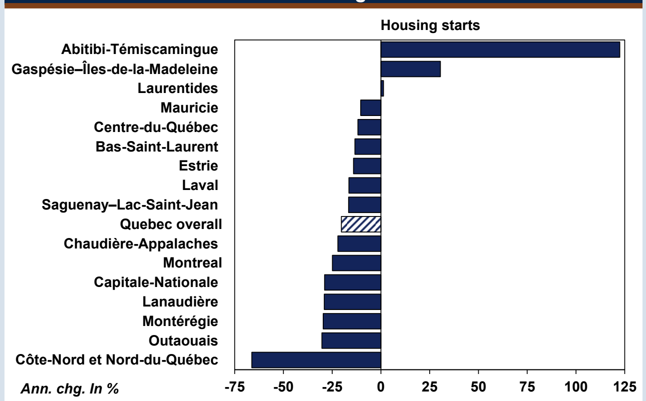
REGIONAL SNAPSHOT: THE RESIDENTIAL MARKET COOLS

HOUSING STARTS: DECLINE IN MOST REGIONS ACROSS QUEBEC

Only three regions posted advances in housing starts in 2013 (graph A): Abitibi-Témiscamingue stood out with the sharpest growth. Rouyn-Noranda kicked off the activity spurt, with starts up a blistering 145.9%. Gaspésie–Îles-de-la-Madeleine and the Laurentides region held firm in second and third place.

The sharp advances noted in eastern Quebec in 2013 are akin to a pendulum's swing. New construction in Gaspésie–Îles-de-la-Madeleine had lagged for the past five years and the vacancy rate in rental buildings reached 1.9% in 2012. This situation clearly helped jump-start new construction last year.

Graph A – Only three Quebec regions showed an increase in housing starts in 2013



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

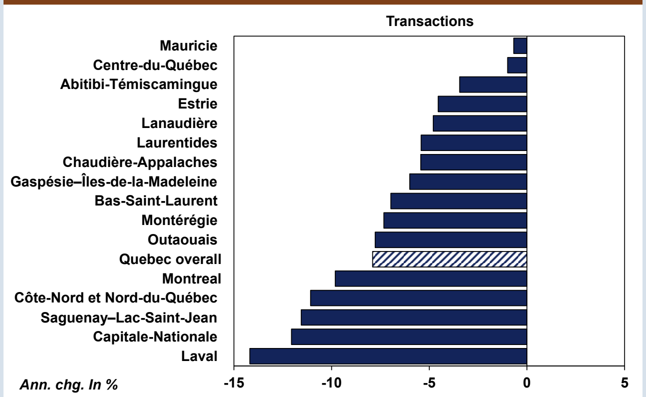
The Côte Nord, Outaouais and Montérégie regions suffered the sharpest declines in terms of housing starts. The decline in Sept-Îles reached 66.8%, the steepest drop of all cities in Quebec with a population of 10,000 or more. Construction in the Gatineau CMA was down 30.3%. Lastly, most agglomerations in the Montérégie region reported less activity in 2013 than in 2012 in terms of housing starts.

Few changes on the construction front are expected in 2014. Housing starts should stabilize after a one-year cooling-off period. Some regions could post declines in housing starts, including Centre-du-Québec and Estrie. Both regions grappled with very high vacancy rates for rental apartments in 2013, at 5.3% and 5.1% respectively. The regions that should post the sharpest construction growth including Laval, Lanaudière and the Capitale-Nationale region will continue to benefit from favourable demographic trends, especially in terms of immigration. The labour market will also provide support.

RESALES : GENERALIZED DROP

All regions recorded declines in existing home sales in 2013 (graph B). The best showing was in Mauricie due to the lively activity in Shawinigan, where the number of resale transactions increased by about 13.0% last year. Laval and the Capitale-Nationale region both recorded the most significant declines, at 14.2% and 12.1%, respectively. Of particular note, last year the average selling price in these areas had posted solid growth, with increases of 2.6% and 3.3%, respectively (+1.3% in Quebec).

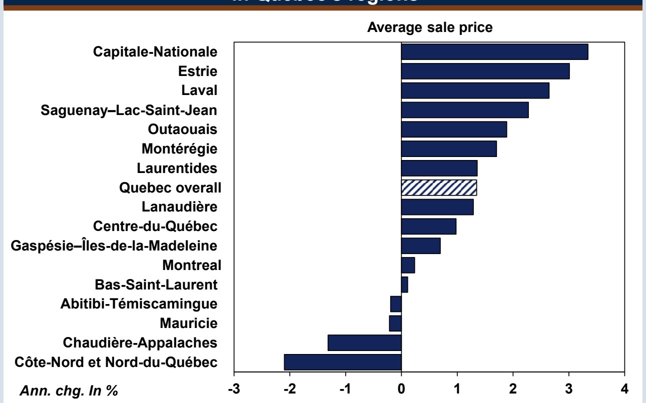
Graph B – In 2013, the drop in the number of transactions was widespread across Quebec



Sources: Fédération des chambres immobilières du Québec by Centris® and Desjardins, Economic Studies

Most regions experienced modest average price growth in 2013 compared to previous years (graph C), while prices eroded in certain areas, including the Côte-Nord and Chaudière-Appalaches. This is not overly alarming, however. In periods of imbalance, which characterizes today's resale market, occasional drops can be recorded without foreshadowing a widespread decline. These are usually marginal adjustments—a sign that the balance of power between sellers and buyers is tilting.

Graph C – Price growth in 2013 was much more modest in Quebec's regions



Sources: Fédération des chambres immobilières du Québec by Centris® and Desjardins, Economic Studies

The average time-to-sale increased in most regions last year. For example, it now takes 93 days to sell a property on the Island of Montreal (80 in 2012) compared to 105 days at the provincial level (96 in 2012). The longest time-to-sale is in Gaspésie–Îles-de-la-Madeleine, at 142 days (127 in 2012). The shortest timeframe is in Laval, at 81 days (74 days in 2012).

Much like new construction, the market for existing homes should be stable in 2014 (table A). In most regions in fact, the sellers/buyer ratio tilted to a surplus in 2013, which reflects the expanding offer and the dwindling demand currently affecting several territories. Laval and the Lanaudière region are also poised to stand out in the 2014 resales market, stimulated by a favourable economic environment. The more outlying regions however, including the Bas-Saint-Laurent and Saguenay–Lac-Saint-Jean, should remain flat in 2014. The weakness of the labour market, expected to persist through the year, makes it hard to anticipate gains on the resale side in 2014.

Table A – Housing market activity should stabilize across all regions in 2014

	Housing starts (levels)		Transactions (numbers)		Average sale price ($)	
	2013	2014f	2013	2014f	2013	2014f
Quebec overall	**37,758**	**38,000**	**71,265**	**71,500**	**267,669**	**269,007**
Bas-Saint-Laurent	475	473	1,402	1,395	141,273	141,300
Saguenay–Lac-Saint-Jean	1,165	1,153	1,761	1,735	174,929	175,800
Capitale-Nationale	3,896	3,950	6,013	6,050	256,742	259,310
Mauricie	1,047	1,020	1,773	1,750	139,350	139,400
Estrie	1,496	1,460	2,565	2,570	208,833	209,875
Montreal	5,594	5,665	14,042	14,150	396,367	398,400
Outaouais	1,924	1,920	4,083	4,090	231,645	232,803
Abitibi-Témiscamingue	732	695	841	840	171,835	172,000
Côte-Nord et Nord-du-Québec	75	76	602	604	162,205	162,300
Gaspésie–Îles-de-la-Madeleine	107	104	329	325	117,628	117,860
Chaudière-Appalaches	1,163	1,172	2,682	2,695	175,761	175,800
Laval	1,545	1,564	3,968	4,005	301,739	304,153
Lanaudière	2,018	2,047	6,096	6,160	216,198	217,495
Laurentides	3,569	3,575	7,652	7,675	242,540	243,995
Montérégie	6,083	6,132	15,849	15,928	252,672	254,188
Centre-du-Québec	888	866	1,607	1,580	144,305	144,400

f: Desjardins forecasts
Sources: Canada Mortgage and Housing Corporation, Fédération des chambres immobilières du Québec by Centris® and Desjardins, Economic Studies

Lastly, the average sales price should stabilize this year. Some regions could do better, including the Capitale-Nationale region. However, about half of these regions will post only very modest growth—if any. This should be the case for Mauricie and Abitibi-Témiscamingue, among other regions.

Chantal Routhier
Economist

Quebec - Housing Market Outlook
2014-2015

	2010	2011	2012	2013	2014f	2015f
New Housing Market						
New construction (in billion $)	**9.8**	**10.2**	**10.2**	**8.9**	**9.2**	**10.0**
Annual variation (%)	17.1	3.3	0.2	-12.7	3.4	8.7
Housing starts	**51,363**	**48,387**	**47,367**	**37,758**	**38,000**	**40,000**
Annual variation (%)	18.3	-5.8	-2.1	-20.3	0.6	5.3
House	**25,937**	**22,411**	**21,829**	**17,100**	**17,000**	**18,100**
Annual variation (%)	14.7	-13.6	-2.6	-21.7	-0.6	6.5
- Single-detached	**19,549**	**16,554**	**16,059**	**13,144.0**	**-**	**-**
Annual variation (%)	11.5	-15.3	-3.0	-18.2	-	-
- Semi-detached	**4,359**	**4,002**	**3,866**	**2,835.0**	**-**	**-**
Annual variation (%)	26.8	-8.2	-3.4	-26.7	-	-
- Row housing unit	**2,029**	**1,855**	**1,904**	**1,121.0**	**-**	**-**
Annual variation (%)	24.2	-8.6	2.6	-41.1	-	-
Apartment	**25,426**	**25,976**	**25,538**	**20,658**	**21,000**	**21,900**
Annual variation (%)	22.3	2.2	-1.7	-19.1	1.7	4.3
- Condo[1]	**13,111**	**15,827**	**16,017**	**11,395**	**11,450**	**11,975**
Annual variation (%)	31.3	20.7	1.2	-28.9	0.5	4.6
- Rental[1]	**11,032**	**9,055**	**8,437**	**8,332**	**8,500**	**8,700**
Annual variation (%)	16.1	-17.9	-6.8	-1.2	2.0	2.4
- Conventional rental[2]	**6,941**	**5,536**	**5,455**	**6,635**	**7,050**	**7,200**
Annual variation (%)	10.7	-20.2	-1.5	21.6	6.3	2.1
- Retirement home[2]	**2,869**	**2,370**	**1,885**	**1,411**	**1,400**	**1,430**
Annual variation (%)	30.2	-17.4	-20.5	-25.1	-0.8	2.1
Resale market						
Unit sales	**80,027**	**77,167**	**77,381**	**71,265**	**71,500**	**75,000**
Annual variation (%)	1.2	-3.6	0.3	-7.9	0.3	4.9
Weighted average price (in thousand $)	**242**	**254**	**264**	**268**	**269**	**274**
Annual variation (%)	7.9	4.9	3.9	1.3	0.5	1.9
Sales volume (in billion $)	**19.3**	**19.5**	**20.2**	**18.7**	**18.8**	**19.5**
Annual variation (%)	8.4	0.7	3.6	-7.2	0.5	3.7
Other indicators						
Vacancy rate for rental units[3] (%)	**2.7**	**2.6**	**3.0**	**3.1**	**3.2**	**3.5**
Average rent[3] (in $)	**666**	**684**	**681**	**699**	**718**	**740**
Annual variation (%)	4.1	2.7	-0.4	2.6	2.7	3.1
Renovation spending (in billion $)	**14.2**	**14.6**	**15.0**	**15.6**	**15.2**	**15.5**
Annual variation (%)	1.8	3.1	2.9	3.7	-2.6	2.0

[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