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Residential real estate market: Very different dynamics in Quebec and Ontario

2015 was quite divergent for the two provinces, in many respects. Quebec saw modest activity in the resale market, with renewed sales and prices up an average of 1.5%. Housing starts fell last year, particularly in the condo segment, which plunged 25%. In Ontario, the number of properties sold and average prices advanced nearly 10%, partly due to the booming Toronto market. In Ontario, housing starts rose for both single-family homes, condos and the rental market in 2015. What does 2016 hold? In Ontario, the effervescence will give way to a lull in both new construction and resales. The new, tighter rules on mortgage loans above \$500,000 will affect buyers with small down payments. In a way, it will be a return to normal that is more consistent with the province's long-term demographic growth. In Quebec, the trends in the residential sector will be fairly similar to 2015's. Total housing starts will drop again this year, while the resale market should keep up a similar pace. Given that there are fewer very pricey properties, the federal government's more stringent rules will have less impact on Quebec's residential market.

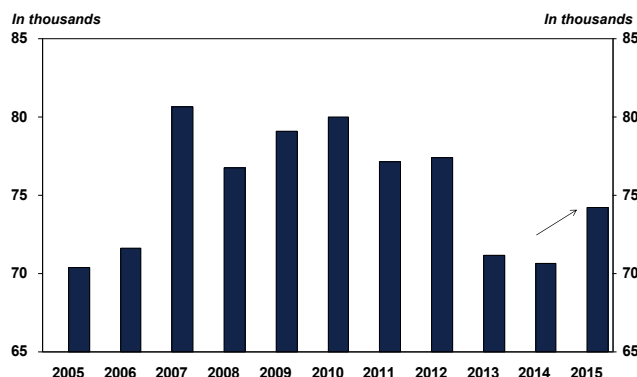
RESALES IMPROVE IN QUEBEC

In 2015, the number of existing properties sold through real estate brokers saw its first real increase in five years (graph 1). The 5% rebound came from a 6% upswing in single-family homes and a 4% rise in condos. Despite the recovery by sales, the pool of homes on the market grew in both segments. Market conditions therefore remained the same throughout 2015. The change in average prices therefore held around 1.5% for the third straight year. Sales should be up about 2% this year, thanks to the improvement

in the labour market and ongoing low mortgage interest rates. The surplus will persist in the single-family home segment, while a strong imbalance will remain for condos. This will rein in overall price growth at around 1.5% in 2016 for Quebec.

The federal government recently tightened the mortgage rules for high-end properties. The minimum down payment will now vary depending on the value of the loan. For mortgage loans under \$500,000, it is still at 5%. Above that, the minimum down payment is at least 10%¹. This targeted measure is intended to slow the overheating Toronto and Vancouver markets. While the measure will have less of an impact on Quebec, it will nonetheless put the brakes on luxury home purchasers (box 1 on page 2) who have small down payments.

Graph 1 – Quebec existing home sales pick up in 2015



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

¹ Only for the portion above the \$500,000 threshold.

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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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BOX 1 – HIGH-END SALES RISE IN QUEBEC

The Québec Federation of Real Estate Boards (QFREB) has noted a net rise in high-end home sales over a year², pushing the average price up. In 2015, sales of existing homes over \$500,000 increased about 15%, while those above a million dollars jumped more than 20%. About two third of the single-family homes above \$500,000 were sold on the Island of Montreal, while the others are primarily located in the surrounding areas, in Montérégie, the Laurentians and Laval. The breakdown is fairly similar for homes above a million dollars. Elsewhere in the province, in 2015, high-end single-family homes were primarily sold in the greater Quebec City area. Sales of condos in the higher price ranges also rose. The big selection and buyers' improved bargaining power probably boosted the transactions, because there is a solid surplus in high-end properties. While transactions involving properties priced above \$500,000 surged, they were still fairly limited. According to Centris[®] data from the QFREB, they represented 8% of the province's market in 2015, including 13% in the Montreal CMA and 4% in the Quebec CMA.

² Québec Federation of Real Estate Boards, A Word from the Economist, "The High-end Residential Market is Booming in Québec," November 2015. http://www.fcic.ca/pdf/mot_economiste/me_112015_en.pdf

ONTARIO STILL RISING

The resale market accelerated, with sales and average prices up close to 10% in 2015. Toronto powered the skyrocketing market, but activity was also strong elsewhere in the province as well. Even excluding Toronto, the number of transactions also advanced 10%. The rise was widespread, ranging between 5% and 10% in Ontario's major markets. Prices went up in nearly every agglomeration; only Sudbury posted a slight pullback. Overall, the market is doing well in nearly all of the major centres. Sales should stabilize this year, while price growth should gradually slow to around 2%. The tighter rules on mortgage loans above \$500,000 will have the biggest impact on Ontario buyers, as the average price is \$465,000, compared to \$275,000 for Quebec.

QUEBEC CONSTRUCTION SLOWS

Housing starts dropped 2.2% in 2015, to 37,963 new units. Single-family homes were off 13.6%; in terms of price, they are now out of reach for many households. Land is both scarce and highly priced, especially in central neighbourhoods, turning many potential buyers away. The wide selection in the resale market and greater flexibility in bargaining are also reducing the appeal of building. The similar conditions forecast in 2016 will keep the brakes on demand for new homes.

Table 1 – Quebec condo starts

Agglomerations	2014 level	2015 level	% ann. change
Gatineau	615	286	-53.5
Montreal	10,516	7,860	-25.3
Quebec	1174	1010	-14.0
Saguenay	28	10	-64.3
Sherbrooke	101	169	67.3
Trois-Rivières	258	98	-62.0
CMA Total	12,692	9,433	-25.7
Mid-size centres ¹	208	269	29.3
Small centres ²	242	232	-4.1

¹ Centres with 50,000 to less than 100,000 residents

² Centres with 10,000 to less than 50,000 residents

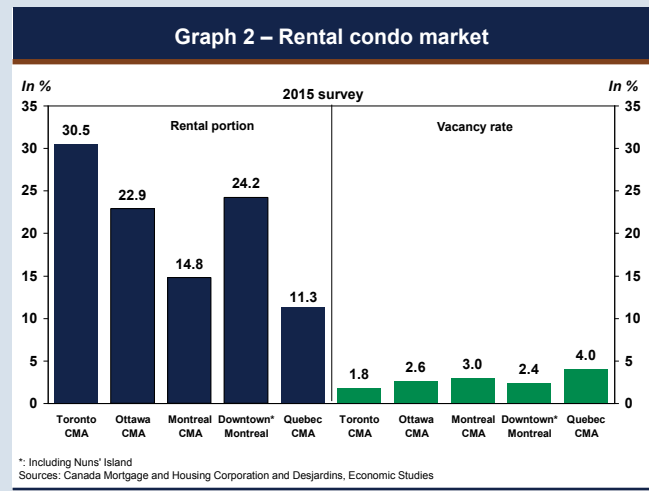
Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

Condo starts fell nearly everywhere in Quebec last year (table 1). The number of completed, unsold condos remains high and a growing number are ending up in the rental market (box 2 on page 3). As long as the resale market has a substantial surplus, the potential for new construction will be limited. An adjustment phase is underway, but it will take more than a year or two before sounder conditions return.³ To get there, new condo construction will have to be quite limited.

³ Economic Viewpoint "Quebec's condo market is still in surplus - New construction and prices will keep adjusting" December 10, 2015 <https://www.desjardins.com/ressources/pdf/pv151210e.pdf>

BOX 2 – MORE CONDOS BEING RENTED

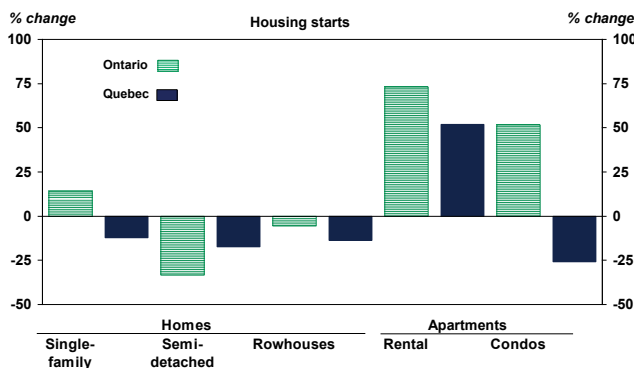
The CMHC has released the results of the 2015 survey on rented condos. The Toronto CMA continues to dominate, with over 30% of units being rented (graph 2). Downtown Montreal is close behind, at 24.2%. Despite the high proportion, the vacancy rate, around 2%, is relatively low in both locations. In 2015, the Montreal CMA had nearly 25,000 rental condos, up from less than 10,000 five years ago. Although they have more than doubled, rental demand is there. With an average rent of \$1,300 in Montreal and \$1,000 in Quebec CMAs, condos are competing directly with the traditional high-end rental market, where the vacancy rate has surged in recent years. In the Quebec CMA, a smaller share, 11.3%, of condos is being rented, but 4.0% of those are vacant—a relatively high percentage. For developers and builders who decide to rent unsold new condos, it is harder in Québec than in Montreal to find tenants.



Only construction of conventional rental apartments and seniors' homes were up sharply in 2015 (graph 3). For traditional rental housing, new units are sometimes rented to the detriment of older ones. The Quebec vacancy rate in buildings also rose to 4.3% last fall, and is now above 6%

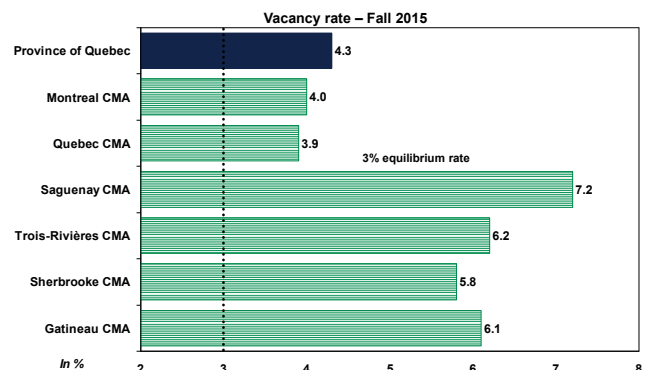
in several CMAs (graph 4). This type of construction will have to slow in Quebec to keep the vacancy rate from skyrocketing. The same applies to seniors' residences, a segment in which construction almost doubled in 2015.

Graph 3 – Construction of rental apartments surges in 2015



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

Graph 4 – Surplus in Quebec's rental market



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

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Quebec - Housing Market Outlook 2016-2017

	2013	2014	2015	2016 ^f	2017 ^f
New Housing Market					
New construction (in billion \$)	9.0	8.7	8.3	8.1	8.1
Annual variation (%)	-12.2	-2.3	-4.8	-2.6	0.4
Housing starts	37,758	38,810	37,926	36,000	36,000
Annual variation (%)	-20.3	2.8	-2.3	-5.1	0.0
House	17,100	15,707	13,593	13,500	13,700
Annual variation (%)	-21.7	-8.1	-13.5	-0.7	1.5
- Single-detached	13,144.0	11,227.0	9,698.0	-	-
Annual variation (%)	-18.2	-14.6	-13.6	-	-
- Semi-detached	2,835.0	3,083.0	2,650.0	-	-
Annual variation (%)	-26.7	8.7	-14.0	-	-
- Row housing unit	1,121.0	1,397.0	1,245.0	-	-
Annual variation (%)	-41.1	24.6	-10.9	-	-
Apartment	20,658	23,103	24,333	22,500	22,300
Annual variation (%)	-19.1	11.8	5.3	-7.5	-0.9
- Condo¹	11,395	12,893	9,571	8,500	8,500
Annual variation (%)	-28.9	13.1	-25.8	-11.2	0.0
- Rental¹	8,332	8,939	13,588	12,500	12,000
Annual variation (%)	-1.2	7.3	52.0	-8.0	-4.0
- Conventional rental²	6,635	6,204	9,218	8,500	8,000
Annual variation (%)	21.6	-6.5	48.6	-7.8	-5.9
- Retirement home²	1,411	2,438	4,089	3,700	3,500
Annual variation (%)	-25.1	72.8	67.7	-9.5	-5.4
Resale market					
Unit sales	71,194	70,625	74,207	75,700	78,000
Annual variation (%)	-8.0	-0.8	5.1	2.0	3.0
Weighted average price (in thousand \$)	268	271	275	280	285
Annual variation (%)	1.3	1.3	1.5	1.5	2.0
Sales volume (in billion \$)	18.7	18.8	20.2	21.2	22.2
Annual variation (%)	-7.3	0.4	7.5	4.9	5.1
Other indicators					
Vacancy rate for rental units³ (%)	3.1	3.7	4.3	4.8	5.1
Average rent³ (in \$)	679	691	712	730	746
Annual variation (%)	2.4	1.8	3.0	2.5	2.2
Renovation spending⁴ (in billion \$)	11.8	12.3	13.4	12.5	12.5
Annual variation (%)	3.5	4.9	8.7	-6.7	0.0

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.

⁴ Maintenance and repair expenditures are excluded.

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