SPOTLIGHT ON HOUSING

Numerous Markets Firm Up in Quebec and Ontario

The housing frenzy is dominating the news in Quebec, mainly because of a boom in sales and prices for existing properties. Ontario's resale market continues to climb after the 2017–2018 correction. Overheating is intensifying in Montreal and Ottawa, while Toronto and Vancouver are poised to return to this state. Other market segments are also very active. Quebec's rental unit segment is seeing both very sustained demand and a construction boom. The vacancy rate fell to 1.8% last year despite the additional supply.

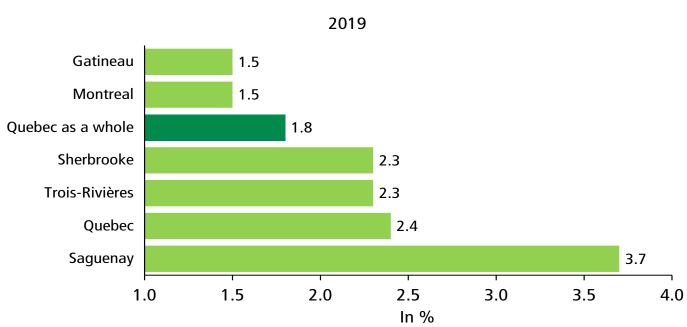
Tight Rental Market

The Canada Mortgage and Housing Corporation (CMHC) recently released the results for its national survey of rental apartments. Ontario's vacancy rate hit 2.0% last year, with rates at 1.8% in Ottawa and 1.5% in Toronto. Between 2% and 3% of apartments are vacant in most of Ontario's other census metropolitan areas (CMAs).

Quebec's vacancy rate fell to 1.8% in 2019 from 2.3% the previous year. The vacancy rates are lowest in Montreal and Gatineau, at 1.5% (graph 1). The Montreal CMA even hit its lowest point in 15 years (graph 2). The Quebec CMA hit a vacancy rate of less than 1% in the past but, at 2.4%, its current level is relatively low.

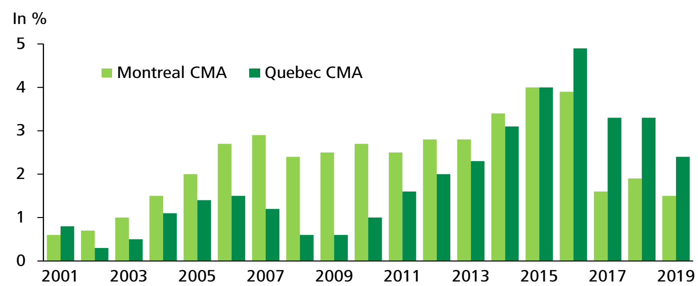
The Canadian vacancy rate went from 2.4% in 2018 to 2.2% in 2019, its lowest point since 2002. The main country's tightest markets are Vancouver (1.1%), Toronto (1.5%) and Montreal (1.5%). According to the CMHC, nearly 30% of the rental apartments built in Canada were located in Montreal in 2019, compared with 15.4% in Toronto and 5.4% in Vancouver. The construction starts on rental housing are therefore concentrated in Montreal.

GRAPH 1
Rental apartment vacancy rates by CMA



CMA: Census metropolitan area
Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

GRAPH 2
Low vacancy rates for rental apartments



CMA: Census metropolitan area
Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

The rental market has tightened despite last year's ongoing boom in construction, both in Montreal and elsewhere in Quebec (graph 3 on page 2). The strong demand for rentals has absorbed the new units available and reduced the number of vacant units in existing buildings.

Several factors are responsible for this phenomenon, such as the influx of new non-permanent residents from other countries (graph 4 on page 2). These are people who were admitted to Canada on a temporary basis, half of whom are workers, as well as students and asylum seekers. In the last two years, the number of foreign workers has skyrocketed in Quebec,

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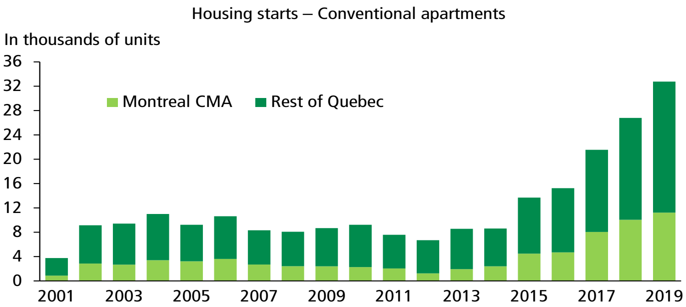
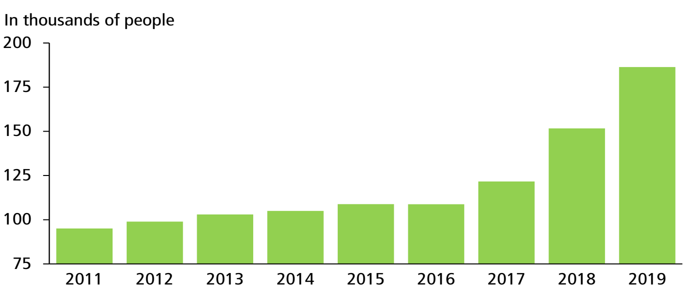
GRAPH 3
Construction boom for rental units



CMA: Census metropolitan area
Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

GRAPH 4
Number of non-permanent residents in Quebec



Sources: Statistics Canada, Institut de la statistique du Québec and Desjardins, Economic Studies

mainly because of the crying need for labour. More and more businesses are hiring candidates from elsewhere to fill vacant jobs.

Many universities and other educational institutions are becoming increasingly attractive to the international clientele, which has also played a major role, especially in Montreal.[1] Last year, temporary workers and foreign students accounted for more than 75% of Quebec's non-permanent residents. The additional influx of people stimulated demand for rental apartments. Barring a change to the government's policy on foreign workers and students, this clientele will continue to sustain the rental market.

Other factors influencing housing type for Quebec's population also made a difference. For one thing, the drop in affordability[2] in the residential real estate market is prompting many young households to rent apartments rather than buy a property. For another, demographic ageing is fostering a shift in tenure toward conventional rental apartments with services or seniors' residences.

The favourable factors should persist in 2020, which will support fairly sustained demand for rental units. In this context, construction starts on this type of housing will remain high, with building of about 21,500 conventional units likely to begin this year. The proportion of vacant apartments should decline further, as demand growth will outpace the addition of new rental units. The provincial vacancy rate should therefore dip to 1.5% in 2020 from 1.8% in 2019.

Condominiums: More Pressure, but Less Construction

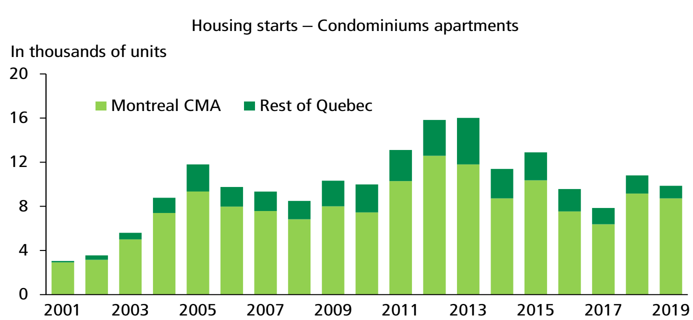
Demand for existing condos firmed up in most of the province's markets last year. Sales went up about 15% across the province, as well as in the Montreal CMA, and even more in the Gatineau and Quebec CMAs. However, the state of the resale market differs sharply in each of the main centres.

The shortage means it is a seller's market in Montreal and Gatineau, leading to rapid price growth. The number of condos on the market fell sharply last year and buyers have little selection, often leading to very rapid transactions for more than the asking price. The average time to sale is about three months in Gatineau and two months in Greater Montreal.

In Quebec CMA, the surplus of existing condos is gradually waning and the average price is relatively stable. However, it is a buyer's market and times to sale are generally around six months. The surplus of condos on the market is more of an issue in Saguenay and prices are going down.

Even though the pressure is rising on the Montreal and Gatineau resale markets, new construction of this type of housing is tending to flag, like elsewhere in the province (graph 5). Yet the number of new unsold condos is relatively low. While numerous construction projects are underway in Montreal and Gatineau,

GRAPH 5
Condo construction is flagging



CMA: Census metropolitan area
Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

[1] Montreal's Economy Is the Driving Force Behind Quebec's Economy Once Again, Desjardins, Economic Studies, *Economic Viewpoint*, December 12, 2019, 4 p.

[2] Accessibility Shrinks Across Canada, Desjardins, Economic Studies, *Desjardins Affordability Index*, November 14, 2019, 2 p.

activity is weaker than it was a few years ago. Province-wide, starts on condos should fall for a third straight year in 2020.

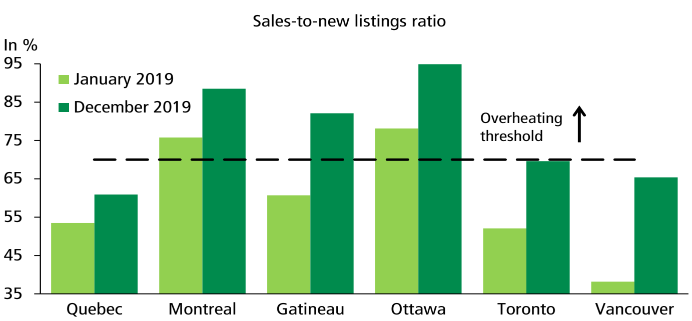
Strong Demand for Homes, but Little Construction

Single-family home sales are surging in the province's main markets. However, the number of properties on the market continues to decline, which favours sellers, reduces time to sale and puts upside pressure on prices. Of the six CMAs, only Quebec and Saguenay are seeing balanced markets in the single-family home segment. Construction starts on homes have been falling for several years in the province. The high price of land, the scarcity of lots, and higher construction costs are making new homes less affordable.

Overheating in Montreal, Gatineau and Ottawa

Overheating occurs when the demand for housing is too strong compared with the pool of existing properties for sale in the market. According to the CMHC, this corresponds to a sales-to-new listings ratio of more than 70%. Montreal and Ottawa were already in this zone at the start of 2019, and Gatineau is now there as well (graph 6). Gatineau and Montreal are seller's markets for resales of both condos and single-family homes. Toronto and Vancouver had moved away from the overheating zone after the correction period. The 2019 housing market recovery quickly tightened up conditions, which are close to the threshold of overheating.

GRAPH 6
Overheating intensified in 2019 in some markets



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

In a Nutshell

In Quebec and Ontario, market conditions are tightening for both the resale and rental unit markets. The economy and labour market are doing well, supporting the demand for housing, as is the influx of numerous international workers and students. The residential sector should be lively again in 2020. Fundamental factors such as employment, interest rates and demographics should remain positive.

The new rental units should therefore be absorbed by rising demand in Quebec. More limited home and condo construction will keep pressure on the resale market, fuelling the increase in prices again this year. Given that the level of construction in the rental market should stabilize this year and that the other segments will not be able to pick up the slack, total housing starts will be limited to 45,000 in 2020, down 6.2% from last year (table on page 4).

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TABLE

Quebec housing market outlook 2020–2021

	2017	2018	2019	2020f	2021f
New Housing Market					
New construction ($B)	**10.3**	**12.0**	**11.8**	**11.1**	**10.0**
Annual variation (%)	14.5	16.1	-1.6	-5.8	-9.9
Housing starts	**46,495**	**46,874**	**47,967**	**45,000**	**40,000**
Annual variation (%)	19.4	0.8	2.3	-6.2	-11.1
House	**15,364**	**14,968**	**13,742**	**12,000**	**10,000**
Annual variation (%)	-0.5	-2.6	-8.2	-12.7	-16.7
Single-detached	***10,711***	***10,060***	**8,989.0**	**---**	**---**
Annual variation (%)	*-0.2*	*-6.1*	-10.6	---	---
Semi-detached	***2,819***	***2,995***	**2,966.0**	**---**	**---**
Annual variation (%)	*2.1*	*6.2*	-1.0	---	---
Row housing unit	***1,834***	***1,913***	**1,787.0**	**---**	**---**
Annual variation (%)	*-5.3*	*4.3*	-6.6	---	---
Apartment	**31,131**	**31,906**	**34,225**	**33,000**	**30,000**
Annual variation (%)	32.5	2.5	7.3	-3.6	-9.1
Condo [1]	***10,804***	***9,860***	***8,172***	***7,000***	***6,000***
Annual variation (%)	*37.6*	*-8.7*	*-17.1*	*-14.3*	*-14.3*
Rental [1]	***19,256***	***20,503***	***24,861***	***25,000***	***23,000***
Annual variation (%)	*36.5*	*6.5*	*21.3*	*0.6*	*-8.0*
Conventional rental [2]	***13,506***	***16,752***	***21,536***	***21,500***	***19,500***
Annual variation (%)	*28.0*	*24.0*	*28.6*	*-0.2*	*-9.3*
Retirement home [2]	***5,520***	***3,565***	***3,159***	***3,500***	***3,500***
Annual variation (%)	*60.3*	*-35.4*	*-11.4*	*10.8*	*0.0*
Resale market					
Unit sales	**82,537**	**86,444**	**96,470**	**104,000**	**99,000**
Annual variation (%)	5.6	4.7	11.6	7.8	-4.8
Weighted average price ($k)	**293**	**308**	**324**	**345**	**353**
Annual variation (%)	4.5	5.2	5.2	6.6	2.3
Sales volume ($B)	**24.1**	**26.3**	**30.5**	**35.9**	**34.9**
Annual variation (%)	10.6	9.1	15.8	17.7	-2.6
Other indicators					
Vacancy rate for rental units [3] **(%)**	**3.4**	**2.3**	**1.8**	**1.5**	**2.0**
Average rent [3] **($)**	**735**	**760**	**787**	**817**	**845**
Annual variation (%)	1.1	3.4	3.6	3.8	3.4
Renovation spending [4] **($B)**	**13.8**	**13.5**	**14.6**	**15.5**	**15.9**
Annual variation (%)	8.9	-2.5	8.3	6.2	2.6

f: forecasts; [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, Quebec Professional Association of Real Brokers by the Centris system, Statistics Canada and Desjardins, Economic Studies