

## The housing market continues to cool

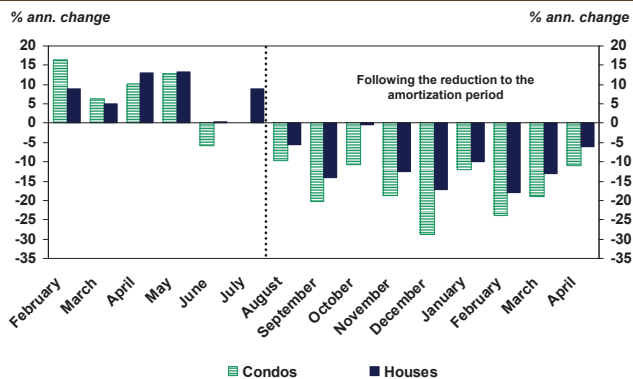
The housing sector's slower pace is now firmly entrenched. Resale market activity, which has been down since summer 2012, is now strongly affecting new construction. Housing starts have dropped in all market segments, and a pullback will be noted throughout Quebec this year. While the lull in demand is helping to rein in the rise by home prices, we do not expect a widespread downturn, as the market for single-family dwellings remains a seller's market. However, condominium prices could decrease in Quebec City and Montreal, as the supply is too extensive at a time when demand is flagging substantially.

### SALES CONTINUE TO FALL

The reduction to the maximum amortization period, from 30 years to 25 years for mortgages with a down payment between 5% and 20%, has poured cold water over the resale market since summer 2012 (graph 1). Following the reversal, sales of existing property have continued to drop in Quebec. The number of residences sold through a real estate broker fell 7% in April from the same period last year. Condos continue to slide more steeply (-11%) than single-family dwellings (-6%).

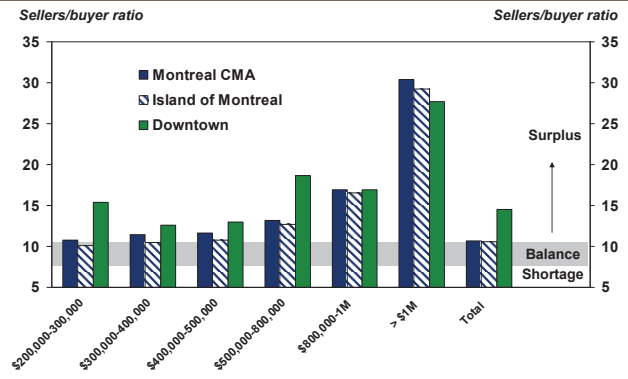
Many young households that had been planning to buy condos because they were much more affordable than single-family dwellings had to postpone their plans when the federal government instituted its new rules. The pool of first-time home buyers shrank, and this has had a greater impact on condo sales. While demand is softening, the supply of condos is rising rapidly. The number of units on the market in the province is up 25% since the start of 2013. The market is now showing a slight surplus in the Quebec and Montreal CMAs. The diagnosis varies, though, depending on price range (graphs 2 and 3), and there is a significant surplus

**Graph 1 – Resales of existing property in Quebec have been falling since July 2012**



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

**Graph 2 – Montreal's condo resale market: Already in surplus in several price ranges\***



\* First quarter of 2013.  
Sources: Fédération des chambres immobilières du Québec and Desjardins, Economic Studies

**François Dupuis**  
Vice-President and Chief Economist

**Yves St-Maurice**  
Senior Director and Deputy Chief Economist

**Hélène Bégin**  
Senior Economist

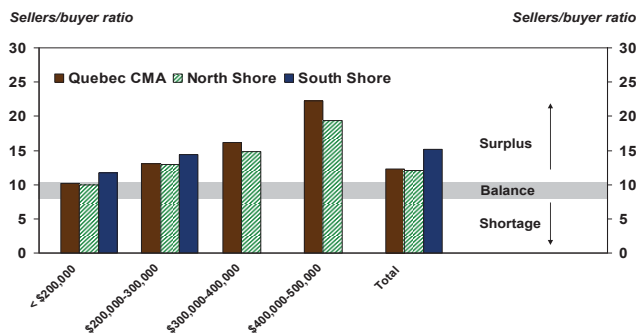
**Chantal Routhier**  
Economist

418-835-2450 or 1 866 835-8444, ext. 2450  
E-mail: [desjardins.economics@desjardins.com](mailto:desjardins.economics@desjardins.com)

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

IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on factors such as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2013, Desjardins Group. All rights reserved.

**Graph 3 – Quebec’s condo resale market:  
The level of saturation rises with the price\***



\* First quarter of 2013.  
Sources: Fédération des chambres immobilières du Québec and Desjardins, Economic Studies

of higher-end condominiums. In the Gatineau CMA, the shortage was recently absorbed, leading to a market that is balanced overall. Nevertheless, there is a surplus of units in the \$200,000 to \$300,000 range, and too few condos under \$200,000 to meet demand in Gatineau.

### CONDO PRICES WAVERING

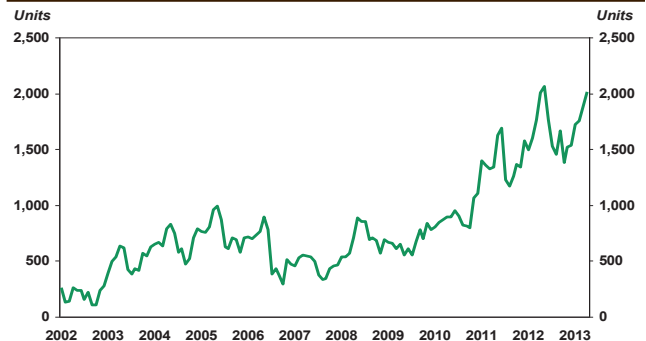
In Montreal and Quebec City, a minor price correction may occur in the short term, as the resale market has a small surplus. In the Montreal CMA, the average condo price has been fairly stable since the start of 2013, and it even seems that a downtrend is taking root on the island. In Quebec City, the rise by the average price has slowed to around 3%. A decline could occur shortly due to the heavy construction that will slowly increase the supply of condos. Over the next year, prices in Montreal and Quebec City could drop by about 5%, due to the overly large supply in higher price ranges. Luxury condos will be hit the hardest, while affordable units should not be affected much.

Although condos' weight in the market has increased in recent years, they account for around 25% of home sales in Quebec City, 30% in Montreal and 20% province-wide. If prices in this market segment were to dip, it would not be enough to trigger a widespread decline by property prices in Quebec. It is the single-family dwelling market that will dictate the overall direction of prices. As this market is far from a surplus, and a slight shortage still exists, home prices will continue to go up. A stabilization or even a likely pullback by condo prices will slow overall price growth to 2.2% in Quebec this year compared with 3.9% in 2012.

### NEW CONSTRUCTION WEAKENS

Residential construction continues to slow. While housing starts rose from March to April, the year-to-date total for the first four months of 2013 is showing a pullback of around 20%. This decrease is in line with our forecast for 38,000 new units for the year compared with 47,367 units last year. In 2012, construction of houses and rental units dropped in Quebec, although starts on condos continued to surge. A lull finally seems to be taking shape, since construction fell over 10% in the first quarter of 2013 from the same time in 2012. This decline affected all CMAs except Quebec, which saw condo construction pick up speed (graph 4). If condo construction is slow to weaken in the Quebec CMA, the supply will become even more abundant and a price correction will be inevitable. Let us hope that the calm noted elsewhere in the province will continue, so as to foster sales of newly completed units and units under construction. In Montreal, starts for this type of housing dropped nearly 20% in the first quarter from the same time last year, although the level of construction remains high.

**Graph 4 – A large number of condos are under construction in the Quebec CMA**



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

All in all, the housing sector will continue to make a soft landing. Housing starts will decline in all Quebec segments in 2013. However, the condo market will remain in the spotlight this year. Obvious signs of weaker demand, at a time when there is a bigger supply of units available, could lead to an adjustment period of at least two years. In the province, starts for this type of housing should fall around 15% this year and 10% next year.

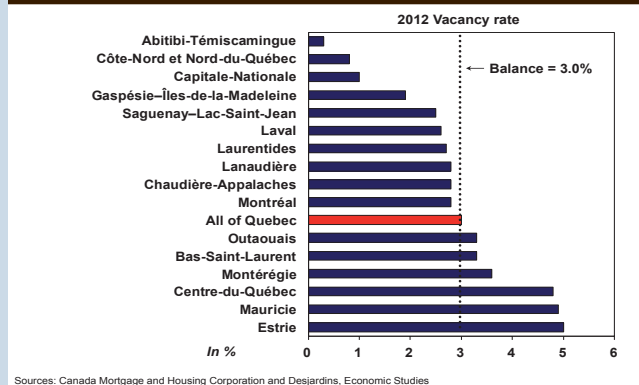
**Hélène Bégin**  
Senior Economist

### THE HOUSING MARKET WILL SLOW IN ALL REGIONS OF QUEBEC IN 2013

New construction fell for in most parts of Quebec in 2012. Housing starts are expected to pull back in 2013 in all 17 administrative regions of Quebec. Moreover, the data for the first quarter of the year points in this direction, as substantial retreats were posted. For example, drops of 20% and 48% were observed in Montreal and Montérégie respectively, the province's two largest markets.

Also, many regions posted higher vacancy rates for rental units in 2012; as a result, 6 of these regions now have rates above the 3.0% equilibrium point established by the Canada Mortgage and Housing Corporation (graph 5). For 2013, most of the remaining markets should reach equilibrium.

**Graph 5 – Several rental markets should return to balance this year**



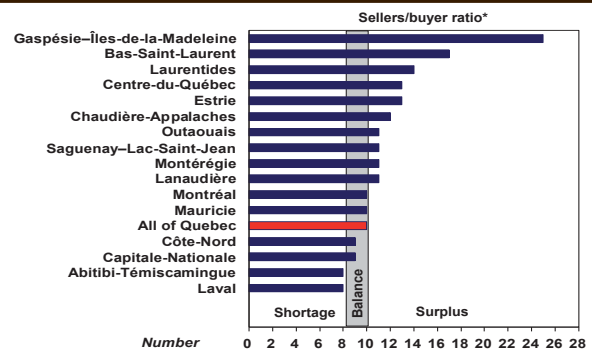
Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

Conversely, the resale market for existing homes is showing some resilience, as most regions saw transactions rise. A small uptick was observed in 2012 for Quebec. The Lanaudière, Laurentides and Montérégie regions were primarily responsible for keeping Quebec's head above water as the number of transactions in Montreal fell 4.1%.

Like new construction, the resale market will also cool this year. Figures for the first quarter of 2013 are proof of that, as transactions edged down in all regions from the same

period in 2012 (-15.6% for the provincial average). What's more, for all of these regions, the seller/buyer ratios were in balance or surplus territory in the first three months of the year, reflecting the cooling resale market (graph 6). The average time to sale has not fluctuated too much.

**Graph 6 – Most resale markets were balanced or in surplus in the first quarter of 2013**



\* Current listings divided by the number of transactions in the resale market. Sources: Fédération des chambres immobilières du Québec and Desjardins, Economic Studies

Growth by average sales price slowed in all of the province's administrative regions in the first quarter of 2013. Three regions even posted slight dips (table 1). The slower pace should persist this year, as several markets return to balance or even have surpluses, which tends to increase buyers' bargaining power.

**Table 1 – In 2013, growth by average sale prices will be less sustained in all Quebec regions**

	2012		2013f		Q1 2013 / Q1 2012 Ann. Change
	Ann. Change	Level	Ann. Change	Level	
	In %	In \$	In %	In \$	In %
All of Quebec	3.9	277,421	2.2	2.7	
Bas-Saint-Laurent	1.2	142,525	1.0	-0.1	
Saguenay-Lac-Saint-Jean	4.9	174,544	2.0	3.1	
Capitale-Nationale	5.0	254,899	2.6	4.1	
Mauricie	-0.2	139,790	0.1	2.9	
Estrie	2.5	204,696	1.0	6.3	
Montréal	4.9	404,967	2.4	1.6	
Outaouais	3.9	231,673	1.9	2.6	
Abitibi-Témiscamingue	10.6	176,473	2.5	5.0	
Côte-Nord et Nord-du-Québec	18.3	174,000	5.0	3.7	
Gaspésie-Îles-de-la-Madeleine	3.0	119,151	2.0	14.0	
Chaudière-Appalaches	3.9	181,666	2.0	-0.4	
Laval	5.2	301,604	2.6	3.5	
Lanaudière	5.6	218,743	2.5	-0.8	
Laurentides	2.3	243,831	1.9	2.7	
Montréal	2.1	253,198	1.9	2.0	

f: forecasts Q1: first quarter Sources: Fédération des chambres immobilières du Québec et Desjardins, Economic Studies

**Chantal Routhier**  
Economist

## Québec - Housing Market Outlook 2013-2014

	2010	2011	2012	2013f	2014f
<b>New Housing Market</b>					
<b>New construction (in billion \$)</b>	<b>9.8</b>	<b>10.2</b>	<b>10.2</b>	<b>8.9</b>	<b>9.5</b>
Annual variation (%)	17.1	3.3	0.2	-12.7	6.7
<b>Housing starts</b>	<b>51,363</b>	<b>48,387</b>	<b>47,367</b>	<b>38,000</b>	<b>40,000</b>
Annual variation (%)	18.3	-5.8	-2.1	-19.8	5.3
<b>House</b>	<b>25,937</b>	<b>22,411</b>	<b>21,829</b>	<b>16,000</b>	<b>17,700</b>
Annual variation (%)	14.7	-13.6	-2.6	-26.7	10.6
- <b>Single-detached</b>	<b>19,549</b>	<b>16,554</b>	<b>16,059</b>	-	-
Annual variation (%)	11.5	-15.3	-3.0	-	-
- <b>Semi-detached</b>	<b>4,359</b>	<b>4,002</b>	<b>3,866</b>	-	-
Annual variation (%)	26.8	-8.2	-3.4	-	-
- <b>Row housing unit</b>	<b>2,029</b>	<b>1,855</b>	<b>1,904</b>	-	-
Annual variation (%)	24.2	-8.6	2.6	-	-
<b>Apartment</b>	<b>25,426</b>	<b>25,976</b>	<b>25,538</b>	<b>22,000</b>	<b>22,300</b>
Annual variation (%)	22.3	2.2	-1.7	-13.9	1.4
- <b>Condo<sup>1</sup></b>	<b>13,111</b>	<b>15,827</b>	<b>16,017</b>	<b>13,500</b>	<b>12,200</b>
Annual variation (%)	31.3	20.7	1.2	-15.7	-9.6
- <b>Rental<sup>1</sup></b>	<b>11,032</b>	<b>9,055</b>	<b>8,437</b>	<b>8,000</b>	<b>8,500</b>
Annual variation (%)	16.1	-17.9	-6.8	-5.2	6.3
- <b>Conventional rental<sup>2</sup></b>	<b>6,941</b>	<b>5,536</b>	<b>5,455</b>	<b>4,700</b>	<b>5,000</b>
Annual variation (%)	10.7	-20.2	-1.5	-13.8	6.4
- <b>Retirement home<sup>2</sup></b>	<b>2,869</b>	<b>2,370</b>	<b>1,885</b>	<b>1,900</b>	<b>2,000</b>
Annual variation (%)	30.2	-17.4	-20.5	0.8	5.3
<b>Resale market</b>					
<b>Unit sales</b>	<b>80,027</b>	<b>77,171</b>	<b>77,463</b>	<b>73,500</b>	<b>74,000</b>
Annual variation (%)	1.2	-3.6	0.4	-5.1	0.7
<b>Weighted average price (in thousand \$)</b>	<b>249</b>	<b>261</b>	<b>271</b>	<b>277</b>	<b>284</b>
Variation annuelle (%)	8.0	5.1	3.9	2.2	2.5
<b>Sales volume (in billion \$)</b>	<b>19.3</b>	<b>19.5</b>	<b>20.2</b>	<b>20.4</b>	<b>21.0</b>
Annual variation (%)	8.4	0.7	3.7	1.0	3.2
<b>Other indicators</b>					
<b>Vacancy rate for rental units<sup>3</sup> (%)</b>	<b>2.7</b>	<b>2.6</b>	<b>3.0</b>	<b>3.2</b>	<b>3.1</b>
<b>Average rent<sup>3</sup> (in \$)</b>	<b>648</b>	<b>665</b>	<b>670</b>	<b>678</b>	<b>686</b>
Annual variation (%)	4.0	2.6	0.7	1.3	1.2
<b>Renovation spending (in billion \$)</b>	<b>14.1</b>	<b>15.0</b>	<b>15.2</b>	<b>15.3</b>	<b>14.9</b>
Annual variation (%)	0.5	6.0	1.7	0.7	-2.6

<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> Included in rental units.

<sup>3</sup> 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