

May 28, 2014

The lull continues in Quebec, but in Ontario the respite period appears to be over

The calm that currently reigns in the Quebec housing sector has lasted several months. Sales of existing properties show no sign of an imminent rebound, and prices are stable. The abundant supply of homes, combined with weak demand from buyers, will prolong the adjustment period through the rest of 2014. The pace of building will be similar to that of 2013, and we will have to bide our time until next year before witnessing any real rebound. Since young households are finding it more difficult to join the ranks of homeowners, the conventional rental market is attracting greater interest from both renters and builders. In Ontario, property sales and prices have both seen a rally in recent months. However, activity in the existing-home market is quieter than it was last year. The demand for rental apartments has generated a significant increase in this type of construction since the beginning of 2014. The relatively high home prices are curbing home buying, and this seems to be giving a boost to the rental market in both Ontario and Quebec.

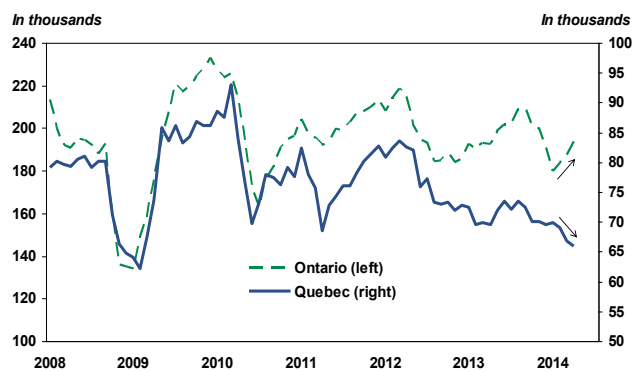
PRICES REMAIN STABLE IN QUEBEC

As we forecast at the beginning of this year, the stagnation in average home prices appears to be well entrenched. The numbers of homes and condos for sale are increasing fairly quickly, while fewer buyers are out looking (graph 1). Selling times are lengthening, and in many cases, vendors are obliged to make compromises in order to get their homes sold. While the market is still generally balanced, the condo market is definitely in a surplus position in Quebec's main urban centres. This situation will prevail throughout the year, and some improvement is expected in 2015. More favourable economic conditions, stimulating job creation, will give more support to demand for homes. The number

of transactions should thus head up by around 5% next year; this would be the first real increase since 2010. The average price of homes should rise by around 2% in 2015, after stabilizing this year.

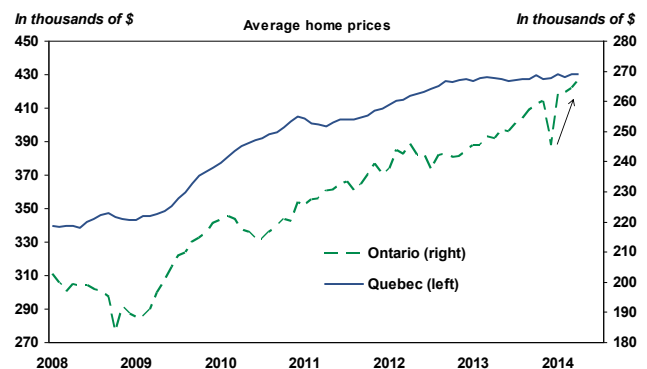
The recent trend in the Ontario resale market is different from that of Quebec. Prices have surged recently and have even reached a new peak (graph 2). Since the beginning of the year, the cumulative increase in the average price has been 8.2%—quite a contrast to the stagnation that is continuing in Quebec. This trend in Ontario will probably lose some steam in the months to come, as the relatively high prices will temper demand.

Graph 1 – Sales of existing homes accelerate in Ontario, but slow in Quebec



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

Graph 2 – Home prices stabilize in Quebec, climb in Ontario



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

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

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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RENTING BECOMES TRENDY

Since the federal government tightened the rules for new mortgage loans, reducing the maximum amortization period from 30 to 25 years, many young households are finding it more difficult to enter the real estate market. Forced to delay the acquisition of their first home, potential buyers are opting to rent an apartment while building up enough savings to buy a home.

As a result, the rate of home ownership probably peaked in the last census taken by Statistics Canada. A growing proportion of the population bought a home during the 2000 decade. The low interest rates kept mortgage payments low, thus reducing the appeal of rental apartments. In 2011, the rate of home ownership stood at 61.2% in Quebec and 71.4% in Ontario, nearly five percentage points above the readings of the 2001 census. This trend affected all the urban centres of both provinces (tables 1 and 2). The rate of home ownership is lower in Montreal, however, due to the large supply of rental properties and the slow growth in rents.

Buying a home is now beyond the grasp of many households due to the tighter mortgage lending criteria. The rental market is reaping the benefit. Demand is up, and approximately 3% of apartments in Quebec and in Ontario (graph 3) are vacant. Given the balanced situation, promoters and builders have some leeway for building new apartments without flooding the market. Last year, starts of conventional rental units soared by more than 20% in Quebec, and a further increase was observed in the first quarter of 2014. The year also got off to a good start in Ontario, whereas very few projects had been undertaken in recent years. New buildings readily attract tenants—even more than expected in some cases, as they can serve as a good substitute for new condos. Thus current conditions appear to be more propitious for the conventional rental market.

Tables 1 and 2 – The rate of home ownership grew strongly during the 2000 decade

Table 1 - Quebec

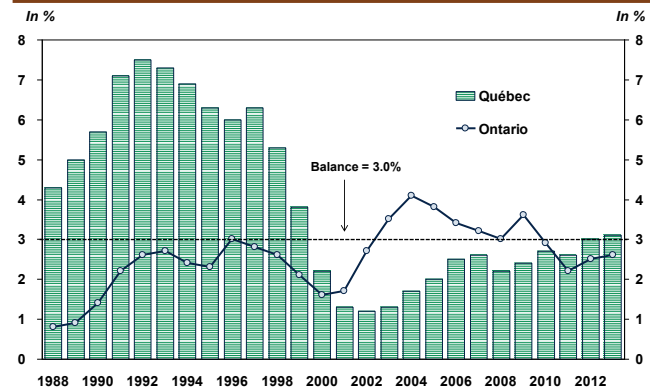
Rate of home ownership (%)	2001	2006	2011
Saguenay	62.3	63.3	64.1
Montreal	50.2	53.4	55.0
Gatineau	62.4	67.5	68.0
Quebec	55.5	58.6	59.7
Sherbrooke	51.9	53.5	54.9
Trois-Rivières	57.3	57.6	58.0
Quebec total	57.9	60.1	61.2

Table 2 - Ontario

Rate of home ownership (%)	2001	2006	2011
Ottawa	61.4	66.7	67.9
Toronto	63.2	67.6	68.3
Ontario total	67.8	71.0	71.4

Sources: Statistics Canada and Desjardins, Economic Studies

Graph 3 – The rental vacancy rate is now balanced in Quebec, and nearly so in Ontario

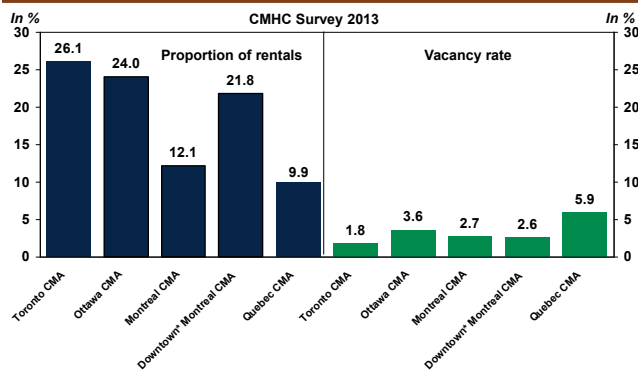


Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

MORE CONDOS OFFERED FOR RENT

Given the fast pace of condo building in recent years, the proportion of units offered for rent has increased. It is now close to 25% in Toronto and in Ottawa, i.e. slightly higher than in downtown Montreal (graph 4). In those cities, the vacancy rate is relatively low, however. In Quebec CMA, approximately 10% of condos end up being rented; this is less than in other places, but the vacancy rate is hovering around 6%, which is relatively high. This type of housing competes with high-end rental units, especially since the condo fees are generally paid by the building owner.

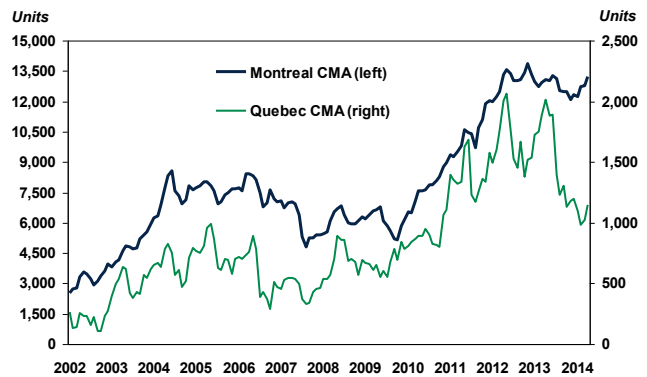
Graph 4 – Condo rental market in Quebec and Ontario



*Including Île des Soeurs.
Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

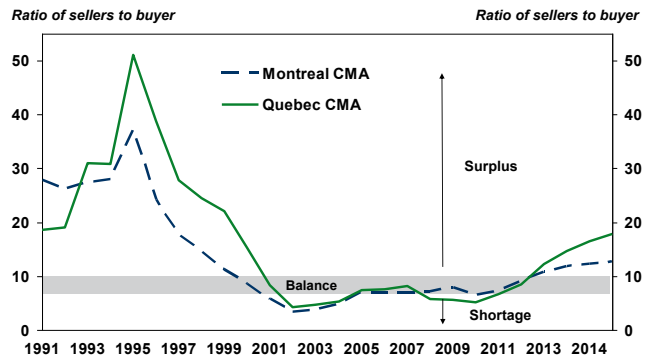
The volume of units offered for rent is likely to expand in Montreal this year, and the associated vacancy rate will probably go up. Condos that are not sold once the new projects are completed could end up being offered for rent. The pace of construction is still strong in the Montreal CMA, while in the Quebec CMA it has dropped by half in the past year (graph 5). Since the resale market is in a surplus position in both cities (graph 6), selling new condos is more difficult. While buyers generally lean towards new homes, the price differential between new and existing units could encourage them to opt for the resale market. Starts of new projects should be limited this year, giving time for the surplus inventory to be gradually absorbed. Some promoters or builders might turn towards the conventional rental market, which would stimulate that type of housing start (graph 7).

Graph 5 – The number of condos under construction is still very high in Montreal



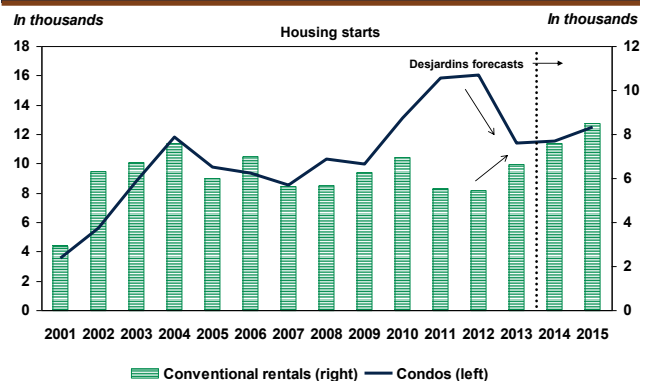
Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

Graph 6 – Condo resale market: surpluses expand in Quebec and in Montreal



Sources: Fédération des chambres immobilières du Québec, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

Graph 7 – Condo construction falls and rental apartment construction rises in Quebec



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

Hélène Bégin
Senior 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	9.0	9.4	10.5
Annual variation (%)	17.1	3.3	0.2	-12.2	5.0	11.7
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	16,000	16,800
Annual variation (%)	14.7	-13.6	-2.6	-21.7	-6.4	5.0
- 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	22,000	23,200
Annual variation (%)	22.3	2.2	-1.7	-19.1	6.5	5.5
- Condo¹	13,111	15,827	16,017	11,395	11,550	12,500
Annual variation (%)	31.3	20.7	1.2	-28.9	1.4	8.2
- Rental¹	11,032	9,055	8,437	8,332	9,500	10,000
Annual variation (%)	16.1	-17.9	-6.8	-1.2	14.0	5.3
- Conventional rental²	6,941	5,536	5,455	6,635	7,600	8,500
Annual variation (%)	10.7	-20.2	-1.5	21.6	14.5	11.8
- Retirement home²	2,869	2,370	1,885	1,411	1,300	1,400
Annual variation (%)	30.2	-17.4	-20.5	-25.1	-7.9	7.7
Resale market						
Unit sales	80,027	77,167	77,379	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 units³ (%)	2.7	2.6	3.0	3.1	3.2	3.5
Average rent³ (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	16.5	16.6
Annual variation (%)	1.8	3.1	2.9	3.7	5.8	0.6

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