

The Quebec housing market is sputtering

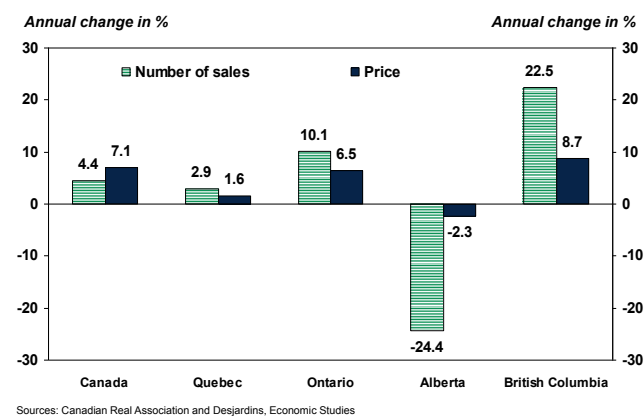
The particularly glacial temperatures at the beginning of the year put a chill on housing starts in the first quarter. Sales of existing homes also got off to a rather slow start, but a spurt of activity was seen in March. In general, the Quebec resale market fared well during the first quarter, with a slight year-over-year increase in both sales and prices. However, this activity was more sustained in Ontario and in Canada as a whole during that period. The condo market is still in a surplus position in nearly all the metropolitan areas of the province, and a risk of slight price slumps still exists. Even though employment is back on a path of growth, and mortgage rates have dipped since the beginning of 2015, new construction will be down this year, and the resale market will hold fairly steady.

RESALE MARKET: MODERATE ACTIVITY IN QUEBEC

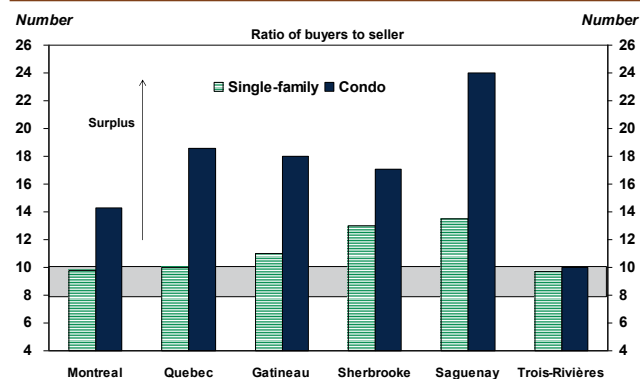
Activity was fairly brisk across the country in the first quarter, especially in Ontario and British Columbia (graph 1). Toronto and Vancouver account for the bulk of the increase in sales and prices in Canada. Alberta has begun to feel the effects of low oil prices: the number of real estate transactions tumbled by nearly 25% in the first quarter, and prices have started to fall compared with the same quarter of 2014. The Quebec housing market stands between these two extremes, exhibiting moderate annual growth in both sales and prices. A similar trend should continue for the rest of the year.

After several exceptional years, the number of properties sold in Quebec fell to a ten-year low in 2014. The unusual cold at the beginning of the year probably accounts for the small volume of transactions closed in January and February. Thanks to an upsurge in March, first-quarter sales posted an annual change of close to 3%. The increase was 5% in the Quebec CMA, and 1% in the Montreal and Gatineau CMAs. Meanwhile, pullbacks were recorded in the first quarter in Saguenay (-2%), Sherbrooke (-4%) and Trois-Rivières (-5%). Given that the number of properties for sale is increasing faster than the number of buyers, there is a surplus of single-family homes in some communities. The condo market is in a surplus position in all the CMAs of the province, with the exception of Trois-Rivières (graph 2).

Graph 1 – Most markets in Canada are up



Graph 2 – A surplus market in many Quebec CMAs in the first quarter of 2015



François Dupuis
Vice-President and 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

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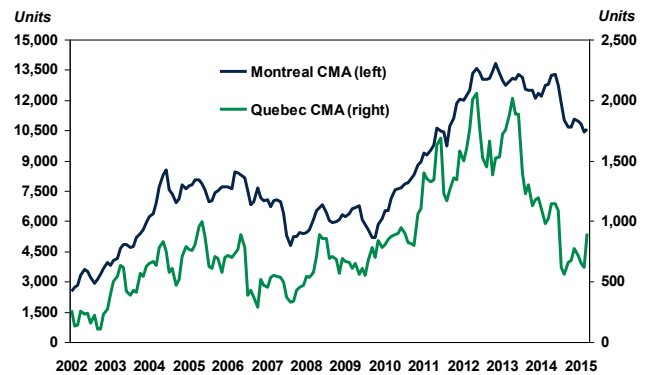
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The change in prices overall is still in the neighbourhood of 1.5% in Quebec, but the condo market remains at risk of a slight pullback during the year. Many new units, recently built or on the verge of completion, are increasing the choices for buyers and are generating fiercer competition for the existing market. Even though new condos are more expensive, significant financial incentives can sometimes attract customers.

NEW BUILDS: A FAIRLY GENERALIZED PULLBACK

Housing starts plunged by about 30% in the first quarter, compared to the same period of last year. The harsh winter probably delayed the starts of many projects, and a catch-up effect is to be expected starting in the second quarter. Apart from these statistics that were thrown into a tailspin by the unusual weather, we should expect negative results for Quebec housing starts in 2015. Nearly all of the market segments will see a pullback in activity. There will be less demand for homes because the price of land and building costs are high. Starts of condos will probably diminish due to the surplus situation that exists in the main markets of the province (graph 3) and to the large number of units that are already under construction (graph 4). The period of adjustment for condos will continue in 2016, and building should pick up steam again later, once market conditions have returned to normal.

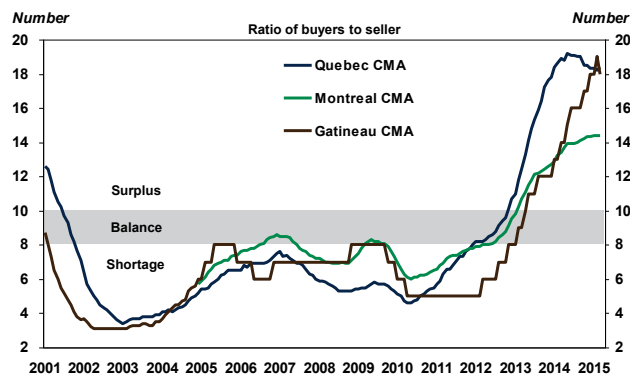
Graph 4 – The number of condos under construction is falling but is still very high in Montreal



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

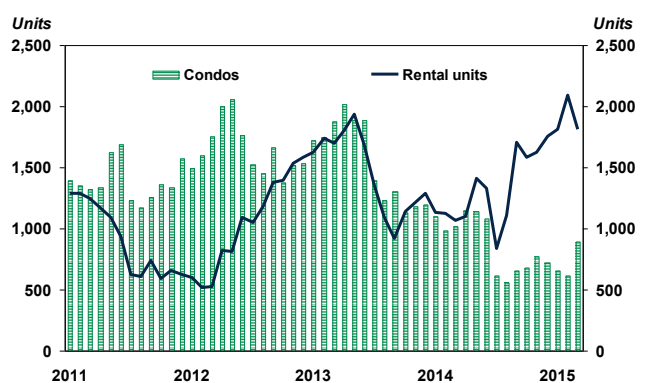
Rental properties were the only market segment that saw growth in the first quarter, despite the extremely cold temperatures. This segment has seen a resurgence since last year, after a downturn lasting several years. In Quebec, the number of rental apartments under construction is now even higher than that of condos (graph 5). Rental apartments are becoming more appealing, while interest in condos is waning. The new rental units are generally finding takers quite easily, sometimes at the expense of older buildings.

Graph 3 – The existing condo market is clearly in a surplus



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

Graph 5 – Quebec CMA: New construction of rental apartments is growing



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

Table 1 – Homebuilding outlooks for 2015

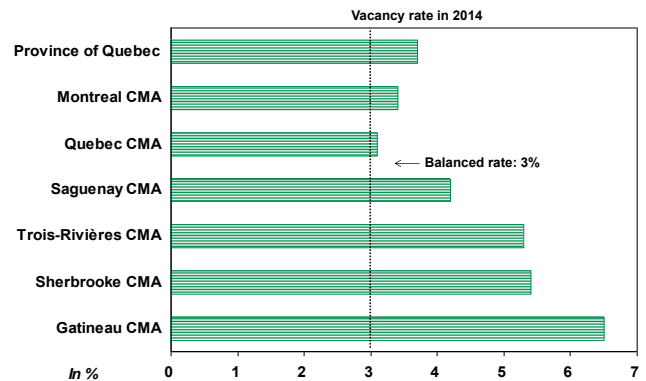
<i>Single-family dwellings</i>	<i>Condos</i>
<ul style="list-style-type: none"> • Construction has been declining for many years now. • The high prices of land and of new builds are discouraging buyers. 	<ul style="list-style-type: none"> • The main markets are nearly all in a surplus. • Construction must keep declining. • Certain sectors and price ranges are doing better than the market as a whole.
<i>Traditional rental buildings</i>	<i>Seniors' residences</i>
<ul style="list-style-type: none"> • The Quebec market is no longer in a shortage position. • The appeal of rental properties is coming back, as the appeal of condo apartments has waned. • New builds are renting well, but this is having an adverse effect on older buildings. 	<ul style="list-style-type: none"> • Surpluses have shrunk in the past few years. • The vacancy rates are still high in the CMAs, except for Quebec. • The boom in the population aged 75 and over will be felt in 5 to 10 years.

Source: Desjardins, Economic Studies

But caution is called for in new builds; Quebec's conventional rental market is not in a shortage position. In fact, a slight surplus exists in most of the CMAs (graph 6), so in many places there is no urgent need to expand the inventory of rental units.

Finally, no starts of seniors' residences were made in the first quarter. Although the surplus situation is reduced from what it has been in recent years, the vacancy rates are still high in the province's CMAs, apart from Quebec. While demand may exist in some places, the real boom will make itself felt five or ten years from now, when the numbers of people aged 75 and over will be growing strongly. Meanwhile, growth is strong in the population between the ages of 50 and 70, and these people prefer other types of housing.

In summary, new construction will be in decline in all market segments in 2015 with the exception of conventional rental housing. Total housing starts will drop by 10% this year, to reach 35,000 units.

Graph 6 – The rental apartment market is in a surplus position in all Quebec CMAs


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

Hélène Bégin
 Senior Economist

Quebec - Housing Market Outlook 2015-2016

	2011	2012	2013	2014	2015f	2016f
New Housing Market						
New construction (in billion \$)	10.2	10.2	9.0	8.7	8.3	8.6
Annual variation (%)	3.3	0.2	-12.2	-2.3	-5.0	3.0
Housing starts	48,387	47,367	37,758	38,810	35,000	36,000
Annual variation (%)	-5.8	-2.1	-20.3	2.8	-9.8	2.9
House	22,411	21,829	17,100	15,707	14,500	15,000
Annual variation (%)	-13.6	-2.6	-21.7	-8.1	-7.7	3.4
- Single-detached	16,554	16,059	13,144.0	11,227.0	-	-
Annual variation (%)	-15.3	-3.0	-18.2	-14.6	-	-
- Semi-detached	4,002	3,866	2,835.0	3,083.0	-	-
Annual variation (%)	-8.2	-3.4	-26.7	8.7	-	-
- Row housing unit	1,855	1,904	1,121.0	1,397.0	-	-
Annual variation (%)	-8.6	2.6	-41.1	24.6	-	-
Apartment	25,976	25,538	20,658	23,103	20,500	21,000
Annual variation (%)	2.2	-1.7	-19.1	11.8	-11.3	2.4
- Condo¹	15,827	16,017	11,395	12,893	10,000	10,200
Annual variation (%)	20.7	1.2	-28.9	13.1	-22.4	2.0
- Rental¹	9,055	8,437	8,332	8,939	9,000	9,300
Annual variation (%)	-17.9	-6.8	-1.2	7.3	0.7	3.3
- Conventional rental²	5,536	5,455	6,635	6,204	6,300	6,000
Annual variation (%)	-20.2	-1.5	21.6	-6.5	1.5	-4.8
- Retirement home²	2,370	1,885	1,411	2,438	2,400	2,500
Annual variation (%)	-17.4	-20.5	-25.1	72.8	-1.6	4.2
Resale market						
Unit sales	77,167	77,373	71,198	70,686	72,000	72,500
Annual variation (%)	-3.6	0.3	-8.0	-0.7	1.9	0.7
Weighted average price (in thousand \$)	254	264	268	271	274	277
Annual variation (%)	4.9	3.9	1.3	1.3	1.2	0.9
Sales volume (in billion \$)	19.5	20.2	18.7	18.8	19.8	20.1
Annual variation (%)	0.7	3.6	-7.3	0.5	5.2	1.6
Other indicators						
Vacancy rate for rental units³ (%)	2.6	3.0	3.1	3.7	3.9	3.8
Average rent³ (in \$)	666	663	679	691	703	716
Annual variation (%)	2.8	-0.5	2.4	1.8	1.7	1.9
Renovation spending (in billion \$)	14.6	15.1	15.6	16.5	16.6	16.8
Annual variation (%)	3.1	3.3	3.3	5.8	0.6	1.2

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