

# SPOTLIGHT ON HOUSING

## Ontario Suffers Major Jolts, But Quebec Is Doing Fine

The more stringent federal mortgage rules introduced on January 1<sup>st</sup>, 2018, have rattled the resale market in Canada. Property purchases in Ontario are down sharply, as are average prices. Meanwhile, housing starts in Toronto reached a 40-year peak in the first quarter, driven by strong demand for new condos. Construction in Quebec is still going strong despite the slight dip in existing property sales. The market remains under pressure however, with average annual prices up 4.5% since the start of 2018. The new measures for granting mortgage loans triggered a first wave of adjustments to property sales almost everywhere across Canada. Rising mortgage rates will be another obstacle that will gradually be felt on residential activity.

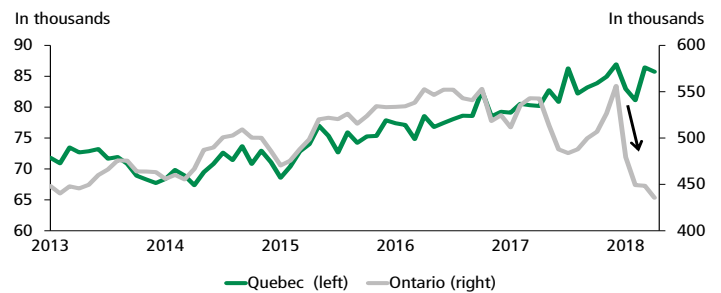
### A Rattled Resale Market

For many buyers, the maximum amount for new mortgage loans has been reduced since January 1<sup>st</sup>, 2018. The federal government's stricter rules used to only target loans with down payments of less than 20%. A new cautionary measure introduced in 2018 now applies for mortgages with down payments of at least 20%. Instead of using the rate offered to borrowers to make the calculations, a higher mortgage rate has to be used for the simulation: the highest between the official rate posted by most financial institutions or a lower rate offered to the client, plus 2%. Even if the borrower signs their mortgage loan with a lower rate, this approach makes sure the buyer has some leeway in a context of rising interest rates.

The measure seems to be having a greater impact in the provinces where homes fetch the highest prices and where buyers generally have less financial flexibility, especially those in British Columbia and Ontario (graph 1). Quebec has been for the

most part spared from the impact of this new rule. The pullback in the number of properties sold in January and February was minor, and the impact seems to have dissipated since. Despite these jolts, the level of sales in Quebec remains high (graph 2). This is not the case in Ontario where sales activity has plunged, especially in Toronto. Average prices declined abruptly, while they continued to climb in Quebec (graph 3 on page 2).

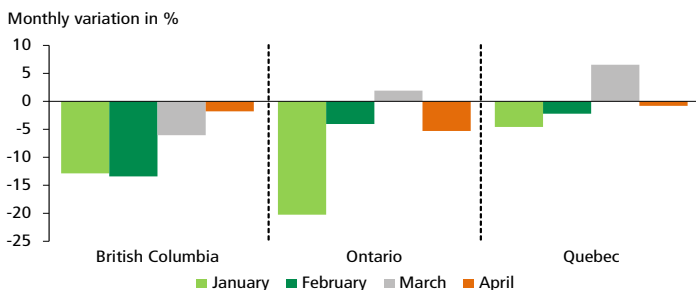
**GRAPH 2**  
Existing homes sales in Ontario have plunged, but remain fairly high in Quebec



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

Though property sales have fallen compared with the end of 2017, the number of sales in the first months of 2018 compared with the same time last year is positive in Quebec and very negative in Ontario. The same can be said for average prices, which vary widely based on the census metropolitan area (CMA). Average prices have declined in many CMAs in Ontario, including Toronto (table 1 on page 2). Sales have tumbled across the province, except for Ottawa and Sudbury.

**GRAPH 1**  
Existing home sales down only slightly in Quebec since the start of 2018



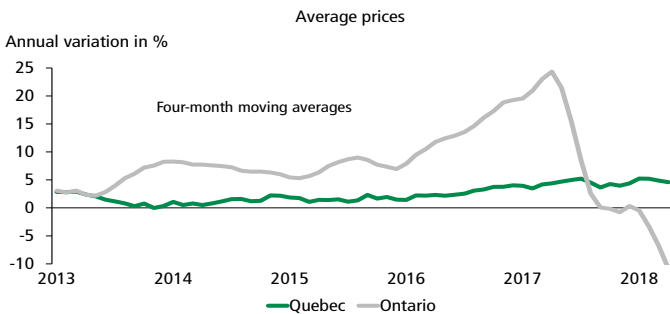
Sources: Canadian Real Estate Association and Desjardins, Economic Studies

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**GRAPH 3**  
Prices in Quebec continue to climb, but are falling in Ontario



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

**TABLE 1**  
Ontario's resale market: First four months of 2018 compared with the same period in 2017

CMA	NUMBER OF SALES VARIATION (%)	AVERAGE PRICES VARIATION (%)
Hamilton	-31.9	-5.6
Kitchener	-26.0	0.2
London	-27.6	8.8
Niagara	-28.1	3.0
Ottawa	7.0	3.9
Sudbury	9.5	-0.6
Thunder Bay	-11.2	-4.7
Toronto	-34.4	-12.3
Windsor	-19.4	12.2
<b>Province</b>	<b>-28.2</b>	<b>-11.5</b>

CMA: Census Metropolitan Area.  
Sources: Canadian Real Estate Association and Desjardins, Economic Studies

Average prices in Quebec are up in each of the six CMAs (table 2). The acceleration in Montreal is behind the rapid rise in average prices across the province. An insufficient number of single-family homes for sale in the Montreal CMA to meet demand has created a shortage, putting pressure on prices. Even the condo market is back to a balance in the Montreal CMA, with the Island of Montreal still showing a slight shortage of

**TABLE 2**  
Quebec's resale market: First four months of 2018 compared with the same period in 2017

CMA	NUMBER OF SALES VARIATION (%)	AVERAGE PRICES VARIATION (%)
Gatineau	-0.8	0.7
Montreal	7.8	4.5
Saguenay	16.4	1.1
Sherbrooke	0.0	0.9
Trois-Rivières	-1.4	0.3
Quebec	6.1	2.7
<b>Province</b>	<b>5.9</b>	<b>4.5</b>

CMA: Census Metropolitan Area.  
Sources: Canadian Real Estate Association and Desjardins, Economic Studies

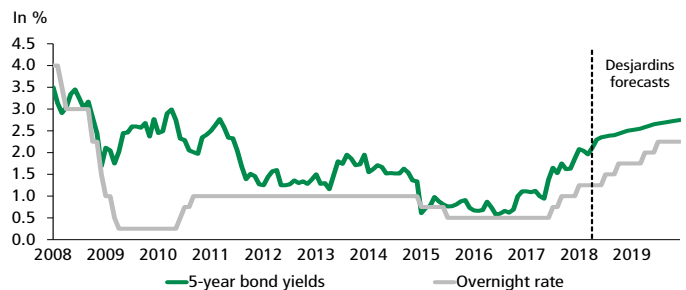
condos. However, Laval and Montreal's North Shore still have a surplus of existing condos.

**Mortgage Rates Set to Keep Climbing**

Key rate increases in Canada have taken a pause in March and April due to the uncertainties surrounding trade relations with the United States. As a result, variable mortgage rates of existing loans have held steady throughout this period. The Bank of Canada should however order two more key rate increases before the end of 2018. The economic outlooks across Canada remain favourable, even though upside pressures on inflation and wages seem to be taking hold. As a result, the discount rate will move from 1.50% to 2.00% in the second half of 2018.

Fixed mortgage rates, which fluctuate based on long-term North American bond yields, have edged upward in the last few months (graph 4). The posted five-year rate in most financial institutions is nearing 5.50%. This rate could move even closer to 6.00% in the next few quarters. Even if borrowers are offered a lower rate than the posted rate, the simulation to determine the maximum amount for a new loan will use an interest rate that is up to 2% higher. This ensures that buyers have some leeway when renewing their mortgages if interest rates inched up over time.

**GRAPH 4**  
Interest rates in Canada poised to keep rising



Sources: Datastream and Desjardins, Economic Studies

**New Construction Remains Strong**

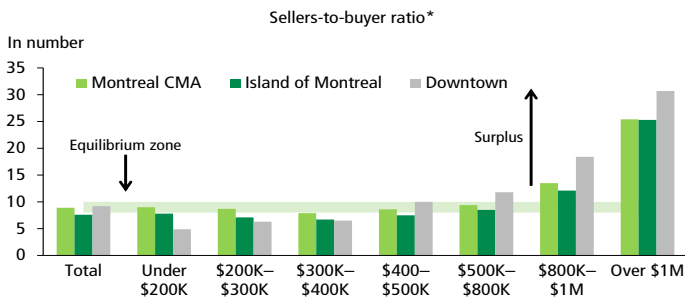
Housing starts for rental apartments continue to dominate construction in Quebec. Rental apartment construction is concentrated mostly in Montreal and Quebec CMAs, where 3,124 and 700 new apartments have broken ground between January and April. This represents respective year-over-year increases of 13.2% and 32.3%. This thrust targets conventional rentals and seniors' residences, with multiple projects in the works due to the aging of the population. Many young households that are struggling to get on the property ladder because of high prices and less favourable borrowing conditions than before are also opting to rent instead. In fact, starts for single-family homes are down this year in most urban centres across Quebec.

Strong demand for condos in the Montreal CMA has eliminated the surpluses seen in recent years. The resale market's return to equilibrium in most sectors (graph 5) and price ranges are favouring many condo construction projects in Montreal. The downtown market is, on the whole, back to a balanced market. There is a slight shortage of units priced below \$400,000, however, while there is a significant surplus of homes on the upper end of the scale. Some projects are selling their units quickly during the pre-sale period, leading them to break ground earlier than expected. Condo construction is experiencing strong growth in the Montreal CMA, with close to 3,000 breaking ground since early 2018. The resale market in Quebec CMA is still showing a surplus across all price ranges (graph 6) and new condo construction has slowed dramatically since the start of the year.

new mortgage loans will affect this market segment more than others. In 2019, demand for all types of dwellings should cool and new construction will adjust accordingly.

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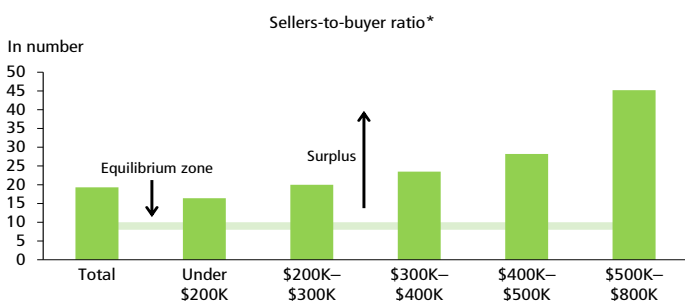
**GRAPH 5**  
**Montreal's existing condo market no longer showing a surplus, except for higher-end units**



CMA: Census Metropolitan Area; \*First quarter of 2018.  
 Sources: Québec Federation of Real Estate Boards via the Centris® system and Desjardins, Economic Studies

In short, demand for multi-dwellings in Quebec is much stronger than expected. In 2018, a total of 49,000 housing starts are expected in Quebec (table 3 on page 4), more than the 46,000 starts that were originally anticipated. Construction for condos and rental apartments will remain strong this year, while starts for single-family homes will keep dwindling. The downstream effects of rising interest rates and stricter rules for

**GRAPH 6**  
**Existing condo market shows widespread surplus in the Quebec CMA**



CMA: Census Metropolitan Area; \*First quarter of 2018.  
 Sources: Québec Federation of Real Estate Boards via the Centris® system and Desjardins, Economic Studies

**TABLE 3**  
**Quebec Housing Market Outlook 2018–2019**

	2015	2016	2017	2018f	2019f
<b>New Housing Market</b>					
<b>New construction (\$B)</b>	5.8	6.5	7.4	7.8	7.3
Annual variation (%)	-7.8	12.1	13.7	5.3	-6.4
<b>Housing starts</b>	37,926	38,935	46,495	49,000	44,000
Annual variation (%)	-2.3	2.7	19.4	5.4	-10.2
<b>House</b>	13,593	15,435	15,364	14,000	12,000
Annual variation (%)	-13.5	13.6	-0.5	-8.9	-14.3
<b>Single-detached</b>	9,698	10,737	10,711	---	---
Annual variation (%)	-13.6	10.7	-0.2	---	---
<b>Semi-detached</b>	2,650	2,761	2,819	---	---
Annual variation (%)	-14.0	4.2	2.1	---	---
<b>Row housing unit</b>	1,245	1,937	1,834	---	---
Annual variation (%)	-10.9	55.6	-5.3	---	---
<b>Apartment</b>	24,333	23,500	31,131	35,000	32,000
Annual variation (%)	5.3	-3.4	32.5	12.4	-8.6
<b>Condo<sup>1</sup></b>	9,571	7,849	10,804	12,200	11,000
Annual variation (%)	-25.8	-18.0	37.6	12.9	-9.8
<b>Rental<sup>1</sup></b>	13,588	14,105	19,256	20,500	19,000
Annual variation (%)	52.0	3.8	36.5	6.5	-7.3
<b>Conventional rental<sup>2</sup></b>	9,218	10,552	13,506	14,500	13,000
Annual variation (%)	48.6	14.5	28.0	7.4	-10.3
<b>Retirement home<sup>2</sup></b>	4,089	3,443	5,520	6,000	6,200
Annual variation (%)	67.7	-15.8	60.3	8.7	3.3
<b>Resale market</b>					
<b>Unit sales</b>	74,122	78,144	82,639	86,000	81,000
Annual variation (%)	5.0	5.4	5.8	4.1	-5.8
<b>Weighted average price (\$k)</b>	272	280	293	305	310
Annual variation (%)	1.4	3.0	4.5	4.3	1.6
<b>Sales volume (\$B)</b>	20.1	21.9	24.2	26.2	25.1
Annual variation (%)	6.5	8.5	10.6	8.5	-4.3
<b>Other indicators</b>					
<b>Vacancy rate for rental units<sup>3</sup> (%)</b>	4.3	4.4	3.4	3.2	3.5
<b>Average rent<sup>3</sup> (\$)</b>	712	727	736	750	765
Annual variation (%)	3.0	2.1	1.2	1.9	2.0
<b>Renovation spending<sup>4</sup> (\$B)</b>	12.4	12.7	13.8	14.2	13.9
Annual variation (%)	4.2	2.5	8.2	3.2	-2.1

f: forecasts; <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; <sup>4</sup> Maintenance and repair expenditures are excluded.

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