

## Quebec's resale market firms up but new construction is sluggish

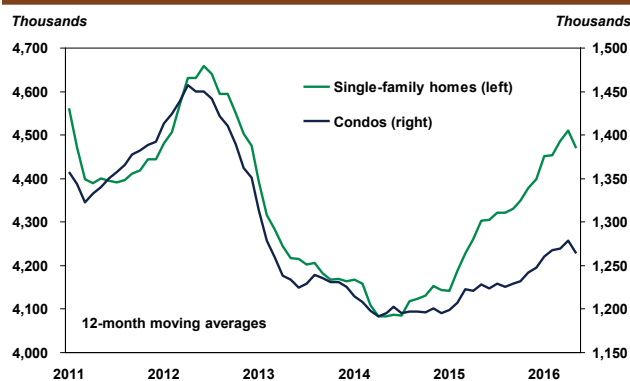
The first half of 2016 is nearly over, with a few positive signals for the housing sector. Sales of existing properties have strengthened in most of the province's main agglomerations, and the annual price increase has accelerated slightly over 2%. The still overabundant supply of homes is limiting new construction of single-family homes and condos. The dynamic is quite different from the situation prevailing elsewhere in Canada. The Ontario and British Columbia markets are booming, while tumbling sales and prices are plaguing the oil producing provinces. Quebec lies between the two extremes, with a moderate pace, which eases the worries over overheating and risks of an abrupt correction in the housing market.

### SALES RECOVER

Single-family homes and condos sold through real estate brokers have kept rising since the start of 2016 (graph 1). From January to May, sales are up 6% from the same period in 2015 in both market segments. Prices of single-family homes rose modestly, while condo prices were stagnant. The pool of homes for sale has shrunk since the start of the year, so that market conditions have improved a little for sellers. Nevertheless, the imbalance remains substantial, and buyers have no shortage of selection in the condo segment.

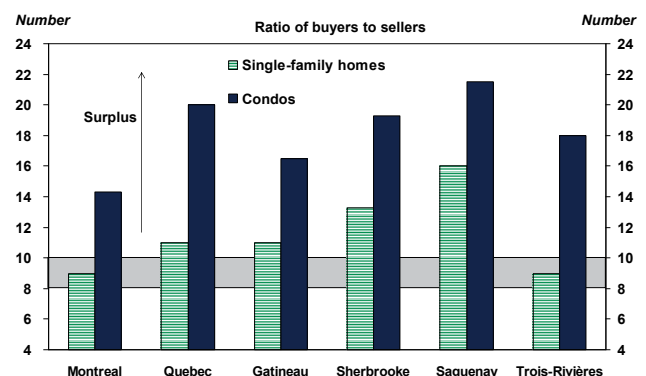
The surplus persists in the province's six metropolitan areas (graph 2). According to JLR's provincial compilation, nearly one-third of condos purchased in the last three years and then put back on the market sold for a price that was equal to or below the initial purchase price. Households that buy a condo and resell it quickly have less of a chance to recoup what they paid to buy it, especially once all the transaction costs have been factored in. Owners who bought many years ago and capitalized on the annual price increase of 5% to 10% at the start of the decade are practically assured of making a profit when they sell, even though prices have come down in some areas recently. Selling at a loss or profit depends on the timing of a condo purchase and sale.

Graph 1 – Quebec existing home sales go up



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

Graph 2 – Quebec CMA: Several markets in surplus in Q1 2016



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

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

**Hélène Bégin**  
Senior Economist

**Chantal Routhier**  
Economist

418-835-2450 or 1 866 835-8444, ext. 5562450  
E-mail: [desjardins.economics@desjardins.com](mailto:desjardins.economics@desjardins.com)

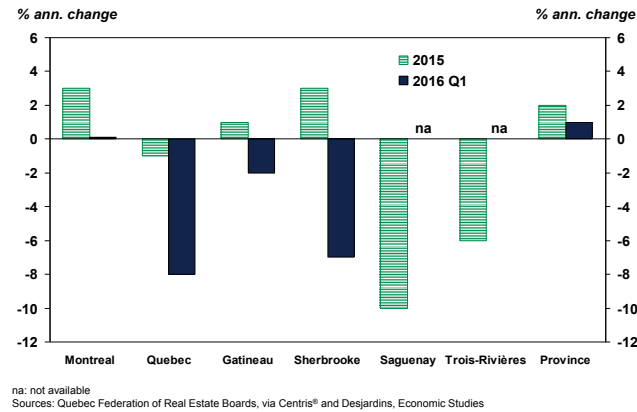
NOTE TO READERS: The letters K, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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**CONDO PRICES ARE NO LONGER RISING**

Although prices are stabilizing across the province and in the Montreal metropolitan area, they have been coming down for a while in several agglomerations (graph 3). The condo market continues to erode in Quebec City, where the average sale price is down from the start of 2016. Prices are now retreating for the third straight year.

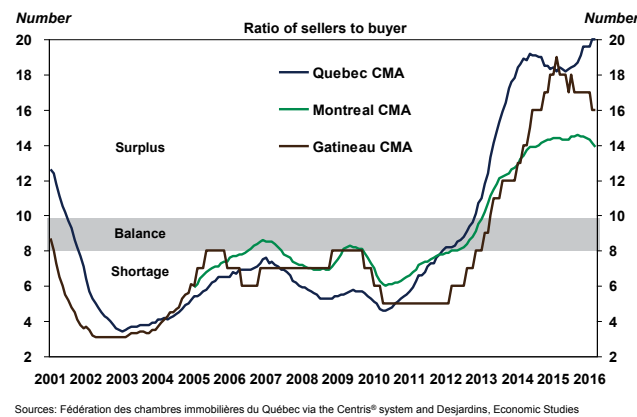
**Graph 3 – Condo resale market: Average prices have started to drop in several CMAs**



Gatineau is seeing some improvement now after housing starts tumbled about 50% in 2015. Although the ratio of sellers to buyers has dropped, it remains high, and prices have edged down since the start of the year. More time is needed to clean up the market’s foundations before new construction recovers.

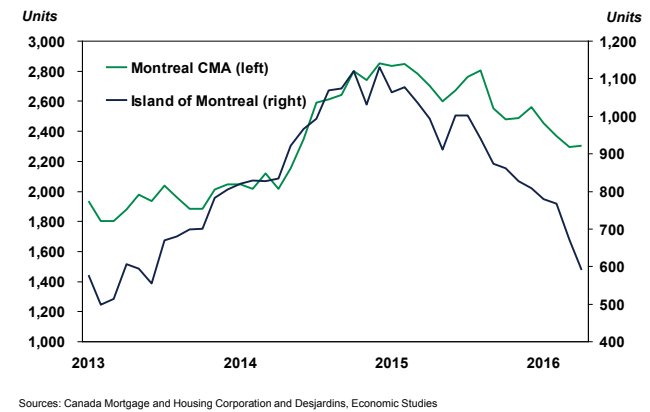
In the Greater Montreal area (graph 4), the ratio of sellers to buyers has come down a little recently. Housing starts fell 25% in 2015 and have pulled back nearly 5% since the

**Graph 4 – The existing condo market is clearly in a surplus position**



start of the year, which no doubt had a hand in the slight improvement. However, the many projects currently under construction, especially in downtown Montreal, will soon add to the supply of units available. Even though the pace of sales is much brisker since the end of 2015 in this sector, some projects are generating little enthusiasm and a few had to be suspended or cancelled. Several other projects had immediate success, explaining the surge in sales. One positive sign: the number of new unsold condos is still falling (graph 5). However, the surplus is still big on the resale market and construction must remain limited in 2016 and 2017.

**Graph 5 – The number of completed but unsold condos in Montreal**

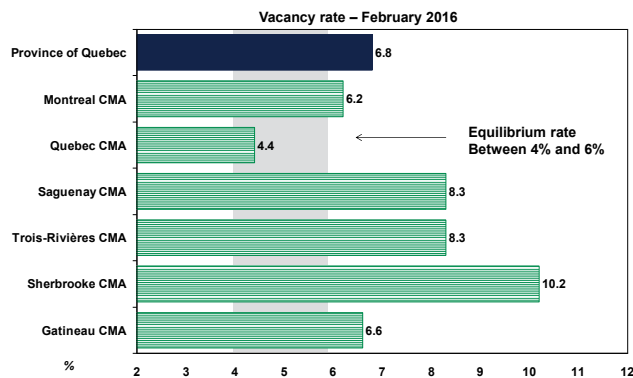


**HEAVY CONSTRUCTION OF RENTAL APARTMENTS**

Starts on rental housing remain astoundingly lively. This is the only type of construction that is up sharply for the second straight year. In the first five months of 2016, housing starts in major centres jumped more than 50% from the same period in 2015. Yet the traditional rental housing market is already showing signs of saturation: vacancy rates are above the 3% equilibrium mark in Quebec’s six metropolitan areas. Three of them already have vacancy rates above 6%, a rate that can be associated with overbuilding: Saguenay (7.2%), Trois-Rivières (6.2%) and Gatineau (6.1%). Rental housing starts have been rising since the start of the year in these agglomerations, which could make the imbalance even worse.

A number of rental housing projects under construction are seniors' residences, however. While the vacancy rates are not low enough to justify immediately building new complexes (graph 6), the enthusiasm for new apartments seems to be there. Certain developers are banking on getting into position now to fill the needs of an ageing population, which seems wise. Some recently completed projects found takers quickly, in both the conventional rental and seniors' residence segments. The competition is thus intense among less recent buildings. It is now harder to attract new tenants, and even to retain existing clients. Buildings that have been less well maintained in recent years are feeling the effects of the lack of investment.

**Graph 6 – Quebec seniors' rental housing market**

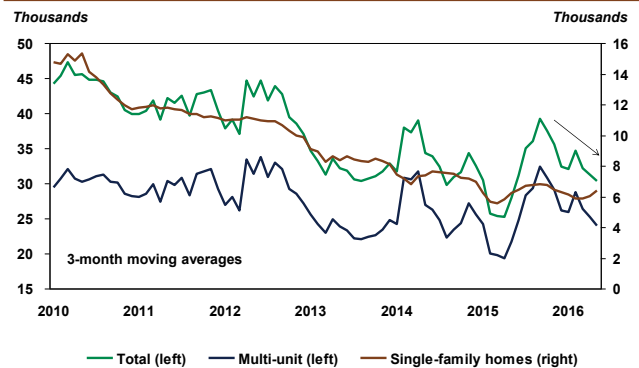


Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

**BRIEF OUTLOOK**

Although resale market conditions have improved lately for homes and condos, the imbalance is still too big to look for a recovery by construction. Housing starts should therefore keep trending down through the end of 2016 (graph 7), and start to stabilize next year. Annual housing starts should be about 37,000 units this year and next, compared with 37,926 new units in 2015. Only rental apartments will rise this year, before sliding next year.

**Graph 7 – Housing starts have been heading down since the end of 2015 in Quebec**



\* Urban areas with more than 10,000 inhabitants  
Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

Resales should keep recovering through the end of 2016 and in 2017. Price growth will remain moderate, however, with prices rising an average of about 2.5% this year, then 3.0% next year. The improving job market, characterized by gains in employment and a unemployment rate dropping below 7.5%, will continue to stimulate demand, especially from seasoned buyers. New home buyers will remain less present. Given the skyrocketing prices of recent years, it is now hard to raise the minimum down payment of 5% on an average Quebec property price of \$275,000.

Households that already own a home and want to sell it in favour of another one will continue to drive deals in the resale market. According to a recent study,<sup>1</sup> the usual down payment on the purchase of a property averages close to 30%. Also, half of households have paid off their mortgages completely 20 years after buying. Interesting to note is the fact that about 10% of properties are paid for in full on purchase. Consequently, even though first-time home buyers are not as present in the market, the better situation of a number of existing homeowners makes it possible to support the housing market. Given that mortgage rates will stay low in the coming quarters, the Quebec resale market should maintain its momentum.

**Hélène Bégin**  
Senior Economist

<sup>1</sup> Marc-André Gauthier, Institut de la Statistique du Québec, "L'amortissement hypothécaire au Québec," Données démographiques en bref, Volume 20, number 2, February 2016. <http://www.stat.gouv.qc.ca/statistiques/conditions-vie-societe/bulletins/sociodemo-vol20-no2.pdf>

## Quebec - Housing Market Outlook 2016-2017

	2013	2014	2015	2016 <sup>f</sup>	2017 <sup>f</sup>
<b>New Housing Market</b>					
<b>New construction (in billion \$)</b>	<b>9.0</b>	<b>8.7</b>	<b>8.3</b>	<b>8.4</b>	<b>8.6</b>
Annual variation (%)	-12.2	-2.3	-4.8	1.0	2.4
<b>Housing starts</b>	<b>37,758</b>	<b>38,810</b>	<b>37,926</b>	<b>37,000</b>	<b>37,500</b>
Annual variation (%)	-20.3	2.8	-2.3	-2.4	1.4
<b>House</b>	<b>17,100</b>	<b>15,707</b>	<b>13,593</b>	<b>12,000</b>	<b>12,300</b>
Annual variation (%)	-21.7	-8.1	-13.5	-11.7	2.5
- <b>Single-detached</b>	<b>13,144.0</b>	<b>11,227.0</b>	<b>9,698.0</b>	-	-
Annual variation (%)	-18.2	-14.6	-13.6	-	-
- <b>Semi-detached</b>	<b>2,835.0</b>	<b>3,083.0</b>	<b>2,650.0</b>	-	-
Annual variation (%)	-26.7	8.7	-14.0	-	-
- <b>Row housing unit</b>	<b>1,121.0</b>	<b>1,397.0</b>	<b>1,245.0</b>	-	-
Annual variation (%)	-41.1	24.6	-10.9	-	-
<b>Apartment</b>	<b>20,658</b>	<b>23,103</b>	<b>24,333</b>	<b>25,000</b>	<b>25,200</b>
Annual variation (%)	-19.1	11.8	5.3	2.7	0.8
- <b>Condo<sup>1</sup></b>	<b>11,395</b>	<b>12,893</b>	<b>9,571</b>	<b>8,300</b>	<b>8,350</b>
Annual variation (%)	-28.9	13.1	-25.8	-13.3	0.6
- <b>Rental<sup>1</sup></b>	<b>8,332</b>	<b>8,939</b>	<b>13,588</b>	<b>16,000</b>	<b>14,500</b>
Annual variation (%)	-1.2	7.3	52.0	17.8	-9.4
- <b>Conventional rental<sup>2</sup></b>	<b>6,635</b>	<b>6,204</b>	<b>9,218</b>	<b>11,500</b>	<b>9,000</b>
Annual variation (%)	21.6	-6.5	48.6	24.8	-21.7
- <b>Retirement home<sup>2</sup></b>	<b>1,411</b>	<b>2,438</b>	<b>4,089</b>	<b>4,500</b>	<b>5,000</b>
Annual variation (%)	-25.1	72.8	67.7	10.1	11.1
<b>Resale market</b>					
<b>Unit sales</b>	<b>71,194</b>	<b>70,625</b>	<b>74,207</b>	<b>79,000</b>	<b>81,000</b>
Annual variation (%)	-8.0	-0.8	5.1	6.5	2.5
<b>Weighted average price (in thousand \$)</b>	<b>268</b>	<b>271</b>	<b>275</b>	<b>282</b>	<b>291</b>
Annual variation (%)	1.3	1.3	1.5	2.5	3.0
<b>Sales volume (in billion \$)</b>	<b>18.7</b>	<b>18.8</b>	<b>20.2</b>	<b>22.3</b>	<b>23.5</b>
Annual variation (%)	-7.3	0.4	7.5	10.5	5.6
<b>Other indicators</b>					
<b>Vacancy rate for rental units<sup>3</sup> (%)</b>	<b>3.1</b>	<b>3.7</b>	<b>4.3</b>	<b>4.8</b>	<b>5.1</b>
<b>Average rent<sup>3</sup> (in \$)</b>	<b>679</b>	<b>691</b>	<b>712</b>	<b>730</b>	<b>746</b>
Annual variation (%)	2.4	1.8	3.0	2.5	2.2
<b>Renovation spending<sup>4</sup> (in billion \$)</b>	<b>11.5</b>	<b>12.2</b>	<b>12.7</b>	<b>12.5</b>	<b>12.8</b>
Annual variation (%)	2.0	6.3	4.0	-1.5	2.4

<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, Québec Federation of Real Estate Boards, Statistics Canada and Desjardins, Economic Studies