

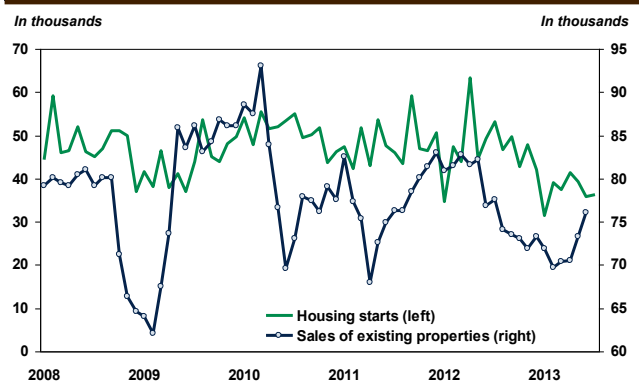
## The housing market slide pauses

The slowdown that began last summer with the federal government's tighter mortgage rules seems to be giving way to some stabilization by the housing sector. While sales of existing homes and housing starts have recently stopped falling (graph 1), the level of activity over the first half of the year remains well below where it was a year ago. Price growth has continued to slow, and a slight pullback has been observed for condos in Montreal. The housing start downtrend is a bit late in this market segment; other CMAs could soon follow suit, with slight corrections to condominium prices. Condo starts will have to weaken further before the slight surplus gives way to a more balanced market.

### PROPERTY PRICES MOVE AT TWO DIFFERENT SPEEDS

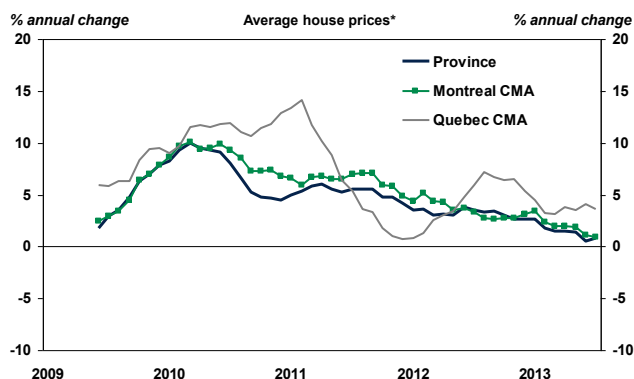
The ascent by prices for single-family dwellings is flagging (graph 2) as this market segment returns to balance (between 8 and 10 sellers for every buyer). Over the last year, the drop by sales and the increased number of homes on the market has overshadowed the shortage situation that had created a seller's market. The market is now balanced in Gatineau, Montreal, Saguenay and Trois-Rivières. There is still a slight shortage of single-family dwellings in Quebec CMA, and the market is gradually heading toward equilibrium. Only Sherbrooke is further ahead in the cycle, with a small surplus of single-family homes. Upside pressure on

**Graph 1 – The drop in home sales and housing starts is replaced with stabilization**



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

**Graph 2 – Growth by house prices is slowing**



\* Six-month moving averages  
Sources: Fédération des chambres immobilières du Québec and Desjardins, Economic Studies

home prices has eased in the province, but no pullback is anticipated.

Conversely, condo prices are struggling to advance and have even pulled back in some agglomerations. Demand for this type of housing has been dropping in the last year and the number of units on the market has skyrocketed. The number of condos sold in the province fell 15% in the first half of the year, and the number of listings with real estate agents climbed 25%. Reduced demand and increased supply have led to a surplus in the condo markets of Quebec's six CMAs. The rise by prices is now in neutral in the province, while they have started to edge down in Montreal

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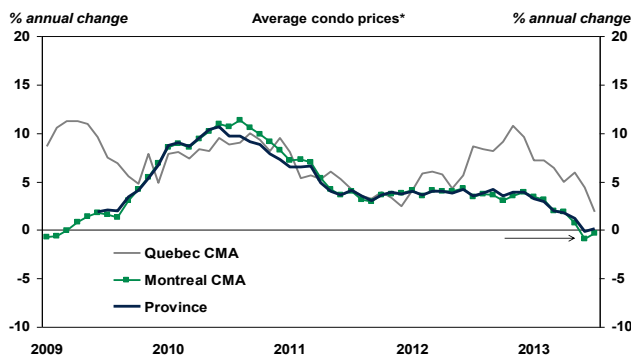
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**Graph 3 – Condo prices are wavering**



\* Six-month moving averages  
Sources: Fédération des chambres immobilières du Québec and Desjardins, Economic Studies

(graph 3). The drop by new construction came too late to keep prices from going down, but it should help prevent an overly sharp correction.

While condos have become more important in recent years, they only account for around 25% of home sales in Quebec, 30% in Montreal and 20% in the province. A slight depreciation in this market segment will not lead to a widespread drop by property prices in Quebec. Rather, the market for single-family homes will fuel a moderate rise by residential real estate prices of around 2% this year and next year.

Condo construction slowed sharply during the first half of the year, which is excellent news for market fundamentals. The Quebec, Montreal and Gatineau resale markets all have surpluses, which reduces the need for new units. Condo starts also dropped in these three CMAs over the first half of the year—by 24% in Montreal, 12% in Quebec and 44% in Gatineau.

In Quebec and in Montreal, many developers had to offer financial incentives to boost sales so that projects could get off the ground. According to the Altus Group survey conducted in the first quarter of 2013, 81% of units are apparently already sold for projects recently completed in downtown Montreal. Some of the condos still on the market will probably be entrusted to real estate agents, and prices for some units could be lowered to make them easier to move.

**NEW CONSTRUCTION: A WIDESPREAD DOWNTURN**

Total housing starts remained practically stable from June to July in the province, at around 36,000 units (annualized). Even if activity holds close to these levels over the coming months, 2013 will see a sharp drop. Housing starts in the province’s main urban centres fell around 25% over the first half of 2013 (table 1). Demand for new homes was down in all market segments during the first half of the year. There were fewer starts on single-family homes (-23.8%), semi-detached homes (-24.7%) and townhouses (-41.8%), as well as rental units (-23.9%) and condos (-23.4%). This movement is fairly consistent with our expectations, although the pullback by condo construction is larger than anticipated. We are maintaining our 2013 forecast for a total of 38,000 housing starts. The average level since the start of the year is very close to this projection, and the stabilization expected in the second half supports this outlook.

**Table 1 - Housing Starts in Urban centres in Quebec**

<i>Ann. var. in %</i>	<i>June</i>	<i>January to June</i>
<b>CMA</b>		
Gatineau	-62.3	-53.1
Montreal	-14.8	-26.6
Quebec	-68.3	-24.1
Saguenay	-0.8	1.4
Sherbrooke	-53.6	-25.0
Trois-Rivières	-6.3	-21.9
<b>Quebec (10,000 and over)</b>	<b>-30.2</b>	<b>-24.6</b>

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

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## Quebec - 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>8.8</b>	<b>9.3</b>
Annual variation (%)	17.1	3.3	0.2	-13.7	5.7
<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>17,500</b>
Annual variation (%)	14.7	-13.6	-2.6	-26.7	9.4
- <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>22,500</b>
Annual variation (%)	22.3	2.2	-1.7	-13.9	2.3
- <b>Condo<sup>1</sup></b>	<b>13,111</b>	<b>15,827</b>	<b>16,017</b>	<b>12,500</b>	<b>12,300</b>
Annual variation (%)	31.3	20.7	1.2	-22.0	-1.6
- <b>Rental<sup>1</sup></b>	<b>11,032</b>	<b>9,055</b>	<b>8,437</b>	<b>8,000</b>	<b>8,200</b>
Annual variation (%)	16.1	-17.9	-6.8	-5.2	2.5
- <b>Conventional rental<sup>2</sup></b>	<b>6,941</b>	<b>5,536</b>	<b>5,455</b>	<b>5,500</b>	<b>5,600</b>
Annual variation (%)	10.7	-20.2	-1.5	0.8	1.8
- <b>Retirement home<sup>2</sup></b>	<b>2,869</b>	<b>2,370</b>	<b>1,885</b>	<b>1,500</b>	<b>1,600</b>
Annual variation (%)	30.2	-17.4	-20.5	-20.4	6.7
<b>Resale market</b>					
<b>Unit sales</b>	<b>80,027</b>	<b>77,168</b>	<b>77,382</b>	<b>72,000</b>	<b>74,000</b>
Annual variation (%)	1.2	-3.6	0.3	-7.0	2.8
<b>Weighted average price (in thousand \$)</b>	<b>241</b>	<b>261</b>	<b>266</b>	<b>272</b>	<b>279</b>
Variation annuelle (%)	7.1	8.3	1.9	2.2	2.5
<b>Sales volume (in billion \$)</b>	<b>19.3</b>	<b>19.5</b>	<b>20.2</b>	<b>19.6</b>	<b>20.6</b>
Annual variation (%)	8.4	0.7	3.7	-2.9	5.3
<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>3.1</b>	<b>3.2</b>
<b>Average rent<sup>3</sup> (in \$)</b>	<b>648</b>	<b>665</b>	<b>670</b>	<b>683</b>	<b>696</b>
Annual variation (%)	4.0	2.6	0.7	2.0	1.9
<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