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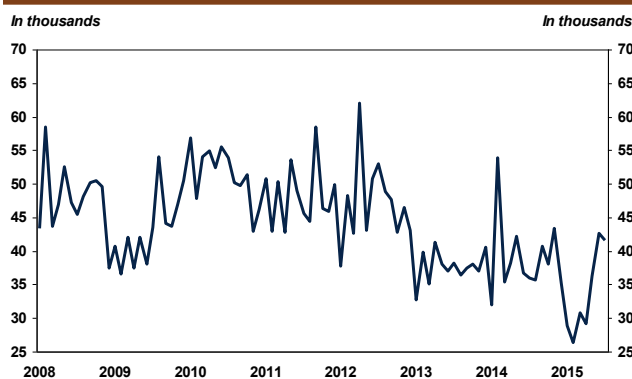
Quebec's housing market is going through a period of adjustment

Early 2015 was especially difficult for new construction, but the situation subsequently turned around. At mid-year, however, the performance is negative with the province's housing starts down in every market segment except for rental apartments. On one hand, high prices for homes and lots are helping sap construction. On the other, the condo surplus is prompting a sharp drop in the number of new projects. The slide in the number of housing starts makes it possible to slowly clean up the foundations of the housing market, reducing the risk of a price correction. The resale market is strengthening: this year, the number of transactions will post its first increase in five years. However, the pool of properties on the market still exceeds the number of buyers, keeping price growth around 1.5%. Few changes are expected in the months to come. Although employment is doing well so far this year and mortgage rates have come down, the housing sector is not poised to enter another expansion phase. It will continue to adjust for some time in a number of markets.

NEW CONSTRUCTION

Housing starts have climbed in the last few months (graph 1). Last winter's weakness—a result of the intense cold—will impact the performance for 2015, however. In the first seven months of this year, the province's major urban centres are down almost 10% from the same period in 2014. The pullback by housing starts is in line with expectations and last spring's forecast is maintained. Starts should be in the area of 35,000 new units this year, compared with 38,810 in 2014. The outlook for next year has been downgraded: overall, the pace of construction should be steady in 2016. There will be a lull for rental apartments, caution should continue for condos, and starts on homes should stabilize.

Graph 1 – Housing starts climbed above the 40,000-unit mark



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

RENTAL HOUSING WILL NOT KEEP UP ITS PACE

Construction of conventional rental housing and seniors' housing is expected to slow. It will be hard to maintain the 2015 surge for several reasons. Many projects are being completed, and vacancy rates for traditional rental housing have increased across the province; this should curb construction next year. The equilibrium seen last year should give way to slight surpluses in all six Quebec CMAs (graph 2 on page 2). In the spring CMHC survey, 3.5% of apartments were vacant in the province's urban centres. Also, a growing proportion of the clientele is turning to condo rentals, especially in the high-end segment. The vast selection in recent buildings is attracting renters, draining off some of the demand for traditional rental housing. Due to market forces, new construction will be less needed in this segment for the next few quarters.

The situation is similar for seniors' residences. The vacancy rate remains high in most Quebec CMAs, with the provincial average at 7.3% (graph 3 on page 2). Although the population aged 75 or over is now seeing solid growth, the real boom will start in about five years, when the first baby-boomers (1946-1966) reach 75. The timing and magnitude of the acceleration will differ across the province's regions, so new projects will have to be in sync with the demographic situation. Otherwise, some establishments will face higher vacancy rates and competition will intensify between new

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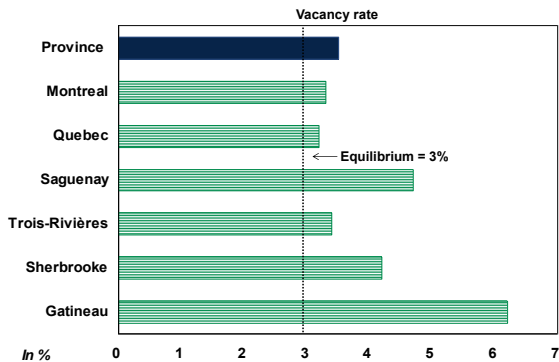
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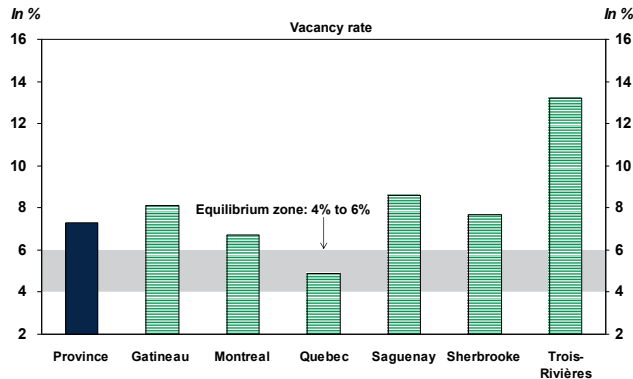
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Graph 2 – The rental apartment market is in surplus in all Quebec CMAs



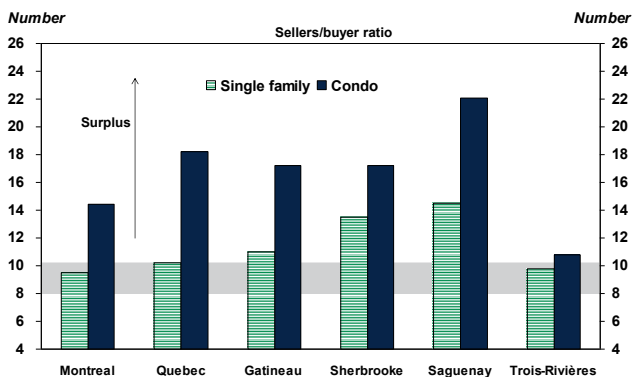
Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

Graph 3 – The seniors' residence market is in surplus in most Quebec CMAs



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

Graph 4 – Market surplus in several Quebec CMAs in Q2 2015



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

and older buildings. Following this year's boom in residences, a lull is anticipated for 2016. The medium-range outlook is good for this market segment, but the supply will have to adjust gradually.

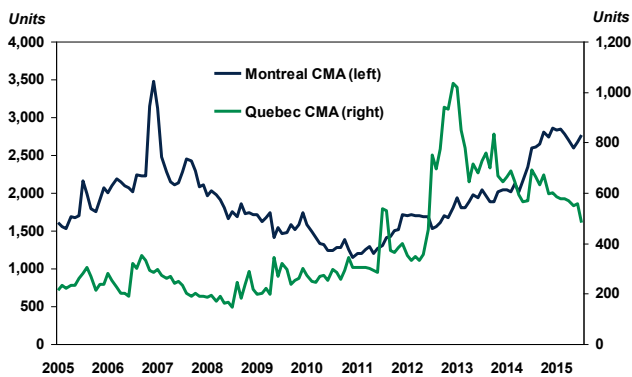
LESS DEMAND FOR NEW HOMES

Housing starts on different types of homes are poised to see their fifth consecutive annual decline. Given the price difference between new and used properties, new construction has been less popular in the last few years. Both lot prices and construction costs have risen, and the large number of properties on the resale market is meeting many buyers' needs, reducing demand for new homes. Even if the economic situation improves in 2016, the factors curbing housing starts will persist. For 2015, starts on homes are poised to drop more than 10%, while some stabilization is expected next year.

CONDOS: THE LULL WILL CONTINUE

The supply of new and existing condos is still much too large compared with demand. Heavy construction in the last few years and a drop in buyer enthusiasm have put the market in surplus. There are still many new unsold units and times to sale have increased. Surpluses also persist in the resale markets of major agglomerations (graph 4). However, an adjustment period has begun: new projects being launched have dropped about 40% since the start of the year in the province's CMAs. The slower pace in new construction will make it possible to gradually get the condo market's foundations into a healthier state. A recovery is not expected next year as it will take some time to absorb existing surpluses (graph 5 on page 3). Construction should then start to grow again once market conditions are back to normal. The Quebec CMA market should see housing starts tick up in 2015 after dropping 20% last year. The number of new unsold condos has come down substantially, explaining the gradual upswing in construction in Quebec.

Graph 5 – New unsold condos are down sharply in Quebec City, but still high in Montreal



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

RESALE MARKET: MODERATE ACTIVITY IN QUEBEC

Last year, after booming, the number of properties sold dropped to its lowest point in 10 years in Quebec. The resale market has strengthened, however, and, this year, the number of transactions will rise for the first time in five years. They are likely to increase around 5% in 2015. However, the pool of properties on the market still exceeds the number of buyers, limiting price growth to around 1.5%. Prices are not rising nearly as fast as they are in the rest of Canada, which is seeing a year-to-date increase of 8.5%. The Vancouver (+9.9%) and Toronto (+10.2%) markets are overheating, inflating prices for Canada as a whole; Quebec, on the other hand, has managed a soft landing. The concern over the province's market has therefore eased and the risk of a price correction is fairly low. The situation is otherwise in Alberta, where prices are dropping because the economy is being battered by the problems in the oil sector. All in all, the Quebec real estate cycle is in a good position in the Canadian landscape as activity is at a good level and price growth is more moderate.

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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	8.4	8.6
Annual variation (%)	3.3	0.2	-12.2	-2.3	-3.5	2.0
Housing starts	48,387	47,367	37,758	38,810	35,000	35,000
Annual variation (%)	-5.8	-2.1	-20.3	2.8	-9.8	0.0
House	22,411	21,829	17,100	15,707	13,800	14,100
Annual variation (%)	-13.6	-2.6	-21.7	-8.1	-12.1	2.2
- 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	21,200	20,900
Annual variation (%)	2.2	-1.7	-19.1	11.8	-8.2	-1.4
- Condo¹	15,827	16,017	11,395	12,893	8,300	8,350
Annual variation (%)	20.7	1.2	-28.9	13.1	-35.6	0.6
- Rental¹	9,055	8,437	8,332	8,939	11,500	10,800
Annual variation (%)	-17.9	-6.8	-1.2	7.3	28.6	-6.1
- Conventional rental²	5,536	5,455	6,635	6,204	6,500	6,200
Annual variation (%)	-20.2	-1.5	21.6	-6.5	4.8	-4.6
- Retirement home²	2,370	1,885	1,411	2,438	3,000	2,750
Annual variation (%)	-17.4	-20.5	-25.1	72.8	23.1	-8.3
Resale market						
Unit sales	77,167	77,373	71,198	70,686	74,200	74,700
Annual variation (%)	-3.6	0.3	-8.0	-0.7	5.0	0.7
Weighted average price (in thousand \$)	254	264	268	271	274	278
Annual variation (%)	4.9	3.9	1.3	1.3	1.2	1.3
Sales volume (in billion \$)	19.5	20.2	18.7	18.8	20.4	20.8
Annual variation (%)	0.7	3.6	-7.3	0.5	8.4	2.0
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	15.0	15.5	16.2	18.0	16.8
Annual variation (%)	2.8	3.0	3.1	4.6	11.1	-6.7

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