

# SPOTLIGHT ON HOUSING

## Quebec Still Going Strong, Ontario Doing Better

Summer has been a busy time for residential real estate. Existing property sales and prices were up once again in Ontario after reaching a cyclical low in 2018. In Quebec, sales are still strong, and the annual price hike remains near 5%. What will the second half of the year bring? Two factors could stimulate the residential sector even more: the federal financial incentive program for first-time home buyers will take effect in the fall and the drop in certain mortgage rates. Therefore, 2019 should end on a high note.

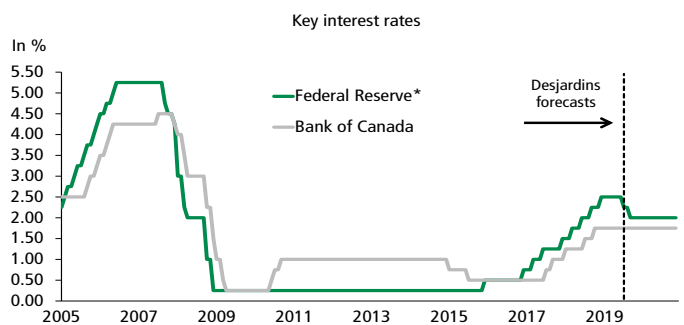
### Mortgage Rates Still Very Low

International uncertainty, especially regarding the trade disputes, the risk of a Brexit with no deal reached with the European Union and lower U.S. key rates, is driving down bond yields (graph 1) and indirectly North American mortgage rates—lower. The rate posted in most financial institutions in Canada for a 5-year mortgage has dropped from 5.34% in the spring to 5.19% in the summer. Promotional rates have also fallen significantly for different terms. The 10-year bond yields continued to fall in August, and other fixed mortgage rate decreases may not be far behind.

The variable mortgage rate, which changes based on the Bank of Canada's (BoC) key rate, should nonetheless remain stable in the short term. Even if some of the main central banks in the world, including in the United States, lowered their benchmark rate, the BoC is not expected to follow suit (graph 2).

**GRAPH 2**

**Interest rates should remain stable in Canada despite the decline in United States**



\* Upper bound of federal funds rate.  
Sources: Datastream and Desjardins, Economic Studies

The Canadian economy has regained strength, and the current situation does not justify lowering the key rates.

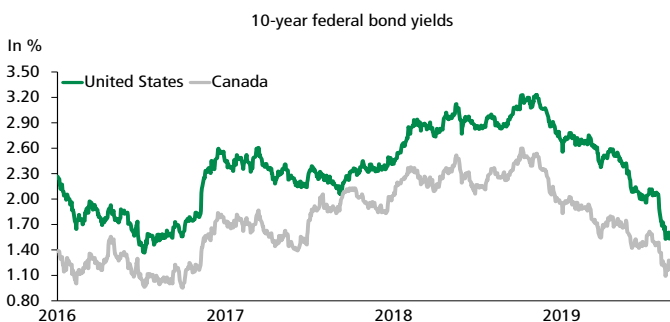
Given the heightened uncertainty surrounding the global economy, the rise in interest rates that had been expected a few months ago has been replaced by a drop in certain fixed mortgage interest rates. It also provided a boost, at least in the short term, to the housing market.

### Resales Are Strong

The existing home market continues to soar in Quebec. The number of property sales will increase about 5% this year, setting a new record. The average price in the province will surpass the \$320,000 mark, a hike of more than 4% for the third year in a row (graph 3 on page 2). In Ontario, sales and prices are moving up again (graph 4 on page 2) after falling approximately 15% and 3% respectively last year.

**GRAPH 1**

**North American bond yields plummeted**



Sources: Datastream and Desjardins, Economic Studies

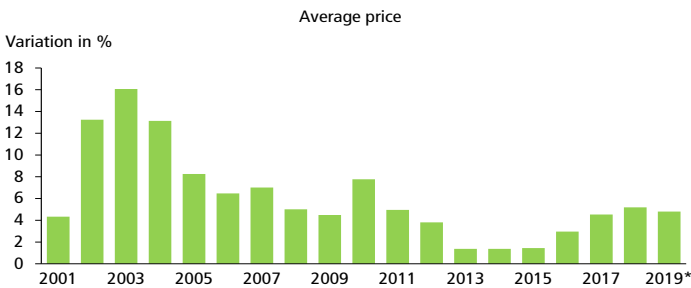
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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

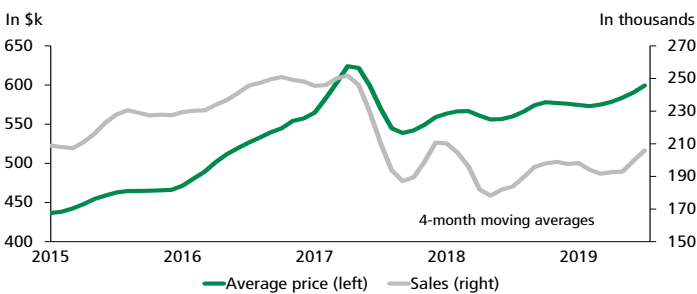
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**GRAPH 3**  
Property prices in Quebec continue to rise at a moderate pace



\* January to July 2019 compared to the same period of 2018.  
Sources: Quebec Professional Association of Real Estate Broker by the Centris® system and Desjardins, Economic Studies

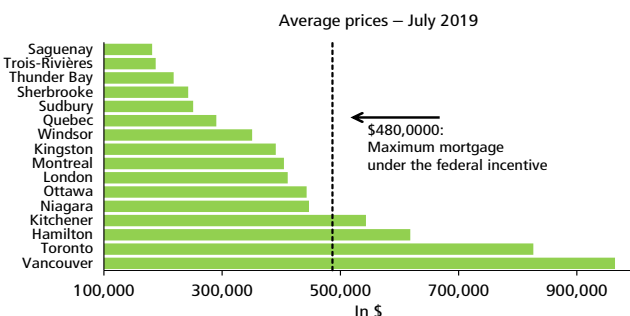
**GRAPH 4**  
Ontario's real estate market is trending upwards



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

Despite the residential real estate price correction that occurred in some markets around the country, the overall increase over the long term has significantly reduced access to ownership in addition to causing the rate of household debt to balloon. In a bid to put things right, the federal government announced a first-time home buyers' incentive program in its last budget. In the country's more expensive markets, such as Vancouver and Toronto, few households will meet the eligibility criteria (box).

**GRAPH 5**  
Existing property prices in some CMAs in Canada



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

**BOX**  
Support for first-time home buyers

**A financial incentive will be granted under the following circumstances:**

- ▶ The borrower's household gross income must not exceed \$120,000.
- ▶ The maximum mortgage will be four times the eligible income, i.e., \$480,000.
- ▶ The first-time home buyer must make the 5% minimum down payment required by the Canada Mortgage and Housing Corporation (CMHC).
- ▶ The buyer must repay, interest free, the financial support provided by the CMHC within 25 years or as soon as the property is sold.

**Government participation will be as follows:**

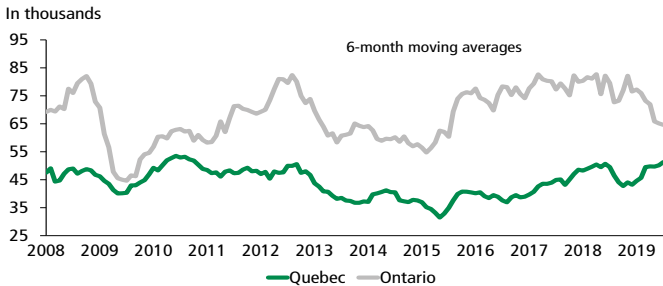
- ▶ The CMHC will provide assistance of 5% of the mortgage value for existing properties and 10% for new builds, which will help lower monthly household mortgage payments.

On the other hand, more borrowers should have access to financial support elsewhere in Ontario and Quebec due to the relatively lower prices (graph 5). It remains to be seen what the true effect of the program will be on property sales and prices. Only buyers who may not be able to own a property without the federal incentive will inflate the statistics. Everything will depend on how many first-time home buyers will be able to jump into the market thanks solely to government assistance. According to preliminary reports, applications can be filed starting in September, and the first transactions eligible for the federal program should occur in November.

**Construction Down in Ontario**

Despite a difficult start to the year, housing starts have tended to stabilize in Ontario in recent months (graph 6 on page 3). The weakening of the resale market last year impacted new construction, with some lag. As a result, the recent renewed strength of existing property sales should soon lead to a more sustained demand for new builds. Still, the result will be negative for the entire year, with housing starts down roughly 15% in Ontario. Until now, construction has fallen in most of the province's urban centres, including Toronto. However, Kitchener, London and Ottawa saw increases. The increases will be more widespread next year, with housing starts expected to increase approximately 10% in Ontario.

**GRAPH 6**  
**Residential housing starts fell in Ontario but remain strong in Quebec**



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

### New Builds Soar in Quebec

The strength of housing starts has been beating the forecasts since early 2019 thanks to the conventional rental market. All the other types of construction are down: detached, semi-detached and row houses as well as condominiums were all down at least 5% in the first half of the year. It is highly unlikely that the federal government's financial incentive for first-time home buyers will reverse the downward trend. The high cost of new homes is such that many young households are opting to buy an existing home or even to rent an apartment.

The surge in the construction of new, conventional rental apartments has been going strong over the last five years. A new peak will be reached this year with 21,000 new units, or more than 40% of the total housing starts in Quebec's urban centres. The level should remain high next year, since the demand for rental apartments remains strong and the rental vacancy rate is fairly low in many urban centres. Conventional rental housing offering a wide range of services is attracting a growing number of seniors. Moreover, the construction of seniors' residences declined roughly 10% in the first half of the year despite the launch of a number of projects.

This year, the hike in housing starts in Quebec is entirely due to the conventional rental market. Given that the level of construction will stabilize next year and that the other market segments will not be able to pick up the slack, total housing starts will be limited to 46,000 in 2020 compared with 48,500 in 2019 (table 1 on page 4).

### New Rules in Montreal

Construction may cool down even more starting in 2021 when new regulations take effect on the Island of Montreal. According to preliminary reports, real estate projects involving 50 units or more will have to include social housing (20%), affordable housing (20%), and family housing (20%). This means 60% of a new building would be dedicated to specific clientele. Still, this inclusive approach comes at a price: rents risk being below the builders' profitability threshold. It may even be difficult for

the promoters to pass on the costs of the unregulated portion of the building to future occupants. Without adequate financial compensation, fewer projects may be built on the island, as the outskirts become more attractive for builders.

### Conclusion

In short, the Quebec housing market is still growing, while Ontario's is recovering from a period of adjustment. Quebec is still going strong for the moment, but it could start to lose steam beginning in 2020. It remains to be seen what effect the new financial incentive will have on first-time home buyers this fall. In Ontario, the slowdown is being replaced by a renewed surge that should continue next year. Nonetheless, the favourable economic environment for the housing market may be overshadowed by the challenges of the global economy.

Hélène Bégin, Senior Economist

**TABLE 1**  
**Quebec Housing Market Outlook 2019–2020**

	2016	2017	2018	2019f	2020f
<b>New Housing Market</b>					
<b>New construction (\$B)</b>	9.0	10.3	12.0	11.6	11.1
Annual variation (%)	7.2	14.5	16.1	-3.1	-4.3
<b>Housing starts</b>	38,935	46,495	46,874	48,500	46,000
Annual variation (%)	2.7	19.4	0.8	3.5	-5.2
<b>House</b>	15,435	15,364	14,968	13,000	10,800
Annual variation (%)	13.6	-0.5	-2.6	-13.1	-16.9
<b>Single-detached</b>	10,737	10,711	10,060	---	---
Annual variation (%)	10.7	-0.2	-6.1	---	---
<b>Semi-detached</b>	2,761	2,819	2,995	---	---
Annual variation (%)	4.2	2.1	6.2	---	---
<b>Row housing unit</b>	1,937	1,834	1,913	---	---
Annual variation (%)	55.6	-5.3	4.3	---	---
<b>Apartment</b>	23,500	31,131	31,906	35,500	35,200
Annual variation (%)	-3.4	32.5	2.5	11.3	-0.8
<b>Condo<sup>1</sup></b>	7,849	10,804	9,860	9,200	8,300
Annual variation (%)	-18.0	37.6	-8.7	-6.7	-9.8
<b>Rental<sup>1</sup></b>	14,105	19,256	20,503	24,300	25,000
Annual variation (%)	3.8	36.5	6.5	18.5	2.9
<b>Conventional rental<sup>2</sup></b>	10,552	13,506	16,752	21,000	21,500
Annual variation (%)	14.5	28.0	24.0	25.4	2.4
<b>Retirement home<sup>2</sup></b>	3,443	5,520	3,565	3,300	3,500
Annual variation (%)	-15.8	60.3	-35.4	-7.4	6.1
<b>Resale market</b>					
<b>Unit sales</b>	78,139	82,541	86,557	91,000	88,000
Annual variation (%)	5.4	5.6	4.9	5.1	-3.3
<b>Weighted average price (\$k)</b>	280	293	308	321	328
Annual variation (%)	3.0	4.5	5.2	4.3	2.2
<b>Sales volume (\$B)</b>	21.9	24.1	26.4	29.2	28.9
Annual variation (%)	8.4	10.6	9.2	10.8	-1.2
<b>Other indicators</b>					
<b>Vacancy rate for rental units<sup>3</sup> (%)</b>	4.4	3.4	2.3	2.5	2.8
<b>Average rent<sup>3</sup> (\$)</b>	727	735	760	787	815
Annual variation (%)	2.1	1.1	3.4	3.6	3.6
<b>Renovation spending<sup>4</sup> (\$B)</b>	12.7	13.8	13.5	14.5	15.0
Annual variation (%)	2.2	8.9	-2.5	7.5	3.4

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