

September 22, 2014

## Tighter limits on home ownership are shaping the Quebec housing market

During the summer, the cool-down in the resale market changed to a warm-up. The boost in the number of transactions even firmed up prices a little. This upswing is likely to be temporary, however, and the second half of 2014 should be calmer. The sluggish labour market will have to show some improvement before the housing sector can show any real recovery. Given the negative employment trend, the pillars of the housing market are unlikely to become more solid before next year. Until then, high home prices and the reduction of the maximum amortization period to 25 years in 2012 will continue to curb the enthusiasm of first-time home buyers. Given that buying a home is becoming more difficult for many households, demand for rental properties is climbing. New construction is being supported by starts of rental apartments and condos this year. The renewed surge in condo starts, particularly in Montreal, seems premature, since the existing market is already in a surplus position, and fewer buyers are looking. Under these conditions, condo construction will have trouble sustaining this growth next year, while conventional rental apartments will still be popular.

### FEWER NEW HOUSES

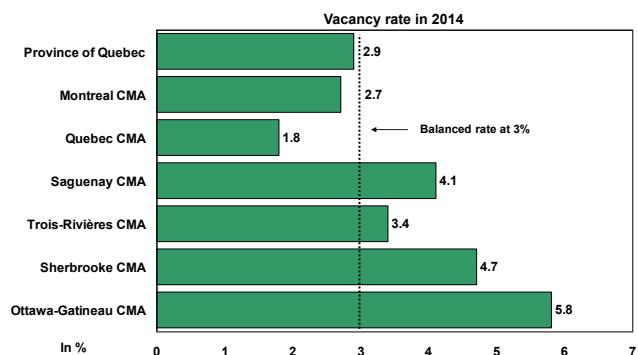
Housing starts have been hovering slightly below 40,000 units in recent months, a level that is perfectly in line with the forecast of 39,000 new homes for 2014. This is a slight increase from 37,758 units that was reached last year. However, new house construction is down for the fourth year in a row. The high cost of land and the sharp growth in new home prices have made new builds less affordable in recent years. Since there is more choice than there used to be in the resale market, and prices are usually lower there, fewer buyers are looking at new construction. House starts will probably pull back by at least 10% this year, and stabilize next year. The expected acceleration in the Quebec economy, which will promote job creation and better income growth, should put an end to the downturn in new house construction in 2015.

### RENEWED INTEREST IN RENTAL PROPERTIES

The situation is different as far as apartments<sup>1</sup> are concerned. Starts of conventional rental dwellings shot up by 20% in the first half of the year after growing at the same pace last year. The new units are attracting tenants quite easily, especially households that would have preferred to buy a

property but that lack the financial resources needed. Since the greater supply of apartments is meeting the stronger demand, the rental vacancy rate is holding steady near the balanced level of 3% in Quebec as a whole, and in the greater Montreal area. The market is in a surplus position in four of the six CMAs in the province, i.e. Gatineau, Saguenay, Sherbrooke and Trois-Rivières (graph 1). There is still a slight shortage in the Quebec CMA. Any plans to add more units will have to take these regional realities into account.

Graph 1 – Surpluses in some markets, slight shortages in others



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

<sup>1</sup> The rental market is doing well in Quebec and in Ontario, August 27, 2014.  
<http://www.desjardins.com/ressources/pdf/pv140827e.pdf>

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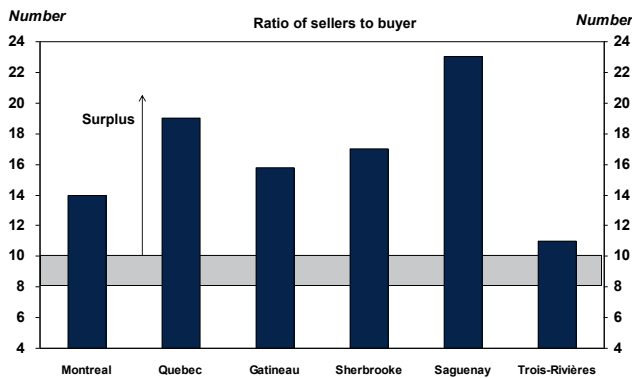
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Generally speaking, rental apartment construction will probably keep accelerating next year. The anticipated improvement in youth employment, international migration and the aging of the population will feed the demand for rental properties. But owners of older buildings, especially those where maintenance has been neglected, are likely to face greater challenges, since the competition from recent builds will be greater. Financial incentives, such as one month's free rent, might even become necessary in some cases to hold onto tenants in less attractive buildings.

**TOO MANY CONDOS?**

After tumbling by nearly 30% last year across the province, condos starts headed up again in the first half of 2014. Yet demand has not firmed up, and the surplus situation is becoming more aggravated in the resale markets of the major urban centres (graph 2). It should be noted, however, that the resurgence in construction has occurred only in the Gatineau and Montreal CMAs. In the other CMAs, especially Quebec, developers have been showing exemplary discipline. There, condo starts plunged by 35% during the first eight months of the year, compared with the same period of last year. This is on top of the 43% contraction that occurred in the Quebec CMA in 2013. Thus the number of condos under construction has dropped significantly, helping to consolidate the foundations of the market.

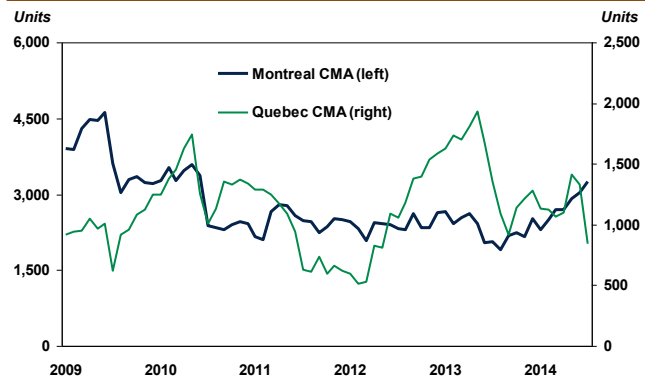
**Graph 2 – Condo market conditions by CMA in Q2 2014**



Sources: Fédération des chambres immobilières du Québec via Centris® and Desjardins, Economic Studies

In Montreal, the reverse has occurred (graph 3). The upswing in condo starts, after the lull of last year, is astonishing. And developers do not only have their eyes on downtown: construction is also booming in some municipalities on the North Shore, the South Shore and in Laval. The absorption rate is particularly high in the Thérèse-de-Blainville area (17 months), in the Boucherville area (15 months), in the Southwest of the Island of Montreal (18 months) and in Laval (20 months). This statistic, calculated by the CMHC, represents the number of months it would take to sell the units recently built and as yet unsold, along with half of those under construction. Historically, a rate of around 10 months usually reflects healthy market conditions. This holds true for the island of Montreal as a whole and for the CMA; but the areas mentioned above are problematic and present a higher degree of risk.

**Graph 3 – The number of condos under construction climbs in Montreal but drops in Quebec**



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

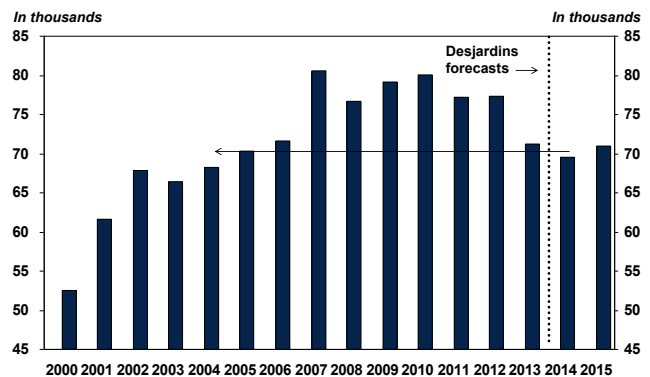
In Gatineau, housing demand has declined more than in the other major centres. During the first eight months of the year, sales of existing houses and condos fell by 8% and 17% respectively, compared with the same period of last year. Moreover, the conventional rental market is in a surplus position, and the vacancy rate climbed from 4.0% to 5.8% in the past year. Given this flagging demand for housing, the 88% surge in condo starts since the beginning of 2014 appears way out of proportion. This summer, around 500 units were in the process of being built, while over 200 recently completed condo apartments were still unsold in the Aylmer and Hull areas.

To sum up: the Montreal and Gatineau CMAs are responsible for the provincial surge in condo starts in the first half of 2014. Theoretically, this boom will be short-lived, since it is not based on greater demand from buyers. After stoking province-wide growth this year, a pullback in condo construction will be inevitable next year. A sustainable recovery will only be possible when buyers become more plentiful. Our forecasts for Quebec as a whole formerly called for a generalized pullback in condo construction in 2014, followed by a gradual upturn in 2015. This is a major change of course in forecasts, which is accounted for by an unexpected surge since the beginning of the year.

### RESALE MARKET: A TEMPORARY UPTICK

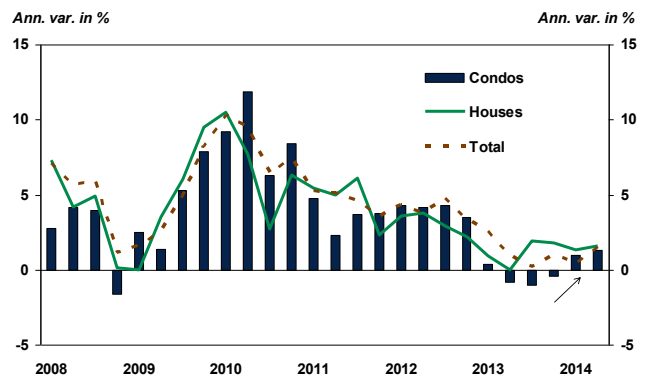
Despite the upturn in home sales during the summer, the results for the year will be slightly negative. In fact, the number of sales will be the smallest in ten years (graph 4). This lull was desirable in order to relieve the pressure on prices. Growth for the year 2014 will be just 1.0% and should firm up a bit to 1.5% next year. The market for houses, in which conditions are balanced in most of the CMAs, is supporting price growth (graph 5). But the average condo price has fallen in the past few quarters because there is excess supply in all of Quebec's six CMAs. Further declines are to be expected in the coming quarters, since the number of units (both new and existing) on offer in this market segment is likely to keep growing, while it will be some time before greater buyer demand materializes.

**Graph 4 – This year, sales of existing properties will be at their lowest since 2004**



Sources: Fédération des chambres immobilières du Québec via Centris® and Desjardins, Economic Studies

**Graph 5 – Residential average prices are rising very slowly**



Sources: Fédération des chambres immobilières du Québec via Centris® and Desjardins, Economic Studies

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## Quebec - Housing Market Outlook 2014-2015

	2010	2011	2012	2013	2014f	2015f
<b>New Housing Market</b>						
<b>New construction (in billion \$)</b>	9.8	10.2	10.2	9.0	8.9	9.2
Annual variation (%)	17.1	3.3	0.2	-12.2	-0.6	3.4
<b>Housing starts</b>	<b>51,363</b>	<b>48,387</b>	<b>47,367</b>	<b>37,758</b>	<b>39,000</b>	<b>41,000</b>
Annual variation (%)	18.3	-5.8	-2.1	-20.3	3.3	5.1
<b>House</b>	<b>25,937</b>	<b>22,411</b>	<b>21,829</b>	<b>17,100</b>	<b>15,200</b>	<b>15,300</b>
Annual variation (%)	14.7	-13.6	-2.6	-21.7	-11.1	0.7
- <b>Single-detached</b>	<b>19,549</b>	<b>16,554</b>	<b>16,059</b>	<b>13,144.0</b>	-	-
Annual variation (%)	11.5	-15.3	-3.0	-18.2	-	-
- <b>Semi-detached</b>	<b>4,359</b>	<b>4,002</b>	<b>3,866</b>	<b>2,835.0</b>	-	-
Annual variation (%)	26.8	-8.2	-3.4	-26.7	-	-
- <b>Row housing unit</b>	<b>2,029</b>	<b>1,855</b>	<b>1,904</b>	<b>1,121.0</b>	-	-
Annual variation (%)	24.2	-8.6	2.6	-41.1	-	-
<b>Apartment</b>	<b>25,426</b>	<b>25,976</b>	<b>25,538</b>	<b>20,658</b>	<b>23,800</b>	<b>25,700</b>
Annual variation (%)	22.3	2.2	-1.7	-19.1	15.2	8.0
- <b>Condo<sup>1</sup></b>	<b>13,111</b>	<b>15,827</b>	<b>16,017</b>	<b>11,395</b>	<b>13,200</b>	<b>12,600</b>
Annual variation (%)	31.3	20.7	1.2	-28.9	15.8	-4.5
- <b>Rental<sup>1</sup></b>	<b>11,032</b>	<b>9,055</b>	<b>8,437</b>	<b>8,332</b>	<b>10,000</b>	<b>11,200</b>
Annual variation (%)	16.1	-17.9	-6.8	-1.2	20.0	12.0
- <b>Conventional rental<sup>2</sup></b>	<b>6,941</b>	<b>5,536</b>	<b>5,455</b>	<b>6,635</b>	<b>8,000</b>	<b>9,200</b>
Annual variation (%)	10.7	-20.2	-1.5	21.6	20.6	15.0
- <b>Retirement home<sup>2</sup></b>	<b>2,869</b>	<b>2,370</b>	<b>1,885</b>	<b>1,411</b>	<b>1,600</b>	<b>1,650</b>
Annual variation (%)	30.2	-17.4	-20.5	-25.1	13.4	3.1
<b>Resale market</b>						
<b>Unit sales</b>	<b>80,027</b>	<b>77,167</b>	<b>77,379</b>	<b>71,265</b>	<b>69,500</b>	<b>71,000</b>
Annual variation (%)	1.2	-3.6	0.3	-7.9	-2.5	2.2
<b>Weighted average price (in thousand \$)</b>	<b>242</b>	<b>254</b>	<b>264</b>	<b>268</b>	<b>270</b>	<b>274</b>
Annual variation (%)	7.9	4.9	3.9	1.3	1.0	1.5
<b>Sales volume (in billion \$)</b>	<b>19.3</b>	<b>19.5</b>	<b>20.2</b>	<b>18.7</b>	<b>18.8</b>	<b>19.5</b>
Annual variation (%)	8.4	0.7	3.6	-7.2	0.5	3.7
<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>2.9</b>	<b>3.2</b>
<b>Average rent<sup>3</sup> (in \$)</b>	<b>666</b>	<b>684</b>	<b>681</b>	<b>699</b>	<b>715</b>	<b>733</b>
Annual variation (%)	4.1	2.7	-0.4	2.6	2.3	2.5
<b>Renovation spending (in billion \$)</b>	<b>14.2</b>	<b>14.6</b>	<b>15.0</b>	<b>15.4</b>	<b>16.5</b>	<b>16.6</b>
Annual variation (%)	1.8	3.1	2.9	2.0	7.5	0.6

<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