

Quebec's housing sector is relatively sound

Although the state of the housing sector is worrisome in some parts of the country, because it is too hot or correcting sharply, Quebec is doing well. The resale market is slowly firming up, and both sales and price growth are subdued. Conditions are sounder than elsewhere in the country, despite surpluses in the condo and rental apartment markets. New construction is still adjusting and it is too early to look for an upswing in Quebec housing starts.

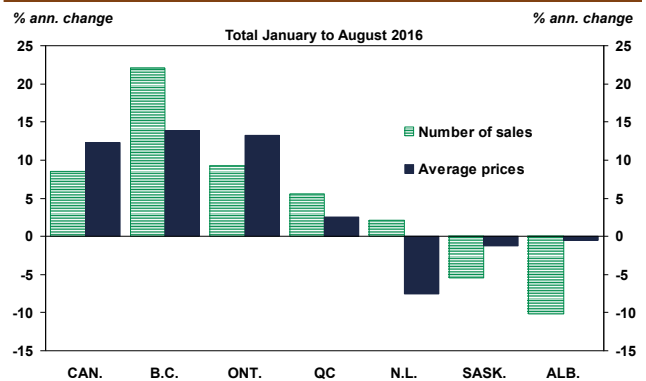
MAJOR IMBALANCES IN SOME PROVINCES

Housing market evolution differs widely from province to province. The economic difficulties in oil producing provinces have taken prices and transactions down, while Ontario and British Columbia have seen strong growth since the beginning of 2016 (graph 1). There are a number of reasons for the boom in some provinces: positive demographics, powered by immigration, faster growth by the economy and employment, and the presence of foreign investors (see box 1 on page 2). Many factors are buoying demand, with too few properties on the market.

QUEBEC HAS ITS OWN DYNAMIC

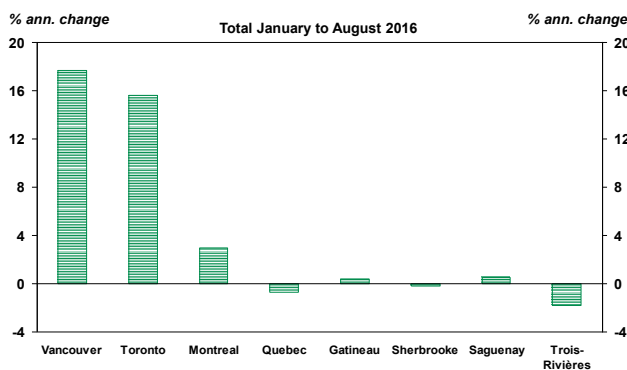
Quebec housing market conditions are very different from those extant in some cities of the country (graph 2). Although demand has almost finished its cyclical upturn, with single-family home and condo sales going up (graph 3), many homes remain on the market and times to

Graph 1 – The Quebec resale market shows subdued improvement



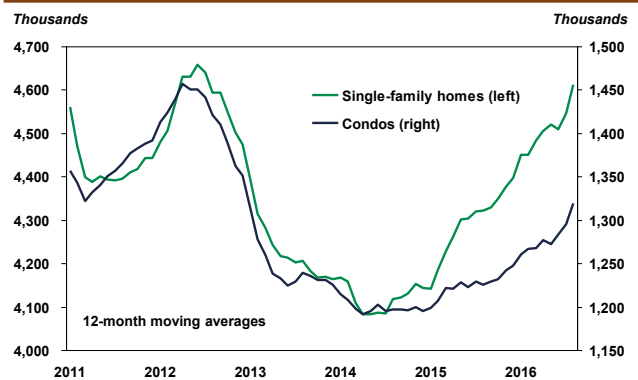
Sources: Canadian Real Estate Association and Desjardins, Economic Studies

Graph 2 – Home prices: Quebec CMAs not showing the big increases seen elsewhere in the country



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

Graph 3 – Existing home sales still rising



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

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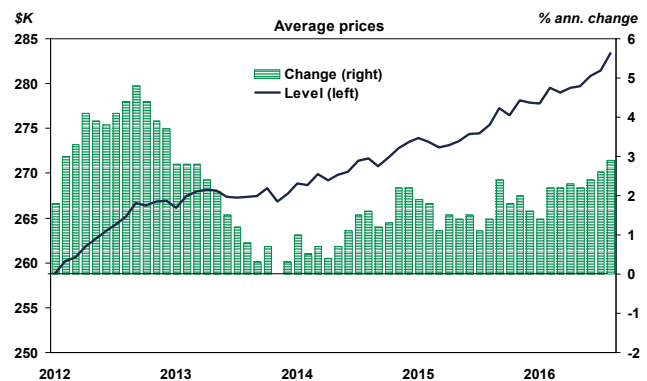
NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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sale are relatively long, at between three and four months on average. Annual price growth is contained, at just above 2% (graph 4). Although the resale market is doing better, the imbalance persists, curbing new construction.

Starts on single-family homes have been nearly stable since the beginning of 2016. Lots are expensive and construction costs high, which continues to curb demand, especially given that buyers have plenty of choice in the resale market. In general, prices reflect fair market value and are sometimes even below municipal assessments, something not seen for many years. This decreases the appeal of new homes and housing starts are not expected to swing up in the near future. Starts on homes will stay almost stable this year and next.

Graph 4 – Annual growth by home prices has accelerated



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

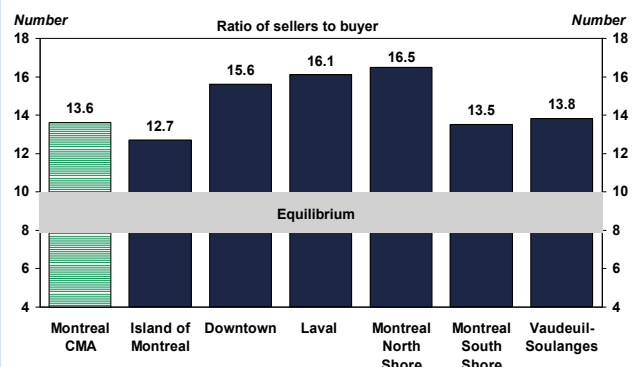
BOX 1: WEIGHT OF FOREIGN HOMEOWNERS

On August 2, British Columbia’s government implemented a new 15% tax to curb home purchasing by foreign investors.¹ This measure seems to be working very well for now, as both sales and the average home price fell about 20% last month in Vancouver. The average price dropped below the \$1M mark, which is still quite high. It had been slowing somewhat since last spring and the introduction of the tax magnified the correction.

Some now fear that foreign investors will head for Montreal or Toronto. August’s statistics do not show demand shifting to these markets, which have kept going at their usual pace. The situation must be monitored in the coming months, to see whether sales pick up unusually in the two agglomerations. It is still too early to come to a conclusion about the potential impact.

In any event, the concerns over Montreal are unjustified. According to a recent study by the CMHC², the weight of foreign buyers in the condo market is relatively slight : about 1% in Greater Montreal and 5% downtown. Just under half of international buyers seem to come from the United States and France, while 8% are from China. The Asian investors who are so present in Vancouver are not very active in Montreal. Even if a portion of foreigner buyers shifted their focus to Montreal, prices would not skyrocket: the condo market has a substantial surplus in many sectors (graph 5), and faster sales would be a good thing to get the market back to equilibrium. Therefore, even if demand from international investors shifted toward Montreal, we would not have the kind of runaway price growth seen until very recently in Vancouver. Condo prices have barely budged in Montreal since the start of 2016, and they are down in Quebec.

Graph 5 – Condo resale market in surplus in the Montreal CMA



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

¹ Desjardins Economic Studies, “The new tax had a strong impact on the Vancouver real estate market in August,” September 15, 2016.

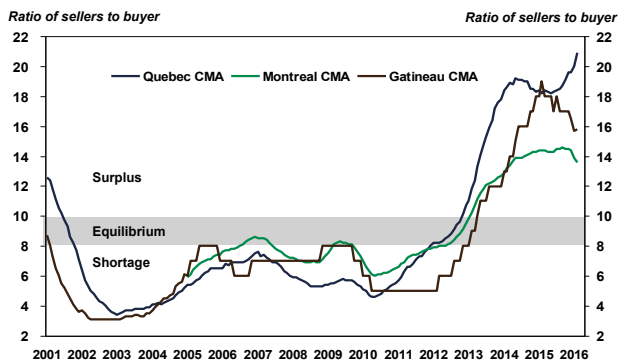
<https://www.desjardins.com/ressources/pdf/nf160915-e.pdf?resVer=1473959914000>

² Canada Mortgage and Housing Corporation, Housing Market Insight - Montréal CMA, “Small proportion of foreign investors in the Montréal area real estate market,” July 2016.

https://www.cmhc-schl.gc.ca/odpub/esub/68724/68724_2016_M07.pdf?lang=en

In the multi-unit housing market, a variety of trends are overlapping. Condo construction is still slowing in four of Quebec's six CMAs. Since the start of 2016, starts are down in Trois-Rivières, Saguenay, Sherbrooke and Quebec City. Construction began on just over one hundred condo buildings in the Quebec CMA. Last year at this time, there were nearly 800. The opposite occurred in the Gatineau and Montreal CMAs, where starts are up about 20% from the beginning of the year. The surge is coming much too early, as many new units remain unsold and the condo resale market is still in surplus in both locations (graph 6).

**Graph 6 – Condo resale market:
substantial imbalance persist**



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

The 2015 boom in rental apartment construction is starting to flag. New projects are having more trouble finding tenants than they were at the start of the new wave of construction, and developers are adjusting to the new situation. Housing starts have been sluggish for the last few months, as signs that the traditional rental housing market is saturated have been evident for some time. In 2015, the vacancy rate was already above the 3% equilibrium point in Quebec's six metropolitan areas. Three of them even had vacancy rates above 6%, a rate that can be associated with overbuilding: Saguenay (7.2%), Trois-Rivières (6.2%) and Gatineau (6.1%). The CMHC will release the results for 2016 this fall; they should show even higher vacancy rates. In principle, therefore, starts on rental housing should decline next year.

BRIEF OUTLOOK

Although resale market conditions have improved lately for Quebec 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 and stabilize in 2017. Annual housing starts should be around 37,000 units this year and next year, compared with 37,926 new units in 2015.

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Quebec - Housing Market Outlook 2016-2017

| | 2013 | 2014 | 2015 | 2016 ^f | 2017 ^f |
|--|-----------------|-----------------|----------------|-------------------|-------------------|
| New Housing Market | | | | | |
| New construction (in billion \$) | 6.6 | 6.3 | 5.8 | 5.6 | 5.7 |
| Annual variation (%) | -16.8 | -3.9 | -7.8 | -3.6 | 1.8 |
| Housing starts | 37,758 | 38,810 | 37,926 | 37,000 | 37,500 |
| Annual variation (%) | -20.3 | 2.8 | -2.3 | -2.4 | 1.4 |
| House | 17,100 | 15,707 | 13,593 | 13,500 | 13,900 |
| Annual variation (%) | -21.7 | -8.1 | -13.5 | -0.7 | 3.0 |
| - Single-detached | 13,144.0 | 11,227.0 | 9,698.0 | - | - |
| Annual variation (%) | -18.2 | -14.6 | -13.6 | - | - |
| - Semi-detached | 2,835.0 | 3,083.0 | 2,650.0 | - | - |
| Annual variation (%) | -26.7 | 8.7 | -14.0 | - | - |
| - Row housing unit | 1,121.0 | 1,397.0 | 1,245.0 | - | - |
| Annual variation (%) | -41.1 | 24.6 | -10.9 | - | - |
| Apartment | 20,658 | 23,103 | 24,333 | 23,500 | 23,600 |
| Annual variation (%) | -19.1 | 11.8 | 5.3 | -3.4 | 0.4 |
| - Condo¹ | 11,395 | 12,893 | 9,571 | 9,000 | 8,500 |
| Annual variation (%) | -28.9 | 13.1 | -25.8 | -6.0 | -5.6 |
| - Rental¹ | 8,332 | 8,939 | 13,588 | 13,000 | 12,500 |
| Annual variation (%) | -1.2 | 7.3 | 52.0 | -4.3 | -3.8 |
| - Conventional rental² | 6,635 | 6,204 | 9,218 | 8,600 | 8,000 |
| Annual variation (%) | 21.6 | -6.5 | 48.6 | -6.7 | -7.0 |
| - Retirement home² | 1,411 | 2,438 | 4,089 | 4,200 | 4,500 |
| Annual variation (%) | -25.1 | 72.8 | 67.7 | 2.7 | 7.1 |
| Resale market | | | | | |
| Unit sales | 71,194 | 70,625 | 74,207 | 78,500 | 80,500 |
| Annual variation (%) | -8.0 | -0.8 | 5.1 | 5.8 | 2.5 |
| Weighted average price (in thousand \$) | 268 | 271 | 275 | 282 | 291 |
| Annual variation (%) | 1.3 | 1.3 | 1.5 | 2.5 | 3.0 |
| Sales volume (in billion \$) | 18.7 | 18.8 | 20.2 | 22.2 | 23.4 |
| Annual variation (%) | -7.3 | 0.4 | 7.5 | 9.8 | 5.6 |
| Other indicators | | | | | |
| Vacancy rate for rental units³ (%) | 3.1 | 3.7 | 4.3 | 4.8 | 5.1 |
| Average rent³ (in \$) | 679 | 691 | 712 | 730 | 746 |
| Annual variation (%) | 2.4 | 1.8 | 3.0 | 2.5 | 2.2 |
| Renovation spending⁴ (in billion \$) | 11.5 | 12.2 | 12.7 | 12.5 | 12.8 |
| Annual variation (%) | 2.0 | 6.3 | 4.0 | -1.5 | 2.4 |

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.

⁴ 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