

SPOTLIGHT ON HOUSING

Fewer New Builds and a Calmer Resale Market in Quebec and Ontario

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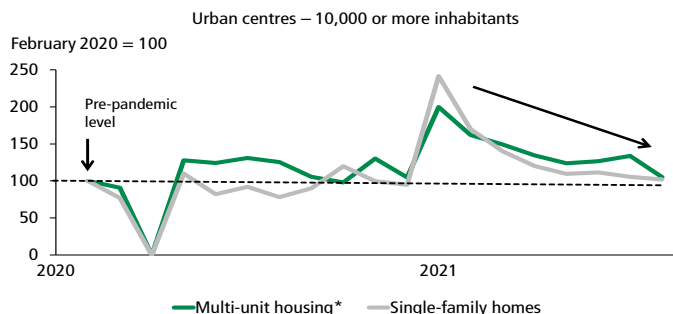
Signs that the residential real estate market in Quebec is running out of steam have been growing in recent months. Housing starts are far from the high they reached at the beginning of the year, and the pressure is easing on the resale market, which is causing the average price to stabilize. There are fewer bidding wars in the Greater Montreal Area compared to the spring, even if the pool of properties for sale remains small. The average price even seems to have started a slight decrease, a trend that's expected to continue. In Ontario, the slowdown in new builds and property sales has begun, causing the average price to increase slowly.

Construction Is Slowing in Major Centres

Residential construction has been in a lull in recent months. In August, Quebec's housing starts fell to an annualized 57,323 units, far below the historic peak of 113,548 reached in January. This return to sustainable levels was expected after an extremely active start to the year. We're still forecasting 69,000 housing starts in 2021, which would be the best result since the late 1980s. Next year should see 58,000 units started, which is still a historically high number. Recently, housing starts in Ontario were down slightly from the record set in March 2021. Things are expected to slow even more in 2022, with a 15% decrease anticipated.

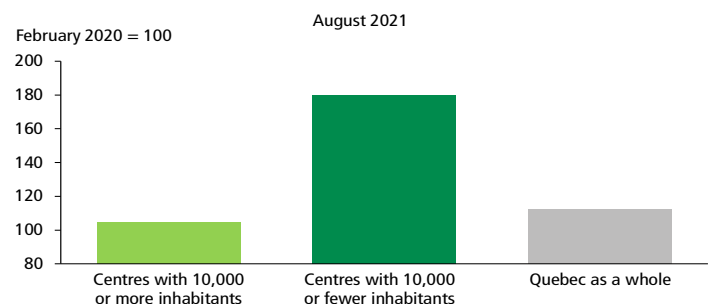
After peaking at the beginning of the year, housing starts in Quebec's main urban centres almost fell to pre-pandemic levels. New builds slowed for both single-family homes and multi-unit housing (graph 1). Municipalities with fewer than 10,000 inhabitants stand out, since housing starts remain well above February 2020's level, that is, before COVID-19 hit (graph 2). Despite a recent lull, construction outside major centres is continuing unabated because more land is available, housing costs less and many employees continue to telework.

GRAPH 1
The number of housing starts is down in Quebec



* Semi-detached homes and row housing, rental apartments and condominiums.
Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

GRAPH 2
Housing starts in Quebec remain high in smaller centres



Sources: Canada Mortgage and Housing Corporation 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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Construction Costs Remain High

With the supply of new and existing properties still limited, the residential construction boom could have gone on longer with no risk of a surplus on the Quebec and Ontario markets. However, new housing prices, which have surged since the pandemic began, are contributing to a decrease in the number of potential buyers.

The cost of some materials, like lumber, quickly fell in recent months. Still, many builders increased their inventories—often at exorbitant prices—to avoid a shortage of materials. So, it could take time for the recent price reductions to be reflected in the cost of a new home. However, lumber prices, like metal and miscellaneous construction material prices, remain higher than those in effect before the pandemic started (graph 3). Consequently, the cost of new builds will remain relatively high and continue to curb the demand for new housing. Land availability and rising costs in major centres are also hampering construction (graph 4).

Pressure Eases on the Resale Market

Sales in Quebec have been trending downward since the end of 2020, and the number of properties for sale is only now beginning to go up a little. Overall, there’s less of an imbalance between supply and demand, but the situation still favours sellers over buyers. Most markets remain overheated, and deals are still closing extremely fast. The last few months have seen the surge in prices in the province give way to a certain stability (graph 5). Prices are still clearly higher than the same time last year but have leveled off in the last few months. This is the case in Quebec CMA, Sherbrooke and Trois-Rivières, whereas prices continue to climb in Gatineau and Saguenay.

GRAPH 3
Construction material prices are higher than before the pandemic



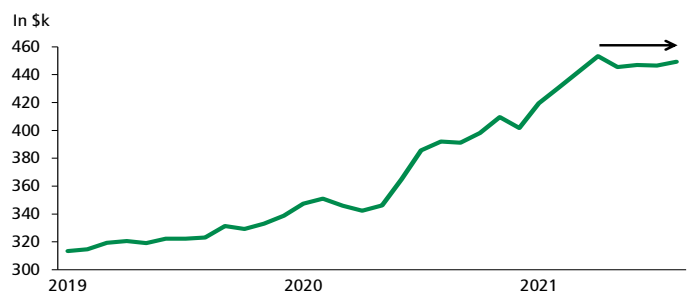
* And other non-ferrous metal products like copper, zinc and nickel.
Sources: Statistics Canada and Desjardins, Economic Studies

GRAPHIQUE 4
House prices have increased more than land prices since the pandemic began



Sources: Statistics Canada and Desjardins, Economic Studies

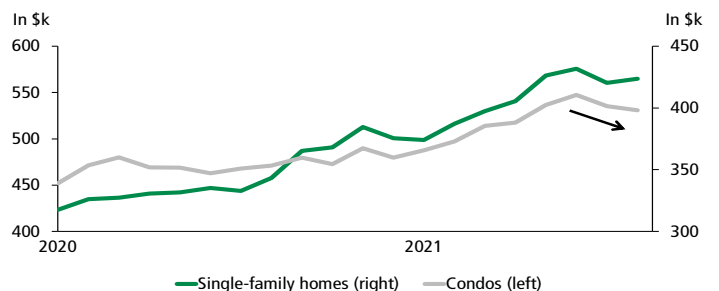
GRAPH 5
The average price for existing properties in Quebec has stabilized since the spring



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

Prices for single-family homes and condominiums seem to be pulling back a bit in the Montreal CMA (graph 6). The risk of a downward correction had been flagged a few months ago because of the explosion in the number of multiple offers, which pushed many buyers to pay considerably more than the asking price. This situation, which used to boost prices, is now having the opposite effect. The share of sales in Greater Montreal that closed after a bidding war has shrunk since last spring. Prices that were artificially inflated by this phenomenon are adjusting accordingly. Besides bidding wars, other factors have made the market particularly precarious (box on page 3).

GRAPH 6
Average prices in the Montreal CMA seem to start dropping



CMA: Census metropolitan area
Sources: JLR Land Title Solutions, an Equifax Company, and Desjardins, Economic Studies

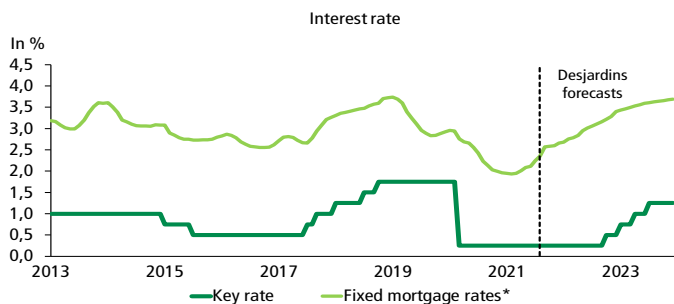
BOX
Some Markets, including Montreal, Are at Greater Risk

According to the Canada Mortgage and Housing Corporation (CMHC) [report](#), the Greater Montreal market's level of vulnerability is now high, like that of Ottawa and Greater Toronto. According to the CMHC, fundamental factors like employment income, interest rates and demography do not justify today's high prices. This imbalance has made Montreal's market moderately overvalued since September.

Still, Montreal's market has not entered the speculative stage during which a property is resold less than a year after purchase to make a profit. Without a doubt, this kind of quick transaction has become more frequent in recent years, but it remains limited to roughly 3% of home and condominium sales in Greater Montreal. Properties that were quickly resold have put a little bit of pressure on prices over the last five years. Yet this phenomenon is more likely to happen in areas in the West-Island according to a recent CMHC [study](#).

More and More Restrictions

The slowdown in the residential sector will continue next year (table on page 4). Some factors will continue to limit the demand for new and existing properties: overly high prices compared to the ability of many buyers to get financing and tighter federal mortgage rules in effect since June 1. In addition, fixed mortgage rates, which fell temporarily in September, are climbing once again. Ever higher inflation in North America will continue to apply upward pressure on bond yields and, as a result, fixed mortgage rates in Canada, as our [forecasts](#) point out (graph 7). Variable mortgage rates are not expected to increase before October 2022, at which point the Bank of Canada will begin to raise its key interest rates. Still, the future path of inflation and the economy's robustness will be decisive factors.

GRAPH 7
Fixed mortgage rates will rise despite a stable key rate until the fall of 2022


* Weighted average interest rate on cash advances for five years and up.
Sources: Bank of Canada and Desjardins, Economic Studies

TABLE
Quebec housing market outlook 2021–2022

	2018	2019	2020	2021f	2022f
New housing market					
New construction (\$B)	12.0	11.7	12.7	17.0	14.0
Annual variation (%)	16.1	-1.9	7.8	34.2	-17.6
Housing starts	46,874	47,967	54,066	69,000	58,000
Annual variation (%)	0.8	2.3	12.7	27.6	-15.9
House	14,968	13,742	15,995	22,000	14,000
Annual variation (%)	-2.6	-8.2	16.4	37.5	-36.4
Single-detached	10,060	8,989	10,861	---	---
Annual variation (%)	-6.1	-10.6	20.8	---	---
Semi-detached	2,995	2,966	3,514	---	---
Annual variation (%)	6.2	-1.0	18.5	---	---
Row housing unit	1,913	1,787	1,620	---	---
Annual variation (%)	4.3	-6.6	-9.3	---	---
Apartment	31,906	34,225	38,071	47,000	44,000
Annual variation (%)	2.5	7.3	11.2	23.5	-6.4
Condo ¹	9,860	8,172	7,222	8,000	7,300
Annual variation (%)	-8.7	-17.1	-11.6	10.8	-8.8
Rental ¹	20,503	24,861	28,709	32,000	33,000
Annual variation (%)	6.5	21.3	15.5	11.5	3.1
Conventional rental ²	16,752	21,536	26,554	29,500	30,200
Annual variation (%)	24.0	28.6	23.3	11.1	2.4
Retirement home ²	3,565	3,159	2,017	2,500	2,800
Annual variation (%)	-35.4	-11.4	-36.2	23.9	12.0
Resale market					
Unit sales	86,451	96,636	112,971	107,058	91,189
Annual variation (%)	4.7	11.8	16.9	-5.2	-14.8
Weighted average price (\$k)	308	324	377	444	445
Annual variation (%)	5.2	5.2	16.5	17.8	0.3
Sales volume (\$B)	26.3	30.5	42.6	47.5	40.6
Annual variation (%)	9.1	15.8	39.7	11.6	-14.6
Other indicators					
Vacancy rate for rental units ³ (%)	2.3	1.8	2.5	2.8	2.3
Average rent ³ (\$)	761	800	844	885	925
Annual variation (%)	3.4	5.1	5.5	4.9	4.5
Renovation spending ⁴ (\$B)	13.7	14.2	14.2	16.0	15.0
Annual variation (%)	6.0	3.9	0.1	12.5	-6.3

f: forecasts; 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, Statistics Canada and Desjardins, Economic Studies