

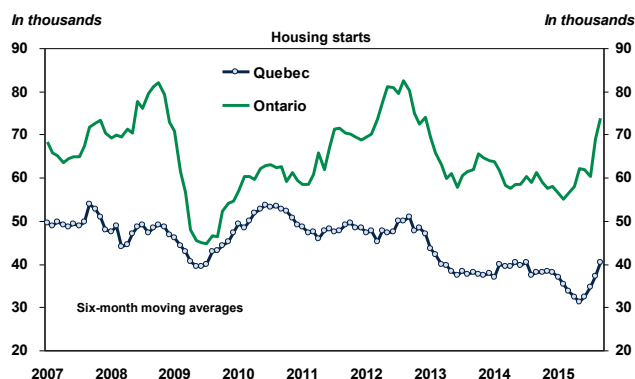
The housing market is doing better in Quebec and is still very lively in Ontario

The year 2015 is already quite far along, and the findings are very different for these two neighbouring provinces. In Quebec, housing starts are now accelerating after struggling in the first half of the year, but it looks like the annual total will be negative in all the market segments except for rental apartments. In Ontario, new construction keeps on surprising us with its robustness due to condo momentum and an upswing in conventional rental properties. The Ontario resale market is thriving, as may be seen from the increase of around 10% in both sales and prices since the beginning of the year. In Quebec, the number of homes sold is about to record its first upturn in five years. Annual price growth is still weak, however: in the neighbourhood of 1.5%. Two provinces, two realities. What are the outlooks for these two markets?

NEW CONSTRUCTION IN QUEBEC: RENTAL PROPERTIES ARE FLOURISHING

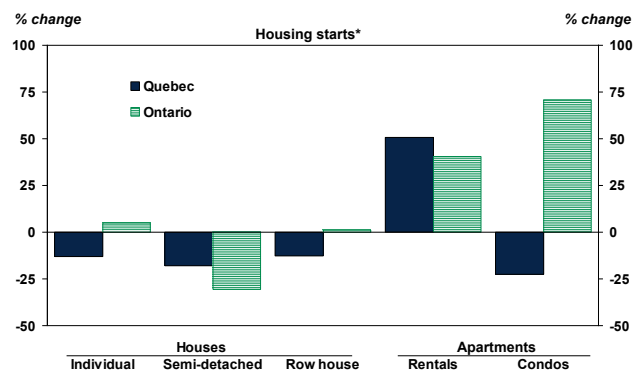
Even though activity slowed at the beginning of 2015 due to the particularly severe winter, housing starts subsequently picked up in both provinces (graph 1). Intensive apartment construction accounts for this surprising upswing (graph 2). In Quebec, only conventional rental properties and seniors' residences have been recording growth since the beginning of the year. Although this type of construction is well suited to an aging population, current demand is not sustained enough to quickly fill up all these new projects.

Graph 1 – The housing start trend has been heading up in recent months



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

Graph 2 – Strong growth in rental apartment construction since the beginning of 2015



* First nine months of 2015 compared with the same period of 2014.
Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

Most promoters/builders who are in possession of an ideal location are moving ahead even though the building may not be completely occupied even several months after construction is finished. Generally speaking, they are in solid enough positions to take that approach. For those that operate with tighter margins, it could prove perilous to start a project in conditions where the supply of rental units is expanding rapidly. According to the CMHC, it takes an average of around 9 months to construct a rental building in Quebec. Given that the demand for rentals is continuing to slow down, that time lag adds more uncertainty to new projects.

François Dupuis
Vice-President and Chief Economist

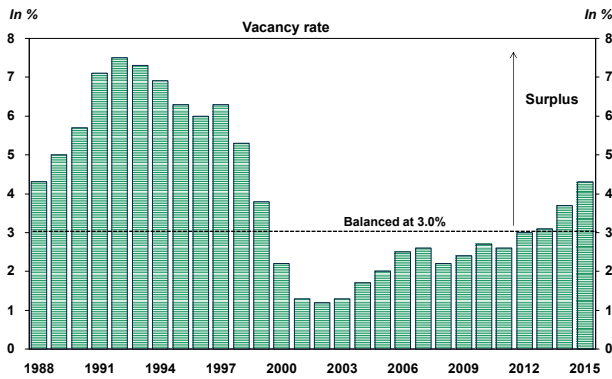
Hélène Bégin
Senior Economist

Chantal Routhier
Economist

418-835-2450 or 1 866 835-8444, ext. 2450
E-mail: desjardins.economics@desjardins.com

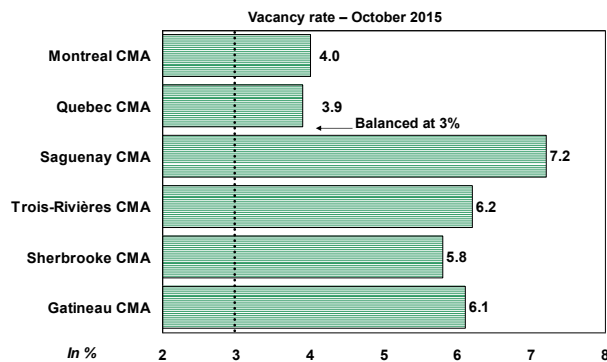
In the conventional rental market, new dwellings sometimes find tenants at the expense of older buildings. The province's vacancy rate actually rose to 4.3% in October 2015 (graphs 3 and 4). The upwards trend is likely to continue next year. This type of construction will have to slow down in Quebec, to keep the vacancy rate from climbing too high. This also holds true for seniors' residences, construction of which has strongly increased this year.

Graph 3 – Quebec's rental market is in a slight surplus position



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

Graph 4 – All of Quebec's major rental markets are in a surplus position



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

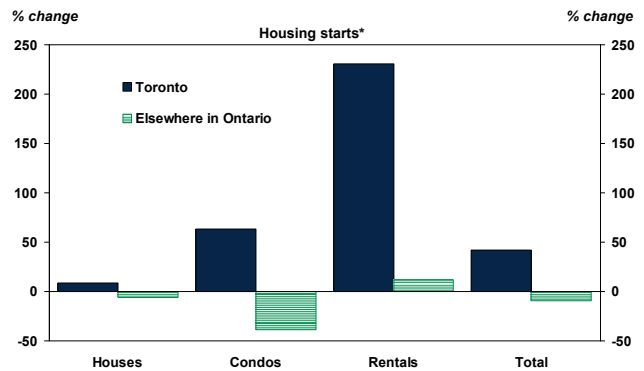
In the condo market, the adjustment period is continuing. In the first nine months of the year, starts plunged by more than 20% compared to the same period last year. Given the large inventory that exists in the new and existing condo market, no recovery is expected in this type of construction in 2016. For the second year in a row, rental apartment construction will outstrip condo construction in Quebec.

**NEW CONSTRUCTION IN ONTARIO:
TORONTO DOMINATES THE GROWTH**

In Ontario, both rental buildings and condos are on the rise. The high price and scarcity of land, and urban planning, are favouring high-density housing, at the expense of new houses that have become too costly for most young households. Condos, being less expensive, are largely dominant in Ontario. Starts of 20,000 units were made during the first nine months of the year, 90% of them in the Greater Toronto Area.

Construction of rental apartments is also escalating in the province, with almost 5,000 dwellings started since the beginning of 2015, around half of them in the Toronto CMA. Ontario's rental vacancy rate is still low: 2.3%. In Toronto, it is even lower: 1.6%. Thus building activity is particularly strong in that urban centre. In other parts of Ontario, new construction is less vigorous. Starts outside Toronto are down by around 10% since the beginning of the year. Only rental apartment construction has seen growth during that period (graph 5). Overall, housing starts in Ontario will exceed the 70,000 mark this year, a jump of 20% compared with 2014. A slight pullback is expected next year, with 65,000 new dwellings.

Graph 5 – Construction of rental apartments in Ontario has clearly been less strong outside Toronto

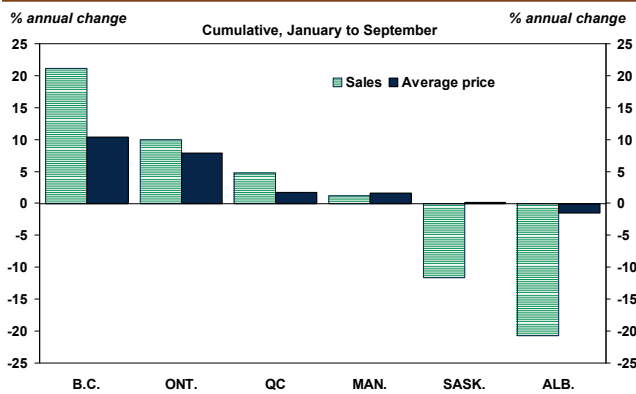


* First nine months of 2015 compared with the same period of 2014.
Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

THE QUEBEC EXISTING HOMES MARKET IS QUIETER

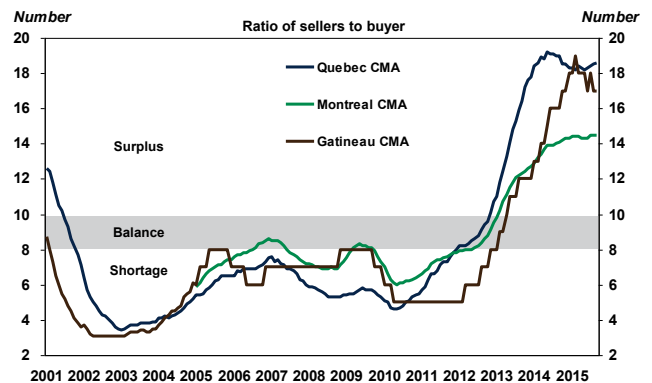
The resale market is quite checkered across the country, reflecting the economic conditions that are prevailing in each province (graph 6). Low oil prices are continuing to affect Alberta, Saskatchewan and Newfoundland and Labrador. The labour market is feeling the impact and property sales and prices are down. In Ontario and British Columbia, job growth and favourable demographics have been generating an increase in sales and prices since the beginning of the year. The rising price trend in Ontario is not exclusive to Toronto; it stands between 5% and 10% in many province's large urban centres.

Graph 6 – The resale market is posting relatively modest growth in Quebec



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

Graph 7 – The existing condo market is clearly in a surplus position



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

In Quebec, an upturn of about 5% in sales is on the drawing board for this year, after several years of decline. Job growth has certainly contributed to this improvement. But the market is still in a slight surplus position due to the ongoing substantial imbalance in favour of condos (graph 7). Buyers have plenty of choice, and sellers sometimes have to make concessions on the selling price. This is limiting the annual price increase of all types of housing to around 1.5%. Thus the resale market is continuing its adjustment process in Quebec, so faster price growth is not expected next year.

Hélène Bégin
Senior Economist

Quebec - Housing Market Outlook 2015-2016

	2011	2012	2013	2014	2015 ^f	2016 ^f
New Housing Market						
New construction (in billion \$)	10.2	10.2	9.0	8.7	8.6	8.7
Annual variation (%)	3.3	0.2	-12.2	-2.3	-1.8	1.4
Housing starts	48,387	47,367	37,758	38,810	36,000	36,000
Annual variation (%)	-5.8	-2.1	-20.3	2.8	-7.2	0.0
House	22,411	21,829	17,100	15,707	14,000	14,300
Annual variation (%)	-13.6	-2.6	-21.7	-8.1	-10.9	2.1
- 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	22,000	21,700
Annual variation (%)	2.2	-1.7	-19.1	11.8	-4.8	-1.4
- Condo¹	15,827	16,017	11,395	12,893	9,600	9,500
Annual variation (%)	20.7	1.2	-28.9	13.1	-25.5	-1.0
- Rental¹	9,055	8,437	8,332	8,939	11,500	11,200
Annual variation (%)	-17.9	-6.8	-1.2	7.3	28.6	-2.6
- Conventional rental²	5,536	5,455	6,635	6,204	7,500	6,500
Annual variation (%)	-20.2	-1.5	21.6	-6.5	20.9	-13.3
- Retirement home²	2,370	1,885	1,411	2,438	3,800	3,500
Annual variation (%)	-17.4	-20.5	-25.1	72.8	55.9	-7.9
Resale market						
Unit sales	77,167	77,373	71,198	70,686	74,200	75,700
Annual variation (%)	-3.6	0.3	-8.0	-0.7	5.0	2.0
Weighted average price (in thousand \$)	254	264	268	271	275	280
Annual variation (%)	4.9	3.9	1.3	1.3	1.5	1.5
Sales volume (in billion \$)	19.5	20.2	18.7	18.8	20.4	21.2
Annual variation (%)	0.7	3.6	-7.3	0.5	8.8	3.5
Other indicators						
Vacancy rate for rental units³ (%)	2.6	3.0	3.1	3.7	4.3	4.8
Average rent³ (in \$)	666	663	679	691	703	716
Annual variation (%)	2.8	-0.5	2.4	1.8	1.7	1.9
Renovation spending⁴ (in billion \$)	11.0	11.4	11.8	12.3	13.4	12.5
Annual variation (%)	3.4	2.9	3.5	4.9	8.7	-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.

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