

SPOTLIGHT ON HOUSING

Housing Sector Activity above Pre-pandemic Level

After tumbling during last spring's lockdown, new construction and sales of existing properties rebounded sharply in Quebec and Ontario. The recovery was fast, and activity even exceeded last February's level. The drop in prices some had projected gave way to faster growth, which increases the risk of eventual overvaluation in certain markets. What can we expect now? COVID-19 is affecting fundamental factors such as employment, interest rates and immigration. The various segments of the housing market are adjusting to the new reality, based on the target clientele.

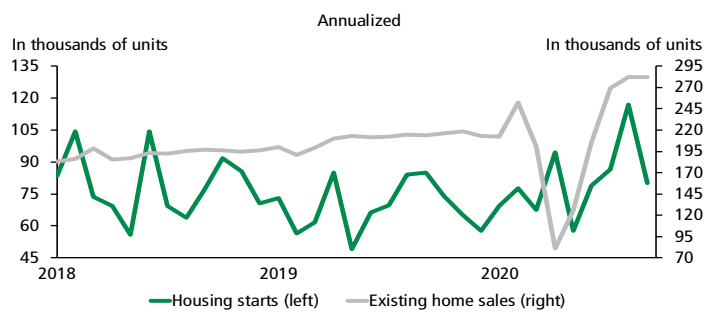
A Slight Lull Will Follow the Rebound

Although residential activity is above pre-pandemic levels, housing starts and home sales have seen a slight lull in Quebec recently (graph 1). September ticked down from the previous month, signalling that the lull has probably begun.

In Ontario, resales stabilized in September after hitting a record peak the month before. However, new construction has evolved differently in Ontario than in Quebec since the pandemic started. Given that residential construction did not completely shut down in Ontario last spring, activity held up and even accelerated over the summer (graph 2). In August, housing starts even flirted with the all-time high reached in February 1987, but then fell about 30% in September.

So far, the results for the first nine months of the year are well ahead of where they were at this time in 2019 (table 1). The performance will also be positive for 2020 as a whole, although

GRAPH 2
Housing starts and sales of existing properties are high in Ontario



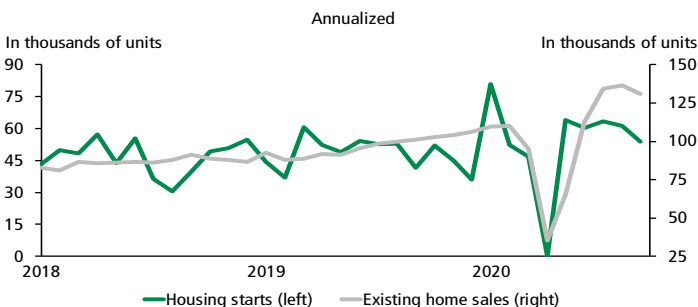
Sources: Canada Mortgage and Housing Corporation, Canadian Real Estate Association and Desjardins, Economic Studies

TABLE 1
The housing market defied the pandemic

HOUSING STARTS	JANUARY TO SEPTEMBER 2019	JANUARY TO SEPTEMBER 2020	VAR.
Quebec	49,404	53,585	8.5%
Ontario	70,107	81,003	15.5%
PROPERTY SALES			
Quebec	74,326	82,185	10.6%
Ontario	163,957	168,390	2.7%
PROPERTY PRICES			
Quebec	\$319,958	\$365,865	14.3%
Ontario	\$601,795	\$691,514	14.9%

Sources: Canadian Real Estate Association, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

GRAPH 1
Housing starts and existing home sales rebounded after Quebec temporarily lifted the lockdown



Sources: Canada Mortgage and Housing Corporation, Canadian Real Estate Association and Desjardins, Economic Studies

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growth will be slightly slower than it has been to date, because of the expected lull. The extraordinary statistics will make way for a more subdued pace in the coming quarters, in both Quebec and Ontario. For activity, the catch-up effect is now behind us and the economic situation is less promising than it was before the pandemic.

No Signs of Overvaluation

The rise in the average price of properties intensified in both provinces. Strong demand combined with low property listings drove prices. Some agglomerations are in overheating territory, particularly Montreal and Ottawa, where prices are also accelerating. However, according to the [Canada Mortgage and Housing Corporation \(CMHC\)](#), none of the major markets in Quebec and Ontario were deemed overvalued in September 2020. This situation refers to prices that have disconnected from key factors such as household income and interest rates. The government measures that drove personal income and the drop in interest rates since the start of the pandemic have so far contained the overvaluation risks in certain livelier markets.

Key Factors Evolving

Although substantial progress has been made since last spring, the Quebec and Ontario economies have not yet recouped all the ground lost, and the unemployment rate is still higher than it was last winter (table 2). Quebec's unemployment rate went up in October, reflecting the closure of some types of businesses in specific regions that are at the highest alert level. Uncertainty has notched up since the second wave began. The economy is still fragile and the federal government's measures to support individuals have been more targeted since the end of September. This will impact household income and, for some, could increase financial strain. The housing sector will be affected by a slight erosion in the employment market this fall, as well as more limited government assistance.

TABLE 2
The unemployment rate has moved off last spring's peak, but rose in October in Quebec

UNEMPLOYMENT RATE	FEBRUARY 2020	PEAK SPRING 2020	SEPTEMBER 2020	OCTOBER 2020
Quebec	4.5%	17.0% (April)	7.4%	7.7%
Ontario	5.5%	13.6% (May)	9.5%	9.6%

Sources: Statistics Canada and Desjardins, Economic Studies

Moreover, key interest rates are at the lower bound, 0.25%, and the Bank of Canada has confirmed that they should not rise before 2023. This means that variable mortgage rates and rates on credit lines will remain low until then. Fixed mortgage rates continued to decline last summer on the drop in bond yields in the financial markets. Some stability is expected in the months to come, however. While the cost of credit is favourable, other factors will rein in the Quebec and Ontario housing sectors.

Decline in Immigration: Impact on the Rental Market

Beyond the economic situation, COVID-19 has substantially reduced immigration. The closing of borders and fears associated with the pandemic have kept many foreign students and workers from coming to Canada. The Quebec government recently adjusted its immigration targets due to the negative effects since the pandemic started. In 2020, about 15,000 fewer people will be admitted to Quebec compared with the original target (table 3). Some of the lag should be made up next year, with an additional 7,000 immigrants. The official target for 2021 is therefore 44,500 to 47,500 arrivals, according to the [Québec Immigration Plan](#).

TABLE 3
Number of immigrants to Quebec decreased by COVID-19

NUMBER OF PERSONS	RESULTS	MINIMUM	MAXIMUM
2018	51,123	---	---
2019	40,565	---	---
2020 – Plan target	---	43,000	44,500
2020 – On track	---	25,600	30,500
2021 – Plan target	---	44,500	47,500

Sources: Quebec Government, Ministère de l'Immigration, de la Francisation et de l'Intégration and Desjardins, Economic Studies

In the meantime, in some locations, the rental market must adjust to the drop in clients from abroad. Places that usually receive many foreign workers and major centres with university campuses are the most affected. Also, students in the regions are less mobile: they have postponed their moving plans and are studying remotely. Rental sub-markets with high concentrations of students and foreign workers are more vulnerable than the rest. Given the low vacancy rates that prevailed in several of the major centres before the pandemic started, some seem to be able to absorb a temporary drop in the number of immigrants.

Another type of client has been supporting rental demand since the start of the pandemic: Quebecers of a certain age who have put off their plans to move to senior housing. Conventional rental apartments that are well located and close to services are preferred in several places, and some building owners are having no difficulty finding tenants despite weak immigration.

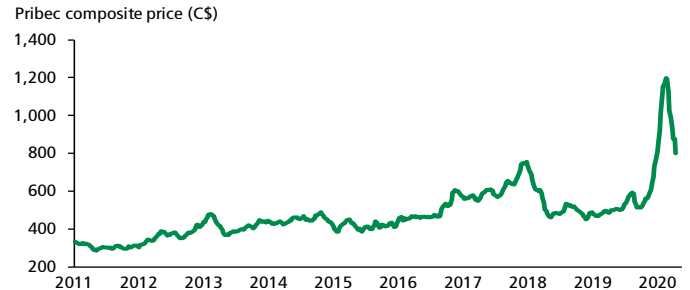
Others seem harder hit. The next CMHC survey will shed more light; conducted this fall, it will reveal the vacancy rates for rental housing in various markets.

The pandemic's consequences are more immediate for senior housing. Demand has weakened and new construction has already adjusted sharply to the drop in this segment. For January to September 2020, construction starts are about 40% lower than in the same period last year. They should continue to decline in 2021 (table 4 on page 4), as the pandemic has profoundly disrupted this industry, which will have a hard time recovering. Independent seniors are choosing to remain in a single-family home longer, or opt for condos or conventional rental apartments.

New Housing Prices Have Climbed

In September, in Canada, [new housing](#) have climbed in most markets, with Ottawa and Montreal leading the way (graph 3). For Quebec and Ontario, annual growth is more limited given the smaller agglomerations. The situation is very different outside of Montreal and even Gatineau (graph 4). Given that lumber prices have fallen since September (graph 5), the rise in new housing prices could ebb as of October, but will remain fairly high compared with pre-pandemic levels.

**GRAPH 5
Lumber prices skyrocketed, but have edged down since September**



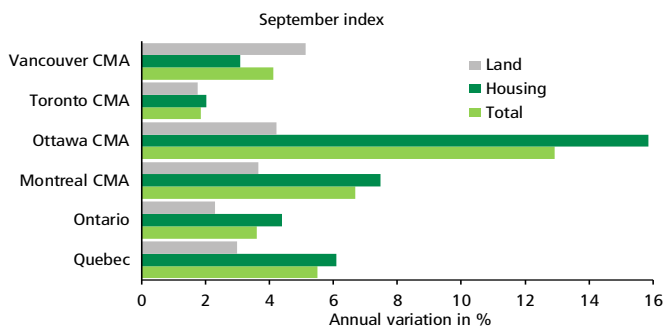
Source: Conseil de l'industrie forestière du Québec

According to a recent [study](#) by Statistics Canada, new housing prices were already rising quickly in some markets prior to the pandemic due to the limited supply of existing properties for sale. The rise then accelerated due to the accumulated lag on housing starts and boom in renovation. Safety protocols also inflated construction costs. Moreover, last spring's decline in sawmill production led to a shortage of lumber and construction materials. According to Statistics Canada, "Homebuilders report that record high lumber prices this year will likely add an extra \$5,000 to \$10,000 to the cost of a single-family house."

The price factor will have a negative impact on future demand for new homes. It will struggle to maintain the pace in the coming months. Although the cost of credit is favourable, the rise in the unemployment rate and lower income support from the federal government will also rein in the housing sector as of this fall in Quebec and Ontario.

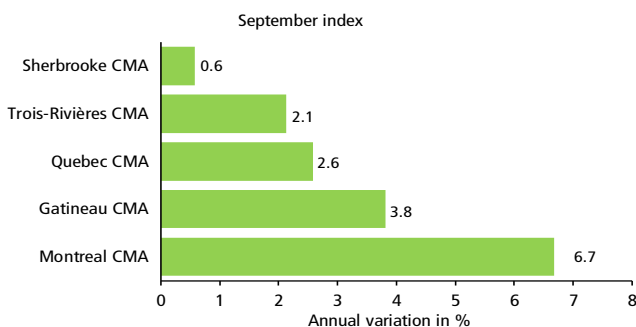
Hélène Bégin, Senior Economist

**GRAPH 3
New housing prices have gone up almost nationwide in the last year**



CMA: Census Metropolitan Area
Sources: Statistics Canada and Desjardins, Economic Studies

**GRAPH 4
The increase in new housing prices in the last year differs by Quebec CMA**



CMA: Census Metropolitan Area
Sources: Statistics Canada and Desjardins, Economic Studies

TABLE 4
Quebec housing market outlook 2020–2021

	2017	2018	2019	2020f	2021f
New Housing Market					
New construction (\$B)	10.3	12.0	11.7	12.3	11.5
Annual variation (%)	14.5	16.1	-1.9	4.7	-6.5
Housing starts	46,495	46,874	47,967	53,000	47,000
Annual variation (%)	19.4	0.8	2.3	10.5	-11.3
House	15,364	14,968	13,742	14,500	14,000
Annual variation (%)	-0.5	-2.6	-8.2	5.5	-3.4
Single-detached	10,711	10,060	8,989.0	---	---
Annual variation (%)	-0.2	-6.1	-10.6	---	---
Semi-detached	2,819	2,995	2,966.0	---	---
Annual variation (%)	2.1	6.2	-1.0	---	---
Row housing unit	1,834	1,913	1,787.0	---	---
Annual variation (%)	-5.3	4.3	-6.6	---	---
Apartment	31,131	31,906	34,225	38,500	33,000
Annual variation (%)	32.5	2.5	7.3	12.5	-14.3
Condo¹	10,804	9,860	8,172	8,150	7,500
Annual variation (%)	37.6	-8.7	-17.1	-0.3	-8.0
Rental¹	19,256	20,503	24,861	27,000	24,000
Annual variation (%)	36.5	6.5	21.3	8.6	-11.1
Conventional rental²	13,506	16,752	21,536	25,000	22,200
Annual variation (%)	28.0	24.0	28.6	16.1	-11.2
Retirement home²	5,520	3,565	3,159	2,000	1,800
Annual variation (%)	60.3	-35.4	-11.4	-36.7	-10.0
Resale market					
Unit sales	82,537	86,451	96,636	105,100	100,550
Annual variation (%)	5.6	4.7	11.8	8.8	-4.3
Weighted average price (\$k)	293	308	324	371	392
Annual variation (%)	4.5	5.2	5.2	14.6	5.6
Sales volume (\$B)	24.1	26.3	30.5	39.0	39.4
Annual variation (%)	10.6	9.1	15.8	27.8	1.1
Other indicators					
Vacancy rate for rental units³ (%)	3.4	2.3	1.8	2.8	3.2
Average rent³ (\$)	736	761	800	820	836
Annual variation (%)	1.2	3.4	5.1	2.5	2.0
Renovation spending⁴ (\$B)	13.8	13.5	14.7	13.0	14.5
Annual variation (%)	8.9	-2.5	9.0	-11.6	11.5

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