

November 27, 2013

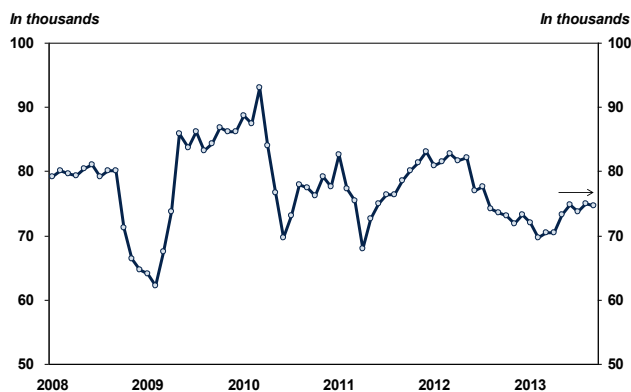
Quebec's residential sector has cooled more than in Ontario

While existing property sales and housing starts in Quebec may have stabilized in recent months, 2013 was punctuated by a marked decline. Quebec recorded a sharper decline in activity than that observed in Ontario and across Canada. Prices have shifted in different directions as well. The recovery in home sales is exerting upward pressure on average prices in neighbouring Ontario and Canada, as a whole. In Quebec, prices seem to have levelled off and price declines in the condo market are already underway. What does 2014 have in store for the market? The adjustment period in Quebec should give way to some stabilization. Elsewhere in Canada, the housing market has to cool down to mitigate the risk of an overheated market. One question remains, however: Will the federal government once again tighten the rules on mortgage loans to calm the market?

SLOWDOWN IN QUEBEC'S RESALE MARKET

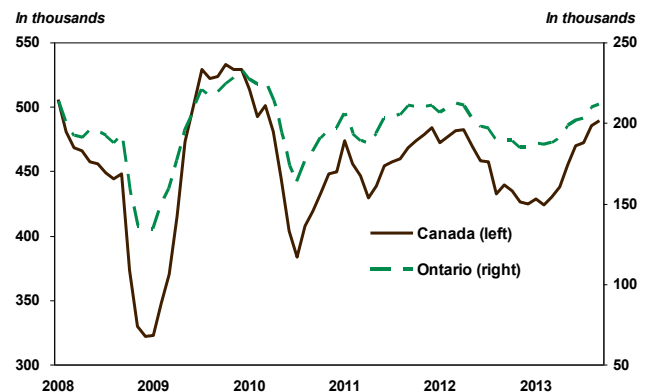
Existing property sales in Quebec is tracking a different path compared to Ontario and Canada (graphs 1 and 2). Some stagnation in Quebec has been noted in recent months, although an 8.5% decline marked the first 10 months of the year. The lull observed elsewhere in Canada has recently given way to a strong rally in sales. Since the start of 2013, the total number of sales in Ontario and Canada shows a level of activity similar to 2012.

Graph 1 – Existing property sales in Quebec have been fairly stable in recent months



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

Graph 2 – Existing property sales are once again bustling in Ontario and Canada



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

Overall, both of these markets are dealing with a slight shortage, pushing prices up above the rate of inflation. Since the start of 2013, average price advances have hovered around 4.5% in Ontario and Canada. The inflation rate in Ontario is close to 2%, and closer to 1% in Canada. The increase in the cost of living in Quebec is similar to that seen across Canada, but price variances are in the area of 2%.

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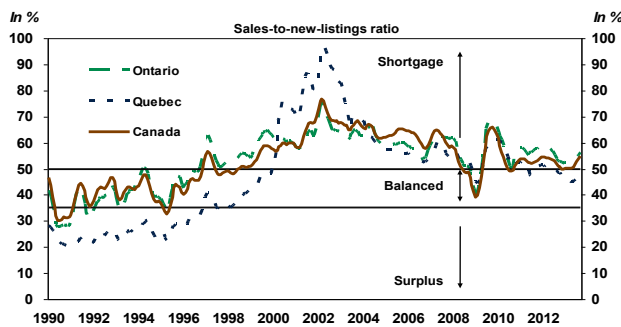
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NOTE TO READERS: The letters K, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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The fact that Quebec's market is balanced overall (graph 3) is tempering price increases, which are flaring up at a slower pace than across the country. Some disparities can be seen between the Quebec's main metropolitan areas, however. Since the start of 2013, total average price advances have exceeded 4% in Quebec City and Sherbrooke, with increases of about 3% in Saguenay. Total price increases reached 1.9% in Trois-Rivières, 1.6% in Gatineau and 1.3% in Montreal.

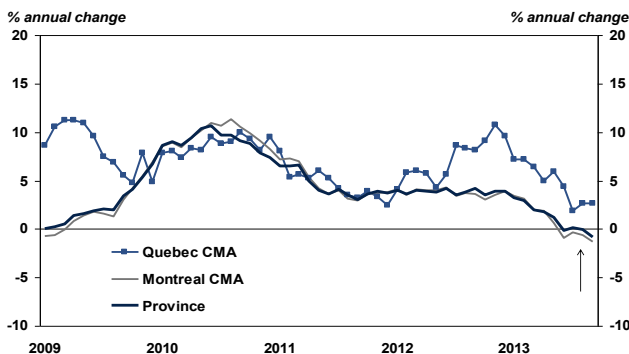
Graph 3 – The resale market is balanced in Quebec, but posts a slight shortage in Ontario and Canada



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

Upward pressure on home prices is easing across the province, but a decline is not in the cards. However, condo prices have stopped climbing across Quebec and a slight pullback has even begun in Montreal (graph 4). The drop in new construction occurred too late to prevent price declines, but this should help prevent a sharp correction.

Graph 4 – Average condo prices¹ in Quebec are starting to fall



¹Six-month moving average.
Sources: Fédération des chambres immobilières du Québec and Desjardins, Economic Studies

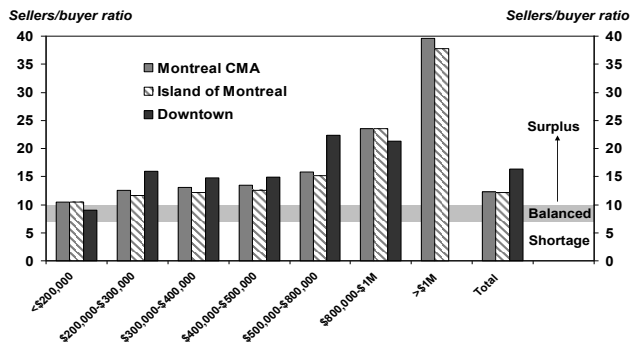
Even if more condos than other types of dwellings have been built in recent years, condominiums represent about 25% of all residential sales in Quebec City, 30% in Montreal and 20% in the rest of Quebec. If this market were to depreciate, it would not be enough to trigger declines in average prices for all types of properties in Quebec. The market for single-family homes will actually save the day.

So what can we expect in 2014? Unless the federal government further tightens rules on mortgage loans, property purchases should stay at their current level. Improvements in the labour market will drive demand, but an increase in mortgage rates will lower demand. The rate posted for a five-year term—currently at 5.34%—could edge up closer to 6% by the end of 2014. If property sales remain fairly steady and the market stays in the balanced zone, average price advances in Quebec will again be in the area of 2% next year.

**NEW CONSTRUCTION:
NO RECOVERY ON THE HORIZON**

For the past six months, annualized housing starts in Quebec have hovered between 35,000 and 40,000 units. Despite this stability, new construction plunged more than 20% between January and October 2013, compared with the same period in 2012. Housing starts in Ontario have ranged between 60,000 and 70,000 units for the past six months. The total decline since the start of the year also exceeds 20%. Across the country, the decline—at close to 15%—is not quite as steep. The lull observed in Quebec and Ontario is affecting all market segments: single-family homes, semi-detached and row houses, rental units and, especially, condominiums. The decline in this type of housing since the start of 2013 is close to 30% in Quebec and 40% in Ontario. Both provinces are currently in an adjustment period, which will make it easier to liquidate the new units that have yet to find takers.

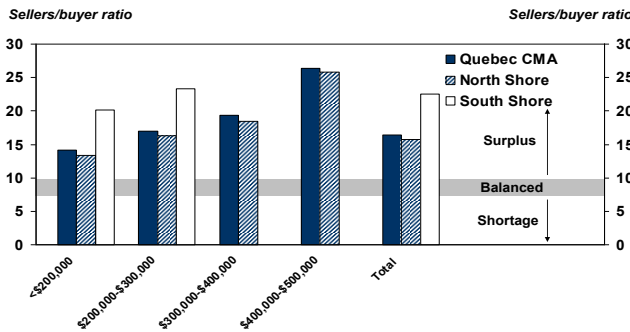
Graph 5 – Surplus in Montreal’s resale condo market in several price ranges¹



¹High-end is \$800,000 or more for the Montreal CMA, and \$1M+ for the Island of Montreal.
Sources: Fédération des chambres immobilières du Québec and Desjardins, Economic Studies

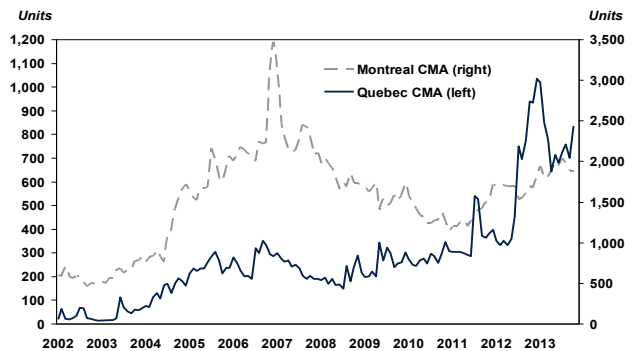
Condo construction is not on the verge of rebounding in Quebec, given the price declines currently taking hold in Montreal, and a decline could soon affect the market in Quebec City and Gatineau due to the persistent surplus of resale properties (graphs 5, 6 and 7). The price correction will dampen the frenzy shown by developers, who have already started to shelve certain projects, until demand recovers. 2014 should see housing starts stabilize. Even if few large-scale projects break ground next year, several are now under construction. A break is just what is needed for the market to improve. The condo construction market is also experiencing an adjustment, now that the number of unsold units has fallen from its peak (graph 8). This may be a step in the right direction, but the inventory level is still high.

Graph 6 – Condo resale market in Quebec: the degree of saturation rises in step with prices¹



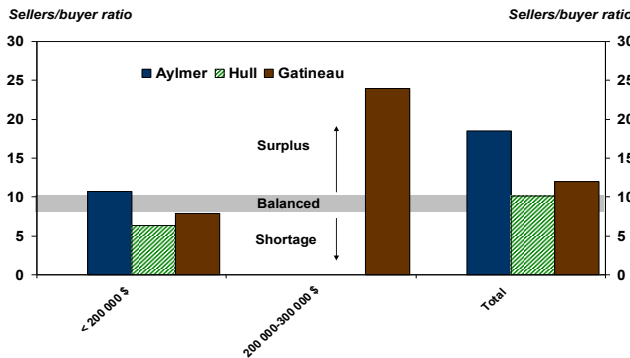
¹High-end is \$400,000 or more for the Quebec CMA.
Sources: Fédération des chambres immobilières du Québec and Desjardins, Economic Studies

Graph 8 – The number of completed and unsold condos has fallen from its peak



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

Graph 7 – The state of the resale condo market in Gatineau is variable



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

Hélène Bégin
Senior Economist

Quebec - Housing Market Outlook 2013-2014

	2010	2011	2012	2013f	2014f
New Housing Market					
New construction (in billion \$)	9.8	10.2	10.2	8.8	9.3
Annual variation (%)	17.1	3.3	0.2	-13.7	5.7
Housing starts	51,363	48,387	47,367	37,000	37,000
Annual variation (%)	18.3	-5.8	-2.1	-21.9	0.0
House	25,937	22,411	21,829	16,500	16,700
Annual variation (%)	14.7	-13.6	-2.6	-24.4	1.2
- Single-detached	19,549	16,554	16,059	-	-
Annual variation (%)	11.5	-15.3	-3.0	-	-
- Semi-detached	4,359	4,002	3,866	-	-
Annual variation (%)	26.8	-8.2	-3.4	-	-
- Row housing unit	2,029	1,855	1,904	-	-
Annual variation (%)	24.2	-8.6	2.6	-	-
Apartment	25,426	25,976	25,538	20,500	20,300
Annual variation (%)	22.3	2.2	-1.7	-19.7	-1.0
- Condo¹	13,111	15,827	16,017	11,700	11,675
Annual variation (%)	31.3	20.7	1.2	-27.0	-0.2
- Rental¹	11,032	9,055	8,437	8,000	8,100
Annual variation (%)	16.1	-17.9	-6.8	-5.2	1.3
- Conventional rental²	6,941	5,536	5,455	5,500	5,600
Annual variation (%)	10.7	-20.2	-1.5	0.8	1.8
- Retirement home²	2,869	2,370	1,885	1,500	1,600
Annual variation (%)	30.2	-17.4	-20.5	-20.4	6.7
Resale market					
Unit sales	80,027	77,167	77,381	71,000	71,500
Annual variation (%)	1.2	-3.6	0.3	-8.2	0.7
Weighted average price (in thousand \$)	242	254	264	269	274
Variation annuelle (%)	7.9	4.9	3.9	1.7	1.9
Sales volume (in billion \$)	19.3	19.5	20.2	19.1	19.6
Annual variation (%)	8.4	0.7	3.7	-5.5	2.6
Other indicators					
Vacancy rate for rental units³ (%)	2.7	2.6	3.0	3.1	3.2
Average rent³ (in \$)	648	665	670	683	696
Annual variation (%)	4.0	2.6	0.7	2.0	1.9
Renovation spending (in billion \$)	14.2	14.6	15.0	15.6	15.2
Annual variation (%)	1.8	3.1	2.9	3.7	-2.6

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.

Sources: Canada Mortgage and Housing Corporation, Canadian Real Estate Association, Québec Federation of Real Estate Boards, Statistics Canada and Desjardins, Economic Studies