SPOTLIGHT ON HOUSING

Activity Remains Strong in Quebec and Regains Strength in Ontario

Residential real estate in Quebec is still hot. Existing property sales and prices continue to rise such that both will hit a new high this year. Underpinning the activity is strong job creation. Certain mortgage rate cuts last summer also seem to have stimulated the residential market. In Ontario, the same factors are firmly behind the recovery in property sales and prices. Furthermore, Montreal and Ottawa are still overheated, and the number of bidding wars is increasing in several areas.

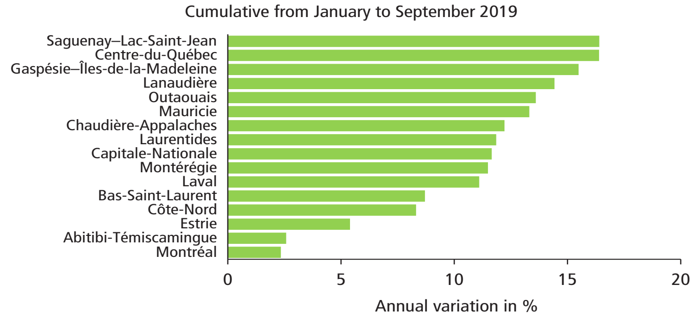
Regional Sales Are Also Buoyant

Even if Montreal's residential real estate frenzy regularly makes the headlines, the period of growth is widespread throughout Quebec. Sales and average prices are posting strong gains in each of the administrative regions (graphs 1 and 2), except for Côte-Nord, which has seen prices in 2019 drop slightly so far. Provincially, the number of sales will hit a new high in 2019, with 95,000 transactions concluded through a real estate agent. Prices will rise nearly 5% to reach $323,000 on average this year.

The increase in average prices in recent years has considerably reduced affordability, especially in Montreal, leaving many buyers discouraged.[1] Since the fall, the Canada Mortgage and Housing Corporation (CMHC) has been offering first-time home buyers financial assistance in the amount of 5% of the mortgage for existing properties. This reduces the monthly payments for the households that qualify for the federal program. Until now, the number of approved loans under this program has been relatively low in Quebec. The program's terms and conditions are such that it only applies to a small number of buyers.

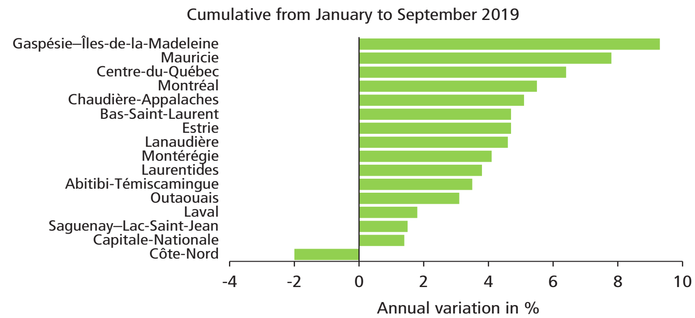
What can we expect in 2020? Given that the international uncertainty is causing interest rates to stay low, the gains made in the residential market should continue next year. Still, the improvement will be more modest than in 2019. Less sustained economic growth is expected to slow down job creation. The number of sales in Quebec could rise 5% in 2020 compared to

GRAPH 1
Existing property sales: Widespread gains throughout Quebec's regions



Sources: Quebec Professional Association of Real Estate Brokers by the Centris system and Desjardins, Economic Studies

GRAPH 2
Average sale price: Hike exceeds 5% in several regions throughout Quebec



Sources: Quebec Professional Association of Real Estate Brokers by the Centris system and Desjardins, Economic Studies

[1] *Accessibility Shrinks Across Canada*, Desjardins, Economic Studies, *Desjardins Affordability Index*, November 14, 2019, 2 p.

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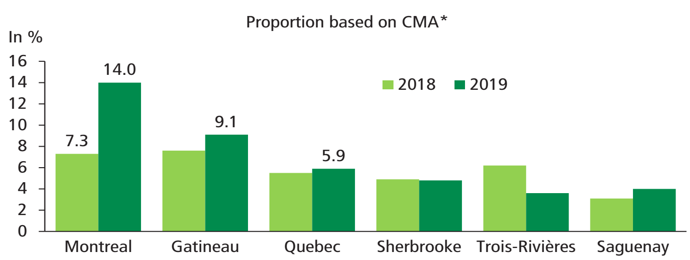
roughly 10% in 2019. The increase in average prices will reach 3.0% next year after about 5% this year.

Bidding Wars on the Rise

The number of transactions concluded through a bidding war is on the rise in several areas of Greater Montreal. Many offers are often made in a short period of time such that the sale price is often higher than the asking price. The most recent data released, which goes back to March 2019[2], already confirmed that overheating had risen in the space of a year in Montreal.

The phenomenon is there to varying degrees in all six of the province's metropolitan regions (graph 3). Still, its extent has climbed rapidly in the Montreal Census Metropolitan Area (CMA). In some areas, roughly 30% of the sales of single-family dwellings were sold above asking. This was especially the case in Pointe-Claire, Kirkland, Beaconsfield, Rosemont–La-Petite-Patrie and Villeray–Saint-Michel–Parc-Extension. Once an update is available, the chances are high that the cases of a bidding war will still be widespread in Montreal. Although the phenomenon is less obvious in the Gatineau and Quebec CMAs, it has probably increased there, too.

GRAPH 3
Bidding wars affect main centres

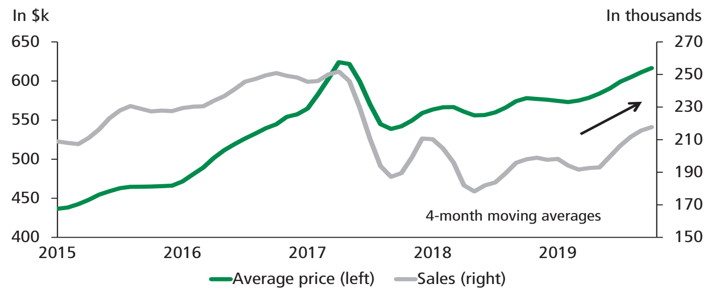


* Period of one year beginning in March of the previous year.
CMA: Census Metropolitan Area
Sources: Quebec Professional Association of Real Estate Brokers by the Centris system and Desjardins, Economic Studies

Ontario Recovers

Ontario's residential real estate market has evolved differently in the last two years. The first wave of sales and price corrections occurred in 2017 when the 15% foreign buyers tax was introduced in the Greater Toronto Area (graph 4). The second wave followed in 2018 after stricter qualification rules were applied to buyers with no access to mortgage insurance. The high prices in several Ontario municipalities has been such that activity slowed after the new federal rule. The resale market reached a cyclical low in 2018, but the recovery has been ongoing ever since. A healthy Ontario economy and strong

GRAPH 4
Ontario's residential market is starting to climb



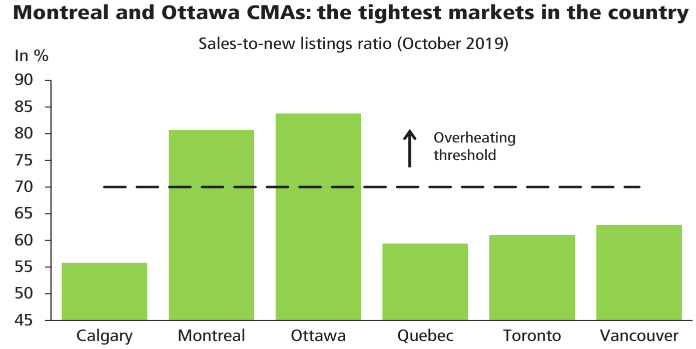
Sources: Canadian Real Estate Association and Desjardins, Economic Studies

job creation have both had a positive impact. The cut in some mortgage rates last summer helped boost the residential sector. This upward trend will continue. Sales and prices will increase moderately next year, and activity will be more intense in some markets. The renewed strength of existing property sales has led to an increase in new builds in recent months. This trend should continue, with housing starts expected to rise 10% in Ontario in 2020.

Montreal and Ottawa Overheat

Overheating occurs when demand for housing is much too high in relation to the pool of properties on the market, thereby leading to a rapid increase in prices. This is the case in Montreal and Ottawa (graph 5). During the first ten months of 2019, the cumulative increase in prices reached 5.8% in the metropolis and 7.9% in the federal capital. The CMHC defines overheating as a sales-to-new listings ratio of more than 70%.

GRAPH 5
Montreal and Ottawa CMAs: the tightest markets in the country



CMA: Census Metropolitan Area
Sources: Canadian Real Estate Association, Quebec Professional Association of Real Estate Brokers by the Centris system and Desjardins, Economic Studies

Two years ago, Toronto and Vancouver found themselves in this same situation and showed signs of overvaluation. A market is considered overvalued when price levels are not supported by such fundamental factors as income, interest rates and demography. After two successive market corrections due to the

[2] Sales Above the Asking Price: An Increasingly Present Phenomenon in Quebec, Quebec Federation of Real Estate Boards, *A Word from the Economist*, May 2019, 5 p.

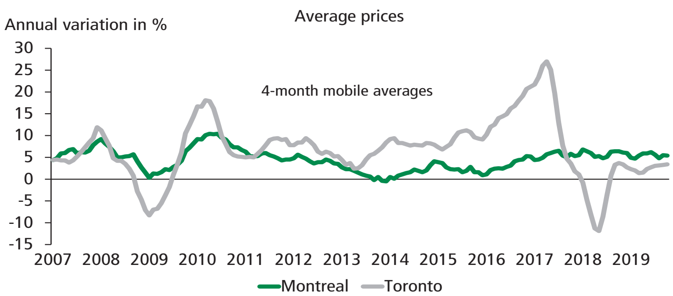
various government regulations and high property prices, the tension has gone down a notch in these two markets. The signs of overheating have disappeared, and the rating of overvaluation has now moderated in Vancouver and dropped in Toronto.[3]

Will Montreal See a Correction?

Prices in Montreal haven't climbed as crazily as they did in Toronto a few years ago. They are still much, much lower, being at $415,501 in Montreal and $838,215 in Toronto, in October. Approximately 10% of the condos downtown were bought by non-residents according to CMHC compared to less than 2% in Greater Montreal, all types of housing combined. Montrealers are mainly supporting the real estate market, but some of the pressure is coming from foreign buyers.

According to the CMHC, the degree of overvaluation remains low in Montreal. Montreal's market is far from being as problematic as Toronto's was two years ago. Still, the speed at which prices have risen has been slower compared to what Toronto experienced before the correction in 2017 (graph 6). Should we worry about prices dropping in Montreal? As long as the economy, job creation and interest rates remain favourable, activity will be sustained. Apart from stricter regulation, only a massive economic shock could destabilize the Montreal real estate market. For now, the risk of this happening remains fairly low.

GRAPH 6
Existing property prices: the Montreal CMA did not experience Toronto's dizzying hike

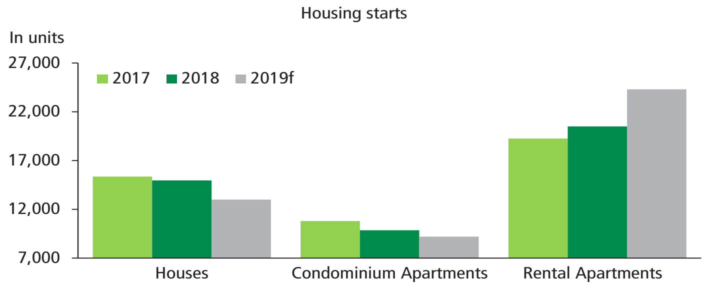


CMA: Census Metropolitan Area
Sources: Canadian Real Estate Association, Quebec Professional Association of Real Estate Brokers by the Centris system and Desjardins, Economic Studies

New Builds Soar in Quebec

The strength of the housing starts has thwarted the prognostics for 2019 due to the surge in the rental market (graph 7). Conventional apartments as well as those in seniors' residences are the two market segments that are growing. This is the case across the province, but also in Montreal and Quebec CMAs. According to the CMHC, since the beginning of 2019, rental apartment starts in these two CMAs have reached their highest level in 30 years. This strength is built on, among other things, an aging population that is inflating the demand for traditional rental housing and for seniors' residences. The inflow of foreign students and workers, which is improving Quebec's net migration, also explains the keen interest in the rental market.

GRAPH 7
Rental apartments are sole niche growing in residential construction in Quebec



f: forecasts by Desjardins
Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

The opposite is happening in segments aimed at owner-occupants. The construction of new single-family, semi-detached and row houses is definitely down. The high land prices, land scarcity and higher construction costs are causing new housing to be less affordable. The CMHC can grant first-time home buyers financial assistance up to 10% of the value of the mortgage on a new property.

Given that the level of construction in the rental market should stabilize next year and that the other market segments will not be able to pick up the slack, total housing starts will be limited to 47,000 in 2020 compared with 50,000 in 2019 (table 1 on page 5).

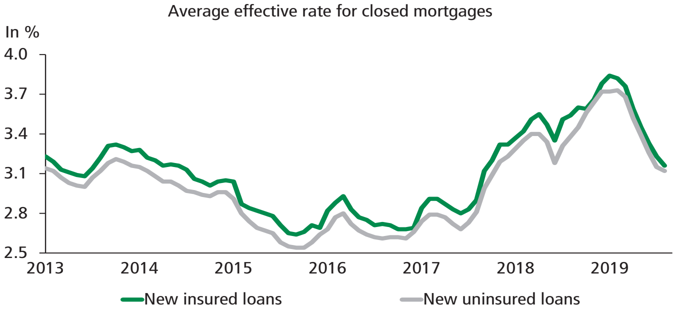
Interest Rates Expected to Remain Low

The persistent uncertainty internationally, especially because of the trade war between China and the United States (which caused tariffs to escalate since 2018), has had major repercussions on interest rates in North America. Despite the discussions between the two superpowers, it remains unclear as to whether an agreement will be reached soon, and the slightest rumour about the outcome of the negotiations causes the financial markets to react.

Despite the frequent ups and downs, bond yields remain relatively low, which is keeping fixed mortgage rates low (graph 8 on page 4). As a result, the global economy's struggles are prolonging the period of low property financing costs. No changes are expected in 2020. The same thing goes for variable mortgage rates and credit margins with interest rates that vary based on the Bank of Canada's (BoC). Key rates in Canada remained stable this year despite the three cuts imposed in the United States (graph 9 on page 4).

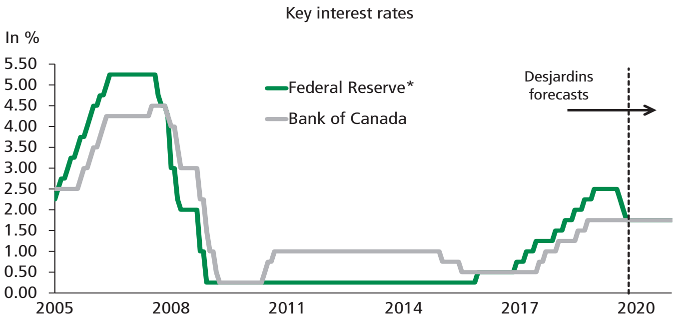
[3] *Housing Market Assessment*, Canada Mortgage and Housing Corporation, November 7, 2019, 10 p.

GRAPH 8
Mortgage interest rates in Canada dipped in 2019 after increasing for the last two years



Source: Bank of Canada and Desjardins, Economic Studies

GRAPH 9
Interest rates should remain stable in Canada despite U.S. cuts in 2019



* Upper limit of federal fund rates.
Sources: Datastream and Desjardins, Economic Studies

Still, the BoC has opened the door to a possible cut if the Canadian economy deteriorates too much due to the global economy's difficulties. The evolving trade relationship between China and the United States will determine which way interest rates head. In Quebec as in Ontario, as along as the economy remains robust and employment grows, low borrowing costs will continue to stimulate the residential sector. Nonetheless, if economic growth were to slow more than forecast for 2020, the housing market would follow suit.

Hélène Bégin, Senior Economist

TABLE 1

Quebec housing market outlook 2019–2020

	2016	2017	2018	2019f	2020f
New housing market					
New construction ($B)	**9.0**	**10.3**	**12.0**	**11.8**	**11.1**
Annual variation (%)	7.2	14.5	16.1	-1.4	-5.9
Housing starts	**38,935**	**46,495**	**46,874**	**50,000**	**47,000**
Annual variation (%)	2.7	19.4	0.8	6.7	-6.0
House	**15,435**	**15,364**	**14,968**	**14,000**	**12,000**
Annual variation (%)	13.6	-0.5	-2.6	-6.5	-14.3
Single-detached	***10,737***	***10,711***	***10,060***	---	---
Annual variation (%)	*10.7*	*-0.2*	*-6.1*	---	---
Semi-detached	***2,761***	***2,819***	***2,995***	---	---
Annual variation (%)	*4.2*	*2.1*	*6.2*	---	---
Row housing unit	***1,937***	***1,834***	***1,913***	---	---
Annual variation (%)	*55.6*	*-5.3*	*4.3*	---	---
Apartment	**23,500**	**31,131**	**31,906**	**36,000**	**35,000**
Annual variation (%)	-3.4	32.5	2.5	12.8	-2.8
Condo [1]	***7,849***	***10,804***	***9,860***	***9,200***	***8,300***
Annual variation (%)	*-18.0*	*37.6*	*-8.7*	*-6.7*	*-9.8*
Rental [1]	***14,105***	***19,256***	***20,503***	***25,000***	***25,000***
Annual variation (%)	*3.8*	*36.5*	*6.5*	*21.9*	*0.0*
Conventional rental [2]	***10,552***	***13,506***	***16,752***	***21,000***	***21,000***
Annual variation (%)	*14.5*	*28.0*	*24.0*	*25.4*	*0.0*
Retirement home [2]	***3,443***	***5,520***	***3,565***	***4,000***	***4,000***
Annual variation (%)	*-15.8*	*60.3*	*-35.4*	*12.2*	*0.0*
Resale market					
Unit sales	**78,139**	**82,541**	**86,557**	**95,000**	**99,775**
Annual variation (%)	5.4	5.6	4.9	9.8	5.0
Weighted average price ($k)	**280**	**293**	**308**	**323**	**332**
Annual variation (%)	3.0	4.5	5.2	4.8	3.0
Sales volume ($B)	**21.9**	**24.1**	**26.4**	**30.6**	**33.2**
Annual variation (%)	8.4	10.6	9.2	16.2	8.2
Other indicators					
Vacancy rate for rental units[3] (%)	**4.4**	**3.4**	**2.3**	**2.5**	**2.8**
Average rent[3] ($)	**727**	**735**	**760**	**787**	**815**
Annual variation (%)	2.1	1.1	3.4	3.6	3.6
Renovation spending[4] ($B)	**12.7**	**13.8**	**13.5**	**14.5**	**15.0**
Annual variation (%)	2.2	8.9	-2.5	7.5	3.4

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, Quebec Professional Association of Real Brokers by the Centris system, Statistics Canada and Desjardins, Economic Studies