

## HOUSING MARKET OUTLOOK

## Québec CMA



Canada Mortgage and Housing Corporation

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## Economic boom losing steam

The economic boom registered in the Québec census metropolitan area (CMA) in recent years is losing steam. Employment growth, which averaged at 3 per cent per year between 2001 and 2005, took a break in 2006, partly as a result of the slowdown in the construction. For 2007 and 2008, it is expected that growth will be below 1 per cent. A less vigorous job market will result in lower net migration in the area, as workers from outside the CMA will be less attracted by the Québec area. At the same time, inventories of properties for sale and dwellings for rent are being replenished. In this context, the downward trend in residential construction will continue, the growth

in property prices will return to more modest levels, and the shortage of rental housing will continue to ease. But it is important to underline that this slowdown will take place gradually, allowing the different players on the supply side of the housing market to adjust.

After having posted an employment growth rate almost twice as high as the provincial rate at the beginning of the current decade, the area will shift to a slower pace. In fact, the employment level practically stabilized in the Québec area in 2006, and it is anticipated that employment will grow by just 0.4 per cent (1,400 jobs) in

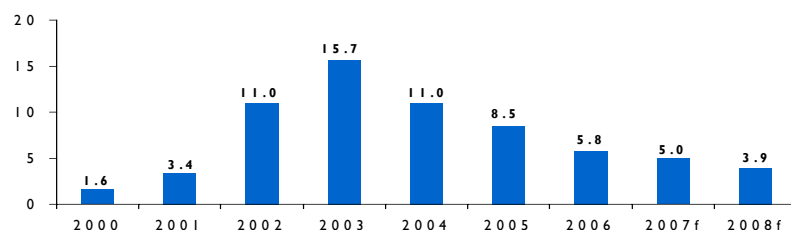
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Figure 1

## Growth in Prices to Moderate

Change in Average MLS® Prices (%) – Québec Area

Source: Chambre immobilière de Québec  
f: Forecasts  
Compilation and forecasts: CMHC

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2007 and 0.8 per cent (3,000 jobs) in 2008. It should be recalled that, between 2001 and 2005, more than 10,000 jobs were created on average every year. In 2007 and 2008, the new jobs will be concentrated in the service sector. The manufacturing sector, for its part, will experience difficulties on account of the strong Canadian dollar, international competition and high prices for raw materials and energy. The construction sector will also be affected by the decline in housing starts.

Despite this more modest employment growth, the Québec area economy will remain robust. With an unemployment rate below 6 per cent, the local economy can still be considered in a full employment situation. Over the coming months, the area will benefit from investments related to Québec City's 400th anniversary celebrations and the effects of the pay equity settlement by the Government of Quebec. As a result of this settlement, affected employees will receive an average of \$5,300 at the end of March 2007, for a total of \$1.9 billion for the province overall. Since the Québec area accounts for around one third of the provincial public service jobs, this will have a non-negligible impact on consumer spending.

Over the forecast period, the housing market slowdown will be tempered by continued low mortgage rates. In fact, a combination of a slowing economy, strong Canadian dollar vis-à-vis the U.S. dollar and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2008. Short-term mortgage rates will also ease as the prime rate nudges down over the

next twelve months, while long-term mortgage rates will rise slightly in line with bond rates. One-, three- and five-year posted mortgage rates are forecast to be in the 5.75-6.75, 6.00-7.00 and 6.25-7.25 per cent ranges, respectively, over the rest of this year and in 2008.

### **Resale market will remain vigorous**

In the Québec area, the resale market got off to a strong start in 2007. In fact, during the first quarter of 2007, sales recorded through the Service inter-agences / Multiple Listing Service (S.I.A. / MLS)<sup>®</sup> network rose by 10 per cent. However, it is unlikely that this pace will be maintained over the coming months, given the weaker job market and ever-rising prices. Sales are forecast to reach 7,150 units in 2007, or 2.5 per cent more than in 2006, and 7,200 units in 2008. Employment growth in recent years, rising inventories of properties for sale and still very favourable financing conditions are the main factors contributing to this dynamic resale market.

As mentioned, inventories of homes for sale also continue to rise. In 2006, there were, on average, 3,550 properties with "For Sale" signs, and this number will increase by 10 per cent in 2007 and by 8 per cent in 2008. Many households will want to take advantage of the increase in the value of their property to buy another home that will better meet their needs or go back to renting. In fact, with the aging of the population, many households are getting to an age where they are thinking about becoming renters again, whether to do away with property-related chores or for health and safety reasons. This

influx of new properties will help limit the growth in prices. After having climbed by more than 10 per cent per year from 2002 to 2004, prices went up by 8.5 per cent in 2005 and by 5.8 per cent in 2006. For 2007 and 2008, it is anticipated that the average price will reach \$168,500 and then \$175,000, for increases of 5 per cent and 4 per cent, respectively. However, the market will continue to favour sellers over the forecast period, with a seller-to-buyer ratio below 8 to 1<sup>1</sup>, which will support price hikes above inflation.

The seller-to-buyer ratios vary, however, depending on the housing types and price ranges. In fact, while the semi-detached and row home segment remains very favourable to sellers, with a ratio of 3.3 to 1 in the first quarter of 2007, the condominium market is now balanced again, with a ratio of 8.1 to 1. This faster return to a balanced market was due to the high levels of condominium construction registered in recent years. Meanwhile, the single-detached and duplex market segments remain relatively tight, with seller-to-buyer ratios of 5.7 to 1. Given that the strong price increases observed in recent years have made home buying more difficult, it is highly likely that semi-detached and row houses, which are generally more affordable, will continue to be very popular.

The results by price range also reveal notable differences. In fact, market conditions are still very tight for single-detached, semi-detached and row homes priced at under \$150,000, with the seller-to-buyer ratios below 4 to 1 and average listing periods of around 40 days in the first quarter of 2007. Conversely, above the \$200,000 mark,

<sup>1</sup> It should be noted that, on a balanced market, which equally favours buyers and sellers, the seller-to-buyer ratio stands between 8 and 10 to 1. A ratio below 8 to 1 signifies a seller's market, while a ratio above 10 to 1 indicates a buyer's market.

the market gives the edge to buyers, with seller-to-buyer ratios that rise above 10 to 1 and listing periods that average at 85 days. For condominiums, the market shifts into buyer's market territory above \$150,000 in the suburban sectors and above \$200,000 in the central sectors. Demand for more affordable homes is therefore stronger, and we believe that this trend will continue in the short term. For all price ranges combined, the condominium segment is a balanced market in the Québec Haute-Ville and Basse-Ville sectors, as well as in the former municipality of Lévis and the Charlesbourg sector. In the other sectors, the market still favours sellers.

## Residential construction to keep slowing down

In the residential construction sector, the decline that began in 2005 will continue. In fact, starts are expected to reach 4,400 units in 2007 and 4,000 units in 2008, for decreases of 15 per cent and 9 per cent, respectively. In addition to the impact of the economic slowdown and the rising inventories of existing homes for sale, this decline is due to the fact that the pent-up demand from the 1990s has now been largely met. Given that inventories of properties for sale and dwellings for rent are being replenished more and more and that demographic growth is slowing down, the need to build new homes is becoming less pressing. However, since all these factors are evolving progressively, the decline in starts will also take place gradually. Decreases of up to 50 per cent in the number of units built, as was the case in the 1990s, are therefore highly improbable in the current scenario.

expected to fall by 10 per cent (to 2,650 units) in 2007 and by 6 per cent (to 2,500 units) in 2008. The single-detached home market will be slightly harder hit, with decreases in activity of 12 per cent in 2007 and 8 per cent in 2008. The generally higher prices of single-detached houses make them a less attractive choice, given the strong growth in prices observed in recent years. It is also more and more difficult to build more affordable homes, particularly on the territory of the new city of Québec, as all new residential development projects are now subject to a tax impact analysis. This allows the city to make sure, before accepting a project, that the costs for utilities (transit, public security, development, recreation, culture, etc.) will be covered by the property taxes, which will likely put upward pressure on prices. This partly explains why the affordable home resale market remains very tight.

The condominium market will be more affected by the slowdown in construction in 2007, as 750 new units should get under way, or 28 per cent fewer than in 2006. The inventory of new unoccupied condominiums,

which was practically non-existent at the beginning of 2003, stood at 260 units in March 2007, and there were more than 1,000 existing condominiums listed for sale on the S.I.A. / MLS® network at the same time. While there is no cause alarm (the existing condominium market is now balanced), developers will be more cautious before starting up new housing projects.

Rental housing construction will also slow down. There should be 1,000 new units in 2007 and 850 in 2008, for decreases of 17 per cent and 15 per cent, respectively. The higher vacancy rates for traditional and retirement rental housing will limit the addition of new dwellings. In the case of traditional units, the saturation of the upper-range market and the difficulty in building privately initiated affordable housing, on account of rising construction costs, will also contribute to restricting the arrival of new units. However, social housing construction will continue in the cities of Québec and Lévis, which will meet a portion of the demand for affordable housing. A few hundred social housing units should be built over the forecast period.

Figure 2

Housing Starts by Intended Market Québec Area					
	2006	2007f	% Chg.	2008f	% Chg.
<b>Freehold</b>	<b>2,937</b>	<b>2,650</b>	<b>-10%</b>	<b>2,500</b>	<b>-6%</b>
- Single	2,226	1,950	-12%	1,800	-8%
- Others	711	700	-2%	700	0%
<b>Condominium</b>	<b>1,038</b>	<b>750</b>	<b>-28%</b>	<b>650</b>	<b>-13%</b>
<b>Rental</b>	<b>1,201</b>	<b>1,000</b>	<b>-17%</b>	<b>850</b>	<b>-15%</b>
<b>TOTAL</b>	<b>5,176</b>	<b>4,400</b>	<b>-15%</b>	<b>4,000</b>	<b>-9%</b>

Source and forecasts: CMHC  
f: Forecasts

Freehold homes<sup>2</sup> will be less affected by the decrease in starts, which are

2 Freehold homes include single-detached, semi-detached and row houses, as well as duplexes.

## Shortage eases on the rental market

The upward movement in the rental housing vacancy rate, which began in 2003, will continue in 2007 and 2008. The rate, which was 1.5 per cent in 2006, should reach 2.0 per cent in 2007 and 2.3 per cent in 2008. This

increase will result mainly from a slowdown in demand. In fact, with the anticipated weaker employment growth and the resulting lower net migration, it will be more difficult to rent out units.

The growing supply of available units will lead to smaller rent increases. The average rent for a two-bedroom

apartment, which was \$637 in 2006, will rise moderately in 2007 (\$650) and 2008 (\$650). Obviously, the average rents are affected by the new units that are added to every survey and that are generally more expensive. The rise in the average rent for existing units could therefore be slightly lower than the increase forecast for all units.

Forecast Summary Québec CMA Spring 2007							
	2004	2005	2006	2007f	% chg	2008f	% chg
<b>Resale Market</b>							
MLS® Sales	6,258	7,045	6,980	7,150	2.4	7,200	0.7
MLS® Active Listings (annual average)	2,612	3,181	3,547	3,900	10.0	4,200	7.7
MLS® Average Price (\$)	139,791	151,660	160,508	168,500	5.0	175,000	3.9
<b>New Home Market</b>							
<b>Starts:</b>							
Single-Detached	2,704	2,528	2,226	1,950	-12.4	1,800	-7.7
Multiples	3,482	3,307	2,950	2,450	-16.9	2,200	-10.2
Starts - Total	6,186	5,835	5,176	4,400	-15.0	4,000	-9.1
<b>Average Price (\$):</b>							
Single-Detached	187,395	210,243	207,227	220,000	6.2	230,000	4.5
New Housing Price Index (% chg.)	6.1	4.3	5.2	3.5	-	3.0	-
<b>Rental Market</b>							
October Vacancy Rate (%)	1.1	1.4	1.5	2.0	-	2.3	-
Two-bedroom Average Rent (October) (\$)	596	621	637	650	2.0	660	1.5
<b>Economic Overview</b>							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.40	0.10	6.29	-0.12
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	6.63	0.18	6.80	0.17
Annual Employment Level	363,400	377,600	376,600	378,000	0.4	381,000	0.8
Employment Growth (%)	1.0	3.9	-0.3	0.4	-	0.8	-
Unemployment rate (%)	5.8	5.6	5.2	5.8	-	5.6	-
Net Migration	4,546	2,327	3,500	3,000	-14.3	3,000	0.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Chambre immobilière de Québec

**NOTE:** Rental universe = Privately initiated rental apartment structures of three units and over

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