

# HOUSING MARKET OUTLOOK

## Québec CMA



CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2011

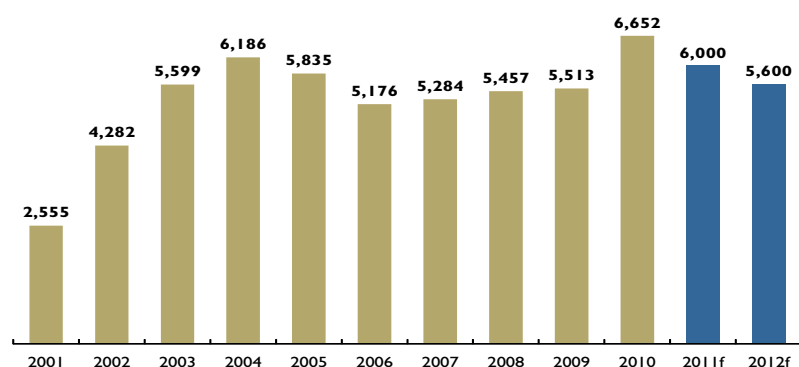
### Market expected to slow down<sup>1</sup>

In 2010, the housing market showed signs of intense activity in the Québec census metropolitan area (CMA): residential construction reached a peak, the existing home market tightened significantly and the rental market remained tight. The strong housing demand was driven by a growing job market and low mortgage rates.

The next two years will be characterized by a return to lower levels of activity, as the job market will expand less considerably and demographic growth will tend to slow down. However, it should be noted that, despite the anticipated gradual increases in mortgage interest rates, financing conditions will remain favourable.

Figure 1

#### Housing Starts Québec CMA



Source: CMHC  
f: CMHC forecasts

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<sup>1</sup> The forecasts provided in this document are based on the information available on April 28, 2011.

## Job market to post moderate growth

Employment posted an appreciable gain in 2010—especially in the case of full-time jobs—but it is not expected to maintain this momentum in 2011. In fact, the labour market benefited from a particularly vigorous construction sector, including residential, commercial and institutional construction, thanks in part to the government infrastructure stimulus programs. In 2011 and 2012, the effects of these inducements will continue to be felt, but they will do more to maintain existing positions than create new jobs. The area will still benefit from the economic recovery, which will allow employment to rise slightly in 2011 (+1.5 per cent) and 2012 (+1 per cent). Employment growth will therefore be less significant than in 2010.

The area enjoyed one of the lowest unemployment rates in the country during 2010, and the good health of the job market will continue to support housing demand over the coming years. It should also be noted that, in 2010, the activity rate<sup>2</sup> reached a peak of 68.5 per cent; labour force participation was therefore significant. This phenomenon may be attributable to an abundant supply of jobs, which is prompting potential workers to look for work or integrate the job market (labour force).

For the first three months of the year, it was also noted that the labour force grew more significantly than the job market, which pushed the unemployment rate up to 6.3 per

cent<sup>3</sup>. Still, employment will continue to grow, which will limit the impact of the increase in the labour force on the unemployment rate. In 2011, it should therefore be expected that this rate will rise slightly, reaching 5.5 per cent, while, in 2012, a small decrease should be observed (to 5.2 per cent), as a less considerable increase in the labour force is anticipated. Despite this rise in the unemployment rate, the steadily growing job market will fuel the housing demand.

Job creation among people aged from 15 to 24 years should also be noted. Since 2009, nearly 11,000 newly created jobs have gone to young people, and the activity rate of this population segment has reached almost 74 per cent. In addition, close to half of the jobs created have been full-time positions. This strong youth employment is stimulating rental housing demand, as young people then have the opportunity to leave the family home. Young people who form new households are renters nine times out of ten<sup>4</sup>.

The economic growth of recent years also came with an increase in personal disposable income per capita. In 2009, the Québec CMA ranked first among the metropolitan areas in the province, with a disposable income of \$28,284 (+4.6 per cent over 2008), effectively moving ahead of Montréal, where the disposable income was \$27,480 (+1.7 per cent). Another indicator of income, average weekly wages, continued to rise in the CMA as, in 2010, they surpassed the \$770 mark, for a gain of 3.4 per cent over the previous year. This growth

in incomes in the CMA evidently stimulated housing demand, and the positive effects on housing should continue to be felt over the coming years.

In 2011 and 2012, the less significant expansion of the job market will limit the movement to homeownership, which will weaken housing demand. Also, demographic growth will show signs of slowing down starting in 2011.

## Mortgage Rates

On April 12th, the Bank of Canada announced that it was leaving the Target for the Overnight Rate unchanged at 1.0 per cent. The last increase in the overnight rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. The Bank of Canada is expected to resume raising the overnight rate in the fourth quarter of 2011. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat in 2011 before increasing moderately in 2012. For 2011, the one-year posted mortgage rate is assumed to be in the 3.1 to 3.5 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.1 to 5.6 per cent range. For 2012, the one-year posted mortgage rate is assumed to be in the 3.4 to 4.3 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2 to 6.3 per cent range.

<sup>2</sup> Labour force participation is measured by the activity rate, which represents the proportion of people aged 15 years or older with jobs or on unemployment.

<sup>3</sup> The unemployment rate corresponds to the percentage of people in the labour force on unemployment. The labour force is the population of working age having or wanting a job.

<sup>4</sup> Statistics Canada, 2006 Census

Rates could, however, increase at a faster pace if the economy ends up recovering more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

## Demographics: sustained migration expected

Since 2006, net migration has been considerable and has stimulated housing demand. In addition, in 2010, net interprovincial migration was positive in the area, which had not been seen in the last 15 years. The area's ability to retain workers has therefore improved, while the appeal of the Western provinces has become less significant. The years 2011 and 2012 should once again reflect strong net migration in the area, thanks to the favourable job market, which will keep rental housing demand robust.

## Resale market: demand can now be further released

After the decline in MLS® sales observed in 2010 (-11 per cent)<sup>5</sup>, the years 2011 and 2012 should give buyers more options (available supply) and thereby allow demand to be further released. It should be pointed out that, in 2010, the decrease in transactions had resulted from the lack of properties for sale.

The vigour of the market had been felt in late 2009 and early 2010, not only on account of the favourable economic conditions prevailing in the CMA but also because of the low interest rates. Some buyers had therefore entered the market sooner than planned, as they were expecting rates to rise. This wave of earlier-than-planned purchases quickly came up against a limited supply of properties

<sup>5</sup> Source : QFREB by Centris®

for sale, such that, overall, a decrease in transactions was observed in 2010. This even prompted some buyers to turn to the new home market, as reflected in the significant level of housing starts recorded last year.

In addition to bearing the consequences of the interaction between supply and demand, prices will continue to play a key role on the market, as a number of households will decide to take advantage of the increase in value of their current property to achieve their future goals. Some households having purchased a first home in recent years could decide to buy a more spacious dwelling, while others could opt to acquire a condominium or move to a retirement home. Such movements may be observed again this year and next year, given the low interest rates.

With the employment growth posted last year and the increase in supply, MLS® sales will register a gain of 6 per cent this year, reaching 7,500 transactions. As well, the low mortgage interest rates will continue to support housing demand. In

2012, the market should expand less significantly, as the gradual rise in interest rates, slower employment growth and lower household formation will limit the increase in demand for existing homes. MLS® sales are expected to edge up by 1.3 per cent, to 7,600 transactions.

The levels of activity anticipated for this year and next year will reflect a certain easing. The average number of sellers per buyer will rise, which will slow the growth in prices. The average price of residential properties will register an increase of 7 per cent this year, attaining \$254,000. In 2012, the price should reach \$267,000 (+5 per cent). It is therefore expected that the growth in prices will moderate in the Québec area.

## New home market: levels of activity to stay high despite anticipated slowdown

The level of activity recorded last year (6,652 starts) represented an increase of 21 per cent over 2009, making 2010

Figure 2

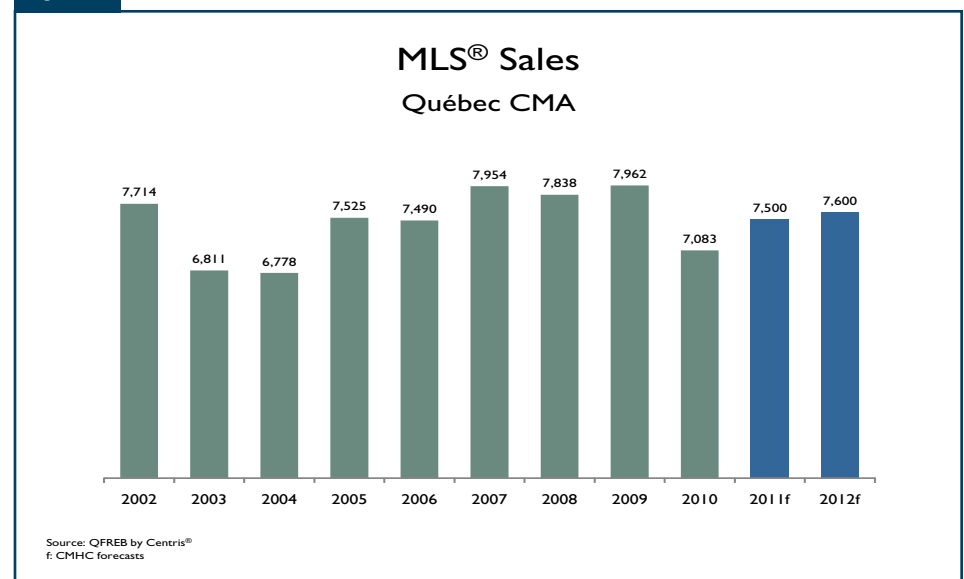
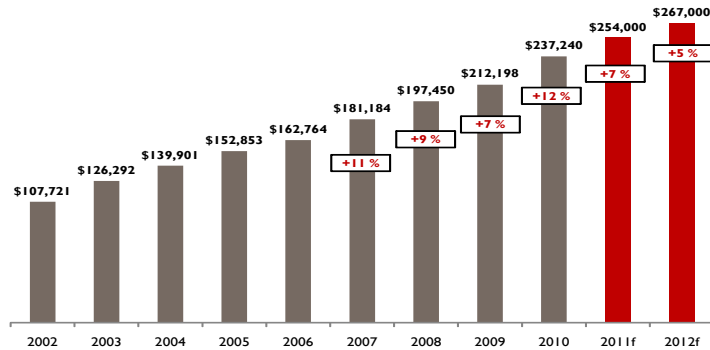


Figure 3

### Average MLS® Price Québec CMA



Source: QFREB by Centris®  
f: CMHC forecasts

the year with the highest volume in the last 23 years. The combination of favourable conditions—low interest rates, strong job creation, tight existing home market and tight rental housing market—accounted for this performance.

In 2011 and 2012, activity will slow down, and there will be fewer starts. Still, despite the decline, the levels will stay significant.

The low interest rates, a favourable job market and a tight rental market will continue to support demand for new housing. However, the resale market will be less tight this year, which will limit the spillover of demand onto the new home market, contrary to what was observed last year.

Single-detached home building will therefore slow down in 2011 and 2012, following the small rebound recorded last year. The downward trend noted since 2005 will continue, given the growth in prices and, more particularly, in land prices. In fact, between 2006 and 2010, the New Housing Price Index (NHPI) rose

by 21 per cent, while the “land” component of the NHPI increased by 52 per cent. The limited supply of lands in the CMA is one of the factors that will contribute to reducing single-detached home building, whereas multi-unit housing construction will be favoured. Another factor is the urban intensification objective of the City of Québec.

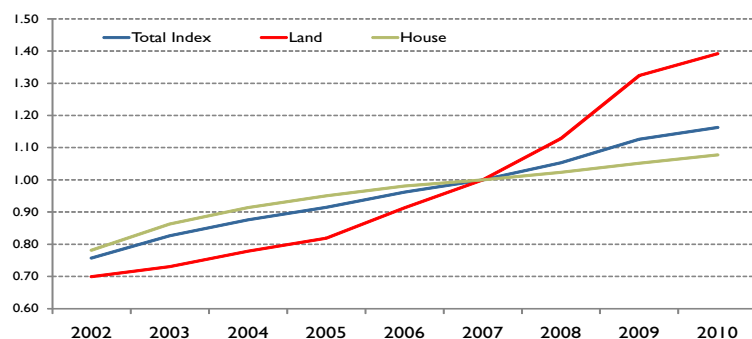
Multi-family housing construction reached a peak in 2010, with a total of 4,884 starts, for a gain of 30 per cent over 2009. All housing types stood out: semi-detached and row houses, condominiums and rental dwellings.

Semi-detached and row homes, which are more affordable than single-detached houses given the growth in prices in general and in land costs in particular, will remain very popular. Still, for this year and next year, the levels of activity are expected to reflect the end of the wave of earlier-than-planned purchases and of the spillover of demand from the existing home market onto the new home market.

Condominiums are also enjoying growing popularity, resulting not only from their greater affordability than single-detached homes but also from the aging of the population, as dwellings of this type require less maintenance. In 2011, condominium construction should reach a level similar to that recorded in 2010 while, in 2012, a slight slowdown is expected.

Figure 4

### New Housing Price Index (NHPI) and Components Québec CMA



Source: Statistics Canada

Rental housing construction will stay strong this year and next year, as this market is benefiting from a robust demand and a still low vacancy rate (1 per cent in October 2010). The tight market conditions have a definite appeal for investors.

In the end, the anticipated slowdown will take place gradually since the economic and demographic conditions remain favourable in the CMA and, as a result, residential construction will still be vigorous this year and next year.

### **Rental market conditions expected to ease**

Between October 2009 and October 2010, the market eased somewhat, and the vacancy rate therefore rose from 0.6 per cent to 1 per cent. This minor easing resulted mainly from the increase in residential construction. In fact, several newly completed projects were still being absorbed, which

caused the overall vacancy rate to edge up slightly.

In 2011 and 2012, rental housing construction will remain steady, so the market should again ease slightly. The easing should be gradual, such that the vacancy rate should reach 1.4 per cent in 2011 and then 1.8 per cent in 2012. The rise in the vacancy rate will be limited by the fact that demand for rental housing will remain strong, thanks to the good job market and resulting high net migration. The homeownership trend will also be less intense than in 2010, which will limit the number of renters vacating dwellings by becoming homeowners.

The average rent for two-bedroom apartments will reach \$705 in 2011 and then \$715 in 2012. The increases in the average rent of 2 per cent and 1.4 per cent, respectively, will reflect less tight market conditions.

Forecast Summary Québec CMA Spring 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
<b>Resale Market<sup>1</sup></b>							
MLS® Sales	7,838	7,962	7,074	7,500	6.0	7,600	1.3
MLS® Active Listings	3,254	3,243	3,106	3,500	12.7	3,700	5.7
MLS® Average Price (\$)	197,450	212,203	237,294	254,000	7.0	267,000	5.1
<b>New Home Market</b>							
<b>Starts:</b>							
Single-Detached	2,031	1,746	1,768	1,500	-15.2	1,400	-6.7
Multiples	3,426	3,767	4,884	4,500	-7.9	4,200	-6.7
Starts - Total	5,457	5,513	6,652	6,000	-9.8	5,600	-6.7
<b>Average Price (\$):</b>							
Single-Detached	261,871	294,172	292,370	301,000	3.0	309,000	2.7
New Housing Price Index (% chg.)	5.3	7.0	3.2	3.0	-	3.0	-
<b>Rental Market<sup>2</sup></b>							
October Vacancy Rate (%)	0.6	0.6	1.0	1.4	-	1.8	-
Two-bedroom Average Rent (October) (\$)	653	676	692	705	-	715	-
<b>Economic Overview</b>							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.23	-	3.76	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.45	-	5.94	-
Annual Employment Level	393,800	395,100	410,200	416,300	1.5	420,500	1.0
Employment Growth (%)	2.1	0.3	3.8	1.7	-	1.5	-
Unemployment rate (%)	4.5	4.9	4.9	5.5	-	5.2	-
Net Migration	5,026	4,682	4,979	5,100	2.4	5,300	3.9

<sup>1</sup> Source : QFREB by Centris®<sup>2</sup> Privately initiated rental apartment structures of three units and over

Sources: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), QFREB by Centris®

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