HOUSING MARKET OUTLOOK
Québec CMA

CANADA MORTGAGE AND HOUSING CORPORATION

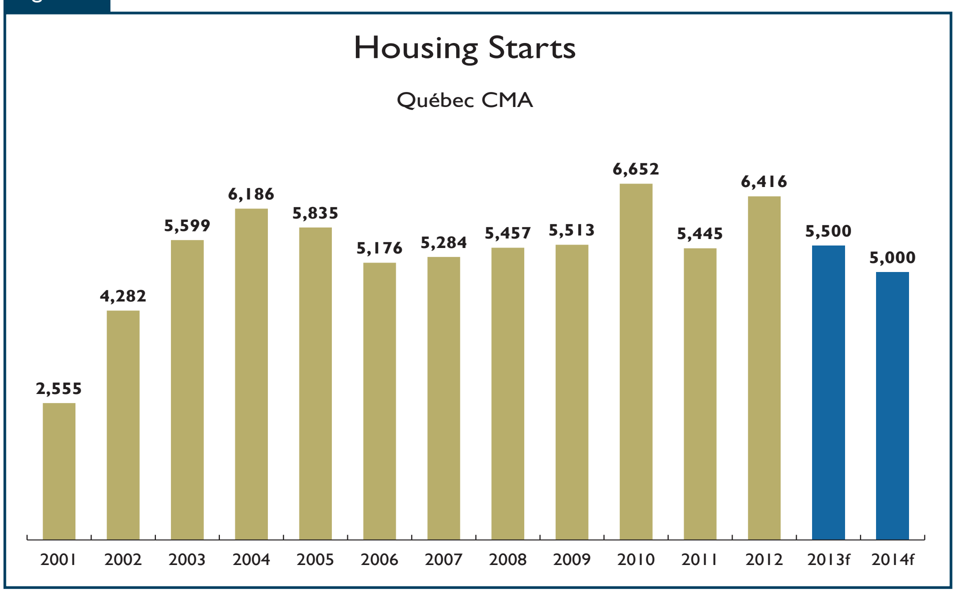
Date Released: Spring 2013

Residential construction to moderate in 2013 and 2014[1]

Housing starts will fall by 14 per cent in 2013 and 9 per cent in 2014. The rental and condominium housing segments will particularly contribute to this trend. Still, the continued favourable economic and demographic environment in the area will support the overall housing demand through the next two years.

Even though the existing home market will gradually recover, the annual level of Centris® sales will register a decrease of 2 per cent in 2013. It is only in 2014 that this market will post an annual gain (+3.5 per cent). Market conditions will remain balanced and

Figure 1



Source: CMHC
f: CMHC forecasts

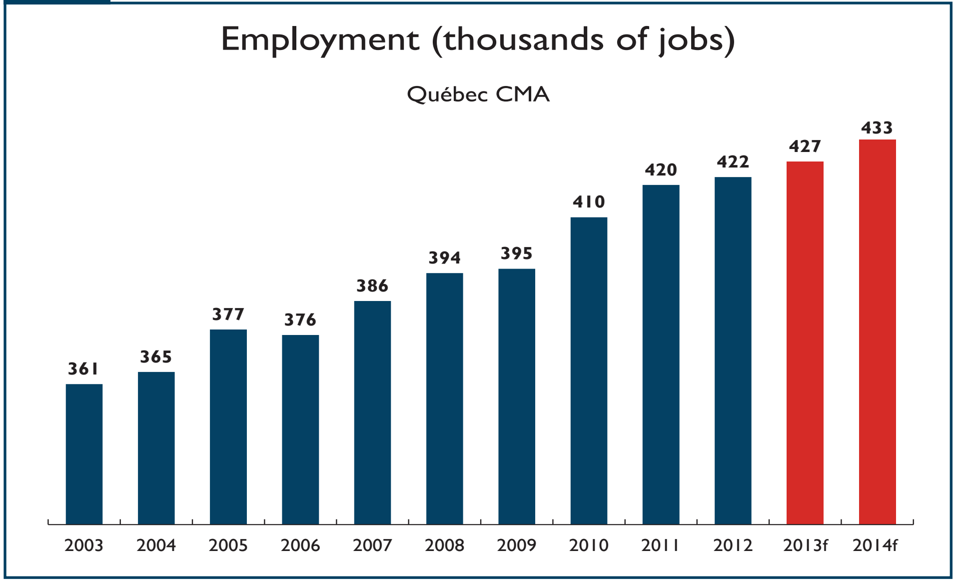
[1] The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts included in this document reflect information available as of April 26, 2013.

Table of Contents

will lead to a more moderate growth in the average Centris® price than at the same time last year. After rising by 5.0 per cent in 2012, the average Centris® price will go up by 4.1 per cent in 2013 and then by 3.7 per cent in 2014.

The increase in supply of rental housing will cause the market to ease in 2013. The vacancy rate will increase from 2 per cent in October 2012 to 2.5 per cent in October of this year. In 2014, the vacancy rate will stabilize as the more moderate pace of rental housing starts will be equal to the increase in demand.

Figure 2



Source: Statistics Canada
f: CMHC forecasts

Investments and economic growth to support job creation

In 2013 and 2014, the Québec area will again benefit from an environment of economic growth. First, an increase of 10 per cent in capital expenditures is anticipated this year in the Capitale-Nationale region[2]. These additional expenditures will contribute to job creation in the construction sector. The many current and upcoming sources of investment include the construction, modernization or expansion of several types of infrastructure, including culture and entertainment facilities, and work in the areas of air transport and road repairs, as well as activity in the wind energy sector on the outskirts of the metropolitan area.

The service sector, which provides more than half (51 per cent) of the jobs in the area, will stay strong thanks to the economic and demographic growth. On the one hand, professional, scientific and technical services will continue to be in demand given the many construction projects in the region. On the other hand, the finance and insurance sector will continue to expand and the economic growth will stimulate the trade, transportation and storage sectors. Finally, demographic growth will continue to support the demand for educational and health care services.

In addition, after several years of decline, the manufacturing sector should regain some strength. For one thing, activity is recovering in the ship building and repair sector. For another, economic growth will pick up in the U.S. and around the world from now until 2014 and help increase employment in the export production sector.

However, the overall gain in employment will be moderate on account of the government budget restrictions, which will reduce hiring in state-funded sectors, particularly public administration. As well, employment in the residential construction sector will be affected by the anticipated slowdown in housing starts.

In this context, employment growth should pick up, rising from 0.5 per cent last year to 1.1 per cent in 2013 and then to 1.5 per cent in 2014. With the better job prospects, the growth in the labour force will also accelerate, such that the unemployment rate will remain low at 5.1 per cent in 2013, and 5.0 per cent in 2014 compared to the country's other metropolitan areas. In fact, last year, the Québec area posted the fourth lowest unemployment rate among the Canadian CMAs, behind Regina (4.1 per cent), Calgary (4.7 per cent) and Edmonton (4.7 per cent).

[2] Statistics Canada, Capital Expenditure Survey

Newcomers to keep energizing the housing market

In addition to a still favourable economic environment, the Québec area will also enjoy continued demographic growth. More specifically, positive migration flows will again contribute significantly to the increase in the area's population. The CMA's job performance in fact held significant appeal for newcomers. Between 2006 and 2011, newcomers accounted for half of the total growth in the population.

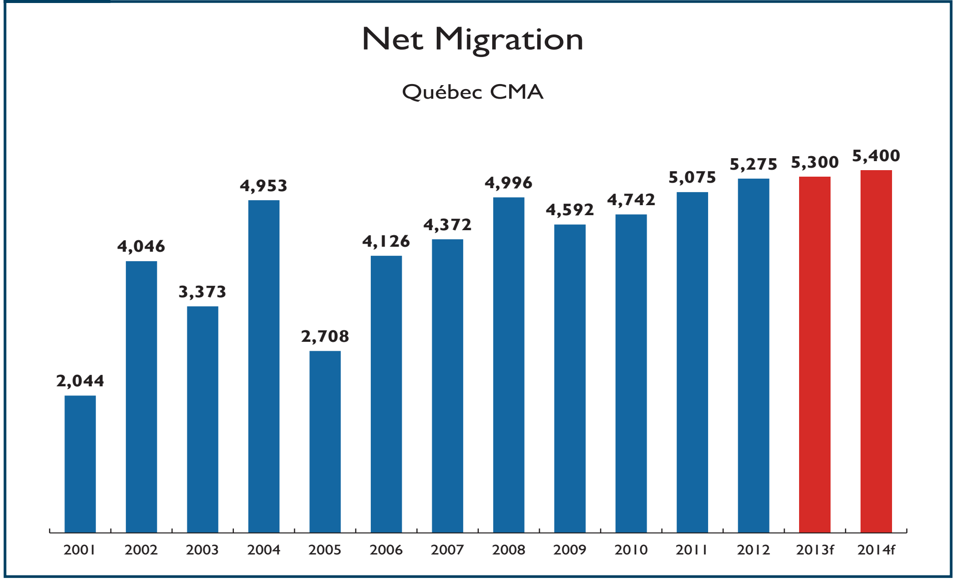
In regard to these newcomers, it is important to mention that international immigration has picked up in the area over the past few years and that this phenomenon will remain significant. International immigrants have in fact increased from close to 1,000 people a year on average at the turn of the year 2000 to more than 2,500 since 2008. Therefore, international immigration now accounts for nearly half of net migration in the Québec CMA. Since immigrants are more likely to seek rental dwellings when they settle in the area, they will support demand in this market segment.

We should also mention that interregional migration will remain positive and be mainly composed of young people aged from 15 to 24 years. As in the case of immigrants, this age group will fuel demand for rental housing in the region.

In all, net migration in the Québec CMA will increase from 5,275 people in 2012 to 5,300 in 2013 and then to 5, 400 in 2014.

In the short term, the rental housing segment meets the needs of the area's new residents. However, in the medium term, other market segments will be accessible to those who want and can afford to become homeowners.

Figure 3



Source: Statistics Canada
f: CMHC forecasts

Mortgage rates to see modest and gradual increases but will remain low

In line with the consensus among private sector forecasters, increases in the target for the overnight rate by the Bank of Canada are not expected before mid-2014, later than anticipated at the time of the first quarter 2013 edition of the national *Housing Market Outlook*. This reflects the downward revisions in GDP forecasts since the publication of that edition, particularly the expectations of a slower economy in 2013. The expected delay in interest rate increases will continue to be supportive of housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2013, the one-year mortgage rate is forecast to be within 3.00 per cent to 3.25 per cent with an average of 3.13 per cent, while the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent with an average of 5.28 per cent. For 2014, the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range with an average of 3.42 per cent, while the five-year posted mortgage rate is forecast to be within 5.25 per cent to 5.75 per cent with an average of 5.53 per cent, consistent with higher economic growth prospects in 2014.

Mortgage rates are not expected to increase until mid-2014. The anticipated small and steady increases in mortgage rates will lead to somewhat higher mortgage rates by the end of 2014. However, these rates will remain low, by historical standards, over the forecast horizon.

Resale market to regain some strength in 2014

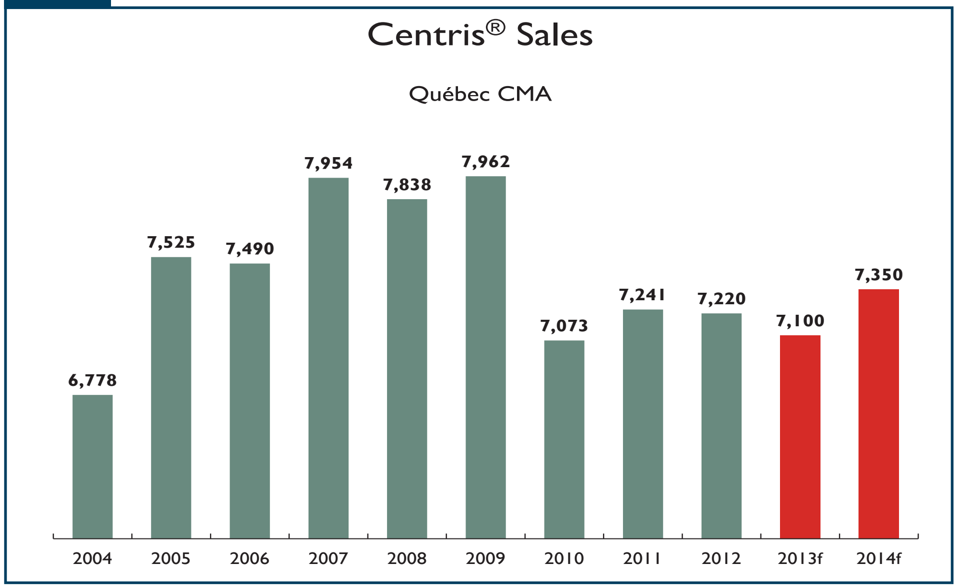
In 2012, the resale market evolved in two different directions. Centris® sales increased at the beginning of 2012, but began to slow down starting in the third quarter, particularly on account of weaker employment growth. This slowdown on the labour market moderated housing demand and brought total transactions for 2012 down slightly below the level recorded in 2011. In the first quarter of 2013, Centris® sales were down, having registered a drop of 18 per cent from the same period in 2012. Also, the decrease in sales contributed to the increase in supply on the market. In the first quarter of 2013, active listings recorded a rise of 14 per cent year over year.

Centris® sales are expected to gradually regain strength this year, stimulated by employment growth, the greater choice of homes available to buyers and by interest rates that will remain relatively low. Still, given the drop observed at the beginning of the year, a decrease of nearly 2 per cent is anticipated for 2013. The level of sales will decrease from 7,220 units in 2012 to 7,100 in 2013.

The decline in sales and the increase in supply recorded at the beginning of this year resulted in market conditions shifting to balanced territory from a sellers' market a year earlier. The active listings-to-sales ratio rose from 6.8 in the first quarter of 2012 to 8.6 a year later.[3] Given the modest increase in sales and the abundant supply, overall market conditions are expected to remain balanced this year. These softer conditions compared to last year will ease the pressure on the growth in prices. The annual increase of the average Centris® price will decrease from 5.0 per cent in 2012 to 4.1 per cent in 2013, such that the average price will reach $270,000.

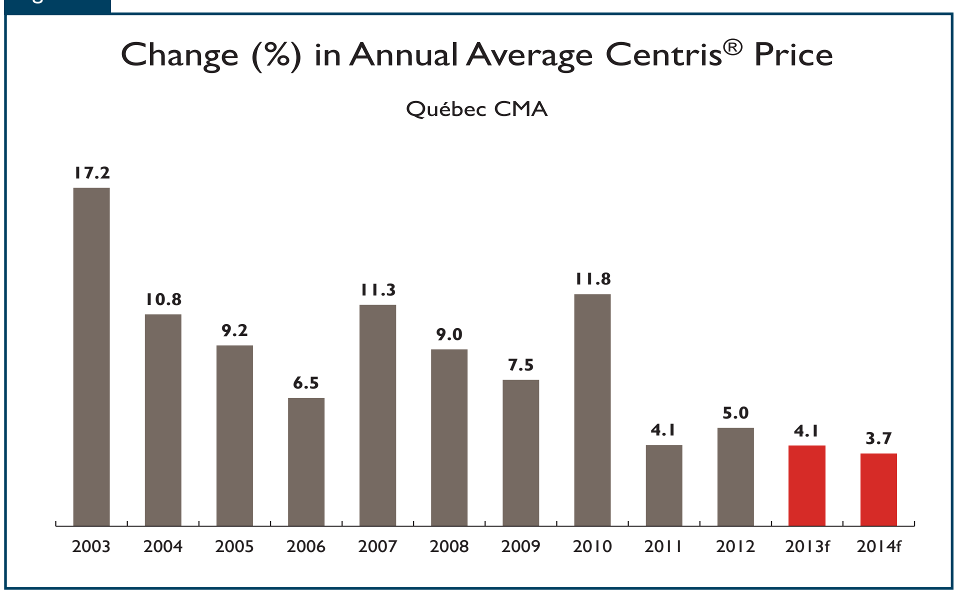
Thanks to the acceleration of employment growth, the rise in activity leading to the expansion of the housing stock and the still favourable financing conditions, sales will continue to pick up in 2014. Centris® sales are expected to climb by 3.5 per cent and reach 7,350 units in 2014.

Figure 4



Source: Statistics Centris®
f: CMHC forecasts

Figure 5



Source: Statistics Centris®
f: CMHC forecasts

[3] We refer to the average of the last four quarters. Market conditions are generally considered to be balanced when the active listings-to-sales ratio is between 8 and 10 to 1.

In addition to the expected rise in sales, there will also be more new listings, such that market conditions will remain balanced in 2014. The resale market will continue to be fuelled by condominium listings. On the one hand, this segment is increasingly significant in the area. On the other hand, this housing type changes hands more frequently. With market conditions remaining balanced, the average Centris® price will rise by 3.7 per cent in 2014, to $280,000.

New home market to moderate

In the Québec CMA, housing starts will fall from 6,416 units in 2012 to 5,500 in 2013 and then to 5,000 in 2014, for decreases of 14 per cent in 2013 and 9 per cent in 2014. All market segments will be affected, but especially rental and condominium housing. Still, housing demand will remain supported by job creation and the relatively low mortgage rates.

Stimulated by a rise in demand from a variety of client types, notarized transactions of new and existing condominiums have jumped by 80 per cent between 2005 and 2012. Housing starts reached a peak of 2,581 units in 2012 and surpassed starts of freehold homes.[4] In the last few quarters, however, sales of existing condominiums have seemed to indicate a softer demand, resulting in part from the slowdown of employment. The supply of condominiums sold by real estate brokers increased, such that market conditions became favourable to buyers. As well, there were more than 600 completed, unabsorbed condominiums in April, or almost double the number registered at the beginning of 2012, plus the still unsold share of the 2,017 units under construction.

The longer absorption times will prompt developers to slow the pace of construction in the condominium segment and to better adjust to demand. Starts of this type are expected to fall by 19 per cent this year, to 2,100 units, and then by 10 per cent next year, to 1,900 units. Despite these declines, current projects will keep the level of activity above the average for the last five years.

The rate of activity will also decrease in the rental housing segment, where starts will drop from 1,659 units in 2012 to 1,300 in 2013 (22 per cent), before declining to 1,100 in 2014 (-15 per cent). For one thing, retirement home construction is expected to moderate; many units were started in 2012, but the growth in demand will stay rather modest over the next two years. For another, developers of traditional rental housing will start up fewer projects in 2013 and 2014. The renewed supply observed in recent years was among the factors that caused market conditions to ease. The increase in the vacancy rate will therefore incite builders to adjust their starts volumes downwards in this segment.

A decrease in activity will be felt in the single-detached home segment, where declines of 13 per cent and 9 per cent are anticipated this year and next year, respectively. It should first be mentioned that the supply on the resale market will reduce the need to build new units. Also, these homes are relatively expensive, given their large size and the rising land prices noted in recent years. Lastly, the municipal residential intensification objective will continue to favour multi-unit housing, to the detriment of single-detached houses. Consequently, single-detached housing starts will drop from 1,257 units in 2012 to 1,100 in 2013 and then to 1,000 in 2014.

After decreasing in 2012, starts of semi-detached and row homes will rise by 12 per cent in 2013 and remain stable in 2014, thereby escaping the decline. The expected activity will not, however, allow a return to the peak observed in 2011. The anticipated increase will result from the less abundant supply of semi-detached and row homes compared to single-detached homes on the resale market and the greater affordability of these housing types. In all, 850 semi-detached and row housing units are expected in 2013 and 2014.

Rental market to ease in 2013

In recent years, the increase in the supply of rental units has been greater than the increase in demand, which has caused the market to ease. The vacancy rate went from 0.6 per cent in 2009 up to 2.0 per cent in October 2012. Mainly, the low vacancy rate in the rental housing segment prompted developers to build new rental units. Also, part of the new condominium units in the Québec area was also added to the supply of rental housing. In fact, according to the Rental Market Survey conducted by CMHC in October 2012, 9 per cent of the condominiums in the Québec area were rentals.

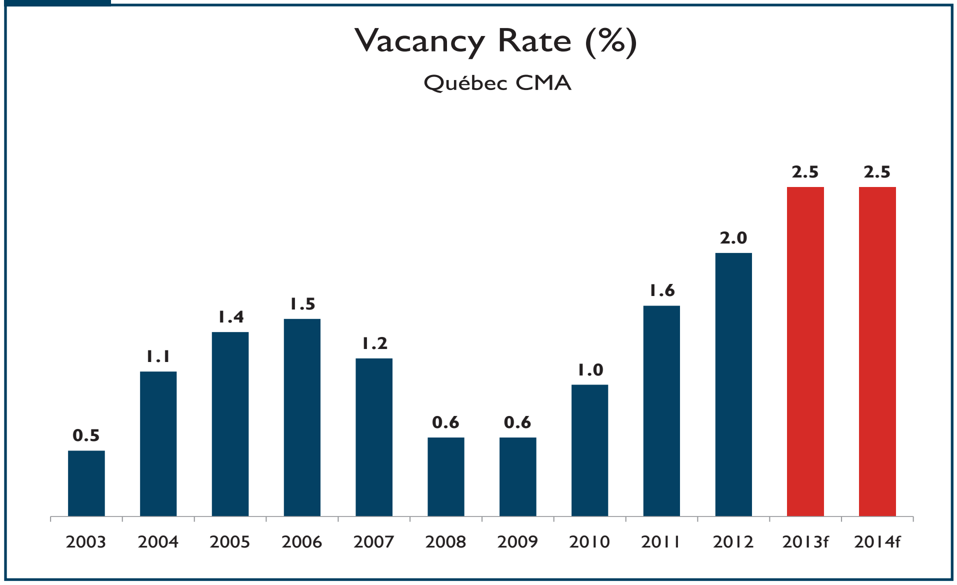
[4] Freehold homes refer to dwellings where the owner also holds the title of ownership to the land (single-detached, semi-detached and row houses, as well as duplexes).

In 2013, a significant number of rental units will be completed, such that the supply on the rental market will climb again. Even if rental housing demand will remain supported by the growth in employment, it will not be able to offset the rise in supply. Consequently, the market will soften further, which will push up the vacancy rate to 2.5 per cent in October 2013.

Given the easing of the rental market in 2013, builders will reduce their rental housing starts this year and next year. In 2014, the demand for rental housing will remain supported by new residents in the area, a rise in employment and a certain degree of moderation in the movement to homeownership. In sum, the increase in demand will match the increase in supply, which will stabilize the vacancy rate at 2.5 per cent.

The less tight conditions will lessen the rise in the average rent, which for two-bedroom apartments will reach $755 in 2013 and $770 in 2014.

Figure 6



Source: CMHC
f: CMHC forecasts

Forecast Summary Québec CMA Fall 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	1,768	1,349	1,258	1,100	-12.6	1,000	-9.1
Multiples	4,884	4,096	5,158	4,400	-14.7	4,000	-9.1
Starts - Total	6,652	5,445	6,416	5,500	-14.3	5,000	-9.1
Average Price ($):							
Single-Detached	292,370	313,905	326,583	340,000	4.1	350,000	2.9
Median Price ($):							
Single-Detached	260,000	283,579	292,174	303,000	3.7	310,000	2.3
New Housing Price Index (% chg.)	3.2	1.4	2.9	2.5	-	2.0	-
Resale Market[1]							
Centris® Sales	7,073	7,241	7,220	7,100	-1.7	7,350	3.5
Centris® Active Listings	3,107	4,082	4,693	5,000	6.6	5,100	2.0
Centris® Average Price ($)	237,182	246,987	259,366	270,000	4.1	280,000	3.7
Rental Market[2]							
October Vacancy Rate (%)	1.0	1.6	2.0	2.5	-	2.5	-
Two-bedroom Average Rent (October) ($)	692	718	741	755	-	770	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.25	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 5.75	-
Annual Employment Level	410,200	419,700	422,000	426,500	1.1	433,000	1.5
Employment Growth (%)	3.8	2.3	0.5	1.1	-	1.5	-
Unemployment rate (%)	4.9	5.3	5.1	5.1	-	5.0	-
Net Migration	4,742	5,075	5,275	5,300	0.5	5,400	1.9

The Centris® system contains all the listings of Québec real estate brokers.

[1]Source: Centris® Statistics

[2] Privately initiated rental apartment structures of three units and over

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), Centris® Statistics. CMHC Forecast (2013-2014)

CMHC—HOME TO CANADIANS

Canada Mortgage and Housing Corporation (CMHC) has been Canada's national housing agency for more than 65 years.

Together with other housing stakeholders, we help ensure that the Canadian housing system remains one of the best in the world. We are committed to helping Canadians access a wide choice of quality, environmentally sustainable and affordable housing solutions that will continue to create vibrant and healthy communities and cities across the country.

For more information, visit our website at www.cmhc.ca or follow us on Twitter, YouTube and Flickr.

You can also reach us by phone at 1-800-668-2642 or by fax at 1-800-245-9274.

Outside Canada call 613-748-2003 or fax to 613-748-2016.

Canada Mortgage and Housing Corporation supports the Government of Canada policy on access to information for people with disabilities. If you wish to obtain this publication in alternative formats, call 1-800-668-2642.

The Market Analysis Centre's (MAC) electronic suite of national standardized products is available for free on CMHC's website. You can view, print, download or subscribe to future editions and get market information e-mailed automatically to you the same day it is released. It's quick and convenient! Go to www.cmhc.ca/housingmarketinformation

For more information on MAC and the wealth of housing market information available to you, visit us today at www.cmhc.ca/housingmarketinformation

To subscribe to priced, printed editions of MAC publications, call 1-800-668-2642.

Housing market intelligence you can count on

FREE REPORTS AVAILABLE ON-LINE

- Canadian Housing Statistics
- Housing Information Monthly
- Housing Market Outlook, Canada
- Housing Market Outlook, Highlight Reports – Canada and Regional
- Housing Market Outlook, Major Centres
- Housing Market Tables: Selected South Central Ontario Centres
- Housing Now, Canada
- Housing Now, Major Centres
- Housing Now, Regional
- Monthly Housing Statistics
- Northern Housing Outlook Report
- Preliminary Housing Start Data
- Rental Market Provincial Highlight Reports
- Rental Market Reports, Major Centres
- Rental Market Statistics
- Residential Construction Digest, Prairie Centres
- Seniors' Housing Reports

Get the market intelligence you need today!

Click www.cmhc.ca/housingmarketinformation to view, download or subscribe.

CMHC's Market Analysis Centre e-reports provide a wealth of detailed local, provincial, regional and national market information.

- **Forecasts and Analysis** – Future-oriented information about local, regional and national housing trends.
- **Statistics and Data** – Information on current housing market activities – starts, rents, vacancy rates and much more.

64279_2013_B01

02-07-13