

HOUSING MARKET INSIGHT

Montréal CMA



CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: May 2017

"Sustained by a strong labour market, transactions continued to rise across the Montréal CMA. Buyers have been faced with supply that has been diminishing and market conditions have been tightening. As a result, prices have been rising at a slightly higher rate than in recent years."



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Resale market: tightening conditions and higher price growth

- Sustained by a dynamic job market, transactions continued to increase across the Montréal CMA in 2017, even after the new mortgage rules came into effect in the fall of 2016.
- The growth in transactions was much more significant in the higher price ranges. The demand was very likely driven by buyers with relatively high incomes and a certain amount of housing wealth.
- Active listings have decreased significantly, and the market has been gradually returning to a sellers' market.
- Upward pressure on prices, while still modest, increased slightly over the last few quarters.
- Single-family home market conditions have now started to become fairly tight in certain sectors of the CMA, particularly on the Island of Montréal and the South Shore.
- The limited supply of single-family homes in certain sectors could lead to greater price increases over the next few quarters.
- Conditions also tightened in the condominium market. However, the condominium market has not fully rebalanced, with conditions still favouring buyers slightly.

The Toronto and Vancouver housing markets have been showing up in the headlines on a daily basis for some time now because of the strong growth in house prices in both cities¹. In Montréal, growth in house prices has been relatively modest over the last few years.

That said, since the beginning of 2016, the Montréal resale market has been tightening and becoming gradually more favourable to sellers. Upward pressure on prices increased slightly in recent quarters. The annual growth in the average Centris[®] price for the Montréal CMA was 4.4% in March 2017—the highest level of growth since 2012.

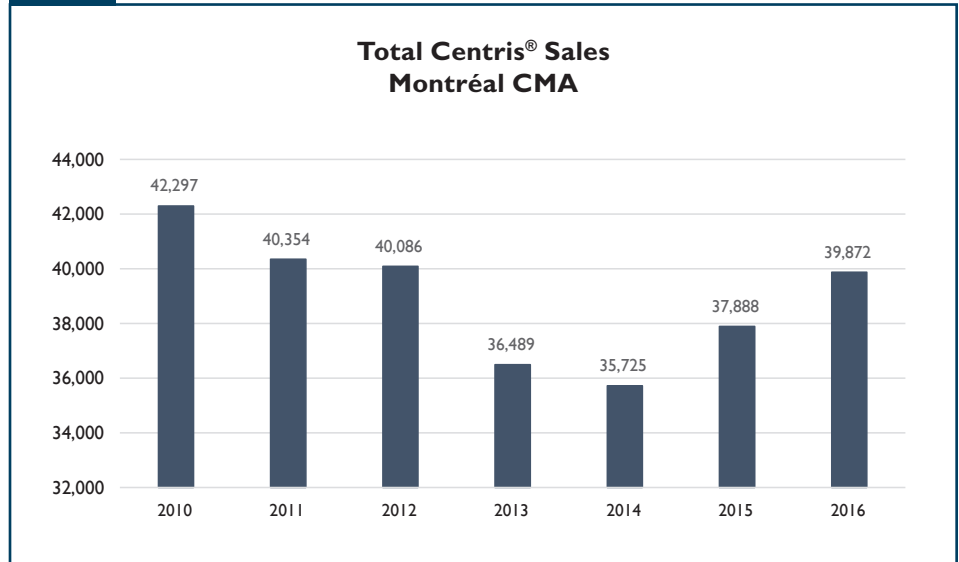
Additionally, single-family home market conditions have started to become fairly tight in certain sectors of the CMA, particularly on the Island of Montréal and the South Shore. The condominium market also tightened slightly, but conditions remained slightly favourable to buyers, especially in the northern crown.

In this issue of Housing Market Insight—Montréal CMA, we will look at the recent evolution of the CMA's resale market. We will first examine housing supply and demand, as well as the factors that influence them, and then explore their impact on market conditions and prices.

Employment growth triggered an increase in the number of resale market transactions

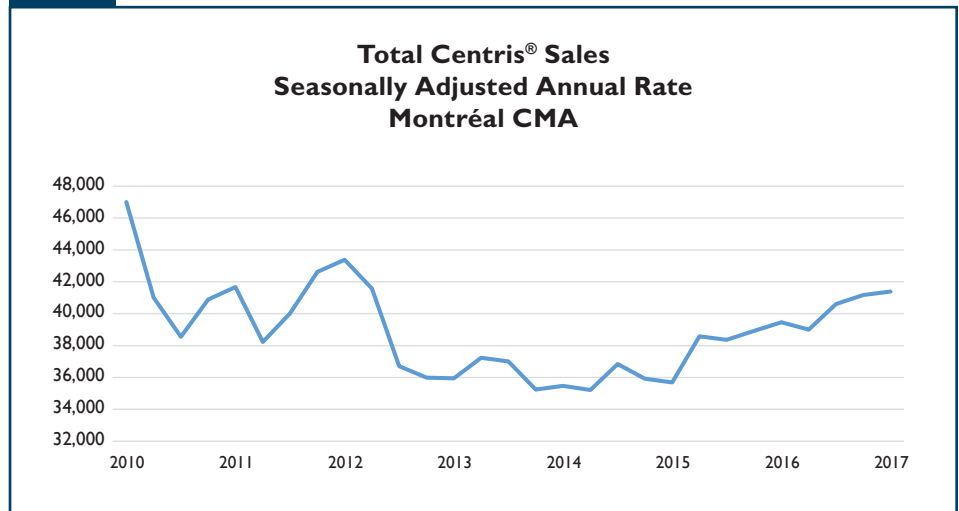
Supported by employment gains, the growth in transactions on the resale market continued in the first quarter of 2017 in the Montréal CMA. The increase recorded in the first quarter² (+5%) followed previous increases of 5% in 2016 and 6% in 2015 (see figure 1). The resale market therefore regained some ground following a period of decline from 2011 to 2014.

Figure 1



Source: QFREB, through the Centris[®] system.

Figure 2



Sources: QFREB, through the Centris[®] system; CMHC, seasonally adjusted data.

Having remained relatively stagnant for a lengthy period (from 2002 to 2015), full-time jobs for 25- to 44-year-olds increased by 5% in 2016. People aged 25 to 44 represent the largest portion of property buyers (about 60% of home buyers) in the Montréal CMA³.

The stronger job market contributed positively to consumer confidence. In March, consumer confidence was at its highest level since 2007⁴.

In addition, relative to the last few years, a large proportion of consumers felt that it was the right time to make a significant purchase.

A more dynamic Montréal economy, combined with mortgage interest rates that remained historically low, contributed to stimulating housing demand in the Montréal CMA. As a result, transactions on the resale market remained strong after the new mortgage rules came into effect

in mid-October⁵. We can therefore say that the market showed some resilience and that buyers found ways to adapt to the new rules^{6,7}.

Sustained sales growth in the higher price ranges

The increase in transactions was much more significant in the higher price ranges, on both the single-family home and condominium markets.

Sales of single-family homes priced at \$500,000 or more⁸ grew by 19% over the last year⁹. For single-family houses over \$1,000,000, sales grew by 28% during the same period. In the other price ranges, sales growth was less pronounced and even decreased for homes under \$300,000 (see table I).

A similar trend was observed on the condominium market. Sales of condominiums priced at \$300,000 and over¹⁰ grew by 21%, while those of condominiums under \$300,000 showed more modest growth (+4%).

It could be inferred that demand for properties in the higher price ranges was sustained by buyers with relatively high incomes and a certain amount of housing wealth. Demand from first-time homebuyers, meanwhile, increased more moderately, particularly on account of weak growth in the number of young households¹¹.

Let's now take a look at recent trends in the number of properties for sale on the existing home market.

Fewer and fewer properties for sale on the existing home market

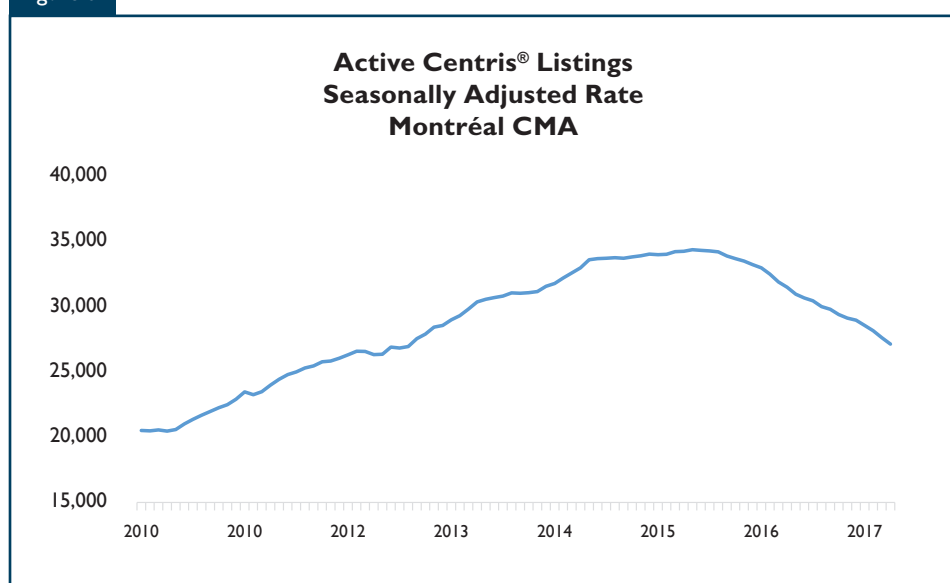
Active listings decreased significantly over the last few quarters (see figure 3). After reaching a high of over 34,000¹² in

Table I

Change (%) in total Centris® sales by price range						
Montréal CMA						
Single-family homes (\$)						
	< 200,000	200,000 – 299,999	300,000 – 399,999	400,000 – 499,999	500,000 – 1,000,000	1,000,000 and over
2015	-3.9	4.6	8.4	19.7	20.6	17.5
2016	-3.4	-0.6	6.3	5.0	15.9	23.4
Q1 2017	-6.7	-4.9	7.4	7.7	17.0	27.9
Condominiums (\$)						
	< 200,000	200,000 – 299,999	300,000 – 399,999	400,000 – 499,999	500,000 and over	
2015	-4.4	2.3	13.7	18.2	13.9	
2016	7.2	3.2	12.2	17.5	26.2	
Q1 2017	5.9	3.2	14.9	24.8	31.5	

Source: QFREB, through the Centris® system.

Figure 3



Sources: QFREB, through the Centris® system; CMHC, seasonally adjusted data.

2015, the number of properties for sale on the Centris® network was 27,600 in March 2017, which represents about a 20% decrease.

This decrease was partially due to shorter times to sell (resulting from the increase in transactions). However, the significant and

persistent decrease in new listings (see figure 4) was the main reason for the decline in the supply of properties for sale.

On the single-family home and plex markets, new listings decreased sharply, while, on the condominium market, they decreased only slightly. In the first quarter of 2017, new listings posted decreases of 9% and 7% compared to the same period in 2016, for single-family homes and plexes, respectively, while they remained stable for condominiums.

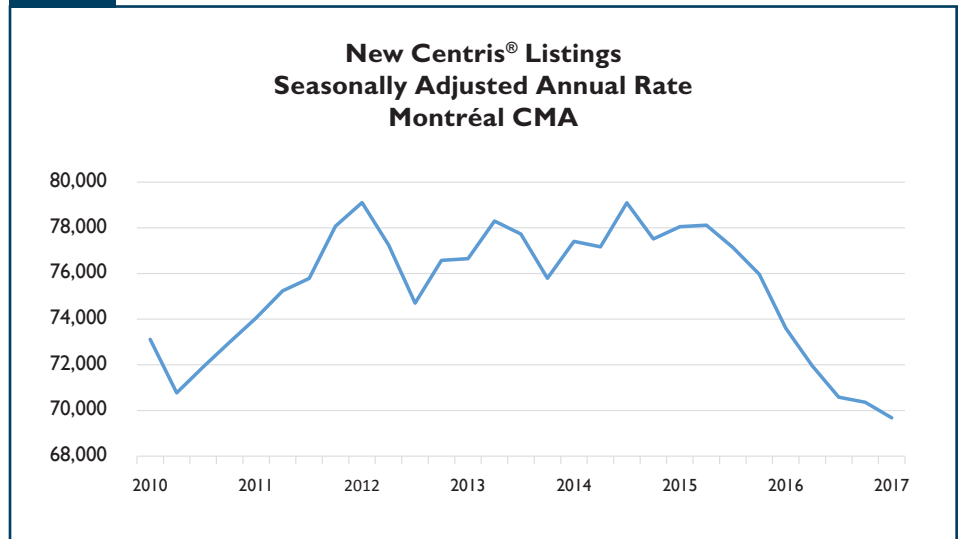
The somewhat soft market conditions may have encouraged fewer owners to put their properties up for sale recently. Indeed, the slow growth in prices over the last few years could have limited the potential gains to be made from the sale of a property.

Another factor to consider is the weak growth in the stock of single-family houses and plexes, because of the low levels of starts of these types, particularly on the Island of Montréal, over the last few years. On the condominium market, however, the stock increased considerably thanks to the high level of such starts recorded across the CMA in recent years. As a result, new condominium listings remained relatively stable.

Tightening market conditions and increasing pressure on prices

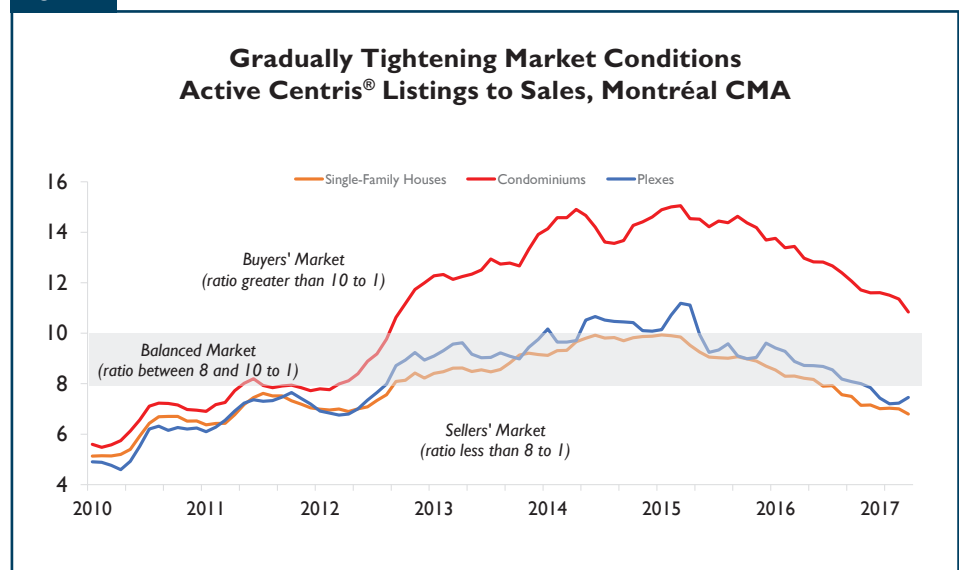
The increase in sales, combined with the decrease in supply, resulted in tighter market conditions for all property types over the last few quarters. Overall, the single-family home and plex markets were favourable to sellers¹³. On the condominium market, even though

Figure 4



Sources: QFREB, through the Centris® system; CMHC, seasonally adjusted data.

Figure 5



Sources: QFREB, through the Centris® system; CMHC, seasonally adjusted data, three-month moving average. Last data point: March 2017.

conditions tightened as well, they remained slightly favourable to buyers (see figure 5).

Because the market has started to favour sellers again, price growth has been somewhat stronger recently. Indeed, after having gone up between

1% and 2% per year from 2013 to 2015, the average Centris® price posted gains of 3.6% in 2016 and 4.4% in the first quarter of 2017. While the growth in the average price can partially be explained by a composition effect¹⁴, other price

indexes that control for this factor also show stronger price growth in the CMA as of late (see table 2).

Single-family homes: market shifts back to sellers' territory and price growth increases gradually

Market conditions tightened more in the single-family home segment. Favouring sellers since mid-2016, this segment has only continued to tighten since.

On the Island of Montréal and the South Shore, most sectors were favourable to sellers in the first quarter of 2017. In some of the most active sectors in terms of the volume of transactions, notably in the southern portion of the west part of the Island of Montréal (ratio below 5 to 1) and several sectors on the South Shore¹⁵ (ratios between 5 and 6 to 1), the market was fairly tight.

Single-family home market conditions also tightened in the sectors of the northern crown. In Laval, conditions reflected a sellers' market, while, on the North Shore, the market rebalanced, and conditions were approaching sellers' market territory.

Upward pressure on single-family home prices increased from one quarter to another. In the first quarter of 2017, it was on the Island of Montréal (+8%)¹⁶ that growth in the average price was highest, out of all of the CMA's large sectors. In the suburbs, this growth was 4% (South Shore) and 3% (northern crown). It must be noted that the sharp increase in single-family home sales in the higher price ranges surely contributed to raising the average price over the last few quarters, especially on the Island of Montréal. However, the CREA HPI, which controls for the

Table 2

Change (%) in average prices and price indices						
Montréal CMA						
	Average Centris® Price				Teranet–National Bank Index	CREA Home Price Index
	Total	Single-Family Houses	Condominiums	Plexes		
2012	3.9	3.2	3.6	4.5	3.0	3.3
2013	0.9	1.2	-0.7	1.5	0.4	2.3
2014	2.2	2.6	2.2	3.0	0.3	0.3
2015	1.9	2.9	2.5	1.8	0.4	1.8
2016	3.6	3.8	3.0	3.3	0.8	3.3
2016 (March 2016)*	1.8	2.5	1.5	1.4	0.0	1.5
2017 (March 2017)*	4.4	4.9	4.4	3.3	3.5	3.3

Sources: QFREB, through the Centris® system, Teranet–National Bank House Price Index, CREA Home Price Index.

*Annual growth

composition effect, also showed a increase in single-family home prices over the last few quarters¹⁷ in the CMA.

Even though evidence of overheating, price growth acceleration and overvaluation remained weak¹⁸ in the CMA, we will have to pay special attention to developments on the single-family home market in the short term, especially on the Island of Montréal. If demand remains high, the limited supply of single-family houses in certain sectors could result in an upward surge in prices over the next few quarters.

Condominiums: market continues to rebalance

Having clearly been favourable to buyers since 2012, conditions on the condominium market have now begun to tighten. Still, the market has not fully rebalanced, with conditions still slightly favourable to buyers.

On the Island of Montréal and the South Shore, market conditions were already balanced in some sectors (Le Plateau Mont-Royal and Rosemont) in the first quarter of 2017 and even slightly favoured sellers in certain others (Le Sud-Ouest and Boucherville–Saint-Bruno).

The rebalancing of the condominium market has been taking longer in other sectors because supply has remained high. In Laval and on the North Shore (active listings-to-sales ratios above 15 to 1 in the first quarter of 2017), market conditions were still clearly favourable to buyers. In the northern crown sectors, conditions have softened significantly over the last few years. On the North Shore, in addition to the increase in condominium listings, we should mention the sustained level of condominium starts relative to the size of the condominium stock¹⁹ in the sector.

The tightening of the condominium market also resulted in slightly higher growth in the average price. Just as for single-family homes, increases in the average price for condominiums have recently been stronger than in the last few years. As was the case for the slightly tightening of market conditions, annual growth in the average price in the first quarter was more pronounced on the Island (+4.8%) than in the suburban sectors. This growth was around 3% in Laval and on the South Shore, while prices stayed stable on the North Shore.

At this pace, the condominium market could balance out for the overall CMA by the end of the year. If so, this would be the first time it has done so since 2011. For most of the sectors in the northern crown, however, it will still take some time for the surplus of condominiums for sale to be absorbed and for market conditions to balance out.

Plexes: market slightly favours sellers

Finally, on the CMA's plex market, conditions slightly favoured sellers, as shown in figure 5. In this segment, too, the average price increased at a slightly faster pace over the last few quarters. In the first quarter of 2017, price growth was 3.3%. This market segment accounts for only 10% of total Montréal resale market transactions, and activity is highly concentrated in certain sectors on the Island of Montréal.

Conclusions

Sustained by a strong labour market, transactions continued to rise across the Montréal CMA, even after new mortgage rules came into effect in the fall of 2016.

There were more buyers across the CMA. Often, these were buyers with relatively high incomes and a

certain amount of housing wealth. Additionally, they have been faced with supply that has been diminishing from month to month, especially on the single-family home and plex markets. As a result, conditions have been tightening, the market has been returning to sellers' territory, and prices have been rising at a slightly higher rates than in recent years.

The single-family home market has now become fairly tight in certain sectors, notably on the Island of Montréal and the South Shore. Pressure on single-family home prices, which has already been rising as of late, could cause prices to rise even more if demand is sustained. The condominium market continued to tighten as well and could balance out for the first time since 2011, except in the sectors of the northern crown.

ENDNOTES

- ¹ According to CMHC's analysis, the Toronto and Vancouver housing markets show strong evidence of problematic conditions. On the Montréal CMA housing market, however, evidence of problematic conditions is weak. There is no significant evidence of overheating, price growth acceleration or overvaluation. See CMHC's Housing Market Assessment (HMA) report for the second quarter of 2017.
- ² Compared to the same period in 2016.
- ³ Source: Statistics Canada (National Household Survey, 2011).
- ⁴ Source: Conference Board of Canada (Index of Consumer Confidence for Quebec).
- ⁵ On October 3, the Government of Canada announced the adoption of measures to ensure the strength and stability of Canada's housing markets and housing finance system. See https://www.fin.gc.ca/n16/data/16-117_2-eng.asp
- ⁶ CMHC estimated that the mortgage interest rate stress test for insured loans would affect between 5% and 10% of buyers. Additionally, in the December 2016 issue of the Financial System Review, the Bank of Canada estimated that the impact would be lesser in markets with lower prices, such as Montréal and Ottawa-Gatineau (as opposed to Toronto and Vancouver).
- ⁷ Buyers can purchase lower-priced properties or, when possible, increase their down payment.
- ⁸ Sales of single-family homes priced at \$500,000 or more represent about 15% of single-family home sales across the Montréal CMA.
- ⁹ As of the first quarter of 2017.
- ¹⁰ Sales of condominiums priced at \$300,000 or more represent about 30% of condominium sales across the Montréal CMA.
- ¹¹ According to Institut de la statistique du Québec projections, annual growth in the number of households aged under 35 will be +0.2% in 2016 and will be +0.1% in 2017 (Perspectives démographiques du Québec et des régions, 2011-2061).
- ¹² Seasonally adjusted data.
- ¹³ According to CMHC's scale, a market favours sellers when the active listings-to-sales ratio is less than 8 to 1 and favours buyers when the ratio is greater than 10 to 1.
- ¹⁴ See section on sustained sales growth in the higher price ranges.
- ¹⁵ Saint-Hubert, Boucherville–Saint-Bruno, Brossard–Saint-Lambert, Sainte-Julie–Varennnes.
- ¹⁶ Growth in the weighted price for the last 12 months.
- ¹⁷ According to the HPI, annual growth in single-family home prices in the CMA was 3.6% in March 2017, compared to 2.0% at the same time in 2016.
- ¹⁸ See CMHC's HMA report.
- ¹⁹ Source: MAMROT.

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