

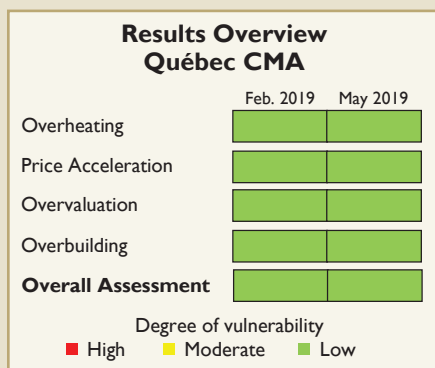
HOUSING MARKET ASSESSMENT

Québec CMA

Date Released: Second Quarter 2019



Highlights



- According to CMHC’s Housing Market Assessment (HMA) analytical framework, the overall degree of market vulnerability remained low in the Québec census metropolitan area (CMA) in the fourth quarter of 2018.¹
- There was still no indication of market overheating or price growth acceleration. Overall, the supply of homes was keeping pace with demand.
- Home prices remained consistent with the overall economic and demographic trends in the area. Evidence of overvaluation therefore stayed low.
- While the completion of a significant number of condominium units drove up the inventory of unabsorbed new homes in the fourth quarter of 2018, the level of construction was still below the threshold for overbuilding.

HMA Overview²

As Canada’s authority on housing, CMHC contributes to market stability by providing information on potential imbalances that could affect housing markets. With the Housing Market Assessment (HMA), CMHC offers information and analysis that can help Canadians make more informed decisions and contribute to an orderly adjustment of housing market imbalances.

The HMA is an analytical framework that provides a comprehensive view of housing market vulnerabilities. It should be noted that it intends to identify imbalances in the housing market; it is not aimed at being a framework to identify long-term fundamental affordability challenges. It considers four main factors:

overheating, price acceleration, overvaluation and overbuilding. Overheating is detected when sales greatly outpace new listings in the market for existing homes. Price acceleration is signaled when the growth rate of house prices increases rapidly. Overvaluation indicates that house prices are elevated compared to price levels supported by personal disposable income, population, interest rates, and other fundamentals³. Overbuilding is flagged when the rental apartment vacancy rate and/or inventory of newly built and unsold housing units are significantly above normal levels.

The HMA combines the results from a technical framework with insights gained through CMHC’s market analysts’ knowledge of local market conditions. These insights allow CMHC

to provide additional context and interpretation to the results of the HMA framework.

Colour codes indicate the degree of market vulnerability. The HMA is a comprehensive framework that considers both the intensity (magnitude) and the persistence of signals of imbalances. Generally, low intensity and persistence are associated with low evidence of vulnerability. As the number of intense and persistent signals increases, the associated degree of vulnerability becomes higher.

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¹ Results are based on data as of the end of December 2018 (the annual rental apartment vacancy rates are from October 2018) and local market intelligence up to the end of March 2019.

² A detailed description of the framework is available in the appendix of the [National edition](#).

³ Other fundamental factors include mortgage-borrowing capacity of households, required minimum down payment, and labor productivity.

In Detail

Evidence of overheating remains low

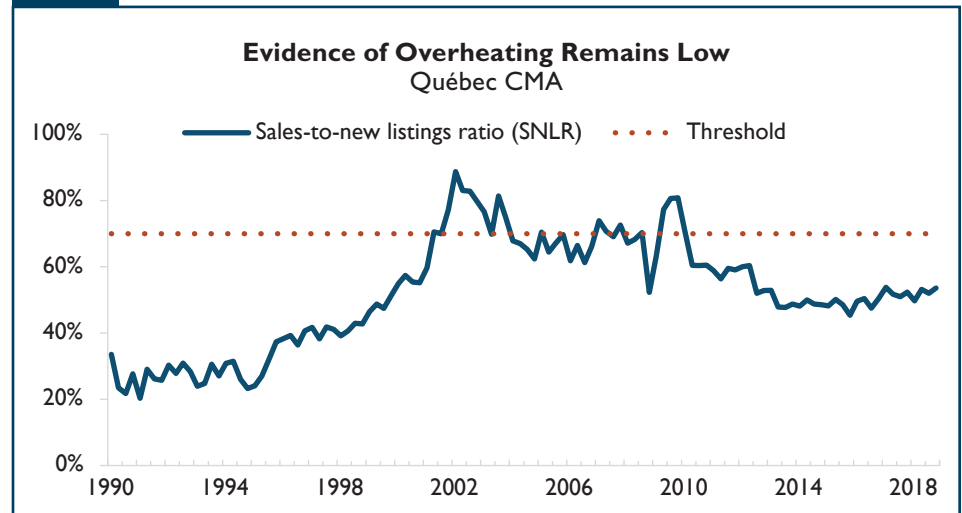
According to the HMA analytical framework, evidence of overheating remained low in the Québec census metropolitan area (CMA) in the fourth quarter of 2018. In fact, the Centris® residential sales-to-new listings ratio (SNLR) reached 53.6%, still well below the overheating threshold of 70% for Québec (figure 1). This means that, overall, supply on the market was keeping pace with demand.

Supported by a strong job market, Centris® residential sales in the area rose by 4.2% in 2018, the largest gain since 2007. However, new listings of homes for sale increased by the same proportion last year (+4.1%), such that the ratio between demand and supply did not change significantly. Overall, the supply of residential properties for sale in the area remained rather abundant relative to demand.

This finding was applicable to all housing types, to varying degrees, based on the analysis of another indicator, namely, the seller-to-buyer ratio. A market is said to be “balanced” when there are, on average, 8 to 10 properties for sale for every buyer.⁴ In the fourth quarter of 2018, the

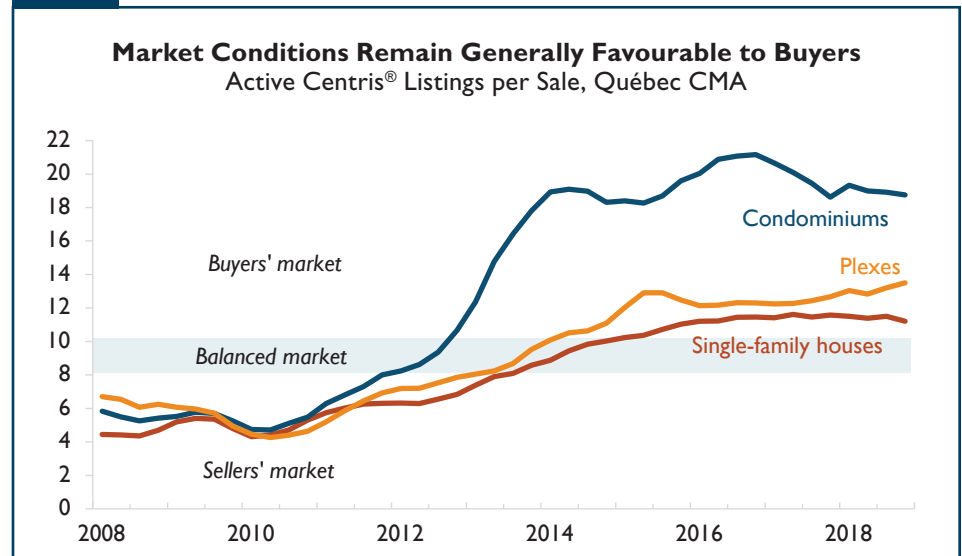
average numbers of active Centris® listings per sale in the Québec CMA were 11.2 for single-family houses,⁵ 13.5 for plexes and 18.8 for condominiums⁶ (figure 2). Overall, buyers in the Québec area therefore had a relatively ample choice of homes, especially in the case of condominiums.

Figure 1



Sources: Québec Federation of Real Estate Boards (QFREB), CMHC calculations
Last data point: Fourth quarter 2018

Figure 2



Sources: QFREB, CMHC calculations
Last data point: Fourth quarter 2018



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Senior Analyst
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“In the fourth quarter of 2018, there was still no evidence of significant or persistent imbalances on the housing market in the Québec metropolitan area. The overall degree of market vulnerability remained low.”

⁴ In a sellers' market, the ratio is below 8 sellers (or active listings) per buyer (or Centris® sale); in a balanced market, the ratio is between 8 and 10 sellers per buyer; and, in a buyers' market, the ratio is above 10 sellers per buyer. In a sellers' market, sellers have greater negotiating power relative to buyers, such that price increases are usually higher. In a buyers' market, buyers have greater negotiating power relative to sellers, such that prices rise only slightly or can even fall. In a balanced market, buyers and sellers have similar negotiating power, such that prices tend to increase at about the rate of inflation.

⁵ Single-detached, semi-detached and row homes.

⁶ Figures for the 12 months to the end of the fourth quarter of 2018.

While single-family home market conditions effectively favoured buyers in the outlying sectors such as the South Shore, La Côte-de-Beaupré and La Jacques-Cartier, several zones of the Québec Agglomeration still had balanced markets. In the fourth quarter of 2018, single-family home market conditions were balanced in Beauport, Charlesbourg, La Haute-Saint-Charles, Val-Bélair-L’Ancienne-Lorette and Sainte-Foy-Sillery. The more limited supply of single-family homes relative to demand even gave the edge to sellers in Les Rivières and the Basse-Ville.

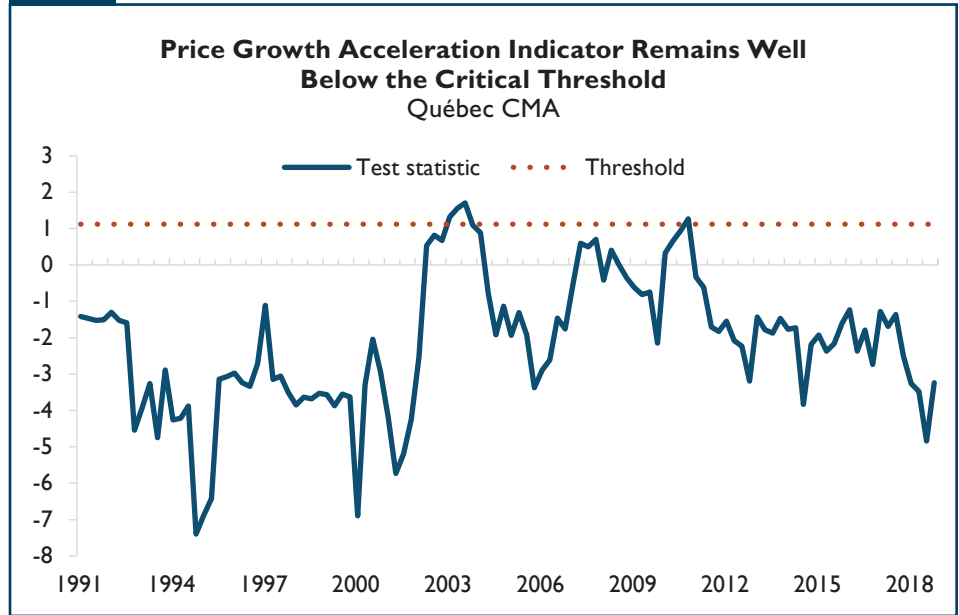
As well, the relationship between supply and demand remained tighter for more affordable single-family houses. The number of sellers per buyer in the Québec CMA in the fourth quarter of 2018 were 7.9 for homes under \$225,000, 10.0 for those from \$225,000 to \$300,000 and 16.2 for those over \$300,000.

Market conditions were therefore tighter in certain market segments than in others. Still, demand for residential properties did not seem to be significantly or persistently exceeding supply in the Québec area, which kept the risks of overheating low and limited the growth in home prices.

No evidence of price growth acceleration

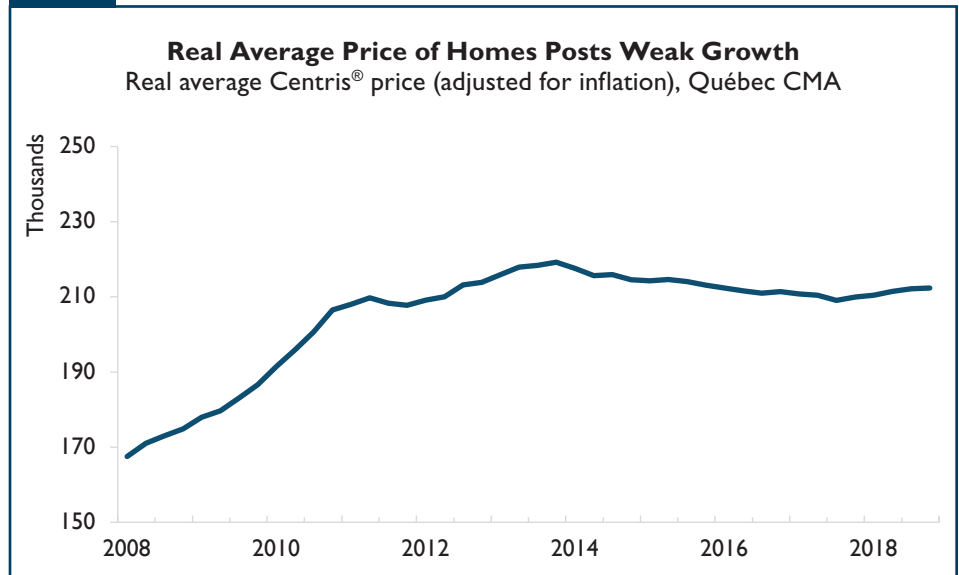
The HMA analytical framework still did not detect any evidence of price growth acceleration in the Québec CMA in the fourth quarter of 2018 (figure 3). This was not surprising, given the continued slow rise in house prices in the area (figure 4). Between the fourth quarter of 2017 and the fourth quarter of 2018, the average Centris® price, for all housing types combined, rose by 2.1%.⁷ When adjusted for inflation, this represents a real increase of just under 0.5%.

Figure 3



Sources: QFREB, CMHC calculations
Last data point: Fourth quarter 2018

Figure 4



Sources: QFREB, CMHC calculations
Seasonally adjusted data, four-quarter moving average
Last data point: Fourth quarter 2018

⁷ Seasonally adjusted data.

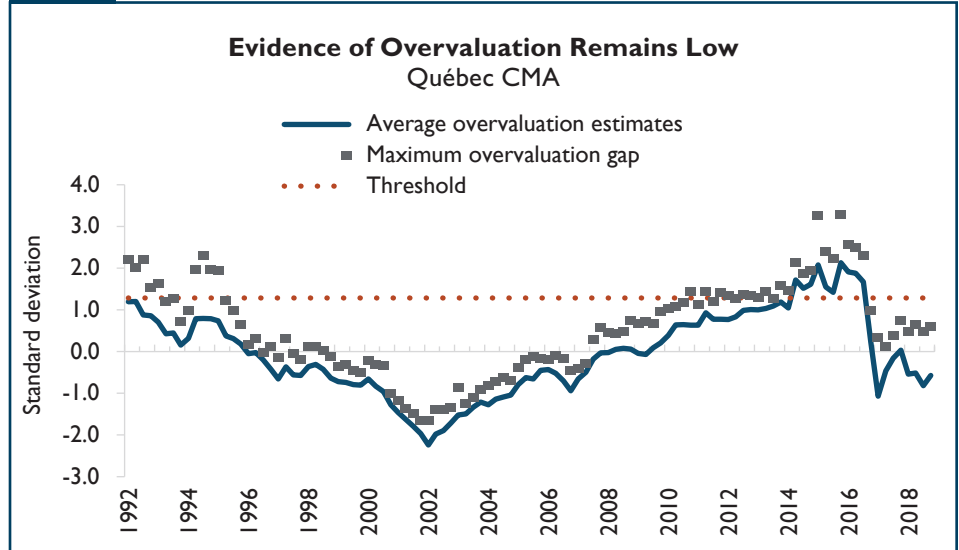
In the single-family home segment, which accounts for more than 70% of the sales in the Québec CMA, the median Centris® price—a measure that is less sensitive to extreme values than the average price—grew by 1.4% in 2018. Although slightly greater than the gains registered in the previous three years, this growth in prices remained modest. In the condominium and plex segments, the increases in median price were 1.1% and 1.9%, respectively, in 2018. As mentioned in the previous section, the relatively large supply of properties for sale was one factor that contributed to limiting the growth in home prices in the area.

Other available home price indices for the Québec area also indicated weak growth and even a decline in real price levels. Between the fourth quarter of 2017 and the fourth quarter of 2018, the Teranet–National Bank House Price Index™ fell by 2.0% and the Statistics Canada New Housing Price Index (NHPI) decreased by 1.4%.⁸ This downward trend in price levels also supports the diagnosis of our analytical framework to the effect that there was no evidence of price growth acceleration in the Québec metropolitan area.

Evidence of overvaluation remains low

Evidence of house price overvaluation in the Québec metropolitan area remained low in the fourth quarter of 2018. Indeed, none of the models used in the HMA analytical framework seemed to suggest that house prices were significantly and persistently above the levels supported by the fundamentals (figure 5). In other words, home prices remained consistent with the overall economic and demographic trends in the area.

Figure 5



Sources: QFREB, Statistics Canada, Teranet and National Bank of Canada, CMHC calculations
Last data point: Fourth quarter 2018

Note: The average estimate of overvaluation is the average gap between actual house prices and price levels estimated from a group of selected models. Baseline models include demand, supply, hybrid and affordability models, each of which is estimated using four measures of house prices to generate 16 unique estimates of overvaluation. The selection of models is conducted with a set of cointegration tests, and the selected models are estimated with dynamic ordinary least squares (DOLS). The maximum overvaluation gap is obtained from the model that has the largest gap between the actual price and the estimated price. The threshold is fixed at a critical value of 1.29 for a confidence level of 80%. Overvaluation is signalled when overvaluation estimates lie above the threshold.

Certainly, according to the estimates, the population aged 25 to 34—the pool of potential first-time homebuyers—in the greater Québec area is at a standstill, and mortgage rates across the country have been rising again since the second half of 2017. These factors are likely to somewhat weaken housing demand and lower the anticipated level of prices. However, economic conditions in the area improved in 2017 and 2018, and full-time employment rose significantly,⁹ which likely helped offset the weak population growth and higher borrowing costs. In 2018, Québec was the only metropolitan area in the country where the employment rate among people aged 25 to 54 surpassed 90%. The strong job market may well have contributed to supporting

growth in personal disposable income and stimulating demand on the housing market.

Also, as noted in the previous section, growth in home prices has remained rather weak in the Québec area over the past few quarters. As such, there was no indication of any significant or persistent imbalances appearing between the prices observed in the area and those corresponding to the economic and demographic conditions and the level of activity on the housing market. Evidence of overvaluation therefore remained low.

⁸ Seasonally adjusted data.

⁹ According to data from Statistics Canada's Labour Force Survey, full-time employment in the Québec CMA went up by 3.7% in 2017 and by 2.2% in 2018. By comparison, total growth in full-time employment was 1.8% for the five-year period from 2011 to 2016.

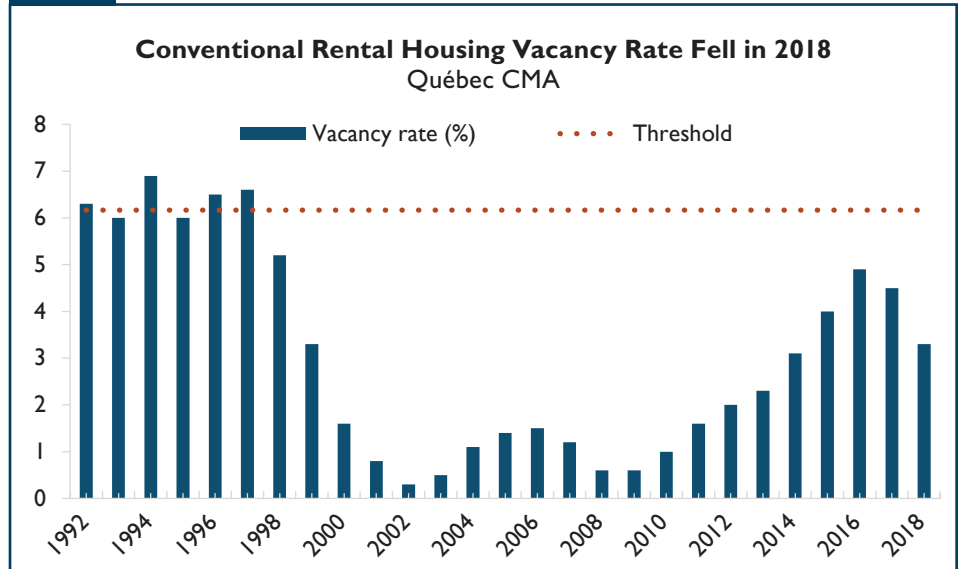
Evidence of overbuilding stays low

Evidence of overbuilding in the Québec CMA remained low in the fourth quarter of 2018. Two indicators are used to detect such evidence: the inventory of completed and unabsorbed freehold and condominium housing units per 10,000 population and the vacancy rate for conventional rental housing. These two indicators stayed below the thresholds that could indicate significant and persistent imbalances in the growth in housing supply.

However, the inventory of completed and unabsorbed housing units increased sharply in the fourth quarter of 2018. This was due to the simultaneous completion of a few large condominium buildings, for a total of nearly 900 units. While the inventory of unabsorbed new condominiums rebounded in the fourth quarter of 2018, the information now available indicates that this number decreased significantly in the first quarter of 2019.¹⁰

As well, the number of new condominium units under construction is now much lower, suggesting that evidence of overbuilding should remain low over the coming months. Still, the inventory of new units to be absorbed was higher than in previous quarters and a relatively significant inventory of existing units remained available on the resale market (see the section on overheating). As a result, there was still some risk, albeit low, of imbalances between supply and demand on the condominium market.

Figure 6



Source: CMHC Rental Market Survey
Last data point: 2018

Evidence of overbuilding was also low on the conventional rental market in the fourth quarter of 2018. In fact, even though the construction of new rental apartments has increased considerably for the past three years, the proportion of vacant units in the Québec CMA has decreased in the last two years. The vacancy rate for conventional rental apartments, measured by CMHC in October of each year, fell from 4.9% in 2016 to 4.5% in 2017 and then to 3.3% in 2018 (figure 6). The growth in rental housing demand therefore outpaced the increase in supply over this period.

The strengthening demand for rental housing in the last two years was likely attributable to a combination of several factors, including the vigorous job market, the rising net migration in the area and the accelerated aging of the population.¹¹ Consequently,

the market was able to absorb a greater number of rental housing units.

The vacancy rate will next be measured in October 2019. In the meantime, the factors that have recently supported rental housing demand in the area should persist. As well, supply will continue to grow at a good pace, given the large number of units that are currently under construction and that should be completed over the coming quarters. Generally, the overall vacancy rate could remain relatively stable. But, some uncertainty factors remain, such as the magnitude and pace of the changes in tenure among baby boomers. We will continue to monitor this market closely over the coming quarters.

¹⁰ The data on the inventory of completed and unabsorbed housing units come from CMHC's Starts and Completions Survey. In this monthly survey, units not already sold upon completion of a building are considered unabsorbed. It is possible that the time between the sale of a unit and the moment when the information on the transaction becomes available leaves a number of units in the "unabsorbed" category during a given quarter, even if, in reality, they have been sold. The information is incorporated into the new data as it becomes available. In this case, the information now available indicates that the inventory of completed and unabsorbed condominium units in the Québec CMA in the fourth quarter of 2018 was in fact lower than the data suggested at the time.

¹¹ For a detailed analysis of rental market trends in the Québec CMA, see the 2018 issue of the [Rental Market Report](#) for the Québec CMA.

Overview of the Housing Market Assessment Analytical Framework

To obtain an accurate picture of the overall state of the housing market, it is important to consider multiple data points and lines of evidence. The Housing Market Assessment (HMA) analytical framework provides a comprehensive and integrated view that relies on a combination of signals from several indicators to detect imbalances in housing markets.

Specifically, the framework considers four main factors that may provide an early indication of vulnerability in the housing market: (1) overheating when demand outpaces supply in the existing home market; (2) sustained acceleration in house prices meaning that the rate of increase in prices is itself increasing; (3) overvaluation of

house prices in comparison to levels that can be supported by housing market fundamentals (listed below); and, (4) overbuilding when the inventory of available housing units is elevated.

For each factor, the framework tests for the intensity (magnitude) and the persistence of signals. Generally, a situation in which we detect few signals with low intensity or lack of persistence is associated with a low degree of vulnerability. Conversely, as the number, intensity, and/or persistence of the signals increases, so does the evidence of imbalances in the housing market.

The framework takes into account demographic, economic, and financial determinants of the housing market

such as population, personal disposable income, and interest rates to detect vulnerability. The framework also takes into account recent developments in both resale and residential construction markets.

The framework was developed on the basis of its ability to detect vulnerable housing market conditions in historical data, such as the house price bubble Toronto experienced in the late 1980s and early 1990s. The ability of the HMA to detect vulnerabilities relies on the assumption that historical relationships between prices and fundamental drivers of housing markets have not changed.

Housing Market Assessment Factors

Overheating

Overheating is caused by demand significantly and persistently outpacing the supply of housing in the resale market. The sales-to-new listings ratio is used as an indicator to assess possible overheating conditions. To identify signs of overheating, the framework compares the sales-to-new listings ratio to thresholds. When demand is strong relative to supply, house prices typically grow at a faster rate. Sustained overheating on the existing home market may lead to acceleration in house prices for existing and new homes.

Acceleration in House Prices

House price acceleration occurs when the growth rate in house prices continuously increases. Acceleration in house prices over an extended period would

lead prices to unsustainable levels, hence increasing housing market vulnerability. To assess acceleration in house prices, the HMA framework uses a statistical test* that was developed to identify periods of accelerating growth in asset prices.

Overvaluation

Overvaluation is detected when house prices remain significantly above the levels warranted by fundamental drivers of housing markets such as income, population, and actual and expected financing costs. The HMA framework uses combinations of different house price measures and models—based on economic theory—to estimate house price levels warranted by fundamental drivers. The difference between observed house prices and their estimated levels consistent with housing market fundamentals

allows for an estimation of the degree of over- and undervaluation. The use of different price measures and models improves the reliability of results.

Overbuilding

Overbuilding is detected when the supply of readily available housing units significantly exceeds demand. In such a context, downward pressure on house prices would occur until the excess supply is eventually absorbed. To assess signs of overbuilding in the housing market, the HMA framework uses two indicators that relate to the supply of readily available housing units: the rental apartment vacancy rate, and the inventory of completed and unsold housing units per 10,000 population. The HMA framework compares the current levels and recent trends in these indicators with thresholds.

Note 1: Colour codes indicate the degree of market vulnerability. Overheating and price acceleration are each assessed with a single indicator. Colour scales for these factors vary between green and yellow only. Overvaluation and overbuilding are assessed with multiple indicators. Their colour scales, as well as the colour scale for the overall assessment, change among green, yellow and red to reflect different degrees of imbalances.

Note 2: Results at the CMA level are not segmented by housing type or neighbourhood. They represent an assessment of the entire CMA. However, specific CMA reports provide further detailed analysis of these markets.

Note 3: To ensure the framework is as current as possible, on a regular basis, we undertake a model selection process whereby our house price models for overvaluation are tested for statistical significance at the national and CMA level. The result of this process may change the number of indicators showing vulnerability from the previous assessment.

* See Phillips, Wu and Yu (2008) "Explosive Behaviour in the 1990s NASDAQ: When Did Exuberance Escalate Asset Values?" for further details on the methodology.

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