

HOUSING MARKET INSIGHT

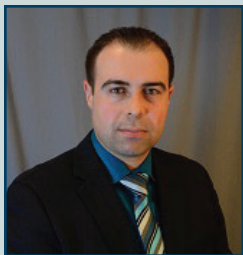
Montreal CMA



CANADA MORTGAGE AND HOUSING CORPORATION

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“Centris® data, largely used to analyze the state of the resale market, can also include a non-negligible number of new dwellings. When the data on new homes are excluded, and only existing homes are considered, it can be seen that resale market conditions are generally tighter. This is particularly the case for the Greater Montréal condominium resale market.”



Francis Cortellino
Economist

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Is the Greater Montréal resale market even “hotter” than the data suggest?

Centris® data, largely used to analyze the state of the resale market, can also include a non-negligible number of new dwellings. The inclusion of these new homes can impact the analysis of resale market conditions, such as the balance of power between buyers and sellers.

Since 2004, for all housing types combined, new homes have accounted for about 6% to 8% of new listings in the Centris® system, but only 3% to 6% of sales.

However, some years, nearly one in five new Centris® listings of condominiums in Greater Montréal was a new unit. In the case of sales, the proportions were often lower.

When new dwellings are excluded from the Centris® system, the gap between new listings (new supply) and sales (demand) on the Montréal resale market generally narrows. This means, for example, that over the last few quarters resale market conditions were even more favourable to sellers than the data suggest. And this more particularly affects the condominium resale market.

In fact, when new units are excluded, it can be seen that, since the middle of 2018 in Greater Montréal, resale market conditions have been slightly tighter in the condominium segment than in the single-family home segment, contrary to the result obtained (first quarter of 2019) when all data (on new and existing units) are used.

On the resale market, one of the indicators that is often used to measure the balance of power between the households who want to sell a property and those who want to buy one is the sales-to-new-listings ratio.¹ In this ratio,

sales represent the demand from households, while new listings represent the units newly listed for sale on the market (new supply).

The data on these sales and new listings are generally those from the Centris® system used by real

estate brokers. In practice, to get a comprehensive overview of the resale market, the data on homes “for sale by owner” would also have to be included, but unfortunately, we have no reliable data in this regard for the moment.²

Definitions and concepts

Centris®: System containing all properties for sale (or for rent) by real estate brokers in Quebec. Generally, the properties found in the Centris® system are existing homes (that is, they are no longer in the builder’s possession).

Centris® sale: Sale of a property made in the Centris® system through a Quebec real estate broker.

New Centris® listing: Property listed for sale in the Centris® system through a Quebec real estate broker.

Dwelling “for sale by owner”: Existing dwelling put up for sale by the homeowner (not through a real estate broker and, therefore, not in the Centris® system).

Centris® sales-to-new listings ratio: Ratio (%) between Centris® sales and new Centris® listings. The higher this ratio is, the narrower the gap is between sales and new listings. This happens, for example, when many potential buyers are faced with a very limited choice of homes newly listed for sale. In such circumstances, sellers are generally favoured, since, given the little choice available, buyers will generally not negotiate prices very much, which will put upward pressure on these prices. Bidding wars for properties can also occur, allowing sellers to choose the highest offer, if they so wish.

Conversely, when buyers have abundant choice, they then have greater negotiating power, which, in the end, will put little pressure on housing prices.

This ratio (or indicator) is also very useful, as it serves to compare market conditions not only among the various housing types (single-family houses, condominiums, and plexes with two to five units) but also among the various geographic sectors.

That said, the latest *Housing Market Insight* issue for the Montréal CMA³ showed that new Centris® listings, which are often used to analyze the state of the resale market because they generally represent data on existing homes, can also include a non-negligible number of new dwellings. This happens when a developer decides to turn over the sale of a new home to a real estate broker, who will then list the home in the Centris® system. As a result, the real numbers of new listings and sales on the resale market can be skewed by the inclusion of new homes.

In these circumstances, we might question whether the analysis of the state of the resale market, as defined by the sales-to-new listings ratio, which generally shows the balance of power between households who want to buy an **existing** home and those who put such homes up for sale,⁴ is not biased by the inclusion of new dwellings in the Centris® system.

For example, a large number of new listings of new homes, combined with a low level of sales of such homes, could give the impression that there is a wide gap between new supply and demand on the resale market, even though this is actually not the case (or, at least, the gap is not as wide as suggested).

The analysis of the state of the market for each housing type and the related differences could also be distorted if there were more new

homes included in one type than in the others. This report therefore aims to look at whether the inclusion of new homes in Centris® sales and new Centris® listings can impact the analysis of the Montréal resale market and, if so, to what extent.

This *Housing Market Insight* issue therefore first examines the inclusion of new dwellings in the Centris® system from 2004 to the third quarter of 2019. To this end, we obtained from the Quebec Professional Association of Real Estate Brokers (QPAREB) a special compilation of data on Centris® sales and new Centris® listings of new homes in the Montréal CMA.

The report then looks at whether the inclusion of new homes in the data changes the sales-to-new listings ratios on the Montréal resale market, for each housing type. These steps are needed to get the best possible analysis of the Greater Montréal resale market.

Numerous new condominiums in the Centris® system

Since 2004, for all housing types combined, new homes have accounted for about 6% to 8% of new listings in the Centris® system (see the first table). The proportions of sales of new homes have been lower, though, generally hovering between 3% and 6%. In fact, from 2004 to 2019, there was a gap of about 1 to 3 percentage points between the share of new homes among new Centris® listings and that among Centris® sales.

Given that more new homes are included in new listings than in sales,⁵ the indicator of the balance of power between sellers and buyers could be affected when these new homes are excluded (which is the subject of the next section).

A deeper analysis of the data revealed, however, that the inclusion of new dwellings was much more significant in the case of condominiums. Some years, nearly one in five Greater Montréal condominiums newly listed in the Centris® system was a new unit (see the second table). In the case of sales, the proportions were again more limited. In fact, from 2004 to 2019, there could be a gap of about 2 to 7 percentage points between the share of new units among new Centris® condominium listings and that among Centris® condominium sales.

These data therefore also indicate that the sales-to-new listings ratio could be affected by the inclusion of new condominiums.

As for new single-family houses, they accounted for about 3% to 4% of all new house listings and around 1% to 2% of house sales. For new plexes, the proportions were around 1% to 2% among both sales and new listings.

Proportions (%) of New Homes Among New Centris® Listings and Among Centris® Sales – Montréal CMA			
Period	New Listings	Sales	Gap (% points) Between New Listings and Sales
2004	6	3	3
2005	7	4	3
2006	7	5	2
2007	6	5	1
2008	6	5	1
2009	6	5	1
2010	7	5	2
2011	8	6	2
2012	8	6	3
2013	8	6	3
2014	8	5	2
2015	7	5	2
2016	7	4	3
2017	7	4	2
2018	6	4	2
2019 (first quarter)	6	3	3

Sources: QFREB, through the Centris® system; CMHC, calculations

Proportions (%) of New Units Among New Centris® Listings and Among Centris® Sales of Condominiums – Montréal CMA			
Period	New Listings	Sales	Gap (% points) Between New Listings and Sales
2004	13	6	7
2005	16	8	7
2006	14	11	3
2007	13	12	0
2008	12	10	2
2009	13	11	2
2010	15	11	4
2011	18	13	5
2012	19	13	5
2013	18	14	4
2014	16	13	3
2015	13	12	2
2016	13	10	3
2017	12	8	4
2018	9	7	2
2019 (first quarter)	9	5	4

Sources: QFREB, through the Centris® system; CMHC, calculations

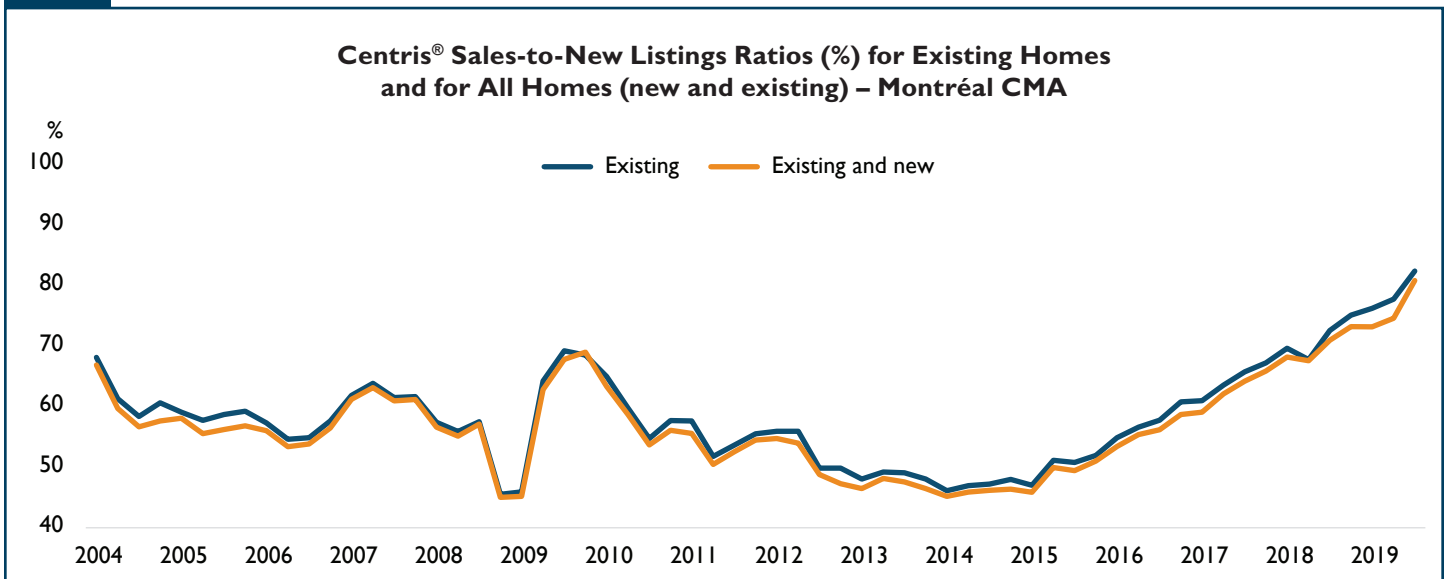
In short, it was really the condominium market that was most affected by the inclusion of new units.⁶ As well, given that new listings and sales of condominiums represent increasingly large shares of the real estate activity in Greater Montréal,⁷ they could also have impacts on our analysis of the overall Montréal resale market.

Resale market conditions slightly tighter with new homes excluded

When new homes are excluded from the data on Centris® sales and new Centris® listings, the sales-to-new listings ratio is higher, meaning that

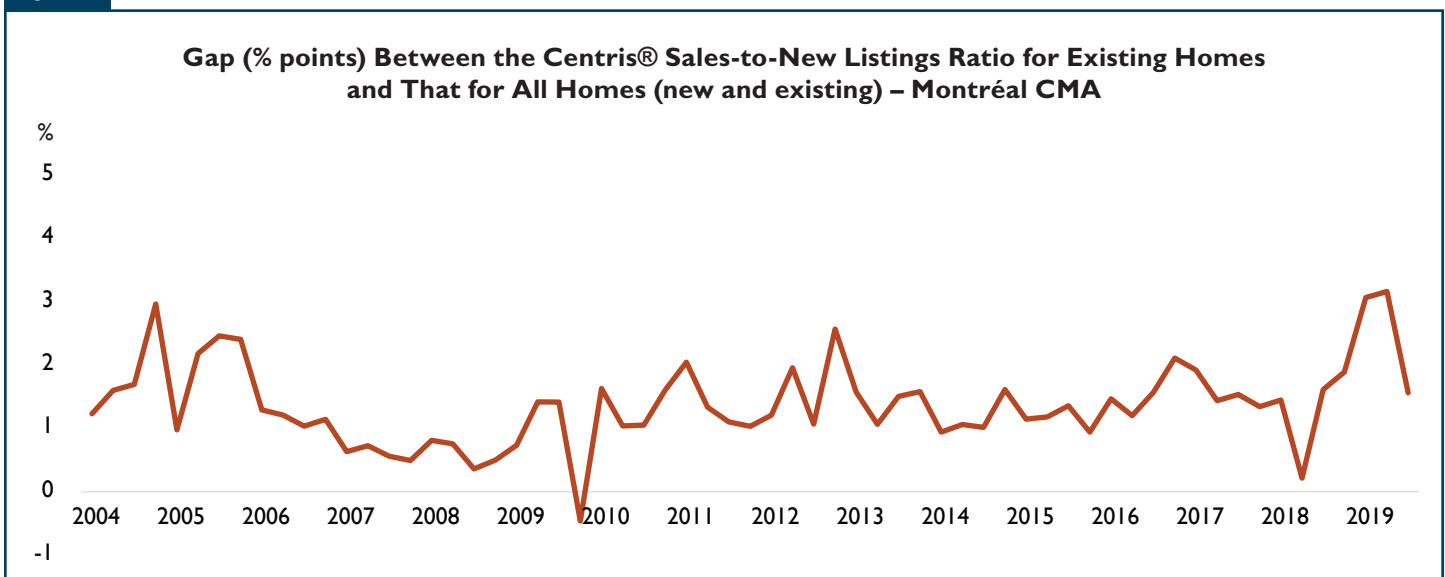
resale market conditions are generally somewhat tighter (see figures 1 and 2). However, given that existing homes account for the vast majority of properties in the Centris® system, the two curves follow relatively similar paths (see figure 1).

Figure 1



Sources: QPAREB, through the Centris® system; CMHC, calculations
Seasonally adjusted data.

Figure 2



Sources: QPAREB, through the Centris® system; CMHC, calculations
Seasonally adjusted data.

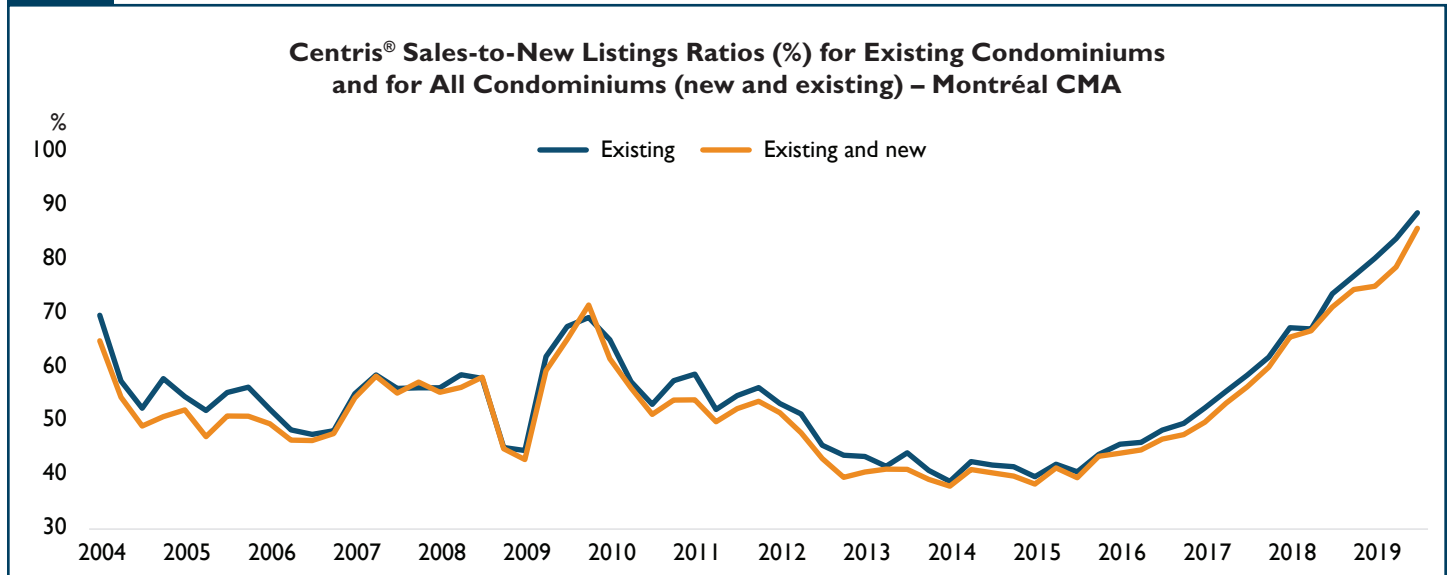
For condominiums, a housing type for which the presence of new units in the Centris® system is more significant, market conditions once again appear slightly tighter when new units are excluded (see figure 3). For example, as of the third quarter of 2019, the sales-to-new listings ratio was close to 90% for

existing condominiums, while this ratio hovered around 85% for all condominiums (new and existing). In other words, from July to September 2019 (at the seasonally adjusted rate), for every 100 existing condominiums newly offered in the Centris® system, 90 were removed from the market as a result of a sale.

Therefore, during certain periods, as was the case just recently, the gap can also be quite marked between the two ratios, reaching about 5 to 6 percentage points (see figure 4).⁸

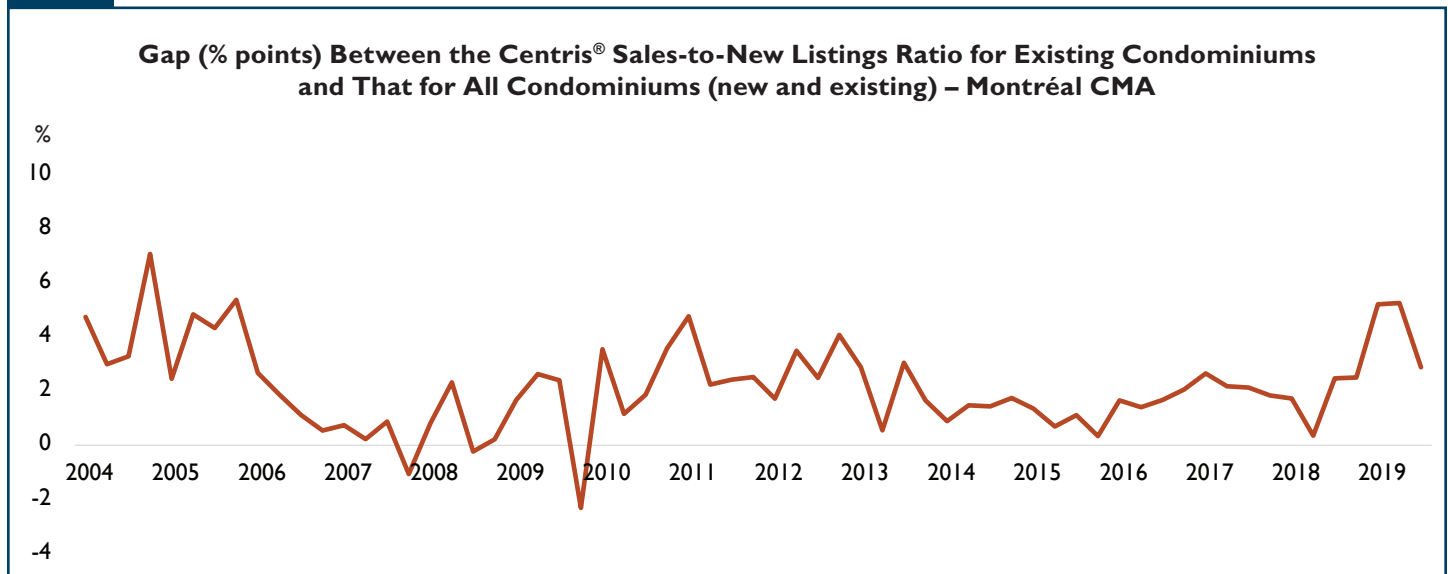
This situation in the condominium segment could also impact the analysis of market conditions for the different

Figure 3



Sources: QPAREB, through the Centris® system; CMHC, calculations
Seasonally adjusted data.

Figure 4



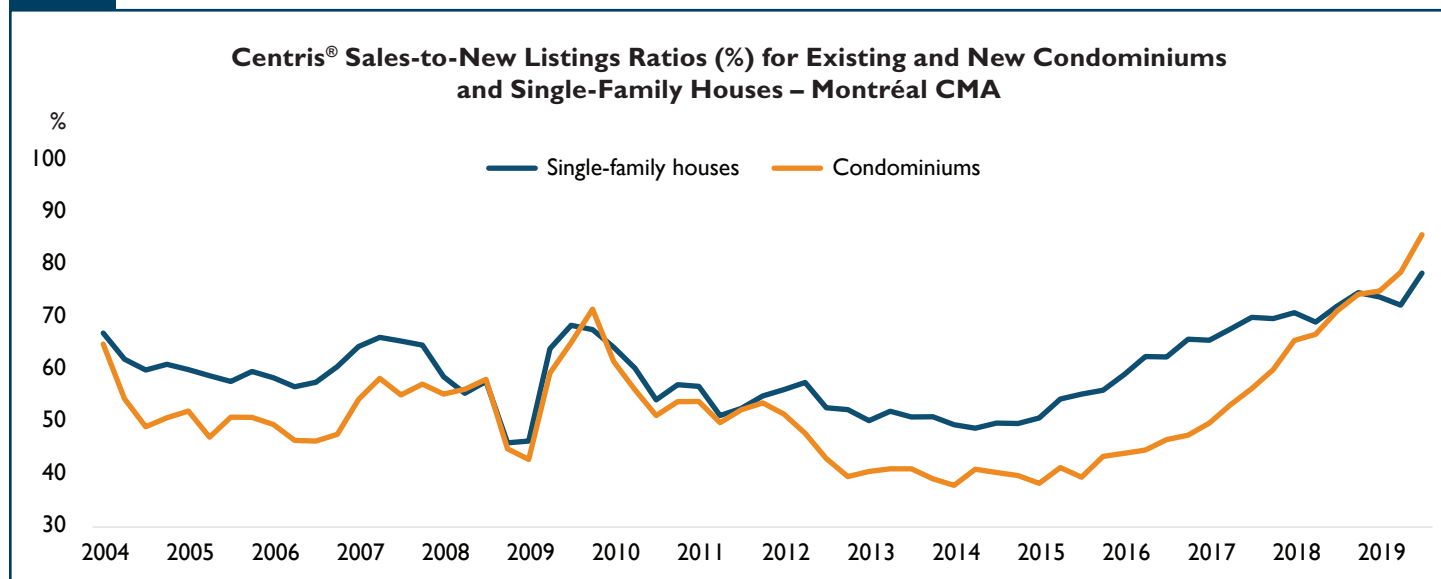
Sources: QPAREB, through the Centris® system; CMHC, calculations
Seasonally adjusted data.

housing types. Figures 5 and 6 respectively show the Centris® sales-to-new listings ratios of single-family houses and condominiums for new and existing units and for existing units only.

From the data on existing homes only, it can be seen, for example, that resale market conditions have in fact been slightly tighter for condominiums than for single-family houses since the middle of 2018. When all data (on new and existing units) are used, this moment is

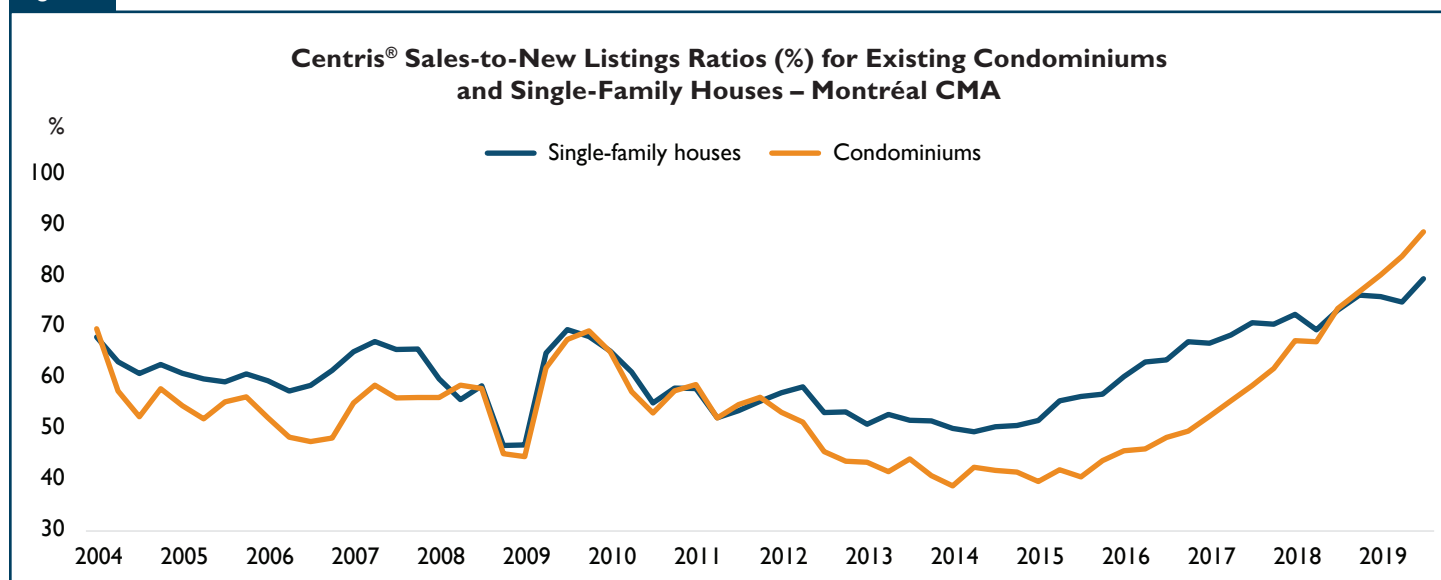
deferred by six months, that is, to the beginning of 2019. Overall, the analysis of resale market conditions for the various housing types therefore seems to be influenced, to some extent, by the presence of new homes in the Centris® system.

Figure 5



Sources: QPAREB, through the Centris® system; CMHC, calculations
Seasonally adjusted data.

Figure 6



Sources: QPAREB, through the Centris® system; CMHC, calculations
Seasonally adjusted data.

Implications and conclusions

The results presented in the previous two sections of the report revealed that the presence of new homes in the Centris® system could have an impact on the analysis of the housing market. It emerged that excluding new homes generally drove up the sales-to-new listings ratio, meaning that resale market conditions were tighter than the data suggested. This was in fact particularly true in the condominium segment.

In this regard, we might also question how the inclusion of new units on the resale market influences certain other statistics, such as the increase in residential sale prices and the number of days on market. Given that the exclusion of new homes generally results in tighter resale market conditions, these variables would probably be affected, but the extent to which they would be impacted remains to be determined. The condominium market could likely serve as a good starting point for this analysis.

Lastly, over the longer term, if we could obtain reliable data on homes “for sale by owner,” we would gain a comprehensive overview of resale market activity and the balance of power between buyers and sellers. The same data for the new home market would provide the advantage of giving us an even more comprehensive overview of the real estate market (new homes and resales), which would, in turn, allow us to analyze with greater precision the gaps between housing supply and demand in Greater Montréal.

ENDNOTES

- ¹ Throughout this report, the term “households” can also include other entities, such as trusts and corporations. However, sales and new listings must concern only existing dwellings (not new dwellings).
- ² See the text box for more details on the definitions and concepts presented so far.
- ³ July 2019.
- ⁴ In the last section of this report, we indicate what other data could prove interesting to obtain, since, over a longer term, they could allow for a more precise analysis of the balance of power between buyers and sellers.
- ⁵ Unfortunately, the reason why the proportion of new homes among new listings is greater than that among sales cannot be determined from the data. Nonetheless, this does not seem to be due to the fact that a new home can be listed for sale several times in the same year, which can inflate the number of new listings.
- ⁶ Given that new single-family houses have often already been bought (or paid) by households before they are started, builders cannot hand over their sale to real estate brokers for listing in the Centris® system. In the case of condominiums, buildings are typically started when 60% of the units have been presold. It is therefore more likely that project developers will hand over a few units to real estate brokers for sale in the Centris® system.
- ⁷ In 2004, condominiums accounted for about 20% of all Centris® sales (and 23% of new listings). In 2018, condominiums accounted for about 35% of all Centris® sales (and 35% of new listings). Source: QPAREB, through the Centris® system.
- ⁸ We did not have the data on sales of new condominiums by geographic sector of Greater Montréal. However, in a previous issue of *Housing Market Insight* for the Montréal CMA, it was mentioned that there were very many new listings of new condominiums on the Island of Montréal. This may therefore be the sector of the Montréal CMA where the exclusion of new condominiums could have the greatest impact on the sales-to-new listings ratio.

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