



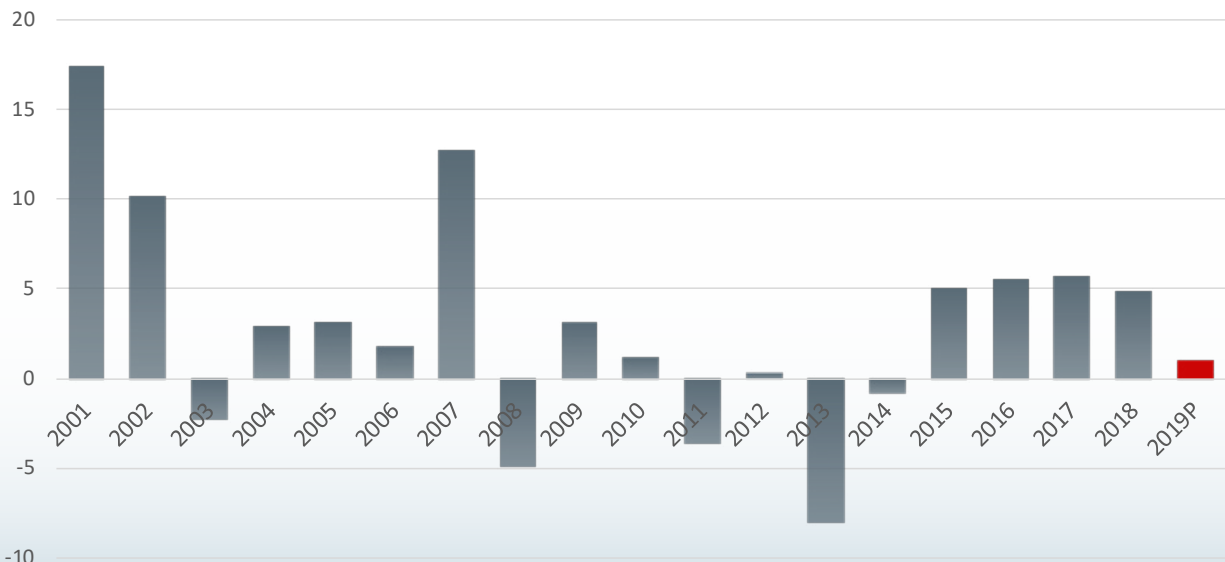
## HOW AFFORDABLE IS REAL ESTATE IN QUÉBEC?

Québec's real estate market is more active than ever. The number of residential transactions has been growing by about 5 per cent annually since 2015. However, despite the province's economic vitality and consumer confidence, we still expect there to be a slowdown in residential sales growth in 2019. In fact, we estimate that sales growth will be in the order of 1 per cent this year in Québec.

One of the reasons we anticipate a slowdown in sales is the recent deterioration of real estate affordability in Québec. Maintaining sustained sales growth depends mainly on the link between homeownership constraints (i.e., mortgage rules, interest rates, property prices) and households' ability to pay.

To understand and quantify the interaction between these determinants of the strength of the real estate market, we calculated a real estate affordability index for the province and for each of its six census metropolitan areas (CMAs).

**Graph 1: Annual change in sales in the province of Québec (%)**









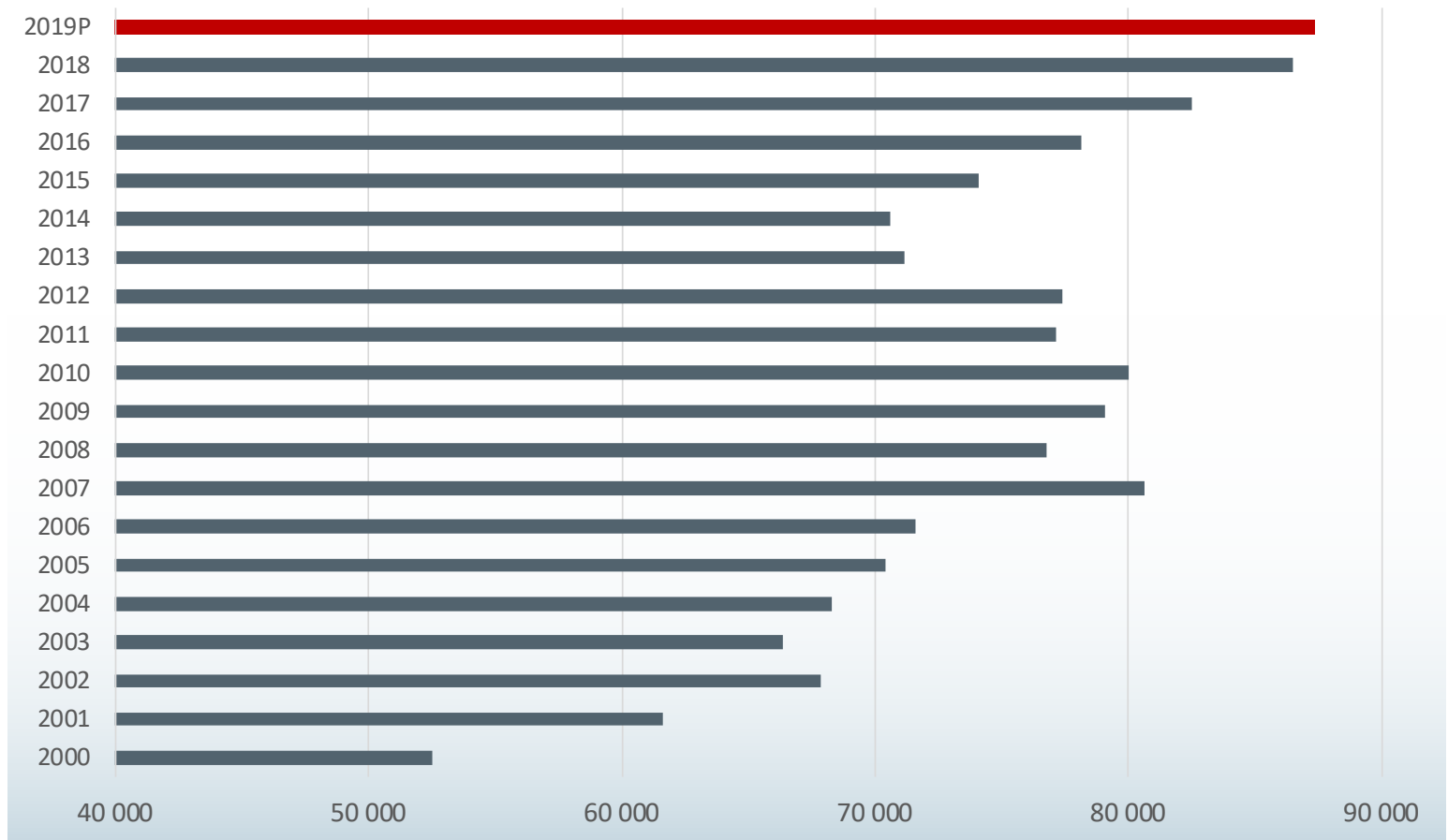




## Québec's outlook for 2019

As we have seen, the affordability index for the province of Québec has deteriorated and is at the same level as in 2008. A similar dynamic can be observed in the province's most populous CMA, Montréal. For these reasons, we anticipate lower sales growth this year, in the order of 1 per cent. However, this situation is far from worrisome, as a slowdown in sales growth still implies positive growth. In other words, even if sales growth were to slow in 2019, the number of transactions would not decrease, and we should still set a new record for the number of sales across Québec. Graph 6 shows the projected level of sales for 2019, which is still higher than in previous years.

**Graph 6: Number of residential sales in the province of Québec**



Source: QFREB by the Centris system

In summary, we believe that a market slowdown is possible, probably in the second half of the year, given the deterioration in affordability. That said, this pause would temper the rise in property prices relative to the growth of family incomes and would ensure a certain stability in home sales in Québec without the risk of overheating, which could have adverse consequences.