



EXPECT NEW RECORDS TO BE SET IN 2019

The strong job market, the continued improvement in net migration and – above all – the postponement of interest rate increases are all factors that have led us to significantly revise upward our outlook for Quebec's resale market in 2019. We are therefore boosting the forecasts that we presented at the start of the year, both in terms of the number of sales and property price growth.

1. The indefinite postponement of interest rate hikes helps maintain an exceptional economic situation

An upward trend in interest rates was well underway in 2018, opening the door to further rate hikes in 2019; however, in the end, a reversal took place in a context of economic uncertainty mainly related to international geopolitical upheavals.

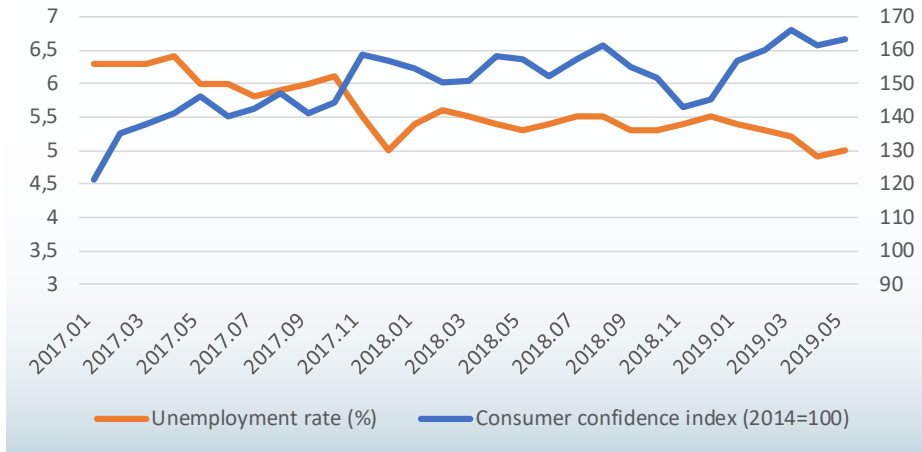
Even though financial institutions expected further increases in the overnight rate after that of October 2018, which resulted in mortgage rate increases in late 2018 and in early 2019, their lasting stabilization has provided a favourable climate for the purchase of a property.

The prospect of a new increase in the overnight rate and in mortgage rates is no longer on the agenda for 2019, particularly in a context where yields on 5-year Canada bonds have been falling since December 2018. At the time of writing this analysis, some banks are even expecting interest rates to drop in 2020. Tensions surrounding trade are weighing on global and Canadian growth prospects, which is pushing investments towards safe havens.

These uncertainties are apparently not having an effect on consumer confidence in Quebec (graph 1), which has recovered significantly in recent months. This is not surprising given that the unemployment rate, at 5 per cent, is still at a historically low level and real disposable income is on the rise across the province. The winning combination of historically low unemployment rates and mortgage rates continue to provide robust demographic fundamentals. In short, residential resale market conditions remain exceptionally strong in several agglomerations.

The winning combination of historically low unemployment rates and mortgage rates continue to provide robust demographic fundamentals for the resale market.

Graph 1 – Unemployment rate and consumer confidence curves



Source: Conference Board of Canada, June 2019

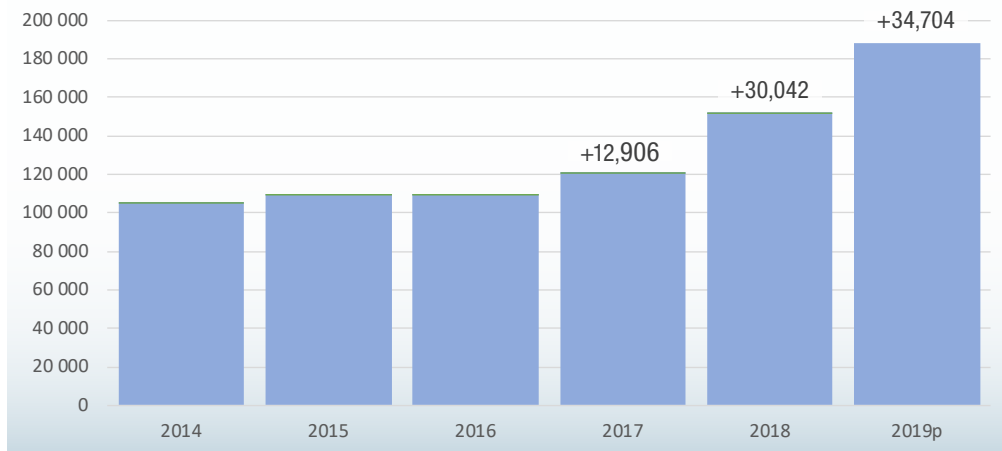
2. The growth of demographic fundamentals continues to support, albeit unevenly, the strength of the market

Even though Quebec does not benefit from significant population growth, as the province’s natural population growth has been decreasing, international immigration is increasingly contributing to improving the situation. As we have mentioned in previous analyses, the positive net international migration balance for Quebec tends to more and more easily offset the negative net interprovincial migration balance, which is declining. This reflects a continuous improvement in the attractiveness of Quebec as a place to work and live compared to other provinces.

In addition to the province’s positive net migration, the number of non-permanent residents has been growing substantially over the past three years. In 2018, there was a record number of more than 30,000 new non-permanent residents in Quebec, totaling 186,000 non-permanent residents and reflecting a high retention rate of close to 70 per cent, according to the Institut de la statistique du Québec (ISQ), a level that has not been seen in at least 50 years. This phenomenon mainly benefits the Montreal Census Metropolitan Area (CMA). According to the ISQ, this upward trend is expected to continue, reaching a new record in 2019 with nearly 35,000 new non-permanent residents in Quebec (graph 2).

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Graph 2: Increase in the number of non-permanent residents



Source: Institut de la statistique du Québec, June 2019

The rapid increase in this pool of non-permanent residents will help to grow the number of new households, which form the foundation of the demand for housing.

3. A new record will be set for sales and prices in 2019

With an increase in the number of households, a situation of full employment and mortgage interest rates set indefinitely at historically low levels, the main factors that stimulate the residential resale market are aligned in an exceptional way. However, the year 2019 could mark the peak of the sales and price growth cycle that we are currently experiencing. Headwinds on the international economic scene could slow Quebec's economic growth in the coming months and moderate sales and price growth starting in 2020.

If the trend of the first five months is maintained, with 44,689 residential properties already sold, more than 90,000 sales could be recorded in Quebec in 2019, which would represent an increase of 5 per cent (table 1). At first glance, there is nothing to suggest that this trend could be hindered in the second half of the year, as there are no interest rate increases on the horizon. On the contrary, the postponement of a rate hike could be perceived by buyers as a new reprieve, giving them the opportunity to take advantage of financing rates that are still very favourable. As expected, experienced buyers will dominate the resale market. First-time buyers, who are more sensitive to interest rate fluctuations, will nevertheless be active so that they can benefit from mortgage interest rates that are holding steady at levels equivalent to those in the last quarter of 2018.

In this context, the increase in property prices should also exceed the forecasts published at the end of 2018. The number of active listings, which continues to show a downward trend particularly in certain metropolitan areas such as Montreal and Gatineau, coupled with price inflation in several of these sectors, already confirms a situation of overheating.

Other markets in Quebec that have been less dynamic are benefiting from the impact of a booming economy and a very active real estate market. Across the province, we expect the median price of single-family homes to rise by 5 per cent in 2019.

The year 2019 could mark the peak of the sales and price growth cycle that we are currently experiencing. For the province as a whole, we expect the median price of single-family homes to rise by 5 per cent in 2019.

Table 1 – Sales and median price of single-family homes (2013-2018) and forecasts for 2019

2019 Forecasts – Province of Quebec				
	Number of residential sales		Median price – Single-family homes	
		Variation (in %)		Variation (in %)
2013	71,194	-8	\$225,000	0
2014	70,619	-1	\$227,000	1
2015	74,120	5	\$230,000	1
2016	78,139	5	\$235,000	2
2017	82,537	5	\$243,000	3
2018	86,462	5	\$250,000	3
2019 (forecast)	90,600	5	\$268,000	7

Source: QFREB by Centris System

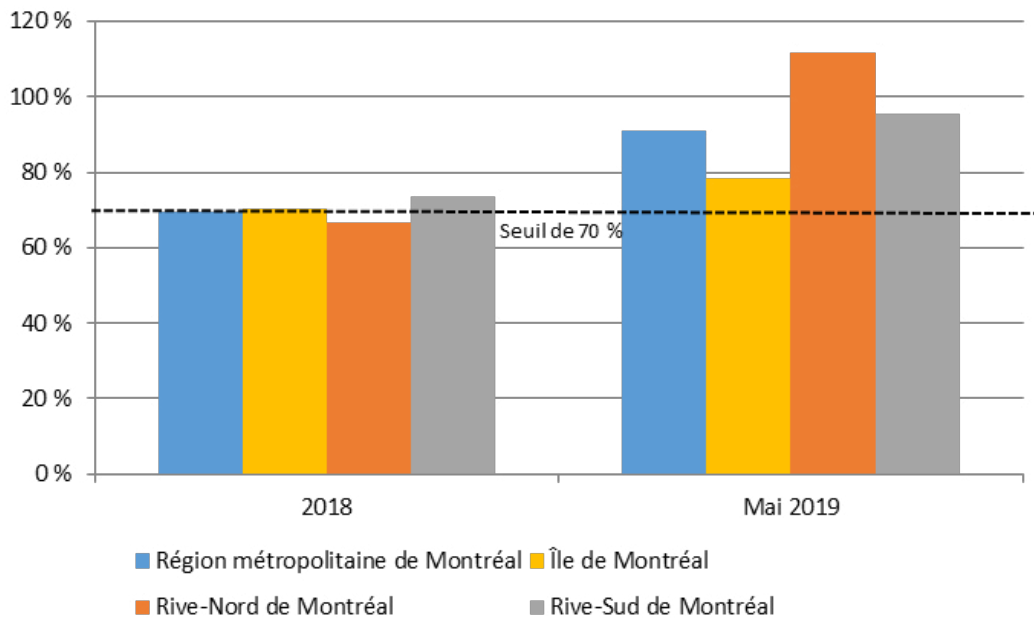
4. The flames have reached several outlying areas of Montreal

The real estate market in the Montreal CMA continues to be very dynamic in a context where the number of active listings continues to melt like snow in the sun, particularly for single-family homes and condominiums.

This situation has generally resulted in a rapid absorption of the inventory of properties on the market, particularly on the South Shore and in several sub-sectors of the North Shore. These suburban markets, which are on the periphery of the Island of Montreal, are thus strengthening their status as seller's markets and are registering a decrease in listings in the face of a steady rise in sales. These are clear signs of overheating. According to the Canada Mortgage and Housing Corporation (CMHC), overheating is defined as a ratio of sales to new listings of more than 70 per cent.

This situation remains relatively moderate but is reflected in the Montreal CMA as a whole, and is accompanied by the phenomenon of properties selling for more than the asking price. Like on the Island of Montreal, the real estate markets on the North Shore and South Shore are experiencing this situation (graph 3), and show sustained increases in median prices compared to one year earlier.

Graph 3 – Sales-to-new listings ratio shows signs of overheating in the Montreal CMA



Source: QFREB by Centris System

Other markets in the periphery seem to have been affected by the recent flooding and have registered more modest sales increases. This was the case in Vaudreuil-Soulanges and the eastern part of the North Shore. The recent floods echo those of 2017 and could, by their recurrence, have a lasting impact on the minds of consumers, thus tarnishing the attractiveness of these markets.

Generally speaking, we expect sales to increase significantly in 2019, and this will be accompanied by higher median price growth than what we had originally forecasted in our November 2018 Word From the Economist. The year 2018 had also been outperforming our forecasts at that time; in fact, the median price of plexes (buildings with 2 to 5 dwellings) had increased by 8 per cent.

Given the tightening of the market in a context of stable interest rates and very favourable demographic and economic fundamentals, we can expect sales in the Montreal CMA to increase by approximately 6 per cent in 2019 (table 2). This increase, in a market with conditions that strongly favour sellers, reflects situations of overheating in several geographic areas and for most property categories, including plexes. These market conditions will therefore be accompanied by consistently strong price growth for single-family homes, particularly in the close periphery of Montreal, as well as for condominiums and plexes in general. Note that the very strong rental market explains the enthusiasm for plexes.

Table 2 – Sales and median prices for all three property categories (2013-2018) and forecasts for 2019, Montreal CMA

2019 Forecasts – Montreal CMA								
	Number of residential sales		Median price Single-family		Median price Condominium		Median price Plex	
		Variation (in %)		Variation (in %)		Variation (in %)		Variation (in %)
2013	37,764	-9	\$275,000	2	\$225,772	0	\$423,000	3
2014	36,916	-2	\$280,000	2	\$229,000	1	\$432,500	2
2015	39,209	6	\$285,000	2	\$236,394	3	\$441,500	2
2016	41,306	5	\$290,000	2	\$239,750	1	\$457,000	4
2017	44,394	7	\$310,000	7	\$247,000	3	\$476,000	4
2018	46,693	5	\$323,000	4	\$255,000	3	\$515,000	8
2019 (forecast)	49,495	6	\$339,150	5	\$270,300	6	\$551,000	7

Source: QFREB by Centris System

5. The agglomeration of Quebec City shows signs of recovery for single-family homes

The resale market in the Quebec City CMA has modestly taken advantage of the favourable economic context, and the indefinite postponement of interest rate increases could enable it to undergo a certain recovery this year (table 3). More specifically, the agglomeration of Quebec City registered particularly solid results so far this year for single-family homes. An increase in sales and an accelerating trend in the absorption of inventory are accompanied by a significant increase in the median price of single-family homes. This is consistent with the achievement of balanced market conditions, which is still far from being the case for condominiums. That being said, price growth for condominiums should cover the rate of inflation.

The agglomeration of Quebec City has posted solid results since the start of the year for single-family homes.

Table 3 – Sales and median prices for single-family homes and condominiums (2013-2018) and forecasts for 2019, Quebec City CMA

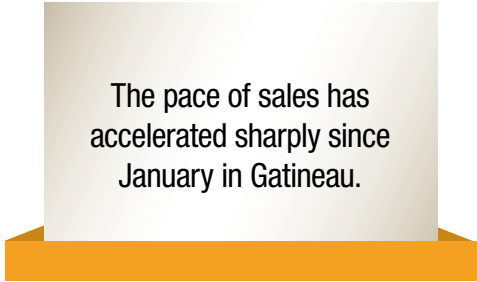
2019 Forecasts – Quebec City CMA						
	Number of residential sales		Median price Single-family		Median price Condominium	
		Variation (in %)		Variation (in %)		Variation (in %)
2013	6,285	-13	\$245,000	3	\$200,000	2
2014	6,483	3	\$245,000	0	\$198,500	-1
2015	6,628	2	\$246,000	0	\$197,000	-1
2016	6,737	2	\$248,000	1	\$190,000	-4
2017	6,877	2	\$250,000	1	\$188,000	-1
2018	7,160	4	\$253,500	1	\$190,000	1
2019 (prévu)	7,375	3	\$261,105	3	\$193,420	2

Source: QFREB by Centris System

6. Other markets

The Gatineau CMA has stood out with a significant increase in sales since the beginning of the year. This is in line with the trend that has been observed over the past two years, but the pace of sales has accelerated sharply since January. The faster absorption rate for single-family homes and the notable increase in the average price of this property category, as well as that of plexes, reveals market conditions that are favourable to sellers.

The solid performance of the demographic fundamental factors and of the job market in the Outaouais region largely explains this strength, in a context where the cost of financing is expected to remain stable and exceptionally low until the end of the year, at least.



The pace of sales has accelerated sharply since January in Gatineau.