



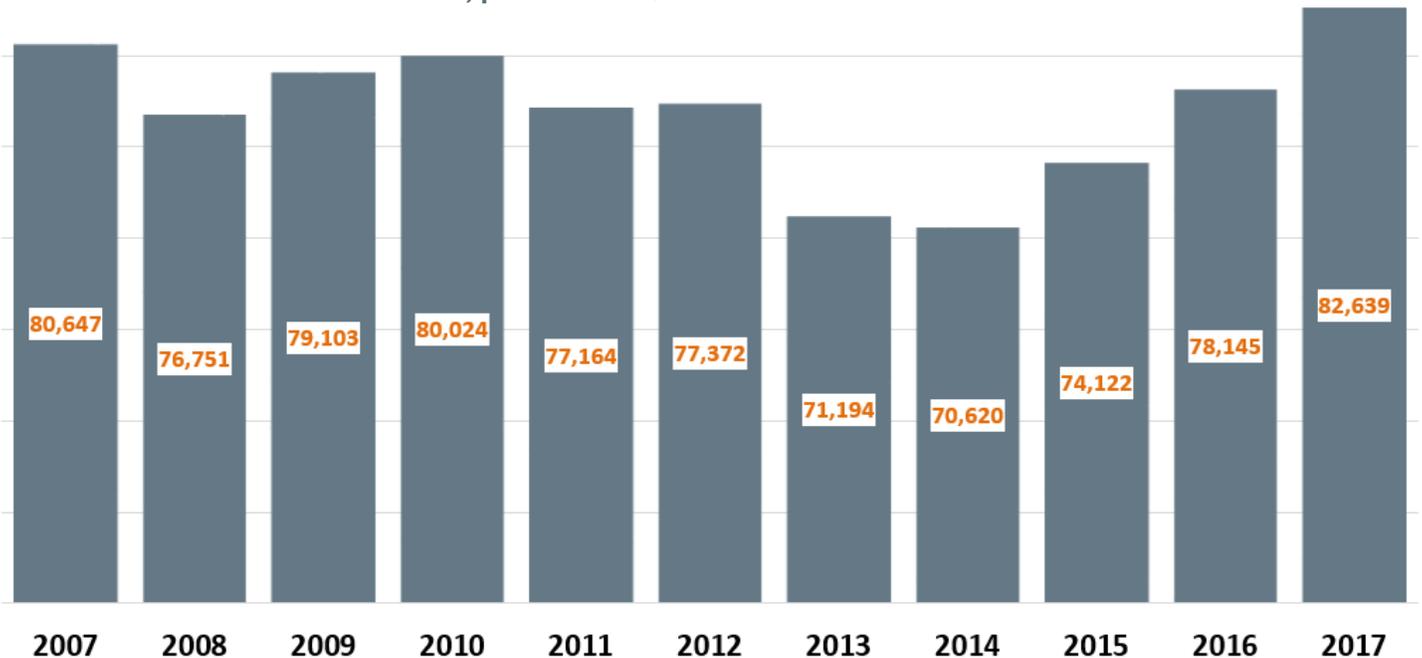
QUÉBEC RESIDENTIAL REAL ESTATE MARKET: 2017 ACTIVITY REPORT & 2018 OUTLOOK

2017: Beyond All Expectations

Despite the [mortgage-tightening measures introduced in October 2016](#) for borrowers that do not have the minimum 20 per cent down payment, [the Québec residential real estate market recorded a remarkable year in 2017](#). A record 82,639 sales were concluded last year through the real estate brokers' Centris® system. This is a 6 per cent increase over 2016 and the third consecutive year of growth. The previous high of 80,647 sales had been set ten years earlier in 2007 (see Chart 1).

A record 82,639 sales were concluded last year through the real estate brokers' Centris® system.

Chart 1: Number of residential sales, province of Québec



Source: QFREB by the Centris® system

Last year's growth in prices also surpassed all expectations. The median price of single-family homes in Québec reached \$242,500, an increase of just over 3 per cent compared to 2016. This is the largest increase in six years.

In addition, the supply of properties for sale province-wide dropped for the second consecutive year, falling by 9 per cent, which resulted in tighter market conditions for many regions.

Finally, there was a decline in the average selling time for the first time in seven years. It decreased by 6 days to reach 115 days, all property categories combined.

As for the province's major urban centres, Table 1 shows the results for each of the six census metropolitan areas (CMAs).

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Table 1: 2017 results by census metropolitan area (CMA)

| | Number of sales | | | Median price – Single-family | | |
|-----------------------------|-----------------|---|-----------|------------------------------|---|-----------|
| | | | Variation | | | Variation |
| Province of Québec | 82,639 | ↑ | +6% | \$242,500 | ↑ | +3% |
| Gatineau (CMA) | 4,209 | ↑ | +6% | \$242,000 | ↑ | +4% |
| Montréal (CMA) | 4,448 | ↑ | +8% | \$310,000 | ↑ | +7% |
| Québec City (CMA) | 6,885 | ↑ | +2% | \$250,000 | ↑ | +1% |
| Saguenay (CMA) | 1,051 | ↓ | -4% | \$172,000 | ↑ | +1% |
| Sherbrooke (CMA) | 1,758 | ↓ | -1% | \$206,000 | ↑ | +4% |
| Trois-Rivières (CMA) | 1,132 | ↑ | +2% | \$150,000 | ↑ | +2% |

Source: QFREB by the Centris® system

Note that the median price of single-family homes increased in all metropolitan areas, without exception.

As for the number of sales, only the Sherbrooke CMA (-1 per cent) and Saguenay CMA (-4 per cent) registered a decrease last year. The Québec City CMA saw an increase in sales (+2 per cent) for the fourth consecutive year, and that of Trois-Rivières posted a new record in 2017 with 1,132 transactions (+2 per cent).

The Montréal CMA posted the strongest growth, both in terms of sales (+8 per cent) as well as prices (+7 per cent). The Gatineau CMA also did very well last year, with a 6 per cent increase in sales and a price growth of 4 per cent for single-family homes.

In the smaller urban centres, the agglomerations of Mont-Tremblant (+23 per cent), Sept-Îles (+21 per cent), Rouyn-Noranda (+20 per cent) and Sorel-Tracy (+19 per cent) recorded the strongest growth in sales.

The primary factors behind the strong performance of the 2017 resale market are the same that will influence this year's activities and which will be discussed in the next section, i.e. strong job creation, the increase in net migration and high consumer confidence.

An exceptional economic context

The excellent performance of the province’s real estate market is a reflection of improving economic indicators, which are also major determinants of housing demand.

First, the job market is experiencing exceptional momentum. No less than 90,000 jobs were created in Québec last year, the best results in the last ten years. At the same time, the unemployment rate dropped to 6.1 per cent, the lowest rate ever recorded in the province since 1976 when Statistics Canada began to collect data on this subject.

Moreover, everything indicates that these are good quality jobs. We analyzed the employment gains from the past two years: if we add the 36,000 jobs that were created in 2016, we come to a total of 126,000 new jobs. Of this number, 119,000 are full-time. Furthermore, the industries with the strongest employment gains include finance, insurance and real estate services (+18,700), educational services (+15,100), professional, scientific and technical services (+12,500), business services (+12,500) and public administration (11,600). Furthermore, when we break down the employment gains by age group, the groups aged 25 to 29 (+43,900), 35 to 39 (24,200) and 40 to 44 (29,680) come out the winners. The first group is on the threshold of buying their first property, while the other two groups are potential buyers looking to trade up to a more expensive home.

Since, generally speaking, people follow the jobs, Québec’s net migration has recently improved as well. No data is yet available for 2017, but the 2016 data still reveals much. At the provincial level, net migration increased from about 27,000 people to about 33,500 people in 2016. However, if we also take into account the net balance of non-permanent residents, we are talking about more than 45,600 newcomers in 2016. Québec’s new 12,000 non-permanent residents represent a 30-year high (1988). And, of course, when we talk about newcomers, we are talking about new housing needs.

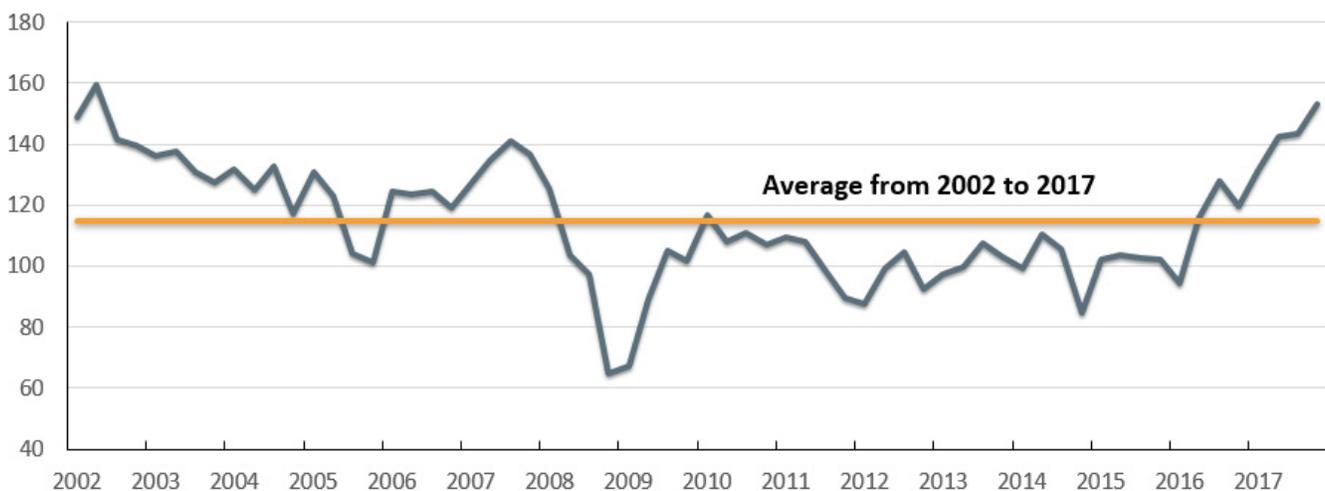
Another interesting indicator, published by the Conference Board of Canada, reveals that Québec consumers are showing the highest [level of confidence in the economy](#) than they have had in the past 15 years (see Chart 2).

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Québec consumers are showing the highest level of confidence in the economy than they have had in the past 15 years.

Chart 2: Index of Consumer Confidence, Province of Québec



Source: Conference Board of Canada

When consumers have a high level of confidence in the economy, they are more likely to buy a property since they believe they will be able to meet their future mortgage obligations.

An upward trend for interest rates

The counterpart to this exceptional economic performance, a fact that also applies to the entire country, is that the Bank of Canada has begun to tighten monetary conditions to prevent the economy from overheating which, in turn, would lead to a surge in inflation. It has already raised its key interest rate by 0.25 percentage points twice in 2017, in July and September.

The rise in interest rates will continue into 2018; however, we believe that the Bank of Canada will raise its key interest rate at a cautious pace for two reasons: the very high household debt levels and the risks surrounding the continuity of NAFTA, since ongoing negotiations with the United States could end in an impasse. As a result, we anticipate two more increases of the key interest rate by 0.25 percentage points in 2018. One of them took place on January 17, so there remains one more to come.

It is important to know that 5-year mortgage rates, which are primarily driven by 5-year Canadian bond yields, do not necessarily mirror the movements of the key interest rate, at least in terms of the magnitude of the variations. Nonetheless, we believe that in this case, the movement of 5-year mortgage rates will be similar. Thus, the 5-year benchmark mortgage rate, which under the new stress-test rules must be used by financial institutions when qualifying borrowers, will increase to 5.49 per cent by the end of 2018 (compared to 4.99 per cent at the end of 2017).

Although rate hikes usually cool down real estate activity, it is important to remember that, from a historical point of view, interest rates will continue to remain very low. We also believe that the factors stated above will have a positive impact on demand and will more than offset this negative effect.

Québec will see record-setting residential sales in 2018

According to our most recent forecasts, the Québec resale market will experience another increase in sales this year (+3 per cent), and for the very first time, break through the threshold of 85,000 transactions (see Table 2).

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Table 2: 2018 Forecasts – Province of Québec

| | Number of sales | | Median price – Single-family | |
|-----------------|-----------------|-----------|------------------------------|-----------|
| | | Variation | | Variation |
| 2016 (actual) | 78,145 | +5% | \$234,500 | +2% |
| 2017 (actual) | 82,639 | +6% | \$242,500 | +3% |
| 2018 (forecast) | 85,200 | +3% | \$250,000 | +3% |

Sources: QFREB by the Centris® system and QFREB forecasts

As for the median price of single-family homes, the QFREB forecasts an increase of 3 per cent in 2018, to reach \$250,000.

The Montréal area will stand out from the rest of the province

We anticipate that the residential real estate market in the greater Montréal area will stand out from the rest of the province as in 2017. It is important to note that not only did the Montréal region receive the lion's share of the new jobs created in Québec in the last 24 months, but the vast majority of newcomers also chose to settle there, which created new needs for housing. The CMA will experience a sales growth of 5 per cent in 2018 and will register a new high of 46,500 transactions (see Table 3). The condominium segment will remain very dynamic.

As for the median price of single-family homes, the QFREB forecasts an increase of 3 per cent in 2018, to reach \$250,000.

Table 3: 2018 Forecasts – Montréal Metropolitan Area

| | Number of sales | | Median price – Single-family | | Median price – Condominium | |
|------------------------|-----------------|-----------|------------------------------|-----------|----------------------------|-----------|
| | | Variation | | Variation | | Variation |
| 2016 (actual) | 41,309 | +5% | \$290,000 | +2% | \$239,750 | +1% |
| 2017 (actual) | 44,448 | +8% | \$310,000 | +7% | \$247,000 | +3% |
| 2018 (forecast) | 46,500 | +5% | \$325,000 | +5% | \$254,000 | +3% |

Sources: QFREB by the Centris® system and QFREB forecasts

In a similar way, price growth in the Montréal CMA will surpass that of the province as a whole, since it is the region with the tightest market conditions: it is currently a seller's market for single-family homes and plexes, while conditions are more balanced for condominiums. This results in more upward pressure on prices, which will increase by 5 per cent for single-family homes and 3 per cent for condominiums.

Québec City area: slight gains for the 2018 residential real estate market

Real estate activity in the Québec City CMA will rise slightly this year for the fifth consecutive time. The number of sales concluded through the real estate brokers' Centris® system will post a small increase of 2 per cent to reach 7,000 transactions (see Table 4).

Table 4: 2018 Forecasts – Québec City Metropolitan Area

| | Number of sales | | Median price – Single-family | | Median price – Condominium | |
|------------------------|-----------------|-----------|------------------------------|-----------|----------------------------|-----------|
| | | Variation | | Variation | | Variation |
| 2016 (actual) | 6,737 | +2% | 248,000 \$ | +1% | 190,000 \$ | -4% |
| 2017 (actual) | 6,885 | +2% | 250,000 \$ | +1% | 188,000 \$ | -1% |
| 2018 (forecast) | 7,000 | +2% | 254,000 \$ | +2% | 188,000 \$ | 0% |

Sources: QFREB by the Centris® system and QFREB forecasts

Although the Québec City CMA had the lowest unemployment rate (4.4 per cent) of the metropolitan areas in the province, job creation was modest over the past two years. Net migration also shows some improvement. These two factors combined with high levels of confidence and still low interest rates will lead to a slight increase in activity in 2018.

In terms of prices, as has been the case in recent years, growth will be tepid. The median price of single-family homes will reach \$254,000 next year, an increase of 2 per cent. The median price of condominiums should remain stable at \$188,000, ending a series of four consecutive declines. You may recall that market conditions in the Québec City CMA are slightly to the advantage of buyers for single-family homes, but there is a pronounced imbalance in the condominium segment, which still shows a significant surplus in the resale market, despite a decline in supply in 2017.

The new mortgage rules will have a marginal impact

Since January 1, 2018, when a new directive from the Office of the Superintendent of Financial Institutions came into force, the interest rate stress test has been extended to include so-called “conventional” mortgages, i.e. when the down payment is equal to or greater than 20 per cent. The rate used by this stress test is the greater of the five-year benchmark rate published by the Bank of Canada or the contractual mortgage rate plus two percentage points.

In our opinion, this new measure will disqualify only a small number of potential buyers. Buyers who are able to make a down payment of 20 per cent or more normally have greater financial flexibility than those who pay the bare minimum of 5 per cent to acquire a property. Note that the measure will be binding only if borrowers approach the maximum limit of their authorized borrowing ratios (gross debt service ratio and total debt service ratio). Only in this case will borrowers see a reduction in the amount they can borrow. This does not mean, however, that they will not be able to buy.

Taking a longer-term look

If our forecasts are correct and 2018 is a record year for residential sales, the next big question that comes to mind is whether growth will continue in subsequent years. It goes without saying that gradually rising interest rates will have a double effect in the longer term: not only will there be an increase in borrowing costs for future homebuyers, but they will also have a negative effect on economic growth and job creation.

We, therefore, should see a slowdown in the residential real estate market as early as 2019.

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