



## NUMBER OF RESIDENTIAL FORECLOSURES DECREASES DESPITE RISE IN MORTGAGE RATES

Five-year mortgage rates have risen by half a percentage point over the past year, and all experts agree that the ascent will continue in 2019. In a context of high household indebtedness, many observers are concerned about the potential impact of higher interest rates on the ability of some households to repay their mortgages and, ultimately, on the number of foreclosures. Although in our opinion it is still early to see any effect, it is important to know that the number of foreclosures is currently on a downward trend in Québec.

When a mortgage holder is in default of payment, the creditor must first serve them with a notice of exercise giving them a specific timeframe to remedy the situation, otherwise the creditor may begin the foreclosure process. This can take the form of a "taking in payment" or a sale by judicial authority<sup>1</sup>. For the sake of simplification, the term "foreclosure" in this report refers to the combination of both these situations.

Using Centris data, we calculated the proportion of foreclosed properties among new listings for the province's six census metropolitan areas (CMAs) and all three property categories (single-family homes, condominiums and plexes of 2 to 5 dwellings).

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<sup>1</sup> <http://www.legisquebec.gouv.qc.ca/en/showversion/cs/CCQ-1991?code=se:2779&pointInTime=20171019>

## For the time being, mortgage rates and the proportion of foreclosures are taking opposite paths

Graph 1 shows the evolution of the proportion of foreclosures for the aggregate of the six CMAs. We can see that after reaching a cyclical peak in the fourth quarter of 2016, the proportion of foreclosures has followed a downward trend, despite the increase in mortgage rates.

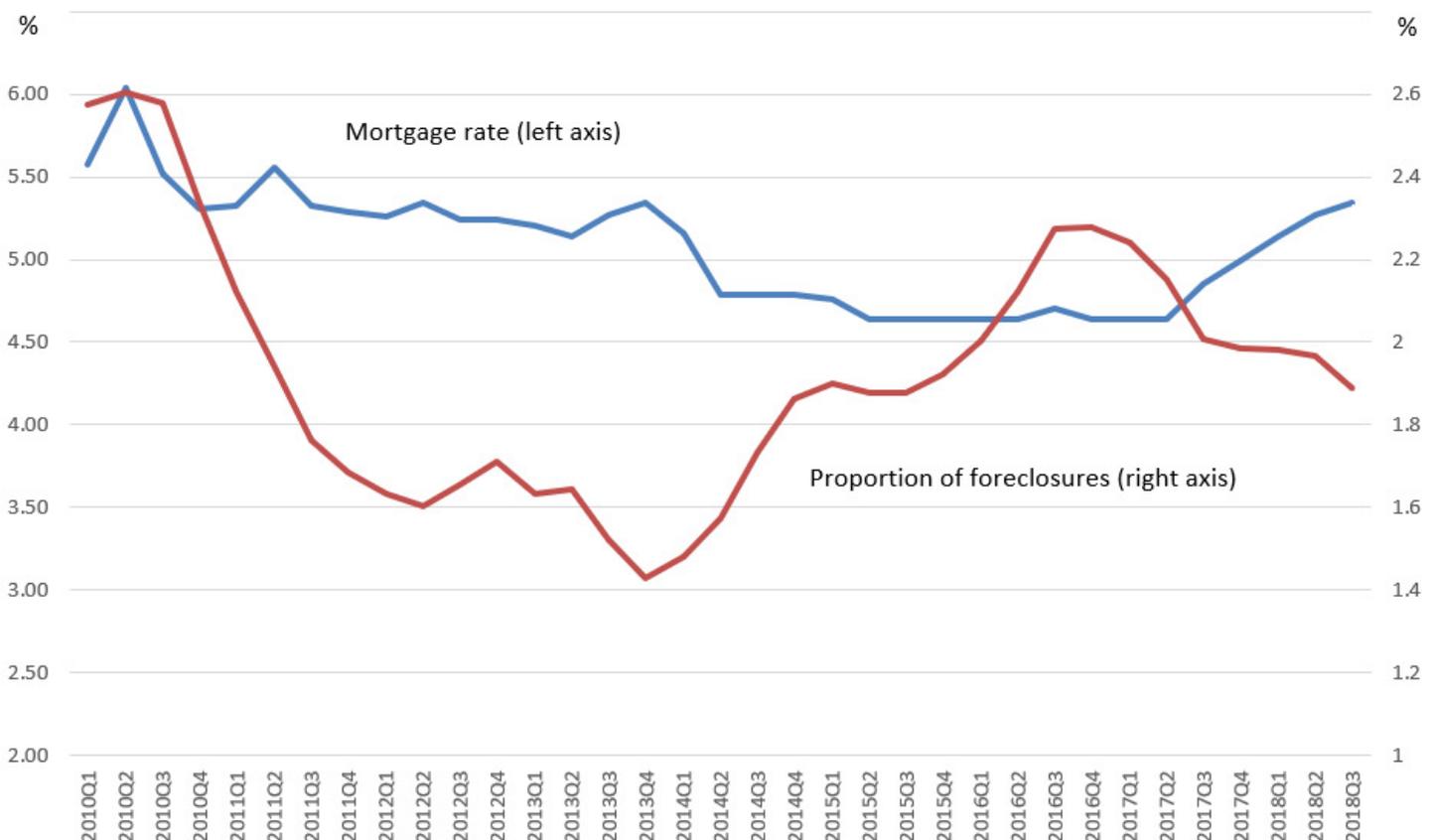
At first sight, this may seem counterintuitive. However, in a previous [Word From the Economist](#), we pointed out that mortgages in arrears, a precursor to foreclosures, were more influenced by employment and property prices than by mortgage rates.

The labour market in Québec continues to perform well. Some 107,500 jobs were created in the last 24 months and the unemployment rate stood at 5.3 per cent in September 2018, which is very close to its historic low. Moreover, for households in payment default, selling their property at a price that covers the balance of the mortgage is of course the preferred option, before the possibility of having their property seized. This option is made easier when the price of the property has increased since the time of its purchase. This should be the case for the majority of buyers since, over the last two years, single-family home prices have increased by about 7 per cent across the province.

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**Graph 1: Five-year mortgage rate vs. proportion of foreclosures in new listings**

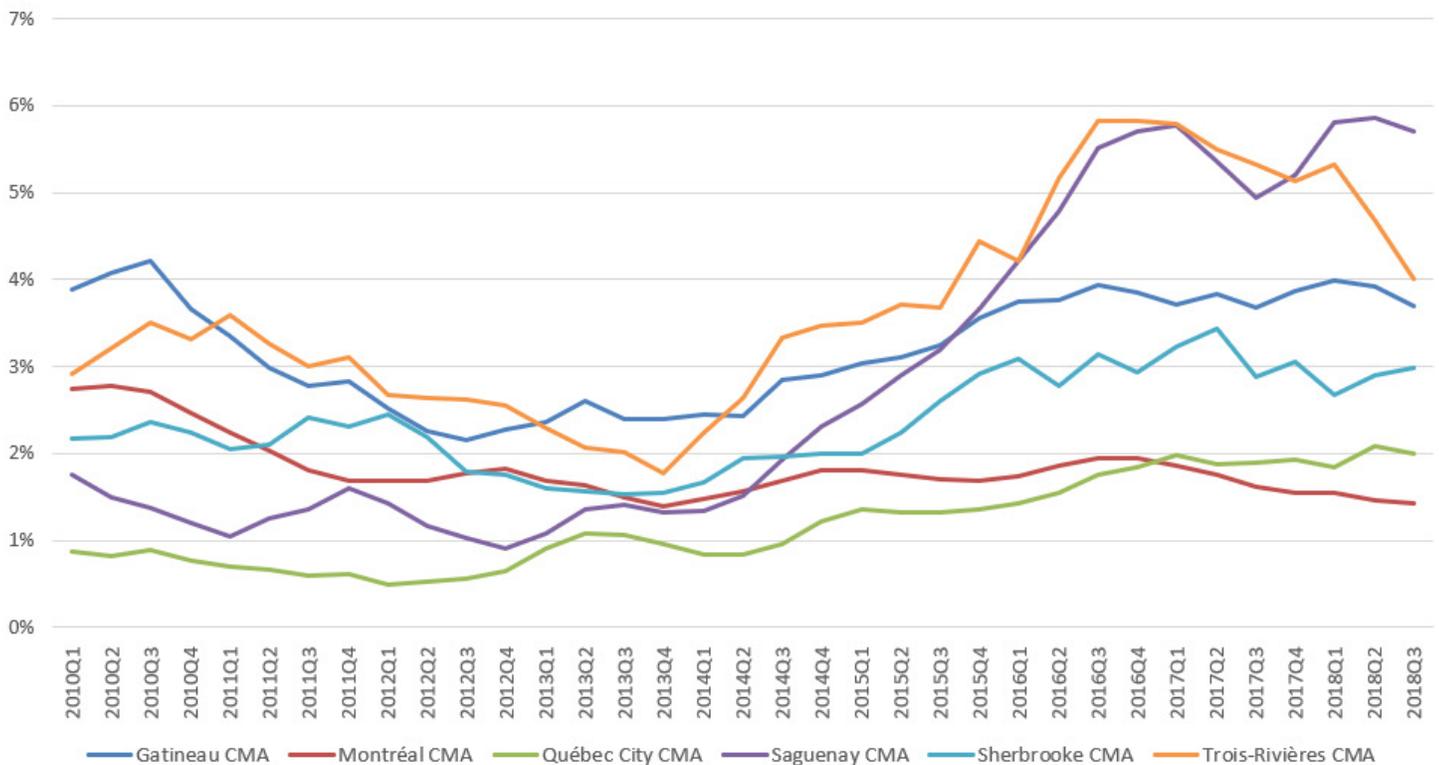


## The Montréal and Québec City regions are doing well

We also examined the proportion of foreclosures in new listings by CMA (see Graph 2). The proportion of foreclosures follows similar trends from one region to another over the period examined, with the exception of the Trois-Rivières and Saguenay areas, which show higher proportions of foreclosures over the past three years or so. In the Saguenay area, there has been a marked imbalance in the real estate market (the number of months of inventory is at 16.5) and it is the only region that has not benefited from job gains over the last 24 months. In the Trois-Rivières area, the opposite situation can be seen, as there has been strong job gains and a balanced real estate market – and the number of repossessions has fallen sharply in the last two quarters. Elsewhere, we see that the Montréal and Québec City CMAs are in the best situation with little variation over time and a foreclosure rate that is under 2 per cent.

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**Graph 2: Proportion of foreclosures in new listings, by CMA**

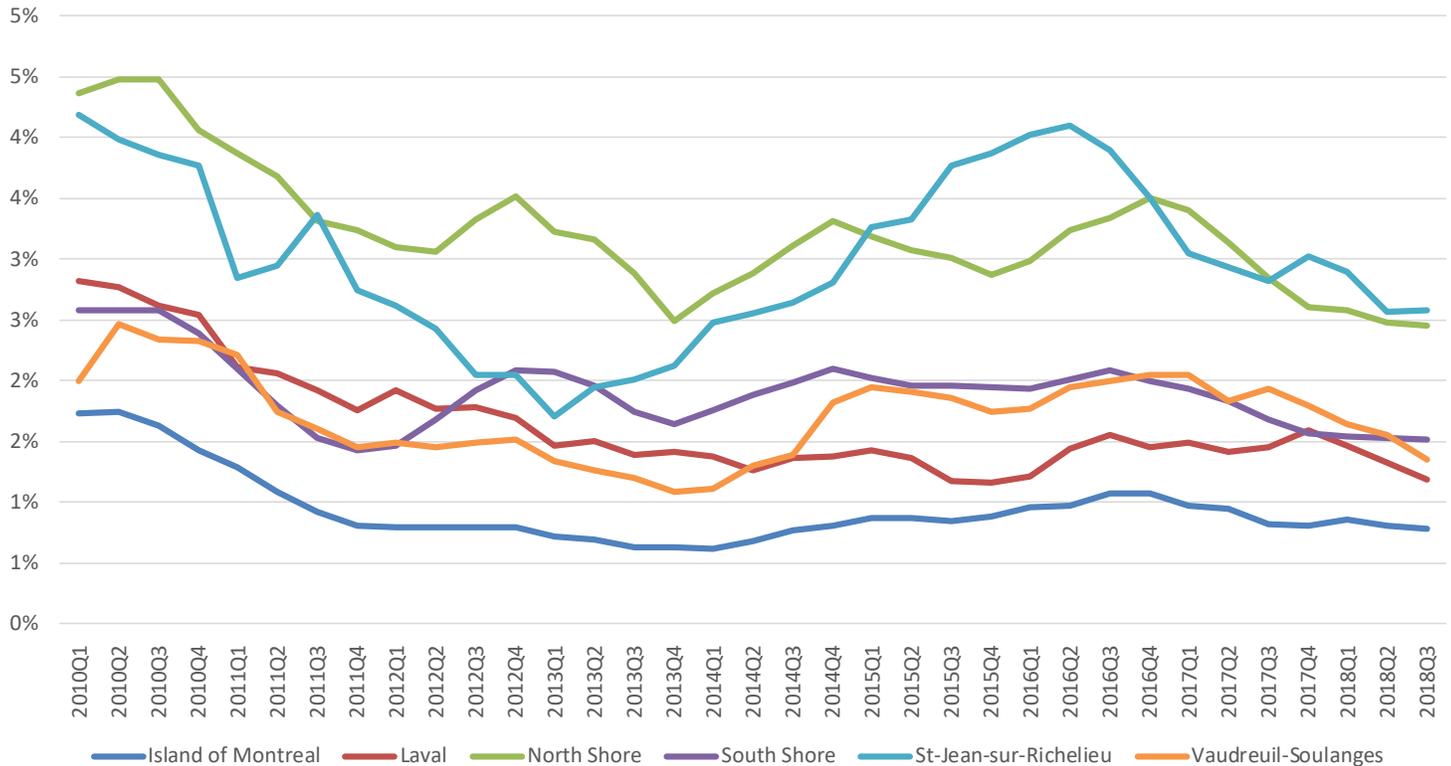


Source: QFREB by the Centris system

## More foreclosures in the suburbs

We divided the Montréal CMA into six main areas. The Island of Montréal is the only sector where the proportion of foreclosures is maintained at around 1 per cent of new listings. In Laval, Vaudreuil-Soulanges and the South Shore, the proportions are similar and fluctuate between 1 and 2.5 per cent. Only the Saint-Jean-sur-Richelieu and North Shore sector posted greater fluctuations, ranging from 1.5 to 4.5 per cent; these two areas also had a higher proportion of foreclosures for the past several quarters.

**Graph 3: Proportion of foreclosures in new listings, by sectors of the Montréal CMA**



Source: QFREB by the Centris system

These observations could be explained by the fact that there are more first-time buyers in the suburbs than on the Island. It is normally first-time buyers, during their first few years of homeownership, who are most likely to find themselves in a foreclosure situation. The North Shore, where property prices are among the most affordable in the Montréal area, is full of first-time buyers. In contrast, long-term owners normally have sufficient equity, so that in the event of payment default, they can refinance their mortgage or easily cover the mortgage balance if they have to sell their property. The higher presence of experienced buyers probably explains the lower proportion of foreclosures on the Island of Montréal.

### Single-family homes are most affected by foreclosures

Graph 4 shows the proportion of foreclosures by property category in all six CMAs combined. We can see that single-family homes have the highest proportion of foreclosures. Since 2011, between 1.5 and 3 per cent of new single-family listings are repossessions. Plexes have experienced greater fluctuations, but generally have a lower foreclosure rate than single-family homes and a higher foreclosure rate than condominiums. Condominiums have the lowest proportion of foreclosures, never having exceeded 2 per cent over the period examined.

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**Graph 4: Proportion of foreclosures in new listings, by property category, for all 6 CMAs combined**



Source: QFREB by the Centris system

Thus, proportionally, there has been systematically more foreclosures in the single-family home segment than in the condominium segment, and this is not an effect of geographical distribution (see Table 1). Our hypothesis for explaining this situation is that it is probably easier for a homeowner in difficulty to rent out their home if it's a condominium, as opposed to a single-family home. This strategy of renting a home is of course easier when vacancy rates on the rental market are low, as is currently the case in the Montréal area<sup>2</sup>.

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<sup>2</sup> According to the CMHC's Rental Market Survey, the vacancy rate stood at 2.8 per cent in Greater Montréal in October 2017.

**Table 1: Proportion of foreclosures in new listings, by property category and CMA, past 12 months**

	Condominium	Plex	Single-family	Total
Saguenay CMA	1,3%	7,7%	5,8%	5,6%
Trois-Rivières CMA	3,1%	4,3%	5,2%	4,8%
Gatineau CMA	2,9%	3,0%	4,1%	3,9%
Sherbrooke CMA	1,3%	3,5%	3,2%	2,9%
Québec City CMA	1,9%	2,0%	2,0%	2,0%
Montréal CMA	1,1%	1,2%	1,8%	1,5%
<b>Total</b>	<b>1,3%</b>	<b>1,8%</b>	<b>2,3%</b>	<b>2,0%</b>

Source: QFREB by the Centris system

## Monitoring the evolution of foreclosures

For the time being, there is little reason to worry about the situation of residential foreclosures in Québec. However, as indicated in the introduction, it is still early to see the impact of mortgage rate increases on foreclosures. Because additional interest rate increases are expected in 2019, it will be interesting to monitor the evolution of this indicator over the coming months to see if there is any deterioration. But in our opinion, to predict the evolution of foreclosures, one must keep a closer eye on the performance of the labour market than on the rise in mortgage interest rates.