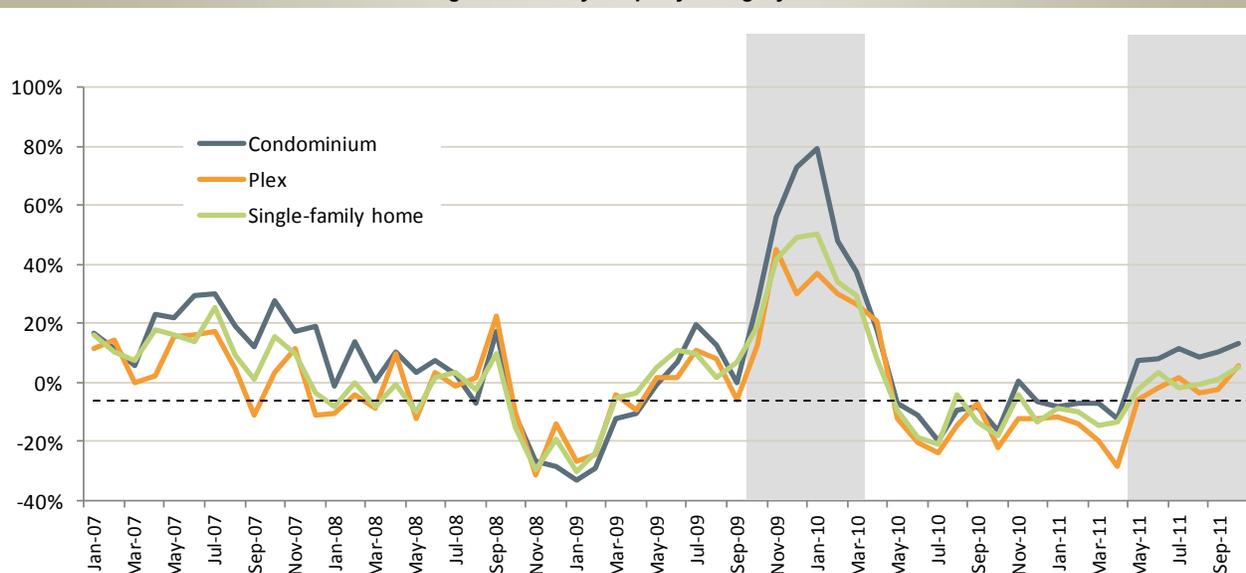


Condominium Sales are Most Sensitive to Economic Fluctuations

In June 2011, property sales increased for the first time after 13 consecutive months of sales decreases. In terms of property categories, condominiums were the first to post an increase in number of sales. More specifically, since May 2011, condominium sales have only increased, while sales of single-family homes and plexes continued to decrease or remained at the status quo. Condominium sales also stood out after the recession, posting their largest increases between the months of October 2009 and March 2010. Low mortgage rates and economic growth therefore benefitted condominiums more than the other property categories.

In light of an empirical study of the period between January 2001 and September 2011, we observed the impact that certain economic factors have, in the short term, on MLS® sales across the province.

Annual Change in Sales by Property Category for the Province



Source: QFREB by Centris®

Our research revealed the same: condominiums are the property category most sensitive to fluctuations in economic conditions. In light of an empirical study of the period between January 2001 and September 2011, we observed the impact that certain economic factors have, in the short term, on MLS® sales across the province.

Sales in Québec Mainly Influenced by the Economy and Mortgage Rates

We notice that residential sales in Québec are mainly influenced by fluctuations in economic activity, changes in interest rates, housing starts and the job market. Although all of these variables were found to be significant, there are several other factors that may explain fluctuations in sales that could not be measured or taken into account in our analysis for various reasons. However, the variables mentioned above explain between 65 and 70 per cent of the changes in residential property sales in Québec.

Employment

Chronologically, the number of jobs created or lost is the first factor that will lead to a change in MLS® sales. Our results suggest that the effect of an increase or decrease in the number of jobs takes more than one year before being felt. Our analysis shows that an increase of 1 percentage point in the growth of number of jobs across the province would lead to an average increase in sales of approximately 1.8 percentage points fifteen months later. More concretely, if in a given month, employment growth accelerated compared to the previous month, we can expect sales to increase faster approximately fifteen months later. This long delay is logical however, since new employees may prefer to, or may need to, wait several months before being able to qualify for the purchase of their home. In terms of property categories, plexes and single-family homes are most strongly influenced by fluctuations in employment. An acceleration of 1 percentage point would amplify the increase in plex sales by 2.3 percentage points. However, the same gain in employment would amplify the increase in condominium sales by 1.8 percentage points and the increase in single-family home sales by 1.9 percentage points. Employment's strong influence on plex sales may be explained by the relationship that exists between employment and the vacancy rate for rental dwellings. Over a longer period, we see that employment and the vacancy rate are very negatively correlated.

New Construction

Housing starts also contribute to fluctuations in sales, with concrete repercussions being felt some three months later. Although some new property transactions are concluded through the MLS® network, the majority of these properties are sold by the builder. Our analyses suggest that in the short term, housing starts represent an alternative to the purchase of an existing home. More specifically, an increase of 1 percentage point in the growth of new constructions on an annual basis would reduce sales growth by approximately 0.11 percentage points three months later. Condominiums are most sensitive to changes in new construction statistics, as an acceleration in the growth of new constructions would lead to a 0.14 percentage point decrease in condominium sales growth, compared to a 0.11 percentage point decrease for single-family homes and a 0.10 percentage point decrease for plexes. It is interesting to note that if, in the short term, an increase in the number of new constructions represents a substitute for a property listed on the MLS® system, in the long term, the effect is rather positive, as housing starts feed the pool of available properties¹.

We notice that residential sales in Québec are mainly influenced by fluctuations in economic activity, changes in interest rates, housing starts and the job market. These variables explain between 65 and 70 per cent of the changes in residential property sales in Québec.

Our results suggest that the effect of an increase or decrease in the number of jobs takes more than one year before being felt.

It is interesting to note that if, in the short term, an increase in the number of new constructions represents a substitute for a property listed on the MLS® system, in the long term, the effect is rather positive, as housing starts feed the pool of available properties.

¹ This effect could not be measured empirically due to the short period selected for the study.

Mortgage Rates

It is not surprising to observe that, empirically, mortgage interest rates have an important role to play in sales fluctuations. The effect of a mortgage rate change for five-year loans would have an impact on MLS® sales the following month. For all residential sales, a 1 percentage point decrease in mortgage rate growth for a given month would lead to an average increase in sales growth of almost 0.66 percentage points the following month. Once again, the greatest impact is with condominiums, where a decrease of 1 percentage point would lead to an average increase of 0.71 percentage points in sales. In addition, the impact of interest rates is felt over a longer period of time for condominiums, meaning that a mortgage rate change that took place up to three months earlier would be felt on sales growth for this category. The two other property categories are also sensitive to fluctuations in interest rates, but with a delay of only one month, and the impact is lower, at 0.63 percentage points, for both single-family homes and plexes.

The impact of interest rates is felt over a longer period of time for condominiums.

Economic Activity

Finally, the last economic factor that, according to our research, would have an impact on MLS® sales is related to economic activity. When consumers expect an increase in economic activity in the coming months, we can expect to see an increase in sales growth compared to the previous month. An increase in the gross domestic product (GDP) is both a sign of economic prosperity and, as a result, increased consumer confidence in the economy. Indeed, we note a correlation between changes in the consumer confidence index and GDP fluctuations: the consumer confidence index seems to anticipate increases and decreases in GDP three months in advance. More specifically, suppose that consumers, by what they read and hear in the media, expect GDP growth to accelerate, in the short term we can anticipate that the growth in residential property sales will also be higher. Once again, the impact is greatest for condominiums, where a 1 percentage point increase in GDP growth would fuel sales growth by 3.9 percentage points for this property category, followed closely by plexes where sales growth would be 3.6 percentage points. Single-family homes are also subject to fluctuations in GDP, where a 1 percentage point increase in economic growth would lead to an increase in sales growth of 3.2 percentage points.

When consumers expect an increase in economic activity in the coming months, we can expect to see an increase in sales growth.

Why Condominiums More Than Other Property Categories?

Condominiums are the property category for which changes in the GDP, in interest rates and housing starts have the strongest impact. This can be explained by the fact that condominiums are very popular among first-time buyers, who can usually wait until the time feels right to make their purchase. It is therefore possible that this flexibility makes buyers more sensitive to fluctuations in the economy before deciding to buy a home. Uncertain economic conditions or a forecasted recession can create a feeling of insecurity, both in relation to their assets and in relation to their future income, and it would therefore be better to delay the purchase and continue renting for a while longer. As for interest rates on mortgage loans, their strong influence may be explained by the behaviour of condominium buyers. Still from the perspective that many buyers of this property category are first-time buyers, they may possibly need to borrow at a higher loan-to-value ratio than more experienced buyers. They are therefore more sensitive to fluctuations in interest rates and can follow rate fluctuations with greater interest. Finally, the effect

From the perspective that many condominium buyers are first-time buyers, they may possibly need to borrow at a higher loan-to-value ratio than more experienced buyers. They are therefore more sensitive to fluctuations in interest rates.

produced by new constructions can be attributed to the many condominium units that are being built across the province. Housing starts therefore create more competition for condominiums than other property categories by their increased availability: since the early 2000s, condominiums accounted for one third of new constructions intended for occupying homeowners², while they represent approximately one-fifth of sales concluded through the MLS® network.

The empirical study was conducted using the MLS® database of real estate brokers in the province of Québec. Fluctuations in sales each month between January 2001 and August 2011 were analyzed for this study, and each property category was examined individually. These results are not intended to predict future fluctuations in MLS® sales, but to explain concretely the impact of certain economic factors on real estate activity. Certain key factors, including population growth and vacancy rate, were omitted from the analysis due to constraints in terms of the period and frequency of the study.

² Source: CMHC

This publication is produced by the Market Analysis Department of the QFREB

Paul Cardinal, Manager

Camille Laberge, Economist

Paola Rodriguez, Economic Research Assistant

Contact us at: stats@fcicq.ca

© 2011 Québec Federation of Real Estate Boards. All rights reserved.