

Slowdown Expected in Province's Residential Real Estate Market in 2013

Low mortgage interest rates coupled with modest growth in the province's job market should be beneficial to the residential real estate market in 2013. However, the tightening of mortgage rules that came into effect last July, which greatly contributed to the drop in sales in the second half of 2012, will continue to hamper real estate activity in 2013. The number of transactions concluded by a real estate broker in Québec is expected to decrease by 4 per cent compared to 2012 and price growth will be more moderate, both for single-family homes and condominiums.

New Mortgage Rules Changed the Context

On July 9, 2012, the maximum amortization period for new insured mortgages was reduced to 25 years, making it more difficult for some first-time buyers to qualify for financing. This tightening of the mortgage rules, the fourth since 2008, largely explains the expected slowdown in Québec's residential real estate market in 2013.

The last five months of 2012 have already provided a sneak preview of what we can expect: first-time buyers' enthusiasm and residential sales decreased every month during this period, particularly for condominiums. The decrease in the maximum amortization period for new mortgages had two noticeable effects on households wishing to buy a property. First, a number of them were forced to postpone their purchase. And second, some households made their purchase, but had to review their budget downwards since the amount of the mortgage they qualified for was reduced.

Fundamental Factors Remain Favourable

The uncertain global economy, moderate economic growth in Canada and a strong Canadian dollar, which exacerbates the weakening of exports, significantly decrease the likelihood that the Bank of Canada will raise its key interest rate for several months. As a result, interest rates for short-term loans and variable mortgage rates will continue to stay close to their current low level. In addition, the relative quality of Canada's debt will continue to translate into a greater number of investors being attracted to Canadian bonds. As a result, the yield on five-year Government of Canada bonds, which is the benchmark for determining the cost of funds that financial institutions lend in the mortgage market for a five-year term, will remain low. Five-year fixed-rate mortgages should therefore show little change in 2013 and remain close to the 60-year low they are currently at.

The labour market in Québec had a strong year-end with the creation of more than 50,000 jobs and a decrease in the unemployment rate in the fourth quarter of 2012. In 2013, the labour market is expected to post good results, but gains will be made at a more moderate pace. Finally, net migration in the province will continue to support the real estate market. In fact, according to data from the Institut de la statistique du Québec, the province registered its second best net migration result of the past 50 years in 2011, with close to 40,000 new arrivals¹.

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¹ Source: ISQ (http://www.stat.gouv.qc.ca/donstat/societe/demographie/miqr_poplt_imigr/601.htm)

Sales Will Decrease and Listings Will Continue to Increase

Despite the strong labour market and low mortgage rates, the new mortgage rules will curb the number of transactions concluded in 2013.

After remaining stable in 2012, we expect a drop in the number of residential sales concluded through a real estate broker. The Québec Federation of Real Estate Boards (QFREB) predicts that 74,000 transactions will be concluded in Québec in 2013, a 4 per cent decrease compared to 2012. More specifically, we expect that activity in the Montréal and Québec City areas will be more moderate. The QFREB anticipates 38,000 sales in the Montréal Metropolitan Area and 6,900 sales in the Québec City Metropolitan Area in 2013. This represents respective decreases of 5 and 4 per cent as compared to 2012.

The number of properties for sale will continue to increase in Québec for a third consecutive year in 2013. Buyers will therefore have more to choose from as well as increased negotiating power.

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The single-family home market in the Montréal area will rebalance itself, after favouring sellers for more than ten years.

OUR FORECAST FOR 2013 - Province of Québec

			Variation
Number of sales	2012	77,463	0%
	2013f	74,000	-4%
Median price – single-family home	2012	\$224,372	3%
	2013f	\$228,000	2%

Source and forecast: QFREB

Montréal Will no Longer be a Seller's Market

Due to an increase in the number of properties available and the expected decrease in sales, the single-family home market in the Montréal area will rebalance itself, after favouring sellers for more than ten years.

However, fueled by the completion of many new construction projects, there will be a significant increase in the number of active condominium listings in the Montréal area in 2013, for a third consecutive year. This increase in supply, combined with an anticipated slowdown in demand, will create a buyer's market for condominiums and pressure on prices will decrease considerably.

OUR FORECAST FOR 2013 - Montréal CMA

			Variation
Number of sales	2012	40 133	-1%
	2013f	38 000	-5%
Median price – single-family home	2012	\$273 000	3%
	2013f	\$278 000	2%
Median price – condominium	2012	\$227 437	3%
	2013f	\$229 000	1%

Source and forecast: QFREB

Single-Family Home Market Will Continue to Favour Sellers in the Close Suburbs of Québec City

Despite the anticipated decrease in sales and increase in supply, the single-family home market will continue to advantage sellers slightly in the Québec City area, due to market conditions that are still tight in the close suburbs.

Like in Montréal, the completion of several new construction projects will lead to a significant increase in the supply of condominiums in 2013 in the Québec City Metropolitan Area. Remember that active listings of condominiums had already increased by 46 per cent in 2011 and by 28 per cent in 2012. With the increase in the number of active listings and the expected decrease in sales, the condominium market will become a buyer's market which, in turn, will limit price growth in the Québec City area.

OUR FORECAST FOR 2013 - Québec City CMA

			Variation
Number of sales	2012	7 191	0%
	2013f	6 900	-4%
Median price – single-family home	2012	\$239 000	4%
	2013f	\$246 000	3%
Median price – condominium	2012	\$196 000	7%
	2013f	\$199 000	2%

Source and forecast: QFREB

The single-family home market will continue to advantage sellers slightly in the Québec City area.

Expect Moderate Price Increases

In 2012, the median price of single-family homes in the province of Québec increased by 3 per cent compared to 2011. This was the lowest growth rate since the early 2000s. With the easing of market conditions, price increases will be even more moderate in 2013. The median price of single-family homes should increase by 2 per cent to reach \$228,000 across the province. In the Québec City Metropolitan Area, price growth should reach 3 per cent in 2013, with a median price of approximately \$246,000 for single-family homes, while in the Montréal CMA, the median price should reach \$278,000, a 2 per cent increase compared to 2012.

As for condominiums, median prices are not expected to increase by more than 2 per cent in the Québec City Metropolitan Area and by not more than 1 per cent in the Montréal Metropolitan Area in 2013.

To conclude, because of the new mortgage rules, we anticipate that the pace of residential sales will be more moderate in 2013 in Québec, particularly in the first half of the year. The decrease in sales volume will be accompanied by an increase in the number of properties for sale, especially condominiums. Market conditions will continue to relax, which means that buyers will have the upper hand in negotiations and, in turn, there will be less pressure on property price growth.

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