

Outlook for the 2014 Residential Real Estate Market in Québec: Soft Landing Will Continue

The year 2013 was marked by the beginning of a soft landing for the province's real estate market. In general, there was a rebalancing of the market, accompanied by more moderate price increases. This soft landing is expected to continue in 2014, even though – contrary to what was observed in 2013 – the number of residential sales is expected to increase slightly.

Economic Environment Will Remain Generally Favourable

Although a very small increase in mortgage rates is expected in the second half of 2014 with an expected acceleration in global and Canadian economic growth, Québec's economic environment should remain generally favourable for the residential real estate market as there are other factors that will promote an increase in demand.

In 2013, the labour market posted somewhat mixed results with the creation of only 14,700 jobs across the province, an increase of just 0.4 per cent. However, the labour market situation is expected to improve slightly in Québec over the next twelve months, which will stimulate real estate market activity, but this is not necessarily the most important driver of the real estate market. The population growth seen in recent years, which can be attributed to an increase in net migration, will be the main force that draws the real estate market upward in 2014. Thus, the province's positive net migration, which has sat at approximately 40,000 people for several years now, should help increase demand on Québec's residential real estate market. The Montréal area, which has also shown a positive net migration of approximately 34,000 people for a few years now, is an important centre of attraction. Its residential real estate market is therefore expected to derive the greatest benefit from the effects of these population changes.

Slight Increase in Number of Transactions and Moderate Increase in Listings

The latest forecasts from the Québec Federation of Real Estate Boards (QFREB) suggest that some 73,500 residential sales will be concluded across the province in 2014 through the real estate brokers' Centris® system. This represents a 3 per cent increase compared to 2013. Last year, mainly due to stricter mortgage rules, sales fell by 8 per cent, reaching their lowest level in seven years.

The year 2013 was marked by a significant increase in the number of properties available on the market in Québec. The number of active listings jumped by 9 per cent compared to 2012, the third consecutive annual increase. In fact, the number of properties available reached a level that was more than twice that observed in the early 2000s. For 2014, the QFREB expects a very moderate increase, or even a stabilization, in the number of properties for sale. In all cases, the changes in supply should not be significant enough to affect the conditions of the province's real estate market, which will generally remain stable in most urban centres in 2014: conditions will remain balanced for single-family homes and plexes, and will continue to slightly favour buyers for condominiums.

Prices Expected to Remain Stable

There will be a lot less pressure on property prices in 2014 since, in the vast majority of the province's urban centres, the real estate market no longer gives sellers the upper hand, as was the case for many years. With market conditions that will remain balanced for single-family homes and plexes, and slightly favour buyers for condominiums, we should expect relative stability in prices over the year. Thus, the median price of single-family homes will reach \$226,500 in Québec in 2014, which represents a 1 per cent increase compared to 2013, when it reached \$225,000.

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2014 PREDICTIONS - Province of Québec

			Variation
Number of sales	2013	71,265	-8%
	2014p	73,500	3%
Median price - single-family homes	2013	\$225,000	0%
	2014p	\$226,500	1%

Source: QFREB

Adjustment Will Continue on Montréal Condominium Market

According to the QFREB, the number of residential sales concluded through a real estate broker in the Montréal Metropolitan Area will increase by 3 per cent in 2014 to reach 37,600 transactions. However, this increase will not erase the sharp decrease of 9 per cent registered last year.

A slight surplus of condominiums – for both new and existing condominiums – will continue again this year in the Montréal area. The impact of the drop in condominium housing starts, which fell by 26 per cent in 2013, will only truly be felt as of 2015. This will therefore result in another year of adjustment on the Montréal condominium market, which will once again register an increase in the number of properties available and will continue to benefit buyers. As for the other property categories, the market will remain balanced. Even though new listings of single-family homes and plexes did not increase in 2013, the increase in the number of properties available can be explained by the fact that properties are staying on the market longer: an average of 85 days for single-family homes (+7 days) and 86 days for plexes (+11 days). An increase in new listings for these two property categories is very unlikely in 2014; this will slow the increase in supply and help maintain a balanced market for single-family homes and plexes.

The median price of single-family homes will have a similar variation to that expected for the province, meaning an increase of 1 per cent for a median price that will reach \$283,000. As for the median price of condominiums, it will remain stable at \$227,000.

A slight surplus of condominiums – for both new and existing condominiums – will continue again this year in the Montréal area.

2014 PREDICTIONS - Montréal CMA

			Variation
Number of sales	2013	36,522	-9%
	2014p	37,600	3%
Median price - single-family homes	2013	\$279,500	2%
	2014p	\$283,000	1%
Median price - condominiums	2013	\$227,000	0%
	2014p	\$227,000	0%

Source: QFREB

Sellers in Québec City Will Need Increased Patience

The number of sales concluded by a real estate broker in the Québec City Metropolitan Area is expected to increase slightly by 2 per cent in 2014 to reach 6,400 transactions. However, this increase does not even come close to erasing the 13 per cent drop in sales registered in 2013.

The upward trend in the number of properties for sale in the real estate brokers' provincial Centris® system will continue in 2014 in the Québec City area, but at a slower pace than that of the past three years.

Thus, market conditions should remain balanced for single-family homes and plexes. However, buyers will have a definite advantage when it comes to condominiums. In fact, due to strong construction in the past few years and the recent slowdown in demand, there is currently a surplus of condominiums in the Québec City area, for both new condominiums and existing condos. The 43 per cent decrease in the number of condominium housing starts in 2013 reveals a recent adjustment in the supply of condos in the area. However, it will only be in 2015 that the decrease in housing starts will actually result in a decrease in the number of new units delivered. As is currently the case, condominium buyers will continue to have the upper hand in negotiations in the Québec City area in 2014.

As a result, the median price of condominiums should remain stable in 2014 and reach \$200,000 throughout the Québec City area. The median price of single-family homes will reach \$250,000, a 2 per cent increase compared to last year and the smallest price increase in approximately fifteen years.

Finally, sellers in the Québec City area will need to be patient, as average selling times are expected to increase further in 2014, particularly for condominiums. In 2013, it was already taking an average of 126 days for a condominium to find a buyer in the Québec City area.

As is currently the case, condominium buyers will continue to have the upper hand in negotiations in the Québec City area in 2014.

2014 PREDICTIONS - Québec City CMA

			Variation
Number of sales	2013	6,200	-13%
	2014p	6,300	2%
Median price - single-family homes	2013	\$245,000.00	3%
	2014p	\$250,000.00	2%
Median price - condominiums	2013	\$200,000.00	2%
	2014p	\$200,000.00	0%

Source: QFREB

New Change in Mortgage Rules is Not Wanted and Not Likely

The slowdown observed on the province's residential real estate market in 2013 was mainly due to the tightening of mortgage insurance rules in the summer of 2012¹.

The forecasts presented here for 2014 are based on the assumption that there will not be any additional changes made to mortgage insurance rules. A new tightening of mortgage insurance rules, which would take the form of an increase in the minimum down payment and an additional decrease in the maximum amortization period, is not desirable for the Québec real estate market. Such an action would be very damaging for the housing market. This is especially true for the Québec market, which depends largely on the activity of first-time buyers².

Since the end of the summer of 2013, Canada's real estate market has shown a certain acceleration in the increase of average prices, particularly in markets that attract the attention of Minister Flaherty, such as Vancouver and Toronto. However, the home price index (HPI), which is a better measure of price variations, paints a different picture. The HPI decreased by 3 per cent in Vancouver and increased by 4 per cent in Toronto in 2013, which in both cases represents a more moderate variation than that observed in 2012. If this trend continues in the coming months, it will decrease the likelihood that the federal government will once again tighten mortgage insurance rules.

A new tightening of mortgage insurance rules, which would take the form of an increase in the minimum down payment and an additional decrease in the maximum amortization period, is not desirable.

¹ For more information on this topic, please read the Word From the Economist published in September 2013, entitled [The Fourth Round of Mortgage Tightening, One Year Later](#).

² The proportion of first-time buyers on the province's real estate market is estimated at approximately 45 per cent.

If you have any questions or comments about the content of this article, please contact us by email at: stats@fcic.ca.

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