

Update to our Initial 2013 Forecasts

A slower than expected start to the year in the province's real estate market has led us to slightly revise the initial forecasts for 2013 that we made in January. The trends remain the same; only their scope has been revised.

Drop in Year-to-Date Sales Larger Than Expected

Real estate activity has slowed considerably since the implementation in July 2012 of new¹ and tighter mortgage rules that limit the maximum amortization period of new mortgages to 25 years when mortgage insurance is required². From August to December 2012, the number of residential sales transactions concluded through the Centris® system in Québec fell by 12 per cent. From January to May 2013, sales across the province again fell by 12 per cent. We still believe that once we reach the anniversary date of the implementation of these more restrictive mortgage rules, in the summer of 2013, real estate activity will stabilize to the level seen in the second half of 2012. In our opinion, we are heading towards a 7 per cent decrease in sales in 2013. This will translate into a total of approximately 72,000 transactions rather than the 74,000 (-4 per cent) transactions initially forecasted (see [Slowdown Expected in Province's Residential Real Estate Market in 2013](#), QFREB, "A Word From the Economist", January 2013).

Towards a Rebalancing in Several Markets

As expected, the number of properties for sale continued to increase in most of the province's urban centres. From January to May 2013, the number of active listings was up by 9 per cent in Québec as compared to the same period in 2012. This increase has already resulted in the rebalancing of several real estate markets where sellers have lost their upper hand in negotiations, an advantage they held for many years (see [Real Estate Market: Sellers No Longer in Dominant Position](#), QFREB, "A Word From the Economist", April 2013). Several markets have even become buyer's markets in recent months. This is particularly the case for the condominium market in most areas.

This upward trend in active listings will continue over the coming months and will be accompanied by a further lengthening in selling times and a downward pressure on prices.

We maintain our forecast that the median price of single-family homes in Québec will increase by 2 per cent in 2013, a level similar to the expected inflation rate for all consumer goods. This increase will represent a slowdown compared to the price increases of 3 per cent registered in 2012 and 4 per cent registered in 2011. Thus, the median price of single-family homes in Québec will reach \$228,000 in 2013. After the first five months of the year, the median price of single-family homes had increased by 1 per cent.

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¹ This was the fourth tightening since 2008. For more information, see <http://www.fin.gc.ca/n12/12-070-eng.asp>.

² Mortgage insurance is mandatory when a buyer makes a down payment of less than 20 per cent of the value of the acquired property.

Table 1

OUR FORECAST FOR 2013 - Province of Québec

			Variation
Number of sales	2012	77,382	0%
	2013p	72,000	-7%
Median price – single-family home	2012	\$224,231	3%
	2013p	\$228,000	2%

Source and forecast: QFREB

Little Change in Sight in Terms of Interest Rates

The interest rate for a five-year mortgage issued by Canada's main financial institutions has changed little since the fall of 2011 and remains at a historically low level. In the short term, mortgage rates will not change much. In a context where the world economy is growing slowly and uncertainty persists about a sustained and long-lasting recovery, particularly in the United States and the euro zone, the relative situation of Canada, both on the economic and budgetary fronts, as well as on the political front, is such that Canadian debt remains popular with investors. This in turn maintains Canadian bond yields close to their current rock-bottom level³. Thus, like most experts, we expect that the five-year mortgage rate, at the end of 2013, will be practically at the same level it is at now⁴, and will increase very moderately in 2014.

Montréal Area: No Price Growth for Condominiums

In the Montréal Census Metropolitan Area (CMA) the decrease in sales in 2013 will be slightly greater than in the rest of the province, with an anticipated drop of 8 per cent for an estimated total of 37,000 transactions. This represents a downward revision compared to the 5 per cent decrease we had initially forecasted in January.

The number of active listings continues to climb. The condominium market has recently shifted to a buyer's market and that of single-family homes will end the year in balanced territory in the vast majority of areas. As a result, price increases will be relatively low. For single-family homes, we maintain our forecast that the median price will reach \$278,000 in 2013, an increase of 2 per cent. For condominiums, due to the slight surplus that is currently on the market for both new and resale condominiums, its median price will remain stable (0 per cent) at \$228,000 across the Montréal CMA in 2013.

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³ The yield on Government of Canada bonds serves as a reference for determining the cost of funds that financial institutions lend out on the mortgage market and thus dictate the level of mortgage rates (see [Why Have Mortgage Interest Rates Reached Historically Low Levels](#), QFREB, "A Word from the Economist", May 2012).

⁴ At the time this document was written, Canada's main financial institutions were posting a five-year mortgage rate of 5.19 per cent.

Table 2

OUR FORECAST FOR 2013 - Montréal CMA

	Variation		
Number of sales			
	2012	40,092	-1%
	2013p	37,000	-8%
Median price – single-family home			
	2012	\$273,000	3%
	2013p	\$278,000	2%
Median price – condominium			
	2012	\$227,437	3%
	2013p	\$228,000	0%

Source and forecast: QFREB

Québec City Area: Strong Increase in Active Listings

The decrease in residential sales will prove to be more pronounced than expected in the Québec City CMA in 2013. To date (from January to May 2013), the drop in sales has reached 16 per cent. For condominiums, sales have decreased by 20 per cent. Similarly to what we predict for the province as a whole, we expect that sales in the Québec City area will stabilize at the end of summer and that a total of 6,650 sales transactions will be concluded in 2013, an 8 per cent decrease. This is greater than the 4 per cent decrease we had initially forecasted.

Moreover, the increase in the supply of properties for sale is clearly visible in the Québec City CMA and has even increased in recent months. From January to May, there was a 17 per cent increase in listings by real estate brokers, for all property categories combined, compared to the same period in 2012. The increase in condominium listings was particularly strong, jumping by 43 per cent in the first five months of 2013. This was due to the high number of new units that have not yet found a buyer⁵. The condominium market is now evolving into a buyer's market and selling times are becoming longer.

In this context, the vitality of condominium prices is surprising, as the median price of condominiums in the Québec City area increased by 7 per cent in the first five months of the 2013 as compared to the first five months of 2012. This pricing scenario defies market conditions that give buyers the upper hand, and forces us to revise upwards our forecast in this area. The median price of condominiums in the Québec City area will reach \$205,000 in 2013, an increase of 5 per cent. We expect, however, that the oversupply of condominiums for sale in the Québec City area will eventually slow the pace of price increases.

As for single-family homes, we maintain our forecast that prices will increase by 3 per cent in 2013, with a median price of approximately \$246,000 in the Québec City CMA.

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We expect that the oversupply of condominiums for sale in the Québec City area will eventually slow the pace of price increases.

⁵ According to the CMHC study on housing starts, close to 800 new condominium units were completed and unoccupied in the first quarter of 2013.

Table 3

OUR FORECAST FOR 2013 - Québec City CMA

	Variation	
Number of sales		
	2012	7,219
	2013p	6,650
		0%
		-8%
Median price – single-family home		
	2012	\$239,000
	2013p	\$246,000
		4%
		3%
Median price – condominium		
	2012	\$196,000
	2013p	\$205,000
		7%
		5%

Source and forecast: QFREC

Outlook for 2014

As previously indicated, we expect to see a slight increase in mortgage rates in 2014. On the other hand, moderate job growth and population growth will help increase the demand for housing in Québec. The net effect should result in a very slight increase in residential real estate activity next year. In a context where most markets are balanced, meaning neither buyers nor sellers have the upper hand in negotiations, the increase in median price of single-family homes should, for a second year, be very similar to inflation.

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

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