

Resale Market

Resale activity remains very strong within the province. Recent rises in mortgage interest rates might have given a further push to sales, as buyers take advantage of pre-approvals before they expire. Most of the other provinces are now decelerating – the Quebec housing market is showing the effects of a healthy employment situation, and the excellent affordability that has resulted from a combination of modest prices and very low interest rates. Psychological factors may also be supporting the market.

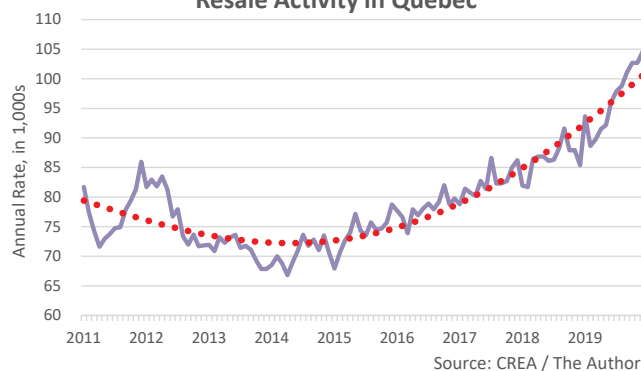
For the entire year, sales increased by 12%, setting a new annual record (about 96,600).

On a population-adjusted basis, sales in 2019 were 18% above the long-term (2001-2019) average.

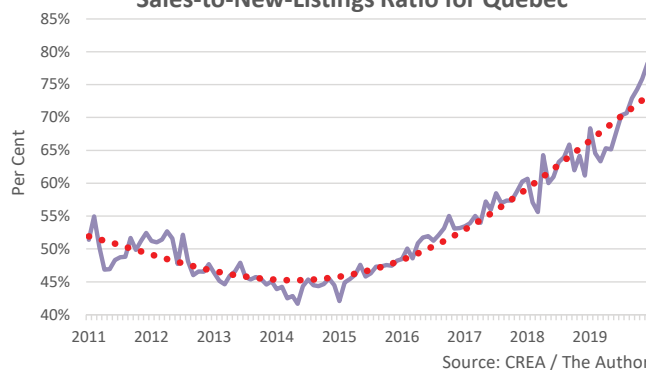
The sales-to-new-listings ratio (“SNLR”) continues to tighten, to 76% in the fourth quarter (versus 71% in the third quarter). This is far above the threshold (estimated at 45%) for a “balanced market” (this is the level at which prices are expected to rise by 2% per year).

Prices are responding to the shift in the supply-demand balance: the average price reported by the Canadian Real Estate Association (“CREA”) has increased by 6% versus the fourth quarter of 2018. We can expect continued rapid price growth for a while yet.

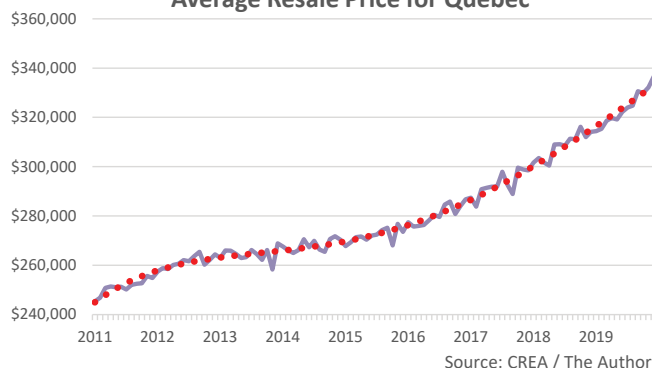
Resale Activity in Quebec



Sales-to-New-Listings Ratio for Quebec



Average Resale Price for Quebec



FOURTH QUARTER 2019 HOUSING MARKET DIGEST QUEBEC

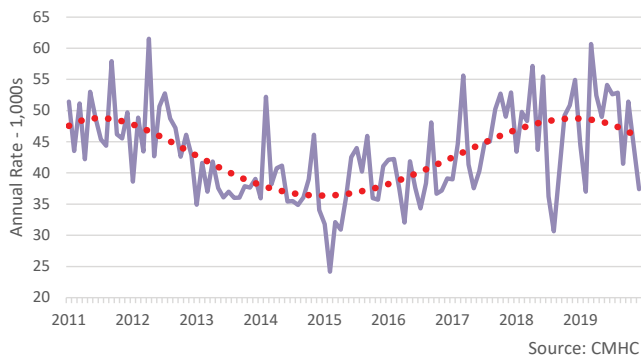


Housing Starts

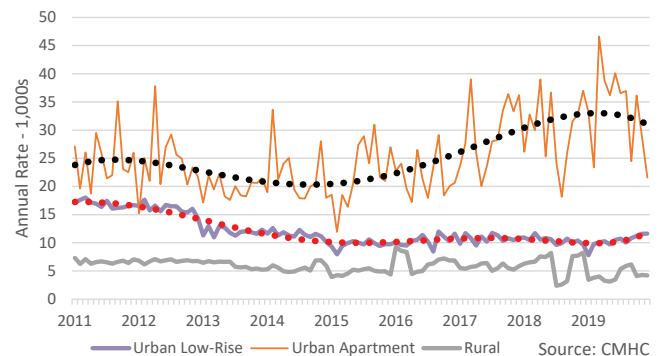
The rate of housing starts fell in the fourth quarter (to 44,900, versus 49,000 in the third quarter), but is close to average in historic terms (the 20-year average is 44,205). For the year, starts totaled almost 48,000, which was 2% higher than in 2018, and 9% above the long-term average.

Starts of low-rise homes remain weak (particularly single-detached homes - for 2019, singles starts were 48% below the 20-year average). But, apartment starts have been quite strong (starts in 2019 were 52% above the 20-year average).

Housing Starts in Quebec



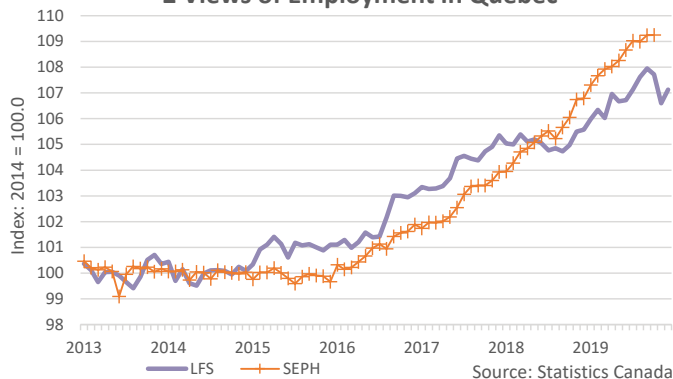
Housing Starts by Type of Dwelling in Quebec



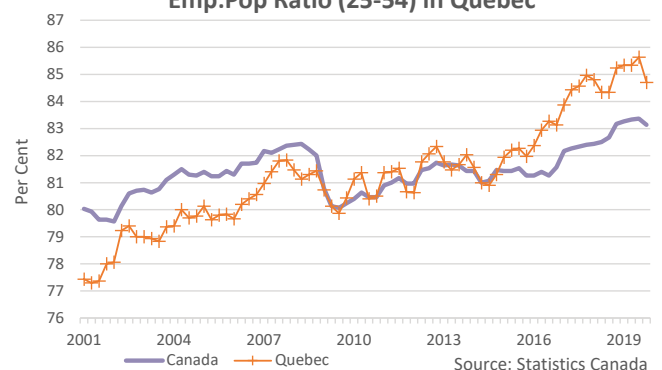
Employment Trends

Both of StatsCan's surveys of employment indicate that job creation has been very strong within Quebec (although recent data hints at a pause). The Labour Force Survey shows year-over-year growth at 1.5%. This data is as of December. The Survey of Employment, Payrolls and Hours shows much stronger growth (3.0%, but as of October).

2 Views of Employment in Quebec



Emp:Pop Ratio (25-54) in Quebec

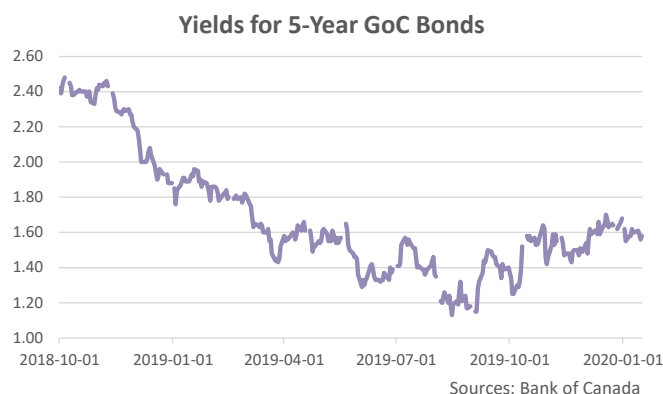


Employment Trends (Continued)

But, this pause is occurring within conditions of considerable economic strength. The employment-to-population ratio for “prime working age” adults (25-54) has dipped, but remains exceptionally high: since 2015, the employment rate in Quebec has been above the national average. This has supported very strong home-buying.

Interest Rates

Bond yields are now more-or-less where they should be: the current yield for 5-year Government of Canada bonds is 1.57% (as of January 16), within the range of 1.5-1.75% that I think is appropriate, and I don't expect these yields to change materially during the next few months. My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate from major lenders) has been 2.85% since early November.



The spread between mortgage rates and bond yields remains skinny (in the area of 1.2-1.3 points versus a long-term average of 1.8 points), due to intense competition. Variable rates are unchanged (my opinion-estimate remains at 2.95%).

Rental Markets

Every October, Canada Mortgage and Housing Corporation does a comprehensive survey of residential rental markets in Canada. The results for 2019 were released on January 15. For the urban areas of Quebec, the October 2019 vacancy rate was 1.8%, which is the fifth lowest figure of the past three decades. The average vacancy rate for the period shown in this chart is 3.7%.

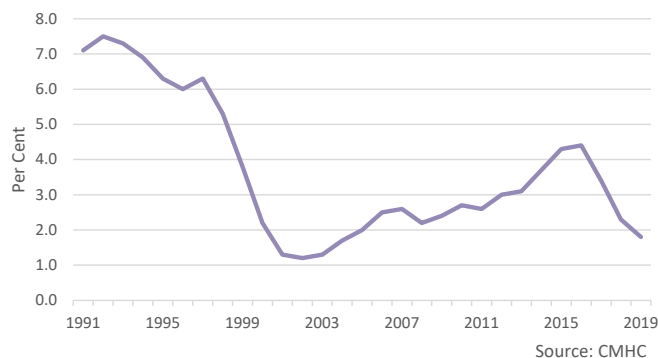
I attribute the reduction in vacancies during 2017 to 2019 to insufficient production of new housing. It's not just construction of rentals: insufficient production of housing for ownership reduces movements out of rentals. During 2019, there were about 44,600 housing completions. This is 7% above the 20-year average, but at a time when strength in employment (and population growth), are creating a need for more production of new housing. Based on trends for housing starts (as shown earlier), the vacancy rate might not change by much during 2020 and 2021, but we should see continued upward pressures on rents.

Rental Markets (Continued)

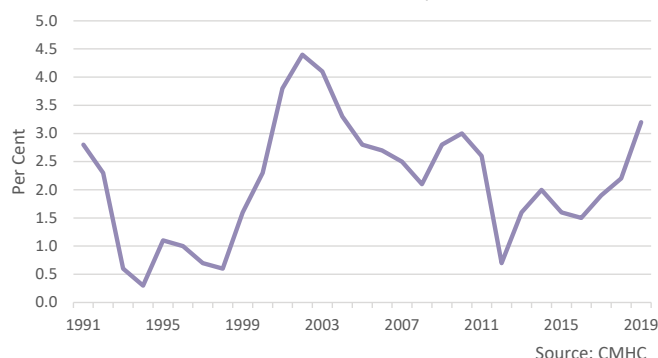
CMHC estimates that rents increased by 3.2% during the past year, which is the fifth fastest rate of increase within this dataset.

Occasionally, comments are made that a healthy vacancy rate is 3%. I have investigated the origins of this, and as far as I can tell, this has never been supported by actual research. In response, I have calculated the statistical relationships between vacancy rates and rent increases. For Quebec, we should expect rents to increase by 2% per year when the vacancy rate is 3.6%. This is my opinion on a healthy (“balanced market”) vacancy rate. The calculated balanced market vacancy rates vary across the provinces and cities of Canada. For all of Canada, the estimated threshold is 3.7%.

Rental Market Vacancy Rate in Quebec



Rent Increases in Quebec



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