



RESIDENTIAL REAL ESTATE MARKET OUTLOOK: 2019 WILL BE ANOTHER BANNER YEAR

All economic indicators are green except for one

The strong performance of the job market, the increase in disposable income, the high level of consumer confidence and the low interest rates are behind the strong demand on Québec's residential real estate market. This scenario will not be much different in 2019, other than for the fact that we expect mortgage rates to continue to gradually rise.

The Québec labour market is enjoying a boom period. In October, the province-wide unemployment rate was 5.2 per cent¹, which is near its historic low. However, it is not yet certain if 2018 will finish with employment on a positive note. Still, demand in the residential real estate market will continue to benefit from the exceptional gains of the last two years, during which nearly 180,000 jobs were created.

Also, thanks to job growth and rising wages in 2017, Québec posted a significant increase in per capita disposable income. This increase of 3.5 per cent in real terms (corrected for inflation) is the highest since 2008. This represents a significant increase in the purchasing power of Québécois.

At the same time, consumer confidence reached a 15-year high in September with 46 per cent of Québécois thinking that now is a good time to make a major purchase (such as a house)².

The only downside to this rosy economic picture is interest rates. These rates will continue trending upwards and are highly unlikely to decline in 2019. Mortgage rates offered by major Canadian financial institutions increased by 0.55 percentage points between December 2017 and October 2018, to reach 5.54 per cent. Further rate increases are expected

Demand in the residential real estate market will continue to benefit from the exceptional gains of the last two years, during which nearly 180,000 jobs were created.

Consumer confidence reached a 15-year high in September.

¹ Source: Statistics Canada

² Source: Conference Board of Canada

in 2019 to the order of half a percentage point. The five-year mortgage rates of major financial institutions could reach about 6 per cent by the end of 2019, a situation that has not been seen since 2008. Despite this fact, we must remember that financing costs remain very attractive from a historical point of view.

Over the next few months, employment, confidence and revenues could very well offset the effect of rising mortgage rates on real estate demand. There is also another very positive factor to consider, this time from a demographic perspective.

The demographic situation is improving

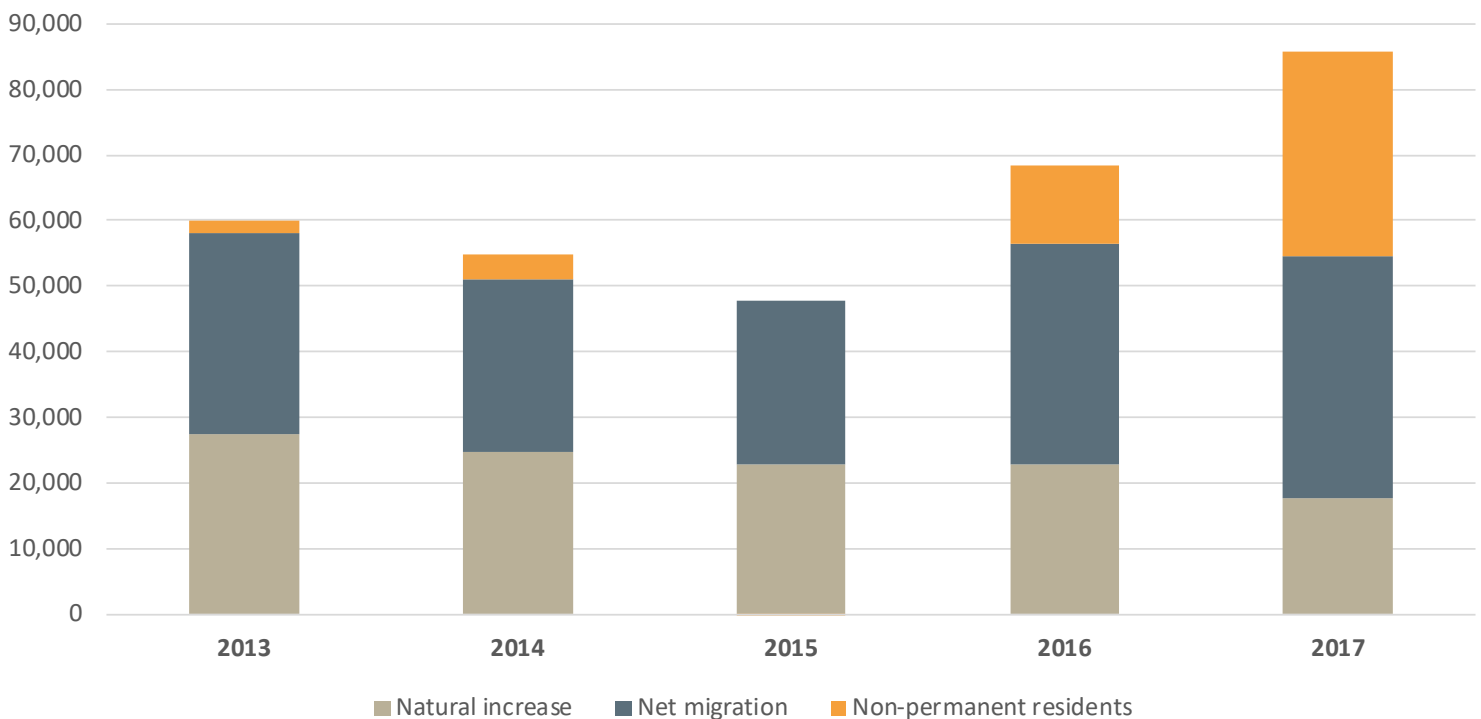
Population growth obviously implies new housing needs. However, Québec is not experiencing strong population growth. The situation has seen some improvement mainly due to immigration and non-permanent residents. Last year, the population grew by approximately 85,700 in Québec. Natural increase (the difference between the number of births and the number of deaths) was responsible for barely one fifth of population gains (Chart 1) and has been slowly declining year after year.

On the other hand, net migration was the largest contributor to population growth with a gain of about 37,000 newcomers. However, any improvement was primarily due to the number of non-permanent residents which reached the record level of 31,000 in Québec. These non-permanent residents are primarily temporary workers and foreign students. They stimulate demand in the rental market since, needless to say, they need accommodation. But it seems that more and more of them would like to apply for permanent resident status at the end of their stay. Those who choose to stay here will also become potential homebuyers in the medium term. This is therefore good news for the residential real estate market.

The five-year mortgage rates of major financial institutions could reach about 6 per cent by the end of 2019, a situation that has not been seen since 2008.

The number of non-permanent residents reached the record level of 31,000 in Québec.

Chart 1: Population growth in Québec



Québec: heading for a new sales record

The year 2018 will go down in history as the most active year ever recorded in Québec in terms of residential sales. Except that this record could be surpassed in 2019.

If the trend of the first ten months continues, approximately 86,800 residential sales will be concluded in 2018 in Québec through the real estate brokers' Centris system. This will be the fourth consecutive year of growth and will set a new high.

Given the excellent health of the fundamental factors described previously, next year should see a 1 per cent increase in the number of transactions in Québec, a new record of approximately 87,650 sales (see Table 1).

The year 2018 will go down in history as the most active year ever recorded in Québec in terms of residential sales. Except that this record could be surpassed in 2019.

Table 1

2019 FORECAST – Province of Québec				
	Number of Sales		Median Price – Single-Family	
		Variation		Variation
2017 (actual)	82,541	+6%	\$242,500	+3%
2018* (<i>projected</i>)	86,800	+5%	\$250,000	+3%
2019 (<i>forecast</i>)	87,650	+1%	\$257,000	+3%

* Projection based on the first 10 months

Source: QFREB forecasts

We can divide next year into two distinct periods. The new year should start strong with an increase in sales for the first half of the year. In the second half of the year, the number of sales will start to decline slightly compared to this fall, due to the gradual effect of higher mortgage rates.

Experienced buyers will continue to dominate the resale market, but first-time homebuyers, who are most sensitive to interest rates, will be more determined than ever to take action before borrowing costs increase further.

Price growth holding steady

At the same time, the supply of properties is trending downward, to the point that the number of “for sale” listings is currently at a seven-year low. An upward pressure on prices will continue but not intensify. The gradual rise in interest rates will reduce the amounts that some buyers can borrow and thus dampen property price inflation.

Similar to what we witnessed in 2017, increases in the median price for single-family homes will be around 3 per cent both this year and next year. It will therefore cost some \$250,000 and \$257,000 in 2018 and 2019 respectively to acquire an average property in Québec.

Meanwhile, the average selling time, for all property categories combined, will reach 108 days this year, a 7-day decline from 2017, and will continue to decrease further next year.

The gradual rise in interest rates will reduce the amounts that some buyers can borrow and thus dampen property price inflation.

Montréal remains in the lead

Similar to what we have seen so far in 2018, the housing market in the Montréal Census Metropolitan Area (CMA) is expected to be slightly stronger next year than the province as a whole, both in terms of sales growth and price growth.

The fact that the city has captured nearly three quarters of the 177,500 jobs created in Québec over the past two years and is the port of entry for most newcomers will establish it as the leader in sales growth in 2019. Accordingly, the number of transactions in the Montréal CMA will record a new peak of 47,600 sales next year (see Table 2).

The number of transactions in the Montréal CMA will record a new peak of 47,600 sales next year.

Table 2

2019 FORECAST – Greater Montréal Area						
	Number of Sales		Median Price – Single-Family		Median Price – Condo	
		Variation		Variation		Variation
2017 (actual)	44,395	+7%	\$310,000	+7%	\$247,000	+3%
2018* (projected)	46,850	+6 %	\$320,000	+3%	\$256,000	+4%
2019 (forecast)	47,600	+2%	\$332,000	+4%	\$263,000	+3%

* Projection based on the first 10 months

Source: QFREB forecasts

As the resale market conditions clearly favour sellers in the Montréal CMA, price growth will also be a little stronger than elsewhere in Québec. Our forecast calls for a 4 per cent increase in the median price of single-family homes, which will reach \$332,000. Conditions in the condominium market have tightened dramatically over the past year. As a result, we expect a 3 per cent increase in the median price to reach \$263,000.

If the trend continues, the Québec City CMA housing market will post a 3 per cent increase in sales in 2018.

Québec City will continue its slow and steady pace

If the trend continues, the Québec City CMA housing market will post a 3 per cent increase in sales in 2018. This would be the fifth consecutive year of growth. However, these increases have all been modest, never exceeding 3 per cent per year.

Québec City has the lowest unemployment rate of all provincial CMAs, at 3.9 per cent in October. A labour shortage in several sectors has limited employment gains to 4,000 jobs over the past two years.

In terms of population growth, the Québec City CMA has been relatively stable, averaging about 5,600 annually over the past five years.

If we add these factors to the rising disposable income and strong consumer confidence, the demand for housing will remain favourable in the Québec City area in 2019 even though it will not show any signs of spectacular growth. And, as mentioned above, rising mortgage rates will start to affect the budget of property buyers, who will be somewhat fewer next fall.

The demand for housing will remain favourable in the Québec City area in 2019 even though it will not show any signs of spectacular growth.

We expect sales to continue at a steady pace as shown in recent years, with a slight 1 per cent increase in residential transactions in 2019.

With market conditions slightly in favour of buyers for single-family homes, price growth in the Québec City area has been timid since 2014. This year, the median price for single-family homes will grow by 2 per cent, the largest increase in five years. We believe that half of single-family homes will be sold at a price greater than \$256,000 in 2019, an increase of 1 per cent.

Table 3

2019 FORECAST – Greater Québec City Area						
	Number of Sales		Median Price – Single-Family		Median Price – Condo	
		Variation		Variation		Variation
2017 (actual)	6,877	+2%	\$250,000	+1%	\$188,000	-1%
2018* (projected)	7,075	+3%	\$253,800	+2%	\$189,500	+1%
2019 (forecast)	7,150	+1%	\$256,000	+1%	\$191,000	+1%

* Projection based on the first 10 months

Source: QFREB forecasts

As far as condominiums are concerned, there has been significant excess supply since 2013 in the Québec City area. This has resulted in a 6 per cent decrease in prices in the period from 2013 to 2016. The balance of power between buyers and sellers has not really changed in 2018, as the supply of units for sale reached 19 months of inventory in October. Nevertheless, for the first time in five years, the median price of condominiums is up slightly by 1 per cent so far this year. Cumulatively for 2018, it should reach \$189,500. Next year, due to the surplus in inventory, the pressure on prices will remain weak. We forecast a slight 1 per cent increase in the median condominium price to reach \$191,000.

For the first time in five years, the median price of condominiums is up slightly by 1 per cent so far this year.

Elsewhere in the province

Among the province's other CMAs, Gatineau is likely to record the best results in 2019. Along with Montréal, it is the only other CMA where the conditions of the residential real estate market are decidedly in favour of sellers. Finally, in our opinion, the smaller urban centres located about an hour's drive from Montréal, such as Saint-Hyacinthe, Granby, Joliette, Valleyfield, Sorel and Saint-Sauveur, could also have a good year in 2019.

Among the other provincial CMAs, Gatineau is likely to record the best results in 2019.