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A WORD FROM THE ECONOMIST

May 2017

Solid job creation, improved net migration and a rebound in consumer confidence are all factors that led us to revise considerably upward our outlook for Québec's resale market in 2017. We are therefore enhancing the forecasts we presented at the start of the year, both in terms of the number of sales and the increase in property prices.

Strong start to the year

The resale market in Québec had a much better start to the year than we had anticipated. In the first three months of 2017, the number of sales registered in the real estate brokers' Centris® system increased by 6 per cent compared to the same period last year, making it the most active first quarter in five years.

However, April's results were not as good (-3 per cent). Thus, in the first four months of 2017, the increase in residential sales stood at 3 per cent (see Table 1).

By property category, it is mainly condominiums that have had the strongest momentum since the start of the year. In the first four months of 2017, condominium sales increased by 10 per cent in Québec, while sales of single-family homes increased by only 2 per cent and sales of plexes remained unchanged (0 per cent) compared to the first four months of 2016.

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Table 1: Cumulative - January to April 2017

	Number of sales		Median price – single-family	
		Variation		Variation
Province of Québec	30,130	+3%	$241,000	+3%
Montréal CMA	15,902	+4%	$304,000	+6%
Québec City CMA	2,723	-1%	$248,000	-1%

Source and forecast: QFREB

In terms of prices, increases were also well beyond our expectations, particularly in the Montréal area. In the first four months of 2017, the increase in the median price of single-family homes across the province stood at 3 per cent, which was driven by a 6 per cent surge in the Montréal Census Metropolitan Area (CMA). The same was true of condominium prices, as the increase (+3 per cent) exceeded our forecasts so far in 2017.

In light of these results, it is clear that the mortgage tightening measures introduced last fall have not yet weighed as heavily on first-time buyers as we had anticipated. Perhaps many of them finally resigned themselves to buying a less expensive property. At the same time, the increase in demand from experienced buyers may have offset the decrease in the number of first-time buyers. This is what the data on sales by price range hints at, particularly in the Montréal market (see the section entitled "Forecasts for the Montréal CMA", below).

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A booming job market

The labour market situation is certainly one of the most important key factors influencing the residential real estate market. Employment in Québec is currently in a strong period. In April 2017, the province had 88,000 more jobs than one year earlier. However, the majority are part-time jobs (+55,700). Geographically, the new jobs are mainly located in the Montréal area (+73,400 jobs) and, to a lesser extent, the Québec City area (+17,100 jobs).

The excellent performance of the labour market also resulted in a significant decrease in the unemployment rate from 7.4 per cent in April 2016 (seasonally adjusted) to 6.6 per cent in April 2017. Remember that in January as well as in November 2016, the unemployment rate stood at 6.2 per cent, which is a historic low in Québec.

The employment gains are therefore excellent news for property resales. However, it is important to know that the effect of these job gains is not immediate, so there may be a delay of several months before its full effects are felt. The situation therefore bodes well for the real estate market in the coming months.

Significant increase in net migration and in the number of non-permanent residents

The ISQ recently published preliminary data on net migration across Québec in 2016, which indicates that there was a sharp increase in the number of newcomers, particularly when non-permanent residents are included (see Chart 1).

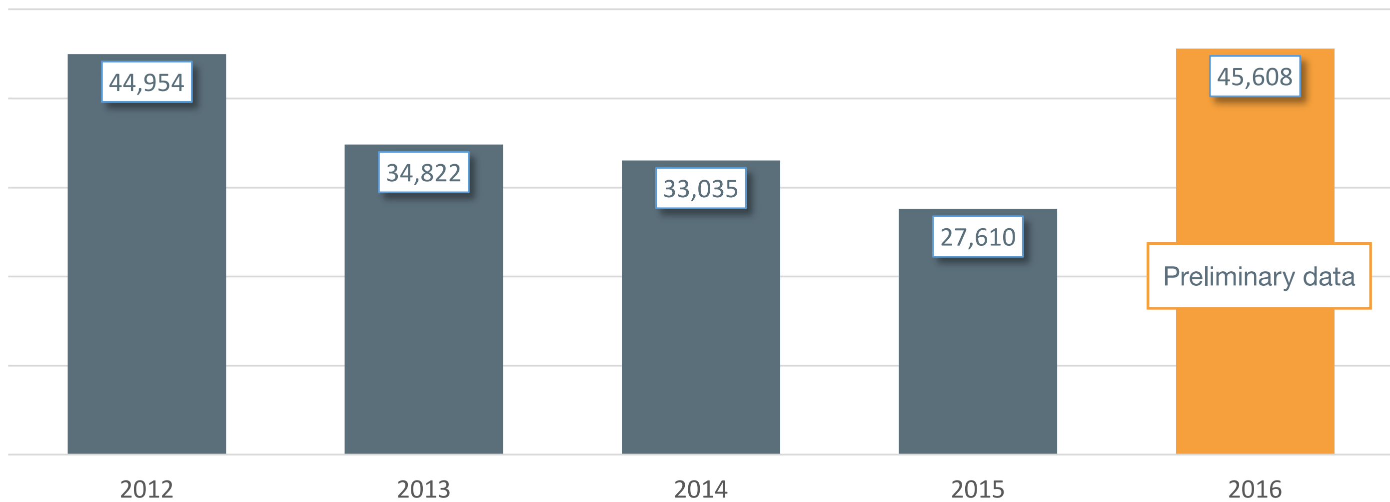
Net migration consists of the sum of net international migration and net interprovincial migration. International migration had a balance of 46,609 people last year, a 10 per cent increase compared to 2015. As for net interprovincial migration, it remains in negative territory (more Québec residents are moving to other provinces than the reverse), but the loss of 11,977 people in 2016, a decrease from the previous year, is nevertheless an improvement.

It is mainly non-permanent residents[1] who have completely changed the landscape. While slightly negative in 2015, the number of non-permanent residents jumped to almost 11,000 last year, a peak since 1988. If we take into account this group of new arrivals, net migration reached 45,608 people, a 65 per cent increase compared to 2015. However, this is not a record, as there were 51,466 new arrivals in 2009.

[1] This group is made up of students and workers who are staying here temporarily, or who claim refugee status, as well as members of their family who live with them in Canada. Some of them are waiting to obtain their Canadian citizenship or permanent resident status.

Once again, this is good news for the real estate market. Even though new arrivals will not necessarily become homeowners – or at least not immediately – each new household does need a place to live, which contributes to the demand for housing.

Chart 1: Net Migration*, Province of Québec



Source : ISQ

*Includes non-permanent residents

Consumer confidence revived

The Conference Board of Canada's confidence index helps measure consumers' mood regarding the real estate market. In particular, one of the survey questions measures whether, in the mind of consumers, it is a good time to make a major purchase such as a property. Chart 2 shows a short and somewhat gloomy period from November 2016 to January 2017, which was likely due to the election of Donald Trump as President of the United States as well as the implementation of mortgage tightening measures across Canada. This was followed by a rebound in consumer confidence to a level similar to that observed in the summer of 2016, which was at a new record since 2004.

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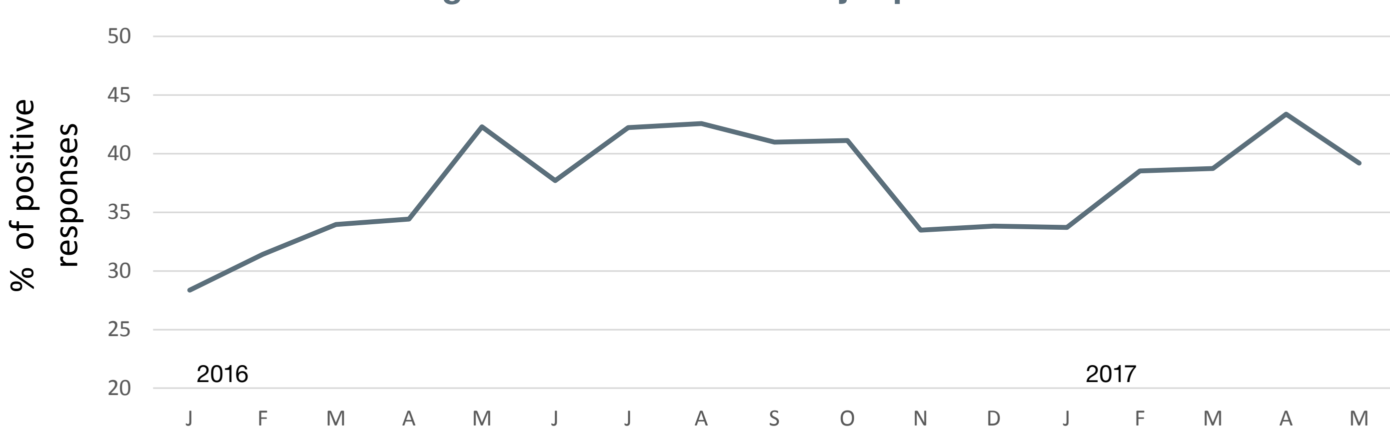
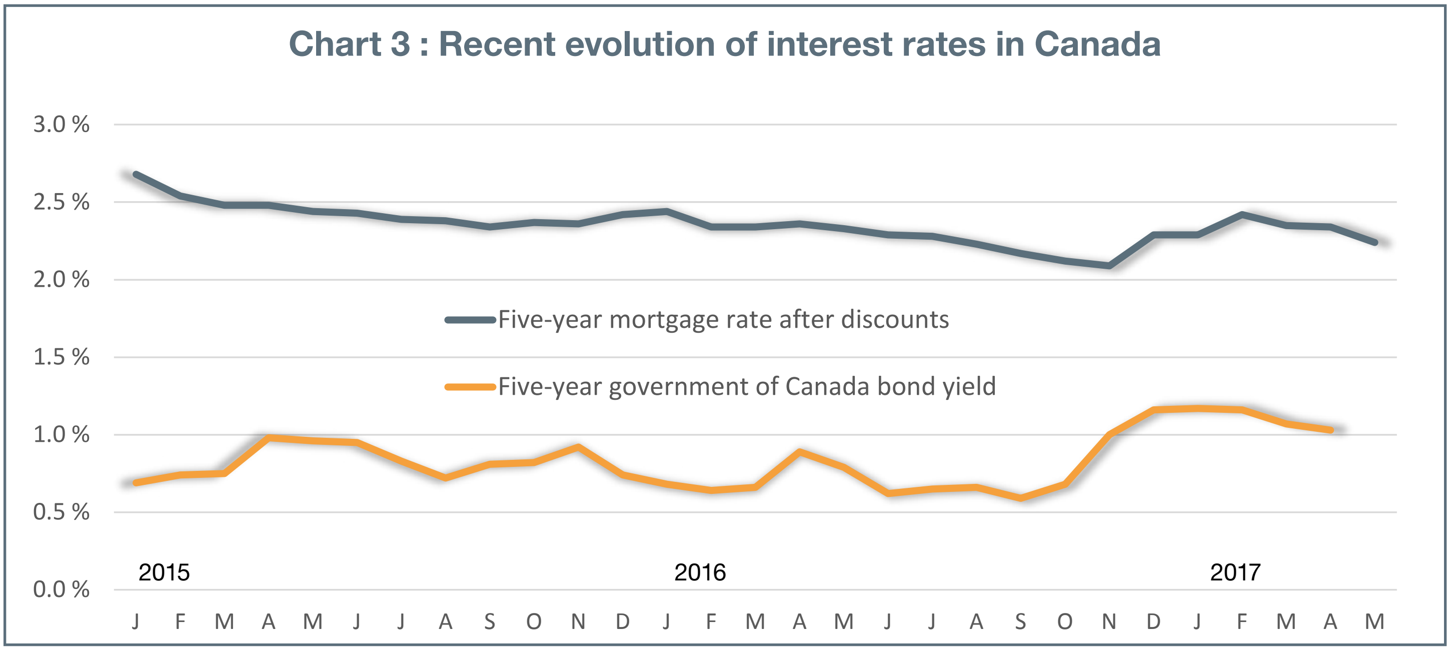
Chart 2 : Consumer confidence among Quebecers
"Is it a good time to make a major purchase?"



Source : Conference Board of Canada

Mortgage rates are facing headwinds

Five-year mortgage rates are closely linked to government bond yields of the same maturity (see Chart 3). Last November, following the American presidential election, U.S. bond yields jumped, bringing Canadian bond yields with them. In response to this increase in financing costs, Canadian financial institutions raised mortgage rates by about one quarter of a percentage point for a 5-year term.



Source: Bank of Canada

Against all expectations, bond yields declined in April as investors turned to safe havens due to growing geopolitical uncertainty (U.S. intervention in Syria and possible conflict with North Korea). If geopolitical tensions dissipate, we believe that the 5-year mortgage rates offered by Canadian financial institutions will rise slightly by 0.25 per cent by the end of the year. However, posted rates will remain unchanged.

In all of these scenarios, mortgage rates will move little from their historical lows. As a result, the context will remain highly favourable for acquiring a property.

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Recent flooding will slow the flow of transactions, but only in the areas affected

The major flooding that hit several areas of Québec this spring will have a short-term impact on the resale market. One reason for this is the fact that some recent sales will be canceled. Another reason is that the context is obviously not conducive to concluding new transactions in the case of flooded properties. This could therefore negatively affect sales results for the next few months in the impacted areas. But, in our opinion, the demand for waterfront properties will not fade and the situation will return to normal in the medium term.

The repercussions of Trump's policies remain uncertain, with one exception

The beginning of 2017 was marked by a wind of uncertainty blowing over the Canadian economy. Several election promises from new U.S. president, Donald Trump, foreshadowed significant repercussions in Canada. However, to date, many of these proposals, including the renegotiation of NAFTA, have been postponed or blocked by various U.S. authorities.

Among Mr. Trump's achievements since the start of his mandate, the one that is probably most damaging to Canada's and Québec's economy is the new tax imposed on Canadian lumber producers exporting to the United States. At first, this measure is expected to have an upward effect on the price of this raw material, thereby increasing the costs associated with home renovations and the construction of new residential properties. In looking to the future, we can expect to see reduced production and job losses in areas of the province where the economy relies heavily on the production of forest products, such as Abitibi-Témiscamingue, Côte-Nord, Saguenay–Lac-Saint-Jean and Gaspésie.

However, among Donald Trump's contested proposals, some may have a beneficial effect on the Canadian economy. The President's willingness to block immigration from certain countries could lead many immigrants to choose Canada as their home. The same may also be true for some companies that do not want to deprive themselves of the pool of workers who come from the countries that are covered by the decree that Mr. Trump seeks to adopt.

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As for the fulfillment of the other election promises made by the U.S. President, all is speculation for the time being.

Provincial forecasts: heading toward the largest price increases since 2012

For all of the reasons mentioned above, we are revising our forecast significantly upwards from our initial forecast at the start of the year, when we predicted a 7 per cent drop in sales. We now expect a 2 per cent increase in sales in Québec as compared to 2016 (see Table 2), with 80,000 transactions on the real estate brokers' Centris® system. This means that the upturn in the first quarter of the year will continue, although the increases will be somewhat smaller. In the end, 2017 will register the best sales results since 2010.

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We are also similarly revising our forecasts for price growth. We expect that the median price of a single-family home in Québec will reach $242,000 this year, a 3 per cent increase compared to 2016. This would be the strongest growth in the last five years.

Table 2: 2017 Forecasts - Province of Québec				
	Number of sales		Median price – single-family	
		Variation		Variation
Province of Québec				
2010	80,024	+1%	$209,500	+7%
2011	77,164	-4%	$217,500	+4%
2012	77,372	0%	$224,050	+3%
2013	71,194	-8%	$225,000	0%
2014	70,620	-1%	$227,000	+1%
2015	74,122	+5%	$230,000	+1%
2016	78,158	+5%	$234,500	+2%
2017 (forecast)	80,000	+2%	$242,000	+3%

Source and forecasts: QFREB

Forecasts for the Montréal CMA: the city will stand out

Not only does the Montréal area have the lion's share of the jobs that were created since the start of 2016, it is also the landing point for most newcomers. It may even benefit from renewed interest from foreign buyers due to the tax that was introduced in Vancouver and Toronto (see Box 1 at the end of this document).

We therefore believe that the Montréal CMA will stand out from the rest of the province. We expect 41,500 transactions to be concluded, a 4 per cent increase compared to 2016. This would make it the best year in terms of sales since 2010 in the Montréal CMA.

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In addition, sales by price range show that it is mostly experienced buyers who are currently driving the resale market, as was the case last year. In the first four months of 2017, sales of single-family homes at $500,000 or more increased by 21 per cent while condominium sales in the $300,000+ price range increased by 29 per cent.

Table 3: 2017 Forecasts - Montréal CMA						
	Number of sales		Median price single-family		Median price condominiums	
		Variation		Variation		Variation
2015	37,888	+6%	$289,789	+3%	$238,000	+3%
2016	39,872	+5%	$295,000	+2%	$240,000	+1%
2017 (forecast)	41,500	+4%	$312,500	+6%	$247,000	+3%

Source and forecasts: QFREB

Finally, it is important to know that market conditions for single-family homes have recently started to favour sellers once again. This will accelerate price growth from 2 per cent last year to 6 per cent this year. We therefore expect the median price of single-family homes to reach \$312,500 across the CMA. As for condominiums, demand is currently sustained and market conditions are in the process of rebalancing. We expect that half of all condominium sales in 2017 will be at a price that is higher than \$247,000, up 3 per cent from the median price of 2016.

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Forecasts for the Québec City CMA: price increases will have to wait

We are also revising our forecasts for the Québec City CMA upwards from the beginning of the year. However, resale activity is still expected to fall by 1 per cent in 2017, as 6,650 transactions are anticipated, mainly due to a slight decline in demand from first-time buyers as a result of the new mortgage rules. On the other hand, the job market, which had sputtered in early 2016, has improved markedly since then, which bodes well in the medium term.

Table 4: 2017 Forecasts - Québec City CMA

	Number of sales		Median price single-family		Median price condominiums	
		Variation		Variation		Variation
2015	6,621	+2%	\$246,000	0%	\$197,000	-1%
2016	6,719	+1%	\$248,000	+1%	\$190,000	-4%
2017 (forecast)	6,650	-1%	\$247,000	0%	\$188,000	-1%

Source and forecasts: QFREB

In addition, unlike many other areas of the province, Québec City's residential real estate market is characterized by a continuous increase in the number of active listings. Thus, market conditions generally give buyers the upper hand. While the imbalance is very slight for single-family homes and plexes, the surplus supply of condominiums remains significant.

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In this context, we expect that the median price of single-family homes will remain unchanged in 2017, but that of condominiums will decrease (-1 per cent) for the fourth consecutive year.

Conclusion

The good start to the year and the fact that several key indicators are healthier than expected led us to revise our forecasts upward for 2017. In particular, strong job creation, as well as a considerable increase in net migration and consumer confidence are among the elements that are favourable to the resale market. On the other hand, mortgage tightening measures will dampen the enthusiasm of first-time buyers, although the impact will probably be less significant than we initially thought. Finally, mortgage rates will change little, and only at the end of the year, so they will not have a significant impact on the resale market in the coming months.

Box 1

More Foreign Buyers in the Montréal Real Estate Market

The Ontario government's introduction of a 15 per cent tax on property purchases by foreigners in the Toronto area may result in an increase in foreign buyers on Montréal's real estate market. However, the QFREB does not expect any major short-term impacts.

The proportion of foreign buyers in Montréal is estimated at only 1.5 per cent by the Canada Mortgage and Housing Corporation (CMHC). Although this figure is possibly underestimated, the proportion is nevertheless quite low. In comparison, the government of British Columbia estimates that the proportion of foreign buyers in the Vancouver area is 9.7 per cent, while the Toronto Real Estate Board estimates this proportion to be 4.9 per cent in the Toronto area.

In Montréal, the presence of foreign buyers would be limited mainly to certain central neighbourhoods for single-family homes and to the downtown area for condominiums. Activity by these buyers in the Montréal area could have an upward impact on property prices in some central neighbourhoods, as this is where they tend to concentrate their purchases. However, the impact would be limited given that Montréal's real estate market conditions are very different than those observed recently in Toronto and Vancouver.

The residential real estate market in the Montréal Census Metropolitan Area (CMA) has experienced very moderate price increases in recent years. The median price of single-family homes rose from $279,000 to $295,000 between 2013 and 2016, which is only a 6 per cent increase over three years. The median price of condominiums also rose by 6 per cent over the same period ($227,000 to $240,000 between 2013 and 2016).

In addition, conditions in the Montréal real estate market remain relatively balanced: the single-family segment is slightly in favour of sellers, the plex market is balanced, while the condominium segment still shows a slight oversupply. As for the rental market, the Montréal vacancy rate is 3.9 per cent (source: CMHC), which is much higher than Toronto (1.3 per cent) and Vancouver (0.7 per cent).

We are far from a housing shortage, whether it be the resale, new construction or rental markets. In this context, it is difficult to envisage a surge in prices like Toronto.

However, more and more foreign buyers are turning to Montréal, which has resulted in a significant increase in net migration and in the number of non-permanent residents in 2016. Several factors explain this attraction, in particular, the marked improvement in the economic and employment situation. Over the past twelve months, 73,400 new jobs were created throughout the CMA and the unemployment rate declined to only 6.6 per cent in the first quarter of the year.

Also, Quacquarelli Symonds named Montréal the best student city in the world in 2017, surpassing Paris for the first time in five years. Finally, it is important to note that property prices are among the lowest in North America.

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