



OUTLOOK FOR 2016: SECOND CONSECUTIVE INCREASE IN RESIDENTIAL SALES IS FORECASTED

Thanks to ongoing low interest rates, a moderate economic recovery, continued growth in employment and the maintaining of consumer confidence at its current level, the number of residential sales transactions concluded through the Centris® system will reach 76,200 across Québec in 2016, a 3% increase compared to 2015.

Moderate Increase in Sales in 2016

After registering a 5% increase in residential sales in 2015 – the first increase in five years – we predict that sales across the province will grow for a second consecutive year, ending 2016 with a 3% increase. In the Montréal Census Metropolitan Area (CMA), the number of sales will also increase by 3% to reach 39,000 transactions. In the Québec City CMA, we expect to see a sales increase of 2%, with some 6,750 properties changing hands.

Experienced buyers will continue to be the driving force behind the province's real estate market in 2016, as was the case in 2015.

In the Montréal Census Metropolitan Area (CMA), the number of sales will increase by 3% to reach 39,000 transactions. In the Québec City CMA, we expect to see a sales increase of 2%, with some 6,750 properties changing hands.

	Province	Montréal CMA	Québec City CMA
Number of sales concluded in 2015	74,207	37,935	6,623
Number of sales forecasted for 2016	76,200	39,000	6,750
Variation	↑ 3%	↑ 3%	↑ 2%

Source: QFREB by the Centris® system

Price Growth: Below Inflation

In terms of prices, 2016 will strongly resemble 2015. A 1% increase in the median price of single-family homes is expected this year across the province, the same increase that was registered in 2015. This means that half of all single-family homes in Québec will be sold for more than \$233,000.

In the Montréal CMA, we expect slightly stronger growth in the median price of single-family homes, at 2%, due to the fact that market conditions tightened in 2015. Thus, the median price of single-family homes will reach \$295,000. You may recall that while the supply of single-family homes grew by an average of 1% in 2015, it has been decreasing since July. For the Montréal CMA as a whole, market conditions for single-family homes were balanced at the end of the year, and we believe that the decrease in the number of months of inventory, which began in the spring of 2015, will continue at least for the first half of 2016. As for the median price of condominiums, we predict that growth will be limited to 1% (\$240,000) due to a lack of pressure on prices, while market conditions, although stable in 2015, will continue to give buyers the upper hand. At the same time, the significant construction of new condominiums that has been feeding supply for several years is finally showing signs of slowing, as the number of condominium starts fell by 25% in 2015¹ in the Montréal area. However, the impact will probably only be felt in 2017 by a drop in the number of condominiums completed. In the short term, the fact remains that there are currently more than 10,600 new condominium units under construction, so the current surplus will not be absorbed in 2016.

In the Québec City CMA, market conditions continued to relax in 2015, so much so that buyers of single-family homes had the upper hand in negotiations in the second half of the year. The supply of properties for sale increased for a fifth consecutive year, causing the number of months of inventory to rise. The number of listings will continue to climb in 2016, albeit more moderately, so that the number of months of inventory is expected to stabilize. At the same time, prices of single-family homes will remain relatively stable, with a median price of \$245,000. As for condominiums, the median price will fall by 1% to \$195,000 due to the fact that the number of months of inventory was close to 20 at the end of 2015. Buyers will also continue to have a clear advantage due to the fact that the robust construction of new condominiums showed no signs of slowing in 2015.

A 1% increase in the median price of single-family homes is expected this year across the province, the same increase that was registered in 2015.

As for the median price of condominiums [in the Montréal area], we predict that growth will be limited to 1% (\$240,000) due to a lack of pressure on prices, while market conditions, although stable in 2015, will continue to give buyers the upper hand.

¹ Source: CMHC

	Province	Montréal CMA	Québec City CMA
Median price of single-family homes in 2015	\$230,000	\$289,829	\$246,000
Median price of single-family homes in 2016	\$233,000	\$295,000	\$245,000
Variation	↑ 1%	↑ 2%	↔ 0%

Source: QFREB by the Centris® system

	Montréal CMA	Québec City CMA
Median price of condominiums in 2015	\$238,000	\$197,000
Median price of condominiums in 2016	\$240,000	\$195,000
Variation	↑ 1%	↓ 1%

Source: QFREB by the Centris® system

A Favourable Economic Environment in 2016

Even though Canada is still feeling the impact of falling oil prices in this start of 2016, Québec is one of the less affected provinces. We therefore believe that economic growth will continue to accelerate slightly in 2016 to end the year with a growth rate of 1.6%.

Employment will present more positive results in 2016 with a 0.8% increase in the number of jobs across the province, accompanied by a modest decrease in the unemployment rate.

Interest rates will remain low in 2016, although a slight increase is anticipated. More specifically, a timid rise of 0.25 to 0.40 of a percentage point in mortgage rates is expected at the end of the year so that posted rates for a five-year term will increase from 4.64% to somewhere between 4.89% and 5.04%. Despite this slight increase, the majority of homeowners² who need to renew their mortgage this year will get a lower rate than their current rate. This context will be favorable for those who want to take advantage of lower rates to buy a more expensive property, which will continue to stimulate property sales in the upper price ranges.

A timid rise of 0.25 to 0.40 of a percentage point in mortgage rates is expected at the end of the year so that posted rates for a five-year term will increase from 4.64% to somewhere between 4.89% and 5.04%.

According to the Conference Board of Canada's Index of Consumer Confidence, the proportion of Quebecers who felt that the time was right to make a major purchase such a property increased significantly in 2015, reaching beyond its average of the past five years. We believe that consumer confidence will remain at similar levels again this year, as a proportion varying between 35% and 40% of Quebecers will feel that the context is appropriate for buying a property.

Finally, the most recent change in mortgage loan insurance³ will not have a significant impact in Québec in 2016 since, on the one hand, only 7% of residential sales were concluded at a price between \$500,000 and \$1,000,000 in 2015, and, on the other hand, the properties purchased in this price range are mainly bought by experienced buyers who are already paying more than the minimum 5% down

² Mortgage holders with a five-year term that will mature in 2016.

³ Increase in the minimum down payment for properties sold at a price between \$500,000 and \$1,000,000.

payment that is currently required.

Looking Back on our Previous Forecasts: 2015 was Beyond our Expectations

We predicted that 72,400 residential properties would be sold in 2015 in Québec, a 2% increase compared to 2014. In the end, sales growth was more significant, reaching 5% (74,207 transactions). This difference was mainly due to the vitality of the market in the Montréal CMA, which we had

	Province	Montréal CMA	Québec City CMA
Number of sales forecasted for 2015	72,400	36,700	6,600
Actual number of sales concluded in 2015	74,207	37,935	6,623
Difference	1,807	1,235	23

Source: QFREB by the Centris® system

underestimated. In the Québec City CMA, only 23 more transactions were concluded than what we had forecasted.

In retrospect, two main factors explain the better performance of the province's real estate market. First, shortly after publishing our forecasts, the Bank of Canada caught everyone by surprise and lowered its key interest rate for the first time since the spring of 2009, by 0.25 of a percentage point. The Bank of Canada did the same thing again in the summer of 2015 by declaring another decrease of 0.25 of a percentage point. Although posted mortgage rates changed little in 2015, lenders still engaged in aggressive competition in terms of negotiated rates.

Second, the performance of the labour market was better than expected in 2015, with some 41,700 jobs created in Québec, including 48,000 full-time jobs. The Québec City CMA really stood out with an increase of more than 20,000 jobs and an unemployment rate that fell from 5.4% in December 2014 to 4.9% at the end of 2015, one of the lowest unemployment rates in Canada. In the Montréal area, job gains in 2015 amounted to 11,800 positions.

Although our previous forecasts underestimated the number of transactions for 2015, experienced buyers clearly dominated the market as we expected, as evidenced by strong sales increases in the higher price ranges⁴.

In terms of prices, our forecasts proved accurate for the province, where the median price of single-family homes reached \$230,000, as expected.

⁴ Respective increases of 14% and 16% for the price ranges of \$400,000 to \$500,000, and \$500,000 or more.

	Province	Montréal CMA		Québec CMA	
		Single-family	Condominium	Single-family	Condominium
Median price forecasted for 2015	\$230 000	\$286,000	\$230,000	\$247,000	\$198,500
Actual median price for 2015	\$230 000	\$289,829	\$238,000	\$246,000	\$197,000
Difference	\$0	\$3,829	\$8,000	-\$1,000	-\$1,500

Source: QFREB by the Centris® system

Conclusion

Overall, we can expect a good year in 2016 in terms of sales, which will increase by 3% compared to 2015. However, price growth for single-family homes will be limited to the inflation rate across Québec. It will be slightly stronger in the Montréal area (2%) and will remain sluggish (0%) in the Québec City area.