

Update on our Forecasts

In January, we predicted that the number of Centris® transactions would increase by 3 per cent and the median price of single-family homes would increase by 1 per cent in Québec (see [Outlook for the 2014 Residential Real Estate Market in Québec: Soft Landing Will Continue](#)). After the first five months of the year, sales were lower than we had anticipated, leading us to slightly revise our forecasts for the year. Our forecasts regarding pricing remain unchanged.

Start of the Year was Less Active Than Anticipated

Across the province, from January to May 2014, the number of residential transactions registered in the real estate brokers' Centris® database decreased by 5 per cent compared to the same period in 2013. The drop in sales was generalized across all metropolitan areas, with the exception of Trois-Rivières, resulting in a spring season that was less active than anticipated, despite new historically low mortgage rates (see the section below "Interest Rates: Increases Still on Hold").

Otherwise, as we expected, the number of properties for sale continued to rise (9 per cent increase in active listings in the first five months of 2014) and average selling times also increased. The median price of single-family homes across Québec grew by 2 per cent and that of condominiums increased by 1 per cent, which is relatively consistent with our predictions.

The lower sales level at the start of the year cannot easily be attributed to one factor in particular. Among plausible explanations, besides the underperformance of the labour market (see the section "Labour Market Sputtered"), is that often, during a general election, some buyers choose to stay on the sidelines in the event that the outcome creates an environment of uncertainty. This is possibly what happened this spring with the election that was held in April. This hypothesis cannot really be verified¹, but if it is correct, buyers who were reluctant to take action during the election period will do so in the coming months, resulting in a situation where demand will simply be shifted to a later time.

Backdrop for the Coming Months

Labour Market Sputtered

Our forecasts at the start of the year were based on a slight improvement in the labour market in 2014. However, according to Statistics Canada, employment in Québec fell by some 25,000 jobs since January and the unemployment rate rose by 8 per cent in May. Job losses were concentrated in the Montréal area.

While the repercussions of the labour market on the real estate market are far from immediate and do not necessarily explain the slow start to the year, the fact remains that the job market is not evolving in the direction that was expected, which leads us to be a little less optimistic about the number of real estate transactions in the coming months.

Total Migration in Québec was Positive, But Down

Since our last forecast, the *Institut de la Statistique du Québec* (ISQ) has published its latest statistics, those for 2013, on international and interprovincial migration. Despite the fact that net international migration (45,883) in 2013 was one of the highest ever registered in Québec, net interprovincial migration (-12,628) deteriorated; thus, in total, the province gained slightly more than 33,000 newcomers last year. Although this represents a good result from a historical perspective, it was well below the 2012 level (40,712) and the lowest number of newcomers to Québec since 2007.

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¹ Québec consumer confidence, particularly the proportion of respondents who believe it is a good time to make a major purchase such as a property, decreased in February (42.7 per cent) and March (43.1 per cent) and then rose in April (48.3 per cent) and May (47.4 per cent). However, there is no evidence that this is solely due to the election campaign.

The impact that a factor such as net migration has on the real estate market is primarily felt in the medium- and long-term. We had anticipated a higher level of migration that would have further stimulated demand on the housing market in the coming months. This is therefore another reason that leads us to slightly revise our sales forecast downward for the year.

Additional Changes to Mortgage Rules

A few changes were made to the CMHC's mortgage insurance rules since the start of the year. More specifically, since May 30, the CMHC no longer offers mortgage insurance for the financing of second homes and no longer offers mortgage insurance to self-employed people without a confirmation of their income by a third party. Furthermore, as of July 31, the CMHC will impose, for its insured mortgage loans with a low loan-to-value ratio, a maximum limit for home prices (\$1,000,000), a maximum amortization period (25 years) and a maximum gross debt service (39 per cent) and total debt service (44 per cent).

Although these changes will limit activity somewhat on the residential real estate market in the coming months, they appear to be relatively minor².

Other changes to residential mortgage insurance rules may take place following the recent draft proposals (guidelines B-21) issued by the Office of the Superintendent of Financial Institutions Canada (see http://www.fcic.ca/fenetre/2014-04/index_a.html#lc).

Interest Rates: Increases Still on Hold

In terms of interest rates, due primarily to fiercer competition among lenders, 5-year mortgage rates posted by Canada's main financial institutions dipped below 5 per cent this spring, a new historic low. Not only is the cost of borrowing money much lower than what most had expected, the majority of experts are once again revising their forecast downward in terms of interest rates, postponing rate hikes to later and indicating that their magnitude will be more moderate.

Due to disappointing economic growth in the first quarter of 2014 in Canada and the United States (U.S. GDP even decreased), bond yields, which dictate mortgage rates (see "[Structural and Cyclical Factors That Explain Low Mortgage Interest Rates](#)"), remained very low. Thus, despite a weaker Canadian dollar which should have contributed to a recovery in terms of our exports, we are still waiting for an acceleration in economic growth in Canada. It is now expected later in 2014 and, at the same time, will be accompanied by a slight increase in bond yields. Table 1 presents the forecasts from our colleagues at the British Columbia Real Estate Association regarding changes in mortgage rates in Canada. They predict that 5-year mortgage rates posted by Canada's main financial institutions will reach 5.14 per cent at the end of 2014 and 5.65 per cent at the end of 2015, increases that overall are very moderate.

Table 1

Mortgage Rate Forecast (%)								
	2014				2015			
Term	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1 year	3.14	3.14	3.14	3.24	3.24	3.44	3.60	3.60
5 years	5.19	4.79	5.04	5.14	5.24	5.44	5.65	5.65

Sources: BCREA and Bank of Canada

² The organization states that its Second Home and Self-Employed Without 3rd Party Income Validation products account for less than 3 per cent of its insured business volume. It also specified that low loan-to-value ratio mortgages that do not comply with the new parameters account for approximately 3 per cent of its volume of insured loans.

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For short-term rates, the Bank of Canada clearly believes that an upward swing in rates may weaken the economy as a whole. With inflation currently hovering at approximately 2 per cent, nothing currently justifies an increase in the key interest rate. Also, most experts do not predict an increase in this rate before the second quarter of 2015.

Our Revised and Corrected Forecasts for 2014

We are therefore revising our forecasts downward regarding the number of residential real estate transactions this year. We now predict that there will be 70,000 sales concluded through the Centris® system in Québec in 2014, a slight decrease of 2 per cent compared to 2013. The 3 per cent increase in sales that we had initially predicted will therefore give way to a moderate decrease. Our forecasts for price growth remain unchanged. The median price of single-family homes will reach \$226,500 in 2014, an increase of 1 per cent. Table 2 shows our forecasts for the province, including our initial and new scenarios.

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Table 2

2014 Forecasts – Province of Québec				
	Number of sales		Median price (single-family homes)	
		Variation		Variation
2013 (actual)	71,205	-8%	\$225,000	0%
2014 (forecasts) Initial	73,500	3%	\$226,500	1%
Adjusted	70,000	-2%	\$226,500	1%

Source: QFREB

For the Montréal Metropolitan Area (see table 3), after having initially forecast a sales increase of 3 per cent in 2014, we now forecast 35,500 sales, a decrease of 3 per cent compared to 2013. Our forecasts for prices have not changed: the median price of single-family homes will reach \$283,000 in 2014, a 1 per cent increase, and that of condominiums will be the same as in 2013, at \$227,000.

Table 3

2014 Forecasts – Montréal CMA						
	Number of sales		Median price (single-family homes)		Median price (condominiums)	
		Variation		Variation		Variation
2013 (actual)	36,496	-9%	\$279,500	2%	\$227,000	0%
2014 (forecasts) Initial	37,600	3%	\$283,000	1%	\$227,000	0%
Adjusted	35,500	-3%	\$283,000	1%	\$227,000	0%

Source: QFREB

As for the Québec City Metropolitan Area (see table 4), the start of the year was also less active than we had expected, and we now anticipate a 3 per cent decrease in sales compared to 2013, with 6,000 transactions. Our forecast for price growth remains unchanged for condominiums, as the median price of \$200,000 in 2014 will be identical to that of 2013. For single-family homes, in light of the results of the first five months of the year, our initial forecast of a 2 per cent increase in median price in 2014 does not seem to be materializing. A more modest increase of 1 per cent now seems more realistic, which will translate into a median price of approximately \$247,000.

Table 4

2014 Forecasts – Québec City CMA						
	Number of sales		Median price (single-family homes)		Median price (condominiums)	
		Variation		Variation		Variation
2013 (actual)	6,274	-13%	\$245,000	3%	\$200,000	2%
2014 (forecasts) Initial	6,300	0%	\$250,000	2%	\$200,000	0%
Adjusted	6,000	-3%	\$247,000	1%	\$200,000	0%

Source: QFREC

We believe that activity on the province's residential real estate market will rebound slightly in 2015, which will lead to a very small increase in the number of sales.

Outlook for 2015

We believe that activity on the province's residential real estate market will rebound slightly in 2015, which will lead to a very small increase in the number of sales. The supply of properties for sale will also increase only slightly, except for condominiums as their housing starts are rising again³.

Price increases will be only marginal next year in most of the province's urban centres, as market conditions will generally remain balanced. However, the condominium market will continue to favour buyers, particularly in the Québec City and Montréal Metropolitan Areas, where there will continue to be a small surplus in 2015.

³ According to CMHC data, the number of condominium housing starts in Québec fell by 29 per cent in 2013. In the Montréal Metropolitan Area, after the first five months of 2014, the number of condominium starts increased by 39 per cent compared to the same period in 2013.

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

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