SPOTLIGHT ON HOUSING

Resale Market Shakes Off Paralysis

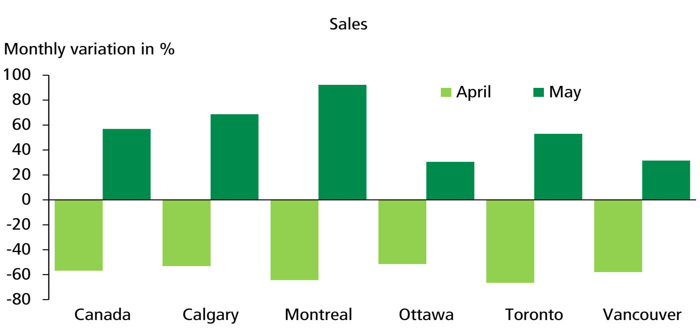
Social distancing measures to stop the spread of COVID-19 had initially caused residential activity to plummet since the start of spring, in March. The plunge in sales was even deeper in April, but the following month saw a rebound. In-person property viewings were again permitted as of May 11 in Quebec, which helped get transactions flowing again. The recovery has therefore begun, but activity is not expected to return to the pre-crisis momentum. The unemployment rate is gradually moving away from the April peak, and consumer confidence is being restored somewhat. However, the economic damage is substantial, and it will take several quarters for the economy to recover. Quebec has avoided price drops thus far, and Ontario is bouncing back from a brief period of declines.

Urban Centres Are Starting to Recover

After hitting rock bottom in April, property sales firmed up in Canada in May. In some urban centres, the rebound was not as sharp as the plunge the month before, particularly in Ottawa, Toronto and Vancouver (graph 1). The opposite is true for Calgary and Montreal, which have had a better recovery up until now. Among Quebec's metropolitan areas, Montreal has been outpaced by Quebec CMA and Saguenay, whose rebound soared (graph 2). While the May figures are encouraging, they reflect the demand of both buyers who postponed their plans during the lockdown and those who set their plans in motion afterwards. Sales will continue to pick up during the summer, but increases will be less stellar than in April.

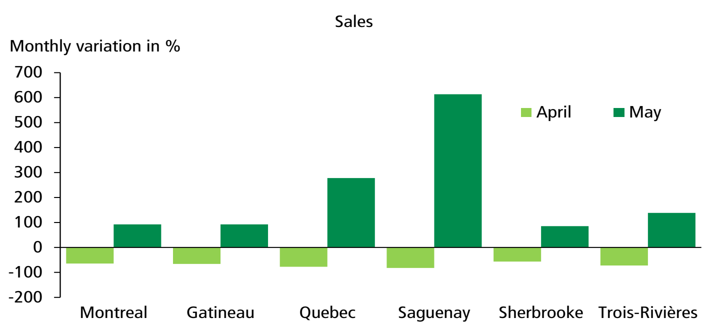
Despite the continuing improvement, activity in Quebec and Ontario will not return to pre-COVID-19 levels before the end of next year (graph 3). The labour market woes, which will

GRAPH 1
Property sales are picking up faster in the Montreal CMA



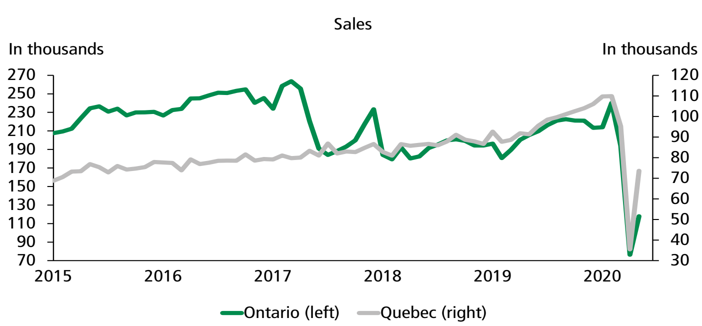
CMA: Census Metropolitan Areas
Sources: Canadian Real Estate Association and Desjardins, Economic Studies

GRAPH 2
Property sales have bounced back in Quebec CMAs



CMA: Census Metropolitan Areas
Sources: Canadian Real Estate Association and Desjardins, Economic Studies

GRAPH 3
Existing property sales are staging a comeback



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

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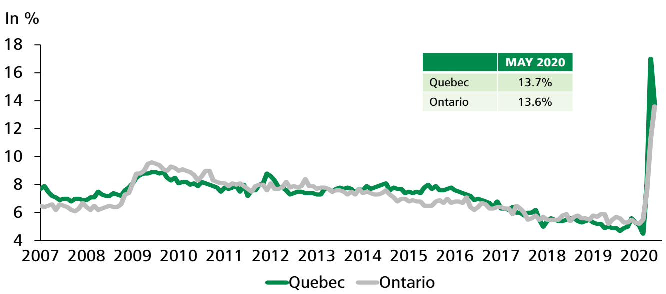
take time to fade completely, the shaky consumer confidence and the financial struggles of some households will prevent a return to normal. The unemployment rate, which will slowly fall back down, should near 8% in Quebec and Ontario by the end of 2020, compared to the roughly 5% at the beginning of the year (graph 4). This will inevitably limit the number of buyers.

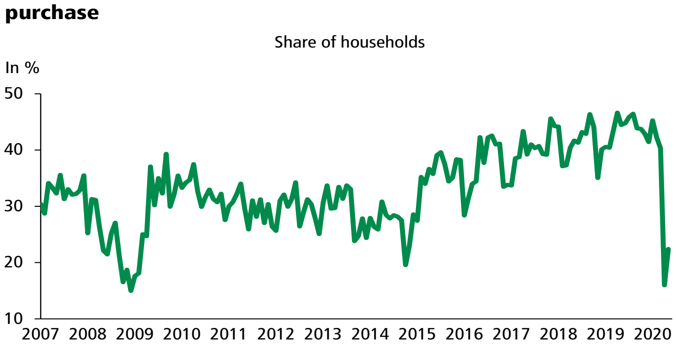
GRAPH 4
The unemployment rate has begun to fall after hitting an all-time high in Quebec



Sources: Statistics Canada and Desjardins, Economic Studies

According to the Conference Board household survey, a small proportion of households believe that this is the right time to make a major purchase (graph 5), such as a home or motor vehicle. Some borrowers have been receiving three-to-six-month payment deferrals on various types of debt since March. Although economic conditions are gradually improving, some potential buyers are in a precarious situation due to job loss, which will limit demand for properties in the coming months.

GRAPH 5
Few Quebecers feel that this is the right time to make a major purchase



Sources: Conference Board of Canada and Desjardins, Economic Studies

A Stumbling Block for Some Buyers

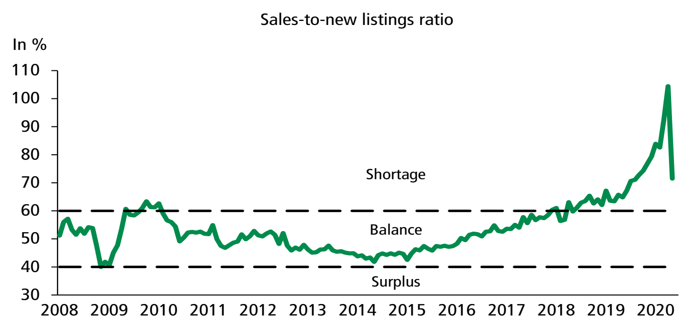
There will be another obstacle as of July 1, the date on which stricter criteria will be introduced for new mortgage default insurance applications with the Canada Mortgage and Housing Corporation (CMHC). The maximum debt ratio permitted will be lower, the minimum credit score required will increase from 600 to 680, and down payments from non-traditional sources will no longer be accepted.

These new rules will mostly affect first-time home buyers, especially in the most expensive cities, such as Vancouver and the Greater Toronto Area. Many potential buyers without a sufficient down payment who must take out mortgage insurance will no longer qualify with these tougher CMHC rules. For now, some buyers could turn to private-sector providers, who are not subject to the same rules. Borrowers who can put down 20% or more of the property value will be unaffected since mortgage insurance is not required in such a situation.

Which Direction Will Prices Go?

The pause in the market, which drove down both the number of purchases and the supply of properties for sale this spring, has had little effect on average prices in Quebec. The residential market was extremely tight before the pandemic because the supply of properties for sale was insufficient to meet demand. Even though sales have begun to climb back up since May, the pool of available houses and condos has also grown since the lifting of the lockdown. The sales-to-new listings ratio is therefore nearing a state of equilibrium (graph 6). For now, Quebec is still experiencing a crunch, which is helping to keep the average price from moving. Although prices dipped in Ontario, they are staging a comeback already (graph 7 on page 3). The Montreal and Ottawa markets are still very tight, however, and prices have held up pretty well so far.

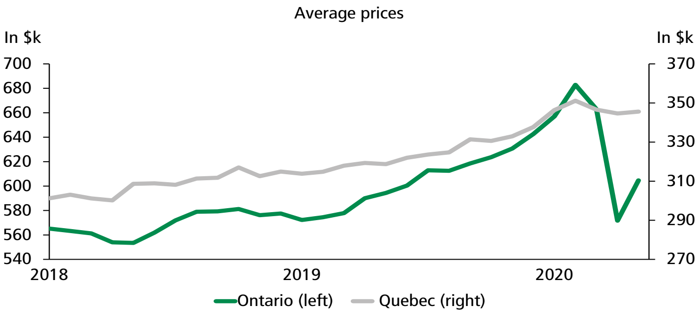
GRAPH 6
Market conditions are not as tight in Quebec, but the crunch continues



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

A price adjustment period cannot be ruled out in the coming quarters in Quebec. The labour market woes and the stricter CMHC criteria should limit demand, and the supply of properties for sale could grow. However, a reversal big enough to shift the market to surplus is far from certain. Although the next few months could see a slight decline, prices will nevertheless rise overall in 2020. Given the acceleration that preceded the lockdown, the average price for January to May is 9.1% higher than for the same period in 2019. Our forecast calls for an

GRAPH 7
Residential prices have held up well in Quebec, but saw an adjustment in Ontario



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

increase of around 5% this year, a pace comparable to last year (table on page 4).

The Recovery Has Begun

How quickly will the residential market get back on its feet in the months to come? That will depend on how the economy and employment recover from the shock and how much consumer confidence bounces back. The residential real estate market is not expected to hum with the same pre-crisis buzz. The mortgage interest rates that decreased this spring will stay low for quite some time, but the economic uncertainty will have to dissipate before the low cost of borrowing has a real effect on the housing market.

Hélène Bégin, Senior Economist

TABLE

Quebec housing market outlook 2020–2021

	2017	2018	2019	2020f	2021f
New Housing Market					
New construction ($B)	**10.3**	**12.0**	**11.8**	**11.1**	**10.0**
Annual variation (%)	14.5	16.1	-1.6	-5.8	-9.9
Housing starts	**46,495**	**46,874**	**47,967**	**45,000**	**40,000**
Annual variation (%)	19.4	0.8	2.3	-6.2	-11.1
House	**15,364**	**14,968**	**13,742**	**12,000**	**10,000**
Annual variation (%)	-0.5	-2.6	-8.2	-12.7	-16.7
Single-detached	***10,711***	***10,060***	***8,989.0***	---	---
Annual variation (%)	*-0.2*	*-6.1*	*-10.6*	---	---
Semi-detached	***2,819***	***2,995***	***2,966.0***	---	---
Annual variation (%)	*2.1*	*6.2*	*-1.0*	---	---
Row housing unit	***1,834***	***1,913***	***1,787.0***	---	---
Annual variation (%)	*-5.3*	*4.3*	*-6.6*	---	---
Apartment	**31,131**	**31,906**	**34,225**	**33,000**	**30,000**
Annual variation (%)	32.5	2.5	7.3	-3.6	-9.1
Condo [1]	***10,804***	***9,860***	***8,172***	***7,000***	***6,000***
Annual variation (%)	*37.6*	*-8.7*	*-17.1*	*-14.3*	*-14.3*
Rental [1]	***19,256***	***20,503***	***24,861***	***25,000***	***23,000***
Annual variation (%)	*36.5*	*6.5*	*21.3*	*0.6*	*-8.0*
Conventional rental [2]	***13,506***	***16,752***	***21,536***	***22,500***	***21,000***
Annual variation (%)	*28.0*	*24.0*	*28.6*	*4.5*	*-6.7*
Retirement home [2]	***5,520***	***3,565***	***3,159***	***2,500***	***2,000***
Annual variation (%)	*60.3*	*-35.4*	*-11.4*	*-20.9*	*-20.0*
Resale market					
Unit sales	**82,537**	**86,444**	**96,470**	**92,420**	**95,000**
Annual variation (%)	5.6	4.7	11.6	-4.2	2.8
Weighted average price ($k)	**293**	**308**	**324**	**340**	**347**
Annual variation (%)	4.5	5.2	5.2	5.0	2.3
Sales volume ($B)	**24.1**	**26.3**	**30.5**	**31.4**	**33.0**
Annual variation (%)	10.6	9.1	15.8	3.0	5.1
Other indicators					
Vacancy rate for rental units [3] (%)	**3.4**	**2.3**	**1.8**	**2.0**	**2.5**
Average rent [3] ($)	**736**	**761**	**800**	**820**	**836**
Annual variation (%)	1.2	3.4	5.1	2.5	2.0
Renovation spending [4] ($B)	**13.8**	**13.5**	**14.7**	**15.2**	**16.3**
Annual variation (%)	8.9	-2.5	9.0	3.4	7.2

f: forecasts; [1] Urban centres with populations of 10,000 and over, the total is slightly below the total for provincial apartments shown above; [2] Included in rental units; [3] Three units or more, biannual survey of the fall; [4] Maintenance and repair expenditures are excluded.
Sources: Canada Mortgage and Housing Corporation, Canadian Real Estate Association, Quebec Professional Association of Real Brokers by the Centris system, Statistics Canada and Desjardins, Economic Studies