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Changes in Housing Affordability in the Province of Québec and the Administrative Regions

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HIGHLIGHTS

• The accessibility ratio (median weekly salary/typical mortgage payment ratio) for the administrative region (AR) of Gaspésie-Île-de-la-Madeleine was 1.43 in 2018. This was the highest ratio among all ARs in the province.

• In 2018, the HA index reached an annual average of 93.8, down 6.4% from the annual average in 2017.

• The Outaouais administrative region experienced the most significant year-over-year drop with a 10% decrease in accessibility ratio from 2017 to 2018.

• The lowest accessibility ratio identified in 2018 was in the Montréal administrative region, with a ratio of 0.35.

In Canada, housing (for renters and homeowners alike) is considered affordable if a household spends less than 30% of its before-tax income on shelter costs[1]. According to data from Statistics Canada's 2016 Census[2], 13% of owner households in the province allocated 30% or more of its income on shelter costs, which was less than in Ontario (20%) and the country as a whole (17%)[3]. In 2016, more owner households in Québec appeared to be living in affordable housing compared to their neighbours in Ontario and to all Canadians. However, the percentage of homeowners in the province (61%) was lower than in Ontario (70%) and Canada as a whole (68%). These statistics lead us to question the state of access to property in Québec. Pending the housing statistics that will be revealed in the next 2021 Census, JLR, an Equifax company, presents in this report the state of home accessibility in the province and the administrative regions along with how it has changed in recent years, based on JLR's Housing Affordability Index (HA Index).

Access to property is influenced by three main factors: house prices, salary and interest rates. Existing national and provincial tax rules and measures can also impact affordability (think of the tightening of mortgage rules in recent years that may have contributed to excluding several households from the market). However, to calculate our index, we consider only constant rules. Finally, the regions often have their own specific circumstances that ultimately change the state of home accessibility from one place to another.

JLR'S HOUSING AFFORDABILITY INDEX

In general, Housing Affordability Index (HA Index) helps track affordability in the area for which it was built. The JLR HA Index is based on the ratio of the provincial (or regional) median weekly salary divided by the "typical" monthly mortgage payment. The "typical" monthly mortgage payment is calculated based on a fixed 5-year interest rate on conventional mortgage loans, as published by the Bank of Canada (BoC), the provincial median price for single-family homes, obtained from data compiled by JLR on transactions published in the Québec Land Register, a 20% down payment and a 25-year amortization period. This is then expressed as a base index 100 using the month of January 2010 as the reference period (i.e. January 2010 = 100).

A drop in the index means that homes are becoming less affordable, while a jump in the index indicates that housing is becoming more affordable. All else being equal, the HA Index appreciates (i.e., affordability improves) as wages go up and it depreciates as interest rates or the median price of single-family homes go up. Due to the seasonal nature of the housing market, the index of a given month cannot be compared to the index of the following month. Instead, it should be compared to the same month in a previous year. For example, the April 2019 HA Index can be compared to the April 2018 index, but not to the March 2019 index.

Additional information regarding the methodology used is provided at the end of this report.

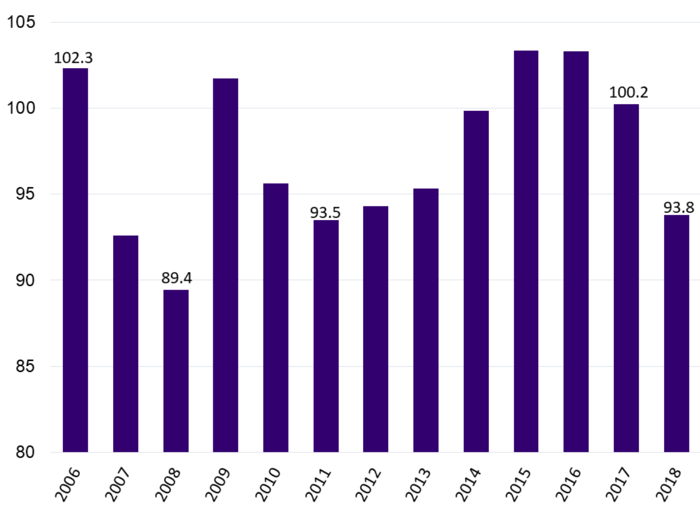
PROVINCIAL TRENDS

From a historical perspective, the average annual HA Index bottomed out in 2018 (93.8) and was below the average recorded over the past 13 years (97.3). From 2017 to 2018 alone, the HA index fell by 6.4%. It should be noted that from mid-2017 to the end of 2018, the BoC increased its key interest rate five times. In addition, despite a labour market shortage and low unemployment rates in 2018, the provincial median salary remained virtually unchanged throughout the year. Lastly, the median price of single-family homes rose by 3.5% in the province from 2017 to 2018, after an increase of 4.4% the previous year.

The combination of these three factors contributed to a greater household mortgage burden, which negatively impacted the provincial HA Index.

Over the past 13 years, the lowest average annual HA Index was recorded in 2008. The annual average that year was 89.4. In 2006 and 2007, affordability in the province deteriorated as house prices and interest rates increased. Then, at the end of 2008, Canada entered a recession, which spelled the worst period in terms of affordability (for the period going from 2006 to 2018). In turn, interest rates began to decline, and home accessibility improved and reached a peak in 2015 and 2016 (103.3).

Graph 1: Provincial HA Index (Annual Average) from 2006 to 2018



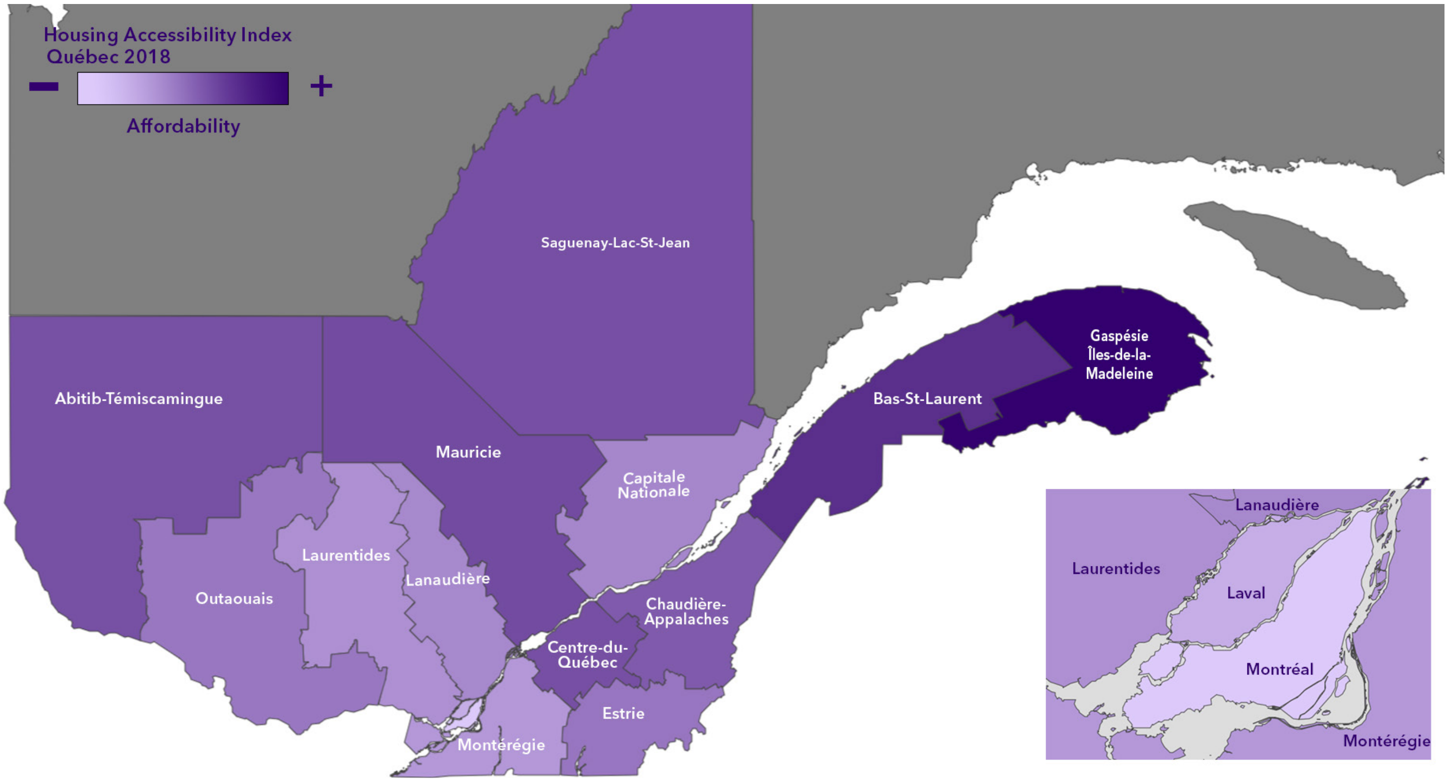
More recently, in May 2019, the provincial HA Index increased by 4.5% compared to May 2018 to reach 96.4. The March and April 2019 indexes already had gains compared to their respective peer months in 2018 and the recent May appreciation is the third to be recorded since June 2016. That said, it is still too early to talk about a turnaround, since these are only the results of three months. We will have to wait a few more periods to see how housing affordability will evolve.

All other things being equal, the improvement in affordability from March to May 2019 is due to the fact that the median weekly wage has increased more than the median price of single-family homes when comparing the months of March, April and May 2019 to their similar period in 2018 respectively.

REGIONAL TRENDS

The ratio of median weekly salary over the typical monthly mortgage payment (hereinafter referred to as the Accessibility Ratio or the Housing Accessibility Ratio, or HA Ratio) is used in this section to analyze the state of accessibility in each of the administrative regions in the province. The use of the HA Ratio allows us to compare regions; an exercise that could not be accomplished using a regional HA Index. For example, a ratio of 0.5 means that a household would need the equivalent of two weeks of income at the regional median weekly wage rate to fully pay the typical monthly mortgage payment in their region. The higher the accessibility ratio in an area, the better the affordability in that region.

From 2017 to 2018, access to property deteriorated in all administrative regions (AR) in the province, except for the Bas-Saint-Laurent and Centre-du-Québec regions, where the Accessibility Ratio went up by 1%.



During this period, the HA Ratio in the AR of Outaouais fell by 10% to 0.79. From 2017 to 2018, according to the Institut de la statistique du Québec (ISQ), the region's median salary dropped 3%, while the typical monthly mortgage payment rose by 8%, due to increases in housing prices and interest rates. In general, the increase in interest rates has had a negative impact on access to property in most of the province's ARs.

The Gaspésie-Île-de-la-Madeleine region was the big winner in 2018, with the best access to property rates of all ARs across the province. The region HA Ratio was 1.43 during this period. This figure can be in large part explained by the low prices of homes compared to the salaries earned by residents there. In 2018, the regional median weekly salary in the sector was equal to that of the province ($800). In addition, from January to December 2018, the median price of single-family homes in the territory reached $117,250, well below the provincial median of $248,500.

Not surprisingly, the Montréal AR had the lowest Accessibility Ratio in the past year (0.35). This means that approximately three weeks' salary was required for a household earning the median weekly salary to fully pay for the typical monthly mortgage payment for a single-family home at the median price.

Over the last year, affordability on the Island (AR) declined by 9%. In 2018, prices went up in Montréal. The city is facing very high demand for single-family homes, but there are few homes for sales on the market and the number of lands available to build new homes on the Island is very limited, putting upward pressure on prices. However, the construction of condominiums has helped to bolster the supply of housing units. Condos are popular with young people, who are often first-time buyers, along with an increasing proportion of baby boomers who are looking for homes that require less maintenance. In 2018, price growth in the condominium sector lagged behind that for single-family homes. Since condo sales represent a significant proportion of residential sales in Montreal, many buyers on the Island have not experienced large price growth.

From 2013 to 2018, six of the fifteen administrative regions analyzed saw their Accessibility Ratio increased (two regions experienced no change over the five-year.

The regions in which accessibility fell during that five-year period all had one point in common: from 2013 to 2018, the median price of single-family homes in these regions rose more significantly than the regional median weekly salary. The difference in interest rates between the two periods was too small to offset the imbalance between price and wage growth.

Finally, the AR of Bas-Saint-Laurent had the largest gain over five years in terms of home accessibility with a 19% jump in the HA Ratio, to reached 1.19 in 2018 (second in 2018 ranking).. From 2013 to 2018, the median weekly salary rose far more significantly (+24%) than the typical monthly mortgage payment (+4%). This is mainly due to the fact that the median price of single-family homes only grew by 4% over that period. The decline in population is a factor that could explain the small price increase for this type of property in Bas-Saint-Laurent. According to the ISQ, the region lost 2,709 inhabitants from 2013 to 2018. The decline in the population pool may have contributed to lowering demand for housing and put downward pressure on house prices.

Table 1: 2018 Accessibility Ratio by Region

Administrative Region	2018 HA Ratio	1-Year Variation	5-Year Variation
Bas-Saint-Laurent	1.19	+1%	+19%
Saguenay–Lac-Saint-Jean	1.01	-5%	+9%
Capitale-Nationale	0.70	-4%	+5%
Mauricie	1.03	-8%	+1%
Estrie	0.79	-4%	+1%
Montréal	0.35	-9%	-8%
Outaouais	0.79	-10%	0%
Abitibi-Témiscamingue	1.00	-1%	+4%
Gaspésie–Îles-de-la-Madeleine	1.43	-8%	+1%
Chaudière-Appalaches	0.95	-5%	0%
Laval	0.50	-2%	-7%
Lanaudière	0.70	-6%	-7%
Laurentides	0.65	-3%	-7%
Montérégie	0.61	-9%	-2%
Centre-du-Québec	1.01	+1%	-3%

CONCLUSION

Home accessibility is a matter that concerns not only potential buyers, but public decision makers. As such, federal Finance Minister, Bill Morneau, announced in his recent 2019 Budget that the Government of Canada will take steps to make it easier for Canadians to own their property through the "First-Time Home Buyer Incentive," which is a type of shared equity mortgage that will be administered by the Canada Mortgage and Housing Corporation (CMHC).

Access to property is a problem that affects more than just owners and landlords, since many tenants also suffer from a lack of affordable housing. Urban centres like Montréal, along with remote cities like Val-D'Or and Rouyn-Noranda, are suffering from a shortage of rental housings, especially affordable ones. In November 2017, the CMHC launched its National Housing Strategy, a ten-year, $55-billion plan to provide affordable housing to as many Canadians as possible.

In conclusion, in 2018, home accessibility, in terms of annual averages, fell in the province compared to 2017. Currently, Québec appears to be at a low point in the affordability cycle. Despite the positive variations of recent months, it would be hasty to talk about a turnaround and we will have to wait for a few more periods to go by, in order to be able to draw any conclusions.

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BIBLIOGRAPHY

[1] Statistics Canada defines "shelter costs" for owner households as the overall average of the following costs, if applicable: mortgage payments, property taxes, condominium fees, electricity, heating, water and other municipal services.

[2] The statistics presented in this paragraph were adapted from Statistics Canada based on 2016 Census data from the provinces of Quebec and Ontario (respectively).

[3] The reference period used for shelter cost data was 2016 and the reference period for data on total household income was 2015 (source: Statistics Canada).

METHODOLODY

The data used in this report were compiled by JLR, an Equifax company, from records published in the Québec Land Register (including sales by brokers and private sellers, along with new builds).

In order to obtain statistics that are representative of the real estate market, some data was eliminated from statistical calculations, namely sales involving transactions equal to or less than $5,000, tie-in sales, repossessions, undivided sales and multiple sales.

The JLR Housing Affordability Index is based on the National Association of Realtors® Affordability Index. It measures the change in access to property for the median buyer who makes monthly mortgage payments on a typical single-family home.

The median buyer is defined as the one earning the median weekly salary. A typical home is described as the median-priced single-family home as calculated by JLR, an Equifax company. Finally, the typical monthly mortgage payment is calculated by considering the 5-year fixed interest rate on conventional mortgages, the price of the provincial median-priced single-family home, a 20% down payment and a 25-year amortization period.

The HA Index is the ratio between the median weekly salary divided by the typical mortgage payment, reported at a base index of 100 (January 2010 = 100). An increase in the index indicates that affordability is improving, while a drop in the index indicates a decline in home accessibility. Given its seasonal nature, the index cannot be compared to the index of the previous month, but rather to that of a similar month in a previous year.

The accessibility ratio is useful for comparing home accessibility across regions. No calculation was done for the Côte-Nord and Nord-du-Québec regions since no statistics on the median weekly wage rate were available separately.

Calculations:

Variables:

i_t^* = compound interest rate in period t

Source : adapted from the 5-year fixed interest rate on conventional mortgages, Bank of Canada, Canadian interest rates and key monetary policy variables.

P_t= median price of a single-family home in the province of Québec in period t

Source: JLR database, which includes all sales published in the Québec Land Register.

S_t = provincial median weekly salary in period t

Source: Statistics Canada, Table 14-10-0065-01 Employee wages by job permanency and union coverage, monthly, unadjusted for seasonality.
For Administrative Regions, data was taken from Statistics Canada's Labour Force Survey and adapted by the Institut de la statistique du Québec.

M_t = typical monthly mortgage payment in period t

The monthly payment takes into account the market interest rate, along with a 25-year amortization period and 20% down payment.

R_t = ratio in period t

A period corresponds to a given month

Typical monthly payment :

$$M_t = 0{,}8 * P_t * \left(\frac{i_t^*}{1 - \frac{1}{(1 + i_t^*)^{300}}} \right)$$

HA ratio :

$$R_t = \frac{S_t}{M_t}$$

$$AP\ Index_t = \frac{R_t * 100}{R_{Jan10}}$$

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