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2020 Real Estate Forecast for the Province of Quebec

HIGHLIGHTS:

- In total, the province of Quebec should have 32,000 additional households in 2020, according to ISQ statistics.
- Real estate market growth in Montreal will remain stronger than in the regions in 2020.
- Several new rental units are expected to arrive on the market in the near future, which will benefit tenants.
- Since the demand for property is expected to slow down in 2020, growth in prices and sales should be weaker but still positive.

2019 was a great year for real estate. Sales and price growth were prevalent across most sectors. The economic and demographic framework contributed to increases in housing demand, which in turn bolstered price growth. What's in store for 2020? Will the market be as robust as in 2019? To predict trends for the coming year, we analyzed economic and demographic data, along with the regulatory framework and the addition of new housing units.

LABOUR, HOUSEHOLD DEBT AND INCOME

In 2019, the unemployment rate in Quebec dipped very low and reached an all-time low of 4.7% in August. From January to November 2019, the average unemployment rate was 5.1%. Moreover, over the past year, an additional 45,000 jobs were created, including 39,000 full-time positions. Economically speaking, a low unemployment rate is beneficial, but ultimately it is job creation that drives housing demand. That said, although the overall labour market has been strong over the past several months, the unemployment rate rose in November 2019, reaching 5.6% in the province. November also saw a significant reduction in employment relative to October. However, this one-time market downturn is not of great concern at this time. There is still a labour shortage and employers are still having difficulty finding workers. For now, Quebec's economy continues to perform well, which favours a healthy labour market. However, the current context is pointing to a slowdown in the global economy and it is possible that in 2020 Quebec's labour market will not post the same excellent numbers that it did in 2019.

Wages increased over the past year, after stagnating in the second half of 2018. All else being equal, rising wages have improved access to home ownership at the provincial level by improving the ratio between the median wage and the standard mortgage payment. However, some markets have proven to be more strained, and wage growths have not been enough to bolster access to home ownership in these sectors. This was the case especially in the Montreal area, where the increase in house prices in, which was already above inflation, exceeded growth in wages.

In recent months, the Bank of Canada has raised concerns over very high levels of debt for Canadian households, including those in Quebec. For example, the debt-to-disposable-income ratio in Canada, published by Statistics Canada[1], stood at 176.33% in the second quarter of 2019, up 0.89% relative to the same period in 2018[2]. This means that for every dollar of disposable income, Canadian households held $1.76 of debt. In addition, according to data compiled by Equifax Canada on debt in Canadian provinces[3], the average debt for Quebec households, excluding mortgages, was $19,857 in the third quarter of 2019, up 2.13% from 2018. A high level of debt poses a threat to the housing market because, if mortgage interest rates rise, households may have difficulty making their payments.

1. Statistics Canada
2. Data for the third and fourth quarters were not available at the time of the publication
3. Q3-2019 EFX National Consumer Credit Trends: Canadian consumers feeling the weight in the third quarter

DEMOGRAPHICS

In the long run, demographics are the main determinants of demand for housing. Household creation increases the number of properties required. According to the Institut de la Statistique du Québec (ISQ), 32,000 new private households are expected to be added in Quebec in 2020. This means that growth is slowing down, since the institution estimated that 45,000 households were added in 2018 and 35,000 in 2019. In short, new housing will be required, but growth in demand is expected to slow down. By 2024, Quebec will have 142,876 new households according to the ISQ predictions.

That said, the distribution of households will be uneven across regions and age groups. For people aged 65 and over, an increase of 35,000 households is expected in 2020, while a decrease of 2,000 households could be observed for the 20–29 age range. As a result, demand for student housing may decrease, while demand for housing with services (for example, an elevator) and condominiums may be bolstered by the aging population.

In the regions, a significant proportion of growth will be attributable to the Montréal CMA in 2020. Of the 32,000 new households projected, 19,000 are expected to be added in the Montréal CMA. In this sector, as in the rest of Quebec, the number of households whose main income earner is between the ages of 20 and 29 will decrease, while the 65+ category will grow significantly. In addition, non-permanent residents and international students may also increase demand for housing over the next year, especially for rental housing. Note that demand in this segment can vary rapidly, which can in turn cause vacancy rates to fluctuate.

The number of households is expected to remain fairly stable over the coming year in other areas of the province, such as Bas-Saint-Laurent, Saguenay-Lac-Saint-Jean and Gaspésie-Île-de-la-Madeleine, where increases will vary from 0.1 and 0.2%. Over five years, the slight upturn in Gaspésie will lead to a 0.3% decrease.

The population will also start falling in Bas-Saint-Laurent and in Saguenay-Lac-Saint-Jean in a few years if predictions prove to be accurate. However, the decline will begin later, meaning that the number of households in 2024 will still be slightly higher than in 2019. The Côte-Nord, for its part, stands out in a negative way since its population has already started to decline and the number of households is expected to decrease by 0.3% between 2019 and 2020 and by 2% by 2024.

In Mauricie and Abitibi-Témiscamingue, growth in the number of households will be very modest, or less than 0.5%, in 2020 and between 1% and 1.4% from 2019 to 2024. In short, price fluctuations over the next several years will vary greatly depending on the specific demographic scenario in each region.

In spite of forecasts, these scenarios could change significantly depending on changes in immigration thresholds. In addition, demand for housing may be greater if the number of non-permanent residents and international students continues to rise, particularly in the Greater Montreal area.

INTEREST RATES

Between mid-2017 and the end of 2018, the Bank of Canada (BoC) increased its policy interest rate five times by 0.25 percentage points, to reach 1.75%. Since then, the institution has maintained the status quo and the outlook for future BoC actions has changed. This in turn has lowered long-term rates, among other things. Moreover, in the past year, several central banks around the world, including the US Federal Reserve (FED), have lowered their key interest rates. The FED's shift has significantly altered expectations along with interest rates on global markets. This change has effectively reduced Canada's long-term interest rates and five-year mortgage rates. In short, the interest costs for a five-year fixed-rate loan in 2019 were generally lower than in 2018, which increased household borrowing capacity. Interest rates are expected to remain low in 2020 as the expected global economic downturn means that central banks will likely remain very cautious with their monetary policies. As a result, low mortgage rates should continue to encourage home ownership in Quebec.

REGULATIONS AND PURCHASE INCENTIVES

In recent years, mortgage regulations have tightened significantly in part to slow price growth in Vancouver and Toronto. With huge price increases now a thing of the past in these cities, the authorities no longer have an interest in slowing down the housing market. In fact, several new initiatives that were announced in 2019 are expected to boost housing demand. For example, governments have agreed to bolster the Home Buyers' Plan (HBP), and the RRSP withdrawal limit for first-time home buyers was raised from $25,000 to $35,000. Another initiative that could impact demand for property is the CMHC's new equity loan program that was launched last fall to improve Canadians' access to home ownership.

The program, known as the "First-time Home Buyers Incentive", aims to reduce the mortgage burden on households and could increase the price they are willing to pay for a home.

All in all, given the current Canadian context, no further tightening of mortgage rules is expected in 2020. In fact, regulations could even be eased if prices decline too dramatically in some areas of the country.

While regulations are expected to drive up demand in 2020, the new supply in areas like Montreal may be limited by the introduction of restrictive measures. The Plante administration is seeking to implement more restrictions on developers by 2021 in terms of the proportion of social, affordable and/or family housing. These new measures could reduce the number of builds in the city given the additional costs.

SUPPLY—HOUSING STARTS AND UNSOLD HOUSING UNITS

Since building new homes takes time, the supply of properties is fixed in the short run. In an environment of very strong demand, the lack of available homes for sale or lease puts upward pressure on property prices. As an example, the sharp price increase in Montreal this year was in fact attributable to the inability of new units to keep pace with demand.

To get a sense of trends in the province's new-housing market over the coming year, three indicators on the supply side are significant: total housing starts for the current year, the number of units still under construction, and the inventory of completed and unabsorbed units as of November 2019.

Between January and November 2019, housing starts in CMAs and urban conglomerations with a population of 50,000 or more reached 8,149 in the homeowner market and 7,515 in the condominium market. This translated into decreases of 1% and 14% respectively compared to the same period a year earlier. Among other things, these declines benefitted the rental sector, where housing starts soared compared to 2018. In the first eleven months of 2019, there were 21,205 rental housing starts in the province's urban areas with populations of 50,000 or more.

This was an increase of almost 35% relative to the same period the previous year. Moreover, the number of rental unit starts between January to November 2019 was already higher than the number observed for all of 2018 (18,102). Finally, in 2018, according to data published by the CMHC and compiled by the Institut de la statistique du Québec, the vacancy rate for all cities with a population of 10,000 or more in Quebec was 2.3%, the lowest rate since 2010. The vacancy rate for 2019, which will be published in the coming months, is expected to remain low given the current environment. That said, the increase in supply could help address the housing shortage and improve the situation in the coming years. In the meantime, current market conditions will most likely continue to drive the construction of new units.

In November 2019, the number of dwellings under construction in CMAs and census urban areas with a population of at least 50,000 was 4,487 for the homeowner category, 11,900 for condominiums and 23,364 for rental apartments. These figures represented changes of +9%, +1% and +21% respectively compared to November 2018. Some of these homes will be completed in 2020, which will increase the pool of properties available for sale or lease.

Finally, in urban centres with a population of at least 50,000, the stock of completed and unabsorbed homes held by homeowners (mainly single-family houses) was 1,524 in November 2019, up 32% from the same period in 2018. In contrast, this number was 1,695 for condominiums, down 31% compared to November 2018. In a high-demand environment, it may seem surprising that the housing stock for the so-called homeowner has increased. That said, it should be noted that in 2018, the number of completed and unsold properties reached the lowest level in the last 10 years. In 2019, the demand pressure for new properties appears to have been somewhat reduced and supply has been able to adjust. As a result, the number of completed and unabsorbed units was restored to levels near the historical average.

CONCLUSION

Looking ahead, the demographic situation, regulatory framework and interest-rate levels should continue to stimulate demand throughout the province of Quebec. However, slower household creation and economic growth in 2020 as compared to 2019 will limit pressure on the housing market. Overall demand, however, will grow, but less sharply than in 2019. In some regions, demand may remain stable, while growth in the Montreal area will continue its upward trend.

On the supply side, an increase in the number of unsold properties may help limit upward pressure on prices. However, the number of new condominiums and homes being built declined relative to the previous year, implying slower growth in housing supply than last year. As a result, a significant increase in demand could quickly put pressure on the market. Of course, the rental sector may also benefit from a major upturn in housing starts. This could help minimize the housing shortage that has resulted in very low vacancy rates over the past 2 years. However, the effect may only be felt in 2020, since housing starts will take some time to translate into market-available rental units.

In short, sales and price growth in the single-family home and condo markets are expected to continue in 2020. However, growth is expected to be less significant than in 2019, especially in regions with low population growth. In the Greater Montreal Area, the pressure will remain quite strong, especially on single-family units, since few new units are added each year while demand continues to grow.

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