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JLR PUBLICATION

Quarterly Report on the Real Estate Market in Quebec

Third Quarter of 2022

HIGHLIGHTS

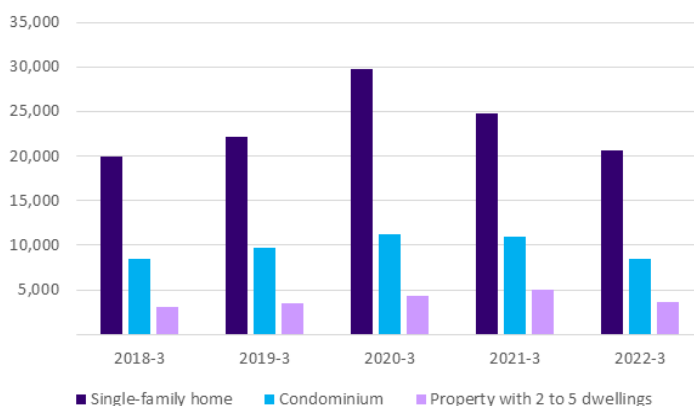
- According to the deeds published in the Land Register of Quebec and compiled by JLR, an Equifax company, in the third quarter of 2022 compared to the same period in 2021, the number of sales has decreased for all types of residential properties: single-family homes (-17%), condominiums (-23%) and 2 to 5 dwellings (-29%)
- The median price increased in all residential sectors: single-family homes (+15%), condominiums (+12%) and 2 to 5 dwellings (+13%).
- Sales decreased in all census metropolitan areas and for all property types, with the exception of condominiums in Saguenay, which registered a 9% increase.

OVERVIEW OF THE RESIDENTIAL SALES MARKET

The second quarter of 2022 marked a turning point in the evolution of sales in the Quebec housing market, where median prices for each property category reached an all-time high. In the third quarter, this slowdown in sales continued, but more moderately compared to many other Canadian provinces. Back-to-back sharp increases of the policy interest rate during 2022, similar in magnitude to those seen in the 1990s, have halted the first quarter's momentum, which was again noticeable in the second quarter. With further interest rate increases likely in the coming months, the following months are not expected to be as strong as the beginning of the year. This environment is fueling buyer fear, and many buyers have decided to pause their buying decision. As a result, the supply-demand relationship condition has improved in the recent months. According to APCIQ data, the number of active listings increased by 26% in the third quarter of 2022.

During this quarter, single-family sales were down 17% compared to the same period in 2021. A total of 20,673 transactions were recorded. This number of sales is lower than the average number of transactions prior to the pandemic since the 2012 low. The most affected sector in this quarter was the 2 to 5 dwelling sector, with a decrease in sales of -29% compared to the 2021 third quarter, for a total of 3,571 transactions. For the condominium sector, the total number of sales was 8,406, which is a 23% decrease from the same period last year. These sharp reductions in sales resulted in an increase in actual listings, which has not been seen since 2015.

Chart 1: Number of Residential Sales in Quebec by Property Type



As for prices, they continue to rise, but at a modest pace. In fact, once inflation is subtracted, prices are more stable. With the significant drop in sales resulting from the weakening of household purchasing power and the gradual departure of investors from several markets, the accumulation of active listings has led to a cooling of prices in the markets most exposed to overvaluation. Some buyers continued to pursue their dream of homeownership but their budgets may have been cut back, which might be reflected in price growth in subsequent quarters.

For single-family homes, the median price increase was 12%, reaching \$387,000, which is still higher than inflation in Quebec. During the third quarter, the Consumer Price Index in Quebec increased by 6.5% over the same period. A 12% price increase was also observed for condominiums in the third quarter of 2022 compared to the same period in 2021, while for buildings with 2 to 5 dwellings, the gain only reached 13%.

Chart 2: Median Price by Property Type in Quebec



TRENDS BY CMA

It was a difficult quarter for the Quebec City census metropolitan area (CMA). The number of sales decreased for all building categories analyzed, except for Saguenay. However, the number of transactions analyzed in this CMA was low, so one has to be careful in the results interpretation. The quarter was particularly bad for the sale of properties with 2 to 5 units, with decreases in transactions ranging from 19% to 39%. In the Montreal CMA, single-family home sales decreased by 20% and condominium sales by 27%.

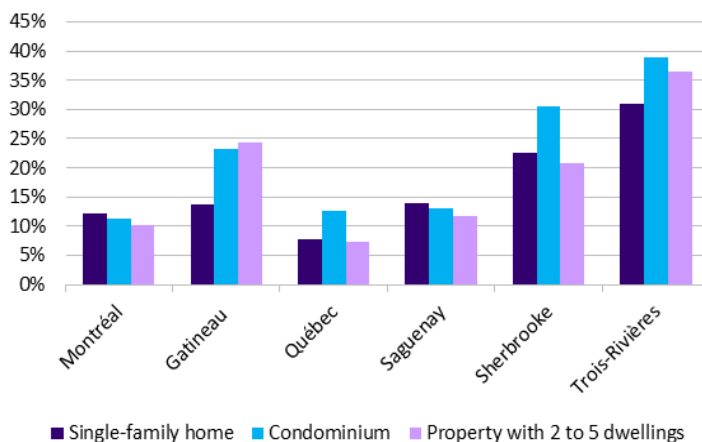
The Gatineau and Sherbrooke areas stood out with prominent decreases in sales for all types of residential properties analyzed. In Gatineau, the decreases were major: single-family homes (-25%), condominiums (-29%) and 2 to 5 units (-32%).

Chart 3: Changes (%) in Residential Sales by Property Type in Q3 2022 Relative to Q3 2021



Despite the decrease in sales in Quebec's CMAs, prices in all CMAs increased. Trois-Rivières topped the list with the largest increases in all three building categories (single-family home +31%, condominium +39% and 2 to 5 units +36%). The CMA that registered the smallest price increases was Quebec, particularly for single-family homes (+8%). As for the Montreal CMA, it showed a 12% increase for single-family homes, reaching a median price of \$555,000, and an 11% increase for condominiums, with a median price of \$400,000.

Chart 4: Percent change in median price by property type in Q3 2022 vs. Q3 2021



ECONOMIC ANALYSIS

Rapid price appreciation over the past two years is representative of a housing market where demand far exceeded supply. Ultra-low mortgage interest rates have offset some of the price appreciation, keeping monthly mortgage payments affordable for many households. However, with mortgage interest rates rising rapidly since the beginning of 2022 (last increase of 50 basis points was on October 26), the underlying dynamics of the housing market are changing, putting homeownership out of reach for millions of potential first-time buyers. In fact, the ratio of average homeownership costs (mortgage debt service being the largest component) to average household disposable income, as measured by the Bank of Canada's affordability index, has risen to 0.45, the highest level since the late 1990s. The combination of rising borrowing costs, high inflation and a slowing labour market marks the end of the period of housing market strength.

Over the next few months, Quebec home prices may fall significantly from their peak during the pandemic. Especially if energy and agricultural prices rebound. In that case, interest rates can be expected to rise further, and the prospect of a major recession becomes more likely. The inflation shock would likely lead to layoffs as sentiment weakens. However, while reduced demand will lead to price declines in the short-medium term, demographics will provide a significant relieve in the medium to long term, as many members of the millennial generation have entered their 30s, the best

years to start a family and buy a home. In addition, household balance sheets are strong overall, with savings exceeding pre-pandemic levels for many Quebec households.

METHODOLOGY

Some regions have too few data to obtain reliable statistics. The minimum threshold required is 30 transactions to calculate the median price. The data used were compiled by JLR from transactions published in the Quebec Land Registry. To obtain representative statistics of the real estate market, some sales data are eliminated for statistical calculations. Thus, sales with a transaction value of less than \$5,000, tied selling, foreclosures sales, undivided sales and multiple sales are not included in the statistics reported in this study.

DEFINITIONS AND NOTES

Median price: The price that divides the data in two: around 50% of sales were concluded at a price higher than the median price and around 50% at a lower price. The median price is preferred to the average price because it is not affected by extreme values.

Residential property: This category of property includes single-family homes, condominiums and properties with 2 to 5 dwellings.

Prior notice: Notification through which a person informs another individual of his intent to exercise his hypothecary right (taking in payment, sales by judicial authority, sales by the creditor and taking possession for purposes of administration). Prior notices for nonpayment of immovable taxes are not included.

Repossession: It is either a hypothecated property abandoned voluntarily for the benefit of its mortgagee (lender), a giving in payment or a judgment ordering the (forced) repossession of a property due to the default of payment of the debt.

Legal hypothec: Hypothec resulting solely from the law.

Variation: Variations are calculated relative to the same period in the previous year due to the seasonal nature of the real estate data.

FOR MORE DETAILS

Check the [Real Estate Radar](#) for more information on sales, bad debts and the socio-demographic profile of your sector.

Consult the JLR publications at this address : <https://solutions.jlr.ca/publications/prime-studies>





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