SPOTLIGHT ON HOUSING

# Quebec's Housing Market Is on the Rebound

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## Highlights

- In Quebec, existing home sales and housing starts have picked back up.
- The resale market is still falling in most of the other provinces, but it's worth pointing out that Quebec's market drop was especially pronounced.
- Now, property sales are on the rise for nearly half the province and residential construction seems to have improved since early 2024.
- However, these gains aren't equally distributed across Quebec. Even in the regions and census metropolitan areas where housing starts have improved, the results vary widely by specific location.
- Most building material prices have dropped since their peak, but the cost of new buildings has not followed suit. Instead, they're still climbing. This can be explained by rising labour costs, persistently high interest rates and, most importantly, price stickiness—prices often go up more easily than they come down.
- Developers and building product manufacturers have been generally unable to lower their prices, even though material prices have declined.
- Rental construction has started back up in some regions and locations, but there is still an ongoing housing shortage in Quebec. Rents remain high and the increase expected for 2024 is higher than last year's.
- To sum up, Quebec's resale market and new residential building construction have both started recovering. Some municipalities have also streamlined their approval process for new rental builds. But it remains to be seen if this will be enough to offset the housing crisis.

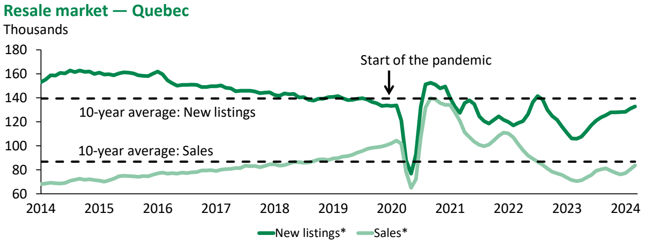
## The Resale Market is Heating Back Up

Existing property sales through real estate brokers are slowly improving in Quebec. After reaching their cyclical low in spring 2023—excluding the temporary nosedive at the start of the pandemic—sales have turned around. Recently, they have nearly reached their 10-year average (graph 1 on page 2). The total number of new property listings (houses, condos and plexes) is also close to its 10-year average. This spring, the average time to sell was close to five months. At the peak of the pandemic real estate frenzy, selling times were less than two months, but the 10-year average is actually eight months (graph 2 on page 2). It seems that the resale market is returning to a more normal pace.

However, prices are exceptionally high in general. While prices have stabilized somewhat in recent months, average home prices in Quebec have stuck close to $510,000 for three months now. The pool of listed properties is higher than its pandemic low but still remains quite small, which means sellers still have an edge for almost all property types, in nearly every metropolitan area and municipality in the province (tables 1 and 2 on page 2). For the province as a whole, sellers (graph 3 on page 3) are at a slight

## Graph 1
### Housing Supply and Demand: Activity Has Almost Reached Its 10-Year Average

Resale market — Quebec




* 3-month moving averages.
Canadian Real Estate Association and Desjardins Economic Studies

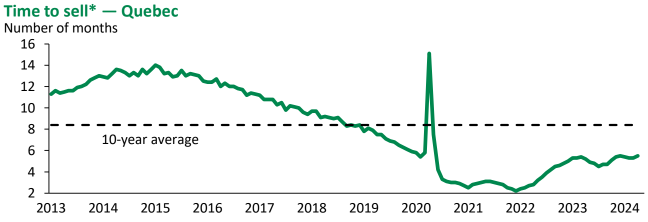
## Table 1
### The Resale Market Is a Seller's Market for Almost All Housing Types in the 7 CMAs* in Quebec

| FIRST QUARTER OF 2024 | SELLER'S MARKET | | | MEDIAN CONDO PRICES | |
|---|---|---|---|---|---|
| | HOUSES | CONDOS | PLEXES | PRICE LEVEL | Y/Y % CHANGE |
| Drummondville | X | X | X | N.A. | N.A. |
| Gatineau | X | X | X | $310,000 | +6 |
| Montreal | X | X | Buyer's market | $395,000 | +4 |
| Quebec | X | X | X | $259,900 | +11 |
| Saguenay | X | X | X | $236,000 | 0 |
| Sherbrooke | X | X | X | $307,500 | +11 |
| Trois-Rivières | X | X | X | $245,000 | +4 |

* CMA: Census metropolitan area; N.A.: Not available.
Quebec Professional Association of Real Estate Brokers and Desjardins Economic Studies

## Graph 2
### The Housing Inventory Is Climbing Back Up, But Average Selling Times Are Still Quite Short

Time to sell* — Quebec




* Number of months needed to sell properties (entire inventory of properties for sale through a real estate broker) based on the average pace of sales over the last 12 months.
Canadian Real Estate Association and Desjardins Economic Studies

## Table 2
### In Some Areas, It's a Buyer's Market for Houses and Condos, and in a Few Other Areas, It's a Balanced Market for Plexes

| FIRST QUARTER OF 2024 | STATE OF THE MARKET | | | MEDIAN PRICE FOR SINGLE-FAMILY | |
|---|---|---|---|---|---|
| | HOUSES | CONDOS | PLEXES | PRICE LEVEL | Y/Y % CHANGE |
| Joliette | Seller | Seller | Balanced | $395,000 | +10 |
| Sorel-Tracy | Seller | Seller | Balanced | $325,000 | +13 |
| Salaberry-de-Valleyfield | Seller | Seller | Balanced | $392,217 | +7 |
| Mont-Tremblant | Buyer | Buyer | Seller | $588,000 | +2 |
| Sainte-Adèle | Seller | Buyer | Seller | $500,000 | +17 |

Quebec Professional Association of Real Estate Brokers and Desjardins Economic Studies

advantage. They're able to sell their properties in a relatively short time frame, without making many concessions on price or other points. Plexes and condos, however, are fairly abundant in some areas, meaning the buyer is better placed to negotiate. This is especially true for plexes in Montreal as well as for condos in Mont Tremblant and St-Adèle. But even though there are some exceptions for specific locations and property types, Quebec's resale market is generally still a seller's market.

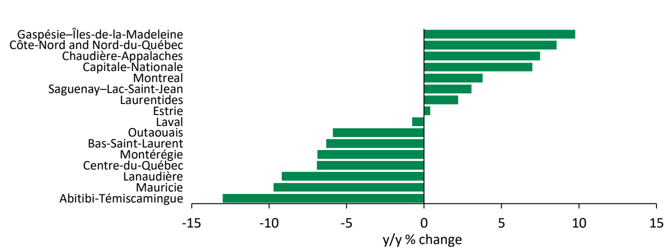
## BOX 1
## Regional Outlook

- However, the market isn't recovering evenly throughout the province (graph A). The Quebec City and Montreal markets are quite dynamic, and some outlying regions are showing even more strength. At the same time, sales are flagging in other regions, in part due to a lack of available properties on the resale market.

- According to the Quebec Professional Association of Real Estate Brokers (QPAREB), the Quebec City CMA market is booming and bidding wars are pushing prices higher, especially on the South Shore of Quebec. The Montreal CMA is also gaining momentum, although market pressure and price increases aren't growing quite as fast. According to the QPAREB, it's still a seller's market with signs of overheating, particularly on Montreal's North and South Shores. The greatest demand is for properties with low and mid-range prices.

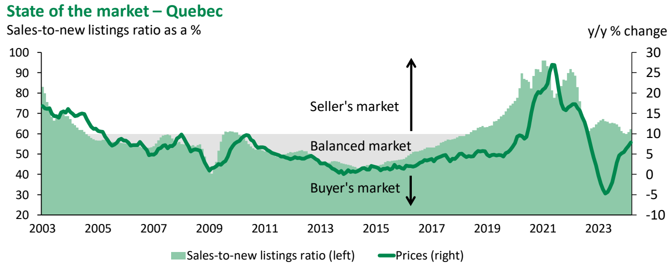
## Graph A
### Sales Are Not Recovering Evenly Throughout Quebec

Existing home sales – Q1 2024 vs. Q1 2023



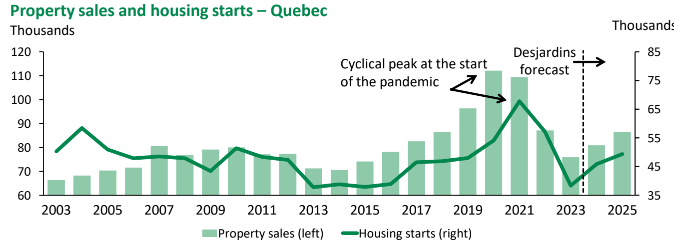

JLR Land Title Solutions (an Equifax Company) and Desjardins Economic Studies

**Graph 3**
**The Pandemic Frenzy Is Over, but It's Still a Seller's Market**




Canadian Real Estate Association and Desjardins Economic Studies

**Graph 4**
**New Construction and Existing Sales Will Both Bounce Back in 2024 and 2025, but Will Remain Well below Their Recent Peaks**

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## Regulations and Taxation May Affect Residential Sales

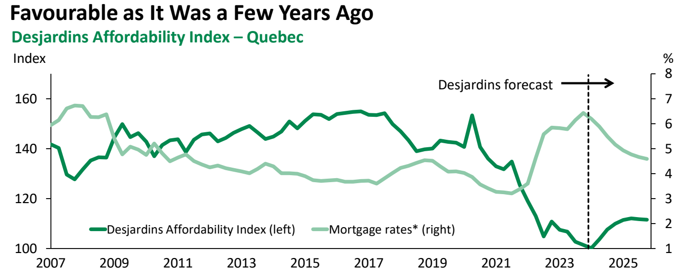
Recent changes to the federal government's regulatory and tax framework—combined with the persistently high interest rates that have been scaring off smaller investors—will probably push some owners to sell. Local investors tend to buy plexes or multiple condo units. And foreign investors are still subject to the federal government ban on foreign ownership of Canadian housing, which has been extended by two years, until January 1, 2027. What's more, the profits from flipped properties (properties that are purchased and then sold within less than 12 months) are fully taxable as business income, even if the property was a principal residence.

Finally, the federal government announced in Budget 2024 that the capital gains inclusion rate will go from 50% to 66% for secondary residences sold after June 25, 2024. The Quebec government has decided to follow suit. It's too soon to say what effects these measures will have. For example, we may see a quick rush to sell off vacation homes before the deadline this summer, followed by a swift contraction. Sellers could also decide to cut their prices, keeping capital gains under the $250,000 threshold where the new 66% inclusion rate kicks in. These changes were analyzed in-depth in a recent *Economic Viewpoint*.

## Outlooks Are Favourable

While the resale market is recovering, the number of sales remains well below its cyclical peak from the start of the pandemic. Sales are still quite close to their pre-2020 levels (graph 4). After plunging nearly 50% between 2021 and 2023, the number of real estate broker transactions should grow by about 6.5% both this year and next year. Mortgage rates have just started dropping, which should give the existing property market an additional boost. With property prices holding strong, the Desjardins Affordability Index is expected to improve slightly, but it will remain much less favourable than it was during the pandemic, when mortgage interest rates were at a record low (graph 5).

**Graph 5**
**Even with the Rate Cut, We Don't Expect Affordability to Be as Favourable as It Was a Few Years Ago**



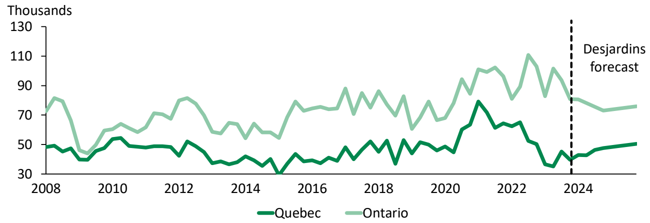

* Effective five-year fixed mortgage rates
Bank of Canada, Conference Board of Canada, JLR Land Title Solutions (an Equifax Company), Statistics Canada and Desjardins Economic Studies

And even though average prices have remained somewhat stable in Quebec over the last few months, they'll quickly resume their upward trend once mortgage rates drop. The average price is expected to go up about 5% in 2024, then 6.5% in 2025. While lower mortgage rates will spur demand, we predict that the housing inventory will also grow, helping to keep prices under control. And as we explained in an *Economic Viewpoint*, many borrowers will be renewing their mortgage between now and the end of 2025. When that happens, they'll be hit with much higher rates than the ones in effect when they first signed their loan agreement. This will have the greatest impact on people with mortgages from the start of the pandemic, when rates were at a record low. Some of those borrowers may not have the means to handle a substantially higher mortgage payment and could be forced to sell their homes. Finally, as discussed in another *Economic Viewpoint*, Canada's mortgage structure is largely concentrated in short-term mortgages, which is why such a large number of borrowers will be affected.

## Home Building Finally Perks Up

Quebec's housing starts plummeted over the last two years, but residential construction is at last—slowly—turning around. Construction has been picking back up since the start of 2024, especially for rental apartments. Meanwhile, Ontario continues

**Graph 6**
**Residential Construction Is Picking Up in Quebec after Bottoming Out in 2023, but Continues to Decline in Ontario**
Housing starts




Canada Mortgage and Housing Corporation and Desjardins Economic Studies

to slide (graph 6), largely due to insufficient demand for condos. These opposing trends should continue in the short term, according to our recent analysis. Quebec and Ontario are at different points in the construction cycle, and it's largely due to the relative weight of condos and rental housing in their respective markets. Up until recently, condo starts accounted for close to 50% of all housing starts in Ontario, especially in the Greater Toronto Area. In Quebec, it was just 4%. Most condo developers completed their presale phase several years ago, according to the Canada Mortgage and Housing Corporation. This phase helps developers raise funds to start construction, which is why construction was able to hold steady for longer in Ontario.

In Q1 2024, Quebec's total housing starts were up 11.2% compared to the same period last year, but this recovery was largely concentrated in just two market segments. Rental housing starts rose by 28.6%, and single-family home starts rose by 25.3% but condo starts plunged by a startling 76.6%. (graph 7 on page 5)

Rental housing units account for nearly 60% of the province's housing starts. Many cities and municipalities throughout Quebec have changed some key aspects of their regulations, helping

## BOX 2
### Building Material Prices

While building material prices skyrocketed in the first years of the pandemic, most of them have since come back down (table A). For example, lumber prices have dropped 70% since April 2021 and continue to evolve in an uncertain landscape. While last year's wildfire season didn't bring prices up durably, we could see some volatility if this summer is as hot as the last one. What's more, labour disputes like the 2023 BC port strike could disrupt the supply chain and drive prices higher. For now, North American demand remains relatively weak, with high interest rates discouraging construction, particularly in the United States. As a result, lumber prices are still rather low at the time of writing.

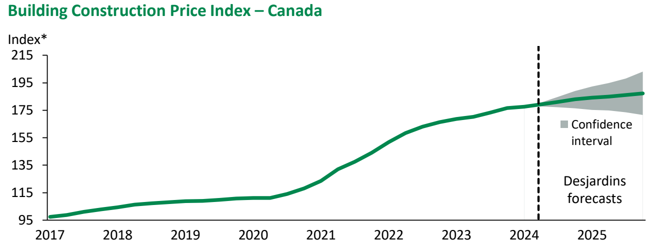
**Table A**
**Most Building Material Prices Have Dropped since Their Peak**

| COMMODITY AND MATERIALS TYPE | PRICES | | |
|---|---|---|---|
| | PRICE ON JUNE 10, 2024 | MARKET PEAK | VARIATION SINCE THE PEAK |
| Softwood lumber (US$/MBF*) | 492 | 1,670 (April 2021) | -70% |
| Steel (US$/tonne) | 731 | 1,900 (September 2021) | -61% |
| Iron (US$/tonne) | 109 | 231 (May 2021) | -52% |
| Copper (US$/tonne) | 9,638 | 11,300 (October 2021) | -15% |
| Aluminum (US$/tonne) | 2,520 | 3,611 (March 2022) | -30% |
| Concrete (index) | 190 | 190 (Q1 2024) | 0% |
| Oil (US$/barrel) | 77 | 122 (June 2022) | -37% |

* MBF: thousand board feet.
Statistics Canada, Datastream and Desjardins Economic Studies

If we take a look at metals, which are needed for wiring and for building multi-storey buildings, we can see that prices have also dropped from their peak. However, they remain well above pre-pandemic levels, unlike lumber prices. We expect metal prices to increase in the coming months. For more details, see our *Commodity Trends*. It's also worth noting that the concrete price index has not yet reached its peak.

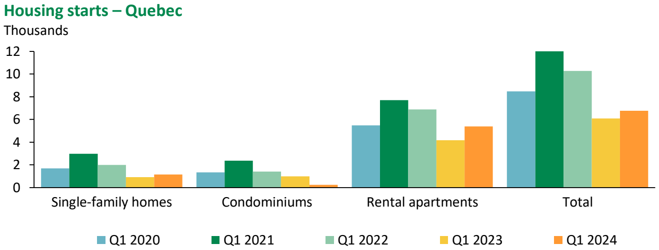
**Graph B**
**Material Prices Have Dropped, But Construction Costs Are Still High**
Building Construction Price Index – Canada




* Index covering major census metropolitan areas in Canada (seasonally adjusted).
Statistics Canada and Desjardins Economic Studies

However, lower commodity and building materials costs did not lead to any contraction by the Building Construction Price Index (BCPI). Instead, it continued to advance, gaining 5% year-over-year in Q1 2024 (graph B). This reflects rising labour costs, persistently high interest rates and, most importantly, price stickiness—prices often go up more easily than they come down. Few manufacturers or construction companies are willing or able to lower their prices, despite the decline in material costs. Against this backdrop, and with the anticipated rise in metal prices, we expect the residential BCPI to tick up 2% in the second half of the year and in 2025.

**Graph 7**
**Residential Construction Remains Weak, Though Single-Family Homes and Rental Apartments Have Improved Somewhat**

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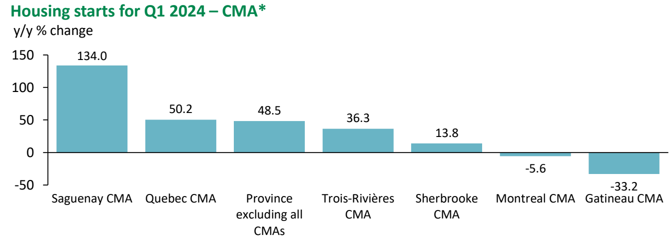
**Graph 8**
**Residential Construction Has Not Recovered for All Major Metropolitan Areas in Quebec**




*CMA: Census metropolitan area.
Canada Mortgage and Housing Corporation and Desjardins Economic Studies

to streamline the project approval process. As discussed in an *Economic Viewpoint* published last fall, a number of solutions had been identified to kickstart rental housing construction in Quebec. Some of those initiatives are now underway, which may be one of the reasons that work has resumed on a number of sites. Of course, we're also seeing greater confidence that monetary tightening has come to an end, and further rate cuts could be on the horizon. Construction is also getting additional support from the housing agreement signed by Quebec and Ottawa, representing an additional $1.8B in funding, financed equally by both governments.

## There Are Substantial Disparities between Regions

While residential construction appears to be up across the province, it's not actually the case—both the Montreal and Gatineau CMAs saw their housing starts contract in Q1 2024. Some of the reluctance to develop in Montreal may be explained by the longer wait times for building permits. The same is true in Gatineau, where many builders choose to simply cross the bridge to Ottawa. There's more flexibility for the construction industry in Ontario, and new purpose-built rental housing is also exempt from provincial tax, making projects even more appealing. Ontario also offered financial incentives to cities that reached their residential construction targets, prompting many of them to issue building permits more quickly.

In the Saguenay CMA, construction starts surged dramatically in 2023, unlike in the rest of the province. The situation seems to be repeating itself this year, with housing starts almost tripled in the first quarter of 2024 compared to the same period last year. The new projects feature a growing number of rental units. There's also a lot of available land in the Saguenay CMA, meaning that many of these residential projects are being built on brand-new streets. Prefabricated homes are also increasingly popular in the region, which helps speed construction up substantially. Another notable example is the city of Val-d'Or, where 99 new units were added to the market in the first quarter of 2024. By this same date last year, only one new home had been added. Given the very low vacancy rate in Val-d'Or, the municipality and the developers worked together to speed up the construction process, including changes to zoning. Other municipalities in Quebec have taken a similar approach, as shown by the trend for housing starts in Quebec excluding CMAs for the first quarter of 2024 (graph 8).

While lower interest rates should eventually encourage residential construction throughout the province, the different measures taken by these municipalities will provide additional support. Given the housing crisis, this support isn't just welcome—it's necessary. We're calling for total housing starts in Quebec to go up around 20% this year and 10% the year after that. Purpose-built rental construction will be responsible for much of the recovery, as we exit the cyclical lows of 2023.

## Rental Market: Rents Are Accelerating

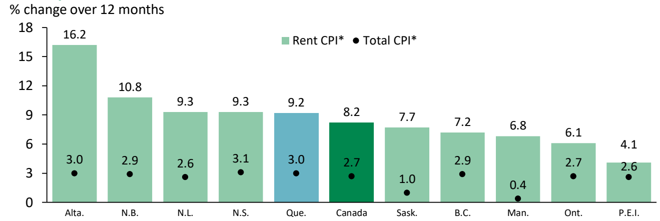
Rental unit vacancy rates are low across the entire province—and incredibly low in a number of locations. Given this housing shortage, there is a pressing need to add as many rental apartments as possible to the housing stock. The lack of available housing, in the face of mounting demand, continues to drive rents higher, further reducing the number of affordable units out there. The massive shortage of rental housing is affecting tenants across Canada, and rents are soaring in response to the pressure that keeps growing, month after month. In April, the rent subcomponent of the Canadian consumer price index jumped 8.2%. Half of the provinces, including Quebec, saw rents surge well above the national average. Alberta, for example, recorded a disproportionate increase of 16.2%. Strong migration from other provinces is pushing the population up and putting additional pressure on demand for rental housing, which in turn drives up rent.

Quebec's annual rent increase was 9.2% in April, which is also well above the Canadian average. In all provinces, without exception, the rent subcomponent of the CPI is rising much faster than the cost of living in general, as measured by total CPI (graph 9 on page 6). The nationwide shortage of rental housing is therefore helping to bring inflation up, though Canada's inflation has been below 3% for the last few months.

In Quebec, rent increases have exceeded inflation since mid-2023, due to the growing shortage of rental apartments

### Graph 9
**The Rent Index Is Rising Faster than Total Inflation in Canada and in Every Province**

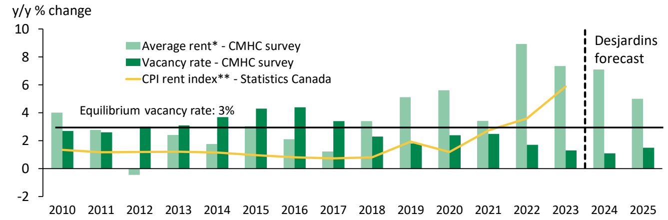
CPI – April 2024




* The CPI rent index is a class within the Shelter Index; Total consumer price index (CPI).
Statistics Canada and Desjardins Economic Studies

### Graph 11
**Rent Indicators Tend to Increase When Rental Vacancy Rates Decrease**

Rental Market and Inflation – Quebec

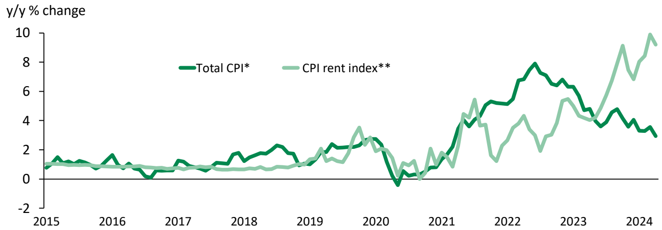



* Average rent for buildings with 3 or more units, according to the annual Canada Mortgage and Housing Corporation Survey; ** The CPI rent index is a class within the Shelter index.
Statistics Canada, Canada Mortgage and Housing Corporation and Desjardins Economic Studies

and sustained inflation, which has gradually eased from its peak in 2022. Rent increases have historically been in line with total inflation, especially from 2015 to 2021 (graph 10). But the pandemic, combined with other factors, caused total inflation to skyrocket. At that point, rent increases weren't keeping pace. The fact that total CPI has deflated a bit, just when the housing crisis is worsening, has led to the perfect storm: rent increases now far exceed inflation. Old rules no longer hold, and tenants are stuck with rents that are often unbearably high—and then exacerbated by outsize rent increases. Quebec has more tenants than most other province, with 40% of the population in rented accommodation according to Statistics Canada. While many homeowners will be relieved by the coming interest rate cuts, tenants will still be stuck with sky-high rents until the rental market shortage is alleviated somewhat. Historically, rent growth has been in line with inflation when the vacancy rate is close to the 3% break-even point (graph 11). Given that the housing crisis has worsened in recent years and inflation has been higher, rent increases have followed the same upward trajectory. According to the Canada Mortgage and Housing Corporation, rent in Quebec jumped 8.9% on average in 2022 and 7.4% in 2023. But given the tightening market conditions, a 10.1% increase in rent is anticipated this year. If rental housing construction continues its recovery, we can expect a somewhat smaller increase next year. All the same, we're predicting a 5.3% rent increase in 2025. (table 3).

### Graph 10
**Rent Inflation Is Outpacing Total Inflation**

CPI – Quebec




* Total consumer price index; ** The CPI rent index is a class within the Shelter index.
Statistics Canada and Desjardins Economic Studies

## TABLE 3

### Quebec housing market outlook 2024–2025

| | 2020 | 2021 | 2022 | 2023 | 2024f | 2025f |
|---|---|---|---|---|---|---|
| New housing market | | | | | | |
| **New construction ($B)** | **13.0** | **17.6** | **16.4** | **11.5** | **17.6** | **19.4** |
| Year-over-year change (%) | 8.6 | 35.4 | -7.1 | -29.7 | 16.5 | 11.9 |
| **Housing starts** | **54,066** | **67,810** | **57,107** | **38,912** | **45,831** | **49,400** |
| Year-over-year change (%) | 15.3 | 25.4 | -15.8 | -31.9 | 17.8 | 7.8 |
| **Houses** | **15,995** | **21,091** | **16,825** | **10,943** | **12,000** | **12,300** |
| Year-over-year change (%) | 6.9 | 31.9 | -20.2 | -35.0 | 9.7 | 2.5 |
| ***Single-detached*** | ***10,861*** | ***14,826*** | ***12,441.0*** | --- | --- | --- |
| *Year-over-year change (%)* | *8.0* | *36.5* | *-16.1* | --- | --- | --- |
| ***Semi-detached*** | ***3,514*** | ***4,175*** | ***3,152.0*** | --- | --- | --- |
| *Year-over-year change (%)* | *17.3* | *18.8* | *-24.5* | --- | --- | --- |
| ***Row housing units*** | ***1,620*** | ***2,090*** | ***1,232.0*** | --- | --- | --- |
| *Year-over-year change (%)* | *-15.3* | *29.0* | *-41.1* | --- | --- | --- |
| **Apartments** | **38,071** | **46,719** | **40,282** | **27,969** | **33,831** | **37,100** |
| Year-over-year change (%) | 19.3 | 22.7 | -13.8 | -30.6 | 21.0 | 9.7 |
| ***Condos*** [1] | ***7,222*** | ***8,032*** | ***6,913*** | ***4,072*** | ***3,700*** | ***4,000*** |
| *Year-over-year change (%)* | *-26.8* | *11.2* | *-13.9* | *-41.1* | *-9.1* | *8.1* |
| ***Rentals*** [1] | ***28,709*** | ***35,659*** | ***31,123*** | ***22,371*** | ***28,000*** | ***31,500*** |
| *Year-over-year change (%)* | *40.0* | *24.2* | *-12.7* | *-28.1* | *25.2* | *12.5* |
| ***Conventional rentals*** [2] | ***26,554*** | ***33,049*** | ***30,078*** | ***21,840*** | ***27,600*** | ***31,000*** |
| *Year-over-year change (%)* | *58.5* | *24.5* | *-9.0* | *-27.4* | *26.4* | *12.3* |
| ***Retirement homes*** [2] | ***2,017*** | ***2,567*** | ***980*** | ***491*** | ***400*** | ***500*** |
| *Year-over-year change (%)* | *-43.4* | *27.3* | *-61.8* | *-49.9* | *-18.5* | *25.0* |
| Resale market | | | | | | |
| **Unit sales** | **112,157** | **109,464** | **87,080** | **75,950** | **80,954** | **86,487** |
| Year-over-year change (%) | 16.4 | -2.4 | -20.4 | -12.8 | 6.6 | 6.8 |
| **Weighted average price ($k)** | **377** | **438** | **488** | **487** | **511** | **543** |
| Year-over-year change (%) | 22.4 | 16.4 | 11.3 | -0.1 | 4.9 | 6.3 |
| **Sales volume ($B)** | **40.0** | **46.3** | **40.4** | **35.3** | **41.4** | **47.0** |
| Year-over-year change (%) | 31.5 | 15.8 | -12.7 | -12.8 | 17.4 | 13.5 |
| Other indicators | | | | | | |
| **Vacancy rate for rental units[3] (%)** | **2.4** | **2.5** | **1.7** | **1.3** | **1.1** | **1.5** |
| **Average rent[3] ($)** | **845** | **874** | **952** | **1,022** | **1,125** | **1,185** |
| Year-over-year change (%) | 5.6 | 3.4 | 8.9 | 7.4 | 10.1 | 5.3 |

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