Quebec Professional Association of Real Estate Brokers

News release

QPAREB 2021 review and 2022 forecast

Quebec real estate market: from frenzied overheating in 2021 to forced normalization in 2022

Montreal, December 14, 2021 – During its *Fenêtre sur le marché immobilier* online conference, the Quebec Professional Association of Real Estate Brokers (QPAREB) presented its 2021 year-in-review report and unveiled its 2022 forecasts for the residential real estate market in the province of Quebec as well as individual regions.

1. 2021 REVIEW | PROVINCE OF QUEBEC

Sales decreased by 3% in 2021, which means 2020, the "pandemic year," holds on to its title as the all-time record-setter. With 108,000 projected sales transactions per the real estate brokers' Centris provincial database, however, 2021 is on track to be the second-busiest year ever recorded.

"We had been expecting a decline in sales in 2021 given the low inventory of properties on the market, exacerbated by the fact that housing starts continue to be insufficient to meet demand and by sharply rising prices," explains Charles Brant, the QPAREB's Director of Market Analysis. "But the market has proven surprisingly healthy, as shown especially by the phenomenal increase in median prices, with double-digit increases once again seen almost everywhere in Quebec for the second year in a row," he adds.

The median price of a single-family home in the province hit an all-time high of $362,000, up by 24% during 2021.

The situation is directly influenced by the multiple atypical impacts of the health crisis, including the mortgage interest rate floor level and higher disposable income in many households during this second pandemic year. Among other things, the financial health of households has improved to a degree, the savings rate remains high, credit scores are rising, and there has been strong growth in the value of both real estate assets and financial assets resulting from the outstanding performance of the stock market and other more speculative investment vehicles.

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Similarly to what prevailed in 2020, the year 2021 was notable for the following:

- The single-family property category has been under siege, having recorded unsustainable price increases across several sectors, including in the Greater Montreal area.
- Prices soared, resulting essentially from a historically high level of overbidding, fuelled by low financing rates.
- This situation has caused overvaluation in certain Quebec markets, mainly in the southern part of the province.
- Affordability challenges have become critical in the Montreal area, especially for young households.
- That said, affordability levels remain satisfactory in several CMAs and agglomerations, for example as concerns Montreal-based households and teleworkers.
- Widespread integration of the teleworking model into service-sector operations is an increasingly common trend. However, a shift in the balance back toward office presence is expected, considering the real costs associated with a return to a more hybrid model requiring more in-person work.
- Although we are in more of a price catch-up context in many markets—such as the Trois-Rivières census metropolitan area (CMA) and, to a lesser extent, the Quebec City CMA—speculation has taken a stronger hold in certain markets in the Montreal CMA, on the outskirts of Montreal and in many resort markets.
- The "cottage" subcategory is increasingly turning into a revenue property segment. Prices of secondary homes have exploded.
- The share of higher price ranges in overall sales is expanding rapidly.
- Condominiums are now clearly the key category for access to homeownership, across Quebec.
- Unless they consider leaving the city, young households, especially those with no access to financial support from family members, are increasingly having to resort to condominiums and give up on plans to buy a single-family home in the Montreal CMA. The least affluent and least mobile among them are giving in and staying in the rental market, with a concomitant reduction in resale market transactions.
- Against this backdrop of overall price increases, plexes have become an attractive property category because of their versatility (e.g., they can be converted into intergenerational homes) and the fact that they can tap the potential of rent increases across the province.
- Another reason for the higher number of investors on the market is the growing tendency to convert properties, especially single-family homes, into rental housing.

2. 2022 OUTLOOK | PROVINCE OF QUEBEC

Overall, the Quebec housing market is not in a bubble situation, as is the case in Ontario, for example, or British Columbia. In the Montreal region and its outlying agglomerations, however, including the booming resort markets, certain market drifts characteristic of the start of a bubble are being observed.

"With more than half of sales concluded after overbidding, half of which in turn showed a difference of more than 10% between the listed and the final selling price, it's clear that prices have risen too fast and too high," Mr. Brant notes, adding: "It's important to note that this increase in prices has come at a much higher rate than economic fundamentals would suggest, even if we consider that household incomes grew at a substantial rate and outpaced inflation in 2021."

The case of experienced buyers

Of note is the fact that experienced buyers have been able to take advantage of the explosive growth in the value of their homes to acquire the property (or properties) they want, whatever the price, in a context of supply shortage, which has fuelled a dynamics of extrapolative expectation of price increases. This, of course, has acted in combination with increasingly speculative buyer behaviours, such as increased short-term resales, but also the growing presence of investors in the market.

Heading into a bubble in Montreal?

There is indeed the beginning of a housing bubble in the Greater Montreal area, characterized on the one hand by the inability of most first-time buyers to access homeownership and on the other by the vulnerability of first-time and experienced buyers. Those who have purchased multiple investment properties, or upmarket properties, will eventually have to cope with the changing economic conditions. These buyers are vulnerable in that they are carrying increased mortgage debt and are *de facto* dependent on the value of their properties appreciating, or at the very least holding steady.

Possible interest rate hike

"While the surge in prices has been largely driven, and offset by, the reduction in interest rates—which have been at historically low levels since the onset of the crisis—an uptick in interest rates could significantly alter the dynamics of the market," Mr. Brant says. "An increase in the five-year fixed mortgage rate, the most popular option for households in a context of rising rates, could lead to monthly mortgage payments by year-end 2022 that are $250 higher than those for a loan taken out in 2021 for the same average single-family home in Quebec," he adds.

The Bank of Canada has indeed announced, earlier than expected, that interest rates will rise in 2022 so as to curb the strong inflationary pressures created by the economic recovery, increased consumption, the labour shortage, higher fuel costs, and the many supply-chain issues stemming from the health crisis. This stance by the central bank has already produced significant anticipatory upward movement in the bond market, which is already reflected in a rise in five-year fixed mortgage rates. Those increases will have a reverse effect on price movements in the various sectors as well as on the higher-price segments that have been the most affected by overbidding, overpricing and speculation.

"The interest rate hike, however, will come in time to help stop a bubble from forming in the Greater Montreal region," Mr. Brant adds. "The market conditions, which will continue to strongly favour sellers, will readily absorb the potential return of properties to the market, maintaining the sellers' advantage and keeping prices from falling. Instead, we will see a stabilization, or even a correction, in several segments, particularly in the higher price ranges."

That said, the average Quebec household that renews a mortgage taken out five years ago in 2022 will see very little impact on its budget, meaning that putting a property on the market will be a risk only for those whose employment and income status has changed significantly. "We mustn't forget that the criteria for pre-qualifying households for a mortgage (also known as the stress test) protect against the scenario of a massive return of properties to the market, especially in a context where mortgage loan quality has improved in 2021," Mr. Brant cautions.

Retiree households

Older heads of households who are retired will have a stronger incentive to sell their property (or properties) since they stand to realize a substantial capital gain. A further temptation to sell is the fact that their pension benefits may be eroded by the inflationary surge, the duration of which is proving increasingly difficult to predict.

Rental market outlook

Given the widening gap between monthly mortgage payments and rents, and the fact that property costs are rising faster than inflation, the rental market should continue to perform well, particularly among young households in the Montreal region. "The choice between buying a condominium or renting an apartment with similar amenities continues to favour ownership after five years of possession," Mr. Brant insists. "But in anticipation of a market cooldown, many more young households may choose to rent over the short to medium term, thus banking on an acceptable opportunity cost—that is, no financial loss."

What to expect in the regions

"The rising costs of financing and homeownership will temper sales and price increases in the markets that have seen the most overbidding and hyperactivity," Mr. Brant notes. "This will not, however, prevent other markets like the Trois-Rivières and Quebec City CMAs—which are more affordable and playing catch-up—from seeing still more transactions and price increases, albeit much more moderate ones."

He adds: "The markets outside the CMAs will remain attractive, to a degree, as workplace paradigms change, with teleworking becoming accepted as an efficient operating mode in a hybrid arrangement. Transactions will be hampered, however, by low inventory in these markets and more dissuasive price points, given the increases in the cost of ownership for a single-family home, gas prices and the cost of living in general." The situation should prevent any sharp drop in activity and enable prices to rise, to a degree, in several CMAs as well as non-CMA agglomerations—except for the resort areas in southern Quebec, which are more exposed to market correction risks.

Resumption of migration flows

Over the short and medium terms, the Quebec housing market, especially in Montreal, should feel the benefits of a resumption in migration flows, in part thanks to immigration and to inflows of residents and non-permanent workers given the labour shortage context. With the government having increased immigration quotas, the Montreal market could well remain under pressure despite the inevitable—and welcome—price corrections over the short term, particularly in the single-family category and in the upper price ranges. Generally speaking, Canada, and Quebec in particular, with its economic vitality and financial stability, should continue to attract large numbers of immigrants as growing geopolitical, economic and climate uncertainties make them preferred choices as a host country and more specifically a host province. Quebec is currently the economic engine of the country, owing to massive infrastructure investments and a diversified economic structure that emphasizes forward-looking, high-value-added industry segments—all of which extends to the regions and is being achieved in an especially stable, well-controlled political climate.

Province of Quebec

	Total Residential Sales		Median Price (single-family)	
	Number	Variation	Price	Variation
2018	86,437	+5%	$250,000	+5%
2019	96,350	+11%	$260,000	+4%
2020	112,172	+16%	$295,000	+13%
2021e	**108,903**	**-3%**	**$363,000**	**+23%**
2022p	**95,686**	**-12%**	**$374,000**	**+3%**

Montreal CMA

	Total residential sales		Median Price (single-family)		Median Price (condominiums)	
	Number	Variation	Price	Variation	Price	Variation
2018	46,678	+5%	$323,000	+4%	$255,000	+3%
2019	51,237	+10%	$340,000	+5%	$267,900	+5%
2020	55,445	+8%	$400,000	+18%	$305,000	+14%
2021e	**53,838**	**-3%**	**$493,460**	**+23%**	**$360,000**	**+18%**
2022p	**46,126**	**-14%**	**$498,395**	**+1%**	**$370,800**	**+3%**

Quebec City CMA

	Total Residential Sales		Median Price (single-family)		Median Price (condominiums)	
	Number	Variation	Price	Variation	Price	Variation
2018	7,158	+4%	$253,500	+1%	$190,000	+1%
2019	8,291	+16%	$260,000	+3%	$192,000	+1%
2020	10,622	+28%	$270,000	+4%	$193,000	+1%
2021e	**10 271**	**-3%**	**$310,000**	**+15%**	**$210,000**	**+9%**
2022p	**10 083**	**-2%**	**$328,600**	**+6 %**	**$218,400**	**+4%**

Non-CMA

	Total Residential Sales		Median Price (single-family)	
	Number	Variation	Price	Variation
2018	24,186	+4%	$172,000	+4%
2019	27,187	+12%	$180,000	+5%
2020	35,157	+29%	$209,900	+17%
2021e	**33,813**	**-4%**	**$250,000**	**+19%**
2022p	**29,001**	**-14%**	**$257,500**	**+3%**

About the Quebec Professional Association of Real Estate Brokers

The Quebec Professional Association of Real Estate Brokers (QPAREB) is a non-profit association that brings together more than 13,300 real estate brokers and agencies. It is responsible for promoting and defending their interests while taking into account the issues facing the profession and the various professional and regional realities of its members. The QPAREB is also an important player in many real estate dossiers, including the implementation of measures that promote homeownership. The Association reports on Quebec's residential real estate market statistics, provides training, tools and services relating to real estate, and facilitates the collection, dissemination and exchange of information. The QPAREB is headquartered in Quebec City and has its administrative offices in Montreal. It has two subsidiaries: Centris Inc. and the Collège de l'immobilier du Québec. Follow its activities at qpareb.ca or via its social media pages: Facebook, LinkedIn, Twitter and Instagram.

The QPAREB released an important study on real estate overheating on September 13, 2021. This brief was presented to the Quebec Minister of Finance as part of the consultation on the supervision of real estate brokers in the context of an overheated market. Click here to read this analysis (in French).

About Centris

Centris is a dynamic and innovative technology company in the real estate sector. It collects data and offers solutions that are highly adapted to the needs of professionals. Among these solutions is Centris.ca, the most visited real estate website in Quebec.

- 30 -

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