

Montreal Housing Outlook

- Montreal has so far bucked the cooling trend seen in most regional housing markets. Strong job creation and increased in-migration are supporting sales, while inventory shortages are pressuring prices. Overall sales this year are on track to surpass 2007's record high, while average prices are likely to face further moderate upward pressure.
- Strong housing demand has boosted the pace of new construction to its highest level in at least two decades, led by purpose-built rentals and condominiums. Yet there is little evidence of overbuilding, with unsold new home inventory in line with long-term trends.
- Montreal households, along with other CMAs in Quebec, continue to have a higher propensity to rent than those in other regions of the country, encouraged by an affordable and diverse rental stock. However, the homeownership gap between Quebec's CMAs and the rest of Canada has narrowed substantially in recent decades.

STRONG MOMENTUM CONTINUES

Montreal's housing market is enjoying a resurgence at a time when activity in other major centres in Canada has either cooled sharply (e.g. Greater Vancouver and Greater Toronto) or remains sluggish (e.g. Calgary and Edmonton). Montreal home sales have been increasing steadily since 2014, with full-year 2017 transaction volumes up 8% to their second highest level on record. Sales have continued to trend higher in early 2018, despite the tighter macroprudential rules in place since January, and the gradual upward drift in mortgage rates, putting them on pace to surpass 2007's record high. Montreal, alongside Ottawa, is among the few large urban markets in Canada where sales are higher than a year ago and are above their long-term average (chart 1).

High-end detached and condominium properties are leading overall sales gains, indicative of strong demand from move-up buyers. These move-up buyers in turn free up entry-level and lower-priced homes for first-time buyers. First-time buyers will get an added assist from a new non-refundable tax credit unveiled in the March 2018 provincial budget.

Home prices have climbed to record highs, as listings fail to keep pace with the strength in demand. The MLS benchmark house price (HPI) for Greater Montreal rose 6.3% in the year to April, recording its fastest twelve-month appreciation since 2011. Prices are rising across market segments, including for single-family homes (+6.5% y/y), townhomes (+3.7% y/y) and condominiums (+6.4% y/y).

We expect further upward pressure on prices this year, given tight demand-supply conditions. The ratio of sales to new listings remains firmly in sellers' territory at 67.5 in April—more than one standard deviation above its long-term trend (chart 2). Market conditions have tightened across all property categories.

CONTACTS

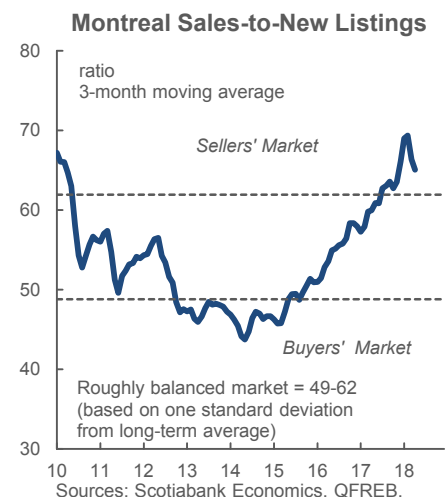
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Chart 1



Chart 2



WEAKER, BUT STILL GOOD, AFFORDABILITY

Housing affordability for buyers has been gradually eroding since 2015, with home price increases outpacing income growth. Some further erosion is likely in 2018–19 as mortgage rates continue to drift higher, however not to the extent that it is likely to pose a significant barrier to many households. Mortgage interest and principal carrying costs for buyers of an average-priced home in Montreal absorb around 30% of median household income, comparable to Calgary and well below the near record levels of roughly 65% and 50% in Vancouver and Toronto, respectively.¹

STRONG DEMAND FUNDAMENTALS

Demand fundamentals remain broadly supportive after a banner year. Mirroring post-recession highs for Quebec real GDP and total employment growth, Montreal’s CMA in 2017 created nearly 75,000 jobs, of which more than 38,000 were full-time positions; both figures led all CMAs. The 3.6% rise in total employment represented the strongest ever recorded annual advance and brought the unemployment rate to a record low of 6.7%. In 2018, we look for job creation to cool from its cycle peak to just under 2%, remaining above the 1.6% mean annual climb during 2010–16. Consumer confidence and after-tax incomes also have been boosted by the steady provincial tax relief delivered through the Québec Economic Plan, notably eliminating the health contribution, raising the Basic Personal Amount and cutting the lowest bracket tax rate from 16% to 15%, relief that has helped to offset increases in municipal levies. In 2019, Montreal’s employment is expected to moderate further to 1¼%, in line with our provincial forecast.

Demographic trends, including continuing high immigration levels and a surge in non-permanent resident arrivals, also are favourable. Net immigration to Quebec totaled 45,000 in the four quarters to 2017Q4, while the number of non-permanent residents, including refugee claimants, increased by 32,000 to a new record high (chart 3). Meanwhile, net interprovincial outflows over this period slowed to a five-year low of 8,000. Roughly 80% of immigrants to Quebec in recent years have settled in Montreal, as have more than 85% of non-permanent residents.

Foreign buyers play a small but growing influence in Montreal’s housing market. Foreign buyers are estimated to have accounted for about 1.5% of transactions across the Montreal CMA last year, somewhat lower than comparable figures for Vancouver and Toronto. Non-residents accounted for a 1.7% ownership share in of condominium apartments in 2017, and 2.1% in buildings completed since 2010.

CITY COMPARISON

The combination of strong economic growth and good affordability are key to Montreal’s ongoing housing market outperformance relative to the national trend. Ottawa likewise continues to see strong sales and accelerating price appreciation, with demand underpinned by steady economic growth, record low unemployment, and good affordability.

The new B-20 rules were expected to have less impact on Montreal’s and Ottawa’s housing markets compared with Toronto and Vancouver which have borne the brunt of the recent correction, given their lower price points and smaller share of uninsured mortgages. Neither city was hit by additional provincial policy measures, including foreign buyers taxes, aimed at cooling markets in the Greater Golden Horseshoe and

¹ Our affordability calculation is based on the MLS average price, and assumes a 20% downpayment, a 25-year amortization, and the discounted 5-year fixed mortgage rate.

Chart 3

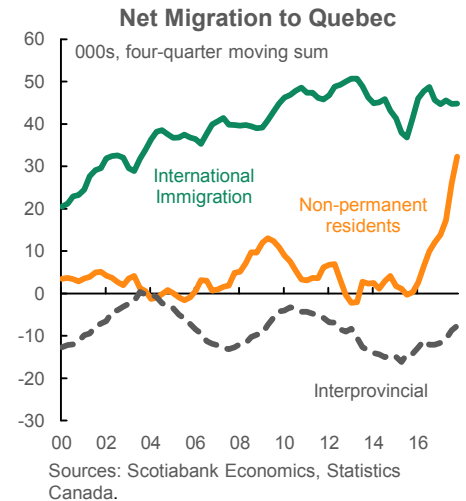
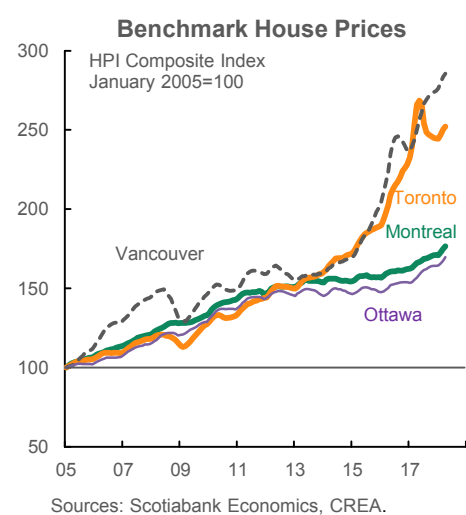


Chart 4



BC's largest urban centres. While non-residents are a relatively small share of overall buyers across Canada, the abrupt adjustments in Toronto and Vancouver suggest that they at least had a dampening impact on overall market sentiment.

Montreal and Ottawa also lack the froth that characterized the Vancouver and Toronto regions, which saw home prices soaring in excess of 30% y/y at their respective cycle peaks in mid-2016 and mid-2017. Montreal and Ottawa's price gains, in contrast, have been relatively modest in recent years (chart 4).

BUILDERS LOOKING UP

Homebuilders are responding to the strength of demand. Almost 25,000 housing starts were initiated across the Montreal CMA last year, the highest annual tally since 2005, led by new purpose-built rentals and condominiums. Activity has remained brisk in early 2018. There are currently 26,000 units under construction, the highest level in at least two decades. Notwithstanding the sharp ramping up in new residential construction, there is little evidence of overbuilding in either the single-family or multi-unit segments. The inventory of completed and unsold new homes has edged lower since 2014 and is in line with historical averages (chart 5).

BALANCED RENTAL MARKET CONDITIONS

Demand for rental housing also remains strong. Despite increased supply, Montreal's rental market has tightened over the past year, but remains fairly balanced overall, with a vacancy rate of 2.8% for purpose-built apartment units. The vacancy rate for rented condominiums is somewhat lower at 1.8%. Average rents for both classes of rental units remain fairly stable, rising about 2% last year. New rental supply in the pipeline is expected to be sufficient to meet demand over the next few years.

Montreal benefits from a large and diverse rental stock, including a relatively large share of two-bedroom plus units. However, its rental stock also is antiquated, and may be in need of rehabilitation. Montreal's rental stock is dominated by purpose-built apartments, which account for almost 80% of existing units. Almost half were constructed prior to 1960, compared with fewer than one fifth of rental units in the rest of the country. Rented condominiums, which are generally newer and offer greater amenities, account for a growing, but still small, 4% share of Montreal's rental stock.

Montreal households, along with other CMAs in the province, have traditionally had a much higher propensity to rent than those in other regions of the country. The gap in homeownership rates is most pronounced among immigrant households, and seniors. The greater acceptance of renting as a tenure choice may reflect cultural preferences as well as affordability considerations. The relative cost of renting versus owning is relatively low in Montreal compared with other large Canadian centres, including Toronto, Vancouver and Calgary (chart 6).

Over time, however, rates of homeownership in Montreal, and Quebec more generally, have been catching up to other parts of the country (chart 7). Montreal's homeownership rate has increased steadily since the 1970s, rising from 35.5% in 1971 to 55.7% in 2016. Homeownership rates in other parts of the country also have increased, most notably post-1990, assisted by historically low interest rates, the introduction of government programs for first-time buyers such as the Home Buyers' Plan, mortgage market innovation, and an aging population, but appear to have peaked as renter household formation outpaces the number of new homeowners.

Chart 5

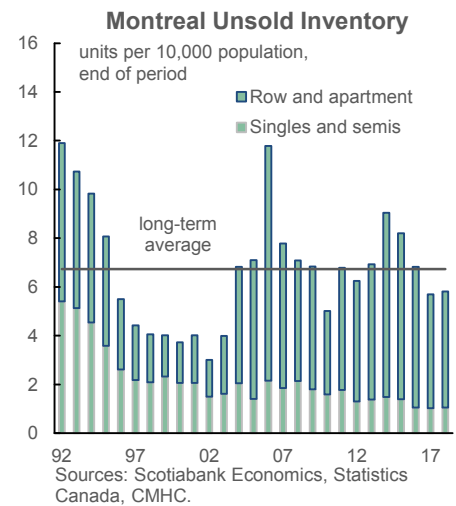


Chart 6

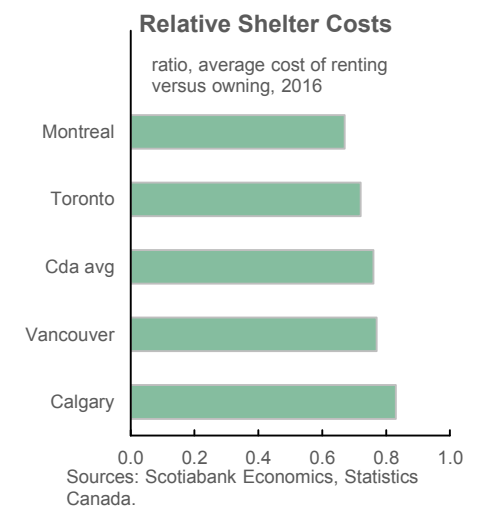
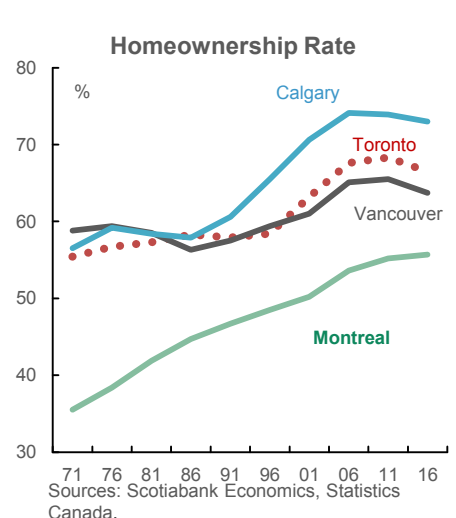
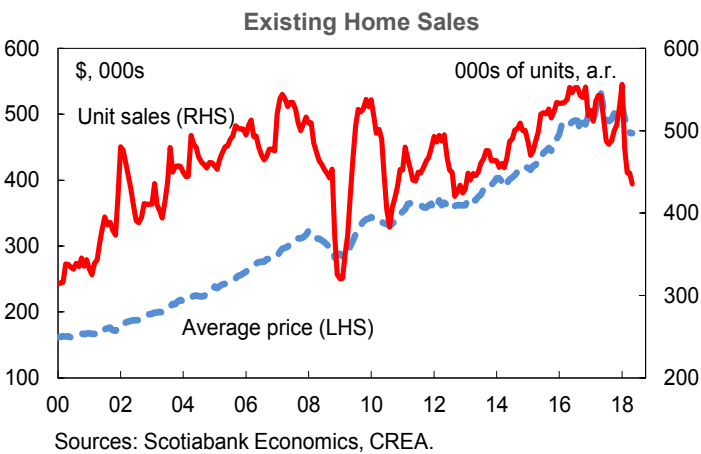
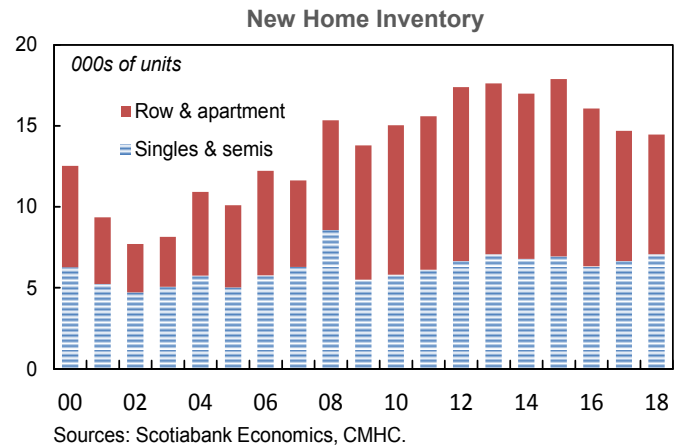
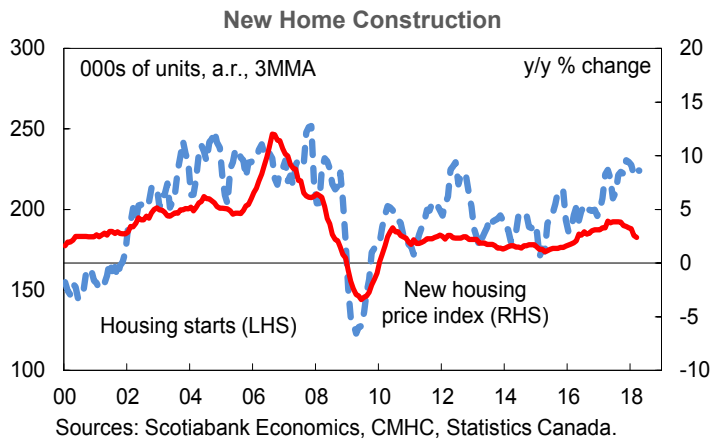


Chart 7



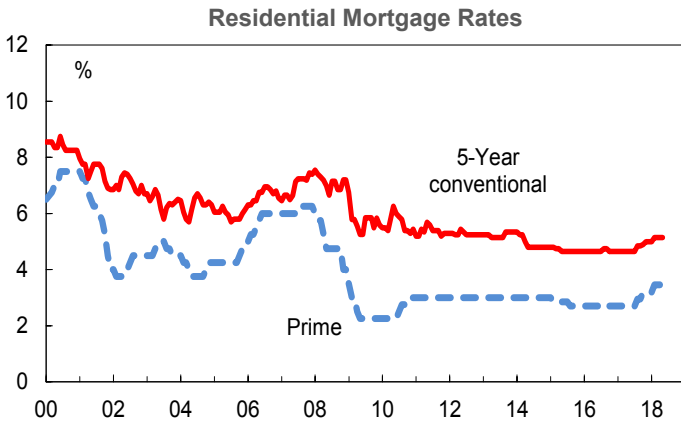
CANADIAN RESIDENTIAL MARKETS



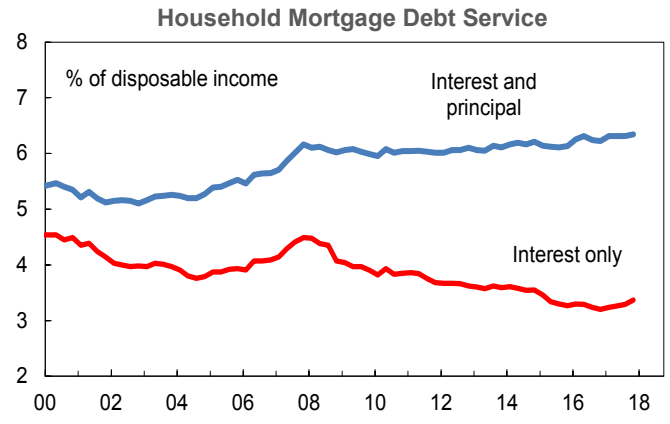
Housing Starts								
	Canada	B.C.	Alberta	Sask.	Manitoba	Ontario	Quebec	Atlantic
<i>(000s units, sa)</i>								
2011	194	26	26	7	6	68	48	13
2012	215	27	33	10	7	77	47	13
2013	188	27	36	8	7	61	38	10
2014	189	28	41	8	6	59	39	8
2015	196	31	37	5	6	70	38	8
2016	198	42	25	5	5	75	39	8
2017	220	44	29	5	8	79	46	9
2018ytd	222	42	26	3	6	84	51	9
2018f	212	42	28	4	6	77	46	8
2019f	200	39	30	5	6	71	41	8
<i>(units, nsa)</i>								
	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal	Halifax	St. John's
2011	17,867	9,292	9,332	39,745	5,794	22,719	2,954	1,923
2012	19,027	12,841	12,837	48,105	6,026	20,591	2,754	2,153
2013	18,696	12,584	14,689	33,547	6,560	15,632	2,439	1,734
2014	19,212	17,131	13,872	28,929	5,762	18,672	1,757	1,230
2015	20,863	13,033	17,050	42,287	4,972	18,744	2,599	985
2016	27,914	9,245	10,036	39,027	5,298	17,834	2,305	833
2017	26,204	11,534	11,435	38,738	7,457	24,756	2,752	763
2018ytd	27,082	8,904	9,819	44,064	5,536	23,096	1,883	866

Sources: Scotiabank Economics, CMHC. Year-to-date data are expressed at seasonally adjusted annual rates.

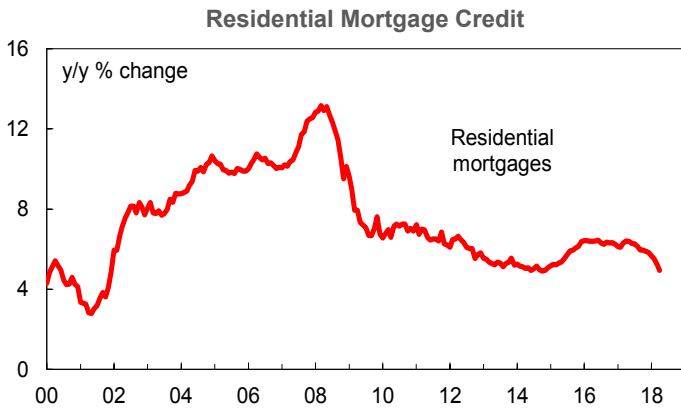
CANADIAN RESIDENTIAL MARKETS



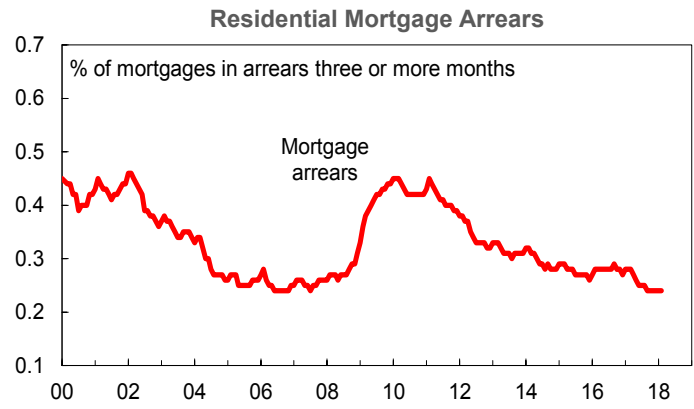
Sources: Scotiabank Economics, Bank of Canada.



Sources: Scotiabank Economics, Statistics Canada.



Sources: Scotiabank Economics, Bank of Canada.



Sources: Scotiabank Economics, CBA.

Home Sales

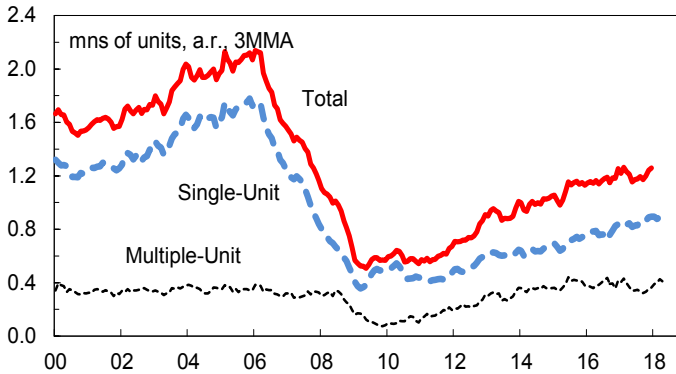
	Canada		British Columbia		Alberta		Man.-Sask.		Ontario		Quebec		Atlantic	
	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units
2011	362,492	462,388	561,271	76,727	354,762	55,410	249,107	26,680	364,999	202,549	251,138	77,164	200,965	23,415
2012	363,914	456,725	514,849	67,634	365,176	62,458	264,637	27,276	384,235	198,294	260,705	77,372	208,760	23,233
2013	383,198	459,242	537,428	72,936	383,250	67,471	277,048	26,847	403,003	198,837	264,285	71,194	209,877	21,521
2014	408,297	485,459	568,391	84,054	402,453	75,201	284,939	27,257	430,656	206,810	267,916	70,620	209,773	21,059
2015	442,528	511,605	636,607	102,514	395,615	59,340	285,035	26,040	463,968	226,947	271,791	74,120	208,399	22,143
2016	489,620	541,660	691,120	112,211	396,623	54,848	287,476	25,894	534,237	246,105	279,832	78,142	206,436	23,850
2017	509,835	517,018	709,577	103,763	398,208	57,220	290,145	25,487	584,890	222,515	292,545	82,556	211,237	24,801
2018ytd	479,814	453,168	705,924	86,070	390,588	53,916	287,472	24,267	555,398	179,946	301,597	84,066	216,994	24,339

	Vancouver		Calgary		Edmonton		Toronto		Ottawa		Montreal		Halifax	
	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units
2011	779,730	32,936	402,851	22,466	333,624	17,916	466,352	91,760	344,496	15,059	304,805	41,672	261,125	6,082
2012	730,063	25,445	412,315	26,634	344,699	19,160	498,973	88,157	352,204	14,691	316,630	41,491	272,468	6,194
2013	767,765	28,985	437,036	29,954	354,599	20,560	524,089	88,946	358,592	14,013	319,548	37,764	275,788	5,147
2014	812,653	33,693	460,584	33,615	372,891	22,923	566,491	93,278	362,525	14,122	326,539	36,917	276,715	4,811
2015	902,801	43,145	453,814	23,994	379,516	20,870	622,046	101,846	368,521	14,849	332,496	39,210	286,207	4,897
2016	1,017,228	40,880	463,047	22,522	378,743	19,443	729,591	113,725	374,649	15,616	344,509	41,309	290,833	5,235
2017	1,031,546	36,604	466,259	23,869	380,021	19,539	823,874	93,158	394,304	17,308	364,510	44,448	296,276	5,585
2018ytd	1,018,938	27,732	466,082	20,865	374,298	19,074	754,969	72,237	402,454	16,665	376,801	45,660	305,173	5,832

Sources: Scotiabank Economics, CREA, QFREB. Year-to-date data are expressed at seasonally adjusted annual rates.

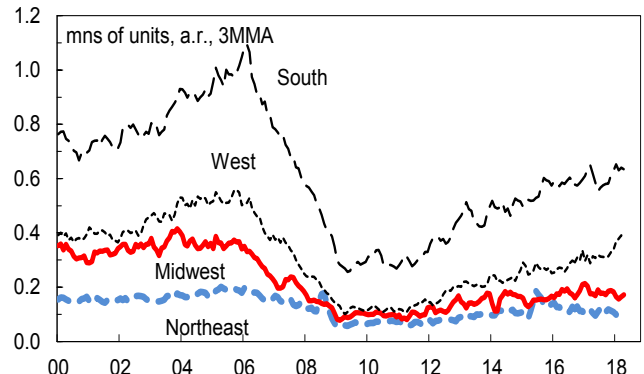
US RESIDENTIAL MARKETS

Housing Starts



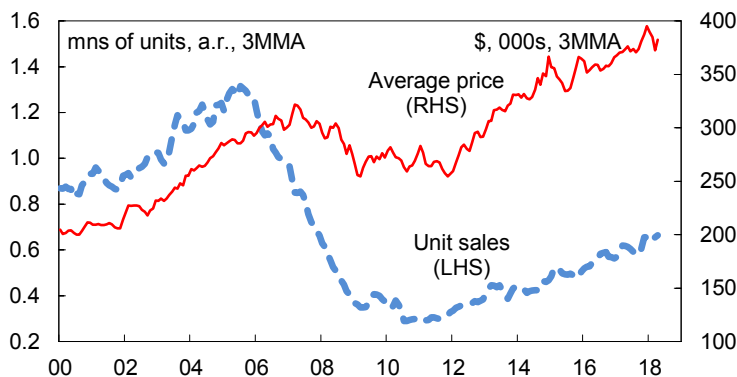
Sources: Scotiabank Economics, US Census Bureau.

Housing Starts by Region



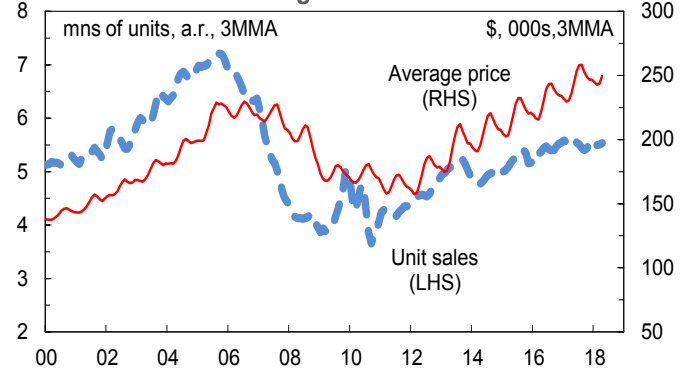
Sources: Scotiabank Economics, US Census Bureau.

New Home Sales



Sources: Scotiabank Economics, US Census Bureau.

Existing Home Sales

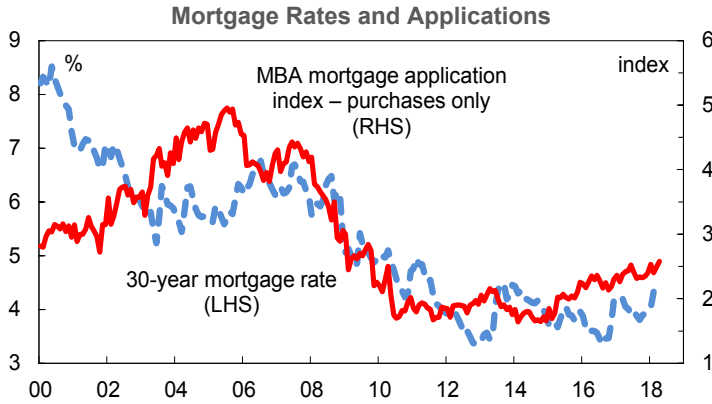


Sources: Scotiabank Economics, National Association of Realtors (NAR).

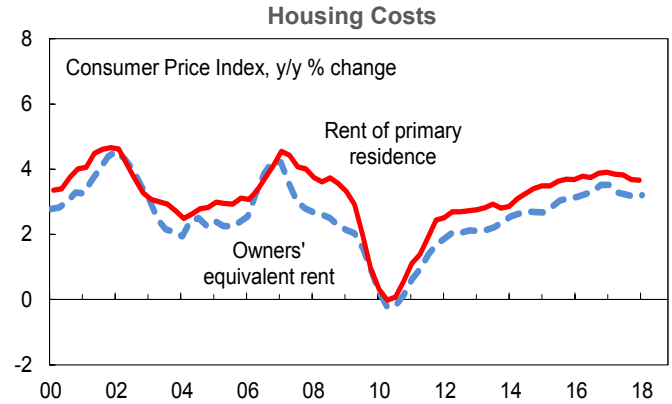
	Housing Starts				Permits						
	Total	Singles	Multis	West	South	Midwest	Northeast	Total	Singles	Multis	
	<i>(millions of units)</i>								<i>(millions of units)</i>		
2011	0.609	0.431	0.178	0.133	0.308	0.101	0.068	0.624	0.418	0.206	
2012	0.781	0.535	0.245	0.175	0.398	0.128	0.080	0.830	0.519	0.311	
2013	0.925	0.618	0.307	0.215	0.464	0.150	0.097	0.991	0.621	0.370	
2014	1.003	0.648	0.355	0.235	0.496	0.163	0.110	1.052	0.640	0.412	
2015	1.112	0.715	0.397	0.266	0.556	0.153	0.138	1.183	0.696	0.487	
2016	1.174	0.782	0.392	0.291	0.585	0.182	0.116	1.207	0.751	0.456	
2017	1.203	0.849	0.354	0.313	0.599	0.180	0.111	1.282	0.820	0.462	
2018ytd	1.312	0.893	0.419	0.379	0.646	0.165	0.122	1.358	0.868	0.490	
2018f	1.260										
2019f	1.300										

Sources: Scotiabank Economics, US Census Bureau. Year-to-date data are expressed at seasonally-adjusted annual rates.

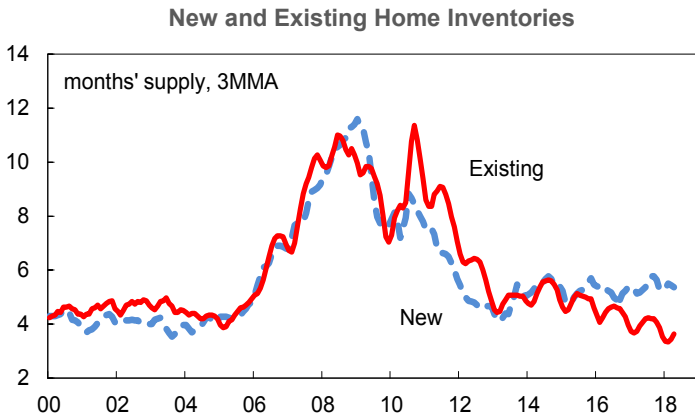
US RESIDENTIAL MARKETS



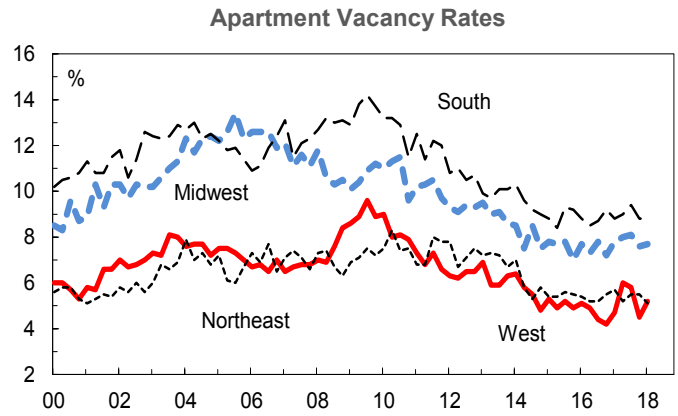
Sources: Scotiabank Economics, Mortgage Bankers Association (MBA), FHLMC.



Sources: Scotiabank Economics, US Bureau of Labor Statistics.



Sources: Scotiabank Economics, US Census Bureau, National Association of Realtors (NAR).



Sources: Scotiabank Economics, US Census Bureau.

	Existing Home Sales							New Home Sales		
	Total	Avg Price	Months' Supply	West	South	Midwest	North East	Total	Avg Price (\$000s)	Months' Supply
	(sa)	(nsa)	(nsa)							
2011	4.260	214.0	8.3	1.130	1.680	0.910	0.540	0.306	263.4	6.6
2012	4.660	225.4	5.9	1.160	1.840	1.070	0.590	0.368	285.4	4.8
2013	5.090	245.5	4.9	1.190	2.050	1.200	0.660	0.430	319.3	4.7
2014	4.940	255.3	5.2	1.100	2.050	1.140	0.640	0.440	341.8	5.5
2015	5.250	266.4	4.8	1.170	2.160	1.240	0.700	0.502	348.6	5.2
2016	5.450	276.0	4.4	1.190	2.220	1.300	0.740	0.560	359.3	5.2
2017	5.510	289.2	3.9	1.220	2.260	1.300	0.740	0.616	377.8	5.4
2018ytd	5.495	287.6	3.6	1.208	2.350	1.263	0.675	0.657	381.3	5.4

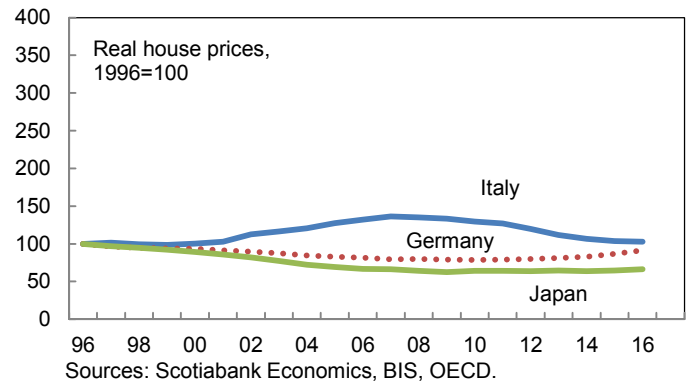
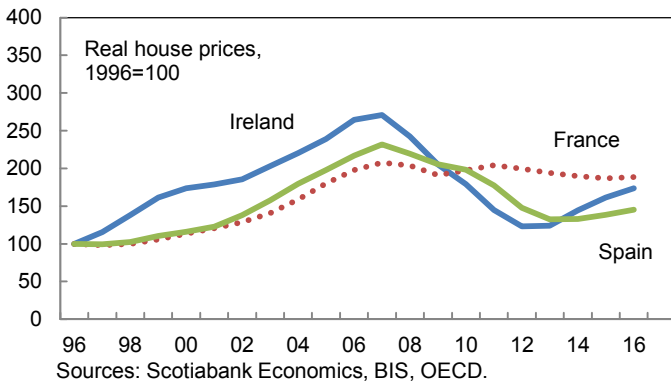
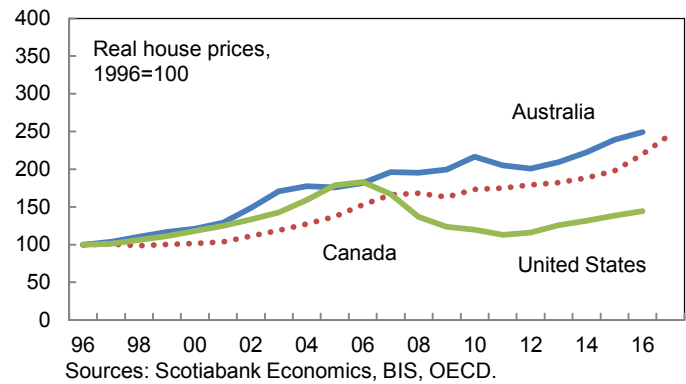
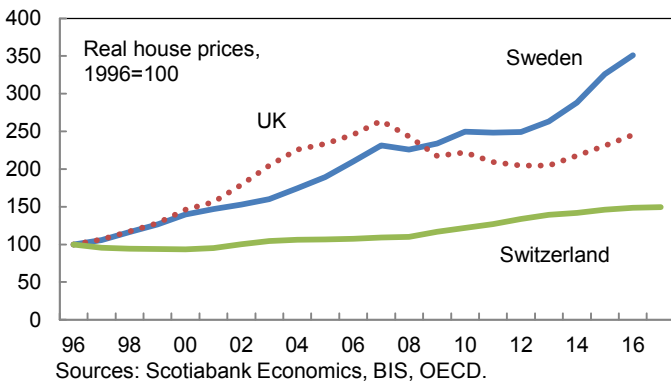
(million units, saar, unless otherwise noted)

Sources: Scotiabank Economics, National Association of Realtors (NAR), US Census Bureau. Year-to-date data are expressed at seasonally-adjusted annual rates.

INTERNATIONAL RESIDENTIAL MARKETS

International House Prices													
(Inflation-adjusted, y/y % change)													
	2009	2010	2011	2012	2013	2014	2015	2016	2017	17Q1	17Q2	17Q3	17Q4
Australia	2.2	8.5	-5.3	-2.1	4.1	6.4	7.4	4.2	---	7.9	8.1	6.4	---
Canada	-3.2	6.2	0.9	2.4	1.8	3.4	4.9	11.2	12.0	15.0	16.2	9.9	7.5
France	-6.3	3.2	3.6	-2.4	-2.7	-2.1	-1.5	0.9	---	1.6	2.5	3.6	---
Germany	-0.7	-0.6	0.5	1.0	1.7	2.2	4.3	5.5	---	3.7	3.5	4.2	---
Ireland	-15.4	-12.5	-19.2	-14.9	0.7	16.3	11.8	7.4	---	8.8	10.3	11.6	---
Italy	-1.3	-2.9	-2.0	-5.7	-6.9	-4.6	-2.6	-0.7	---	-1.5	-1.7	-1.9	---
Japan	---	2.2	0.3	-0.8	1.3	-1.2	1.6	2.3	---	3.6	1.6	1.9	---
Spain	-6.3	-3.5	-10.5	-16.8	-10.4	0.5	4.1	4.8	---	2.5	3.5	4.9	---
Sweden	3.5	6.8	-0.4	0.3	5.5	9.6	13.2	7.6	---	5.1	6.7	5.2	---
Switzerland	6.2	4.2	4.2	5.2	4.2	1.8	3.1	1.6	0.8	1.2	1.5	0.3	0.0
United Kingdom	-10.8	2.3	-5.7	-2.3	0.0	6.5	5.9	6.3	---	2.2	1.7	2.0	---
United States	-9.6	-2.8	-5.7	2.6	8.3	4.7	5.4	4.1	---	3.0	4.0	4.4	---
Russia	-10.9	1.3	-27.0	9.5	-2.7	-6.0	-12.3	-11.6	---	-8.4	-7.6	-6.7	---
Brazil	19.4	19.0	11.6	6.1	2.8	0.2	-8.0	-10.3	---	-6.8	-5.5	-4.5	---
Chile	1.5	6.0	2.0	2.1	6.1	1.8	4.7	-1.2	---	0.2	-0.5	---	---
Colombia	4.9	5.5	4.3	7.1	7.6	5.0	4.4	4.1	---	2.9	2.7	3.7	---
Mexico	0.1	-0.3	0.8	0.7	0.0	0.4	3.8	5.1	---	0.2	0.7	-3.3	---
Peru	14.0	9.3	13.2	17.5	13.7	9.2	2.6	2.4	---	-7.5	-2.7	-5.2	---
China	1.9	5.4	-1.2	-3.2	3.2	0.6	-5.2	4.5	---	9.2	8.3	6.0	---
India	---	8.5	11.3	15.5	7.8	7.8	8.3	1.6	---	6.6	6.4	4.2	---
Indonesia	-2.7	-2.2	-0.7	0.6	5.3	0.6	-0.8	-0.4	---	-1.0	-1.1	-0.5	---
South Korea	-2.5	-0.5	1.2	0.7	-1.7	0.2	2.6	1.7	-0.6	-0.8	-0.7	-0.8	-0.2
Thailand	6.1	-0.5	0.5	0.3	5.5	3.8	3.5	1.2	-0.6	-1.8	-3.2	-0.2	3.1

Sources: Scotiabank Economics, Bank for International Settlements



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