Montréal

Lukas Jasmin-Tucci
Senior Analyst, Economics

Price growth in the Montréal CMA is accelerating and has exceeded the threshold where evidence of price acceleration is problematic for the past two quarters.

Results Overview*
Montréal CMA

	Feb. 2020	Sept. 2020
Overheating	Moderate	Moderate
Price Acceleration	Low	Moderate
Overvaluation	Low	Low
Overbuilding	Low	Low
Overall Assessment	Low	Low

Degree of vulnerability Low Moderate High

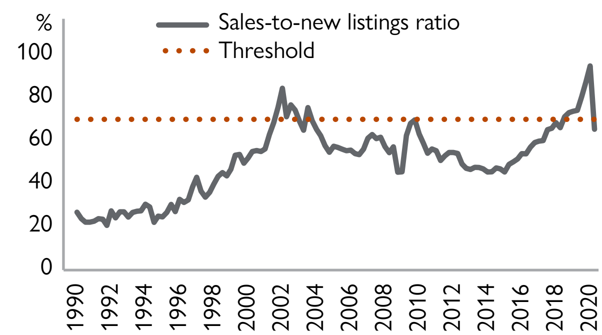
* Results are based on data as of the end of June 2020 (the annual rental apartment vacancy rates are from October 2019) and market intelligence up to August 2020. To ensure timely information for market participants, the overvaluation framework in this edition relies on preliminary estimates of some of the fundamental drivers of the housing market in the second quarter of 2020. Final calculations and ratings for overvaluation will be presented in the next edition of the HMA as finalized data for these fundamental drivers becomes available.

According to the Housing Market Assessment (HMA) analytical framework, the degree of vulnerability of the Montréal census metropolitan area (CMA) housing market remained low during the second quarter of 2020. However, the Montréal resale market continued to show evidence of overheating, which put upward pressure on prices, as evidence of price growth acceleration has now emerged. The possible emergence of additional imbalances will continue to be closely monitored.

Evidence of overheating still detected on the Montréal housing market

In the second quarter of 2020, there continued to be evidence of overheating in the Montréal CMA, even though the seasonally adjusted sales-to-new listings ratio fell below the threshold for problematic conditions.[15] This ratio had remained above this threshold over the previous seven quarters (see Figure 1).

Figure 1: Evidence of Overheating in Montréal



Sources: QPAREB and calculations by CMHC
Last data point: 2020Q2

Demand, represented by sales, dropped sharply as a result of the confinement measures related to the COVID-19 pandemic. New supply, represented by new listings, also declined, but to a lesser extent than sales. This sudden decline in the ratio may be only temporary, as the July data already indicate. In addition, supply remains limited in the Greater Montréal area. For these reasons, moderate evidence of overheating was still detected on the Montréal housing market.

In addition, the active listings-to-sales ratio,[16] another indicator of market conditions, continued to favour sellers[17] despite the few sudden and temporary changes resulting from the pandemic. Market conditions have favoured sellers of single-family dwellings for close to four years, while they have favoured sellers of condominiums for a little over two years.

[15] This threshold is set at 70%.

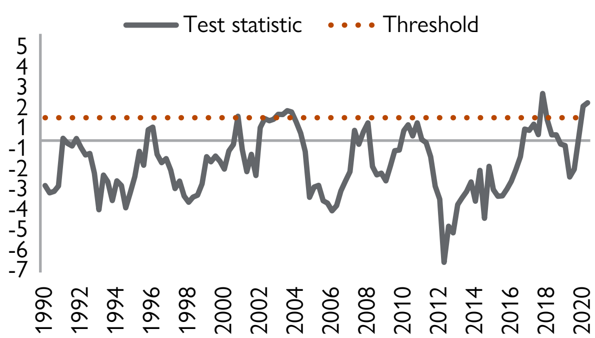
[16] While the sales-to-new listings ratio tells us about sales in relation to the pace of new listings on the resale market, the active listings-to-sales ratio provides information on the status of inventories relative to the rate of sales.

[17] In a sellers' market, the ratio is below 8 sellers (active listings) per buyer (Centris® sales). In a sellers' market, sellers have greater negotiating power relative to buyers, such that price increases are usually higher.

Evidence of price growth acceleration now moderate

In the second quarter of 2020, evidence of price acceleration went from low to moderate in the Montréal CMA, as the pace of house price growth increased rapidly. The average Centris® price of existing homes increased by 11.8% compared to the same period in 2019, the strongest growth in over 15 years. This increase in prices followed an 11.7% increase in the first quarter of 2020. Price growth has now exceeded the threshold where evidence of price acceleration is problematic for the past two quarters (see Figure 2).

Figure 2: Evidence of Price Acceleration in Montréal



Sources: QPAREB and calculations by CMHC
Last data point: 2020Q2

Despite the job losses and measures related to the COVID-19 pandemic that put the market on hold, demand picked up after the lockdown in Greater Montréal. With supply not having been this low in at least 16 years, the rate of price growth therefore also returned to its pre-pandemic level; market conditions remained tight, adding to the upward pressure on prices. The price growth acceleration indicator will therefore continue to be monitored over the coming months.

Evidence of overvaluation remained weak

In the second quarter of 2020, the economic and demographic indicators remained at levels justifying the prices observed on the Montréal housing market. The HMA model did not identify any significant imbalance between real house prices[18] and the price levels dictated by housing market fundamentals, such as personal disposable income and population. As a result, the model revealed no significant evidence of overvaluation.

However, the gap between real prices and those dictated by the fundamentals has increased in recent quarters, approaching the critical threshold. Indeed, while real house prices (adjusted for inflation)[19] were all rising sharply, smaller gains were seen in some of the fundamentals that support the increase in prices, such as growth in the population aged 25 to 34 and personal disposable income. Furthermore, this gap would have likely widened without the government's financial support measures. We will therefore have to keep monitoring the overvaluation indicator closely over the coming months.

Evidence of overbuilding remained negligible

In the second quarter of 2020, both overbuilding indicators, namely, the inventory of completed and unsold housing units per 10,000 population and the vacancy rate for conventional rental housing, suggested low evidence of overbuilding.

The inventory of completed and unsold housing units per 10,000 population reached its lowest level in nearly two decades in the Montréal CMA. In recent years, rising demand combined with a slowdown in both freehold and condominium housing starts[20] allowed the inventory of unsold new homes to fall. While sales of new condominiums dropped sharply in the second quarter of 2020,[21] the number of unsold new units remained far from the threshold where there would be evidence of overbuilding.

The vacancy rate for conventional rental units went down for the third consecutive year in 2019 (falling from 3.9% in 2016 to 1.5% in 2019[22]). This decrease resulted from an increase in conventional rental housing demand, driven more specifically by a marked upswing in net migration. The impact of border restrictions related to the pandemic will therefore have to continue being monitored for this indicator in 2020.

Go Back to Table of Content

[18] Observed prices adjusted for inflation.

[19] Several different price indicators are used in order to get a more comprehensive market assessment.

[20] Freehold and condominium housing starts averaged at 12,500 units annually from 2015 to 2019, compared to about 17,000 from 2010 to 2014.

[21] Source: Altus Group.

[22] Rental Market Survey, CMHC.