



## RESIDENTIAL RESALE MARKET: QUEBECERS' BUYING INTENTIONS REMAIN STRONG

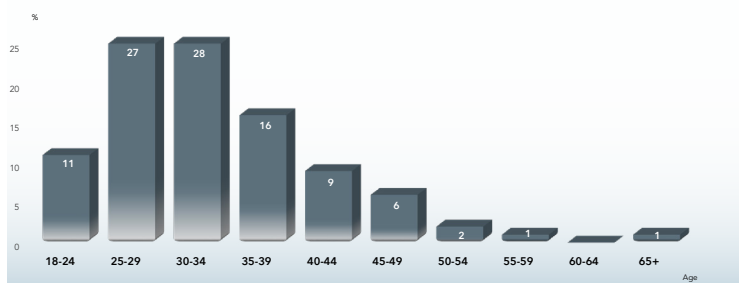
On February 8, the QFREB revealed the results of a survey that focused on buying and selling intentions in Québec's real estate sector, carried out by the firm Léger. The survey was conducted among a sample of 6,931 Quebecers aged 18 and over, in partnership with the Association des professionnels de la construction et de l'habitation du Québec (APCHQ) and the Fonds immobilier de solidarité FTQ. The survey revealed several interesting results that shed more light on the dynamics and issues surrounding Québec's residential resale market. In this edition of the Word From the Economist, we will analyze this survey and highlight its key points.

### Profile of buyers

Not surprisingly, as we can see in the first chart, the profile of first-time buyers in Québec is dominated by the 25-34 age group. It is also interesting to see that the 35-44 age group actually represents one quarter of all first-time buyers. If we also include the 45-49 age group, the survey shows that 35-49 year olds make up almost one third of first-time buyers. The popular belief that typical first-time buyers are almost exclusively millennials is thus debunked by the survey. In reality, the age range of first-time buyers is relatively wide.

**Chart 1: Age profile of first-time buyers**

Percentage of first-time buyer respondents who purchased a property in the past five years



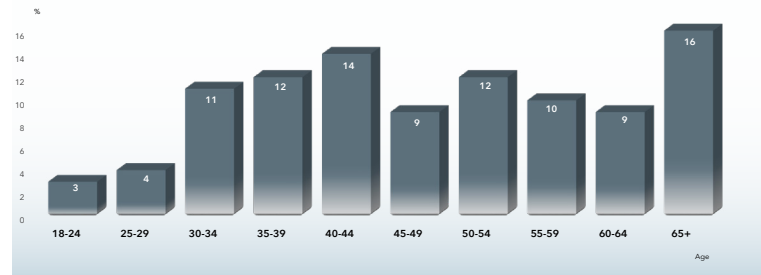
Source: QFREB, Léger

The survey shows that 35-49 year olds make up almost one third of first-time buyers.

As we can see in Chart 2, the age profile of experienced buyers is much more evenly spread out. Each of the five-year cohorts between the ages of 30 and 64 represents approximately 10 per cent of all experienced buyers. The survey also reveals a very interesting fact, which is that the 65+ age group is not just selling their single-family homes in preparation for retirement. In fact, people in this age group are the most active buyers in the market. This means that many of these households are choosing to buy a condominium instead of renting, thereby acquiring an asset that will increase in value while benefiting financially from the sale of their single-family home.

### Chart 2: Age profile of experienced buyers

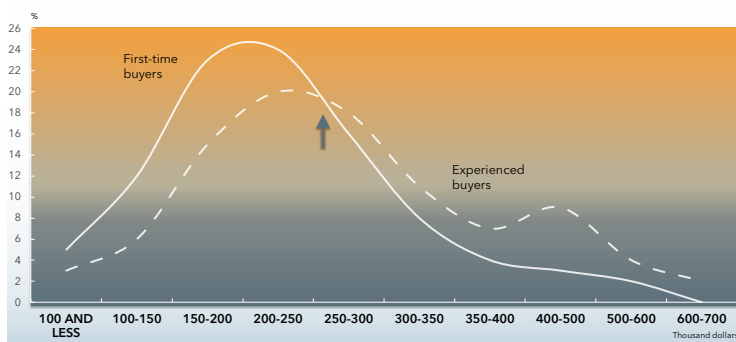
Percentage of experienced buyer respondents who purchased a primary residence in the past five years



Source: QFREB, Léger

### Chart 3: Price ranges paid by buyers

Distribution of purchase prices over the past five years: first-time buyers compared to experienced buyers



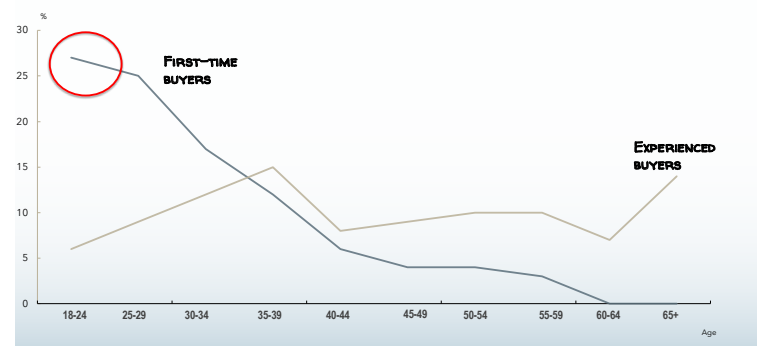
Source: QFREB, Léger

As for the price ranges paid by the different categories of buyers, the survey shows, not surprisingly, that first-time buyers tend to buy less expensive properties than experienced buyers. However, as shown in Chart 3, the price curves for these two categories of buyers intersect at the \$250,000 mark. This roughly corresponds to the median price of residential properties in Québec. This means that properties priced at around \$250,000 are suitable for all types of buyers. However, among experienced buyers, there is also a spike in the \$400,000 to \$500,000 price range. This suggests that this is a niche market specific to experienced buyers.

And what about the profile of future buyers? Chart 4 essentially shows the same dynamic as the first two charts, with one exception. It appears that the youngest cohort, the 18-24 year olds, have more ambitious homeownership goals than their previous cohort (see the same age category in Chart 1), with a percentage level that is more than double.

### Chart 4: Profile of future buyers

Respondents planning to purchase a property within the next five years



Source: QFREB, Léger

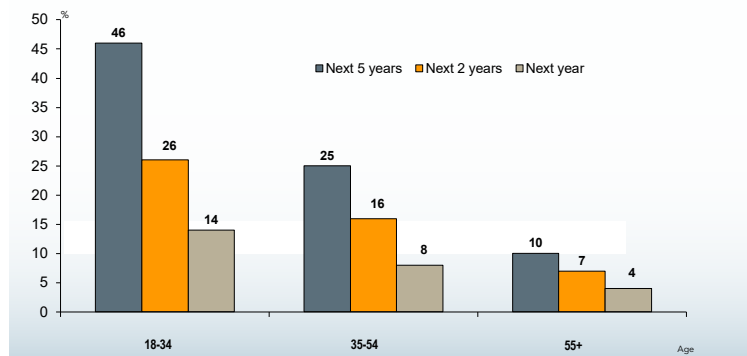
Properties priced at around \$250,000 are suitable for all types of buyers.

## Buying intentions and desired property types

In general, the survey shows that buying intentions are high, both across age categories and time span. Chart 5 shows a relatively clear trend, but it should be compared to Chart 6, which shows total residential sales in 2018 as a percentage of the number of households in Québec. About 2.4 per cent of Québec households bought a resale property last year. Thus, in terms of buying *intentions*, the survey results show much higher percentages. But as long as the economy and the job market remain healthy, the survey reveals that the demand for properties should remain firm in the future.

**Chart 5: Buying intentions remain high**

Residential buying intentions at various points in time, by age category



Source: QFREB, Léger

**Chart 6: Sales near the cyclical peak of 2007**

Sales of residential properties as a percentage of the total number of households in Québec



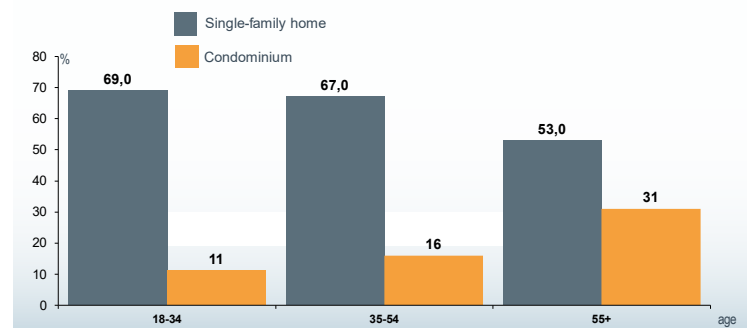
Source: QFREB, Léger

As for the type of primary residence being sought, Chart 7 shows a clear preference for single-family homes, particularly among the younger cohorts. However, the popularity of condominiums grows considerably among the 55+ cohort. If, for argument's sake, these were the only two types of properties in existence, the condominium market share would be twice as high for the 55+ cohort than for the 35-54 cohort.

In terms of area, the survey revealed an unequivocal characteristic of buying intentions: the bigger a home is, the better! Chart 8 clearly shows that households between 18 and 54 years of age have the firm intention of increasing the square footage of their home. The proportion of those who want a larger home stood at 71 per cent among 18-34 year olds, and 58 per cent among 35-54 year olds. In both of these age categories, only a small minority intend to reduce the size of their property. On the other hand, among the 55+ category, 56 per cent of respondents plan to buy a smaller home. The survey indicates that 41 per cent of those aged 55+ want to perform less maintenance and renovation work.

**Chart 7: Type of primary residence respondents intend to buy**

Respondents planning to purchase a primary residence within the next five years\*

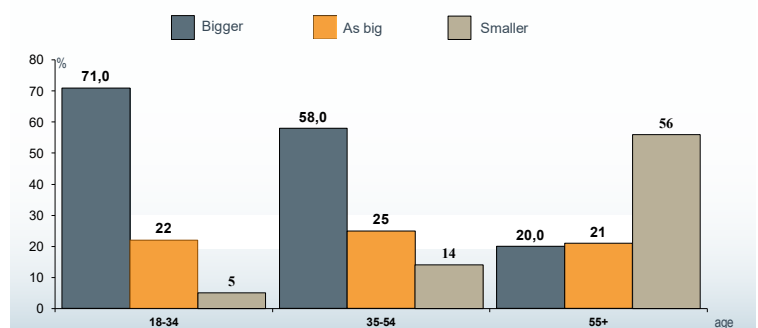


\* The total does not equal 100% since only two property categories are shown.

Source: QFREB, Léger

**Chart 8: Surface area**

Do you intend to buy a primary residence that is bigger than, as big as or smaller than your current property?



\* The total does not equal 100% because we omitted the «Don't know» answer.

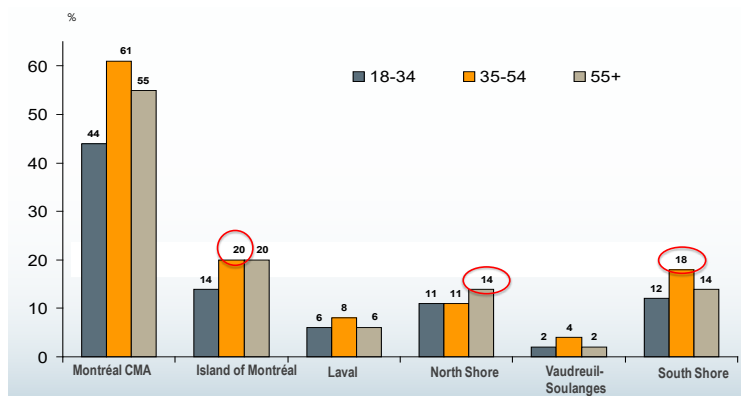
Source: QFREB, Léger

## In what geographic area?

When it comes to geographic areas, buying intentions are very high in the Montréal census metropolitan area (CMA) for the 35-54 age group. In fact, 61 per cent of respondents in this age category plan to buy a home in the Montréal CMA and, more specifically, they have a particular weakness for the Island of Montréal and the South Shore. The North Shore in particular appeals to the 55+ age group. Finally, the results for the areas of Laval and Vaudreuil-Soulanges seem to be more equally divided among the age cohorts, although the percentages are lower.

## Chart 9: The Montréal CMA and its main areas

Respondents planning to purchase a primary residence within the next five years



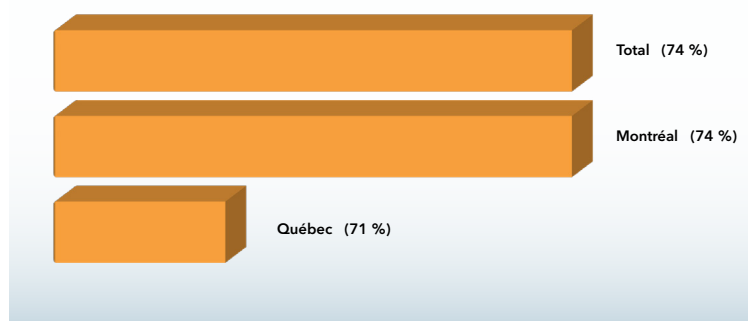
Source: QFREB, Léger

Another question in the survey addresses the preference for suburbs. If the past were to serve as an indicator of the future, Chart 10 shows a clear preference for the suburbs among the under-35 age cohort, especially in the Montréal CMA. There is no indication that this trend will not change.

In the Québec City CMA, unlike that of Montréal, the youngest cohort prefers the greater Québec City area, as opposed to the North Shore and South Shore, and the percentage differences are quite substantial.

## Chart 10: The suburbs remain popular

Respondents who moved to the suburbs following the purchase of a property over the past five years, people under 35 years of age



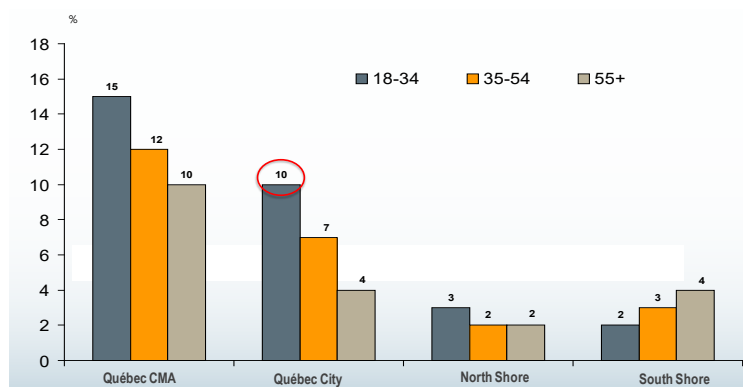
Source: QFREB, Léger

## Prices

In Chart 12, we performed the same type of analysis as in Chart 3, but for prices to be paid in the future, as opposed to prices that were paid in the past, for both first-time buyers and experienced buyers. At first glance, it seems that potential buyers are generally moving at about the same pace as the changing market conditions, but the results still show some ambiguity. Compared to the last five years, fewer current first-time buyers expect to pay between \$150,000 and \$200,000 for their first property, while the percentage of first-time buyers who expect to pay between \$200,000 and \$250,000 is roughly comparable. That said, slightly fewer first-time buyers than in the last five

## Chart 11: Québec City CMA and its main areas

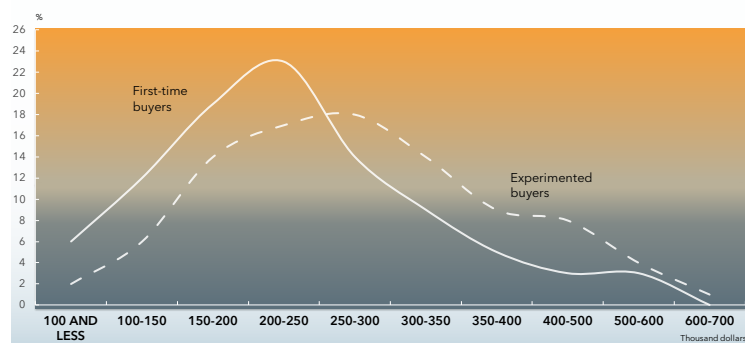
Respondents planning to purchase a primary residence within the next five years



Source: QFREB, Léger

## Chart 12: Intended purchase price

Distribution of purchase prices, for first-time buyers and experienced buyers



Source: QFREB, Léger

years expect to pay between \$250,000 and \$300,000. These expectations seem less aligned with the recent evolution of property prices and market conditions. Some first-time buyers may have no choice but to make concessions on the number of square feet they purchase.

In contrast, experienced buyers seem slightly more realistic about recent price developments and market conditions. Fewer of them expect to pay between \$200,000 and \$250,000 for their next property and more of them expect to pay between \$300,000 and \$400,000. In general, for all types of buyers combined, it seems that buyers' intentions should coincide with those of sellers. Price expectations seem reasonably congruent with current market conditions.

### Affordability: The key factor

The survey reveals that homeowners have opted for greater peace of mind by signing primarily fixed-rate mortgage contracts, rather than variable-rate contracts. Among the 35-54 and 55+ cohorts, about 70 per cent chose a fixed-rate mortgage. The cohort dominated by first-time buyers was even more cautious at 75 per cent.

Mortgage rate			
	18-34	35-54	55+
Fixed rate	75%	71%	71%
Variable rate	25%	29%	29%

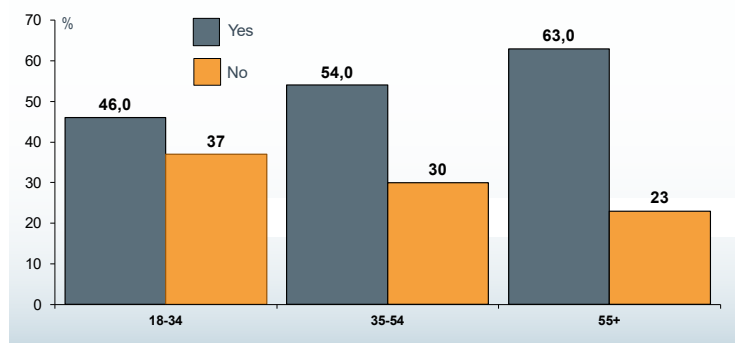
Source: QFREB, Léger

Despite this, it appears that homeowners have almost reached the limit of their ability to absorb further interest rate hikes. Except for the 55+ cohort, the percentage of respondents who say they cannot cope with a 200 basis point increase in mortgage rates seems very high at 30 per cent or more. This represents one out of three of homeowners who still have a mortgage.

Among the major factors that can influence the postponement of a home purchase is the possibility of a further deterioration in affordability. In fact, two of the three main reasons that would force households to postpone their purchase would be a runaway increase in prices and a significant rise in interest rates. The price-interest rate relationship will therefore need to be monitored in the future since the demand for properties, which ultimately represents the level of sales, will be particularly sensitive to these two factors.

**Chart 13: A high proportion of respondents would have trouble coping with a rate hike**

Ability to support a mortgage rate increase of 200 basis points



Source: QFREB, Léger

**Chart 14: Affordability the top factor that may impact a future purchase**

What would postpone your decision to purchase a primary residence\*?



\* Respondents were allowed to give more than one answer; as a result, total answers may be greater than 100%

Source: QFREB, Léger

## Conclusion

The results of the Léger survey on buying and selling intentions in Québec draw a favourable picture of the residential resale market and suggest that the future remains promising. Buying intentions are high, even compared to current sales, and expectations regarding to prices are generally realistic and congruent with market conditions.

That said, we still need to put the results of the survey into perspective. This is a survey conducted at a time when there were specific economic conditions. A change in these conditions could lead to different responses or behaviours from respondents. Among other things, affordability, both in terms of prices and interest rates, seems to be one of the critical issues affecting buying intentions. While we are optimistic about the future strength of the resale market, we will continue to closely monitor these two components of affordability.