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SOLUTIONS



JLR PUBLICATION

2019

Outlook on Foreign Buyers in the Administrative Region of Montreal

HIGHLIGHTS:

- In 2018, in the administrative region of Montreal, approximately 82% of all residential transactions by international buyers were for condominiums.
- From 2017 to 2018, 21% more foreign buyers were identified in the administrative region of Montreal than in 2017.
- In 2018, Chinese nationals accounted for 50% of the total foreign buyers who purchased single-family homes in the metropolis, and just over one third of all international purchases in the Montreal condominium market.
- From January to December 2018, single-family homes acquired by foreign nationals in the administrative region of Montreal accounted for 1.7% of all single-family homes sold on the Island.

Foreign buyers (FBs) have been under the radar of several major Canadian cities for a few years. The Cities of Vancouver and Toronto recently introduced a 15% tax on homes purchased by foreigners (in August 2016 in Vancouver and in April 2017 in the GTA). Since then, the number of international buyers has significantly declined in Vancouver. Closer to home, there is growing interest and concern about the increase in the number of these types of buyers in the Province of Quebec.

From January to December 2018, 1,404 foreign buyers acquired residential properties¹ in Quebec, about 8% more than in 2017. In three years (2015-2018), the annual number of international buyers nearly doubled. That said, comparing the number of foreign buyers to the total number of buyers across the province creates a much more nuanced picture. In 2018, FBs accounted for only 1.1% of all transactions recorded for residences in Quebec. In 2015, this proportion was 0.7%.

A buyer is considered a foreign national when, at the time of the purchase, he or she declares a residential address outside of Canada. Citizenship status is not considered in the identification process for foreign buyers. For this reason, the results presented in this outlook may therefore overstate or understate the actual situation. Additional information regarding the methodology used can be found at the end of this report.

THE MONTREAL EFFECT

The vast majority of FBs in the province purchased residences in the Montreal area and more specifically on the Island of Montreal (the administrative region [AR]). The presence of several universities, multiple employment opportunities and a diverse intercultural community may in part explain this interest in the metropolis.

In 2018, 21% more foreign buyers were identified in the administrative region of Montreal than in 2017. In three years (2015-2018), the number of FB purchases nearly tripled on the Island, going from 366 in 2015 to 903 in 2018. Regardless, in terms of proportion, international buyers accounted for only 3.4% of the total on the Island of Montreal in 2018, or 0.4 percentage points higher than 2017 and 1.7 points above 2015 levels. Therefore, foreign buyers are present, but their presence is too small to have a significant impact on the overall residential market in Montreal. However, on a smaller scale, they can have a local impact in areas of the Island where they are more numerous.

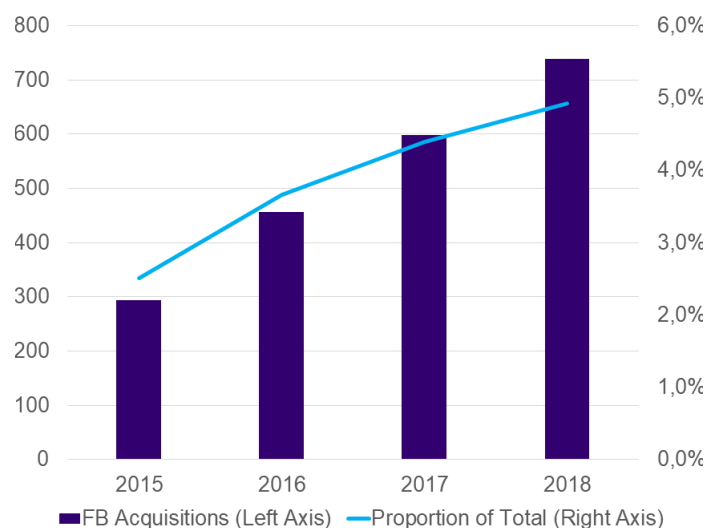
Due to increased interest from foreign buyers in the single-family and condominium segments in the Montreal AR, the remainder of this report will focus on these areas only. An analysis of the international acquirers in these two market segments revealed that a large number were from China, the USA, and France. In 2018, these three countries ranked first, second and third respectively in terms of the number of foreign buyers per source country who acquired a residence on the Island of Montreal (single-family homes and condominiums combined). During this period, Chinese nationals accounted for just over a third of international purchasers in the metropolis, compared to 23% in 2017 and 8% in 2015. New owners from the US accounted for 21% of total FBs in 2018, compared to 24% in 2017 and 25% in 2015. As for French buyers, although they remain among the most heavily represented FBs in terms of sheer numbers, their proportion has been falling since 2015 (single-family and condominiums combined). The latter represented 12% of all FBs in 2018, a decrease of six percentage points from 2017 and nearly 15 percentage points from 2015.

¹ The term residence includes single-family homes, condominiums and 2 to 11-unit buildings.

CONDOMINIUMS

In 2018, in the administrative region of Montreal, approximately 82% of all residential transactions by international buyers were for condominiums. During this period, 739 individuals considered FBs became condominium owners in the metropolis, or 23% more than in 2017 and 151% more than in 2015. The market share taken up by these buyers did not rise as dramatically over the last three years, but it is beginning to be more significant than in the past. International acquirers accounted for 4.9% of the condominium market in 2018, up 0.5 percentage points from 2017 and almost double what it was in 2015.

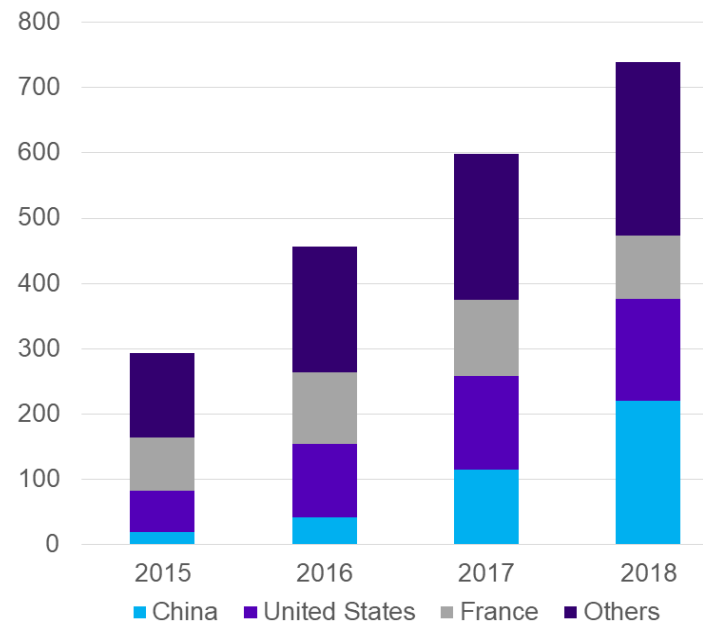
Figure 1: Changes in the Number and Proportion of Foreign Buyers in the Montreal Condominium Market from 2015 to 2018



Many of the buyers residing outside of Canada at the time of purchase view their transactions as investment opportunities. Many hold significant investment capital, which allows them to purchase more expensive homes. FBs are also less likely than local buyers to use a mortgage to purchase their residences. In 2018, the median price of condominiums sold to FBs was \$390,000, while the median selling price for the entire Island was \$317,500. It must be said that FBs purchase mainly in downtown Montreal, where residences are more expensive. For example, in 2018, half of the condominiums purchased by international buyers were located in the Ville-Marie borough. From January to December 2018, 12% of condominiums sold in that borough were purchased by FBs, up slightly from 2017 (11%).

From 2015 to 2018, the proportion of foreign buyers in the Ville-Marie borough increased by four percentage points. In this sector, foreign buyers are quite numerous and may therefore be impacting the market. Increased demand from outside the country along with local demand for residential investment have also contributed to developers' interest in this borough and the construction of several new buildings.

Figure 2: Changes in the Distribution of Foreign Buyers by Source Country in the Condominium Market in the Administrative Region of Montreal, 2015-2018



In three years, the number of condominiums sold to buyers from China has exploded in the city of Montreal. While approximately 20 Chinese buyers were identified in the Montreal condo market in 2015, three years later, in 2018, there were an estimated 220. Although it is unlikely the sole cause for these large fluctuations, the boom in the number of international acquirers registered from 2016 to 2017 and 2017 to 2018 coincides with the successive 15% tax implemented on dwellings purchased by foreign buyers in Vancouver and Toronto. These types of buyers targeted properties in these two metropolises for many years despite the particularly high price of homes in both. However, the introduction of the tax likely led many investors to turn to other locations. In addition to the introduction of this tax in Vancouver and Toronto, the strength of the Chinese economy may also help explain the growing presence of Chinese buyers on the Montreal market.

Despite the Asian giant's imposition of strict rules on the flow of capital outside of China, several Chinese investors continue to circumvent the rules and to use some of their wealth to acquire residential properties.

Of course, this dramatic growth in the number of Chinese buyers in Montreal has impacted the landscape in terms of foreign-buyer market share. In 2018, Chinese buyers became the leading foreign purchasers on the Montreal condo market for the first time ever. Since 2015, the proportion of Chinese FBs on the condominium market has shot up 24 percentage points to reach 30% in 2018. In contrast, the presence of US buyers, who were the leading FBs in 2016 and 2017, has fallen off somewhat in favour of Chinese nationals. Nevertheless, the annual number of US buyers has continued to grow since 2015, but at a slower pace than for China. In terms of buyers from France, after modest increases from 2015 to 2017, the number of purchases by French FBs fell off in 2018.

Lastly, although their presence is still limited on the Montreal condominium market, the number of new homeowners from Saudi Arabia and the United Arab Emirates has increased year over year since 2015. This situation should be explored over time, as if this growth continues, these FBs may become important players.

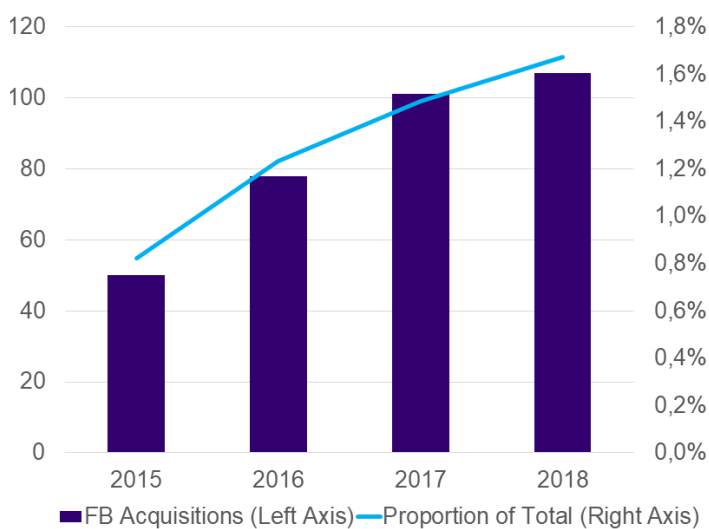
SINGLE-FAMILY HOMES

According to data compiled from the Quebec Land Register by JLR, an Equifax Company, only 12% of foreign buyers identified on the Island of Montreal in 2018 opted to acquire single-family homes. While this number has been on the rise in recent years, growth has been much slower than for condominiums. Of course, for foreign investors, purchasing condos is often more attractive than acquiring single-family homes, especially if they do not intend to occupy the dwelling. Condominiums are a simpler choice in terms of management, especially with regard to finding tenants (rental properties) or to temporary or prolonged vacancies.

In 2018, on the Island of Montreal, 107 single-family homes were acquired by individuals who reported an address outside of Canada at the time of sale. This number was slightly higher than in 2017 and about twice that in 2015. In three years, the presence of new foreign owners on the Montreal single-family market has increased at an average annual rate of 0.3 percentage points.

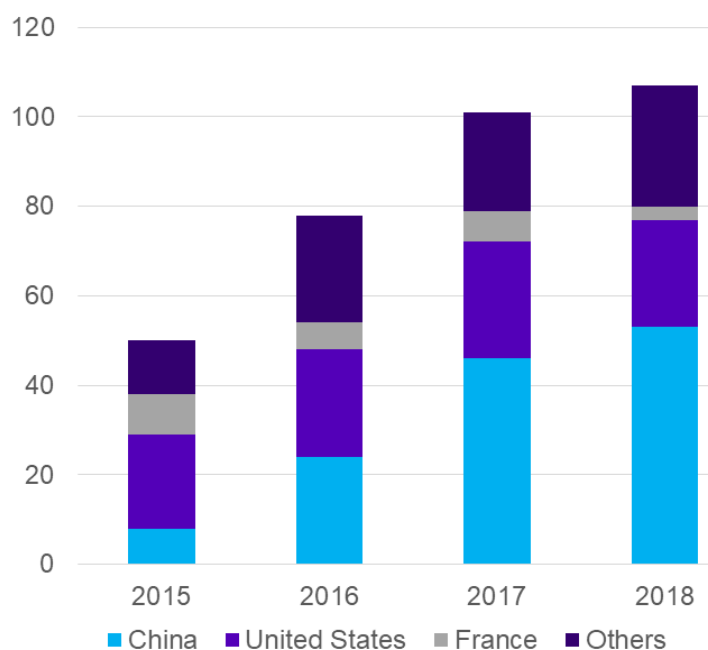
From January to December 2018, single-family homes acquired by foreign nationals in the administrative region of Montreal accounted for 1.7% of all single-family homes sold on the Island. In comparison, the figure was 1.5% in 2017 and 0.8% in 2015. This means that international buyers have a very negligible impact on the overall market. Nevertheless, some sectors that are more popular with these types of buyers may be influenced by their presence.

Figure 3: Changes in the Number and Proportion of Foreign Buyers in the Montreal Single-Family Home Market from 2015 to 2018



A similar scenario to that on the condominium market was apparent with regard to buyers from China, who also dominated the FB market for single-family homes. In 2018, Chinese buyers accounted for 50% of total FBs who purchased single-family homes. In three years, this proportion has increased by 34 percentage points. In contrast, French buyers almost completely moved away from the single-family market over the past year. The number of new US homeowners remained roughly unchanged year over year, while their market share declined significantly relative to the Chinese. Buyers from the United States accounted for 22% of total FBs in 2018.

Figure 4: Changes in the Distribution of Foreign Buyers by Source Country in the Single-Family Home Market in the Administrative Region of Montreal, 2015-2018



CONCLUSION

The figures from recent years (2015-2018) confirm that the number of foreign buyers has steadily increased in Quebec over time, particularly in the administrative region of Montreal. Indeed, the metropolis had nearly 2.5 times more international buyers in 2018 than it did three years ago. An important difference between foreign and non-foreign buyers is the financial capabilities of the two groups. The former often have much more significant financial means. However, the proportion of foreign buyers relative to the overall market (the Montreal AR and the province) remains low. As a result, the presence of foreign buyers has had little impact on the housing market in the metropolis and, more broadly, in the province as a whole.

The state of the Montreal residential market has continued to lag far behind that of the cities of Vancouver and Toronto in recent years, and even now. However, the topic has been widely discussed in the media and by public authorities. It will be interesting to see if regulations will be implemented over the coming years.

METHODOLOGICAL NOTE

JLR, an Equifax company, considers a buyer to be a foreigner when, at the time of acquisition, the buyer reports an address outside Canada on the notarial deed. However, there are some biases in this approach that may lead to overestimating or underestimating the actual number of foreign buyers. For example, Canadian citizens living outside of Canada (or immigrants who will soon be settling in Canada) who acquire property in Quebec are considered foreign buyers since the residential address that they report on the deed of sale is outside the country. However, an individual who is not a Canadian citizen but who lists a local address on the notarial deed at the time of the purchase, such as the address of a family member residing in Canada, would not be considered a foreign buyer.

Lastly, when identifying the number of foreign buyers by country of origin, some of the properties identified were purchased by a group of buyers from more than one country. To avoid recording transactions more than once, the address of one of the buyers was removed.

In a July 2017 publication, the Canada Mortgage and Housing Corporation (CMHC) used the resident status information available in the seller's declaration section of the notarial to determine whether buyers who were classified as foreign nationals were in fact so and if, inversely, some foreign buyers were not identified as foreigners. The results of this test showed that the initial method adopted, i.e. the address provided at the time of the transaction, appeared to underestimate the actual proportion of foreign buyers in the Montreal CMA.

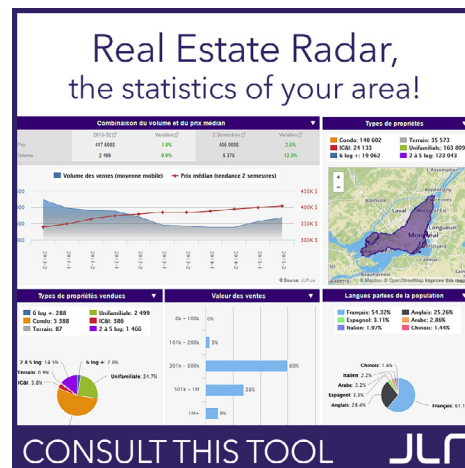
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²CMHC, "Housing Market Insight – Montreal CMA", July 2017



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