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# Condominium Resales After Short-Term Ownership

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## HIGHLIGHTS:

- Of the condominiums purchased in 2015 and 2016, 11% had been resold by January 1, 2019.
- The resale price was equal to or less than the purchase price in 26% of short-term resales.
- Owners who sold their properties after a short ownership period made median gains of 5.2% on the resale price relative to the purchase price.
- The median return on sales following short ownership periods reached +6.1% in the Montréal CMA during the period analyzed.

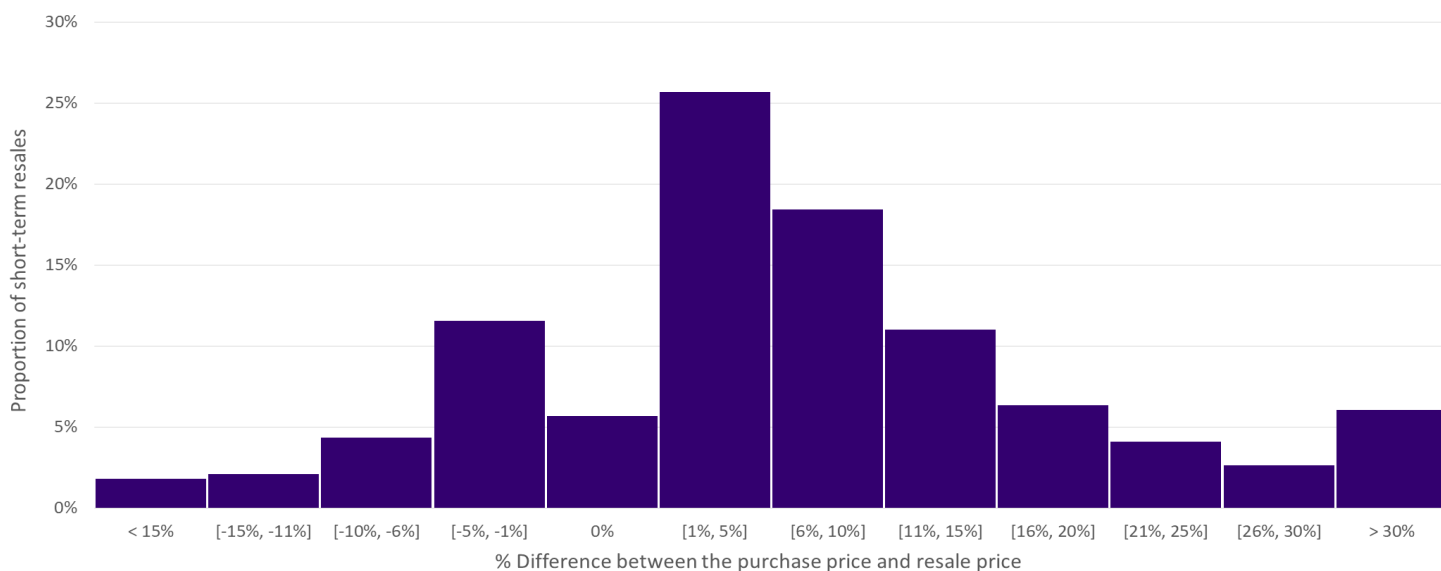
Should I invest in real estate? This is a question that many have probably already asked themselves and that others are still contemplating. Many factors can have an impact on resale value and should be considered when purchasing property. This report focuses on condominiums purchased in 2015 and 2016 that were resold prior to January 1, 2019. To be included in the analysis, 120 days had to elapse between the date of purchase and the resale.

According to the acts published in the Quebec Land Register and compiled by JLR, an Equifax company (including sales by real estate brokers, between individuals, and new builds), from January 1, 2015, to December 31, 2016, inclusively, 57,127 condominiums changed hands across the province for an amount greater than \$80,000. Among these, and based on established criteria, 6,336 (11%) were resold prior to 2019. The average time between two transactions was 780 days, or just over two years. The remainder of this report focuses on properties that were resold following short possession times during the period analyzed.

## OVERVIEW OF RESALES

Among the properties analyzed, the median variation between the purchase and resale price was +5.2%, which was greater than inflation levels during the period analyzed<sup>1</sup>. The majority of owners who sold their condominiums after a short ownership period did so by selling their property at a higher price than they originally paid. Almost half of them (49%) made profits of over 5% and a fifth were able to get over 20% more than the purchase price. However, of the 6,336 resales, 1,620 (26%) units were resold for an amount equal to or less than the purchase price.

Chart 1: Sales Distribution by Percentage Gain or Loss upon Resale



<sup>1</sup>From 2015 to 2018, the average annual inflation rate was 1.17%.

There are several factors that can influence gains or loss of value between transactions: renovation work, location and neighborhood and market conditions are just a few examples. The changes calculated in this analysis do not account for transfer tax, notary fees, brokerage fees, mortgage insurance premiums and other upfront costs, if applicable. As a result, if the down payment paid by the seller at the time of the purchase is small, it is possible, given the other fees owing, that the transaction may not allow them to pay off the entire mortgage. Such scenarios can arise when the resale amount is similar to or less than the purchase price.

### **THE IMPACT OF A FORECLOSURE ON GAINS OR LOSSES WHEN RESELLING**

When a property is seized and a creditor makes the sale, the amount of the transaction is generally less than the amount originally paid at the time of purchase. Of the sale-resale pairs analyzed, 117 condominiums had been seized at the time of resale, which was just under 2% of the total transactions analyzed. Among these, almost 90% were sold at a loss. Moreover, these units accounted for one third of all resales at a loss of over 10%.

On the other hand, most condominiums that were initially purchased in 2015 and 2016 following foreclosures were sold for a profit. In fact, the median price change among these pairs was +19%.

### **RESALES OF NEW AND OLD CONDOMINIUMS**

Just over one third of short-term sales involved condos that were new at the time of the original purchase. In these cases, the median price change was +5.3%, or 0.2 percentage points higher than for the sale of "older" condominiums. However, there were fewer losses for sales of condominiums that were not new at the time of the initial purchase. In fact, 18% of these condos were sold at a loss, compared to 23% for sales of units that were new at the time of purchase. Big losses or gains are more common for the sale of new properties, because once a unit is built, its perceived value may change relative to the value that was attributed to it on plan. Some factors, such as noise in the surrounding environment, often only become apparent once the unit has been completed and occupied.

For example, when the surrounding environment is noisier than the buyer initially anticipated (proximity to a highway, heavy traffic around the building, nearby construction, etc.) the resale value may be slightly lower than the purchase price. In other cases, buyers may sometimes encounter unfortunate surprises with regard to the expected size of the unit compared to its actual size upon completion. This can also have a negative impact on resale prices. In contrast, the quality of construction, development of new parks near condominium towers and improvements in nearby public transit services are three examples among others that can have a positive impact on resale prices.

### **THE MONTRÉAL CMA**

Over 70% of the province's condominium inventory is located in the Montréal CMA. In 2017 and 2018, condominium sales in this territory respectively accounted for 77% and 78% of condominium purchases in the province. Since 2016, the condo market has been taking off in the greater metropolitan area, recording each year strong growth in sales figures, as well as price increases. As a result, it is not surprising that during the period analyzed, 74% of short-term sales were made in this sector. The median return on sales following a short ownership period was +6.1% in the Montréal CMA. Condominium prices tend to increase more rapidly as you get closer to the city centre. As such, for the Island of Montréal alone, the median gain was 9.3%.

Although the condominium sector has been robust in the Montréal CMA in recent years, 1,085 (22%) owners still sold their condominiums for an amount less than or equal to the purchase price following a short ownership period. Of these, 65% owned a condominium outside of the Island of Montréal.

## THE QUÉBEC CMA

The scenario in the Québec CMA was very different than that in Montréal. In this sector, the median return was + 1.8%, lagging far behind Montréal and provincial averages, and the inflation rate during the period analyzed. The condo market in the metropolitan area of Québec has seen a downturn in recent years, due in part to excessive construction of this type of dwelling from 2010 to 2012. This resulted in a significant number of new condominiums remaining unsold in subsequent years, which limited price growth. This effect was still being felt in terms of median profits during the period under analysis. In spite of this, the condominium market in the Québec CMA has produced far more positive numbers since the start of the year, an encouraging sign for owners in the area.

Of the 510 homeowners who acquired a condominium in 2015 or 2016 and then resold it before 2019, 222 (44%) received an amount less than or equal to the purchase price following a resale after a short ownership period. One quarter of homeowners made gains of 1 to 5% and one third made over 5%.

## CHANGES IN SHORT-TERM REALES

[A similar study published by JLR in April 2018](#) analyzed pairs of condo transactions for units purchased in 2014 and 2015 and then resold prior to 2018. At that time, the average time between two transactions was 791 days and the median return was + 3.5%, which is 1.7 percentage points below the median gains reported at the beginning of this report. Given the size of the condominium market in the Montréal CMA compared to the rest of the province, along with its strong performance over the last two years, this sector has contributed significantly to the increase in median returns. Finally, while the Montréal CMA carries a lot of weight in terms of provincial statistics, the overall picture has revealed that condominiums purchased across the province in 2017 and 2018 were acquired within a backdrop of rising prices, which affected many regions around Quebec.

## CONCLUSION

Since the beginning of the year, the condominium market has continued to be robust across the province, with several regions posting gains in the number of sales and prices. In this context, owners seeking to resell their condominiums will likely be able to sell for more than they initially paid. That being said, the returns that households can expect will vary depending on the region and condition of the condo. In short, if a household wishes to purchase a property for a short period of time, it should analyze the overall situation in order to accurately assess the pros and cons, since the risk of reselling at loss is still present, especially given all the upfront costs that were not included in this analysis.

## METHODOLOGICAL NOTE

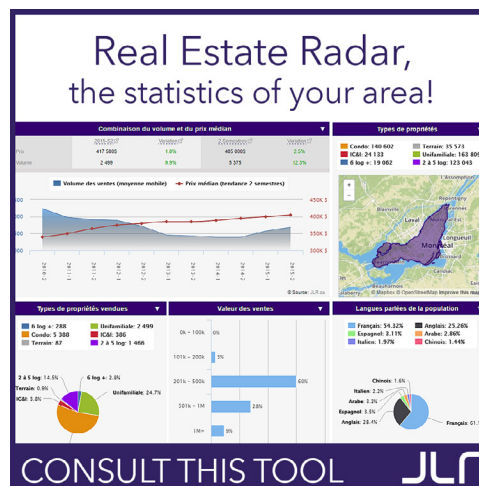
The data used was collected by JLR from the Quebec Land Register (including the sales made with or without a broker). To obtain representative statistics of the real estate market, some data among sales were eliminated for the statistic calculation. Thus, sales with a transaction value of less than \$80,000, tied selling, undivided sales and multiple sales were not included in the statistics reported in this publication.

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