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JLR PUBLICATION

Multi-Family Housing Market

For properties with 2 to 5-unit

HIGHLIGHTS:

- In the first four months of the year, 6,051 properties with 2 to 5-unit were sold in Quebec City, 74% more than during the same period in 2020.
- In 2020, prices rose significantly, ranging from 3% to 8%, depending on the number of units. However, a composition effect limited the growth of the median price for the province as a whole.
- The pandemic increased vacancy rate in Quebec in 2020, especially in downtown Montreal.
- Owner-occupants demand remains strong, but investors demand may decline as prices rise.

During the health crisis, household savings have increased significantly due to financial support from the government, lower spending and high returns on equity markets. These factors, combined with low interest rates, have made investing in multi-residential properties very attractive in Quebec. Indeed, in times of crisis, many investors look for so-called "defensive" assets to guard against risk, which include multi-residential buildings. The high demand is also attributable to owner-occupants who see favourable financing conditions and a desire for more space as motivation to purchase.

The above-mentioned factors led to a rapid increase in prices in the multiplex market in late 2020 and in the first four months of 2021. Supply has decreased during the pandemic; however, there has been a slight improvement in recent months. As people get vaccinated, the economy will recover from the shocks of the pandemic and the housing market will start inching toward a new normal. This article will focus on 2 to 5-unit multiplexes.

NUMBER OF SALES

In spite of the uncertainty brought about by the global pandemic, the Quebec multiplex market had another record year. According to deeds published in the Quebec Land Register and compiled by JLR, an Equifax Company, 15,504 properties with 2 to 5-unit were sold in 2020, the highest number in the last 5 years, representing 16% growth compared to 2019.

The year 2019 also saw a significant increase in sales volume, a trend that continued in 2020 until the effects of the pandemic began to be felt in the second quarter. Subsequently, the market recovered and the volume of transactions surpassed that of last year in the fourth quarter. In 2021, this upward trend has continued. In the first four months of the year, 6,051 2 to 5-unit dwellings were sold in the province, a 74% growth over last year.

Evolution of sales of properties with 2 to 5-unit

	Number of Sales in 2020	Variation (2019)	Number of sales (Jan-Apr 2021)	Variation (Jan-Apr 2020)
Duplex	9,230	21%	3,305	73%
Triplex	4,047	9%	1,726	74%
4-5 Units	2,227	10%	1,020	78%
Total	**15,504**	**16%**	**6,051**	**74%**

The popularity of 2 to 5-unit properties has been observed throughout Quebec, although the variations differ from one sector to another.

Change in sales properties with 2 to 5-unit by CMA

	Number of Sales in 2020	Variation (2019)	Number of sales (Jan-Apr. 2021)	Variation (Jan-Apr. 2020)
Montreal	7,888	7%	2,810	46%
Gatineau	804	19%	333	111%
Quebec	1,340	35%	440	79%
Saguenay	371	17%	148	114%
Sherbrooke	474	35%	213	94%
Trois-Rivières	386	19%	192	94%
Outside CMAs	4,162	30%	1,906	127%

During the health crisis, demand has increased throughout the province and sales have grown faster in smaller CMAs than in Montreal as a result of more ample inventories. In 2020, the Quebec and Sherbrooke CMAs saw a 35% jump in sales. The Montreal Metropolitan Area recorded a 7% sales growth—the lowest in the province. This minor increase was mainly attributable to limited stock in that region.

Between January and April 2021, the Saguenay and Gatineau CMAs topped the list with respective sale increases of 114% and 111%. However, these figures should be interpreted with caution, because the number of transactions in these sectors was low, especially in Saguenay.

MEDIAN PRICE

In 2020, prices increased significantly with a rise ranging from 3 to 8% depending on the number of units. However, a composition effect limited the growth in median price. In 2020, low housing stock in Montreal slowed sales growth. As a result, the proportion of transactions involving multiplexes in Montreal, the most expensive market, decreased. The composition effect is such that the proportion of sales in less expensive markets has increased since the pandemic, reducing the provincial median price relative to what would have been observed if the distribution of sales remained similar to the previous year. In such circumstances, the variations in the province are shown on the table below, but a regional analysis is preferable, as it provides a better overall picture of the situation.

Median price of 2 to 5-unit properties in Quebec

	Median Price in 2020	Variation (2019)	Median price (Jan-Apr 2021)	Variation (Jan-Apr 2020)
Duplex	$315 000	3%	320,000	3%
Triplex	$489,750	7%	510,000	8%
4–5 Units	$500,000	8%	485,500	-1%

Median price by CMA for 2 to 5-unit properties

	Median Price in 2020	Variation (2019)	Median price (Jan-Apr 2021)	Variation (Jan-Apr 2020)
Montreal				
Duplex	$475,000	9%	$510,000	11%
Triplex	$615,000	14%	$645,000	13%
4–5 Units	$750,000	11%	$775,000	4%
Gatineau				
Duplex	$299,900	9%	$315 000	13%
Triplex	$395,000	4%	$475,000	23%
4–5 Units	$452,500	12%	$485,000	20%
Quebec				
Duplex	$297,000	6%	$304,500	9%
Triplex	$370,000	7%	$385,000	2%
4–5 Units	$420,000	4%	$455,500	7%

As a result of remote working, buyers are less interested in renting units near city centres and are seeking more space. These highly prized amenities are easier to find in the suburbs and regions. This may explain the significant rise in prices recorded in 2021 in Gatineau, a suburb of Ottawa.

In Quebec City CMA, price increases have been greater than inflation and those in recent years, but were generally lower than those observed in Montreal and Gatineau. The larger inventory at the start of the pandemic limited price pressure exerted by the growth in demand.

HOUSING DEMAND

In 2020, the pandemic impacted Quebec's rental market, especially in downtown Montreal. The vacancy rate in the province reached 2.5% last October, according to data published by the CMHC, an increase of 0.7 percentage point over the previous year. In the Montreal CMA, the rate was 2.7%, up 1.2 percentage point relative to 2019. In fact, the proportion of vacant units grew, but is still very low from a historical perspective and under the 3% which is considered the equilibrium rate. Moreover, unoccupied dwellings remain rare in many areas of Quebec, as available units have been concentrated in the central boroughs of the Island of Montreal.

Lower immigration, the cancellation of in-person university classes and the decrease in short-term rentals by tourists drove up vacancy rates in 2020. In addition, remote work has meant that many people no longer require housing near downtown. These factors all impacted central sectors more than regions, and especially downtown Montreal. While some factors have reduced the number of new tenants, the rapid rise in prices may also have driven some people to remain tenants longer than desired. In short, the situation has been highly varied depending on the sector and type of housing.

With the vaccination process already underway, demand for central housing could pick up over the next year. If the fight against the virus goes well, the border may open up, immigration and tourism may resume and students may want their apartments back for in-person classes.

HOUSING SUPPLY

The construction of new multi-residential properties has rebounded in recent years, after being abandoned for condominiums. According to the CMHC, 12,921 new rental apartments were added to the Montreal CMA housing stock in 2020—a new 20-year high. Of these new units, around 75% are located in the suburbs. However, this increase in supply on the outskirts of cities did not lead to an increase in vacancy rates, because demand also rose. In the first three months of 2021, 35,126 rental units were under construction in Quebec compared to 26,188 in the same period in 2020, or an increase of 34%. Construction increased in particular in the Montreal and Quebec CMAs. As a result, more units are expected to be added over the next several years to help keep up with demand, as it may rise significantly once the pandemic comes under control.

The short-term rental market (condominiums and apartments posted on platforms like Airbnb and others) has been hit hard by the pandemic and the lack of tourism. As a result, a significant number of rental apartments that were previously on the short-term rental market have been transferred over to the long-term rental market. In this case, the new supply mainly affected areas in Montreal's central boroughs.

MULTIPLEX SUPPLY

According to data from the Ministère des Affaires municipales et de l'Habitation, there were 325,951 2 to5-unit properties in Quebec in early 2021. This number was 0.5% higher than in 2020, an increase similar to that observed for single-family units, but well below the 2.6% increase for condos. This means that total inventory is slowly rising. Limited space available for new constructions in Montreal and the fact that many buildings are being converted to undivided condominiums has limited growth in this region and throughout Quebec. This trend is likely to continue in Montreal in coming years, because, for a variety of reasons, selling condominiums is often more profitable for developers and investors than purchasing small plexes.

That said, the number of multiplexes for sale has increased slightly in recent months after reaching a low, unlike the single-family and condominium markets, where inventories remain very limited. With rising prices and limits on rent increases, investments can become less attractive and properties may therefore remain on the market for longer. If some investors decide to put their properties up for sale and demand slows down, the number of listings may also increase. On the other hand, for homeowners, buying may remain attractive since the cost of homes has also risen rapidly. In short, the upswing in supply may continue throughout the year, but will also depend on the trends affecting other types of residential properties.

MULTIPLEX DEMAND

During the current recession, the multiplex market has remained attractive due to low interest rates, which increased profitability, and because real estate is considered a less volatile and risky investment compared to other types of assets. In addition, the small plex market is not only attractive to investors, but to households looking to become owner-occupiers as well. This had led to a large number of small plexes on the market during the pandemic.

The Office of the Superintendent of Financial Institutions (OSFI), concerned that low interest rates are allowing buyers to take on more debt, announced a tightening of mortgage rules beginning in June 2021 for uninsured loans. The Federal Government decided to follow and apply the same rule to insured mortgages. This measure involves the use of a higher minimum interest rate for the stress test, from 4.79% to 5.25%. The objective is to protect the country's financial stability by ensuring that borrowers will be able to repay their mortgages if interest rates return to pre-pandemic levels. These measures will limit the capacity to purchase and could therefore partially reduce the upward pressure on house prices.

In the end, the market remains very active, but demand, especially from investors, may slowly decline in the coming months as interest rates can no longer fall significantly to bolster profitability and high prices limit profitability.

CONCLUSION

The Quebec multiplex market was disrupted much less by the health crisis than initially expected at the start of the pandemic. Demand for multi-residential properties was bolstered and became preferable to commercial sector assets due to fewer risks, while also attracting owner-occupiers. At the same time, low inventories have continued to drive up prices during the pandemic. Although the vaccination process has already begun, many uncertainties remain in terms of responses to policies and the reaction of markets. The long-term impact of the pandemic on housing choices remains uncertain and could vary by region in the small plex market.

In some neighbourhoods of Montreal, small plexes are the most common type of housing and new constructions are limited by the small number of lots. As a result, a scarcity effect is expected to persist over the long term as the population continues to grow and housing stock remains unchanged. However, even if homeowner demand remains strong, demand from investors may fall as prices rise.

In the end, the real estate market will remain cyclical. We are currently in a period of strong price growth and this will eventually lead to a weaker market as interest rates rise and the economy recovers. In the meantime, however, prices should continue to rise as inventory remains low and demand stays high.

METHODOLOGICAL NOTE

The data used were compiled by JLR from transactions published in the Land Register of Québec. To obtain representative real estate market statistics, some sales data were left out of the calculations. Sales with a transaction value of less than $50,000, tied selling, foreclosure sales, undivided sales, and multiple sales were not included in the statistics used for this study.

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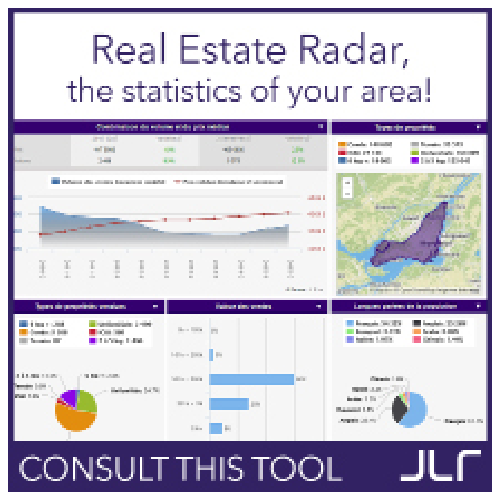

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