JLR PUBLICATION

Multi-Family Housing Market

For properties with 6 units and more

HIGHLIGHTS:

- From July 2020 to June 2021, 1,816 buildings with 6 to 11 units were sold in Quebec, a 31% increase compared to the same period the previous year.
- In the Montréal CMA, per-dwelling prices rose sharply over the past 12 months, from 15% for properties with 6 to 11 units to 20% for buildings with 12 or more units.
- The pandemic has driven up vacancy rates, particularly in large rental buildings in downtown Montreal, the Sud-Ouest, Le Plateau-Mont-Royal and Côte-des-Neiges/Notre-Dame-de-Grâce.

Sales and prices of multi-residential properties (6+ units) in Quebec have increased during the pandemic. This is the result of a lag in demand during the first few months of the pandemic, along with low mortgage rates and accumulation of capital.

The drop in interest rates due to the health crisis has not only boosted the profitability of multi-residential investments for the same price by reducing the mortgage payment, but also increased the attractiveness towards this type of acquisition since other investment products, such as bonds, were offering low returns. When interest rates are low, the expected return on investment for multi-residential properties decreases, which drives up prices. As a result, the rental market dually benefitted from these lower interest rates.

But even if vacancy rates rose in more central areas, investment firms, which often own larger multi-residential rental buildings, had enough cash on hand to absorb the loss of revenue, while continuing to meet their financial obligations. This means that they would be able to absorb tougher months if returns are expected over the longer term. As such, the residential sector, which was already less risky than the commercial sector, has become even more attractive to real estate investors. Challenges in the retail sector, along with companies' plans to reduce office spaces are hurting the commercial real estate market. While vacancy rates have increased in some neighbourhoods, the phenomenon is seen as more temporary.

This study will focus on the rental property sector for 6+ units during the period from July 2020 to June 2021. Click here for more information on the multi-residential market for 2–5 dwellings.

NUMBER OF SALES

Investments in the multi-residential sector took a significant hit in the third quarter of 2020 as the COVID-19 crisis continued to unfold. Despite several significant setbacks, sales in Quebec remained quite strong relative to other asset categories. In the fourth quarter of 2020, activity had fully recovered to pre-pandemic levels. Accumulation of income, low interest rates and reduced perceived risk in the residential sector also boosted sales volume in the first six months of 2021. According to deeds published in the Quebec Land Register and compiled by JLR, an Equifax Company, 1,816 buildings with 6 to 11 units exchanged hands in the province between July 2020 and June 2021. This represents a 31% growth compared to the same period the previous year. This was the greatest increase recorded in the last five years. Of these sales, 51% were made in the Montréal CMA. For properties with 12 or more units, 438 transactions were registered in Quebec between July 2020 and June 2021, up 19% compared to the previous year. In the Montréal CMA specifically, 230 transactions were recorded in this category, a number slightly higher than that of the previous year. In fact, the statistics confirmed a keen interest for properties outside the Montréal CMA. Vacancy rates fell in several sectors outside the Greater Montréal area, in contrast to downtown Montreal, which could partly explain the stronger sales growth for Québec as a whole than for the Montréal region.

Change in Sales

	Number of transactions (July 2020 to June 2021)	Variation (12 years)
Province of Quebec		
6–11units	1,816	31%
12 or more units	438	19%
The Montréal CMA		
6–11units	923	29%
12 or more units	230	2%

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PRICE PER DWELLING

Over the past 12 months, prices per unit have risen sharply. In the 6–11 unit category, the price per dwelling was $111,500 in Quebec, which equated to 9% growth. In the Montréal CMA, that number was $142,250—up 15% compared to the same period the previous year. For buildings with 12 or more units, the price per dwelling increase was greater, reaching 11% for the province as a whole and 20% for the Montréal CMA. For this building category, the stronger price increase in Montréal compared to the province as a whole may in part be explained by a compositional effect, since sales growth was higher in the regions than in Greater Montréal, where unit prices were higher. In short, some regions may have experienced price increases similar to those in Montreal.

Variation of prices per unit

	Price per unit (12 months)	Variation (12 years)
Province of Quebec		
6–11 units	$111,500	9%
12 or more units	$106,113	11%
The Montréal CMA		
6–11 units	$142,250	15%
12 or more units	$132,929	20%

HOUSING DEMAND

While some of the effects of the health crisis, like reduced immigration, a desire to have more space, and rising unemployment, may have somewhat reduced the demand for units in large multiplexes, this is not expected to continue. Ultimately, in uncertain times, like during a health crisis, investors seek the income stability of rental properties and this is reflected in rising demand in that market. That being said, investors will need to adapt to post-pandemic needs if they want to remain attractive to tenants. For example, they will need to offer specific features such as larger units, access to videoconference rooms, dedicated areas for grocery deliveries, etc. In the long term, investments in technology may also help landlords improve the energy efficiency of their buildings tenant managment and project selection. This could therefore increase the profitability of properties.

Over the past year, demand for the multi-residential market has been reinforced by low interest rates. However, rates are likely to climb over the next several quarters, which will limit the increase in value of multi-residential properties. On the other hand, a rebound in housing demand, which implies low vacancy rates, will drive growth in rental income and, in turn, increases in price.

HOUSING SUPPLY

According to data from the Ministère des Affaires municipales et de l'Habitation, there were 53,592 6+unit properties in Quebec in early 2021. This number was 1.2% higher than in 2020, which was larger than the 0.5% increase in the single-family home segment, but lower than the 2.6% increase for condominiums.

Supply may grow faster in the coming years. On the one hand, the uncertainty about returning to office spaces and retail challenges may drive owners to consider new ways to use their assets, including redevelopment for residential purposes. As such, many owners of large parking lots near shopping centres are already planning to use them for new residential constructions, such as condominiums or rental units.

On the other hand, after several years of reduced multi-unit starts due to developers' interest in condominiums, a significant upturn in rental unit construction took hold in 2015. Since then, housing starts have continued to grow each year, reaching 28,328 in 2020 in Quebec, by far the highest number registered in the last 30 years. In short, new apartments will be added to the market in the coming years and the supply of rental properties will increase.

According to the CMHC, the vacancy rate for dwellings with 3 or more bedrooms in the Montreal CMA increased to 2.6% in October 2020. The pandemic has led to a rise in vacancy rates, particularly in large rental buildings located in downtown Montreal, the Sud-Ouest, Le Plateau-Mont-Royal and Côte-des-Neiges/Notre-Dame-de-Grâce. Once the pandemic is behind us, tenants like students and newcomers are expected to return to the Island of Montreal in large numbers. We will need to see whether this renewed demand will be offset by the addition of new units to ensure that the vacancy rate does not deviate too far from the 3% equilibrium rate.

In summary, the significant addition of new buildings is not expected to negatively impact the price of rental properties, since demand for housing will remain strong, ensuring good profitability.

CONCLUSION

During the pandemic, multi-residential properties of 6 or more units have remained safe value assets for investors in Quebec. Lower interest rates and capital accumulation have in large part driven this market growth over the past 12 months. However, interest rates are likely to rise in the medium term. This increase, along with the fact that rent increases are limited by regulations, could limit profitability and therefore price growth as well.

On the other hand, the lack of construction for several years, combined with high immigration, led to a drop in vacancy rates for several years. However, the recent uptick in construction is expected to help ease pressure on the rental market in the longer term. Of course, this could take time and require a lot of construction in the next several years, which may be more difficult to achieve in Montreal as a result of the new "20-20-20" bylaw proposed by Mayor Valérie Plante. The latter requires that major residential projects in Montreal have 20% social housing, 20% affordable housing and 20% units with three or more bedrooms. This will increase construction costs and may therefore limit the number of new residential projects. Some investors may be driven to invest in surrounding areas, where requirements are less stringent. The consequences will be felt even more in the longer term, since large residential projects can take several years to materialize.

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 $150,000, tied selling, foreclosure sales, undivided sales, and multiple sales were not included in the statistics used for this study.

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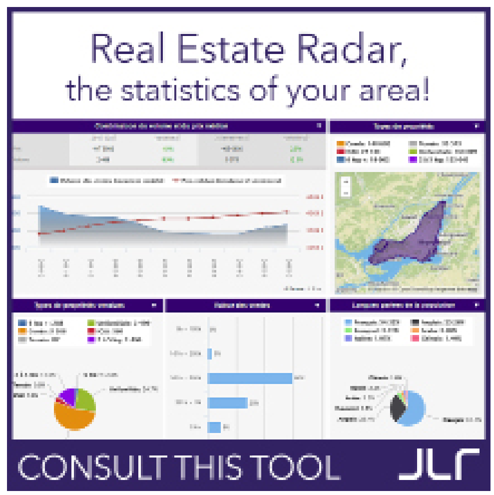

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