

HOUSING MARKET INSIGHT

Quebec



CANADA MORTGAGE AND HOUSING CORPORATION

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Bill 122 and the housing market: the impacts

For anyone walking around the central districts of the Montréal census metropolitan area (CMA) in the past two years, scaffolding around existing buildings (whether they be commercial, institutional, hospital or residential) has become a common sight.

In 2015, the National Assembly of Quebec passed an act to amend the Building Act mainly to modernize safety standards. This new law provides for the mandatory inspection and maintenance of facades of buildings with five or more storeys as well as all buildings having multi-storied garages. In this issue of Housing Market Insight, we present estimates of the numbers of structures and units in the Montréal CMA that are or will be affected by this new law. While the law applies to structures of all types, we will limit our study to residential buildings.

After explaining the background and requirements of the new law, we will provide estimates and examples of costs related to facade inspections and repairs. We will then present estimates of the numbers of buildings targeted for the Montréal CMA, particularly in the rental and condominium housing segments. The report will conclude with a preliminary analysis of the impacts on the market and its players.

Background and requirements of the law

It must be specified, from the outset, that the new law is an enhancement to a building safety code that was already in place. The new law updates this code.

With the adoption of the new law, it was acknowledged that deficiencies or deteriorations related to the cladding on facades can pose a public safety risk, particularly in the case of facades, as well as balconies and multi-level parking garages, of buildings with five or more storeys.

It should be noted that, since this analysis focuses on the market impacts, it will not go into the numerous technical details related to inspection and diagnostic procedures and criteria. Interested and concerned readers should consult the authorities having jurisdiction.

Effective March 18, 2013:

Building owners, including condominium corporations, must obtain a verification report no later than the date of the 10th anniversary of the building construction.

“Bill 122, which modernizes the security standards in Quebec buildings, engages housing market actors. Both rental owners and condominium owners are be responsible for the management of the inspections and repairs as well as for the financing. Future buyers and renters, as well as financial intermédiaires have the duty to fully understand the impact on the price or on the rent.”

Kevin J. Hughes,
Regional Economist,
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Table 1 Timing of facade, balcony and multi-level garage inspection reports by building age on March 18, 2013

Building age on March 18, 2013	Inspection report due date
More than 45 years	March 18, 2015
From 25 to 45 years	March 18, 2016
From 15 to 24 years	March 18, 2017
From 10 to 14 years	March 18, 2018

Source: Government of Quebec

Table 1, which presents the timing of inspection reports by building age on March 18, 2013 (effective date of the law), shows that, already last year, some building owners¹ had to complete inspection reports. Given that the first owners on the list have buildings that are 25 years or older, it would not be surprising to learn that some of them found out from their inspection reports that work is required on their buildings.

To ensure continued minimum monitoring and maintenance subsequently, the law stipulates that, after obtaining a complete initial inspection report, owners must perform routine checks once a year and have a professional (for example, an engineer or an architect) conduct general verifications once every five years and prepare a complete report.

In cases where inspection reports reveal no dangerous conditions, owners must perform the inspections as outlined above. When dangerous conditions are present, owners must advise the Régie du bâtiment du Québec (RBQ) and proceed with the required work.

As well, owners must produce a register including the results of the annual inspections (with photos), the inspection reports prepared by professionals, as well as descriptions of all repair and maintenance work carried out (with photos).

It goes without saying that the existence of such registers will become essential when buildings are put up for sale, as they will be an assessment factor for all players—sellers, brokers, buyers, appraisers, lenders and insurers.

Estimates and examples of costs related to inspections and repairs

Inspection costs depend on multiple factors, including the following main ones:

- building size and location;
- facade access;
- required lifting equipment (aerial platform lift, crane truck, scaffolding, rappelling, etc.); and
- availability of original architectural plans.

Considering the significance and variability of these factors, even the layperson can understand the difficulty - and even futility - of calculating average costs. It therefore becomes essential to proceed on a case-by-case basis. That being said, table 2 provides a list of certain procedures and possible associated costs.

¹ For the purposes of this report, “owner” includes both sole owners and co-owners.

For cost estimates, two studies provide a more detailed picture: a study conducted by the RBQ in 2011 and another conducted by the Office municipal d'habitation de Montréal (OMHM) in 2012.

According to the 2011 RBQ impact study, the basic assumption estimated that the cost of the initial detailed inspection could vary between \$7,500 and \$15,000 per building, starting at \$1,500 per storey. As for the cost of the five-year maintenance inspection, it was estimated at \$4,500 per building.

In the OMHM pilot project, conducted in 2012 on a sample of five buildings with an average of seven storeys, an average of 87 units and an average year of construction of 1980, the cost per storey inspected was estimated at \$4,920.

Table 3 presents actual work recorded by CMHC.

Estimates of the number of buildings targeted by the new law in the Montréal CMA

Given the various data sources for the housing stock, we had to estimate the numbers of buildings (and, consequently, the numbers of housing units) targeted in the two main market segments: rental and condominium. For the rental segment, the information came from a special compilation made using the CMHC Rental Market Survey database updated in January 2015. In the case of the condominium segment, the information came from a special compilation made using the database of the Ministère des affaires municipales et de l'occupation du territoire (MAMROT) updated in January 2015.

Procedure	Cost (\$)
Close-up visual assessment of facades	7,500 – 25,000
Exploratory openings	2,500 – 5,000
Water/air penetration test	4,000 – 8,000
Thermography	6,000 – 12,000
Computer simulations	2,000 – 3,000

Source: CMHC Professional and Technical Services Department

Number of storeys	Number of exploratory openings	Number of units	Total cost (\$)	Cost per storey (\$)	Cost per unit (\$)
9	n/a	141	10,000	1,111	71
10	200	87	90,000	9,000	1,035
14	n/a	n/a	78,750	5,625	n/a

Source: CMHC Professional and Technical Services Department

Number of storeys	Year of construction	Number of units	Total cost (\$)	Cost per storey (\$)	Cost per unit (\$)
9	1963	141	360,000 (balconies)	40,000	2,553
9	1963	141	58,000 (brick)	6,444	411
11	1970	140	300,000 (brick)	27,272	2,143

Source: CMHC

Once the databases were identified, we proceeded with three extractions based on successively more restrictive criteria to determine the numbers of buildings (and units) on which inspections have to be performed and, among those, the subsets with a growing probability of needs for repairs. Table 4 provides a summary of these subsets.

The criterion used to determine the first subset results directly from what is stated in the law (that is, buildings with five or more storeys). In the case of the rental segment, the extraction was made directly without any estimate, as the database identifies the buildings by number of storeys. As for the condominium segment, we had to estimate the number by using

a decision rule, that is, buildings with five or more storeys have 50 or more housing units.

The reasoning underlying the E2 and E3 selection criteria should be explained, as well.

In the case of subset E2, internal consultations revealed that structures built 20 or more years ago did not incorporate advances in construction techniques and are therefore more likely to need repairs.

As for subset E3, we made the assumption that, during housing booms, there are labour shortages that could potentially result in lower-quality construction caused by the accelerated pace of construction.

While recognizing the limits of these assumptions, we consider them useful in that they help us estimate the relativity of the needs for repairs. We admit the possibility that a structure built more than 20 years ago and during a housing boom may be of equal or even better quality than a younger structure built outside of a boom period.

The following summary table presents the various estimates by market segment, according to the selected extraction.

When examining, first, the number of buildings subject to inspections, in accordance with the new law, we see that, in the case of the rental segment, it is 867 structures, which is less than 1 per cent of rental buildings in the Montréal CMA. As for the 562 condominium buildings subject to inspection, the proportion higher (6 per cent). Moreover, when this last result is expressed in number of units (and, therefore, number of condominium owners), it can be seen that the number affected is considerable: 53,357 units. In both cases, the costs of inspections and potential repairs are a reality that everyone will have to take into account.

Figure I presents the distribution of condominium buildings for which an inspection report will have to be filed, by year of submission.

As for the numbers of buildings with a higher probability of needing repairs, the figures are lower in both segments, but it can be noted that the proportion decreases more rapidly for condominiums (see table 5) than for rental housing. This result is not surprising, given that the rental housing stock is relatively older.

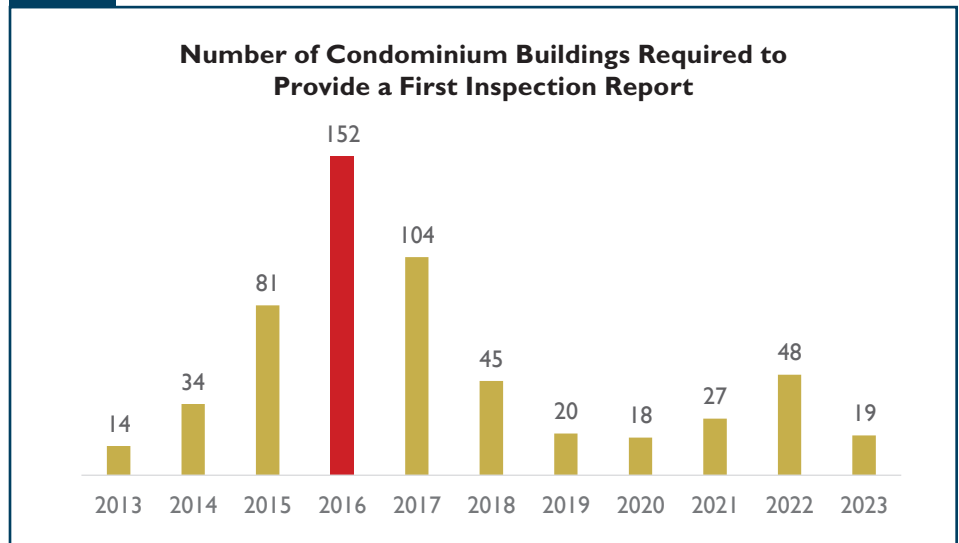
It should be recalled that these estimates reflect relative probabilities, not observed nor forecasted needs.

Extraction	Criterion
E1	Buildings with five or more storeys
E2	E1 buildings that are 20 years or older
E3	E2 buildings having been built during a construction boom

Methodology and calculations: CMHC

	Market segment			
	Rental		Condominium	
Composition	Buildings	Units	Buildings	Units
Universe	210,185	686,352	9,307	142,828
E1 = Universe and five storeys	867	86,632	562	53,357
E2 = E1 and 20 years or older	811	80,944	255	24,578
E3 = E2 and built during a housing boom	324	37,097	120	11,737
Source :	Special compilation made using the Rental Market Survey database, updated in January 2015		Special compilation made using the MAMROT database, updated in January 2015	

Figure I



Source: Government of Quebec

Impacts on the market and its players

Given the estimates presented in the previous section, what could be the resulting market impacts? To answer this question, we must once again segment our analysis by intended market.

Impacts in the rental segment

As far as the owners are concerned, they are naturally responsible for proceeding with the inspections and repairs as well as recording and financing. During these procedures, the inspection and repair operations

could temporarily diminish the rental performance. This, in turn, could have a negative impact on the building's appeal and, therefore, its value on the market.

That said, the physical integrity of a building is a key factor not only for the occupants but also for any potential buyers, as the improvements made could increase the value of the building. In fact, the results of the rental market surveys conducted by CMHC show that, in the Montréal CMA, the vacancy rate is lower for newer buildings.

Moreover, it should be recalled that building maintenance needs are a well-known reality for any owner and are normally planned from the time of purchase.

While it is likely that the inspections and repairs may have a non-negligible financial impact, it would be incorrect to conclude that the net effect over the longer term would be necessarily negative. It is therefore incumbent upon the players to gain a good understanding of the particular situation of a building in the context of the new law.

For the tenants, the inspection and repair process, which will bring their housing up to current safety standards and possibly make their building more esthetically appealing, will possibly have an impact on the rents charged upon lease renewal. Also, it is not impossible that the work will have negative impacts in terms of the peaceful enjoyment of the dwelling. Once again, each case in point must be analyzed individually.

Impacts in the condominium segment

While building co-owners face the same responsibilities and financial impacts as building owners, the complexity of their situation lies, of course, in the collective nature of the ownership.

With regard to the administrative considerations outlined in the previous section, these are the responsibility of the co-owners' committee.

As for the financing of the various processes involved, all co-owners are of course accountable for assuming and sharing of the costs. This can be achieved either by the contingency fund or by additional contribution. It can be supposed that in some cases, the financial burden could weigh heavily on the condo owner and even require the unit to be sold.

Insofar as the financial constraint would force a growing number of condo owners to sell, the impact could be felt by the market as a whole. According to our estimates, such a phenomenon could have an effect on the number of days on the market as well as on prices².

As for the rental segment, it should be recalled that the need for building maintenance in the condominium segment is an unavoidable reality in the management and investment process.

Condominium owners and future buyers must not only make an effective assessment of the contingency fund and required maintenance but also have a good understanding of where the building stands in the context of the new regulatory framework. Is the building subject to the law? When must the inspection be performed? What are the anticipated costs? Have these costs been considered in the fund?

Conclusion

In 2015, the National Assembly of Quebec passed an act to amend the Building Act. This new law mainly concerns the modernization of safety standards for building envelopes and multi-level garages. Our analysis of the requirements of this new law revealed that, in the greater Montréal area, the law applies to more than 1,400 buildings, or close to 140,000 rental and condominium units.

Our consultations and research show that inspection and repair costs are extremely variable, as they depend on several factors of differing complexity.

Given the buildings that are or will be subject to mandatory inspections and considering certain criteria, it appears likely that some will more probably be in need of repairs.

This new framework will affect all players on the market. Owners (and co-owners) will naturally be responsible for managing the inspection and repair operations and paying the associated costs. They will therefore have to take into account this new reality in their annual planning. Potential buyers and renters, as well as intermediaries (brokers, lenders and insurers), will have a duty to gain a good understanding of the impact on prices or rents.

For the market as a whole, the overall impact will depend on the players' ability to adjust to current needs and their ability to anticipate future needs.

² In order to estimate the impact on the market, we studied several scenarios, each with varying levels of forced resale. In particular, we examined the effect on the seller to buyer ratio, which is the ration of active listings to sales.

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