

# HOUSING MARKET INSIGHT

## Montréal CMA



CANADA MORTGAGE AND HOUSING CORPORATION

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*"An analysis of the data on the very large high-rise condominium apartment buildings in downtown Montréal revealed that a majority of the units in these buildings are owned by investors. The proportion of condominiums that are resold quickly is also greater in these large buildings than in the other buildings in the borough of Ville-Marie. Based on the available data, our estimates also suggest that investors who made a 20% down payment when they bought a condominium in one of these high-rises in order to rent it out had a negative cash flow in the majority of cases."*



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## Investor market for very large high-rise condominium apartment buildings in downtown Montréal

*The proportion of investors is greater in the very large high-rise condominium apartment buildings in downtown Montréal (57%) than in the other condominium buildings in the same sector (about 30%).*

*The proportion of condominiums that are resold quickly (within one year) is greater in the very large high-rise condominium apartment buildings in downtown Montréal (7.2%) than in the other condominium buildings in the same sector (only 1.8%). However, the percentage of sales resulting in a loss was slightly greater in these very large high-rises (about 15%) than in the other condominium buildings in downtown Montréal (5%).*

*Based on the available data, our estimates suggest that investors who made a 20% down payment when they bought a condominium in one of these high-rises in order to rent it out had a negative cash flow in the majority of cases. In other words, the operating expenses (mortgage payments, condominium fees, and property and school taxes) exceeded the rent collected.*

## Some information on the investor market for very large high-rise condominium apartment buildings in downtown Montréal

The condominium market in downtown Montréal has certain features not found in several other sectors of the Montréal census metropolitan area (CMA). One of these features is that this market has, for a number of years, attracted a relatively significant proportion of buyers who do not use the units they acquire as their principal residence.

These condominiums may, for example, be used as a secondary residence but may also have been bought in order to be resold. As well, a large part of these units may also be offered for rent on the market, thereby increasing the rental housing supply in downtown Montréal.

As well, a few years ago, some very large high-rise condominium apartment buildings, each with a few hundred units, appeared in downtown Montréal.

These buildings, among the first of their kind in Montréal, paved the way for other projects of this scope, some of which are currently under construction, while others have been announced for the next few quarters.

Should there be more and more of these very large high-rises in the future, it would be important to examine unit sales and rentals in these buildings, in order to better measure the impact of these high-rises on the housing market in downtown Montréal. These various projects could, for example, affect the quantity of rental condominiums on the market.

An analysis of currently available data on these very large high-rise condominium apartment buildings is an interesting first step in this direction. In that regard, this issue of *Housing Market Insight* examines the investor market for these very large structures in downtown Montréal. More specifically, we set out to answer the following questions:

- What is the proportion of investors?
- Are there any quick resales (within 6 or 12 months)?
- Are rental condominium cash flows positive?

The answers to these questions will then help us better understand the condominium market in downtown Montréal.

## High proportion of investors in the large high-rise condominium apartment buildings downtown

A few different data sources can be used to estimate the percentage of investors on the condominium market. One such source is the property assessment roll. In fact, in the vast majority of cases, the property assessment of a condominium is sent to the same address as that of the unit for which the assessment is issued. In that situation, it can be assumed that the dwelling is used as the owner's principal residence.

In cases where the property assessment is sent to an address other than that of the condominium, several situations could apply:

- the condominium is used as the owner's secondary residence;
- the condominium is offered for rent on the market by the owner;

- the condominium is new and unsold, and the property assessment is sent to the developer; or
- the condominium was bought to be resold (in the short or medium/long term).

This list, while not complete, likely accounts for the majority of the condominiums for which the property assessment is sent to an address other than that of the unit, that are generally not used as a principal residence and that are probably owned by an investor.

In a previous issue of *Housing Market Insight—Montréal CMA*,<sup>1</sup> an analysis of the property assessment roll of the condominium housing stock in the borough of Ville-Marie (downtown Montréal) indicated that 30% of condominium property assessments were sent to an address other than that of the unit.

Canada Mortgage and Housing Corporation (CMHC), through a survey, has also, for the past several years, been producing data on the proportions of rental condominiums in a number of sectors of the metropolitan area, including downtown.<sup>2</sup> While renting is only one of the possible purposes for investment, the latest available results show that about 28% of condominiums are rental units<sup>3</sup> in downtown Montréal,<sup>4</sup> a proportion essentially similar to that mentioned above based on the property assessment roll. A large proportion of condominiums owned by investors therefore seem to be intended for the rental market.

In short, these two data sources suggest that about 30% of the condominiums downtown are owned by investors (see table I). Now, what is the proportion in the very large high-rise condominium apartment buildings in downtown Montréal?

Based on an analysis of the property assessments, 57% of the condominiums in these high-rises are owned by investors.<sup>5</sup> The proportion of investors is much greater in these very large high-rises than in the other condominium buildings downtown.

If the next large high-rises started downtown have the same buyer profile, it can be anticipated that they will have an impact not only on the number of rental condominiums in this sector but also possibly on the number of units resold quickly—the topic covered in the next section.

### Few quick resales in condominium buildings downtown, but slightly more in the very large high-rises

In this report, we define quick resales as condominiums that are resold within a short time, that is, within 6 or 12 months of their purchase. Condominiums resold within 12 months also include those resold within 6 months. In other words, no analysis concerns condominiums that are resold between 6 and 12 months of their purchase.

While these resales may include some by people who must sell their units for personal or professional reasons, most are probably by people who want to sell their units quickly in an attempt to realize a financial gain.

From January 2016 to September 2018, excluding the units contained in the very large high-rise condominium apartment buildings analyzed in this report, around 6,125 notarized condominium transactions<sup>6</sup> took place in the borough of Ville-Marie. Of this number, only 0.8% involved units that were resold within 6 months and 1.8%, within 12 months (see table 2). As such, in general, there were very few quick resales in downtown Montréal.

**Table 1: Proportion (%) of Investors on the Condominium Market in 2018\***

Geographic sectors	Proportion (%)
All buildings in the borough of Ville-Marie**	28 to 30
Very large high-rise condominium apartment buildings in Ville-Marie	56.5

\* For the results from the property assessment roll of the borough of Ville-Marie overall, the data are from 2016.

\*\* For the data from CMHC's survey (2018), they also cover L'Île-des-Sœurs and concern only rental condominiums.

Sources: City of Montréal property assessment roll, 2018; Ministère des Affaires municipales et de l'Occupation du territoire, 2016; CMHC, 2018. CMHC compilation and calculations.

**Table 2: Proportion (%) of Condominiums Resold Within 6 or 12 Months, January 2016–September 2018**

Geographic sectors	Resold Within 6 Months	Resold Within 12 Months
All buildings in the borough of Ville-Marie (except the very large high-rise condominium apartment buildings in Ville-Marie)	0.8	1.8
Very large high-rise condominium apartment buildings in Ville-Marie	3.7	7.2

Sources: JLR; CMHC, compilation and calculations.

However, the situation was different for the very large high-rise condominium apartment buildings analyzed in this report. Over the same analysis period, 3.7% of the condominiums in these high-rises were resold within 6 months and 7.2%, within 12 months. All in all, the results indicate that quick resales are more common in the very large high-rise condominium apartment buildings than in the other buildings in the borough of Ville-Marie.

But, can the same be said of the monetary gains (or losses) recorded when the condominiums are resold? To shed more light on this, the data on the distribution of percentage gains or losses from resales having taken place within one year of purchase are presented in table 3. In order to simplify the analysis, all closing and carrying costs of the units (notary and broker fees, transfer taxes, electricity costs, etc.) were excluded. Only the price difference between the unit purchased and the unit resold was considered.

The first finding was that the vast majority of transactions resulted in a gain, whether they involved condominiums in the very large high-rises or units in the other buildings in the borough. The sizes of the gains varied slightly between the two categories analyzed.

The proportion of transactions that resulted in a loss was, however, slightly higher in the very large high-rises (about 15%) than in the other buildings in Ville-Marie (about 5%).

As well, the vast majority of these resales took place during a period when the condominium market downtown was significantly tightening, with conditions going from being very favourable to buyers at the beginning of 2016 to giving the edge to sellers at the end of the third quarter of 2018. This could help explain why, overall, resales having resulted in a gain were much more numerous than those having resulted in a loss.

**Table 3: Distribution of Monetary Gains or Losses (%) From Condominiums Resold Within 12 Months, January 2016–September 2018**

Geographic sectors	More than 10%	Between 5% and 10%	Between 0% and 5%	Between 0% and -5%	Between -5% and -10%	More than -10%
All buildings in the borough of Ville-Marie (except the very large high-rise condominium apartment buildings in Ville-Marie)	54.1	9.0	31.6	0.0	3.0	2.3
Very large high-rise condominium apartment buildings in Ville-Marie	50.0	19.2	16.7	5.8	5.0	3.3

Sources: JLR; CMHC, compilation and calculations.

Now that we have looked at the data on quick resales, let's now turn to rented condominiums in the very large high-rises in downtown Montréal.

### Negative cash flows in the vast majority of rented condominiums in the very large high-rises downtown

To calculate the cash flows in the very large high-rise condominium apartment buildings in downtown Montréal, we used data on some 375 rented condominiums,<sup>7</sup> which, for the purposes of this exercise,<sup>8</sup> all came from the Centris® system.<sup>9</sup>

Short-term rentals were also excluded, once again mainly to have as much reliable data as possible for this exercise. The City of Montréal's new municipal bylaws that limit the sites for rentals of this type could also more often favour monthly rentals, the category that was used in this analysis.

The cash flows are composed of the rental income (inflows) and the expenses (outflows) related to the operation of the condominiums. Annual income was calculated based on the monthly rents received by the owner, once tenants have been found by a real estate broker hired by the owner for that purpose.<sup>10</sup>

As for the operating expenses of the rental condominiums, they include:

1. mortgage payments;
2. condominium fees;
3. property taxes; and
4. school taxes.

A methodological note provided at the end of this report explains the source and, as applicable, the methods used to calculate these different variables.

In order to avoid significant generalizations, it was also decided that this study would cover only cash flows at the end of one year and would not take into account the various property acquisition costs (notary fees, transfer tax, etc.) or insurance and maintenance expenses. Also, since the units were rented, we did not take into consideration that the condominiums could be unoccupied for part of the year. The inclusion of most of these items would, overall, have had a negative impact on the cash flows. Possible tax deductions (mortgage interest, etc.) related to the rental of a dwelling were also excluded in order to simplify the analysis.

Of all the condominiums analyzed, about 75% had a negative cash flow. The difference between monthly

rent and operating expenses was, in the majority of cases, greater than -10% (see table 4). In absolute terms, when the cash flow was negative, the operating expenses were about \$385 higher on average per month than the rent collected (the median was \$340).

At this stage, it should be recalled that, for part of these condominiums, the monetary losses are only theoretical. In fact, some of these condominiums were purchased in cash and others were bought with a much larger down payment than the 20% required. In these circumstances, the rent collected may well cover the carrying costs of the unit.

For some investors, a condominium may be considered as a financial asset, the value of which they hope will increase over time and which could provide, despite any possible cash flow losses in the short or medium term, a positive return on investment at the time of resale.

Indeed, a recent report produced by the firm Urbanation<sup>11</sup> indicated that 44% of investors in the Greater Toronto Area who took possession of their condominium in 2017 (with a mortgage) had a negative cash flow<sup>12</sup> but that the return on investment was positive in the majority of cases, given the increase in the value of the condominiums.



In the same study, a focus group organized by Urbanation with real estate brokers working for investors on the Toronto market indicated that investors' goal was for the rents to cover at least the operating expenses. Some investors were willing to make a larger down payment than the 20% minimum in order to achieve a neutral cash flow, while others would use any losses for tax purposes.

It would be interesting to eventually check the extent to which these last results also apply to other investors in the Montréal metropolitan area, particularly in these times when there are more and more large condominium projects.

## Conclusion

The results presented in this report are a first step in the analysis of the investor market in downtown Montréal. With this market that appears to be growing downtown, and potentially elsewhere in the CMA, further analysis and studies will be needed to better understand the motivations of investors, especially if they are bound to become more prominent over the coming years.

**Table 4: Distribution of Cash Flow\* Gains or Losses (%) of Rented Condominiums in Very Large High-Rise Condominium Apartment Buildings in Ville-Marie, 2016–2018**

More than 20%	4.0
Between 10% and 20%	8.2
Between 0% and 10%	13.8
Between 0% and -10%	22.0
Between -10% and -20%	34.5
More than -20%	17.5

\* Assuming a 20% down payment when buying the property.

Sources: City of Montréal property assessment roll; JLR; Quebec Federation of Real Estate Boards (QFREB) through the Centris® system.  
CMHC compilation and calculations.

## Methodological note

### Estimation of rental condominium cash flows in newer large high-rises in downtown Montréal

For the mortgage payments, which were calculated using the purchase price of each of the properties studied,<sup>13</sup> we went with the assumptions of a 20% down payment and a one-year fixed mortgage interest rate.<sup>14</sup>

The 20% down payment was selected for two reasons: first, this is generally the down payment that must be made by an investor who will not live in the unit and, second, down payment data were generally not available.

The condominium fees were calculated using the floor areas of the rented units<sup>15</sup> and the condominium fees per square foot in the newer very large high-rise condominium apartment buildings analyzed.<sup>16</sup> As for the property and school taxes, they were determined using the municipal assessment data<sup>17</sup> on the condominiums and the current tax rates<sup>18</sup> in the borough of Ville-Marie.

## ENDNOTES

- <sup>1</sup> July 2016.
- <sup>2</sup> This sector also contains L'Île-des-Sœurs.
- <sup>3</sup> Short-term rentals (such as vacation rentals) are excluded from the survey.
- <sup>4</sup> This sector also contains L'Île-des-Sœurs.
- <sup>5</sup> Property assessments analyzed in October 2018 on <https://servicesenligne2.ville.montreal.qc.ca/sel/evalweb/index>
- <sup>6</sup> Sources: JLR; CMHC compilation and calculations.
- <sup>7</sup> Condominiums that were or had already been rented as at July 2018, based on the Centris® system.  
If a condominium had been rented more than once during this period, only the most recent rental was used.
- <sup>8</sup> In fact, on some websites where owners rent out their units themselves, several items of information are generally missing, such as the exact address and the floor area. Without these data, the purchase price of the units, municipal tax amounts, condominium fees, etc. cannot be determined and, as a result, the cash flows cannot be calculated.
- <sup>9</sup> Some of the data used came from a special compilation obtained from the Quebec Federation of Real Estate Boards (QFREB) through the Centris® system.
- <sup>10</sup> These data came from a special compilation obtained from the QFREB through the Centris® system.
- <sup>11</sup> Hildebrand, Shaun, and Benjamin Tal (CIBC), *Urbanation, A Window Into the World of Condo Investors*, April 2018 (<https://www.urbanation.ca/sites/default/files/Urbanation-CIBC%20Condo%20Investor%20Report.pdf>).
- <sup>12</sup> In the case of this study, operating expenses included only mortgage payments and condominium fees. The addition of property taxes would probably have increased the proportion of condominiums with a negative cash flow.
- <sup>13</sup> Sources: JLR, CMHC analysis of notarial deeds.
- <sup>14</sup> Sources: JLR, CMHC analysis of mortgages. The mortgage rate, when indicated, was most frequently the one-year fixed rate or the variable rate. However, the rate information was often missing. For each condominium building analyzed, the mortgage rate used was the one-year fixed rate, which was a relatively frequent option when the rate information was available. Mortgage amortization period of 25 years.
- <sup>15</sup> These data came from a special compilation obtained from the QFREB through the Centris® system. The floor areas could be gross or net, depending on the case.
- <sup>16</sup> The information available on the active condominium listings (floor area, condominium fees) on the Centris® system website as at July 2018 were used to estimate condominium fees per square foot in the buildings analyzed in this report. Given that floor areas could be gross or net, that condominium fees could include services like parking or not, and that these fees could also change from one year to the next, the condominium fees per square foot used in this report were in the lowest percentiles of our sample. Consequently, in this report, when the cash flow for a condominium was negative, it was probably not because the condominium fees used were too high compared to the actual fees.
- <sup>17</sup> Source: City of Montréal property assessment roll.
- <sup>18</sup> Whenever possible, the tax rates and municipal assessment values of the condominiums used were those in effect at the time the contract between the tenant and the real estate broker was signed. In some cases, adjustments to the municipal assessment value were necessary.

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