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Quick resales in the
overheating Montréal
real estate market

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Table of Contents

3 Highlights

- 3 Quick resales in Greater Montréal: Why is it important?
- 4 Quick resales increase since 2016
- 5 Quick resale price growth significantly outpaces overall market transaction growth
- 6 Quick resales with renovations: Higher gain made at the time of resale
- 7 Geographic areas where quick resales are concentrated

8 Conclusion

8 Methodology

9 Appendix



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“The proportion of quick resales in the Montréal CMA remained low between January 2016 and the first quarter of 2021, although it has grown slightly during this period. However, given their limited number, these resales have little impact on the median price and are probably not the most determining factor in explaining current affordability issues.”

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Highlights

- The purpose of this report is to analyze whether there were more and more quick resales (reselling within 12 months) in the overheating Greater Montréal housing market. These resales can increase competition for households who want to buy a home to live in, putting pressure on prices and affordability. In the case of small income properties, this could also ultimately result in higher rents for tenants.
- From January 2016 to the first quarter of 2021, market conditions have tightened, increasingly favouring sellers and driving up prices in the Montréal CMA. This period coincides with an increase in the proportion of quick resales, although these remained low.
- The growth in prices for quick resales was generally much higher than for all market transactions, more particularly in the single-family home and plex segments.
- Even though quick resales recorded higher price growths than all other transactions, this only had a minimal impact on the median price growth calculated for all transactions, given the small proportion of quick resales on the market. Therefore, more speculative transactions, such as quick resales, are probably not the most determining factor to explain the current affordability challenges.

Quick resales in Greater Montréal: Why is it important?

For the past few years, the housing market in the Montréal census metropolitan area (CMA) has been tightening, with the gap between supply and demand becoming increasingly narrow. In fact, CMHC's *Housing Market Assessment* report points out that the housing market¹ has in fact been overheating for just over two years now. Evidence of price acceleration has also been detected over the past few quarters, which could be related to the presence of speculative behaviour on the market.

This imbalance between supply and demand puts significant pressure on prices. For example, in 2020, the median (or average) prices of single-family homes, condominiums and income properties with two to five units increased by 10% to 15%. Bidding wars also seem to be increasingly frequent.

In this context, it's relevant to ask whether the price trends over the past few years may have led to certain behaviours on the real estate market that could ultimately affect stability and affordability.

For example, in this upward market context, some households may start having irrational expectations with regard to prices, thinking that they can only increase. Under these circumstances, there could be more and more quick resales in a market where the buyers' only goal is to obtain a significant and rapid financial gain. These speculative purchases could therefore amplify the overheating and price acceleration on the market.

This would also increase competition for households who want to buy a home to live in. In fact, in a context where the supply of housing for sale is low, some households may have to bid against each other in order to acquire a new home.

¹ More specifically, by reading the Centris® system sales and new listings data provided by the QPAREB.

This would have the effect of reducing affordability not only for properties on the market but also possibly for rental apartment rents. It is quite possible that the sale of small income properties at high prices could, in the short or medium term, result in higher rents for tenants.

Last, a housing market that rests largely on speculative transactions rather than on real housing needs could be more affected in the event of a major negative shock to the economy or a sudden and significant downward revision in price trend forecasts. In fact, households who have only used the market for profit could decide to sell their property, thereby increasing market instability during this period.

An analysis of transaction data in Greater Montréal over the past few years provides an overview of the current situation and shows whether there are or could be any imbalances soon. More specifically, we set out to answer the following questions:

1. What is the proportion of units that were sold (within 12 months) in recent years in the Montréal CMA? Do some sectors and housing types stand out in this regard?
2. What was the increase in prices for the units that were sold? Does this increase differ from other market transactions?

The answers to these questions will help us validate whether housing affordability in Greater Montréal may have been affected by speculative activities. Better understanding the influence of certain factors on Montréal real estate market prices could also help the various industry stakeholders and decision makers develop more effective housing strategies.

The analysis covers the period from January 2016 to the first quarter of 2021. However, given that the lockdown measures at the beginning of the pandemic (April–May 2020) may have impacted the timing of certain transactions, some

more detailed results will not be available for 2020 and 2021. More specifically, the results by Greater Montréal geographic subsector will only be available for 2016 to 2019, since the number of properties sold in these areas is much more limited than at the CMA level.

Quick resales increase since 2016

From January 2016 to the first quarter of 2021, about 8,840 properties were resold within 12 months (quick resales) in the Montréal CMA. Single-family homes accounted for the majority of these resales, or about 53%. As for condominiums and plexes, they accounted for 36% and 11% of these resales, respectively.

Evidence of sustained real estate activity over the last few quarters, the number of quick resales from January 2020 to March 2021 (15 months) was 2,800, whereas from 2016 to 2019, a longer period (48 months), it was only 6,050.

In addition, an analysis of the results revealed that the proportion of units sold within one year has followed a slight upward trend for all housing types in recent years (table 1).

Table 1: Proportion (%) of Units Resold Within 12 Months by Housing Type from 2016 to the First Quarter of 2021, Montréal CMA

Period	Single-family	Condominiums	Plexes
2016	2.4	1.8	1.9
2017	2.5	1.8	2.3
2018	2.6	2.2	2.4
2019	2.7	2.1	3.1
2020–2021Q1	3.2	3.0	3.2

Sources: JLR, CMHC calculations and compilation

Plexes (with two to five units) were generally the housing type most frequently resold until 2019. In the case of single-family homes and condominiums, the proportion of quick resales

was between 2% and 3%. From January 2020 to the first quarter of 2021, the proportion of units resold hovered around 3% for all property types.

All in all, while the proportions of quick resales in the Montréal CMA have grown slightly in recent years, they've remained low. Their growth coincides with a period during which market conditions tightened for all property types. In fact, the single-family home and plex markets became generally favourable to sellers between mid-2016 and the beginning of 2017, while the condominium market became favourable to sellers at the end of the third quarter of 2018. The next section examines the impact of quick resales on prices.

Quick resale price growth significantly outpaces overall market transaction growth

While quick resales may be attributable to the fact that some households must sell their property for family or professional reasons, they may also be done by people

who want to realize a quick financial gain. In the context of this report, the gains associated with quick resales only take into consideration the difference between the price at the time of the initial purchase and the price at the time of the resale. All the costs related to the transaction or ownership of the unit are not taken into account (notary fees, brokerage fees, electricity, land transfer taxes, property taxes, renovations, etc.).

First, table 2 presents data on the annual growth in the median price for all transactions in Greater Montréal until 2020.² Second, table 2 shows the median price growth for all quick resales recorded during a given year.

For example, in 2019, 935 quick resales of single-family homes were recorded in the Montréal CMA. This makes it possible to calculate the rate of price growth for these 935 homes, that is, the percentage difference between the price at the time of the initial purchase and the price at the time of resale for each home. For these 935 transactions, the median price growth rate was 33.3% in 2019.

Table 2: Annual Median Price Growth (%) of All Transactions and Median Price Growth of Quick Resales

Year	Single-family		Condominiums		Plexes (two to five units)	
	Annual median price growth (%) of all transactions	Median price growth rate (%) of quick resales	Annual median price growth (%) of all transactions	Median price growth rate (%) of quick resales	Annual median price growth (%) of all transactions	Median price growth rate (%) of quick resales
2016	2.8	38.8	3.1	2.1	2.4	33.3
2017	5.7	40.2	3.5	5.9	5.6	34.1
2018	3.2	39.0	2.3	15.9	4.6	38.7
2019	4.6	33.3	5.3	12.3	7.4	39.7
2020	13.2	38.7	9.4	15.5	9.8	41.5

Sources: JLR, CMHC calculations and compilation

² Data for the first quarter of 2021 are excluded here as data analysis is done annually.

The results presented in the previous table show that the price growth is generally much higher for quick resales than for all market transactions, particularly in the single-family home and plex segments. Given that activity on the Greater Montréal condominium market was a bit more sluggish in 2016 and 2017, the price growth for quick resales was also significantly reduced.

At this stage, it is also important to mention that, given the small proportion of quick resales in relation to total market sales, the analysis of the data for the period under review reveals that the median price, that excludes or includes resales, is quite similar for single-family homes, condominiums and plexes. In other words, even if reselling is combined with significant price growth, it has very little impact on the overall median price. These resales are therefore probably not one of the most determining factors in explaining current affordability issues. However, for plexes, it is possible that these resales will ultimately have an upward impact on rents for the tenants in these buildings.

In fact, even though the median price growth for quick resales is an indicator that enables us to quickly verify price movements recorded at the time of resale, it is also interesting to examine the distribution of the returns generated by these transactions. For example, it may be relevant to estimate how many of these resales have resulted in losses and, if so, how the situation has progressed over time.

The analysis reveals that quick resales (all housing types combined) generated more gains than losses between 2016 and 2020 (table A in the appendix). Moreover, the number of resales with positive returns increased throughout this period. While the proportion of quick resales generating gains (greater than 0%) increased from 87% in 2016 to 97% in 2020, the proportion generating losses fell from 13% to 3%.

In fact, even though the median price growth for quick resales is often greater than 30% (table 2), about 4 out of 10 quick resales still take place each year with gains below 10%. Gains (or losses) can therefore vary greatly from one transaction to the next.

The results by housing type also suggest a different variation in the distribution of the magnitude of these gains and losses. In the single-family home and plex segments, the proportions were similar (table B in the appendix). For these two segments, the proportions of transactions that generated financial gains increased from 2016 to 2020, while those that generated negative gains remained low.

Over the same period, the condominium segment followed a slightly different path than the single-family home and plex segments (table C in the appendix). Of all the condominium units that were resold in 2016, about one in three had been resold at a loss, a sign that these transactions are not always profitable.

However, the weight of quick resales posting losses progressively decreased starting in 2017, reflecting the market tightening occurring in the CMA. As a result, from that point on, the proportion of quick resales generating financial gains has become increasingly bigger. The condominium example, however, indicates that positive returns on quick resales are not always guaranteed, and that the more recent results are not necessarily a sign that they will occur again in the future.

Quick resales with renovations: Higher gain made at the time of resale

In the previous section, it was mentioned that the gains generated did not take into account the cost of renovations that might have been carried out in the unit between the time of the initial purchase and the time of resale. However, investors may buy a unit for the purpose of renovating it and reselling it for a profit. Some of the renovations made may require permits.

We examined the number of single-family homes and plexes in the city of Montréal that were resold in 2019 and for which a renovation permit had also been issued (between the initial purchase and the resale). It should be mentioned, however, that the estimated renovation costs at the time the permits

were obtained may underestimate the actual value of the work performed (for example, work for which a permit does not need to be issued). It should also be noted that the results on the resale of properties that were renovated (single-family homes and plexes) are only based on a small number of observations, so caution should be used when interpreting the next results.

For single-family homes resold in 2019, a renovation permit had been issued for about 20 of them (around 15% of resales in 2019). For all these quick resales, the median price growth was about 85%. It should be recalled that, for all the single-family homes that were resold in 2019 (table 2), the median was 33%. With renovations that can cost tens of thousands of dollars, it was anticipated that the gain (%) at the time of resale would probably be greater for a home that was renovated.

For plexes sold in 2019, about 25 of them were resold and had a renovation permit issued (about 15% of quick resales in 2019). Among all these transactions, the median growth between the price at the time of the initial purchase and the price at the time of resale was about 60%. As previously mentioned, this could ultimately have an impact on the rents for the tenants in these buildings, thereby affecting affordability.

Geographic areas where quick resales are concentrated

In the case of single-family homes, certain geographic sectors stood out more than others in regard to quick resales. This was the case for West Island municipalities—Dollard-des-Ormeaux, in particular—where quick resales accounted for 4% to 5% of total resales from 2016 to 2019. The municipalities of Boucherville, Brossard, Longueuil and Saint-Bruno-de-Montarville saw relatively high increases as the proportion of quick resales varied from 1 to 3% in 2016 to 4 to 5% in 2019.

For condominiums, data analysis reveals that higher quick resale activity was recorded in the boroughs of Le Sud-Ouest and Ville-Marie. In Le Sud-Ouest, it was primarily the H3C forward sortation area (FSA) in the heart of Griffintown (and adjacent parts of Ville-Marie) that stood out, as 5% of condominium resales there were completed within one year in 2018 and 2019. In the borough of Ville-Marie, quick resales were more localized in the H3B and H3G FSAs, with 7% of transactions occurring within one year in these FSAs for the years 2017 to 2019.

In addition, strong activity was noticeable in the municipality of Côte-Saint-Luc, with about 6 to 7% of resales occurring within one year for 2017 to 2019.

Last, for plexes with two to five units, more than 70% of these quick resales were located in the cities of Montréal and Longueuil. Certain Montréal boroughs recorded slightly higher proportions of quick resales. This was the case for Rosemont (2.9%) and Le Plateau-Mont-Royal (3.6%). For the latter, the proportion of quick resales went from 1.0% in 2016 to 5.8% in 2019.

The city of Longueuil stood out with a resale rate of 7% for the entire period under review, including a rate of 10% in 2019. An analysis of the city of Longueuil data shows that strong quick resale activity was observed in specific FSAs. This was the case in the J3Y FSA located near the Saint-Hubert Airport, where the proportion of quick resales was 11% in 2019 (8% from 2016 to 2019). This was also the case in the J4T FSA in the Laflèche neighbourhood, where the proportion of resales was 21.1% in 2019 (13% from 2016 to 2019).

The increase in plex prices in recent years, combined with the low vacancy rates recorded in some of these sectors likely stimulated quick resales during the period under review.

Conclusion

This report presents an analysis of the evolution of quick resales within a 12-month period in the Montréal metropolitan area housing market for the period of January 2016 to the first quarter of 2021. We found that the proportion of quick resales remained low although it increased slightly during this period.

As a result, while these quick resales often generate significant monetary gains at the time of resale, their low weight in relation to all transactions means that their impact on the overall median price is quite low. As such, quick resales by themselves are probably not the most determining factor in the current affordability challenges.

It is important to mention, however, that an increasingly significant presence of speculative purchases would increase competition for households who simply want to meet a housing need. This could prompt some of them to take on more debt to buy a property. In the current overheating Montréal real estate market, the situation must continue to be monitored.

Moreover, the results also show that quick resales were generally more frequent in the plex segment. It is possible that the financial gains realized through these resales may, in the short or medium term, result in higher rents for tenants. For future studies, it would be interesting to try to confirm the impact that these resales could have on rents.

Methodology

All property transactions in the province are notarized and published in the Government of Quebec land register. The firm JLR, an Equifax company, compiles all transactions sent to the Quebec land register, which allows for them to be analyzed according to several criteria: housing type, property transaction price, property address, buyer and seller addresses, etc.

Each property is also assigned a unique code, making it easy to examine the transaction history for the same property. For the purposes of this report, we focused on properties that were resold³ within one year, from January 2016 to the first quarter of 2021.

³ More specifically that were notarized.

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Appendix

Table A: Distribution* of Monetary Gains or Losses (%) for Properties Resold Within 12 Months from 2016 to 2020, Montréal CMA

Period	Losses			Gains		
	Higher than 10%	5% to 10%	0% to 5%	0% to 5%	5% to 10%	Higher than 10%
2016	8.1	1.8	3.1	19.2	6.5	61.1
2017	5.7	1.1	3.2	18.5	7.9	63.7
2018	3.9	1.2	3.5	14.8	8.4	68.3
2019	2.8	1.0	2.5	16.7	11.3	65.8
2020	1.7	0.5	1.1	12.9	11.1	72.6

*Zero gains (cash returns equal to 0%) are included in the 0 to 5% range.

Sources: JLR, CMHC calculations and compilation

Table B: Distribution* of Monetary Gains or Losses (%) for Single-Family Homes and Plexes Resold Within 12 Months from 2016 to 2020, Montréal CMA

Period	Losses			Gains		
	Higher than 10%	5% to 10%	0% to 5%	0% to 5%	5% to 10%	Higher than 10%
2016	2.3	1.2	2.2	14.1	5.5	74.7
2017	2.7	0.6	2.3	14.0	6.5	73.8
2018	3.3	0.9	2.7	12.9	7.3	72.8
2019	2.9	0.6	2.6	13.0	9.2	71.6
2020	2.4	0.6	0.8	10.4	7.9	77.9

*Zero gains (cash returns equal to 0%) are included in the 0 to 5% range.

Sources: JLR, CMHC calculations and compilation

Table C: Distribution* of Monetary Gains or Losses (%) for Condominiums Resold Within 12 Months from 2016 to 2020, Montréal CMA

Period	Losses			Gains		
	Higher than 10%	5% to 10%	0% to 5%	0% to 5%	5% to 10%	Higher than 10%
2016	20.6	3.3	5.0	30.3	8.8	32.1
2017	11.9	2.3	5.0	27.9	10.8	42.1
2018	5.0	1.7	4.7	17.8	10.4	60.4
2019	2.4	1.8	2.3	23.3	15.1	55.1
2020	0.7	0.5	1.6	16.8	16.2	64.3

*Zero gains (cash returns equal to 0%) are included in the 0 to 5% range.

Sources: JLR, CMHC calculations and compilation

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