HOUSING MARKET INFORMATION

HOUSING MARKET INSIGHT

MONTRÉAL, QUÉBEC AND GATINEAU

Movement to Homeownership by Quebec Renter Households: Another Point of View

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Canada

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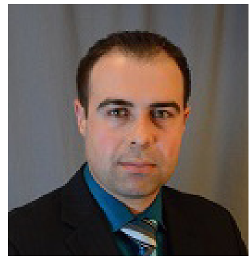
Table of Contents



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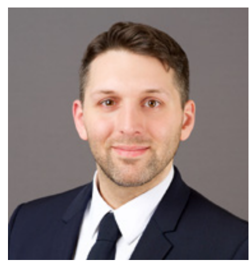

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"Lower-income renter households generally don't have access to affordable homes, even those in the lower price ranges. The rental market therefore seems to be their only housing option. In some Quebec CMAs, even higher-income renter households were facing limited choices of affordable properties. This situation supports the various measures aimed at providing an adequate supply of rental units on the market."

Francis Cortellino, Nathan R. Lea, and Lukas Jasmin-Tucci, Economists

Highlights

- The objective of this report is to assess whether renter households in the Montréal, Québec and Gatineau areas were able to buy an affordable property based on their income in 2020. Where applicable, we examined the price ranges in which they could access homeownership.
- Unsurprisingly, the data reveal that lower-income renter households generally do not have access to affordable homes, even those in the lower price ranges. The rental market therefore seems to be an essential option for these households.
- However, in the Montréal and Gatineau areas, even higher-income renter households could face limited choices in affordable homes, especially in the single-family home segment. This difficult access to homeownership further restricts the availability of rental units on the market, which can put upward pressure on rents and thereby decrease housing affordability on the rental market.
- These results clearly illustrate how buying an affordable home in the current environment is a major challenge for renter households. They also support the various measures that aim to provide a sufficient supply of rental units on the market.

Objective, key results and implications

In 2020, house prices reached very high levels in several Quebec census metropolitan areas (CMAs). The primary objective of this report is to assess whether renter households in the three CMAs where most of the province's real estate activity is concentrated (Montréal, Québec and Gatineau[1]) were able to purchase an affordable property in 2020 based on their income. Where applicable, we examined the price ranges in which this was possible for them.

The results of our analysis show that lower-income renter households generally cannot access affordable homes, even those in the lower price ranges. The rental market therefore seems to be an essential option for these households.

As we will see, higher-income renter households in some CMAs may also be facing a limited choice of affordable properties, especially in the single-family home segment. This difficult access to homeownership further restricts the availability of rental units, which can put upward pressure on rents and thereby decrease housing affordability on the rental market.

These results clearly illustrate how buying an affordable home in the current environment is a major challenge for renter households. They also support the various measures that aim to provide a sufficient supply of rental units on the market.

Concluding this report is a text box that also shows how the affordability challenges faced by another major Canadian market, the Vancouver area,[2] are even greater than those observed in the three Quebec CMAs studied here, including Montréal.

Beyond the average statistics

The ratio between the average (or median) price of homes and the average (or median) income of households is an indicator often used to assess housing affordability for households. While easy to calculate, this ratio can mask relevant information on the real challenge that renter households face with access to homeownership.

- On the one hand, the ratio between the average price and average income offers no indication of how prices are distributed on the real estate market and the ability of renter households to purchase affordable housing given their different income levels. For example, can low-income renter households, for whom an average-priced property is unaffordable, still purchase a home in the lower price ranges?
- On the other hand, average income skews the reading of the real challenge that renter households face in accessing homeownership, since this measure can also include the higher incomes of homeowner households.

It is therefore important to look beyond the average statistics if we are to properly assess the ability of renter households to buy an affordable home.

1 The Quebec portion of the Ottawa-Gatineau CMA.

2 No public price data by decile are available for the Toronto area.

As we will see in this report, the analysis of home prices and renter household income by decile provides a more granular picture of the situation and improves our understanding of the real challenge that movement to homeownership represents for renter households.

The appendix at the end of this report explains the various data sources used.

Montréal CMA

Few affordable property options for renter households seeking to purchase, even in the lower price ranges

Table 1 shows the prices of single-family homes, condominiums and small income properties (two to five units)[3] per decile in 2020 in the Montréal CMA. One of the characteristics that may explain the price difference between the deciles is floor area.

For example, the median area of single-family homes in the ninth decile was about twice that of those in the first decile. Homes in the lower price deciles could therefore be less able to meet the needs of larger households.

Interestingly, from 2019 to 2020, price increases were greater in the higher price ranges. This does not necessarily mean that a renter household could easily purchase an affordable home.

To better illustrate all of this, table 2 below shows the minimum income a renter household needed when buying a property in 2020 in order for its mortgage payments to be considered affordable.

In this report, a home purchase is considered affordable for a renter household if the household does not spend more than 30% of its gross income on mortgage payments.[4] To calculate this payment, we are assuming a 25-year amortization period, a 5% down payment, and a fixed mortgage interest rate of 3.7%.[5]

Table 1: Prices of single-family homes, condominiums and small income properties (two to five units) per decile in 2020 in the Montréal CMA

Decile	Single-family home prices ($) by decile in 2020 – Montréal CMA	Condominium prices ($) by decile in 2020 – Montréal CMA	Two- to five-unit plex prices ($) by decile in 2020 – Montréal CMA
1st	244,000	182,000	295,000
2nd	285,000	215,000	375,800
3rd	320,000	242,000	432,800
4th	350,000	271,000	479,000
5th	385,000	305,000	530,000
6th	425,000	341,000	580,000
7th	480,000	387,500	625,000
8th	565,000	449,900	694,200
9th	729,000	570,000	778,000

Sources: JLR (an Equifax company); CMHC calculations

3 More specifically, for each year studied, each property transaction was placed in ascending order based on the sale price. This series was then divided into 10 equal parts. This revealed the price of properties in the first decile (higher than 10% of other properties sold), followed by the price of properties in the second decile (higher than 20% of other properties sold), and up to the price of properties in the ninth decile (more expensive than 90% of other properties sold).

4 The latest issue of the CMHC Rental Market Report also looked at rental housing affordability. In this issue, rental units were considered affordable if the household spent no more than 30% of its gross income on rent, and the analysis was also done for different income and rent ranges. In this study, we have generally maintained the same affordability measures. However, we are aware that several other measures can be used. Examples include thresholds other than 30%, net income (after taxes) rather than gross income, and the inclusion of property ownership costs (taxes, insurance, electricity, etc.). The conclusion of this report points to interesting avenues for future research in this regard.

5 Source: CMHC (2020 monthly average of five-year conventional mortgage rates).

Go Back to the Table of Content

Table 2: Minimum income a renter household needed when buying a property in 2020 in order for its mortgage payments to be considered affordable

Decile	Renter household income* ($) by decile in 2020 – Montréal CMA	Minimum income ($) required for affordable mortgage payments** based on single-family home prices by decile in 2020 – Montréal CMA	Minimum income ($) required for affordable mortgage payments** based on condominium prices by decile in 2020 – Montréal CMA	Minimum income ($) required for affordable mortgage payments** based on two- to five-unit plex prices by decile in 2020 – Montréal CMA
1st	n/a	50,100	37,400	60,600
2nd	25,000	58,600	44,200	77,200
3rd	n/a	65,700	49,700	88,900
4th	41,000	71,900	55,700	98,400
5th	n/a	79,100	62,700	108,900
6th	58,000	87,300	70,100	119,200
7th	n/a	98,600	79,600	128,500
8th	80,000	116,100	92,500	142,700
9th	n/a	149,800	117,200	159,900

* Non-subsidized, non-student renter households, regardless of size.

** A home purchase is considered affordable when no more than 30% of a household's income is spent on mortgage payments. Mortgage with a 5% down payment, 25-year term and a fixed interest rate of 3.7%. Taxes and fees are excluded.

Sources: JLR (an Equifax company) and Statistics Canada, 2016 Census; CMHC calculations

For example, in 2020 the price of a single-family home in the second decile was $285,000 (see table 1). In order for a household not to spend more than 30% of its income on the mortgage payments for such a property, its income had to be at least $58,600.

Table 2 shows the income of renter households in the second, fourth, sixth and eighth deciles in 2020. Renter households with incomes in the second decile, meaning those that were less affluent than 80% of renter households overall, were making $25,000. For their part, renter households with incomes in the eighth decile (the wealthiest 20%) earned $80,000.

Not surprisingly, the results in table 2 show that for renter households in the least affluent 40%, almost no properties could be considered affordable, even in the lower price deciles.

In other words, a renter household with an income below the fourth decile could not afford to buy a home without spending more than 30% of its income on mortgage payments. The rental market therefore seems to be the only housing option for these lower-income households.

For renter households with an income of $58,000 (in the sixth decile, more affluent than 60% of other renters), only 20% of single-family homes were affordable, meaning those in the lower price deciles. However, these households had slightly more choice in the condominium segment.

Remember that homes in the lower price ranges are often smaller and not necessarily suitable for all household sizes.

Last, for renter households with incomes of $80,000 (in the eighth decile, more affluent than 80% of other renters), 70% of condominium units could be considered affordable. In the single-family home and two- to five-unit plex segments, this proportion fell to only 50% and 20%, respectively.

These results clearly illustrate how buying an affordable home in the current environment is a major challenge for renter households. Even renter households with greater financial means are facing a limited supply of affordable properties, especially in the single-family home and small income sproperty segments.

Go Back to the Table of Content

Québec CMA

Affordable home purchase options for renter households in the Québec CMA, but challenges for the less affluent

Table 3 shows the prices of single-family homes, condominiums and small income properties (two to five units)[6] per decile in 2020 in the Québec CMA.

As in the other CMAs, home size is one of the characteristics that can explain the price difference between the deciles, with larger units generally being more expensive.

Table 3: Prices of single-family homes, condominiums and small income properties (two to five units) per decile in 2020 in the Québec CMA

Decile	Single-family home prices ($) by decile in 2020 – Québec CMA	Condominium prices ($) by decile in 2020 – Québec CMA	Two- to five-unit plex prices ($) by decile in 2020 – Québec CMA
1st	195,000	137,580	214,000
2nd	220,000	159,000	247,000
3rd	239,000	175,000	275,000
4th	257,000	193,000	300,000
5th	276,200	211,000	325,000
6th	300,000	230,000	355,000
7th	330,000	256,500	390,000
8th	372,000	291,000	430,000
9th	448,800	363,800	500,000

Sources: JLR (an Equifax company); CMHC calculations

[6] See footnote 3 for an explanation of the decile definitions.

Table 4 shows the minimum income required by price decile in order for mortgage payments to be affordable. For example, in 2020 the price of a single-family home in the second decile was $220,000.

In order for a household not to spend more than 30% of its gross income on the mortgage payments for such a property, its income had to be at least $42,900.[7] Table 4 also shows the income of renter households in the second, fourth, sixth and eighth deciles.

Table 4: Minimum income a renter household needed when buying a property in 2020 in order for its mortgage payments to be considered affordable

Decile	Renter household income* ($) by decile in 2020 – Québec CMA	Minimum income ($) required for affordable mortgage payments** based on single-family home prices by decile in 2020 – Québec CMA	Minimum income ($) required for affordable mortgage payments** based on condominium prices by decile in 2020 – Québec CMA	Minimum income ($) required for affordable mortgage payments** based on two- to five-unit plex prices by decile in 2020 – Québec CMA
1st	n/a	38,000	26,800	41,800
2nd	25,000	42,900	31,000	48,200
3rd	n/a	46,600	34,100	53,700
4th	41,000	50,200	37,700	58,600
5th	n/a	53,900	41,200	63,400
6th	52,000	58,600	44,900	69,300
7th	n/a	64,400	50,100	76,100
8th	80,000	72,600	56,800	83,900
9th	n/a	87,600	71,000	97,600

* Non-subsidized, non-student renter households, regardless of size.

** A home purchase is considered affordable when no more than 30% of a household's income is spent on mortgage payments. Mortgage with a 5% down payment, 25-year term and a fixed interest rate of 3.7%. Taxes and fees are excluded.

Sources: JLR (an Equifax company) and Statistics Canada; 2016 Census. CMHC calculations

The figures in table 4 show that almost no single-family home could be considered affordable for renter households in the least affluent 40%.

More specifically, only about 10% of single-family homes were affordable for households with incomes in the fourth decile (more affluent than 40% of other renters). In the case of condominiums, there was a greater number of affordable properties for these same households, and their proportion rose to about 50%.

While less affluent renter households in the Québec area had a wider choice of affordable properties than households in Montréal, the rental market is still an important housing option for them.

Remember as well that since houses in the lower price deciles are less spacious, they could be less able to meet the needs of larger households.

For renter households with an income of $52,000 (in the sixth decile, more affluent than 60% of other renters), about 70% of condominium units were affordable. As for the proportions of single-family homes and plexes with two to five units deemed affordable for these households, they fell to about 50% and 30%, respectively.

Last, renter households with an income of $80,000 (in the eighth decile, more affluent than 80% of other renter households) could afford to buy a condominium unit in all price ranges without spending more than 30% of their income on mortgage payments. However, they had slightly less choice in the single-family home and plex segments (about 80% in both cases).

Thus, despite some affordability challenges for the less affluent renter households in Québec, the results show that house prices there were still relatively more affordable for renter households than in the province's other two major CMAs.

[7] See the section on the Montréal CMA for the affordability assumptions and mortgage payment calculations.

Gatineau CMA

Few affordable home purchase choices for most renter households in the Ottawa-Gatineau CMA

Table 5 shows the 2020 prices of single-family homes and condominium units by decile[8] in the Gatineau area. The Gatineau area plex market, unlike that of the Montréal and Québec CMAs, will not be analyzed in this section due to its small size.

As in the other CMAs, home size is one of the characteristics that can explain the price differences between the deciles, since larger units are generally more expensive.

Table 5: Prices of single-family homes and condominiums per decile in 2020 in the Gatineau area

Decile	Single-family home prices ($) by decile in 2020 – Gatineau area	Condominium prices ($) by decile in 2020 – Gatineau area
1st	180,000	140,000
2nd	225,000	157,500
3rd	254,500	170,000
4th	280,000	187,000
5th	310,500	203,000
6th	340,000	219,900
7th	370,000	244,525
8th	425,000	285,000
9th	515,000	425,000

Sources: JLR (an Equifax company); CMHC calculations

Strong price increases were recorded in 2020 for single-family homes in the higher price ranges (+17% for the ninth decile). Assuming a constant income and mortgage rate, this means that the share of income to be spent on the purchase of a single-family home became greater in 2020 for properties in the higher price ranges than it was for those in the lower price ranges.

Even though the strongest price growth occurred in the higher price ranges, this does not necessarily mean that a renter household could easily purchase an affordable home.

To better illustrate all of this, table 6 below shows the minimum income a renter household would have needed in order for mortgage payments to be considered affordable when buying a property in 2020.

In this report, a home purchase is considered affordable when a renter household spends no more than 30% of its gross income on mortgage payments.

In 2020, the price of a single-family home in the second decile was $225,000 (see table 5). For a household not to spend more than 30% of its income on the mortgage payments calculated to purchase the home, its income had to be at least $46,000.[9]

Table 6 also shows the income of renter households in the area by decile, including those in Ottawa, where more and more buyers originate.[10] For renter households in Ottawa-Gatineau whose incomes were in the first two deciles, meaning the least affluent 20%, their incomes were at most $30,000.

[8] See footnote 3 for an explanation of the decile definitions.

[9] See the section on the Montréal CMA for the affordability assumptions and mortgage payment calculations.

[10] CMHC, *Housing Market Insight – Gatineau*, “The pandemic has changed the dynamics of the Gatineau metropolitan area real estate market” April 2021.

This income is well below the average income of $46,000 needed to buy one of the least expensive homes in the area. These renter households therefore could not afford to become homeowners in the Gatineau area without spending more than 30% of their income. The rental market therefore seems to be the main housing option for these lower-income households.

In the case of renter households with an income of $47,000 (in the fourth decile, more affluent than 40% of other renter households), they were only able to buy a home priced in the second decile (the least expensive 20%) in order not to spend more than 30% of their income on housing.

This means that even in the lower-end categories, very few single-family homes can be considered affordable for these renter households. Remember that these units are often smaller and not necessarily suitable for all household sizes.

Only renter households with an income of $96,000 or more (in the eighth decile, more affluent than 80% of other renter households) have the means to buy homes priced up to the eighth decile (which represents 80% of them).

Like single-family homes, almost no condominium units could be considered affordable for the least affluent renter households in Ottawa-Gatineau (up to the second decile). For renter households with higher incomes, however, condominium units are becoming more affordable faster than single-family homes.

Even in the Gatineau market, which is generally considered more affordable than some other large markets in the country, the rental market remains an important option for many renter households. An affordable single-family home is out of reach for a large proportion of them, but there is more choice with condominium units.

Table 6: Minimum income a renter household needed when buying a property in 2020 in order for its mortgage payments to be considered affordable

Decile	Renter household income* ($) by decile in 2020 – Ottawa-Gatineau CMA	Minimum income ($) required for affordable mortgage payments** based on single-family home prices by decile in 2020 – Gatineau area	Minimum income ($) required for affordable mortgage payments** based on condominium prices by decile in 2020 – Gatineau area
1st	n/a	37,000	28,700
2nd	30,000	46,200	32,300
3rd	n/a	52,300	34,900
4th	47,000	57,500	38,400
5th	n/a	63,800	41,700
6th	63,000	69,900	45,200
7th	n/a	76,000	50,200
8th	96,000	87,300	58,600
9th	n/a	105,800	87,300

* Non-subsidized, non-student renter households, regardless of size.

** A home purchase is considered affordable when no more than 30% of a household's income is spent on mortgage payments. Mortgage with a 5% down payment, 25-year term and a fixed interest rate of 3.7%. Taxes and fees are excluded.

Sources: JLR (an Equifax company) and Statistics Canada; 2016 Census. CMHC calculations

Go Back to the Table of Content

Conclusion

The primary goal of this report was to examine whether renter households were able to purchase affordable homes in 2020 based on their income. Where applicable, we examined the price ranges in which such a purchase was possible for them.

As we saw, despite varying price levels in the different CMAs, they all had one thing in common: Less affluent renter households generally had few options for purchasing an affordable home in 2020.

In some CMAs, access to affordable properties was also difficult even for higher-income renter households, especially in the single-family home segment.

This lack of affordability made it difficult for renter households to access homeownership. This kind of situation further restricts the availability of rental units on the market, which can put upward pressure on rents and thereby decrease the affordability of these homes.

All in all, these results support the various measures that aim to provide a sufficient supply of rental units.

In future work we would like to push this analysis further in order to improve our understanding of the real challenge renter households face over movement to homeownership.

For example, we would like to:

- refine our calculation of the minimum income needed to make mortgage payments affordable by including the other costs of owning a home (taxes, insurance, electricity, etc.);
- obtain results for a large number of urban centres across the country; and
- examine how affordability has evolved over the last 10 to 15 years for renter households to determine whether they previously had easier access to homeownership.

Vancouver area renter households have very limited options for purchasing affordable properties

Renter households in the Vancouver area have higher incomes than renter households in the Montréal area, but property prices there are much higher.

Like the tables on the three Quebec CMAs studied in this report, table 7 shows the minimum income renter households in the Vancouver CMA needed in 2020 for a single-family home or condominium unit purchase to be considered affordable.

Go Back to the Table of Content

Table 7: Minimum income a renter household needed when buying a property in 2020 in order for its mortgage payments to be considered affordable

Decile	Renter household income* ($) by decile in 2020 – Vancouver CMA	Minimum income ($) required for affordable mortgage payments** based on single-family home prices by decile in 2020 – Vancouver CMA	Minimum income ($) required for affordable mortgage payments** based on condominium prices by decile in 2020 – Vancouver CMA
1st	n/a	114,800	70,500
2nd	30,000	135,700	80,800
3rd	n/a	163,400	89,800
4th	52,000	184,900	97,600
5th	n/a	207,000	106,400
6th	74,000	235,300	117,700
7th	n/a	267,000	130,200
8th	115,000	312,500	147,400
9th	n/a	412,100	181,300

* Non-subsidized, non-student renter households, regardless of size.
** A home purchase is considered affordable when no more than 30% of a household's income is spent on mortgage payments. Mortgage with a 5% down payment, 25-year term and a fixed interest rate of 3.7%. Taxes and fees are excluded.

Sources: Real Estate Board of Greater Vancouver and Fraser Valley Real Estate Board; and Statistics Canada's 2016 Census. CMHC calculations

Only renter households with an income of $115,000 or more (in the eighth decile, more affluent than 80% of other renter households) were able to buy an affordable single-family home in 2020. However, only the least expensive 10% of single-family homes were affordable.

In the case of condominium units, none of them were affordable for renter households with incomes below $52,000 (in the fourth decile, more affluent than 40% of other renter households).

Even for renter households with incomes of $74,000 (in the sixth decile, more affluent than 60% of other renter households), only the least expensive condominium units on the market (up to about the second decile) were affordable.

Last, in the case of the most affluent renter households, those with an income of $115,000 (in the eighth decile, more affluent than 80% of other renters), about 60% of the condominium units could be considered affordable.

The challenges in terms of affordability when purchasing a home in the Vancouver area therefore seem much greater than those observed in the Montréal area. Our 2020 rental market survey also showed a similar situation for renter households in these two markets.

Appendix

To get the price levels by decile, we used data on all notarized housing transactions. These data were provided by JLR, an Equifax company. Data on the median floor areas of properties come from the property assessment rolls of the various municipalities that make up the subject CMAs. JLR collects this information from the property assessment rolls issued by municipalities in order to match them with the properties sold. Some outlying floor area values were excluded from the analysis.

The income of renter households (non-subsidized, non-student and for all household types) by quintile comes from Statistics Canada's 2016 Census and is expressed in 2020 dollars.

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