MARKET REPORT

Multifamily

Montreal Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS
A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

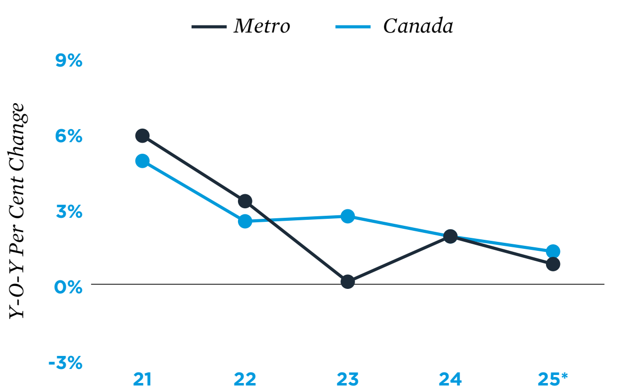
1Q/25

Market Segments Performing Differently as Renters Seek More Cost-Effective Units

Affordable units attracting greater renter demand. As vacancy trended down coming out of the pandemic and neared a record low of 1.5 per cent in 2023, average annual rent growth approached 10 per cent in each of the past three years. While average rents in Montreal do sit 16 per cent below the national average and 37 per cent below the level seen in Toronto as of the end of 2024, median household incomes here also trail other major metros across the nation. Consequently, the 30 per cent jump in effective rents since 2021, combined with rapid inflation in recent years, has eroded housing affordability. As a result, vacancy rates were less than 1.0 per cent for units with monthly payments under $1,150 and greater than 5.0 per cent for units rented above $1,675. Looking ahead, although easing rent growth in new builds are likely to mitigate some of these challenges, affordability will continue to be stretched. Renter demand is likely to remain stronger for more cost-effective segments of the market.

Developers rush to capitalize on healthy rental sector. With Montreal's multifamily landscape showing robust performance in recent years, an elevated level of deliveries have been entering the market since 2019. Heightened construction costs – which are being reflected in higher rents – are stretching renter affordability and causing new units to be leased more slowly; yet this strong supply growth will help meet increased housing demand over the longer term. As new units come to market, it opens up older rental stock for lower-income households, helping to restore some affordability.

Employment Trends



** Forecast*

Sources: Altus Data Solutions; CoStar Group, Inc.; CMHC; Statistics Canada

Multifamily 2025 Outlook

20,000 JOBS *will be created*

EMPLOYMENT:

Although hiring will continue in 2025 amid lower interest rates, the job market faces ongoing challenges. Tighter immigration could impact labour supply and demand, while trade uncertainty also poses a risk, given the region's large manufacturing presence.

12,000 UNITS *will be completed*

CONSTRUCTION:

As construction timelines take roughly two years in Montreal, the drop in starts that began in 2022 and 2023 are likely to pull through into lower deliveries this year. Nevertheless, starts re-accelerated in 2024, albeit with 6,000 fewer units than the 2021 peak.

70 BASIS POINT *increase in vacancy*

VACANCY:

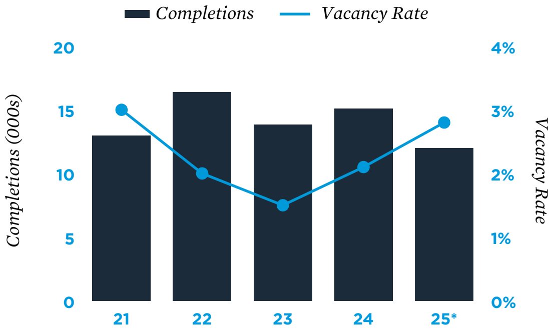
The continuation of healthy supply growth, along with some demand-side risks amid tighter immigration and uncertainties surrounding economic growth, could push vacancy up. Despite this, the rate will remain tight at just below 3.0 per cent.

3.0% INCREASE *in effective rent*

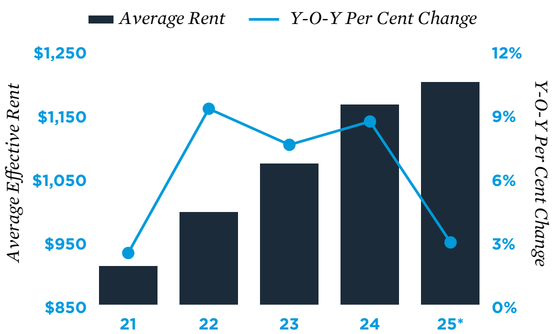
RENT:

As vacancy rises and renters have more choices, annual rent growth is poised to slow from the near 10 per cent readings seen over the past three years. Even so, with vacancy holding below equilibrium and elevated construction costs being passed through into higher rents for new builds, marketwide rent growth will be sustained in 2025.

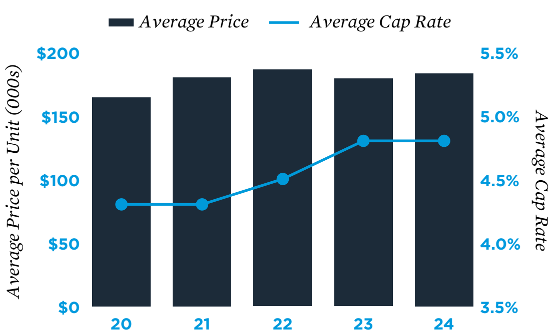
Supply and Demand



Rent Trends



Sales Trends



** Forecast*

Sources: Altus Data Solutions; CoStar Group, Inc.; CMHC; Statistics Canada

2024 Overview

CONSTRUCTION

15,121 units completed

- Nearly 1,300 more apartments were delivered in 2024 than the year before. This was led by a 12 per cent increase in downtown's rental stock, followed by a 9.1 per cent jump in the North Shore and a 8.9 per cent rise in Laval.
- As of the end of 2024, downtown had the largest under-construction pipeline at 2,500 units, next being Hochelaga-Maisonneuve and Le Sud-Ouest.

VACANCY

60 basis point increase in vacancy Y-O-Y

- Vacancy rose to 2.1 per cent, which was mainly driven within regions seeing strong supply growth, such as Laval and the North Shore. In contrast, vacancy was stable on the Island of Montreal and the South Shore.
- The metric was lower in more affordable segments, while new builds are taking longer to be absorbed amid high construction costs driving up rents.

RENT

8.7% increase in the average effective rent Y-O-Y

- As the second-least vacant multifamily market nationally last year, Montreal was also one of the few metros to record accelerated rent growth.
- Rent increases of 18.7 per cent for turned-over units far outpaced the 4.7 per cent seen on renewals. Regardless, average annual rent appreciation outpaced wage growth, continuing to erode affordability in Montreal.

Investment Highlights

- Lower interest rates, more favourable CMHC financing and healthy performance fundamentals helped drive a 60 per cent year-over-year surge in multifamily transactions in 2024. Yet with financing costs still within restrictive territory, this uptick was largely seen in the $1 million to $10 million category, as some private buyers prefer to use more equity in smaller-sized deals.
- As some buyers slowly returned from the sidelines amid both improving investment and operating environments, the average per unit sale price largely stabilized after experiencing a slight dip in 2023. Combined with strong annual rent growth, cap rates also held unchanged at just below 5.0 per cent. While spreads are still tight, investors are not faced with negative leverage, which is one reason why multifamily accounted for 60 per cent of total sales among major commercial property types in 2024.
- Domestic private buyers dominated the investment market in 2024, composing an 80 per cent share of total dollar volume purchased among major commercial property types. Typically able to deploy capital more freely, this buyer pool is using the lack of institutional competition to their advantage.

Montreal Office:
Kevin Marshall *Regional Manager*
1 Place Ville Marie, Bureau 1082
Montréal, Quebec H3B 4S6
Tel: (438) 394-6370 | kevin.marshall@marcusmillichap.com

Prepared and edited by:
Frank Zhao
Research Analyst, Canada | Research Services

For information on national multifamily trends, contact:
John Chang
Senior Vice President, Director | Research & Advisory Services
Tel: (602) 707-9700 | john.chang@marcusmillichap.com

Price: $250