Learning from Montreal: An Affordable and Inclusive City

Leçons de Montréal : une ville abordable et inclusive

9 May 2022
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The city of Montreal allows compact and lower-cost housing types – multiplexes, townhouses and low-rise apartments – on about two-thirds of all residential land, more than twice as much as in other North American cities. This creates affordable and walkable neighborhoods. C’est bon!

Summary
Montreal, Canada is beautiful, inclusive and economically successful, but also very affordable, with housing prices 20% to 40% lower than peers cities, plus low transportation costs. This results from local development policies which allow compact, lower-cost housing types – multiplexes, townhouses and low-rise apartments – on most residential land. This creates a responsive market where it is easy to build moderate-price housing in walkable neighborhoods, resulting in an abundance of naturally occurring affordable housing (NOAH). In contrast, most North American cities discriminate against lower-cost housing types, which drives up costs, and locates lower-priced houses in less desirable areas. Montreal shows how to create une ville abordable et inclusive (an affordable and inclusive city).
Introduction
Montreal is nicknamed “plus belle ville au monde” (“the world’s most beautiful city”), but it could also be named “the most affordable city.” For evidence see the Pad Blogger website which compares rent in various Canadian cities, as illustrated below.

Figure 1  One-Bedroom Median Rent Prices (https://blog.padmapper.com)

Montreal housing prices are 25–35% lower than other large Canadian cities, and because it has compact, walkable neighborhoods with good public transit, residents can minimize their transportation costs. This makes Montreal very affordable, inclusive and livable.

This and other sources show that Montreal’s housing prices are consistently 20-40% lower than in peer cities (LIC 2022), and because those affordable homes are located in very walkable neighborhoods with plenty of local shops, restaurants, parks, plus convenient public transit (Figure 2), residents have low transportation costs, and neighborhoods are very livable (OtU 2022).

Figure 2  Montreal Walk Score

Central Montreal neighborhoods are very walkable and bikeable, and have good public transportation, making it easy to get around without a car.

(Green indicates Walk Score over 70, meaning that most common services and activities are easy to reach without driving).
Central neighborhood residents drive less, spend money less on transportation, and produce far less air pollution than in conventional, automobile-oriented neighborhoods, as illustrated to the right. This gives Montreal a lower overall cost of living (Mercer 2021; Numbeo 2022); in Vancouver or Toronto a household must earn more than $70,000 annually to afford an average apartment, far more than the $50,000 typically required to rent a comparable apartment in a walkable Montreal neighborhood. Because it is multimodal, Montreal can implement progressive transportation policies, such as restrictions on high-polluting vehicles, that would be politically infeasible in other North American cities (Blais 2022; OtU 2022).

As a result, Montreal attracts diverse residents including young and old, rich and poor, natives and immigrants, English and French speakers, and lots of artists (Webster 2020). This combination of affordability, inclusivity and walkability gives residents more economic freedom and opportunity, better health, and better quality of life than in more sprawled and automobile-dependent areas, and supports creativity and local economic development (Ewing, et al. 2016; Litman 2022a).

The Magic of Montreal
What is Montreal’s magic? It is simple: unlike other North American cities, Montreal welcomes affordable housing types – multiplexes, townhouses and low-rise apartments, together sometimes called missing middle housing – in most neighborhoods. Considering land, construction and operating costs, this type of housing is 20% to 50% cheaper for the same size units than single-family houses. These housing policies respond to the needs of moderate-income households; this reflects the city’s working-class roots which value affordability and functionality over status and image.

Figure 3  Compact Development Reduces Driving

Residents of central Montreal neighborhoods drive only about one-third of the regional average, providing savings and benefits.

Figure 4  Land Required Per Home (DiRaimo 2021)

Compact housing types reduce the amount of land needed per household, reducing land costs and habitat displacement, and create more compact, walkable neighborhoods.
As a result, Montreal has a large supply of compact, moderate-priced townhouses and apartments, giving the city a European vibe (Andrew-Gee 2018). According to the 2016 census, 78% of Montreal residences are missing-middle housing types: multiplexes, townhouses and apartments in buildings with fewer than five stories, more than twice the portion in most North American cities (Shoag 2019). This housing pattern is a legacy of the city’s turn of the century construction boom, which saw explosive population growth between 1890 and 1940, as numerous households immigrated from other countries or rural communities to work in the city’s industries. The city’s rows of duplexes, triplexes, and low-rise apartment buildings built quickly and cheaply by small developers (Kennedy 2002), as illustrated to the right.

Montreal allows multifamily housing on 54% of its residential land, more than twice as much as comparable cities, as illustrated below. Most North American cities charge numerous development fees and approval requirements from various agencies, such as design review, traffic impact studies and off-street parking minimums that add tens of thousands of dollars per unit, plus delay and uncertainty. Montreal had minimal fees and fewer approval requirements (Polèse 2020). High development fees and regulations tend to favor larger developers and more expensive projects; Montreal’s lower costs and greater flexibility favors smaller developers, and smaller, more affordable projects. These policies allowed hundreds of builders to create tens of thousands of multifamily housing units, creating a competitive market for affordable homes (Phillips 2021).

Figure 5  Typical 1924 New Housing

| Figure 6  | A Visual Guide to Detached House Zones in 5 Canadian Cities |

Montreal allows multifamily housing on about twice as much land as comparable Canadian cities, and eliminated parking minimums in central neighborhoods. This helps explain why it is so attractive, economically successful and affordable.
Because of these policies, Montreal’s neighborhoods have diverse housing types: single-family, multiplexes, townhouses and multifamily housing all mixed together, in compact and very walkable neighborhoods. Other North American cities relegate multifamily housing to less desirable locations and impose regulations and fees that drive up costs in ways that discourage lower-cost infill developments. According to Professor Mario Polèse’s article, “How One City Makes Housing Affordable: The Montreal Example”, Montreal’s housing stock is visibly more affordable. The percentage of owner households spending more than 30 percent of their income on shelter costs was 20 percent in Montreal, compared with 27 percent in Toronto (16 percent and 27 percent, respectively, at the metro level). The equivalent figures for renters were 37 percent and 47 percent (city) and 36 percent and 47 percent (metro area). The combination of relatively affordable prices, supply elasticity, and mid-range housing has helped produce a more integrated housing market, contributing to the emergence of mixed-use neighborhoods, the norm in much of the central city.

These policies create an abundance of what planners call naturally occurring affordable housing (NOAH). Even if new homes are initially too expensive for lower-income households they contribute to affordability by freeing up existing supply as some families move from lower-cost apartments into the new units, a process called filtering, and over time as those new units depreciate and add to the stock of low-priced homes. If construction of new moderate-priced housing meets population growth, older units depreciate more rapidly than if new construction lags growth, reducing NOAH and increasing future housing prices.

Several recent studies have measured these effects. For example, one study found that upzoning in some Portland, Oregon neighborhoods led to significantly greater development and more housing supply than in areas with lower density limits (Dong 2021). A study by economist Evan Mast (2019), described in The Connectedness of Our Housing Ecosystem (Herriges 2019), tracked the previous residences of the occupants of 802 new multifamily developments in 12 North American cities, and the previous residences of the households that replaced them, through six cycles. It found that building market-price apartments causes a kind of housing musical chairs, as households move into new units. This analysis indicates that for every 100 new market-rate units built, approximately 65 units are freed up in existing buildings, accommodating up to 48 moderate- and low-income families. Another major study, Do New Housing Units in Your Backyard Raise Your Rents? found that each 10% increase in New York’s multi-family housing stock reduces prices of nearby housing by 1% (Li 2019).

Of course, even with Montreal’s low housing prices, some households need subsidized housing. About 8% of households live in social housing, which is lower than in other large cities due to the larger supply of moderate-priced market housing, and because of the city’s relatively low development costs, public housing funds can deliver more housing per dollar than in peer cities. Montreal’s abundant NOAH gives lower-income households more housing options.
The Importance of Naturally Occurring Affordable Housing (NOAH)
Montreal’s previous development policies created abundant NOAH. Developers built lots of moderate-priced housing (dwellings that would sell for the current equivalent of $200,000 to $600,000, or rent for $1,500 to $3,000 per month, depending on size). This increases affordability in two ways, as illustrated below. In the short run, the new homes free up existing housing through filtering, as some households move from nearby lower-rent apartments into the new units. Over the long-run, as the new homes depreciate in value they add to the stock of older, affordable housing. How quickly housing depreciates depends: if supply increases in response to demand, houses will depreciate more rapidly, so after a decade an apartment that initially rented for $2,500 per month will rent for the future equivalent of $1,844, but if housing growth lags population growth new houses will depreciate slowly, so that unit will rent for the equivalent of $1,844. NOAH therefore depends on moderate-priced housing development.

**Figure 7** How New Housing Contributes to Affordability (Phillips, Manville and Lens 2021)

<table>
<thead>
<tr>
<th>Short Term</th>
<th>Long Term</th>
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<tbody>
<tr>
<td><img src="image1.png" alt="Image" /></td>
<td><img src="image2.png" alt="Image" /></td>
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**Legend:**
- $2,500/mo.
- $1,500/mo.
- $1,200/mo.
- $1,000/mo.

Between a third and half of new multifamily building occupants typically move from near-by lower-priced apartments, freeing them up for new families. Building 20 new apartments that rent for $2,500 per month makes 6 to 10 $1,000-1,500 per month apartments available.

This NOAH-producing cycle was common in the past, but during the last few decades most North American communities implemented policies that discourage moderate-priced infill by limiting multifamily housing and imposing large development fees, approval requirements and parking minimums. Experts call these exclusionary policies because they exclude lower-priced housing and therefore lower-income families from attractive neighborhoods. This forces lower-income households to live in less desirable locations, which tends to concentrate poverty and forces an increasing portion of lower-income households to live in isolated, suburban areas with poorer access to services and jobs.

International experience shows that responsive development policies that encourage moderate-priced infill development really do increase affordability, as discussed in the academic book, Zoned in the USA (Hirt 2014), “Why are Houses in Japan so Cheap?” (Alex 2022), and the Sightline Institute’s series, Yes, Other Countries Do Housing Better: Political Lessons from Ten Nations About Building Affordable, Low-Carbon Neighborhoods (Durning 2021).
The Roles of Social and Moderate-Price Market Housing

There are sometimes ideological debates concerning whether affordability requires more social (subsidized) or market housing, as discussed in my column, The Housing Supply Debate: Evaluating the Evidence (Litman 2021a). On one hand, free market proponents claim that housing affordability requires urban expansion to allow more low-density development. However, their analysis tends to ignore the additional transportation costs imposed on households that live in automobile-oriented, urban fringe locations, as illustrated below. Although families in sprawled regions such as Atlanta and Houston spend a smaller portion of their budgets on housing than in compact cities like Seattle and Boston, this is offset by their much higher transportation costs, reducing overall affordability, as well as increasing their crash risks and reducing non-drivers’ ability to access services and activities.

Figure 8  Housing and Transportation Costs by U.S. Urban Region (Litman 2021b)

Although households in sprawled regions spend a smaller portion of their budgets on housing, this is offset by their much higher transportation costs, reducing affordability overall.

Table 1 compares key attributes of social and affordable market housing. Both have advantages and disadvantages. Social housing provides reliably low rents but offers fewer options and less flexibility. Most cities have insufficient social housing to meet all needs so qualifying families often wait years for a home, and once they receive it, they tend to be locked in since it can be difficult to move to another location for example, if they prefer another neighborhood closer to work, family, or a desirable school. Social housing is unsuitable for households that move frequently or want to maximize their real estate equity. About 15% of Toronto households live in social housing, more than the 8% in Montreal, but the need is much lower since most moderate-income households, those earning $2,400 to $5,000 per month, can find market-rate housing within their budget.
Consider, for example, the needs of a family of four living on one minimum wage ($15 per hour) income plus two child benefits, which total about $3,400 per month. Using standard affordability indicators (no more than 30% of budgets spend on housing or 45% on housing and transportation combined), they can afford to pay $1,000 per month in a suburban area with high transportation costs or about $1,500 per month for a home in a walkable neighborhood with minimal transportation costs. In Toronto, two-bedroom market-priced apartments start at $2,000 per month, which is unaffordable for that household. They can apply for social housing, but must usually wait years and have few location options. In Montreal, where two-bedroom apartments start at $1,200 per month, they may benefit from social housing’s reliably low rents but also have affordable alternatives that may better meet their needs.

**Table 1** Social Versus Affordable Market Housing

<table>
<thead>
<tr>
<th>Social</th>
<th>Affordable Market</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>What it is</strong></td>
<td>Subsidized housing including supportive housing, government and non-profit housing, private housing sold or rented below market prices, and coop housing.</td>
</tr>
<tr>
<td><strong>Who it serves</strong></td>
<td>People with special needs, low incomes, or who enjoy living in public cooperatives.</td>
</tr>
<tr>
<td><strong>Advantages</strong></td>
<td>Supports people with special needs. Provides affordable and stable homes for low income households. Can provide cooperative communities.</td>
</tr>
<tr>
<td><strong>Disadvantages</strong></td>
<td>Limited supply and options: families must usually wait years for a home, and must accept whatever units are available. Can concentrate poverty.</td>
</tr>
<tr>
<td><strong>Support strategies</strong></td>
<td>Public subsidies. Upzoning to allow lower-priced infill in walkable urban neighborhoods. Inclusivity mandates (market units subsidize social units).</td>
</tr>
</tbody>
</table>

Social and market housing include various types that serve various household types, and have various advantages and disadvantages. Most communities require both to serve diverse needs and preferences.

Some policies support both social and market housing. These include allowing lower-cost housing types (multiplexes, townhouses and apartments) in walkable neighborhoods, minimizing development fees and approval requirements for moderate-priced units, and eliminating parking minimums so car-free households are no longer forced to pay for costly parking facilities they don’t need. However, some policies, such as inclusivity requirements can increase social housing but reduce moderate-priced market housing production (Schneider 2018). For example, if the cheapest units cost $400,000 to build and regulations require 10% be sold at $200,000, each market unit bears an extra $22,222 ($200,000/9) cost. This is a small burden for high-priced housing (2% of a million dollar unit) but large for lower-priced housing (6% of a $400,000 unit). This increases costs and reduces production of market housing, particularly the lowest-priced, least profitable units, so if a twenty-unit project would otherwise include ten homes priced under $500,000, inclusivity requirements would result in two $200,000 units, but only four selling under $500,000. Similarly, older housing preservation rules can prevent small, older apartments from being replaced by new, larger buildings with more units. In this way, inclusivity requirements increase affordability for the smaller number of households that receive subsidized units but reduce affordability for the larger number of households that rely on moderate-priced market housing, many of which are equally deserving but less lucky when subsidized units are allocated.
How Much is Needed?
To be efficient and equitable, development policies must respond to housing demands, including the needs of low- and moderate-income households (Litman 2022b). For example, if the number of households that want to live in an area increases by, say 1.5% annually, housing supply should increase by at least that amount, and if many of those are low- and moderate-income families, development policies should favor lower-cost housing types that serve their needs. Most attractive and economically successful North American cities fail to do this, resulting in a shortage of NOAH. Montreal is the exception; it demonstrates that a city which upzones to maintain a large zoning buffer (land pre-zoned for higher densities), with low development fees and approval requirements for the lower-cost housing types in walkable urban neighborhoods, can have truly affordable housing and transportation.

Some people are skeptical. They point to the tendency of land to become more expensive if upzoned, capturing much of the potential savings. For example, a parcel might cost $800,000 if zoned for single family housing but $1,200,000 if upzoned to allow four townhouses. Supply skeptics argue that all of the potential value of upzoning will be captured by the property owners, resulting in no increase in affordability. There is a little truth but a lot of inaccuracy in this claim. Yes, upzoning increases land values, but the amount depends on the number of parcels that are upzoned; if the zoning buffer is small, upzoned land will be scarce and costly, but if the zoning buffer is large there will be a competitive market of parcels that allow more infill development. For example, if 80% of residential land is zoned for low-density housing, as in Vancouver, the few parcels that allow multifamily will command a large price premium. However, if 56% of residential land allows multifamily, as in Montreal, the price premium will be much smaller, allowing small developers to easily replace a single-family house with four townhouses, or three single-family houses with twenty apartments, responding to growing demand for compact, moderate-priced housing.

How much upzoning is needed? Based on conditions in typical North American cities, such as Los Angeles, Phillips (2022) recommends upzoning at least a quarter of existing parcels in attractive urban neighborhoods to moderate densities. Litman (2022b) recommends upzoning attractive urban neighborhoods to ensure that there are at least three pre-zoned parcels on the market for every additional unit desired. Because a typical parcel is sold about once a decade, this means that a city should upzone 30 parcels for each additional infill project required in a neighborhood. For example, if regional population is growing at 1.5% annually, a 1,000-home neighborhood should add 15 units annually to accommodate its share of growth. If a typical multiplex or townhouse infill project adds three net units, the neighborhood needs at least five such projects annually. To keep land affordable that neighborhood needs at least 150 parcels upzoned to allow multiplexes and townhouse (five desired projects times 30 upzoned parcels per project). With that amount of pre-zoned land, price increases will be small because sellers must compete; if they ask too much, developers have other parcels to choose from. With sufficient upzoning, everybody wins: owners receive more money for their properties, developers build more units that generate more income and profits, there is more demand for workers, and prices per housing unit are lower than if the city only allows single-family homes.

Many attractive North American urban neighborhoods currently have a large shortage of compact, moderate-priced housing, so they will need to add more supply than their regional population growth rates to catch up. Those areas should upzone more land and allow mid-rise housing types, such as three- to six-story multifamily, in addition to multi-plexes and townhouses. That allows the land market to respond to the growing demand for compact, lower-priced housing in walkable urban neighborhoods, providing naturally occurring affordable housing.
Growing Risks and Solutions
Although Montreal’s housing prices are lower than peer cities, its affordability is at risk. Housing prices are increasing. Between 2008 and 2021 housing prices increased 152% Plateau Mont-Royal, a neighborhood full of missing-middle housing, and 163% in the diverse and populous Côte-Saint-Luc neighborhood, as illustrated below. Average prices increase 32% over the entire Montreal region between March 2020 and March 2021 (Tomesco 2021). In 2020, half of condos sold over asking price.

Figure 9  Median House Prices in Montréal Neighborhoods (Archives Barometer)

Although prices are still lower than other Canadian metro areas, Montreal is losing its historical magic. Montreal housing is becoming unaffordable, as illustrated below.

Figure 10  Canada Housing Affordability Indices (Hristova 2022)
Prices are increasing because Montreal is no longer building enough new homes to meet growing demand. Over 70% of Montreal’s private occupied dwellings were built before 1981, compared to 64% in Toronto and 52% in Canada generally, with a particularly significant share being built before 1960.

**Figure 11** Private Dwellings by Construction Period *(2016 Canada Census)*

Montreal is starting to apply new policies that drive up development costs. In the past the city had an abundant *zoning buffer*, that is, allowable capacity for moderate-density developments *(Phillips 2022)*. This is no longer true. New restrictions impose tens of thousands of dollars in fees and extensive negotiations to approve moderate-density infill projects. For example, the city now imposes design review requirements *(Ville Montreal 2021)*, and one of the world’s most demanding inclusionary zoning policies: 40% of units in most new developments must be designated social (publically subsidized) or affordable (privately subsidized) housing *(Ville Montreal 2022)*. As a result, both market and social housing projects now require 5-8 years for development. In addition, Quebec imposes stringent rent controls which discourages property owners from renting lower-priced apartments. These policies tend to reduce moderate-priced housing supply and overall affordability *(Schneider 2018)*. As one expert explains,

> While inclusionary zoning provides large benefits for a small number of low- and middle-income households, most empirical evidence indicates that it drives up prices for others and reduces access to housing overall. The policy’s emphasis on providing below-market-rate housing in new construction that’s identical to market rate housing means that resources dedicated to social housing won’t go as far — or be distributed as equitably — as they could be if they were targeted to low-income individuals as housing vouchers or cash. *(Hamilton 2018)*

Actual responses vary depending on conditions. Bertolet *(2017)*, Means and Stringham *(2012)*, and Schuetz, Meltzer and Been *(2011)* provide empirical evidence that affordable housing mandates often reduce total housing development and increase future prices. To minimize negative effects, affordable housing mandates should be implemented with other incentives to encourage development such as increased allowable density and reduced parking requirements; should only apply where there is significant latent demand for new housing; and should exempt moderate-priced housing. For example, if housing is considered affordable if priced under $200,000 per unit, mandates should only apply to housing over $400,000, since homes in the $200,000-400,000 range increase future affordability.
Lessons from Montreal
Montreal has important lessons to teach about affordability, inclusivity and resource efficiency. It demonstrates that cities can deliver true affordability by supporting compact, moderate-priced housing in walkable urban neighborhoods. It’s not what a city *does*, it what it *doesn’t do* that allows this to occur: historically, Montreal did not exclude multifamily housing from most residential land, and it did not impose costly development fees or approval requirements on moderate-density infill. In other words, its development policies did not favor expensive over cheaper housing, sprawl over compact infill, or larger over smaller projects. The results are visible in the marketplace, as illustrated below.

Figure 12 Typical Montreal Apartment Prices (Rentals.ca, March 2022)

This recent screenshot shows typical Montreal apartment rental prices. Many older apartments in walkable and attractive neighborhoods are available for $900 to $1,500 per month, which is far more affordable than in peer cities. This is a legacy of the city’s responsive housing development policies.

Other cities can achieve this by applying the following policies (Shoag 2019):

- Allow compact, lower-cost housing types on most residential land. Upzone lower-density neighborhoods to allow multiplexes, townhouses and 3-6 story apartments.
- Allow an additional story for corner lots, larger lots (1,000 square meters or more), adjacent to parks, and on busier streets. These locations minimize negative impact on neighbours.
- Reduce fees and approval requirements for smaller, moderate-priced infill developments since these are the projects we most need.
- Exempt lower-price new housing from inclusivity and building preservation requirements.
- Eliminate parking minimums and favor unbundling (parking rented separately from housing units), so residents are not forced to pay for expensive parking facilities they do not need.
- Improve affordable housing design. Municipal governments can support design contests and workshops to encourage better design. The Affordable Housing Design Advisor, the Missing Middle Website, and Portland’s Infill Design Project provide affordable housing design resources.
- Subsidize housing for people with special needs.
- Favor affordable and resource-efficient travel modes (walking, bicycling and public transit) in transportation planning and funding.

These reforms support both social and market housing. Upzoning, low fees and approval requirements, and zero parking minimums reduce public housing development costs and provide homes for residents transitioning out of social housing, so their units become available for new occupants.
Conclusions
To be efficient, equitable and resource-efficient, communities must respond to growing demands for moderate-priced housing in walkable urban neighborhoods. Montreal demonstrates that this can be effective and provides many economic, social and environmental benefits: its housing prices are 20-40% lower than in peer cities and because much of this housing is located in compact, multimodal areas residents can minimize their transportation costs, providing true affordability, accommodating diverse communities, supporting public health, community livability and environmental protection.

Both social (subsidized) and moderate-priced market housing play important roles in meeting housing needs. Social housing serves a relatively small number of households with special needs, very low incomes, or who value the community created by cooperative housing developments. Moderate-priced market housing can serve the needs of a larger number of low- and moderate-income households that want diverse and flexible housing options, and who want to build equity.

Montreal’s development policies facilitated construction of moderate-priced infill housing – multiplexes, townhouses and low-rise apartments – within existing neighborhoods. As a result, that is the city’s dominate housing type. These development policies nurtured naturally occurring affordable housing (NOAH), which is the dominant form of affordable housing in most cities. However, new restrictions, regulations and fees threaten this legacy. Construction of moderate-density housing is starting to lag demand, driving up prices.

Une ville abordable et inclusive? C’est bon!

Acknowledgements
Thanks to Adam Mongrain from Vivre en Ville for research assistance.

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