The MoWest real estate market under-performs and high taxes appear to be the cause

SUMMARY

Residents who follow our local real estate market have long suspected that our high taxes affect the market. The issue is how to prove it. Market performance can only be measured with respect to the performance of other towns. What by itself may appear to be strong growth can turn out to be weak in comparison with other markets.

Assessing the degree of MoWest under-performance might be subjective. Are we worse than most other towns, and what does "most" mean? In our case, since we either rank last or second-from-last, the under-performance is clear-cut. The impact of high taxes becomes apparent by comparing the low-tax 2000 to 2005 period[1] with the high-tax 2006 to 2023 years. (The high-tax era began in 2006 with a 12.5% increase above 2005.) Since short-term trends can be lost in the 18 year high-tax period, I also examined recent behaviour from 2018 to 2023.

Two approaches were used to measure and compare the performance of the MoWest market with 13 other towns[2]: **1. Year-by-year return on investment (ROI) analysis, and 2. Ratio analysis of other towns' median selling prices to ours**.

The key takeaways:

1. **Year-by-year ROI analysis**. From 2006 to 2023 -- the high-tax period, MoWest ranked last (14th) with an average annual return of 4.9% compared with the 13 other towns that had an average return of 6.1% – or 26.0% better than MoWest year after year. The last-place ranking confirms long term under-performance. This approach calculated annual % ROIs as the increase in median selling price divided by the previous year's selling price, and then averaged these returns over different periods.

   During the low-tax 2001 to 2005 years we performed better ranking 4 positions higher at 10th with an average annual ROI of 10.5%; the other towns averaged 11.2%, or only 6.4% higher. Although we still performed below nine other towns, our gap with the average of the other towns was much lower relative to the high-tax era.

   Recent performance from 2018 to 2023 gave MoWest an average annual return of 5.5% compared to the other towns' average ROIs of 8.4% – or 53.4% higher. However, we did perform 3.3% better than Westmount.

2. **Ratios analysis.** By examining how the ratio of another town's median selling price to ours varies over time we can see whether lower-priced markets are closing the gap with us, and higher-priced markets are pulling away – both indicating deteriorating MoWest performance, or vice versa.

   During the low-tax era MoWest improved its performance relative to 4 towns (CSL, Kirkland, Beaconsfield, and Baie d"Urfe), but lost ground to the other nine. In the high-tax period we lost ground to all other towns: seven towns had their rates of improvement relative to us jump from the low-tax period. Another five towns continued to improve on us, but at lower rates**.**

   Recent performance from 2018 to 2023 shows us continuing to lose significant ground to 10 other towns, but improving with respect to Westmount.

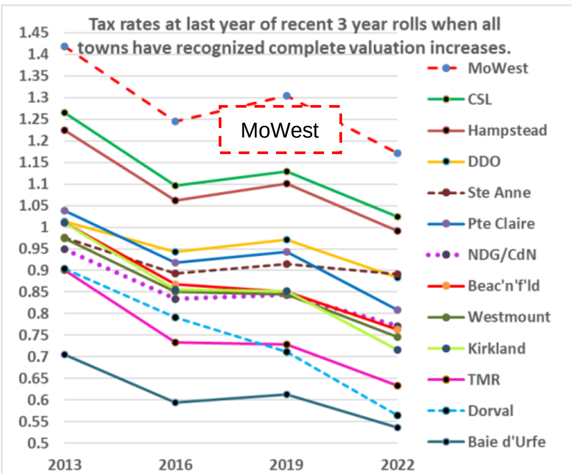
These results confirm that the MoWest market has been under-performing, and based on the differences between the low- and high-tax periods the culprit would appear to be high taxes.

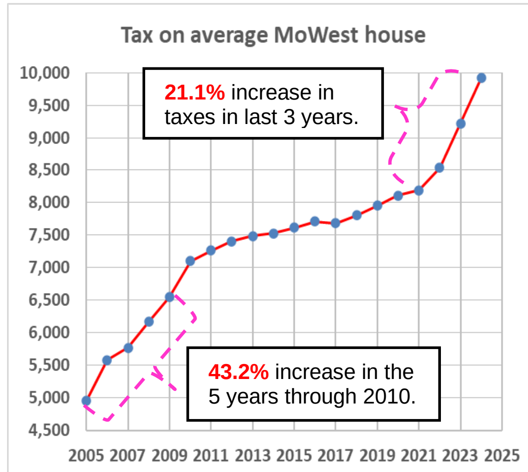
It's worth considering whether some other negative factors might be deterring buyers, and not just high taxes. However, MoWest is not near an industrial park, polluting industry, hazardous waste site, in a flood zone, etc. What we do have is all good (except for some awful roads): a prime location close to decent schools, quite good bus & train connections, easy access to major autoroutes and downtown Montreal, excellent recreational & cultural services, friendly neighbours with interesting demographics and backgrounds, and pleasing house appearances with good curb appeal and a lovely tree canopy. So, it's difficult to conceive of any other factors that may be causing our under-performance.

INTRODUCTION: Montreal West has the highest tax rate

The tax rate graph below left shows MoWest to have the highest tax rate on the Island. Because some towns such as CSL, NDG/CdN, and Kirkland phase-in valuation increases, it's only possible to compare tax rates in the final year of each three-year valuation roll, or at 2013, 2016, 2019, and 2022 on this graph.

In 2022, MoWest rates were **14.4% above CSL**, **18.1% above Hampstead**, **31.3% above** fourth place **Sainte Anne de Bellevue**, and **51.8% above** our closest market competitor **NDG/CdN**. But this was before the steep tax increases of the last two years. (A separate report examines tax rates in more detail.)

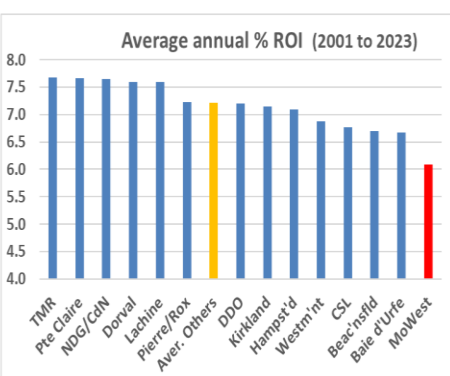


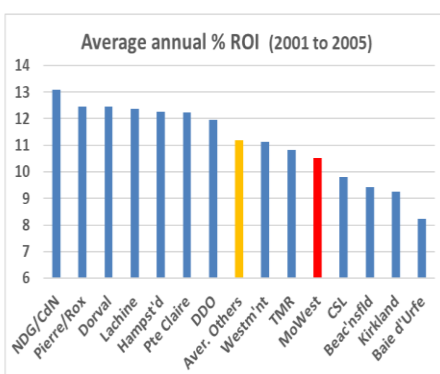


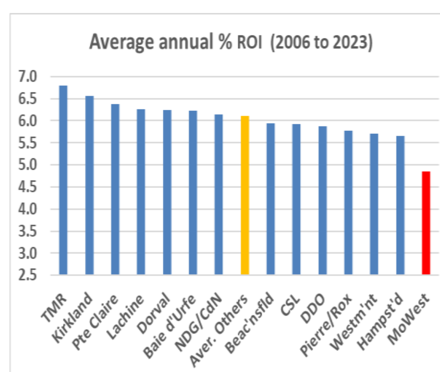
The right graph shows that Montreal West experienced a **43.2%** increase in taxes on the average home in the 5 years from 2006 to 2010, which averaged $428 per year and was the start of our high-tax period. We are now in the midst of another period of large increases**: 21.1%** in the 3 years from 2022 to 2024 averaging $575 per year. Our debt charges increased **29.3%** in the 2024 budget, which is only the tip of the iceberg since the new rec center is projected to double our debt, meaning our tax rate gap with other towns will surely widen giving further pause to prospective home buyers.

1. Year-by-year return on investment (ROI) analysis

An ROI analysis is the most understandable as it produces the % growth in an investment, in this case our houses, over a period of time. Here, ROIs are calculated for each year as the increase in median selling price divided by the price in the previous year, expressed as a percentage, and then averaged over each period considered. In the left graph below over the entire 2000[3] to 2023 period, MoWest had the smallest average annual ROI growth per year (**6.09%**) compared with the average annual growth of **7.22%** for all other towns (**the orange column**). The other towns' average was **26.0%** above ours, year after year indicating long-term under-performance.





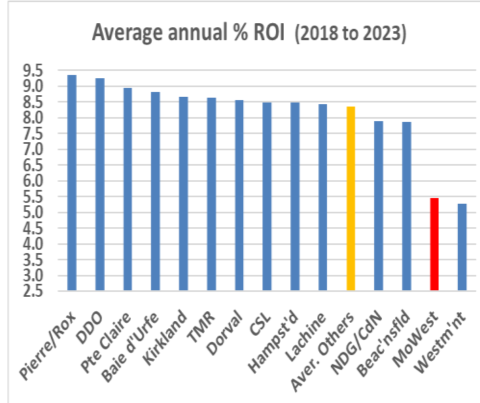


Low-tax era **High-tax era**

The contrast between the low- and high-tax periods is evident in the right two graphs. On the middle graph, during the low-tax years 2000 to 2005, we ranked **10th** with an average annual growth of **10.5%** per year compared to **11.2%** for all other towns which was only **6.4%** higher. The right graph for the high-tax era placed us **last** with an average annual growth of **4.86%** compared to the others at **6.12%** -- or **26.0%** higher. This deterioration of performance in the high-tax period suggests taxes are to blame.

Recent performance from 2018 through 2023 (right graph) places us 13th just above Westmount. The average annual ROI for all other towns is 8.4%, or 53.4% above ours at 5.45%.

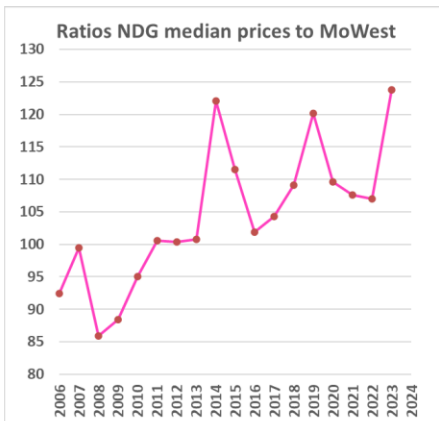
The main takeaways: Not only did MoWest under-perform the 13 other towns from 2000 to 2023, but our performance in the high-tax years was substantially worse than in the low-tax years implicating high taxes as the cause.

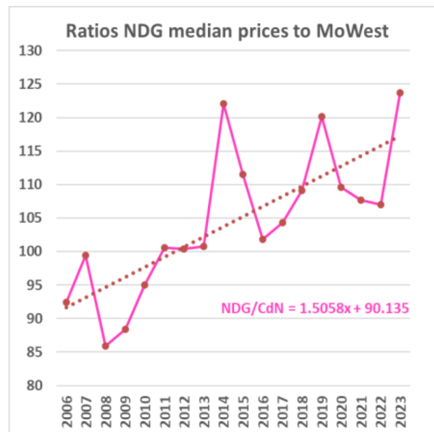


2. Ratios analysis: Comparing performance using the ratios of median selling prices

The ratio of another town's median selling price to ours indicates how far above or below us it is. For example, in 2008 **NDG/CdN** had a median selling price of **$425,000** compared to MoWest's of **$495,000** giving a ratio of **0.859**, or 85.9%. This meant that the **NDG/CdN** selling price was **85.9%** of **MoWest's**. By 2019 this ratio was **1.201**, or 120.1%, meaning that NDG prices had climbed to **120.1%** of MoWest, or **20.1%** higher.

A graph of the NDG ratios over different years produces a visual indication of NDG performance relative to ours as in the left graph for the high-tax years. The upward trend becomes more apparent when what's known as a **trendline** is fitted to the data – the dotted line on the right graph. (A trendline is the line that best passes through the data.)

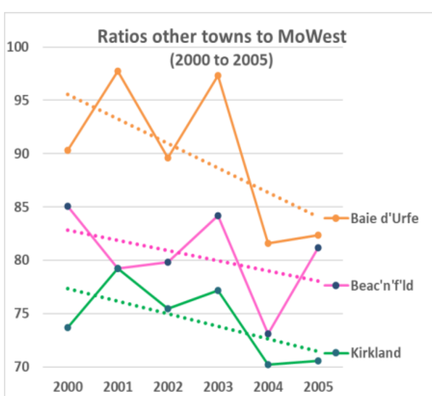


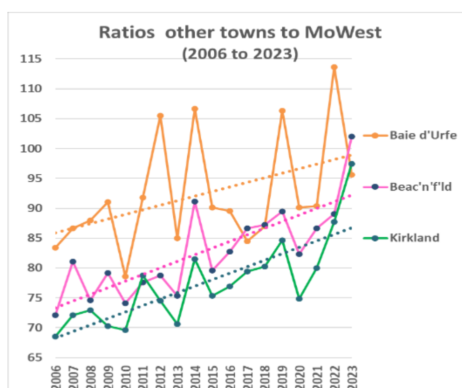


A**n upward trend means that higher-priced towns are pulling away from us and lower-priced towns are catching up**. In this case, the upward trend shows that NDG closed the gap with us until it reached 100% in 2011, and thereafter pulled away from us.

Ratio graphs and trendlines were plotted for 13 towns for the low- and high-tax periods. The behaviour of 5 of these towns is given in the four graphs below.

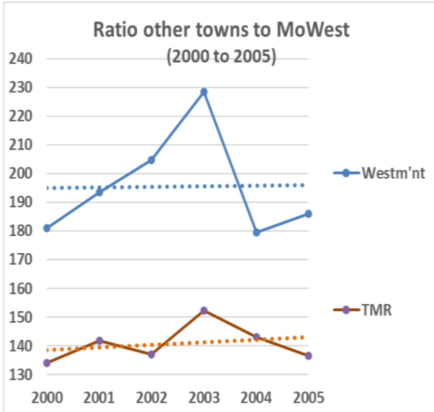
Notice that Baie d'Urfe, Beaconsfield, and Kirkland had downward trends on the left graph during 2000 to 2005 indicating that **MoWest was pulling away from them**. But in the high-tax era their slopes became upward meaning that **they were catching up to us**. Results for CSL also show an initial downward slope in the low-tax years as MoWest pulled away, followed by an upward slope in the high tax period as CSL was catching up to us.

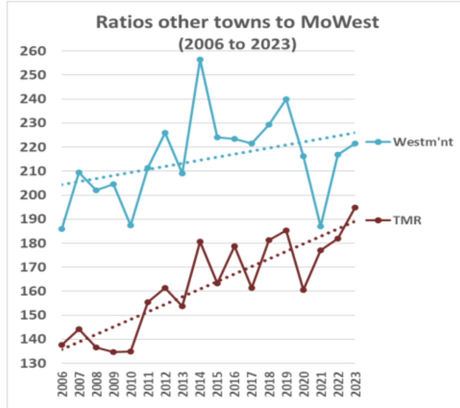




Data for Westmount and TMR on the left graph show very slight upward trends between 2000 and 2005 meaning that they were marginally pulling away from us. The more pronounced upward trends in the high-tax region on the right graph signifiy that both towns were pulling away from us at a much greater rate.

Results for the other 7 towns showed Pointe Claire catching up to us in both periods; but at a greater rate in the high-tax period. Six towns improved their performance in both regions, but at a lesser rate than between 2006 to 2023.





Recent performance from 2018 to 2023 shows us continuing to lose ground to 12 other towns, but improving with respect to Westmount consistent with the ROI analysis.

The main takeaway is that during MoWest's high- tax period its performance deteriorated, sometimes significantly, with respect to all 13 other towns.

(I have quantitative data from the trendline equations which gives precise measures of performance, if anyone is interested.)

Notes:

1 When I purchased Centris data for the years before 2014, none was available before 2000; this leaves the low-tax period a bit short of data.

2 Median selling price data has been taken from www.centris.ca and is available on request, as are additional graphs. Ten of the 14 comparison towns are demerged suburbs, three are Montreal boroughs (Lachine, NDG/CdN, and Pierrefonds/ Roxboro).

3 Data for 2000 to 2023 is being used so that the first ROI is calculated for 2001 based on growth from 2000.