Economic Commentary

January 2021

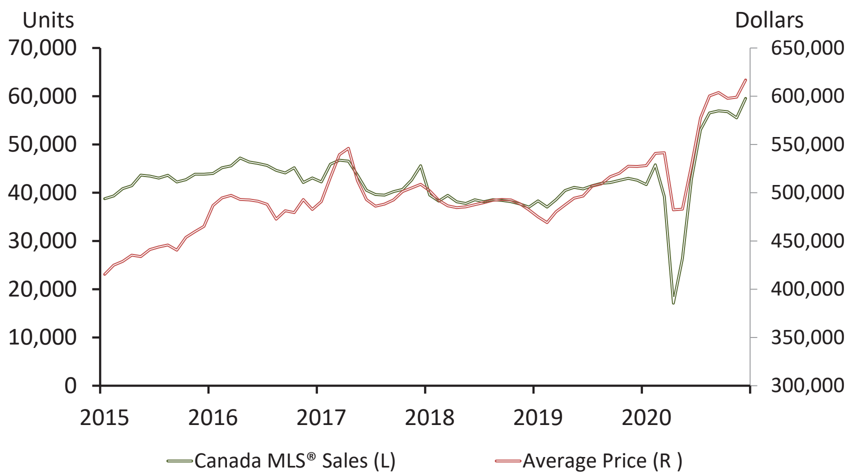
central 1 Economics

Explosive hand off to 2021 for Canadian housing, what's next?

The most surprising story amidst the pandemic has been the unprecedented strength of the housing market across the country despite elevated levels of joblessness, a sharp but temporary drop off in immigration, and decimation of various industry sectors. Last week's Canadian Real Estate Association data release for December highlighted this vigorous hand off to 2021.

MLS® sales nationwide accelerated to cap off 2020 at record high after signs of cresting the prior two months. Sales were up 47 per cent year-over-year, and seasonally-adjusted sales exceeded the previous mid-2016 high by more than a quarter. The average price rose 17 per cent year-over-year to $607,280.

Record pace of sales to cap off 2020



Source: CREA, Central 1 , note: Seasonally – adjusted data

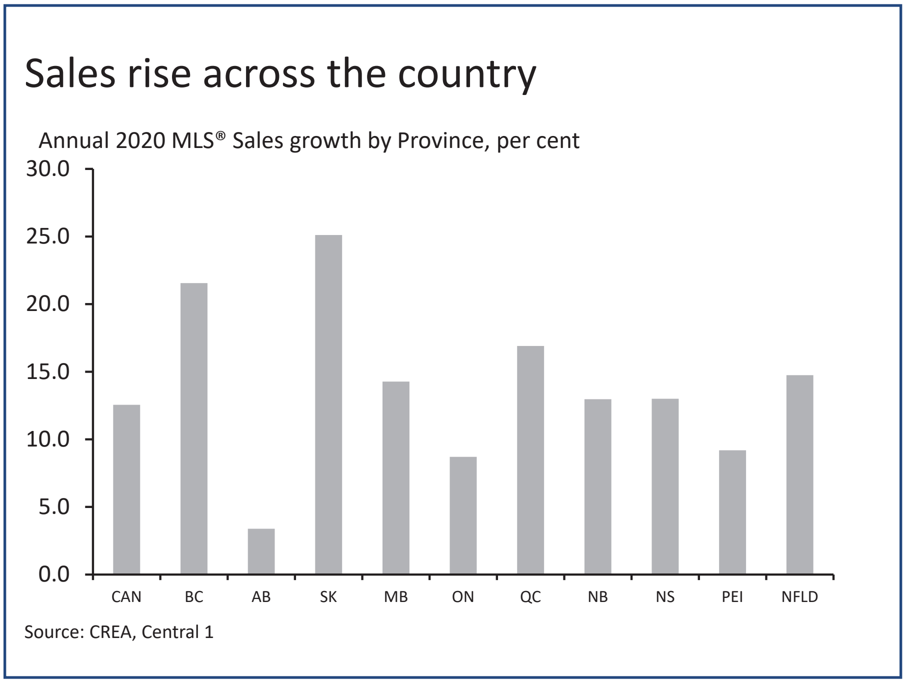
By now, the key drivers of the boom in housing demand have been well established. The COVID-19 pandemic resulted in policy interest rate cuts and the implementation of quantitative easing with an expectation of future weakness which drove mortgage rates down sharply. New trends have emerged as more workers work remotely. Demand has risen for physical space, suburban markets and also smaller urban markets. The latter reflects some long-term expectations of a work from anywhere environment – whether rational or not.

Severe weakness in the aggregate labour market had less effect on the housing market than anticipated. Lower income earning occupations in the hospitality and services sectors bore the brunt of the downturn and were unlikely to be attempting to access the property market. Workers in other sectors generally shifted to remote work and amassed savings which were put towards buying property.

Out of these key drivers emerged a number of housing themes.

- *Demand rose across the country*

Early pandemic declines in sales were more than offset by strong growth in the latter half of the year. Annual sales reached a record high, gaining 12.6 per cent from 2019 and rising 2.3 per cent from the previous 2016 peak. Among provinces, double-digit gains from 2019 was the norm, led by growth of more than 20 per cent in B.C. and Saskatchewan, while Ontario rose 8.7 per cent. The weakest gain across provinces was in Alberta which recorded a 3.4 per cent increase. Varying economic conditions and pandemic restrictions contributed to differentials.



- *Sales increased in markets of all sizes*

Breadth in housing demand was also impressive with surging sales among major metro markets and smaller urban and rural markets across the country. A comparison of metro markets to other areas within provinces showed similar if not robust sales/price growth in smaller markets. This is consistent with the shift in preferences as remote work opportunities opened up options for buyers away from the urban core and towards suburbs or bedroom communities with larger housing footprints, and in some cases, home-owners purchased properties in smaller urban markets as they expect to work remotely on a long-term basis. While large metro areas still account for the vast majority of population growth, Statistics Canada's latest population estimates for 2020 showed of increased movement by Canadians from Canada's largest metro areas increased toother areas of the province. That said, this accelerated previous outward migration trends, reflecting already the pull of retiree demand and affordability challenges in large markets.

MLS® Sales and Price Growth by Province and Region*, Per Cent

	Annual Sales	Q4/Q4 Average Price		Annual Sales	Q4/Q4 Average Price
BC	21.5	11.2	Manitoba	14.3	8.9
Lower Mainland	25.0	11.5	Winnipeg	12.4	8.7
Victoria	17.0	10.4	Other MB	27.1	16.0
Other BC	17.8	16.9	Ontario	8.7	18.2
Alberta	3.4	5.8	Greater Toronto	8.3	12.8
Calgary	3.3	3.7	Ottawa	2.1	21.5
Edmonton	4.9	6.3	Hamilton-Burlington	8.4	21.6
Other AB	1.1	8.2	Kitchener- Waterloo	8.8	15.6
Saskatchewan	25.0	4.6	Windsor- Essex	1.6	27.3
Regina	21.9	2.7	Other ON	11.4	26.4
Saskatoon	22.9	5.2	Nova Scotia	12.9	17.1
Other SK	31.5	7.3	Halifax	12.8	17.3
			Other NS	13.1	20.8

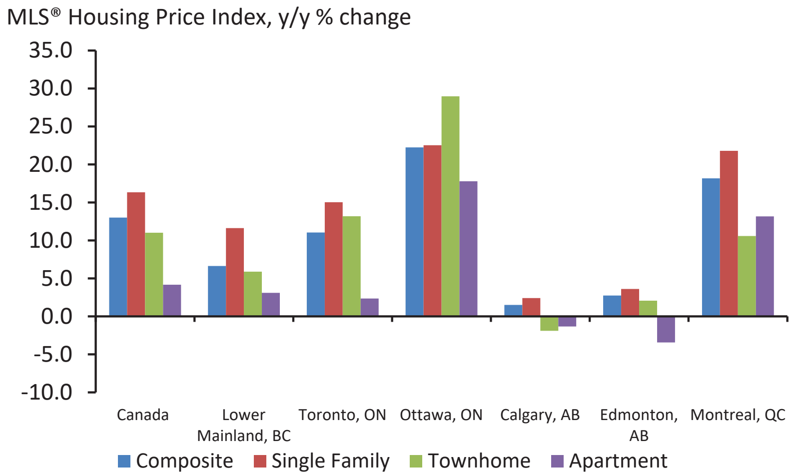
Source: CREA,Central 1 Calculations

*Regional data unavailable in some provinces or covered by single board area.

- *Housing market conditions for ground- oriented units broadly tightened at the expense of apartment condominiums.*

The pandemic has created a wedge in demand in the market as households seek space and white picket fences (or at least a small plot of grass). While difficult to pull from MLS® data given definitional issues among real estate boards and reporting conditions have diverged in the large markets, real estate board data in the pricey Greater Vancouver region showed a 30 per cent increase in detached and townhome sales, with apartments up a modest 12 per cent. The Toronto Real Estate Board reported stronger sales growth and conditions for detached of 15 per cent compared to apartment sales which fell five per cent.. In Calgary, which is grappling with greater challenges of a decimated energy industry alongside the COVID-19 crisis, detached home sales held steady as apartments fell 10 per cent. This gap is evident in prices. Year-over-year growth in the MLS® Housing Price Index came in at 16.3 per cent for single-family homes, and 4.2 per cent for apartments. Demand has outstripped supply in ground-oriented units. This weakness in apartments reflects the combination of a shift in demand for families and nature of work, but also temporary factors of the pandemic. Shuttered workplaces have made living in central business districts a less attractive option. IInvestment demand has declined reflecting the same factor alongside job losses for younger households, less tourism demand and pause in the inflow of students and new immigrants.

Detached home prices rise sharply during pandemic, apartment prices lag



Source: CREA, Central 1

After a buoyant year in 2020 that surpassed expectations by a wide mile, what key themes do we anticipate for 2021?

We expect a slowing of the marketfrom 2020 with demand easing through the first half of the year as demand slows from record levels as the pandemic second wave rages. The main support for housing remains low mortgage rates which has propelled many households into the homeownership market. Rates are anticipated to remain low through 2022. However, affordability improvements have been offset by rising home values, particularly in the detached markets and the down payment constraint will play a more critical role as rates bottom out. Meanwhile, domestic demand is likely hitting a satiation point and new demand from immigration inflows will be delayed during the pandemic.

Nevertheless, a rotation in demand towards apartment condominiums is expected given the pricing environment. Demand for apartment condominiums is set to rise gradually as vaccine availability and deployment ramps higher and more of the domestic (and global population) is inoculated. A return to greater normality, broader re-openings of workplaces, and return of students and immigrants is likely to buoy demand for apartments both from end-user buyers and investors.

What of the remote worker exodus? The shift of workers to suburban markets and smaller regions has staying power, but it will depend in large part how businesses transition post-pandemic. A hybrid model of remote and in-office work is likely, but full remote work is not. This will reverse some of the shift in demand from core urban areas to smaller markets but could maintain demand for homes in the large market suburbs and bedroom communities. Recreational housing demand is likely to diminish as more options are available for global travel.

Elevated home prices are expected to be supported by the low interest rate environment, which is expected to persist, and limited supply of inventory, although pace of growth moderates. That said, erosion in affordability and concerns about household debt could lead to regulators to initiate further lending or mortgage insurance restrictions to slow demand.

Bryan Yu
Chief Economist
byu@central1.com / P 604.742.5346
Mobile: 604.649.7209