

Canadian Housing Affordability: Pre-Covid-19 & During Covid-19

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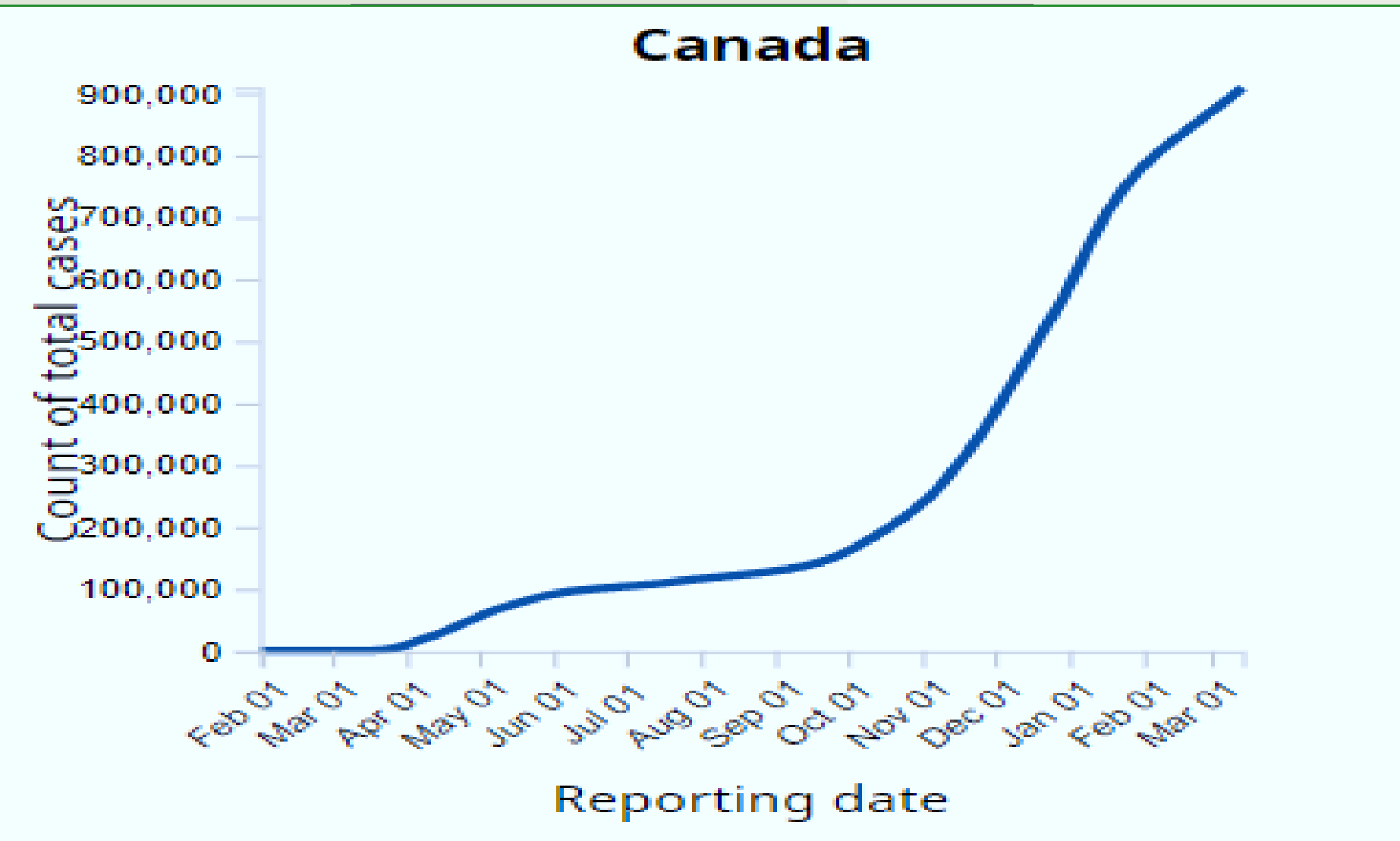
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Problem Overview

Housing affordability has always been a major challenge for the mass population of Canada as it directly impacts our quality of life. There are several factors that influence the affordability including income, housing availability, supply and demand situation, mortgage lending rates, immigration, etc. Covid-19 has had a great impact on individuals, Canada and the world. Due to the lockdown and restrictions, Canadian economy is hurting, and housing, like all other sectors, have been impacted. This project aims at understanding the trends of housing affordability pre-Covid-19 and during Covid-19. For this study, the Covid-19 period is from March 2020 to present.

Below is the count of total Covid-19 cases from Jan 2020 – March 2021.

Covid-19 Cases Count

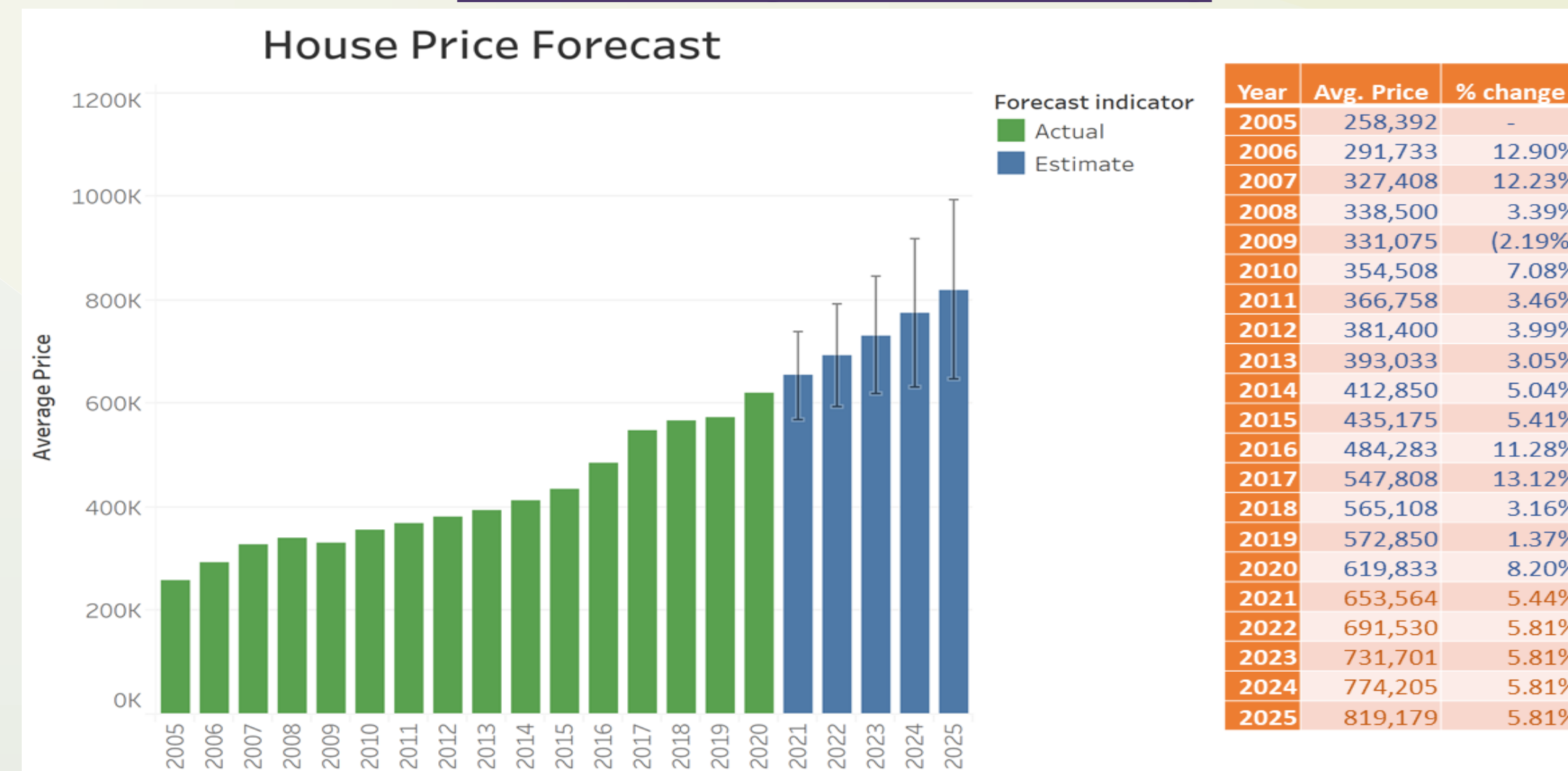


Although the Covid-19 cases have increased and affected many aspects of individuals and the economy, the Canadian new house price index has shown a steady rate of increase as can be seen below:

Canada New Housing Price Index

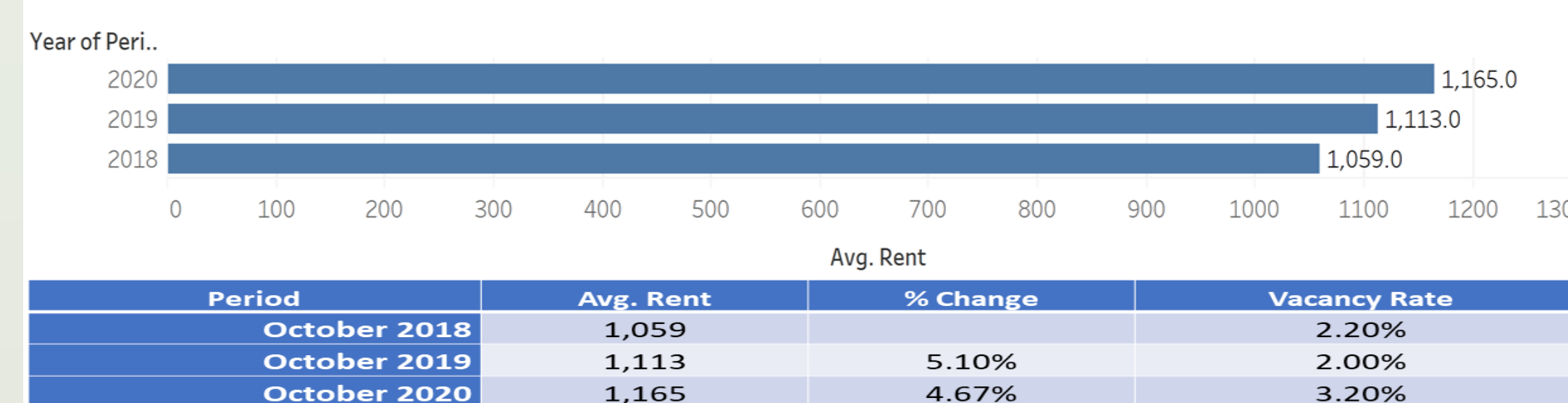


Forecasting House Pricing



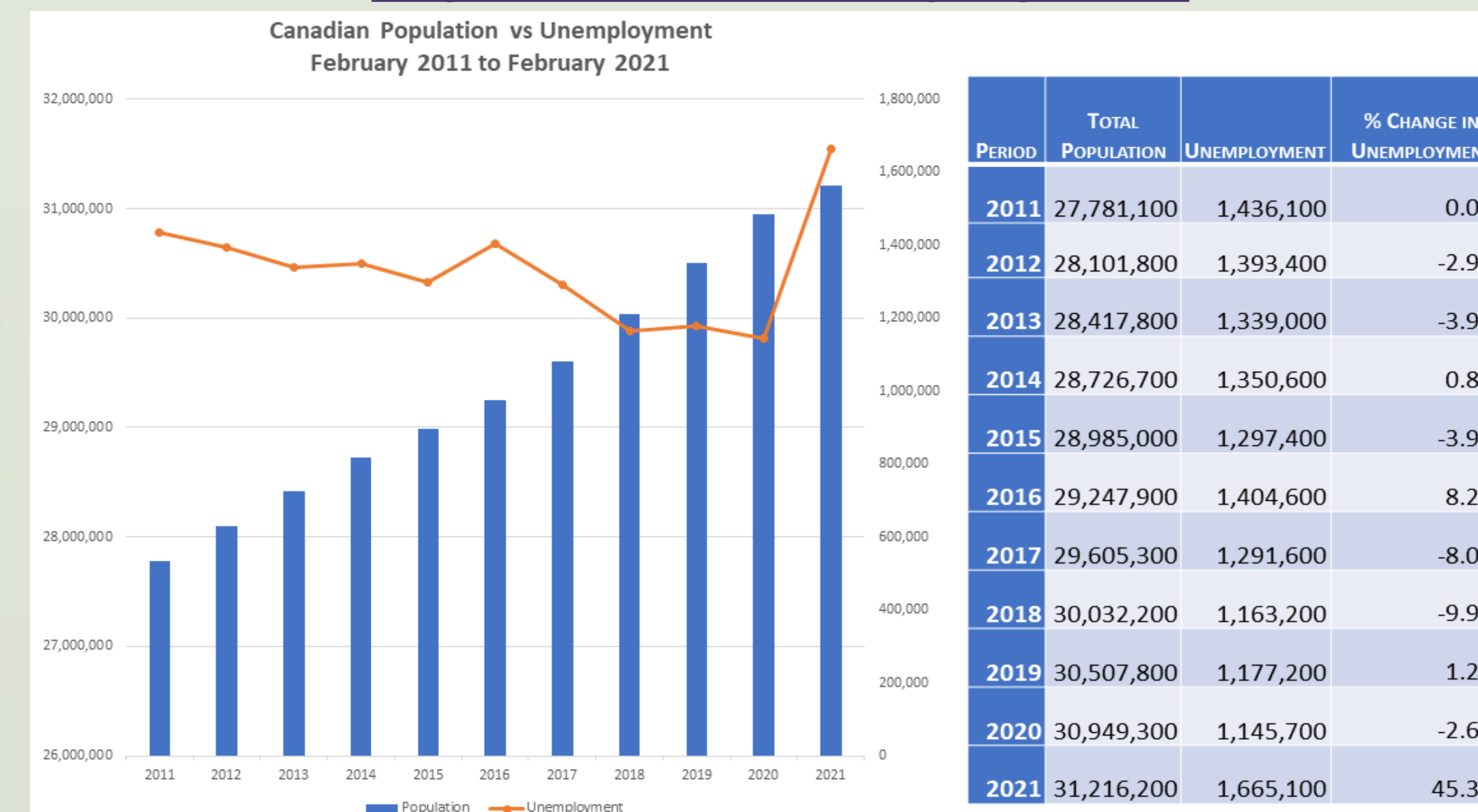
The House pricing forecast shows an upward pricing trend despite the struggling economy.

Average Rent for Two Bedroom Apartments



We looked at the average rent and vacancy for two-bedroom apartments which are the most common of the rental units. These are showing the steady growth in rents; however, it also shows vacancy rate sitting at only 3.2% in Oct 2020 despite a slump in net immigration. This indicates there is a shortage of supplies in rental units

Population & Unemployment

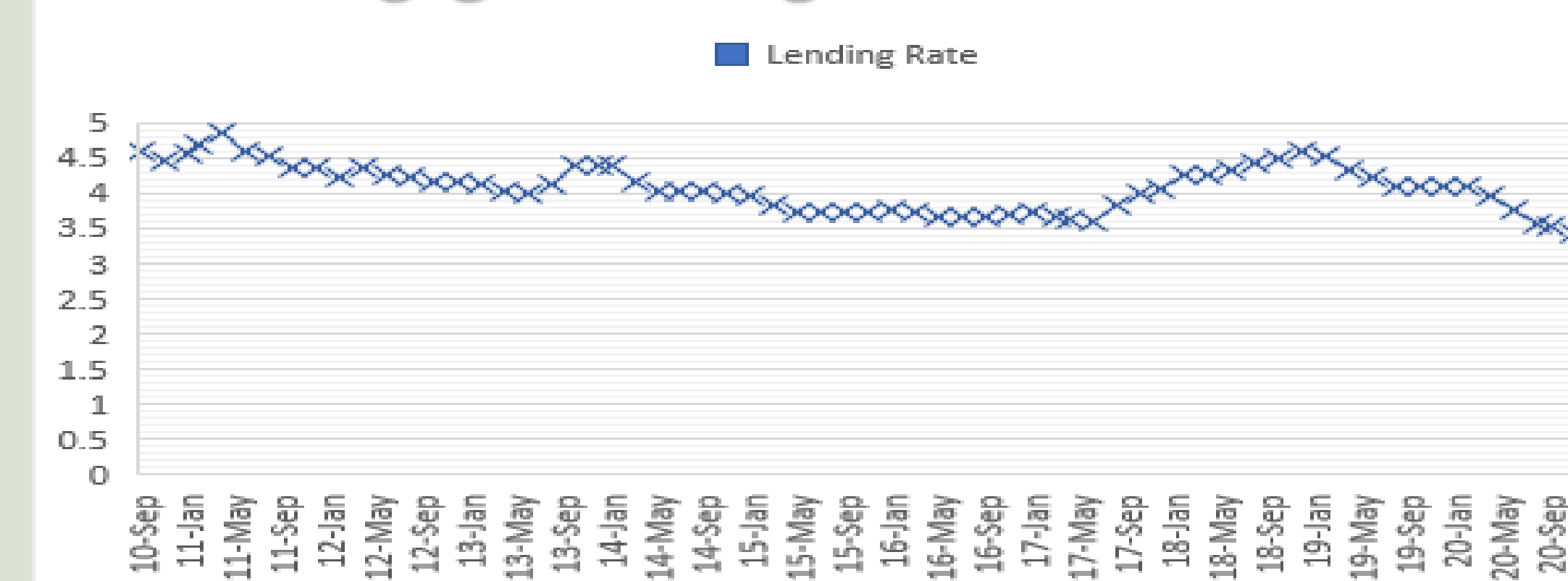


The unemployment rate was declining until the COVID-19 hit; however, it spiked at 45.33% during the last year. This could play a major role in people's housing affordability.

Mortgage Lending rates

Mortgage lending rates can be a determining factor in housing affordability. If the lending rates are high, individuals and families might find it expensive to purchase a home. The graph below shows the mortgage lending rates between the years 2010 to 2021.

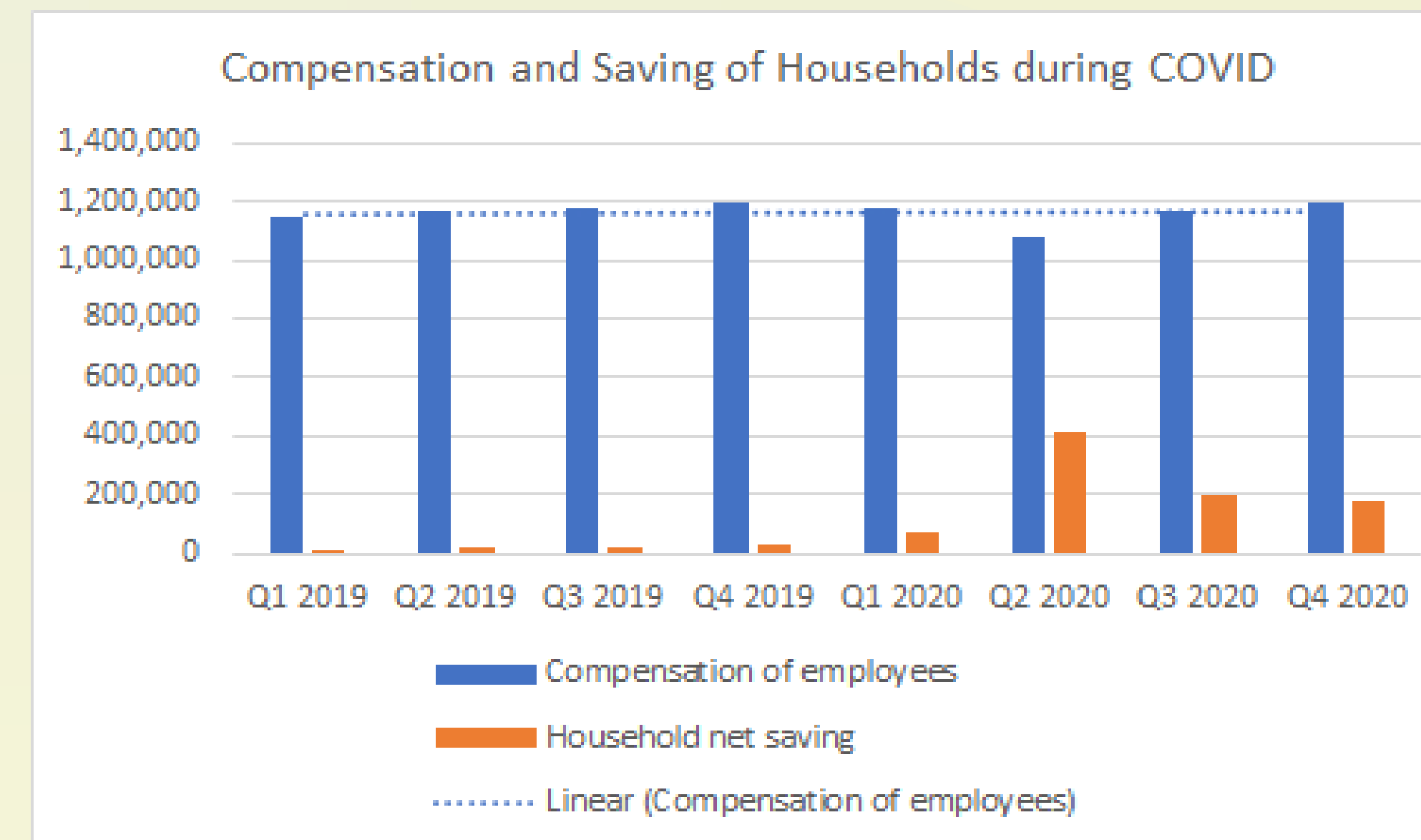
Mortgage Lending Rates 2010 - 2021



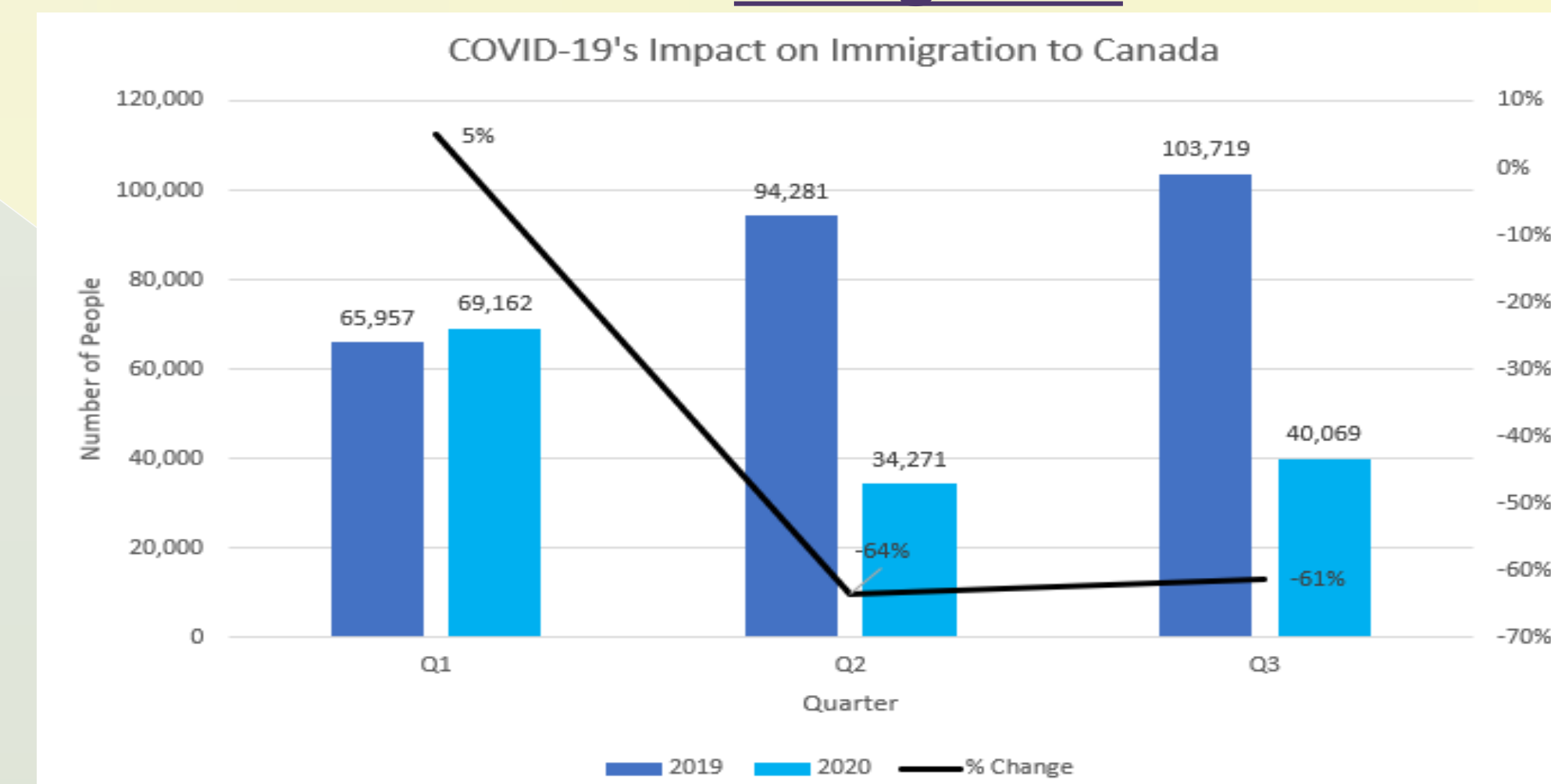
The mortgage lending rates were highest in 2011. There is a, however, a decline in the lending rates post Covid-19.

Compensation & Savings

The impact of COVID-19 locked down on compensation and savings was quite predictable with the arrival of pandemic. Compensation of employees working from home did not change significantly. Since the actual hours worked by people changed due to stay-at-home orders, decreasing income/ consumption is the result of lack of work available for employees who are interested in working more hours. Saving rate hiked to 27.8% by Q2 of 2020 as the situation was getting severe.

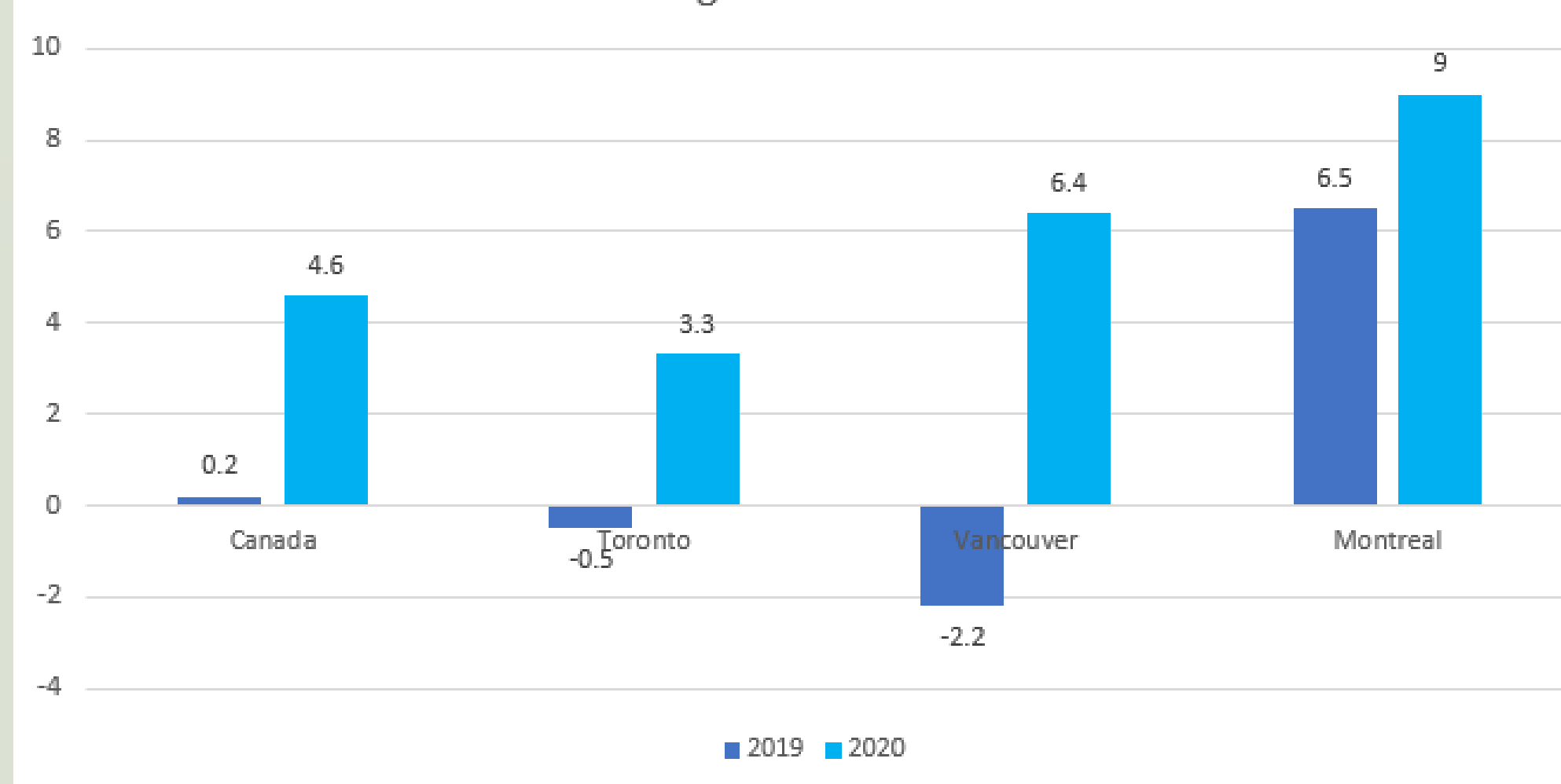


Immigration



COVID-19 has depleted the number of immigrants moving to Canada, which is a major source of the housing demand in the country. In the second quarter of 2020, when the virus really came into effect, immigration dropped by 64% and by 61% in the third quarter, from 2019 to 2020. More non-permanent residents left Canada than came in. With the border still closed, immigration won't rebound to its usual numbers soon.

New Housing Price Index (NHPI) Growth % for Cities With Largest Immigrant Distribution



Despite immigration drastically dropping in numbers, the price of housing has risen significantly. In 2019, Canada's New Housing Price Index (NHPI) increased by 0.2% but skyrocketed to 4.6% in 2020. There were sharp increases to the NHPI in the cities with the largest distribution of immigrants as well. Typically, you would expect a decrease in demand to cause excess supply and a result, a drop in price. This seems to show that even with hundreds of thousands of less people in demand, the prices of housing are increasing.

Conclusions

- Factors causing rise in housing demand during COVID:
 - Although average mortgage lending rate has declined to 3.3% from 4.08% in Jan 2020, the House prices during COVID-19 has continued to rise
 - Population growth is 1.1% from July 2019 to July 2020
- Factors causing fall in housing demand during COVID:
 - Net migration dropped by 94%
 - Increased Canadian Housing Price Index (HPI) by 6.7%
 - Average tuition fees for national and international students in Canada rose by 1.6% and 7.1% respectively, despite online
- Vancouver has highest rise in housing prices, followed by Toronto and Montreal based on cities with largest immigration distribution
- Maximum saving rate of 27.8% reached in Quarter 2 of 2020 which was 0.6% in Q1 of 2019
- Despite the unemployment rate is up by 45.33% during the COVID time, the house prices continue to rise and is now projected to grow at a rate of over 5.5% in the next 5 years
- With rising prices and remote working, more people are looking to settle in sub-urb areas with large houses.

References

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