



The Impact of the COVID-19 on the Real Estate Market

Ronak Nihalani, Sanket Joshi, Shresth Kapoor, Jainam Shah
Mohawk College

BACKGROUND

The purpose of this analysis is to find trends about the real estate market in Canada pre-pandemic and during the pandemic. This poster will describe how the real estate market has changed and what factors have contributed to that change during the COVID-19 pandemic.

Our analysis began with a hypothesis about the housing market, and this was the basis of the questions that we were asking while analyzing the data.

The hypothesis was that – because of the pandemic, many people would have lost their jobs, hindering their ability to pay their mortgage payments, many might need to use their savings for a down payment during these times, and many renters might consider buying since interest rates are low.

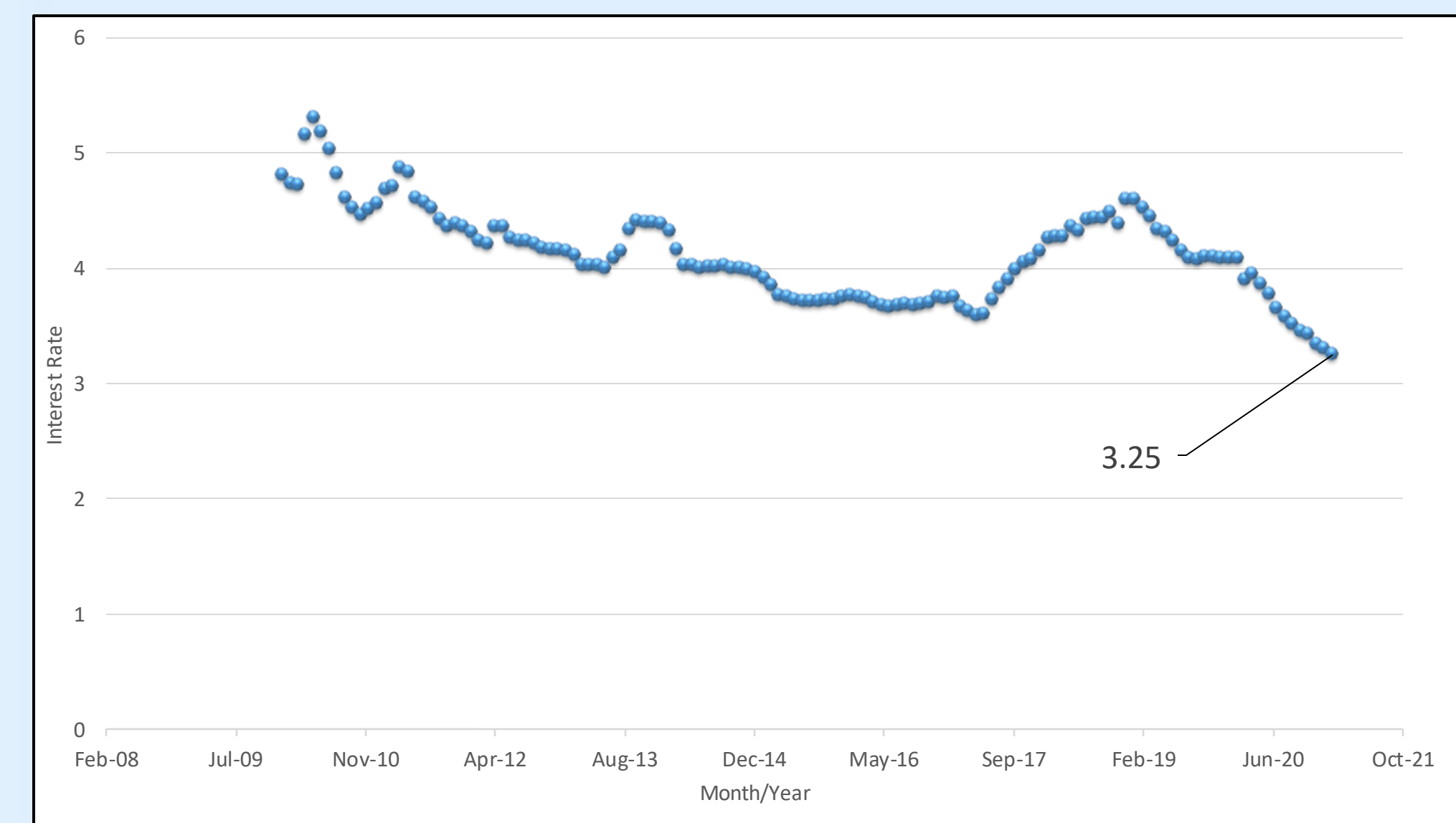
We also listed factors that must be considered such as;

- Stimulus payments and how it affects disposable income
- Supply and demand dynamics
- Urban vs suburban trends

ANALYSIS

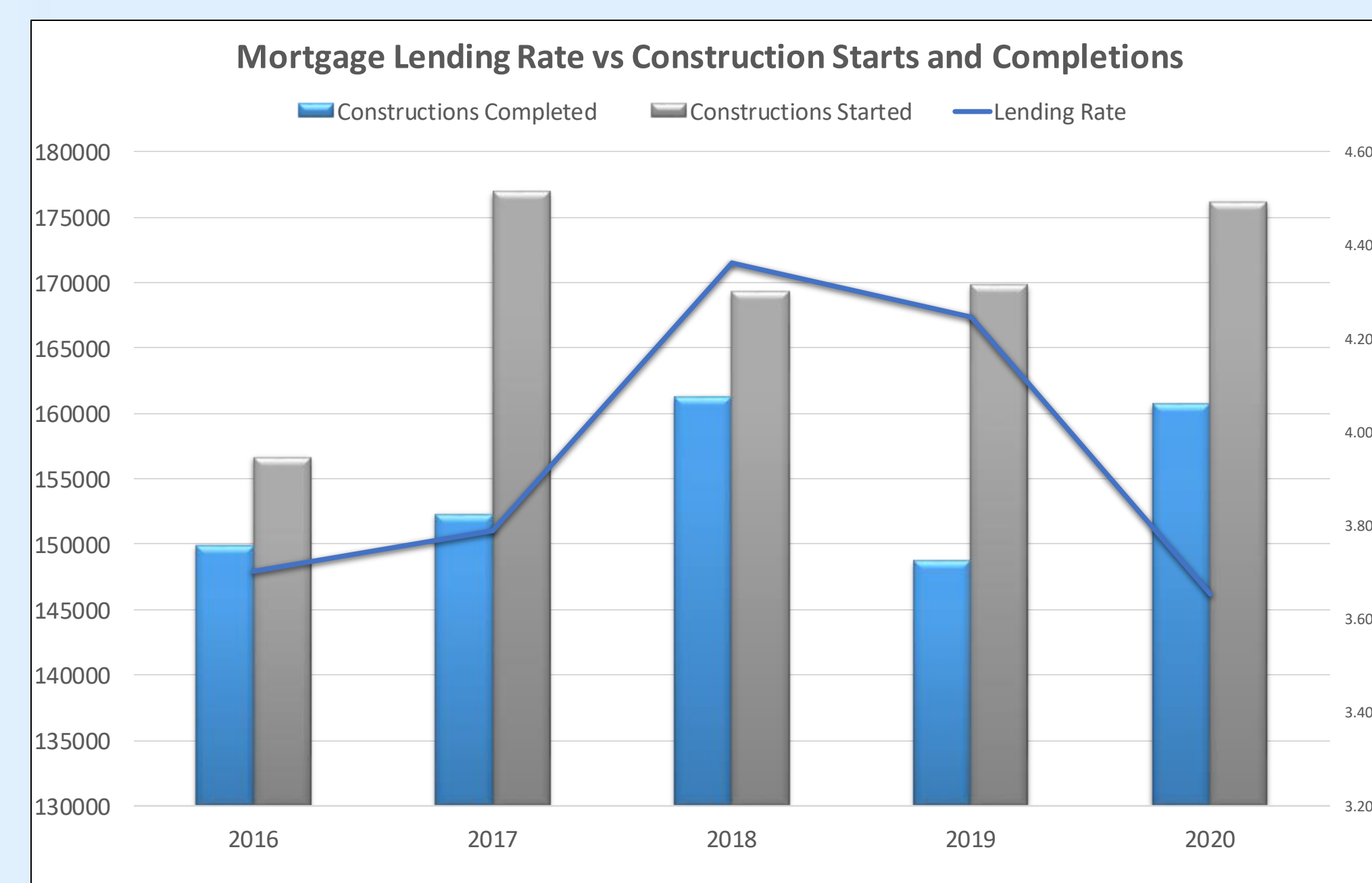
Mortgage Lending Rates are at an all-time low

Lower interest rates means lower interest payments on the mortgage; hence the cost of borrowing is lowered, and it incentivizes



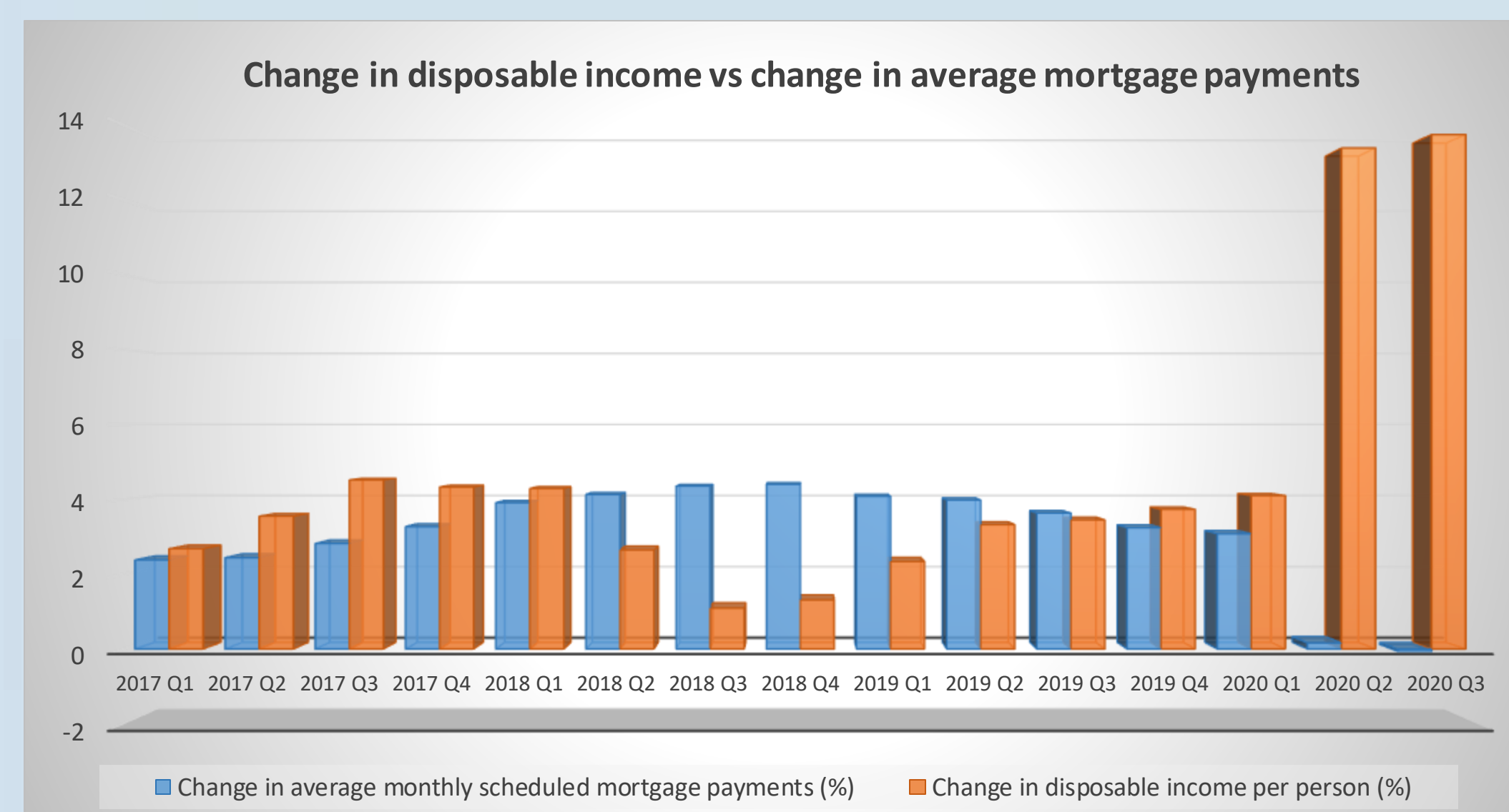
We can check how the supply and demand side of the market is affected. CREA Statistics states that home sales recorded on the MLS System grew 6.6% between January and February 2021, which is a new record.

In terms of the supply side, we can look at the construction completions and starts:



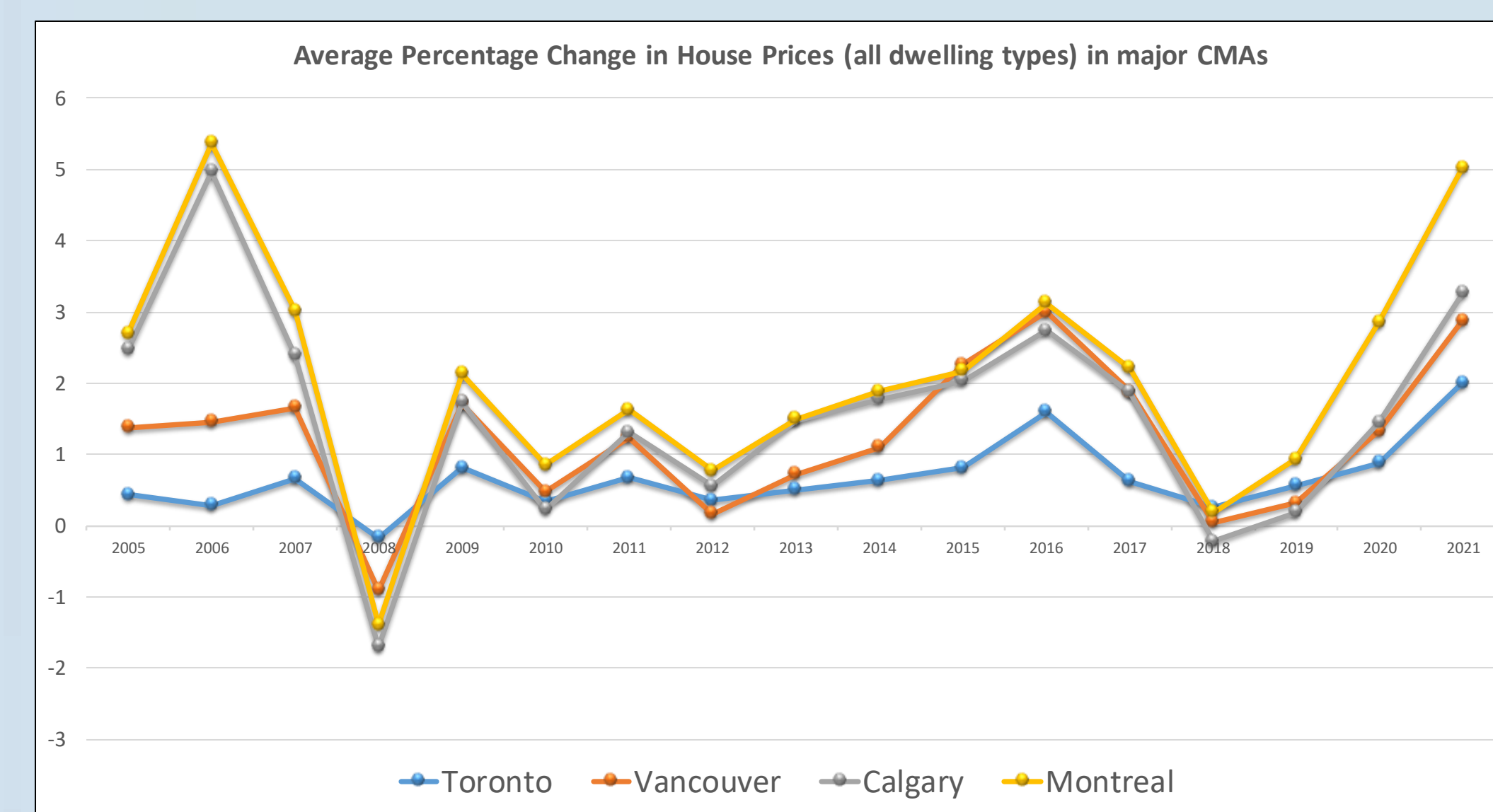
Disposable Income and Affordability

Currently CMHC is helping homeowners by offering flexible mortgage payment deferral options, which means the average monthly mortgage payment has decreased drastically. For non-owners and people looking to buy, we need to look at the affects of the stimulus on disposable income since this affects their down payment options.



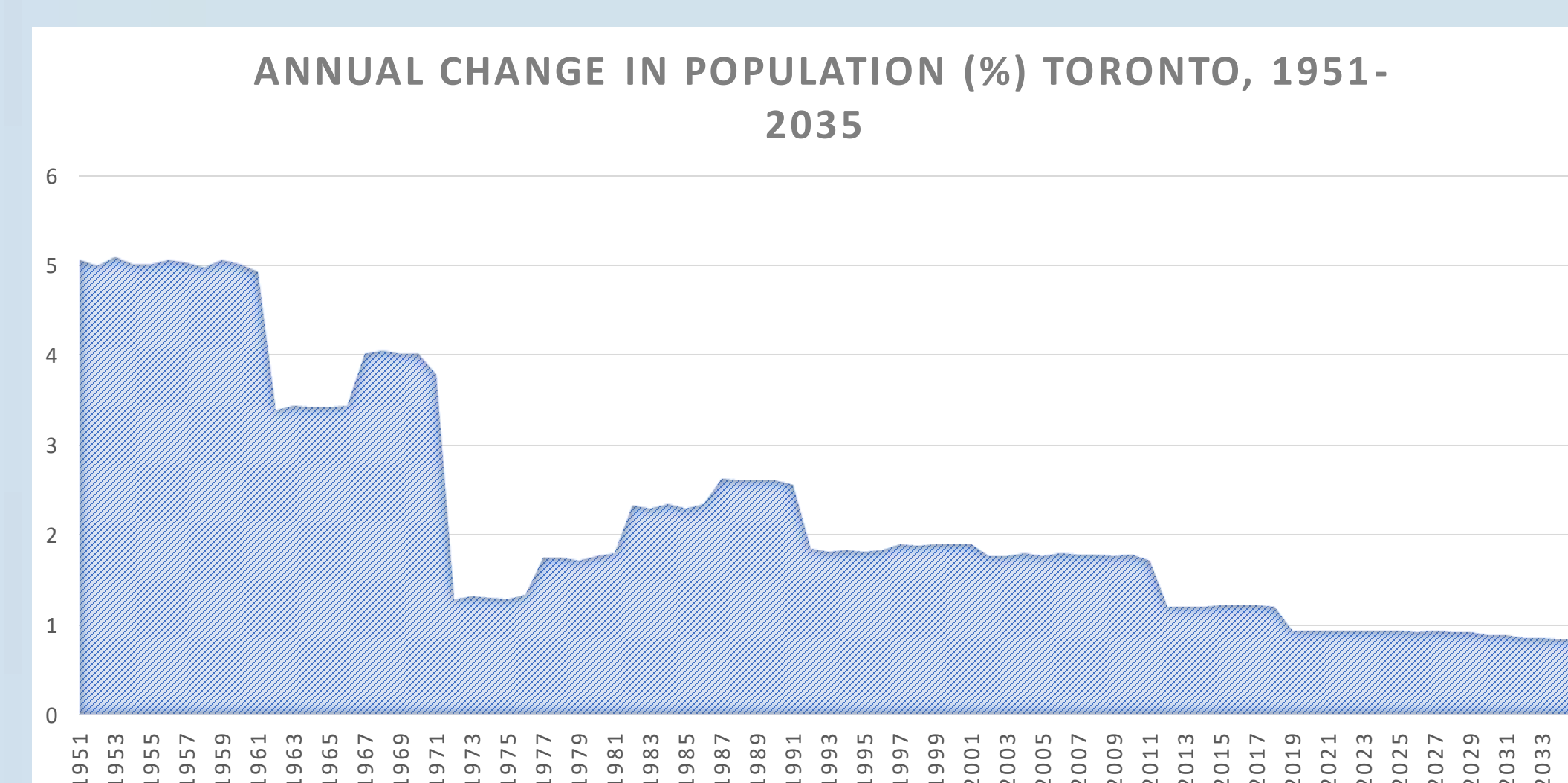
This graph describes the boost in disposable income provided by financial stimulus and the lowered obligation of mortgage payments. For investors and first-time buyers, this seems like a good opportunity to enter the market if you have the down payment since interest rates are also low.

Low interest rates lead to lower payments; however, the price of the real estate increases due to new demand, which cancels out the benefit of the lower interest rate since purchase prices are now higher.



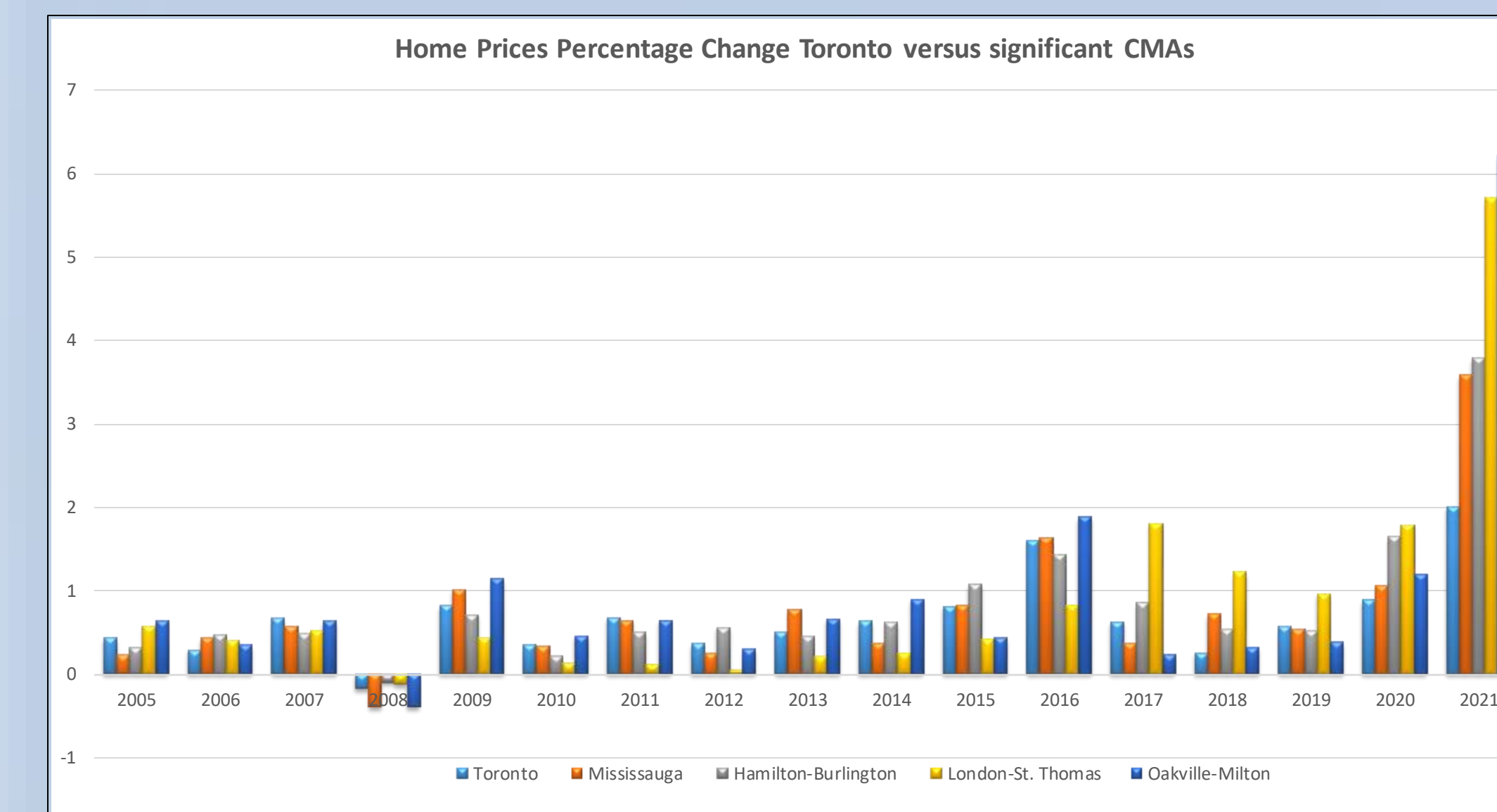
In cities like Toronto and Vancouver home prices increased substantially compared to previous years. This could indicate new buyers that have entered the market and are capitalizing on the low interest rate.

On January 14th, 2021, Global News reported that Toronto has experienced record population growth slowdown and that 50,375 residents moved out.



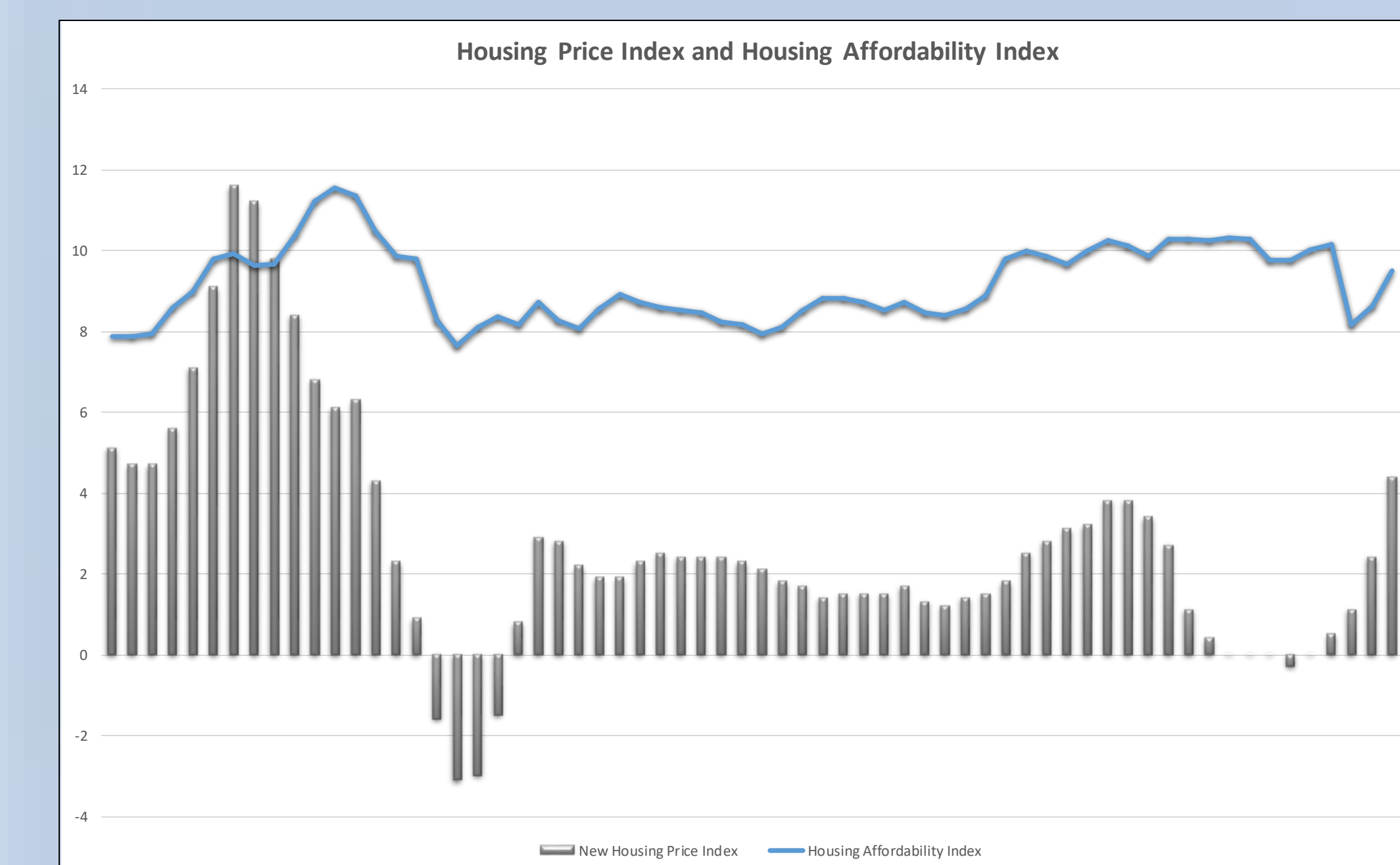
Urban vs. suburban trends

Due to the pandemic, many people have realized that remote work is an attainable work environment, and many have chosen to move out of cities. Therefore, we must look at the CMAs that surround well established cities as we can expect prices to rise in those markets.



The Canadian Real Estate Association (CREA) has said in a statement that new home listings plunged 13.5 percent nationally and by around 35 percent in Toronto and Montreal, which marks a record shortage of available homes.

Finally, by looking at how the housing affordability index has reacted to the prices, we can get an idea about buyer's confidence in the market, which speaks to the success of the Government intervention such as stimulus and mortgage payment/rent deferral initiatives.

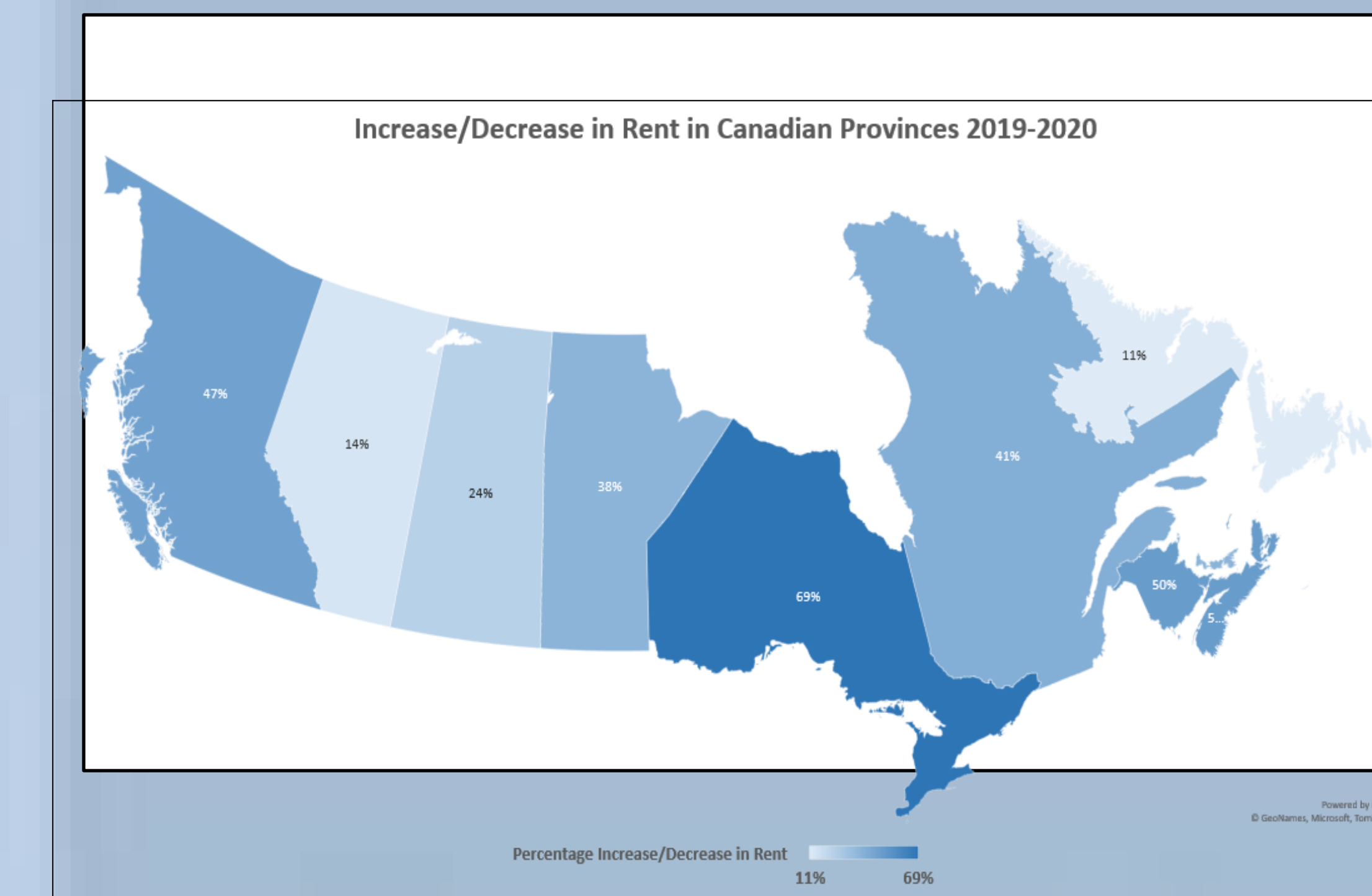


The recovery in the housing affordability index may be an indication that government intervention during the pandemic might have worked.

Difference in Rental Vacancy Rates 2019-2020, Ontario CMAs

Area	
Ottawa-Gatineau CMA (O..	2.10%
Toronto CMA	1.90%
London CMA	1.60%
Kingston CMA	1.30%
Windsor CMA	0.70%
Peterborough CMA	0.50%
Thunder Bay CMA	0.50%
St. Catharines-Niagara C..	0.40%
Greater Sudbury/Grand S..	0.40%
Guelph CMA	0.20%
Kitchener-Cambridge-Wat..	0.00%
Brantford CMA	-0.10%
Oshawa CMA	-0.10%
Belleville CMA	-0.30%
Hamilton CMA	-0.40%
Barrie CMA	-1.10%

Changes in Rental Rates over 2019-2020, Canadian Provinces



CONCLUSION

Before the pandemic, the real estate market was booming in terms of sales activity, although the prices were low and dropping due to the mortgage stress tests applied by the Bank of Canada in 2018. Prior to this stress test implementation, demand and prices had slowly been rising from 2012 through 2016.

Currently, residential sales activity is at an all time high and so are the house prices, while supply is at record low levels driving the prices even higher. The incentives of low interest rates and high disposable income make it a good opportunity for first time buyers to enter the market.

The struggle of cities will continue as people realize that they can work from home and probably buy more square footage outside of big cities for the same price, which incentivizes them to buy in the surrounding cities. We can expect residential prices to increase in suburban regions as well which will make it harder to afford housing in these cities.

REFERENCES

<https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3410014501>

<https://www.cmhc-schl.gc.ca/en/data-and-research/data-tables/housing-starts-completions-units-under-construction-cumulative>

<https://www.cmhc-schl.gc.ca/en/data-and-research/data-tables/mortgage-consumer-credit-trends-cmas>

<https://www.crea.ca/housing-market-stats/mls-home-price-index/hpi-tool/>

<https://globalnews.ca/news/7575913/toronto-housing-canada-population-coronavirus/>

<https://www.macrotrends.net/cities/20402/toronto/population#:~:text=The%20metro%20area%20population%20of,a%201.2%25%20increase%20from%202017.>

https://www.huffingtonpost.ca/entry/house-prices-canada-real-estate_ca_602bdc1fc5b680717eea82c4

<https://www.cmhc-schl.gc.ca/en/data-and-research/data-tables/rental-market-report-data-tables>