

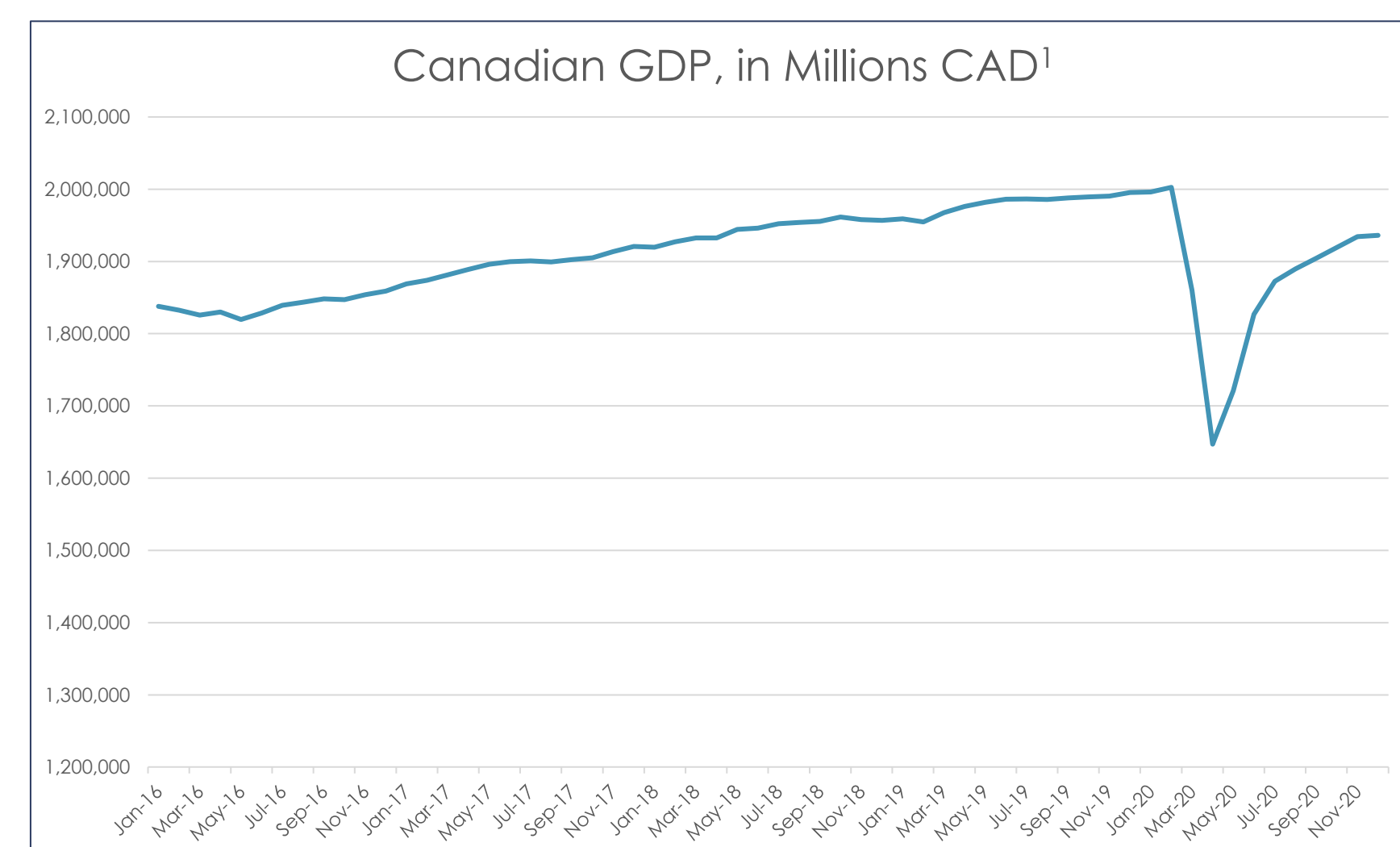
COVID-19 and Ontario Housing

Ogochukwu Assams, Alex Hubling, Chidimma Ibe, Ogechukwu Oguejiofor
Mohawk College Business Analysis Program

Problem

The economic impact of the COVID-19 pandemic cannot be overstated. The effects of the radical actions governments were forced to take are very much still unfolding. Despite unprecedented industry shutdown and job losses, housing prices have continued to soar and even appear to be accelerating.

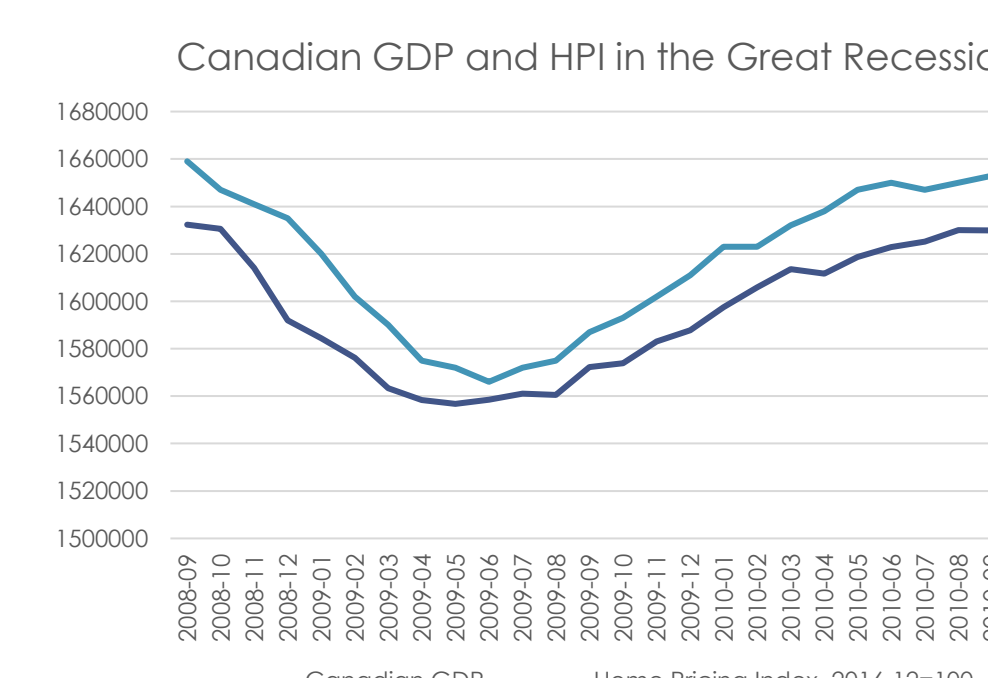
The WHO officially declared COVID-19 a pandemic on March 11, 2020, and economic shutdowns began in the following weeks. In order to obtain any understanding of COVID-19's effect on the housing market, it was imperative to examine any trends occurring prior to March 2020. Canada's economy began to recover over the summer months, but there is still a long way to normalcy. Whilst we are still very much affected by the pandemic, a return to a stable economy is predicted over the next 2 years.



Hypothesis

Despite the downturn of the economy, we have observed that the housing prices are still rising. This change appears to be contrary to the direction of GDP growth. In terms of housing supply, we observed that from the graph that residential new listings dropped drastically in the second quarter of 2020, corresponding with the first lockdowns in Canada. We also noticed a huge rise in the price of housing in the third quarter of 2020; this shows that the economy was able to comfortably maintain the housing demand.

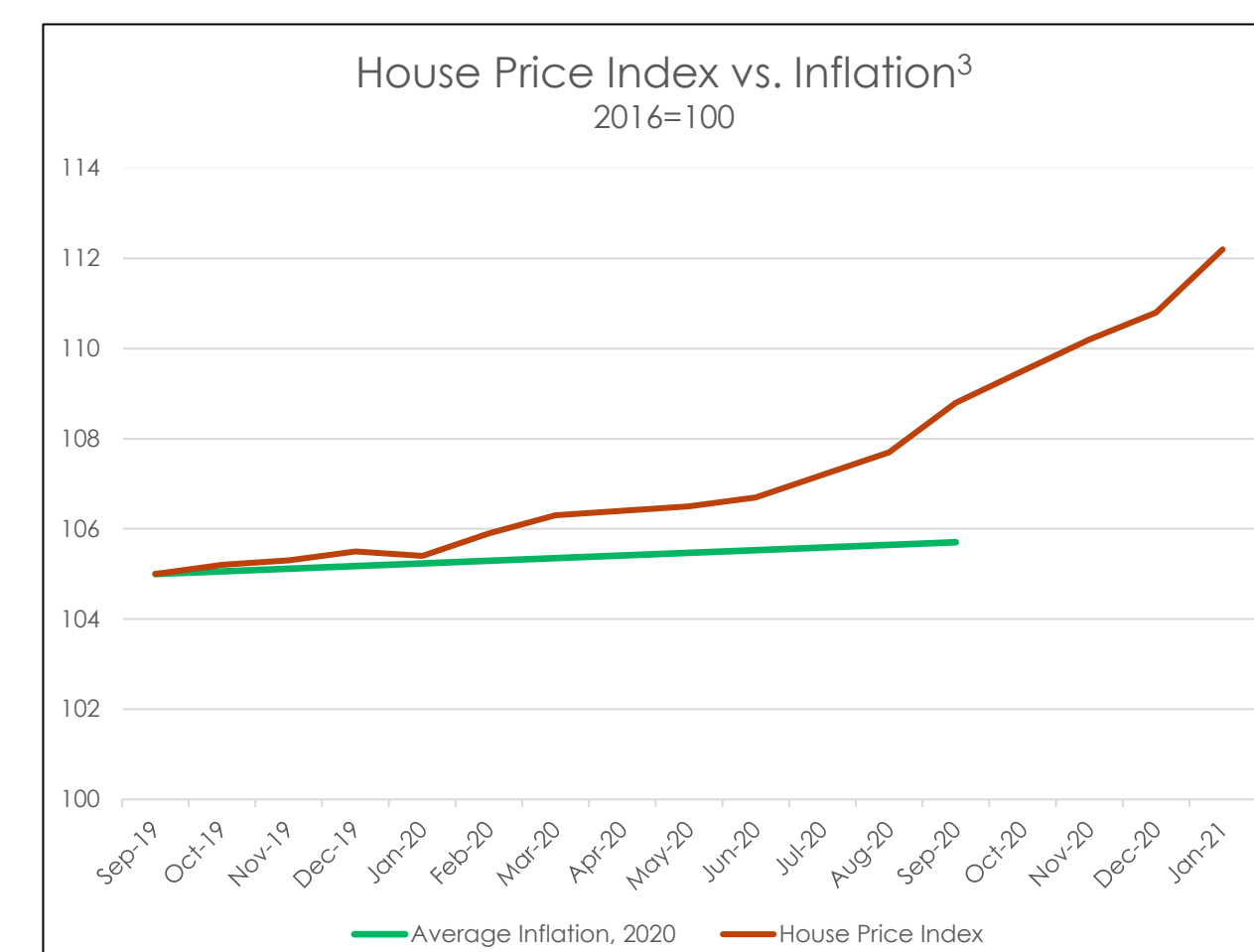
There was also a drop in housing listings/supply in Jan 2021 which is around the same time we had the second significant lockdown in Ontario since March 2020



Housing prices closely followed the curve of GDP decline and recovery in the 2000s recession. Why did that not occur in 2020?

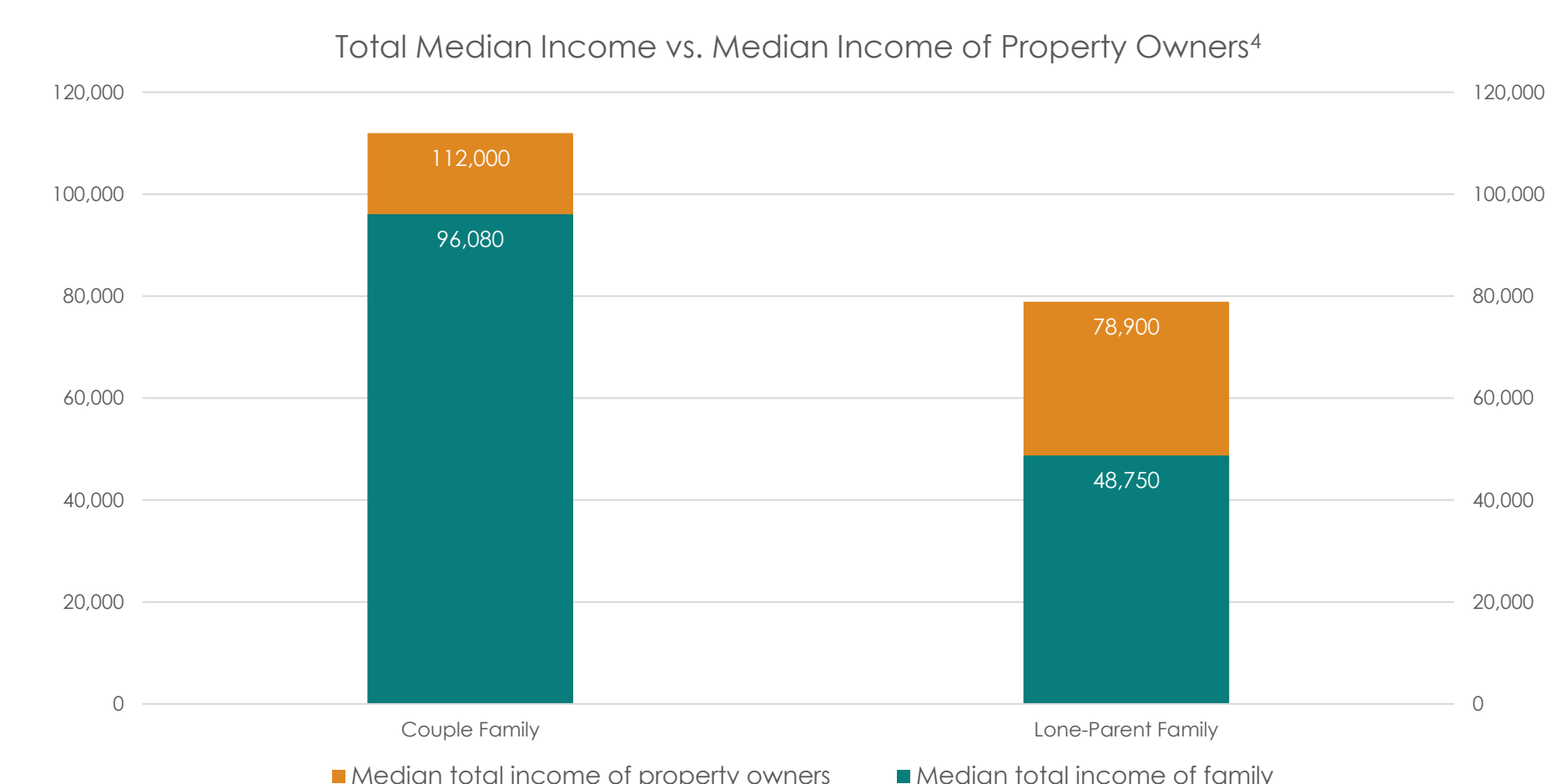
So Why Are House Prices Still High?

Despite the dramatic sudden downturn in Canada's GDP, housing prices have not seen any decrease due to the Covid-19 lockdowns.



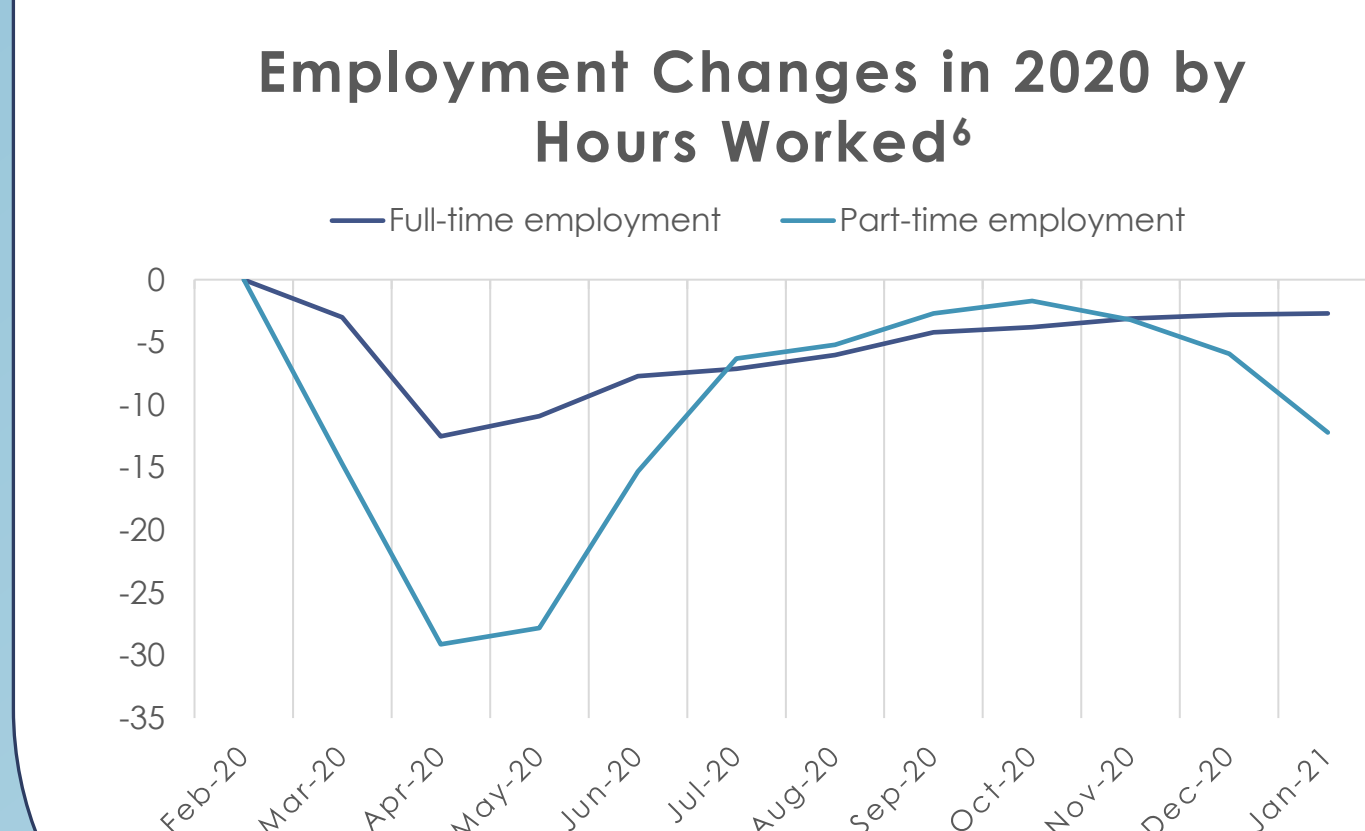
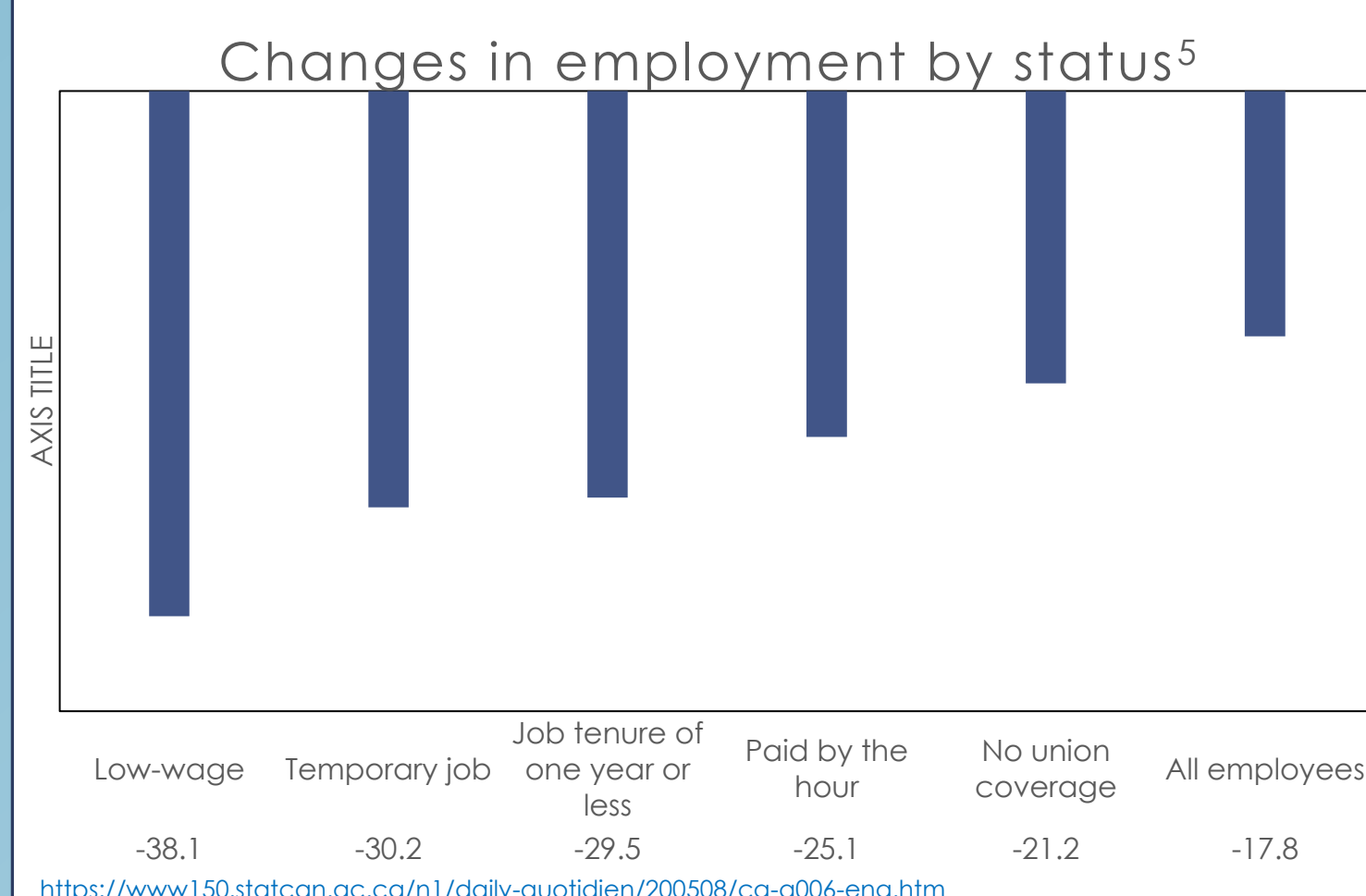
Housing Demand

Who Owns Homes?



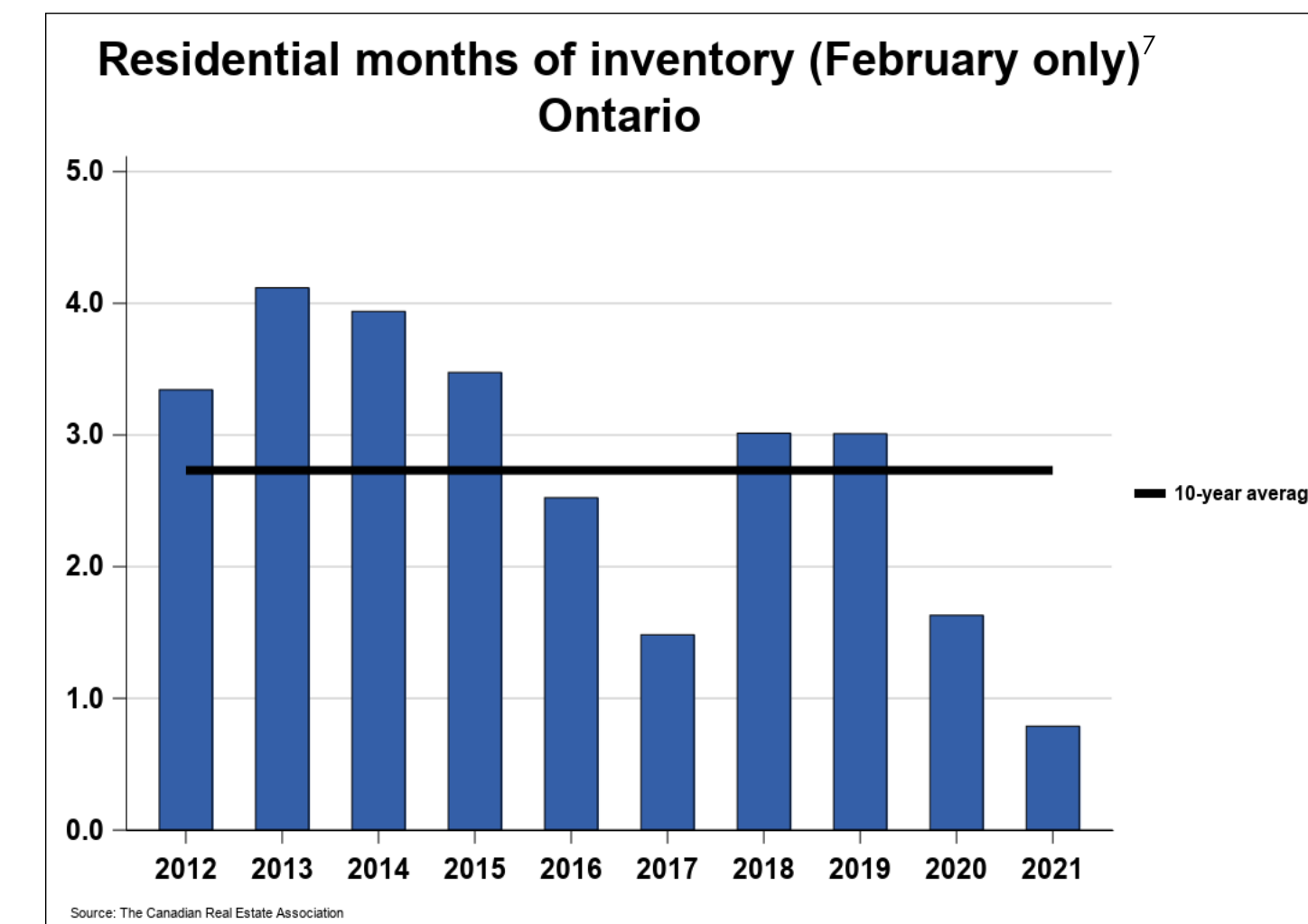
The median income of Canadian home owners is in the upper half of Canadian total incomes. This suggests home ownership is largely restricted to higher income Canadians.

The common narrative we hear about the economic effects of COVID-19 usually involves the widespread job losses which resulted from the economic shutdown. Intuition suggests that a loss in jobs, and associated income, would lead to lower demand for housing, potentially lowering average prices. In our research, we discovered this was not the case.



Despite heavy job losses across Canada, low income and temporary workers were hit harder than other groups. With low income workers being more likely to rent a property and less likely to be able afford home ownership, this suggests the market of house buyers was not as strongly affected by pandemic as other sectors of the economy.

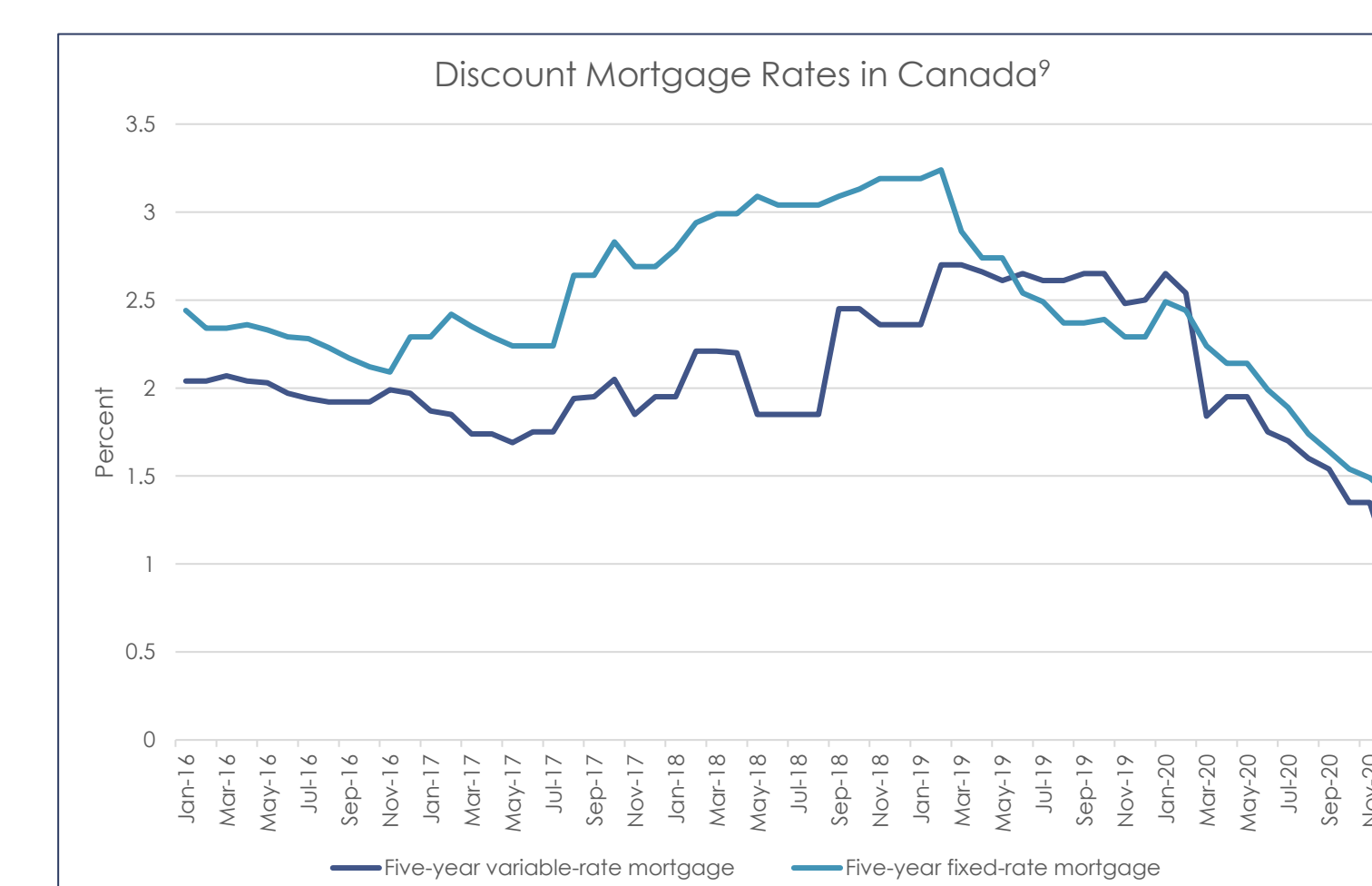
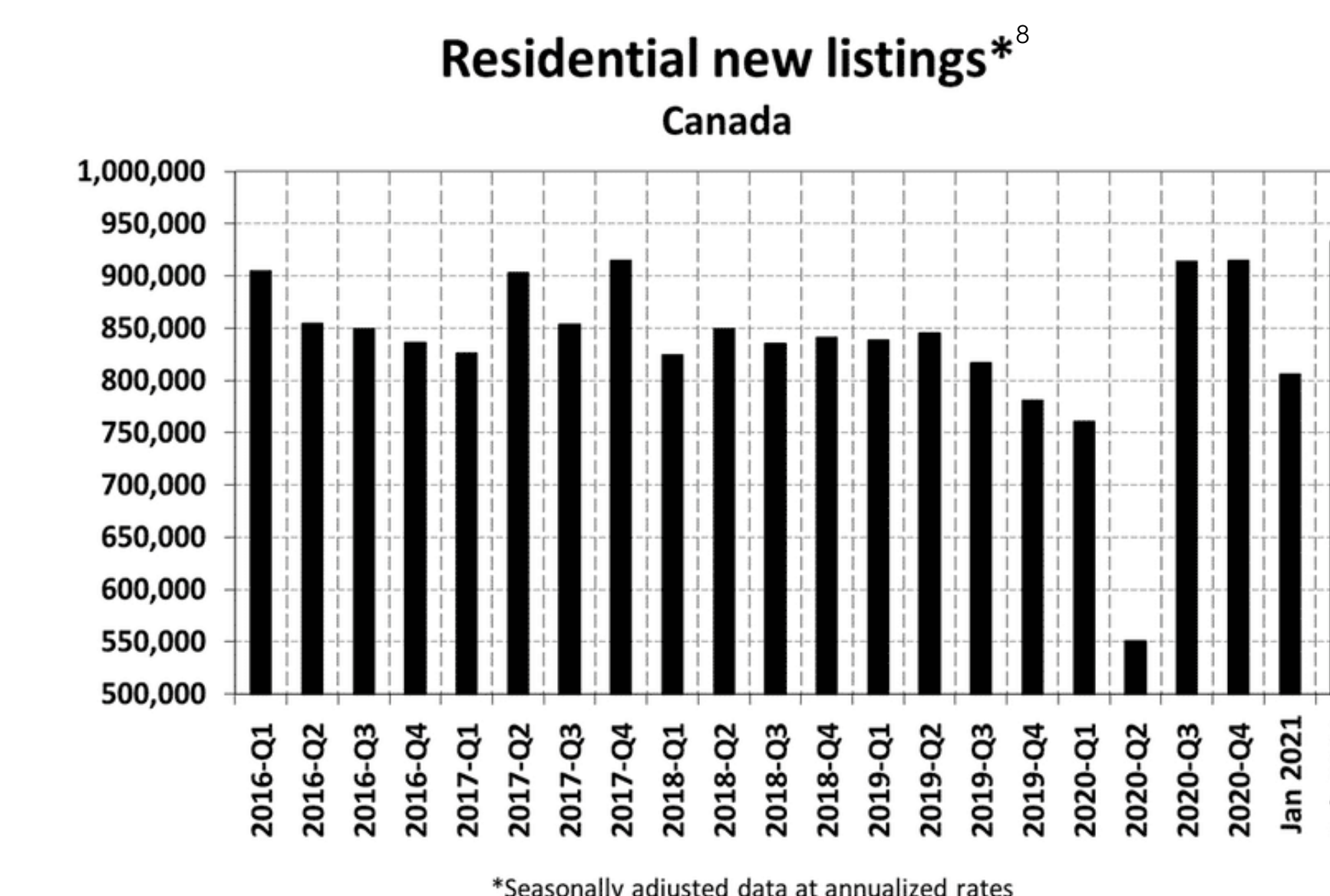
Housing Supply



Ontario's housing inventory, a ratio listings to sales, has fallen drastically short of normal rates

Prior to the pandemic, Canada's housing stock was already contracting. Inventory had been trending lower than earlier in the decade, fluctuating somewhat annually. The pandemic has accelerated the trend downward, putting heavy pressure on supply and in turn increasing average market prices for homes.

New listings of housing severely declined during lockdown periods in spring 2020 and January 2021, possibly due to Canadians withdrawal from public interaction. This has further compounded the already existing shortage of housing stock available in Canada



On March 27, 2020, the Bank of Canada lowered the prime interest rate to .25%. This in turn lowered mortgage rates across the country. These record- low rates drove many Canadians to renew their mortgages⁹, reducing their financial burdens, and potentially prevented homeowners from being forced to sell due to reduced income. In addition, the lower rates have allowed Canadians who were previously unable to afford a home the ability to now buy real estate.

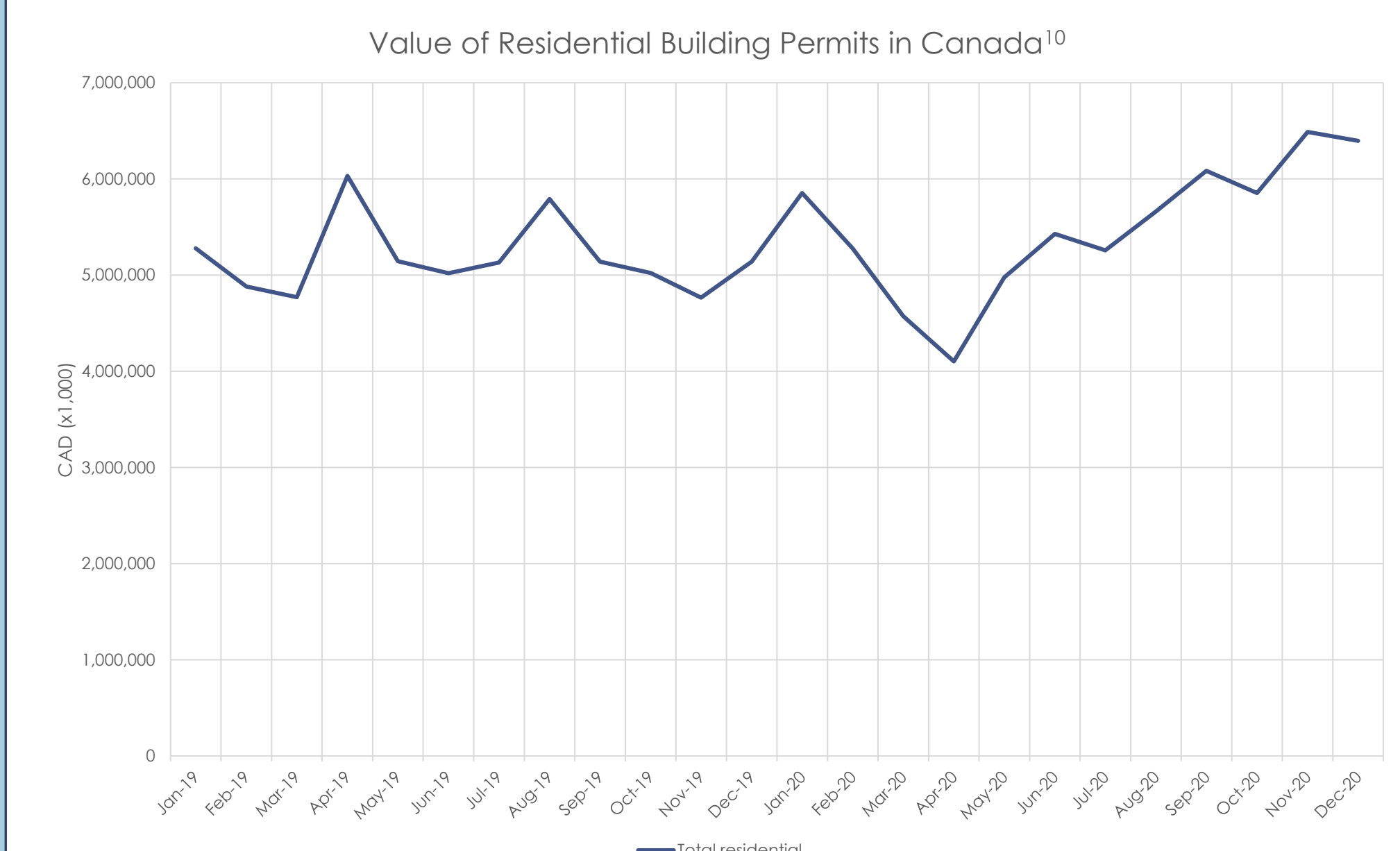
Other Factors

Financial Assistance

One significant contrast to the Great Recession is the level of government financial assistance programs. On March 18, the Federal Government announced a raft of stimulus measures to protect the Canadian economy. We believe two of these measures may have helped shore up demand for housing. The Canadian Emergency Response Benefit was made available to Canadians who faced reduced income or unemployment. This payment, intended to partially replace wages, ran from March to October. This included giving increased flexibility to mortgages, allowing holders to defer payments if necessary. Unfortunately, specific data on the impact of financial assistance on individuals is not currently available for analysis.

Recovery

When government lockdowns were enacted in March 2020, many industries were shut down entirely. We can see the total value of residential building permits decline beyond average fluctuation, suggesting fewer buildings were being constructed or renovated. While the value of building permits decreased at the beginning of the pandemic, it has since accelerated above pre-pandemic trends. It is possible the effect of construction delay will be mitigated by this upturn.



Predictions

The economic effects of the global coronavirus pandemic are largely unprecedented, and Canadians of all stripes are anxious about what the future holds. Due to the unique nature of the pandemic and the mandated shutdowns, it is hard to precisely model what the economic recovery will look like. So far, the trend of the economy has not followed that of the recent Great Recession. Housing demand did not abate during the economic turnaround; issues in the market were largely restricted to the supply side. As the economy recovers, it is unclear whether the housing market will inflate at the same rate as other sectors, or whether the sustained activity represents a soft ceiling. Many jobs are predicted to stay online, altering the relationship between employment location and home location. With fewer people moving home for work reasons, it is possible overall demand will edge downwards. Implementation of a rumoured foreign-buyers' tax could stem demand by disincentivizing certain types of real estate investment.

References

1. Statistics Canada. Table 36-10-0434-02 Gross domestic product (GDP) at basic prices, by industry, monthly, growth rates (x 1,000,000).
2. Statistics Canada. Table 18-10-0205-01 New housing price index, monthly, Statistics Canada. Table 36-10-0434-02 Gross domestic product (GDP) at basic prices, by industry, monthly, growth rates (x 1,000,000)
3. Statistics Canada. Table 18-10-0205-01 New housing price index, monthly, Bank of Canada.
4. Statistics Canada. Table 46100049 Total family income and owner characteristics of the residential property level, Statistics Canada. Table 11-10-0012-01 Distribution of total income by census family type and age of older partner, parent or individual

5. Statistics Canada. Labour Force Survey, April 2020. <https://www150.statcan.gc.ca/n1/daily-quotidien/200508/dq200508a-eng.htm>
6. Statistics Canada. Labour Force Survey, January 2021. <https://www150.statcan.gc.ca/n1/daily-quotidien/210205/dq210205a-eng.htm>
7. Ontario Real Estate Association. Housing Market Stats. <https://creastats.crea.ca/board/orega>
8. Canadian Real Estate Association. National Statistics. <https://creastats.crea.ca/en-CA/>
9. Statistics Canada. Trends in the Canadian mortgage market: Before and during COVID-19. <https://www150.statcan.gc.ca/n1/pub/11-621-mv/11-621-m2021001-eng.htm>

10. Statistics Canada. Table 34-10-0064-01 Building permits, by type of structure and type of work (x 1,000). <https://www150.statcan.gc.ca/n1/daily-quotidien/210217/dq210217c-eng.htm>