HOUSING REPORT

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Housing Sector Tidbits – COVID-19 Edition

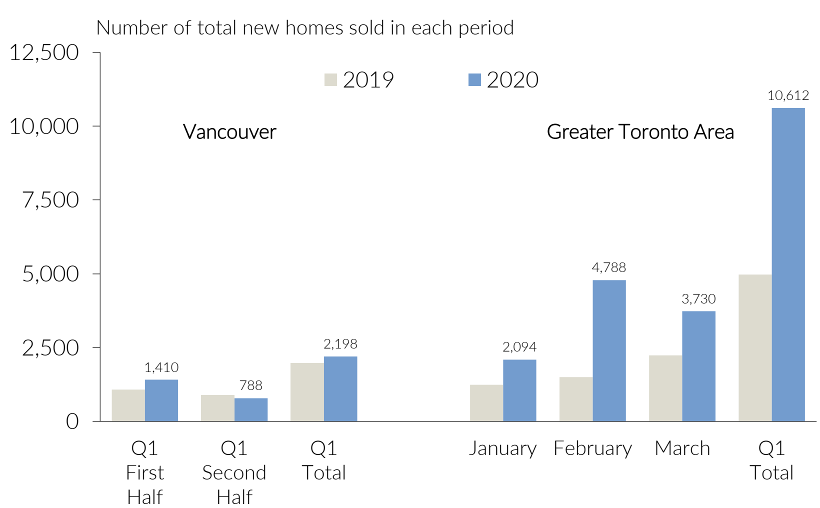
In this issue, we provide our annual selected insights on the Canadian housing sector gleaned from the range of proprietary data produced by Altus Group's Data Solutions team. This year we focus the analysis around COVID-19.

New Home Sales in Vancouver and the GTA on a Stronger Footing Than Last Year Going into the COVID-19 Situation

Sales of new homes in Vancouver and the Greater Toronto Area got off to a good start in 2020. In Vancouver, where Altus Group tracks the market on a 45 day cycle, the first half of Q1 showed improvement over the same period last year, before activity eased down in the 2nd half of the quarter (Chart 1). In the GTA, sales were well ahead of last year in both January and February. The surprise however was that March was also ahead of last year, although down from February. While we can't differentiate the pre COVID-19 period from the remainder of the month, most of the GTA momentum in March came from solid performances at the record number of condo projects launched in February. With builders adopting new sales models (some moving to in-person by appointment only, virtual appointments, or simply suspending their sales programs), and more hesitant buyers, the question is how much downturn in sales might there be in Q2?

Chart 1

New home sales had started off the year better in Vancouver and Toronto



Source: Altus Group, New Homes Database

Highlights

- COVID-19 threw water on the positive start to the year that the Vancouver and Toronto new home markets were enjoying
- Some potential for delays in deliveries of GTA new condo apartments - those under construction, in pre-construction and yet to be launched
- Potential first-time buyer age groups suffered massive COVID-19 related job losses in March – but fared relatively better than other age groups
- Not only employment income but also households' supplemental income from properties is in jeopardy – and there are still debt payments that have to be made

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Potential Delays in Deliveries of New Condos from Those Already Launched ...

It is not just demand (sales) impacted by COVID-19 but also potential supply. Let's look at the case of the GTA new condo market. Most of the under construction condominium apartment units that were expected to be delivered this year and next (Chart 2, top) likely qualify under the Province's "essential services" definition (have above grade structure permits in place), so technically construction work can continue during the current Emergency Period. However, there are still likely to be some delays, due to labour illness, work refusals, some builders voluntarily shutting down sites, materials/equipment supply disruptions, etc.

Many units under construction that were expected to be delivered post 2021 may not yet have above-grade permits, and therefore construction is stalled for the time being.

In addition, there are currently about 30,000 units in pre-construction condo projects that have achieved the 70% of units sold threshold that is typically the minimum for construction financing. Those that are sold out, or close to it, would have been the ones most likely to have started construction in the short-term. Since early April, these units could not commence construction. With the updates to the essential services list announced by the Province on May 1, some of these projects may now get going in terms of "necessary excavation, grading, roads or utilities infrastructure", but as of this report date, actual building construction is still not permitted. Depending on how long the Emergency Order is in place, this means there could be potential delays in delivered units from originally planned occupancies although, industry capacity permitting, some of the delay could be made up when construction begins.

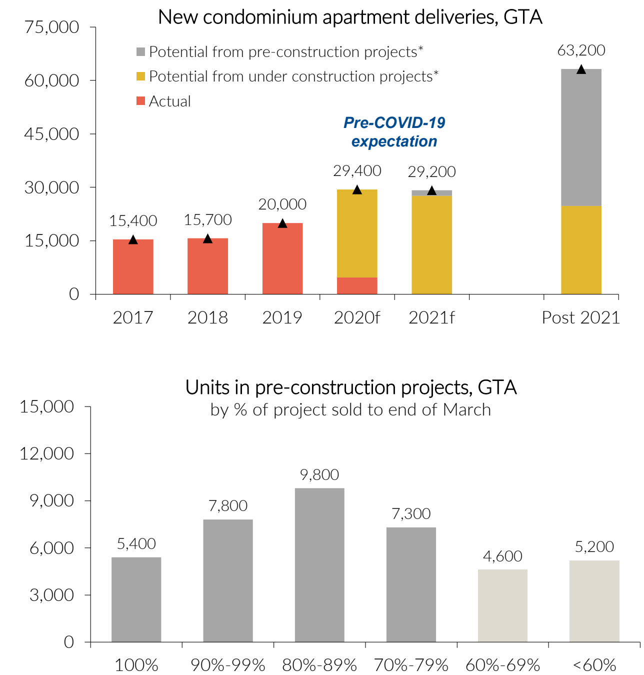
... And Due to Pushed Out New Launches

Delays in planned new project launches could potentially further aggravate the delivery of needed new housing supply down the road.

What did we see during the 2008-2009 recession? The number of new condo projects launched in the Toronto and Vancouver markets dropped off in the latter part of 2008 and into the early part of 2009 (Chart 3). It was not until sales started to pick up again in the Summer of 2009 and accelerated into the Fall that the number of project launches started to work back up.

Chart 2

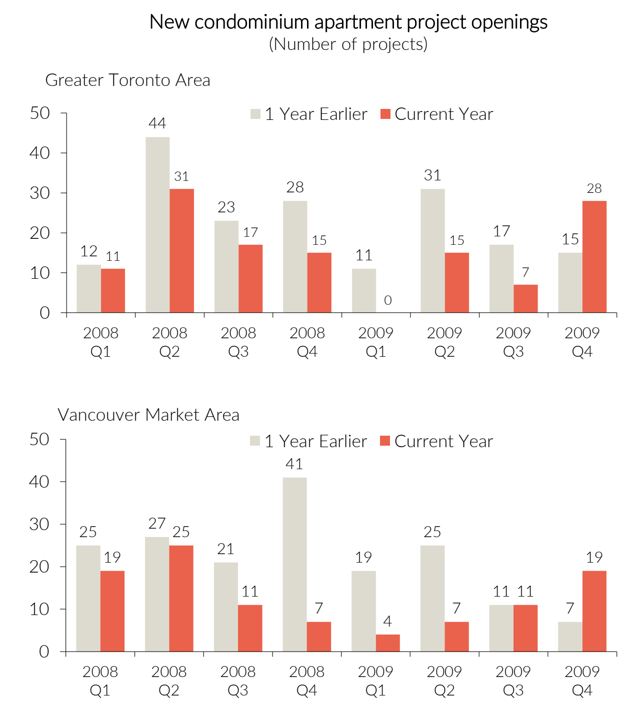
GTA new condo supply pipeline being impacted by COVID-19 related delays



Source: Altus Group, New Homes Database

Chart 3

New condo projects launched dropped during the recession of the latter 2000s



Source: Altus Group, New Homes Database

Massive COVID-19 Related Job Losses in Key Potential First-time Buyer Age Groups

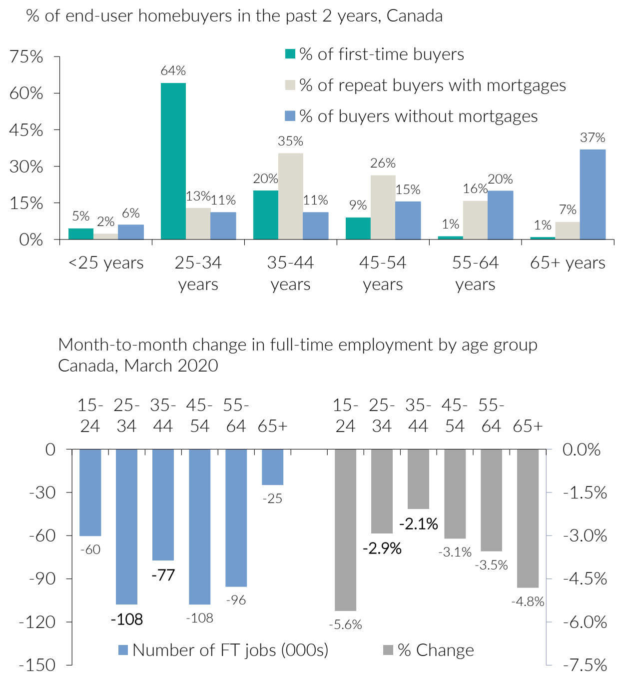
Data from StatCan's March Labour Force Survey (for the period March 15 to 21) provided the first real glimpse into the toll that COVID-19 measures are taking on employment levels in Canada. The data showed over 1 million fewer total jobs than in February, wiping out all the job gains in the previous 3 years. Part-time jobs took a bigger hit (-16%) than full-time jobs (-3%). And it is not just a simple job/no job situation - among those that have not lost their jobs, many have experienced income reductions (due to fewer hours worked, declines in variable/commission-type pay, etc.).

Job growth is a key driver of housing demand - and in particular full-time jobs. The 25-44 age group – which, according to Altus Group's FIRM Survey, accounted for over 80% of first-time buyer home sales in the past 2 years (Chart 4, top) – suffered massive losses in full-time jobs in March (Chart 4, bottom). But the Pyrrhic victory is that the relative loss was less than for those under 25 and 45 and older.

These job loss patterns could have implications not just for absolute housing demand levels going forward, but also the relative mix of demand between the various segments (e.g. first-time buyer, move-up buyer, move-down/lifestyle and "younger" senior segments). But it is still early days. We need to see how employment patterns unfold over the next few months, including the impact of the Canada Emergency Wage Subsidy program. April data will be out soon.

Chart 4

Massive full-time job losses in March in key potential first-time homebuyer age groups – but not the hardest hit group



Source: Altus Group, The FIRM Mortgage Survey and Statistics Canada

It's Not Just Employment Income Being Impacted During COVID-19 Crisis

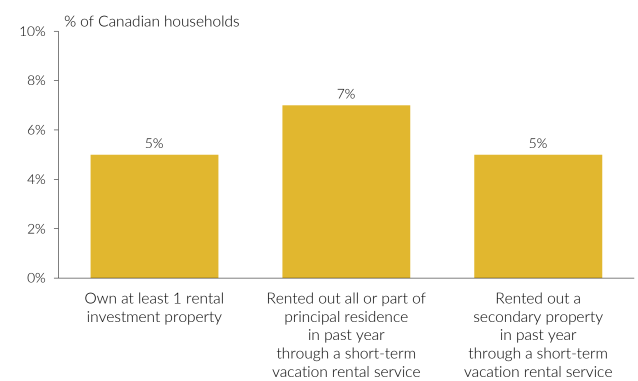
Many Canadian households obtain supplemental income from renting out properties, as shown by data from Altus Group's FIRM Survey (Chart 5).

About 1 in 20 households own at least one rental investment property (some of which are basements suites being used to help with mortgage payments). For some of these owners, tenants currently may be struggling to pay their rent.

Many Canadian households also rent out properties on a short-term basis through on-line booking services – either space in their principal residence, or secondary properties (such as vacation properties or rental investment properties). Declines in demand, as well as restrictions in some jurisdictions on short-term/vacation rentals, suggest income from this source is down at present.

Chart 5

Supplemental rental income in jeopardy for many Canadian households



Source: Altus Group, The FIRM Survey, Summer and Fall 2019

And Then, There's Also Debt Payments

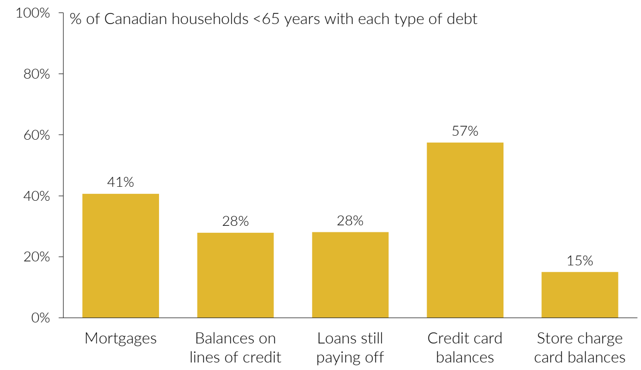
Part of the struggle for many Canadian households during the COVID-19 economic disruption is that they still have debt and associated payments (Chart 6).

About 4 in 10 Canadian households headed by someone in the prime working age group are owners with mortgages. Many mortgage holders who have lost their jobs are requesting payment deferrals (in a typical year, fewer than 5% of mortgage customers use "skip a payment" options). For the 1 in 4 mortgage customers who made some prepayments last year, they may have some cushion to use those amounts against regular mortgage payments.

About 1 in 4 households has a balance on a line of credit. Typically, only about 1 in 5 line of credit customers make only the minimum payment each month, but it is likely more people will do so in the short term. Draw downs on lines of credit related to "daily spending" might also be expected to increase.

Chart 6

Many working age households have debt payments they need to manage



Source: Altus Group, The FIRM Survey, Winter 2020

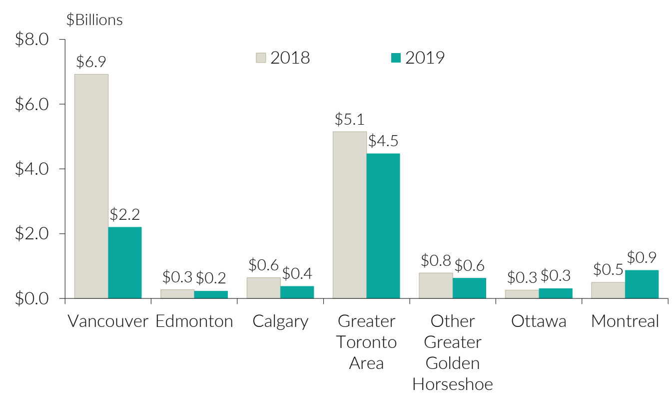
Residential Land Sales Were Already Down in Most Markets

Residential land sales were down by about one-third in the markets covered by Altus Group, combined, with only Ottawa and Montreal bucking the declining trend (Chart 7).

Available data for the GTA indicates residential land sales in Q1 2020 were down slightly from a year earlier, but a bit ahead of Q4 2019. Sales did not fall off in the latter half of March, although this may in part reflect closings for deals that were struck earlier in the year. First quarter data for the other markets will be available soon, and we will see if that pattern held up elsewhere.

Chart 7

Residential Land Sales Generally Down in 2019



Source: Altus Group, Commercial Transactions Database

OUR DATA

New Homes
Single and multi-family residential development project details and current sales activity.

Commercial Real Estate Comparables
Commercial investment sale details.

Leasing Market Inventory & Availability
Office and industrial building inventory and availability details.

Development Application Monitoring
New and active residential and commercial development application details.

Housing Market Intelligence
Monthly housing report and quarterly forecast of housing starts activity.

Consumer Home Buying & Borrowing Intelligence
Consumer home buying intentions, residential mortgages and other borrowing behaviour.

To learn more about our data solutions, please visit our web site at altusgroup.com/datasolutions or email us at datasolutionsinfo@altusgroup.com

February Starts Cool

Canada-wide housing starts for the month of February were 210,600 units seasonally adjusted at annual rate (SAAR), a slight decline from the revised number for January, according to CMHC estimates. The dip was due to lower apartment starts outpacing an increase in the single-family sector.

Regional highlights for February include:

- Atlantic Canada starts were higher across the region except for New Brunswick;
- Starts tumbled in Quebec due to a sharp fall-off in the Montreal CMA as well as a drop in the other areas;
- Ontario starts moved higher due entirely to gains outside the Toronto CMA;
- Starts slipped in both Manitoba and Saskatchewan;
- Alberta starts were little changed and
- B.C. starts jumped due to higher starts in both the Vancouver CMA and the other areas of the province.

Housing Starts by Type and Area

	February 2019	January 2020	February 2020
	Total Starts (000s), SAAR		
Canada, Total	165.7	216.6	210.6
By Type of Unit			
Single-family	82.7	93.3	104.3
Apartment	83.0	123.3	106.3
By Area			
British Columbia	38.6	29.4	42.3
Vancouver CMA	*25.0*	*13.2*	*20.5*
Other Areas	*13.6*	*16.1*	*21.7*
Alberta	20.1	20.9	20.0
Saskatchewan	1.6	3.6	2.2
Manitoba	5.8	7.3	5.4
Ontario	56.5	68.8	77.9
Toronto CMA	*20.5*	*31.9*	*31.2*
Other Areas	*36.1*	*36.9*	*46.7*
Quebec	37.0	79.4	49.8
Montreal CMA	*15.0*	*28.8*	*19.6*
Other Areas	*22.0*	*50.6*	*30.2*
New Brunswick	1.1	2.5	1.8
Nova Scotia	3.8	3.2	8.5
Prince Edward Island	0.5	0.7	1.7
Newfoundland	0.6	0.8	0.9

Source: CMHC and estimates by Altus Group

Labour Force Indicators

	Employment Growth		**Unemployment Rate**	
	Jan-Feb 19-Jan-Feb 20-	Feb 19-Feb 20	Feb 2019	Feb 2020
	000s		%	
St. John's	0	-1	7.5	8.1
Halifax	3	3	4.8	6.6
Quebec	-12	-17	3.7	4.1
Montreal	22	35	5.9	5.5
Ottawa	40	32	5.1	4.2
Toronto/Oshawa	147	143	6.2	5.5
Kitchener-Waterloo	10	12	4.6	5.5
London	12	13	5.3	4.9
Winnipeg	7	8	5.5	4.9
Regina	-4	-5	4.9	6.6
Saskatoon	4	5	6.2	6.5
Calgary	5	-1	7.5	7.4
Edmonton	-9	-8	7.0	7.8
Vancouver	6	4	4.9	4.4
Victoria	10	10	3.2	3.4

Based on seasonally adjusted 3 month averages
Source: Altus Group based on Statistics Canada data

Resale Housing Market Indicators

	MLS Sales*			**Months of Inventory****	
	Feb 2019	Feb 2020	% Change	Feb 2019	Feb 2020
	Units				
St. John's	158	232	47	n.a.	n.a.
Halifax	357	417	17	n.a.	n.a.
Quebec	775	1,108	43	10.4	8.0
Montreal	4,332	5,338	23	5.1	3.9
Ottawa	1,017	1,164	14	n.a.	n.a.
Toronto/Oshawa	4,982	7,256	46	2.7	1.2
Kitchener-Waterloo	343	467	36	2.3	1.0
London	598	740	24	2.2	1.8
Winnipeg	677	765	13	4.0	4.1
Regina	191	181	-5	8.5	9.0
Saskatoon	283	314	11	n.a.	n.a.
Calgary	1,298	1,554	20	6.7	5.2
Edmonton	976	1,057	8	7.6	6.5
Vancouver	1,484	2,150	45	7.8	4.3
Victoria	407	521	28	3.9	3.0

* Multiple Listing Service (MLS) is a registered certification mark owned by The Canadian Real Estate Association
** Active listings at month end divided by sales during the month. A 5 months inventory of resale product is considered to be a "normal" market.
Source: Altus Group based on data from The Canadian Real Estate Association and local real estate boards

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