HOUSING REPORT

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COVID-19 Housing Sector Tidbits

When the COVID-19 pandemic hit in early 2020, we drew on our Altus Group Data Solutions proprietary data to help us understand what some of the emerging impacts were on the housing sector. More than a year later, the pandemic is still dominating our everyday life in Canada, so once again we devote our annual "tidbits" issue to shining some light on housing behaviour during the pandemic.

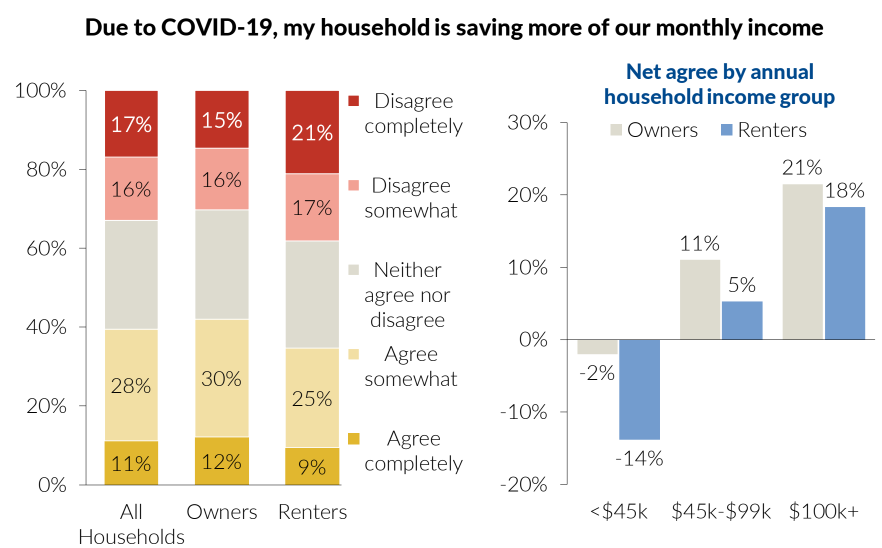
Yes, Savings Are Up – But Not Across the Board

While there is no question that many Canadian households have suffered financial hardship during the COVID-19 pandemic, Canadians as a whole have been saving more during the pandemic, according to Statistics Canada data.

Data from Altus Group's FIRM Survey suggests that not all Canadian households are benefiting to the same degree. Owners somewhat more often than renters report savings are up (Chart 1). But the real differences are more related to income, with higher-income respondents more often reporting net savings. This helps to explain some of the heat in housing markets during the pandemic – i.e. more savings among those who are already more in a position to be in the housing sector.

Chart 1

Higher Income Groups More Often Report Pandemic Savings



Source: Altus Group, The FIRM Survey, Summer and Fall 2020 combined results

Highlights

- Pandemic savings among higher-income renters helped to boost housing sales
- Rebirth of single-family in both Vancouver and Toronto drove higher new home sales last year despite the pandemic
- Downtown office space and rental apartment markets have fared worse than the overall market during the pandemic
- Despite higher vacancy rates during the pandemic, investors still confident in the rental apartment sector
- Detached rentals –already an important segment for larger U.S. investors

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Stronger Total New Home Sales in Vancouver and Toronto, Despite the Pandemic

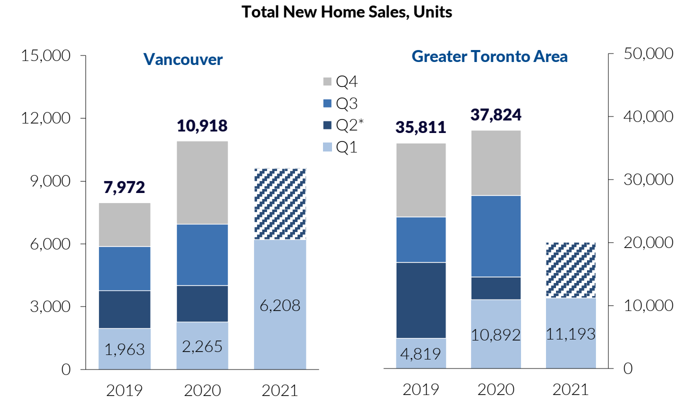
Total new home sales in Vancouver and the Greater Toronto Area (GTA) not only "survived" during pandemic-plagued 2020, they actually surpassed 2019 levels, according to Altus Group data (Chart 2).

But the patterns were different in the two markets. In the GTA, a strong pre-pandemic Q1 was able to slightly offset softer sales in the rest of year. In the Vancouver Market Area, while there was a relatively slower start to the year in 2020, sales in Q2 held up better than in the GTA and then picked up with a fury in Q3 and Q4, to push the annual total up 37%.

Total new home sales in Vancouver have continued to impress in 2021, with Q1 well ahead of pre-pandemic Q1 2020, and the highest Q1 yet recorded by Altus Group, while GTA Q1 sales managed to slightly better their strong performance of a year earlier and remained robust in Q2.

Chart 2

New Home Sales Defied the Pandemic in Vancouver and Toronto ...



* Q2 2021 Vancouver includes April to mid May; Q2 2021 GTA includes April and May
Source: Altus Group, New Homes Database

Rebirth of Single-Family in Both Vancouver and Toronto Drove Higher Total New Home Sales Last Year

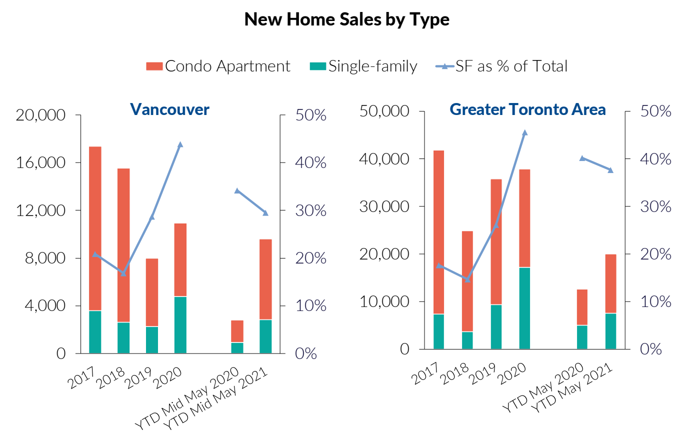
The single-family sector was the key driver of higher total new home sales in both the Vancouver Market Area and the GTA in 2020 (Chart 3).

New single-family home sales had already been starting to improve, as more supply at better price points started to make its way to the market. Once the pandemic hit, the trend was accelerated, as some space-seeking buyers foresaw work-at-home options might prevail to some degree even post-pandemic. For Vancouver, new single-family sales in the 2nd half (H2) of 2020 were the highest recorded for H2 since Altus Group started its tracking in 2007; for the GTA, they were the highest since 2004.

There hasn't been any let up in early 2021, with year-to-date single-family and apartment new home sales higher than last year in both Vancouver and the GTA. However, rapidly rising prices and lack of inventory were factors in cooler single-family new home sales in the GTA in April and May compared to the earlier part of the year.

Chart 3

... Led By a Revival in Single-Family Sales



Source: Altus Group, New Homes Database

Investors Still Confident in the Rental Apartment Sector

For 2020 as a whole, sales of rental apartment buildings fell short of 2019 by about 15%, based on data for the Canadian markets tracked by Altus Group. However, that decline was largely due to the plummet in Q2 2020 as COVID-19 hit. Since then, sales for the combined markets have been on an upturn, with Q1 2021 surpassing pre-pandemic Q1 2020 by 23%. The resiliency of the rental investment sector, despite higher vacancy rates, points to the underlying longer-term attractiveness of this asset class.

All the major markets that saw activity drop during Q2 2020 have shown recovery since, although the degree has varied, with Calgary and Edmonton in Q1 2021 still below the pre-pandemic level of a year earlier (Chart 4).

Detached Rentals Already an Important Segment for Larger U.S. Investors

There has been a lot of buzz in the Canadian media recently about detached homes as a rental investment class. Detached home rentals are nothing new in Canada. According to the 2016 Census of Canada, about 8% of all single-detached dwellings had tenants, and these units comprised 5% of the total housing stock. However, typically the owners of these units are smaller investors with only one, or a handful, of properties.

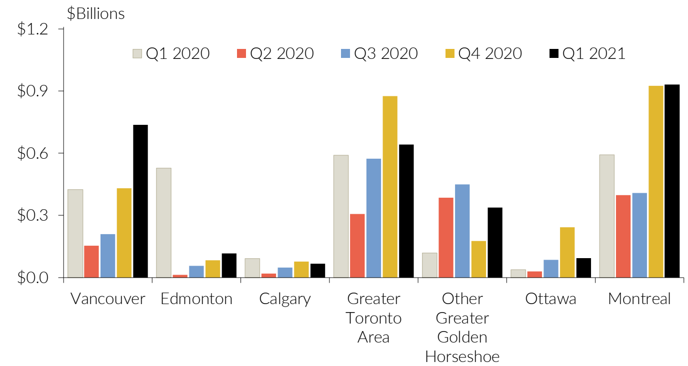
In the U.S. however, some larger investors have already been embracing what is referred to as the "Single-family rental", or "SFR", market (note that in the U.S., "single-family" typically is used to refer to detached, unlike in Canada where it typically describes detached, semi and row units combined). Like in Canada, most SFR units are owned by small investors. However, according to a recent study conducted by Altus Group (The Evolution of Valuing Single-family Rental Homes), investors with portfolios of 2,000 or more units account for about 350,000 to 400,000 units, or between 2.1% and 2.5% of the total SFR market (Chart 5).

The Global Financial Crisis (GFC) was a major inflection point for SFR ownership in the U.S. accelerating the institutionalization of this asset class. Single-family mortgage default rates rose during the GFC with millions of homes going into foreclosure. Many were purchased by investors at foreclosure auctions. While foreclosed properties drove much of the growth in large investor involvement in the SFR sector in the U.S., more recently, some U.S. investors are turning their attention to new purpose-built SFR communities.

Canada escaped the homeownership correction that the U.S. suffered through, and did not have a similar pool of foreclosed detached homes, which is a key factor in explaining why SFR by institutional investors has not seen the same interest to date in Canada as in the U.S. But it is a segment of the market that may warrant additional study, as the need for additional rental housing ramps up post-pandemic.

Chart 4

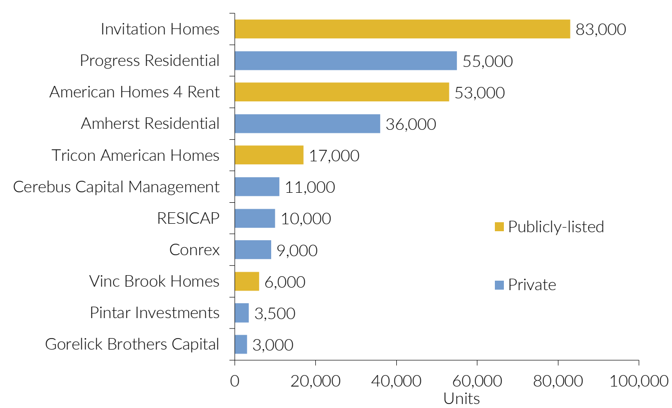
Recovery in Rental Apartment Sales Transactions



Source: Altus Group, Commercial Transactions Database

Chart 5

Major Firms Holding Single-Family Rental Units, U.S.



Source: Compiled by Altus Group

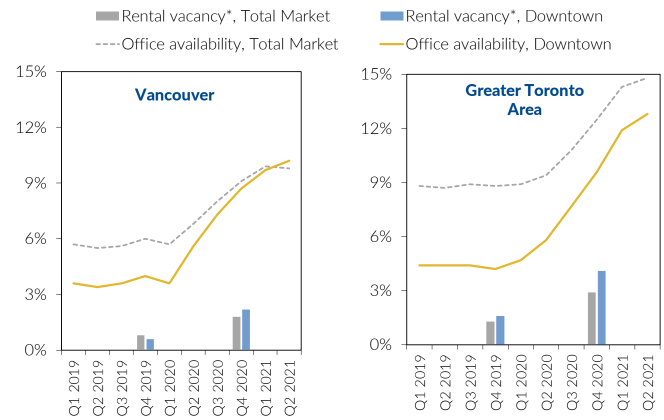
Available Downtown Office Space Has Climbed as the Pandemic Persists

While new home sales have been impressive in Vancouver and Toronto, office space markets in these centres have been weaker. This is the case in particular in the downtown areas, where Altus Group data show that availability rates for office space have increased relatively more so than for their overall markets (Chart 6). In Toronto, some increase in the very low downtown office availability rate was expected, even without the pandemic, given the extent of supply in the pipeline, but the degree has been much more pronounced. Rental apartment vacancy rates in the downtown areas of Vancouver and Toronto also shot up in the Fall of 2020 compared to a year earlier as the pandemic resulted in both an increase in supply and a falloff in demand.

With the new office hybrid model, company footprints are likely to shrink, but the average square foot per employee will likely increase to allow for more social distancing and increase in collaboration space. The urban areas still offer amenities that especially new and younger workers want and are still attracted to. Over the past few months, we have seen an increase in tech companies taking more and not less space in Vancouver and Toronto, although at the same time, we have also seen the continued increase in sublet availability, but expectations are some of this may be taken out again as return-to-office plans are initiated and space needs refined.

Chart 6

Downtown Office and Rental Markets Have Fared Worse During the Pandemic



* Combined purpose-built rental and rented condominium apartments
Source: Altus Group, Insite Office Database and CMHC, Rental Market Report

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.

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

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