



Report

COVID-19 Impact on the Canadian Housing Market

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Contributing Authors

Guy Tsrur, Data Scientist, Local Logic

Ben Myers, President, Bullpen Research & Consulting Inc

For media inquiries or other questions, contact us at info@locallogic.co

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Introduction

It is no secret that COVID-19 has impacted all of our lives over the past several weeks. Our mission at Local Logic is to understand our cities and what matters to the citizens of urban communities. We were interested in knowing how the outbreak might affect home buyers and sellers in Canada.

Our hypothesis is that the current healthcare crisis and its financial repercussions have already had an impact on home buyers and sellers, and will have a much more significant influence on prospective purchasers in the weeks and months to come.

Data Sets

Since Local Logic products are used by approximately 80% of home searchers across Canada we have a good understanding of the users shopping for homes and the inventory available.

Historical Review: Pandemics and Houses

Looking back at the previous major coronavirus pandemic in 2003^{1,2}, we can get a general idea of how real estate markets responded to the outbreak.

Toronto was one of the most affected areas in Canada due to the outbreak of SARS in 2003, however, the housing market did not decline. In fact, as the Financial Post reported³, transactions increased by about 5.5% and the average sales price increased as well.

Hong Kong, on the other hand, was one of the regions hit the hardest in 2003, and resembles many areas currently dealing with COVID-19 (also known as the novel coronavirus or SARS-CoV2). Hong Kong suffered an 8% decrease in average residential real estate prices around the time of the outbreak. However, as some peer-reviewed studies suggest⁴, only a small portion of this decrease should be attributed to SARS. The territory was going through a

¹ "2002–2004 SARS outbreak - Wikipedia." https://en.wikipedia.org/wiki/2002%E2%80%932004_SARS_outbreak

² (n.d.). Severe Acute Respiratory Syndrome (SARS) <https://www.who.int/csr/sars/en/>

³ (2020, February 12). How the coronavirus might impact Canada's housing market <https://business.financialpost.com/real-estate/how-the-coronavirus-might-impact-canadas-housing-market>

⁴ (2011, July 3). Has SARS Infected the Housing Market? Evidence from Hong Kong https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1877212

period of financial struggles long beforehand, dating back to 1997 when the UK transferred sovereignty back to China. Several years prior to the outbreak the GDP began dropping annually—from 177B USD in 1997 to 161B USD in 2003⁵. A more likely portion of the house price drops due to SARS that year is around 1-3% (in Hong Kong specifically).

The resale housing data in the aftermath of the 2003 SARS outbreak suggests that the economic fallout may not be as bad as some predict, but the COVID-19 pandemic appears to be more severe than SARS. A deeper dive into the data is necessary.

Italy, which suffered the most COVID-19 cases until recently and has the highest mortality rate⁶, is already seeing significant short term effects of the outbreak on its real estate market. There has been a 12% decrease in real estate transactions in Milan, and 7% drop in the rest of the hard-hit Lombardy region⁷. Some forecasts expect a drop of between 8% to 18% in the number of transactions in 2020⁸, as a result of increasing unemployment and financial instability.

This leads us to Canada. With the number of people testing positive for COVID-19 crossing the 10,000 mark in early April, the questions regarding the effects this outbreak might have on the real estate market are also increasing rapidly. We decided to dig into our own data to answer some of those questions, and look for any indicators that might provide some valuable insights into where we are headed.

⁵ Hong Kong GDP - Trading Economics. <https://tradingeconomics.com/hong-kong/gdp>

⁶ New Cases of COVID-19 In World Countries - Johns Hopkins <https://coronavirus.jhu.edu/data/new-cases>

⁷ (2020, March 5). Effetto coronavirus sul mercato immobiliare di Milano <https://www.italiaoggi.it/news/effetto-coronavirus-sul-mercato-immobiliare-di-milano-compravendite-in-calo-del-12-202003051621165831>

⁸ (2020, March 26). Il coronavirus travolge il mercato immobiliare <https://it.businessinsider.com/il-coronavirus-travolge-il-mercato-immobiliare-perdite-per-122-miliardi-in-tre-anni-e-crollo-dei-nuovi-mutui-30/>

The Buyers

Are they still browsing?

Spring is typically the most active time for home buyers and sellers, while January is typically pretty quiet. Using January as a baseline for comparison, we can see how strong or weak the other months are.

In early April 2020, the number of daily users on real estate portals in Canada has declined by approximately 10% compared to January 2020 (see Figure 1). This is a complete opposite from last year's numbers, where there was an increase in users of just under 60% compared to January 2019. The pre-COVID trend this year was in line with what we saw in 2019, peaking at a nearly 45% increase around March 10th, before trending down.

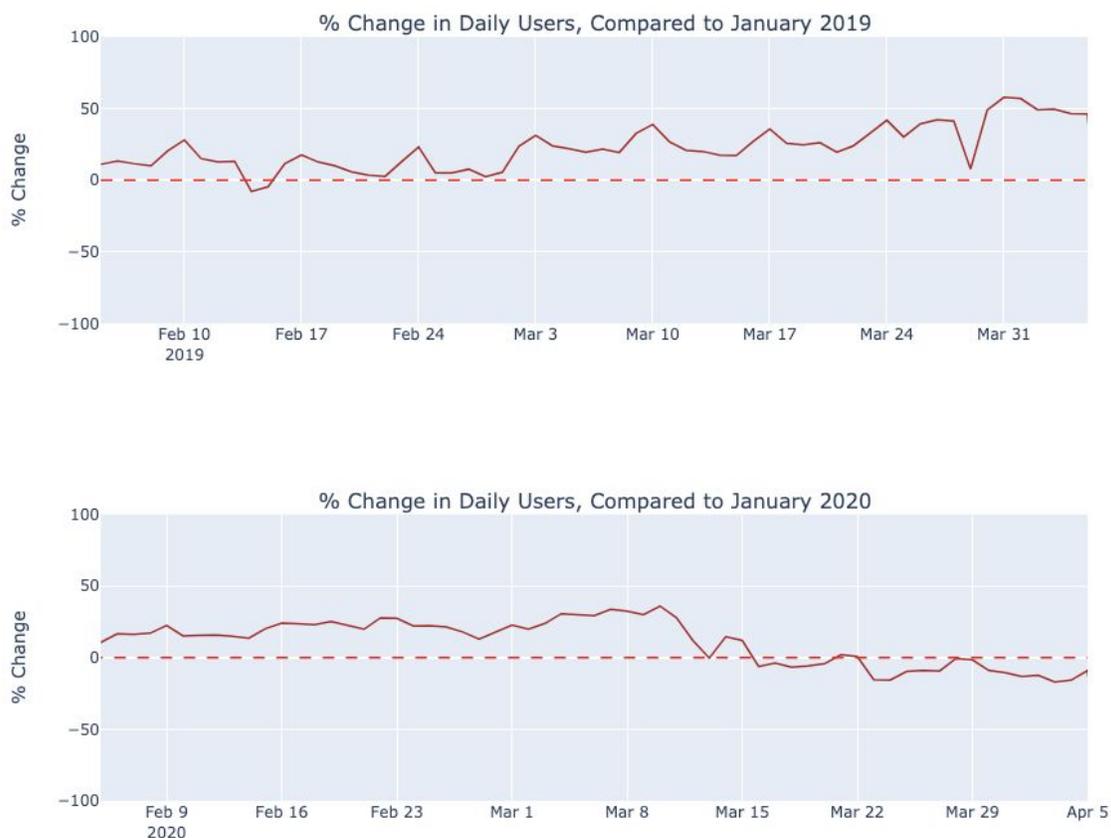


Figure 1. Percent-change in daily user visitors to Canadian real estate portals, 2019 vs. 2020.

We can clearly see the negative correlation between new confirmed COVID-19 cases and the volume of users browsing homes online (see Figure 2). The logical assumption is that as the crisis worsens, people's attention drifts away from their original plans, house-buying included. An interesting observation is that Canadian buyers started responding before the magnitude of the crisis in Canada was clear, around the second week of March. Clearly, news consumption plays a key role in the market response, as global reports of the outbreak increased, and the government started issuing travel warnings, users responded.



Figure 2. COVID-19 cases in Canada vs. change in daily traffic to real-estate portals in Canada (compared to January averages). The correlation coefficient between the two (as of April 5, 2020) is -0.885 , indicating a strong negative correlation.

It seems that neither our users curve or the COVID-19 curve is flattening just yet, despite the need to flatten the cases' curve being governments' priority. British Columbia is starting to show

improvement in number of confirmed cases, but the overall number continues to rise^{9,10}. Daily traffic to real-estate portals remains on a downward trend, as highlighted in Figure 3, where we account for some normal weekly variations in user traffic. The red line demonstrates the overall trend of searchers during the past two months—buyers interest was heading up until mid-March, when the sharp drop began.

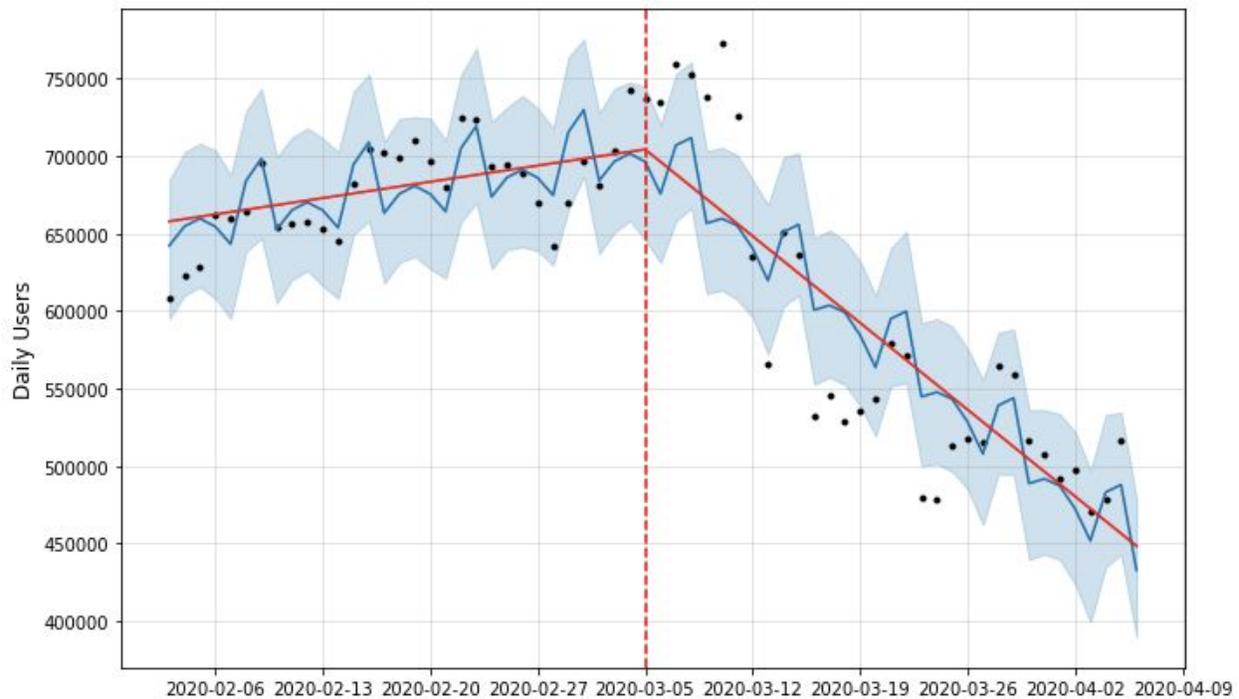


Figure 3. Change in daily users, February - April 2020, trendline with weekly cycles taken into consideration.

Figure 4 covers similar data as Figure 2, looking at the data on a provincial level. The general behaviour is similar, but we can observe that among the most affected provinces, Quebec (the most affected one so far) sees a more drastic decrease compared to others, with around 25% drop in distinct users. British Columbia, where the situation is improving, does show first signs of recovery in terms of searcher traffic, but it changes daily and will likely continue fluctuating around the 0% change.

⁹ Coronavirus disease - Canada.ca.

<https://www.canada.ca/en/public-health/services/diseases/2019-novel-coronavirus-infection.html>

¹⁰ (2020, April 6). Why is B.C. starting to flatten the curve while other provinces

<https://globalnews.ca/news/6786185/bc-flattening-curve-covid-19/>

Changes in Daily Users, vs. January 2020

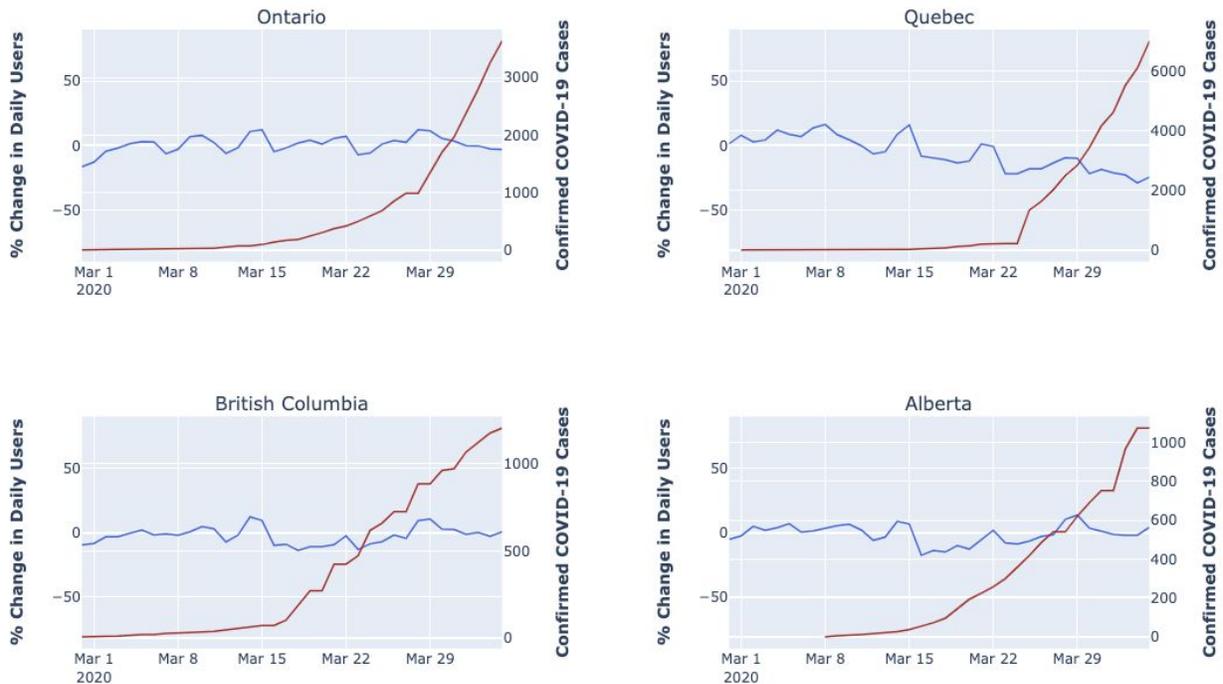


Figure 4. The four worst-hit provinces daily traffic change (compared to January averages) vs. COVID-19 cases, March 2020.

When we looked at how many properties were actually viewed by each user, the numbers are similar across the board: around 10% decrease compared to January 2020. This means that not only less users are browsing for real estate, but those who do browse look at less options than before.

How are they browsing?

Looking at users' session durations, the results are surprising: users are spending nearly 10% more time in each session, compared to January averages (after accounting for normal weekly highs and lows), as seen in Figure 5. Taking into consideration these two points of information can lead us to a simple conclusion. The number of users active online might be going down, but those still active seem to have a smaller set of properties they research, and spend more time on those specifically. This can mean these users are in fact later in the house-buying process, but without the ability to tour the properties, they are spending more time viewing them online.

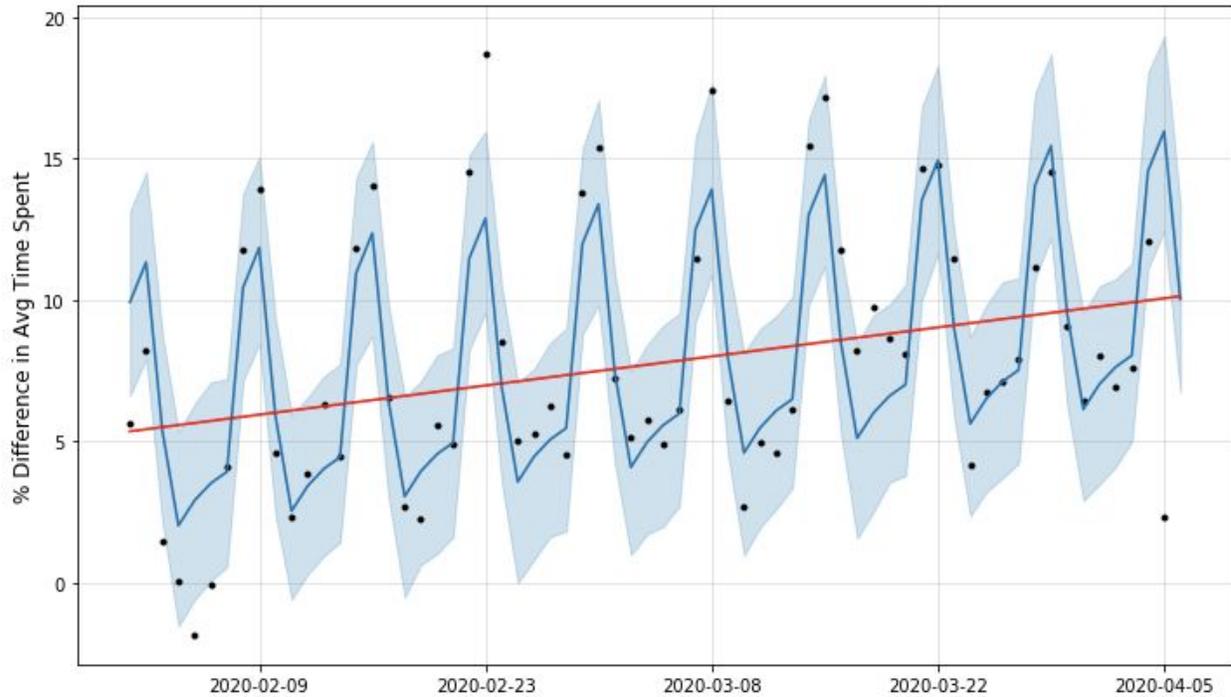


Figure 5. % difference in session time per user, compared to January 2020 averages.

But do these users in fact reach out to agents for more information?

It seems the quick answer is no. Even if some users are further in the process, they are not contacting agents about listings as frequently as they did pre-pandemic. Looking at Figure 6 we can see the very clear downtrend in March-April—nearly 35% drop in just over one month. When considering the physical distancing measures encouraged by the government and cancellations of open houses around the country, it only makes sense. It's becoming harder and harder for agents to get buyers to see their listings. Real estate portals are reporting an increase of between 200-500% in requests for virtual home tours¹¹.

¹¹ (2020, March 30). Coronavirus fallout: Virtual and solo home touring soar. <https://www.cnbc.com/2020/03/30/coronavirus-fallout-virtual-and-solo-home-touring-soars.html>

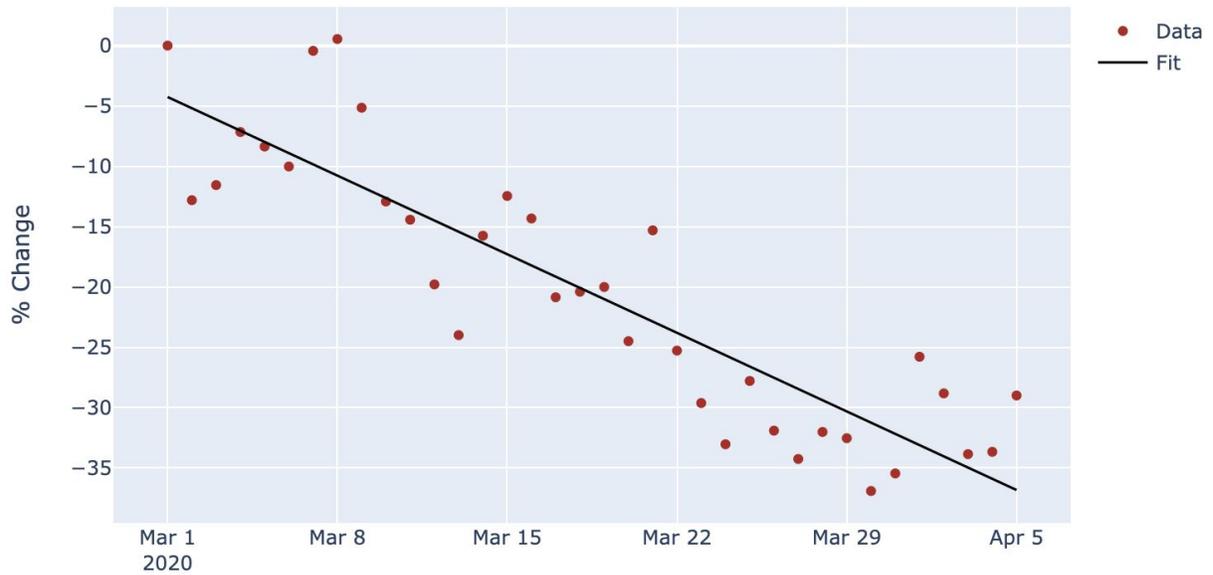


Figure 6. Percent-change in agent conversions per listings viewed, compared to March 1st. The black line represents a fitted line to demonstrate the trend, while the red markers indicate the percent change per given day.

Another interesting early observation based on millions of searches in the past 3 months, is that users are searching for higher-priced properties starting late January, but that's significantly increasing in March (Figure 7 shows the average minimum price filter used for a given day).

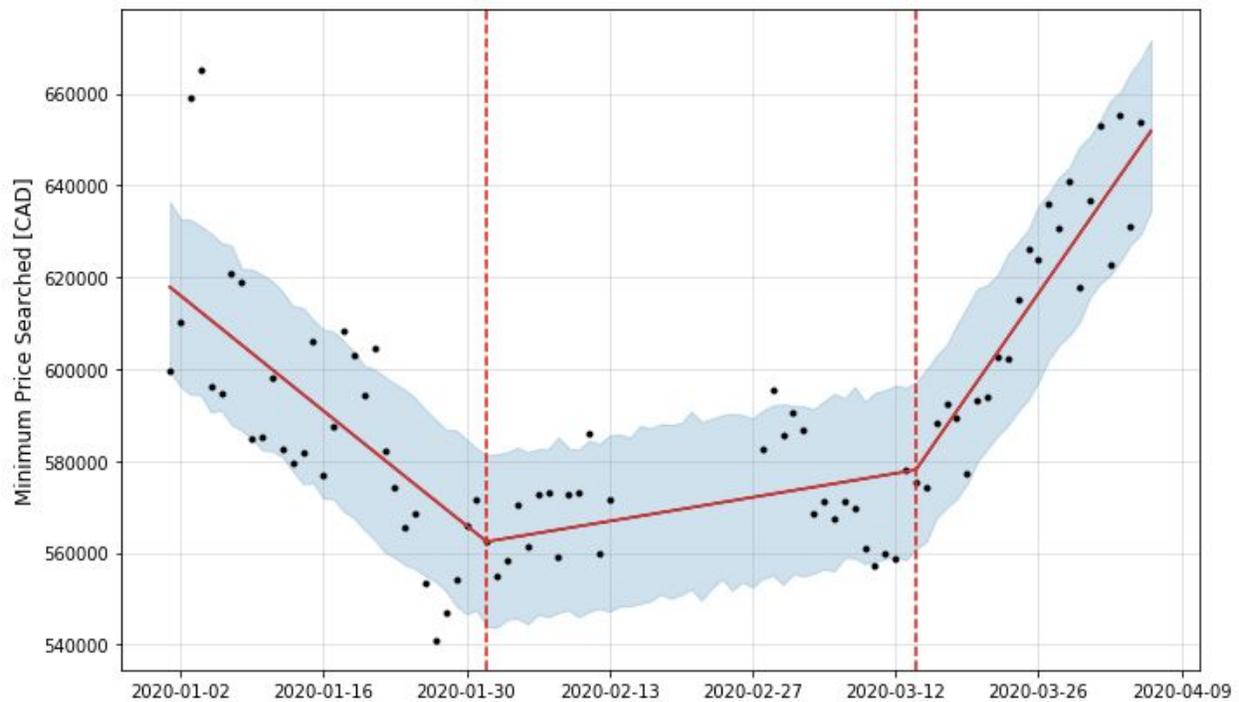


Figure 7. Average minimum price searched-for, at a given day, since January 1, 2020

This behaviour can indicate that searchers are looking at a wider range of properties, but could also be an indication of more dreamers browsing for their ideal property, or looking at options that are normally not their first choice, since they cannot act on it at the moment regardless of its price.

Using our proprietary location scores, we also explored what prospective buyers care about when it comes to their surroundings and neighbourhoods. How have preferences changed due to the outbreak?

Comparing users' choices in March 2019 and March 2020 (see Figure 8), we see very little difference between the two periods. With the toilet paper panic earlier in March, we expected to see a larger interest in grocery stores, but the data shows us things remain quite static at the moment. The small differences mostly touch **quietness**, that seem to be in slightly higher demand, as well as **public transit friendliness**, which grows year-over-year, in spite of the

limitations of traveling in public (and is another indicator of the growing demand for functioning public transit in our cities in times of crisis, but also in more peaceful times¹²).

As the traffic only started drastically changing in volume around mid-March, it will be worthwhile revisiting home buyers' interests in April and May, once full months of data will capture any possible changes in behaviour and interest.

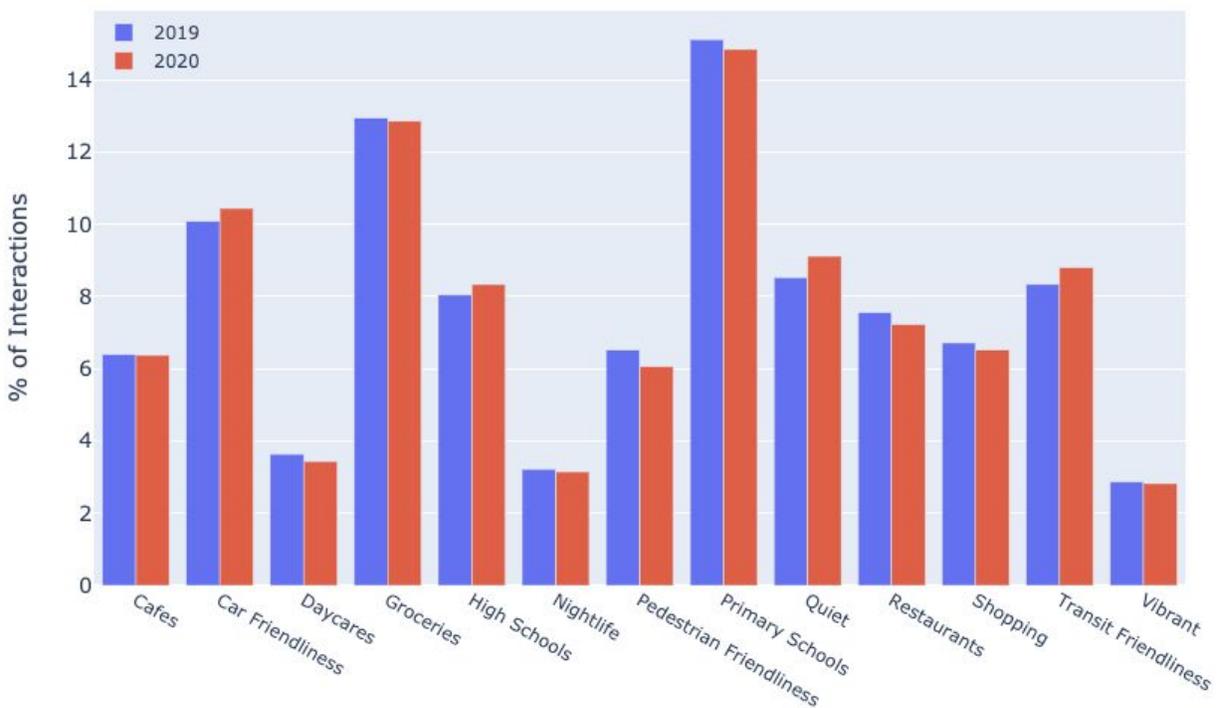


Figure 8. Breakdown of homebuyers categories of interest, % of interactions with different Local Logic location scores.

¹² How coronavirus is disrupting public transit - Transit App <https://transitapp.com/coronavirus>

The Sellers

After covering home buyers and online user activity, we can take a deeper look at home sellers during the pre- and post-pandemic periods, to get a more complete picture of the market.

Are they still selling?

At the moment, the latest reports from most of the Real Estate Boards are for March 2020^{13,14} and these show an increase in transactions year-over-year, but that is likely to change soon as our data on newly listed properties suggest.

As shown in Figure 9, the number of newly listed properties is demonstrating a downward trend in the past weeks across all provinces that have been the hardest hit by the COVID-19 virus (while last year, the trend was the exact opposite - new listings were increasing daily during the first quarter of 2019).

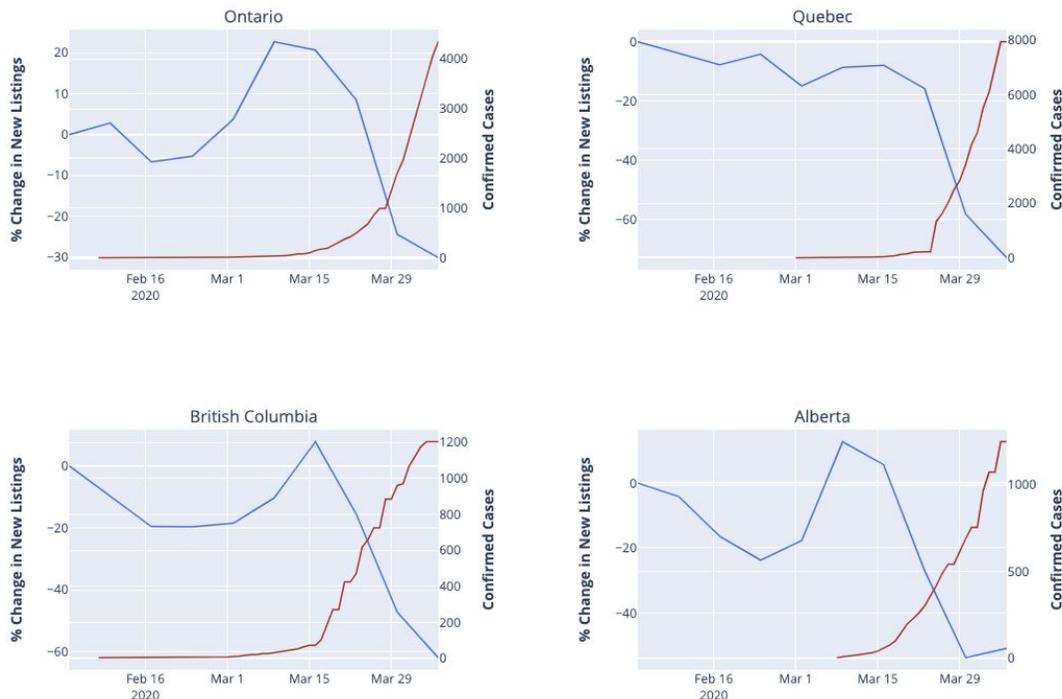


Figure 9. %-change of weekly newly listed for-sale homes, compared to the first week of February 2020.

¹³ (2020, March 15). Market Watch - Toronto Real Estate Board.

<http://trreb.ca/files/market-stats/market-watch/mw2003.pdf>

¹⁴ Steady demand and low supply benefits home sellers.

<https://www.rebgv.org/market-watch/monthly-market-report/february-2020.html>

Similar to the pattern of website visitors, there was a strong upward trend in early March, followed by a sharp decline. It appears that home-sellers started waiting the crisis out around mid-March, rather than posting their house for sale.

Are asking prices dropping?

Valuewise, it's too soon to tell if prices indeed will drop as a result of the current crisis. At the moment, short-term trends for Canada are up in the first quarter of 2020, with no significant changes related to COVID-19. This trend is in line with the latest House Price Index (HPI) that showed a 0.35% increase between January and February¹⁵, and will soon unveil changes between February and March, recognizing the time lag between the actual sales and the reporting by Teranet. We expect, however, the changes in pricing to begin with units listed online in April and May, as the crisis unfolds. It may take some time for prices to drop significantly (if they do) as some sellers will be reluctant to lower their prices despite the major decline in demand.

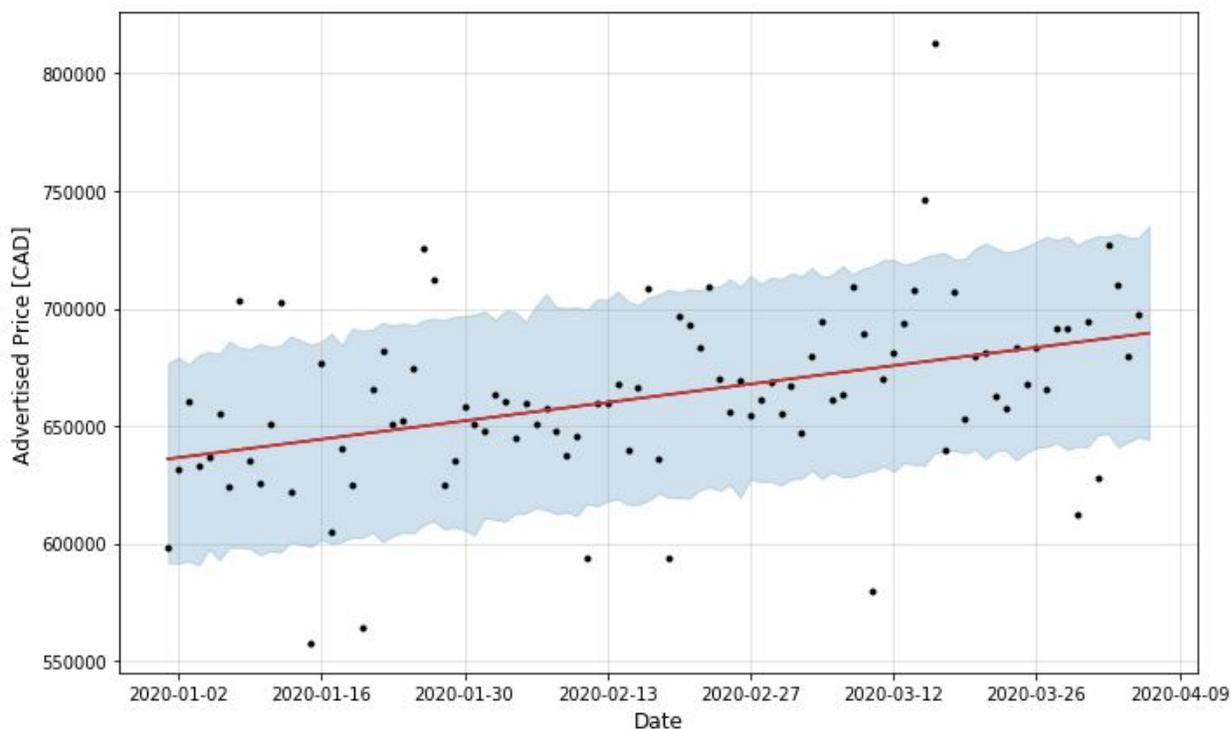


Figure 10. Average daily prices of newly listed properties across Canada, 2020.

¹⁵ House Price Index – Developed by Teranet <https://housepriceindex.ca/>

Summary and Takeaways

Published real estate data indicates the market has not been affected by the global health crisis yet, but there are multiple indicators this might change soon. We have already seen some short term effects that this pandemic has had on the Canadian market, mostly through how prospective home buyers respond and interact with agents and listings online.

Due to stay-at-home directives across the country, and self-isolation practices, open houses are not happening nearly as frequently, and potential home buyers are contacting agents much less frequently (35% drop across the country in one month).

While residential transaction are still increasing, we expect a more negative outcome in the coming months, due to several factors:

- Drop in resale properties inventory over the past month
- Sharp decrease in contacting agents
- Earlier-affected territories market response to COVID-19
- Historical market responses to other outbreaks

With all of the above in mind, we can expect a slow down in transactions across the country in the coming months for a limited period of time.

While there currently are no indications that prices will go down in the long run, this could happen as an indirect result of the economic crisis induced by the pandemic. Many potential sellers and buyers might indeed face income loss, bankruptcies, savings and pensions devaluations¹⁶, which can affect both the demand and the supply.

Government response to the financial crisis will also have a significant impact on how things will turn out. Some of the initial steps already taken (controlling the interest rates, benefit packages for lost jobs, and other direct payments) could improve the situation once the market starts healing and going back to normal. We do believe housing prices will decline, but not crash to extreme levels.

¹⁶ (2020, April 3). What Does Coronavirus Mean for the Housing Market?
<https://www.nasdaq.com/articles/what-does-coronavirus-mean-for-the-housing-market-2020-04-03>

A word about rentals

While we focused on the for-sale market in this report, the rental market has some very interesting questions on its own, that are out of scope for this report, but some of those can include:

- The effects on mobility—are people still moving in spite of the crisis?
- How does the market respond in terms of lease prices?
- How will the wave of cancellations and empty Airbnb apartments will affect the market?
- Will there be a surplus of properties available for long-term rent as a result?
- Will to-be-buyers become renters due to the financial crisis that's emerging?

Any questions?

Feel free to reach out to us with any questions about the report or any media inquiries, at info@locallogic.co.

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