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The resilience and strength of the new housing market during the pandemic

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The resilience and strength of the new housing market during the pandemic

by Rohit Verma and Rehma Husain

Housing prices generally fall during a crisis, as people often refrain from big ticket purchases during times of uncertainty. During the financial crisis in 2008 and 2009, for example, new house prices fell 3.1% year over year nationally in August 2009.¹ During the first six months of the current pandemic, however, new home prices have risen as Canadians have adjusted to the new reality of working and staying at home.

This article examines changes in new home prices in Canada for the 27 surveyed census metropolitan areas (CMAs) captured in the New Housing Price Index and compares the ranking of cities based on prices six months into the pandemic (August compared to February).

The New Housing Price Index tracks prices of new construction of homes such as singles, semis and townhouses or row homes and excludes apartments and condominiums. It also does not include resale homes.

New housing prices rise despite the pandemic

The global pandemic has presented numerous challenges to many industries across Canada and some observers have predicted that new housing prices would fall. Nevertheless, prices for new houses were up 1.3% six months into the pandemic (between February and August) in comparison to a 0.2% drop observed during the same period in 2019. Prices have risen in 23 of the 27 cities covered by the New Housing Price Index since the onset of the pandemic (Table 1).

Prices up in Canada's most expensive housing markets in August – a shift from the pre-pandemic market

In February, just prior to the pandemic, prices in Vancouver (-1.8%) and Toronto (-0.5%) were down year over year, continuing the downward trend since 2018 in the wake of policy measures to cool these real estate markets.¹ In August, six months into the pandemic, these two markets reported strong demand, and prices increased in Vancouver (+2.3%) and Toronto (+0.9%) compared to February. The increase in August pushed Vancouver up 14 spots from February to rank 7th and Toronto up 6 spots to rank 16th in terms of percent change between February and August, among all of the cities surveyed by the New Housing Price Index (Table 1).

Prices continue to increase in housing markets near large urban centres

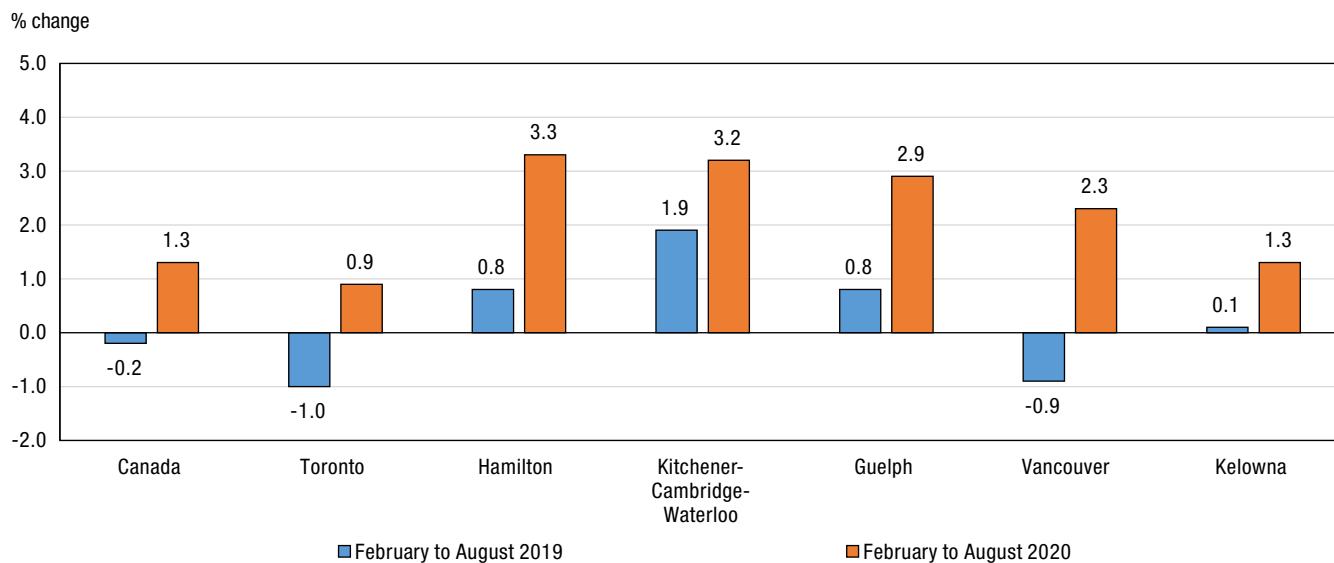
Prior to the pandemic, new house prices were trending upward in the more affordable housing markets surrounding Toronto and Vancouver. In spite of the pandemic, between February and August, this trend continued with prices rising in Hamilton (+3.3%), Kitchener-Cambridge-Waterloo (+3.2%), Guelph (+2.9%), as well as in Kelowna (+1.3%), as buyers continued to look outside Toronto and Vancouver for more affordable housing (Table 1).

1. Refer to Statistics Canada. [Table: 18-10-0205-02 New housing price index, percentage change, monthly](#)



Chart 1

Many major markets showed increased momentum in new house prices between February and August 2020



Source: Statistics Canada. Table 18-10-0205-01 New housing price index, monthly.

Ottawa remains Canada’s hottest housing market

Ottawa (+9.5%) reported the largest annual growth in new house prices in February, which may have been partially attributable to the introduction of a provincial foreign buyer tax geared towards cooling the Toronto and Vancouver housing markets.^{2,3} Six months into the pandemic, strong housing demand coupled with low supply persisted in Ottawa as house prices increased by 5.3% between February and August (Table 1).

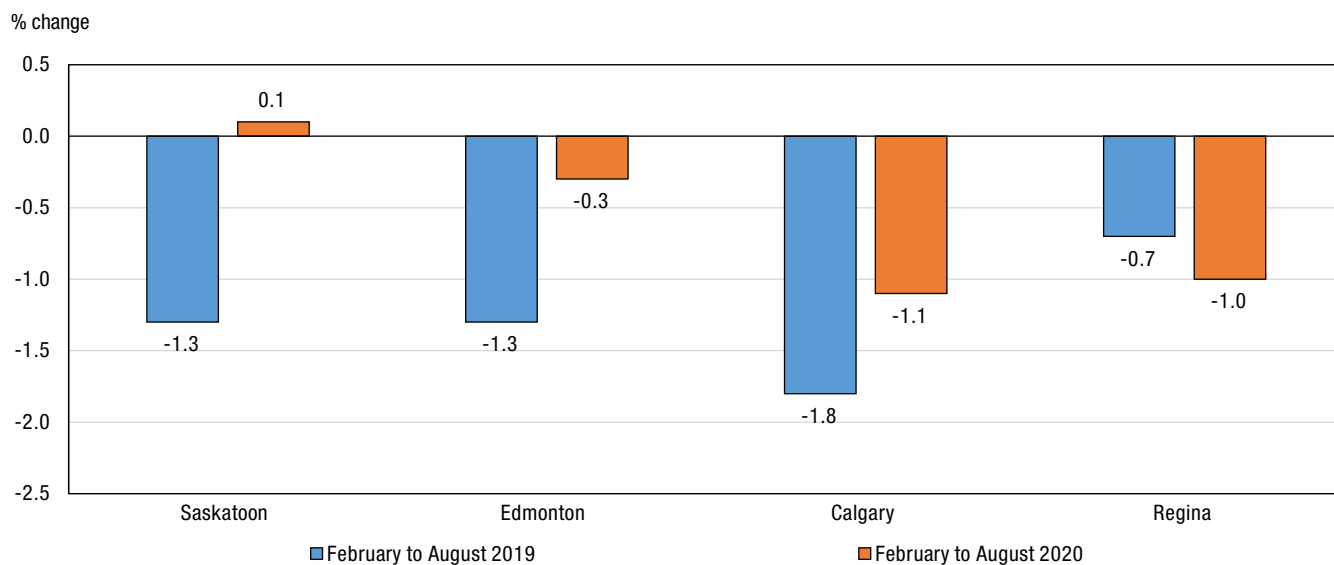
New housing market remains weak in Alberta and Saskatchewan

Three out of four housing markets reporting declines six months into the pandemic were in the harder-hit resource based economies – Calgary (-1.1%), Regina (-1.0%) and Edmonton (-0.3%). Saskatoon saw prices inch up 0.1% between February and August. All four Prairie cities remained in the bottom ranking among the 27 cities surveyed (Table 1).

2. Refer to [Ontario’s Fair Housing Plan](#)
 3. Refer to [B.C.’s 30-Point Housing Plan](#)



Chart 2
New housing market remains weak in the Prairies



Source: Statistics Canada. Table 18-10-0205-01 New housing price index, monthly.

Why are house prices increasing during the pandemic?

COVID-19 accentuates the ‘new-found’ importance of a home

The global pandemic is an unprecedented health crisis, which has led many Canadians to remain home more than usual over the past few months due to physical distancing measures. With people now spending more time at home, this has increased the demand for larger homes with additional space for a home office, remote learning or accommodating extended family members.

According to a Fall Market Outlook Report Survey published in September by RE/MAX, one-third (32%) of Canadians no longer want to live in large urban centres and would prefer living in a rural or suburban community. The survey also found that 44% of Canadians would like a home with more space for personal amenities, such as a pool, balcony or a large yard, and 48% would like to live closer to green spaces.⁴

This has shifted the interest of homebuyers from condos to single-family homes such as singles, semis and townhomes. Furthermore, the increasing prevalence of working from home during the pandemic has made commuting less of a deciding factor when choosing where to purchase a residential property. This has amplified the trend of buyer interest in lower priced suburban areas and in cities within commuting distance of large urban centres when needed. As a result, new housing prices have risen in suburban areas since the onset of the pandemic.

In some markets, prices were rising even prior to the pandemic due to the limited supply available for sale. This remains a factor in some of the CMAs surveyed and has been accentuated by the delay in new construction projects since the onset of the pandemic. Higher construction costs due to the new safety protocols and rising building material prices, coupled with the current ongoing record-low interest rates, all contributed to the rise in

4. Refer to RE/MAX's [Canadian Housing Market Outlook \(Fall 2020\)](#)



new house prices over the last few months. Homebuilders report that record high lumber prices this year will likely add an extra \$5,000 to \$10,000 to the cost of a single-family house.⁵

The majority of the 27 housing markets covered in the New Housing Price Index reported gains in new house prices between February and August 2020, while for the same period in 2019, almost half of the CMAs were showing decrease or slight increases (Table 1). The increase was attributable to higher demand, increased renovation activities, and the lingering effects of reduced operations at sawmills earlier this year, which has led to a shortage of lumber and building materials and pushed construction costs up. This added upward pressure on new house prices in most markets in August.

Halifax reported the second largest upward movement in ranking, up 11 spots to 2nd place in August, as prices increased by 3.4% between February and August (Table 1). Low inventory of homes available for sale, coupled with increased demand, drove prices up in the city. According to RE/MAX, Halifax was experiencing a housing inventory shortage before the pandemic hit, and has the lowest supply levels in a decade.

More buyers choosing to live in cities and suburbs near large urban centres also pushed prices up in St. Catharines-Niagara (up 9 spots to rank 10th) and Oshawa (up 7 spots to rank 11th) in August (Table 1).

5. Refer to [Record lumber prices adding thousands of dollars to new home building costs](#)



Table 1
Ranking of 27 census metropolitan areas based on price change

Census Metropolitan Area	February-August 2020		February-August 2019		Change in Ranking	February-August 2020		February-August 2019	
	Rank	Rank	Rank	Rank		New Housing Price Index % change	New Housing Price Index % change		
Canada	1.35	-0.19		
Ottawa ¹	1	2	1	2	1 ↑	5.29	3.35		
Halifax	2	13	11	13	11 ↑	3.38	0.39		
Hamilton	3	9	6	9	6 ↑	3.25	0.77		
Kitchener-Cambridge-Waterloo	4	5	1	5	1 ↑	3.22	1.92		
Guelph	5	10	5	10	5 ↑	2.89	0.76		
Montréal	6	1	-5	1	-5 ↓	2.39	3.43		
Vancouver	7	21	14	21	14 ↑	2.35	-0.92		
London	8	6	-2	6	-2 ↓	2.18	1.34		
Québec	9	17	8	17	8 ↑	1.78	-0.20		
St. Catharines-Niagara	10	19	9	19	9 ↑	1.75	-0.38		
Oshawa	11	18	7	18	7 ↑	1.54	-0.29		
Winnipeg	12	15	3	15	3 ↑	1.33	0.19		
Gatineau ²	13	4	-9	4	-9 ↓	1.31	2.05		
Kelowna	14	16	2	16	2 ↑	1.25	0.10		
Windsor	15	14	-1	14	-1 ↓	1.20	0.38		
Toronto	16	22	6	22	6 ↑	0.88	-0.97		
Greater Sudbury	17	12	-5	12	-5 ↓	0.78	0.49		
Charlottetown	18	8	-10	8	-10 ↓	0.59	1.00		
Trois-Rivières	19	11	-8	11	-8 ↓	0.58	0.69		
Saint John, Fredericton and Moncton	20	7	-13	7	-13 ↓	0.49	1.19		
Victoria	21	26	5	26	5 ↑	0.19	-1.65		
Saskatoon	22	25	3	25	3 ↑	0.10	-1.33		
Sherbrooke	22	3	-19	3	-19 ↓	0.10	2.27		
Edmonton	24	24	no change	24	no change	-0.31	-1.31		
St. John's	25	23	-2	23	-2 ↓	-0.51	-1.22		
Regina	26	20	-6	20	-6 ↓	-0.96	-0.72		
Calgary	27	27	no change	27	no change	-1.13	-1.81		

... not applicable

1. Ottawa-Gatineau, Ontario part

2. Ottawa-Gatineau, Quebec part

Note: The New Housing Price Index (NHPI) measures changes over time in the selling prices of new residential houses agreed upon between the contractor and the buyer at the time of the signing of the contract. The survey covers single dwellings, semi-detached houses and townhouses or row homes. It also does not include resale homes. For more information, please see the [New Housing Price Index](#).

Source: Statistics Canada. [Table 18-10-0205-01 New housing price index, monthly](#)

New house prices expected to continue to increase in the short term

As we enter into the fall months, we expect to see a slowdown in the demand for housing. More uncertainty in the housing market is expected, as the mortgage deferral programs come to an end coupled with the recent resurgence of COVID-19 cases across Canada, especially in Quebec and Ontario. Nevertheless, we expect new housing prices to continue to rise, as demand for single-family homes remains high, largely due to the increased demand for larger living spaces to work from home, home school or other activities. The higher cost of a multitude of building materials, especially lumber, will continue to add upward pressure on new house prices in the near-term. Historically low mortgage rates will also play a role in the rise of house prices.