



## 2021-2022 OUTLOOK

# Deep Dive: Exploring Canada's Housing Market

The COVID-19 pandemic has had a lasting and unprecedented impact on Canadian urban centres and housing markets. In 2021, the Canada Mortgage and Housing Corporation ("CMHC") revised its rating of the Canadian housing market from moderate to high vulnerability.

Economic activity, net migration, and employment is expected to eventually reach pre-COVID levels by 2023, and the Cash Yield group is interested to see how the Canadian housing market is evolving in the face of these trends. This report outlines, analyses, and provides guidance on the following topics:

- An introduction to the Canadian housing market including a brief history of key events within Canadian housing and a summary of current market conditions
- The current status of key housing markets in Canada such as Toronto, Vancouver, Montreal, Ottawa, Calgary, and Saskatoon
- Key developments with Canadian mortgage and rental markets, an overview on Canadian housing valuations, and a contrast of historical and future trends
- A summary of investment opportunities, including two REITs
- Notable emerging trends within the market alongside our future outlook for the space

October 28<sup>th</sup>, 2021



## Cash Yield Group

**WASIQ WADUD**

**Senior Portfolio Manager**

w.wadud@queensu.ca  
+1 (647) 675-6808

**JOHN CICCI**

**Portfolio Manager**

john.cicci@queensu.ca  
+1 (604) 364-2108

**DEVIN MENG**

**Portfolio Manager**

devin.meng@queensu.ca  
+1 (778) 251-5502

**BRADEN REGULAR**

**Analyst**

braden.regular@queensu.ca  
+1 (506) 860-0308



This report is for informational purposes only, and is not an offer to buy or sell or a solicitation to buy or sell any securities, investment products or other financial product or service, or an official confirmation of any transaction.



**1** Introduction

**2** Current Market Status

**3** Housing Market Valuation

**4** REIT Assessments

**5** Emerging Trends

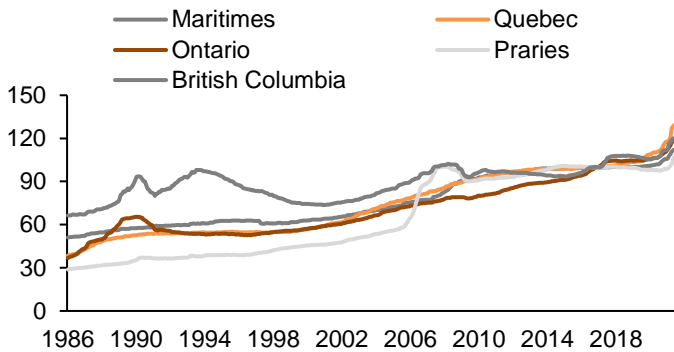
**6** Future Outlook



## Introduction: Overview of the Canadian Real Estate Market

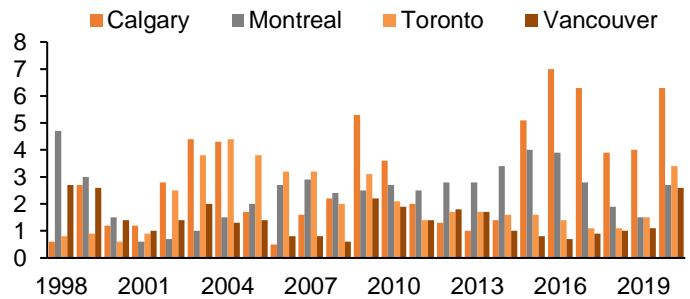
Urban sprawl has been the dominant force in the development of cities and lifestyles in North America. This is a significant contrast to the dense city centres found in Europe. Now in 2021, with limited space for more single family dwellings and an expanding population, a reversal of development strategy along with demand outpacing new supply has pushed home prices in Canada to record highs for buyers and mortgage holders.

**Figure 1: CMHC New Housing Price Index**



Likewise, vacancy rates for renters have declined at a similar rate to the increase in prices, leading to a classic supply and demand mismatch. Vancouver and Toronto are ranked second and fourth, respectively, in global unaffordability on a price-to-income multiple basis. With 10.3% of GDP in 2021 coming from real estate and demand for housing at all-time highs, there is plenty of reason to be skeptical about the sustainability of current prices.

**Figure 2: Multi-Unit Complex Vacancy Rates (Percentage)**



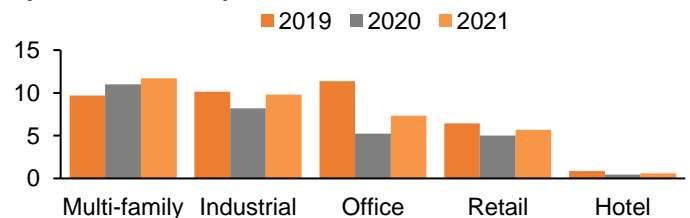
## Segments: Different Classifications of Canadian Real Estate

While this report is mainly focused on residential real estate, it is important to analyze all real estate segments. Real estate in Canada can be classified under three main categories: residential, commercial, and industrial. Residential real estate includes single and multi-family dwellings, apartments, condos, and townhomes. The Canadian residential housing market is valued at more than \$4.8tn. Commercial real estate includes offices, retail locations, malls, and hotels. The Canadian commercial real estate market is for example, had \$14bn worth of property exchanged in the first half of 2021. Industrial real estate includes manufacturing plants and warehouses.

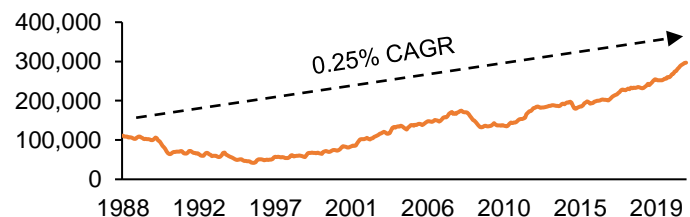
Residential real estate is the largest and fastest growing sector in Canada. Canada has continuously been building an average of ~136,000 housing units at any given time since

1988, which is still not enough to meet population growth. Commercial real estate is projected to stagnate and vacancies have grown to 49% due to hybrid work models.

**Figure 3: Canada Real Estate Investment (CAD billions)**



**Figure 4: New Housing Units Under Construction**





## History of the Canadian Housing Market: Grappling with Foreign Buyers

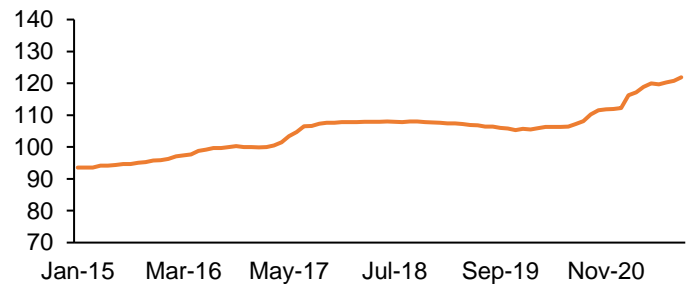
The residential real estate market has been experiencing a significant bull run since 2002. Since the end of the dot-com bubble, home prices are up 337% in Vancouver and Toronto for single-family homes. Starting in 2016, government action was implemented in order to decrease prices and increase affordability.

In 2016, the Liberal government in British Columbia (“B.C.”) introduced Canada’s first foreign buyers tax, levying a 15% tax on foreign home purchases. Specifically targeting foreign speculators from diminishing the supply of homes and pushing prices up, the tax decreased transaction volumes in Vancouver by 37% during the second half of 2016, but did little to temper home prices. It was not until a change in government in 2018, when a new NDP government in B.C. implemented additional taxes (i.e. 1% empty homes tax, 3%

out-of-province speculation tax, 0.4% wealth tax), did the market begin to see noticeable decreases in home prices. These new government revenues are being spent on subsidized affordable development projects.

Since B.C.’s implementation of these initiatives to combat unaffordability, other provinces have followed suit. The pandemic, however, has diminished the impact of many of these taxes, with demand continuing to push homes to record high prices.

**Figure 5: CMHC Housing Price Index – B.C.**



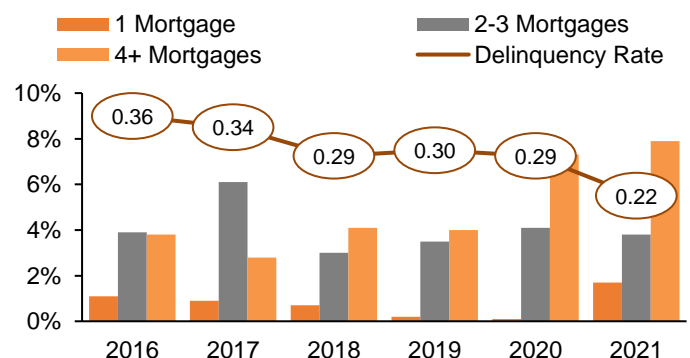
## Year in Review: The Pandemic’s Effect on Residential Real Estate

Canadians were already over-levered at the start of the pandemic, with total household debt surpassing national GDP at the end of 2019. As COVID-19 took hold of the country, the Bank of Canada and Parliament made capital easier to access than ever before: interest rates were slashed to 0.25%, mortgage stress test rules were suspended, \$2bn government bonds were being purchased every week, and strengthened EI programs like CERB boosted money supply. As the economy recovered in the second half of 2020, however, this capital needed to be deployed.

Consumer discretionary goods proved popular to consumers looking to spend extra cash. Supply bottlenecks on top of excess demand have to a month over month inflation rate of 4.2%, an 18 year high. While this inflation is mainly transitory and tied to temporary supply

shortages, the same effect can be seen within housing. Homes are being purchased at record-high prices because demand is strong, supply is low, and mortgages are easy to attain. Household debt-to-disposable income now sits at 173% and Canadians are borrowing more than ever with attractive rates, fueling further expansion in home prices.

**Figure 6: Percentage of People with Mortgages and National Delinquency Rate**





**1** Introduction

**2** Current Market Status

**3** Housing Market Valuation

**4** REIT Assessments

**5** Emerging Trends

**6** Future Outlook

## Current Market Status: Government of Canada Housing Market Assessment<sup>1</sup>

Term	Description
<b>Overheating</b>	When demand is significantly stronger than supply in the existing home market
<b>Acceleration in House Prices</b>	When housing prices rise at an increasing pace over a sustained period
<b>Overvaluation of House Prices</b>	When housing prices differ significantly from their level consistent with housing market fundamentals
<b>Excess Inventories</b>	When there is an unusually high level of vacant housing units

### Market Conditions Vary by Region

The Housing Market Assessment (HMA) monitors market conditions in key regions of the Canadian housing market. The HMA's role is to identify significant imbalances in the housing market that could signify increasing risk of potential housing market downturns.

Interestingly, the September report shows little correlation between the size of the market and its level of vulnerability. Smaller markets such as Moncton, Halifax and Hamilton show signs of overheating while larger regions like Calgary remain healthy.

■ Low Level     
 ■ Moderate Level     
 ■ High Level

Geography	Overheating	Price Acceleration	Overvaluation	Excess Inventory
<b>Canada</b>				
Victoria				
Vancouver				
Edmonton				
Calgary				
Saskatoon				
Regina				
Winnipeg				
Hamilton				
Toronto				
Ottawa				
Montreal				
Quebec				
Moncton				
Halifax				



## Key Market Status: Toronto (GTA)

### Market Status: **Stable**

Despite common narratives, Toronto's property price index has under-paced other urban centers.

Demand-supply imbalances especially in the existing ground-oriented segment have largely contributed to persistent price acceleration.

While WFH tailwinds have fuelled demand in suburban markets, apartment sales have started to increase as workers return to urban centers across the GTA.

Key Market Statistics	
Population (2020)	2,819,723
Population Growth ('19 – '20)	0.78%
Vacancy Rate (2020)	3.40%

Figure 7: Toronto PPI

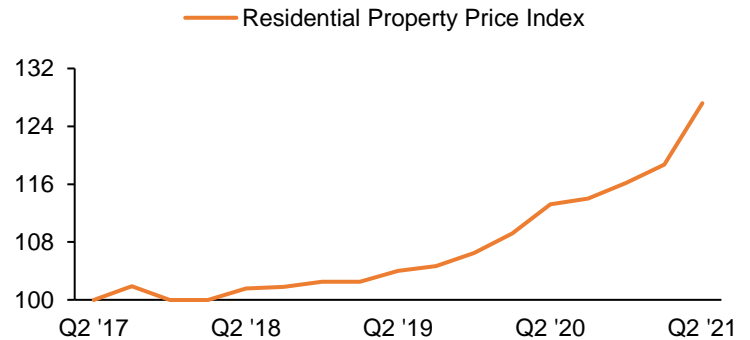
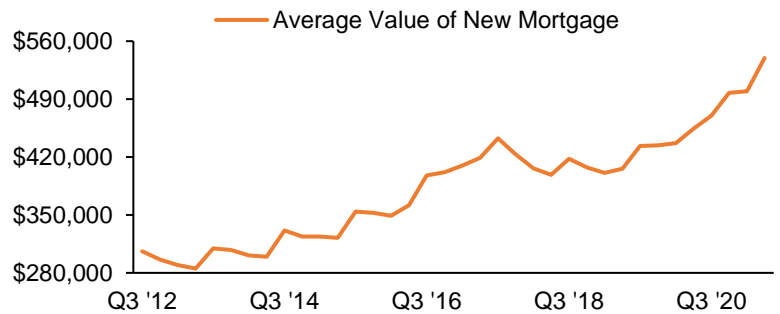


Figure 8: Toronto New Mortgage Value (CAD)



## Key Market Status: Vancouver (GVA)

### Market Status: **Stable**

Single-detached home sales peaked in 2020 and apartment units have shifted to a growing share of total sales. This is typically an indicator that housing price appreciation will slow.

The region is also experiencing strong economic growth as total employment nears pre-pandemic levels and active businesses in the metro area have exceeded pre-pandemic levels.

Key Market Statistics	
Population (2020)	2,379,973
Population Growth ('19 – '20)	1.24%
Vacancy Rate (2020)	2.60%

Figure 9: Vancouver PPI

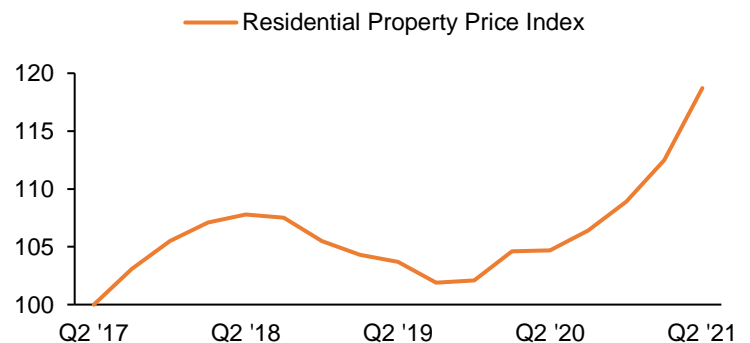
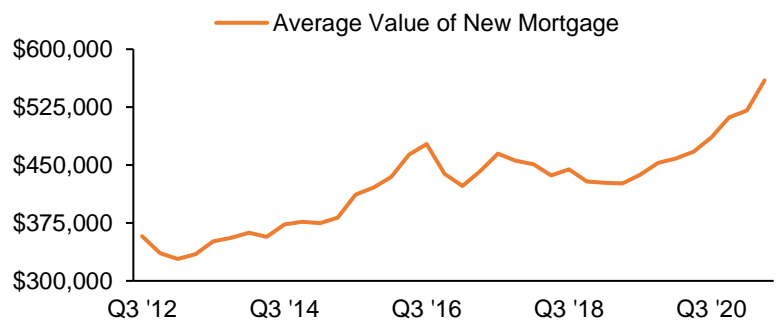


Figure 10: Vancouver New Mortgage Value (CAD)





## Key Market Status: Montreal (GMA)

### Market Status: **Vulnerable**

Strong employment growth figures are misleading, as this growth was largely in the 15-to-24 age group who suffer inferior labour market conditions and largely represent renting demand as opposed to homeownership demand.

On the supply side, sales continue to decline while the number of new listings in Q2 reached a high last seen in 2016. These factors lead to the increasing risk of potential market dilution and deflation of valuations.

#### Key Market Statistics

Population (2020)	1,739,000
Population Growth ('19 – '20)	0.45%
Vacancy Rate (2020)	3.30%

## Key Market Status: Ottawa (GOA)

### Market Status: **Vulnerable**

Ottawa has undergone the steepest property price index increase of all regions; increasing 60% in 4 years.

The market is experiencing temporarily high rental inventory, but supply shortages are expected to return as student and immigration activity resume to normal levels.

Buyer activity has been in a downward trend since April, suggesting a softening in demand.

#### Key Market Statistics

Population (2020)	1,393,086
Population Growth ('19 – '20)	1.08%
Vacancy Rate (2020)	3.80%

Figure 11: Montreal PPI

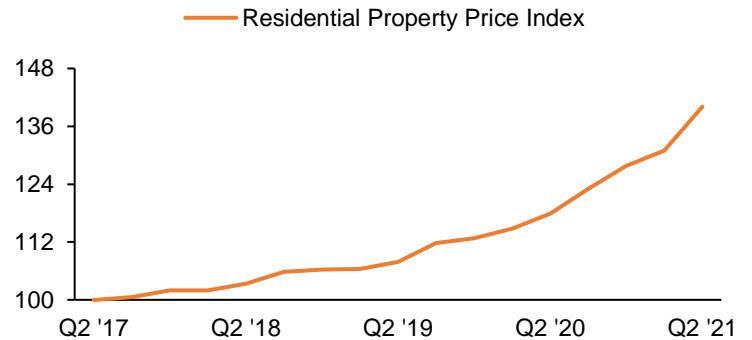


Figure 12: Montreal New Mortgage Value (CAD)

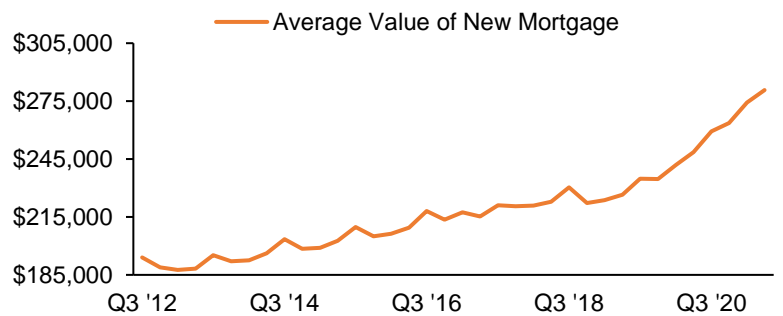


Figure 13: Ottawa PPI

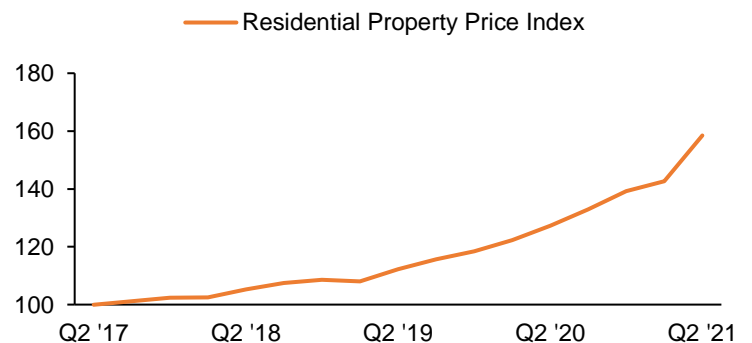
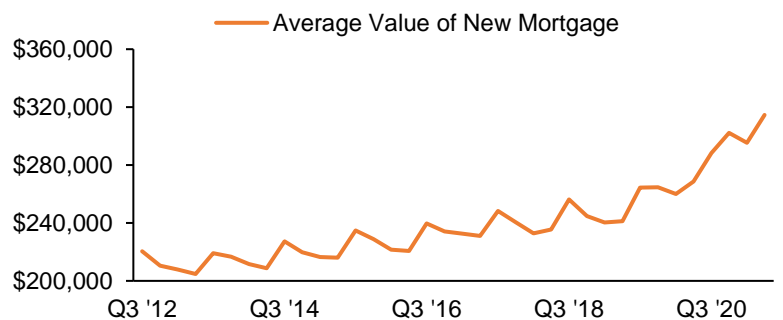


Figure 14: Ottawa New Mortgage Value (CAD)







## Key Market Status: Calgary

### Market Status: **Attractive**

Calgary's price index has only recently surpassed its 2017 benchmark level.

Sales reached an all-time high in Q2, surpassing levels not reached since 2014 and 2007.

Despite increased selling, Calgary experienced a strong Q-O-Q decrease in excess inventory as 90% of new single detached homes were absorbed by the market. Demand for newly constructed condos also surged as inventory fell 44%.

#### Key Market Statistics

Population (2020)	1,362,381
Population Growth ('19 - '20)	2.04%
Vacancy Rate (2020)	6.50%

## Key Market Status: Saskatoon

### Market Status: **Attractive**

Saskatoon experienced the highest quarterly resale figures on record, fuelled by surging demand for single-detached homes. Despite record sales, valuations only rose 10% YOY compared to the Canadian benchmark's 11.25%.

These valuations combined with low excess inventory and a population CAGR of 2%, positions Saskatoon well as a value opportunity with an attractive risk return profile.

#### Key Market Statistics

Population (2020)	264,448
Population Growth ('19 - '20)	1.91%
Vacancy Rate (2020)	5.90%

Figure 15: Calgary PPI

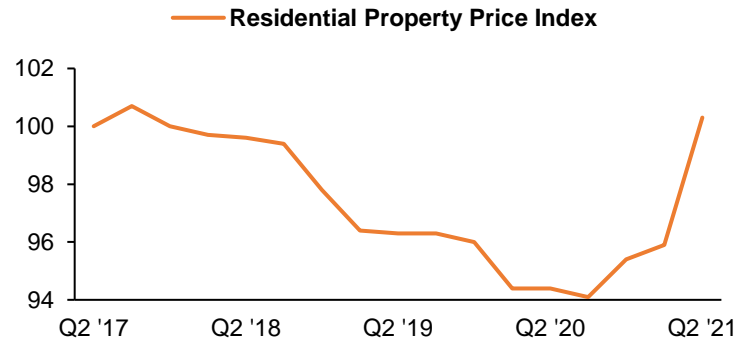


Figure 16: Calgary New Mortgage Value (CAD)

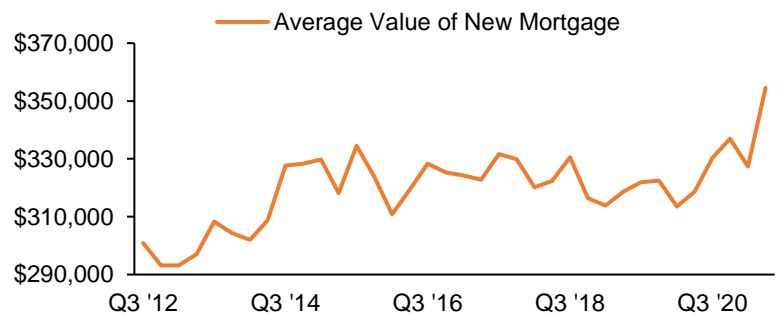


Figure 17: Saskatoon PPI

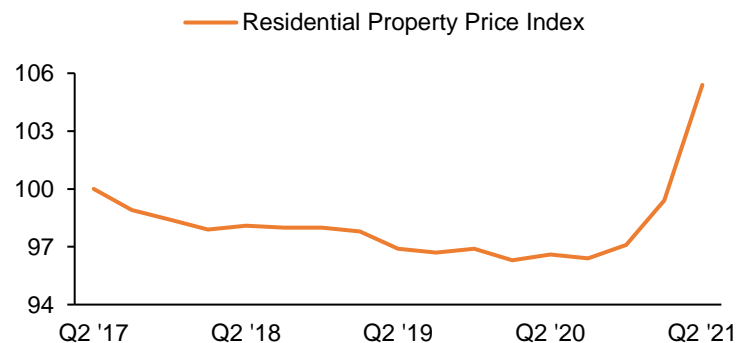
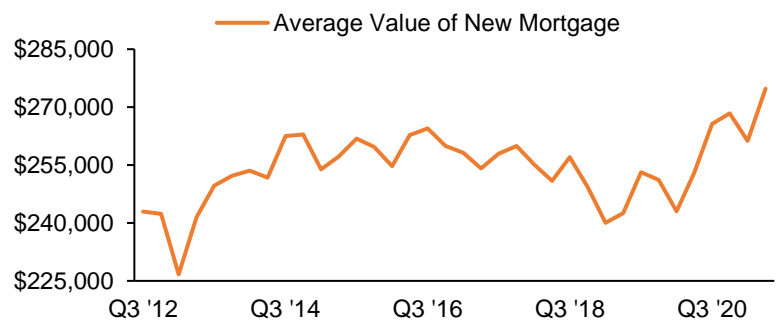


Figure 18: Saskatoon New Mortgage Value (CAD)

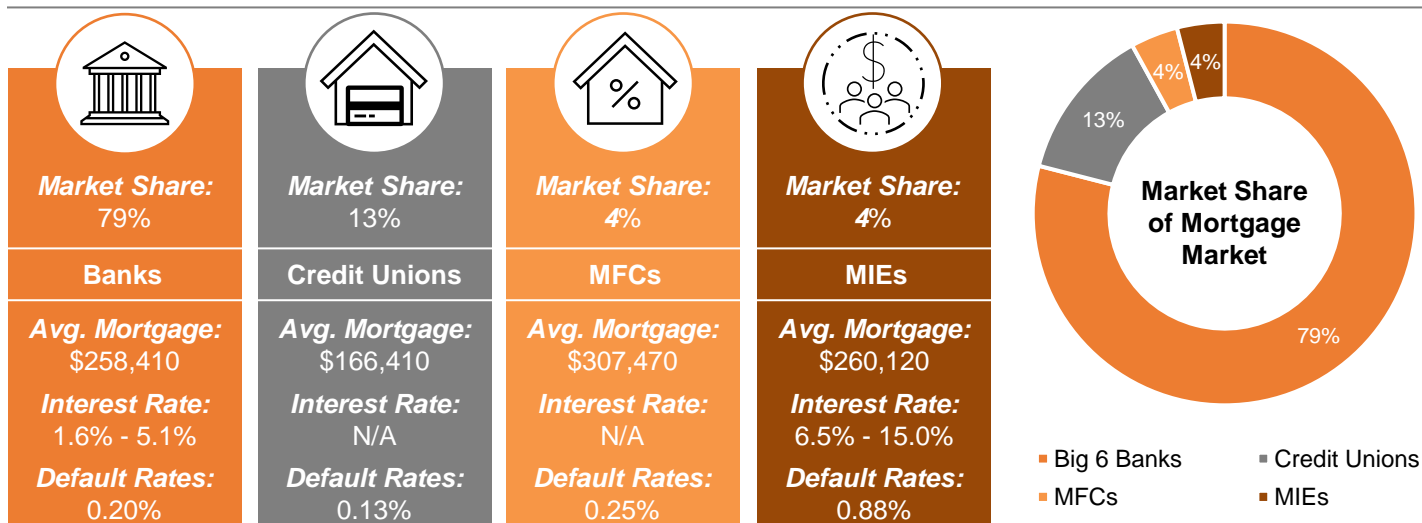


## Current Market Status: Canadian Mortgage Trends

**Mortgage Lending Trends:** During the first half of 2021, Canadian mortgage debt growth grew to new highs, only surpassed by the mortgage market in 2008. Record-low interest rates and renewed housing needs have been key drivers for the increase in mortgage lending. A significant portion of the newly issued mortgages are uninsured. Uninsured mortgages have seen a 20% growth in lending volume, despite an increasing debt-to-disposable income burden. Since 2020, uninsured mortgages for purchases of property have more than doubled.

**Mortgage Rate Trends:** Due to expectations of a rebounding economy, the downward trend in fixed mortgage rates that began in 2020 reached a low point in Q1 2021. The large discount between fixed and variable rate mortgages has incentivized more borrowers to opt for variable rate options, with over 40% of new mortgages issued in Q2 2021 using variable rates. Additionally, borrowers have been opting for longer-term mortgages to take advantage of the historically low rate environment.

### Big Banks Maintain Monopolistic Grip Over Mortgages



### Declining Interest Rates Indicate Institutions' Optimistic Credit Appetite

	Q1-2020	Q2-2020	Q3-2020	Q4-2020	Q1-2021
Average lending rate to individuals	9.1%	9.3%	9.2%	8.9%	8.9%
Average lending rate for development	8.3%	8.3%	8.3%	8.3%	8.2%
Average share of first mortgages	75.2%	75.7%	76.8%	76.8%	81.3%
Average loan-to-value (LTV) ratio	56.7%	56.7%	55.9%	58.0%	58.6%
Range of loan-to-value (LTV) ratio	39% - 73%	39% - 81%	39% - 81%	42% - 81%	42% - 81%
Debt to capital	14.8%	14.4%	15.6%	17.9%	17.4%
Delinquencies of 30 days or more	4.2%	4.0%	4.1%	3.6%	2.5%
Foreclosures	3.2%	3.8%	3.8%	3.9%	3.2%

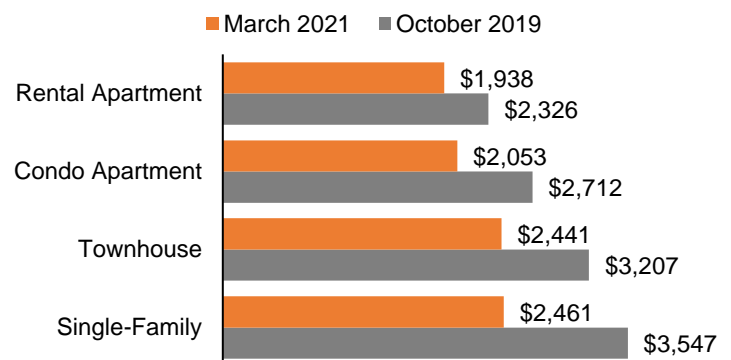
## Current Market Status: Canadian Rental Trends

**Purpose-Built Rentals:** Demand for rental housing has been volatile over the past year as immigration has declined, but university students have slightly offset the decline as many are taking classes from home. Despite the volatility, rental prices have been steadily increasing over the same period. Other demand drivers for rental properties include both demographic and economic factors. For instance, millennials find rentals more affordable and flexible in the short-term.

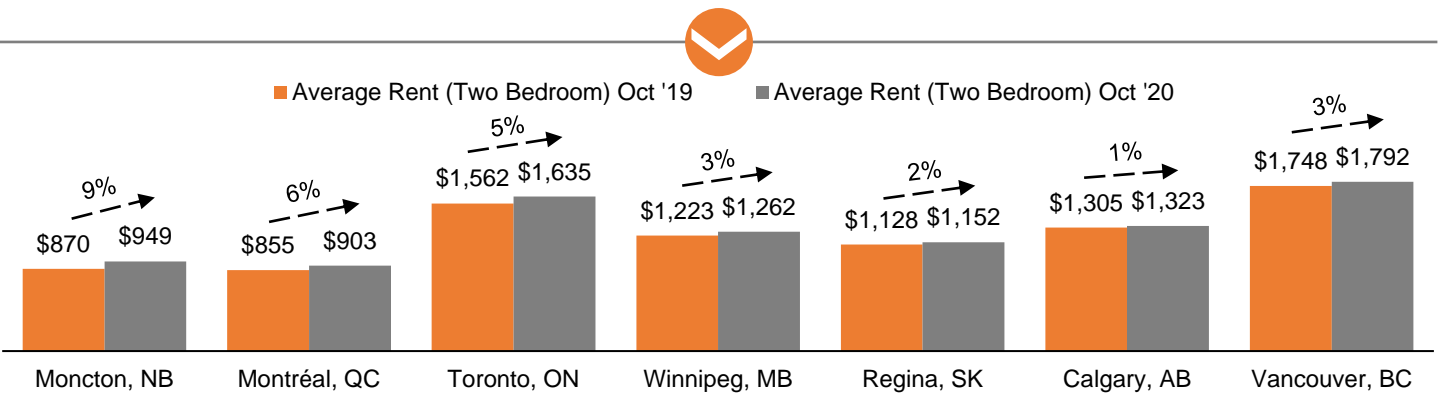
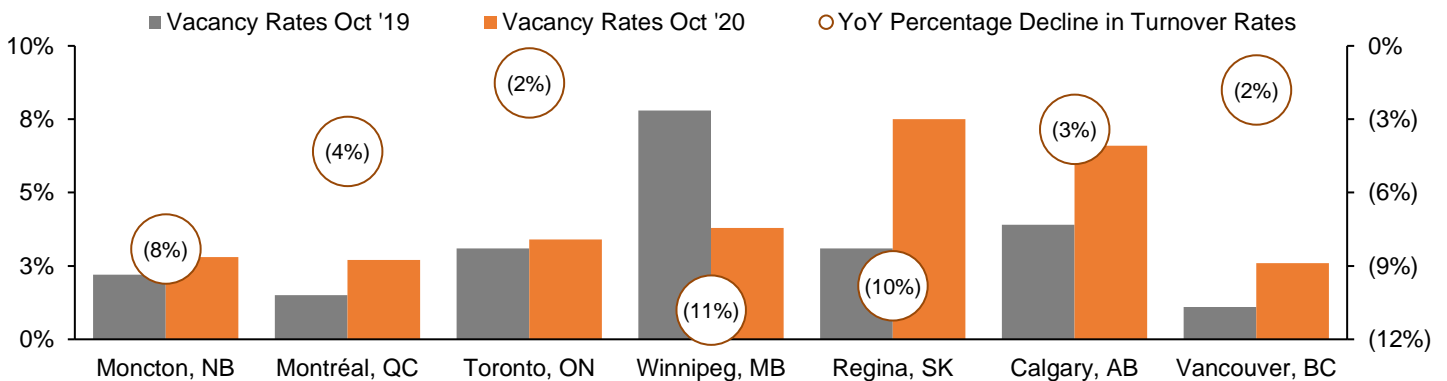
**Retail Rentals:** Regardless of the rebound in brick-and-mortar retail, surveys show that retail real estate properties have the most bearish development prospects in commercial real estate. The overall sentiment is that retailers will have a smaller physical footprint in the future while e-commerce and service-oriented storefronts expand their market power.

**Residential Rental Prices:** Despite the surging purchase prices of homes, rental prices have yet to reach 2019 or 2020 levels. For example, in Toronto, rental rates peaked in the fall of 2019 and hit lows during early 2021. While there has been some rebound to rental rates in the second half of 2021, prices are still nowhere near the highs reached in 2019.

**Figure 19: Average Rent in Toronto between 2019 and 2021**



## Minimal Correlation Between Rental Vacancies and Price





**1** Introduction

**2** Current Market Status

**3** Housing Market Valuation

**4** REIT Assessments

**5** Emerging Trends

**6** Future Outlook



## Housing Market Valuation: Valuation Overview in Current Canadian Housing

Evidently, housing valuation levels and market conditions vary substantially depending on the geography being considered.

Regardless of these regional nuances, however, the Canadian market as a whole has consistently rallied over the past decade.

The monthly housing price index (“HPI”) is an instrument used to quantify the increase in housing valuations over time. To truly understand the pace of Canada’s housing rally, we have compared the performance of both the HPI and TSX since 2005. Over the last 15 years, the HPI has outperformed the TSX by an alpha of 77.5%.

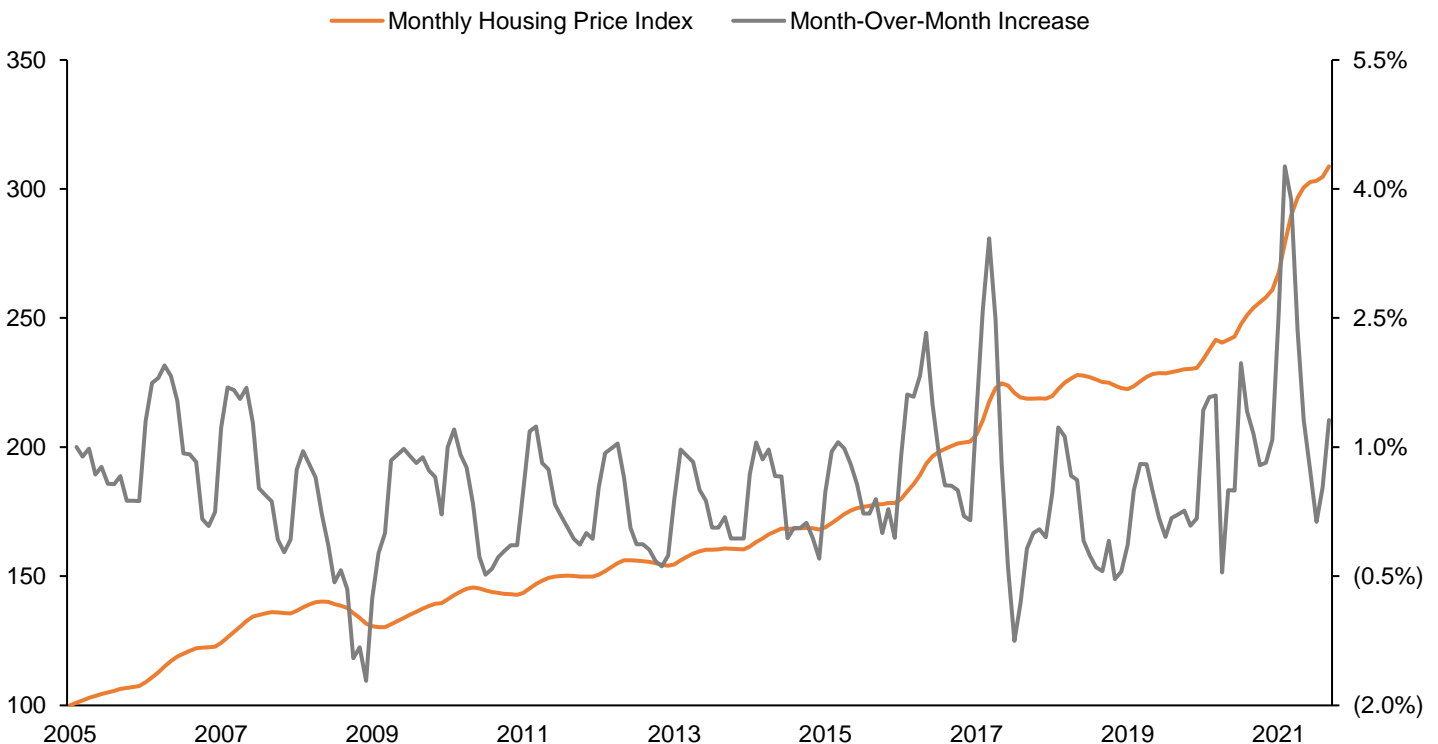
Although when analyzed over a 15 year period the monthly HPI appears to have increased at a relatively constant pace, the month-over-month price increase varies substantially overtime which provides a good indicator of when markets are quickly accelerating.

In January 2021, the HPI experienced its steepest month-over-month increase since January 2017. After this spike in 2017, the housing markets cooled off as the HPI only increased 14.2% over a 37 month period. The end of the 37 month period coincided with the start of the COVID-19 pandemic. In the 21 months since January 2020, the HPI has increased a staggering 32.0%.

While the HPI has continued to rally since the peak month-over-month increase in January 2021, this recent deceleration could be a sign of a cooling housing market to come.

	Jan. 1, 2005	Sept. 1, 2021	Return <sup>1</sup>	Multiple <sup>1</sup>
<b>TSX</b>	9,204	21,284	131.3%	2.3x
<b>HPI</b>	100	308.7	208.7%	3.1x

## Housing Price Index Has Tripled Over Last 15 Years





## Housing Market Valuation: Nominally Larger Mortgages Support Higher Prices

When considering the sustainability of the current housing market, housing prices should not be the primary indicator. Mechanically, if underlying economic health increases in line with housing prices, the true price of real estate has not changed on a comparative basis.

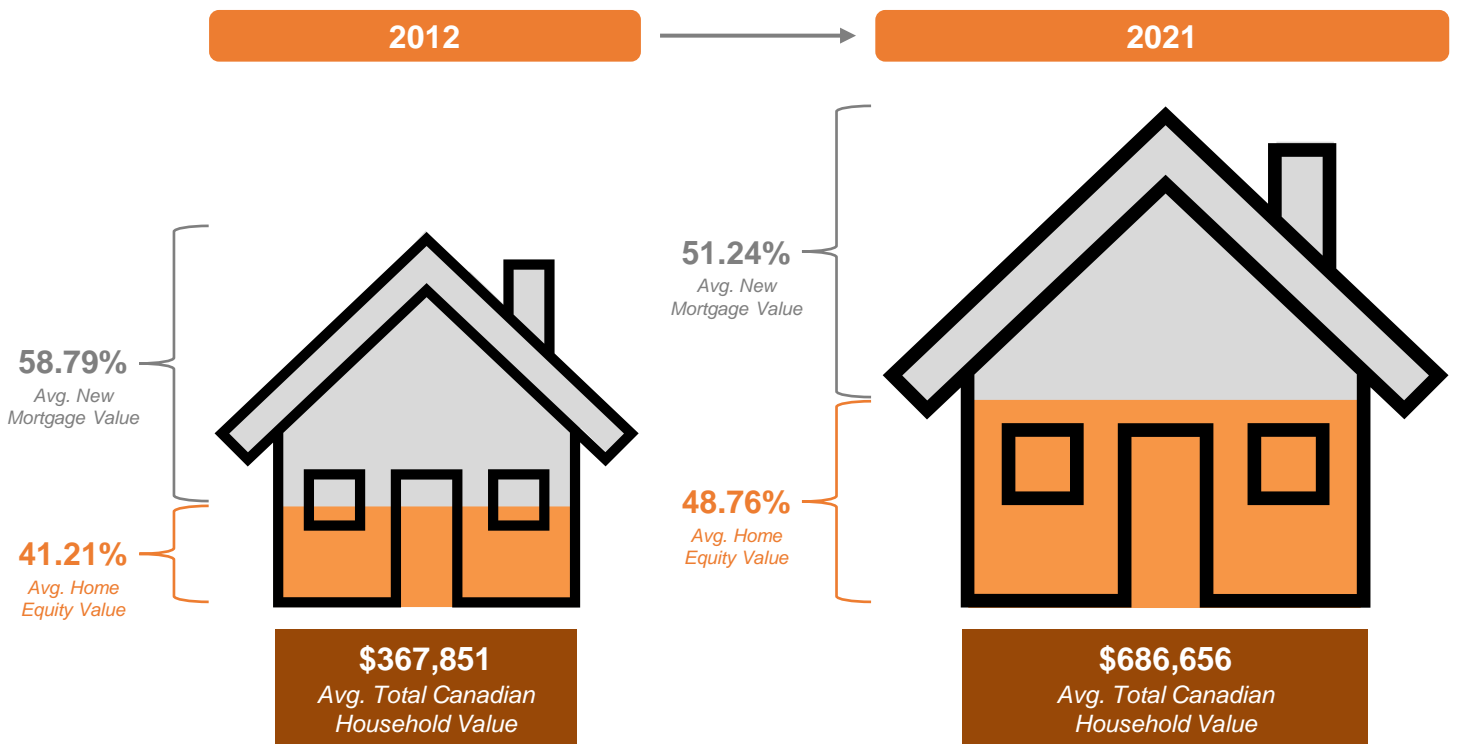
The average value of new mortgages offers a truer assessment of the impact of increased housing prices on consumers. Since 2012, the average value of a new mortgage in Canada has increased 58% while the average value of

a house rose 86%. Meanwhile, record-low interest rates have further elevated household debt-to-income levels to 173%. Despite the continued growth in household debt ratios, both consumers and lenders are willing to service nominally larger mortgages. The 'Big 6' Canadian banks have helped prop up valuations by increasing their mortgage holdings by over 36% since 2012.

## Homeowners' Portion of Equity Ownership Has Increased Over the Last Decade

Although the value of new mortgages in Canada are growing in absolute terms, they are decreasing as a percentage of total household capitalization. As of September 2021, the split between home equity and debt is nearly 50/50.

This implies that on a relative basis, consumers are decreasing their mortgage debt exposure, however, in nominal terms mortgage debt burdens continue to expand.



Canadian homeowners have **more than doubled their nominal home equity**



**1** Introduction

**2** Current Market Status

**3** Housing Market Valuation

**4** REIT Assessments

**5** Emerging Trends

**6** Future Outlook

## REIT Assessment : Boardwalk Real Estate Investment Trust (TSX: BEI.UN)

Boardwalk REIT (“BEI”) is a vertically integrated residential REIT with more than 33,000 units totaling over 28 million rentable square feet.

BEI’s portfolio is western midland focused with 62% of all square feet located in Alberta and 11% in Saskatchewan. BEI has significant exposure to Calgary and Saskatoon, two cities that have been identified as attractive markets.

BEI’s potential downside is 12% exposure to Montreal through two large properties.

### Portfolio Overview

	Sq. FT	Units	Occupancy Rate
Calgary	4,895,729	5,950	96.8%
Montreal	3,382,434	3,422	99.5%
Saskatoon	1,460,497	1,708	95.6%
<b>Total</b>	<b>29,923,980</b>	<b>35,257</b>	<b>96.2%</b>

Investment Criteria	
Geographic Positioning	7/10
Financials	7/10
Multiples	8/10

### Canadian Residential REITs

	Equity Value	P/E			FFO/Share
		2020A	2021E	2022E	2020A
Canadian Apartment Properties REIT	\$10,622	10.1x	9.9x	10.2x	26.9x
Killam Apartment Real Estate REIT	\$2,525	10.0x	9.2x	11.0x	nmf
Minto Apartment REIT	\$867	12.3x	25.9x	7.4x	29.4x
Morguard North American Residential REIT	\$710	7.1x	7.5x	6.8x	16.4x
<b>Median</b>		<b>10.1x</b>	<b>9.6x</b>	<b>8.8x</b>	<b>26.9x</b>
<b>Boardwalk REIT</b>	<b>\$2,550</b>	<b>9.1x</b>	<b>10.0x</b>	<b>8.3x</b>	<b>19.6x</b>

## REIT Assessment : Minto Apartment REIT (TSX: MI.UN)

Minto Apartment REIT (“MI”) is an open-ended multi-family REIT. MI owns and operates 29 multi-residential rental properties across Canada.

Headquartered in Ottawa, MI was founded recently in 2018. Consequently, it is primarily Ontario-focused with the majority of its portfolio located in Ottawa. While the REIT’s exposure to Calgary is promising, it is far outweighed by its 72% exposure to Ottawa, a market we assess to be vulnerable.

### Portfolio Overview

	Sq. FT	Units	Occupancy Rate
Ottawa	2,579,311	3,095	98.0%
Toronto	663,334	2,825	98.8%
Calgary	160,003	413	97.9%
Montreal	2,460	1,532	N/A
<b>Total</b>	<b>3,591,243</b>	<b>8,344</b>	<b>97.5%</b>

Investment Criteria	
Geographic Positioning	3/10
Financials	7/10
Multiples	4/10

### Canadian Residential REITs

	Equity Value	P/E			FFO/Share
		2020A	2021E	2022E	2020A
Canadian Apartment Properties REIT	\$10,622	10.1x	9.9x	10.2x	26.9x
Killam Apartment Real Estate REIT	\$2,525	10.0x	9.2x	11.0x	nmf
Boardwalk REIT	\$2,550	9.1x	10.0x	8.3x	19.6x
Morguard North American Residential REIT	\$710	7.1x	7.5x	6.8x	16.4x
<b>Median</b>		<b>9.6x</b>	<b>9.6x</b>	<b>9.3x</b>	<b>19.6x</b>
<b>Minto Apartment REIT</b>	<b>\$867</b>	<b>12.3x</b>	<b>26.0x</b>	<b>7.4x</b>	<b>29.4x</b>





**1** Introduction

**2** Current Market Status

**3** Housing Market Valuation

**4** REIT Assessments

**5** Emerging Trends

**6** Future Outlook



## Emerging Trends: Impacts of Migration

An important topic of policy for any national or provincial government is to ensure population and household growth is achieved in large part through migration, as it is crucial to ensure long-term prosperity. Migration plays a role in both Canada’s labour supply and housing market, as the more migration there is, the more housing demand increases.

Migration can contribute heavily to housing market conditions, as case studies of Canada’s two hottest housing markets in Toronto and Vancouver show. Canada welcomed more than 420,000 international migrants in 2019 due to higher admission targets set by the Government of Canada, combined with changes in immigration policy and more favourable economic conditions.

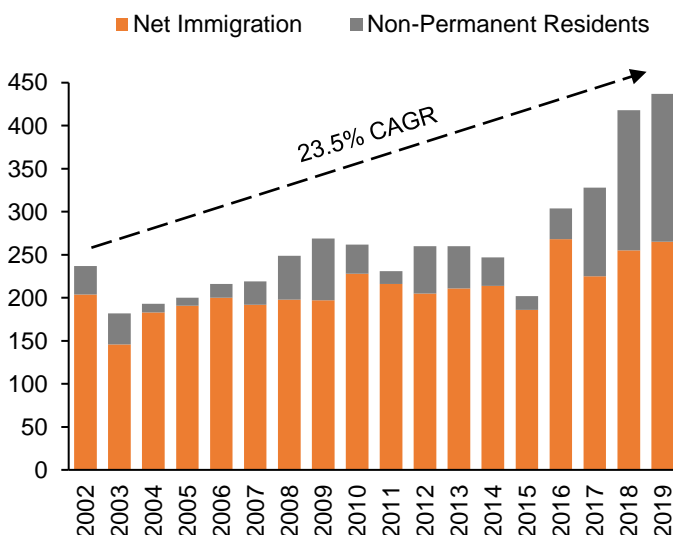
Non-permanent residences are a significant driver of migration in a country. Non-permanent residents made up close to 40% of international migration to Canada in 2019, with popular places of settlement being Toronto, Ottawa, and Montreal.

Toronto and Vancouver’s unresponsive housing supply has led to rapid price growth, which likely deterred some international migrants and led to higher international migration rates in the neighboring “CMA” (“Comparative Market Analysis”) towns.

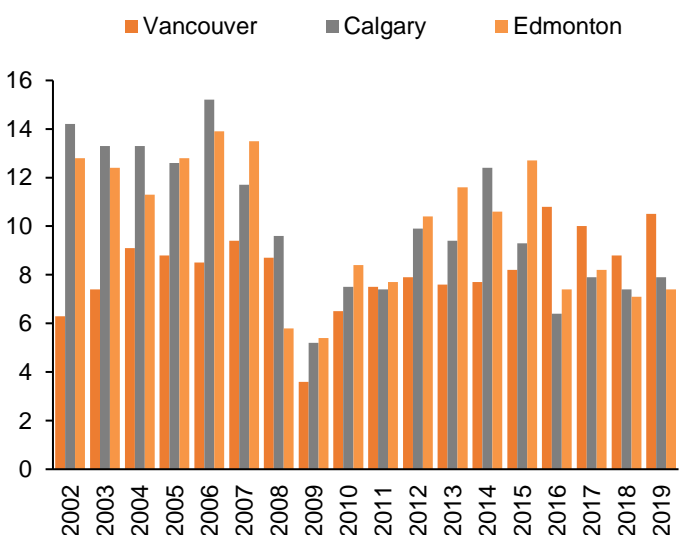
Despite most international migrants settling in major Canadian metropolitans, the combined share of migrants in major cities has decreased from 88% of all international migrants in 2002 to only 68% in 2019. In addition to the high housing costs in some highly populated CMAs, the launch of the Provincial Nominee Program (“PNP”), in addition to the opening of several new post-secondary school campuses in these CMAs, were all key factors in the shift in international migrant distribution.

In terms of interprovincial migration, migration between provinces was most influential in Western Canada. This is most notably due to volatile economic conditions in Alberta, specifically from 2005-2007 and 2012-2014.

**Figure 20: Net International Migration to Canada (000’s)**



**Figure 21: Number of Housing Starts per 1,000 Population by CMA**

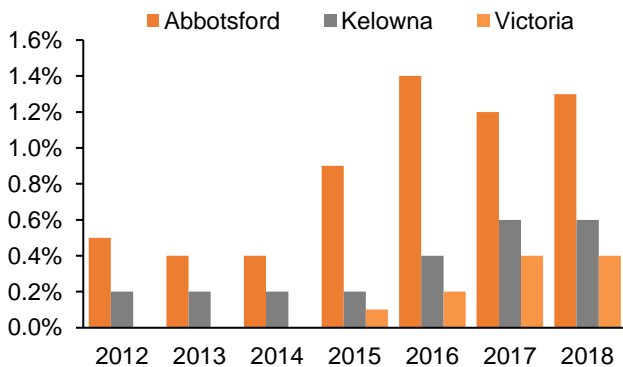




## Emerging Trends: Impacts of Migration

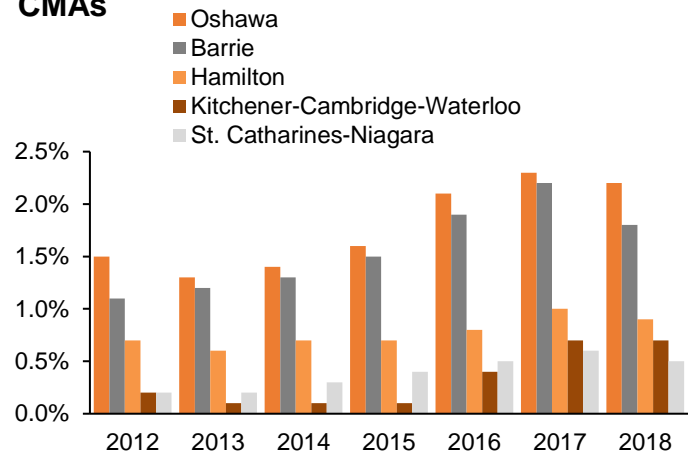
The Canadian Mortgage and Housing Corporation has proven that Calgary and Edmonton’s housing supply is typically the most responsive to shifts in housing demand. Periods of rapid growth have influenced migration patterns between provinces, as large metropolitans such as Toronto, Vancouver, and Montreal have recurrently lost a small percentage of their population to other CMAs in their province. This is primarily because some migrants tend to live temporarily in large population areas, before moving to other CMAs to purchase their first property. This is demonstrated by the negative within-province migration rates in British Columbia and Ontario, driven by the house price surges in Vancouver and Toronto from 2015-2019. Over this period, nearly 1% of Toronto’s population and 0.5% of Vancouver’s population left these regions annually to live elsewhere in the province.

**Figure 22: Net Migration to Select Vancouver CMAs**



The greatest outflows from the Toronto and Vancouver CMAs were individuals aged 45-64. Data shows this particular age group usually has the highest homeownership rate, and due to the surges in home prices in Toronto and Vancouver, they were able to obtain significant wealth from their homes. This allowed them to pocket sizable savings and move to a more affordable region for retirement.

**Figure 23: Net Migration to Select Toronto CMAs**



The outflow of individuals from the two most expensive cities in Canada had both positive and negative implications. For example, in British Columbia, the expensive properties in Vancouver led to outflow to Abbotsford, which also led to demand spilling over in Chilliwack. Evidently, house price surges in Vancouver were able to have a positive impact on housing demand in other regions across B.C. A higher cost of living in Central Vancouver was ultimately a key catalyst for growth in neighbouring towns.

Migration has the potential to have significant impacts on housing market conditions. Notably, the housing patterns in Calgary from 2005-2007 and 2015-2019 demonstrate that house prices heavily influence where people choose to move. Individuals often move to neighbouring CMAs in their respective provinces and are often aged 45-64. In addition, greater migration happening in Canada’s most costly cities has put significant upward pricing pressure on certain markets, prompting a large number of residents to move to more affordable regions in their home provinces. Ultimately, this resulted in greater migration to several small population centers across B.C. and Ontario.



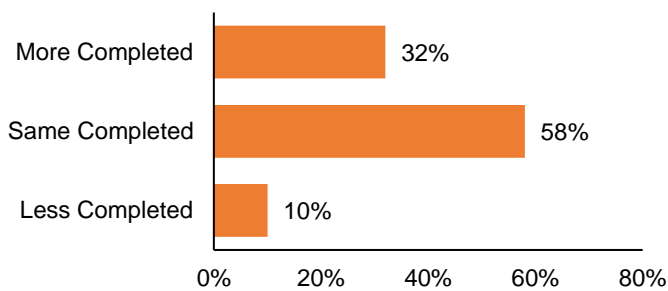
## Emerging Trends: Impacts of COVID-19 and Teleworking

In addition to the effects of migration on the Canadian housing market, the COVID-19 pandemic has drastically shown the importance and growth of telework (working from home). The increase in demand for different teleworking options has put significant upward pressure on the prices of housing in smaller population centers.

A recent study by Statistics Canada found that nearly four in ten Canadians (40%) have a job that can be completed successfully in a virtual setting. Prior to the pandemic (between 1999-2019), the percentage of employees who were working virtually was insignificant and thus had little impact on Canadian migration patterns.

Government-mandated physical distancing guidelines have led to numerous work-from-home scenarios. Multiple firms are adopting hybrid work, fully virtual work, and the increasingly popular 4-day work week – and the real estate market will be drastically impacted by these trends.

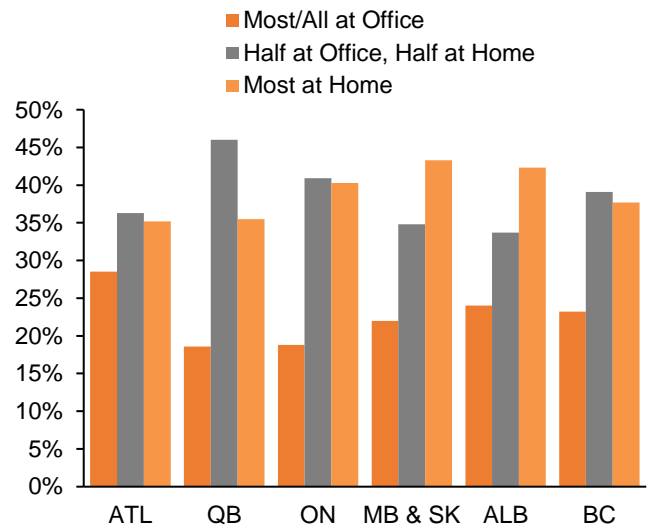
**Figure 24: Amount of Work Accomplished Per Hour in Telework Setting (% of Canadian Participants)**



Statistics Canada found that CMAs with a population of more than 500,000 people have had the largest increase in teleworking occurrences. In addition, around 25-30% of people living in CMAs have switched to teleworking, compared to only around 5-15% in smaller population areas.

A major driver of this is the fact that there are more opportunities for virtual work in larger population areas. As more firms and individuals are embracing telework, we expect to see a greater outflow of individuals from larger to smaller population centers where housing prices are typically less expensive. Should this play out as anticipated, there will be vast consequences on the housing market of neighboring CMAs due to the need for migration from costly cities, which in turn may lead to increased migration to even smaller population centers.

**Figure 25: Main Barriers to Productivity for Telework By Province**



This phenomenon ultimately resulted in record population losses for Toronto, Montreal, and Vancouver in 2020, and is expected to continue after the pandemic subsides. Toronto was most heavily impacted, experiencing an unprecedented urban exodus of 50,375 people. Most of the area’s emigrants are very young, with 82% younger than 45 years of age. Teleworking is here to stay and will be important for any investor, buyer, or seller to be aware of when analyzing the housing market in the future.



**1** Introduction

**2** Current Market Status

**3** Housing Market Valuation

**4** REIT Assessments

**5** Emerging Trends

**6** Future Outlook

## Future Outlook: Liberal Government Initiatives to Cut Housing Prices

**Federal Subsidies:** Over the next 10 years, the Trudeau government plans to invest \$72bn in housing affordability projects. Initiatives include a \$4bn rent support program, a First-Time Home Buyers incentive, and a Tax-Free First Home Savings Account. The government also plans on reducing mortgage costs by reducing CMHC mortgage insurance by 25%. Another notable program is the rent-to-own initiative, where rental rates would be capped for certain properties, and the renter would have a purchase option within 5 years. These programs may stimulate the market, but hurt mortgage lenders and landlords.

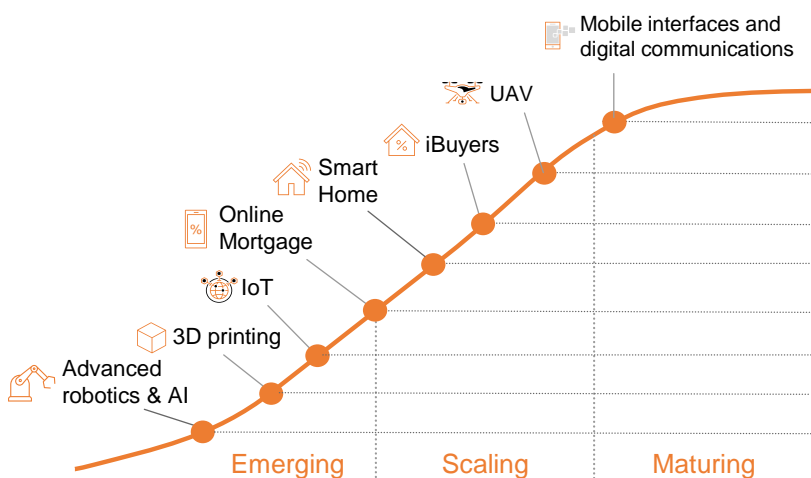
**Crackdown on Foreign Ownership:** In recent years, foreign investors have flooded Canadian real estate market. To combat this, the Liberals plan to ban foreign purchases of non-recreational residential properties for two years and levy a federal tax on foreign owners of vacant houses beginning in 2022.

**Regulating REITs:** The Liberals plan on cracking down on large REITs. The party intends to review the tax treatment of REITs, “curb excessive profits” and review down payment requirements on investment properties.

## The Future of Housing is Changing and Businesses Need to Adapt



## Integration of Prop Tech Will Change The Way We Buy Houses and Live



Company	Subsector
Zillow	iBuyers
better mortgage	Online Mortgage
ecobee	Smart Home
BRAINBOX AI	HVAC AI
PROPERLY	iBuyers