The COVID Real Estate Boom: An Exploratory Analysis for the Province of Nova Scotia

November 2021

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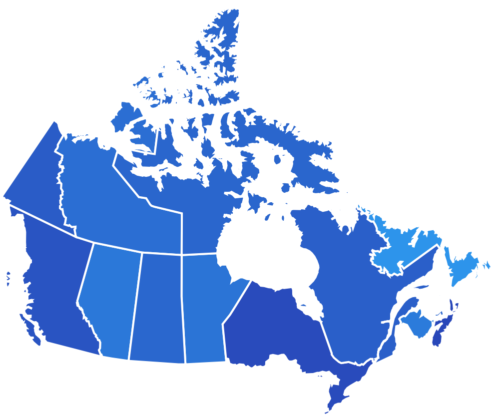
Not long after the arrival of COVID-19, most Nova Scotians had caught wind that house prices were on the rise. In contrast to early widespread concern that the real estate market would be hit hard by the pandemic-induced recession, in fact buyers, sellers, and realtors were shocked as fierce competition drove offers skyward on listing after listing. As sales data rolled in, modeling by Property Valuation Services Corporation (PVSC; the independent agency responsible for annually assessing all property in Nova Scotia) confirmed that the monthly average sales prices in 2020 were showing growth much higher than predicted based on the pre-pandemic trend.

To investigate this phenomenon, PVSC collaborated with Dr. Talan Iscan, Professor of Economics at Dalhousie University. PVSC first corroborated their findings using historical sales data from the Canadian Real Estate Association (CREA) and RE/MAX, and composite measures such as the National Bank House Price Index. These sources showed that fast-rising price of real estate was not limited to Nova Scotia but was also observed in other Atlantic provinces and at the national level. Similar upward trends were seen when comparing Halifax to similar sized cities across the country, including Quebec City, London, Windsor, Kitchener, Winnipeg, Regina, and Victoria. The residential real estate market in Canada had been heating up for almost two decades, so why did the pandemic—a calamity for every facet of society, including the economy—trigger a sudden, dramatic escalation in market price?



Sales prices of houses are historically sensitive to even seemingly small changes in demand. In Nova Scotia, demand for residential real estate was high even before the pandemic struck: as of the beginning of 2020, the number of days that a single-family home was expected to remain on the market had been steadily decreasing since 2015, the vacancy rate for rental units in Halifax was among the lowest in the country, and construction was visibly booming. In these market conditions, even a small surge in demand can have a disproportionately large price effect. Indeed, by mid-2020 Nova Scotia's monthly average sales prices far exceeded what had been predicted from the recent historical trend, which was already on a steady upward trajectory. Overall, the annual average sales price jumped an unprecedented 10 percent from its 2019 value.

Figure 1. Annual average sales price of residential properties in Nova Scotia.

Source: Property Valuation Services Corporation

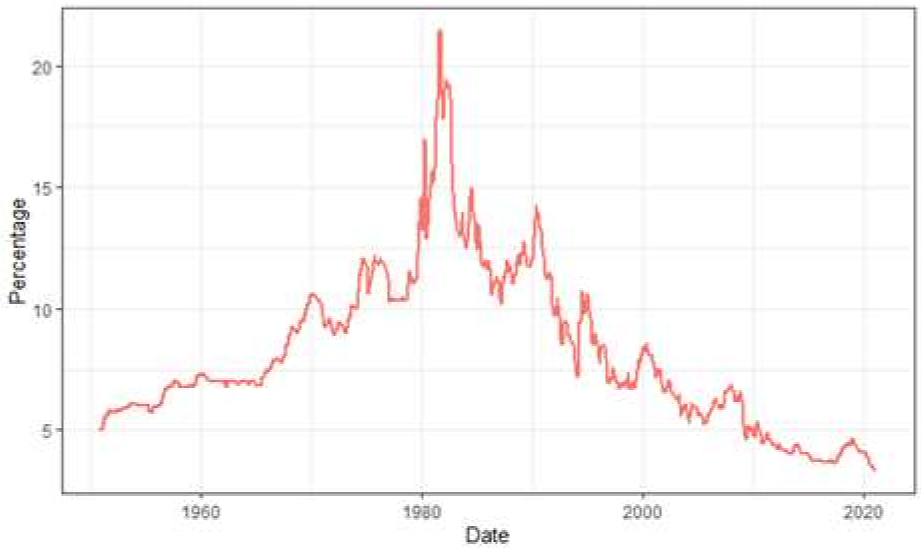
What caused the sudden increase in demand for homes in Nova Scotia?

- One potential source of housing demand is an influx of buyers to the province. However, international newcomers seem unlikely to have been a driving force: Statistics Canada data shows that international immigration to Nova Scotia declined dramatically during the pandemic, and additionally, newcomers tend to settle in major urban areas, whereas unusual sales price increases were observed in many rural jurisdictions across the province.

- The other possibility is inter-provincial migration to Nova Scotia: media reports suggested that, as remote work became normalized in certain sectors during the pandemic, Nova Scotia began to attract remote workers from cities in central Canada where real estate tends to be much more expensive. However, it is difficult to tell from demographic data alone whether this could have contributed significantly to the spike in demand for homes. This merits further investigation, as the future of work could have a radical impact on markets and community planning in Nova Scotia.

- Based on the analyses, the other likely contributor to increased demand for homes was the interest rate, which the Bank of Canada adjusted to a historic low in response to the pandemic. Low mortgage rates give homebuyers additional capacity to raise their bids, and although for many the recession had a negative impact on income stability, the unemployment rate in Nova Scotia recovered swiftly and fell to its pre-COVID level by the end of 2020. Moreover, unlike in past recessions, the restrictions of COVID-19 meant that discretionary spending was severely curtailed regardless of income, with the result that Canada and other advanced economies witnessed an increase in household savings in spite of low interest rates. This may have catalyzed demand for residential real estate, given its potential as a high-returning asset. In addition, there have been reports that private equity has been undertaking bulk investment positions in single-family houses. Thus, it is not unreasonable to think that higher household savings combined with concentrated funds from large investors were a factor behind the surge in demand and were eventually capitalized in higher sales prices.

Figure 2. Canadian conventional mortgage lending rate.



Source: Statistics Canada

Overall, this analysis suggests that high-level factors such as national economic policy may have had the greatest impact on the sales price increases observed in Nova Scotia.

Going forward, it will be important to utilize data-driven approaches for planning and policy more locally, especially given that not all communities and neighbourhoods in Nova Scotia showed anywhere near the market growth that was observed on average.

As Nova Scotians learn to live with COVID-19, there is a palpable sense of cautious optimism. While there is still uncertainty about the long-term impacts of the pandemic on economies and society, this analysis will be further nurtured and extended to provide stakeholders with the information they need to build—literally and figuratively—the province of Nova Scotia.

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