

Will Covid-19 infect the housing market?

[Soft music plays]

[Avery Shenfeld, Chief Economist, CIBC World Markets]

The good news for the housing sector is that borrowing is so cheap these days. Five year mortgage rates have come down. Borrowing costs are very light. And those who have money in the bank and were thinking about buying a house might find that in the next year or two we also see a little bit of a softening up of prices in some markets, so it is a good buying opportunity for those who have put it off. But that said, remember that this is also an economy where we're not getting the immigrants that we were. We're not getting the non-permanent residents or the renters who came in as students, for example. So the market to buy and then rent might not be actually as attractive as it was pre-crisis. It's really more of a homeowners opportunity that we're looking at over the next couple years with somewhat softer prices and still low financing rates.

[Aerial footage of a suburban neighbourhood]

[Soft music plays]

[Downward pressure on urban home prices?]

Living in a big city these days doesn't carry the excitement that it did when the bars, restaurants and other entertainment venues were open.

[Downtown Toronto cityscape at night. A timelapse of a busy freeway at night. A club filled with people dancing and waving their hands in the air]

But remember, this too shall pass. City life will return at some point. And I don't see a reason why longer term, we're going to see a flight from urban areas. Young people cluster there not just for the job opportunities, but the lifestyle opportunities. I still believe those are going to return. So this is a temporary situation. There's really no truth to the idea that the denser the city, the more you were affected by that the virus itself.

[Images of the cityscape of Rome, Italy]

If you look at Italy, for example, it wasn't Rome that was the centerpiece. It was smaller centers like Bergamo. Even in China while Wuhan is a very big city, it's not nearly as dense as Beijing or Shanghai, and was the epicenter of the crisis in China.

[A timelapse image of a city street in China. Images Beijing and Shanghai cityscapes]

So life in cities will come back to normal. We don't fear a flight from urban areas, even though right now it might feel like you'd rather be at a cottage than in a downtown core.

[Soft music plays]

[Impact of recent Canada Mortgage and Housing Corp. (CMHC) changes]

The new changes from CMHC won't really apply to a large percentage of all mortgages. They don't really insure all the mortgages, of course. As well, it was a fairly narrow change into who it

impacts, even if you are a CMHC insured borrower. But that said, if you're in that small group that it does impact, it could be significant. We estimate, for example, it might mean that you have to reduce the house that you can afford by something on the order of 10 percent.

[Suburban neighbourhoods]

So it means, for example, you might have to move a little further out from the city core. You might have to do with one fewer bathroom. This isn't denying people the opportunity to get into the housing market. But like other tightening measures we've seen both from the CMHC and other regulators over the past several years, it means that some Canadians have to aim a little lower in terms of the house they can afford relative to their incomes.

[Soft music plays]

[Rental costs likely to decline]

One interesting trend here is that rent inflation, which was one of the higher items in the CPI, is actually becoming a little bit of a drag on inflation. Without the immigrants to rent the units and with condo completions expected to be fairly high from the legacy of all housing starts we had over the past couple of years, owners of some of those units are finding that the market isn't as tight.

[A high-rise condominium. A high-rise during the early stages of construction]

They can't quite get the increases in rents that they were thinking of. So a little bit of relief for renters in the Canadian economy over the next couple of years as the supply/demand imbalance of rental properties, which was really tight, opens up a little bit and creates a little more room for renters to shop around for their unit.

[Soft music plays]

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