



# THE Clark Report

## Change yes, but real estate doesn't face a catastrophe

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**What will be the new normal in real estate with a viable virus vaccine still without a delivery date? Many impacts may herald change in how we operate and behave versus outright calamity.**

Take the residential housing market and my own hometown of Ottawa. The [Ottawa Real Estate Board](#) reported a sharp decline in listings in April – 913 properties sold through the MLS system, compared with 2,025 in April 2019.

Average selling prices, however, were up – by 6.3 per cent for a condo and by 6.8 per cent for freehold. On the year-to-date, average selling prices are up a quite robust 15.1 and 18.5 per cent, respectively.

These price gains suggest a strong market, rather than one that has tripped over a cliff.

How is this possible?

Remember the early part of any economics course, with price being a function of supply and demand? If the two curves remain in balance, price stability is maintained. A shift in one without a shift in the other and prices change.

## Supply and demand in balance

If you look at the graph accompanying this article, which shows this in a simple example, what has happened since the middle of March is that both curves shifted to the left and about in lockstep with each other. Quantity went down, but prices didn't, and in fact continued to show some increase.



Residential real estate prices in Ottawa have remained stable because in addition to fewer buyers, there are fewer properties on the market.

There are enough, if a reduced number, sellers balanced with enough active buyers for selling prices to be maintained and still track upwards.

While the overall level of activity is down, the market as a whole remains in balance. It is evident a significant number of sellers have decided to wait and not offer their houses for sale, while the number of buyers may be similarly down. These two groups have acted about in parallel with each other.

A large proportion of realtors are no doubt feeling pain right now due to reduced deal flow, but we will need to see a couple more months of data to know how long this reduced level of activity will persist.

“Our members have been adjusting and retooling the way real estate is conducted,” said board president Deb Burgoyne. “They are finding new ways to market properties and provide options for viewings using technology such as live-streaming open houses, posting virtual tours, and holding virtual showings, etc.

“These adaptations are key in mitigating risk for all parties and will certainly continue to be necessary as things normalize in the city and our working environment.”

These kinds of measures will serve to address social distancing needs and people’s fears. Beyond this, how well any of Canada’s large urban housing markets will fare over the next while will depend on the socio-economic makeup of the local population.

## Local impact varies

White-collar industries like government and high tech (which are mainstays in Ottawa and remain strong, with average household incomes to match) are weathering this storm far better than industries like manufacturing and aviation, or commodity-driven ones like oil and gas (which had already created economic instability in Western Canada long before the pandemic).

“It’s not a recession, it’s not a depression, it’s something in-between,” CIBC World Markets’ Benjamin Tal said recently. “It’s basically a frozen economy.”

Looking at income brackets versus industry sectors, minimum-wage earners obviously have it the worst – retail clerks, baristas, cleaners etc. who work for businesses deemed non-essential. I have a lot of sympathy for these people – their jobs may pay less than many others, but they are important to the smooth functioning of our society.

In terms of resale housing activity in major markets, however, they probably aren’t the main group of market players likely to drive the residential market one way or the other.

## Willingness to change is key

As for commercial real estate, it really depends on what the medium- to long-term impact will be in terms of rents getting paid.

We saw a lot of arrears in April. On the other hand, more and more businesses, particularly in retail, are finding creative new ways to engage with consumers.

Shopify is a quite telling indicator – last week, the e-commerce platform surpassed the Royal Bank of Canada as the nation’s most valuable company. Small businesses and national retail brands alike are beating its door down for the means to ramp up their online capabilities.

The **fate of shopping malls** is also a big question as they prepare to reopen. Social distancing measures, as well as consumers’ fears for their safety will obviously result in reduced foot traffic. However, I doubt that will translate into a proportionately sharp drop in sales.

First, you have that demographic of younger people less risk-averse than the rest of us who will be eager to resume routine.

Second, much of the foot traffic which a mall sees under normal circumstances consists of window shoppers who don't buy anything. This group, which I think is quite large, may be best known as being out for "retail therapy."

They may look and touch a lot, but often it's like hunting with a camera. They don't bring anything home other than the image of what they saw and the joy of the hunt.

I expect there will be a higher concentration of committed buyers. More people will become the kind of shopper I am – a hunter-gatherer. When I go, which is rare, I am quite focused – I get what I want and get home.

Again, it will also depend on where a shopping mall is located – what are the local industries that provide the bulk of employment and how hard have they been hit by the pandemic? The same goes for Main Street businesses wherever they are located.

## **Down, but not out**

In short, some folks would have us think the sky is falling across the board, but I don't agree. Yes, some businesses and sectors of our economy have, and will continue to, suffer more than others. Many, however, have and will find ways to adjust and carry on.

Between human ingenuity and the degree of government intervention we have seen to help business owners and consumers alike, we will muscle through this difficult time and the sky will stay where it should.

*To discuss this or any valuation topic in the context of your property, please contact me at [jclark@regionalgroup.com](mailto:jclark@regionalgroup.com). I am always interested in your feedback and suggestions for future articles.*

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