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Suburban housing's pandemic gains affected more than just home prices in the cities

Working from home has been a significant influence on housing markets

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Houses in a residential neighbourhood in the suburbs of Montreal. PHOTO BY GETTY IMAGES/ISTOCKPHOTO

The sudden drop and subsequent gains in housing sales since the onset of COVID-19 have created considerable shifts in demand that are still filtering through the market.

The shift to working from home (WFH) has been the most significant unexpected disrupter for housing markets since the desire for workers to be closer to work partially diminished, which led to a decline in the demand for housing in or near the urban core and an increase in the suburbs.

Not surprisingly, research on the pandemic's impact on this spatial shifting in housing demand has grown. One paper published in April, and written by renowned urban economists Jan Brueckner, Matthew Kahn and Gary Lin, provided comprehensive evidence demonstrating the impact of remote work on urban housing markets and made two important observations.

First, they found that WFH in the United States contributed to lower housing prices and rents in high-productivity "counties," or populous cities with large employment hubs. Since those working from home could relocate to cheaper housing markets that may not be close to work, they contributed to an increase in demand in more remote cities.

Even within the same city, the authors found evidence of a decline in the premium that buyers associated with proximity to employment hubs. WFH, they observed, tends "to flatten intracity house price gradients, weakening the price premium associated with good job access."

A comparison of housing sales and prices between Toronto and its suburbs supports those assertions. The City of Toronto is surrounded by suburban municipalities often referred to as the 905 suburbs, a reference to the telephone area code those areas share.

The demand for housing in the 905 increased noticeably higher than in Toronto after March 2020. The first peak in demand was in the summer of 2020, followed by a growing gap in sales volume that peaked in March 2021, when two times more homes were sold in the suburbs than in the city. By comparison, suburban sales volume was 82 per cent higher than in the city in March 2019.

These findings have significant implications that extend beyond housing. "WFH imposes capital losses on real estate owners in high-productivity cities," Brueckner and his co-authors said. The post-pandemic increase in office vacancies in large employment hubs has even more significant implications for those with extensive office real estate portfolios.

The authors further observed that the increase in demand for suburban housing would be a relief for renters in high-productivity cities. But we did not see supporting empirical evidence in Canada, where rents have sharply risen in large and small cities in the past year.

The likely reasons for rising rents are a lack of sufficient supply for rental housing and that some renters who would have bought homes, and transferred to ownership, rented for more extended periods when housing prices started to decline in March and April of 2022.

WFH has been a significant influence on housing markets, but research suggests the heightened prevalence of remote work might reverse to some extent in the future. A recent story in *The Economist* said research shows the demand for remote work might not last because “offices, for all their flaws, remain essential.”

But shifts in spatial equilibrium do not suddenly occur. It will take years, if not decades, for a new normal to emerge that will balance the demand for housing and work locations. Until then, the suburbs can enjoy their post-pandemic fame while urbanists try to find ways to save partially vacant office buildings.