

SARETSKY group

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OPENING THOUGHTS

We have discussed in past reports the ongoing strength in the Canadian housing markets being largely attributed to excess liquidity and credit creation that was manufactured out of Ottawa. Commercial bank credit creation is running hot, thanks to Federal Government Guaranteed loans that have simultaneously been supported by the Bank of Canada's Quantitative Easing Program. If this all sounds confusing, let me simplify. Essentially, banks are being asked to create new loans, with the full support of the government and the central bank. This has spurred new money creation, with the money supply in Canada growing by 19% year-overyear as of February. And so, it should hardly come as a surprise that national home prices, as measured by the Canadian Real Estate Associations home price index, is now up 20%. It appears policy makers might have overstimulated and they are now trying to reign in some of that generous support. In April we saw policy response from OSFI (the banking regulator),

the Bank of Canada (central bank), and the Federal Government.

First, OSFI announced they are increasing the mortgage stress test. Starting June 01, the minimum qualifying rate on mortgage stress test for all uninsured mortgages will increase from 4.79% to 5.25%. In other words, if you have a down payment of 20% or more, your purchasing power will be reduced by about 4.5%. OSFI is trying to curb credit creation, and slow the housing market down.

Following that announcement, the Bank of Canada announced they are beginning to taper their QE (Quantitative Easing) or "money printing" program. They are reducing asset purchases from what was once \$5B per week, down to \$3B per week. This could trigger slightly higher mortgage rates.

Last but not least, the Federal Government announced a 1% annual foreign buyers tax for homes that are left unoccupied or under utilized. However, according to official Government data, foreign ownership is just a small sliver of the market. Remember, back in 2019 CMHC studied non-resident ownership, concluding:

- Properties that have at least one non-resident owner amount to 6.2% in British Columbia (Vancouver 7.6%), 3.3% in Ontario (Toronto 3.8%) and 6.2% in Nova Scotia (Halifax 4.3%).

The anecdotes certainly suggest foreign ownership is much higher, however capturing its true impact on the market remains illusive, and continues to be the subject of controversy.

In other words, this new tax, which remains light on details, is likely to be riddled with loopholes and will fail to generate meaningful revenues, nor deliver housing affordability. But I suppose its the thought that counts?

Either way, when you add up all three of these policies its pretty clear policy makers

are cognizant of runaway house prices, they are attempting to slowly reign it in without bursting it. After all, housing remains the key pilar of the pandemic recovery. As noted by the often outspoken David Rosenberg, total residential construction has surged 22.5% in the past year and that has taken the housing share of GDP to a record high of 9.3% — double the historical norm. Strip out housing, and GDP contracted 3.5% in the past year.

So yes, housing is still going strong. Lets turn our attention to the Vancouver housing market where Home sales across Greater Vancouver surged 340% year-over-year. Yes you read that correctly. The move is almost entirely due to weak base-effects from last year, when housing activity collapsed at the onset of the pandemic. However, let's unpack this a little further. April home sales still hit record highs, regardless of baseeffects. The home price index across all properties jumped 12% from last year, and even more for detached houses - up 21%.

While prices will continue to move higher over the coming months, as noted by the lagging home price index, there appears to be a sentiment shift in the market over the past several weeks. There are fewer showings, fewer offers, and an element of buyer fatigue appears to be setting in. This view is nearly synonymous across the Real Estate industry. I will stop short of making any predictions, but a slowdown in the housing market appears inevitable after a record breaking move higher over the past 12 months. Let's dissect further.



DETACHED HOUSING Market update

Detached sales surged a whopping 325% year-over-year when comparing to April 2020 at the start of the pandemic lock-downs. In other words, not an entirely useful data point. When we zoom out, we can see April 2021 detached sales were strong, but nothing that impressive. Further, detached sales dropped 15% from last month, suggesting we've likely seen the seasonal highs and sales will begin to taper further in the coming months.



So sales are cooling, but new listings are still running high. Here we can see that new listings hit record highs this April, surpassing the previous high set in April 2010.



Greater Vancouver Detached New Listings in April

Ultimately, as sales slow and new listings increase this will balance out the market. Look no further than the sales to actives ratio which peaked in March at 50% and fell to 36% here in April. This is still indicative of a hot sellers market, but slowing.

We can also see this in the months of inventory chart. Months of inventory for sale might have bottomed in March at 1.7, and has now ticked up to 2.7.

Months of Inventory For Sale

Source: REBGV, Steve Saretsky



Keep in mind that months of inventory at 2.1 is still indicative of a tight housing market that favours the seller. However, a gradual increase over the next couple months could be enough to pause house price growth.

Speaking of house price growth, detached home prices are now up 21% from last year. This number will move higher over the next couple months simply because it works on a lag. So while this number will move higher over the next few months, its quite possible we've already seen the top for this cycle.

Greater Vancouver Detached Prices Y/Y

Source: REBGV, Steve Saretsky



As I mentioned in last months report, the detached market remains hot but is showing early signs of cooling. One month is far from a trend but it would not surprise us in a few months if we looked back and determined that February/ March marked the top.



CONDO HOUSING MARKET UPDATE

Greater Vancouver condo sales ripped 351% from last year, but also hit new record highs for the month of April. Yes, it was a great month for condos as they continue to build on their momentum after largely lagging the rest of the market.



However, new listings remain persistently strong, arguably keeping prices somewhat in check. New listings hit record highs in April, surpassing the previous record set in April 2010.

So record sales, record new listings in the condo market. What does this mean? Lets turn our attention to the sales to actives ratio which dropped down from March and now sits at 52%- indicative of a sellers market.



The condo market also looks tight when looking at total months of inventory for sale. There is just 1.9 months of supply available, a figure which points to upwards price pressures.

Months of Inventory For Sale



And that's exactly what we have. Per the home price index, condo prices jumped 6% from last year. Again this is a lagging indicator, if we look at the average price per square foot it is up 9%.



There's an important distinction I'd like to make though. Unlike the detached or townhouse markets where prices are up everywhere you go, as people hunt for more space during the pandemic, the growth in condo prices is rather uneven.

For example, we all know the narrative, people are flocking to the suburbs and "downtown is dead". That is partially true, there is no doubt condo price growth is not evenly distributed.

Here's the average price per square foot growth by area:

Downtown Vancouver +2.6% Burnaby +7.6% North Vancouver +10.6% Langley +12% Surrey +14% Coquitlam +15%

The pandemic is influencing migration patterns and creating winners and losers in the process.

As a whole the condo market remains strong, but it too appears market activity has peaked and will begin slowing as we head into the seasonally slower summer months.



HOUSING BOOM Keeping Developers Busy

There's no question that when the resale housing market is booming, the pre-sale market tends to pick up as well, usually on a lag. This is good news for property developers, who were undoubtedly concerned at the onset of the pandemic. Nationally, total residential construction surged 22.5% in the past year, surpassing all expectations. Certainly the strength in the Greater Vancouver pre-sale market played a roll in that. Per a report from Urban Analytics, There was a total of 10,714 new multifamily home sales in 2020; an increase of 39% compared to 2019.





To no surprise, townhouse sales outperformed, as people seeked out more space during lockdowns. Urban Analytics reported 4453 townhome sales in 2020, the highest total in over 10 years and exceeding the previous record by 19%. While concrete condo sales surpassed 2019 levels, they remain well below levels seen back in 2015/16.



The pre-sale market is following a similar pattern as the resale market. People are looking for more space and moving further out, away from the city. As a result, developers are steadily increasing townhouse prices. In more recent months, after realizing prices were not going to fall, investors have begun piling back into the pre-sale condo market. However, this remains location specific, with downtown and inner city condo markets remaining sluggish.

	Concrete	Wood Frame	Townhome
Vancouver Downtown	\$1,500 - \$1,600	N/A	N/A
Vancouver West	\$1,450 - \$1,900	\$1,250 – \$1,300	\$1,100 - \$1,250
Vancouver East	\$905 - \$1,030	\$875 - \$1,140	\$850 - \$980
Richmond	\$930 - \$1,160	\$720 - \$820	\$720 - \$850
South Delta	N/A	\$600 - \$680	\$400 - \$550
Burnaby	\$950 - \$1,050	\$820 - \$885	\$685 - \$715
New Westminster	\$720 - \$900	\$700 - \$742	\$520 - \$550
North Shore	\$900 - \$1,100	\$825 - \$875	\$680 - \$870
Tri-Cities	\$875 - \$900	\$650 - \$800	\$500 - \$750
Ridge Meadows	\$600	\$500 - \$575	\$350 - \$515
Fraser Valley	\$810 - \$970	\$515 - \$650	\$350 - \$495
Abbotsford/Mission	N/A	\$525 - \$575	\$375 - \$450

Here are pricing guidelines from Urban Analytics:

ABOUT STEVE

Steve Saretsky is a Vancouver residential Realtor and author behind one of Vancouver's most popular real estate blogs. Steve is widely considered a thought leader in the industry with regular appearances on BNN, CBC, CKNW, CTV and as a contributor to BC Business Magazine. Steve has advised developers, hedge funds, and fund managers on the Vancouver housing market and is a regular speaker at industry events.

Steve Saretsky provides <u>real estate services</u> throughout Greater Vancouver. To inquire about listing or buying a property, please email: <u>steve@stevesaretsky.com</u>.



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