



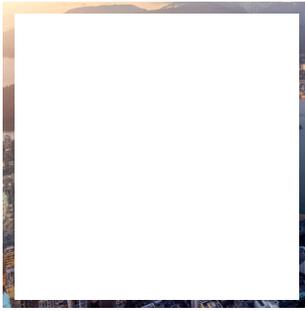
THE
SARETSKY REPORT
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AUGUST 2021

SARETSKY
GROUP

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OPENING THOUGHTS

Suffice to say, the housing market remains front and center of most discussions. After surging to unprecedented levels during the height of the pandemic, it has taken a much needed breather this summer. However, this story is far from over. Here's just a small laundry list of things to ponder in the months ahead:

- How will the upcoming election impact the housing market? Every political party has ambitious plans to tackle housing affordability, but will they succeed?
- Will COVID infections ramp up again this fall/winter prompting a delayed return to the office, and continued demand for larger homes?
- Will inflationary pressures persist, prompting higher interest rates?

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- Will the rebound in immigration numbers continue?

As you can imagine, these questions are difficult to answer, I have my opinions, but they are just that, opinions. Sales here in Greater Vancouver have now declined for five consecutive months since smashing all-time record highs in March. However, it's important to note that sales are still running well above their long term average. The housing market remains incredibly strong. One of the big issues hindering sales activity is the lack of new listings coming to market. New listings plunged 31% year-over-year in August, and most importantly fell where they are needed most (single family and townhouses).

New listings for single family homes fell to their lowest total in over 20 years. For townhouses, it was the lowest count in 11 years. You could certainly make the argument that sales would have been higher had more new inventory come to market and I suspect that's exactly what we're going to see here in September.

We are likely to see a spike in both new listings and sales this month as both buyers and sellers return from their summer holidays.

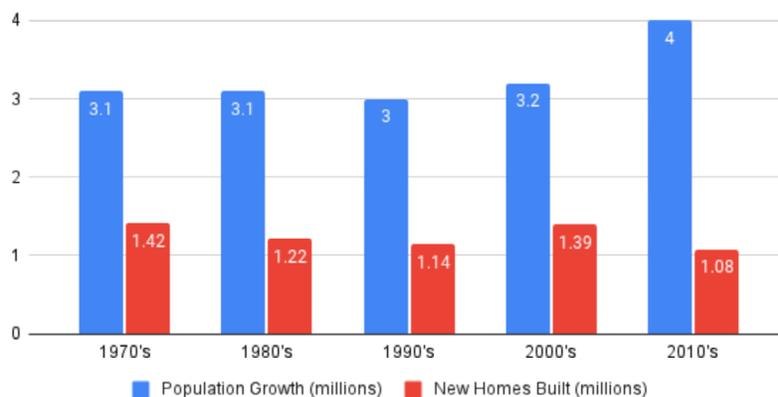
The reality is, the backdrop for the housing market remains favourable. So long as inflation is running at 3.7% and mortgage rates at 2%, Canadians will continue to lever up. Residential mortgage credit growth is now running at 9% year-over-year, the highest reading since 2009. Ironically this is getting zero press from mainstream media covering the upcoming federal elections. All this talk about more housing supply, foreign buyers, and ending blind bidding wars is just dancing around the edges. Capital is being plowed into housing because it has nowhere else to go. Savings rates at zero means capital flows into alternative assets such as housing and stocks, it is all correlated. It's the same reason New Zealand and Australia are still struggling with rapid inflation in their housing markets despite outright bans on foreign ownership and an open transparent bidding process.

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Anyways, it seems the political focus is on a foreign ownership ban, with all three political parties imposing near outright restrictions. Pretty funny to see considering these policies were considered widely controversial and “xenophobic” just five years ago. Political leaders are also focusing on the supply side which should keep the economic machine (housing) churning. That’s important considering Residential investment accounted for over half of real GDP growth during the past four years. Furthermore, we have clearly been underbuilding over the past decade. Here’s some good research from Edge Analytics on a national basis.

Canada Population Growth vs New Single Family Homes

Source: Stats Canada, Edge Analytics



Whoever is elected at the federal level will have to be more proactively engaged with local municipalities in order to green light projects at a much quicker pace. It

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seems everyone has figured that... I hope.

Anyways, as always, let's take a deeper look into the numbers, with an added election overview at the end.

Cheers,

A handwritten signature in black ink, appearing to be 'Steve', written in a cursive style with a large initial 'S'.

Steve

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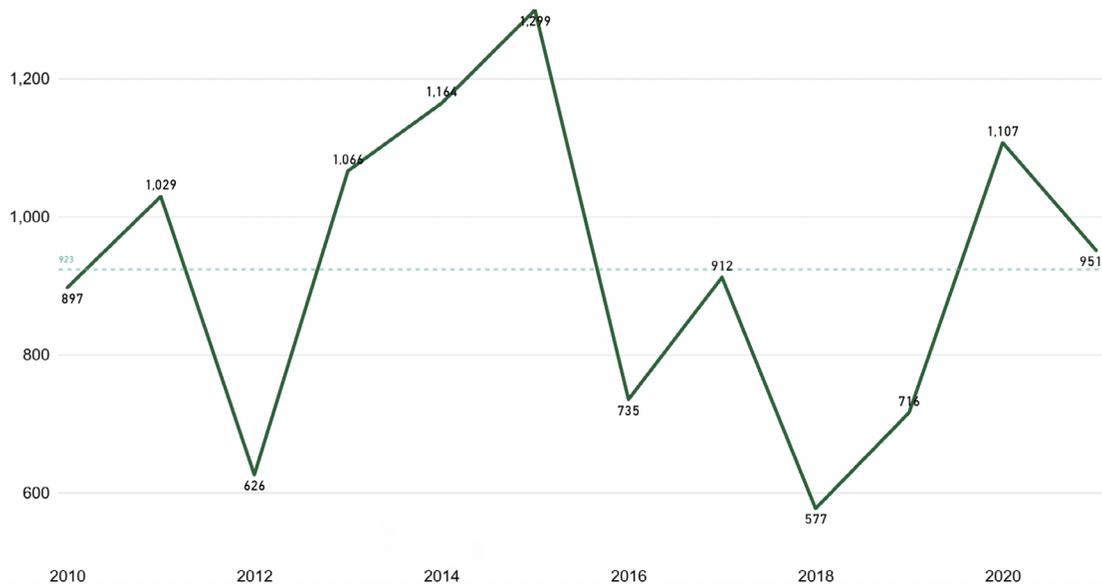


DETACHED HOUSING MARKET UPDATE

Here's detached housing sales across Greater Vancouver. Officially down 14% from last year, but still right in line with the ten year average. Not bad considering inventory has never been lower.

Greater Vancouver Detached Sales in August

Source: REBGV, Steve Saretsky

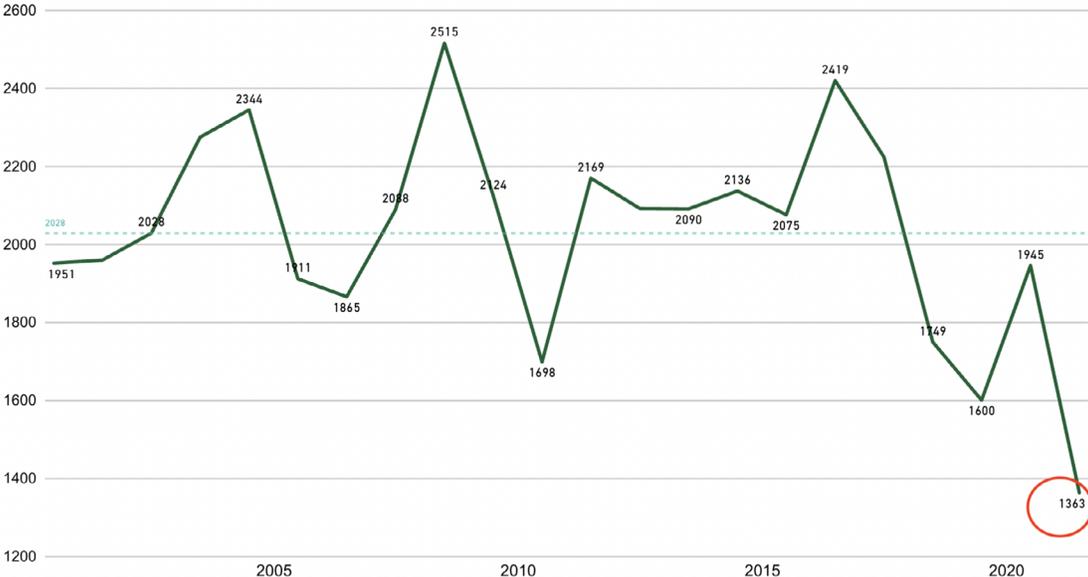


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Just like July, new listings for the month of August evaporated, falling to their lowest count in over 20 years. Frustrating times for prospective home buyers.

Greater Vancouver Detached New Listings in August

Source: REBGV, Steve Saretsky



Part of the slump in new listings is seasonal and part of it is due to COVID in my opinion. There were a lot of sellers taking additional time off this summer after being pent-up inside their homes all winter. It is not a case of people not wanting to downsize, as we had record new listings for detached homes earlier this year.

Greater Vancouver detached inventory at the end of August sat at its lowest levels in over a decade.

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Greater Vancouver Detached Inventory at End of August

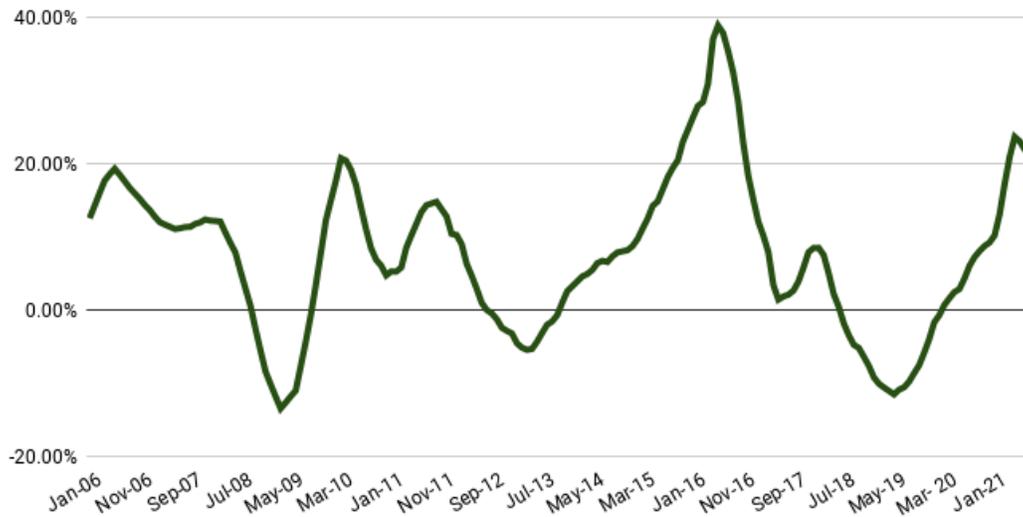
Source: REBGV, Steve Saretsky



Again it appears that detached home prices have peaked, with the rate of change now decelerating down to 20% price growth year-over-year, down slightly from the peak of 23% for this cycle.

Greater Vancouver Detached Prices Y/Y

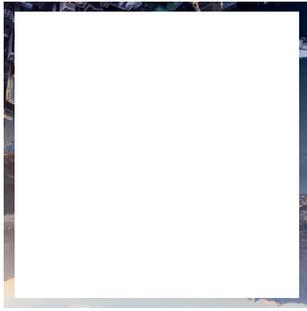
Source: REBGV, Steve Saretsky



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Just for clarification, what this means is that prices are no longer accelerating higher. It does not mean that prices are now falling. Over the past three months we've seen no increase in house prices. This is welcoming news considering how quickly prices have jumped over the past year, however, there remains very little relief for home buyers over the next couple of months as inventory remains at critical levels. Sellers will remain in the driver seat.

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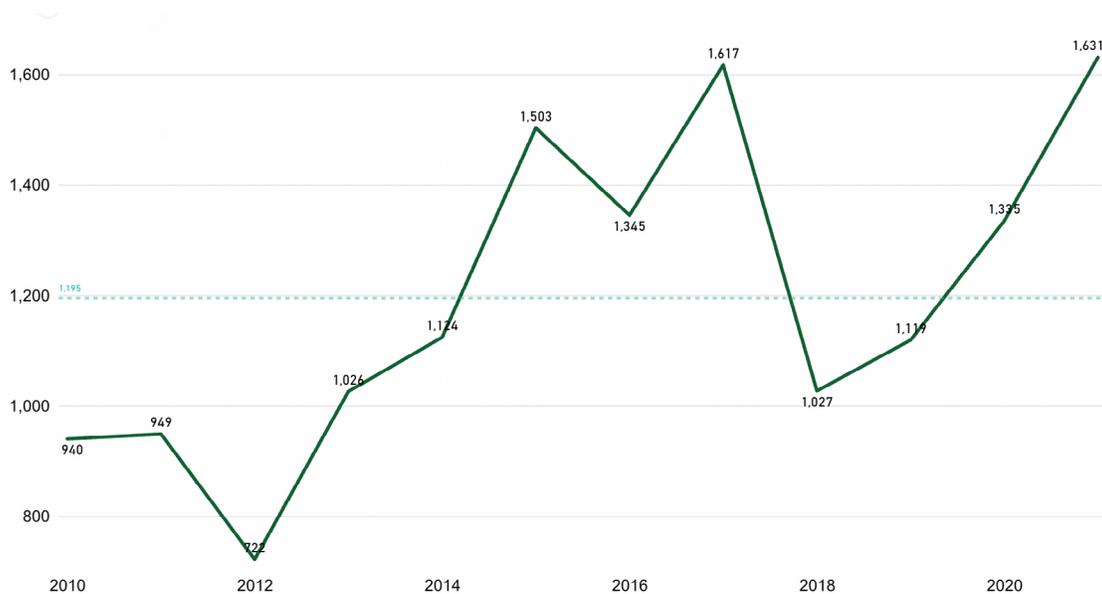


CONDO HOUSING MARKET UPDATE

Similar to what I said last month, the thesis of the condo market outperforming in the back half of this year remains intact. While both the detached and townhouse market saw year-over-year sales declines, the condo market was up 22%. Condo sales surged to their highest levels in over 10 years.

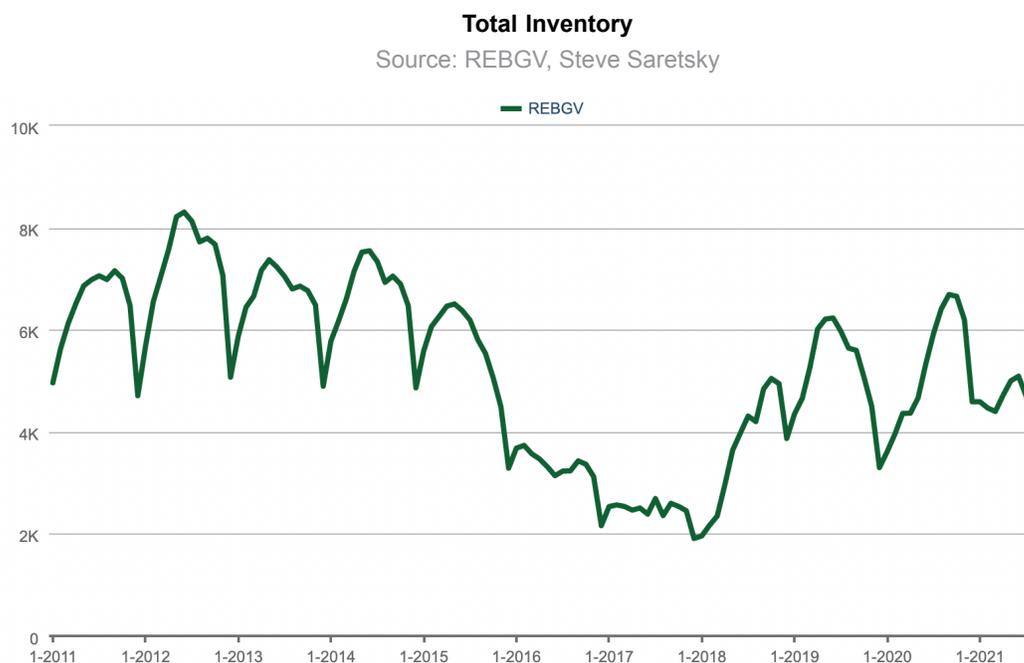
Greater Vancouver Condo Sales in August

Source: REBGV, Steve Saretsky



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With sales up 22% and new listings down 26%, inventory levels are getting squeezed lower. Outside of 2016 and 2017, these are the lowest inventory levels we have seen during the past decade despite new condo completions running at record highs.



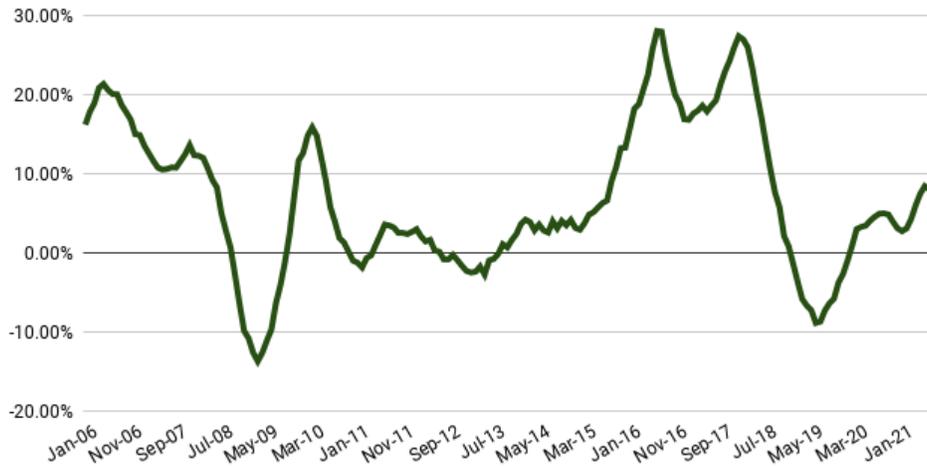
One of the things I've noticed, along with many respected industry professionals, is this notion of "real estate hoarding." In other words, the normal home buyer used to sell their condo so they could then move up to a detached house. Today we are seeing a huge increase in people keeping the condo, refinancing and extracting the equity and using it to fund the down payment of the house purchase. In other words, more and more people are opting to become landlords. No surprise in this low rate environment with housing in a 30 year bull market.

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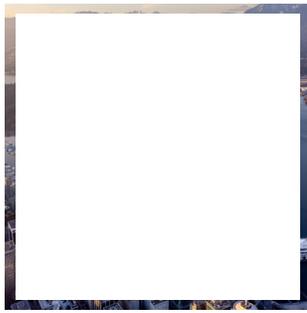
Condo prices were up 7% year-over-year in August and are quite stable. That should continue to be the case with months of inventory at 2.5.

Greater Vancouver Condo Prices Y/Y

Source: REBGV, Steve Saretsky

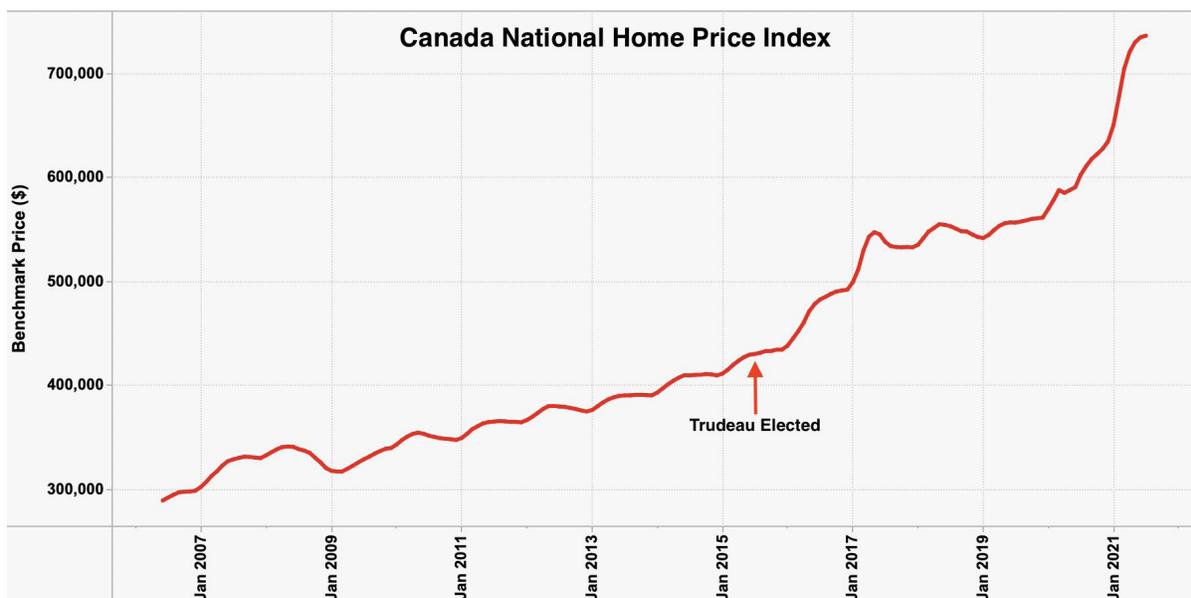


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ELECTION PREVIEW WITH HOUSING FRONT & CENTER

With the upcoming federal election on September 20th there is a lot of attention on housing and the lack of affordability. Since Trudeau was elected in 2015, national home prices have accelerated by 70%, far outstripping wage growth.



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Naturally, there are a lot of social tensions and political parties are being forced to come up with aggressive action to try and reign things in. Without further ado, let's review the highlights of each major parties proposed housing platform.

CONSERVATIVE

- Promise to build one million homes in the next three years. We have been averaging about 220,000 housing starts recently so this would add an additional 250,000 homes over three years.
- Review the extensive real estate portfolio of the federal government – the largest property owner in the country with over 37,000 buildings, and release at least 15% for housing.
- Ban foreign investors from buying residential properties in Canada for at least two years.
- Establish a federal beneficial ownership registry
- Encourage a new market in 7-10 year mortgages ensuring more certainty in borrowing costs
- Remove the stress test when a homeowner wants to renew with a different lender
- Increase the limit on mortgage insurance eligibility and index it to home price inflation. The goal is to make it easier for first time buyers, and self employed people to obtain mortgages.
- Encouraging Canadians to invest in rental housing by extending the ability to defer capital gains tax when selling a rental property and reinvesting in rental housing,

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something that is currently excluded

In summary, the Conservatives housing plan is the most sensible and realistic. Removing the stress test when switching lenders is a no brainer, and something mortgage advisors have been pushing for awhile. Hitting new housing supply targets will depend largely on municipalities though so don't get your hopes up. Encouraging additional investment into rental housing is much needed as it provides Canadians with a secure alternative to home ownership. Everyone is aware the biggest risk to Canadian housing is rising interest rates, so if the Conservatives can actually find ways to make 7-10 year mortgage terms more attractive then it's a huge win, as it removes some of that risk.

LIBERAL

- Ban foreign money from purchasing a non-recreational, residential property in Canada for the next two years, unless this purchase is confirmed to be for future employment or immigration in the next two years.
- Introduce a new Rent-to-Own program, provide \$1B in loans and grants to develop and scale up rent-to-own projects
- Establish an anti-flipping tax on residential properties, requiring properties to be held for at least 12 months.
- Reduce the price charged by the Canadian Mortgage and Housing Corporation on mortgage insurance by 25%. For a typical person, this will save \$6,100.
- Increase the insured mortgage cut-off from \$1 million to \$1.25 million, and index this to inflation

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- Invest \$4 billion in a Housing Accelerator Fund which will grow the annual housing supply in the country's largest cities every year, creating a target of 100,000 new, middle-class homes by 2024-25. This application-based fund will offer support to municipalities that grow housing supply faster than their historical average, reduce approval times, help establish inclusionary zoning bylaws, and encourage transit-oriented development.
- Banning blind bidding, which prevents bidders from knowing the bids of other prospective buyers.
- Permanently increase funding to the National Housing Co-Investment fund by a total of \$2.7 billion over 4 years, more than double its current allocation. These extra funds will be dedicated to helping affordable housing providers.

Ok the Liberal housing plan is a long list and full of promises. I'm skeptical they can deliver on these promises considering they've had six years to tackle the housing crisis. In June they voted against a foreign buyer ban, now they are promising one if re-elected. The rent-to-own program relies on investors/ developers actually wanting to provide this option to tenants, the details are murky. Banning blind bidding falls under the purview of provincial regulators not federal. Property flipping has a negative perception but is not a significant contributor to the lack of housing affordability. However, introducing this policy will win votes so I get it. The best policy the liberal government has here is no doubt their housing accelerator fund. The biggest roadblock to new housing is municipal governments, by incentivizing municipal governments with cash this should get projects approved quicker and more new housing built.

NDP

- Create at least 500,000 units of quality, affordable housing in the next ten years, with half of that done within five years.

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- Re-introduce 30-year terms to CMHC insured mortgages on entry-level homes for first time home buyers.
- Introduce a 20% Foreign Buyer's tax on the sale of homes to individuals who aren't Canadian citizens or permanent residents.
- Work with the provinces to create a public beneficial ownership registry

I went through the entire housing platform for the NDP and it lacks any concrete details. I am in favour of extending CMHC insurance to 30 years, this will help lower payments for those squeezing into the market and level the playing field with investors. The foreign buyers tax is actually less punitive than the outright ban promised by the liberals and conservatives. The NDP promised a renters subsidy to the media but never put it in their actual housing policy document so i'm not sure if that's actually a go. Overall a big miss for the NDP as they had an opportunity to really play up a tough housing policy to their voter base.

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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 [real estate services](#) throughout Greater Vancouver. To inquire about listing or buying a property, please email: steve@stevesaretsky.com.



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