

A photograph of a city skyline at sunset, featuring several tall glass skyscrapers. The sky is filled with dramatic, dark clouds with hints of orange and yellow light from the setting sun. In the foreground, there are trees with autumn foliage and a body of water that reflects the buildings and sky. A white rectangular box with a thin black border is centered over the image, containing the report title.

THE
SARETSKY REPORT
.....
SEPTEMBER 2021

SARETSKY
GROUP

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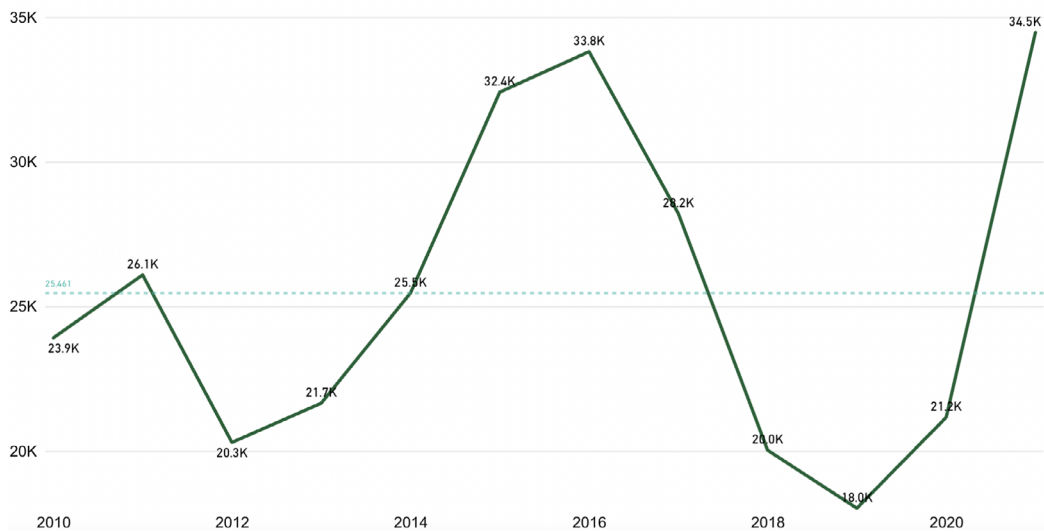
OPENING THOUGHTS

Despite the uncertainties of a federal election the housing market continued to hum along in September. Home sales dipped 13% when compared to last September, but that should not come as a surprise considering last September marked an all-time record high for the month. Year-over-year base effects will be hard to top in the months ahead, but make no mistake the housing market remains incredibly strong. Let's take a look at the bigger picture for a moment. From January through September of this year, there have been just over 34,000 home sales in Greater Vancouver, a record high for this time period.

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Greater Vancouver Home Sales January Through September

Source: REBGV, Steve Saretsky



When the calendar turns over at the end of the year it's quite likely that 2021 will mark a fresh record high for annual home sales. But should we really be surprised at this point? Canadians have been incentivized for decades to plow money into the housing market which has been backstopped by the government at every turn. Perhaps it explains why the housing market continued to rip in September despite every political party campaigning during the federal election to curb house price inflation and improve affordability. At this point I think everyone is aware it's all talk and political grandstanding at this

point. The Liberal party was ultimately re-elected into another minority government, and despite their promises of an array of new policies which we'll dive into later in the report, it's the same government who allowed national home prices to increase 70% over the past six years.

I fielded a lot of questions from the media during the elections, and all of them wanted to know which policies I thought would actually make housing more affordable. The short answer is none. You can create policies that dabble

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around the fringes such as foreign buyer restrictions and new housing supply, but at the end of the day it's the cost of capital and the availability of credit that really drives home prices. Let's frame this up. Inflation is currently running at 4.1%, the highest reading since 2003. Meanwhile, the big banks are dishing out variable rate mortgages at 1.29%. In other words, the real interest rate on your mortgage when adjusting for inflation is nearing NEGATIVE 3%. So long as borrowing money at real negative rates persists, housing will continue to attract an increasing amount of capital. It really is that simple, yet rarely discussed. I can assure you there would be a lot less condo investors at 2% cap rates if traditional savings yielded more than ZERO.

So inflation is currently running at more than double the Bank of Canada's official target of 2%. Surely rate hikes are coming? Not so fast. As of Q4 2020, Canada's total credit to the non-financial sector sits at a staggering 359% of GDP according to the Bank of International Settlements. This is one of the highest totals in the G-20, right alongside Japan. The Japanese economy has been suffering under a mountain of debt for decades, with current credit to non-financial sector debt sitting at 418% of GDP. In other words they're caught in a debt trap and haven't been able to raise interest rates for over two decades. Unfortunately Canada is on the same path, and in my opinion we are in an era of financial repression. Interest rates are unlikely to be normalized for quite

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some time.

This is not to suggest that you can just blindly plow money into the real estate market and get rich. Valuations are definitely elevated, up 30% in some segments. Some caution is warranted. However, inventory remains impaired, currently sitting at its lowest levels in over 20 years, and mortgage rates stuck below 2%. Hard not to be bullish on the housing sector given the current dynamics.

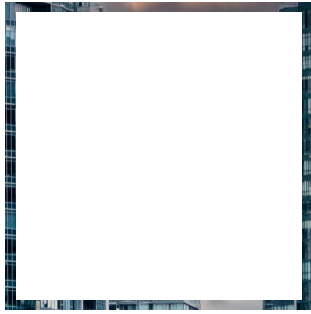
As always, let's discuss further.

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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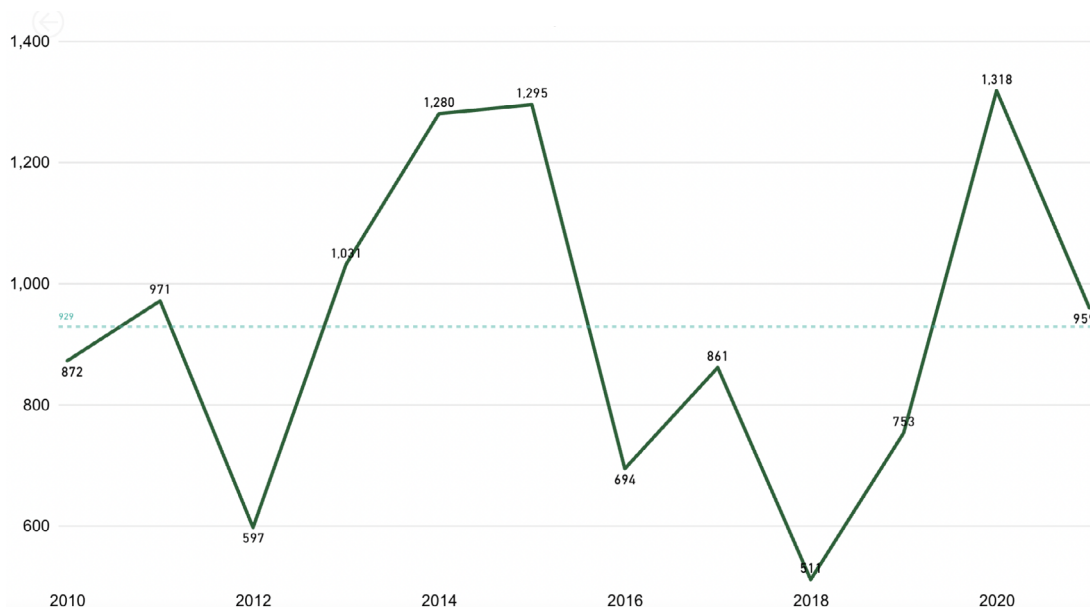


DETACHED HOUSING MARKET UPDATE

Coming off record levels last September, detached home sales dropped 27% year-over-year. Again this should not come as a surprise to any of our regular readers here. Detached home sales are still running strong, slightly above their long run average.

Greater Vancouver Detached Home Sales January Through September

Source: REBGV, Steve Saretsky

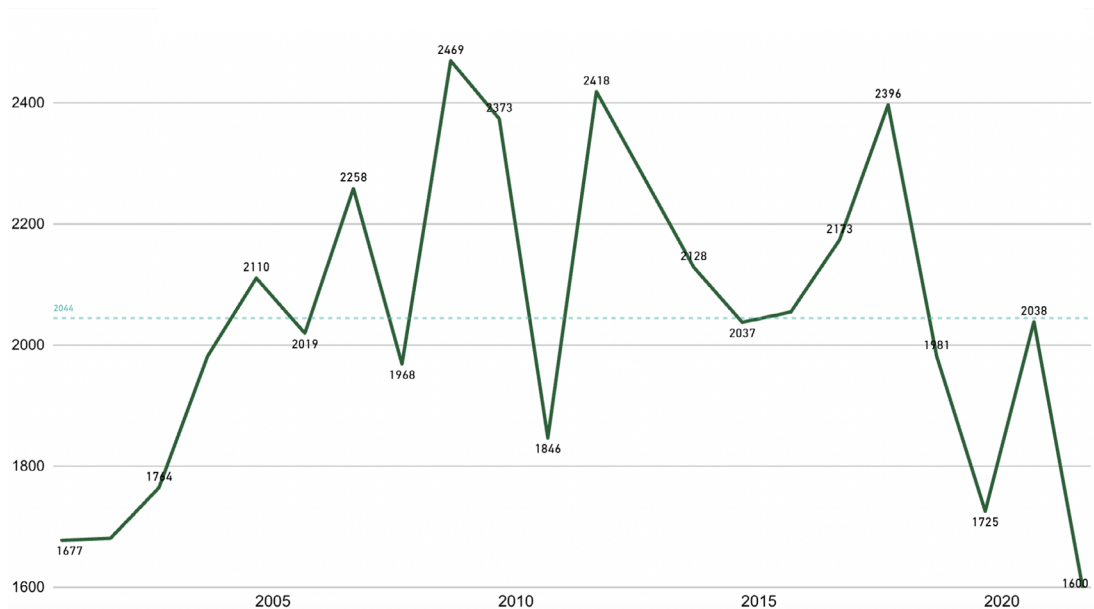


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As anticipated, new listings are making their usual seasonal uptick. There were 30% more new listings in September than in August. However, when looking strictly at new listing history for the month of September there was not much to get excited about for prospective home buyers. New listings in September were the lowest in over 20 years.

Greater Vancouver Detached New Listings for September

Source: REBGV, Steve Saretsky

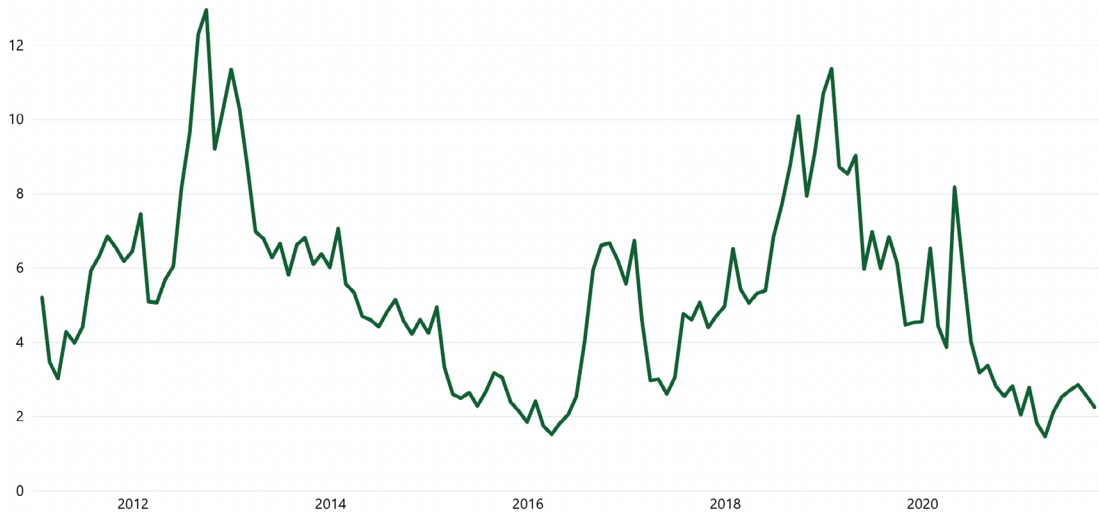


In order to filter through the noise, I always look at months of inventory. Months of inventory for detached homes sits at 3.8. However, when you filter it further for homes under \$2.5M which is where the majority of buyers are actively looking, months of inventory for sale falls to 2.2. This is indicative of a tight sellers market.

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Detached Months of Inventory For Homes Under \$2.5M

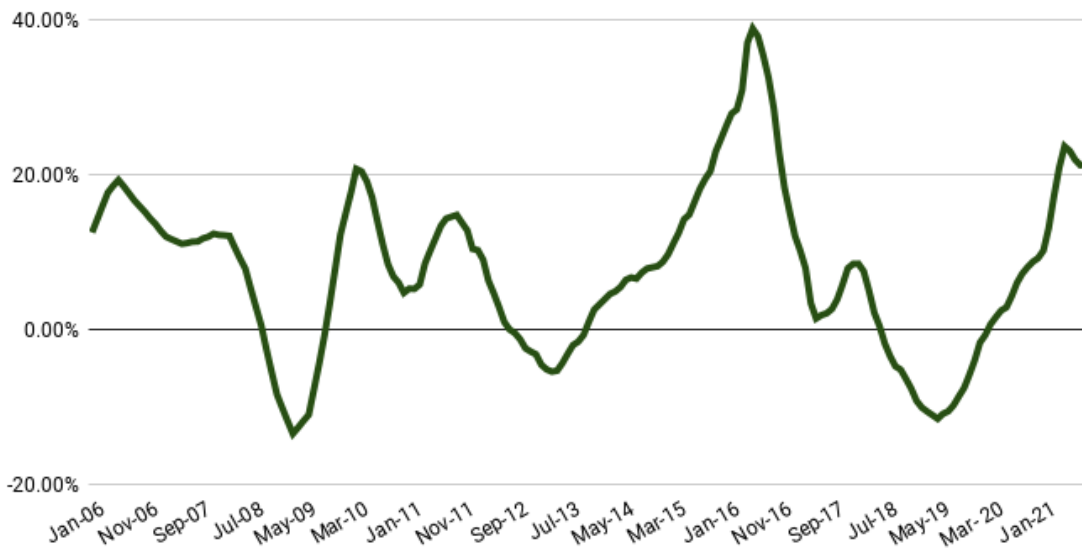
Source: REBGV, Steve Saretsky



Detached home prices inched slightly higher in September, and the benchmark price now sits at \$1,828,200. This is a record high and is up 21% from last September.

Greater Vancouver Detached Prices Y/Y

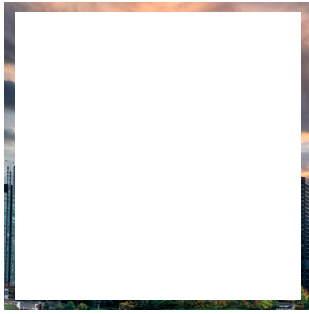
Source: REBGV, Steve Saretsky



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In summary, while sales activity has slowed from all time record highs, demand remains strong and new listings remain chronically weak. Very low inventory levels are ensuring multiple offers continue, keeping prices elevated and leaving sellers in the driver's seat.

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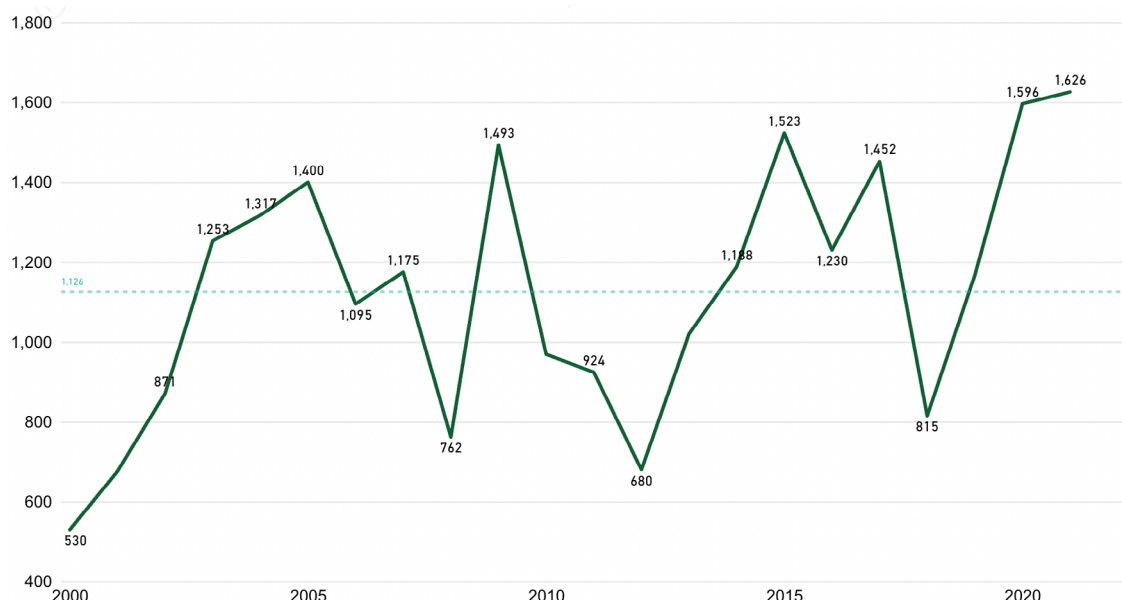


CONDO HOUSING MARKET UPDATE

While everyone has been paying attention to the detached and townhouse markets, the condo market has quietly been putting in record sales over the past several months. Condo sales in Greater Vancouver hit a new record in September, coming in at the highest levels in more than two decades.

Greater Vancouver Condo Sales in September

Source: REBGV, Steve Saretsky

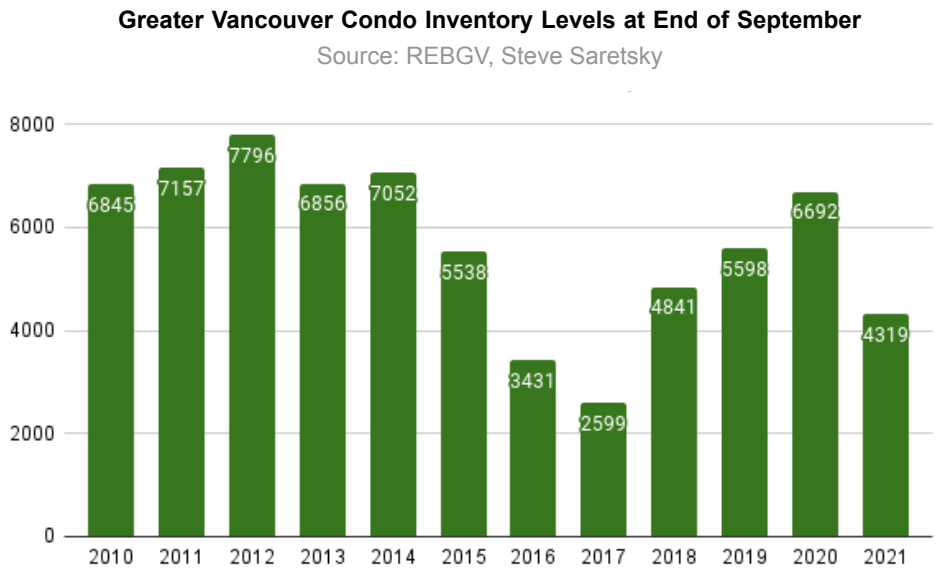


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New listings fell 14% from last year's record highs. However, condo listings remain elevated from a historical perspective. In fact, new listings were 19% above their ten year average for the month.

Ultimately we have a situation where condo sales are outpacing new listings and this is pushing inventory levels lower. Condo inventory plunged 35% from last year's levels.

Here's a chart of standing inventory levels as of the end of September



Months of inventory for sale has drifted lower and now sits at 2.7. If you're looking for a condo under \$1M the inventory picture is pretty bleak. There is just 2.1 months of supply for condos under \$1M.

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Condo Months of Inventory Under \$1M

Source: REBGV, Steve Saretsky



In other words, similar to the detached and townhouse market, affordability is the name of the game. Everyone is trying to squeeze in at the entry levels and that is where supply is the tightest.

Prices are climbing for condos any way you measure it. The home price index increased 8.4% from last year, and the average price per square foot now sits at \$872, a 9% jump from last year.

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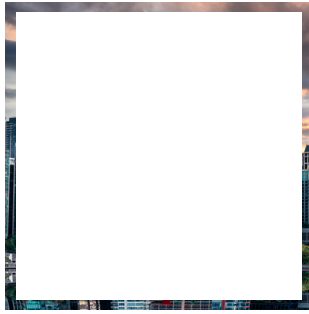
Average Price Per Square Foot

Source: REBGV, Steve Saretsky



The condo market favours the sellers and has strong momentum behind it. The bulk of the activity remains under the \$1M range.

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WHAT ANOTHER LIBERAL GOVERNMENT MEANS FOR THE HOUSING MARKET

It took over \$600 million of tax pay dollars to reach the same outcome, another liberal minority government. I can think of a few better places to spend \$600 million, affordable housing supply being one of them. Nonetheless, what's done is done, and we now have some clarity on the direction of government and how they plan to address housing in the years ahead.

Here's a summary of the housing plan the liberals campaigned on:

- 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

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- 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
- 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.

Let's discuss.

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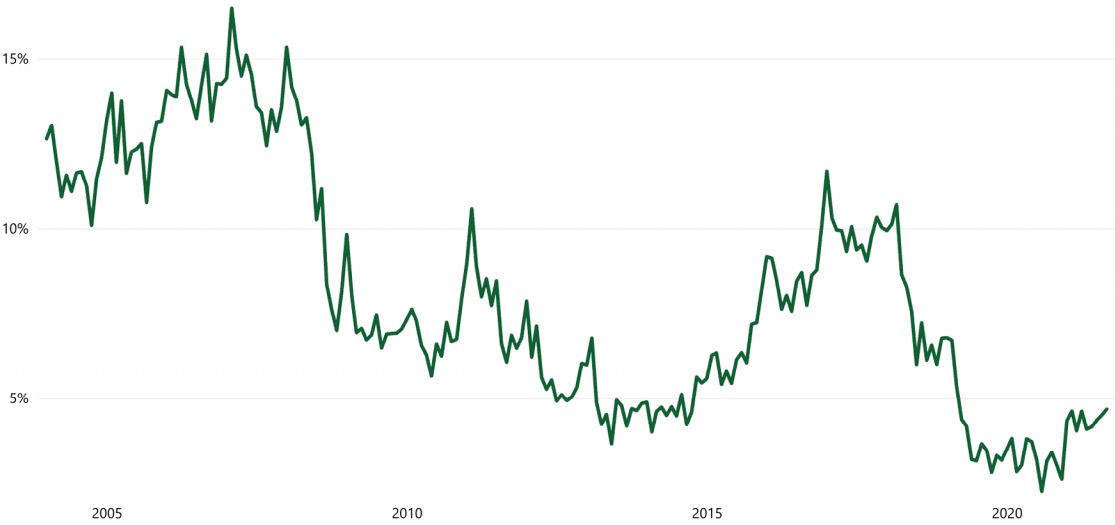
Firstly, the outright ban of foreign ownership for the next two years is a politically popular move, however it has proven to be largely ineffective at making housing more affordable. Foreign buyer taxes are already in place in Ontario and BC and prices continue to reach all time highs. Foreign buyer bans also exist in Australia and New Zealand, two countries that continue to struggle with a housing crisis. Foreign money has definitely influenced the Canadian housing market, but the foreign money is usually already a Canadian citizen or permanent resident, making it nearly impossible to actually tax. Foreign Buyers as described by the BC Government, accounted for 1.2% of total sales in BC as of August 2021.

The rent-to-own program lacks any details and will require private landlords/ developers to play ball. Will they want to? My guess is this program never sees the light of day.

An anti-flipping tax won't bring increased housing affordability. House flipping is a dirty word but is already subject to heavy taxation, and as a total percentage of house sales makes up less than 5%. Any housing flipping done on a regular basis, and on a more professional level is done through a corporation and generally taxed as business income. In other words, a ban on house flipping will likely target Mom & Pop investors who are not incorporated and who make up an insignificant segment of the market.

Greater Vancouver Homes Bought & Resold within 24 Months as a Percentage of Total Sales

Source: REBGV, Steve Saretsky



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The Liberals have proposed to lower CMHC premiums and want to increase the mortgage cut-off from \$1M to \$1.250M. This is a huge demand side boost and will only serve to inflate house prices. I suspect the Government is not dumb enough to make these changes during a raging bull market, and will likely wait until the market slumps in order to make these counter-cyclical changes.

The \$4B housing accelerator fund remains the best policy introduced in my opinion. The greatest challenge for new housing supply is getting through municipality roadblocks. Remember it still takes, on average, 3 years to get a typical condo project approved in Vancouver. Perhaps a bribe from the federal government will be enough to speed things up.

Blind bidding is another vague policy proposal. Real Estate services are regulated on a provincial level, not a federal level. My conversations at the provincial level suggest there is no real desire to change the existing bidding process. Don't expect anything to change.

Lastly, a much needed increase to the national co-housing investment fund.

These funds are used to partner with not for profit organizations that use government funds to construct new homes and revitalize existing affordable housing stock.

Let's see which of these policies actually come to fruition. Right now the housing market continues drum along, with sales activity very strong through September. Confidence remains high and the liberal government has proven to support the housing market when needed.

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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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