

SARETSKY GROUP

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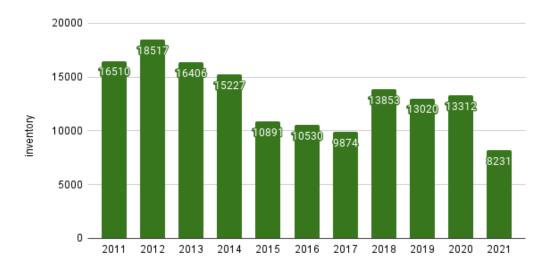


OPENING THOUGHTS

The Greater Vancouver housing market continued to rip in the month of October. If you focus squarely on sales you'd be missing the forest for the trees. Sales were officially down 5%, a small drop from last years all-time record high. However, new listings absolutely plunged, dropping 28%, and total inventory for sale dropped a whopping 38%. Inventory levels across Greater Vancouver are currently at their lowest levels in at least a decade.

Greater Vancouver Standing Inventory at End of October

Source: REBGV, Steve Saretsky

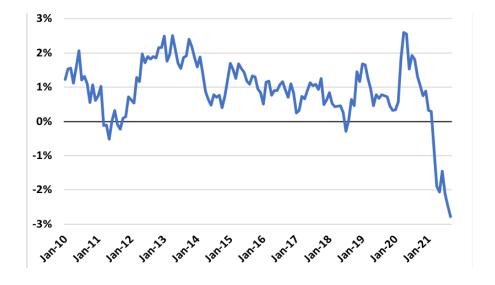


In other words, sales are still running well above their long term average and inventory is sitting at decade lows. This is resulting in continued upwards pressure on home prices. Detached home prices are now up 20.5% year-over-year and condo prices are on the run, up 9.5%. As we enter the last couple of months of the year, we can expect home sales and new listings to drop. This is nothing unusual, but part of a normal seasonal pattern for the housing market. It's for this reason that the inventory picture is not going to improve this year. Prospective home buyers will have better luck when the housing market restarts in the new year, with listings typically picking up in February.

There are a few things i'll be watching closely in the coming months. In particular, inflation and central bank policy. Any regular reader of these reports knows I put a strong emphasis on the cost of money. We've had real mortgage rates running at negative 3% for the most part of this year, in other words, buyers have been incentivized to take on mortgage debt (Source: Ben Rabidoux).

Real 5-Year Mortgage Rates
Average of Deep Discounted Variable and Fixed

Source: RATESDOTCA, Statistics Canada

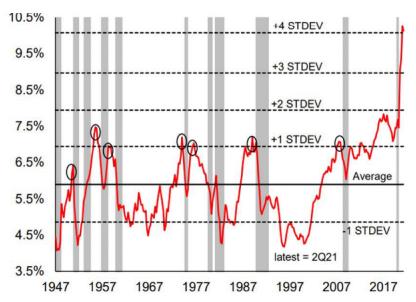


Inflation is proving to be non-transitory and central banks are now being pressured to raise interest rates in order to quell inflation. At the end of October the Bank of Canada announced the end of their QE (money printing) program and suggested they will begin to raise interest rates sometime between April and September. Markets are now pricing in 5 rate hikes by the end of 2022.

My personal view is the Bank of Canada is trying to maintain credibility. Inflation is running north of 4%, they have to at least signal to markets that they are going to fight inflation. However, my personal view is that fight will prove to be short lived. Canada has one of the worst private debt ratios in the developed world. Canada's total non-financial debt-to-GDP is a massive 343%. In other words, as soon as interest rates start to rise, which they will, it will slow the economy and put a dent in the housing market. The Bank of Canada is already revising GDP lower for 2022. How far will the Bank of Canada get before triggering a significant slowdown and an inevitable slump in the nation's highly levered housing market? My guess is it will take a lot less than the eight rate hikes Scotia Bank is now predicting by the end of 2023.

Canadian Residential Investment (% of Nominal GDP)

Source: Macrobond, Macquarie Macro Strategy



All this to say, interest rates are on the rise. The 5 year fixed mortgage rate is now around 2.5%, up nearly 80bps from the pandemic lows. Don't forget when mortgage rates hit 3.5% in 2018 and everyone thought they were going to 4%, the housing market slowed big time. In fact, in 2018 Greater Vancouver home sales fell to their lowest levels in eighteen years! Depending on the product, prices softened about 5-10% that year. In other words, if mortgage rates continue to creep higher and breach 3% I expect to see a slowdown in housing activity.

For now, the housing market continues to hum along, prices are moving up and to the right. However, should central bankers commit to fighting inflation, and interest rates keep inching higher, I would expect a housing slowdown. Either way, volatility is on the horizon as we sort this mess out.

Cheers.

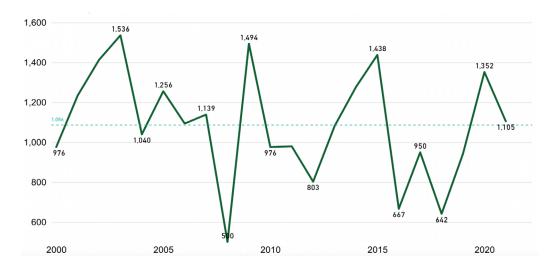


DETACHED HOUSING MARKET UPDATE

Greater Vancouver detached sales fell 18% year-overyear. A pretty big move, and without any context one would assume the market was weak, or prices were softening. However, as we'll highlight in the following charts, that is far from being the case. This is why it is always important to look beyond the headlines, and dive deep into the stats.

Greater Vancouver Detached Sales in October

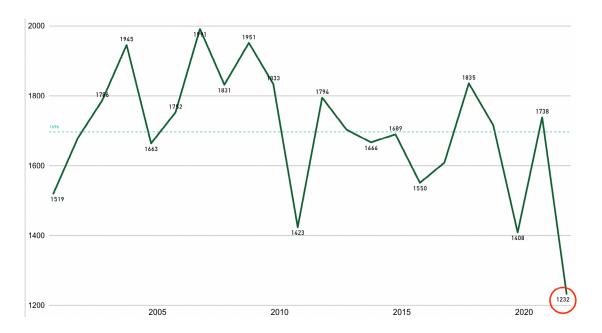
Source: REBGV, Steve Saretsky



So sales fell 18% but new listings fell 30%. In fact, for the month of October this was the fewest number of new listings in OVER TWENTY YEARS!!

Greater Vancouver Detached New Listings in October

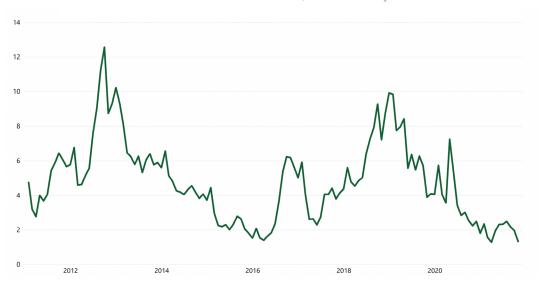
Source: REBGV, Steve Saretsky



Standing inventory for sale is at its lowest levels for the month of October in over a decade. When we look at months of inventory for sale, it currently sits at 2.9 for the entire detached segment. However, if you are looking for a single family house under \$2M there is just 1.3 months of inventory for sale. This is the lowest reading in at least a decade.

Months of Inventory For Sale

Source: REBGV, Steve Saretsky

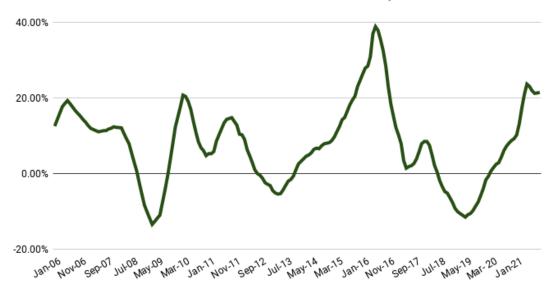


In other words, it has never been more challenging to purchase an entry level single family house.

Detached prices inched up another 1.2% from last month, and are now up 21% from last October.

Greater Vancouver Detached Prices Y/Y

Source: REBGV, Steve Saretsky



Obviously this pace of price inflation is not sustainable, eventually buyers will suffer market fatigue, and head for the sidelines. However, given the 10 year low in inventory for sale prices are likely to move higher in the months ahead. Statistically speaking there has never been a better time to be a seller. The inventory situation will not improve over the winter months. Prospective buyers should have better luck in the spring.

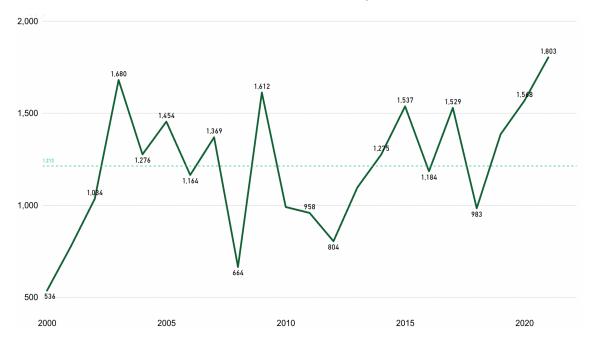


CONDO HOUSING MARKET UPDATE

Condo sales jumped 15% year-over-year and hit record highs for the month of October. The bull market for condos is underway.

Greater Vancouver Condo Sales in October

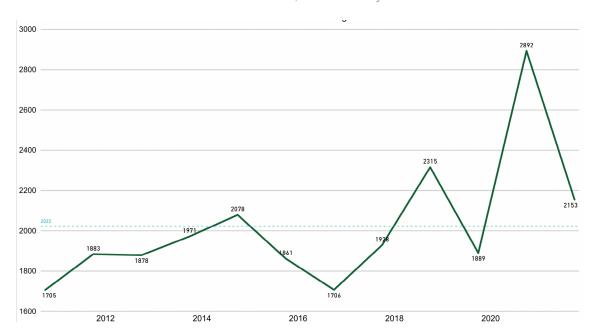
Source: REBGV, Steve Saretsky



Sales were up, and new listings fell, dropping 25% from last years levels. They are still slightly above the 10 year average.

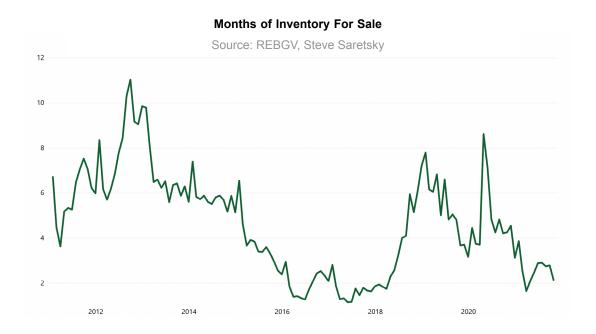
New Condo Listings in the Month of October

Source: REBGV, Steve Saretsky



Higher levels of new listings continue to be absorbed, and in my view this is largely due to a growing number of condo investors. Land registry operator, Teranet, recently reported that almost 25% of homes purchased in Ontario in the first eight months of 2021 were sold to buyers who own multiple properties. They have not run that study in BC but I can assure you it is likely in the same ballpark as Ontario. The number of investors continues to grow thanks to a prolonged bull market which is reinforcing buyers' optimistic expectations. That, coupled with an era of zero interest rate policy, is prompting savers into the housing market in a desperate reach for yield. It is hard to overbuild when an increasing number of the population wants a second and third property. This obviously creates added risk should the market enter a more prolonged downturn and investors decide to hit the sell button.

For now, optimism remains high, and months of inventory for sale continues to fall. Months of inventory for sale in the condo market has plunged to 2.1. This is indicative of a strong sellers market.



Obviously this is placing upwards pressure on prices. Condo prices have now jumped 9.5% from last year.



The condo market looks to be following price momentum that was first witnessed in the detached market and then the townhouse market. We saw this same story play out in 2016/17. However, condo price growth will likely be more muted as new construction condo inventory remains elevated.



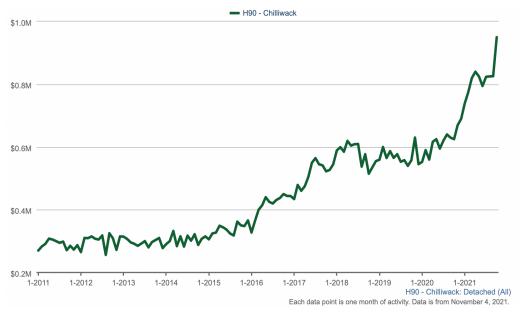
WHERE AND WHEN YOU BUY MATTERS

This hasn't necessarily been a normal housing bull market. The flurry of housing activity has a lot to do with the pandemic. People have been relocating, and moving further away from the city throughout this whole work from home movement. This has created massive distortions in prices. What we are seeing is people driving up prices for houses in the suburbs, while ditching condos in the city.

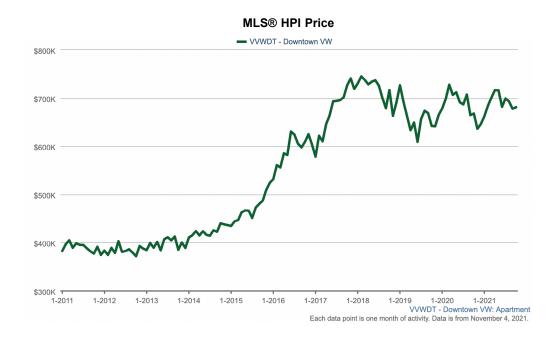
For example, house prices in Greater Vancouver are up 20%, however in the Fraser Valley they have inflated 33% over the past year. Suburban house prices look a lot like your favorite crypto currency. Here are the leaders over the past year:

- Chilliwack +52%
- Abbotsford +38%
- Langley +33%
- Surrey +33%
- Maple Ridge +33%





Meanwhile, condo prices in Downtown Vancouver are up a messily 2% over the past year. In fact, if you bought in 2017/18 you're likely still under water.

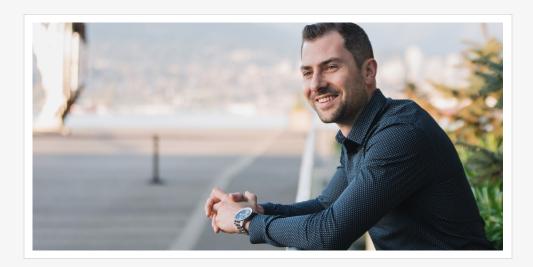


I think this is important to contextualize. I always get asked, "is now a good time to buy?" And the answer certainly hinges on where you are planning to buy. I'd argue that Chilliwack homes surging 52% over the past year are likely over valued, at least in the short term. You are probably due for a pull-back in the near future. I don't think the same can be said for condos downtown. This is perhaps a subtle reminder that real estate markets are hyper localized. Where and when you buy matters.

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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