THE SARETSKY REPORT

NOVEMBER 2021

SARETSKY
GROUP

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OPENING THOUGHTS

It was another painful month to be a home buyer in Greater Vancouver. Just when you thought things couldn't get any worse, they did. Sales increased 12%, rising to their second highest levels on record, falling just short of November 2015. Meanwhile, inventory collapsed a whopping 40% from last years levels. Obviously this is creating an environment for bidding wars and higher prices. This is particularly true in the detached segment where inventory dropped 25% from the obscenely low levels buyers were facing last year. Detached home prices are now up 21% in Greater Vancouver and 36% in the Fraser Valley. There have certainly been better times to buy a house, and today isn't one of them. Similar to the last bull market of 2015-2017, a rising tide lifts all boats. When the detached market peaked out in 2016, the condo market ripped in 2017 as buyers bid up what was still cheap (in relative terms). We are now seeing that in the condo space, with sales up 33% and inventory plunging 46%. This is a recipe for disaster. Condo prices are up 11% from last year and I still believe they will outperform detached houses in the year ahead as they play catch up.

The risk to that call is policy intervention, which I think we are getting closer to. I think OSFI (Canadian banking regulator) along with various levels of government are starting to get nervous. National home prices are up 23% from last years already sky high levels. The pressures are building for policy makers, and over the past several months we've seen the Bank of Canada, OSFI, the federal government and the BC provincial government all voice their concerns.

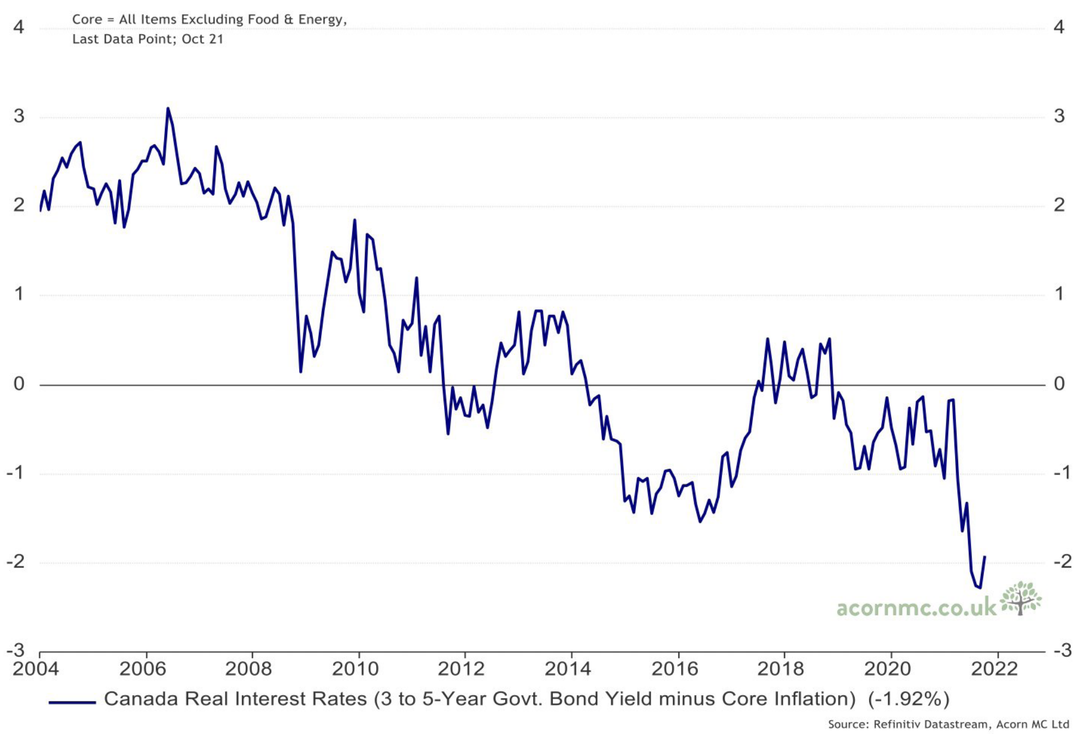
According to the Bank of Canada, investor buying has doubled since the start of the pandemic, while purchases by first-time homebuyers have increased about 45 per cent.

"A sudden influx of investors in the housing market likely contributed to the rapid price increases we saw earlier this year. In such a case, expectations of future price increases can become self-fulfilling, at least for a while," Beaudry said. "That can expose the market to a higher chance of a correction. And, if one occurs, the damage can spread far beyond the investors."

Of course there was no mention of the Bank of Canada's involvement in the flurry of investors piling into the housing market. Need I remind you that the Bank slashed rates to near zero, pumped $5B worth of QE (money printing) into the financial system per week, and then begged the consumer to borrow money last July. And borrow they did. Residential mortgage credit growth is running at 10% right now, the fastest pace in a decade. Oh, and BC & Ontario now account for 65% of all mortgage lending in Canada. That's up from 59% in 2016. In case you're wondering why house prices are predominately inflating in only two provinces.

Anyways, regardless of who's to blame, We've now tried a foreign buyers tax, empty homes tax, speculation tax, mortgage stress test, record new home completions, and yet house prices continue to push higher. We've tried everything but raise the cost of borrowing money. Imagine that.

The cost of borrowing drives asset prices, particularly highly levered ones such as Canadian housing. Here we can see Canada has been enjoying real negative interest rates for the better part of a decade. Each time they've gone deeply negative (2015/16 and today) we've seen a sharp rise in home prices.



We're now setting the stage for an entertaining year ahead. Market pundits widely believe the Bank of Canada is going to sneak in four or five interest rate hikes next year. I remain highly skeptical, as I think it will take much less to slow housing and economic growth given the amount of debt in the system.

Remember, in 2018 mortgage rates hit 3.5% and everyone thought they were going to

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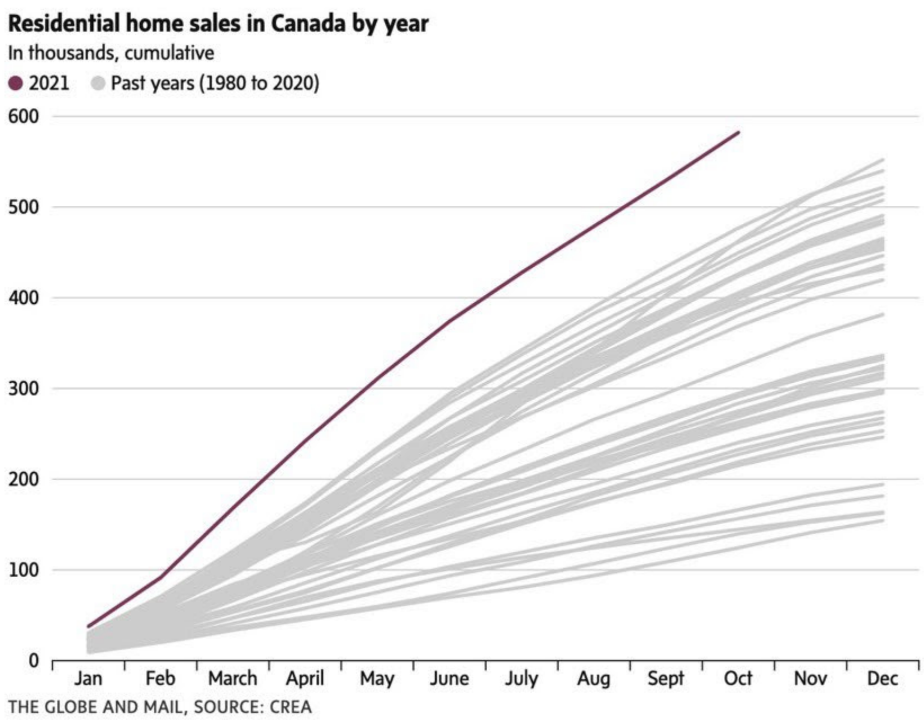
4%. What happened that year? Home sales in Greater Vancouver fell to an eighteen year low, and in the Greater Toronto area home sales fell to their lowest total in a decade. Not surprising that two highly levered housing markets slumped as borrowing costs ramped up.

For now rates are now low enough to keep housing supported but that could change. Home sales in Greater Vancouver will hit all time record highs this year, surpassing the previous boom set in 2015 which set the stage for a foreign buyers tax the following year. Nationally, home sales are off the charts too, setting new records in back to back years.



Canadian housing is so large now that policy makers are forced to support it. That's not to suggest that accidents can't and won't happen. The situation is rather delicate and nobody knows how to deal with it, but left to it's own devices it looks poised to move higher. Let's watch.

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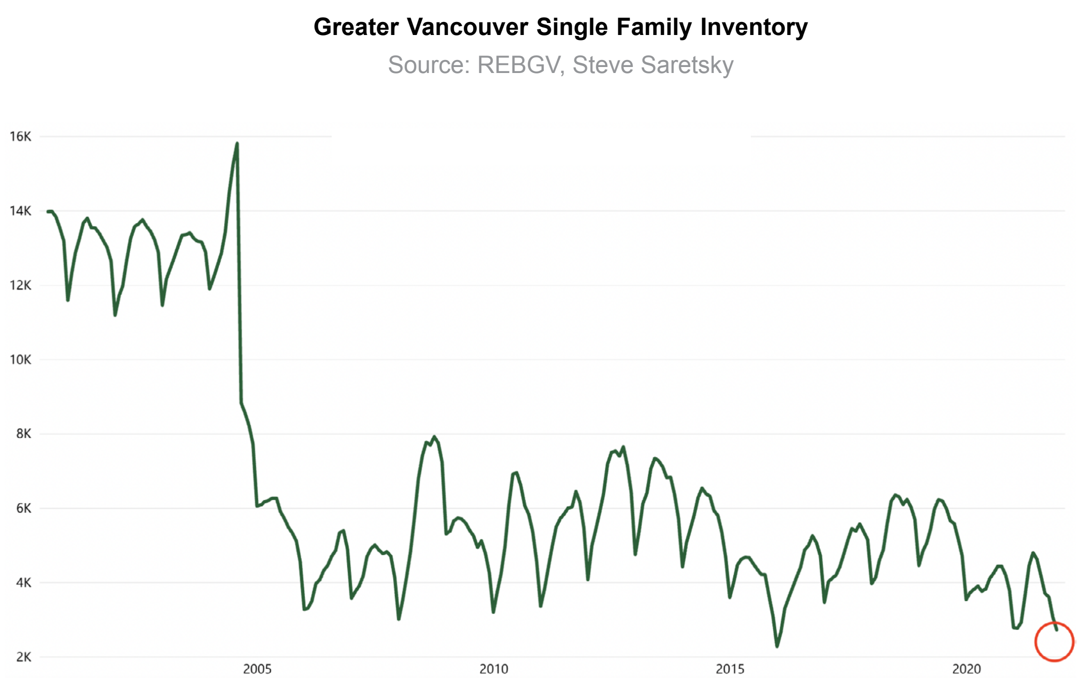
DETACHED HOUSING MARKET UPDATE

Detached house sales were down 7% year-over-year. This was not from a lack of demand, but rather, a lack of inventory available for sale. Single family inventory is at its lowest levels on record for the month of November. The only time it's been lower was December 2016.



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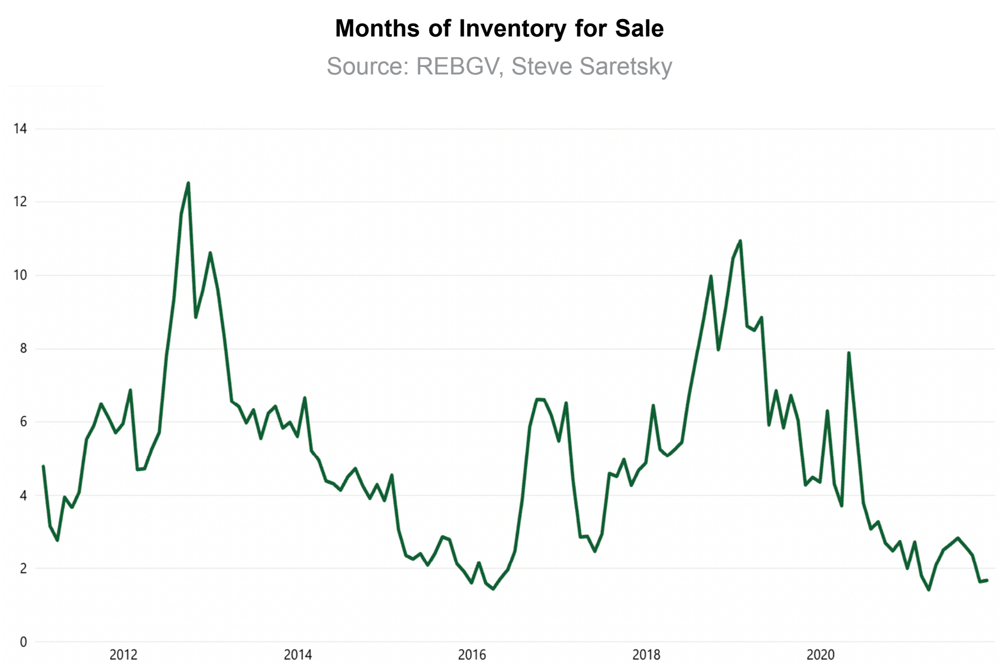
It also matters what price bracket you're looking in. If you're trying to buy a house under $2.5M, then good luck. There is just 1.6 months of inventory for sale.



However, if your budget is above $2.5M you currently have 6.5 months of inventory available. In other words, if you can increase your budget above where everyone else is shopping there are some deals to be had. Essentially the spread between an entry level house and a luxury house has never been thinner.

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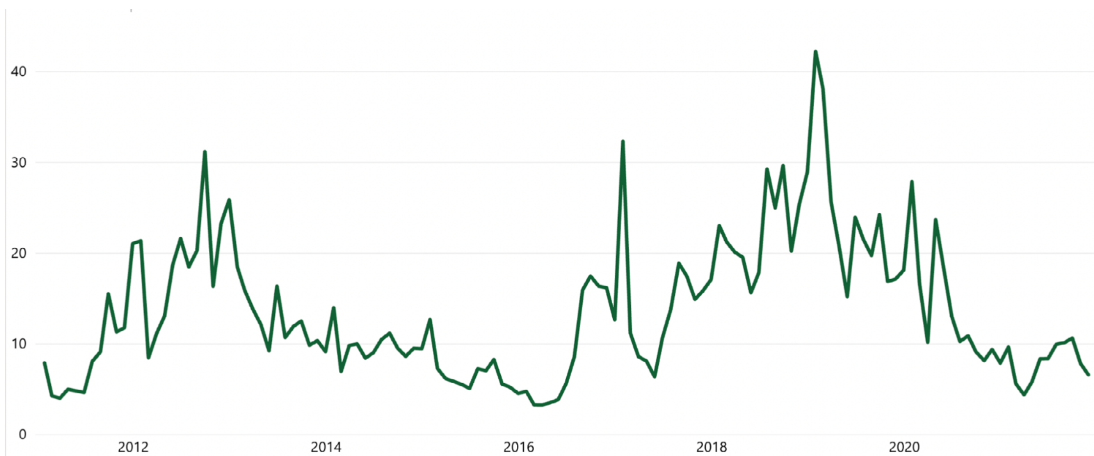
Months of Inventory for Single Family Houses above $2.5M

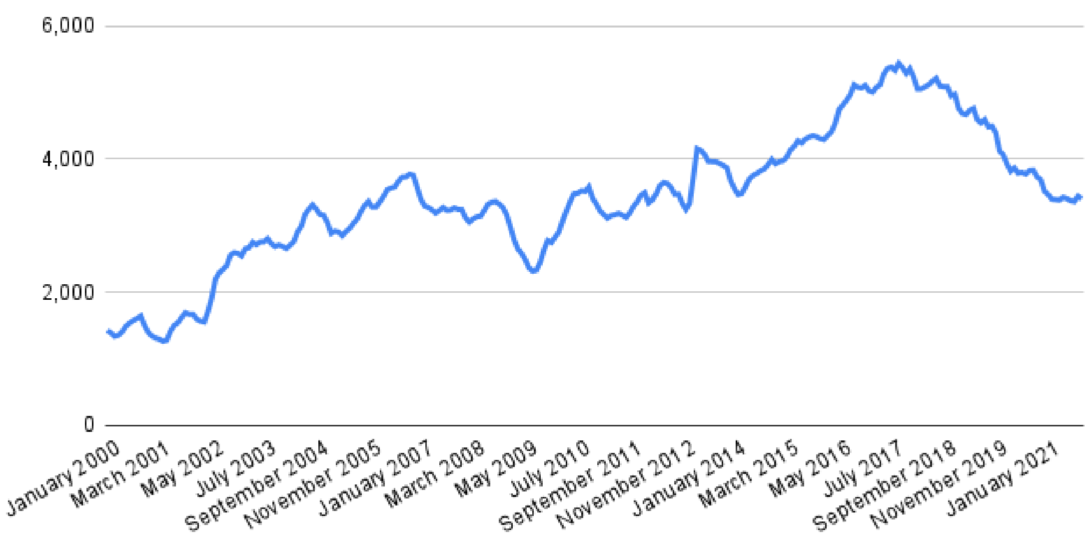
Source: REBGV, Steve Saretsky



Ultimately, houses are a luxury item now in Greater Vancouver. The benchmark price (typical price) of a home sits at $1,870,000 as of the end of November and it's not like there's a wave of new supply in the pipeline either. There's less than 3400 detached houses currently under construction, and many of these are just old houses being replaced with new ones. In other words, not NET new supply.

Metro Vancouver Detached Houses Under Construction

Source: REBGV, Steve Saretsky



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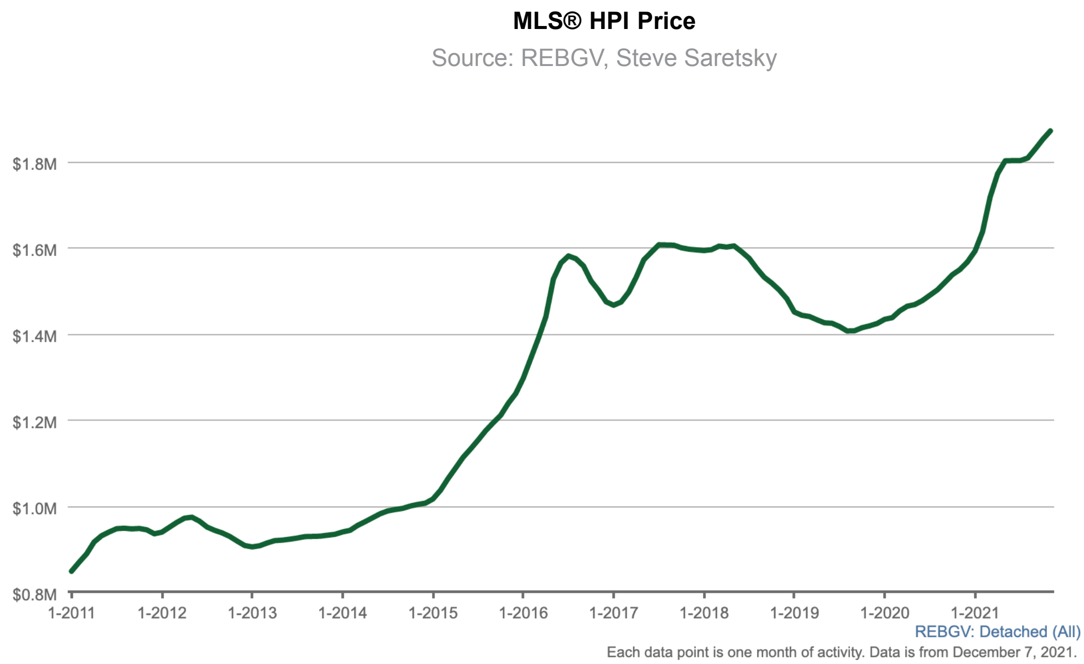
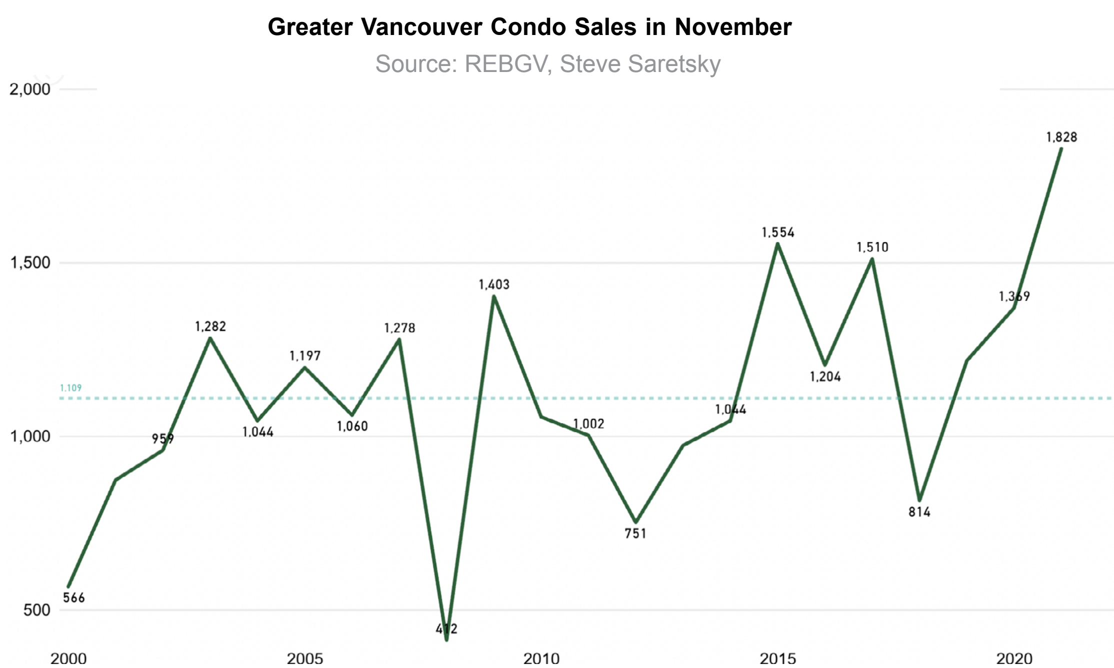
And so, detached prices continue to rise. Officially up 21% from last year.



Don't get me wrong, I think valuations in the detached segment are very stretched in the near term. We haven't seen this pace of price inflation since 2015/16. I think many buyers are losing their cool in bidding wars and paying too much. However, so long as inventory remains as tight as it is you won't see any easing in prices. My guess is we could be nearing buyer fatigue very soon.

CONDO HOUSING MARKET UPDATE

There were over 1800 condo sales across Greater Vancouver in the month of November. This smashed the November record of just over 1500 units sold back in 2015. The condo market is very strong with sales up 33% from last year.



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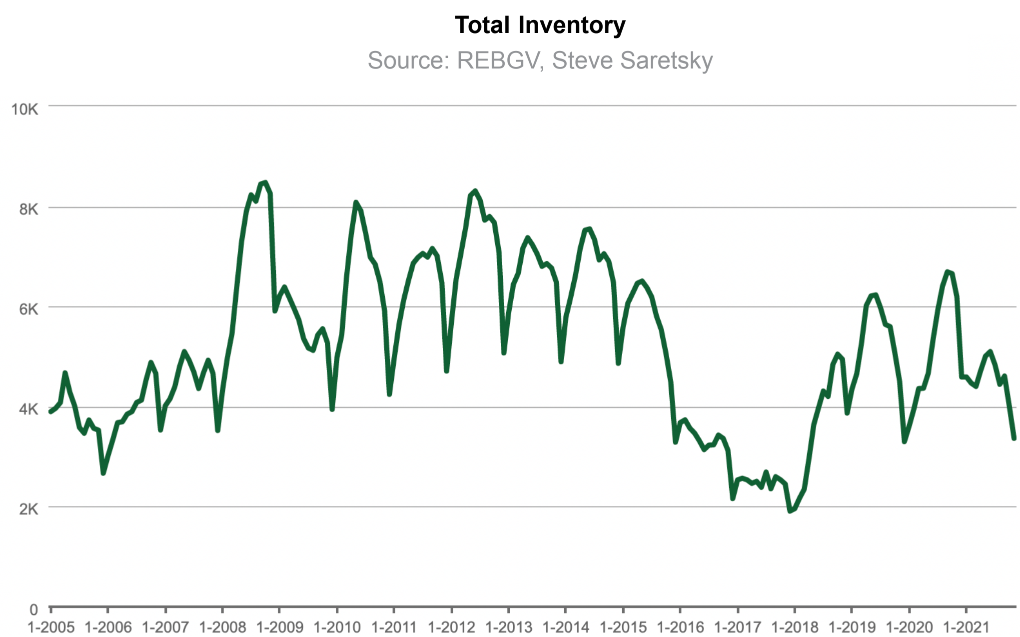
Meanwhile, inventory for sale plunged 46% year-over-year. Keep in mind, inventory was somewhat elevated last year as the condo market was dealing with a record number of new listings last November. Here's current inventory levels.



If we dig further and look at months of inventory, it currently sits at 1.8. This is indicative of a strong sellers market.

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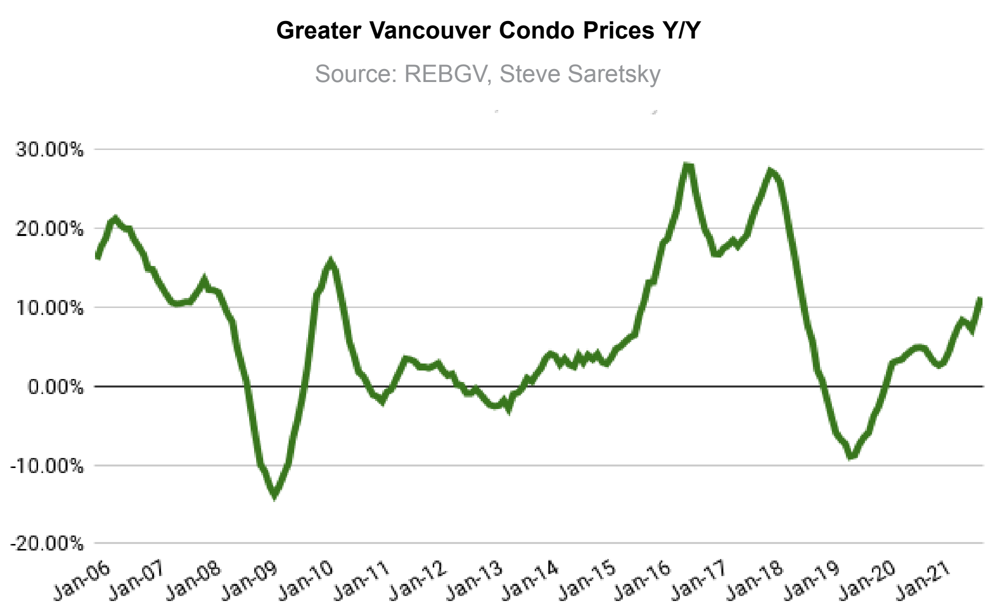
With record condo sales and months of inventory favouring the seller, it's no surprise to see condo prices on the rise. They're officially up 11% year-over-year, and all signs point to further increases.



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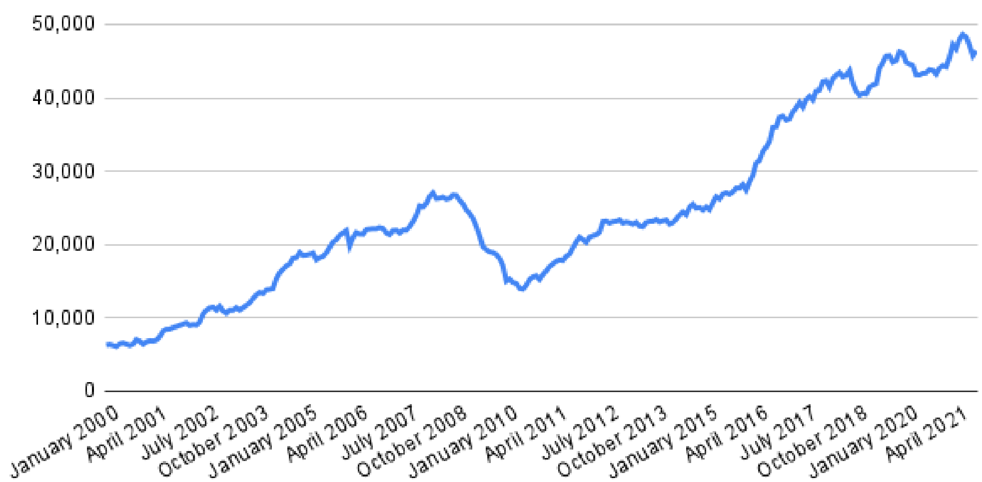
The good news, unlike the detached housing market, is that we are adding supply. Condos under construction currently sits near record highs. This might keep price growth from inflating out of control.

Metro Vancouver Apartments Under Construction

Source: REBGV, Steve Saretsky



However, as flagged by the Bank of Canada and anyone with two eyes, the investor base is growing and it's hard to overbuild when you have a growing investor base with access to real negative interest rates.

Similar to the detached market, price growth in the condo space is more concentrated in the suburbs. For example, condo prices in the City of Vancouver are up 9%, while condos in Coquitlam are up 14%, and 23% in Maple Ridge.

I remain bullish on the condo market in the year ahead.

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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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