

## SARETSKY GROUP

# 2. DETACHED HOUSING MARKET UPDATE . . . . . . . . . . . . . . . . . 6

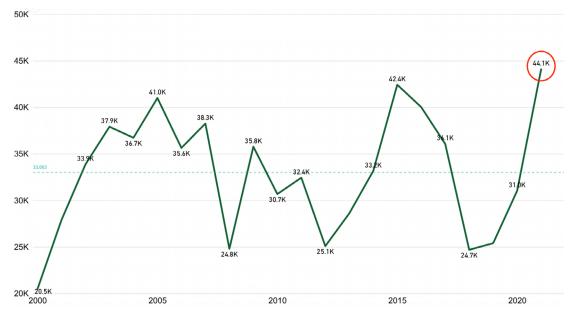


## **OPENING THOUGHTS**

It was a blockbuster year for the Vancouver housing market. Annual sales finished the year at just over 44,000, an all time record high. The previous high of 42,000 was set in 2015 during the last housing boom that was sparked by an inflow of offshore cash.

#### **Greater Vancouver Annual Home Sales**

Source: REBGV, Steve Saretsky



This time around, the story is much different. Offshore investment is a fraction of what it used to be, instead it has been sparked by rolling lockdowns, and helicopter money. People are wanting more space, and bigger houses. These purchases have been financed through ultra low mortgage rates, enabled through fiscal and monetary policy. Canada is running wartime fiscal and monetary policy. There are no guns this time, but there is a virus, and so there is seemingly no limit on how much money we should throw at this. We just found out the federal government is forecasting a budget deficit of \$144B this year. For context, in 2009, following the financial crisis, the deficit that year was less than \$35B. Obviously the excesses are showing up in asset prices.

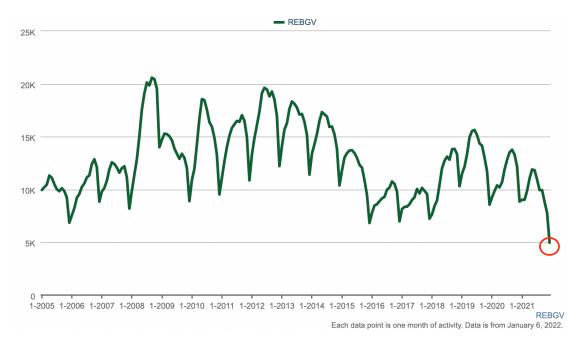
This housing boom has not been confined to Vancouver. As mentioned in last months report, national home sales in 2021 are poised to smash previous records once the data is released in the coming weeks. Record home sales combined with listings that are failing to keep pace has resulted in record home price inflation, officially up 25% as of the latest reading in November. Home prices are rising in nearly every inch of the nation. The home price index which measures the price of a typical home in Canada now sits at \$780,400, up from \$582,700 or 34% from when the pandemic commenced in March 2020.

### So where do we go from here?

In Greater Vancouver we are currently sitting at 4900 active listings for sale as of the end of December. This is the lowest count on record, ever. In other words, we are starting the New Year from a record low inventory base. It will take many months, likely longer, to get inventory to healthy levels, let alone oversupplied. This is probably not what you want to hear if you're a prospective home buyer

#### **Total Inventory**

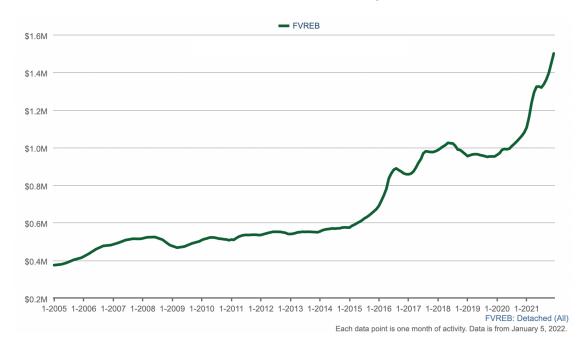
Source: REBGV, Steve Saretsky



Detached house prices are now up 22% year-over-year, and condo prices are starting to catch up, rising 13%. It would not surprise me to see condos outperform detached houses in the year ahead. We saw this exact same scenario play out in 2016/17. Detached houses peaked in 2016 after a major run-up in prices, the following year condos ripped more than 20% as buyers sought greener pastures. I am not saying this is inevitable in 2022, but I think the probabilities are high that condos outperform. I mean, detached house prices in the Fraser Valley are up 39% over the past 12 months, how much higher are we expecting them to go?

#### Fraser Valley Detached House Prices

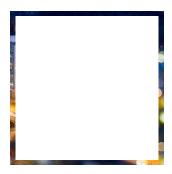
Source: FVREB, Steve Saretsky



The only thing that could spoil the party, and should be on everyone's radar, is a withdrawal of liquidity. Less government spending and tighter monetary policy will be a key theme in 2022. The Bank of Canada is poised to sneak in a few rate hikes this year, just how many remains the big question mark. Remember, Canada's debt to GDP is now at 370%, interest rates can not normalize without detonating the economy. Rate hike forecasts are far too optimistic in my opinion.

The key figure is mortgage rates, if they creep back up above 3% and hold, it will no doubt slow the housing market, particularly in highly levered cities such as Vancouver and Toronto. Until that happens, the runway is clear for takeoff. Inventory sits at record lows and buyer appetite remains strong coming off record sales volume.

As always, let's dissect this further.

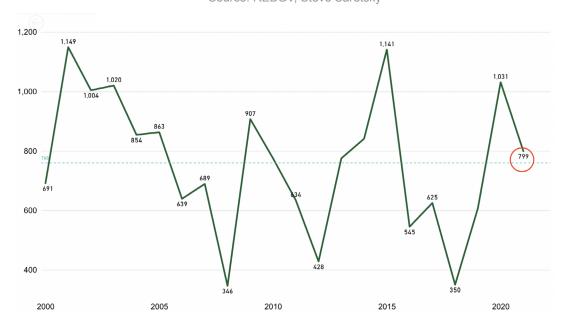


# DETACHED HOUSING MARKET UPDATE

Detached house sales fell 28.5% year-over-year in December. Keep in mind we are comparing this to relatively high base effects from last year. Detached house sales are running right along their 20 year average.

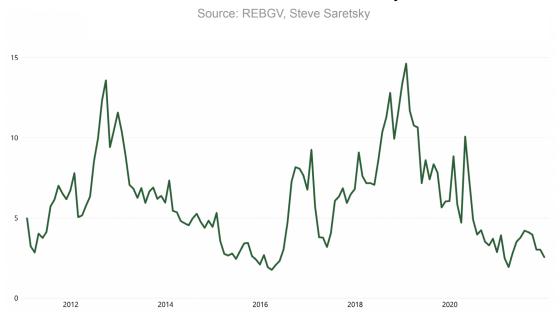
#### **Detached House Sales in December**

Source: REBGV, Steve Saretsky



Meanwhile, new listings also fell by 24% from last year. This is why we always prefer to look at months of inventory for sale which helps us filter out all the noise from base effects. This will be particularly important moving forward as future comparisons will be done against all time record highs from last year. Months of inventory for single family houses currently sits at 2.5.

#### **Greater Vancouver Detached Months of Inventory For Sale**



However, let's unpack this a little further. Anecdotally everyone knows that demand for entry level houses is red hot. People want more space and house prices are drifting out of reach for many. There is an affordability problem and everyone is trying to squeeze in. This is pushing the entry level price for a house much higher.

The benchmark price, which measures the price of a "typical home" now sits at \$1,910,200. Up 22% from last year.

**MLS® HPI Price** 

Source: REBGV, Steve Saretsky



And so, if we focus on the "typical home" we can see that's where supply constraints are the tightest. If you're looking for a single family house under \$2M in Greater Vancouver, there is currently 0.9 months of inventory for sale. This is an all time low.

#### Months of Inventory for Sale - Detached Houses Under \$2M

Source: REBGV, Steve Saretsky



The market gets much less competitive when you go north of \$3M as there simply are not enough qualified buyers in this price range. Months of inventory single family homes north of \$3M sits at 8.2. Again, a totally different market.

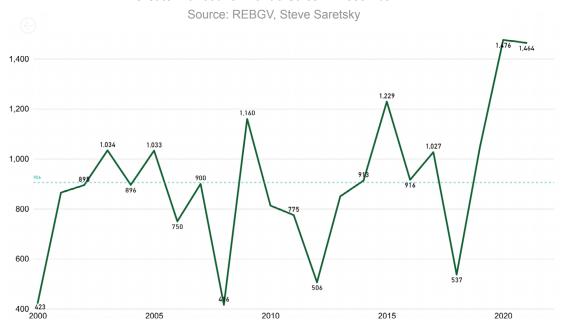
The detached housing remains plagued by an acute shortage of affordable houses for sale. Prices won't adjust until months of inventory moves higher. The number of qualified buyers begins to shrink when prices move north of \$2M so this could be a problem for the market moving forward which is why I think price growth could be constrained this year.



# CONDO HOUSING MARKET UPDATE

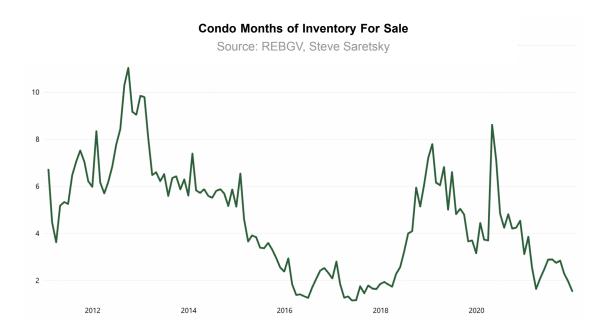
Condo sales were essentially flat from last years all time highs. Demand remains strong.

#### **Greater Vancouver Condo Sales in December**



The number of new listings fell 14%, but remain elevated on a historical basis. In other words, we have a high number of sales and new listings. So what does this all mean? Again, lets turn our attention to months of inventory for a better read.

Months of inventory for sale has plunged to 1.5. It hasn't been this low since August, 2017.



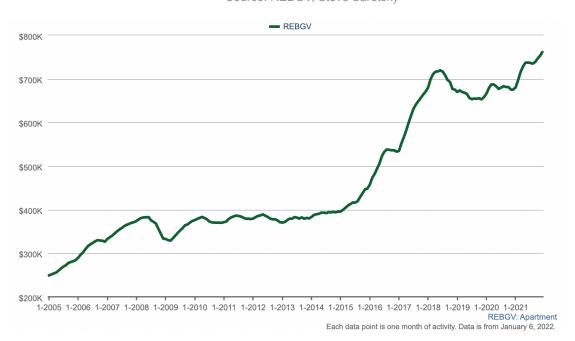
If you're looking for a condo under \$1M then months of inventory falls even further, down to 1.1. The name of the game is affordability. Everyone is struggling with housing affordability and so most of the demand is concentrated at the entry levels.

There is ample supply of luxury condos for sale.

If you're looking for a condo north of \$1.5M then months of inventory for sale climbs to 8. Unlike the 2016 bull market, the luxury bid is not there. This latest housing bull market has been driven by locals competing against each other for entry level product.

The benchmark price of a condo is up 13% and now sits at \$761,800. It looks poised to move higher. I believe condos could outperform detached houses here in 2022. Let's watch.

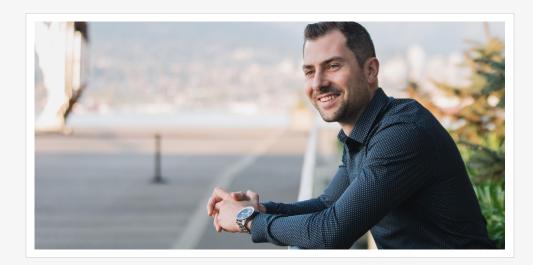
MLS® HPI Price
Source: REBGV, Steve Saretsky

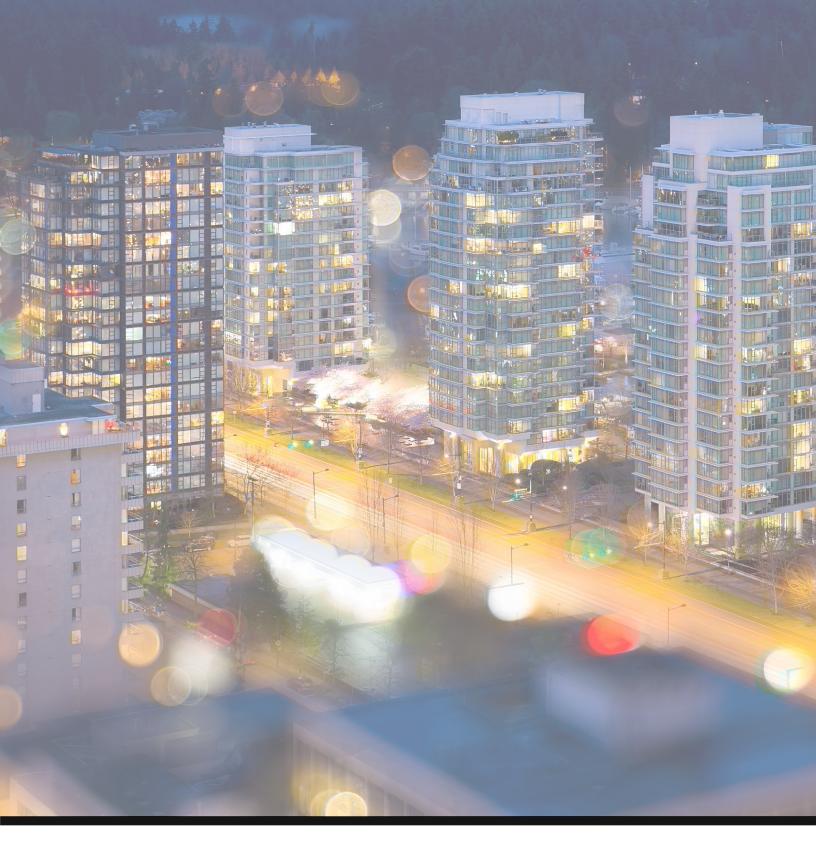


## **ABOUT STEVE**

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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