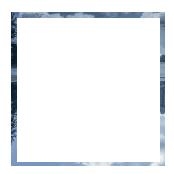


SARETSKY GROUP

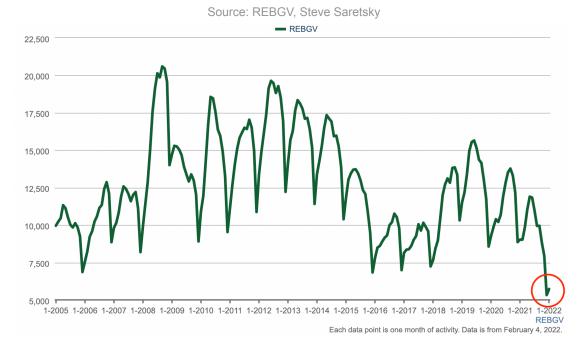
1.	OPENING THOUGHTS
2.	CONDO MARKET RIPPING HIGHER, RIGHT ON CUE
3.	BUBBLE RORMING IN THE SUBURBS?
4.	RISING MORTGAGE RATES TO PRICK THE BUBBLE?
	ABOUT STEVE



OPENING THOUGHTS

For regular readers of this report you will remember that 2021 marked a record year for Greater Vancouver home sales, smashing through previous highs set in 2015. That momentum has carried over into 2022. Sales remain incredibly strong, still running more than 30% above the long run average. Meanwhile, inventory in the month of January dropped 37% from last year, and currently sits at its lowest levels in over 20 years.

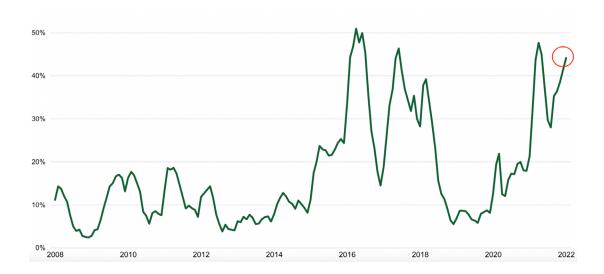
Total Inventory



In simpler terms, demand remains incredibly strong with inventory at crisis levels. It's not hard to figure out what the end result is here. Bidding wars are plaguing the housing market. In January, 44% of all properties sold above the asking price.

Percent of Homes Sold Above the Asking Price in Greater Vancouver

Source: REBGV, Steve Saretsky



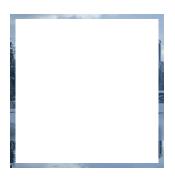
Buyers are desperate, many have been looking for a house to buy for months and have reached a level of frustration, willing to pay nearly any price to secure a home. The end result is an explosion higher in prices. While it won't show up in the official home price index, it seems as though prices have jumped a good 5-10% over the past six weeks. Officially home prices were up 18.5% in February, but this isn't doing the market justice.

MLS® HPI Price

Source: REBGV, Steve Saretsky



Detached house prices are up even more, now showing a gain of 23% from last year. I think we are reaching a level where exhaustion will setin, at least in the suburbs, and we could see a buyer strike, similar to how the 2016 bull market ended. For now, competition remains red hot and the market has reached a fever point. More inventory is coming, as it always does every spring. This could cool the market, along with rising mortgage costs which we'll expand on further in this report.



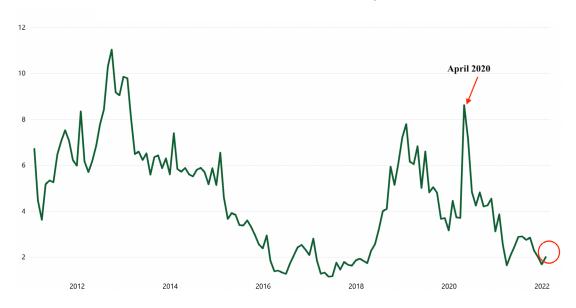
CONDO MARKET RIPPING HIGHER, RIGHT ON CUE

I have been suggesting a much higher move in the condo market for well over six months now and that call is playing out exactly as anticipated. When buyers get priced out of detached houses and then townhouses, they fall further down the ladder into the condo market. Buyers that haven't been able to buy what they want (a house/townhouse) are choosing to settle for a condo as a temporary stop gap, or are opting to buy a condo as an investment in order to have some skin in the game. When prices run up as fast as they have, people worry they are underinvested and rightfully choose to add more exposure in the form of condos.

Months of inventory for sale in the condo market has been steadily declining since April 2020, and now sits at just 2 months of supply. Anything below 4 suggests higher prices are coming.

Months of Inventory for Sale

Source: REBGV, Steve Saretsky



Condo prices are now up 14% from last year, and are moving higher very quickly. Here's a look at annual price changes using the home price index (a lagging indicator).

Greater Vancouver Detached Prices Y/Y

Source: REBGV, Steve Saretsky



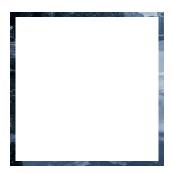
In reality condo price growth is actually running north of 14%, particularly when looking outside of the city core.

However, as the saying goes, a rising tide lifts all boats. Which means even the downtown condo market, which has been the worst performing sector throughout the pandemic is now rising.

Average Price Per Square Foot

Source: REBGV, Steve Saretsky



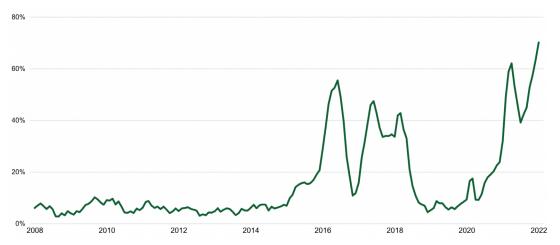


BUBBLES FORMING IN THE SUBURBS?

Everyone is well aware of the great reshuffling throughout the pandemic. People migrated away from the city, opting for more space and privacy while they worked from home. Everyone rushed out to the suburbs and bid up prices. As of this January, 70% of all homes for sale sold above the asking price, a new record high.

Percent of Homes Sold Above Asking Price in the Fraser Valley

Source: REBGV, Steve Saretsky



This has created excessive price growth in the suburbs. Particularly for detached houses. Since the start of the pandemic, March 2020, the typical price of a house in the Fraser Valley has inflated by \$581,000.



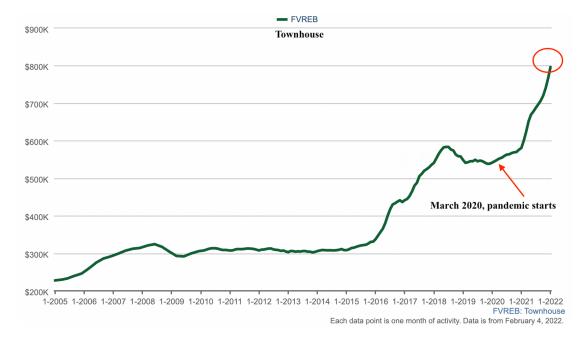
Here's a good, real life example of the insanity spreading across the suburbs. A cookie cutter house on a small lot in Surrey sold for \$985K in January 2020, resold for \$1.7M in January 2022. No updates were done.



Like I mentioned earlier, there is a trickle down effect. Once house prices get bid out of reach, buyers settle for the next best thing, a townhouse. Prices in the townhouse market have inflated 37% over the past twelve months, and are officially up a whopping \$247,000 since the onset of the pandemic. Pretty wild considering prices were flat from 2008-2015.

MLS® HPI Price

Source: REBGV, Steve Saretsky



Suffice to say, I worry for suburban prices once the government officially shifts the narrative from pandemic to endemic.



RISING MORTGAGE RATES TO PRICK THE BUBBLE?

Suffice to say the pandemic has been good for the Real Estate industry. The combo of mortgage deferrals, cutting interest rates to zero, and expanding the money supply by nearly 25% over the past two years resulted in not only record consumer price inflation but record home price inflation. Shocking I know...

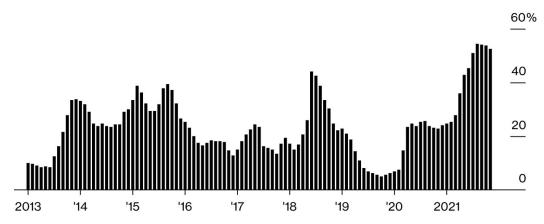
Now policy is shifting from pandemic to endemic, and with that, monetary and fiscal stimulus is subsiding. This is rightfully stoking concerns on the outlook for the housing moving forward.

Despite the Bank of Canada shocking the market by not raising interest rates in January, rest assured they will be moving higher in March. The question now is how many rate hikes and how fast? My view today remains 3-4 hikes and done. I still believe most Canadian bank economists are wildly optimistic on the economies ability and for that matter the housing markets ability to absorb higher rates without breaking something. Mortgage rates sustained above 3% will act as a brake on the housing market, as they did in 2018.

Today we have 5 year fixed rate mortgages hovering around 2.9%.

However, variable rate mortgages are still a dirt cheap 1.4% today. It's no wonder that variable rate mortgages are so popular right now, making up nearly 55% of all new mortgage originations.

Surging Market Share Variable rate mortgages have climbed to over half of all new home loans



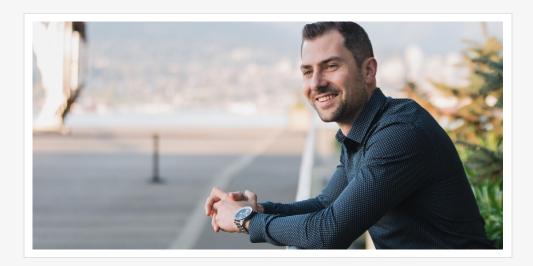
Source: Office of the Superintendent of Financial Institutions, Bloomberg calculations

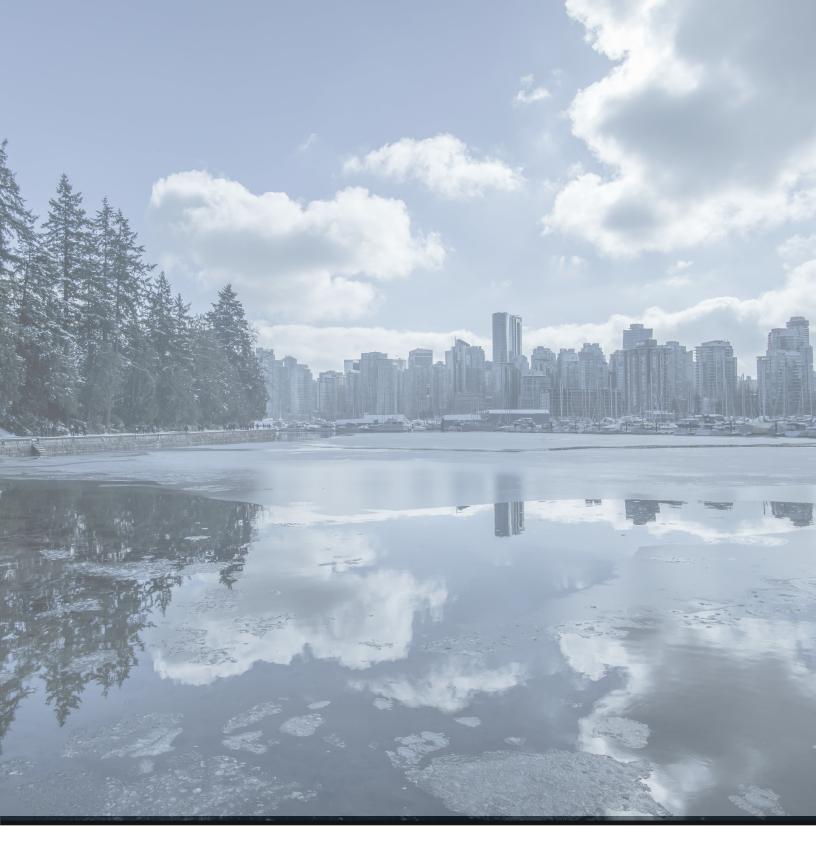
In other words, until variable rate mortgages move higher we do not have a brake on the housing market, yet. This is going to take time. Most buyers get rate holds at the banks for 90 days. Once the Bank of Canada starts raising rates in March and those rate holds start to expire then buyers will be subject to more expensive borrowing costs. Long story short, this likely won't filter through the housing market until Q4 of this year.

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: <u>steve@stevesaretsky.com.</u>





STEVE SARETSKY

PERSONAL REAL ESTATE CORPORATION

STEVE@STEVESARETSKY.COM | STEVESARETSKY.COM

OAKWYN REALTY 3195 OAK STREET. VANCOUVER, B.C. V6H 2L2