THE SARETSKY REPORT

APRIL 2022

SARETSKY
GROUP

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OPENING THOUGHTS

Last month I wrote about the early signs of the housing market beginning to turn. Fewer offers, less FOMO, etc. Again, none of this should have come as a surprise, we've had two years of record home sales and runaway price growth, and trees don't grow to the sky. The housing market always has ups and downs and this time is no different. The downs are coming, even if that is just a slowdown. When I wrote last months report, the Canada 5 year bond was yielding 1.5%, and today it sits at just over 2.5%. In just one month, the most important metric in Canadian housing moved 100bps. In case you need a reminder, the Canada 5 year bond prices our 5 year fixed rate mortgage. When yields rise on the 5 year bond, so too do borrowing costs for fixed rate mortgages. In other words, over the past 4-5 weeks we've seen the typical 5 year mortgage go from about 2.8% to 4%. We haven't seen 4% mortgages in nearly a decade.

I know the media likes to talk about foreign buyers, investors, taxes, and housing supply, but at the end of the day, the largest influence on the Vancouver housing market is the cost of borrowing. Let's run some basic numbers here on borrowing costs.

At the onset of the pandemic, the benchmark price of a home (all

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property types combined) in Greater Vancouver was $1,030,700. The 5 year fixed rate mortgages was about 1.5%. Assuming 20% down and a 25 year amortization, your monthly mortgage payment was **$3296**.

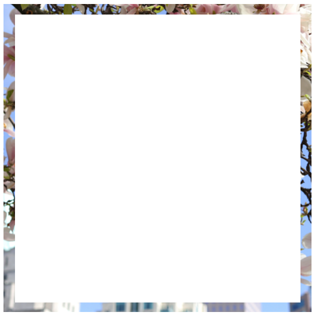
Fast forward today, and prices are up big time. The benchmark price sits at $1,360,500 and mortgage rates are 4%. A new purchaser would be looking at a monthly mortgage of **$5725**.

In other words, once you factor in todays prices and mortgage rates, the typical buyer is paying an extra **$2429**/ month, a 74% increase in payments.

Even if we are more conservative and only look back six weeks. Mortgage rates were 3%. Based on today's prices that meant a payment of **$5150** compared to todays payment of **$5725**. That $575 difference per month is not insignificant, especially when you start tacking on rising fuel and food prices!

We should not be surprised to see housing activity slow. The only question now is where will mortgage rates be in 12 months? This uncertainty is giving buyers pause. Homebuyers are now asking the question of should I rush a purchase to secure an expiring rate hold, or wait and hope prices fall enough to offset the new higher mortgage rate.

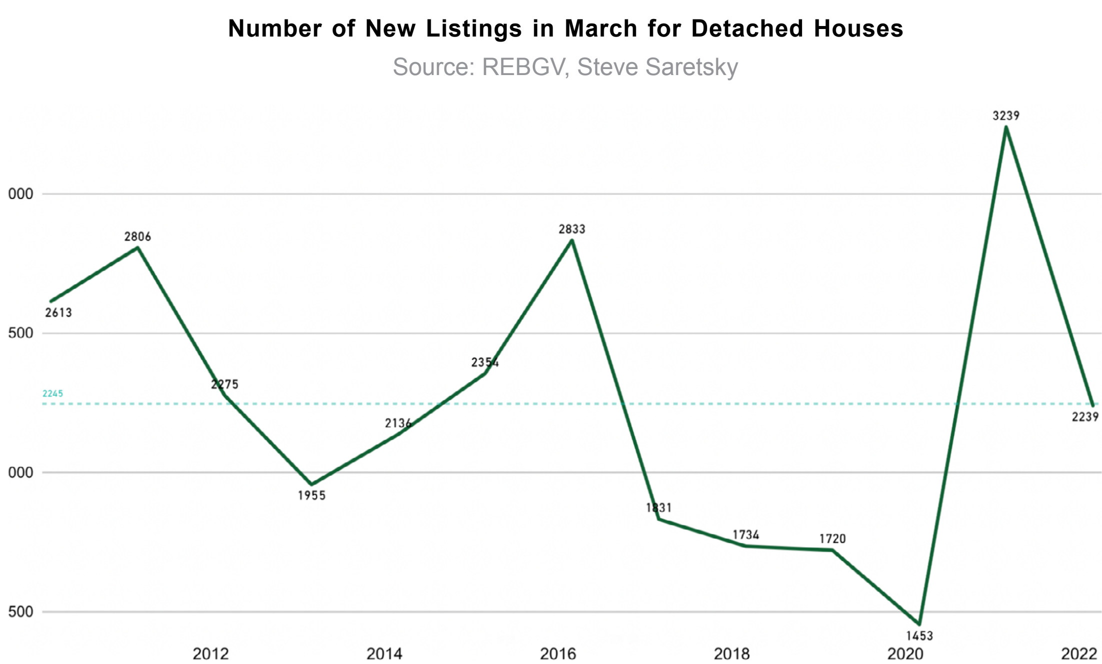
Ultimately, Bank of Canada rate hike expectations continue to rise, with many of the major bank economists forecasting 6-8 more rate hikes this year. I still think these are on the optimistic side, as I don't believe the housing market can absorb these increases without a material decline in prices. So the question is ultimately whether central banks are willing to sacrifice the housing market in order to squash inflation. My gut tells me they will act tough until things go south, at which point we'll be talking about financial stability and not inflation. This will not be a fun ride, but i'm afraid there's no getting off this roller coaster, the train has already left the station.



CALMER BIDDING WARS, BUT STILL A SELLERS MARKET

As we've talked about earlier, demand is slowing, particularly for detached houses with sales down 34% year-over-year in March, albeit off elevated levels from last year. However, the problem is new listings and inventory remain at extremely low levels, and this is keeping prices firm.

New listings for detached homes fell a whopping 30% from last March.



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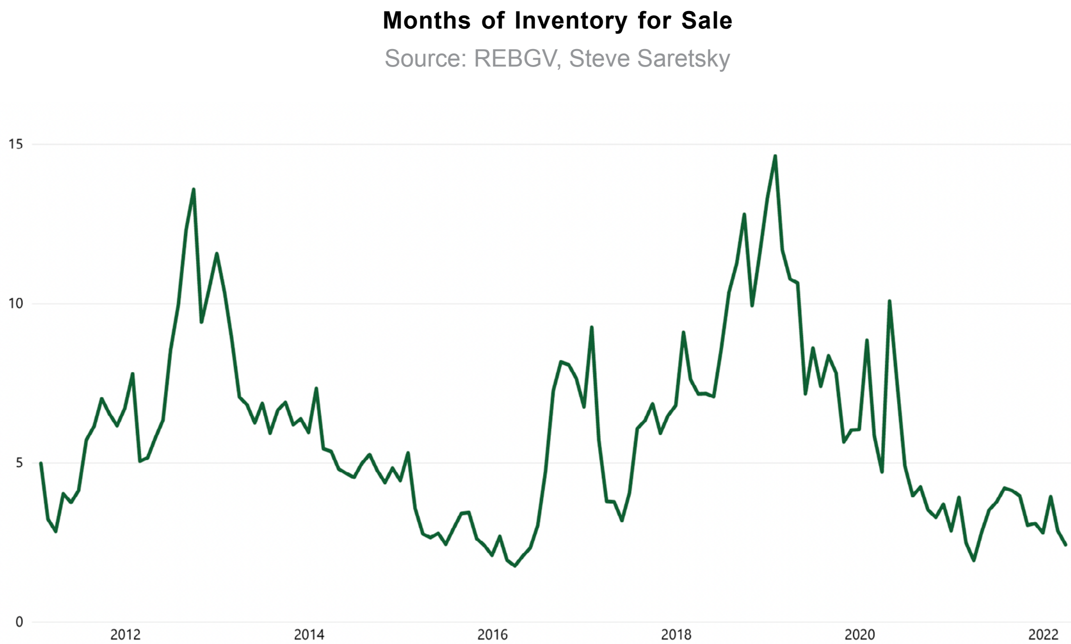
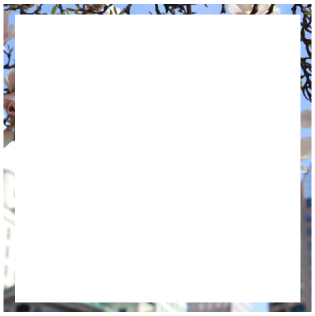
And so this is also keeping months of inventory for sale at just 2.4. Balanced market conditions require months of inventory to get north of 4. We are still far from that.



This is why prices remain firm. Inventory is simply too low and will need time to build back to healthy levels. Yes, bidding wars are less intense because buyers are no longer in a sense of panic. The narrative is shifting from I have to get in this month to, maybe i'll take my time and find a better house next month. So instead of eight offers on a house, we are seeing maybe 2-3 offers. Still competitive, but buyers aren't driving prices up to insane levels anymore.

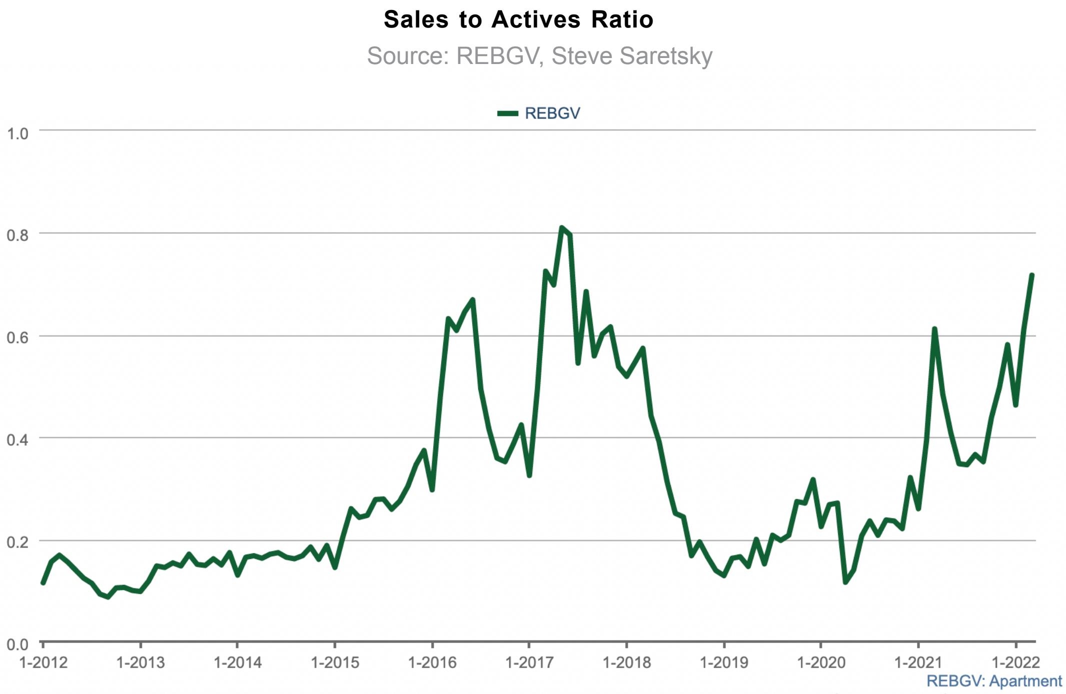
If you're looking to buy a detached house in the next couple of months don't expect much relief on the sticker price, inventory conditions still favor the seller, although I suspect that will probably change later this year.



CONDO MARKET STILL ON PACE TO OUTPERFORM THIS YEAR

Anyone who has been reading these reports for the past year knows that I have been very bullish on the condo market. As we see in most housing cycles here, detached house prices lead the market higher and condos eventually follow. There are two reasons for this, home buyers get priced out of everything else, and investors see rising prices across the market and decide to jump in.

The sales to actives ratio in the condo market is now 72%. It hasn't been this high since the 2017 condo bull market.



Meanwhile, months of inventory for sale has crashed to 1.4, this is the lowest it's been since June, 2017.

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Eventually rising mortgage rates will slow demand and inventory levels will begin to reverse course. However, we aren't there yet. There are no price discounts when months of supply for sale is below 2.

Condo prices are now up 17% from last year and will push higher in the months 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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