THE SARETSKY REPORT

OCTOBER 2022

SARETSKY
GROUP

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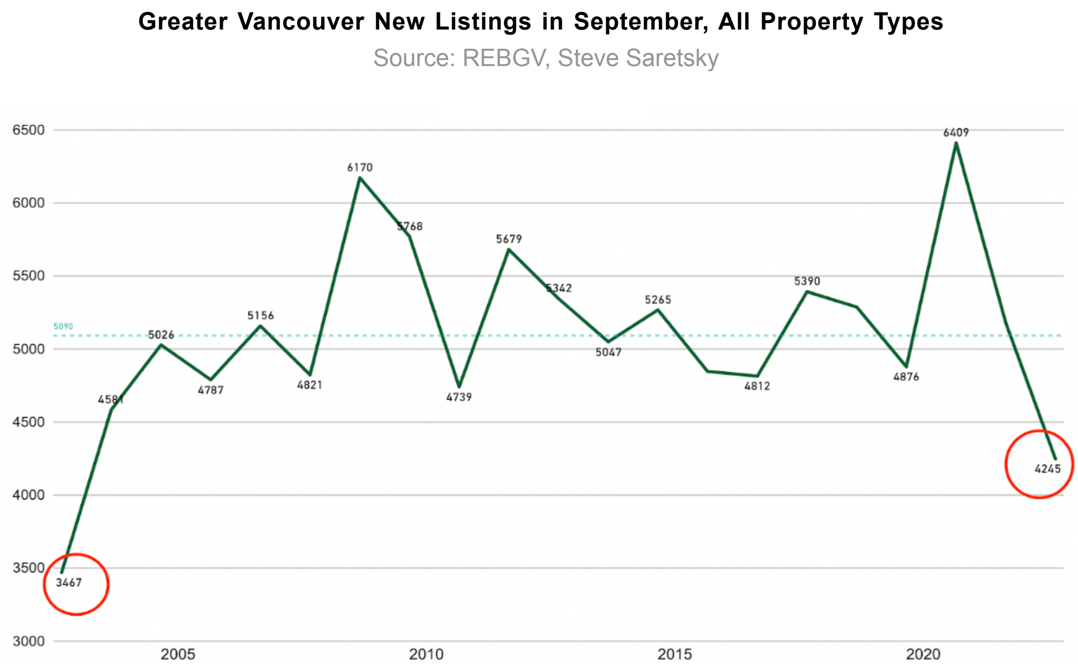
OPENING THOUGHTS

It was another slow month for the Greater Vancouver housing market in September. While housing activity was historically low, there is still much to talk about across the housing spectrum. The volatility across global financial markets has been extreme and that is no doubt having a major influence on our local housing market. Interest rates are still, painfully, pushing higher, bond yields are surging once again, the provincial government has proposed major policy changes to the housing market, and so much more. Let's dive in.

Greater Vancouver home sales trickled in at one of their lowest levels in nearly 30 years. We recorded just over 1700 sales in the month of September, other than 2008, 2012, and 2018 this was the weakest September in 30 years. It's worth noting that the only years with weaker sales activity were all bear markets for housing. This year is no different.

Sales activity has been incredibly weak for months now. However, what is most interesting is what's happening with listings. Sellers are not listing their homes for sale, it appears they are not satisfied with todays prices either ! New listings fell to a 20 year low for the month of September.



Remember the belief was that higher mortgage rates would cause people to panic and flood the market with inventory. That has not happened, at least not yet. Sellers are optimistic that this correction will be short-lived, as they typically have been in recent decades. Will this prove to be a costly error? Quite possibly. This depends on the trajectory of inflation and interest rates. Sellers are effectively betting that inflation will be transitory, it will subside soon allowing interest rates to come down and the housing market can begin its recovery. But what if inflation proves more long lasting?

I think when we look ahead there are more risks of pent-up supply. Borrowers can cut spending to service their rising mortgage costs, but how long can this be sustained without seeing some forced selling? Interest costs as a percentage of disposable income is poised to hit record highs in the months ahead.

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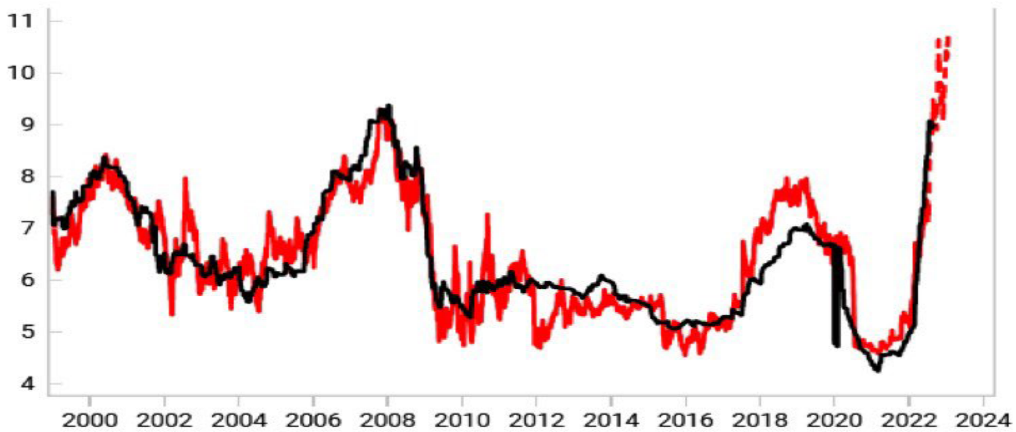
Interest Cost as % of Disposable Income

BAX Money Market Implied Interest, 4-Month Lead

Source: Variant Perception

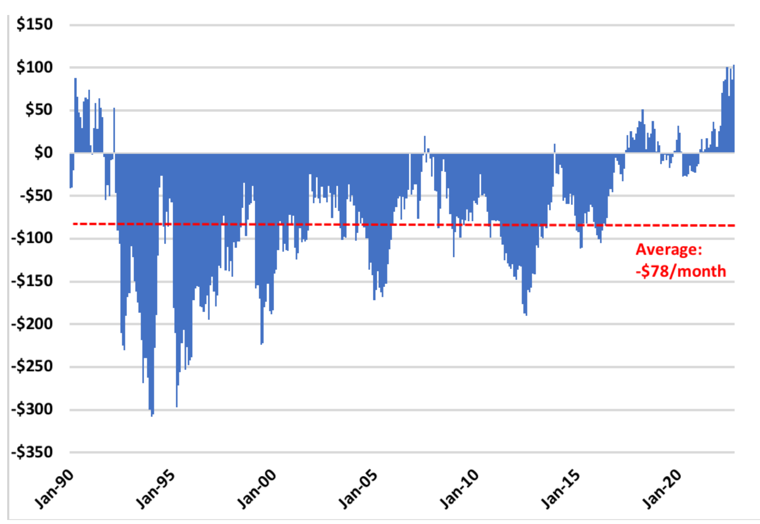


And Borrowers renewing their 5 year fixed rate mortgages today are seeing monthly payments rise ~$100 for every $100k originally borrowed.

Change in Monthly Mortgage Payments at First Renewal

Per $100,000 Originally Borrowed, 5-Year Fixed Rates

Source: Ben Rabidoux



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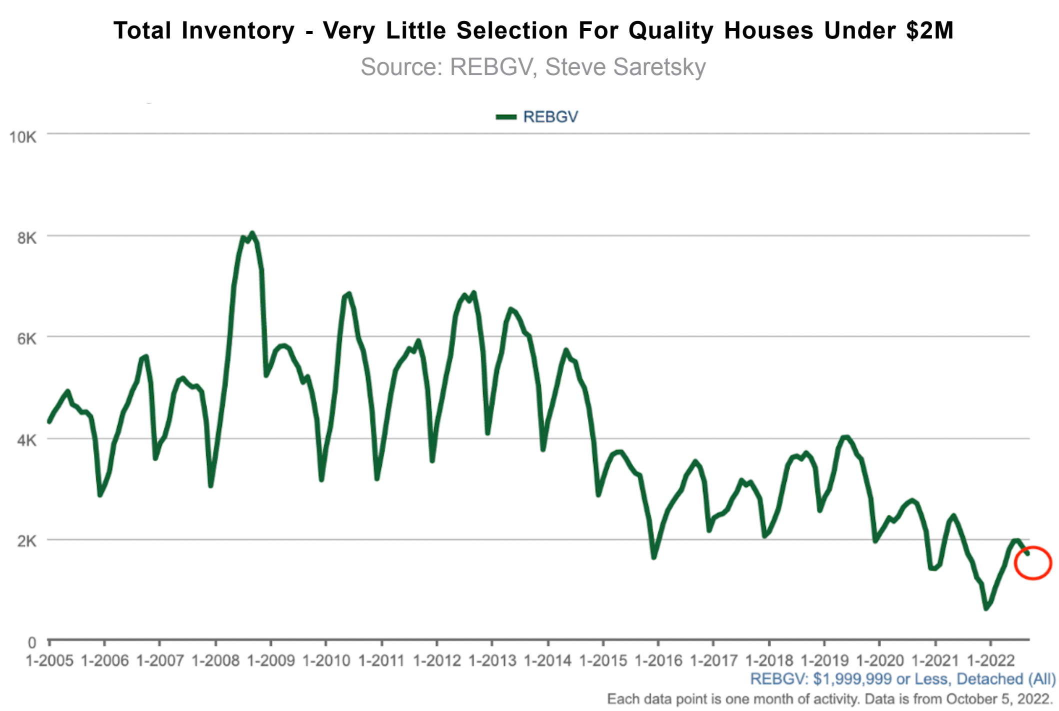
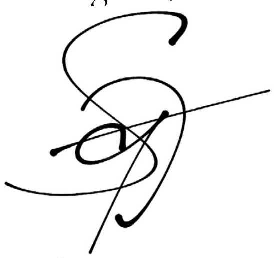
The Bank of Canada has once again emphasized the need for more rate hikes to cool inflation. We are most likely going to see another jumbo rate hike come October 26th, the market is pricing in 50bps, but don't be surprised if it's another 75bps. This would take variable rate mortgages near 6% come November!! That means a stress test of 8%. Borrowing capacity is being crushed and yet sellers are digging in their heels, pulling listings from the market hoping for better days in the spring market of 2023. This is keeping prices firmer than they should be and ultimately widening the gap between what buyers can afford to pay and what sellers are willing to accept.

Case in point, here's a chart of detached homes for sale in Greater Vancouver under $2M. We are near record lows, inventory is not great. The few buyers that are out there don't have a plethora of selection, yet they still want lower prices, and understandably so given where mortgage rates are today.



The summary here is that it looks incredibly likely that both fixed and variable rate mortgages could be sitting at 6% come November. Affordability has deteriorated to extreme levels, quite simply prices have not come down nearly enough to offset surging borrowing costs. It's now a standoff between buyers and sellers, who will flinch first? We are likely to see a slow grind lower in prices from here.

Regards,



Steve

PROVINCIAL GOVERNMENT PROPOSES SWEEPING POLICY CHANGES

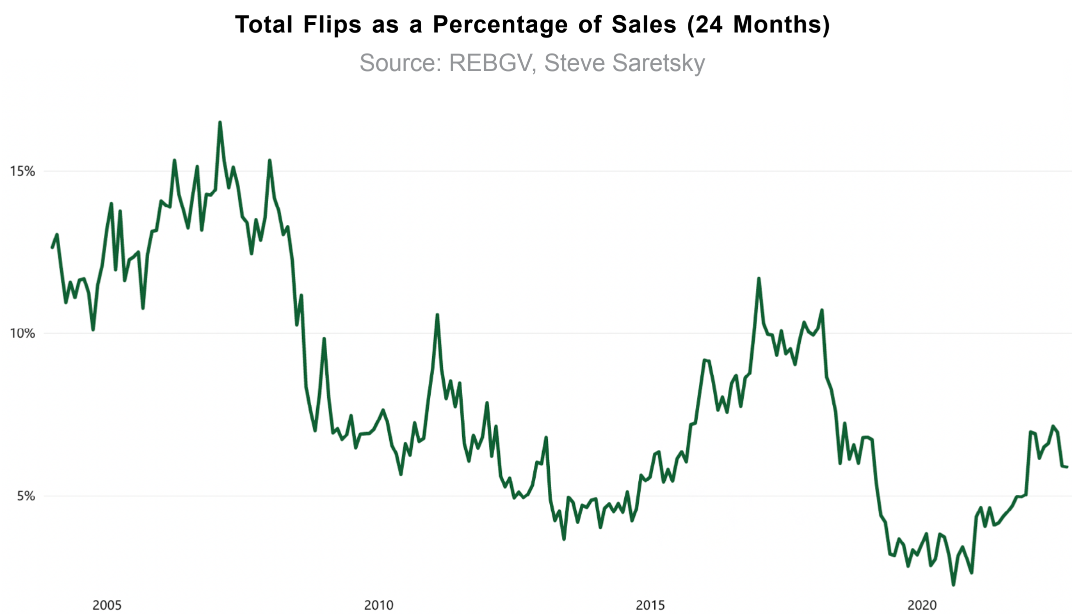
David Eby is set to become the new leader of the BC NDP, and the premier of BC. At the end of September he released his proposed housing platform. Keep in mind these are simply proposals, and, like many political promises, aren't certain to see the light of day. However, the changes could be significant.

Here are the highlights:

1. Override municipalities and legalize secondary suites across BC
2. Allow developers to replace single family homes with up to three units in all major urban centers.
3. Abolish all rental restrictions on strata buildings
4. If municipalities fail to meet quotas for new home approvals the province will intervene to to approve.
5. Tax properties flipped within 2 years. .
6. Fast track multi-family buildings through the approval process.
7. Earmark $500M to buy existing older rental apartment buildings.

Love him or hate him, David Eby has shown a willingness to follow through with campaign promises. He has proven he is serious about housing and has not been shy about bringing in controversial taxes and reform. I think Eby cares about his legacy and he wants to leave his mark on this province. Again, whether you agree with any of these policies or not is irrelevant, the takeaway here is that big changes are likely coming. Several of these policies, such as the taxing of properties flipped within 2 years are light on details so it's too early to speculate on the market implications.

For what it's worth here's a chart of properties bought and resold within 2 years as a percentage of total sales. It's currently 5.9% of all transactions as of September, a pretty low number when looking at it historically.



On the density front, that is now the name of the game for policy makers.. Across all levels of government we've tried so many demand

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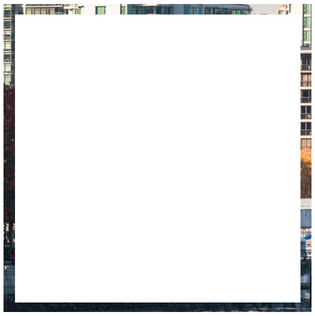
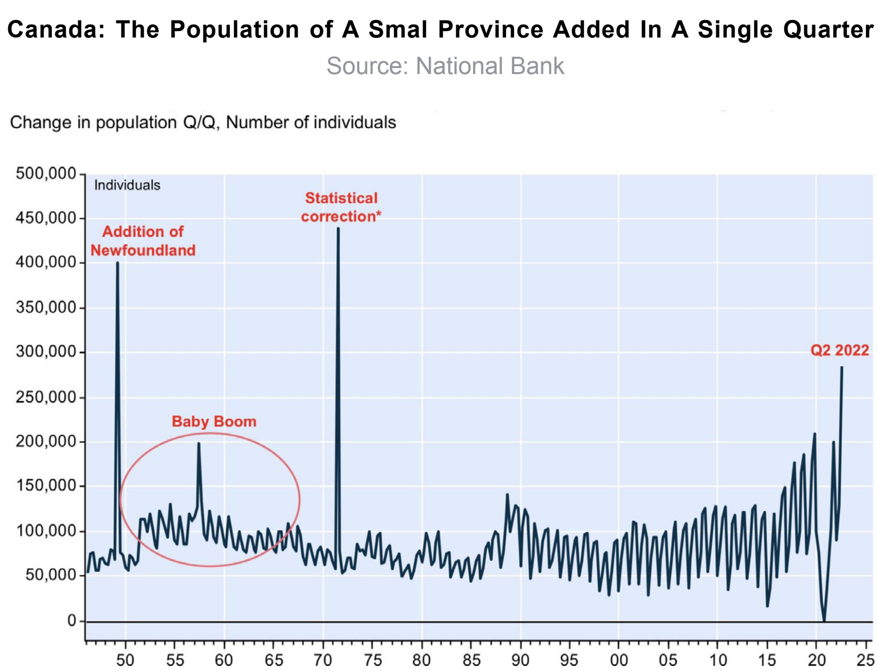
side policies, foreign buyers tax, empty homes tax, BC speculation tax, increased property transfer tax on luxury properties, that they are now having to pivot to see what they can do to influence more new housing supply. Ironically, incentivizing new supply could prove challenging in an environment where the cost of financing is surging and pre-sale conditions are weakening. Oh, and we just welcomed nearly 700,000 new people into the country, the largest increase in 55 years.



POPULATION GROWTH STILL SURGING HIGHER

It's not all doom and gloom for the housing market. Yes interest rates are dominating the short term direction of the housing market, as they should. However, from a medium to longer term perspective we continue to see massive population growth in Canada via immigration. Our population increased by a whopping 285,000 people in the second



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quarter, that's the largest increase since Newfoundland was added to the confederation in 1949. The 0.7% increase in one quarter was the largest since the baby boom of the 1950s.

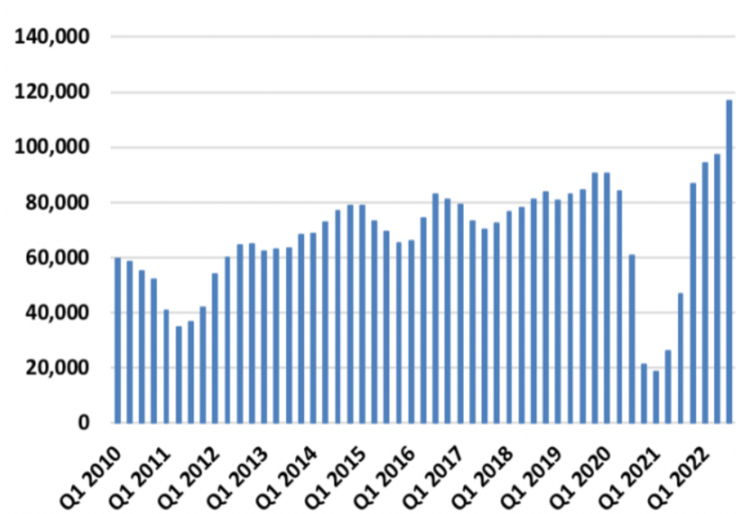
For further context, we added 700,000 people on a year-over-year basis, a 55 year high. Clearly this is unsustainable but regardless, the trend is your friend. Government wants more people, not less. So we are adding hundreds of thousands of people each year with little evidence to suggest we are overbuilding. Quite simply, if we had too much supply we wouldn't see the double digit rent growth we have today.

Now consider the fact that developers are shelving new project launches today due to current economic and financial conditions and it's safe to assume this housing crisis isn't going away anytime soon.

In BC, we added nearly 120,000 new people to the population. That's almost the entire population of Kelowna.

Annual Change in Population, British Columbia

Source: Ben Rabidouxy



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Population growth certainly helps provide a floor under housing. It doesn't mean this correction is over, far from out. However, from a fundamental perspective it would be naive to ignore the rate at which this country is growing, particularly in our major urban centers. Of course these same urban centers are saddled with government red tape which restricts the ability to add housing supply fast enough.

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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