

SARETSKY group

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OPENING THOUGHTS

Sales activity remains subdued across Greater Vancouver as we close out the year. Buyers are tepid, not eager to write offers and are looking to negotiate, can you blame them? Sales activity remains historically weak. In the month of November, sales across Greater Vancouver totalled 1624, down 54% from November 2021 and marking the third slowest November in two decades.



Total Sales in Greater Vancouver

Source: REBGV, Steve Saretsky

This should not be surprising given the rampant surge in interest rates this year. As of this writing, the Bank of Canada has increased interest rates another 50bps, bringing the overnight rate to 4.25%, or 400bps of increases year-to-date. According to Macquarie Research, this is the sharpest calendar year of rate hikes on record going back to 1936.

The recent 400bps move in interest rates is blowing up highly indebted household balance sheets. Let's look at a few examples.

1. \$500,000 mortgage, 25 year amortization, 1.5% mortgage rate = \$2000/month

\$500,0000 mortgage, 25 year amortization, 5.5% mortgage rate = \$3052/ month

2. \$1,000,000 mortgage, 25 year amortization, 1.5% mortgage rate = \$3997/ month

\$1,000,0000 mortgage, 25 year amortization, 5.5% mortgage rate = \$6104/ month

In other words, many mortgage holders are going to have to aggressively start trimming discretionary spending. This is the demand destruction the Bank of Canada is hoping for. Inflation is going to come down, give it time. It is already happening if you look close enough. The three month annualized rate of inflation in Canada is now running at 3.7%.

It should not come as a surprise that The Bank of Canada is now signaling a pause. The bank now says it "will be considering" whether or not the rate has to go higher. This is a big change from each previous meeting where they emphasized "that rates would have to go higher".

It is worth emphasizing here that a pause does not mean a PIVOT. An overnight rate paused at 4.25% and a prime rate of 6.45% is not good news for housing. Your typical mortgage hovers between 5.5-6%, equating to at least a 30% reduction in purchasing power.

Change in Mortgage Payment (blue) & Loss of Purchasing Power (red) From a Base Case Nominal Rate of 2%



Source: Jackson & Associates Valuation & Advisory Services

So purchasing power has been obliterated, and prices are falling, albeit not enough to offset the rise in mortgage rates. Prices have now declined on a year-over-year basis for the first time since January 2020.

Greater Vancouver Benchmark Home Prices Y/Y



When you look at it through this lens it's not hard to figure out why sales volumes have collapsed. The bid/ask spread has widened dramatically. Sellers have been reluctant to slash prices. Low inventory levels are supporting prices. Going back ten years, this November marked the second lowest inventory levels.



In other words, total active listings on the MLS are historically low. There is no wave of distressed sellers flooding the market with inventory despite the massive surge in interest rates. Keep in mind it is still early, distressed borrowers are certainly feeling the stress and we do expect more court-ordered sales in the new year, mostly among private lenders and alternative B lenders.

Here's the quick and dirty summary so far. Prices have dropped across all segments. The more it went up during the pandemic, the more it has fallen in recent months. However, prices are now finding somewhat of a floor, mostly due to extremely low inventory levels. I think there is a high probability that new listings will pick up as they usually do in the spring, adding to total inventory levels. If buyer demand remains weak as one would expect with mortgage rates still hovering around 5.5% then I would expect more downwards pressure on prices.

Anecdotal stories are increasing around financially distressed households. We are also getting more inquiries around investors stuck with now negative cash flowing condos due to the sharp increase in variable rate mortgages and the inability to raise rents due to BC tenancy laws. We also continue to be concerned about some pre-sale buyers ability to close in the new year. Here is the chart we are watching regarding assignments listed for sale on the MLS. This does not include the bulk of pre-sale assignments that are not allowed to be marketed on the MLS system.

Inventory of Assignments for Sale



While price declines have slowed in recent months, we feel risks are still pointing to the upside. While the Bank of Canada may have signaled a pause on future rate hikes, this is not a pivot. Rates at these levels will continue to put stress on the housing market.

Stay safe out there, and see you in the New Year.



Steve



RENTAL RESTRICTIONS Abolished in BC

The new premier of BC, David Eby, has officially passed legislation to remove all rental restrictions in strata buildings across the province. In one fell swoop of the pen, Eby has overridden individual strata bylaws restricting rentals.



Condominium Home Owners' Association of British Columbia Leadership, Education and Resources for strata corporations in BC Website: www.choa.bc.ca / Toll-free: 1.877.353.2462

CHOAIR2022-03 November 25, 2022

> NEW LEGISLATION AFFECTING STRATA CORPORATIONS IN BC NOW IN EFFECT Information Release

NEW WESTMINSTER: With the passing of *BILL* 44 –*Building and Strata Statutes Amendment Act, 2022* strata corporations across BC will no longer be able to enforce bylaws that prohibit or restrict rentals. Effectively immediately, all rental bylaws are no longer enforceable. Landlords are still obliged to provide a strata corporation with a Form K Notice of Tenant's responsibilities and landlords and tenants must comply with all other bylaws and rules of a strata corporation. The application of an Owner Developer Form J Rental Disclosure no longer applies. Short term accommodation bylaws the prohibit AirBnB or VRBO type uses are still in full force and effect, with fines of up to \$1,000 per day if a strata corporation has amended their bylaws. Only age restriction bylaws of 55 and over that apply to occupancy are now enforceable with a requirement to accommodate live in care givers or support persons. Electronic meetings are now permitted without the need for a bylaw, and secret ballots are not permitted at electronic meetings to ensure eligible voters and proxies are identified and calculated accurately.

The Condominium Home Owners Association of BC will be hosting a free Bill 44 Information Webinar on November 30, 2022 at 12:00noon. Please visit the CHOA website at <u>www.choa.bc.ca</u> for a link to the webinar. For anyone who cannot attend the webinar will be recorded and posted on the CHOA YouTube channel.

The Condominium Home Owners Association (CHOA) is a non-profit association that assists the entire strata industry throughout BC. CHOA promotes the interests of strata property owners by providing advisory services, education, resources, and support for its members and the strata community at large. For more information visit the CHOA website at: www.choa.bc.ca

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For more information, please contact Tony Gioventu at 604-323-6458.

There are a few important takeaways here. Firstly, this should add some much needed rental supply. According to Rentals.ca, apartment rents in BC are up 15.1% from last year.



Owners in strata buildings that previously restricted rentals have just received a free lift in home values. Buildings that restricted rentals always traded at a discount. So if you bought into a rental restricted building a few years ago, well done.

Lastly, and perhaps most ignored are the implications surrounding the BC Speculation tax and the City of Vancouver empty homes tax. Ever year you must file a declaration regarding the occupancy of your home. One of the exemptions to avoid the tax was an exemption due to strata bylaws restricting the number of rentals. That exemption was removed this year for the BC Speculation tax. In other words, the Government was essentially forcing you to sell your property. Suddenly, the provincial wide removal of rental restrictions now makes sense, it provides "speculators" with an alternative to selling.

If you're keeping score at home, the City of Vancouver empty homes tax still has a rental exemption. However, I would imagine this will no longer be an eligible exemption in 2023 and will prompt a number of secondary homes onto the resale market in the new year.

If you're confused about all these taxes, you should be- call a tax lawyer.

The resounding message from all levels of Government is this; live in your real estate or rent it out. If you're here to park cash we will tax you.



MORTGAGE PAIN

In a research paper released this past month, the Bank of Canada noted that about 50% of all variable-rate mortgages with fixed payments (not just pandemic borrowers) have reached their trigger rate. And this was before the most recent 50bps rate hike!! This represents about 13% of all mortgages outstanding.



About Half of All Variable-Rate Mortgages with Fixed Payments Reached their Trigger Rate by October 2022

Let's not forget that 13% figure does not include variable rate mortgages with FLOATING payments.

According to CIBC, "Mortgage originations are now falling by close to 30% on a year-over-year basis. We estimate that in 2022, the rapid rise in mortgage rates directly and immediately impacted one quarter of borrowers. We estimate that before the pandemic, no less than one-third of investors were in negative cashflow territory. Given the tightening in monetary policy that has occurred since then, and the additional rate hikes that are still forthcoming, that negative cash flow position is certainly broader and deeper than it was pre-pandemic."

In other words, we pulled a lot of demand forward, a hangover was inevitable. But when you suddenly add a 400bps move in mortgage rates in less than a year there becomes a lot of collateral damage. We're increasingly seeing stories of investors eating big monthly losses as interest payments on their mortgage surge higher with an inability to pass along those costs in rent controlled provinces like BC & Ontario. For some there are very few options but to sell.

For others who can hold out, it should not be forgotten that an estimated 700,000 individuals are entering Canada in 2022 (including new immigrants, foreign students, non-permanent residents, and newcomers from Ukraine on a special 3-year visa).

Population Perspectives: Canada vs USA

Source: Edge Analytics



Despite the destruction of some Mom & Pop landlords, I suspect we will still be talking about a housing crisis five years from now.

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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