With the prime spring selling season now fully behind us, the Vancouver Real Estate market makes the transition to the seasonally slower summer market. However, we're starting on a much different note this time around. Home sales across Vancouver were, for the most part, unusually quiet. Throughout March and April, detached home sales ticked in at historic new lows, while condo sales took a step back dropping to volumes last seen five years ago. Many buyers and sellers remain particularly confused as the real estate market enters a transition period.

- Overview
- Chart of the Month
- Saretsky’s Chart Book
- Ask Saretsky
Let’s start with the Vancouver detached housing market where we have entered truly unchartered territory. Following a sluggish opening to the 2018 year, which saw detached homes slide to a near 30-year low in sales, that same trend has continued in May. There were just 231 detached home sales for the month of May, this marked a 39% decline in sales activity year-over-year. This was a record low in sales for the month of May per the Real Estate Board of Greater Vancouver MLS data, which dates back to 1991.
Weak sales have allowed inventory to climb 19% year-over-year, which pushed inventory to its highest mark since May 2012. Many buyers and sellers are finding it difficult to determine fair market value, particularly as media headlines often contradict each other. While the MLS benchmark price currently shows a -1.5% price decline year-over-year, we tend to find detached homes selling about 15% below their peak price back in 2016. This tends to mirror the median sales price which currently shows a 12% decline in home prices year-over-year in May. Historically low sales and rising inventory will continue to place downwards pressure on detached homes.
As mentioned in the April 2018 report, the Vancouver condo market has begun to show some cracks in the armour, in what has otherwise been a resilient segment of the market over the past year, despite the hard brakes in the detached market. Vancouver condo sales slid further in May, dropping 28% on a year-over-year basis. This brought us back to a five-year low, with volumes hovering around 2013 levels. The condo slowdown was particularly acute in the two and three bedroom segment where annual sale declines topped 30%. This really shouldn’t come as a surprise considering the downwards pressure in the townhouse and detached segments. Two bedroom condos hovering around $1M have become much less attractive, especially considering new mortgage regulations which are making it harder to qualify.

After years of continuous declines, new listings finally ticked higher, jumping 22% year-over-year. The 1137 new listings for the month of May marked a six-year high. This helped inflate inventory levels by a whopping 28% year-over-year. It should be noted that inventory remains well below normal levels, but the recent uptick is a very encouraging sign towards price relief, especially considering a flood of new supply is en route.

Vancouver condo prices appear to have moderated in recent months, with price growth virtually nonexistent over the last few months. This is important to put into context since Vancouverites have become accustomed to price growth of nearly 2% per month. In fact, per the MLS benchmark, the typical Vancouver condo increased by $11,441.67 per month in 2017. In other words, the typical condo out earned Vancouver’s median household income of $65,327 (Per Stats Canada 2015) by more than twofold.
The average price per square foot of a Vancouver condo now sits at $1059, up 8.5% after bouncing around over the past few months. Overall, Vancouver condos are still selling well, particularly one bedroom units. However, there’s no denying a noticeable shift is underway. Multiple offers are less common, with the percent of listings sold over the asking price now at 35%, down from 51% last May and buyers seemingly uninterested in pushing prices any higher in the city of Vancouver.

Vancouver Condo Average Price Per Square Foot
Source: REBGV, Steve Saretsky
Dollar volume (the total amount spent) on Vancouver Real estate across all property types dropped 34% year-over-year. This alone equates to an approximate $19M haircut in real estate commissions paid, assuming a 3% service fee. This will hit more than just the wallet of your local Realtor. The share of the Canadian workforce employed in the FIRE sector (Finance, Insure, Real Estate) is now two standard deviations higher than the long term average, or about 14% of the entire Canadian workforce per Macquarie Research.
Below is a great chart from Ben Rabidoux of North Cove Advisors. Residential mortgages and household credit continues to decelerate rapidly when looking at the 3-month annualized pace. CIBC now expects new mortgage originations to decline by roughly 50% this year. With new mortgage originations slipping and household credit decelerating, it appears the Canadian credit binge could be coming to an end. Home price growth is dependent on credit growth, period.

Sources: Statistics Canada, North Cove Advisors
BOND MARKET SHENANIGANS

A lot has been happening in global bond markets, and Canada has been no exception. The Canada 5-year bond yield, which closely reflects the cost of the typical 5-year mortgage, spiked in the middle of May before eventually falling back down at the end of the month. This resulted in 5-year fixed mortgage rates jumping. However, big banks countered the move by offering an extremely generous variable rate of prime minus 1%, as banks compete for new business in a quiet market. Despite the volatility, the 5-year bond sat at 2.115 at the end of May, a drastic change from 1.023 back on May 1, 2017.
NATIONWIDE IMPLICATIONS

It is equally important to review the bigger picture. Canadian Real Estate sales dipped 16% year-over-year in the first quarter of 2018. This slowdown is now rearing its head in Canadian GDP numbers. Housing investment fell by an annualized 1.9%, the worst showing since the first three months of 2009. Ownership transfer costs dropped by 13.5%. Household spending appears to be slowing as a result, increasing just 0.3% in Q1, the slowest pace since the first quarter of 2015. It goes without saying that as the Real Estate market goes, so too does the economy.
Q: Sales may have declined, but prices remain the same. How does that happen?

A: Real Estate markets are sticky on the way down. Sales tend to lead prices depending on where you are in the real estate cycle. If history is any indication, when sales start declining after a period of rapid price inflation, it’s a sign of market exhaustion, and prices tend to follow sales. You have to remember, no seller wants to cut their price, and no buyer wants to overpay. There’s initially a feeling out or transition phase. Sellers try to list at previous market highs but are usually unsuccessful. We can see in this in the Vancouver detached market where sales are at record lows, buyers are willing to pay current prices and sellers are reluctant to sell lower. However, if a seller is serious about selling, they will have to lower their price to fetch a bid, and many have.