THE SARETSKY REPORT

DECEMBER 2019

SARETSKY
GROUP

The reflation trade continued in December. Thanks to a swift easing of monetary policy from global central banks, even without the Bank of Canada's help, asset prices have rebounded, with Vancouver housing being one of the many beneficiaries. Buyers have indeed stepped off the sidelines, prompting sales activity to jump a staggering 88% from last December. However, once again, take that number with a grain of salt considering how weak 2018 sales figures were. Although, from a more historical perspective sales were still 9.5% above the ten year average for the month of December, which suggests relatively healthy levels of sales activity. However, we can't stress enough how segmented the housing market has become, there is a widening gap between what is happening in the luxury market and what is happening in the more affordable segments of the market. This phenomenon will form the basis of the report this month. Let's dive in.

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OVERVIEW

DETACHED MARKET

Greater Vancouver detached sales jumped an impressive 72% from last year. That's head turning stuff, but sellers shouldn't get too excited. Detached sales were still stuck below their long term ten year average. In other words, despite a fairly significant decline in prices and mortgage rates, activity in the detached housing market is still languishing. Again, this is ultimately an affordability problem which becomes difficult to overcome with a stress test capping borrowing capacity and wages not growing quick enough.

Perhaps one of the better ways to illustrate this is via a 12 month moving average of detached sales.

Sure, this is a lagging indicator, but what it ultimately suggests is that we have a long ways to go before declaring a full recovery, or for that matter, a new bull market.

What we are seeing is that sales have picked up recently, and new listings have failed to keep pace, still dropping on a 12 month average.

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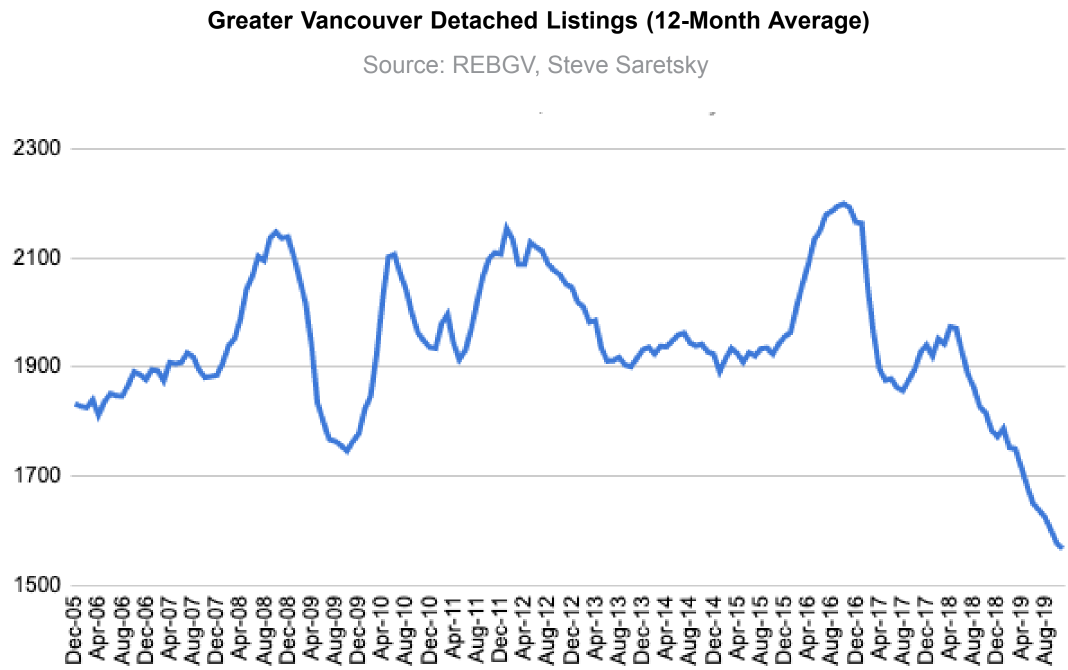

Why people aren't selling is somewhat of a mystery. It could very well be a function of low interest rates, allowing people to stay in their homes for longer, or perhaps secular behavioural changes, particularly amongst an aging demographic who prefers to stay put. In fact, a recent article from the Wall Street Journal highlights research which suggests US homeowners are moving less, on average once every 13 years, instead of once every eight years previously. And so, that brings us to inventory which has basically flatlined at 5.9 months of supply for the past couple of months (indicative of a balanced market).

Lastly, and more importantly, what does this all mean for prices? We are seeing a moderation in the decline of house prices as per

the MLS home price index. Of course, as a rule of thumb, we are still seeing downwards price pressure on luxury homes, basically anything above $2M, while the more affordable entry level houses appear to have levelled off.

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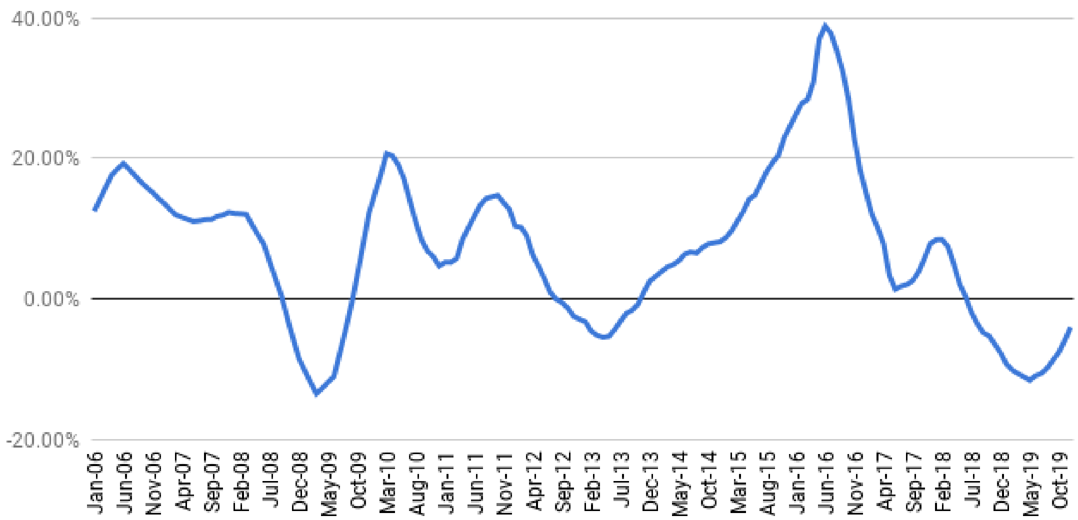
Greater Vancouver Detached Prices Y/Y

Source: REBGV, Steve Saretsky



Clearly there are positive signs towards a recovery in the detached housing market, although whether recent activity can be sustained remains an important question heading into 2020..

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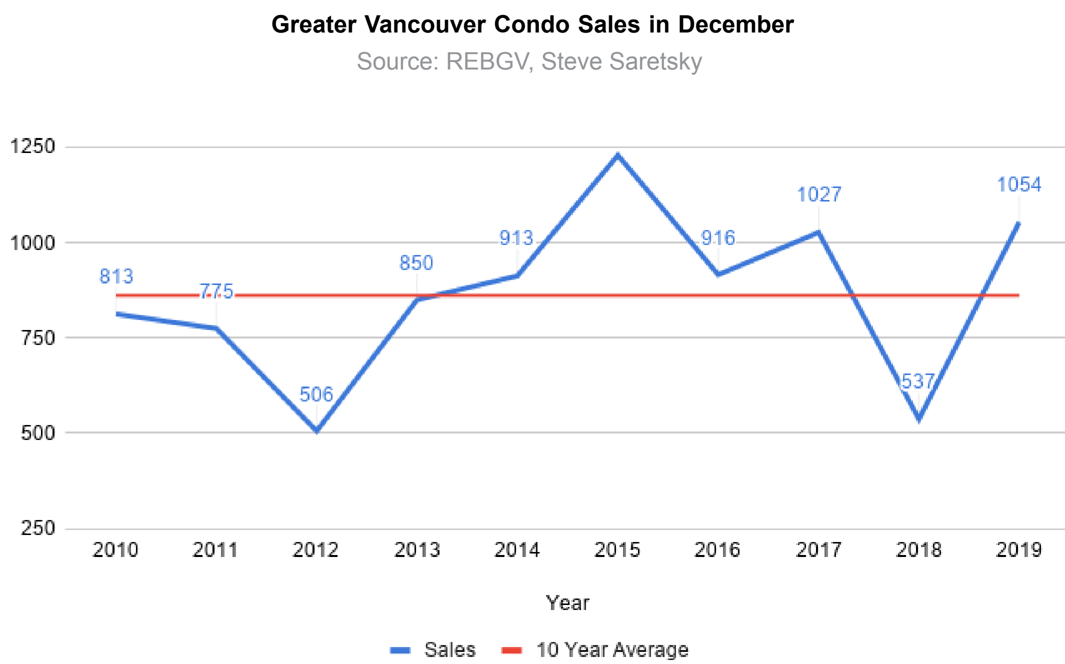
CONDO MARKET

Condo sales nearly doubled from last December, jumping 96% year-over-year. The increase resulted in sales hovering 22% above the ten year average as local buyers snatch up anything that resembles affordability.



Again, what we are seeing is a market that has become increasingly more local focused, and the reality is this condos are mostly all anyone can afford. As a result of the uptick in sales, we are seeing inventory levels fall again. As of today, there is just 2.8

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months of condo inventory for sale. This is a really low number, one which suggests upwards price pressure, not downwards price pressure.

Given there is just 2.8 months of supply for sale, and a sales to actives ratio moving upwards to 35%, there are increasing probabilities that prices could begin rising again. As of right now, it appears prices have basically flatlined after falling by more than double digits. Here we can see the annual change in the MLS benchmark price is accelerating upwards, although still officially 2.7% lower than it was this time last year.

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However, our belief is that the recent surge in activity could stabilize, particularly if mortgage rates continue to move higher as they have been in recent months. Further, as we continue to highlight in nearly every report, new condo supply is coming. Today there is a record 38,000 apartment units under construction, supply cometh.

Today, apartment completions are near record highs, although we should see that number move even higher over the coming year or two.

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Vancouver Apartment Units Under Construction

Source: CMHC, Steve Saretsky

Vancouver Apartment Completions, 12-Month Sum

Source: CMHC, Steve Saretsky

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In summary, the condo market looks pretty strong today, and should continue to perform quite well because of affordability issues. However, because there is a lot of supply coming we feel the upside for condos is quite limited, and there remains a strong probability for prices to move lower when more new supply finally leaks onto the market.

SUMMARY

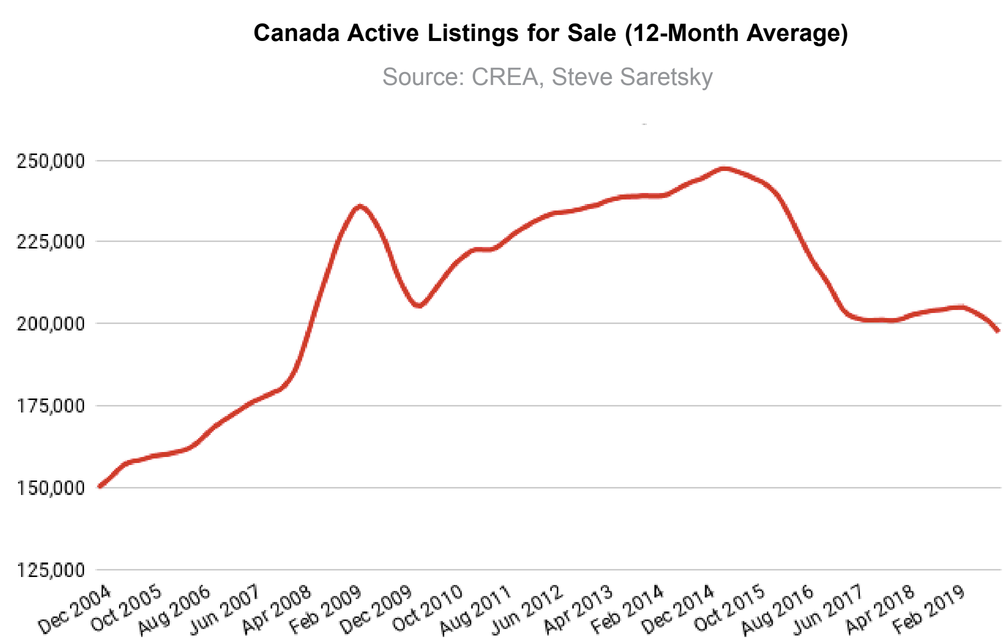
The Vancouver housing market appears to have found its footing after a disastrous first half of 2019. However, predictions of a new bull market are definitely premature. The market is still trying to figure itself out with continued weakness in the luxury market, yet strong activity in the entry to mid level price bands.

As always, I think it is rather important to step outside Vancouver and take a broader view. Let's focus for a minute on the Canadian housing market.

While we know all real estate markets are local, National housing figures provide a larger macro view on the Canadian economy and impact policy decisions moving forward. We saw another bounce in activity for the month of November. Home sales jumped 11% on a year-over-year basis, recording its ninth straight monthly gain. Further, on a seasonally adjusted basis home sales are above their 10 year averages.

In other words, the Canadian housing market is still humming along after a brief pause last year following a mortgage stress test and higher mortgage rates. The recent easing in financing conditions (lower rates) is spurring borrowing again. We have residential mortgage credit growth accelerating faster than it did prior to the B-20 mortgage stress test, while new listings continue to fall.

Despite a record number of new home construction, and record high prices, homeowners are choosing not to sell. It seems there is still a prevailing belief you can't lose in Real Estate, and with central banks continuing to flood markets with liquidity the negative side effect is extremely low inventory as people horde houses. Here's the 12 month average of listings for sale.



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As a result, we are starting to see home prices grow again after a brief pause last year. Nationally, home prices jumped 2.4% year-over-year in November.

Yet in the background, the economic data appears to be deteriorating. Recent data shows consumer insolvencies jumped 19% from a year earlier, the biggest annual gain since 2009. So far in 2019, there have been 102,023 consumer insolvencies, the second-most for the first nine months of a year in records dating back to 1987. It's a rather perplexing stat given interest rates remain frozen at just 1.75%. The current environment of rising delinquencies, weak retail sales, and a recent contraction in the labour force certainly isn't one conducive to rising housing prices. But then again, fiscal and monetary stimulus is flooding the market with liquidity in ways we have never seen before.

This brings me to another interesting point, population growth. Canada's population increased by 208,234 from July 1 to October 1, 2019, driven mainly by an influx of immigrants and non-permanent residents. This was the first time that Canada's population increased by more than 200,000 in a single quarter. This gain represents a quarterly population increase of 0.6%, the largest growth observed since the beginning of the period covered by the current demographic accounting system (July 1971). While the growth rate is nothing short of incredible, very few people, or even economists for that matter, have questioned why so many people are suddenly moving here, or asked how sustainable it is. Thankfully my good friend, Ben Rabidoux of North Cove Advisors, helped shed some light on this.

As Rabidoux points out, the natural population increase in Canada is near record lows, so immigration is needed. We all know that. However, it turns out a huge share of the recent population growth is from non-permanent residents. This cohort is made up of foreign students, work permit holders, and refugees. They are currently responsible for nearly 35% of our total population growth, a record high. So why does this matter?

Non-Permanent Resident Share of Total Population Growth

Source: Ben Rabidoux, North Cove Advisors

This cohort of non permanent residents, (particularly foreign workers), are notoriously pro cyclical. The programs are designed that way. In other words, when the economy slows, and the job prospects dry up, non permanent residents are the first to leave,

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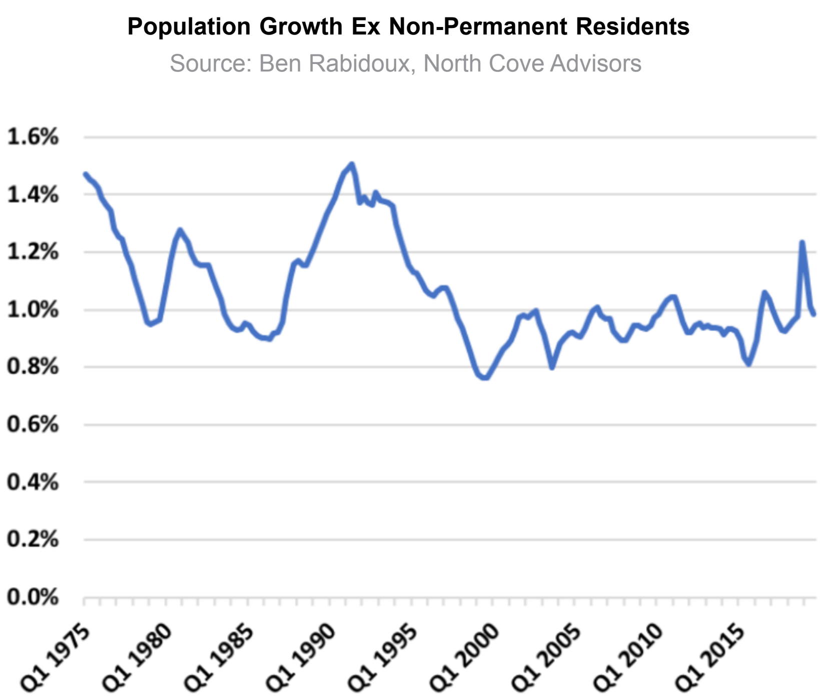
usually resulting in net outflows during recessions.

This is particularly important considering population growth exclusive of non permanent residents is actually quite weak. In other words, we have become increasingly dependent on the growth of a cohort of people who could quickly vanish in the event of a weakened economy. Remember, all headline GDP growth today is due to population growth. Canada's real per capita GDP is actually negative. This should be of particular interest to Canadian home builders, who are aggressively building homes to try and keep pace with the record number of people moving here.



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This makes it critically important to focus on the labour market. As noted in a paper from the OECD, immigrants are typically more vulnerable to economic shocks than natives. They are often over represented in sectors most sensitive to the business cycle.

In other words, we need to pay close attention to the business cycle as it creates self-fulfilling feedback loops. There will be plenty to keep our eye on in 2020.

As for now, its steady as she goes. Happy New Year!

CHART OF THE MONTH

YEAR IN REVIEW

It was a tough year for Greater Vancouver Home sales. There were just over 25,000 sales in 2019, officially 20% below the average for the decade.

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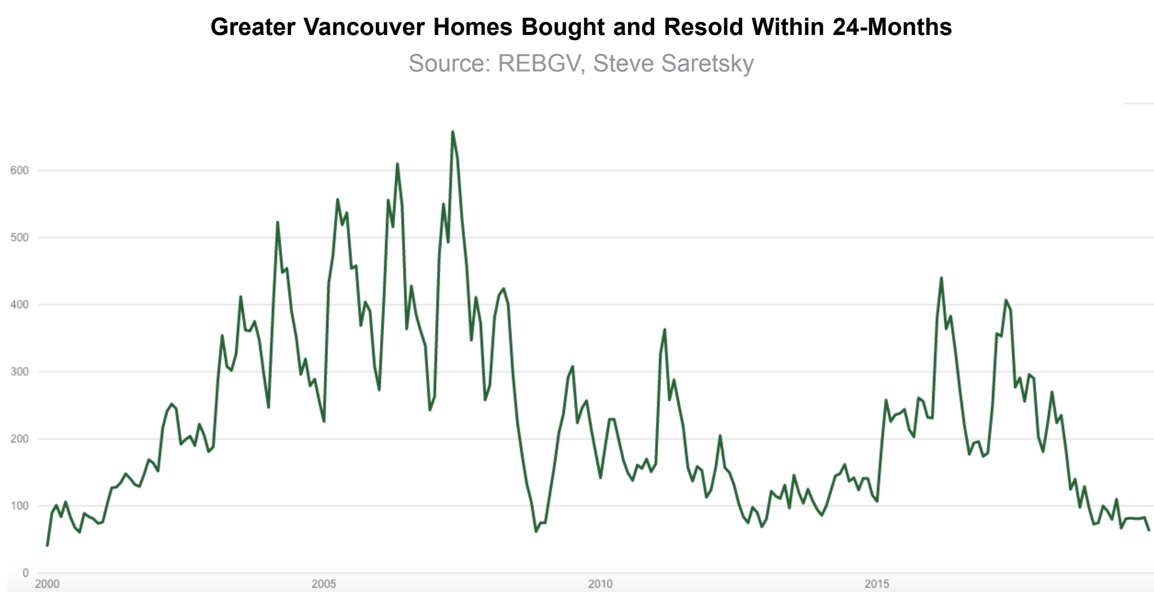
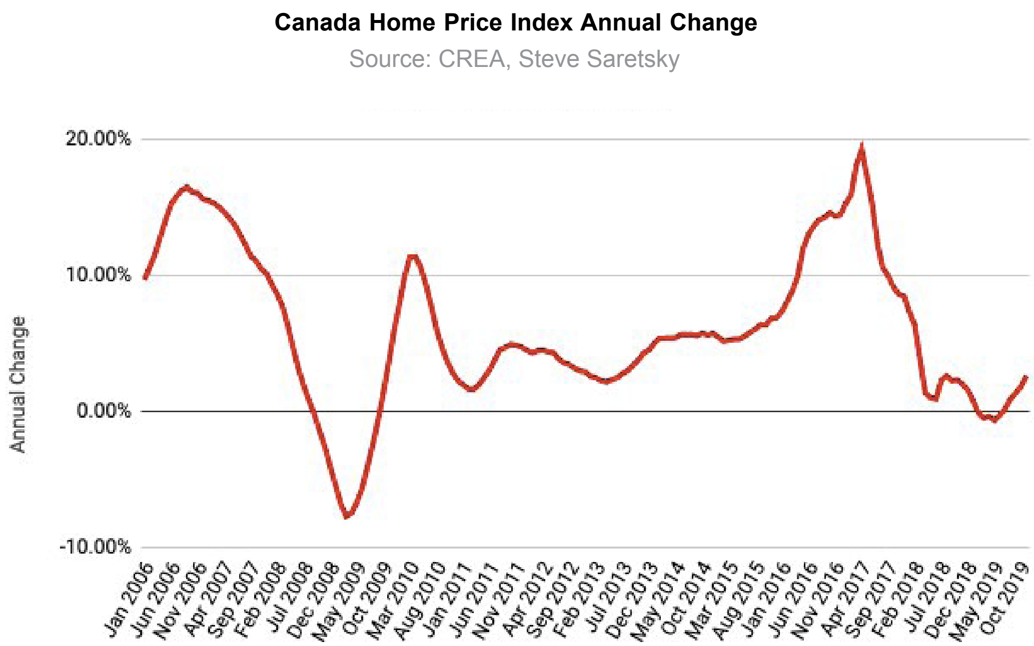
FLIPPERS ON THE SIDELINES

The number of homes bought and re-sold within a 24 month window fell in December to its lowest monthly total since January 2000. Overall, flipping activity has remained subdued since 2017.



ON THE RISE AGAIN

National home prices in Canada are accelerating once again. Growing 2.4% year-over-year in November.



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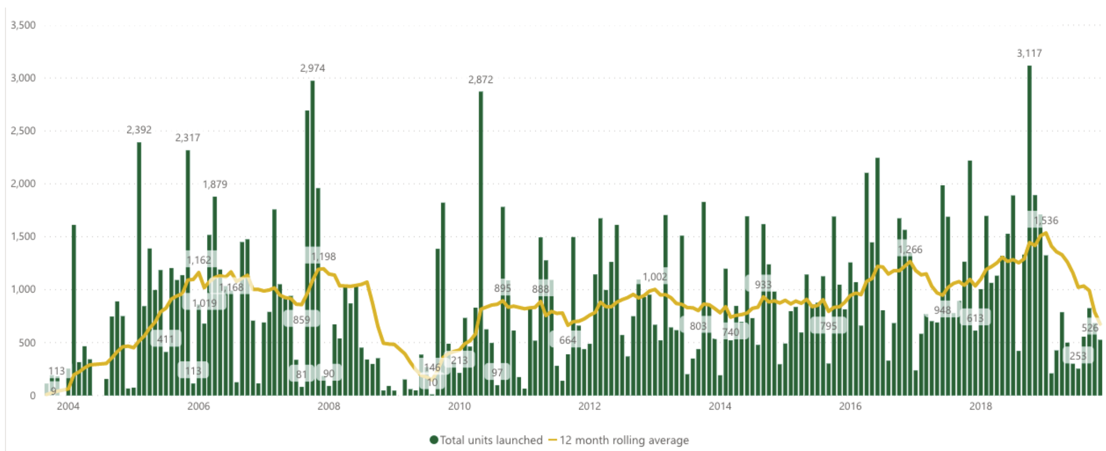
WAITING IT OUT

Developers are waiting it out in Metro Vancouver. The number of units launched for sale at pre-sales centres has been steadily moving lower as they wait for better market conditions.

Metro Vancouver Total New Home Units Launched for Sale

Source: Altus Group, Steve Saretsky



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DEEP DIVE

This section provides a brief overview of the month that was across the Greater Vancouver and Vancouver city real estate markets, including the percent change from one year ago in the condo, townhouse and detached markets.

GREATER VANCOUVER - CONDOS

	DEC 2019	DEC 2018	% CHG (YR)
NUMBER OF SALES	1,054	537	96%
NUMBER OF NEW LISTINGS	788	642	23%
INVENTORY	3,245	3,862	- 16%
SALES TO ACTIVE RATIO	32%	14%	134%
MONTHS OF SUPPLY	3.1	3.6	- 14%
AVG DAYS ON MARKET	47.6	40.2	18%
MEDIAN DAYS ON MARKET	32	29	10%
AVG PRICE	$667,912	$678,796	- 2%
MEDIAN PRICE	$590,000	$580,000	2%
AVG PRICE PER SQ FT	$773	$779	- 1%
MEDIAN PRICE PER SQ FT	$745	$730	2%
% OF LISTINGS SOLD OVER ASKING	9%	5%	80%

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GREATER VANCOUVER - TOWNHOUSES

	DEC 2019	DEC 2018	% CHG (YR)
NUMBER OF SALES	294	167	76%
NUMBER OF NEW LISTINGS	204	177	15%
INVENTORY	1,142	1,296	- 12%
SALES TO ACTIVE RATIO	26%	13%	100%
MONTHS OF SUPPLY	3.4	4.1	- 17%
AVG DAYS ON MARKET	51.1	43.7	17%
MEDIAN DAYS ON MARKET	35	34	3%
AVG PRICE	$846,637	$849,102	0%
MEDIAN PRICE	$778,000	$800,000	- 3%
PERCENT OF LISTINGS SOLD OVER ASKING	4%	6%	- 26%

GREATER VANCOUVER - DETACHED

	DEC 2019	DEC 2018	% CHG (YR)
NUMBER OF SALES	605	352	72%
NUMBER OF NEW LISTINGS	532	544	- 2%
INVENTORY	3,983	4,749	- 16%
SALES TO ACTIVE RATIO	15%	7%	105%
MONTHS OF SUPPLY	5.8	7.5	- 23%
AVG DAYS ON MARKET	64.5	55.8	16%
MEDIAN DAYS ON MARKET	45	37	22%
AVG PRICE	$1,670,893	$1,659,420	1%
MEDIAN PRICE	$1,415,000	$1,350,000	5%
PERCENT OF LISTINGS SOLD OVER ASKING	8%	5%	56%

CITY OF VANCOUVER - CONDOS

	DEC 2019	DEC 2018	% CHG (YR)
NUMBER OF SALES	358	192	86%
NUMBER OF NEW LISTINGS	280	221	27%
INVENTORY	1,172	1,445	- 19%
SALES TO ACTIVE RATIO	31%	13%	130%
MONTHS OF SUPPLY	3.0	3.6	- 16%
AVG DAYS ON MARKET	41.2	41.1	0%
MEDIAN DAYS ON MARKET	24	26	- 8%
AVG PRICE	$837,164	$846,023	- 1%
MEDIAN PRICE	$709,000	$680,000	4%
AVG PRICE PER SQ FT	$988	$994	- 1%
MEDIAN PRICE PER SQ FT	$974	$996	- 2%
% OF LISTINGS SOLD OVER ASKING	15%	7%	123%

CITY OF VANCOUVER - TOWNHOUSES

	DEC 2019	DEC 2018	% CHG (YR)
NUMBER OF SALES	47	31	52%
NUMBER OF NEW LISTINGS	37	26	42%
INVENTORY	234	224	4%
SALES TO ACTIVE RATIO	20%	14%	45%
MONTHS OF SUPPLY	4.0	3.9	3%
AVG DAYS ON MARKET	44.4	35.9	24%
MEDIAN DAYS ON MARKET	32	27	19%
AVG PRICE	$1,158,598	$1,130,215	3%
MEDIAN PRICE	$1,036,000	$1,025,000	1%
PERCENT OF LISTINGS SOLD OVER ASKING	11%	10%	10%

CITY OF VANCOUVER- DETACHED

	DEC 2019	DEC 2018	% CHG (YR)
NUMBER OF SALES	134	75	79%
NUMBER OF NEW LISTINGS	130	132	- 2%
INVENTORY	968	1,169	- 17%
SALES TO ACTIVE RATIO	14%	6%	116%
MONTHS OF SUPPLY	6.6	8.7	- 24%
AVG DAYS ON MARKET	64.6	46.3	39%
MEDIAN DAYS ON MARKET	38	25	52%
AVG PRICE	$2,367,557	$2,238,995	6%
MEDIAN PRICE	$1,860,000	$2,000,000	- 7%
PERCENT OF LISTINGS SOLD OVER ASKING	14.9%	13.3%	12%

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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