



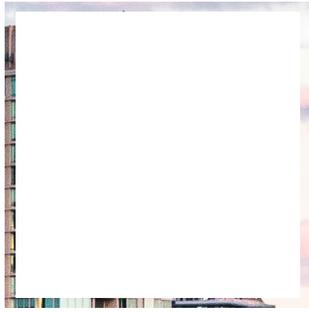
THE
SARETSKY REPORT
.....
FEBRUARY 2020

SARETSKY
GROUP

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OPENING THOUGHTS

We start this one off similar to last month. A bounce in activity, pushed sales higher, jumping 45% from last year, while inventory levels plunged by 23%. As the old saying goes, “supply and demand.” This pushed the benchmark price up 0.3% year-over-year, the first annual increase since October 2018. While this recovery is certainly encouraging for those who have a financial interest in the real estate market, a word of caution is warranted. Demand, a key function of the supply and demand equation, looks increasingly volatile. The recent outbreak of the Coronavirus has reached pandemic levels, although not officially dubbed so just yet. As schools close, corporations suspend travel, and consumers avoid public settings, the economic effects will be wide ranging. Policy makers are well aware of this, and the recent G7 emergency meeting only created further panic. Apparently there isn't a cure interest rates can't solve, including global pandemics. While central banks were

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well intentioned by cutting interest rates 50bps, it ironically induced further panic.

As the global outlook sours, this has sent bond yields plummeting. The Canada 5 year bond yield has been cut in half over the past 30 days, sending mortgage rates tumbling towards their previous lows set a few years ago. On the surface, this all sounds great for house hunters, cheaper mortgages heading into the historically busy spring market. However, it feels awfully short sighted to think there will not be obvious ramifications from the Coronavirus. While it hasn't set in yet for Canadian households, it seems likely consumer sentiment will take a hit, and job layoffs are increasingly more likely as this virus spreads. Further, this comes at a time when the economy was already slowing.

Have we already forgotten Canadian households are the most indebted in the G7? This could very well be the economic shock that tips household debt imbalances, you know, the one that the Bank of Canada has been cautioning about for the past seven or eight years. A true black swan event that nobody saw coming, one that monetary policy can't fix.

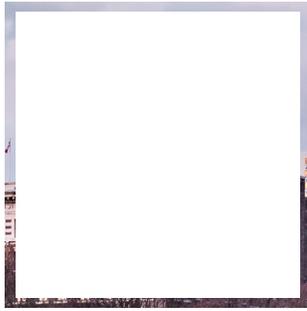
However, for now, it seems the Canadian housing market, and Vancouver for that matter, continues to chug along. But just remember, while stock markets may fluctuate greatly from day to day, real estate markets have little volatility and are very slow moving. Like a cruise ship pulling a U-Turn, it will take some time for conditions to change course. Or perhaps, by some miracle, we continue to sail forward uninterrupted. Either way, it doesn't hurt to have a life raft standing by.

See you next month,

A handwritten signature in black ink, appearing to be 'Steve', with a large, stylized 'S' and a horizontal line crossing through it.

Steve

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DETACHED HOUSING MARKET UPDATE

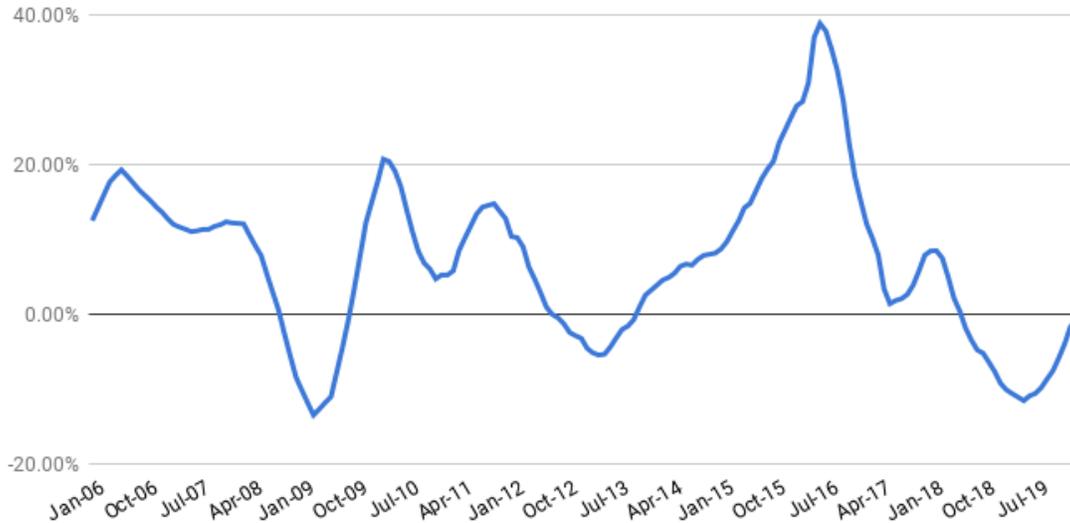
The detached housing market has come back to life, although only for certain price segments. If we look at the detached housing market as a whole, sales were up 52% from last year. However, last February marked the worst year for detached sales in over 20 years. In other words, it was a very easy comp to beat. Detached sales remain a fraction of what they used to be, coming in well below their ten average for the month of February.

Meanwhile, inventory continues to fall as new listings remain perplexingly below normal. Inventory levels dropped 26% below February 2019 levels. It's not hard to figure out what happens when sales increase and inventory for sale decreases. Here we can see the MLS benchmark price continue to drift closer towards positive territory, although officially down 0.7% from last year.

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Greater Vancouver Detached Prices Y/Y

Source: REBGV, Steve Saretsky

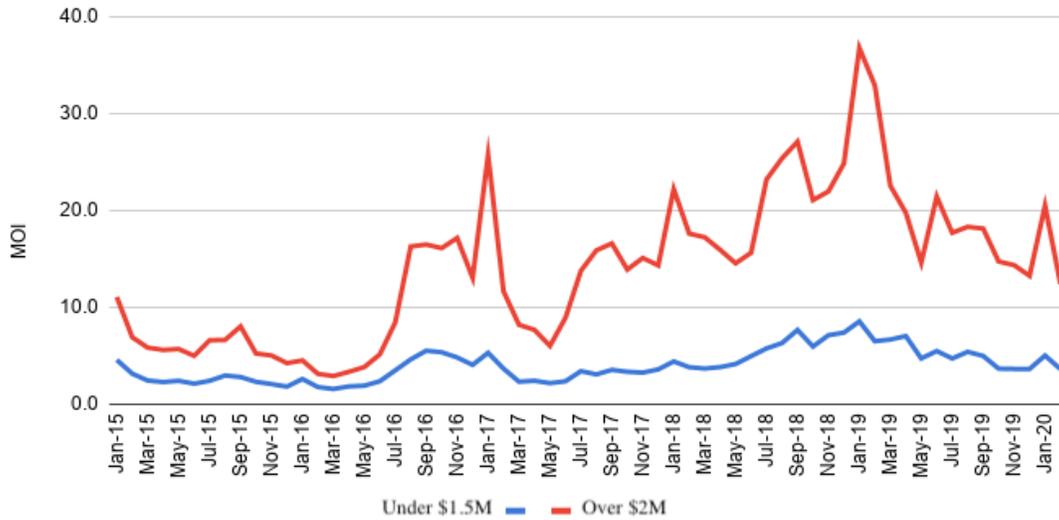


Again, it is important to distinguish that this has flipped back to a local market that is price sensitive. The luxury market remains soft. For example, there is 12 months of supply for detached homes above \$2M and just 3.6 months of supply for detached homes below \$1.5M. Price point is extremely important. Basically locals are competing over the dwindling supply of affordable houses available for sale, while the high end of the market remains starved for buyers, particularly since the offshore bid left several years ago.

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Months of Inventory for Detached Homes by Price Bracket

Source: REBGV, Steve Saretsky



Overall, the detached market looks stable for houses under \$1.5M, with just under four months of supply available. We do expect new listings to ramp higher in the upcoming spring market.

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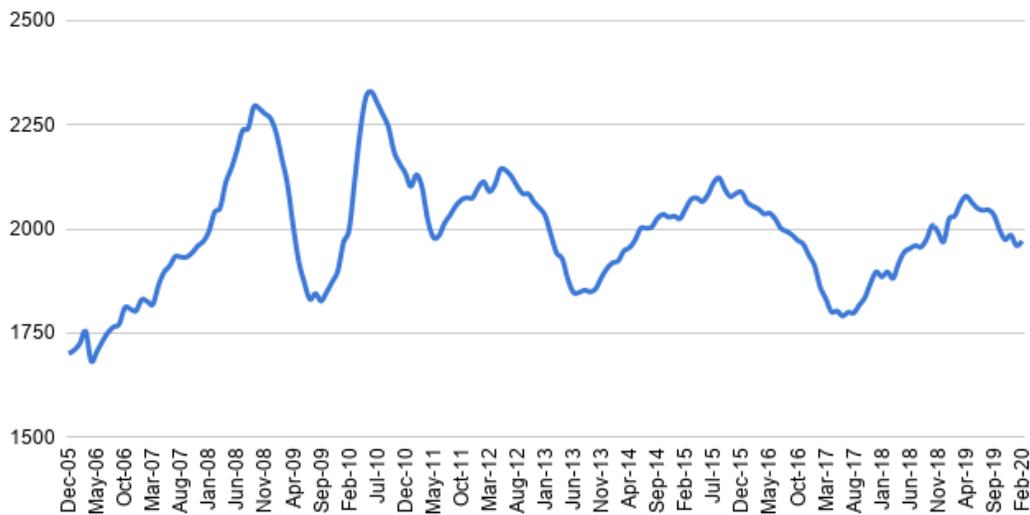


CONDO HOUSING MARKET UPDATE

As I had mentioned in the report last month, the condo market has really bounced back, and is red hot in many areas. Although its not because sales are through the roof and there is an insatiable amount of demand. Yes sales were up 40% year-over-year, (again a weak comp from last year). Instead, the feverish activity is a result of new

Greater Vancouver Apartment Listings - 12-Month Average

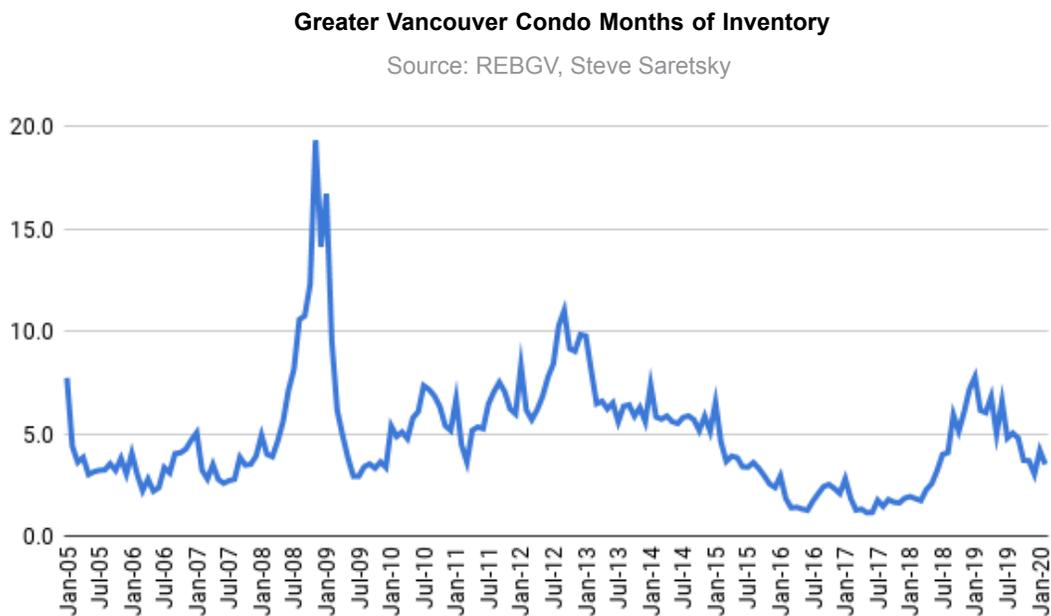
Source: REBGV, Steve Saretsky



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listings remaining stubbornly low, which is keeping inventory from growing.

If we take a look at months of inventory, we can see that it was steadily growing, hitting a peak of 7.8 months of supply in January 2019. Since then, it's been on a steady decline and currently sits at just 3.5 months. Remember, anything below 4 generally puts upwards pressure on prices.



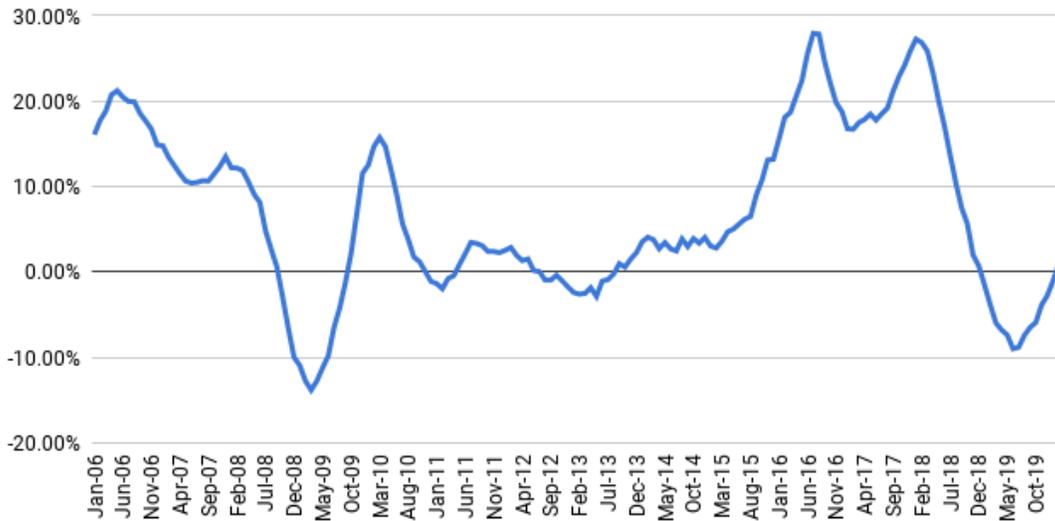
And so, unsurprisingly, we have seen a steady increase in condo prices over the last few months. In fact, the MLS benchmark price for condos officially rose on a year-over-year basis in February, up 0.8%, the first annual increase since December 2018. In other words, condo prices recorded 13 consecutive year-over-year price declines up until this month.

Safe to say the correction is over? It certainly looks that way, at least for now. As long as months of inventory remains below 4, you won't see prices declining, and in this

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Greater Vancouver Condo Prices Y/Y

Source: REBGV, Steve Saretsky



environment they should keep pushing higher as they have over the last few months. However, to rule out a demand shock due to the negative sentiment and economic impact of the virus would be foolish. It is certainly a risk worth watching.

For now, markets remain exuberant. Demand has been strong, and multiple offers have returned. Realtors have figured that out, and so we are seeing more pricing strategies that encourage multiple offers. Here we can see the percentage of condos being sold above the listing price. In February, 21% of condos sold above the original listing price.

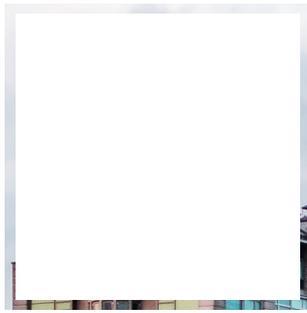
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Percentage of Greater Vancouver Condos Sold Above the Listing Price

Source: REBGV, Steve Saretsky



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THE INSURANCE FIASCO

My inbox has been flooded with questions surrounding the condo insurance conundrum that is making headlines across BC. In case you weren't already aware, insurance premiums are skyrocketing across the province, catching many strata buildings completely blindsided. Make no mistake, it is a real problem, although the media does a fantastic job in highlighting extreme cases, making the situation look apocalyptic. Check out some of these headlines.

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Insurance issues could cause B.C. condo market collapse, homeowners association warns



Ross McLaughlin Consumer Reporter, CTV News Vancouver
@ctvmcLaughlin | [Contact](#)

Published Thursday, February 6, 2020 12:52PM PST
Last Updated Friday, February 7, 2020 8:02PM PST

B.C. condo owners brace for sticker shock as insurance rates surge '50 to 300%'



BY [SIMON LITTLE](#) AND [JILL BENNETT](#) · GLOBAL NEWS

Posted November 29, 2019 9:28 pm

Updated November 29, 2019 10:10 pm

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Here are a few recent cases of insurance mayhem:

As per The Province Newspaper, When residents of Anchor Pointe in New Westminster gathered for the strata's annual meeting in December, they were stunned to learn their building's insurance premiums were expected to increase by 40 per cent for 2020.

"It was a total shock to everybody," said strata president Bruce Campbell.

Unfortunately for the 30-year-old tower's residents, things were about to get worse.

The strata had budgeted for the 110-unit building's insurance premium to increase by about 40 per cent for 2020 — to \$95,000 for the year, up from about \$70,000 — but when January rolled round, the strata council learned it would not be close to sufficient. Instead, Campbell said, the premium would be \$259,000 this year — more than 3.5 times the cost last year.

Campbell had expected strata fees for his two-bedroom unit would be around \$480 a month, including building insurance

with this year's anticipated 40 per cent increase. But now, the monthly costs for his unit will need to rise by about \$150, to \$630.

And here's one from CTV News:

A representative of a condo owners' association says recent changes to insurance rates mean that not only are buildings having to pay more for coverage — some are being denied altogether.

"This is something no one had foreseen," said Tony Gioventu, executive director of the Condominium and Homeowners Association of B.C. "This will collapse our real estate industry because no one will be able to get mortgages and there will be no buyers and no sellers," Gioventu said.

Gioventu knows of a handful of buildings currently unable to get insurance, and said there could be more out there. "We came across a development last week where the policy has increased from \$300,000 to \$1.2 million," added Gioventu.

Why is this Happening?

Insurance companies are blaming

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extreme weather events, however that really doesn't tell the whole story. Rising condo building valuations and the cost of repair is increasing the risk and costs to condo insurers. Meanwhile, investment returns for insurance companies have taken a beating in this low interest rate environment. Remember, insurers collect premiums and invest those in financial markets to increase returns. Further, According to the Insurance Bureau of Canada, years ago insurers would pay out about \$500 million annually in Canada. In 2018 they paid out about \$2 billion and that risk is being passed around.

demand for condos, however, as of right now markets are completely ignoring the news. Many Condos are fetching multiple offers and prices are inching higher. Supply has dwindled to just 3 months of inventory for sale. Will the market finally catch on? Will the BC Government be forced to intervene?

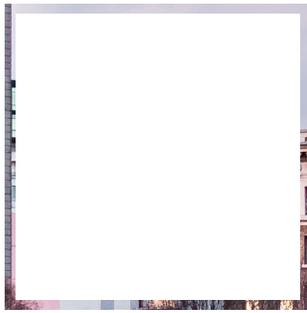
So what does this all mean?

Insurance premiums are going up, and this will be reflected in strata maintenance fees. Not only that, but deductibles are also expected to increase anywhere from \$100,000 to \$500,000 and beyond. This puts the individual owners at risk.

These are ultimately added carrying costs and risks that landlords will have a tough time passing on to tenants, especially since rent increases are capped each year.

One would assume this should impact the

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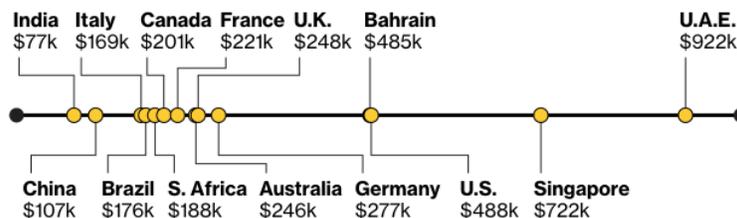
EXCLUSIVE MEMBERSHIP - WELCOME TO THE 1%

Per Bloomberg, the “top 1%” is the symbol of wealth and power thanks to a protest movement. Since Occupy Wall Street popularized the term almost a decade ago, inequality has surged, and this exclusive group has only gotten richer and more influential.

Indeed, the top 1% covers a wide span, from prosperous professionals to billionaires with more wealth than many nations. And the difficulty of making the cut varies greatly depending on where you live. To join the exclusive club in Canada, it requires an annual income of \$201,000 USD.

Annual Pretax Income Threshold to be in the Top 1% of Earners

Source: Bloomberg



Figures are for the most recent year available; all figures given in 2018 U.S. dollars adjusted for purchasing power parity
Sources: World Inequality Database; Statistics Canada

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While many may aspire to reach the top percentile, those who ultimately succeed may be disappointed with the perks of said exclusive membership. With home prices showing few signs of delivering affordability, particularly in the cities of Vancouver & Toronto, homeownership remains elusive even for the top income producers.

That hasn't stopped Canadians from trying to keep up. Mortgage borrowing has accelerated, now growing faster than it did before the B-20 mortgage stress test. For those with inadequate incomes, private lenders are stepping in to fill the void.

Alternative mortgage companies are increasingly providing riskier loans, a new report from the national housing agency says. Among large mortgage investment corporations and mortgage investment entities, the percentage of first mortgages in their portfolios fell from 88 per cent in 2017 to 77 per cent in 2018, said Canada Mortgage and Housing Corp.

That means a greater share of their portfolios are second or third mortgages, which are riskier than the original

mortgage on the property. Of course, true credit risk is concealed, as long as prices continue to rise. The delinquency rate at alternative lenders eased from 1.93 per cent in 2018 to 1.65 per cent last year.

At what point will incomes truly matter remains a decades old mystery. Indeed, it seems hard to make the math work from a house price to income ratio, even if you're in the top 1%. Thankfully math is irrelevant in a sea of liquidity. As they say, a rising tide lifts all boats.

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NEGATIVE RATES CAN'T SAVE THE CANADIAN CONSUMER

A new report from RBC, highlights consumer insolvencies jumped a rather alarming 9.5% in 2019, the largest annual increase since 2008-09 during the great recession. This is a pretty thought provoking development when you consider that insolvencies are rising rather quickly despite record low interest rates and an economy at full employment. Not to mention massive monetary stimulus from the worlds global central banks. To the right, see an update on real central bank interest rates across the globe (*from twitter, via @charliebillelo*).

So yes, Canadian insolvencies are rising in a pretty easy financial environment. This shouldn't be overly surprising if you've been watching the household debt service ratio. It recently hit a new record high of 15% in Q3 2019. The last time household debt servicing costs were this high was in the second half of 2007 when the Bank of Canada's overnight rate hit 4.50%.



Charlie Billelo
@charliebillelo

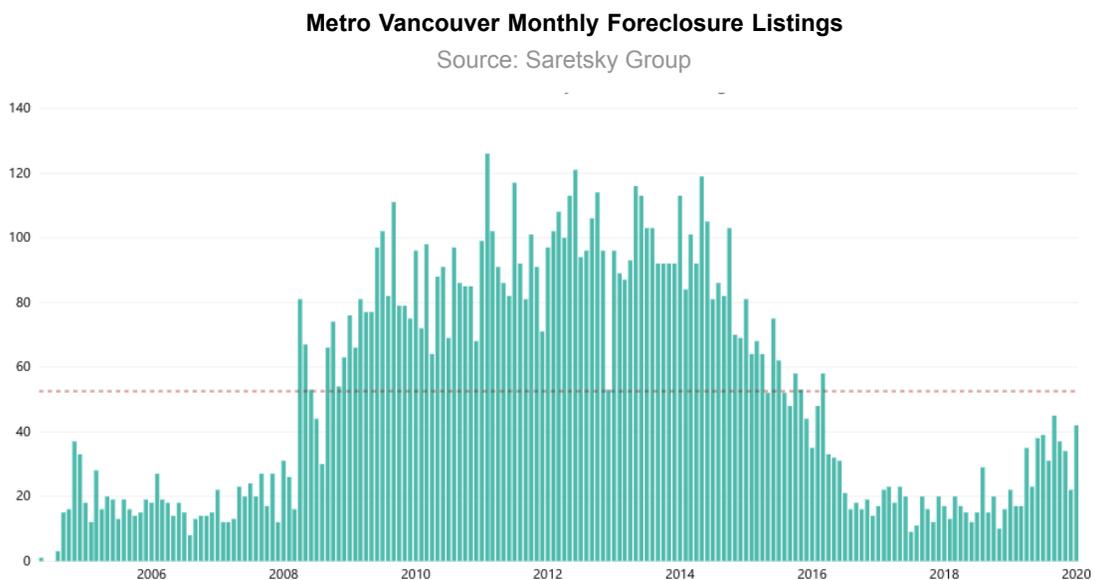
Real Central Bank Rates (rate minus inflation)...

India:	-2.4%
Poland:	-1.9%
Eurozone:	-1.9%
Sweden:	-1.8%
Chile:	-1.8%
Denmark:	-1.5%
China:	-1.3%
Australia:	-1.1%
Czech Rep:	-1%
Swiss:	-1%
Japan:	-.9%
Turkey:	-.9%
US:	-.9%
UK:	-.6%
Canada:	-.5%
Taiwan:	-.4%
South Korea:	-.3%

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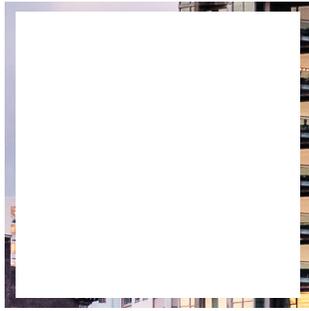
It is important, however, to distinguish that the rise in consumer insolvencies is largely concentrated in consumer proposals, or in other words, unsecured debt. This suggests its not homeowners hitting a wall, as further evidenced by the fact that just 0.23% of mortgages were more than 90 days in arrears as of August 2019, matching the lowest rate since 1990.

Indeed there's still plenty of liquidity for homeowners to cash out should they get into financial difficulty. However, it is evident that we've hit a cycle low in foreclosures, at least here in Vancouver. Here's an updated chart on court ordered MLS listings across Metro Vancouver. They have been steadily growing over the past year.



Despite the Bank of Canada having a desire to curb the growing mountain of household debt, I still think they have little choice but to cut interest rates again- it will certainly be needed if they want to slow the rate of insolvencies.

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CANADA'S MORTGAGE STRESS TEST JUST GOT EASIER

As has been widely anticipated over the past few months, changes have arrived for Canada's mortgage stress test. The Canadian department of finance has changed the way insured mortgages will be stress tested, and it sounds like OSFI will follow suit with uninsured mortgages as well.

Under the current stress test, borrowers had to qualify at the greater of the Borrower's Contract Rate, which is the mortgage interest rate agreed to by the lending institution and the borrower, or the Bank of Canada 5-Year Benchmark Posted Mortgage Rate which currently sits at 5.19%.

Over the past year we've seen a significant decline in bond yields, which has prompted a sharp decline in mortgage rates. However, the Bank of Canada 5-Year Benchmark Posted Mortgage Rate has

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remained relatively unchanged. In other words, today's benchmark rate (currently 5.19%) is too high relative to actual mortgage rates. So, regulators are changing the benchmark rate.

The new benchmark rate will be set using a weekly median 5-year fixed insured mortgage rate as calculated by the Bank of Canada from federally-backed mortgage insurance applications, plus an additional 200 basis points on top.

The New Rate Better Reflects Markets, But Moves More

Source: RBC



Based off that metric, the new Benchmark Rate would be roughly 4.89% today. This means the stress test hurdle was essentially lowered by 30bps, increasing purchasing power by about 3%.

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The new stress test will come into effect on April 06, 2020 and its expected OSFI will lower the bar for uninsured mortgages as well. In a press release, OSFI noted, “The proposed new benchmark for uninsured mortgages is based on rates from mortgage applications submitted by a wide variety of lenders, which makes it more representative of both the broader market and fluctuations in actual contract rates.”

Adding, “In addition to introducing a more accurate floor, OSFI’s proposal maintains cohesion between the benchmarks used to qualify both uninsured and insured mortgages.”

While the change in the benchmark rate is certainly warranted the timing is perhaps less than ideal. The Canadian debt binge has been showing signs of over heating once again, with residential mortgage credit growing faster than it did prior to the introduction of the mortgage stress test several years ago. Meanwhile, national home prices are accelerating again, up 4.8% year-over-year in January as we head into the busier spring market. Party on!

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NEW PROJECT LAUNCHES IN METRO VANCOUVER PLUNGE BY 30%

There's certainly no argument as to the important role new housing development has on the BC economy. As one of the main pillars of GDP, I find it extremely valuable to keep an eye on the Metro Vancouver development arena. With some help from Urban Analytics and their recent state of the market report, there are a few items to keep an eye on.

Due to the recent housing correction, project launches, along with total units released nosedived in 2019. This resulted in fewer sales as well. New project launches fell 30%, new units released fell by 60%, which sent new home sales tumbling 50% compared to 2018.

In other words, it was a tough year to be Property developer. What we are seeing is investors have

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Annual Released Product & Unit Sales

Source: Urban Analytics

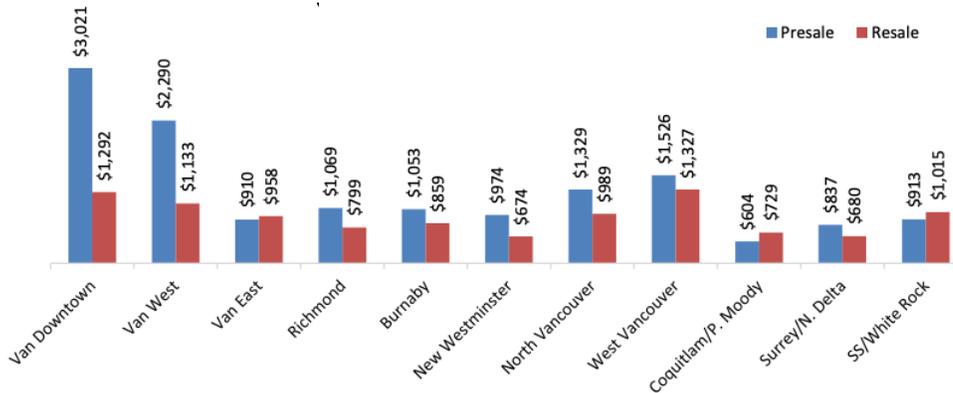


Chart 7

pulled back from the pre-sale market, mostly because future price growth expectations have faltered. Investors are not being enticed to risk their capital and have it tied up in a project for several years. Particularly considering prices in the resale market have adjusted lower, while pricing for pre-sale projects simply haven't adjusted much at all. This has created a much wider spread between pre-sale and resale pricing, as illustrated below.

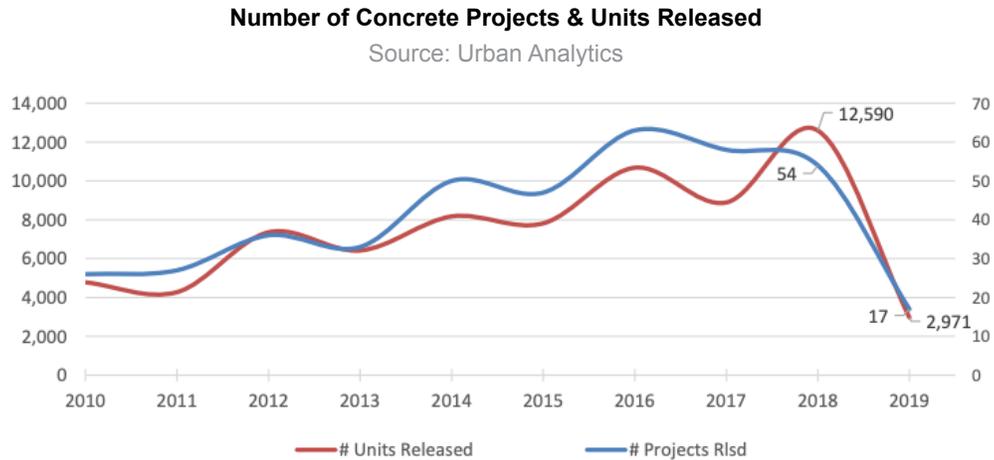
Comparison of Average List Price PSF: Presale vs. Resale

Source: Urban Analytics



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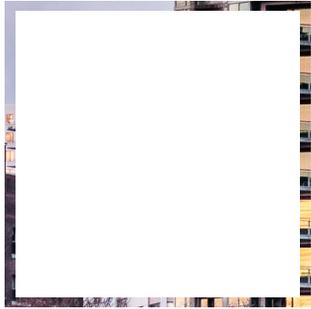
We are seeing continued weakness for expensive luxury projects, which are failing to attract wealthy investors, particularly those once coveted from Asia. This has resulted in a steep plunge in new concrete projects being launched as developers wait things out. New concrete projects and total units released for sale fell to their lowest annual total in a decade.



This is spurring conversations on how to revive this segment of the market. Obviously at this rate there could be future housing shortages. There seems to be lots of discussion to amend the Real Estate Development and Marketing Act which requires developers to hit their construction financing targets within 9 months. Developers are typically required to pre-sell about 60% of their project in order to obtain construction financing. Of course 9 months is not a lot of time to pre-sell 60% of your project in a soft market.

The simple answer would be to just drop their prices, although in many cases that makes projects unfeasible. Meanwhile, municipalities are showing no desire to lower community contributions and various development fees to keep projects from being delayed. In other words, the tug of war continues, the implications of which won't be felt until several years down the road.

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PRE-SALE LAUNCHES IN FEBRUARY

Development Name	Builder	Municipality	Product Type	Remaining Inventory	Total Units	Weighted Project Avg Price	Current Price per Sqft
Allwood Place (Phase 6)	Onni	Abbotsford	Townhouse	31	33	\$508,081.82	\$408.17
Carson	Royale Properties Ltd	Surrey	Townhouse	11	40	\$669,400.00	\$484.26
Heron	Enrich Developments	Richmond	Townhouse	0	28	\$1,096,328.57	
W63 Mansion	Hansen Pacific	Vancouver	Apartment	10	29	\$1,019,762.07	\$1,273.83
Unity	Parcel7	Abbotsford	Townhouse	22	66	\$465,625.00	\$427.73
Provenance (Phase 1)	Polygon Homes	Maple Ridge	Townhouse	14	56	\$562,042.86	\$409.10
Tsawwassen Shores (Peregrine South)	Aquilini	Tsawwassen	Apartment	68	108	\$437,955.56	\$617.68
Clarendon Heights	Fully Homes	Vancouver	Apartment	47	47	\$687,485.11	\$828.18
Latimer Heights (Condo - Building D)	Vesta Properties Ltd	Langley	Apartment	48	66	\$525,409.09	\$524.21
Union Park (Building 3)	Polygon Homes	Langley	Apartment	131	166	\$478,330.72	\$539.72

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Allwood Place (Phase 6) - The final phase of the Onni project. Prices have slowly crept higher with each new phase launched. However, there still remains a handful of inventory in phases 3, 4, and 5. There may be an opportunity for savvy buyers to negotiate discounts.

Carson - Recently launched, sales have been picking up since the developer discounted remaining units, bringing prices in line with market expectations.

Heron - Zero sales being reported during opening launch. This was one of the projects we flagged several years ago as unfeasible when the developer purchased the majority of the land near peak pricing.

W63 Mansion - At a project average of \$1263/sqft, prices are pushing on the high side, particularly for a wood frame building. That brings the weighted project average price to just over \$1M. Add on 5% GST and PTT and that could prove too rich for the market.

Unity - At a project average of \$428/sqft, prices are averaging about 5% higher than similar new projects in the area. However, there seems to be pretty healthy absorption at current prices.

Provenance Phase 1 - Just over half the units were released for sale. Sales absorption looks strong with half of their units sold in the opening weekend.

Tsawwassen Shores (Peregrine South) - A solid launch with 40 sales being reported. Attractive pricing that was about 3% lower than Peregrine North which was launched back in Q3 2018.

Clarendon Heights - At a project average of \$870/sqft we feel the pricing is right where it needs to be for an East Vancouver wood frame condo. We should see solid project absorption.

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Latimer Heights (Condo - Building D) - The fourth phase has now been launched. Pricing is right in line with previous three phases which have reported mediocre absorption. Developer has been offering discounts of up to \$20,000 on some plans.

Union Park (building 3) - At an average of \$541/sqft, the pricing is in line with the first two phases which have already sold out. We consider pricing to be competitive for the area, and absorption rates look strong so far.

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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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