



THE
SARETSKY REPORT

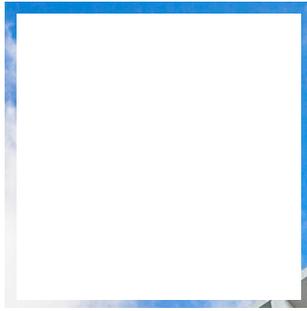
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MAY 2020

SARETSKY
GROUP

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OPENING THOUGHTS

It was another month to forget, not just for the Vancouver housing market but the world in general. On a more positive note, things appear to be getting better on the virus front, at least in BC anyways. This encouraged buyers to step outside, and become a bit more comfortable with testing the waters in the housing market. Sales across Greater Vancouver increased 34% month-over-month. However, let's not get too ahead of ourselves here. Despite the pick-up in activity, the 1499 sales registered for the month of May was the lowest total for the month since we began collecting data in the early 1990's. Although, it certainly helped that new listings crashed 37% year-over-year to new lows. In essence, people opting not to sell helped cushion the housing market. It's impossible to put an exact percentage on prices in a highly volatile market, however, we are seeing minor price declines in the condo market which we'll get into later in the report.

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Everyone keeps asking me what the housing market will look like in the months ahead and it's really a simple answer- watch supply. We know demand will remain impaired for the foreseeable future. The official unemployment rate is currently 13%, the second highest on record, although many economists will agree the real number is probably closer to 20%. Currently 8.3 million Canadians have applied for CERB, that's nearly 45% of the entire labourforce. Sure, some people are taking advantage of the system, but there's a good chance if you're on CERB you aren't buying a house, or at least you shouldn't be.

It will take awhile for these jobs to come back and for the economy to recover, so yes, demand will remain impaired moving forward. So, we really need to focus on supply. Will homeowners continue to hold off on their selling plans? Certainly if you're older and thinking about downsizing to a condo, it seems like a terrible time to do that, at least from a health perspective. We know the condo market is more skewed towards investors, will they hit the sell button as vacancies increase and prices come under pressure? What about, as

(This week on House Hunters)

Husband: \$2000 CERB cheque
Wife: \$2000 CERB cheque



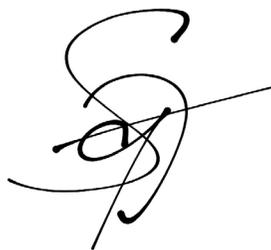
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CMHC likes to call it, the “mortgage deferral cliff” which dawns upon us in the fall. Per the Canadian Bankers Association, 15% of all mortgages are now in deferral. CMHC believes this number could hit 20% by September. Yes, don't get me wrong there are many individuals taking advantage of the system who don't need it, however, even if half of these mortgages are in distress we have a real problem. Ultimately we don't know how the banks and the regulators will deal with this, but you simply can't defer forever. This remains a real question mark moving forward.

Again, I am a strong believer that nobody can accurately predict the market, particularly during these unprecedented times. Trying to model house prices a year or two out is utterly useless. What I do believe is that we can assess markets in probability terms. And, it is in my personal view that the probabilities still point towards greater risk to the down side than to the upside in the months ahead.

Keep an eye on the supply curve, and stay safe out there.

Cheers,

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

Detached sales for Greater Vancouver dropped 40% year-over-year. It was the lowest total for the month of May on record.

Greater Vancouver Detached Sales in May

Source: REBGV, Steve Saretsky

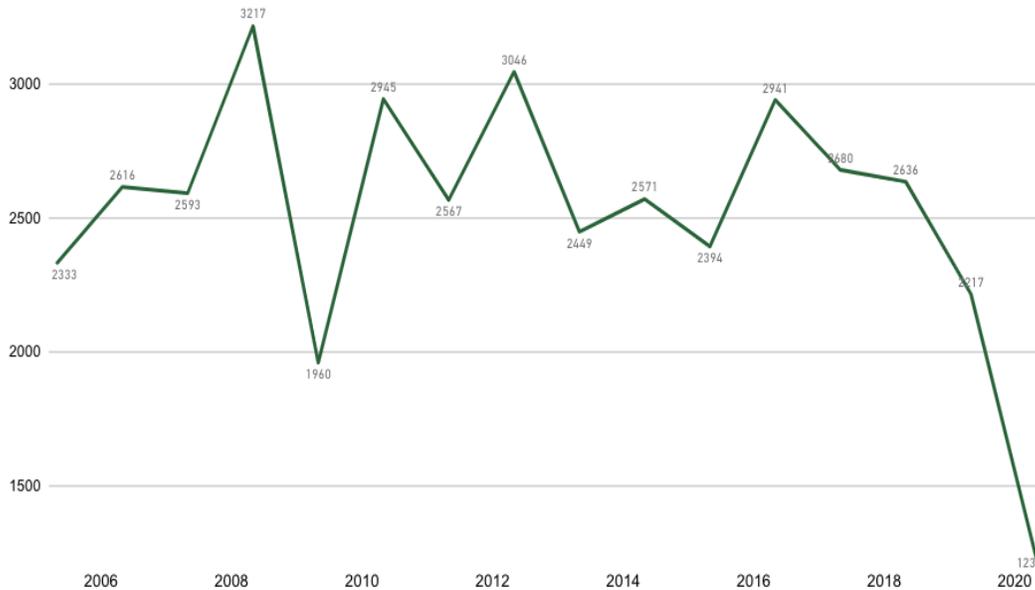


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Not to worry though, new listings absolutely plunged off a cliff, falling 44% from last years levels. In other words, new listings collapsed more than sales did- essentially preventing inventory from building.

Greater Vancouver Detached New Listings in May

Source: REBGV, Steve Saretsky



Meanwhile, months of inventory for the detached housing market sits at 7, which skews towards a buyers market. However, if you're looking for a detached house under \$2M there is just 4.9 months of supply for sale, so if you're hoping for prices to decline, good luck. That number needs to get above 6 and stay there for at least a few months

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Months of Inventory for Sale

Source: REBGV, Steve Saretsky



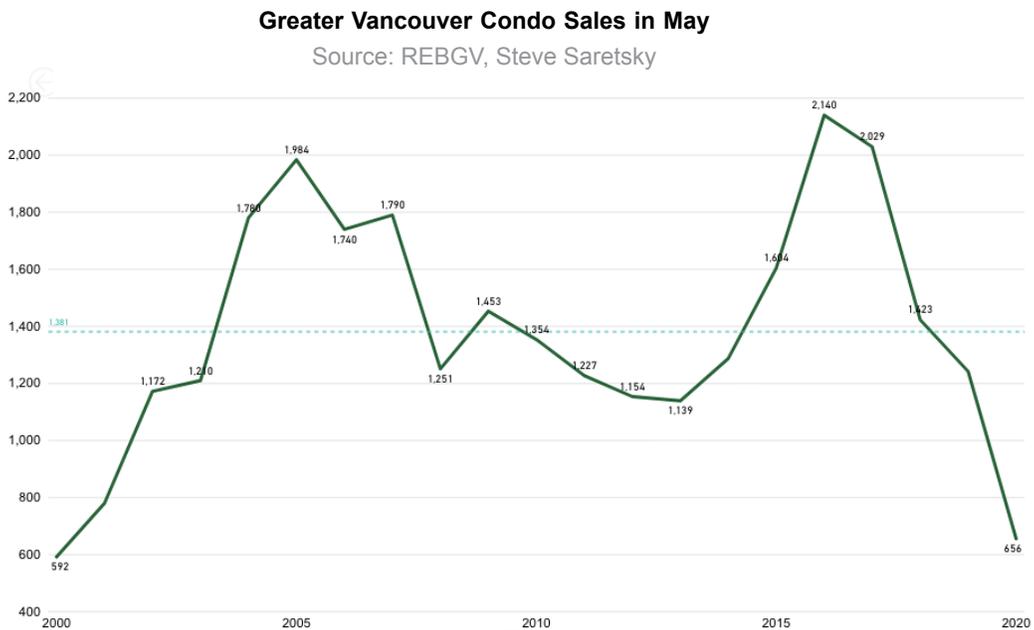
Prices are essentially unchanged, there is simply not enough inventory at the moment. It is not uncommon to see multiple offers for entry level single family homes. Remember, unlike the condo market, we are not really increasing the supply of new single family home construction. Most of the demand is coming from young families, trying to claw their way into the single family housing market. It appears they may have been less impacted by job loss and are competing for the dwindling supply of affordable houses on the market..

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CONDO HOUSING MARKET UPDATE

Condo sales tumbled 47% year-over-year in May. It was the lowest count since the year 2000.



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New listings also plunged, falling 30% year-over-year. It was the steepest decline since 2009 following the financial crisis.



However, as we can see, sales fell more than new listings. This allowed months of inventory to stay elevated at 6.7 which is indicative of a buyers market. Even for condos under \$500K we saw a bounce higher.

Price declines haven't shown up in any price indices, but keep in mind those are lagging indicators. The MLS benchmark showed condo prices were up 3.4% year-over-year. This number might not turn negative

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Months of Inventory for Sale

Source: REBGV, Steve Saretsky



for another four or five months. In the real world, condo prices are selling for about 5% less than before COVID.

The condo market has definitely been hit the hardest during the past few months. Given the weak labour market that is starting to pull rents down, coupled with what will surely be a reduction in population growth, and record new condo completions in the coming eighteen months, I believe the condo market faces a much tougher road ahead compared to the detached market. Furthermore, labour data shows a lot of the job loss has been concentrated in low and middle income earners, in particular millennials. They are one of the largest drivers of demand for condos so it's no wonder sales plunged 47%.

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INFLATION TARGETING

Love him or hate him, Bank of Canada Governor Stephen Poloz is on the way out. Poloz has been lauded for his near perfection in managing inflation, earning him the Central Banker of the year award in 2018. During his tenure, the Consumer Price Index has stayed within the central bank's comfort zone for inflation 92% of the time, a better record than any governor since the central bank started targeting inflation in the early 1990s.

However, there are certainly debates over the accuracy, or for that matter the relevancy of the consumer price index, which tends to disguise real inflation for you average hard working Canadian. In fact, if you were to ask any young or middle age citizen how much, on average,

the cost of living was rising each year, you'd most certainly get an answer higher than 2%. Once dubbed "The Candyman," Poloz's lower for longer stance on interest rates encouraged household debt levels to reach unsustainable levels, and allowed house prices to detach from incomes. Both of which have reached a point of no return.

I'll be the first to admit, Poloz was merely following his Central banking peers, caught between a rock and a hard place. As Poloz remarked in his final interview with Kevin Carmichael of the Financial Post, "I know counterfactuals are very hard for people to envision, especially when it's way in the back, so they just look at it and say, 'Wow, you kept interest rates really low and, therefore, the housing

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market really expanded and that caused all of this to happen, all of this debt and these vulnerabilities.’ Well, no, that was instead of a drawn-out recession, possibly a depression. So aren’t we far better off?”

And therein lies the million dollar question, are we better off? Certainly for a large portion of the demographic that is the case. Asset prices have inflated, enriching those fortunate enough to be in the ranks of homeownership. For those who missed out, and were left behind, it appears to be a near impossible mountain to overcome. How will this wealth

transfer, or lack thereof, impact future generations?

Perhaps Stephen Poloz’s tenure, and those who came before him, should be ultimately scored many years down the road. After all, our monetary and economic framework is being put to the test during this pandemic. While asset prices remain elevated near all time highs, a sign of success for central bankers, that may not bode well for the near 20% of those who are currently unemployed, and the 31% of Canadians who don’t own a home but are desperate

Canada: Past Phases of Monetary Easing in Recessions

Source: NBF Economics and Strategy (Statistics Canada data)



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to get on the housing ladder. The usual playbook of increasing affordability via lower borrowing costs appears to have run its course. Mortgage rates have only dropped a mere 17 basis points during the pandemic and have been range bound for years. Compare that to a 186 basis point drop after the financial crisis, or a 549 basis point drop in the early 1990's recession.

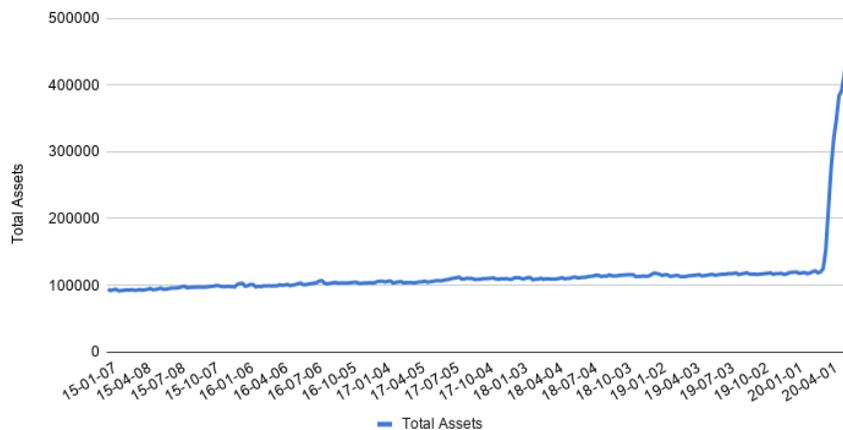
In other words, unless home prices decline significantly, housing affordability

will fail to improve. Of course, declining home prices conflicts with central bank policy, which has had the desired outcome of generating economic growth through the wealth effect generated by higher asset prices.

If the past decade was any indication as to the benefits of QE, then the wealth gap is set to blow out to new heights. The Bank of Canada has more than tripled its balance sheet over the past few months.

Bank of Canada Balance Sheet (Weekly)

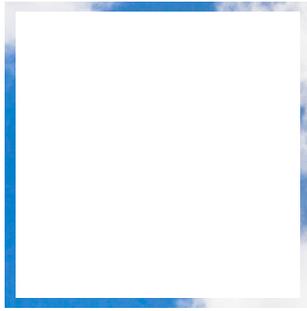
Weekly Wednesday, Billions of Dollars



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And while Canadians are simply unaware, or much too polite to say anything, it is clear there's a level of understanding that something isn't quite right. A level of social unrest is brewing. Homeownership rates peaked a few years ago and will continue to decline but, hey, at least CPI was near 2%.

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LENDING CONDITIONS

As discussed earlier, the total number of mortgages now in deferral at Canadian banks sits at 15%. Canadian banks have deferred a total of 721,000 mortgages and 413,000 credit card payments. Suffice to say, banks have tightened up a bit.

We are seeing more deals collapse due to financing, and even if there are multiple offers, they usually still contain a subject to financing clause. Mortgage rates have recently come back down again as funding pressures ease somewhat. Today a 5 year fixed uninsured mortgage is around 2.5- 2.7% % with most lenders, with insured mortgages about 20bps lower.

One thing I hear quite a bit is how low mortgage rates are. People say they are going to continue to boost the housing market. Perhaps over the long haul yes, you will see more money flow into real estate simply because all this “money printing” has nowhere to go. Central banks have essentially nationalized the bond market. Now they are talking about yield

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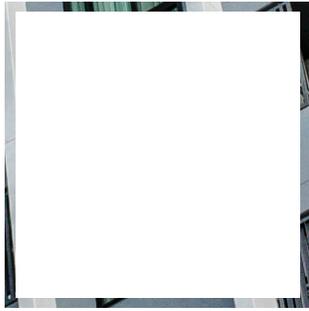
curve control should rates start to inch higher. So yes, money will have fewer places to go. However, these low rates haven't made housing any more affordable as five year rates have essentially been range bound for the past five years. This makes it more difficult to try and come out of a recession as there isn't a whole lot of room to ease debt servicing through lower rates. Something to keep in mind.

Meanwhile, CMHC has just announced they are tightening credit standards for insured mortgages. The new changes are as follows:

- Maximum gross debt service (GDS) ratio drops from 39 to 35
- Maximum total debt service (TDS) ratio drops from 44 to 42
- Minimum credit score rises from 600 to 680
- Borrowed down payments will be banned

This effectively lowers a borrowers qualifying amount by 11% for insured mortgages. Realistically this should have been done years ago when prices were accelerating, not when they are declining. Tightening credit into a downturn usually makes the problem worse. We shall see.

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DEVELOPERS HAVE BEEN QUIET

Real Estate Developers have been quiet. Despite land pricing coming down, it hasn't been enough to justify much of a pick-up in purchasing activity. Land sales in the first quarter of 2020 dropped 17% year-over-year and have been trending lower for quite some time.

Metro Vancouver Land sales by Quarter

Source: Altus Group, Steve Saretsky



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While this is somewhat of a lagging indicator due to the nature of land sales reporting, any recent uptick will surely be squashed due to recent economic events. The reality is the pre-sale market has become price sensitive as offshore investors have pulled back. This has made it tough for developers trying to sell high rise concrete condos. As such, we can see the total number of units launched on a quarterly basis continues to decline.

Total Units Launched by Quarter (With 12-Month Rolling Average)

Source: Altus Group, Steve Saretsky



With the offshore market pulling back, and local investors also becoming more conservative, developers will have to get competitive with their pricing and incentives. Wood frame projects seem to be where the action is at, which makes sense give the price points are more enticing for local end users.

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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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