



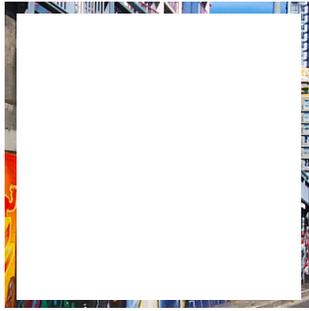
THE
SARETSKY REPORT
JULY 2020

SARETSKY
GROUP

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OPENING THOUGHTS

The Vancouver housing market continued to pick up steam in July following a strong bounce in June. There's truth to the pent-up demand story as buyers who normally would have pulled the trigger in the spring were pushed into the summer thanks to COVID. In fact, July was the busiest month of the year for home sales in 2020. It was also the busiest month so far for new listings. Realtors were run off their feet in July, in what is normally a slower time of the year. So yes, the spring market came unnaturally late this year, making it difficult to predict if this demand is sustainable as we move forward into the last part of 2020.

I have a lot of people asking me how sales activity can be so robust considering we are likely to register the steepest economic recession in Canada since World War 2. The first conclusion is that it must be foreign buyers once again. However, with borders effectively closed, offshore purchasers are stuck at home. In fact,

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as per official BC Government data which tracks land transfer statistics, foreign purchasing in the province of BC continues to plummet, and is now a fraction of what it used to be- as you'll see later in the report.

The big driver of housing activity right now appears to be cheap credit and a desire to increase living standards as people spend more time at home. Policy makers have provided the banks with ample liquidity to ensure the banks continue to lend. So, if you're wondering why house prices haven't corrected, and why CMHC's bearish forecasts of a 9-18% decline in prices is looking embarrassingly wrong, look no further than the Bank of Canada. The printing presses are running in overdrive, monetizing fiscal debt at an unprecedented pace. The Bank of Canada's balance sheet has grown by more than 400% since the pandemic, while Canada's M2 money supply has expanded by more than 10% this year. Furthermore, the central banks holdings of Canada Mortgage Bonds have grown by more than 30X.

As a result, borrowers are now enjoying record low mortgage rates, in some cases mortgage rates can be had below 2%.

Legendary investor Stan Druckenmiller put it best when he said "liquidity drives financial markets, not the real economy" those words have never been more true today.

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I am extremely skeptical that policy makers will be willing to take their foot off the stimulus pedal. In fact, newly appointed Governor at the Bank of Canada Tiff Macklem has been very clear he wants Canadians to continue borrowing. Reminding Canadians in a recent press conference he has no intention to raise interest rates anytime soon. “Interest rates are very low, and they’re going to be there for a long time. We recognize that Canadians, and Canadian businesses are facing an unusual amount of uncertainty, and so we have been unusually clear about the future path for interest rates. So If you’ve got a mortgage, or if you’re considering to make a major purchase, or you’re a business and you’re considering making an investment, you can be confident that interest rates will be low for a long time.”

So there you have it. The green light to speculate on housing.

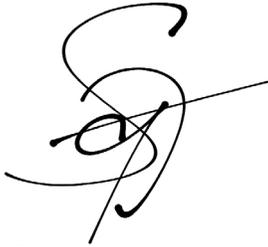
Don’t get me wrong, the housing market still has plenty of headwinds, but monetary policy isn’t one of them. The mortgage deferral cliff will be arriving later this fall and I suspect some homeowners will be forced to sell. The banks are likely to work with borrowers on an individual basis, and I can certainly envision a scenario where mortgage deferrals are extended for those who truly need it.

Furthermore, how policy makers deal with individuals coming off CERB, and how businesses cope in this new economic reality will further determine the

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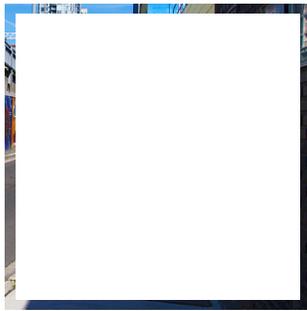
direction of the housing market. For now, things feel pretty good but there are simply too many moving pieces to draw any medium term conclusions. As always, we remain data dependent. Let's dive in.

Cheers,

A handwritten signature in black ink, appearing to be 'Steve', written in a cursive style with a large 'S' and a smaller 't'.

Steve

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DETACHED HOUSING MARKET UPDATE

Big bounce on a year-over-year basis for Greater Vancouver detached house sales. Detached sales

Greater Vancouver Detached Home Sales in July

Source: REBGV, Steve Saretsky



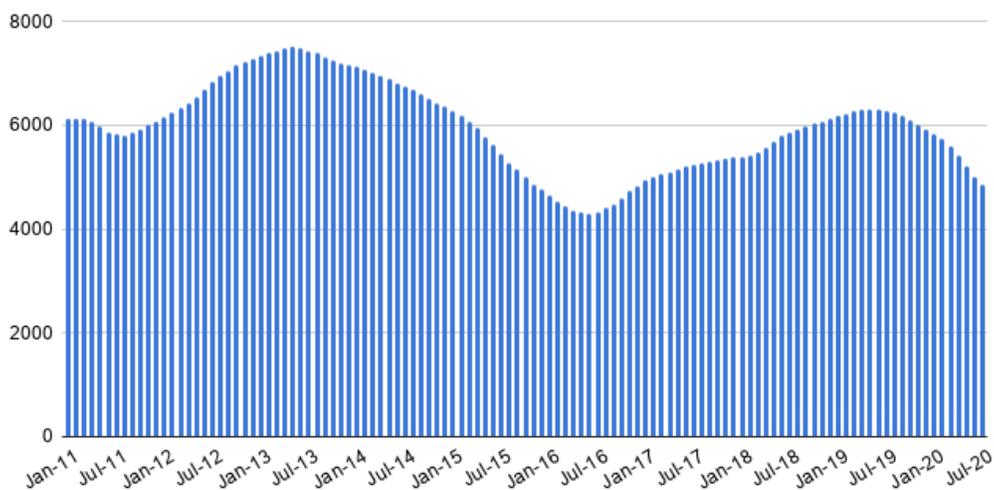
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increased 33% from last July and 7% higher than the ten year average.

New listings also bounced higher, increasing 20% from last year's levels. But remained virtually unchanged from June. In other words, despite sales increasing, new listings failed to keep pace. This is creating supply problems, as total inventory for sale falls closer to levels last seen during the 2016 boom.

Greater Vancouver Detached Inventory (12-Month Average)

Source: REBGV, Steve Saretsky

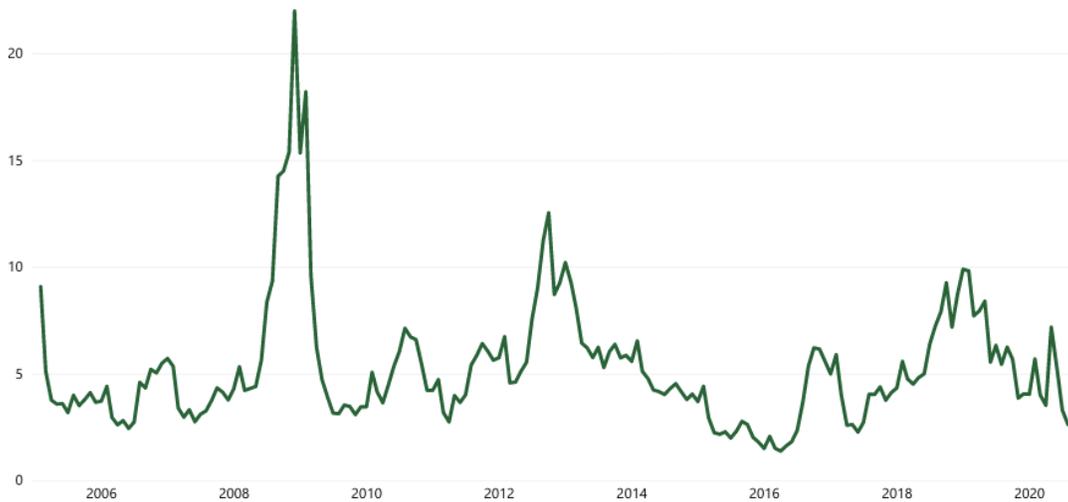


If you're looking for a detached house under \$2M, good luck. There is just 2.6 months of supply available across Greater Vancouver. That's down from 4 months in June. This is obviously putting upwards pressure on prices, and bringing more multiple offer situations.

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Months of Inventory for Sale

Source: REBGV, Steve Saretsky



It might be hard to believe it, but detached prices are actually higher today than they were pre-covid. Perhaps proving how difficult it can be to predict human sentiment. There appears to be a fundamental shift from buyers to get out of condos and into a bigger space (house with a yard) as people shift to working from home. In the near term it's hard to envision where additional supply will come from, as it's not like we are building more single family homes in the area.

Here's a chart on new single family house completions. They have been trending lower for decades as Greater Vancouver builds upwards, not outwards.

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Greater Vancouver Single Family House Completions

Source: CMHC, Steve Saretsky



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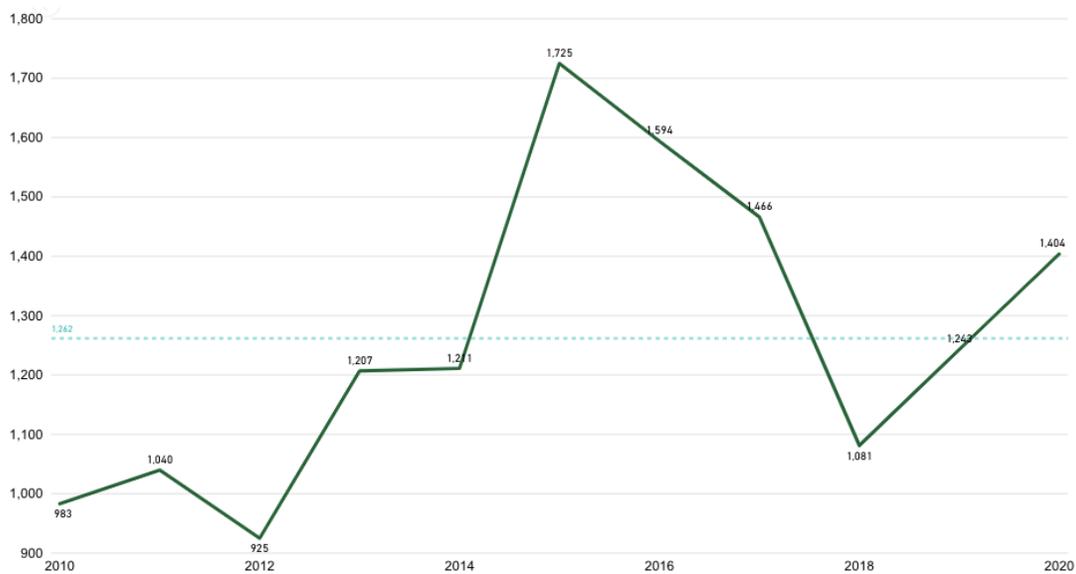


CONDO HOUSING MARKET UPDATE

The Greater Vancouver condo market varies by area, but for the most part is much softer than it once was. Investors are not very active at the moment, and the recent weakness in the rental market, combined with rising insurance costs is putting a real

Greater Vancouver Condo Sales in July

Source: REBGV, Steve Saretsky

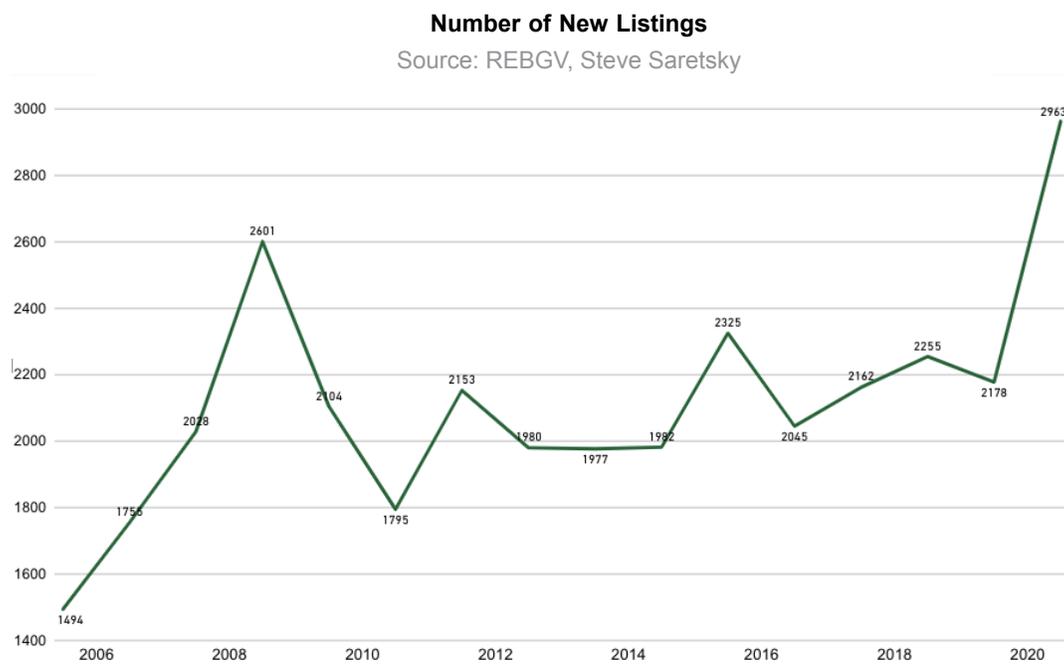


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damper on sentiment.

Yes, sales were up 13% year-over-year in July and above the ten year average. However, I find this to be more indicative of the spring market being pushed later into July as opposed to some sort of rebound/ robust market.

The real concern here is the massive increase in new listings for the month. New listings jumped 36% year-over-year. This was the highest number of new listings for the month of July in recent record.

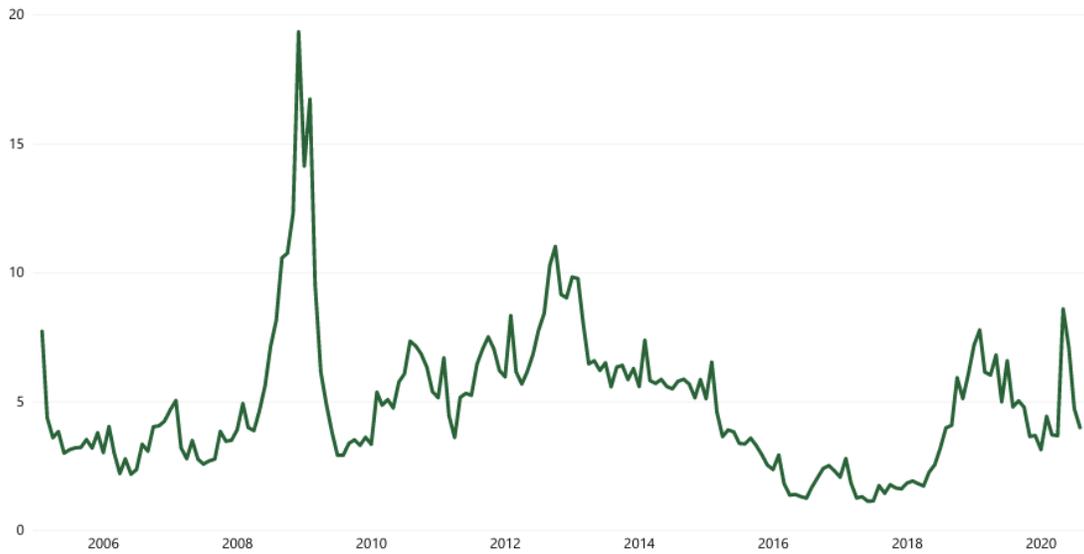


If the pace of new listings should continue anywhere close to these levels then we will see inventory move significantly higher. For now, months of inventory remains in check, currently showing a balanced market with 4 months of supply.

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Months of Inventory for Sale

Source: REBGV, Steve Saretsky

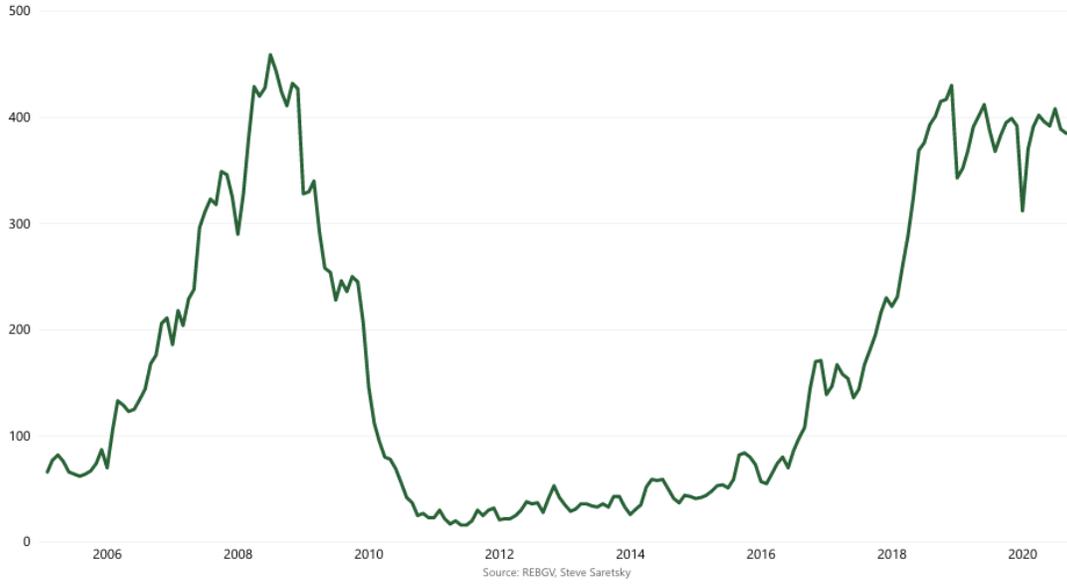


Although, there is plenty of reason to believe inventory will push higher. Investors look like they're doing more selling than buying, and if the number of new construction assignments for sale is any indication- that could continue.

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Inventory of Assignments for Sale

Source: REBGV, Steve Saretsky



Furthermore, new condo completions have hit record highs, and that will continue into 2021.

Vancouver Apartment Completions 12 Month Sum

Source: CMHC, Steve Saretsky

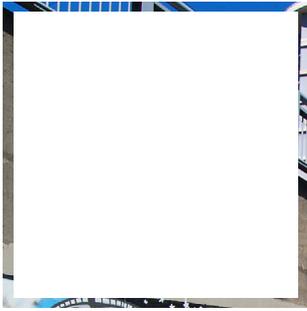


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Compare this with the chart on single family home completions and it begins to make more sense why single family home prices are rising and condos are not.

Overall, the condo market has softened a fair amount since COVID. It's a much different story than in the single family housing market. Prices are inching lower, although these minor price declines are not yet reflected in the MLS benchmark pricing which is a lagging indicator.

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FOREIGN BUYERS BE GONE

With the rather surprising increase in market activity during this economic calamity, a lot of Vancouverites are wondering if this is a result of foreign buyers looking for another safety hedge. The short answer is no. From a feet on the ground perspective we are seeing very little offshore investment at the moment, and BC Government data suggests the same. Per official land transfer data, foreign investment into residential real estate continues to fall across BC.

Monthly Sum of Foreign Residential Purchases in BC

Source: BC Stats, Steve Saretsky

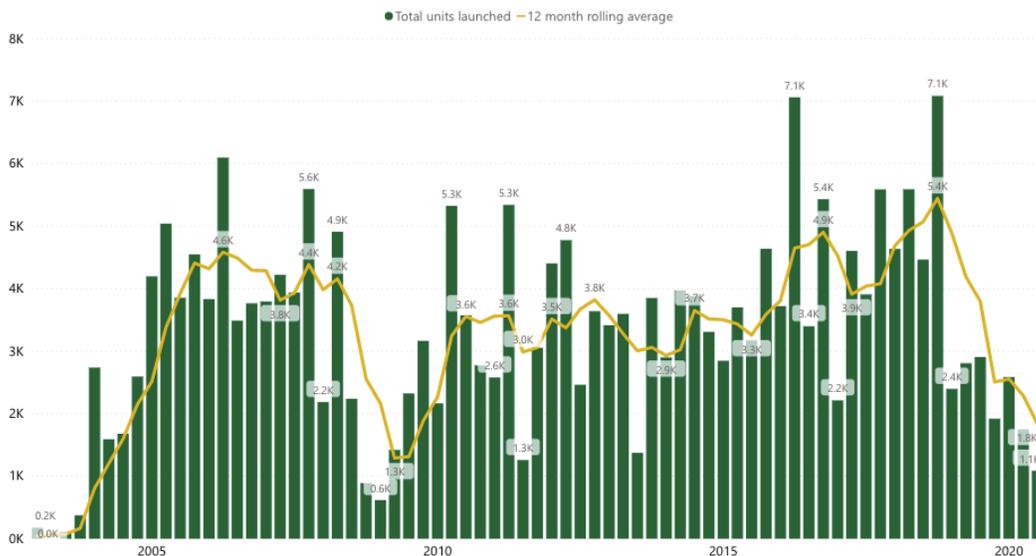


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The latest figure in June shows just under \$100M of purchases for the month. That's way down from a cycle high of \$400M set in early 2017 when data was first collected. As you can imagine, with travel basically ceasing to exist, it makes offshore purchases that much more difficult. I believe one area where this is clearly having an impact is in the luxury pre-sale condo market. This was a market heavily dependent on offshore investment. Property developers have been pulling back, with data from Altus Group showing a drastic reduction in new inventory being launched for pre-sale.

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

Source: Altus Group, Steve Saretsky



Now, don't get me wrong, we are seeing an increase in buyers from Hong Kong, at least anecdotally. However, many Hong Kongers are also Canadian citizens so they won't be captured as foreign buyers. I'm not convinced Hong Kong buyers are moving the market right now, they might be adding to it a bit, but it remains predominantly an end user market, with young families making moves into something more spacious.

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ANESTHESIA FOR THE PATIENT

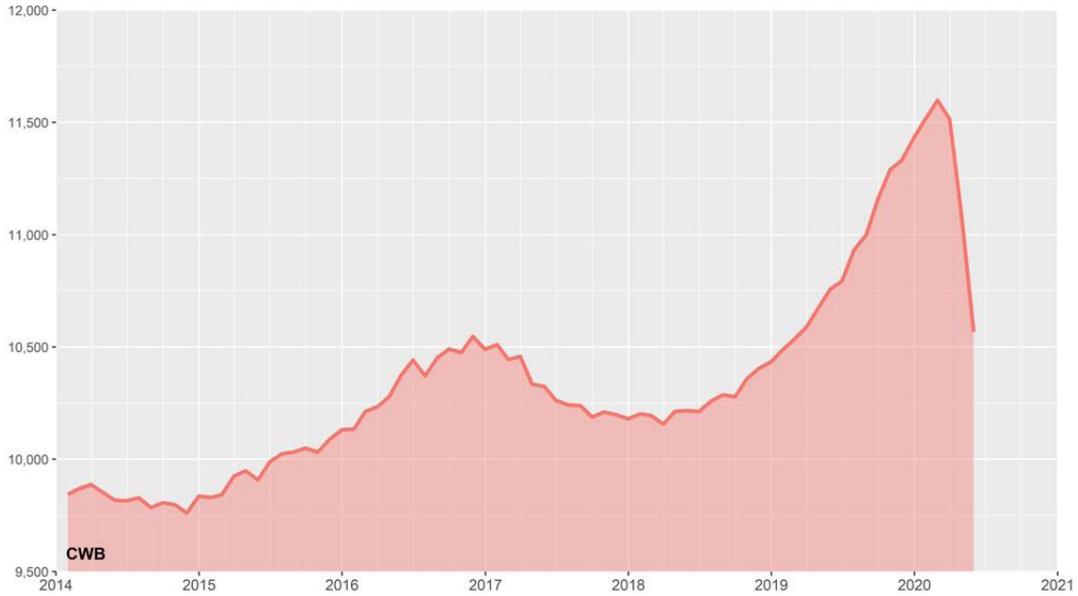
There was a mad panic when the economy was ordered to be shut down several months ago. How many businesses would be destroyed, and jobs lost? Not to mention the crushing debt loads that Canadian households are already carrying. Just how many foreclosures would hit the market?

Thankfully, our worst fears have been mitigated through unprecedented policy action. As of the end of July, 8.46 million Canadians received a CERB cheque. Further, 16% of all mortgages outstanding were at one point or another in deferral. This has all helped to mitigate the pain, or at least has put the pain on hold. With Canadians receiving a debt payment holiday, and the courts being closed, consumer insolvencies have actually plummeted.

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Consumer Insolvency, 12-Month Average, Canada

Source: Office of the Superintendent of Bankruptcy Canada

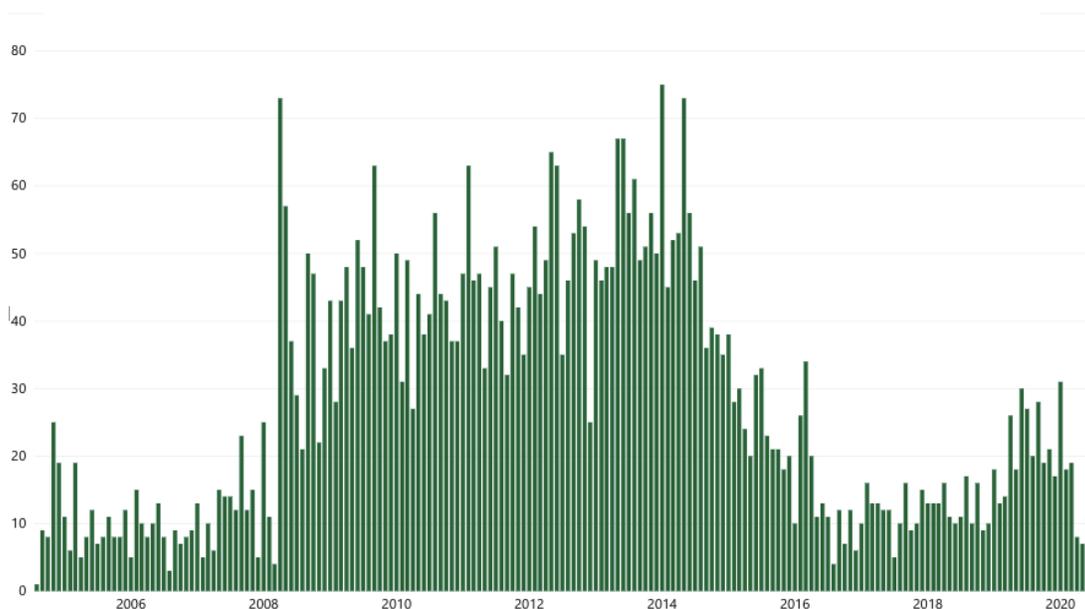


Here in Vancouver, we can also see the number of foreclosure listings hitting the MLS system fell during the early stages of the pandemic.

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Foreclosure Listings

Source: REBGV, Steve Saretsky



However, make no mistake, these will begin rising once again as the courts are now being reopened and mortgage deferrals begin to expire in the fall. I'm certainly not in the view that there will be a wave of foreclosures right away, instead you are likely to see a steady increase over the next couple of years. You see, the foreclosure process in BC is very long and drawn out. From the time you miss a mortgage payment, to the time the house sells in court, it takes on average between 12-15 months. Further, when a mortgage deferral expires it does not mean the banks will instantly begin foreclosure. Instead, they are likely to work with late borrowers on a case by case basis. This won't stop foreclosures from steadily increasing, but it will certainly mitigate the upwards trajectory.

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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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