

The background image is a wide-angle, aerial photograph of a snowy mountain landscape at night. In the foreground, several small wooden chalets with illuminated interiors are nestled among snow-covered evergreen trees. A bright light from a ski lift or snowcat illuminates a path through the snow. The middle ground shows a vast, dark valley filled with the glowing lights of a city, likely Vancouver, stretching towards the horizon. The sky is a deep, dark blue with some wispy clouds.

THE SARETSKY REPORT

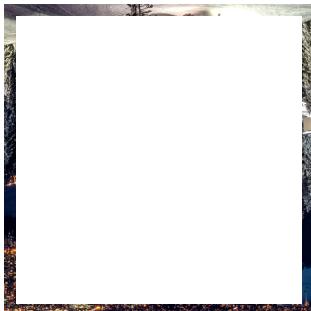
DECEMBER 2020

SARETSKY
GROUP

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OPENING THOUGHTS

As I illustrated in last months report, I continue to shift away from the idea of pent-up demand and pivot towards the view of a new bull market. I don't know how long it will last, but the data is simply too difficult to ignore. Following the trend, December recorded new record highs for home sales across Greater Vancouver. Home sales surpassed the 2015 bull market, and were up a whopping 54% on a year-over-year basis. Months of inventory for sale trickled lower, coming in at a mere 2.6 months of supply- the lowest reading since June 2017. These supply constraints are largely concentrated in the single family housing market, and is putting immense upwards pressure on prices, officially up 10% on the year as measured by the hedonically adjusted MLS benchmark price.

The strength of the housing market has been somewhat difficult to understand, and has reminded us all just how difficult it is to accurately and consistently forecast. Let us not forget, back on May

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27, 2020 CMHC released a forecast, suggesting, “Canada will experience a historic recession in 2020 with significant declines in all housing indicators. Sales are likely to register a decline in the range of 19% to 29% from their pre-COVID level before beginning a slow, gradual recovery in 2021. Our forecasts indicate that sales are not likely to recover to pre-COVID-19 levels by the end of the forecast horizon. Our forecasts indicate that the average MLS price will decline by 9% to 18% from its pre-COVID-19 level. Prices will begin to recover in the first half of 2021.”

Not only did this forecast fail to materialize, but it turned out to be the exact opposite. National home sales will hit record highs this year, and, as of November, the average MLS price was UP 18%.

Back in May this seemed like a rational forecast. The economy was in a tailspin, many businesses were closed, and pessimism was at nosebleed levels. Furthermore, the forecast came from our own government agency, the one responsible for our mortgage market. The same one loaded with economists and more data than anyone else. People were justified in hanging their hat on these forecasts.

However, when the facts change, one should also consider changing their mind.

The reality is that a combination of human emotions, combined with a sea of liquidity provided by

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monetary and fiscal policy makers altered the course of the housing market. I don't need to recount these policies, they are well documented in my previous reports.

And so, asset prices, Vancouver Real Estate being one of them, continue to inflate, despite economic gravity attempting to pull them down.

We are now on a course where the probabilities for house prices skew further to the upside than they do for the downside. This will undoubtedly create further societal frictions, as the wealth gap widens between those who own assets, and those who do not.

The Bank of Canada is well aware of the side effects, noting, in a recent interview that "inflation is born disproportionately by the less wealthy people, they tend to operate more in cash, and so they tend to disproportionately bear the cost of inflation."

However, inflated house prices are not in the Banks mandate, so don't expect them to reverse course anytime soon. They remain committed to keeping interest rates at zero through 2023, which I strongly believe is kerosene for a national housing market that is already inflating to dizzying heights. As such, I think it remains increasingly likely that policy makers like the federal government, or our banking regulator (OSFI) will be prompted to intervene to keep a lid on the housing market. After all, the higher it goes, the

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higher the risk to financial stability.

And so, as we enter the new year, I have the view that inflation pressures in the housing market will continue, ultimately prompting further political pressures to do something about it. There are already talks of a national foreign buyers tax, but that is just the tip of the iceberg. I don't envy the position of policy makers who will have to increasingly tip toe around trying to create housing affordability while simultaneously maintaining the riches of a nation built on the back of housing.

Imagine this, despite three million Canadians losing their job, households have seen their net worth jump by more than C\$600 billion since the end of last year as the value of land and residential structures held by households surged by nearly \$440 billion this year.

And so, as always, lets dissect the month that was in the Vancouver housing market...

A handwritten signature in black ink, appearing to read "Steve Saretzky".

Steve

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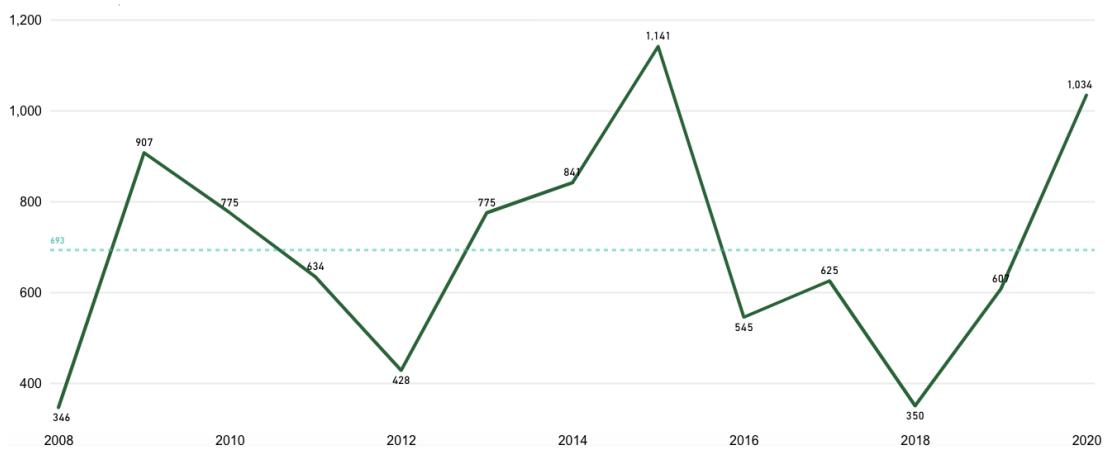


DETACHED HOUSING MARKET UPDATE

Greater Vancouver detached home sales surged 70% on a year-over-year basis. It was the second strongest December, just barely off the highs from 2015. If anyone remembers December 2015, prices were inflating at an unprecedented pace.

Greater Vancouver Detached Home Sales in December

Source: REBGV, Steve Saretsky

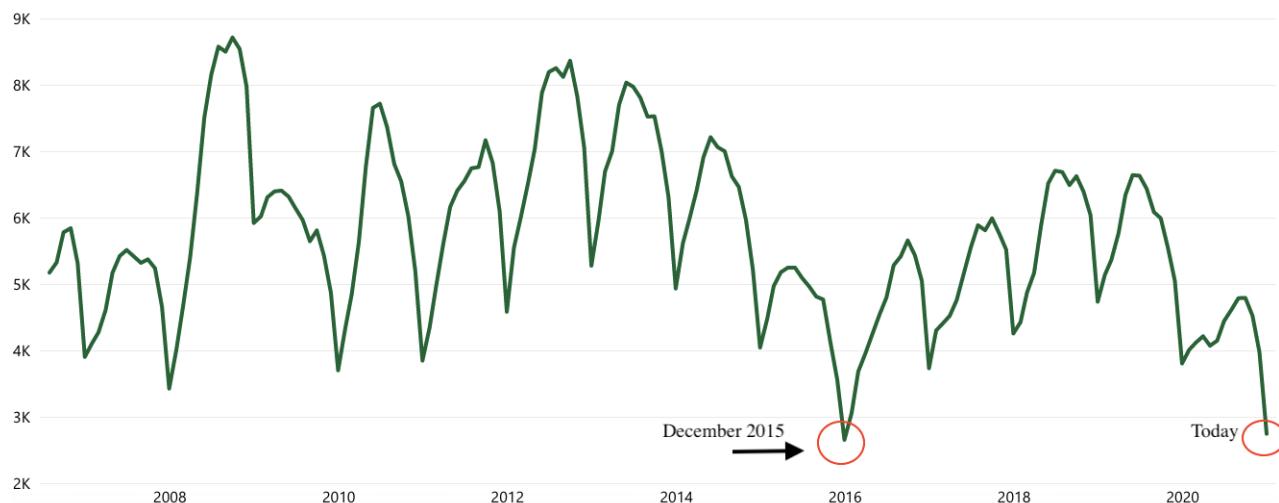


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New listings picked up significantly from last year, growing 40%. However, that wasn't enough to keep up with demand, resulting in another drop in inventory. Other than December 2015, total inventory for sale has never been this low.

Greater Vancouver Detached Inventory for Sale

Source: REBGV, Steve Saretsky

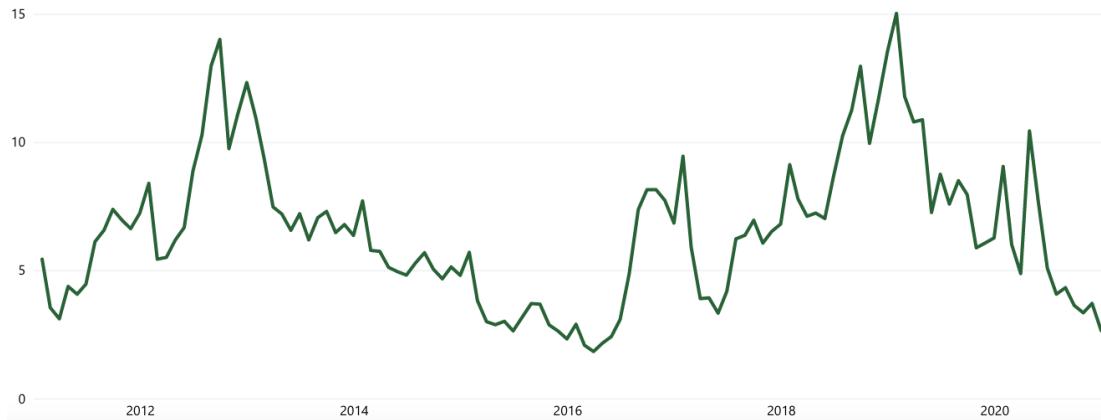


This resulted in months of inventory falling lower, now at 2.7 months. This has been the best predictor of prices. Everytime months of inventory falls below 4, prices start accelerating higher.

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Greater Vancouver Detached Months of Inventory For Sale

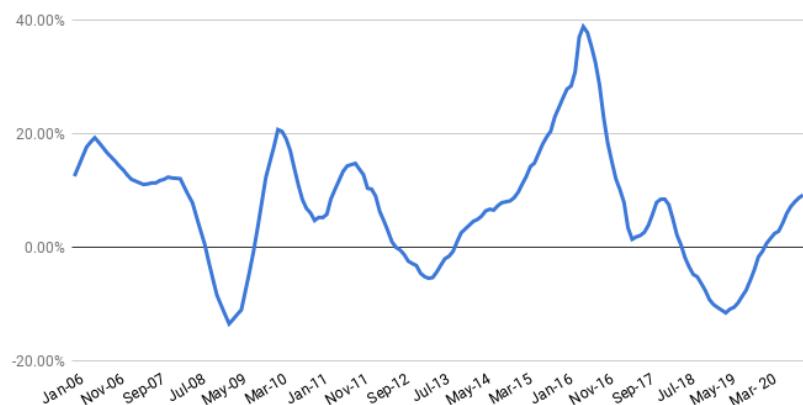
Source: REBGV, Steve Saretsky



The detached market is severely supply constrained right now and this resulting in continued bidding wars, and rapidly accelerating house prices. The official MLS home price index shows a gain of 10% to end the year, but again, this is a lagging indicator and I suspect we will see 15% price growth register in Q1 of 2021.

Greater Vancouver Detached Prices Y/Y

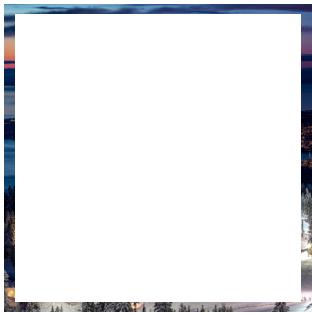
Source: REBGV, Steve Saretsky



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I have been fielding lots of questions on whether or not the demand for single family homes will subside once the pandemic fades and life can return to more normal. While I certainly agree that is a very likely scenario, what I can say with confidence is that until inventory replenishes to healthy levels, there will continue to be upwards pressure on prices. We are sitting near record lows in inventory and it will take several quarters just to replenish that shortage. Until that happens, it will be a competitive market for buyers trying to pull the trigger. Everyone is wanting more space during the pandemic, and that has created an insatiable demand for houses.

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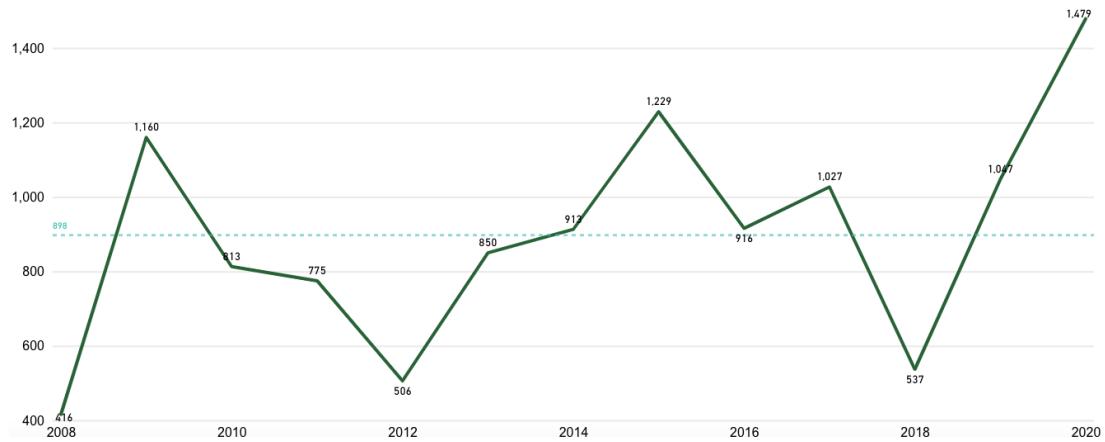


CONDO HOUSING MARKET UPDATE

The condo market had a great month, sales surged to record highs. Sales were up 41% from last year.

Greater Vancouver Condo Sales in December

Source: REBGV, Steve Saretsky

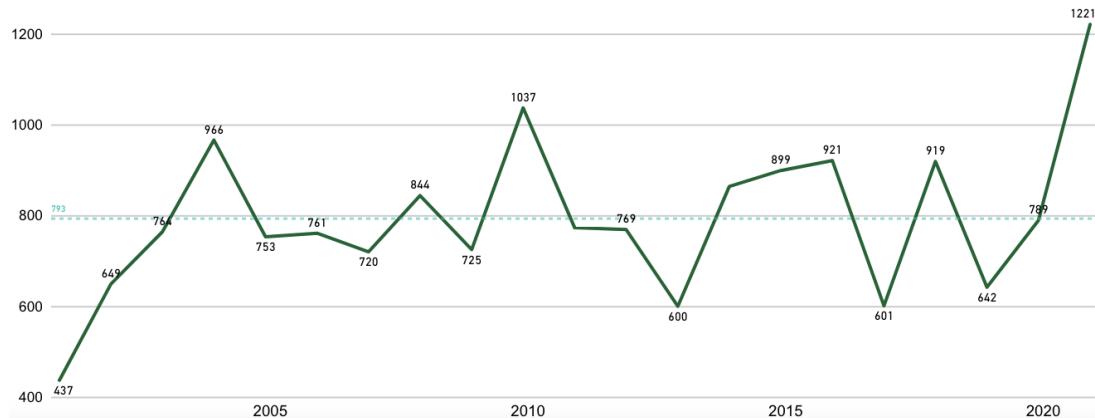


However, once again, as has been the case since the pandemic, new listings remain persistently high. They hit record highs for the month, and jumped 54% from last year

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Greater Vancouver Condo New Listings in December

Source: REBGV, Steve Saretsky



This is why it is so important to look at months of inventory. It cuts out all the noise and illustrates a clear picture. Months of inventory has plummeted to 2.8. It had been hovering around 4.5 over the past few months. Is this a sign that things are about to heat up in the condo market? Maybe.

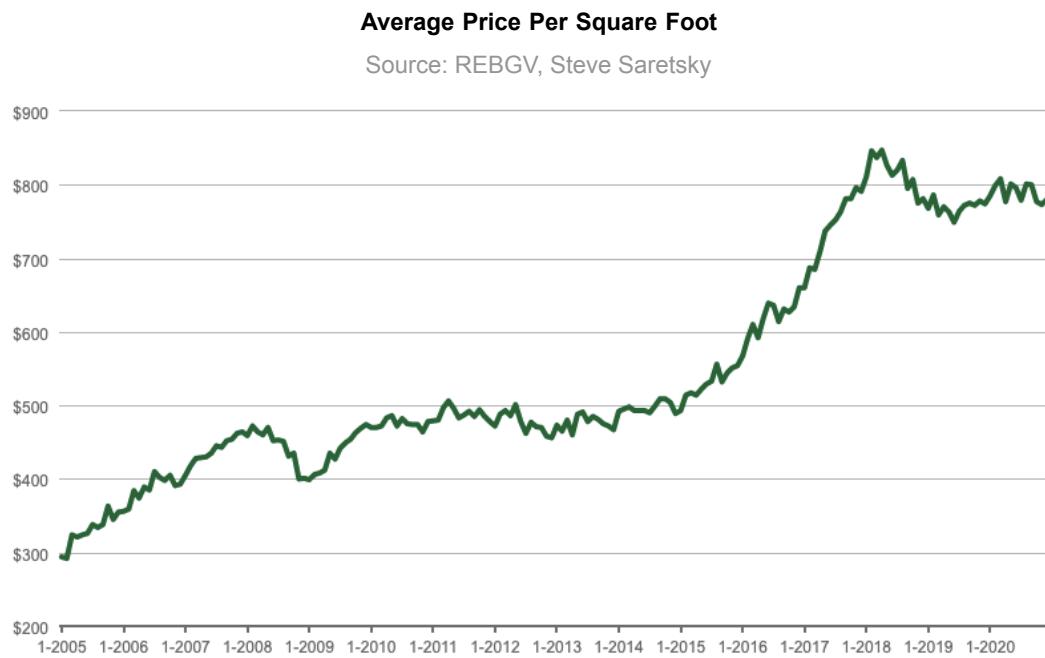
Greater Vancouver Condo Months of Inventory

Source: REBGV, Steve Saretsky



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Prices have been flat to down, depending on the exact location. The hardest hit market continues to be the Downtown core- for obvious reasons. However, the broader condo market has essentially been flat. The average price per square foot finished the year higher at 0.8%. Not a great return for investors when you consider the ongoing monetary debasement.



So where does that leave us? My personal view is that upside growth is likely more limited in the year ahead as listings remain elevated and there's still a lot of new condo supply coming to market. However, investors are slowly entering the market once again, and I suspect as hope emerges for an end to the pandemic, more investors will re-enter the market, absorbing a good chunk of that supply. While rents are depressed for now, money has never been cheaper.

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WHAT'S NEXT FOR THE MORTGAGE DEFERRAL CLIFF?

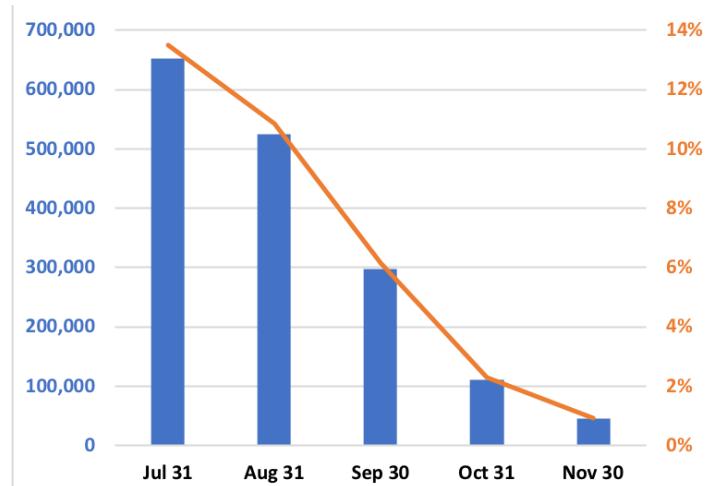
If there was one risk to the housing market it would be the end of deferrals. Or, at least, so I thought. The most recent data from the Canadian Bankers Association shows more than 743,000 (about 93%) of Canadian banks' total deferred mortgages have expired as of November 30.

That leaves about 45,000 mortgages left in deferral across Canada. As my good friend, Ben Rabidoux of NorthCove Advisors points out, Had all of those houses hypothetically been foreclosed/listed for sale that month, there would still have been fewer homes for sale across the country than in November 2019. In other words, Ben calls the deferral cliff a “nothingburger.”

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Mortgages in Deferral and Share of Total

Source: Canadian Bankers Association



I'm starting to come to a similar conclusion. While I have no doubt we will still see a rise in the number of delinquent mortgages across the country, the initial view of a wave of foreclosures sweeping the nation looks like it won't materialize.

In fact, when I speak with mortgage investment corporations, and private lenders, they are reporting very little stress right now. Keep in mind, if anyone is going to experience a delinquent mortgage first it will be these guys. Most of them only allowed for a one or two month deferral, unlike the big banks which allowed for six months.

The reality is, monetary and fiscal policy has overwhelmed initial stresses. Household net worth is actually up, savings rates have exploded higher, and CIBC is reporting that Canadians are now sitting on an extra \$90B of spare cash. It turns out the magic money tree does exist.

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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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