THE SARETSKY REPORT

MARCH 2021

SARETSKY
GROUP

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OPENING THOUGHTS

Now that consensus has finally figured out this is no longer a case of pent-up demand, but rather a new bull market, people are looking for someone to blame. As I mentioned in last months report, this was a housing boom manufactured in Ottawa. Ironically, in a recent media interview, former Bank of Canada governor Stephen Poloz, admitted the recent housing boom was an intended consequence. "If the side-effect is a hot housing market, that's one I'll take every day." - Poloz responded when asked about the extreme monetary policy measures taken at the onset of the pandemic. Adding, "It's hot, and we could see signs of speculation, but we have to accept that because otherwise we would have a really, really bad recession."

For every action there is a reaction. As you can imagine, there is no free lunch. While the rampant inflation of house prices has aided those who already own a home, it has made it increasingly more difficult for those who do not. Per Stats Canada, The 2020 housing boom saw Canadian homeowners add over $1 trillion to their net worth. While renters saw their net worth expand by less than $90 billion. In other words, The average homeowner added $66,000 per household, while renters added less than $5,000 per household.

This is stoking societal frictions, and whether you like it or not, it is responsible for increasing media attention, as a loud portion of society demands government intervention to slow rampant house price inflation.

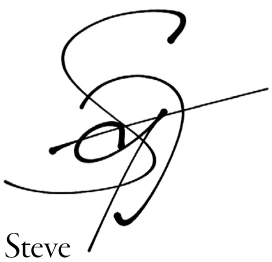
I am not confident Government will introduce any drastic policy measures, although speculation is growing with the federal government expected to announce a new budget. At its current pace of growth, Government will be forced to intervene with new measures sooner rather than later. For now, they will attempt to ride a hot housing market out of this pandemic induced economic contraction.

So what to do with the hot housing market? There's probably not a whole lot that you can do right now. While we can attempt to reign in the abundance of liquidity sloshing around financial markets, that also risks derailing the economic recovery. The reality is a global pandemic has completely altered our daily lives, upending our work and living situation, with some people believing, right or wrong, that this is a permanent shift. As a result, people are moving. The past twelve months will go down as the Great Reshuffling.

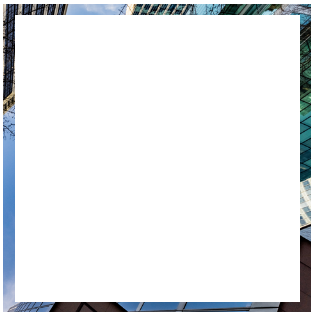
What was once considered "pent-up demand" has clearly morphed into something entirely different. A housing bull market that is being driven not only by excess liquidity but also human emotions. People are spending an inordinate amount of time at home and thus are re-considering not only where they want to live, but how they want to live.

Look no further than the recent data coming out of Greater Vancouver. March home sales surged to all time record highs for the month. Despite little to no population growth and a weak labour market, home sales are ripping, surpassing even the 2016 foreign buying boom. Yes home sales are unbelievably high, but so too are new listings. New listings were up 86% year-over-year and also set record highs for the month. In other words, whether upsizing, downsizing, or simply relocating, people are on the move.

As always, let's take a further look at where people are moving and how this is impacting the Greater Vancouver housing market.

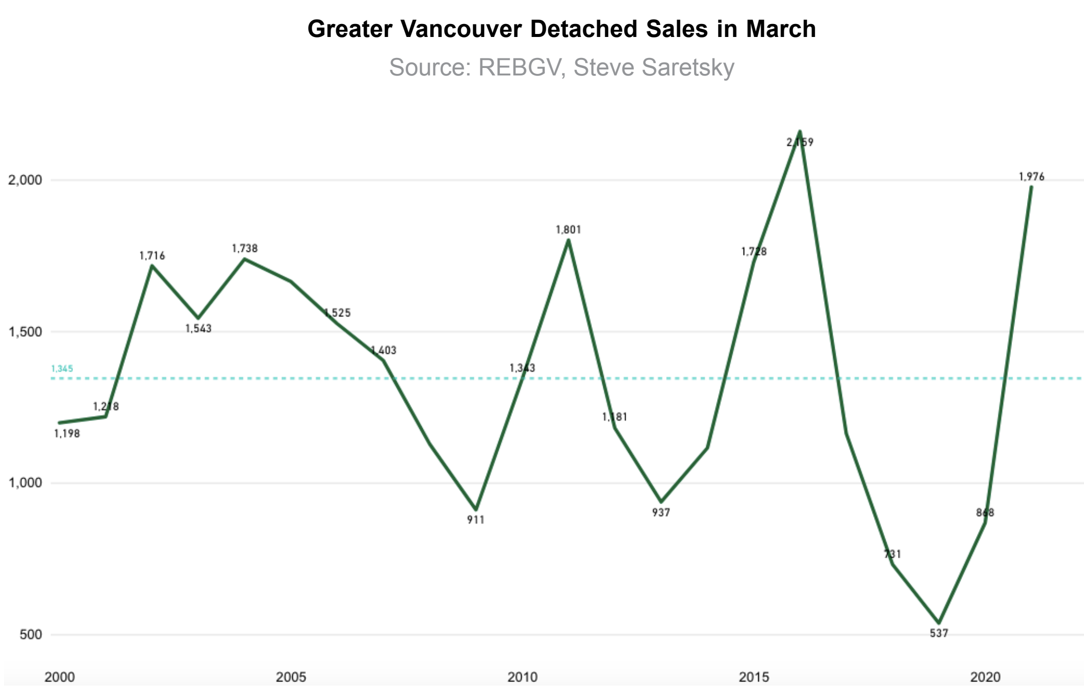


Steve



DETACHED HOUSING MARKET UPDATE

Detached housing sales surged 126% year-over-year. Keep in mind this is coming off a weak base, as March 2020 sales were incredibly weak due to the pandemic shut-downs. Still, detached sales this March were just shy of record highs set in March 2016.



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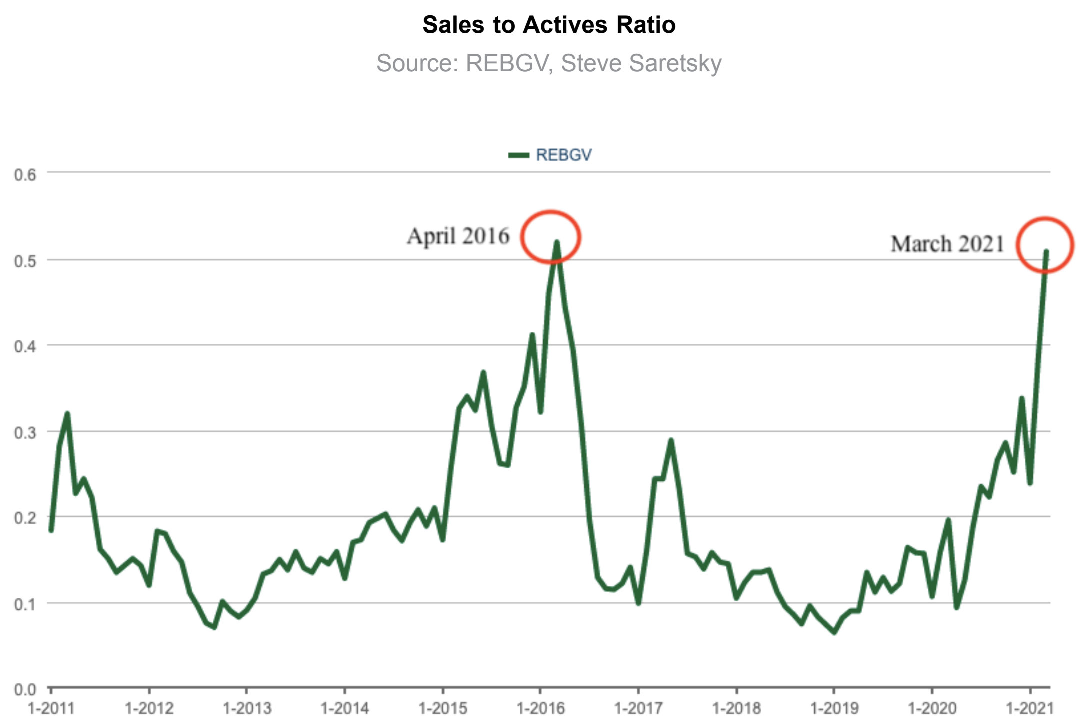
New listings surged as well, hitting record highs in March, so clearly people are not afraid of listing their home for sale during the pandemic (a myth that has been circulating for awhile). So what gives, record sales and new listings?

This is why it is so important to look at both the sales to actives ratio and the months of inventory ratio. Both are capable of filtering out the noise and are strong leading indicators of future prices.

The sales to actives ratio for detached homes in Greater Vancouver ramped to 51% in March, the highest reading since April 2016.



Meanwhile, months of inventory is also collapsing, now at its lowest levels since March 2016.

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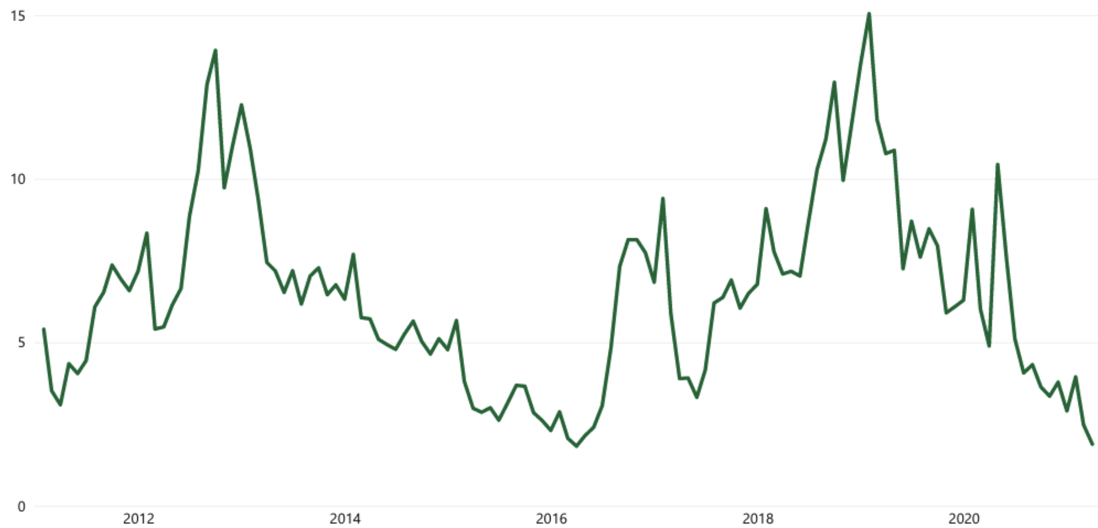
Greater Vancouver Detached Months of Inventory for Sale

Source: REBGV, Steve Saretsky



The acute shortage of inventory continues to drive bidding wars. Here we can see that 55% of all detached homes sold in March were sold above the asking price.

Percent of Detached Sales Sold Above Asking Price

Source: REBGV, Steve Saretsky

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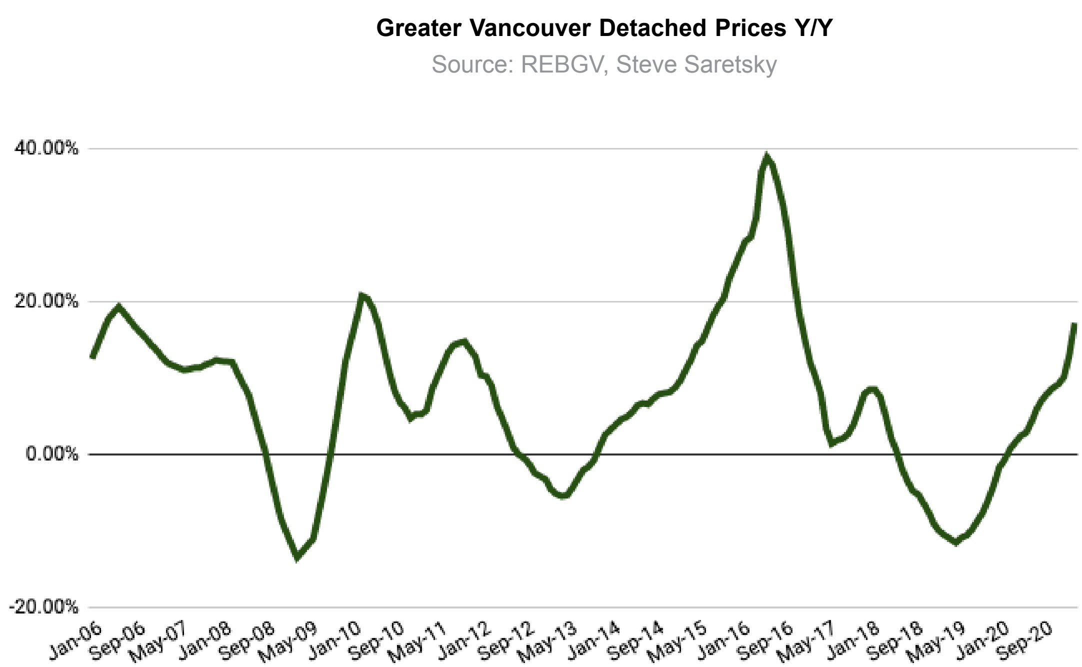
Basically every metric coincides with the last blow-off top we experienced in the spring of 2016. If this isn't the top, we are pretty close to it. Remember, the cure for high prices is high prices. Higher prices eventually bring on opportunistic sellers looking to cash in on massive windfalls, while also fatiguing buyers as they become demoralized with existing market conditions.

Prices are also going through a blow-off top, up 4.9% month-over-month per the home price index. On an annualized basis this results in 60% price growth per year- clearly not sustainable.

As of right now, the MLS home price index shows 17% price growth year-over-year, but given it is a lagging indicator it will continue to rise in the coming months even if the market cools from here.



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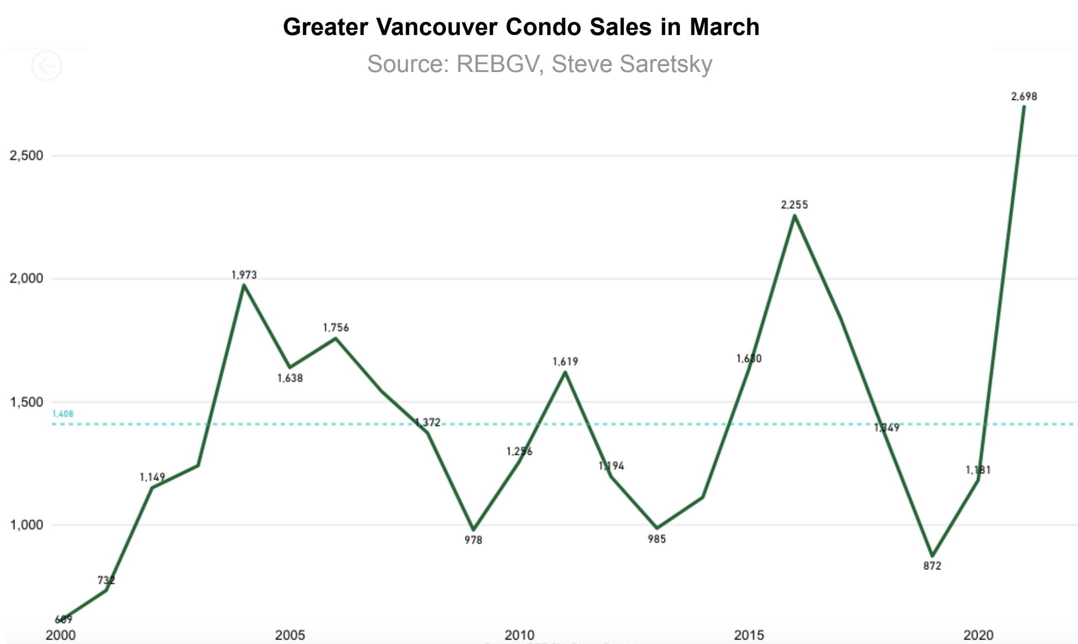
In summary, buying conditions are the worst they've ever been, other than the very peak of the 2016 boom. New listings are ramping up and early signs of buyer fatigue are emerging. Proceed with caution.

CONDO HOUSING MARKET UPDATE

As mentioned in last months report, I remain very bullish on the condo market. Largely ignored throughout this bull market, condo sales have been setting record highs for nearly six months. March was one for the record books, setting new highs again.



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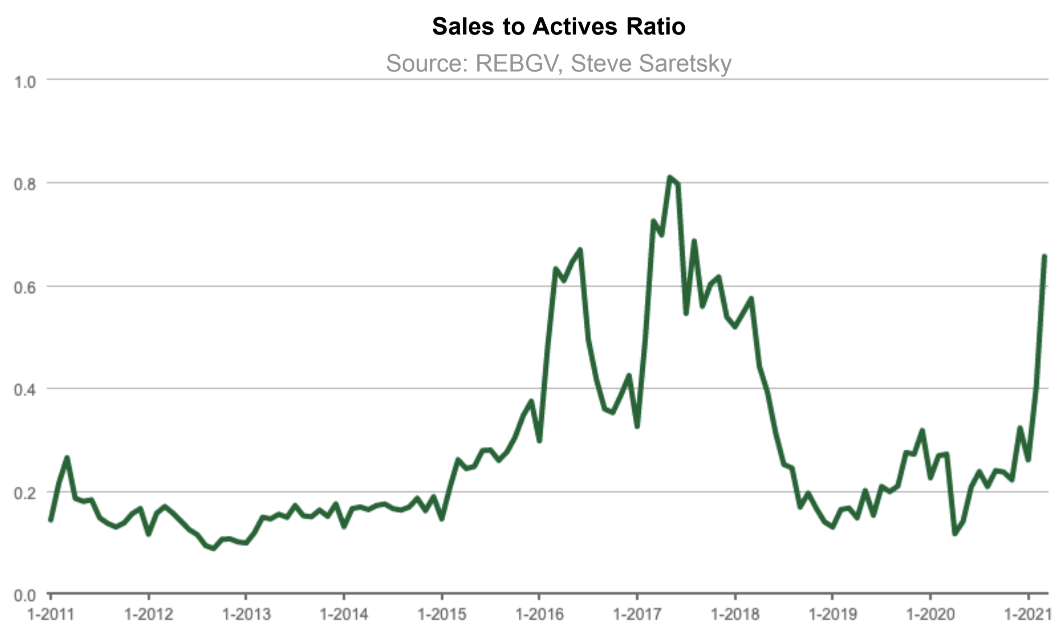
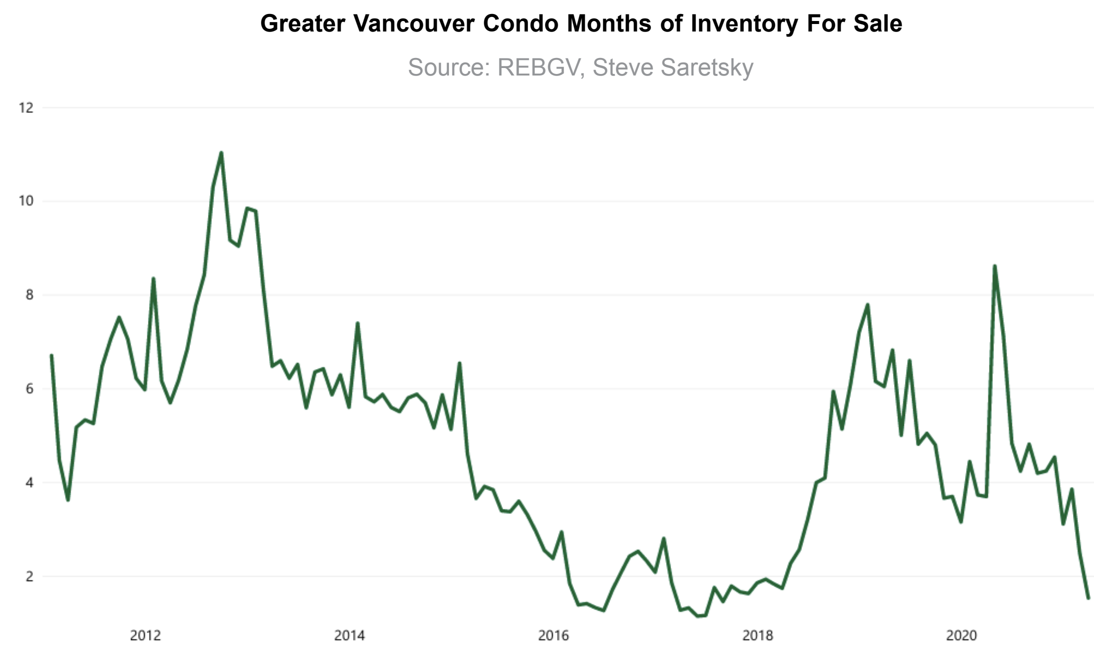
Similar to the detached market, new listings also printed new highs. However, again, one needs to focus on the sales to actives ratio along with months of inventory in order to filter through the noise.

The sales to actives ratio has gone parabolic, hitting 66% in March, the highest reading since August 2017.



Meanwhile, the months of inventory has collapsed to just 1.5. This is impressive considering we hovered around 4.5 from June through November. I have been pounding the table for a while now, as it was inevitable the condo market would have to follow the rest of the market in due course. You can't have detached and townhouse prices inflate by 20% or more and think the condo market will simply stay flat.



So now condo prices are rising, and while the year-over-year change in the MLS home price index suggests they are only up 4% from last year, they just moved 2.6% in one month.

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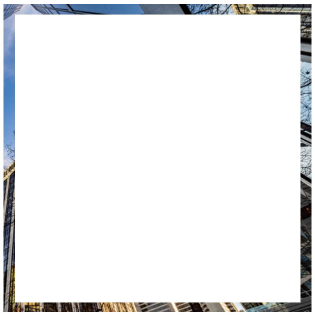
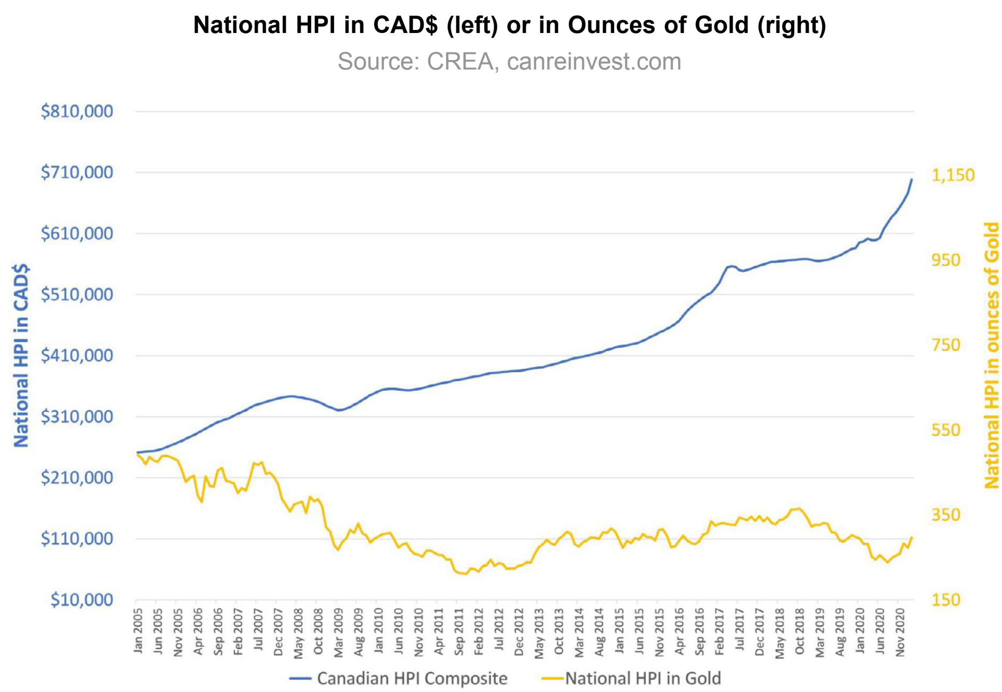
While I will stop short of making any predictions, what I can tell you is that every data point suggests condo prices are moving higher, there is a clear runway ahead.



HIGHER HOUSE PRICES OR CURRENCY DEVALUATION?

Are house prices rising or is the purchasing power of the currency being eroded? Today, the average person is dumbfounded as to how or why house prices are rising. We are in the midst of a pandemic, we have the highest unemployment rate since World War 2, and population growth is at a standstill. Yet, nationally, home prices are up 17% to record highs. How can this be?

Well, we flooded the system with liquidity. The Bank of Canada has expanded their balance sheet by over 300%, hoovering up Government bonds in order to lower the cost of credit. We have increased the supply of money in circulation by more than 15%, and credit growth (money creation) for new mortgages is at a 10 year high. In other words, the printing presses are running in overdrive, creating new money, and effectively devaluing the purchasing power of the existing currency. In times like this we need to think differently. Yes house prices are rising in Canadian dollar terms. However, when measured in ounces of gold, which has been considered a store of value for over 5000 years, house prices are effectively unchanged.



In other words, you need to divide the home price index by the the price of gold. By doing so you can that it requires fewer ounces of gold to purchase a home today than it did back in the early 2000's.

We can see the same for Greater Vancouver. The home price index is surging to new highs when measured in Canadian dollars. However, when

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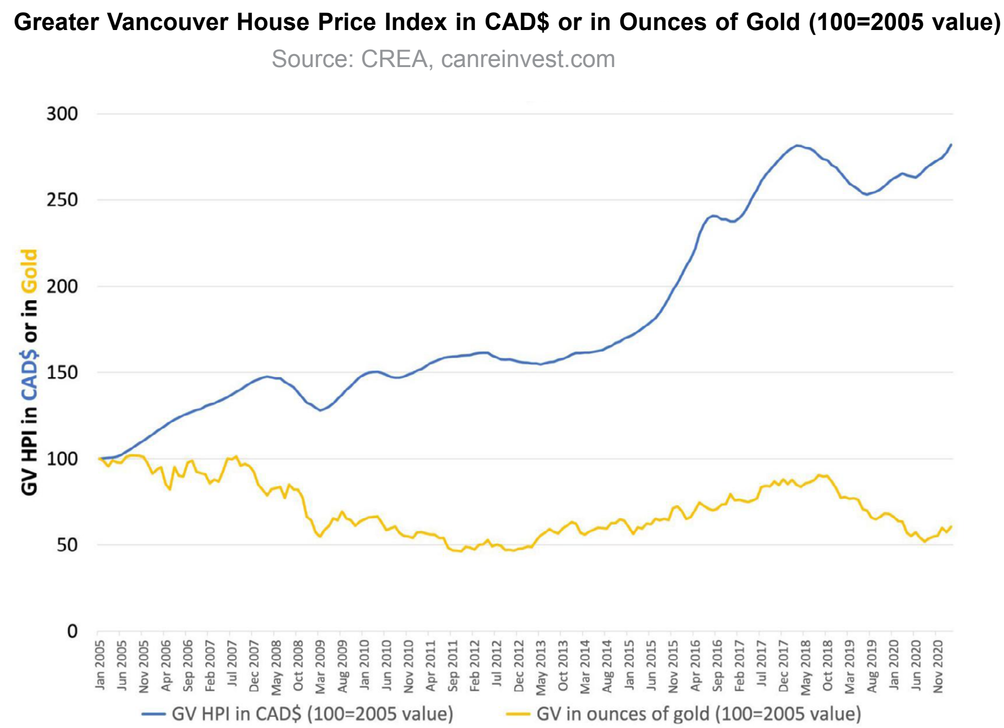
measured in ounces of gold, house prices are basically flat, and have been for a long time.



I understand nobody is buying houses using gold bars. However, it does provide context for the rampant inflation in house prices today. I prefer to look at the recent house price inflation as nothing more than a currency that is losing purchasing power. You can't run massive budget deficits, and print a whole bunch of money without repercussions. When faced with mounting debts, the currency becomes the release valve.

As JP Morgan said back in 1912, gold is money, everything else is credit.

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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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