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OPENING THOUGHTS

With lockdown restrictions essentially coming to an end, home buyers returned in June. After being suppressed in April & May, the two busiest selling seasons (on average), a wave of pent-up demand infiltrated the Vancouver housing market in June. Sales jumped 64% month-over-month and showed a positive increase on a year-over-year basis. However, once again we need to contextualize things. Basically what has happened here is that the spring market was put on pause, April and May recorded record low sales volumes and so the spring market was pushed to June and should continue in July and perhaps August. As we'll get into later in the report, despite the “pent-up demand” June sales were still incredibly weak from a historical perspective. In fact, home sales in June were 21% below the ten year average. Meanwhile, new listings have bounced back as well, increasing 38% month-over-month and near normal levels for June. However, all in all, inventory levels remain low and that has kept prices firm.
While the recent bounce in sales activity has brought back some optimism and shelved the idea of a market crash, let me make this clear, this is by no means a healthy market. Activity is all over the place, some product is selling extremely well and others not so much. We are seeing spurts of multiple offers and lots of other places going no bid. Navigating the market has never been trickier.

Although, let’s be honest this should not be surprising. We are still in a once in a lifetime global pandemic, and officially in the deepest recession since World War 2. Kudos to policy makers who have managed to suppress much of the pain via 743,000 mortgage deferrals and CERB cheques for over 8 million Canadians. Furthermore, a temporary halt on tenant evictions, consumer insolvencies, and foreclosures has halted economic gravity.

As I have stated numerous times, it is likely smooth sailing this summer until we get a better read on how policy makers decide to deal with the mortgage deferral cliff in Q4. However, keep in mind that in BC the foreclosure process is extremely long and drawn out, from the time a borrower misses a payment till the time the house is then sold via court order can take upwards of 12-15 months. In other words, foreclosure sales likely won’t peak for another couple of years.

Again, policy makers are doing everything they can to
support the market and prevent prices from dropping, and so far they are doing a great job of destroying free market price discovery. The Bank of Canada’s balance sheet has more than tripled since March, including over 8 billion worth of Canada mortgage bond purchases. This has pummelled mortgage rates into the floor, with 5 year mortgage rates now in the low 2’s and clearly those who still have jobs are taking advantage of this incredibly cheap money.

Long story short, it is much too soon to declare any clear direction for the housing market. We are in a world of uncertainty and I suspect that will continue for the rest of the year. Stay tuned

Cheers,

Steve
DETACHED HOUSING
MARKET UPDATE

Detached home sales across Greater Vancouver bounced 16% on a year-over-year basis in June.

Greater Vancouver Detached Sales in June
Source: REBGV, Steve Saretsky
However, when you zoom out further it leaves much to be desired. Sales volumes remain chronically low.

But then again, new listings remain benign. While they have increased from last years levels, they remain well below normal.

![Greater Vancouver Detached New Listings in June](chart)

Source: REBGV, Steve Saretsky

Basically it seems nobody is selling their houses. As new listings remain low, inventory for sale is not building. Despite the economic downturn, in order to see lower prices you will need supply to build, putting pressure on sellers to reduce their prices. As of the end
In other words, all the commotion you’re hearing about the detached housing market being hot and a bunch of houses going into multiple offers is not due to a frenzy of buyers desperate to get in, but rather, very few listings means buyers have very few options.

For detached houses under $2M, there is only 4 months of supply for sale. That’s considered a tight market and if it holds at that level for several consecutive months it could actually put upwards
pressure on prices. Hard to believe, but I don’t make the rules.

Obviously under these conditions, detached prices remain firm. Move in ready homes under $2M are selling quite quickly.
Condo housing market update

Greater Vancouver June Condo Sales
Source: REBGV, Steve Saretsky

Condo sales were not good. Condo sales increased 17% year-over-year, but keep in mind June 2019 was a 17 year low. In other words, despite incredibly weak base effects and some “pent-up demand” from the spring market, we were left with a rather lousy rebound.
Unlike the detached market, new listings surged in the condo market. There was clearly some pent-up supply from the spring market. New listings for the month of June rocketed higher to their highest level since 2008. It is likely this is partially influenced by investors and AirBnB hosts dumping some of their product.

![Greater Vancouver Condo New Listings in June graph](image)

Total inventory for sale is clearly building, although still quite a bit lower than last June. Inventory will need to continue growing to see downwards pressure on prices.
Months of inventory for sale in the condo market currently sits at 4.6, which is still fairly tight. Of course this will vary by price point and location. The hardest hit area today seems to be Downtown Vancouver as there appears to be a migration happening outwards towards the suburbs as people seem to think they’ll be working at home for an extended period of time.

As mentioned last month, there appears to be some price discounting in the condo market, although there is a lot of volatility and it’s becoming increasingly difficult to map to an exact percentage. Here’s the average price per square foot today showing very little change at the moment.
Average Price Per Square Foot
Source: REBGV, Steve Saretsky
INSURANCE CRISIS RAMPING UP

The much talked about strata insurance crisis is ramping up. Strata buildings renewing their insurance are being hit with significant levies as insurance companies adjust for what they are siting as an increasing number of claims and rising repair costs associated with those claims.

As a result, per the BC Financial Services Authority, insurance premiums have risen an average of 40% across BC and a staggering 50% in Metro Vancouver. Furthermore, insurance deductibles have skyrocketed higher, tripling in some instances. The largest increases appear to be hitting high-rise condos.

As a result of all of this, we are seeing stratas react by raising small special levies to cover the increase or raising monthly strata fees to offset the costs. Overall, this is a further blow to housing affordability and something the BC Financial Services Authority is calling “unhealthy.”

On June 23rd the BC Government announced several policy decisions to try and mitigate the damage. The government aims to end the charging of referral fees between insurers or insurance brokers and property managers or other third parties, as well as require the disclosure of commissions. “We heard the commissions could have been up to 20 per cent of the cost,” said Finance Minister Carole James in a press conference. In addition,
the BC Government is encouraging strengthening depreciation reporting requirements (including a limit to use of loopholes to avoid these reports), changing the minimum required contributions made by owners and developers to the contingency reserve fund, and strengthening notification requirements of changes to insurance coverage and costs.

Still, make no mistake this will do little to solve the crisis in the private insurance sector. It’s believed the BC Government is working on further measures to be announced in the fall. Regardless, both homeowners and prospective buyers should be factoring in higher strata fees moving forward.
Central Banks are working around the clock to flood financial markets with liquidity and suppress interest rates from rising. Indeed central bank balance sheets have ballooned to new, incredible heights, going so far as purchasing just about any kind of debt they can get their hands on, including corporate junk bonds. The Bank of Canada has joined in on the party in their first official foray into Quantitative Easing. Here’s the latest snapshot of their balance sheet which now includes provincial, corporate, and mortgage bonds just to name a few.
Speaking of which, they have been aggressively growing their book of mortgage bonds.

In essence, these purchases help to create liquidity for the banks by clearing up their balance sheets. This allows them to continue lending and issuing new mortgages while at the same time helps keep mortgage rates from rising. Mortgage rates are hitting all time lows right now- and you have the Bank of Canada to thank for that. Although, it certainly brings up a discussion surrounding moral hazard. The intervening in “free markets” by not allowing interest rates to come even remotely close to rising provides a backstop on housing prices. This encourages further speculation as investors feel they will always be bailed out.

As I have said before, interest rates will remain lower for longer. New Bank of Canada Governor Tiff Macklem signaled as much in a recent press conference, “For now and for the foreseeable future, we are focused on providing the monetary stimulus and delivering low interest rates to support the recovery. We have no intention of raising interest rates in the current circumstances.”
MORTGAGE DEFERRAL UPDATE

Mortgage deferrals appear to be holding steady. Per the Canadian Bankers Association, 743,000 borrowers received a deferral, which equates to about 15% of all mortgages outstanding. The big six banks have now deferred over $300 billion worth of loans.

<table>
<thead>
<tr>
<th>Big 6 Loan Deferral Book (Dollar Value &amp; Percentage of Segment Total)</th>
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<tbody>
<tr>
<td>Source: Company Reports, Raymond James Ltd., Factset</td>
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<thead>
<tr>
<th></th>
<th>RBC</th>
<th>BNS</th>
<th>CM</th>
<th>NA</th>
<th>RY</th>
<th>TD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgages</td>
<td>$18.9</td>
<td>$38.0</td>
<td>$35.5</td>
<td>$8.6</td>
<td>$54.3</td>
<td>$36.0</td>
</tr>
<tr>
<td>Credit Cards</td>
<td>$0.3</td>
<td>$0.4</td>
<td>$1.8</td>
<td>$0.1</td>
<td>$1.7</td>
<td>n/a</td>
</tr>
<tr>
<td>Other Personal</td>
<td>$2.5</td>
<td>$5.5</td>
<td>$2.3</td>
<td>$0.8</td>
<td>$3.5</td>
<td>$3.2</td>
</tr>
<tr>
<td>Commercial</td>
<td>$15.1</td>
<td>$16.7</td>
<td>$8.6</td>
<td>-</td>
<td>$17.3</td>
<td>$6.5</td>
</tr>
<tr>
<td>International</td>
<td>$4.7</td>
<td>$31.0</td>
<td>$1.2</td>
<td>-</td>
<td>n/a</td>
<td>$12.0</td>
</tr>
<tr>
<td>Total</td>
<td>$41.5</td>
<td>$91.6</td>
<td>$49.4</td>
<td>$9.5</td>
<td>$76.6</td>
<td>$57.7</td>
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* = % of segment’s total loan book

This is certainly a concerning number, even if a good chunk of these borrowers don’t really need the help. Meanwhile, The two largest non-prime residential mortgage lenders (Home Capital and Equitable)
reported that 30% of their non-prime residential mortgage book was granted mortgage deferrals. Most of these deferrals will expire in Q4 of this year. As such we will see an increase in the number of foreclosures in 2021. Keep in mind, the foreclosure process does not happen right away. Typically big banks will work with borrowers when they miss a payment. Usually if they miss three consecutive payments the bank will then begin the foreclosure process which can take over a year.
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.