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OPENING THOUGHTS

Some people are calling it the COVID housing boom, others, like Zillow Founder Rich Barton, are calling it the Great Reshuffling. Amidst what was expected to be a disastrous year for the housing market across North America, Zillow slashed costs by 25%, bracing for the worst ahead. Instead, second quarter revenues at Zillow soared 28%, far surpassing any expectations. The explanation, Barton says, is the nationwide trend toward remote work brought on by social distancing concerns. Seventy percent of Americans report working from home at least some of the time, and all Americans are spending an average nine hours more at home per day than they did before, Barton says. And that means people have new priorities in where they want to live. A big backyard and room for a home office is more important these days than a short commute or proximity to a bustling downtown. I share this because this is the exact same story here in Vancouver. People’s lives have fundamentally changed since COVID, prompting a
surge in not only home sales, but new listings as well. August home sales across Greater Vancouver jumped 37% year-over-year, while new listings surged 55%. Unprecedented activity for what is normally a slower time of the year. Although, when you really think about, perhaps not so surprising after all. Jobs have been lost, job positions have changed, and the way we view the future has been altered significantly, prompting both home buyers and sellers to re-evaluate their housing situation. I really can not emphasize this enough, current housing activity is being driven by lifestyle changes, it is not being driven by a speculative frenzy like we had back in 2016.

For example, over the last three months, data shows detached house sales in the Fraser Valley surged 53% compared to the same period last year. Families are moving outwards for better affordability and more space. Compare this to an investor based condo market in Downtown Vancouver which saw zero sales growth during the same period, and an 80% increase in New Listings. Ouch.
So no, this is not like 2016 where every market and every type of product was moving in a straight line up. The Great reshuffling hasn’t been kind to everyone, particularly landlords. Rents have softened a bit, and vacancies have been increasing. Not surprising given job loss and Permanent resident arrivals across Canada dropped to 34,000 in Q2, down 67% from the same quarter last year.

Once again, we are left trying to weigh a vast array of potential outcomes for the housing market as we head into year end. Fiscal and monetary stimulus are here to stay, but it looks as though the clock is ticking for mortgage deferrals. OSFI, the banking regulator, announced it will not be extending mortgage payment deferrals. Loan and payment deferrals granted after September 30 will not be eligible for special capital treatment. This means mortgage arrears will move higher in early to mid 2021. We’ll dive into the implications of this later in the report.

As expected, there are a lot of moving pieces and it remains critical to stay on top of new policy measures and economic data that could swing the housing market in either direction, so without further ado, let’s dive in.

Cheers,

Steve
DETACHED HOUSING MARKET UPDATE

Another strong month for the detached housing market here in August. Detached sales across Greater Vancouver in August were 2,720 units, 30% higher than the historical average of 2,100 units.

Greater Vancouver Detached Sales in August
Source: REBGV, Steve Saretsky
Vancouver were up 55% from last year. Well above the ten year average, although keep in mind the spring market was essentially delayed and pushed into the summer.

There was also a pretty nice bounce in new listings, as detached listings jumped 42% across Greater Vancouver. However, that simply wasn’t enough to keep up, and overall inventory levels still fell, dropping 24% year-over-year. Using a 12 month rolling average, we get a clearer picture on the current inventory shortage.

Most families are looking for houses priced under $2M for obvious financial reasons. Unfortunately,
the prospects remain rather bleak. As of the end of August, there was just 2.8 months of inventory for sale, virtually unchanged from July. This is what’s driving multiple offers.

![Graph](https://via.placeholder.com/500)

This has been placing upwards pressure on detached prices. Over the last few months prices have been bid higher, certainly hard to believe during a pandemic/recession but here we are. From last August, the average detached price is up 5%, median price up 7.4%, and the benchmark price is up 6.6%.
It’s hard to imagine this being sustainable, we will have to wait and see if buyer demand can continue, or whether it was simply ironic timing as a wave of pent-up demand mingled with an undersupplied market.
While sales in the condo market were pretty solid for August, up 19% year-over-year, it’s important to contextualize that our spring market was essentially pushed into the summer. In other words, take this number with a grain of salt.
I think this is a great chart that shows where we are today. Year to date (January through August), condo sales are up 6% from last year, but well below our ten year average.

Here’s where things get really interesting. New listings are running really high. They were up 66% year-over-year in August, and 55% above the ten year average. This shows us there was not only pent-up demand, but clearly, some pent-up sellers.

![Greater Vancouver Condo Listings in August](source: REBGV, Steve Saretsky)

A combination of investors deciding to sell, and pre-sale condos completing has the possibility of pushing inventory quite a bit higher. For now, months of inventory remains relatively in check at 4.3, bordering on a buyers market. However, should new listings continue to outpace sales as they have been over the past several months, then expect months of inventory to push quite a bit higher.

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For now, condo prices are fairly flat across Greater Vancouver. However, in harder hit segments of the market, such as Downtown Vancouver, condo prices are clearly moving lower. Here's a look at the average price per square foot for a Downtown condo.
There’s been close to a 10% drop since COVID as people funnel out of high-rise condos. The obvious benefits of Downtown living are less attractive in a COVID world.

Overall the condo market across Greater Vancouver remains fairly balanced, but tips towards a buyers market. I suspect new listings could very well pile on at a faster pace than sales, and that will push inventory higher. People are for sure moving further away from the city for more space at a more affordable price point. That is the trend, at least for now.
MORTGAGE DEFERRAL CLIFF UPDATE

Second quarter data confirmed Canadian GDP plunged by an annualized 38.7%, officially the worst quarter on record. Household consumption plunged by an annualized 43%, housing investment sank 48%, and non-residential business capital spending was down 57%.

Despite this, the housing market continues its torrid pace, defying the laws of economic gravity. It probably helps that disposable incomes were actually up 14%, and household savings rates surged 28% as CERB cheques flowed into household bank accounts and mortgage payments were paused for virtually anyone who asked.

While income support is poised to continue as CERB morphs into an expanded EI program, it appears mortgage borrowers will be asked to resume payments later this fall as deferrals expire.
OSFI, Canada’s banking regulator, says it will not be extending mortgage payment deferrals. Loan and payment deferrals granted after September 30 will not be eligible for special capital treatment.

With that in mind, let’s take a look at the upcoming deferral cliff, as eloquently named by the CMHC.

According to CMHC, deferrals remain elevated for their insured mortgage book. As of the most recent July data, deferral rates by province are as follows:

- Alberta 21.0%
- Saskatchewan 14.8%
- Newfoundland 14.8%
- British Columbia 11.1%
- Ontario 10.1%
- The 3 territories 9.9%
- Nova Scotia 9.9%
- Manitoba 9.6%
- New Brunswick 9.3%
- Prince Edward Island 8.4%
- Quebec 5.6%

Meanwhile, according to Genworth, Canada’s largest private mortgage insurer, The outstanding principal balance of insured mortgage loans reported under the payment deferral program totaled $28 billion, or approximately 14% of outstanding insured mortgage balances as at June 30, 2020. Regionally, mortgage
deferrals were primarily driven by Alberta ($8.8 billion) and Ontario ($9.7 billion).

And lastly, here’s an update by each big bank as of July 30th:

– BMO: 14% (vs. 14% in Q2)
– CIBC: 15% (vs. 16% in Q2)
– NBC: 5% (vs. 11.9% in Q2)
– RBC: 12% (vs. 18% in Q2)
– Scotiabank: 18% (vs. 17% in Q2)
– TD: 12% (vs. 14% in Q2)

So now what?

According to National Bank Financial banking analyst Gabriel Dechaine,

“If you assume 90 per cent of the borrowers deferring payments go back to normal and 10 per cent become impaired [i.e., likely won’t ever pay], you could see the arrears rate get close to 2 per cent. The type of scenario needed to get you there is a W-shaped recovery and another full lockdown of the economy.”

More likely, the slow recovery will result in closer to 5 per cent of mortgage deferrers defaulting, he suspects. That could lift the 90-day arrears rate from 0.24 per cent to 0.9 per cent or 0.95 per cent. That’s not far off the Bank of Canada’s “pessimistic” scenario projection.
of 0.8 per cent for the second half of next year.

For context, the last Real Estate downturn in the 1980’s, the arrears rate peaked at just over 1%.

In other words, we should see more forced selling in 2021 as bank foreclosures increase. That should aide the current 16 year low in housing supply across the country.

Again, these type of events are very hard to predict, and much of this depends on the shape of the recovery, and taming a global pandemic. Suffice to say, the deferral cliff should not be taken lightly, and I'm sure policy makers are watching closely.
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.