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OPENING THOUGHTS

It was another feel good headline for the Vancouver Real Estate market in September as media outlets promoted the record breaking 56% year-over-year increase in home sales. The incredible surge in activity has trounced all market forecasts, even surpassing the most optimistic scenarios initially touted by local real estate brokerages, who are obviously inclined to remain upbeat, even in the worst of times.

However, behind the buzz of the media headlines, something is brewing. The health of the housing market is diverging at an unprecedented pace. The single family housing market is ripping hot, sales were up a whopping 76%, the highest total for September in over a decade. Inventory has collapsed to a six year low, sparking bidding wars for families desperate for more space during work from home orders. This is forcing prices higher, with both the average and median sales price ripping 13% and 12% respectively.
This flurry of activity has also shown up in the condo market, where sales activity for the month of September was the highest in over two decades. There’s just one problem, new listings are piling up faster than sales. New listings ripped to record highs, and were 42% above the ten year average. Condo inventory in Greater Vancouver is now at a six year high and growing. Prices are inching lower, obviously, but this has failed to show up in official price metrics, at least for now.

How long can these two segments of the market diverge?

Many buyers of single-family homes are move-up buyers who are relying on the sale of their condo in order to climb the property ladder. It certainly seems plausible that if condo inventory continues building this could become a drag on the detached housing market.

Furthermore, investor activity, a key driver of condo demand, remains tepid. Without investors there is not enough buyers to soak up inventory. This is perhaps best evidenced in the downtown condo market where where roughly half of all supply is owned by landlords, and inventory has recently grown the most. These landlords are being pressured by a sudden weakness in the rental market as immigration slows due to the pandemic/ recession. In fact, Canada just posted the second lowest nominal quarterly population growth.
since 1946.

I’ll stop short of making any predictions, but what I can say is these two markets can not diverge forever. Eventually there will be a rebalancing, and probably sooner rather than later. It’s never been more important to look beyond the headlines, and that’s exactly what will do here. Let’s dive in.

Steve
Detached sales surged 76% year-over-year in September. This marked a 10 year high for house sales in September. Sales were 27% above the 10 year average.

Detached House Sales in September
Source: REBGV, Steve Saretsky
While detached new listings increased from last year, up 18%, they failed to keep pace with demand. As a result, inventory drifted lower once again. As of the end of September, detached inventory for sale collapsed to a 15 year low.

![Greater Vancouver Detached Inventory for September](chart.png)

Obviously this is pushing prices higher. The average sales price jumped 13% from last year, and the benchmark is showing gains of 7.8%. While both of these metrics are not perfect for mapping prices in real-time, from what I am seeing, it is fair to say that detached house prices are up between 5-10% since the start of COVID lockdowns at the end of March.

It’s hard to fathom the strength of the detached housing market given the underlying economic fundamentals, but it is perhaps a testament to the psychology of humans. Everyone seems to want more space today as they spend more time working from home and you therefore have a herd of buyers chasing what little supply is currently
available. There is certainly a sense of FOMO in the detached housing market. But again, it is important to clarify this is a market driven by families wanting more space, not some investor driven speculative mania like we had back in 2007 and again in 2016. Here's a chart showing the percentage of detached homes bought and resold within 24 months. It has collapsed to make up just 3% of all detached sales.
Condo sales ripped to new highs as well in September, jumping 37% from last year and the highest monthly total in two decades.

Greater Vancouver Condo Sales in September
Source: REBGV, Steve Saretsky
However, if you focused solely on sales you'd miss the forest for the trees. Unlike the detached housing market, new listings have more than kept up with demand. New listings ballooned 44% from last year, hitting all time record highs for September.

I believe this is a combination of investors hitting the sell button and consumer preferences having changed. Homeowners want bigger spaces and out of high-rise buildings. Greater Vancouver condo inventory for sale hit a 6 year high for the month of September.
This is putting downwards pressure on prices, although it has yet to show up in official price metrics, and probably won’t until early next year. Condo prices since COVID are off about 5% give or take depending on the area.

Once again, I think it is important to contextualize the differences between the detached housing market and the condo market. Both are experiencing very strong sales, however, condo listings are overwhelming that demand. Further, unlike the detached market, the condo market is fairly dependent on investors. Investors play a more active role in the condo market and given the recent weakness in the rental market and rising insurance costs, it is not surprising to see they have stepped back.

In addition, new condo completions are currently running at all time highs, AND units under construction remains just off record highs. In other words, there is a lot of new condo supply still coming!
This is in stark contrast to the detached market where single family homes under construction sits at the lowest levels we’ve seen since 2014.
As expected, fewer immigrants are landing in Canada during the pandemic. In the three months ending June, Canada’s population grew by just 25,384, or 0.1%, Statistics Canada reports.

Population Growth Decelerates
Fewer immigrants during pandemic slows Canada’s population goals
Source: Statistics Canada
Canada reported. That marks the second smallest one-quarter increase in data going back to World War II.

In the second quarter, Canada recorded only 34,271 immigrants compared with 94,281 in the same period last year. That was the lowest number of newcomers received in the second quarter since 1986. The number of non-permanent residents, such as foreign workers and students, declined by 24,768 in second quarter.

This is obviously a headwind for the housing market, particularly for the rental market. While rental data is always a little choppy, according to Rentals.ca, the average rent for all Canadian properties listed on Rentals.ca in August was $1,769 per month, down 7.6% annually. Anecdotally here in Vancouver, property managers are reporting a softening of rental prices and higher vacancies.

While it’s simple to just assume policy makers will ramp up immigration after the pandemic, if there is still high levels of unemployment, the political appetite for ramping up immigration will likely remain low.

In summary, this will be an important to development to watch. The latest figures for BC show a sharp pull-back in net immigration at a time when condo completions are hitting new highs.
Quarterly Population Change in Q2, British Columbia

Source: Stats Canada, Canadian Western Bank
A lot of people are wondering what is driving the surge in home sales. Obviously this is surprising even the most bullish of forecasters. Remember back in April when the economy was locked down, the assumption then was that the banks were going to really tighten lending. How on earth can you issue a mortgage when we don’t know who will have a job next week? Fast forward a couple months and houses are suddenly being sold subject free in a bidding war. This should tell you all you need to know, banks are happily lending. In fact, they are competing for new mortgage borrowers right now with mortgage rates falling well below 2%.

Cue the Bank of Canada, who has been aggressively providing liquidity support for the Banks and the mortgage market. Here’s a look at the Bank of Canada’s holdings of Canada mortgage bonds.
The Bank of Canada is essentially providing the fuel to keep the credit spigots flowing. In fact, Bank of Canada Governor Tiff Macklem has reiterated his desire for Canadians to keep borrowing money, stating the road the recovery will be paved by Canadians borrowing money and spending. Back in July he gave the all clear, “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.”
The Bank of Canada has done as they said they would, and it appears Canadians are following orders. Liquidity (and plenty of it) is helping to drive housing demand.
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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