OPENING THOUGHTS

When the housing market essentially re-opened in June following the lockdowns, there was a narrative going around about pent-up demand. At the time it was hard to justify the strong recovery in sales, surely it must have been a case of pent-up demand that would soon fade once these buyers from the spring pulled the trigger in the summer. Well, here we are now in November and sales are still going strong. At what point does the narrative shift from pent-up demand to housing boom? I’ll stop short of calling it a new bull market, but there are certainly shades of 2016 emerging. Buyers looking for single family homes are witnessing line-ups around the block for open houses, bidding wars, and the return of subject free offers. In October, 30% of single family houses in Greater Vancouver sold over the asking price. That’s the highest percentage since June, 2017.

The obvious trend remains in place, people want more space. This is providing a massive tailwind for the
single family and townhouse markets. Detached sales in October were up 43% from last year, and recorded the most sales for the month of October since 2015 (the last bull market). Further, townhouse sales were up a whopping 46%. As long as this pandemic is with us, it's hard to imagine consumer preferences changing anytime soon.

The massive exodus to the suburbs continues, with sales growth up the most in Langley, Abbotsford, and Surrey.

Of course it's not all butterflies and rainbows. While the suburbs are the obvious winners, condo owners in Vancouver are the losers on the other end. Condo sales in the city of Vancouver were up just 2.5% from last year, while inventory surged by 37%. Condo Inventory in the city sits at its highest levels since October 2014. Whether you believe this is a sustainable trend or not, the market seems to think work from home is here to stay, at least in some form or another. This is hitting the downtown condo market the hardest, as paying a considerable premium to be close to the office no longer makes as much sense. Again, whether you believe this trend will hold or not remains to be seen, so perhaps there are some opportunities emerging in the downtown market now given that prices have dropped considerably.

Real Estate developers are also having to navigate the pandemic era of housing. Developers launching low-
rise, more affordable wood-frame units are seeing successful absorption. As per the most recent data as of the end of September, newly released townhomes had the highest absorption with a 73% sold rate, followed by wood frame condos at 44%, and concrete condos at 13%. Some high-rise concrete project sales have come to a standstill, with a few of them having to convert to rental. This will be a space to watch as completion for some of these projects near, many pre-sale buyers are stuck and unable to assign their contracts.

As I have elaborated on for the past few months, the housing market is extremely segmented right now. We are witnessing monumental shifts in consumer preferences. Suffice to say, there will be a lot of money made, and a lot of money lost.

As always, let’s dissect things further in the rest of the
DETACHED HOUSING MARKET UPDATE

Detached house sales were up 43% from last year. As you can see in the chart below, this was the most sales for October since the 2015 bull market.

Greater Vancouver Detached Sales in October  
Source: REBGV, Steve Saretsky
That’s pretty impressive when you consider the state of the economy today vs 2015. Clearly people are desperate for more space. With sales strong, and new listings failing to keep pace, inventory keeps dropping. There is just 3.1 months of supply for sale, making it the tightest market since June 2016.

This is creating bidding wars. It’s not uncommon to see four or five offers on a house, some of them without subjects. This generally results in more homes selling over the asking price. In October, 30% of detached homes sold over the asking price.
I have seen this story before. What happens in these bidding war situations is buyers get emotional. The thought of competing and losing out on the house creates scenarios where they are willing to win at all costs, leading to buyers overpaying. This then sets the new benchmark in the neighbourhood, for which the next buyer will use as a comparison. This is why real estate prices can move higher in a rapid fashion.

Here we can see the MLS benchmark price is accelerating, now up 8% from last year.
Greater Vancouver Detached Prices Y/Y
Source: REBGV, Steve Saretsky

Overall, the detached housing market remains incredibly strong and continues to defy economic gravity. Evidently, those who kept their jobs are eager to upsize and they’re doing so at a time when inventory remains very low. This means prices are rising, during a recession nonetheless. Strange times.
Condo sales had their best month since 2009. Again, pretty impressive all things considering. Sales increased 13% year-over-year. However, there's more to this story...

Greater Vancouver Condo Sales in October
Source: REBGV, Steve Saretsky
Unlike the detached housing market, new listings have been keeping pace. New listings ripped higher, growing by a whopping 53% year-over-year. This was a record for the month of October, by a long shot.

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

This has allowed inventory to grow, now up 22% from year-ago levels. However, in order to cut through all the noise, its best to look at months of inventory for sale. Currently it sits at 3.9 months of available supply for sale. This is quite modest, and would put us squarely in a balanced market.

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So what does this all mean for prices? Condo prices are coming off a bit. Since peaking in early 2018 they've been on a slow and steady pace lower. Although the MLS benchmark shows condo prices up 4.5% Y/Y we find that to be misleading. Instead, when we look at the average price/sqft it shows condo prices are down since the pandemic, and basically flat on a year-over-year basis.
To summarize, here's what you need to know about the current state of the condo market. Sales are way up, but new listings are off the charts. This has put a bit of downwards pressure on prices. Investors, who have been actively involved in the condo market over the past few years, are no longer active. Instead, the condo market is being driven by end users, looking for more value/space outside of the inner city.
The suburban housing boom is alive and well. As the pandemic rages on, and people continue working from home, they are actively seeking more space. There is perhaps no better evidence of this than looking at where sales growth has been strongest. In fact, it’s cities way out in the Fraser Valley which offer more space at a cheaper price that are seeing rampant sales and higher prices. If we look at the year-over-year sales from June to the end of October, sales have been strongest in Langley, followed by Abbotsford and Surrey.

Suburban Housing Boom:
Y/Y Growth Sales from June-October
Source: REBGV, Steve Saretsky
With more companies extending work from home measures into next spring, and further discussions around the future of the corporate office, it appears this could be the start of a new trend. If more companies shift to a hybrid model where workers only need to come into the office a couple of times a week then perhaps the flight to the burbs is warranted. I guess time will tell...
The Bank of Canada has officially put an end to its Canada Mortgage Bond purchasing program. As of the end of October they had purchased just under $10B worth of mortgage bonds. That’s not a whole lot in the grand scheme of things, although it certainly played a role in calming financial markets, allowing the banks to churn out new mortgages at historically low rates. Just because the program is ending, don’t expect mortgage rates to budge higher. The Bank of Canada has pledged to buy $4B of government bonds per week until the recovery is well underway. Further, they are now targeting longer duration bonds in order to lower borrowing costs at which households frequently borrow at (think 5 year mortgage rates). In simpler terms, the central bank is pinning mortgage rates, ensuring they stay low. At the same time, they also said they don’t see themselves raising interest rates until at least 2023.
They are basically pleading with Canadians to borrow more money, and are actually banking on housing to lead the recovery. Their latest monetary policy report shows they expect housing to contribute to 16% of GDP growth in 2021.

Here’s a quick look at the Bank of Canada’s balance sheet, it’s grown 350% since the pandemic, and they now own over 30% of the government bond market. Free markets eh

Anyways, with the Bank of Canada aggressively supporting the markets it certainly puts a floor under housing. Whether you agree or disagree with the policies it doesn’t matter, they are here to stay.
If that weren’t enough, with immigration slowing its lowest levels since World War 2, the federal government is hoping to play catch up moving forward. The new plan involves ramping immigration to 401,000 new permanent residents next year, representing an increase of 50,000 people from the pre-Covid goal of 351,000. The country will further increase newcomer levels over the next three years to 411,000 in 2022, up from the previous target of 361,000, and 421,000 in 2023.

Again, whether you agree or disagree with these policies they undoubtedly are a support pillar for housing, assuming they can actually hit these goals in a weak economic environment where job opportunities remain scarce. Time will tell.
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.