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OPENING THOUGHTS

Once a trend unfolds in the Real Estate market it tends to continue for a significant amount of time. Unlike the stock market, there are not violent moves in either direction on a monthly basis. In other words, the strength in the Vancouver Real Estate market continued in November, following a wave of pent-up demand that began in June. In November, Greater Vancouver home sales jumped 23% year-over-year, recording its highest level of sales for the month since 2015. Meanwhile, inventory for sale declined once again, making this the tightest market since April 2018. It doesn’t take a genius to figure out that rising sales and falling inventory results in higher prices, and that’s exactly what is happening right now. The MLS benchmark price showed a 5.8% increase from last year, and will continue to point higher in the months ahead due to the significant lag in the price index.

In fact, if we look ahead in the coming months, there is very little to suggest anything will change. Policy
makers have their foot on the accelerator of both monetary and fiscal policy. Once again, the Bank of Canada has made it clear they will not be raising interest rates until at least 2023. Any pick-up in real yields due to potential inflation concerns will be met with some form of yield curve control to keep borrowing rates incredibly low. There is no level of society that can tolerate rising real interest rates today, and so interest rates will have to be artificially manipulated lower. It is clear that policy makers are trying to get the economy back on its feet via growth in the housing market. Banks are actively lending into the residential housing market. Just take a look at residential mortgage credit growth which as of September is now growing by 5.7% on a year-over-year basis.

![Canada Residential Mortgage Credit Growth Y/Y](chart)

Source: Bank of Canada
This is near the same rate of growth back in 2017 which prompted policymakers to introduce the mortgage stress test in order to curb credit growth and slow the pace of home price appreciation. Today, policymakers are doing the opposite, desperately trying to encourage further credit growth. Remember, over 95% of money is created via commercial banks through new credit origination such as mortgages. Year to date, Canada’s M2 money supply growth is up over 15%. That is truly unprecedented.

Further, despite already recording record home sales across the nation over the past few months, and double digit price growth during a recession, the Federal Government announced they are expanding the first time home buyer incentive in Vancouver, Toronto, and Victoria. While the program has had very little take-up over the past year, the recent revamp of the program should spur more applications BUT more importantly signals Governments intentions of further support for the housing market.

With this in mind, and a vaccine on the way, I believe we could actually be in the early stages of a new bull market. From a rate of change perspective, the sales comps will be very easy to beat from now until at least June 2021. What I mean by that is you will see sales continue to beat last years comparisons until at least next summer when the sales comps will then become more challenging to beat. In other words, the media will continue to report strength in the housing market.
because both sales and prices are almost guaranteed to be higher on a year-over-year basis until next summer. Perhaps that will finally prompt investors/ speculators off the sidelines as they are bombarded with positive media headlines. Combine that with a vaccine, and even a slight pick-up in immigration and it should help ease some of the ailments of the rental market.

Ultimately time will tell, however I strongly believe our worst fears of widespread house price declines are behind us. While mortgage deferrals are unwinding, and that still remains a key concern, it seems both monetary and fiscal support could ultimately outweigh those risks.

As always, let’s take a deeper look into the numbers.

Steve
DETACHED HOUSING
MARKET UPDATE

Greater Vancouver Detached home sales jumped 29% year-over-year in November. It was the strongest November since the 2015 bull market.

Greater Vancouver Detached Sales in November
Source: REBGV, Steve Saretsky
New listings picked up a bit, growing 12% from last year, but have so far completely failed to keep pace with sales volumes. This has resulted in inventory remaining subdued with just 3.4 months of supply for sale.

Low inventory creates bidding wars and higher prices. Sticking with our theme from last month, we can see that 28% of single family house sales sold above the asking price in November. This is down slightly from 30% recorded last month. Still impressive considering November is seasonally a slower time of the year for the housing market.
With frequent multiple offer scenarios, it’s no surprise that price growth continues to accelerate higher across the single family market. Per the official MLS home price index, prices were up 9.4% year-over-year in November. Keep in mind this is a lagging indicator, and so this will continue to inflate higher in the coming months regardless. More leading indicators such as median price and average price per sqft are showing 11% annual price gains. Clearly people want more space and they’re willing to pay a premium for it today.
Greater Vancouver Detached Prices Y/Y
Source: REBGV, Steve Saretsky
CONDO HOUSING 
MARKET UPDATE

When we look at the condo market it’s a bit of a mixed bag. Sales were up 13% year-over-year, and from a historical perspective, had a decent month of November.
However, the problem in the condo market continues to be the persistent strength in new listings. In November, there were over 2000 new condo listings, that’s the highest monthly total we’ve ever seen.

So, while sales remain quite strong, new listings remain even stronger. This has created a scenario where inventory levels remain at a six year high for the month of November. Although keep in mind, the last five years were marked by chronically low levels of supply, resulting in rampant price inflation. So, we are getting back to healthy levels of supply, where the months of inventory for sale rests at 4.2.
However, 4.2 months of supply is good enough to soften prices. This is putting modest downwards pressure on condo prices as shown by the average sold price per square foot, which officially dipped into negative territory in November, dropping 0.5% year-over-year.
The media is still reporting positive price increases in the condo market because they are reporting the MLS benchmark price which is a LAGGING indicator. There is no question the condo market has been undergoing a modest price correction since the pandemic. I expect that to continue until investor confidence returns to the market, which I believe will be sooner than most people anticipate. Again, time will tell.
CITY OF VANCOUVER EMPTY HOMES TAX WILL TRIPLE NEXT YEAR

I’ll try to steer clear of the politics of the City of Vancouver’s controversial empty homes tax and attempt to look at this objectively. If you haven’t been paying attention, this past month the city announced they will be tripling the empty homes tax in 2021. There’s no question that the tax has been effective in encouraging vacant homes onto the rental market. Analysis from The Canada Mortgage Housing Corp. says more than 11,000 condos were added to the rental market in Metro Vancouver last year, spurred in part by taxes on empty homes. The study says of the 11,118 units, 2,294 were new condos and were rented out by investors, while 8,824 were being used by their owners for another purpose and are now being offered as long-term rentals.

From my experience the tax has been effective from that standpoint. I’ve personally seen an increase of house owners renting out their basement suites while leaving the main part of the house vacant since the introduction of the tax. Normally the entire house would be left vacant.

This has provided much needed relief to a rental market suffocated by sub 1% vacancy rates and double digit rent growth. However, I do find it odd that the city of Vancouver has decided to triple the vacancy tax now, during a deep recession which has plunged rental prices by double digits this year alone. Per a recent report from rentals.ca, Condo rents in Vancouver are down 17% in Q3-
2020 versus Q3-2019. Usually these types of policies are pro-cyclical. Instead, they are tripling down, hoping to push rents even lower? Lower rents usually translates into lower resale values and as such, lower tax revenues for the City of Vancouver.

Again, while the tax has been effective in encouraging vacant units onto the market, which was certainly needed to help alleviate the rental crisis, last year the empty homes tax only hit 787 homes.

At this point, I’m not convinced that tripling the tax will have any material impact on the rental market. The rental market is already beaten down, and that seems likely to continue until the labour market fully recovers and immigration returns. Marginal impact here, if any.
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.