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OPENING THOUGHTS

Momentum continues to build in the housing market. As anticipated, national home sales hit record highs for the year of 2020, surpassing the previous high set back in 2016 when a wave of offshore money flooded the market. Four hundred billion dollars worth of Quantitative Easing later, combined with an immediate relaxation in capital reserve requirements for the banks, and a generous mortgage deferral program for the people, and there you have it. Not only did we save home prices, we actually increased them. A miraculous accomplishment despite all odds. Home prices closed out the year up 13% (per the MLS benchmark price) , making a mockery of forecasters. I don’t want to get into the societal ramifications, that’s a story for another time, but one that will certainly have to be dealt with.

While home prices are up 13% across the board, the majority of the strength is concentrated in the single family housing market where prices were up
a staggering 16%, compared to a mere 4% increase in the condo market.

A lot of people remain perplexed as to the ongoing strength of the housing market in spite of mounting job losses and a pandemic that feels like it has no end in sight. However, as I have mentioned countless times, liquidity drives financial markets, not the real economy.

Real Estate markets rely on credit availability. It should come as no surprise that people in cities like Vancouver & Toronto rely on larger and larger mortgages in order to obtain housing. In other words, all you have to do is focus on the banks appetite for extending mortgages.

As of November 2020, per recent data from Stats Canada, and first reported by Ben Rabidoux of North Cove Advisors, residential mortgage credit growth is running at 7.5% year-over-year. That’s the fastest pace of growth since 2011. This tells me that banks are aggressively issuing new mortgages, and borrowers are willingly absorbing these loans. I think it is pretty clear that policy makers are aiming to create a housing boom in order to spur an economic recovery or, at least stave off what would otherwise be a much deeper recession.

So yes, the housing market is on fire across the nation for the reasons illustrated above. That brings us here
to Vancouver, which is also benefiting from the excess liquidity. After all, a rising tide lifts all boats.

Greater Vancouver home sales jumped 53% on a year-over-year basis. It was the strongest January ever, besides January of 2016. In case you need a history lesson, January 2016 nearly marked the top of our last housing boom. It was a year marked by intense speculation, rapid price appreciation, euphoria, fraud, and everything else that coincides with an asset bubble.

The fact that home sales are nearing these levels should once again give us pause. The market is showing signs of excess froth, but there is a clear runway for higher prices. In fact, higher prices are inevitable over the coming months given the supply/demand picture.

The market is moving at a torrid pace, and there is so much at stake. It is critical we understand exactly what is happening, so as always, let’s dive in.

Steve
DETACHED HOUSING MARKET UPDATE

Detached sales surged 69% year-over-year in January. That was supported by relatively weak base-effects as January 2020 sales were nothing to write home about. From a historical perspective, detached sales were strong but nothing crazy.

Greater Vancouver Detached Sales in January
Source: REBGV, Steve Saretsky
However, there is a massive inventory problem. New listings were flat year-over-year, not good when you consider sales were up 69%. So, as you can imagine, available inventory was rapidly absorbed. Inventory for sale, outside of December 2015, has never been lower.

Greater Vancouver Detached Inventory for Sale
Source: REBGV, Steve Saretsky

It’s therefore no surprise that prices are ramping higher. Detached prices are now up 10% year-over-year. As I mentioned last month, this is a lagging indicator, you will see even higher price growth in the coming months.
The recent price gains are beginning to garner media attention and I believe has the likely possibility of creating reflexivity. This is an economic theory minted by legendary investor George Soros, who articulates that investors don't base their decisions on reality, but rather on their perceptions of reality instead. The actions that result from these perceptions have an impact on reality, or fundamentals, which then affects investors’ perceptions and thus prices. The process is self-reinforcing and tends toward disequilibrium, causing prices to become increasingly detached from reality. In simpler terms, higher prices beget higher prices.

Bidding wars are rampant. As of the end of January, 31% of single family homes are now selling above the asking price. A data point that continues to trend higher.
This makes it increasingly difficult to price houses because when you get 8-10 offers on a house, buyers get competitive, and emotional. Recent sales comparables get thrown out the window and become almost irrelevant, creating a scenario for rapidly rising house prices, which is exactly what we have today.

The single family housing market will remain extremely competitive in the months ahead, with further price appreciation already baked in. Until supply improves, market conditions will remain tight.
The popular media soundbite today is how everyone is seeking more space and that the condo market is dead. However, that’s not really the case. While there are a lot of people proactively trying to upsize during the pandemic, the condo market is far from dead. In fact, condo sales have been hitting record highs over the past few months and that was once again the case in January. Condo sales were up 46% to new highs in January.

Greater Vancouver Condo Sales in January
Source: REBGV, Steve Saretsky

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However, new listings had been also hitting record highs, keeping prices in check. Although there are early signs that selling pressures are easing, as we the pace of new listings starting to slow. Here’s January new listings from a historical basis.

Months of inventory, a key measure in determining the strength of the market has stabilized. There is 3.6 months of supply for sale in the condo market, indicating a healthy, stable market.
Prices remain stable, although still off noticeably from their 2018 peak.
The condo market has improved considerably over the past few months and there is evidence that the froth in the single family market is trickling down. This is witnessed primarily in the townhouse market, where the sales to actives ratio now sits at 40%, and prices are rising quickly. It is almost inevitable that it will trickle down to the condo market. However, there is no question that near record high new condo completions should keep price growth much more tepid than in other parts of the market.

Metro Vancouver Apartment Completions
Source: REBGV, Steve Saretsky
Housing Bubble?

There are obviously growing concerns of a housing bubble. Media chatter is picking up, as it should. You have record home sales and prices across the nation. This despite horrible underlying economic fundamentals. However, policy makers haven't flinched, and it doesn't appear they will anytime soon.

Bank of Canada Governor Tiff Macklem says he's “not worried about a housing bubble.” With inflation hovering below 1%, Macklem said the central bank is more worried about deflationary pressures than any temporary overshoot of its 2% target. They remain committed to keeping rates at zero and maintaining their QE (money printing program). Recent comments from the Bank suggest they are now considering letting inflation “overshoot” above their 2% inflation target.

In other words, if you think there’s a housing bubble today, you likely ain’t seen nothing yet.
To no surprise, the banks measures are gaining skeptics. Perhaps most surprisingly from former Prime Minister Stephen Harper.

While policy makers are avoiding discussing the elephant in the room, a recent interview from former Prime Minister Stephen Harper says it all. In case you missed it, Stephen Harper did an hour long podcast with Cambridge House, a Canadian investment firm. While his comments are nothing new to people paying attention in the finance space, they are still astonishing to hear when you consider he is not far removed from his role as prime minister.

When Harper was asked about his views on the current froth building in financial markets, Harper responded:

“First of all, it’s important to understand what is occurring now because we constantly hear there is all this injection of liquidity through low interest rates, quantitative easing, in the case of the Bank of Canada, actual creation of cash, and yet people say, “But we don’t have inflation.” Well, that is not true. We have massive inflation. It’s asset inflation. We already have an inflation problem, and I am concerned. I’ve been very frank with you about this. I’m very concerned that we have bubbles everywhere in real estate and
stock markets, you name it.”

Harper continues,

“The Fed and other Central Bank balance sheets have not just been buying government securities or their own securities. They’ve been buying the security of other governments in Canada. It’s been unprecedented what the Bank of Canada’s done. It’s bought provincial securities, initially, because the government of Newfoundland and Labrador was on the verge of bankruptcy. It’s bought corporate securities at an unprecedented level.

So, we’ve got an enormous, I think we’ve just got enormous bubbles and we’ve got a debt overhang, whether it’s government, I say corporate, or household, that it is hard to see how there could be ... how that could be unwound in a meaningful way.

Housing bubble or not, i’ll let you be the judge...
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.