



THE  
SARETSKY REPORT  
.....  
MARCH 2020

**SARETSKY**  
GROUP

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## OPENING THOUGHTS

If there is one thing I have come to appreciate about writing these reports, effectively documenting my thoughts on a consistent basis for all to see, is that it has held me accountable to you, my readers. I don't take this responsibility lightly. It has prompted me to become more thorough in my research, and diligent in ensuring you have the most accurate information available to help make one of the largest financial decisions of your life.

With that in mind, I encourage you to go back and read my previous reports, in which I had cautioned about the development of the Coronavirus. While I am certainly no epidemiologist, I am well aware of the reaction function from policy makers and the damage it will have on the broader economy, and thus, the housing market.

A wise person once said to me, "if you get the macro

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wrong, the micro doesn't matter." Keep that in mind as you go through this report.

For those paying attention, there was, and still is, time to prepare and position yourself accordingly.

While we are all in uncharted territory, nobody can say with 100% certainty of what the future will look like, however I think there are some important issues worth discussing that skew the probabilities towards the downside.

Coming into this crisis, the Canadian economy, and households in particular, were highly levered. Unlike many other countries, we did not deleverage in the 2008 financial crisis. This makes us more prone to exogenous shocks, which we are currently grappling with.

Canadian households have the highest debt to GDP in the G7 at 101%. Our household debt servicing ratio has never been higher, despite incredibly low interest rates.

Drawn HELOC (Home Equity Lines of Credit) balances at Canadian chartered banks are equivalent to 11% of GDP, vs just 2% in the United States. In other words, we have built an economy which has leveraged rising real estate prices to help fuel consumer spending. Our household savings rates have gone from a high of ~4.6% in 2009, to savings rates that have averaged just 3.6% over the past ten years, and recently ended 2019 at a 3.0% savings rate.

In other words, there is no rainy day fund. As of this writing, over 2 million Canadians have filed jobless claims. Some economists expect unemployment to hit 15%, a new record high, which might even be too conservative.

As a result, households are seeking financial reprieve. Since the mortgage deferral program was launched a few weeks ago, 500,000 applications have already been

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approved, that's about 10% of all outstanding mortgages. Banks are simply overwhelmed, and that number will only continue to grow.

Policy makers are throwing everything they can at this. CMHC has relaunched their 2008 financial crisis playbook, bringing back the IMPP (insured mortgage purchase program). They are effectively insuring and taking mortgages off the bank balance sheets, to the tune of a pledged \$150B (it will be much higher by the time they are done). Meanwhile, the Bank of Canada has launched their own version of QE (quantitative easing) aka money printing.

While OSFI, the bank regulator, has lowered capital stability buffers which basically lets banks dip into or rather remove the requirement to have a rainy day fund. All of these programs are designed to create liquidity. However, make no mistake, this is not "stimulus" but rather it is merely patchwork to keep the financial plumbing functioning.

Yes this all quite overwhelming, and it's a lot of technical bank jargon that banks would prefer you just ignore. However, knowing how the plumbing works, helps me shape my view that we have a real problem on our hands. The outlook for housing is not a positive one.

The reality is, there are still a lot of market participants that haven't figured this out. That is where your edge lies. Media headlines touted a 46% year-over-year increase in Vancouver home sales for March. However, it does not factor in that March 2019 was the slowest March on record, dating back to 1990. Furthermore, sales are a lagging indicator because the Real Estate Board publishes processed sales, ie, when the paperwork was received and processed. In other words, they are reporting sales that were agreed to weeks ago and sometimes even further back.

The reality is credit is going to tighten immensely in the coming months. Put yourself in the banks shoes, how do you safely issue mortgages in this environment? From what

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I am hearing, even though you may be employed today, the banks will begin assessing the sustainability of your employment. Expect untapped HELOC balances will be reduced or even eliminated.

Private lending and MICs (Mortgage Investment Corporations) will come under severe stress. While big banks may defer your mortgage, private lenders and MICs will not. Redemptions are likely to be halted in many circumstances. Making it even more painful, courts are now closed until the end of May at the earliest. Private lenders and MICs wanting to start foreclosure proceedings will have to wait until they re-open. Furthermore, it takes on average, about 12-15 months from the time a borrower becomes delinquent to the time a lender forecloses and gets their money back.

We could also see issues in the pre-sale market. There are currently 44,000 homes under construction in Metro Vancouver and these buyers will need to requalify at the time of completion. Obviously that may be difficult if your employment situation has changed.

Until then, the housing market will remain virtually on pause. Expect sales and new listings to fall off a cliff in April. We won't see prices change much at all in the next couple of months until activity resumes, inventory builds, and you get some clearance.

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Like anyone, I am hoping for the best. I am desperately wanting a quick recovery and a return to normal. However, I think the probabilities of such remain low, and hence I believe it to be prudent to mitigate risk in the near term.

Wishing you health and happiness in the months ahead. Stay safe.

Cheers,

A handwritten signature in black ink, appearing to be 'Steve', with a large, stylized 'S' at the beginning and a horizontal line crossing through the middle of the signature.

Steve

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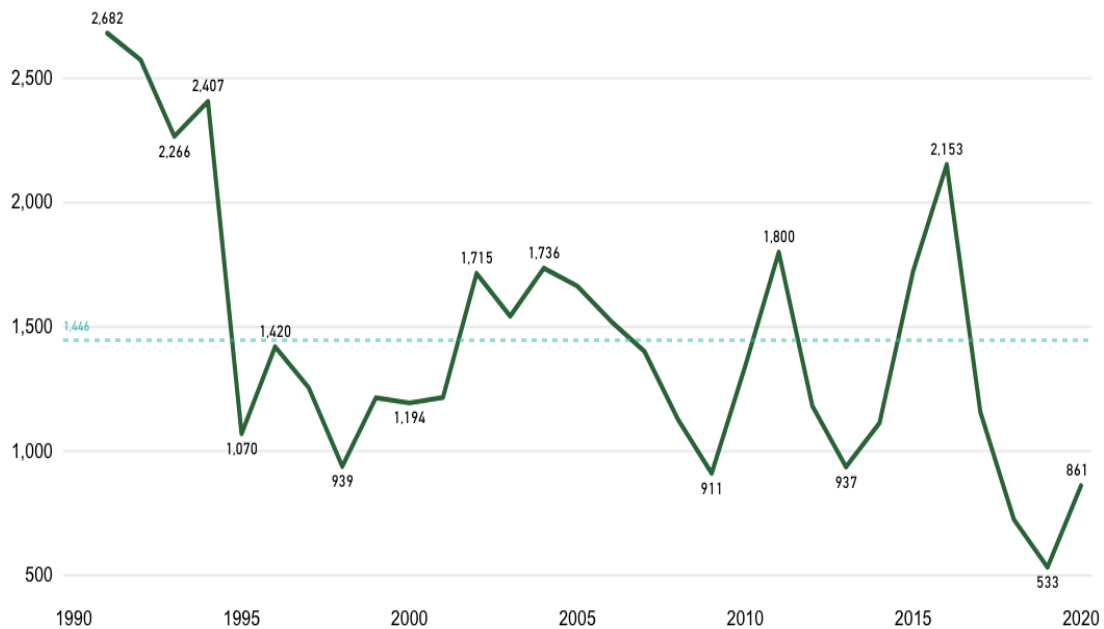


# DETACHED HOUSING MARKET UPDATE

Statistically speaking, the detached housing market looked solid in March. This is one of those situations where you need to overlay the macro with the micro to try and see

**Greater Vancouver Detached Sales for March\_**

Source: REBGV, Steve Saretsky



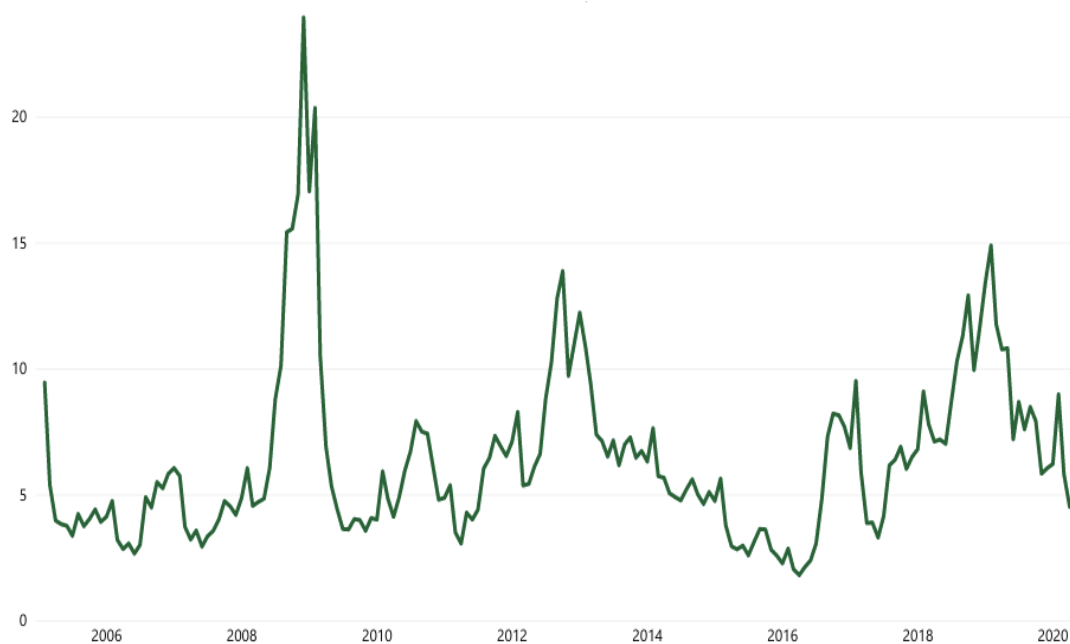
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through this. Detached sales were up a whopping 62% year-over-year. A great headline, however, it is important to contextualize that detached sales for March 2019 were the lowest on record, dating back to 1990. Weak base effects made for a great headline.

### Greater Vancouver Detached Months of Inventory

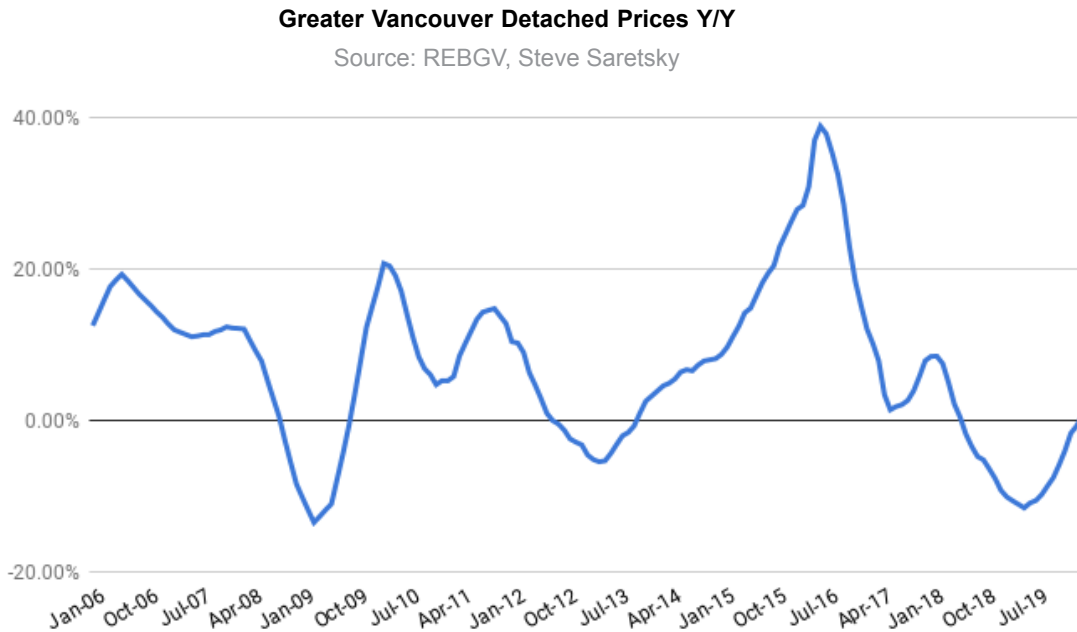
Source: REBGV, Steve Saretsky



Given the dramatic shift in market conditions towards the back half of the month there are a couple things to note here. New listings fell immediately, in real time. Whereas sales which are recorded when they are processed by the Real Estate Board, continued to trickle in towards the end of the month. For example, we saw sales that were agreed to at the beginning of the month get processed towards the end of the month. Therefore, expect sales to fall harder next month.

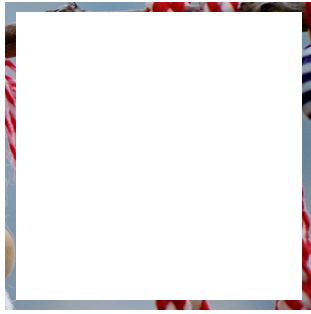
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As for prices, those take even longer to filter through into official data. Both the average and median sales price for a detached home were up on a year-over-year basis, and that is more reflective of the recovery we had experienced over the past six months heading into March. Here we can see the official MLS benchmark price climbed 0.7% from last year. It would not surprise me to see this move higher in the next couple of months despite the market hitting pause because of how these metrics are calculated/processed.



Overall, the detached market looked healthy and stable going into the busy spring market, obviously recent events have put a dent in those plans.

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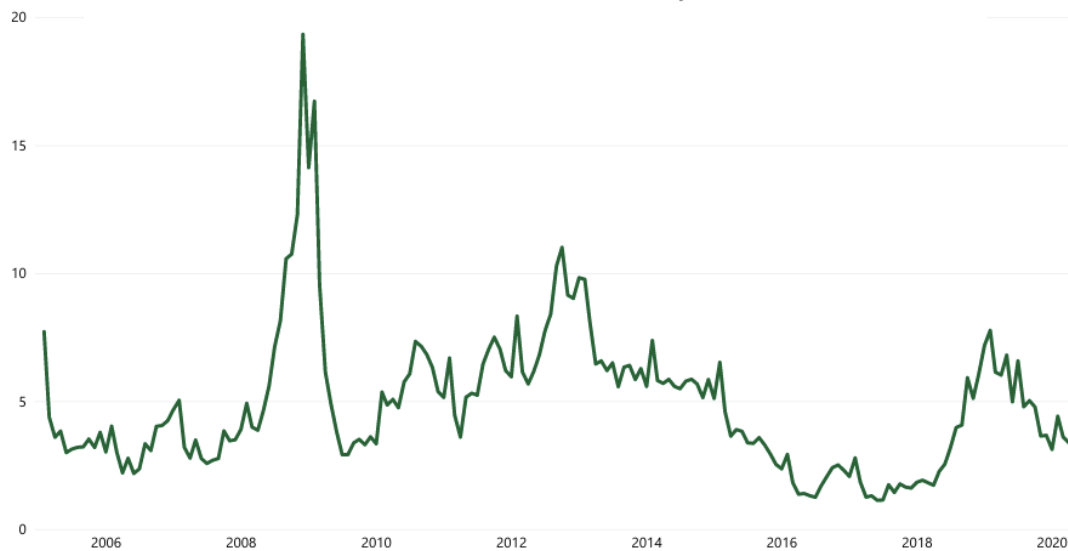


## CONDO HOUSING MARKET UPDATE

Coming off an abysmal March 2019 which saw condo sales fall to an eighteen year low, they rebounded this March, jumping 36% from last years volumes. Condos were back selling quickly and in many cases

**Greater Vancouver Condo Months of Inventory for Sale**

Source: REBGV, Steve Saretsky

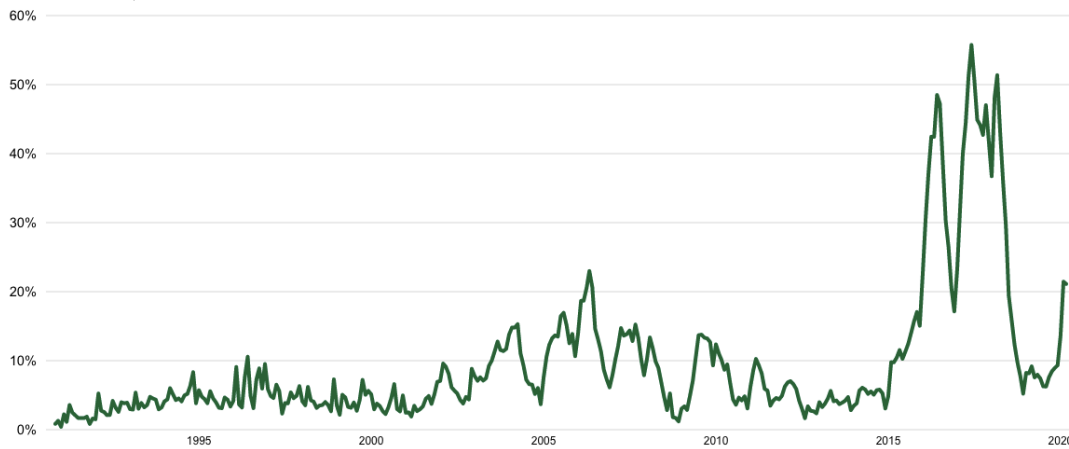


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in multiple offers. This should not be surprising given that the months of inventory for sale remained below 4 months.

### Percent of Condos Sold Above Asking Price in Greater Vancouver

Source: REBGV, Steve Saretsky



And here is a chart showing the percentage of condos sold above the asking price. That was clearly trending higher over the past few months. Here we have 21% of condos sold above the asking price in March.

Obviously this was putting upwards on pressure on prices. The average price per square foot for a condo was trending higher, officially up 6.5% from year ago levels, although still slightly below peak prices hit in the spring of 2018.

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Here we can see the annual percent change of MLS home price index for condos, officially up 2.9%. Indeed, it looked poised to continue moving higher before this crisis unfolded.



I suspect it will take some time for condo inventory to build because new listings will fall significantly over the coming months. However, once activity resumes again, I expect supply will obviously outpace demand as a significant portion of the economy tries to get back on its feet.

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## MORTGAGE DEFERRALS HIT HALF A MILLION, LIQUIDITY PRESSURES INTENSIFY

Canadian households, which are some of the most indebted in the world, are looking for financial reprieve. According to the Canadian Bankers Association, there have now been nearly 500,000 mortgage deferrals completed or in the process of completing since the program was announced two weeks ago. That's nearly 10% of all mortgages outstanding.

According to the Canada Mortgage and Housing Corporation, the average monthly mortgage payment of Canadian homeowners is \$1,326. Therefore, the cash flow freed up for Canadians from the deferrals completed to date is roughly \$663 million per month, or nearly \$2

billion per quarter. This number will increase over the coming weeks.

Make no mistake, there is no such thing as a free lunch. Canadian banks are under pressure, despite immense support from policy makers. OSFI, the bank regulator, recently lowered the capital buffer a few weeks ago (from 2.25% to 1%) is now considering lowering the capital buffer to zero.

In simple terms, a capital buffer is mandatory capital that financial institutions are required to hold in addition to regulatory capital requirements. Consider the capital buffer

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like a rainy day fund for banks.

In essence, OSFI is allowing banks to draw down this “rainy day fund”.

Not really an encouraging sign. But then again, lets be honest, the banking system wasn't really designed for half a million Canadians to defer their mortgage payments.



It could be worse though. In other parts of the world banks are facing similar problems. In the US, Mortgage lenders are preparing for the biggest wave of delinquencies in history. As many as 30% of Americans with home loans – about 15 million households -- could stop paying if the U.S. economy remains closed through the summer or beyond, according to an estimate by Mark Zandi, chief economist for Moody's Analytics.

In the UK, the banks persuaded the Government to suspend the country's property market. UK banks have expressed concern about the impact of

the pandemic on valuations and about granting credit when the economy is in free fall. Lloyds Banking Group and Barclays, two of the UK's biggest lenders, are temporarily pulling many of their mortgages. Lloyds has stopped offering mortgages or remortgages through brokers unless the customer has a deposit of at least 40 per cent of the value of the property.

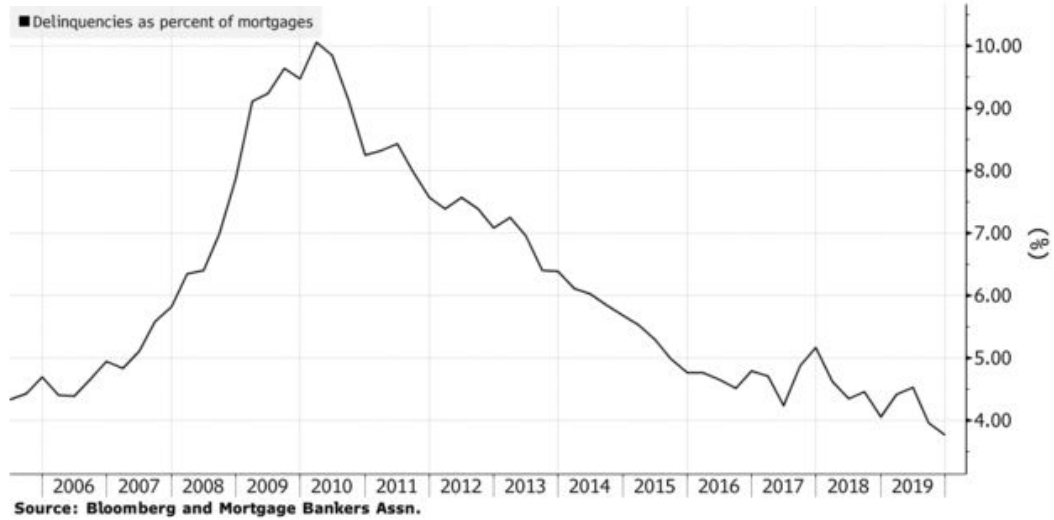
So far, The European Central Bank, the Bank of England and the Reserve Bank of New Zealand have all announced restrictions on plans to return capital to investors, including in the form of

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dividends. It sounds like Australia may be next. Over to you Canada.

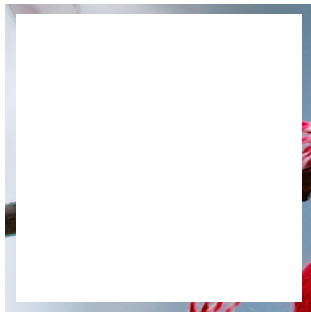
### New Wave: Up to 30% of Home Borrowers May Need Help, Topping Last Crisis Peak

Source: Bloomberg and Mortgage Bankers Assn.



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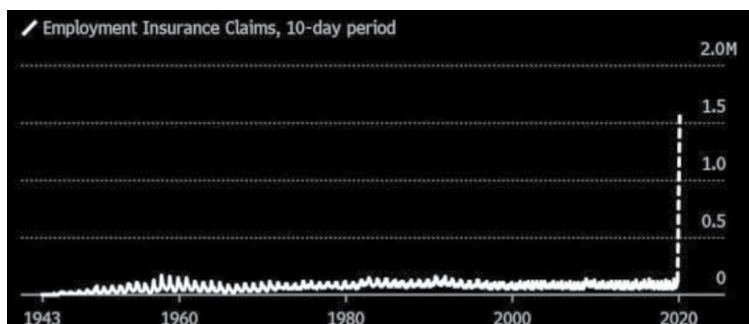
## THE LAUNCH OF QE, BANK OF CANADA BUYS \$1B IN BONDS

Unfortunately there's not a whole lot of good news to report these days. As I've said before, the longer this drags on, the weaker the recovery. PM Trudeau was out today, saying "distancing measures will be in place for weeks, maybe months." In other words, he has no idea.

Meanwhile, jobless claims have now climbed to 1.55M people, or about 8% of the total labour force, and set to rise further. We're gonna need bigger cheques!

### **Jobless Claims Spike: 1.55M Canadians Applied for EI Between March 16 and March 25**

Source: Statistics Canada, Bloomberg Calculations



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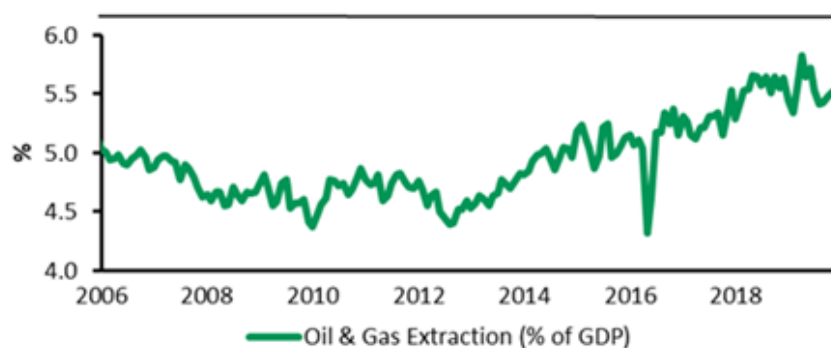
Obviously budget deficits are out the window, and the Bank of Canada is now determined to help fund this spending. The BoC said last week they'd begin purchasing \$5B per week of Government bonds until the nations recovery is "well under way."

According to Bloomberg, Governor Poloz and those at the helm of the BoC officially gobbled up \$1B in government bonds today, its first foray into QE (quantitative easing). Although, they prefer not to call it that.

Indeed, the situation is pretty dire, we're not only fighting a pandemic/ economic crisis but also a complete and utter obliteration of the oil market. If you thought things were bad in Alberta before, close your eyes. At \$5, a barrel of Western Canadian Select currently costs the same as your Starbucks latte. For context, it costs about \$7 just to ship the oil to a refinery. Oil and gas extraction represents about 5.5% of Canadian GDP.

#### **Oil & Gas Extraction as a Share of GDP Has Been Steadily Rising Since 2012**

Source: Desjardins Capital Markets, Desjardins Economic Studies, Statistics Canada



Lastly, a quick update on the housing front. Banks are being swamped with mortgage deferrals. According to the CEO of CIBC, "For our consumer clients we're seeing 20,000 deferrals per day, on average, on mortgages and credit card payments."

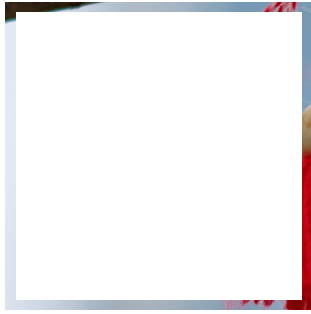
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From what i'm hearing some banks will allow you to defer up to four properties, maybe even more. However, you have to have enough amortization room to do it. In other words, if you bought within the last few months you won't qualify.

I expect to see sales really fall off a cliff in April. March sales figures will look great for media headlines, officially up 46% year-over-year in Greater Vancouver. Keep in mind, March 2019 was the slowest March dating back to 1990.

For those that are interested, i'll be tracking weekly sales and new listing activity in Greater Vancouver. Check back here periodically.

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## BIG CHEQUES

As expected, the monetary and fiscal bazookas are getting bigger every day. Ironically, after an era of zero interest rate policy which punished households and businesses for saving cash, there's now a shortage just when everyone needs it.

For those who didn't practice a healthy habit of saving for a rainy day, policy makers are determined to plug the hole in the sinking ship, promising big cheques and "unlimited QE."

Policy makers in Canada dipped into their toolbox this week. First, Trudeau conjured up the Canada Emergency Response Benefit which will offer \$2,000 a month in direct support to Canadians who have lost their job and don't qualify for employment insurance.

Meanwhile, the Bank of Canada hammered interest rates into the floor, effectively hitting the lower bound at 0.25%. At the same time, they began their

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own version of QE. Governor Poloz, announced the banks intentions to start buying a minimum of C\$5 billion a week in government securities. For context, that's \$240B per year, which exceeds the expected amount of issuance by the Government this year and next, resulting in net negative Government of Canada issuance. In other words, the Federal Government has been given the green light to spend into oblivion.

Not to be left out, the BoC is also offering up support for provincial Governments. Announcing, a new program to support the liquidity and efficiency of provincial government funding markets. The Provincial Money Market Purchase (PMMP) program will purchase up to 40 percent of all newly issued provincial debt.

BC's premier John Horgan wasted no time, offering a one time cheque of \$1000 to those who have been impacted by COVID-19. He also gave tenants the option of taking a pass on their monthly rent by halting all evictions and implementing a mandatory freeze on any rent increases. Any landlords on the short end of the stick will be mailed a cheque for \$500 for the inconvenience and are encouraged to seek a mortgage deferral from the bank.

Of course, now the banks are overwhelmed. In the first week alone, more than 213,000 requests to defer or skip payments have been completed or are being processed by the big six banks. Scotia Bank's CEO

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noted, “Last week, our contact centers in Canada received close to 80,000 calls per day, with calls to our mortgage and loan teams up 500%.”

This program wouldn't be possible without the support of the taxpayer aka CMHC, a crown corporation. CMHC is providing massive relief to the banks, upping their IMPP program from \$50B to \$150B. Under this program, banks can effectively offload some of their unwanted loans onto CMHC. Some pundits, including myself have criticized it as a quasi stealth bail-out of the too big to fail Canadian banks/ housing market.

There's no question some of these programs are necessary, although they reek of moral hazard. For example, many banks are allowing mortgage payment deferrals of up to four properties. Should someone with four properties really be granted financial assistance? Where exactly do we draw the line?

Yes, this is a global pandemic that nobody saw coming, hence extraordinary measures must be taken. However, exogenous shocks are like busses, there's always another one coming.

### ***Three Things I'm Watching:***

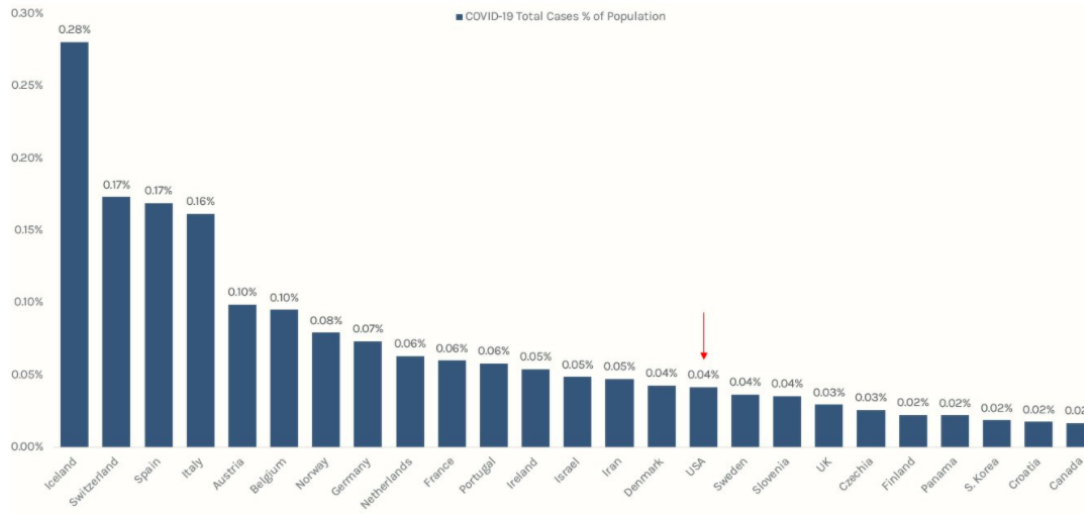
1. Canada has done a good job so far of mitigating COVID-19 cases. Here are the number of cases on a

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per population basis.

### COVID-19 Total Cases % of Population

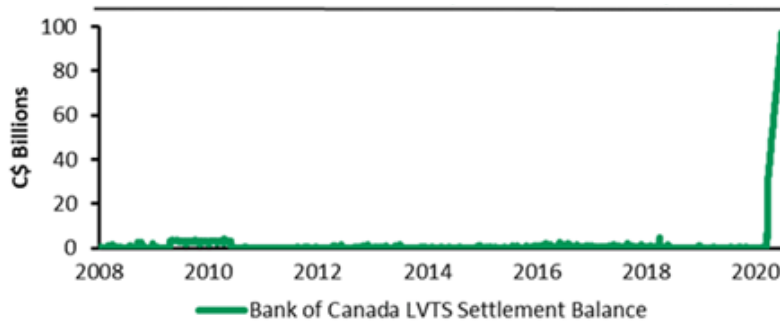
Source: Hedgeye



2. Bank of Canada balance sheet to surge in the next 3 months.

### BOC Balance Sheet Bound to Surge During Next 3 Months Following QE Announcement (\$5Billion Purchases/Week)

Source: Desjardins Capital Markets, Desjardins Economic Studies, Bloomberg



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3. As Poloz cut rates to near zero, he quipped, “Some may suggest this is using a lot of firepower, But I think a firefighter has never been criticized for using too much water.”

### Towards the Lower Bound: Bank of Canada Cuts Overnight Rate to 0.25%

Source: Bank of Canada



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## PRE-SALE LAUNCHES IN MARCH

Project Name	Opening Date	Total Number Of Units	Remaining Inventory	Total Sales	Monthly Absorption Rate	Units Yet To Be Released	Size Low	Size High	Size Avg.	Price/Sf Avg.	Current Selling Price/Sf	Price Low	Price High
Mitchell	2020-03-14	53	53	0	0.0	0	1,631	2,055	1,858	\$484	\$485	\$775,900	\$989,900
Skagen	2020-03-07	52	3	23	23.0	26	1,653	2,138	1,853	\$561	\$561	\$929,900	\$1,249,900
50 Electronic Avenue (East Building)	2020-03-21	220	170	50	50.0	0	522	1,635	870	\$765	\$766	\$399,900	\$1,079,900
Sophia	2020-03-12	30	30	0	0.0	0	1,027	1,430	1,260	\$661	\$661	\$729,900	\$915,900
Marq	2020-03-14	22	17	5	5.0	0	829	990	906	\$1,710	\$1,715	\$1,364,900	\$1,779,900

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**50 Electronic Avenue** - has officially launched their East tower. However, there still remains a 170 units to sell putting the developer in a tougher position heading into a market slowdown.

**Marq** - At a current project average price per sqft of \$1700 we find this to be very high for the area.

**Skagen** - The developer appears to have priced these well as sales absorption is incredibly high.

**Mitchell** - Prices appear a bit on the high side. As the project launched towards the end of March it is too soon to judge the success of the sales launch.

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## 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](mailto:steve@stevesaretsky.com).



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