

Victoria Real Estate Market Performance Insights
Q4 2018




CHRISTIE'S
INTERNATIONAL REAL ESTATE



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introduction

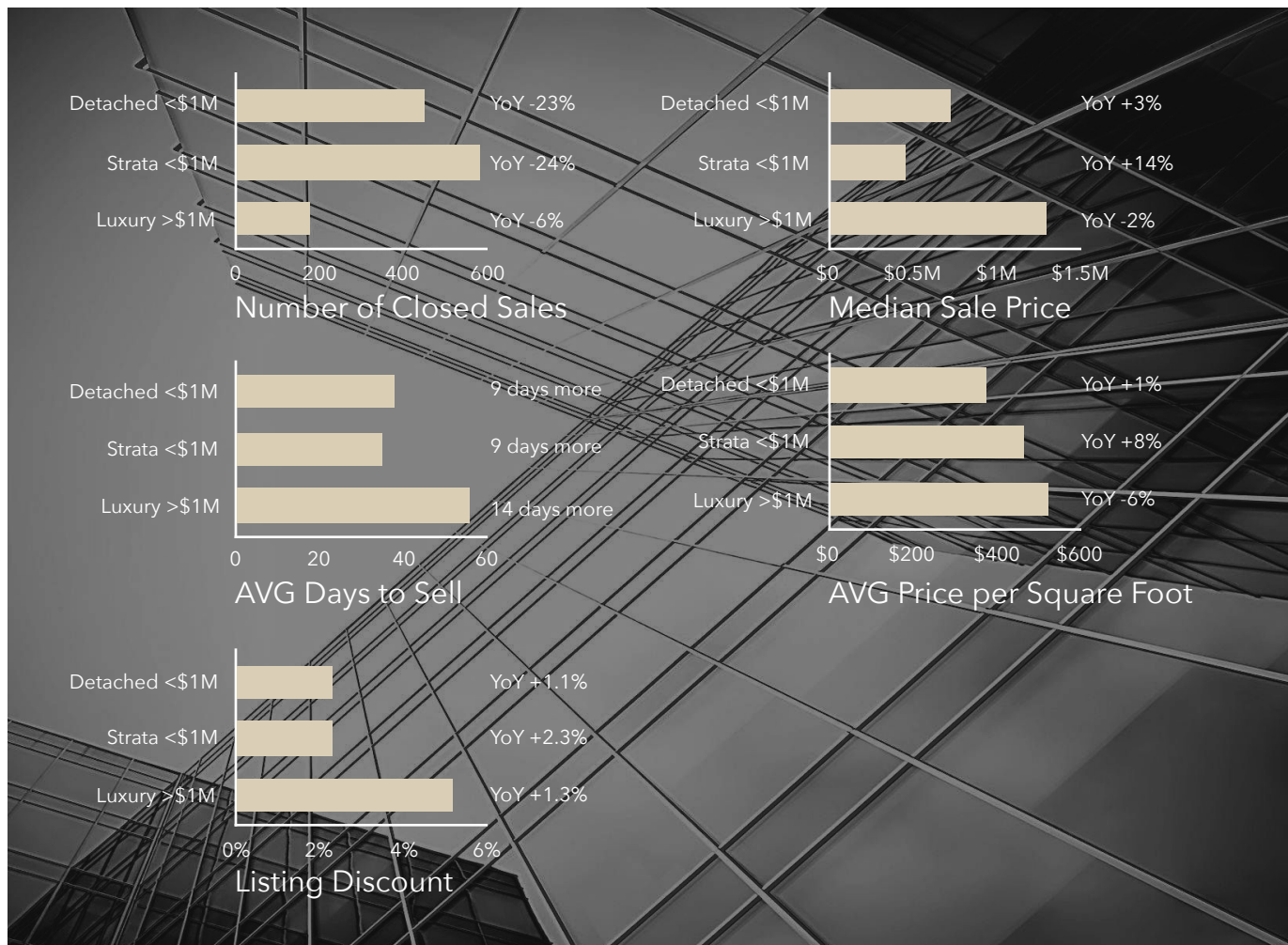
In the last week of 2018 we saw the stock market swoon in historic fashion, pre-Christmas, followed by one of its most energetic rallies on Boxing Day. Such rapid 'Highs and Lows', as we have heard the cliché - or rather as the stock market has shown - 'Lows and Highs', don't occur with real estate values, for many reasons.

Trying to ride a wave with any commodity involves risk and is almost always unnecessary; the real estate market can be an expensive one to try and predict – especially if you are wrong. Emotions can sometimes run high and cloud judgement for those that enter the market to buy, sell or to invest. Practical responses and fact-based decision making lead to guilt-free and worry-free transactions.

2018, and going forward, 2019, are clearly no longer what 2016 was – “buy NOW if they'll accept your offer,” “list and you'll get four unconditional offers immediately” – but what is still true is that there continue to be opportunities in Victoria to succeed when you have made a critical evaluation of the numbers and what the trends are indicating.

As you read our 2018 Q4 Report as an existing owner, potential buyer/investor, prospective seller, or even as someone who's watching this part of the cycle from the sidelines, The **Q Report** avoids the market 'noise' and is your guide to precisely what is occurring.

1 market overview - Q4 2018



Looking back, what felt like a year of immense change for our real estate market in fact signalled a relatively graceful return to a more balanced market. Let's start with some of the hurdles that resulted in a reduction in overall sales: the B-20 Mortgage Stress Test, the newly expanded Foreign Buyer's Tax, changes to the Residential Tenancy Act, the new Speculation and Vacancy Tax, increases in new rental stock in many areas of Victoria, and some general buyer fatigue with the shopping experience in the last few years all led to Buyers pulling back on the reins a bit.

The shift in the market is evident in several of the above charts. Year over year (YoY), from 2017Q4, the number of sales has decreased overall. Market times have increased; moving from historically low counts of days on market throughout 2016-2017, to a statistic that reinforces the trend we have

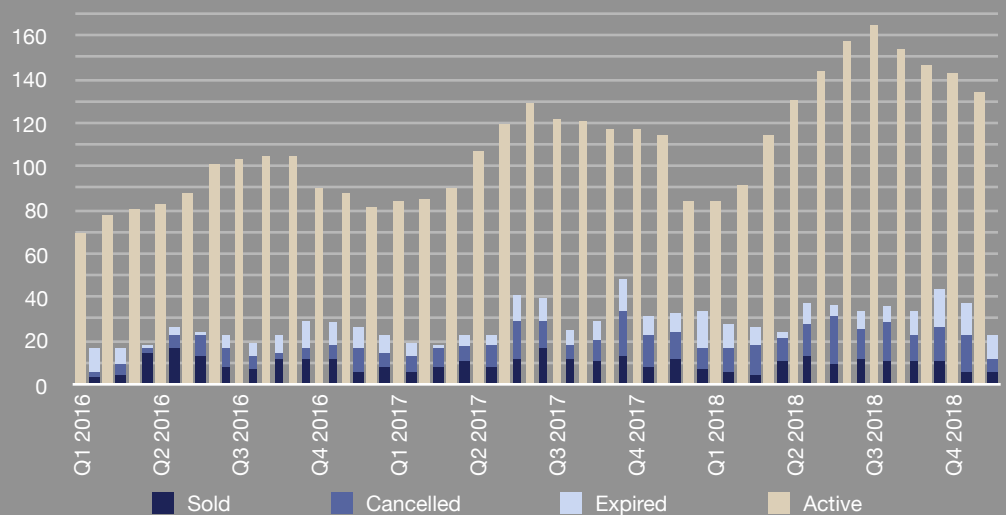
witnessed of fewer multiple-offer sales. Listing discount in the recent past was essentially zero, and so to have moved to an average of 2% is significant. In the Luxury category (\$1M+), there is almost always a larger listing discount.

However, we still saw overall prices increase in 2018 YoY, especially in strata property types. The condo market benefitted from buyers squeezed out of detached homes, as shown by the marked performance in price per square foot (PPSF).

Looking specifically at \$1M+ listings, we have never seen more homes listed in this price bracket than in 2018. In addition to increased competition, more challenging financing for properties in this range also had an impact. Deals written at anything less than \$1M offer the buyers far more lending options than those written just over. With so many properties priced right around this tipping point in our market area, it pays to know the landscape. Call us for an in-depth look at how a prospective buyer's financing can be affected by your list price.

FOCUS on \$2M+

The number of sales over \$2M was down in Q4, with VREB sales data indicating only about half as many as the same quarter in each of the past two years. In tandem with the decline in sales, the number of expired listings increased steadily from mid-year through fall. Average sale price for properties over \$2M was higher in Victoria, Oak Bay, and North Saanich than in 2016-2017, with all three districts pushing \$2M+ luxury homes up to an average sale price of over \$3M. However, average sale prices were slightly lower year-over-year throughout areas of Saanich. Overall, average price per square foot was down slightly. With a higher than usual number of active listings available to prospective purchasers at this price point, and a Y/Y decline in PPSF, we have identified a unique opportunity for buyers considering investing here, in one of Christie's International Real Estate's top worldwide primary luxury markets.



For sellers in this market segment, greater opportunity for buyers should signal that you need to have an extra level of expertise in market analysis prior to bringing your property to market. You should demand an approach that takes into account a deference to market data. As we look to where the \$2M+ market is going, we are already seeing larger discounts in the original-to-sale price metric. North America-wide research has consistently demonstrated that properties priced significantly above the median value for their listing region ultimately tend to sell for less than the median value. In a competitive market, missing the mark with pricing could result in massive opportunity cost. Only the best properties in this segment - those that are properly prepared and well-presented - will sell in 2019.

2 municipal price index growth leaders

The MLS® Home Price Index (HPI®) is a superlative source of real estate market data interpretation that is able to provide timely insight into where markets are moving in short, medium, and long term ranges, with granular data available for specific neighbourhoods and property types.

Looking back from 2018Q4 for a year-over-year comparison, Sidney tops the municipal rankings in 12-month composite index price growth at 8.6%, the pricing indicator pointing to the market's renewed interest in the charming peninsula lifestyle as well as the supply of attractive new housing starts that have come to market in the area over the past year. Sidney was followed closely by Victoria and Sooke, both

landing at just over 8% growth. Metchosin (7.2%) and Vic West (7%) were the only other areas to beat the regional growth average of 6.6%.

Oak Bay and North Saanich, where the composite benchmark price is far higher than the regional average at \$1.12M and \$919K respectively, ended up near the bottom of the price growth rankings, with Oak Bay gaining 4.3% and North Saanich 3.3% YoY.

With an abundance of luxury properties and higher-end property sales - as indicated by higher benchmark prices - intuitively it may come as a surprise to see these areas near the bottom of the pack in price growth. However, it is precisely the lower diversity in property types that provides an explanation. Both Victoria and Sidney, sitting just below the regional benchmark price average, were buoyed by richer mixes of property types within their composite



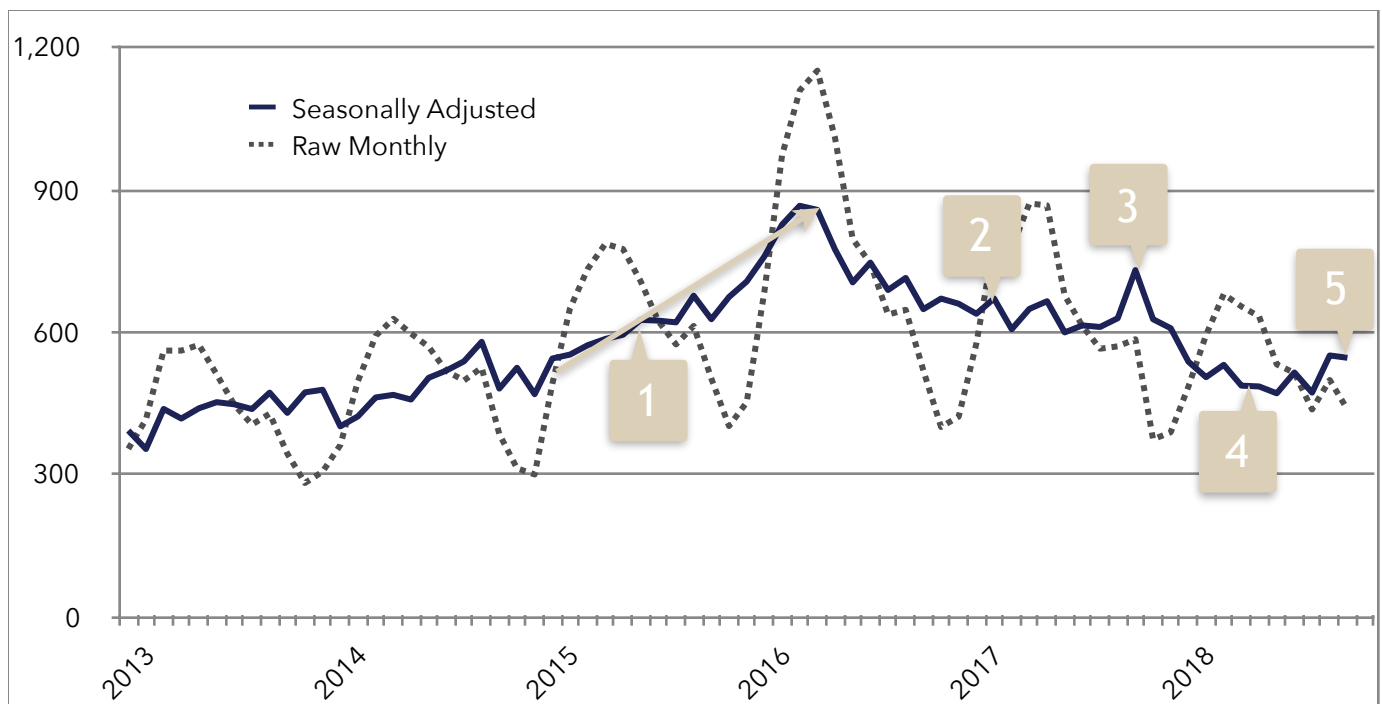
indices; as we noted in the Market Overview, the condo market heated up appreciably while the \$1M+ market struggled more than expected over the course of 2018.

Expect a shift in these numbers in upcoming **Q Reports**, as preliminary data from 2018 is showing negative growth in most areas from early 2018 to late 2018. For example, while Sidney is +8.6% from 12 months ago, it is currently showing -2.25% from six months ago, and Oak Bay is currently showing -4.8% from three months ago, signalling a quantitative measure of the market softening that has occurred in the wake of the B-20 stress test, rising interest rates, and other government interventions.

To learn more about how we can put our integral expertise using the powerful toolset available in the HPI® to work for you and your unique circumstances, give us a call and we would be happy to provide further insight.

3 seasonally adjusted data

One of our objectives with the **Q Report** is to bring you unique and critical analysis, beyond the frequently quoted press releases available elsewhere. Each quarter, this section will contain an analysis on a specific topic you won't readily see anywhere else.



This edition, we are looking at the benefits of seasonally-adjusted data. Using rolling averages, we are able to take the seasonality out of market data. For example, the number of sales always goes down at the end of the year, but by adjusting, we can see whether the actual trend for a given year was up or down based on how much sales tend to go down, on average, at the end of each of the last few years.

The figure above shows the total number of sales (dotted line) in our primary market area over the past number of years. By applying seasonal adjustment to the raw data, we are able to generate a less erratic line which also reveals some interesting data points:

1

2015 steadily climbed toward 2016's unprecedented market. Seasonally adjusted data shows a much more linear incline than the cyclical raw data. This is particularly true in the year-end dip, where seasonally adjusted data shows a marked rise. One can't help but wonder if tracking this data in real time, watching the incline develop over the course of 2015, might have led market watchers using seasonal adjustment to accurately predict that 2016 was to be a banner year for Victoria real estate.

2

Citing "rising risks and vulnerabilities associated with household lending" The Office of the Superintendent of Financial Institutions (OSFI) introduced new underwriting guidelines in 2016 including a new stress test on high-ratio borrowers (those with less than 20% down), requiring them to qualify higher rate than the contract rate, ostensibly to protect borrowers from 'rate shock' at renewal. Looking back at the time that the first round of stress testing came into effect, seasonally adjusted figures show little impact from this new stress test in the last quarter of 2016 and leading into 2017. This is perhaps unsurprising in light of the Victoria Real Estate Board (VREB) Market Survey report for 2016, which reported only 16.3% of purchasers that year were reliant on high-ratio financing to purchase.

3

While 2017's seasonally adjusted sales fell into a relatively consistent range somewhere below the dizzying peak of 2016 but still well above the 10-year average, the point of interest to highlight is the significant peak toward the end of the year that shows a flurry of property sales in anticipation of the revised, stricter B-20 guideline which took effect January 1, 2018. Once again, referencing the Market Survey report illuminates why the revised B-20 guidelines had a much larger impact: buyers' agents reported that nearly 55% of their buyers were using conventional (20%+ down) financing to purchase in Victoria, all of whom would be affected by the rule change.

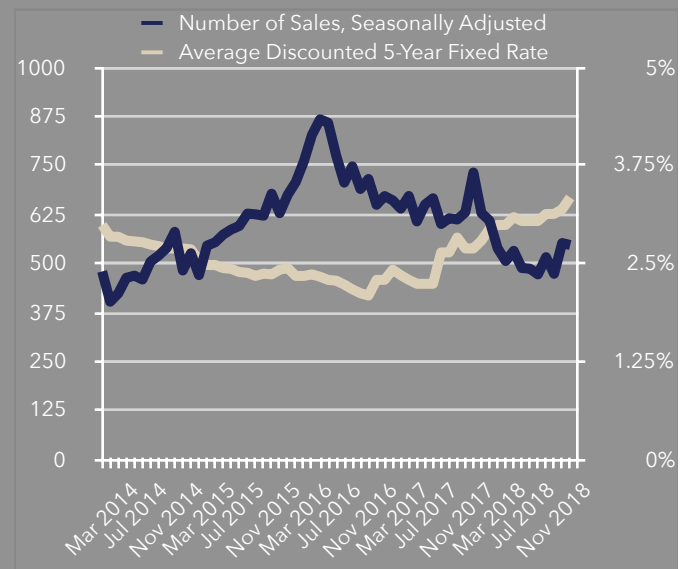
4

Once the peak of the stress test sales eases off, settling into 2018, we see a drop of approximately 15% in sales volume sustaining throughout most the year. As we have made reference to elsewhere in the Q4 report, the drop was not solely from the stress test coming online, but as a result of the double hit of simultaneously rising interest rates (see sidebar). Buyers saw their borrowing power erode by around 20% on average at the beginning of 2018. In addition, a series of announcements of other interventions from government throughout the year created uncertainty, leaving a number of prospective buyers and sellers waiting to see what would happen next.

5

Looking to the end of the graph, the last numbers from 2018 suggested that there was another unusual year-end bump in sales. This is particularly pronounced in the seasonally adjusted line, indicating a higher than usual number of sales for the time of year. We suspect that this may have been a run on properties listed in response to tabling of the new 'Speculation and Vacancy tax' legislation in the fall. With the prospect of having their equity taxed away becoming reality, we have been hearing from property owners considering divesting themselves of secondary properties which meet the BC Government's criteria for 'under-utilized.' If you or someone you know owns a secondary property in a strata with bylaws that restrict rentals, please call us for an explanation of what the BC Government isn't currently telling you about the potential tax liability that is expected to come into effect after 2019.

Our seasonally-adjusted data series also made for an interesting comparison against the mortgage rate trend. Here we see the average 5-year fixed (discounted) mortgage rate forming a near mirror image inverse of the seasonally adjusted sales.



Rates are expected to rise slowly in 2019, which we expect will signal a return to 2013-14 levels of transaction volume.

4 opportunities

buyers

- ▶ Increases in inventory, market times, and listing discounts all signal movement toward a more balanced market. Buyers will be afforded more choice and more opportunity to negotiate, rather than being locked into multiple-offer situations.
- ▶ Strata properties continue to generate good returns for their owners, and we expect core areas in the market area to continue bringing on new units to meet demand.
- ▶ Luxury property buyers have more to choose from than ever before, more negotiating power, and lower per-square foot pricing than a year ago.

sellers

- ▶ Our research suggests it may be an opportune time for some investors to consider divesting themselves of holding properties. Rents are declining for certain property types, the government has ratcheted down the maximum allowable rent increase for 2019, and the vacancy rate has reached 1% for the first time in recent memory. Smaller multi-unit revenue properties in the triplex/fourplex class may have reached their peak in resale value for this market cycle as capitalization rates could face continued threats.
- ▶ Family homes in the coveted \$750K-\$900K range continue to attract. With the right preparation and marketing, quality detached properties in this price bracket can still generate multiple bids.
- ▶ Condos continued to outpace detached homes in price growth over the year. Demand remains strong. For owners thinking of 'cashing out' to realize their equity gains, expect a positive outlook in 2019.
- ▶ In particular, for owners of 'under-utilized' properties that will be caught under the new 'Speculation and Vacancy tax' regime, it may be the right time to sell, as we are seeing some early signs of downward pressure on pricing, though the YoY gains of the past several annual cycles will still yield a positive return.

investors

- ▶ Though opportunities remain relatively limited, purchasing residential holding properties in up-and-coming areas with higher rent-to-own ratios continues to hold potential for investors.
- ▶ Commercial real estate continues to perform well, with BC Real Estate Association's Commercial Leading Indicator is pointing to slow but positive growth in the year ahead.



summary

Thank you for reading the **Q Report**. This document is also available online at victoriareport.com. Hard copies are available upon request. The next **Q Report** will be released in Q2, but in the meantime, any of the metrics we have examined can be personally updated for your unique situation. Do your real estate portfolio or housing needs require a consultation now? We are well positioned to analyze and identify your best opportunities.

We look forward to meeting with you.

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notes

terms

Listing Discount - Calculated as the percentage difference between the original list price and the final sale price

PPSF - Price Per Square Foot

Stress Test - A federally mandated requirement for lenders to ensure borrowers are protected from 'rate shock' by requiring borrowers to qualify for financing at a higher rate than the actual rate on the mortgage.

YoY - Year over Year

data sources

Victoria Real Estate Board

vreb.org

Office of the Superintendent of Financial Institutions

www.osfi-bsif.gc.ca

BC Real Estate Association

bcrea.bc.ca

Canadian Real Estate Association

crea.ca

RateHub

ratehub.ca

research & writing

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Looking Back to Successfully Move Ahead

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