Victoria Real Estate Market Performance Insights

Q1 2019

CHRISTIE'S INTERNATIONAL REAL ESTATE

Newport Realty

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introduction

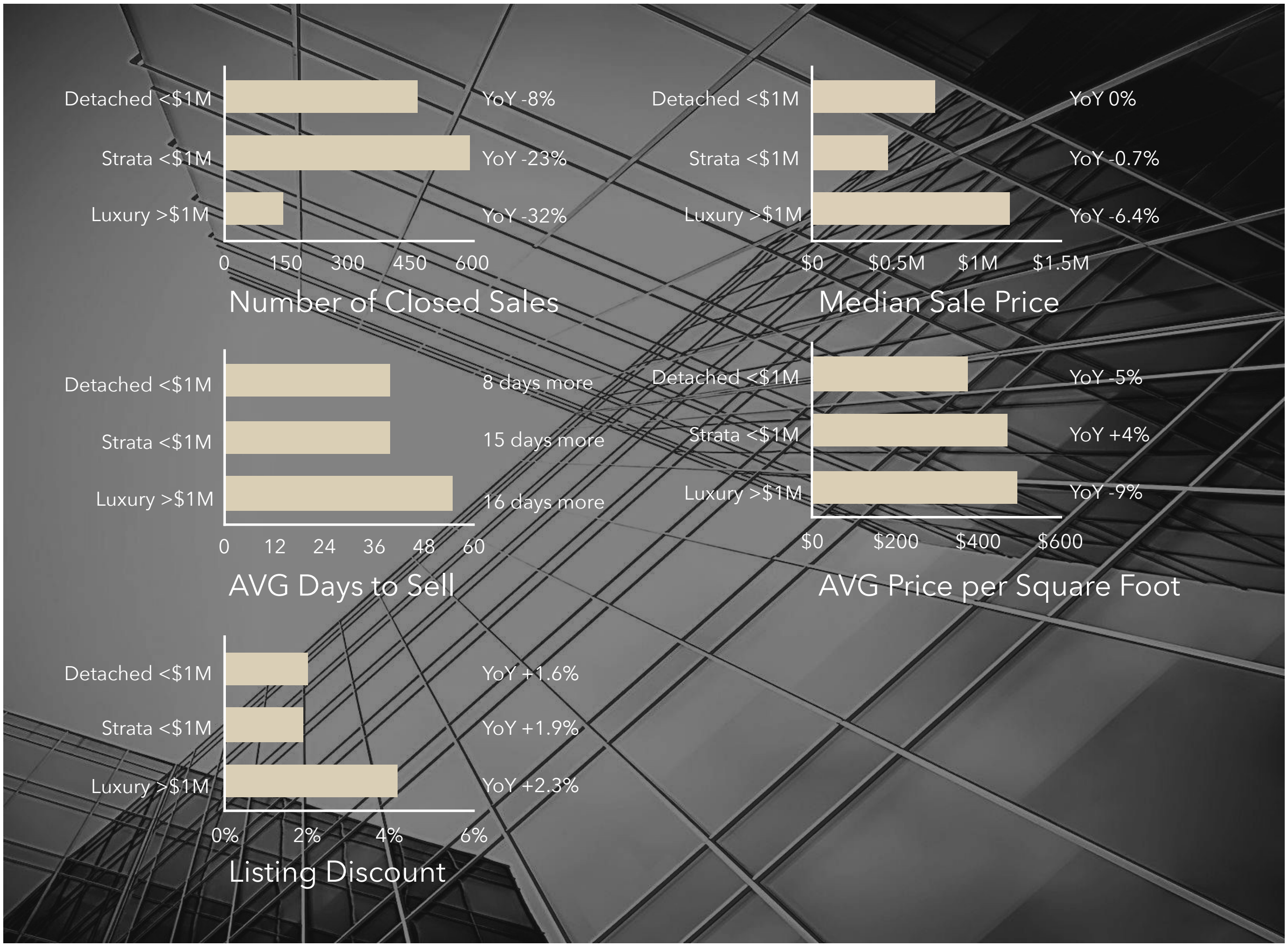
Welcome, Readers, to ***The Q Report*** for Q1 2019!

What actually happened in Victoria's real estate market in the first 90 days of this year? You've got the answers in front of you – read on to find out.

Whether you are an existing owner, potential buyer, investor, prospective seller, or even someone who's simply watching this part of the market cycle from the sidelines, we are proud to follow up our previous report and provide you this update. ***The Q Report*** is a research-based real estate report that cuts through the market 'noise' and is your guide to precisely what is occurring.

Please enjoy reading, and as always, we appreciate your feedback.

1 market overview - Q1 2019



We're back! We hope you'll find the above charts familiar and easy to read returning from the last ***Q Repor***t. Year-over-year (YoY) figures compare Q1 2019's numbers with the same metrics from Q1 2018.

With affordability eroded by natural market forces – steep price increases over the incline of the 2016-18 market cycles – and external forces – the B-20 stress test and last year's modest interest rate hikes – Victoria's real estate market has responded by slowing down over Q1 2019, with sales volume down over 19% overall YoY from Q1 2018. Consequently, numbers for market times and listing inventory have been building modestly as more properties come available and those sellers take a longer time to locate buyers. Naturally, this has led to somewhat more inventory; but while the 1700-1800 monthly active listings we counted in the first quarter are encouraging compared to the 1100-1200 listing counts of Q1 2017 and Q1 2018, they are still well below the 10-year average range of 2300-2500. So although sales are slow, the slightly lagging amount of new listings hasn't resulted in enough competition among home sellers to drive prices lower.

For all properties under $1M, sales volume would need to continue to shrink for several more quarters before a quantitative effect was seen on pricing, assuming new listings stay on pace. Q1 2019 averaged slightly under 6 months' of inventory for properties under $1M, so any declaration of a 'buyer's market,' or conditions where prices are expected to slide significantly, would be premature. In general terms, the absorption rate would need to slow to a point where 9 or more months' of inventory would create significant downward pressure on home prices.

The higher end of our market, on the other hand, is continuing to exhibit more categorical signs of the slowdown which began in earnest in 2018, with the YoY figures charted above showing sizeable losses in every metric. Our comparison to last quarter echoes this trend, with overall number of luxury sales down over 20%, median price down more than 8%, average PPSF down 7% versus Q4 2018, and market times continuing to increase. The only metric that managed to buck the trend from last quarter was listing discount, decreasing from 5.2% to 4.2%, which we take as an indication that the properties which have sold were those which chose to price more competitively. Our team at Newport Realty — recently named Christie's International Real Estate's affiliate brokerage of the year — continues to best the local market in luxury sales, with more transactions valued at over $1 million in the Core during the course of Q1 than any other local firm. As leaders in market research and data analysis, we feel confident in knowing what we mean when we say "priced competitively."

Considering new construction as another indicator of the housing sector's health, Canada Housing and Mortgage Corporation (CMHC) notes that housing starts in Victoria are up overall YoY, but signs of a slowdown are becoming apparent. The steep drop-off in building starts for single-family detached homes is being called a 'canary in a coal mine,' with Victoria builders reportedly expressing the sentiment that where sales go, new housing starts will follow, and adjusting their forecasts and plans for future projects down accordingly.

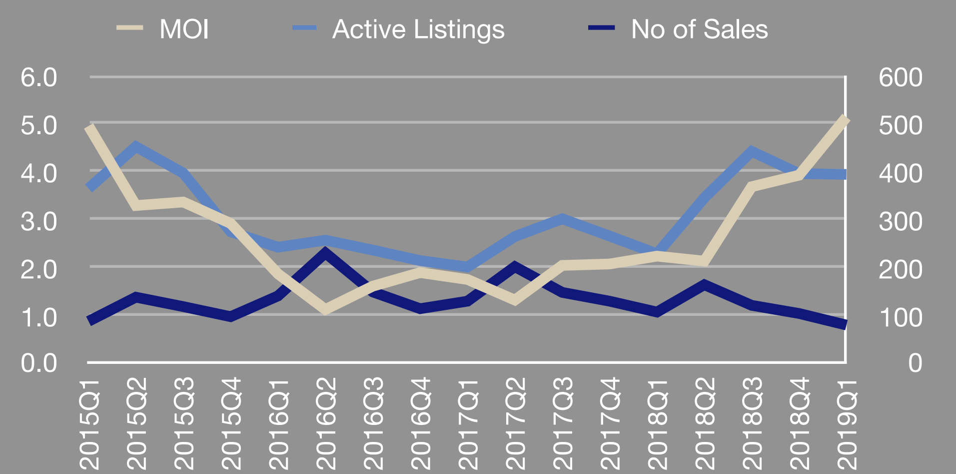
National and Provincial forecasts both point to continued easing ahead for the housing market, with Early 2019 figures largely suggesting a broader slowdown in the Canadian economy and less rosy predictions for coming quarters, however, the Canadian Real Estate Association (CREA) is quick to point out labour market numbers, demographic fundamentals, and the Bank of Canada's (BoC) revised interest rate forecast all continue to indicate support for housing demand — more on this later. Both the BoC and the U.S. Federal Reserve have revised their interest rate outlooks for the balance of 2019 to suggest that further increases to their prime rates will be put on hold, and suggesting that we may even see cuts before year end. Bond yields, which directly affect fixed mortgage rates, have seen a significant slide back to mid-2017 levels, tipping us off to investors' dim outlook for the economy in the near term, but giving some hope to borrowers at the same time with the prospect of lower fixed rates.

With around 25% of BC's GDP relying on real estate and construction, macroeconomic slowdowns and significant lags in the housing sector are closely linked enough to put us in a chicken/egg scenario in the foreseeable future – wondering which caused which. As well, it has been noted that the B-20's most impacted victims may be first-time buyers. The squeeze on

FOCUS on $600-$900K Detached Houses

In the Greater Victoria housing market, this always-in-demand price bracket has come to represent a pocket of theoretical relative affordability, the bread-and-butter properties which generally appeal to two-income families with the means to buy detached homes around the city's median price, and those moving up from condos.

We often look to the absorption rate - expressed as months of inventory (MOI) - for a particular market, area, or property type to determine the temperature in that segment. An MOI value of 4 or less is considered a seller's market, more than 8 is heading into a buyer's market, and the range in between generally represents a balanced market.



The chart included here highlights the complex relationship between active listings, number of sales, and the absorption rate, quarter by quarter, leading up to 2019Q1. As expected, spikes in sales (dark blue line) demonstrate in an inverse relationship causing acute dips in MOI, and we see the overall number of available listings (light blue line) pulling the overall MOI (beige line) line up or down with it along approximately the same curve. 2016-17 saw fierce competition in this price range, with high demand leading to multiple offers becoming the norm throughout what this figure depicts as a sustained period of only 1-2 months' worth of available inventory. A gradual buildup of listings beginning in post-B-20 2018, combined with declining sales numbers more recently, have moved this metric back into the balanced market territory for the first time since Q1 2015.

While it would appear that some relief is arriving for frustrated buyers who have been anxiously watching this price bracket slip away from them over the last several market cycles, the irony is that the more stringent lending regulations put in place by the federal government last year which created this relief have probably taken away the ability of those buyers to engage in the market at this price point. It is worth noting that The BC Real Estate Association began lobbying the federal government in March to consider relaxing the stress test requirements, arguing that the B-20 guideline has hurt affordability for consumers in BC, but we expect OSFI to remain pat on these guidelines for now.

With listing discounts in this segment averaging just 0.8% in Q1 2019, we are reminded just how critical correct pricing is in attracting a willing buyer to bring an offer. For an in-depth look at your own strategy, give us a call.

Millennials curtailing their ability to enter the market could have knock-on effects that would manifest in time as a downstream logjam on “move-up” properties. As mentioned elsewhere in this edition, we predict recent federal measures aimed at assisting first-timers to have little impact locally.

Based on current trends and outlooks, we expect a fairly uneventful spring market over the course of Q2, in which the biggest headline is likely to be lacklustre performance, relatively low inventory, and pricing remaining stable for the most part, with the exception of increased competition at the more affordable end of the scale, as buyers still in the game with less purchasing power continue to jockey for what opportunities are available.

As we discussed in the last ***Q Report***, market-wide figures aren’t able to illuminate all property and price segments individually, so we always look for the story within the story. This edition, check out the sidebar companion to our market overview, which focuses specifically on absorption rates and trends in the always active $600,000-$900,000 price bracket for detached homes in Victoria.

2 municipal price index growth leaders

When we decided to feature stats from the MLS® Home Price Index® to track what's actually happening behind the basic and commonly quoted market statistics, we did so for a few reasons; mainly it boils down to accuracy. A basic overview of just what the HPI® measures should help clarify.

It's important to note that the HPI® gauges the value of a 'notional' home, one that doesn't actually exist but is rather a set of characteristics derived from sales data to approximate what a 'typical' comparative home would exhibit in a specific geographical location. Every month the sales of all homes are recorded and fed into the HPI® algorithm, where the data is analyzed and used to generate linked index values and benchmark prices for each benchmark property type.

The methodology used to extrapolate the data has been in use since 2013, vetted and endorsed by a list of independent third parties including Statistics Canada, Canada Mortgage and Housing Corporation (CMHC), The Bank of Canada, Federal Department of Finance, and Central One Credit Union. In fact, these organizations call upon our national professional association, CREA, to use the HPI® in analyzing and forecasting trends, further illustrating the tool's credibility.

One of the most powerful benefits of accessing the HPI® is being able to avoid simple reliance on month-to-month sales stats, as medians and averages can sway depending on the price point of sales in a month within both a general and a specific area. Thinking of it this way, it's not hard to see that in any two months you may have higher or lower priced homes trade in a market area, and while it doesn't mean that overall values or going up or down as a result, the median and average prices could give that misleading impression. The HPI® avoids this as the numbers being tracked are over a longer period of time and with much more rigorous statistical methodology.

Medians and averages are still effective tools for analysis, and in the absence of the HPI®, one of the best tools we have available for measuring trends, provided that the underlying data is both broad-based and consistent, such as those included in our Quarterly Market Overview. Your own needs and goals will require a complete examination of the Home Price Index® values as well as medians and averages as they apply to you, and we encourage you to have us critically examine your specific “micro" scenario.

When we take a look at some of the biggest gains in the HPI® values around Greater Victoria, a couple of observations are worth noting. The Westshore region took the cake in price gains; we believe this is indicative of buyers’ movement toward more affordable price points, which are easier to come by throughout the attractive, growing, and family-friendly region. To this point, Sooke posted the largest growth in benchmark value at +5.4% YoY. Although considered locally to be a significant commute, Sooke makes a lot of sense for mobile and Westshore-based buyers, those seeking maximum bang for their buck, and retirees. Demand for property is increasing and people who want the West Coast lifestyle will have it in spades in this idyllic location. Following closely behind Sooke, Langford (+3.4% YoY) and Colwood (+2.2% YoY) have come to represent sound options for dual-income families to purchase new housing stock in Langford's Bear Mountain and Westhills, as well as Colwood's Royal Bay. No municipality has the "Do it!" mentality that exists in ‘LA’ — as we affectionately call it — and it seems a ‘get in now, while you still can’ feeling has erupted among buyers. We will continue to monitor how the continuing addition of new housing both in detached and strata categories is absorbed, given increasing population projections, but from here it certainly seems like values will continue to rise going forward on the Westshore. Many second-time buyers, those self-employed in high demand trades, and newcomers to Victoria area find the presence of so many brand-new amenities including schools, sports facilities, YMCA, and shopping, in addition to a multitude of parks, lakes, and a regional trail system linked to the Core an extremely appealing option.

On the slightly cooler side of the numbers, we find dips in HPI® values in Oak Bay (-4.0% YoY), North Saanich (-3.3% YoY) and to a lesser extent, Metchosin (-1.2% YoY). These areas have always been exclusive for lifestyle and comfort, consistency in value and liquidity. However, as we noted in the last ***Q Report***, they are also all areas with the shared challenge of a fairly homogenous supply of detached homes on larger parcels of land, including a preponderance of the region’s pricier luxury properties — as evidenced by benchmark values all hovering close to the $1M mark — which have struggled to keep up with the >$1M segments of the market over the past year.

We are so fortunate that as members of the Victoria Real Estate Board, we are among a few esteemed associations who have access to this information and are grateful to be able to offer it in this interpretive and — hopefully — helpful way to you. Not everyone, however, is taking advantage of how useful it can be to assist those looking to acquire, dispose of, or invest in real estate.

3 market drivers

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 a breakdown on a specific topic you won't readily see anywhere else.

Living in a supply-and-demand world, every local housing market is subject to numerous forces that push and pull at supply and demand – sometimes pushing and pulling in opposite directions at the same time. The market activity reflected in published statistics - listings, sales, prices, and the multitude of other indicators - are just the summary of hundreds, if not thousands, of daily decisions and actions of individual market participants. We believe an overview of a few key factors that shape the direction of these decisions will help readers interpret the market indicators widely reported in the press and elsewhere and improve their home buying decisions. So, in this edition, we are looking at some of the key market drivers currently influencing Victoria and how we expect them to play out in 2019.

Driver:

Economic Growth

Q1 Impact:

Positive

Synopsis:

- Victoria's housing market has benefited from strong growth in the BC in recent years. BC has enjoyed above average growth for several years, which is expected to continue with provincial GDP forecast to rise by 2.6% this year.
- Strong regional jobs growth pushed Greater Victoria's unemployment rate down to amazing lows, reaching 4% in 2018 – one of the lowest rates in Canada.
- Slowing national and provincial economies could result in slowing regional employment gains in the near term, but for now, strength in the technology, tourism, and construction industries continue to bolster the outlook locally.

Driver:

Population Growth

Q1 Impact:

Positive

Synopsis:

- The robust provincial economy noted above has translated into strong employment growth and population inflows for the Victoria region. The area's population is expected to continue growing by over 1% annually, with the CRD predicting Greater Victoria's total population to reach over 400,000 within 6-7 years.

- Provincial figures suggest ongoing waves of retirees continue to contribute to net migration to Victoria; BC's Budget 2019 expects a net inflow of 11,500 persons from the rest of Canada in 2019, up from an estimated 4,400 persons in 2018.

- The Budget also projects net international migration of 42,000 persons to BC in 2019.

- Ongoing retirement amongst baby boomers is expected to spur demand for condos and other downsizing options. Persons over age 75 are expected to be the largest-growing demographic with over 110% growth in the coming 20 years, according to the Urban Futures Institute

- Younger generations, such as Millennials, continue to drive demand for starter homes. As this population group outnumbers Baby Boomers, and at a time where this cohort is entering its stride professionally as well as coming into the real estate market, we expect their tastes and demands to result in significant shifts in the years ahead.

Driver:

Interest Rates

Q1 Impact:

Neutral

Synopsis:

- An increase in interest rates between 2016-2108, together with the added constraints imposed by the B-20 mortgage stress test implemented in early 2018 significantly eroded homebuyer purchasing power and damped overall housing demand since early 2018.

- With evidence of economic headwinds in the national economy however, the Bank of Canada (BoC) has signalled its planned future monetary policy tightening is on hold for at least the time being, with possible rate cuts for 2019 hinted at in the last monetary policy report. The US Federal Reserve also recently announced no further rate increases for 2019, furthering the likelihood that the BoC will follow suit.

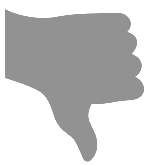
- As we noted in the Market Overview, declining bond yields over the course of Q1, and the yield curve inversion which occurred in March have set economists on edge about the possibility of another recession, but at the very least portend cuts to mortgage rates on the horizon, which could move this indicator from 'neutal' to 'positive' territory as we enter the spring market in earnest in Q2.

Driver:

Government Policies

Q1 Impact:

Negative



Synopsis:

- Federal financial regulations such as the B-20 stress test and shorter limits on amortization terms continue to dampen the housing market by constraining mortgage financing.

- BC's current government has introduced an array of policy measures, and taken credit for the dampening of housing demand. However, we believe measures such as the foreign buyer tax and the widely derided "speculation" tax are more about taxing wealth rather than increasing affordability.

- First-time buyer initiatives introduced in the first quarter federal budget aren't expected to have a notable impact on our local market this year due to their delayed introduction and the price points they are targeted at.

- Victoria was recently ranked the world's 13th least affordable city in Demographia's annual survey comparing earnings to housing costs. Long-term, the decades-long run up in real estate values – and the chasm between the haves and the have-nots – will have to be reckoned with in the public sphere. With 42% of Canadian homeowners over age 55, holding a combined $1 Trillion in equity, the balance for governments and the public between maintaining housing prices (and in turn, Canadians' wealth) near their current levels and meeting the demand for "affordable" housing will prove to be a difficult one. If prices continue to rise, we expect continued interventions from all levels of government.

As always, in writing ***The Q Report***, we are looking to inform you of the opportunities we see within these conditions, which we have summarized on page 13. We look forward to sharing our Q2 and Q3 reports with you, as we know well-educated and well-researched clients are best positioned to buy, sell, or invest. If you have any questions about how market movement will affect your outlook, we'd be happy to personalize our insights to your unique circumstances.

4 if we had one play to make…

If we had one move we could choose to make in Q2 2019, what would it be? **Listing a home over $1 million**. You're probably thinking 'What? Hasn't ***The Q Report*** been pointing out how tough the market is over a million right now?' Stay with us for a moment. With the massive number of listings at luxury price points last year and low sales numbers, sellers' advantage eroded, and buyers were given the gift of having their choice of properties. Those in a position to buy took advantage and snapped up the quality ones, leaving our current buyers having a hard time finding quality properties right now between $1.1M and $1.4M.

The numbers don't lie:

- Listing discount: Listing discounts have more than doubled versus Q1 2018 reflecting buyers' reluctance to meet higher asking prices.
- Number of Sales: Q1 2019 number of sales in this price segment was down by 32% YoY and down by 20%-25% when compared to fourth quarter sales counts from 2017 and 2018, which typically post the lowest volumes of any quarter.
- Days on market: As we have discussed previously in the pages of The Q Report, history shows that the longer a property is on the market, the lower the final sale price. Market times have increased by 41% YoY.

Do you have a quality property that didn't move last year in the $1M+ bracket? We say refocus on the move you wanted to make, still may be considering, or would like to make. Perhaps you feel your home is bigger than you need, or you are concerned that your equity might be shrinking. Get ahead of the competition who are waiting around in uncertainty and price your home competitively so that it becomes the outlier, and sells quicker than the other properties languishing in this price range. You'll have done it at a time when the numbers are showing that this market is facing challenges in terms of securing bona fide buyers. We expect inventory to increase mid-year and you'll be in better position to secure your next home. As we look to see sales increase in Q2, this is the time to be ready to take advantage.

5 opportunities

buyers

- **$600-900K**: As we outlined in the Market Overview, opportunities are opening up in the $600,000-$900,000 bracket of mid-market homes, with less competition at present than we have seen in several years.
- **Pre-sale condos**: Feeling recent shifts in the market, we have seen developers begin to dangle discounts and incentives before buyers, but make sure you call us before you enter into a developer's purchase contract without a professional review and representation.
- **Luxury homes >$1M**: There's still lots of inventory, listing discounts over 4%, YoY declines in median sale price and PPSF, and re-list prices coming back to market up to 5% less than previous asking price.

sellers

- **Rental-restricted condos:** With the spec tax exemption expiring at the end of this year, we could see a glut of units hit the market. Better to be ahead of the curve than behind.
- **Non-primary residence vacation rentals**: With added new expenses of spec tax & license fees in Victoria eating your profits, it may be time to sell? Other municipalities haven't implemented steeper license fees yet, but may follow suit with Victoria soon.
- **SFDs with suites**: With the B-20 stress test making financial qualification more challenging, the rental offset offered by an existing secondary suite will make your home much more appealing to prospective purchasers in 2019.
- **Quality properties in the $1.1M-$1.4M range**: See page 12.

investors

- **Multiplexes & Commercial Properties**: At our current 0.7% vacancy rate, Smaller multi-unit holding and commercial investment properties continue to yield good returns.
- **Tax-exempt vacation rentals**: Some short-term vacation rental owners within the legally licensed zone are selling highly profitable units or blocks of units; those with deeded property tax exemptions from the city are able to offer attractive capitalization rates to investors.
- **Trade up to new**: It may be an opportune time to liquidate aging investment condo units as expenses rise, and purchase new construction as developers offer incentives and pricing gets more competitive.
- **Add a suite**: Create a revenue stream or equity. In 2018, median sale price for sales of all houses with suites versus those without was $120,000 higher in Victoria, which represented a difference of 14.2%. With Oak Bay council making moves toward legalizing secondary suites, creating this extra value in a luxury price point could pay dividends.

summary

Thank you for reading ***The Q Report***. Download online and sign up for future editions at victoriaqreport.com. Hard copies are also available upon request. Our Q2 report will be released in early July, 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

B-20 Stress Test - A federally mandated requirement for lenders to ensure borrowers are protected from 'rate shock' by requiring borrows 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*
The Times Colonist	*timescolonist.com*
The Financial Post	*financialpost.com*
Demographia	*demographia.com*
Capital Regional District	*crd.bc.ca*

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the Q report

Looking Back to Successfully Move Ahead

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