

Victoria Real Estate Market Performance Insights
Q3 2019




CHRISTIE'S
INTERNATIONAL REAL ESTATE



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introduction

Welcome to *The Q Report* for Q3 2019. As has become our practice in every edition, we have taken a deeper look at the trends and factors affecting Victoria's real estate market, revealing the story behind the numbers, and cutting through the market 'noise' to inform you of what *actually* happened.

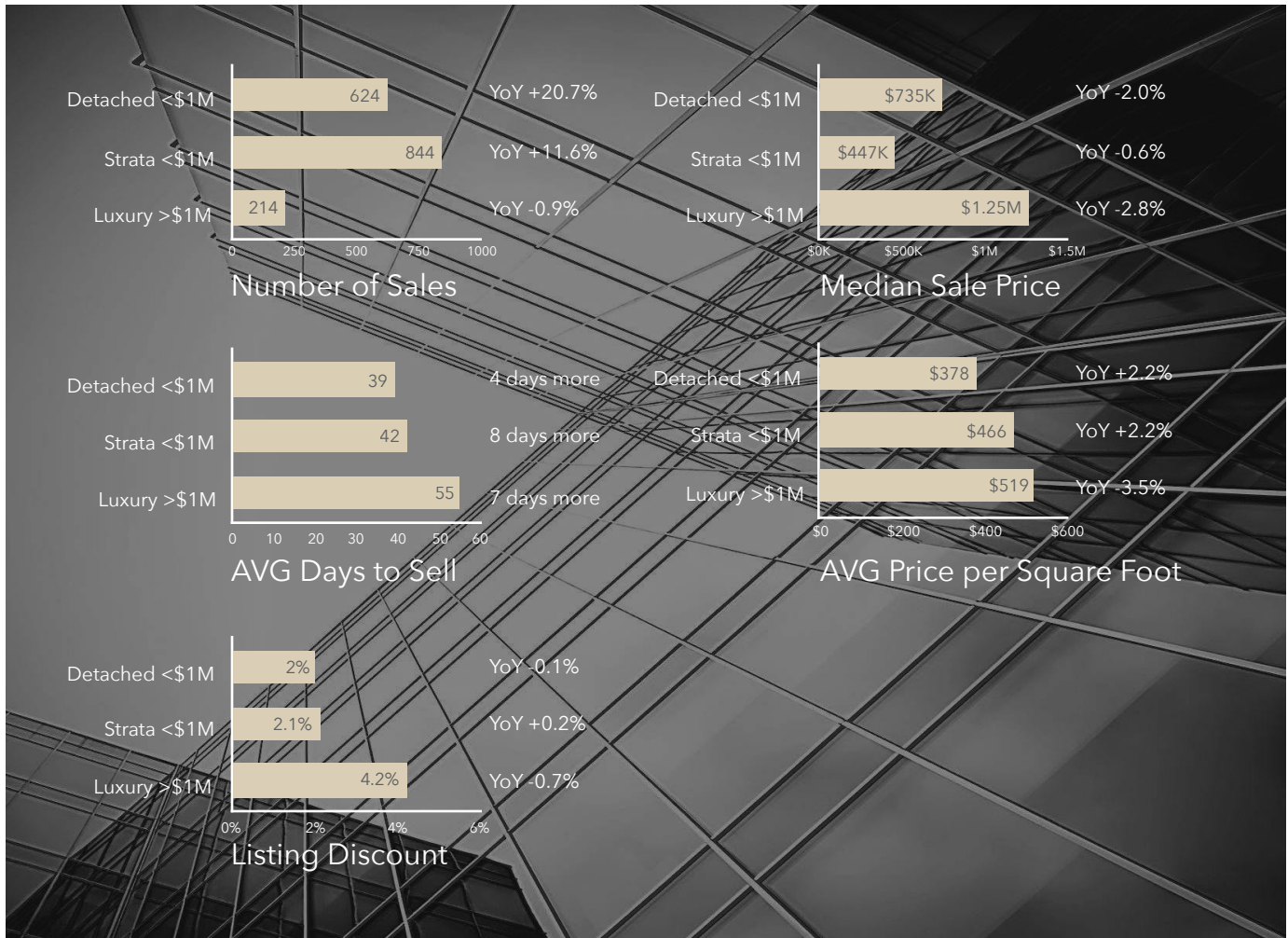
We have also streamlined the report's format. Your time is valuable, so we hope you enjoy this more concise delivery, with articles now organized using subheadings. Please enjoy reading, and as always, we appreciate your feedback.



list of terms

<i>Assessed Value</i>	BC Assessment's value for taxation based on property characteristics and classification
<i>B-20 Stress Test</i>	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
<i>Detached</i>	Single-family detached dwelling
<i>Listing Discount</i>	The difference between the original list price and the final sale price, expressed as a percentage
<i>Luxury >\$1M</i>	'Luxury' properties, comprised of detached and attached dwellings trading over \$1M
<i>PPSF</i>	Price Per Square Foot
<i>Strata</i>	Attached dwellings such as condominiums and townhouses
<i>YoY</i>	Year over year; comparing the current quarter to the same quarter last year unless otherwise noted.

1 market overview



Overview:

The Victoria real estate market in Q3 2019 continued the trend of returning to balance, with price softening even in the face of significant increases in transaction volume compared with Q3 2018. We expect to see prices holding steady in coming quarters, allowing other market fundamentals such as wages and inflation have a chance to 'catch up' to the housing market's recent run up in pricing.

Number of Sales:

Number of sales for detached homes was up significantly YoY, with strata properties not far behind. Why? Though it may seem like a distant memory today, the ripples of the B-20 stress test took hold in earnest around the middle of 2018. Now nearly two years after its announcement, the shock waves have had a chance to subside, the pool of affected buyers either purchased, moved on and left the market, or adapted their purchasing strategy, and in turn, a

recently stabilized market has responded with sales volume closer to the 10-year average (see sidebar 'Revisiting Seasonality' for more on this).

Average Days to Sell:

Once more, market times are showing increases across the board. With many of our metrics suggesting a bounce, why are properties in all categories seemingly taking longer to sell?

2018's slowdown in sales effectively shifted a strong sellers' market toward more balanced territory by creating an increase in available listing inventory. As we have outlined in *The Q Report* previously, higher inventory → more choice for buyers → less pressure for buyers → buyers take longer to buy. It is also worth noting that objectively, these market times are indicative of a much healthier market, drifting back up after several years of unusual market conditions. And in spite of the average days to sell rising, attractive properties priced correctly are still tending to attract offers within days.

Median Sale Price:

With movement of only a few percentage points over the course of the past year, pricing is essentially flat. The YoY decrease in detached dwellings generated a flurry of headlines as market watchers, so accustomed to continuous rising prices, have found solace in feeling that home ownership isn't rapidly escaping their grasp. However, if considering a purchase, bear in mind that most listed properties aren't going to move at 5-10% below asking, even if average sale price is trending down by a few points. When pricing properties, we are watching and interpreting these trends, and pricing into where the market is headed based on our comprehensive research. Read this edition's feature "The 5% Difference" for more on this.

Average Price per Square Foot:

Condos continue to gain, as their more accessible price point and availability attract buyers. PPSF for strata properties is currently +7.4% from two years ago, and +2.2% from Q3 2018. Detached dwellings are showing less movement at +2.2% YoY, but only +1.6% over two years. Properties over \$1M, by contrast, continue to see downward pressure in every metric, at -3.5% YoY, and -5.4% from Q3 2017.

Listing Discount:

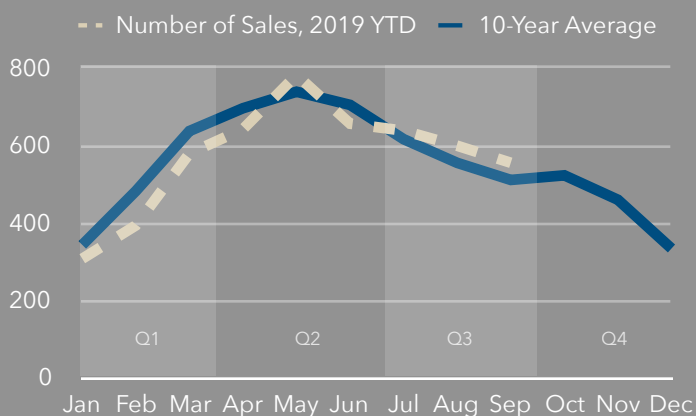
Both detached and strata properties under \$1M have been hovering around 2% listing discount throughout the last year, which is a figure we consider healthy given the current temperature of the market, and a welcome return from the near-zero climate of several years past. In the Luxury market, listing discount is improving, moving up in an inverse relationship to dropping median prices and PPSF.

Federal Election:

With a federal election this quarter, It seems Ottawa is at odds with itself, the the Bank of Canada trying to keep Canadians away from sinking deeper into troubling levels of debt, and politicians still doggedly trying to get more Canadians into home ownership, with each party proposing their own schemes including extending mortgage amortization terms, revising the B-20 stress test, expanding first-time buyer incentives, and more. It seems that whichever party prevails in the election, there will be moves to ease the carrying costs of owning a home and allow buyers to afford even higher-priced properties. We believe that the short-term appeals designed to woo voters may provide them some benefit for now, but it seems increasing buyers' purchasing power could ultimately be kicking the can down the road to even higher prices in the not too distant future.

Revisiting Seasonality

Since its inception, one of our favourite things about *the Q Report* has been its focus on quarterly figures, as each quarter tends to follow a predictable trend of seasonality – unique winter, spring, summer, and fall markets – predictably rising early in the year, easing during summer, showing a little rally in the fall, and then dropping off again at year end. We imagine you probably took a bit of the summer off; likewise in Q3, we typically see real estate sales on holiday, and expect volumes to drop temporarily, intuitively following the natural market trends in our business. Case in point: where our current Market Overview saw Q3 sales volume up 20% YoY (compared to Q3 2018), sales volume was down nearly 14% from Q2 2019.



This chart cleanly depicts this annual rise and fall, based on a 10-year average of monthly sales totals. For interest, the dotted line shows 2019's sales volumes to date, indicating typical seasonality in following the trend line closely, and also highlighting our conclusion that volumes have returned to being right on pace with our market's 10-year average.

Whether your situation has you thinking about a move this quarter, or you're thinking of wading into the upcoming spring market, you will want to be in the best strategic position, well-advised and moving into this seasonality appropriately.

Winter Blues?

Think it's not worth selling at the end of the year? Prepare to think again as we dig deeper behind the numbers.

Looking ahead to Q4, we sought to test a theory about whether properties sold toward the end of the annual market cycle are at a significant disadvantage to those that transact in the busier spring months. It's easy to go with the prevailing attitude that spring is the best time to list, however it's not always best to follow the crowd. You may believe you're getting a better yield as listing discounts do shrink a little in the spring, but our analysis shows Q4 sales occur at an average of 3.9% more of assessed value than Q2.

We analyzed a set of recent sales data comprising detached homes under \$1M in the Core, quarter by quarter, going back to 2014. Within the past five years' worth of quarterly averages, we see that a home sold in Q4 will spend approximately 4 more days on market, however, the average sale price to assessed value ratio was 19.1%, versus 15.2% for Q2 sales. With fewer active buyers (but more committed buyers) and fewer listings leading to a less competitive marketplace, a well-advised client can always maximize opportunity that comes with the cooler months. Read on for more about pricing strategy and the advice you should be looking for.

2 home price index® trends

Overview

As we've discussed in prior editions of *The Q Report*, the MLS® Home Price Index® (HPI®) is a robust statistical tool which is utilized by our professional association and a number of partners, that tracks the value of an array of 'notional' homes over time. Each 'notional' home represents a typical property of a specified type – such as condo, townhouse, 2-storey detached house, etc. – within each neighbourhood where properties of that type are sold. The data serves well for both granular, small-scale use, such as analyzing the value of Songhees condos from spring to fall, as well as large-scale use, like tracking macro movements of large districts from year to year. In our expertise and use of this specialized resource, we typically apply the former approach in best informing our clients of nascent trends during the course of their purchase or sale, and the latter in bringing you *The Q Report*, highlighting notable regional movements.



Overall, HPI® metrics at the end of Q3 compared to the same point in time last year serve to reinforce the other signals we have covered that the market has stabilized, and is perhaps even creeping toward more affordable territory.

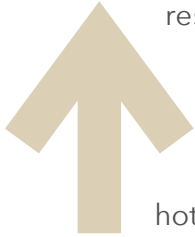
The Biggest Losers

For our regular readers, the current trends may feel familiar based on previous reports, showing reductions at the higher end of the pricing continuum in the districts of Oak Bay and North Saanich. With the Capital Region's highest benchmark prices, and a preponderance of detached homes, the HPI® continues to track the correction that has been underway in these areas in particular since 2018.



Up, Up Up

Conversely, higher demand at the more affordable end of the market has resulted in HPI® composite increases in Sooke, Colwood, and Esquimalt.



We discussed Sooke at length in the last edition, and today it seems timely to highlight Esquimalt, which stands out as a current hotbed of activity. We have been talking with our clients about renewed interest in the area for the past five (or more) years, as one of the few areas in Greater Victoria which enjoys such a wealth of amenities, geographical proximity to downtown, and attractive pricing. It seems with the cranes popping up around Esquimalt, supporting construction projects near CFB Esquimalt, Head Street, West Bay, and others, the market has taken notice, and the tide has begun to rise. For perspective purchasers looking for urban lifestyle at a realistic price, it's not too late to get in. Even with its YoY gains, Esquimalt still has the best composite HPI® price in the Core.

Outliers

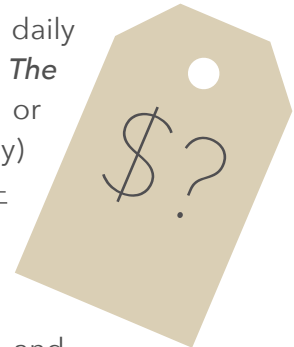
The Highlands district reported a 3.7% YoY decline in index values at the time of writing, however, due to a low amount of input data, with only 0.5% of the sales we track reported in Highlands, HPI® value calculations for the area tend to swing vigorously from month to month. Ditto for Metchosin, which reported even fewer sales but a 3.7% increase in index value. Consequently, we have taken the position in both cases that the current state is more reflective of a data anomaly than a persistent trend.

Let us use our specialized expertise in tracking and interpreting HPI® index values to help you make the best informed decision, whether buying or selling. Make an appointment today to see how we can apply this tool to illuminate your property's value for sale or show you pricing trends in the neighbourhood you'd like to purchase in.

3 Q3 feature: the 5% difference

Overview

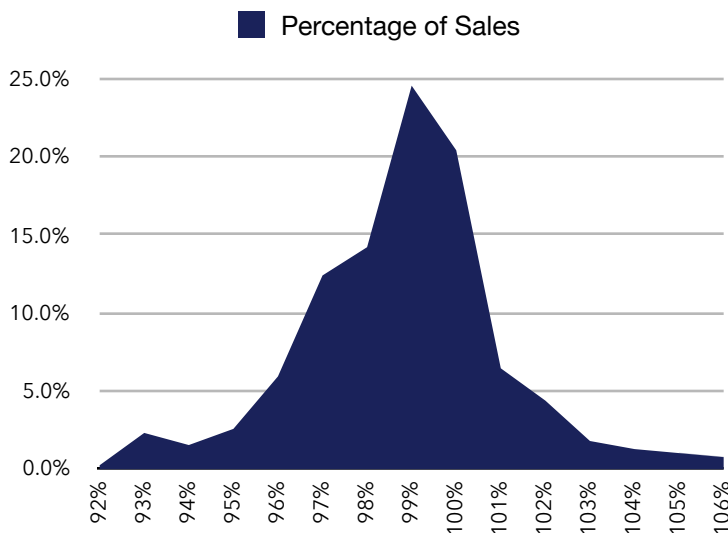
How do you know your property is priced correctly to sell in this market? How do you know your offer to purchase is sound? As professionals in daily practice, and in the in-depth market research we conduct to bring you *The Q Report*, we find that outside of the rare emotion-provoking listing or multiple-offer situation which can quickly (and often very temporarily) influence price, the objective value of residential real estate can be pre-determined empirically, often to within a very finite range. Case studies, statistics, interpretation, experience, and expertise, combined with sound methodologies, can lead to accurately determining the trading price of a given property. These factors and methodologies should be explained to you by your real estate professional whenever you are considering a transaction.



Local Factors

Real estate in Greater Victoria continues to exhibit long-term stability and value. Limited in supply and perpetually in demand, it has refused to tank, even after some of the sizeable increases in value that peaked between 2016-17, and has shown resilience even in the face of multiple outside factors that affect other sectors of our local, provincial, and national economies.

There is a strong local component to the real estate trade. A top agent understands not just the myriad of conditions that come to bear on a particular property transaction, but is versed in the mechanics of the local market. For instance, in reviewing local sales data from Q3 2019, we established the range of actual final sale price to list price ratios – a metric which we typically express as “listing discount” in *The Q Report*’s Market Overview – and charted their prevalence:



The distribution curve’s narrow, pronounced peak looks nothing like a typical sloping bell curve. It shows us that more than three quarters of sales occurred within 5% of the listing price, with 80% of those sales negotiated between just 98%-100% of list price (0%-2% listing discount). The entire range of all sales only spans from -8% to +6% of asking price, or 15%.

This underscores the critical importance of correct pricing in our local marketplace. It helps us advise our clients to achieve the success they desire. A buyer approaching a reasonably priced listing hoping to pick it up for 10% off the sticker price, or a seller wanting to list their home for what they feel it's worth and insisting that anyone who doesn't like their price will just make a lower offer, are both non-starters for a professional agent with a sharpened pricing toolset and a firm grasp on local market conventions.

Case Study #1 - Cedar Hill

A neighbourhood-scale analysis on single family homes in the desirable Cedar Hill area reveals some interesting facts. In comparing the listings that successfully sold earlier this year with those that were cancelled or expired during the same time period, we learn:

1. Listings that didn't sell were priced an average of 2.5% higher than those that did. Pricing without the right research can lead to lost opportunities.
2. Unsuccessful sellers had their homes priced an average of 6% higher above assessed value. Don't believe assessed value is important? We can prove it is.
3. Listings that didn't sell were priced 8% higher per square foot. This may include sellers who are convinced that their house is "way better" than the competition.

Case Study #2 - Downtown Condo

There is one resale condo unit located in the downtown core that we have been watching for some time. Spacious, attractive, well-located, and in a well-maintained sought-after building, this seems like the type of home that would attract a buyer quickly. Originally listed at \$559K, 19% over assessed value, and reduced by \$40K after three months on market to 13% over assessed value. Similar condos have been trading for an average of around 7.5% over assessed value. As of this writing, It's now around four months on market, when the average comparable sale took 37 days.

Where we are confident based on analysis that the market value for this unit is \$35-40K below its current list price, this represents a spread of 6.7%, and given the price ratios discussed above, we know buyers are highly unlikely to offer 5% or more lower than the asking price, leaving the listing stymied.

The 5% Difference

These are the sort of numbers that should be made available to you prior to listing your home for sale or writing an offer. We apply these metrics and others, and the same approach can be used in any singular case, on your home or on an offer you might be considering. If these percentages seem too small to make a difference, ask yourself: are you in the market not to sell? Will your

lowball offer really have a chance? A serious consumer would say no, and these facts should not be ignored.

5% isn't a big number. In most fields, it's well within the accepted margin of error. But in real estate, it's enough to make or break a deal. In each instance detailed above, a shift of less than 5% would move the needle from frustration and failure to success and celebration. Make sure the professionals you are hiring to represent you understand the local market, are using sound methodologies, and can help you find your magic number as a seller or as a buyer. We believe it's a key value proposition that will guide you to achieving your real estate goals.

New Disclosure Forms

Did you know the mandatory disclosure documents required by BC's Real Estate Council (RECBC) have been updated? Have you been told about these by a real estate professional? Reviewing agency disclosure is required by regulation prior to engaging in any substantive conversation about real estate.

While the actual regulations around agency and client disclosure haven't changed, the Real Estate Council of BC, as our professional oversight and licensing body, has recently undertaken to streamline these forms to make them easier for you and your representative to use.

This is a disclosure form titled "Your Relationship with a Real Estate Professional" from the Real Estate Council of British Columbia (RECBC). It explains the different ways a client can work with a real estate professional: as a client or as a non-client. It lists key duties: Loyalty, Full disclosure, Avoid conflicts of interest, Confidentiality, and No duty to avoid conflicts. It also includes a section for the consumer to acknowledge they have read the form and understand its contents. The form is 2 pages long.

Because we take disclosure and professionalism seriously, and we strongly believe in the value of fully informed consent in creating a legal agency relationship with our clients, we welcome you to contact us with any questions you have about how a properly executed agency relationship serves your best interests before, during, and after a real estate transaction.

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of interest owed to you by your agent, and now features a simplified client acknowledgement which clearly states that the disclosure is not a contract.

In addition, RECBC have provided streamlined disclosures forms for unrepresented parties, sellers agents' remuneration, and tenancies. You can view the new forms at <https://www.recbc.ca/licensing/forms.html>

4 opportunities

buyers

- ▶ **New construction condos:** As developers continue to offer incentives and bonuses in order to attract qualified buyers, you may have an opportunity to save on your deposit, parking, or strata fees, but remember not to go in to a sales office unrepresented, since the sales staff work for the developer, not for you. If you've got your eye on new construction, make an appointment with us first to make sure you have a representative advocating for you to get the best terms.
- ▶ **Esquimalt:** As we outlined in HPI® trends, Esquimalt is up and coming. The area's listing discount is currently at 2.6%, handily beating the regional average of 2% and making it one of the best locales to score a deal in the Capital region. It also boasts the most attractive HPI® composite value in the core, and an appealing mix of properties and amenities.
- ▶ **Winter buyers:** With fewer active buyers competing for available inventory, winter can be a great chance to bargain. Softened pricing, attractive interest rates, and improved selection continue to provide excellent conditions for those with the ability to time their purchase.

sellers

- ▶ **View Royal & Colwood:** Recent numbers from View Royal show the area is currently in demand – beating out any other part of town, with a nearly 76% sales:new listings ratio, and 0% listing discount. If you have a property in View Royal and you're wondering when might be the time to sell, it seems the iron is hot right now. Colwood is in a similar position, with nearly 77% sales to new listings, and 1.9% listing discount. Compare either of these to Oak Bay, which saw only 44.7% sales to new listings in Q3 and a 3.7% listing discount.
- ▶ **Rental-restricted condos:** The Speculation & Vacancy Tax exemption on rental-restricted condos expires after Q4. If you've been sitting on a unit that isn't occupied at least 6 months of the year, you'll see your equity start to erode in 2020. With strata properties showing increased sales volume and stable pricing, Q4 could be a unique window of opportunity for you. Make an appointment with us today to have us prepare a complementary, confidential case study for your property.

investors

- ▶ **Small residential multiplexes:** We've seen several smaller multiplexes coming on market, at appealing prices. Fewer than five units is still considered non-commercial, so residential exemptions apply. Triplexes and fourplexes can currently be picked up for under \$1M. As average rents in Victoria have increased 73% over the past decade, migration into the region continues, and vacancy rates under 1% persist, we believe residential rental property continues to offer long-term upside in both cashflow and asset appreciation.



summary

We have examined the market's tighter corners, seen where there's room to move, and in unpacking the data, illuminated the few spots where it's brimming with opportunity.

Thank you for reading *The Q Report*. Please help us grow our audience of Victoria's best-informed real estate market watchers by sharing this valuable information. Pass along your copy to someone you think would benefit from it. Share a link to VictoriaQReport.com on your social accounts. And make sure to subscribe for free so you never miss an update.

Our next quarterly report will be released in January 2020, but in the meantime, any of the metrics we have examined can be applied for personal analysis in the context of your unique situation. Do your real estate portfolio or housing needs require a consultation? Take the opportunity to make an appointment today and talk face-to-face with the city's best-informed agents, uniquely positioned to analyze and identify your best opportunities.

We look forward to meeting with you.

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notes

data analysis

The Q Report's analysis includes listing and sales data exclusively from the Victoria Real Estate Boards' Multiple Listing Service® (MLS®) 'Core,' 'Westshore,' and 'Peninsula' regions, analyzing data for unconditional and completed sales that occurred between 2019/07/01-2019-09/30 except where specifically noted otherwise.

data sources

<i>BC Real Estate Association (BCREA)</i>	bcrea.bc.ca
<i>Black Press Media</i>	blackpress.ca
<i>Canada Housing & Mortgage Corporation (CMHC)</i>	cmhc-schl.gc.ca
<i>Financial Post</i>	financialpost.com
<i>Maclean's Magazine</i>	macleans.ca
<i>Office of the Superintendent of Financial Institutions (OSFI)</i>	osfi-bsif.gc.ca
<i>Rate SuperMarket</i>	ratesupermarket.ca
<i>Real Estate Council of BC (RECBC)</i>	recbc.ca
<i>Statistics Canada</i>	statcan.gc.ca
<i>The Capital</i>	capnews.ca
<i>Times Colonist</i>	timescolonist.com
<i>VICE News</i>	news.vice.com
<i>Victoria Foundation</i>	victoriafoundation.bc.ca
<i>Victoria Real Estate Board (VREB)</i>	vreb.org

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