

Victoria Real Estate Market Performance Insights
Q4 2019



CHRISTIE'S
INTERNATIONAL REAL ESTATE



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introduction

Hello again and Happy New Year to our growing group of readers and online subscribers. May 2020 be all you've said it will be for you and yours.

We are proud to say that this edition of *The Q Report* represents a full calendar year of publication for us and our fifth opportunity to offer our detailed insights into the Victoria real estate market. We are discovering the value in drawing on our growing back catalogue of data and inquiries, and we are extremely proud that much of the analysis we are producing is unique to *The Q Report* and not studied and interpreted in the same way anywhere else. We have appreciated your feedback and your questions. For those who like to follow trends over time, it's also a great time for a reminder that all our past reports are available in digital form at VictoriaQReport.com.

Please help us continue to grow our subscriber base by sharing *The Q Report* with someone you know, and don't hesitate to reach out to us to have any of your specific questions answered or to suggest a topic.

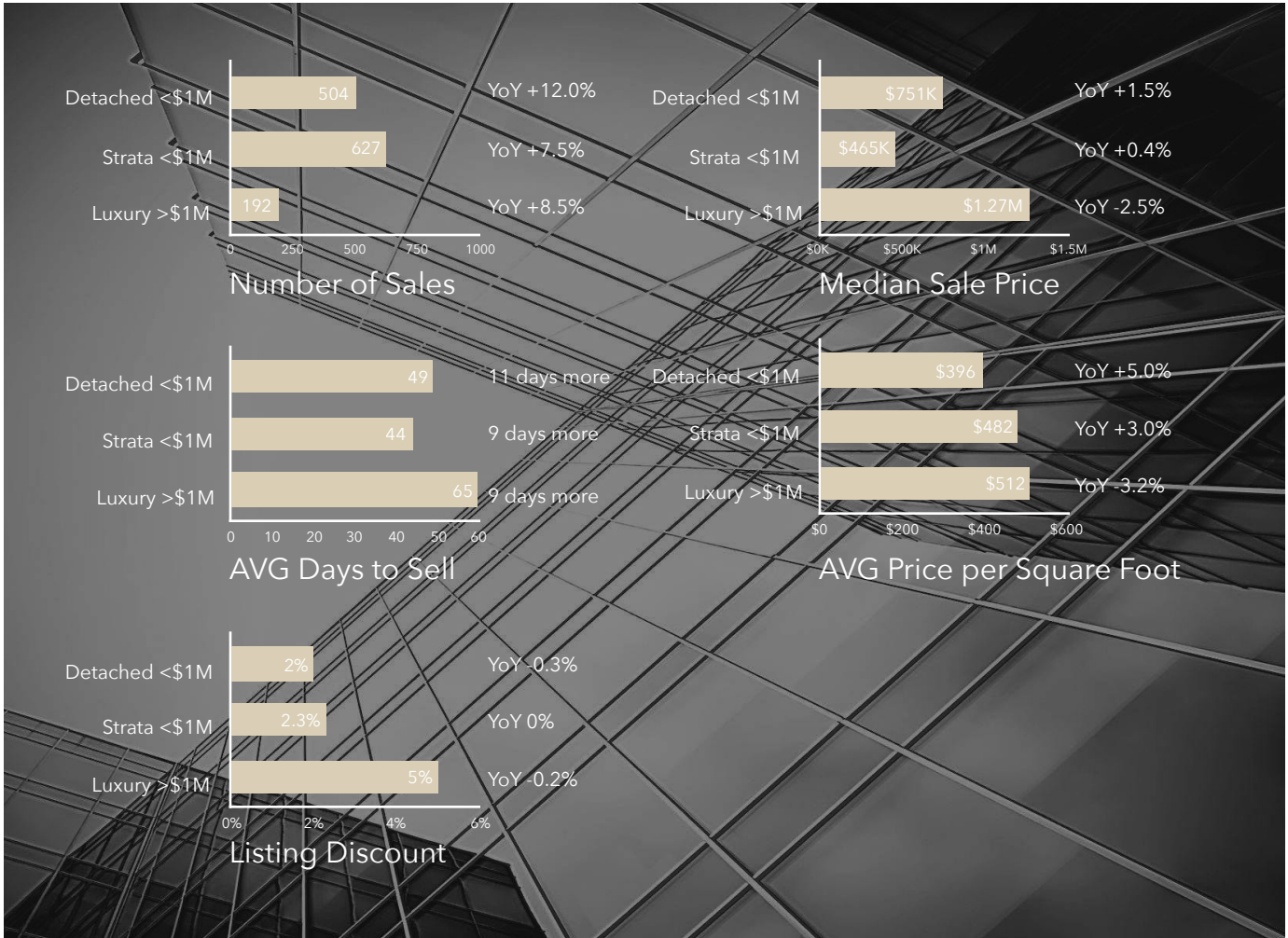
– Dirk & Fergus



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 borrows 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 original list price and 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

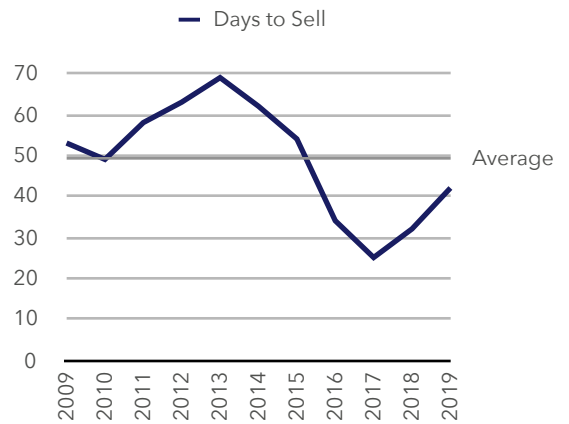
Headlines about Victoria’s real estate market at the close of 2019 resounded with the same observations of a relatively flat, stable market that *The Q Report* predicted, observed, and documented throughout the year.

Number of Sales

Sales volume held steady compared to last year for most of the quarter, posting only slightly higher numbers of +2 to +3% than Q4 2018 across all categories until around mid-December. At this time, a surge in sales during the final days of the year pushed the final counts for Q4 2019 somewhat higher. Expect sales volume to continue to increase going into 2020 (see our *Spring Market Predictions* on page 4 of this edition for more on the reasons why).

Average Days to Sell

Market times are up once again. We've measured an increase of around 10 days YoY each quarter since the end of 2017, across all categories. Why are things generally taking longer to sell? Listing inventory has been gradually improving, giving buyers more choice and allowing them more time to buy. These market times may seem high in comparison to recent years but, believe it or not, they are still below the 10-year average, as shown in the chart at right (for a real eye-opener on the relationship between available listing inventory and market times, compare this chart to the one on page 4).



If you're listing your home, do you have a specific expectation as to when it should sell? When you speak with us, we can provide you with a timeline expectation matched with a marketing plan.

Median Sale Price

Median sale prices have continued to exhibit the sort of predictability that is always welcome news for market participants. Detached homes under \$1M showed a little rise after a headline-grabbing drop in Q3. Strata properties are holding steady, and the luxury segment is down from Q4 2018 but posted quarterly gains throughout the year after starting out significantly lower in Q1 2019.

Average Price per Square Foot

Not surprisingly, PPSF figures are closely echoing median sale price figures, with slightly larger gains in detached dwellings compared to strata. Long-term, strata PPSF figures are gaining more steadily than detached or luxury segments, with demand driven by more accessible price points and availability of new product (for more on PPSF trends in new strata developments, check out this edition's feature on page 7).

Listing Discount

Listing discounts are shrinking YoY, and quarter over quarter, for detached properties under \$1M. Taken together with the modest increase in median sale price, we may be seeing early signs of tightening in this market segment. Listing discounts on strata properties show no change from last year but recovered over the course of 2019 after a Q1 dip. Similarly, the over-\$1M market was in nearly the same position in Q4 2019 compared to Q4 2018, after dropping earlier in the year and coming back up over subsequent quarters.

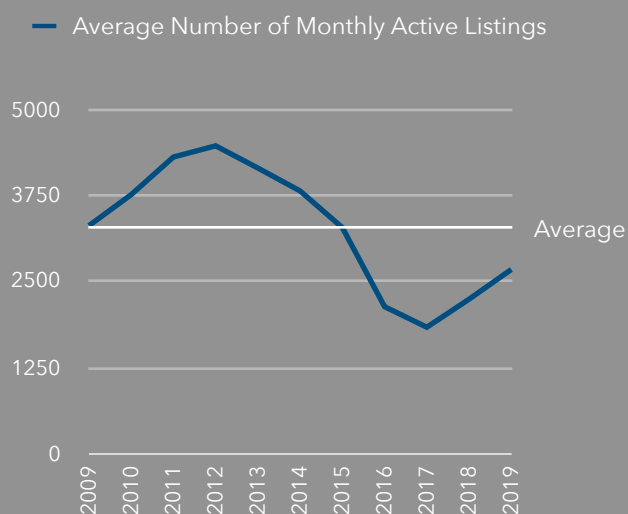
Spring Market Predictions: Return of the Roaring '20s?

'Big picture' real estate market drivers – such as persistently low unemployment (Greater Victoria boasted the country's lowest unemployment figures in Q3), strong consumer confidence, and the Bank of Canada maintaining inflation at its 2% target rate – point to a stable start to 2020. Doomsday talk of an impending recession seems to have dropped from a rolling boil to a low simmer, with the Finance Minister going so far as to call talk of a recession “irresponsible” in late December. However, the yield curve for Canadian bonds remains inverted as of the end of 2019 – a condition which usually occurs when the economy is in recession – leaving market watchers wondering what happens next.

For the housing market, the silver lining of the inverted yield curve is the ongoing availability of low fixed 5-year rates, resulting in unbelievably small spreads between fixed and variable rate products. Few are predicting a substantive rise in rates over the course of 2020, in light of pockets of global economic uncertainty including Brexit and ongoing international trade disputes.

Consumers are now comfortably adjusted to the B-20 stress test and the Prime Minister already made good on his election promise, instructing his Finance Minister to go back and take a look at tweaking the criteria, which may lead to some loosening of borrowing restrictions.

We expect these socioeconomic factors to lead to higher demand in the 2020 spring market. Listing inventory has recovered steadily from its lowest point, but remains below the 10-year average, as shown in the chart below.



With supply and demand being at odds, we predict a return to more competition among buyers for properties in entry-level and mid-level price points. We may see notable price gains in segments with acute supply shortages. The higher end of the market, by contrast, will likely continue to be soft.

Considering Selling?

Informed pricing, calculated timing, and intelligent communication to prospective buyers are all critically important components for a successful sale in a tight market. We did a distribution analysis in the last edition of *The Q Report*, looking at how many sales occurred at a given percentage of asking price. We suspect that next time we revisit the topic, we may see an even higher proportion of sales going over the sellers' asking price than in 2019.

Considering Buying?

Having a flexible yet strategic approach will give you every chance of getting the property you want. Remember, it's not just about price. Terms matter and relationships matter. Make sure you hire a representative deeply familiar with your market and agile enough to get your offer the attention needed to close the deal.

2 home price index® trends

Overview

Each quarter, we examine YoY price trends in the MLS® Home Price Index® (HPI®), which tracks the value of statistically-average 'notional' homes in different areas over time, using MLS® sales data.

In this installment, the YoY values show far less movement than regular readers will be used to seeing. The general trend was modest gains in most areas around the region, with the majority showing less than 1% change since the end of last year.

This is no surprise, echoing our Market Overview for Q4 (on pages 2-3 of this edition), where we demonstrated how the past two years have been a steady return to relative equanimity for Greater Victoria's real estate market. Numerous metrics have moved back toward their 10-year average levels.



Gainers

Esquimalt's HPI® value gained the most YoY at +3.1%. If you have been a regular reader, you may recall that we highlighted Esquimalt's performance in our Q3 HPI® trends report, also pointing out its competitive edge in maintaining the least expensive benchmark value of all core municipalities. Langford, Victoria proper, and Victoria West all recorded gains in their HPI® benchmark values of more than 2% over Q4 2018 as well, as they also continued to attract interest from buyers.



Modest Decline

The only 'notable' decline in benchmark value in the year-end HPI® data was barely notable at all. Oak Bay's HPI® benchmark value dropped 1% YoY. As we have noted before, the predominantly single-family detached housing stock, much of which is valued at over \$1M, has found itself left behind a little as condos and areas which offer more accessible price points have pulled ahead over the past few years.



Also of Interest

North Saanich, which we have tracked depreciating in lockstep with Oak Bay through several quarters – for similar reasons – finally bucked the trend of YoY losses in HPI® value, by returning a 1% gain. We will continue to update these trends and see if Oak Bay follows suit in the new year.

Summary

Areas within the Capital Region that have more affordable HPI® benchmark values and those with more diverse mixes of property types continue to lead the pack in HPI® growth, albeit more conservatively than before.

Let us use our specialized expertise in tracking and interpreting Home Price 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 for the neighbourhood in which you'd like to purchase.

3 Q4 feature: condo presales



Overview

For this quarter's feature, we analyzed hundreds of pre-construction and new construction condo sales (presales), examining changes in PPSF of MLS®-reported sales data from initial sales, through resales, up to present day. Many new condo developments are sold exclusively by developers' in-house salespeople, leaving some gaps in the MLS® data, but we were able to include nearly 900 individual sales from over a dozen projects. We also compared the performance of resale price changes against the MLS® HPI®, to see if presale purchasers were 'beating the market'.

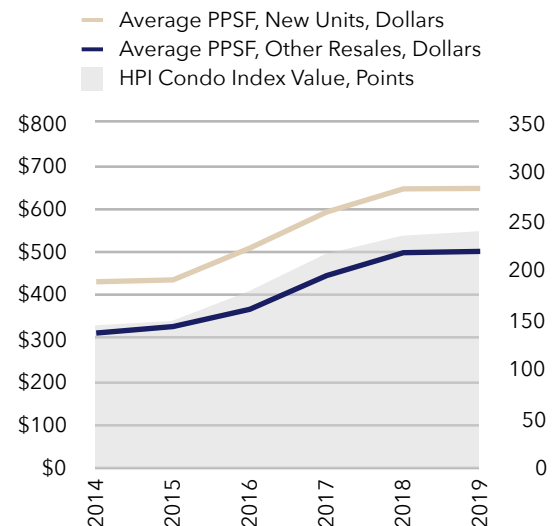
We Thought You'd Like to Know

- ▶ Is buying a condo at presale pricing a better investment than a conventional resale purchase?
- ▶ If purchasing a presale, when is the ideal time to sell?
- ▶ Is it still worth purchasing pre-construction units in 2020?

A Better Investment?

Here are some of our key findings:

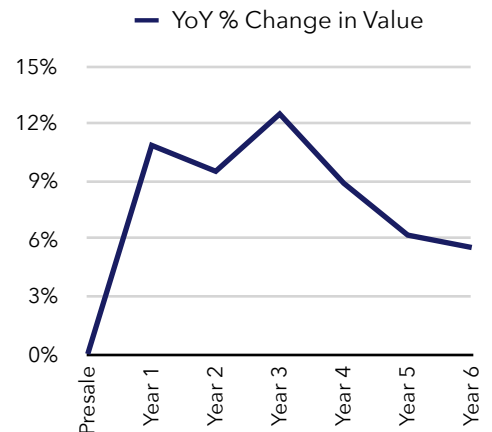
- ▶ Average PPSF started out higher for new construction than for resales. These higher values were maintained over time, but generally didn't outperform the HPI®.
- ▶ New units, especially in the city's core, fared the best of all, blown along by strong market tailwinds through 2016-17. Many purchasers who got into buildings like Promontory, Mondrian, Duet, or Union when pre-construction pricing was under \$500/sq. ft saw a massive lift. The latter two buildings beat the HPI® index by up to 12% in their first few years of resales.
 - ▶ For example: one third-floor unit in Union we looked at was originally purchased when built for \$276K (\$490/sq. ft) and traded again in Q3 2019 for \$462K (\$818/sq. ft), going up in raw value by approximately 68%, but also beating the HPI® growth for the same time period by 7%.
- ▶ Buildings with short-term/vacation rental provisions outperformed all others. However, we expect this will likely lessen over time, as a combination of licensing fees, additional taxes, and reluctance from lenders toward short-term rental units have somewhat dampened investor demand.
- ▶ Buildings further from the city's core ultimately ended up seeing similar appreciation to those closest to downtown, but it took more time. Although these buildings did not outperform the HPI®, values were still above the rest of the resale condo market.



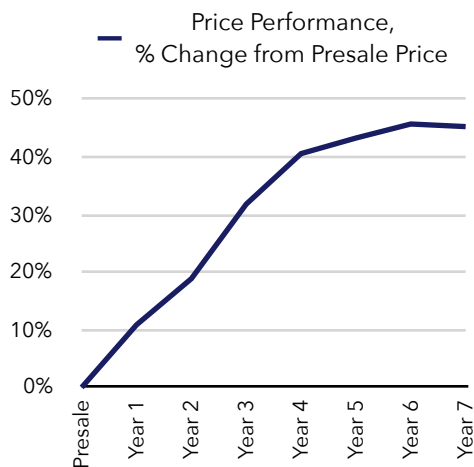
The bottom line: presale purchases can offer the potential for a better return on investment than conventional resales but with the caveats that the purchase price must be reasonable in the larger context of prices for comparable resale units, and the purchaser must be aware of how the building’s location and amenities are most likely to affect future resale.

When is the Best Time to Cash Out?

After totaling the average price changes by year, we found the numbers confirmed our firsthand experience: increases in market value for new construction tended to slow down after year 4, as the market recognizes the ‘newness’ of the product wearing off. This first chart, at right, shows the average YoY change in value for all sales.

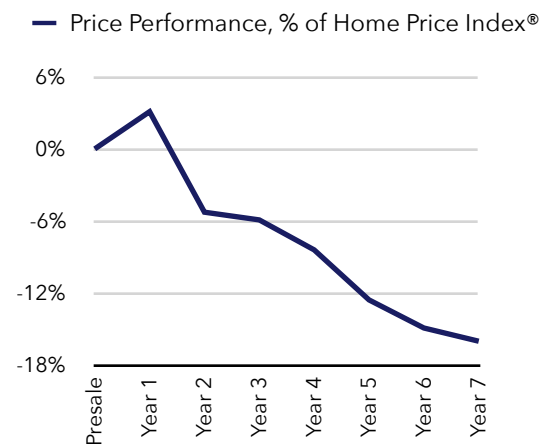


There are distinct peaks at year 1 and the highest in year 3, although prices increase 9-12% YoY throughout the first four years. By years 5-6, annual gains drop off to less than half of those in year 3.



Next, price performance by year, shown as a percentage above the original presale price, is depicted in the chart at left. As the YoY chart above illustrates, the first and third years show the steepest climbs – each over 10% – with the second and fourth not far behind at around 9% each. After year 4, though, notice how the steep climb levels right off.

We compared price performance against the HPI®’s performance, as well. As mentioned earlier, a small handful of stratas consistently performed better than the index. However, the overall average in the chart at right shows us that after the first year, new construction tended to slightly underperform compared to growth of the HPI® over the same period of time. A small lag should be considered acceptable, given the higher price point; however, after year 4 these sales are more than 10% short of what the HPI® tells us the rest of the market is doing, falling as much as 16% lower by year 7.



Conclusions

Assuming a savvy investor's goal is to maximize yield versus time, the best windows for a sale would be:

- ▶ The first year after completion: one could quickly take a financial gain and move into another investment. According to the averages, they would have beat the HPI® growth trend for the year by 3% and realized a gross increase in value of over 10%.

Or,

- ▶ Years 3-4: one could attain the maximum short-term gains from the original purchase price (+40% or more), getting out before price appreciation plateaus beyond year 5 and minimizing the HPI® performance gap at around -5% to -8% before it sinks into double-digit territory.

Is it Still Worth Purchasing Presale Condos in 2020?

We did find plenty of instances where presale purchases have beat the market in the past; however, an increasing number of developers have started engaging in premium pricing strategies for their presale units. In some cases, they appear to be pricing units where they believe the market will end up by completion or occupancy, rather than offering purchasers a discount for 'new pricing' in exchange for their faith and patience. Skeptical? As of the end of 2019, the average PPSF for presold condos on MLS® was \$717, 45.7% higher than the average resale PPSF of \$492 – with some units even asking upwards of \$1000/sq. ft.

This isn't to say that there aren't still opportunities for buyers, but you'll want a knowledgeable, well-informed professional to take an objective look at your purchase in the context of your short- and long-term investment goals and advise you in making a sound decision.

Thinking about getting in on a pre-construction condo deal? Or thinking about listing an investment unit for resale? Make an appointment today for a complimentary analysis of your specific opportunities.

4 opportunities

sellers

- ▶ **Early Birds:** Don't wait to get a jump on the spring market. Savvy buyers start looking as early as January, and the Victoria market doesn't historically wait for the full spring bloom to appear before sales volumes take off. Not in a rush? Book a consultation with us to start your listing prep ahead of the pack for a spring sale.
- ▶ **Rental Restricted Condos:** Some good news for owners of rental restricted condos, as the BC Government extended the exemption from the Speculation & Vacancy Tax through 2021. You may have more time to keep your unit exempt from the additional tax but if you were considering divesting, it's still a good time to act, as we expect values and market activity to be higher in 2020.
- ▶ **Newer Stratas:** As per our article in this edition on condos purchased at pre-construction pricing, if you own a recently-completed unit, or one in the three- to four-year-old 'sweet spot' we discovered, it may be time to liquidate and upgrade to a new investment.

buyers

- ▶ **Get the Worm:** Stale listing inventory held over from 2019 may be ripe for an offer and a deal early in the new year. Falling tax assessments could work in your favour, as currently-listed sellers who haven't yet secured a deal receive their wake-up calls from BC Assessment in the mail early in the year.
- ▶ **Move-Up Buyers:** Sell high – buy low? With some softening in the detached market in the latter half of 2019 and strong pricing for strata units heading into Q1 2020, it may be an opportune time for you to consider a move up the property ladder.
- ▶ **Over \$1M:** All of the metrics we track for our luxury segment (properties sold over \$1M) point to decreases in pricing (median sale price and average PPSF), longer market times, lower volumes, and listing discounts of 5% or more. If this is your price point, it's a great time to be a buyer.

investors

- ▶ **Time your Acquisition:** The combination of low interest rates, improving inventory, and stable pricing make it a great time to consider adding to your portfolio in Q1 2020, before we expect conditions to tighten in the spring.
- ▶ **Pre-Construction:** Did you read our feature on presale condos? There are still opportunities to profit in a relatively short timeframe with pre-construction, but the product must have the right mix of factors; so, make sure you talk to us first.



summary

After several years of challenging market conditions and rapidly moving property prices, we hope you have found it refreshing to read a real estate report focused on stability. Stay with us for our next issue as we climb toward a busy spring market and mine another mountain of real estate information.

We appreciate you reading *The Q Report*, and we appreciate your help in growing 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 media accounts. And make sure to subscribe for free on our website so you never miss an update.

Our next quarterly report will be released in April 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 Board's Multiple Listing Service® (MLS®) 'Core', 'Westshore', and 'Peninsula' regions. Data is analyzed for unconditional and completed sales that occurred between 2019/10/01 and 2019/12/31 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>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>Victoria Foundation</i>	victoriafoundation.bc.ca
<i>Victoria Real Estate Board (VREB)</i>	vreb.org

research & writing

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Looking Back to Successfully Move Ahead

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