

Victoria Real Estate Market Performance Insights
Q1 2021



CHRISTIE'S
INTERNATIONAL REAL ESTATE



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introduction

Welcome to our many new and returning **Q Report** subscribers. We appreciate you joining us, and look forward to showing you what *actually* happened in Victoria's Real Estate in the incredible first quarter of 2021.

If you find our publication valuable, please help us continue to grow our subscriber base by sharing **The Q Report** with those you know. Join our Facebook community, follow us on Instagram and Twitter, share to your page, or post a link to victoriareport.com on your favourite online forum when you see that question about real estate get posted. And, don't hesitate to reach out to us personally with your questions, topic ideas, or of course, for a complementary **Q Report** insider's virtual consultation on your own real estate needs.

– 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 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 original list price and final sale price, expressed as a percentage
<i>Luxury >\$1.5M</i>	'Luxury' properties, comprised of detached and attached dwellings trading over \$1.5M
<i>MOI</i>	Months of Inventory; the amount of time (in months) it would take to exhaust the current number of available listings at the current pace of sales. Also known as absorption rate
<i>PPSF</i>	Price Per Square Foot
<i>Strata</i>	Attached dwellings such as condominiums and townhouses
<i>Y/Y</i>	Year over year; comparing the current quarter to the same quarter last year unless otherwise noted.



announcements

Before we jump into this edition, we have two announcements to share:

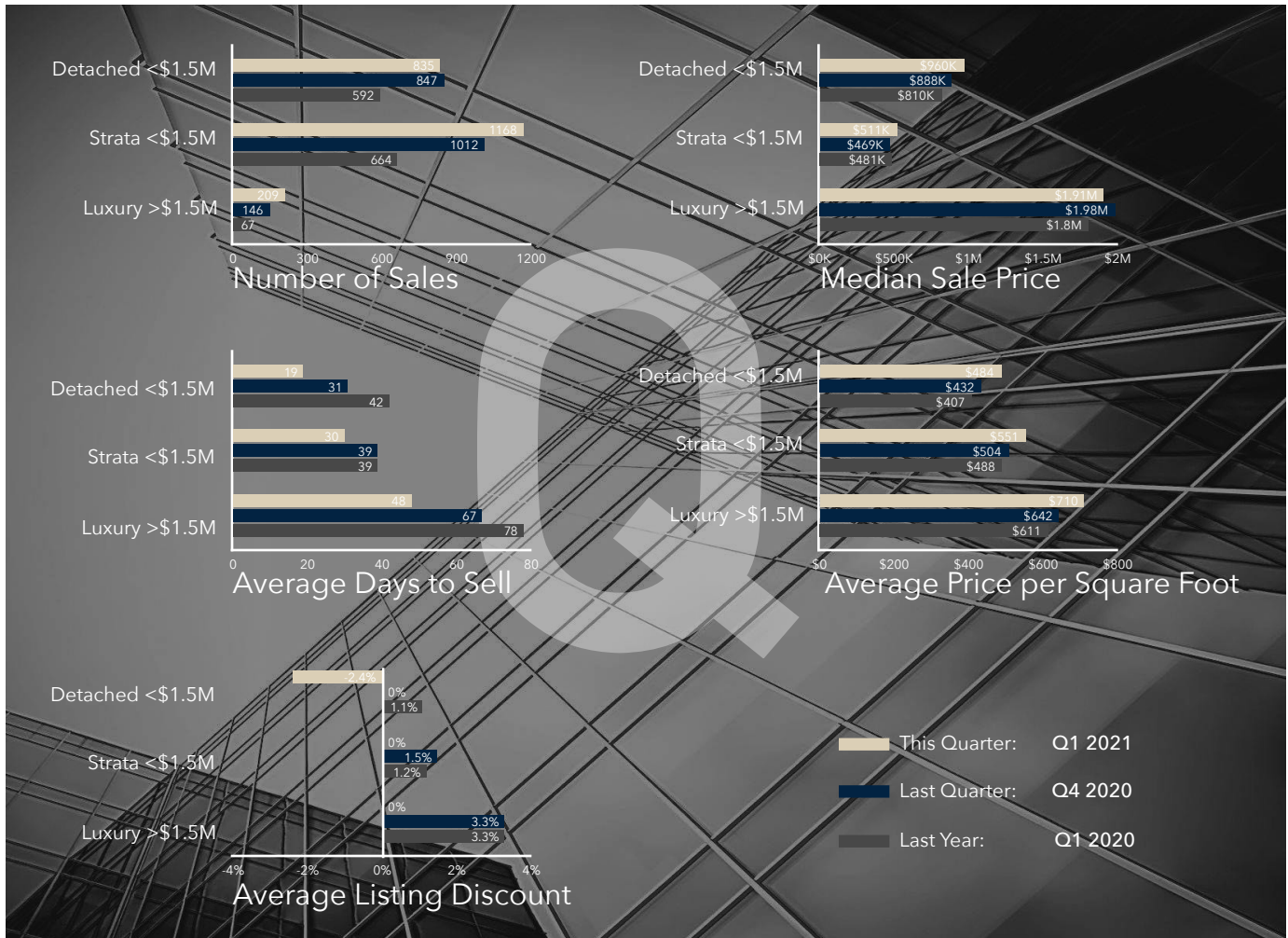
New Metrics

In response to the market conditions that we have been analyzing throughout the COVID-19 pandemic, we made an important decision to recalibrate our metrics for 2021. As of this writing, the average sale price of a detached home in Greater Victoria has exceeded \$1M, with prices in the last quarter averaging over \$1.2M. Even median sale price has averaged just above \$1M during the same three months. Considering this, it simply no longer makes sense to look at \$1M+ as our market's luxury segment, as many conventional homes are selling for above this price on a daily basis. Our analysis of current inventory and recent sales showed the types of properties and relative volume of sales above \$1.5M now better qualify as luxury homes in the context of our market.

New Market Overview Charts

Our second announcement is that we've taken the opportunity in conjunction with the price metric change to vastly improve our Market Overview visualizations, which now include comparative bars, showing you performance for each metric in the current quarter, previous quarter, and the same quarter one year prior. Thanks to our unique quarterly analysis and the seasonality of the housing market, the extra information represented will better inform you about current trends.

market overview



Introduction

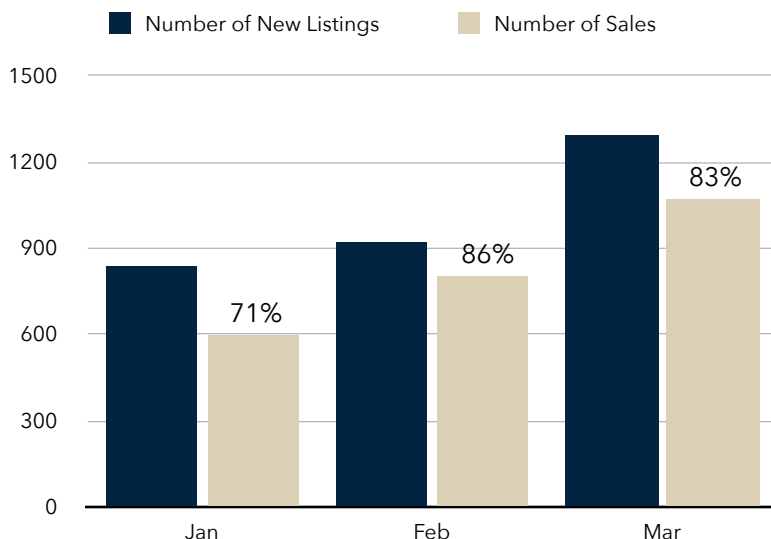
As the last **Q Report** predicted, strong momentum from last year's delayed spring market carried right through winter and further accelerated as we began to approach spring, making for the busiest Q1 we have ever witnessed. Monthly data from within the quarter showed activity ramping up from January to March:

	New Listings		Sales		Avg Sale : List Price		Avg Days on Market	
January	844		595		100%		46	
February	924	+9.5%	789	+33%	102%	+2%	30	-35%
March	1,294	+40%	1,054	+36%	103%	+1%	23	-23%

Avid market watchers were happy to see more listings coming on the market, but their relief was short lived, as the pace of sales left no room for inventory to increase, and the quarter ended with the same record-low level of available listings that it started out with. The chart below shows the numbers climbing in lockstep.

Looking at this trend, it's no surprise that our market sits at scarcely above 1 month of inventory (MOI), with widespread talk of overheating.

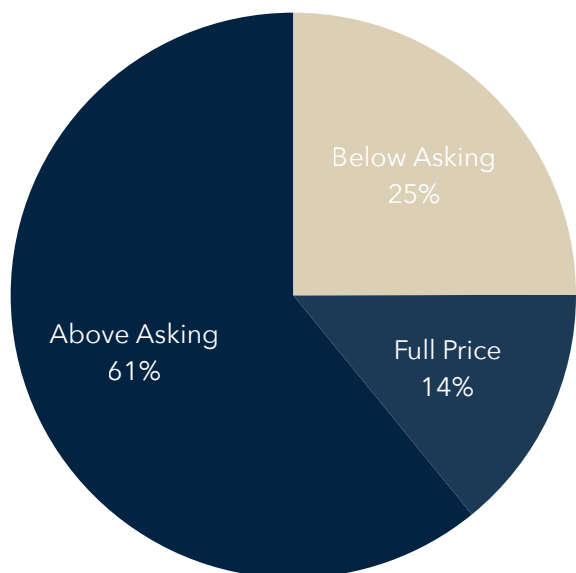
The colossal pumping of liquidity into the Canadian economy aimed at heading off a once-in-a-lifetime recession worked out in ways nobody could have foreseen when the COVID-19 pandemic took hold over a year ago. Household savings rates are way up, consumer outlook is bright, and the Bank of Canada continues printing money and loading up its balance sheet to stimulate asset price appreciation and pin rates down. Add in the social and personal effects of pandemic life, and it's no surprise that housing markets from coast to coast are seeing similar conditions. Savings + cheap credit + positive outlook = time to buy.



Detached Homes

As has been the case throughout the past year, detached homes continued to lead the surge in Q1. You may have noticed that we had to move the zero reference line in our overview chart to accommodate a *negative* listing discount, as a mere 25% of sales went for less than their asking price this quarter, giving us an average sale price 2.4% **above** list price – an inverse

"discount." Virtually every metric accelerated compared to last quarter and year-over-year. This clearly speaks to a highly competitive market with far more buyers than homes, where multiple offers became the rule. Only the number of sales was down compared to last month, but the sole reason that sales volume wasn't higher for detached homes was the lack of detached homes on the market. In the coming months, inventory constraints will continue to be the main factor tempering the pace of sales.



Strata Units

The strata market picked up significantly in the first quarter of 2021. Sales were up more than 75% Y/Y and we saw market times drop almost 25%. The most significant movement was in pricing. When *The Q Report* looked at strata sales at the end of Q4 2020, we predicted upward pricing pressure in Q1. From our last report to this one, median sale price jumped 8.8%. On a PPSF basis, prices were up 9.3% from last quarter, and 12.9% compared to last year.

This upward trend is thanks to a hot streak for condos in particular. At approximately three condo sales for every townhouse, condos tend to determine what we see the 'strata' market doing. And while condo inventory piled up and sales sagged last year, this year, so far, has seen a vigorous renewal. Numerous first-time buyers have been scrambling to get into the market for fear that rising prices will leave them shut out if they don't act quickly. We expect condos to continue to show strength right through 2021.

Luxury Homes

Even with *The Q Report's* new metrics removing \$1M-\$1.5M from the luxury segment, we saw another quarter of astonishing performance. Sales volume smashed every previous quarterly record, average market time dropped to the second lowest figure we have seen, and although median sale price was off slightly from last quarter, on a per-square foot basis, we saw another new record. But the most surprising trend was this quarter's zero percent listing discount for properties above \$1.5M, meaning that the average sale price to asking price ratio across a record number of luxury home sales was 100%.

Who's Buying?

Who are the buyers driving the torrid pace of this market? Anecdotal evidence is not a good basis to draw conclusions from, but as active REALTORS®, both authors of *The Q Report* have seen the majority of their recent sales involve purchasers coming to Victoria from Vancouver, Alberta, and Ontario. Unfortunately, we will have to wait another quarter to see a current update to VREB's report on buyer origins, but the REALTOR®-reported numbers have remained fairly consistent through recent years in reporting more than 75% of buyers as being local, and more than 90% from within BC. The survey question on which these counts are based asks where the buyer is residing at the time of purchase, not specifically if this purchase is part of a relocation, which could be leading to an unknown degree of under-reporting.

More concretely, the other portion of the survey looks into purchasing patterns and motivation. The current results once again showed first-time buyers making up the largest segment of buyers in Q1, at nearly a quarter of all sales. The next largest group was move-up buyers, who identified as "wanted a larger home" (only half as many move up buyers as first timers), with investors close behind. Perhaps as a consequence of the pandemic, buyers picking up a

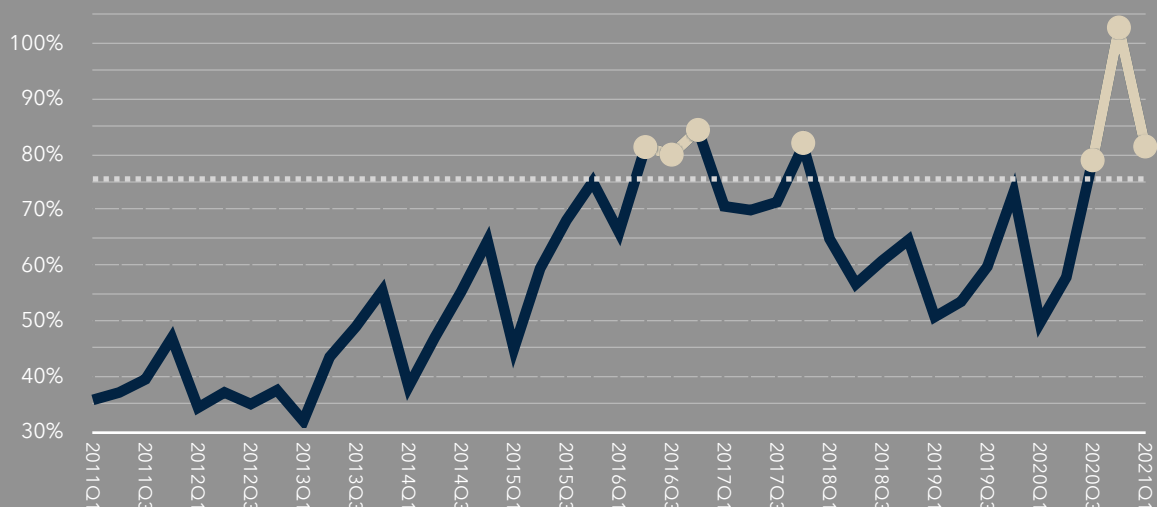
vacation property was the next largest group, with almost double the number of vacation property/second residence sales compared to Q1 2020.

Why would we point this out? A number of distinct types of purchasers – those relocating from another city, entering the market for the first time, purchasing a second residence, and to a certain extent, investors – represent pure demand, where they are taking an available home out of inventory when they buy, without offering up another in return, which puts an extra strain on already low inventory.

How long will this crazy market last?

As we saw in 2016, supply/demand pressures led to a period of rapid price acceleration, which caused buyers to fear that they would miss the opportunity to get into the market or make a move, assuming that prices would continue to skyrocket further for an indefinite period of time. The proverbial cows were already out of the barn by the time policy-makers dropped a number of measures to cool things down. As it turned out, buyers can only stay engaged in such a competitive market for so long. By the time 2017's spring market arrived, the 'delayed offers' strategy simply stopped working, when buyers stopped showing up to compete for homes.

This chart tracks the ratio of sales to new listings on a quarterly basis over the past decade. Quarters where the number of sales was more than 75% of the number of new listings are highlighted.



2016's market saw three consecutive quarters above 75%. So far, 2020-21 is at three consecutive quarters, but we are predicting Q2 will continue the trend.

For what it's worth in pointing out, all of the cooling measures introduced in the wake of the 2016 market are still in full effect: the B-20 stress test, foreign buyer tax, luxury property transfer tax, and speculation & vacancy tax – and the market is hotter than it's ever been. While there are increasing calls on governments to intervene now, most any move they make is most likely to further hurt affordability. Case in point: when you look at that lone 'hot market' data point from Q4 2017, that spike was a direct result of the B-20 stress test, as a horde of buyers scrambled to make purchases before the new qualification requirements came into effect. Talk about having the opposite effect of what was intended.

The stress test in particular seems to have completely worn off, with the latest numbers showing an even higher number of highly indebted borrowers today than before it was put into effect. Indeed, each one of these measures may have thrown a bucket of cold water on the market for a moment, but none of them are a real solution for the disparity between supply and demand.

On that imbalance, VREB's new president has been more vocal on the changes needed to address what is quickly becoming a long-term crisis of affordability: housing supply. It's a problem that has been building since long before the current market. Ask anyone who has tried to get a development permit approved almost anywhere outside of Langford (the one bright spot in the supply side). What Victoria's market needs is a variety of housing units being built and made available to house people. A tall order these days, with skyrocketing costs of materials, shortage of skilled workers and trades, a fixed supply of land, and as we just mentioned, the Kafkaesque bureaucracy faced by the people in the business of creating homes.

But back to the question: for now, how long will this last? Last year, we made it through the delayed spring market, powered through the winter, and so far this year, rushed from exuberance into FOMO by the start of spring. Even with a higher pace of listings, we expect the market to remain piping hot through Q2 in line with usual spring seasonality.

There are a few things on the horizon that will come to bear later in the year. First, as we mentioned above, buyer fatigue setting in, as rational participants in this sort of market can only take so much. Second, bond yields have been driving fixed rates back up, and higher rates will have a natural cooling effect as they influence buyers' hard costs. Third, 'real' inflation in rising consumer costs like gas and groceries may drag on housing spending. Lastly, with an aggressive vaccine rollout plan, BC may just see a summer ahead where people can contemplate travel, recreation, and social opportunities again, which would take away from those endless hours at home scrolling through real estate listings.

Even if we are right, it is going to take a long time for inventory to build back up to something resembling a more typical market, but we expect the madness to at least ease somewhat for buyers after we reach the middle of 2021.

home price index® trends

Introduction

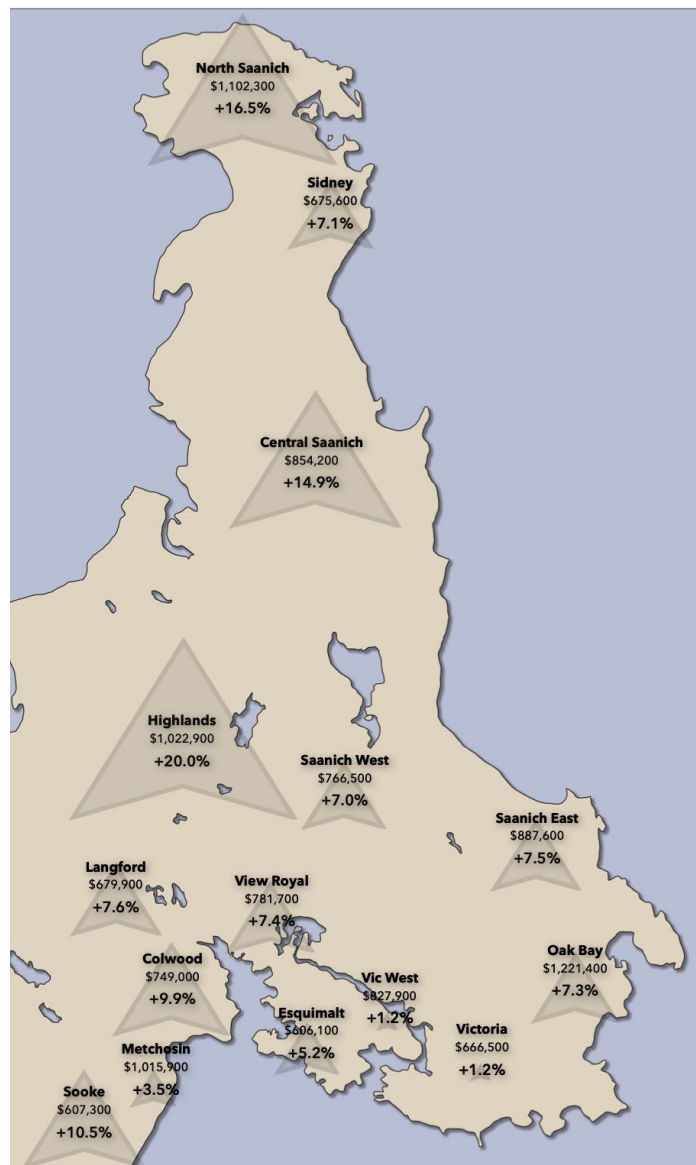
If you've read *The Q Report*, before, you'll be familiar with our regional price analysis. The MLS® Home Price Index® (HPI®) tends to be less sensitive to the swaying of averages and medians found in monthly sales figures. Indexed benchmark values for a number of different types of statistically modelled homes are tracked over time, by area. The numbers you see in the news, and even our own metrics tend to look at our market as a whole entity, so it's always interesting to see what's happening in different parts of the CRD. Returning readers may also have a sense of déjà vu looking at this quarter's HPI® map, as we see a number of trends have carried on from our last analysis

Recurring Themes

First: all gains. As our hot market continues to boil, not a single district we tracked showed a Y/Y decline at the end of Q1.

Second: things are still flat in the core. Just like we saw last quarter, price gains right in the city centre were nowhere near those in outlying areas.

Third: the region's more rural municipalities once again posted massive, double-digit Y/Y gains in composite index value. Echoing back to our last report, we continue to see that rural areas are in demand. North Saanich, Central Saanich, Highlands, and Sooke all led growth in an already blistering regional market. In the case of the Highlands, the sizeable increase is probably right in line with the fact that it's the most rustic, low-amenity municipality in the CRD. Similarly, well-heeled buyers continue to see massive isolation/pandemic value in North Saanich and we have seen increasingly higher sales numbers as well as \$5M+ prices paid for trophy estates on the northernmost tip of the Peninsula. The relatively larger lots and agricultural character of Central Saanich have clearly been attractive to people looking to be more self-sufficient as a result of the continuing pandemic. Outside of our region, we've seen a marked jump in HPI® gains in over last 12 months for other rural Island towns like Cumberland.



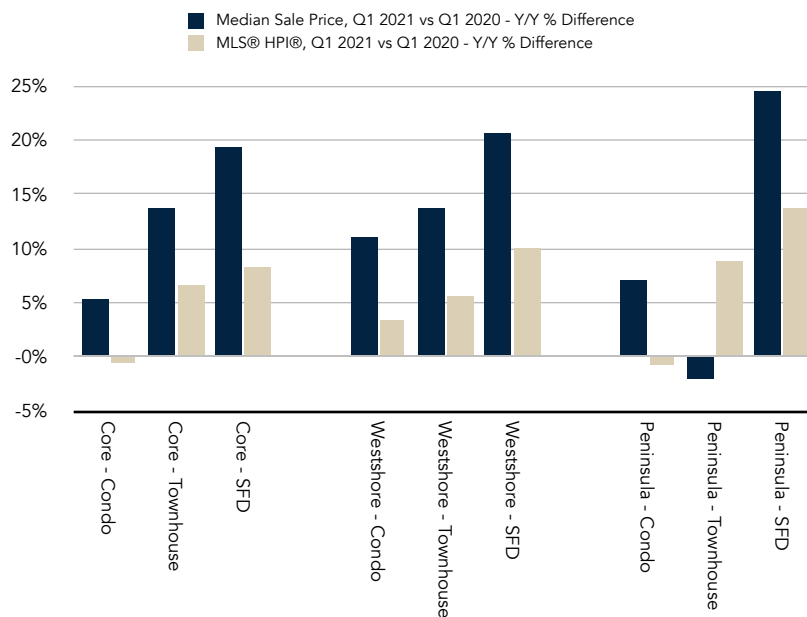
To the west, we've been keeping an eye on Sooke for several years, and it appears that the days of Sooke lagging behind the neighbouring areas of Langford and Colwood may be coming to an end. Population increases are being driven by both local buyers priced out of the Victoria market and those who are new to the South Island. Simply put, the value of what you can buy in Sooke is superior to what can be found in the core and the commute seems to matter less than ever, particularly if you consider all that's available in nearby Langford.

Fourth: As we laid out in our last edition, we track the composite index value, which is made up of all types of housing. This mix of properties influences the composite index value, and we see the results on this map. More urban areas with a larger proportion of condos in the mix show a much smaller percentage of overall appreciation, even in municipalities where we know values are rising sharply for detached homes.

But aren't condos on a hot streak right now?

This quarter has seen an incredibly quick about-face for condo sales, which were a weak point in the market throughout almost all of 2020. Over the course of Q1 2021, the median sale price has been steadily increasing, and the listing discount slid back down to zero. Our own breakdown in this chart, shows median sale prices for condos were up in all regions in Q1 2021 – but the HPI® index value has not reflected this change.

Why is this? We have been raving about the value of the HPI® as an analysis tool for several years now, and we aren't about to quit, but we also know that nothing is perfect. Our most recent data suggests that the Home Price Index® may be using some sort of 'rolling average' math to temper rapid price movements, which succeeds in smoothing out the hard edges in month-to-month data, but at the same time isn't as responsive to the kind of fast-moving market that we find ourselves in today.



Part of being skilled in one's craft is knowing which tool to use for which job. Depending on the context, we will continue to track values using the Home Price Index, as well as averages, medians, and ratios, depending on which will provide the best insights into what actually happened in the data.

the price is right(?)

They are some of the most dreaded questions a real estate professional faces these days: “What do you think this will go for?” or, “How much should we offer?”

With such frequent and unpredictable discrepancies between asking and sale prices in early 2021, it can be a tough question to tackle. As active REALTORS® behind *The Q Report*, we live out our obsession with finding solid answers based on real numbers and using this data-based approach to help advise our clients so they can be clear and confident in their decisions. Working daily in the dynamic market that we have in 2021, we have had the opportunity to adapt and innovate, which has yielded some new tools to use in a season where pricing can feel like a moving target.

The market insights we publish in *The Q Report* inform our valued readers about the market by looking at larger segments of activity. When we apply the same analytical skills and tools to a particular buying or selling situation, we have seen the process provide precious certainty to the person buying or selling. In fact, we have developed numerous ways to specifically help our buyer and seller clients visualize timing, competition, and, yes, even correct pricing, nuanced and specific to their exact situation.

One of the biggest fears in making a competitive offer is overpaying. We qualify overpaying as any purchase where a buyer couldn't turn around and resell the same property for at least what they paid in the near term. With inventory being low, there is little incentive currently to flip a principal residence, so we do not know directly whether or not such a resale would succeed. But by combining well-executed comparative analysis and the right visualization, we can see when we're “in the zone.”

Case Study

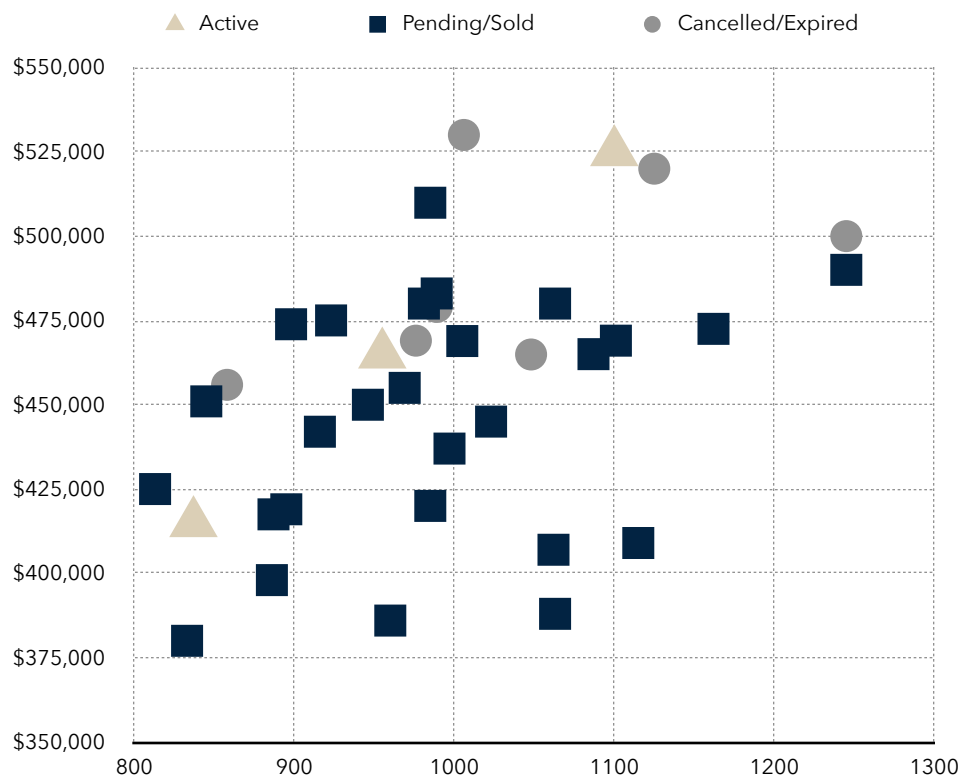
For a specific example, let us introduce you to the property scattergram, which is just one of several visualizations used as part of our unique set of market analysis tools. Although this type of chart has a tendency to be noisy or visually confusing, with the right data going in, in the right hands, and with a clear idea of what the consumer is looking for, it can bring a great deal of clarity.

This case study was recently used to assess pricing for a newer two-bedroom Langford condo. An MLS® search locates recent market data for active,

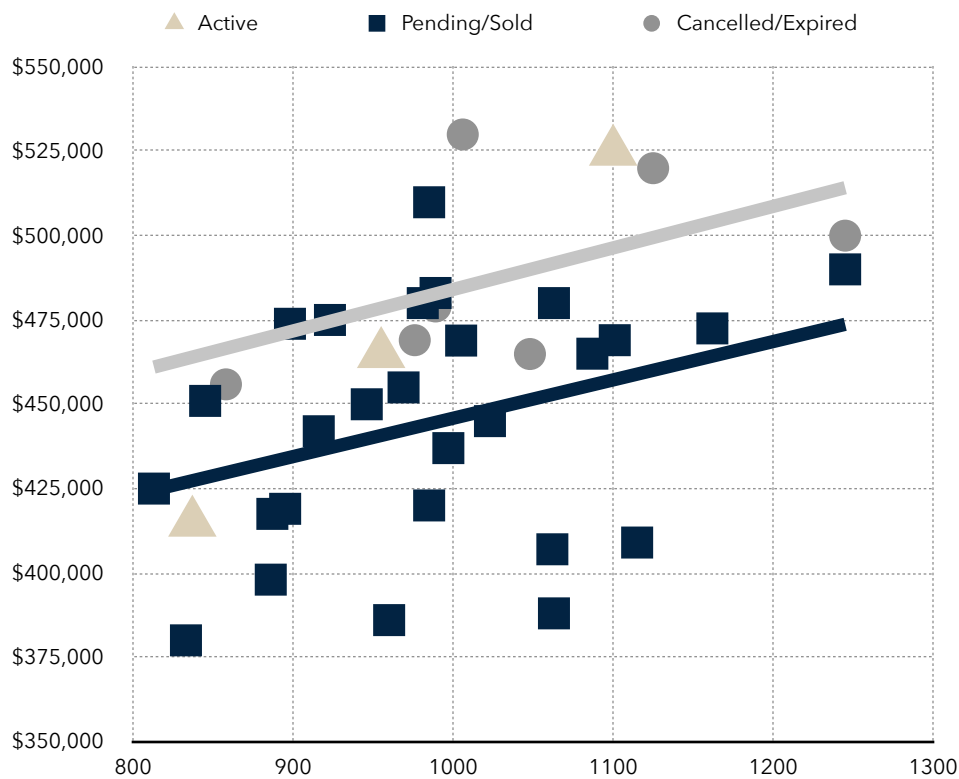


pending/sold, and cancelled/expired listings which are characteristically similar to the subject property. In this instance, the comparable data was for other two bedroom units, within +/-5 years of age, +/-250 square feet, and the same geographical area, that sold within the preceding 180 days, and all listings were included for analysis, representing around three dozen in total.

The active listings are plotted as light-coloured triangles; the pending/sold as navy blue squares, and the properties that failed to sell (cancelled or expired listings) as grey circles. The vertical axis represents price, and the horizontal axis represents square footage. So far, it looks like a Jackson Pollock painting, right?



At best, a viewer who understand the legend can see the general groupings, but this isn't informative of price yet. The real 'a-ha' moment comes when we render trend lines for the sold and unsold groupings, as you will see on the next page:



Think of these trend lines as being the average distance between all the data points scattered on the chart. We'll call the navy blue line the 'fair market value' line, and the grey line 'above market value,' since the former represents the average of all successful sales, and the latter represents the average of all the listings that failed to sell, even in this market. Now, looking at the chart, it becomes immediately clear that for this particular type of property, there is a +/- \$40K range that runs with square footage, between which a price moves from being considered by the market to be either fair or too high.

The beauty of this is that it fits with our goal at *The Q Report* of cutting through the market noise, and it fits with our mission as professional real estate advisors of helping our clients make clear, informed decisions. Yes, the scattergram shows the outliers, the over/under sales that may have moved to the pricing fringes due to a particular buyer or seller's preferences, timing, or circumstances, but the trend lines work to clear this up.

Now imagine you are looking to buy a newer condo in Langford. A 1,000 square foot unit just came on the market. It's perfect for you. It's priced at \$450,000, but the seller has reserved the right to review offers in five days' time. You want to make an offer - but how much? This diagram shows us with clarity that the asking price is pretty close to current market value, but an offer up to around \$475,000 for this property would still fall in line with several

similar sales, and show little objective risk of overpaying. However, once pricing pushes past that point, it quickly hits the grey line and moves toward 'above market value' territory, making that resale prospect more risky.

Granted, for many buyers planning a long-term hold, paying a little extra to secure their dream home is a reasonable trade-off. For the more conservative who don't want to get caught underwater if their circumstances took an unexpected turn in the near future, this exercise may prove invaluable.

It is also worth noting that this visualization technique works just as well for sellers – if not better – since it shows the correct pricing range along the 'fair market value' line, as well as the 'too high' price territory, with the added benefit that plotting other active listings next to the sold and unsold listings can reveal very specific pockets of opportunity that can provide an edge in the marketplace when pricing against 'the competition.'

If you have a real estate decision to make, you may want to have this type of analysis applied to your situation. If you do, you can reach us at info@victoriagreport.com to inquire about a confidential virtual consultation.



opportunities

sellers

- **Seller's Market:** Selling in this market sounds easy, but if it's not done right, you will definitely leave money on the table. There are a range of available values for a home, and getting to the top of it requires the right representation. Sophisticated sales tracking and analysis of various metrics can yield a top result, accompanied by a well-executed marketing plan. With the opportunity presented by supply and demand, it may seem counterintuitive, but it is the worst possible time to cut corners if you want to maximize your moment on the supply side.

buyers

- **Long-term Strategy:** The majority of buyers are going to pay top dollar today and there's no way around it, regardless of property type. If you're in the market to buy, disposal and acquisition costs will mean that you will need to have a medium- to long-term hold strategy. Again, the education process has never been more important, and working with talented professionals who know the market. There won't be a massive drop that only you are able to take advantage of. Lower prices, if we ever see them, will only bring more buyers into the market, or come as a result of tightening conditions that lock them out.
- **Pre-sales:** Across all property types, pre-construction purchases are one of the few options that can secure a new home at present-day prices, without the same level of competition we see in the resale market, and there are a variety of options in different corners of the city. New construction could be the best option for those buyers who want a toe-hold in the market but don't need to move in the next 90-120 days.

investors

- **Revenue Properties:** We see more revenue properties and buy/hold future development opportunities coming on the market. Residential long-term holds while renting, especially in Esquimalt, Westshore, and Sidney will result in positive gains over the medium term.

Contact us today for a personalized assessment of what your best opportunities will be in the coming months, tailored to your unique circumstances.



summary

This edition closes out another remarkable quarter for Victoria's housing market. We enjoyed bringing you our analysis, appreciate your continued readership, and sincerely hope you have found our insights valuable in making some sense of what *actually* happened in the early months of 2021.

Thank you for taking the time to reach out to us to share your feedback, questions, and business/real estate referrals, and thank you especially for sharing ***The Q Report*** with other bright minds like yours.

Our phone line and email inbox are open, and we once again have a number of confidential, complimentary, and COVID-friendly virtual consultation bookings reserved for ***Q Report*** Insiders. If you want a well-informed, data-based approach employed with your largest asset, supported by trust, experience, and proven processes, we would love to talk to 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 pending and completed sales that occurred between 2021/01/01 and 2021/03/31 except where specifically noted otherwise.

data sources

<i>BC Real Estate Association (BCREA)</i>	bcrea.bc.ca
<i>Better Dwelling</i>	betterdwelling.com
<i>The Canadian Real Estate Association (CREA)</i>	crea.ca
<i>Capital Daily</i>	capitaldaily.ca
<i>The Financial Post</i>	financialpost.com
<i>The Globe and Mail</i>	theglobeandmail.com
<i>The National Post</i>	nationalpost.ca
<i>Real Estate Council of BC (RECBC)</i>	recbc.ca
<i>Statistics Canada</i>	statcan.gc.ca
<i>Times Colonist</i>	timescolonist.com
<i>Vancouver Sun</i>	vancouver.sun.com
<i>Victoria Real Estate Board (VREB)</i>	vreb.org
<i>The Wall Street Journal</i>	wsj.com

research & writing

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the **Q** report

Looking Back to Successfully Move Ahead

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