

Victoria Real Estate Market Performance Insights  
Q2 2019




CHRISTIE'S  
INTERNATIONAL REAL ESTATE



Fergus Kyne PREC\*, B.Ed.  
REALTOR®

Dirk VanderWal  
REALTOR®



# introduction

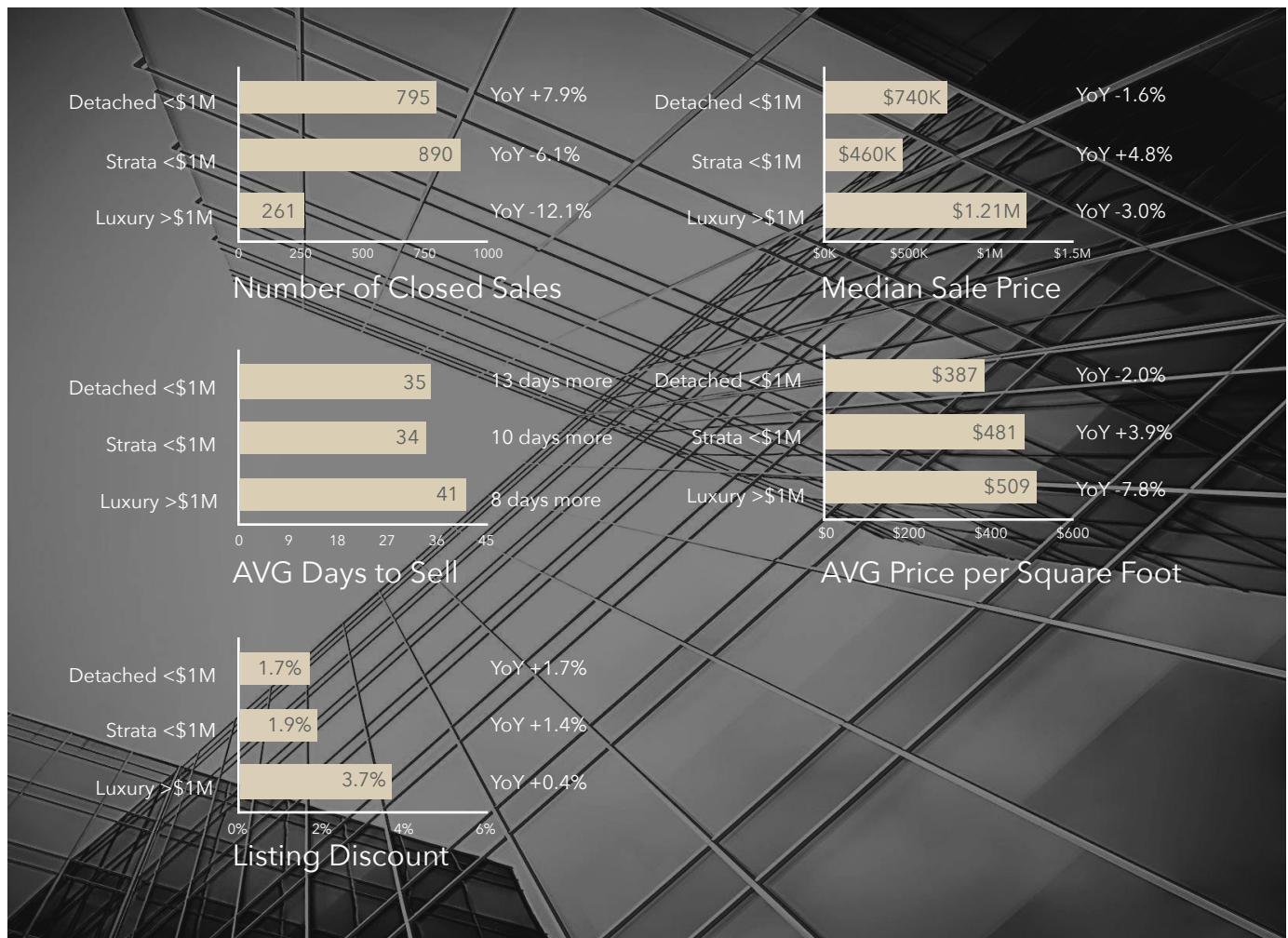
Welcome to ***The Q Report*** for Q2 2019!

Once again, we've taken a deeper look at the data to better understand the trends and factors influencing Victoria's real estate market and give you, our reader, a clearer picture of the market areas to be aware of at this point in time.

If you're just keeping an eye on the market, or considering a sale, new purchase, or real estate investment opportunity, we are proud to say that the report you're reading has been thoroughly researched and written to cut through the market 'noise,' inform you of precisely what is occurring, and guide you to well-informed decisions.

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

# 1 market overview - Q2 2019



Getting right to it, please bear in mind for the above charts, year-over-year (YoY) figures compare Q2 2019's numbers with the same metrics from Q2 2018. In this edition, we've added numerical counts to every metric for the current quarter.

Overall, the figures we saw in Q2 2019 were softer than those from the same quarter last year, but this is little surprise. Q2 2018 was when the B-20 stress test took effect in earnest, as the very last of the buyers qualified under the old rules had up to 120 days of the new year to close on their transactions before their ability to borrow was diminished. As a result, an artificial bump in sales accumulated in the Q2 stats. We've talked about this run-up in sales in previous **Q Reports**, as it factored in to the early spring market as well. All this to say that we don't consider the current market to be underperforming, rather, we've come back on track to more typical, healthy conditions, after an anomalous

market cycle. The decrease in sales compared to this time last year has led to a little more listing inventory, maintaining the market's relatively balanced state, with an average of just under 4 months of inventory (MOI) for detached and strata properties under \$1M over the course of the quarter.

Detached homes under \$1M saw the biggest increase in time to sell, taking close to two weeks more to sell this quarter versus a year ago. This makes perfect sense in light of the increase in inventory; as the monthly count of active listings averaged around 30% higher this quarter than the same period last year. Higher inventory → More choice for buyers → Less pressure for buyers → Buyers take longer to buy. As well, our experience in the marketplace has been that sellers for detached properties are becoming willing to accept more realistic prices than they would have in spring 2018. The data bear this out, recording decreases in median sale price and average price per square foot (PPSF) figures for this segment.

Sale prices for condos continue to move up, for reasons we've covered previously: millennials entering the market, retiring boomers – now entering their 70s in earnest, starting to think about living life without stairs, and a shift in new housing stock availability heavily slanted toward multi-family builds.

Luxury sales continued to lag from their highest heights a year ago, but the acute sting felt in the luxury (>\$1M) market over the past few successive quarters finally appears to be easing. Once again, anecdotal experience working in the field is illuminated by empirical data: figures in all metrics are still down, but down less steeply than the figures we have been tracking over the course of the past year's market correction in response to government measures.

Listing discounts are up across all categories compared with Q2 2018, continuing the trend we saw in Q1 2019, though to a lesser extent. We attribute the decrease in listing discounts compared with Q1 to the increase in market activity in Q2. Looking ahead, we expect the YoY difference in listing discounts to level off and return closer to zero as we head into the latter half of the year, partly in response to the current market responding appropriately to pricing trends and a more stable absorption rate, and partly because this adjustment was already underway by Q3 2018, when listing discounts rapidly shifted up to the 2.1-4.9% range, from Q2 2018's 0-0.5% range.

So, are we riding a wave, as the market has adjusted to the B-20 stress test and prepares to rally again? Is this a blip of short-term exuberance, to be followed by a continued corrective slide? **The Q Report** returns to the same conclusion this quarter: notwithstanding the media's attention on various measures of 'housing affordability,' strong underlying economic fundamentals (particularly employment growth), a steady rate of migration into the capital region, and

steady, persistently low interest rates (demand-side factors), coupled with a finite supply of real estate, continue to suggest stable market in the near term. In fact, conditions have returned to 'balanced' across many segments, particularly single-family detached homes, creating less pressure and anxiety for consumers buying or selling, not to mention the professionals representing them. Inventory continues to pace nicely with the sales volume, increasing gradually and supporting fairly stable pricing. As you will see in the next section of **The Q Report**, YoY swings in the MLS® Home Price Index® around the region have fallen into a much narrower range of figures this quarter than in our past several editions.

As we often touch on activity in new housing starts, 2019's total year-to-date is down around 9% compared with last year, but June's YoY numbers are down by half, showing a more pronounced decline as the year progresses. The Westshore continues to lead the capital region in housing starts, accounting for nearly half of all inventory currently under construction. The big headline facing developers heading into Q3 is the City of Victoria's new mandate that all larger multi-unit developments will be required to include at least 20% of their units as affordable rentals. This move could outright cripple building sector already challenged in the region's core municipality by ever-increasing costs of development, planning, permitting, and construction, not to mention land. The regional spill-over effects may prove interesting indeed, as this policy flies in the face of the simple fact that developers can move their projects a few kilometres out of the core and make them markedly more profitable. Not to editorialize, but understanding that businesses exist to generate economic returns, if the local government is interested in having businesses create affordable rentals, then it should be the local government's interest to find ways to work together and incentivize the building of affordable rentals by those businesses while still allowing them to generate an economic return, rather than thinking that wholly shifting the responsibility onto the businesses with a force-fed mandate based on an entirely unrealistic 20%-affordable-units threshold (when the city's own expert advisors reported that the market couldn't bear more than 10%) is going to create the desired outcome. Rather, we expect that the exact opposite of the desired outcome will occur, with multi-family development fleeing Victoria proper altogether, or, perhaps even worse, being forced to price their market units at a premium as the only way to keep their projects from running in the red. In either case, unfortunately, the result is less affordable housing. We may see some projects in early planning in the core take a step back as this story continues to unfold.

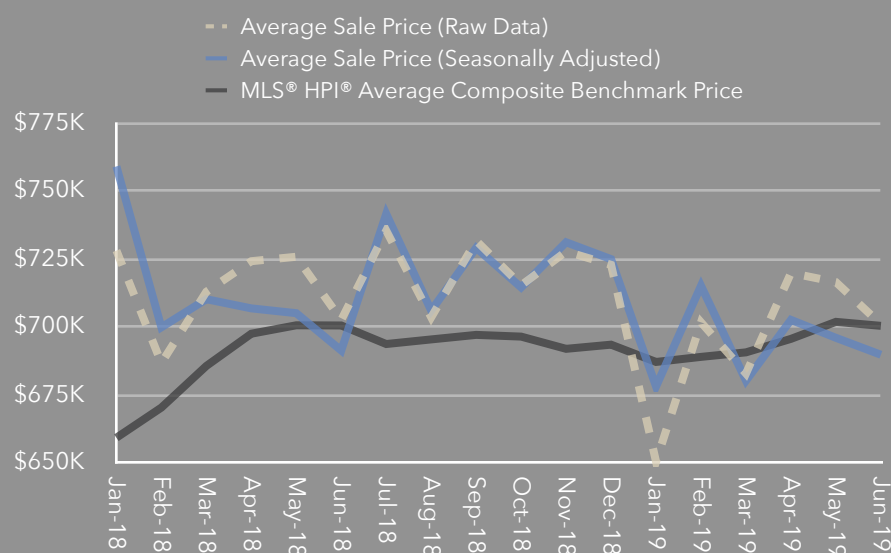
In other head-shaking political news, we turn to the recent announcement from the federal government that they will be rolling out a new first-time home buyers initiative, conveniently timed to open up shortly before the next federal election. Unfortunately, in the practical world, particularly in terms of Victoria's real estate market, the program looks like little more than lip service, crafted to

grab votes by appearing to help would-be entrants to the housing market with affordability, but hamstrung by its own income/property price-qualifying limitations. To a surprising degree, it's basically a copy/paste replica of the BC government's already-failed HOME Equity Partnership Program. While the new program could be a silver bullet for a first-time condo buyer at lower than

### More on Price Trends... Steady as she goes!

We've indicated our belief in this report that the near term trend in our marketplace will favour stability over volatility, but the recent fits-and-starts dynamic in market activity over the past number of quarters has kept many wondering if this will bear out, with some predicting that we haven't hit the bottom of this cycle yet.

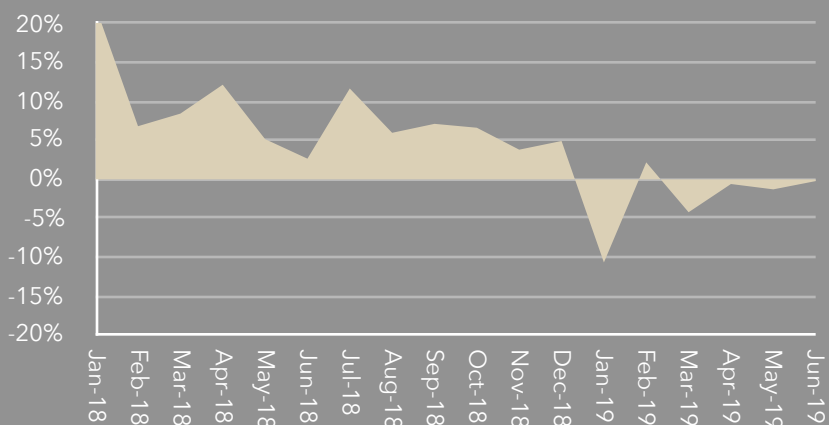
The chart below compares the average monthly aggregate sale price (dotted line), seasonally adjusted sale price (blue line), and MLS® Home Price Index® (HPI®) values (grey line) through 2018-2019, for detached and attached dwellings



including all Core, Westshore, and Peninsula regions. The monthly sales data show a number of month-to-month swings (for example, January 2019's less than stellar performance), and once again, we can see how including seasonal adjustment in our data helps temper the more extreme month-to-month highs and lows by scaling the raw figure in proportion to regular seasonality calculated from a long series of previous market cycles. While the raw month-to-month swings may look significant, they generally represent movement of only a few

percentage points. The HPI® presents the smoothest trend line, generally lagging shortly behind the monthly sales figures, and shows that we are still a bit short of returning to last summer's high point in our YoY price comparison, though not by much, and virtually all areas are showing gains from Q1 after a corrective dip following multiple government interventions into the housing market. We will cover HPI® trends in more detail in the following pages.

This second figure at right shows the +/- YoY % change in the seasonally adjusted average sale price over the same period. Two points are immediately clear: first, the range of YoY % change has come down from the 20+% range of price movements that we witnessed at the start of 2018 to less than +/-5% for the bulk of the current year.



Barring some outside economic shock, and assuming the factors holding the market in balance remain relatively constant, consumers can expect stable pricing in the near term, without needing to worry too much about weathering any rapid accelerations, but also without counting on the benefit of any major dips. Secondly, all three trend lines in the first chart appear to be moving toward a lower price trend extrapolation as of Q2, but looking back at last year's seasonally adjusted average price trend, the line jumped up after after Q2, a scenario likely to repeat this year as June ended with a period of high activity, which will likely put a push on July's numbers. In this scenario, we continue to see a low YoY % change trend carry forward into the latter half of 2019.

It seems buyers are already slowing down (see Market Overview), feeling less FOMO pressure than in preceding market cycles, consequently sellers are having to exercise patience but we don't expect to see most of them taking a haircut on their sale price, and anyone currently waiting for a market crash to make a move is playing a fool's game.

average price point stretching to make their downpayment, it seems that many would be better off without it. According to figures provided by RateHub.ca co-founder James Laird, prospective buyers would actually qualify for a lower total purchase price using the program than they would without it.

Looking forward to Q3, once the spring rush dies off, and the transactions from the busy season subside, if past years are any indication, we expect the usual seasonal dip in market activity later this summer, as many consumers turn their attention from real estate to holidays. You'll want to stay tuned for the next **Q Report**'s analysis of what to expect for the fall market, as September often brings a renewed wave of market activity, though how much will remain to be seen. If you haven't already, be sure to subscribe for free at [victoriaqreport.com](http://victoriaqreport.com).

## 2 municipal price index growth leaders

One of the most accurate and consistent sources of data that a number of fortunate Canadian real estate professionals have the luxury of counting on to produce market interpretations with confidence has been the MLS® Home Price Index® (HPI®). As we have mentioned before, this Canadian Real Estate Association (CREA) - developed product is both endorsed and extensively used by Statistics Canada, Canada Mortgage and Housing Corporation (CMHC), the Bank of Canada, the Federal Department of Finance, and Central One Credit Union, to name a few.

The premise of tracking the value of a 'notional' home in the region's various neighbourhoods over time continues to give an accurate apples-to-apples comparison. As REALTOR®s and authors of *The Q Report*, we rely on our experience using this tool in pricing properties, representing purchasers, advising on buyer/seller timelines, and telling you, our reader, what the numbers mean to you at each reporting period.

Looking at the infographic in this edition, we are seeing the type of YoY consistency coming to fruition that we've been writing about since Q4 2018. It is perhaps little surprise to see that once again Oak Bay and North Saanich – areas that are among the most expensive in the Capital region – are showing dips in their index values. Remember, the figures on the map indicate movement relative to the same time last year, as of the end of Q2. As the market slowed down, it follows that the highest priced areas would experience the biggest percentage dips. Oak Bay, having more single family



homes than North Saanich, and at a higher average price, saw a nearly 5% dip in composite HPI® from last year. Does this mean that Oak Bay is experiencing any kind of crash? Not at all; if anything, as we've seen in the last quarter, demand is increasing as a slight reduction in prices allows buyers with the wherewithal to purchase in one of the area's most highly coveted neighbourhoods.

Indeed, the YoY numbers for all other areas show that we can expect consistency in the maintenance of values. The average of all these numbers combined, with the exception of Sooke, are in line with annual rates of inflation and again suggest that the Victoria market is a resilient one, where one can have confidence in an investment, a downsize/upscale or even an equity take out to further invest in the area.

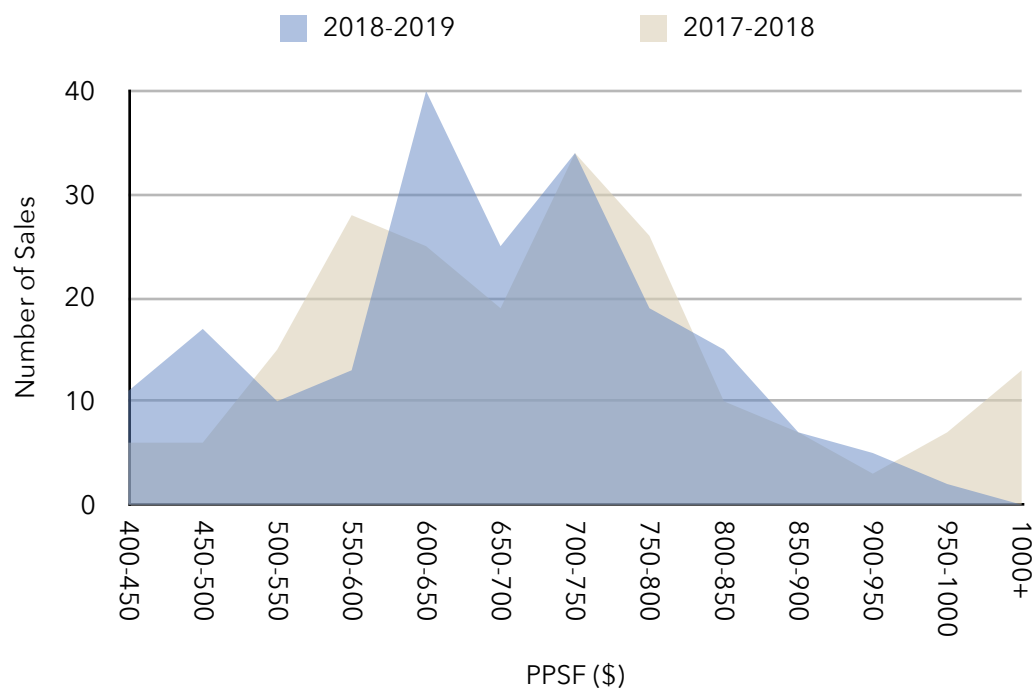
Looking at Sooke as the region's biggest gainer for a second consecutive quarter, we note that outside of Esquimalt (which we consider currently undervalued in terms of quality of life and proximity within the core), Sooke is the only region in our trading area that has an average HPI® benchmark value under \$550,000. Lower land acquisition cost and a significant increase in brand new housing stock have contributed to the increase in average values. We will watch to see if this trend continues as there are signs already in the area that new home builders are not selling their inventory as quickly as in the past few years. However, many residents who have relocated to Sooke from other, colder, areas of Canada to retire or semi-retire will tell you that the price and the lifestyle found there continue to make Sooke a very worthwhile location for owners and investors alike. Resort growth west of Sooke towards Port Renfrew and Jordan River will continue to provide what was once primarily a bedroom community for Langford and Victoria with increased population growth and long-term stability in values. Appreciation isn't going to reach the heights of what we find in Victoria and Saanich, but the big trade off is affordability.

An interesting point to wrap up our analysis on: noting the figures on the map above denote year over year change, if we look at values compared to the previous quarter instead, there have been increases of more than 3% in the HPI® composite index value of both Oak Bay and North Saanich, as well as in Saanich West and Vic West. Esquimalt is up nearly 4.5%, suggesting perhaps that the market has seen through its correction over the course of the past year and that price stability and perhaps even increases on pace with traditional inflation values are returning.

### 3 the new \$1,000-per-square-foot barrier

Of the Core area condo units priced below \$1M which were listed at over \$1,000 per square foot in Q1-Q2 2019, fewer than a third have successfully sold – all of them resales (no new construction) at one particular downtown addresses where the micro-apartments are grandfathered into short-term vacation rental usage. 58% of those \$1,000+/SqFt listings remain active, averaging six weeks on market as of this writing, comprising a mix of similar units to those sold and a number of pre-construction listings.

The chart below compares the distribution of MLS® reported pre-construction condo sales by PPSF over the past 4 quarters (2018-2019), in blue, with the previous 4 quarters (2017-2018) in beige. Notably, both show the market best responding to PPSF in the \$550-\$750 range, with a steep drop-off in sales above \$800/SqFt in both data sets. What is most interesting to us is that for the previous year's data, there were a noteworthy number of sales in the \$950-\$1,000+/SqFt range for new construction, which by contrast the current market appears to have no interest in, showing zero sales on MLS® at over \$1,000/SqFt within the past year, confirming our anecdotal suspicions on the existence of this price barrier.



Thus, at its surface, it appears that the moderating we've tracked in the market has taken a bite out of the most ambitiously priced soon-to-be condos, with the bread-and-butter price points faring better. Where developers could offer upcoming units around or over \$1,000/SqFt a year ago and put a deal together, it appears the current market has no appetite for it. We may count our lucky stars as our neighbours in Vancouver blew through the \$1,000/SqFt average sale price barrier for downtown condos in late 2016 and haven't come back.

We must stress, however, that these numbers are only those reported on MLS®, which points to a challenge we've noted in past editions of **The Q Report**. Developers often don't report (or selectively report) their sales and pre-sales on MLS®. However, we believe that the introduction of a series of buyer incentives from several high-profile developments in the core over the course of this year are likely a signal that their sales numbers aren't as enormous as the ads and brochures might lead you to believe, particularly in light of the above data. Seasoned professionals will tell you it's not uncommon to be hyped up by marketing for a particular development stating a high percentage of 'sold' units, only to find an abundance of choice floor plans and levels available to purchase upon further inquiry.

Please make sure to talk to a professional and be represented if you're considering a pre-construction purchase; your REALTOR®'s services won't cost you a dime out of pocket, and you'll have your interests looked after and advocated for, particularly as developers' contracts are often filled with non-standard language and clauses. These clauses can often relate to deposits (and potential return – or not – thereof), dates for completion, and sometimes most importantly your ability to sell or assign your contract – all matters on which your REALTOR® is able to advise you.

## 4 opportunities

### buyers

- ▶ **First-time condo purchasers:** If you're a first time buyer who has been looking to get into the market at entry-level price point, It's a good time to act with low interest rates currently available, and, if the numbers align for you, you may be able to take advantage of the new federal government/CMHC equity program of little use to anyone else.
- ▶ **Move-up buyers:** If you've been looking for a time to make your move from a condo into a detached home, conditions are excellent right now, with condo prices surging and detached prices softened, and available inventory better than we've seen in a while. Ask us how we can help you navigate the sometimes-tricky process of managing a purchase and sale concurrently.
- ▶ **Sideliners:** If you've been watching the market from the sidelines waiting for prices to bottom out, the next few quarters may be your chance to act as the combined factors of softened pricing, attractive interest rates, and improved selection line up to create excellent opportunity compared with recent markets. Slower summer sales mean less competition among buyers, which as we have noted is likely to turn after the Labor Day long weekend.
- ▶ **Westshore:** With so much brand-new, attractively-priced inventory available in a region brimming with growth and opportunity, it's hard not to put in a plug for the Westshore. Apparently, given the recent announcement that the province will be building three new schools in the region, they are betting on the same kind of growth.

### sellers

- ▶ **Downsizers & Relocaters:** Homes prepared well, marketed well, and priced to current market conditions, and sellers ready to exercise a little more patience will be rewarded with a good yield in a reasonable amount of time.
- ▶ **Rental-restricted condos:** The BC Speculation & Vacancy Tax is here to stay for now, but the exemption on rental-restricted strata units that aren't occupied full-time expires at the end of 2019. With the potential for a glut of such units to hit the market in six months' time, it may be better to consider divesting sooner than later. As experienced agents in strata property sales, call us for a review of your strata's bylaws and how you may be affected by them under the Speculation Tax.

### investors

- ▶ **Flippers:** With softening in the detached market, less-desirable properties are having a harder time moving, creating more favourable conditions to secure a deal on a dog-on-the-block property to improve, potentially add a suite/ garden suite, and re-sell or hold for revenue.
- ▶ **Office Space:** With the BCREA Commercial Leading Indicator (CLI) continuing to point to strong future demand for office space, it may be a good time to diversify into this stable arena of real estate investment.



## summary

Thank you for reading **The Q Report**. If you've found this information valuable, please help us grow our audience of Victoria's best-informed real estate market watchers, by forwarding this document, passing along your hard copy to someone you know once you've finished reading it, and sharing a link to subscribe at [victoriaqreport.com](http://victoriaqreport.com).

Our next quarterly report will be released in early October, 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 now? Take the opportunity to talk with some of the city's best-informed agents, uniquely positioned to analyze and identify your best opportunities.

We look forward to meeting with you.

Fergus Kyne  
(250) 216-1217  
[ferguskyne@gmail.com](mailto:ferguskyne@gmail.com)

Dirk VanderWal  
(250) 888-7049  
[dirk@yyjhome.ca](mailto:dirk@yyjhome.ca)



# 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 borrowers to qualify for financing at a higher rate than the actual rate on the mortgage.

*YoY* - Year over Year

## data analysis

**The Q Report's** analysis includes listing and sales data exclusively from the Victoria Real Estate Boards' Multiple Listing Service® 'Core,' 'Westshore,' and 'Peninsula' regions, except where specifically noted otherwise.

## data sources

Victoria Real Estate Board

[vreb.org](http://vreb.org)

Office of the Superintendent of Financial Institutions

[www.osfi-bsif.gc.ca](http://www.osfi-bsif.gc.ca)

BC Real Estate Association

[bcrea.bc.ca](http://bcrea.bc.ca)

Canadian Real Estate Association

[crea.ca](http://crea.ca)

RateHub

[ratehub.ca](http://ratehub.ca)

The Times Colonist

[timescolonist.com](http://timescolonist.com)

CTV News

[ctvnews.ca](http://ctvnews.ca)

## research & writing

Fergus Kyne PREC\*, B.Ed., REALTOR®

Dirk VanderWal, REALTOR®

## connect with us online



[/victoriaqreport](https://www.facebook.com/victoriaqreport)

[@victoriaqreport](https://twitter.com/victoriaqreport)

[www.victoriaqreport.com](http://www.victoriaqreport.com)

the **Q** report

*Looking Back to Successfully Move Ahead*

**CHRISTIE'S**  
INTERNATIONAL REAL ESTATE

