

Victoria Real Estate Market Performance Insights
Q2 2020




CHRISTIE'S
INTERNATIONAL REAL ESTATE



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introduction

Welcome to our new and returning readers. We're back with a full-length edition of *The Q Report*, where you'll find a deep dive into what *actually* happened in Victoria real estate during the COVID-19 pandemic, showing you how those that needed to exchange homes during such an anomalous time fared.

As always, if you enjoy our publication, we ask that help us continue to grow our subscriber base by sharing *The Q Report* with someone you know, join our Facebook community, post a link to your favourite online forum, and don't hesitate to reach out to us with your questions and topic ideas.

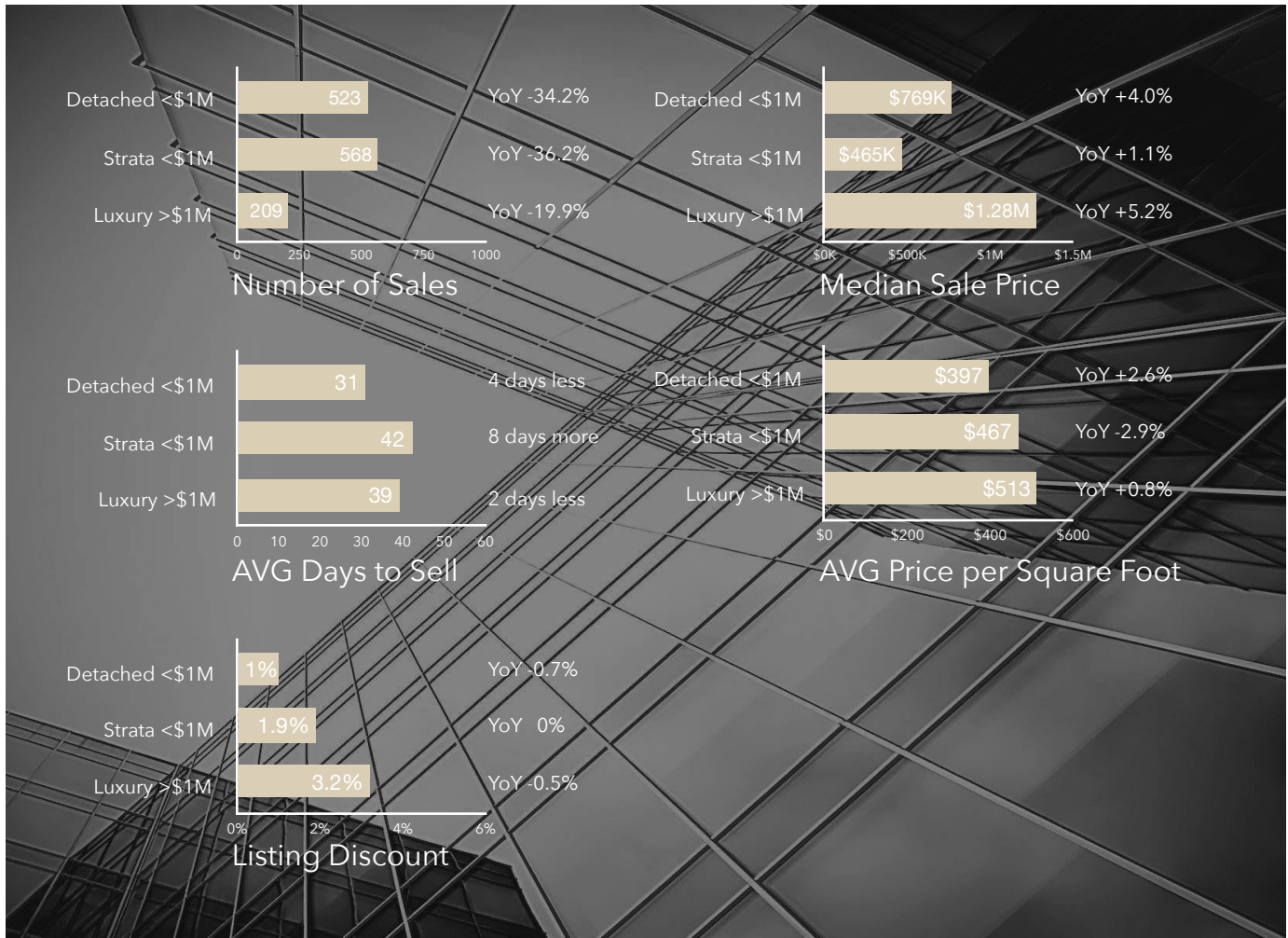
– Dirk & Fergus



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

Perhaps the most surprising news for local real estate watchers this quarter was that the Victoria Real Estate Board (VREB)'s monthly count of listings and sales at the end of June was practically the same as the release from June 2019. Regular *Q Report* readers will recall our mantra that the hallmark of the 2019 market was its stability, with many of our metrics consistently near their 10-year averages, so to find ourselves back within a few points of that average so quickly – and still in the midst of a pandemic – was not something many saw coming. Indeed, even when the last edition of *The Q Report* predicted a strong summer market, we were not expecting to see it in full swing before school even let out for the year. Let's take a closer look at each of our pricing metrics and see what trends emerged in different corners of our housing market during this unprecedented period.

Number of Sales

Considering the circumstances, it's no surprise that our leading indicator of market activity was down across all categories. What is usually the busiest quarter for sales saw the spring market put on pause, with April down over 60% YoY, May down nearly 50%, and June showing a rapid comeback to normal. The comparison between property types – with strata sales hit hardest after several years of strong demand, versus sales over \$1M being surprisingly brisk – tells the beginning of a tale that we will explore in more detail throughout *The Q Report*.

Average Days to Sell

Strata properties slowed down significantly, averaging 42 days to sell. Detached and luxury homes both spent less time on market compared to last spring. It is striking to think that in recent months, homes listed at more than \$1M spent, on average, 3 fewer days on market than a condo or townhome at less than half the price. We believe this trend will persist in Q3.

Median Sale Price

June's VREB statistics release made news headlines as the the average sale price for a detached home in the CRD officially broke \$1M for the first time. What actually happened? Bearing in mind that average sale price tends to swing with the mix of properties that sell in a given period, it's clear that surprisingly strong performance at the higher end of the market succeeded in pulling the entire average up with it. The average detached sale prices for April and May were both under \$900K. So, it's a great clickbait headline, but obviously everybody in Victoria didn't just witness the price of every house going up by \$100K in a matter of weeks.

Looking at our quarterly data tames some of this 'noise,' as our Q2 median sale price figures show just a slight increase from last year, where once again, strata sales lagged a little behind. Overall, we were impressed with the local market's price stability right through the depths of the economic shut-down, as supply and demand seemed to drop off in fairly equal measures. Their return, however, has been a different story, as we will see. Read on.

Average Price per Square Foot

Strata sales saw a slight decline in PPSF, which corresponds with the lower sales volume and longer time to sell that we discussed above. Conversely, the slight increases in the detached and luxury categories were matched by relatively equal improvements in our other metrics.

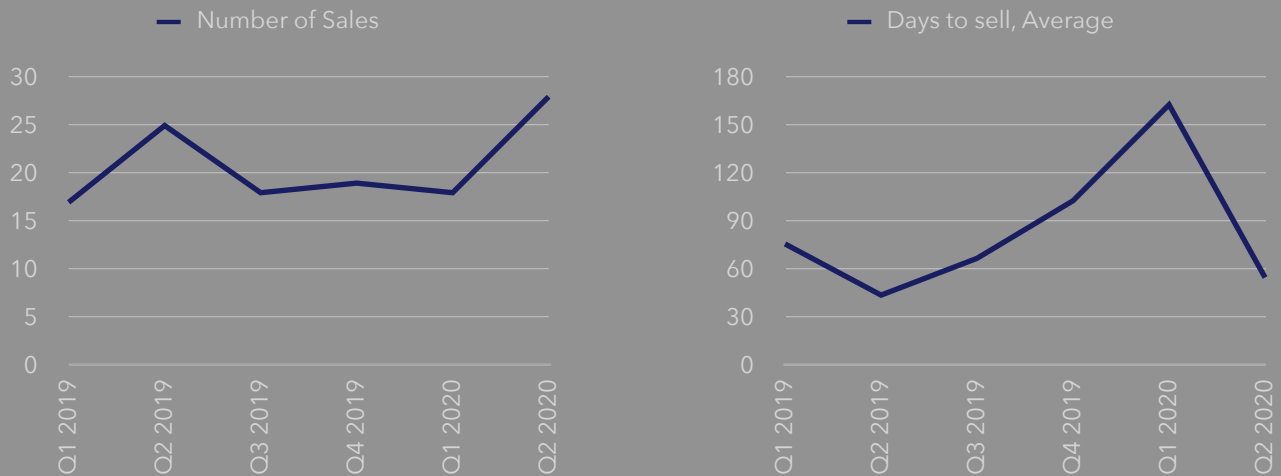
Listing Discount

The average discount buyers paid off of list price was unchanged for strata properties compared to last year, but we expect to see it increase going into the beginning of Q3 as inventory ramps up. For detached homes under \$1M,

the drop to a 1% discount reflects the low amount of available inventory in Q2, and the drop to a 3.2% listing discount for properties over \$1M made it the lowest figure we have seen in more than two years for that price bracket.

\$2M+ Buying Bonanza

If you thought our Market Overview sounded impressed at the overall strength of the single family detached market, and the luxury market in general, we will also admit to being borderline floored at the performance of the two million dollar plus market. We here at Newport Realty - Christie's International Real Estate have consistently been Victoria's go-to marketers for these homes, and our firm has seen more activity with these clients recently than possibly any other time in the past.



The two charts above, showing the sales volume and market times for \$2M+, reveal just how strong demand was at the top end of our market during the COVID-19 pandemic. Here's a surprising statistic: June 2020 saw the highest monthly number of sales over \$2M ever in Victoria, with over two dozen homes trading hands at an average of \$3.1M. Average days on market plummeted from well over 150 in the first quarter down to just 45. Even in March and April when sales numbers briefly crashed, the average sale price did not decline and indeed began to climb in May, another sign of the value here in Victoria.

It would seem that pent-up demand for housing extended right to the higher reaches of our local market. We predict more strong sales numbers in the \$2M+ market going into Q3.

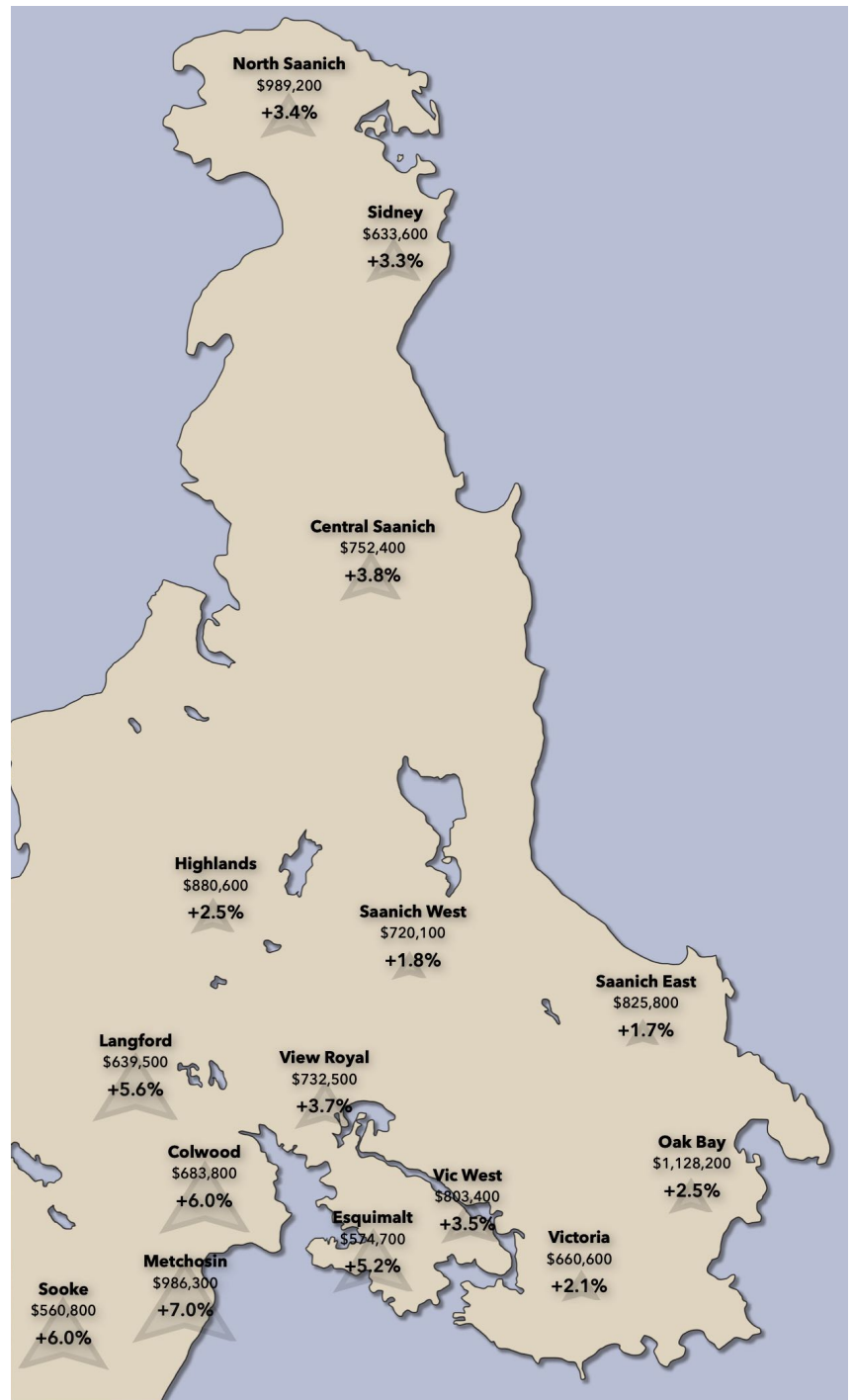
If you are considering marketing a property, you will certainly want to speak to us in confidence about your unique circumstances. Achieving these numbers doesn't happen by accident; a thoughtful approach, data, laser-like clarity in your marketing, timing, and your agency representation are paramount to your success.

2 home price index® trends

The MLS® Home Price Index® (HPI®) is a particularly useful tool to have in one's toolbox in unusual market conditions like what we've seen so far during the pandemic. By design, the HPI® is less sensitive to the swings of averages and medians that get pulled up and down by the mix of properties that trade in a given month as we covered with Q2's statistics in the Market Overview. The value of a number of different types of 'notional' homes, which are based on the characteristics of actual homes in a given area, are tracked over time and within each area, based on MLS® sales figures.

At the end of Q2 2020, the HPI® values were up in every single district year over year, which was a first for *The Q Report*. The building boom and strong demand in the Westshore drove benchmark prices up by an average of over 6%, where Core regions saw appreciation closer to 2%. The Peninsula fell in the middle around 3%.

Numerous times since we started tracking these values around the region, we have reported on how undervalued we believe Esquimalt is compared to other areas in the core, particularly its most immediate neighbour, Vic West. This is explained to a large extent by the fact that Vic West and one of its component areas, Songhees, has a high concentration of pricier condos compared to the more diverse property mix in Esquimalt. But we are starting to see more sales of new construction being reported in Esquimalt, as



well as more sales at generally higher price points. With the word seemingly getting out for our beloved place of shoaling waters, the 5.2% increase in benchmark price puts it at the top of the heap of the region's core areas.

The Q Report HPI® map is a large-scale look at regional trends using the composite index, which includes a mix of property types, and large districts, but we have the ability to drill right down to look into a particular neighbourhood, differentiate between one-story homes, two-story homes, townhomes, and apartments, and deliver accurate information on pricing trends specific to your home, your timing, and your situation. Schedule a consultation with us to see how we can put it to work for you.

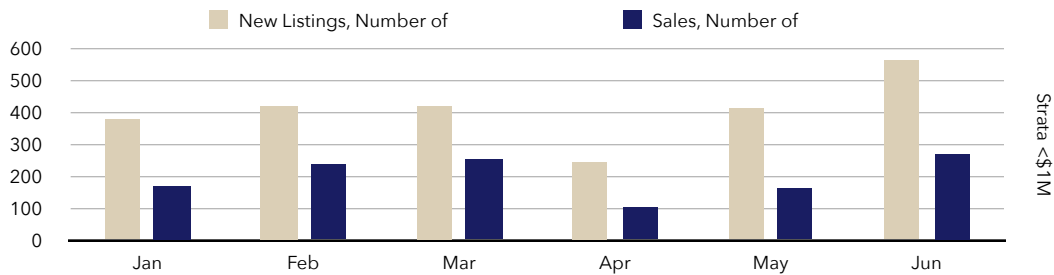
3 Q2 & COVID-19

Overview

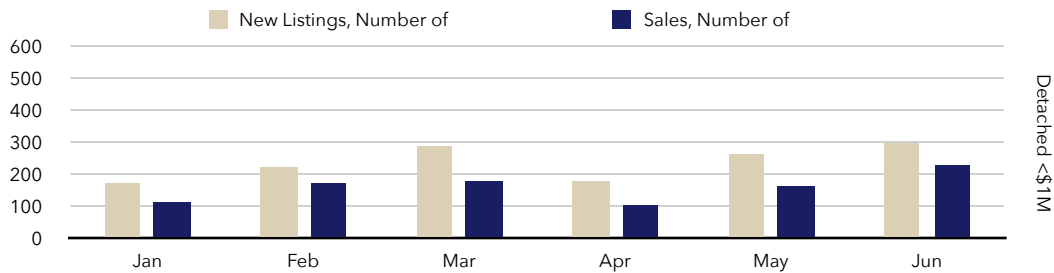
One trend we've witnessed during this unprecedented quarter is a divergence of the three market segments we have been tracking since *The Q Report's* inception, where detached homes, strata properties, and luxury properties each seem to be doing their own thing. We have broken down the trends into a couple of charts to look at what actually happened.

Listings:Sales

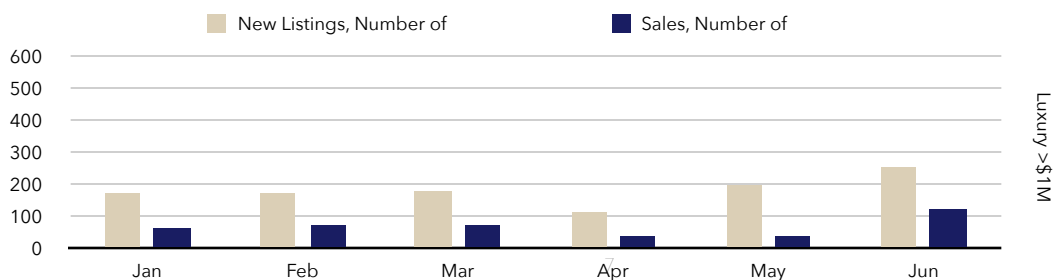
Our first set of graphs represents the number of new listings and the number of sales, by month, across our three key segments, and we included Q1 to provide a reference of what our pre-pandemic market looked like.



This first graph shows strata properties taking the largest hit on sales volume in April, as social distancing came into full effect. This improved only slightly in May, but came with more than 2.5 new listings for every sale. By June, the number of sales crept back up closer to normal levels, but that spike of new listings has made for a palpable shift for condo buyers and sellers.



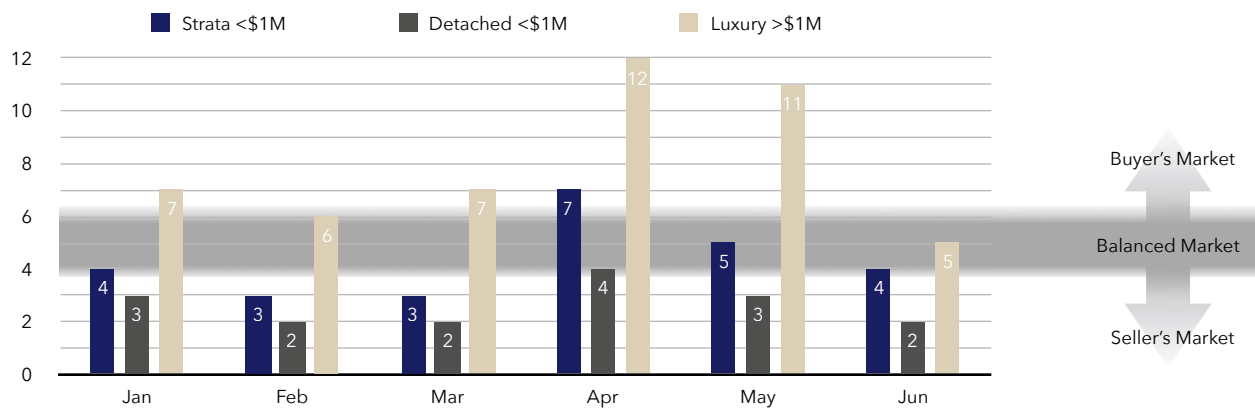
Next, we see detached homes under \$1M in Victoria, which definitely hit a hot streak coming out of Q2. Looking at the number of new listings to sales in June speaks to a tight market, as our other illustrations will show in more detail.



Properties over \$1M saw few sales throughout most of Q2, but activity jumped significantly in June, putting up nearly as many sales as the three preceding months put together.

Months of Inventory

The graph below details months of inventory (MOI) for each segment. MOI calculates how long it would take at the current rate of sales to exhaust the number of available listings. Markets with fewer than 4 months of inventory tend to favour sellers, and more than 6 months tend to favour buyers, with relative balance often in between. Once again, we included Q1 as a baseline for comparison.



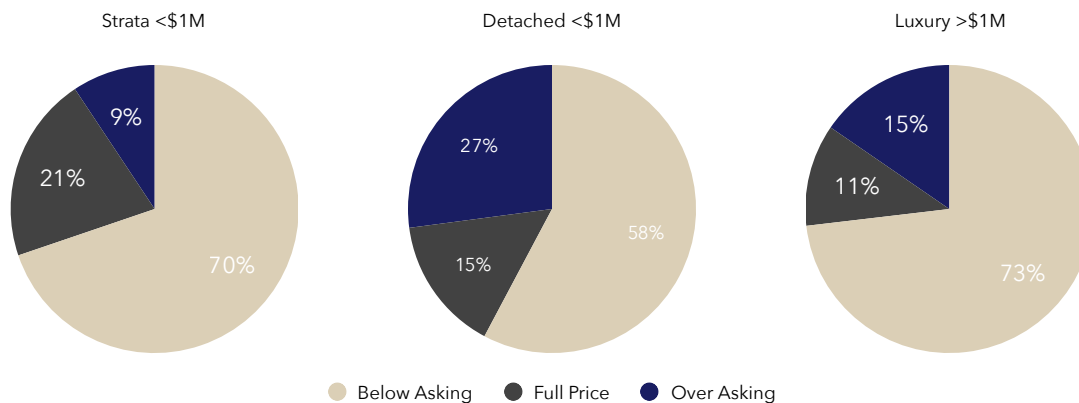
For strata properties under \$1M, the compound effect of the drop in sales and concurrent spike in listings pushed that category in to ‘buyer’s market’ territory in Q2, and explains the decrease in PPSF, and increases in market times and listing discounts we discussed in Market Overview.

Looking at detached homes under \$1M, the MOI graph verifies something else we experienced anecdotally with our clients during the first wave of COVID-19, as we encountered multiple offer situations where prospective buyers struck out on detached homes, even while the world was on lockdown. The detached market in Victoria didn’t shift out of being a seller’s market, even during the most intense weeks of the pandemic.

Finally, we see the results of the listing-to-sale ratio for luxury properties send MOI soaring in April and May, but we saw the trend reverse with an incredible rally in June. Sales over \$1M had shown surprising strength in our Q1 edition, and were primed to pick right back up again late in Q2 as confidence returned to the market. If you read the sidebar about the high-price buying bonanza on page 4, we will tie it back in here, pointing out that it’s the first time we’ve ever seen single-digit MOI for homes specifically over \$2M, finishing June at 6 MOI, two thirds below typical recent averages of 20+ MOI.

Sales above asking

This final series of graphs is the exclamation point on this divergence between attached and detached residences, as we break down the number of sales that occurred below, at, and above asking price during Q2.



Comparing the percentage of properties selling at a discount across these segments further illustrates the gap that has developed: 9% of strata properties sold over asking price in Q2 – an astonishing figure on its own, considering the broader circumstances of the pandemic. But what we found even more astonishing is that the share of detached houses sold over asking was triple the size, at 27%, and a further 15% of listings sold at full pop. Only 58% of detached homes sold at any kind of discount off their asking price, and you'll recall from the Market Overview that the average sale price discount for detached properties was down to only 1% off of asking price. Talk about a competitive market. Even the luxury market surprised us, with 15% of sales going over asking.

Analysis

So properties are being bid up amidst the worst recession of our lifetimes – is this the pent-up demand we've been hearing about? Perhaps, in the case of single-family detached homes, it is. A mass movement of people staying in and working from home could be prompting a wave of move-up buyers looking for a little more space and a yard. CREA reports that demand for detached residences is up right across the country. In addition, interest rates are at historic lows, and the qualifying rate for the B-20 stress test inched down once again in Q2. Both mean more purchasing power for buyers.

On the condo side, perhaps there's more pent-up supply than demand; 45% more condos came on the market in June 2020 than in June 2018 or 2019. The number of sales crept back up to within 5% of the ten-year average. Have we reached 'peak condo?' This is definitely something we will be watching in Q3.

Public concern and media coverage around strata insurance may be a factor in shifting condo numbers. There's also the collapse of the short-term vacation

rental market, likely prompting a number of new listings. A wave of move-up buyers, could also explain the jump in inventory, as a sizeable cohort with cheap money to borrow have been jockeying for houses and then flooding the market with their condos.

One other factor could be the disproportionate way that the economic effects of COVID-19 have been felt across different income levels. Workers in hospitality, tourism, and retail saw job losses at more than 10 times the rate of the six-figure earners in professional, technical, scientific, and education services. Considering the likelihood of the latter participating in ownership at the higher end of the real estate market, the bounce back to high levels of activity in the \$1M+ market, where it is often said that 'cash is king,' starts to make sense as well.

Looking Ahead

Consumer confidence on the ground is clearly strong at the moment, despite some truly disheartening economic and employment numbers, gloomy forecasts from economists, banks, and CMHC, and continued warnings from the central bank that Canadians are too indebted. Are we witnessing the widely held expectation that the economy will bounce back quickly when things 'return to normal' becoming a self-fulfilling prophecy, or are we riding a wave of optimism that will end in hardship?

In the short term, we expect a robust Q3, as the momentum from the end of Q2 carries forward and British Columbia carefully restarts its economy.

Beyond that, Q4 remains a question mark. The incomparable nature of what will likely go down in history as the country's deepest and also shortest recession means its outcomes cannot be predicted with any certainty. Even as we see more and more Victorians return to work and economic participation, we know that many will not get to return to work, and the consequences may not be obvious immediately, more likely to be felt some time down the road. As well, with an economy temporarily bolstered by massive government stimulus and credit deferrals, we may see compounding effects as these programs begin to wind down toward the end of this year. And then, of course, there is the ever-present threat of a second wave of coronavirus lockdowns and restrictions once again throttling British Columbia's economic activity in the coming seasons.

We hope you will keep reading *The Q Report* as we continue to bring you analysis you can't get anywhere else, and engage us in conversation about how to best manage your real estate assets and needs even in changing circumstances.



opportunities

Sellers

- ▶ **Single Family Detached:** Clearly, it's a good time to list a detached residence, with low inventory and strong demand resulting in pressure on pricing. There is little risk of under-pricing a listing as we see a higher proportion of sales involving multiple offers.
- ▶ **Luxury Listings:** The return to a highly active market above \$1M signals an opportunity if you've been on the fence about listing a property in this category. You'll want to speak to us about how our specialized expertise in luxury property marketing as a leading affiliate of the Christie's International Real Estate network can maximize your success.


buyers

- ▶ **First-Time Condo Buyers:** With inventory up heading into Q3, condo listings are beginning to have to compete to attract buyers. With the climate for financing providing good purchasing power, it may be the best time in years to enter the market.

investors

- ▶ **Condos:** Investors watching pressure on the condo market heading in the latter half of 2020 may find offerings to expand their portfolio of single-unit rental condos coming available that would have been out of the question a year ago.

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



summary

Recalling our last sign-off, with a reminder that “this too shall pass,” the panicked uncertainty of early spring already seems a distant memory in some ways. Indeed, people will continue to need homes, and many will continue to want to call this bit of island paradise home. There is a long road ahead, so make sure you’re subscribed for our Q3 edition, which promises to bring more interesting and unexpected trends. We appreciate your readership, your feedback, and your sharing our work with your circle.

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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 2020/04/01 and 2020/06/30 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>National Bank</i>	nbc.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>Vancouver Sun</i>	vancouver.sun.com
<i>Victoria Real Estate Board (VREB)</i>	vreb.org

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