

Where have the homes gone?

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> Highlights

- The ratio of buyers to sellers in greater vancouver peaked at 1.5 percent in March 2021 and remains elevated.
- Current lows in for-sale inventory are a consequence of rising demand, and, for some home-types, decreased supply.
- Despite high sales, many detached and attached sub-markets continue to see multiple buyers searching for homes compared to sellers.

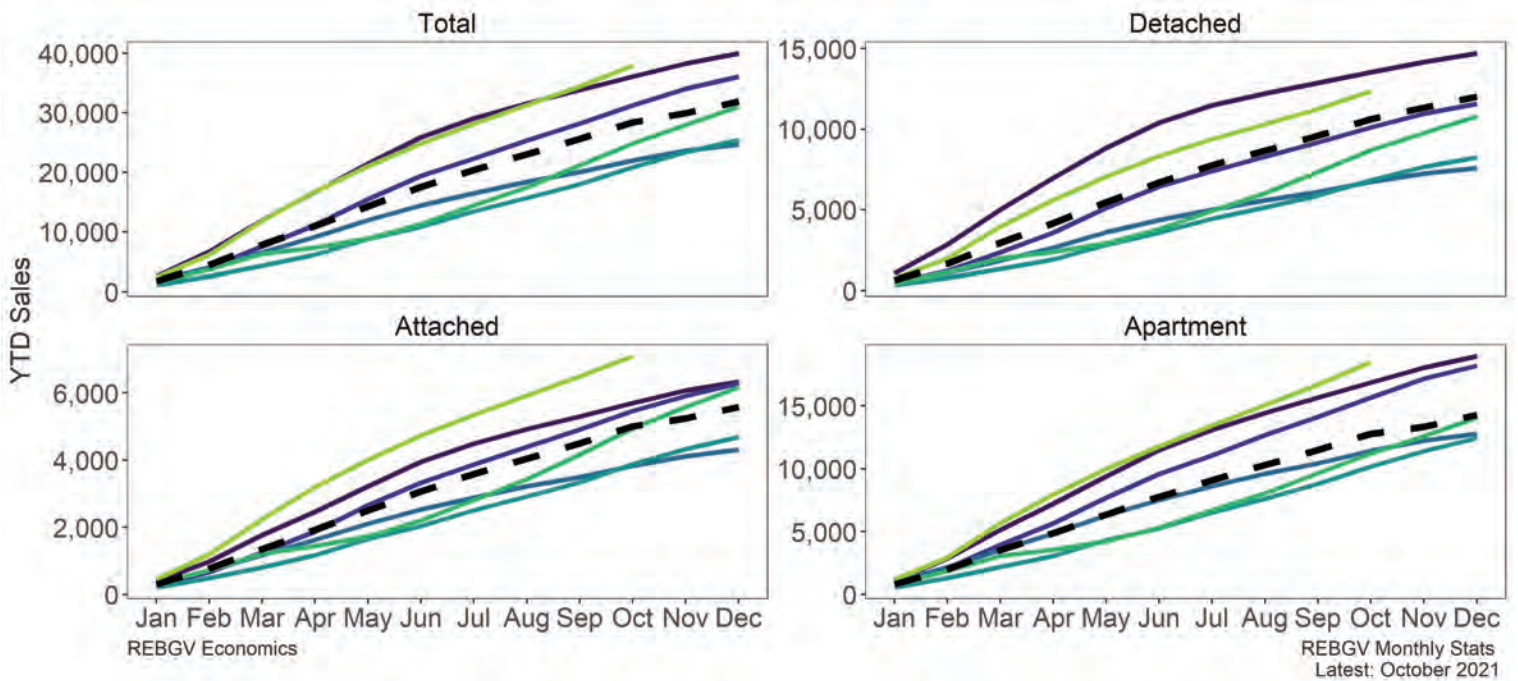
Introduction

Metro Vancouver’s real estate market continues to surprise throughout the ongoing COVID-19 pandemic. After seeing thin sales activity in the first two months of the pandemic, sales activity rebounded strongly in the second half of 2020. All-time monthly records were set in the spring of this year and 2021 is on pace to set new annual records for sales and prices in many sub markets (see below).

Figure 1: Year to date sales

All REBGV areas - 10-year average dashed

— 2016 — 2018 — 2020
— 2017 — 2019 — 2021



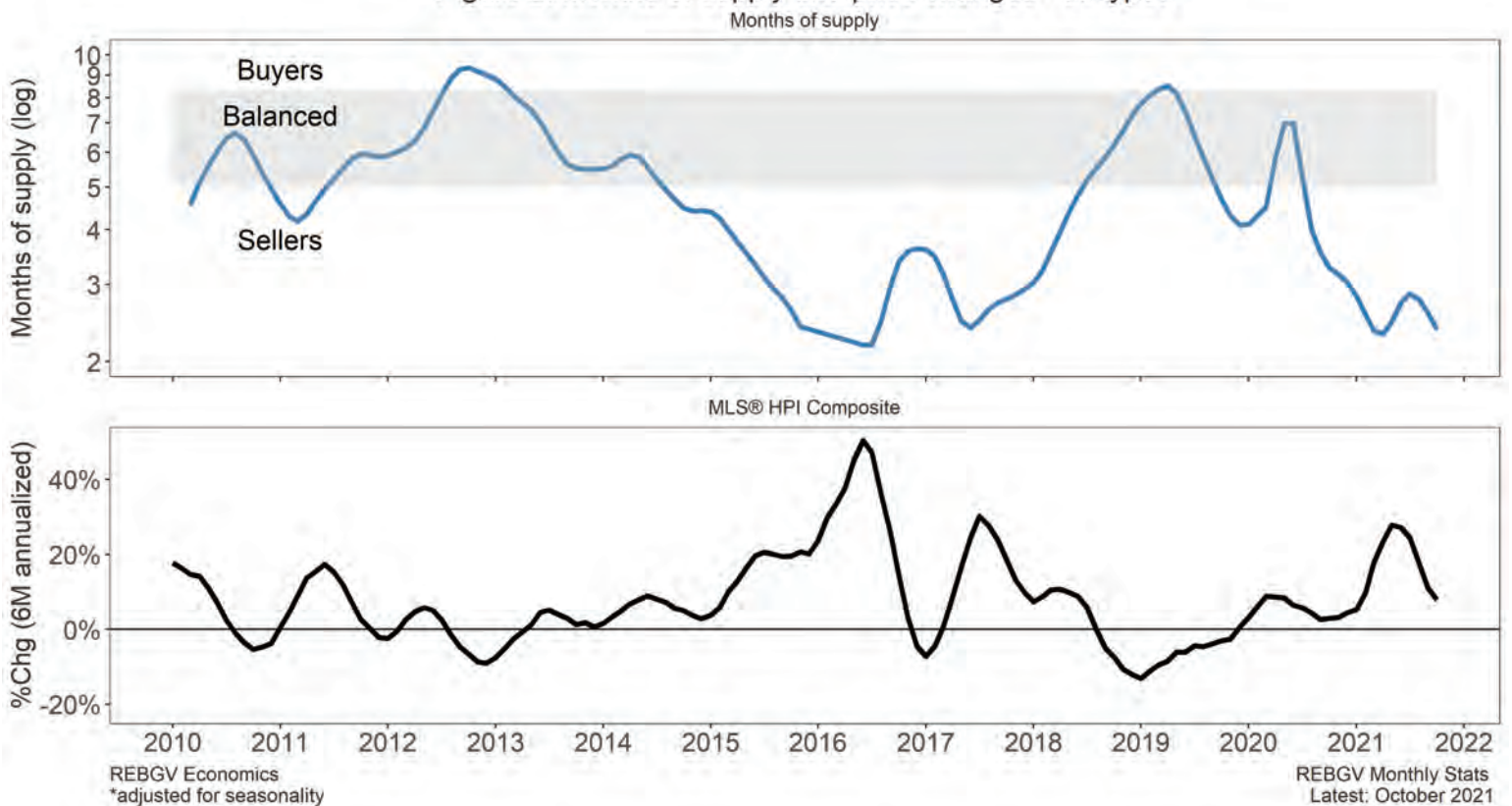
Rapid price increases, especially for larger properties in areas with relatively lower price points, has renewed interest into what’s happening within our local housing market and what has and hasn’t changed since the COVID-19 pandemic began.

> Making sense of MLS® statistics

Every month the Real Estate Board of Greater Vancouver (REBGV) publishes statistics from its MLS® system to ensure the public has the most up-to-date home buying and selling trends in our region. Sales, new listings, inventory of listings, and prices all paint this picture of current market trends. The sales-to-active listings ratio is a key measure of market balance between sellers and buyers and is followed closely because it's a strong indicator of how home prices are likely to move in the next few months. The inverse of the sales-to-active listings ratio is months-of-supply, which tells us how long it would take to sell the current stock of listings at the current pace of sales if no new listings entered the market or were withdrawn.

Below you can see the strong relationship between months of inventory and price growth. Home prices tend to rise when months of inventory is below five (sellers' market), fall when months of inventory rises above eight, and tends to stay roughly flat in between.

Figure 2: Months of supply and price changes - all types



> What's happened to supply and demand through COVID-19?

Lucky for us, the MLS® gives a complete view of what sellers (resale home suppliers) are offering to the market. [Figure A2](#) shows the path new sellers (new listings) take through the resale housing market as a listing enters the market, is added to the inventory of listings before being sold, or less often, withdrawn from the market.

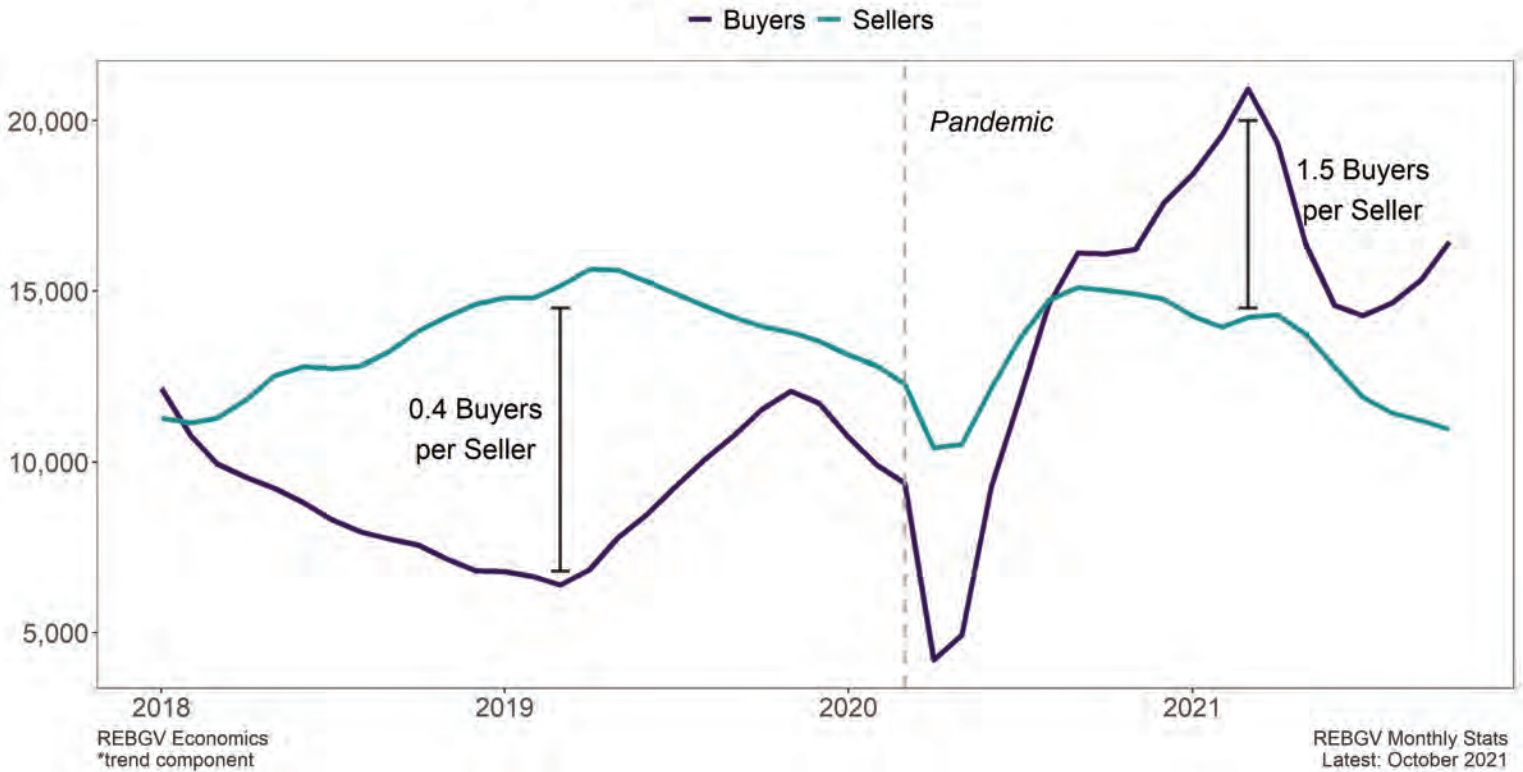
Unfortunately, we don't have the same view into the demand-side of the market. We can only directly see successful buyers (sales). However, we can infer a parallel process where buyers enter the market as new buyers, search for a home, purchase it, or become discouraged and exit the market. From [Figure A2](#) we see sales are the only place where buyers show up in MLS® data as successful buyers. To estimate the total number of buyers, we follow a modified version of the approach taken by Anenberg and Ringo who use a matching function to relate the monthly rate of sales (sales-to-available ratio) to the number of buyers and sellers in the market. This approach allows us to "peek" at the number of buyers searching for homes based on the rate of sales relative to supply and how long buyers and sellers take to find each other.

> Changes in buyer and seller behaviour during COVID-19

[Figure 3](#) shows the number of sellers and estimated buyers in the market each month. Throughout 2018, buyers were squeezed out of the market through the one-two punch of rising mortgage rates and the introduction of the revised stress-test for non-insured mortgages (mortgages with 20 per cent or more down). The market bottomed out in the spring/summer of 2019 with around 0.4 buyers per every seller. The market then recovered throughout the rest of 2019 before the dip in both buyers and sellers at the beginning of the pandemic period.

Most buyers stopped searching for homes and more sellers withdrew their listings from the market. Throughout the summer of 2020, the number of buyers and sellers both increased as it became clearer what living with COVID-19 would look like. The summer of 2020 saw rising demand and supply with the number of sellers peaking in October, with buyers continuing to grow until hitting an estimated 22,000 in March of 2021 which saw an all-time monthly sales record of over 4,700 seasonally adjusted. The number of buyers quickly decreased into the summer due to rapid price growth slowing the number of new buyers beginning their search and more buyers being discouraged. As of fall 2021, the market has moved into a diverging pattern of rising demand (additional buyers) and decreasing supply (declining number of sellers), placing renewed upward pressure on prices.

Figure 3: Estimated current buyers and sellers
All REBGV areas and all housing types

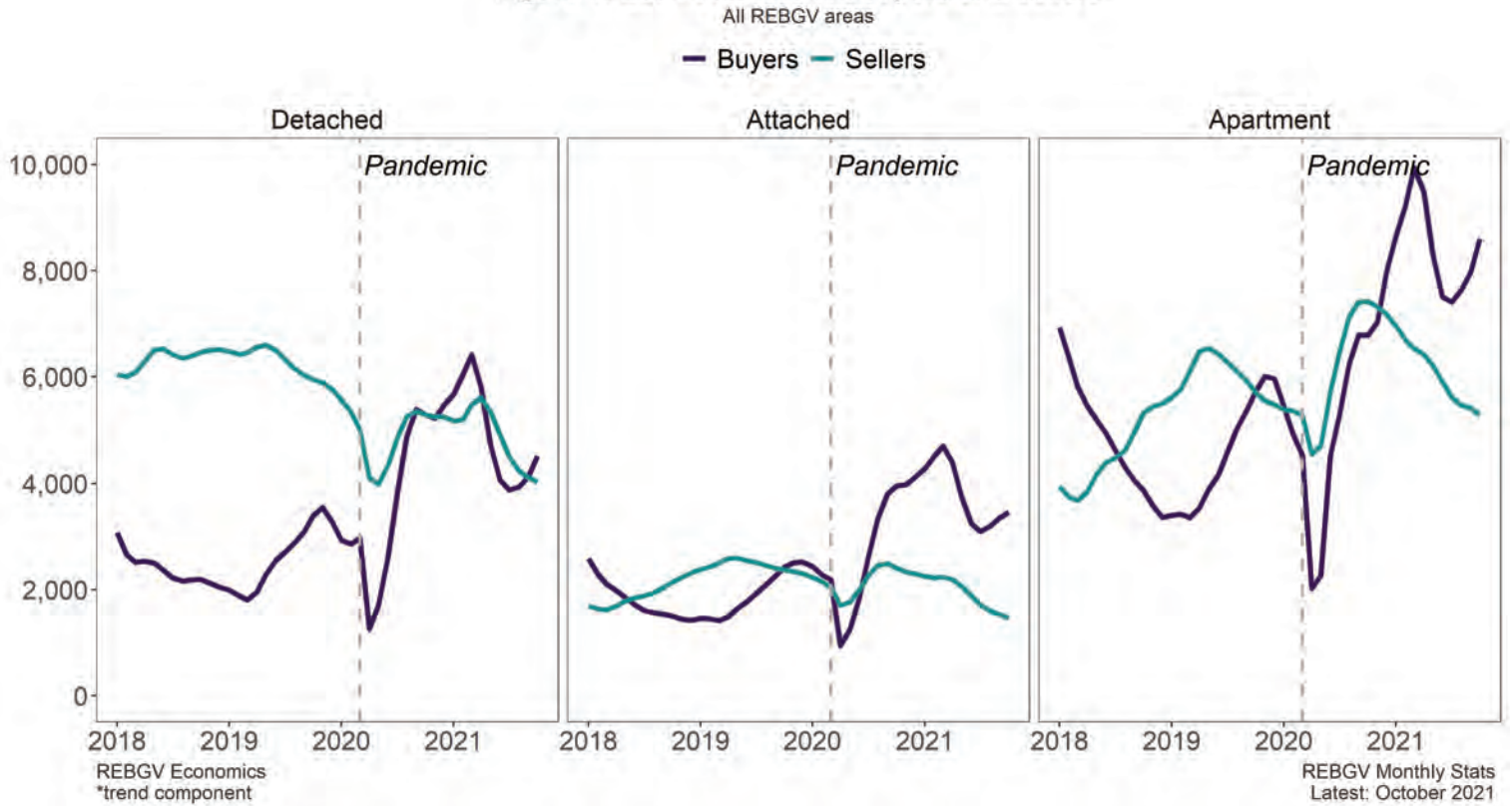


> Taking a look by housing type

Buyer and seller behaviour by home type has differed before and during the pandemic.

All home types saw similar declines in buyers and sellers early in the pandemic, however the following months saw buyers return to the detached and attached markets quicker than in the apartment market. Detached and attached sellers were slower to return to the market partially due to reassessing their housing needs and wants.

Figure 4: Estimated current buyers and sellers



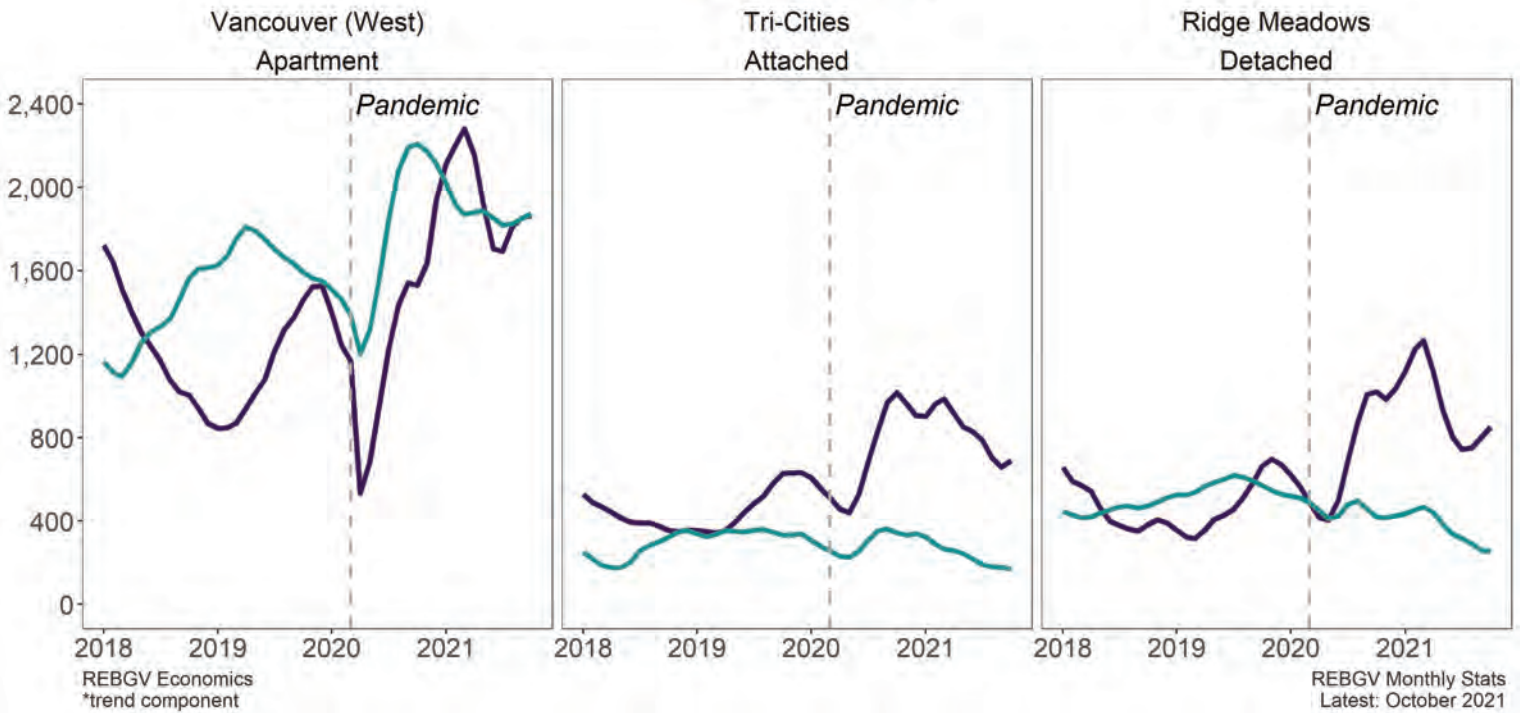
> Large and persistent differences in sub market conditions

Figure 5 below shows how much market conditions have differed between representative sub-markets. Westside of Vancouver apartments (which includes most of downtown) saw the biggest increase in sellers in 2020 this is because some landlords sold formerly rented units that were more difficult to fill and some owner-occupiers sought to move to more spacious homes elsewhere. Into 2021, the number of buyers eventually caught up with sellers bringing the market into more balanced conditions. The story has been very different in further out areas of Greater Vancouver with attached homes in the Tri-Cities and detached homes in Pitt Meadows and Maple Ridge seeing both the level of sellers below pre-pandemic levels and extremely elevated numbers of sellers still looking to purchase these homes.

Figure 5: Estimated current buyers and sellers

Select sub areas and types

— Buyers — Sellers



> Summing up

After a brief lull in market activity in the early months of the pandemic as both sellers and buyers left the market, sales have been running above long-term averages due to a steep rise in demand. Prices have increased because supply (number of sellers) hasn't kept pace. The market will eventually come closer to balance as elevated numbers of buyers find a home and the number of new buyers decline due to higher mortgage rates set and simply the pool of potential buyers is finite and will eventually be exhausted. Inventory levels will move back towards more typical levels over time as mortgage rates creep up and the pace of sales slows. Also, as the pandemic retreats, some sellers who have been holding off selling will enter the market - however timing is difficult to determine.

For policy makers, COVID-19 has highlighted the high degree of demand for homes and the challenge of crafting policies to keep supply at a matching pace . All levels of government can help through policies that support supply, both through expanding the stock of housing and polices that make it as easy as possible to sell existing homes. Recent demand levels point to the limits of demand-side measures to suppress demand to target price growth.

The persistent strength for attached homes (duplex and townhouse homes) points to a home type policy makers can target in the largely built out region covered by REBGV. Where land economics are favourable to it's development, policy makers should consider ways to expedite the creation of homes that balance development feasibility and demand from home buyers.



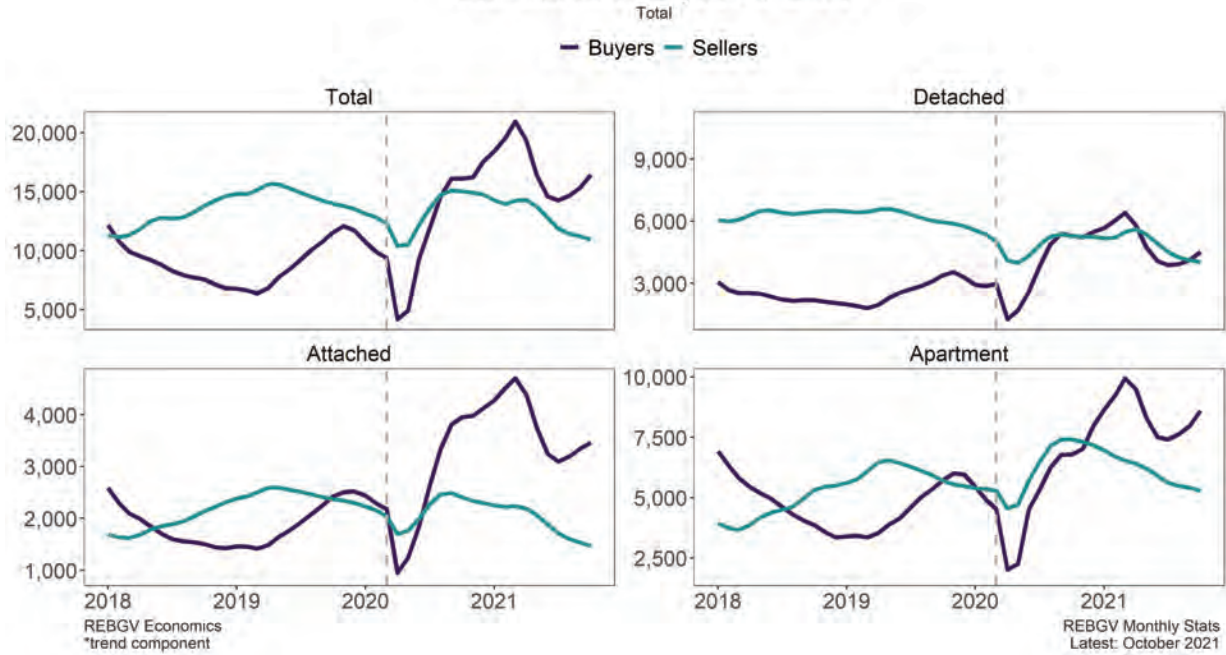
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For more housing market new and economic analysis, go to REBGV.org.

> Appendix 1

Estimated current buyers and sellers



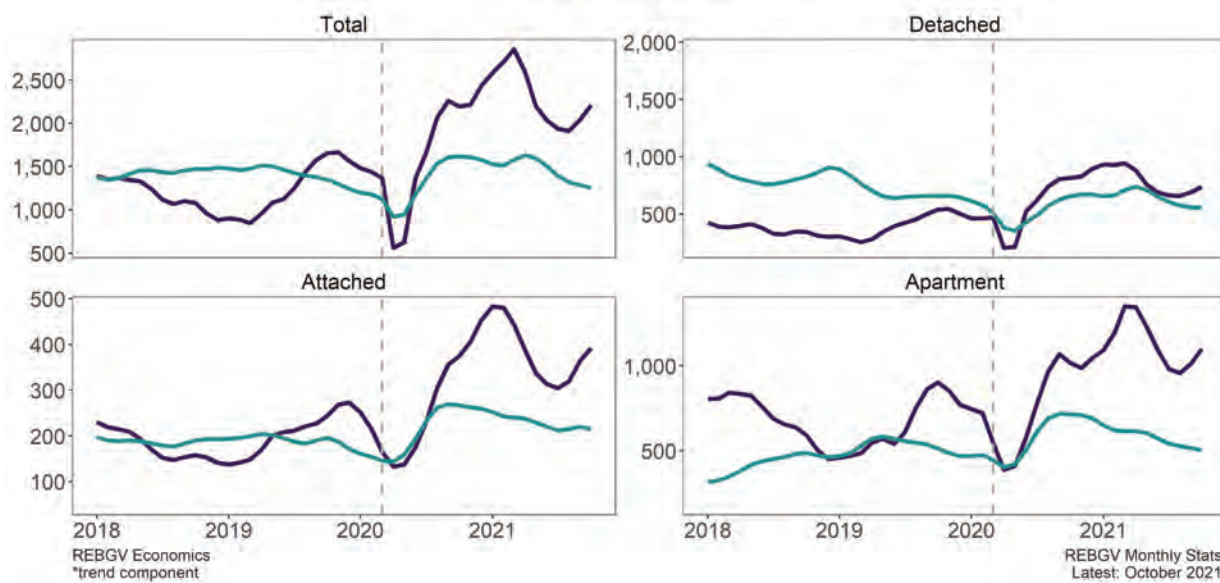
Estimated current buyers and sellers



Estimated current buyers and sellers

Vancouver (East)

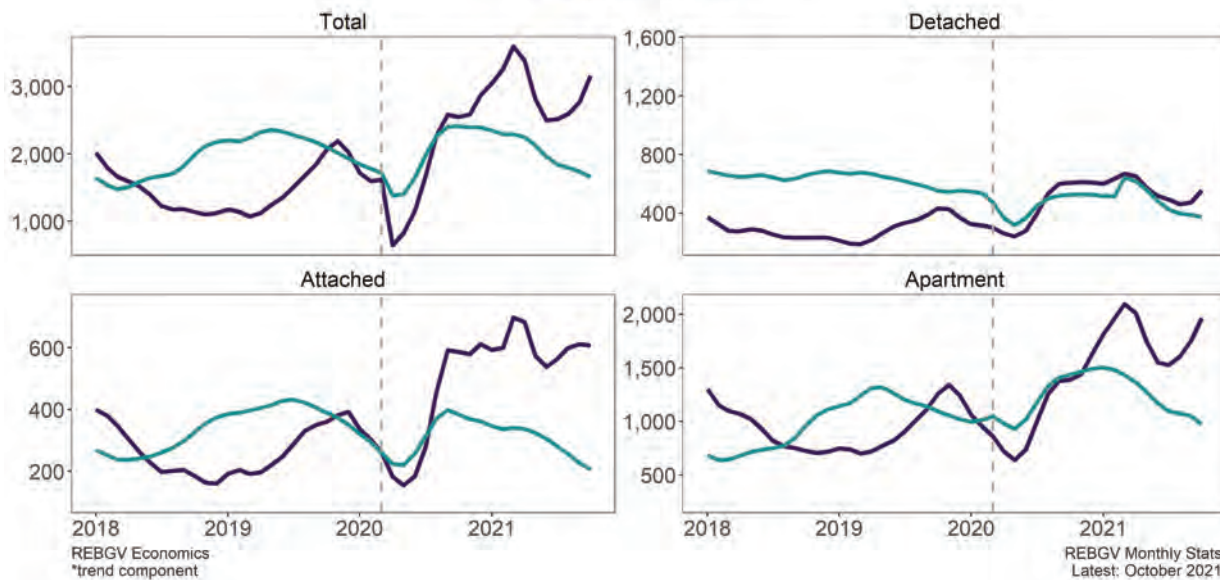
— Buyers — Sellers



Estimated current buyers and sellers

Burnaby & New West

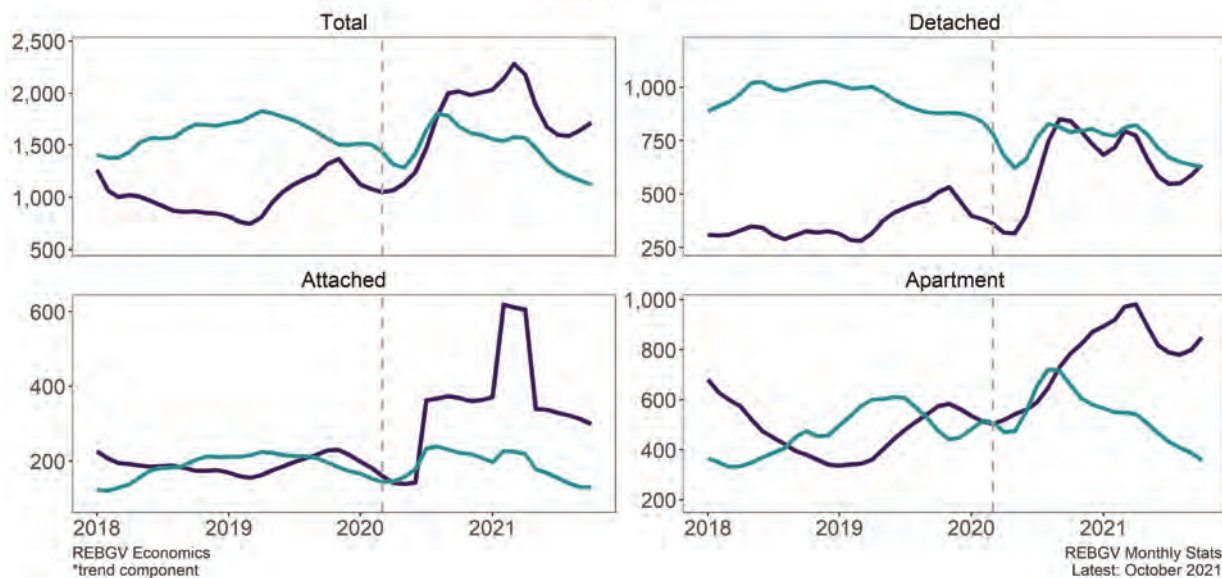
— Buyers — Sellers



Estimated current buyers and sellers

North Shore

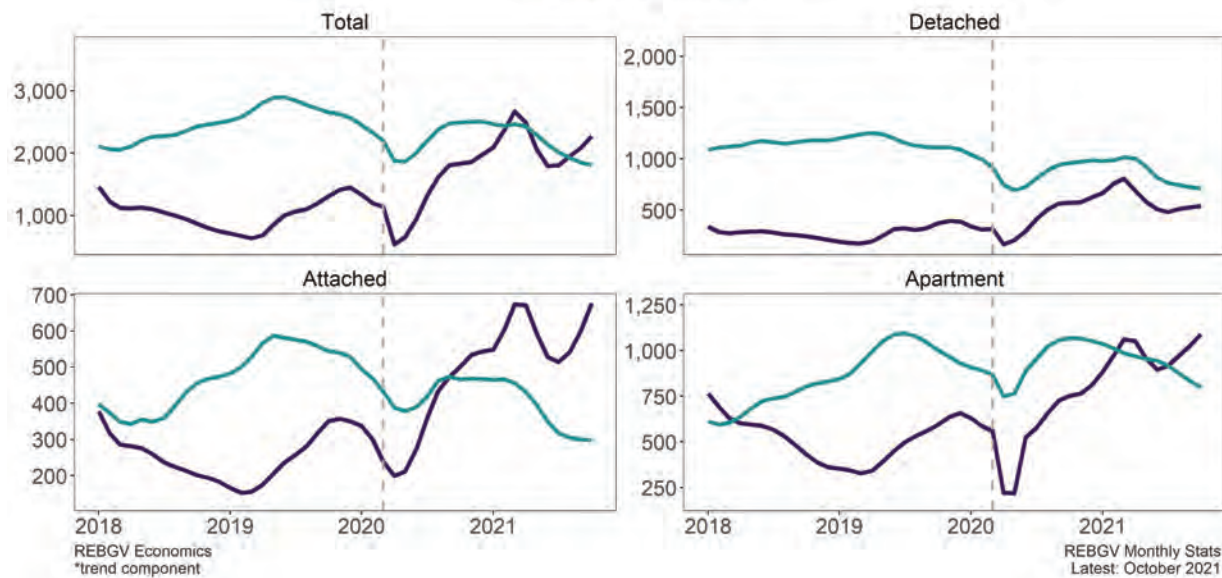
— Buyers — Sellers



Estimated current buyers and sellers

Rich. & w. Delta

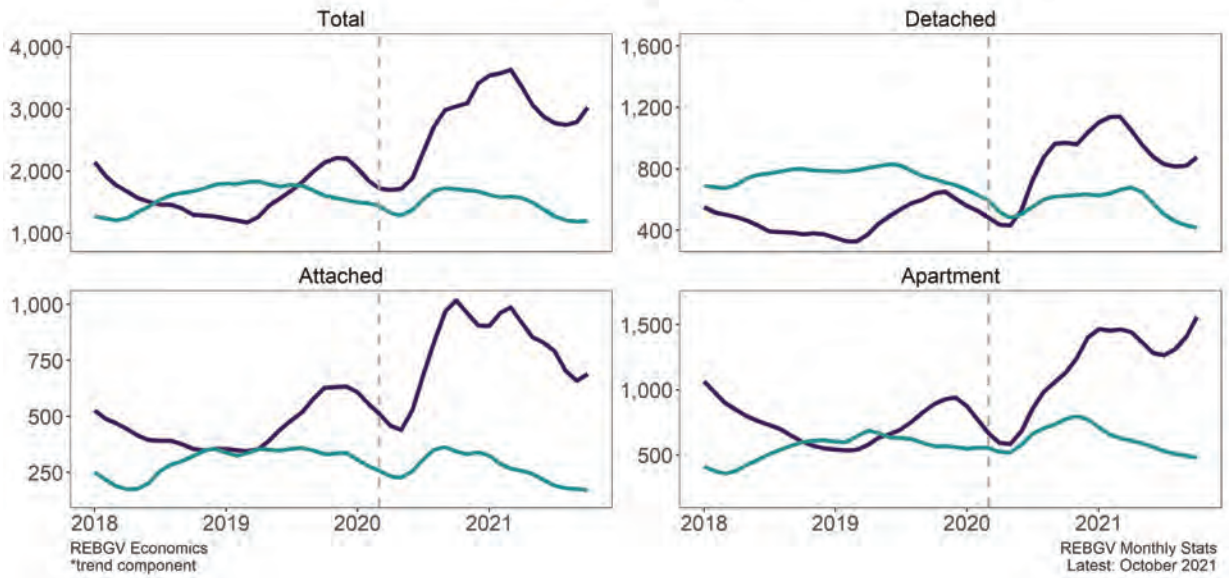
— Buyers — Sellers



Estimated current buyers and sellers

Tri-Cities

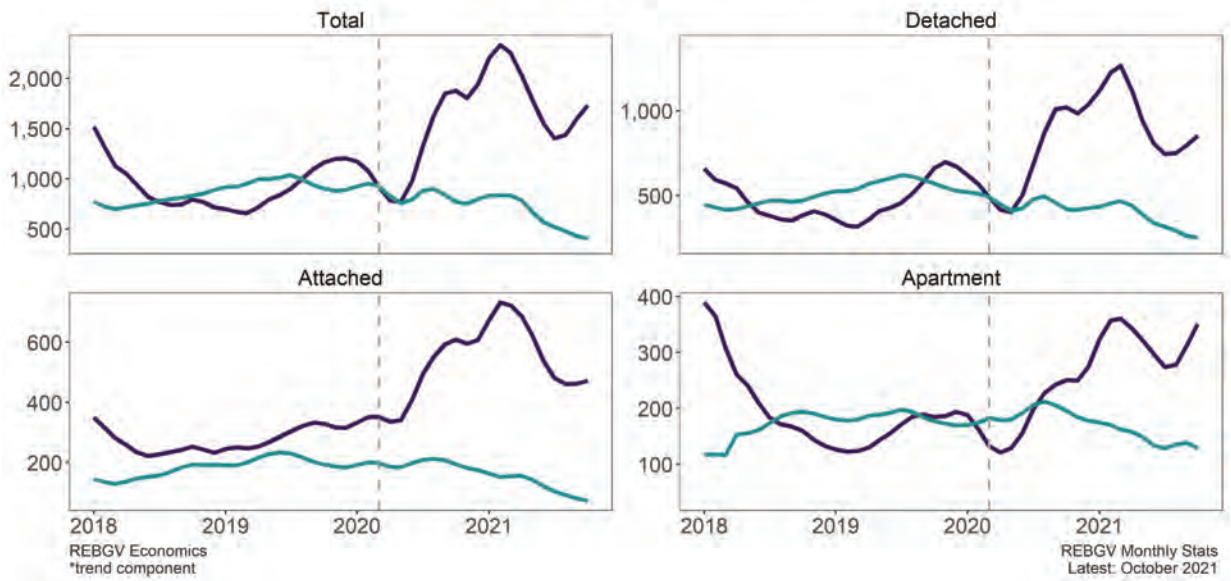
— Buyers — Sellers



Estimated current buyers and sellers

Ridge Meadows

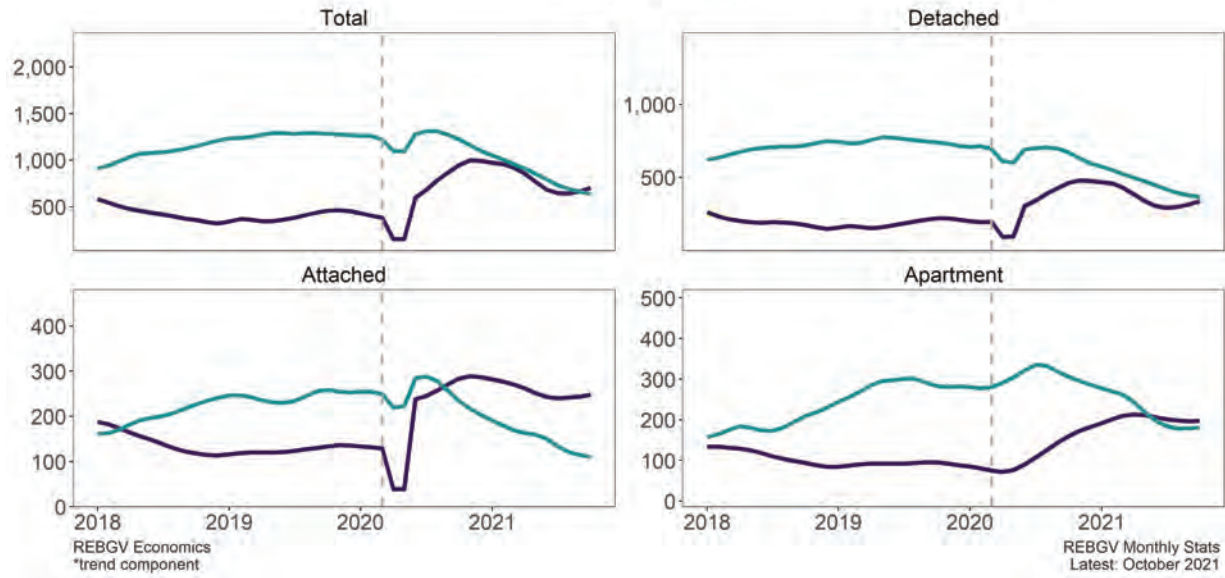
— Buyers — Sellers



Estimated current buyers and sellers

Sea to Sky & Sun

— Buyers — Sellers



REBGV Economics
*trend component

REBGV Monthly Stats
Latest: October 2021

> Appendix 2

The equations used in this report are adapted from a [research note](#) from economists Elliot Anenberg and Daniel Ringo at the Board of Governors of the Federal Reserve System.

$$(1) \text{ActiveSellers}_{ti} = \text{ActiveSellers}_{t-1,i} + \text{NewSellers}_{ti} - \text{Sales}_{ti} - \text{DiscouragedSellers}_{ti}$$

$$(2) \text{ActiveBuyers}_{ti} = \text{ActiveBuyers}_{t-1,i} + \text{NewBuyers}_{ti} - \text{Sales}_{ti} - \text{DiscouragedBuyers}_{ti}$$

While not observed, we can think of the stock of buyers at the end of the month evolving in an identical way.

A is the ratio of the long-run average of how long successful sellers have been looking for a buyer (days on market ([DOM])) to the average length successful home buyers are searching for a home. The number of days buyers take to search for a home is assumed to be a uniform 90 days based on Anenberg and Ringo (2021).

$$(3) A_i = \frac{\overline{DOM}_i}{\overline{DaysHomeSearching}}$$

$\frac{Sales_{it}}{Sales_{it} + ActiveListings_{it}}$ is the share of homes offered for sale that sell in time period t and is modelled as an urn-ball matching function as follows:

$$(4) \frac{Sales_{it}}{Sales_{it} + ActiveListings_{it}} = 1 - e^{(-A_i \frac{Buyers_{it}}{Sellers_{it}})}$$

Where the rate of homes selling to the homes offered for sale is a function of the number of buyers and sellers in the market in the same period and the efficiency of matching them (A_i).

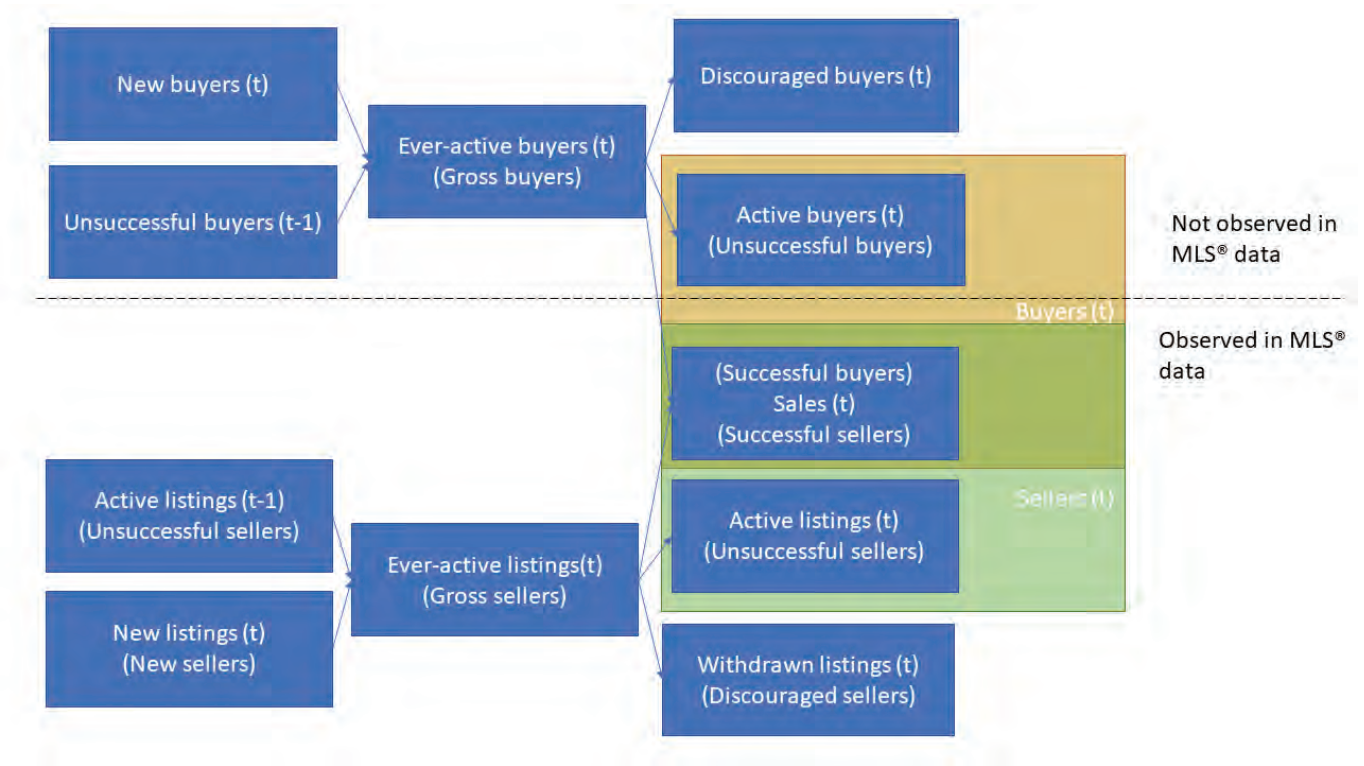
Rearranging (4) for $Buyers_{it}$ we get:

$$(5) Buyers_{it} = - \frac{ActiveListings_{it} * \ln(\frac{ActiveListings_{it}}{Sales_{it} + ActiveListings_{it}})}{A_i}$$

A key insight is a sale represents a successful buyer and a successful seller:

$$Sales_{it} = SuccessfulBuyers_{it} = SuccessfulSellers_{it}$$

> Flow chart of listings (Figure A2)



¹ <https://www.federalreserve.gov/econres/notes/feds-notes/housing-market-tightness-during-covid-19-increased-demand-or-reduced-supply-20210708.htm>

