REAL ESTATE BOARD OF GREATER VANCOUVER

The Real Estate Board of Greater Vancouver's

2023 H2 Residential Market Forecast Update

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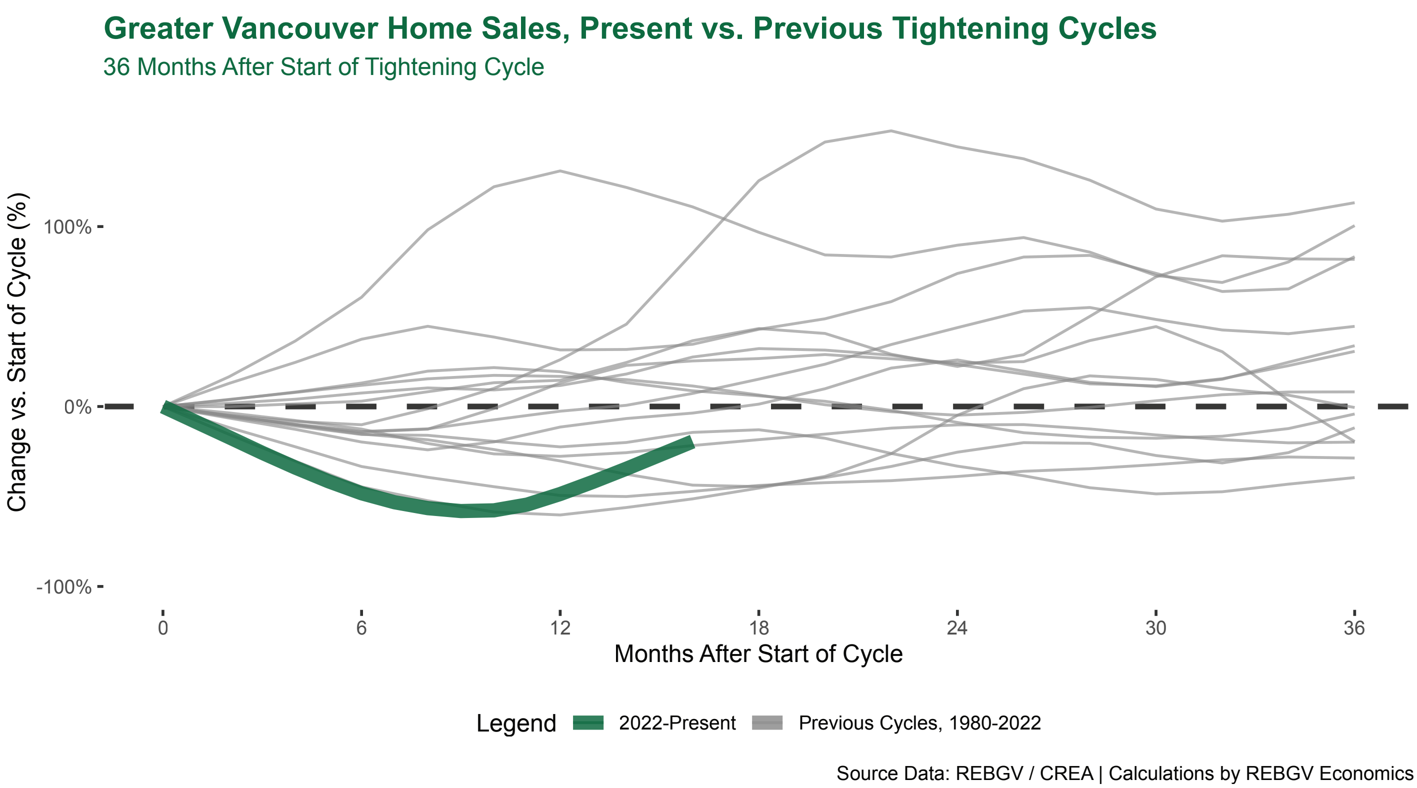
Shaking it off

Since we published the Real Estate Board of Greater Vancouver's (REBGV's) first-half (H1) forecast in January, Metro Vancouver's residential market has shown surprising resilience and strength, with the impact of the Bank of Canada's most recent tightening cycle beginning to fade into the backdrop of history.

While mortgage rates remain at levels not seen in over ten years, home sales have been relatively strong with sales activity nearing pre-tightening cycle levels – up from a decline of roughly fifty percent[1] relative to the beginning of the tightening cycle.



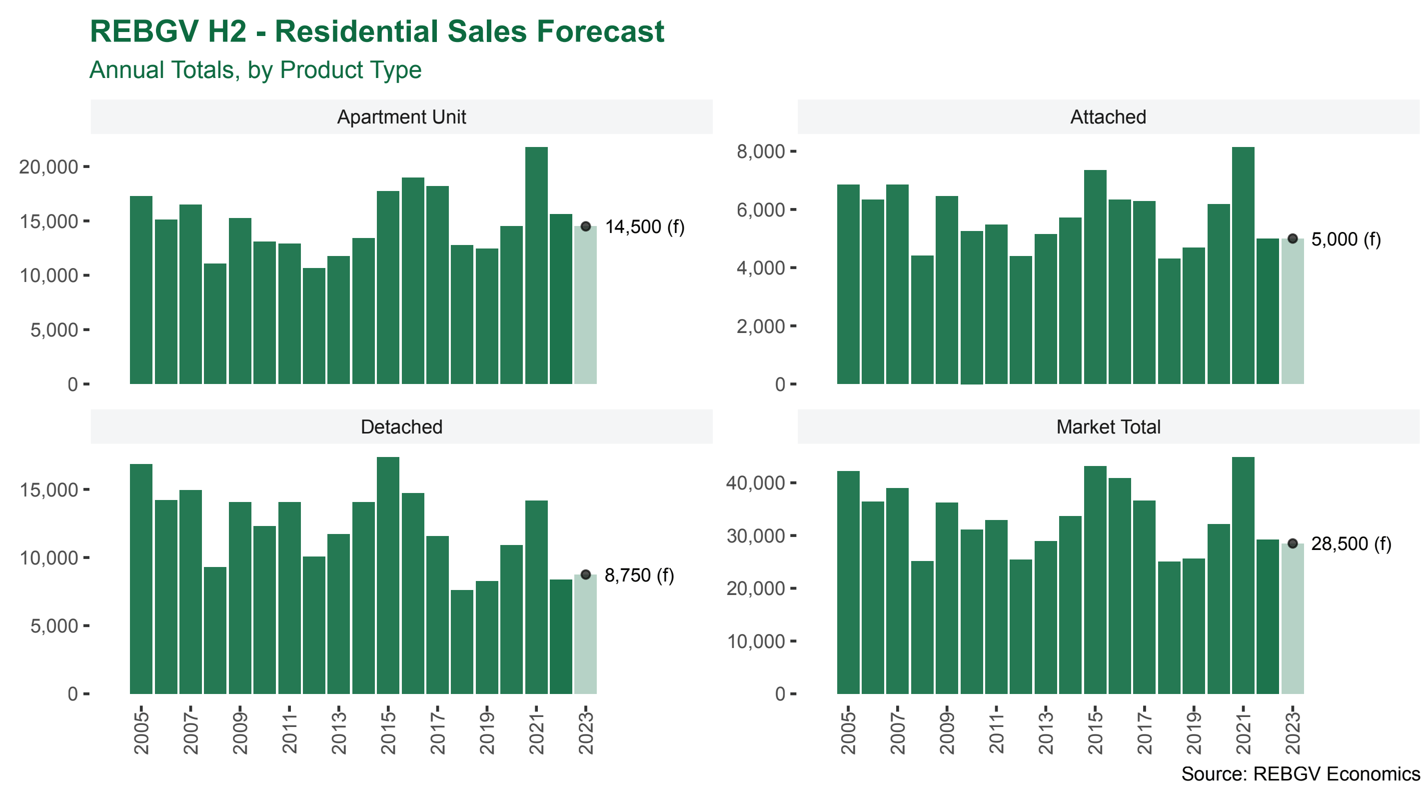
[1] Based on trended and seasonally adjusted data.

Sales Forecast

REBGV's H1 forecast predicted that sales across Metro Vancouver would reach approximately 28,500 by year-end 2023, representing a 2.6 per cent decrease over the 29,261 sales in 2022.

Year-to-date[2], sales across Metro Vancouver have totalled 19,280, versus the predicted total year-to-date of approximately 20,150.

With the actual number of sales falling just shy of the predicted year-to-date total by only 4.3 per cent, we believe our H1 forecast remains on-track and see no reason to revise the H1 sales forecast at this time.



The table below summarizes our sales forecasts by product type:

REBGV H2 Forecast - Residential Sales

	2022 Actual	2023 Forecast	% Change
Apartment	15,592	14,500	-7.0%
Attached	4,985	5,000	0.3%
Detached	8,392	8,750	4.3%
Market Total[1]	29,261	28,500	-2.6%

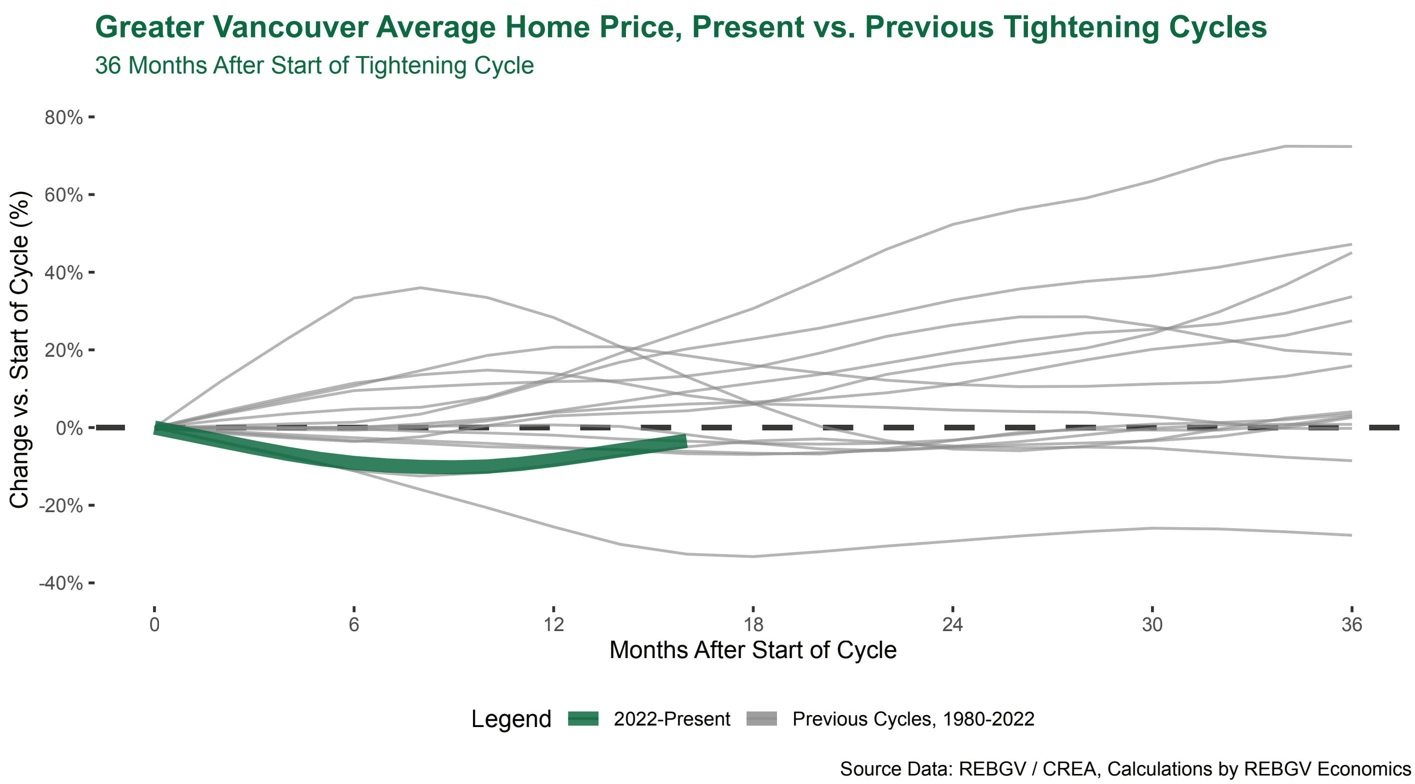
[1] Total includes Land and Multi-Family Revenue property transactions, not shown in this table.

Source: REBGV Economics

[2] Data to August 2023.

Priced to perfection

Home prices in Metro Vancouver's residential market have been on a steady increase since January, nearly erasing the approximate ten per cent decline arising from the Bank of Canada's historically significant increases to the policy rate.



While the price declines experienced over the past year have been among the most significant in the history of the data dating back to the early 1980s, the subsequent recovery in home prices has been among the fastest and strongest in the history of the data.

Home Price Forecasts

REBGV's H1 forecast predicted that the average price across all product types for REBGV would reach approximately $1.2m in 2023, which represents a 1.4 per cent increase over 2022.

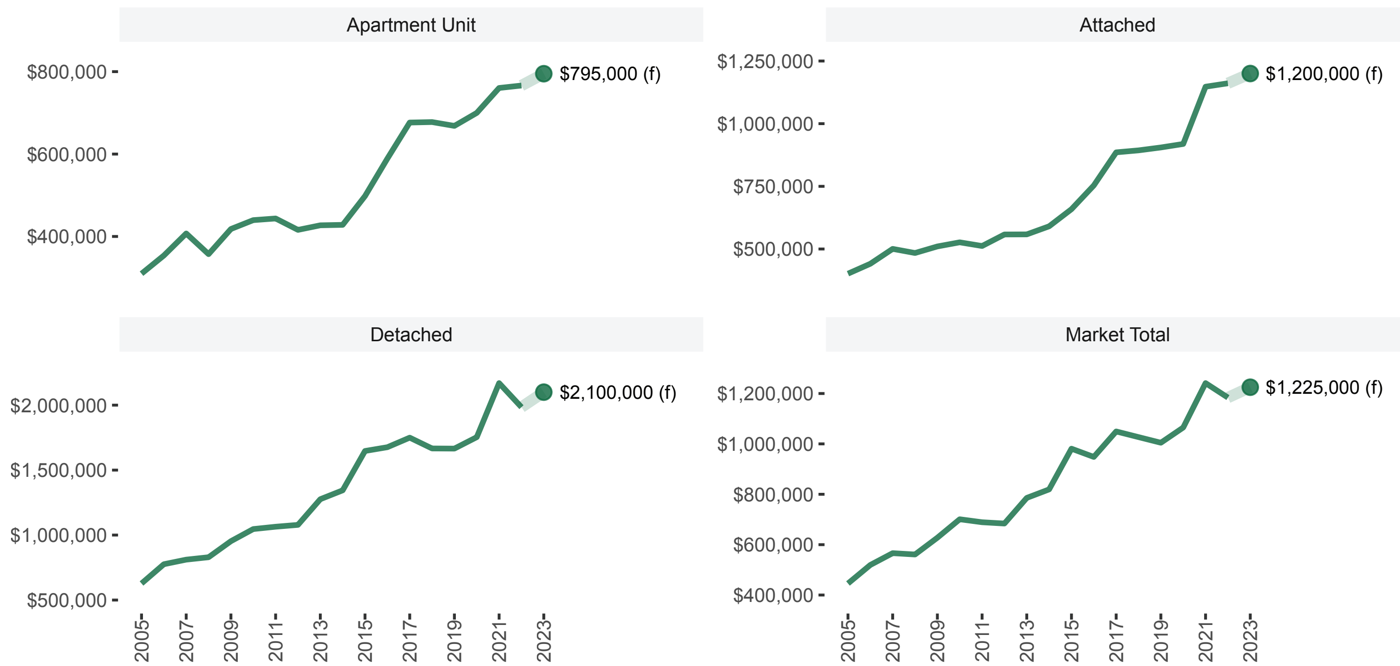
Despite the significant erosion of borrowing power due higher mortgage rates, home prices in Metro Vancouver have already exceeded our H1 forecast year-to-date, with the overall average price up roughly seven per cent since the start of 2023.

As noted in our H1 forecast, insufficient supply of resale inventory relative to the pool of willing (and qualified) buyers in the region remains a significant factor underpinning price growth in Metro Vancouver. While we have been surprised by the degree of price growth seen year-to-date in Metro Vancouver, we were not surprised to find that prices have been increasing.

Given that prices have already surpassed the year-end estimates from our H1 forecast, and that historically low levels of inventory are likely to remain an important factor buoying prices to year-end, we have revised our H1 price growth estimates modestly upwards.

REBGV H2 - Residential Average Price Forecast

At Year-End, by Product Type



Source: REBGV Economics

The table below provides a breakdown of the price forecasts by product type:

REBGV H2 Forecast - Residential Average Price

	2022 Actual	2023 Forecast	% Change
Apartment	$ 766,284	$ 795,000	3.7%
Attached	$ 1,161,145	$ 1,200,000	3.3%
Detached	$ 1,984,354	$ 2,100,000	5.8%
Market Total	$ 1,182,935	$ 1,225,000	3.6%

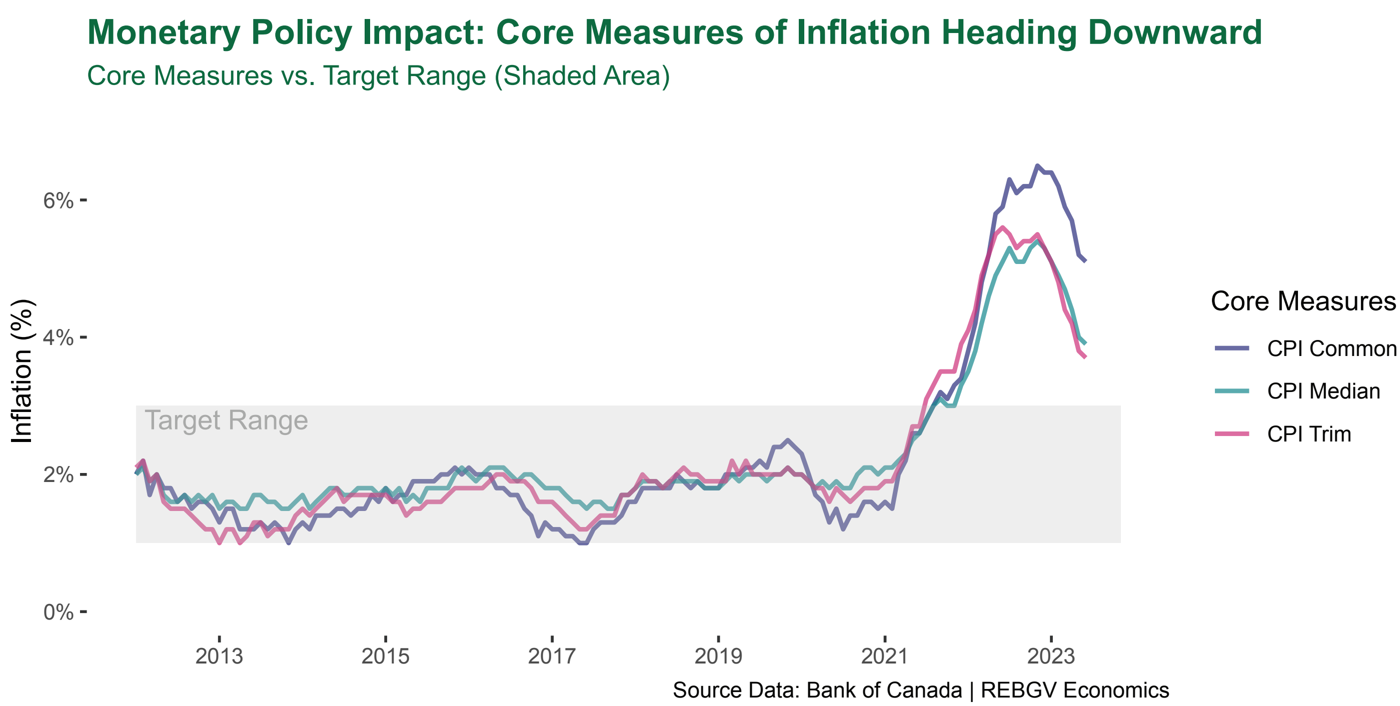
Source: REBGV Economics

Risks to the Forecasts

At the start of 2023, Consumer Price Inflation (CPI) in Canada had risen to the highest levels seen in decades and had yet to reflect the impact of the Bank of Canada's decision to significantly tighten monetary policy in an effort to tame inflation.

Eight months have since passed, and recent measurements of inflation in Canada have begun to show meaningful signs of decline, suggesting the actions taken by the Bank of Canada are having their desired effect.

Notably, the core measures of inflation[3] are now showing meaningful declines but have yet to reach the Bank of Canada's target range of between one and three per cent.



With inflation receding and monetary policy remaining restrictive, we believe the risk of "stagflation" identified in the H1 forecast is significantly diminished, and the primary risk we foresee is the possibility of economic recession due to overly restrictive monetary policy.

[3] The core measures strip out some of the most volatile components in the basket of goods from which CPI is measured, thus providing a more stable and meaningful measurement of the underlying trend in CPI.

Risk of Economic Recession

Monetary policy adjustments of the magnitude recently experienced in Canada can take long periods of time to reveal their full impacts. While it is undoubtedly a positive development that inflation is finally receding in Canada, the impact of higher interest rates still poses risks to the greater economy.

Tighter monetary policy tends to influence businesses and consumers to curtail expenditures, which historically has translated into a higher unemployment rate, lower consumption, and quite often, negative economic growth.

The puzzle facing many economists presently is the fact monetary policy remains highly restrictive by recent historical standards, yet the usual impacts associated[4] with this policy stance have not yet materialized in any significant way.

While there are many plausible theories as to why economic reality is not unfolding precisely as economic theory might predict, among the more plausible theories relates to fact the economic shock of COVID-19 was unlike any economic shocks observed in the past.

In particular, COVID-19 restrictions caused many households to refrain from "normal" day-to-day activities to avoid spreading the virus, which resulted in many households foregoing expenditures they might have normally made. As a result, household savings (in aggregate) rose to an historic level, and some economists posit that this buffer of "excess savings" is at least one factor staving off an economic recession.

Regardless of causality, many of the most pernicious effects of restrictive monetary policy seem to have been avoided for the time being. The question of how narrowly they have been avoided however, gives rise to the reasonably foreseeable risk of an economic recession.

If an economic recession were to occur, we believe the risks to the forecast are as follows:

Downside Risks

1. Sales could slow more significantly than forecast if the economy stalls and heads into recession, due to the reduction of economic activity.

2. Valuations could be lower than forecast if the recession is accompanied by significant job losses, and higher costs of borrowing, and possible further increases to the policy rate and/or mortgage rates.

[4] Higher unemployment, lower household consumption, negative economic growth,

Upside Risks

1. Sales activity and valuations could be higher than forecast if a recession continues to be avoided and inflation continues declining as expected, leading to modest reductions in the cost of borrowing. This scenario is often referred to as a “soft landing”.

2. Sales activity and valuations could be higher than forecast if a weak, or mild recession occurs and monetary policy is loosened to stimulate growth, leading to large reductions in the cost of borrowing.

About REBGV Economics

Headed by Andrew Lis, Director, Economics and Data Analytics, REBGV's Economics team focuses on delivering timely insights to members and the public through the provision of market analyses, forecasts, presentations, and other analytical products.

About this forecast

REBGV prepares an annual high-level residential market forecast twice per year, with release dates at the start of the first half (H1) and second half (H2) of the year, respectively. The initial (H1) forecast is updated in July/August (H2) to factor in the relative strength of spring market activity, as well as other economic factors that may have evolved since the initial forecast.

*Editor's Note: Areas covered by the Real Estate Board of Greater Vancouver include: Burnaby, Coquitlam, Maple Ridge, New Westminster, North Vancouver, Pitt Meadows, Port Coquitlam, Port Moody, Richmond, South Delta, Squamish, Sunshine Coast, Vancouver, West Vancouver, and Whistler.

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For media inquiries, please contact:

Craig Munn
V.P., Communication and Events
Real Estate Board of Greater Vancouver
604.730.3146
cmunn@rebgv.org

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