

Report prepared by economist WILL DUNNING. Views expressed by Will Dunning are his own and do not necessarily represent those of Landcor Data Corporation. Will Dunning operates a consulting firm that specializes in analysis of housing markets.

## BC Housing Market Overview

Government policies are once again weighing heavily on housing demand in British Columbia.

This winter, the provincial government announced a new speculation tax (in major urban centres). The tax rate starts at 0.5% of property value for 2018, and increases in 2019 to:

- 2% for foreign investors and satellite families;
- 1% for Canadian citizens and permanent residents who do not live in British Columbia; and
- 0.5% for British Columbians (Canadian citizens or permanent residents) who own a vacant second property (through the application of a tax credit, it is intended that for BC residents the tax will apply only to the portion of value above \$400,000).

The speculation tax is in addition to the previously-announced foreign buyers' tax. As of this year, the tax rate has been increased to 20% (from the initial 15% rate) and the geographic coverage has been expanded.

In addition, federal government policies now mandate that most new mortgages must be "stress tested" at interest rates that are about 2 percentage points above the actual contracted rates.

- Since late 2016, for insured mortgages, the stress testing must use the posted rates for 5-year fixed-rate mortgages, which are published by the Bank of Canada.
- Since the start of this year, for uninsured mortgages made by federally-regulated lenders, the stress testing must be at either 2 points above the contracted rate, or the 5-year posted rate, whichever is greater.
- During the first quarter of this year, the posted rate averaged 5.12% (it has increased further, and is now at 5.34%, as of May 9). Typical "special offer" rates (from major lenders) averaged 3.39% during the first quarter. Thus, most mortgages borrowers can now borrow much less than they can actually afford.

In addition, interest rates have increased: special offer rates for 5-year mortgages averaged 2.75% during 2015 and 2016, but rose to 3.39% in 2018-Q1.

As can be seen in Figure 1, housing activity in BC slowed sharply in the wake of the initial announcement of the foreign buyers' tax (during the three-quarters from 2016-Q4 to 2017-Q2), but then staged a recovery during the second half of 2017. The combination of higher interest rates and the barrage of federal and provincial policies has resulted in another sharp drop in the sales rate. For 2018-Q1, actual sales totalled 21,270 units, which equates to 27,700 on a seasonally-adjusted basis. This is the weakest performance in three years. (In these charts, the lines labelled "Poly." are trend lines generated by Excel.)

Looking across the entire history shown in Figure 1, the average sales rate is 30,100, so for 2018-Q1, sales were 8% below average.

BC Housing Market Overview (cont'd)

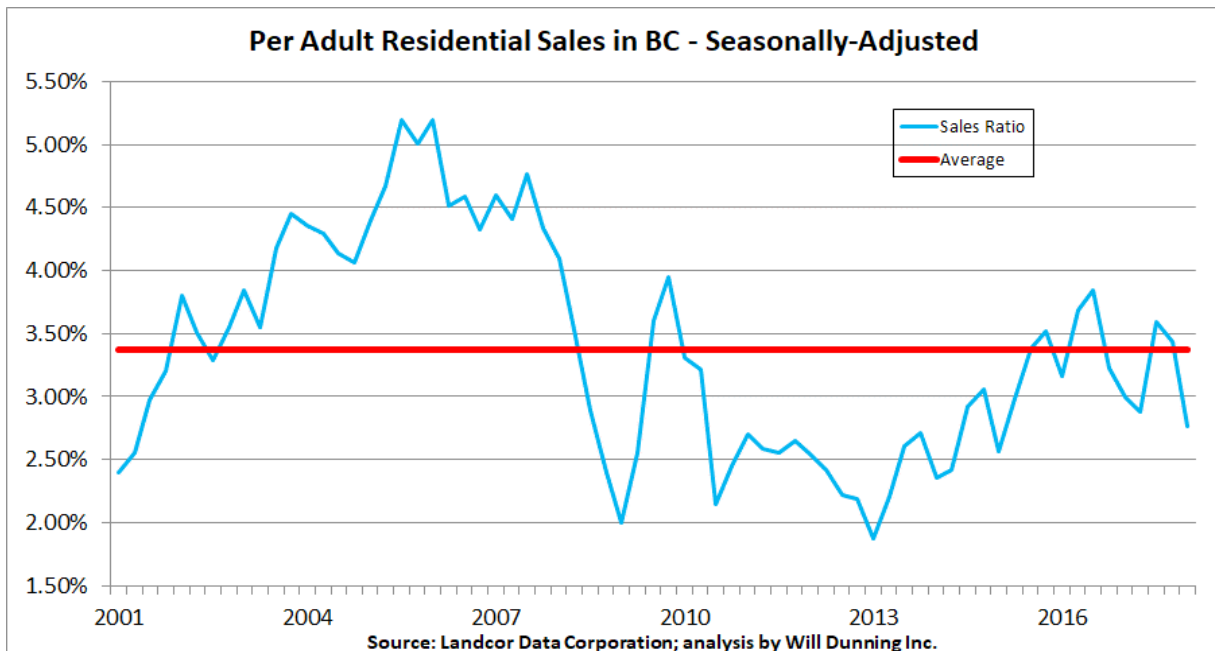
**Figure 1**



We should expect that sales will trend upwards over time, because the population is growing (and therefore there are more people who could potentially buy homes) and the total stock of housing is expanding (and therefore there are more homes that could potentially be sold).

Therefore, it is useful to look at sales on a per person basis. Figure 2 does that. It shows that for 2018-Q1, the per adult sales rate was 2.76%. By contrast, the average over the entire period is 3.37% (shown by the flat red line). The current sales rate is 18% below average. By this measure, home buying activity in BC is now quite weak.

**Figure 2**



## BC Housing Market Overview (cont'd)

Taking a quick look at some key factors:

- As has been mentioned, mortgage interest rates have increased (see Figure 3). Rates for variable rate mortgages have also increased to 2.92% in 2018-Q1 versus an average of 2.33% during 2015 and 2016. Higher interest rates, combined with sharply higher house prices, are now impacting on affordability (this is discussed in more detail, below).
- On the positive side, job creation was quite strong during mid-2015 until mid-2017. Jobs were being created more rapidly than the population was growing, which means that an increasing share of the population have jobs (see Figure 4). Although the estimated employment rate has not increased recently, the higher level is very positive for housing demand.
- In addition, population growth is also rapid in historic terms (see Figure 5).

Looking forward, the factors and the outlook are essentially the same as I discussed in the previous edition of this report:

- It takes time for job creation to translate into housing demand. The rapid job growth that has occurred since mid-2015 should provide positive momentum for housing sales, and we would normally expect sales to increase this year.
- Population growth is also a strongly positive factor that should result in increased sales.

But, there are three negative factors.

1. The first of these, is, of course, higher interest rates.
2. The second negative factor is the duo of mortgage stress tests (the tests for insured mortgages and uninsured mortgages from federally-regulated lenders). About 80% of all home purchases will be subject to a stress test. Most home buyers will be able to pass the stress tests. And, even among those who would fail for their “preferred” home purchases, a substantial proportion should be able to adjust their expectations and purchase a less-expensive property. But, some potential buyers will be knocked out of the market.

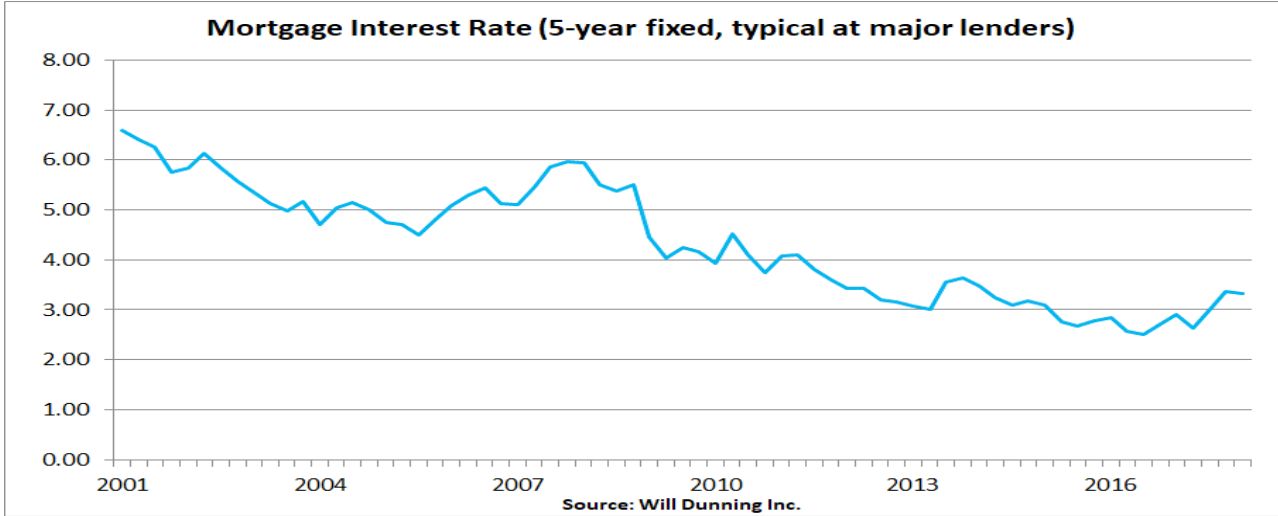
Nation-wide, I expect that the combination of higher interest rates and the stress tests will reduce sales activity by 12% to 15% this year, compared to what would occur otherwise.

3. For BC, there is the third negative factor - the evolving rules concerning purchases by non-residents and the speculation tax. These changes will reduce buying to some extent, but resident buyers will often take their place. In addition, more properties will be offered for sale by non-resident owners, which would mean more opportunities for purchases by residents.

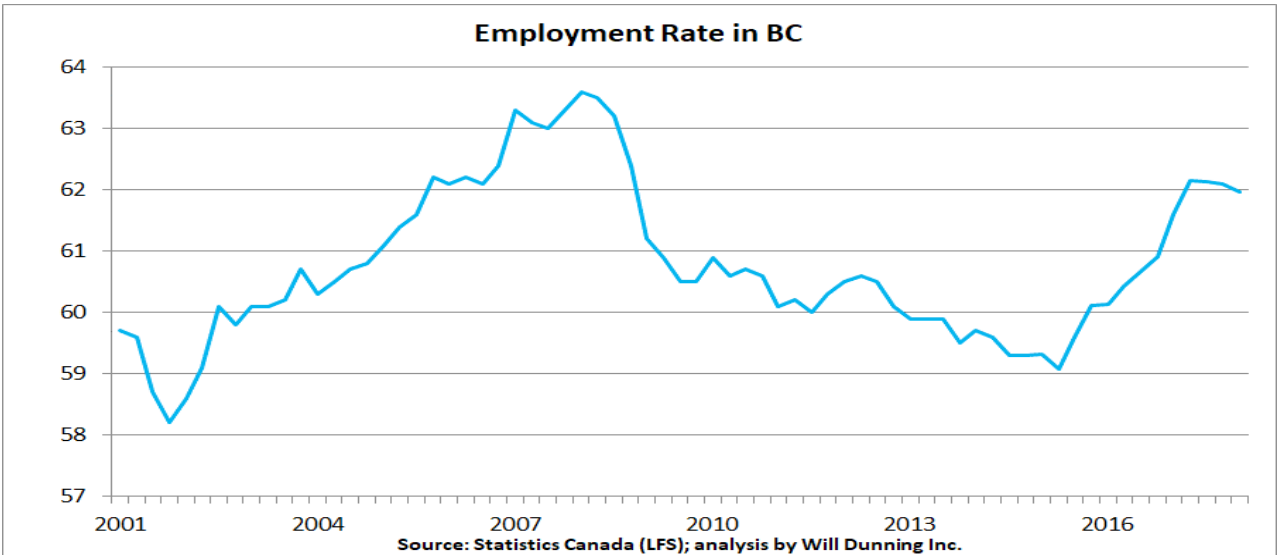
For 2017, Landcor’s data shows total residential sales at about 128,500. Based on the economic factors (the positives of job creation and population growth, and the negative factor of higher interest rates) activity should be the same or increase slightly this year. But, because of the policy factors (the stress tests and the non-resident and speculation taxes), sales will be suppressed: I expect that total sales in 2018 will be in the area of 105,000 to 110,000, a drop of 14% to 18%.

## BC Housing Market Overview (cont'd)

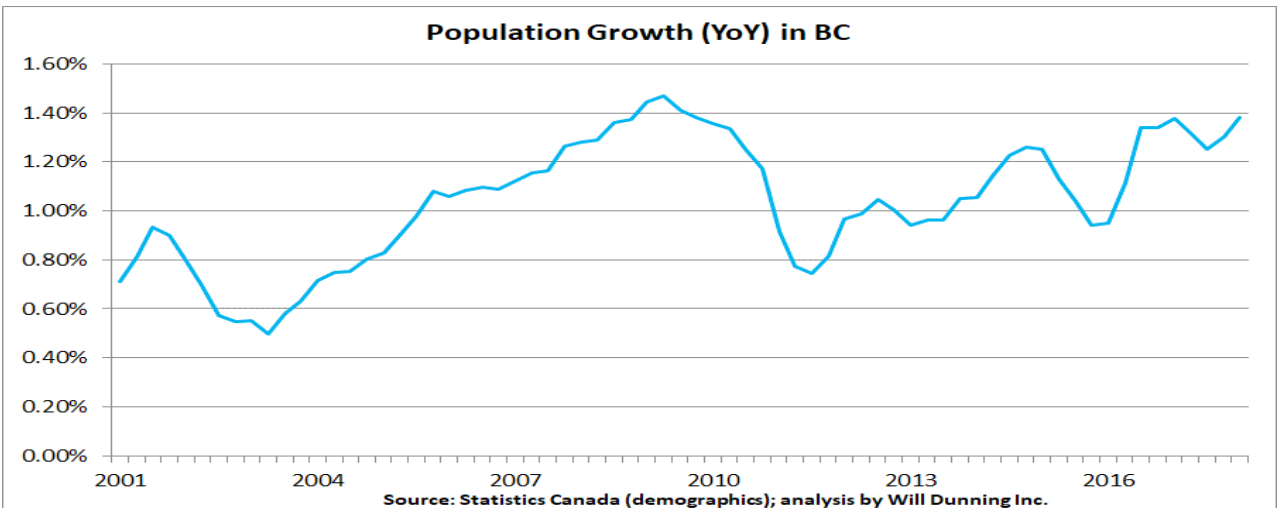
**Figure 3**



**Figure 4**



**Figure 5**



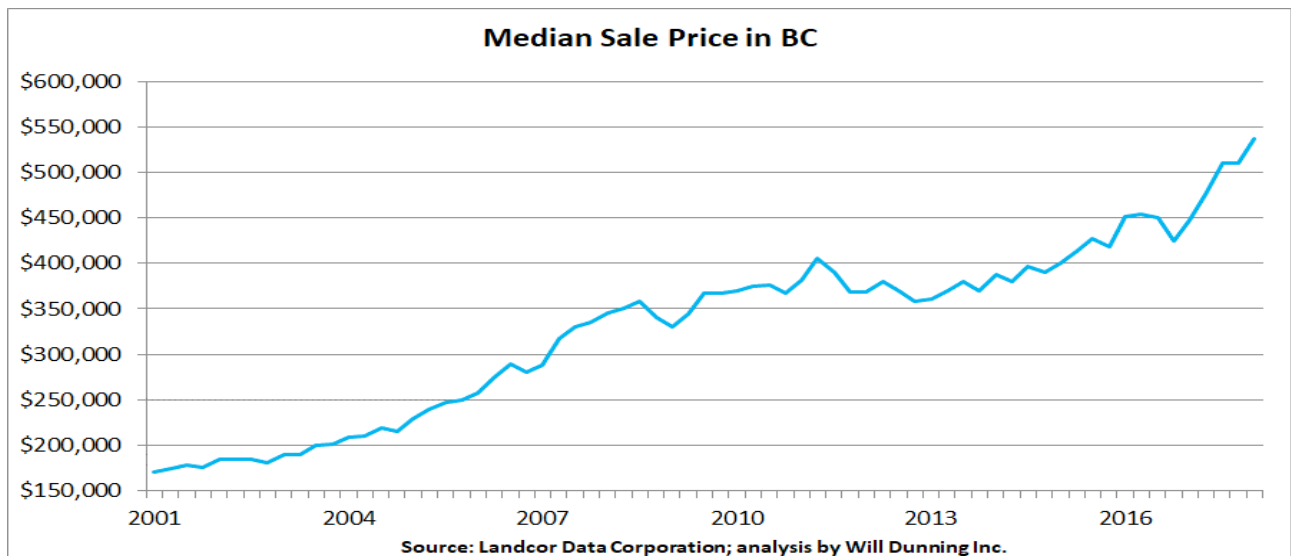
## BC Housing Market Overview (cont'd)

### Prices

The median sale price jumped during 2018-Q1, to \$537,000 from \$510,000 in 2017-Q4. It was also up by 19.9% compared to a year ago (see Figure 6). However, this has been influenced by a change in “composition” (the locations and types of homes sold). A slightly different picture is obtained by looking across the regions, for just detached homes. This shows continued price growth (although at a less rapid rate). The year-over-year increases (as of 2018-Q1) were:

- Greater Vancouver: 7.5%
- Vancouver Island: 12.3%
- Kootenay: 0.5%
- Okanagan: 10.0%
- Fraser Valley: 20.2%
- North/Northwest BC: 4.6%

**Figure 6**

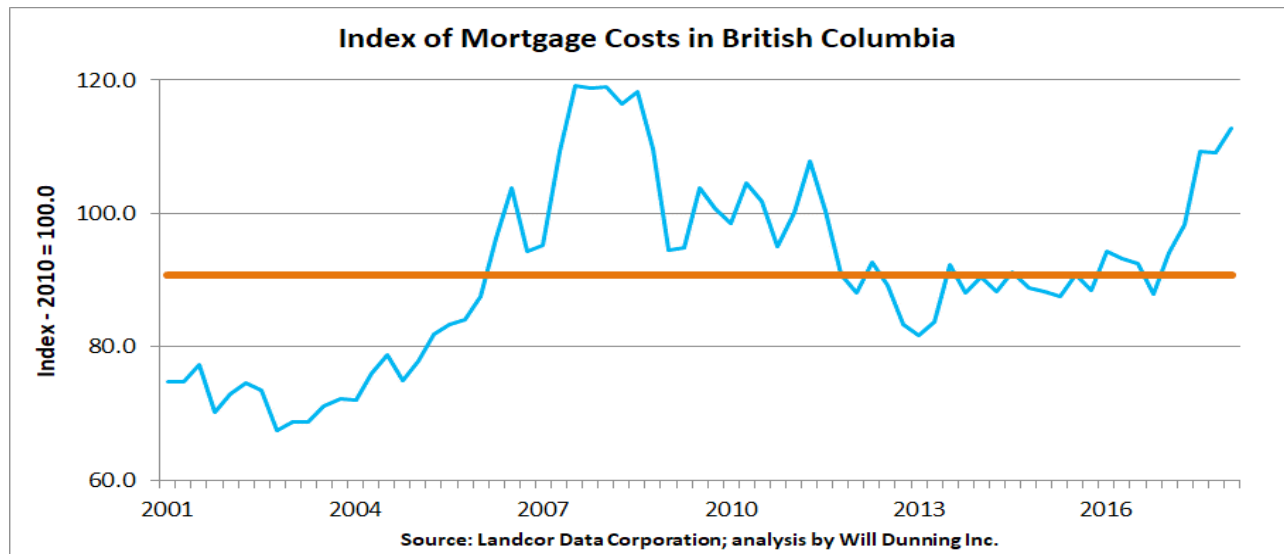


## Changing Affordability

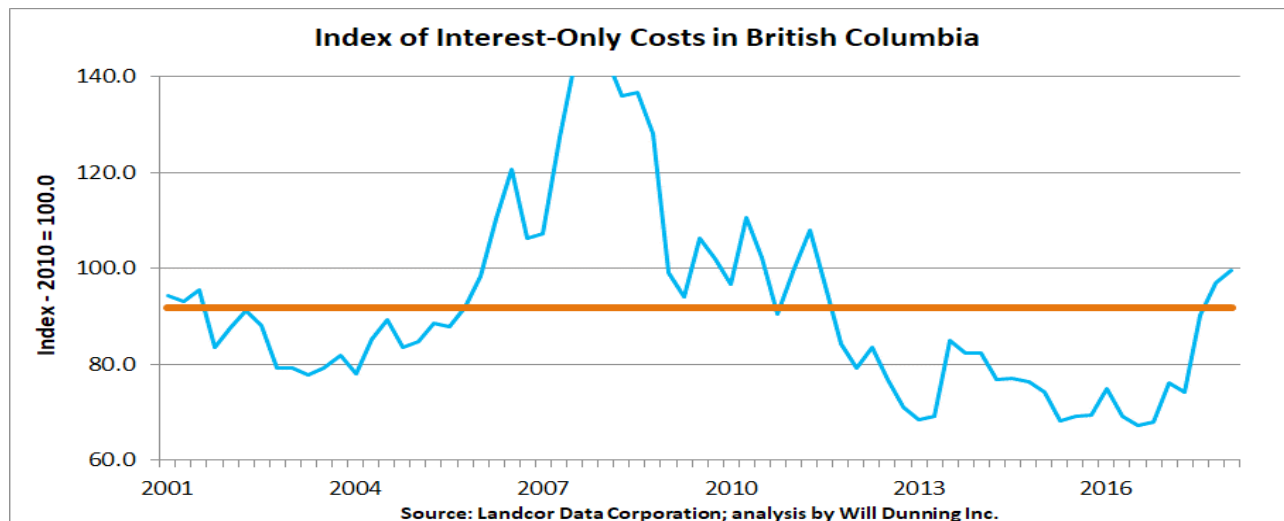
The first chart below (Figure 7) provides an index of affordability for median priced homes in BC (this is based on a calculation of mortgage costs versus incomes; the wide orange line shows the average for the entire period). The chart shows that affordability had been quite close to the average level, but recent increases in interest rates have brought a rapid deterioration. At present, affordability is close to its worst-ever level (for the period since 2001 – affordability might have been even worse in the early 1980s, but the necessary data isn't available).

It must be remembered that mortgage payments result in rapid repayment of mortgage principal, which can be seen as a form of savings. For a consumer who thinks about this carefully, the cost of finance is the interest component of the payment, and the principal part of the payment should be excluded from the calculations. Figure 8 shows the result of that approach. This indicates that until recently affordability was extremely good in BC, and the recent deterioration means that affordability is now just slightly worse than the long-term average. Of course, conditions will vary depending on locations, and also depending on the circumstances of individual consumers. For the province as a whole, affordability is still a reasonably favourable factor, although it is much less favourable than it had had been during 2012 until mid-2017.

**Figure 7**



**Figure 8**





## Regional Variations

Landcor's data shows that during 2018-Q1, residential sales were 6.6% lower than a year earlier. As is shown in the table, reductions were greatest in Greater Vancouver and Vancouver Island. Okanagan and Fraser Valley saw smaller drops. BC North/Northwest and Kootenay actually saw increases.

In consequence, there were shifts for the shares of the provincial total (reductions in Greater Vancouver and Vancouver Island, and increases for the four other regions).

<b>Residential Sales in British Columbia, by Region, 2017-Q1 and 2018-Q1</b>					
<i>Region</i>	<i>Quarterly Sales</i>		<i>% Change</i>	<i>Share of BC</i>	
	<i>2017-Q1</i>	<i>2018-Q1</i>		<i>2017-Q1</i>	<i>2018-Q1</i>
Greater Vancouver	10,230	9,156	-10.5%	44.9%	43.0%
Vancouver Island	4,286	3,931	-8.3%	18.8%	18.5%
Kootenay	658	694	5.5%	2.9%	3.3%
Okanagan	3,169	3,061	-3.4%	13.9%	14.4%
Fraser Valley	3,324	3,235	-2.7%	14.6%	15.2%
BC North/Northwest	1,115	1,193	7.0%	4.9%	5.6%
BC Total	22,782	21,270	-6.6%	100.0%	100.0%
Source: Landcor Data Corporation					
Note: Figures may vary from other published data due to on-going revisions.					



Will Dunning has been analyzing housing markets since 1982. His consulting firm provides custom analysis to clients in the private, public, and non-governmental sectors. His website is [www.wdunning.com](http://www.wdunning.com)

# BC Residential Sales Summary for Q1, 2018

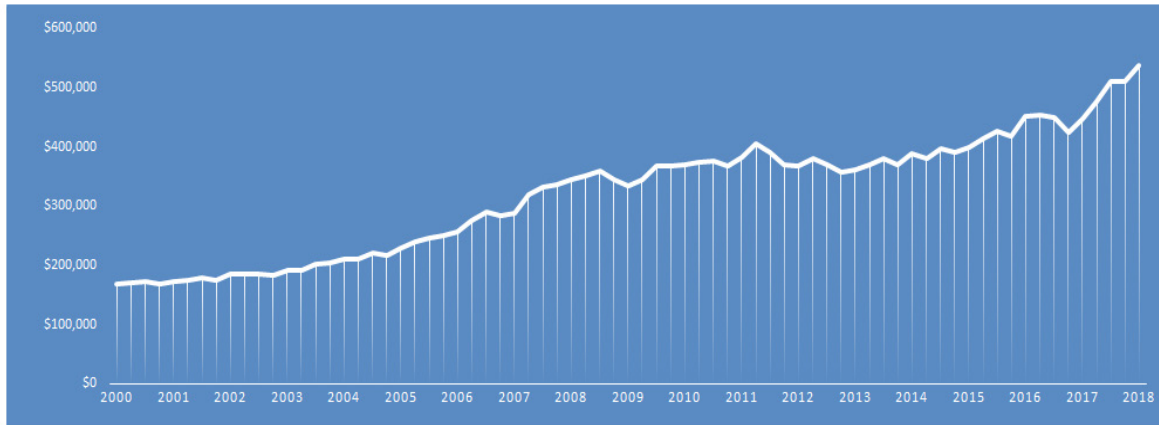
Landcor’s quarterly residential sales summary reports on property sale values in British Columbia. Providing sales information on a regional level, the report compares average and median pricing for different property types.

<sup>1</sup>% change Q1’2018-Q4’2017    <sup>2</sup>% change Q1’2018-Q1’2017

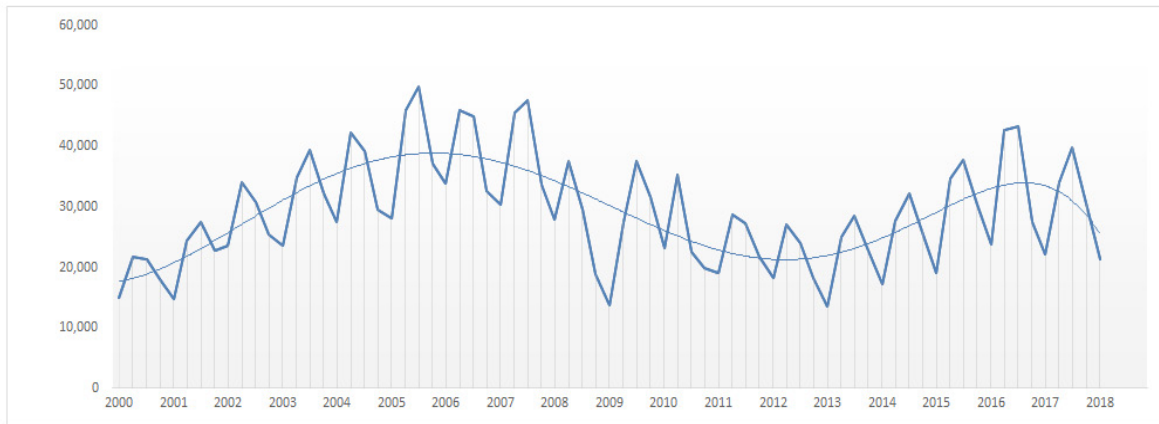
## British Columbia - All

Quarterly Sales		Q1 2018	Q4 2017	% Chg <sup>1</sup>	Q1 2017	% Chg <sup>2</sup>
Number of Sales		21,270	30,232	-29.64%	22,782	-6.64%
Total Value of Sales		\$15.38B	\$20.89B	-26.36%	\$14.76B	4.23%
Detached	Average	\$971,054	\$918,546	5.72%	\$882,759	10.00%
	Median	\$738,000	\$679,000	8.69%	\$635,000	16.22%
Condo	Average	\$557,676	\$513,275	8.65%	\$481,161	15.90%
	Median	\$461,250	\$445,900	3.44%	\$372,900	23.69%
Attached	Average	\$624,513	\$623,757	0.12%	\$536,013	16.51%
	Median	\$561,735	\$545,000	3.07%	\$465,000	20.80%

## Median Sale Prices - British Columbia ALL



## Sales Counts - British Columbia ALL





<sup>1</sup>% change Q1'2018-Q4'2017 <sup>2</sup>% change Q1'2018-Q1'2017 <sup>3</sup>% change month to previous month

### Region: Greater Vancouver

Quarterly Sales		Q1 2018	Q4 2017	% Chg <sup>1</sup>	Q1 2017	% Chg <sup>2</sup>
Number of Sales		9,156	13,455	-31.95%	10,230	-10.50%
Total Value of Sales		\$9.42B	\$12.89B	-26.89%	\$9.20B	2.42%
Detached	Average	1,688,883	1,692,352	-0.20%	\$1,580,154	6.88%
	Median	1,337,000	1,348,000	-0.82%	\$1,244,050	7.47%
Condo	Average	676,973	597,023	13.39%	\$562,508	20.35%
	Median	562,375	518,900	8.38%	\$432,000	30.18%
Attached	Average	810,646	811,905	-0.16%	\$692,536	17.05%
	Median	693,000	680,000	1.91%	\$594,450	16.58%

Monthly Sales		March	February	% Chg <sup>1</sup>	January	% Chg <sup>3</sup>
Number of Sales		2,851	2,575	10.72%	3,730	-23.57%
Total Value of Sales		\$3.00B	\$2.70B	11.00%	\$3.72B	-19.32%
Detached	Average	1,672,411	1,735,131	-3.61%	\$1,669,242	0.19%
	Median	1,320,800	1,350,000	-2.16%	\$1,336,000	-1.14%
Condo	Average	704,938	659,189	6.94%	\$668,301	5.48%
	Median	571,500	570,000	0.26%	\$550,000	3.91%
Attached	Average	806,530	787,430	2.43%	\$831,557	-3.01%
	Median	698,500	699,900	-0.20%	\$687,750	1.56%

### Region: Vancouver Island

Quarterly Sales		Q1 2018	Q4 2017	% Chg <sup>1</sup>	Q1 2017	% Chg <sup>2</sup>
Number of Sales		3,931	5,306	-25.91%	4,286	-8.28%
Total Value of Sales		\$1.97B	\$2.77B	-28.98%	\$2.03B	-2.97%
Detached	Average	626,839	618,816	1.30%	\$578,795	8.30%
	Median	560,000	545,400	2.68%	\$498,750	12.28%
Condo	Average	365,169	365,355	-0.05%	\$351,650	3.84%
	Median	340,000	335,000	1.49%	\$310,000	9.68%
Attached	Average	461,223	442,299	4.28%	\$409,121	12.74%
	Median	419,888	402,740	4.26%	\$371,500	13.03%

Monthly Sales		March	February	% Chg <sup>1</sup>	January	% Chg <sup>3</sup>
Number of Sales		1,396	1,154	20.97%	1,381	1.09%
Total Value of Sales		\$0.70B	\$0.56B	26.28%	\$0.71B	-1.01%
Detached	Average	641,554	608,730	5.39%	\$626,646	2.38%
	Median	575,000	549,450	4.65%	\$550,000	4.55%
Condo	Average	371,464	341,992	8.62%	\$378,598	-1.88%
	Median	342,500	316,000	8.39%	\$364,450	-6.02%
Attached	Average	470,047	470,452	-0.09%	\$442,705	6.18%
	Median	429,000	401,426	6.87%	\$410,000	4.63%

<sup>1</sup>% change Q1'2018-Q4'2017   <sup>2</sup>% change Q1'2018-Q1'2017   <sup>3</sup>% change month to previous month

### Region: Kootenay

Quarterly Sales		Q1 2018	Q4 2017	% Chg <sup>1</sup>	Q1 2017	% Chg <sup>2</sup>
Number of Sales		694	1,147	-39.49%	658	5.47%
Total Value of Sales		\$188.21M	\$313.43M	-39.95%	\$169.34M	11.15%
Detached	Average	338,405	360,451	-6.12%	\$342,492	-1.19%
	Median	301,500	321,700	-6.28%	\$300,000	0.50%
Condo	Average	192,145	190,489	0.87%	\$185,949	3.33%
	Median	189,546	180,000	5.30%	\$169,047	12.13%
Attached	Average	319,357	302,410	5.60%	\$296,869	7.57%
	Median	308,000	277,450	11.01%	\$249,500	23.45%

Monthly Sales		March	February	% Chg <sup>1</sup>	January	% Chg <sup>3</sup>
Number of Sales		261	203	28.57%	230	13.48%
Total Value of Sales		\$75.37M	\$58.98M	27.80%	\$53.86M	39.94%
Detached	Average	334,256	356,194	-6.16%	\$324,446	3.02%
	Median	300,000	302,500	-0.83%	\$303,000	-0.99%
Condo	Average	200,033	184,330	8.52%	\$190,026	5.27%
	Median	195,600	155,500	25.79%	\$192,000	1.88%
Attached	Average	321,836	365,959	-12.06%	\$275,530	16.81%
	Median	326,736	340,000	-3.90%	\$253,250	29.02%

### Region: Okanagan

Quarterly Sales		Q1 2018	Q4 2017	% Chg <sup>1</sup>	Q1 2017	% Chg <sup>2</sup>
Number of Sales		3,061	4,489	-31.81%	3,169	-3.41%
Total Value of Sales		\$1.33B	\$1.93B	-31.21%	\$1.31B	1.87%
Detached	Average	577,996	555,587	4.03%	\$534,738	8.09%
	Median	519,000	500,000	3.80%	\$472,000	9.96%
Condo	Average	310,336	295,892	4.88%	\$280,545	10.62%
	Median	298,500	284,950	4.76%	\$255,000	17.06%
Attached	Average	387,293	393,360	-1.54%	\$365,494	5.96%
	Median	374,000	369,900	1.11%	\$345,000	8.41%

Monthly Sales		March	February	% Chg <sup>1</sup>	January	% Chg <sup>3</sup>
Number of Sales		1,100	905	21.55%	1,056	4.17%
Total Value of Sales		\$485.47M	\$411.68M	17.92%	\$432.67M	12.20%
Detached	Average	584,200	579,848	0.75%	\$569,485	2.58%
	Median	525,000	519,000	1.16%	\$514,000	2.14%
Condo	Average	328,096	306,774	6.95%	\$297,413	10.32%
	Median	310,000	287,000	8.01%	\$295,999	4.73%
Attached	Average	412,915	382,390	7.98%	\$365,569	12.95%
	Median	402,500	362,038	11.18%	\$350,000	15.00%

<sup>1</sup>% change Q1'2018-Q4'2017 <sup>2</sup>% change Q1'2018-Q1'2017 <sup>3</sup>% change month to previous month

### Region: Fraser Valley

Quarterly Sales		Q1 2018	Q4 2017	% Chg <sup>1</sup>	Q1 2017	% Chg <sup>2</sup>
Number of Sales		3,235	4,110	-21.29%	3,324	-2.68%
Total Value of Sales		\$2.20B	\$2.57B	-14.28%	\$1.79B	23.48%
Detached	Average	941,117	869,462	8.24%	\$774,791	21.47%
	Median	799,000	749,900	6.55%	\$665,000	20.15%
Condo	Average	310,440	300,797	3.21%	\$271,985	14.14%
	Median	305,050	295,000	3.41%	\$249,900	22.07%
Attached	Average	517,466	497,309	4.05%	\$429,516	20.48%
	Median	514,900	495,000	4.02%	\$425,328	21.06%

Monthly Sales		March	February	% Chg <sup>1</sup>	January	% Chg <sup>3</sup>
Number of Sales		1,147	930	23.33%	1,158	-0.95%
Total Value of Sales		\$0.79B	\$0.63B	26.54%	\$0.79B	0.54%
Detached	Average	939,308	894,005	5.07%	\$983,066	-4.45%
	Median	810,000	785,600	3.11%	\$795,500	1.82%
Condo	Average	319,705	312,054	2.45%	\$299,097	6.89%
	Median	319,000	300,000	6.33%	\$299,900	6.37%
Attached	Average	534,435	527,138	1.38%	\$495,597	7.84%
	Median	525,000	529,900	-0.92%	\$490,000	7.14%

### Region: BC North / NW

Quarterly Sales		Q1 2018	Q4 2017	% Chg <sup>1</sup>	Q1 2017	% Chg <sup>2</sup>
Number of Sales		1,193	1,725	-30.84%	1,115	7.00%
Total Value of Sales		\$268.37M	\$408.88M	-34.36%	\$268.55M	-0.07%
Detached	Average	292,817	295,121	-0.78%	\$295,646	-0.96%
	Median	285,000	277,750	2.61%	\$272,500	4.59%
Condo	Average	143,184	195,837	-26.89%	\$204,150	-29.86%
	Median	116,500	198,900	-41.43%	\$241,750	-51.81%
Attached	Average	218,217	216,496	0.80%	\$245,054	-10.95%
	Median	209,900	224,750	-6.61%	\$253,500	-17.20%

Monthly Sales		March	February	% Chg <sup>1</sup>	January	% Chg <sup>3</sup>
Number of Sales		453	334	35.63%	406	11.58%
Total Value of Sales		\$103.06M	\$74.35M	38.61%	\$90.97M	13.29%
Detached	Average	294,728	296,336	-0.54%	\$287,968	2.35%
	Median	289,000	281,500	2.66%	\$282,000	2.48%
Condo	Average	139,923	150,179	-6.83%	\$138,153	1.28%
	Median	126,813	127,500	-0.54%	\$97,500	30.06%
Attached	Average	236,745	203,204	16.51%	\$216,184	9.51%
	Median	214,900	191,000	12.51%	\$194,250	10.63%

## A message from our President

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Landcor's database includes:

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- Sales transaction data for BC, including prices updated weekly,
- Geographic location data used in reports

Rudy Nielsen, RI, FRI  
President & Founder



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