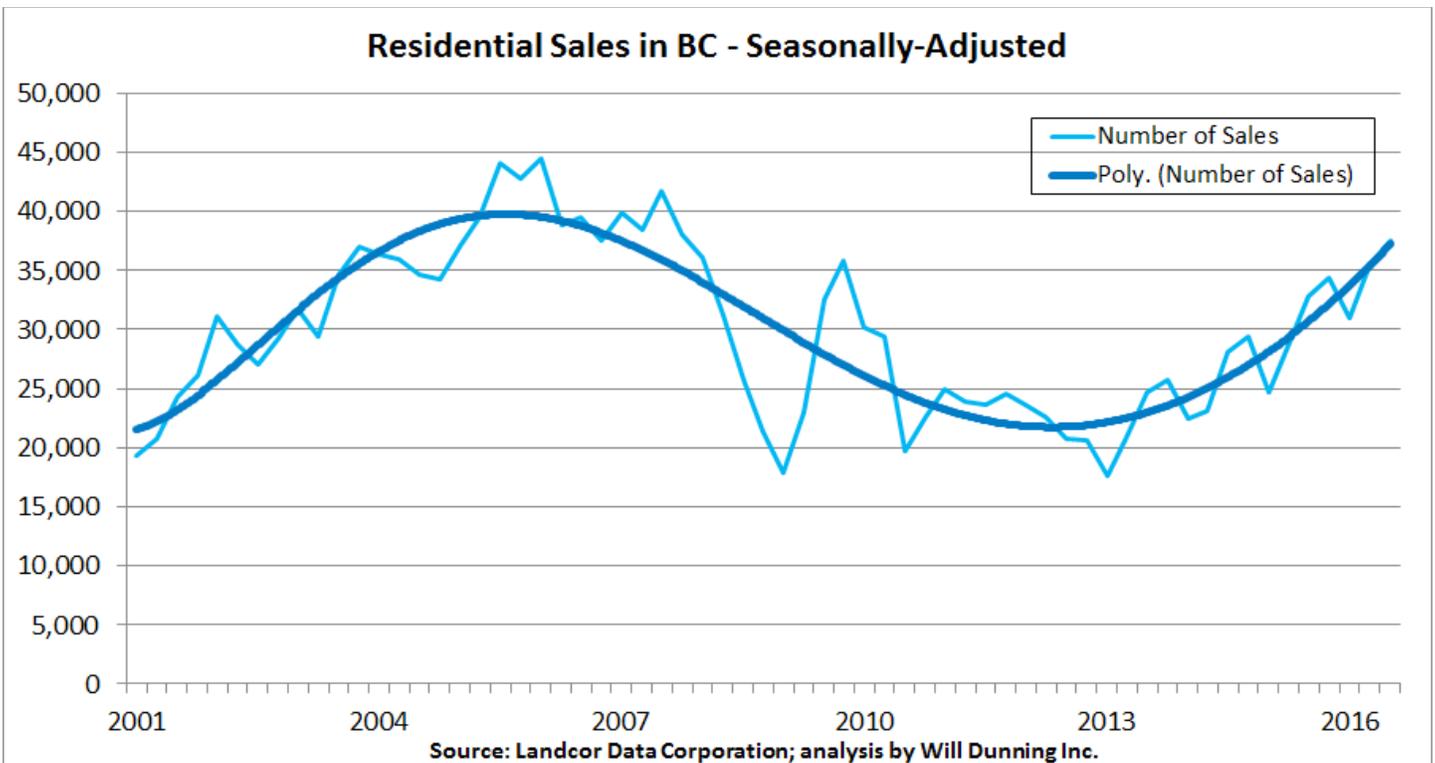


Report prepared by economist WILL DUNNING. Views expressed by Will Dunning are his own and do not necessarily represent those of Landcor Data Corporation. Will Dunning operates a consulting firm that specializes in analysis of housing markets.

## BC Housing Market Overview

Confession time: I was surprised, and big time, by the market data for the third quarter. Watching from afar (Etobicoke, Ontario) I had been expecting that there would be a big drop. The 15% foreign buyers' tax would sharply reduce activity in Vancouver. A portion of the reduction would be pushed to other areas within the province. The result would be a drop for total activity.

Yet, Landcor's data for the third quarter of 2016 shows continued growth. The 43,223 transactions equated to 37,600 on a seasonally-adjusted basis. This is 5.5% higher than the rate for the second quarter. And. It is the highest seasonally-adjusted rate since the fourth quarter of 2007. (In this chart, the fat blue line is a trend generated by Excel. That trend has been rising since early 2012.)

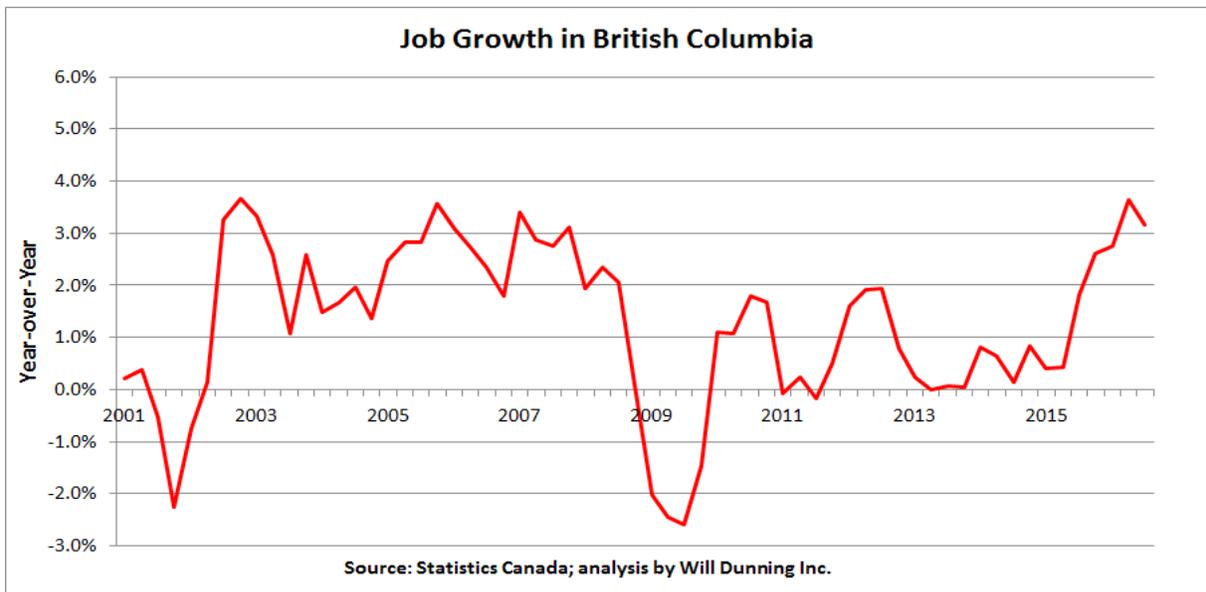


## BC Housing Market Overview (cont'd)

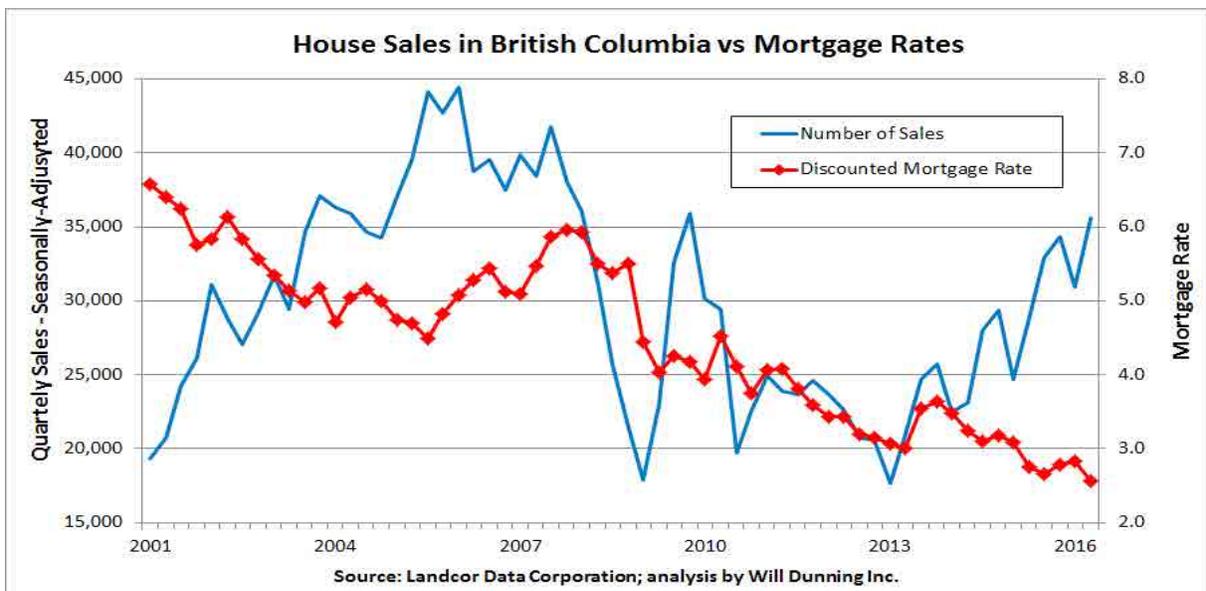
Well, I got over the initial surprise, and the numbers are starting to make sense.

The fundamentals in BC are excellent.

The province has been experiencing rapid job creation during the past year and a half, at an annualized rate of 3%. For all of Canada, on the other hand, the rate is just 1%. Even in Ontario, which should be benefitting from the drop in the price of oil and the weaker Canadian dollar, the growth rate is just 2% for the same period. The strong employment situation is encouraging BC residents to get into the housing market. Moreover, it is encouraging people to move to BC from other provinces.

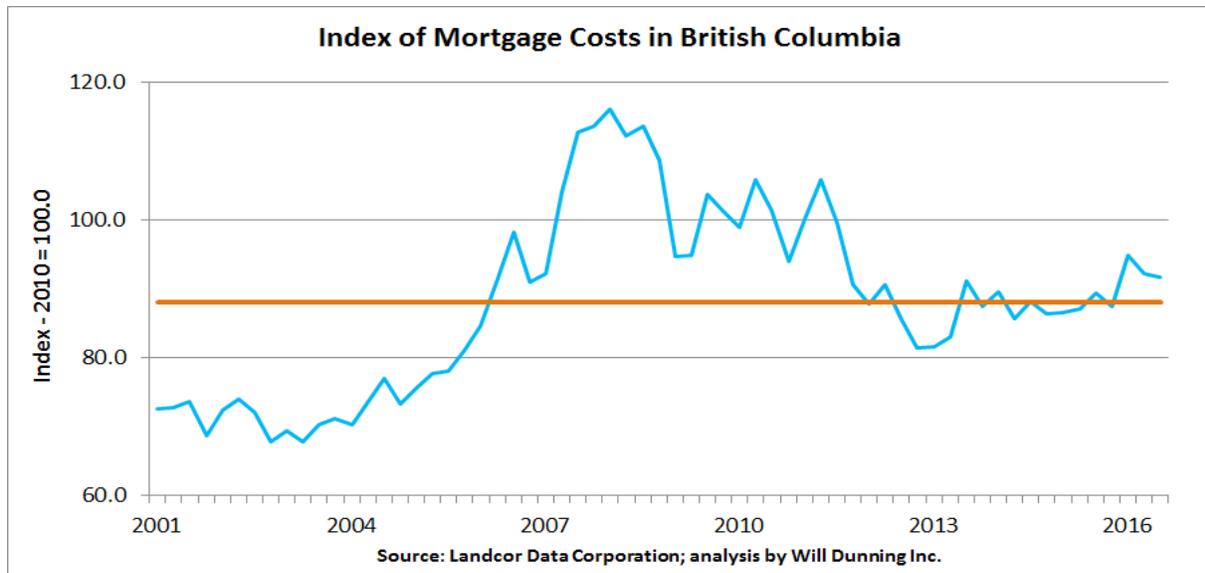


In addition, continued declines in interest rates have meant that for people who have recently found jobs, housing affordability is very positive. During the third quarter, major lenders were offering 2.5% for 5-year fixed rate mortgages. Some smaller lenders were offering even lower rates. This chart illustrates that during the past three years, falling mortgage interest rates have resulted in stronger sales.

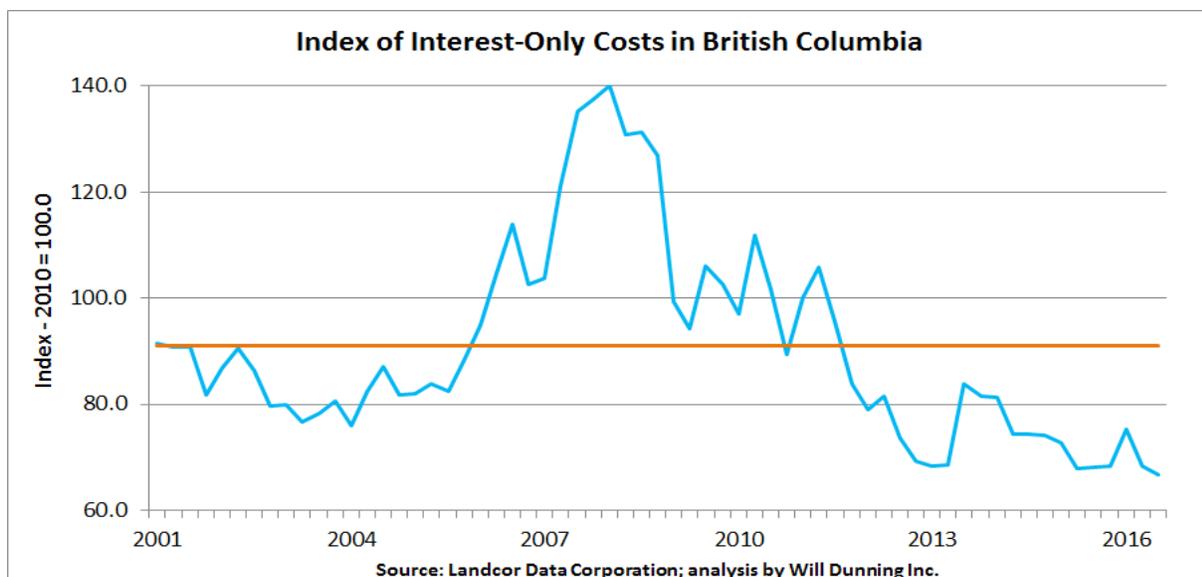


## BC Housing Market Overview (cont'd)

As I have commented here previously, housing affordability in BC is much better than is generally appreciated. In part, that is because a lot of the discussion about affordability is based on posted interest rates (currently 4.64% for 5-year terms) rather than the interest rates that are actually available in the market. This chart combines data on interest rates and average wages, plus Landcor's price data, to create an index of mortgage costs. This data shows that mortgage costs are just slightly above the average seen over the past decade and a half (which is shown by the flat orange line). Affordability is still better than it was a decade ago.

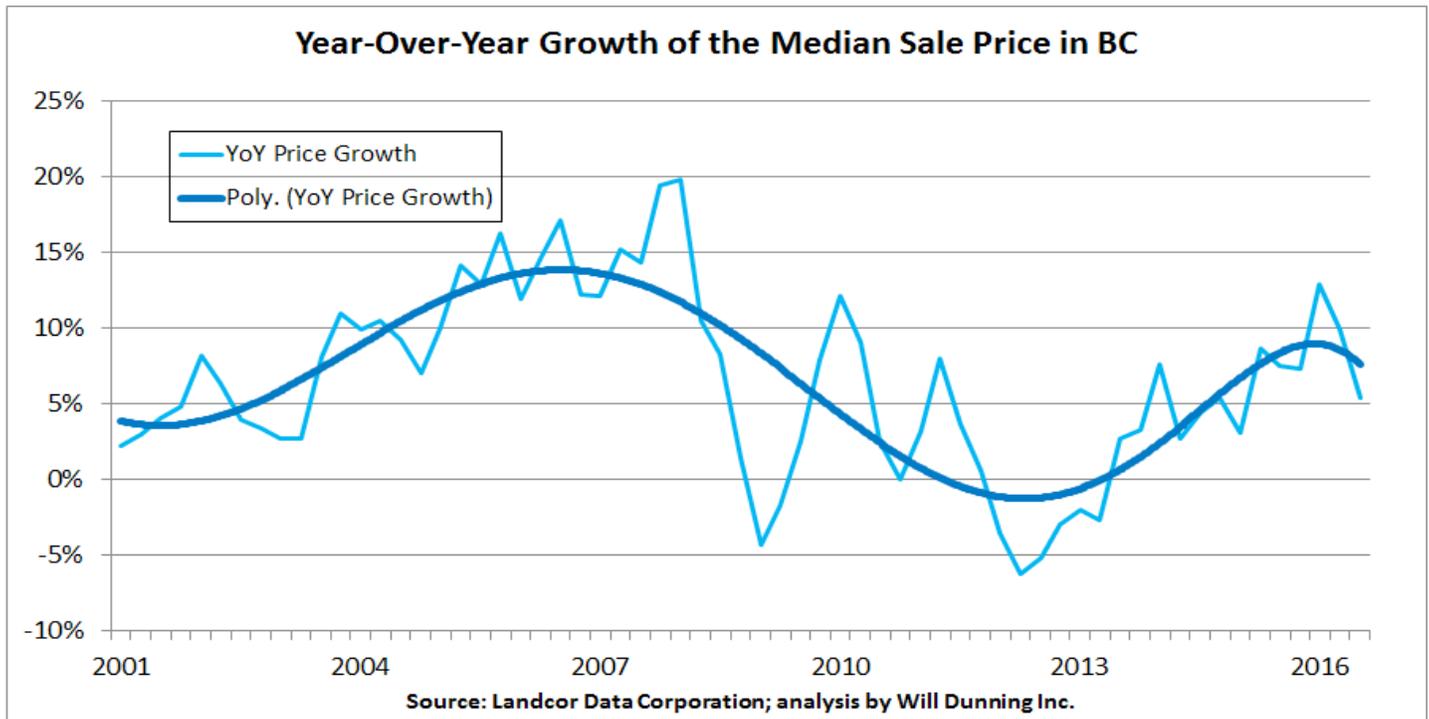


More abstractly: part of the mortgage payment is repayment of principal, and this is a form of saving for the home owner (although it is “forced saving”). In that sense, the principal part of the mortgage payment isn't truly a cost of home ownership: the true cost of finance is the interest part only. The next chart shows that the interest cost of home ownership is now exceptionally low.



## BC Housing Market Overview (cont'd)

The price statistics for BC suggest that there has been a very rapid deceleration. But, the price data for the third quarter are highly distorted by a change in the composition of the market, which has resulted from the foreign buyers' tax. I am highly tempted not to show a chart on prices. Here it is anyway, with the advice that we should disregard it.



### A Geographic Shift

The 15% foreign buyers' tax has caused a sudden, very substantial shift of housing market activity in BC.

Over a three year period (2013-Q3 to 2016-Q2) Vancouver accounted for 48.0% of housing sales in the province. For 2016-Q3, that share fell sharply, to 41.9%. (In fact, looking at months separately shows an even more dramatic impact. The Vancouver shares were: July – 46.7%; August – 40.4%, and September – 37.5%.)

On the other hand, shares increased for Vancouver Island (from 16.0% to 19.3%), Okanagan (from 13.2% to 16.3%) and Fraser Valley (from 11.9% to 14.7%). Kootenay and BC North/NW saw drops on their shares.

That outcome is about what was expected.

But, there are several big surprises in the data.

While Vancouver lost some of its share of the provincial total, the number of units sold was still quite good, as is shown in the following table. In terms of number of units, Vancouver's total sales were almost the same as last year (and much better than 2014-Q3).

## BC Housing Market Overview (cont'd)

Out of the five other regions of the province, four (with BC North/NW being the exception) saw big increases in 2016-Q3 versus a year ago and two years ago. This allowed the provincial total to increase in the quarter.

Third Quarter Sales by Region			
Region	2014-Q3	2015-Q3	2016-Q3
Vancouver	10,485	18,527	18,123
Vancouver Island	3,780	6,251	8,360
Kootenay	733	1,056	1,255
Okanagan	3,403	5,214	7,037
Fraser Valley	2,479	4,551	6,366
BC North/NW	1,700	2,223	2,082
<b>Total</b>	<b>22,580</b>	<b>37,822</b>	<b>43,223</b>
Source: Landcor Data Corporation; analysis by Will Dunning Inc.			

In other words, housing markets across BC have developed very strong momentum. The foreign buyers' tax has interrupted the momentum in Vancouver, but not reversed it, at least not so far. And, as we should expect, it has not negatively affected the other regions. What is unclear, is whether the other regions have actually gained some of the growth that Vancouver has lost. We'll have to leave that question for another time.

### Another Threat

On October 3rd, the federal government announced a set of changes to mortgage insurance. In order to qualify for insurance, mortgages must be "stress-tested" using the "posted rate" for 5-year, fixed rate mortgages. That rate is determined by the chartered banks, and is currently 4.64%, or more than two points higher than the actual rates that can be obtained in the market.

Few analysts have published estimates of the expected impacts, but those who have seem to see an 8% reduction in total resale market activity. I have published my own review. I accept the 8% figure, but as a first-round impact. There are likely to be subsequent effects, which could easily double the impact, and perhaps triple it. That review is on my personal website ([www.wdunning.com](http://www.wdunning.com), in the Recent Reports section).

Evidence on the actual effects will emerge only gradually. I expect that there will be virtually no impact on closings in the fourth quarter. The first quarter data should give us a sense of the first-round effects and the second-round effects should appear in the second quarter.

I am fearful that this won't affect just the housing market. It could be large enough to do harm to the broader economy.

As for BC: well, Vancouver has gotten squeezed at the top by the foreign buyers' tax. This new federal move will squeeze the bottom of the market. The middle isn't being addressed directly, but we should expect that it will also be affected.

2017 may prove to be a very interesting year, but not in the fun way. As I have said before, the biggest risk in the housing market is not from the economy or the market, it is on the policy side.

*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).*

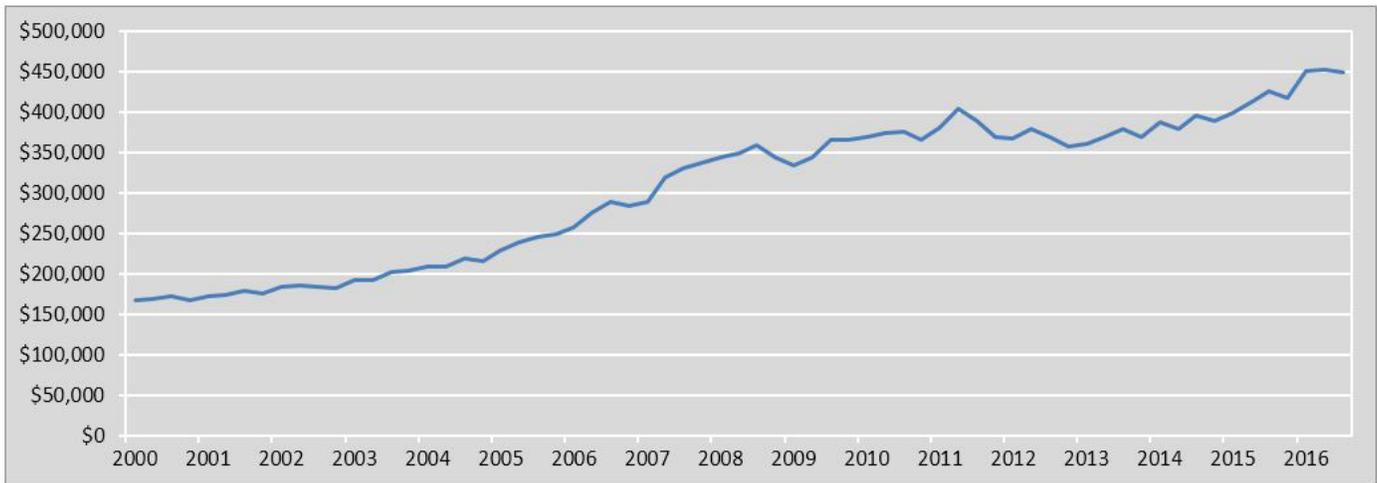
# BC Residential Sales Summary for Q2, 2016

<sup>1</sup>% change Q3'2016- Q2'2016    <sup>2</sup>% change Q3'2016- Q3'2015

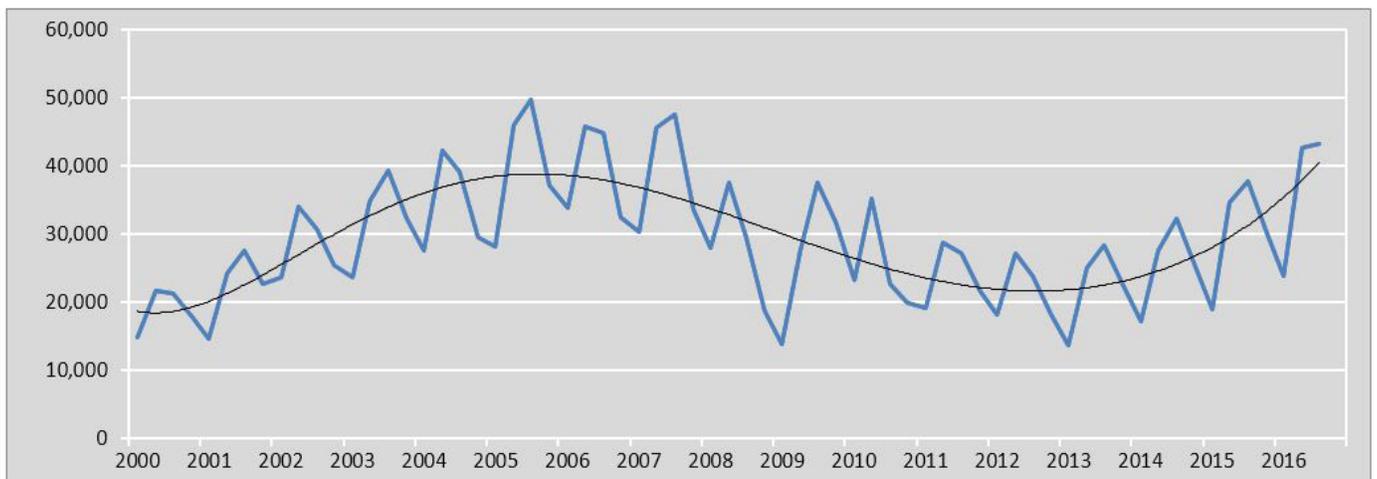
## British Columbia - All

Quarterly Sales		Q3 2016	Q2 2016	% Chg <sup>1</sup>	Q3 2015	% Chg <sup>2</sup>
Number of Sales		43,223	42,705	1.21%	37,822	14.28%
Total Value of Sales		\$28.57B	\$29.64B	-3.61%	\$22.92B	24.65%
Detached	Average	660,747	688,537	-4.04%	\$602,983	9.58%
	Median	629,900	650,000	-3.09%	\$570,000	10.51%
Condo	Average	368,786	355,898	3.62%	\$347,884	6.01%
	Median	362,900	350,000	3.69%	\$350,000	3.69%
Attached	Average	443,588	426,726	3.95%	\$396,484	11.88%
	Median	432,000	409,120	5.59%	\$380,368	13.57%

### Median Sale Prices/BC All



### Sales Counts/BC All



<sup>1</sup>% change Q3'2016- Q2'2016    <sup>2</sup>% change Q3'2016- Q3'2015    <sup>3</sup>% change month to previous month

## Region: Greater Vancouver

Quarterly Sales		Q3 2016	Q2 2016	% Chg <sup>1</sup>	Q3 2015	% Chg <sup>2</sup>
Number of Sales		18,123	19,289	-6.04%	18,527	-2.18%
Total Value of Sales		\$17.55B	\$19.84B	-11.53%	\$15.52B	13.04%
Detached	Average	1,352,356	1,333,769	1.39%	\$1,047,053	29.16%
	Median	1,288,000	1,270,000	1.42%	\$967,750	33.09%
Condo	Average	444,294	430,385	3.23%	\$402,688	10.33%
	Median	431,000	425,000	1.41%	\$393,900	9.42%
Attached	Average	598,284	574,389	4.16%	\$509,643	17.39%
	Median	560,000	543,323	3.07%	\$495,000	13.13%

Monthly Sales		July	August	% Chg <sup>1</sup>	September	% Chg <sup>3</sup>
Number of Sales		7,597	5,914	-22.15%	4,612	-22.02%
Total Value of Sales		\$7.76B	\$5.57B	-28.21%	\$4.21B	-24.44%
Detached	Average	1,407,871	1,313,756	-6.68%	\$1,301,506	-0.93%
	Median	1,340,000	1,250,000	-6.72%	\$1,257,142	0.57%
Condo	Average	454,954	445,831	-2.01%	\$428,065	-3.98%
	Median	440,000	431,205	-2.00%	\$419,900	-2.62%
Attached	Average	601,720	597,824	-0.65%	\$593,800	-0.67%
	Median	569,276	560,000	-1.63%	\$554,500	-0.98%

## Region: Vancouver Island

Quarterly Sales		Q3 2016	Q2 2016	% Chg <sup>1</sup>	Q3 2015	% Chg <sup>2</sup>
Number of Sales		8,360	7,775	7.52%	6,251	33.74%
Total Value of Sales		\$3.87B	\$3.42B	13.14%	\$2.58B	49.75%
Detached	Average	490,820	473,415	3.68%	\$439,263	10.69%
	Median	484,800	469,000	3.37%	\$435,000	9.67%
Condo	Average	277,013	274,816	0.80%	\$255,614	9.45%
	Median	278,800	282,500	-1.31%	\$254,900	9.33%
Attached	Average	342,311	337,744	1.35%	\$322,101	6.27%
	Median	340,000	344,950	-1.43%	\$326,500	4.13%

Monthly Sales		July	August	% Chg <sup>1</sup>	September	% Chg <sup>3</sup>
Number of Sales		2,868	2,968	3.49%	2,524	-14.96%
Total Value of Sales		\$1.33B	\$1.38B	3.13%	\$1.16B	-15.98%
Detached	Average	490,307	500,718	2.12%	\$479,374	-4.26%
	Median	476,000	495,000	3.99%	\$471,750	-4.70%
Condo	Average	280,468	277,733	-0.98%	\$272,653	-1.83%
	Median	280,000	281,300	0.46%	\$275,000	-2.24%
Attached	Average	347,276	341,339	-1.71%	\$337,228	-1.20%
	Median	345,000	337,250	-2.25%	\$340,000	0.82%

<sup>1</sup>% change Q3'2016- Q2'2016    <sup>2</sup>% change Q3'2016- Q3'2015    <sup>3</sup>% change month to previous month

## Region: Okanagan

Quarterly Sales		Q3 2016	Q2 2016	% Chg <sup>1</sup>	Q3 2015	% Chg <sup>2</sup>
Number of Sales		7,037	6,025	16.80%	5,214	34.96%
Total Value of Sales		\$2.86B	\$2.29B	24.74%	\$1.93B	48.36%
Detached	Average	462,436	436,247	6.00%	\$417,598	10.74%
	Median	462,000	438,000	5.48%	\$420,000	10.00%
Condo	Average	257,219	246,331	4.42%	\$234,177	9.84%
	Median	260,000	245,000	6.12%	\$240,000	8.33%
Attached	Average	317,463	304,777	4.16%	\$296,352	7.12%
	Median	320,000	313,500	2.07%	\$303,000	5.61%

Monthly Sales		July	August	% Chg <sup>1</sup>	September	% Chg <sup>3</sup>
Number of Sales		2,335	2,457	5.22%	2,245	-8.63%
Total Value of Sales		\$0.95B	\$1.00B	5.02%	\$0.92B	-7.94%
Detached	Average	466,177	464,112	-0.44%	\$456,388	-1.66%
	Median	465,000	463,000	-0.43%	\$455,000	-1.73%
Condo	Average	255,052	265,389	4.05%	\$251,029	-5.41%
	Median	260,500	260,000	-0.19%	\$260,050	0.02%
Attached	Average	313,820	323,412	3.06%	\$314,619	-2.72%
	Median	315,000	331,470	5.23%	\$320,000	-3.46%

## Region: Fraser Valley

Quarterly Sales		Q3 2016	Q2 2016	% Chg <sup>1</sup>	Q3 2015	% Chg <sup>2</sup>
Number of Sales		6,366	6,430	-1.00%	4,551	39.88%
Total Value of Sales		\$3.47B	\$3.32B	4.25%	\$2.06B	68.12%
Detached	Average	657,378	617,931	6.38%	\$520,448	26.31%
	Median	650,227	610,000	6.59%	\$519,000	25.28%
Condo	Average	214,191	196,012	9.27%	\$184,072	16.36%
	Median	222,950	199,000	12.04%	\$189,000	17.96%
Attached	Average	379,528	333,568	13.78%	\$304,864	24.49%
	Median	381,052	340,000	12.07%	\$312,000	22.13%

Monthly Sales		July	August	% Chg <sup>1</sup>	September	% Chg <sup>3</sup>
Number of Sales		2,417	2,189	-9.43%	1,760	-19.60%
Total Value of Sales		\$1.32B	\$1.22B	-7.51%	\$0.93B	-23.19%
Detached	Average	657,645	652,260	-0.82%	\$664,374	1.86%
	Median	650,000	650,000	0.00%	\$655,000	0.77%
Condo	Average	210,573	213,489	1.38%	\$218,752	2.47%
	Median	220,000	224,889	2.22%	\$225,000	0.05%
Attached	Average	370,238	383,470	3.57%	\$387,404	1.03%
	Median	370,000	388,000	4.86%	\$388,325	0.08%

<sup>1</sup>% change Q3'2016- Q2'2016 <sup>2</sup>% change Q3'2016- Q3'2015 <sup>3</sup>% change month to previous month**Region: BC North / NW**

Quarterly Sales		Q3 2016	Q2 2016	% Chg <sup>1</sup>	Q3 2015	% Chg <sup>2</sup>
Number of Sales		2,082	2,037	2.21%	2,223	-6.34%
Total Value of Sales		\$482.30M	\$485.35M	-0.63%	\$0.54B	-11.21%
Detached	Average	268,372	271,936	-1.31%	\$271,297	-1.08%
	Median	275,000	280,000	-1.79%	\$277,250	-0.81%
Condo	Average	117,684	115,214	2.14%	\$165,772	-29.01%
	Median	98,000	149,000	-34.23%	\$219,400	-55.33%
Attached	Average	182,056	208,867	-12.84%	\$201,553	-9.67%
	Median	210,000	244,593	-14.14%	\$245,000	-14.29%

Monthly Sales		July	August	% Chg <sup>1</sup>	September	% Chg <sup>3</sup>
Number of Sales		685	714	4.23%	683	-4.34%
Total Value of Sales		\$158.02M	\$171.72M	8.67%	\$152.57M	-11.15%
Detached	Average	267,011	269,745	1.02%	\$268,246	-0.56%
	Median	274,750	278,000	1.18%	\$270,000	-2.88%
Condo	Average	105,246	140,502	33.50%	\$118,760	-15.47%
	Median	97,750	175,000	79.03%	\$87,000	-50.29%
Attached	Average	173,478	187,061	7.83%	\$185,397	-0.89%
	Median	206,000	230,000	11.65%	\$205,000	-10.87%

**Region: Kootenay**

Quarterly Sales		Q3 2016	Q2 2016	% Chg <sup>1</sup>	Q3 2015	% Chg <sup>2</sup>
Number of Sales		1,255	1,149	9.23%	1,056	18.84%
Total Value of Sales		\$347.90M	\$283.49M	22.72%	\$282.97M	22.94%
Detached	Average	307,001	279,460	9.85%	\$294,727	4.16%
	Median	319,500	284,000	12.50%	\$310,000	3.06%
Condo	Average	138,958	131,767	5.46%	\$158,009	-12.06%
	Median	155,500	151,000	2.98%	\$178,250	-12.76%
Attached	Average	269,639	261,856	2.97%	\$248,041	8.71%
	Median	266,125	262,500	1.38%	\$260,000	2.36%

Monthly Sales		July	August	% Chg <sup>1</sup>	September	% Chg <sup>3</sup>
Number of Sales		383	395	3.13%	477	20.76%
Total Value of Sales		\$98.24M	\$118.19M	20.31%	\$131.47M	11.23%
Detached	Average	295,950	310,497	4.92%	\$313,171	0.86%
	Median	308,000	313,500	1.79%	\$337,250	7.58%
Condo	Average	114,108	145,414	27.44%	\$146,313	0.62%
	Median	115,000	160,500	39.57%	\$172,450	7.45%
Attached	Average	259,176	265,148	2.30%	\$281,693	6.24%
	Median	242,000	256,000	5.79%	\$296,250	15.72%

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Rudy Nielsen, R.I., F.R.I.  
President



*"I am confident that no other system in North America could offer such high quality valuations for residential properties"*

Stanley Hamilton, Professor Emeritus  
in Urban Land Economics, UBC



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