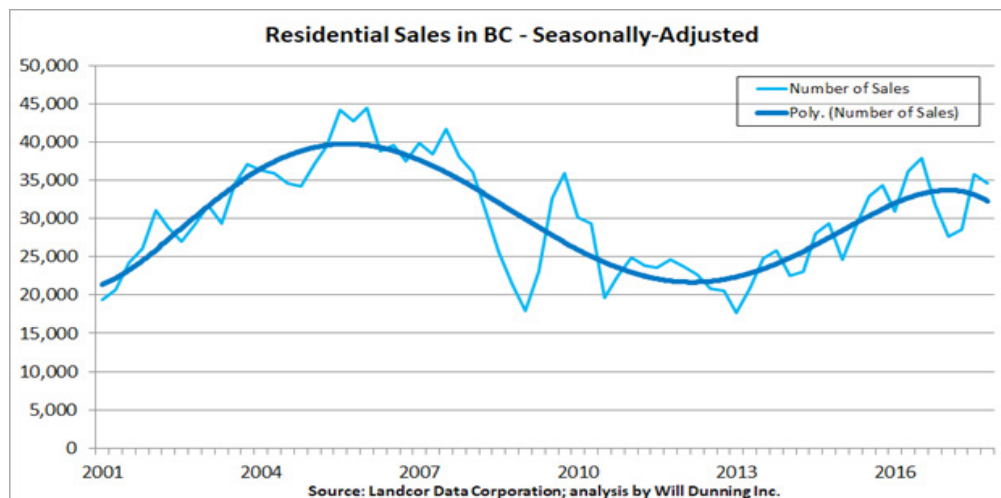


Report prepared by economist WILL DUNNING. Views expressed by Will Dunning are his own and do not necessarily represent those of Landcor Data Corporation. Will Dunning operates a consulting firm that specializes in analysis of housing markets.

## BC Housing Market Overview

Housing demand remained relatively strong in the fourth quarter of 2017. Landcor's data for 2017-Q4, after seasonal-adjustment, indicates that the sales rate fell slightly (3%) from the prior quarter. The current sales rate is 17% above the long-term average. As discussed below, sales are likely to weaken in 2018.

Figure 1



### Taking a quick look at some key factors:

- Mortgage interest rates have increased (see Figure 2). The average rate (typical “special offer” rates, for 5-year fixed rate mortgages, from the major banks), was 3.35% during the fourth quarter, or about  $\frac{3}{4}$  of a point above prior levels. Rates for variable rate mortgages have also increased by 0.5 to 0.6 points. Higher interest rates, combined with sharply higher house prices, are now impacting on affordability (this is discussed in more detail below).
- Job creation (see Figure 3) has been quite strong during the past two years (although the growth rate is still below the pre-recession peak). In itself, this is favourable for sustained housing demand.

The chart of employment growth uses data from Statistics Canada's Survey of Employment, Payrolls and Hours, as the data from the more widely-utilized labour Force Survey is less reliable.

- Population growth has also strengthened, although estimates from Statistics Canada suggest that the growth rate is still below the pre-recession level (see Figure 4). This also helps to explain why housing activity is still below the pre-recession peak.

## BC Housing Market Overview (cont'd)

### Looking forward:

It takes time for job creation to translate into housing demand and therefore there we would normally expect that there should be positive momentum for housing sales, which would cause sales to increase during 2018.

But there are three negative factors.

1. The first of these, is of course, higher interest rates.
2. The second negative factor is that as of this January, the Office of the Superintendent of Financial Institutions (“OSFI”) now requires that all non-insured mortgages by federally-regulated lenders must be stress-tested at the higher of the contract mortgage rate plus 2 points or the posted rate for 5-year mortgages, which is published by the Bank of Canada. Combining this with the stress test that is already required for insured mortgages (which requires use of the posted rate), about 80% of all home purchases will be subject to a stress test.

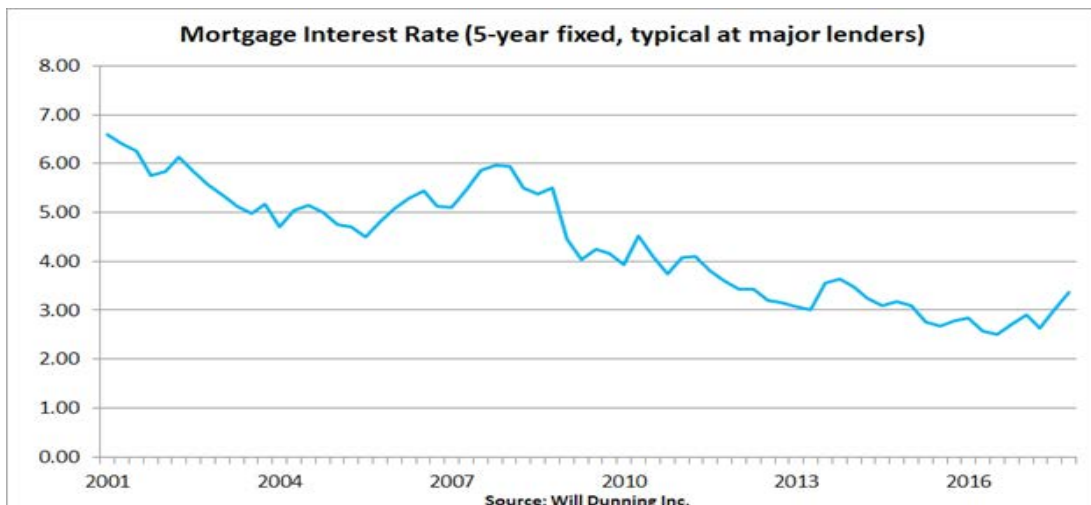
Most home buyers will be able to pass the stress tests. And, even among those who would fail for their “preferred” home purchases, a substantial proportion should be able to adjust their expectations, and qualify by purchasing a less-expensive property.

I expect that the combination of higher interest rates plus the stress tests will reduce home buying by 12-15% compared to what would occur otherwise.

3. The third negative factor is the evolving rules concerning purchases by non-residents and taxation (realty and income taxes). These changes will reduce buying to some extent, although they might also mean that more properties will be offered for sale by non-resident owners, which would mean more opportunities for purchases by residents. I don’t have an opinion on how large the overall effect will be.

All of these factors considered (the positive factor of job creation plus the three negative factors), I expect that total sales in 2018 will be in the area of 120,000, versus just over 127,000 in 2017.

Figure 2



## BC Housing Market Overview (cont'd)

Figure 3

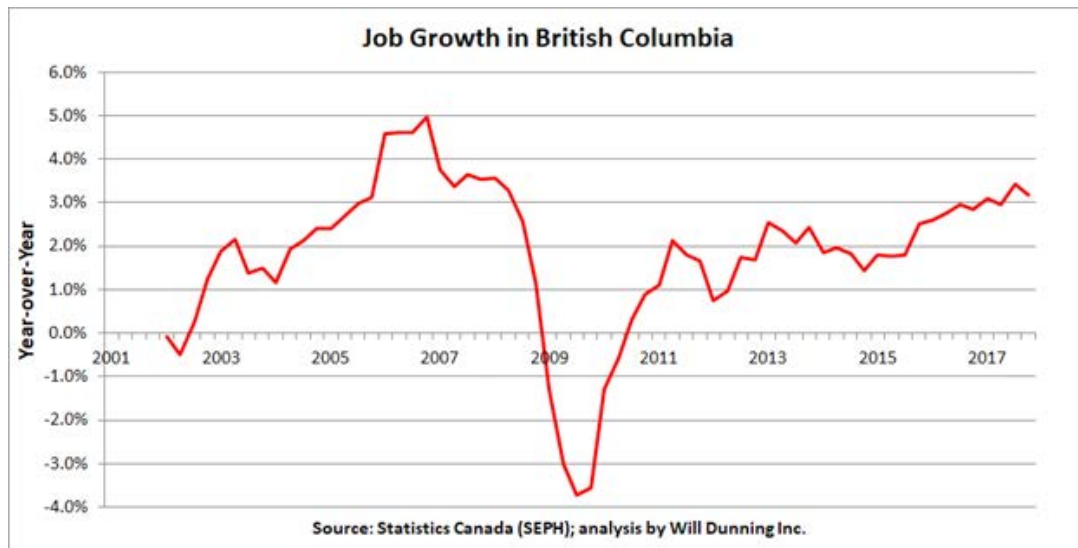
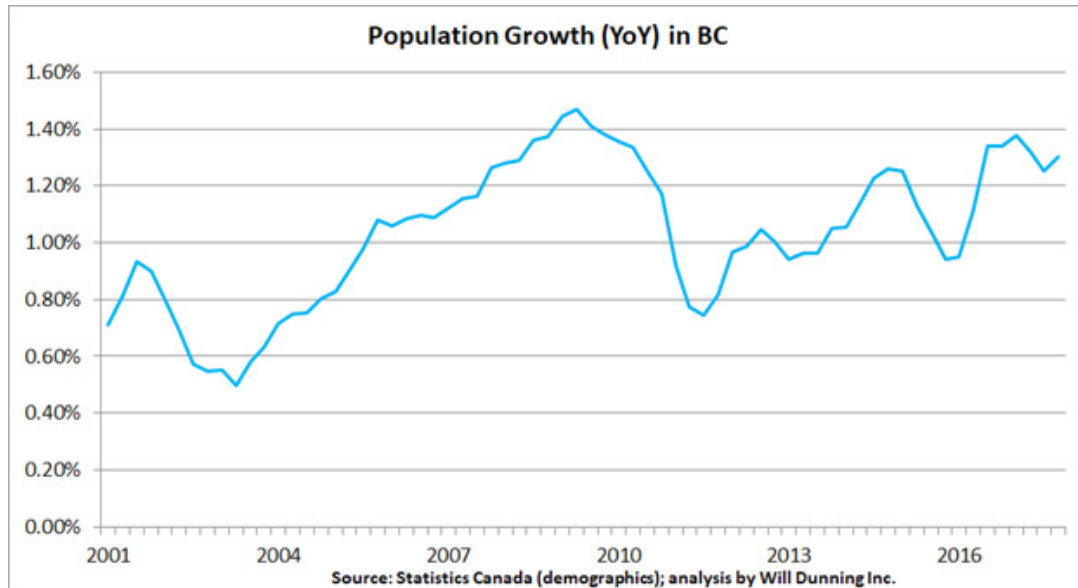


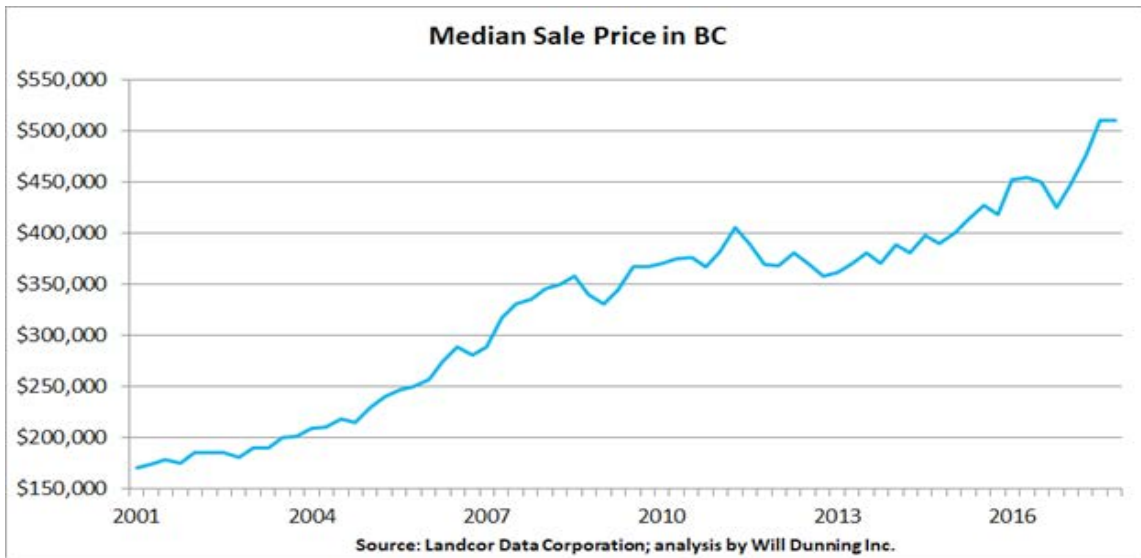
Figure 4

**Prices:**

The median sale price was essentially unchanged in Q4 versus Q3 (up by just \$100, to \$510,000, as shown in Figure 5). However, it was up by 20% compared to a year ago. This, however, was affected by a change in “composition”: the fourth quarter of 2016 saw a reduced share of sales for high-priced properties (due to the effects of the foreign buyers’ tax). 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 2017-Q4) were:

- Greater Vancouver: 8.1%
- Vancouver Island: 12.1%
- Kootenay: 1.9%
- Okanagan: 8.9%
- Fraser Valley: 15.2%
- North/Northwest BC: 3.0%

Figure 5

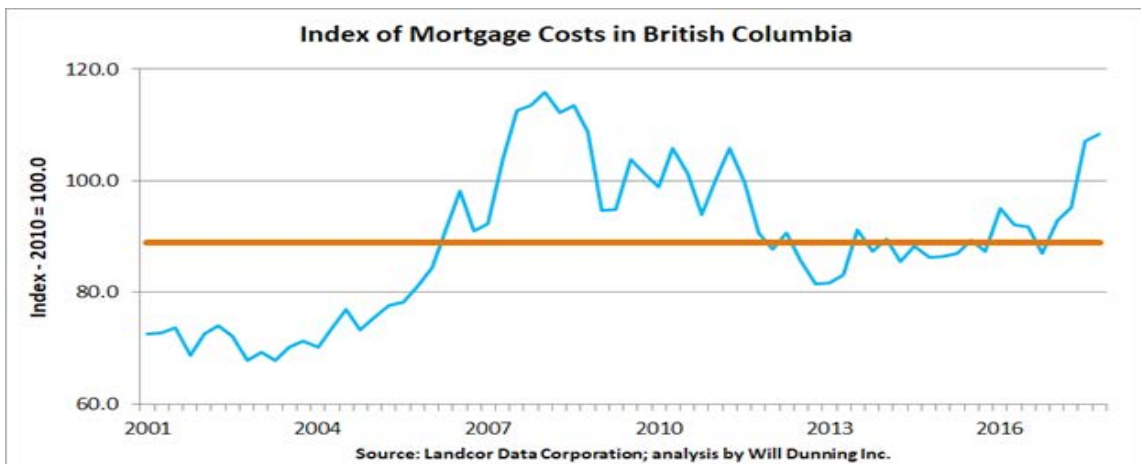


**Changing Affordability**

The chart below (Figure 6) 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.

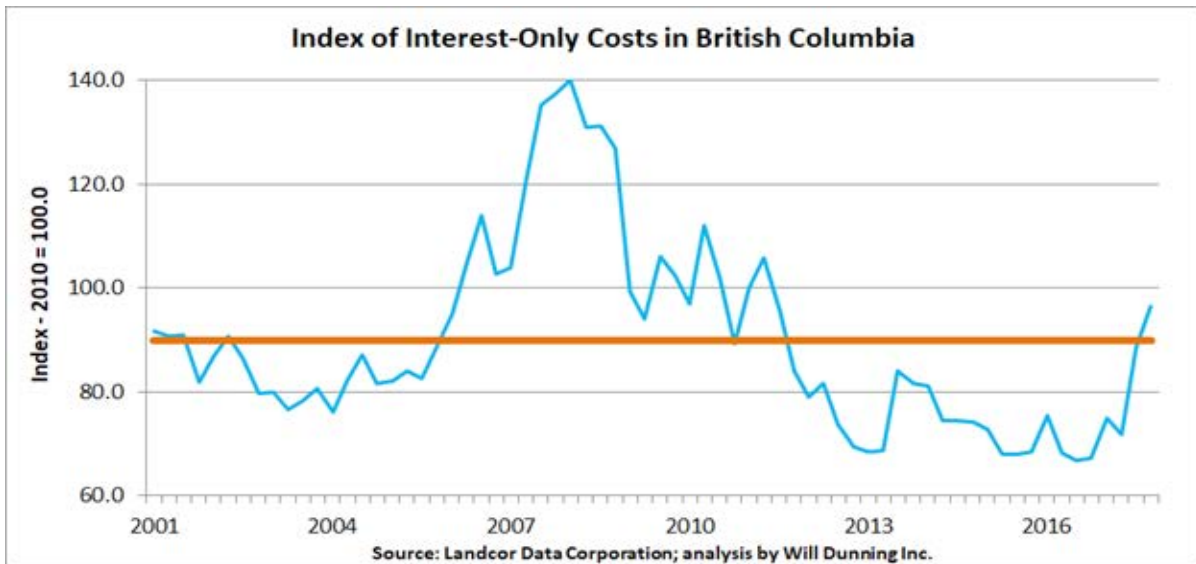
It must be remembered that mortgage payments result in rapid repayment of mortgage principal, which can be seen as a form of savings. For a consumer who thinks about this carefully, the cost of finance is the interest component of the payment, and the principal part of the payment should be excluded from their calculations. Figure 7 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 6



## BC Housing Market Overview (cont'd)

Figure 7



## Regional Variations

Landcor's data show that sales of new and existing homes totaled 127,242 in 2018, which was 7.3% lower than the total for 2016. However, as is shown in the table, the total for 2017 was higher than during 2012 to 2015. Looking across the regions, there are variations in the changes for 2017 versus 2016. Not surprisingly, given the disruption that was caused by the foreign buyers' tax, the largest reductions were seen in Greater Vancouver and the Fraser Valley. Vancouver Island also saw a significant reduction, but the total for 2017 was still high compared to the years prior to 2016. Similarly, the Okanagan saw a small drop, but to a level was still quite high in historic terms. Kootenay saw a large rise, to a very high level. The north/northwest region saw a rise in 2017, but this was a recovery from a slow 2016, and the 2017 activity was relatively weak in historic terms.

<b>Annual Residential Sales in British Columbia, by Region</b>							
<i>Region</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2017 vs 2016</i>
Greater Vancouver	40,229	42,369	48,400	60,367	61,137	55,214	-9.7%
Vancouver Island	14,507	14,951	17,071	19,928	25,450	23,391	-8.1%
Kootenay	3,196	3,272	3,652	3,626	3,996	4,671	16.9%
Okanagan	11,347	12,130	14,709	15,905	20,064	19,683	-1.9%
Fraser Valley	10,601	9,855	11,640	14,940	20,125	17,394	-13.6%
BC North/Northwest	7,425	7,186	7,619	6,975	6,511	6,889	5.8%
BC Total	87,305	89,763	103,091	121,741	137,283	127,242	-7.3%
Source: Landcor Data Corporation							
Note: Figures may vary from other published data due to on-going revisions.							

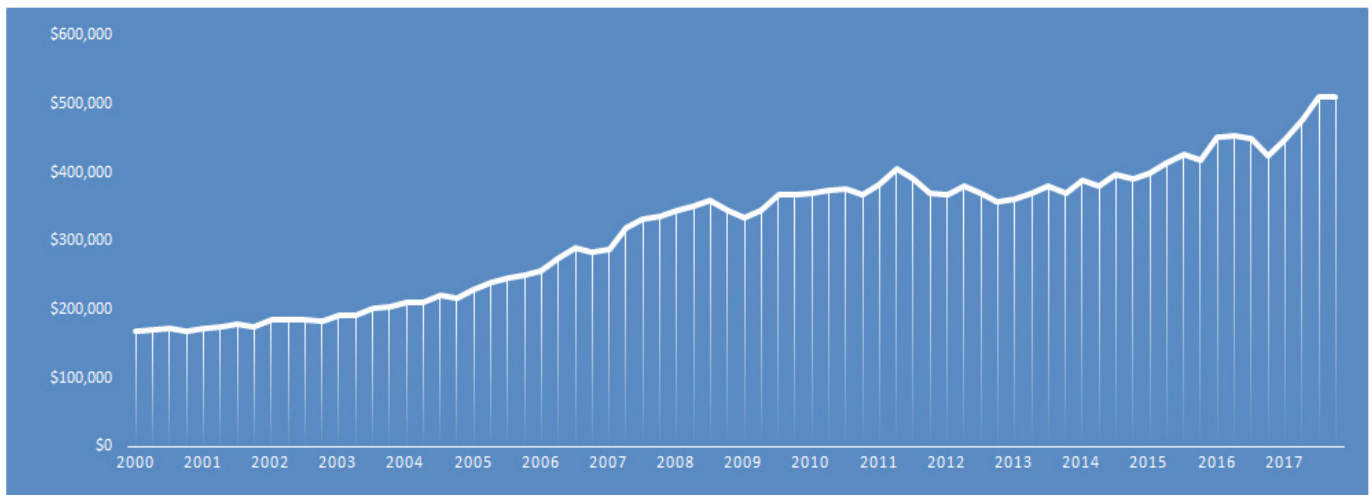
Will Dunning has been analyzing housing markets since 1982. His consulting firm provides custom analysis to clients in the private, public, and non-governmental sectors. His website is [www.wdunning.com](http://www.wdunning.com)

# BC Residential Sales Summary for Q4, 2017

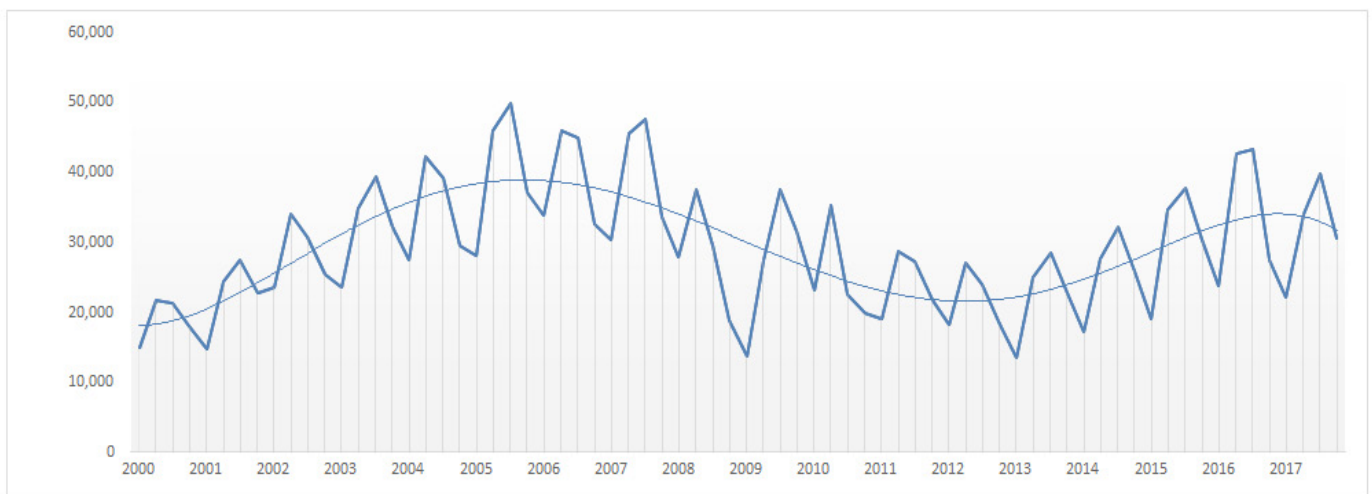
## British Columbia - All

Quarterly Sales		Q4 2017	Q3 2017	% Chg <sup>1</sup>	Q4 2016	% Chg <sup>2</sup>
Number of Sales		30,535	41,164	-25.82%	28,046	8.87%
Total Value of Sales		\$21.12B	\$28.19B	-25.10%	\$16.53B	27.75%
Detached	Average	\$919,399	\$909,099	1.13%	\$800,866	14.80%
	Median	\$675,000	\$690,000	-2.17%	\$577,000	16.98%
Condo	Average	\$514,640	\$493,489	4.29%	\$450,412	14.26%
	Median	\$447,000	\$421,855	5.96%	\$357,750	24.95%
Attached	Average	\$626,583	\$602,055	4.07%	\$506,708	23.66%
	Median	\$545,000	\$530,000	2.83%	\$433,250	25.79%

## Median Sale Prices - British Columbia ALL



## Sales Counts - British Columbia ALL



**Region: Greater Vancouver**

Quarterly Sales		Q4 2017	Q3 2017	% Chg <sup>1</sup>	Q4 2016	% Chg <sup>2</sup>
Number of Sales		13,549	18,004	-24.74%	11,817	14.66%
Total Value of Sales		\$13.06B	\$17.04B	-23.33%	\$9.59B	36.24%
Detached	Average	1,700,948	1,613,829	5.40%	\$1,571,525	8.24%
	Median	1,350,000	1,300,000	3.85%	\$1,249,000	8.09%
Condo	Average	597,706	572,971	4.32%	\$522,119	14.48%
	Median	518,000	494,950	4.66%	\$417,200	24.16%
Attached	Average	815,193	789,127	3.30%	\$657,009	24.08%
	Median	680,000	680,000	0.00%	\$538,800	26.21%

Monthly Sales		December	November	% Chg <sup>1</sup>	October	% Chg <sup>3</sup>
Number of Sales		3,758	5,061	-25.75%	4,730	-20.55%
Total Value of Sales		\$3.65B	\$4.88B	-25.11%	\$4.53B	-19.45%
Detached	Average	1,725,138	1,710,871	0.83%	\$1,672,832	3.13%
	Median	1,380,000	1,345,000	2.60%	\$1,325,000	4.15%
Condo	Average	596,890	585,398	1.96%	\$611,358	-2.37%
	Median	512,000	515,000	-0.58%	\$525,000	-2.48%
Attached	Average	839,055	834,531	0.54%	\$775,179	8.24%
	Median	689,900	685,000	0.72%	\$659,900	4.55%

**Region: Vancouver Island**

Quarterly Sales		Q4 2017	Q3 2017	% Chg <sup>1</sup>	Q4 2016	% Chg <sup>2</sup>
Number of Sales		5,374	7,281	-26.19%	5,478	-1.90%
Total Value of Sales		\$2.80B	\$3.76B	-25.59%	\$2.52B	10.77%
Detached	Average	615,825	632,396	-2.62%	\$571,236	7.81%
	Median	543,578	549,000	-0.99%	\$485,000	12.08%
Condo	Average	365,108	355,668	2.65%	\$321,911	13.42%
	Median	335,000	324,950	3.09%	\$280,000	19.64%
Attached	Average	444,513	434,075	2.40%	\$403,026	10.29%
	Median	395,500	389,900	1.44%	\$350,290	12.91%

Monthly Sales		December	November	% Chg <sup>1</sup>	October	% Chg <sup>3</sup>
Number of Sales		1,428	1,919	-25.59%	2,027	-29.55%
Total Value of Sales		\$0.78B	\$0.99B	-21.19%	\$1.02B	-23.38%
Detached	Average	628,677	613,551	2.47%	\$609,398	3.16%
	Median	560,000	541,500	3.42%	\$530,000	5.66%
Condo	Average	355,113	388,467	-8.59%	\$347,499	2.19%
	Median	341,050	350,000	-2.56%	\$311,000	9.66%
Attached	Average	461,292	452,236	2.00%	\$427,371	7.94%
	Median	415,000	400,500	3.62%	\$382,000	8.64%

**Region: Kootenay**

Quarterly Sales		Q4 2017	Q3 2017	% Chg <sup>1</sup>	Q4 2016	% Chg <sup>2</sup>
Number of Sales		1,210	1,525	-20.66%	1,047	15.57%
Total Value of Sales		\$323.97M	\$440.16M	-26.40%	\$285.93M	13.31%
Detached	Average	355,995	361,849	-1.62%	\$342,315	4.00%
	Median	316,000	325,000	-2.77%	\$310,000	1.94%
Condo	Average	189,754	179,508	5.71%	\$228,258	-16.87%
	Median	180,000	174,700	3.03%	\$210,000	-14.29%
Attached	Average	300,114	287,102	4.53%	\$278,090	7.92%
	Median	275,000	274,000	0.36%	\$259,000	6.18%

Monthly Sales		December	November	% Chg <sup>1</sup>	October	% Chg <sup>3</sup>
Number of Sales		343	390	-12.05%	477	-28.09%
Total Value of Sales		\$89.90M	\$102.22M	-12.05%	\$131.85M	-31.81%
Detached	Average	369,497	339,451	8.85%	\$361,233	2.29%
	Median	335,000	300,000	11.67%	\$324,000	3.40%
Condo	Average	190,404	178,777	6.50%	\$197,636	-3.66%
	Median	197,500	155,000	27.42%	\$180,000	9.72%
Attached	Average	302,002	275,966	9.43%	\$319,970	-5.62%
	Median	299,500	262,500	14.10%	\$279,900	7.00%

**Region: Okanagan**

Quarterly Sales		Q4 2017	Q3 2017	% Chg <sup>1</sup>	Q4 2016	% Chg <sup>2</sup>
Number of Sales		4,552	6,522	-30.21%	4,531	0.46%
Total Value of Sales		\$1.93B	\$2.83B	-31.75%	\$1.82B	6.33%
Detached	Average	554,419	570,639	-2.84%	\$517,167	7.20%
	Median	500,000	508,000	-1.57%	\$459,250	8.87%
Condo	Average	296,143	310,431	-4.60%	\$281,111	5.35%
	Median	283,500	287,750	-1.48%	\$260,950	8.64%
Attached	Average	393,541	378,943	3.85%	\$359,542	9.46%
	Median	369,900	359,500	2.89%	\$336,951	9.78%

Monthly Sales		December	November	% Chg <sup>1</sup>	October	% Chg <sup>3</sup>
Number of Sales		1,138	1,549	-26.53%	1,865	-38.98%
Total Value of Sales		\$489.61M	\$0.66B	-26.12%	\$0.78B	-37.42%
Detached	Average	580,224	550,009	5.49%	\$544,479	6.56%
	Median	505,000	485,000	4.12%	\$500,000	1.00%
Condo	Average	312,276	283,817	10.03%	\$293,660	6.34%
	Median	305,000	268,000	13.81%	\$274,500	11.11%
Attached	Average	418,649	386,726	8.25%	\$385,262	8.67%
	Median	395,770	367,000	7.84%	\$355,250	11.41%



**Region: Fraser Valley**

Quarterly Sales		Q4 2017	Q3 2017	% Chg <sup>1</sup>	Q4 2016	% Chg <sup>2</sup>
Number of Sales		4,128	5,709	-27.69%	3,779	9.24%
Total Value of Sales		\$2.59B	\$3.58B	-27.82%	\$1.98B	30.31%
Detached	Average	866,933	866,293	0.07%	\$753,535	15.05%
	Median	749,000	752,250	-0.43%	\$650,000	15.23%
Condo	Average	300,594	271,176	10.85%	\$235,057	27.88%
	Median	295,000	265,000	11.32%	\$229,000	28.82%
Attached	Average	498,157	478,985	4.00%	\$406,027	22.69%
	Median	495,000	473,775	4.48%	\$398,321	24.27%

Monthly Sales		December	November	% Chg <sup>1</sup>	October	% Chg <sup>3</sup>
Number of Sales		1,062	1,561	-31.97%	1,505	-29.44%
Total Value of Sales		\$0.69B	\$0.95B	-26.65%	\$0.94B	-26.53%
Detached	Average	891,989	851,719	4.73%	\$864,385	3.19%
	Median	745,000	748,000	-0.40%	\$749,900	-0.65%
Condo	Average	308,970	309,340	-0.12%	\$283,043	9.16%
	Median	300,000	305,200	-1.70%	\$277,850	7.97%
Attached	Average	512,383	502,564	1.95%	\$483,626	5.95%
	Median	499,950	486,576	2.75%	\$491,500	1.72%

**Region: BC North / NW**

Quarterly Sales		Q4 2017	Q3 2017	% Chg <sup>1</sup>	Q4 2016	% Chg <sup>2</sup>
Number of Sales		1,722	2,123	-18.89%	1,394	23.53%
Total Value of Sales		\$410.94M	\$0.54B	-23.53%	\$326.18M	25.98%
Detached	Average	296,154	312,369	-5.19%	\$292,622	1.21%
	Median	278,000	295,000	-5.76%	\$270,000	2.96%
Condo	Average	191,022	170,049	12.33%	\$111,416	71.45%
	Median	189,950	182,250	4.22%	\$89,500	112.23%
Attached	Average	216,496	241,351	-10.30%	\$238,136	-9.09%
	Median	224,750	255,000	-11.86%	\$252,500	-10.99%

Monthly Sales		December	November	% Chg <sup>1</sup>	October	% Chg <sup>3</sup>
Number of Sales		393	606	-35.15%	723	-45.64%
Total Value of Sales		\$93.76M	\$148.35M	-36.80%	\$168.83M	-44.46%
Detached	Average	301,197	292,797	2.87%	\$296,277	1.66%
	Median	282,500	271,000	4.24%	\$280,000	0.89%
Condo	Average	133,321	195,875	-31.94%	\$219,142	-39.16%
	Median	79,000	181,999	-56.59%	\$268,338	-70.56%
Attached	Average	228,061	227,992	0.03%	\$199,717	14.19%
	Median	262,500	250,000	5.00%	\$181,000	45.03%

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



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