

Report by economist Will Dunning. Will Dunning operates a consulting firm that specializes in analysis of housing markets.

BC Housing Market Overview

I have a couple of things on my mind.

- Employment data (as always).
- Potential impacts on the housing market from the huge drop in oil prices. The bottom line on this one is that my outlook for the BC housing market isn't affected very much.

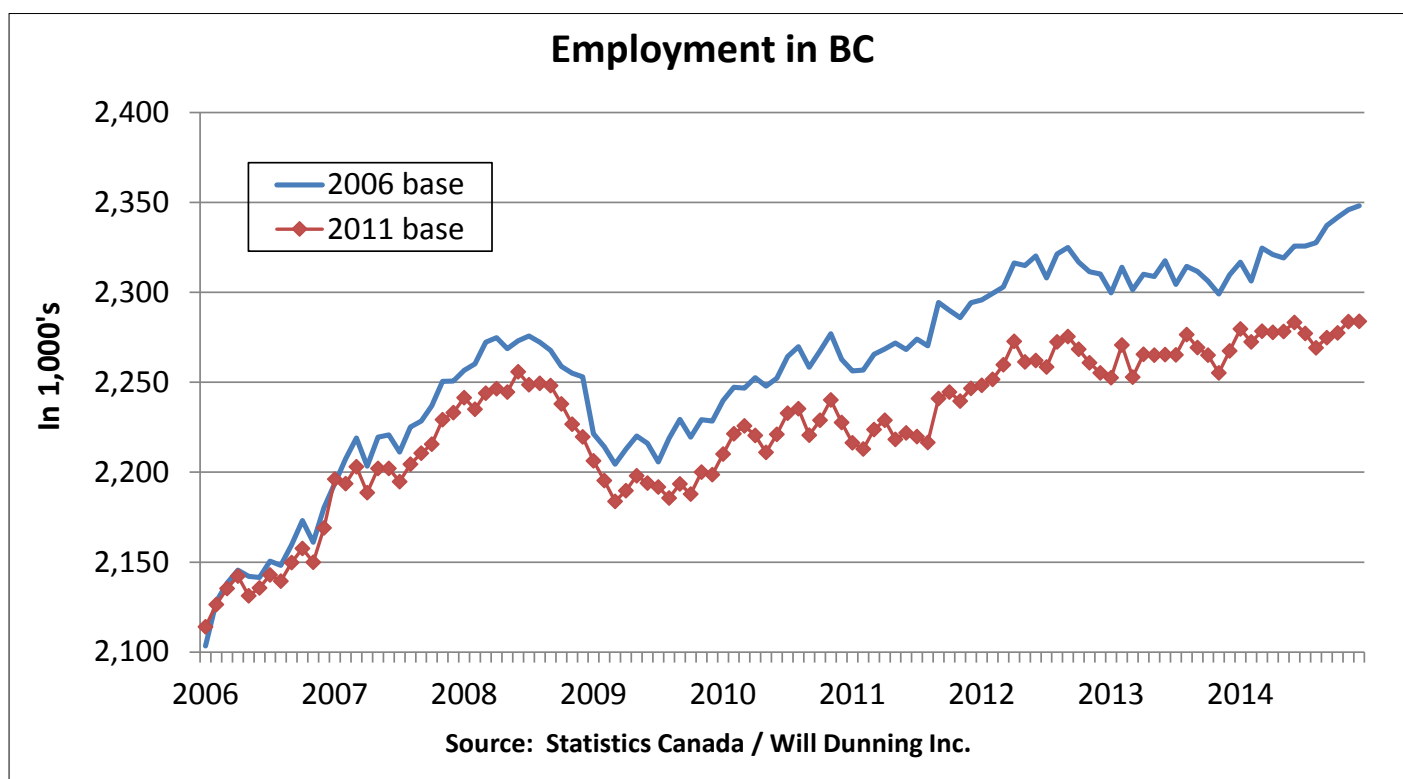
BC Balances its Budget

Big Revisions to Employment Data

Every five years (based on each Census, but being released much later), Statistics Canada does a major revision to the employment data that is generated by the monthly Labour Force Survey. Just recently, revisions were published that are based on the 2011 Census (replacing estimates that had a base in 2006).

The revisions indicate that for all of Canada, population growth and job creation have been slower than was previously estimated. For Canada, the data had shown that job creation averaged 1.12% per year during December 2005 to December 2014. That has been revised down fractionally, to 1.06%.

For BC, the downward revision was larger, from 1.09% per year in the original estimates to a revised 0.79%. With this revision, the level of employment in BC is just barely (about 40,000) above the pre-recession peak level. The downward revisions are due largely to reduced estimates of population growth. Fewer people are moving into Canada (and especially into BC) from other countries and other provinces. I can accept this in general - high housing costs are no doubt discouraging people from moving into BC.



For the period since the 2011 Census, population growth is estimated, and those estimates can be wrong. Statistics Canada is assuming population growth of 1.14% per year for the post-Census period, versus 1.46% per year prior to the 2011 Census. The resulting employment estimates show almost no job creation during the past three years. I have trouble believing this. Other indicators, including housing starts, housing sales, and retail sales, suggest to me that population growth has not slowed. In turn, job creation may be better than the data suggests.

Impacts from the Oil Price Plunge

I have to start this with a quick tutorial on economic forecasting.

As I see it there are two approaches to forecasting:

- Opinion-based (i.e. guessing).
- Structured (using statistical analysis). A dirty little secret is that structured forecasting is sometimes no better than guessing.

The statistical analysis looks at data from the past and finds statistical relationships, such as “a change in employment by X leads to a change in home sales of Y”. Then, we apply that statistical relationship to the future.

The problem is that those relationships keep changing, so what we learn from the past is often very misleading about the future.

Part of this problem of shifting relationships is “asymmetry”; for example, a positive change in an economic variable that affects employment may have a different impact than a negative change. I find that in general, positive changes have gradual impacts but negative changes have their effects much more quickly. Right now, we are seeing a very good illustration of this next door to you in Alberta. When oil prices were rising, the effects on employment and the housing market occurred very slowly. But the plunge in oil prices caused resale activity in Alberta to fall almost immediately and by a very substantial amount. Thus, we are seeing commentary now that Alberta is expected to see a mild and short-lived recession. I suspect that these opinions have a lot to do with the “asymmetry” problem and that in Alberta the recession could be more significant than is generally expected.

The good news for most of you in BC is that the provincial economy has relatively little direct exposure to the oil industry. Therefore, the resale market trend has not been interrupted.

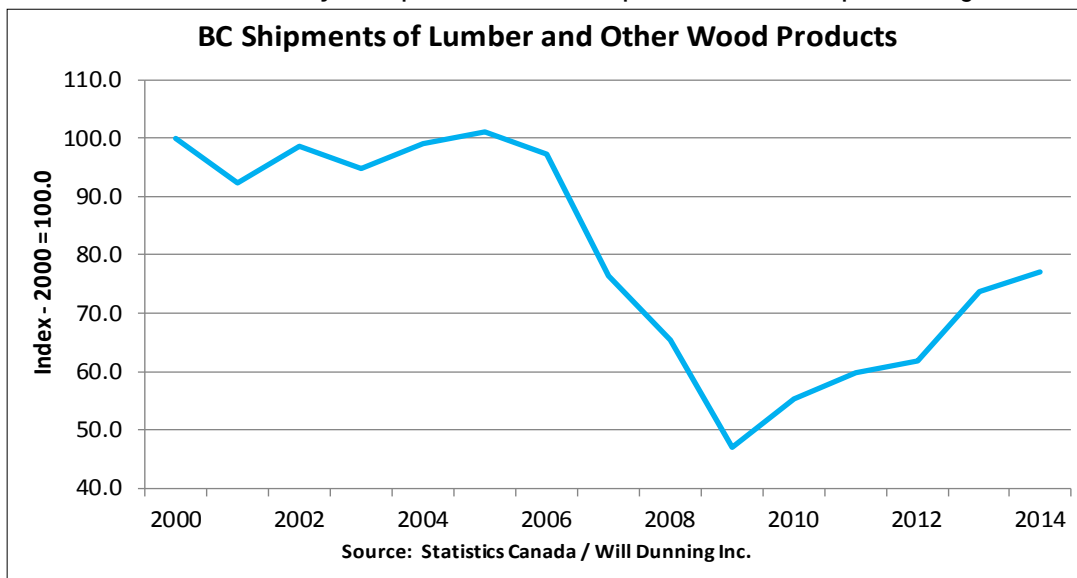
But BC has lots of exposure through indirect channels:

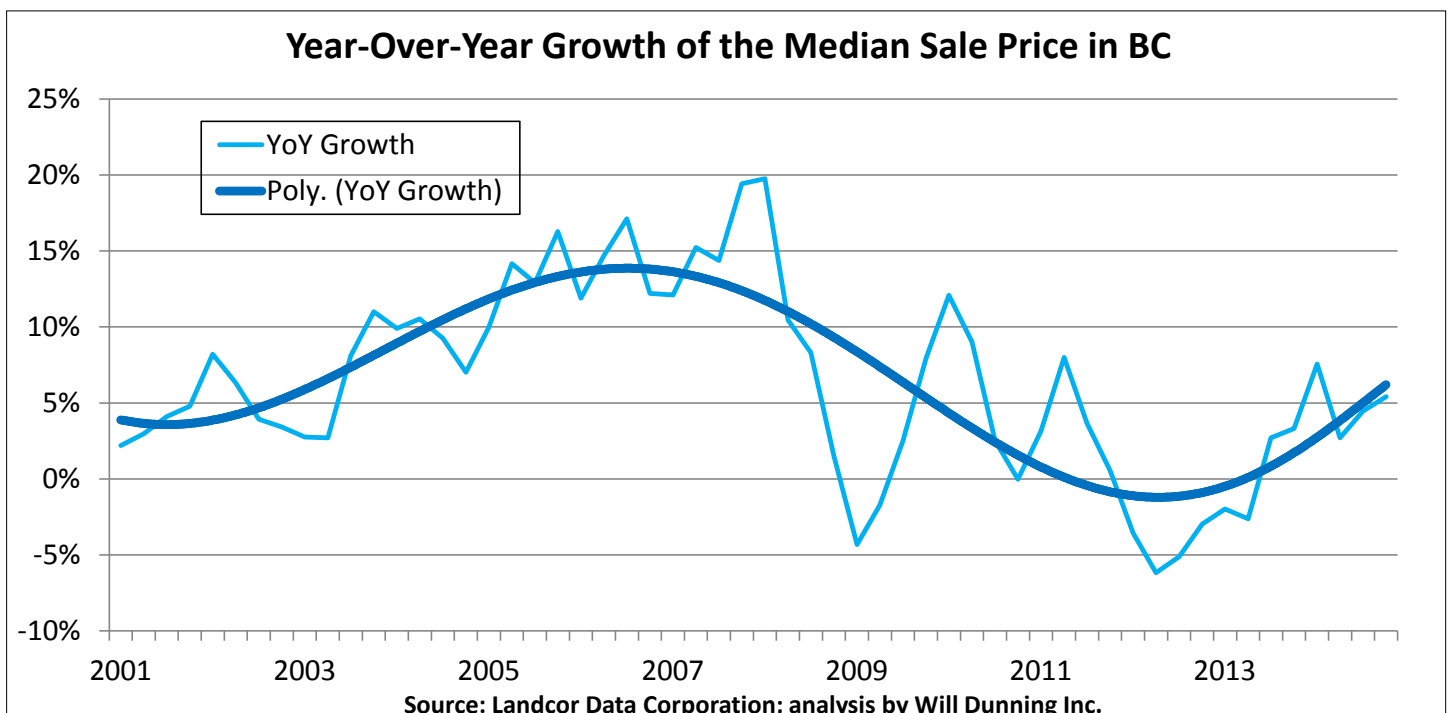
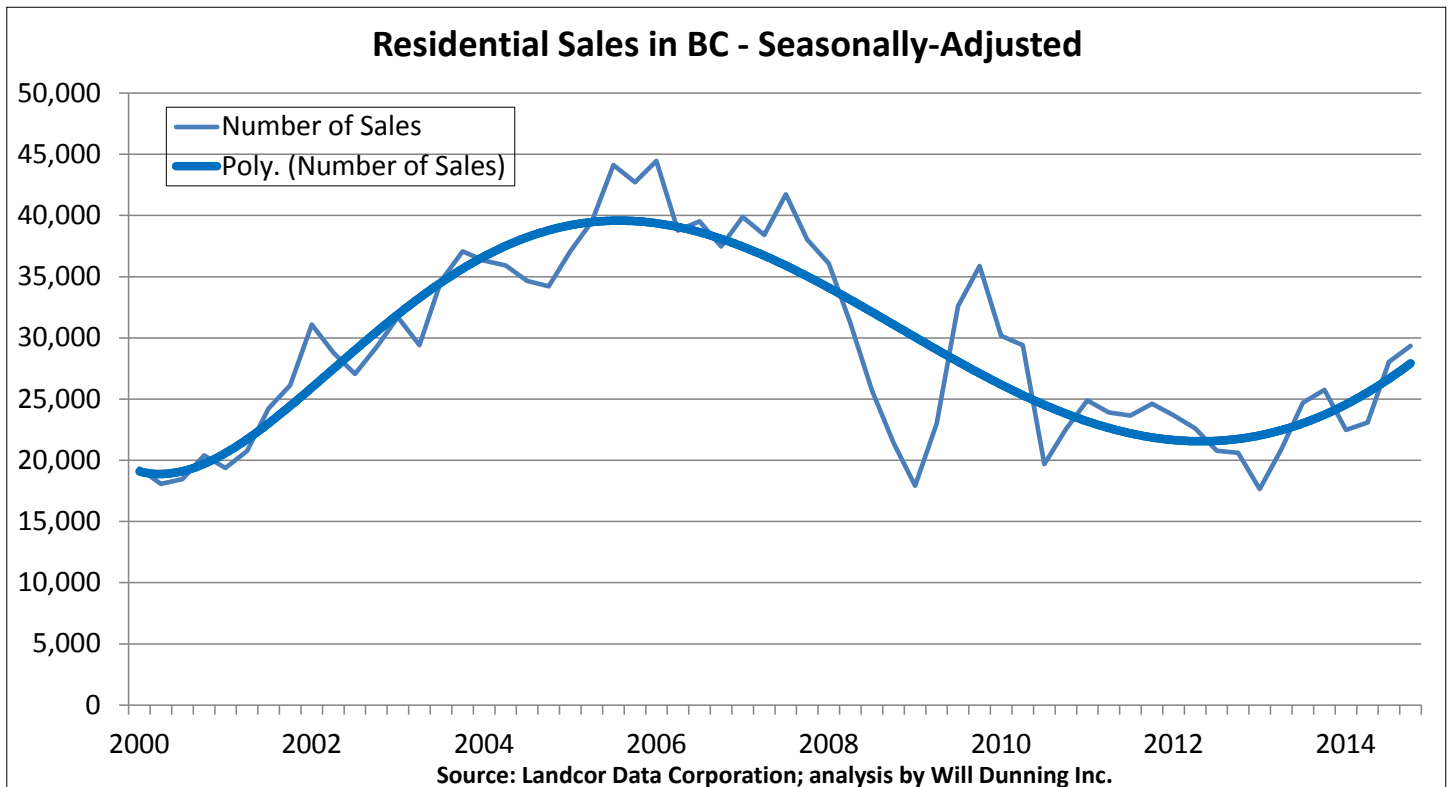
- Some of these channels are positive:
 - Lower gasoline prices mean that consumers – and many businesses – are seeing cost reductions and they can redirect funds to other purposes. But, initially most consumers will react in ways that don’t contribute to job creation (rather than immediately spending their new discretionary income, many will increase their savings or pay-down their debts). Similarly, very few businesses will immediately hire more workers.
 - The lower oil price contributed to a drop in the Canadian dollar, which is also a positive; Canadian consumers are less likely to spend money on foreign-made goods and services (such as foreign vacations). Canadian business will become more able to sell goods and services to other countries. But it takes a while for consumers to respond to the weaker dollar and considerably longer for businesses to take advantage and hire new workers.

- Some are negative:
 - There are also some (actual and potential) negative effects; expectations of reduced profits from the oil patch have resulted in lower stock prices, which can negatively affect spending by businesses and consumers. Reduced investment in exploration and construction will reduce opportunities for businesses in British Columbia. An increase in uncertainty about their outlook will cause some businesses to hunker-down.
 - Another potential negative is that reduced tax revenues may cause government spending to be lower than it would be otherwise (this will certainly occur in Alberta, and most likely at the federal level). I haven't studied the budgetary situation in BC but it seems that BC's finances are being prudently managed, with a focus on cost control (especially in the health system, for which costs are running amok in other provinces). The new provincial budget projects a surplus of about \$300 million for next year and the provincial debt ratio is low. Based on a quick look, I suspect that the BC government will not have to reduce spending, which bodes well for the outlook of the economy and the housing market.
 - Another factor is that the sharp and sudden weakening of housing markets in Alberta will mean that fewer people (especially retirees) will sell their Alberta homes and move to British Columbia.

The expectation is that for Canada overall, the drop in the price of oil is a negative for the economy, which is why the Bank of Canada reduced its Overnight Rate at the end of January, which is resulting in lower rates for variable rate mortgages. Similarly, bond yields have dropped sharply, which is resulting in reductions for fixed rate mortgages. These lower rates are a positive factor for the housing market; but at the same time, the action by the Bank of Canada has sent a signal that it is worried and this may cause some consumers to be less optimistic about the future; this may have a negative impact on housing activity.

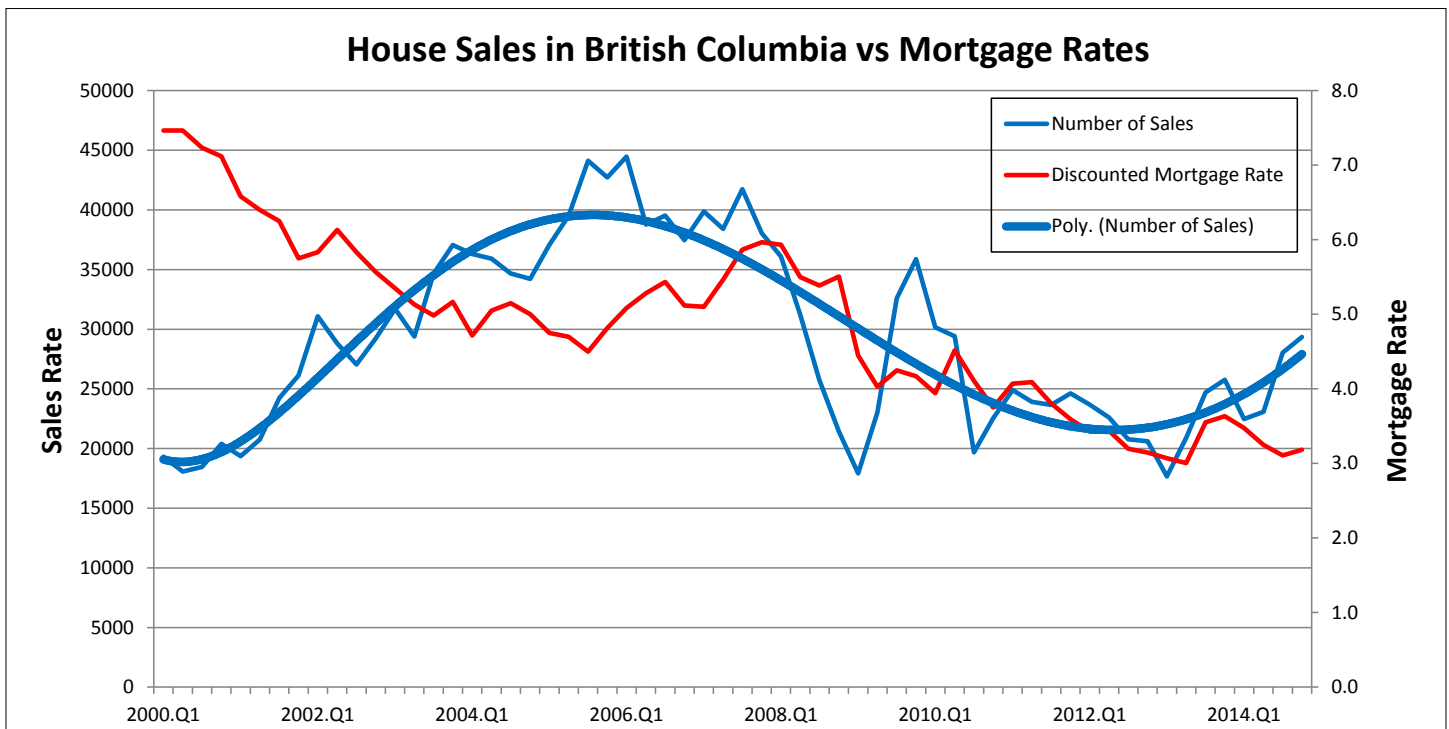
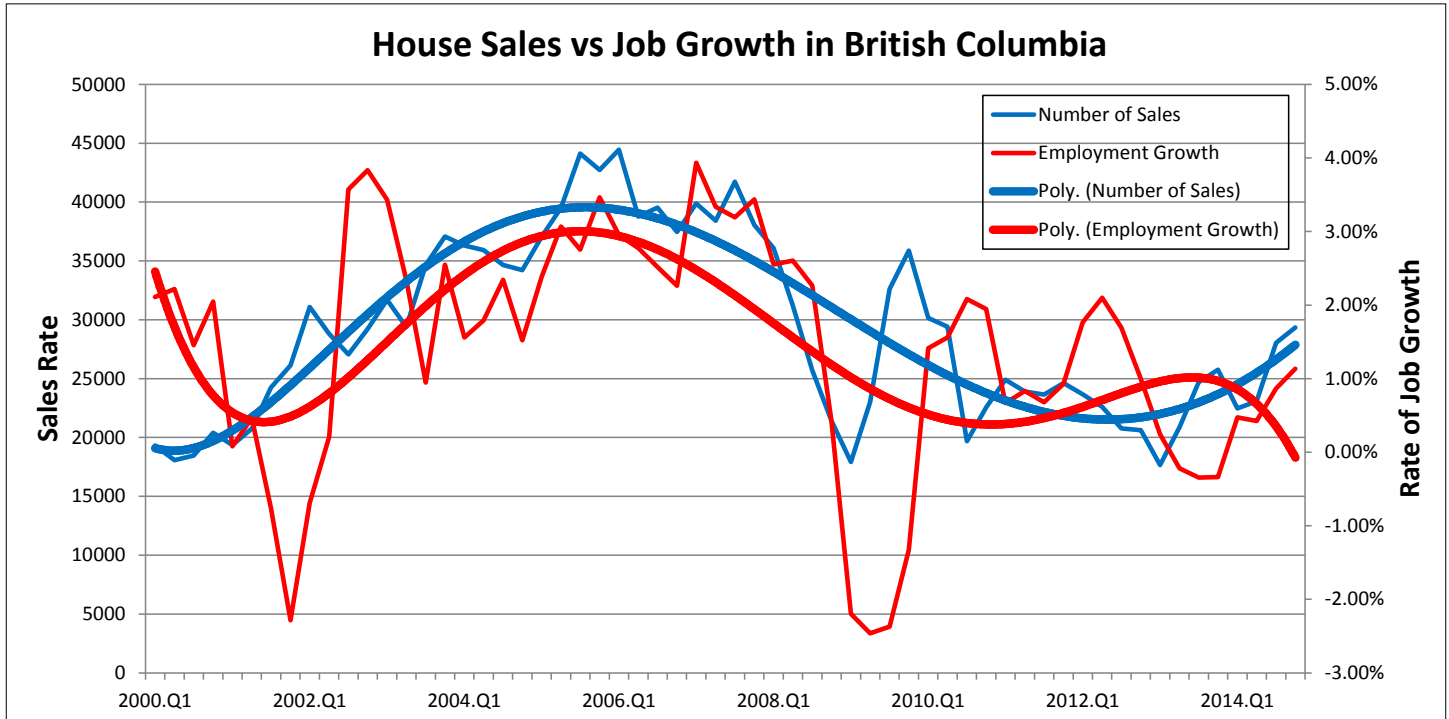
Based on a quick analysis, job creation and housing activity in BC do not appear to bear much relation to the price of oil. However, it looks like there might be a relationship between production of lumber and other wood products (which accounts for about one-fifth of manufacturing activity in BC). The chart below provides data on shipments of wood products (not including pulp and paper). I've done a bit of massaging, adjusting for inflation to give a rough estimate of the physical quantity, rather than the dollar value, and then converting the data to an "index". The trend in this chart roughly corresponds to the trend in the Landcor data on sales; wood products activity was strong prior to the recession, fell very sharply and has partially recovered during the past half-decade. The story is quite similar in the housing market. Therefore, a key issue for the housing market outlook in BC is how housing construction will fare in the US and how much market share can be attained by BC's producers. The drop in the dollar is a positive sign on that score.





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.

To conclude, the change in the oil patch (and related industries) from a positive outlook to a negative one is having rapid impacts for businesses and consumers. But for consumers and businesses that are positively affected, the benefits will occur much more gradually. This combination of factors, and the asymmetry in their timing, in itself would tend to bring some weakening to housing markets in British Columbia. But, the drop in mortgage rates, from levels that were already exceptionally low, should be roughly offsetting. Overall, I expect that during the rest of this year we won't see much change in the housing market trends for BC.

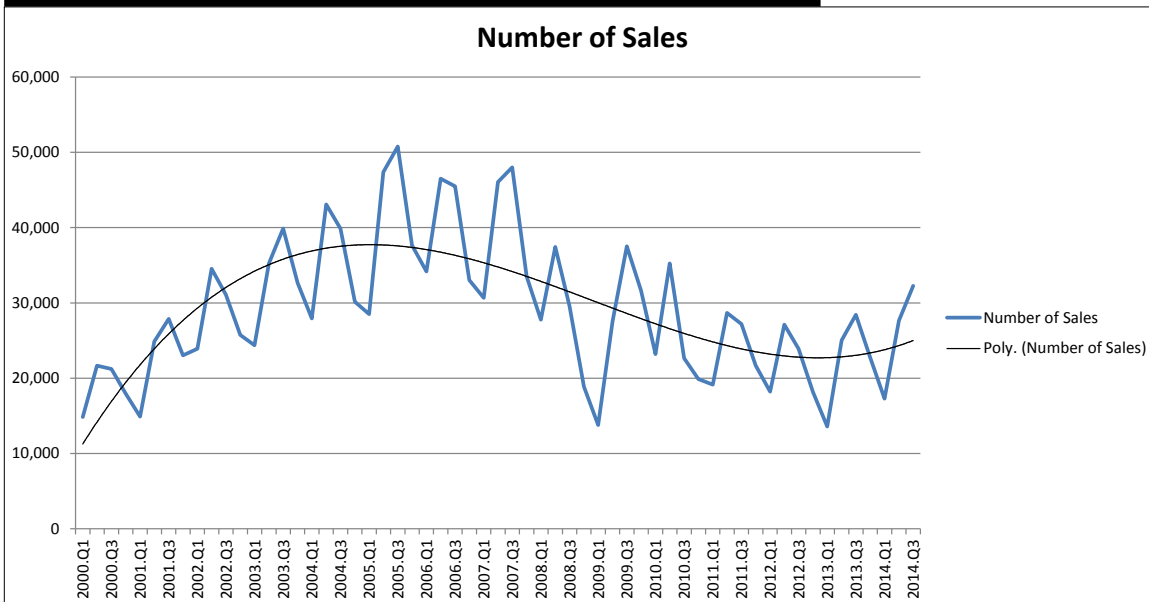


BC Residential Sales Summary for Q4 2014

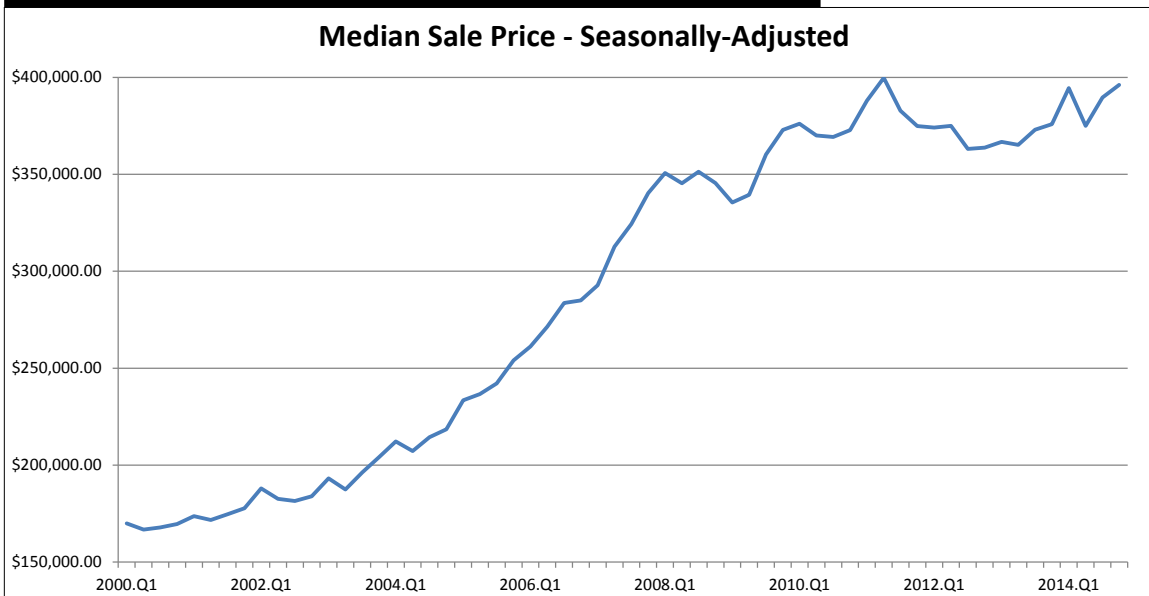
¹% change Q3'2014- Q4'2014 ²% change Q4'2013- Q4'2014

BC		Q4 2014	Q3 2014	% Chg ¹	Q4 2013	% Chg ²
Number of Sales		25,866	32,266	-19.84%	22,706	13.92%
Total Value of Sales		\$14.11B	\$17.46B	-19.20%	\$11.80B	19.61%
Detached	Average	\$539,424	\$538,877	0.10%	\$511,121	5.54%
	Median	\$515,000	\$509,000	1.18%	\$477,500	7.85%
Condo	Average	\$339,181	\$336,942	0.66%	\$335,087	1.22%
	Median	\$350,000	\$339,000	3.24%	\$337,500	3.70%
Attached	Average	\$377,629	\$378,495	-0.23%	\$365,852	3.22%
	Median	\$364,900	\$360,000	1.36%	\$355,000	2.79%

Sales Counts/BC All



Median Sale Prices/BC All



¹% change Q3'14- Q4'14 ²% change Q4'13- Q4'14 ³% change month to previous month

¹% change Q3'14- Q4'14 ²% change Q4'13- Q4'14 ³% change month to previous month

Gr. Vancouver		Q4 2014	Q3 2014	% Chg ¹	Q4 2013	% Chg ²
Number of Sales		12,657	14,994	-15.59%	11,383	11.19%
Total Value of Sales		\$9.48B	\$11.29B	-15.99%	\$8.08B	17.38%
Detached	Average	\$945,571	\$928,047	1.89%	\$934,482	1.19%
	Median	\$870,000	\$855,000	1.75%	\$838,000	3.82%
Condo	Average	\$386,306	\$387,397	-0.28%	\$378,906	1.95%
	Median	\$380,900	\$380,000	0.24%	\$365,000	4.36%
Attached	Average	\$471,731	\$479,026	-1.52%	\$461,558	2.20%
	Median	\$446,000	\$452,000	-1.33%	\$428,000	4.21%

Fraser Valley		Q4 2014	Q3 2014	% Chg ¹	Q4 2013	% Chg ²
Number of Sales		2,820	3,494	-19.29%	2,279	23.74%
Total Value of Sales		\$1.14B	\$1.44B	-20.60%	\$0.89B	28.52%
Detached	Average	\$472,538	\$478,570	-1.26%	\$451,920	4.56%
	Median	\$469,011	\$471,715	-0.57%	\$442,250	6.05%
Condo	Average	\$180,594	\$189,354	-4.63%	\$177,834	1.55%
	Median	\$185,000	\$194,000	-4.64%	\$187,500	-1.33%
Attached	Average	\$300,950	\$302,762	-0.60%	\$284,758	5.69%
	Median	\$308,521	\$302,900	1.86%	\$283,135	8.97%

Gr. Van. Monthly		Oct.	Nov.	% Chg ³	Dec.	% Chg ³
Number of Sales		4,565	4,407	-3.46%	3,685	-19.28%
Total Value of Sales		\$3.54B	\$3.09B	-12.81%	\$2.85B	-19.39%
Detached	Average	\$937,740	\$921,266	-1.76%	\$984,286	4.96%
	Median	\$861,441	\$844,900	-1.92%	\$907,000	5.29%
Condo	Average	\$379,940	\$386,145	1.63%	\$394,328	3.79%
	Median	\$373,000	\$379,900	1.85%	\$393,500	5.50%
Attached	Average	\$472,904	\$445,000	-5.90%	\$483,410	2.22%
	Median	\$461,497	\$425,900	-7.71%	\$475,000	2.93%

Fraser Valley Monthly		Oct.	Nov.	% Chg ³	Dec.	% Chg ³
Number of Sales		1,026	959	-6.53%	835	-18.62%
Total Value of Sales		\$426.50M	\$395.65M	-7.23%	\$319.22M	-25.15%
Detached	Average	\$484,763	\$478,372	-1.32%	\$447,825	-7.62%
	Median	\$474,500	\$470,000	-0.95%	\$460,000	-3.06%
Condo	Average	\$185,128	\$178,081	-3.81%	\$179,357	-3.12%
	Median	\$194,000	\$184,000	-5.15%	\$179,900	-7.27%
Attached	Average	\$299,541	\$300,101	0.19%	\$304,035	1.50%
	Median	\$305,000	\$313,000	2.62%	\$309,500	1.48%

Vancouver Island		Q4 2014	Q3 2014	% Chg ¹	Q4 2013	% Chg ²
Number of Sales		4,180	5,389	-22.43%	3,560	17.42%
Total Value of Sales		\$1.61B	\$2.13B	-24.78%	\$1.31B	22.13%
Detached	Average	\$409,725	\$416,209	-1.56%	\$390,312	4.97%
	Median	\$409,155	\$415,000	-1.41%	\$384,900	6.30%
Condo	Average	\$257,339	\$264,338	-2.65%	\$237,865	8.19%
	Median	\$260,000	\$263,000	-1.14%	\$241,646	7.60%
Attached	Average	\$315,307	\$321,986	-2.07%	\$303,453	3.91%
	Median	\$323,579	\$320,000	1.12%	\$304,750	6.18%

BC North/NW		Q4 2014	Q3 2014	% Chg ¹	Q4 2013	% Chg ²
Number of Sales		1,794	2,421	-25.90%	1,691	6.09%
Total Value of Sales		\$434.26M	\$0.59B	-26.62%	\$357.55M	21.45%
Detached	Average	\$259,734	\$269,893	-3.76%	\$239,392	8.50%
	Median	\$263,500	\$274,950	-4.16%	\$251,250	4.88%
Condo	Average	\$214,215	\$95,626	124.01%	\$135,901	57.63%
	Median	\$266,375	\$107,500	147.79%	\$142,857	86.46%
Attached	Average	\$235,620	\$215,550	9.31%	\$207,423	13.59%
	Median	\$229,900	\$226,259	1.61%	\$238,750	-3.71%

Van. Island Monthly		Oct.	Nov.	% Chg ³	Dec.	% Chg ³
Number of Sales		1,719	1,253	-27.11%	1,208	-29.73%
Total Value of Sales		\$0.65B	\$480.09M	-26.40%	\$473.47M	-27.41%
Detached	Average	\$405,483	\$408,168	0.66%	\$418,225	3.14%
	Median	\$404,500	\$410,000	1.36%	\$408,500	0.99%
Condo	Average	\$251,193	\$269,552	7.31%	\$252,703	0.60%
	Median	\$250,451	\$270,650	8.07%	\$261,500	4.41%
Attached	Average	\$304,364	\$313,852	3.12%	\$331,027	8.76%
	Median	\$312,450	\$322,750	3.30%	\$334,000	6.90%

BC North/NW Monthly		Oct.	Nov.	% Chg ³	Dec.	% Chg ³
Number of Sales		710	541	-23.80%	543	-23.52%
Total Value of Sales		\$177.30M	\$136.32M	-23.11%	\$120.65M	-31.95%
Detached	Average	\$261,557	\$266,518	1.90%	\$249,113	-4.76%
	Median	\$262,250	\$266,000	1.43%	\$264,000	0.67%
Condo	Average	\$167,510	\$198,268	18.36%	\$236,362	41.10%
	Median	\$144,000	\$249,900	73.54%	\$267,344	85.66%
Attached	Average	\$218,966	\$281,186	28.42%	\$218,822	-0.07%
	Median	\$272,000	\$295,000	8.46%	\$184,130	-32.31%

Okanagan		Q4 2014	Q3 2014	% Chg ¹	Q4 2013	% Chg ²
Number of Sales		3,463	4,870	-28.89%	2,968	16.68%
Total Value of Sales		\$1.20B	\$1.72B	-29.97%	\$0.96B	25.88%
Detached	Average	\$392,634	\$401,473	-2.20%	\$367,764	6.76%
	Median	\$391,900	\$400,000	-2.03%	\$371,555	5.48%
Condo	Average	\$214,760	\$230,426	-6.80%	\$209,884	2.32%
	Median	\$213,500	\$235,000	-9.15%	\$220,000	-2.95%
Attached	Average	\$300,844	\$280,997	7.06%	\$267,168	12.60%
	Median	\$301,000	\$285,000	5.61%	\$278,000	8.27%

Kootenay		Q4 2014	Q3 2014	% Chg ¹	Q4 2013	% Chg ²
Number of Sales		952	1,098	-13.30%	825	15.39%
Total Value of Sales		\$243.82M	\$294.36M	-17.17%	\$203.00M	20.11%
Detached	Average	\$285,836	\$294,843	-3.05%	\$272,352	4.95%
	Median	\$290,000	\$300,000	-3.33%	\$280,000	3.57%
Condo	Average	\$155,993	\$167,729	-7.00%	\$169,388	-7.91%
	Median	\$161,450	\$180,476	-10.54%	\$187,500	-13.89%
Attached	Average	\$261,504	\$274,249	-4.65%	\$250,221	4.51%
	Median	\$256,653	\$277,500	-7.51%	\$255,595	0.41%

Okanagan Monthly		Oct.	Nov.	% Chg ³	Dec.	% Chg ³
Number of Sales		1,500	1,038	-30.80%	925	-38.33%
Total Value of Sales		\$0.53B	\$366.19M	-30.30%	\$312.53M	-40.51%
Detached	Average	\$403,082	\$392,451	-2.64%	\$374,752	-7.03%
	Median	\$397,750	\$395,000	-0.69%	\$380,000	-4.46%
Condo	Average	\$216,730	\$220,015	1.52%	\$204,267	-5.75%
	Median	\$211,500	\$215,000	1.65%	\$210,000	-0.71%
Attached	Average	\$293,383	\$304,016	3.62%	\$308,590	5.18%
	Median	\$292,000	\$302,409	3.56%	\$318,000	8.90%

Kootenay Monthly		Oct.	Nov.	% Chg ³	Dec.	% Chg ³
Number of Sales		404	273	-32.43%	275	-31.93%
Total Value of Sales		\$106.68M	\$73.15M	-31.43%	\$63.99M	-40.02%
Detached	Average	\$294,053	\$296,616	0.87%	\$261,647	-11.02%
	Median	\$299,000	\$304,450	1.82%	\$270,000	-9.70%
Condo	Average	\$162,595	\$171,843	5.69%	\$133,528	-17.88%
	Median	\$155,900	\$196,000	25.72%	\$128,226	-17.75%
Attached	Average	\$244,372	\$267,795	9.59%	\$283,570	16.04%
	Median	\$250,000	\$259,750	3.90%	\$307,225	22.89%

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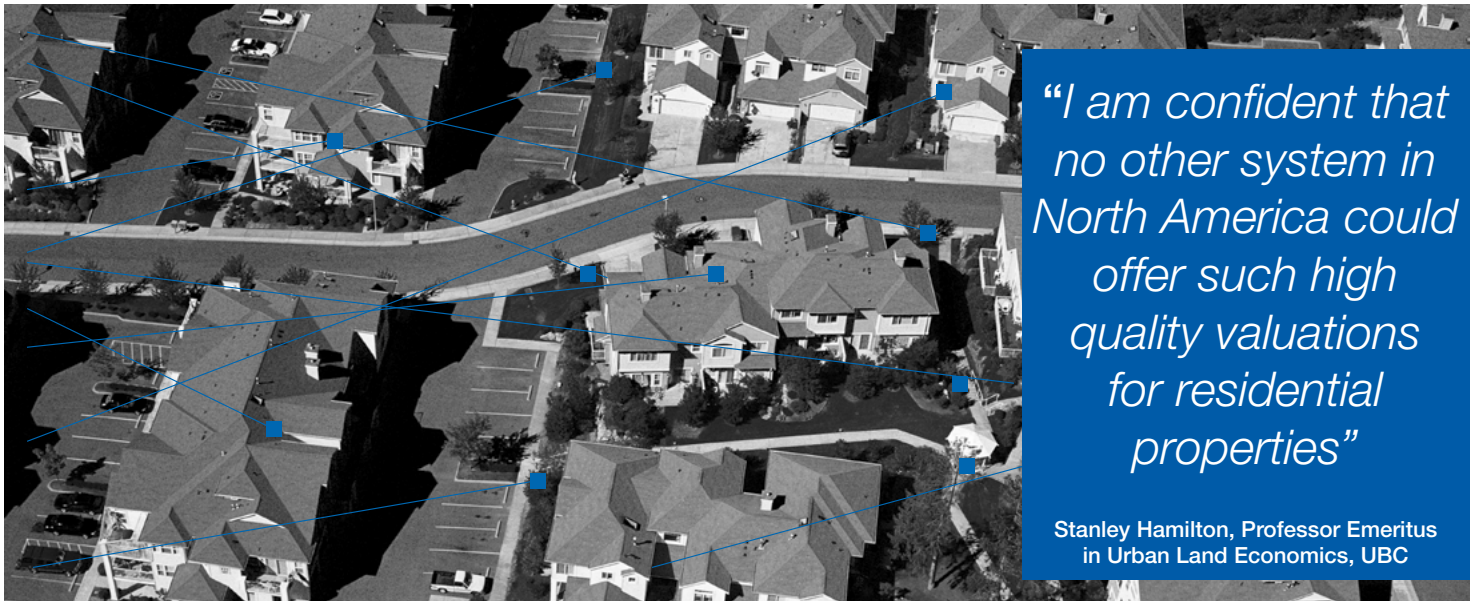
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