

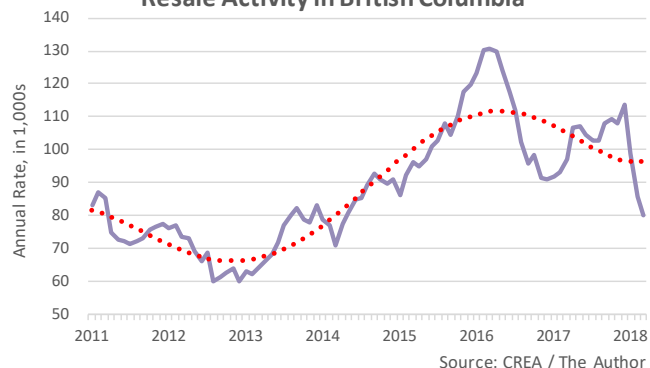
## Resale Market

Resale activity has slowed sharply in BC. Policies by the provincial and federal government (measures to discourage foreign buyers, plus the duo of mortgage stress tests) are directly reducing buying. Moreover, the resultant market volatility may be creating uncertainty that is causing potential home buyers (and sellers) to be more cautious. Higher interest rates are weighing on affordability. During the first quarter, the annualized sales rate was 88,000, which was 15% lower than the total for 2017. The downturn is greatest in the GVRD (a 22% drop), but the slowdown is widespread across the province. Across the 12 local areas for which CREA provides data, there is only one (South Okanagan, up by just 1%) showing increased sales in the first quarter.

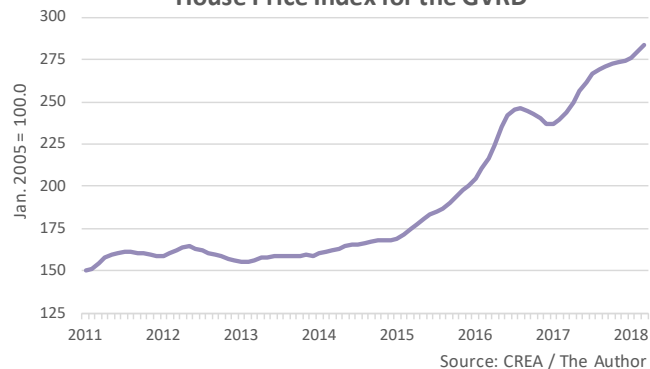
The average resale price for BC is highly distorted by changes in composition (the types and locations of properties sold). As an alternative, this chart shows CREA's House Price Index for the GVRD. The HPI continues to show rapid growth (up 16% year-over-year).

The sales-to-new-listings ratio ("SNLR") was 65% during the first quarter, which is far above the estimated threshold (47%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). Supply shortages are resulting in rapid price growth in many areas of the province.

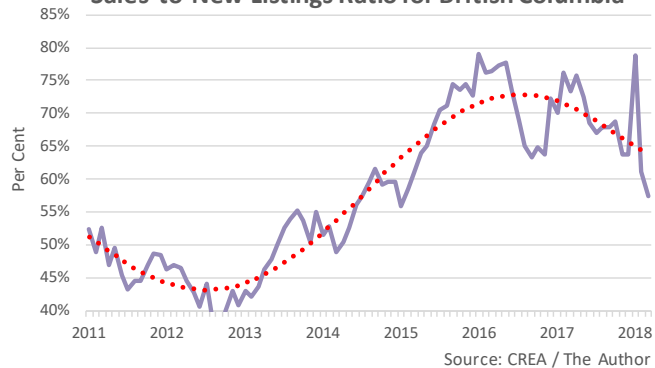
**Resale Activity in British Columbia**



**House Price Index for the GVRD**



**Sales-to-New-Listings Ratio for British Columbia**



# FIRST QUARTER 2018 HOUSING MARKET DIGEST BRITISH COLUMBIA

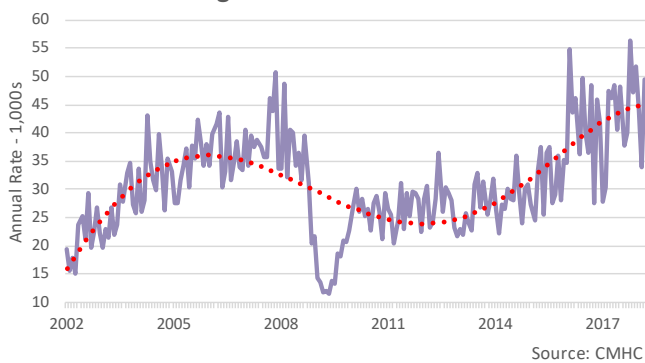


## Housing Starts

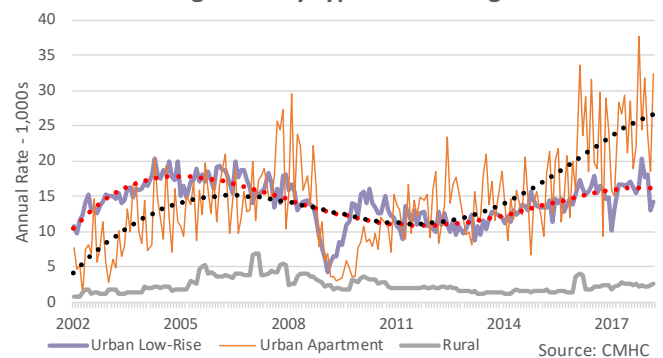
Housing starts are very strong in BC, at an annual rate of 47,000 during the first quarter. The trend line continues to rise. This is in sharp contrast to the sharp slowing for resale activity: housing starts lag behind the resale market, since they result from new home sales that occurred earlier.

For low-rise starts (singles, semi-detached, and town homes), this chart suggests that the trend has stopped rising, and it is likely to turn down within the next few months. For apartments, on the other hand, the lag between sales and starts is longer. Therefore, apartment starts should remain strong until later this year.

**Housing Starts in British Columbia**



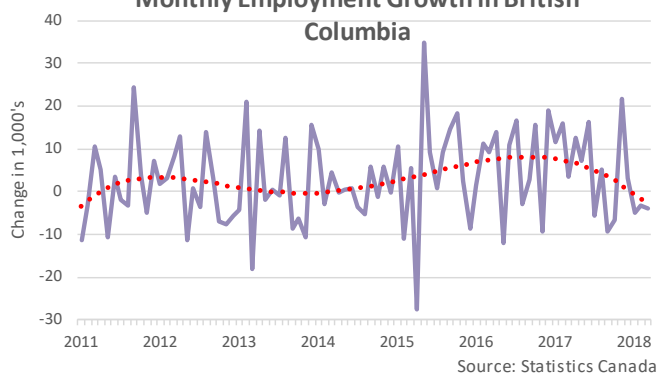
**Housing Starts by Type of Dwelling in BC**



## Employment Trends

Statistics Canada data suggests that job creation in BC has slowed sharply, as reductions have been reported for each of the last three months. Yet, it is possible that job creation was over-estimated last spring and summer. The recent weakness might be a correction of erroneous data, rather than a true reversal. At this time, the data is ambiguous.

**Monthly Employment Growth in British Columbia**



**Employment Rate in British Columbia**



## Employment Trends (Continued)

The recent unusual months also caused changes for the employment-to-population ratio. The trend for the very short-term is now uncertain, but it does appear that the employment rate has increased sharply during the past three years (which means that jobs have been created more rapidly than the population is growing). This is a healthy situation, which has contributed to strong housing demand.

Looking forward, there are some negative factors. These include the weakening of housing activity. The drop for resale activity will soon start to have minor effects. If housing starts also slow, that will have larger effects, but not until next year.

## Interest Rates

Bond yields (5-year Government of Canada) have been roughly flat since early January, albeit with some small movements that have reflected volatile policies and politics in the US.

My opinion-estimate of a typical “special offer” rate for 5-year fixed rate mortgages (major lenders) is 3.2% (lower rates can be negotiated). The spread versus 5-year Government of Canada bonds is just 1.0-1.1 points, versus an average of 1.83 points over the past decade. The compression of housing activity is resulting in more competition among lenders.

The Canadian dollar has strengthened versus the US (rather, the US dollar is weakening against major currencies). While it takes very long periods of time for the exchange rate to have significant effects on our economy, recent movements in the dollar will be mildly depressive..

Yields for 5-Year GoC Bonds



Canada-US Exchange Rate



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