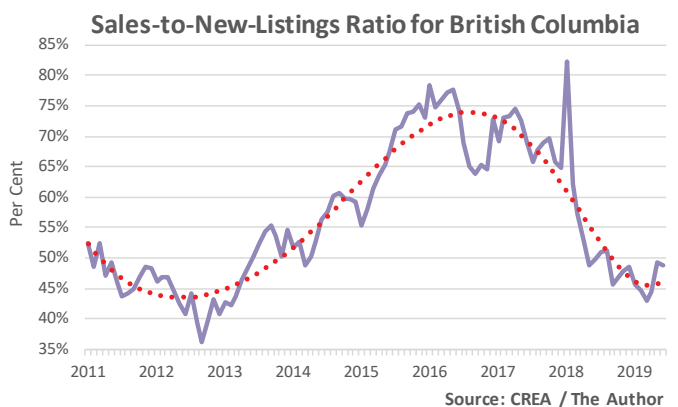
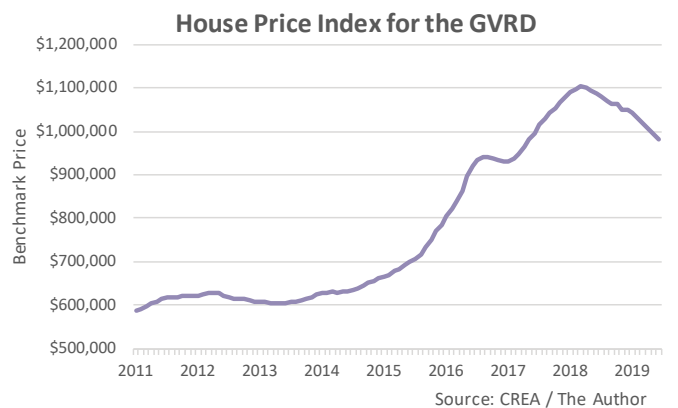
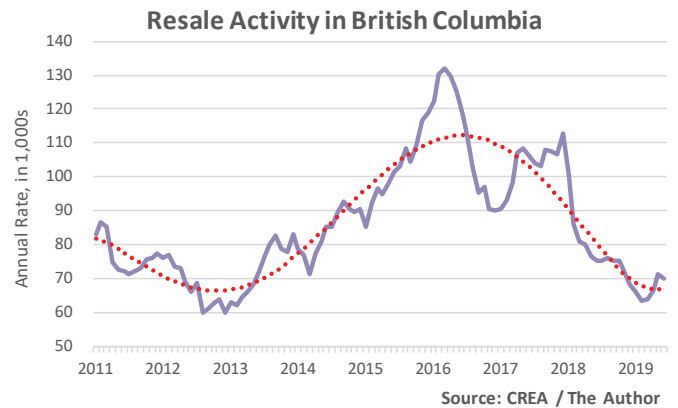


## Resale Market

Resale activity remains deeply depressed in BC. Over time, resale activity should trend upwards, due to growth in the population (expanding the number of potential buyers) and on-going construction of new homes (there are more properties that could be potentially sold). On a population adjusted basis, resale activity in BC is almost 30% below average. Two strongly negative factors are the federal mortgage stress tests and the provincial foreign buyer and speculation taxes. A second-round effect may now be developing: uncertainty about the future market (and the risk of price drops) may become a further deterrent to potential buyers. Fears about price reductions can become self-fulfilling.

It is difficult to use the provincial average resale price for analysis purposes, as changes in the locations and types of homes sold artificially distort the average. As an alternative, this chart shows CREA's House Price Index for the Greater Vancouver Regional District. On the other hand, CREA's estimates indicate that prices continue to rise rapidly on Vancouver Island.

The sales-to-new-listings ratio ("SNLR") has fallen quite sharply in BC. At 47% in the second quarter of this year, the SNLR is now equal to the threshold for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). In theory, prices should be rising, but because of the wide mix of conditions across the province, there are very few (if any) communities that are behaving in line with the expected average.

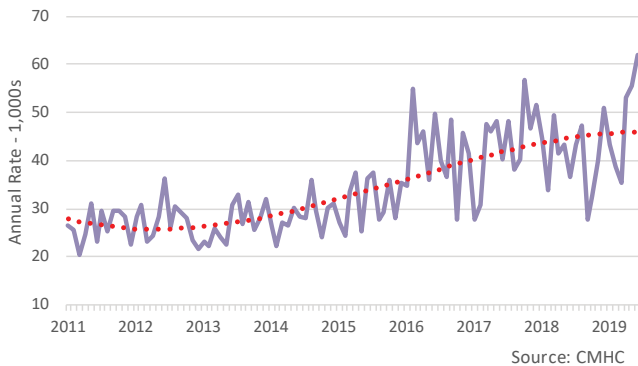


## Housing Starts

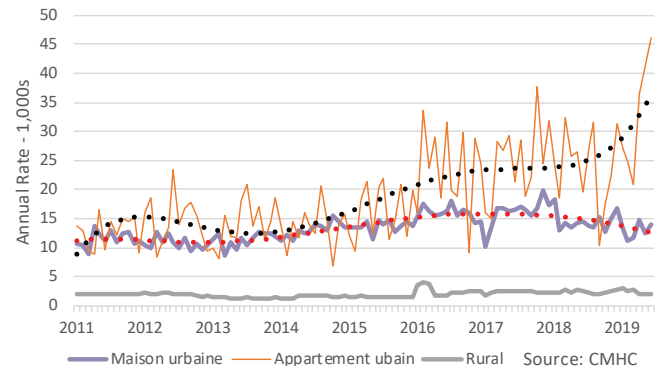
BC saw a surprisingly large number of housing starts during the second quarter: previously, total starts had been trending downwards, but the recent surge has altered that trend.

That recent surge is entirely due to apartments, as projects that were pre-sold earlier finally proceeded to construction. Apartment starts (and the total) is quite likely to slow during the second half of this year and into 2020. Starts of low-rise homes (singles, semi-detached, and town homes) have trended slowly downwards during the past two years, from levels that were already quite low.

**Housing Starts in British Columbia**



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



## Population Growth

Statistics Canada estimates that the population of BC is currently growing at only a modest rate: the relatively flat rate of population growth during the past decade makes this a neutral factor for housing demand.

**Population Growth in British Columbia**

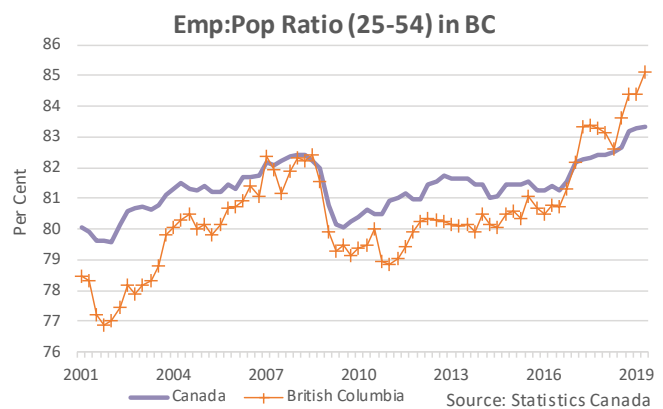
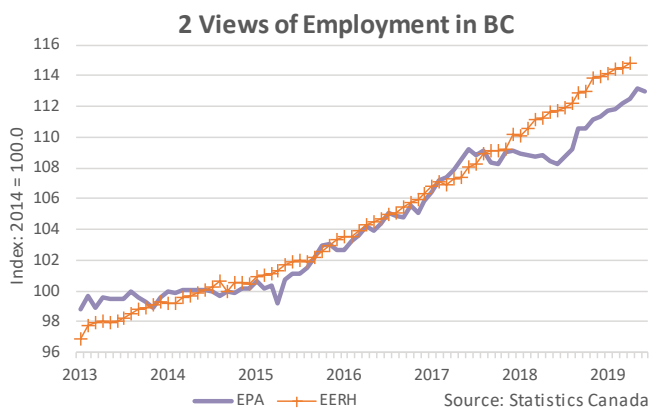


## Employment Trends

Statistics Canada's two surveys of employment both show long periods with strong rates of job creation. The Labour Force Survey ("LFS"), which is based on personal surveys, shows an average growth rate of 2.8% per year during the past four years. The Survey of Employment Payrolls and Hours ("SEPH"), which is based on a survey of companies, show even stronger growth, at 3.2% per year. Either of these estimates is very positive for housing demand, and BC should be seeing sustained strong home sales.

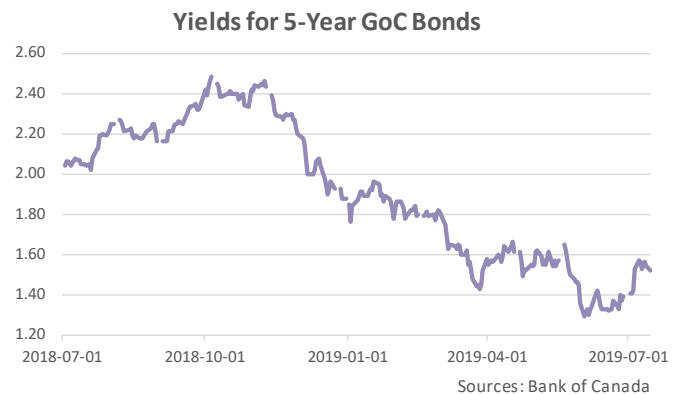
## Employment Trends (Continued)

The actual weak performance shows the strong negative influences of federal and provincial government policies. The employment-to-population ratio (the percentage of people who have jobs) for the “prime working ages” (25-54) is difficult to interpret, due to the large waves of movements in the data. Taken at face value, this data shows recent considerable strength, which should be a positive factor for population growth and for home buying.



## Interest Rates

Bond yields fell sharply during the late spring, but have now partially reversed that drop. As of mid-July, the yield for 5-year Government of Canada bonds is in the area of 1.5%. My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate, from major lenders) has been reduced six times this year (from 3.75% at the start of the year to a current 2.8%). Because housing activity has slowed for all of Canada, demand for mortgages has been reduced and the mortgage market has become much more competitive: the spread between 5-year fixed-rate mortgages versus 5-year bonds is now just 1.3 points (versus a long-term average of 1.8). At this point, we should expect that mortgage rates have bottomed.



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