FIRST QUARTER 2019

HOUSING MARKET DIGEST

BRITISH COLUMBIA

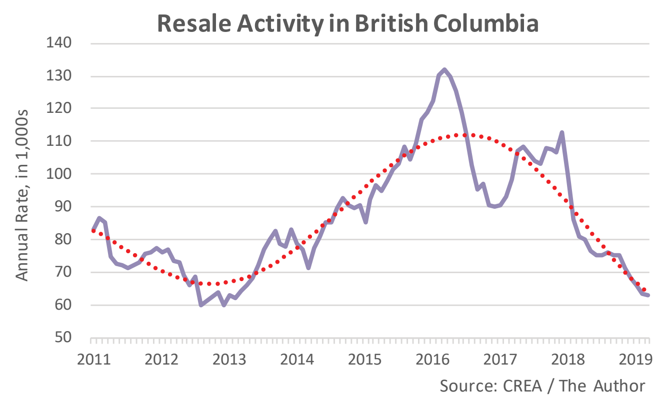
MORTGAGE PROFESSIONALS CANADA

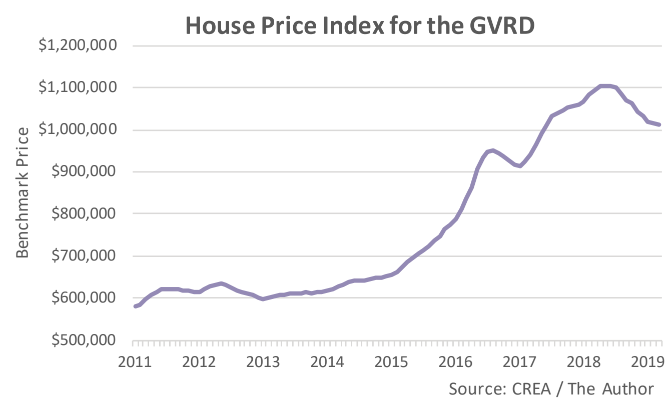
Resale Market

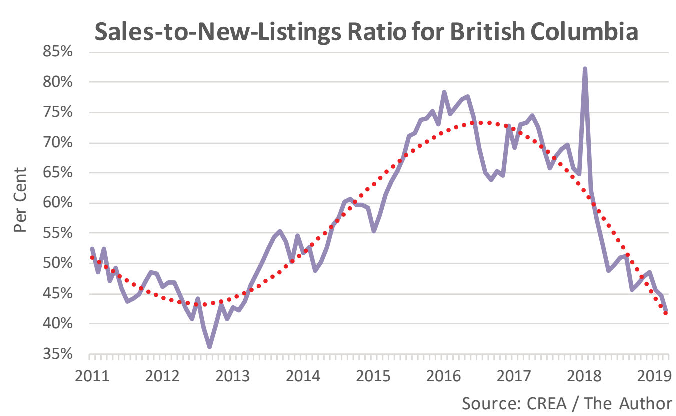
Resale activity has fallen very sharply. Adjusting for population growth, the sales rate is now 36% below the long-term average (2001 to the present). Key factors are quite mixed: employment might be a positive factor (as is discussed below) but a slowdown of population growth is a negative: population growth has averaged just 1.36% during the past two years, versus an average of 1.58% for 1986 to the present. Most importantly government policies - the federal mortgage stress tests and the provincial foreign buyer and speculation taxes – are weighing heavily on potential buyers. 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, CREA's House Price Index for the Greater Vancouver Regional District suggests a drop of 7.7% during the past year. Prices are still higher than before mid-2017.

The sales-to-new-listings ratio ("SNLR") has fallen quite sharply in BC. At 44% in the first quarter of this year, the SNLR is slightly below the threshold (estimated at 47%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). In that light, the estimated price drop of 7.7% is surprisingly large. This just highlights the difficulty of interpreting data during a time of very rapid change. Taken at face value, the SNLR should point to more-or-less stable pricing.

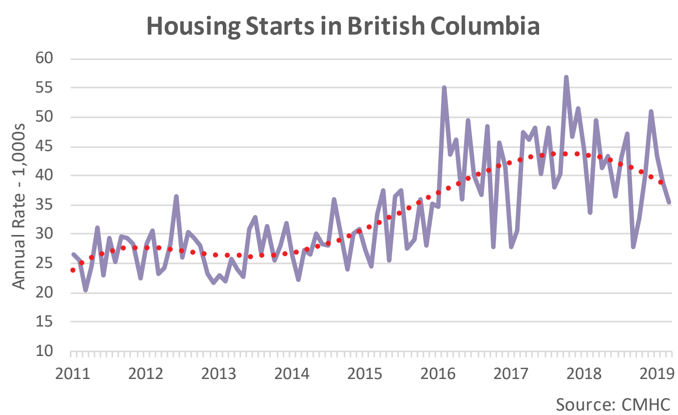


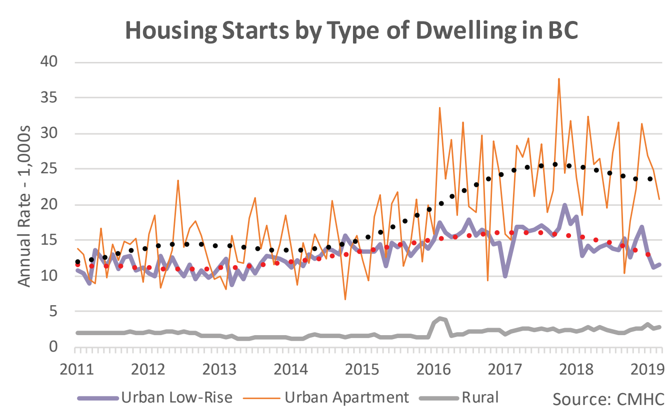




Housing Starts

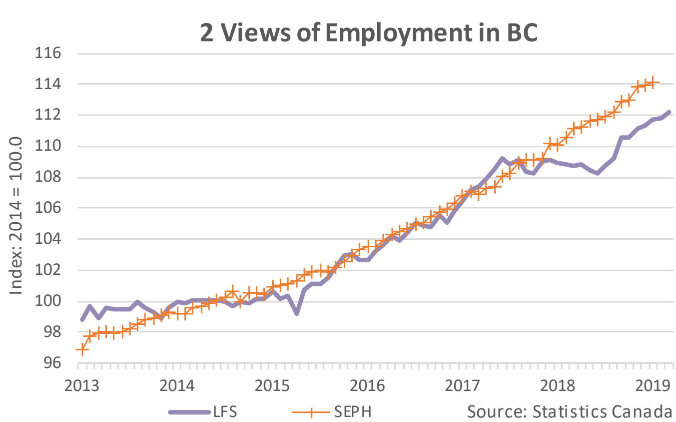
Housing starts are in the process of slowing, and the trend is now down by about 10% from the peak. This will gradually develop into a drag on the provincial economy, as construction is completed on the dwellings that are now under construction. Starts fell first for low-rise homes (singles, semi-detached, and town homes). It takes apartments longer to react to changing conditions, and that data is now hinting at a slowdown. There are quite likely to be further reductions during the coming year.

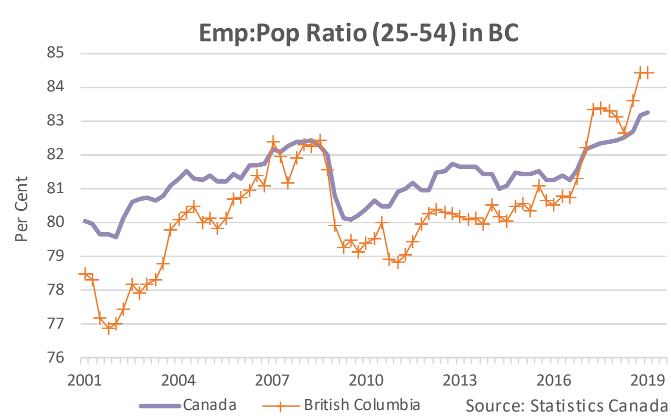




Employment Trends

Statistics Canada's two surveys of employment both show long histories of job growth within British Columbia. However, during the past two years, the surveys have differed in terms of strength. The Labour Force Survey ("LFS"), which is based on personal surveys, shows a recent emergence from a period of negligible growth. This means that the LFS shows a less positive situation compared to the Survey of Employment Payrolls and Hours ("SEPH"), which is based on a survey of companies. If the LFS data is correct, it would partially explain the weakness of home buying. However, given the designs of these two surveys, I believe that the SEPH data is probably more accurate, in which case, housing demand should be much stronger than it has been.





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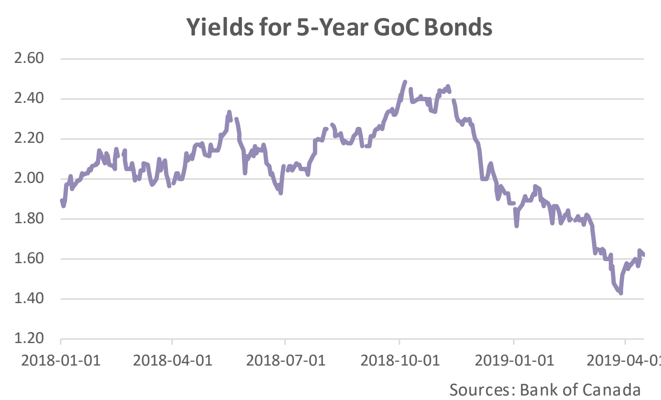
Employment Trends (Continued)

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 might have "overshot" early this year (fallen by too much given evolving economic conditions). Thus, the 5-year yield has partially retraced some of the recent drop. But, at a current 1.6%, the yield is still about 0.8 points above the trough that was seen during 2015 and 2016.

I have reduced my opinion-estimate of a typical "special offer" mortgage interest rate (from major lenders) for the third time this year, to 3.1% (versus 3.75% at the start of the year). Movements in mortgage rates are lagging behind the changes in bond yields. The spread between typical mortgage rates and bond yields is now skinny (1.5 points versus a long-term average of 1.8). I won't be surprised if 5-year fixed rates are a bit higher during the second half of this year (say 3.25% to 3.5%).



Comments on Federal Mortgage Policies

The Canada edition of Housing Market Digest (April 2019) includes some thoughts on the federal government's proposed First-time Home Buyers Incentive (the shared equity mortgage). The main take-away is that CMHC's own estimates suggest that it expects a very small impact, which will only partially offset the damage done by the mortgage stress tests (perhaps 1/10th).

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