FOURTH QUARTER 2018

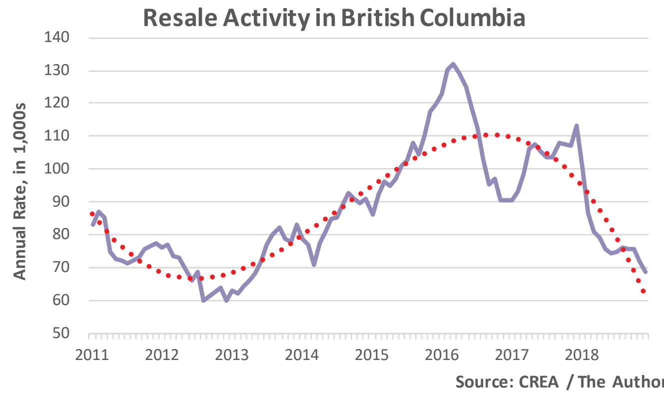
HOUSING MARKET DIGEST

BRITISH COLUMBIA

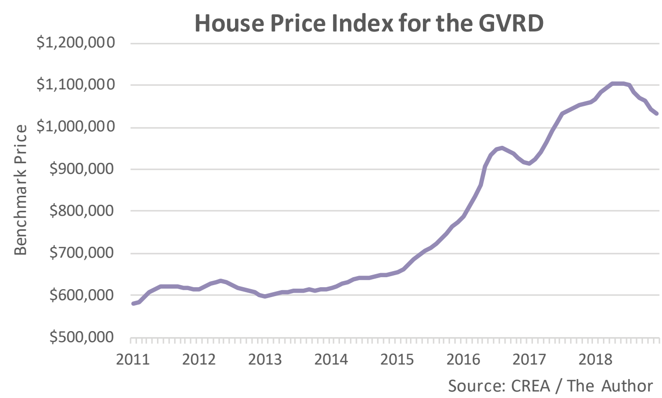
MORTGAGE PROFESSIONALS CANADA

Resale Market

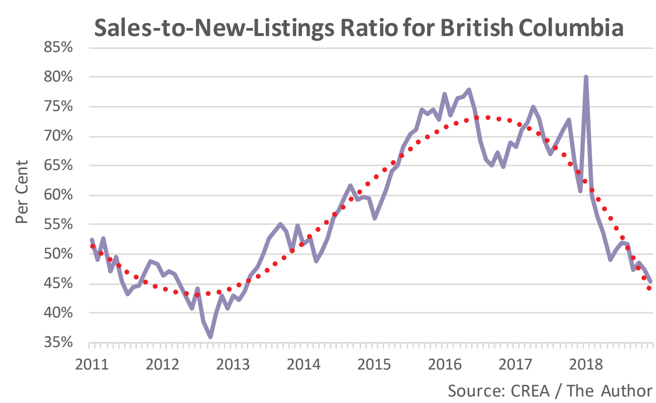
Resale activity has fallen deeply. For 2018, total sales (78,347) were 24% lower than in 2017 and 30% lower compared to the record set in 2016. While economic conditions should be supportive, a combination of provincial policies (to limit buying by non-residents and speculators), on top of the federally-mandated mortgage stress tests (plus higher interest rates), are discouraging home-buying.



The provincial average price is being distorted by changes in the composition of sales (the locations and types of homes sold). Instead, this chart shows CREA's estimated composite benchmark price for the Greater Vancouver area. This data shows a sharp drop during the past four months, which may be partly a normal seasonal event (prices tend to be highest in the spring) but this data also hints that a downward trend might be developing.



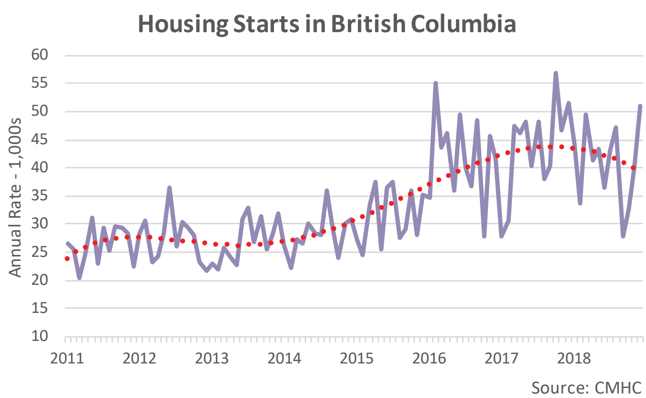
Flows of new listings into the resale market have slowed fractionally (by just 1.4% for 2018 versus 2017). As the result, the sales-to-new-listings ratio ("SNLR") has fallen sharply: it averaged 53% for 2018, but is now approaching 45%. This is close to the threshold (estimated at 47%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). These figures are for the province as a whole. But, for the GVRD, the SNLR has fallen below 40%, versus an estimated threshold of 49%. Taken at face value, these figures suggest that prices could fall in the GVRD, but be stable or rise in many other areas of the province. All of this said, evolving consumer confidence and expectations will be very important during 2019.

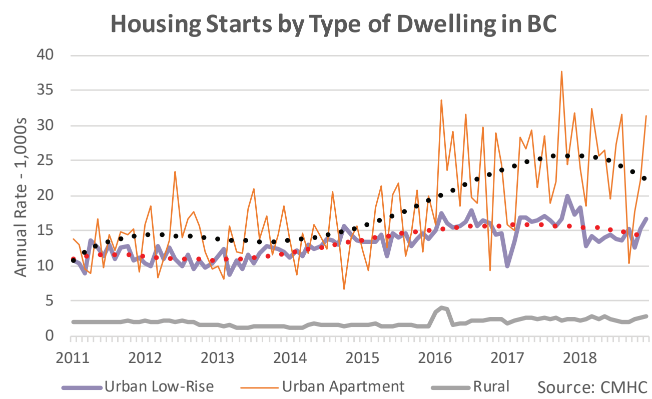


Housing Starts

Housing starts are now trending downwards in BC, although they are still at a high level. Housing starts follow behind trends in the resale market (since starts largely result from pre-construction sales that happened earlier). We can expect to see further reductions for starts, in response to on-going changes in conditions. For low-rise homes (singles, semi-detached, and town homes) in urban areas, the lag time is relatively short. But, starts of low-rises in BC were lower than they ought to have been, and therefore the trend has not been altered very much.

For apartments, the lag time is longer. In BC, the trend appears to have turned down, but this is due to just two months with unusually low apartment starts (September and October). There is uncertainty about the "true" trend at present. That said, it is extremely likely that apartment starts will fall sharply during 2019 and 2020, bringing a substantial further reduction in the trend for total starts.





Employment Trends

Statistics Canada's reports on the employment situation presented some surprises during 2018, suggesting that there were job losses during the first half of the year and that employment growth slowed, to 1.8% at year end, versus 3.1% a year earlier (according to the Labour Force Survey, or "LFS"). This slowdown should, if it is correct, point towards a future reduction in housing demand. At face value, it would partially explain the weakening of housing indicators.

StatsCan has another employment survey (the Survey of Employment, Payrolls and Hours, or "SEPH"), and it tells a quite different story. It shows job growth of 3.6% (but, for the year up to October), on top of 3.8% growth in 2017. This data points towards continued very strong housing demand.

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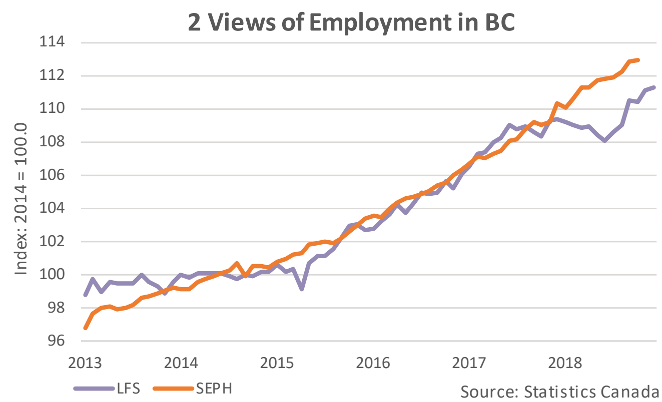
Employment Trends (Continued)

In this chart, I have converted the two datasets into "indexes", to make them easier to compare.

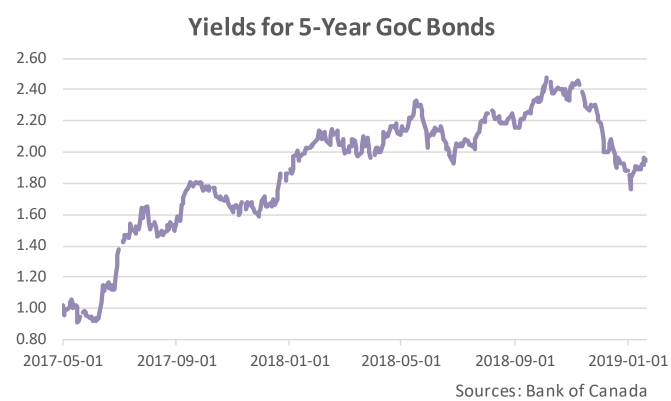
I believe that the SEPH data is probably more reliable than LFS. Therefore, BC should be experiencing continued very strong housing activity, but the federal and provincial policies have been highly disruptive. The issues are discussed in more detail in the new edition of the "Annual State of the Residential Mortgage Market in Canada" (in the section "Outlook for the Mortgage Market").



Interest Rates

It appears that the sharp drop in bond yields has ended. Attitudes remain volatile in financial markets. I would not be surprised to see moderate increases in bond yields during the next two months, as economic fears may have become overdone. Further, reckless fiscal policies in the US will continue to result in enormous borrowing requirements, and rising political risks in the US could reduce interest in bonds.

Mortgage rates did not follow the drops in bond yields. My opinion-estimate of a typical "special offer" mortgage interest rate (from major lenders) has been reduced to 3.60% (as of January 21). This is, as usual, far below the 5-year "posted rate" of 5.34%). The spread between bonds and mortgages is now about 1.65 points, slightly below the historic average of 1.8 points. Looking ahead, therefore, changes in mortgage rates might become more closely related to changing bond yields. My opinion-estimate for 5-year variable rates increased (today) to 3.20%. This is 0.75 points below prime.



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