

Resale Market

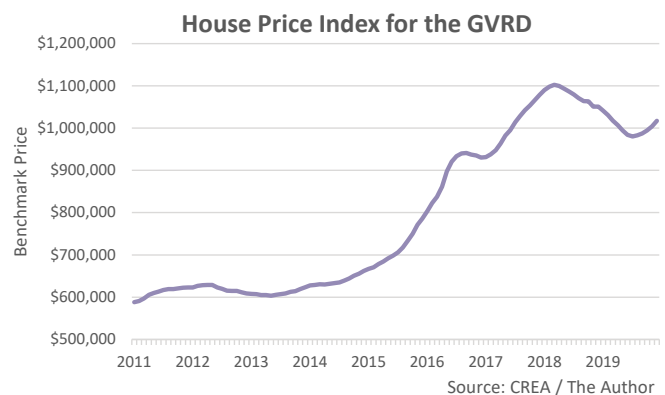
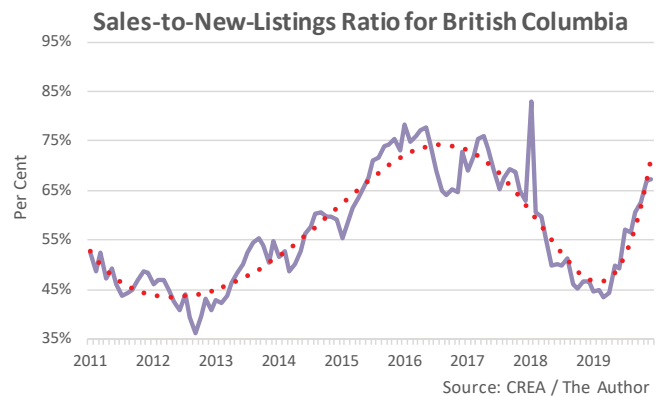
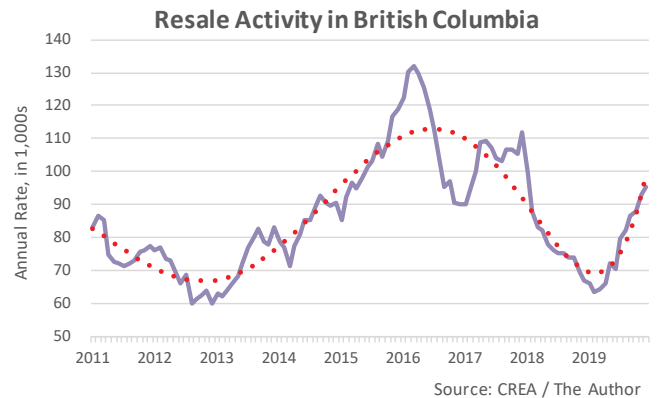
Resale activity has improved rapidly in recent times, but from a very weak level. The sales rate during the fourth quarter was 11% higher versus the third quarter. Fears about price declines (especially within the GVRD) had no doubt caused many potential buyers to hesitate. It appears that those fears are dissipating. Furthermore, recent rises in mortgage interest rates might have given a push to sales, as buyers take advantage of pre-approvals before they expire. That positive effect may now be ending. Due to this mix of factors, it appears most likely that there will be some further improvement in the sales trend in the next few months, but at a less rapid rate.

For the entire year, sales fell by 1.5%, to about 77,300.

On a population-adjusted basis, sales in 2019 were 21% lower than the long-term (2001-2019) average. A combination of negative impacts from federal and provincial policies, plus consumers' fears, has been partly offset by low interest rates.

The sales-to-new-listings ratio ("SNLR") jumped to 66% in the fourth quarter (from 58% in the third quarter). This is now significantly above the threshold (estimated at 47%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year).

Prices had been declining, but with the upturn for the SNLR, prices have recently begun to strengthen. The House Price Index (produced by the Canadian Real Estate Association) is still about 5% lower than it was a year ago. But, during the past four months, it has increased at an annualized rate of 10%. Given the elevated level of the SNLR, we should expect further rapid price growth for a while.



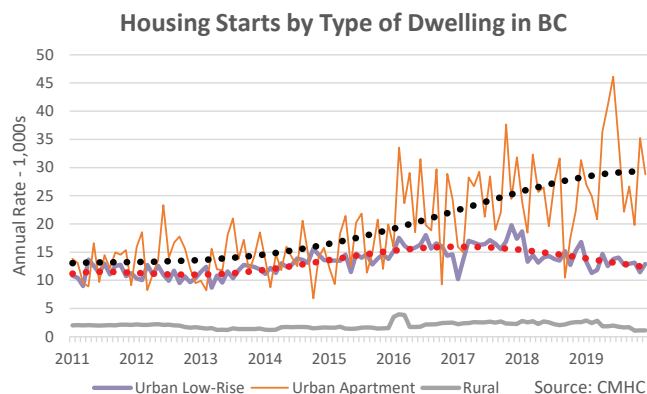
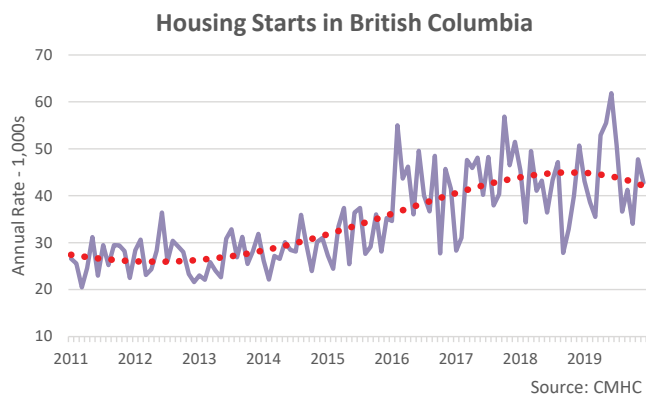
FOURTH QUARTER 2019 HOUSING MARKET DIGEST BRITISH COLUMBIA



Housing Starts

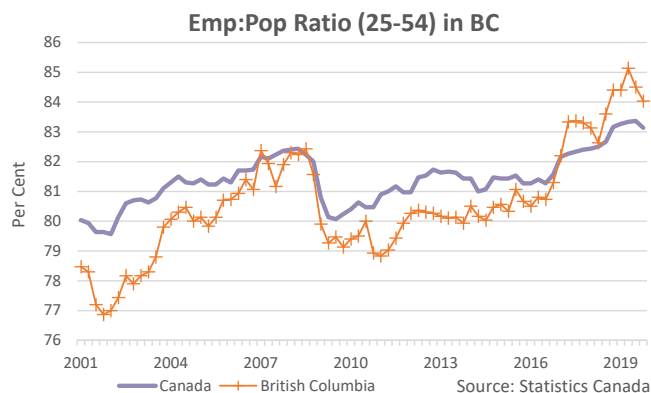
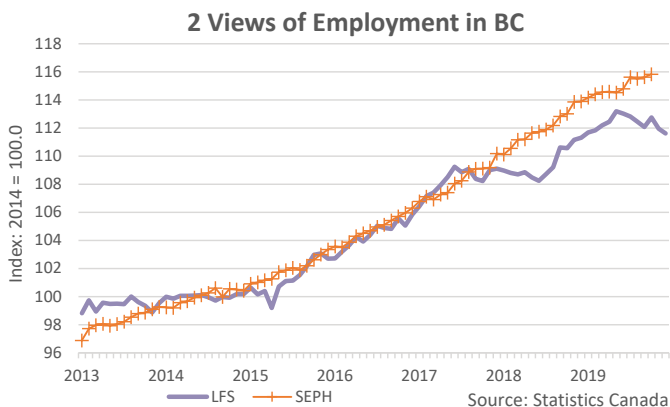
Housing starts are quite strong, although there was a slight drop (3%) in the fourth quarter from the third quarter. For the year, starts hit an all-time record (44,932). This was 47% above the 20-year average of 30,579.

Starts are quite weak for low-rise homes (especially for single-detached homes, which were 19% below the 20-year average). Apartment starts, on the other hand, have expanded, and the total in 2019 was 106% above the 20-year average.



Employment Trends

Statistics Canada's two surveys of employment had shown strong growth since 2015, but for 2019, they are at odds. The Labour Force Survey shows growth of just 0.3% from a year ago, as of December. The Survey of Employment, Payrolls and Hours shows growth of 2.5% (but as of October). This inconsistent data creates added uncertainty about the housing market outlook.



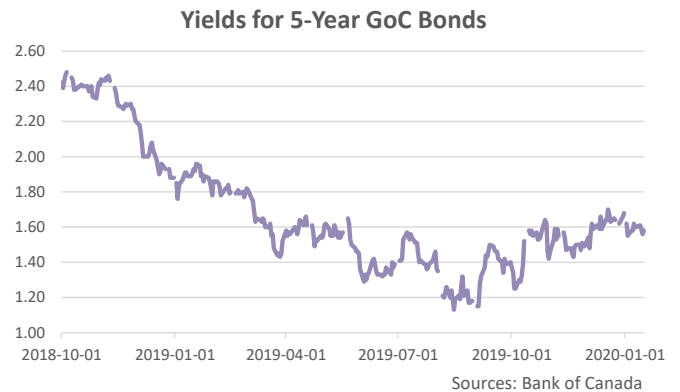
Employment Trends (Continued)

The employment-to-population ratio for “prime working age” adults (25-54) is volatile, most likely this is a random variation that is often found in surveys with small samples.

This data indicates that the current situation is quite strong in historic terms. It also shows that while BC, for many years, had an employment rate below the national average, it has been above average in recent times. This is a positive factor for future population growth, as the province has become comparatively more attractive to job seekers.

Interest Rates

Bond yields are now more-or-less where they should be: the current yield for 5-year Government of Canada bonds is 1.57% (as of January 16), within the range of 1.5-1.75% that I think is appropriate, and I don't expect these yields to change materially during the next few months. My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate from major lenders) has been 2.85% since early November.



The spread between mortgage rates and bond yields remains skinny (in the area of 1.2-1.3 points versus a long-term average of 1.8 points), due to intense competition. Variable rates are unchanged (my opinion-estimate remains at 2.95%).

Rental Markets

Every October, Canada Mortgage and Housing Corporation does a comprehensive survey of residential rental markets in Canada. The results for 2019 were released on January 15. For the urban areas of BC, the October 2019 vacancy rate was 1.5%, which was a fractional increase from 1.4% a year earlier. This is still a very low vacancy rate. The average vacancy rate for the period shown in this chart is 2.4%.

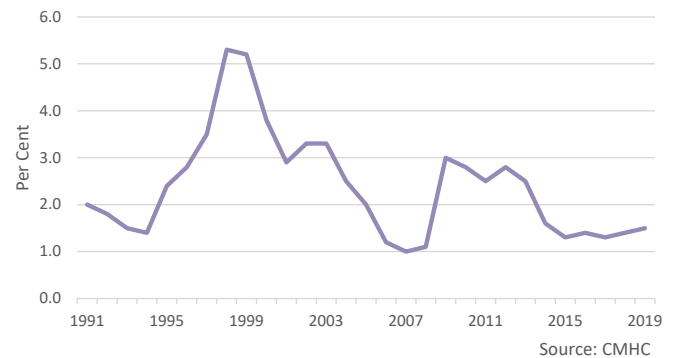
The flat vacancy rate during the past five years indicates that housing construction has more-or-less matched the need for new housing. Supply is not just about construction of rentals: new ownership housing creates opportunities for tenants to move out. During 2019, there were about 39,400 housing completions. This is 42% above the 20-year average. Based on trends for housing starts I expect the vacancy rate might rise a bit more during 2020 and 2021. But, there will still be upwards pressure on rents.

Rental Markets (Continued)

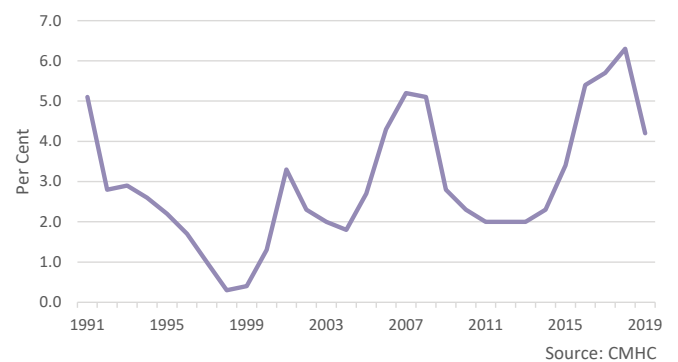
CMHC estimates that rents increased by 4.2% during the past year. This is an improvement compared to the prior three years, but it still means that tenants are facing worsening challenges.

Occasionally, comments are made that a healthy vacancy rate is 3%. I have investigated the origins of this, and as far as I can tell, this has never been supported by actual research. In response, I have calculated the statistical relationships between vacancy rates and rent increases. For BC, we should expect rents to increase by 2% per year when the vacancy rate is 3.2%. This is my opinion on a healthy (“balanced market”) vacancy rate. The calculated balanced market vacancy rates vary across the provinces and cities of Canada. For Vancouver, the estimated balanced market vacancy rate is below 2%. For all of Canada, the estimated threshold is 3.7%.

Rental Market Vacancy Rate in British Columbia



Rent Increases in British Columbia



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