

# FOURTH QUARTER 2020 HOUSING MARKET DIGEST BRITISH COLUMBIA



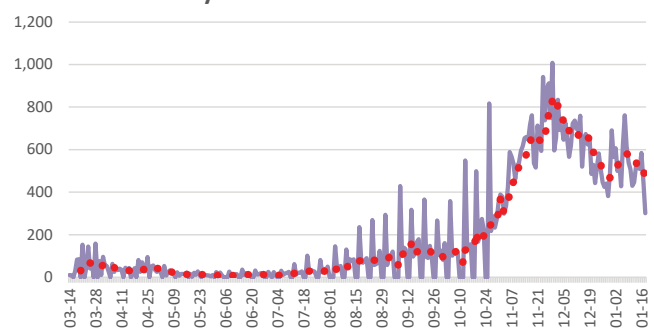
## Staying Safe

British Columbia experienced a sharp rise in the rate of Covid-19 infections during the fall, although there has been some improvement recently. While the rate of new infections is still high, it is “less bad” than the national average (expressed on a per million or per 100,000 basis, the current rate is about one-half of the Canadian average). This chart shows data up to January 18. Current data can be found here:

<https://health-infobase.canada.ca/src/data/covidLive/covid19.csv>

New data are showing emerging economic effects from the resurgent spread of the virus. However, the data is produced with lags and therefore there is uncertainty about the current impacts. I am still unwilling to produce any forecasts on what might happen to the housing market or the broader economy, because we can't know how this will unfold.

Daily New Covid-19 Cases in BC



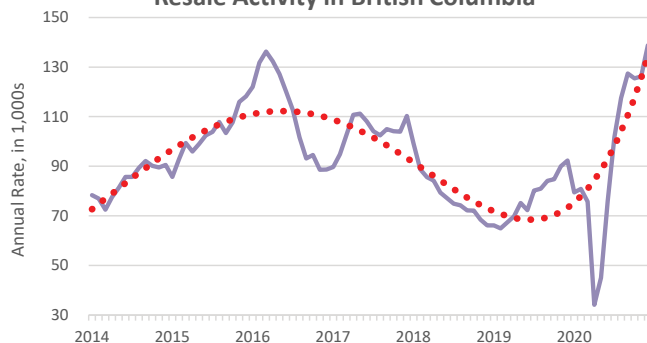
Source: Public Health Agency of Canada

## Resale Market

Resale activity has rebounded quite strongly in BC, and for the fourth quarter, the annualized sales rate was 130,000, which is the highest quarterly rate ever recorded in the province (this is fractionally higher than the previous record, which was set in the second quarter of 2016). For the entire year, sales totaled 94,021 which (unlike all of Canada and most of the other provinces) was not a new annual record.

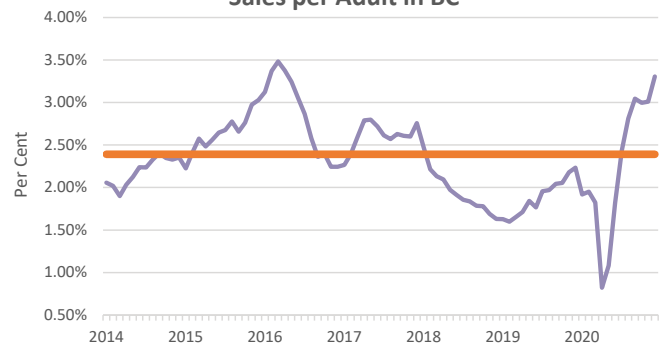
Looking at sales rates over the past two decades and then making an adjustment for population growth, I calculate that the long-term average rate for 2020 would be about 99,700. On this basis, the sales rate for 2020 was 5.7% below average.

Resale Activity in British Columbia



Source: CREA / The Author

Sales per Adult in BC



Source: The Author

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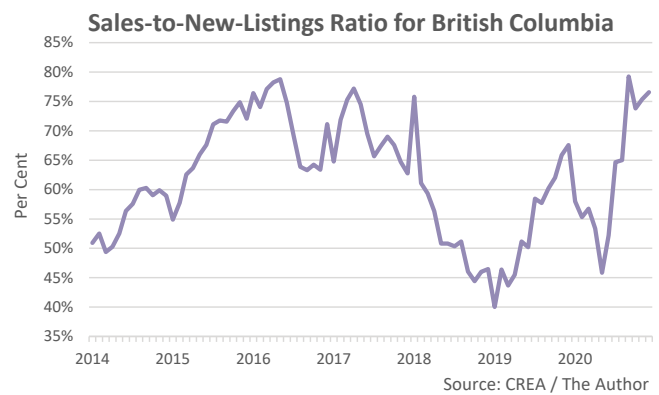
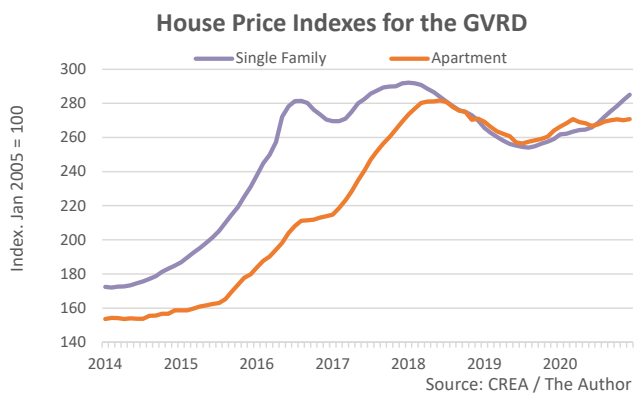


## Resale Market (Continued)

In part, 2020 looks spectacular because home buying was depressed during 2018 and 2019 by the mortgage stress tests, as well as provincial policies that have discouraged buying by non-residents.

The flow of new listings into the market has failed to keep up with demand, which has caused the provincial sales-to-new-listings ratio (“SNLR”) to increase. The SNLR has averaged 72% during the past six months, far above the threshold for a “balanced market”, which may be in the range of 47% - this is the level at which prices are expected to rise by 2% per year.

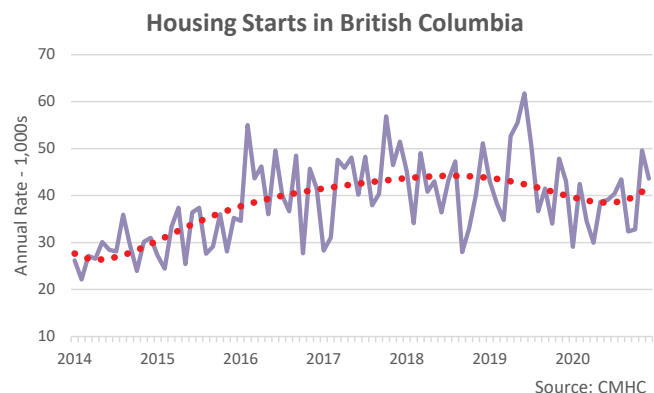
The tightened state-of-balance is now resulting in rapid price growth. CREA’s house price index for the GVRD has increased by 4.1% during the past six months (expressed as an annualized rate, this is 8.4%). In many areas across Canada, data is showing movement away from apartments, towards low-rise homes. For the GVRD, the price index for single-detached homes has increased by 7.2% during the past six months but for apartments the increase is 1.5%. The benchmark prices for the GVRD have not yet returned to the peak levels that were seen in early 2018.



## Housing Starts

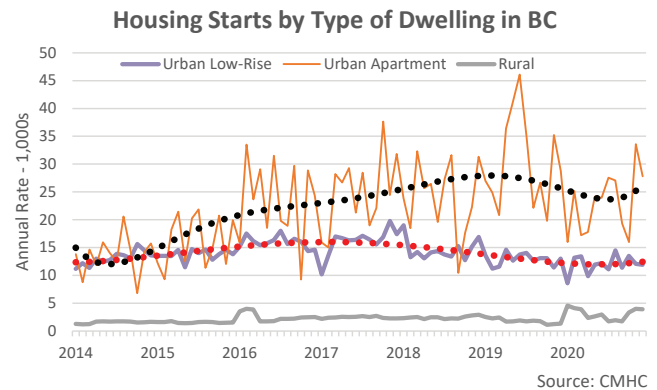
The year began with weak housing starts, but strength was seen in the second half. In the fourth quarter, the annualized starts rate was 40,900.

For the entire year, total starts (37,734 units) were 19% above the 20-year average.



## Housing Starts (Continued)

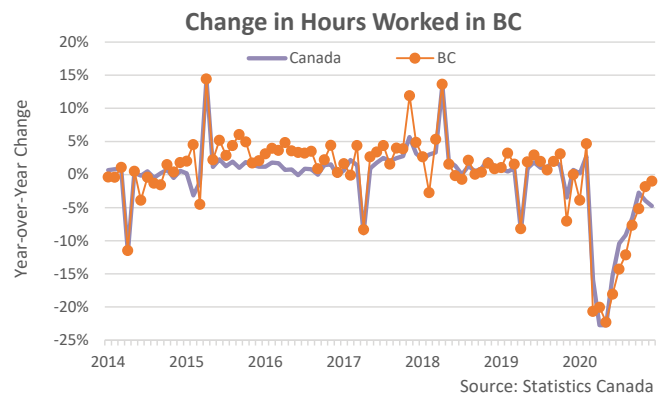
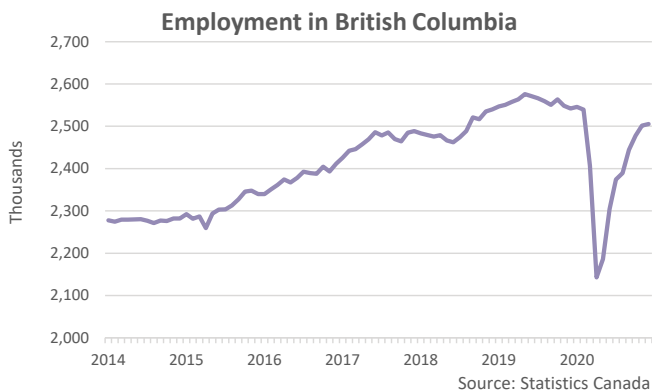
Apartment activity has been very strong for several years (although volatility in the data creates uncertainty about the recent trend). For low-rises (single-detached, semi-detached, and town homes) activity has been too low for many years, and there has been further slowing during the past three years. The data on housing starts continue to imply that during the coming year (and beyond) we will see shortages in resale markets for low-rise homes and there is a significant risk of excessive supply for apartments.



## Employment Trends

Employment showed a small further improvement during the fourth quarter. Statistics Canada estimates that employment fell by 397,000 during March and April, but since then 363,000 jobs have been regained. As of December, total employment is estimated to be 34,000 (or 1.3%) lower than in February. For all of Canada, the current shortfall is worse, at 3.3%.

The next chart looks at employment in terms of numbers of hours worked. As of December, total hours for BC are 1.0% lower than a year ago. The reduction for all of Canada is larger, at 4.7%.

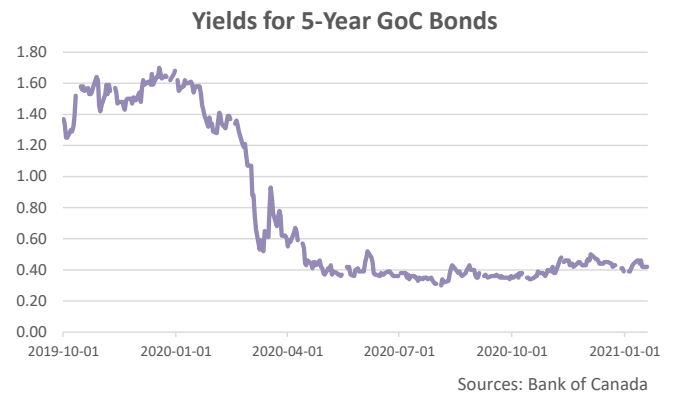


## Interest Rates

In reaction to positive news about Covid-19 vaccines, bond yields rose slightly during November. Since then, there have been only minor variations. The yield for 5-year Government of Canada bonds has been in the area of 0.45%, just slightly higher than the record lows that were seen during the summer and early fall.

Mortgage interest rates remain extremely low. My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate, advertised by major lenders) is now 1.65% (even lower rates can be negotiated). The spread between mortgage rates and bond yields is just 1.2 points, which is below the long-term average of 1.8 points. For variable rates, my opinion-estimate is now 1.35%.

As commented previously, the rate used in the mortgage stress tests remains ridiculous, at 4.79%.



## Rental Markets

CMHC will release the results from its October survey on January 28. Two years ago, the release occurred on November 28.

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