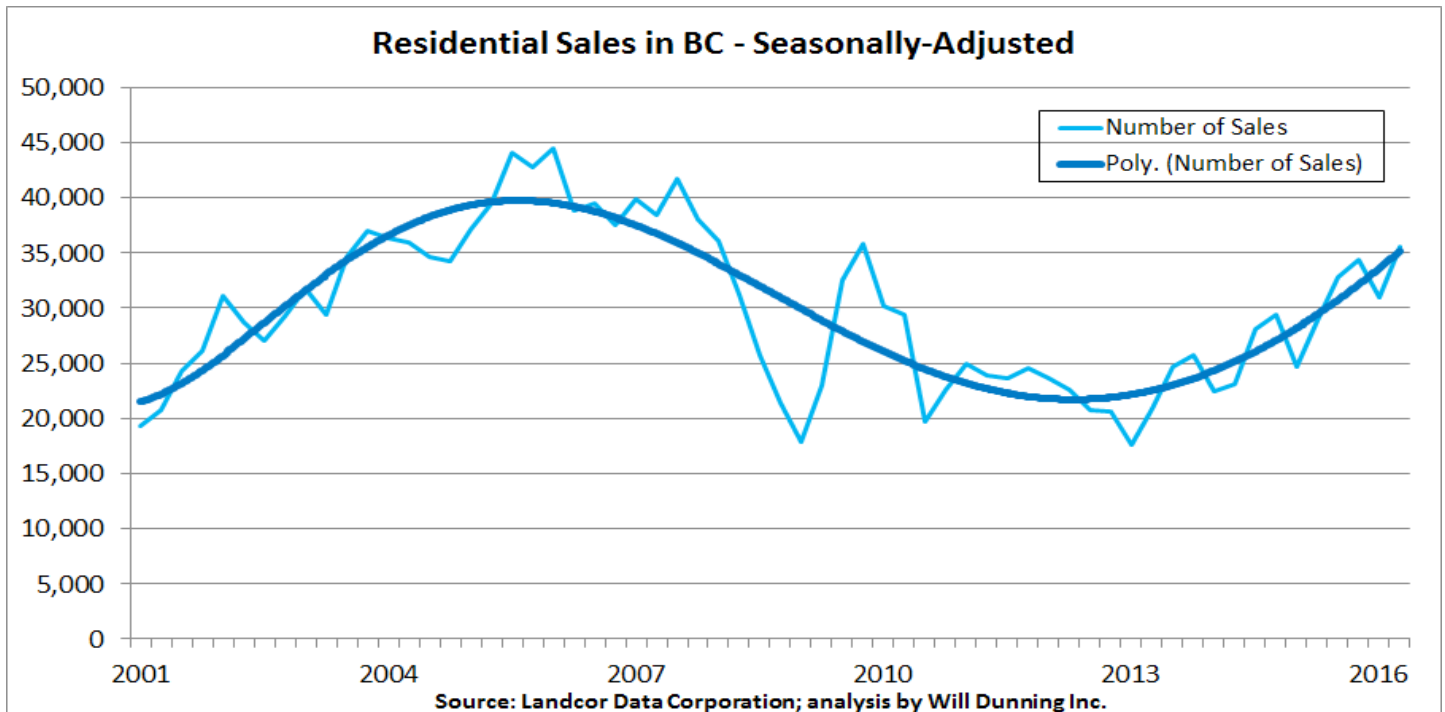


Report prepared by economist WILL DUNNING. Views expressed by Will Dunning are his own and do not necessarily represent those of Landcor Data Corporation. Will Dunning operates a consulting firm that specializes in analysis of housing markets.

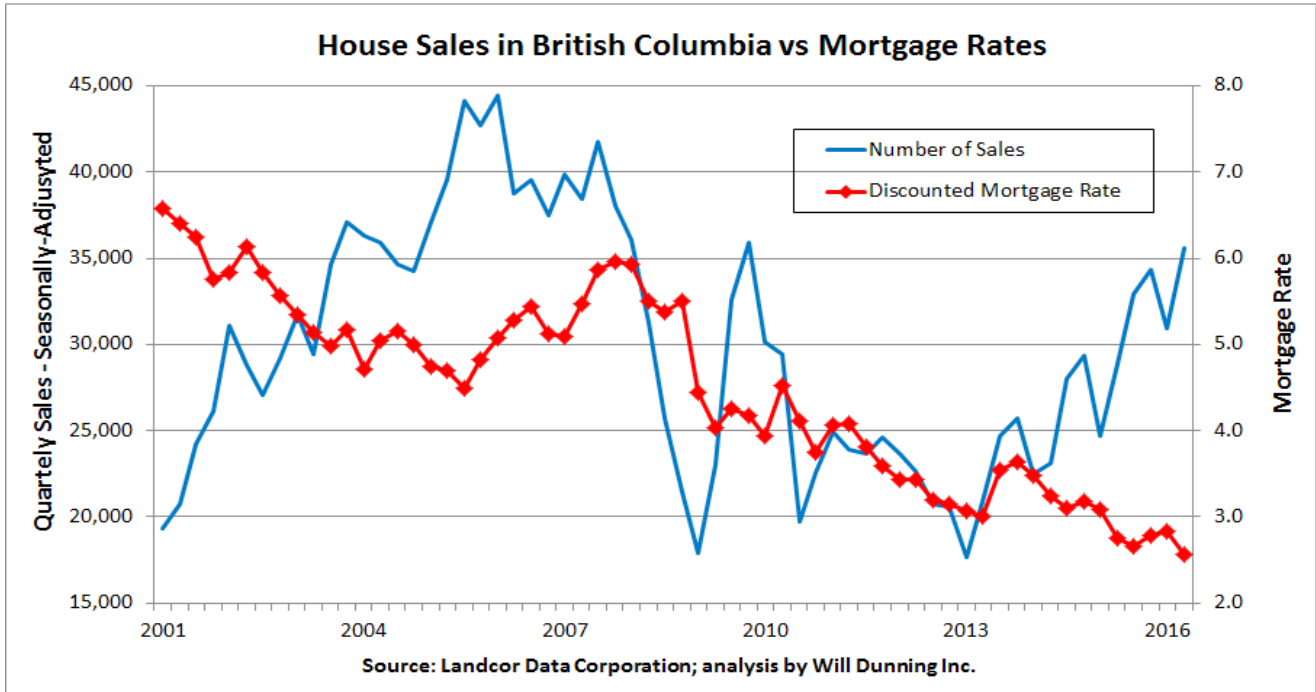
BC Housing Market Overview

Landcor's data shows that residential real estate activity continues to strengthen in British Columbia. During the second quarter of 2016, 42,705 actual transactions were recorded. On a seasonally adjusted basis, these sales equated to 35,600 units, which is the highest seasonally-adjusted rate since 2009. The trend line is shown in the charts as "Poly." (which refers to a "polynomial" trend line that is generated by Excel). At present the trend line is about 50% higher than the trough seen during 2011 and 2012. The sales trend line is still below the peak seen during 2005 and 2006.

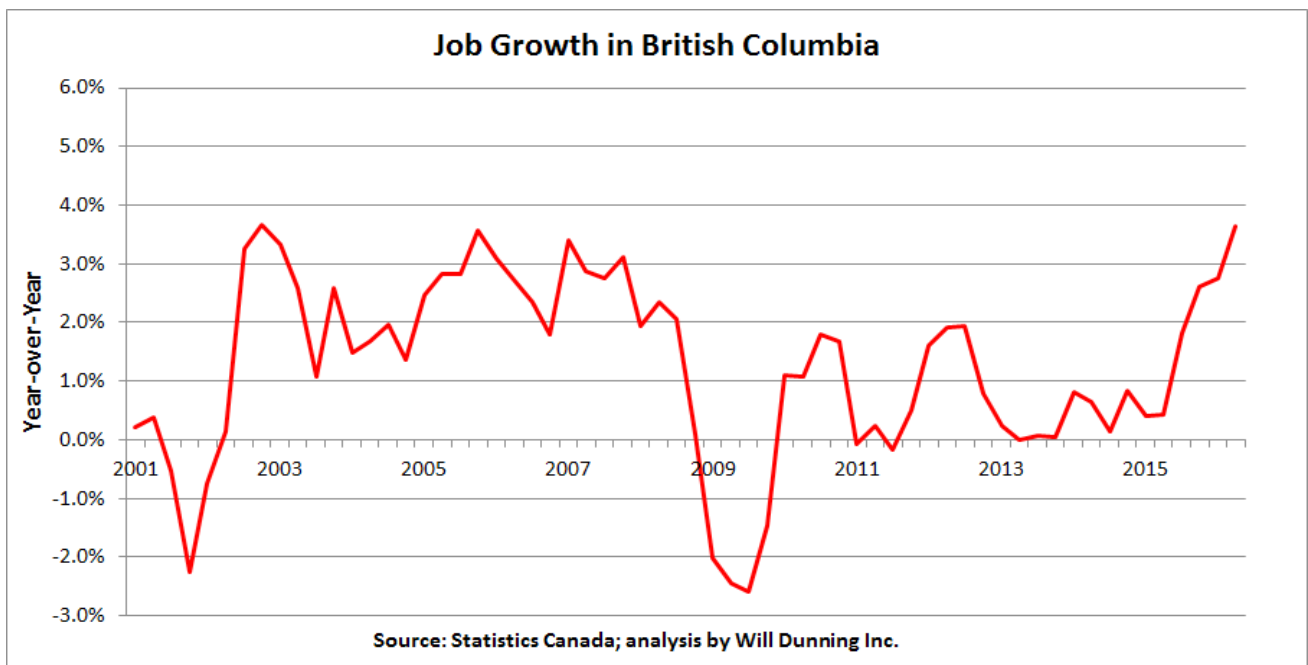


Many of my peers in the economics world and most of the media are using the "B-word" very freely, especially with regard to Vancouver. I'm not yet inclined to call this a bubble, as the strong activity is justifiable based on the economic fundamentals of very low interest rates and improving job creation: the defining feature of any bubble is that sales activity is too strong related to economic conditions, and further, that activity is strongly influenced by a "speculative motive". In a bubble sales are driven by expectations about future price growth. The next chart illustrates that during the past three years, falling mortgage interest rates have resulted in stronger sales. With the typical mortgage rate (after lender discounts) at a new all-time low (about 2.5% for 5-year fixed rate mortgages), it is not surprising that sales are relatively high in historic terms.

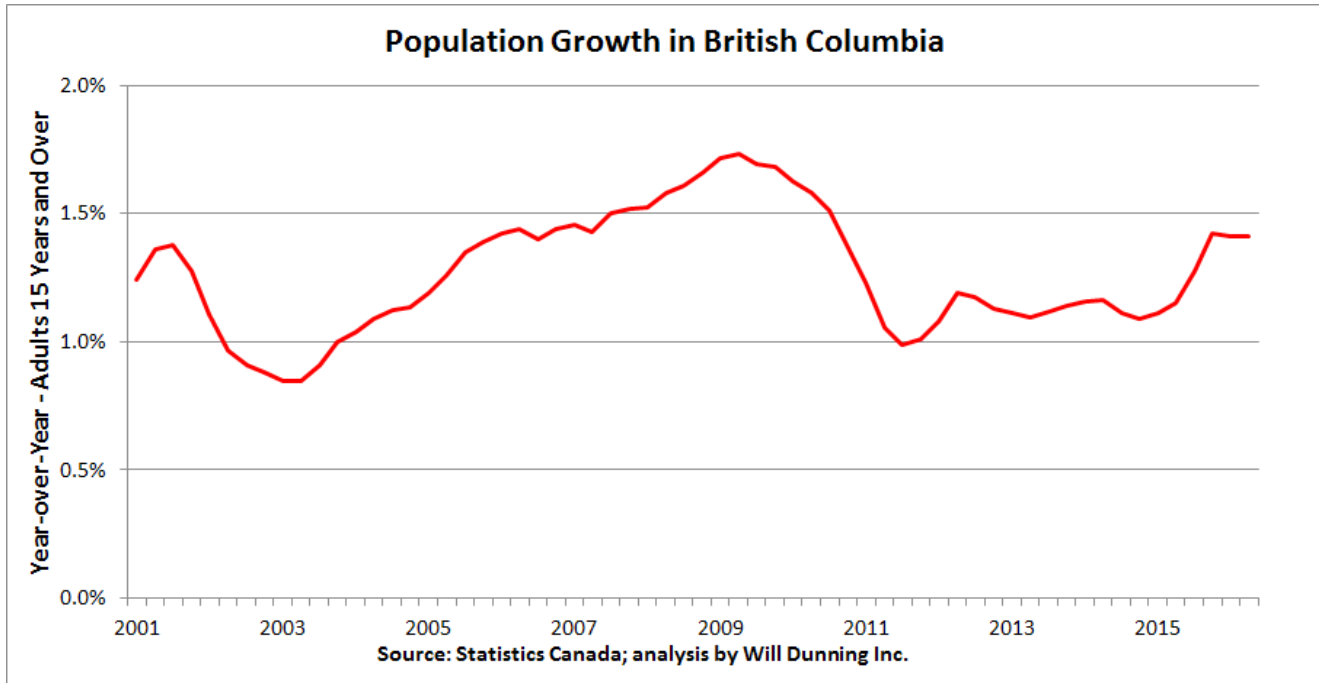
BC Housing Market Overview (cont'd)



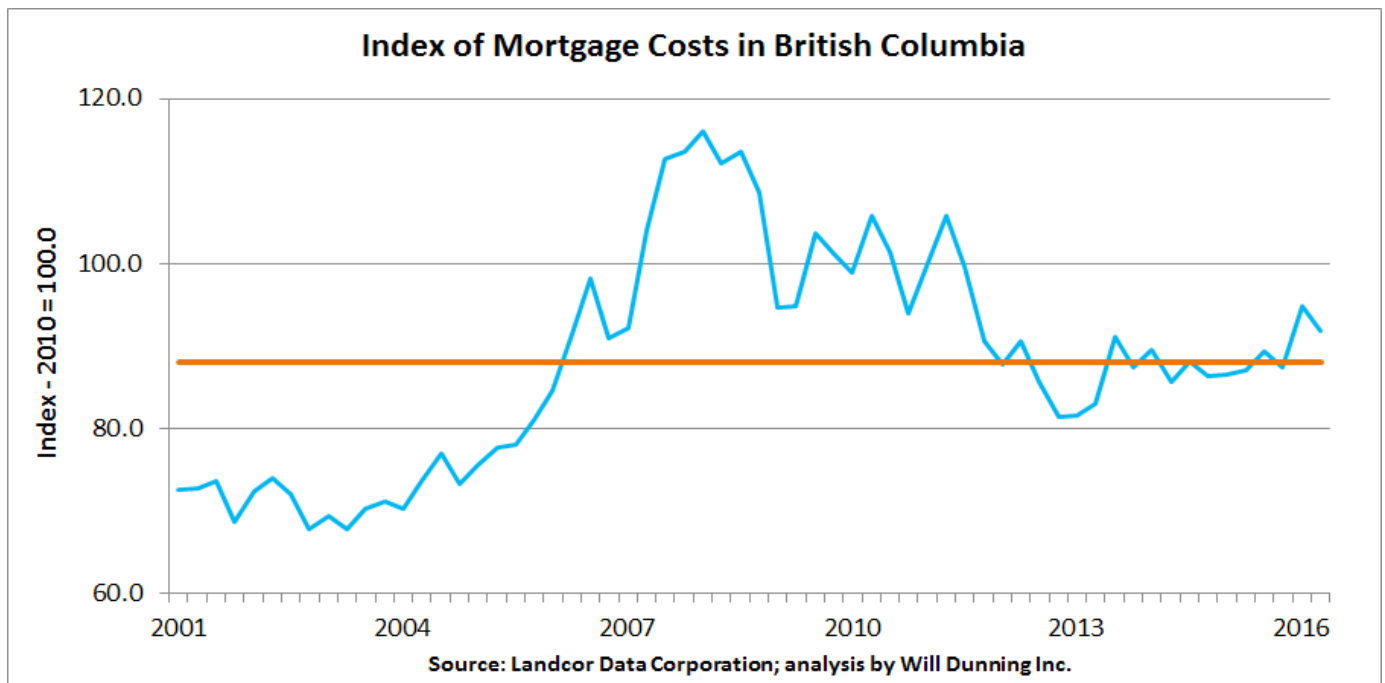
Meanwhile, Statistics Canada data indicates that job creation is strengthening in BC. As of 2016-Q2, the growth rate is estimated at 3.6%, which is the fastest rate since 2002. I am often sceptical about “out-riders” in the job creation data. Based on my examination of the data, I don’t see any grounds to dispute the recent estimates for BC. Yet, I do have to admit that I am surprised by the recent surge. It may be that BC is now seeing more people moving from Alberta and that those people are quickly finding jobs. As an aside, if that’s true, then it is also possible that BC’s population is growing more rapidly than Statistics Canada is estimating (see the second chart below), and that as a further result, job growth may in fact be faster than estimated.



BC Housing Market Overview (cont'd)

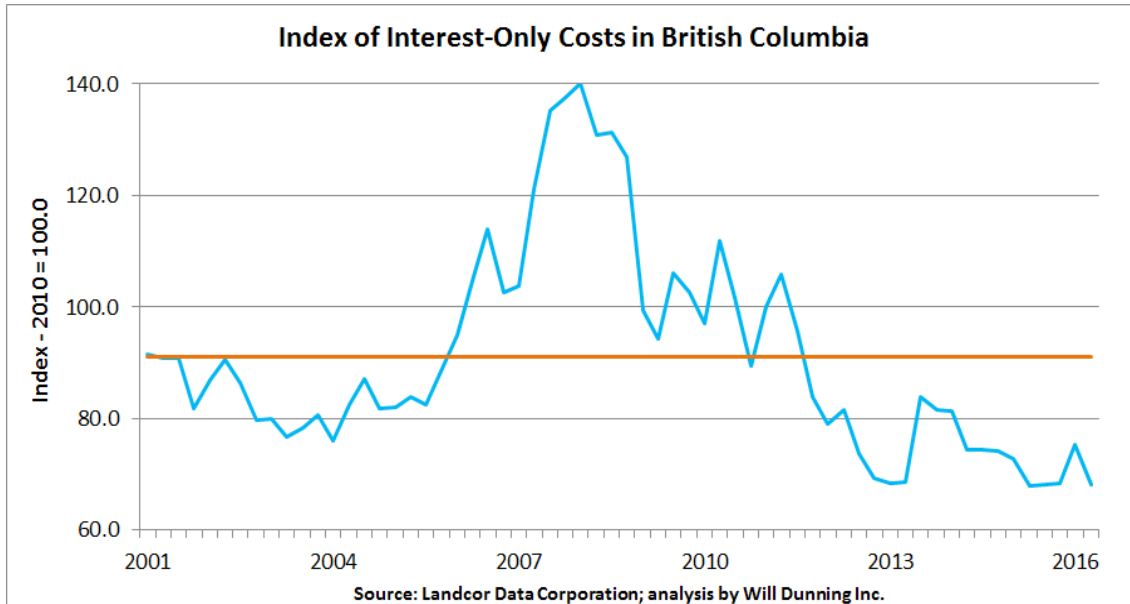


Extremely low interest rates have allowed prices to rise very rapidly, without impairing affordability. The next chart combines data on interest rates and average wages, plus Landcor's price data, to create an index of mortgage costs. This data shows that mortgage costs have recently increased, but they are only slightly above the long-term average (shown by the flat orange line) and that affordability is still much better than it was a decade ago.



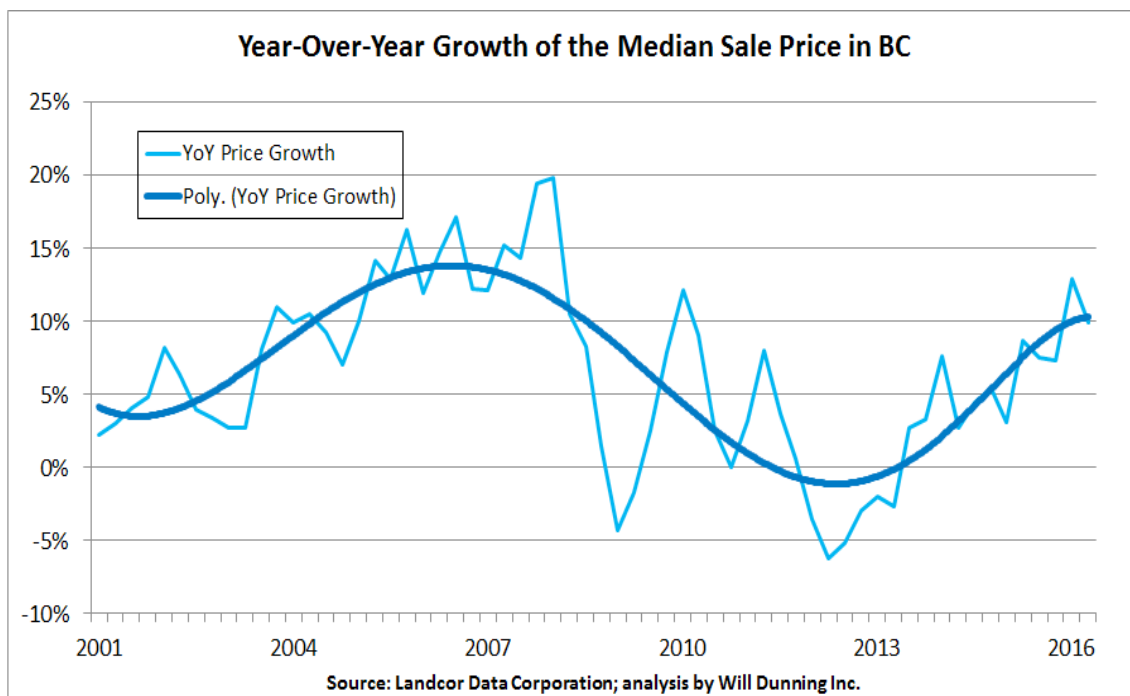
BC Housing Market Overview (cont'd)

It needs to be remembered that at today's interest rates, mortgage principal is being repaid very rapidly: at the average interest rate for 2016-Q2 (2.57%), the first payment includes 52.8% for repayment of principal and 47.2% of the payment is interest (based on 25 year amortization). Ten years ago, 27.2% of the first payment was principal and 72.8% was interest. A mortgage today involves a high rate of "forced saving". While this is a cost to the borrower, there is an offset on the consumer's bottom line. The "net cost" to the borrower is the interest part. The next chart shows that the net cost is now exceptionally low.



The combination of very low interest rates (bringing excellent "net" affordability) and improving job creation is very positive for housing demand in BC. This combination does justify the current strength in the housing market. And, in fact, it does "justify" the price growth that has happened over the past decade. As the next chart illustrates (and as everybody knows), price growth in BC remains very strong. As of 2016-Q2, the Landcor median price is up 9.9% year-over-year.

Very low interest rates have created "space" in which prices could rise. This doesn't mean they had to rise, or should have risen. Actually growth depends on the balance between supply and demand. There is still a critical supply shortfall.



BC Housing Market Overview (cont'd)

In the discussion about whether or not there is a bubble, the issue that we can't adequately test is whether there is a strong "speculative motive" in the market. This doesn't include only true speculators. It also includes people who might buy sooner than they want to, because they fear getting priced-out. It also includes people who make a decision to move-up, based more on a belief that "housing is a great investment" rather than on their housing needs. I don't know (and I don't have an opinion) on how strong these conditions are. (You might have opinions, feel free to give me yours at wdunning@sympatico.ca).

When somebody buys on an investment basis and expects to hold the property for a long time, because they expect to see growing rents and growing value, this should usually not be considered "speculative" (unless the expectations are excessive).

This brings us to the question of off-shore buyers. How do we characterize that activity? It no doubt includes many speculators, but my guess is that most of the activity is for long-term investment and owner-occupancy. Like-it-or-not, this is probably a rational market force rather than evidence of a bubble.

From a distance (I live in Etobicoke, Ontario) I don't have a strong sense of how the 15% foreign buyers' tax is affecting the market – I don't hear the scuttle-butt. My expectation is that it will be highly disruptive for a half year, and then a "new normal" will be established. This will include some reduction in sales in Vancouver, which will only partially shift to places like the capital region and Kelowna. Some of it will shift to Ontario. In consequence, BC's economy will lose a bit of oomph and Ontario will gain a bit. Price pressures will be reduced fractionally in the GVRD, but there will be more pressure in other areas of the province (where there are fewer properties that are suitable for foreign buyers, and even a small in-shift of demand will have big proportional effects on local conditions).

So, 2016-Q2 is probably the current market peak in terms of sales. A year from now, sales will most likely be slightly below the current level: low interest rates and strong job growth will remain forcefully positive factors, driving strong demand from local buyers, but there will be fewer foreign buyers.

Conditions remain quite positive for continued rapid price growth. I think we should expect some deceleration from the current rate of about 10% for the province. But, it is unlikely that the growth rate will fall below 5% during the coming year (and I think it is highly unlikely that prices will actually fall, which many others are expecting).

Yet, there are always surprises. The biggest risk I see is not from the economy or the market, it is on the policy side: there are many voices calling for the federal government to tighten mortgage lending standards. So far, the federal government seems to be content to let the market sort itself out – it seems to accept a 2-part message that (1) the housing market is very important to the current health of the economy and this should not be put at risk, and (2) market conditions are consistent with economic fundamentals. I am hopeful that any lending policy changes will be fine-tuning rather than an attempt to dampen the market.

There are also risks in BC related to the 15% tax, if it causes a setback to consumer confidence.

Will Dunning has been analyzing housing markets since 1982. His consulting firm provides custom analysis to clients in the private, public, and non-governmental sectors. His website is www.wdunning.com.

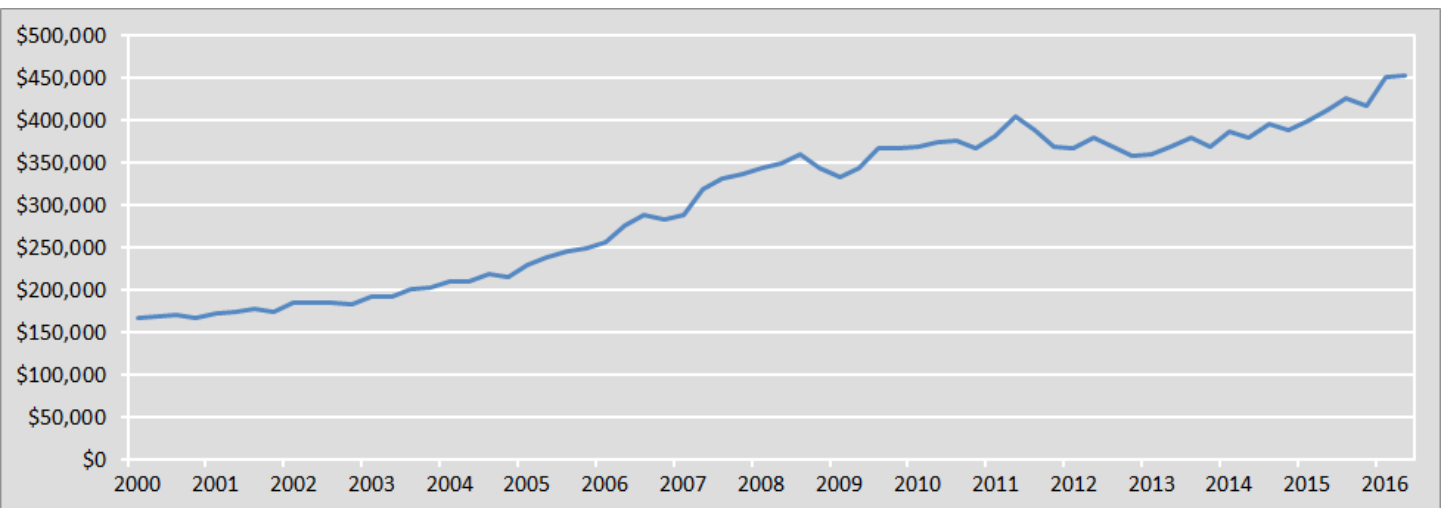
BC Residential Sales Summary for Q2, 2016

¹% change Q2'2016- Q1'2016 ²% change Q2'2016- Q2'2015

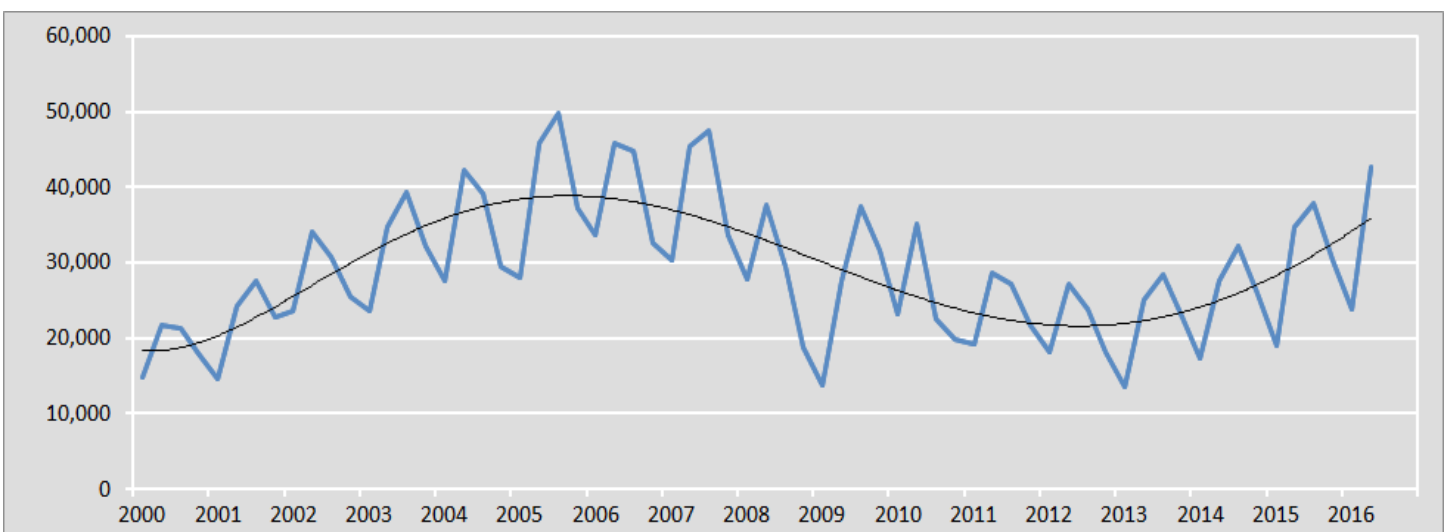
British Columbia - All

Quarterly Sales		Q2 2016	Q1 2016	% Chg ¹	Q2 2015	% Chg ²
Number of Sales		42,705	23,777	79.61%	34,655	23.23%
Total Value of Sales		\$29.64B	\$16.97B	74.65%	\$20.15B	47.09%
Detached	Average	688,537	715,661	-3.79%	\$581,511	18.40%
	Median	650,000	672,000	-3.27%	\$544,500	19.38%
Condo	Average	355,898	349,867	1.72%	\$335,508	6.08%
	Median	350,000	350,000	0.00%	\$341,125	2.60%
Attached	Average	426,726	418,080	2.07%	\$391,402	9.03%
	Median	409,120	395,000	3.57%	\$372,000	9.98%

Median Sale Prices/BC All



Sales Counts/BC All



¹% change Q2'2016- Q1'2016 ²% change Q2'2016- Q2'2015 ³% change month to previous month

Region: Greater Vancouver

Quarterly Sales		Q2 2016	Q1 2016	% Chg ¹	Q2 2015	% Chg ²
Number of Sales		19,289	12,576	53.38%	16,903	14.12%
Total Value of Sales		\$19.84B	\$12.54B	58.18%	\$13.70B	44.78%
Detached	Average	1,333,769	1,251,020	6.61%	\$1,015,663	31.32%
	Median	1,270,000	1,200,000	5.83%	\$945,500	34.32%
Condo	Average	430,385	409,534	5.09%	\$392,295	9.71%
	Median	425,000	402,650	5.55%	\$388,900	9.28%
Attached	Average	574,389	540,317	6.31%	\$500,728	14.71%
	Median	543,323	528,900	2.73%	\$485,000	12.03%

Monthly Sales		April	May	% Chg ¹	June	% Chg ³
Number of Sales		5,498	6,564	19.39%	7,227	10.10%
Total Value of Sales		\$5.42B	\$6.83B	25.88%	\$7.59B	11.18%
Detached	Average	1,308,634	1,342,347	2.58%	\$1,344,093	0.13%
	Median	1,250,000	1,260,000	0.80%	\$1,296,500	2.90%
Condo	Average	420,665	425,983	1.26%	\$442,683	3.92%
	Median	418,250	422,750	1.08%	\$431,900	2.16%
Attached	Average	557,447	569,924	2.24%	\$590,491	3.61%
	Median	545,000	530,050	-2.74%	\$555,000	4.71%

Region: Vancouver Island

Quarterly Sales		Q2 2016	Q1 2016	% Chg ¹	Q2 2015	% Chg ²
Number of Sales		7,775	3,774	106.01%	5,769	34.77%
Total Value of Sales		\$3.42B	\$1.55B	120.04%	\$2.29B	49.21%
Detached	Average	473,415	438,761	7.90%	\$422,087	12.16%
	Median	469,000	433,881	8.09%	\$420,000	11.67%
Condo	Average	274,816	256,984	6.94%	\$263,477	4.30%
	Median	282,500	260,000	8.65%	\$260,658	8.38%
Attached	Average	337,744	331,428	1.91%	\$307,574	9.81%
	Median	344,950	327,500	5.33%	\$313,492	10.03%

Monthly Sales		April	May	% Chg ¹	June	% Chg ³
Number of Sales		1,876	2,521	34.38%	3,378	33.99%
Total Value of Sales		\$0.80B	\$1.12B	39.51%	\$1.49B	33.21%
Detached	Average	465,479	470,882	1.16%	\$479,855	1.91%
	Median	463,000	459,900	-0.67%	\$477,000	3.72%
Condo	Average	261,592	268,034	2.46%	\$288,118	7.49%
	Median	268,000	274,000	2.24%	\$295,000	7.66%
Attached	Average	314,885	335,703	6.61%	\$354,063	5.47%
	Median	335,000	338,750	1.12%	\$357,816	5.63%

Region: Okanagan

Quarterly Sales		Q2 2016	Q1 2016	% Chg ¹	Q2 2015	% Chg ²
Number of Sales		6,025	2,418	149.17%	4,853	24.15%
Total Value of Sales		\$2.29B	\$0.86B	165.80%	\$1.69B	35.81%
Detached	Average	436,247	405,043	7.70%	\$401,022	8.78%
	Median	438,000	417,000	5.04%	\$404,900	8.17%
Condo	Average	246,331	235,916	4.41%	\$220,052	11.94%
	Median	245,000	239,934	2.11%	\$222,000	10.36%
Attached	Average	304,777	287,474	6.02%	\$286,598	6.34%
	Median	313,500	300,440	4.35%	\$296,750	5.64%

Monthly Sales		April	May	% Chg ¹	June	% Chg ³
Number of Sales		1,517	2,022	33.29%	2,486	22.95%
Total Value of Sales		\$0.53B	\$0.76B	41.58%	\$1.00B	32.31%
Detached	Average	412,257	440,499	6.85%	\$447,092	1.50%
	Median	410,000	442,000	7.80%	\$445,000	0.68%
Condo	Average	239,103	252,386	5.56%	\$247,257	-2.03%
	Median	234,630	247,500	5.49%	\$250,000	1.01%
Attached	Average	296,256	296,107	-0.05%	\$318,291	7.49%
	Median	314,000	302,000	-3.82%	\$320,500	6.13%

Region: Fraser Valley

Quarterly Sales		Q2 2016	Q1 2016	% Chg ¹	Q2 2015	% Chg ²
Number of Sales		6,430	3,538	81.74%	4,069	58.02%
Total Value of Sales		\$3.32B	\$1.68B	97.82%	\$1.74B	90.85%
Detached	Average	617,931	557,701	10.80%	\$493,560	25.20%
	Median	610,000	550,000	10.91%	\$485,000	25.77%
Condo	Average	196,012	191,513	2.35%	\$181,413	8.05%
	Median	199,000	196,000	1.53%	\$194,700	2.21%
Attached	Average	333,568	311,451	7.10%	\$299,995	11.19%
	Median	340,000	320,000	6.25%	\$308,000	10.39%

Monthly Sales		April	May	% Chg ¹	June	% Chg ³
Number of Sales		1,756	2,099	19.53%	2,575	22.68%
Total Value of Sales		\$0.89B	\$1.03B	16.05%	\$1.41B	36.47%
Detached	Average	596,769	591,321	-0.91%	\$655,371	10.83%
	Median	600,000	589,500	-1.75%	\$640,000	8.57%
Condo	Average	190,324	194,365	2.12%	\$202,586	4.23%
	Median	194,000	204,155	5.23%	\$200,000	-2.04%
Attached	Average	318,055	326,059	2.52%	\$348,506	6.88%
	Median	327,000	329,000	0.61%	\$359,000	9.12%

¹% change Q2'2016- Q1'2016 ²% change Q2'2016- Q2'2015 ³% change month to previous month

Region: BC North / NW

Quarterly Sales		Q2 2016	Q1 2016	% Chg ¹	Q2 2015	% Chg ²
Number of Sales		2,037	938	117.16%	1,989	2.41%
Total Value of Sales		\$485.35M	\$208.05M	133.28%	\$461.98M	5.06%
Detached	Average	271,936	253,795	7.15%	\$260,386	4.44%
	Median	280,000	269,450	3.92%	\$265,500	5.46%
Condo	Average	115,214	172,057	-33.04%	\$90,908	26.74%
	Median	149,000	215,000	-30.70%	\$123,000	21.14%
Attached	Average	208,867	200,911	3.96%	\$208,198	0.32%
	Median	244,593	255,000	-4.08%	\$253,421	-3.48%

Monthly Sales		April	May	% Chg ¹	June	% Chg ³
Number of Sales		533	649	21.76%	855	31.74%
Total Value of Sales		\$127.27M	\$154.13M	21.11%	\$203.95M	32.32%
Detached	Average	270,542	260,346	-3.77%	\$281,923	8.29%
	Median	280,000	270,000	-3.57%	\$286,000	5.93%
Condo	Average	190,096	151,676	-20.21%	\$72,758	-52.03%
	Median	185,000	155,000	-16.22%	\$82,000	-47.10%
Attached	Average	201,380	219,825	9.16%	\$203,270	-7.53%
	Median	202,500	255,087	25.97%	\$257,900	1.10%

Region: Kootenay

Quarterly Sales		Q2 2016	Q1 2016	% Chg ¹	Q2 2015	% Chg ²
Number of Sales		1,149	533	115.57%	1,072	7.18%
Total Value of Sales		\$283.49M	\$124.34M	128.00%	\$273.68M	3.58%
Detached	Average	279,460	264,986	5.46%	\$285,977	-2.28%
	Median	284,000	275,000	3.27%	\$295,000	-3.73%
Condo	Average	131,767	151,239	-12.87%	\$137,488	-4.16%
	Median	151,000	149,000	1.34%	\$156,500	-3.51%
Attached	Average	261,856	251,019	4.32%	\$262,294	-0.17%
	Median	262,500	261,384	0.43%	\$260,000	0.96%

Monthly Sales		April	May	% Chg ¹	June	% Chg ³
Number of Sales		271	376	38.75%	502	33.51%
Total Value of Sales		\$64.67M	\$91.63M	41.68%	\$127.19M	38.80%
Detached	Average	274,836	279,851	1.82%	\$281,339	0.53%
	Median	275,000	279,000	1.45%	\$290,250	4.03%
Condo	Average	123,774	149,538	20.82%	\$125,990	-15.75%
	Median	121,000	178,500	47.52%	\$147,500	-17.37%
Attached	Average	273,228	257,166	-5.88%	\$260,386	1.25%
	Median	280,000	250,500	-10.54%	\$256,000	2.20%

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Stanley Hamilton, Professor Emeritus
in Urban Land Economics, UBC