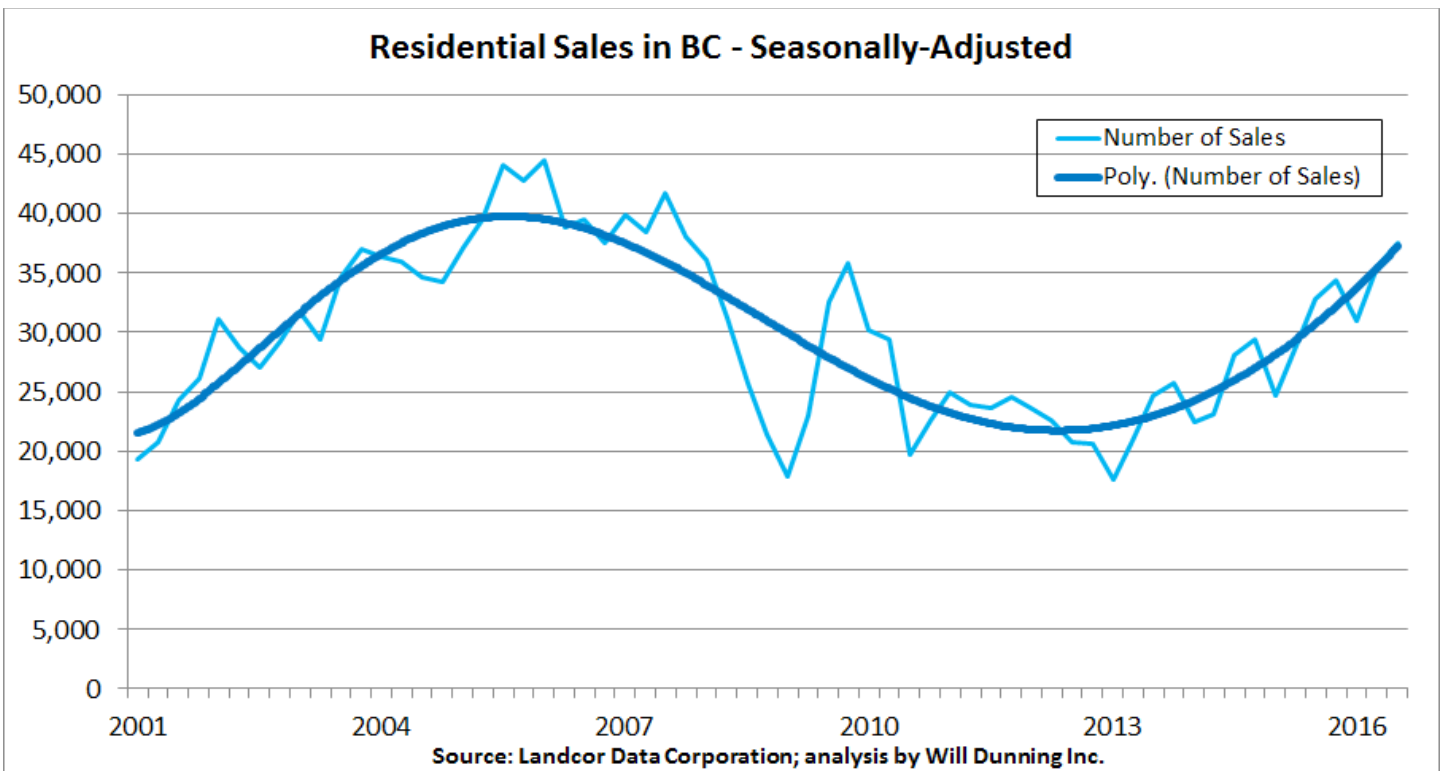


Report prepared by economist WILL DUNNING. Views expressed by Will Dunning are his own and do not necessarily represent those of Landcor Data Corporation. Will Dunning operates a consulting firm that specializes in analysis of housing markets.

BC Housing Market Overview

Confession time: I was surprised, and big time, by the market data for the third quarter. Watching from afar (Etobicoke, Ontario) I had been expecting that there would be a big drop. The 15% foreign buyers' tax would sharply reduce activity in Vancouver. A portion of the reduction would be pushed to other areas within the province. The result would be a drop for total activity.

Yet, Landcor's data for the third quarter of 2016 shows continued growth. The 43,223 transactions equated to 37,600 on a seasonally-adjusted basis. This is 5.5% higher than the rate for the second quarter. And. It is the highest seasonally-adjusted rate since the fourth quarter of 2007. (In this chart, the fat blue line is a trend generated by Excel. That trend has been rising since early 2012.)



BC Housing Market Overview (cont'd)

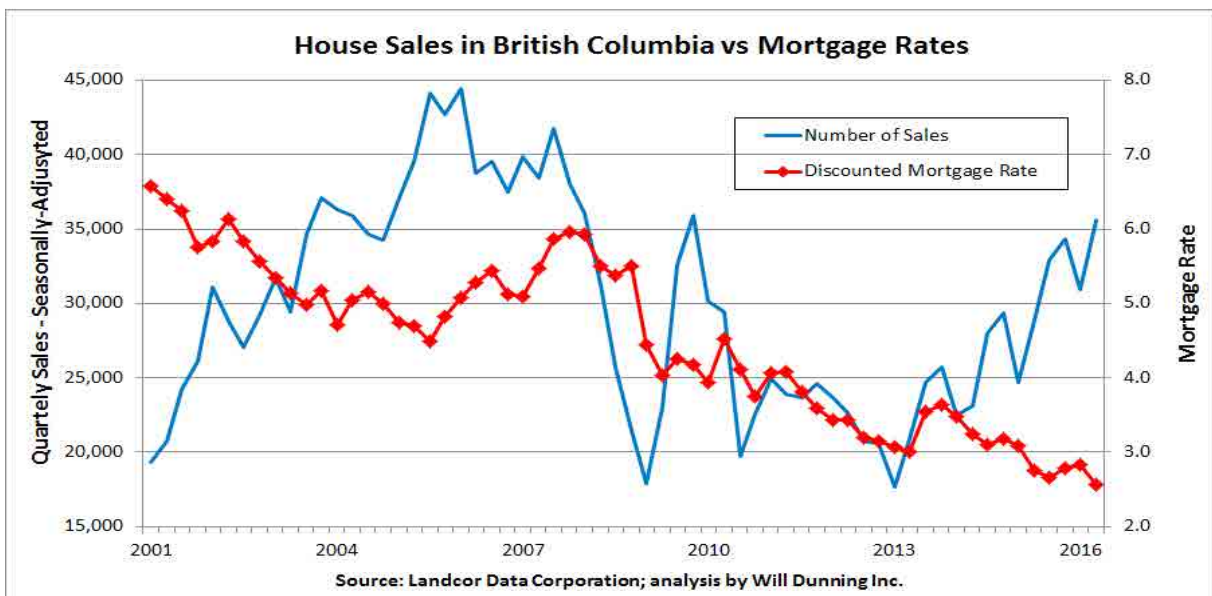
Well, I got over the initial surprise, and the numbers are starting to make sense.

The fundamentals in BC are excellent.

The province has been experiencing rapid job creation during the past year and a half, at an annualized rate of 3%. For all of Canada, on the other hand, the rate is just 1%. Even in Ontario, which should be benefitting from the drop in the price of oil and the weaker Canadian dollar, the growth rate is just 2% for the same period. The strong employment situation is encouraging BC residents to get into the housing market. Moreover, it is encouraging people to move to BC from other provinces.

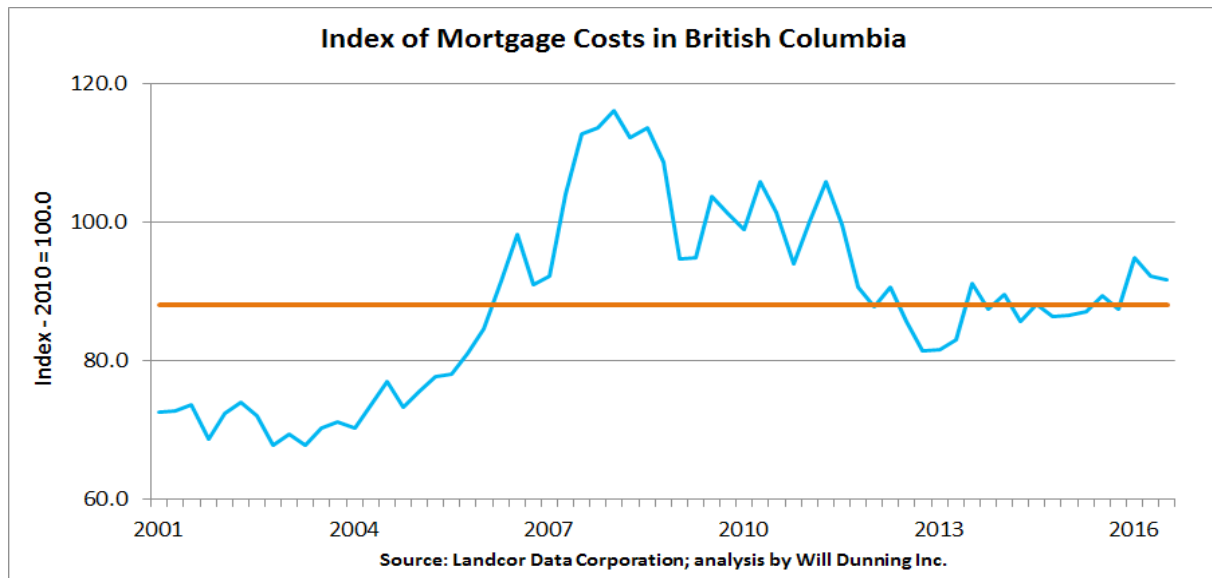


In addition, continued declines in interest rates have meant that for people who have recently found jobs, housing affordability is very positive. During the third quarter, major lenders were offering 2.5% for 5-year fixed rate mortgages. Some smaller lenders were offering even lower rates. This chart illustrates that during the past three years, falling mortgage interest rates have resulted in stronger sales.

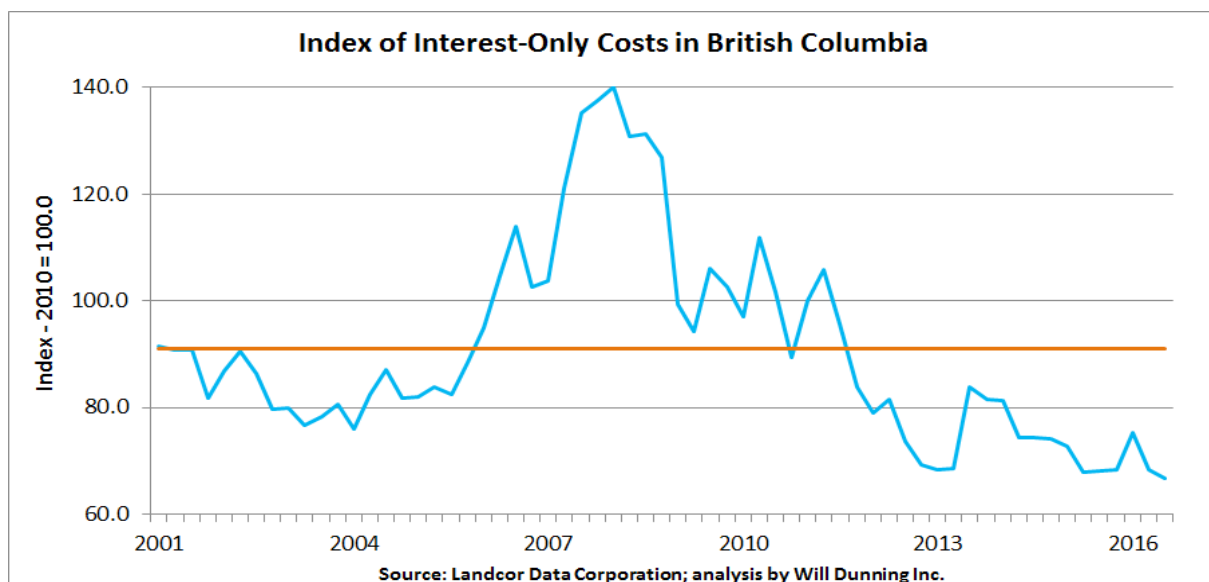


BC Housing Market Overview (cont'd)

As I have commented here previously, housing affordability in BC is much better than is generally appreciated. In part, that is because a lot of the discussion about affordability is based on posted interest rates (currently 4.64% for 5-year terms) rather than the interest rates that are actually available in the market. This 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 are just slightly above the average seen over the past decade and a half (which is shown by the flat orange line). Affordability is still better than it was a decade ago.

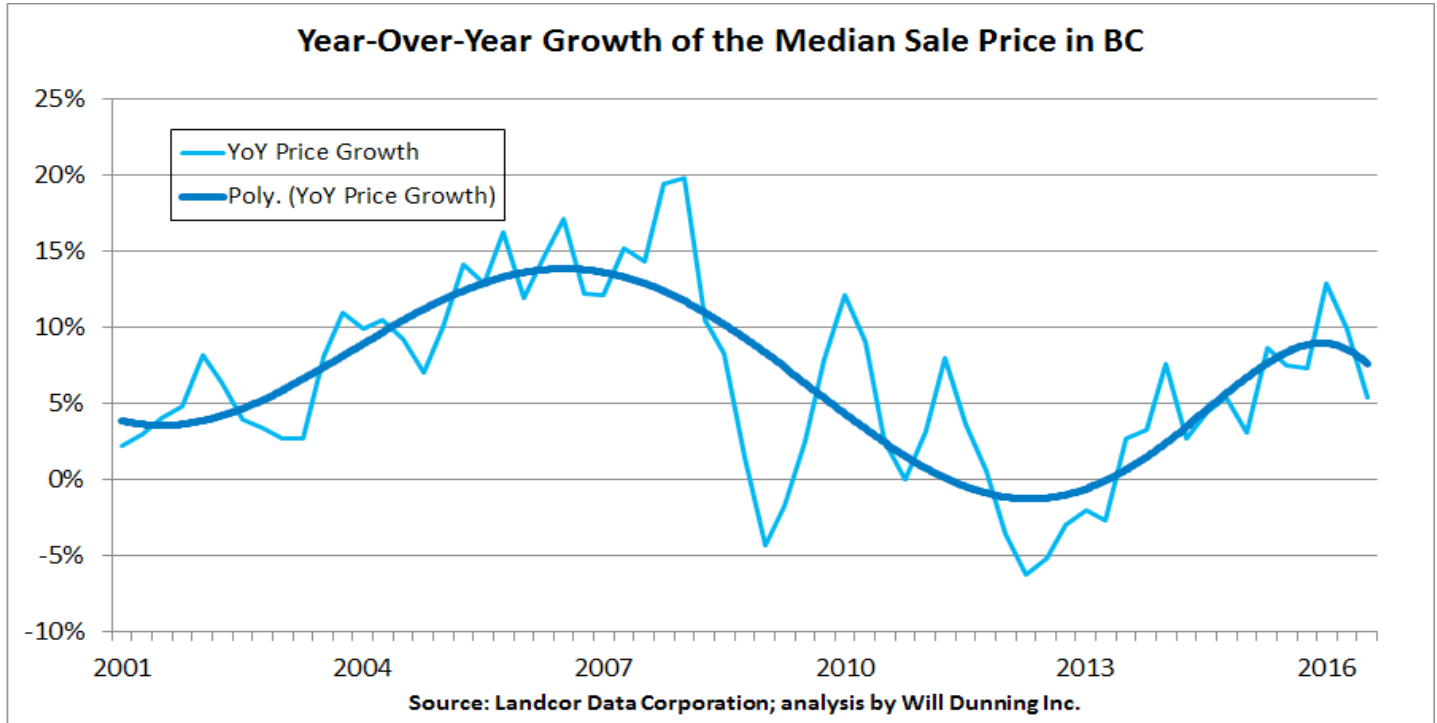


More abstractly: part of the mortgage payment is repayment of principal, and this is a form of saving for the home owner (although it is “forced saving”). In that sense, the principal part of the mortgage payment isn't truly a cost of home ownership: the true cost of finance is the interest part only. The next chart shows that the interest cost of home ownership is now exceptionally low.



BC Housing Market Overview (cont'd)

The price statistics for BC suggest that there has been a very rapid deceleration. But, the price data for the third quarter are highly distorted by a change in the composition of the market, which has resulted from the foreign buyers' tax. I am highly tempted not to show a chart on prices. Here it is anyway, with the advice that we should disregard it.



A Geographic Shift

The 15% foreign buyers' tax has caused a sudden, very substantial shift of housing market activity in BC.

Over a three year period (2013-Q3 to 2016-Q2) Vancouver accounted for 48.0% of housing sales in the province. For 2016-Q3, that share fell sharply, to 41.9%. (In fact, looking at months separately shows an even more dramatic impact. The Vancouver shares were: July – 46.7%; August – 40.4%, and September – 37.5%.)

On the other hand, shares increased for Vancouver Island (from 16.0% to 19.3%), Okanagan (from 13.2% to 16.3%) and Fraser Valley (from 11.9% to 14.7%). Kootenay and BC North/NW saw drops on their shares.

That outcome is about what was expected.

But, there are several big surprises in the data.

While Vancouver lost some of its share of the provincial total, the number of units sold was still quite good, as is shown in the following table. In terms of number of units, Vancouver's total sales were almost the same as last year (and much better than 2014-Q3).

BC Housing Market Overview (cont'd)

Out of the five other regions of the province, four (with BC North/NW being the exception) saw big increases in 2016-Q3 versus a year ago and two years ago. This allowed the provincial total to increase in the quarter.

| Third Quarter Sales by Region | | | |
|---|---------------|---------------|---------------|
| Region | 2014-Q3 | 2015-Q3 | 2016-Q3 |
| Vancouver | 10,485 | 18,527 | 18,123 |
| Vancouver Island | 3,780 | 6,251 | 8,360 |
| Kootenay | 733 | 1,056 | 1,255 |
| Okanagan | 3,403 | 5,214 | 7,037 |
| Fraser Valley | 2,479 | 4,551 | 6,366 |
| BC North/NW | 1,700 | 2,223 | 2,082 |
| Total | 22,580 | 37,822 | 43,223 |
| Source: Landcor Data Corporation; analysis by Will Dunning Inc. | | | |

In other words, housing markets across BC have developed very strong momentum. The foreign buyers' tax has interrupted the momentum in Vancouver, but not reversed it, at least not so far. And, as we should expect, it has not negatively affected the other regions. What is unclear, is whether the other regions have actually gained some of the growth that Vancouver has lost. We'll have to leave that question for another time.

Another Threat

On October 3rd, the federal government announced a set of changes to mortgage insurance. In order to qualify for insurance, mortgages must be "stress-tested" using the "posted rate" for 5-year, fixed rate mortgages. That rate is determined by the chartered banks, and is currently 4.64%, or more than two points higher than the actual rates that can be obtained in the market.

Few analysts have published estimates of the expected impacts, but those who have seem to see an 8% reduction in total resale market activity. I have published my own review. I accept the 8% figure, but as a first-round impact. There are likely to be subsequent effects, which could easily double the impact, and perhaps triple it. That review is on my personal website (www.wdunning.com, in the Recent Reports section).

Evidence on the actual effects will emerge only gradually. I expect that there will be virtually no impact on closings in the fourth quarter. The first quarter data should give us a sense of the first-round effects and the second-round effects should appear in the second quarter.

I am fearful that this won't affect just the housing market. It could be large enough to do harm to the broader economy.

As for BC: well, Vancouver has gotten squeezed at the top by the foreign buyers' tax. This new federal move will squeeze the bottom of the market. The middle isn't being addressed directly, but we should expect that it will also be affected.

2017 may prove to be a very interesting year, but not in the fun way. As I have said before, the biggest risk in the housing market is not from the economy or the market, it is on the policy side.

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.

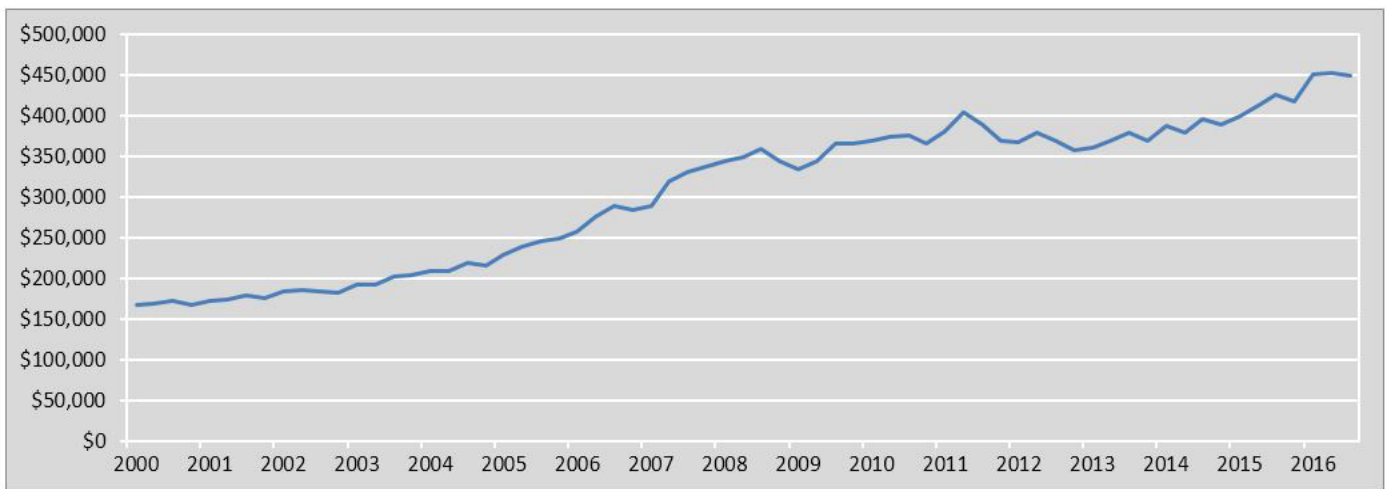
BC Residential Sales Summary for Q2, 2016

¹% change Q3'2016- Q2'2016 ²% change Q3'2016- Q3'2015

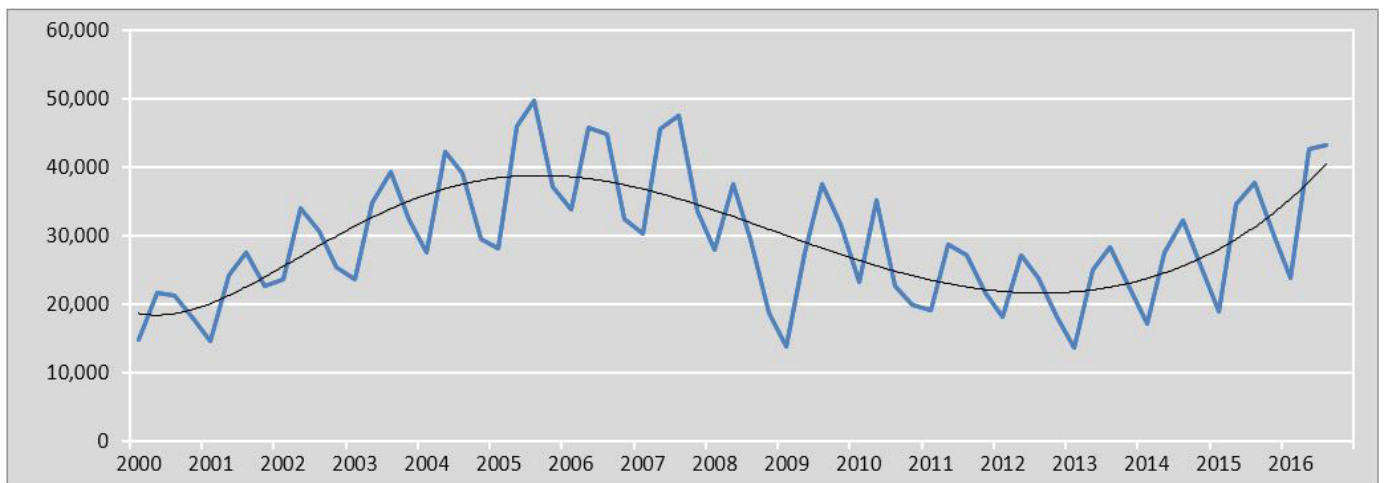
British Columbia - All

| Quarterly Sales | | Q3 2016 | Q2 2016 | % Chg ¹ | Q3 2015 | % Chg ² |
|----------------------|---------|----------|----------|--------------------|-----------|--------------------|
| Number of Sales | | 43,223 | 42,705 | 1.21% | 37,822 | 14.28% |
| Total Value of Sales | | \$28.57B | \$29.64B | -3.61% | \$22.92B | 24.65% |
| Detached | Average | 660,747 | 688,537 | -4.04% | \$602,983 | 9.58% |
| | Median | 629,900 | 650,000 | -3.09% | \$570,000 | 10.51% |
| Condo | Average | 368,786 | 355,898 | 3.62% | \$347,884 | 6.01% |
| | Median | 362,900 | 350,000 | 3.69% | \$350,000 | 3.69% |
| Attached | Average | 443,588 | 426,726 | 3.95% | \$396,484 | 11.88% |
| | Median | 432,000 | 409,120 | 5.59% | \$380,368 | 13.57% |

Median Sale Prices/BC All



Sales Counts/BC All



¹% change Q3'2016- Q2'2016 ²% change Q3'2016- Q3'2015 ³% change month to previous month**Region: Greater Vancouver**

| Quarterly Sales | | Q3 2016 | Q2 2016 | % Chg ¹ | Q3 2015 | % Chg ² |
|----------------------|---------|-----------|-----------|--------------------|-------------|--------------------|
| Number of Sales | | 18,123 | 19,289 | -6.04% | 18,527 | -2.18% |
| Total Value of Sales | | \$17.55B | \$19.84B | -11.53% | \$15.52B | 13.04% |
| Detached | Average | 1,352,356 | 1,333,769 | 1.39% | \$1,047,053 | 29.16% |
| | Median | 1,288,000 | 1,270,000 | 1.42% | \$967,750 | 33.09% |
| Condo | Average | 444,294 | 430,385 | 3.23% | \$402,688 | 10.33% |
| | Median | 431,000 | 425,000 | 1.41% | \$393,900 | 9.42% |
| Attached | Average | 598,284 | 574,389 | 4.16% | \$509,643 | 17.39% |
| | Median | 560,000 | 543,323 | 3.07% | \$495,000 | 13.13% |

| Monthly Sales | | July | August | % Chg ¹ | September | % Chg ³ |
|----------------------|---------|-----------|-----------|--------------------|-------------|--------------------|
| Number of Sales | | 7,597 | 5,914 | -22.15% | 4,612 | -22.02% |
| Total Value of Sales | | \$7.76B | \$5.57B | -28.21% | \$4.21B | -24.44% |
| Detached | Average | 1,407,871 | 1,313,756 | -6.68% | \$1,301,506 | -0.93% |
| | Median | 1,340,000 | 1,250,000 | -6.72% | \$1,257,142 | 0.57% |
| Condo | Average | 454,954 | 445,831 | -2.01% | \$428,065 | -3.98% |
| | Median | 440,000 | 431,205 | -2.00% | \$419,900 | -2.62% |
| Attached | Average | 601,720 | 597,824 | -0.65% | \$593,800 | -0.67% |
| | Median | 569,276 | 560,000 | -1.63% | \$554,500 | -0.98% |

Region: Vancouver Island

| Quarterly Sales | | Q3 2016 | Q2 2016 | % Chg ¹ | Q3 2015 | % Chg ² |
|----------------------|---------|---------|---------|--------------------|-----------|--------------------|
| Number of Sales | | 8,360 | 7,775 | 7.52% | 6,251 | 33.74% |
| Total Value of Sales | | \$3.87B | \$3.42B | 13.14% | \$2.58B | 49.75% |
| Detached | Average | 490,820 | 473,415 | 3.68% | \$439,263 | 10.69% |
| | Median | 484,800 | 469,000 | 3.37% | \$435,000 | 9.67% |
| Condo | Average | 277,013 | 274,816 | 0.80% | \$255,614 | 9.45% |
| | Median | 278,800 | 282,500 | -1.31% | \$254,900 | 9.33% |
| Attached | Average | 342,311 | 337,744 | 1.35% | \$322,101 | 6.27% |
| | Median | 340,000 | 344,950 | -1.43% | \$326,500 | 4.13% |

| Monthly Sales | | July | August | % Chg ¹ | September | % Chg ³ |
|----------------------|---------|---------|---------|--------------------|-----------|--------------------|
| Number of Sales | | 2,868 | 2,968 | 3.49% | 2,524 | -14.96% |
| Total Value of Sales | | \$1.33B | \$1.38B | 3.13% | \$1.16B | -15.98% |
| Detached | Average | 490,307 | 500,718 | 2.12% | \$479,374 | -4.26% |
| | Median | 476,000 | 495,000 | 3.99% | \$471,750 | -4.70% |
| Condo | Average | 280,468 | 277,733 | -0.98% | \$272,653 | -1.83% |
| | Median | 280,000 | 281,300 | 0.46% | \$275,000 | -2.24% |
| Attached | Average | 347,276 | 341,339 | -1.71% | \$337,228 | -1.20% |
| | Median | 345,000 | 337,250 | -2.25% | \$340,000 | 0.82% |

¹% change Q3'2016- Q2'2016 ²% change Q3'2016- Q3'2015 ³% change month to previous month

Region: Okanagan

| Quarterly Sales | | Q3 2016 | Q2 2016 | % Chg ¹ | Q3 2015 | % Chg ² |
|----------------------|---------|---------|---------|--------------------|-----------|--------------------|
| Number of Sales | | 7,037 | 6,025 | 16.80% | 5,214 | 34.96% |
| Total Value of Sales | | \$2.86B | \$2.29B | 24.74% | \$1.93B | 48.36% |
| Detached | Average | 462,436 | 436,247 | 6.00% | \$417,598 | 10.74% |
| | Median | 462,000 | 438,000 | 5.48% | \$420,000 | 10.00% |
| Condo | Average | 257,219 | 246,331 | 4.42% | \$234,177 | 9.84% |
| | Median | 260,000 | 245,000 | 6.12% | \$240,000 | 8.33% |
| Attached | Average | 317,463 | 304,777 | 4.16% | \$296,352 | 7.12% |
| | Median | 320,000 | 313,500 | 2.07% | \$303,000 | 5.61% |

| Monthly Sales | | July | August | % Chg ¹ | September | % Chg ³ |
|----------------------|---------|---------|---------|--------------------|-----------|--------------------|
| Number of Sales | | 2,335 | 2,457 | 5.22% | 2,245 | -8.63% |
| Total Value of Sales | | \$0.95B | \$1.00B | 5.02% | \$0.92B | -7.94% |
| Detached | Average | 466,177 | 464,112 | -0.44% | \$456,388 | -1.66% |
| | Median | 465,000 | 463,000 | -0.43% | \$455,000 | -1.73% |
| Condo | Average | 255,052 | 265,389 | 4.05% | \$251,029 | -5.41% |
| | Median | 260,500 | 260,000 | -0.19% | \$260,050 | 0.02% |
| Attached | Average | 313,820 | 323,412 | 3.06% | \$314,619 | -2.72% |
| | Median | 315,000 | 331,470 | 5.23% | \$320,000 | -3.46% |

Region: Fraser Valley

| Quarterly Sales | | Q3 2016 | Q2 2016 | % Chg ¹ | Q3 2015 | % Chg ² |
|----------------------|---------|---------|---------|--------------------|-----------|--------------------|
| Number of Sales | | 6,366 | 6,430 | -1.00% | 4,551 | 39.88% |
| Total Value of Sales | | \$3.47B | \$3.32B | 4.25% | \$2.06B | 68.12% |
| Detached | Average | 657,378 | 617,931 | 6.38% | \$520,448 | 26.31% |
| | Median | 650,227 | 610,000 | 6.59% | \$519,000 | 25.28% |
| Condo | Average | 214,191 | 196,012 | 9.27% | \$184,072 | 16.36% |
| | Median | 222,950 | 199,000 | 12.04% | \$189,000 | 17.96% |
| Attached | Average | 379,528 | 333,568 | 13.78% | \$304,864 | 24.49% |
| | Median | 381,052 | 340,000 | 12.07% | \$312,000 | 22.13% |

| Monthly Sales | | July | August | % Chg ¹ | September | % Chg ³ |
|----------------------|---------|---------|---------|--------------------|-----------|--------------------|
| Number of Sales | | 2,417 | 2,189 | -9.43% | 1,760 | -19.60% |
| Total Value of Sales | | \$1.32B | \$1.22B | -7.51% | \$0.93B | -23.19% |
| Detached | Average | 657,645 | 652,260 | -0.82% | \$664,374 | 1.86% |
| | Median | 650,000 | 650,000 | 0.00% | \$655,000 | 0.77% |
| Condo | Average | 210,573 | 213,489 | 1.38% | \$218,752 | 2.47% |
| | Median | 220,000 | 224,889 | 2.22% | \$225,000 | 0.05% |
| Attached | Average | 370,238 | 383,470 | 3.57% | \$387,404 | 1.03% |
| | Median | 370,000 | 388,000 | 4.86% | \$388,325 | 0.08% |

¹% change Q3'2016- Q2'2016 ²% change Q3'2016- Q3'2015 ³% change month to previous month

Region: BC North / NW

| Quarterly Sales | | Q3 2016 | Q2 2016 | % Chg ¹ | Q3 2015 | % Chg ² |
|----------------------|---------|-----------|-----------|--------------------|-----------|--------------------|
| Number of Sales | | 2,082 | 2,037 | 2.21% | 2,223 | -6.34% |
| Total Value of Sales | | \$482.30M | \$485.35M | -0.63% | \$0.54B | -11.21% |
| Detached | Average | 268,372 | 271,936 | -1.31% | \$271,297 | -1.08% |
| | Median | 275,000 | 280,000 | -1.79% | \$277,250 | -0.81% |
| Condo | Average | 117,684 | 115,214 | 2.14% | \$165,772 | -29.01% |
| | Median | 98,000 | 149,000 | -34.23% | \$219,400 | -55.33% |
| Attached | Average | 182,056 | 208,867 | -12.84% | \$201,553 | -9.67% |
| | Median | 210,000 | 244,593 | -14.14% | \$245,000 | -14.29% |

| Monthly Sales | | July | August | % Chg ¹ | September | % Chg ³ |
|----------------------|---------|-----------|-----------|--------------------|-----------|--------------------|
| Number of Sales | | 685 | 714 | 4.23% | 683 | -4.34% |
| Total Value of Sales | | \$158.02M | \$171.72M | 8.67% | \$152.57M | -11.15% |
| Detached | Average | 267,011 | 269,745 | 1.02% | \$268,246 | -0.56% |
| | Median | 274,750 | 278,000 | 1.18% | \$270,000 | -2.88% |
| Condo | Average | 105,246 | 140,502 | 33.50% | \$118,760 | -15.47% |
| | Median | 97,750 | 175,000 | 79.03% | \$87,000 | -50.29% |
| Attached | Average | 173,478 | 187,061 | 7.83% | \$185,397 | -0.89% |
| | Median | 206,000 | 230,000 | 11.65% | \$205,000 | -10.87% |

Region: Kootenay

| Quarterly Sales | | Q3 2016 | Q2 2016 | % Chg ¹ | Q3 2015 | % Chg ² |
|----------------------|---------|-----------|-----------|--------------------|-----------|--------------------|
| Number of Sales | | 1,255 | 1,149 | 9.23% | 1,056 | 18.84% |
| Total Value of Sales | | \$347.90M | \$283.49M | 22.72% | \$282.97M | 22.94% |
| Detached | Average | 307,001 | 279,460 | 9.85% | \$294,727 | 4.16% |
| | Median | 319,500 | 284,000 | 12.50% | \$310,000 | 3.06% |
| Condo | Average | 138,958 | 131,767 | 5.46% | \$158,009 | -12.06% |
| | Median | 155,500 | 151,000 | 2.98% | \$178,250 | -12.76% |
| Attached | Average | 269,639 | 261,856 | 2.97% | \$248,041 | 8.71% |
| | Median | 266,125 | 262,500 | 1.38% | \$260,000 | 2.36% |

| Monthly Sales | | July | August | % Chg ¹ | September | % Chg ³ |
|----------------------|---------|----------|-----------|--------------------|-----------|--------------------|
| Number of Sales | | 383 | 395 | 3.13% | 477 | 20.76% |
| Total Value of Sales | | \$98.24M | \$118.19M | 20.31% | \$131.47M | 11.23% |
| Detached | Average | 295,950 | 310,497 | 4.92% | \$313,171 | 0.86% |
| | Median | 308,000 | 313,500 | 1.79% | \$337,250 | 7.58% |
| Condo | Average | 114,108 | 145,414 | 27.44% | \$146,313 | 0.62% |
| | Median | 115,000 | 160,500 | 39.57% | \$172,450 | 7.45% |
| Attached | Average | 259,176 | 265,148 | 2.30% | \$281,693 | 6.24% |
| | Median | 242,000 | 256,000 | 5.79% | \$296,250 | 15.72% |

A Message from our President

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Rudy Nielsen, R.I., F.R.I.
President



"I am confident that no other system in North America could offer such high quality valuations for residential properties"

Stanley Hamilton, Professor Emeritus
in Urban Land Economics, UBC



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