

Report by economist Will Dunning. Will Dunning operates a consulting firm that specializes in analysis of housing markets.

BC Housing Market Overview

This is my third quarterly report for Landcor. I have to say that I am shocked – SHOCKED – by what I have found. Now that I have looked closely at the numbers, a decade's worth of prejudices have been blown away. What I see is a stable market, which has good prospects of remaining stable and healthy for some time. I also see that, as a result of prolonged shortages, housing in BC is fully-priced and a sharp rise in interest rates could be quite disruptive.

There was a time when the BC housing market was in a dangerous interaction with employment, but that was a decade ago.

- Falling interest rates during the first half of the 2000s kick-started a surge of housing sales (in these charts “poly” refers to trend lines that are generated by Excel).
- Strong sales resulted in rapid price growth (see Figure 2), which had three important consequences:
 - 1.) Strong house price growth created a powerful “wealth effect” that boosted job creation to very high levels (see Figure 3).
 - 2.) Rapid rise in prices encouraged home buying, to levels higher than were justified by economic fundamentals – I call this the “speculative motive”.
 - 3.) By mid-decade this combination was resulting in “a mutually re-enforcing upward spiral” – let’s call that a bubble. This kind of situation almost always ends badly – very badly.

Coincident with the popping of the housing bubble in the US during 2007 to 2009, it started to look like BC might follow the same path. But, falling interest rates came to the rescue.

During the past three years:

- Sales have been relatively stable, at a level that is much lower than previous. However, this level of sales is fully justified by economic fundamentals – speculative froth appears to have been removed from the housing market.
- Price growth has moderated.
- During 2010 to 2012, jobs were being created at a healthy pace – somewhere around 1.5% per year. Conversely, recent data (shown in Figure 3) suggests that job creation has plunged - I'll get to that in a moment. (In short, I don't believe that data.)

The sales data in Figure 1 show a drop during 2012, followed by a quite strong rebound. There are some special circumstances that caused this. Effective July 2012 the federal government withdrew mortgage insurance for mortgages with amortization periods exceeding 25 years. The elimination of 30-year amortizations for these mortgages raised monthly payments by the equivalent of a one percentage point rise in mortgage rates. Consequently, home sales dropped sharply across Canada. Since then, two factors have produced a recovery:

- 1.) The impact of the policy change has gradually waned. I estimate that two years later, the negative impact has been reduced by one-half – but this policy continues to cause housing activity to be weaker than it should be, and
- 2.) Secondly, as can be seen Figure 1, mortgage interest rates have retreated this year, which has boosted activity.

All things considered, trends in the BC housing market can be explained by economic conditions and the policy environment. The era of an artificially over-heated market appears to be well in the past.

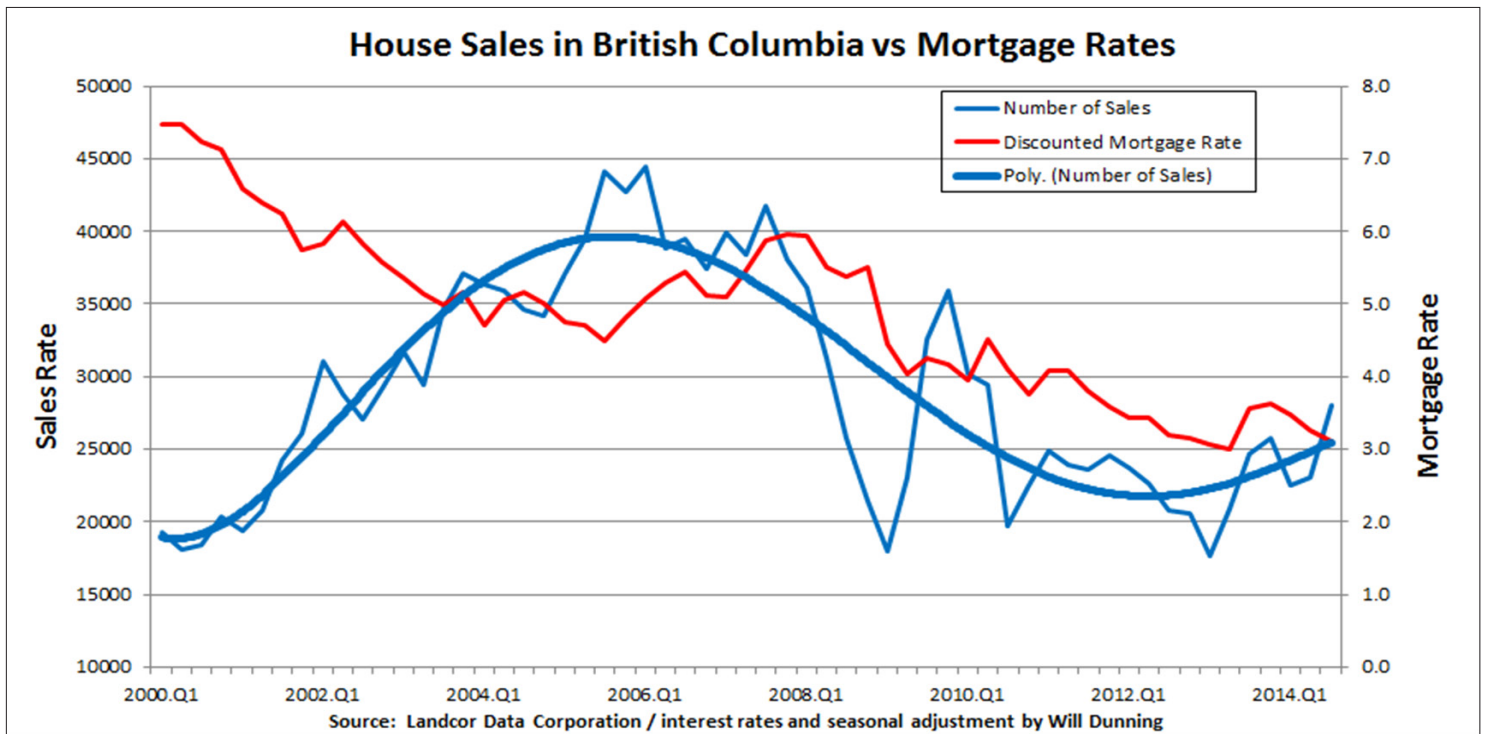


Figure 1

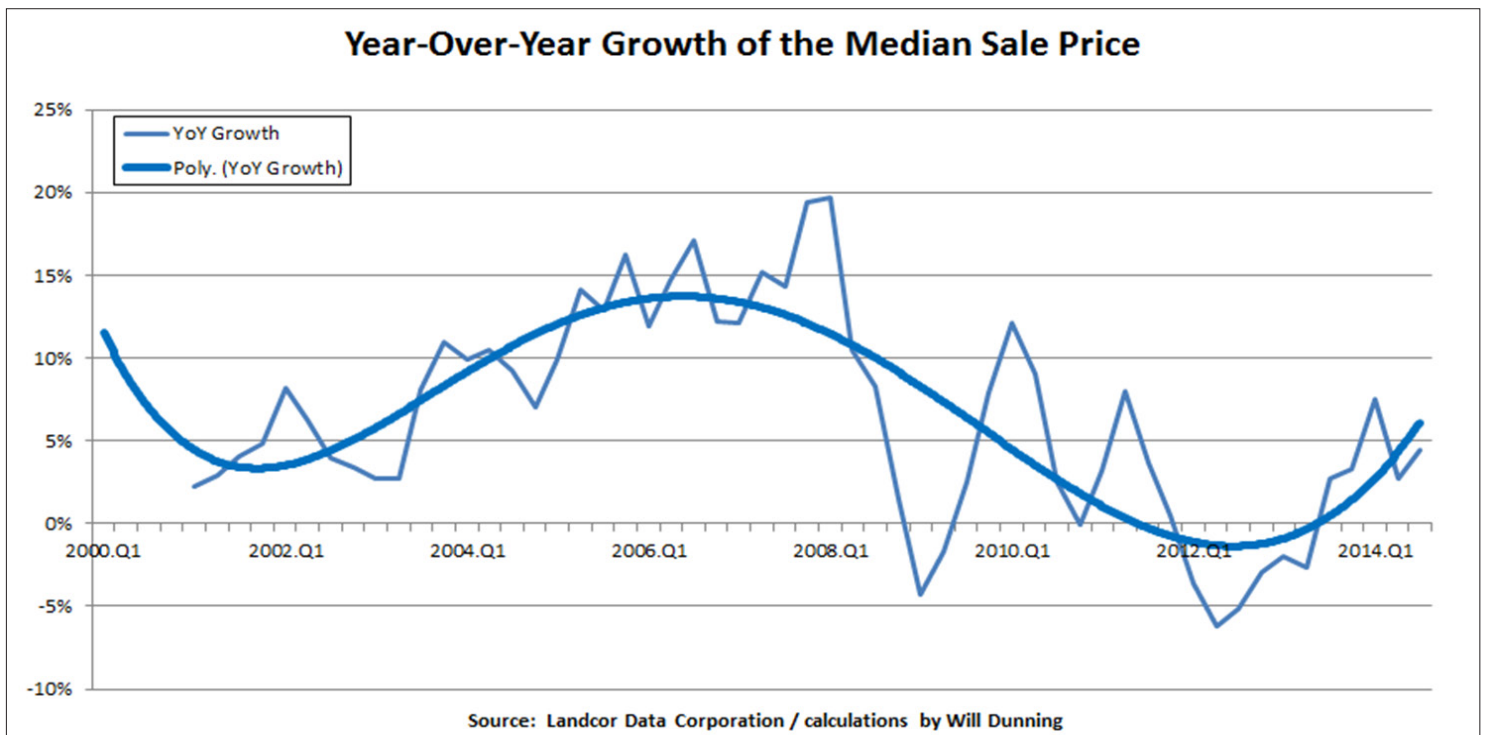


Figure 2

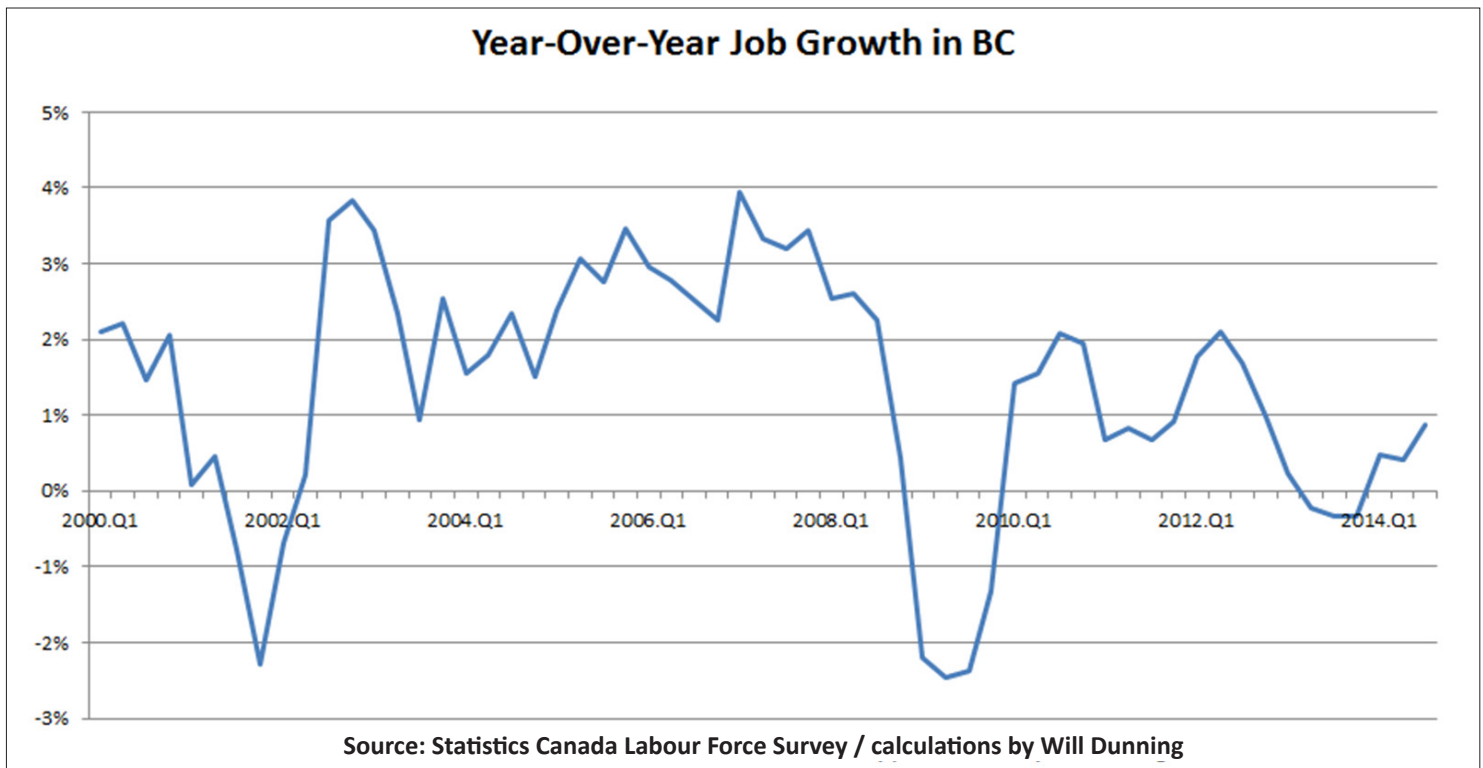


Figure 3

“Canada has the Most Over-Valued Housing Market in the World”

We keep hearing this statement. It is based on some number-crunching by the Organization for Economic Co-operation and Development (“OECD”), which looked at ratios for house prices versus rents over time, across countries. Last year, I published a research report that investigated “How to Dissect a Housing Bubble” (it can be found in the Recent Reports section of wdunning.com). The main conclusion is that the OECD ratio was based on bad data. Recalculating the ratios using data on prices and rents from the Royal LePage House Price Survey, the price-to-rent ratio has increased but much less than is widely believed.

The second major point in that paper is that the ratio of rents-to-prices (after adjustment for taxes and utilities of applicable) is a capitalization rate. Guess what? During the past decade and a half the cap rate for owner-occupied housing in Canada has essentially followed mortgage interest rates. Thus, the rise in the house-to-rent ratio in Canada is not so much evidence of over-heating as it is that the market works!

Moreover, as can be seen in Figure 4, for all of Canada there is now a lot of space between the cap rate and the mortgage rate, meaning that there is room to tolerate a future rise in mortgage rates (at the end of this data in 2013-Q4 there was a full one-point gap; today, the gap would be close to two points). I conclude from this, that in Canada overall, the housing market is not over-heated at present. In this data, there were two periods when cap rates were lower than mortgage rates; when interest rates rose during the “tech bubble” of 15 years ago and just prior to the recession of 2008/09. Those might be seen as periods of over-heating in housing markets, but maybe they were just because interest rates rose prematurely.

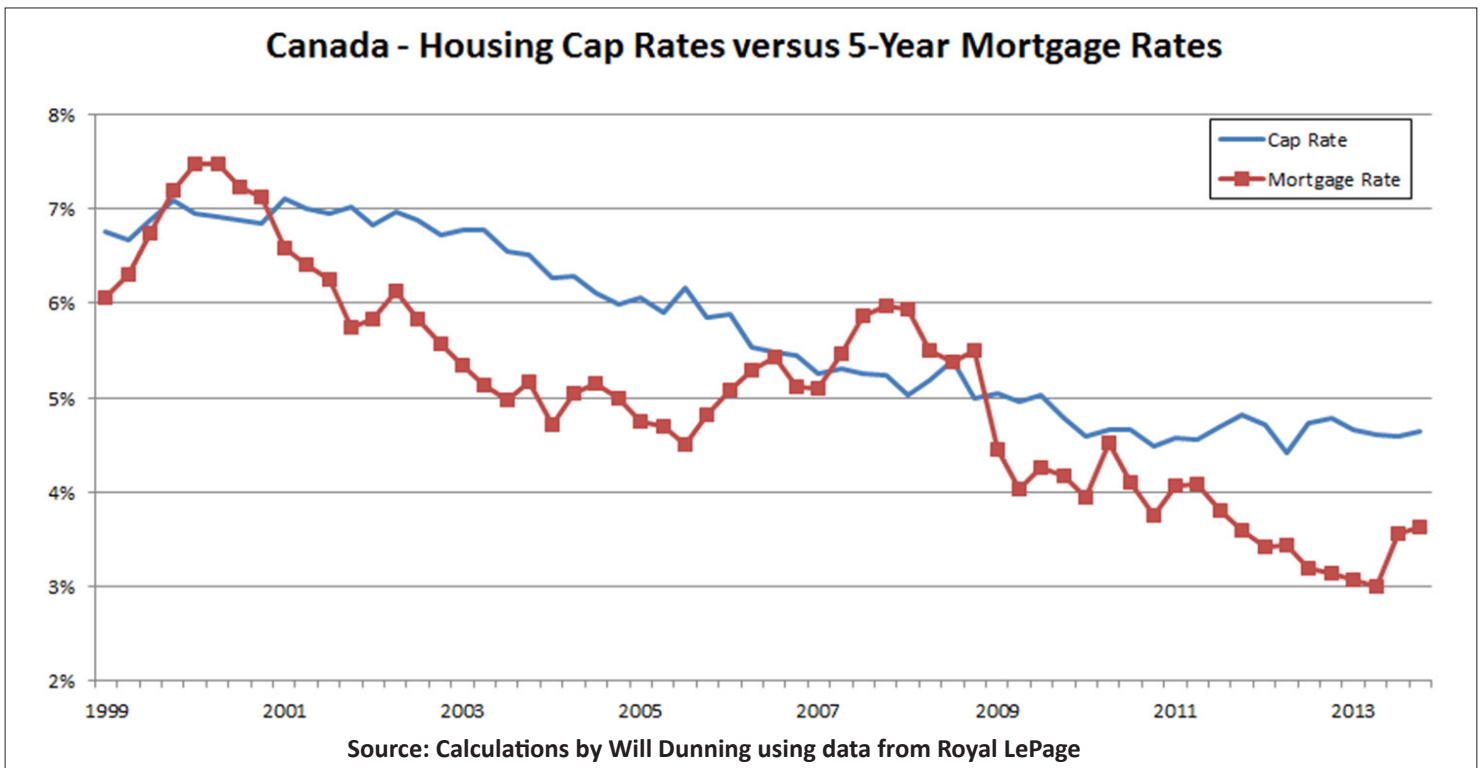


Figure 4

For BC, however, there is less room between the cap rates and mortgage rates. At the end of the dataset in 2013-Q4, the cap rate was almost equal to the mortgage rate. Today, there might be a gap of about one point. In the BC data, there have been more periods that might be considered over-heated. Based on this data, I would say that BC is more vulnerable to higher interest rates than Canada as a whole. So, what's your expectation about interest rates? Interest rates might rise by about a half point during the coming year, and a quarter point per year thereafter. Housing markets can absorb this.

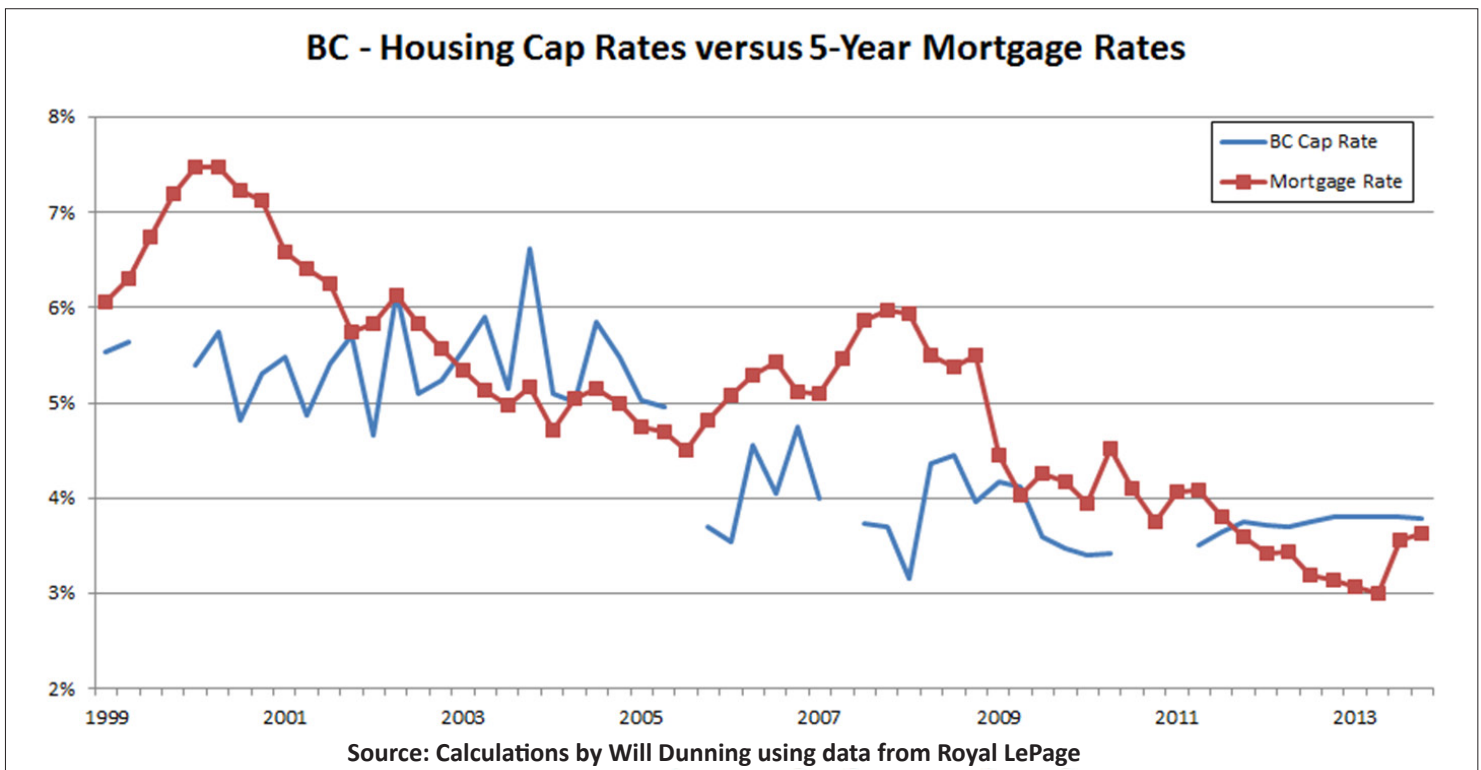


Figure 5*

*For some data points insufficient data is available to complete the calculations

Employment in BC – a Bad Economy or Bad Data?

The employment data in Figure 3 indicates that BC has experienced a sharp slowing of job creation during the past two years. If this data is correct, it would mean that housing demand will slow in BC.

But, is that data correct? It comes from a sample survey, and like all sample surveys it has a “margin-of-error”, which is a polite way of saying that sometimes it is wrong. Because of the design of the survey, those errors can persist for long periods of time.

Statistics Canada has another survey (“Survey of Employment Payrolls and Hours”, or “SEPH”) which uses data from companies. However, this data comes out almost two months later and it doesn’t get very much attention. Figure 6 contrasts the two datasets (to make it easier to read, I have converted both of the datasets into indexes). The two surveys show very different pictures: LFS (Labour Force Survey) suggests that there has been very little job creation during the past two years while SEPH shows continued growth at just over 2% per year.

Prima facia there is no reason to say which one is right. But, I know that the LFS data can be wrong. Plus, the SEPH data is consistent with what we are seeing in the housing market. Therefore, I am inclined to say that the BC economy is still in quite good health and is still able to support a healthy, balanced housing market.

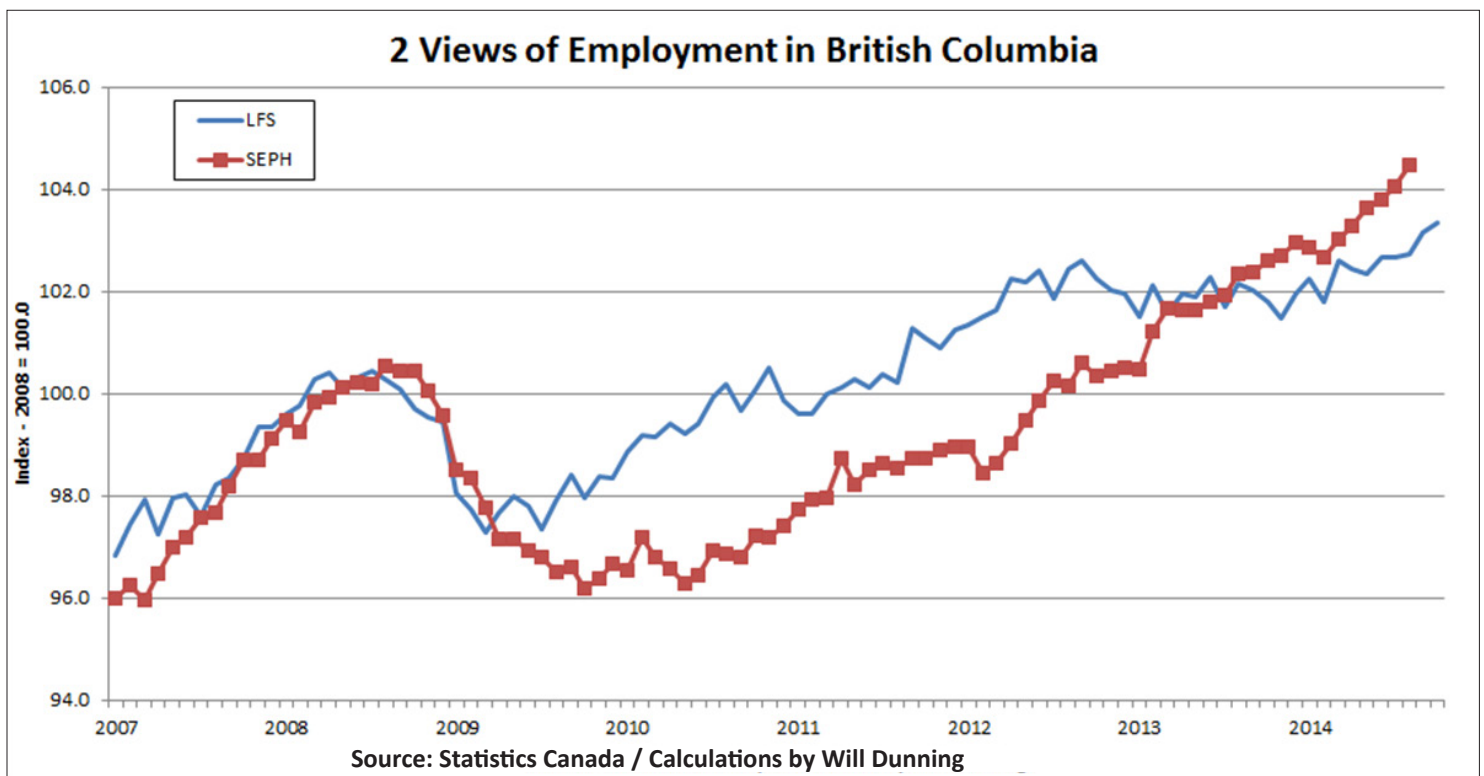


Figure 6

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.

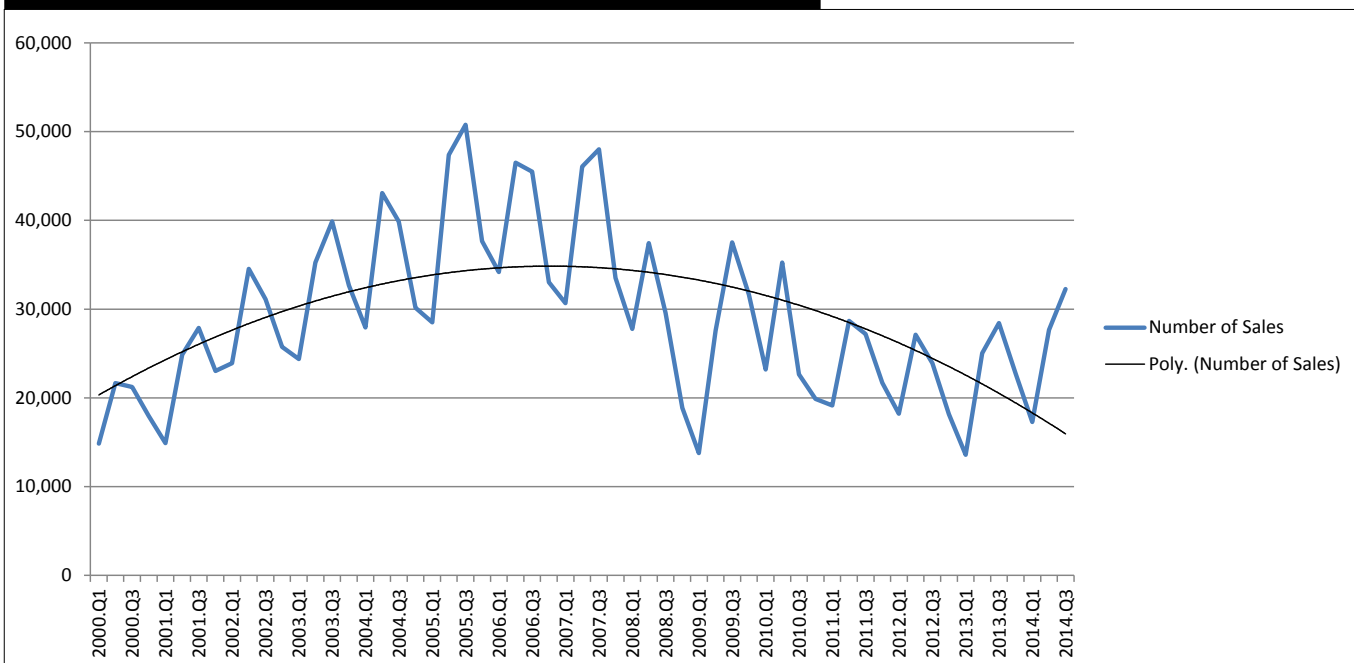
Opinions expressed in this report are of Will Dunning’s alone, and do not necessarily reflect those of Landcor Data Corporation.

BC Residential Sales Summary for Q3 2014

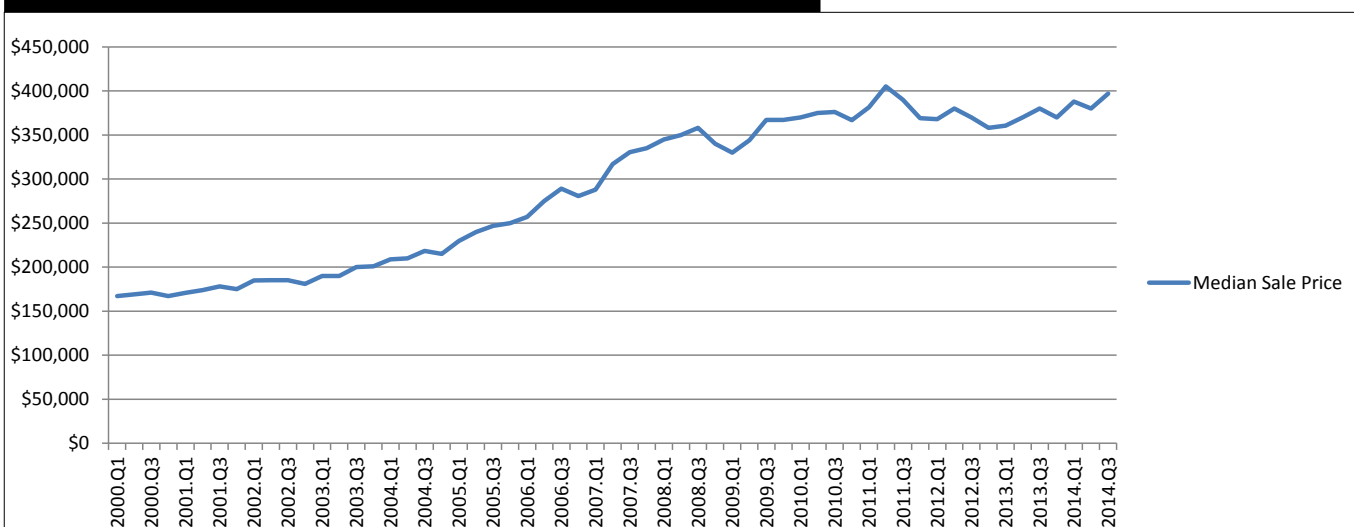
¹% change Q2'2014- Q3'2014 ²% change Q3'2013- Q3'2014

BC		Q3 2014	Q2 2014	% Chg ¹	Q3 2013	% Chg ²
Number of Sales		32,266	27,674	16.59%	28,430	13.49%
Total Value of Sales		\$17.46B	\$14.72B	18.62%	\$14.72B	18.65%
Detached	Average	\$538,877	\$524,730	2.70%	\$509,683	5.73%
	Median	\$509,000	\$495,000	2.83%	\$488,500	4.20%
Condo	Average	\$336,942	\$310,705	8.44%	\$327,564	2.86%
	Median	\$339,000	\$312,800	8.38%	\$328,900	3.07%
Attached	Average	\$378,495	\$367,933	2.87%	\$368,528	2.70%
	Median	\$360,000	\$355,320	1.32%	\$360,000	0.00%

Quarterly Sales Counts/BC All



Quarterly Median Sale Prices/BC All



¹% change Q2'14- Q3'14 ²% change Q3'13- Q3'14 ³% change month to previous month

¹% change Q2'14- Q3'14 ²% change Q3'13- Q3'14 ³% change month to previous month

Gr. Vancouver		Q3 2014	Q2 2014	% Chg ¹	Q3 2013	% Chg ²
Number of Sales		14,994	12,083	24.09%	13,187	13.70%
Total Value of Sales		\$11.29B	\$9.38B	20.35%	\$9.49B	18.91%
Detached	Average	\$928,047	\$926,926	0.12%	\$869,772	6.70%
	Median	\$855,000	\$845,000	1.18%	\$788,000	8.50%
Condo	Average	\$387,397	\$380,357	1.85%	\$374,149	3.54%
	Median	\$380,000	\$370,688	2.51%	\$365,000	4.11%
Attached	Average	\$479,026	\$474,585	0.94%	\$459,495	4.25%
	Median	\$452,000	\$465,000	-2.80%	\$425,000	6.35%

Fraser Valley		Q3 2014	Q2 2014	% Chg ¹	Q3 2013	% Chg ²
Number of Sales		3,494	3,359	4.02%	3,075	13.63%
Total Value of Sales		\$1.44B	\$1.34B	7.16%	\$1.22B	18.01%
Detached	Average	\$478,570	\$457,422	4.62%	\$463,737	3.20%
	Median	\$471,715	\$452,250	4.30%	\$460,000	2.55%
Condo	Average	\$189,354	\$204,470	-7.39%	\$190,989	-0.86%
	Median	\$194,000	\$208,950	-7.15%	\$199,000	-2.51%
Attached	Average	\$302,762	\$290,726	4.14%	\$292,351	3.56%
	Median	\$302,900	\$299,900	1.00%	\$298,000	1.64%

Gr. Van. Monthly		July	Aug.	% Chg ³	Sept.	% Chg ³
Number of Sales		5,379	5,106	-5.08%	4,509	-16.17%
Total Value of Sales		\$3.98B	\$3.75B	-5.93%	\$3.56B	-10.76%
Detached	Average	\$902,588	\$924,626	2.44%	\$964,311	6.84%
	Median	\$832,000	\$850,000	2.16%	\$881,300	5.93%
Condo	Average	\$383,016	\$381,954	-0.28%	\$398,374	4.01%
	Median	\$378,000	\$379,000	0.26%	\$385,000	1.85%
Attached	Average	\$468,058	\$480,918	2.75%	\$490,999	4.90%
	Median	\$445,000	\$450,000	1.12%	\$470,750	5.79%

Fraser Valley Monthly		July	Aug.	% Chg ³	Sept.	% Chg ³
Number of Sales		1,365	1,114	-18.39%	1,015	-25.64%
Total Value of Sales		\$0.57B	\$455.20M	-19.91%	\$413.98M	-27.17%
Detached	Average	\$481,391	\$478,470	-0.61%	\$475,111	-1.30%
	Median	\$477,750	\$469,950	-1.63%	\$466,944	-2.26%
Condo	Average	\$193,695	\$192,493	-0.62%	\$180,636	-6.74%
	Median	\$198,000	\$192,250	-2.90%	\$186,000	-6.06%
Attached	Average	\$298,725	\$304,741	2.01%	\$306,847	2.72%
	Median	\$299,900	\$312,400	4.17%	\$308,139	2.75%

Vancouver Island		Q3 2014	Q2 2014	% Chg ¹	Q3 2013	% Chg ²
Number of Sales		5,389	4,647	15.97%	4,877	10.50%
Total Value of Sales		\$2.13B	\$1.80B	18.83%	\$1.87B	14.26%
Detached	Average	\$416,209	\$406,118	2.48%	\$406,855	2.30%
	Median	\$415,000	\$407,500	1.84%	\$400,000	3.75%
Condo	Average	\$264,338	\$238,251	10.95%	\$262,711	0.62%
	Median	\$263,000	\$255,000	3.14%	\$255,703	2.85%
Attached	Average	\$321,986	\$306,827	4.94%	\$316,945	1.59%
	Median	\$320,000	\$315,200	1.52%	\$324,900	-1.51%

BC North/NW		Q3 2014	Q2 2014	% Chg ¹	Q3 2013	% Chg ²
Number of Sales		2,421	2,278	6.28%	2,319	4.40%
Total Value of Sales		\$0.59B	\$0.51B	15.11%	\$0.52B	14.83%
Detached	Average	\$269,893	\$261,263	3.30%	\$255,418	5.67%
	Median	\$274,950	\$270,000	1.83%	\$259,000	6.16%
Condo	Average	\$95,626	\$121,884	-21.54%	\$117,703	-18.76%
	Median	\$107,500	\$125,500	-14.34%	\$108,500	-0.92%
Attached	Average	\$215,550	\$208,793	3.24%	\$197,127	9.35%
	Median	\$226,259	\$211,000	7.23%	\$210,000	7.74%

Van. Island Monthly		July	Aug.	% Chg ³	Sept.	% Chg ³
Number of Sales		1,995	1,785	-10.5%	1,609	-19.35%
Total Value of Sales		\$0.82B	\$0.69B	-15.0%	\$0.63B	-23.31%
Detached	Average	\$424,877	\$413,598	-2.65%	\$408,197	-3.93%
	Median	\$422,000	\$414,000	-1.90%	\$396,000	-6.16%
Condo	Average	\$265,510	\$260,029	-2.06%	\$268,021	0.95%
	Median	\$254,500	\$264,000	3.73%	\$270,000	6.09%
Attached	Average	\$322,516	\$318,156	-1.35%	\$326,112	1.12%
	Median	\$320,000	\$320,000	0.00%	\$319,750	-0.08%

BC North/NW Monthly		July	Aug.	% Chg ³	Sept.	% Chg ³
Number of Sales		924	776	-16.02%	721	-21.97%
Total Value of Sales		\$227.54M	\$187.73M	-17.50%	\$176.50M	-22.43%
Detached	Average	\$275,321	\$270,789	-1.65%	\$261,946	-4.86%
	Median	\$281,500	\$277,250	-1.51%	\$262,750	-6.66%
Condo	Average	\$77,246	\$130,338	68.73%	\$95,431	23.54%
	Median	\$103,000	\$140,000	35.92%	\$94,000	-8.74%
Attached	Average	\$207,797	\$228,787	10.10%	\$206,631	-0.56%
	Median	\$222,900	\$242,000	8.57%	\$229,900	3.14%

Okanagan		Q3 2014	Q2 2014	% Chg ¹	Q3 2013	% Chg ²
Number of Sales		4,870	4,248	14.64%	3,962	22.92%
Total Value of Sales		\$1.72B	\$1.42B	21.06%	\$1.36B	26.34%
Detached	Average	\$401,473	\$384,228	4.49%	\$389,397	3.10%
	Median	\$400,000	\$385,000	3.90%	\$385,000	3.90%
Condo	Average	\$230,426	\$191,337	20.43%	\$222,096	3.75%
	Median	\$235,000	\$205,000	14.63%	\$224,000	4.91%
Attached	Average	\$280,997	\$280,215	0.28%	\$283,607	-0.92%
	Median	\$285,000	\$284,600	0.14%	\$282,250	0.97%

Kootenay		Q3 2014	Q2 2014	% Chg ¹	Q3 2013	% Chg ²
Number of Sales		1,098	1,059	3.68%	1,010	8.71%
Total Value of Sales		\$294.36M	\$272.10M	8.18%	\$264.23M	11.40%
Detached	Average	\$294,843	\$283,491	4.00%	\$287,362	2.60%
	Median	\$300,000	\$295,500	1.52%	\$292,750	2.48%
Condo	Average	\$167,729	\$157,694	6.36%	\$167,102	0.38%
	Median	\$180,476	\$170,750	5.70%	\$180,000	0.26%
Attached	Average	\$274,249	\$252,359	8.67%	\$241,806	13.42%
	Median	\$277,500	\$250,000	11.00%	\$250,000	11.00%

Okanagan Monthly		July	Aug.	% Chg ³	Sept.	% Chg ³
Number of Sales		1,682	1,721	2.32%	1,467	-12.78%
Total Value of Sales		\$0.60B	\$0.60B	0.12%	\$0.53B	-11.91%
Detached	Average	\$403,561	\$402,180	-0.34%	\$398,083	-1.36%
	Median	\$399,000	\$405,000	1.50%	\$400,000	0.25%
Condo	Average	\$230,160	\$226,988	-1.38%	\$235,284	2.23%
	Median	\$231,068	\$233,250	0.94%	\$242,500	4.95%
Attached	Average	\$282,552	\$279,655	-1.03%	\$280,820	-0.61%
	Median	\$282,000	\$288,000	2.13%	\$281,750	-0.09%

Kootenay Monthly		July	Aug.	% Chg ³	Sept.	% Chg ³
Number of Sales		357	376	5.32%	365	2.24%
Total Value of Sales		\$101.77M	\$98.58M	-3.13%	\$94.01M	-7.62%
Detached	Average	\$319,836	\$281,430	-12.01%	\$285,573	-10.71%
	Median	\$317,000	\$300,000	-5.36%	\$278,500	-12.15%
Condo	Average	\$173,652	\$152,279	-12.31%	\$173,605	-0.03%
	Median	\$180,952	\$155,250	-14.20%	\$199,900	10.47%
Attached	Average	\$263,251	\$271,316	3.06%	\$288,511	9.60%
	Median	\$278,750	\$262,500	-5.83%	\$280,000	0.45%

LANDCOR® DATA CORPORATION

Landcor® Data Corporation
200 - 313 Sixth Street
New Westminster, BC
V3L 3A7

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

Sound real estate decisions are made using the best possible information. Incorporated in 1987, Landcor Data Corporation has grown to be one of the most trusted providers of objective real estate data and analysis in British Columbia.

During the past two decades we've helped hundreds of clients achieve their goals by offering the most comprehensive real estate data, analysis and insight available. From real estate valuation and analysis to land economics research and systems development, our staff of highly qualified experts are here to help you find solutions to your real estate analysis and data needs. Landcor maintains the largest, most comprehensive database of historical sales and current information on BC residential and commercial real estate.

Landcor's database includes:

- BC Assessment data on 1.96 million properties,
- sales transaction data for BC, including prices updated weekly,
- geographic location data used in custom reports

This report is provided by Landcor Data Corporation ("Landcor") as a courtesy for general information purposes. Because the data in this report is provided to Landcor by the British Columbia Government and its various agencies, Landcor has no control over the accuracy of the data. The information in this document (the "content") is therefore provided "as is" and "as available". The content is provided without warranties of any kind, either express or implied, including, but not limited to, implied warranties of merchantability, fitness for a particular purpose, or noninfringement. Landcor, its subsidiaries, or its licensors are not liable for any direct, indirect, punitive, incidental, special or consequential damages that result from the use of this content. This limitation applies whether the alleged liability is based on contract, tort, negligence, strict liability or any other basis, even if Landcor has been advised of the possibility of such damage.

Because some jurisdictions do not allow the exclusion or limitation of incidental or consequential damages, Landcor's liability in such jurisdictions shall be limited to the extent permitted by law. While this information is believed to be correct, it is represented subject to errors, omissions, changes or withdrawal without notice.