

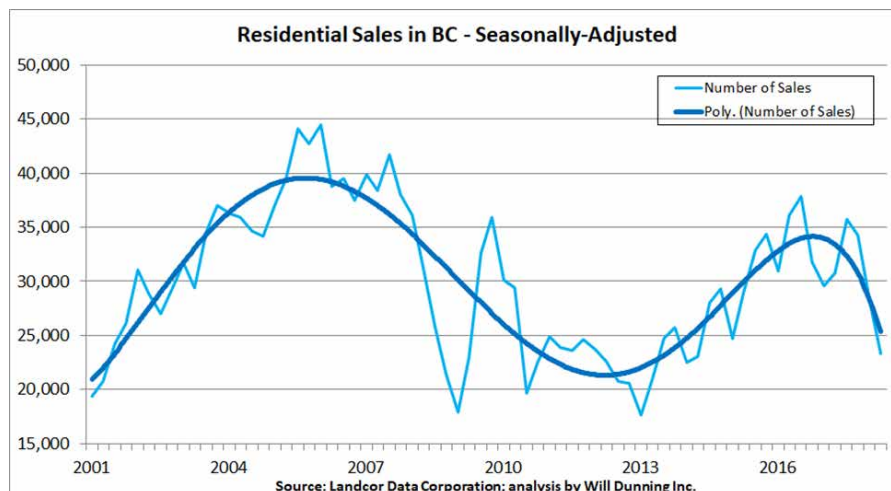
Report prepared by economist WILL DUNNING. Views expressed by Will Dunning are his own and do not necessarily represent those of Landcor Data Corporation. Will Dunning operates a consulting firm that specializes in analysis of housing markets.

BC Housing Market Overview

The policy-induced downturn of BC's housing markets has worsened. As is discussed below, policies of the federal and provincial governments are weighing heavily on housing demand in British Columbia.

As can be seen in Figure 1, housing activity in BC has slowed sharply this year. For 2018-Q2, actual sales totalled 27,942 units, which equates to 23,300 on a seasonally-adjusted basis. The second quarter is normally the busiest of the year, so the "seasonal adjustment" process results in a reduced estimate. (In these charts, the lines labelled "Poly." are trend lines generated by Excel.)

Figure 1



Recent Policy Measures Weighing on BC Housing

Federal government policies are weighing heavily on housing markets across Canada. On top of these, provincial government policies are suppressing home buying activity within British Columbia.

Federal government policies now require that most new mortgages must be "stress tested" at interest rates that are about 2 percentage points above the actual contracted rates.

The provincial government's speculation tax (in major urban centres) starts at a rate of 0.5% of property value for 2018, and increases in 2019 to:

- 2% for foreign investors and satellite families;
- 1% for Canadian citizens and permanent residents who do not live in British Columbia; and
- 0.5% for British Columbians (Canadian citizens or permanent residents) who own a vacant second property (through the application of a tax credit, it is intended that for BC residents the tax will apply only to the portion of value above \$400,000).

The speculation tax is in addition to the previously-announced foreign buyers' tax. As of this year, the tax rate has been increased to 20% (from the initial 15% rate) and the geographic coverage has been expanded. In addition to the Greater Vancouver Regional District, the tax now applies within Capital Regional District, Fraser Valley Regional District, Regional District of Central Okanagan, and Regional District of Nanaimo.

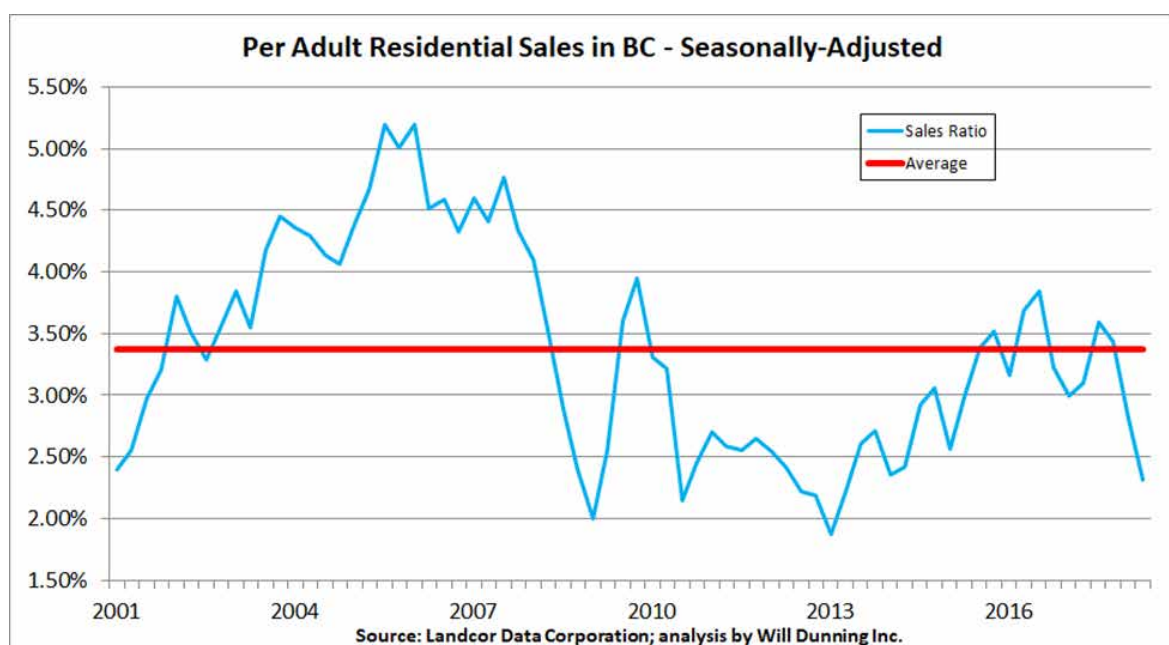
BC Housing Market Overview (cont'd)

As I have done in previous editions of this report, I like to look at sales on a “per adult” basis. We should expect that sales will trend upwards over time, because the population is growing (and therefore there are more people who could potentially buy homes).

Meanwhile, the total stock of housing is expanding (and therefore there are more homes that could potentially be sold). Figure 2 therefore modifies the data from Figure 1. The data in Figure 2 shows that for Q2, the sales rate was just 2.32%, which is the 5th lowest rate for the entire period (out of a total of 70 quarterly datapoints).

The current sales rate is 31% below the average over the entire period (3.37%, which is shown by the flat red line). By this measure, home buying activity in BC is now exceptionally weak. Furthermore, while sales activity strengthened during 2014 and 2015, the degree of “heat” was considerably less severe than was seen a decade earlier.

Figure 2



Housing market performance, of course, is influenced by many factors. One of the most important of these factors is job creation, since having a job enables people to seriously consider purchase of a home. There is currently some uncertainty about the employment situation within British Columbia. The main source of employment data in Canada is Statistics Canada’s Labour Force Survey (or “LFS”). This dataset suggests that the BC economy has slowed quite sharply, with little or no job creation during the past year. If that data is correct, it would help to explain the sharp slowing of home buying.

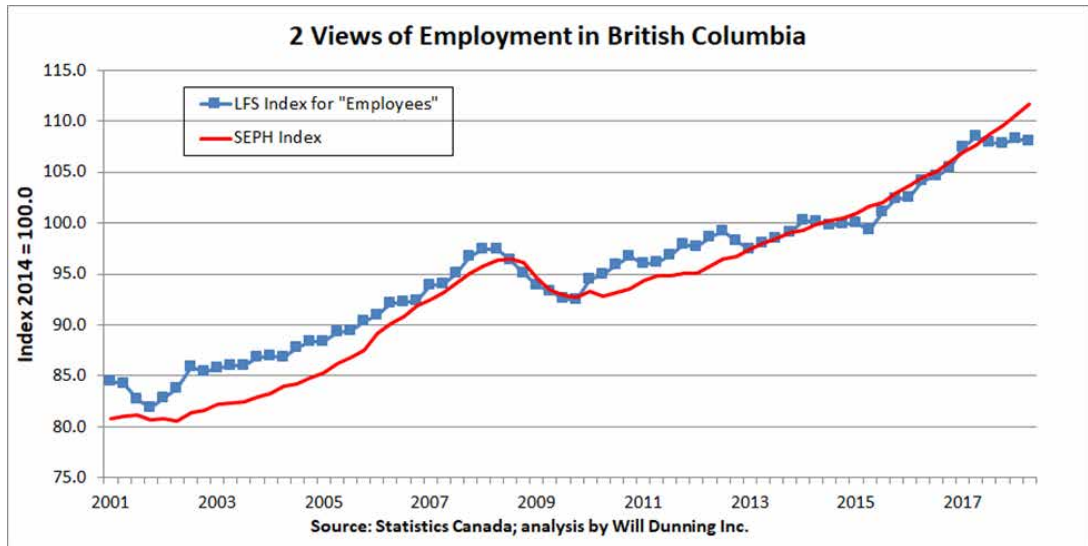
But, the LFS data is from a sample survey. Just like political opinion surveys it can be wrong. Looking in detail at the data, I believe that the LFS data has been wrong for the past year.

Statistics Canada produces another set of data on the employment situation (from its “Survey of Employment, Payrolls and Hours”, or “SEPH”). However, the SEPH data comes out almost two months later than the LFS data and therefore it gets very little attention. In sharp contrast to the LFS data that shows no growth over the past year, the SEPH data shows a growth rate of 3.5%.

BC Housing Market Overview (cont'd)

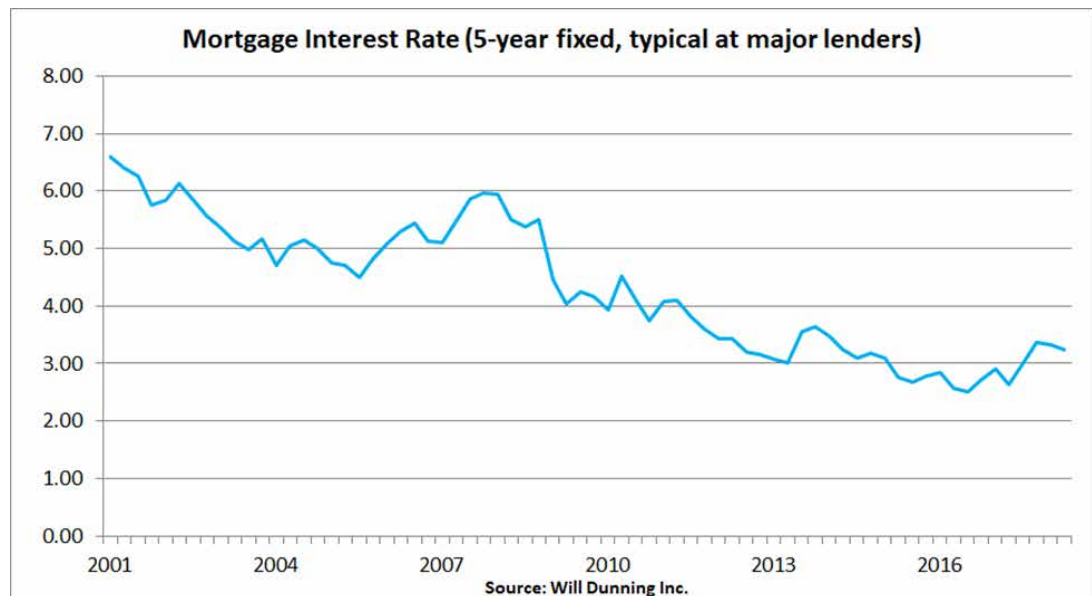
Figure 3 contrasts the data from the two surveys: the two datasets are converted into “indexes” of employment. The two indexes show that much of the time the datasets follow similar trends, but there are some periods where they disagree. 2018 is one of those periods where the two surveys paint very different pictures. If we can agree that the SEPH data looks more reliable at this point, then we should expect that housing activity would currently be strong in BC.

Figure 3



Another key factor is interest rates and affordability. Figure 4 shows the history for the interest rate that matters the most for the housing market. The rate has increased compared to a year ago (for Q2 a typical “special offer” interest rate for 5-year fixed-rate mortgages was 3.25%, versus an average of 2.75% for 2015 and 2016). In historic terms, rates are still very low.

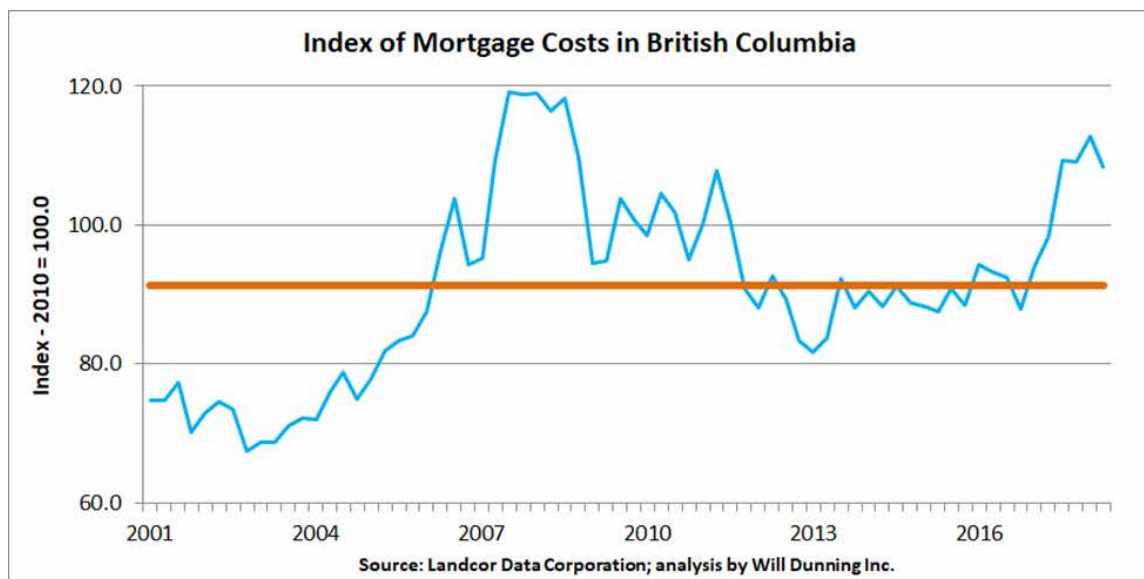
Figure 4



BC Housing Market Overview (cont'd)

When higher interest rates are combined with rapid growth in house prices, affordability has deteriorated in British Columbia. Figure 5 provides an index of the affordability of mortgage payments. In this chart, the flat orange line is the average for the entire period. The current level is not the worst ever, but it is definitely much worse than average.

Figure 5

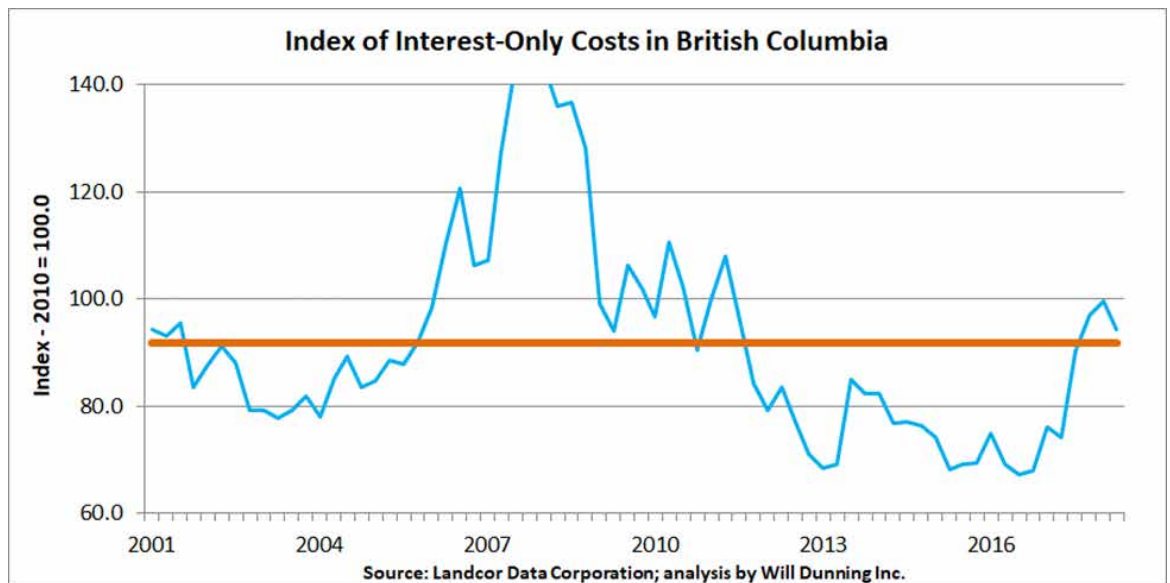


It must be remembered that mortgage payments result in rapid repayment of mortgage principal, which can be seen as a form of savings. For the consumer, the actual cost of finance is the interest component of the payment. The principal part of the payment is a form of saving and therefore it should not be considered part of the cost of finance: it should be excluded from the calculations. Figure 6 shows the result of that approach. This data indicates that until recently affordability was extremely good in BC, and the recent deterioration means that affordability is now just slightly worse than the long-term average. For the province as a whole, affordability is still a reasonably favourable factor, although it is much less favourable than it had had been during 2012 until mid-2017.



BC Housing Market Overview (cont'd)

Figure 6



Looking at both the very favourable employment situation and the negative change for affordability, we should expect that housing activity would have slowed slightly during the past year. The recent figures should be relatively strong in historic terms. The fact that activity is now very weak in historic terms points out the strong negative effects of the federal and provincial government policies.

Looking forward:

- For 2017, Landcor's data shows total residential sales at about 131,000.
- Based on the economic factors (the positives of job creation and population growth, and the negative factor of higher interest rates) activity should be the same or decrease slightly this year.
- But, because of the policy factors (the federal stress tests and the provincial non-resident and speculation taxes), sales will be suppressed: I expect that total sales in 2018 will be in the area of 100,000 to 110,000, a drop of 16% to 24%.
- Without these government policies, sales would likely be in the area of 120,000 to 125,000, or a reduction of 5% to 8% versus 2017.

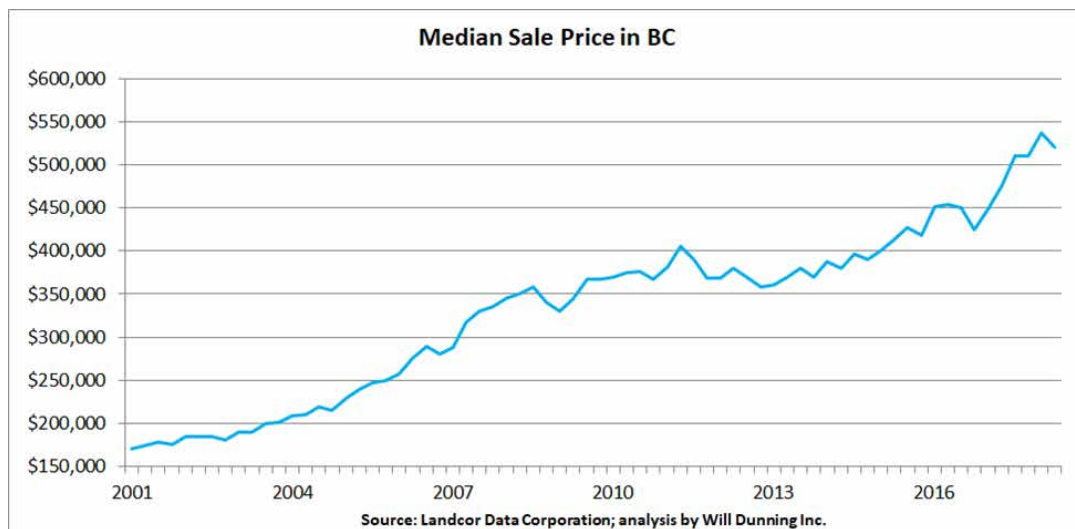


BC Housing Market Overview (cont'd)

Prices

The median sale slipped during 2018-Q2, to \$519,800 from \$537,000 in 2018-Q1. It was up by 9.2% compared to a year ago (see Figure 7).

Figure 7



However, this has been influenced by a change in “composition” (the locations and types of homes sold). For all of BC, the median price for detached homes has increased by 3.85% during the past year. The year-over-year increases, for detached homes, by region (as of 2018-Q2) were:

- Greater Vancouver: 3.65%
- Vancouver Island: 10.53%
- Kootenay: 0.02%
- Okanagan: 9.46%
- Fraser Valley: 12.85%
- North/northwest BC: 7.02%



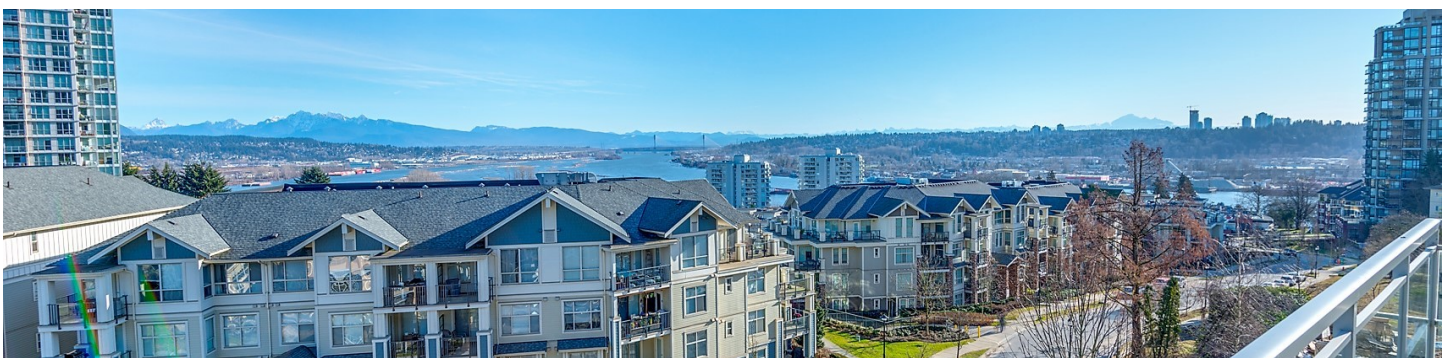
BC Housing Market Overview (cont'd)

Regional Variations

Landcor's data show that during 2018-Q2, residential sales were 24.21% lower than a year earlier. As is shown in the table, reductions were widespread, as only Kootenay showed a notable increase (and North/Northwest was essentially unchanged). Other regions have shown severe reductions.

The largest reduction was in Greater Vancouver. In consequence, the GVRD lost market share and the five other regions saw increases.

Residential Sales in British Columbia, by Region, 2017-Q2 and 2018-Q2					
<i>Region</i>	<i>Quarterly Sales</i>		<i>% Change</i>	<i>Share of BC</i>	
	<i>2017-Q2</i>	<i>2018-Q2</i>		<i>2017-Q2</i>	<i>2018-Q2</i>
Greater Vancouver	16,065	10,774	-32.93%	43.6%	38.6%
Vancouver Island	6,827	5,275	-22.73%	18.5%	18.9%
Kootenay	1,270	1,348	6.14%	3.4%	4.8%
Okanagan	5,800	4,750	-18.10%	15.7%	17.0%
Fraser Valley	4,917	3,806	-22.60%	13.3%	13.6%
BC North/Northwest	1,987	1,989	0.10%	5.4%	7.1%
BC Total	36,866	27,942	-24.21%	100.0%	100.0%
Source: Landcor Data Corporation					
Note: Figures may vary from other published data due to on-going revisions.					



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.

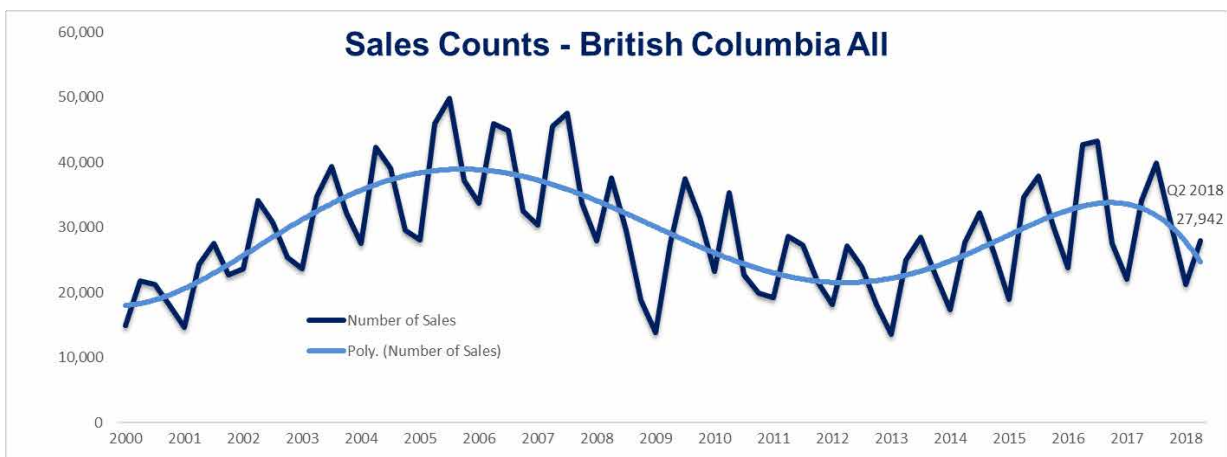
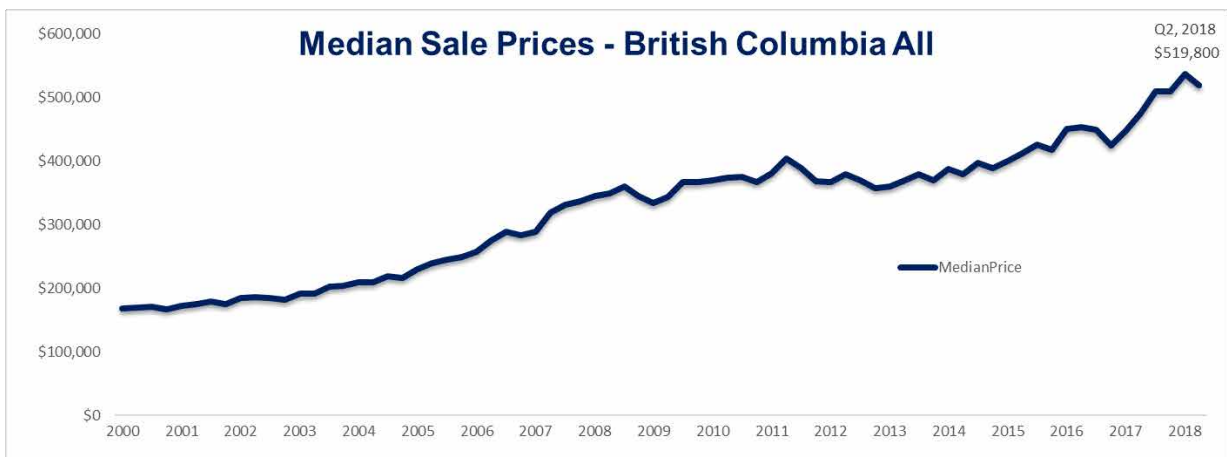
BC Residential Sales Summary for Q2, 2018

Landcor's quarterly residential sales reports on property sale values in British Columbia. Providing sales information on a regional level, the report compares average and median pricing on different property types.

¹% change Q2'2018—Q1'2018 ²% change Q2'2018—Q2'2017

British Columbia - All

Quarterly Sales		Q2 2018	Q1 2018	% Chg ¹	Q2 2017	% Chg ²
Number of Sales		27,942	21,632	29.17%	36,866	-24.21%
Total Value of Sales		\$19.63B	\$15.70B	25.06%	\$24.28B	-19.15%
Detached	Average	\$888,606	\$976,307	-8.98%	\$884,315	0.49%
	Median	\$675,000	\$738,000	-8.54%	\$650,000	3.85%
Condo	Average	\$461,000	\$557,145	-17.26%	\$470,268	-1.97%
	Median	\$545,876	\$461,600	18.26%	\$395,000	38.20%
Attached	Average	\$555,000	\$629,186	-11.79%	\$578,188	-4.01%
	Median	\$626,241	\$564,900	10.86%	\$490,000	27.80%



¹% change Q2'2018—Q1'2018 ²% change Q2'2018—Q2'2017 ³% change month to previous month**Region: Greater Vancouver**

Quarterly Sales		Q2 2018	Q1 2018	% Chg ¹	Q2 2017	% Chg ²
Number of Sales		10,774	9,321	15.59%	16,065	-32.93%
Total Value of Sales		\$11.32B	\$9.66B	17.22%	\$14.94B	-24.21%
Detached	Average	1,662,104	1,693,386	-1.85%	\$1,602,142	3.74%
	Median	1,335,000	1,348,360	-0.99%	\$1,288,000	3.65%
Condo	Average	663,616	675,022	-1.69%	\$546,209	21.50%
	Median	568,000	560,000	1.43%	\$460,484	23.35%
Attached	Average	849,485	818,278	3.81%	\$764,540	11.11%
	Median	715,000	700,000	2.14%	\$630,000	13.49%

Monthly Sales		June	May	% Chg ³	April	% Chg ³
Number of Sales		4,078	3,444	18.41%	3,252	5.57%
Total Value of Sales		\$4.00B	\$3.36B	19.04%	\$3.96B	-17.89%
Detached	Average	1,625,384	1,746,449	-6.93%	\$1,626,967	6.84%
	Median	1,340,000	1,350,000	-0.74%	\$1,317,500	2.41%
Condo	Average	656,068	645,881	1.58%	\$692,581	-7.23%
	Median	563,900	551,000	2.34%	\$589,000	-6.90%
Attached	Average	833,836	840,879	-0.84%	\$876,402	-4.22%
	Median	704,642	709,725	-0.72%	\$732,000	-3.14%

Region: Vancouver Island

Quarterly Sales		Q2 2018	Q1 2018	% Chg ¹	Q2 2017	% Chg ²
Number of Sales		5,275	4,047	30.34%	6,827	-22.73%
Total Value of Sales		\$2.78B	\$2.01B	38.12%	\$3.29B	-15.57%
Detached	Average	659,457	626,666	5.23%	592,544	11.29%
	Median	580,000	560,000	3.57%	524,750	10.53%
Condo	Average	393,359	371,343	5.93%	347,960	13.05%
	Median	360,000	345,250	4.27%	325,000	10.77%
Attached	Average	472,678	459,239	2.93%	435,578	8.52%
	Median	440,000	420,000	4.76%	396,271	11.04%

Monthly Sales		June	May	% Chg ³	April	% Chg ³
Number of Sales		2,097	1,587	32.14%	1,591	-0.25%
Total Value of Sales		\$1.13B	\$0.83B	36.21%	\$0.82B	1.29%
Detached	Average	678,008	656,006	3.35%	\$639,160	2.57%
	Median	595,000	578,250	2.90%	\$565,000	2.29%
Condo	Average	395,484	404,502	-2.23%	\$375,520	7.16%
	Median	357,008	370,000	-3.51%	\$350,000	5.41%
Attached	Average	495,078	470,613	5.20%	\$444,935	5.46%
	Median	462,450	438,000	5.58%	\$426,000	2.74%

¹% change Q2'2018—Q1'2018 ²% change Q2'2018—Q2'2017 ³% change month to previous month**Region: Kootenay**

Quarterly Sales		Q2 2018	Q1 2018	% Chg ¹	Q2 2017	% Chg ²
Number of Sales		1,348	707	90.66%	1,270	6.14%
Total Value of Sales		\$381.27M	\$191.15M	99.47%	\$361.88M	5.36%
Detached	Average	367,534	339,820	8.16%	\$353,400	4.00%
	Median	330,000	304,000	8.55%	\$329,950	0.02%
Condo	Average	184,051	194,317	-5.28%	\$197,259	-6.70%
	Median	176,500	190,891	-7.54%	\$173,809	1.55%
Attached	Average	298,464	320,879	-6.99%	\$287,193	3.92%
	Median	285,000	308,300	-7.56%	\$262,000	8.78%

Monthly Sales		June	May	% Chg ³	April	% Chg ³
Number of Sales		622	378	64.55%	348	7.94%
Total Value of Sales		\$178.02M	\$110.55M	61.02%	\$92.71M	16.14%
Detached	Average	369,590	383,360	-3.59%	\$346,899	9.51%
	Median	326,000	345,000	-5.51%	\$322,000	6.67%
Condo	Average	188,867	175,200	7.80%	\$185,584	-5.93%
	Median	178,400	174,250	2.38%	\$174,750	-0.29%
Attached	Average	305,190	307,479	-0.74%	\$271,086	11.84%
	Median	280,000	290,000	-3.45%	\$285,000	1.72%

Region: Okanagan

Quarterly Sales		Q2 2018	Q1 2018	% Chg ¹	Q2 2017	% Chg ²
Number of Sales		4,750	3,185	49.14%	5,800	-18.10%
Total Value of Sales		\$2.12B	\$1.38B	53.57%	\$2.37B	-10.57%
Detached	Average	583,065	579,932	0.54%	\$528,814	10.26%
	Median	519,950	520,000	-0.01%	\$475,000	9.46%
Condo	Average	321,922	316,925	1.58%	\$299,670	7.43%
	Median	299,450	310,000	-3.40%	\$283,000	5.81%
Attached	Average	394,910	390,809	1.05%	\$368,369	7.21%
	Median	365,000	374,900	-2.64%	\$349,525	4.43%

Monthly Sales		June	May	% Chg ³	April	% Chg ³
Number of Sales		1,842	1,448	27.21%	1,460	-0.83%
Total Value of Sales		\$0.85B	\$0.62B	35.86%	\$0.65B	-4.62%
Detached	Average	580,161	579,215	0.16%	\$590,951	-2.03%
	Median	510,000	515,000	-0.97%	\$525,250	-1.99%
Condo	Average	318,287	341,200	-6.72%	\$303,739	10.98%
	Median	302,000	310,500	-2.74%	\$284,000	8.53%
Attached	Average	387,828	380,372	1.96%	\$413,333	-8.67%
	Median	372,500	354,047	5.21%	\$378,000	-6.77%

¹% change Q2'2018—Q1'2018 ²% change Q2'2018—Q2'2017 ³% change month to previous month**Region: Fraser Valley**

Quarterly Sales		Q2 2018	Q1 2018	% Chg ¹	Q2 2017	% Chg ²
Number of Sales		3,806	3,193	19.20%	4,917	-22.60%
Total Value of Sales		\$2.54B	\$2.19B	15.99%	\$2.84B	-10.63%
Detached	Average	920,319	965,746	-4.70%	\$796,850	15.49%
	Median	791,000	800,000	-1.13%	\$700,900	12.85%
Condo	Average	339,557	310,857	9.23%	\$262,030	29.59%
	Median	340,000	305,500	11.29%	\$255,000	33.33%
Attached	Average	523,438	518,093	1.03%	\$451,489	15.94%
	Median	519,900	513,450	1.26%	\$435,796	19.30%

Monthly Sales		June	May	% Chg ³	April	% Chg ³
Number of Sales		1,494	1,125	32.80%	1,187	-5.51%
Total Value of Sales		\$0.99B	\$0.75B	31.93%	\$0.80B	-5.96%
Detached	Average	909,430	944,913	-3.76%	\$911,601	3.53%
	Median	780,000	808,500	-3.53%	\$790,000	2.29%
Condo	Average	340,591	334,233	1.90%	\$343,553	-2.79%
	Median	341,000	336,200	1.43%	\$340,000	-1.13%
Attached	Average	521,427	525,993	-0.87%	\$523,873	0.40%
	Median	515,000	525,075	-1.92%	\$519,900	0.99%

Region: BC North / NW

Quarterly Sales		Q2 2018	Q1 2018	% Chg ¹	Q2 2017	% Chg ²
Number of Sales		1,989	1,179	68.70%	1,987	0.10%
Total Value of Sales		\$494.16M	\$269.39M	83.44%	\$483.27M	2.25%
Detached	Average	314,428	294,668	6.71%	\$303,307	3.67%
	Median	305,000	285,000	7.02%	\$285,000	7.02%
Condo	Average	176,397	146,620	20.31%	\$116,854	50.95%
	Median	189,000	142,750	32.40%	\$87,000	117.24%
Attached	Average	244,729	220,165	11.16%	\$233,466	4.82%
	Median	251,500	209,900	19.82%	\$235,000	7.02%

Monthly Sales		June	May	% Chg ³	April	% Chg ³
Number of Sales		850	622	36.66%	517	16.88%
Total Value of Sales		\$219.34M	\$150.18M	46.05%	\$124.64M	17.01%
Detached	Average	318,763	314,278	1.43%	\$307,165	2.26%
	Median	309,750	307,000	0.90%	\$295,000	3.91%
Condo	Average	145,079	215,075	-32.54%	\$183,286	14.78%
	Median	96,000	209,500	-54.18%	\$189,000	9.79%
Attached	Average	256,251	262,541	-2.40%	\$200,834	23.50%
	Median	265,000	279,900	-5.32%	\$200,000	28.55%

A MESSAGE FROM OUR PRESIDENT

Landcor maintains the largest, most comprehensive database of historical sales and current information on BC residential and commercial real estate.

Sound real estate decisions are made using the best possible information. Incorporated in 1988, Landcor Data Corporation has grown to be one of the most trusted providers of objective real estate data and analysis in British Columbia.

Over the years we've helped hundreds of clients achieve their goals by offering the most comprehensive real estate data, analysis and insights available. From real estate valuations 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's Database Includes:

- BC Assessment Data on 2.2+ Million Properties
- Property Sales Transaction Data for BC, including prices updated Weekly
- Geographic location data used in reports

Rudy Nielsen, RI, FRI
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