

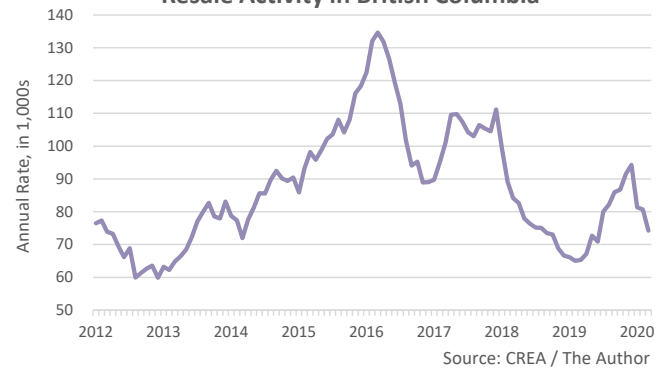
## Resale Market

During 2019, the province's resale activity began to recover from effects of government policies that have weighed heavily on home buying (including the province's foreign buyers' and speculation taxes, and the federally-mandated mortgage stress tests). However, activity weakened early this year, and then fell further in March. Across Canada, there have been reports that activity was quite strong during the first half of March, but then there were sharp downturns during the second half, as fears developed about personal safety, the federal and provincial governments urged us to stay at home, and businesses reduced their activities, which generated great fears about our incomes and employment. It is quite likely that during the second half of March, the effective sales rate within BC was much lower. For the entire first quarter, the provincial sales rate was 13% lower than for the fourth quarter of last year.

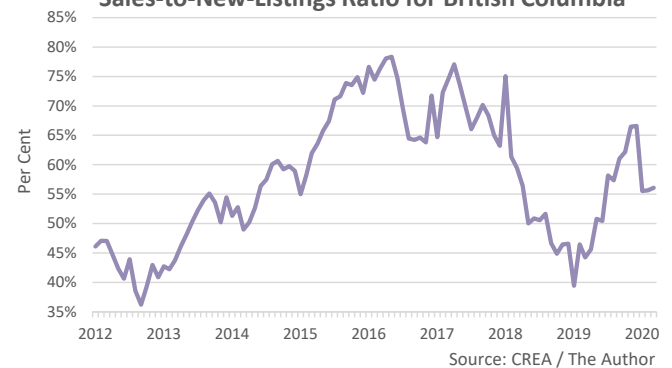
At present, there is a great deal of uncertainty about the effects of the developing health emergency. The sales-to-new-listings ratio ("SNLR") has varied quite sharply over time, and has shown rapid transitions between the three states that I recognize ("balanced market", "sellers' market", and "buyers' market"). For BC, I estimate the threshold for a "balanced market" is 47% (this is the level at which prices are expected to rise by 2% per year). During the first quarter, the SNLR averaged 56% (showing a "sellers' market"). This was down from 65% in the fourth quarter, but is notably higher than during the first half of last year (when there was a "buyers' market"). The recent SNLR is supportive of rapid price growth. These rapidly changing conditions have resulted in volatility for pricing.

There is little or no change in prices compared to a year ago (the house price index for the Greater Vancouver Regional District, produced by the Canadian Real Estate Association, or "CREA", is unchanged versus the first quarter of 2019). But, the index is up by 2.5% compared to the fourth quarter of last year.

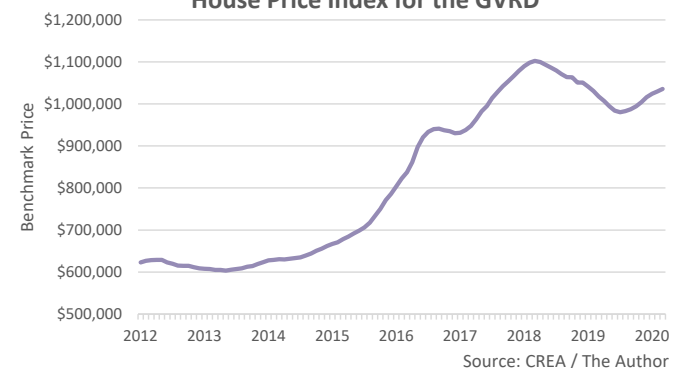
Resale Activity in British Columbia



Sales-to-New-Listings Ratio for British Columbia



House Price Index for the GVRD

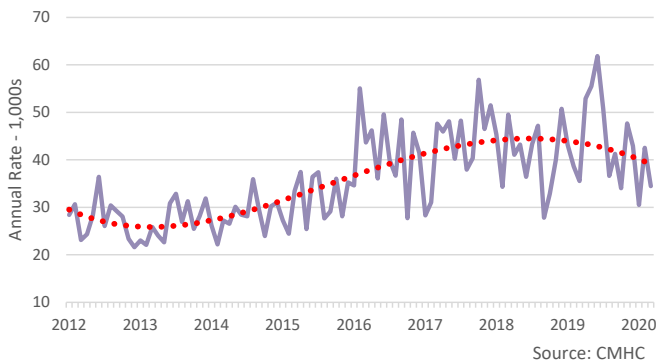


## Housing Starts

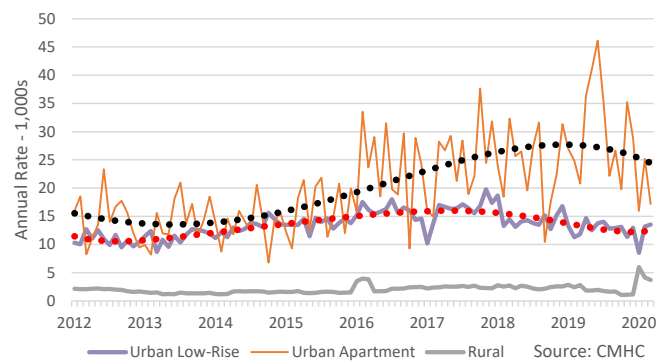
Overall during the past two years, conditions in the resale market have weakened. There has been reduced pressure for new housing construction, and correspondingly housing starts have trended down slightly (although they are still at a relatively high level). The rate of housing starts in the first quarter (35,800) was 14% lower compared to the fourth quarter (41,500).

Starts of low-rise homes (single-detached, semi-detached, and town homes) remain much too low, with no sign of any improvement. On the other hand, apartment activity has been very strong for several years, to the extent that I wonder if there is an excess supply in the construction pipeline.

Housing Starts in British Columbia



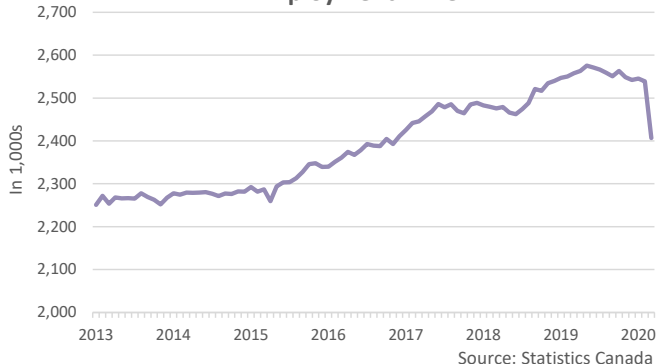
Housing Starts by Type of Dwelling in BC



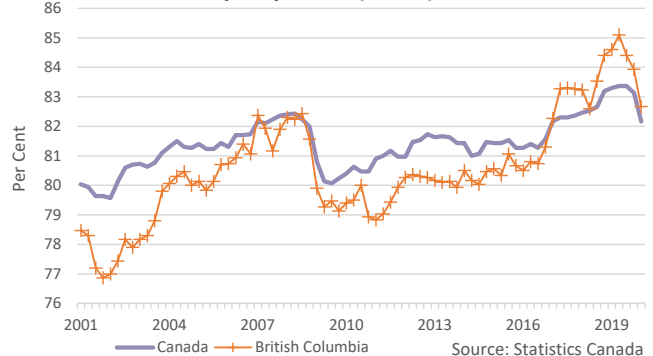
## Employment Trends

The employment estimates from Statistics Canada's Labour Force Survey suggest that BC has seen some erosion of employment, starting in the spring of last year. But, StatsCan's other survey (which comes out almost two months later) shows continued modest growth.

Employment in BC



Emp:Pop Ratio (25-54) in BC



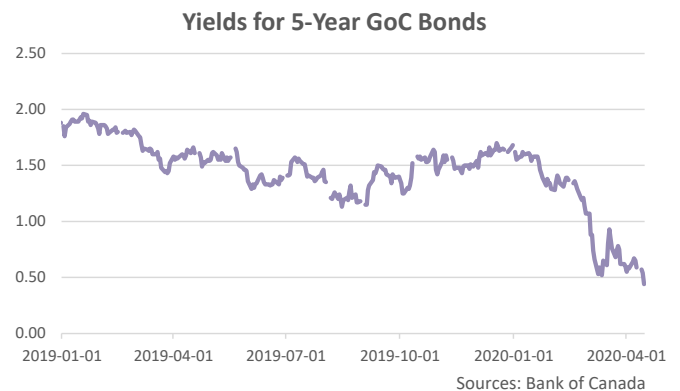
## Employment Trends (Continued)

On balance, I have more confidence in the “other” survey, and I’m inclined to conclude that the employment situation was a positive factor throughout 2019. But, this is all now much less relevant, as the onset of Covid-19 and the need for social distancing caused a sharp reduction in March. StatsCan’s estimate of employment in BC for March was 132,000 (5.2%) lower than for February (for all of Canada, the drop was similar, at 5.3%). A sharp rise in fears about personal safety and economic security has resulted in a very rapid downturn in home buying.

The next chart shows data on the percentage of “prime working age” adults who have jobs, for quarterly periods (in order to reduce “statistical noise” and make it easier to see longer term trends). This chart shows that the prime age employment rate for BC has been at a very high level in recent times, which has been quite supportive for housing demand. The quarterly data only partially shows the effect of the sudden negative change that occurred in March.

## Interest Rates

Changes in bond yields show that fears began to rise during late January and into February. Then, during late February and into March, escalating fears caused bond yields to fall rapidly. At this time (as of April 15), the yield for 5-year Government of Canada bonds (0.44%) has fallen by more than 1 point since year end (1.68%). Lending rates tend to move a bit later than bond yields. My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate from major lenders) is currently 2.7%. The spread between this typical mortgage rate versus bonds is currently about 2.25 points, which is well above the long-term average of 1.8 points.



It remains to be seen if bond yields will remain extremely low and then to what extent mortgage rates will follow the reductions for bond yields. Similarly, the Bank of Canada’s policy interest rate has been reduced by 1.5 points in a very short period of time, to just 0.25%, and it remains to be seen if variable rates will fully follow those reductions (my opinion-estimate of a typical special offer rate is at 2.65%, versus 2.9% at the end of last year).

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