

SECOND QUARTER 2020 HOUSING MARKET DIGEST BRITISH COLUMBIA

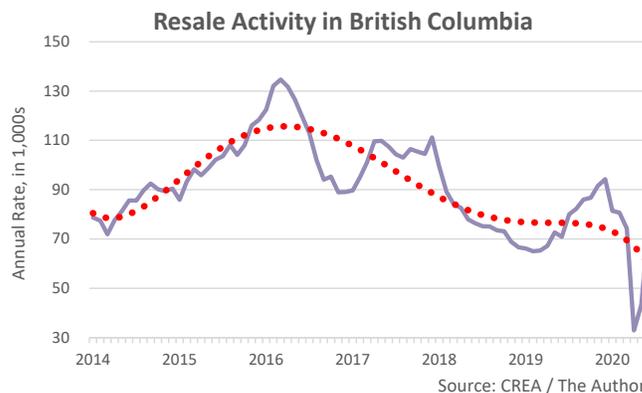
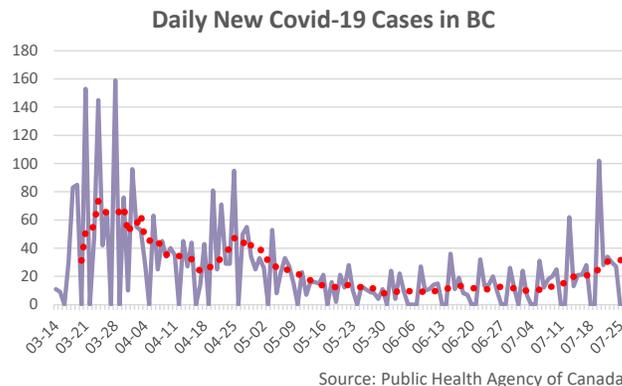


Encouraging Signs?

Key economic indicators (housing and employment) were badly depressed but are now showing substantial improvement.

For the province of British Columbia, the very recent data shows a rise in new confirmed Covid-19 cases, although the numbers are still very low. This chart shows data up to July 27. Current data can be found here: <https://health-infobase.canada.ca/src/data/covidLive/covid19.csv>

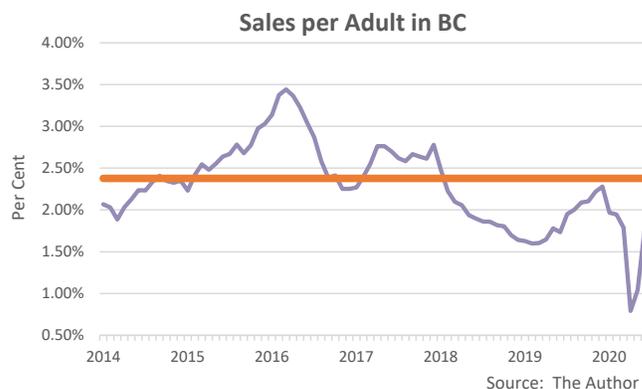
For all of Canada, the trend has inched upwards during the past two weeks, but remains quite low. The data tells us that we can feel a lot more relaxed, but that we need to stay vigilant. There is still a great deal of uncertainty about how this emergency will unfold, and therefore, we should not be confident about our ability to predict what will happen to the economy or the housing market.



Resale Market

Resale activity had been showing signs of recovery last year, but a slowdown developed early this year and then the onset of Covid-19 brought a further large drop. Improvement was seen in June, to an annualized rate of 73,900. But, for the entire second quarter, the average rate of 50,400 was much lower than for the fourth quarter of last year (90,900).

While this recent data is very mixed, it has to be concluded that resale activity is very weak within BC. People can draw different conclusions about what is implied for the outlook.

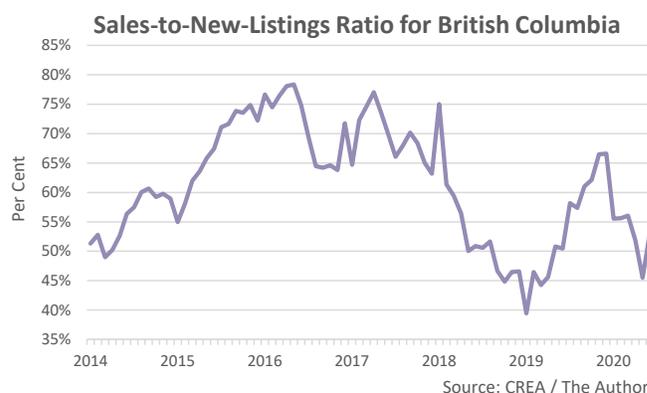
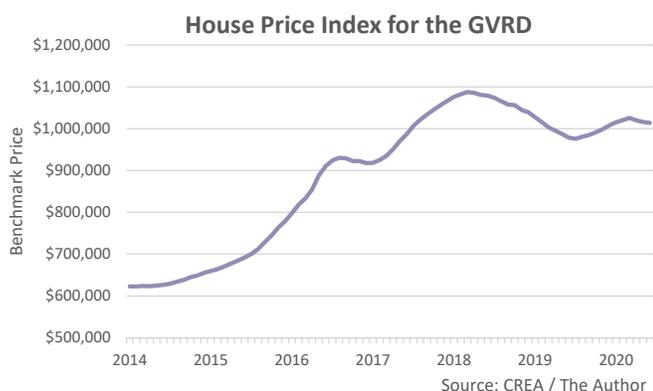


Resale Market (Continued)

Some people will focus on the data for June and see the start of a robust recovery. Some will look at the entire quarter and see that the provincial housing market remains very weak. I look at the data and see continued uncertainty about how this might unfold.

Looking at the data in terms of sales per adult, the rate for June was improved, but it was still 25% below the long-term average (calculated for 2001 to the present, and shown by the flat line). For the entire second quarter, the sales rate was 49% below the long-term average. This data shows that housing markets in BC remain very weak, in historic terms and compared to all of Canada, for which the per adult sales rate was 37% below average during the second quarter. The flow of new listings into the market has also shown sharp changes. During the past two years, new supply has largely been in excess of requirements. The provincial sales-to-new-listings ratio (“SNLR”) was 50% for the entire second quarter, which is slightly above the threshold (estimated at 47%) for a “balanced market” - this is the level at which prices are expected to rise by 2% per year.

The current situation, which is close to a “balanced market” should be resulting in relatively flat pricing or moderate growth. For the entire province, the price trend is hard to assess, because shifts in “composition” (the locations and types of homes sold) are resulting in volatility for the average provincial resale price. Instead, this chart shows a benchmark price estimate for the GVRD (as estimated by the Canadian Real Estate Association). For the second quarter, the average of the benchmark price was 3.0% higher than a year ago.

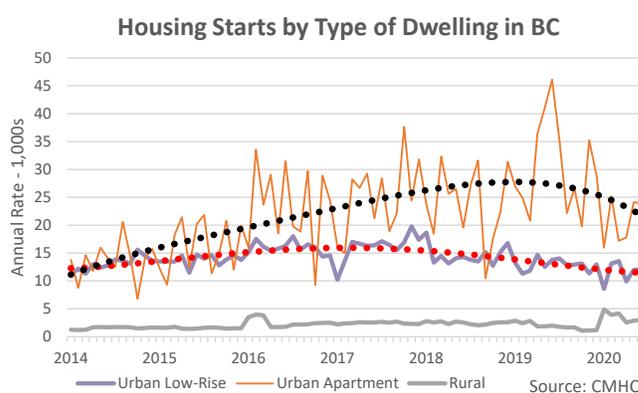
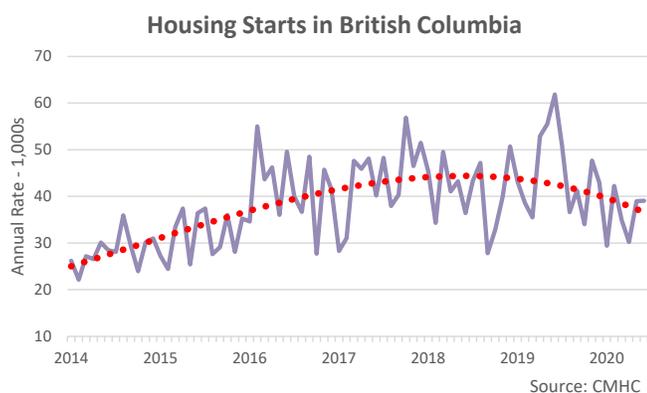


Housing Starts

Month-to-month variations in the data make it difficult to discern a trend, but the data has become increasingly convincing that housing starts in BC have slowed. For the second quarter, the starts rate (33,100) was far below the rate for all of 2019 (44,900), although it is still above the long-term average (31,400 per year during 2001 to 2019). It remains to be seen whether Covid-19 will bring a further reduction.

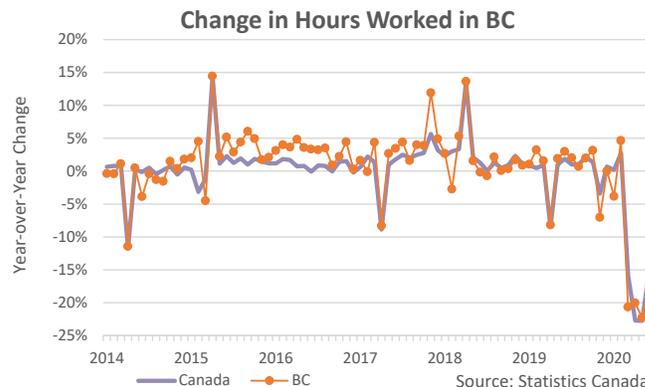
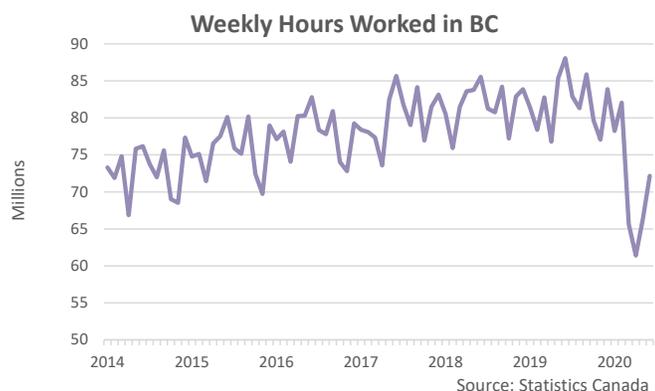
Housing Starts (Continued)

However, because starts are based on decisions made earlier, a Covid-related downturn would take some time to materialize. At this time, the slowdown has been greater for apartments than for low-rise dwellings (single-detached, semi-detached, and town homes). Low-rise activity has been much lower than required. The estimates of starts in rural areas appear to show an increase this year (albeit from very low levels).



Employment Trends

Statistics Canada estimates that employment in BC rose by 118,000 in June, as more people have been able to return to work. But, the level of employment in June was still 235,000 (9.3%) lower than in February. At present, I prefer to watch employment in terms of total hours worked. The first chart below shows data that is not seasonally-adjusted, and the large month-to-month gyrations make it hard to read. The second chart shows that this June, total hours worked were 18% lower than a year ago. The data indicate that the effect of Covid-19 has been similar within BC compared to all of Canada (for which total hours are now 15% lower than a year ago).



Employment Trends (Continued)

The worst employment impacts of Covid-19 have been seen in low wage service industries and for younger age groups. This implies that the damage within the housing market will be greater for the rental sector than for home buying.

Interest Rates

Bond yields are currently making unusually small movements, and are at extremely low levels. So far in July, the average yield for 5-year Government of Canada bonds is just 0.35%. Mortgage interest rates have largely adjusted to the plunge in bond yields.

My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate, advertised by major lenders) is now just 2.1%, by far the lowest-ever (and even lower rates can be negotiated). The spread between mortgage rates and bond yields has closed, and is similar to the long-term average of 1.8 points (although it is still higher than the average of 1.49 points for all of 2019). For variable rates, my opinion-estimate is now 2.0%.

Meanwhile, the mortgage stress tests continue to use a ridiculous test rate of 4.94%.

Yields for 5-Year GoC Bonds



Sources: Bank of Canada

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