THIRD QUARTER 2020

HOUSING MARKET DIGEST

BRITISH COLUMBIA

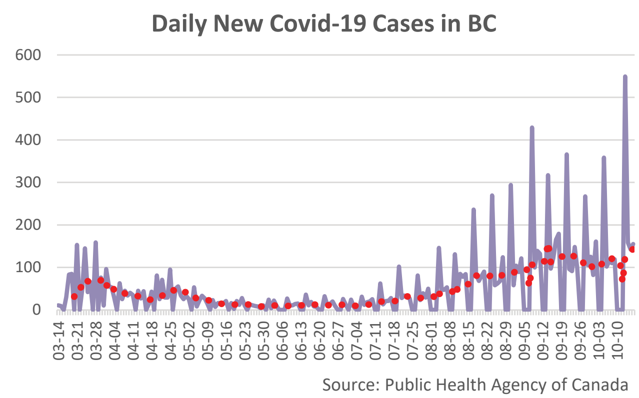
MORTGAGE PROFESSIONALS CANADA

Staying Safe?

It is clear that Canada is now in a second wave of the Covid-19 epidemic, and the seven-day moving average of new cases has recently moved higher than was seen during the spring. Within Alberta, the recent per capita rate of new cases has been close to the national average. It remains to be seen what effects this wave will have for the housing market and the broader economy. This chart shows data up to October 16. Current data can be found here: https://health-infobase.canada.ca/src/data/covidLive/covid19.csv

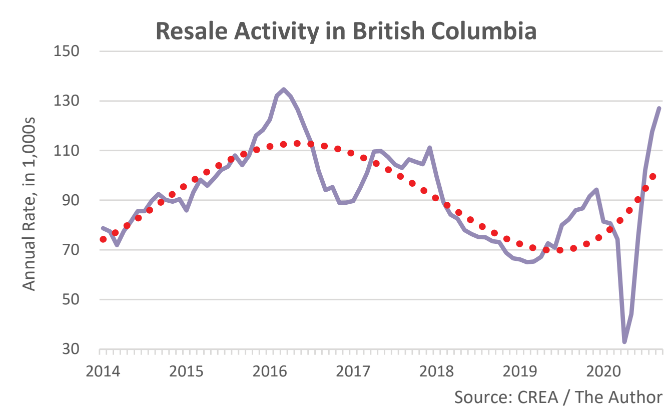
Data from the Canadian Bankers Association implies that about 11% of mortgages were still in deferral at the end of August (down from 16% at the end of June). The CBA report can be found here: https://cba.ca/canadian-banks-are-standing-by-canadians

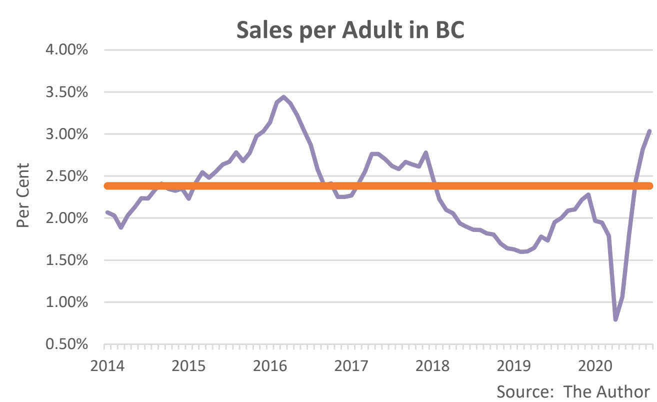
Deferrals will now begin to end in large numbers, creating a risk that there could be a large rise in mortgage arrears in Canada. There is an urgent need for a national conversation about options to assist mortgage borrowers who are still suffering from impaired incomes.



Resale Market

Resale activity has been highly volatile in BC, and the onset of Covid-19 has made the volatility even worse. For the third quarter, the annualized sales rate was 116,000, which is relatively high (but not record setting: for all of Canada and many of the provinces, new all-time sales records were set in the third quarter). The recent surge only partially offset the very weak activity that was seen during the second quarter, and combined sales for the second plus third quarters were 16% below average (in this calculation, the average sales rate has been adjusted for growth of the population). The provincial performance has been weaker than for all of Canada (combined second and third quarter sales in Canada were 5% below the population-adjusted average).





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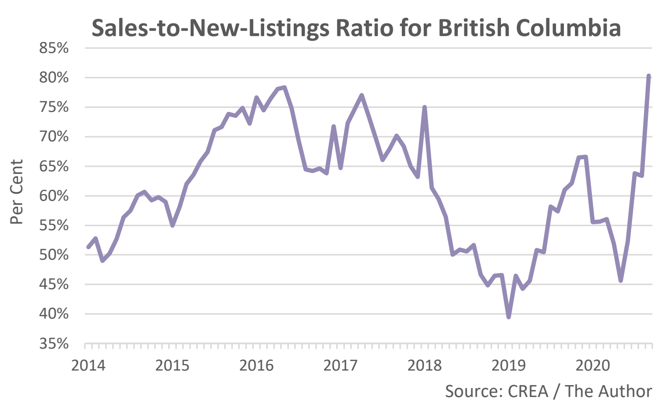
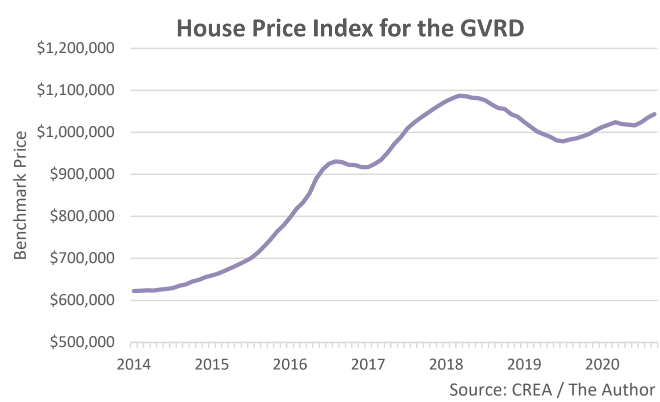
Resale Market (Continued)

Looking at the data in terms of sales per adult, activity in the third quarter was 16% above the long-term average. Extremely low interest rates and the re-opening of the economy are currently quite supportive for home buying.

The flow of new listings into the market has failed to keep up with demand, which has caused the provincial sales-to-new-listings ratio ("SNLR") to increase. The SNLR has averaged 60% during the past six months, far above the threshold for a "balanced market", which may be in the range of 47% - this is the level at which prices are expected to rise by 2% per year.

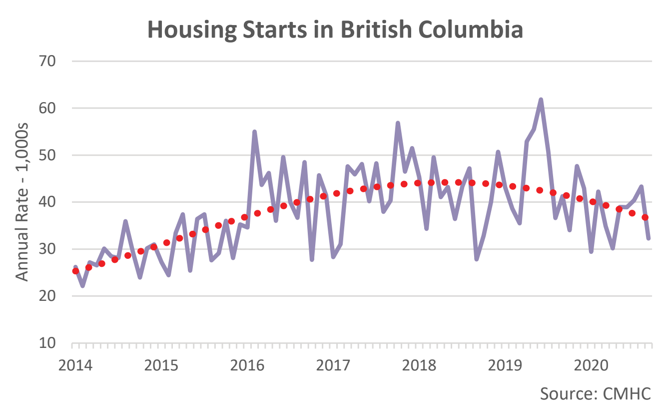
The shifting states-of-balance between supply and demand have resulted in waves of changes for prices. The very recent tightening phase may now be causing a shift towards stronger pricing. CREA's estimate of a typical "benchmark" house price for the Greater Vancouver area for the third quarter was 5% higher than a year ago. The price trend for Vancouver is weaker than for all of Canada (the national benchmark price has increased by 9%).





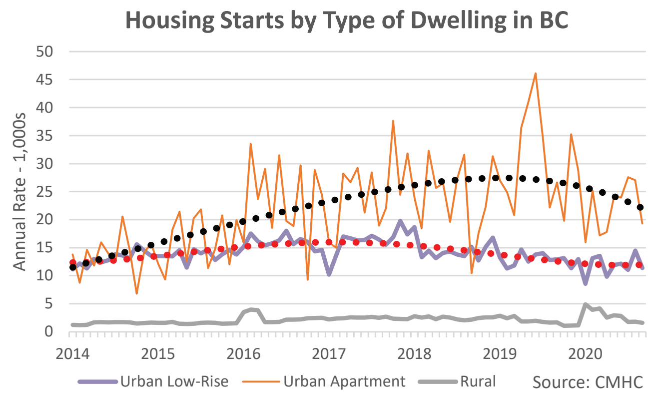
Housing Starts

Housing starts in BC have trended downwards during the past two years (although volatility in the data creates uncertainty about this). During the third quarter the annualized sales rate was 39,300, which is about 10% below the peak in the trend.



Housing Starts (Continued)

The recent slowdown for starts is largely due to apartments, which had been very strong, and are still quite high in historic terms. For low-rises (single-detached, semi-detached, and town homes) activity has been too low for many years, and there has been further slowing during the past three years. The data on housing starts continue to imply that during the coming year (and beyond) we will see shortages in resale markets for low-rise homes and there is a significant risk of excessive supply for apartments.

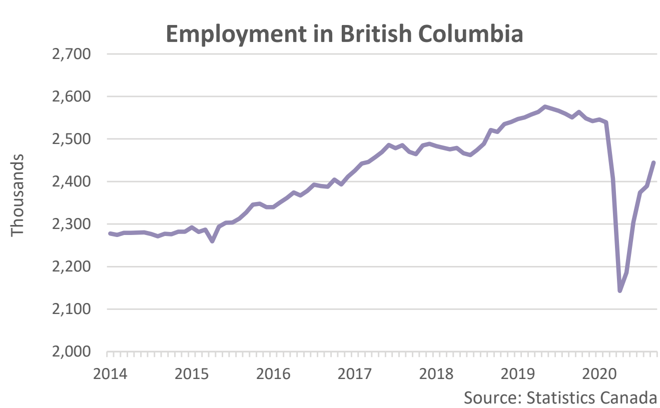


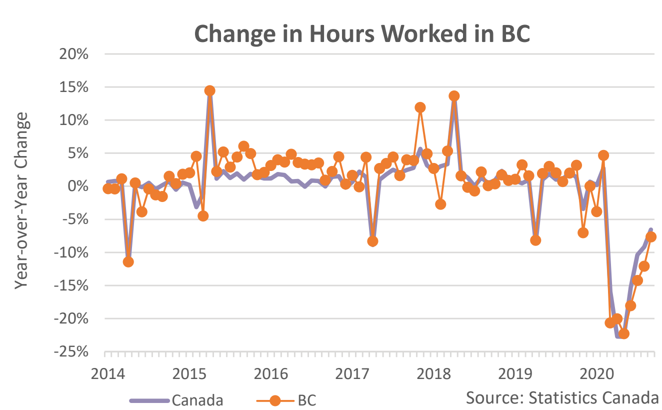
Employment Trends

Employment continues to recover, with the fifth consecutive large rise in September. Statistics Canada estimates that employment fell by 397,000 during March to April, but since then 302,000 jobs have been regained. As of September, total employment is estimated to be 95,000 (or 3.7%) lower than in February. For all of Canada, the current shortfall is also 3.7%.

At present, I prefer to watch employment in terms of total hours worked. The next chart shows that while there has been a strong rebound, as of September, hours worked in BC were 7.7% lower than a year ago (for all of Canada, the figure is 6.6%).

The worst impacts 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. Canada Mortgage and Housing Corporation is currently conducting its annual survey of rental markets across Canada. Unfortunately, CMHC expects that it won't release the results until January.



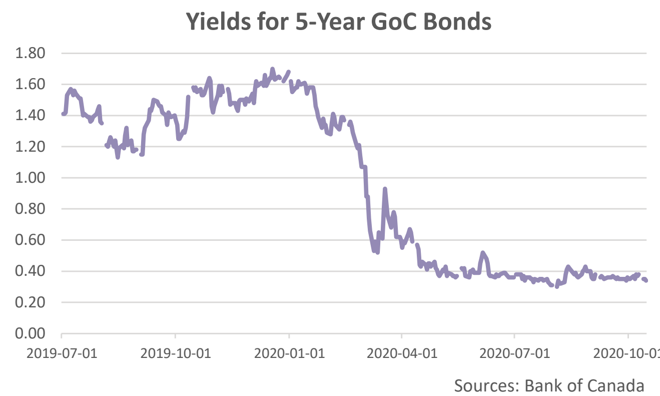


Interest Rates

Bond yields remain extremely low and are showing only very small movements. During the past month, the average yield for 5-year Government of Canada bonds has been just 0.36%.

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 1.9%, by far the lowest-ever (and even lower rates can be negotiated). The spread between mortgage rates and bond yields has closed, and at 1.55 points is now below the long-term average of 1.8 points. However, it is similar to the average of 1.49 points for all of 2019. For variable rates, my opinion-estimate is now 1.8%.

Meanwhile, the mortgage stress tests continue to use a ridiculous test rate of 4.79%.



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