

Lower Mainland Housing Update

February 2010

The 2010 Winter Olympic Games affected February housing sales causing a smaller than usual increase from January. After taking the seasonal factor into account February sales declined by a large margin. This is a one-off event and March sales should bounce back with more than the usual spring vigor. While the Olympic effect distorts the numbers, the underlying sales demand backdrop is favourable though some negative influences surfaced recently.

Seasonally adjusted sales in the lower mainland dropped 21% during February from January or in actual terms February sales increased 27% from January but the normal gain is 44%. February's percentage drop in seasonally adjusted sales was the largest since January 1991. Clearly some abnormal factor caused this decline since the usual sales drivers of mortgage rates, consumer confidence, economic performance, migration, etc. did not undergo a significant change in February or in the prior month. If anything, the demand backdrop improved slightly.

Another indication of an abnormal factor at work is in February's performance in new listings. New listings coming onto the market were on a strong, well-established uptrend and a sudden 14% drop in February occurred. In all likelihood, some sellers as well as buyers took a time out for the Olympics.

For both sales and new listings, February activity was noticeably lower in the Greater Vancouver area than in the Fraser Valley. Or in other words, the Fraser Valley housing market was less affected by the Olympics than Vancouver.

The Olympic effect skews other market indicators such as the sales-to-active listings ratio making them meaningless this month. Should March make up for some lost February activity this will bounce the numbers around even more. It will take a couple of months for the market to revert to trend. However, underlying market trends have changed little from before the Olympics and these trends involved a recent decline in MLS® sales, rising new listings and active listings, and higher prices.

The most recent change affecting the market is in federal mortgage insurance regulations. Buyers needing mortgage insurance now have to qualify at the posted five-year fixed term rate rather than the three-year rate. The other regulation change required non-owner occupied purchasers to put in 20% equity instead of 5% and only 50% of rental income (instead of 80%) could be used to support mortgage payments. The net impact is fewer qualifying buyers and fewer sales, particularly among low-equity buyers. These rules come into effect in April 19, 2010.

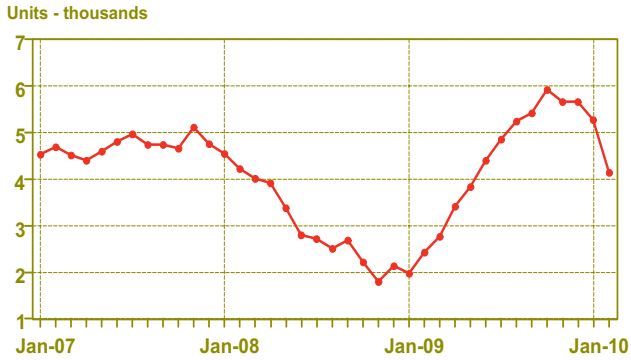
Another policy change looms ahead for the market and with the HST on July 1, 2010. Since more services associated with a housing transaction are subject to the new HST, some potential homebuyers will advance their purchase to avoid these higher taxes, which would result in savings of more than \$1,000 and upwards of \$2,000 depending on the sales price. Real estate commissions will generate the largest tax bill.

The year is shaping up to be rather rocky one with the Olympic effect, two policy changes, and normal market vagaries such as interest rate movements. Overall, market activity remains at a high level and unit sales will come in well above 2009 as will housing prices. The economy is generating job and income growth and there is a net population inflow. The main sales negative ahead is higher mortgage rates later this year and related to this there is an affordability squeeze on low equity buyers.

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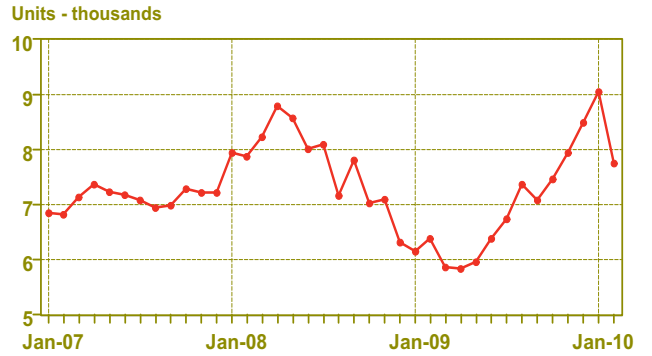


MLS® Residential Sales, Greater Vancouver and Fraser Valley



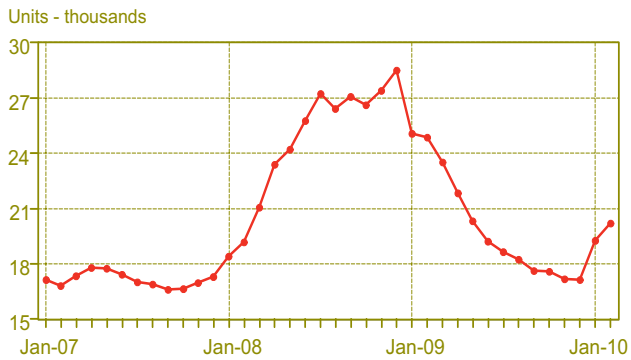
Source: REBGV, FVREB, C1CU. Note: Seasonally adjusted. Latest: Feb-10

MLS® New Residential Listings, Greater Vancouver and Fraser Valley



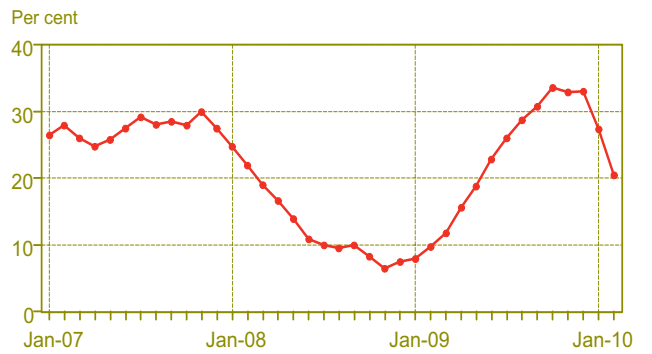
Source: REBGV, FVREB, C1CU. Note: Seasonally adjusted. Latest: Feb-10

MLS® Residential Active Listings, Greater Vancouver and Fraser Valley



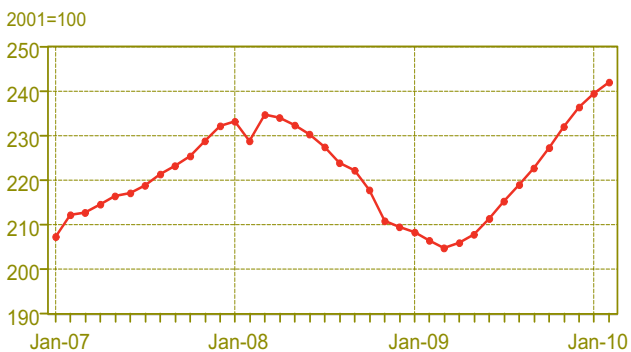
Source: REBGV, FVREB, C1CU. Note: Seasonally adjusted. Latest: Feb-10

MLS® Residential Sales-to-Active Listings Ratio, Greater Vancouver and Fraser Valley



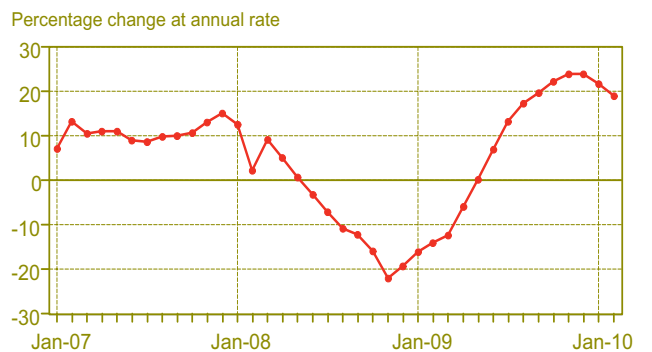
Source: REBGV, FVREB, C1CU. Note: Seasonally adjusted. Latest: Feb-10

MLS® Housing Price Index, Greater Vancouver and Fraser Valley



Source: REBGV, C1CU. Note: Seasonally adjusted. Latest: Feb-10

Change in MLS® Housing Price Index, Greater Vancouver and Fraser Valley



Source: REBGV, C1CU. Note: Based on seasonally adjusted HPI. Latest: Feb-10