



MACDONALD REAL ESTATE GROUP MARKET REPORT 2016–17



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Canadian Real Estate
Investment Centre

LETTER FROM THE CEO



It would be an understatement to say 2016 was a memorable year for BC real estate. In more than 40 years in the industry, I've never experienced a more volatile, newsworthy or angst-ridden period than what we just went through in the past 12 months. In many markets across the province — but especially Metro Vancouver — the mania caused by fast-rising prices has been a significant talking point among the local audience.

For different reasons, 2017 is shaping up to be just as interesting. The recent spate of policy changes, along with a looming provincial election, have given buyers and sellers much information to absorb in a short period. This “feeling out” period has resulted in a more balanced market since these changes started occurring, though the BC government's recent announcement of its new homebuyer loan program may reignite the market in the new year. That said, as we underscore in our feature story at the end of this report, “BC remains the most cosmopolitan, livable and dynamic region in the world's most stable and tolerant country.” Ultimately, this alone will override all other factors — ensuring BC real estate remains a worthy investment over the long term.

BC is truly the best place on earth, and I'm proud that Macdonald Realty is entering its 73rd year as a locally- and family-owned and operated company in this province. We've been a staple in BC communities since 1944.

Over the years, we've experienced every type of market. Whether you're looking at buying your first home, moving up in the market or downsizing for retirement, we are here to help. If you are contemplating commercial investment growth strategies, looking for someone to manage and add value to your properties, or a company that truly understands both the local and global market, I'm confident our expert team of dedicated full-time professionals can help you achieve your real estate dreams.

I'd like to take this opportunity to thank all our staff, agents and clients for their support over the years, and to wish everyone a wonderful 2017.

Lynn Hsu, President & CEO

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OUR YEAR IN REVIEW

A YEAR OF TRANSFORMATION

Last year was a year of transformation for Macdonald Realty, part of a greater evolution that has taken place over the last two years. Over this time, we have spent more than \$3 million upgrading a dozen of our residential office locations — including completely renovating our Vancouver-Kerrisdale and West Vancouver locations. We also opened new offices in Sidney (on Vancouver Island) and Sechelt (on the Sunshine Coast), while our Maple Ridge office moved to a beautiful new space in November. The entire Macdonald Realty team is eagerly awaiting spring 2017, when we will open a new office in North Delta — providing even greater coverage in the booming Fraser Valley region.

In 2016, another major milestone was achieved with the launch of our new macrealty.com website. Its fresh look and responsive design enables the site to work on all devices — from desktops to cellphones, and screens big or small. The new site also gives the public the power to search more than 15,000 active listings from Vancouver Island, the Lower Mainland, Whistler–Squamish Corridor and the Okanagan — in other words, everywhere we have offices.

INSPIREHEALTH CHARITABLE PARTNERSHIP

At our annual agent's conference in September, Macdonald Realty announced a three-year charitable partnership with InspireHealth Supportive Cancer Care. We are proud to be the presenting sponsor of the organization's new cookbook, *Inspired Cooking*. Featuring healthy recipes from 20 of Canada's greatest chefs, it will hit independent bookstore shelves and Amazon.ca in early 2017.



INSPIRED COOKING

Available now at InspiredCooking.ca

\$8.9 BILLION IN SALES

On the sales front, as this report details, 2016 was a record-setting year across BC. At Macdonald Realty, we helped more than 7000 families buy or sell their homes. Our total sales volume for the year was \$8.9 billion. In the spring, along with brokerages from Italy and South Africa, we were named one of the top three Luxury Portfolio International® brokerages. Throughout the year our agents sold 300 luxury homes over the \$3 million mark.

**LUXURY
PORTFOLIO**
INTERNATIONAL®



Last year, Macdonald Realty president and CEO Lynn Hsu was included in the prestigious Swanepoel™ annual list of The Most Powerful People in Residential Real Estate for 2016. Lynn also had the distinction of being included in Swanepoel's™ list of Top 20 Women Leaders in Residential Real Estate for the year.

Macdonald Real Estate Group is Western Canada's largest integrated real estate firm, offering a full range of services including residential sales, commercial sales and leasing, project marketing, property and strata management, mortgage services, luxury home marketing, global wealth advisory, and the Canadian Real Estate Investment Centre in Shanghai, China. A member of Leading Real Estate Companies of the World™, Macdonald Realty combines authentic, local expertise with global connections to the highest quality real estate firms worldwide.

COMMERCIAL SALES AND LEASING

In 2016, Metro Vancouver's commercial property and development land markets had a record-shattering year — with final results likely surpassing overall transaction volumes for 2015 by a very wide margin. For the nine months from January 1 to September 30, 2016, our year-to-date overall sales volume for commercial properties and land totalled \$9.933 billion. This represents an increase of 61 per cent over the same period for 2015.*

The sale of development land for both residential and commercial use is now a significant part of the commercial property market in Metro Vancouver, representing more than 50 per cent of the region's total sales volume for combined commercial income and land transactions. From local and offshore buyers, there is very strong interest in development properties — particularly if there is some form of holding income. In August 2016, the Government of British Columbia introduced a 15 per cent property transfer tax on residential properties in Metro Vancouver sold to parties termed “foreign entities” (those deemed not to be Canadian citizens or Permanent residents of Canada). In the short term, this regulatory intervention may have a dampening effect on residential development site values as such land is subject to the tax. However, well-located residential land remains highly sought after by local developers with cash resources as the supply of “pre-sale” strata product continues selling very briskly.

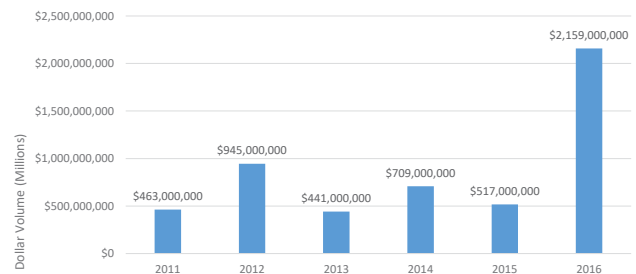
Among the income property asset classes, Vancouver's office building market shone in 2016 thanks to the sale of the Bentall I, II, III, and IV office complex on Burrard Street in Downtown Vancouver. This sale was completed in two transactions over the year, both with the same buyer, and a combined purchase price of \$1.055 billion. Additionally, the neighbouring Royal Centre office complex sold for \$425 million.

Though Macdonald Commercial was not involved in these transactions, they are significant for the overall BC market. Tellingly, both purchases were made by offshore buyers from different parts of the world, illustrating that Vancouver is a global real estate destination for commercial property investment. The Bentall complex was reportedly purchased by the Beijing-based Anbang Insurance Group, while the Royal Centre sold to a high net-worth investor group from Germany.

For the first nine months of 2016, sales for our Metro Vancouver office sector totalled \$2.9 billion — a 418 per cent increase over

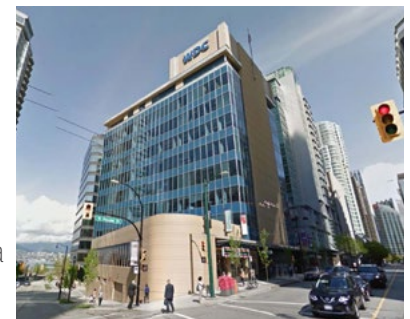
the same period for 2015, and a 351 per cent increase over the average transaction volume of this asset class for the previous five years. Going forward, introduction of the 15 per cent property transfer tax on foreign buyers purchasing residential properties will likely place additional demand in the office and other commercial income property markets as they diversify assets — especially the strata retail and office property sectors where the total price is typically below \$1 million.

Greater Vancouver Office Market Q1-3



*Based on 3 quarter data for each year shown. Source: Altus Group Ltd. (includes Asset sales and known share transactions over \$250,000)

In fall 2016, Macdonald Commercial figured prominently in the office market by working closely with both the seller and buyer to broker the sale of 1199 West Pender in Downtown Vancouver. This remarkable 74,500-square-foot office building is bordered by West Pender, Bute and Hastings streets, and the upper floors have spectacular views of Coal Harbour and the North Shore mountains. A local buyer made the acquisition; a tremendous holding property with significant future development potential.



1199 W HASTINGS ST, VANCOUVER

Judging by the commercial deal activity at 2016 year-end, sales volumes for income-producing properties and development sites in 2017 should keep pace with this year's record levels. In the year ahead, only the prospect of higher interest rates may cause a levelling off of Metro Vancouver's commercial real estate market.

*Source: Altus Group Ltd.

PROPERTY MANAGEMENT

In 2016, the property management division reached new heights as it surpassed \$3 billion in total value of managed portfolio assets. Our portfolio continues to include strata buildings (residential, commercial, mixed and sectioned); commercial buildings (retail, office and mixed-use); apartment buildings; and single-unit condos, townhomes and residential homes (Regional Property Management 'RPM' Program). For these assets, we offer related services including strata management, traditional property management, condo unit/home/home concierge management, asset management services, and pro forma and developer consulting.

UPCOMING PORTFOLIO ADDITIONS

Macdonald Commercial has continued fostering relationships with several developers. We now have seven upcoming projects with fully signed management agreements, including three apartment buildings and four mixed-use stratas — all with anticipated completion within the next 24 months.

REGIONAL PROPERTY MANAGEMENT

Since its inception in 2010, the Regional Property Management (RPM) program has shown steady year-to-year growth. In 2016, it grew by 30 per cent over 2015. From Langley to Whistler, we now have 10 regional property managers managing single-unit condos, townhomes and homes. In 2017, we plan to add additional regional property

managers while expanding our portfolio in the Fraser Valley.

INFORMATION MANAGEMENT

We have updated our accounting system to the latest version of Yardi, which is now web-based. This upgrade integrates our information management and accounting systems. Our staff can now access various property information on one platform — anywhere, anytime. We can also access features previously unavailable to us, such as automated rent increases and property insurance tracking.

We have added e-transfer as an additional payment option for our clients. This method has proven convenient, especially in instances where clients' funds have not gone through using another payment method.

Lastly, we have adopted BMO DepositEdge™ which allows us to deposit cheques in house, saving us time and effort in visiting the bank.

We hope to explore and use more of Yardi's features in 2017, such as automatic 10-day notices. We will also strive to integrate more of our server-based information into Yardi, to make it even more comprehensive. Another major goal of 2017 is to reduce paper invoices by the first quarter, with all invoices received and processed electronically.



UNDER MANAGEMENT: SFU CORNERSTONE

PROJECT MARKETING

In 2016, the pre-sale condo market enjoyed another good year. Continued low interest rates, strong demand throughout Metro Vancouver and escalating prices seemed to spur buyers into action for fear prices may rise further in 2017.

The only significant downside we experienced in 2016 was the 15 per cent property transfer tax on foreign buyers, imposed in August by the BC government as already noted. Though Macdonald Realty Platinum Project Marketing was not impacted to the same extent as some of our competitors by this policy change, some of our projects did experience an immediate slowdown. Though we do not have a substantial number of foreign buyers, initially all buyers seemed to pause and take a “wait-and-see” approach. At the time of writing, some six months later, we can report that most buying patterns have normalized. In 2017, we expect only a slight lingering affect from the tax.

In 2017, we also anticipate our project marketing business will spread — both within and beyond Canada. Before the 2008 financial crisis, we had a fairly even split of revenue from recreational properties such as ski and golf resorts, traditional new condo sales and business

in the US and Mexico in both categories. Since 2010, the resort market has been very slow while the US market has been largely non-existent. That seems to be changing. Inquiries for our project marketing services are now coming to us from across Canada and the US, particularly from Palm Springs (California) and Houston (Texas). Though results remain to be seen, it is good to see demand returning to the North American markets.

Here at home, we are finishing up three projects launched in fall 2016: The Wade (in Victoria) continues selling well, while The Main (in Squamish) had several remaining homes at the time of writing and Cambie + King Edward (in Vancouver) had one or two available townhomes.

In spring 2017, we will be launching Spark at No. 4 Road and Cambie in Richmond, a high rise in New Westminster, a smaller project in Langley and two very large projects on Vancouver Island. We are also working on six other projects for fall 2017 and spring 2018.



CAMBIE + KING EDWARD
VANCOUVER, BC



THE MAIN
SQUAMISH, BC



THE WADE
VICTORIA, BC

GLOBAL RELOCATION SERVICES

Since its inception 10 years ago, Macdonald Realty's Referral and Relocation Department has grown into a vital service for our sales associates and clients. Our team assists clients with all their property needs outside the regular coverage area of their dedicated agents, matching them to local real estate experts in the region they need to buy or sell — be it in British Columbia, elsewhere in Canada or worldwide.

Within the department, referrals between our offices make up the greatest portion of introductions each year. Across the province, our agents aim to offer their clients the very best. Keeping everything within the Macdonald Realty family provides considerable reassurance, comfort and trust for all parties — clients and agents alike. Across Macdonald Realty's 20 locations our agents help one another, treating each client as their own.

Macdonald Realty's local reputation and expertise are backed by its selection as a member of Leading Real Estate Companies of the World™, a global community in 60 countries of more than 550 real estate companies awarded membership based on rigorous service and performance standards. This distinction ensures our clients are

working with exceptional local professionals — professionals who also deliver connections to buyers and quality real estate companies across Canada and globally.

In the BC marketplace, our strength is mirrored by our fellow Leading Real Estate Companies of the World™ members. From London to Beijing, Johannesburg and beyond, we're proud to work with the very best companies worldwide. Within the Leading Real Estate Companies of the World™ network, a quality client introduction is made every five minutes. Whether a client is purchasing a getaway home in Hawaii or relocating to Toronto for work, Macdonald Realty endeavours to ensure the best possible fit.

Looking ahead, global movement and rising housing costs will contribute to the growth of the relocation department in the coming years. As more people consider moving beyond Metro Vancouver, specific areas primed for growth include Victoria, Parksville, Kelowna, the Sunshine Coast and Squamish. Also worth noting is the number of major corporations moving to Vancouver continues increasing — a source of continued movement into the Metro Vancouver housing market.



BURNABY

2016 MARKET REVIEW

For the three combined sub-areas of Burnaby (Burnaby North, Burnaby South and Burnaby East), market conditions closely reflected those of Vancouver in 2016. In spring, with strong sellers' market conditions, the market was exceptionally busy with all three product types (houses, townhomes and condos) in strong demand. Since the introduction of the 15 per cent property transfer tax on foreign buyers by the BC government in August, the market changed significantly. While during the second half of the year there were still the same approximate number of listings as in springtime, the number of sales was about 50 to 65 per cent lower (depending on product type).

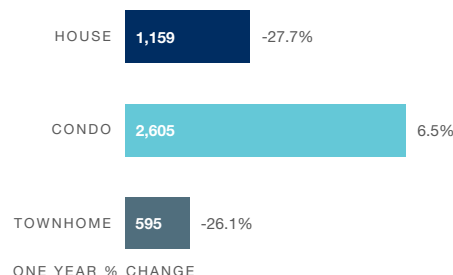
2017 MARKET FORECAST

For 2017, the real estate market in Burnaby is predicted to be more moderate. The spring will likely see a busier market — though not at the exceptionally high sales level experienced in spring 2016. The remainder of 2017 should see a slower summer market, with slight improvement in the fall.

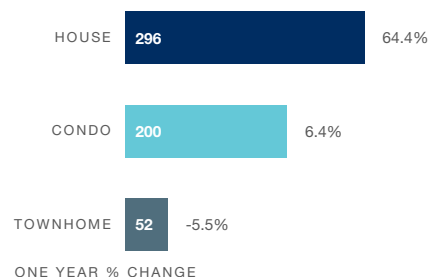
WHAT IS HPI BENCHMARK PRICE?

The MLS® Home Price Index (HPI) measures typical, pure price change (inflation or deflation). The HPI benchmarks represent the price of a typical property within each market. The HPI takes into consideration what averages and medians do not — items such as lot size, age, number of rooms, etc. These features become the composite of the 'typical house' in a given area. All prices here are quoted in Canadian dollars unless otherwise indicated.

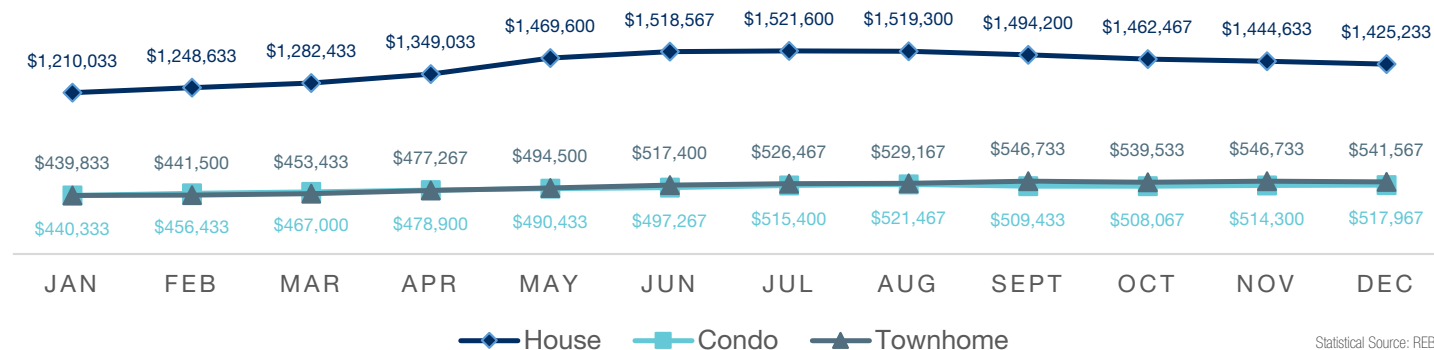
Total Area Sales 2016



Listing Inventory Dec 2016



MLS® HPI Benchmark Price



Statistical Source: REBGV

COQUITLAM

2016 MARKET REVIEW

In Coquitlam, 2016 was an active year with a 3.6 per cent increase in sales volume over 2015. As of November, it was a buyers' market for single family homes and a sellers' market for townhomes and condos. Prices per square foot averaged \$405 for single family homes, \$472 for condos and \$402 for townhomes.

Taking effect on August 2, the 15 per cent property transfer tax on foreign buyers resulted in decreased sales of single family homes, reducing the MLS® Home Price Index (HPI) Benchmark Price from \$1,228,600 (in August) to \$1,163,300 (in November). This translated into a -5.31 per cent price drop. Looking at the January 2016 HPI of \$982,100 versus November HPI of \$1,163,300, we still see an overall appreciation of single family homes of \$181,200. In the same period, condo sales prices rose +14.3 per cent while townhomes increased +13.9 per cent.

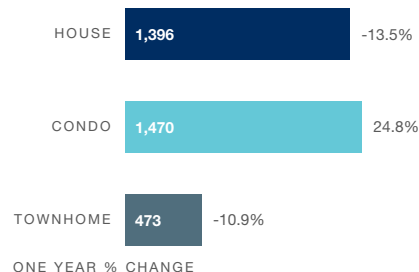
2017 MARKET FORECAST

For 2017, single family homes are expected to see a further price drop — in the range of 4 to 5 per cent — should the resulting backlash to the 15 per cent tax on foreign buyers continue. Ultimately, we anticipate this will result in a buyers' market for single family homes in 2017.

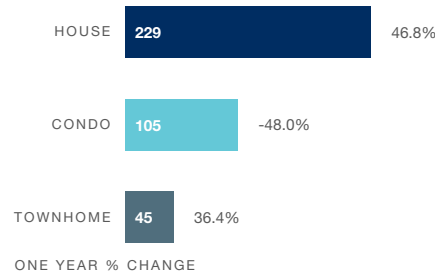
On the other hand, condos and townhomes are in shorter supply and should see prices increase in the 7 to 10 per cent range in 2017. We anticipate days on the market for condos should decrease by 9 to 12 per cent and townhomes from 5 to 8 per cent over 2016 rates.

A dark cloud on the horizon is the impact of the result of the recent US presidential election. Significant infrastructure spending in the US will increase borrowing in international bond markets. Ultimately this could cause mortgage rates to rise between Q2 and Q4.

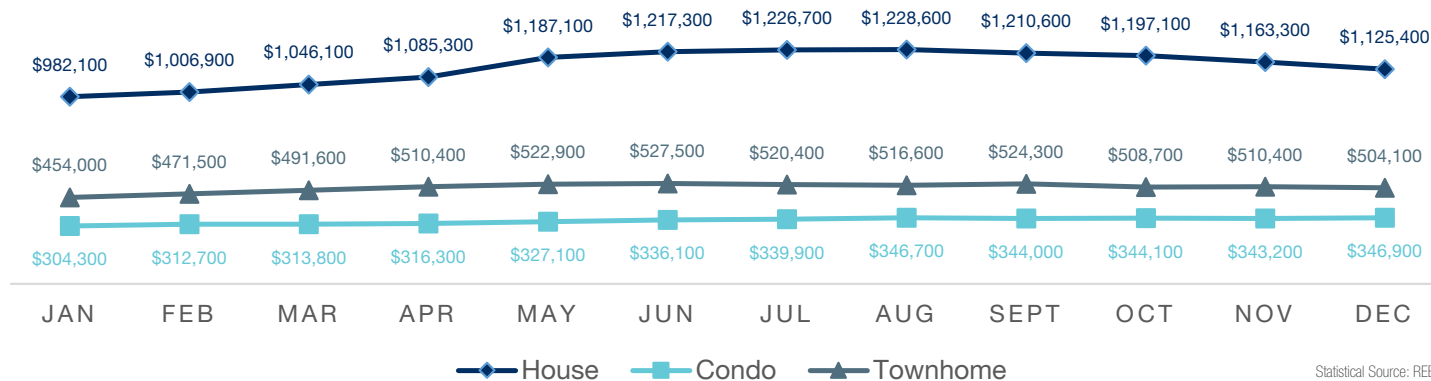
Total Area Sales 2016



Listing Inventory Dec 2016



MLS® HPI Benchmark Price



Statistical Source: REBGV

The market experienced moderate growth in values despite very low inventory levels through year-end. The family-oriented buyer is more susceptible to dramatic swings in affordability; while pricing increased through the first half of the year, it did not keep pace with other markets where greater speculation was present. In August values of single family homes peaked — as in other sub-markets — but a dramatic increase in inventory did not follow, as it did elsewhere. Condominiums and townhomes remained in extremely short

All things considered, 2017 should see continued growth and moderate increases in property values.

Property Type	Homes Sold	One Year % Change
HOUSE	175	78.6%
CONDO	48	-59.3%
TOWNHOME	71	47.9%

ONE YEAR % CHANGE

Statistical Source: FVRFR

MAPLE RIDGE

2016 MARKET REVIEW

Last year turned out to be very active for residential properties in Maple Ridge. From January 1 to November 30, 2016, gross total sales values were up 51 per cent over 2015, to \$1,276,938,684.

In 2016, there were 2,309 single family homes listed versus 1,758 in 2015 — a 31 per cent increase. Townhome listings were at 691 versus 657; this represented a 5 per cent increase. There were 482 condo listings in 2016 versus 457 in 2015; this represented a 5 per cent increase, with condo sales showing an overall increase of 70 per cent. Through November 30, the average unit price of a condo saw a price increase of 24 per cent.

This increased activity in 2016 suggests strong demand due to relative affordability versus markets nearer the Downtown Vancouver core. With a sales-to-active ratio of 20 per cent, sales of single family homes

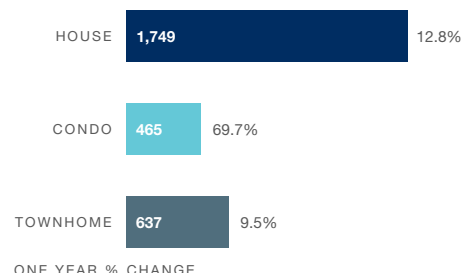
indicated near proximity to a balanced market condition. Meanwhile, condos and townhomes continued exhibiting a sellers' market due to their lower price points and high demand.

2017 MARKET FORECAST

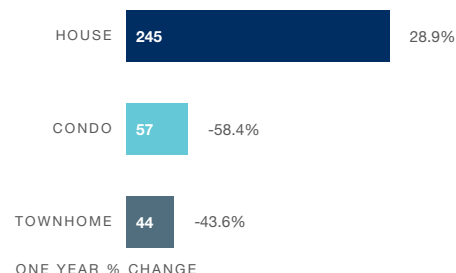
In 2017, single family homes will likely see decreased sales in the 10 to 15 per cent range through the spring. With lower price points than Langley, Coquitlam and Port Coquitlam, buyers are expected to focus more on Maple Ridge. This should result in an increase for sales of single family homes, into the \$500,000 to \$900,000 range.

Condo sales will likely appreciate 7 to 10 per cent while active listings are anticipated to be 40 to 45 per cent lower than 2016 due to product availability. Townhomes should see appreciation ranging between 10 and 15 per cent during the year.

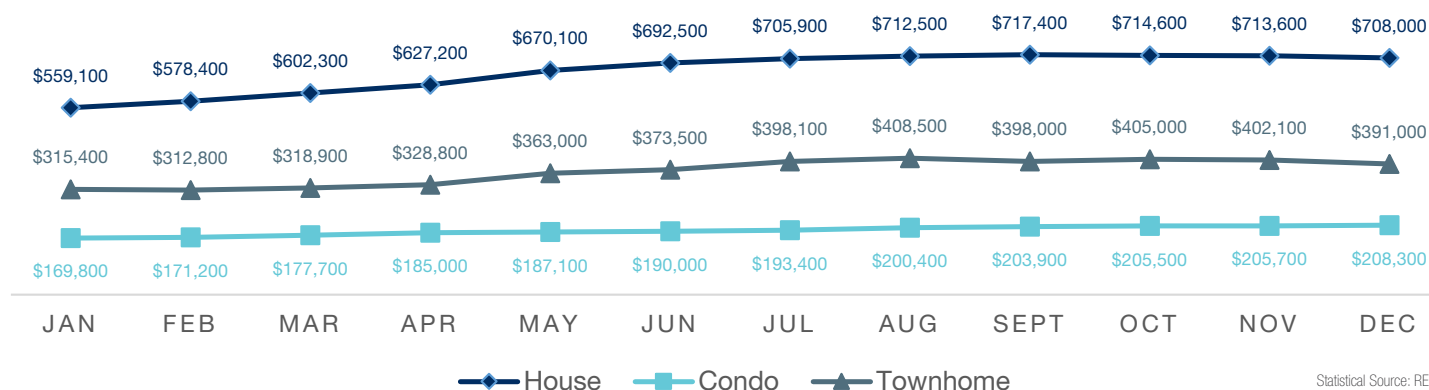
Total Area Sales 2016



Listing Inventory Dec 2016



MLS® HPI Benchmark Price



Statistical Source: REBGV

NORTH VANCOUVER

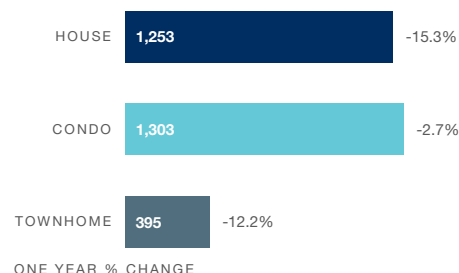
2016 MARKET REVIEW

The first half of 2016 saw a very frantic and active market in North Vancouver. Prices for single family homes rose by 37.2 per cent, condos increased by 22 per cent and townhomes by 33.3 per cent. During the last quarter of the year, the number of listings that came onto the market increased. Single family homes saw an 82 per cent increase in active listings compared to the same period in 2015. Townhomes saw a 13.3 per cent increase in price but experienced a 39 per cent decrease in active listings. With competing offers and no signs of prices decreasing, the condo market is still very much a sellers' market.

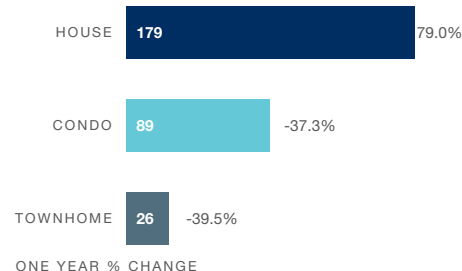
2017 MARKET FORECAST

Housing demand is expected to moderate in 2017. While home sales will not repeat 2016 performance, consumer demand is expected to remain well above the 10-year average. A trend toward a more balanced market is expected to unfold in the next year.

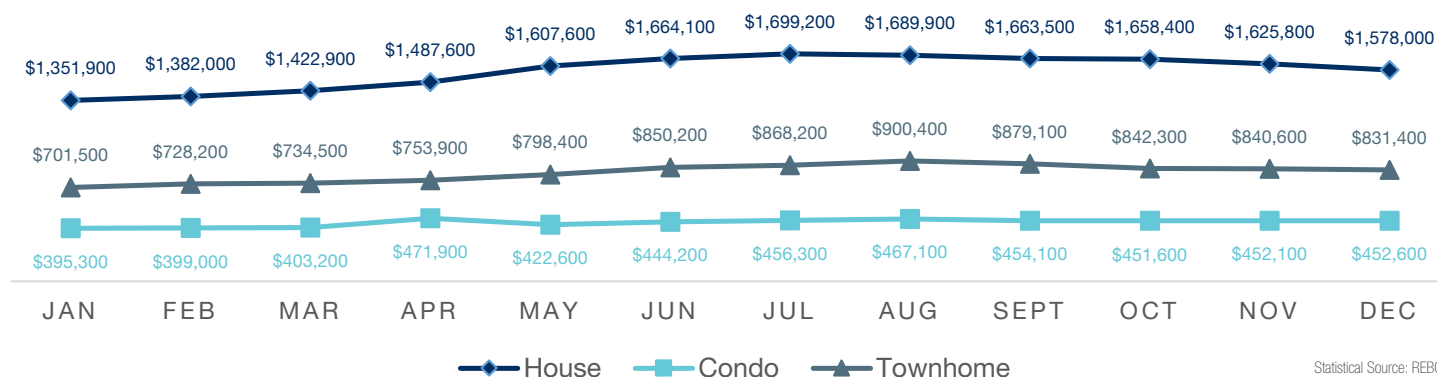
Total Area Sales 2016



Listing Inventory Dec 2016



MLS® HPI Benchmark Price



Statistical Source: REBGV

RICHMOND

2016 MARKET REVIEW

In 2016, the real estate market in Richmond was headed into another strong record year until the BC government disrupted the market by implementing its new 15 per cent property transfer tax on foreign buyers. At the time, foreign buyers represented a small portion of the buyers' market. Subsequently, the single family home segment of the market stalled in the Metro Vancouver region as demand and pricing entered a transitional market. In latter 2016, the general market returned to a balanced state with supply matching demand for townhomes and condominiums; the single family homes market continued transitioning to the new market norm.

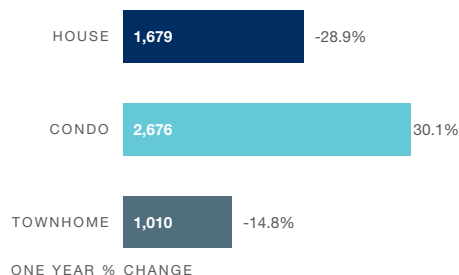
Diverse in population and income, real estate developers continue showing great confidence in Richmond. In Q4 2016, more than 550 single family homes, 300 townhomes and 3,500 condominiums were under construction. At the low and high ends of the

marketplace, consumption of townhomes and condominiums remained strong at the time of writing. As the initial impact of the 15 per cent tax on foreign buyers has begun subsiding, local buyers, sellers and some foreign buyers have returned to the market.

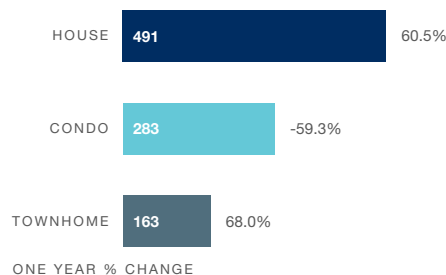
2017 MARKET FORECAST

In 2017, we anticipate the market will remain in transition for the year as it continues making a correction in the single family homes market while the townhome and condominium markets will remain relatively strong — affordable choices for young families, investors and buyers downsizing from larger homes. A city of resilience, Richmond remains a great place to live and invest for the long term.

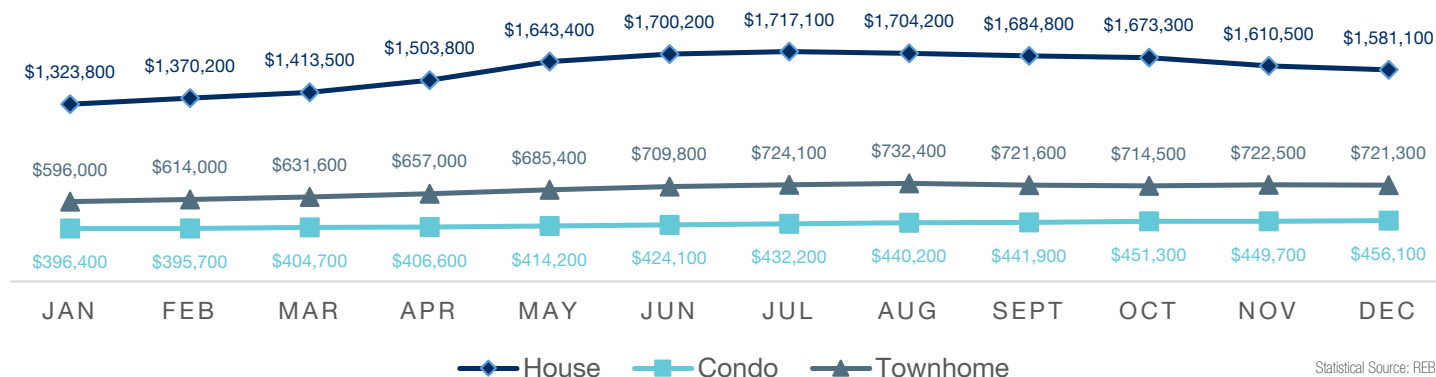
Total Area Sales 2016



Listing Inventory Dec 2016



MLS® HPI Benchmark Price



Statistical Source: REBGV

SOUTH SURREY / WHITE ROCK

2016 MARKET REVIEW

Foreign interest in luxury and traditional family homes in South Surrey/White Rock pushed real estate values to record levels in 2016. Many long-time residents, particularly those with properties situated in select emerging development areas or on acreage, decided it was time to “cash out” as values escalated.

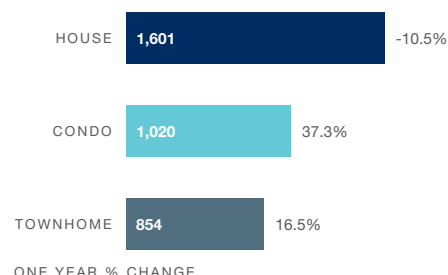
Not unlike many other sub-markets, in mid-July the winds of change began to impact the marketplace. Speculation of a typical summer slowdown, erosion of affordability and a slowing Vancouver market were all thought to be reasons. To no one's surprise, the BC government's introduction of its 15 per cent tax on foreign buyers in early August significantly diminished demand — placing downward pressure on single family home values, particularly in the luxury category. As 2016 closed, single family home prices had returned to levels seen in the late spring market. Overall this contrasted the pricing for townhomes and condominiums, which continued climbing at a moderate pace through year-end.

2017 MARKET FORECAST

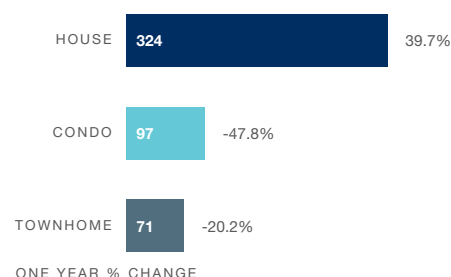
The initial shock of the 15 per cent tax on foreign buyers faded toward the end of 2016, while we did not see a surge of demand, the market did see foreign buyers return to the marketplace — though buyers were very cautious and more calculating. It seemed that more time scrutinizing values and evaluating the short- and long-term benefits of available property characterized the new mindset of this once-aggressive buyer. This trend will likely continue into 2017 as adjustment to the new tax continues.

Meanwhile, acreage located in areas with approved neighbourhood concept plans will continue attracting strong demand from developers looking to create new single family lots or townhome complexes. High-end luxury homes will likely experience greater downward pressure on values as the pool of potential buyers has shrunk, and will likely stay that way in 2017. Those buyers that remain in the luxury market are far more willing to negotiate a sharper deal for themselves.

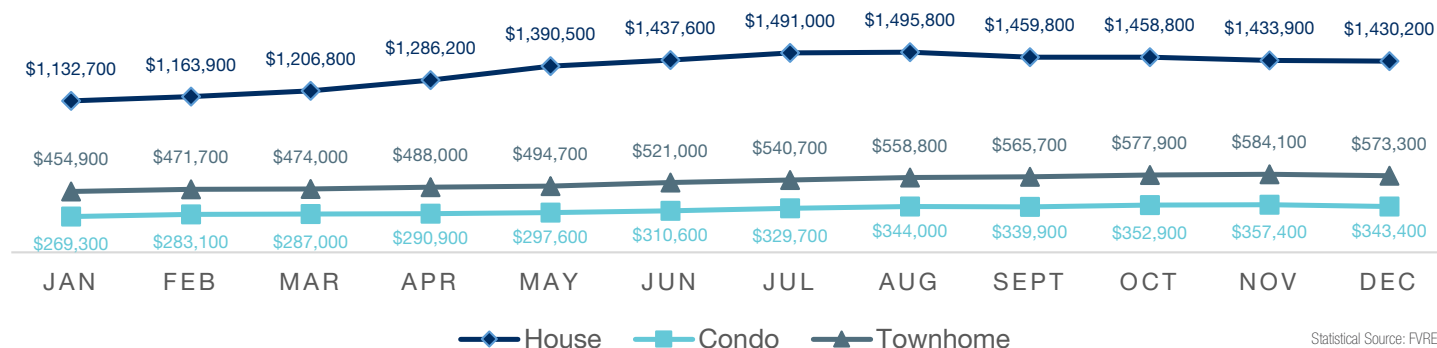
Total Area Sales 2016



Listing Inventory Dec 2016



MLS® HPI Benchmark Price



Statistical Source: FVREB

SQUAMISH

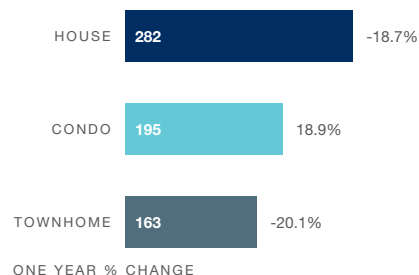
2016 MARKET REVIEW

In 2016, with increasing benchmark prices, sales and listing inventory in many market segments, the Squamish real estate market remained active. We have seen prices rise on single family homes by 35 to 40 per cent in the last 12 months. Townhome prices have risen by 33 per cent, while the condo market has seen increases of 22 per cent over the last year. We have also seen an increase in listings coming onto the market in the final quarter of 2016; the market has changed from a sellers' market to a more balanced market. Inventory of single family homes has also seen a 17 per cent increase in new listings, with condos realizing an increase of 29 per cent and townhomes remaining the same.

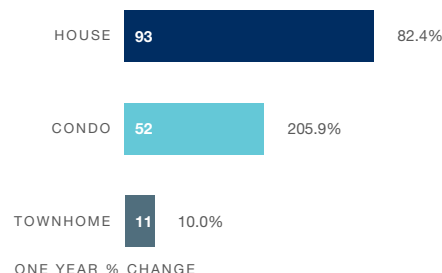
2017 MARKET FORECAST

Squamish has several new projects arriving on the market in 2017. It seems to be a place where people want to live, bringing buyers from Metro Vancouver, the Fraser Valley, the Interior and other provinces. A growing community with new industries, Squamish offers employment opportunities for those moving into the community — and those already here. Going forward, Squamish will remain an active but more balanced market with greater inventory selection for buyers.

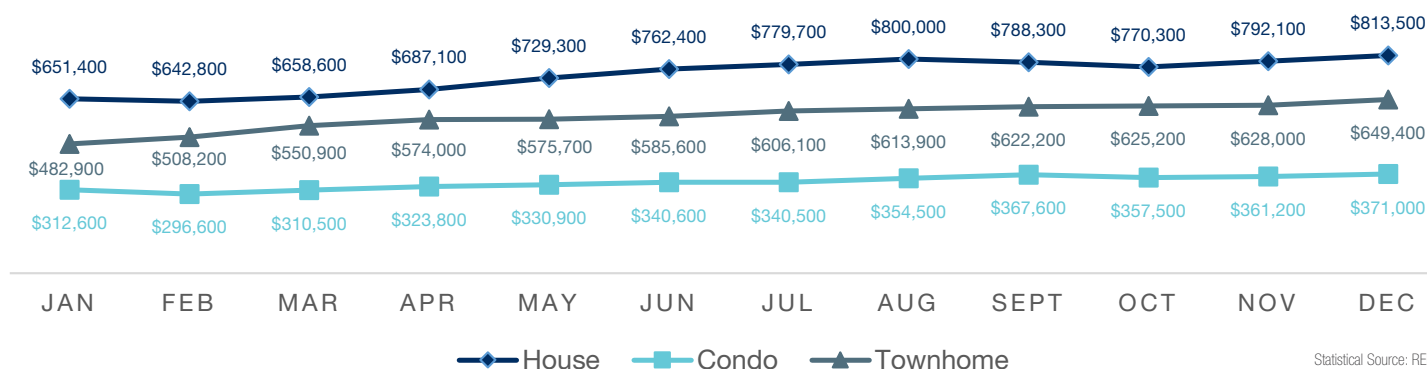
Total Area Sales 2016



Listing Inventory Dec 2016



MLS® HPI Benchmark Price



Statistical Source: REBGV

SURREY

2016 MARKET REVIEW

The first half of 2016 saw a significant increase in values for the market in Central and North Surrey, with year-over-year gains for single family homes peaking at near the 45 per cent* range in summer 2016. Inventory levels remained very low, creating an extremely strong sellers' market into mid-July for buyers seeking single family homes. Multiple offers with pricing well exceeding asking prices were common at the time. By late July and early August, news of the BC government's introduction of a 15 per cent tax on foreign buyers — which took effect August 2 — quickly slowed a market that had, weeks earlier, already begun slowing. Thus, the fall market began with downward pressure on single family home prices; with waning demand, supply increased.

In Central and North Surrey, townhomes and condominiums became increasingly popular with buyers as single family home prices

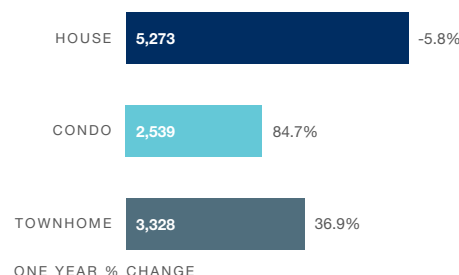
stretched beyond the reach of many looking to enter or move upward in the market. While single family homes saw a pricing slide, townhomes and condominiums cooled but continued to see pricing edge upward from late summer into fall and early winter.

* 2016 FVREB Housing Price Index

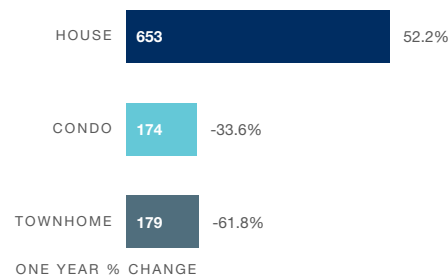
2017 MARKET FORECAST

As we look ahead at the Central and North Surrey residential real estate markets for 2017, it is likely the year will begin with inventory levels below the past 10-year average. If new inventory is slow in coming to market in January and February and interest rates remain relatively steady, we could see upward pressure on pricing in these markets. We anticipate the key driver for these markets will remain proximity to major transportation routes accessing Vancouver's business centres at much more affordable prices than other areas such as Burnaby, New Westminster and Coquitlam.

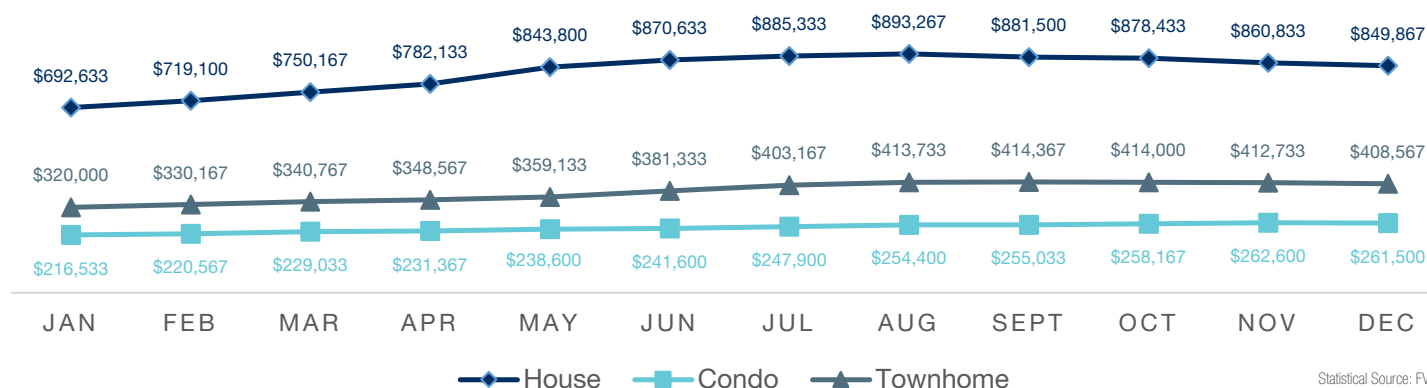
Total Area Sales 2016



Listing Inventory Dec 2016



MLS® HPI Benchmark Price



Statistical Source: FVREB

VANCOUVER EAST

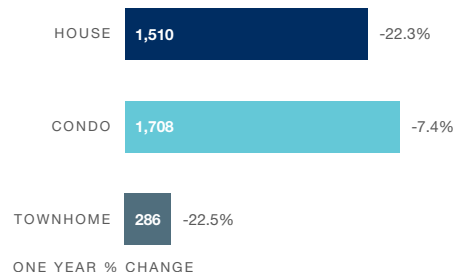
2016 MARKET REVIEW

In 2016, the East Side market enjoyed a similar experience to other areas in Metro Vancouver. The first half of the year was exceptionally busy, with many sale properties receiving multiple offers — driving prices upwards. For the first half of 2016, prices for houses were up approximately 30 per cent over 2015. Then, with the BC government's implementation of its 15 per cent property transfer tax on foreign buyers, which took effect August 2, the market for houses softened and prices declined by about 15 per cent. Meanwhile, prices for condos and townhomes did not see a decline, nor did prices for these properties rise much since the new tax was implemented. The second half of 2016 saw a significant slowdown in house sales. Sales of townhomes and condos also slowed, though not as tellingly.

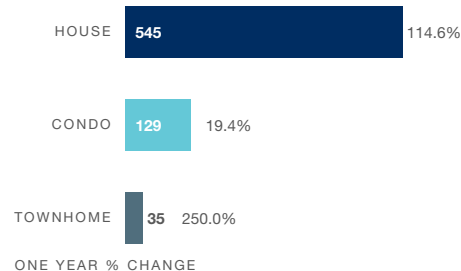
2017 MARKET FORECAST

The spring 2017 market is expected to be calmer and more moderate than the same period in 2016. It is anticipated summer will be slower, with a subsequent sales uptick projected for fall. After being in great demand with continually rising prices for the past three years, houses in the East Side are set to not be as strong in 2017. Townhomes, especially condos, are more likely to perform better than houses during 2017 due to affordability.

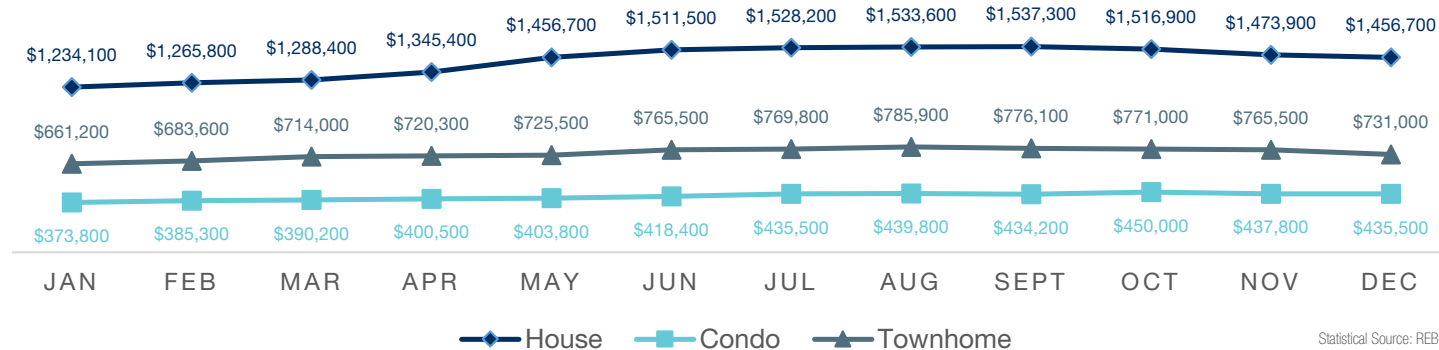
Total Area Sales 2016



Listing Inventory Dec 2016



MLS® HPI Benchmark Price



Statistical Source: REBGV

VANCOUVER WEST

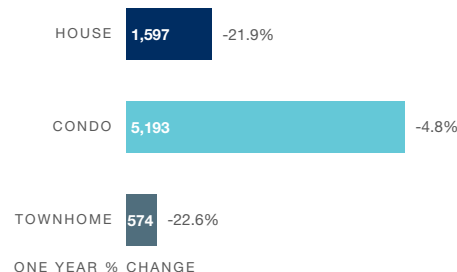
2016 MARKET REVIEW

The West Side market was one of the busiest markets ever experienced for the first half of 2016. That changed significantly in the second half of the year with the implementation of the 15 per cent property transfer tax on foreign buyers on August 2. The market went from being from an extreme sellers' market for all product types (houses, townhomes and condos) to a buyers' market for houses. At year-end, townhomes and condos were still a sellers' market with prices stabilized. Meanwhile single family homes had experienced a 15 per cent price decline by the end of the year.

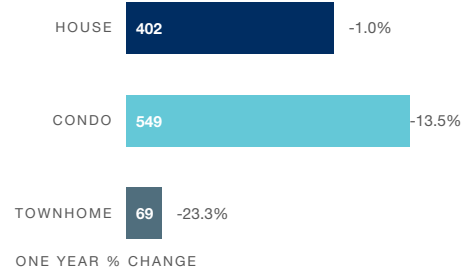
2017 MARKET FORECAST

For 2017 the market is anticipated to be calmer and more balanced. We anticipate a slow market for the beginning of the year, with a busy but not record-setting spring market followed by a slower summer and slightly busier fall. In the Downtown and West Side neighbourhoods, strong demand for condos — the most affordable types of property to own — will remain.

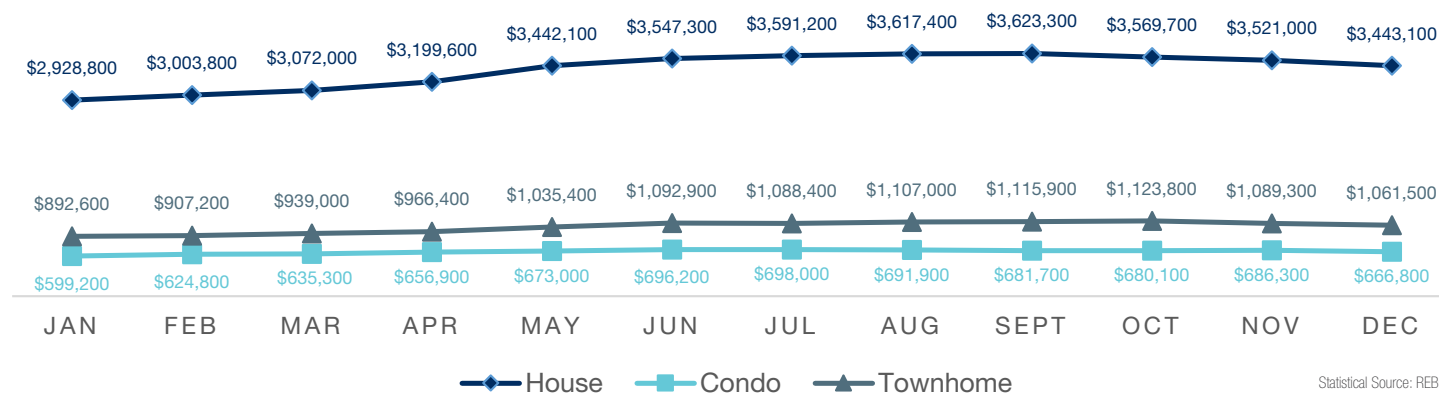
Total Area Sales 2016



Listing Inventory Dec 2016



MLS® HPI Benchmark Price



Statistical Source: REBGV

WEST VANCOUVER

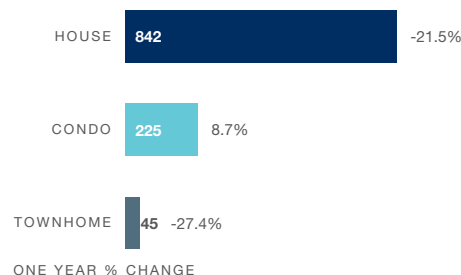
2016 MARKET REVIEW

In West Vancouver, 2016 represented an incredible year for the real estate industry. The first six months of the year were frenzied, with buyers frantically trying to purchase any property they could acquire. This period was characterized by multiple offers, sale prices well above asking and sellers driving property values up and commanding the offer process. Single family homes saw an increase of 36.4 per cent over the same period in 2015, while condo prices rose by 30 per cent and townhomes increased by 27 per cent over the past year. Compared to 2015, the number of active listings was down for the same period. More specifically, single family home property listings were down by 7 per cent, condo listings by 47 per cent and townhome listings by 8.3 per cent. To date, the condo market has remained a sellers' market. We are still experiencing multiple offers and prices are selling above list.

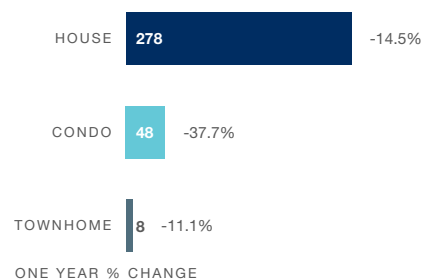
2017 MARKET FORECAST

The housing market for single family homes will become more balanced in 2017, however it is expected to remain well above the 10-year average. Meanwhile, condo market pre-sales will continue to remain very active with many new projects in the works and prices continuing to rise.

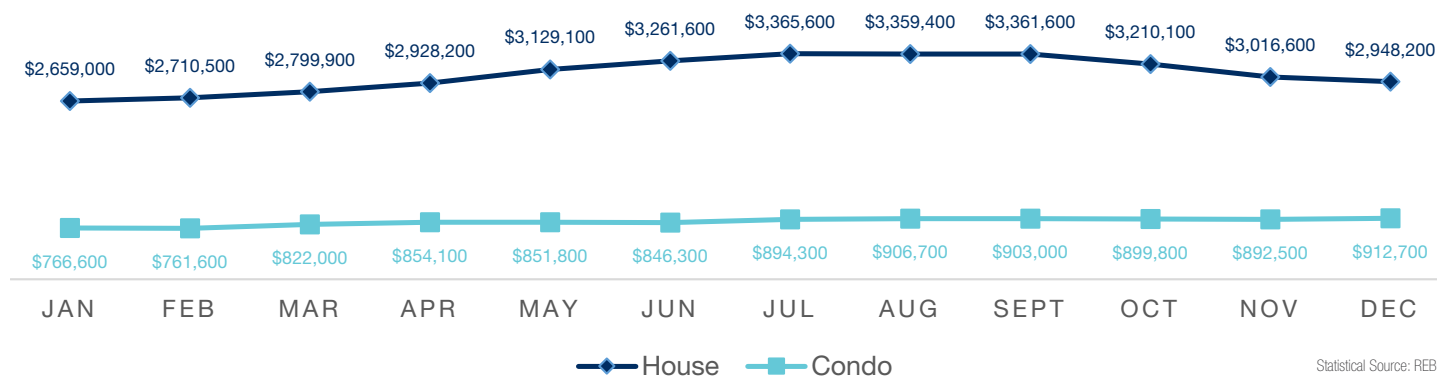
Total Area Sales 2016



Listing Inventory Dec 2016



MLS® HPI Benchmark Price



Statistical Source: REBGV

FEATURE ARTICLE

THE BC REAL ESTATE MARKET IN 2016: A YEAR WITH MANY CHAPTERS

Written by Peter Scarrow, In-house Legal Advisor for Macdonald Real Estate Group Inc.

Last year brought substantial change to the world of BC real estate. Striking developments in several regional markets, notably Metro Vancouver, combined with significant changes in law, regulation and policy, made headlines. All three levels of government played a part in shaping the new market landscape, largely in response to runaway prices, perceived speculation and a perceived torrent of “foreign” money. The impact has been felt province-wide. Invoking the language of investor and philanthropist George Soros, the BC market reached a point “far from equilibrium” — and something had to give.

In short, the following changes played a role in shaping — and altering — the BC real estate market in 2016:

15 PER CENT PROPERTY TRANSFER TAX ON FOREIGN BUYERS — In late July, the Government of British Columbia introduced an additional 15 per cent “anti-speculation” property purchase tax; taking effect August 2, it imposed the tax on “foreign” buyers of real estate in Metro Vancouver. This also impacted hundreds, if not thousands of buyers who had already signed or committed to firm contracts before the new tax was introduced.

CANADA REVENUE AGENCY REVIEW OF PRINCIPAL RESIDENCE EXEMPTION — On October 3, the Government of Canada revised its policy such that beginning with the 2016 fiscal year all individuals seeking to benefit from the “principal residence” capital gains tax exemption must now report those gains when filing tax returns. Part of the impetus for this policy change was that people were buying homes and flipping them while evading taxes by failing to declare the associated capital gains.

FURTHER TIGHTENING ON MORTGAGE LENDING — Also in October 2016, the Canada Mortgage and Housing Corporation

(CMHC), a federal Crown corporation, tightened rules and bank lending policies to cool the market. The new rules provide, inter alia, for stress tests for all borrowers seeking CMHC-insured mortgages, such as a test to determine whether borrowers would be able to continue making mortgage payments should mortgage rates increase to the bank’s posted rate (4.65 per cent at the time of writing). Overall, these changes will exclude some first-time home buyers and high-ratio borrowers from the market.

CITY OF VANCOUVER’S 1 PER CENT EMPTY HOMES TAX — On November 9, 2016, Vancouver’s mayor announced that beginning January 1, 2017 the City of Vancouver would introduce an empty homes tax — calculated as 1 per cent of the assessed value of unoccupied residences — with fines of up to \$10,000 per day for non-compliance. This tax will apply not only to homes that are completely unoccupied, but also on many “vacation” homes or pieds-à-terre.



POTENTIAL TAX CHANGES ON FARMLAND — On November 19, The Globe and Mail published a series of articles about tax abuse in BC and other loopholes linked to properties in the Agricultural Land Reserve (ALR). Some quotes from the paper are as follows:

“Mega-mansions and speculators on BC farmland are exploiting tax breaks.”

“These farms sold for a total of \$449-million, while the province pegs their taxable value at just over one-tenth of that: \$52 million ... speculators and investors, not farmers, were behind at least 73 — almost 60 per cent — of the purchases.”

It seems that municipalities, such as Richmond, Delta and Surrey, may be actively lobbying the provincial government to integrate and tighten up legislation and enforcement governing the ALR lands.

PROVINCE OF BC'S HOME PARTNERSHIP PROGRAM —

In December, in response to a slowing market and criticisms that first-time buyers were being left behind, the BC government introduced the BC HOME Partnership Program to help new homeowners with their initial downpayments — up to \$37,500 or 5 per cent of a home's purchase price. The program has received mixed reviews, but it has strong potential to offset some of the negative forces by enticing thousands of new buyers into the market. This will have a ripple effect supporting market participation across the province.

CHINA'S ATTEMPT TO REDUCE CAPITAL OUTFLOWS

— Late last year the Mainland Chinese government, concerned about currency depreciation, introduced a series of policy measures designed to curb capital outflows (estimated to be as much as \$1 trillion USD annually). Anecdotal evidence suggests that these measures are having some impact; however, we expect the impact to be temporary, especially in the long term since China inevitably will open its capital account and remove currency controls. We estimate that Mainland Chinese buyers accounted for nearly 25% of the value of Greater Vancouver real estate sales in each of the years 2015 and 2016 or roughly \$10 billion annually. A temporary reduction in capital outflows from China may present a good buying opportunity for local buyers.

Until the December announcement of the First Time Home Buyers' Program, previous tightening measures outlined above clearly impacted the market as sales volumes, if not prices, declined markedly in most markets over the final quarter of the year. The reality, however, is that these government programs may be difficult to sustain over the long term against the backdrop of a global economic landscape featuring financial and political turmoil in both Europe and the US, while as much as \$1.3 trillion (roughly Canada's entire GDP) of “hot money” pours out of China annually.



Of course, the province's market dynamics vary greatly from region to region, with Metro Vancouver and communities on its immediate periphery impacted most by offshore money and local demand; Metro Vancouver is also where local economic fundamentals have been increasingly displaced by huge inflows of “foreign” capital, and where locals are increasingly upset over skyrocketing housing prices and neighbourhood changes due to investment properties.

The from-one-extreme-to-the-other approach to the issues is further confused by government officials at all levels who seek to promote trade and investment offshore while also attempting to curb local market excesses. The presence of foreign money is simultaneously a boon to our economy and, at the same time, highly disruptive to certain segments of our society.

The history of BC's current dilemma involving offshore money began long ago and, in the case of the Quebec Immigrant Investor Program, far away. Now Vancouver, in the words of urban planner, Andy Yan, has become one of a dozen or so global “hedge” cities — perceived safe havens for offshore capital and wealthy immigrants. The issue of offshore money has its roots in the 30-year-old legacy of Expo '86,



FEATURE ARTICLE CONTINUED...

which put Vancouver on the world map. In Yan's words, "we invited the world and they decided to stay."

As might be expected, immigration policies, a big part of the engine that drives offshore capital flows, are themselves in a state of flux. The "economic migrant" programs (programs admitting business immigrants and skilled workers) have changed significantly in the last several years. Today, the emphasis is increasingly on admitting more young skilled workers and fewer wealthy business immigrants. This is not new. The writing was on the wall for many investor immigrants when the federal Immigrant Investor Program was terminated in June 2014. The main exception to this general trend is the Quebec Immigrant Investor Program with its annual quota of 1,900 business immigrant families; through this program, many families ultimately go on to settle and buy homes in BC.

Since 1997, China has been by far the leading source country for business immigrants. In 2013, 34,000 Chinese immigrants landed in Canada. By 2014, this number had decreased dramatically — to 24,000. In contrast, the Philippines and India led the way for new immigrants to Canada in 2014 with numbers, respectively, at 24,000 and 38,000.

To put it succinctly: Canada's immigration policy now is tilted towards attracting more skilled young immigrants, people who speak fluent English or French and will fit easily into our labour market, while business-related immigrants from China and other parts of the world are declining.

With an eye to residential real estate over the long term, the population remains set to grow as national immigration quotas increase to more than 300,000 per year and people from other parts of Canada continue relocating to British Columbia. Vancouver, unique among major North American cities, will continue welcoming direct commercial airline flights from 15 cities in Asia — eight from mainland China alone. Foreign money, from immigrants and non-immigrants alike, will continue flowing into the province. Government policies will gradually divert some immigrants and "foreign" capital from the Vancouver core into regional markets in Victoria and elsewhere on Vancouver Island, the Sunshine Coast, Whistler/Squamish and the Interior. Young families and older retirees will continue moving from Metro Vancouver in search of more affordable housing in smaller urban centres.

WHAT DOES THE PICTURE APPEAR TO BE FOR 2017?

Interest rates will be a factor. We anticipate rates have bottomed out and will likely increase in 2017, albeit slowly, with consequential but modest increases in mortgage servicing costs. That said, we do not expect these increases to have a significant impact in the short term.

Additionally, we anticipate recent policy changes (discussed earlier), combined with developments related to the upcoming provincial election taking place in May 2017, could continue playing an outsized role in the market for the first part of the year as buyers and sellers absorb the impact of many new or potentially new policies the government may introduce. Other factors that could also play a role in the year include uncertainty flowing from political and economic events in the US, and any other attempts by the municipal, provincial, or federal government(s) to control price growth. That all being said, we predict the BC real estate market will remain robust in most regions of the province throughout the year.

To close, we live in a world of increasing economic uncertainty where the term "return-free risk" rather than "risk-free return" neatly describes the essence of most global securities investments and suggests why households and investors, foreign and domestic alike, may increasingly regard exposure to real estate in BC — the most cosmopolitan, livable and dynamic region in the world's most stable and tolerant country — as highly desirable.

KELOWNA

2016 MARKET REVIEW

The 2016 market began moderately but by the end of the first quarter had moved into sellers' market territory. Unit sales increased over the first quarter of 2015 by 18.8 per cent. Average prices also rose significantly over the same period while inventory declined 17.8 per cent.

Confidence in this market continued along that trendline, with inventory continuing to decline and sales continuing to increase and absorb new properties quickly. At year-end, the list-to-sell ratio was at 98 per cent, while average-days-to-sell was at 51. At the time of writing, fewer than 600 single family homes were on the market for a trading area with a general population of nearly 200,000.

In 2016, multiple offers and sales over asking were commonplace — especially in the inventory-challenged market under \$550,000. As sales launches and pre-sales returned to the marketplace, new projects sold out quickly.

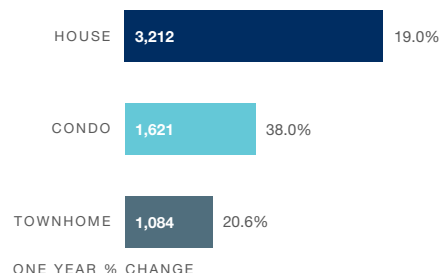
It was a good year for sellers, but also a very positive environment for buyers purchasing homes. The recorded sales volume for 2016 was about \$3.5 billion, compared to \$2.4 billion for the region in 2015.

2017 MARKET FORECAST

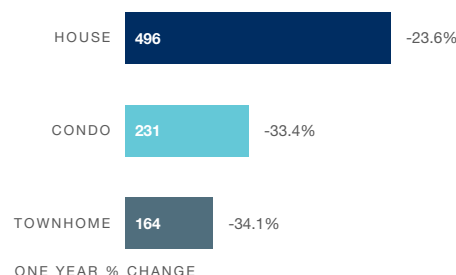
We enter 2017 with the lowest inventory levels in 10 years. This is something that will not quickly change in Kelowna. At the time of writing, we have established that 14 per cent of buyers come from Metro Vancouver — a sector that showed an increase in 2016. Meanwhile, approximately 11 per cent of buyers come from Alberta; this represents a decrease from 18 per cent, and can be attributed to economic factors in that province. In this market, only 2 per cent of buyers are international.

Through 2017, low inventory and a healthy absorption rate are expected to be the norm.

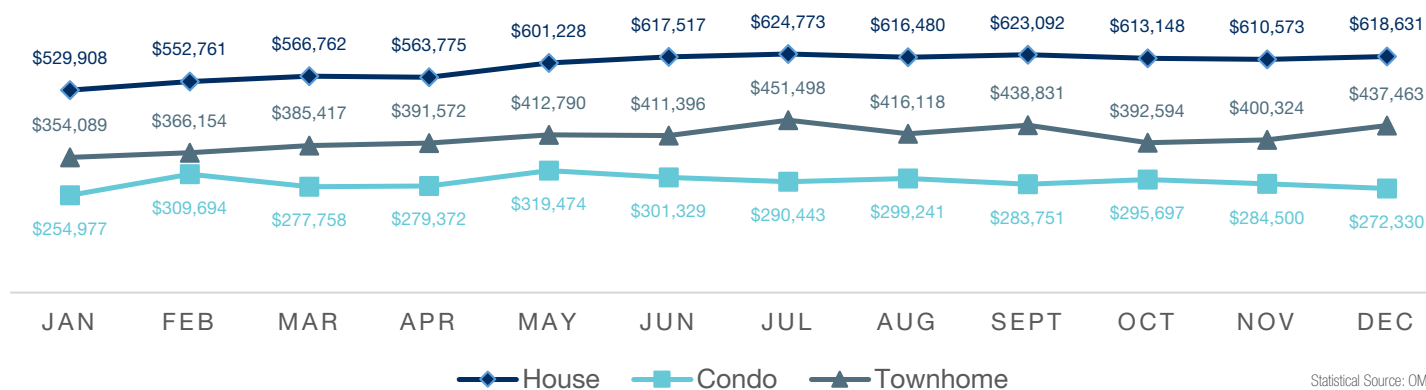
Total Area Sales 2016



Listing Inventory Dec 2016



MLS® Average Price



Statistical Source: OMRB

SOUTH OKANAGAN

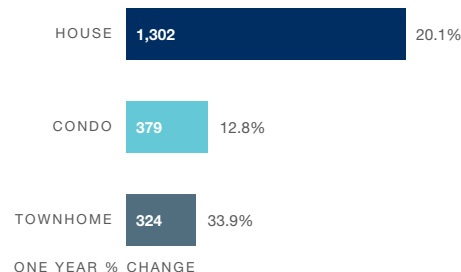
2016 MARKET REVIEW

In 2016, there was an overall 63 per cent increase in sales over 2015. Active listings were down in most areas while units sold were up in all areas over 2015. Single family home sales were up an average 15 per cent through the South Okanagan; Osoyoos saw a 31 per cent increase over 2015. Meanwhile, average sale prices for condos were up 10 per cent; with a 44 per cent increase over 2015, Summerland led the market. Townhomes were up 2 per cent in the region overall, while Oliver enjoyed a 12 per cent increase over 2015. In 2016, inventory was a challenge; condo listings were down 26 per cent and single family home listings were down 9.5 per cent, while townhome listings were up 13 per cent over 2015.

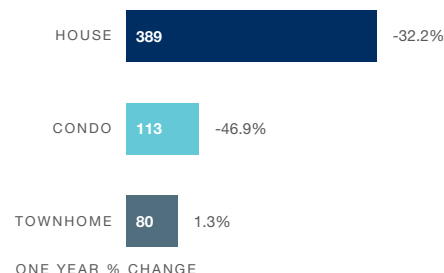
2017 MARKET FORECAST

For 2017, the forecast for the South Okanagan is expected to remain well above the 10-year average with continued growth. A new BC government program is also going to drive pricing up and increase opportunity for first-time buyers, even with mortgage lending changes. The South Okanagan communities continue to provide more affordable options than Kelowna and the Central Okanagan.

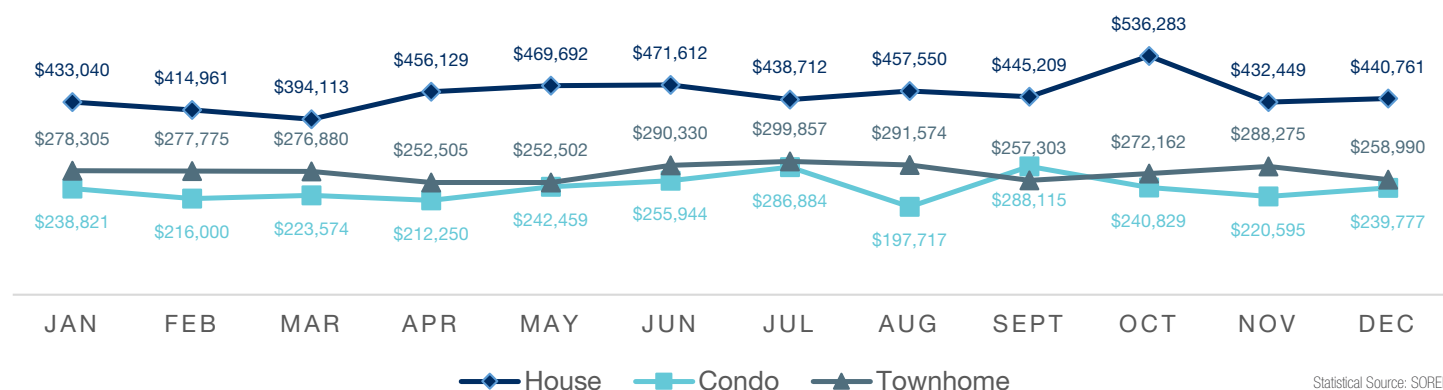
Total Area Sales 2016



Listing Inventory Dec 2016



MLS® Average Price



Statistical Source: SOREB

SUNSHINE COAST

2016 MARKET REVIEW

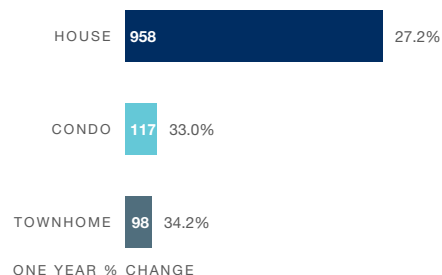
In 2016, the Sunshine Coast continued demonstrating above-average levels of sales activity and steady increases in value compared to the same period in 2015. Current market activity trends indicate 2016 has been the busiest year for transactions since 2003.

With high levels of buyer interest combined with historically low levels of properties being offered for sale, the market continues moving in favour of sellers in all segments of the marketplace. In 2016, the number of transactions increased by 43 per cent compared to the same period in 2015. This resulted in average sales prices increasing for single family homes, with a 19 per cent increase over 11 months, a 10 per cent increase for attached and a 5 per cent increase for land sales.

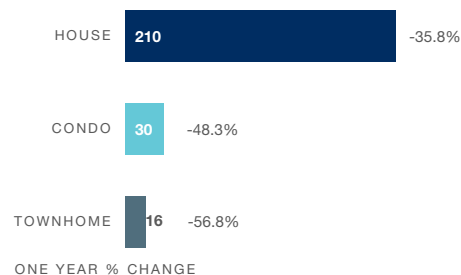
2017 MARKET FORECAST

Due to consistently strong activity levels since summer 2015 and throughout 2016, the number of properties offered for sale fell during Q3 2016. Looking forward into 2017, we expect a sellers' market to continue. With the increase of sales volumes and prices from 2016, we anticipate the 2017 market will demonstrate the characteristics of low supply: a high-demand marketplace with strong support for prices at current or higher-price levels. For those thinking of selling, it is safe to say conditions are anticipated to be favourable.

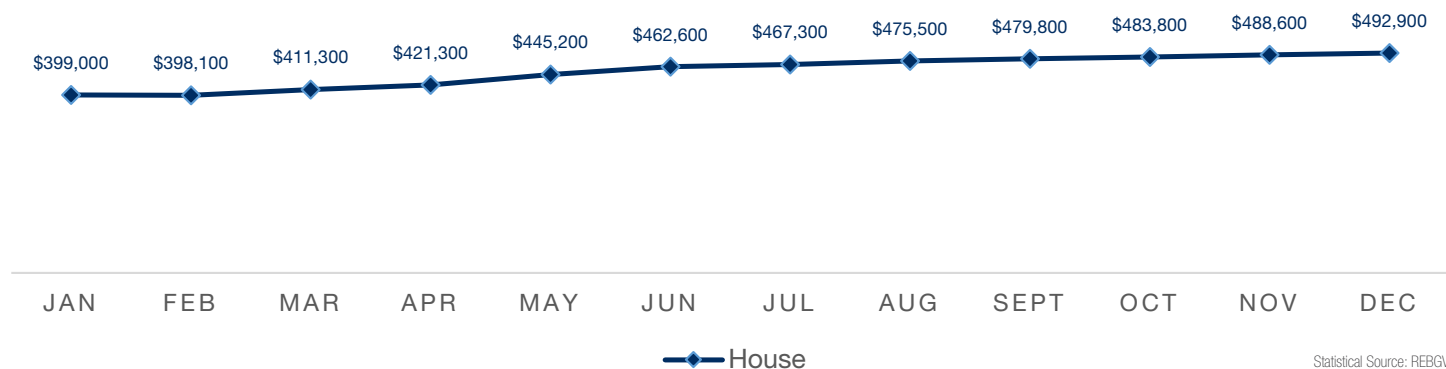
Total Area Sales 2016



Listing Inventory Dec 2016



MLS® HPI Benchmark Price



Statistical Source: REBGV

VICTORIA

2016 MARKET REVIEW

The Victoria real estate market broke records in 2016. Extremely low inventory levels, high consumer demand, changes in mortgage rules, multiple offer situations and changes made by government to real estate self-regulation were some highlights in a year producing well over 10,000 transactions (the highest number of annual transactions the Board has on record since tracking of this metric began in 1990).

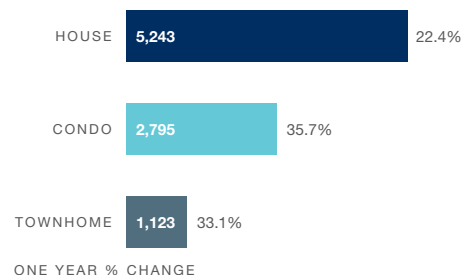
Benchmark pricing increased across the Board area in 2016; single family home values increased by 20 per cent overall, ranging from a 6 per cent increase for Malahat and Area to a 37 per cent increase in benchmark value for single family homes in the Victoria Core. New data compiled by the BC government show that, the second half of 2016 saw approximately 4 per cent of property transfers involve foreign national buyers (representing 6 per cent of the total

value of all property transfers). Because of the introduction of the 15 per cent property transfer tax on foreign buyers in Metro Vancouver in August 2016, these numbers will be watched closely in 2017.

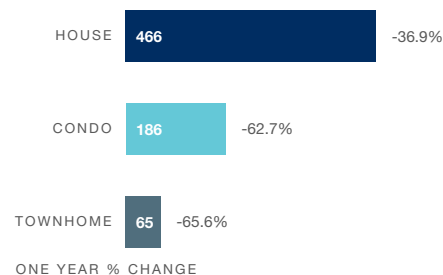
2017 MARKET FORECAST

Predictions for the coming year suggest inventory levels are expected to increase and stabilize in 2017. Sales levels will likely remain strong with a possible tapering off in the latter half of the year, with modest price increases of around 5 per cent being probable. Meanwhile, we anticipate the condominium market may come under some pressure due to the BC government's First Time Home Buyers' Program. This bodes well for new condominium projects already underway as well as those set to begin construction in 2017.

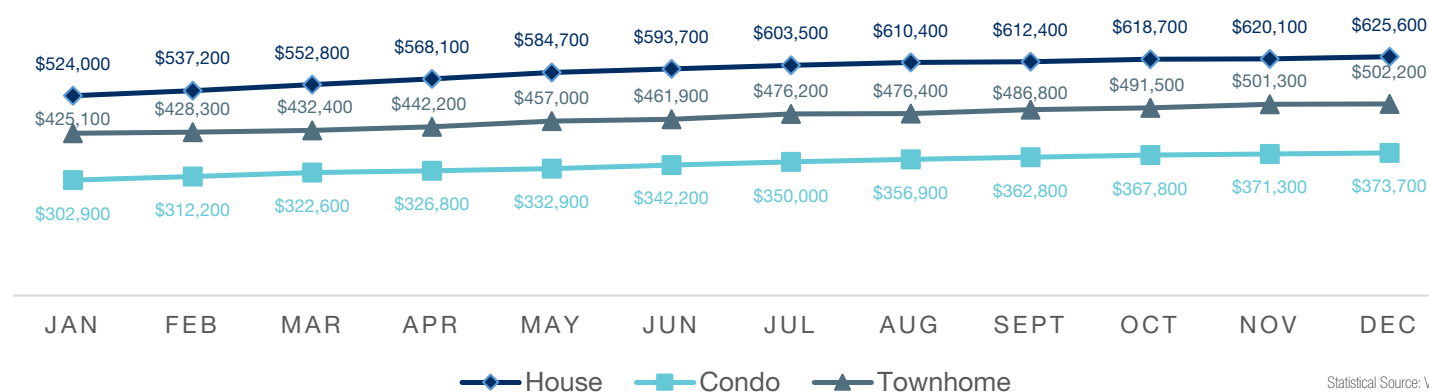
Total Area Sales 2016



Listing Inventory Dec 2016



MLS® HPI Benchmark Price



Statistical Source: VREB

WHISTLER

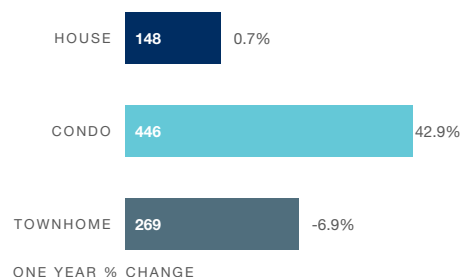
2016 MARKET REVIEW

The Whistler market has continued to demonstrate above average levels of sales activity and steady increases in prices. Buyer interest combined with low inventory has continued to move in favour of a sellers' market. At the time of writing, current activity trends indicate 2016 was the second-busiest year for transactions since 2002. The number of transactions increased by 32 per cent, compared to the same period in 2015. Single family homes saw an increase of 21 per cent in price values, while townhomes increased by 29 per cent and condos increased by 26 per cent in the past 12 months. Condominiums accounted for almost 35 per cent of all market activity in the first three quarters of the year.

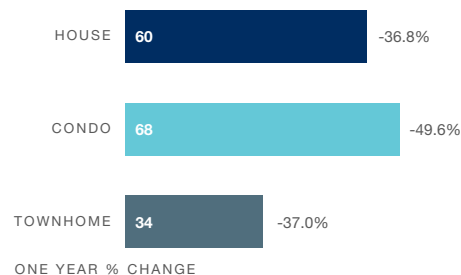
2017 MARKET FORECAST

Thanks to strong activity levels over the last 18 months, the number of properties for sale has fallen to an historic low at the end of 2016. It is still safe to say the market continues to favour sellers. With no new buildings available, the market will continue to be characterized by low supply and high demand. Generally in 2017, it is anticipated the market will remain active and properties will continue selling quickly if priced properly.

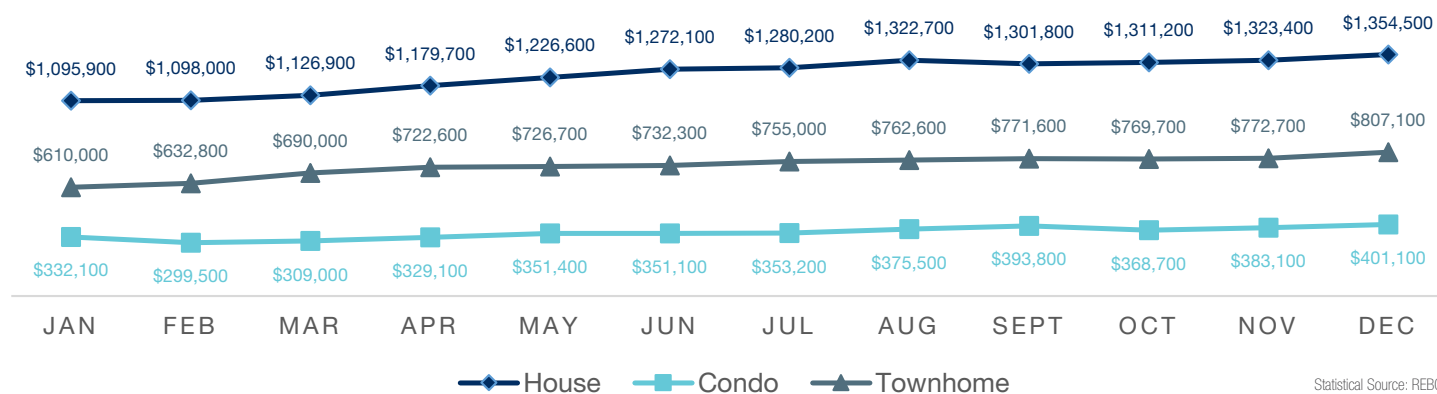
Total Area Sales 2016



Listing Inventory Dec 2016



MLS® HPI Benchmark Price



Statistical Source: REBGV

