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MARKET CONDITIONS REMAIN TIGHT

HOME OWNERSHIP AND AFFORDABILITY - SOME OBSERVATIONS

There has been a lot of media coverage on the issue of housing affordability, particularly as it relates to the real estate markets in metro Vancouver and Toronto and to a lesser extent in Victoria. Housing affordability has become a hot-button political issue as policy-makers, economists and various experts weigh-in on what, if anything, governments can do.

The RBC publishes a quarterly report on housing affordability in Canada. Table 1 presents a summary of the findings of the most recent report. The RBC housing affordability measures the percentage of median pre-tax income required to service the cost of monthly mortgage payments, property taxes and utilities based on the average sale price of a "residential" property.

Some argue that many cities are unaffordable for mid-to-lower income residents because wages have not kept pace with the rise in house prices. While true in part, actually, the housing affordability index is lower now with mortgage rates below 4% than it was when they were above 8%. Housing affordability is as much about mortgage rates as it is about prices and wages.

The purchase of a home and the associated mortgage payments entails buying two products: a place to live, and an investment vehicle. For the vast majority of homeowners, a home is a wealth-building engine that they hope will appreciate in value.

The strongest markets over the past decade are, and have been, the least affordable. The housing booms in Vancouver and Toronto have been building over two decades. These cities are now being put in the same league as such global cities as San Francisco, New York, London and Sydney. Despite several policy interventions, largely on the demand side, to engineer a "soft landing," there has been no landing so far. But, there are three things that matter for these markets: supply - there is not enough; demand - there is too much; and affordability. With mortgage rates at rock bottom, these markets remain affordable for higher income and/or high net-worth households. The real test (i.e. whether these are truly global cities) will come in the next phase of the real estate cycle.

In 2009, Michael E. Stone, University of Massachusetts offered the following perspective on housing affordability: *"There is no such thing as "affordable" housing. Affordability is not a characteristic of housing: It is a relationship between housing and people. For some people, all housing is affordable, no matter how expensive. For others, no housing is affordable, no matter how cheap."*

TABLE 1: HOUSING AFFORDABILITY 2nd QTR 2016

City/Area	Avg Sale Price	Affordability Index	
		2 nd Qtr 2016	Historical Avg
Vancouver	\$1,061,700	90.3%	57.9%
Toronto	\$685,200	60.2%	47.5%
Victoria	\$614,600	51.4%	43.8%
Calgary	\$469,600	33.0%	40.0%
Edmonton	\$396,800	35.1%	34.4%
Ottawa	\$359,900	35.2%	34.3%
Saskatoon	\$377,000	32.6%	32.8%
Montreal	\$362,800	39.4%	38.2%
Regina	\$322,600	28.6%	27.6%
Winnipeg	\$282,600	29.5%	29.9%
Halifax/Dart.	\$288,300	29.6%	32.5%
St John's	\$304,100	26.2%	26.7%
Quebec City	\$284,500	34.0%	30.1%
National	\$435,700	42.8%	38.8%

TABLE 2: STATISTICAL TRENDS - ALL RESIDENTIAL
(Greater Victoria and Other Areas)

QUARTER-TO-QUARTER COMPARISONS			
	3 rd Qtr 15	3 rd Qtr 16	Change
New Listings	2,885	2,985	+100
Sales	2,108	2,479	+371
Avg Sale Price	\$523,123	\$580,461	+\$57,338
Median Sale Price	\$465,000	\$496,000	+\$31,000
Ratio Sales Listings	.73	.83	+10
Avg Days to Sell	61	35	-26
Sale Price as %			
of Org List Price	96.2%	99.9%	+3.7%
Mortgage Rates			
(Posted 3 yr Fixed BoC)	3.39%	3.39%	n/c

THE VICTORIA MARKET

The real estate market in Victoria became a solid seller's market about a year ago. The 3rd Qtr of 2016 was marked by the typical seasonal easing; however, market conditions remain tight. On the supply side, the number of listings was up from the same period last year. However, this was offset on the demand side by a substantial increase in the number of sales. The ratio of sales-to-listings (a measure of market strength) was up significantly. Sale prices were higher than those in the 3rd Qtr of 2015 and the percentage increases in the sale prices of condos and townhouses are now catching up with those recently enjoyed by single family dwellings. Properties spent less time on the market before they sold. Multiple offer situations have become routine. An analysis reveals that some 49% of residential properties sold at, or above, their list price in the 3rd Qtr of 2016.

The number of new listings through the Victoria Real Estate Board's (VREB's) MLS® was 2,985, up 3.4% from 2,885 in the 3rd Qtr of 2015. Sales of residential properties (i.e., all types of housing excluding lots/acreage and commercial) totalled 2,479 in the 3rd Qtr of 2016, up +17.6% from 2,108 sales in the 3rd Qtr of 2015. The sales-to-new-listings ratio was .83 in the 3rd Qtr of 2016, up from .73 a year ago and up significantly from .51 two years ago. Both average and median sale prices were higher. **The average sale price of a residential property in Greater Victoria and other areas was \$580,461 in the 3rd Qtr of 2016**, up +11.0% from \$523,132 in the 3rd Qtr of 2015. The median sale price was \$496,000, up 6.7% from \$465,000 last year. Properties sold about 0.1% below the original list price, an improvement of +3.7% over the 3rd Qtr of 2015. The figure of \$580,461 compares to August 2016 average residential sale prices of \$833,055 in Vancouver, \$710,410 in Toronto, \$616,286 in the Fraser Valley and \$456,663 in Calgary.

THE MARKET INVENTORY

There were 1,213 properties (including lots and acreage) active on the VREB's MLS® database for the Greater Victoria area (i.e., excluding the Malahat, Up-Island and the Gulf Islands) on Oct 1, 2016, down -47.0% from the inventory level of 2,301 a year ago.

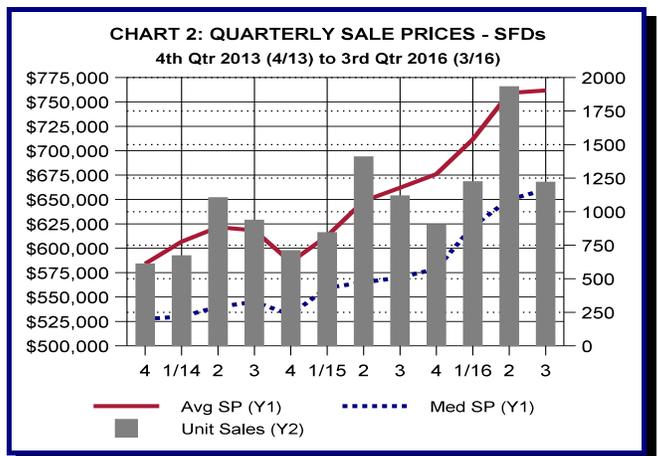
SINGLE FAMILY DWELLINGS (SFDs)

Sales of SFDs in Greater Victoria in the 3rd Qtr of 2016 totalled 1,219, up +9% from 1,118 sales in the 3rd Qtr of 2015. **The average sale price of SFDs in the 3rd Qtr of 2016 was \$761,718, up +15.1% from an average of \$661,982 in the 3rd Qtr of 2015.** Moreover, the median sale price was \$660,000, up 15.8% from \$570,000 in the 3rd Qtr of 2015. (Note: 220 SFDs, some 15.2%, sold for more than \$1 million). As shown in Chart 2, sale prices have been on a sharp upward trend since the 4th Qtr of 2014. SFDs that sold in the 3rd Qtr of 2016 were on the market for an average of 27 days, compared to 46 days last year. The sales-to-listings ratio was .82 in the 3rd Qtr of 2016, compared to .77 last year.



TABLE 3: INVENTORY - GREATER VICTORIA

Type of Property	Oct 15	Oct 16	Change
Single Family Dwelling	1,075	650	-425
Condominiums	685	293	-392
Townhouses	241	110	-141
Lots/Acreage	229	115	-114
Man. Home/Rental Pad	52	28	-24
Duplexes (Revenue)	5	10	+5
Triplexes+ (Revenue)	14	7	-7
Totals	2,301	1,213	-1,088



CONDOMINIUMS

Condominium sales also strengthened in the 3rd Qtr of 2016 with sales of 736, up +29% from 572 sales in the 3rd Qtr of 2015. **The average sale price for a condo was \$359,176 in the 3rd Qtr of 2016, up 11.4% from \$322,326 in the 3rd Qtr of 2015.** The median sale price was \$310,000, up 11.9% from \$277,000 last year. As shown in Chart 3, the average and median sale prices have shown an upward trend since the 4th Qtr of 2012. Condos took an average of 28 days to sell in the 3rd Qtr of 2016, down substantially from 64 days last year. The sales-to-listings ratio was a remarkable .91, compared to .75 last year.

TOWNHOUSES

There were 240 townhouse sales in the 3rd Qtr of 2016, up +9% from 221 sales in the 3rd Qtr of 2015. **The average selling price in the 3rd Qtr of 2016 was \$472,292, up +9.0% from \$433,493 in the 3rd Qtr of 2015.** The median sale price was \$430,000, up +6.2% from \$405,000 last year. Townhouses took an average of 30 days to sell in the 3rd Qtr of 2016, compared to 54 days last year. The sales-to-listings ratio was .82, up from .74 last year.

LOTS/ACREAGE

There were 69 lots/acreage sold in the 3rd Qtr of 2016. The average and median sale prices were **\$500,969** and **\$375,000** respectively. *(There were nine parcels of land/lots that sold for more than \$1 million each).*

DALLAS ROAD WASN'T ALWAYS PICTURESQUE

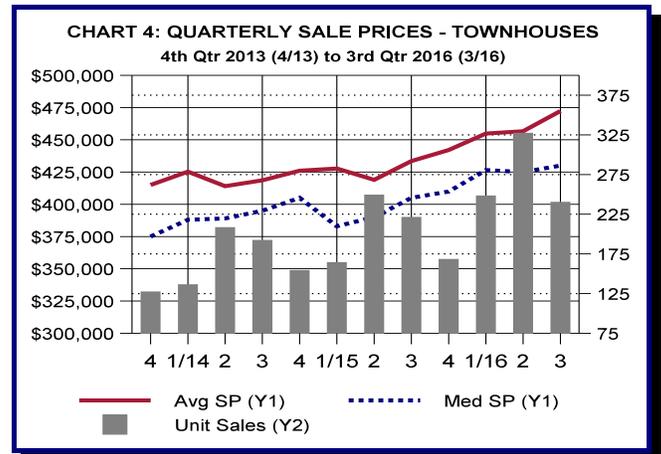
The Dallas Road Waterfront is one of the iconic spots in Victoria, a source of considerable pride for the residents of the city. It offers beautiful views over the Strait of Juan de Fuca to the snow-capped Olympic mountains. Among other things, it features a number of rugged and pristine beaches. This wasn't always the case.

Between 1908 and 1958, the City of Victoria loaded its garbage on garbage scows (*image on right*) and dumped it in the Strait of Juan de Fuca. As it turned out, this wasn't the best idea. City garbage piled up on the beaches below Dallas Road as prevailing winds from the south returned huge quantities (an estimated 80%) of floating garbage back to the shore. A 1944 Victoria Daily Times editorial sarcastically suggested the city could save money by dumping the garbage directly on the beaches in the first place. The article noted visitors and residents flocking to Dallas Road beaches to admire the "beautiful vista" of a "glistening sea" also viewed the "glimmer" of discarded cans, the "glitter" of bottles and a colourful array of orange, grapefruit and lemon peels.

Favourite beaches such as Horseshoe Bay and Gonzales Bay, as well as the beaches west of Clover Point and Holland Point, continued to be littered with garbage. Longtime resident Roy Fletcher remembers garbage was particularly heavy in Ross Bay.

There were numerous attempts to find an effective means to sink the garbage by means of crushers and compactors, but to little avail. After much heated debate on garbage disposal alternatives, dumping at sea ended at last in 1958. In the 1960s, open garbage dumps on land combined with burning and salvage was the city's disposal system. It wasn't until 1968 that the CRD selected the "sanitary landfill" method in which garbage would be regularly covered with soil. Against this backdrop, the current debate with regard to sewage disposal facilities in Greater Victoria seems "deja vu." (*Much of the forgoing information was extracted from an article by Janis Ringuette posted at: http://www.beaconhillparkhistory.org/contents/appendix_C.htm*)

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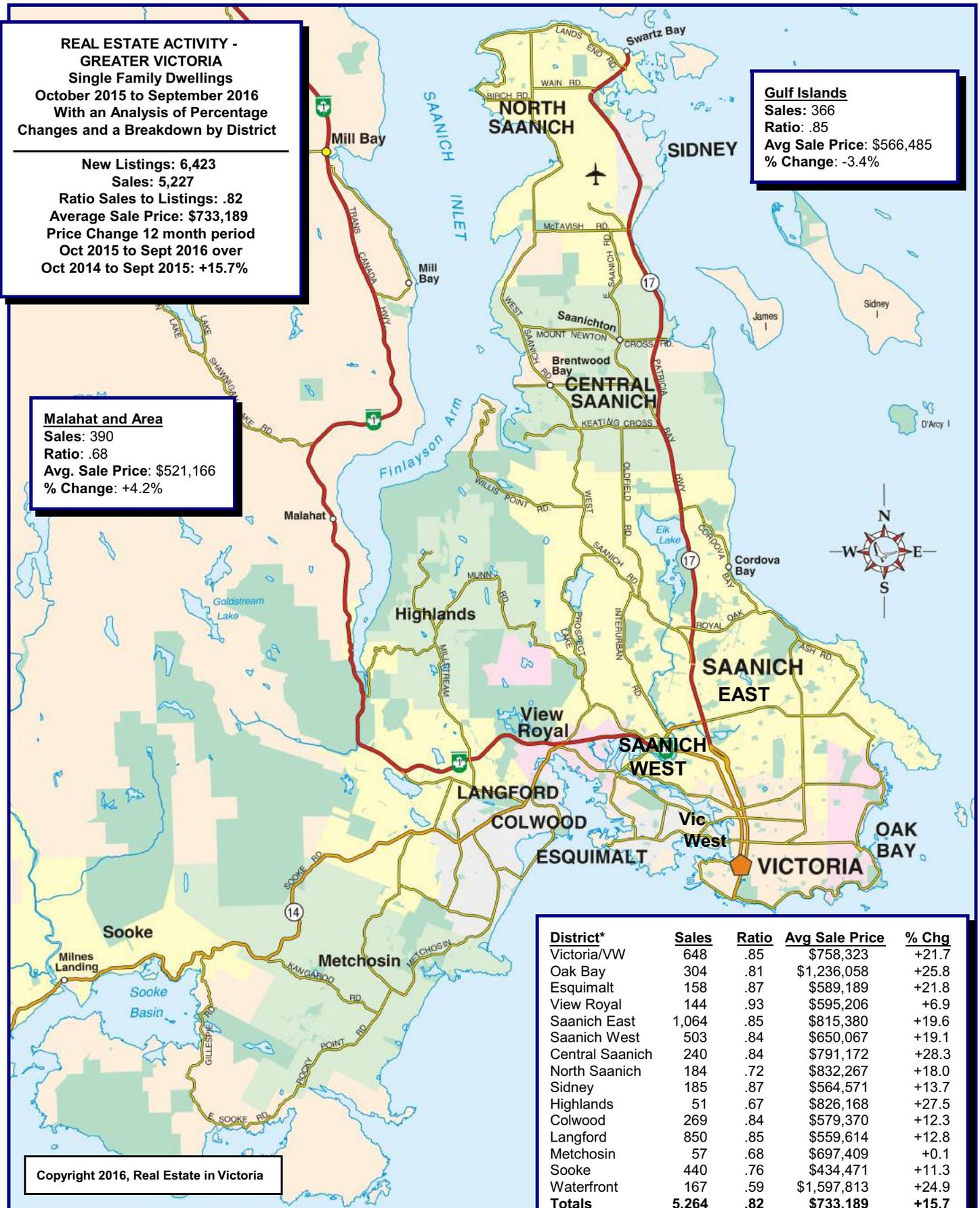


**REAL ESTATE ACTIVITY -
GREATER VICTORIA
Single Family Dwellings
October 2015 to September 2016
With an Analysis of Percentage
Changes and a Breakdown by District**

New Listings: 6,423
Sales: 5,227
Ratio Sales to Listings: .82
Average Sale Price: \$733,189
**Price Change 12 month period
Oct 2015 to Sept 2016 over
Oct 2014 to Sept 2015: +15.7%**

Gulf Islands
Sales: 366
Ratio: .85
Avg Sale Price: \$566,485
% Change: -3.4%

Malahat and Area
Sales: 390
Ratio: .68
Avg. Sale Price: \$521,166
% Change: +4.2%



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District*	Sales	Ratio	Avg Sale Price	% Chg
Victoria/VW	648	.85	\$758,323	+21.7
Oak Bay	304	.81	\$1,236,058	+25.8
Esquimalt	158	.87	\$589,189	+21.8
View Royal	144	.93	\$595,206	+6.9
Saanich East	1,064	.85	\$815,380	+19.6
Saanich West	503	.84	\$650,067	+19.1
Central Saanich	240	.84	\$791,172	+28.3
North Saanich	184	.72	\$832,267	+18.0
Sidney	185	.87	\$564,571	+13.7
Highlands	51	.67	\$826,168	+27.5
Colwood	269	.84	\$579,370	+12.3
Langford	850	.85	\$559,614	+12.8
Metchosin	57	.68	\$697,409	+0.1
Sooke	440	.76	\$434,471	+11.3
Waterfront	167	.59	\$1,597,813	+24.9
Totals	5,264	.82	\$733,189	+15.7

*District Avg. Sales Prices exclude sales of "Waterfront"