

LONDON PACIFIC – Q2 – 2024

QUARTERLY INSIGHT



01 - MACRO SNAPSHOT

CURATED EXPERT ECONOMIC COMMENTARY TO REVIEW THE MOST SIGNIFICANT
MACROECONOMIC STATISTICS AND TRENDS IMPACTING THE REAL ESTATE MARKET FOR
END OF Q2 2024.

MACRO SNAPSHOT

Q2 2024

INTEREST RATES

Q2 was defined by the Bank of Canada's fourth rate announcement on June 5th when it finally carried out the first rate cut in over four long years, citing steadily declining inflation and slackening GDP as the drivers of its decision. With the overnight lending rate having fallen from 5.00% to 4.75%, the prime rate will fall to 6.95%. The next Bank of Canada announcement on rates will be July 24th.

WOWA: <https://wowa.ca/bank-of-canada-interest-rate>
Rate Hub: <https://www.ratehub.ca/prime-rate>

INFLATION

Canada's annual inflation rate edged up to 2.9 per cent in May — an increase from 2.7 per cent in April — mostly due to higher prices for services, Statistics Canada said on Tuesday. "I think what was most surprising about the numbers released June 25 was that we saw an inching up across a lot of categories here that Statistics Canada tracks on inflation. So that's not really great news," said Pedro Antunes, chief economist at the Conference Board of Canada. BMO economist Douglas Porter added that "this is not what the Bank of Canada wanted to see at this point, and clearly shaves the odds of a follow-up July rate cut."

CBC: <https://www.cbc.ca/news/business/cpi-may-1.7245616>
Statscan: https://www.statcan.gc.ca/en/subjects-start/prices_and_price_indexes/consumer_price_indexes

GDP

The Canadian economy bounced back in April, up 0.3% month-on-month. This landed in line with Statistics Canada's advanced guidance and market expectations. The flash estimate for May points to a slight advance of 0.1% m/m being driven by gains in the manufacturing, real estate and finance sectors, with retail and wholesale trade acting as a headwind. On one hand, there doesn't appear to be signs of a reacceleration in growth. On the other, the Bank should take comfort that its Q2 growth forecast is materializing so far. The stability in the GDP reading will allow the Bank of Canada to keep its focus more squarely on the evolution of inflation, especially with the start of its interest rate easing cycle underway.

TD Economics: <https://economics.td.com/ca-real-gdp>

BOND MARKET

The Morningstar Canada Core Bond index fell from a yearly high in mid-June, ending the quarter up 1.73%. "Canadian 5-year yields jumped 10 bps in the wake of the Canadian Price Index report, perhaps stalling some further mortgage rate relief, for now," said Robert Kavcic, Senior Economist at the Bank of Montreal.

TD Bank commented that "We continue to expect that fixed income will generate positive returns over the next 12 months and that bonds can still provide diversification benefits, reduce overall portfolio volatility and preserve capital."

Morning Star: <https://www.morningstar.ca/ca/news/250759/canadian-q2-market-review-and-outlook-stocks-tread-water-despite-boc-rate-cut.aspx>
TD: <https://www.td.com/ca/en/asset-management/documents/investor/PDF/news-insight/Market-Perspectives-EN.pdf>

THE REAL ESTATE MARKET

Existing Inventory

Metro Vancouver home sales registered on the MLS® remained below seasonal and historical averages in June. "June's lower-than-normal transaction volumes suggest many buyers remain hesitant, which has allowed inventory to accumulate and has kept a lid on upward price pressure across market segments".

There were 5,723 detached, attached and apartment properties newly listed for sale on the MLS® in Metro Vancouver in June 2024. This represents a 7 per cent increase compared to the 5,347 properties listed in June 2023. This total is 3 per cent above the 10-year seasonal average (5,554). "With reduced competition among buyers, inventory has continued to accumulate to levels not seen since the spring of 2019".

New Construction

So far in 2024, total home registrations are down 1.4% from 2023. Registrations for multi-unit homes decreased 0.5%, while registrations for single detached homes decreased 6.2%. In May, 2,620 new homes were registered in B.C., a 44.6% decrease compared with May 2023.

Metro Vancouver accounted for 61.7% of all new homes registered¹ in May. Surrey (611), Burnaby (332) and Vancouver (171) were the top three cities in registered new homes this month.

So far in 2024, 6,767 purpose-built rental units were registered in B.C. Compared with the same period in 2023, the number of registered rental units decreased 0.6%. So far in 2024, rental units represented 41.6% of all multi-unit registrations.

"With an interest rate announcement from the Bank of Canada in July, there is a possibility of another cut to the policy rate this summer. This is yet another factor tilting the market in favour of buyers, even if the boost to affordability is modest," Andrew Lis, REBGV director of economics and data analytics.

GVR Realtor: <https://www.gvrealtors.ca/market-watch/monthly-market-report/june-2024.html>
BC Housing: <https://www.bchousing.org/research-centre/housing-data/new-homes-data>
BCREA: <https://www.bcrea.bc.ca/economics/housing-market-update/>



02 - POLICY DEBRIEF

A DEBRIEF OF CURRENT PUBLIC POLICY OR LEGISLATION INTENDED TO ADDRESS
HOUSING AND DEVELOPMENT

Q2 POLICY DEBRIEF

Part 1

Introduction

This London Pacific Policy Debrief will review policy initiatives that stem from or affect all three levels of government: The federal governments’ capital gains inclusion rate increase, the home flipping tax, and the Homes for People Plan. These initiatives attempt to place a cooling effect on real estate “investment” while encouraging the sustainability of existing housing stock and the fast-track development of new housing units for the people of British Columbia.

Capital Gains Inclusion Rate

The **2024 Federal Budget** announced an increase to the capital gains inclusion rate for capital gains realized on and after June 25, 2024, from 50% to 66.67% for corporations and trusts and from 50% to 66.67% on the portion of capital gains realized in the year that exceed \$250,000 for individuals.

Generally, the proposed capital gains inclusion rate increase targets high-income individuals who realize significant capital gains each year, such as in their non-registered investment portfolios. However, the proposed capital gains inclusion rate increase may also affect individuals who may be disposing of personal use real property (other than their principal residence, such as their cottage), rental properties, shares of private corporations, and farming and fishing property, among other examples.

The budget notes that net capital losses of prior years would continue to be deductible against taxable capital gains in the current year by adjusting their value to reflect the inclusion rate of the capital gains being offset. As a result, a capital loss realized prior to the rate change would fully offset an equivalent capital gain realized after the rate change.

2024 top personal marginal income tax rates for capital gains incurred before June 25, 2024, as compared to on and after June 25, 2024

Province or territory	Top marginal income tax rate	Top marginal income tax rate on capital gains before June 25, 2024	Top marginal income tax rate on capital gains on and after June 25, 2024 (greater than \$250,000)	Effective increase in top marginal income tax rate on capital gains (greater than \$250,000)
British Columbia	53.50%	26.75%	35.67%	8.92%

2024 CCPC income tax rates for capital gains incurred before June 25, 2024, as compared to on and after June 25, 2024

Province or territory	Income tax rate on investment income	Income tax rate on capital gains before June 25, 2024	Income tax rate on capital gains on and after June 25, 2024	Effective increase in income tax rate on capital gains on capital gains
British Columbia	50.67%	25.34%	33.78%	8.44%

Q2 POLICY DEBRIEF

Part 2

Home Flipping Tax 2025

The BC home flipping tax applies to the income you earn from selling a property in British Columbia (including presale contracts) if you owned the property for less than 730 days. The intention is to discourage short-term holding of property for profit as part of the Homes for People Plan (see below).

The tax is imposed under the **Residential Property (Short-Term Holding) Profit Tax Act**, and will take effect starting **January 1, 2025**. Property purchased before the tax's effective date may be subject to the tax if sold on or after January 1, 2025 and owned for less than 730 days, unless an exemption applies.

There are **exemptions** that require filling out a BC home flipping tax return that apply to:

- Life circumstance – including death, serious illness or disability, change in household membership or bankruptcy / foreclosure
- Developers, builders, renovations
- Between related people

There are **exemptions** that do not require that you complete a return:

- Exempt locations
- Exempt entity like a charity, government agency or indigenous nation)
- If property is acquired as a beneficiary of a real estate investment trust
- If property was exclusively use for commercial purposes

Home For People Plan

Through the legislative changes of Bill 44 and 47 announced in the Fall of 2023, new pro-active planning tools are being launched for local governments to secure affordable housing and community amenities.

New guidelines from the province will be published Fall 2024. Here is what to look for:

- Local governments will have the authority to enact bylaws that support proactive planning to build more housing, including affordable housing, while also contributing to reduced timelines for development applications.
- **Inclusionary zoning** will allow local governments to require affordable housing units in new developments. When considering a draft inclusionary zoning bylaw for approval, local governments must undertake a financial feasibility analysis to understand how much density is needed to offset the costs to the developer for providing affordable housing.
- **Density bonus** updates will ensure more consistency and transparency when developers and local governments use density bonus in exchange for much-needed amenities or affordable housing. The proposed density bonus changes clarify how the tool can encourage more affordable housing and amenities in new development while ensuring that it works with inclusionary zoning.
- Site-level infrastructure and **transportation demand management (TDM)** provide local governments with an increased range of site-specific works and services that they can require in new developments, such as wider sidewalks, benches, protected bike lanes, and end-of-trip facilities, that are critical in supporting safer travel options, sustainability and climate resilience.
- **Tenant protection bylaws (TPB)** will allow municipalities to require developers to provide added support for tenants facing displacement in cases of redevelopment, including financial assistance, assistance with finding a new place to live and opportunities for right of first refusal on units in a new building.

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The information in this report is based on data available as of July 31, 2023, obtained from sources deemed reliable. While efforts were made to ensure accuracy and completeness, we cannot guarantee its current accuracy or reliability. Circumstances may have changed since the data was last updated. This information is for reference and general purposes only. The term "newly built" refers to units that are no older than 5 years. This is not intended to be a forecast of future events, and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.

Sources: Altus Data Solutions; Bank of Canada; Paragon; Zonda Urban; RBC; CPA Canada, Real Estate Magazine, Impact Commercial

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