

HIGHLIGHTS:

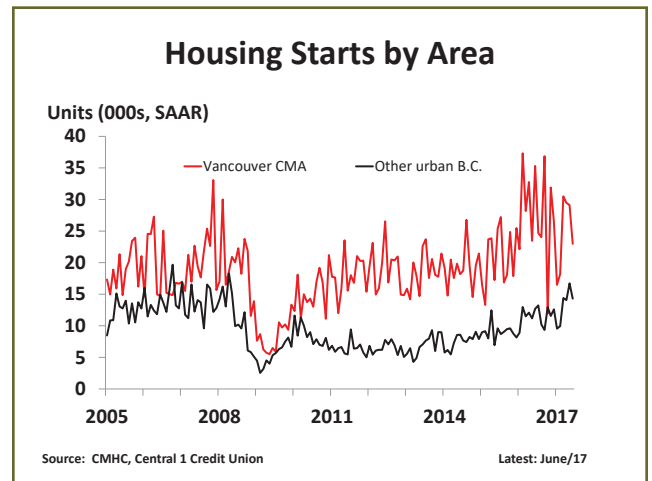
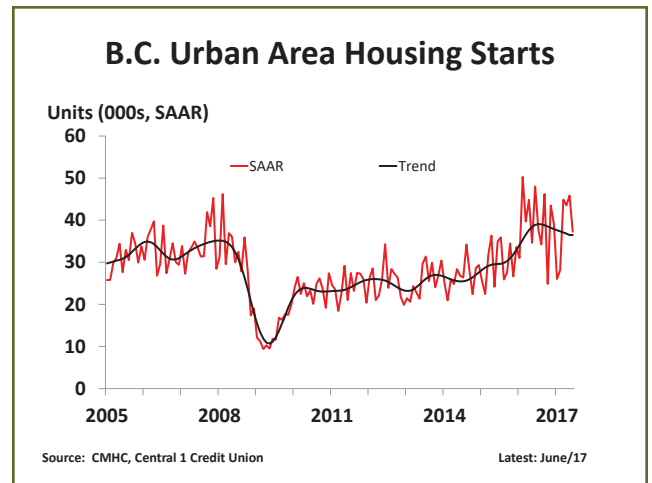
- Housing starts remain elevated in June, but down from May
- Teranet HPI shows surging B.C. home prices in June

B.C. housing starts remain elevated, but ratcheted back from May

Builders and developers continued to feed B.C.’s construction machine through June, maintaining housing starts at a strong pace, but below the hefty levels of the previous few months. Provincial urban-area housing starts reached 37,300 units at a seasonally adjusted annualized rate in June, down 22 per cent from May’s pace of 45,800, but still elevated and above trend.

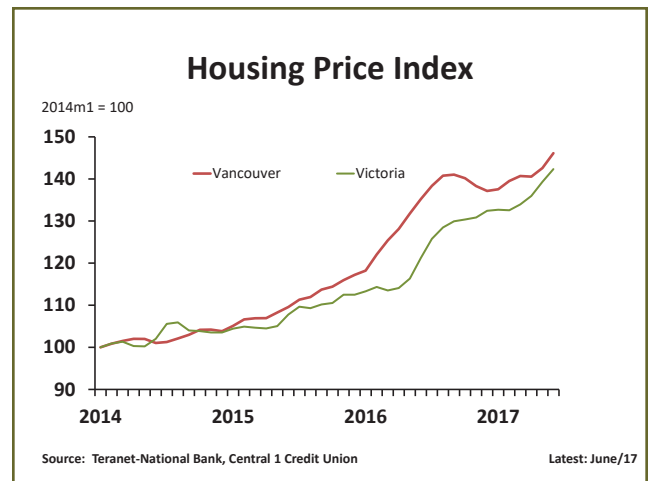
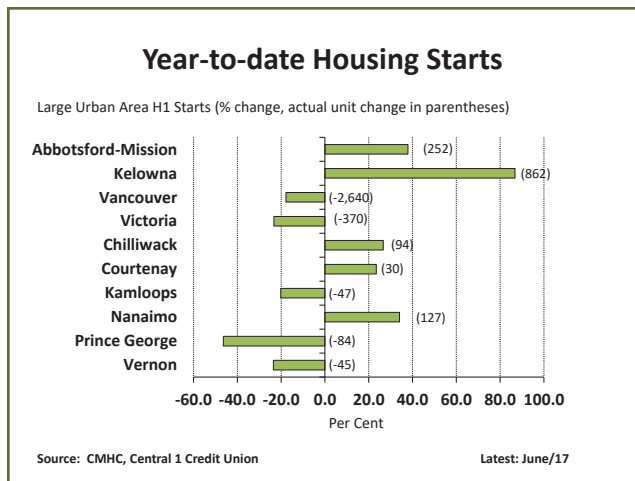
Once again, multi-family building activity drove the swing in activity as apartment starts fell 30 per cent to 20,440 units, from about 29,300 units in May. This offset growth in townhome construction, while detached housing starts were steady. Housing starts in the Vancouver CMA led the drop, declining to a modest 23,000-unit pace, and contributing the majority of the provincial multi-family decline. Starts in Kelowna fell by half relative to May, while activity rose in both Victoria and Abbotsford-Mission.

Keep in mind that monthly volatility is the norm when it comes to housing starts, and while June’s decline was significant, particularly for the Vancouver CMA, it is too early to consider this any more than a blip. Rather, we expect housing starts to continue a continue a strong, albeit more moderate monthly pace of 35,000 to 40,000 units (annualized) in the second half of the year. This reflects strong demand from a high growth economy, population inflows to large urban markets, favourable borrowing costs and strong pre-sale conditions in recent years.



While a tight condominium market and sellers’ market conditions among large urban areas will keep demand for new product strong, high levels of units under construction are likely a capacity constraint for builders. We are not concerned about overbuilding given low resale market inventories, low vacancy rates, and difficulty in converting starts through to completion in a timely manner. Other factors likely to dampen future housing starts include affordability over the medium-term and wildfires in the Interior in the short term.

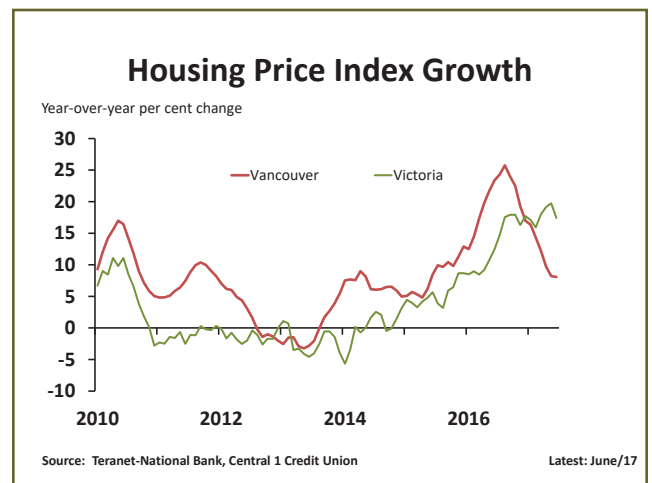
Year-to-date, urban housing starts were down nine per cent through the first half owing in large part to an exceptionally strong performance during the first half of 2016. Annual housing starts, including rural areas, are forecast to reach



38,400 this year, marking an eight per cent decline from 2016, but still among the highest on record. Starts in 2018 are forecast at just above 40,000 units.

Teranet HPI shows surging B.C. home prices in June

Tight housing market conditions in B.C. urban markets continued to show up in appreciating prices in June, according to the latest Teranet-National Bank HPI readings, supporting trends seen among real estate boards. Unadjusted for seasonal factors, Victoria home values jumped 2.2 per cent from May, with year-over-year growth of more than 17 per cent. While the latter decelerated from a 19 per cent gain in May, the market remains overheated, with price growth aligned with a sales-to-active listings ratio near 70 per cent, according to local real estate board statistics. While the sales trend has slowed, prices are clear indication that supply constraints are the driving force.



Similarly, the Vancouver metro market has found its legs after a brief flattening in prices directly following the implementation of the foreign buyer tax. The HPI jumped 2.5 per cent in June, marking the fifth gain in six months, which pushed year-over-year growth to eight per cent.

three per cent month-to-month, with an even stronger year-over-year gain of 14 per cent in June.

Kelowna prices are tracking higher, but trailed other markets with a still substantial one per cent increase from May, while year-over-year growth was 12.7 per cent.

Housing momentum has gained traction with exceptionally tight conditions in the multi-family apartment and townhome condo markets, reflecting a plunge in inventory coupled with strong economic growth, low interest rates, and policies such as the BC Home Partnership Plan. Neighbouring Abbotsford-Mission has also observed similar patterns, with prices up nearly

Sellers' market conditions in the majority of B.C.'s urban areas point to further price appreciation in the short-term. That said, a number of factors are likely to cut growth, including higher interest rates, and affordability constraints. Additionally, the provincial government is likely to enact tightening measures, such as new tax measures, and an expansion of the foreign buyer tax, which will cool demand.

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