

**HIGHLIGHTS:**

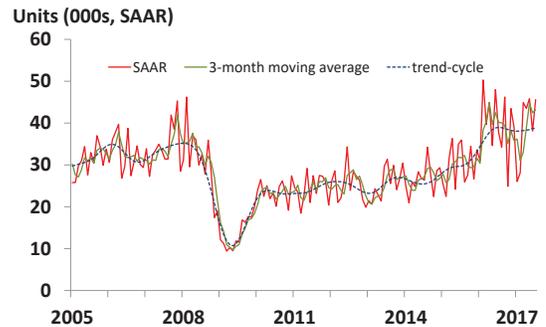
- New housing construction booms in July.
- Residential and non-residential building permits in June jumped from 2016.
- Luxury home sales slump from 2016.

**New housing construction back in boom**

Builders showed no sign of slowing down construction in July as B.C. housing starts rebounded to a historically strong pace following a brief June pullback. Provincial housing starts in urban areas rose to a seasonally adjusted annualized rate (SAAR) of 45,600 units, up 20 per cent from June's pace of 38,100 units. Starts have averaged a pace of more than 42,000 (SAAR) since March after a weak start to the year. High levels of housing demand, low resale and new home inventory, rising prices, and strong pre-sale conditions have underpinned construction activity – both homeownership and rental. Policy measures to cool the market, including tighter mortgage insurance qualification criteria and the foreign buyer tax, have had few ill effects on new home activity.

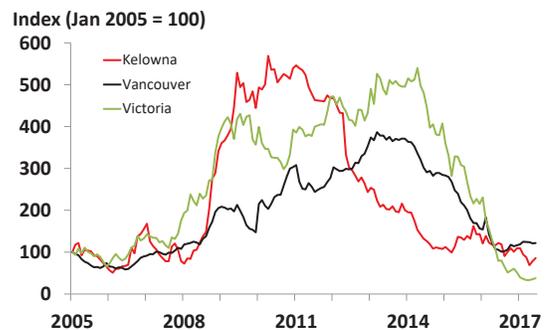
July's rebound owed to a 17 per cent increase in the Vancouver CMA, reversing a prior month drop off, and a more than doubling of starts in Victoria. In contrast, Kelowna starts fell 40 per cent, marking a second straight monthly decline, to settle at a more normal pace after blockbuster activity from March through May. New construction also declined in the Abbotsford-Mission CMA. Provincial growth owed entirely to a rebound in multi-family starts.

**B.C. Urban Area Housing Starts**



Source: CMHC, Central 1 Credit Union Latest: July/17

**Complete and Unoccupied New Units Select Metro Area**



Source: CMHC, Central 1 Credit Union Latest: July/17

July's uplift narrowed the year-to-date decline in urban starts to 4.4 per cent from nine per cent at mid-year, noting that 2016 was near a record high. Vancouver CMA starts were still 13 per cent lower than a year ago, but were partly offset by strong gains in Abbotsford-Mission (46 per cent), Kelowna (67 per cent), and Nanaimo (27 per cent).

Expect high levels of new home construction to persist. June residential permits rose six per cent from May and have climbed four consecutive months pointing to positive construction intentions. New home inventories are at or near record lows in the metro areas, alongside low resale inventory, signaling high demand in the market as homes are quickly absorbed in the market. Builders will respond to these cues.

While there are substantial units under construction in the pipeline, most are pre-sold and given low vacancy rates and inventory levels are not expected to create a market glut. Nonetheless, the pace of housing starts is anticipated to decelerate, leaving annual starts (including rural) at about 39,500 units, marking a decline of about five per cent but still near a record high.

### Non-residential permits jump from 2016

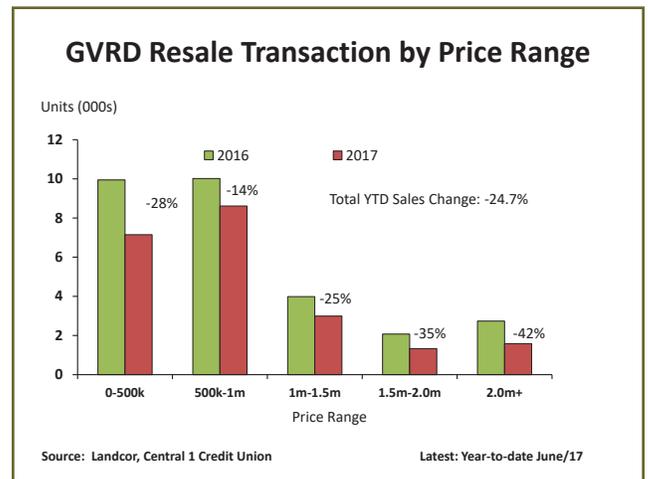
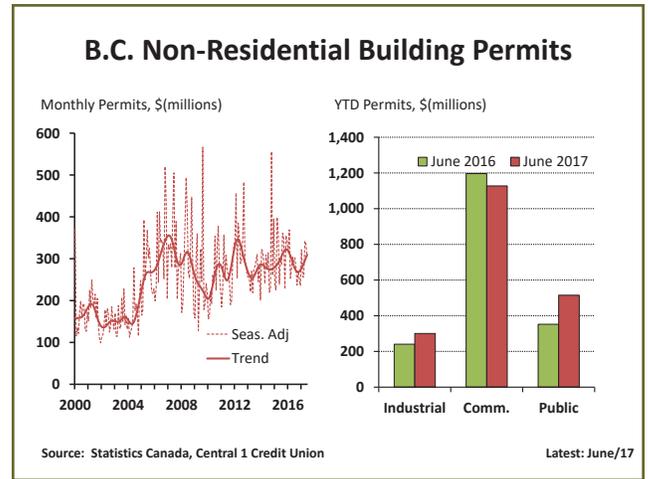
Non-residential building intentions fell for a second straight month in June, but the underlying trend continued to rise after a weak start to 2017. Seasonally adjusted dollar volume reached \$305.8 million in June, down 8.8 per cent from May, but 4.5 per cent higher than same month in 2016.

Year-to-date, permits climbed 8.6 per cent through the first six months of the year, driven mostly by industrial activity (25 per cent) and public-sector intentions (46 per cent), as commercial permits declined. Growth in factories, warehouses and minor upgrades to existing facilities were positive contributors, while a sharp drop in office construction offset some of the gains. Meanwhile, increased construction in schools and universities drove public-sector spending.

While June’s pullback was disappointing, construction is moving back to a more moderate pace observed last in 2015. This is a sign that businesses are investing as a result of a strong provincial economy and rising exports. While risks remain in some sectors like forestry and retail, which has been clipped by e-commerce, further capital expenditure improvement is expected, particularly as federal fiscal stimulus kicks in.

### Luxury home sales slump from 2016

Turning back to housing, the Metro Vancouver housing market has experienced a recovery trend in 2017 following a slowdown during the second half of 2016. While the impact of the foreign buyer tax still lingers, the strong economy and the contribution of the provincial down payment purchase program have provided a lift. That said, the market dynamics have changed over the past year as is evident when looking at sales by price range.



Essentially, luxury home sales (\$2.0 million+) and higher priced homes (\$1.5 – 2.0 million) equating to about 15 per cent of sales have dropped sharply, by 35 to 40 per cent from a year ago. Demand has dropped due to the foreign buyer tax, while quick gains from the sharp drop in the Canadian dollar have also dissipated with higher prices. In contrast, sales have been relatively stronger in the \$500,000 to \$1 million range and \$1 million to \$1.5 million level, which are in reach for domestic professionals and move-up buyers, signaling strong demand from the local market.

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