Economic Analysis of British Columbia

central 1

Volume 38 • Issue 2 | ISSN: 0834-3980

B.C. Housing Forecast 2018-2020

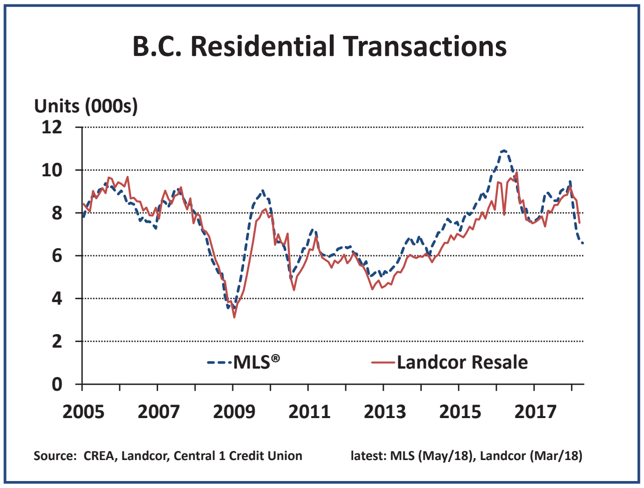
Highlights:

- Tighter credit restrictions and provincial policy measures trigger 11 per cent decline in home sales in 2018, and tempers sales activity through 2020 despite healthy economy
- Large urban markets experience brunt of sales curtailment
- Red hot market conditions reverting towards balance throughout B.C., moderating price growth to about 2.5 per cent per year in 2019 and 2020
- Low resale inventory continues to support price levels
- Metro Vancouver detached home prices to ease over next two years
- Housing starts to hold steady near 40,000 unit pace with government investment offsetting easing in private demand

B.C. is set for a slower housing performance over the next three years. Policy constraints, higher mortgage rates and deceleration in economic growth will slow sales volume and price growth. However, in the absence of a severe negative economic shock or recession, no housing correction is anticipated. A firm economy will continue to support latent demand for homeownership, but credit constraints will mean sustained strength for multi-family homeownership demand, and rental accommodation.

Current trends and short-term outlook

Housing market conditions have shifted considerably since the end of 2017, following the implementation of federal B-20 measures, which require federally



regulated financial institutions (FRFI) to stress test conventional mortgages at the Bank of Canada posted 5-year rate or contract rate +2.00 per cent, whichever is higher. Our estimate is that this cuts about 20 per cent of purchasing capacity for the marginal buyer. This adds to stress-tests on high-ratio (low down payment) purchasers, that were implemented in 2016. First-time buyers, even those with high down payments, are being credit-squeezed out of the market or need to lower their expectations for a first home. Buyers looking to move-up in the market are also feeling the pinch, having to re-qualify at a higher stressed rate if they change lenders, likely causing households to stay where they are or ante up increased down payments through other savings. Higher mortgage rates are a further headwind for prospective buyers.

Nationally, monthly MLS® home sales fell 20 per cent from December through April. This partly reflects a pull forward of sales into 2017 in advance of the January 1 implementation of B-20. Easing patterns have emerged across most provinces during the period, but are deeper in British Columbia and

Housing Forecast Summary

	2015	2016	2017	2018	2019	2020
Residential Resale Transactions, Units	92,112	105,984	99,403	88,645	91,750	92,510
% Change	21.4	15.1	-6.2	-10.8	3.5	0.8
Residential Resale Median Transaction Price	428,000	465,000	500,000	532,000	545,000	558,000
% Change	7.0	8.6	7.5	6.4	2.4	2.4
Housing Starts (000s)	31.4	41.8	43.5	42.4	40.1	39.4
% Change	10.9	33.1	3.9	-2.6	-5.2	-1.8

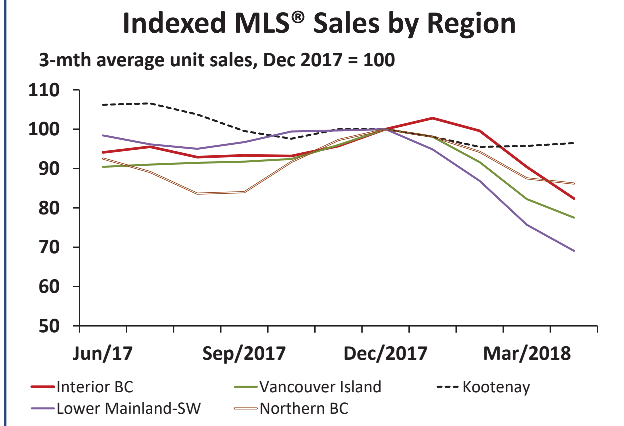
Source: Landcor, CMHC, Statistics Canada

Ontario. Sales in B.C. have declined 30 per cent since the fourth quarter, reflecting the higher price points in the province and more acute affordability issues. Further adding to the erosion is provincial tax policy uncertainty related to hikes to the foreign buyer tax, and the speculation tax. The various headwinds have concentrated sales declines in the Lower Mainland, Vancouver Island and Southern Interior housing markets, particularly in the detached market segment. The quick turn of market demand is likely curtailing speculative tendencies of investors looking for a quick flip.

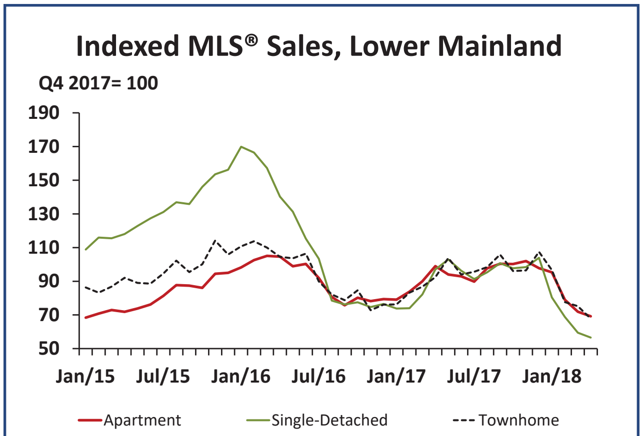
Sales likely bottomed late in the second quarter as the initial shock of tighter lending requirements dissipated, leading to a mild upturn in the second half of the year driven by economic activity. Nonetheless, provincial resale transactions are forecast to decline by nearly 11 per cent following a six per cent drop in 2017. Declines are led by the Vancouver metro area and other larger urban centres, while activity remains steady in smaller, lower priced markets. Sales in lower priced markets and those catering to retiree demand will continue to experience steady and elevated sales.

Historically, a plunge in resale activity as we have recently observed is typically associated with a moderate to significant drop in home values. However, context is important. The triggers of the current decline are tighter housing policy and tighter credit availability, rather than economic weakness or upward shock in interest rates that would stress owners and induce a flood of supply. Moreover, housing market conditions are cooling from a boil in 2017 and remain moderate, even with the recent sales pull back. A strong economy and insufficient inventory means owners, save for some speculators, are likely content to sit back and wait out the market. Market conditions are stronger for apartment and townhome units in larger urban areas. Affordability erosion in recent years has been amplified by lending policies, shifting demand from higher priced detached homes to apartment and townhomes leading to strong price growth for multi-family homes.

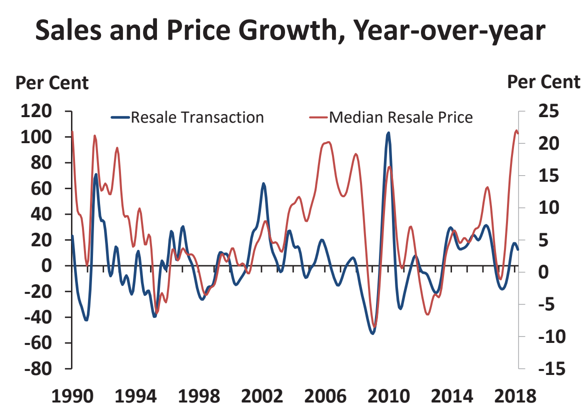
Price growth is cooling, but there is little evidence of a broad price decline. A five per cent dip in the average MLS® price since December has largely reflected fewer sales in higher priced regions, due to a shift in market sales share to apartment and townhomes. Benchmark constant-quality housing price indices in available markets continue to track higher, but typically lag price conditions. We are seeing a move to a proverbial soft landing and price deceleration as fewer sales have shifted sales-to-inventory ratios to a range more in line with a balanced market /shallow sellers' market.



Source: CREA, Central 1 Credit Union



Source: REBGV, FVREB, Central 1 Credit Union



Source: Landcor, Central 1 Credit Union note – trend-cycle data

The median provincial resale price for 2018 is forecast to rise 5.8 per cent to $532,000 but this understates price momentum. Relatively low detached home sales are a drag on headline price growth across large markets, despite strong apartment and townhome price gains. That said, some weaker market segments, including the Metro Vancouver detached and luxury housing markets, are expected to experience modest price declines through the end of 2018 and through the forecast period. The rising trend of speculative apartment flipping seen in recent years is expected to turn, further dampening housing demand.

A significant price correction is not forecast. The housing market has shifted from a rapid boil to a near-room temperature. While listings are sitting for longer, there are few signs of a strong pick up in inventory, which would be needed to shift the market to favour buyers and precede a correction. Buyers continue to pine for homeownership and are shifting expectations down-market to multi-family product.

Inventory levels remain at historically low levels. Despite a mild rise in new listings from late 2017, the flow remains low as some sellers opt to allow their listings expire. This is not surprising. This policy driven decline in sales coincides with a period of economic and labour market strength. While there are always some individuals required to sell due to relocation or changes in family circumstances, homeowners can afford to be patient given there is little labour market duress. New policy measures are also holding back repeat sales. Some existing homeowners looking to move up in the market are constrained by stress-testing requirements, keeping them in their homes for longer. Current sales-to-listings ratios still point to upward price pressure, although rapidly declining momentum suggests prices will flatten.

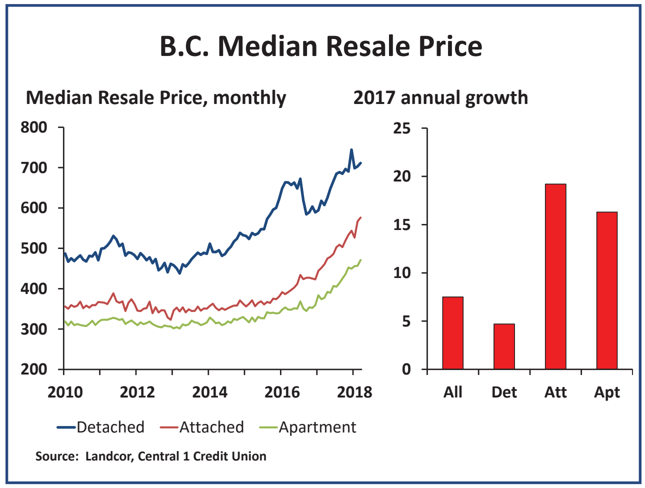
Where do we go from here?

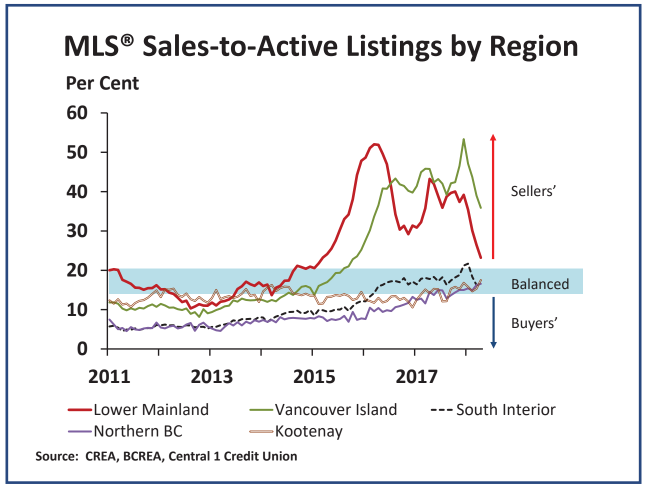
Housing sales have peaked, and the market is forecast to trend in a relatively lower volume range with slower price growth in both 2019 and 2020. Resale housing transactions are forecast to rise modestly in both 2019 and 2020, but remain well below recent peaks. Sales volume is underpinned largely by ongoing economic and population expansion, growth in the housing stock, and still low borrowing costs. However, federal lending restrictions, higher mortgage rates and provincial policy measures are constraints. Housing market conditions trend toward balance, limiting growth in home prices to slightly above inflation but no major correction is in the cards in the absence of a recession.

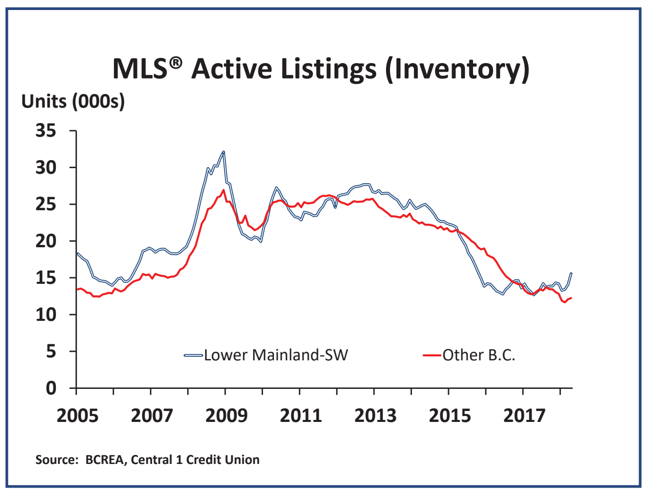
Federal lending restrictions remain an anchor on sales volume while provincial measures, including the foreign buyer tax hike, speculation tax, and more stringent rental policy are likely to dampen investor demand, although the pool of renters will swell as recent policies price some households out of the homeownership market.

Borrowing costs on the rise

Alongside mortgage stress tests, households face further mortgage rate hikes over the next two years, further eroding purchasing power. Economic expansion and dissipating excess capacity is contributing

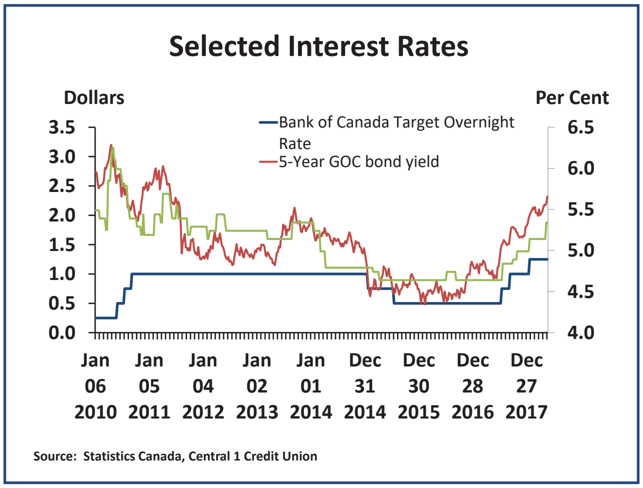


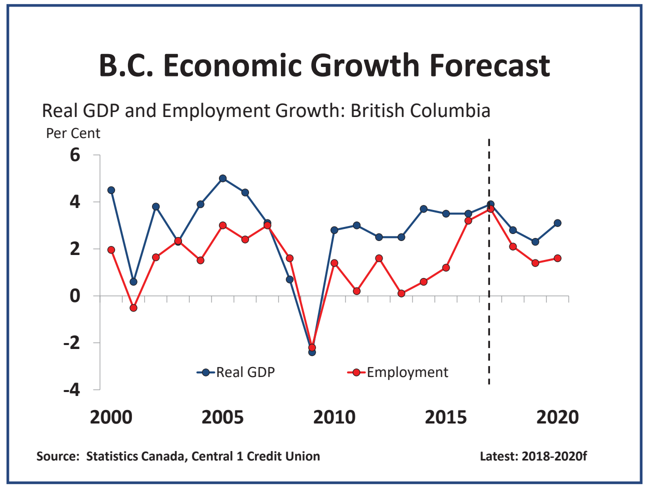




to expectation of further Central Bank rate hikes and rising bond yields. The yield on a five-year GOC bond has risen 50 basis points (bps) since the beginning of 2017, and nearly 140 bps (more than doubling) since the middle of last year. Rising yields have contributed to higher administered rates with the five-year posted mortgage rate at 5.34 per cent, which is up from 4.99 at the start of year.

A mild upward trend in interest rates is forecast. The Bank of Canada will hike gradually, balancing an



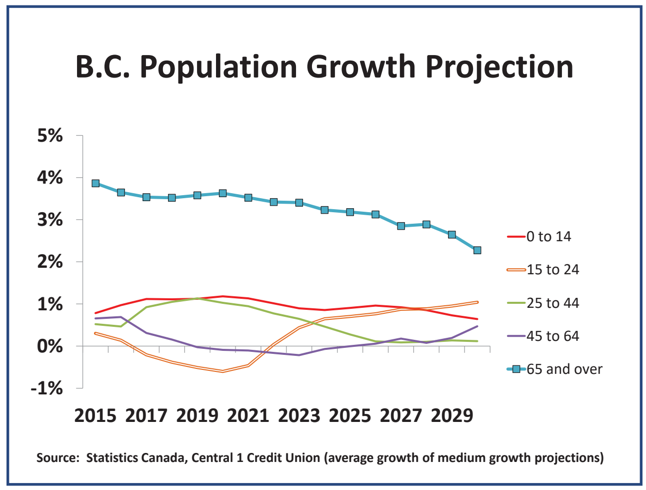


economy operating near capacity and risks associated with trade uncertainty and the impacts of rate hikes on highly indebted households. Central 1 forecasts an uptick in the posted 5-year mortgage rates of only 40 bps through early 2020, held down in part by competition among lenders in a lower sales environment. Lenders will be somewhat cautious in hiking posted rates given it is now a defacto policy tool and a binding constraint for many households. Rising interest rates may be more readily observed in narrowing of rate discounts. In a low rate environment, small interest rate hikes have relatively large impacts on lending capacity.

Economic growth to remain firm

While credit is a drag, the economic environment remains supportive of housing, albeit not as strong of a driver as in recent years. Growth in gross domestic product reached a phenomenal 3.9 per cent in 2017, second only to Alberta, and marked the fourth successive year that growth exceeded three per cent. Diversified growth underpinned higher domestic demand and exports, to fuel job growth and in-migration to the province. Average employment rose 3.6 per cent in 2017, driving the unemployment rate below five per cent by year-end, and contributing to accelerating wages. Economic growth has been particularly strong in the Lower Mainland-Southwest and Vancouver Island markets.

Early 2018 data points to a firm economy but slower growth which is in line with our economic forecast. Employment trends have been flat, in part reflecting constraints from labour shortages as wages continue to rise. Export sales have held range-bound and generally unchanged from a year ago as transportation bottlenecks have impeded growth and commodity prices have provided less uplift, while retail spending has also crested with labour and housing market trends.



This lull in economic activity is forecast to turnaround in the second half of this year. Drag from the housing sales downturn will subside, while the economy will be bolstered by higher business investment, government spending and higher exports. Higher wages and job growth will underpin higher consumer demand. Central 1 forecasts GDP growth will decelerate to about 2.8 per cent this year and 2.3 per cent in 2019 before turning higher. Employment growth eases to 2.1 per cent this year and will average 1.5 per cent in 2019 and 2020.

Population growth remains steady; demographics positive

Population growth will remain favourable for the housing market, whether it is for homeownership or rental tenure. B.C.'s provincial population expanded by about 60,000 persons for a second straight year in 2017, or 1.3 per cent, which exceeded the national performance. Gains were driven mostly by international inflows, which includes rising international student trends, while net interprovincial gains slowed but remained elevated near 16,100 persons.

Annual population growth tracks an average of about one per cent annually through the forecast period. This represents a net gain of more than 50,000 persons per year, driven mostly by international migration flows. Rising international immigration targets by the federal government and strong demand from international students will be contributors. Most of these individuals will flow into larger urban centres, putting further pressure on housing markets.

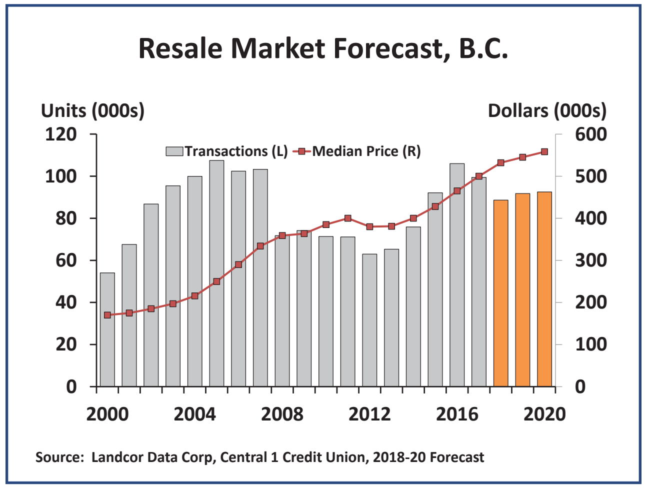
Demographics are also favourable. Millennials are moving into their household formation years, observed in a rising growth rate and higher population share of the 25 to 34 age cohort, and to a lesser extent those aged 35 to 44. These emerging households have run headfirst into a mature housing market characterized by higher prices that is very different than the one their parents faced. It is somewhat of a culture shock and source of the current debate on housing affordability, and land scarcity means the only accessible housing in larger urban markets is the multi-family sector. This has some families shifting towards medium urban centres to access the white picket fence. Homeownership however, will be delayed as recent policy measures have priced some younger families out of the market, which will keep individuals in rental accommodations or at home for longer.

A key medium- and long-term trend is the aging population and shift in boomers into their retirement phase. This segment is poised to expand at a more than 3.5 per cent pace per year, reflecting both natural aging and migration inflows to B.C. While many will choose to age in place, others will downsize from single-family homes to condominiums and to smaller urban areas, freeing up land for redevelopment. Retiree in-migration will support Vancouver Island and interior markets.

Over the long-term, the population base will only swell. Statistics Canada's long-term projections peg average annual population gains from 2016 through 2030 in a range of 26,000 at the low end to 83,000 persons per year at the high- end. Its medium growth projection average about 50,000 persons annually.

Housing Forecast

Following an 11 per cent annual drop this year, resale transactions climb three per cent to 91,750 units in 2019 and hold steady in 2020. Modest sales rebounds in the Vancouver CMA, Victoria and Kelowna increase, but trend significantly below the range seen in 2015-2017. Housing markets outside the larger and higher priced metro areas will continue to experience elevated sales conditions as lending restrictions are less relevant for buyers in lower priced areas and for areas catering to lifestyle and retirement buyers. Detached homes sales are forecast to remain steady near

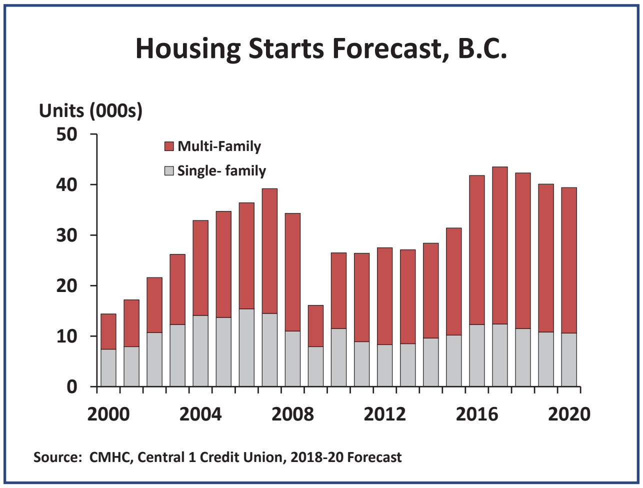


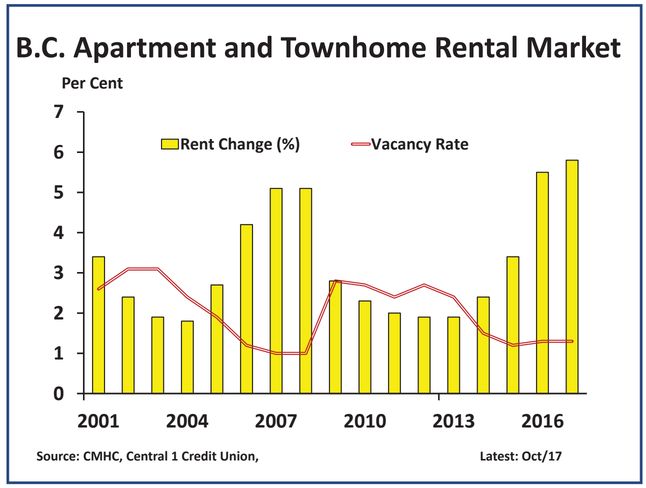
40,500 units through 2020, which is 20 per cent below the most recent three year average, while multi-family sales remain steady due to demand for affordable product, and shifts in the housing stock. That said, a rising mortgage rate environment and slowdown in broader economic growth and interprovincial migration flows are likely to ease home sales in these markets.

A transition in the market back to a more balanced state slows median price growth to about 2.5 per cent in both 2019 and 2020, which is less than half of the rate observed from 2015-2017. This lifts the median value to $558,000 by 2020, from $532,000 in 2018. Limited availability of housing supply will continue to support housing prices. A surge in new listings is unlikely to be triggered given continued economic expansion, and firm rental market conditions.

Apartment and townhome sales share is forecast to rise as a share of total sales, owing to a shift in construction trends and high demand for more affordable units. Detached home price growth underperforms multi-family gains over the next two years, as affordability barriers funnel buyers into the lower priced home segment. Flat detached home values, particularly in Metro Vancouver, dampens overall price momentum and also constrains growth in multi-family prices as values become more comparable. Low vacancy rates and rent growth also support pricing in larger markets. Over the long-term, detached home values will outperform due to scarcity of developable land in larger markets.

Regionally, the overall median home value in the Vancouver census metropolitan area (CMA) slows to about 2.0 per cent annually over the forecast period to $765,000 in 2020. Detached home values are forecast to drop about two per cent both this year and next, offset by upward condominium price pressure. In the broader Lower Mainland area, price growth is stronger in the Fraser Valley markets. Vancouver Island median





values are forecast to climb near three per cent next year, following a five per cent increase in 2018. Areas outside Victoria, which are more affordable and cater to retiree markets will appreciate. Similar patterns are forecast in the interior, but solid demand due to stronger population growth underpin rising prices. Price growth in the Kelowna CMA slows to 2.4 per cent in 2019 and 2.3 per cent in 2020, after a strong gain of six per cent this year. Upward price momentum is also forecast for Penticton, Vernon and Kamloops but by varying strength, and dependent on local area factors. Kootenay home values trend up by about 1.5 to 2.0 per cent per year. Northern B.C. generally experiences underperformance in prices despite positive sales momentum as market conditions have remained relatively subdued compared to other markets.

New home market

B.C. housing starts continue to top expectations, despite the steep decline in home sales as strong pre-sales activity and demand in recent years continue to drive construction momentum. Urban area starts rose 11 per cent through the first four months, with the Vancouver CMA leading the way, with multi-family construction up 15 per cent from same-period 2017.

The current trend in housing starts will soften over the latter half of the year and into 2019, but annual starts remain elevated. Construction lags the resale market and a slowdown is imminent as pre-sale market demand eases due to lending restrictions, provincial hikes to the foreign buyer tax and implementation of a speculation tax. Developers and builders will also be wary of record levels of units under construction. While mostly pre-sold, there is some risk that cash-constrained pre-sale buyers will be unable to close at a stress-tested rate. Housing starts settle at about 42,400 units this year, marking a three per cent decline from 2018, but still near a record high. Starts average close to 40,000 units in both 2019 and 2020.

While homeownership demand is constrained, rental construction is expected to grow over the forecast period to fill in some of the gap. Investment by various levels of government, rental incentives by various municipalities, and a tight rental vacancy rate all contribute to construction.

Renovation spending is forecast to slow from 2017 to a 2.5 to 3.0 per cent growth rate. Fewer sales will hold back construction, but existing homeowners will likely invest in their own properties given constraints to moving up in the market. Solid economic growth and labour markets are supportive of spending.

Rental market

Rental market conditions are forecast to remain exceptionally tight over the forecast period. Average apartment and townhome vacancy rates, for purpose-built rental units, have tracked a miniscule 1.3 per cent in the province over the past three years, according to CMHC. Rising home prices and affordability erosion, in-migration, and demand from students have coalesced to drive down vacancy and drive up rents in an undersupplied market. In comparison, vacancy rates were above 2.5 per cent from 2009 through 2013.

Tight rental market conditions continue to be found in the largest urban markets, with vacancy rates of 0.9 per cent in the Vancouver CMA, 0.7 per cent in Victoria, and less than half a per cent in both Abbotsford-Mission and Kelowna. That said, vacancy rates of near or below one per cent are not uncommon in the province's smaller urban markets such as Kamloops, Vernon, and Parksville, among others. Higher rates are observed in northern B.C. markets. This reflects population growth trends and economic activity of the various regions.

Tight rental markets alongside municipal policy measures have incentivized new rental construction.

In 2017, CMHC estimated nearly 9,500 rental starts in B.C. urban areas, which was slightly below 2016, but more than four times the long-term annual average. Rental completions also climbed well above long-term averages, with more than 7,000 units completed last year; the purpose-built apartment and rental stock has only increased by a small fraction of this activity. Redevelopment and teardowns of existing rentals have offset some of the gain, while some of these starts and completions are smaller properties not covered by the survey.

Increased supply is a mild outlet for the market, but demand for rental will remain tight. Tighter lending requirements will keep prospective buyers out of the market for longer. Vacancy rates are forecast to remain in the 0.5 to 1.5 per cent range provincially over the forecast period, essentially representing a market with no vacancies. We expect to see less turnover in the current market given lack of supply and homeownership constraints.

Rents will continue to rise at a strong pace in this environment. Rent growth averaged 5.5 per cent in 2016 and 2017. Growth was higher in the major metro areas, with growth of six per cent in Vancouver, seven per cent in Victoria, and more than eight per cent in Kelowna in 2017. While this is above the province's allowable rent increase, note that there is no maximum rent for units that turnover, while new builds also command higher values and skew up the average. Less turnover will keep rent growth at five per cent per annum this year with more units bound by allowable rent increases, with similar increases in both 2019 and 2020.

Residential Resale Transactions by Economic Region

	2015	2016	2017	2018	2019	2020
Vancouver Island/Coast	14,926	19,284	18,157	16,300	16,500	16,000
% Change	19.1	29.2	-5.8	-10.2	1.2	-3.0
Lower Mainland/Southwest	57,874	64,535	58,144	50,000	53,000	54,500
% Change	28.8	11.5	-9.9	-14.0	6.0	2.8
Thompson/Okanagan	12,070	14,857	14,746	14,000	14,100	13,900
% Change	11.3	23.1	-0.7	-5.1	0.7	-1.4
Kootenay	2,698	3,202	3,685	3,600	3,400	3,300
% Change	0.1	18.7	15.1	-2.3	-5.6	-2.9
Cariboo	2,406	2,554	2,850	2,800	2,700	2,800
% Change	0.9	6.2	11.6	-1.8	-3.6	3.7
North Coast	713	627	660	700	775	750
% Change	-23.5	-12.1	5.3	6.1	10.7	-3.2
Nechako	514	409	483	475	475	460
% Change	25.7	-20.4	18.1	-1.7	0.0	-3.2
Northeast	911	516	672	770	800	800
% Change	-23.0	-43.4	30.2	14.6	3.9	0.0
Province	92,112		99,403	88,645	91,750	92,510
% Change	21.4	15.1	-6.2	-10.8	3.5	0.8

Residential Resale Transactions by Select Census Metropolitan Area/ Census Aggomeration

	2015	2016	2017	2018	2019	2020
Vancouver CMA	49,756	53,299	47,936	41,000	43,500	45,000
% Change	28.5	7.1	-10.1	-14.5	6.1	3.4
Abbotsford-Mission CMA	3,302	4,765	4,233	3,700	3,800	4,000
% Change	31.3	44.3	-11.2	-12.6	2.7	5.3
Victoria CMA	6,268	8,327	7,373	6,630	6,500	6,500
% Change	20.0	32.8	-11.5	-10.1	-2.0	0.0
Kelowna CMA	4,974	6,056	5,492	5,000	5,200	5,400
% Change	15.5	21.8	-9.3	-9.0	4.0	3.8
Chilliwack CA	2,242	3,388	3,315	3,180	3,050	3,100
% Change	30.9	51.1	-2.2	-4.1	-4.1	1.6
Nanaimo CA	2,332	2,888	2,824	2,700	2,750	2,700
% Change	18.1	23.8	-2.2	-4.4	1.9	-1.8
Vernon CA	1,270	1,764	1,784	1,715	1,700	1,675
% Change	-2.7	38.9	1.1	-3.9	-0.9	-1.5
Penticton CA	1,274	1,501	1,579	1,550	1,525	1,525
% Change	7.1	17.8	5.2	-1.8	-1.6	0.0
Kamloops CA	1,920	2,316	2,521	2,445	2,400	2,400
% Change	9.7	20.6	8.9	-3.0	-1.8	0.0
Prince George CA	1,465	1,473	1,662	1,680	1,650	1,630
% Change	3.6	0.5	12.8	1.1	-1.8	-1.2
Fort St. John CA	501	255	304	350	375	400
% Change	-28.2	-49.1	19.2	15.1	7.1	6.7
Cranbrook CA	435	472	461	450	430	430
% Change	7.9	8.5	-2.3	-2.4	-4.4	0.0

Source: Landcor, Central 1 Credit Union

Median Resale Residential Price by Economic Region

	2015	2016	2017	2018	2019	2020
Vancouver Island/Coast	349,950	384,000	420,000	442,000	454,000	465,000
% Change	2.9	9.7	9.4	5.2	2.7	2.4
Lower Mainland/Southwest	540,000	600,000	640,000	678,000	695,000	710,000
% Change	6.9	11.1	6.7	5.9	2.5	2.2
Thompson/Okanagan	334,000	355,000	380,000	395,000	405,000	412,000
% Change	2.8	6.3	7.0	3.9	2.5	1.7
Kootenay	240,000	244,250	257,500	260,000	265,000	269,000
% Change	0.0	1.8	5.4	1.0	1.9	1.5
Cariboo	221,380	227,000	239,000	245,000	250,000	255,000
% Change	3.2	2.5	5.3	2.5	2.0	2.0
North Coast	240,000	240,000	240,500	242,000	245,000	247,000
% Change	11.1	0.0	0.2	0.6	1.2	0.8
Nechako	181,500	189,000	210,000	215,000	218,000	221,000
% Change	-1.9	4.1	11.1	2.4	1.4	1.4
Northeast	300,000	271,500	280,000	265,000	268,000	270,000
% Change	0.8	-9.5	3.1	-5.4	1.1	0.7
Province	428,000	465,000	500,000	532,000	545,000	558,000
% Change	7.0	8.6	7.5	6.4	2.4	2.4

Median Resale Residential Price by Select Census Metropolitan Area/ Census Aggomeration

	2015	2016	2017	2018	2019	2020
Vancouver CMA	585,000	671,000	695,000	735,000	750,000	765,000
% Change	7.3	14.7	3.6	5.8	2.0	2.0
Abbotsford-Mission CMA	377,500	465,000	510,000	540,000	558,000	575,000
% Change	4.8	23.2	9.7	5.9	3.3	3.0
Victoria CMA	475,000	508,000	555,000	575,000	590,000	605,000
% Change	4.4	6.9	9.3	3.6	2.6	2.5
Kelowna CMA	395,000	432,750	478,000	508,000	520,000	532,000
% Change	3.5	9.6	10.5	6.3	2.4	2.3
Chilliwack CA	311,125	369,900	429,500	465,000	480,000	495,000
% Change	2.9	18.9	16.1	8.3	3.2	3.1
Nanaimo CA	315,500	344,000	395,000	412,000	425,000	435,000
% Change	4.0	9.0	14.8	4.3	3.2	2.4
Vernon CA	320,000	354,600	373,900	380,000	390,000	399,000
% Change	-0.9	10.8	5.4	1.6	2.6	2.3
Penticton CA	299,000	324,000	354,000	375,000	385,000	395,000
% Change	3.3	8.4	9.3	5.9	2.7	2.6
Kamloops CA	331,325	337,750	362,000	365,000	375,000	380,000
% Change	3.1	1.9	7.2	0.8	2.7	1.3
Prince George CA	242,000	253,000	265,000	270,000	273,000	277,000
% Change	3.0	4.5	4.7	1.9	1.1	1.5
Fort St. John CA	352,000	335,000	339,000	308,000	310,000	313,000
% Change	0.6	-4.8	1.2	-9.1	0.6	1.0
Cranbrook CA	250,000	249,950	272,000	275,000	278,000	279,000
% Change	-3.8	0.0	8.8	1.1	1.1	0.4

Source: Landcor, Central 1 Credit Union

Residential Investment: British Columbia

	2015	2016	2017	2018	2019	2020
Real Residential Investment ($2007 Millions): British Columbia	22,127	25,455	26,615	26,795	26,659	26,623
% Change	10.1	15.0	4.6	0.7	-0.5	-0.1
Total New Dwellings	11,177	13,965	14,438	14,465	14,042	13,731
% Change	15.6	24.9	3.4	0.2	-2.9	-2.2
Renovations	8,184	8,134	8,634	8,846	9,108	9,390
% Change	5.7	-0.6	6.1	2.5	3.0	3.1
Total Acquisition Costs	2,536	3,023	3,192	3,128	3,155	3,146
% Change	3.8	19.2	5.6	-2.0	0.9	-0.3
Other Residential Construction	230	334	351	356	354	356
% Change	-3.1	45.2	5.2	1.5	-0.8	0.6
Housing Starts (000s)	31.4	41.8	43.5	42.4	40.1	39.4
% Change	10.9	33.1	3.9	-2.6	-5.2	-1.8
Single Detached Housing Starts (000s)	10.2	12.3	12.4	11.5	10.9	10.6
% Change	6.1	20.9	0.8	-7.0	-5.7	-2.1
Multi-Family Housing Starts (000s)	21.3	29.6	31.1	30.8	29.3	28.8
% Change	13.3	38.8	5.2	-0.8	-5.1	-1.6

Source: Landcor, Statistics Canada, CMHC, Central 1 Credit Union

Economic Forecast Summary: British Columbia

	2015	2016	2017	2018	2019	2020
Real GDP, % Change	3.5	3.5	3.9	2.8	2.3	3.1
Nominal GDP, % Change	4.0	4.8	6.7	5.1	5.0	5.7
Employment, % Change	1.2	3.2	3.7	2.1	1.4	1.6
Unemployment Rate, (%)	6.2	6.0	5.1	4.4	4.3	4.1
Population, % Change	1.0	1.3	1.3	1.0	1.0	1.1
Housing Starts (000s)	31.4	41.8	43.5	42.4	40.1	39.4
Retail Sales, % Change	6.9	7.4	9.5	4.9	5.5	6.1
Personal Income, % Change	6.0	4.7	5.7	6.1	5.4	6.0
Consumer Price Index, % Change	1.1	1.9	2.1	2.1	1.9	2.2

Source: Statistics Canada, Central 1 Credit Union

Special Section: Housing prices in B.C. small- and mid-sized urban markets

It seems that home values are the universal topic of the day, regardless of where you are in the province or country. Indeed, we are seemingly inundated with a constant flow of news and data releases by real estate boards, real estate brokers, and other organizations.

While there is no shortage of information, one glaring data gap is that home sales and prices reported typically do not align with accepted economic geographies. You would be hard pressed to find information aligning to urban areas such as Parksville, Fort St. John, Penticton or even Nanaimo census agglomerations.

For example, real estate boards provide a wealth of housing information, but information is aligned to locally defined real estate board areas that may not align with areas as defined by Statistics Canada. In B.C., published information is usually for areas that overlap various economic regions. For example, the Thompson-Okanagan board covers everything from Kelowna, Vernon, Salmon and everything in between, while areas like Penticton are in a separate board area. Similar issues exist on the Island and in other regions. Sub-board (community) area is available, but generally buried in the broader reports and historical data, and is a challenge to obtain.

Real estate board territories do not align with accepted economic geographies, and if local market information is recorded, it not easily found. Multiple Listings Service (MLS®) data is available, but buried in reports and tables for broader regions like the Thompson-Okanagan, South Okanagan, BC Northern, Vancouver Island, and other real estate board areas. If you do find the information, a historical time series would be a challenge.

This misalignment of geographies is not only an issue for smaller markets. Indeed, there is difficulty in finding an appropriate metro or Vancouver CMA home price. This market is covered by two real estate board areas, the Real Estate Board of Greater Vancouver (REBGV) and the Fraser Valley Real Estate Board (FVREB). REBGV data is often reported as the metro area but the board is largely markets located north of the Fraser River, in addition to Squamish, Whistler and other that are outside the true Metro. While this may sound like a minor issue, this excludes a strip of the Fraser Valley that is included in Statistics Canada's definition of the Vancouver CMA, including: Surrey, White Rock, Langley and North Delta – which is a quarter of the region's population and fastest growing segment of the region. Media often overstates the market price due to incomplete information. Combining the two board areas helps, but this adds in the Abbotsford-Mission CMA, which has a very different economic structure.

Central 1, in collaboration with Landcor Data Corp, is filling in part of the information gap in the market. We have estimated housing sales and pricing information based on arms-length land title transfers for all of B.C.'s Census Metropolitan Areas and Census Agglomerations by mapping BC Assessment neighbourhood data to coincide with the Statistics Canada defined areas.

The benefits of this exercise are clear. It provides more accurate housing data estimates for B.C.'s urban centres, and greater clarity when discussing housing statistics for a local region. The result is more complete information that aligns with other economic data. A single data source allows for consistent comparisons between markets, including property types of detached, attached and apartments.

Resale market information is an excellent coincident indicator for the economy, and for smaller markets where labour market information is infrequent, sales and pricing conditions are good proxies for economic activity.

The most recent annual price data for CMA and Census Agglomerations (CA) markets are provided in the table below.

For the most part, CMA and CA level data is consistent with what we would anticipate. Larger urban markets are most active and have experienced the strongest price growth, although a shift away from detached sales in the Vancouver CMA over the past year, that have dampened headline price growth. Vancouver Island markets have been highly active with strong double-digit price growth, while northern areas have experienced more modest growth trends.

Median resale home values in the Vancouver Census Metropolitan Area (CMA) rose a mild 3.6 per cent in 2017 but can be mostly attributed to a combination of a sales slump in the detached housing market, which reflected an affordability squeeze from a 30 per cent increase in price in 2016, and some impacts of the foreign buyer tax on higher end properties. In contrast, apartment sales rose and multi-family unit prices rose about 17 per cent from 2016, as buyers set their sights on relatively more affordable product, following tightening of mortgage insurance rules in late 2016 and being priced out of the detached market. Among other larger metro markets, median resale values in Abbotsford-Mission, Victoria and Kelowna all rose by about 10 per cent in 2017

Across metro markets, headline median price growth generally understated actual price growth in 2017. Due in large part to affordability constraints, a gradual shift in the housing stock and potentially boomer downsizing, detached home sales slumped across regions relative to apartment condominiums to dampen overall price growth. In Kelowna and Victoria, price growth was in the 13-15 per cent range among all product types. Abbotsford-Mission multi-family unit prices rose 25 per cent with detached values not far behind.

A scan of small and mid-sized census agglomerations showed similar robust price trends. Vancouver Island markets, including areas such as Nanaimo, Parksville, Campbell River and others posted resale price growth of about 10-15 per cent. In the Southern Interior, prices rose at a strong but more moderate pace, highlighted by a 7.2 per cent increase in Kamloops, 9.3 per cent in Penticton, and nearly nine per cent in Cranbrook. Broadly speaking, pricing growth among Northern B.C. markets was modest at five per cent or less. Prince George posted growth of 4.7 per cent.

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Resale Transaction Value by CMA/CA

	Median Price ($000s)			% Change	
	2015	2016	2017	2016	2017
Vancouver CMA	585.0	671.0	695.0	14.7	3.6
Abbotsford-Mission CMA	377.5	465.0	510.0	23.2	9.7
Victoria CMA	475.0	508.0	555.0	6.9	9.3
Kelowna CMA	395.0	432.8	478.0	9.6	10.5
Chilliwack CA	311.1	369.9	429.5	18.9	16.1
Nanaimo CA	315.5	344.0	395.0	9.0	14.8
Vernon CA	320.0	354.6	373.9	10.8	5.4
Penticton CA	299.0	324.0	354.0	8.4	9.3
Kamloops CA	331.3	337.8	362.0	1.9	7.2
Prince George CA	242.0	253.0	265.0	4.5	4.7
For St. John CA	352.0	335.0	339.0	-4.8	1.2
Cranbrook CA	250.0	250.0	272.0	-0.0	8.8
Nelson CA	314.0	334.5	373.5	6.5	11.7
Salmon Arm CA	300.0	310.0	332.8	3.3	7.3
Squamish CA	484.0	547.0	630.0	13.0	15.2
Duncan CA	313.0	353.0	389.0	12.8	10.2
Parksville CA	350.0	397.8	455.0	13.6	14.4
Port Alberni CA	188.5	209.4	235.0	11.1	12.2
Courtenay CA	312.0	338.2	379.9	8.4	12.3
Campbell River CA	267.0	285.0	331.0	6.7	16.1
Powell River CA	231.3	250.0	295.0	8.1	18.0
Williams Lake CA	195.0	210.0	220.0	7.7	4.8
Quesnel CA	169.8	165.0	165.5	-2.8	0.3
Prince Rupert CA	241.0	258.5	257.0	7.3	-0.6
Terrace CA	270.0	272.0	285.0	0.7	4.8
Dawson Creek CA	249.0	250.0	251.8	0.4	0.7

Source: Landcor, Central 1 Credit Union

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