Apartment rent climbs more than six per cent in 2018

For renter households, the latest data from Canada Mortgage and Housing Corporation’s (CMHC) annual Rental Market Survey is unlikely to be a surprise. It is a tough market out there to find quality and affordable rental accommodations, and what is available has risen in cost substantially. While not universal across the province, 2018 marked another year of rock bottom vacancy rates and soaring monthly rent.

Provincially, the average vacancy rate for apartment units was little changed at 1.4 per cent this year, up from 1.3 per cent in 2017. This was the fourth year in a row that the vacancy rate fell below 1.5 per cent. The long-term average vacancy rate since 1990 was 2.4 per cent. A sustained period of low vacancy rates has unsurprisingly propelled rents higher. Same-sample apartment rent growth jumped to 6.3 per cent over the past year, well outpacing both consumer price inflation and wage growth. This followed a 5.8 per cent increase in 2017.

Provincial figures mostly reflect what is happening in the large urban markets. The Vancouver Census Metropolitan Area (CMA) makes up just over 60 per cent of the purpose-built rental unit stock among urban areas, with the CMAs of Victoria, Kelowna and Abbotsford-Mission a combined 20 per cent.

The vacancy rate in Vancouver CMA edged up to 1.0 per cent from 0.9 per cent in 2017. An increase in supply contributed to an increase in Kelowna from 0.2 per cent to 1.9 per cent, Victoria rose from 0.7 per cent to 1.2 per cent, and Abbotsford-Mission rose from 0.2 per cent to 1.0 per cent. Among smaller markets, highlights included microscopic rates in most municipalities on Vancouver Island, including 0.4 per cent in Campbell River and 0.2 per cent in Parksville. In contrast, the lingering impacts of the commodity downturn had Fort St. John at 16.7 per cent and Dawson Creek at 9.0 per cent. Northern B.C. vacancy rates generally exceed rates in southern markets.

Net new supply of rentals units rose by a modest 2,500 units during the year with relatively stronger growth outside Vancouver CMA, particularly Kelowna. This was largely absorbed by demand and the small bump in stock of 793 units in the Vancouver CMA was negligible.

Average apartment rent levels were highest in the Vancouver CMAs$1,385, with Victoria at $1,170. Average apartment rents vary across the province but are generally in the $800 - $900 range in smaller urban markets.

Rent growth aligned with rental vacancy rates. Tight markets posted strong rent growth, with Vancouver CMA rents up 6.2 per cent, while Kelowna, Victoria and Abbotsford-Mission rents rose 8.1 per cent, 7.5 per cent, and 7.9 per cent. Other strong performers included Kamloops at 6.0 per cent and Nanaimo at 6.7 per cent, with northern markets showing mod-
est growth. Growth in most units was limited by the government’s allowable rent increase, which was 4.0 per cent during the year. The discrepancy with growth rates in CMHC’s survey reflects significantly higher turnover rents.

The latest numbers confirm an exceptionally tight rental market, and in some areas, it can be deemed a near crisis. This pattern of low vacancy rates is unlikely to change. On the demand front, growth will outstrip new supply due to the tight labour market and wage gains, and expected persistence of stronger population growth. The erosion of affordability in the homeownership market due to federal mortgage ‘stress tests’ paired with higher interest rates, will continue to funnel demand to rental accommodations in large urban markets. On the supply side, recent changes to limit allowable rent increases to inflation may create a disincentive for private developers to build purpose-built rental properties. Reported average rent growth should ease as more renters are incentivized to stay put in existing rentals, although new entrants and renters who move will face a steeper premium as growth in the stock slows.

Low vacancy rates will be further magnified if private investor landlords choose to sell their rental condominiums, which may have occurred in 2018. Estimated condominium rental stock fell in both the Vancouver CMA (-1,081 units) and Victoria (-370 units), curtailing the condominium rental vacancy rate to about 0.3 per cent. This may reflect a change in investment outlook given the change in rent control policy and signs that capital appreciation is also waning in the market.

Small business confidence nudges higher in October

Small business confidence in B.C. perked up in November following seven months of weak readings. While still on the low side, the Canadian Federation of Independent Business’ latest Business Barometer reading rose to 63.1 points, up from 61.5 points in October. This was third highest among provinces.

The Barometer is on a scale of 0 to 100 points—a reading above 50 means that more respondents expect better conditions over the next year, compared to those expecting a worse performance. B.C.’s reading is still shy of the 65 to 70-point range, which is more aligned with moderate growth economy. The index level had been trending below 60 points since May.

Several factors have likely held back the confidence index. A strong economic performance in 2017 may have led to naturally lower expectations this year. In fact, 46 per cent of respondents noted that business health was good, and while down from 2017, was elevated among provinces.

That said, the housing downcycle, slower retail sales trends and taxation measures have also limited growth. The latter includes the Employer Health Tax, which will affect businesses with remuneration exceeding $500,000.

Average weekly earnings ease in September, but trend positive and employment gains

In line with the national performance, growth in B.C. average weekly earnings took a breather in September. Average earnings, including overtime, edged down 0.2 per cent to $978.10. However, year-over-year-growth remained among the strongest in the country during the month alongside Prince Edward Island at 2.7 per cent. September’s dip marked a giveback following strong gains in recent months. Average wage earnings were up 1.8 per cent since May.

Various factors contribute to earnings fluctuations in headline weekly earnings, including hours worked and industry composition of jobs. Weekly earnings in the goods-producing sector rose from August by 0.2 per cent, led by a jump in utilities wages of 9.5 per cent to $1,740, while manufacturing (up 0.8 per cent) and resource extraction (up 0.8 per cent) had solid gains. This was more than offset by a 0.4 per cent decline in the services-producing sector earnings, specifically in transportation and warehousing (down 3.4 per cent), information and culture (down 3.8 per cent), trade (down 1.8 per cent) and arts/entertainment/recreation (down 6.8 per cent).

Smoothing out some of the monthly volatility, third quarter average weekly earnings were up a solid 3.5 per cent year-over-year as the tight labour markets drive up wages. B.C.’s job vacancy rate was the highest in the country at 2.8 per cent, according the
survey. Goods-sector's earnings growth has led the way with a hefty five per cent gain, due to pay gains in resource extraction and construction. Service-sector wages rose three per cent, driven by information and culture (up seven per cent), professional services (up six per cent), and real estate/finance/leasing (up 7.5 per cent). Public administration earnings rose more than 3.5 per cent.

On the employment front, B.C. payroll counts jumped 0.5 per cent from August, which led the country and compared to a 0.1 gain nationally. Year-over-year growth was a full percentage point ahead of second-place Prince Edward Island in September at a robust 3.4 per cent. Employers are still adding heavily to payrolls, absorbing all the workers they can. Growth in payroll counts is far outpacing employment growth estimates from the Labour Force Survey. This could point to an increase in multiple-job holders or in employees who in B.C. but reside in other provinces.

The strongest gains in payroll counts have come in the utilities sector (up 22 per cent or 2,100 persons) and likely associated with work on the Site C Dam project, which has also driven an increase in associated weekly earnings. Information and culture industries, which includes parts of the high-tech economy, gained traction with an 11.6 per cent increase in headcounts. The arts and entertainment industries rose 11 per cent and public administration employment rose six per cent.

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