November housing starts resurgence expected to wane

B.C. housing starts rebounded following a two-month lull in November. The trend is anticipated to slow through 2019 as weaker housing demand leads developers and builders to curtail construction. Total urban area housing starts jumped to 36,776 units (all figures are seasonally-adjusted annualized rates unless noted) in November, up 22 per cent from 30,076 units in October. Gains from October were observed across all product markets with single-detached units up 14 per cent to 9,067 units, and combined row/townhome and apartments up 25 per cent to 27,709 units.

The monthly housing starts increases among metro areas was driven by a surge in Kelowna, which rose from 700 units in November to 4,275 units, and Metro Vancouver, which rose from 17,718 to 22,049 units. Housing starts in Abbotsford-Mission declined, while levels in Victoria edged up. Combined starts in B.C.’s smaller urban markets declined by four per in November from October.

Despite the November increase, housing starts have trended lower for most of 2018. Starts in urban areas have trended near 31,000 units in recent months compared to about 40,000 units during the first half of 2018. Large scale apartment starts are planned and pre-sold years in advance so the slow patch may be a result of both recently completed projects and developers refocusing on new projects. However, slower presales activity since the introduction of federal government’s mortgage ‘stress tests’, higher interest rates and the announcement of a speculation tax, may be delaying project construction. Elevated units under construction and risks of inventory overhang due to a high number of units under construction may also be pushing builders to tap the brakes.

Total urban housing starts are down seven per cent year-to-date from 2017, with an 11 per cent decline in single-detached units and a six per cent decline in multi-family units. Metro Vancouver starts were down nine per cent and Victoria starts were down four per cent. Both Kelowna (down 32 per cent) and Abbotsford-Mission (down 55 per cent) have seen sharp drops in starts.

Provincial housing starts, inclusive of rural markets, are forecast to ease about nine per cent this year to 39,500 units. The policy-driven housing downturn triggers a further 18 per cent decline in starts in 2019, with most of the drop in the apartment sector. Social housing will likely be firm; however, homeownership demand will ease and rental market construction will slow.

Non-residential building permits elevated despite October retreat

The pace of non-residential building permits slowed in October, but the trend remained well ahead of last year’s pace. Permit volume declined 22 per cent from
September, and 17 per cent year-over-year to $360 million in October. A drop in private sector permits led the increase, with industrial permits down 27 per cent and commercial permits down 25 per cent from September.

Vancouver Census Metropolitan Area was the main drag among metro markets, with non-residential permit volume down 17 per cent from September (down $52 million). Victoria permits were up 31 per cent (up $5.2 million), while permits in Kelowna and Abbotsford-Mission remained steady.

Nevertheless, permit volumes remained up by 15 per cent from a year ago over the first ten months and the underlying trend remains stable reflecting signs of healthy business investment in 2018. Growth has been led by a 26 per cent increase in commercial activity, while industrial permits rose by 3.9 per cent. Government permit volume fell by 1.7 per cent. Permits were up sharply in all metro markets except for Victoria which declined by 32 per cent.

Non-residential permits are forecast to finish the year up by 14 per cent but pull back in 2019 by about five per cent. Moderating growth in the economy will curtail investment in new buildings in the south coast, but spending related to the liquefied natural gas project will boost activity in the northern markets.

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