

## Resale Market Housing Outlook 2019-2021

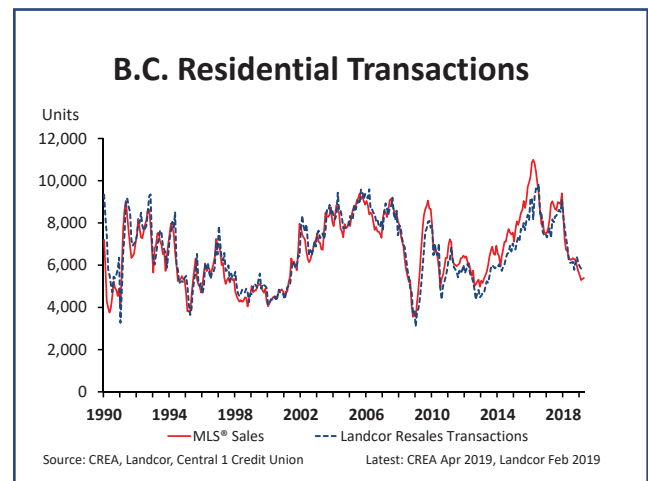
### Highlights:

- B.C. resale housing transaction to decline 11 per cent in 2019, followed by mild rebound
- Median home value declines four per cent driven by Metro Vancouver downturn
- Declining Metro Vancouver prices environment to continue, as other regions hold steady
- Housing starts decline in both 2019 and 2020
- Solid economic environment upended by policy drivers

### Summary

Hopes for a better year for B.C.'s housing market were dashed early as the culmination of federal and provincial policies continued to weigh heavily on demand. Prospective buyers are on the sidelines. Some involuntarily, as they no longer qualify for enough financing under new mortgage lending restrictions, while some bide their time until declining prices settle in the market.

Following further declines to begin the year, annual resale transactions will decline for a third consecutive year, marking the fewest sales since 2013 before turning higher thereafter. Sluggish market conditions are driving prices lower and the median provincial home price is forecast to decline for the first time since 2012. The resale median price falls 4.1 per cent this year to \$515,000. Declining annual values are driven by falling values in Metro Vancouver and Kelowna, while Vancouver Island prices are falling from peak. Soft



housing price conditions continue over the next two years with the median price topping out at \$516,000 in 2021.

New home conditions have remained surprisingly firm in early 2019. Housing starts are holding steady from 2018 but a sharp pullback is expected in the second half of 2019 as weakening resale market and pre-sale conditions cool construction. Housing starts decline 14 per cent this year to 35,000 units and trend near 33,000 units in both 2020 and 2021. That said, levels will still be moderate and above 2016 levels.

### Current conditions

Recessionary conditions in B.C.'s ownership housing market persist despite an otherwise solid economy. Early 2019 home sales continue to deteriorate as federal and provincial policies continue to weigh on demand and lead to price declines among some of the larger urban markets. Households continue to be constrained by the combination of federal B-20 mortgage stress tests, and provincial measures including the speculation tax, expanded foreign buyer tax and

Housing Forecast					
	2017	2018	2019	2020	2021
Residential Resale Transactions, Units	97,715	77,985	69,620	75,730	79,675
% ch	-7.2	-20.2	-10.7	8.8	5.2
Residential Median Resale Price	500,000	537,000	515,000	510,000	516,000
% ch	7.6	7.4	-4.1	-1.0	1.2
Housing Starts	43,664	40,857	35,000	32,500	33,500
% ch	4.4	-6.4	-14.3	-7.1	3.1

Source: Landcor, CMHC, Central 1 Credit Union 2019-2021 forecast

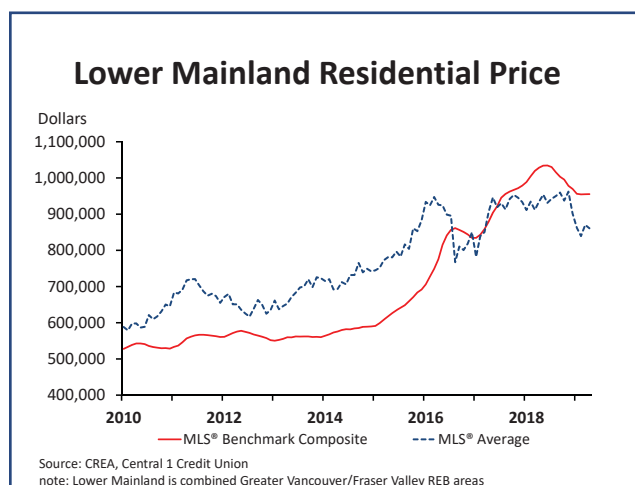
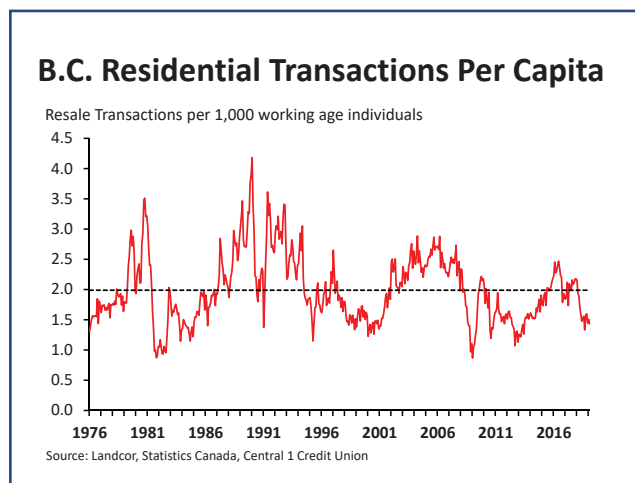
other measures—curtailing sales to newer residents as well as recreational and second-home purchases.

Home sales continue to slide following last year's policy induced collapse. Monthly MLS® sales are trending at the lowest since 2012, down eight per cent since December 2018 and 22 per cent on a year-over-year basis. Resale transactions reported by Landcor based on land title transfers have recently stabilized, but this data lags MLS® activity by three months. Adjusted for population growth, sales are approaching lows observed following the financial crisis in 2008/09, and consistent with the sluggish pace of the late 1990s.

Weak home sales are prevalent across the province, particularly in the large urban areas. The synchronous decline since early 2018 speaks to the shock of the two percentage point B-20 mortgage stress test and higher mortgage rates. Provincial regulations layered onto this policy, depressing sales further. The foreign buyer tax was expanded to markets outside the Lower Mainland, and into the Capital Region and Kelowna areas. The speculation tax applies to similar areas.

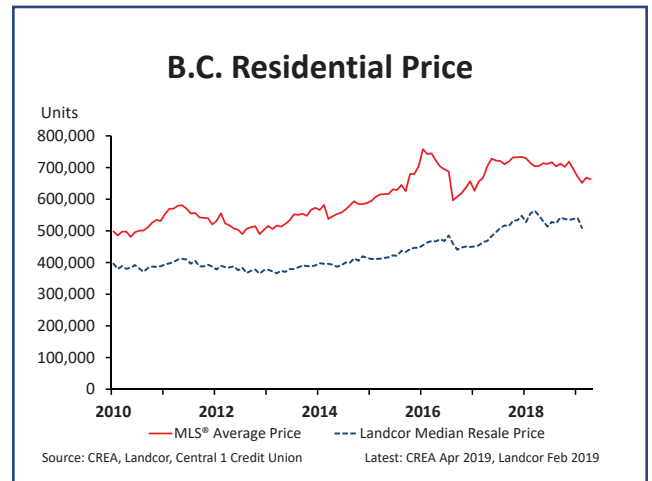
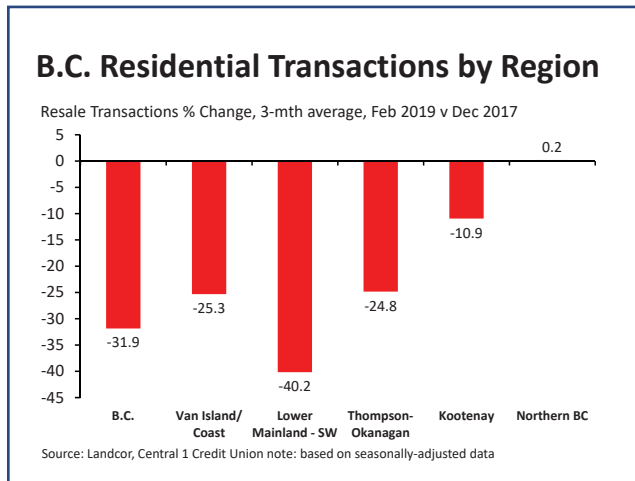
Given the media spotlight, it is no surprise that Metro Vancouver is the epicenter of the downturn. As the highest priced metro housing market in the country, the region was particularly affected by the tightened mortgage qualifying criteria, which effectively cut up to 20 per cent purchasing power. Already stretched buyers are unable to bridge the loss through higher down payments. Foreign ownership is also higher in the region, and the foreign buyer tax has likely shifted purchases to other Canadian and international destinations. Metro Vancouver sales have plummeted over the past year, and down more than 40 per cent since the end of 2018 with similar declines across housing types. Regardless of detached or multi-family units, buyers have moved to the sidelines. Fewer entry level sales have seized up the chains of homeownership, impacting sales across the spectrum of buyers including upgraders and downsizers.

Though many prospective sellers are opting to sit out the current downturn—a reflection of the strong labour market environment and that some sellers do not need or want to sell at lower prices—inventory is rising as listings languish. Prices are falling. Prices have been particularly hard hit in West Vancouver and the westside of Vancouver City, with instances of 20 per cent declines on multi-million dollar properties. While average and median home price trends are influenced by sales composition, general declines are modest at about seven per cent from peak according to bench-



mark values published by the regional real estate boards. Weak conditions are forecast to continue as households further adjust. The benchmark price is forecast to decline through 2019 before flattening thereafter.

Similarly, sales in Kelowna, Abbotsford-Mission and Victoria have seen their sales slumps extend into 2019. While not of the same magnitude, sales are lower by more than 20 per cent, year-over-year. Policy measures are biting both directly and indirectly. Weak activity in Metro Vancouver is contributing to fewer recreational and retirement home purchases in other markets, as homeowners face lower price/equity and difficulty selling their properties. Sluggishness in Alberta's economy is likely curtailing recreational sales in the interior, with the speculation tax negatively impacting recreational purchases and pushing sales out of the larger market and into smaller rural communities. Smaller markets have generally held steady, reflecting little impact from policy measures, while northern B.C. housing demand is supported by strengthening economic activity related to liquefied natural gas terminals and pipeline construction.

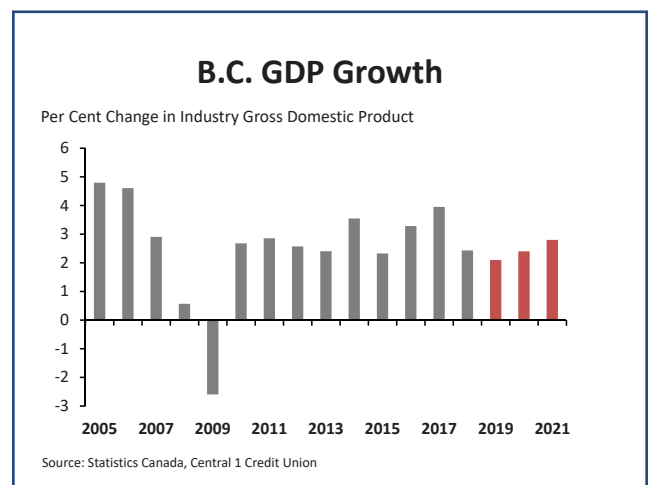


Housing prices remain firm outside Metro Vancouver despite decreased demand. Inventories remain low on Vancouver Island which continues to support price levels. Median values and MLS® housing price indices indicate a cresting of values, but little downward pressure. Larger markets in the Okanagan—such as Kelowna and Penticton—are drifting lower, albeit trends are mixed by local areas. Northern B.C. prices are generally rising with strong momentum in areas tied to liquefied natural gas activity. Mixed conditions across the province reflect the interplay of local economic drivers and broader policy measures.

#### *Housing market misaligned with rest of the economy*

For the most part economic drivers will be steady, misaligning with the weakness in the housing market. Employment growth has gathered momentum in recent quarters and B.C.'s unemployment rate remains lowest among provinces and job vacancies are high. Growth in the economy came in at a moderate 2.4 per cent in 2018. While a step down from the near-four per cent expansion in 2017, growth was still third highest in the country despite the rapid slowdown in housing demand. B.C.'s economy is forecast to slow to a pace of about 2.1 per cent this year before gaining traction thereafter.

Faltering housing market activity will curtail new home construction and related employment and spending going forward, but there is still a lot to like in the economy. Major project construction is expected to be a main support for growth, with LNG Canada's \$40 billion liquefied natural gas terminal and related pipelines providing a boost to the interior and northern coastal economies. Rising infrastructure spending on roadways, bridges, and hospitals will keep the trades busy in the Lower Mainland. The knowledge economy continues to expand, with gains in the technology sector, while a low Canadian dollar continues to support international demand for Canadian goods and



services a, with the latter including tourism and TV and film production.

Growth in the economy supports rising employment, although gains are hampered by increasingly evident labour shortages. Wage growth will accelerate as a result, though partly tempered as employers look to invest in labour-saving technologies. Modest economic growth, major project construction and rising federal immigration intake is expected to contribute to moderately strong population growth of about 1.3 per cent, or near 65,000 persons per year. This is consistent with the trend observed since 2012 and represents formation of about 31,000 households annually. Economic and demographic trends will continue to support demand for housing, particularly in urban areas. Demographic demand for post-retirement living will continue to support Vancouver Island and some southern interior markets.

Interest rates are forecast to remain low and steady through most of the forecast period. Following upward pressure from mid-2017 to 2018, which saw fixed five-year contract rates increase to 100 basis points on higher rate expectations and Bank of Canada hikes, rates have partially retraced adding to buying power.

A sluggish Canadian economy and global economic uncertainty is delaying interest rate normalization, while a low sales environment has sparked competition among lenders to the benefit of buyers.

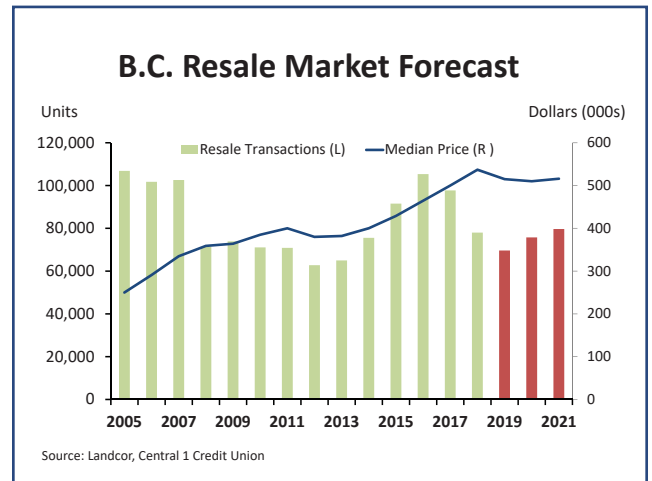
### Government housing policy

While economic conditions are supportive of housing demand, government policies enacted over the past two years are expected to remain and continue to hamper demand although the impact on sales growth will diminish. With homeownership still a desired state, buyers in areas like Metro Vancouver and larger urban markets will continue to adapt to federal B-20 mortgage stress tests by saving for larger down payments, waiting for income gains or seeking more affordable housing alternatives. Some buyers have also shifted to private lenders (and at higher interest rates) in response. Provincial measures such as the foreign buyer tax remains a disincentive for secondary home purchases domestically and abroad.

The Canada Mortgage and Housing Corporation (CMHC) share equity mortgage program announced in the 2019 federal budget and effective in fall will provide modest support to existing and new home demand. The program will provide down payment support for buyers. While details are still to emerge, this is likely in the form of an interest in the property (five per cent for existing homes and 10 per cent for new homes), with CMHC share of gains or losses at resale. That said, the demand impact will be more significant in smaller markets as the program is limited to households with a maximum annual income of \$120,000 with borrowing at four times income, effectively making the maximum home value covered by the program \$500,000. Provincially, about 45 per cent of new and resale homes sold in 2018 were less than \$500,000. In the Vancouver Census Metropolitan Area (CMA), these sales represented about a quarter of 2018 sales, with the share reaching nearly half in Kelowna and Abbotsford-Mission. Outside of the four largest urban

Sales of new and resales homes below \$500,000 (2018)			
	% of sales < \$500k	Homes less than \$500k	Total Home Sales
Vancouver	26%	12,005	46,353
Abbotsford-Mission	45%	1,638	3,647
Victoria	36%	2,472	6,811
Kelowna	49%	2,656	5,409
Other B.C.	72%	24,321	33,753
B.C.	45%	43,092	95,973

Source: Landcor, Central 1 Credit Union



markets, the share was 70 per cent. As a \$500,000 property reflects the highest income threshold, many potential buyers will only be eligible at a lower price threshold. Uptake of the program will also depend on equity share and repayment details.

### Declining sales, declining prices

Home sale deterioration ends in the first half of 2019 with a mild pick up in the latter part of the year as firm economic conditions underpin a recovery, and initial impacts of policy measures fade. CMHC's shared equity program and prospects of lower interest rates also contribute to a rising trend. Nevertheless, provincial resale transactions reach only 69,200 unit for the year, marking an 11 per cent decline and the fewest sales since 2013. Sales retrenchment is led by a 14 per cent decline in the Lower Mainland-Southwest (driven by the Vancouver CMA) and a 10 per cent drop in the Thompson- Okanagan areas. Vancouver Island (Island) sales are generally expected to hold steady following a sharp drop off in 2018 as demand from retirees underpin sales. Resale demand in southern B.C. and Island markets rise in both 2020 and 2021 due to economic drivers, low interest rates and price declines in some markets. Housing markets in the north—while only about seven per cent of total resale transactions—will outperform as major project activity drives local economic activity, population gains and investment demand.

Home sales remain *marshmallow soft* despite rebounding momentum. Resale transactions rise nine per cent to 75,530 units in 2020 with a gain of more than five per cent in 2021.

The weaker sales cycle leads to a decline in the provincial resale median price of four per cent to \$515,000 this year, with little change in 2020. Lower provincial values largely reflect sharp deterioration in values in the Lower Mainland-Southwest, which is

forecast to decline eight per cent on an annual basis. Peak to trough declines in the Lower Mainland MLS® benchmark home value is forecast between 12 and 15 per cent, with values already down 7.5 per cent through April. Lower values in the back half of the year extend into 2020 with a mild increase in 2021. Price stagnation is expected for the next three years following the current correction phase.

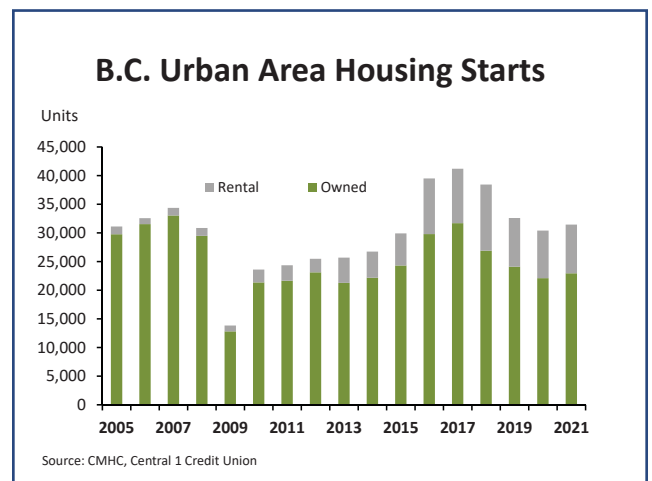
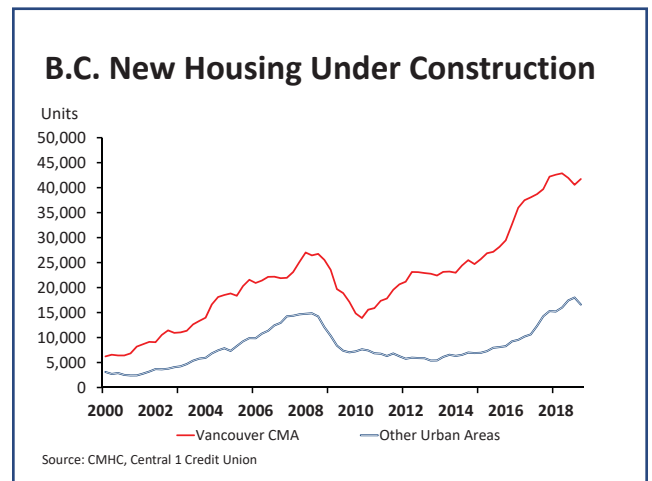
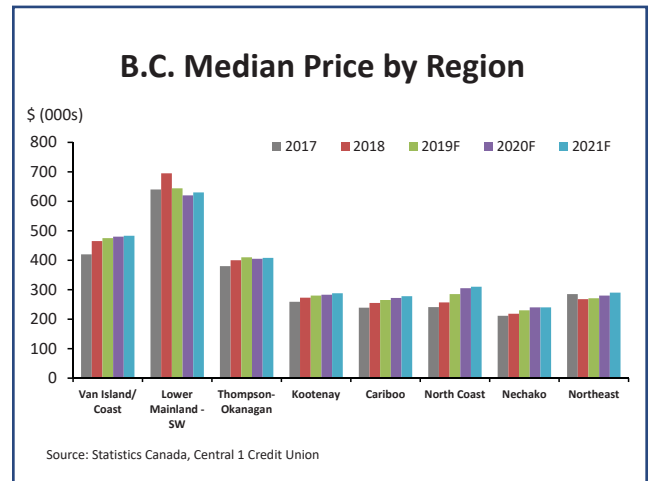
Price levels crest in Victoria and edge lower in the Okanagan area, while annual median price growth will remain positive this year before edging lower in 2020. Stability in home values outside of the Lower Mainland reflects less impacts due to policies and limited inventory. Northern B.C. home prices will continue to outperform the rest of the province, led by the North Coast region over the next two years. Northeast prices are ramping up as LNG construction intensifies and increased drilling activity and other investment.

### *Housing starts*

Curiously, the steep decline in resale transactions has yet to be felt in the pace of new home starts, which has remained strong in early 2019.

B.C. is coming off another stellar year of starts in 2018, which saw nearly 41,000 housing break ground. Stronger rental construction activity partly offset declines in condominium and free-hold construction. Firm construction trends have continued into this year with April starts at the highest level in more than a year. Through the first four months of 2019, housing starts were virtually unchanged from 2018, albeit with deviations among metro areas. Starts are steady in the Vancouver area, starts are up in Victoria and Abbotsford-Mission and starts are down in Kelowna. Multi-family housing starts are running slightly ahead of 2018 levels, while detached starts have declined. A scan of first quarter urban area data shows strength in the condominium market, while rentals and free-hold construction dropped sharply from a year ago.

Resale market trends lead housing starts as new housing takes time to adjust to a slowing housing cycle. In cases of recessions—like the 2008/09 financial crisis, which led to a bottleneck in capital availability for construction financing and sharp erosion in consumer confidence—the reaction time can be swift. Current construction trends have been slow to respond, partly reflecting a solid economic backdrop, while the current flow reflects long-planned and pre-sold condominium projects in the pipeline from recent years.



It is only a matter of time until housing starts pull lower. Weaker demand, rising existing and new home inventories and lower pre-sale activity is expected to lower new housing starts over the second half of the year. A decline in starts of 14 per cent to 35,000 is forecast for 2019 as starts are forecast to decline sharply in the second half. Total starts decline seven per cent to 32,500 units in 2020 and rise modestly thereafter. This pullback is led by fewer starts in Metro Vancouver. That said, construction activity remains elevated given units under construction remain at a near record high.

A drop off in starts will be temporary as demand for new units remains significant due to population growth and economic growth. Developers will re-adjust to ensure price points match purchaser demand and in some cases pivot towards rental and social housing projects.

Renovation spending declines with broader market conditions as fewer resale and new home transactions trigger fewer upgrades both pre and post-sale. Required maintenance activity, aging housing stock and aging in place trends will continue to support activity, but growth is mild. Real renovation spending edges down one per cent this year before rebounding thereafter.

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## Housing Forecast Summary

		2017	2018	2019	2020	2021
Residential Transactions	All Units	117,098	95,973	86,620	92,230	95,675
	% ch	-6.2	-18.0	-9.7	6.5	3.7
	Resale Component	97,715	77,985	69,620	75,730	79,675
	% ch	-7.2	-20.2	-10.7	8.8	5.2
	New Component	19,383	17,988	17,000	16,500	16,000
	% ch	-0.5	-7.2	-5.5	-2.9	-3.0
Median Price	All Units	500,000	538,900	521,000	519,000	525,000
	% ch	9.2	7.8	-3.3	-0.4	1.2
	Resale Component	500,000	537,000	515,000	510,000	516,000
	% ch	7.6	7.4	-4.1	-1.0	1.2
	New Component	498,900	541,900	539,000	537,000	540,000
	% ch	14.7	8.6	-0.5	-0.4	0.6
MLS® Activity	Sales	103,758	78,346	68,000	75,000	79,000
	% ch	-7.5	-24.5	-13.2	10.3	5.3
	Listings	149,757	147,676	149,000	151,000	150,000
	% ch	-4.3	-1.4	0.9	1.3	-0.7
	Average Price	709,601	712,504	670,000	685,000	695,000
	% ch	2.7	0.4	-6.0	2.2	1.5
Housing Starts, Units	Total	43,664	40,857	35,000	32,500	33,500
	% ch	4.4	-6.4	-14.3	-7.1	3.1
	Single-Detached	12,346	11,163	9,500	10,000	10,500
	% ch	0.6	-9.6	-14.9	5.3	5.0
	Multi-family	31,318	29,694	25,500	22,500	23,000
	% ch	5.9	-5.2	-14.1	-11.8	2.2
Urban Housing Starts by Tenure*	Total	41,191	38,439	32,600	30,400	31,450
	% ch	4.3	-6.7	-15.2	-6.7	3.5
	Freehold/Condo	31,702	26,897	24,000	22,000	22,800
	% ch	6.7	-15.2	-10.8	-8.3	3.6
	Rental	9,489	11,542	8,500	8,300	8,500
	% ch	-2.2	21.6	-26.4	-2.4	2.4

Source: Landcor, CMHC, Central 1 Credit Union 2019-2021 forecast

Annual Residential Resale Transactions by Economic Region					
	2017	2018	2019	2020	2021
Vancouver Island/Coast	17,818	14,667	14,000	15,000	15,500
% ch	-6.6	-17.7	-4.5	7.1	3.3
Lower Mainland/Southwest	56,973	42,079	36,000	40,000	42,500
% ch	-10.9	-26.1	-14.4	11.1	6.3
Thompson/Okanagan	14,398	12,246	11,200	12,000	12,600
% ch	-2.3	-14.9	-8.5	7.1	5.0
Kootenay	3,633	3,660	3,400	3,450	3,700
% ch	14.8	0.7	-7.1	1.5	7.2
Cariboo	2,814	2,743	2,750	2,840	2,900
% ch	11.0	-2.5	0.3	3.3	2.1
North Coast	649	920	950	1,030	1,000
% ch	4.5	41.8	3.3	8.4	-2.9
Nechako	455	500	520	500	525
% ch	19.7	9.9	4.0	-3.8	5.0
Northeast	658	807	800	910	950
% ch	29.0	22.6	-0.9	13.8	4.4
Province	97,715	77,985	69,620	75,730	79,675
% ch	-7.2	-20.2	-10.7	8.8	5.2

Annual Residential Resale Transactions by Select CMA and CA					
	2017	2018	2019	2020	2021
Vancouver CMA	46,971	34,657	29,900	33,300	35,500
% ch	-11.1	-26.2	-13.7	11.4	6.6
Abbotsford-Mission CMA	4,193	3,089	2,900	3,150	3,300
% ch	-11.6	-26.3	-6.1	8.6	4.8
Victoria CMA	7,263	5,801	5,500	5,900	6,100
% ch	-12.6	-20.1	-5.2	7.3	3.4
Kelowna CMA	5,338	4,298	3,950	4,300	4,500
% ch	-11.4	-19.5	-8.1	8.9	4.7
Chilliwack CA	3,241	2,401	2,025	2,200	2,300
% ch	-3.8	-25.9	-15.7	8.6	4.5
Nanaimo CA	2,783	2,300	2,150	2,300	2,350
% ch	-3.4	-17.4	-6.5	7.0	2.2
Vernon CA	1,768	1,525	1,410	1,500	1,600
% ch	0.8	-13.7	-7.5	6.4	6.7
Penticton CA	1,551	1,247	1,125	1,200	1,250
% ch	4.2	-19.6	-9.8	6.7	4.2
Kamloops CA	2,471	2,272	2,300	2,400	2,450
% ch	7.4	-8.1	1.2	4.3	2.1
Prince George CA	1,633	1,502	1,575	1,630	1,700
% ch	12.1	-8.0	4.9	3.5	4.3
For St. John CA	302	384	410	450	500
% ch	18.9	27.2	6.8	9.8	11.1
Cranbrook CA	461	507	510	520	525
% ch	-2.1	10.0	0.6	2.0	1.0

Source: Landcor, Central 1 Credit Union 2019-2021 forecast



Median Annual Residential Resale Price by Economic Region					
	2017	2018	2019	2020	2021
Vancouver Island/Coast	420,000	465,000	475,000	480,000	483,000
% ch	9.1	10.7	2.2	1.1	0.6
Lower Mainland/Southwest	640,000	695,000	644,000	620,000	630,000
% ch	6.7	8.6	-7.3	-3.7	1.6
Thompson/Okanagan	380,000	400,000	410,000	405,000	408,000
% ch	7.0	5.3	2.5	-1.2	0.7
Kootenay	259,000	273,000	280,000	283,000	288,000
% ch	6.1	5.4	2.6	1.1	1.8
Cariboo	239,000	255,000	265,000	272,000	278,000
% ch	5.1	6.7	3.9	2.6	2.2
North Coast	241,000	256,750	285,000	305,000	310,000
% ch	-1.2	6.5	11.0	7.0	1.6
Nechako	211,500	218,500	230,000	240,000	240,000
% ch	10.8	3.3	5.3	4.3	0.0
Northeast	285,000	268,000	271,000	280,000	290,000
% ch	5.6	-6.0	1.1	3.3	3.6
Province	500,000	537,000	515,000	510,000	516,000
% ch	7.6	7.4	-4.1	-1.0	1.2

Median Annual Residential Price by Select CMA and CA					
	2017	2018	2019	2020	2021
Vancouver CMA	692,000	742,800	690,000	670,000	682,000
% ch	3.3	7.3	-7.1	-2.9	1.8
Abbotsford-Mission CMA	510,000	560,000	540,000	530,000	535,000
% ch	9.7	9.8	-3.6	-1.9	0.9
Victoria CMA	555,000	600,000	605,000	600,000	610,000
% ch	9.3	8.1	0.8	-0.8	1.7
Kelowna CMA	480,000	525,000	502,000	490,000	495,000
% ch	11.0	9.4	-4.4	-2.4	1.0
Chilliwack CA	429,000	488,000	480,000	480,000	483,000
% ch	16.3	13.8	-1.6	0.0	0.6
Nanaimo CA	395,000	432,450	429,000	430,000	433,000
% ch	14.8	9.5	-0.8	0.2	0.7
Vernon CA	372,000	387,000	380,000	375,000	379,000
% ch	5.1	4.0	-1.8	-1.3	1.1
Penticton CA	350,000	365,000	370,000	373,000	375,000
% ch	7.9	4.3	1.4	0.8	0.5
Kamloops CA	363,000	382,750	380,000	385,000	390,000
% ch	7.7	5.4	-0.7	1.3	1.3
Prince George CA	265,000	289,000	295,000	305,000	312,000
% ch	3.9	9.1	2.1	3.4	2.3
For St. John CA	339,000	328,250	320,000	340,000	350,000
% ch	1.2	-3.2	-2.5	6.3	2.9
Cranbrook CA	272,000	295,000	299,000	303,000	306,000
% ch	8.8	8.5	1.4	1.3	1.0

Source: Landcor, Central 1 Credit Union 2019-2021 forecast