B.C. Economic Briefing

Volume 25 • Issue 24 • Week of June 10-14 2019 | ISSN: 1981-355

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Highlights:

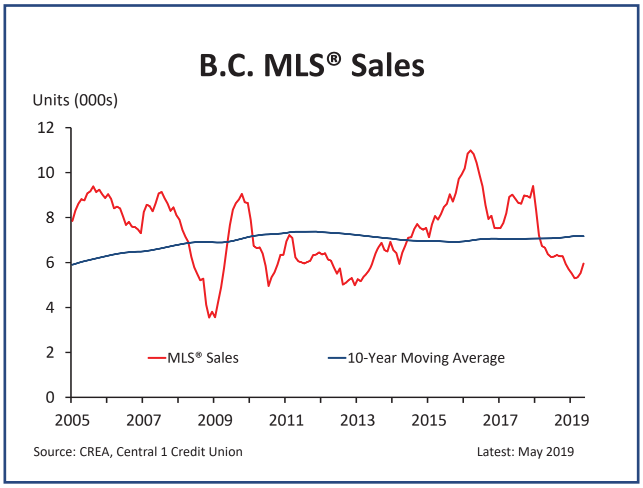
- BC home sales pick up in May but levels remain low
- Developers rush to avoid development cost charge hikes boosting residential permits
- Housing starts remain robust in May to defy expectations
- Private and public spending keeps building intentions high

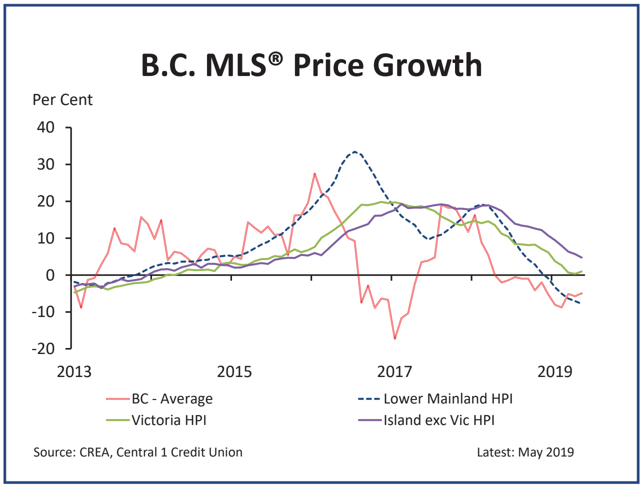
Housing sales remain weak but may have turned the corner

B.C.’s negative housing sales cycle may have turned the corner with provincial MLS® activity rising significantly in May according to the Canadian Real Estate Association (CREA). Total sales rose 7.6 per cent from April to a seasonally-adjusted 5,954 units marking a third consecutive gain and the highest level since October. Nevertheless, activity continues to trend at a low pace and is a long way from normal. Year-over- year sales improved from a 17 per cent decline in April to a 6.5 drop in May but owed in part to a base year effect of declining sales a year ago. May sales were still 17 per cent below the ten-year average. The combination of federal mortgage stress tests and provincial tax measures continue to constrain activity although strength in the labour market, easing mortgage rates and price cuts in some markets may be helping to lift sales from bottom.

Sales rose in most regions from April, albeit led by the core Metro Vancouver area represented by the Real Estate Board of Greater Vancouver. Sales in this area rose 24 per cent from April to 1,915 units and account for nearly 90 per cent of net provincial gains. Victoria area sales rose 10 per cent, with Kamloops sales up 8.7 per cent and the Kootenay up 14 per cent. Okanagan and northern B.C. declines were partial offsets.

Higher sales tamed inventory growth with active listings unchanged from April on a seasonally-adjusted basis, albeit 23 per cent higher than a year ago. Sales-to-active listings at 15 per cent is consistent with a generally balanced market, but conditions vary. Buyers remain firmly in the driver’s seat in Metro Vancouver with a ratio trending just above 10 per cent. Sellers are needing to be much more flexible in pricing expecta-





tions, leading to lower market values. Okanagan area markets are similarly in favour of buyers, with factors such as the speculation tax, less recreational demand from Metro Vancouver and weaker Alberta economy impacting activity. In contrast, inventory remains relatively low compared to sales on Vancouver Island contributing to persistence of tight market conditions.

B.C.’s average price rose two per cent from April to $678,030 marking the highest level since December 2018 but fell five per cent year-over-year. More sales in the higher priced Vancouver market contributed to a higher provincial price, despite further price erosion in the area. Average prices also declined on Vancouver Island, both in Victoria and other parts of the region, but rose in the southern interior. That said, average values are often an unreliable metric to gauge monthly price changes given the impacts of sales composition.

The CREA constant-quality housing price indicator (HPI), which is available for select markets, fell 0.3 per cent from April in the Metro Vancouver/Abbotsford-

Mission area and was down 7.8 per cent year-over-year. Vancouver Island continued to rise, with Victoria up one per cent from a year ago, and the rest of the Island up 4.7 per cent. The HPI for the Okanagan fell one per cent.

While the sales cycle may have bottomed, we expect any rebound to be mild given current housing policies. Annual MLS® sales are forecast to decline 13 per cent this year. Price trends will remain negative in markets like Metro Vancouver and to a lesser extent the Okanagan through 2019.

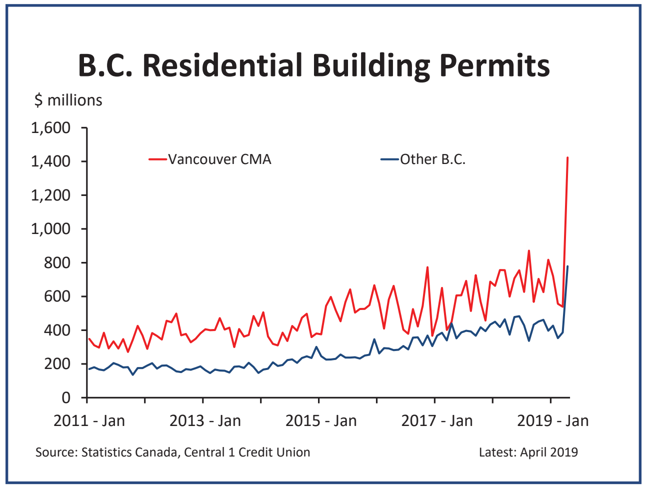
Permits surge, housing starts remain robust

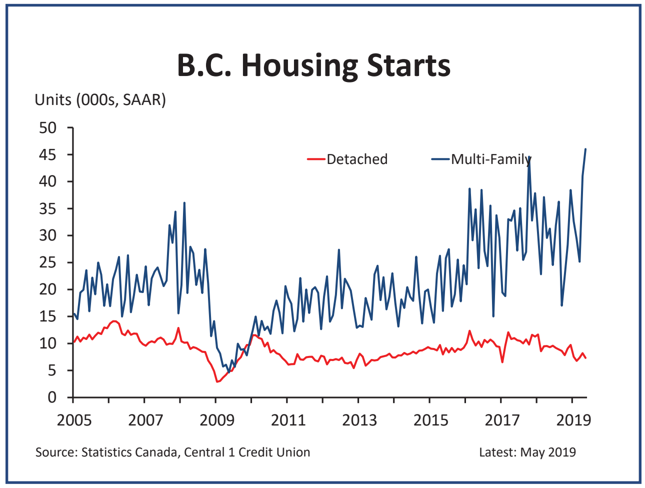
Residential construction activity continued to defy expectations with the latest permit and housing starts data showing ongoing strength. Residential building permits rose 138 per cent in April from March to a record high $2.2 billion (seasonally-adjusted). This doubled the previous high of $1.1 billion set in June 2018. The Vancouver census metropolitan area (CMA) drove the gain with dollar-volume permits up 164 per cent to $1.42 billion almost entirely for multi-family projects, while Abbotsford-Mission permits rose more than six times March levels to $69.8 million. Kelowna permits rose 46 per cent from March to $76.6 million, while Victoria permits declined 32 per cent.

The surge in the Vancouver CMA reflected developers expediting activity in advance of changes in development cost charges in May. Development cost charges (DCC) were hiked sharply last year as of May 1, 2018 (in some areas by more than 200 per cent). Developers had until April 30, 2019 to have alterations or extensions approved for applications that were in-stream as of May 1, 2018 to be subject to lower existing rates.

With April's gain, year-to-date activity in B.C. rose 13 per cent, led by an 18 per cent increase in the Vancouver CMA and a 58 per cent increase in Abbotsford-Mission. This permit surge is temporary and most likely will decline sharply in coming months.

Rising permit activity coincided with robust levels of housing starts. Urban area housing starts rose to a seasonally-adjusted annualized pace of 53,350 units in May to extend April's sharp gain. Multi-family starts rose while detached starts declined. This was the strongest month since October 2017. Not surprisingly, the Vancouver CMA led this increase, with starts up to a 42,700 seasonally-adjusted annualized rate (SAAR)

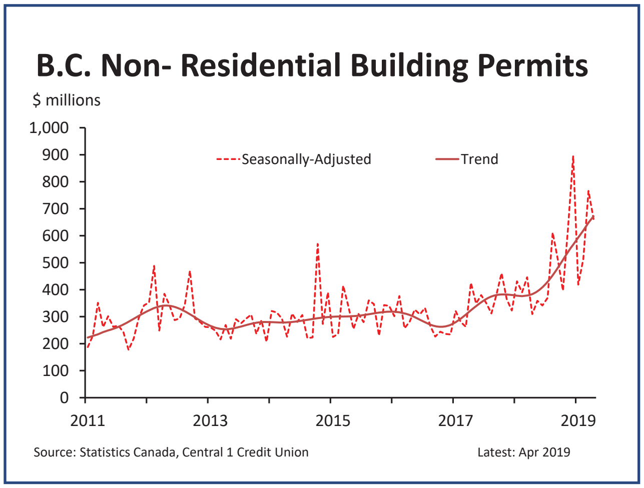


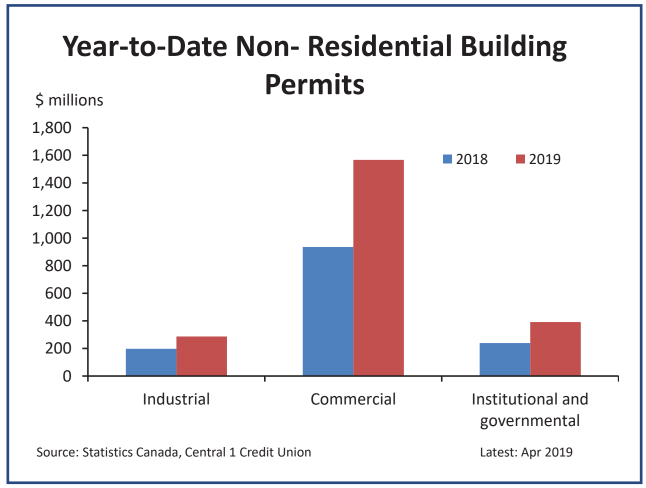


from 34,200 in April. During the first quarter, starts were trending near 25,000 units. Abbotsford-Mission starts rose from 1,000 saar units to 1,772 units, while Victoria halved to a 2,311 pace after an April surge.

On a year-to-date basis, starts increased by seven per cent. Gains are led by a 10 per cent increase in the Vancouver CMA and an 11 per cent increase in Victoria. Abbotsford-Mission CMA starts have doubled, albeit to only 565 total units, while Kelowna starts have declined 45 per cent.

Housing starts are expected to wane. While developers getting ahead of higher DCCs have likely triggered some expedited activity, market conditions remain subdued. Elevated inventory and federal and provincial policy measures are hampering pre-sale activity which will delay and curtail new construction over the next year. This will particularly be the case in the Vancouver CMA where prices are declining and building activity is near a record high. May's increase in starts pushed units under construction in Vancouver to 43,964 units in May, with more than 35,900 units being apartment units. Nearly 80 per cent of total units





under construction are homeowner/condo. Housing completions this year and next will sustain upward pressure on inventory. We continue to forecast a drop in provincial housing starts of up to 10 per cent this year on a second half slowdown with further declines in 2020.

Non-residential construction trends elevated

Non-residential permit volume also remained robust despite declining from March. Following a 50 per cent increase in April, permits fell 13.6 per cent to $661.6 million. Nevertheless, levels remained elevated and double year-ago levels. Private-sector permits were broadly unchanged from April at $581.9 million (up one per cent) but offset by a 58 per cent pullback in public-sector building permits.

While permits are volatile, the current trend speaks to a strong construction cycle. Despite economic uncertainty outside of B.C. and softer retail climate, industrial growth related to major project spending, warehousing needs and increased public investment continue to support construction. On a year-to-date basis, non-residential permit volumes rose 63 per cent to $2.25 billion, with similar growth among both public and private sector activity. Among metro areas, gains were led by a 52 per cent increase in Vancouver CMA permits to reach $1.38 billion, accounting for just over half of the net provincial gain. Permits in Kelowna were nearly double same-period 2018 at $144.3 million, with Victoria up 25 per cent to $95 million. Abbotsford-Mission has recorded a drop of 60 per cent to 23.7 million. Activity outside the metro areas has been disproportionately strong, with volumes up 136 per cent to $597 million -accounting for 40 per cent of the gain.

Large gains have been observed in the transportation and utilities sector, which has increased more than four times this year to $125 million. Warehouses are up 76 per cent to $236.8 million, trade and services structures have doubled to $343 million and permit values for hotels and restaurants have tripled to $397.9 million. Schools and hospitals have been substantial drivers of the gain.

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