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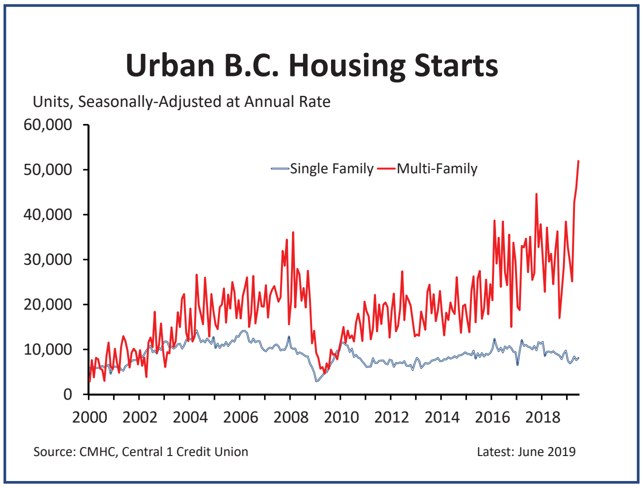
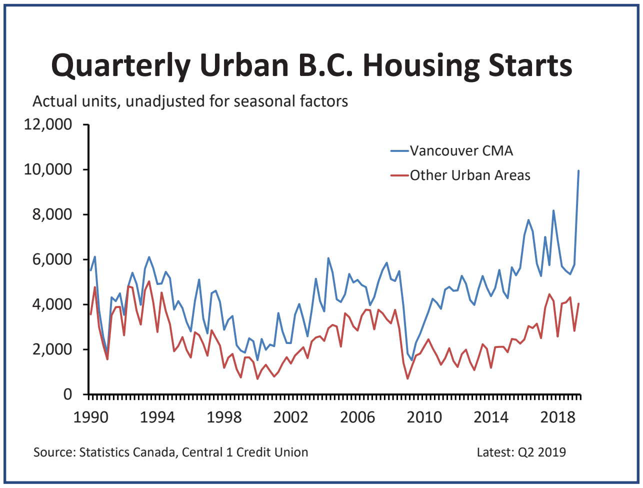
Highlights:

- B.C. housing starts post a blow out month in June but pull back expected
- Urban area starts up 18 per cent through mid-year
- Non-residential permit trend positive despite second straight decline





Housing starts surge to record high in June

B.C.'s new home construction sector posted another blow out month in June as housing starts jumped to a new record high going back to at least 1990. Monthly seasonally-adjusted housing starts rose to an annualized pace of 60,023 units up from a 53,600 pace in May, and 76 per cent above a year ago. While Metro Vancouver's record pace was maintained, starts in other metro markets were mixed. Kelowna starts more than doubled to 2,900 units, while Abbotsford-Mission starts declined by half. Victoria starts were unchanged. Provincial gains in June were driven predominantly by smaller urban areas.

June starts capped off an exceptionally stronger and somewhat confounding quarter. Actual non-annualized urban starts reached nearly 14,000 units. This was the most of any quarter going back to 1990, and 43 per cent above year ago levels. The average long-term Q2 starts was 7,621. Strength has come from the apartment sector and is driven by building activity in Metro Vancouver.

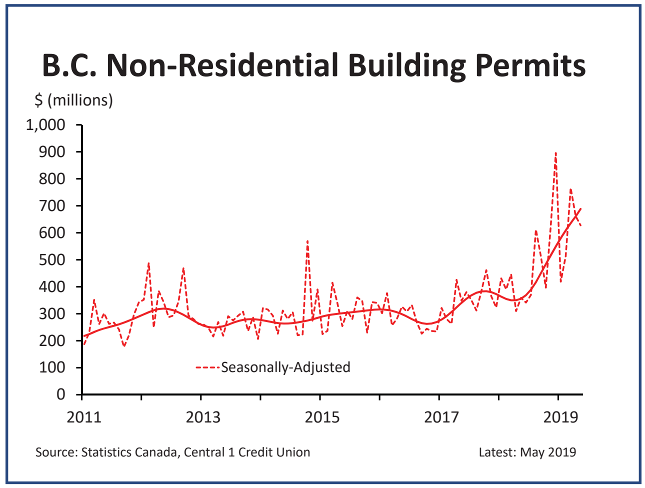
There is a severe disconnect between housing starts which are up 18 per cent through the first six months, and the resale housing market where sales are sluggish and prices are declining, particularly in Metro Vancouver. Long development cycles are likely a driver. While demand for homeownership has slowed with policy measures, current project starts reflects pre-sold projects in the pipeline planned when the market was significantly stronger. Recent hikes to development cost charges in Vancouver drove higher building permits in April and likely pulled construction dates forward on some projects. Rental construction has declined four per cent from the first half of 2018. A pullback in May residential permit volume of 63 per cent to $827 million, following a doubling in April to a record high points to a slowing housing starts going forward.

Nevertheless, with the strong first half, housing starts could very well outpace 2018's performance of more than 40,000 units (inclusive of rural areas). That said, this will only delay a more substantial decline in housing starts going forward. Demand constraining policies and elevated home inventory have curtailed pre-sale activity which will lead to a drop off in multi-family developments going forward. Developers will also be wary of the high number of units currently being construction, some of which include investor purchases destined for the resale market.

Rising non-residential construction momentum despite May pullback

Non-residential construction momentum remained solid in May but declined for a second straight month. Total dollar-volume building permits fell 5.2 per cent from April to $627 million which was the lowest level since February. Industrial permits fell 44 per cent from April to $55.7 million, while commercial permits declined 18 per cent to $397.7 million. Private sector declines were largely offset by a doubling in government permits to $174.1 million. The latter reflected construction permits for secondary and elementary schools, according to Statistics Canada.

Despite the drop, permit volumes rose 67 per cent through the first five months, compared to same-period 2019 with strong growth across private and public-sectors. Public- sector permits have doubled, with commercial activity up 69 per cent, and industrial permits up 23 per cent. Gains have been led by the Vancouver metro area which has seen a 68 per cent increase in non-residential permits over the first five months, and Kelowna up 68 per cent. Victoria permits rose 24 per cent, while construction intentions fell 60 per cent in Abbotsford-Mission. Elevated permits reflect growth in the domestic economy, a stable business environment and efforts to support the growing population and labour force. This demand, alongside construction on major engineering and infrastructure projects, will continue support the construction sector as the new home sector slows in coming years.



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