B.C. Economic Briefing

Volume 26 • Issue 2 • Week of January 13-17 2020 | ISSN: 1981-355

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Highlights:

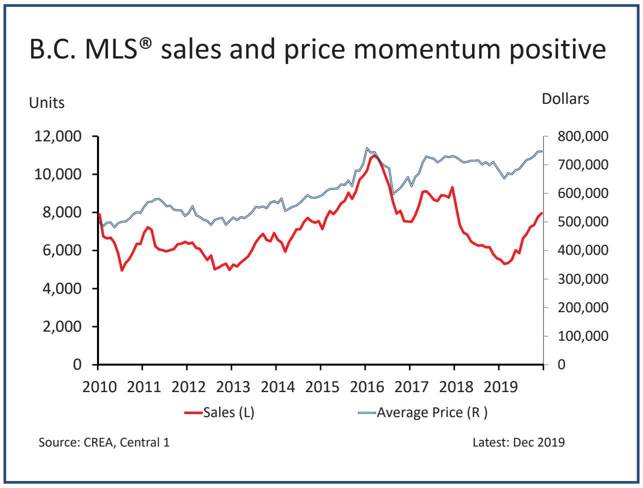
- Rise in second half activity keeps MLS® sales level in 2019
- Improving sales momentum, low inventory driving prices higher
- Renters see little relief despite increase in rental housing stock in 2019
- B.C. rental vacancy rates nearly unchanged at 1.5 per cent
- Rent growth slips to 4.2 per cent but outpaces inflation

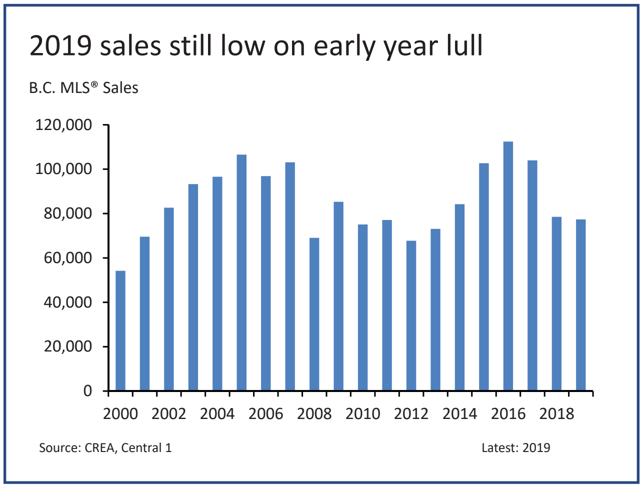
Annual sales in 2019 weak, but sales and market momentum continues into 2020

Provincial MLS® home sales maintained upward momentum through December with a ninth increase in 10 months after starting the year at depressed levels. Sales rose to a seasonally- adjusted 7,953 units in December, marking a gain of 2.5 per cent from November. Year-over-year, unadjusted December sales rose 49 per cent.

While trends are positive, outsized gains largely reflect weak base year effects. Monthly sales are trending about 10 per cent above the long-term average but full-year sales in 2019 edged lower by 1.5 per cent. This followed a near 25 per cent decline in 2018 as federal and provincial policies continued to constrain sales. Annual sales rose 1.1 per in the Lower Main-land-Southwest, with declines of near five per cent on the Island, northern B.C., and interior markets.

Upward sales momentum into 2020 is being driven by Lower Mainland markets which were most effected by the policy changes. Households have adapted to federal mortgage stress tests, in part by saving larger down payments and potentially receiving more financial aid from parents for younger buyers. Meanwhile, the lure of lower prices in markets like the Lower Mainland, mortgage rate cuts, a tight labour market, and population growth have driven a sales rebound. Other regions in B.C. have experienced more moderate gains in sales but were also less affected by the policy changes. Resource based communities are feeling ongoing pressure from the deep forestry market downturn, while coal market conditions have





also worsened. Sales are forecast to climb 13 per cent this year as they maintain momentum through 2020 due to low interest rates and population growth.

Improved sales and constrained listings across markets has led to firming conditions in most markets. While edging higher in December, the 143,900 new listings across the province in 2019 was a 2.8 per cent drop from 2018 and the lowest since 2005. Month-end active listings (or inventory) fell 11 per cent from a year prior and were at their lowest since mid-2018. The Lower Mainland and Vancouver Island are showing sales-to-inventory ratios that traditionally favour sellers and rising prices, with more moderate conditions elsewhere in B.C.

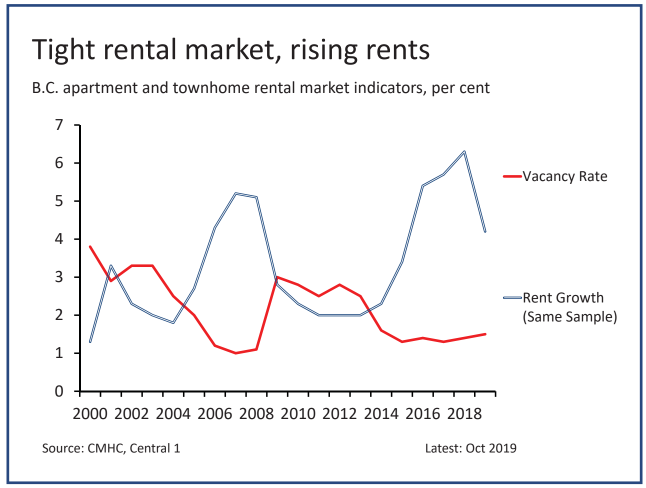
The average price edged higher to $746,832 (season-ally- adjusted) in December and was up 8.7 per cent year-over-year.This partly reflects a higher share of sales in the higher priced Lower Mainland market, although prices were broadly higher than a year ago across the province. Benchmark housing price measures, which adjusts for housing composition, has climbed in recent months. Lower Mainland values rose one per cent from November but are continuing to dig out of the hole they entered during the downturn, with year-over-year values down 2.9 per cent. Values in Victoria, other Vancouver Island, and the Okanagan rose in a range of 1.0 – 1.5 per cent from November and rose anywhere from 2 – 4 per cent from a year ago. Rising sales, low inventories and solid economic and population growth is likely to keep prices on the rise through 2020. Central 1 forecasts the average annual MLS® price to rise about five per cent this year.

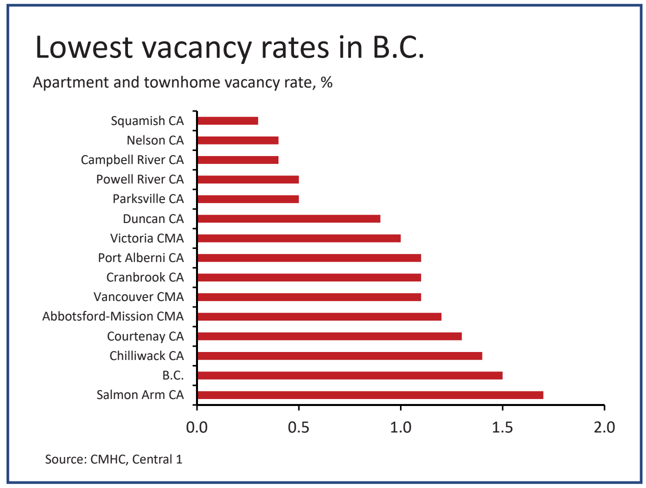
Supply climbs in 2019, but rental market remains tight across B.C.

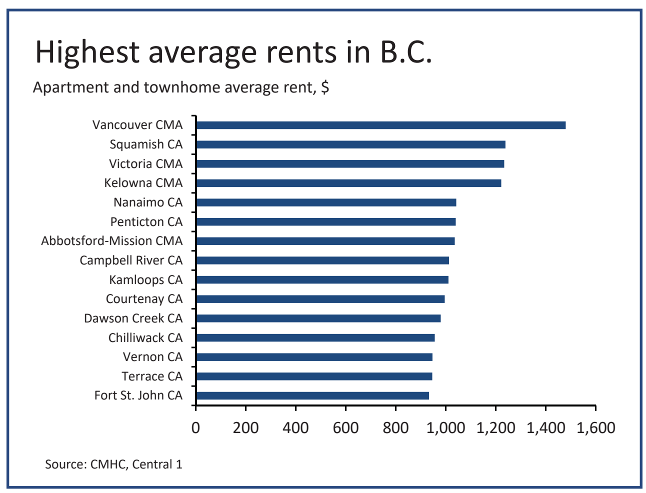
Despite a healthy increase in the number of units last year, housing challenges for B.C. renters remained daunting in 2019. According to Canada Mortgage and Housing Corporation, the purpose-built rental market vacancy rate for apartments and townhomes in B.C. was a scant 1.5 per cent, up slightly from a 1.4 per cent rate in 2018. Expansion of the rental stock by two per cent or 3,616 units (primarily in the Vancouver and Kelowna Census Metropolitan Areas) were largely absorbed by the market.

Among B.C.'s largest urban areas, the vacancy rate in the Vancouver CMA was 1.1 per cent, with similar rates in both Abbotsford- Mission and Victoria. A boost in rental product completion in Kelowna lifted the area's vacancy rate to 2.6 per cent from 1.8 per cent. Strong population flows to large urban areas, and constrained ability to get into ownership markets due to higher prices and more stringent federal mortgage stress tests have kept rental demand high. Vacancy rates in B.C.'s CMAs were among the lowest in Canada.

Tight rental markets are not only the purview of B.C.'s major urban areas. Rental accommodations are scarce in many areas of the province. Of the 22 markets surveyed outside the major metro areas, 10 had vacancy rates below 1.5 per cent. Specifically, Vancouver Island markets are particularly tight, with similar performances in interior markets like Salmon Arm, Kamloops, Cranbrook and others. Higher vacancy rates are observed in northern B.C., which is not abnormal but economic challenges have lifted rates in Dawson Creek to 18 per cent from 8.5 per cent in 2018, while Fort St. John was at 12.7 per cent





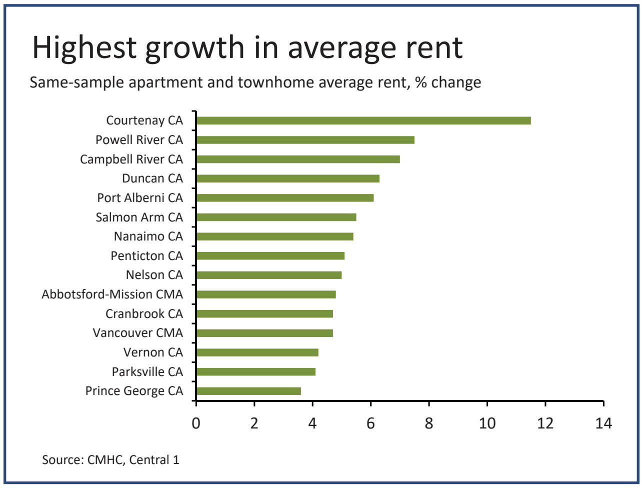


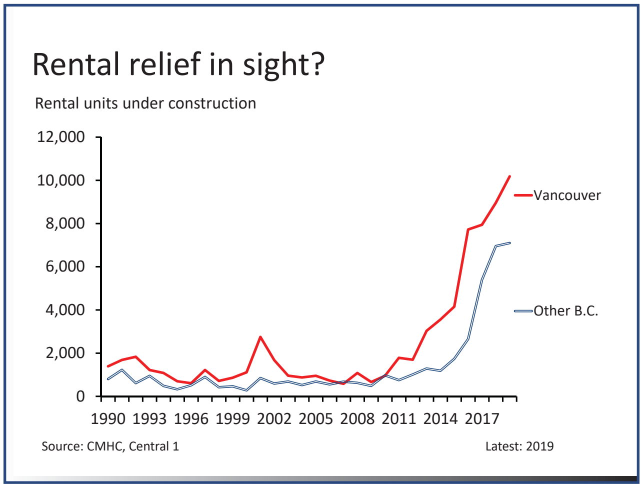
Average rents in B.C. rose from $1,251 in 2018 to $1,324 in 2019, reflecting a combination of higher rents on new construction and rent inflation. The highest rents were unsurprisingly in the Vancouver CMA at $1,480 with Victoria and Kelowna second at near $1,230. Same- sample rent growth, which takes out new units and those temporarily out of the market, rose 4.2 per cent in 2019 following a 6.3 per cent increase in 2019. This was the slowest growth since a 3.4 per cent rate in 2015. Notable gains were in the

Vancouver CMA (4.7 per cent), Abbotsford-Mission (4.8 per cent), and Courtenay (11.5 per cent), although strong rent growth was the norm rather than exception.

Headline rent growth underestimates the magnitude or rent pressures. Growth in rents are limited by provincial regulation to the rate of inflation. Much of the increase observed reflects much stronger increases to unit rent when a unit is turned over as units move back to current market rents. This leads to lower mobility as renters have less incentive to move if needed.

Strong rent growth is a significant affordability challenge for household budgets, and over the long-term can be slowed by additional supply (net of demolitions), either by individual owned condominium rentals or new purpose-built rental stock. This is evident in Kelowna which saw a large bump in rental universe and a decline in rent growth from 8.1 per cent in 2018 to 2.4 per cent in 2019. There are some positive signs on this front. The total number of rental units under construction reached 17,281 (95 per cent apartment) in the fourth quarter which was up 14 per cent from a year ago, and about triple levels from four years ago. There were about 10,100 units under construction in the Vancouver CMA in Q4. High rents have driven market construction, while government investments have also lifted activity. These units will come on stream over the coming two years which should alleviate some pressure on the rents, although population growth will absorb much of this new supply.





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