



Highlights:

- Strong housing market conditions spill into 2021 lifting annual sales and median home values across B.C.
- Low mortgage rates will continue to drive housing demand
- Recovering economy to support demand, but recreational housing demand likely to soften
- Rental market to firm in 2021 after pandemic softness as students and immigration ramps up
- Housing starts remain below 40,000 units per year through 2022

B.C. Housing Outlook: 2020-2022

Housing demand in British Columbia (B.C.) remains exceptionally strong as 2020 comes to a close, with affordability in the spotlight as median resale prices climb nine per cent this year and a further six per cent rise is forecast in 2021.

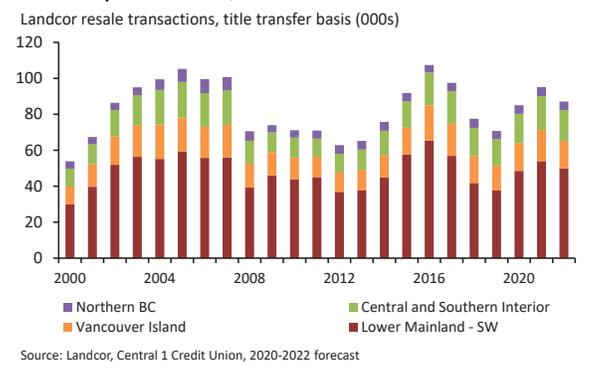
Current environment

The rebound in housing demand from pandemic-induced lows in the spring has been spectacular. Rather than a grinding recovery as many forecasters initially anticipated, sales have far outpaced pre-pandemic trends in short order. Nowhere has this been more prevalent than in B.C., where there has been a 16 per cent increase on year-to-date sales and October home sales came in at 10,400 units (adjusted for seasonal factors) which is 55 per cent above February levels – more than negating the spring freeze.

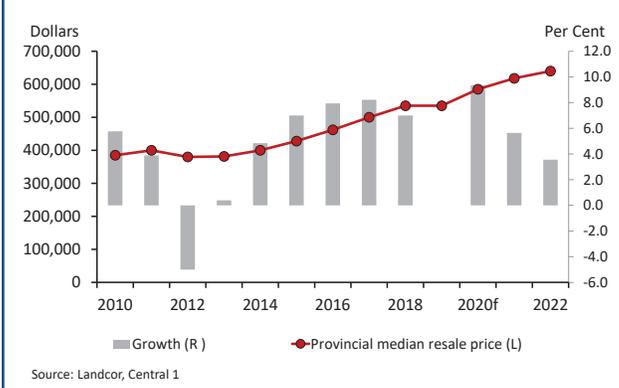
Among Canada's provinces, B.C.'s recovery cycle has been most vigorous, and sales have surged across almost all regions of the province.

Strong demand drivers are forecast to lift provincial resale home transactions by 20 per cent this year

Resale housing transactions up sharply in 2020 amidst pandemic, momentum lifts 2021 sales



Prices surge by nine per cent this year, six per cent in 2021



to 85,080 units with momentum continuing through 2021, driving a 95,000 unit performance that is just below 2017 levels.

Home ownership demand has been propelled by the unique characteristics of pandemic economics. Slashing of the Bank of Canada's policy interest rate and a plunge in bond yields due to the weak economy, plus promises of low policy rates to come have driven lower borrowing costs. Central 1 Economics' survey of brokers points to a five-year fixed rate near 1.8 per cent, almost a full percentage point lower than at the beginning of the year despite rigid posted rates.

The economy has of course been hammered by the pandemic, but home ownership demand has increased because those worst affected by this pandemic have been people in lower paid sectors, who were not close to entering the property market. On the other hand, people employed in higher paid

sectors have emerged relatively unscathed as they have been able to retain employment by moving to remote working. In addition, households are saving more due to a lack of spending alternatives, thereby lifting savings rates and stabilizing household incomes. Low interest rates and shift in preference towards suburban markets and away from downtown condos has further driven housing demand.

Home seekers are exhibiting greater demand for ground-oriented and larger units, providing a lift to suburban markets. In some cases, households in large, pricier urban markets are looking to smaller regions given expectations for a work from anywhere environment. Rural housing demand has also been driven by a surge in recreational buying.

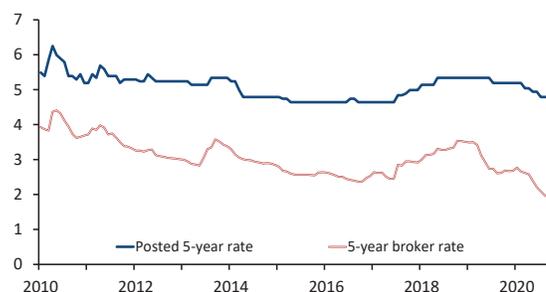
MLS® data across regional areas have shown similar patterns with sales up sharply and broadly. Sales in on Vancouver Island, Thompson- Okanagan, and Kootenay were up more than 60 per cent compared to February. Lower Mainland-Southwest sales rose 50 per cent, while northern B.C. sales were 37 per cent higher in October. Sales in the Lower Mainland-Southwest (which are driven by metro Vancouver sales) are the highest since 2016, while the south interior and Island markets are trending at or near record high levels as demand for principal and secondary residences have surged.

Housing supply has followed a similar trajectory to sales as strengthening market conditions and increasing demand on the part of households has contributed to a rising new listings trend. However, demand is broadly outpacing the increase in new listings and contributing to a tight supply of inventory across regions. Outside the Lower Mainland-Southwest, inventory is trending near decade-lows, while sales-to-active ratios have climbed to the highest levels in 20 years.

Shifting preferences has also impacted the types of homes sold and market conditions. MLS® data for the Lower Mainland which spans Metro Vancouver/ Abbotsford- Mission has shown a stronger sales cycle for ground-oriented units and in areas outside the core Vancouver area. Households are eschewing the tighter confines of urban apartment living in search for space, while condo apartment supply for sale has also climbed amidst an environment with few international students, new immigrants, and restrictions on services such as AirBnB. Sales-to-inventory ratios have surged into strong sellers' conditions for detached units and townhomes, while higher supply is keeping condo apartment conditions in check.

Steep declines in mortgage rates propel residential transactions

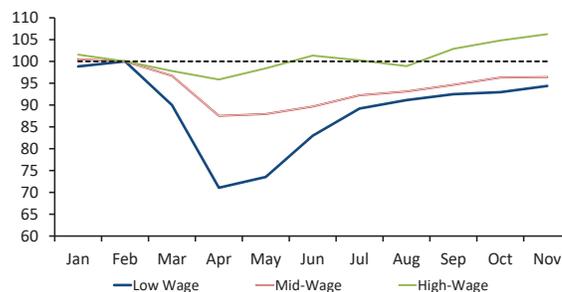
Mortgage rate , per cent



Source: Bank of Canada, Landcor, Central 1

Higher wage sectors less impacted by downturn, supporting homeownership demand

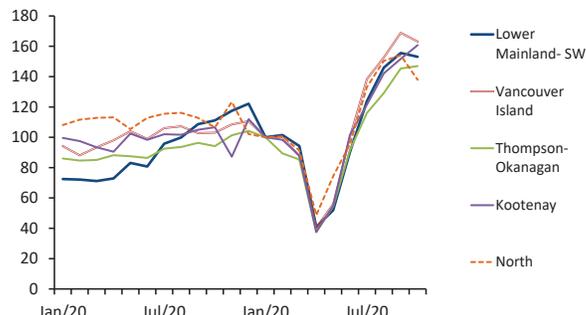
Index, Feb/20 = 100



Source: Statistics Canada, Central 1 calculations based on average weekly wage by industry

Home sales surge above pre- pandemic levels across B.C. with strong handoff to 2021

Indexed MLS® sales, Jan/20 = 100



Source: CREA, Central 1

Latest: Oct/20

Home prices continue to rise sharply. While price growth is moderating, provincially average home values rose 13 per cent year-over-year in October. Some of the strongest gains were observed in the interior and Island markets, where year-over-year gains have hit 20 per cent in some cases, albeit pointing to the shift in demand from larger urban markets to a desire for recreational properties. Housing composition is also a factor in price growth and sales of larger and more expensive homes are driving this growth. Indices

that attempt to adjust for quality and characteristics, including the MLS® housing price index and the Teranet repeat sales index, suggests more than half of year-over-year gains reflect changes in home types sold rather than pure price gains. Among product segments, ground-oriented price growth has far outpaced multi-family units. That said, price appreciation has been robust.

Forecast

Robust housing demand observed through the latter half of this year is expected to continue through to the first half of 2021. The economic environment is a mix of short-term challenges and future optimism and the economic recovery cycle is ongoing in B.C. and the rest of Canada. B.C. employment, while still 1.5 per cent lower than February, is out-performing most provinces and is on the rise, with sectors such as retail spending, manufacturing, and exports largely recovered. The second wave of COVID-19 has constrained the recovery during the fourth quarter which will likely continue into 2021 depending on severity. Some fragile sectors will shed jobs, although government household and business aid will continue to provide a cushion. Moreover, as we have observed through the earlier stages of the pandemic, the market is resilient with the industry shifting quickly to virtual home showings. Economic growth is forecast to pick up steam in the second quarter of 2021 onwards as the vaccine drives higher investment spending and consumer spending is unleashed when social and travel restrictions are eased. Population growth is also set to accelerate as borders re-open and the federal government targets a sharp increase in immigration, filling in some of the hole wrought by the pandemic.

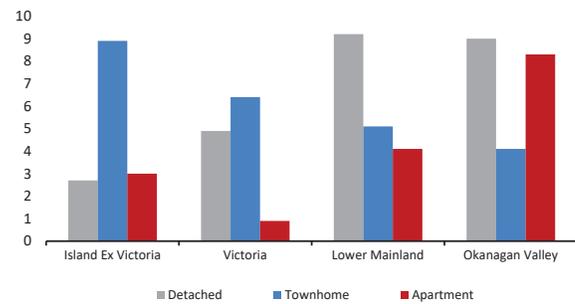
Households will continue to enjoy low mortgage rates despite a lift in bond yields in anticipation of a vaccine and strengthening economic growth. Elevated liquidity at financial institutions will likely mean aggressive mortgage pricing through the spring to compete for market share, driving rates even lower and maintaining rock bottom rates until mid-2021. The rate bottom is expected to give way to a modest rise in borrowing costs through the forecast horizon but levels will continue to prop up demand.

Housing transactions

While MLS® sales are widely watched for housing market trends, forecasts here are based on resale land title transfers. This allows isolation of resale housing market trends as compared to MLS® which may include land and new home sales. Additionally, land title transfer data covers the entirety of the province,

Prices for ground-oriented units surge, apartments lag

CREA MLS® Housing Price Index, Year-over-year per cent change

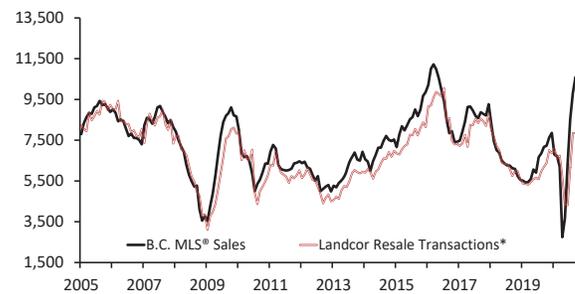


Source: CREA, Central 1

Latest: Oct 2020

MLS® home sales lead resale title transfers

Units



Source: CREA, Landcor, Central 1
*Land title transfers

Latest: CREA, Oct/20; Landcor Sep/20

rather than MLS® which reflect real estate board areas. Consistent housing definitions is also a benefit. However, land title transfers lag changes in the market, as transfers (closings) can occur up to three months from a firm sales agreement. Prior to the pandemic, MLS® sales had peaked in December 2019 and were slowing into 2020, but title transfer data would not peak until partway through the first quarter of 2020. Nevertheless, trends do align.

Landcor resale transactions are forecast to reach 85,080 units this year marking a 20 per cent increase from 2019. MLS® sales rose 17.6 per cent. Second half 2020 momentum in home sales carries forward into 2021 driven by the low mortgage rate environment but a bottoming of the rate cycle and satiation of pent up demand will erode the sales cycle significantly during the second half. Strong demand for recreational properties in some markets is likely to retreat as the vaccine availability and normalization of travel cuts into demand for domestic vacation properties (although this is supported by retiring households). Total resale transactions are forecast to rise 12 per cent in 2021 to 95,200, but declining momentum will lead to an 8.5 per cent drop in annual sales in 2021 to about 87,125 units.

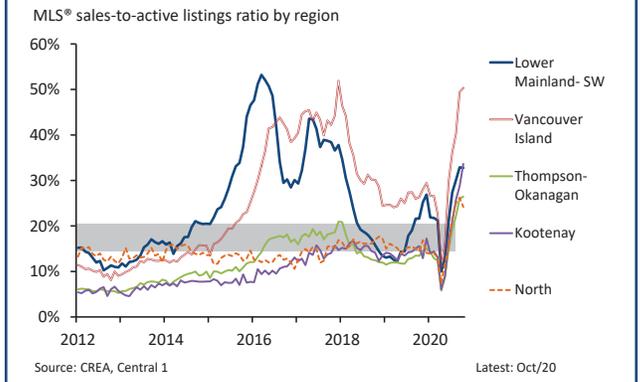
Higher levels of immigration will support demand but will likely fuel more growth in 2023 given demand lags.

Elevated demand and low inventories heading into 2021 will continue to lift prices before a pullback in sales contributes to a moderating price trend midway through the year. The median annual provincial price is forecast to reach \$585,000 this year and \$618,000 in 2021, representing growth of 9.3 and 5.6 per cent. Growth of about four per cent is forecast for 2022. Inventory is forecast to pick up in the spring as more owners look to higher prices and an end to the pandemic to test the market, while demand is expected to ease. Headline price levels in 2021 will understate growth as a rotation back towards lower priced condominium apartments is likely once the pandemic abates, and inflows of new immigrants and international students increase. We see little risk for a correction in home values over the forecast period as mortgage rates remain low. However, in some markets where pandemic expectation drove recreational purchases, buyers may very well have been caught up in excessive biddings and prices could fall back as the economy returns closer to normal, thereby challenging the liquidity of these types of properties.

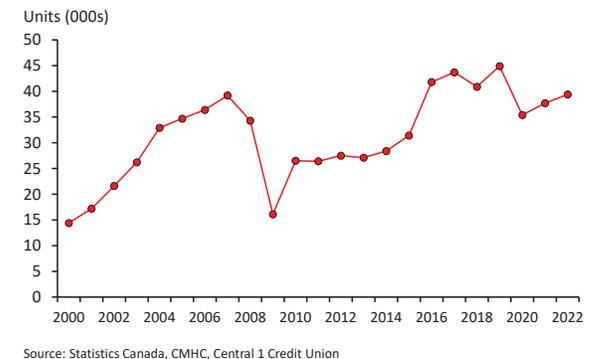
Rental market

Vacancy rates have risen this year as the pandemic has contributed to fewer immigrants and international students entering the country, while some younger renters likely returned to their family homes given higher unemployment in lower wage sectors and fears of cohabitating with others during the pandemic. Meanwhile, supply has been lifted with vacation rentals shifting back into the long-term rental market as international tourism has collapsed. With increased supply in the market, purpose-built apartment vacancy rates are forecast to rise to three per cent this year, although higher vacancy rates will be most evident in the largest urban centres like Metro Vancouver. Rents are forecast to broadly unchanged this year with rent freeze in place by the provincial government. Asking and realized rents are in decline but given turnover of existing renters, same-sample rent growth is forecast to climb by about one per cent. Rental market conditions are expected to tighten in 2021 and 2022 as economic conditions normalize and border restrictions ease. Inflows of new residents buoy rental demand activity. Builders will anticipate this demand and will continue to invest in new rental construction as pre-sale condo activity takes more time to recover.

Tight market conditions signal further price momentum in 2021



Housing starts down sharply in 2020, turn higher going forward



Housing Starts

Housing starts decline 21 per cent this year despite robust resale market activity. New housing construction lags resale market demand, and in recent years was slowed by various policy measures that hampered pre-sale activity including introduction of mortgage stress tests and the foreign buyer tax. Pre-sale activity was curtailed since 2018 which slowed the number of projects in the pipeline and construction starts. The pandemic generated further downward pressure earlier this year as projects were delayed due to adjustments required to promote physical distancing. While resale market demand is strong, this is offset in large part by the temporary pause in population growth. This will push out potential pre-sale activity and new construction. Total housing starts are forecast to rise 6.5 per cent in 2021 to 37,700 units and 39,400 units in 2022. A shift to mid-40,000 annual starts is expected in 2023-25 when more condo apartments break ground.

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Housing Forecast Summary

		2016	2017	2018	2019	2020	2021	2022
Residential Transactions	Resale Transactions (units)	107,389	97,512	77,531	70,773	85,080	95,200	87,125
	% change	16.9	-9.2	-20.5	-8.7	20.2	11.9	-8.5
	Resale Median Price (\$)	462,000	500,000	535,000	535,000	585,000	618,000	640,000
	% change	7.9	8.2	7.0	0.0	9.3	5.6	3.6
MLS® Activity	Sales (units)	112,426	103,956	78,526	77,350	91,000	108,000	100,000
	% change	9.5	-7.5	-24.5	-1.5	17.6	18.7	-7.4
	Listings (units)	157,225	150,719	148,527	144,291	144,500	154,000	150,000
	% change	2.8	-4.1	-1.5	-2.9	0.1	6.6	-2.6
	Average Price (\$)	690,342	708,856	711,360	700,370	778,000	840,000	900,000
	% change	8.6	2.7	0.4	-1.5	11.1	8.0	7.1
Housing Starts, Units	Total (units)	41,843	43,664	40,857	44,932	35,400	37,700	39,400
	% change	33.1	4.4	-6.4	10.0	-21.2	6.5	4.5
	Single-Detached	12,278	12,346	11,163	8,792	8,000	8,400	8,300
	% change	20.9	0.6	-9.6	-21.2	-9.0	5.0	-1.2
	Multi-family	29,565	31,318	29,694	36,140	27,400	29,300	31,000
	% change	38.8	5.9	-5.2	21.7	-24.2	6.9	5.8
Urban Area Starts by Tenure, 10,000+ pop areas	Total (units)	39,498	41,191	38,439	43,215	34,000	36,000	37,500
	% change	32.0	4.3	-6.7	12.4	-21.3	5.9	4.2
	Owned	29,703	31,702	26,897	31,120	24,000	26,000	28,000
	% change	22.2	6.7	-15.2	15.7	-22.9	8.3	7.7
	Rental	9,795	9,489	11,542	12,095	10,700	10,000	9,500
	% change	73.1	-2.2	21.6	4.8	-11.5	-6.5	-5.0
Rental Market (%)	Row/Apartment Vacancy Rate	1.4	1.3	1.4	1.5	3.0	1.9	1.6
	Sample Sample Rent	5.4	5.7	6.3	4.2	1.0	2.0	3.5

Source: Landcor, CREA, CMHC, Central 1

Terms

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Annual Residential Resale Transactions, Units

	2016	2017	2018	2019	2020	2021	2022
Vancouver Island/Coast	19,552	17,891	14,798	13,658	15,500	17,250	15,300
% change	31.6	-8.5	-17.3	-7.7	13.5	11.3	-11.3
Lower Mainland/Southwest	65,388	56,900	41,847	37,921	48,500	54,000	50,000
% change	13.3	-13.0	-26.5	-9.4	27.9	11.3	-7.4
Thompson/Okanagan	15,043	14,443	12,238	11,199	12,500	14,600	13,000
% change	25.0	-4.0	-15.3	-8.5	11.6	16.8	-11.0
Kootenay	3,247	3,644	3,639	3,368	3,800	4,300	4,000
% change	20.9	12.2	-0.1	-7.4	12.8	13.2	-7.0
Cariboo	2,586	2,836	2,760	2,628	2,650	3,000	2,800
% change	7.5	9.7	-2.7	-4.8	0.8	13.2	-6.7
North Coast	639	656	930	783	830	800	800
% change	-10.5	2.7	41.8	-15.8	6.0	-3.6	0.0
Nechako	412	477	515	478	530	550	525
% change	-20.0	15.8	8.0	-7.2	10.9	3.8	-4.5
Northeast	522	659	803	735	770	700	700
% change	-42.6	26.2	21.9	-8.5	4.8	-9.1	0.0
Province	107,389	97,512	77,531	70,773	85,080	95,200	87,125
% change	16.9	-9.2	-20.5	-8.7	20.2	11.9	-8.5

Source: Landcor, Central 1

Median Annual Residential Price

	2016	2017	2018	2019	2020	2021	2022
Vancouver Island/Coast	382,000	420,000	461,250	489,000	550,000	580,000	600,000
% change	9.2	9.9	9.8	6.0	12.5	5.5	3.4
Lower Mainland/Southwest	598,000	638,000	690,000	670,000	730,000	770,000	802,000
% change	10.7	6.7	8.2	-2.9	9.0	5.5	4.2
Thompson/Okanagan	355,000	380,000	399,950	421,000	470,000	500,000	515,000
% change	6.3	7.0	5.3	5.3	11.6	6.4	3.0
Kootenay	244,000	259,000	275,000	296,000	331,000	345,000	355,000
% change	1.7	6.1	6.2	7.6	11.8	4.2	2.9
Cariboo	227,000	239,000	255,000	275,000	310,000	320,000	330,000
% change	2.3	5.3	6.7	7.8	12.7	3.2	3.1
North Coast	240,000	240,500	255,000	296,000	315,000	330,000	340,000
% change	0.0	0.2	6.0	16.1	6.4	4.8	3.0
Nechako	189,750	209,000	215,000	224,325	223,000	230,000	250,000
% change	4.3	10.1	2.9	4.3	-0.6	3.1	8.7
Northeast	271,500	285,000	270,000	268,410	262,000	260,000	265,000
% change	-9.5	5.0	-5.3	-0.6	-2.4	-0.8	1.9
Province	462,000	500,000	535,000	535,000	585,000	618,000	640,000
% change	7.9	8.2	7.0	0.0	9.3	5.6	3.6

Source: Landcor, Central 1