Economics | Forecast / Outlook Reports

Economic Analysis of British Columbia

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central 1 Economics

Highlights:

- Home prices surge 18 per cent in 2021; growth of four per cent forecast for 2022 and two per cent in 2023
- Sales to ease by 21 per cent in 2022 and by three per cent in 2023
- Resale transactions normalizing from pandemic peaks but economic recovery and population growth supports elevated volume
- Southern interior and Vancouver Island markets benefitted from remote workers and vacation home buyers
- Rising interest rates a headwind for demand as affordability further eroded, rotating market towards apartment and townhomes
- Affordability erosion expected to be a key constraint for the market in 2022 amidst higher mortgage rates and prices
- Housing starts to remain robust near 45,000 annual units
- Rental vacancy rate declines to 2.2 per cent in 2021, and will continue to decline to about 1.7 per cent by 2023.

British Columbia Housing Market Outlook 2021- 2023

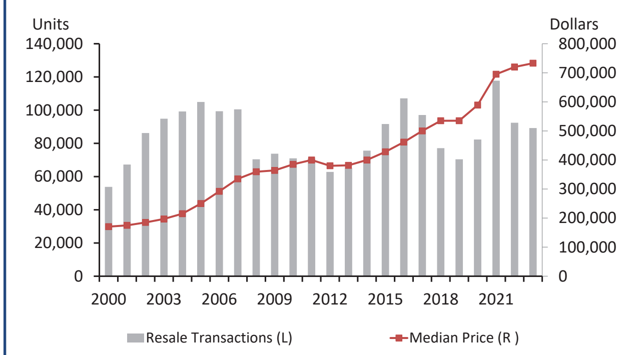
The roaring pandemic ends; sales normalizing but demand remains strong

Housing demand has settled down after a record pandemic-fueled surge during the latter half of 2020 and early 2021.

Home sales have dropped by about 30 per cent from the record high pace observed in the Spring, but this is a move towards normalization. Even with downward trend, MLS® sales were still nearly 50 per cent above pre-pandemic February 2020, albeit generally moving closer to the long-term average for provincial sales.

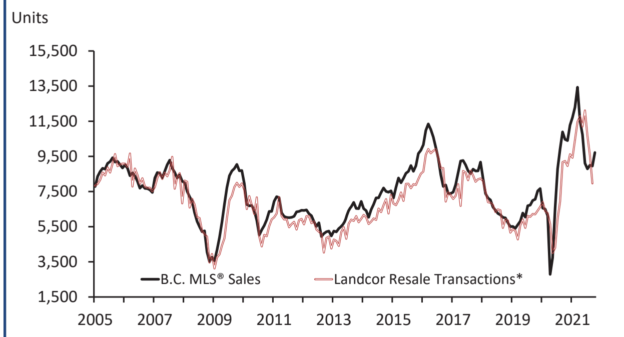
While much pent-up demand has likely been satiated, the combination of low borrowing costs, changes in preferences towards homeownership, and investor demand continues to support demand. Foreign purchasing – long deemed a source of escalating prices – has been a non-factor during the pandemic with little recorded volume.

Home sales to moderate, price growth slows



Source: Landcor, Central 1 Forecast: 2021- 23

Surge in pandemic home sales gives way to normalization but levels remain robust



Source: CREA, Landcor, Central 1 Latest: CREA, Oct/21
*Land title transfers

With much of 2021 already baked in, MLS® home sales are projected to come in at about 122,000 sales this year, up about 30 per cent from 2020. Record sales earlier this year and the temporary plunge in activity at the front-end of the pandemic contributes to this large gain.

Our preferred data for forecasting is resale title transfer data because information is more complete and comparable across the province. However, transfers statistics lag purchase and sale agreements by one to three months. Most of the pandemic upswing was captured in 2021 sales flow. Resale title transfers growth reaches 43 per cent for 2021 to 117,800 sales, compared to a previous high of 107,150 units in 2016. Despite substantial demand outside metro areas, apartments have seen market share grow as part of the resale pie this year.

Normalization of the sales trend is expected, driving a decline in resale title transfers of 21 per cent to about 92,500 units in 2022 but these levels remain high. Sales ease three per cent to 89,275 units in 2023.

Despite some likely headwinds from the emergence of higher borrowing costs, conditions are still supportive of housing demand.

B.C.'s economy continues to recover and is forecast to expand by 5.3 per cent this year after a relatively modest contraction in 2020 and see further expansion of more than four per cent in 2022 as more of the economy and social interactions normalize. Employment which has already recovered pandemic losses, will continue to track higher during the forecast period with growth of 6.5 per cent this year and 3.2 per cent next. Growth sectors such as technology and professional services will be joined by rebounds in sectors hammered by the pandemic including hospitality, arts/recreation and tourism related services. Additional waves of COVID-19 spread is a negative risk, but as we have seen, the effects of each subsequent wave on the economy have diminished reflecting vaccine progress, and more targeted restrictions on higher risk sectors of the economy.

Recent B.C. floods have had devastating effects on local communities and could shave growth for 2021 due to lower exports and manufacturing, but rebuilding of infrastructure will likely add to 2022 GDP.

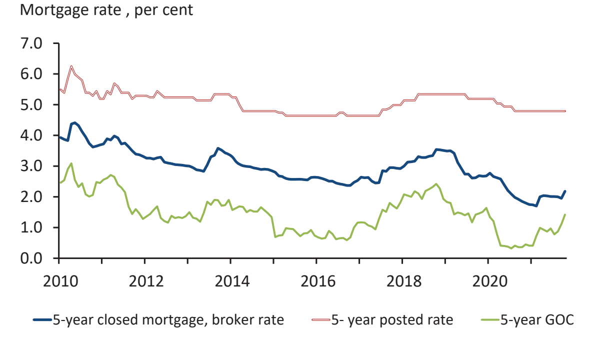
Slower population growth, which came in at about one per cent per cent on a July-over-July basis masked the fact that, while international immigration slumped, the province saw buoyant interprovincial migration and evidence of increased urban outflow to suburbs and smaller markets as remote work allowed for a dispersed workforce. Demand for recreational properties also added to market demand. This has particularly benefitted southern interior and Vancouver Island markets.

Increased acceptance of remote and hybrid work in a post-pandemic period means much of the intra-provincial shift is sticky and will continue to boost local economies. That said, the surge in relocation is likely behind us as firms and households have adapted, while firms recall workers back to offices which will boost urban cores. More robust international immigration is forecast which will largely support demand in Metro Vancouver.

A commodities uplift has lifted northern B.C. activity, although this is looking to be more short-lived as lumber markets have reverted following a pandemic surge.

That said, sharp affordability erosion is expected to be a key constraint for the market in 2022. The surge in pandemic-era prices is further amplified by rising mortgage rates, reflecting rising trends in bond yield and interest rate expectations amidst significantly higher inflation. The 5-year bond yield set the trend for associated mortgage rates and has doubled since September to a range of 1.4 – 1.5 per cent and compares to near 0.4 per cent at the beginning of the year. Contract rates are already adjusting higher and posted mortgage rates will also rise but will be less sensitive to shifts in yields. Central 1's broker survey points to a 5-year rate that has climbed to about 2.3 per cent, up from 1.7 per cent at the beginning of 2021, but still below the 2.7 per cent rate prior to the pandemic. Rising rates are expected to lift the 5-year broker rate to a range of 3.2 to 3.5 per cent by the end of 2023.

Higher mortgage rates ahead, affordability further eroded



Source: Bank of Canada, Central 1 Broker Rate Survey

The reversion in mortgage rates and pandemic price explosion have erased affordability gains from early pandemic rate cuts. Assuming similar down payment ratios, mortgage payments would be about 20 per cent higher than pre-pandemic levels. Higher down payments via pandemic savings, family gifting and extended amortizations could have lessened the impact. While a short-term increase in sales is likely as prospective buyers lock in lower pre-approved rates, higher rates will temper demand in 2022 and 2023. Mortgage stress tests mean there remains room for buyers to absorb the increase. Demand fundamentals will remain solid, but we expect the affordability erosion to rotate demand towards the last vestiges of affordability: apartments and townhomes.

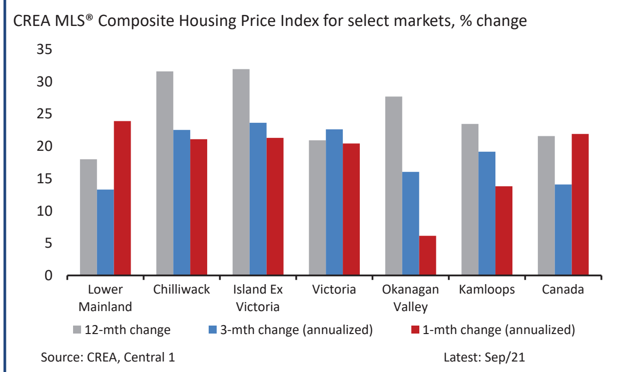
Growth in home prices to slow, but supply constraints support further gains

Prospective home buyers will continue to face a daunting task of navigating a market dominated by sellers. Intense and abnormally strong demand for housing has sent prices surging. The annual provincial median resale home value is projected to be up 18 per cent this year to $695,000 which is broadly in line with growth in the MLS® average price. This will mark a 30 per cent increase since 2019. Buyers have had nowhere to hide from escalating values as demand soared across markets large and small; a pandemic pattern observed in several provinces. The inability of local markets to quickly adapt to demand was due to constrained new home construction. Inventories have declined to record lows across the province. Growth in values have been particularly strong on Vancouver Island and the southern and central interior markets as remote work opened up alternative live-work arrangements.

Price momentum remains strong despite normalization in sales trends. CREA MLS® Housing Price Indices (HPIs) point to growth trending at an annualized pace of 20 per cent in September in a number of markets, although interior price trends look to have cooled somewhat. Buyers will face continued challenges over the forecast period due largely to inventory challenges. Rising mortgage rates will erode affordability and further cool the market, but price levels are expected to track higher as buyers continue to bid for scarce existing properties.

The median resale price climbs close to four per cent in 2022 to $720,000 and about two per cent in 2023 to $733,000.

Growth acceleration in B.C. home prices

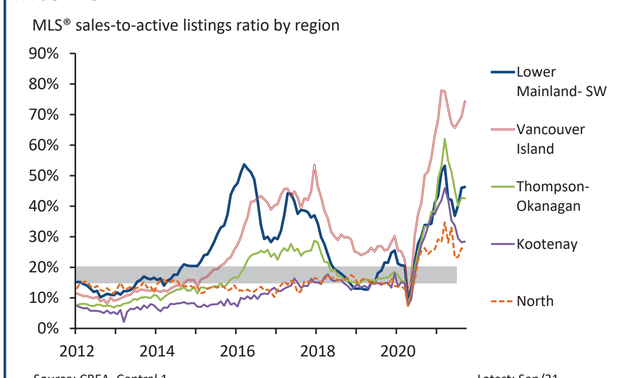


More buyers will be priced out of the market in coming years reflecting affordability challenges of higher monthly payments and an increased downpayment hurdles as households will require to save more, rely on family gifts, or access other financing options to purchase homes. This will be particularly challenging for first-time buyers without existing home equity.

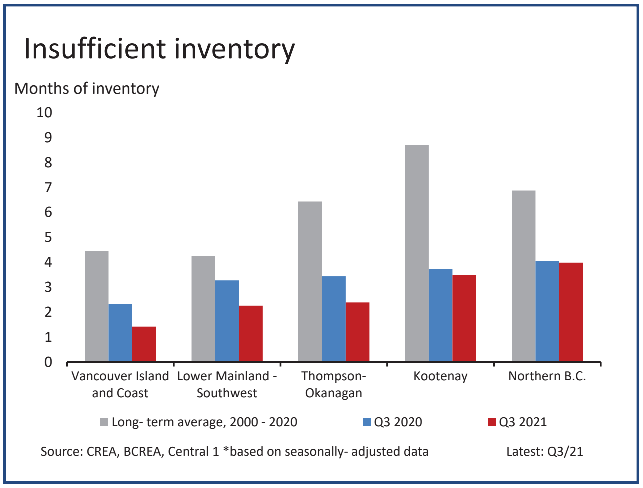
Inventory abysmal heading into 2022

Housing inventory is abysmal heading into 2022 and looks to provide further upside momentum for prices. The sales-to-inventory ratio sits at about 45 per cent meaning the market is firmly entrenched in a sellers' market. Put another way, the current inventory would be drawn down in just over two months given the current pace of sales, compared to a long-term average of more than five months.

Tight market conditions expected to continue into 2022



Regionally, the inventory dearth has been widespread and well below historical norms, with levels particularly tight in Vancouver Island with less than two months of inventory, while levels are moderately higher in the Kootenay at close to four months.



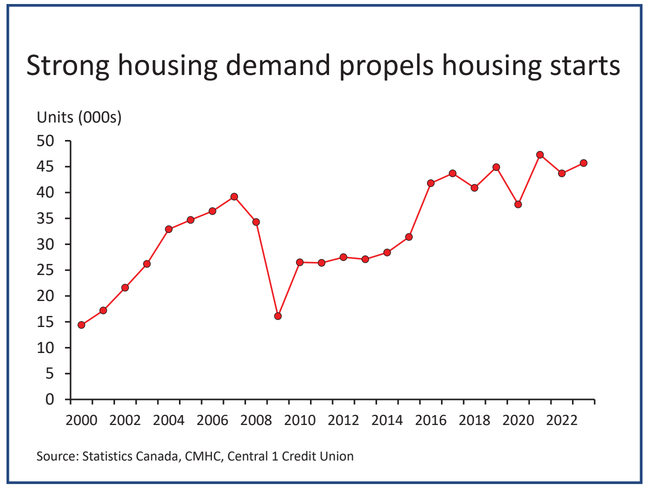
A return to higher inventories requires a substantial decline in home sales or a pop in the flow of new listings. As noted, the demand outlook remains firm. At the same time, there is little to suggest a significant increase in listings flow. Less churn in the market is reflecting a combination of demographics as older households stay in place, and low inventory in itself creates a vicious cycle. The absence of options and land scarcity in core urban markets means owners are less likely to list/sell given challenges of securing appropriate alternatives while incentivizing renovations to existing property.

Outside the larger urban markets, acute inventory shortages also reflect a sharp inflow of demand from both households relocating due to the flexibility of remote work and demand for recreational properties. Markets have been overwhelmed and slow to adjust to surge in demand through construction in new housing. However, these markets are expected to rebalance more quickly as demand eases, and construction cycles are relatively shorter.

Housing starts set for ongoing strength

Home builders have worked furiously during the pandemic, moving pre-sale driven apartments into the construction phase, while demand and prices for custom-built detached homes has surged. Housing starts are forecast to reach 47,300 units this year marking a 25 per cent increase from 2020.

Through the first three quarters of the year, starts inclusive of rural areas, were 35 per cent ahead of 2020 with comparable increases for both detached and multi-family units. The large metro areas have naturally accounted for the bulk but relative growth has been led by smaller urban areas and rural markets. Metro Vancouver has accounted for about 45 per cent of net growth in starts from a year ago, with starts up 27 per cent, with a more robust increase in Victoria. That said, housing starts in smaller urban areas rose 32 per cent, while rural starts increased by an estimated 71 per cent (although the latter is more prone to estimation error).



Housing starts are expected to ease, particularly outside the larger urban markets. Higher mortgage rates, greater normalization of social activities including travel abroad, and greater normalization of workplaces is likely to stem the pace of demand while immigration boosts housing needs in urban areas. However, demand and low inventory drives average starts of about 45,000 units per year. Lower starts will reflect a pullback in detached construction as apartment starts remain elevated. Housing starts will provide some relief to a supply constrained market, although many apartment units are still years from completion.

Rental market

The pandemic contributed to a softening of rental market conditions as immigration and temporary worker inflows fell sharply as borders tightened up due to COVID-19 restrictions, while closures of in-person learning at post- secondary kept students in their family homes or abroad. Many of these factors continued through the first half of 2021 although higher interprovincial migration and outflow from urban markets likely added to demand in interior and Vancouver Island markets. That said, a stronger economic recovery, vaccine progress, re-openings of post-secondary campuses and less restrictive border measures have likely tightened rental market conditions in recent quarters. Adding to this, strong domestic tourism may also be lifting short- term rentals at the expense of potential long-term supply.

The provincial town home and apartment vacancy rate is forecast to revert lower this year to 2.2 per cent, reflecting conditions near the end of the year and continue to decline to about 1.7 per cent by 2023. Average rent climbs 1.5 per cent this year owing largely to pandemic restrictions on rent hikes and climb three per cent in 2022. Turnover rents will be substantially higher, and rent growth reaches four per cent in 2023.

Bryan Yu
Chief Economist
byu@central1.com
604.742.5346
Mobile: 604.649.7209

Housing Summary Table

		2017	2018	2019	2020	2021	2022	2023
Residential Transactions	Resale Transactions	97,123	77,143	70,462	82,353	117,790	92,450	89,275
	% change	-9.4	-20.6	-8.7	16.9	43.0	-21.5	-3.4
	Resale Median Price	500,000	534,900	535,000	589,000	695,000	720,000	733,000
	% change	8.3	7.0	0.0	10.1	18.0	3.6	1.8
MLS® Activity	Sales	103,957	78,524	77,349	94,006	122,000	101,000	95,000
	% change	-7.5	-24.5	-1.5	21.5	29.8	-17.2	-5.9
	Listings	150,726	148,516	144,297	145,309	158,000	160,000	160,000
	% change	-4.1	-1.5	-2.8	0.7	8.7	1.3	0.0
	Average Price	708,857	711,379	700,376	781,559	920,000	955,000	980,000
	% change	2.7	0.4	-1.5	11.6	17.7	3.8	2.6
Housing Starts, Units	Total	43,664	40,857	44,932	37,734	47,300	43,700	45,700
	% change	4.4	-6.4	10.0	-16.0	25.4	-7.6	4.6
	Single-Detached	12,346	11,163	8,792	8,519	10,600	8,800	8,500
	% change	0.6	-9.6	-21.2	-3.1	24.4	-17.0	-3.4
	Multi-family	31,318	29,694	36,140	29,215	36,700	34,900	37,200
	% change	5.9	-5.2	21.7	-19.2	25.6	-4.9	6.6
Rental Market (%)	Row/Apartment Vacancy Rate	1.3	1.4	1.5	2.5	2.2	1.8	1.7
	Sample Sample Rent	5.7	6.3	4.2	2.5	1.5	3.0	4.0

Annual Residential Resale Transactions

	2017	2018	2019	2020	2021	2022	2023
Vancouver Island/Coast	17,835	14,748	13,598	14,897	19,000	15,700	15,000
% change	-8.7	-17.3	-7.8	9.6	27.5	-17.4	-4.5
Lower Mainland/Southwest	56,691	41,654	37,816	46,448	72,000	56,000	53,000
% change	-13.1	-26.5	-9.2	22.8	55.0	-22.2	-5.4
Thompson/Okanagan	14,371	12,160	11,130	12,588	16,300	12,500	13,300
% change	-4.2	-15.4	-8.5	13.1	29.5	-23.3	6.4
Kootenay	3,617	3,612	3,338	3,833	4,500	3,300	3,300
% change	11.7	-0.1	-7.6	14.8	17.4	-26.7	0.0
Cariboo	2,826	2,755	2,630	2,554	3,250	2,700	2,600
% change	9.5	-2.5	-4.5	-2.9	27.3	-16.9	-3.7
North Coast	654	924	776	822	1,050	900	800
% change	2.5	41.3	-16.0	5.9	27.7	-14.3	-11.1
Nechako	475	511	485	514	590	500	500
% change	15.3	7.6	-5.1	6.0	14.8	-15.3	0.0
Northeast	654	794	733	768	1,100	850	775
% change	25.5	21.4	-7.7	4.8	43.2	-22.7	-8.8
Province	97,129	77,159	70,508	82,424	117,790	92,450	89,275
% change	-9.4	-20.6	-8.6	16.9	42.9	-21.5	-3.4

Median Annual Residential Price

	2017	2018	2019	2020	2021	2022	2023
Vancouver Island/Coast	420,000	460,000	488,000	539,000	630,000	680,000	700,000
% change	9.9	9.5	6.1	10.5	16.9	7.9	2.9
Lower Mainland/Southwest	637,000	690,000	670,000	726,000	820,000	845,000	860,000
% change	7.1	8.3	-2.9	8.4	12.9	3.0	1.8
Thompson/Okanagan	380,000	400,000	422,000	465,000	560,000	575,000	588,000
% change	7.0	5.3	5.5	10.2	20.4	2.7	2.3
Kootenay	259,500	275,000	296,000	325,000	365,000	377,000	377,000
% change	6.4	6.0	7.6	9.8	12.3	3.3	0.0
Cariboo	239,500	255,000	275,000	295,000	338,500	340,000	342,000
% change	5.5	6.5	7.8	7.3	14.7	0.4	0.6
North Coast	241,250	257,250	298,500	300,000	340,000	343,000	345,000
% change	0.5	6.6	16.0	0.5	13.3	0.9	0.6
Nechako	210,000	215,000	223,750	222,000	240,000	241,000	243,000
% change	10.7	2.4	4.1	-0.8	8.1	0.4	0.8
Northeast	285,000	270,000	270,000	265,000	289,000	285,000	285,000
% change	4.4	-5.3	0.0	-1.9	9.1	-1.4	0.0
Province	500,000	535,000	535,000	589,000	695,000	720,000	733,000
% change	8.3	7.0	0.0	10.1	18.0	3.6	1.8

Terms

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Chief Economist: **Bryan Yu** Business Economist: **Alan Chow** Regional Economist, Ontario: **Edgard Navarrete** Economic Research Associate: **Ivy Ruan**