Economics | Current Economic Trends

B.C. Economic Briefing

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Highlights

- Building permit volumes fall 26.5 per cent in January due largely to fewer multi-family home investments
- Lower Mainland home values continued to rise in February

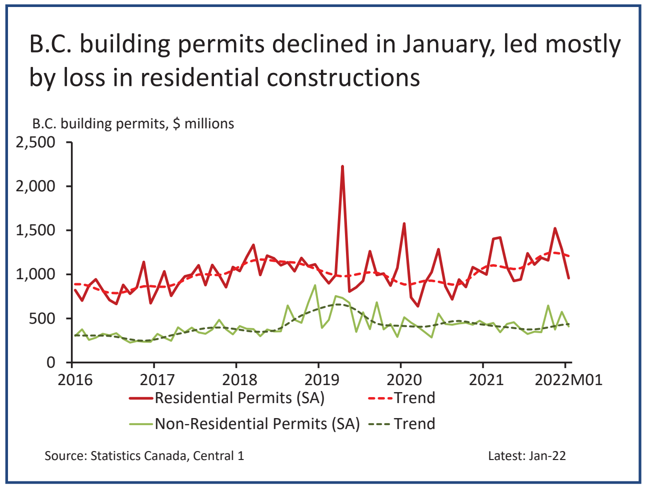
B.C. building permits declined in January, led mostly by loss in multi-family residential constructions

Ivy Ruan, Economics Research Associate

B.C. construction intentions reported a sharp monthly decline of 26.5 per cent in January to a seasonally adjusted $1.37 billion, showing a return to more modest levels following a strong second half of 2021. Activity declined similarly for both residential construction and non-residential permits. Total permit volume was 4.2 per cent lower than January 2021.

Residential permits fell 25 per cent from December to $957.4 million. This was led by falling multi-family residential construction permits in January (-35.4 per cent) as single-family home permit levels remained constant from last month. Most census metropolitan areas (CMAs) reported declines in their multi-family permits to relatively normal levels following the year-end boosts, whereas Victoria CMA was the only area posting a slight monthly increase of 0.8 per cent. Uncertainties related to interest hikes may shift home purchasers' behaviors in the coming months and cool down the hot housing market a bit, yet economic recovery and population growth is expected to maintain the housing demand.

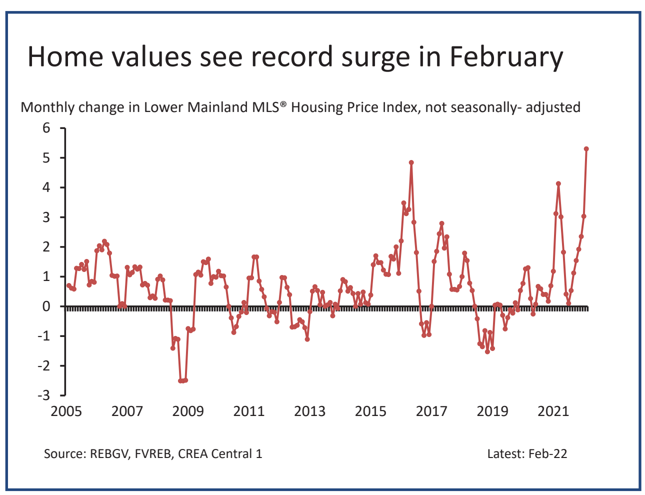
The decline in non-residential permits of 28.8 per cent to $409.3 million in January was driven by declining commercial (32.6 per cent) and government (41.1 per cent) construction intentions, which offset the recovery in industrial activities (24.9 per cent). That said, economic recovery and broad re-opening is likely to stimulating more business/industrial opportunities such as the major redevelopment proposed for Vancouver's flagship Hudson's Bay building. Demand for offices is expected to recover as many employers announce their plans for return to in-person work.



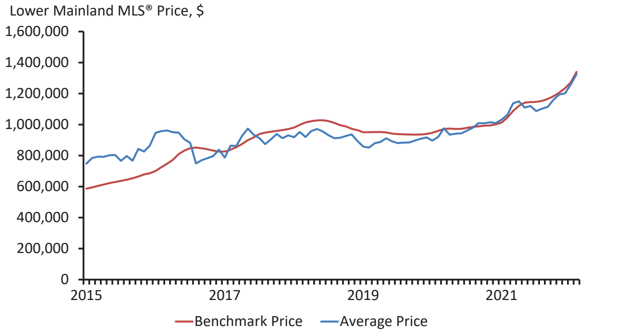
Lower Mainland home values surge 5 per cent in one month

Bryan Yu, Chief Economist

Not to sound like a broken record, but home prices continued their unrelenting surge through February, further crushing the possibility of improved housing affordability in the Lower Mainland. The latest MLS® data for the region spanning Abbotsford-Mission through Metro Vancouver showed an unprecedented single-month gain of 5.3 per cent in the benchmark value to $1.339 million. This was the sharpest gain going back to at least 2005 when this data became available. Gains were consistent for both ground-oriented and apartment units during the month as buyers sought all housing types. On a 12-month basis, the index rose 28 per cent, led by growth of about 33 per cent for both detached and townhome units, while apartment prices rose 21 per cent.

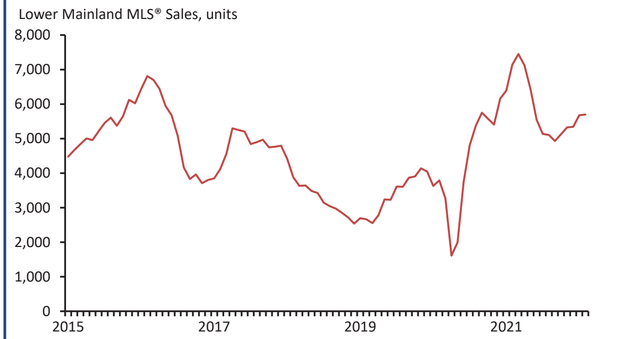


Benchmark and average values exceeds $1.3 million



Source: REBGV, FVREB, CREA Central 1 Latest: Feb-22

Elevated home sales continue, expected to ease on higher interest rates, affordability



Source: REBGV, FVREB, CREA Central 1 Latest: Feb-22

The average MLS® price rose at a similar month-to-month pace to reach $1.324 million, but growth tends to fluctuate more due to shift in sales composition. Year-over-year growth came in at 24.6 per cent.

Soaring prices continue to be driven by above normal demand and amplified by a dearth of inventory. While sales fell 20 per cent from same-month 2021 to 5,235 units, this was still the third highest February on record, and exceeded the 2011 – 2020 February average by 36 per cent. Our estimate is that sales were flat on a seasonally-adjusted basis. Drivers such as low interest rates, high savings, and pandemic factors continue to support activity, but it is likely that rising prices have further amplified gains due to speculative demand and buyer fear of missing out. The spectre of higher interest rates also has more buyers locking in pre-approved rates through purchases.

Excess demand has generally kept active listings trending near record-low levels, contributing to an excessively tight market. The sales-to-active listing ratio remained in strong sellers' market at 50 per cent, pointing to ongoing price growth.

That said, conditions are expected to cool following the spring rush. Interest rates are on the rise, and while still very accommodative, worsening affordability will push more prospective end-user purchasers and investors out of the market. New listings also rose sharply in February as more owners tested the market amidst record prices. These factors should lift inventory. Build-up of froth since late-2021 increases the risk of mild correction in the second half of the year and 10 per cent would not surprise, but any downturn will be mild given solid economic activity and rising immigration.

For more information, contact economics@central1.com.