

**Highlights:**

- Housing market to correct as rate hikes hammer homeownership affordability
- Sales decline 20 per cent, annual price declines 5 per cent with steeper peak-to-trough losses
- Fraser Valley expected to lead downturn but broad market declines
- Rental market to heat up as buyers priced out of homeownership, average rents soar

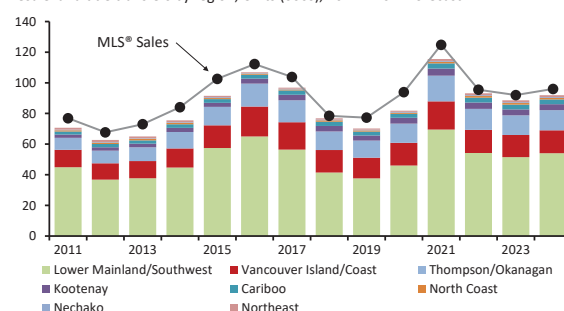
B.C. Housing Market Outlook: 2022 - 2024***Ready, set, retreat....***

It is a whole new world for the housing market as buyers adjust to rapid increases in mortgage rates that have decimated homeownership affordability in record fashion and buyer eroded confidence. Sales are already in steep decline in some major markets and prices are retreating from peak. Broad-based price inflation pressures are adding further challenges to household finances as consumers re-allocate spending. Central 1 Economics' recent [commentary](#) highlighted our broad outlook for the national housing landscape in coming quarters as households step back, reducing MLS® home sales by nearly 20 per cent in 2022 and 10 per cent in 2023, while prices decline 10 per cent on a peak-to-trough basis with declines largely in the second half of 2022.

British Columbia is expected to be affected broadly in line with these drivers although regional patterns are anticipated to differ. The latest provincial B.C. housing data pointed to persistence of elevated April sales where MLS® sales remained in line with the 10-year average and were still well above levels heading into the pandemic. That said, the trend is undeniably negative and early figures for May point to further deterioration.

Home sales retrench following pandemic boom

Resale land title transfers by region, Units (000s), 2022 – 2024 forecast



Source: Landcor, CREA, Central 1

B.C. housing market softened through April in early stages of downturn

Sales declines were deepest in Metro Vancouver suburbs, exurbs and nearby communities. Fraser Valley Real Estate Board and Chilliwack area sale both fell more than 20 per cent m/m. This is not entirely surprising as these markets are relatively more affordable and accessible for purchasing detached homes and ground-oriented homes. The rise of hybrid and remote work increased desirability of homes outside the urban core. Sales in these markets, along with Kamloops, have returned to near pre-pandemic levels. Sales also fell across interior and Island markets, but levels remained robust, with demand still supported by strong population growth (driven by interprovincial population during the pandemic), buyer equity from home sales from more urban markets, and higher-paid remote work.

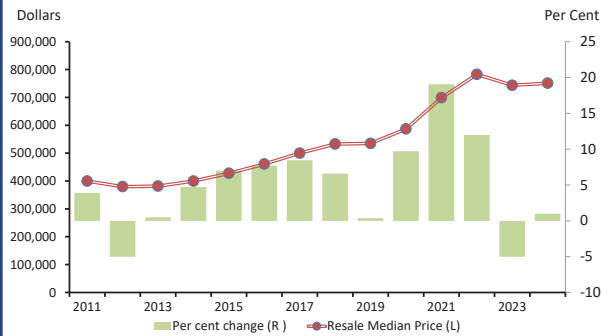
Published home prices remained firm in April although there are signs that we have passed the peak. Consistent with sales, average prices were mixed but generally moderated. Quality-adjusted benchmark values generally moved higher but trends tend to lag average values in market turning points. Elevated sales and buyers with lower pre-approved rates supported elevated bids amidst low inventory levels. Nevertheless, home values in areas such as the Fraser Valley have turned lower amidst higher fixed rates and Bank of Canada hikes on variable rates. Early May data for the Lower Mainland markets pointed to a sharp sales decline and downward pressure in prices in the Fraser Valley region.

Mortgage interest rate hikes hammer housing affordability

B.C. sales and prices are expected to ratchet lower in coming months and quarters as higher interest rates feed through purchasing activity. Central 1's survey of mortgage rates points to 5-year fixed rates in the range of 4-4.3 per cent, which compares to about 2.7 per cent in early 2022 and pandemic lows of 1.7 per cent early last year. Further increases are likely towards 4.5-5.0 per cent, albeit temporarily. In fact, levels are now sitting above the 2.8 per cent observed at the onset of the pandemic and are the highest going back more than a decade. As we have previously noted, buyers have adapted to higher prices by moving to low variable rate products. While still an option, further central bank hikes will lift variables above pre-pandemic levels by the end of the year. Prospective buyers are absorbing the combination of large pandemic price gains and higher rates, not to mention multi-generational highs in consumer price inflation which is eroding general spending power.

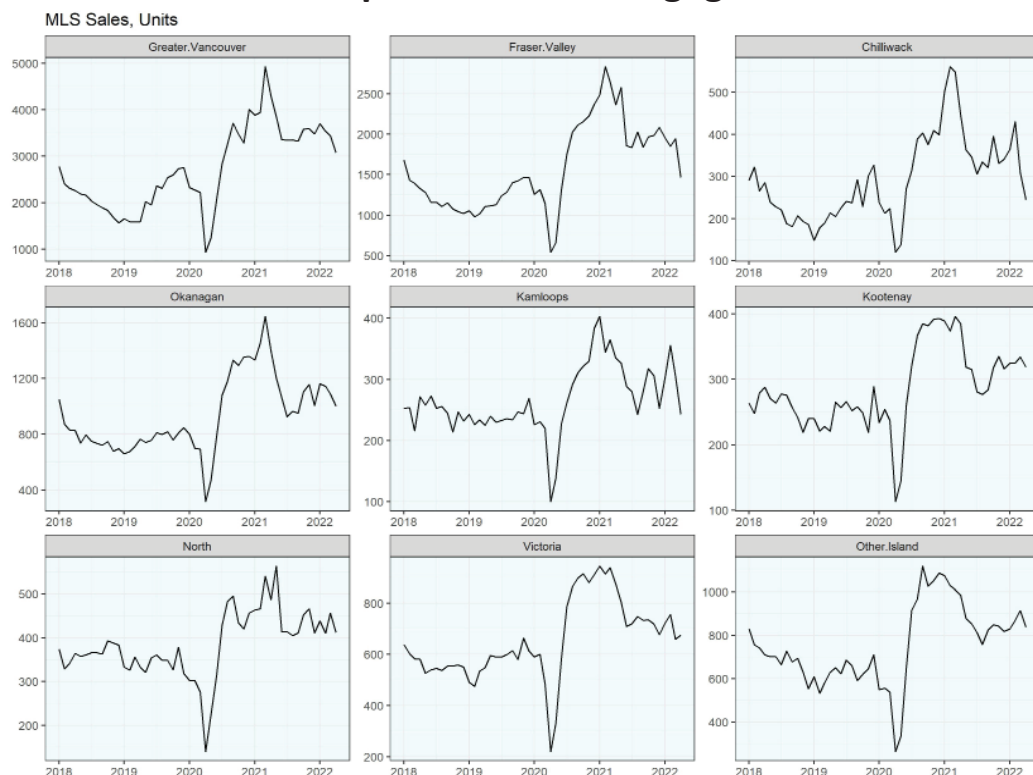
Higher rates and prices are squeezing buyers in Canada's highest priced province. The average MLS® price is 40 per cent higher than pre-pandemic levels. Growth in benchmark price indices over the period for Victoria and more central areas of Metro Vancouver were more modest compared to gains of 50-60 per cent in the Okanagan, Fraser Valley, Chilliwack and Vancouver Island outside Victoria. The affordability

Home prices to decline as higher mortgage rates cuts buying power



crunch can be shown by calculating potential carrying cost for the average-priced home in B.C., holding the down payment as a constant share of average price (20 per cent), and prevailing mortgage rates. The combination of higher rates and prices increased the cost by more than 50 per cent compared to February 2020 and nearly 20 per cent from the beginning of 2022 alone. Buyers have been able to navigate eroding affordability by shifting to variable rates, tapping into savings, strong equity markets and wealth transfers although these options have faded. Additional downward pressure on demand in hot pandemic markets revolves around rotation of the economy back towards greater in-office work. While hybrid is likely the norm, fully remote options are less likely to continue.

Homes sales pull back as mortgage rates bite



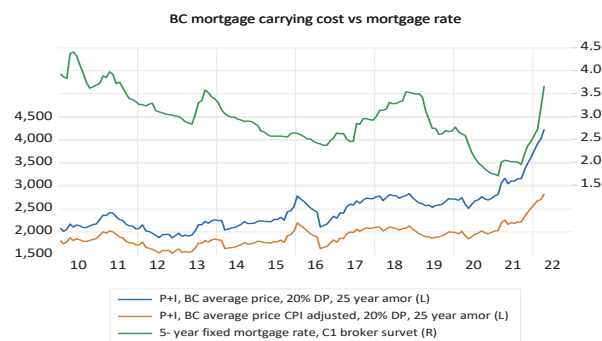
Source: CREA, Central 1, Latest: April 2022

Provincial home prices to decline up to 10 per cent from peak, sales slump 20 per cent in 2022

We anticipate a sharp decline in sales transactions during the third quarter as rate holds expire and renew at prevailing levels. This affordability crunch will price many would-be buyers out of the market as sentiment sinks. While declining sales will be observed across the province, affordability-induced declines are anticipated to be deepest markets in the Fraser Valley and Metro Vancouver suburbs. High-flying recreational markets are expected to recede on tighter credit conditions and as pandemic factors wane.

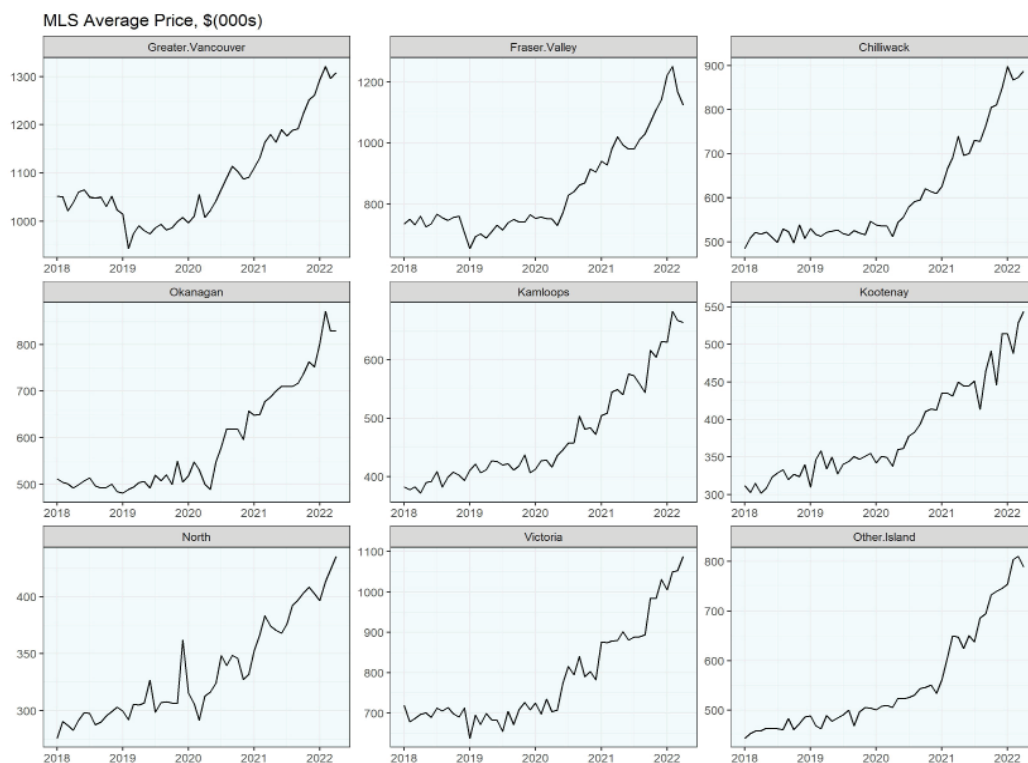
We forecast two measures of sales. MLS® sales, as referred to above are forecast to decline 24 per cent in 2022 and four per cent in 2023 before rising thereafter. Our forecast of resale land title transfers via Landcor, which allows a drill down to official census metropolitan and census agglomeration areas and consistent product types but lags MLS® sales, is forecast to drop 19 per cent this year following a 40 per cent increase in 2021 and decline an additional 5 per cent in 2023 before edging higher. Risk for both is to the downside. Sales will decline the most in the Lower Mainland-Southwest driven by the Fraser Valley, although double-digit per cent declines are observed

Rapid increase in carrying costs as rates soar to decade high



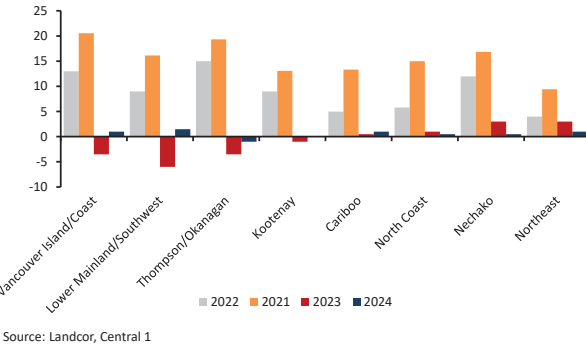
on Vancouver Island and the Okanagan with sales still supported by in-migration of retirees, already a pre-pandemic driver. Rotation among housing types is also anticipated as buyers shift their focus to lower priced apartment condominiums, particularly closer to urban cores. Northern markets are projected to hold to hold up better amidst robust commodity prices and more moderate pandemic upswing in both sales and prices during 2020 and 2021. Transactions are forecast to hold above 2018 and 2019 lows amidst a firm labour market and strong migration.

Average home values slip, regional variation



Price declines concentrated in Southwest markets

Resale transaction median price growth, per cent



Market conditions are expected to soften considerably over coming quarters as the sellers' market quickly rebalances. While sales-to-inventory ratios currently trend in range conducive to a sellers' pace, downside momentum in transactions and temporary pressures from collapsed sales and re-listing activity, in addition to sentiment could tip markets into buyers' conditions this year. A wildcard will be the proportion of investor-owned properties and whether more will come to market.

Resale home values are expected to decline with softer market conditions and trend lower into Q4. We forecast the median provincial home value, based on land title transfer data, to decline five per cent on a full-year basis in 2023 and hold steady in 2024. While the annual median value increases 12 per cent this year to nearly \$783,000, gains reflect upward momentum in 2021 through the first half of 2022. Price levels have likely peaked and are expected to decline going forward. On a peak-to-trough basis, we anticipate a decline of 7-10 per cent.

Annual price declines in 2023 are anticipated to be sharpest in the Lower Mainland-Southwest (-6 per cent) led by areas such as Chilliwack (-11 per cent) and Abbotsford-Mission (-9 per cent). Metro Vancouver is forecast to decline five per cent, albeit with softer activity in suburban markets. Interior and Vancouver Island markets experience a relatively mild dip of 3.5 per cent and remain lofty amidst inflows of retiree incomes and wealth from sales of properties in urban markets, while northern market prices remain steady.

While down from pandemic highs, the correction will still be modest with much of the gain over the past two years still being preserved. Home sellers are generally loath to cut prices, meaning a period of reduced home sales while inventory builds and homes remain on the market for longer. A high inflationary environment and rising wages also support higher prices than pre-pandemic levels.

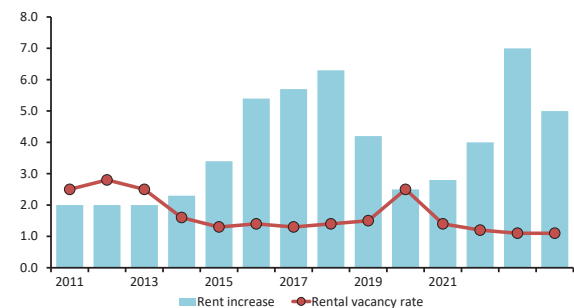
Rental market to experience surging rents as homeownership falls out of reach

It is worth emphasizing that fewer transactions reflect constrained homeownership activity rather than lower housing demand. Demand for shelter will continue to rise with the tight labour market and wage gains, population growth and millennial household formation, all of which remain firm. Buyers will still desire to own housing and pivot towards lower priced multi-family units and try to bargain sellers lower, but many will be shut out by higher carrying costs in the absence of higher down payments.

We anticipate further pressure on an already tight rental market. Following a pandemic increase to a 2.5 per cent vacancy rate in 2020 coinciding with lower inflows of migration and student populations, levels fell back to 1.4 per cent in 2021. Estimated vacancy was even lower in the secondary market. Higher carrying costs and rising population will lead to lower rental vacancy. Purpose-built vacancy rates are forecast to fall to 1.2 per cent this year and 1.1 per cent in 2023 and 2024 and comparable to 2006-2008.

Rental market tightening, inflation to lift propel rent growth

Per Cent



Declining vacancies will lead to increased rents going forward, although increases be stronger in 2023. Average rent rose 2.5 and 2.8 per cent in 2020 and 2021 according to CMHC data. B.C. maximum rent increases are set by the government and limited to growth in CPI inflation for the prior year, although increases are much higher for units that have been vacated and re-tenanted. The cap for 2022 was set at 1.5 per cent in line with inflation (although 2021 rents were frozen due to the pandemic). Turnover rents will be strong and lift average rent by four per cent. The magnitude of increases in 2023 are likely to be stronger with CPI inflation expected to come in above five per cent, although this will be contingent on whether the government allows full pass-through of

inflation into allowable rent increases. A lower proportion of units are likely to turn over, but growth will be high when they do. We currently pencil in rent growth of about seven per cent as the allowance may be tempered due to political considerations, followed by five per cent growth in 2024.

Housing starts to decline in 2022 before rebounding

New home construction is forecast to remain elevated, but housing starts decline 20 per cent this year and track near 40,000 units for 2023 and 2024. This is below the 2016-2019 trend. Demand will remain supported due to population growth and labour market activity while pre-sold condominium projects mean projects in the pipeline will continue. That said, builders are already facing high construction costs amidst input price inflation and rising wages. Given the shifting interest rate environment, buyers may be constrained on price points and developers will need to adjust through lower finishing options to reach lower price points, while also looking to develop more rental product.

Bryan Yu

Chief Economist

byu@central1.com

604.742.5346

Mobile: 604.649.7209

Forecast Summary		2019	2020	2021	2022	2023	2024
Resale housing, land title transfers	Sales	70,220	81,858	115,596	93,202	88,668	91,982
	% ch.	-8.7	16.6	41.2	-19.4	-4.9	3.7
	Median Price	535,000	587,000	699,000	782,880	743,736	751,173
	% ch.	0.4	9.7	19.1	12.0	-5.0	1.0
MLS® Activity	Sales	77,287	93,902	124,803	95,500	92,000	96,000
	% ch.	-1.5	21.5	32.9	-23.5	-3.7	4.3
	Average Price	700,155	781,627	927,558	1,035,000	975,000	990,000
	% ch.	-1.5	11.6	18.7	11.6	-5.8	1.5
Housing Starts, Units	Total	44,932	37,734	47,609	39,900	40,500	41,000
	% ch.	10.0	-16.0	26.2	-16.2	1.5	1.2
	Single-Detached	8,792	8,519	11,013	9,000	8,900	9,000
	% ch.	-21.2	-3.1	29.3	-18.3	-1.1	1.1
	Multi-family	36,140	29,215	36,596	31,000	31,600	32,000
	% ch.	21.7	-19.2	25.3	-15.3	1.9	1.3
Vacancy Rate	Row and Apartment (%)	1.5	2.5	1.4	1.2	1.1	1.1
Same Sample Rent Change	Same Sample Rent	4.2	2.5	2.8	4.0	7.0	5.0

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

Annual Residential Resale Transactions by Economic Region and selected urban area						
	2019	2020	2021	2022	2023	2024
Vancouver Island/Coast	13,539	14,829	18,448	15,127	14,522	14,958
% ch	-7.9	9.5	24.4	-18.0	-4.0	3.0
Lower Mainland/Southwest	37,678	46,072	69,519	54,225	51,514	54,089
% ch	-9.2	22.3	50.9	-22.0	-5.0	5.0
Thompson/Okanagan	11,095	12,532	16,734	13,722	12,761	13,144
% ch	-8.5	13.0	33.5	-18.0	-7.0	3.0
Kootenay	3,332	3,810	4,675	4,114	3,908	3,869
% ch	-7.4	14.3	22.7	-12.0	-5.0	-1.0
Cariboo	2,590	2,517	3,353	3,202	3,138	3,138
% ch	-5.7	-2.8	33.2	-4.5	-2.0	0.0
North Coast	771	818	1,042	1,000	1,000	970
% ch	-16.5	6.1	27.4	-4.0	0.0	-3.0
Nechako	481	512	591	591	579	568
% ch	-5.5	6.4	15.4	0.0	-2.0	-2.0
Northeast	732	768	1,233	1,221	1,245	1,245
% ch	-7.6	4.9	60.5	-1.0	2.0	0.0
Province	70,220	81,858	115,596	93,202	88,668	91,982
% ch	-8.7	16.6	41.2	-19.4	-4.9	3.7
	2019	2020	2021	2022	2023	2024
Vancouver CMA	31,017	37,802	57,847	46,278	43,964	47,041
% ch	-8.9	21.9	53.0	-20.0	-5.0	7.0
Abbotsford-Mission CMA	2,745	3,286	4,870	3,263	3,198	3,358
% ch	-9.9	19.7	48.2	-33.0	-2.0	5.0
Victoria CMA	5,651	6,271	8,145	6,516	6,190	6,376
% ch	-1.2	11.0	29.9	-20.0	-5.0	3.0
Kelowna CMA	3,876	4,763	6,757	5,270	4,902	5,147
% ch	-8.0	22.9	41.9	-22.0	-7.0	5.0
Chilliwack CA	2,147	2,634	3,825	2,639	2,507	2,557
% ch	-9.5	22.7	45.2	-31.0	-5.0	2.0
Nanaimo CA	1,956	2,114	2,720	2,312	2,127	2,170
% ch	-15.0	8.1	28.7	-15.0	-8.0	2.0
Kamloops CA	2,122	2,134	2,719	2,230	2,207	2,251
% ch	-5.5	0.6	27.4	-18.0	-1.0	2.0
Prince George CA	1,495	1,455	1,825	1,734	1,647	1,664
% ch	-1.5	-2.7	25.4	-5.0	-5.0	1.0

Median Annual Residential Resale Price						
	2019	2020	2021	2022	2023	2024
Vancouver Island/Coast	488,300	539,000	649,900	734,387	708,683	715,770
% ch	6.2	10.4	20.6	13.0	-3.5	1.0
Lower Mainland/Southwest	668,000	725,000	842,000	917,780	862,713	875,654
% ch	-3.0	8.5	16.1	9.0	-6.0	1.5
Thompson/Okanagan	422,000	465,000	555,000	638,250	615,911	609,752
% ch	5.5	10.2	19.4	15.0	-3.5	-1.0
Kootenay	295,950	325,000	367,500	400,575	396,569	396,569
% ch	7.6	9.8	13.1	9.0	-1.0	0.0
Cariboo	279,000	300,000	340,000	357,000	358,785	362,373
% ch	9.4	7.5	13.3	5.0	0.5	1.0
North Coast	299,000	300,000	345,000	365,010	368,660	370,503
% ch	16.3	0.3	15.0	5.8	1.0	0.5
Nechako	223,750	222,500	260,000	291,200	299,936	301,436
% ch	4.1	-0.6	16.9	12.0	3.0	0.5
Northeast	270,000	265,000	290,000	301,600	310,648	313,754
% ch	0.0	-1.9	9.4	4.0	3.0	1.0
Province	535,000	587,000	699,000	782,880	743,736	751,173
% ch	0.4	9.7	19.1	12.0	-5.0	1.0
	2019	2020	2021	2022	2023	2024
Vancouver CMA	708,000	765,000	875,000	935,000	890,000	910,000
% ch	-3.0	8.1	14.4	6.9	-4.8	2.2
Abbotsford-Mission CMA	558,000	625,000	788,500	900,000	820,000	815,000
% ch	0.6	12.0	26.2	14.1	-8.9	-0.6
Victoria CMA	615,000	675,000	770,000	870,000	830,000	835,000
% ch	2.5	9.8	14.1	13.0	-4.6	0.6
Kelowna CMA	518,300	575,000	689,000	810,000	790,000	785,000
% ch	-0.8	10.9	19.8	17.6	-2.5	-0.6
Chilliwack CA	489,900	535,000	680,000	815,000	730,000	730,000
% ch	0.6	9.2	27.1	19.9	-10.4	0.0
Nanaimo CA	442,250	495,000	620,000	710,000	690,000	685,000
% ch	2.6	11.9	25.3	14.5	-2.8	-0.7
Kamloops CA	416,250	448,250	544,250	605,000	595,000	590,000
% ch	8.7	7.7	21.4	11.2	-1.7	-0.8