Economics | Forecast / Outlook Reports

Economic Analysis of British Columbia

Volume 42 • Issue 6 | ISSN: 0834-3980

central 1 Economics

Highlights:

- Interest rate shock continues to curb housing market activity into 2023 and 2024 at levels consistent with 2015-2017
- Annual median provincial home value to decline 8 per cent in 2023, but masks 20 per cent drop from peak
- Home values remain well above pre-pandemic levels, contribute to low sales
- Housing demand gains traction as mortgage rates ease in 2023, lower home values and strong immigration patterns emerge
- Expected reduction in housing starts amplifies housing shortages in mid-decade, drives housing prices higher, rental market tightens

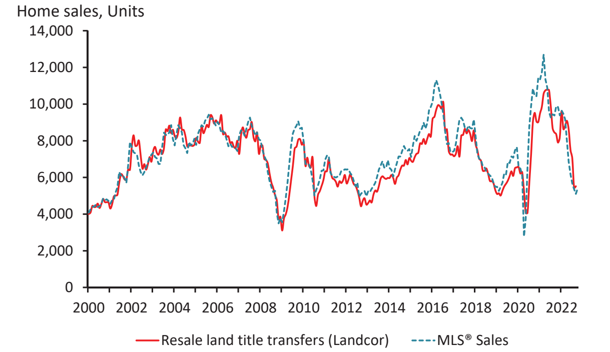
B.C. Housing Outlook 2023-25

Weak market conditions to stabilize by mid-2023, improvements expected in 2024

Canada's housing market remained in a deep rut heading into 2023 as sales plunged and prices retreated due to rapid and steep interest rate hikes. B.C. has experienced some of the largest pullbacks, reflecting higher home prices and household debt. After surging during the pandemic to reach a peak in mid-2021, home sales have seized up since the spring. Transactions have declined 45 per cent since March 2022 and are 20 per cent lower than levels just preceding the pandemic. Adjusted for population levels, activity is roughly in line with levels seen in 2012 and 2019, but above levels observed during the financial crisis and very early on during the pandemic.

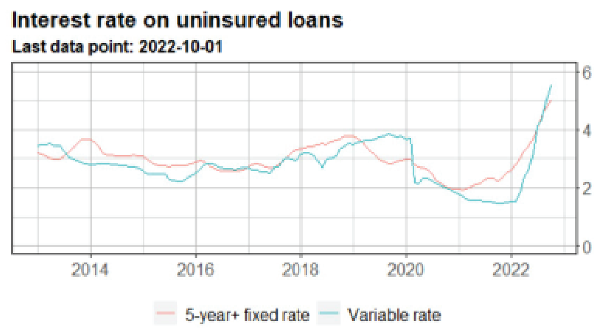
Mortgage rates have risen from about 1.5 per cent for variable rate products and 2.2 per cent for fixed rate products to more than 5 per cent. The former increased in popularity during the pandemic making up more than half of mortgage volumes advanced in Canada by early 2022. Rate hikes combined with pandemic price increases into early 2022 squeezed prospective buyers out of the market. We expect resale transactions, based on title transfer data, to have declined 27 per cent in 2022 with an even deeper decline in MLS® sales.

Home sales freeze up from rate hikes, finding a floor



Source: Landcor, CREA, Central 1

Rapid and violent increase in rates trigger housing downturn



Source: Bank of Canada, Central 1

Regionally, the sales downturn has been concentrated in areas such as the Fraser Valley as excessively strong gains have more than reversed. These markets were buoyed by the combination of low interest rates and relatively lower prices, coupled with the shift to remote work which drew affordability seekers from Metro Vancouver.

A scan of metro and mid-to-larger urban area data from Landcor highlights this pattern. Compared to pre-pandemic trend, areas with the steepest sales decline were in Chilliwack and Abbotsford-Mission alongside Port Alberni. For the most part, markets have retreated close to, if not lower than, early 2020 levels. Okanagan and Vancouver Island sales have declined but are consistent with pre-pandemic levels, while Kootenay and Northeast area sales are steady. Buoyant demand from interprovincial migration, retirees and lifestyle buyers continue to support some of these markets.

That said, recent sales data only captures a portion of 2022's rate hikes and the downward sales cycle is expected to deepen into the first quarter of 2023 as tight monetary policy directly impacts mortgage rates and slows the broader economy.

Resale transactions by urban area

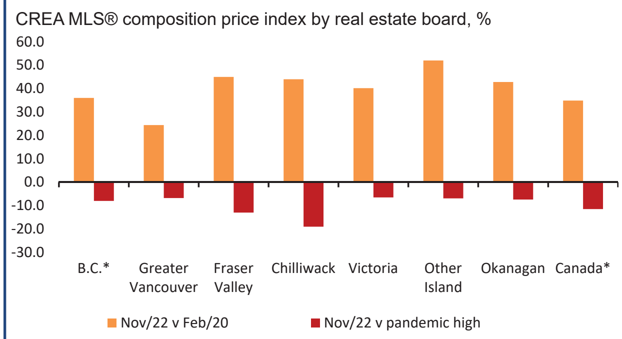
Seasonally- adjusted, 3m average

	Feb/20 Sales, Units	Peak Sales as % of Feb/20	Sep 22 sales as % of Feb/20
Cranbrook	40	180.2	105.7
Nelson	22	154.2	115.8
Penticton	87	196.9	101.9
Kelowna	342	187.5	99.7
Vernon	106	174.0	96.2
Salmon Arm	32	159.3	84.6
Kamloops	173	139.0	88.0
Chilliwack	215	174.2	69.0
Abbotsford-Mission	257	174.3	76.6
Vancouver	3,130	177.9	92.4
Victoria	478	158.7	95.6
Duncan	74	159.1	93.7
Nanaimo	178	143.2	82.3
Parksville	77	146.5	97.0
Port Alberni	38	158.5	73.3
Courtenay	95	162.6	101.9
Campbell River	53	179.3	87.1
Powell River	21	225.2	115.3
Williams Lake	38	206.9	128.3
Quesnel	25	149.5	102.7
Prince Rupert	21	151.3	71.7
Terrace	14	267.3	119.8
Prince George	123	138.2	90.9
Dawson Creek	13	252.0	164.3
Fort St. John	23	267.7	185.2

Source: Landcor, Central 1 Calculations

Home prices are down considerably as affordability has pushed buyers to the sidelines, although the decline has been relatively modest considering the speed and magnitude of interest rate hikes. The average MLS® price has declined 12 per cent from peak to $941,050 in October 2022 but was still 27 per cent ahead of February 2020. The MLS® benchmark composite estimate, which adjusts for housing composition but lags turning points in the market, has declined rapidly in recent months falling 8 per cent from peak but still up 37 per cent from the start of the pandemic. Median price data from Landcor is consistent with the average MLS® price trend but lags current market conditions due to the gap between timing of firm sales and title transfers.

MLS® benchmark prices deteriorate sharply from peak, still up during pandemic

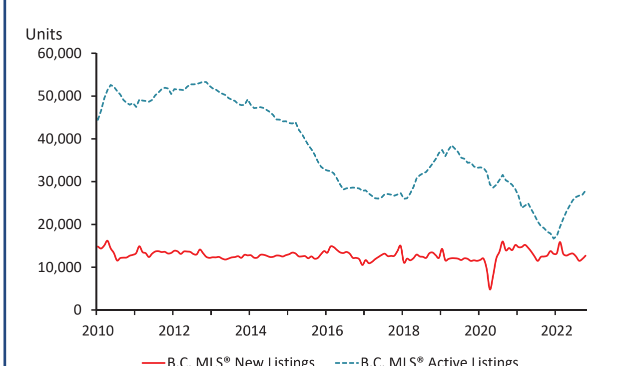


Source: CREA, Central 1 *includes areas where HPI is computed

Median resale home values as tracked through Landcor have declined from early 2022 peak in nearly all markets with varying magnitude of change, but levels remain sharply higher than pre-pandemic levels. Consistent with sales patterns, the Fraser Valley has experienced the sharpest slide in prices. Prince Rupert and Dawson Creek have also recorded steep declines despite firm sales which could reflect fewer sales in the regions.

While in decline, the correction has been more modest when observed through the lens of the pandemic run-up despite sharply higher borrowing costs and a plunge in sales. Sellers have shown patience in the current downturn and a willingness to wait out the market which has limited growth in the supply of resale listings. MLS® new listings have remained steady and while active listing are up, this is predominantly due to fewer sales and properties languishing for longer. Owners, having seen the peak of home prices, are unwilling to reduce selling price expectations, while challenging refinancing conditions is likely holding back those looking to trade up. More homeowners, particularly recent buyers and investors, are coming under strain from higher mortgage rates and inflation, although the tight labour market and pandemic era savings have limited some of this financial strain and

Home listings and inventory remain low



Source: CREA, BCREA, Central 1

necessity to sell. Price stickiness has contributed to low sales flow as seller expectations is unmatched by buyer ability to pay.

Short-term market conditions are forecast to deteriorate further with a buyers' market intensifying through into the second quarter of 2023. Increases to variable mortgage rates through year end 2022 has priced more buyers out of the market, while elevated fixed rates and mortgage stress tests continue to constrain affordability. A slower growth economy, higher debt loads and inflation will reduce buyer purchasing power. Having delayed listings in 2022, more sellers are anticipated to try their luck in the spring, while some owners may find more urgency to sell. That said, we do not anticipate a flood of new listings coming to market. On a peak-to-trough basis, we forecast a 20 per cent price decline, insufficient to restore housing affordability, with levels remaining above pre-pandemic

Resale Median Price by Urban Area

Seasonally- adjusted, 3m average

	3-m smoothed Median Price, Sep/22 ($)	Peak Price growth v Feb/20 (%)	Sep 22 price growth v Feb/20 (%)	Sep/22 Price v peak (%)
Cranbrook	412,956	50.3	39.2	-7.4
Nelson	617,838	38.7	28.9	-7.1
Penticton	604,005	53.9	51.5	-1.6
Kelowna	786,997	61.7	48.9	-7.9
Vernon	628,537	51.5	44.9	-4.4
Salmon Arm	627,242	63.6	63.6	0.0
Kamloops	627,578	55.0	47.3	-4.9
Chilliwack	779,792	73.7	60.2	-7.8
Abbotsford-Mission	878,867	74.9	49.6	-14.4
Vancouver	929,835	30.8	23.9	-5.2
Victoria	891,746	38.9	33.4	-4.0
Duncan	741,767	53.6	52.5	-0.7
Nanaimo	714,923	62.0	51.9	-6.3
Parksville	854,135	67.7	61.9	-3.5
Port Alberni	524,316	73.6	62.6	-6.3
Courtenay	709,993	64.1	54.8	-5.7
Campbell River	631,293	53.7	43.1	-6.9
Powell River	634,480	83.4	75.3	-4.4
Williams Lake	360,105	37.4	28.0	-6.8
Quesnel	280,551	46.4	36.2	-7.0
Prince Rupert	445,851	80.7	61.5	-10.7
Terrace	435,675	40.1	30.7	-6.7
Prince George	426,431	36.5	35.8	-0.5
Dawson Creek	253,844	0.0	-23.2	-23.2
Fort St. John	334,181	7.4	2.8	-4.3

Source: Landcor, Central 1 Calculations

trends. This is a housing correction following unsustainable gains but not a crash. However, more recent first-time buyers will see a large share of equity temporarily wiped out.

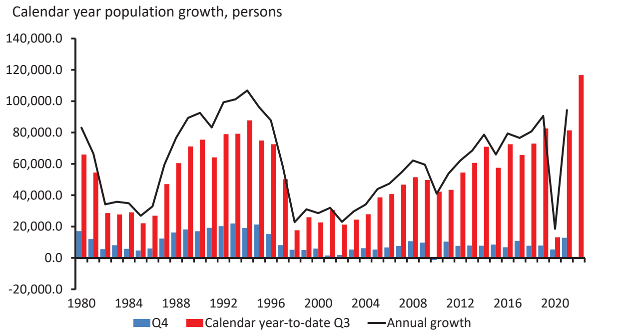
Ongoing erosion into 2023 before rebound

A recovery phase is expected to take root during the second half of 2023. As the first sector to contract, housing is likely the first to recover even as the broader economy continues to slow from the effects of 2022 rate hikes. Declining fixed rate mortgages rates and the spectre of Bank of Canada rate cuts by 2024, coupled with lower home prices will improve affordability and future expectations. Bond yields have wildly fluctuated in response to inflation and economic news, but have eased in recent months. This is anticipated to put downward pressure on administered rates into 2023.

Moreover, underlying demand-side drivers are supportive of housing market activity. While economic trends are slowing and a mild recession in 2023 is a clear threat, labour markets are strong. Unemployment rates are forecast to increase with the broader economic slowdown, but we see this largely reflecting a slowdown in hiring and swelling labour supply rather than significant job loss. B.C.'s unemployment rate sits near 4 per cent and the provincial job vacancies remain acute. Tight labour markets are consistent across the province. Real wages are anticipated to rise as inflation recedes and wage continue to firm. Employment growth gains traction in 2024 onwards.

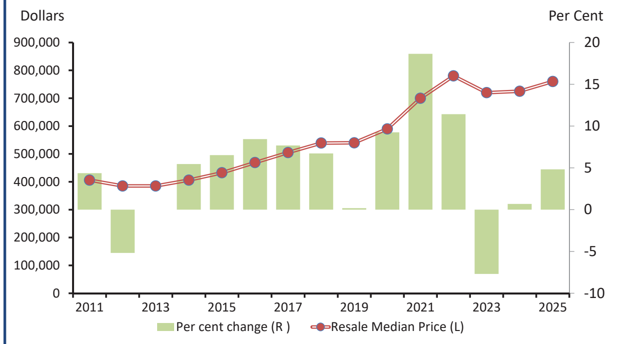
B.C. population growth, like other regions of the country, looks to be a huge driver of both homeownership and rental demand in coming years. Newcomers have arrived in droves to Canada with population up by more than 362,000 persons (0.9 per cent) during the third quarter of 2022. Calendar year-to-date growth of more than 776,000 persons exceeded any full-year gain in history reflecting catch-up in the stall in immigration earlier in the pandemic as borders were restricted, combined with the entry of refugees and higher immigration targets by the federal government. A similar pattern has been observed in B.C. with population up more than 116,600 persons through the first three quarters of the year. This dwarfs previous calendar year highs observed in the mid-1990s which surpassed just over 100,000 persons. These trends will undoubtedly decelerate but even so, immigration looks to remain strong with the federal government targeting 500,000 immigrants per year by 2025. Robust population growth lights a fire under housing demand in coming years and suggests a robust gain in demand as interest rates decline. The national foreign buyer ban will have a modest impact given taxation policies

2022 Population growth through three quarters surpasses previous annual highs



Source: Statistics Canada

Home prices downturn to stabilize by mid-2023, upturn expected in 2024

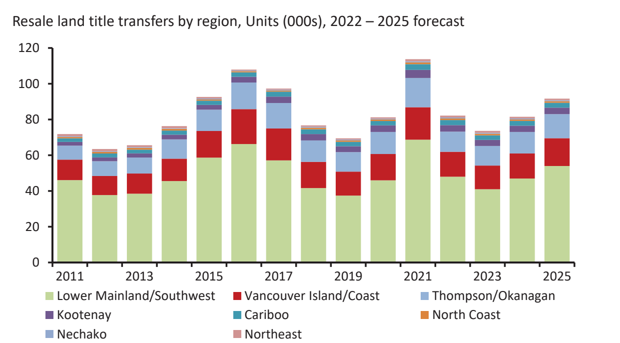


Source: Landcor, Central 1

already in place in B.C.'s largest urban markets. Strong international inflows will boost activity in the large metro markets like Vancouver, in contrast to much of the pandemic where strong interprovincial flows drove growth in smaller regions throughout B.C.

Our forecast is for resale transactions (title transfers) to decline 10 per cent in 2023 to 73,625 units, following a 28 per cent decline in 2022. MLS® sales decline 35 per cent in 2022 and about 6 per cent in 2023 owing in part to timing as MLS® sales precede title transfers. Sales gain traction in 2024 with title transaction growth of nearly 11 per cent annually as demand picks up, followed by 12.5 per cent growth in 2025. That said, sales remain the 2015-2017 range. Sales growth is led by Metro Vancouver anchored Lower Mainland- Southwest, with the Fraser Valley looking to rebound with more vigour after the sharp retrenchment.

Home sales slowdown to continue through 2024



Source: Landcor, Central 1

The annual median home value declines nearly 8 per cent on a full-year basis in 2023, but annual figures mask the sharp retracement observed during 2022. Declines are concentrated in the southwest markets with relatively steady performance in the north. Downward pressure is forecast to continue through the first half of the year as listings rise, existing inventory languishes and sales struggle prior to stabilization.

The median value holds steady through 2024 and accelerates through 2025 as demand ramps up, inventory depletes again and pushes values higher. That said, sensitivity to debt and high prices limits upside sales and price momentum. Stronger growth will align with sales patterns with large urban markets posting the largest increases.

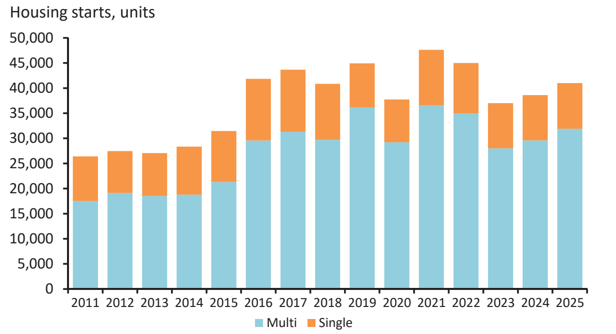
Housing starts to retreat amidst financing constraints

B.C. housing starts have remained resilient despite the downturn in the resale market. However, this reflects the long development timelines for multi-family construction in the province. Provincial housing starts are projected to have declined by a modest 5.5 per cent to 45,000 units in 2022, led by Metro Vancouver multi-family activity. Starts in B.C.'s other large urban centres broadly increased, reflecting movement of people from other provinces and within B.C.

New construction is anticipated to decline. The resale market downturn, declining home values and elevated mortgage rates have reduced pre-sale demand for condominiums while higher interest rates create more challenging conditions for rental construction. Lagged impacts on new home construction will curb housing starts this year by 17 per cent to 37,000 units and next to near 38,000 units before rising above 41,000 units in 2025. Record immigration could drive deep-pocketed developers to self-finance construction in anticipation of strong future demand. Government funding for rental projects is likely to offset private sector weakness.

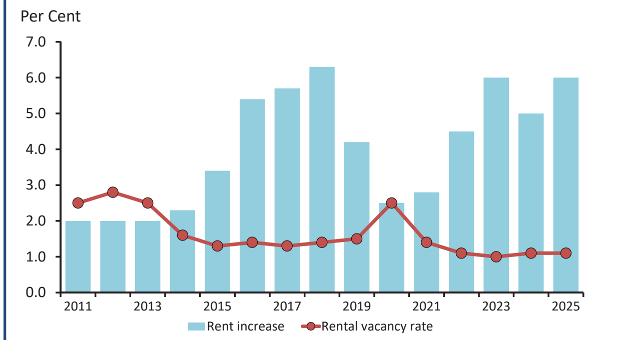
Market adjustment in new home construction sets the stage for a deepening of housing supply shortages going forward. Canada was already underbuilt prior to the pandemic with dwellings per capita below other major countries according to Organization for Economic Co-operation and Development (OECD) country data. B.C., with its high home prices and consistently low rental vacancy rates points to an even greater

Resale downturn, financing costs to temporarily stall housing starts



Source: CMHC, Central 1

Tight rental market, population growth to drive rents higher



Source: CMHC, Central 1 *apartment and row housing

housing deficit in the province. Housing starts relative to annual population growth has generally held below long-term norms, with demographics and millennial household formation further adding to pressures. Strong population growth and an expected short-term decline in housing starts sets the stage for strong price pressures thereafter and an upswing in new home construction by 2025 as developers play catch up. Metro regions are more heavily skewed to multi-family apartment construction which have extremely long build out times. Any delays will only push out completion times of proposed projects.

Rental market to tighten

The frozen market for transactions reflects challenging financing availability for buyers and elevated price expectations on the part of sellers. Underlying demand remains firm. While households desire homeownership, affordability is keeping them on the sidelines. Data from CMHC for 2022 has yet to be made available but we anticipate that the apartment and townhome vacancy rate declined to 1.1 per cent, the lowest since 2007. This coincides with the return of international students and affordability erosion in the homeownership market while completion of new rental product has slowed. These low levels will persist. Following a pandemic increase to a 2.5 per cent vacancy rate in 2020, levels fell back to 1.4 per cent in 2021. Estimated vacancy was even lower in the secondary market. Purpose-built vacancy rates are forecast to remain near 1 per cent through 2025 and comparable to the 2006-2008 period.

Declining vacancies will lead to increased rents going forward but constrained in part by rent control measures. The maximum annual allowable increase for continuously tenanted units for 2023 is 2 per cent, far below inflation and following a 1.5 per cent increase in 2022. Prior to the pandemic, allowable rent increases were tied to inflation (with an additional 2 per cent uplift prior to 2017) but has since been restricted due to concerns around the economic impact early in the pandemic and impact of inflation on cost of living. Increases are much higher for turnover rents. This is reflected in the rent component of B.C.'s consumer price index which is accelerating after coming in at 7.2 per cent year-over-year in November 2022. Rental growth restrictions will keep more tenants in their units for longer, but with turnover rents increasing quickly, we forecast rent growth of 6 per cent or more in 2023 with similar growth in both 2024 and 2025.

Rental growth restrictions, while beneficial for existing tenants, create challenges to mobility for families given the degree of turnover rents, while disincentivizing new construction and expanded rental supply.

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

B.C. Forecast Summary

		2019	2020	2021	2022	2023	2024	2025
Resale housing	Sales	69,441	81,187	113,742	82,175	73,625	81,515	91,675
land title transfers	% ch.	-9.5	16.9	40.1	-27.8	-10.4	10.7	12.5
	Median Price	540,000	590,000	700,000	780,000	720,000	725,000	760,000
	% ch.	0.2	9.3	18.6	11.4	-7.7	0.7	4.8
MLS® Activity	Sales	77,287	93,900	124,789	81,400	77,000	88,000	100,000
	% ch.	-1.5	21.5	32.9	-34.8	-5.4	14.3	13.6
	Average Price	700,155	781,635	927,510	995,000	915,000	920,000	950,000
	% ch.	-1.5	11.6	18.7	7.3	-8.0	0.5	3.3
Housing Starts, Units	Total	44,932	37,734	47,609	45,000	37,000	38,600	41,000
	% ch.	10.0	-16.0	26.2	-5.5	-17.8	4.3	6.2
	Single-Detached	8,792	8,519	11,013	10,000	9,000	9,000	9,100
	% ch.	-21.2	-3.1	29.3	-9.2	-10.0	0.0	1.1
	Multi-family	36,140	29,215	36,596	35,000	28,000	29,600	31,900
	% ch.	21.7	-19.2	25.3	-4.4	-20.0	5.7	7.8
Vacancy Rate - Row and Apartment	%	1.5	2.5	1.4	1.1	1.0	1.1	1.1
Same Sample Rent Change	%	4.2	2.5	2.8	4.5	6.0	5.0	6.0

Annual Residential Resale Transactions by Economic Region

	2019	2020	2021	2022	2023	2024	2025
Vancouver Island/Coast	13,431	14,704	18,125	13,900	13,200	14,000	15,500
% ch	-8.3	9.5	23.3	-23.3	-5.0	6.1	10.7
Lower Mainland/South-west	37,392	45,970	68,712	48,000	41,000	47,000	54,000
% ch	-10.2	22.9	49.5	-30.1	-14.6	14.6	14.9
Thompson/Okanagan	10,927	12,327	16,364	11,300	11,000	12,000	13,500
% ch	-9.0	12.8	32.7	-30.9	-2.7	9.1	12.5
Kootenay	3,240	3,706	4,522	3,600	3,350	3,500	3,600
% ch	-8.4	14.4	22.0	-20.4	-6.9	4.5	2.9
Cariboo	2,506	2,440	3,214	2,850	2,600	2,700	2,750
% ch	-6.5	-2.6	31.7	-11.3	-8.8	3.8	1.9
North Coast	753	794	1,015	925	875	850	900
% ch	-17.3	5.4	27.8	-8.9	-5.4	-2.9	5.9
Nechako	477	488	573	500	500	515	525
% ch	-5.0	2.3	17.4	-12.7	0.0	3.0	1.9
Northeast	715	758	1,217	1,100	1,100	950	900
% ch	-8.5	6.0	60.6	-9.6	0.0	-13.6	-5.3
Province	69,441	81,187	113,742	82,175	73,625	81,515	91,675
% ch	-9.5	16.9	40.1	-27.8	-10.4	10.7	12.5

Median Annual Residential Resale Price

	2019	2020	2021	2022	2023	2024	2025
Vancouver Island/Coast	490,000	540,000	650,000	750,000	710,000	715,000	740,000
% ch	5.4	10.2	20.4	15.4	-5.3	0.7	3.5
Lower Mainland/Southwest	675,000	730,000	843,000	920,000	850,000	860,000	910,000
% ch	-2.9	8.1	15.5	9.1	-7.6	1.2	5.8
Thompson/Okanagan	425,000	470,000	560,000	655,000	615,000	618,000	650,000
% ch	4.9	10.6	19.1	17.0	-6.1	0.5	5.2
Kootenay	300,000	329,000	371,000	420,000	405,000	405,000	420,000
% ch	7.5	9.7	12.8	13.2	-3.6	0.0	3.7
Cariboo	282,500	308,000	345,000	380,000	370,000	375,000	375,000
% ch	8.7	9.0	12.0	10.1	-2.6	1.4	0.0
North Coast	300,000	309,000	348,900	374,500	365,000	367,000	370,000
% ch	16.3	3.0	12.9	7.3	-2.5	0.5	0.8
Nechako	223,750	233,000	265,000	288,500	280,000	285,000	290,000
% ch	1.8	4.1	13.7	8.9	-2.9	1.8	1.8
Northeast	270,000	266,000	290,000	271,000	270,000	275,000	280,000
% ch	-1.3	-1.5	9.0	-6.6	-0.4	1.9	1.8
Province	540,000	590,000	700,000	780,000	720,000	725,000	760,000
% ch	0.2	9.3	18.6	11.4	-7.7	0.7	4.8

Terms

Chief Economist: **Bryan Yu** Business Economist: **Alan Chow** Economics Analyst: **Ivy Ruan**