



B.C. Housing Market and Forecast Update 2023 - 2025

B.C.'s housing market has fluctuated wildly over the past year as the market adjusted to rapid interest rate hikes but remained supported by insatiable demand for housing amidst soaring population and severe housing shortages. An early 2023 sales rebound is expected to retrench with more recent interest rate hikes as affordability deteriorates but prices are anticipated to remain supported by low inventory and underlying demand. Meanwhile, broader housing affordability continues to deteriorate as rental vacancy rates are forecast to remain near a record low of one per cent and rent growth continues to advance well above inflation. An increase in new home construction, necessary to boost housing supply and reverse the provincial (and national) supply shortage is unlikely to materialize given higher interest rates and construction costs, which will further amplify the current housing crisis. Housing starts are forecast to decline during the second half of 2023 and through 2024.

Existing home market bounces back after sharp 2022 downturn

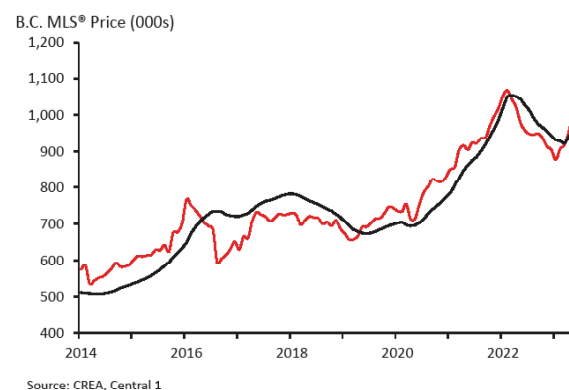
The first half of 2023 was marked by remarkable resilience in B.C.'s housing market following 2022's violent market adjustment to the surge in interest rates. Demand rebounded after last year's pullback when annual B.C. MLS® sales tumbled 35 per cent and monthly sales patterns down by half from the pandemic peak. At year-end, monthly sales were 19 per cent lower than pre-pandemic 2020. The average home price rose 7 per cent annually in 2022, but this masked a 15 per cent decline from peak, albeit remaining well above pre-pandemic levels.

Despite the persistent drag of higher interest rates that has crushed housing affordability, home sales gained traction for a fourth consecutive month in June, pushing levels 40 per cent higher than December 2022 after adjusting for seasonal factors to exceed pre-pandemic trend. Meanwhile, home values have marched higher again with the average value 14 per cent higher than the recent January low. While still shy of peak levels this was 37 per cent higher than February 2020. The rising provincial average in part owes to stronger sales and price rebound in the Lower Mainland, but trends have broadly been positive.

Home sales rebound in early 2023, surpass pre-pandemic level

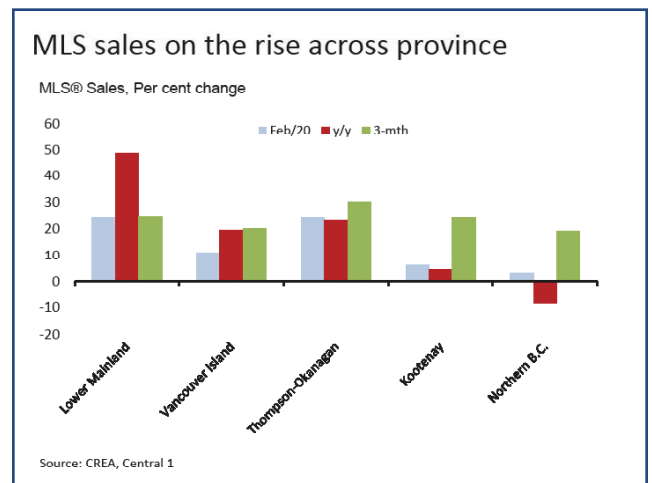
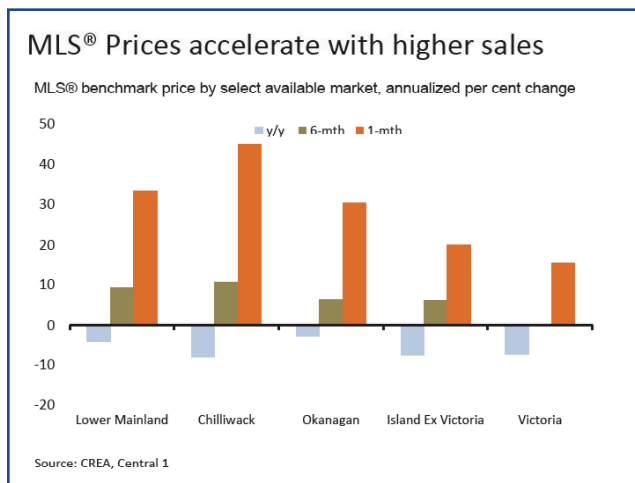


Home prices follows sales cycle higher



The speed of recovery has been surprising, highlighting strong underlying demand. Cumulative Bank of Canada rate hikes have pushed the variable rate from 1.6 per cent at the beginning of 2022 to 6.5 per cent, with 5-year fixed rates doubled to about 7 per cent over the same time. Prospective buyers moved past the sticker shock, adapted to higher rates, and took advantage of a temporary fixed rate peak after sitting on the sidelines a year ago. Propping up buyer sentiment and purchasing were strength in the labour market and wage growth, swollen pandemic savings, and population growth. There has been a shift away from variable rate and 5-year products and coalesced into short 2- and 3-year term products.

The demand bulge has been buoyed by a record pace of population growth that persisted through the first quarter. B.C. gained 150,000 newcomers in the calendar year 2022, and during Q1 2023, the province recorded a 38,600 person increase, marking the

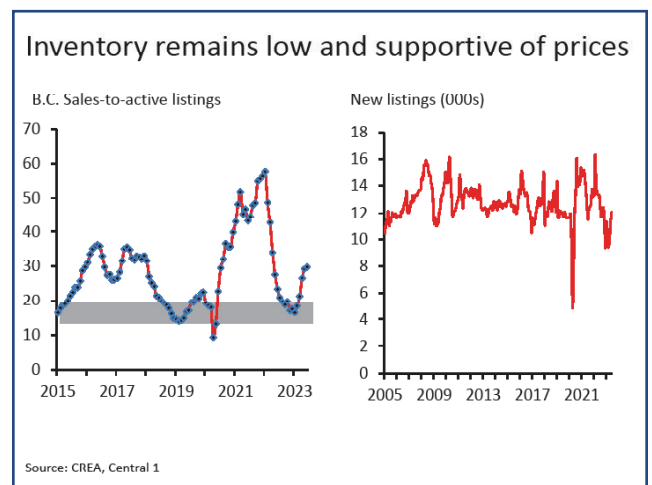


strongest same-quarter increase going back to at least the 1970s. Population growth is driving demand for housing across tenure type, particularly rental market demand in the province's largest urban markets like Metro Vancouver given gains owe to international immigration. However, angst among potential buyers has increased as record immigration promises robust future homeownership and rental market demand.

Home prices have reverted higher as supply constraints for both existing home listings and rental product limit buyer negotiating power. New listings flow has climbed with stronger demand piquing seller interest and higher rates drive some investors to sell, but levels are still near lows from the mid-2000s, and active listings are falling again after peaking in December. Sales-to-listings have shifted into sellers' market territory. While some investors are looking to exit given the pressures of high interest rates, the rapid ascension of rent is providing some cushion – at the expense of affordability for more financially vulnerable households. Rents have soared, allowing investors to pass on additional costs upon tenant turnover, while putting a floor under asset prices.

Regional patterns align with the drivers of the first half rebound. Sales have increased across the province, but most sharply in the Lower Mainland where sales were almost 60 per cent higher than in December and well above pre-pandemic levels. Other regions have seen modest upticks after shallower declines through 2022, reflecting high immigration and greater impatience of buyers in large metro areas.

Similar dynamics are playing out with prices as rapid tightening in sales-to-inventory conditions propel prices, particularly in the Lower Mainland region with other areas also gaining traction. Average prices bottomed out in January and have increased 12 per cent in the Lower Mainland-Southwest and 10 per cent in the Thompson-Okanagan to lead gains. Levels remain below pandemic highs but have quickly closed the gap. Average prices can be erratic due to sales



composition, but quality-adjusted benchmark prices have broadly moved higher and as a lagging indicator to average price trends will continue to move higher and are similarly near record highs.

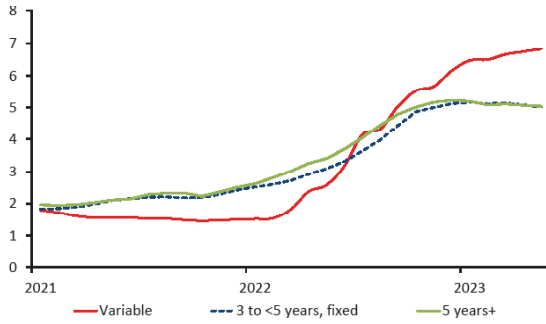
Momentum likely to wane with interest rate hikes

This vigour is already slowing with the latest round of Bank of Canada rate hikes and higher fixed rates. Air has been taken out of the housing upswing as a result, which we expect to continue as the economy slows. This is by design, as the market rebound was a factor in the Bank of Canada ending its conditional policy rate pause. With the mortgage stress test still in place, many buyers are required to qualify near 8 per cent at historically high home prices. In a market like B.C. with exorbitant home prices, elevated mortgage rates will remain a more severe drag on the housing market.

Lagged effects of cumulative interest rate hikes will work through consumer demand and capital investment channels, tempering economic activity and employment growth. Inflation remains high compared to the Bank of Canada's target, albeit partly self-inflicted due to mortgage interest costs, but is expected to decline through 2023 and slip to near two per cent in the first half of 2024. We forecast cuts to the policy interest rate during Q1 2024 as inflation slows and curbing

Recent rate hikes add to affordability erosion

Mortgage rates on funds advanced by chartered banks, uninsured, %



Source: Bank of Canada, Statistics Canada, Central 1 latest May 2023

the policy rate to near 3 per cent rate by year-end and lower mortgage rates. Still, there is no return to the ultra low rates observed early in the pandemic and even those immediately prior. We expect fixed rates to remain close to four per cent, but declining mortgage rates will incentivize more purchasing activity, particularly of more affordable townhomes and apartments.

Consumers will be pinched by higher mortgage payment outlays and softening wage growth. That said, early year economic resilience, a tight labour market and elevated level of population growth means the B.C. and Canadian economies avert a recession of any significance. We expect the national economy to grow above one per cent this year with a similar pace next year. B.C.'s slowdown will be more pronounced given higher household debt and greater sensitivity to higher interest rates, but the provincial economy is expected to rebound at a more robust pace.

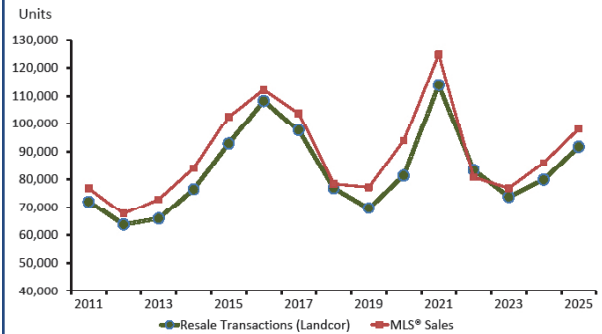
Housing sales to contract over second half of 2023, home prices supported by low supply

In the coming months, B.C. home sales are forecast to fall 15 per cent on a trend basis but remain above 2022 monthly lows as a higher interest rate and uncertainty push buyers to the sidelines once again. On an annual basis MLS® sales decline 5 per cent to 77,000 units following last year's 35 per cent decline. Lower interest rates and high and growing levels of latent demand on the sidelines contribute to a 12 per cent increase in 2024 and 14 per cent in 2025 to 98,000 units.

Despite softening sales, affordability does not meaningfully improve, and high pandemic prices persist. Rather, higher interest rates push more buyers out of the market as prices remain sticky. As we have observed earlier this year, demand is waiting in the wings to purchase even at elevated prices, reflecting household formation trends of millennials and Gen Z and a swelling population. Price declines are likely to draw in buyers.

A heavily constrained housing supply remains supportive of housing prices. This happens when the population balloons without necessary expansion of shelter options, both in the homeownership and rental market. While some recent and highly leveraged buyers will be forced to sell due to rate adjustments, many owners will remain on the sideline weathering the impact of higher rates, while choosing to delay any moves until interest rates decline. CMHC has estimated a housing deficit for B.C. of more than half a million units through 2030, requiring a doubling of housing starts to close the gap -- a near impossible task due to capacity issues and municipal bottlenecks. Moreover, this will prove to be understated given robust population growth and the likelihood that housing starts to decline in response to higher interest rates.

Home sales decline extends through 2023, rebounds thereafter



Source: Landcor, CREA, Central 1

We expect supply constraints to prop up prices, but also mean a low sales volume. Pricing conditions will be particularly strong in larger urban markets where much of the demand has expanded, while smaller markets, and recreational areas, across the province are at greater risk of price decline as market adjust to affordability constraints and demand for recreational properties slows with the economy.

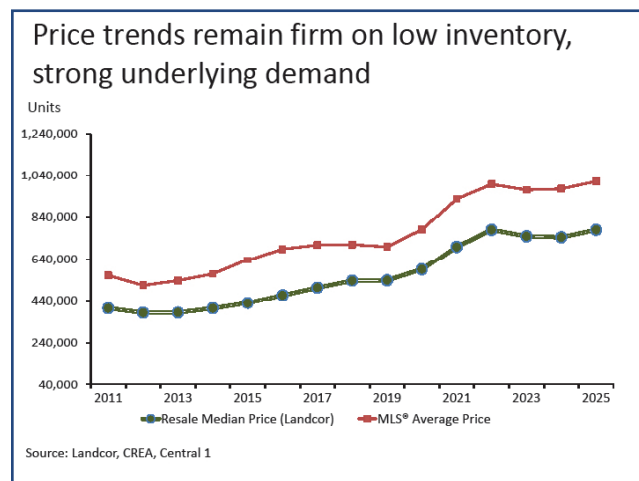
The average MLS® price is forecast to trend near \$970,000 in coming months marking a modest dip from trend but propped higher by a higher share of sales in larger urban markets. Annually, the average price declines 2.7 per cent this year, remain flat in 2024 and rise 3.6 per cent in 2025 to average \$1 million.

Land title transfer data

On a regional basis, we forecast land title transactions and median prices for the resale market. Title transfer data is more complete than MLS® data as it spans the entirety of the province, with consistent product definitions, and includes private sales. This data excludes new construction, which is in MLS® data. However,

sales and price patterns lag MLS® patterns given that title transfers can lag firm sales as tracked by real estate boards for months. This is a better planning basis for credit unions, and sectors reliant on purchase completion.

Due to these timing lags, resale land title transfers transactions are forecast to decline 11.6 per cent this year (compared to 4.8 per cent in the MLS® data), followed by an 8 per cent increase in 2024 and 15 per cent gain in 2025. Sales in the Lower Mainland-Southwest and Thompson-Okanagan decline 13 per cent, although on a monthly trend basis, the former has rebounded significantly and should lead growth in 2024 due to higher immigration into urban areas. Vancouver Island is forecast to hold steady, owing to demand by remote workers, retirees, and lifestyle-seeking families, while northern B.C. has been revised lower amidst more challenges related to the province's forestry sector and mill closures.



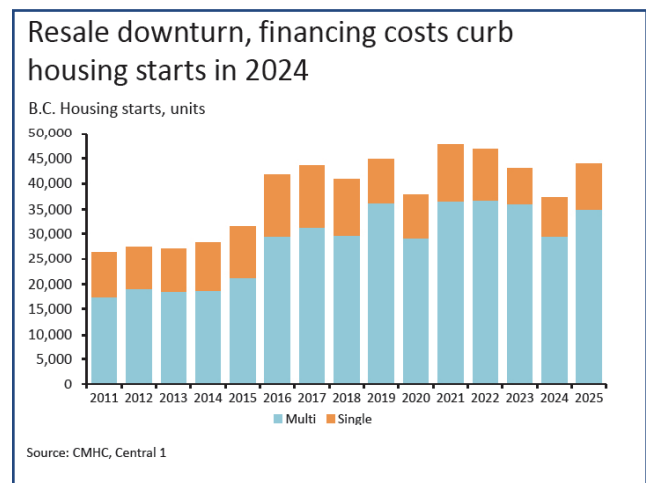
The annual median home value declines 3.8 per cent to \$750,000 for 2023, which like MLS® data internalizes the within year recovery and fluctuations of prices. This is anticipated to hold steady in 2024 with a nearly five per cent gain in 2025. This pattern is mimicked in the Lower Mainland but with a stronger gain in 2025. While higher interest rates are a risk for price declines in coming months, we expect population growth and supply constraints to dominate these risks and lead to higher prices.

Strong pace of housing starts is temporary, downturn expected

Surprisingly, new home construction has outperformed in early 2023 relative to expectations and bucked national patterns. Urban-area housing starts in B.C. rose 24 per cent in the January to May period relative to same-period 2022, compared to a broader decline of a 10 per cent nationally. However, this was owed entirely to Metro Vancouver where starts soared 51 per cent

and to a lesser extent Kelowna (up 61 per cent but few unit gains). In contrast both Abbotsford-Mission and Victoria recorded declines, and small urban markets reported a 10 per cent drop.

This should be temporary with housing starts expected to roll back sharply in coming quarters in line with other provinces. While underlying demand for housing is strong and rising, efforts to curb inflation through high interest rates are working against construction of much needed new housing. Recent strength has been dominated by multi-family construction meaning the surge in activity is due to condominium and rental projects planned years in advance that commenced construction stage. Cumulative interest rate hikes cut into pre-sale demand in 2022, while construction financing costs have surged alongside elevated building costs which are impediments to much needed construction. Residential construction investment suggests construction costs grew at a more than 10 per cent rate in 2022, although the pace of growth has decelerated with softer market conditions. Similarly, higher rates increase required returns for new rental projects.



We expect this shift in conditions will rapidly cool housing starts in the second half of the year, which is already evident in a sharp decline in residential building permits. Starts decline sharply 8 per cent this year, and 14 per cent in 2024 despite massive demand for homes. B.C.'s already severe shortage contributing to firm and rising prices in coming years.

Rental market to remain unaffordable for many

Rent is unaffordable and unlikely to improve any time soon. B.C.'s average vacancy rate sank to 1.3 per cent at the end of 2022 and is likely to dwindle further with supercharged levels of immigration. Many new immigrants rent for several years following arrival reflecting a period of community settlement, integration into the

Low vacancy rates maintain upward pressure on rent



Source: CMHC, Central 1

labour market and buildup of credit scores and down payments which will further tighten the market. Vacancy rates have plunged in many areas with sub one per cent vacancy rates observed in markets like Metro Vancouver, Nelson, Squamish. Vacancy rates are between 1-2 per cent in most other areas, but higher in northern regions. Condo apartment vacancy rates also remained exceptionally low in larger markets. This reflects a severe undersupply of rental homes and higher demand as the pandemic matured and borders re-opened, while pandemic preferences drove

mobility among regions. Average rents rose 6.5 per cent in response to the demand and supply mismatch, and given rent hike allowances, this reflected unit rent changes upon turnover.

We anticipate the average vacancy rate to decline below one per cent this year and remain exceptionally low through the forecast period even as rentals have made up a higher-than-normal share of construction. While policy makers look to boost social and affordable housing, the high interest rate environment is expected to curb new projects due to inflated costs. Year-over-year rent growth as recorded in the rental component of Statistics Canada's consumer price index has fluctuated from 6- 8 per cent. Average rent climbs 7 per cent this year and 5 per cent thereafter.

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B.C. Forecast Summary

		2019	2020	2021	2022	2023	2024	2025
Resale housing,	Sales	69,735	81,488	113,979	83,631	73,900	80,000	91,675
land title transfers	% ch.	-9.4	16.9	39.9	-26.6	-11.6	8.3	14.6
	Median Price	538,000	590,000	699,900	780,000	750,000	745,000	780,000
	% ch.	0.4	9.7	18.6	11.4	-3.8	-0.7	4.7
MLS® Activity	Sales	77,287	93,900	124,772	80,856	77,000	86,000	98,000
	% ch.	-1.5	21.5	32.9	-35.2	-4.8	11.7	14.0
	Average Price	700,155	781,635	927,533	996,515	970,000	975,000	
	% ch.	-1.5	11.6	18.7	7.4	-2.7	0.5	3.6
Housing Starts, Units	Total	44,932	37,734	47,609	46,721	43,000	37,000	44,000
	% ch.	10.0	-16.0	26.2	-1.9	-12.2	-7.3	15.8
	Single-Detached	8,792	8,519	11,013	9,906	7,000	7,800	9,000
	% ch.	-21.2	-3.1	29.3	-10.1	-29.3	11.4	15.4
	Multi-family	36,140	29,215	36,596	36,815	36,000	29,500	35,000
	% ch.	21.7	-19.2	25.3	0.6	-2.2	-18.1	18.6
Vacancy Rate - Row and Apartment	%	1.5	2.5	1.4	1.3	0.8	1.1	1.1
Same Sample Rent Change	%	4.2	2.5	2.8	6.5	7.0	5.0	6.0

Annual Residential Resale Transactions by Economic Region

	2019	2020	2021	2022	2023	2024	2025
Vancouver Island/Coast	13,488	14,754	18,099	13,974	13,300	14,000	15,500
% ch	-8.3	9.4	22.7	-22.8	-4.8	5.3	10.7
Lower Mainland/Southwest	37,431	46,000	68,733	48,742	42,600	47,000	54,000
% ch	-10.2	22.9	49.4	-29.1	-12.6	10.3	14.9
Thompson/Okanagan	11,000	12,416	16,464	12,133	10,500	11,500	13,500
% ch	-9.0	12.9	32.6	-26.3	-13.5	9.5	17.4
Kootenay	3,288	3,760	4,578	3,554	3,000	3,100	3,600
% ch	-8.5	14.4	21.8	-22.4	-15.6	3.3	16.1
Cariboo	2,556	2,479	3,266	2,686	2,200	2,100	2,750
% ch	-6.1	-3.0	31.7	-17.8	-18.1	-4.5	31.0
North Coast	759	804	1,026	879	800	820	900
% ch	-17.4	5.9	27.6	-14.3	-9.0	2.5	9.8
Nechako	481	506	583	485	400	400	525
% ch	-5.9	5.2	15.2	-16.8	-17.5	0.0	31.3
Northeast	732	769	1,230	1,178	1,100	1,080	900
% ch	-8.3	5.1	59.9	-4.2	-6.6	-1.8	-16.7
Province	69,735	81,488	113,979	83,631	73,900	80,000	91,675
% ch	-9.4	16.9	39.9	-26.6	-11.6	8.3	14.6

Median Annual Residential Resale Price

	2019	2020	2021	2022	2023	2024	2025
Vancouver Island/Coast	490,000	539,900	650,000	755,000	710,000	715,000	740,000
% ch	5.4	10.2	20.4	16.2	-6.0	0.7	3.5
Lower Mainland/Southwest	674,000	730,000	842,000	930,000	880,000	875,000	915,000
% ch	-3.0	8.3	15.3	10.5	-5.4	-0.6	4.6
Thompson/Okanagan	425,000	468,500	559,900	650,000	625,000	618,000	650,000
% ch	6.0	10.2	19.5	16.1	-3.8	-1.1	5.2
Kootenay	299,000	326,250	370,000	419,500	415,000	405,000	420,000
% ch	8.7	9.1	13.4	13.4	-1.1	-2.4	3.7
Cariboo	280,000	305,000	344,500	382,250	375,000	375,000	375,000
% ch	9.2	8.9	13.0	11.0	-1.9	0.0	0.0
North Coast	300,000	305,000	345,000	375,000	365,000	367,000	370,000
% ch	16.5	1.7	13.1	8.7	-2.7	0.5	0.8
Nechako	221,000	224,000	260,000	296,000	300,000	295,000	290,000
% ch	1.6	1.4	16.1	13.8	1.4	-1.7	-1.7
Northeast	268,205	265,000	290,000	275,000	270,000	275,000	280,000
% ch	-0.7	-1.2	9.4	-5.2	-1.8	1.9	1.8
Province	538,000	590,000	699,900	780,000	750,000	745,000	780,000
% ch	0.4	9.7	18.6	11.4	-3.8	-0.7	4.7

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