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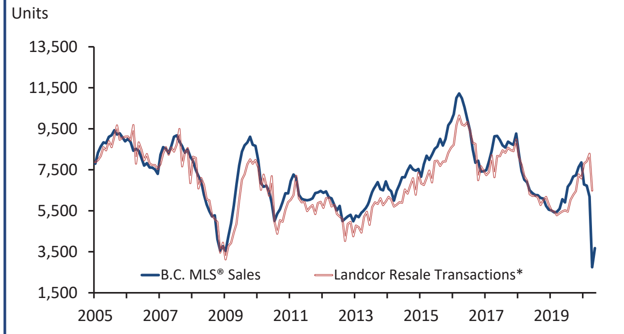
B.C. Housing Forecast Update, 2020-21

Highlights:

- Home sales to trend higher after COVID-19 induced collapse but forecast to remain below pre-pandemic levels into 2021
- Annual resale transactions to decline nearly six per cent in 2020 before rebounding
- Housing prices have held steady this year due to supply adjustments, but modest declines expected across province during the second half of 2020
- Weak labour market, slower population growth to hamper homeownership and rental demand
- Housing starts to decline 30 per cent to 30,000 units as lower pre-sale demand in prior years and COVID-19 shock hits new home construction
- A second wave of COVID-19 remains a significant downside risk for the outlook

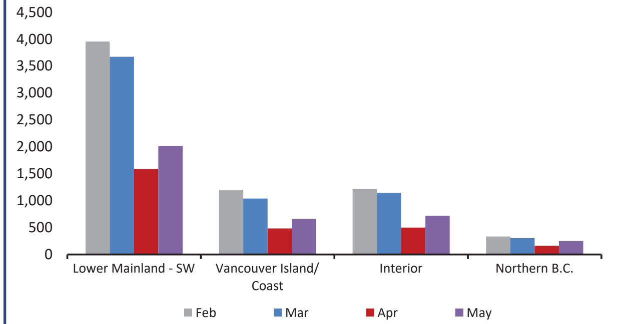
Resale transactions dive amidst COVID-19 pandemic, upturn in May



Source: CREA, Landcor, Central 1 Latest: CREA, May/20; Landcor Apr/20
*Land title transfers

April marked sales bottom across B.C.

Monthly seasonally- adjusted MLS® Sales, Feb – May 2020, seasonally- adjusted



Source: CREA, Central 1 Latest: May 2020

Pandemic effects on housing market to continue, home price declines mild

Record declines in home sales but prices hold steady immediately following the COVID-19 shock

Consistent with the national COVID-19 driven downturn, B.C. housing sales tumbled by a record 55 per cent from mid-March through April before partly rebounding in May. April's MLS® sales decline was the lowest level since the early 1980s, with the downturn magnified when adjusted for population size.

Activity was pummeled by the impacts of COVID-19 through various channels. Demand declined as potential buyers stayed home amidst physical distancing recommendations, while the economy posted an historic collapse in employment, in large part reflecting government policies that suppressed economic activity due to the public health crisis. Indeed, real estate board regions throughout the province recorded similarly steep sales declines, highlighting the blanket shock hitting all markets.

The abnormal nature of the retrenchment is underscored by both buyers and sellers stepping away from the market amidst uncertainties related to health and the economy. Fewer sales flow was matched by a similar contraction in new listings of 52 per cent for from the previous month. Understandably prospective sellers were hesitant to have strangers peruse their homes, while the industry has implemented some changes including a ban on open houses. A scan of historical market downturns typically show a lagged response of new supply to a decline in sales as listings remain stable or continued to trend higher before declining.

That said, like the economy, April activity likely denoted the low point of the sales cycle as sales and listings turned higher in May amidst the economic restart and adjustment in the industry to market homes. May sales climbed nearly 34 per cent but still only 55 per cent of February levels. A scan of weekly data points to further sales growth in June, but more stringent mortgage insurance criteria including reduction in debt-servicing ratios announced by CMHC in effect July 1, may be pulling some sales forward into the rebound cycle.

Home values have held steady despite the sales plunge with only mild erosion.. The average MLS® provincial price declined 6.2 per cent in April and two per cent in May but followed a near five per cent increase in March pointing to significant noise in the data. Much of this reflected a flip-flop in average price in the Greater Vancouver region. Benchmark home values in areas reporting the metric were resilient with declines of less than one per cent. Supply adjustments have supported prices as depletion of new listings has limited inventory build-up. While sales-to-active listings plunged into Buyers' market territory due to lower sales, the inventory trend declined. Effective inventory was likely inflated as units listed pre-COVID-19 remained on the market but may not have been available to view.

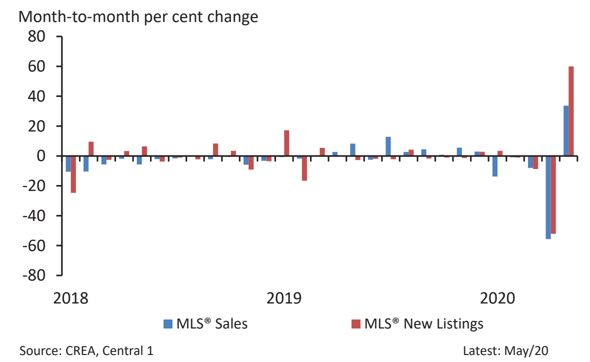
Additionally, the labour market downturn has hit lower paid service workers particularly hard, while those employed in higher paying goods sectors and office workers with work from home opportunities were less affected, suggesting a more significant impact on renters rather than prospective homeowners One notable laggard was the Okanagan region where the benchmark value has declined three per cent since March.

Housing prognosis uncertain due to economic outlook and COVID-19 evolution

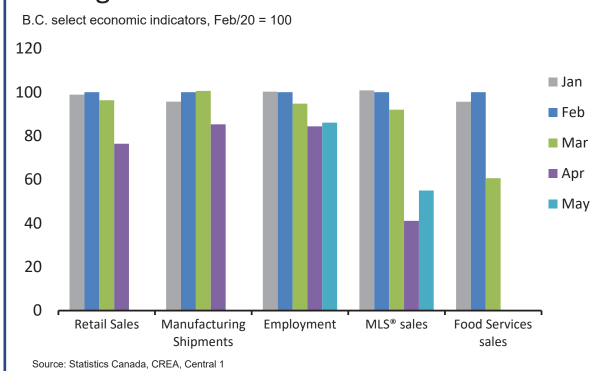
Like much of the current economic outlook, the housing market trajectory is uncertain but market conditions will be weaker than the pre-pandemic period given the effects of higher unemployment, business closures and public health concerns. The path will depend on the strength of the economic recovery, and the effects of a possible second wave of the virus. Sales flow is unlikely to return to pre-COVID-19 trend before 2021 given these factors. Population growth will rebound but growth tempered over the next two years as fewer economic opportunities, thicker borders and fewer international students stunt growth. Low borrowing costs will provide support.

While the current recession ends almost as quickly as it began on a technical basis, economic activity will remain exceptionally weak over the coming year. B.C. lost a record 400,000 jobs (15 per cent) in March and April amidst the health panic, before regaining about 43,000 in May. The province's unemployment rate surged to 13.5 per cent from 5.0 per cent in February.

Both sales and new listings adjust rapidly to new environment



Recovery phase underway, but economic damage extensive



This chasm remains deep and a rebound will be limited due to ongoing physical distancing requirements, an exceptionally weak and delayed tourism recovery and public health concerns.

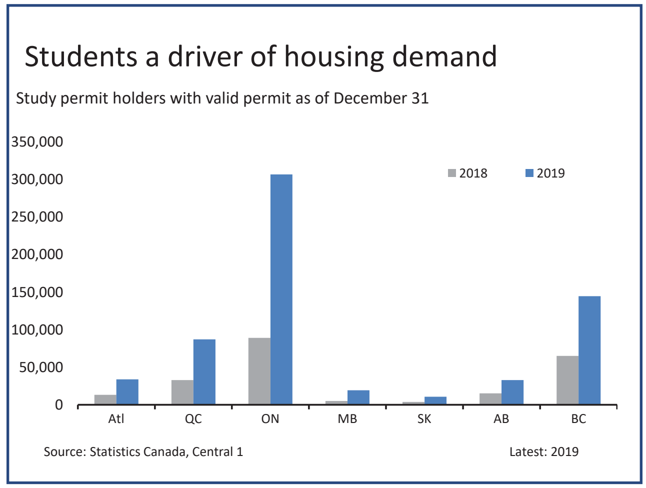
Recessions and high levels of joblessness are recipes for a weak housing market but there are nuances in current situation.

With B.C. entering Phase 3 of its restart plan, the economy continues to improve at this writing. Phase 3 will allow restarts in the accommodations industries; spas; movie theatres and the motion picture and television industry. Many job losses are temporary and will continue to dissipate as sectors re-open. For the purpose of housing demand, the distribution of impacted sectors is important. Lost jobs were disproportionately in the lower compensation service-sector industries. Goods-producing sectors, particularly infrastructure construction, manufacturing and professional roles with remote working options limited the impact on many workers. Government income support has mitigated stress on household finances, while mortgage-holders affected by income loss have the option to defer payments. Latent home ownership remained steady, with buyers likely stepping briefly to the sidelines. In contrast, rental demand has been hit harder.

Despite economic improvement, this is not a return to past normal and for many it will continue to feel like a recession. GDP is forecast to contract nearly seven per cent in 2020 with only a partial rebound in 2021 and unemployment remains elevated in the absence of a vaccine. This truncated 'V' recovery means weak businesses conditions and higher unemployment rates will constrain income growth and businesses will be hesitant to invest. While net employment gains are positive, some businesses are unlikely to survive a physically distanced operating environment and more of these temporary losses will crystallize as permanent. Supporting sectors will also face a challenging environment. Regions more heavily reliant on tourism and other services will experience a delayed rebound. Northern B.C. will be propped up by major infrastructure but faces challenges from weak resource sector investment.

Population growth has propelled demand for housing in recent years but is expected to slow to a trickle into 2021 as the flow of new immigrants and temporary residents pauses and temporarily casts a shadow on both homeownership and rental housing demand. COVID-19 is impeding immigration inflows through various channels. Consular services have been interrupted, while the global economic lockdown has also impacted ability of applicants to obtain required documentation. Current travel restrictions both in Canada with respect to international entries and from source countries and health fears are also keeping would-be entrants at home. To be exempt from current travel restrictions, immigrants and students must have had their applications or visas approved prior to March 18.

The economic downturn will likely delay mobility and household formation during the coming year. Moreover, the flow of non-permanent residents, specifically students, is likely to decline given a shift to e-learning at post-secondary institutions for the fall-2020 semester that potentially extends partway through 2021. At the end of 2019, there were 144,675 study permit holders in the province and the rate of growth was eight per cent annually over the past decade. International students may choose to delay entry or return to Canada. Population growth is forecast to slow to a range of 0.6-1.0 per cent in 2020/21. Demographics factors will contribute to interprovincial migration flows to the interior and Vancouver Island, but broad population growth will be the lowest since the early 2000s. The drop off in population growth and a weak



labour market will constrain household formation. This lull will be temporary and the immigration inflow will rebound in 2021/2022 as federal immigration targets will remain elevated and increased applications for skilled temporary workers is expected given tightening up of U.S. visa policies.

Regionally, Metro Vancouver's labour market has been hit hardest by the downturn given larger exposure to face-to-face services sectors and international tourism. That said, the ability to work remotely has sheltered higher earning workers. Employment losses have been shallower in other regions of the province which are more reliant on goods producing sectors, but a slower growth economy and tourism weakness will limit a bounce back in these areas.

There are a few positive drivers. Low interest rates will remain exceptionally accommodative. Short- term policy rates in Canada are at the zero lower bound. While additional risk premia associated with COVID-19 has limited some pass through, administered mortgage rates have eased. Central 1 Economics' survey of brokers point to about a 30 basis point decline in the 5-year mortgage rate since February to 2.3 per cent in June and trending towards 2016 lows, although this has lagged benchmark declines. Posted rates have also remained relatively high, and as the basis for the mortgage stress test, is limiting demand. Little change in borrowing costs are expected through 2021 as the economy operates below capacity.

Another area worth watching on the housing front is a change in consumer behaviour due to the COVID-19 pandemic. Impacted renters may find it economical to return to the family home if possible, demand for shared accommodations could decline, while a partial shift to increased remote working may drive demand for more space or for housing in outlying regions.

There is downside risk to this outlook. The chance of a second wave is rising given worrying trends in the U.S.

and other parts of the world. If realized, this will induce a deeper contraction in 2020 and slower rebound in 2021 of closer to three per cent. High unemployment would prevail, business failures would increase and housing market performance would be significantly worse.

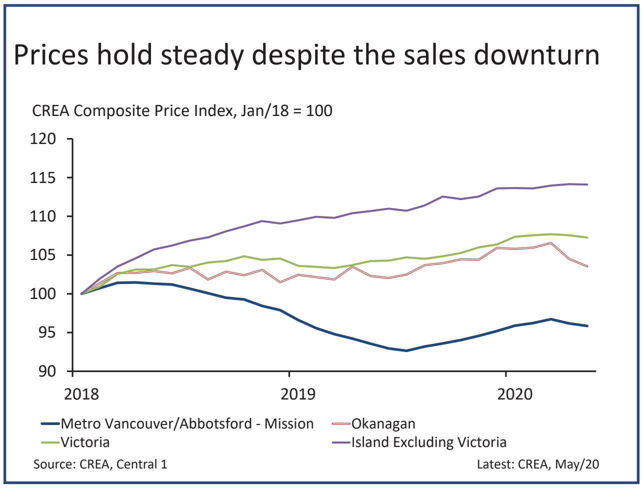
Forecast

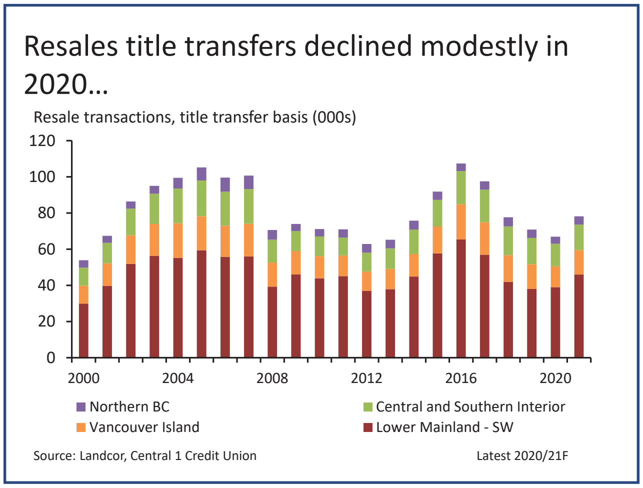
The Canadian economy and housing market is truly in uncharted waters at the current time and there is little precedent for how the market may unfold. Historically, sharp sales declines like the one we are currently witnessing are not unheard of but generally occur over months, not as a single-month shock and they typically reflect the impact of deepening economic downturns, policy changes or rapid changes in interest rates rather than a health crisis.

As previously noted, April marked the bottom for the sales down cycle, with a positive albeit uneven upward trend through the remainder of 2020. However, levels are forecast to trend below pre-COVID-19 levels well into 2021. Total resale transactions, as measured by title transfer data, declines 5.6 per cent this year to 66,925 units marking the lowest level since 2013. MLS® sales declines come in deeper contraction at 20 per cent.

This significant discrepancy reflects a lag in title transfer data of two to three months following a firm sale. Stronger market demand in late-2019, particularly in Metro Vancouver, contributed to a large year-over-year increase in title transfers of 41 per cent during the first four months of 2020 from a year ago. The comparable provincial MLS® sales data showed a 1.6 per cent decline over the same period and 14 per cent drop through May. Prior to COVID-19, we had forecast sales growth of 15 per cent this year, with our current outlook reflecting a swing of roughly 20 per cent.

Regionally, the largest annual sales declines are forecast for areas outside the Metro Vancouver anchored Lower Mainland- Southwest, although a significant driver of this is the sales lag between MLS® and title transfers. MLS® sales more than halved in April but won□t be observed until June title transfer data. Sales in the Lower Mainland- Southwest are forecast to reach about 80 per cent of pre-pandemic levels by year-end, but still see a full-year gain of four per cent. In contrast, annual sales in other parts of B.C. decline in double-digit per cent changes. While less affected by employment losses and trending higher, there is weaker demand across the province due to weak resource investment, low tourism, and effects of a deep recession in Alberta. Kootenay home sales





decline 20 per cent, while Thompson-Okanagan sales are forecast to fall 13 per cent.

The jury is still out on the impact on home prices. Indeed, recession-induced contractions and high unemployment often precede price declines, but in the current circumstances, both demand and supply have been artificially paused by the pandemic. There have been few signs of price collapse or much in the way of a short-term decline. In a normal downturn, sales decline and listings increase driving an uplift in inventory and downward price pressure. New listings have generally followed a similar pattern to sales, rising as the early impact of the pandemic fades. The sales-to-listings ratio is low but turned higher in May and at this point is not signaling a pending freefall. Available price measures, including average prices by real estate boards are noisy due to fewer sales and changes to sales composition, but housing price indices have only eased. Declining median price trends in markets like the Lower Mainland have reflected a compositional shift in sales away from detached homes, rather than pure price effects.

That said, we expect modest erosion of prices in the back half of this year as listing rise and demand remains soft. The extent and longer-term damages to the economy from COVID-19 have yet to crystallize and the amount by which government support programs and mortgage deferrals are supporting owners is unknown. This could be a factor lifting new listings in coming months as income measures end, while investors may exit the market given weaker rental market demand pointing to greater downside risk for condominium apartments, particularly in Metro Vancouver. That said, we do not anticipate this will be sufficient to knock prices substantially lower as inventory remains modest. New home supply also limits excess inventory overhang as slower pre-sale take up over the past two years curtail construction. Housing prices are forecast to decline across the province given weaker housing demand conditions, but the compositional affect of a higher share of sales in the Lower Mainland-Southwest contributes to a flat median provincial home value near $540,000.

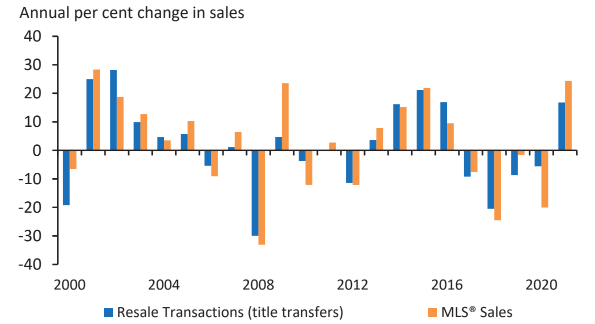
Sales continue to rise through 2021 and will kick into higher gear as immigration flows pick up and the economy continues to improve. Resale transactions climb nearly 16 per cent from 2020 to above 78,000 units and the highest since 2017. Sales in 2017 were close to 100,000 units, before more stringent B-20 mortgage insurance criteria kicked in. MLS® sales will show a stronger rebound. Firmer conditions contribute to a rebound in annual price levels in 2021, but late 2020/early 2021 price declines hold the provincial median price essentially unchanged.

Rental market

Rental market conditions soften this year as the effects of COVID-19 impact demand. Lower paid services sectors were most hard hit by the pandemic and government policies, affecting younger persons, new immigrants and other groups more likely to be renters than owners. Income support measures and B.C.'s temporary rent supplement program have neutralized some of the financial impact on households. Where possible some of these individuals may look to return to the family home. Lower migration flows slow new entrants to the market. The collapse in tourism flows has contributed to an increase in short-term rentals being added to the longer-term rental stock.

While vacancy rates differ across regions, tight conditions have been observed in recent years. Rates of zero to two per cent have been common across small and larger urban areas, with higher rates in resource oriented areas. Current conditions will lift vacancy rates this year before normalizing again in 2021. We expect the provincial vacancy rate to climb to three

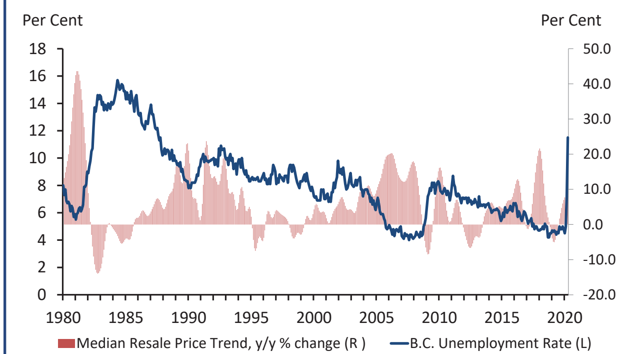
But MLS® sales plunge 20 per cent as sales timing a factor



Source: Landcor, CREA, Central 1 Credit Union

Latest 2020/21F

Unemployment contributes to price declines but duration and other factors matter



Source: Landcor, Central 1

Latest: Apr/20

per cent, marking the highest level since 2003. This provides an opportune time for renters to negotiate rental rates before the market tightens up again with immigration and students leading the rebound thereafter. Average rent growth is forecast to climb by only one per cent this year, before rebounding 2.6 per cent in 2021.

Housing Starts

Housing starts slump this year as lower pre-sale condo sales in 2018 and 2019 slow construction. This was in part to tighter mortgage regulations since 2018, while COVID-19 will lengthen construction timelines. Urban-area housing starts fell more than a quarter during the first five months of 2020 driven largely by a 37 per cent decline in the Vancouver metro area, with drops in both the detached and condo apartment sectors. In other large urban markets, starts in Kelowna rose 40 per cent, Abbotsford-Mission rose seven per cent, while Victoria starts fell three per cent. The effects of the COVID-19 pandemic will not be immediately visible but play through development channels. Operationally, starts may be delayed in part due to physical distancing adjustments, while the flow through of lower demand will further dampen a rebound in pre-sale activity across urban markets. Modest inventory overhang in the new home market is expected as units complete this year. Investor-owned units will compete in a soft rental market which could lead to an increase in listings, while unsold new home units are expected to climb. New condominium starts, given the need for pre-sales as a pre-condition for financing will be more significantly impacted while rental developers will look through the pandemic to rental demand on the other side.

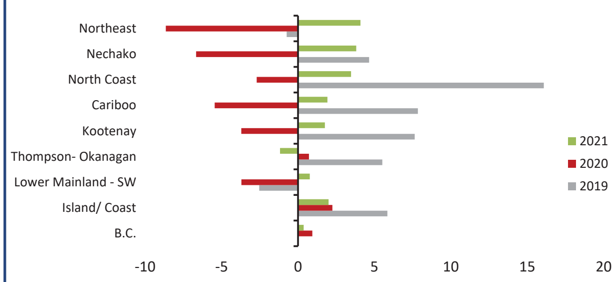
Total housing starts are forecast to decline 33 per cent in 2020 to 30,000 units, with sharp drops across both the detached and multi-family markets. Starts climb to 34,000 units in 2021. Fewer housing starts this year and next likely sets the stage for a housing supply shortage in coming years as the immigration flow returns.

A wave 2 scenario

The outlook for the economy and housing market remains very uncertain given the unknowns associated with the virus. The chance of a second viral wave in late 2020 is relatively high, indeed, a handful of countries which have relaxed economic restriction have already seen cases rise including Germany and China, while others are still grappling with the first wave. How countries, and B.C., would adjust to a second wave is unknown and dependent on local area virus levels, capacity in the health systems, lessons learned during the first wave and the extent that governments will sacrifice economic activity.

Sketching out a wave 2 scenario, we are relatively certain that a resurgence of the virus would lead to a deeper global growth contraction and higher unemployment. Recent outlooks by the OECD suggest a second wave scenario would deepen this year's global contraction to 7.6 per cent from baseline of a 6.0 per cent contraction, with a shallower rebound in 2021 of 2.8 per cent. Global unemployment would average close to 10 per cent. This would impact B.C. through export growth channels, and by extension the labour market.A slower growth environment would cut economic growth by a further half per cent in 2020 and a full per cent in 2021. B.C.'s average annual unemployment rate rises to 8.5 per cent this year and near seven per cent in 2021, or 0.8 per cent above our base. A rebound in immigration would be delayed as travel restrictions persist. To the extent that significant local restrictions are re-introduced and more businesses shutter permanently, this impact would be greater.

Median prices fall in 2020, shift in sales composition holds provincial value steady



Source: Landcor, Central 1

Housing starts drop to 30,000 units, flat in 2021

Source: Statistics Canada, CMHC, Central 1 Credit Union

Impacts on the housing market would be observed largely in 2021 and into 2022 given timing of wave 2. Home sales would ratchet back with MLS® sales in 2021 largely unchanged from 2020 at 60,000 units. A buyers' market would deepen, triggering a 15 per cent decline in price levels reflecting as a greater number of owners already impacted during wave 1 are forced to sell amidst a second downturn. Housing starts could decline a further 10 per cent in 2021 to about 31,000 units.

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B.C. Houising Forecast

		2016	2017	2018	2019	2020f	2021
Resale Housing, Title Transfers	Unit Sales	107,405	97,680	77,717	70,860	66,925	78,180
	% change	17.0	-9.1	-20.4	-8.8	-5.6	16.8
	Median Price	462,000	500,000	535,000	535,000	540,000	542,000
	% change	7.9	8.2	7.0	0.0	0.9	0.4
MLS® Activity	Sales	112,426	103,965	78,516	77,347	61,900	77,000
	% change	9.5	-7.5	-24.5	-1.5	-20.0	24.4
	Listings	156,818	150,275	148,142	143,903	118,000	135,000
	% change	2.8	-4.2	-1.4	-2.9	-18.0	14.4
	Average Price	690,355	708,868	711,564	700,385	695,000	710,000
	% change	8.6	2.7	0.4	-1.6	-0.8	2.2
Housing Starts, All Areas, Units	Total	41,843	43,664	40,857	44,932	30,000	34,000
	% change	33.1	4.4	-6.4	10.0	-33.2	13.3
	Single-Detached	12,278	12,346	11,163	8,792	6,300	8,000
	% change	20.9	0.6	-9.6	-21.2	-28.3	27.0
	Multi-family	29,565	31,318	29,694	36,140	23,700	26,000
	% change	38.8	5.9	-5.2	21.7	-34.4	9.7
Urban Area Starts by Tenure, 10,000+ pop areas	Total	39,498	41,191	38,439	43,215	28,500	32,300
	% change	32.0	4.3	-6.7	12.4	-34.1	13.3
	Owned	29,703	31,702	26,897	31,120	19,000	23,000
	% change	22.2	6.7	-15.2	15.7	-38.9	21.1
	Rental	9,705	9,489	11,542	12,095	9,500	9,300
	% change	73.1	-2.2	21.6	4.8	-21.5	-2.1
Vacancy Rate	Row/Apartment Vacancy Rate	1.4	1.3	1.4	1.5	3.0	1.8
	Sample Sample Rent	5.4	5.7	6.3	4.2	1.0	2.6

Source: Landcor, CREA, CMHC, Central 1 Credit Union

Terms

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Production: **Judy Wozencroft**

Annual Residential Resale Transactions

	2016	2017	2018	2019	2020f	2021
Vancouver Island/Coast	19,553	17,908	14,817	13,681	11,500	13,500
% change	31.6	-8.4	-17.3	-7.7	-15.9	17.4
Lower Mainland/Southwest	65,405	57,050	42,014	37,987	39,000	46,000
% change	13.3	-12.8	-26.4	-9.6	2.7	17.9
Thompson/Okanagan	15,042	14,445	12,240	11,196	9,800	11,000
% change	25.0	-4.0	-15.3	-8.5	-12.5	12.2
Kootenay	3,247	3,643	3,638	3,370	2,700	3,100
% change	20.8	12.2	-0.1	-7.4	-19.9	14.8
Cariboo	2,586	2,835	2,759	2,633	2,300	2,700
% change	7.6	9.6	-2.7	-4.6	-12.6	17.4
North Coast	638	656	930	783	675	800
% change	-10.8	2.8	41.8	-15.8	-13.8	18.5
Nechako	412	477	515	473	400	480
% change	-20.0	15.8	8.0	-8.2	-15.4	20.0
Northeast	522	660	803	734	550	600
% change	-42.6	26.4	21.7	-8.6	-25.1	9.1
Province	107,405	97,680	77,717	70,860	66,925	78,180
% change	17.0	-9.1	-20.4	-8.8	-5.6	16.8

Source: Landcor,Central 1 Credit Union

Median Annual Residential Price

	2016	2017	2018	2019	2020f	2021
Vancouver Island/Coast	382,000	420,000	462,000	489,000	500,000	510,000
% change	9.2	9.9	10.0	5.8	2.2	2.0
Lower Mainland/Southwest	598,000	639,000	692,000	675,000	650,000	655,000
% change	10.7	6.9	8.3	-2.5	-3.7	0.8
Thompson/Okanagan	355,000	380,000	399,950	422,000	425,000	420,000
% change	6.3	7.0	5.3	5.5	0.7	-1.2
Kootenay	244,000	259,000	275,000	296,000	285,000	290,000
% change	1.7	6.1	6.2	7.6	-3.7	1.8
Cariboo	227,000	239,000	255,000	275,000	260,000	265,000
% change	2.3	5.3	6.7	7.8	-5.5	1.9
North Coast	240,000	240,500	255,000	296,000	288,000	298,000
% change	0.0	0.2	6.0	16.1	-2.7	3.5
Nechako	189,750	209,000	215,000	225,000	210,000	218,000
% change	4.3	10.1	2.9	4.7	-6.7	3.8
Northeast	271,500	285,000	270,000	268,205	245,000	255,000
% change	-9.5	5.0	-5.3	-0.7	-8.7	4.1
Province	462,000	500,000	535,000	535,000	540,000	542,000
% change	7.9	8.2	7.0	0.0	0.9	0.4

Source: Landcor,Central 1 Credit Union