Economics | Forecast / Outlook Reports

Economic Analysis of British Columbia

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central 1 Economics

Highlights:

- Annual resale transactions to rise 37 per cent in 2021 to record high but fall back
- Pandemic drivers of demand expected to wane, moderating housing market
- Strong demand and lack of inventory lifts median prices 10 per cent in 2021, average price growth stronger
- Housings starts to surpass 40,000 units annually through forecast period
- Soft rental market to tighten as pandemic eases

British Columbia Housing Market Outlook 2021- 2023

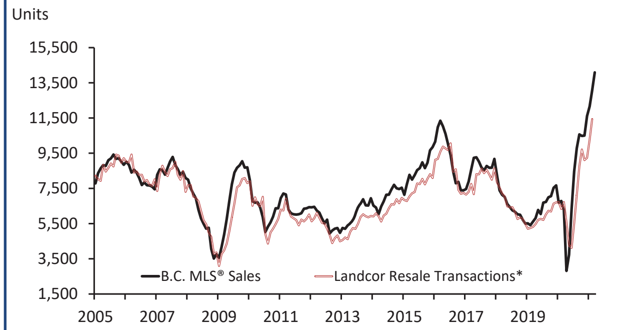
Housing market red hot in 2021; sales to contract in 2022 as the pandemic wanes

B.C.'s red hot housing market persisted through the first quarter of 2021 in a similar vein to the rest of the nation as new trends brought on by the pandemic fuel record demand and rapid home sales and price growth.

Year-over-year sales growth will surge in coming months following a doubling of MLS® home sales observed between March 2020 and March 2021. Sales are trending at a record 14,000 units per month, which exceeds the previous cycle high observed in 2016, while sales had slumped in the early stages of the pandemic. Resale transactions will remain elevated for the remainder of 2021 the trend will moderate towards normal levels. Annual 2021 sales are forecast to decline by about 21 per cent in 2022, with a further decline of about four per cent in 2023.

The B.C. median home value is forecast to rise 10 per cent this year to $643,000, following a 9.3 per cent increase in 2020. Headline growth is tempered by flat condo apartment prices, which make up a large share of activity in large urban markets as detached home prices grow at a faster rate. Meanwhile, the median provincial price is forecast to grow at 4.2 per cent in 2021 and by 3.0 per cent in 2022. Price growth will be broadly stronger outside the largest urban markets due to remote workers purchasing homes outside the cities but is expected to rotate back to urban areas as the pandemic wanes.

MLS® home sales surge, lead resale title transfers

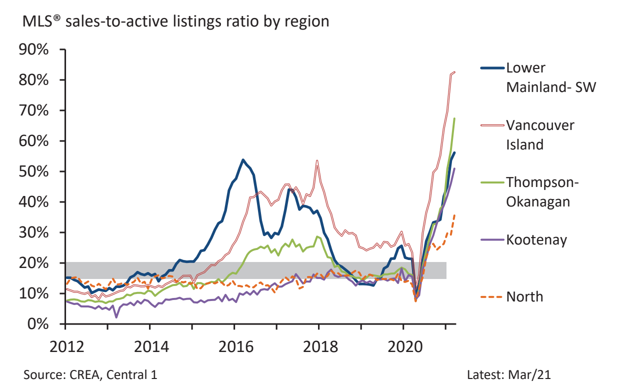


Source: CREA, Landcor, Central 1
*Land title transfers
Latest: CREA, Mar/21; Landcor Feb/21

The staying power of the current purchasing boom has surprised but the principal drivers are obvious in hindsight as the pandemic triggered a perfect storm for demand. Sales were buoyed by sharply lower mortgage rates and a desire for additional space by households amidst remote work options which also rotated demand away from dense living of urban cores and into suburban markets and smaller centres across the province. Recreational property markets have surged. Moreover, the uneven nature of the pandemic has meant many higher paying sectors of the economy have generally been unscathed and savings have risen amidst fewer outlets for spending, contributing to ability to save for down payments. This is further intertwined with lifecycle behaviour as more millennials reach an age associated homeownership and growing families, and a greater share of the population. These factors have pulled forward purchasing activity which would likely have occurred in future years.

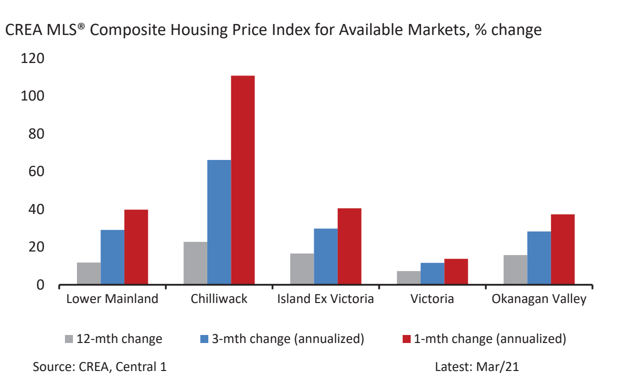
Prices have ripped higher as the flood of buyers has overwhelmed available supply. While the market has seen a recent surge in new listings coming to market as sellers are incentivized by high prices, many owners were hesitant to list during the health crisis. Inventory is generally plumbing the lowest levels going back at least to 2000 across regions, while sales-to-active listings ratios are at or near record highs, supporting rapid price gains as buyers enter intense bidding wars. Provincially, the average MLS® price surged to a seasonally- adjusted $915,464, up 20 per cent (or a whopping $154,000) from a year ago and the trend is accelerating. Compositional factors play a role and the eyepopping headline masks growth momentum in many markets given the higher sales share in lower priced regions of the province.

Markets favour sellers across the province



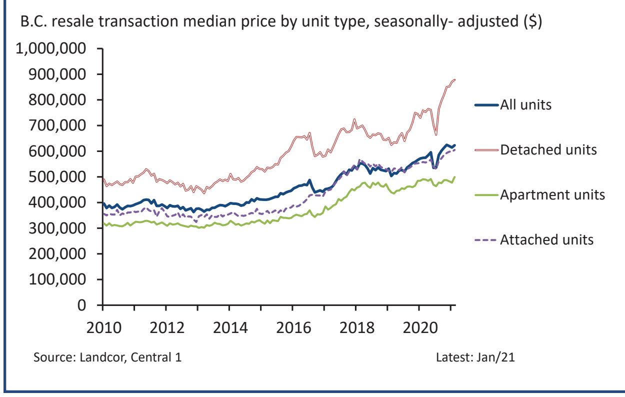
MLS® housing price indices which adjust for housing attributes and composition highlight accelerating growth. While year-over-year growth has ranged from 9-15 per cent dependent on market, gains have accelerated over the past six months. Annualized short-term growth has soared to 20-30 per cent in various markets although this pace will temper. Price growth has heavily skewed to detached market activity as demand surged for ground-oriented markets, while condo apartment demand lagged during the pandemic.

Growth acceleration in B.C. home prices



There is little evidence to suggest the recent surge reflects foreign purchasing or intense speculation/flipping in the market. B.C. data suggests foreign purchasing was about 1.5 per cent during the pandemic which is lower than a typical year.

Detached home price surge as apartments stall during pandemic



Resale housing market remains robust but slowdown expected

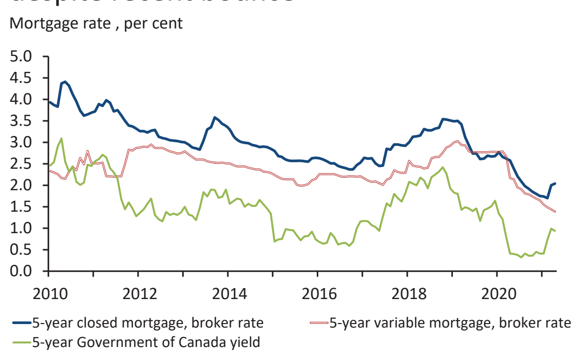
Going forward, housing market activity is expected to remain elevated, both in terms of sales and price momentum. That said, current trends are unsustainable and a move towards a normal market environment are expected as the pandemic wanes.

B.C.'s economic recovery is expected to gain strength amidst vaccine deployment and U.S. expansion (although at an uneven pace) and will be impacted by uncertainty surrounding the emergence of the third wave of the pandemic. While growth supports the housing market, the excessive demand currently observed is expected to slow from the record pace. Financial positions of many buyer households were unscathed or improved over the past year of remote work and lack of spending alternatives contributed to higher down payments, while household demand was buoyed by low mortgage rates, increased search time, and a desire for more space. At least some of this activity represented a pull forward of future demand by millennial buyers.

While these factors remain in play through the first half of the year, the effects are likely to wane. Vaccine penetration will continue to expand to a larger share of the public. Through late April, approximately 28 per cent of B.C.'s population had received at least one dose of the vaccine. Further roll out will contribute to a broader relaxation of public health measures into 2022. Re-openings of workplaces and at least a hybrid model of work from home will take the sheen off purchasing further away from the larger urban cores given commute times, while households will likely be allocating more funds towards services and the experiences they missed during the pandemic such as tourism. Economic recoveries in harder hit services sectors are more likely to lift rental market demand and investor sentiment as tourism, international immigration and inflows of students rebound. Population growth is anticipated to rebound rapidly given the federal government's targets to attract more than 400,000 new residents annually in coming years.

Mortgage rates remain supportive of demand but rates are significantly above early 2021 lows reflecting higher costs of funds for institution amidst higher bond yields. Central 1's survey of brokers showed a 5-year fixed rate near two per cent in early April, which was about 20 basis points above early March levels. Modest increases are forecast for the next two years, but they will remain anchored by accommodative monetary policy. That said mild rate moves will amplify severe affordability erosion as price levels have surged across the province. High prices will force more would-be buyers to the sidelines in the absence of additional housing funds.

Low mortgage rates remain exceptionally low despite recent bounce

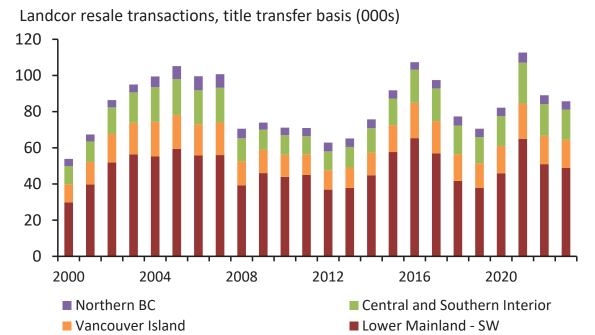


Source: Bank of Canada, Central 1 Broker Rate Survey

Annual sales will be exceptionally strong despite a peak and decline in the market frenzy. Our forecasts are based on land title transfer data for resale transactions obtained from Landcor. While MLS® data provides timely data to assess the market state, title transfer data reflects all sales including private sales, and better aligns with economic regions.

While the sales trends slows, particularly in the back half of the year, provincial land title transfers sales are forecast to rise by 37 per cent to a record 112,720 units which follows a 16.6 per cent increase in 2020. The previous high was 107,190 units in 2016. Robust gains are forecast in all regions of the province led by a 40 per cent increase in the Thompson- Okanagan. Sales will contract by about 21 per cent in 2022, albeit remaining elevated with a further decline of about four per cent in 2023. Markets with the largest gains will also see the most substantial reversions to more normal levels of activity. By product segment, apartment demand will likely hold up better, as more inflows of students and other temporary resident and immigrations lifts demand for rental units and entry level housing.

Resale housing transactions to reach record high in 2021 before sharp pullback



Source: Landcor, Central 1 Credit Union, 2021-2023 forecast

The strong upward price momentum observed in recent quarters is expected to be maintained through the summer as demand continues to outpace growth in new supply. That said, growth eases as demand slows and new listings remain above normal due to high prices, contributing a greater balance between supply and demand as inventory rises. The median home value is forecast to rise 10 per cent to $643,000 following a 9.3 per cent increase in 2020. Headline growth is tempered by flat condo apartment prices, which make up a large share of activity in large urban markets as detached home prices grow at a faster rate. The median provincial price is forecast to grow at 4.2 per cent and 3.0 per cent in 2021 and 2022. Price growth is broadly stronger outside the largest urban markets but expected to rotate back to urban areas.

Average price growth will outpace median price increases as detached housing prices and more luxury product has been in higher demand, while condo apartments which increasingly make up about half the overall market has stalled.

Government intervention could dampen the market but unlikely to derail activity

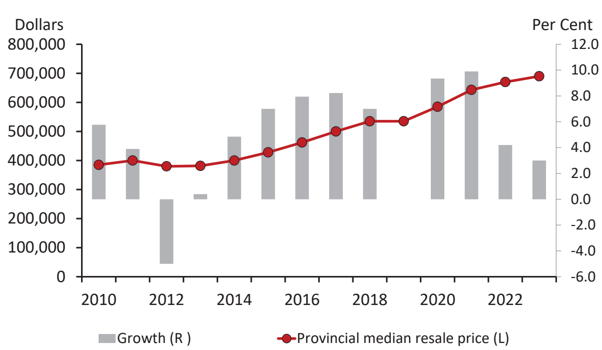
Rapid price growth has heightened calls for government intervention but the federal and provincial policy is shying away from a heavy- handed approach, as indicated by the omission of strict measures in their budgets. The federal budget proposed a one per cent national tax on the value of non-resident, non-Canadian owned residential real estate considered to be vacant or underused, a tool already employed in B.C. This move is unlikely to shift the trajectory of prices. The government may need to rely more on its macro-prudential measures to tame the market. The Office of the Superintendent of Financial Institutions (OSFI) has already announced a restart of consultations related to the minimum qualifying rate for uninsured mortgages and its initial proposal is to hike the rate floor to the higher of contract rate plus two per cent or 5.25 per cent. This would result in a small cut in potential purchasing power.

The lack of government intervention may reflect limited tools to temper the market given the surge in activity is driven by domestic buyers who have strong credit and are already subject to a mortgage stress tests. The primary drivers of the current boom are low borrowing costs and a shift in household pandemic preferences. Both are outside the control of policy makers and are expected to naturally wane as the pandemic eases.

Higher mortgage rates would quickly cool the market, but a sharp hike in rates is unlikely given ongoing economic uncertainties, excess economic slack and anchoring of the Bank of Canada's policy rate at current levels for the coming year.

Additionally, the market remains excessively undersupplied across the province. Policies curbing demand will likely cause a temporary slowing in the market, but supply challenges and long-term population growth ultimately dominate.

Prices to rise 10 per cent in 2021, growth trend slows as pandemic wanes



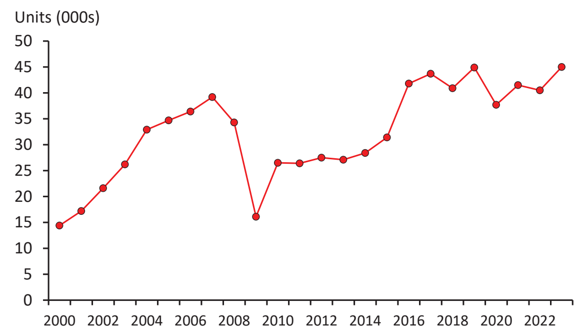
Source: Landcor, Central 1

Housing starts up sharply in early 2021 propelled by demand

B.C. housing starts are trending sharply higher, with urban areas surging out of the gate with a 55 per cent increase in Q1 activity compared to 2020. While volatility is normal given the influence of large multi-family projects, strong growth has been recorded for both detached and multi-family units as strong market conditions have fueled new construction. The completion of more projects in 2020 has also added additional capacity for new projects.

A 44 per cent increase in detached starts was driven by markets outside Metro Vancouver and in smaller urban areas, which is consistent with the narrative of the urban outflow as households enabled by remote work options search for affordable space outside the largest urban areas.

Strong housing demand propels housing starts



Source: Statistics Canada, CMHC, Central 1 Credit Union

At the same time, Metro Vancouver and Victoria both experienced a spike in multi-family construction as more projects broke ground. The pandemic rebound in demand during the second half of 2020 has lifted pre-sale activity after a weak early pandemic phase, aligning with trends in the resale market. Projects were able to reach a critical mass of sales to meet financing obligations, supporting increased project starts in early 2021. Ownership and rental starts have both increased substantially this year.

Recent elevated levels are expected to retreat, but annual housing starts are revised higher this year to 41,500 units, up 10 per cent increase from the 2020. A period of weaker immigration during the pandemic is expected to hold starts steady but levels hold above 40,000 units in 2022 and jump to 45,000 units in 2023 as the immigration cycle boosts housing demand.

Rising starts is a positive signal for increased supply given a tight market as it promotes churn in the existing home market as many units are pre-sold or custom built. That said, this supply is years in the future, specifically in the case for multi-family units given long build out times. Apartment structure completion times average about 22 months in the province, dependent on scale of projects. Increased supply promotes affordability, but we have seen a spike in construction costs. Amidst tight markets, cost increases will largely be borne by the consumer.

Rental market softness in 2021, but tighter conditions to emerge

Vacancy rates rose with the pandemic as expected and were driven by large urban markets. The average vacancy rate for purpose built townhome and apartments rose from 1.5 per cent in 2019 to 2.5 per cent in 2020. The increase has reflected a compendium of factors. The pandemic has driven surging homeownership demand, reflected in the resale market. Meanwhile, rental demand has been sapped by a weak labour market for younger service sector workers, health fears of cohabitation, a steep drop in immigration, and fewer student inflows amidst remote learning which have contributed to the highest rate since 2013. Meanwhile, supply was supported by increased construction of rental starts in recent years, while the pandemic and border restriction has also led more short-term rental units to be transitioned back into the long-term market, creating more competition in the market for purpose built rentals.

Higher vacancy rates have emerged across the province reflecting the broad reach of these factors for both small and large markets. Metro Vancouver's vacancy rate, which drives the provincial figures, rose to 2.6 per cent in 2020 from 1.1 per cent in 2019. In contrast, Kelowna held steady at 2.1 per cent, while recreational markets remained low despite rising, reflecting the movement of remote workers to locations amenable to recreational lifestyles.

Average rent rose 2.5 per cent, which was the lowest gain since 2014, which reflects the softer market and rent freeze in place by the provincial government, although turnover rents still rose.

Vacancy rates are likely to edge lower as the economy recovers, vaccinations pick up, and post-secondary institutions are expected to re-open to in-person learning in the Fall. Vacancy rates slip to 2.2 per cent this year and below two per cent in 2022 and 2023. That said, rent growth will be constrained as the freeze has been extended to December 31, 2021. The freeze while temporary, limits churn in the market and average rent is forecast to hold flat with a one per cent average increase. Consumer price index measures of rent suggest a modest decline in rents in 2021 from year ago levels. Turnovers and an increase in allowable rents are forecast to lift average rent to three per cent in 2022 and four per cent in 2023.

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Housing Forecast Summary

		2017	2018	2019	2020	2021	2022	2023
Residential Transactions	Resale Transactions	97,335	77,380	70,591	82,226	112,720	89,095	85,775
	% change	-9.2	-20.5	-8.8	16.5	37.1	-21.0	-3.7
	Resale Median Price	500,000	533,400	535,000	585,000	643,000	670,000	690,000
	% change	8.5	6.7	0.3	9.3	9.9	4.2	3.0
MLS® Activity	Sales	103,956	78,526	77,350	94,012	126,000	94,000	90,000
	% change	-7.5	-24.5	-1.5	21.5	34.0	-25.4	-4.3
	Listings	150,719	148,527	144,290	145,224	173,000	152,000	150,000
	% change	-4.1	-1.5	-2.9	0.6	19.1	-12.1	-1.3
	Average Price	708,860	711,360	700,370	781,759	890,000	910,000	920,000
	% change	2.7	0.4	-1.5	11.6	13.8	2.2	1.1
Housing Starts, Units	Total	43,664	40,857	44,932	37,734	41,500	40,500	45,000
	% change	4.4	-6.4	10.0	-16.0	10.0	-2.4	11.1
	Single-Detached	12,346	11,163	8,792	8,519	9,500	8,700	8,500
	% change	0.6	-9.6	-21.2	-3.1	11.5	-8.4	-2.3
	Multi-family	31,318	29,694	36,140	29,215	32,000	31,800	36,500
	% change	5.9	-5.2	21.7	-19.2	9.5	-0.6	14.8
Urban Area Starts by Tenure,	Total	41,191	38,439	43,215	34,885	38,400	38,500	43,000
10,000+ pop areas	% change	4.3	-6.7	12.4	-19.3	10.1	0.3	11.7
	Owned	31,702	26,897	31,120	23,982	26,500	27,000	32,000
	% change	6.7	-15.2	15.7	-22.9	10.5	1.9	18.5
	Rental	9,489	11,542	12,095	10,903	11,900	11,500	11,000
	% change	-2.2	21.6	4.8	-9.9	9.1	-3.4	-4.3
Rental Market (%)	Row/Apartment Vacancy Rate	1.3	1.4	1.5	2.5	2.2	1.8	1.7
	Sample Sample Rent	5.7	6.3	4.2	2.5	1.0	3.0	4.0

Annual Residential Resale Transactions

	2017	2018	2019	2020	2021	2022	2023
Vancouver Island/Coast	17,873	14,784	13,626	15,059	19,500	15,700	15,500
% change	-8.5	-17.3	-7.8	10.5	29.5	-19.5	-1.3
Lower Mainland/Southwest	56,774	41,737	37,818	45,965	65,000	51,000	49,000
% change	-13.0	-26.5	-9.4	21.5	41.4	-21.5	-3.9
Thompson/Okanagan	14,428	12,223	11,175	12,735	17,800	13,800	13,300
% change	-4.0	-15.3	-8.6	14.0	39.8	-22.5	-3.6
Kootenay	3,632	3,636	3,355	3,856	4,800	3,700	3,300
% change	12.0	0.1	-7.7	14.9	24.5	-22.9	-10.8
Cariboo	2,831	2,755	2,627	2,512	3,000	2,700	2,600
% change	9.7	-2.7	-4.6	-4.4	19.4	-10.0	-3.7
North Coast	656	928	780	815	970	820	800
% change	2.8	41.5	-15.9	4.5	19.0	-15.5	-2.4
Nechako	476	514	476	511	650	525	500
% change	15.5	8.0	-7.4	7.4	27.2	-19.2	-4.8
Northeast	659	802	732	773	1,000	850	775
% change	26.5	21.7	-8.7	5.6	29.4	-15.0	-8.8
Province	97,335	77,380	70,591	82,226	112,720	89,095	85,775
% change	-9.2	-20.5	-8.8	16.5	37.1	-21.0	-3.7

Median Annual Residential Price

	2017	2018	2019	2020	2021	2022	2023
Vancouver Island/Coast	420,000	460,000	488,000	540,000	595,000	620,000	640,000
% change	9.9	9.5	6.1	10.7	10.2	4.2	3.2
Lower Mainland/Southwest	637,108	690,000	670,000	720,900	790,000	820,000	840,000
% change	7.1	8.3	-2.9	7.6	9.6	3.8	2.4
Thompson/Okanagan	380,000	399,900	421,000	465,000	520,000	550,000	570,000
% change	7.0	5.2	5.3	10.5	11.8	5.8	3.6
Kootenay	259,125	274,950	296,000	324,950	360,000	380,000	390,000
% change	6.2	6.1	7.7	9.8	10.8	5.6	2.6
Cariboo	239,500	255,000	275,000	300,000	328,000	340,000	350,000
% change	5.5	6.5	7.8	9.1	9.3	3.7	2.9
North Coast	241,250	255,500	298,500	300,000	330,000	345,000	355,000
% change	0.5	5.9	16.8	0.5	10.0	4.5	2.9
Nechako	209,500	215,750	225,000	225,000	240,000	245,000	247,000
% change	10.4	3.0	4.3	0.0	6.7	2.1	0.8
Northeast	285,000	270,000	268,705	265,000	273,000	278,000	280,000
% change	4.4	-5.3	-0.5	-1.4	3.0	1.8	0.7
Province	500,000	533,400	535,000	585,000	643,000	670,000	690,000
% change	8.5	6.7	0.3	9.3	9.9	4.2	3.0

Terms

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