



# B.C. Housing Outlook 2010-2012

### Highlights:

- Downward trend in housing sales to bottom during the fourth quarter of 2010
- Median prices to decline into first quarter of 2011 on weak demand and high inventories
- Sales trend higher through 2012 on improved affordability, employment growth and household formation
- Sales activity concentrated in larger urban areas over forecast horizon
- Housing starts edge up in 2011 and 2012 on increased multi-family activity

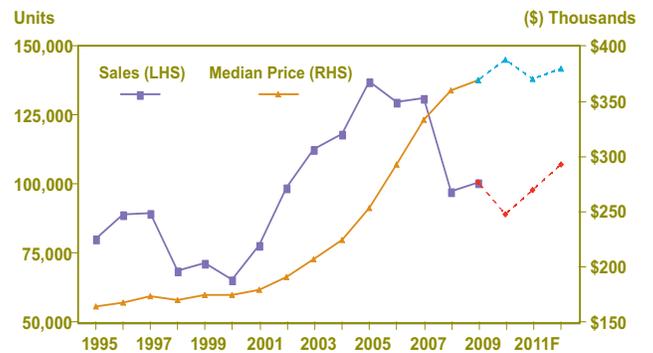
Housing market activity in British Columbia is set to gradually improve over the next two years after deteriorating sharply for most of 2010. While weak demand is forecast to persist into early 2011 and lead to further home price declines, the combination of lower prices and mortgage rates will act as a catalyst for rising sales through 2012. A gradual improvement in the economy and modest rates of household formation will also provide support.

Housing starts also look to edge higher over the forecast horizon as builders take their cue from the rising activity in the resale market. However, new home construction will remain subdued relative to cycle highs observed from 2005-2008.

### Housing Sales

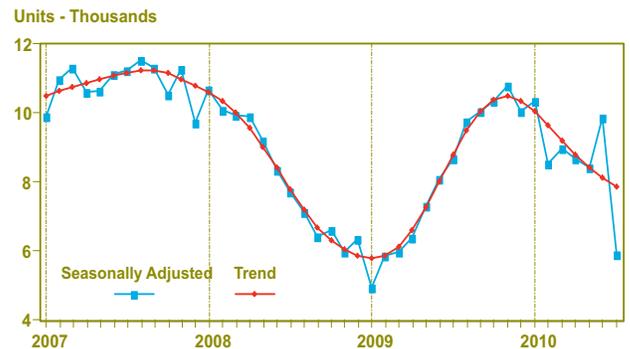
After a remarkable turnaround during the last three quarters of 2009, the pace of home sales in the province tumbled by more than 40% over the first 8 months of 2010. In part, the magnitude of the decline was exaggerated

### Residential Market Transactions B.C., Annual



Source: Landcor Data Corp., and Central 1 Credit Union.

### Residential Market Transactions B.C., Monthly



Source: Landcor Data Corp., and Central 1 Credit Union.

by the unsustainable pace of sales in late 2009 as a surge of potential buyers, enticed by a year of price declines and sharp recession induced interest rate cuts, entered the market. In 2010, the announcement of more rigid



### Housing Forecast

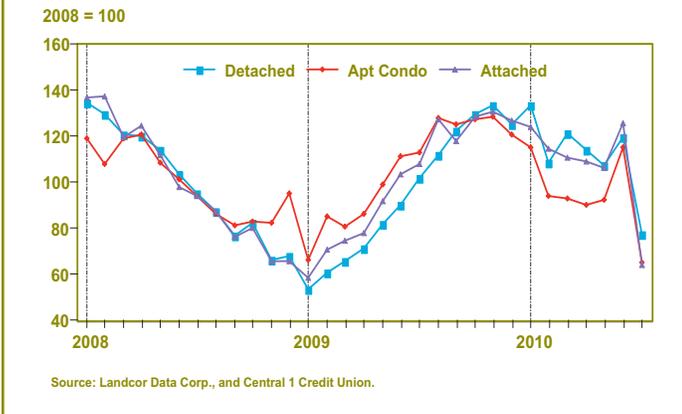
	2008	2009	2010F	2011F	2012F
Residential Sales <sup>1</sup> , units	97,466	100,539	93,000	98,000	107,000
	-26%	3%	-7%	5%	9%
Detached Sales <sup>1</sup> , units	47,823	47,656	48,000	49,000	51,300
	-31%	-0%	1%	2%	5%
Condo Sales <sup>1</sup> , units	32,922	35,488	28,850	31,850	36,400
	-15%	8%	-19%	10%	14%
Row/Duplex Sales <sup>1</sup> , units	16,034	16,781	15,200	16,200	18,200
	-29%	5%	-9%	7%	12%
Residential Median Sales Price <sup>1</sup> , (\$)	360,000	369,900	388,000	370,000	380,000
	8%	3%	5%	-5%	3%
Detached Median Sales Price <sup>1</sup> , (\$)	423,500	438,715	455,000	430,000	445,000
	7%	4%	4%	-5%	3%
Condo Median Sales Price <sup>1</sup> , (\$)	309,000	318,000	324,000	313,000	325,000
	12%	3%	2%	-3%	4%
Row/Duplex Median Sales Price <sup>1</sup> , (\$)	350,000	347,000	360,000	345,000	355,000
	8%	-1%	4%	-4%	3%
Residential B.C. MLS® Sales, units	68,923	85,028	72,000	82,000	88,000
	-33%	23%	-15%	14%	7%
Residential B.C. MLS® Listings, units	176,762	149,044	159,000	150,000	155,000
	12%	-16%	7%	-6%	3%
Residential B.C. MLS® Price, (\$)	454,599	465,725	496,000	480,000	495,000
	4%	2%	7%	-3%	3%
Housing Starts, Units	34,321	16,077	24,800	25,500	28,000
	-12%	-53%	54%	3%	10%
Single-detached, units	10,991	7,892	11,800	10,500	10,000
	-24%	-28%	50%	-11%	-5%
Multi-family units	23,330	8,185	13,000	15,000	18,000
	-6%	-65%	59%	15%	20%
Rental Vacancy Rate: Multi-Family (%) <sup>2</sup>	1.1%	3.0%	2.8%	2.3%	2.0%

Source: Landcor Data Corp., CREA, CMHC, Central 1 Credit Union forecasts

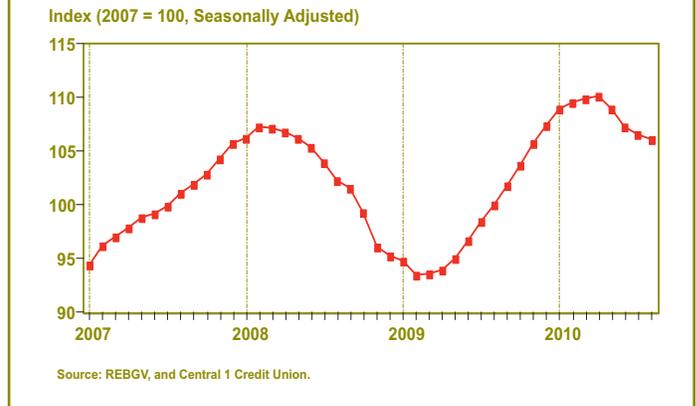
<sup>1</sup>. Arms-length market transactions, single-unit ownership, improved properties excluding land and properties over 2 acres

<sup>2</sup>. October

### Indexed Residential Market Transactions B.C., Monthly



### Lower Mainland MLS® Home Price Index Monthly



mortgage insurance rules for both owner-occupied and investor-owned properties, and the introduction of the HST pulled forward future buying activity, and resulted in sharply higher sales and a rebound in prices<sup>1</sup>.

Of course, pulling forward demand meant less demand to draw from in the future. After the buying binge of 2009, sales have dropped precipitously and price levels have declined marginally in recent months. While sales remain above 2008/09 recession lows, they are comparable to the weak sales period observed in the early 1990's and earlier this decade. Looking forward, sales are forecast to embark on a rising trend through 2012, but remain low.

This year, home sales, as defined by annual market arms-length residential transactions, in the province are expected to fall 7% from 2009 levels. Declines will be led by a significant cut in apartment condominium sales of 19%. Single-detached sales will remain relatively flat.

The current downward trend in housing sales is expected to reach a bottom during the fourth quarter of 2010 and transition to a moderate upward trend over the remainder of the forecast horizon. Initially, this upturn will reflect an increased number of buyers attracted by lower prices and near recession low fixed-term mortgage rates. Stronger demand from the younger first-time buyer segment will lead to increased sales of multi-family units. Moving through 2011 and 2012, improved economic conditions,

<sup>1</sup> For the purpose of this report, home sales refer to arms-length market transactions as determined by title transfers. As a result, a significant portion of title transfer activity was pulled forward into June due to the introduction of the HST in July. This artificially inflated June and deflated July figures.

employment growth, and population gains fuel higher levels of household formation will further boost home sales. However, gains will be limited in part by rising mortgage rates.

These factors will lead to sales increases of 5% and 9% in 2011 and 2012. However, overall transactions will remain 20% below peak levels reached during the 2005 – 2007 period. In addition, sales activity will remain geared to major urban areas. Markets with a greater reliance on secondary home sales are expected to take longer to improve, reflecting continued caution on the part of consumers regarding discretionary purchases and relatively high debt loads.

### Housing Prices

Downside pressure on home prices is expected to persist into the first half of 2011 as resale and new home inventories remain elevated relative to demand. This imbalance will be rectified as sales trend higher, and the flow of new listings, which have already dropped sharply from early year highs, remain low. A gradual downtrend in housing inventory and rising sales is expected to stabilize price levels. Median price levels are forecast to slide lower into the second quarter of 2011 and remain flat before rising near the year's end. Lower inventory levels and higher demand is forecast to push price levels higher through 2012.

While rising prices may induce some sellers to list their properties, the severe pull-back in housing starts during and after the recession has meant that growth in the housing

stock has failed to keep pace with household formation in B.C. This factor will likely contribute to a constrained housing supply in 2012.

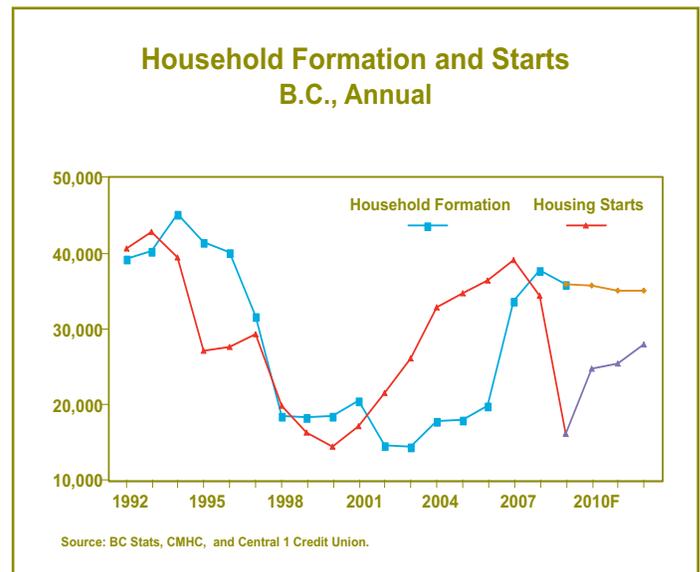
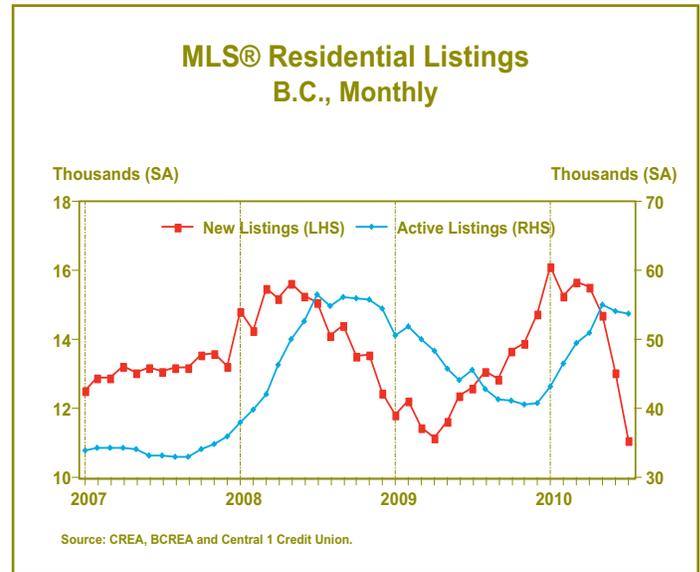
The annual median sales price for an improved residential property in B.C. is forecast to reach \$388,000 this year, up 5% from 2009. However, this gain will reflect higher sales and prices observed earlier in the year. Annual median price levels are forecast to decline 5% in 2011 before edging up 3% in 2012.

While median price levels are an adequate representation of annual market prices, a superior measure of monthly price trends is the MLS® Housing Price Index (HPI) for Greater Vancouver which controls for the quality characteristics of homes sold. This hedonic price index estimates the underlying price changes in a constant-quality dwelling, but is available only for the Greater Vancouver market. Since peaking above pre-recession levels in April, the index has declined by 2.7%, despite a rapid decline in sales activity. Total HPI declines are expected to reach 6% before stabilizing in 2011.

### Housing Starts

Provincial housing starts will end the year 54% higher in 2010, following a 53% plunge in 2009. Despite the substantial rebound, only 25,000 dwelling units are forecast to break ground this year, which, excluding 2009, will mark the lowest level of activity since 2002. Single-detached housing starts rose to elevated levels in late 2009 and early 2010 as buyers took advantage of low mortgage rates and raced to beat the HST. Since April, single-detached starts have gradually edged lower and will constrain growth in the new home market in 2011.

Housing starts are forecast to edge up by 3% to 25,500 units in 2011 as increased resale market activity, and some upward price pressure in the latter stages of the year, induce increased building activity in the multiple-family sector. Single-detached housing starts are forecast to pull-back by 11% to 10,500 units. In 2012, starts are forecast to increase 10% to 28,000 units as builders continue to ramp up production to better reflect household formation and population growth. Multiple-family units will experience larger relative gains given the lower price point for entry-level buyers.



Uncertainty surrounding the future of the HST is a risk to housing activity through 2011. The recent announcement of a HST referendum (scheduled for September 24, 2011) may induce potential homebuyers to hold off on making home purchases, particularly in the market for new single-detached homes in large urban areas. These homes are more likely to be priced above the rebate threshold of \$525,000 and are hence taxed higher than under a no-HST scenario. Developers may also delay land purchases and project start dates in response to uncertain demand conditions. The resale market may be marginally impacted as the HST is only applicable to acquisition costs such as broker commissions.

## Rental Market

Vacancy rates in British Columbia soared 1.9 percentage points to reach 3% in 2009. A number of factors contributed to the increase. The weaker job market, particularly among younger workers, led to delays in household formation and possible household contraction as individuals moved back in with their families or found housemates. In addition, an increase in privately owned condominium rental units also shifted activity away from the traditional purpose-built market. For those renters secure in their employment, the sharp drop in mortgage rates provided an incentive to enter the home ownership market, further putting upward pressure on vacancy rates.

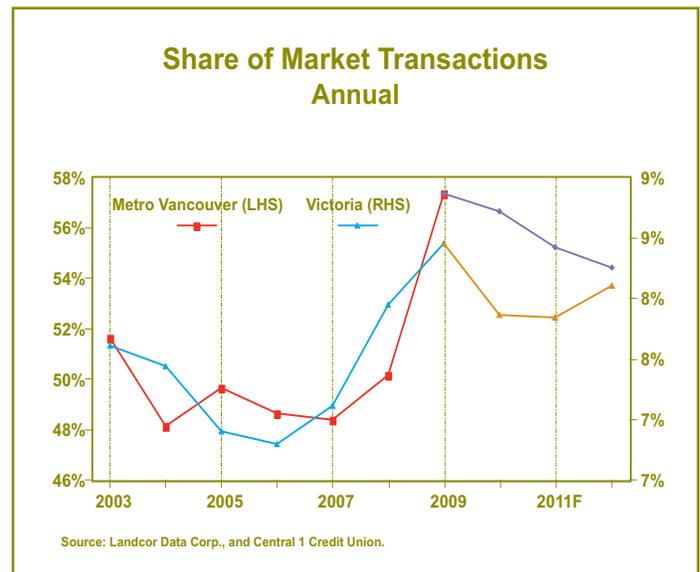
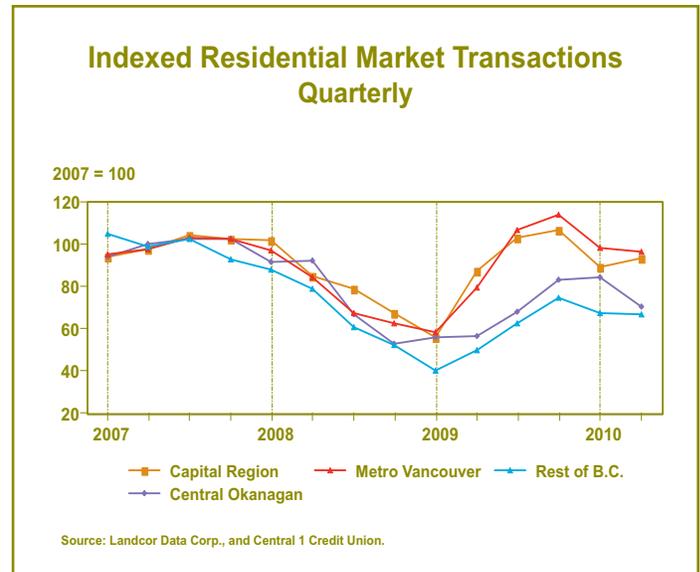
With the slowdown in home ownership demand, a rebound in employment levels, and continued positive net interprovincial and international migration in 2010, the vacancy rate is forecast to drop to 2.8%. Vacancy rate are forecast to dip to 2.3% in 2011 and 2% in 2012.

## Regional Forecasts

Regional housing markets in B.C. tend to move in the same direction, reflecting common factors that drive housing demand such as mortgage rates, national and global economic conditions and consumer confidence levels. However, regional markets are also affected by changes in local economic conditions as well as the structure of local demand and supply.

Over the forecast horizon, expect housing activity to be more concentrated in the larger urban markets of Metro Vancouver and Victoria, reflecting a continuation of post-recession trends. These areas recorded relatively lower employment losses during the recession and are less dependent on buyers of recreational or secondary homes. Nonetheless, weaker demand in these metro markets relative to the stronger pace in 2009 will result in 8% fewer sales in the Lower Mainland/Southwest and Vancouver Island/Coast development regions. In 2011 and 2012, sales are expected to rise, but at a moderate pace. Vancouver Island/Coast sales will average 77% of the sales pace averaged from 2005 to 2007, while the Lower Mainland/Southwest activity will grow to 85%.

In contrast, markets outside Metro Vancouver and Victoria experienced a more muted post-recession rebound in sales due to weaker labour market conditions and lower



demand for recreational and secondary properties. As a result, sales declines will generally be more modest.

Thompson/Okanagan sales are expected to dip 5%, while Cariboo sales will decline 2%. Kootenay region sales are forecast to drop by a more significant 9%, reflecting weak demand from the Alberta market and the local labour market. In 2011 and 2012, sales growth in these regions will be faster than in the Lower Mainland/Southwest and the Island. However, overall sales levels will remain weak over the forecast horizon, averaging only 55% to 60% of 2005-2007 levels in most markets.

Price growth variations are forecast to mimic regional market strength. Price declines will extend into 2011 for all

### Annual Residential Sales - Region

Development Region		2008	2009	2010F	2011F	2012F
Vancouver Island/Coast	Total Units	16,891	16,625	15,250	16,370	18,080
	% change	-24%	-2%	-8%	7%	10%
Lower Mainland/Southwest	Total Units	57,398	65,339	60,080	62,230	66,880
	% change	-24%	14%	-8%	4%	7%
Thompson/Okanagan	Total Units	13,262	11,494	10,970	11,760	13,160
	% change	-31%	-13%	-5%	7%	12%
Kootenay	Total Units	3,795	2,754	2,510	2,740	3,210
	% change	-34%	-27%	-9%	9%	17%
Cariboo	Total Units	3,000	2,279	2,230	2,500	2,890
	% change	-36%	-24%	-2%	12%	16%
North Coast	Total Units	970	559	470	590	750
	% change	-35%	-42%	-16%	26%	27%
Nechako	Total Units	606	394	370	490	550
	% change	-24%	-35%	-6%	32%	12%
Northeast	Total Units	1,528	1,044	1,020	1,180	1,280
	% change	-13%	-32%	-2%	16%	8%
Regional District		2008	2009	2010	2011	2012
Greater Vancouver	Total Units	48,894	57,701	52,690	54,140	58,220
	% change	-23%	18%	-9%	3%	8%
Capital	Total Units	7,750	8,498	7,320	7,690	8,680
	% change	-17%	10%	-14%	5%	13%
Central Okanagan	Total Units	5,171	4,452	4,380	4,550	5,140
	% change	-25%	-14%	-2%	4%	13%
Fraser Fort-George	Total Units	1,826	1,436	1,450	1,560	1,820
	% change	-34%	-21%	1%	8%	17%
Fraser Valley	Total Units	6,574	5,996	5,740	6,530	6,800
	% change	-29%	-9%	-4%	14%	4%
Nanaimo	Total Units	3,698	3,543	3,510	3,680	4,010
	% change	-25%	-4%	-1%	5%	9%
Thompson-Nicola	Total Units	2,957	2,526	2,430	2,590	2,910
	% change	-36%	-15%	-4%	7%	12%

Source: Landcor Data Corp., Central 1 Credit Union forecasts

<sup>1</sup>. Arms-length market transactions, single-unit ownership, improved properties excluding land and properties over 2 acres

**Median Annual Residential Price (\$)**

Development Region		2008	2009	2010F	2011F	2012F
Vancouver Island/Coast	Total Units	350,000	346,000	360,000	346,000	358,000
	% change	11%	-1%	4%	-4%	3%
Lower Mainland/Southwest	Total Units	405,000	410,000	439,000	420,000	435,000
	% change	5%	1%	7%	-4%	4%
Thompson/Okanagan	Total Units	329,900	323,000	330,000	313,000	318,000
	% change	10%	-2%	2%	-5%	2%
Kootenay	Total Units	253,000	245,000	240,000	230,000	234,000
	% change	23%	-3%	-2%	-4%	2%
Cariboo	Total Units	178,000	185,000	181,000	175,000	180,000
	% change	14%	4%	-2%	-3%	3%
North Coast	Total Units	134,000	138,700	137,000	135,000	138,000
	% change	26%	4%	-1%	-1%	2%
Nechako	Total Units	129,900	145,000	138,000	136,000	140,000
	% change	11%	12%	-5%	-1%	3%
Northeast	Total Units	212,000	225,000	224,000	220,000	228,000
	% change	11%	6%	-0%	-2%	4%
Regional District		2008	2009	2010F	2011F	2012F
Greater Vancouver	Total Units	422,000	425,000	460,000	436,000	450,000
	% change	3%	1%	8%	-5%	3%
Capital	Total Units	434,000	425,000	457,000	437,000	450,000
	% change	6%	-2%	8%	-4%	3%
Central Okanagan	Total Units	379,900	356,973	378,000	364,000	367,000
	% change	5%	-6%	6%	-4%	1%
Fraser Fort-George	Total Units	195,000	197,950	192,000	183,000	190,000
	% change	9%	2%	-3%	-5%	4%
Fraser Valley	Total Units	310,000	300,000	320,000	310,000	320,000
	% change	4%	-3%	7%	-3%	3%
Nanaimo	Total Units	323,714	310,000	321,000	315,000	320,000
	% change	10%	-4%	4%	-2%	2%
Thompson-Nicola	Total Units	291,000	292,500	300,000	290,000	292,000
	% change	16%	1%	3%	-3%	1%

Source: Landcor Data Corp., Central 1 Credit Union forecasts

<sup>1</sup>. Arms-length market transactions, single-unit ownership, improved properties excluding land and properties over 2 acres

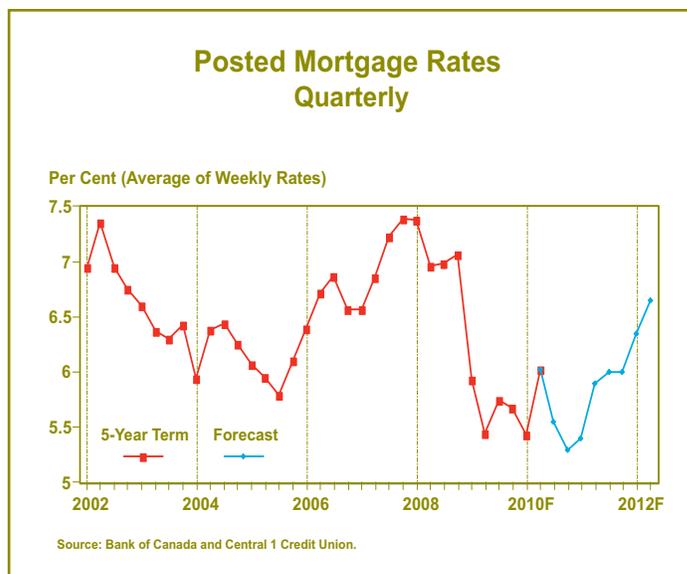
markets. In larger markets, this will mean a partial reversal of the price gains recorded in the latter part of 2009. Moving into 2012, price gains will remain modest but be led by growth in larger urban areas.

### Forecast Assumptions

The main assumptions underlying this forecast includes a gradual but sustained economic growth trajectory, conducive to modest employment gains, a favourable mortgage rate environment for consumers, and positive net-migration similar to recent years.

After a temporary rise during the first quarter on higher economic growth and inflation expectations, fixed term mortgage rates have fallen back to or near record low levels. The national and global economic growth trajectory has evolved below expectations, sending bond yields and administered lending rates for products such as mortgages lower. Posted closed 5-year mortgage rates are forecast to remain well anchored over the forecast horizon. Posted rates will range from an average of 5.3% in the first quarter to 6% in the fourth quarter. Rates are projected to rise more quickly in 2012 as a reflection of higher growth expectations.

Variable rates reflect the prime lending rate, which is influenced by the Bank of Canada's determination of its policy interest rate. The policy rate has been increased 3 times in 2010 in 25 basis point increments, pushing the rate to 1%. While a further hike is plausible during the fourth quarter of 2010, the Bank is forecast to leave its rate unchanged until its March 1 rate setting meeting, when it commences a series of rate-normalizing hikes through 2012. The target overnight rate is forecast to reach 1.75% by the end of 2011, marking a 75 basis point increase from the current level.



Economic growth in B.C. is forecast to strengthen gradually over the forecast horizon. After reaching growth of 3.4% in 2010 due to stronger early year activity, growth will slow to 2.5% in 2011 resulting from a weaker global growth profile and a continued slowdown in domestic spending. Growth is forecast to reach 3.3% in 2012.

Jobs lost during the recession have largely been reversed or replaced during the economic recovery phase. However, a growing proportion of part-time jobs and slower economic growth moving forward suggests modest growth in employment levels. Employment levels are forecast to rise 2.1% in 2010 and 1.9% in 2011. Growth will accelerate to 2.5% in 2010, reflecting stronger economic growth. However, wage gains will be limited by sufficient labour market capacity reflected in elevated unemployment rates.

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