HOUSING MARKET OUTLOOK
British Columbia Region Highlights

CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2017

Figure 1

British Columbia, Starts (000s)

Inner range   Outer range

Source: CMHC   (F): Forecast

Figure 2

British Columbia, MLS® Sales (000s)

Inner range   Outer range

Source: CREA   (F): Forecast

MLS® is a registered trademark of the Canadian Real Estate Association. Forecast: CMHC

[1] The forecasts and historical data included in this document reflect information available as of October 2, 2017.
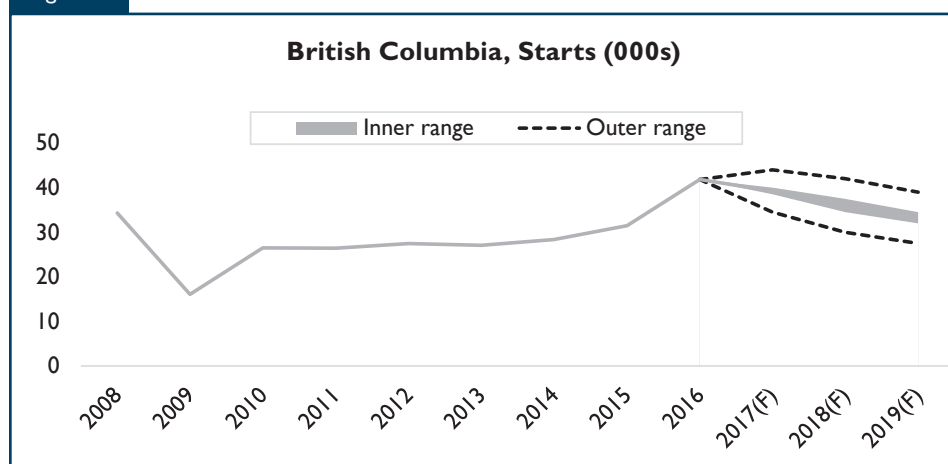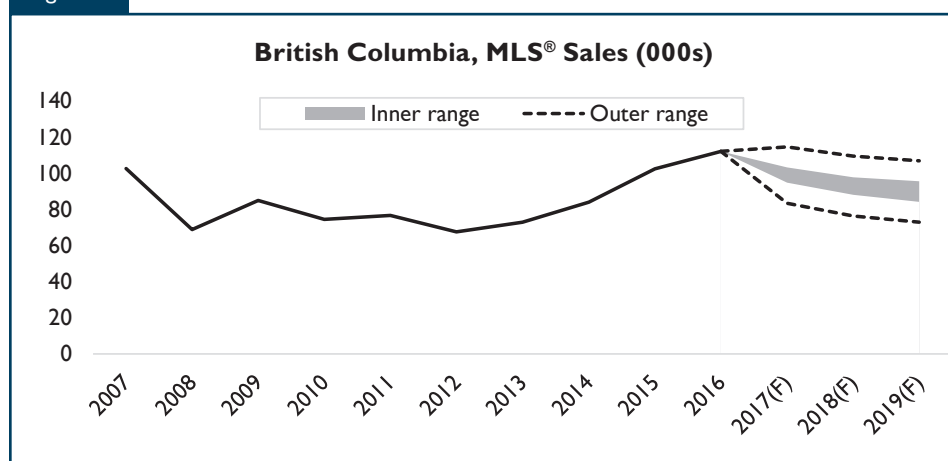
Highlights[1]

- Housing starts and sales are expected to slow in 2018 and 2019 but remain above historical levels.

- Existing home prices will continue to grow but at a pace more in line with inflation as housing markets slowly move towards more balanced conditions.

- Rental demand will continue to be strong through the forecast period, with vacancy rates remaining tight and average rents rising.

New Home Market

Following two years of elevated new home construction, housing starts will move lower in British Columbia in 2018 and 2019. Gradually rising mortgage rates, coupled with slower employment growth and declining migration, will contribute to the pull-back in production. The number of units under construction is also at a record high level and the capacity to increase construction levels further is limited. Together these factors will lead housing starts to pull-back over the next two years, moving closer to historical norms.
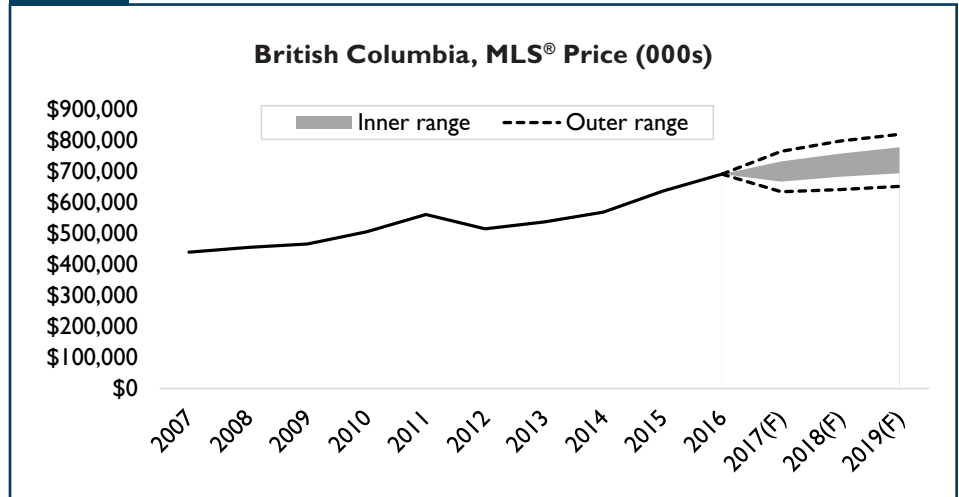
Canada

Single-detached construction will continue to move lower as inventory rises. The number of completed and unoccupied single-detached homes in inventory was 23% higher in August 2017 than one year prior, while the number of units under construction remains at a record high level. As well, the shift to relatively more affordable multi-family homes in larger centres like Vancouver and Victoria will continue to temper demand for single-detached homes.

Through the end of 2017 and into 2018, capacity constraints will hold-back multi-family housing starts. As of August 2017, there were 43,085 multi-family units under construction in the province's large urban centres, a record-high. At the same time, the number of multi-family units in inventory is at its lowest level in over ten years. Demand for multi-family housing will remain strong through the end of 2019, but easing employment growth, higher mortgage rates and an elevated number of units under construction will gradually temper demand for multi-family homes. Therefore, multi-family production is expected to decline over the next three years, but remain above the preceding ten-year average.

Existing Home Market

Following a record year in 2016, MLS® sales have declined in 2017. Active listings, which were quickly drawn down in 2015 and 2016, remain relatively low and are contributing to the lower sales activity. As well, the largest declines in 2017 were posted in the opening months of the year when sales were compared against the very elevated pace of early 2016. Sales are expected to continue moving towards levels in-line with historical norms over the

Figure 3

British Columbia, MLS® Price (000s)

Source: CREA   (F): Forecast
MLS® is a registered trademark of the Canadian Real Estate Association. Forecast: CMHC

next two years, yet the pace of the decline is expected to ease in both 2018 and 2019.

The average resale price will post a modest increase in 2017, a result of shifting composition. In the lower mainland, sales of the most expensive homes have declined by more than those of more affordable homes, limiting growth in the average price. In 2018, this compositional shift is expected to play less of a role in the average resale price, resulting in a slightly larger increase in the average MLS® price. By 2019, a shift towards more balanced markets across the province will lead to a more modest rise in prices.

Rental Market

Strong employment gains, high migration and an undersupplied resale market are fuelling demand for rental housing in the province's largest centres. Tight rental markets have prompted an increase in rental construction but the increase in supply will have only a modest impact on the vacancy rate. Vacancy rates are expected to rise

gradually through to 2019, but remain indicative of a tight rental market in most centres. This will continue to push up average rents in these markets. As well, new units entering into the market will also push the average rent up, as new units typically command higher rents.

Economic Outlook

BC's economy is expected to continue to grow through to the end of 2019, however the pace of growth is expected to slow over the forecast horizon. BC's economy has been supported by a low dollar, high consumer spending and a strong housing sector. Over the next two years, housing starts are expected to slow, reducing the sector's contribution to growth. As well, the current softwood lumber dispute and the renegotiation of NAFTA

have the potential to weigh down BC's exports. Despite the downside risks, BC's economy is expected to continue to post employment gains through the end of 2019, albeit at a slower pace.

Mortgage rates are expected to rise gradually over the forecast horizon

Mortgage rates are expected to rise modestly over the period 2017-2019. This increase is consistent with the expected improvement in domestic economic conditions and the predicted increase in world interest rates.

In our baseline scenario, the posted 5-year mortgage rate is expected to lie within the 4.9%-5.7% range in 2018 and within the 5.2%-6.2% range in 2019. Hence, the expected increase in this rate over 2017-2019 should be at most 160 basis points. Over our forecast horizon, mortgage rates are expected to stay below levels observed prior to the Great Recession.

Risks to the Outlook

There are a number of risks to the outlook on the upside and downside.

- There is the potential for additional policies from either the provincial or federal government to reign in household mortgage debt or limit speculative activity in the housing market.

- Uncertainty surrounding the results of the NAFTA negotiations and the softwood lumber dispute present a likely downside risk to the BC economy and by extension, the housing market.

Figure 4

British Columbia, Employment (000s)
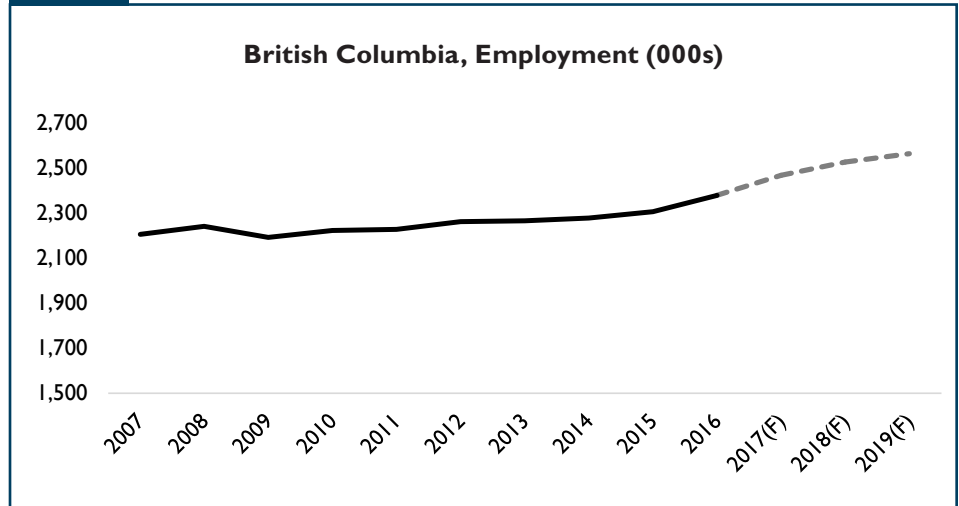
Source: Statistics Canada   (F): Forecast

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables,

given a specific set of assumptions for the market conditions and underlying economic fundamentals.

- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of

historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.

Inner range ———— Outer range

| | | | | | | |
|2006|2008|2010|2012|2014|2016(F)|
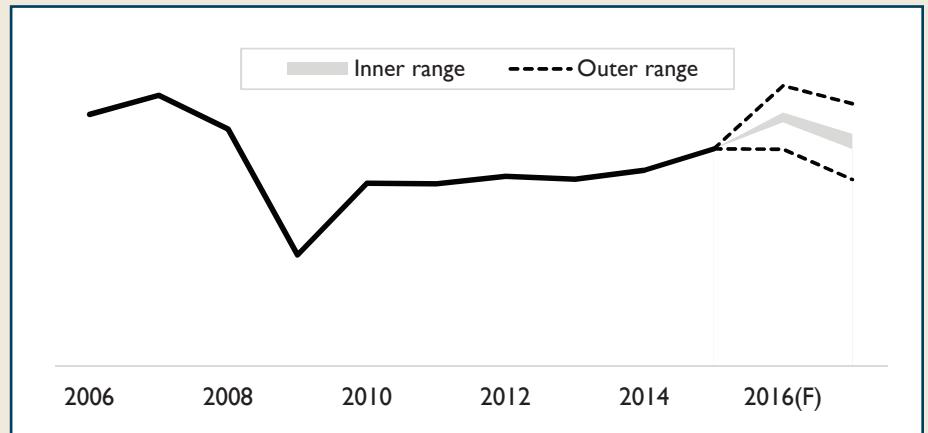
* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Forecast Summary British Columbia Fall 2017										
	2014	2015	2016	2017(F)		2018(F)		2019(F)		
				(L)	(H)	(L)	(H)	(L)	(H)	
New Home Market										
Starts:										
Single-Detached	9,569	10,152	12,278	11,500	11,900	11,000	11,600	10,600	11,100	
Multiples	18,787	21,294	29,565	26,900	28,100	23,900	25,500	21,200	23,400	
Starts - Total	28,356	31,446	41,843	38,500	40,000	34,500	37,500	32,000	34,500	
Resale Market										
MLS® Sales	84,054	102,514	112,211	94,900	103,300	88,100	97,900	84,300	95,700	
MLS® Average Price($)	568,391	636,607	691,111	666,900	732,100	682,700	757,300	693,800	777,600	
Economic Overview										
Mortgage Rate(5 year)(%)	4.88	4.67	4.66	4.60	5.00	4.90	5.70	5.20	6.20	

	2014	2015	2016	2017(F)	2018(F)	2019(F)
Rental Market						
October Vacancy Rate (%)	1.1	0.8	0.7	0.8	1.0	1.2
Two-bedroom Average Rent (October)($)	1,224	1,272	1,347	1,422	1,491	1,548
One-bedroom Average Rent (October)($)	994	1,031	1,104	1,179	1,243	1,304
Economic Overview						
Population	4,671,806	4,715,872	4,778,963	4,836,300	4,893,000	4,948,000
Annual Employment Level	2,278,400	2,306,200	2,379,500	2,468,100	2,527,000	2,564,100
Net Migration	47,224	35,204	56,204	51,400	47,000	43,000
Average Weekly Earnings ($)	882	914	921	928	942	953

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Rental Market: Corresponds to universe of privately initiated rental apartment structures of three units and over. Historical and forecast values are an aggregate roll-up of the Census Metropolitan Area (CMA) historical data and forecasts from each province.

The forecasts (F) included in this document are based on information available as of 2nd October 2017. (L)=Low end of Range.(H)=High end of range.

It is possible that the low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is caused by rounding as well as the volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey). Statistics Canada. CREA(MLS®). CMHC Forecast (2017-2019).

B. C. Region Economic and Housing Indicators										
		Labour Market			Housing Market					
		Emp. Growth (%)	Unemp. Rate (%)	Average Weekly Earnings ($)	Total Starts	Single-Detached Starts	Multiple Starts	MLS® Sales	MLS® Average Price ($)	
Abbotsford-Mission	Q2 2017	4.4	5.2	859	509	122	387	1,424	534,788	
	Q2 2016	-5.4	7.0	864	283	130	153	1,670	489,491	
	Change	9.8	-1.8	-0.6%	79.9	-6.2	152.9	-14.7	9.3	
Kelowna	Q2 2017	12.0	3.5	886	1,080	278	802	1,878	549,768	
	Q2 2016	-2.6	7.5	880	428	177	251	2,374	503,839	
	Change	14.6	-4.0	0.7%	152.3	57.1	219.5	-20.9	9.1	
Vancouver	Q2 2017	3.2	5.1	918	7,004	1,327	5,677	11,995	1,075,328	
	Q2 2016	6.5	5.3	919	7,759	1,448	6,311	14,310	1,058,696	
	Change	-3.3	-0.2	-0.1%	-9.7	-8.4	-10.0	-16.2	1.6	
Victoria	Q2 2017	5.2	3.9	919	673	244	429	2,765	660,640	
	Q2 2016	3.1	5.1	918	995	233	762	3,549	593,575	
	Change	2.1	-1.2	0.0%	-32.4	4.7	-43.7	-22.1	11.3	
Kamloops	Q2 2017	n/a	n/a	n/a	157	125	32	787	471,730	
	Q2 2016	n/a	n/a	n/a	107	58	49	782	430,495	
	Change	-	-	-	46.7	115.5	-34.7	0.6	9.6	
Nanaimo	Q2 2017	35.0	3.6	n/a	331	136	195	681	518,300	
	Q2 2016	24.5	5.4	n/a	180	95	85	813	452,022	
	Change	10.5	-1.8	-	83.9	43.2	129.4	-16.2	14.7	
Prince George	Q2 2017	2.4	5.9	n/a	78	59	19	447	321,052	
	Q2 2016	1.5	7.7	n/a	155	42	113	418	305,435	
	Change	0.8	-1.8	-	-49.7	40.5	-83.2	6.9	5.1	
British Columbia	Q2 2017	4.2	5.1	919	11,568	3,522	8,046	33,939	736,474	
	Q2 2016	4.0	5.8	920	11,277	3,085	8,192	39,335	720,250	
	Change	0.2	-0.6	0.0%	2.6	14.2	-1.8	-13.7	2.3	
Canada	Q2 2017	1.7	6.5	947	55,085	21,499	33,586	166,363	531,144	
	Q2 2016	0.7	6.9	939	53,286	19,826	33,460	177,752	506,217	
	Change	1.1	-0.5	0.9%	3.4	8.4	0.4	-6.4	4.9	

Changes to the Employment Growth and Unemployment Rate represent the absolute difference between current rates and the rates for the same period in the previous year. Average Weekly Earnings is the 3 month moving average of the last month in the quarter.

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n/a: Not Available

Source: CMHC (Starts and Completions Survey). Statistics Canada. CREA(MLS®).

B. C. Region Housing Forecast - New Construction								
Housing Starts		**2016**	**2017(F)**		**2018(F)**		**2019(F)**	
			(L)	**(H)**	**(L)**	**(H)**	**(L)**	**(H)**
Abbotsford-Mission	Single-Detached	469	375	425	405	455	375	425
	Multiples	667	1,110	1,290	975	1,145	940	1,110
	Starts - Total	1,136	1,555	1,645	1,415	1,565	1,345	1,505
Kamloops	Single-Detached	259	280	330	250	330	220	340
	Multiples	438	280	330	280	350	270	360
	Starts - Total	697	590	630	570	640	540	650
Kelowna	Single-Detached	785	850	950	710	890	710	950
	Multiples	1,411	2,000	2,400	1,720	2,080	1,430	1,870
	Starts - Total	2,196	3,100	3,410	2,490	2,920	2,280	2,690
Nanaimo	Single-Detached	433	400	500	410	550	390	510
	Multiples	445	420	540	360	480	280	400
	Starts - Total	878	820	1,040	770	1,030	670	910
Prince George	Single-Detached	182	180	220	150	210	140	210
	Multiples	131	60	80	140	200	60	90
	Starts - Total	313	240	300	310	390	210	290
Vancouver	Single-Detached	5,169	4,540	4,800	4,405	4,795	4,240	4,700
	Multiples	22,745	19,065	20,575	16,330	18,730	14,700	16,860
	Starts - Total	27,914	23,755	25,225	21,135	23,125	19,160	21,340
Victoria	Single-Detached	910	830	910	780	860	770	850
	Multiples	2,023	1,870	2,090	1,420	1,640	1,230	1,550
	Starts - Total	2,933	2,700	3,000	2,200	2,500	2,000	2,400

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Source: CMHC (Starts and Completions Survey and Market Absorption Survey). CMHC Forecast (2017-2019).

B. C. Region Housing Forecast - Resale Market								
		2016	2017(F)		2018(F)		2019(F)	
			(L)	(H)	(L)	(H)	(L)	(H)
Abbotsford-Mission	MLS® Sales	4,707	3,995	4,205	3,860	4,140	3,810	4,110
	MLS® Average Price($)	468,388	499,500	522,500	517,500	546,500	537,000	567,000
Kamloops	MLS® Sales	2,276	2,300	2,400	2,120	2,380	2,030	2,370
	MLS® Average Price($)	435,593	458,500	461,500	469,200	474,800	479,100	488,900
Kelowna	MLS® Sales	6,693	5,630	5,980	5,330	6,070	5,040	6,160
	MLS® Average Price($)	494,886	526,800	535,100	543,000	561,000	557,600	584,300
Nanaimo	MLS® Sales	2,394	2,100	2,200	1,980	2,120	1,990	2,130
	MLS® Average Price($)	447,082	502,700	527,400	523,400	554,400	544,300	576,500
Prince George	MLS® Sales	1,245	1,310	1,390	1,270	1,360	1,230	1,370
	MLS® Average Price($)	297,185	317,300	318,800	331,900	334,000	339,200	344,800
Vancouver	MLS® Sales	40,880	35,410	37,190	31,975	34,425	30,905	34,095
	MLS® Average Price($)	1,017,228	1,008,000	1,052,000	1,003,500	1,104,500	1,006,500	1,143,500
Victoria	MLS® Sales	10,028	8,200	8,600	7,900	8,300	7,800	8,200
	MLS® Average Price($)	585,745	650,600	659,400	675,100	686,900	694,900	707,100

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The forecasts (F) included in this document are based on information available as of 2nd October 2017.

(L)=Low end of Range.(H)=High end of range.

Source: CREA(MLS®). CMHC Forecast (2017-2019).

B. C. Region Housing Forecast - Rental Market					
		2016	**2017(F)**	**2018(F)**	**2019(F)**
Abbotsford-Mission	October Vacancy Rate (%)	0.5	0.5	0.6	0.7
	Two-bedroom Average Rent (October)($)	915	949	974	994
	One-bedroom Average Rent (October)($)	744	780	808	830
Kamloops	October Vacancy Rate (%)	1.1	1.4	1.6	1.2
	Two-bedroom Average Rent (October)($)	944	970	990	1,010
	One-bedroom Average Rent (October)($)	803	835	860	885
Kelowna	October Vacancy Rate (%)	0.6	1.2	2.5	1.8
	Two-bedroom Average Rent (October)($)	1,066	1,120	1,160	1,190
	One-bedroom Average Rent (October)($)	864	910	950	975
Nanaimo	October Vacancy Rate (%)	1.5	1.3	2.0	2.2
	Two-bedroom Average Rent (October)($)	895	930	960	990
	One-bedroom Average Rent (October)($)	760	790	820	850
Prince George	October Vacancy Rate (%)	4.2	3.8	3.3	3.0
	Two-bedroom Average Rent (October)($)	827	855	875	895
	One-bedroom Average Rent (October)($)	686	710	730	745
Vancouver	October Vacancy Rate (%)	0.7	0.8	1.0	1.1
	Two-bedroom Average Rent (October)($)	1,450	1,530	1,610	1,680
	One-bedroom Average Rent (October)($)	1,159	1,240	1,310	1,380
Victoria	October Vacancy Rate (%)	0.5	0.5	1.0	1.5
	Two-bedroom Average Rent (October)($)	1,188	1,260	1,310	1,340
	One-bedroom Average Rent (October)($)	912	970	1,010	1,040

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 2nd October 2017.

Source: CMHC (Rental Market Survey). CMHC Forecast (2017-2019).

DEFINITIONS AND METHODOLOGY

New Home Market
Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market
Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October **Rental Market Survey** (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate.
Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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