

HOUSING MARKET OUTLOOK

Victoria CMA



Canada Mortgage and Housing Corporation

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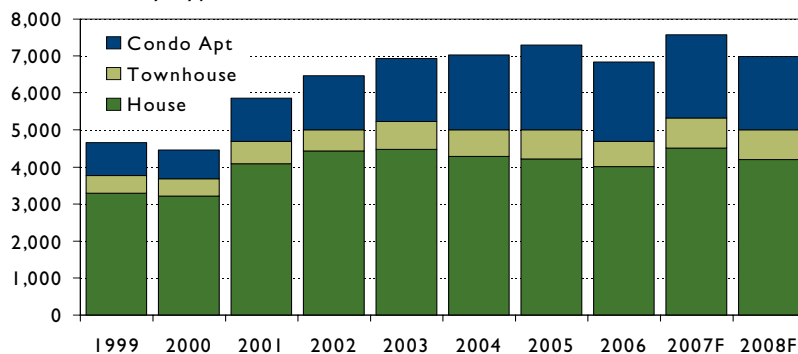
2008 AT A GLANCE

- ◆ **Victoria's housing industry robust, growth spurred by strong economy**
- ◆ **Resale market sales to edge down, prices to rise slowly**
- ◆ **New homebuilding will level off in 2008**
- ◆ **New home prices to rise**
- ◆ **Rental vacancies will remain low**

Figure 1

Victoria home sales remain strong

MLS® Sales by Type, Victoria



Sources: Victoria Real Estate Board, forecast by CMHC

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RESALE MARKET

Price Increases To Moderate

MLS® average prices are expected to rise close to nine per cent this year, followed by an increase of four per cent in 2008. Price increases are moderating due to a shift in the balance of supply and demand. The supply of listings began to rise in early 2006, then eased in the first half of 2007, and has since begun to edge up again. Meanwhile, buyer demand is expected to ease in 2008 after tracking ahead of 2006 levels this year.

Next year's MLS® sales volume will be slightly below 2007 levels but well above the average level over the past fifteen years. Fewer transactions will reflect a dip in speculation, as well as the dampening effect of higher prices, in 2007. The market will move towards a balance between supply and demand following six years of conditions which largely favoured sellers.

Single family homes will see more than four thousand transactions per year in 2007 and 2008, as buyers' demand remains robust. Condo apartment and townhouse sales reflect strong demand for homes with reduced maintenance and lifestyle benefits, as close to two thousand apartment and eight hundred townhouse transactions expected in each of the next two years.

During the first nine months of 2007, Metro Victoria single family home sales came in thirteen per cent ahead of last year's levels. West Shore markets (Langford, View Royal, Sooke, Colwood, Highlands and Metchosin) led the increase in house sales, as buyers pushed sales volumes higher in these expanding

areas. (see map on page 1 for more details).

Sales in West Shore markets are expected to continue to outperform other Capital Region markets as buyers are attracted to the area's expanding amenities, as well as its lower house prices.

At September 2007, single family house listings remain below last year's levels. Strong sales early this spring chewed away at last year's run-up in inventory, and placed upward pressure on prices. Strong employment growth, rising migration and low interest rates are keeping market demand buoyant and the market continues to favour sellers.

September 2007's sales-to-active listings ratio was 44 per cent for single-detached houses, up from one-third from last September. Year-to-date, the average sale price was up ten per cent. These figures indicate the single family house market currently favours sellers,

but listings are expected to rise in the spring, precipitating a return to more balanced conditions by mid 2008.

¹Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.

Esquimalt & Sidney Houses Least Expensive in Region

Esquimalt and Sidney were once again the lowest-priced Metro Victoria markets for single-detached houses during third quarter 2007. The median price remained close to \$500,000 for most other markets, with the exception of areas with more waterfront lots and higher land values: North Saanich, Oak Bay and Saanich East. Next year will see median house prices climb higher in all markets but West Shore areas will experience sharper increases as the proportion of newer, more expensive homes rises.

Figure 2

MLS® House Sales by Market

3rd Quarter 2007, Metro Victoria

	Median House Price	Average Days to Sell	Median Size Sq. Ft.
Victoria City	\$491,250	30	1,866
Oak Bay	\$699,950	38	2,170
Esquimalt	\$445,250	24	1,847
Saanich East	\$566,500	30	2,194
Saanich West	\$467,500	28	1,895
Central Saanich	\$528,750	32	2,083
North Saanich	\$730,000	44	3,210
Sidney	\$440,000	44	1,526
West Shore	\$461,000	42	2,060

Source: Victoria Real Estate Board, CMHC Victoria

Condo Market To Level Off

Metro Victoria's townhouse and apartment condominium sales will edge down slowly over the next eighteen months, as less investor activity is anticipated. Higher prices are dampening interest from both investors and first-time buyers. As well, the supply of condos on the market is slightly higher than last year's level, and double the level recorded two years ago, easing the pressure to make a quick purchase decision.

Average townhouse prices are forecast to top \$400,000 next year. During the first nine months of 2007, townhouse sales rose 25 per cent from last year's levels, active listings climbed 19 per cent, and average prices saw a nine per cent increase. Strong sales are placing upward pressure on prices.

Apartment condo prices will climb to a \$325,000 average next year,

mainly because of the large proportion of new suite sales as these suites are generally priced higher than existing suites. A transition to favour sellers following balanced market conditions is evidenced by market indicators: year-to-date sales climbed eight per cent, average prices rose twelve per cent and active listings held steady. Slower sales are expected in 2008.

NEW HOME MARKET

Homebuilding To Slow Tempo In 2008

New homebuilding will ease slightly in 2008, following a torrid pace set in 2006 and 2007. Apartment condo construction will lead Victoria's new home markets this year and next. Rising prices and the lifestyle attraction of new apartment condo housing will mean fewer single-detached houses breaking ground.

Move-up, move-down and second home purchasers will remain major players in the new home market through 2008 as they explore housing options with the equity growth in their current homes. This market is driven by the rise in resale home prices over the past six years. Investors will play less of a role in 2008, as price increases slow. First-

time buyers will also be less active than in the previous two years, due to higher home prices and slightly higher mortgage rates.

Fewer New Houses Than in 2002-06

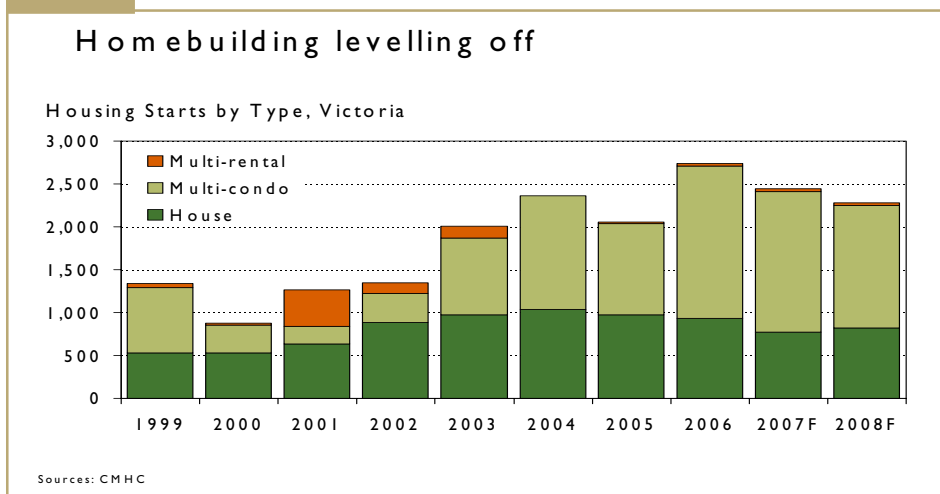
Single-detached house starts are forecast to remain close to 800 units in each of 2007 and 2008 as builders respond to rising costs and buyer resistance to rising prices. During the first nine months of 2007, single detached housebuilding was one-fifth below last year's pace. Demand for new houses continues strong, although sales are about ten per cent below the exceptional levels seen in 2005 through mid

2006. Buoyant resale market sales and prices, strong consumer confidence, solid employment growth and low interest rates are keeping demand for new homes healthy.

The new house market will remain balanced as supply keeps pace with demand through 2008. New home inventories will be fairly steady as most new houses are sold before finishing, which helps to keep the market in balance. A narrower selection of new houses will be available in 2008 as builders concentrate more on custom building.

West Shore markets will dominate the Metro Victoria new house market this year, with close to three-quarters of the region's new houses located in this area. The West Shore's share of housing starts is continuing a long-term growth trend, from 54 per cent in 2003. Langford is the strongest single municipality for housebuilding, with almost one-third of all new Metro Victoria houses. Sooke, View Royal, Langford, Colwood, and Saanich each contain major subdivision development, some of which have multi-year buildouts.

Figure 3



New House Prices Climbing

Robust demand and rising building costs are pushing new house prices higher. Median new house prices are forecast to rise eleven per cent in 2007 and a further four per cent in 2008. High lot costs, growing development fees and escalating insurance, skilled labour and building supply costs continue to challenge homebuilders.

Some West Shore subdivisions will focus on lower-priced new houses. Higher-end housebuilding dominates builder activity in Saanich, North Saanich, Oak Bay and on large properties in the West Shore.

New Apartment Condos Easing

New condo apartment starts will trend down gradually in 2007-08 but remain well above historical averages. By 2008, new condo construction is expected to cool to 1,130 starts.

Metro Victoria new condo inventories remain low, with just 64 suites completed and for sale at September 2007. The market is now classified as balanced: despite the large number of units (2,121 at September 2007) under construction, pre-sales are robust. Over two-thirds of these units are reported pre-sold, reflecting strong market demand. Sales are occurring before projects start in some cases, as well as during project construction.

During the first nine months of 2007, 687 apartment condos were completed and 653 sold. Strong demand for luxury condos with views and attractive amenities, trendy downtown units and modest suburban suites is driving both sales of new units and presales.

New sales by price range reflect the wide choice available, with most two bedroom suites selling between \$260,000 and \$379,999, but distinct price bands through the \$400 to \$700,000 range as well. For one bedroom units, the majority is priced below \$320,000 but \$460-479,999 is another popular range.

New condo price movements are influenced by changes in product mix (more high-end versus more moderately priced suites) as well as rising construction costs. Prices are forecast to edge up through 2008 with median new two bedroom price climbing close to \$460,000.

Moderating demand for luxury suites is forecast for 2008 while demand for mid-range and lower-priced units in convenient locations will expand, resulting in a wider diversity of prices, styles and locations.

Many new condos will be built on Victoria City redevelopment sites such as the CN Lands, the Railyards, Dockside Green, the Humboldt Valley. Others will get underway in Sidney, Central Saanich, Esquimalt, Saanich and the West Shore. Next year, Langford and Colwood will

dominate other West Shore markets in new condo construction.

NEW TOWNHOUSE MARKET STRONG

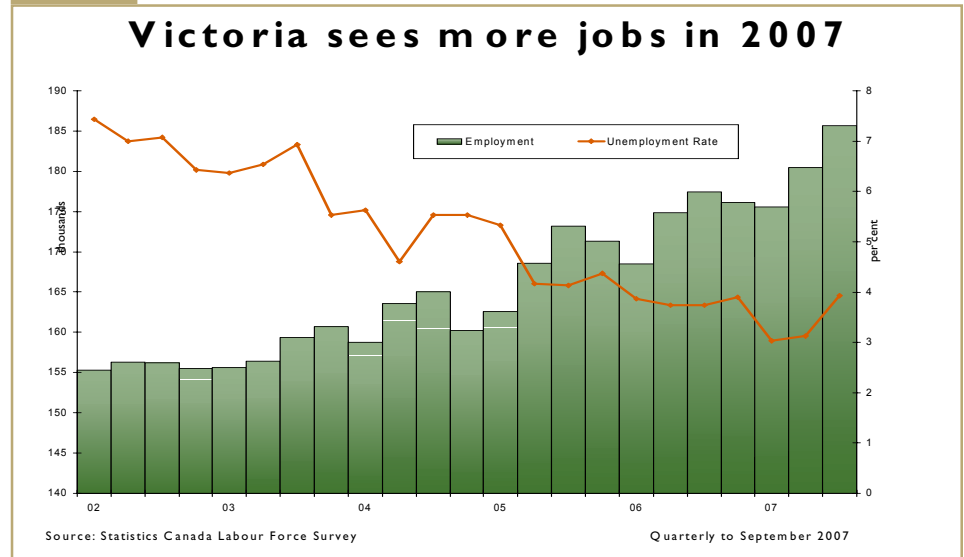
New townhouse starts are expected to remain above the fifteen-year average through 2008, in response to robust demand.

Buyer interest is rising due to higher single-detached house prices turning some buyers to less expensive alternatives, and also due to the attractiveness of the townhouse lifestyle (low maintenance, less yard work). Builder response is constrained due to the scarcity of sites suited to townhouse development.

During the first nine months of this year, townhouse construction was eight per cent less than 2006's level.

Inventories of newly completed units remain low, and demand is trending up. Median prices are forecast to rise through 2008, bringing next year's three bedroom townhouse median price close to \$450,000.

Figure 4



ECONOMY

Economy Growth Robust

Metro Victoria economic growth will reflect strong BC growth patterns over the next 18 months, with real GDP above three per cent in 2007 and 2008.

Victoria employment growth of 1.9 per cent is forecast for 2008, slowing from 3.6 per cent growth expected this year due to the low rate of unemployment. Competition for workers will heat up among area employers as the unemployment rate edges down to 3.5 per cent in 2008. Victoria's unemployment rate is among the lowest in Canada.

Net migration to Metro Victoria is expected to top 2,400 in each of 2007 and 2008. The capital region's population growth will hover around one per cent, below the provincial average.

At mid 2007, the value of major capital projects proposed, planned or under construction in Metro Victoria totalled \$8.6 billion, up from \$5.3 billion in June 2006. Major residential projects scheduled to get underway include the Aquattro, Silkwind and Michelle (all in Colwood) and the Hudson (redevelopment of the Bay site) while construction continues at Dockside Green, Selkirk Waterway, Bear Mountain Golf Resort, Silver Spray, the Railyards, Royal Bay, Sun River Estates and the CN Lands (Bayview) project.

Major non-residential developments include redevelopment of Town & Country Shopping Centre, additions to the University of Victoria campus, a new hospital building at Royal Jubilee and several major projects at CFB Esquimalt.

In addition to construction growth, improvements in tourism, education, high technology and film production will boost economic expansion through 2008.

Tourism Victoria predicts growth of four per cent during 2007, despite a dip in cruise ship traffic. During 2007, the Royal BC Museum's Titanic exhibit boosted tourism while the Tall Ships festival will provide a leg up in 2008. The Victoria Tourism Bulletin reported record hotel revenues in August 2007, despite the less favourable exchange rate for U.S. tourists. In addition, Victoria Conference Centre reported delegate-days rose 45 per cent from last year during the first half of 2007.

MORTGAGE RATES TO NUDGE UP

Mortgage rates are expected to remain flat through the end of 2007, then to rise gradually by 25-50 basis points in 2008, although still low by historical norms. The one year posted mortgage rate is forecast to

be in the 6.50-7.50 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.75-7.75 per cent range in 2008.

RENOVATIONS

RENOVATION VALUES ON RISE

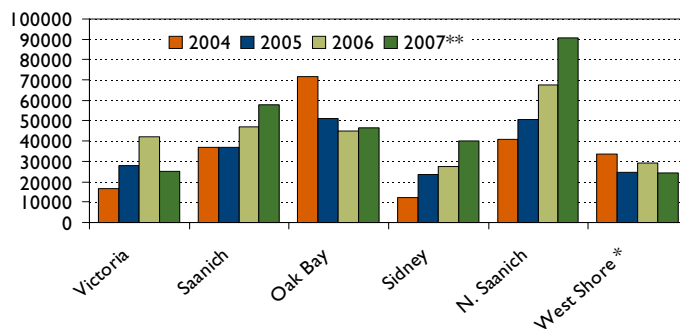
Metro Victoria's renovation industry will continue strong during the current upswing in real estate sales: the number of renovations undertaken in 2007 and 2008 will surpass those recorded during 2006. Renovations tend to go hand-in-hand with real estate transactions and Victoria's older housing stock.

The average value of a renovation rose to \$46,100 during the first seven months of 2007 from \$38,000 during the same period last year. This is not unexpected, considering the rising costs of construction materials and labour, as well as consumer trends towards more expensive finishings.

Figure 5

Value of Renovations is rising

Average Renovation Value – Metro Victoria areas



*West Shore includes View Royal, Colwood, Langford, Sooke, Metchosin

** 2007 YTD January-September

Source: Municipal Building Permit Reports

Forecast Summary Victoria CMA Fall 2007							
	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
MLS® Sales	7,685	7,970	7,500	8,300	10.7	7,600	-8.4
MLS® New Listings	10,329	10,407	12,280	12,600	2.6	11,900	-5.6
MLS® Average Price (\$)	325,412	380,897	427,154	465,000	8.9	485,000	4.3
New Home Market							
Starts:							
Single-Detached	1,038	974	928	770	-17.0	820	6.5
Multiples	1,325	1,084	1,811	1,675	-7.5	1,455	-13.1
Semi-Detached	141	94	146	185	26.7	165	-10.8
Row/Townhouse	125	111	198	180	-9.1	160	-11.1
Apartments	1,059	879	1,467	1,310	-10.7	1,130	-13.7
Starts - Total	2,363	2,058	2,739	2,445	-10.7	2,275	-7.0
Average Price (\$):							
Single-Detached	432,826	506,309	552,363	615,000	11.3	640,000	4.1
Median Price (\$):							
Single-Detached	399,000	478,950	498,000	550,000	10.4	575,000	4.5
New Housing Price Index (% chg.)	9.1	7.9	3.8	1.5	-	4.5	-
Rental Market							
October Vacancy Rate (%)	0.6	0.5	0.5	0.6	0.1	0.9	0.3
Two-bedroom Average Rent (October) (\$)	799	837	874	895	2.4	935	4.5
One-bedroom Average Rent (October) (\$)	630	657	681	710	4.3	745	4.9
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.86	0.56	7.19	0.33
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	7.02	0.57	7.41	0.39
Annual Employment Level	162,000	169,300	175,200	181,500	-	185,000	-
Employment Growth (%)	2.1	4.5	3.5	3.6	0.1	1.9	-1.7
Unemployment rate (%)	5.3	4.5	3.7	3.6	-	3.5	-
Net Migration	1,937	2,551	2,238	2,500	11.7	2,400	-4.0

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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