

# HOUSING MARKET OUTLOOK

## Victoria CMA



CANADA MORTGAGE AND HOUSING CORPORATION

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## Changing Times for the Victoria Housing Market

The Capital Region will experience increases in existing home sales, and significant residential construction in 2010. Employment growth, continued migration, and low mortgage rates will contribute to the stabilization of Greater Victoria housing demand.

After a slow 2008 and first quarter of 2009, lower home prices and low mortgage interest rates contributed to a significant rebound in resales in mid-2009. Expect both resales and average home prices to experience small increases in 2010.<sup>1</sup>

Housing starts will bounce up in 2010, following two years of reduced levels of residential construction activity. The mid-2009 surge in resale activity

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Figure 1



<sup>1</sup> The forecasts included in this document are based on information available as of October 1, 2009.

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combined with less supply (fewer homes under construction, and fewer existing and new homes for sale) will boost the number of new homes breaking ground in Greater Victoria next year.

### Stabilization of Resale Market Conditions Ahead

Modest growth in existing home sales is projected for 2010, following a slight rebound in 2009. The growth will result from a stabilizing economy and continued sales by those looking to take advantage of low interest rates and ample, but shrinking supply. The recent up tick in resale prices (after bottoming out in the first quarter of 2009) combined with the anticipation of higher mortgage rates next year have led some potential home buyers to believe that Victoria-area homes will become more expensive. The favourable buying conditions will elevate sales through the remainder of 2009 and into 2010.

After six years of above average resale activity across the Capital region, a significant lull in existing home sales was observed in 2008 and through the first quarter of 2009. Since then, resale conditions have rebounded strongly due to relatively low mortgage rates and a downward adjustment in resale prices observed between the first quarter of 2008 and 2009.

The improved affordability that has been observed across Greater Victoria is evidenced by the reduced average mortgage payment that is required to purchase a home. In inflation-adjusted terms, the monthly payment associated with purchasing a single-detached home in Victoria declined 17 per cent between the peak of

Figure 2

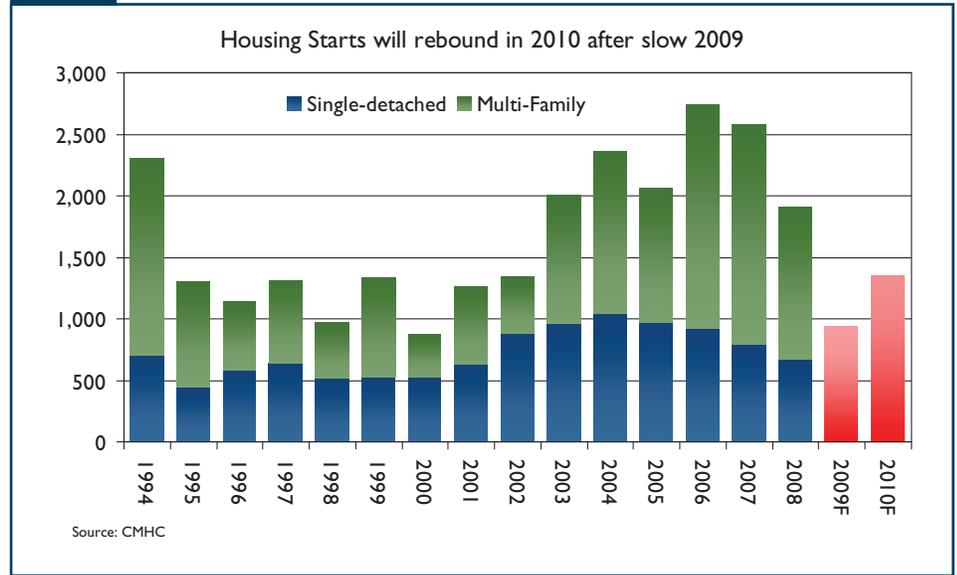
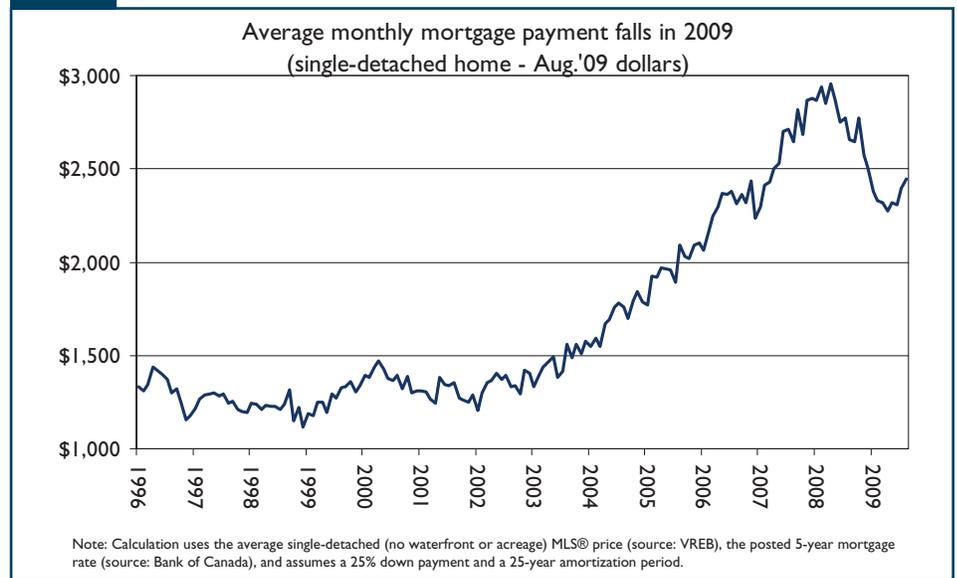


Figure 3



unaffordability (Q2 2008) and the August 2009 level.<sup>2</sup>

Affordability became a major issue for potential homebuyers during the extended upswing in resale prices that took place between 2001 and 2008. Over this period, the average resale home price in Greater Victoria

increased at an average rate of 12 per cent per year. The recent improvements in affordability have been a breath of fresh air for those who previously could not afford home ownership, or were waiting for a more opportune time to enter the home ownership market.

<sup>2</sup>Calculation uses the average single-detached (no waterfront or acreage) MLS® price (source: VREB), a 25% down payment, the posted 5-year mortgage rate (source: Bank of Canada), and a 25-year amortization period.

A return to more balanced resale market conditions will occur in 2010, as both resale demand and supply stabilize. The strong demand recorded this summer has reduced the number of active MLS® listings considerably since reaching a peak last fall. As resale market demand stabilizes in 2010, so too will the supply of existing homes in Greater Victoria.

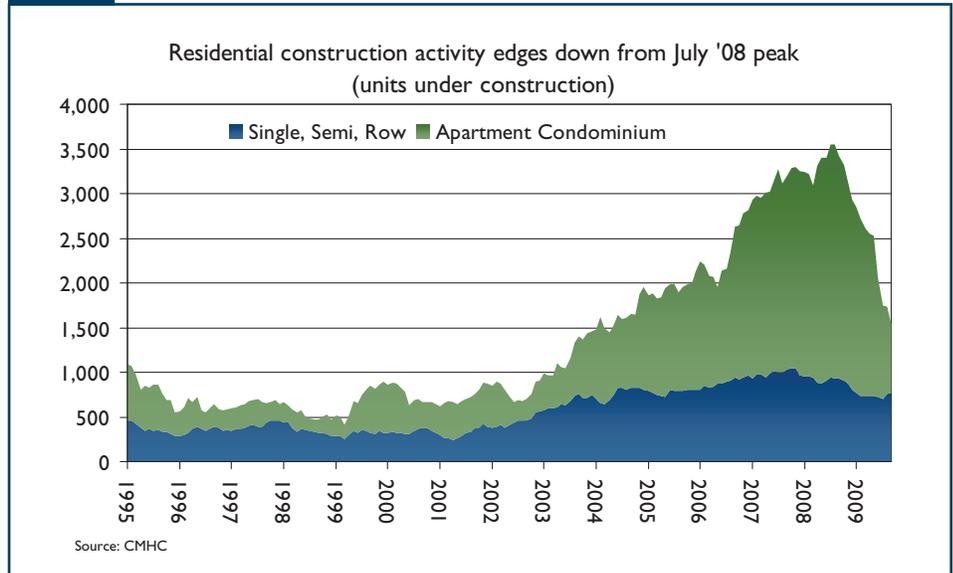
The fluctuations in existing home sales observed over the past two years have impacted average resale prices across the Capital region. After an extended period of steady and significant price gains, the average resale price declined 12 per cent from peak to trough in response to weak resale demand. Since bottoming out, the average Greater Victoria resale price has been edging up and currently sits three per cent below the peak level. With resale market conditions stabilizing, this will translate into minor price appreciation next year.

### Multi-Family Developments Key to Rebound in Housing Starts

This year's lull in residential construction activity has been driven by fewer apartment condominium developments breaking ground across the Victoria CMA. As a result, the number of homes currently under construction in the region is down nearly 60 per cent from the peak of July 2008.

The decline in the number of homes under construction, the shrinking supply of existing homes, and the recent pick up in resale market demand will prompt builders and developers to start more homes in 2010. Construction is expected to start on 1,350 new homes next year, up significantly from the 2009 level,

Figure 4



but below the fifteen year average of 1,700 homes.

Risks to the new construction forecasts are on the up-side, as the forecast assumes a number of planned multi-family developments will not break ground until 2011. If key drivers of housing demand (employment, consumer spending, and consumer confidence) improve quicker than anticipated, the construction of a number of these planned developments could start sooner rather than later in the forecast horizon.

### The Victoria Economy will Recover

While the Victoria and British Columbia economies were negatively impacted by the global economic downturn that has hampered many economies around the world, there are signs that the worst may be over. The key to the stabilization of the local housing market is continued improvements in economic conditions.

**Labour market:** A robust labour market will support demand for homeownership. Victoria had one of the strongest labour markets in 2008, but like most regions of the country, it too has seen employment dip and the unemployment rate rise. Since bottoming out in May, the number of people employed within the Capital region has crept up and this trend will continue in 2010.

**Post-secondary education:** Continued investment in local post-secondary institutions will attract new students to the region and aid in the recovery of the local economy. Relative to last school year, active enrollments at Camosun College and the University of Victoria this fall were up 11 per cent and six per cent, respectively. A campus renewal project and sports field upgrades are planned for the University of Victoria, while across town at Royal Roads, construction of a new academic building is scheduled to wrap up in late 2010.

**Major projects and non-residential investment:** While residential construction has been weak, the local

economy has received a boost from a number of large-scale non-residential projects that are either currently under construction or in the planning stages. These include the Capital region wastewater management project, the Johnson Street bridge replacement, the Vancouver Island technology park expansion, and the Hillside Shopping Centre expansion. These major projects will stimulate the local economy and housing demand.

According to the *Major Projects Inventory*, there were \$11.7 billion in major projects (value exceeding \$15 million) on the books as of June 2009.<sup>3</sup> This estimate includes both non-residential and residential projects, and represents a 23 per cent increase from the value recorded in December 2008. Proposed major residential developments include: Colwood Corners, the Roundhouse mixed-use community, South Skirt Mountain Village, and Mariners Village condominium development.

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. The Bank has committed to keeping this rate at 0.25 per cent through the middle of 2010 unless inflationary pressures warrant an increase.

## Mortgage Rates

Mortgage rates have fallen over the course of 2009, but are now expected to remain relatively stable for the rest of the year. Posted mortgage rates will gradually increase through 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate will be in the 3.50-4.25 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.50-6.00 per cent range.

<sup>3</sup>Major Projects Inventory – June 2009, B.C. Ministry of Small Business, Technology and Economic Development.

Forecast Summary Victoria CMA Fall 2009							
	2006	2007	2008	2009f	% chg	2010f	% chg
<b>Resale Market</b>							
MLS® Sales	7,500	8,403	6,171	7,300	18.3	7,450	2.1
MLS® New Listings	12,280	12,840	13,928	11,800	-15.3	12,600	6.8
MLS® Average Price (\$)	427,154	466,974	484,898	474,000	-2.2	487,000	2.7
<b>New Home Market</b>							
<b>Starts:</b>							
Single-Detached	928	795	673	560	-16.8	700	25.0
Multiples	1,811	1,784	1,232	385	-68.8	650	68.8
Semi-Detached	146	213	154	180	16.9	200	11.1
Row/Townhouse	198	158	150	65	-56.7	100	53.8
Apartments	1,467	1,413	928	140	-84.9	350	150.0
Starts - Total	2,739	2,579	1,905	945	-50.4	1,350	42.9
<b>Average Price (\$):</b>							
Single-Detached	552,363	629,278	676,701	657,000	-2.9	667,000	1.5
<b>Median Price (\$):</b>							
Single-Detached	498,000	564,450	599,900	602,000	0.4	609,000	1.2
New Housing Price Index (% chg.)	3.8	0.5	-0.1	-7.0	-	1.0	-
<b>Rental Market</b>							
October Vacancy Rate (%)	0.5	0.5	0.5	1.1	0.6	1.2	0.1
Two-bedroom Average Rent (October) (\$)	874	907	965	1,050	-	1,100	-
One-bedroom Average Rent (October) (\$)	681	716	764	790	-	815	-
<b>Economic Overview</b>							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.03	-2.7	3.83	-0.2
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.55	-1.5	5.75	0.2
Annual Employment Level (persons)	175,200	182,900	190,900	182,000	-	187,000	-
Employment Growth (%)	3.5	4.4	4.4	-4.7	-	2.7	-
Unemployment rate (%)	3.7	3.3	3.3	6.1	-	6.2	-
Net Migration (B.C.)	52,371	58,819	63,320	58,300	-7.9	60,800	4.3

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

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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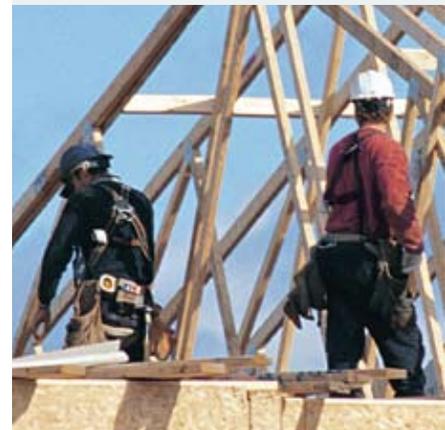
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