

# HOUSING MARKET OUTLOOK

## British Columbia Region Highlights

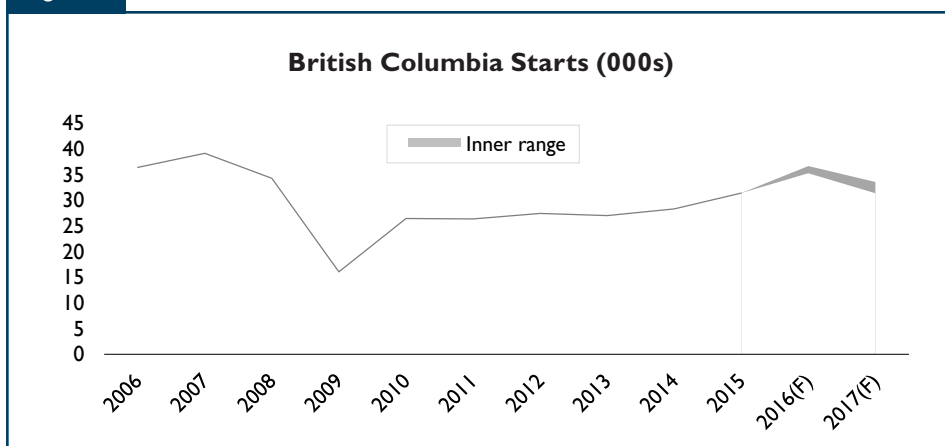


CANADA MORTGAGE AND HOUSING CORPORATION

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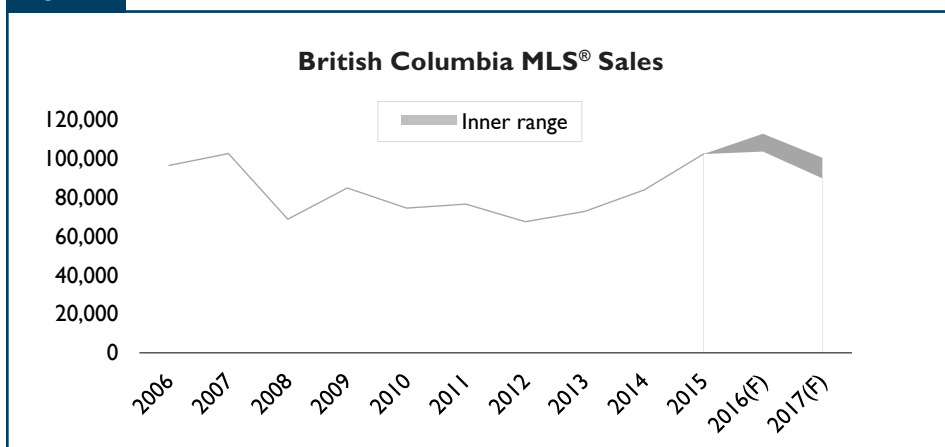
## Housing Market Forecast

Figure 1



Source: CMHC, (F): Forecast

Figure 2



Sources: CREA historical data and CMHC forecast, (F): Forecast

I The forecasts and historical data included in this document reflect information available as of April 29, 2016.

## Overview<sup>1</sup>

- The outlook for the British Columbia housing market is for a higher levels of sales, prices and starts in 2016, with some leveling off in 2017.
- Total housing starts are forecast between 35,300 and 36,700 units this year and 31,400 to 33,600 units in 2017.
- While provincial economic fundamentals are strong relative to the past and other provinces, there is evidence of overvaluation in the Vancouver housing market which could impact the provincial outlook. The wider range forecast in 2017 reflects increased uncertainty.

## Economic Outlook

A growing population and an expanding economy will generate demand for goods and services, including housing, this year and next. Population-driven demand for goods and services will contribute to growth in consumer spending, the largest component of the provincial economy. With interest rates expected to remain relatively low, interest-sensitive sectors of the economy such as investment and consumer durables will add to overall economic growth. Low oil prices are expected to have an ongoing net positive impact on the British Columbia economy, as consumers and businesses benefit from lower transportation costs.

The addition of people from other parts of Canada and the world is forecast to increase the demand for ownership and rental housing. In addition, the movement of people within British Columbia will generate turnover in the housing stock, sustaining high levels of resale activity this year. Relatively higher home prices in Vancouver could support movement of people to lower-priced housing markets, generating demand in other centres and leading to higher home prices in those markets. The extent of this upward price

pressure will depend on the response of new listings as house prices rise. If higher home prices draw more new listings to the market relative to sales, this could ease price pressure.

## Housing Market Outlook

Builders are expected to respond to increased demand for new homes this year and next, as rising prices for resale homes and a lean supply of resale home listings attract more buyers to the new home market. Single-detached home starts will get a boost from replacement housing as rising land values and an aging housing stock result in new residential construction. As well, laneway housing will add to the number of single-detached home starts. Single-detached home starts are expected to range from 11,000 to 11,400 units in 2016 and moderate to between 10,200 to 10,800 units in 2017.

Low rental vacancy rates in the province's larger centres are expected to support further development of multiple-unit rental projects. Multiple-family home starts are forecast to range between 24,200 and 25,200 units in 2016. A wider range is expected in 2017.

Higher levels of sales in 2016 will reflect increased migration flows and higher projected employment levels, however a lack of new listings could constrain existing home sales in 2017. MLS® sales are forecast to range from 103,800 to 113,000 transactions in 2016 and between 90,000 to 100,600 transactions in 2017.

Sellers' resale market conditions are expected to prevail across the province, pointing to price gains in most housing markets. A rising share of higher-priced home sales in Vancouver will continue to put upward pressure on the provincial average price. The MLS® average price is forecast to be between \$718,600 and \$756,600 in 2016, moving higher to \$722,900 to \$786,100 in 2017.

## Risks to the Outlook

There are a number of risks to the outlook on the upside and downside that contribute to uncertainty in the outlook.

- The increase in new and existing home prices may raise the incidence of highly indebted households who will be more vulnerable in the event of unemployment or an increase in mortgage interest rates.
- A sharper-than-expected slowdown in economic growth in China would negatively affect Canada through weaker demand for Canadian exports as well as a downward pressure on commodity prices. This could lead to starts, sales and home prices in the lower part of the forecast range.
- On a positive note, a stronger US dollar and growing US economy could boost tourism and export-related industries across British Columbia, stimulating growth in tourism, retail, and manufacturing-based employment.

### Note to readers

In an effort to align itself with the various needs of those seeking information about the housing market, CMHC's Market Analysis Centre has undertaken a complete review of its products and services. As a part of this review, the CMHC's *Housing Market Outlook* publication will be undergoing a series of modifications. The general objective is to provide a range of possible outcomes that, in a context of

economic and financial uncertainty, will better help users in their decision-making process.

As a first step in this ongoing process, the present edition incorporates forecast ranges for housing variables as well as an expanded discussion on the risks to the forecast. A more detailed description of the forecast range methodology is provided at the end of the publication.

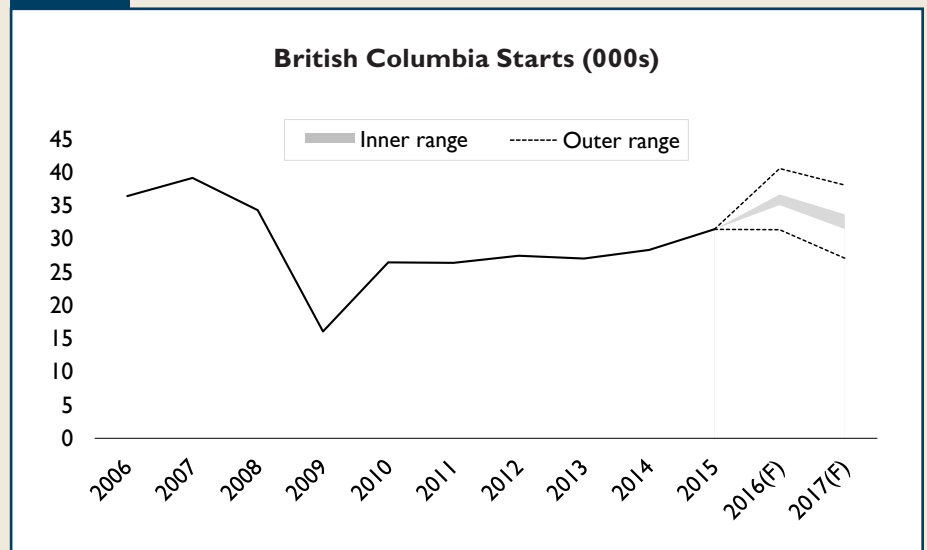
## Wide Range Forecasts

Overall, the outlook for the British Columbia housing market is for higher levels of sales, prices and starts in 2016, with some levelling off in 2017. However, there is a degree of uncertainty around the outlook which increases as we look further into the future. This topic box explores some of the possible situations that could lead to outcomes within the wider range presented in Figures 3,4 and 5.

While provincial economic fundamentals are strong relative to the past and other provinces, particularly job and population growth in Vancouver, there is evidence that imbalances in the resale market have emerged in the province's largest centre. According to CMHC's Housing Market Assessment framework, there is strong evidence of overvaluation in the Vancouver housing market. The potential unwinding of the imbalance between observed house prices and those that would be supported by underlying fundamentals could impact the provincial forecast and result in outcomes in the lower part of the forecast range. Alternatively, in the absence of a shock to trigger this scenario, the provincial housing market would see levels of starts, sales and prices in the upper part of the wide ranges.

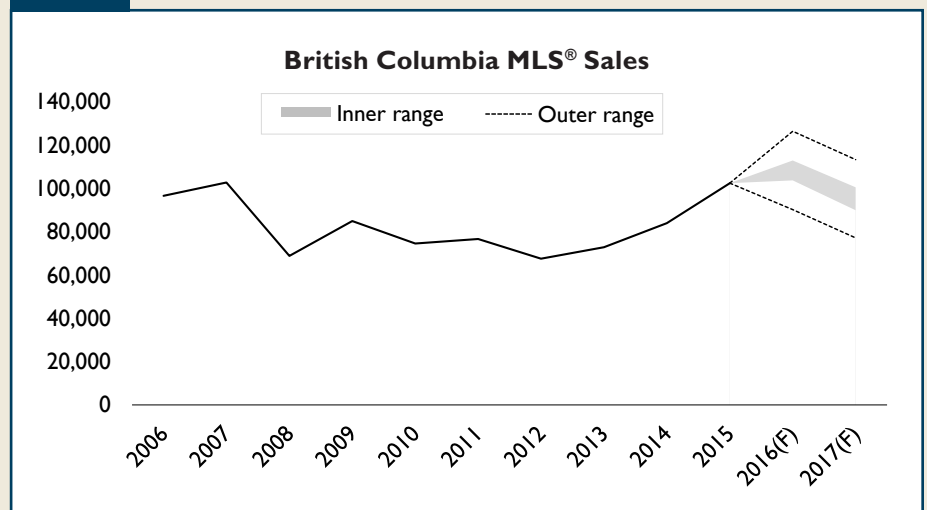
In 2015, net interprovincial migration reached a seven-year high, totalling 16,742 people. This component of population growth exceeded net international migration for the first time in decades as British Columbia's net increase of people moving from other countries fell to 14,676

Figure 3



Source: CMHC, (F): Forecast

Figure 4



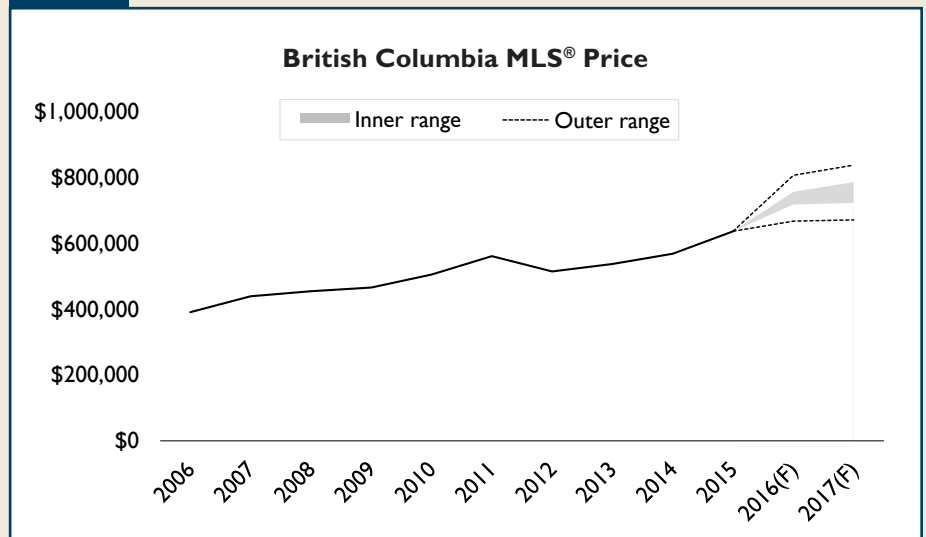
Sources: CREA historical and CMHC forecast, (F): Forecast

people. If this trend of high levels of interprovincial migration continues and net international migration returns to its longer term average, British Columbia could see further upward pressure on the housing market as population growth increases. This could mean higher

resales due to turnover in ownership, higher housing starts to house more people and higher home prices if the supply of new homes is not brought on stream at a pace comparable to the increase in demand.

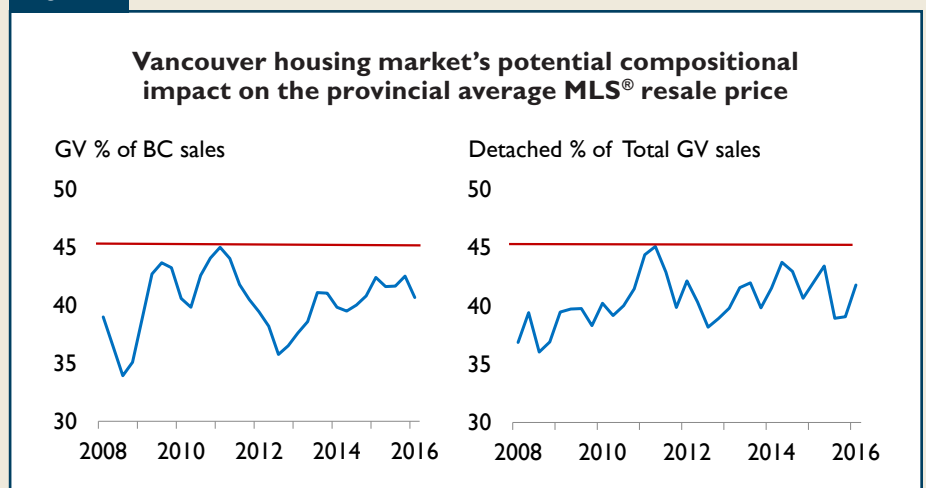
With respect to the outlook for the BC average price, one channel that could lead to outcomes in the upper part of the wide range is the impact of Vancouver prices on the provincial average. There is room for the Vancouver share of BC sales to move higher relative to past peaks (41 per cent in the first quarter compared to 45 per cent at its peak in the first quarter of 2011). In addition, the share of single detached home sales in the Greater Vancouver Real Estate Board area is also below past peaks that coincide with increases in the average home price. If Vancouver's share of BC sales rises at the same time as the share of single-detached home sales are trending higher, this could put further upward pressure on provincial average home prices as these sales are higher priced than other markets in the province.

Figure 5



Sources: CREA historical and CMHC forecast  
(F): Forecast

Figure 6



Sources: CREA, REBGV, CMHC calculation, data to Q1 2016

## 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:

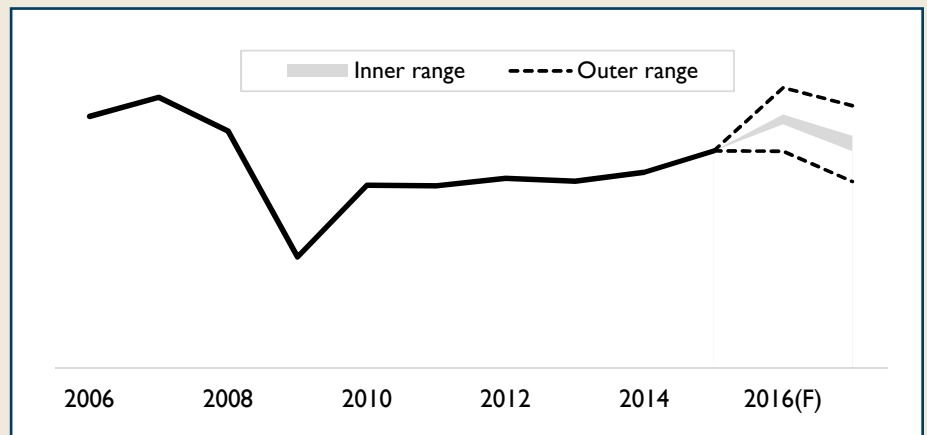
- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation\* of historical data and on past forecast accuracy.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



\* 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<br>British Columbia<br>Spring 2016 |         |         |         |         |         |         |         |
|---|---------|---------|---------|---------|---------|---------|---------|
|   | 2013    | 2014    | 2015    | 2016(F) |         | 2017(F) |         |
|   |         |         |         | (L)     | (H)     | (L)     | (H)     |
| New Home Market                                     |         |         |         |         |         |         |         |
| Starts:   |         |         |         |         |         |         |         |
| Single-Detached                                     | 8,522   | 9,569   | 10,152  | 11,000  | 11,400  | 10,200  | 10,800  |
| Multiples   | 18,532  | 18,787  | 21,294  | 24,200  | 25,400  | 21,200  | 22,800  |
| Starts - Total                                      | 27,054  | 28,356  | 31,446  | 35,300  | 36,700  | 31,400  | 33,600  |
|   |         |         |         |         |         |         |         |
| Resale Market                                       |         |         |         |         |         |         |         |
| MLS® Sales  | 72,936  | 84,049  | 102,517 | 103,800 | 113,000 | 90,000  | 100,600 |
| MLS® Average Price(\$)                              | 537,414 | 568,405 | 636,627 | 718,000 | 756,600 | 722,900 | 786,100 |
|   |         |         |         |         |         |         |         |
| Economic Overview                                   |         |         |         |         |         |         |         |
| Mortgage Rate(5 year)(%)                            | 5.24    | 4.88    | 4.67    | 4.40    | 5.00    | 4.70    | 5.30    |

|  | 2013      | 2014      | 2015      | 2016(F)   | 2017(F)   |
|--|-----------|-----------|-----------|-----------|-----------|
| <b>Rental Market</b>                   |           |           |           |           |           |
| October Vacancy Rate (%)               | 1.9       | 1.1       | 0.8       | 0.8       | 1.0       |
| Two-bedroom Average Rent (October)(\$) | 1,195     | 1,223     | 1,271     | 1,309     | 1,345     |
| One-bedroom Average Rent (October)(\$) | 965       | 994       | 1,031     | 1,060     | 1,088     |
| <b>Economic Overview</b>               |           |           |           |           |           |
| Population                             | 4,605,729 | 4,664,222 | 4,703,939 | 4,755,100 | 4,805,000 |
| Annual Employment Level                | 2,265,600 | 2,278,400 | 2,306,200 | 2,360,200 | 2,419,200 |
| Net Migration                          | 36,933    | 46,581    | 31,418    | 35,900    | 37,400    |
| Average Weekly Earnings (\$)           | 880       | 882       | 914       | 923       | 940       |

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Rental Market: Privately initiated rental apartment structures of three units and over. Historical and forecast values are an aggregate roll-up of the CMA historical data and forecasts from each province.

The forecasts (F) included in this document are based on information available as of 29th April 2016. (L)=Low end of Range.(H)=High end of range.

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 due to rounding and volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey). Statistics Canada. CREA(MLS®). CMHC Forecast (2016-2017).

| B. C. Region Housing Forecast - New Construction |                 |        |         |        |         |        |
|--|-----------------|--------|---------|--------|---------|--------|
|  | Housing Starts  | 2015   | 2016(F) |        | 2017(F) |        |
|  |                 |        | (L)     | (H)    | (L)     | (H)    |
| <b>Abbotsford-Mission</b>                        | Single-Detached | 393    | 400     | 460    | 360     | 440    |
|  | Multiples       | 413    | 480     | 560    | 500     | 580    |
|  | Starts - Total  | 806    | 920     | 980    | 890     | 990    |
| <b>Kelowna</b>                                   | Single-Detached | 628    | 610     | 690    | 550     | 700    |
|  | Multiples       | 652    | 770     | 930    | 680     | 870    |
|  | Starts - Total  | 1,280  | 1,420   | 1,580  | 1,290   | 1,510  |
| <b>Vancouver</b>                                 | Single-Detached | 4,622  | 4,900   | 5,100  | 4,500   | 4,900  |
|  | Multiples       | 16,241 | 19,500  | 20,100 | 17,000  | 17,800 |
|  | Starts - Total  | 20,863 | 24,200  | 25,400 | 21,200  | 23,000 |
| <b>Victoria</b>                                  | Single-Detached | 687    | 690     | 760    | 630     | 730    |
|  | Multiples       | 1,321  | 1,410   | 1,540  | 1,280   | 1,470  |
|  | Starts - Total  | 2,008  | 2,100   | 2,300  | 1,900   | 2,200  |

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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 due to rounding and volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey). CMHC Forecast (2016-2017).

| <b>B. C. Region Housing Forecast - Resale Market</b> |                        |             |                |            |                |            |
|--|------------------------|-------------|----------------|------------|----------------|------------|
|  |                        | <b>2015</b> | <b>2016(F)</b> |            | <b>2017(F)</b> |            |
|  |                        |             | <b>(L)</b>     | <b>(H)</b> | <b>(L)</b>     | <b>(H)</b> |
| <b>Abbotsford-Mission</b>                            | MLS® Sales             | 3,482       | 3,950          | 4,060      | 3,750          | 4,050      |
|  | MLS® Average Price(\$) | 379,916     | 401,400        | 410,600    | 417,400        | 434,600    |
| <b>Kelowna</b>                                       | MLS® Sales             | 5,378       | 5,720          | 6,080      | 5,330          | 6,070      |
|  | MLS® Average Price(\$) | 435,261     | 446,500        | 453,500    | 452,500        | 467,500    |
| <b>Vancouver</b>                                     | MLS® Sales             | 43,145      | 42,000         | 45,000     | 34,000         | 38,100     |
|  | MLS® Average Price(\$) | 902,801     | 1,022,000      | 1,128,000  | 1,045,100      | 1,179,000  |
| <b>Victoria</b>                                      | MLS® Sales             | 7,868       | 9,000          | 9,500      | 8,000          | 8,600      |
|  | MLS® Average Price(\$) | 521,616     | 545,000        | 555,000    | 555,500        | 575,000    |

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The forecasts (F) included in this document are based on information available as of 29th April 2016.

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

Source: CREA(MLS®). CMHC Forecast (2016-2017).



| <b>B. C. Region Housing Forecast - Rental Market</b> |  |             |                |                |
|--|--|-------------|----------------|----------------|
|  |  | <b>2015</b> | <b>2016(F)</b> | <b>2017(F)</b> |
| <b>Abbotsford-Mission</b>                            | October Vacancy Rate (%)               | 0.8         | 1.0            | 1.2            |
|  | Two-bedroom Average Rent (October)(\$) | 864         | 895            | 915            |
|  | One-bedroom Average Rent (October)(\$) | 712         | 735            | 755            |
| <b>Kelowna</b>                                       | October Vacancy Rate (%)               | 0.7         | 0.5            | 1.0            |
|  | Two-bedroom Average Rent (October)(\$) | 1,002       | 1,020          | 1,040          |
|  | One-bedroom Average Rent (October)(\$) | 799         | 820            | 830            |
| <b>Vancouver</b>                                     | October Vacancy Rate (%)               | 0.8         | 0.8            | 1.0            |
|  | Two-bedroom Average Rent (October)(\$) | 1,368       | 1,410          | 1,450          |
|  | One-bedroom Average Rent (October)(\$) | 1,079       | 1,110          | 1,140          |
| <b>Victoria</b>                                      | October Vacancy Rate (%)               | 0.6         | 0.8            | 1.0            |
|  | Two-bedroom Average Rent (October)(\$) | 1,128       | 1,160          | 1,190          |
|  | One-bedroom Average Rent (October)(\$) | 867         | 890            | 910            |

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 29th April 2016.

Source: CMHC (Rental Market Survey). CMHC Forecast (2016-2017).

## 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 (\$) |
| <b>Abbotsford-Mission</b> | Q1 2016 | -2.0            | 8.1             | 861                          | 382            | 131                    | 251             | 1,245      | 448,152                 |
|                           | Q1 2015 | 2.3             | 7.0             | 854                          | 149            | 46                     | 103             | 628        | 364,907                 |
|                           | Change  | -4.3            | 1.1             | 0.8%                         | 156.4          | 184.8                  | 143.7           | 98.2       | 22.8                    |
| <b>Kelowna</b>            | Q1 2016 | -2.2            | 9.1             | 899                          | 565            | 126                    | 439             | 1,213      | 447,475                 |
|                           | Q1 2015 | 2.9             | 5.3             | 902                          | 213            | 118                    | 95              | 1,013      | 413,996                 |
|                           | Change  | -5.1            | 3.8             | -0.3%                        | 165.3          | 6.8                    | 362.1           | 19.7       | 8.1                     |
| <b>Vancouver</b>          | Q1 2016 | 5.2             | 6.4             | 924                          | 7,081          | 1,197                  | 5,884           | 12,129     | 1,094,937               |
|                           | Q1 2015 | 0.9             | 6.1             | 921                          | 4,283          | 954                    | 3,329           | 9,188      | 873,807                 |
|                           | Change  | 4.3             | 0.3             | 0.2%                         | 65.3           | 25.5                   | 76.7            | 32.0       | 25.3                    |
| <b>Victoria</b>           | Q1 2016 | 3.7             | 6.3             | 920                          | 593            | 218                    | 375             | 2,295      | 555,141                 |
|                           | Q1 2015 | -3.0            | 5.2             | 900                          | 476            | 144                    | 332             | 1,548      | 494,638                 |
|                           | Change  | 6.7             | 1.1             | 2.2%                         | 24.6           | 51.4                   | 13.0            | 48.3       | 12.2                    |
| <b>British Columbia</b>   | Q1 2016 | 3.0             | 6.9             | 918                          | 10,016         | 2,658                  | 7,358           | 28,028     | 770,408                 |
|                           | Q1 2015 | 0.1             | 6.3             | 909                          | 6,382          | 1,938                  | 4,444           | 20,139     | 630,435                 |
|                           | Change  | 2.9             | 0.6             | 1.0%                         | 56.9           | 37.2                   | 65.6            | 39.2       | 22.2                    |
| <b>Canada</b>             | Q1 2016 | 0.7             | 7.6             | 937                          | 38,175         | 11,819                 | 26,356          | 114,117    | 498,260                 |
|                           | Q1 2015 | 0.6             | 7.2             | 909                          | 35,175         | 10,266                 | 24,909          | 100,629    | 428,580                 |
|                           | Change  | 0.1             | 0.4             | 3.1%                         | 8.5            | 15.1                   | 5.8             | 13.4       | 16.3                    |

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®).

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