

HOUSING MARKET INSIGHT

Vancouver CMA



CANADA MORTGAGE AND HOUSING CORPORATION

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"Foreign buyer activity is one of many factors impacting the Vancouver housing market. Equally important are housing and land supply constraints as well as the economic and demographic fundamentals that drive housing demand. Sales and prices had already started to dip before the introduction of the Foreign Buyers Tax, so it basically underlined existing trends in the resale market."



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Preliminary Impacts of the Foreign Buyers Tax on the Vancouver Housing Market

- On July 25, the BC Government announced the implementation of an additional property transfer tax of 15% on home sales to foreign buyers.
- While it is too early to determine long-term impacts of the Foreign Buyers Tax (FBT) on the housing market, preliminary analysis of August and September 2016 resale data suggests a consolidation of trends in the market, which pre-dated the introduction of the tax.
- These trends included a slowing pace of resales, an ongoing market shift to more condominium sales and a continuation of the downward trend in average prices.
- MLS® sales have declined in the two months following the start of the tax, continuing an already established trend, particularly at the higher end of the price spectrum.
- While MLS® HPI Benchmark prices remained stable in September and August, the average price dropped 17% compared to July, partly due to a change in the mix of homes sold.
- Foreign buyers and/or foreign capital are among many forces driving home sales and prices in Metro Vancouver². Economic and demographic fundamentals, combined with housing and land supply constraints drive housing activity and home prices. The September average price increased 7% from August.

Two months following the August 2 implementation of the Foreign Buyers Tax (FBT), it is too early to determine the long-term or even mid-term impacts, if any, of this policy shock on the housing market. This report will provide preliminary analysis of resale market trends before and after the FBT implementation and point to the factors driving home sales and higher prices in the Vancouver housing market, and in submarkets where foreign buyer purchases are concentrated³.

This work will serve as a starting point for further examination once more time has elapsed and more data accumulates.

Chronology of events related to the Foreign Buyer Tax

On June 10, 2016 the BC Government began tracking the number of foreign residents⁴ purchasing homes in British Columbia by requiring home purchasers to identify their nationality on the Property Transfer Tax Form. Approximately one month later, the BC Ministry of Finance released the first results, indicating that foreign buyers accounted for 5% of transactions in Metro Vancouver since the new form was introduced. Updated data were released on July 25, coincident with the announcement of the Foreign Buyers Tax (effective August 2). These results showed that the share of foreign purchases during the six weeks since the form was introduced had doubled to approximately 10%.

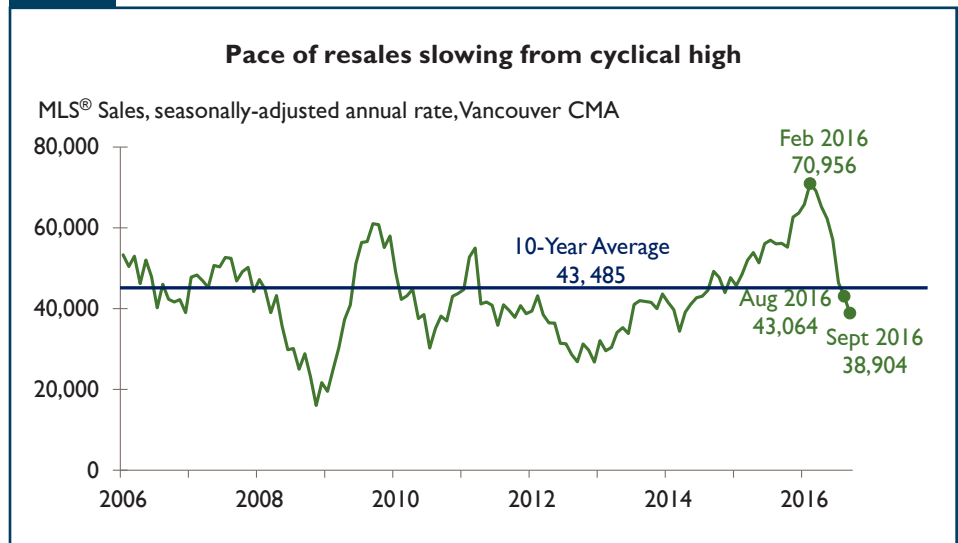
On September 22, data released by the BC Government showed that the number of Metro Vancouver purchases by foreign nationals declined markedly in August following the implementation of the FBT. In the two months (June 10 – August 1) prior to the tax implementation, 13% of transactions were made by foreign nationals, compared to 0.9% in August. Similar declines (ranging from 9 to 23 percentage points) were recorded in the municipalities where the majority of the foreign buyer activity is concentrated. One factor contributing to the dramatic decline relates to the timing. The tax was announced on July 25 and came into effect August 2, likely contributing to a spike in foreign purchases during that brief time period as buyers rushed to avoid the tax (Figure 1), in effect pulling sales forward from August to July. Indeed, the BC Government points out that

Figure 1 – Foreign Buyer Share of Transactions

	June 10 - 29	June 10 - July 14	June 10 - Aug 1	July 15 - Aug 1*	Aug 2 - 31
Metro Vancouver	5%	10%	13%	19%	1%
City of Vancouver	4%	11%	15%	25%	1%
Richmond	14%	18%	25%	34%	2%
Surrey	3%	8%	10%	12%	1%
Burnaby	11%	18%	24%	34%	1%

Source: BC Ministry of Finance, *Calculations by CMHC

Figure 2



Source: REBGV, FVREB, Seasonally adjusted and annualized by CMHC, September 2016 last data point, MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

on the final business day before the tax implementation (July 29), \$850M worth of sales to foreign residents took place, representing 40% of all foreign investment in real estate during the prior two months.

Preliminary impacts of the FBT on the Vancouver resale market

MLS® data for August and September suggest that the FBT consolidated existing trends in the resale market. Both sales and prices peaked in early 2016 and had been trending lower since.

The pace of sales growth in the Vancouver CMA has been steadily diminishing since the beginning of 2016. On a monthly basis, the seasonally-adjusted annual rate of sales peaked in February 2016 and had been moving back toward the long-term average level of just over 43,000 units (Figure 2).

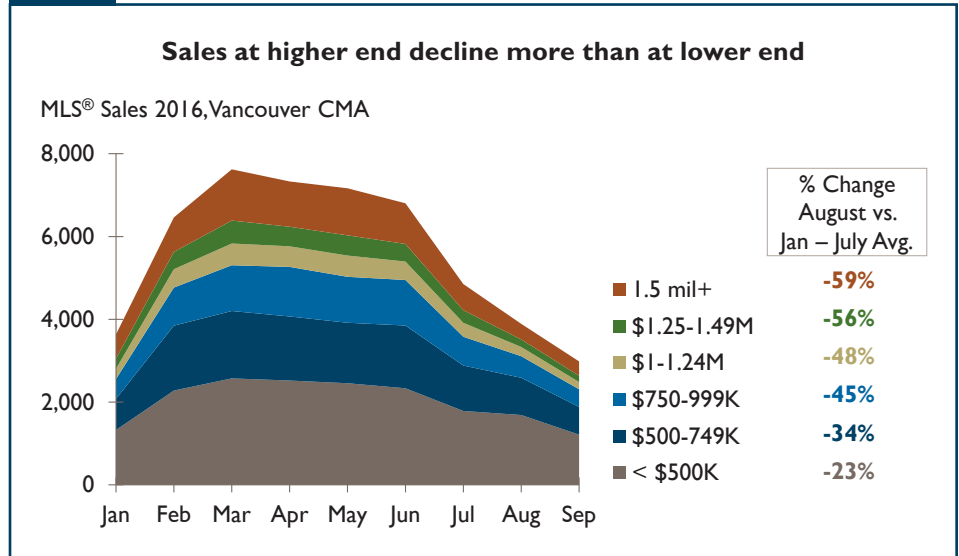
Total August sales in Metro Vancouver were down 40% compared to the average number of monthly sales during the first seven months of 2016. Sales of \$1.5M+ properties (mostly detached homes) decreased 59%, while sales of homes priced less than \$500K (mostly condo

apartments) were down 23% (Figure 3). These trends continued in September.

Prices in Vancouver have been on an upward trend for years, with the exception of a dip beginning in 2008 and again in 2011 (Figure 4). The average Metro Vancouver MLS® price grew at a compound annual rate of 7.9% during the past ten years. The seasonally-adjusted MLS® average price peaked in early 2008, rising 28% from two years prior. The next peaks occurred in mid-2011 and early 2016, with 39% and 43% growth, respectively, from two years prior. The average MLS® price has been trending lower since the beginning of 2016. This trend intensified in August, with the introduction of the Foreign Buyers' Tax. The Metro average price declined 17% in August compared to July, reflecting fewer sales of the highest-priced detached homes and a smaller share of detached house sales relative to condominium apartment sales. In September, average prices regained some lost ground, increasing 7% compared to August.

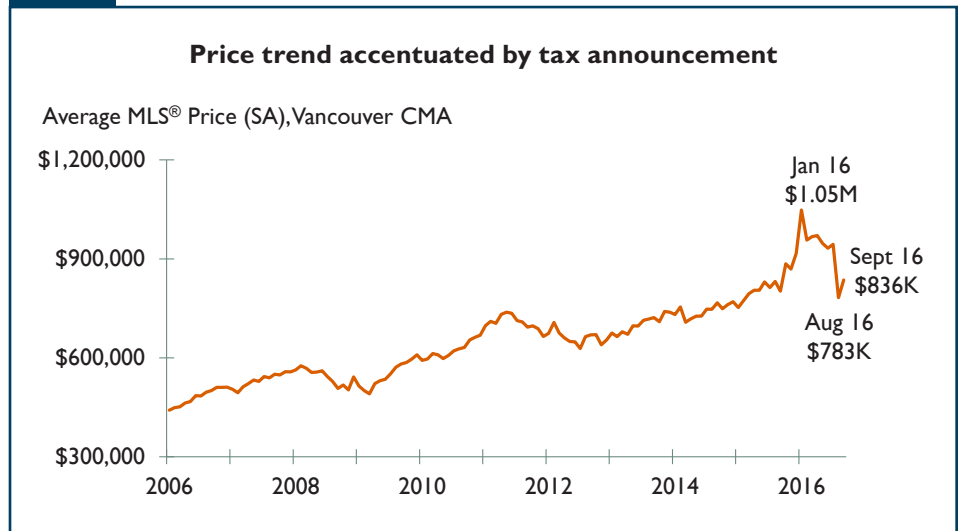
On average, single-detached sales have accounted for approximately 44% of annual sales during the past ten years. During the most recent two mini-cycles, the composition of sales impacted the average price, as the share of single-detached sales increased above the long-term average. More sales of the most expensive detached homes also contributed to price growth and to the spike in the average price in early 2016. Since the spring of this year, these trends have started to reverse, with multi-family home sales accounting for a larger share of total sales and contributing to declining average prices. Detached home sales accounted for more than 45% of total sales during the first three months

Figure 3



Source: REBGV, FVREB, calculations CMHC

Figure 4



Source: REBGV, FVREB, seasonally adjusted by CMHC, Last data point September 2016

of 2016. By August, this figure had moved to 30% and in September, the share rose slightly to 32%. During the same time frame, condo sales rose from just over one-third of sales earlier in the year to nearly 50% of the total in August and September.

The Multiple Listing Service (MLS®) HPI Benchmark price⁵, which is not affected by this compositional

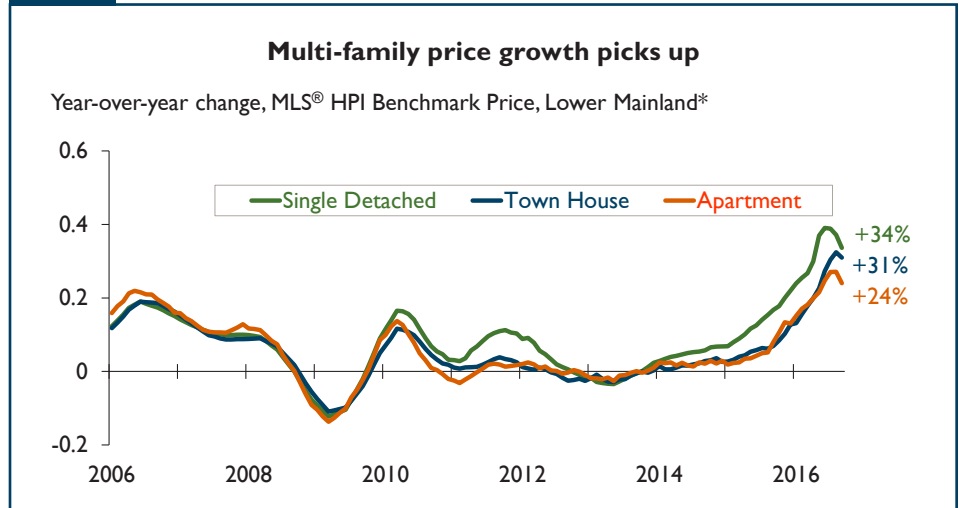
impact, shows single-detached home prices rising steadily since late 2013, with the pace of growth accelerating in 2015. Single-detached homes led this trend. In September 2016, the HPI Benchmark Price for all home types combined remained 30% higher than a year earlier in Metro Vancouver⁶. In mid-2015, following four years of flat multi-family home

prices, Benchmark MLS® apartment price growth began accelerating, and is now approaching the pace of detached price growth, rising above a 20% year-over-year growth rate for the first time since 2006 (Figure 5).

In the areas identified by the BC Government as accounting for the majority of transactions made by foreign nationals in the two months preceding the tax, the August downturn in sales was more pronounced than for the Metro area as a whole. The table below (Figure 6) shows that, with the exception of Surrey, seasonally adjusted sales in these cities declined in August, compared to July. On a year-over-year basis, August sales were down considerably in all of these centres. MLS® HPI Benchmark prices in these centres were relatively flat, posting declines of less than one percent or increases of a similar magnitude, in August compared to July. On a year-over-year basis, prices remained approximately 30% above August 2015. Metro Vancouver shows similar trends.

Analysis of MLS® sales shows that in these municipalities with a high concentration of foreign buyer activity, there were fewer sales of detached homes priced above the MLS® HPI Benchmark price⁷ in August, compared to previous months of 2016 (Figure 7). The exception to this trend was Richmond. August sales of homes priced above the MLS® HPI Benchmark price also comprised a smaller share of the total than in 2015.

Figure 5



Sources: CREA, calculations by CMHC. Last data point: September 2016

* Lower Mainland includes all centres of the Fraser Valley Real Estate Board and the Real Estate Board of Greater Vancouver (Including the Vancouver CMA and the Abbotsford-Mission CMA)

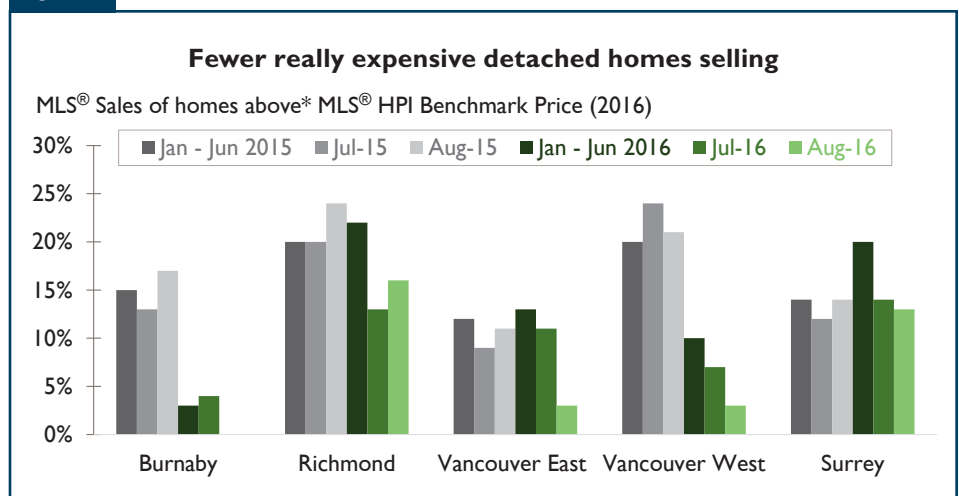
Figure 6

	August MLS® Sales		August MLS® Benchmark Price	
	% Change July – Aug*	% Change YoY	% Change July - Aug	% Change YoY
City of Vancouver	-14%	-36%	-0.1% - -0.3%	30-34%
Richmond	-11%	-29%	0%	33%
Surrey	10%	-46%	1%	39%
Burnaby	-39%	-65%	-0.2% - +1.3%	28%-32%
Vancouver CMA**	-6%	-23%	1%	33%

Sources: REBGV, FVREB, *Seasonally adjusted sales

**Note Vancouver CMA Benchmark Prices include Abbotsford-Mission CMA.

Figure 7

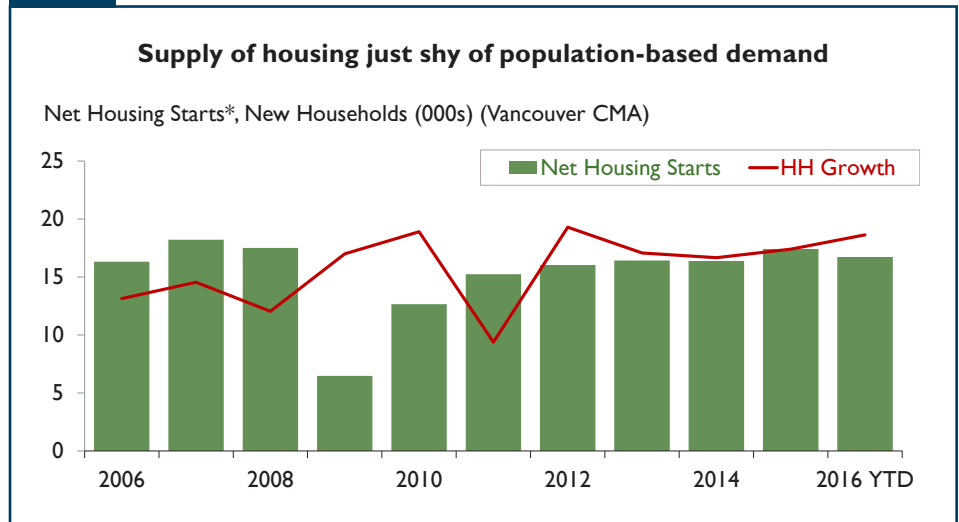


Source: REBGV, FVREB, calculations CMHC, *sales of detached homes priced at least 1.5 times the local Benchmark Price

Forces driving home sales and prices in Metro Vancouver

- Although the extent to which wealthy foreign buyers/capital have impacted home prices is still unclear and contested, this is widely believed to be one factor driving prices.
- High net worth individuals and those with wealth in the form of home equity, built up from years of sustained home price growth, contribute to demand for higher-priced homes.
- Population-based demand is another key factor driving home prices. Since 2005, an estimated 158,000 new households⁸ were added in Metro Vancouver. During the same period, the housing stock grew by an estimated 153,000 units (starts less demolitions) (Figure 8). This imbalance between supply and demand has also contributed to price growth.
- The pace of employment growth in Vancouver has exceeded provincial employment growth in eight of the last ten years, bolstering consumer confidence and adding to housing demand.
- Low mortgage rates have contributed to demand and kept monthly mortgage payments for entry-level homes relatively affordable by partially off-setting the impacts of rising prices.
- A further factor contributing to high prices has been low levels of resale supply listings (Figure 9). Throughout 2016, there had been less than a three-month supply of active listings in the Vancouver CMA.

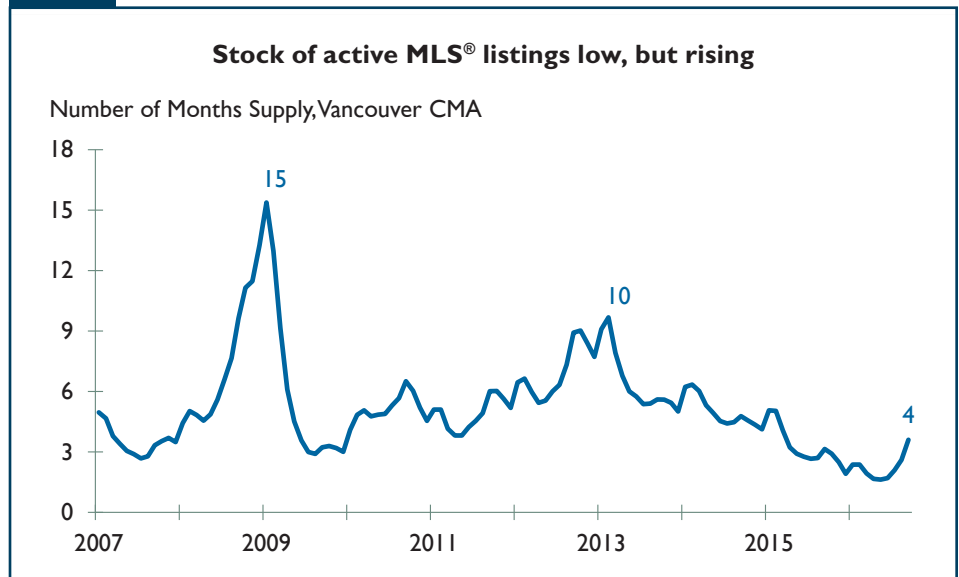
Figure 8



Source: CMHC, Statistics Canada, BC Stats.

Net Housing Starts* = Housing Starts – Demolitions, YTD = Jan - July

Figure 9



Source: REBGV, FVREB, Months Supply calculation CMHC: Months Supply = Active Listings / (3 month average sales). Last data point September 2016. MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

- A limited supply of developable land due to geography and land use regulation (e.g. the Agricultural Land Reserve (ALR)) factor into high land values, and consequently, home prices. Land supply is constrained by the surrounding mountains, ocean and border, with approximately one-quarter of the land area within the ALR and an additional estimated 35 per cent too mountainous for development.
- BC building code changes such as new energy efficiency requirements for houses and small buildings add to building costs, causing upward pressure on new home prices.
- Municipal development approval times, fees and processes vary widely between the 21 municipalities in Metro Vancouver, constraining timely additions to the housing stock, adding to project costs and ultimately, home prices.
- Many municipalities have large areas zoned exclusively for single-detached homes and duplexes, limiting multi-family additions to supply the stock. For example, approximately 80% of the residential land base in the City of Vancouver is zoned single-family or duplex⁹ (housing an estimated 35% of the City's residents¹⁰). Other municipalities within the Metro area report similar shares of land zoned single-family or duplex, ranging from 69% to 92%.
- Some suggest that Metro Vancouver residents view housing as an investment more than Canadians in other urban centres do because home prices have risen more consistently in Vancouver. This may impact home buying behavior and willingness to take on mortgage debt, in effect, concentrating wealth in home equity. Supporting this view is the fact that the S&P/TSX (Cdn) Composite Total Return Index increased at an annual rate of 4.4% during the past ten years, while home prices increased at nearly twice that pace.

ENDNOTES

- ¹ MLS® is a registered trademark of the Canadian Real Estate Association (CREA).
- ² In this report, Metro Vancouver (Metro) refers to the Vancouver CMA and is equivalent to the Greater Vancouver Regional District. The new tax applies to the Vancouver CMA, which includes the Real Estate Board of Greater Vancouver (REBGV) and the following centres from Fraser Valley Real Estate Board (FVREB): North Delta, Surrey, Langley and White Rock.
- ³ According to the BC Government data, just over 70% of all transactions involving foreign nationals in the two months preceding the tax were concentrated in the cities of Vancouver, Richmond, Surrey and Burnaby.
- ⁴ Foreign entities are transferees that are foreign nationals, foreign corporations or taxable trustees. Foreign nationals are transferees who are not Canadian citizens or permanent residents, including stateless persons.
- ⁵ The MLS® HPI is a more stable price indicator than average prices, because it tracks changes of “middle-of-the-range” or “typical” homes and excludes the extreme high-end and low-end properties. A benchmark property is designed to represent a typical residential property in a particular MLS® HPI housing market, such as Richmond or North Vancouver. Benchmark prices are estimates of current prices paid for home features such as bedrooms, bathrooms, fireplaces, etc. that characterize typical homes in that area. Prices for these qualitative and quantitative features are then applied to the typical house model and an index price is estimated. Source: Real Estate Board of Greater Vancouver.
- ⁶ Note that this statistic includes the Abbotsford-Mission CMA (could not be recalculated for the Vancouver CMA without Abbotsford-Mission), whereas other MLS® stats in this report that reference the Vancouver CMA do not include Abbotsford-Mission).
- ⁷ This analysis is based on homes sold that were at least 1.5 times the local MLS® HPI Benchmark price.
- ⁸ BC Statistics, P.E.O.P.L.E. 2016 population and household growth estimates.
- ⁹ <http://www.metrovancouver.org/services/regional-planning/PlanningPublications/KeyFacts-LandusebyMunicipality.pdf>.
- ¹⁰ Vancouver-based data analyst Jens von Bergmann

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