HOUSING MARKET OUTLOOK
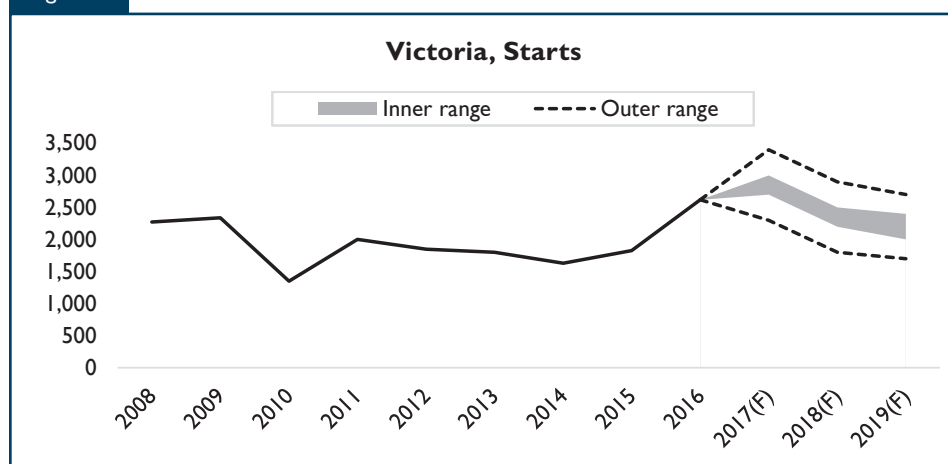## Victoria CMA

C A N A D A   M O R T G A G E   A N D   H O U S I N G   C O R P O R A T I O N

Date Released: Fall 2017

Victoria, Starts

Source: CMHC   (F): Forecast

Figure 2

Victoria, MLS® Sales

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

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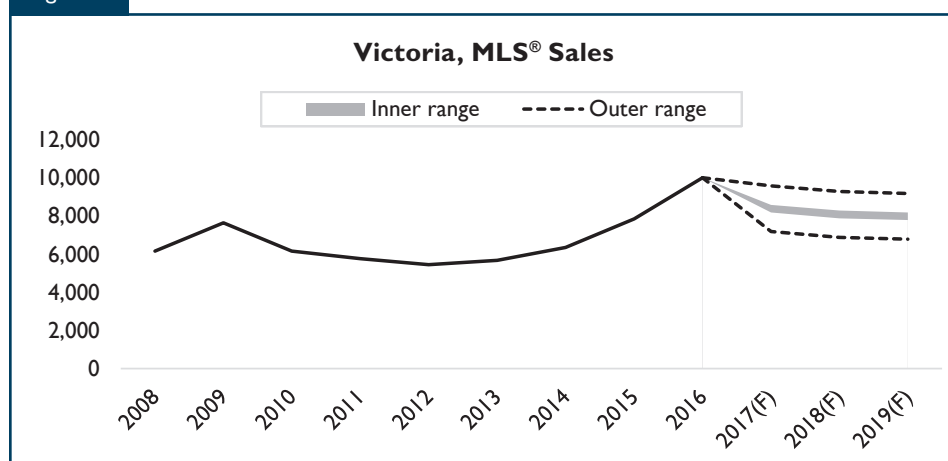
[2] See Housing Market Assessment

Highlights[1]

- New rental construction is expected to slow over the next two years, lowering total starts.

- A decline from the 2016 peak in sales is expected, but demand for housing remains high in Metro Victoria.

- Average house prices are unlikely to decline while housing availability remains low.

- Additional supply in the rental market will increase vacancy rates.

Construction levels expected to ease through 2019

Total housing starts will decline from the peak reached in 2016, but remain elevated over the forecast horizon. Multi-family starts are expected to decline due to a slow-down in rental apartment construction. Single-detached starts will increase in the near term, causing inventory to rise. By 2019, single starts will trend down due to higher inventories. Strong fundamentals and low availability of homes have produced an overheated market with accelerated price growth.[2] Developers have

increased starts in response to these trends. Thus, if the market remains overheated, the upper range of the starts forecast can be expected. Otherwise the forecast is based on expectations of improvement in market balance.

Completions have yet to fully reflect the increased level of construction activity, and the inventory of complete-and-unsold homes is historically low. The number of units entering the market will be heightened going forward, and it is uncertain if completions are above or below what is required to bring the market back into balance. To a large degree, market supply level also depends on the rate of new listings in the existing home market. Additionally, rental starts pose an upside risk to the forecast as the rate of rental starts has been well above the average for the past few decades. At this point, rental construction is expected to ease over the next two years, but a more persistent shift towards higher rental housing starts would increase the forecast.

Elevated sales require more supply to ease price growth

A decline in sales from the peak in 2016 will characterize 2017 and 2018, while a return to long-term growth is expected by 2019. Both migration and job growth are expected to remain strong through to 2019, and sales are forecast to reflect that strength. However, overheating and overvaluation in the housing market pose challenges for the outlook[3]. Accelerating house prices pose a risk to the sales forecast as reduced affordability of homes could work against strong fundamentals, pushing sales lower. Further, the low

| Figure 3 |
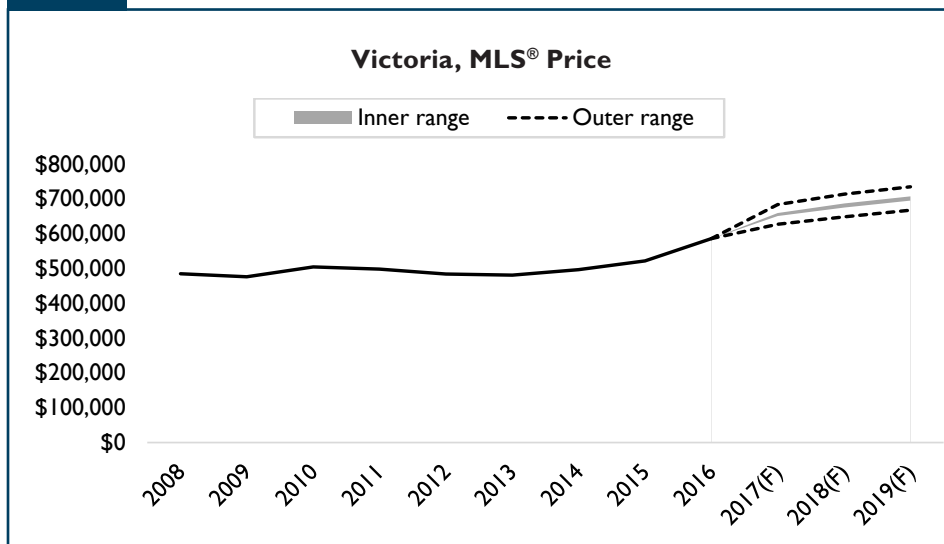
Victoria, MLS® Price

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

availability of housing may limit sales growth while generating upward pressure on the average price of a home.

Average house prices are unlikely to see much downward pressure while housing availability remains low. Thus, the average house price will show strong growth through the end of 2017. For 2018 and beyond, the market is expected to move towards balanced conditions, reducing upward pressure on house prices. Since sales will likely remain elevated, improving balance in the market will depend on an increase in supply either from new listings or completions of new housing. If the housing market does not move towards balance, then price growth will trend towards the higher end of the forecast range. Also, densification may limit upward movement in the average house price if apartments continue to take an increasing share of overall home sales.

New supply expected to lift vacancy rates

Strong demand for rental will persist over the forecast horizon, based on demographic and economic trends. In addition, accelerating house prices have made the transition from renter to first-time homebuyer more difficult for some households, which adds more pressure to the rental market as fewer move to become homeowners. On the other hand, the purpose-built rental market in Metro Victoria will undergo significant expansion over the forecast horizon, placing upward pressure on vacancy rates. There are currently in excess of 1,000 rental apartment units under construction. Without a significant removal of current rental units from the market, the purpose-built rental universe will

[3] See Housing Market Assessment

expand by more than 5% over the next two years. The 2017 vacancy rate will not be significantly affected by the coming expansion staying at 0.5%, but for 2018 and 2019 the vacancy rate forecast is a lift to 1% and 1.5%, respectively, based on the addition of new units. Average one- and two-bedroom apartment rents will face upward pressure from strong demand and low vacancy rates. They will also reflect the fact that new units with higher rents will contribute to an increase in the average rent going forward.

Strong fundamentals support housing demand

Demand-side fundamentals are strong in Metro Victoria. The creation of new jobs and an increase in migration have both contributed to housing demand in the capital region. However, both factors are expected to moderate in the future. Employment growth will be heightened in the short-term, with notable contributions in public administration expected[4]. Overall, however, employment is expected to grow at a slower pace[5]. As a result, in-migration of working-aged adults is expected to slow from a 2016 peak. A key risk to the forecast is the migration rate of seniors to the Victoria. Since the end of 2015, there has been a clear increase in the rate of seniors migrating to the region, which has contributed to housing market demand. Similarly, a risk to the employment forecast could also come from older workers. As they exit jobs via retirement, demand for skilled labour will increase.

Figure 4

Victoria, Employment (000s)

Source: Statistics Canada   (F): Forecast

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.

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[4] The provincial budget indicates an increase in FTEs in the 2017/2018 fiscal year.
    http://bcbudget.gov.bc.ca/2017_Sept_Update/bfp/2017_Sept_Update_Budget_and_Fiscal_Plan.pdf, page 29.
[5] See the BC regional outlook for additional information on GDP growth and provincial trends.

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.

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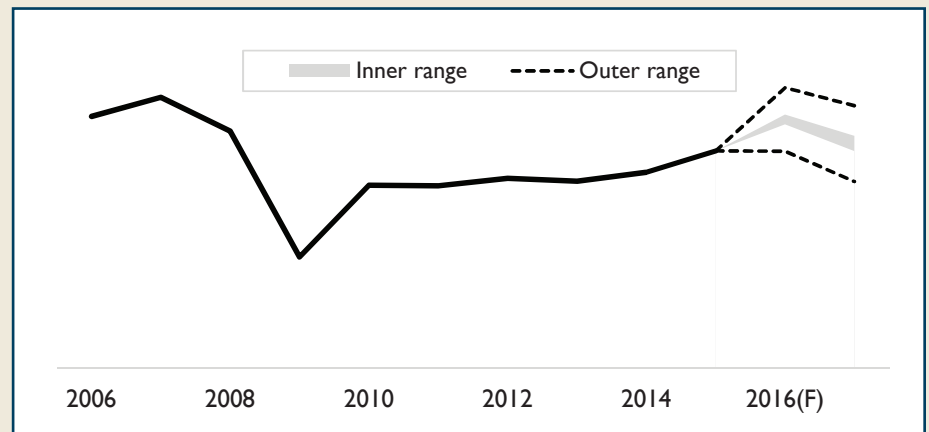
* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Forecast Summary Victoria CMA Fall 2017									
	2014	2015	2016	2017(F)		2018(F)		2019(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	551	687	910	830	910	780	860	770	850
Multiples	764	1,321	2,023	1,870	2,090	1,420	1,640	1,230	1,550
Starts - Total	1,315	2,008	2,933	2,700	3,000	2,200	2,500	2,000	2,400
Resale Market									
MLS® Sales	6,371	7,868	10,028	8,200	8,600	7,900	8,300	7,800	8,200
MLS® Average Price($)	496,473	521,616	585,745	650,600	659,400	675,100	686,900	694,900	707,100
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 (%)	1.5	0.6	0.5	0.5	1.0	1.5
Two-bedroom Average Rent (October)($)	1,095	1,128	1,188	1,260	1,310	1,340
One-bedroom Average Rent (October)($)	849	867	912	970	1,010	1,040
Economic Overview						
Population	362,179	366,505	370,899	374,400	377,800	381,200
Annual Employment Level	174,900	178,100	184,300	192,700	195,200	196,500

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

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. (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).

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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