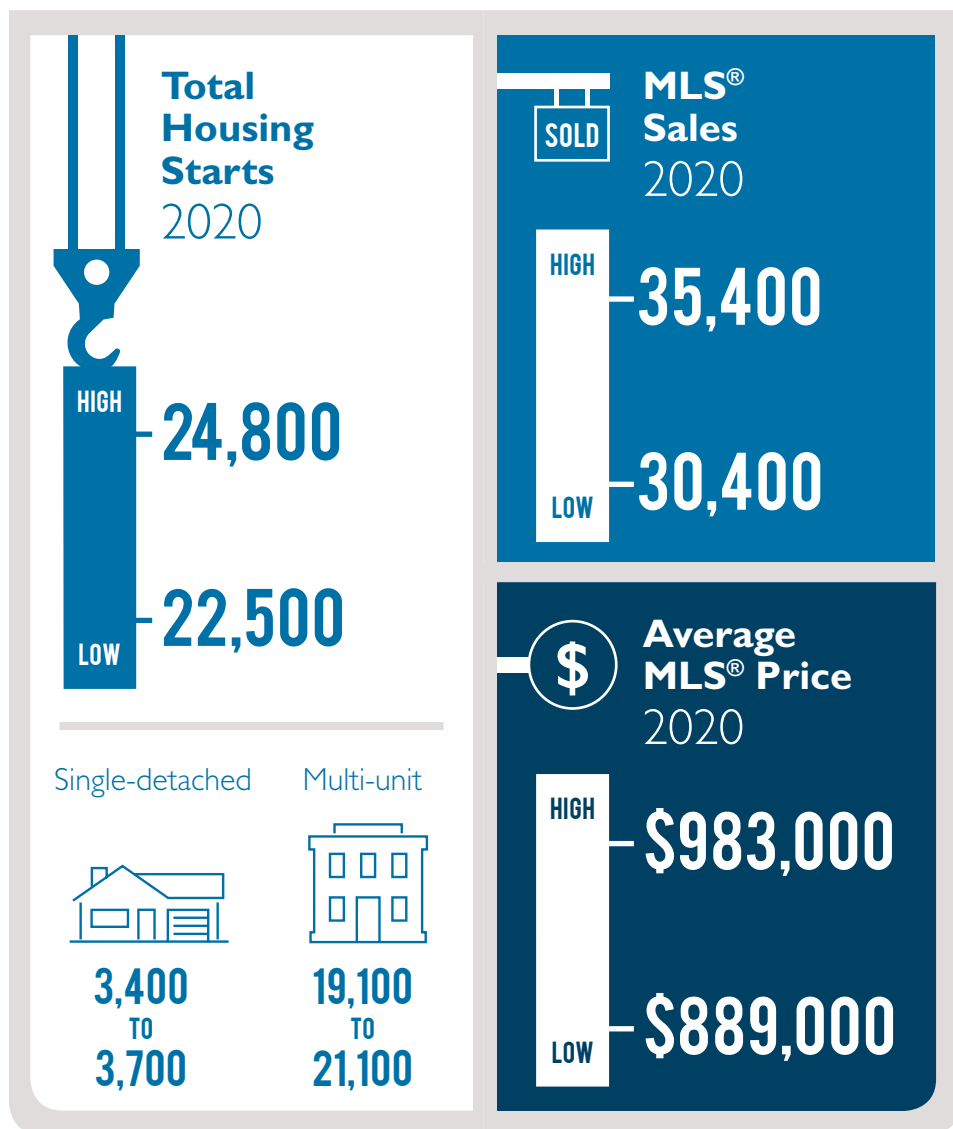


HOUSING MARKET OUTLOOK

Vancouver CMA



CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2019¹

Balanced market conditions to prevail from 2019 to 2021.

“Over the next two years, resales and average home prices are expected to increase modestly in line with the region’s growing population. As densification continues and affordability challenges remain, multi-family units will account for the vast majority of new home construction.”

Eric Bond

Senior Specialist, Market Analysis (Vancouver)

¹ The forecasts and historical data included in this document reflect information available as of September 12, 2019.

Highlights

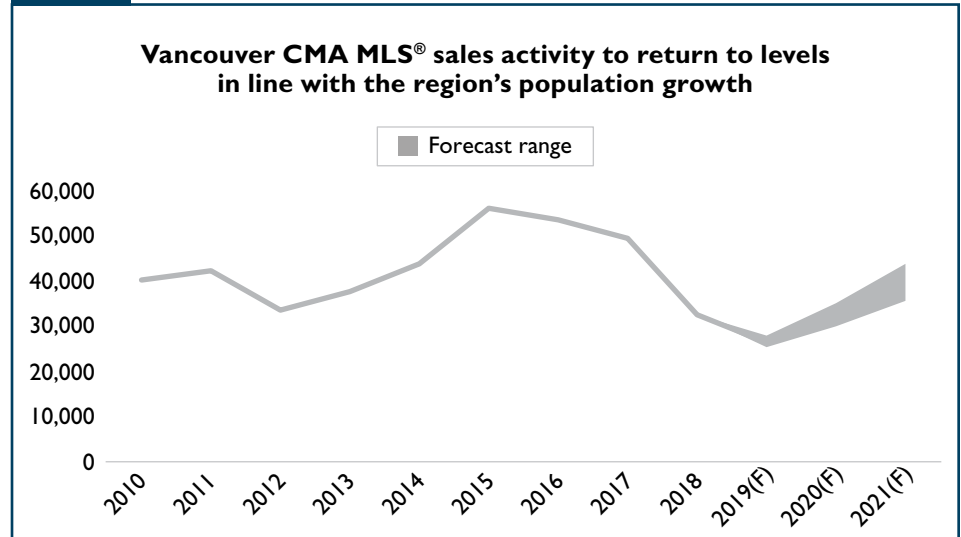
- Over the next two years, the resale home market will be characterized by higher sales and modest increases in home prices as activity returns to levels in line with population growth.
- With a record number of units currently under construction, housing starts are expected to normalize over the next two years as the industry continues to operate at full capacity. Multi-family construction will account for the vast majority of new units as densification continues.
- Rental demand is expected to remain high throughout the forecast period, resulting in continued low vacancy rates and rising rents across the region.

Resale market activity to return towards levels in line with growing population

Over the next two years, the resale home market of the Vancouver Census Metropolitan Area (CMA)² will be characterized by higher sales and modest increases in home prices as activity returns to levels in line with the size and growth of the region's population (Figures 1 and 2). While inventories of homes for sale are expected to decline slightly as sales increase, a growing number of newly constructed homes coming onto the resale market will help keep market conditions balanced overall through the end of the forecast horizon.

Following the trough in the latter half of 2018 and first half of 2019, the market has more recently started

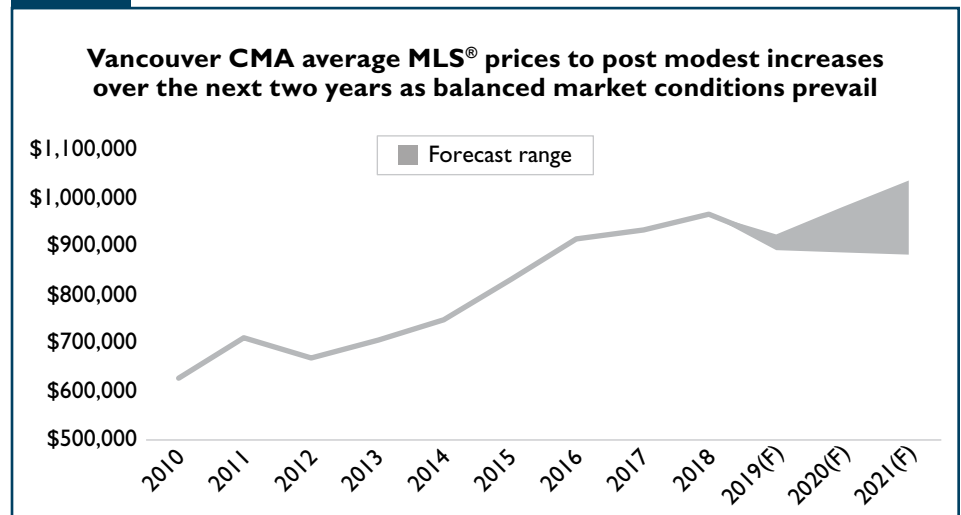
Figure 1



Source: REBGV and FVREB

(F): Forecast by CMHC

Figure 2



Source: REBGV and FVREB

(F): Forecast by CMHC

to find its footing, aided in part by continued population growth and lower home prices compared with the same period a year ago. Market participants have adapted their home price growth expectations in light of rising mortgage rates and policy changes from all levels of government

since the market highs of 2015-2017, contributing to the normalization of market activity. Mortgage qualification rules will limit the borrowing capacity of some home buyers (Figure 3), which will in turn limit price growth; however, in light of recent financial market conditions, the availability

² The resale market outlook covers the entire Vancouver CMA, which is a combination of submarkets from both the Real Estate Board of Greater Vancouver (REBGV) and the Fraser Valley Real Estate Board (FVREB).

of greater discounts on mortgage interest rates will help mortgage holders realize lower carrying costs, lending some additional support to the housing market.

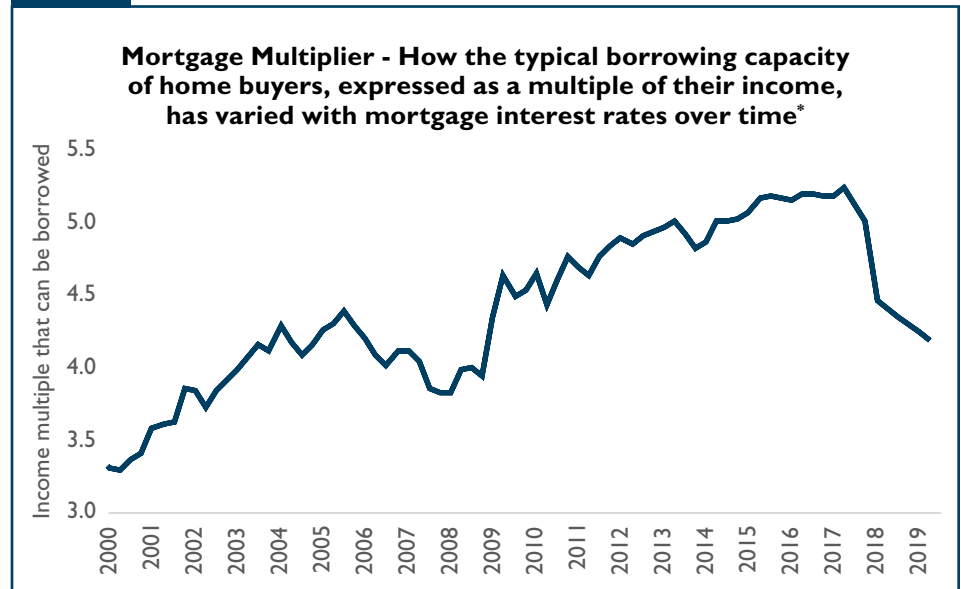
In terms of market segments, attached homes and condominium apartments with prices less than \$700,000 are expected to see the strongest demand, as homes in this price range can be accessible to buyers making a purchase based on their income compared with properties requiring substantial equity for a downpayment. Meanwhile, conditions in the single-detached market are expected to remain soft, particularly in the higher end segment of the market, where property prices are largely equity-driven.³

While the imbalances in the Vancouver CMA housing market are unwinding, there is uncertainty in the outlook in terms of financing costs and potential demand shocks. If interest rates were to move upwards more quickly than forecast, resale market activity would be expected to trend towards the lower end of the forecast range. Conversely, if mortgage financing requirements were to ease or if there were to be a demand shock (such as an increase in international migration), then sales and prices would trend towards the upper end of the forecast range.

New home construction to stabilize following record construction

With resale market home prices stabilizing and a record number of new units currently under construction across the region, housing starts over the next two years are expected to maintain a level of activity above the 10-year average (Figure 4). Following

Figure 3



Source: Statistics Canada and CMHC (calculations)

*Borrowing capacity influences the housing market through changing the amount that home buyers have the ability to pay when shopping for a home. The chart visualizes the sensitivity of borrowing capacity to changes in mortgage interest rates. It depicts the size of the mortgage loan, expressed as a multiple of household income, that home buyers could typically borrow when purchasing a home at different points in time. For example, a value of 4 means that a household with a combined income of \$100,000 per year would have access to a \$400,000 mortgage loan. The calculation of typical borrowing capacity assumes a 32% Gross Debt Service ratio (GDS) and a 25-year amortization for the loan. The borrowing capacity has varied over time based on mortgage interest rates and the regulatory environment. This visualization reflects the impact of changes in mortgage interest rates as well as the OSFI mortgage stress test implemented in January 2018.

record starts over the past three years, completions of new units are expected to continue running slightly ahead of household formation into 2021, necessitating a moderation in new construction as projected inventories of unsold units begin to rise.

Multi-family homes, which have accounted for 88% of units started in the first eight months of 2019, are expected to represent an increasingly elevated share of new construction as densification in the region continues. The limited availability of developable land implies that construction of new freehold single-detached units

is in long-term decline, with most starts in this category limited to infill development.

With the resale market moving from buyers' to balanced conditions, new condominium apartment developments are expected to see greater pre-sale activity compared with the longer sales periods of recent quarters, which will encourage additional new development; however, pricing will increasingly be a point of differentiation as consumers have more options in a rising inventory environment. From a tenure perspective, new rental apartments will maintain their existing share of the construction

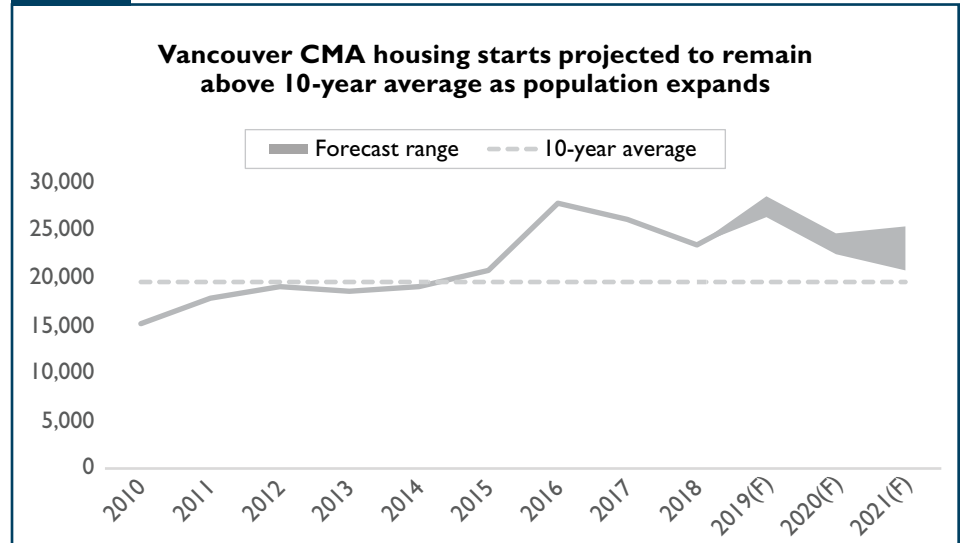
³ According to the 2016 Canadian Census results for the Vancouver CMA, 50% of home buyers of properties valued \$2.5 million or more reported a household income of less than \$75,000, including 20% of the total who reported an income of less than \$25,000. This suggests that existing wealth plays an important part in the purchase of these homes, as the incomes reported would not be able to support mortgage financing of properties in this price range.

mix due to continued tight rental market conditions and development incentives from different levels of government.

With the record number of units under construction, the availability and costs⁴ of materials and labour in the region could restrain the viability of some new developments. Given that there are a number of large infrastructure projects planned and underway in the region, these constraints are expected to remain in the medium term even with stabilizing residential construction.

Local economic conditions are expected to be supportive of the new home market through the forecast horizon. Employment growth, while expected to slow over the coming years, will remain a key driver of housing demand as the regional economy expands. The unemployment rate, at 4.6% in August 2019,⁵ is among the lowest of large Canadian metropolitan centres, and the region is forecast to remain close to full employment. Meanwhile, the job vacancy rate for the Lower Mainland, at 4.8% in Q2 2019,⁶ is the highest among major economic regions in Canada, suggesting employers may need to increase wages in order to attract and retain employees. Full employment and rising wages will both contribute to household finances and consumer confidence, which in turn support major purchases such as housing.

Figure 4



Source: CMHC
(F): Forecast

Rental market demand to remain high

Rental demand is expected to remain high throughout the forecast period, resulting in continued low vacancy rates and rising rents across the region. Demand will be underpinned by positive net migration and sustained challenges with ownership housing affordability for many households despite lower home prices.

According to CMHC's *Starts and Completions Survey*, there were 6,822 purpose-built rental apartments under construction in the Vancouver CMA at the end of August 2019, equal to 6.2% of the

current rental universe. As these units complete over the next two years, the vacancy rate is expected to rise slightly; however, it will remain low in absolute terms, reflecting the strong demand for rental housing in the region.

With the rental market expected to remain tight across the region, average rents will continue increasing faster than inflation.⁷ The increasing share of new, typically more expensive,⁸ rental units in the market as well as rents for existing units rising to market levels with the turnover of long-term tenants will also contribute to higher average rent levels.

⁴ According to Statistics Canada's *Building construction price index* (Table 18-10-0135-01), the cost of constructing a residential high-rise apartment building in the Vancouver CMA increased 5.1% between Q2 2018 and Q2 2019 and 22.6% between Q2 2016 and Q2 2019.

⁵ Source: Statistics Canada, Table 14-10-0095-01.

⁶ Source: Statistics Canada, Table 14-10-0325-01.

⁷ The observed pace of market rent increase is also expected to be greater than the provincially-allowable annual increase for existing tenants set by the BC Residential Tenancy Branch (e.g., 2.5% in 2019).

⁸ According to CMHC's 2018 Rental Market Survey, average rents for occupied apartments (all bedroom types) completed between July 2016 and June 2018 were 39% higher than those for occupied apartments of all ages.

To access regional and CMA housing market outlook reports, click on the following link: <https://www.cmhc-schl.gc.ca/en/data-and-research/publications-and-reports/housing-market-outlook-highlights>

Forecast Summary Vancouver CMA Fall 2019									
	2016	2017	2018	2019(F)		2020(F)		2021(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	5,169	4,911	4,592	3,100	3,300	3,400	3,700	3,100	3,800
Multiples	22,745	21,293	18,812	23,300	25,200	19,100	21,100	17,700	21,600
Starts - Total	27,914	26,204	23,404	26,400	28,500	22,500	24,800	20,800	25,400
Resale Market									
MLS® Sales	53,961	50,033	33,057	25,500	28,100	30,400	35,400	36,200	44,300
MLS® Average Price(\$)	917,162	934,977	966,866	892,000	928,000	889,000	983,000	883,000	1,036,000
Economic Overview									
Mortgage Rate(5 year)(%)	4.66	4.78	5.27	5.00	5.60	5.40	6.20	5.50	6.50

	2016	2017	2018	2019(F)	2020(F)	2021(F)
Rental Market						
October Vacancy Rate (%)	0.7	0.9	1.0	1.1	1.2	1.2
Two-bedroom Average Rent (October)(\$)	1,450	1,552	1,649	1,715	1,795	1,885
One-bedroom Average Rent (October)(\$)	1,159	1,223	1,307	1,370	1,440	1,520
Economic Overview						
Population	2,582,146	2,610,605	2,650,005	2,684,855	2,721,080	2,758,391
Annual Employment Level	1,359,200	1,400,900	1,425,700	1,454,000	1,476,000	1,491,000

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

This table presents resale data and forecasts for the entire Vancouver CMA which is a combination of submarkets from both the Real Estate Board of Greater Vancouver (REBGV) and the Fraser Valley Real Estate Board (FVREB).

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 12th September 2019. (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 - Market Absorption Survey - Rental Market Survey). Statistics Canada. CREA(MLS®). CMHC Forecast (2019-2021).

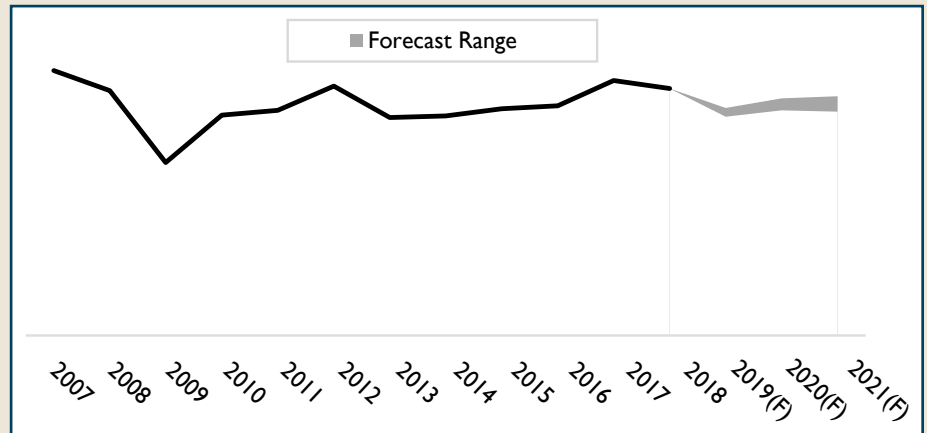
Methodology for forecast ranges

This edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. However, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available.

The range provides a relatively precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. The range is based on the coefficient of variation* of historical data and on past

forecast accuracy. It provides precision and direction for forecasts of housing variables,

given a specific set of assumptions for the market conditions and underlying economic fundamentals.



* 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.

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.

Dwelling Types

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.

Intended Market

Freehold Start:

Refers to the commencement of construction of a residence where the owner owns the dwelling and lot outright.

Condominium (including Strata-Titled) Start:

Refers to the commencement of construction of an individual dwelling which is privately owned, but where the building and/or the land are collectively owned by all dwelling unit owners. A condominium is a form of ownership rather than a type of house.

Rental Start:

Refers to the commencement of construction of a dwelling constructed for rental purposes regardless of who finances the structure.

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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- Housing Market Outlook, Highlight Reports – Northern Housing
- Housing Market Outlook, Canada and Major Centres
- Preliminary Housing Starts Data
- Rental Market Reports, Canada and Provincial Highlights
- Rental Market Reports, Major Centres
- Seniors' Housing Reports
- Mortgage and Consumer Credit Trends Report

DATA TABLES AVAILABLE ONLINE

- Funding and Securitization Data
- Household Characteristics
- Housing Market Data
- Housing Market Indicators
- Mortgage and Debt Data
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