

What's next for the real estate market?

Macdonald Realty Conference

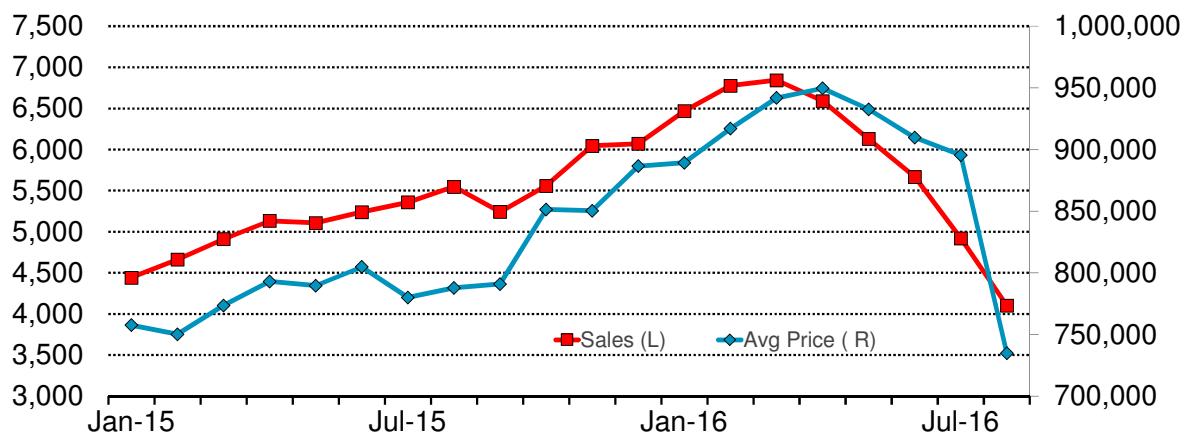
September 26 2016

Bryan Yu
Senior Economist
Central 1 Credit Union



Lower Mainland MLS® housing market activity

MLS® Activity, Metro Vancouver and Abbotsford-Mission

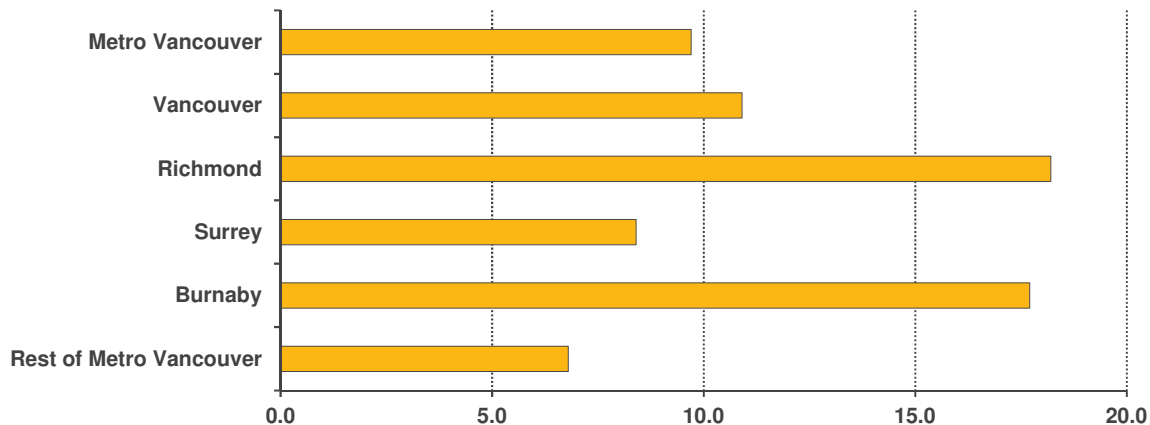


Source: CREA Central 1 Credit Union.

Note: seasonally-adjusted, *REBGV and FVREB, Latest Aug 2016

High? Foreign buying triggers tax announcement

Foreign Share of Unit Sales %, Jun 10/16 – Jul 14/16 (Pre-announcement of tax)



Source: BC Ministry of Finance, Central 1 Credit Union

 Central 1 Economics

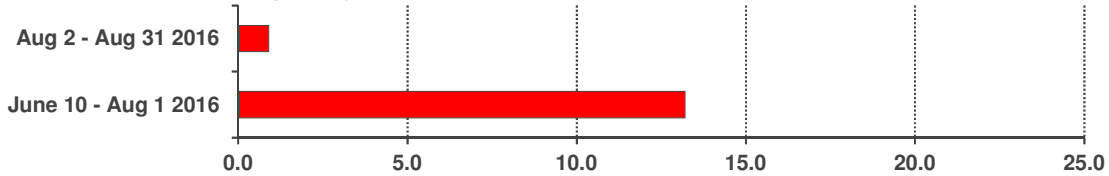
B.C. foreign buyer tax among world's highest, but more flexible

- Singapore – 15% (2011 increase) + holding period tax if flipped < 4 years
- Hong Kong – 15% levy (2010) + holding period tax if flipped < 3 years
- Australia – FIRB restrictions to foreign ownership since 1976, structured to allow new home investment. Tightened in Dec 2015 with greater enforcement and fee framework up to 0.5%. Provinces have recently implemented PTT framework of varying amounts
- British Columbia - 15% + Domestic PTT framework

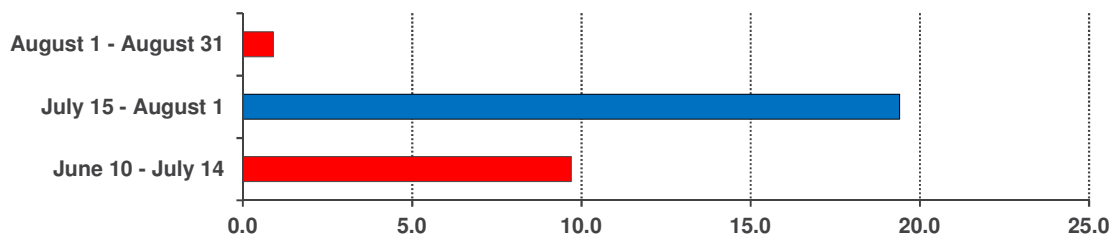
 Central 1 Economics

Foreign Purchasing Activity

Metro Vancouver Foreign Buyers



Metro Vancouver Foreign Buyers

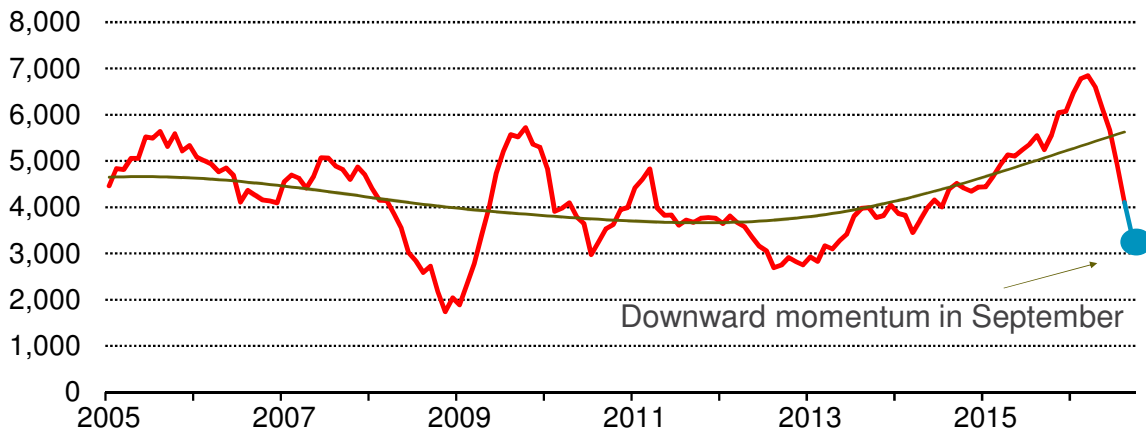


Source: BC Ministry of Finance, Central 1 Credit Union

Central 1 Economics

Trend analysis points to overheated demand early in the year, but confidence shock freezing up the market

MLS® Units Sales, Metro Vancouver and Abbotsford-Mission



Source: CREA Central 1 Credit Union. Note: seasonally-adjusted, *REBGV and FVREB, Latest Aug 2016, Sep 16 projection

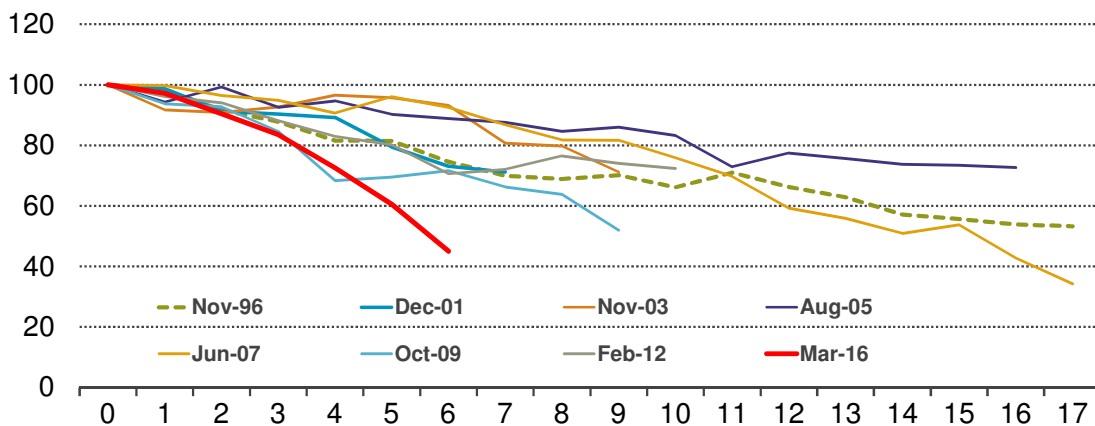
Central 1 Economics

A lot has happened in the market

- Market overheated in early-2016
- Low Canadian Dollar Drove Increased Foreign Purchases
- 3% PTT on \$2 million homes
- Foreign Buyer Tax of 15% without grandfathering
- Proposed vacancy tax (Vancouver)

Sharp sales declines isn't uncommon

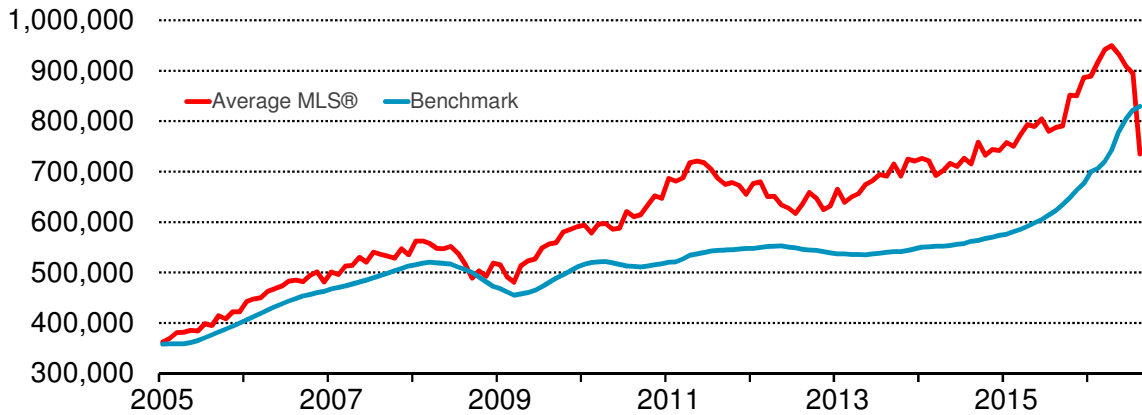
Historical Sales declines from peak (Peak = 100)



Source: CREA, Central 1 Credit Union. Note: Seasonally-adjusted note: Sep/16 projection

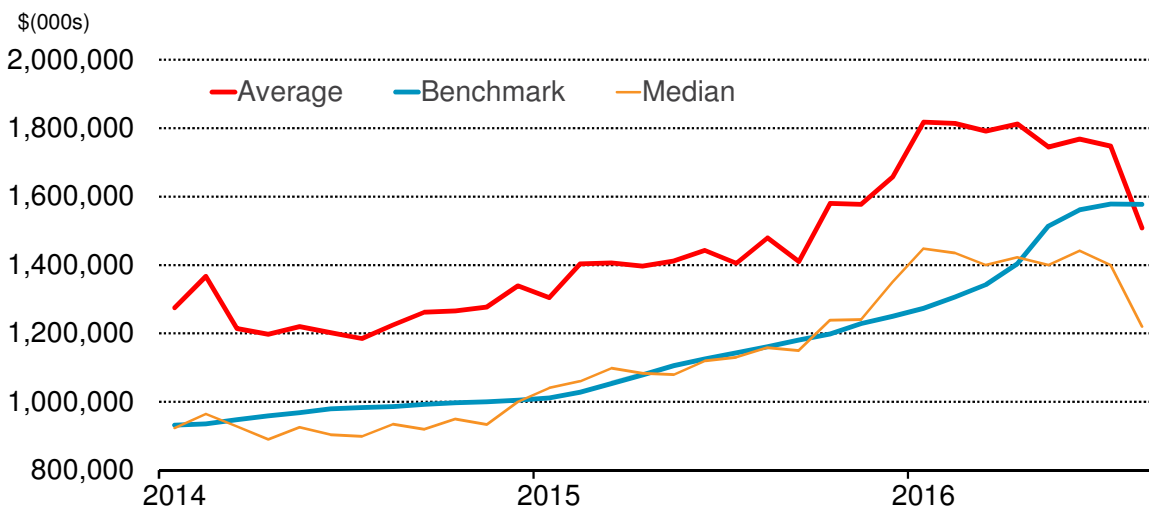
20 per cent price drop a compositional effect, fewer Vancouver City sales and luxury home sales (the 5 %)

Lower Mainland MLS® Price Metrics \$(000s)



 Central 1 Economics

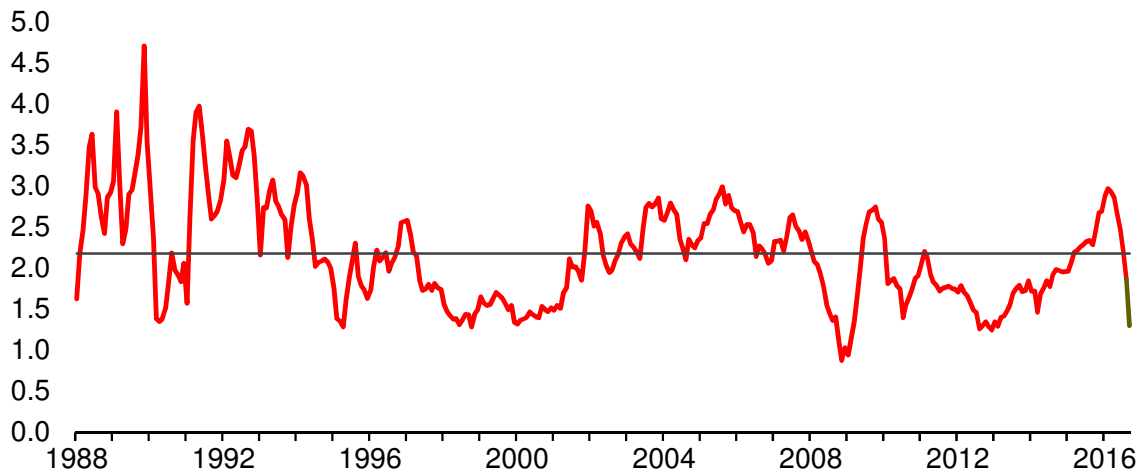
Detached REBGV Home Prices



 Central 1 Economics

Sales per capita fall below long-term trend, marks an overshoot of sales and will rebound to 5k/mth

MLS® Sales per 1,000 working age individuals (Vancouver CMA and Abbotsford-Mission)



Source: REBGV, FVREB, Central 1 Credit Union. Note: Seasonally-adjusted

Latest: Aug 2016, Sept Projection

 Central 1 Economics

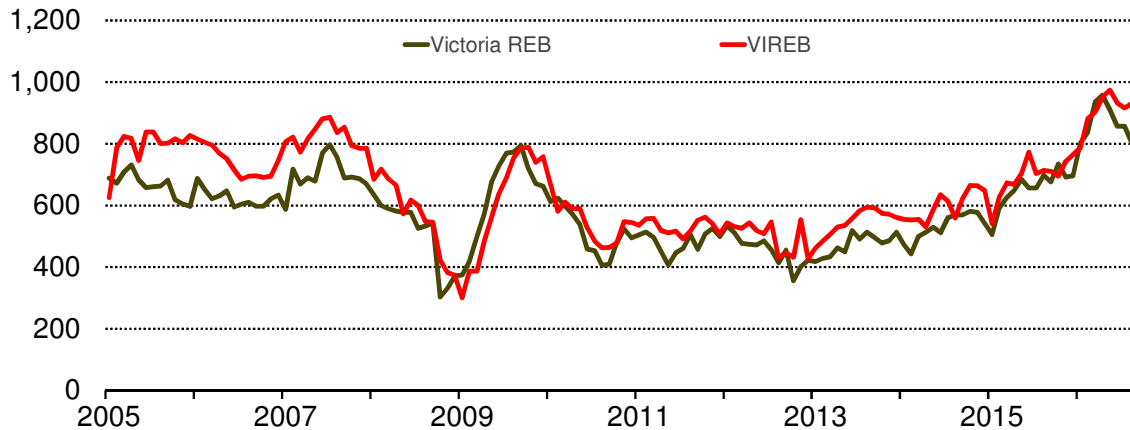
Foreign Buyer Tax impact on sales mostly temporary

- Cut in direct purchases by foreign buyers, especially for detached and luxury property
- Massive uncertainty due to implementation of tax with no grandfathering of deals will pass
- Speculators to go elsewhere, i.e. Toronto, Seattle
- Foreign demand dependent on reason for purchase
- Activity to rebound as market shakes off uncertainty

 Central 1 Economics

Housing sales exceed mid-2000 highs, strong

Residential resale transactions (units)

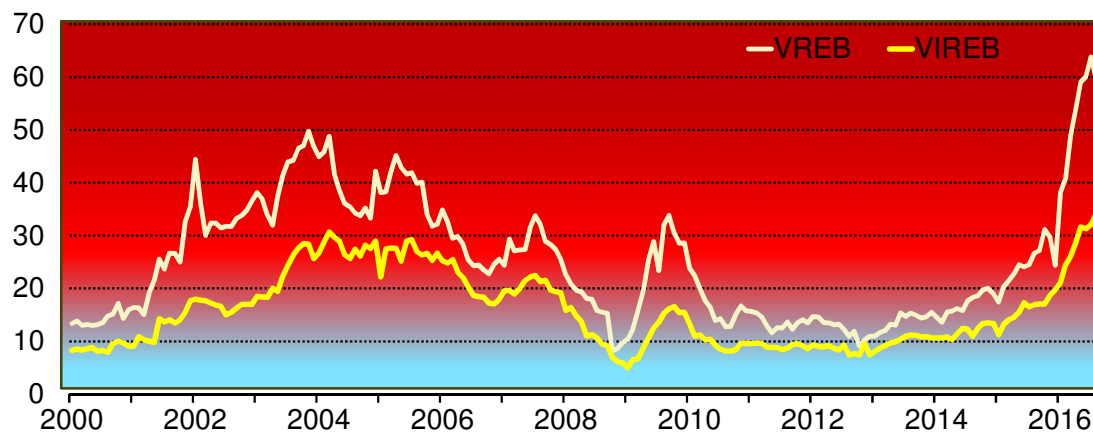


Source: CREA

Central 1 Economics

Housing market sizzling exception tight in early 2016

MLS® Sales to Active Listings Ratio

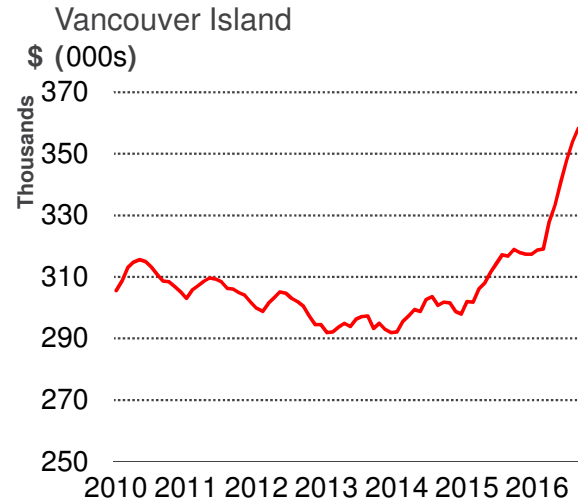
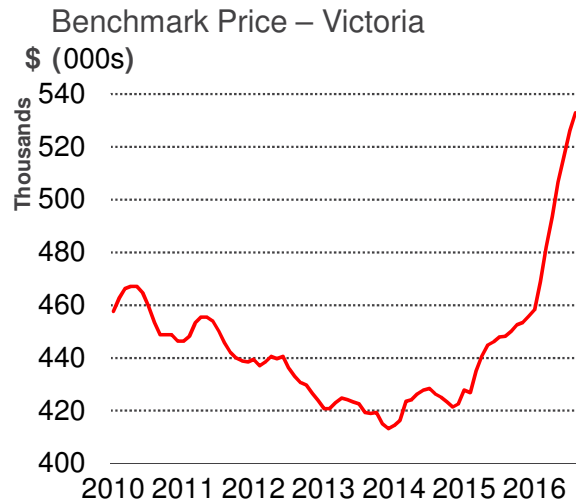


Source: CREA, Central 1 Credit Union. Note: Seasonally-adjusted

Latest: May 2016

Central 1 Economics

Home values rocketed higher in 2015, hockey-stick trend



Source: CREA. Central 1 Credit Union.

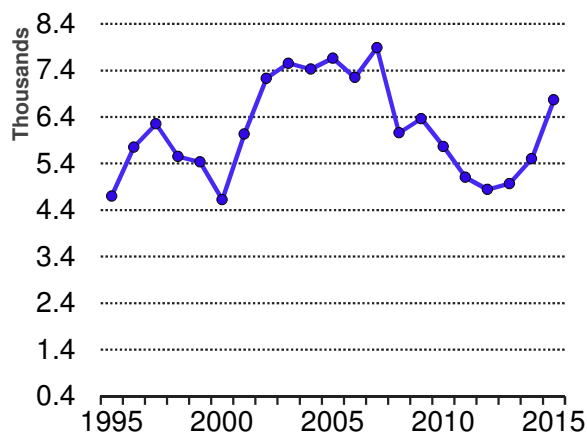
Latest: Aug/16

Central 1 Economics

Capital area home sales jump, prices on the rise

Residential Sales

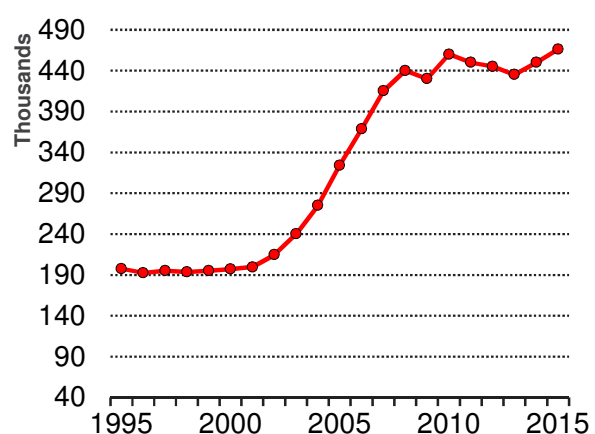
Units - thousands



Source: Landcor Data Corp. Note: Arms-length transactions.

Median Sale Price

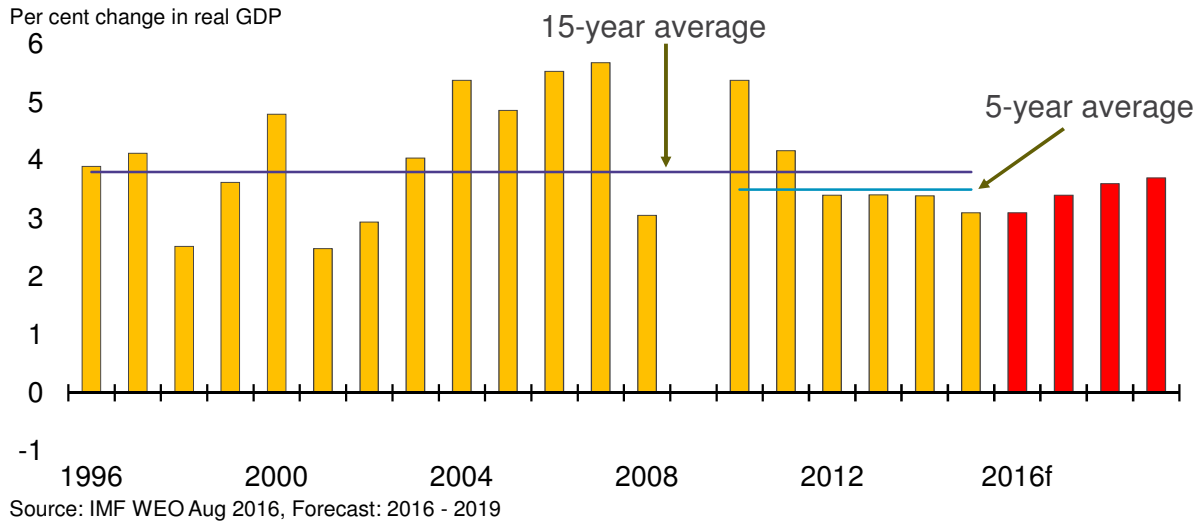
Dollars - thousands



Central 1 Economics

Global growth slowing, rebound expected to form 2017

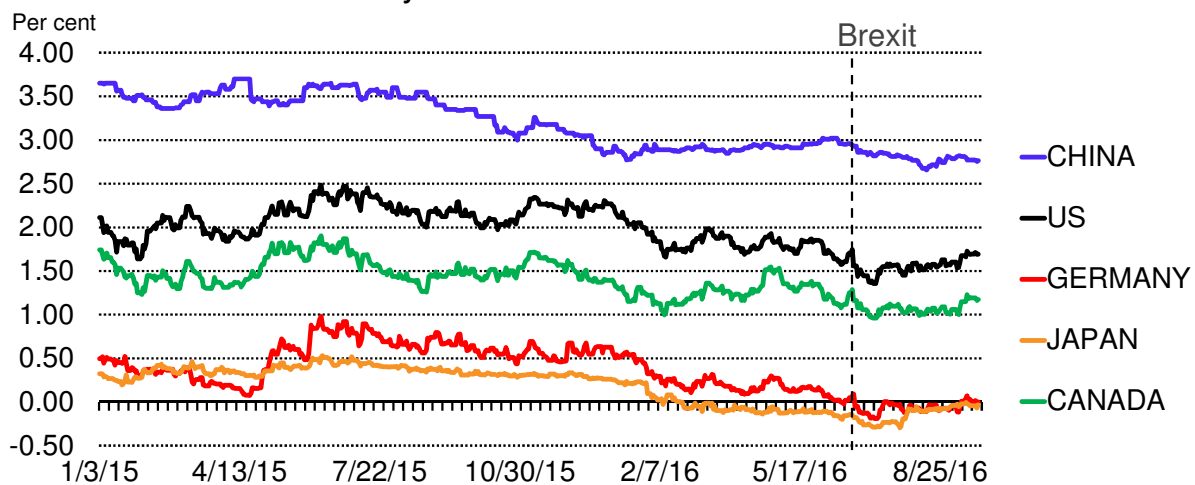
Global Economic Outlook: IMF



Central1 Economics

Long-yields remain low, down since Brexit

Selected Government 10-year Bond Yields



Source: Bloomberg. Note: Daily.

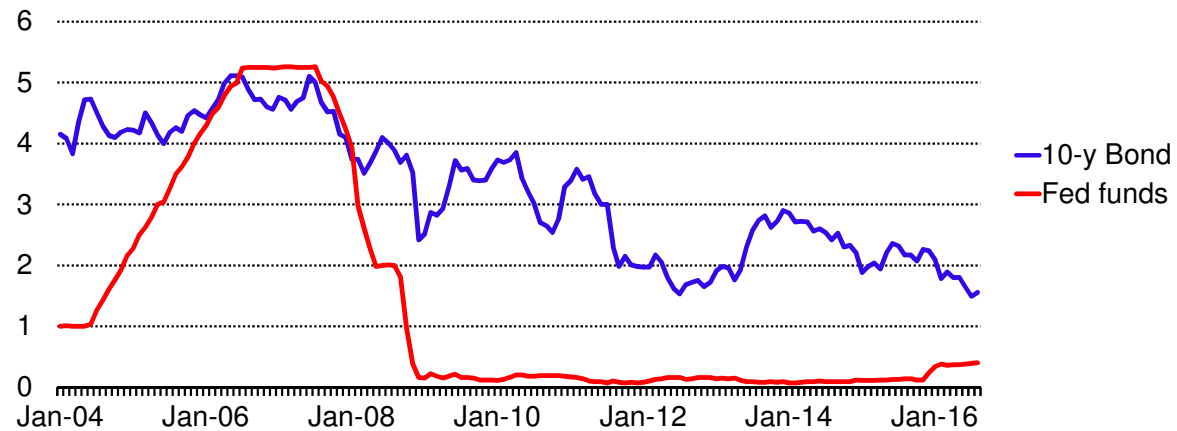
Latest: 09/21/16

Central1 Economics

Conditions are ripening for U.S. rate hike – but when?

Interest Rates: U.S.

Per cent



Source: U.S. Federal Reserve. Note: Monthly averages.

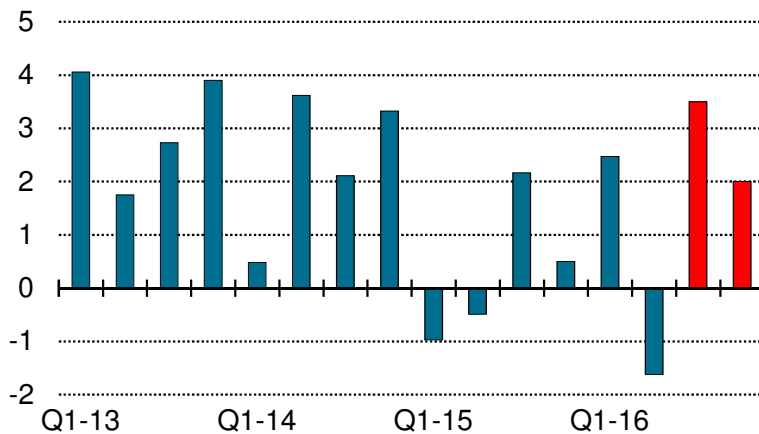
Latest: Aug-16

Central 1 Economics

Canada Q2 growth slumps on wildfires, oil investment

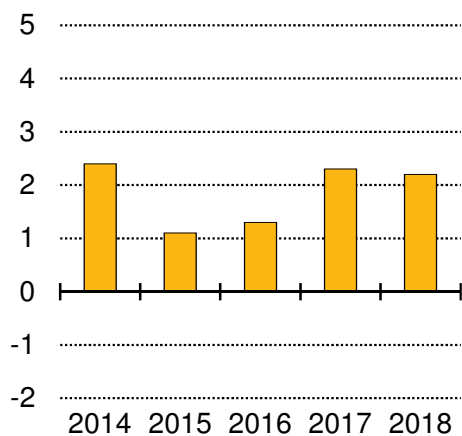
GDP Growth Forecast: Canada

Per cent change at annual rate



Source: Statistics Canada, Central 1 Credit Union Latest actual: Q2-2016.

Annual Per cent change

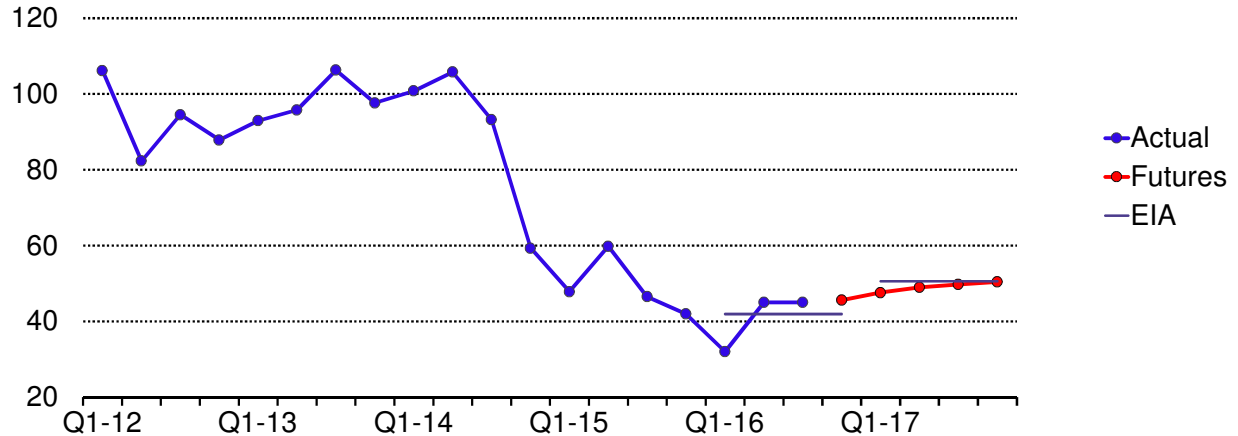


Central 1 Economics

Mild uplift in oil prices is forecast

WTI Oil Price: Actual, Futures, Forecast

US\$ per barrel



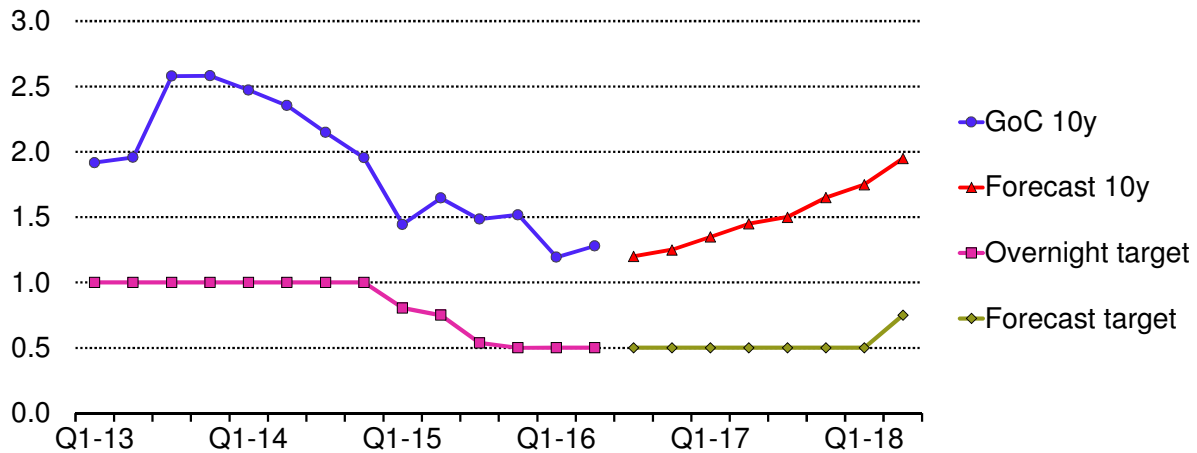
Source: U.S. EIA, NYMEX. Futures as of May 20 2016.

Central 1 Economics

No Bank of Canada rate change through 2017

Interest Rate Forecast: Canada

Per cent

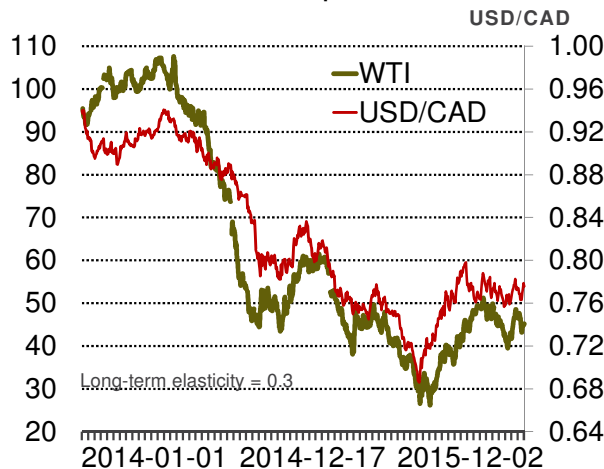


Source: Bank of Canada, Central 1 Credit Union. Latest actual: Q3-2015. Forecast: Q2-16 to Q4-17

Central 1 Economics

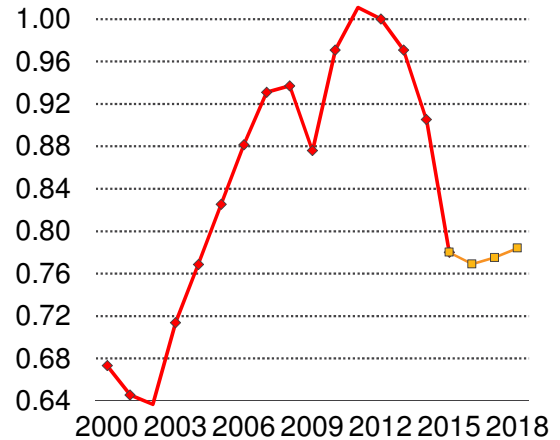
Canadian dollar range-bound, temporary weakness when U.S. hikes rate

Oil/CAD Relationship



Source: EIA, Central 1 Credit Union.

Exchange Rate Outlook



Latest: 09/07/2016

Central 1 Economics

Modest improvement in 2016

Economic Forecasts: Canada

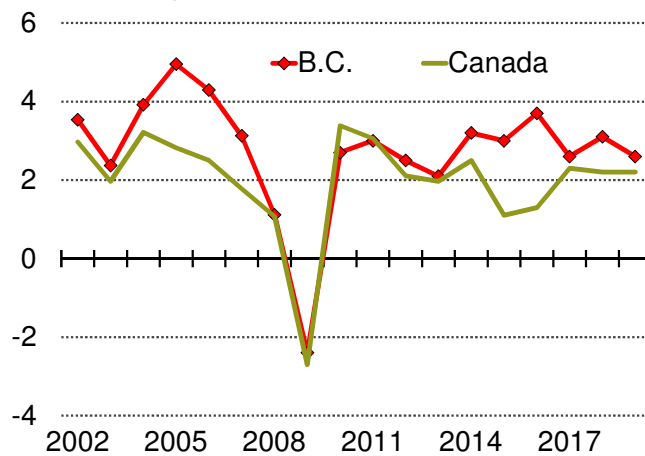
Indicator	2014	2015	2016	2017	2018
Real GDP, % change	2.5	1.1	1.3	2.3	2.2
Unemployment rate, %	6.9	6.9	6.9	6.8	6.6
3-mo. T-bill rate, %	0.91	0.53	0.50	0.50	0.65
Long GoC bond, %	2.77	2.02	1.65	1.75	1.90
U.S.- Canada FX, cents	90.5	78.2	76.9	77.5	78.4

Source: Statistics Canada, CREA, Central 1 Credit Union. Note: Annual averages.

Central 1 Economics

B.C. economy to outpace national growth

Real GDP
Per cent change

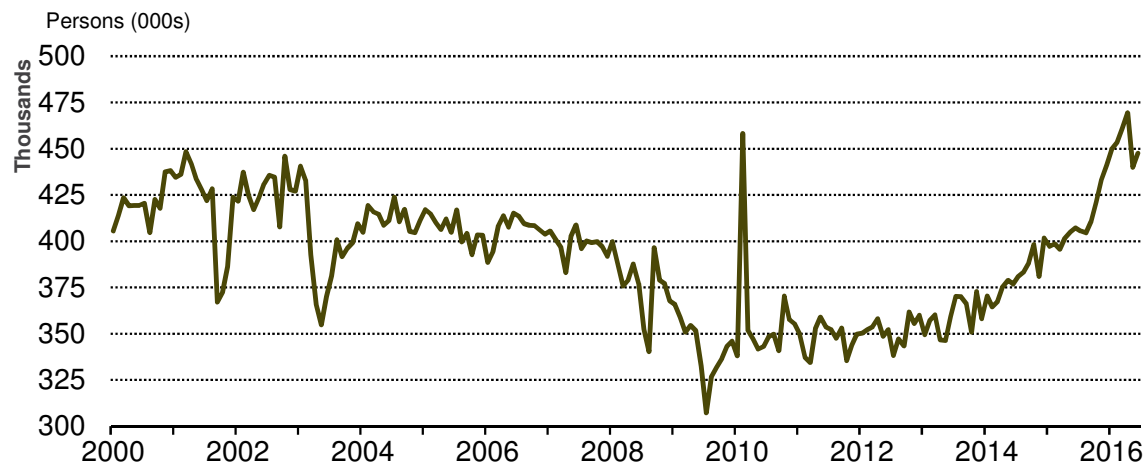


Source: Statistics Canada, Central 1 Credit Union. Forecast: 2016-19

- Energy prices, interest rates buoy consumer activity, housing
- Export lifted by U.S. growth cycle, low Canadian dollar. Tourism, TV/film to shift higher, manufacturing improves with lag
- Weaker Canadian growth drag on domestic exports
- Commodity sector a drag on economy
- 3.5% employment growth in 2016

 Central 1 Economics

Tourist visits to B.C. ramps to highest level since early 2000s



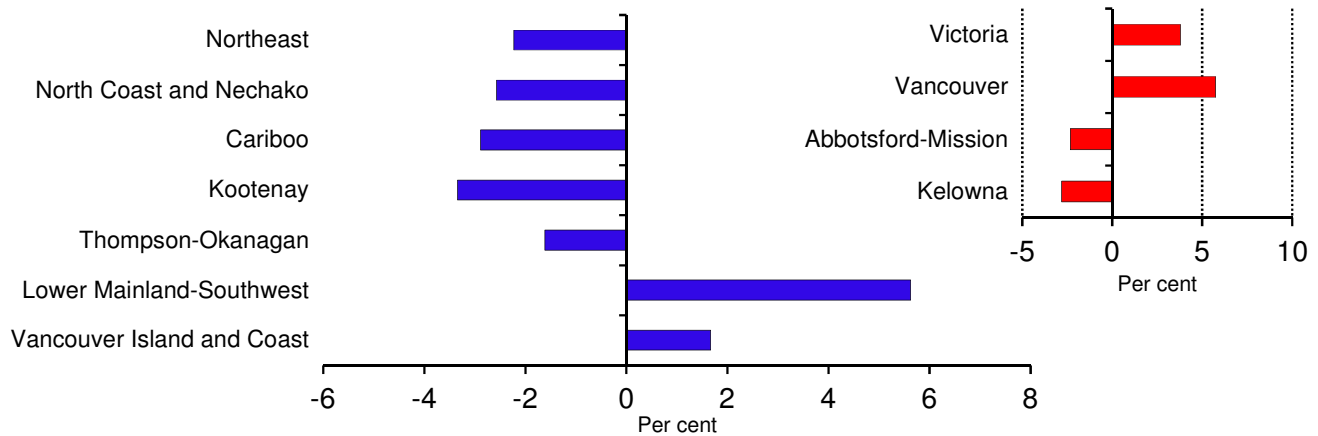
Source: Statistics Canada, Central 1 Credit Union. Note: Seasonally-adjusted

Latest: June 2016

 Central 1 Economics

South Coast labour markets high performers

LFS Employment Growth, Year-to-date average (July)



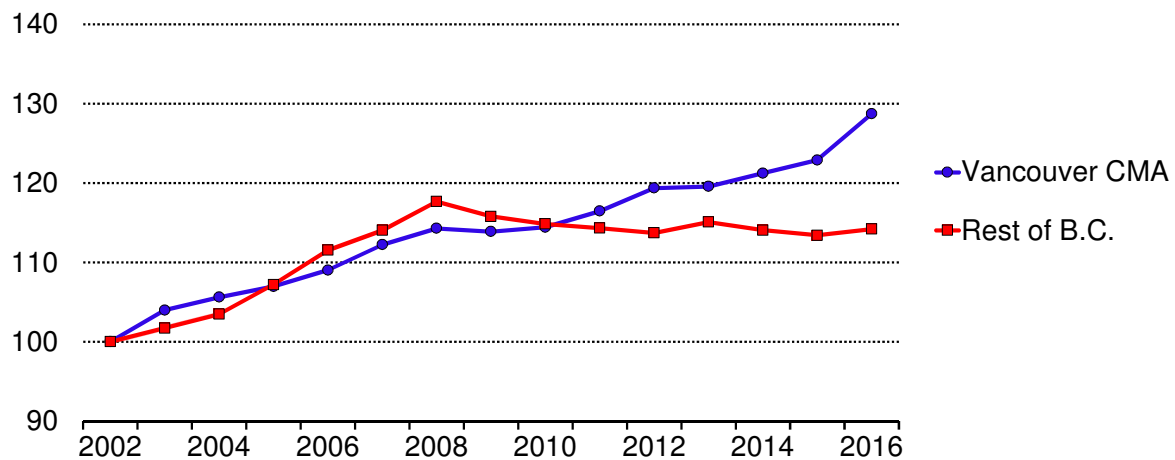
Source: Statistics Canada, Central 1 Credit Union.

Central 1 Economics

Metro Vancouver growing; rest of B.C. languishes

Employment Trends Vancouver CMA and Rest of B.C.

2001=100



Source: Statistics Canada, Central 1 Credit Union. Latest: 12-mth averages ending Aug. 2016.

Central 1 Economics

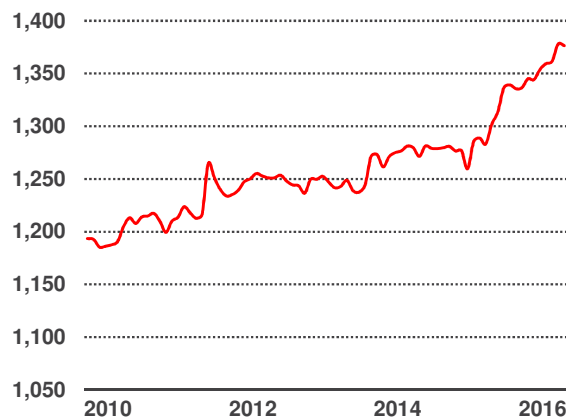
Macro drivers still supporting housing in both region

Vancouver

- Expect housing activity to rebound after soft 3-6 month lull after tax introduction
- Few signs of near-term jump in mortgage rates
- Metro Vancouver is the jewel of Canada's economy right now, expected to outperform peers
- Population growth steady

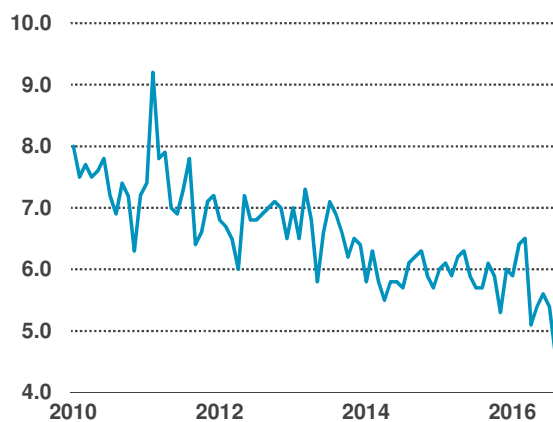
Metro Vancouver hiring is surging, jobless rate plunges

Employment
Persons (000s)



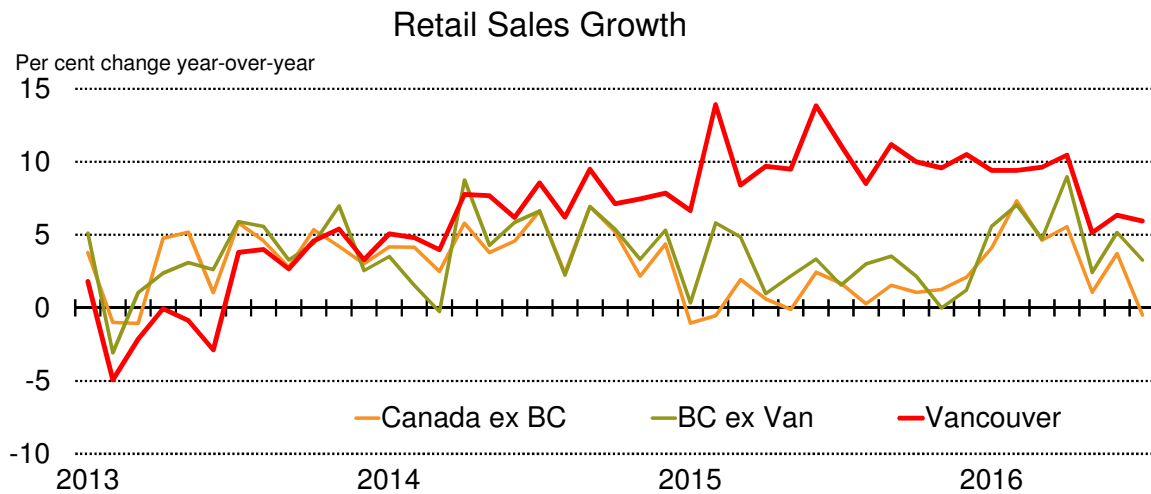
Source: Statistics Canada. Central 1 Credit Union.

Unemployment Rate
Per Cent



Latest: Aug /2016

Vancouver retail sales outpaces broad economy



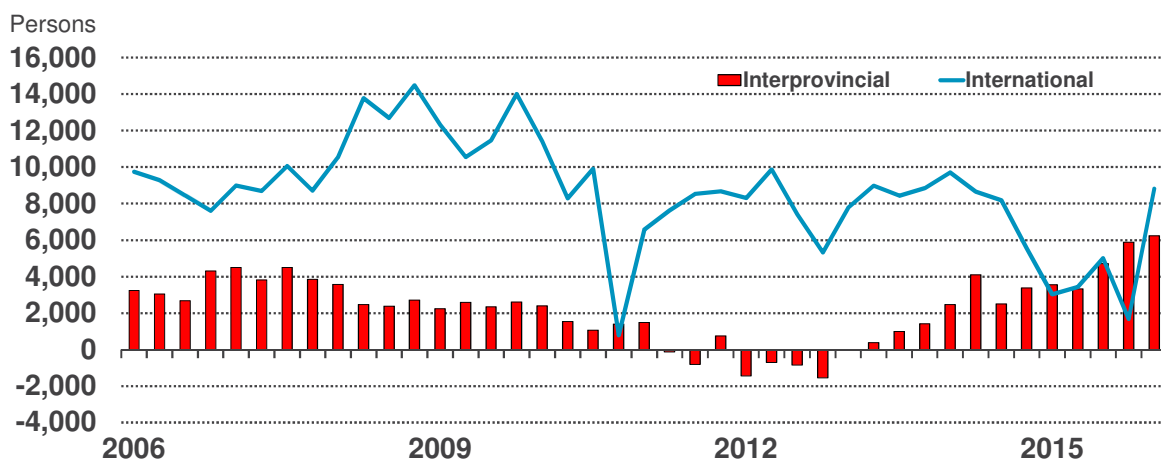
Source: Statistics Canada, Central 1 Credit Union.

Latest: June 2016

Central 1 Economics

Economy driving uplift in entrants from other provinces

Net Migration to B.C. by Source



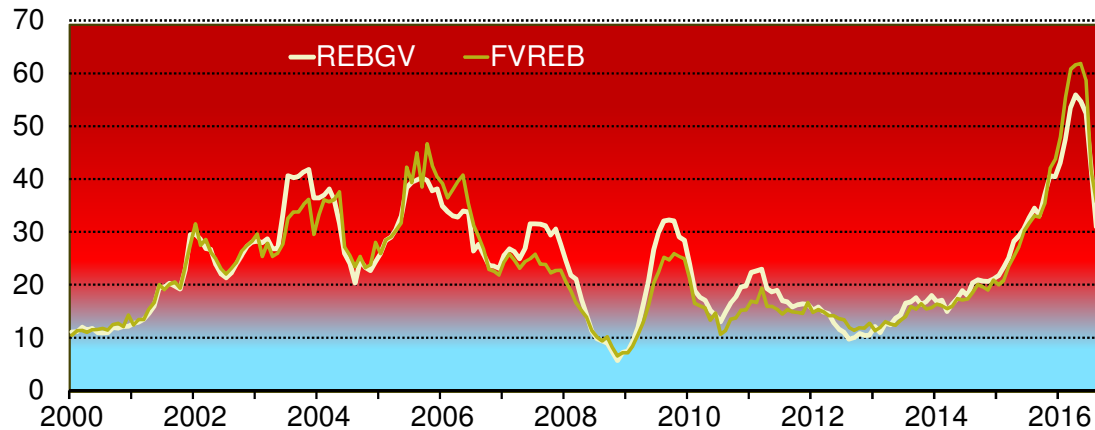
Source: Statistics Canada, Central 1 Credit Union. Note: Seasonally-adjusted

Latest: Q1 2015

Central 1 Economics

Market conditions cool with tax but still balanced

MLS® Sales to Active Listings Ratio

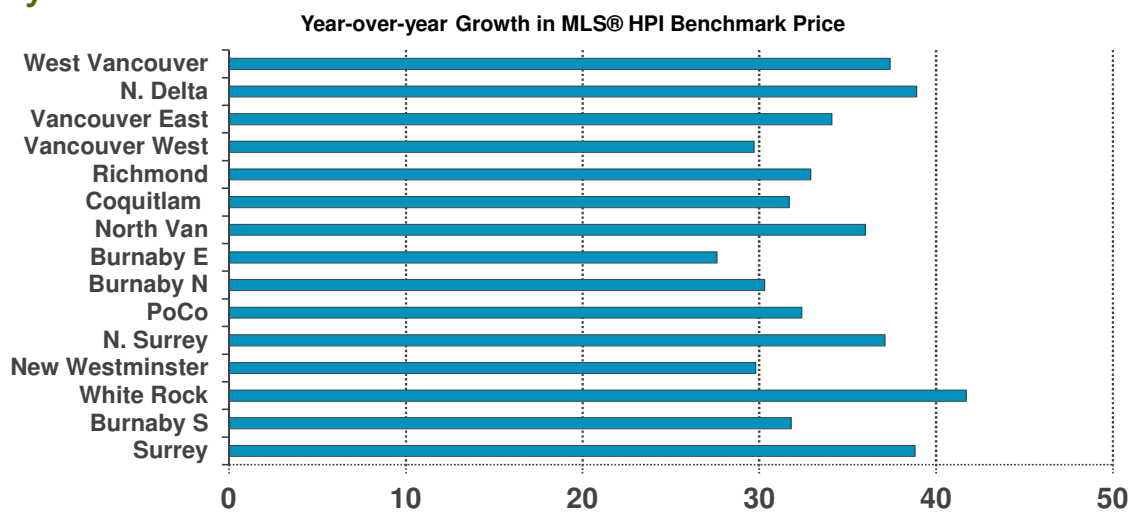


Source: CREA, Central 1 Credit Union. Note: Seasonally-adjusted

Latest: Aug 2016

Central 1 Economics

Huge price gains across Metro Vancouver, price deceleration healthy

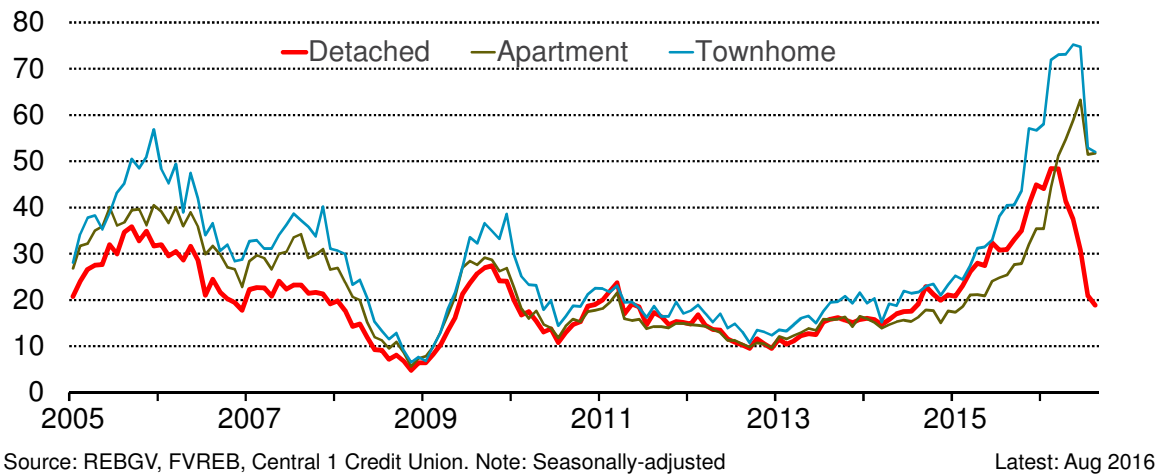


Source: REBGV, FVREB, Central 1 Credit Union August 16/August 15

Central 1 Economics

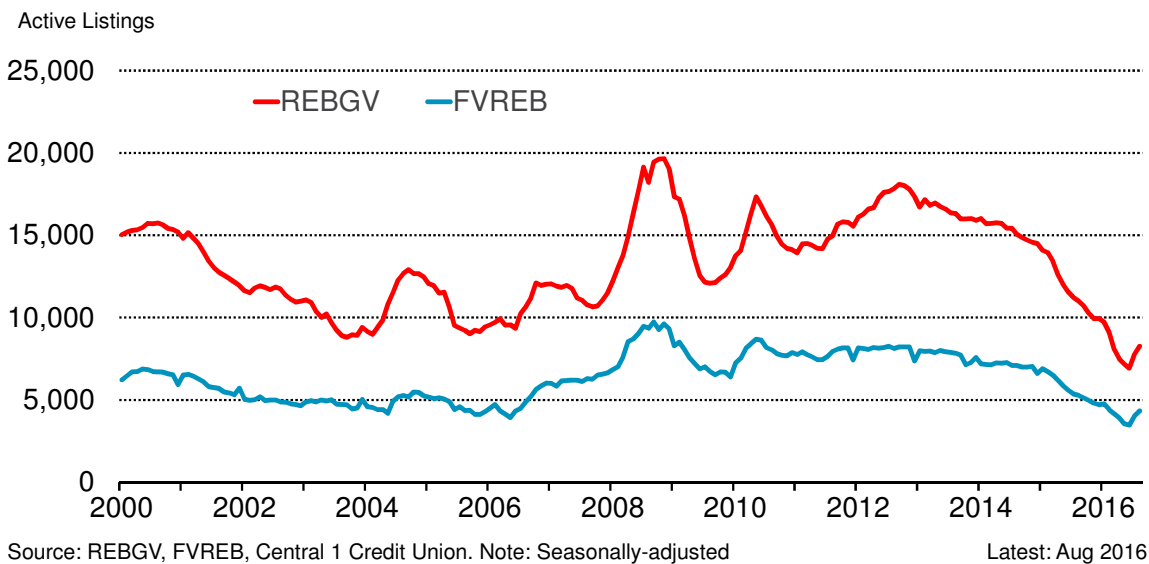
Market cools in detached segment, multis still strong

Lower-Mainland MLS® Sales to Active Listings Ratio



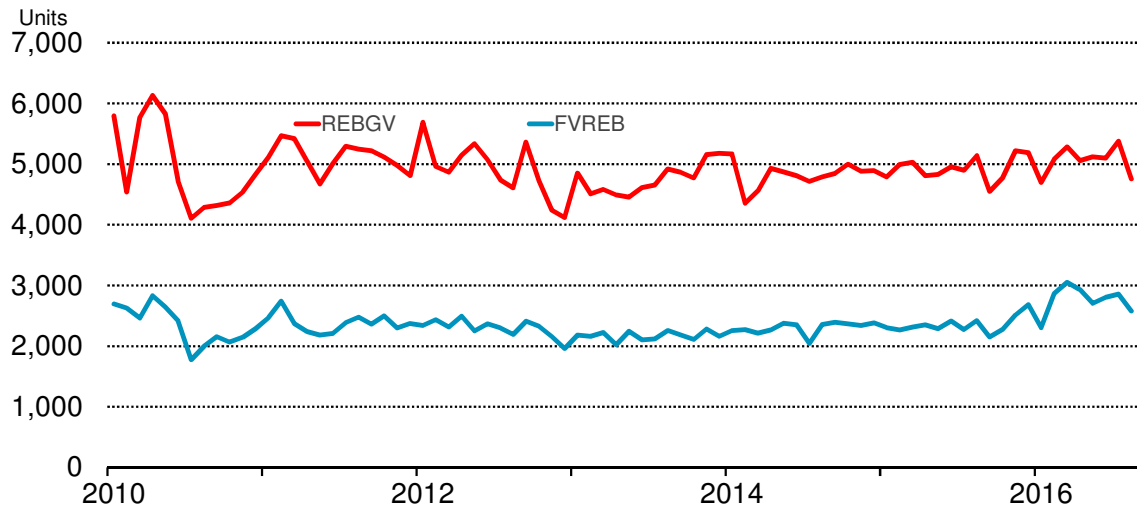
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Resale inventory climbs, but historically low



Central 1 Economics

Owners not in a “need to sell” situation given economy

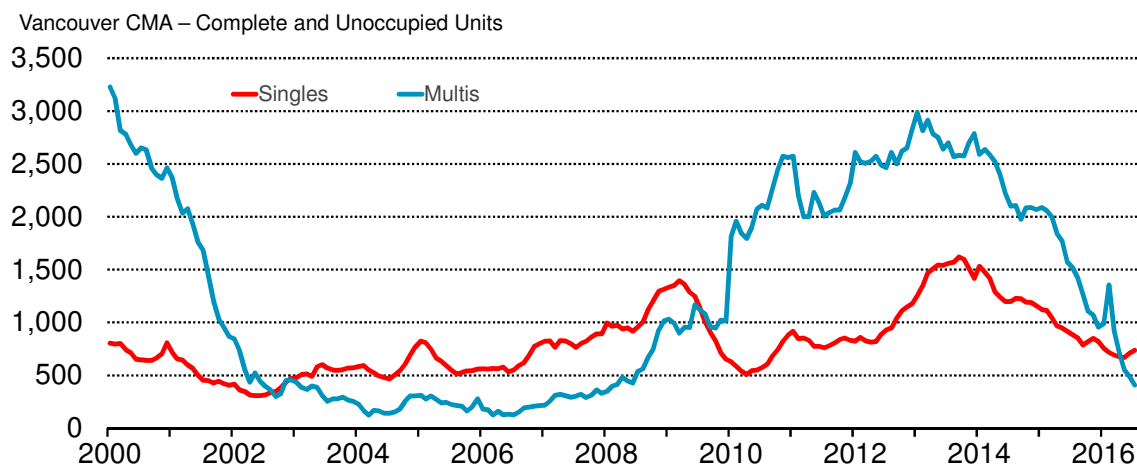


Source: REBGV, FVREB, Central 1 Credit Union. Note: Seasonally-adjusted

Latest: Aug 2016

Central 1 Economics

New home inventory crushingly low before tax



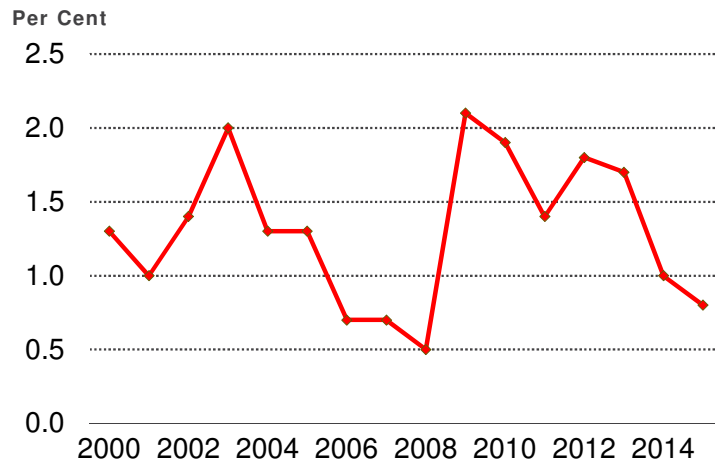
Source: REBGV, FVREB, CMHC, Central 1 Credit Union. Note: Seasonally-adjusted

Latest: July 2016

Central 1 Economics

Rental market provides little alleviation for affordability

Vancouver Rental Vacancy Rate

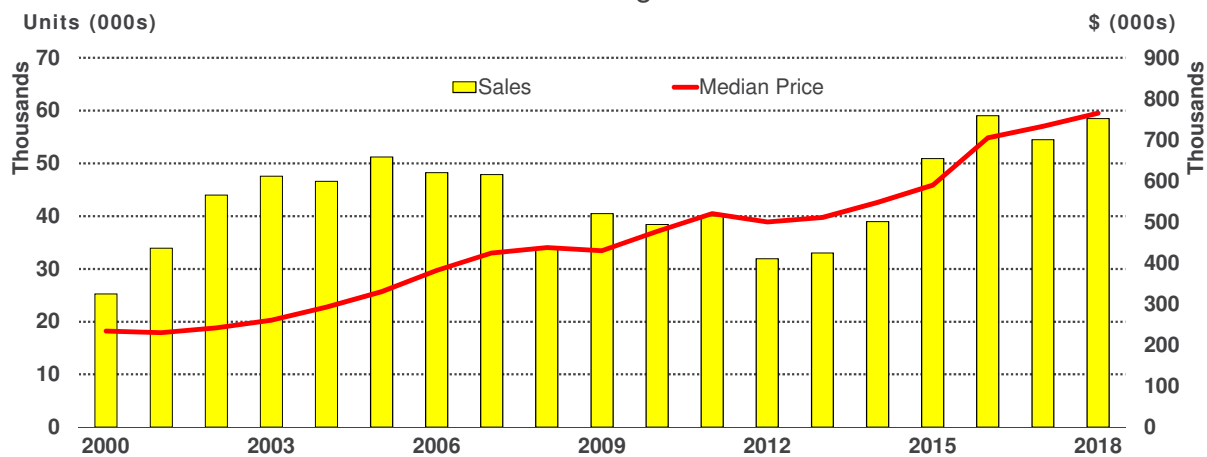


Source: CMHC. Central 1 Credit Union.

- Avg. Purpose-built rental rate:
2015: \$1,144 +4%
- Condo Rental
2015 Vacancy Rate: 0.6%
Rent: \$1,421

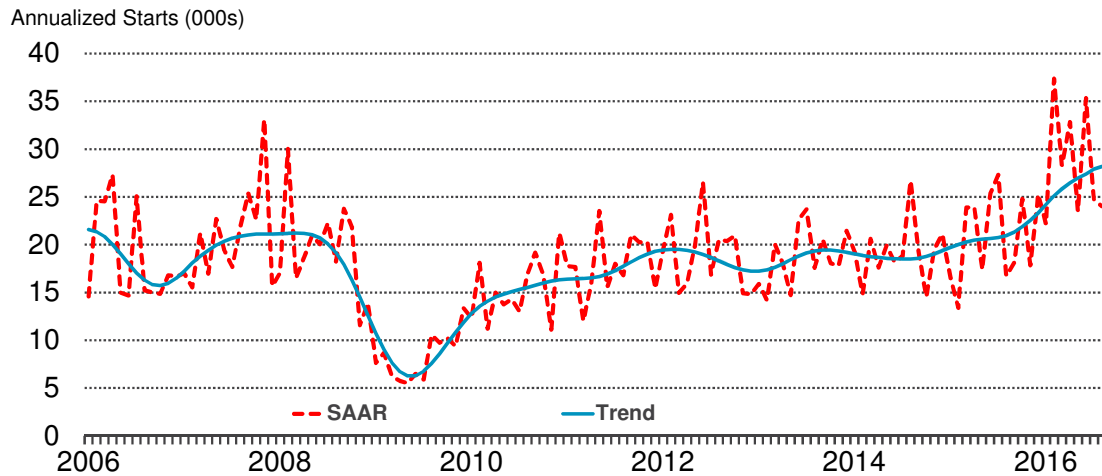
Early-year uplift drives sales and prices for 2016

Resale Housing Forecast



Source: Landcor Data Corp. Central 1 Credit Union.

Metro Vancouver housing starts surge in response to market conditions



Source: CMHC, Central 1 Credit Union. Note: Seasonally-adjusted

Latest: Aug 2016

 Central 1 Economics

Housing Outlook

Indicator	2015	2016f	2017f	2018f
Residential Resale Trans., % change				
Metro Vancouver	30.5	16.0	-7.6	7.3
Fraser Valley	31.4	31.8	-2.6	-2.7
Median Resale Price, % change				
Metro Vancouver	7.8	19.5	4.0	4.4
Fraser Valley	4.9	17.1	3.2	3.1

Source: Landcor Data Corp., Central 1 forecast. Note: Regional Districts.

 Central 1 Economics

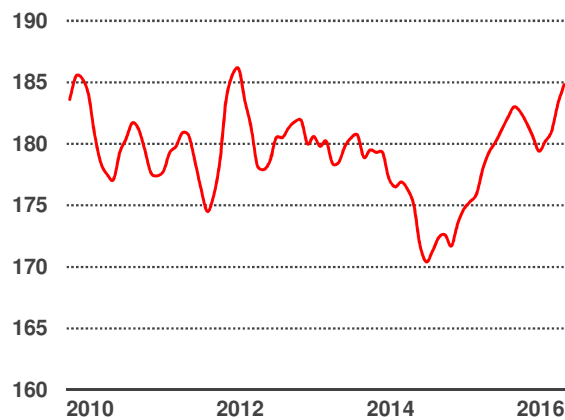
Macro drivers still supporting housing in both region

Victoria

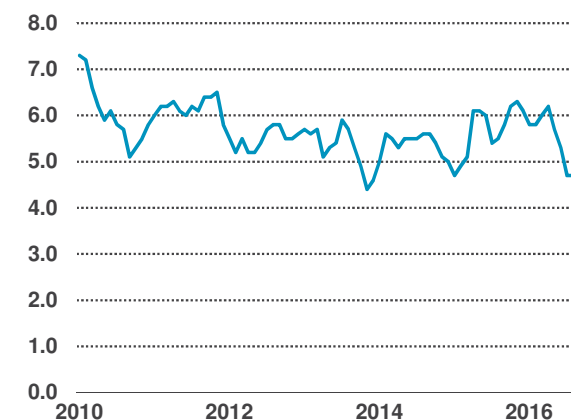
- Economy is positive growth
- Positive in-migration, retirees, families
- Vancouver-regional price divide

Victoria employment growth a rebound from weak 2014

Employment
Persons (000s)



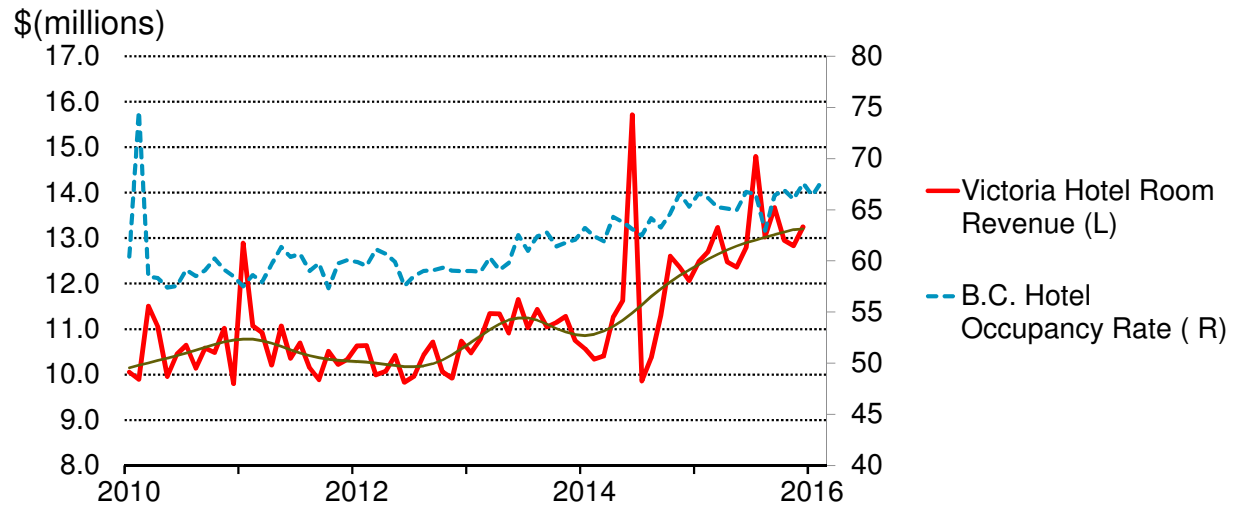
Unemployment Rate
Per Cent



Source: Statistics Canada. Central 1 Credit Union.

Latest: Aug /2016

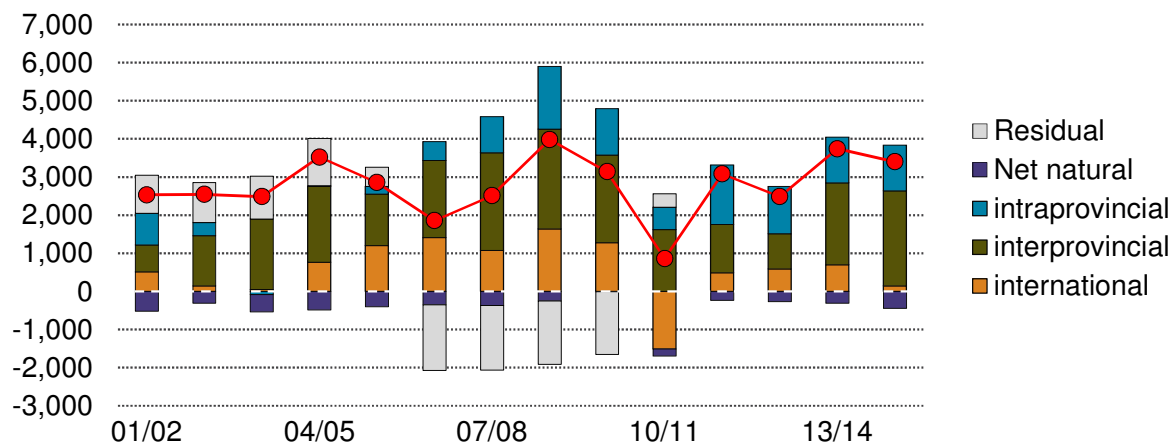
Broad tourism lift driving Victoria economic growth



Central 1 Economics

Flows from other provinces and within B.C. driving gains

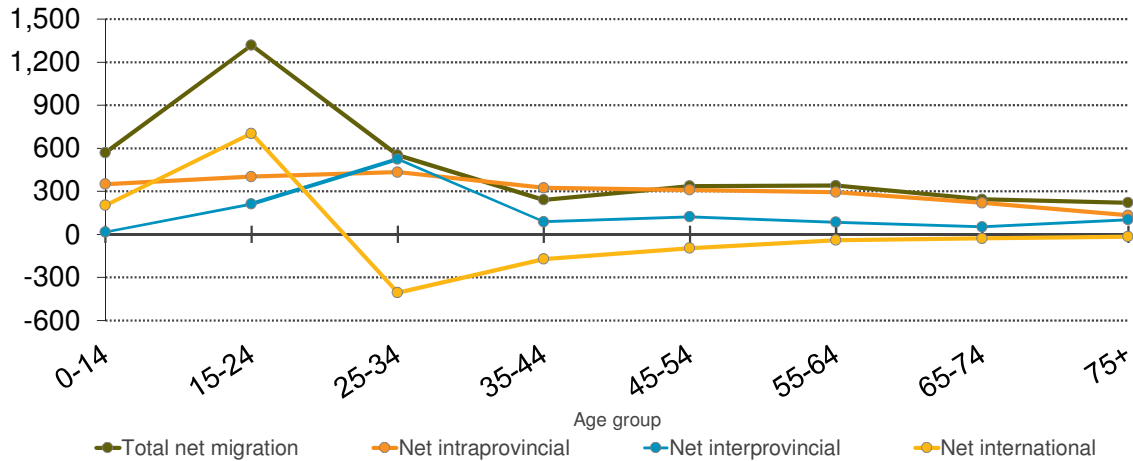
Components of Population Growth: Victoria



Source: Statistics Canada. Note: As of July 1. Latest data are preliminary.

Central 1 Economics

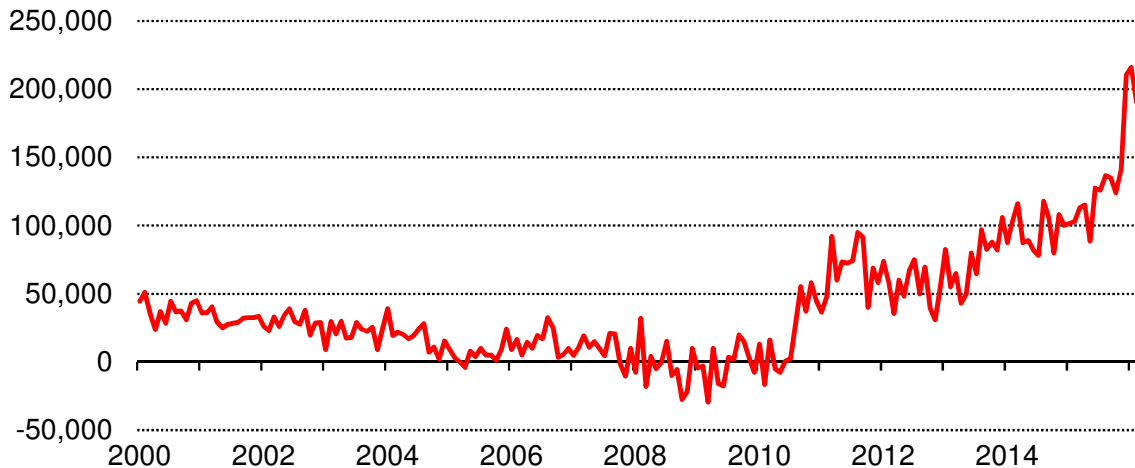
Net migration shows growth among younger age cohorts



Source: Statistics Canada. Note: As of July 1. Latest data are preliminary.

Central 1 Economics

Metro Vancouver – Victoria home price gap heats up



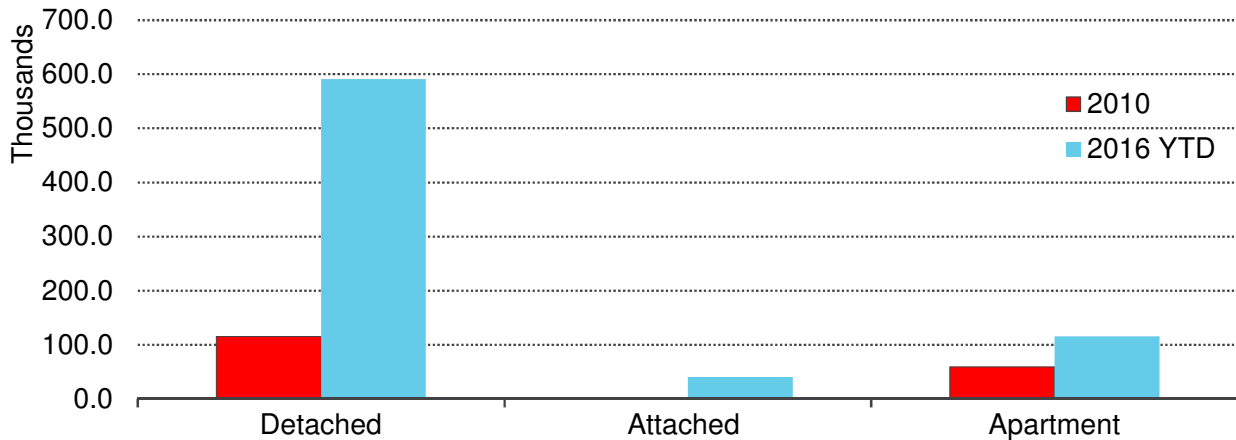
Source: Landcor, Central 1 Credit Union.

Latest: Mar 2016

Central 1 Economics

Detached gap up sixfold since 2010

Vancouver- Victoria Median Price Gap by Product (\$000s)



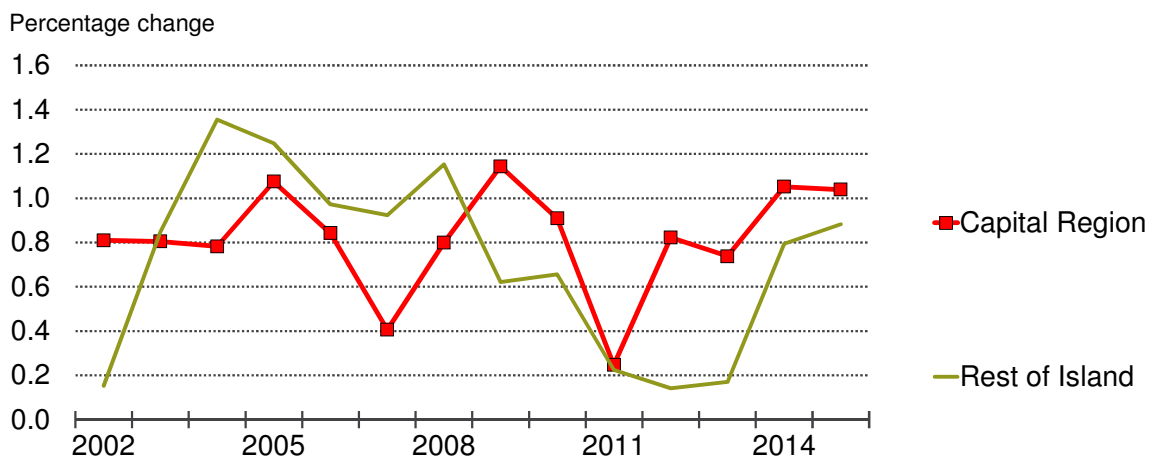
Source: Landcor, Central 1 Credit Union.

Latest: Mar/16

Central 1 Economics

Population growth on the rise, Capital region drives growth

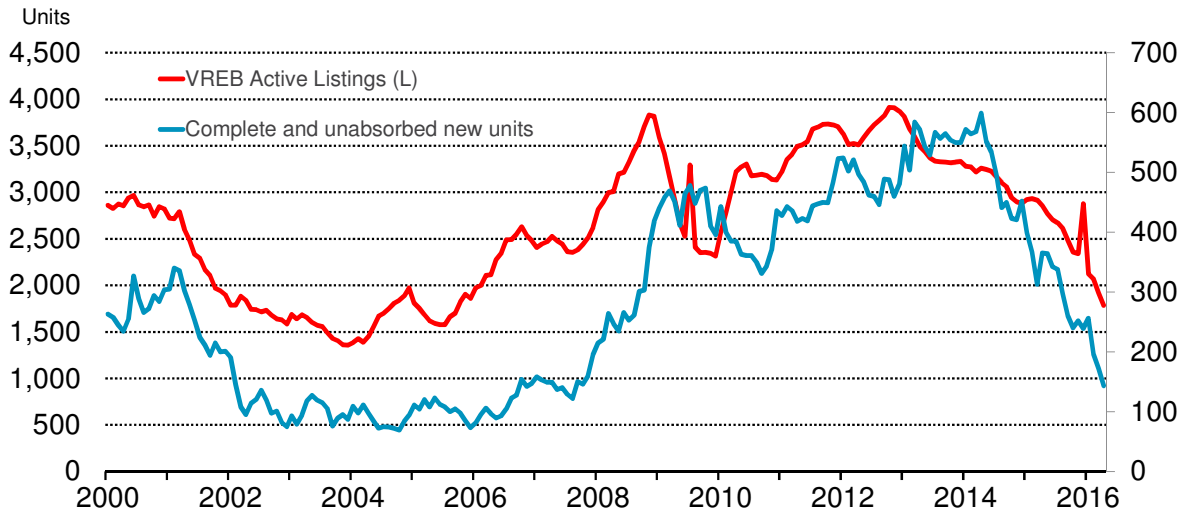
Population Growth: Vancouver Island and Coast



Source: Statistics Canada. Note: As of July 1. Latest data are preliminary.

Central 1 Economics

Inventory levels in Victoria tumble leave buyers scrambling

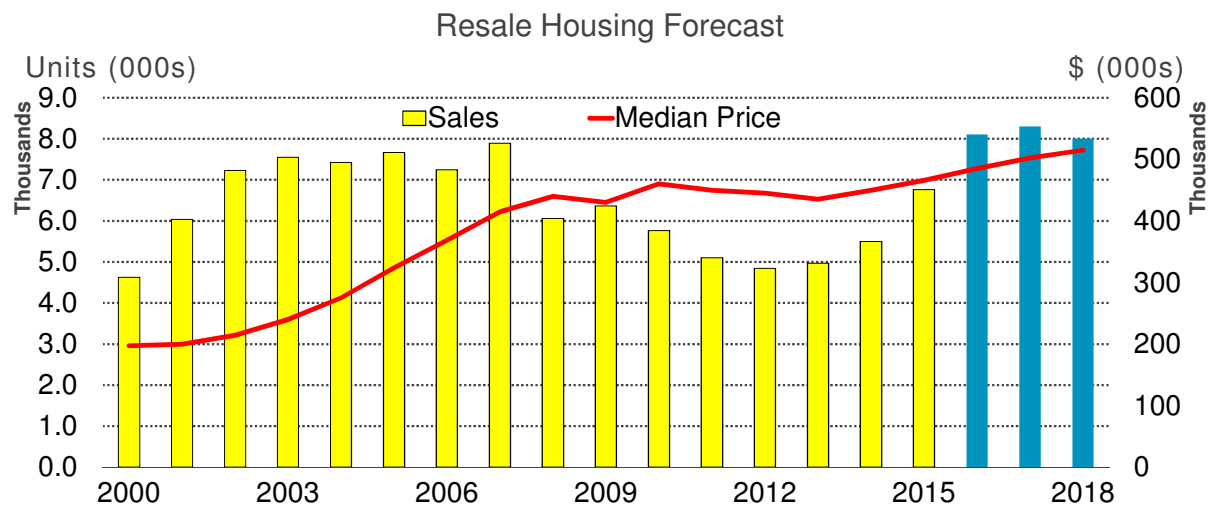


Source: REBGV, FVREB, CMHC, Central 1 Credit Union. Note: Seasonally-adjusted

Latest: Feb 2016

Central 1 Economics

Sales cycle still early, to last through 2017 as prices climb



Source: Landcor Data Corp. Central 1 Credit Union.

Latest: 2015

Central 1 Economics

Housing Outlook

Indicator	2015	2016f	2017f	2018f
Residential Resale Trans., % change				
Capital Region	23.0	24.2	7.1	2.2
Nanaimo	21.4	11.9	4.9	1.2
Median Resale Price, % change				
Capital	3.6	9.7	5.7	3.7
Nanaimo	2.5	9.2	4.2	2.7

Source: Landcor Data Corp., Central 1 forecast. Note: Regional Districts.

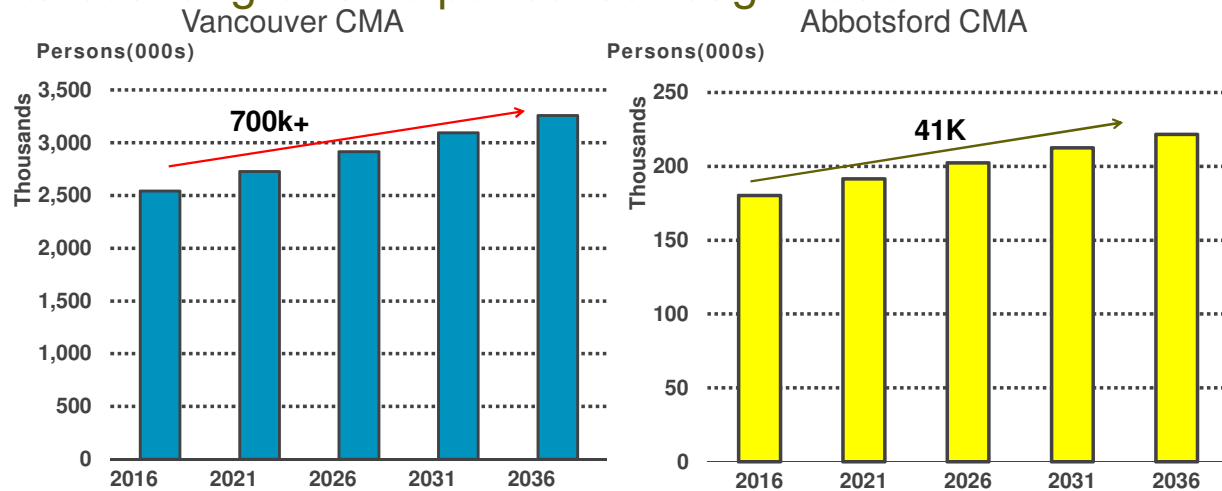
 Central 1 Economics

Complex factors drive LT Vancouver prices

- Strong local economic growth
- Low interest rates
- Coinciding demographic drivers of millennials and boomers
- Global demand and foreign capital/income
- Limited land base for expansion
- Land use policies holding back densification and supply expansion

 Central 1 Economics

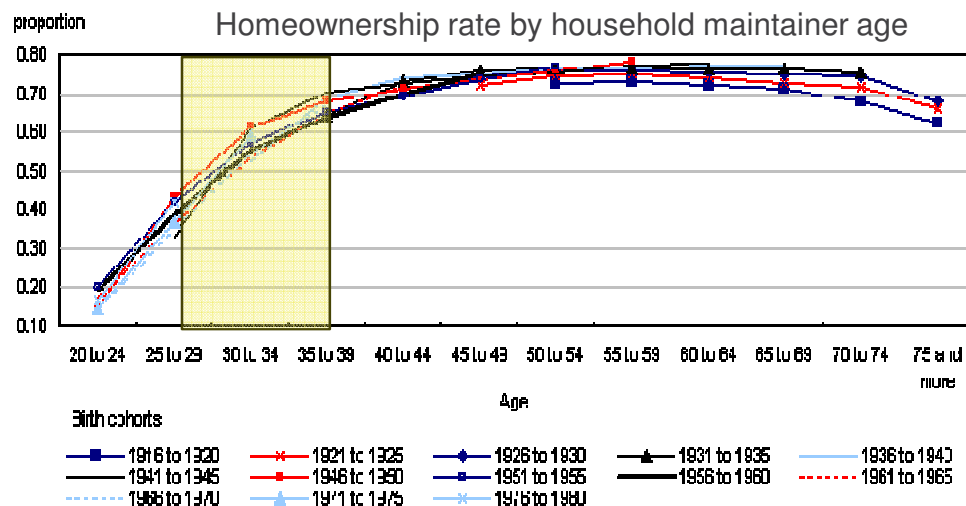
Population continues to expand in coming decades, Metro Vancouver grows 25 per cent through 2036



Source: BC Stats, Central 1 Credit Union.

Central 1 Economics

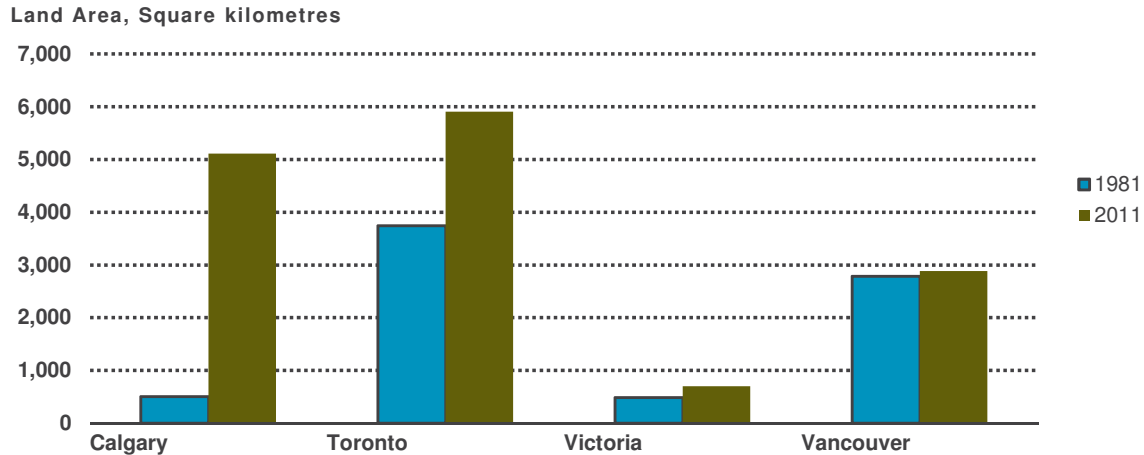
Millennials in transition – lifecycle drives homeownership demand



Source: Statistics Canada, Central 1 Credit Union.

Central 1 Economics

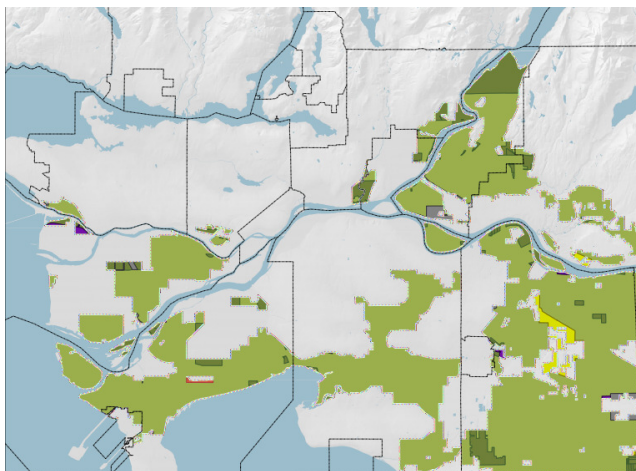
Land base highly constrained, density drives land prices



Source: Statistics Canada, Central 1 Credit Union.

Central 1 Economics

ALR makes up 20% of the land base in Greater Vancouver



ALR Lands in RGS Land Use Designations

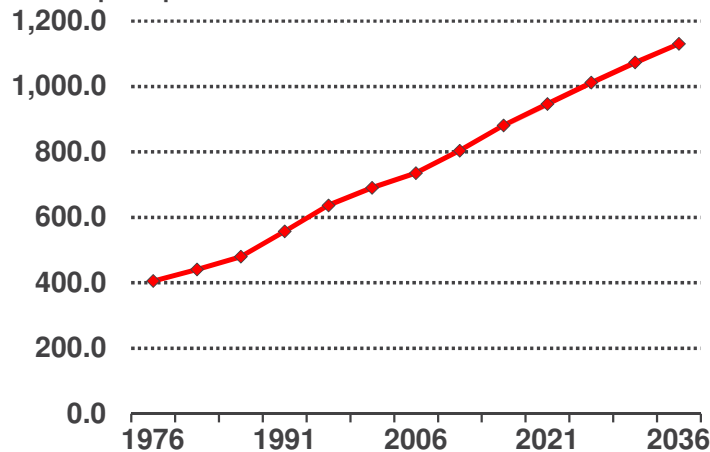
RGS DESIGNATION	TOTAL ALR LANDS (HA)	% OF ALR LANDS
Agricultural	54,668	90.0%
Conservation & Recreation	4,389	7.2%
Rural	848	1.4%
General Urban	581	1.0%
Industrial	190	0.3%
Mixed Employment	59	0.1%
Total ALR in the Region	60,736	100.0%
Total Regional Land Base	280,107	

Source: Metro Vancouver, Central 1 Credit Union.

Central 1 Economics

Metro Vancouver land utilization to increase

Persons per square km.

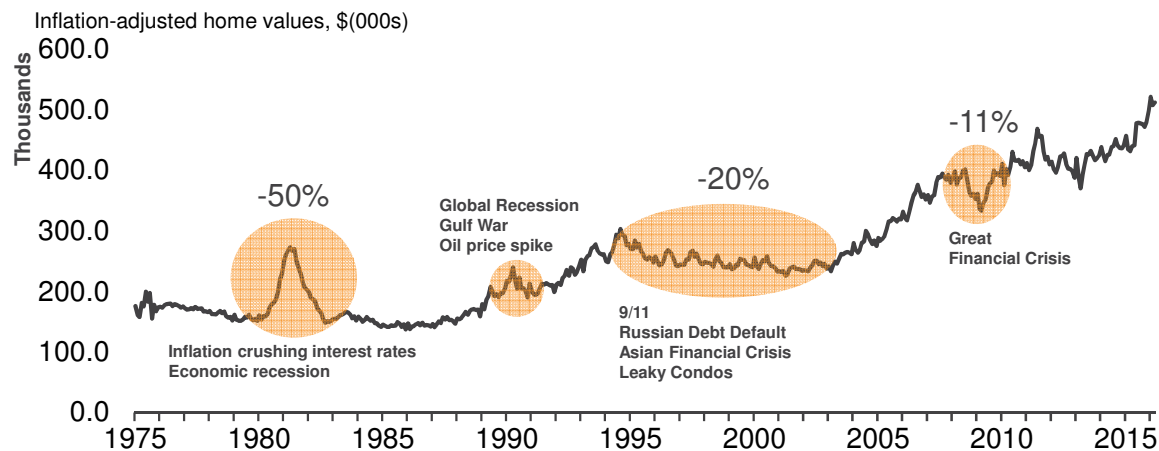


Source: Statistics Canada, BC Stats forecast, C1CU. Latest actual : 2011.

- Housing pressures will not alleviate as demand rises
- Higher density housing required, cities need to rezone multi-family
- Families looking for the white picket fence will flow east
- Improved transit is necessary for the region
- More housing availability is key

Central 1 Economics

Home prices have corrected in the past, and will again in the future but needs a shock



Source: Landcor, Central 1 Credit Union. Note: \$2002

Latest: Dec 2015

Central 1 Economics

Thank You

Bryan Yu
Senior Economist
Central 1 Credit Union
Email: byu@central1.com
Twitter: [@bryanyubc](https://twitter.com/bryanyubc)

