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## YOUR LINK TO THE HOUSING MARKET

British Columbia - October 2004

Canada Mortgage and Housing Corporation

### 2004 Third Qtr. Highlights:

#### Good Times for Housing Industry

The British Columbia housing market recorded another strong performance during the third quarter. Gains in full-time employment and high levels of consumer confidence supported demand in both the existing and new housing markets. Mortgage rates drifted up slightly but remain relatively low. Competition in the financial sector for mortgage business is benefiting people looking for financing.

During the July to September quarter, BC added 19,000 jobs, most of which were full-time positions. Alongside job gains, growth in wages and salaries exceeded the national average in the first and second quarter of 2004. Consumer confidence in BC rebounded in the third quarter reaching its highest level since 1988.

Resale activity slowed from its record setting pace, as 23,991 homes changed hands in the July to September period. This was down 10 per cent from the third quarter of 2003. Still, high levels of activity in the first part of 2004 mean that resales are on track to top last year's record level. Momentum behind demand for housing and a tight supply of homes for resale is putting upward pressure on prices. Existing homes sold for an average \$287,813, an increase of almost 10 per cent from year-earlier levels. New listings have been increasing in recent months but were up just 2.4 per cent compared to the third quarter of 2003.

Builders responding to demand, started construction on 8,532 new homes in the

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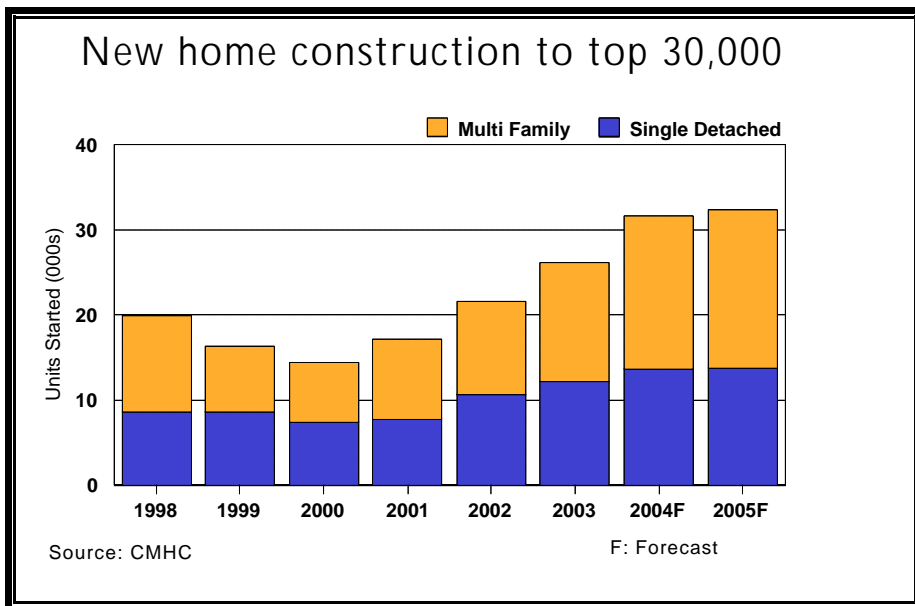
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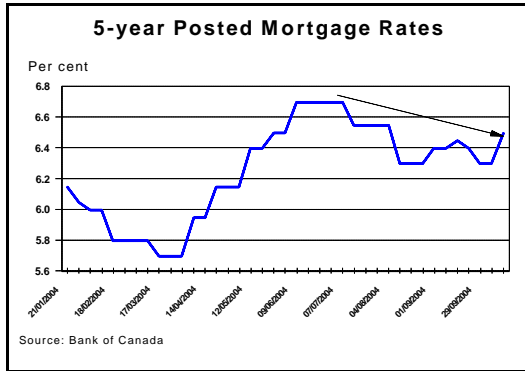
third quarter, an eleven per cent year-over-year increase.

Next year will mark the fifth year of growth in housing starts and the number of new home starts is projected to reach its highest level since 1994. As the duration of the current housing expansion lengthens, the share of multiple-unit starts will continue to increase. This is due in part to developers responding to demand for affordable housing products, rising land and material costs, and lifestyle choice. More than half of the 32,400 new homes expected to be built in 2005 will be in multiple-unit developments.



HOME TO CANADIANS  
Canada

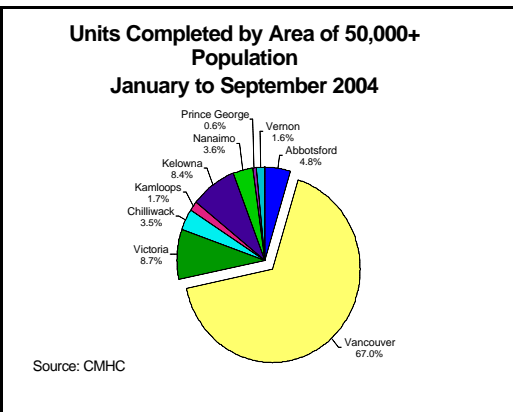
# BC Housing Indicators ... In Detail



## The Economy and Interest Rates

The Canadian economy picked up steam in the third quarter of 2004, despite rising oil prices and modest growth in the US economy. Based on data for July and August, the Canadian economy is estimated to have grown 4 per cent in the third quarter, strong enough to keep the Bank of Canada on its steady pace of interest rate increases.

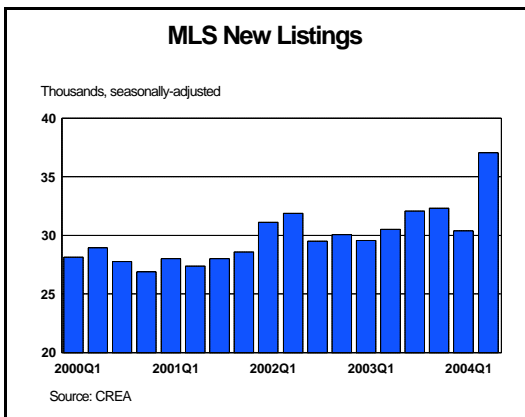
overnight lending rate two times during the past two months. The overnight target rate now stands at 2.5 per cent, still very low compared to the past. Mortgage rates are forecast to increase by about 100 basis points during the next twelve months. This will have a dampening effect on the housing sector. A 100 basis point increase in the posted 5-year mortgage rate is estimated to reduce the number of housing starts by between 3 and 5 per cent, all other factors held constant.



The BC economy is on track to expand by 3.0 per cent in 2004 and 3.3 per cent in 2005. Domestic demand remains strong as residential investment and consumer spending respond positively to low borrowing costs. A higher valued Canadian dollar, which resumed its rise to levels not seen in twelve years, will lead to an increase in investment in machinery and equipment as much of this type of capital is imported.

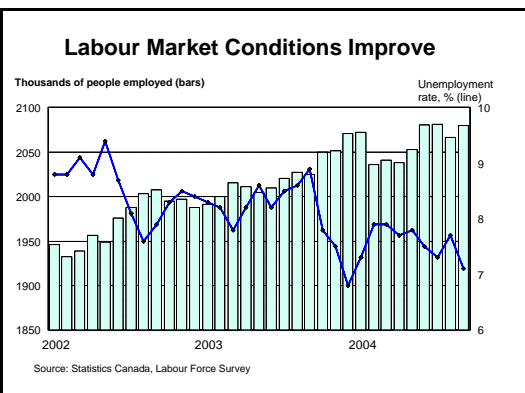
## The Housing Outlook

In this environment, the province's housing sector will record another solid performance. New residential construction in BC is forecast to reach 31,700 starts in 2004 and 32,400 starts in 2005. British Columbia is the only province to project an increase in new home construction next year. Pent-up demand, an inflow of people from other provinces, and strong employment gains this year will prolong BC's housing expansion.



Employment typically leads housing demand. So far in 2004, BC leads the country in new job growth. Job gains continue to be concentrated in full-time employment as the BC economy expands. The number of people employed is forecast to increase by 2.2 per cent in 2004 and a further 2.0 per cent in 2005. This will support demand for housing.

The share of multiple-unit developments is expected to increase as the current housing expansion continues. Developers are focusing on multiple unit construction to keep up with demand for affordable housing, in the face of rising land and building costs. Multiple unit construction will comprise more than half of the 32,400 new homes to be built in 2005.



With the improving economic environment come concerns about rising inflation and the threat of higher interest rates.

The Bank of Canada now estimates that the Canadian economy is operating close to potential, and has raised its key

The risks to the housing outlook are both positive and negative. On the up side, a higher valued Canadian dollar could put the brakes on the economy and

## BC Housing Indicators ... In Detail

allow the Bank of Canada to take a more gradual approach to removing the monetary stimulus from the economy. If interest rates stay lower for longer, the number of housing starts will exceed the forecast level. On the down side, sustained high oil prices could fuel inflation, leading to larger than anticipated interest rate increases, dampening economic growth and demand for housing.

### Resale Markets

Resale activity in the province is on track to hit 98,000 homes this year, a record high. Most existing home markets continue to exhibit sellers' market characteristics. Few listings and strong demand are generating significant upward pressure on prices. High prices are beginning to entice more new listings into the market. This will eventually lead to more balance between demand and supply and slow the increase in existing home prices.

Rising interest rates in 2005 will slow resale market activity to 95,000 homes, still above the previous historical peak of 93,564 transactions set in 1992. Resale activity will spillover into demand for new homes in 2005.

### Building Permits

Building permits have been trending up since 2001, reflecting both increased volume and value of permits issued. The value of building permits was up almost 50 per cent so far this year compared to the same period last year. While not every permit issued results in a housing start, this indicator suggests future building activity will increase.

### BC Housing Supply

Housing supply in British Columbia remains low as increasing construction activity has been met with higher absorption levels. There were 5,752 units completed in metropolitan areas and large urban centres (population of 50,000+) of the province in the third quarter of this year, a 10 per cent increase from the same period of last year. Absorptions were in line with completions, as 5,615 units were absorbed during the third quarter.

Inventory levels of new homes are relatively low. At the end of September 2004, there were 1,223 newly completed units in inventory in metropolitan areas and large urban centres of the province, compared to 1,589 units at the end of September 2003. Construction is underway on 23,658 units in metropolitan areas and large urban centres in the province, which should boost inventory levels when

completed. However, the number of units sold prior to completion has been rising, particularly in the condominium market. This trend will dampen the impact that current construction activity will have on inventory levels.

### Rural Housing Starts

As the duration of the current housing expansion continues, rural areas of the province will see increased construction activity. The number of housing starts increased significantly outside the province's urban centres during the third quarter. There were 653 starts in rural British Columbia, a 50 per cent increase from the third quarter of 2003.

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Rural Housing Starts					
	Single Det.	Semi	Row	Apt.	Total
2003 Q1	198	28	22	43	291
2003 Q2	353	0	8	0	361
2003 Q3	382	14	14	26	436
2003 Q4	278	24	46	18	366
<b>Total 2003</b>	<b>1211</b>	<b>66</b>	<b>90</b>	<b>87</b>	<b>1454</b>
2004 Q1	260	26	30	2	318
2004 Q2	543	36	16	24	619
2004 Q3	561	79	13	0	653
Urban Housing Starts					
	Single Det.	Semi	Row	Apt.	Total
2003 Q1	2230	274	602	1100	4206
2003 Q2	2960	283	851	2003	6097
2003 Q3	3081	326	970	3301	7678
2003 Q4	2770	404	784	2781	6739
<b>Total 2003</b>	<b>11041</b>	<b>1287</b>	<b>3207</b>	<b>9185</b>	<b>24720</b>
2004 Q1	2522	374	722	2347	5965
2004 Q2	3609	504	1074	3821	9008
2004 Q3	3385	551	1318	3278	8532

**Table 1**

**Housing Starts, Urban B.C.  
July - September 2004**

AREA	SINGLE DETACHED			MULTIPLES			TOTAL		
	2003	2004	% Chg.	2003	2004	% Chg.	2003	2004	% Chg.
<b>Metropolitan Areas</b>									
Abbotsford	157	187	19	102	170	67	259	357	38
Vancouver	1,443	1,527	6	3,703	3,910	6	5,146	5,437	6
Victoria	274	264	-4	388	188	-52	662	452	-32
<b>CA's 50,000 - 99,000 pop.</b>									
Chilliwack	85	141	66	93	229	146	178	370	108
Kamloops	67	79	18	31	22	-29	98	101	3
Kelowna	331	303	-8	117	192	64	448	495	10
Nanaimo	164	209	27	8	92	1,050	172	301	75
Prince George	39	63	62	0	14	**	39	77	97
Vernon	89	113	27	22	56	155	111	169	52
<b>CA's 10,000 - 49,999 pop.</b>									
Campbell River	27	35	30	0	6	**	27	41	52
Courtenay	84	126	50	47	107	128	131	233	78
Cranbrook	28	33	18	0	0	**	28	33	18
Dawson Creek	8	7	-13	0	0	**	8	7	-13
Duncan	52	39	-25	4	6	50	56	45	-20
Fort St. John	24	29	21	2	20	900	26	49	88
Kitimat	2	1	**	0	0	**	2	1	**
Parksville-Qualicum	46	95	107	0	54	**	46	149	224
Penticton	45	31	-31	16	14	-13	61	45	-26
Port Alberni	10	19	90	0	0	0	10	19	90
Powell River	8	0	-100	0	0	**	8	0	-100
Prince Rupert	1	1	**	0	0	**	1	1	**
Quesnel	8	11	38	0	0	**	8	11	38
Terrace	0	0	0	2	0	**	2	0	**
Williams Lake	43	31	-28	34	0	**	77	31	-60
<b>Cities 10,000 pop. +</b>									
Salmon Arm	22	24	9	0	7	**	22	31	41
Squamish	14	7	-50	28	56	100	42	63	50
Summerland	10	10	0	0	4	**	10	14	40
<b>Total</b>	<b>3,081</b>	<b>3,385</b>	<b>10</b>	<b>4,597</b>	<b>5,147</b>	<b>12</b>	<b>7,678</b>	<b>8,532</b>	<b>11</b>

\*Courtenay has been changed to a Small CA (10,000-49,000)  
CMHC

**Table 2**

**Housing Starts, Urban B.C.  
January - September 2004 (ytd)**

AREA	SINGLE DETACHED			MULTIPLES			TOTAL		
	2003	2004	% Chg.	2003	2004	% Chg.	2003	2004	% Chg.
<b>Metropolitan Areas</b>									
Abbotsford	448	474	6	375	414	10	823	888	8
Vancouver	4,142	4,401	6	7,332	10,798	47	11,474	15,199	32
Victoria	697	790	13	782	760	-3	1,479	1,550	5
<b>CA's 50,000 - 99,000 pop.</b>									
Chilliwack	194	375	93	167	363	117	361	738	104
Kamloops	150	221	47	47	86	83	197	307	56
Kelowna	927	1,031	11	544	633	16	1,471	1,664	13
Nanaimo	412	574	39	46	146	217	458	720	57
Prince George	79	136	72	0	14	**	79	150	90
Vernon	217	277	28	30	70	133	247	347	40
<b>CA's 10,000 - 49,999 pop.</b>									
Campbell River	71	99	39	2	47	##	73	146	100
Courtenay	231	321	39	102	182	78	333	503	51
Cranbrook	54	63	17	0	0	**	54	63	17
Dawson Creek	15	16	7	10	2	-80	25	18	-28
Duncan	120	137	14	11	18	64	131	155	18
Fort St. John	43	57	33	8	28	250	51	85	67
Kitimat	2	2	0	0	0	**	2	2	0
Parksville-Qualicum	140	216	54	11	124	##	151	340	125
Penticton	98	96	-2	85	123	45	183	219	20
Port Alberni	18	32	78	8	16	100	26	48	85
Powell River	15	0	-100	2	0	-100	17	0	-100
Prince Rupert	1	2	100	0	0	**	1	2	100
Quesnel	14	22	57	0	0	**	14	22	57
Terrace	3	3	0	2	0	-100	5	3	-40
Williams Lake	74	56	-24	34	33	-3	108	89	-18
<b>Cities 10,000 pop. +</b>									
Salmon Arm	50	63	26	4	15	275	54	78	44
Squamish	26	22	-15	108	107	-1	134	129	-4
Summerland	30	30	0	0	10	**	30	40	33
<b>Total</b>	<b>8,271</b>	<b>9,516</b>	<b>15</b>	<b>9,710</b>	<b>13,989</b>	<b>44</b>	<b>17,981</b>	<b>23,505</b>	<b>31</b>

\*Courtenay has been changed to a Small CA (10,000-49,000)  
CMHC

**Table 3****July - September 2004**

	Single Detached	Semi Detached	Row Rental	Row Condo	Apt. Condo	Apt. Rental	Total
<b>Units Completed</b>							
<b>Metropolitan Areas</b>							
Abbotsford	163	6	0	34	20	0	223
Vancouver	1,446	188	22	562	1,227	400	3,845
Victoria	264	56	3	15	45	54	437
<b>Large Urban Centres &amp; Urban Agglomerations</b>							
Chilliwack	145	20	0	52	0	42	259
Kamloops	71	12	0	19	42	0	144
Kelowna	345	42	4	10	68	0	469
Nanaimo	222	24	0	3	0	0	249
Prince George	42	0	0	0	0	0	42
Vernon	71	8	0	5	0	0	84
<b>Total</b>	<b>2,769</b>	<b>356</b>	<b>29</b>	<b>700</b>	<b>1,402</b>	<b>496</b>	<b>5,752</b>
<b>January - September 2004</b>							
<b>Metropolitan Areas</b>							
Abbotsford	482	32	0	49	118	60	741
Vancouver	3,853	552	57	1,739	3,588	550	10,339
Victoria	739	92	3	86	232	191	1,343
<b>Large Urban Centres &amp; Urban Agglomerations</b>							
Chilliwack	288	32	0	186	0	42	548
Kamloops	171	30	0	27	42	0	270
Kelowna	917	86	4	18	162	113	1,300
Nanaimo	494	45	0	14	0	0	553
Prince George	100	0	0	0	0	0	100
Vernon	212	26	0	8	0	0	246
<b>Total</b>	<b>7,256</b>	<b>895</b>	<b>64</b>	<b>2,127</b>	<b>4,142</b>	<b>956</b>	<b>15,440</b>

**Table 4****July - September 2004**

	Single Detached	Semi Detached	Row Rental	Row Condo	Apt. * Condo	Apt. Rental	Total
<b>Absorption of Newly Completed Units</b>							
<b>Metropolitan Areas</b>							
Abbotsford	145	6	0	34	22	0	207
Vancouver	1,386	183	23	544	1,208	412	3,756
Victoria	261	50	3	20	49	60	443
<b>Large Urban Centres &amp; Urban Agglomerations</b>							
Chilliwack	133	19	0	44	0	42	238
Kamloops	79	14	0	21	41	0	155
Kelowna	349	42	4	10	48	0	453
Nanaimo	209	23	0	5	2	0	239
Prince George	42	0	0	0	0	0	42
Vernon	69	8	0	5	0	0	82
<b>Total</b>	<b>2,673</b>	<b>345</b>	<b>30</b>	<b>683</b>	<b>1,370</b>	<b>514</b>	<b>5,615</b>

**January - September 2004**

<b>Metropolitan Areas</b>							
Abbotsford	482	30	0	49	144	60	765
Vancouver	3,904	538	56	1,755	3,646	716	10,615
Victoria	744	86	3	97	237	189	1,356
<b>Large Urban Centres &amp; Urban Agglomerations</b>							
Chilliwack	282	31	0	184	0	42	539
Kamloops	179	35	0	29	44	0	287
Kelowna	903	81	4	19	167	84	1,258
Nanaimo	478	45	0	14	4	0	541
Prince George	108	0	0	0	0	0	108
Vernon	196	24	0	7	0	0	227
<b>Total</b>	<b>7,276</b>	<b>870</b>	<b>63</b>	<b>2,154</b>	<b>4,242</b>	<b>1,091</b>	<b>15,696</b>

CMHC

\* May include homeowner apartments

# British Columbia Housing Monitor by CMHC

3rd Quarter 2004

Carol Frketich, Regional Economist

	<u>Recent Statistics 2003</u>	<u>Likely Direction Over the Next 12 Months</u>	<u>Forecast for 2004</u>	<u>Forecast for 2005</u>	<u>These Numbers Indicate the Housing Market This Year Will</u>
<b><u>BC Housing Starts</u></b>					
Total (units)	26,174	▲	31,700	32,400	Improve
year-over-year % change			21.1%	2.2%	
Singles	12,252	▲	13,700	13,800	Improve
			11.8%	0.7%	
Multiples	13,922	▲	18,000	18,600	Improve
			29.3%	3.3%	
<b><u>BC Resale Market</u></b>					
MLS Sales (Units)	93,095	▼	98,000	93,000	Weaken
			5.3%	-5.1%	
Avg MLS Price (\$)	259,990	▲	289,500	308,000	Hold Steady
			11.4%	6.4%	
<b><u>BC Economic Indicators</u></b>					
Real GDP (% change)	2.2	▲	3.0	3.3	Improve
Personal Disp. Income (% change)	1.9	▲	3.5	4.3	Improve
Population Growth Rate (%)	1.0	↔	1.0	1.0	Hold Steady
Net Inter-provincial Migration	2,094	▲	3,000	4,500	Improve
Net International Immigration	27,251	▲	30,500	32,000	Improve
Employment (% change)	2.5	↔	2.2	2.0	Hold Steady
Unemployment Rate (%)	8.1	▼	7.6	7.5	Hold Steady
3 year Mortgage Rate (%)	5.82%	▲	5.25 - 6.00%	6.00 - 7.00%	Hold Steady
Inflation: CPI (%)	2.1	↔	1.9	2.0	Hold Steady
Building Permit Values:					
Residential (\$ Millions)	4,514	▲	5,650	5,800	Improve
Non-Residential (\$ Millions)	1,877	▲	2,100	2,200	Improve

The British Columbia housing sector continues to be a key driver of economic growth in 2004 but will play a smaller role in 2005. The economy is on track to record growth of 3.0% in 2004, increasing to 3.3% in 2005. Labour market conditions are contributing to high levels of consumer confidence. Mortgage interest rates have begun to drift up but the rise is expected to be gradual. New home construction in BC will increase 21.1% to 31,700 units this year and a further 2.2% to 32,400 units in 2005. Resale activity will set a record in 2004 before moderating slightly in 2005. New listings are increasing and, as a result, most markets are moving towards balance, relieving some of the upward price pressure in existing home markets. This combination of low interest rates, an improving overall economy, employment growth and high levels of resale activity point to further growth in the housing sector in 2005.