

Vancouver Housing Market Shows Signs of Life

SUMMARY

- Ahead of tomorrow's Canadian Real Estate Association (CREA) report for May 2019, we analyze conditions in the Vancouver housing market and estimate its home sales activity in that month.
- Our preliminary seasonally-adjusted estimate of May 2019 Vancouver home sales indicates an increase of more than 25% versus April 2019, which would represent the strongest monthly climb since 1993.
- It is too soon to tell whether that upturn would reflect the beginning of a rebound from Vancouver's prolonged housing market slump, but we still anticipate stronger home buying activity as the year progresses.

AN EXTENDED HOUSING SLUMP

The soft patch in the Greater Vancouver housing market—and to a lesser extent in other cities in Southern BC—is well-documented. After peaking in February 2016, home sales in BC's largest city fell by more than 60% by the end of 2018. Alongside rising interest rates, a non-resident buyers' tax imposed in August 2016, stricter federal mortgage qualification tests, and additional provincial policies have contributed to the downturn. The slide has persisted this year in large part due to new taxes that target high-end BC homes as of January 1st, 2019. Together, these measures look to have cooled the pace of price appreciation as intended, but housing's dwindling contribution to the province's expansion (chart 1) has led to fears of more serious economic slowdown.

TURNING A CORNER OR JUST COMING OUT OF THE COLD?

The good news is that initial home sales data for May 2019, published by the Real Estate Board of Greater Vancouver, offered the strongest signal yet that the market has bottomed out. Last week's release reported a y/y dip of 6.7% in Vancouver home purchases on an unadjusted basis—following four months of nsa y/y plunges in the 30–40% range—but we estimate that this translates into a 25.4% m/m sa gain (non-annualized, chart 2)¹.

Our estimated seasonally-adjusted sales increase, while preliminary, gives a sense of the direction and magnitude of the final home buying figures for May set for release tomorrow. A jump of more than 25% would represent the strongest monthly climb since 1993. Yet even if the actual gains are, say, 10 pts weaker than we project—a discrepancy far greater than the historical standard deviation associated with our estimation approach—that would still be one of the best monthly results in the past decade.

The forecast gains could be incorporating lingering weather impacts.

February 2019 was Vancouver's coldest month since 2013—the earliest year for which city-level weather data are available—both in absolute terms and relative to

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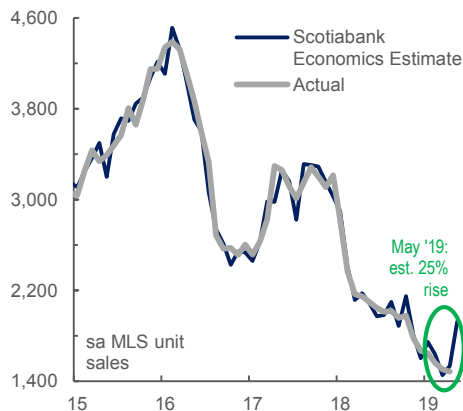
Chart 1

Housing's Contribution to BC Growth Slowed as Market Slowed



Chart 2

Actual vs. Expected Home Sales in Greater Vancouver



Sources: Scotiabank Economics, CREA.

¹ We employ an ARIMA-model-based seasonal adjustment program, applied to 1988–2018 Vancouver MLS unit sales data.

the city's long-run monthly average (chart 3). That coincided with a 10% (sa m/m) drop in home sales. For the province of BC as a whole, February 2019 was the coldest month since at least 1981. With temperatures considerably warmer in May, it is conceivable that the upswing in that month includes the release of pent-up demand that was stifled during the earlier spell of cold weather. We therefore caution further monitoring of the trend before calling for a full-blown market rally.

SUMMER IS COMING

Whether or not May represents the proverbial turning point, we continue to anticipate a rebound in Greater Vancouver home buying activity as the year progresses. Economic conditions will likely be supportive of the demand side of the market: BC is forecast to lead the provinces with real GDP growth of 2.2% in 2019 and 3.4% in 2020. By the same token, we look for job creation of 2.7% this year and 1.5% in 2020; again, both rates are expected to lead the provinces. To date in 2019, the city of Vancouver has witnessed hefty total job creation of 3.4% y/y, while BC's full-time employment is up a solid 2.3% versus the January to May 2018 period, and has trended generally higher since September of last year.

As strong demand-side factors support income growth, population gains should continue to lift Vancouver household formation. From January to May of 2019, the city's populace aged 15 and over is up 1.7% versus the same period last year—well above the 1.4% annual average increase during 2017–18. Last year, all four BC census metropolitan areas witnessed gains of more than 10% in international immigration, and we expect that Vancouver's population will continue to climb steadily with increases to Ottawa's immigration targets in 2019 and 2020.

We also believe that this year's soft patch partly represents a temporary chill in market sentiment similar to that which followed the imposition of the non-resident buyers' tax in late-2016. As of January 1st, 2019, new levies target residences concentrated in secondary homes and vacation properties, as well as houses valued at more than CAD 3mn. Given that Vancouver's average home sale price has averaged only about CAD 1 mn this year, it is highly unlikely that more than 30% of homes—the rate of sales decline thus far in 2019—are subject to the latter tax. This implies that expectations of softness—not just fundamentals or direct policy impacts—have dampened sales activity beyond higher-end homes.

Taxes on non-resident purchases remain in place, but a weak Canadian dollar should keep housing relatively inexpensive for prospective buyers with US currency. Our June 2019 forecast calls for the Canadian dollar to rise to just US 80¢ by the end of 2020.

Healthy employment growth, declining mortgage rates due to global bond market developments, and provincial policy designed to incite new residential construction also appear to be lifting the supply of new housing. Construction activity remains elevated, and Vancouver housing starts reached an all-time high in May and are trending generally higher on a seasonally adjusted annualized basis. Completed and unabsorbed dwellings have been rising at a double-digit y/y pace since mid-2018, outstripping the robust population growth over that period (chart 4). And new listings are up 5.9% (nsa y/y) from January to April 2019—a pace that, if maintained throughout this year, would represent the strongest annual gain since 2010.

Beyond this year, we look for greater home price and sales stability as buyers and sellers increasingly adjust to a new environment. Home values and rents are expected to remain elevated relative to household incomes, but a greater stock of available housing than during the 2015–16 ramp-up in home prices should provide a bulwark against a further erosion of affordability as sales activity normalizes.

Chart 3

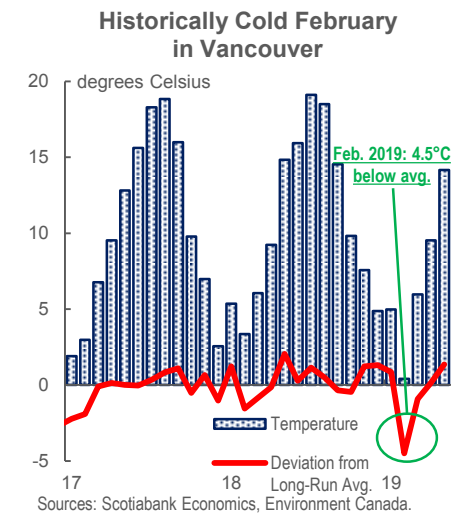


Chart 4



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