

B.C. Housing Market Forecast 2009-2011

Highlights

- *Strong rebound in housing sales, at record high in 2010*
- *Housing prices reach new highs*
- *New construction volume heading up sharply*
- *Metropolitan area markets lead provincial recovery*
- *Current sales recovery strongest on record*
- *Economic conditions favourable for housing market expansion*
- *Lower housing forecasts in double-dip recession scenario*

Housing market outlook

The housing market is heading for substantial gains in volume and to a lesser extent in prices during the next two years. A remarkable turnaround from a near free-fall last year and the strongest sales resurgence on record drives the outlook along with evolving favourable conditions for buyers. The economic recovery will support and grow housing activity, while low mortgage rates provide the primary catalyst.

The implementation of the Harmonized Sales Tax (HST) on July 1, 2010 will affect the new construction sector and alter its production schedule. The HST adds to the cost of higher-priced new homes and builders will aim to produce more units before the effective date at the expense of future activity. Renovation spending is another sector affected by the HST, in addition to the current federal tax credit.

Housing Forecast Summary: British Columbia

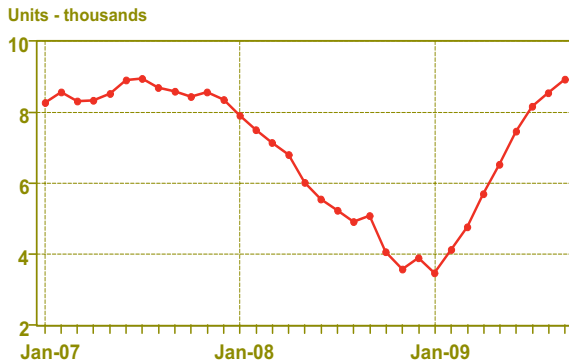
	2008	2009f	2010f	2011f
Residential Sales ¹ , units	98,226	108,200	140,000	138,000
Detached Sales ¹ , units	48,479	50,900	61,000	58,000
Multi-family Sales ¹ , units	49,747	57,300	79,000	80,000
Residential Median Sales Price ¹ (\$)	360,000	369,000	391,000	415,000
Detached Median Price ¹ (\$)	422,500	434,000	462,000	494,000
Multi-family Median Price ¹ (\$)	320,450	325,000	345,000	367,000
Residential MLS Sales, units	68,923	85,500	109,000	101,400
Residential MLS® Listings, units	176,762	151,000	168,000	180,000
Residential MLS Average Price (\$)	454,599	463,800	497,800	534,800
Housing Starts: Total units	34,321	14,600	21,400	27,500
Single-detached units	10,991	5,700	9,000	10,500
Multi-family units	23,330	8,900	12,400	170,000
Rental Vacancy: Multi-family (%) ²	1.0	1.6	2.1	1.7
Renovation Spending (million \$)	5,307.0	5,500.0	5,350.0	5,650.0

Source: Landcor Data Corp, CREA, CMHC, Statistics Canada, C1CU forecasts.

¹. Arms-length transactions, single-unit ownership, improved properties excluding land and properties over 2 acres. ². October

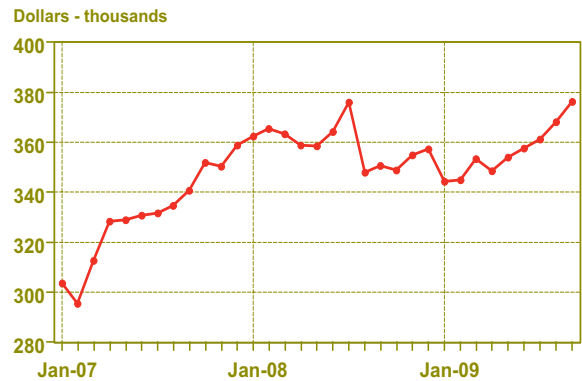


MLS® Residential Sales, B.C.



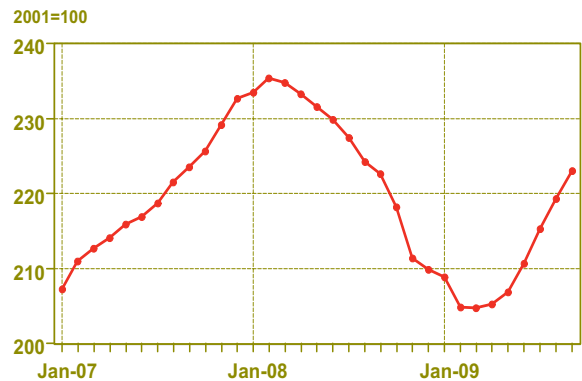
Source: CREA, C1CU. Note: Seasonally adjusted. Latest: Sep-09

B.C. Residential Median Sales Price



Source: Landcor Data Corp., C1CU. Note: Seasonally adjusted. Latest: Sep-2009

Housing Price Index, Lower Mainland



Source: REBGV, C1CU. Note: Seasonally adjusted. Latest: Sep-09

Housing sales – Following a 25% sales plunge in 2008, housing sales rise 10% in 2009 and with that momentum climb 30% higher in 2010. Record low mortgage rates are a powerful sales stimulus and the current resurgence speaks to this effect along with the inherent attractiveness of homeownership for a majority of households. A more active market also induces existing homeowners to undertake transactions delayed in a poor market.

The change in the monthly trend is even more impressive with provincial MLS® residential sales in September up more than 150% from the January 2009 low. In the near term, sales will keep rising and break through 10,000 units monthly on a seasonally adjusted basis. October’s level is 9,400 units.

This strong and sharp upturn in housing sales eases in the first half of 2010 since its trajectory is unsustainable if it were to continue another six to nine months. Every initial recovery phase begins strong and falls back before resuming its cyclical climb. These temporary pauses in the sales trend are often due to a change in mortgage rates, consumer confidence, reductions in pent-up demand, government policies, or supply constraints.

Sales for all of 2011 will fall back slightly from 2010’s record high. This is a normal market outcome coming off a record and reflects a lower entry point in 2011. Unit sales could exceed those of 2010 under some conditions and those are in the alternative forecast scenarios section.

Housing prices - The median sales price for an improved residential property of less than two acres in B.C. increases to \$369,000 this year from \$360,000 in 2008. A six per cent gain in each of the next two years will push the median sales price to record highs at \$415,000 in 2011. The MLS® average sales price will rise about 7% per year in 2010 and 2011 also to record highs. Since there is a tendency to underestimate price increases, this forecast could prove low.

The monthly price trend is on track to break the previous high by the end of the year or early in 2010, depending on the measure. The MLS® Housing Price Index for Greater Vancouver is less than 5% from its February 2008 high and rising about 1% per month. The B.C. median sales price in

September is already above its previous high. The average MLS® residential sales price in B.C. is at a record high on a seasonally adjusted basis to \$487,700 in September. The actual average price of \$474,270 is only 2% below the March 2008 high of \$483,291.

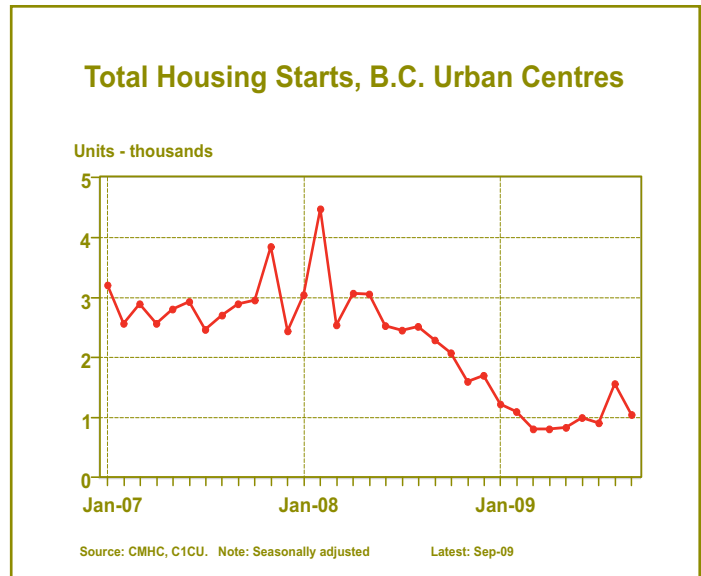
Housing starts – The steepest plunge in decades leaves housing starts at less than 15,000 units in 2009, compared to 34,321 units in 2008. However, the situation is quickly changing and builders are ramping up production to meet the strong pickup in sales and to increase their supply of pre-HST units. Housing starts will rebound almost 50% in 2010.

In 2011, housing starts will rise to 27,500 units on the strength of housing sales remaining at a high level and prices rising further. Multi-unit starts will experience a larger increase than single-detached homes due to their price advantage and greater availability in metropolitan markets.

The impending introduction of the HST causes a short-term build-up in housing starts to a spike around mid-year. After the drop-off, the monthly starts trend resumes climbing by the end of the year and throughout most of 2011.

Higher-priced new homes incur a larger HST cost since the rebate tops out at \$20,000, equivalent to 5% of a \$400,000 home after the presumed 2% input tax credit pass-through by builders of the 7% PST. At \$400,000, the rebate offsets the PST, however, purchasers of new homes selling for \$800,000 pay roughly an additional 4%, after the rebate. New single-detached homes and some condominiums in metropolitan markets are in high-priced brackets and their supply profile will be altered more than new homes priced under the rebate threshold.

Rental market – Weaker market conditions are ahead for the rental sector in B.C. but demand will begin to improve in 2011, sending the vacancy rate lower. The pickup in housing sales involves more renters switching to homeownership and the higher unemployment and lower interprovincial migration due to the recession will leave its mark on demand this year and in 2010. Increased demand due to job growth and higher in-migration will play a larger role in 2011, though the buoyant ownership market remains an attraction for some renters.



Newly constructed rental supply is almost exclusively from investor-owned condominiums. Exact numbers are not available, but since overall condominium completions remain at a high level this year and into 2010, this source of new supply remains significant in the short-term.

Renovations – Spending on home renovations is getting a boost from the federal Home Renovation Tax Credit, which expires next February. While spending was down in the first half of 2009 versus the same period last year, some of this reflects lower construction costs. Statistics Canada does not produce quarterly inflation-adjusted estimates of renovation spending. However, spending increased in the second quarter of 2009 and this trend should hold up into next year.

For the year, the spending forecast is \$5.5 billion, up 4% from last year, but it will slip in 2010 to \$5.35 billion with the end of the tax credit. It will resume growing in 2011, however.

Regional forecasts

Housing markets in B.C. respond to macroeconomic factors such as interest rates, industry conditions, and others, but also to local economic and market factors. During a major macro force such as the financial crisis and the ensuing recession, all markets were affected and plunged 25% to 40% from 2008 sales. During this initial recovery those same strong forces are at work driving up sales. However, some divergent regional trends are emerging.

The sales upturn is much stronger in the metropolitan area markets such as Vancouver and Victoria than in more resource-dependent economies of northern B.C. or the Kootenays. For 2009, MLS® residential sales will jump 45% in Vancouver and 25% in Victoria but shrink in the Kootenay and B.C. Northern real estate board areas. Only small gains this year are likely in the Okanagan and Kamloops markets.

In 2010, sales momentum will grow in markets with small or no gains in 2009, while momentum eases in the metropolitan markets. Gains between 30% and 50% are likely in the Okanagan, Northeast, and Vancouver Island markets outside of Victoria. Vancouver and Victoria sales gains between 20% and 25% are still substantial, though smaller than in 2009.

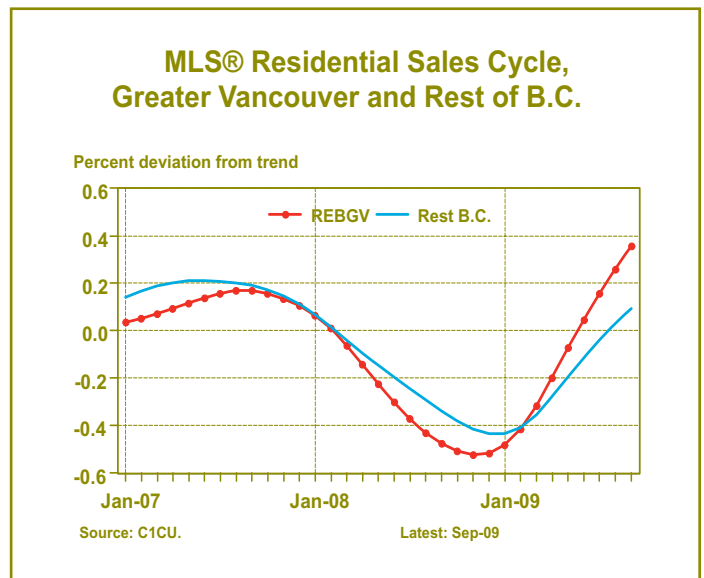
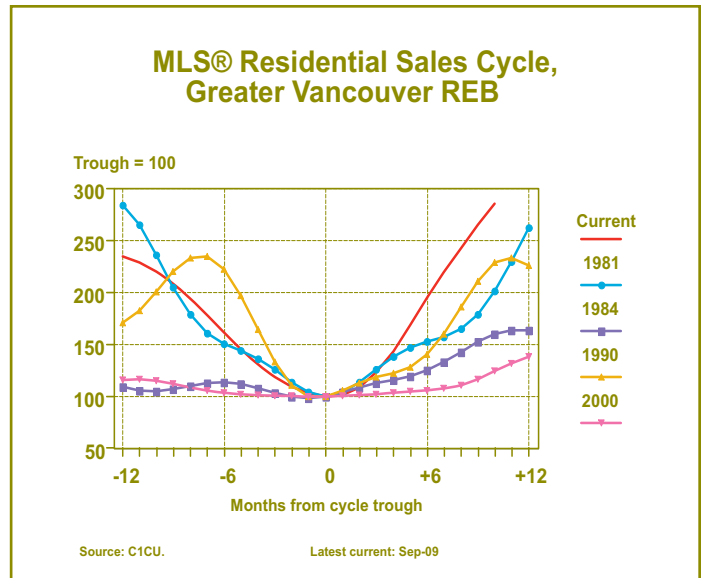
The predicted pause in housing sales during 2010-2011 is most noticeable in the Vancouver and Victoria markets and leaves unit sales at a slightly lower level in 2011 than in 2010. Markets in northeastern B.C. benefit from expanding energy sector activity and will post a sizeable increase in 2011.

There is some regional variation in price movements but mainly in degree rather than direction. Practically all markets will see a lower average sales price this year than in 2008 and will post gains in 2010 as high as 10%. Similarly in 2011, sales prices in all markets will rise between 6 and 12%.

The large contraction in housing starts has hit all regions in 2009 but the recovery in 2010 will be uneven and largely centred in the metropolitan area markets. Vancouver region new housing construction will climb more than 50%, while in the Okanagan a rebound of 80% or more is likely, though off a very low 2009 base. Resource-dependent markets will experience increased new residential investment spending in 2011 when those economies are better performing.

Housing cycle

The sharpest and deepest recession cycle on record turns into the strongest recovery phase not only due to record low mortgage rates but also as a normal response to the large hole left by the recession. Technically, a recovery profile is often the mirror image of the recession.



Most recent data confirms the end of the housing sales recession occurred in late 2008, followed by the price recession around March-April 2009, and the housing starts recession in August-September 2009. The sales cycle always turns before prices and starts.

The current sales revival is the strongest on record for the Vancouver region and is where the recovery first emerged in B.C. From its trough level, sales are up almost 200% through to September, 2009. That compares to the next strongest upturn after ten months of the 1991 recovery with a 133% increase. The weakest recovery was the cycle beginning in 2000 with only a 24% increase after ten months. Comparing Vancouver’s sales recovery with the rest of B.C. sales reveals a stronger and earlier turnaround.

Now that the housing recession is over, considerations turn to the recovery cycle and its strength and durability. Technical aspects of a normal housing sales recovery cycle are a strong initial upturn followed by one or more temporary declines before reaching a peak between 15 and 63 months later, lasting 38 months on average since 1980, but with a large standard deviation. Technical signs do not determine the recovery profile rather it is fundamental drivers such as interest rates, employment, incomes, migration, affordability, confidence, and supply factors such as financing, construction costs, and input availability within a government policy framework.

Forecast assumptions

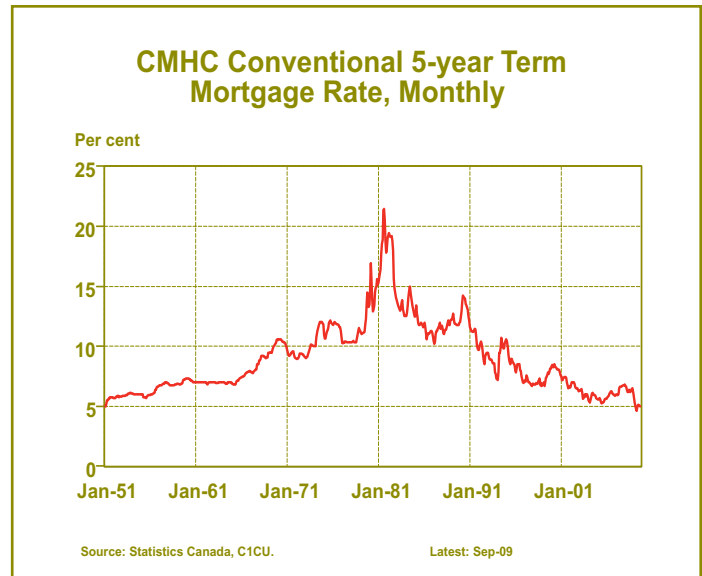
Favourable mortgage rates, a growing economy, and an easing in financing conditions for builders and developers are the main macro assumptions behind the forecast. No double-dip recession is part of this forecast but is the main forecast risk.

Record low mortgage rates are not a permanent feature of this economy and higher mortgage rates will emerge in 2010 and 2011. The timing and pace of these increases is important and when the central bank begins its rate normalization phase around mid-2010, mortgage rates will turn up with conviction. Larger rate increases are likely in 2011 when the economy’s growth path is well established.

The posted closed five-year term probably breaks through 7.00% in 2011. The current posted rate is about 5.80%, but the contract or discounted rate is around 4.00%. In 2011, a contract rate between 5.00% and 5.50% is likely.

Variable rate mortgage costs climb faster than five-year rates since variable rates gear off the prime lending rate, which is influenced by the central bank’s policy rate. Rate normalization by the central bank means a substantial increase in the policy rate by more than two full percentage points by the end of 2011.

Housing market activity can expand or hold up in the midst of rising rates when the economy is generating job and income growth. Consumer confidence rises in tandem and bolsters the demand environment. However, higher mortgage rates squeeze out low-equity buyers. A key element of this housing forecast is no double-dip economic recession in the U.S. spilling over into B.C.



The prevailing view of U.S. forecasters is no double-dip recession in 2010, a below-average recovery, and a subdued performance in 2011. Not surprisingly, forecasters hold a similar view for the Canadian economy.

B.C.’s economic recession likely ended in the second or possibly the third quarter of 2009. The 2010 Winter Olympics will provide a significant one-time boost early next year with a fallback to underlying conditions thereafter. Forecast economic growth is 2.4% in 2010 and 2.8% in 2011 and in current dollar terms at 4.1% and 5.5%, respectively. Job and income growth commences with the economic recovery and gains momentum into 2011. Migration flows to B.C. also pick up but more noticeably in 2011.

Forecast scenarios

The most prominent alternative economic scenario is the double-dip recession. A double-dip recession is a rare event and the last U.S. double-dip was in 1980-1982 precipitated by an oil price shock, credit controls, and tighter monetary policy to quell high inflation. Current conditions for another double-dip recession in the U.S. centre on the ending of fiscal stimulus programs, restrained credit flows, and a weak consumer spending outlook due to high unemployment and battered household finances.

Under the double-dip scenario, B.C.’s economy would be sideswiped by a drop in exports to the U.S., a plunge in equity markets, and possibly a negative currency movement though this result is ambiguous. Another recession would

Economic Forecast Summary: British Columbia

Indicator	2008	2009f	2010f	2011f
Real GDP, % chg.	-0.3	-3.4	2.4	2.8
Nominal GDP, % chg.	3.5	-4.0	4.1	5.5
Employment, % chg.	2.1	-2.5	1.8	2.5
Unemployment Rate, %	4.6	7.8	7.5	7.0
Population, % chg.	1.7	1.6	1.5	1.6
Retail Sales, % chg.	0.3	-5.4	3.0	5.4
Personal Income, % chg.	5.2	-1.6	3.3	4.1
Corporate Pre-tax profits, % chg.	2.2	-25.5	14	19.9
Consumer Price Index, % chg.	2.1	0.4	1.7	1.5

Source: Statistics Canada, C1CU forecast.

set back consumer and business confidence with negative consequences for spending.

In this scenario, policymakers would respond quickly and aggressively to counteract the fallback into recession. Central bankers would keep policy interest rates low and fiscal stimulus programs would be re-introduced. Aggressive global policy co-ordination ended the last recession as soon as it did and the second-dip recession could end quickly. The risk of a double-dip recession is greatest in 2010 and diminishes considerably in 2011.

In a double-dip economic recession, the housing market would also undergo another recession but probably not as deep as the previous one. Low rates would provide a

stimulus to sales that was not present last year. Housing volume forecasts would be lower by about 30% to 40% in 2010 and housing prices would retreat about 5% to 10% from the base case forecast.

A slowdown in U.S. and Canadian economic growth in the first half of 2010 is very likely but not a double-dip recession, which is assigned a less than 20% probability. A GDP contraction in the first quarter of 2010 has a higher probability but that alone does not qualify as a double-dip recession.

Another scenario is above consensus growth in 2010 and 2011. The resiliency and bounce-back of a market economy is often underestimated and out of recessions come opportunities seized by economic agents that create more economic activity. A few forecasters have U.S. economic growth in the 4% to 5% range in 2010, well above the consensus 2.6% forecast.

One downside for housing in this rosier scenario is higher interest rates than in the base case though this is offset by improved economic fundamentals on housing demand. In general, housing volume forecasts are higher by 10% to 20% and housing prices by 5% to 10%, particularly in 2011.

MLS® Residential Sales: B.C. Real Estate Boards

Real Estate Board	2008	2009f	2010f	2011f
BC Northern	4,038	3,550	4,200	4,400
Chilliwack	2,036	2,250	2,900	2,650
Fraser Valley	12,588	15,700	21,000	19,500
Greater Vancouver	25,149	36,800	45,000	40,000
Kamloops	2,235	2,250	2,800	3,000
Kootenay	2,265	2,000	2,300	2,600
Northern Lights	473	300	450	600
Okanagan Mainline	5,460	5,800	8,300	8,000
Powell River	210	300	400	350
South Okanagan	1,481	1,550	2,350	2,500
Vancouver Island	6,817	7,200	9,700	9,100
Victoria	6,171	7,800	9,600	8,700
British Columbia	68,923	85,500	109,000	101,400

Source: CREA, C1CU forecast.

B.C. Housing Market Forecast 2009-2011

MLS® Residential Average Sales Prices: B.C. Real Estate Boards

Real Estate Board	2008	2009f	2010f	2011f
BC Northern	215,538	211,100	218,800	232,000
Chilliwack	316,229	298,000	314,500	345,000
Fraser Valley	431,781	424,500	456,300	499,000
Greater Vancouver	593,767	587,500	636,000	690,000
Kamloops	307,369	301,100	317,400	351,000
Kootenay	287,549	276,800	285,600	309,000
Northern Lights	191,685	220,000	241,000	268,000
Okanagan Mainline	406,647	377,300	408,900	448,000
Powell River	254,117	245,700	257,000	272,000
South Okanagan	339,394	321,000	355,000	395,000
Vancouver Island	330,556	318,400	338,000	368,000
Victoria	484,898	474,000	515,500	554,000
British Columbia	454,599	463,800	497,800	534,400

Source: CREA, C1CU forecast.

Housing Starts: B.C. Development Regions

	2008	2009f	2010f	2011f
British Columbia – Total	34,321	14,600	21,400	27,500
Development Region ¹ :				
Lower Mainland & Southwest	21,939	8,600	13,100	16,600
Vancouver Island & Coast	4,332	2,200	3,150	4,200
Thompson & Okanagan	3,803	1,300	2,400	3,200
Cariboo	325	200	200	250
Northeast	184	150	200	350
Kootenay	209	100	100	150
North Coast & Nechako	65	50	50	50
Centres under 10,000 population	3,464	2,000	2,200	2,700

Source: CMHC, C1CU forecast. ¹. Urban centres.

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