

New Housing Fundamentals

The most basic driver of new home construction is the rather simple need to put roofs over heads – the more new heads there are, the more new roofs are required. Therefore, housing starts tend to fluctuate around the rate of new household formations, with cyclical movements caused by changes in macroeconomic fundamentals like labour market conditions and interest rates.

As the BC economy emerged from the doldrums of the late 1990s, new home construction flourished. New construction activity benefited from low interest rates and strong economic growth, but mostly from a wave of new households formed through a mix of immigration and an overall westward shift in Canadian labour mobility. From 2004 to 2008, an average of 35,000 new units were added to the BC housing stock each year. However, with the onset of the 2008 financial crisis, new construction came to a halt and the subsequent fear and uncertainty curbed new home construction to just 16,077 starts in 2009 – the lowest level in almost ten years.

As the exuberance of the pre-recession years gave way to caution, the gap between expected household formation and growth in the housing stock, and therefore in the supply and demand for housing, has grown.

So what does the future have in store for the BC home construction industry? Let's look a little closer at some of the most important medium-term fundamentals that drive the new home market.

New Household Formation

BC Stats estimates that the province will add over 300,000 new households over the next ten years, largely through immigration. This household growth is projected to be concentrated around already densely populated regions like the Greater Vancouver Area and Victoria. However, as baby-boomers exit the workforce, we also expect to see a flood of retirees into communities in the Okanagan and on Vancouver Island. Given these trends, housing starts will likely continue to be focused on multi-family projects rather than single-detached homes. These



BCREA Economist
Brendon Ogmundson

further additions to the lower mainland's already diversified housing stock should provide affordable choices for new home buyers, young families and others entering the BC market.

Mortgage Rates

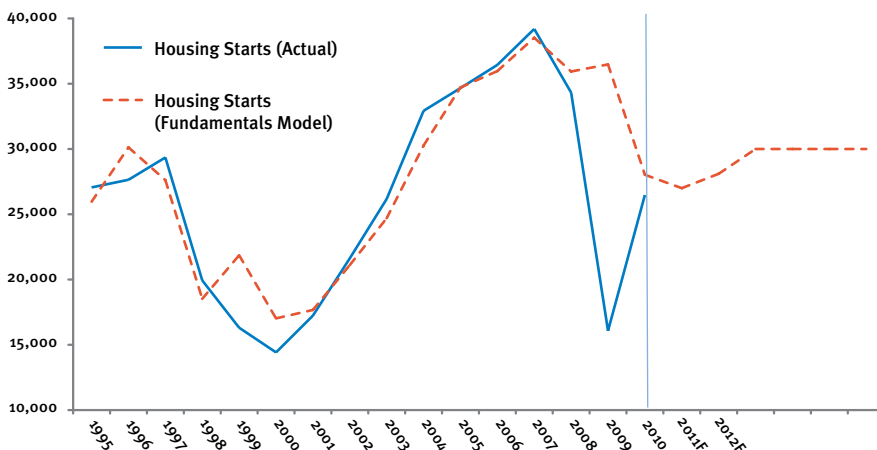
Canadian interest rates continue to act as the other shoe for housing markets, with rate tightening always seemingly just over the horizon. Although the timing of rate increases remains uncertain, interest rates will have to normalize over the medium term. That said, mortgage rates are likely to settle at levels that are, historically, relatively low.

Housing Market Conditions

As observed in BCREA's most recent Housing Forecast, we anticipate a moderate increase in consumer demand over the next two years. Higher mortgage rates should somewhat offset a stronger economy to keep demand slightly below 10-year average levels and home prices somewhat flat.

The following decade will see some interesting changes to the landscape in BC, but the demographic and economic trends should continue to favour a solid pace of new home construction activity in the years ahead.

Housing Starts Should Catch up to Fundamentals



Source: CMHC, BCREA Calculations

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Send questions and comments about *The Bulletin* to:

Editor: Damian Stathonikos
Assistant: Lindsay Cook

1420 - 701 Georgia Street West
PO Box 10123, Pacific Centre
Vancouver, BC V7Y 1C6

Phone: 604.683.7702
Fax: 604.683.8601
Email: bcrea@bcrea.bc.ca

www.bcrea.bc.ca

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