Rental Housing Market Outlooks

For Major Centres Within British Columbia

Completed by

Will Dunning Inc.

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Introduction

Residential rental markets are tightening in many communities across Canada, and certainly within British Columbia. On-going growth of the population, as well as growth of employment, is resulting in continuing strong demand for new housing (for rental and for home ownership). Meanwhile, production of new housing is not keeping pace with the expansion of demand, with the result that vacancy rates are falling. As a further consequence, rents are increasing, frequently by more than incomes are growing. Many segments of the population are facing worsening challenges in finding rental accommodations that meet their needs, at costs that they can afford.

Among the groups that are being negatively affected are university and college students who require off-campus housing.

This report has been completed as part of a larger research project by Customer Relationship Index Inc. for the British Columbia Ministry of Advanced Education, Skills and Training. The primary goal of this research is to provide an overview of evolving rental market conditions within major communities in British Columbia, and to develop forecasts for these rental markets for 2019 to 2024.

The forecasts of vacancy rates and rent growth are shown in Table 1. To summarize:

- Vacancy rates are expected to rise in the near term, due to large volumes of housing that are currently under construction. As that housing is completed and becomes available to be occupied, there will be more mobility and choice within these housing markets.
- However, volumes of new housing starts are projected to fall, chiefly due to the mortgage stress tests that are making it more difficult to buy homes. Added to this are the effects of higher mortgage interest rates and provincial policies that aim to discourage buying by non-residents and speculators. This will mean that volumes of housing completions will be reduced in the later years of the forecast period. The effects will vary across the seven market areas. In Vancouver, vacancy rates are expected to be roughly flat in the later years. For Victoria and Abbotsford-Mission, vacancy rates are expected to rise further. Reductions are expected for Kelowna, Prince George, Terrace, and Nanaimo.
- In all seven of these market areas, recent vacancy rates have been below the estimated “balanced market thresholds”. This has caused rent growth to exceed the 2% growth rate that we might consider “neutral” or “healthy” (as 2% rent growth would match expected growth for incomes or overall inflation). In consequence of low vacancy rates, all seven of these areas have experienced rapid rent growth in recent times.
- The combination of low vacancies and rapid rent growth has created increasingly stressful situations for tenants.
- The forecasts suggest that vacancy rates will remain below the balanced market thresholds in five of the seven areas (the exceptions being Victoria, where vacancy rates are projected to be above the local threshold, and Terrace, where vacancy rates are expected to be close to or slightly above the threshold). The anticipated result is that in those five areas, rent growth will continue to exceed 2%, and the challenges for tenants will worsen. Only Victoria is expected to see an improving environment for tenants (rents are forecast to erode during the later years of the forecast period), and the outlook for Terrace is neutral.

Table 1 ***Summary of Rental Market Forecasts***							
	Vancouver CMA	*Victoria CMA*	*Abbotsford -Mission CMA*	*Kelowna CMA*	*Prince George CA*	*Terrace CA*	*Nanaimo CA*
Vacancy Rates							
2014	1.0	1.5	3.0	1.0	2.9	2.5	4.5
2015	0.8	0.7	0.8	0.7	4.4	3.1	2.2
2016	0.7	0.5	0.7	0.6	4.1	3.9	1.7
2017	0.9	0.7	0.2	0.4	3.7	5.4	1.9
2018	1.0	1.1	0.9	1.8	3.6	4.1	2.4
2019	1.1	1.7	2.5	2.5	3.7	5.9	2.8
2020	1.2	2.6	3.5	2.7	3.6	8.5	3.0
2021	1.2	3.1	4.4	2.4	3.4	8.1	2.9
2022	1.2	3.3	4.2	2.1	2.9	8.1	2.5
2023	1.2	3.4	4.6	1.8	2.4	7.6	2.0
2024	1.2	3.4	4.8	1.7	2.0	7.2	1.9
Estimated Balanced Market Vacancy Rate	<2%	2%	5.5-6%	3%	5-6%	7%	5-6%
Rent Increases							
2014	2.5	2.0	2.0	2.0	3.1	12.0	1.2
2015	3.9	2.0	2.0	2.0	1.8	5.8	3.5
2016	6.4	5.4	5.4	5.4	3.6	2.7	4.3
2017	5.8	7.6	7.6	7.6	2.0	-2.9	5.4
2018	6.1	7.4	7.4	7.4	3.4	9.2	6.6
2019	4.2	2.6	6.3	3.5	2.6	4.7	2.7
2020	4.1	0.7	4.8	2.6	3.1	4.0	3.1
2021	3.8	-0.4	4.0	2.3	3.3	0.8	3.2
2022	3.5	-1.2	2.5	2.3	3.7	1.2	3.3
2023	3.8	-1.1	3.1	3.0	4.0	1.1	3.6
2024	3.9	-1.2	2.8	3.5	4.4	1.5	3.6
Averages							
Vacancy Rates							
2014-2018	0.9	0.9	1.1	0.9	3.7	3.8	2.5
2019-2024	1.2	2.9	4.0	2.2	3.0	7.6	2.5
Rent Increases							
2014-2018	4.9	4.9	4.9	4.9	2.8	5.4	4.2
2019-2024	3.9	-0.1	3.9	2.9	3.5	2.2	3.2
Source: forecasts by Will Dunning Inc., using data from Canada Mortgage and Housing Corporation.							

Methodology

The forecasts that are presented in this report have been developed using the author's housing market forecasting system. That system has evolved over many years. The system incorporates multiple inter-related components (in which recent trends are reviewed and forecasts are developed):

- Within this forecasting system, growth of employment is influenced in particular by the wealth effects that result from changes in house prices and the stock market, as well as by interest rates, the Canada-US exchange rate, changes in prices for the key commodities that are produced (and used) within Canada, and finally by the rate of population growth.
- In this application of the forecasting system, the length of the forecasting period makes it hazardous to make assumptions about how these factors will change. Therefore, it is assumed that the employment situations will be stable: the "employment-to-population ratios" (the shares of adults who have jobs) will be equal to the average seen over the past three years. In other words, it is assumed that employment will grow at the same rate as the adult population.
- Resale market activity depends on job creation and changes in the monthly costs of home ownership, as well as price growth (because variations in rates of price growth can encourage or discourage home-buying).
- House price growth depends on the balance between sales and listings.
- Housing starts depend on job growth, mortgage costs and conditions in the resale market (when the resale market is tight with more rapid price growth, consumers become more interested in new homes).
- Housing completions occur after starts.
- Vacancy rates in the rental market are determined by growth in employment (which increases housing demand and therefore tends to push vacancies downwards) and housing completions (the expansion of supply tends to push vacancies upwards).
- During the evolution of this forecasting system, through application to many communities across the country, it has been found repeatedly that total completions of housing are more important than construction of new rentals. This makes sense because when new ownership housing is available and someone moves into it, they are usually moving out of somewhere else: this sets-up a chain of movements, and usually within the chain there is a movement out of a rental.
- Rent increases are influenced by vacancy rates. This analysis makes it possible to estimate "balanced market" vacancy rates – the vacancy rate at which rents increase at the same rate as incomes or overall inflation (these balanced market rates vary across communities).

Housing activity across Canada has clearly been negatively affected by federal government policies related to mortgage lending (especially the mortgage stress tests that must now be applied to most mortgage loan applications). In addition, within BC, evolving policies that are intended to discourage buying by non-residents and speculators have further aggravated the slowdown of home-buying. To date, the effects are obvious in resale markets, but it takes longer for new construction to be affected. The forecasts indicate that new construction activity will slow gradually during 2019 and into 2020, which will then tend to reduce vacancy rates and tend to result in more rapid rent increases.

The forecasts presented here have built-in some statistically-derived estimates of the combined impacts of these federal and provincial policies. It has not attempted to estimate the separate impacts of the policies. Within the forecasts, it is assumed that the negative effects will gradually diminish over time (for example, for Vancouver it is assumed that by the end of the forecast period in 2024, the negative effect will be 40% as strong as in 2018). This is of course highly speculative, in part because it is unknowable how the policies might be changed.

Other analysts will hold differing expectations about how these negative impacts will evolve. The author's assumptions are based largely on work completed for Mortgage Professionals Canada, which indicates that it will be very difficult for consumers to escape the negative effects on their abilities to buy homes. As a further consequence, therefore, it is quite possible that the federal and/or provincial governments will, as a result of the persistence of the effects, loosen these policies.

Limitation of Liability

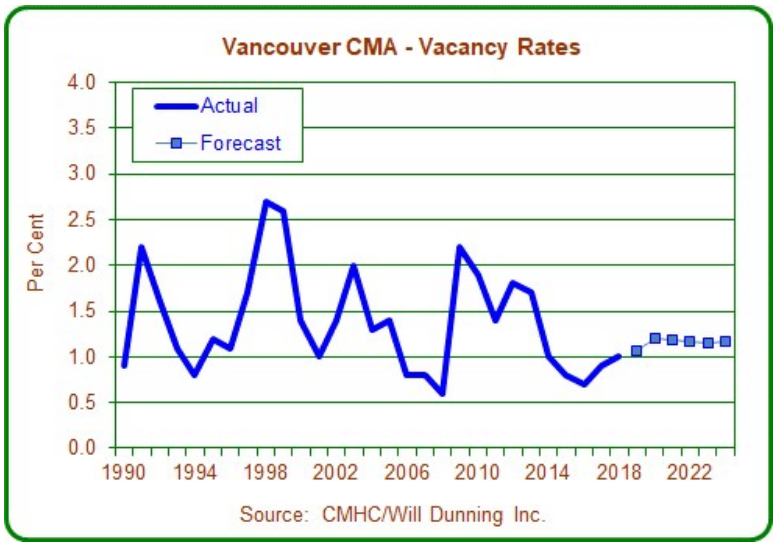
The forecasts developed herein depend upon many assumptions and future events which, of course, are not foreseeable. Consequently, this report is submitted subject to a disclaimer of liability, that Will Dunning Inc. does not accept any liability in excess of the amount of professional fee paid for the report, for any information, analysis, conclusions, or recommendations contained in or arising from the report(s), letter(s) or, verbal communication(s). **IN NO EVENT SHALL WILL DUNNING INC. BE RESPONSIBLE FOR ANY INDIRECT OR CONSEQUENTIAL DAMAGES WHATSOEVER.**

About Will Dunning

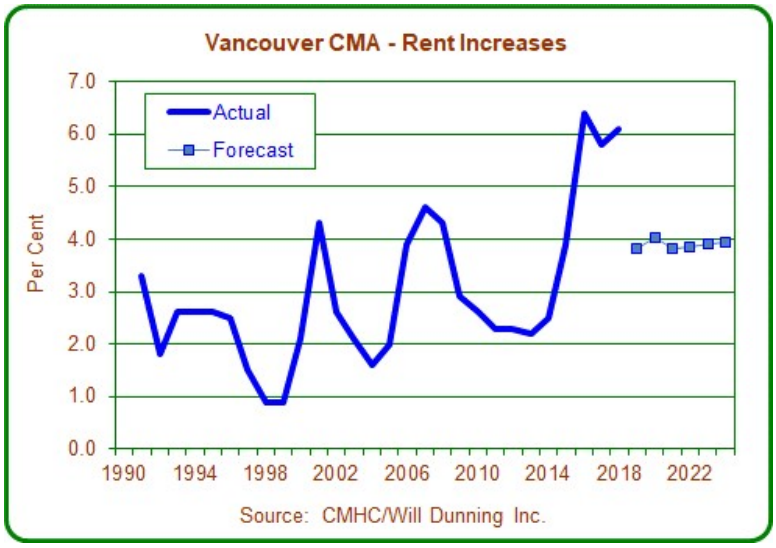
Will Dunning is the principal of Will Dunning Inc. He has specialized in the analysis and forecasting of housing markets since 1982. This includes 15 years in various market analysis positions at Canada Mortgage and Housing Corporation. In addition to being an independent economic consultant, he acts as the Chief Economist for Mortgage Professionals Canada and occasionally consults to the Canadian Home Builders Association. Other clients include associations, governments, non-governmental organizations, financial institutions, investors and asset managers, and home builders.

Vancouver CMA

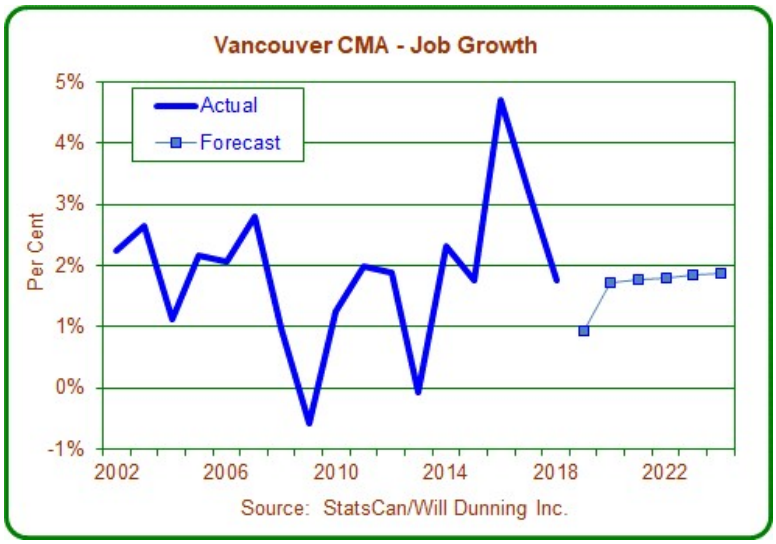
Vancouver CMA experiences low vacancy rates most of the time. During 1990 to 2018, the vacancy rate averaged just 1.4%. This chart shows actual data from CMHC for 1990 to 2018, and the author's forecasts for 2019 to 2024.



Statistical analysis indicates that the "balanced market" vacancy rate for Vancouver CMA is at or below 2% (this is the vacancy rate at which rents would be expected to increase at the same rate as overall inflation). During the past 29 years, the actual vacancy rate has been above this threshold just four times. The vacancy rate has been below 2% every year since 2010, and at or below 1% each year since 2014. Chronically-low vacancy rates have resulted in rapid rent growth. For 1990 to 2018, CMHC data indicate that rents have increased by an average of 3.0% per year. In inflation-adjusted terms, the average increase has been 1.0% per year. Increases have been especially rapid during the past three years.



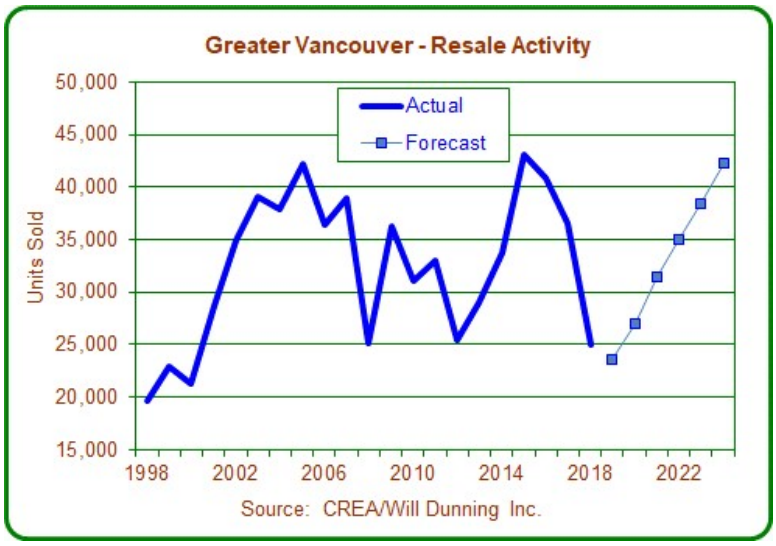
There is always uncertainty about the accuracy the job creation estimates from Statistic Canada, especially at the local level. That said, Statistics Canada estimates that Vancouver CMA job growth averaged 2.8% during the past four years, which exceeds the average of 1.9% per year for the period shown in this chart. During the past four years, job growth sharply exceeded the rate of population growth (estimated by Statistics Canada at 1.6% per year).



Rapid job creation has resulted in strong housing demand, the effects of which have included strong home buying activity with rapid price growth, expanding housing starts, and low vacancy rates in the rental market.

As is shown in this chart, resale activity began to fall during 2016 and 2017, and then by a much larger amount during 2018, due to negative factors that included: provincial policies aimed at deterring buying by non-residents and speculators, by the federally-mandated mortgage stress tests, and by rising interest rates.

Housing starts have followed the swings in resale market activity, and housing completions, in turn have lagged behind starts.



Recent Trends and the Outlook

Strong job creation has bolstered demand for housing, including rentals. At the same time, rising volume of housing completions have allowed for more mobility in the housing market, bringing small rises in the vacancy rate, from a low of just 0.7% in 2016, to a still very low rate of 1.0% in 2018.

Looking forward, the housing forecasts are based on an expectation that during the entire forecast period, jobs well be created at the same rate as the adult population is growing (assumed to be just under 2% per year).

Continued very high volumes of housing completions should allow for further modest rises in the vacancy rate during 2019 (1.1%) and 2020 (1.2%). But, the sharp

drop in housing sales that has occurred during 2018 is expected to bring correspondingly lower volumes of housing starts in 2019 and beyond, and lower completions for 2020 and beyond. This is projected to result in a forecast vacancy rate that is relatively stable, but at a quite low level (in the area of 1.2%), which would remain well below the balanced market threshold of about 2%.

Sustained low vacancies have encouraged landlords to raise their rents sharply. During the past three years, rents in Vancouver CMA have increased by an average of just over 6% per year. This is slightly faster than the statistical analysis suggests should have occurred – an average of 4.8% per year.

The modest improvement in the vacancy rate should be expected to slow the rate of rent increases. But the increases are still projected to average 3.9% per year during the forecast period up to 2024 (a total rise of 26% during the six year projection period). This will be significantly in excess of the 2% rate of inflation (and wage growth) that we might reasonably expect. In “real” (inflation-adjusted) terms, rents in Vancouver CMA are projected to increase by 12% during 2018 to 2024.

Based on rent trends during the past three years (when rents increased by about 1.3 points per year more than they “should” have), it is possible that actual rent growth will be even faster than projected.

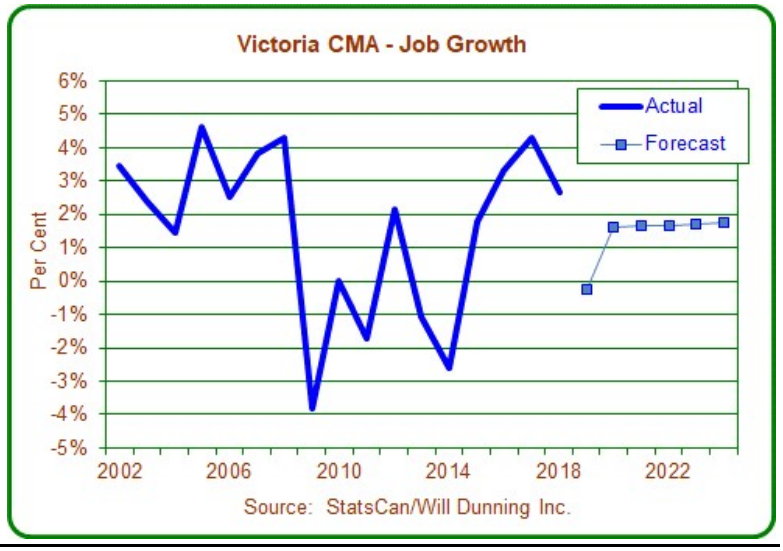
These projections assume that the negative impacts of the federal and [provincial policies will gradually wane, which could occur through adjustments by consumers (buying less expensive properties than they would otherwise, and/or increasing their down payments) or by policy amendments that allow for more home-buying. If the home-buying recovery is substantially weaker than is anticipated, future housing completions would be lower than projected and vacancy rates would be lower, with rents increasing even more rapidly than these forecasts. On the other hand, if there are substantial policy reversals, then home-buying would be strong than expected and vacancy rates (late in the forecast period) would be higher than projected, with slower rent growth.

Victoria CMA

The rental market in Victoria CMA has shown considerable variation over time. experiences low vacancy rates most of the time. During 1990 to 2018, the vacancy rate averaged 1.6%. Actual vacancy rates have been below this average since 2014.

Statistical analysis indicates that the "balanced market" vacancy rate for Victoria CMA is about 2% (this is the vacancy rate at which rents would be expected to increase at the same rate as overall inflation). During the past 29 years, the vacancy rate has been below this threshold on average, but there have been periods of above-threshold and below-threshold vacancy rates, which has resulted in wide variations in rates of rent increases. For 1990 to 2018, CMHC data indicate that rents have increased by an average of 3.0% per year. In inflation-adjusted terms, the average increase has been 1.1% per year. Increases have been especially rapid during the past three years (averaging 6.8% per year).

Statistics Canada estimates that Victoria CMA job growth averaged 3.0% per year during the past four years, which exceeds the average of 1.6% per year for the period shown in this chart. During the past four years, the rate of job growth has been more than double the rate of population growth (estimated by Statistics Canada at 1.2% per year). As usual, there is uncertainty about the accuracy of these estimates. The projection shows a small drop for 2019, which reflects that job creation



might have been over-estimated during 2016 and 2018, and the forecast builds-in an adjustment.

Housing demand has been very strong, due to the rapid rate of job growth, and the addition of demand from new-comers and non-resident buyers. In consequence, there has been strong home-buying activity with rapid price growth, expanding housing starts, and very low vacancy rates in the rental market.

As is shown in this chart, resale activity spiked in 2016, but fell in both 2017 and 2018. For 2018, sales were below the long-term average (over time, we should expect that sales will trend upwards because the population is growing and there are more potential buyers. As well, due to housing completions, the stock of existing homes is growing and there are more homes that could be potential sold. Therefore, below average sales for 2018 are indicative of a sharply weakened housing market.)

Strong demand plus rapid price growth stimulated a sharp rise in housing starts during 2016 to 2018. Housing completions are now beginning to follow the expansion of starts.

Recent Trends and the Outlook

Very strong job creation during the past four years has generated a need to expand the inventory of housing. Since that expansion takes time to materialize, the result was extremely low vacancy rates (just 0.5% in 2016), with rapid growth of rents. The recent small rise in housing completions has helped to reduce the pressures,

but the vacancy rate was still just 1.1% in 2018.

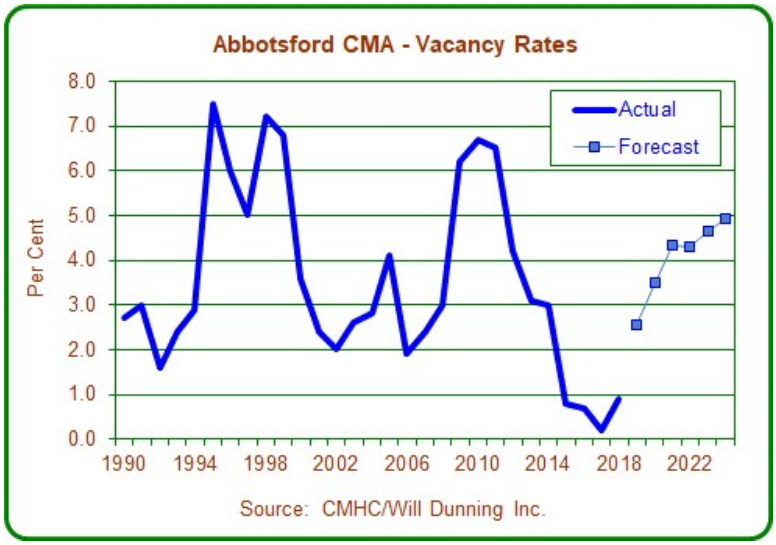
Looking forward, the large numbers of housing starts that occurred during 2016 to 2018 will result in correspondingly very large volumes of housing completions during 2019 and 2020, with a potential gradual slowing during 2021. The large expansion of the housing inventory is forecast to result in sharp rises in the vacancy rate. There will be a rapid transition of the vacancy rate from the recent below-threshold state, to above-threshold conditions starting in 2020. The forecasting system suggests that even during the second half of the forecast period, housing production will be high enough to result in sustained vacancy rates of 3% (or even higher).

Historically, low vacancy rates in Victoria CMA have allowed landlords to raise their rents by more than overall inflation or income growth. These forecasts suggest that during the coming years, elevated vacancies (averaging 2.9% over the forecast period) will result in no rent growth overall (small rises during 2019 and 2020 and drops in 2021 to 2024). But, it is unusual for rents to actually fall, except in extreme conditions. Therefore, it is possible that rents will rise slightly during the forecast period (perhaps by an average of 0.5% to 1% per year).

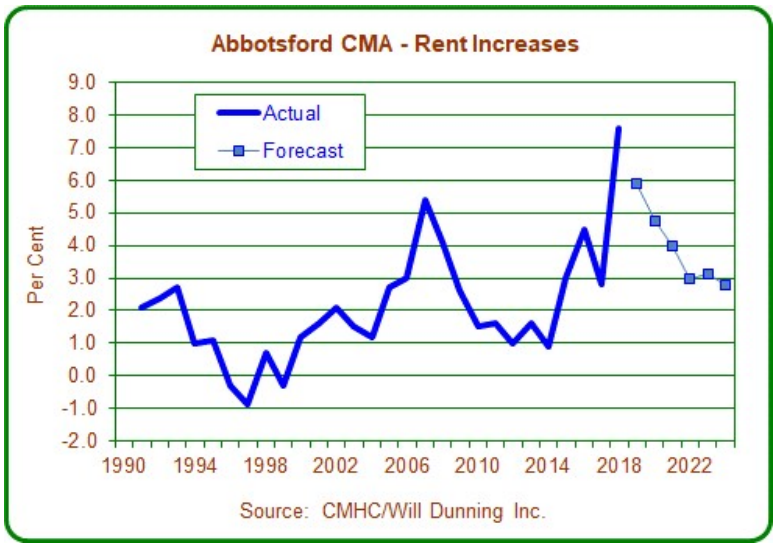
As in Vancouver, these projections assume that the negative impacts of the federal and [provincial policies will gradually wane, which could occur through adjustments by consumers (buying less expensive properties than they would otherwise, and/or increasing their down payments) or by policy amendments that allow for more home-buying. If the home-buying recovery is substantially weaker than is anticipated, future housing completions would be lower than projected and vacancy rates would be lower, with rents increasing even more rapidly than these forecasts. On the other hand, if there are substantial policy reversals, then home-buying would be strong than expected and vacancy rates (late in the forecast period) would be higher than projected.

Abbotsford-Mission CMA

The Abbotsford-Mission CMA rental market has shown wide extremes. During 1990 to 2018, the vacancy rate averaged 3.5%. Actual vacancy rates have been below this average since 2013, and have been extremely low since 2015.



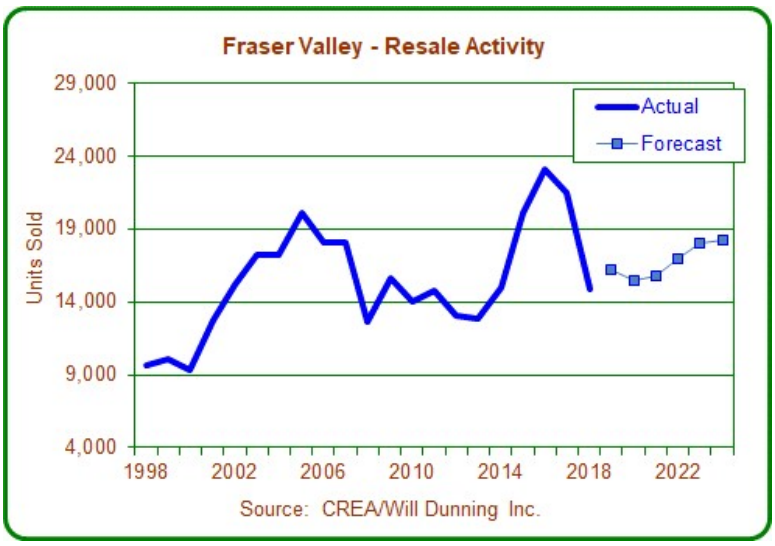
Statistical analysis indicates that the "balanced market" vacancy rate for Abbotsford CMA is in the area of 5.5% to 6% (this is the vacancy rate at which rents would be expected to increase at the same rate as overall inflation). During the past 29 years, the vacancy rate has been below this threshold on average, but there have been periods of above-threshold and below-threshold vacancy rates, which has resulted in wide variations in rates of rent increases. For 1990 to 2018, CMHC data indicate that rents have increased by an average of 2.1% per year: rents have been close to flat in inflation-adjusted terms. During the past four years, extremely low vacancy rates (averaging 0.7%) have resulted in average rent growth of 4.5% per year.



The employment data shows extremely wide variations (this is common in the estimates for smaller centres, due to small samples in the employment survey. The actual growth rates may have been less volatile than is suggested by the survey data.) For the past four years, the average estimated rate of job growth has been 2.4% (and for the entire period shown the average has been 1.8%). This has been slightly faster than the rate of population

growth (estimated by Statistics Canada at 1.7% per year over the past four years). The forecast of job creation assumes that the rate of population growth will increase, to an average of 2.5% per year during the next six years.

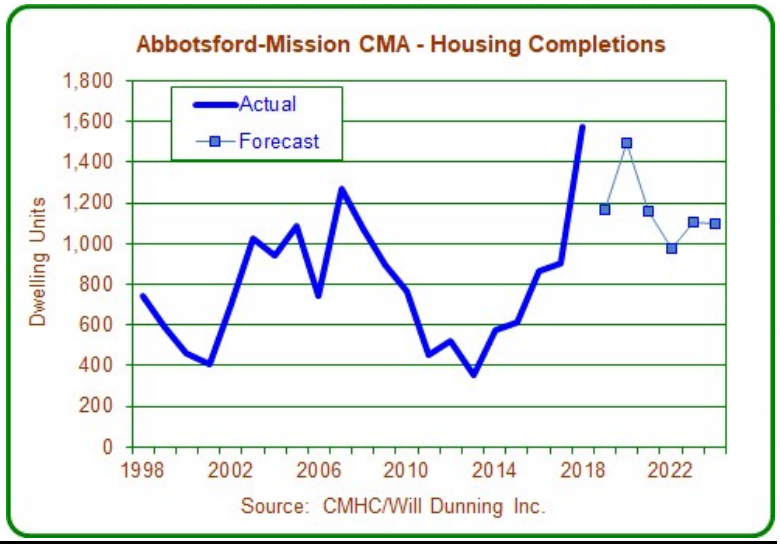
The strong economy of recent times has resulted in correspondingly strong housing demand, which has bolstered home-buying and brought very tight conditions in the rental sector. Resale activity was very strong during 2015 to 2017, but during 2018, there was a retreat to roughly the historic average (this chart shows data for CREA's Fraser Valley region). Strong sales resulted in extremely rapid price growth (at its peak in the summer of 2016 CREA's house price index for the Fraser Valley estimated year-over-year growth greater than 30%).



Housing starts were considerably above average during 2016 to 2018. This was gradually reflected in housing completions, which rose sharply in 2018 and will remain elevated for some time. Strong demand plus rapid price growth stimulated a sharp rise in housing starts during 2016 to 2018. Housing completions are now beginning to follow the expansion of starts.

Recent Trends and the Outlook

As was seen in Victoria, strong job creation during the past four years (and potentially an increase in the rate of population growth) has generated a need to expand the inventory of housing. Housing starts have increased. But the expansion of the inventory is just beginning. The result was a small improvement in the vacancy rate during 2018 (to 0.9% from the extreme low of 0.2% in 2017).



Looking forward, the rate of housing completions will remain elevated, supporting increased vacancy rates during 2019 to 2021 (at which time the vacancy rate is projected to exceed 4%).

Vacancy rates will still be lower than the estimated balanced market threshold, and therefore the forecasting system indicates that rent increases will continue to exceed overall inflation and income growth.

For the forecast period, the vacancy rate is projected to average 4.0%, with rent increases averaging 3.9% per year. These forecasts suggest that the rental market will remain challenging for tenants.

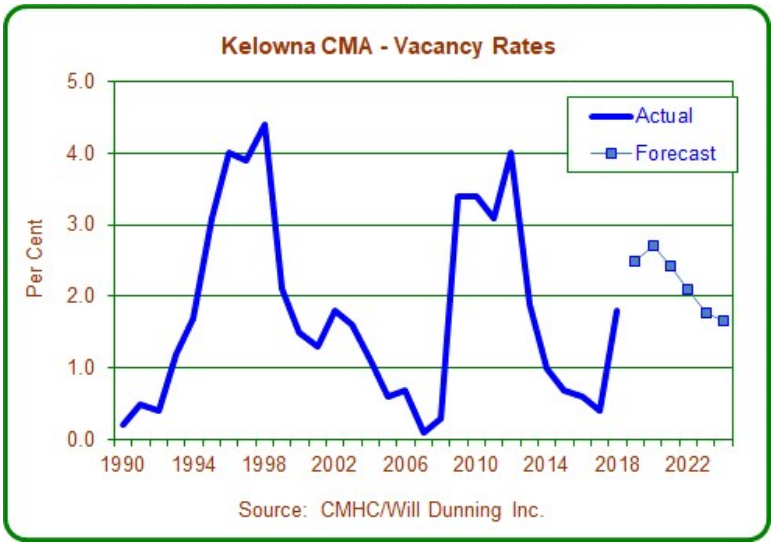
There is a major caveat for these forecasts: as elsewhere, the projections assume that the negative impacts of the federal and provincial policies will gradually wane, as consumers make adjustments. This will result in relatively high volumes of housing starts late in the forecast period, which would sustain vacancy rates at an above-average level. If that high volume of new construction does not occur, vacancy rates would be lower than projected and rent increases would be even more rapid than the projected average of 3.9% per year.

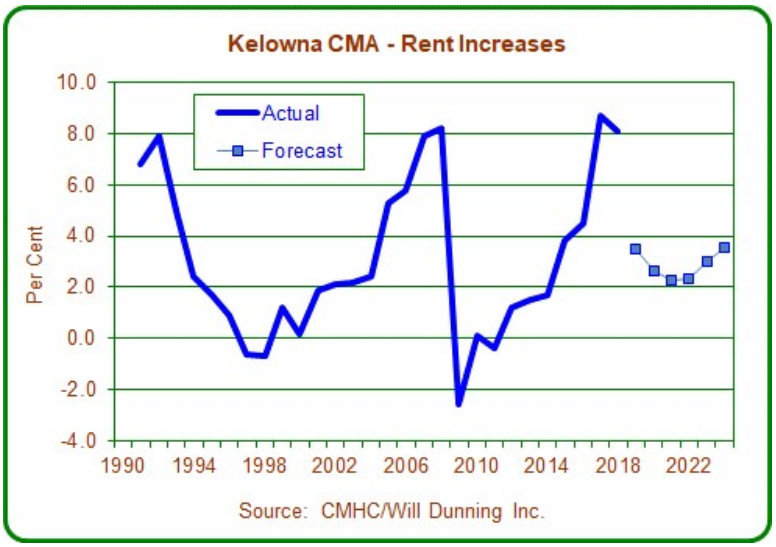
Kelowna CMA

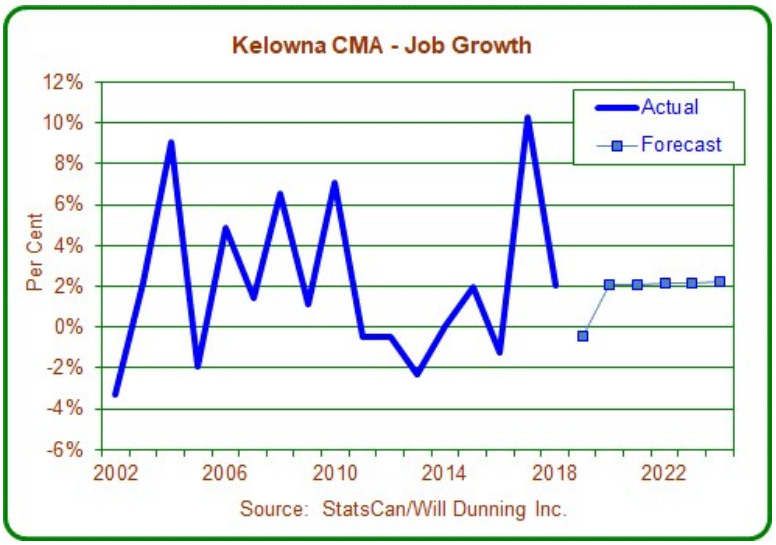
During 1990 to 2018, the vacancy rate in Kelowna CMA averaged 1.8%. Following a period of very low vacancy rates during 2013 to 2017, there was some improvement in 2018 (to the average level).

The analysis estimates that the "balanced market" vacancy rate for Kelowna CMA is in the area of 3% (this is the vacancy rate at which rents would be expected to increase at the same rate as overall inflation). Since vacancies are usually below this threshold, rents increased by an average of 3.1% per year during the period shown. During the past five years, persistently low vacancy rates (averaging 0.9%) have resulted in average rent growth of 6.3% per year.

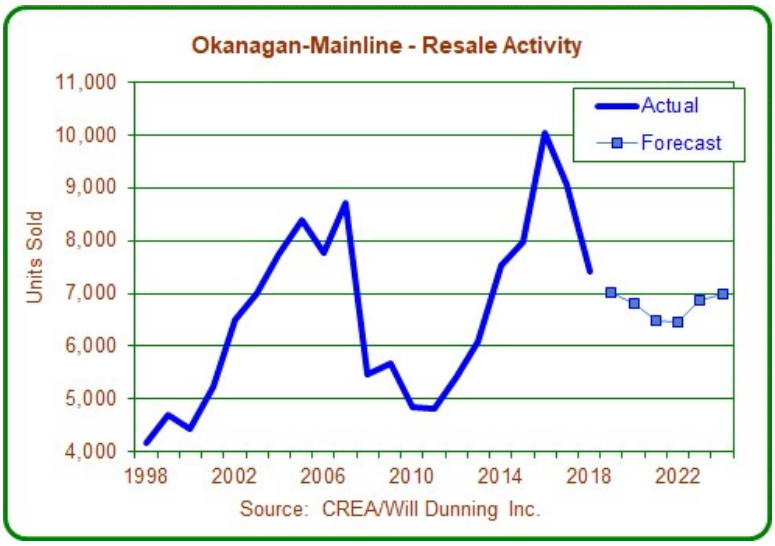
As in other small CMAs, the employment data shows extremely wide variations and there is uncertainty about the true situation. Due to a very high estimate (10% growth) for 2017, the average estimated rate of job growth is 3.2% over the past four years (and 2.1% for the entire period shown). Both estimates are stronger than the 1.9% growth rate for the population. The projection shows a small drop for 2019. This reflects that job creation was most likely highly over-estimated during 2017, and the forecast incorporates an adjustment. For 2020 and beyond, employment is assumed to grow at the same rate as the population (2.1% per year).



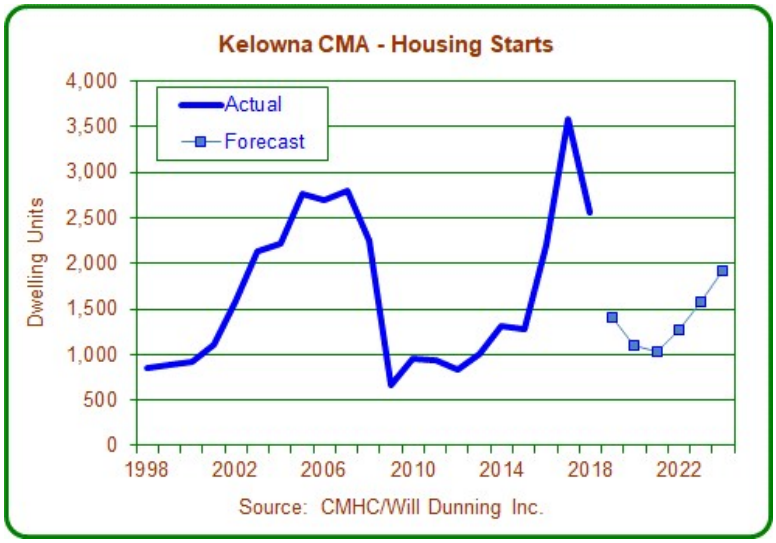




Resale activity had been exceptionally strong during 2016 and 2017, but has slowed sharply, and for 2018 was slightly below the historic average. This chart shows data for CREA's Okanagan-Mainline region. The strong demand has resulted in rapid growth of house prices: the average resale price rose by 13.1% in 2016 and 7.8% in 2017.



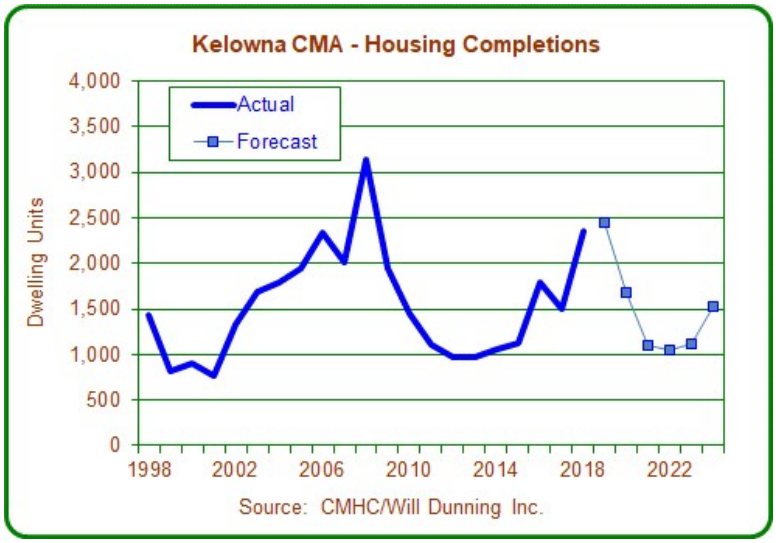
Housing starts have responded to the strong signals sent by the resale market and were quite high during 2016 to 2018. Housing completions have begun to follow the increase in starts, rising to an above-average level in 2018.



Recent Trends and the Outlook

A (possibly) quite strong local economy, and the high likelihood of increased migration from the GVRD and Fraser Valley, resulted in a need to expand the inventory of housing. The beginnings of that expansion, through increased completions in 2018 (on top of a probable reduction of in-migration) resulted in a noteworthy rise in the vacancy rate (to 1.8% in 2018 versus just 0.4% in 2017).

Looking forward, the rate of housing completions will remain elevated in 2019, resulted in a further rise in vacancies. During the subsequent years, housing starts are expected to be below historic figures, which would result in lower volumes of housing completions and therefore reduced vacancies.



For the six years of the projection period, the vacancy rate is forecast to average 2.2%. This will be lower than the estimated balanced market threshold (3%), and

therefore the forecasting system indicates that rent increases will continue to exceed overall inflation and income growth. For the forecast period, rent increases are projected to average 2.9% per year. These forecasts suggest that the rental market will remain challenging for tenants.

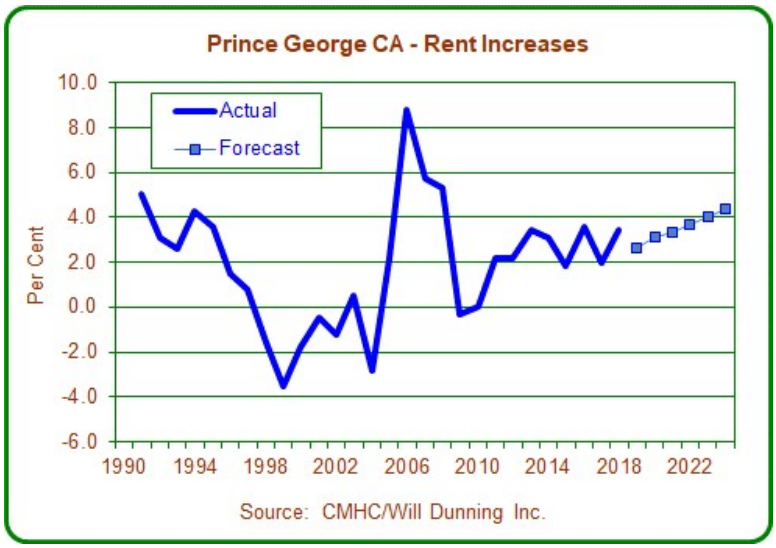
As elsewhere, there is uncertainty about the evolving effects of the federal and provincial policies, and indeed about future alterations to these impactful policies.

Prince George CA

Reflecting the volatility of a resource-based local economy, the Prince George CA rental market has shown wide swings over time (particularly the very high vacancy rates seen during the late 1990s and early 2000s). During 1990 to 2018, the vacancy rate averaged 6.1%. But, since 2011, the vacancy rate has been below-average.

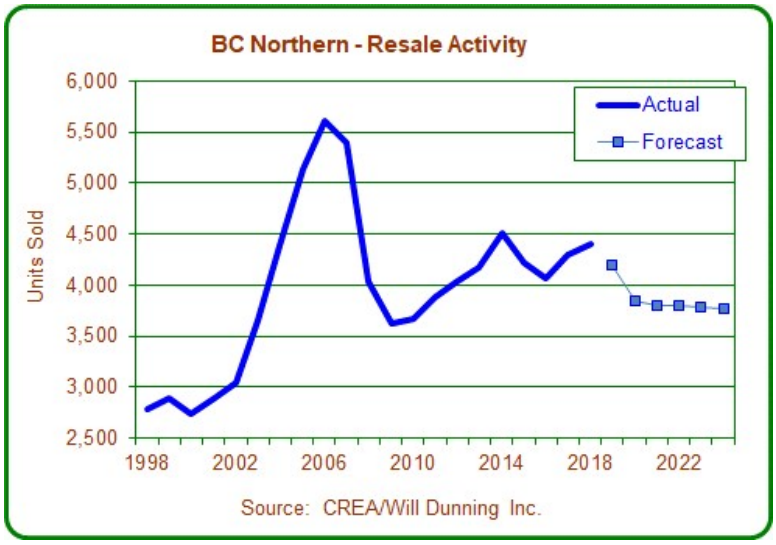
The statistical analysis estimates that the "balanced market" vacancy rate for Prince George is close to the long-term average, at about 5% to 6%. Since vacancies have been at the threshold, on average, rents increased by an average of 1.9% per year during the period shown. Since 2011, the below-average vacancy rates have resulted in average rent growth of 2.8% per year.

Available employment data is for the "Cariboo" economic region. (Statistics Canada publish some employment estimates for Prince George, but they are for annual totals only and are subject to more statistical variation. Therefore, a choice has been made to rely on the data for the broader region. Prince George accounts for about 60% of total employment within this economic region, and therefore the available data might provide a reasonable indication of conditions for Prince George.) This data indicates that the region experiences very little employment growth (an average of just 0.1% per year for the period shown) and that the population is gradually eroding (by an average of 0.1% per year). The projection shows a small drop for 2019. This reflects



that job creation was most likely highly over-estimated during 2017. For 2020 and beyond, employment is assumed to grow at the same rate as the population (0.1% per year).

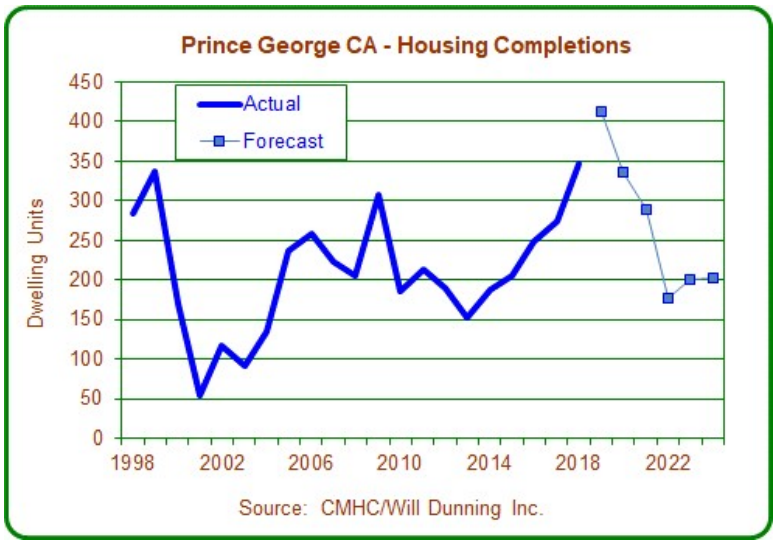
Data on resale activity is for CREA's "BC Northern" district. That data showed small improvements in both 2017 and 2018 (which is contrary trends seen in most other areas of Canada). The forecast suggests that the combination of higher interest rates and the mortgage stress tests will cause reductions in 2019 and 2020, to a level that is slightly below the long-term average. Sustained moderate demand has resulted in price growth averaging 3.0% during the past four years.



Housing starts have responded to evidence of stronger demand, and increased during each of the past five years. In 2018, total starts (427 units) were three-quarters above the long-term average of 240. Housing completions have followed the increase in starts, and were above the long-term average during 2016 to 2018.

Recent Trends and the Outlook

The housing data hints that the Prince George economy may have strengthened during the past few years. This has allowed the housing inventory to expand but without generating higher vacancies.



Looking forward, the rate of housing completions will be quite high this year, and remain above average during 2020 and 2021. But, the projections indicate that the volume of completions will not be large enough to produce higher vacancies. Looking even farther ahead, anticipated reductions for housing starts will be followed by

reduced completions, causing further reductions in vacancy rates.

For the six years of the projection period, the vacancy rate is forecast to average 3.0%, or about one-half of the estimated balanced market threshold (5% to 6%). Therefore, the forecasting system indicates that rent increases will continue to exceed overall inflation and income growth. For the forecast period, rent increases are projected to average 3.5% per year. These forecasts suggest that the Prince George rental market will become even more challenging for tenants.

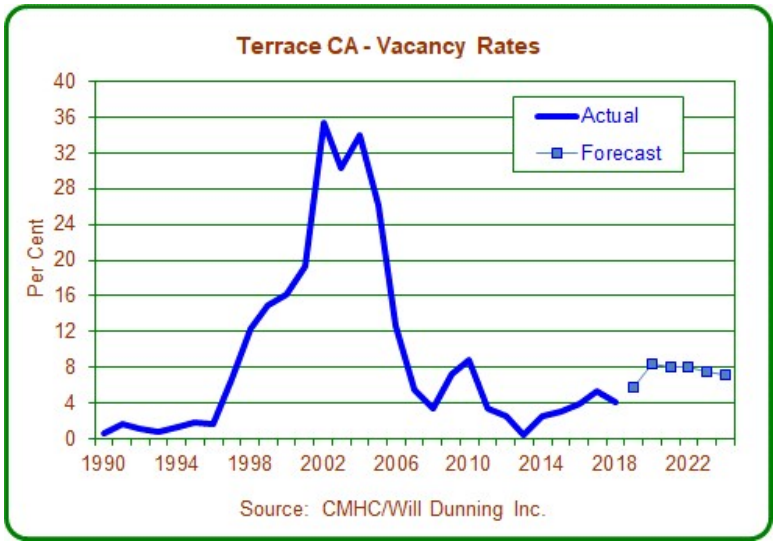
As elsewhere, there is uncertainty about the evolving effects of the federal and provincial policies, and indeed about future alterations to these impactful policies.

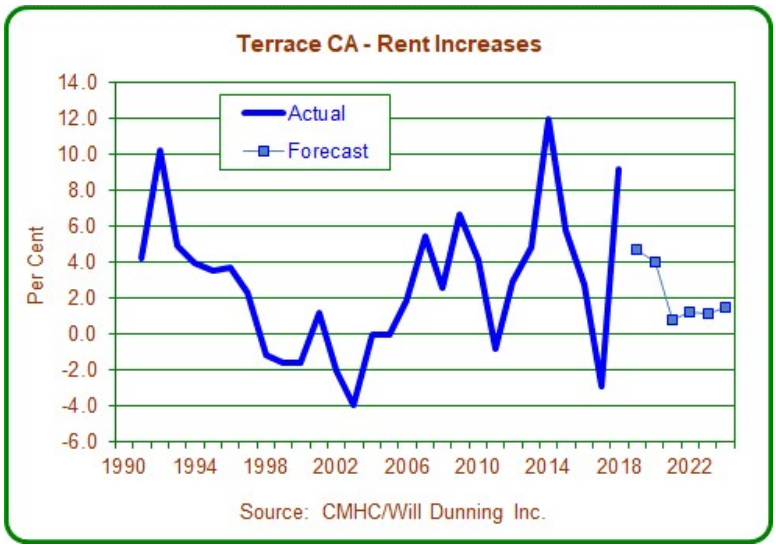
Terrace CA

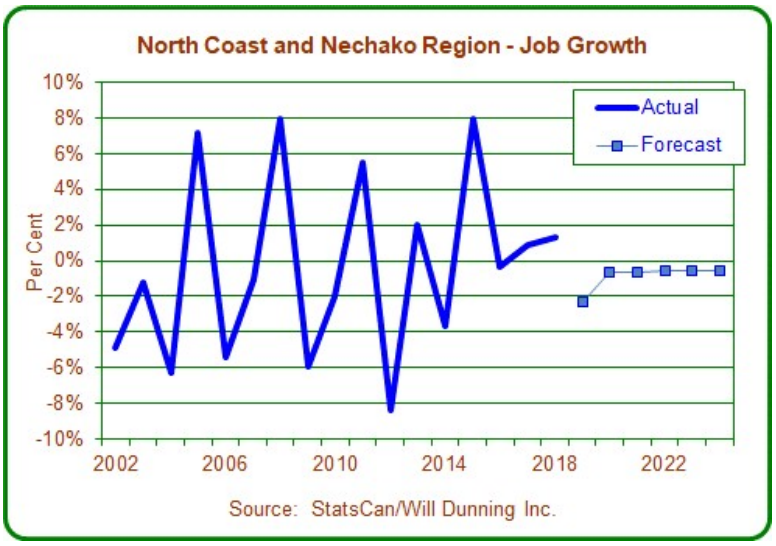
Apart from a period of horrendously high vacancies (late 1990s and early 2000s), Terrace CA has experienced moderate vacancy rates most of the time. During 1990 to 2018, the vacancy rate averaged 9.2%. But, since 2011, the vacancy rate has been much lower, at an average of 3.2%.

The wild data seen earlier make it difficult to estimate a balanced market vacancy rate. Using just the data for the past decade, statistical analysis estimates that the "balanced market" vacancy rate for Terrace is in the area of 7%. During that same period, the average vacancy rate (3.2%) was less than one-half of the balanced rate, with the result that rent increases averaged 4.3%.

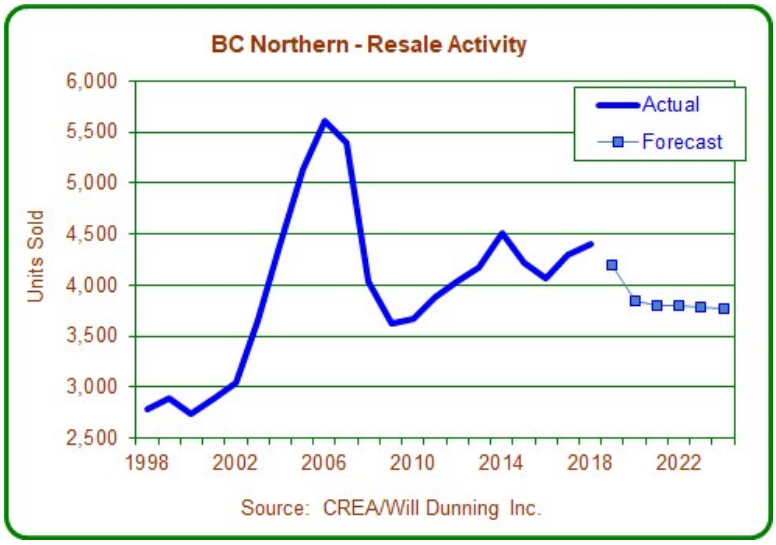
Available employment data is for the "North Coast and Nechako" economic region. (Statistics Canada does not publish any current employment estimates for Terrace. Based on Census data, Terrace accounts for about 17% of the employment in the economic region. Therefore, the available data does not necessarily provide a good representation of conditions for Terrace.) This data shows some random variation, but in the long-term it indicates that the region experiences very little or no growth of either population or employment. The projection shows a drop for 2019. This reflects the reversal of what might have been an over-estimate during 2018. For 2020 and beyond, employment is assumed to erode slightly (0.6% per year), in line with a long-run historic trend.



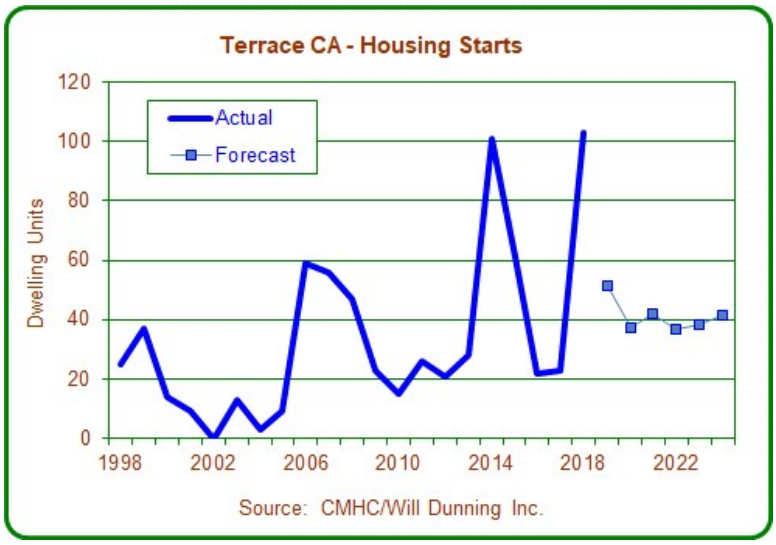




Data on resale activity is for CREA's "BC Northern" district. That data showed small improvements in both 2017 and 2018 (which is contrary trends seen in most other areas of Canada). The forecast suggests that the combination of higher interest rates and the mortgage stress tests will cause reductions in 2019 and 2020, to a level that is slightly below the long-term average. Sustained moderate demand has resulted in price growth averaging 3.0% during the past four years.

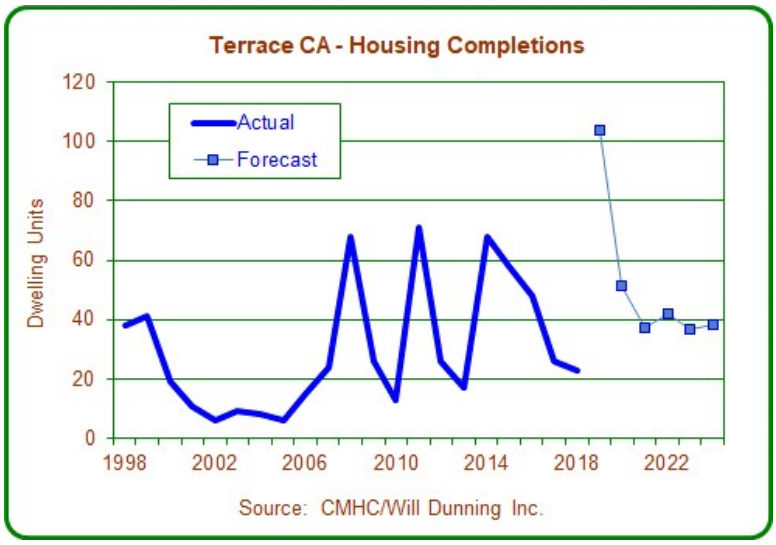


Due to the lack of pressure from population or employment growth, Terrace CA sees few housing starts (an average of just 41 dwelling units per year during 1996 to 2018). Housing starts were above average during three of the past five years, for an average of 62 units per year. Housing completions have not yet followed those increase in starts, and remain at the (very low) average level.



Recent Trends and the Outlook

The lack of local, long-term data for Terrace, on the employment situation and resale activity makes it difficult to assess and forecast the housing market. The available data (housing starts and the rental market data) shows little substantive change, hinting at a neutral economic environment.



Looking forward, the rate of housing completions will be above average this year and into early next year, which is anticipated to cause rises in the vacancy rate in both 2019 and 2020. Subsequently, anticipated

reductions for housing starts will be followed by reduced completions, causing the vacancy rate to fall slightly during 2021 to 2024.

For the six years of the projection period, the vacancy rate is forecast to average 7.6%, or slightly above the estimated balanced market threshold (about 7%). The forecasting system indicates that rents will continue to increase rapidly during 2019 and 2020, but then at moderate rates during the following years. Over the entire forecast period, the average is 2.2% per year. In these forecasts, the Terrace rental market will be in a balanced state.

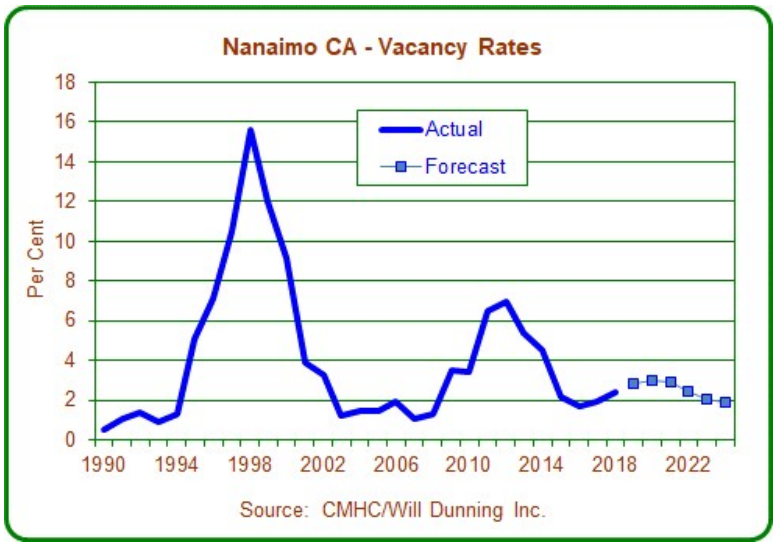
As elsewhere, there is uncertainty about the evolving effects of the federal and provincial policies, and indeed about future alterations to these impactful policies.

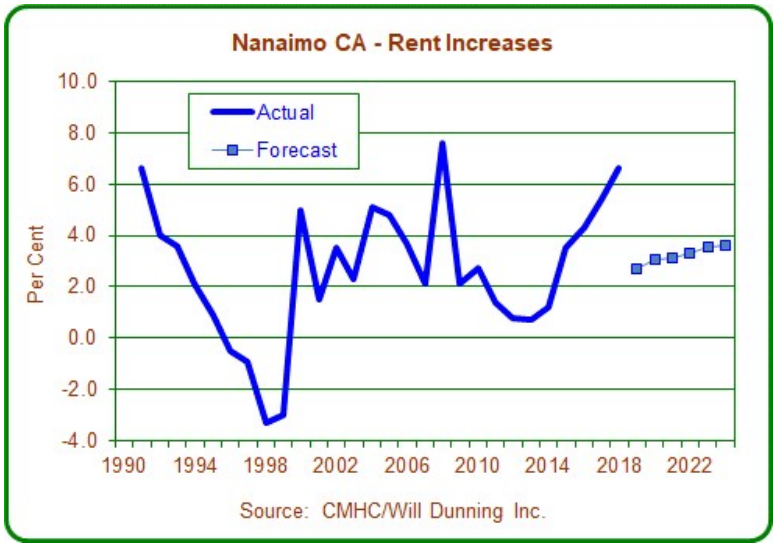
Nanaimo CA

The Nanaimo CA rental market usually has low vacancy rates. But, during the past three decades there have been elevated vacancies about one-third of the time. During 1990 to 2018, the vacancy rate averaged 4.1%. For 2014 to 2018, the average was just 2.1%.

The statistical analysis indicates that the "balanced market" vacancy rate for Nanaimo is above these average vacancy rates, at 5% to 6%. The result is that during the period shown in these charts, rent increases have averaged 2.6% per year. But, with the recent quite low vacancy rates, rent increases averaged 5.0% per year during the last four years.

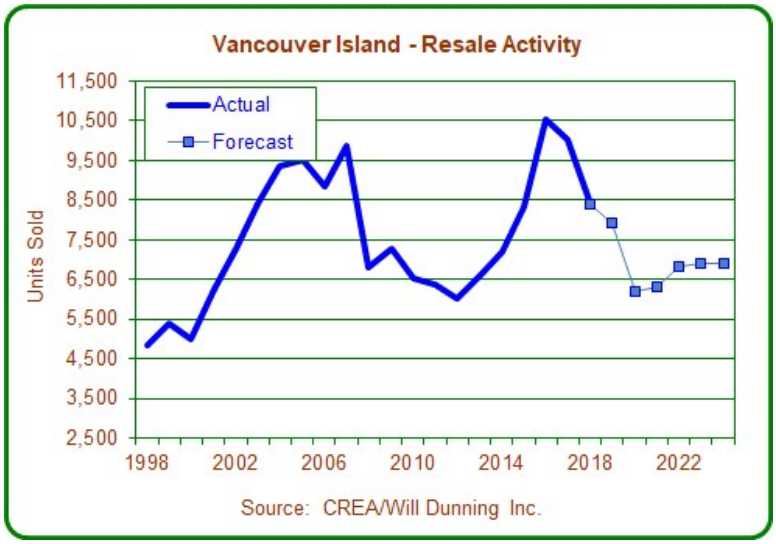
Available employment data is for the "Vancouver Island" economic region. (Statistics Canada publish some employment estimates for Nanaimo, but they are for annual totals only and are subject to more statistical variation. Therefore, a choice has been made to rely on the data for the broader region. Nanaimo accounts for about 14% of total employment for the economic region. Therefore, the data does not necessarily provide a realistic picture of conditions for Nanaimo.) This data suggests that over the long-term the region has experienced moderate job growth (an average of 1.5% per year for the period shown), and that there has been rapid growth during the past four years (averaging 3.0% per year). By either measure, job growth has exceeded population growth (1.0% per year). The projection shows a drop for 2019, reflecting an assumption that job





creation may have been estimated recently. For 2020 and beyond, employment is assumed to grow at the same rate as the population (1.4% per year).

Data on resale activity is for CREA's "Vancouver Island" district. That data shows two strong waves of activity (which correspond to the waves of job growth shown earlier). Strong sales have resulted in very rapid price growth (averaging 11% per year during 2015 to 2018). Activity has dropped sharply, due to the combined effects of federal and provincial policies. The forecast suggests that there will be further slowing (as weaker pricing might cause some potential buyers to hesitate).



Housing starts have followed the waves from the resale market. During the past four years, starts averaged 888 units per year, versus the long-term average of 712. Housing completions have followed the increase in starts, and were also above the long-term average during 2016 to 2018.

Recent Trends and the Outlook

All of this data indicates that economic and housing market conditions are quite strong in Nanaimo: in the face of elevated housing completions, the vacancy rate increased only fractionally. during 2017 and 2018. This hints that there has been rapid growth of population and/or employment.

Looking forward, the rate of housing completions is expected to remain above average during 2019 and 2020, but then fell to below average. Adding an assumption of sustained moderate job creation, the result is slight rises in the vacancy rate during 2019 and 2020 and slight declines

afterwards.

For the six years of the projection period, the vacancy rate is forecast to average just 2.5%, or less than one-half of the estimated balanced market threshold (5% to 6%). Therefore, the forecasting system indicates that rent increases will continue to exceed overall inflation and income growth. For the forecast period, rent increases are projected to average 3.2% per year. It is possible that the forecasting model is being too conservative about rent increases. These forecasts suggest that the Nanaimo rental market will remain quite challenging for tenants.

As elsewhere, there is uncertainty about the evolving effects of the federal and provincial policies, and indeed about future alterations to these impactful policies.

Data on Rents from the 2016 Census

These forecasts of future rental market conditions rely on data from the annual surveys conducted by Canada Mortgage and Housing Corporation. However, the CMHC survey covers only "purpose built" rental apartment buildings and town home complexes that have three or more units. As is shown in Table 2, the surveys include less than one-half of the total rental inventories. Across these seven areas, on average the CMHC survey covers 33% of the total rental inventory. Rental housing that is not included in the CMHC surveys includes:

- Social housing (non-profits and co-operatives).
- Accessory apartments (eg. apartments in the basements of homes).
- Rented houses.
- Apartments over stores.
- Rented condominium apartments (these are partially covered in a supplementary survey) and town homes.

Table 2
Estimated Rental Inventories, as of 2016

	Census	*CMHC Rental Market Survey*	*CMHC as % of Census*
Vancouver CMA	346,380	110,973	32%
Victoria CMA	60,245	25,013	42%
Abbotsford-Mission CMA	17,670	4,251	24%
Kelowna CMA	20,810	4,955	24%
Prince George CA	9,700	3,580	37%
Nanaimo CA	13,470	3,843	29%
Terrace CA	1,860	595	32%

Source: compiled by Will Dunning Inc., using data from Statistics Canada and CMHC.

Students often live in rental options that are not covered in the CMHC survey (especially basement apartments and apartments over stores).

In order to provide further insights into housing costs, this section provides a brief profile using data from the 2016 Census.

The Census provides data on distributions of rents, for all households, and more data is available on rents by type of household. Table 3 provides data for all types of households. This data shows that costs of low-cost rentals (less than $500 or less than $750) are most prevalent in Terrace, Prince George, and Abbotsford-Mission, and are considerably less available in Kelowna, Victoria, and Vancouver.

Table 3 Distribution of Rents, as of 2016					
	Less than $500	*$500 to $749*	*$750 to $999*	*$1,000 and over*	*Total*
Vancouver CMA	8.5%	9.5%	20.8%	61.3%	100%
Victoria CMA	6.7%	10.3%	31.3%	51.7%	100%
Abbotsford-Mission CMA	8.0%	22.4%	32.4%	37.2%	100%
Kelowna CMA	6.6%	9.8%	22.3%	61.2%	100%
Prince George CA	8.7%	24.4%	33.5%	33.4%	100%
Nanaimo CA	8.3%	18.3%	31.4%	42.0%	100%
Terrace CA	13.7%	22.8%	24.2%	40.1%	100%
All of BC	8.7%	13.1%	24.0%	54.1%	100%
Source: compiled by Will Dunning Inc., using data from Statistics Canada table 98-400-X2016228					

Table 4 looks more deeply into the data, focusing on the household type that best represents students: "non-family households". This includes singles living alone as well as non-related people who share a dwelling. This data shows wide variations in the availability of low-cost options (let's say, less than $750 per month in 2016). Across these seven centres, the shares of non-family rentals below $750 were:

- Terrace – 51%.
- Prince George – 47%.
- Abbotsford-Mission – 43%.
- Nanaimo – 40%.
- Conversely, there was much less availability of low-cost non-family rentals in:
- Victoria – 23%
- Vancouver – 24%.
- Kelowna – 24%.

Table 4 Distribution of Rents, for Non-Family Households, as of 2016					
	Less than $500	*$500 to $749*	*$750 to $999*	*$1,000 and over*	*Total*
Vancouver CMA	12.5%	11.8%	25.2%	50.4%	100%
Victoria CMA	8.9%	13.6%	40.1%	37.4%	100%
Abbotsford-Mission CMA	11.1%	31.8%	36.2%	21.1%	100%
Kelowna CMA	9.8%	14.4%	29.3%	46.4%	100%
Prince George CA	11.8%	35.5%	34.0%	18.7%	100%
Nanaimo CA	12.4%	28.0%	34.8%	24.7%	100%
Terrace CA	21.1%	30.0%	22.2%	27.8%	100%
All of BC	12.5%	17.7%	28.4%	41.4%	100%
Source: compiled by Will Dunning Inc., using data from Statistics Canada table 98-400-X2016228					