



# Weekly economic Briefing

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## Non-residential building permits hit record high

Non-residential building construction in B.C. continued to rise sharply in October, according to the latest building permit statistics from Statistics Canada. Building permits issued in October totalled \$520 million, an all-time record high for a single month.

In the first 10 months of 2006, non-residential building permits issued in B.C. reached \$3.3 billion, up \$515 million (18.6%) from the same period of 2005. There is no doubt that 2006 will see an all-time record high for non-residential permits issued in a single year.

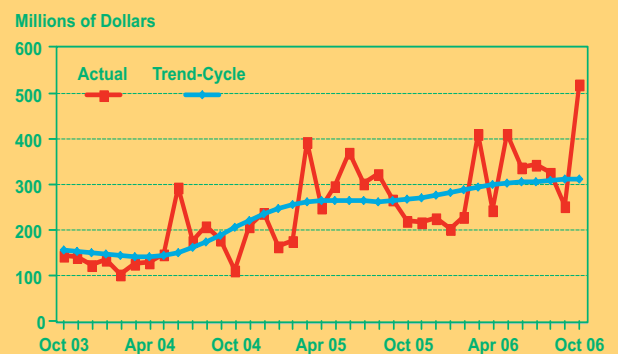
Various sub-sectors are on a record-setting pace too, including buildings in the commercial, institutional, government and industrial categories. Annual records will also be set regionally, both in metropolitan Vancouver and the rest of B.C.

Year-to-date gains in permits have been led by commercial buildings, especially stores, warehouses, offices and hotels. Permits issued for commercial structures in the first 10 months of 2006 totalled \$2.1 billion, up \$432 million (26.2%) from the same period last year.

Permits issued for institutional and government buildings amounted to \$909 million in the first 10 months, up \$61 million (7.1%) from 2005. Year-to-date gains in this sector have been led by hospital, medical, school and educational buildings.

Industrial building permits totalled \$294 million, up \$22 million (8%) from last year. Gains in this sector have been led by transportation and utility buildings.

### Non-Residential Building Permits British Columbia, Monthly



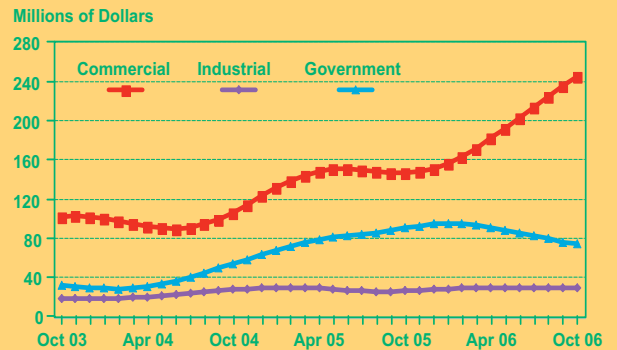
Source: Statistics Canada.

Regionally, year-to-date gains in permits have been led by metropolitan Vancouver, especially in commercial buildings. Permits issued for non-residential buildings reached \$1.9 billion, up \$464 million (31.3%) from last year.

In the rest of B.C. (i.e., excluding metropolitan Vancouver), permits issued for non-residential buildings totalled \$1.3 billion, up \$51 million (4%) from 2005. Year-to-date gains have been led by commercial buildings, along with substantial growth in institutional and government buildings.

These across-the-board record high levels of non-residential building construction result from robust growth in B.C.'s economy, which has led to most vacant space being absorbed over the past few years. The provincial economy is forecast to keep growing at a strong pace and, moreover, most Olympic venues will be built during the next three years. Credit Union Central of British Columbia forecasts non-residential building permits in this province will continue to rise through 2008, at least.

**Non-Residential Building Permits by Type  
British Columbia, Monthly, Trend-Cycle**



Source: Statistics Canada.

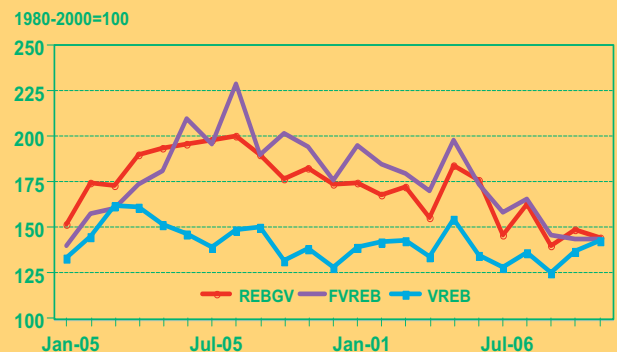
**November housing sales hold up, market conditions ease further**

Housing sales during November held up well in the face of inclement weather -- record rainfall and an early winter snowstorm. Seasonally adjusted unit sales edged slightly lower in the Real Estate Board of Greater Vancouver (REBGV) area to 2,749 units from 2,828 in October. A smaller decline was seen in the Fraser Valley Real Estate Board (FVREB), with seasonally adjusted sales slipping to 1,296 units from 1,301 in October. Sales in the Victoria Real Estate Board (VREB) countered those trends with an increase to 650 units from 624.

Market conditions continued to ease, with the sales-to-active listing ratios edging lower in the FVREB and remaining at a two-year low in the REBGV. These ratios are in the low 20% range, which indicates balanced market conditions rather than a seller's market. The other main criterion that determines market conditions is price performance.

Price increases continue to decelerate. The Housing Price Index (HPI) for the combined REBGV and FVREB slowed to a 7.5% annualized rate in November from 9.1% in October and above

**Residential MLS® Sales, Seasonally Adjusted,  
Real Estate Board of Greater Vancouver, Fraser Valley Real Estate Board, and Victoria Real Estate Board**



Source: REBGV, FVREB, VREB, CUCBC.

Latest: November

20% levels in May and June. The year-over-year comparison still shows a 17% increase over November 2005, but this measure does not capture the most recent changes.

The main driver behind changing market conditions is lower unit sales, with added supply having a smaller impact. Since the recent high in the sales-to-active listings ratio in summer 2005, monthly new listings are up about 9% while monthly unit sales are down about 25% in the REBGV and in the FVREB. The net result is an increase in active listings of about 30% in both areas, as of November 2006.

Lower mortgage rates are having a positive impact on unit sales by slowing the rate of decline and stabilizing sales levels in the past three months. The five-year closed-term posted mortgage rate is currently 6.55%, down from 6.95% in July. The one-year closed-term posted rate is 6.40%, compared to 6.60%.

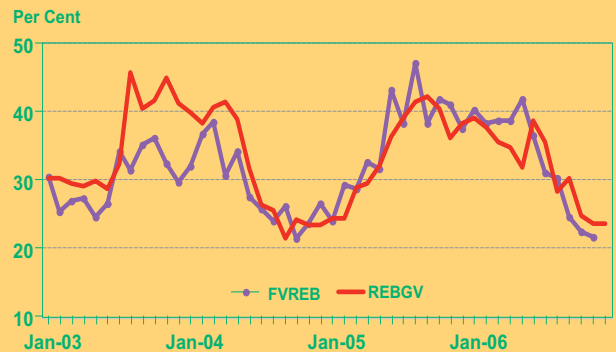
There is a possibility the five-year rate could drop by 10 basis points to 6.45% based on most recent bond yield declines. With the Bank of Canada on hold for several more months, very little change in the one-year mortgage rate is likely. Variable rate mortgages geared off the prime lending rate will not change until the Bank makes a rate move.

With rates remaining relatively low and generally attractive and the economy generating above-average income growth, those demand fundamentals will continue to support housing sales. The main negative factor is high housing prices and the squeezing out of potential low-equity buyers. Various new financing options, such as the 40-year mortgage, have become available to address the low-equity buyer affordability issue. The near-term sales outlook is for further stabilization, and unless rate cuts by the Bank occur next year, the sales trend will likely resume its moderate decline thereafter.

Market conditions will continue to ease and fall into the balanced market criteria within the next three months. Price increases are expected to fall to 5% and below.

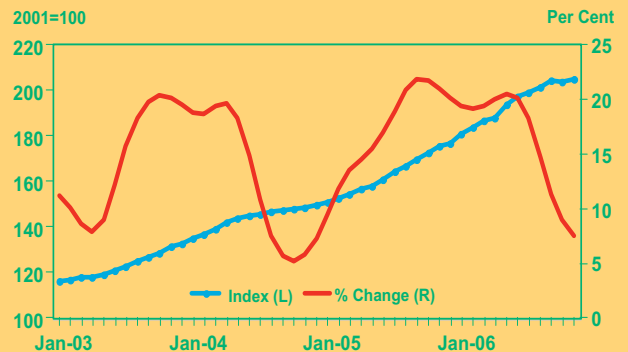
December sales normally fall about 18% to 25% from November. However, this year could see a larger decline due to the lagged impact of the severe November weather. Sales traffic in the prior month influences closed or recorded sales in the subsequent month, and no doubt

**Residential Sales-to-Active Listings Ratios,**  
Real Estate Board of Greater Vancouver and  
Fraser Valley Real Estate Board



Source: REBGV, FVREB, CUCBC. Note Seasonally adjusted data. Latest: November

**Housing Price Index,**  
Real Estate Board of Greater Vancouver  
and Fraser Valley Real Estate Board



Source: REBGV, FVREB. Latest: November

traffic was down considerably in the second half of November. December unit sales are forecast at 1,700 units in the REBGV, 700 units in the FVREB, and 350 units in the VREB.

### Housing starts down in November

A drop in November seasonally adjusted housing starts in urban B.C. continued the short-term trend decline of the past nine months. Seasonally adjusted total housing starts came in at 2,525 units in November, compared to 2,681 in October, a 7.9% decrease. It is unclear whether the trend decline will continue, and thus make last February the high point in housing construction.

A significant resurgence in starts during the next three to six months would turn up the trend and potentially set a new high. But with unit sales on a trend decline for the past year, a reversal there is necessary before a turnaround can occur in housing starts. There is a fair possibility that sales, and ultimately starts, could turn upward.

Our housing starts forecast for 2006 is revised downward to 37,000 units, with a slight drop-off in 2007 to 36,600 units. Most of the moderate supply adjustment is expected in the Vancouver metro area, since sales there have dropped more than in other regions and high land costs are squeezing builders' profit margins. Housing starts in lower-cost markets are expected to rise in 2007.

