JANUARY 31, 2019 LUNCHEON SEMINAR

What Lies Ahead for the Development Industry in the Okanagan in 2019?

PRESENTED BY:

Andrew Ramlo
Vice President of Market Intelligence, Rennie Group

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UDI OKANAGAN ANNUAL LUNCH

changing people, changing places...

ANDREW RAMLO

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topics for today

- market **update**
- our **outlook** for people & housing
- **policy** changes & shifts
- a quick **survey**

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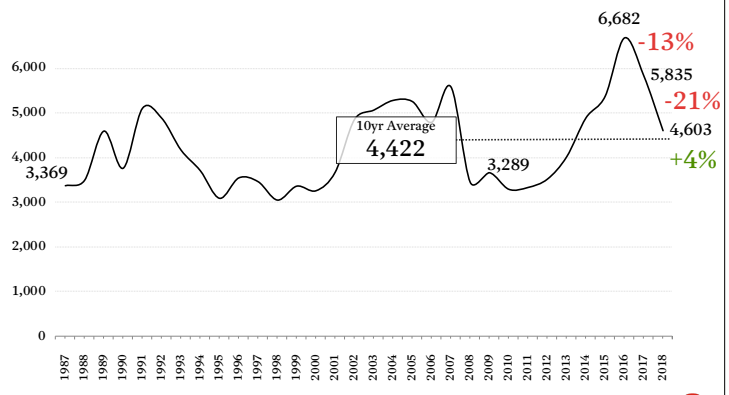
market update

MLS SALES
CENTRAL
OKANAGAN

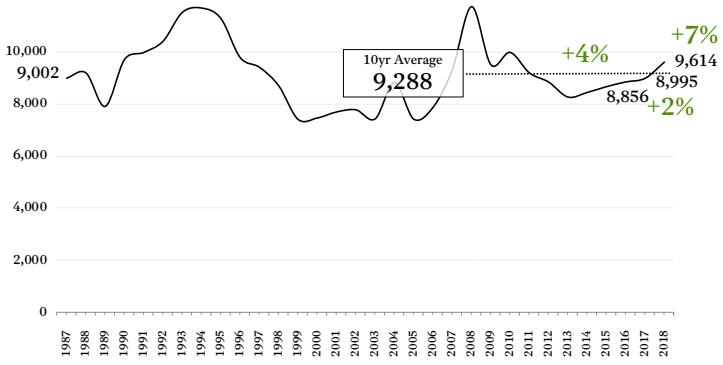
ALL RESIDENTIAL PROPERTY TYPES



ALL RESIDENTIAL PROPERTY TYPES

market **update**

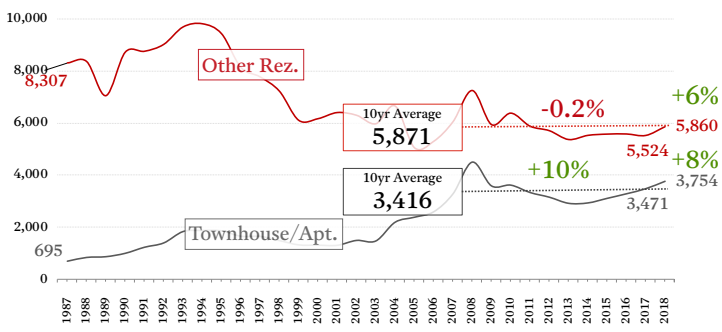
MLS LISTINGS
CENTRAL
OKANAGAN



ALL RESIDENTIAL PROPERTY TYPES

market **update**

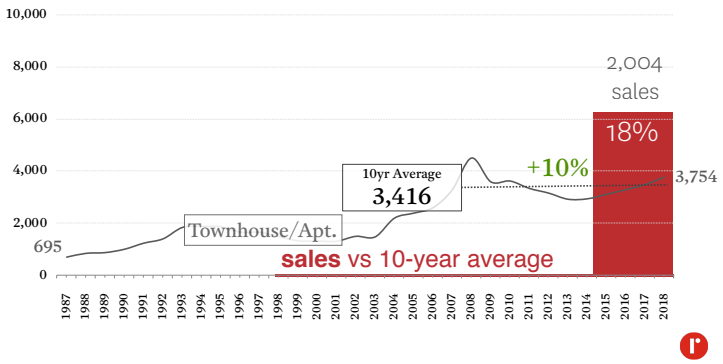
MLS LISTINGS
CENTRAL
OKANAGAN



CONDO PROPERTIES

market **update**

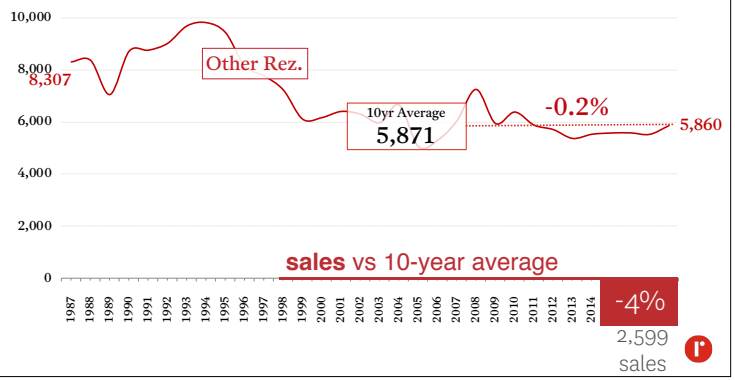
MLS LISTINGS
CENTRAL
OKANAGAN



ALL OTHER RESIDENTIAL PROPERTIES

market **update**

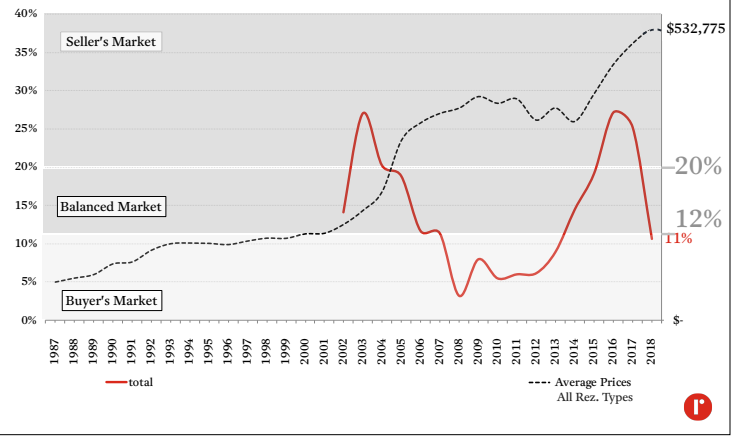
MLS LISTINGS
CENTRAL
OKANAGAN



market
update

MLS SALES TO LISTINGS RATIO *(DECEMBERS)*

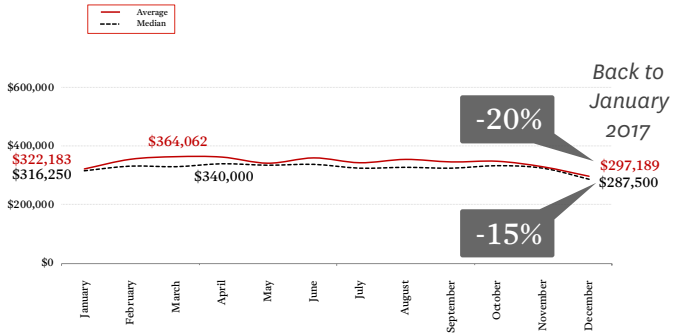
ALL PROPERTY TYPES



market
update

MLS PRICES
CENTRAL
OKANAGAN

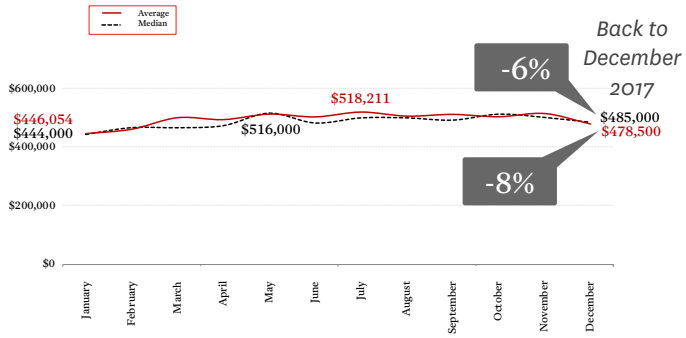
MLS SALES PRICES — APARTMENTS 2018



market
update

MLS PRICES
CENTRAL
OKANAGAN

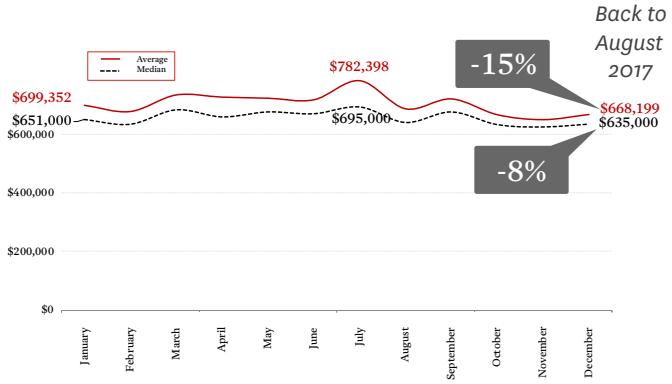
MLS SALES PRICES — TOWNHOMES 2018



market
update

MLS PRICES
CENTRAL
OKANAGAN

MLS SALES PRICES — RESIDENTIAL 2018



market
update

sound bites:

- 2018 was another down year for residential real estate in the region: 2018 sales were 21% below 2017, which themselves were 13% below 2016…

  … yes, and 2016 was an all-time high for sales in the region.

- Listings however have been moving up…

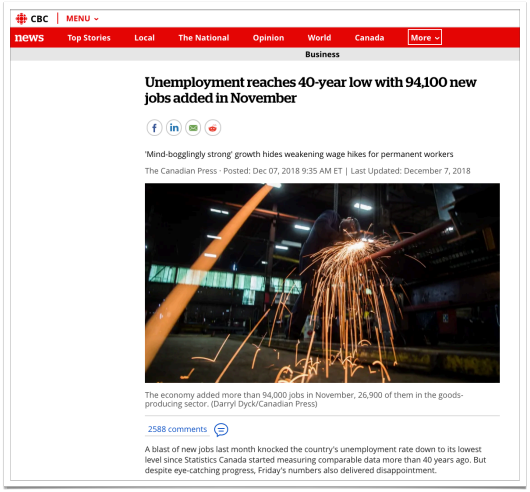
  … yes, and they are now close to where we would expect them to be (close to historical averages).

- Prices crested mid-year before falling by 15% by the end of 2018…

  … yes, and average prices are 7% higher than they were 24 months ago.

market
update

THE ECONOMIC CONTEXT



market
update

THE ECONOMIC CONTEXT

CHANGE IN GROSS DOMESTIC PRODUCT (GDP), 2017-19

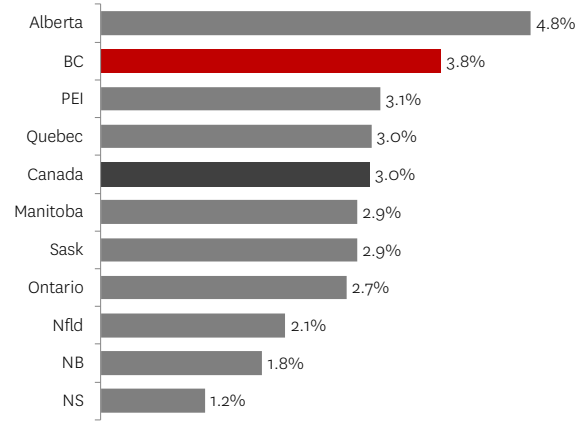
	2017	2018	2019
Canada	3.0%	2.1%	2.0%
USA	2.2%	2.9%	2.5%
Germany	2.5%	1.9%	1.9%
France	2.3%	1.6%	1.6%
Italy	1.5%	1.2%	1.0%
UK	1.7%	1.4%	1.5%
Japan	1.7%	1.1%	0.9%

Source: IMF

market
update

THE ECONOMIC CONTEXT

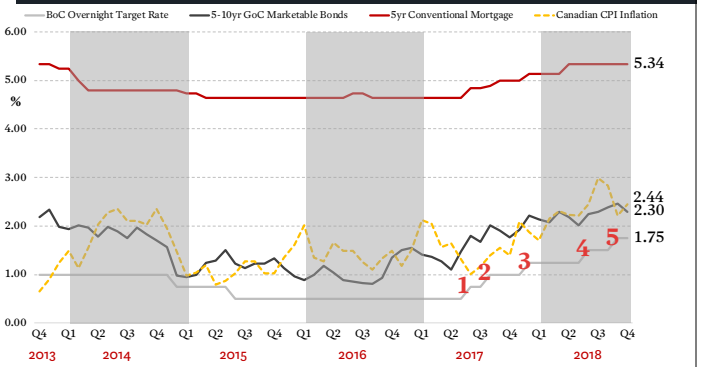
GROSS DOMESTIC PRODUCT (GDP), 2017



market
update

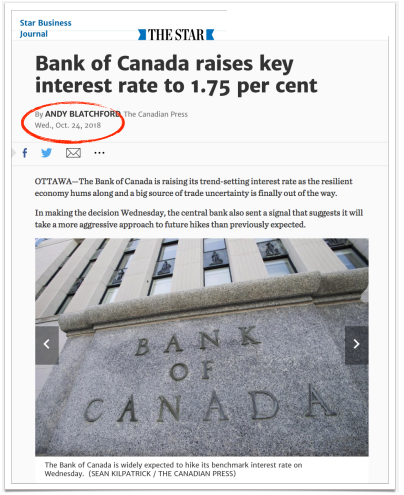
THE ECONOMIC CONTEXT

KEY RATES, CANADA



market
update

THE ECONOMIC CONTEXT



Star Business Journal

THE STAR

Bank of Canada raises key interest rate to 1.75 per cent

By ANDY BLATCHFORD, The Canadian Press
Wed., Oct. 24, 2018

OTTAWA—The Bank of Canada is raising its trend-setting interest rate as the resilient economy hums along and a big source of trade uncertainty is finally out of the way.

In making the decision Wednesday, the central bank also sent a signal that suggests it will take a more aggressive approach to future hikes than previously expected.

The Bank of Canada is widely expected to hike its benchmark interest rate on Wednesday. (SEAN KILPATRICK / THE CANADIAN PRESS)

market
update

THE ECONOMIC CONTEXT

INTEREST RATE OUTLOOK

Q1 2017	Q4 2017	Q4 2018
	+0.75%	+0.5% +2.0%
@ 2.70%	@ 3.45%	@ 5.95%
$676K	**$634K**	**$522K**
	-6%	**-18%**
	in purchasing power	in purchasing power

Let's assume:

- $100K HH Inc.
- $100K DP
- 25 year am.
- 30% GDS

OSFI qualification rules:
greater of negotiated rate +2%
points or B *of* C posted target

-23%
in purchasing power

market
update

THE ECONOMIC CONTEXT

DECEMBER 2018 OVERNIGHT TARGET RATE

- BMO Capital Markets: 1.75%
- TD Economics: 1.75%
- CIBC World Markets: 1.75%
- Scotiabank: 1.75%
- RBC: 1.75%

With the overnight rate currently at 1.5%, the consensus is that we will see one more rate increase from the Bank of Canada through 2018... ...and one to three more through 2019.

market
update

THE ECONOMIC CONTEXT

Star Business Journal

Bank of interest

By ANDY BLATCHFO
Wed., Oct. 24, 2018

OTTAWA—The Ban
economy hums alon

In making the decisi
take a more aggressi

The Bank of Canadi
Wednesday. (SEAN

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Business

No change: Bank of Canada keeps benchmark interest rate at 1.75%

Central Bank has hiked key rate five times since summer of 2017

Pete Evans · CBC News · Posted: Jan 09, 2019 10:00 AM ET | Last Updated: January 9

The Bank of Canada has raised its benchmark interest rate five times since the summer of 2017. (Chris Wattie/Reuters)

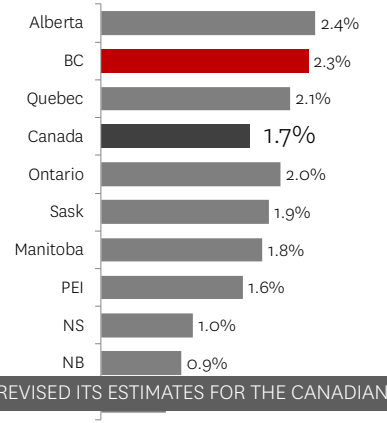
453 comments

The Bank of Canada kept its benchmark interest rate unchanged at 1.75 per cent Wednesday, despite a few dark clouds appearing on Canada's economic horizon.

market
update

THE ECONOMIC CONTEXT

Projected Growth in Gross Domestic Product, 2018-2019



ON JAN 9 THE B *of* C ALSO REVISED ITS ESTIMATES FOR THE CANADIAN ECONOMY DOWN TO 1.7%

market
update

THE WALL STREET JOURNAL.

MARKETS

Falling Mortgage Rates Raise Hopes for Battered Housing Market

Mortgage rates have fallen to around their lowest levels in eight months, offering a potential boost to the housing market after a rough patch in recent months

THE GLOBE AND MAIL

Drop in fixed-term mortgage rates is imminent, experts say

FINANCIAL POST

Traders mull odds of policy error after Bank of Canada signals more hikes could come

Speculation that past hikes have already gone too far

Policy decisions, interest rates slowed the real estate market, and they're needed for a rebound

Haider-Moranis Bulletin: A slowdown is the intended response to regulatory changes and must not be seen solely as a sign of market weakness

THE STAR

RBC cuts 5-year fixed mortgage rate, other banks expected to follow

By The Canadian Press
Wed., Jan. 16, 2019

CBC

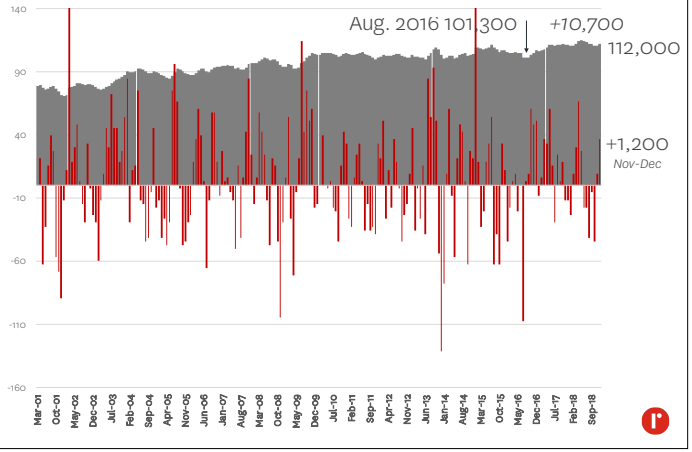
Expecting higher rates in 2019? Don't bet on it just yet

After hiking rates five times since the summer of 2017, some say the Bank of Canada could take a pause

market
update

THE LOCAL ECONOMY

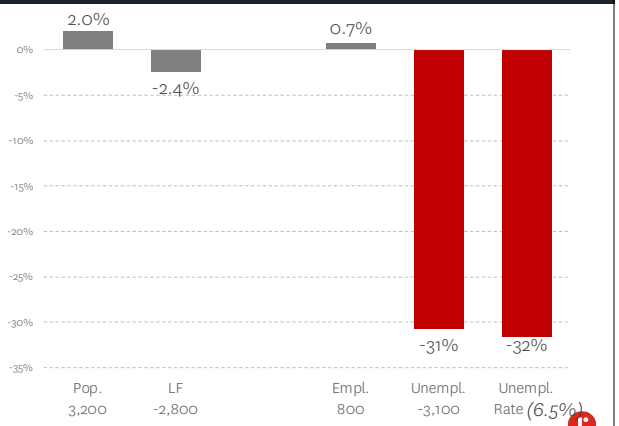
TOTAL EMPLOYMENT, Kelowna CMA *('000s, 3-mo. av., seasonally adjusted, December)*



market
update

THE LOCAL ECONOMY

ECONOMIC CHANGE IN THE OKANAGAN *(past 12 months)*

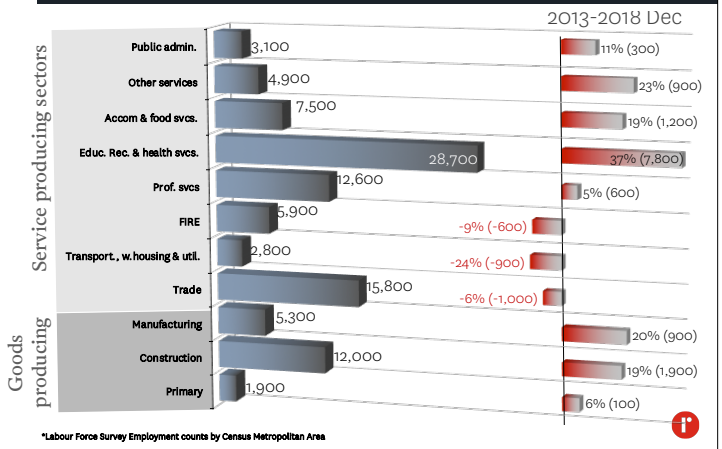


(3-mo. av., seasonally adjusted, December)

market
update

THE LOCAL ECONOMY

CHANGE IN ECONOMIC ACTIVITY IN THE OKANAGAN

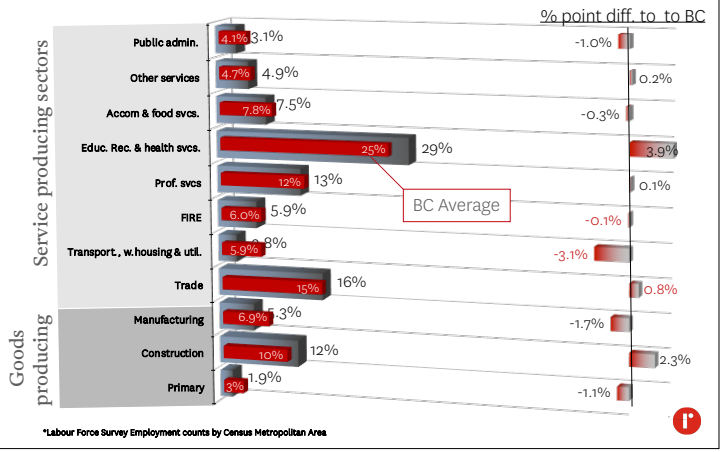


*Labour Force Survey Employment counts by Census Metropolitan Area

market
update

THE LOCAL ECONOMY

ECONOMIC ACTIVITY IN THE OKANAGAN, 2018

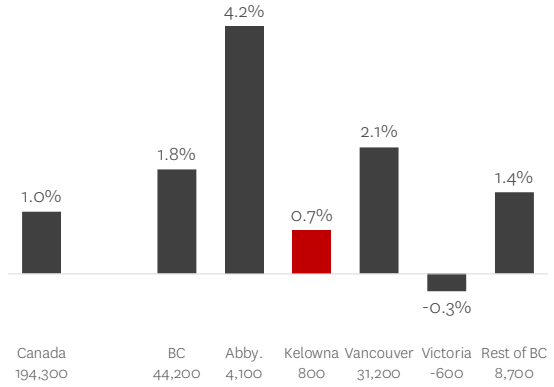


*Labour Force Survey Employment counts by Census Metropolitan Area

market
update

THE LOCAL ECONOMY

EMPLOYMENT CHANGE IN THE PAST 12 MONTHS

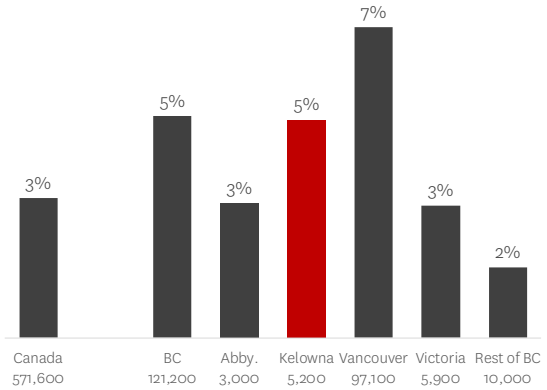


(3-mo. av., seasonally adjusted, December)

market
update

THE LOCAL ECONOMY

EMPLOYMENT CHANGE IN THE PAST 24 MONTHS

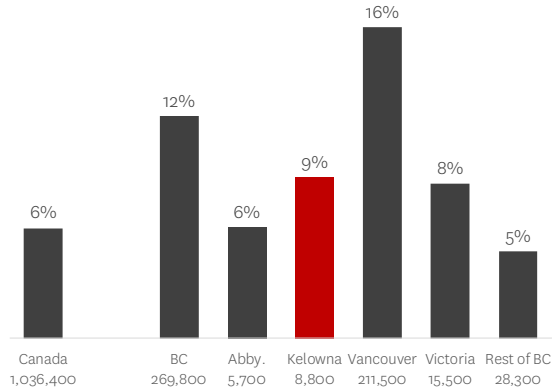


(3-mo. av., seasonally adjusted, December)

market
update

THE LOCAL ECONOMY

EMPLOYMENT CHANGE IN THE PAST 60 MONTHS



(3-mo. av., seasonally adjusted, December)

market
update

THE ECONOMIC CONTEXT

sound bites:

- Economic conditions are as good across the board as they have been at any point since the Great Recession, with strong job growth & falling unemployment

… yes and some headwinds do exist:

-slowing consumer spending
-slowing job growth
-a normalizing housing markets
-a depressed energy sector
-international trade wars (United States)
-political instability (Brexit) and,
-political/trade uncertainty (China)…

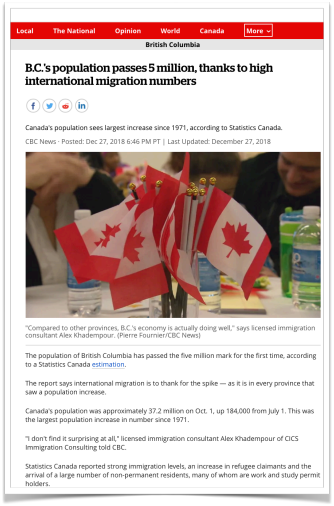
market
update

THE LOCAL ECONOMY

- the **economics**
- the **demographics**

market
update

THE
DEMOGRAPHIC
CONTEXT


Local The National Opinion World Canada More

British Columbia

B.C.'s population passes 5 million, thanks to high international migration numbers

Canada's population sees largest increase since 1971, according to Statistics Canada.

CBC News · Posted: Dec 27, 2018 6:46 PM PT | Last Updated: December 27, 2018

"Compared to other provinces, B.C.'s economy is actually doing well," says licensed immigration consultant Alex Khadempour. (Pierre Fournier/CBC News)

The population of British Columbia has passed the five million mark for the first time, according to a Statistics Canada estimation.

The report says international migration is to thank for the spike — as it is in every province that saw a population increase.

Canada's population was approximately 37.2 million on Oct. 1, up 184,000 from July 1. This was the largest population increase in number since 1971.

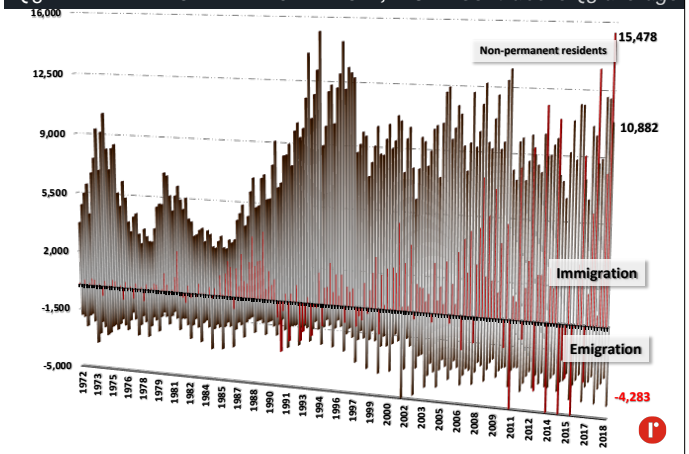
"I don't find it surprising at all," licensed immigration consultant Alex Khadempour of CICS Immigration Consulting told CBC.

Statistics Canada reported strong immigration levels, an increase in refugee claimants and the arrival of a large number of non-permanent residents, many of whom are work and study permit holders.

market
update

THE
DEMOGRAPHIC
CONTEXT

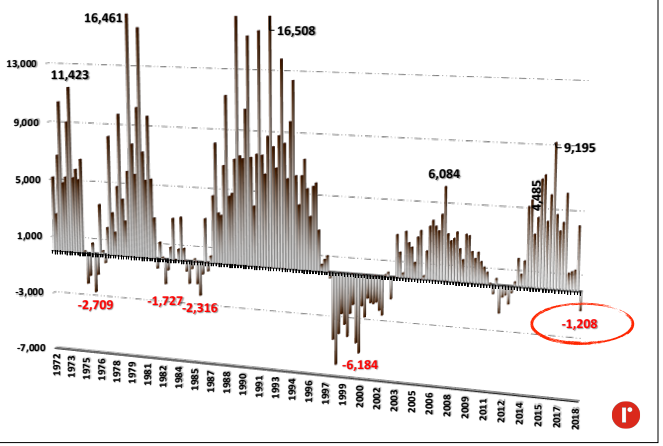
Q3 INTERNATIONAL MIGRATION, BC *+80% above Q3 average*



market
update

THE
DEMOGRAPHIC
CONTEXT

Q2 NET INTER-PROVINCIAL *First loss since Q1 2013*



national
immigration
policy change

CANADA

Global NEWS

The Province

Canada to increase 350,000 by 2020 'huge'

Canadian immigrants 2020

By Monique Scotti

CIC NEWS
CANADA IMMIGRATION NEWSLETTER

EXPRESS ENTRY
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CIC News / 2018 / December / International migration to Canada reached record level in third quarter of 2018

International migration to Canada reached record level in third quarter of 2018

Arrival of permanent and temporary residents drove population growth in nine provinces

December 21, 2018 By CIC News

4.1k Shares

International migration to Canada reached an unprecedented level between July 1 and October 1, 2018, and helped the Canadian population grow at a record three-month pace.

Preliminary estimates show Canada's population increased by 183,715 people during the third quarter of 2018. Statistics Canada says this was the largest quarterly increase in absolute numbers since the introduction of its current demographic accounting system in 1971.

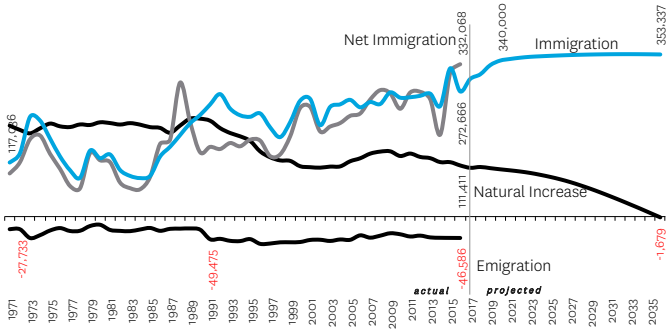
International migration alone accounted for most of the increase, with 146,531 people arriving in Canada between July 1 and October 1.

This was the greatest international migratory increase recorded and was attributed to strong immigration levels and the arrival of an unprecedented number of non-permanent residents.

national
immigration
policy change

CANADA

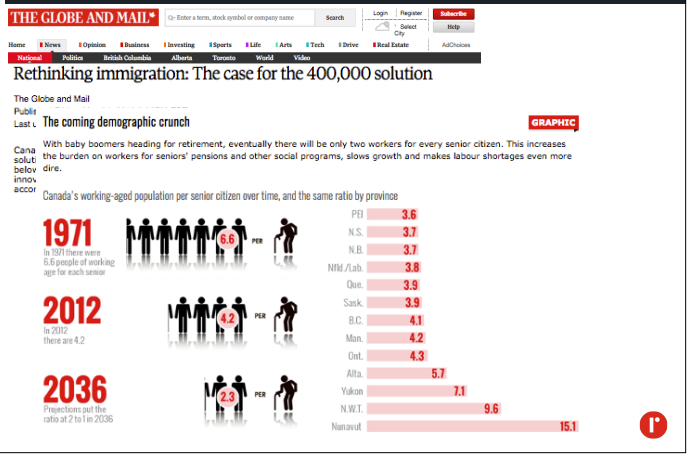
FEDERAL IMMIGRATION TARGETS



national
immigration
policy change

CANADA

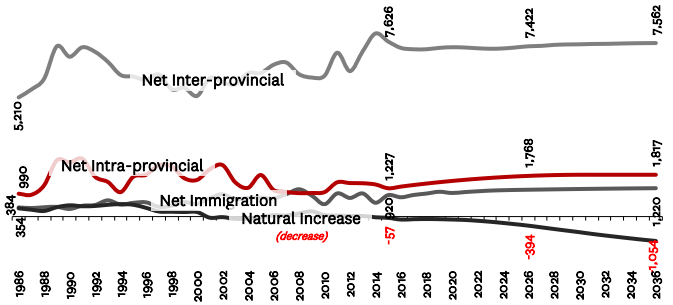
FEDERAL IMMIGRATION TARGETS



an
outlook
to 2036

CENTRAL
OKANAGAN

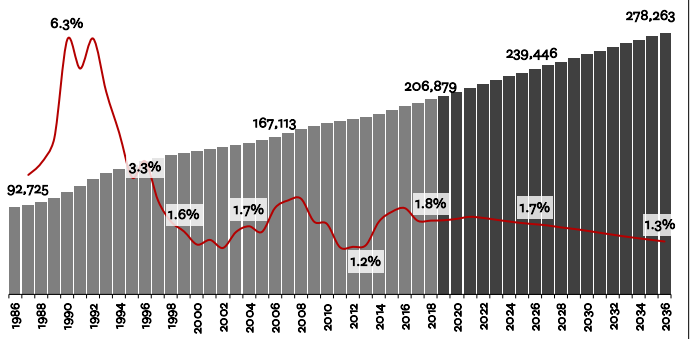
COMPONENTS OF CHANGE IN THE CENTRAL OKANAGAN



an
outlook
to 2036

CENTRAL
OKANAGAN

TOTAL POPULATION IN THE CENTRAL OKANAGAN



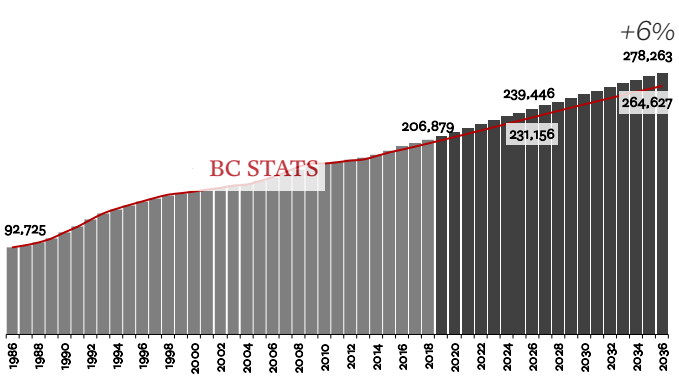
+54,754 over the past 18 years (36%)

+71,400 more residents over the next 18 (35%)

an **outlook** to 2036

CENTRAL OKANAGAN

TOTAL POPULATION IN THE CENTRAL OKANAGAN



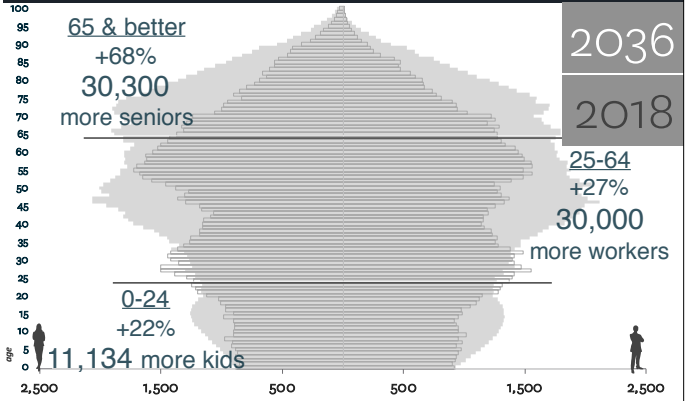
+54,754 over the past 18 years (36%)

+71,400 more residents over the next 18 (35%)

an **outlook** to 2036

CENTRAL OKANAGAN

POPULATION BY AGE IN THE CENTRAL OKANAGAN

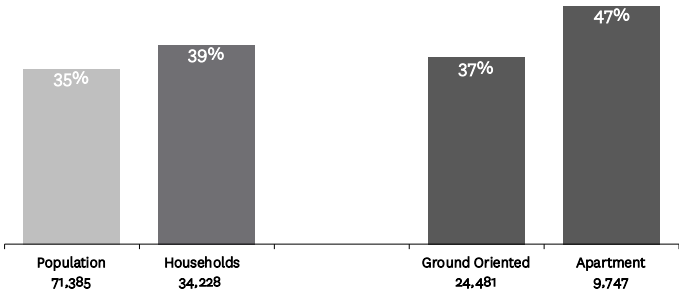


+71,400 more residents over the next 18 (35%)

an **outlook** to 2036

CENTRAL OKANAGAN

CHANGE IN HOUSING OCCUPANCY, 2018 - 2036



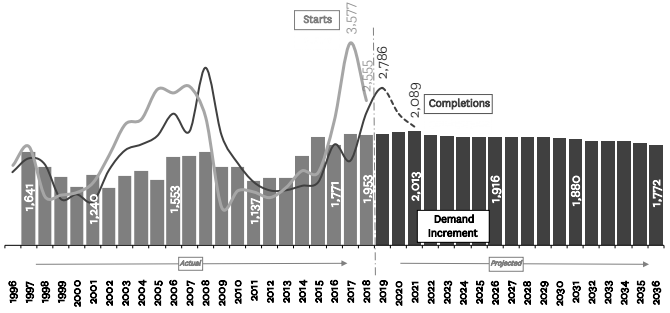
3,700 per yr.

1,900/yr

an **outlook** to 2036

CENTRAL OKANAGAN

ANNUAL CHANGE IN HOUSING OCCUPANCY



Demolitions typically represent 5%-20% of starts each year, so we would need to remove them to get at net new units.

an **outlook** to 2036

CENTRAL OKANAGAN

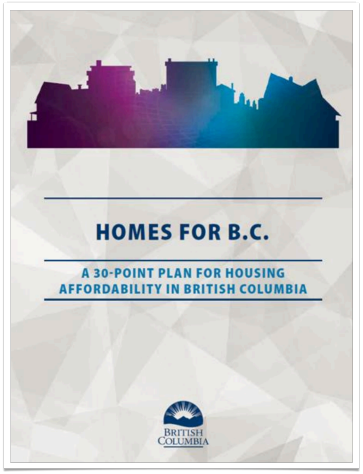
sound bites:

- If expected population estimates are achieved, levels of housing additions in the region *(those available for occupancy)* would have to remain in the 2,000 units per year range over the next decade;
- That said, starts and completions have historically averaged 1,600 units per years *(not accounting for demolished units)*...

topics **for today**

- market **update**
- an **outlook** for people & housing
- **policy** changes & shifts

bc **policy** updates



bc **policy** updates

FOREIGN BUYERS TAX

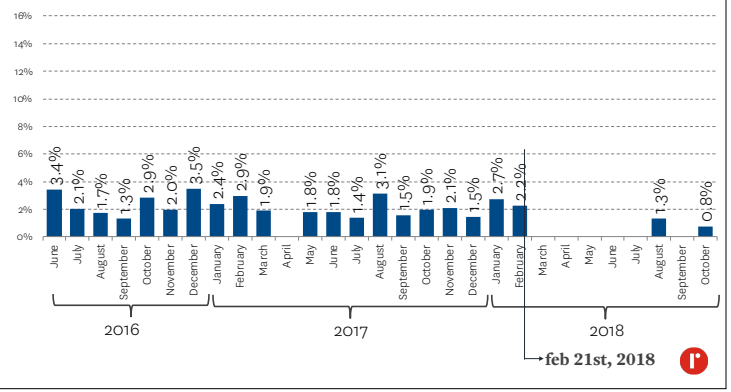
2018 BC Budget & Other Policy Changes

Policy/Instrument	In 61 Words or Less
Foreign Buyer Tax *(non local purchasers)*	•Expanded to 20% •Applies to Metro Vancouver, Fraser Valley, Central Okanagan, Nanaimo RD, & Central Okanagan •Effective immediately for MV, transitional rules for new regions of transfers Post Feb 21, 2018

FOREIGN BUYERS' SHARE OF RES. SALES, CORD

bc policy updates

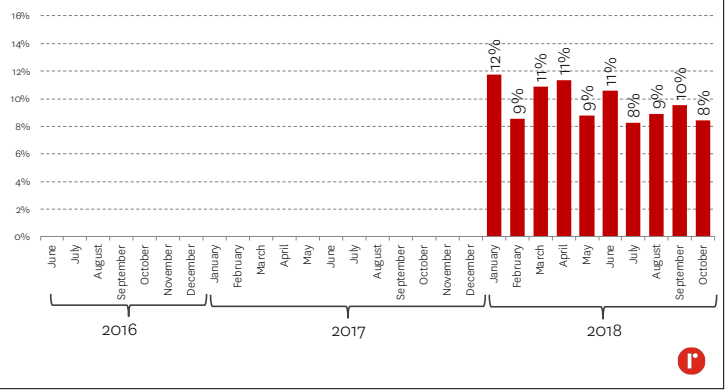
FOREIGN BUYERS TAX



FIRST-TIME BUYERS' SHARE OF RES. SALES, CORD

bc policy updates

FOREIGN BUYERS TAX



2018 BC Budget & Other Policy Changes

bc policy updates

SPEC.& VACANCY

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bc policy updates

SPEC.& VACANCY

VANCOUVER SUN

NEWS BUSINESS SPORTS ARTS & LIFE HOMES TRAVEL CAREERS OBITS CLA
NEWS OPINION COLUMNISTS FEATURED: THE SEARCH STAFF B

Vaughn Palmer: Weaver trash-talks 'stupid' speculation tax, even with Green DNA on it

"People have no idea how much crap we got out of that speculation tax. Now my job is to get the NDP to recognize it's a stupid tax and get rid of it."

VAUGHN PALMER Updated: January 22, 2019

THE B.C. SPECULATION TAX LEVIES A SURCHARGE ON SECOND HOMES LEFT VACANT BY OWNERS, STARTING IN 2019.

SHARE

VICTORIA — With the speculation tax again mired in controversy, some of the week's harshest criticisms came from the NDP's partner in power-sharing, Green Leader Andrew Weaver.

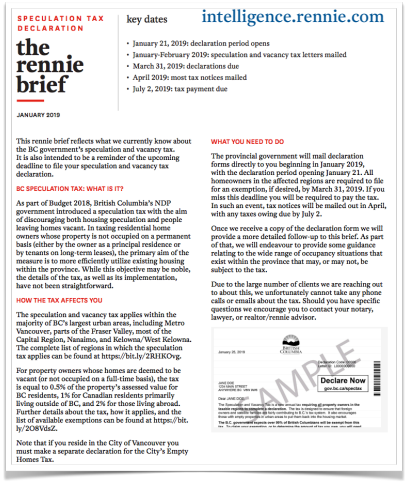
A horrible tax. A stupid tax. A hated tax. A dog's breakfast.

Weaver trash-talked the tax while the New Democrats fielded complaints about the blanket requirement for homeowners to apply for exemptions or risk being branded and taxed as speculators.

> People have no idea how much crap we got out of that speculation tax…
>
> …now my job is to get the NDP to recognize it's a stupid tax and get rid of it.
>
> Andrew Weaver

bc **policy** updates

SPEC.& VACANCY


SPECULATION TAX DECLARATION

the rennie brief

JANUARY 2019

key dates

intelligence.rennie.com

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HOW THE TAX AFFECTS YOU

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Declare Now

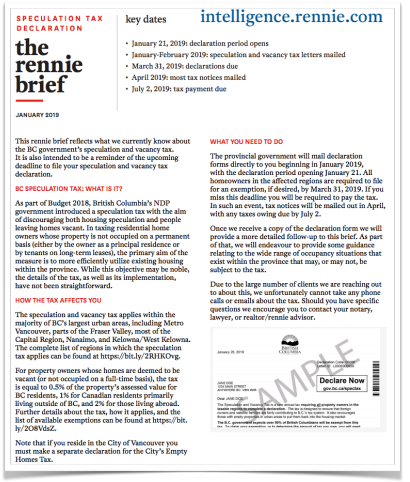
SAMPLE

What you need to know:

- All homes in identified areas will need to submit a declaration, but the tax will run with the individual and not the property *(unlike City of Vancouver)*
- Therefore, if property is in joint ownership, each owner needs to submit a declaration (even if co-owner is a spouse)
- If a declaration is not received by the province by March 31, a tax notice will be mailed to the owner(s) *(so called negative billing)*

bc **policy** updates

SPEC.& VACANCY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Declare Now

SAMPLE

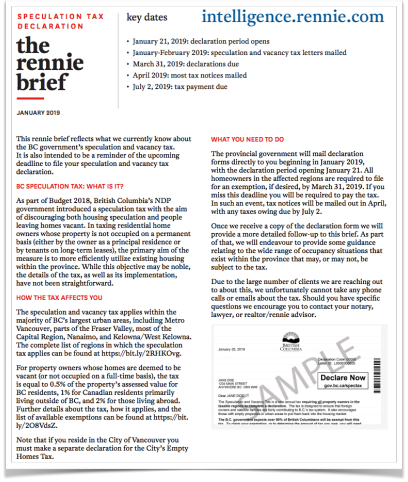
What you need to know:

Exemptions for individuals:

Principal residence exemptions
Occupied by a tenant (6 month tenancy)
Residence is uninhabitable
Secondary residence close to medical treatment facility
Just bought or inherited the property
Separation or divorce
Bankruptcy
Recent death of owner
Property is in a trust for a minor
Property has rental restrictions
Property is a strata hotel
Property includes a licenced child daycare
No residence on the property

bc **policy** updates

SPEC.& VACANCY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SAMPLE

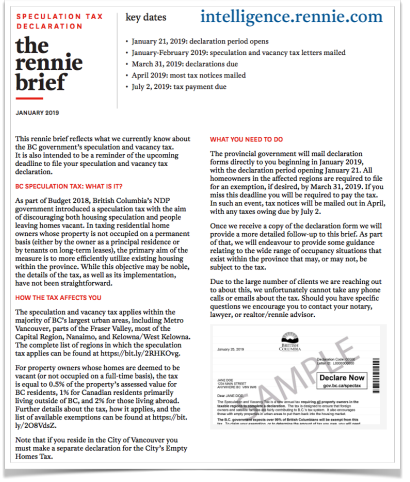
What you need to know:

Other Exemptions:

Exemptions also made for renovations, land under development, phased developments, vacant new inventory *(for units offered for sale in that calendar year)* if owners can show that reasonable steps are being taken without undue delay to develop of renovate the property.

bc **policy** updates

SPEC.& VACANCY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Declare Now

SAMPLE

What you need to know:

Other Exemptions:

BC owners of secondary properties in targeted areas are eligible for a tax credit up to $2,000 *(so properties up to $400k are exempt)…*

bc **policy** updates

RENTAL ZONING

2018 BC Budget & Other Policy Changes

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Property Transfer Tax *(more progressive escalation for $3 million plus purchases)*	• Increase PTT on residential properties over $3M from 3% to 5% on portion that is over $3M • Applies to all of BC • Effective 2018
Additional School Tax *(mansion tax)*	• Increase in School Tax levied on "dwelling properties" over $3M of 0.2% of value between $3-$4M and 0.4% on portion over $4M • Applies to all of BC • Unclear if tax will be applied to rental properties and land (exemption for rental likely) • Effective 2019
Tax Fraud *(pre-sale & pre-sale assignment database)*	• Provincial Government to collect information on pre-sales and assignments of contracts from developers • Database to be shared with tax authorities to ensure tax compliance • New taxation model may emerge (think Foreign Buyer tax)
PST & MRDT for short-term rentals *(airbnb tax)*	• 8% PST on accommodation and up to 3% MRDT applies for short-term accommodation (less than 27 consecutive days, income of over $2,500/yr.)
Hidden Ownership *(beneficial ownership)*	• More information on beneficial ownership of corporations will be added to property transfer forms • A registry of all beneficially owned property will be made public • Corporations will also be required to hold accurate info on all beneficial owners
Housing Needs Assessments	• all Local Governments (LGs) will be required to file housing needs assessments with details about historical and expected supply/demand every 5 years.
Rental Only Zoining	• new legislation that allows LGs to zone specific areas based on tenure

bc **policy** updates

RENT CONTROL

2018 BC Budget & Other Policy Changes

Policy/Instrument	In 61 Words or Less
BC Building Code Changes	• building accessibility for people with disabilities • mid-rise wood construction • additional seismic requirements • reference to new BC energy STEP codes
Rent Increase Caps	• Typically rent increases are capped at CPI (general inflation) plus two percentage points. • Increases for 2019 have been capped at 2.5% maximum rent increase

sound bites for today

- The region's real estate market is normalizing back towards historical averages, moving back into balanced market conditions. This will result in moderation of price increases;
- Much of the recent changes in market conditions have largely been driven by policy changes *(locally, provincially & nationally)* and not by economic circumstances;
- The regional (and provincial) economic outlook is relatively good.
- That said, certain outliers exist: **trade; interest rates;** the **politics of division;**

sound bites for today

- On the policy front, we are watching:
  - Modification to the OSFI stress test (?)
  - Federal focus on housing affordability *(specifically for millennials)* in the lead-up to fall election
  - Provincial By-election
  - Local (municipal) council composition changes

Policy decisions, interest rates slowed the real estate market, and they're needed for a rebound

Haider-Moranis Bulletin: A slowdown is the intended response to regulatory changes and must not be seen solely as a sign of market weakness

market
update

MLS PRICES
CENTRAL
OKANAGAN

Interaction report

29 January 2019 - 01 February 2019, Vancouver, Canada.

Participants sent
537 votes in 3 polls

1 / 3

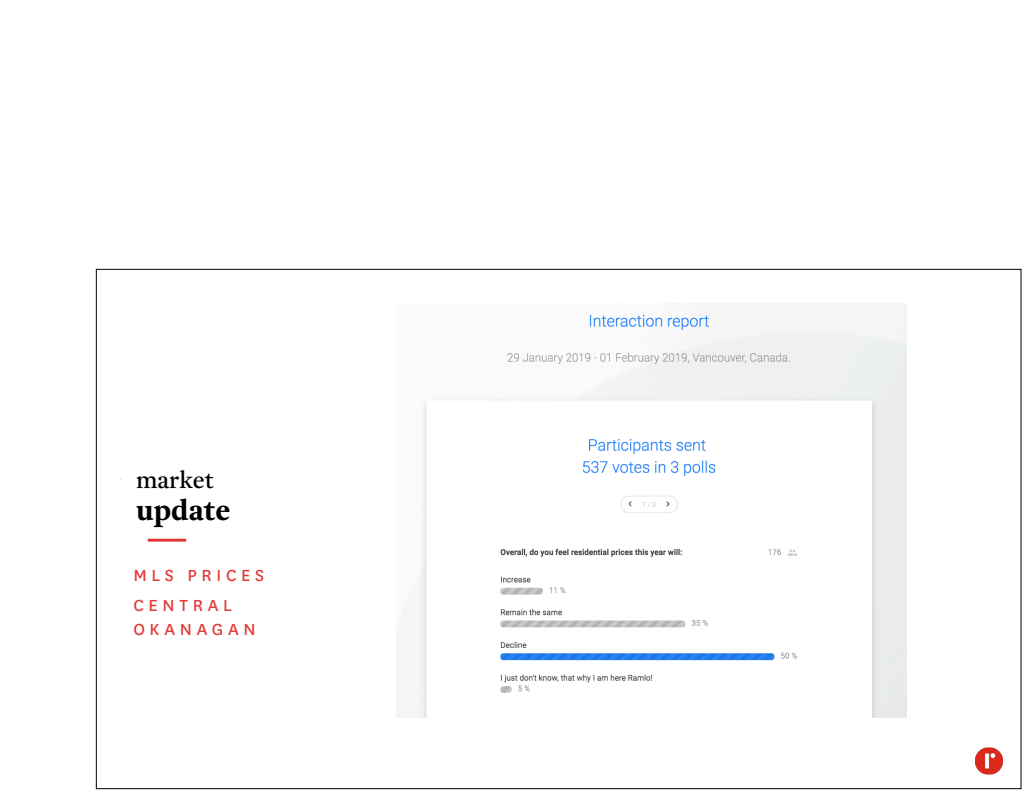
Overall, do you feel residential prices this year will: 176

Increase
11 %

Remain the same
35 %

Decline
50 %

I just don't know, that why I am here Ramlo!
5 %



market
update

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2 / 3

Which of the following property classes will perform best in 2019: 183

Apartment
25 %

Townhome
54 %

Detached
21 %

market
update

MLS PRICES
CENTRAL
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3 / 3

What will be the biggest factor in moving the Okanagan market in 2019? 178

Interest rates
10 %

Broad economic factors (jobs, unemployment rates, political turmoil)
22 %

Local economic factors (jobs, migration, supply of new units)
23 %

Policy changes (or change in government)
39 %

A sighting of Ogopogo
4 %

Other
2 %

thank you...