

HOUSING MARKET INSIGHT

Vancouver CMA



CANADA MORTGAGE AND HOUSING CORPORATION

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"Our estimates show that on average a 1.0% increase in house prices in the City of Vancouver was immediately transmitted to places like Burnaby, Richmond, and the North Shore resulting in price increase of 0.45% in Burnaby and Richmond and 0.73% in the North Shore."



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Highlights

- When home prices in the City of Vancouver fluctuate, there is a measurable effect on home prices of other municipalities; this is known as a spill-over effect.
- The spill-over effect from Vancouver takes several years to fully set in for other municipalities.
- Within commuting distance of Vancouver City, the length of the commute and the size of the spill-over effect are related.
- House prices in municipalities that are outside of the commuting range are still affected by price changes in Vancouver.

In the fourth quarter of 2016, in CMHC's Housing Market Assessment, moderate evidence of house price acceleration was detected in the Vancouver census metropolitan area (CMA), and in the following quarter acceleration was also measured in the Victoria CMA. Market commentators have also suggested that strong house price growth in Vancouver in 2016 was spilling-over from Vancouver to other centres in British Columbia¹. The purpose of this report is to measure the link between house prices in the City of Vancouver and other major centres in British Columbia, and to discuss possible causes.

Spill-over effects from Vancouver City are strongest in Richmond and the North Shore.

CMHC estimated how price movements in the City of Vancouver affect municipalities that are both nearby and farther away². Our results show:

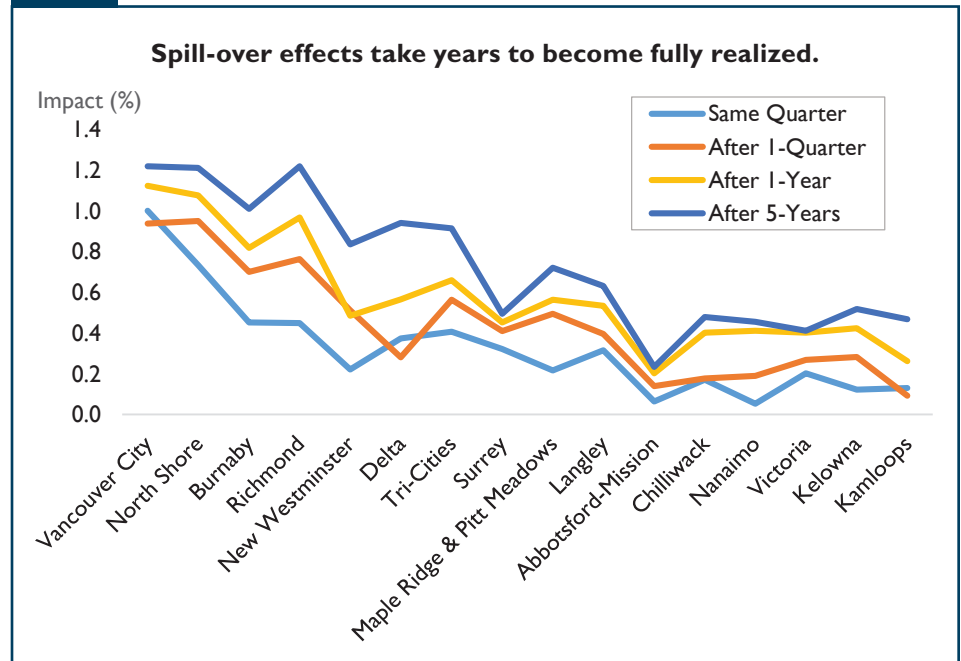
- There is a detectable spill-over effect.
- The spill-over effect is strongest in municipalities adjacent to the City of Vancouver.
- As the distance increases, the spill-over effect generally becomes smaller, but only up until a point. Beyond commuting distance, the effect is similar regardless of distance.

Figure 1 shows the spill-over effect from Vancouver to other municipalities in British Columbia. These results measure price changes due to a random and unexpected increase to the house prices of Vancouver after accounting for other sources of variation. The reported results are an historical analysis of the house price data in British Columbia and they can be thought of as the average spill-over effects of the past. That means that this is not a forecast of how spill-over effects will happen in the future, as the exact causes of spill-over effects are complex and differ over time. In addition, these values do not imply that every price movement in Vancouver has resulted in a visible price movement in other markets. There are other factors that may have cancelled out these effects or amplified them, depending on the particular example. These effects are related to changes in the Vancouver housing prices in isolation of other factors that would jointly affect house prices in B.C. centres like province-specific or national economic developments and regulatory changes targeted to housing markets.

Short-run Spill-Over Effects Mainly Affect Direct Neighbours of Vancouver City.

Our estimates show that on average a 1.0% increase in house prices in the City of Vancouver was immediately transmitted to places like Burnaby, Richmond, and the North Shore resulting in price increase of 0.45% in Burnaby and Richmond and 0.73% in the North Shore. The immediate response of other centres was also detected.

Figure 1



Source: CMHC calculations, Real Estate Board of Greater Vancouver, Fraser Valley Real Estate Board, Vancouver Island Real Estate Board, Victoria Real Estate Board, Okanagan Mainline Real Estate Board, and Kamloops and District Real Estate Association

Spill-over Effects Take a Long Time To Be Fully Realized.

The spill-over effect only becomes fully realized over a long period of time, such as 5 years or more, for most municipalities in British Columbia. As with the short-run effects, the further away from Vancouver, the lesser the extent of the spill-over effect up until a point. Beyond commuting distance, the effect is similar regardless of distance. After five-years, in places as far away as Kelowna, for example, prices were 0.5% higher than they would have been otherwise.

In Richmond and the North Shore, the long-run spill-over effect from Vancouver was as strong as the long-term effect on Vancouver itself. When prices increase unexpectedly in Vancouver, they eventually had the same effect on Richmond and the North Shore. For Burnaby, the link between prices was somewhat weaker. This is possibly

due to the historically higher share of apartment sales in the Burnaby market as compared with Richmond and the North Shore.

Spill-over effects are consistent with a trade-off between commuting distance and lower house prices.

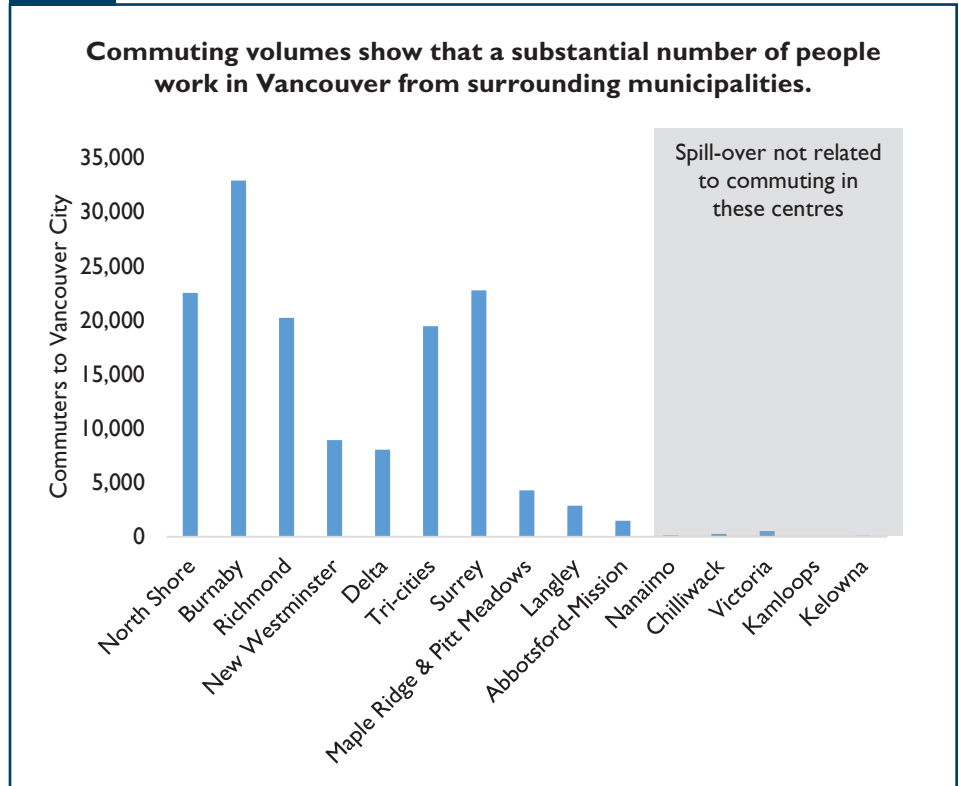
House price levels vary from one municipality to another for many reasons including but not limited to: proximity to employment or economic activity, available services, land availability and use, property tax rates, natural and geographical features. When the difference in house prices between two neighbouring areas exceed what is warranted by such factors, home buyers have an incentive to buy in the lower priced area. A very common example is when a buyer chooses to locate in a municipality

that is further away from his or her place of employment in order to pay a lower price for a house. Price may not be the only reason people choose to live in one place over another, but it is certainly a key determinant.

In 2016, the Vancouver Census Metropolitan Area (CMA) was the location of 57% of the total jobs in British Columbia, with major commercial activity centred in the City of Vancouver. Employment is considered a fundamental driver of housing markets, and commuter data shows that the City of Vancouver is an important source of direct employment for many of the surrounding municipalities (Figure 2). The commuter data also show that there is a point at which commuting to Vancouver City is no longer undertaken by large groups of people. The Abbotsford-Mission CMA is the farthest municipality where people commute to Vancouver City directly in numbers exceeding 1,000 commuters. This means that beyond this point, spill-over effects are probably not directly tied to Vancouver's employment fundamentals.

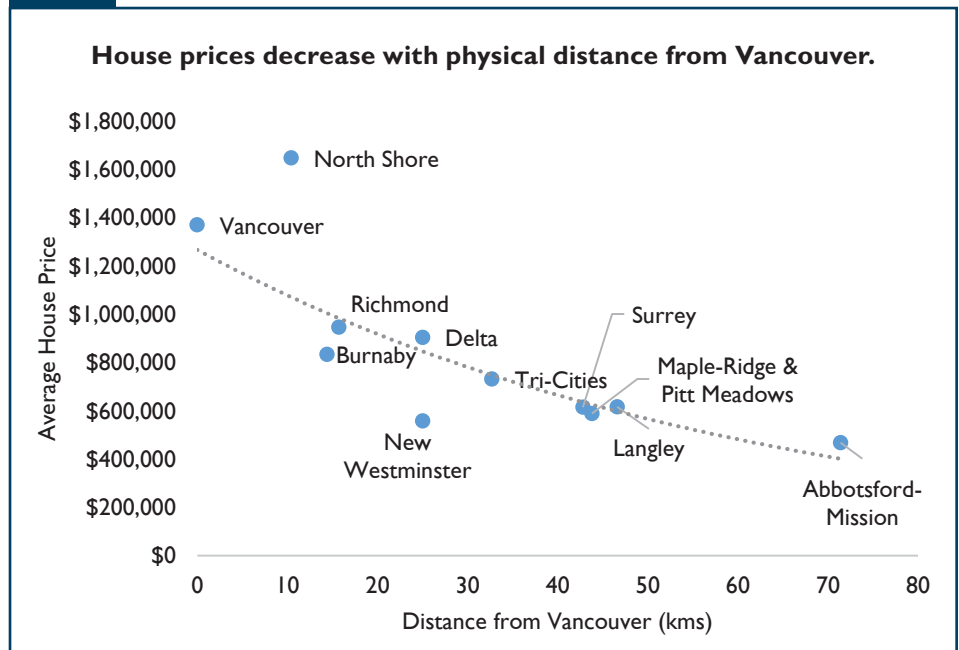
For the centres that are within commuting range, distance from Vancouver City corresponds with lower house prices (Figure 3). Thus, it is true that buyers must pay a premium to live closer to Vancouver's large employment centre. In addition, that premium increased in the period between 2011 and 2016. Typically, we assume that population growth leads to increased housing prices, holding all else constant. Yet, in Langley and Surrey the increase in house prices were among the lowest in nominal dollar amounts while over the same timeframe the population

Figure 2



Source: Statistics Canada

Figure 3



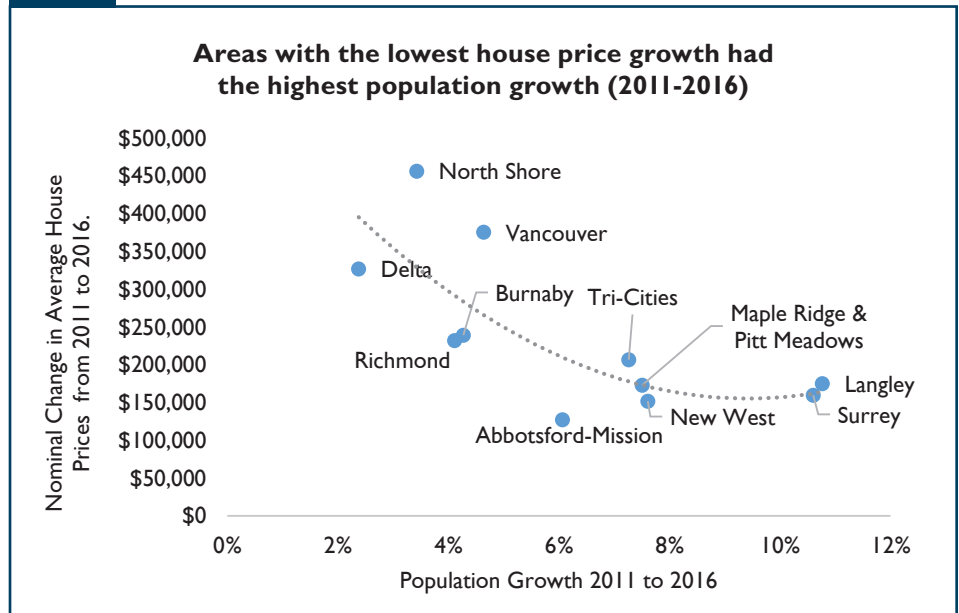
Source: Real Estate Board of Greater Vancouver; Fraser Valley Real Estate Board, Google Maps

growth was the strongest (Figure 4). This suggests population growth in these centres was higher, at least partially, because the cost of living in Vancouver increased faster than in Surrey or Langley. In all likelihood, some buyers chose to locate in areas with longer commutes because of the additional cost required for living closer to Vancouver. To be clear, this data is not conclusive evidence of this effect because we do not explicitly know buyer motivations. Vancouver has notably different type and quantity of supply than Surrey, for example, but the incentive structures are clear; there is a trade-off between house price and commute. With that in mind, this data also highlights the fact that the incentive structure changes over time, meaning future spill-over effects will likely differ from what occurred in the past.

Migration out of Vancouver CMA provides another route for spill-over effects to other provincial centres.

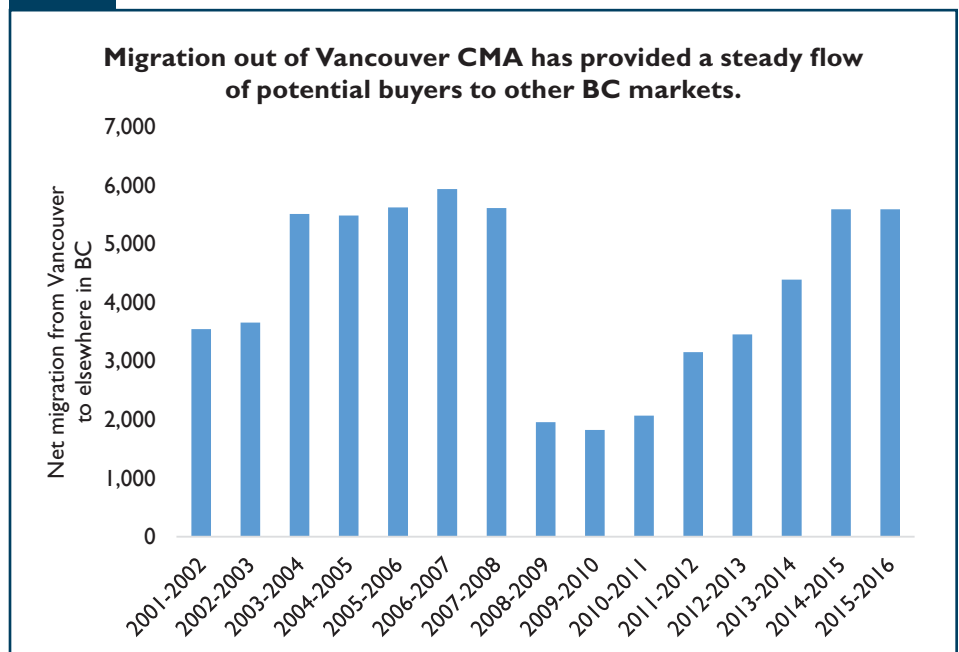
The steady migration out of Vancouver means that there has long been a flow of potential buyers from the Vancouver CMA housing market into other parts of British Columbia (Figure 5). This out migration provides a clue as to another potential channel for spill-over effects. To the extent that the migration data approximates the flow of homeowners in Vancouver leaving for other parts of the province, price fluctuations in Vancouver house prices affect the home purchasing budgets that migrants take with them to other markets. Intraprovincial migrants leaving Vancouver were typically over the age of 30, with the highest concentration between the ages of 45 and 50. In other words, the people leaving Vancouver were

Figure 4



Source: Real Estate Board of Greater Vancouver, Fraser Valley Real Estate Board, Statistics Canada

Figure 5



Source: BC Stats

very likely to have some home equity built up, especially considering the 65% homeownership rate in the Vancouver CMA combined with the fact that homeownership rates are higher, on average, for older demographics. Because there are other ways for Vancouver to

influence other municipalities, spill-over effects from Vancouver decrease with distance, but only up until a certain distance. For markets like Kelowna, the spill-over effects are likely linked to people leaving Vancouver and settling elsewhere.

ENDNOTES

- ¹ Wilson, Cara. "Vancouver spillover makes Island next hot real estate spot: report." Aug. 25 2016. Times Colonist, Web. 5 Apr. 2017.
Gold, Kerry. "Vancouver homeowners cashing out for smaller markets with more space." Apr. 1 2016. The Globe and Mail. Web. 5 Apr. 2017
- ² HOLLY, S; PESARAN, MH; YAMAGATA, T. The Spatial and Temporal Diffusion of House Prices in the UK. Journal of Urban Economics. 69, 1, 2-23, Jan. 2011.

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