



# Real estate market overview and current challenges

## Stepping into 2017

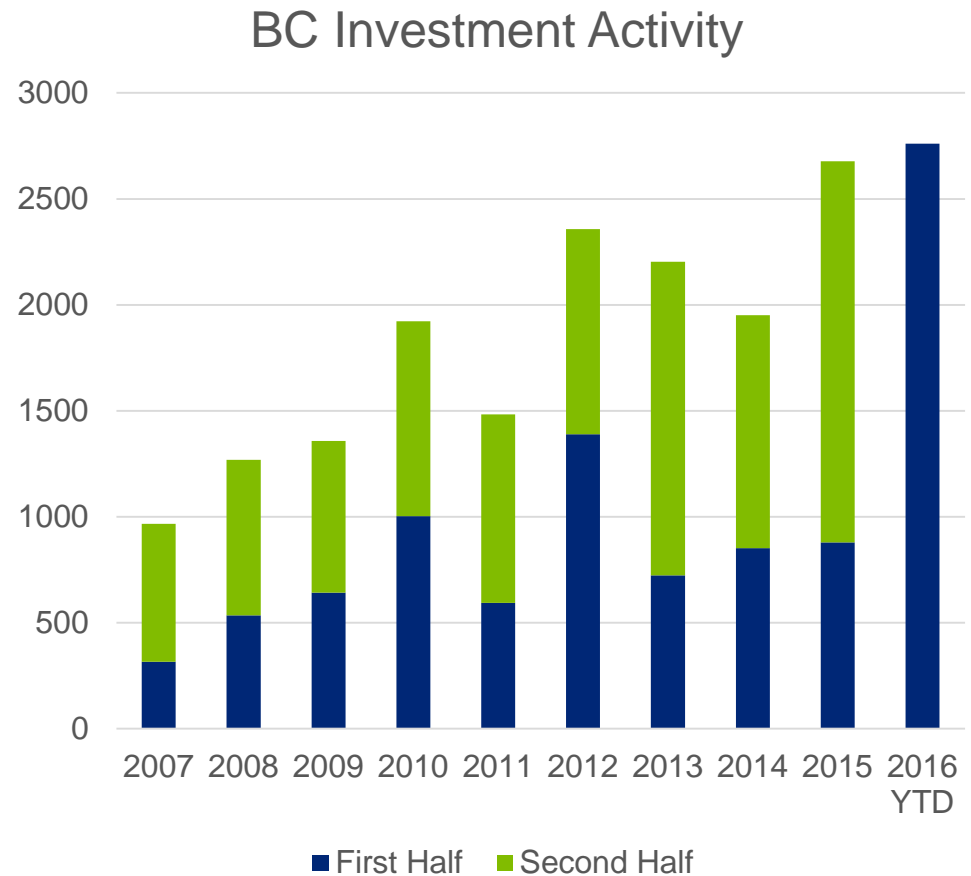
October, 2016



# Record investment demand

Demand for Vancouver investment product continues to outpace supply

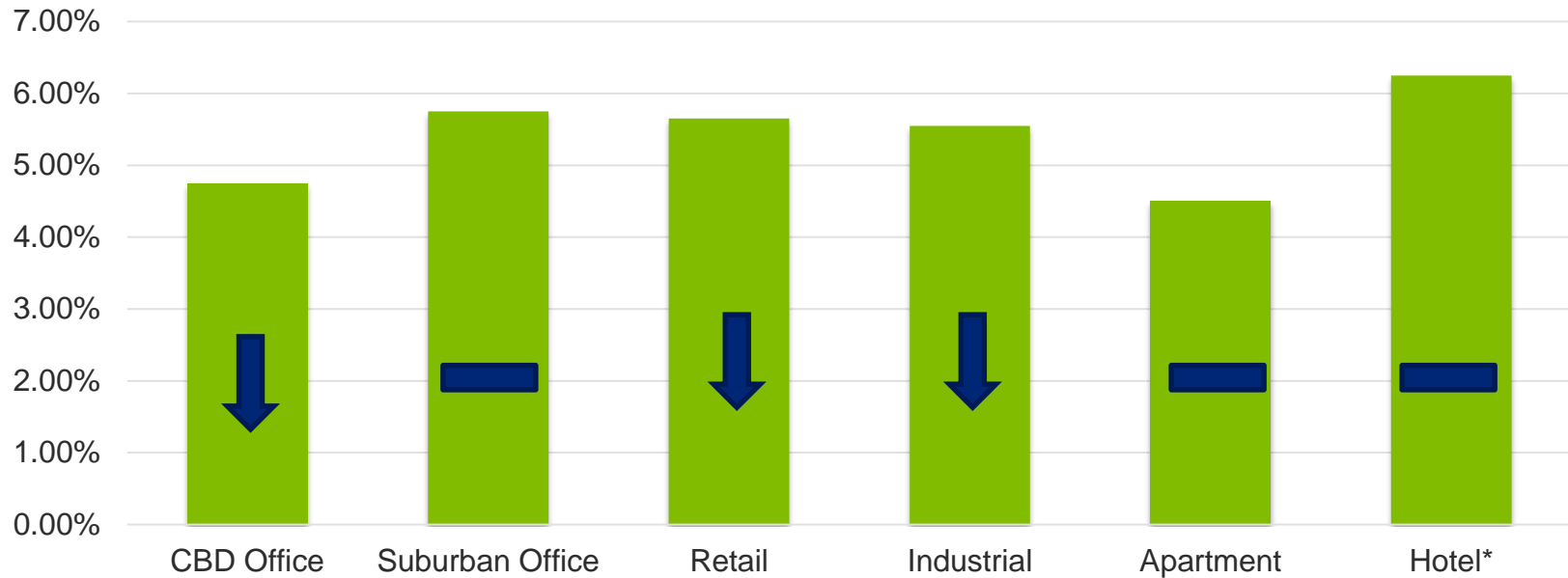
- First half sales of 2016 surpassed best historical annual sales volumes
- Demand continues from most groups and driven by private and foreign capital interests
- Office assets lead investment activity (surpassing land as the most sought after investment class in 2016)
- Major transactions such as the sale of Royal Centre and Bentall Centre defined 2016



Source: Avison Young, Realnet

# Reshaping our expectations of return

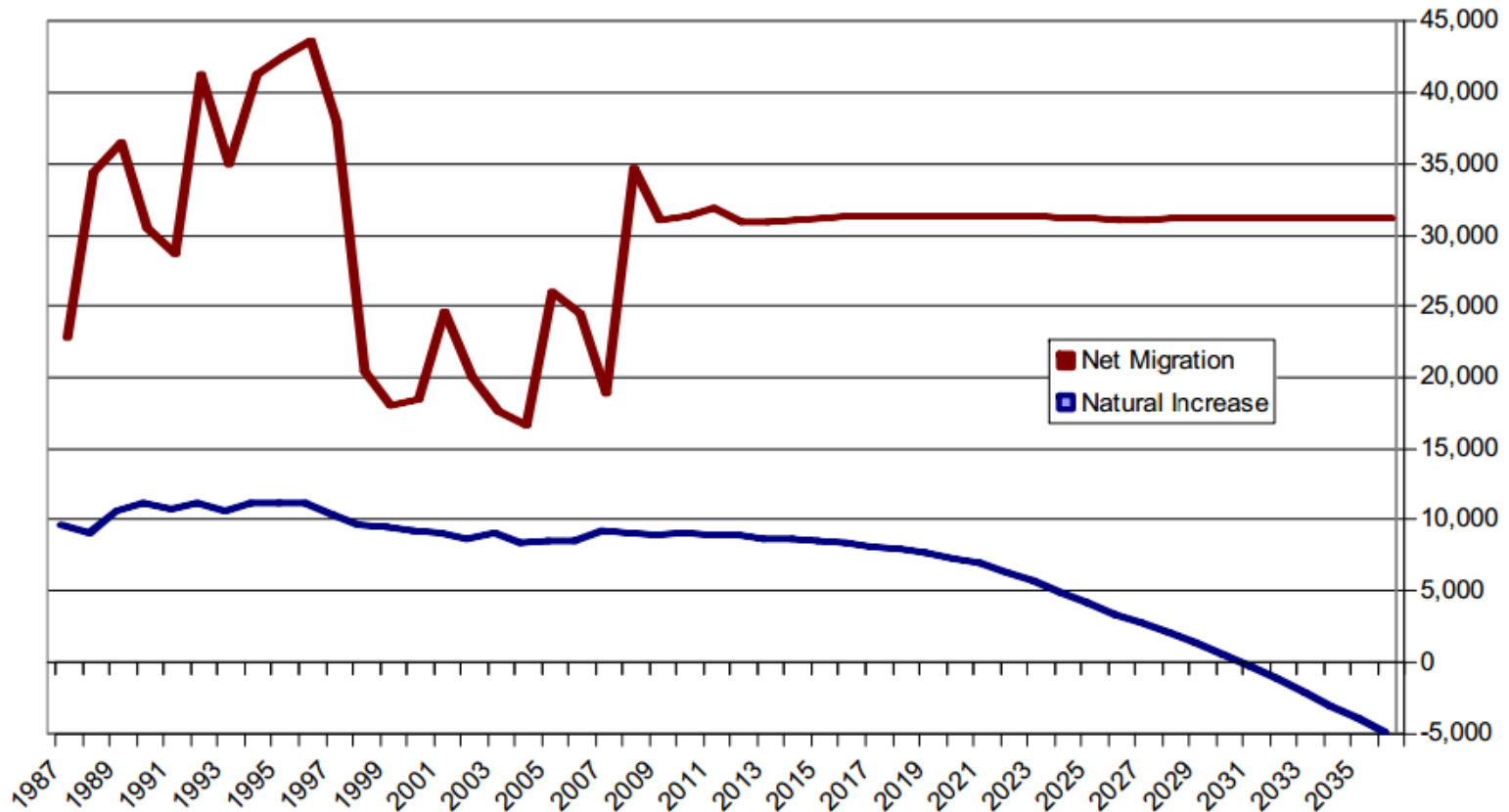
Continued demand from investors (both private and institutional) is driving market pricing. Seller's expectations were elevated yet again in 2016



# Changed growth patterns

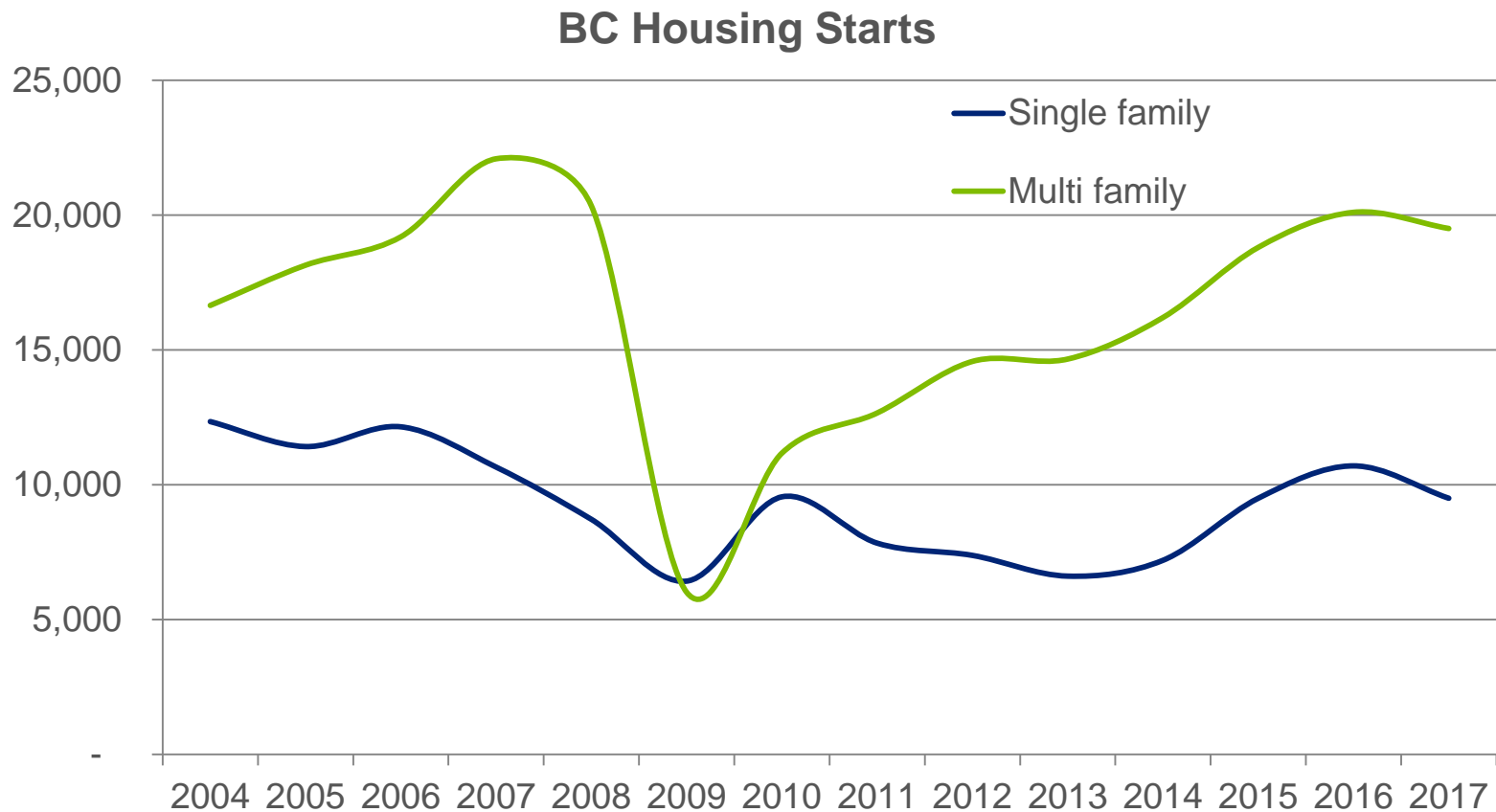
With a population continuing to grow at nearly 40,000 per annum the topic of affordability is now at the forefront of most conversations

## Projected net migration and natural increase in Metro Vancouver



# Continued demand

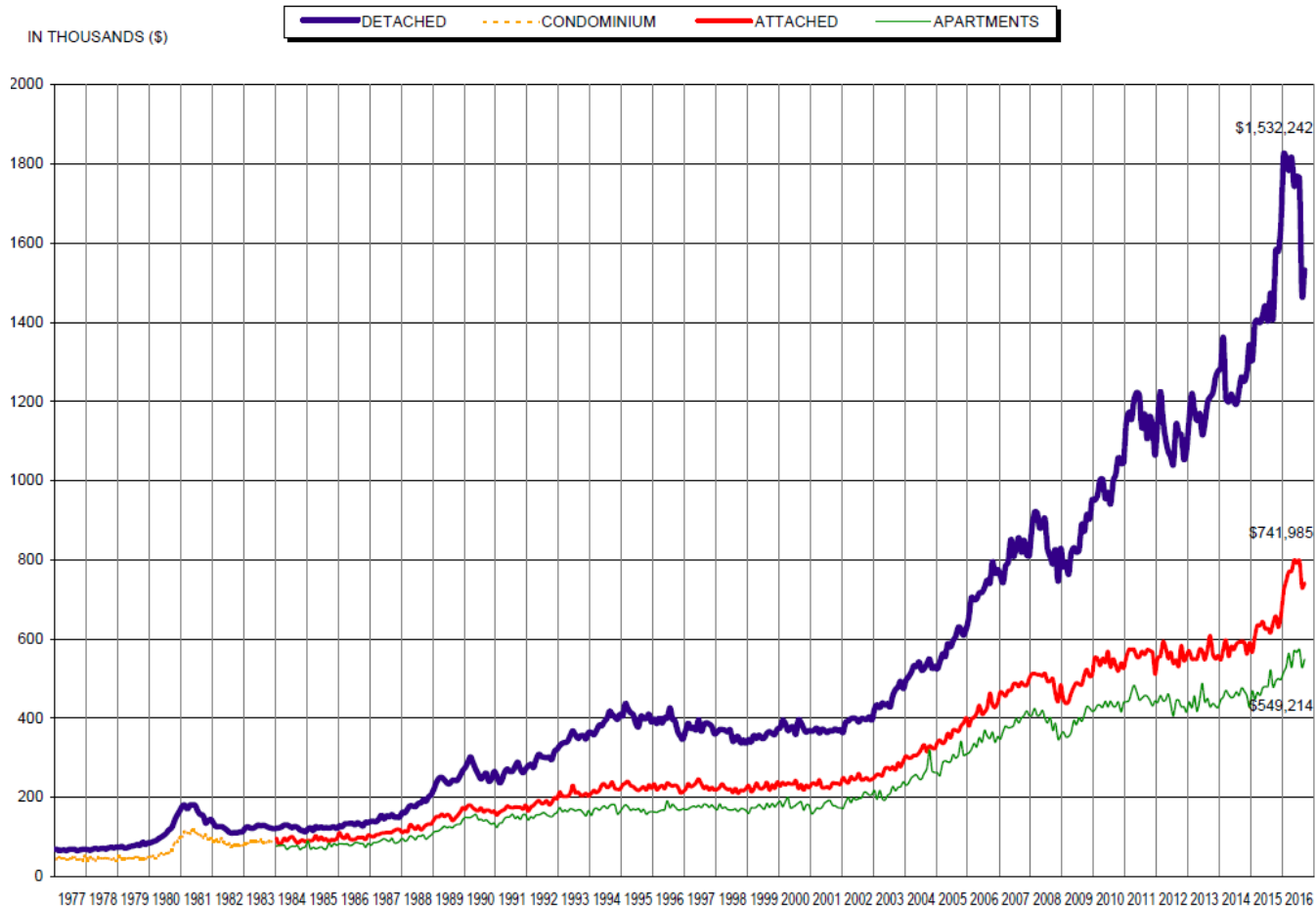
With a population continuing to grow at nearly 40,000 per annum the topic of affordability is now at the forefront of most conversations



# Affordability

Multiple factors ranging from land scarcity to flight of capital driving the value of the single family home

Residential Average Sale Prices - January 1977 to September 2016



# The demand for new

Innovation and changed expectations is contributing to our recent building boom

New construction is slated to increase the region's office supply by **6.8%**

- Nine buildings will add **over 3 million sf** to the Downtown by the end of 2016
- Five projects will add a further **1.9 million sf** in the suburbs in the same time

According to CBRE the industrial market continues to keep pace with the market demand with **5.8 million sf** of supply in 2015 and 2016

The changing face of retail is contributing to increased broken ground throughout Vancouver with major projects cumulatively adding nearly **4 million sq. ft.** of new retail experience with the first completions occurring in 2015

# Defining 2016 and beyond

## New product gave increased choice for users

- New office supply to both the suburban and core markets increased options for users and has impacted vacancy rates in most markets
- Increased retail development is attracting the attention of existing retailers and new market entrants
- Industrial market remains relatively tight
- New rental housing has begun to come to market but not in volumes great enough to surpass demand levels



5.9%



9.9% (Central)



13.2% (Suburban)



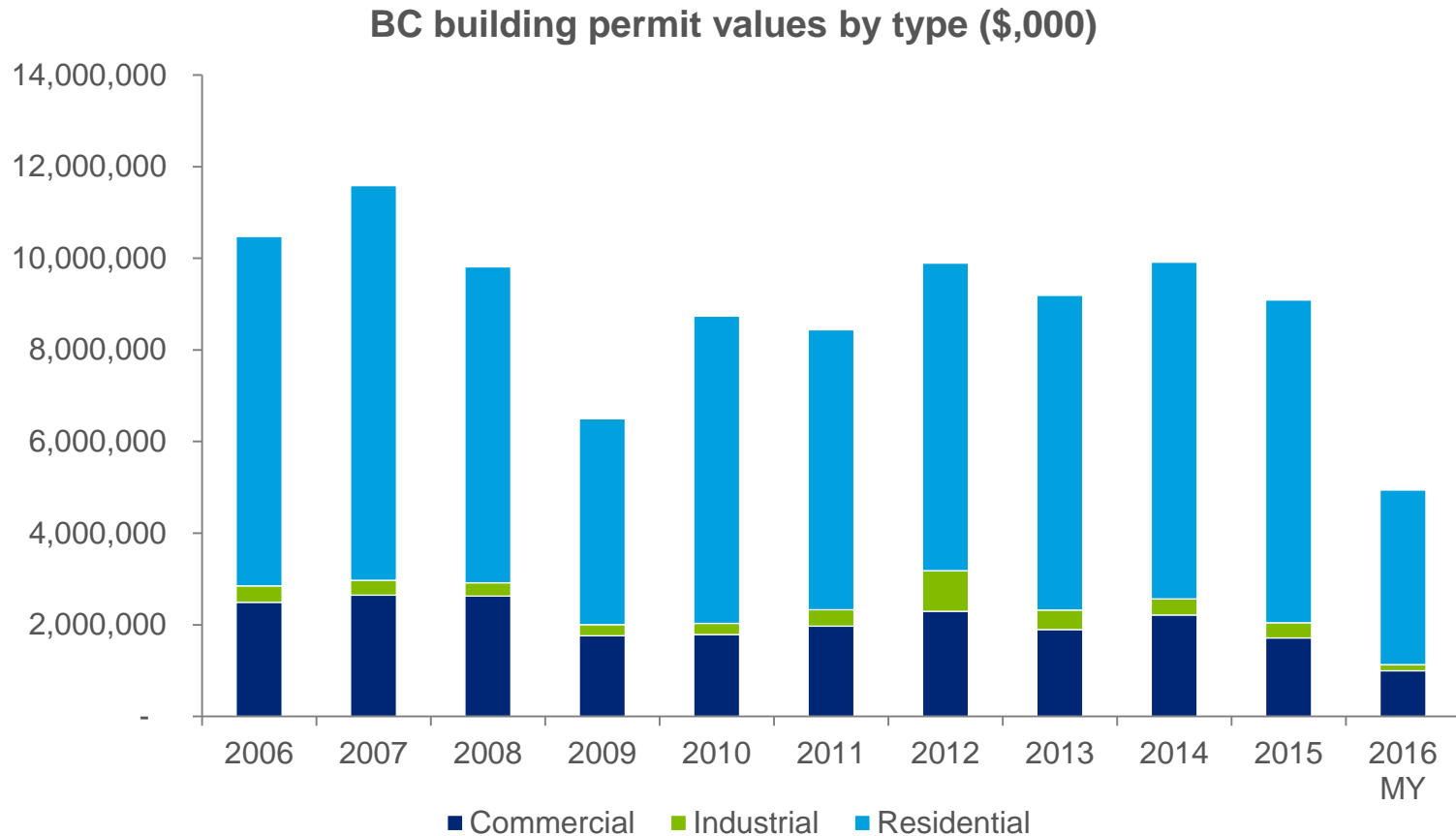
8.7% (est)

Source: CBRE Annual Report



# Construction volumes easing

Construction continues across the Lower Mainland albeit at a slightly moderated pace to 2015



# Changes in the market

## BC's new additional Property Transfer Tax

*On July 25, 2016, the BC government introduced legislative changes directed at BC's residential housing market. The key changes include the introduction of an additional 15% property transfer tax (PTT), effective August 2, 2016, on transfers of residential properties within the Greater Vancouver Regional District (GVRD) to foreign entities or taxable trustees*

In order to determine whether the additional 15% PTT may apply, the key questions that must be answered are:

- Is the property within the geographical taxing area?
- Is the property a “residential property”?
- Is the purchaser a “foreign entity” or “taxable trustee”?

If the answers to all of the above three questions are “yes”, then it is likely the additional 15% PTT will apply.

# Changes in the market

## BC's new additional Property Transfer Tax

### Questions worth asking

- **Is the property within the geographical taxing area?**
- **Is the property a residential property?**
- **Is the purchaser a foreign entity or a taxable trustee?**
- **How will the additional PTT apply?**
- **When will the additional PTT apply?**
- **Other considerations**

# Government Responses

## Recent announcements

### Preventative Measures for a “Healthy, Competitive and Stable Housing Market”

- Legislation release on October 3, 2016
  - “Mortgage rate stress test” for all insured borrowers
  - Closing loopholes for the Principal Residence Exemption
- *Consultation on requirement of lenders to share in loan losses on insured mortgages*

# Government Responses

## Recent announcements

“Mortgage rate stress test” for all insured borrowers

- Mortgage insurance required for “high loan-to-value” (i.e. less than 20% equity)
- Mortgage insurance optional for “low loan-to-value” (i.e. at least 20% equity)

Qualification criteria for mortgage insurance on low loan-to-value mortgages is changing

- Debt-servicing ratios must be no higher than the maximum allowable levels when calculated using the greater of the contract rate and the Bank of Canada posted rate for conventional five year fixed rate mortgages effective October 17, 2016
  - Bank of Canada’s posted rate is typically higher than the contract mortgage rate
- Additional eligibility criteria also changing for mortgages insured after November 30, 2016

# Government Responses

## Recent announcements

### Principal Residence Exemption

- Homeowners are exempt from capital gains taxation on their principal residence (including certain trusts)
- Changes to tighten the rules to meet their intent
  - Non-resident in year of acquisition will no longer be able to claim for years where individual is non-resident
  - Trusts will be limited to
    - Spousal trust, *alter ego* trust, disability trust, or
    - Trust whose beneficiaries are minor children of deceased parents and
    - Beneficiaries or family who occupies the residence must be resident of Canada and a family member of the person who created the trust
  - Dispositions of a principal residence must be reported in tax returns
    - Normal assessment period extended where failure to disclose

Thank you and questions:

*“Real estate cannot be lost or stolen, nor can it be carried away. Purchased with common sense, paid for in full and managed with reasonable care, it is the safest investment on earth.”*

Franklin D. Roosevelt



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