



# BCREA Economic and Commercial Market Outlook

*February 9, 2012*

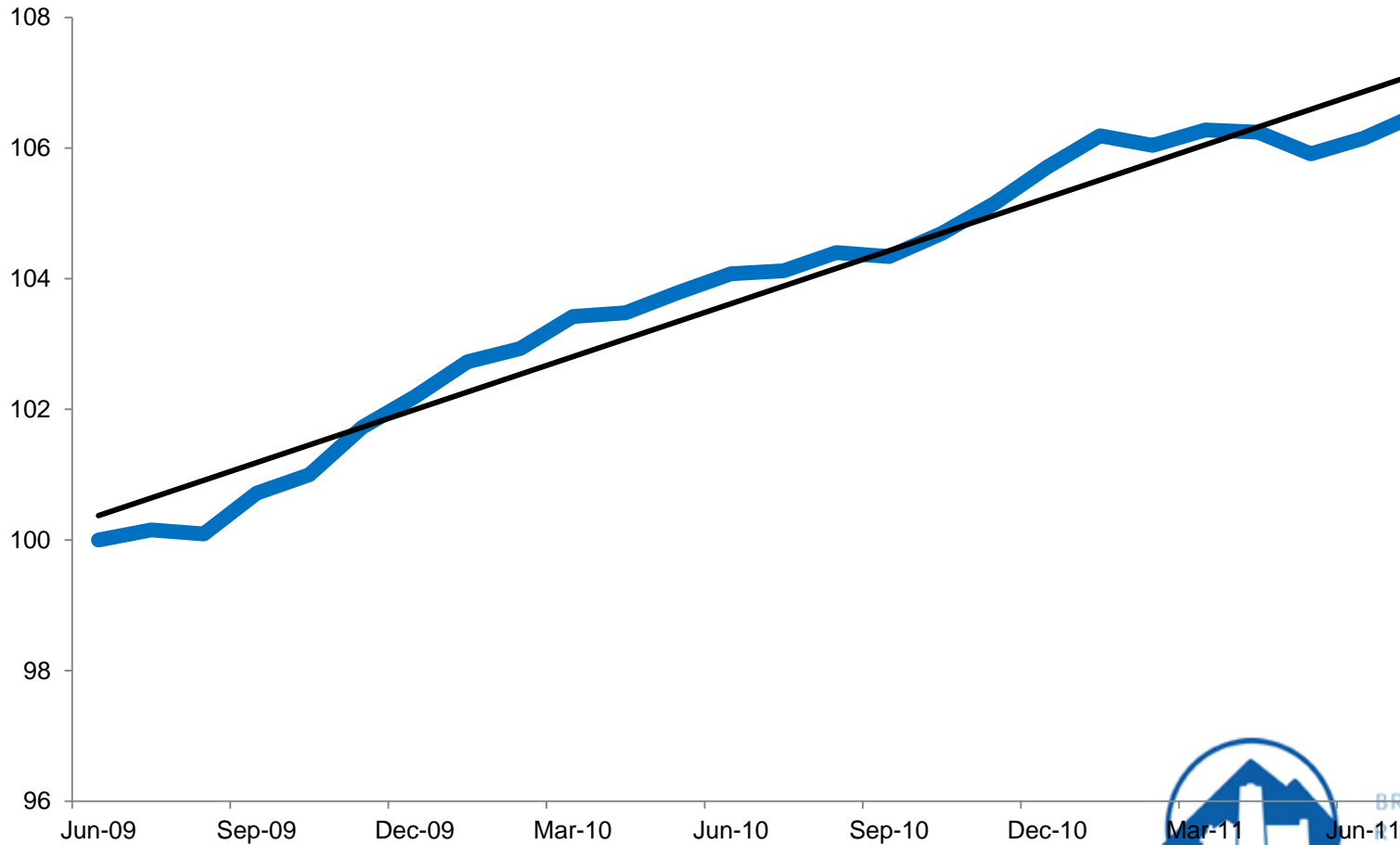
Brendon Ogmundson  
Economist  
BCREA



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# Canadian Economy Muddling Along

Monthly GDP Index (June 2009=100)



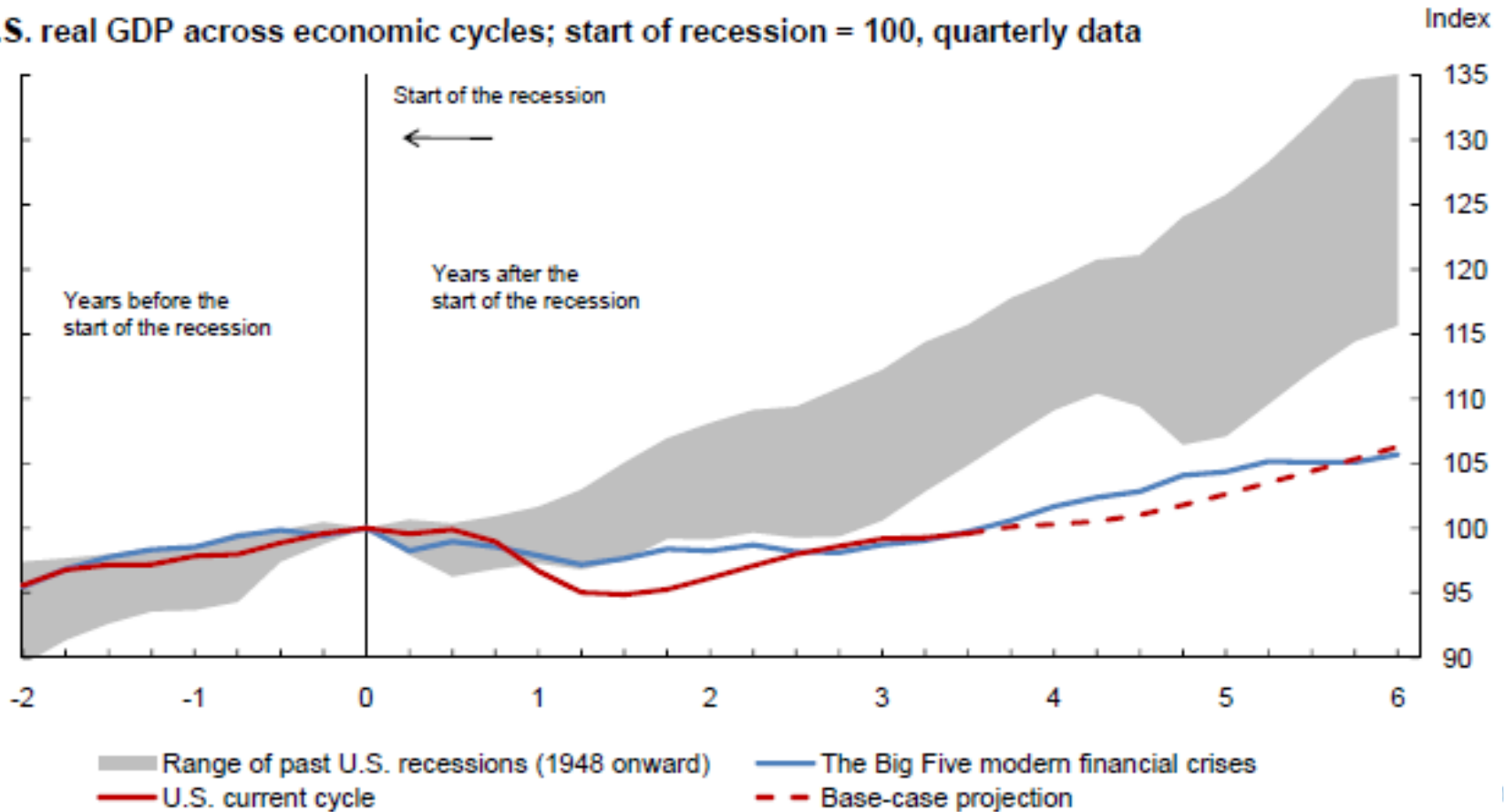
Source: Statistics Canada



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# Weak Economic Recovery in the US

U.S. real GDP across economic cycles; start of recession = 100, quarterly data

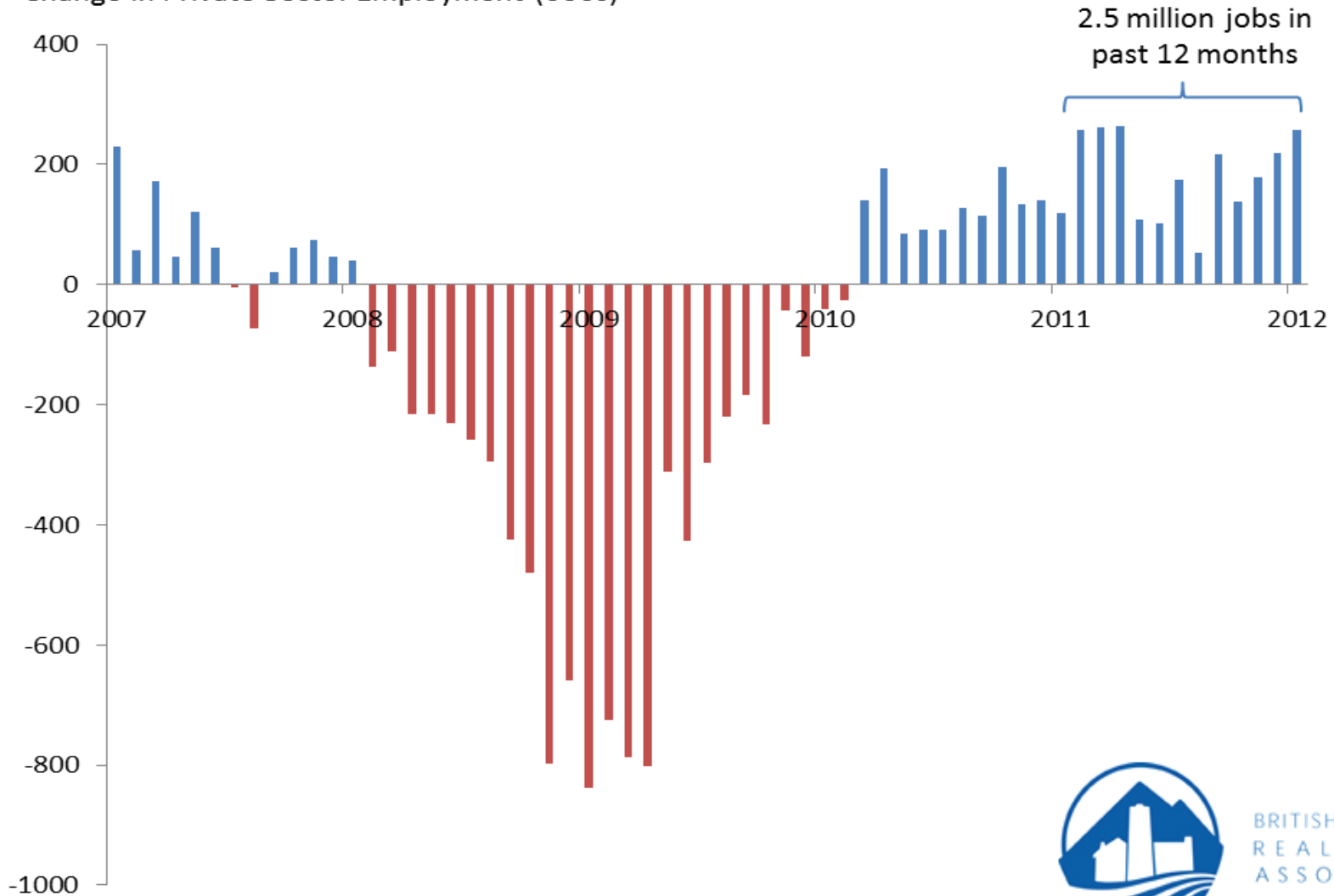


Sources: U.S. Bureau of Economic Analysis and Organisation for Economic Co-operation and Development



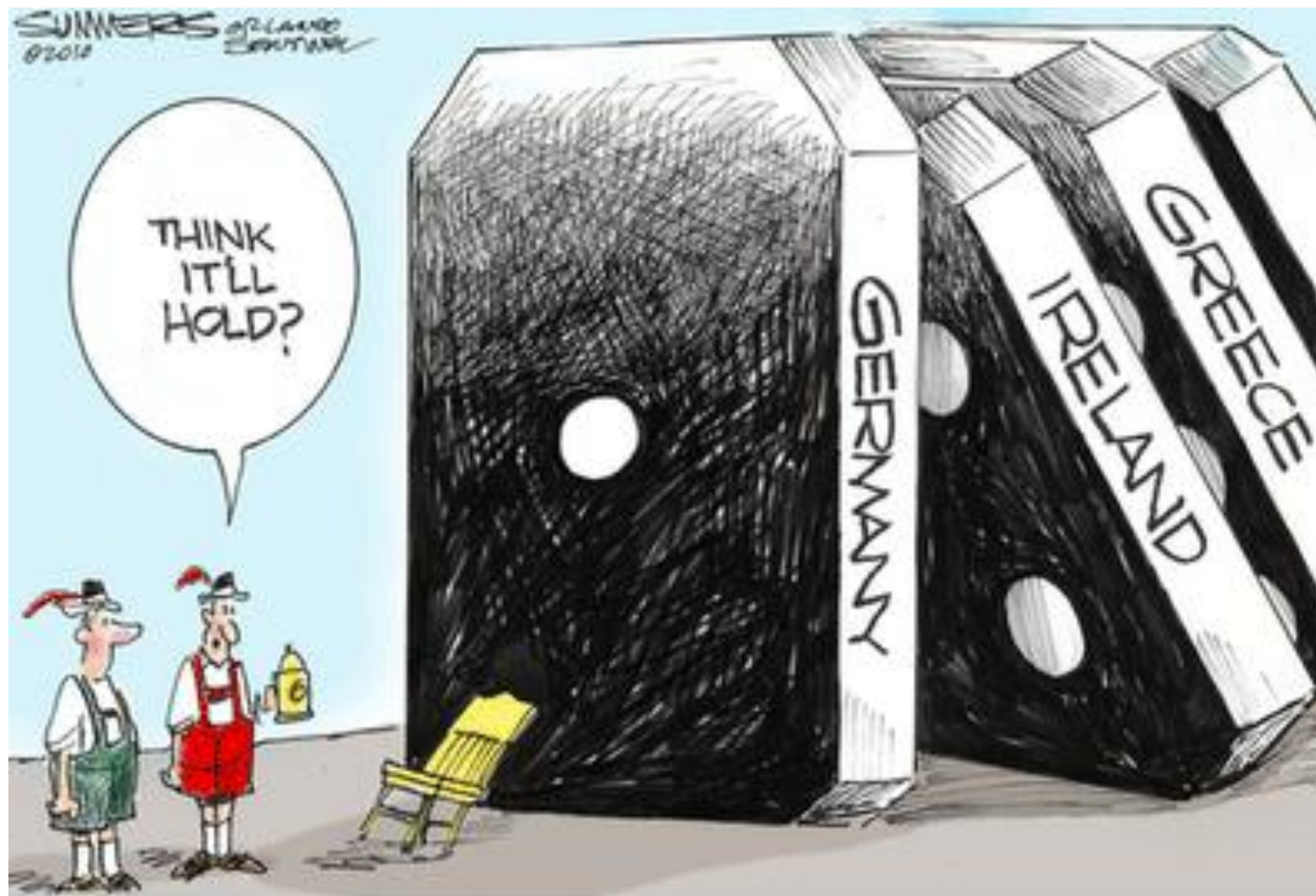
# US Economy – Reason for Optimism?

Change in Private Sector Employment (000s)



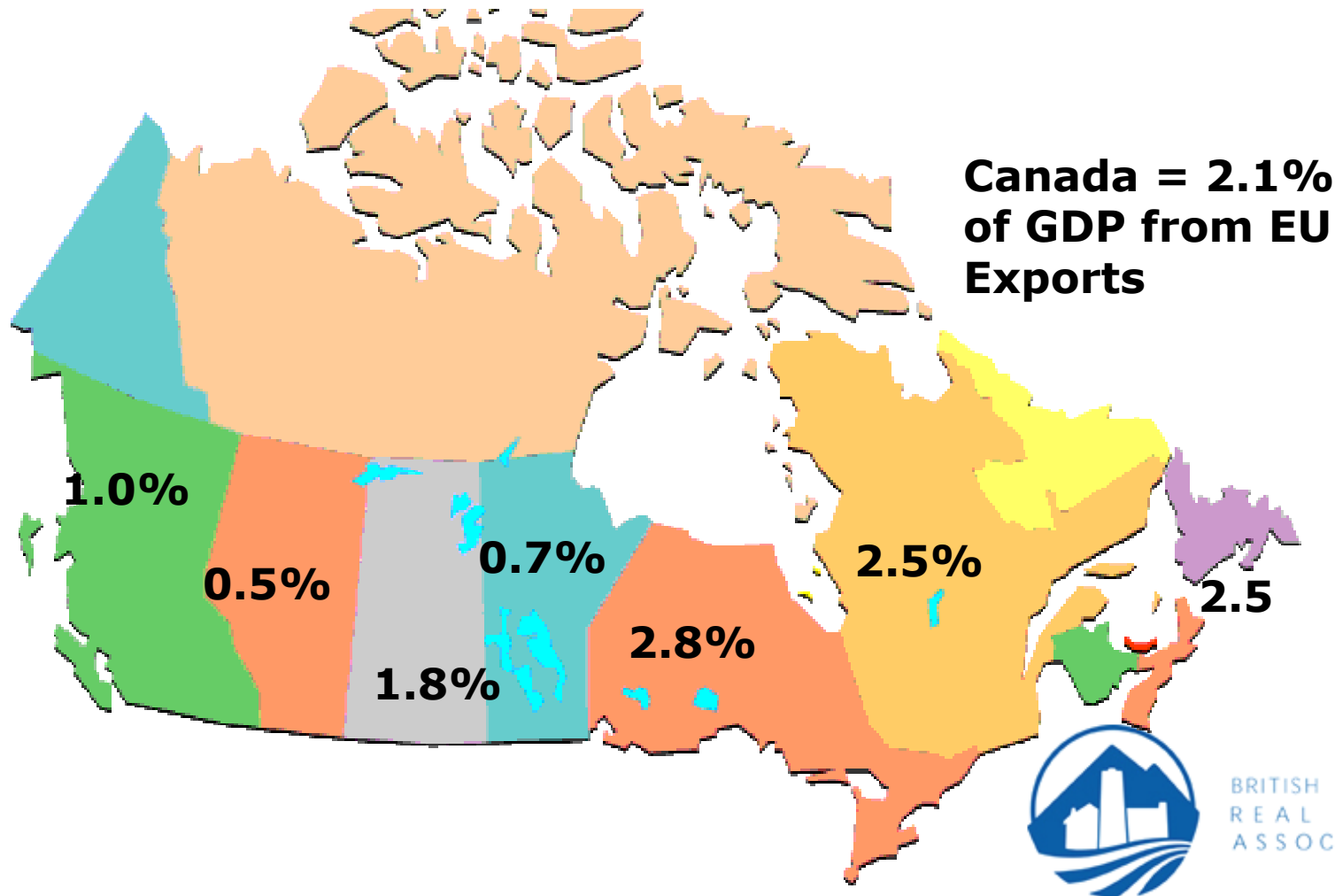
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# Euro-Crisis

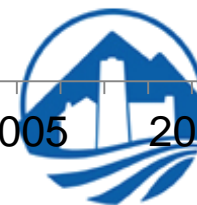
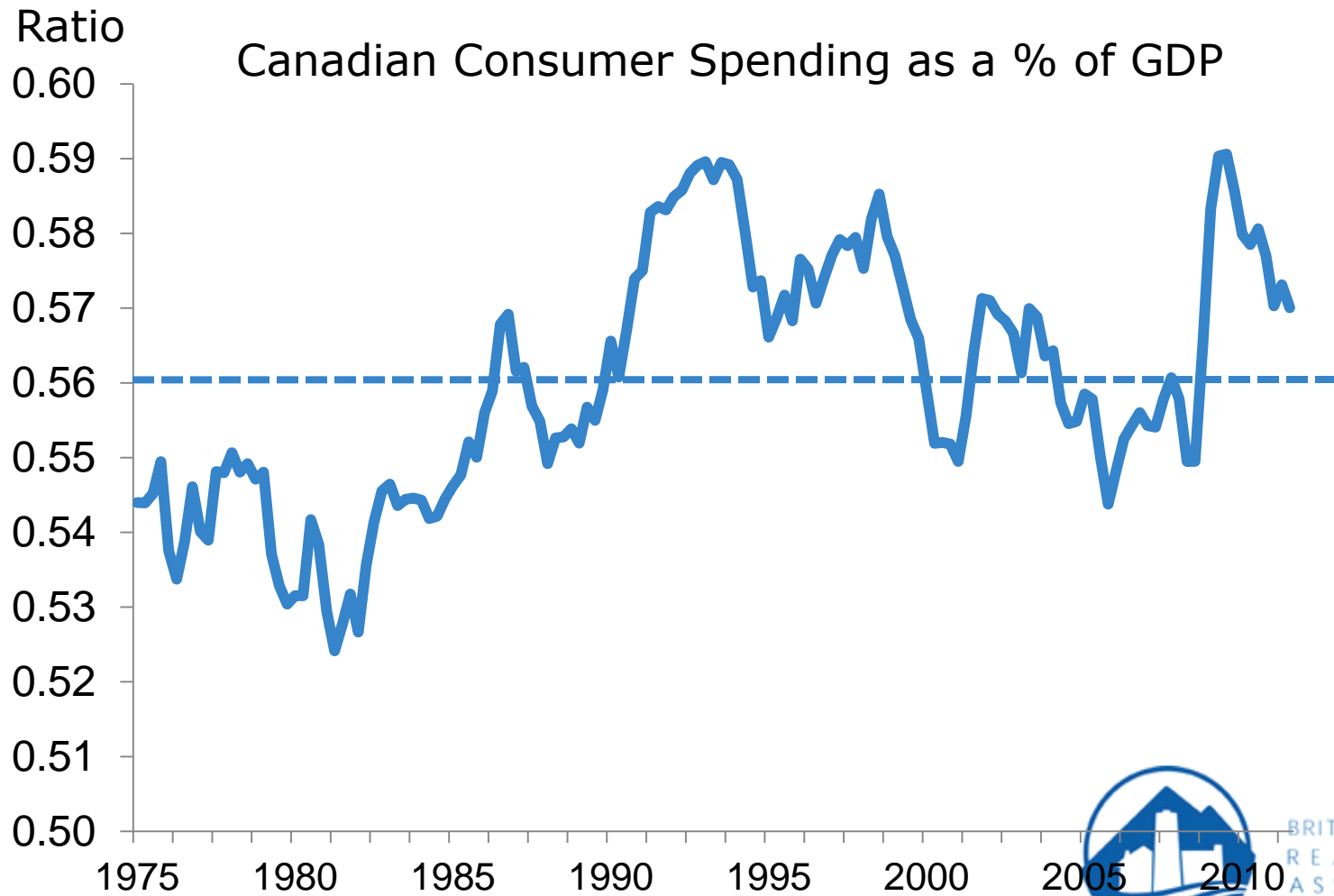


# Limited Direct Exposure to Europe

European Merchandise Exports as a % of Provincial GDP

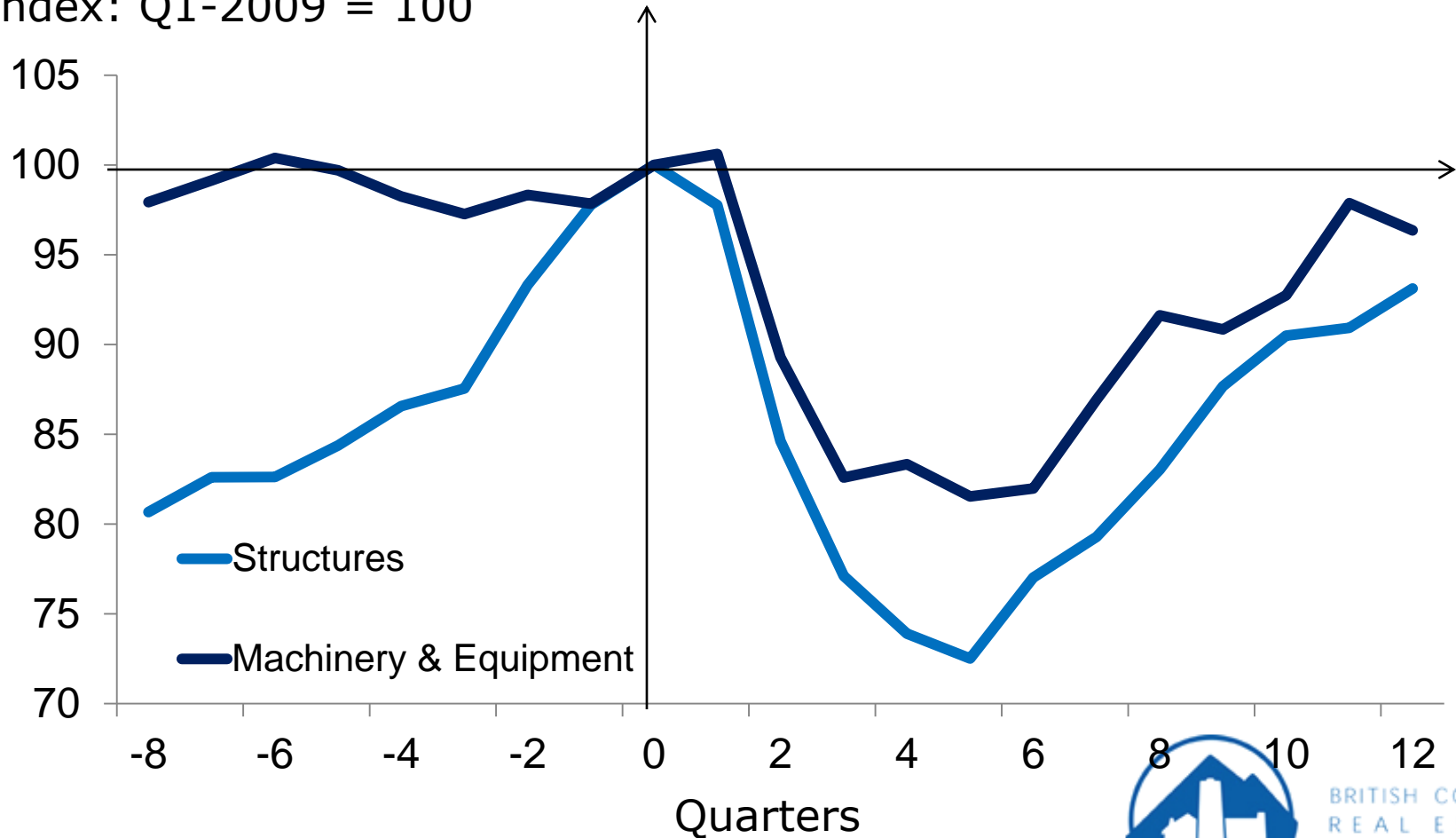


# Canadian Consumer Slowing Down



# Non-Residential Investment

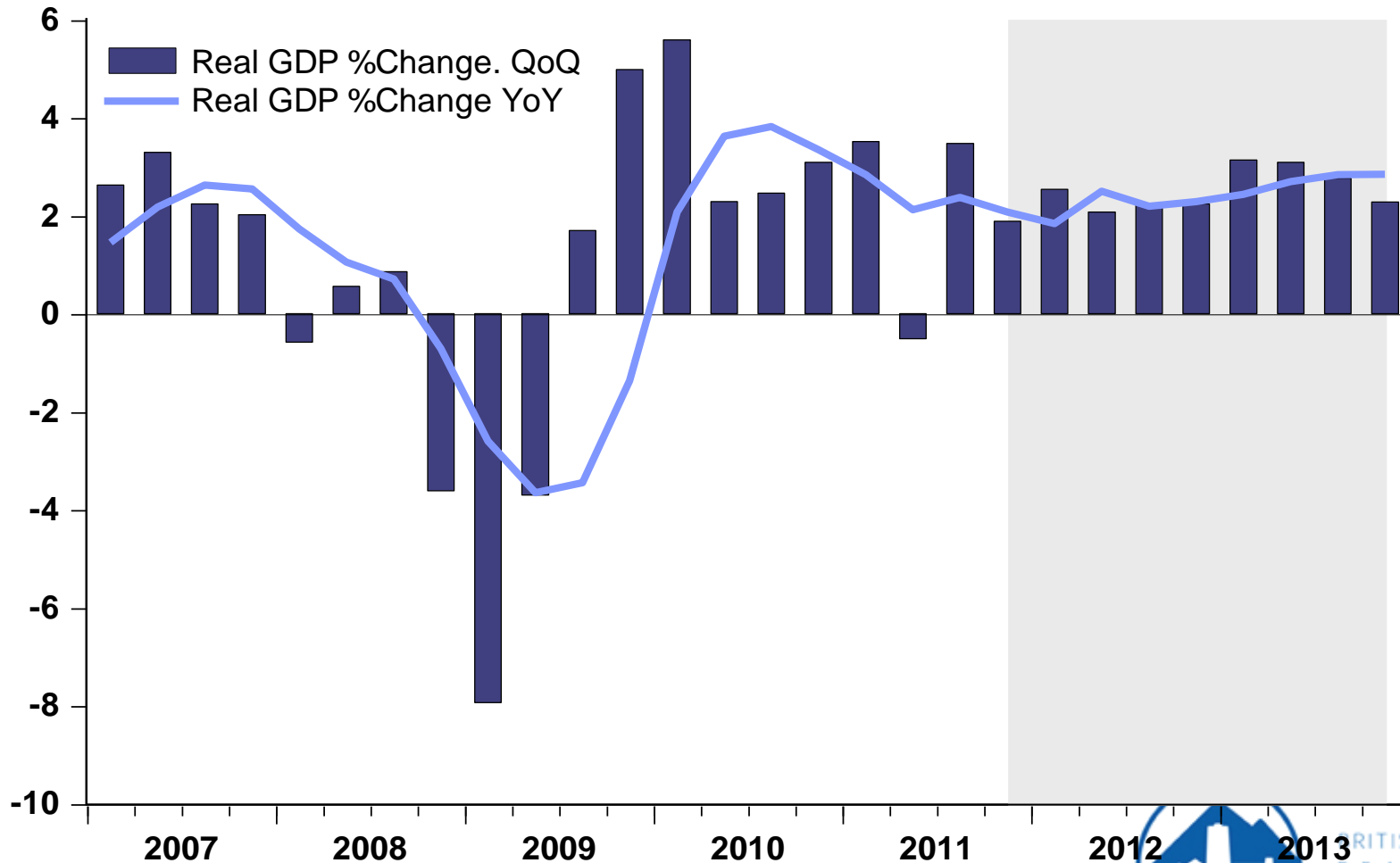
Index: Q1-2009 = 100



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# Canadian Economic Forecast

Per cent, SAAR



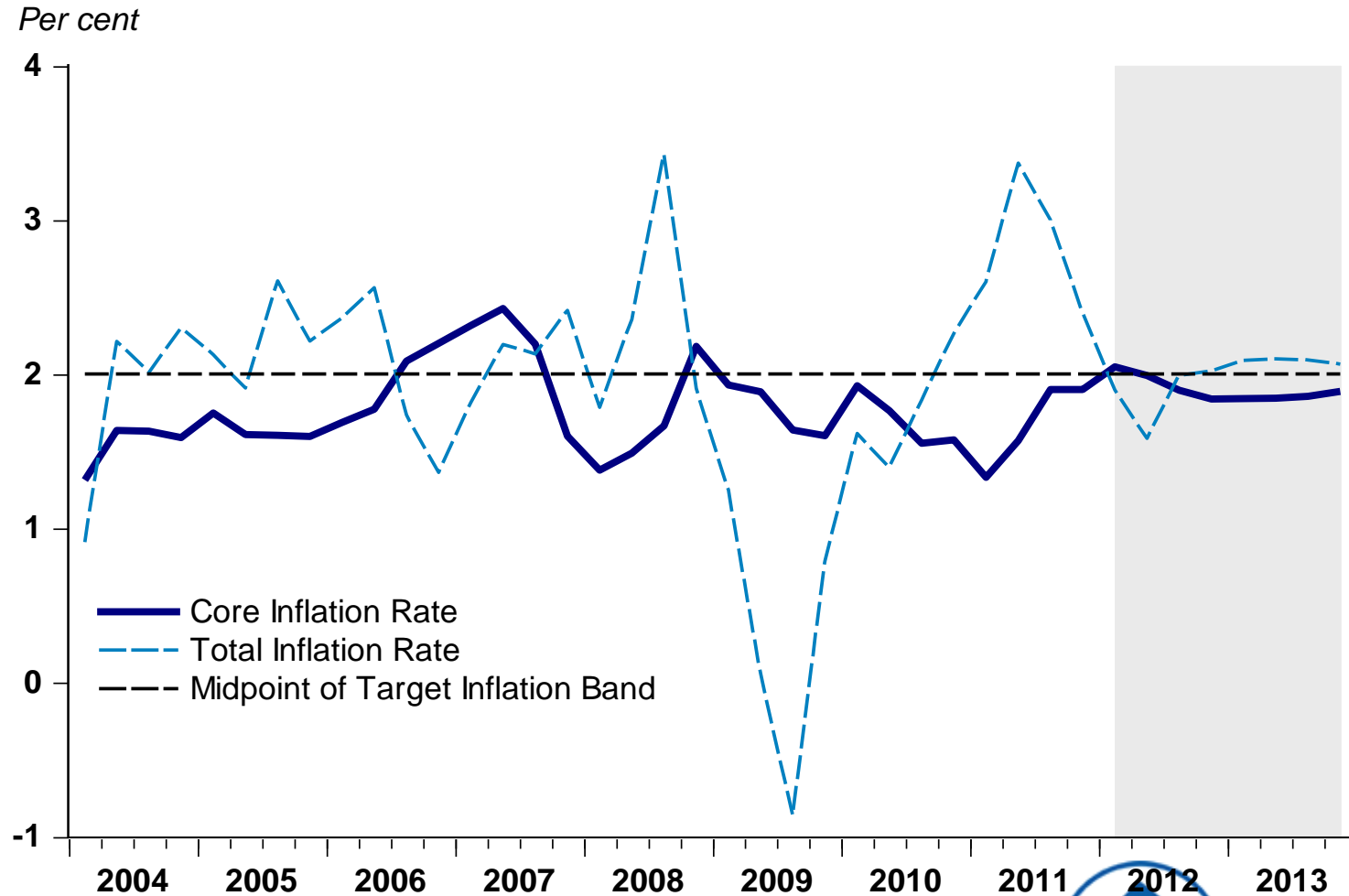
Latest Data Point: 2011Q3, \* Real GDP (chained 2002 dollars) growth at annualized rates

Source: Statistics Canada, BC Real Estate Association



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# Inflation Expected to Slow



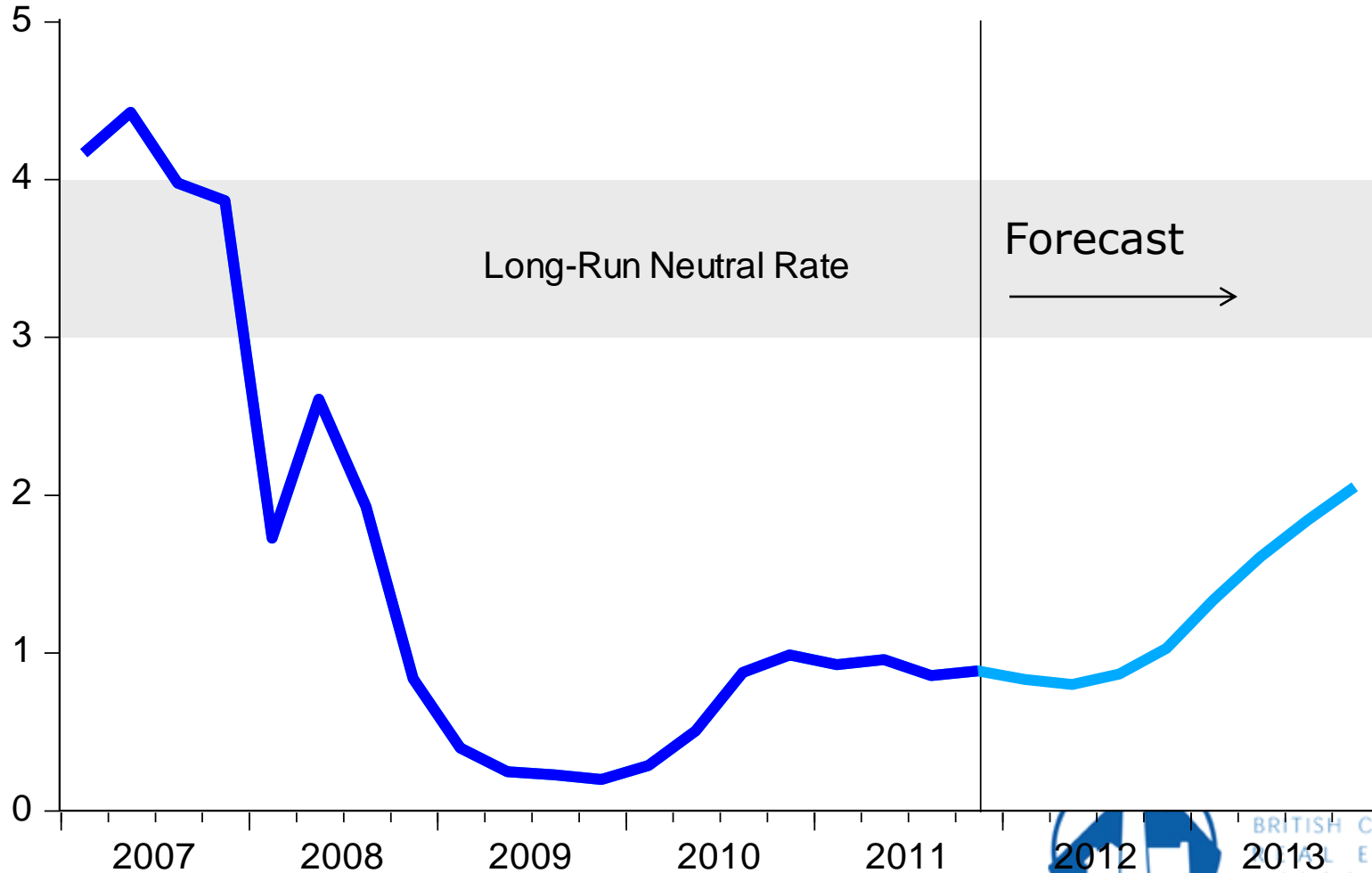
Source: Bank of Canada, Statistics Canada, BCREA Economics



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# Rates Lower for Longer

3-Month GoC Treasury Bill Rate (%)

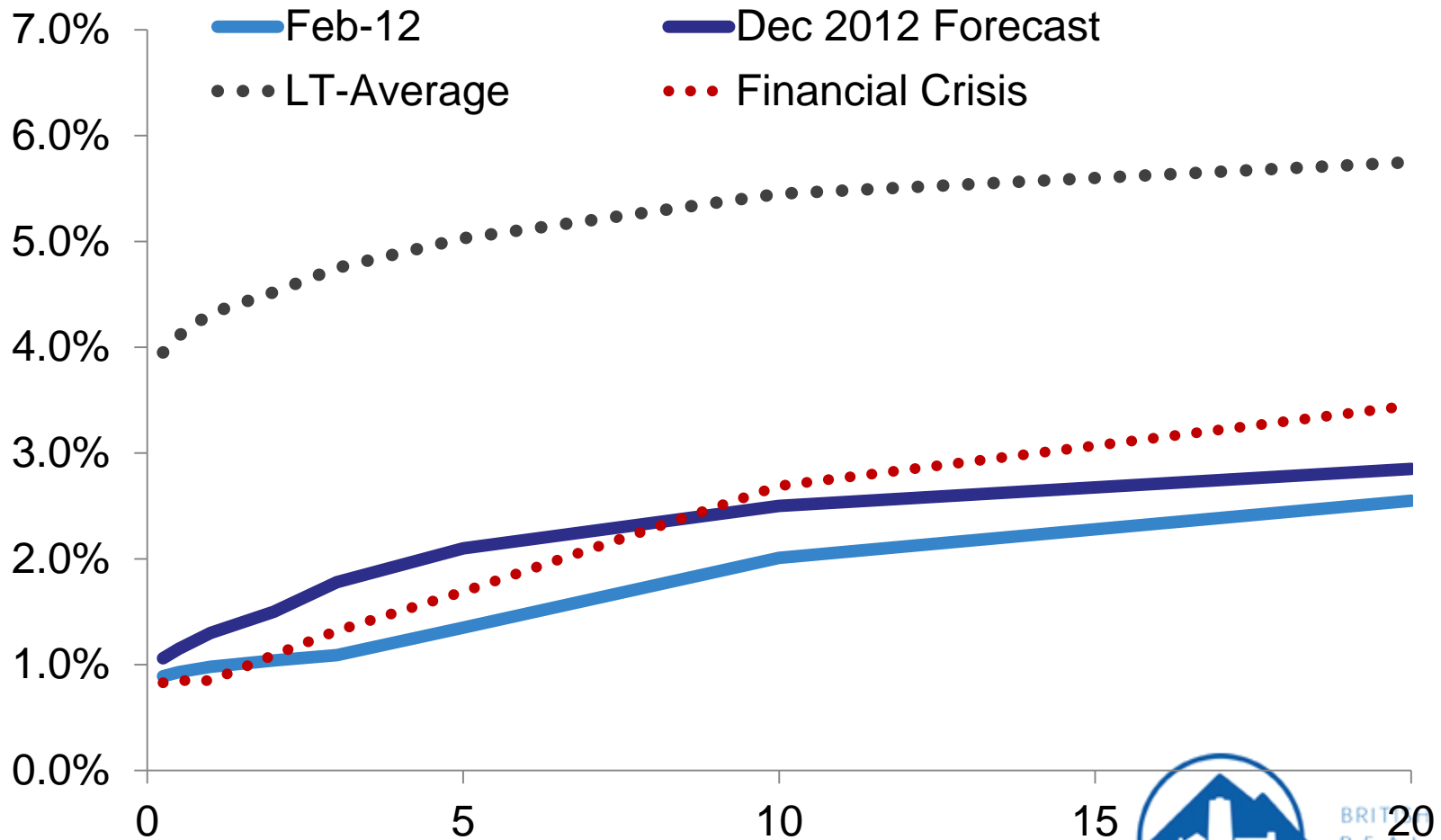


Source: Bank of Canada; BCREA Calculations

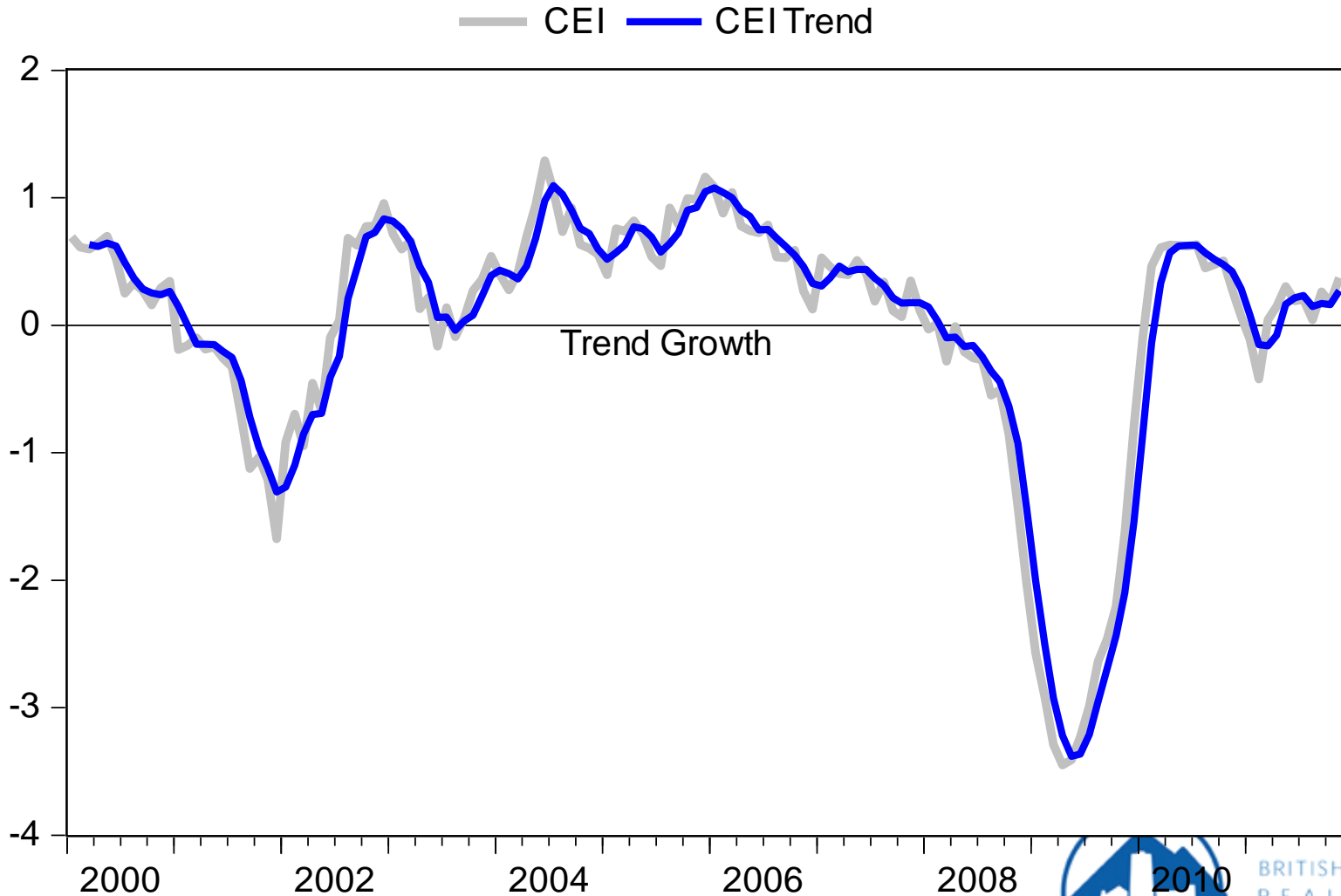


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# Risk Aversion Has Driven Yields to Unthinkable Lows



# BC Economy Growing at Trend



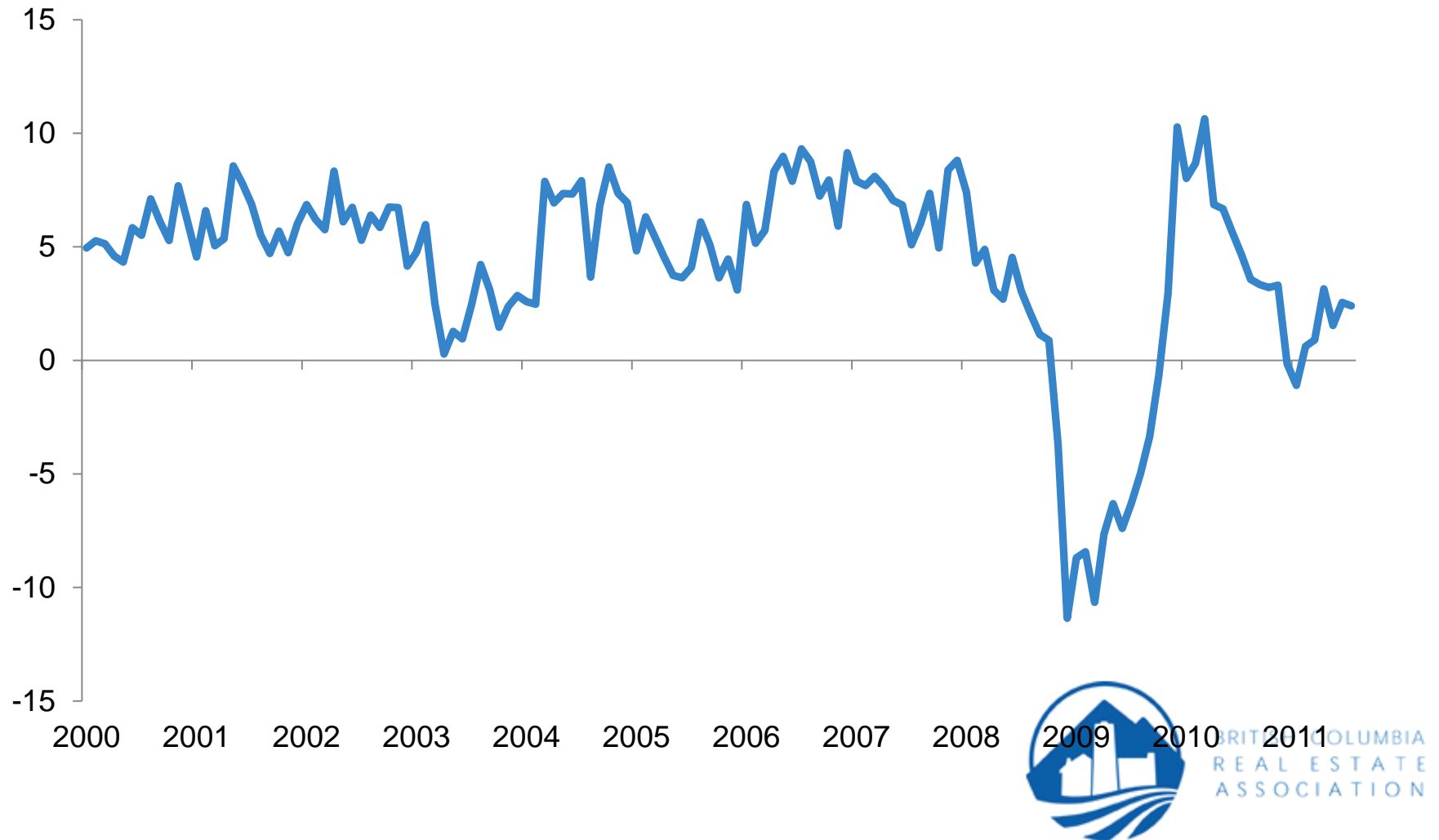
Source: BCREA Calculations



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# BC Retail Trade Growth

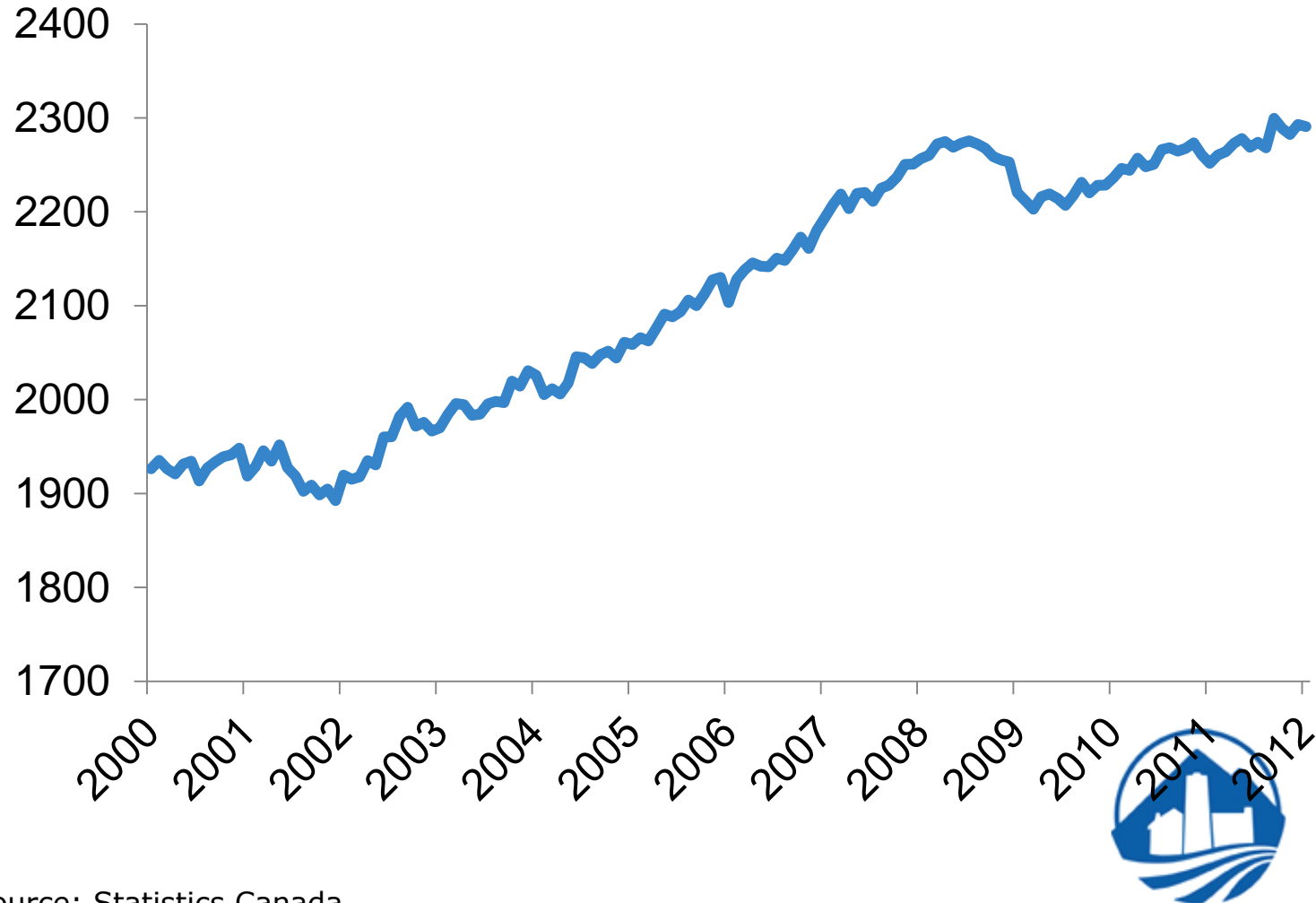
Retail Sales Year-over-Year Per Cent Change



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# Modest Employment Growth in BC

BC (000s)

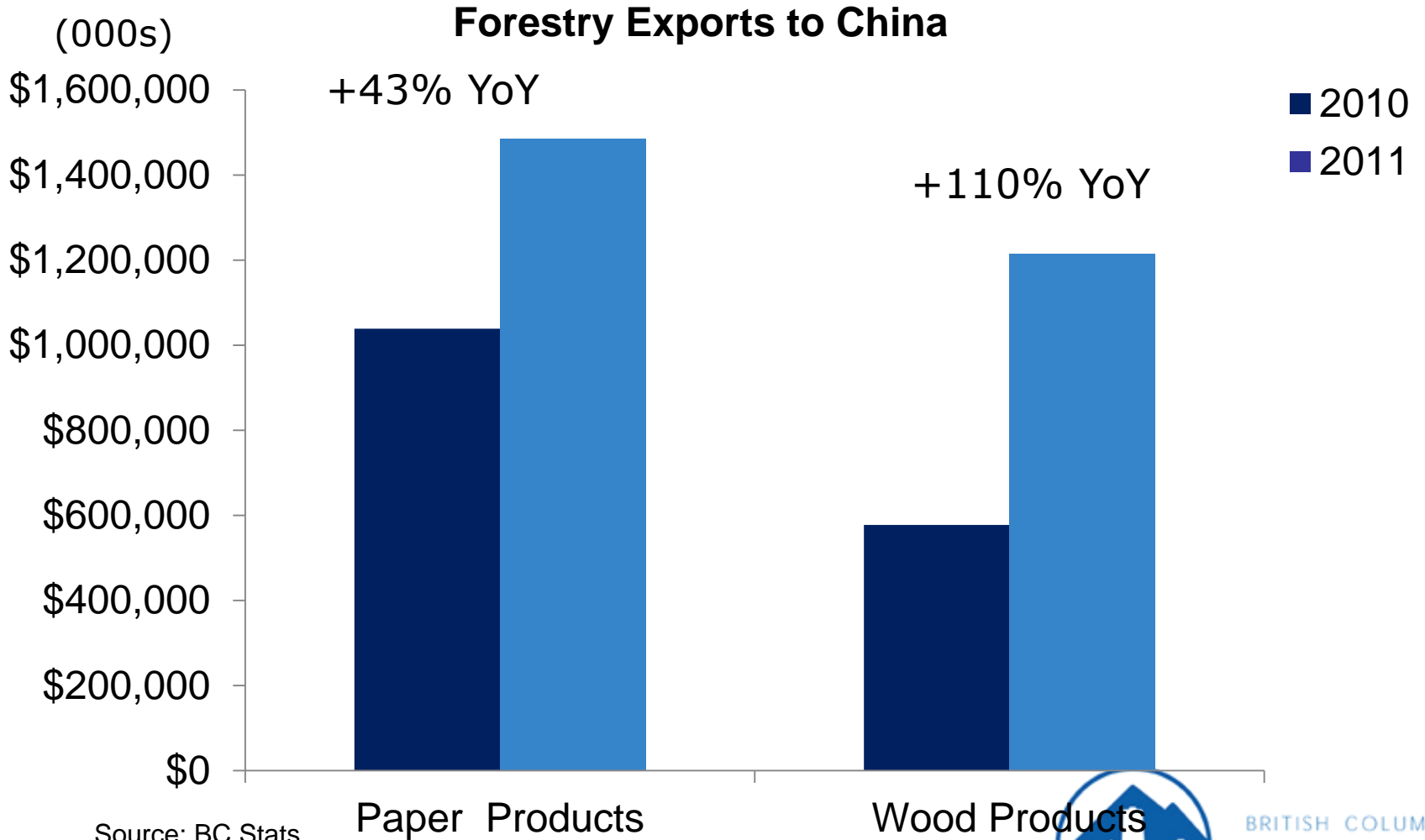


Source: Statistics Canada



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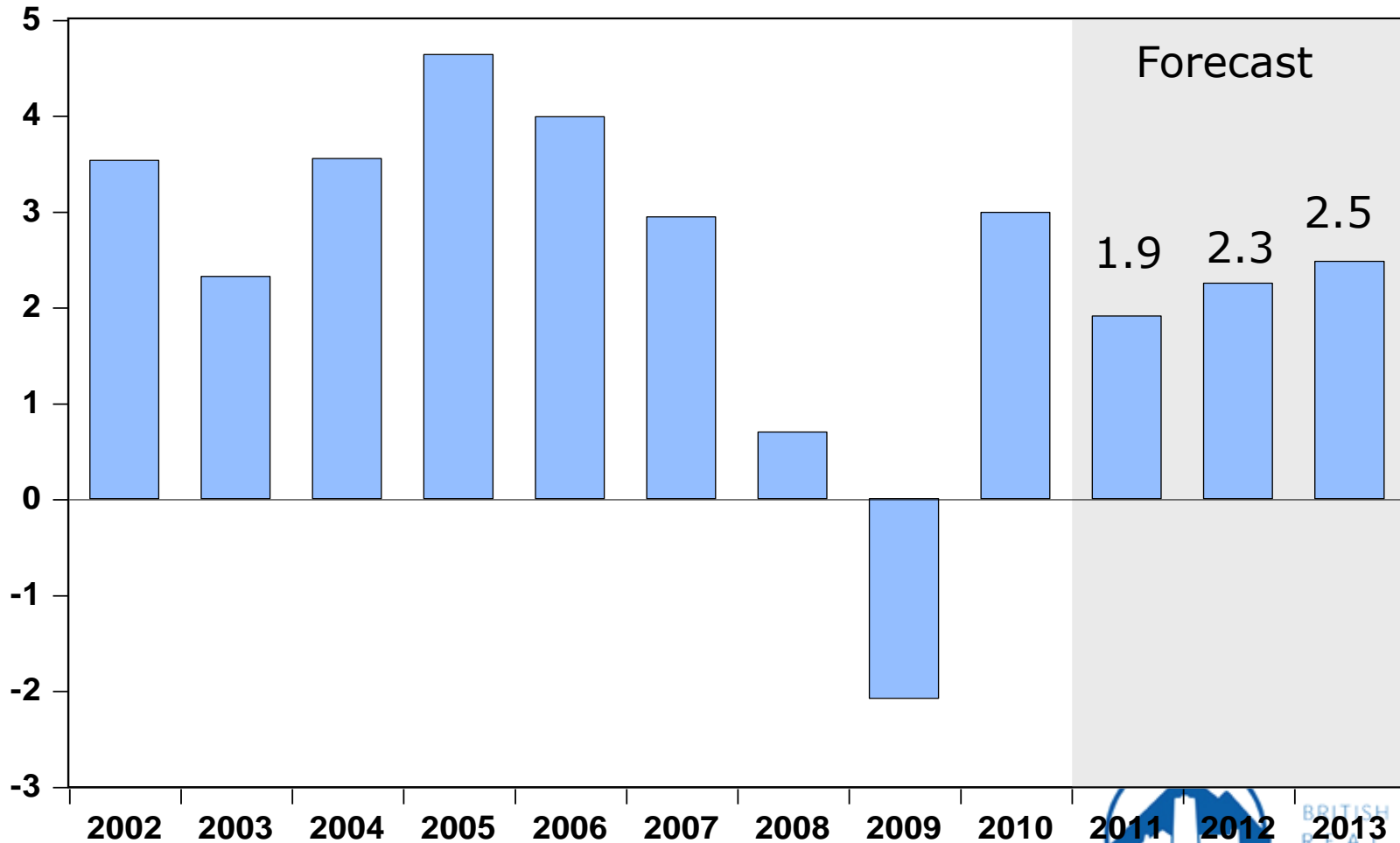
# Forestry Exports are a Bright Spot



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# BC Growth Forecast

Per cent



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Source: Statistics Canada, BC Real Estate Association

# What is the CLI?

- The Commercial Leading Indicator was developed by BCREA to (broadly) forecast commercial real estate activity
- Summarizes 8 economic indicators that statistically forecast commercial activity
- Three components:
  - Employment: office and manufacturing jobs
  - Activity: retail and wholesale trade; mfg. sales
  - Financial: risk spreads and REIT returns



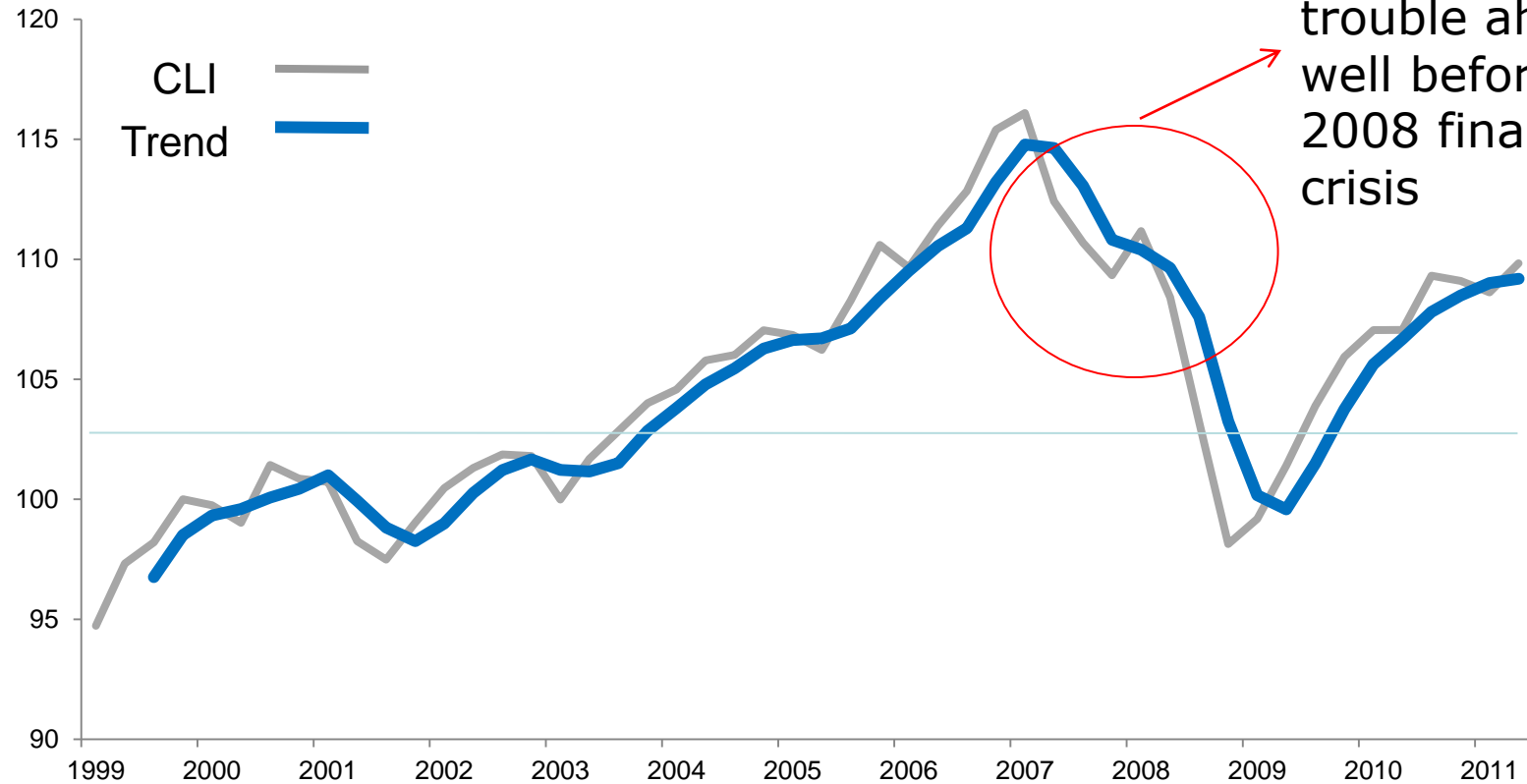
# Using the CLI

- Statistical tests show that it reliably forecasts the trend in broad commercial activity (net absorption, investment, construction) over the next 2-4 quarters
- Supports micro-data collected locally with macro-evidence.
- Can be useful in discerning turning points



# Turning Points

Index: 100 = 2000Q1



Signalled trouble ahead well before the 2008 financial crisis



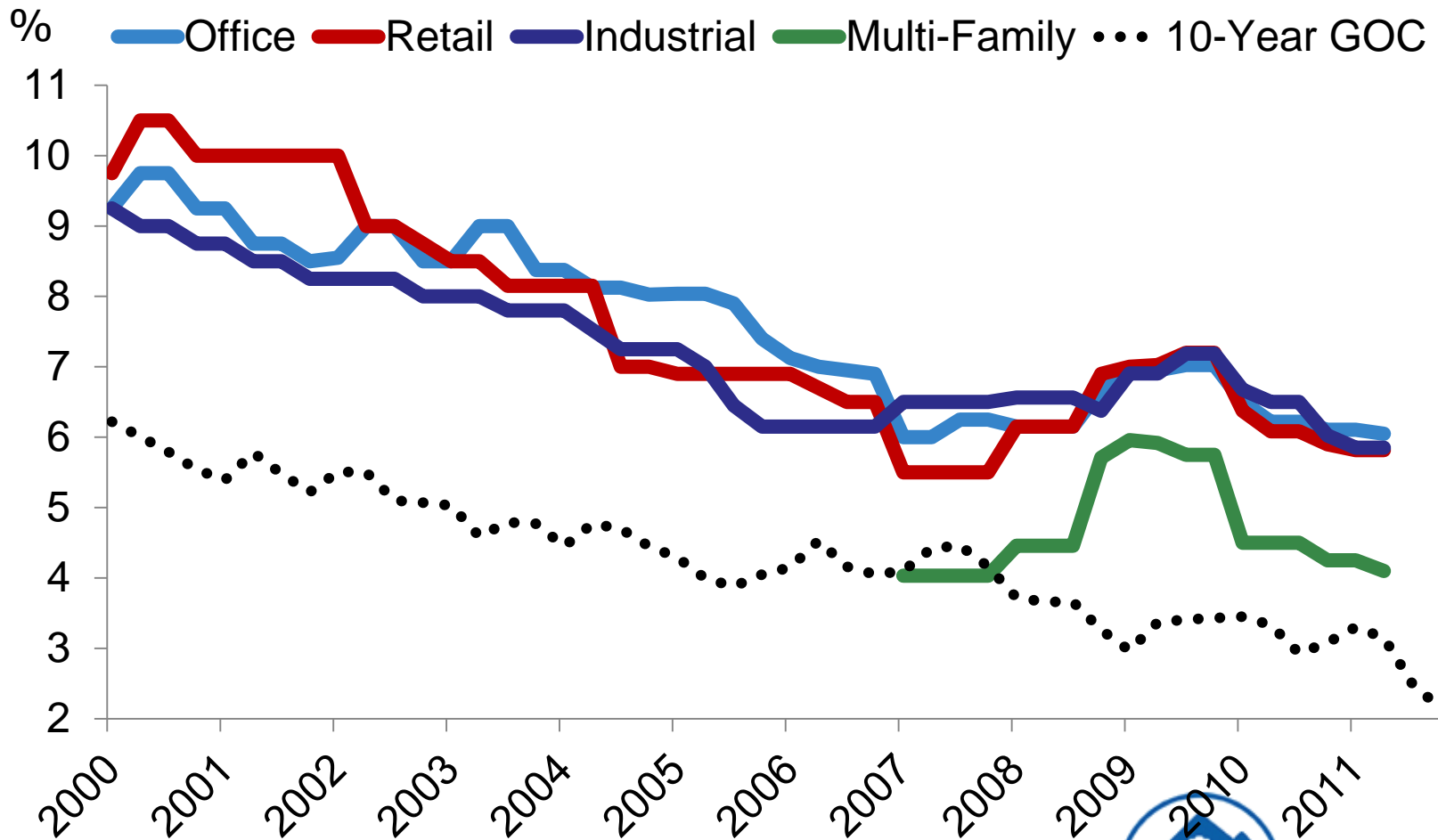
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# Commercial Market Outlook

- Cap Rates
- Industrial
- Retail
- Office
- Multi-Family
- CLI

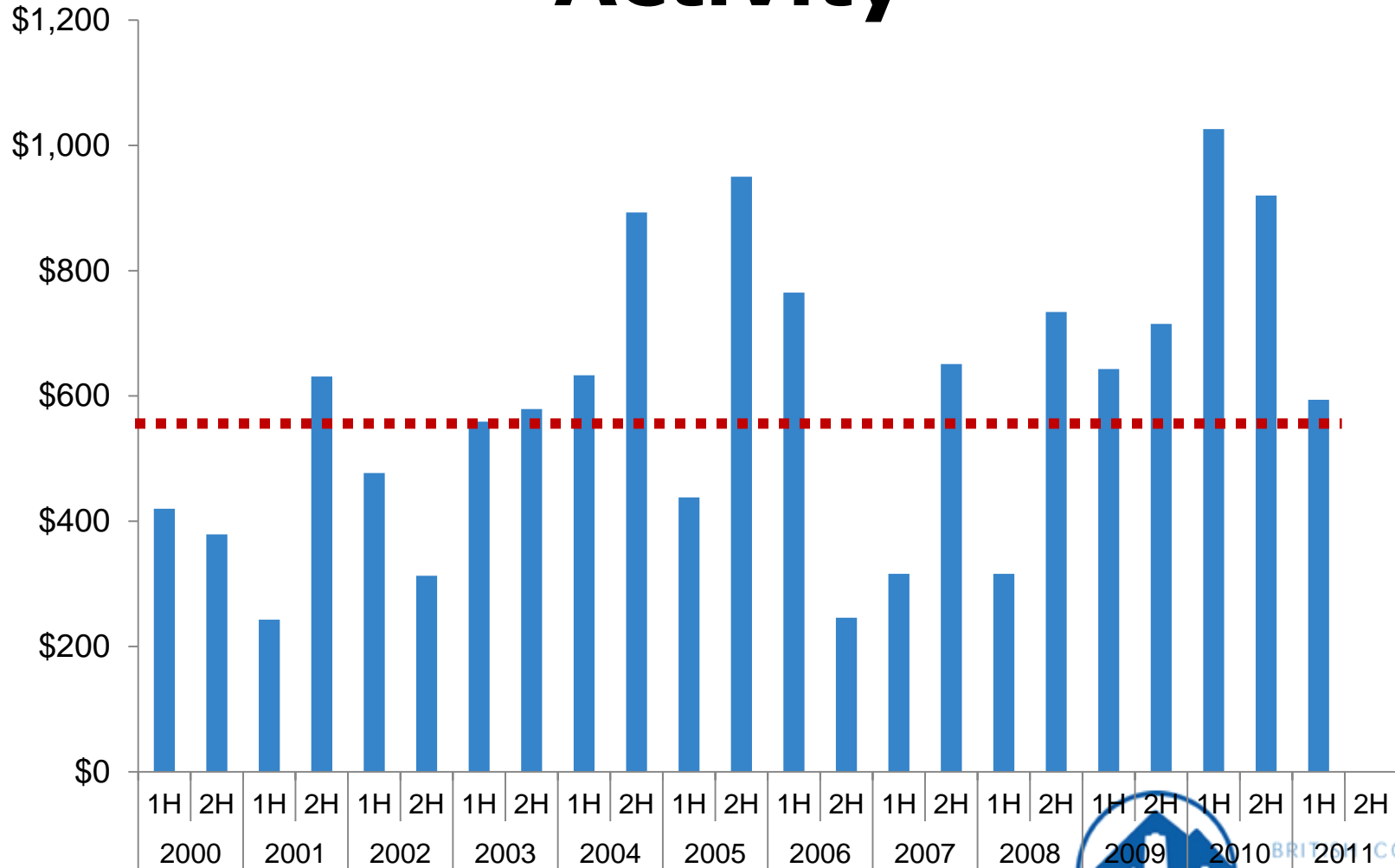


# Cap Rates vs. Bonds



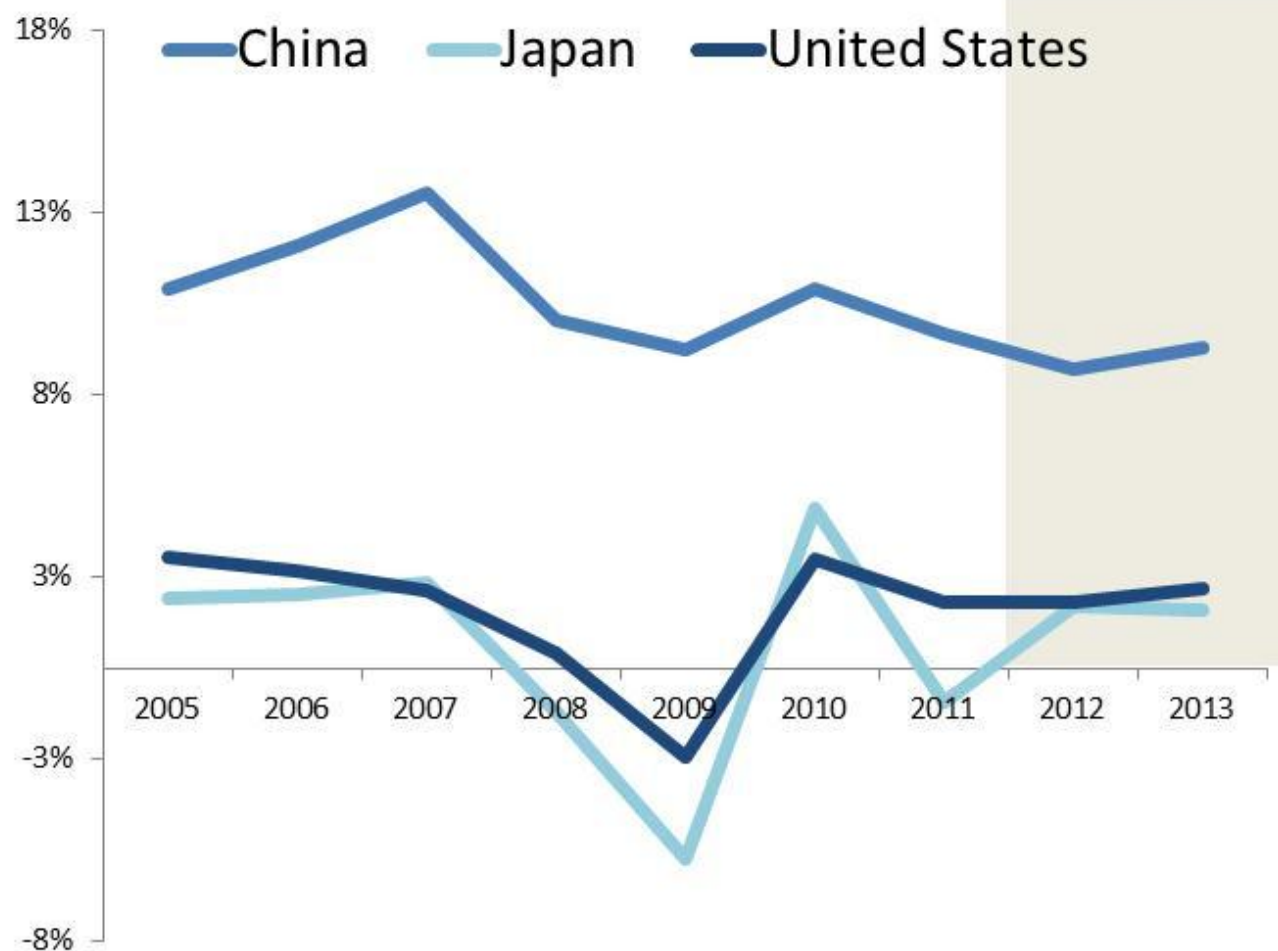
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# Commercial Investment Activity



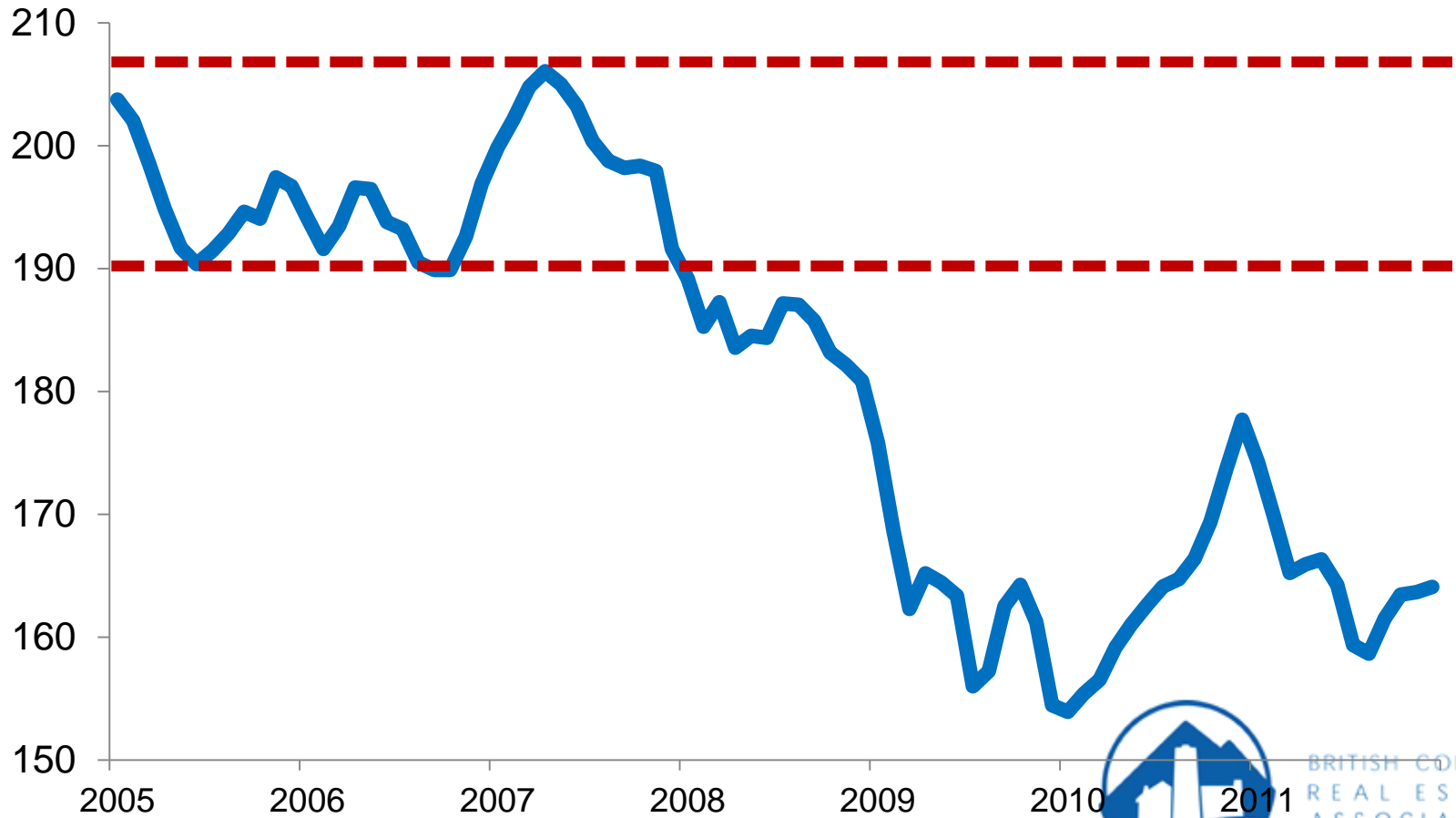
# Industrial Sector: Manufacturing Headwinds

Real GDP Growth



# Room for Growth in Manufacturing Employment

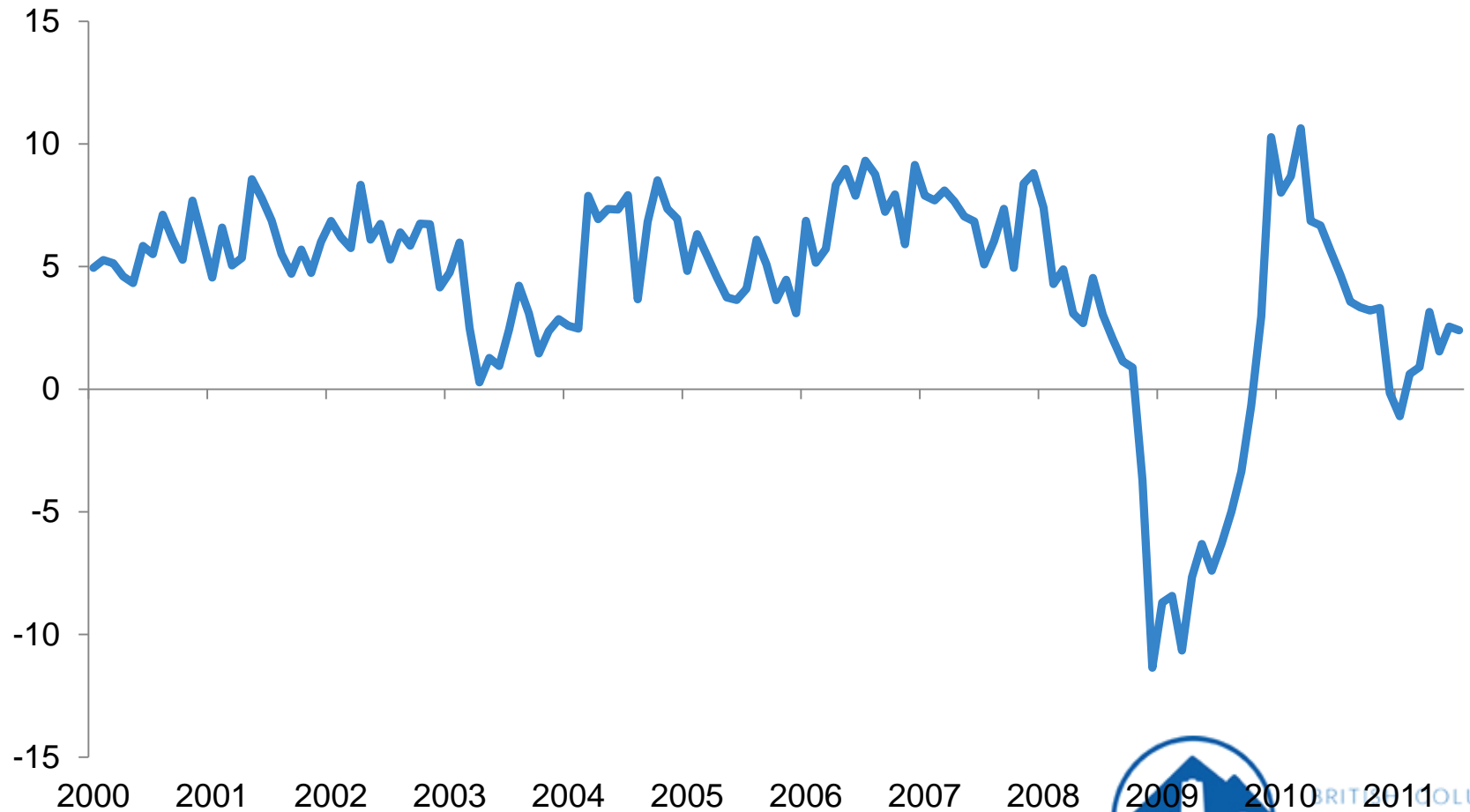
Employment (000s)



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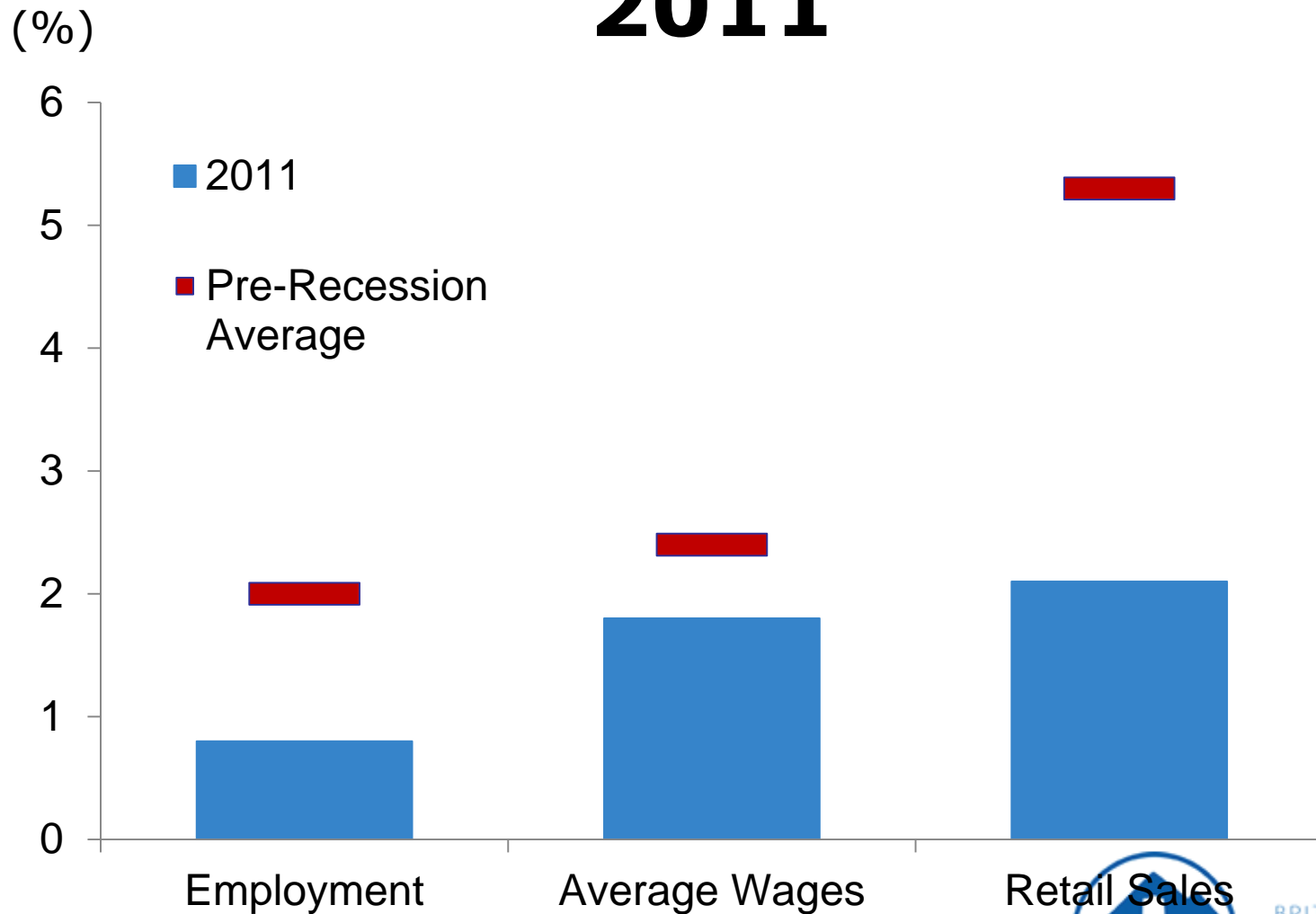
# BC Retail Trade Growth

Retail Sales Year-over-Year Per Cent Change



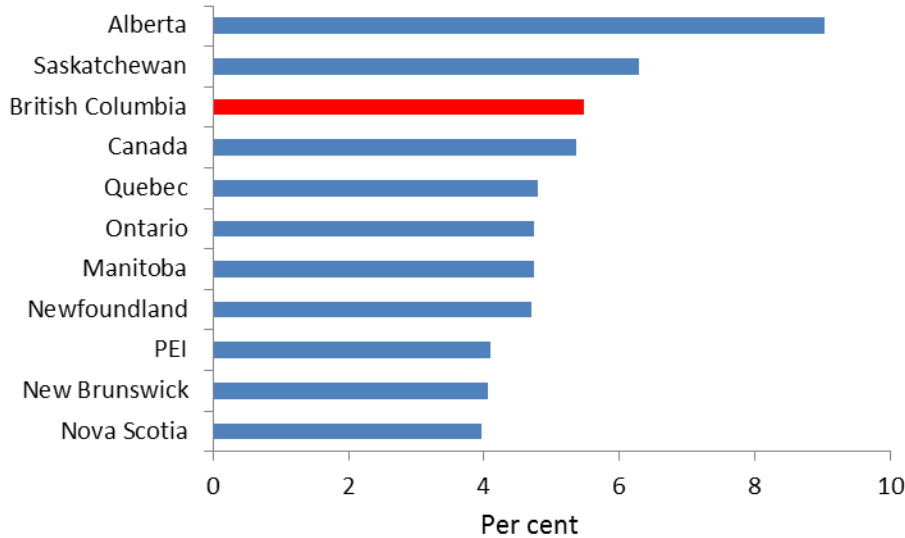
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# Weak Retail Fundamentals in 2011

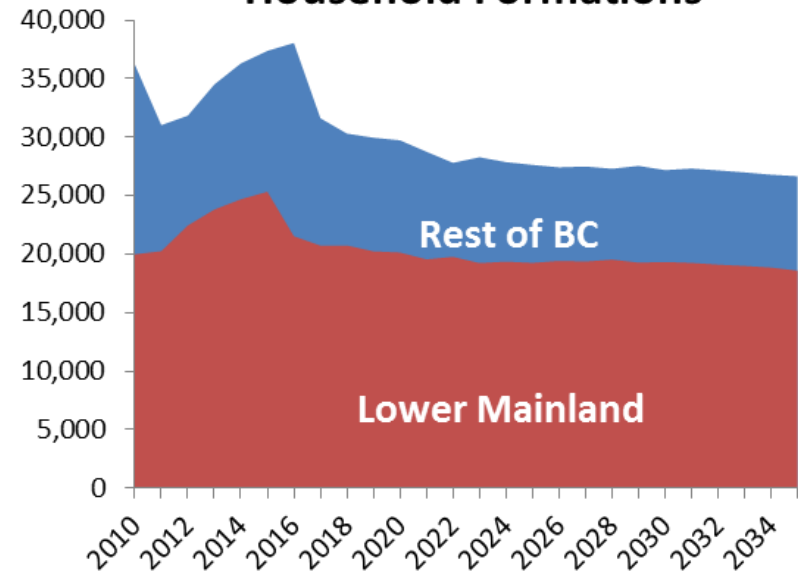


# Long-run Demographics Favour Retail Sector

Disposable Income Growth (2000-2008)



Household Formations



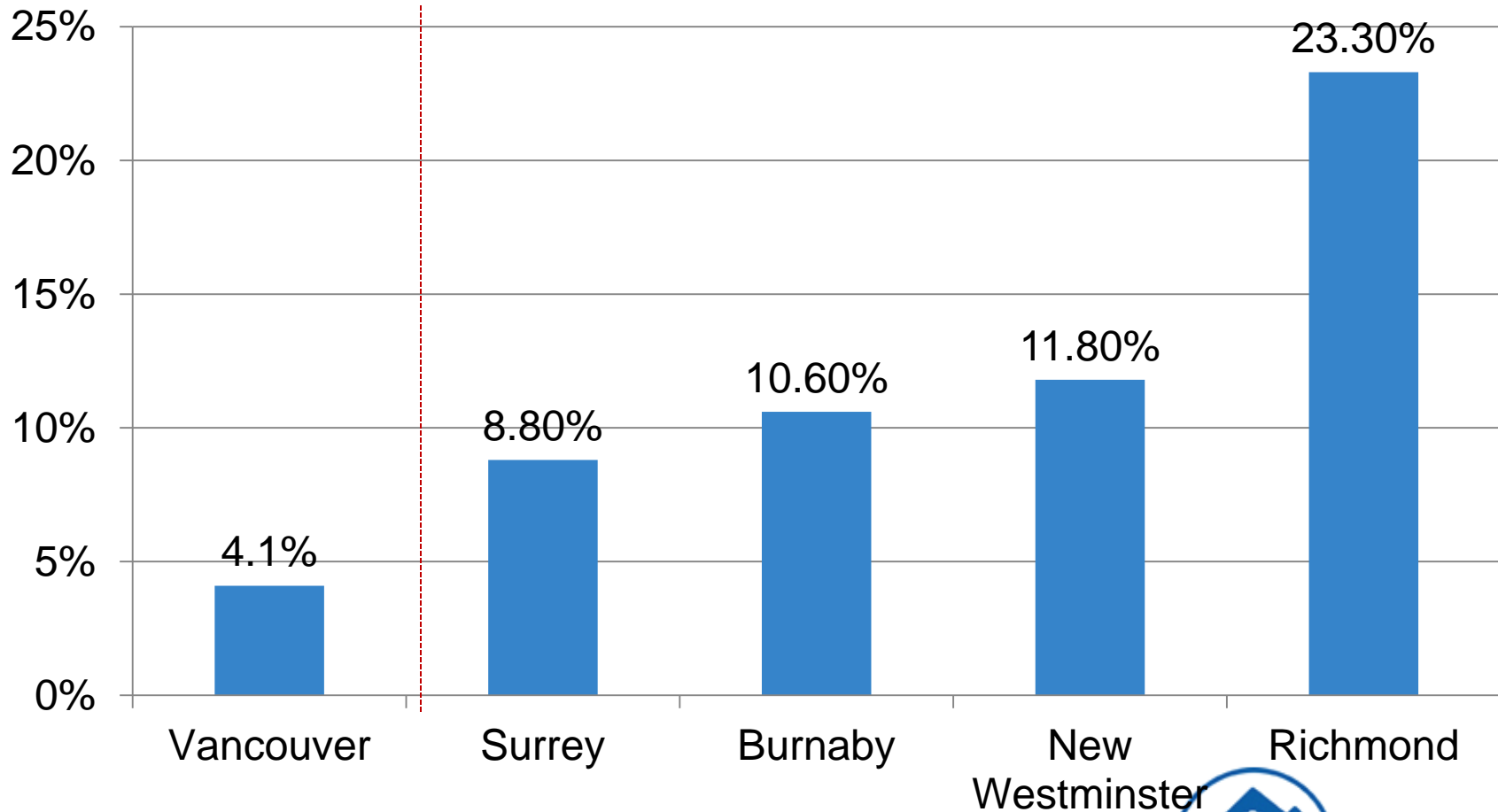
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# Office Market

- Tight downtown Vancouver market
- Suburban market dealing with persistently higher vacancy rates
- Investor demand high – supply low



# Office Vacancy – Vancouver vs. Suburbs

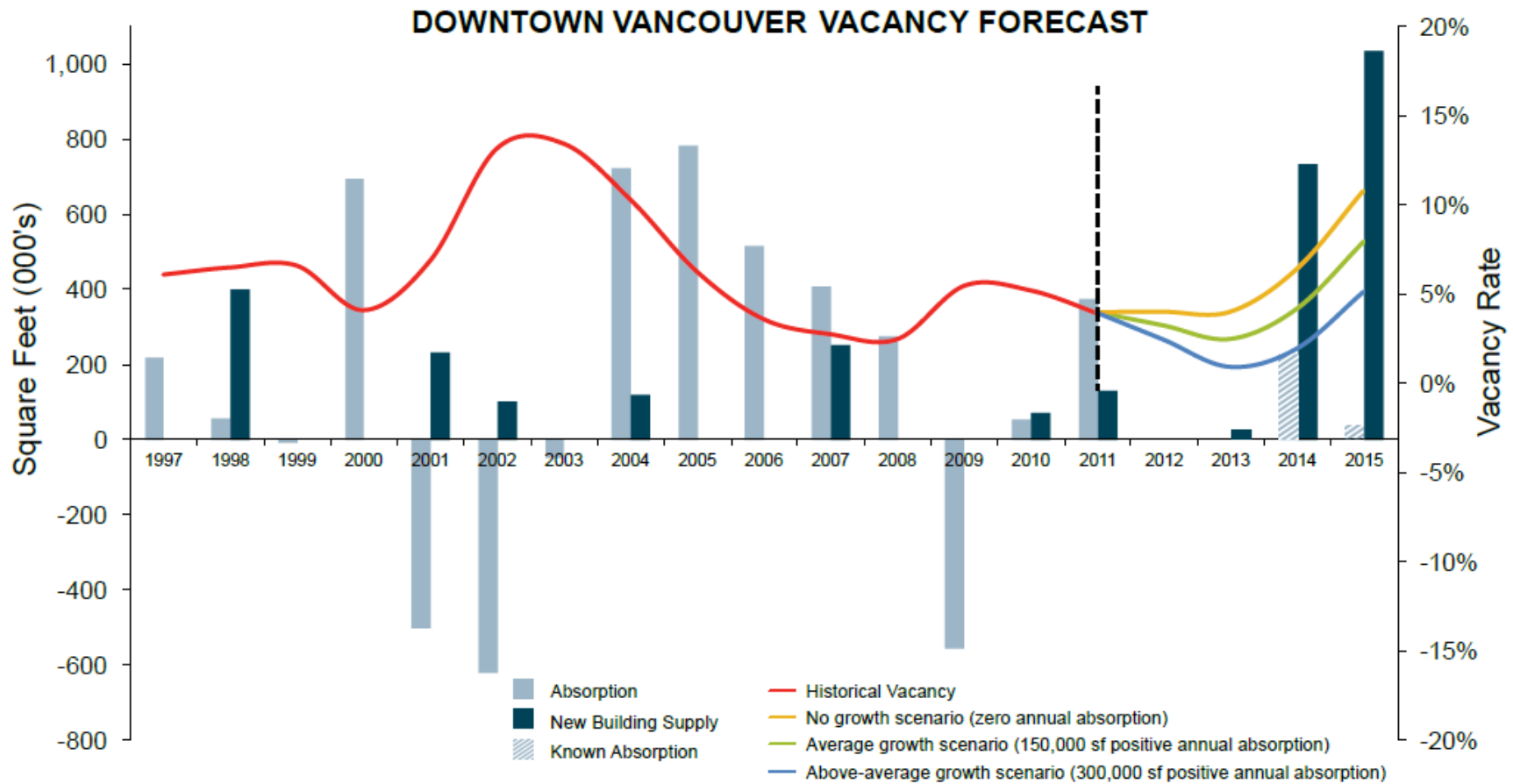


Source: Avison Young



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# Vancouver Adding Capacity

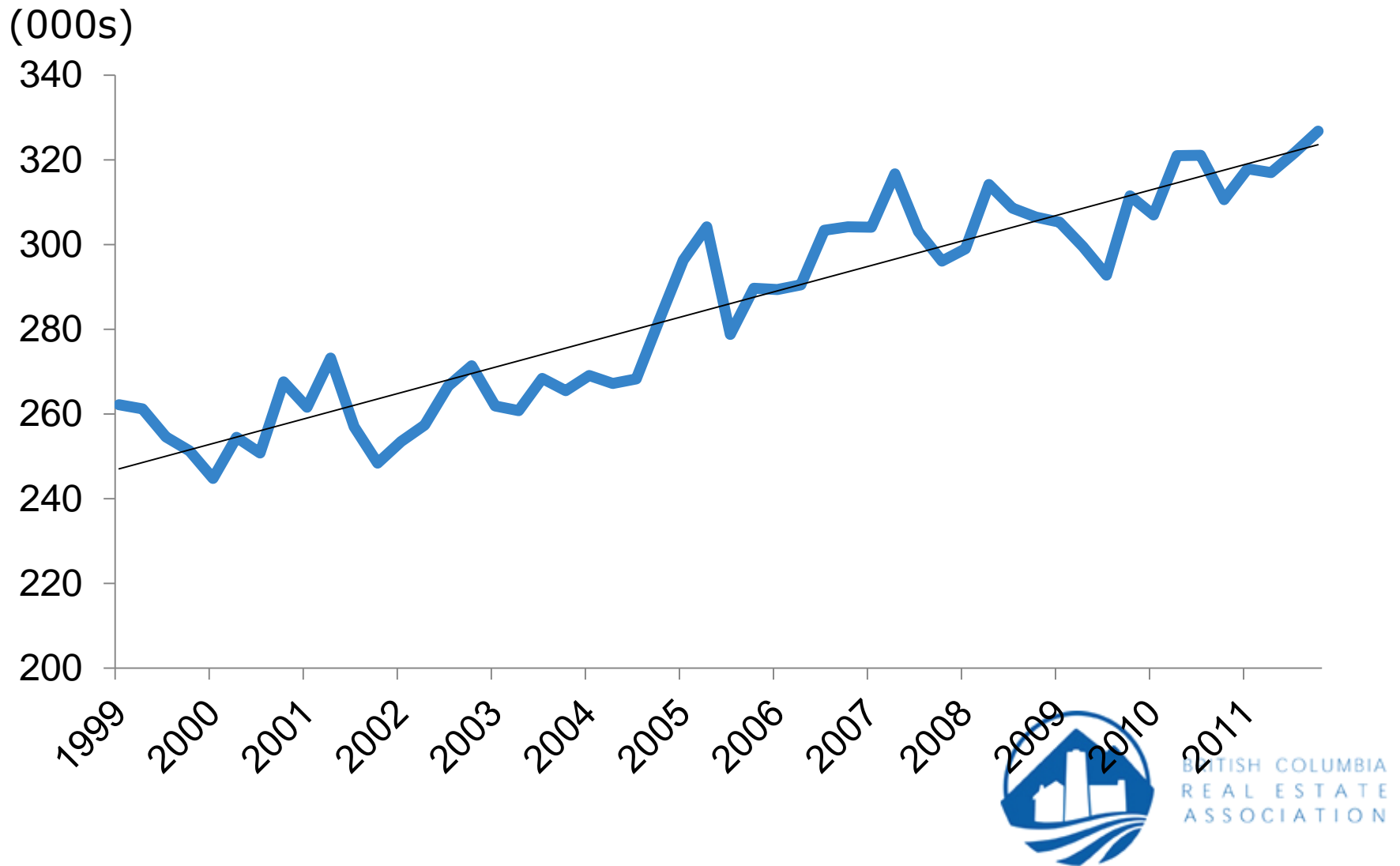


Source: Avison Young



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# BC Office Employment



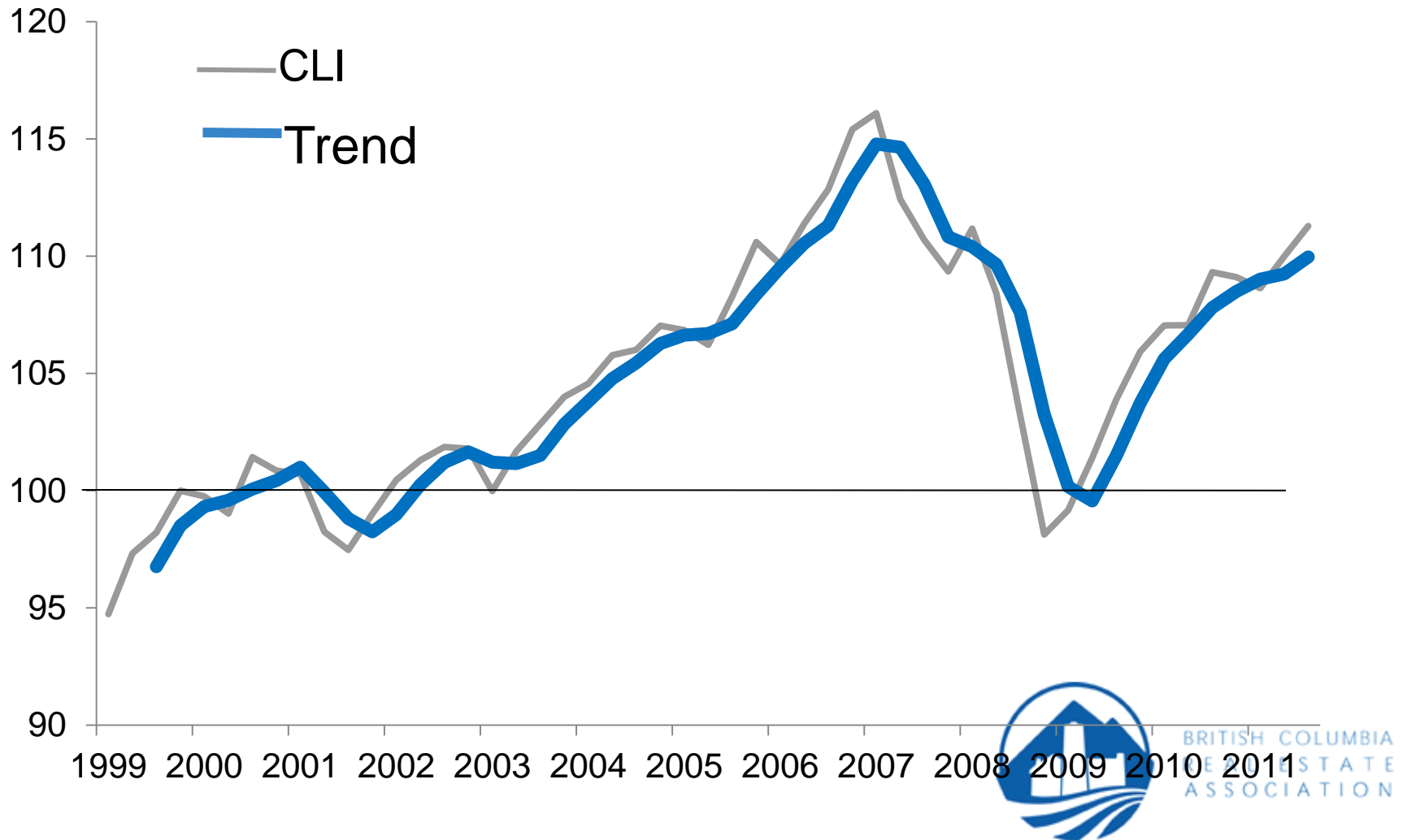
# Multi-Family

- Record low mortgage rates tilt individuals towards buying over renting
- Lack of rental product should keep vacancy rates low given demand
- Very low cap rates still attractive compared to alternatives and will continue to drive investor demand



# Latest CLI Reading (Q4-2011)

Index: 100 = 2000Q1



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Go to: <http://www.bcrea.bc.ca/economics/economics.htm>



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