



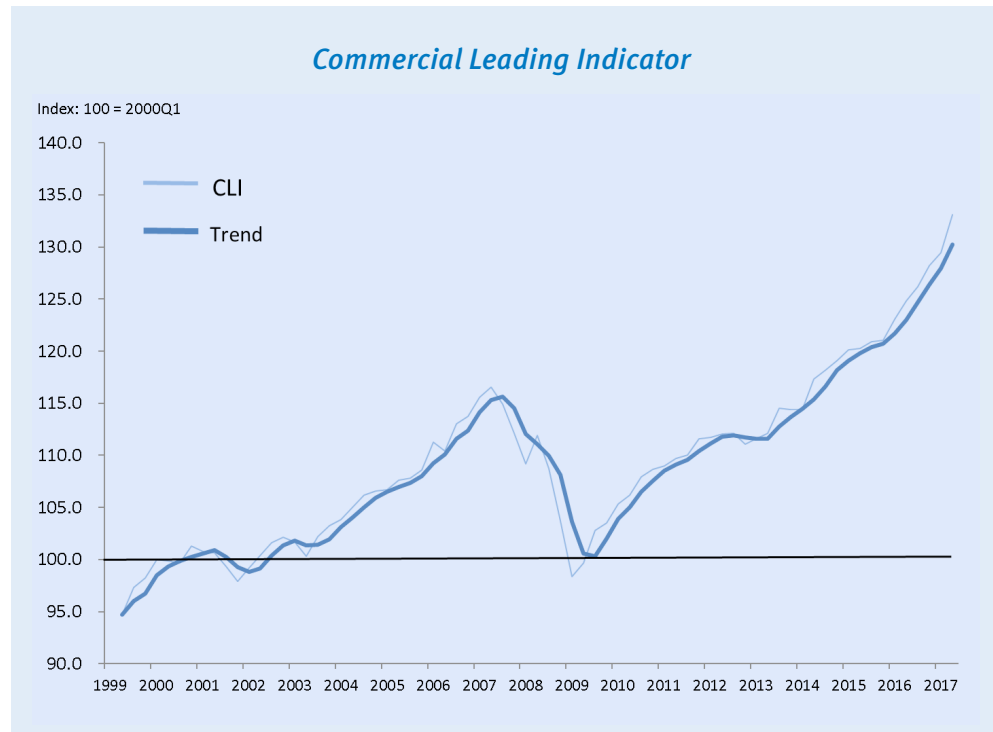
Commercial Leading Indicator

BC Commercial Leading Indicator Surges Higher

The BCREA Commercial Leading Indicator (CLI) posted its largest increase since 2009, rising by 3.7 index points in the second quarter of 2017 to 133.1. That increase represents a 2.8 per cent rise over the first quarter and a 6.6 per cent increase from one year ago.

The sustained rise in the CLI reflects strong growth in economic sectors beneficial to commercial real estate activity. An uptick in economic activity last quarter further reinforces the already strong trend in the CLI. That signals a continued economic environment that is very supportive of growth in investment, leasing and other commercial real estate activity over the next two to four quarters.

The BC economy accelerated in the second quarter of 2017, led by a surge in retail and wholesale trade as well as a significant uptick in the manufacturing sector. Vigorous employment growth helped push retail sales a remarkable ten per cent higher year-



over-year in the second quarter compared while manufacturing sales were up almost 11 per cent.

Employment in the provincial economy is tracking nearly 4 per cent higher through the first half of 2017, and the second quarter saw significant expansion of payrolls in key commercial real estate sectors. The CLI's measure of office employment rose by close to 12,000 jobs in the second quarter while manufacturing employment posted its first increase since early 2016, rising by 5,500 jobs.

A modest sell-off of Canadian REITs combined with a slight rise in short-term credit spreads tipped the CLI's financial component into negative territory for the third time in the past four quarters. Rising interest rates due to a somewhat sudden change in sentiment from the Bank of Canada in recent months means tighter financial conditions going forward.

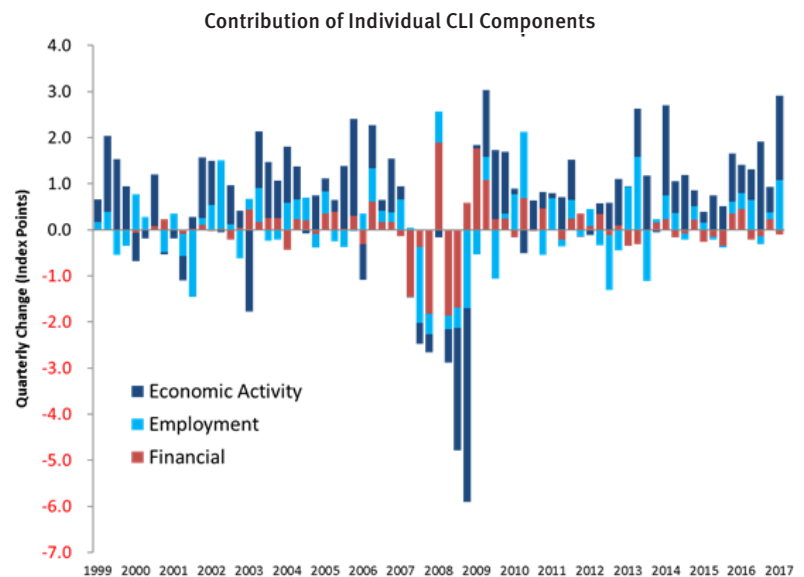
About the CLI

The BCREA Commercial Leading Indicator forecasts changes in broad commercial real estate activity. Our research shows that the variables that compose the CLI reliably forecast BC commercial real estate activity at a lag of two to four quarters. The index is revised each quarter, due to revisions in the underlying data.

Quarterly Trends by CLI Components

Q2 Highlights:

- Economic Activity:** Both wholesale and retail sales posted blockbuster growth in the second quarter of 2017. Provincial retail sales were up 10 per cent year-over-year including 12.4 per cent growth in June. Similarly, wholesale trade was up 9.6 per cent compared to this time last year. Moreover, the manufacturing sector posted double digit sales growth in the 12 months to May and June and nearly 9 per cent growth in sales through the first six months of 2017.
- Employment:** The benchmark index for Canadian REITs finished the second quarter down about 1.5 per cent as a rising interest rate environment prompted a shift in investor sentiment. The second quarter also saw a modest expansion of short-term credit spreads. Overall, despite higher interest rates, financial conditions remain accommodative.
- Financial:** The CLI measure of office employment rose by close almost 12,000 jobs in the second quarter of 2017, largely due to a surge of new jobs in the Finance, Insurance, and Real Estate sectors. Additionally, after several months of strong manufacturing output, hiring picked up in that sector as well with average manufacturing employment rising by 5,500 jobs in the second quarter. Total employment in manufacturing also reached an 18-month high of 179,000 in June.



Variation in the Commercial Leading Indicator can be broken out into three distinct components:

- » The economic activity component of the CLI follows the overall trend in BC's economy and reflects changes in economic variables shown to lead commercial real estate activity.
- » The employment component reflects changes in the commercial real estate environment, due to changes in the overall business cycle.
- » The financial component acts as an early-warning indicator from financial markets that could signal turning points in the commercial real estate market.



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