



Commercial Leading Indicator

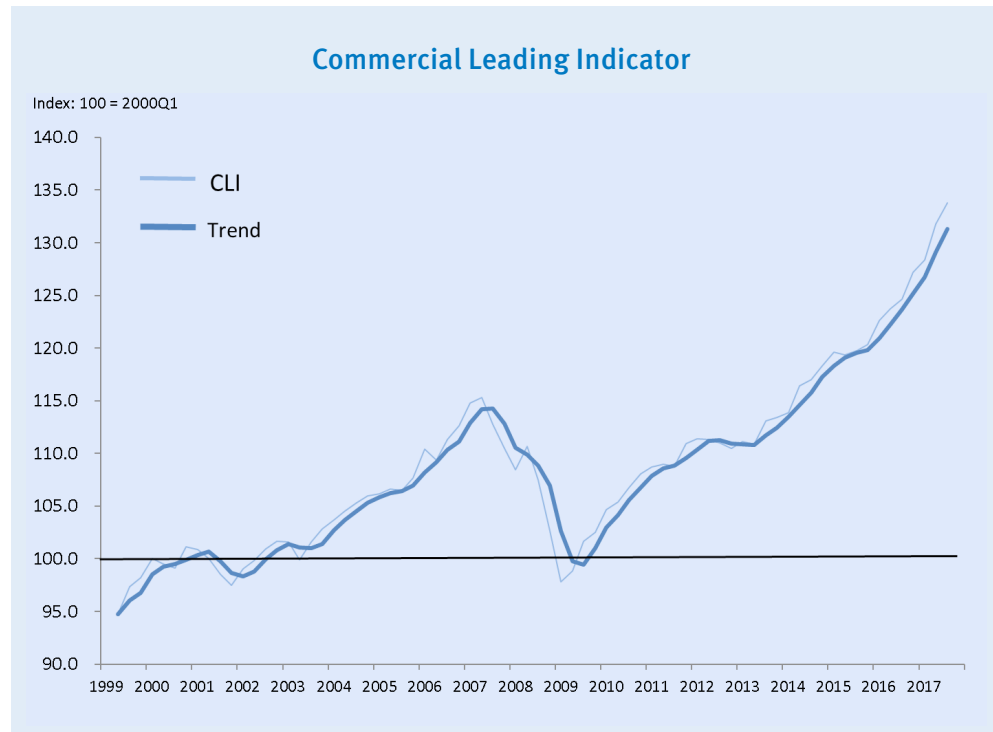
Growth Continues in the BC Commercial Real Estate Sector

The BCREA Commercial Leading Indicator (CLI) increased for the ninth consecutive quarter, rising 2 points in the third quarter of 2017 to 135.3. That increase represents a 1.7 per cent rise over the second quarter and a 7.3 per cent increase from one year ago.

The sustained rise in the CLI has been driven by several years of strong growth in the BC economy, particularly in sectors beneficial to commercial real estate activity. While we expect that the almost unprecedented cycle of above-trend growth in the BC economy will end next year, the overall economic environment remains

very supportive of growth in investment, leasing and other commercial real estate activity over the next two to four quarters.

Growth in the BC economy was propelled higher in the third quarter by continued strength in the retail and wholesale trade sector, as well as rising manufacturing sales. Retail sales are on pace to grow more than 9 per cent this year, the highest growth



since 1994 and the fourth consecutive year that retail sales have risen more than 6 per cent.

Employment growth in the provincial economy is at a more than two-decade high, approaching 4 per cent through the first nine months of the year. Key commercial real estate sectors have been prominent among those industries posting job growth. The CLI's measure of office employment rose by 7,100 jobs in the third quarter, while manufacturing payrolls expanded by 8,400 jobs to their highest level since 2008.

While the economic activity and employment components have propelled the CLI higher, the financial component has been a modest drag on the index. Rising interest rates, widening credit spreads and a slight decline in the benchmark REIT index translated to slightly less favourable financial conditions for commercial real estate in the third quarter.

About the CLI

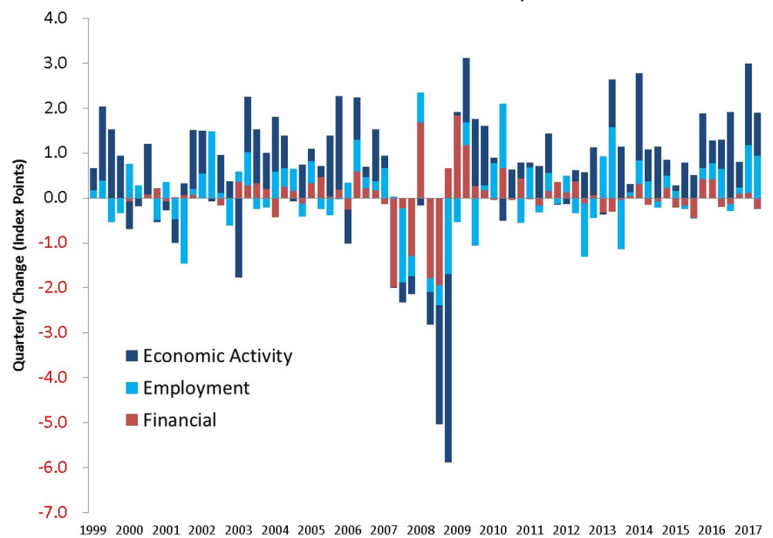
The BCREA Commercial Leading Indicator forecasts changes in broad commercial real estate activity. Our research shows that the variables that compose the CLI reliably forecast BC commercial real estate activity at a lag of two to four quarters. The index is revised each quarter, due to revisions in the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

Quarterly Trends by CLI Components

Q3 Highlights:

- Economic Activity:** Retail sales rose 1.6 per cent on a quarterly basis in the third quarter and were up 11 per cent compared to the third quarter of 2016. Similarly, wholesale trade was up 4 per cent quarterly and 14.5 per cent year-over-year. The manufacturing sector followed up nearly 5 per cent growth in the second quarter with a further 1 per cent increase in the third quarter. Year-over-year, manufacturing shipments were 7 per cent higher in the third quarter.
- Employment:** The benchmark index for Canadian REITs finished the second quarter down 1.3 per cent, the second consecutive quarterly decline. Short-term credit spreads also widened somewhat in the third quarter. Overall, despite a rise in overall borrowing rates, financial conditions remain accommodative.
- Financial:** The CLI measure of office employment rose by almost 7,100 jobs in the third quarter of 2017, largely due to a surge of new jobs in the professional services sector. Hiring has also picked up significantly in the BC manufacturing sector, with employment hitting a nearly 10-year high after adding 8,400 jobs on average through the third quarter.

Contribution of Individual CLI Components



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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