BRITISH COLUMBIA REAL ESTATE ASSOCIATION

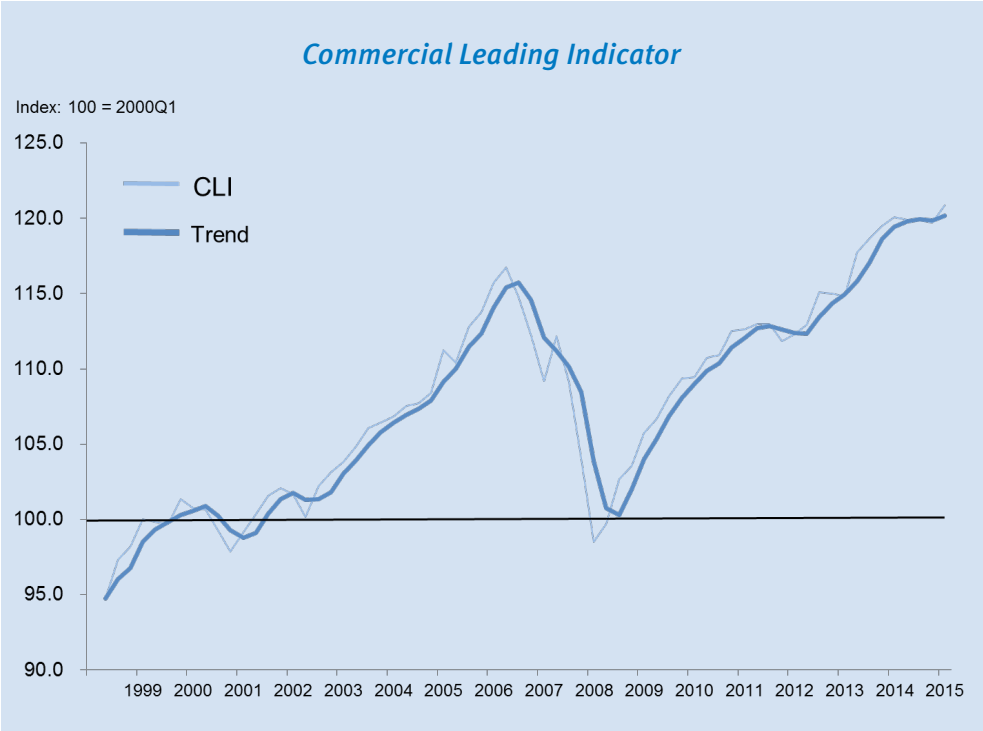
May 2016

Commercial Leading Indicator

CLI Indicates Growing Activity in Commercial Real Estate

The BCREA Commercial Leading Indicator (CLI) pushed higher in the first quarter of 2016, reflecting a strong and growing BC economy. The CLI index posted a 1.1 point increase to 120.8, eclipsing the previous index high of 120.1 set in the first quarter of 2015.

After flattening out for several quarters, the trend in the CLI is now reflecting the building momentum in the BC economy. The CLI trend, which smooths often noisy economic data, is pointing to a modest uptick in growth in investment, leasing and other commercial real estate activity over the next two to four quarters.



Most of the improvement in the CLI over the past three months can be traced to the economic activity component of the index. BC has led all provinces in economic growth for two years running and is currently tracking at over 3 per cent growth in 2016. Consumer spending continues to be the main driver with retail sales posting 7 per cent growth through the first quarter of the year. Meanwhile, the wholesale trade and manufacturing sector have also recorded solid gains, pushing the CLI's economic activity component higher by 1.2 index points.

About the CLI

The BCREA Commercial Leading Indicator was designed to forecast 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.

Employment in the province is also growing strong. Total employment in BC has risen at a 2.9 per cent rate so far in 2016, the fastest pace of job growth since 2007. However, employment generated in key commercial real estate sectors remains mixed. The CLI measure of office employment increased for the first time since mid-2014, rising by 6,600 jobs. Manufacturing employment, which had posted consistent gains for several consecutive quarters, dipped in the first quarter by 2,900 jobs. Overall, the employment component of the CLI rose by 0.3 points.

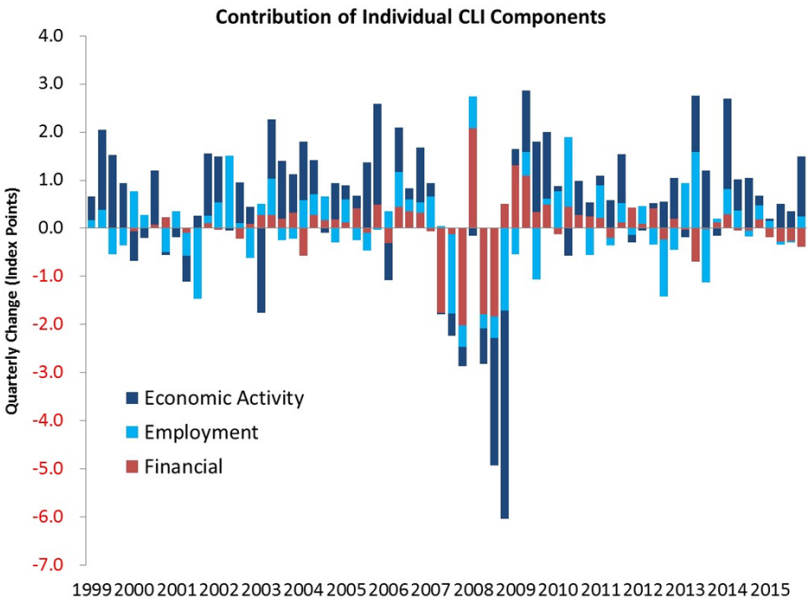
Jittery financial markets in the first quarter contributed to a fourth consecutive decline in the CLI's financial component. The benchmark index for Canadian Real Estate Investment Trusts (REITs) followed a 3 per cent decline in the fourth quarter with a further 6 per cent decline in the first three months of the year. That decline, combined with slightly wider credit spreads, led to a 0.4 point dip in the CLIs financial component.

Photo by: Thom Quine

Quarterly Trends by CLI Components

Q1 Highlights:

- The BC economy grew 3 per cent in 2015 and is on track to post 3.3 per cent growth in 2016. BC retail sales are up 7 per cent year-over-year in the first quarter and manufacturing sales have eked out modest growth in spite of slowing demand in both the United States and China.
- Canadian REITs prices remained under pressure in the first quarter of the year, though this is mainly reflective of weakness in Canada's energy sector. The average benchmark index for Canadian REITs was down 6 per cent in the first quarter but had regained most of that decline by the end of March. A slight tightening of credit and modest upward pressure on credit spreads also contributed to an overall decline in the CLI financial component.
- Employment gains remain mixed in key commercial real estate sectors. The CLI measure of office employment increased by 6,600 jobs in the first quarter. In contrast, manufacturing employment dipped by 2,900 jobs after displaying significant momentum over the past year.



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 the BC 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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