

REALTOR LINK

STRATEGIC INFORMATION FOR REBGV REALTORS

OCTOBER 20, 2006

www.realtorlink.ca

VOLUME 7 • NUMBER 21

The housing bubble. What do our experts say?

Since 2001, we've been hearing about our doomed housing market.

From a serious downturn to a full-blown bubble burst, the naysayers continue to capture our attention and heighten our concerns.

Is there any truth to the prophesized collapse?

To find out, we asked some experts.

"The fundamentals underlying housing demand in Vancouver are positive and will remain so next year," reports Gregory Klump, Chief Economist at the Canadian Real Estate Association.

These fundamentals include a strong economy, high employment and income growth, and low interest rates.

Urban Futures Institute economist Andrew Ramlo expects international immigration will accelerate, along with in-migration from other prov-

inces as baby-boomers start to retire and head west. "I also see job growth remaining positive, given rising investment in public infrastructure such as the RAV line, the Gateway Project and the Olympics," says Ramlo.

What would have to happen for a bubble to occur?

Several telltale signs must exist, says Helmut Pastrick, Chief Economist at Credit Union Central of BC. "A necessary condition is a high level of speculation," says Pastrick, who defines speculation as a market characterized by large numbers of investors buying homes which they hold for short time periods, typically less than six months.

To gauge speculation Pastrick uses Land Registry data. It indicates that in Greater Vancouver, just seven per cent of properties are being bought

and resold in less than six months. In 1981 this rate was three times higher and in 1990 it was about twice as high.

The most speculative activity is the downtown Vancouver high rise condominium market.

Stocks fell first, is real estate next? National Post, August 11, 2001

Housing sales decline forecast – Vancouver Sun, November 29, 2002

It's looking more and more like new bubbles have formed in the bond market and real estate – Vancouver Sun, August 16, 2003

The hot house suddenly looks chilly – The Globe and Mail, June 12, 2004

Will the price bubble burst?: If Sydney is anything to go by, soaring prices won't last – Vancouver Sun, July 18, 2005

Pop goes the market – BC Business, August 2006

There, 20 per cent of properties are bought and resold within six months.

For evidence of a bubble, analysts typically look for

a telltale parabolic (hockey stick-shaped) increase in home prices.

"This isn't the case right now," explains Klump. "Home price increases in Vancouver have risen significantly in the past few years because of high demand and tight supply," explains Klump. "In the past few months, increases in average price have slowed."

Now that sales are returning to more normal levels and new listings are on the rise, Greater Vancouver's housing market is becoming more balanced, concludes Klump.

And, while prices are at an all-time high, the majority of home buyers can still afford a home for two reasons:

- most first-time buyers (about 20% of the market) typically pay less than the benchmark price, buying condominiums or townhomes in suburbs; and
- most buyers already own homes and are benefiting from rising prices as a result of increases in home equity position.

Continued on page two



The housing bubble. What do our experts say? *continued from front page*

With sales starting to slow, can our market hold up or should we expect a marked slowdown?

“Most figure that a slowdown is inevitable given the run of growth we’ve had in the past few years. But, nobody is speculating that the slowdown will be a decline, just a more moderate rate of growth,” says Ramlo.

Sauder School of Business at UBC professor Tsur Somerville, agrees. “The market is slowing, but slowing is not a collapse.”

Somerville is most concerned about the downturn in the US economy and its impact on us. “The US is still one-third of the world’s economy so we’re sensitive to a slower US economy. It impacts our tourism and softwood lumber

industries.”

Somerville also thinks that public infrastructure projects like the Olympics and the convention centre are positive for our tourism industry. And, overall Somerville thinks these negatives and positives add up to a soft landing.

But, cautions Somerville, “Investors are still a bit of a wild card. We don’t know how they would respond to a price decline – whether they will sell or hold.”

“Since most home purchases are bought as principal residences and are held for a long time period, short-term price swings are less important than the longer-term trend,” reminds Pastrick. “In the last 45 years, home prices have doubled more than five times. The long-term price supply

outlook remains favourable owing to continuing demand growth and ever present land supply constraints.”

These market fundamentals would have to shift both dramatically and rapidly for us to hear a resounding pop coming from the housing market, explains Ramlo. “In the absence of any rapid changes, the only pop to be heard should be in the naysayers assertions about a burst.”

That said, the strong period of growth we have seen since the late 1990s will inevitably be balanced by a period of much more tempered growth in the near future. This more moderate growth could help address issues of affordability that have arisen over the past couple of years.