

No need to panic: real estate market still on a high plateau

By TIMOTHY S. CAHILL

Changing circumstances have revolutionized the Salt Spring real estate market. While well underway, the processes involved in our transformation have a long run yet ahead of us.

For Salt Spring, every year of this current millennium has benefited from what I'm calling the "Stock Market+ Effect."

That is the (statistically) visible absorption into the real estate market of all the dollars fleeing the equity (stock) markets' melt-down and limp performance since 2000.

The "+" is intended to denote various other factors that have also played a role in maintaining the strength of this effect, and I'll discuss those other factors later on.

Since the start of this study period, the Salt Spring Market has grown from \$25 million to \$106 million, an average increase of 15 per cent or almost \$6 million per year.

The average number of properties sold per year from 1991 to 2000 was 155.22.

This dull-sounding "average" actually smoothes over what was — in the early to mid 1990s — a dizzying, lurching volatility, a vicious up and down market that was followed by four years of gradual and steady recovery (to 2000).

But that old market has been overwhelmed, and a new, higher level equilibrium has been established. The "Stock Market+ Effect" has increased the yearly number of properties sold on Salt Spring by an average of 57.44 for each of the six years since 2000.

The really significant thing is that despite all of the ever-increasing fear, uncertainty and doubt creeping across the globe over the last year, the Salt Spring market has held rock steady.

The total number of properties sold (a very sustainable 213) in the year just ended is slightly above average (212.67) for the trend established over the last six

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years, and repeats the number (213) sold in the year before.

Despite the hand-wringing, gloom and doom coming from certain quarters, all of the evidence to date supports the following conclusion: the sky is not falling, and neither is our local real estate market!

Market Size

On the contrary, the market sits comfortably up on a high plateau. Market size is the sum total of the value of all property sold in a year. While, there have been four years over the last 15 during which Salt Spring's total market size has declined significantly, last year was not one of them.

Last year, our market size was down a statistically insignificant amount of about 1/3rd of one per cent from the year before.

Since the start of this study period, the Salt Spring market has grown from \$25 million to \$106 million, an average increase of 15 per cent or almost \$6 million per year.

However, these numbers have more to do with the general health of the market and less to do with the relative wealth of homeowners.

Average Price

More relevant to homeowner wealth has been the steady increase in average property prices.

Even during the '93-'96 market correction — which saw significant declines both in the numbers of units sold and market size — the average selling price increased in two of the three years.

Following 9/11/01, the average price dipped, only to rebound ever higher for the next three years.

As with market size, the average selling price last year was down about 1/3rd of one percent. That's it! In 15 years, the average selling price has dropped in only three years.

In 1992, the average selling price was \$148,000. In 2006, it was just below \$500,000. The yearly average increase in selling prices has been just shy of 10 per cent.

The Stock Market+ Effect, supply constraints, and scarcity

Several inter-related factors have together driven Salt Spring real estate onward and upward into a new market paradigm.

Displaced equity market funds have quite literally been looking for a new home, while innovative mortgage regulations and products, coupled with historically low interest rates, had fuelled hot markets everywhere.

Salt Spring is different in that few buyers have an economic need to be here.

Apart from service sector employees, very few people transfer here for job reasons. The rise in sales and average prices is driven by affluent non-local purchasers with — not the need — but the ability and desire to come here.

To such people, Salt Spring's property prices still represent real value when compared to traditional markets like Martha's Vineyard and Nantucket Island.

The Internet has made our island an even more viable location for new people who don't need a job but still work.

With the "I-world" sitting on Salt Spring Island's doorstep, an ever richer network of economic and cultural links flourishes here.

Yes, the Internet is available nearly everywhere, but not all locations are equally desirable.

The green movement and similar or related demographics represent long-term changes in society and have created powerful motivations for wanting to be in quasi-Utopian localities like ours. Not for nothing are we a splendid little island in the blue. Our unspoiled natural beauty is both readily accessible and unlikely to change. The Islands Trust's official rural community plan is now nearly completely built up.

The Trust mandate and bylaws ensure both land scarcity and demand for Salt Spring real estate.

Over the long-term, this intersection in modern economic theory can only translate into continuing land price increases.

Conclusions

The difference between theory and practice is small

in theory, but can be large in practice. Similarly, statistics must be used with caution.

One would be unwise to drive forward through mountainous terrain using only the rear-view mirror for navigation.

Going forward, the short-term movements of the market are a lot like a random walk in the park on a path not predictable in advance.

However, neither the statistics nor current events support a gloomy assessment, or augur a change in demographic trends.

An increasing number of folks know about us and are making their way here.

Smile and be grateful that we live in interesting times.

The writer has a B.A. in International Relations and is licensed to provide trading services. The above analysis was completed for the Li Read Group.