# A DOSE OF HOUSING REALITY

Ozzie Jurock is president of Jurock Publishing Ltd. and president of Jurock International Net Inc. and is known as one of Canada's leading business motivators.

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BY OZZIE JUROCK

I just finished taking part in a real estate outlook conference. During the last 14 years that I have been hosting these conferences, I have heard the same comments: "Young people can no longer afford a home," or "There are too many realtors in the business," and then, of course, the big one: "I wish I had bought five years ago."

During the last three years in particular, however, more than any other question this one was asked: "Is it over? Is the market going to come down?"

Clearly, volume in Canada and the U.S. is much lower than the record-breaking sales records of 2005, yet 2006 is still much higher than any other year before that.

Also, consider this: Despite all the wars, two stock market crashes, the Mexican peso crisis, 9/11 and all the other shocks, if someone had simply bought a house at any time in the past 40 years they would have increased the profit on their down-payment by thousands of percentage points.

In 1960, the average house price in Greater Vancouver was $13,000. By 1980 it was $100,000. In 1990 it was $230,000. In 2006 it is $735,000. If you put down five per cent on that house in 1960, you would have made 91,000 per cent on your down-payment, tax-free.

Even if we go back to normal market conditions (no, 20 per cent increases per year are NOT normal), in today's market buyers still enjoy huge leverage. If Canada follows the "decline" of increases in England and Australia (from 20 per cent to 6.8 per cent in the first half of 2006) you still outpace the rate of inflation handily on the full value of the home, but on the down-payment your return still soars. (If you put five per cent down on a $100,000 house and it goes up in value by (only!) six per cent in a year, you have earned 110 per cent on your down-payment.)

For 37 years I have listened to the naysayers and they have always been wrong in the long run. (Just go back 10 years and read the naysayers on our www.realestatetalks.com real estate bulletin board (some 25,000 people play there the "real estate talks" game). Real estate has been and continues to be the best investment in our inflationary world. Over that 37-year period, global residential real estate values are 30 to 40 times higher, with returns of 2,000 per cent or more.

Today we hear comments that the British and Australian housing markets have collapsed, that the U.S. housing is a bubble about to burst. While anything is possible, a return to a more normal market is the much more likely outcome. As we pointed to earlier, house prices in both Great Britain and Australia are up 6.8 per cent this year compared to 2005, as the Economist magazine reported recently. And this is after a 300-per-cent average increase in values since 1995.

It is true U.S. housing sales are down yet prices are up 10 per cent so far this year. (The Economist, September 2006).

Of course there are the excesses to consider in any highly inflationary marketplace. Eighty per cent of homes selling above a million dollars in Florida were transacted by flippers – and that market has collapsed. In fact, all such excesses (even overbuilding) will always be adjusted by the market, but that does not mean that the "bubble is bursting." What does that mean anyway? The stock market can "burst" in a few weeks – losing 50 per cent of value. In the world of real estate, however, reversals last three years on average and reverse between 10 per cent and 18 per cent in price (with the exception of 1980, when we had 20 per cent interest rates).

Certainly, we have seen a slow-down in housing sales this year compared to the record levels of 2005. In Greater Vancouver, new home sales are down 45 per cent, resale homes are down 29 per cent and apartment sales are also down. The same thing is being seen right across the province, but these sales are compared to 2005, which had the highest sales in B.C. history. Average prices are rising. The MLS price for a single family detached home in Greater Vancouver, for instance, is up 20 per cent to more than $740,000. Listings in Greater Vancouver, meanwhile, are up substantially from last year – 22 per cent, to some 11,700 units. At the end of September 1997, however, we had 19,800 properties for sale.

What does it mean? It simply means that if you are a buyer, you can take a deep breath. There is more selection. If you are seller, you may have to sharpen your pencil. The important thing is to understand yourself. Are you a shark, a flipper or an investor?

If you buy an $800,000 condo in downtown Vancouver today with 10 per cent down, you are not an investor because it will not cash-flow with rental income, but you are a flipper if you can sell it for a higher price. Nothing wrong with either scenario – if you understand the personal short-term risks.

We are bullish but we are not foolish. I would listen to Price WaterhouseCooper's August report on Townhouses in North Surrey (1,607 projected to be built over the next 24 months, absorption projected at 407) and not buy a townhouse there right now. But I would buy the deal that may be emerging there in the spring. I did not buy at Whistler in the last two years, but I will consider buying there shortly. In fact, I would buy cash flowing properties anywhere. Most importantly, I will not buy "the market" in any case. In 2003 there was the same question and same concern about the real estate market, yet people who ran for the hills left a small fortune on the table. In 2005 at our Outlook conference we predicted a downturn in 12 to 18 months. I would not be surprised if we entered into it now. More importantly, we also predicted much higher prices 10 years from now.


If Vancouver followed the trend in England and Australia and went to a more balanced market of "only" a six-per-cent increase, that would be just fine with me. Nothing goes up in a straight line forever. Remember that downturns from 20 per cent increases to six per cent increases are not bubbles but rather a return to a normal, healthy market.

Interestingly enough, from 1995 to 2000 the naysayers were continually quoting negative news about B.C. – outflow of people to other provinces, high unemployment, etc. Today, we have the opposite scenario – lowest unemployment in years, highest employment, huge inflow of people, labour shortages, incredible billions of capital investment in the province, etc., yet here they are again. Could it be that they are all people who missed the market?

In the meantime opportunities abound. Understand who you are, buy cash flowing properties in different markets. Do your research; know where you want to invest and what your goals are. The reality remains: There are no good or bad markets, there are only good or bad deals you personally make. □

*Ozzie Jurock is a real estate analyst and can be reached at www.Jurock.com, phone 604-683-1111.*

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