

Vancouver house prices to drop 14.8 per cent in two years: report

But even then, most homes will still be worth more than they were in 2010

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A new study shows immigration, not investment, is fueling Vancouver's real estate boom as new residents purchase homes. Photograph by: Mark van Manen, Vancouver Sun PNG/CANWEST NEWS

First, the bad news: Average house prices in Metro Vancouver will drop by 14.8 per cent from their peak by the end of 2013, according to a report released Wednesday by TD Economics. The silver lining for Vancouver homeowners is that the average house will still be worth more, after the correction, than it was in 2010. The national report -the latest in a string of bank dispatches warning of unsustainable Vancouver housing prices -projects that the annual average home price will peak at \$780,700 in 2011 before falling to \$688,800 in 2013. The average house price in 2010 was \$675,900. Sales in Vancouver are projected to fall 25.4 per cent from peak to trough. Nationally, a softer landing is projected for both house prices and resales. Average prices are likely to fall by 10.2 per cent in the next two years, and resale activity by 15.2 per cent. While Vancouver house prices keep rising despite having pushed the limits of affordability for years, the difficult economic climate and impending interest-rate hikes mean that a

slowdown is virtually inevitable, TD economist Sonya Gulati said in a phone interview. "From an economic point of view, [housing prices] are not sustainable," said Gulati, who authored the report with TD deputy chief economist Derek Burleton. The report describes Vancouver as the "poster child" for those who fear a real-estate bubble. Gulati acknowledged with a laugh the "boy who cried wolf" nature of the repeated warnings over the years about the unsustainability of Vancouver's gravity-defying prices. One way Vancouver residents may be "coping" with resale home prices that are more than ten times average incomes is through the underground economy, the report suggested. "For example, income generation through self-employment or renting basement apartments may not be included in reported income," the report stated. "Key" downside risks to the TD Economics outlook are a greater than anticipated pullback in offshore buying and deterioration in household debt levels, already the highest in the country. From 2000 to the end of 2010, a Metro Vancouver home delivered a compounded-annual return of 7.8 per cent, according to a Housing Barometer Report released by Re/Max earlier this year. Meanwhile, the monthly average of house prices in Vancouver continues to rise, hitting \$802,000 in April and \$810,000 in May. The Toronto market is also expected to be among the hardest hit, with projected declines of 11.7 per cent in resale prices and 25 per cent in sales. Prospects are "considerably better" for housing markets in Calgary, Edmonton and Regina, the report said, although it cautioned that means price and sales-activity declines will merely be less pronounced. TD expects demand to be supportive in most markets this year and that the brunt of the adjustment will take place in 2012 and 2013. Over the forecast period, the report said the market will be constrained by national economic growth, which is expected to slow from 2.8 per cent in 2011 to 2.3 per cent in 2012 and 1.9 per cent in 2013. Copyright (c) The Vancouver Sun