

Making sense of today's housing market

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In recent months, economists have had the unenviable task of trying to calculate the direction the housing market is likely to take, factoring in things like unemployment rates, population and immigration figures, economic growth, mortgage rates, and that most nebulous of criteria: consumer confidence.

They agree that the decrease in housing sales and prices bears little relation to the economic indicators in BC. What has changed is public perception of our financial security, triggered by the troubled global financial markets.

As realtors, people are asking us to help make sense of the housing market.

Sellers are asking if the market value of their home is decreasing. Buyers want to know if they should wait for further price reductions. Homeowners not in the market to buy or sell want to understand the impact on their equity, which may affect decisions like plans for renovations.

Investors are asking about short-term impact – is it a good time to buy, renovate, and re-sell for a profit? And long-term impact – is quality real estate now available at lower prices?

First-time buyers want to know how much they need for a down-payment, whether they can afford the monthly mortgage payment, and if they can get financing in these uncertain times.

There are no easy answers. Around the Lower Mainland's kitchen tables, realtors are helping people assess their individual situations.

Circumstances cause each of us to make decisions despite uncertainties related to global economies and politics. Someone gets a job in another city. A family must consider estate planning for a parent. A young couple wants to start investing in their own home, rather than renting.

Our MLS® statistics and Housing Price Index (HPI) tell us that, since May, residential home sales and prices have been decreasing. After five years of unprecedented growth in home values in the Lower Mainland, that's not particularly surprising or necessarily unwelcome.

Between 2003 and 2008, the HPI benchmark price of a detached home in Greater Vancouver increased nearly 70 per cent to \$761,000 from \$449,000. Condominiums over the same period increased 82 per cent to \$387,000 from \$213,000. Left unchecked at this rate, by 2013 the benchmark price of a detached home would top \$1.2 million and condos more than \$700,000.

Current trends offer moderation to a market where affordability, for much of this decade, was eroding, making home ownership unattainable to an expanding segment of our community.

Since May, residential home prices have declined 12.8 per cent, resulting in an 8.3 per cent year-to-date price reduction for detached, attached and apartment properties across Greater Vancouver.

These moderating home prices should not be confused with the U.S. housing downturn. Since 2005, prices in the U.S. have been edging downward due in large part to imprudent 'sub-prime' lending practices. Mortgages in Canada are tightly regulated and underpinned by a solid banking structure. The World Economic Forum recently identified Canada as having the world's "soundest" banking system.

The local real estate market is not immune to global economic challenges; however, Canada's disciplined lending structure has kept the mortgage landscape steady in these uncertain times.

While the current rate of foreclosures in the U.S. is nearly five per cent, only 0.28 per cent of mortgages in Canada are in arrears, a proportion that is not only low but steady, according to the Canadian Association of Accredited Mortgage Professionals (CAAMP).

Low prices are not the concern as much as the view that prices are falling. Buyers are waiting to see if the real estate market has hit bottom.

Identifying the "bottom" of a market is difficult, given that certain variables must remain constant to attain real savings. For example, interest rates must remain low and that perfect house must remain available at an acceptable price.

Most of us sell a home and buy a home within the same market; while we may be selling at a lower price, we're also buying within that lower-priced market.

Deciding to buy or sell a home should be a milestone moment based on your financial and personal circumstances, and the market conditions within your neighbourhood of choice. For those whose finances allow it, there are excellent opportunities in today's housing market. This is a good market for long-term investors.

The Real Estate Board of Greater Vancouver has existed for nearly 90 years and witnessed numerous market cycles. Sales increase and decrease. Prices go up and down. Historically, the values at the peak of the next cycle inevitably surpass the ones before.

(Dave Watt, president of the Real Estate Board of Greater Vancouver)