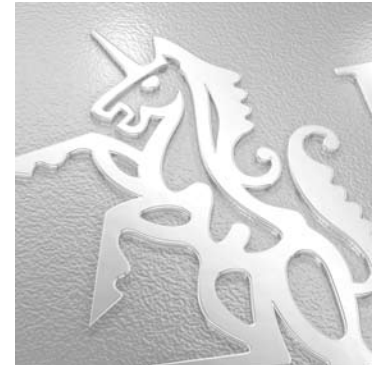


Real Estate Reports  
**North American Residential Real Estate:**  
Is There an Olympic Effect?



*Vancouver/Whistler was awarded the 2010 Olympic and Paralympics Winter Games on July 2, 2003. With the 2010 Games now just around the corner, talk in the region abounds about a boost to the already booming residential real estate markets. Is there, indeed, an Olympic Effect that further boosts local real estate prices? The fifth in our series on residential real estate, this report explores the real estate markets in four North American cities before and after they hosted the Olympic Games. At Phillips, Hager & North, we monitor the trends that influence Canadian investors' experiences in various markets and we periodically produce research articles and commentaries to help our clients address their investment-related questions. Copies of our client publications are available from your portfolio manager or by calling 1-800-661-6141.*



**PHILLIPS, HAGER & NORTH**  
Investment Management Ltd.

This is the fifth in our series of reports on residential real estate. The purpose of these reports is to provide a context for investors participating in or just interested in this asset class. Our first report in 2005 looked at whether a “bubble” existed in the U.S. and Canadian residential real estate markets. After defining the attributes of a bubble<sup>1</sup> and applying various measurement criteria, we concluded that while there was, indeed, a bubble effect in the U.S. market driven largely by interest rates, local variations in the Canadian market were sufficient to preclude a continent-wide bubble. Our second report focused specifically on the U.S. residential real estate market and examined the changing importance of real estate in the American consumer’s portfolio, as well as the resulting exposure of consumers and the economy to the then-anticipated rise in interest rates. Our third and fourth reports updated the housing market situation in both Canada and the U.S. in 2007.<sup>2</sup>

U.S. house prices peaked in late 2006 and are subsequently down 20%<sup>3</sup> (in nominal terms) amidst the worst housing market since the Great Depression. The drop in U.S. residential real estate in turn sparked a global credit crisis of epic proportions that has spurred unprecedented response from global central bankers and government officials. In our last housing reports, we reconfirmed our view that the U.S. housing market was significantly overvalued and that the process of deflating the real estate bubble was fraught with risks. We also confirmed our earlier conclusion that, while Canada’s housing market had also witnessed sizeable price appreciation, there was no evidence of a bubble or fundamental overvaluation. In this report, we seek to examine the impact of the Olympic Games on a host city’s residential real estate market.

## An Olympic Effect?

Competition is fierce among the world’s major cities when bidding to host the Olympic Games. The Olympics are the world’s largest sporting and media event and the benefits of a successful Games can be considerable for the host city ... as can the costs. Efforts to secure the Games begin years in advance, first for the bid committee and then for the winning city, which often has to undertake

significant infrastructure improvements. Beyond building or upgrading venues for the various events, these improvements may include building an Olympic Village to host the athletes and upgrading transit systems to handle the enormous influx of attendees to the Games. Various factors may drive a city’s Olympic bid, including the desire to raise the city’s profile in the international arena, a strategic move to promote tourism, or a justification for kick starting major urban redevelopment. One purported advantage of hosting the Olympic Games – and the subject of this report – is positive repercussions in the local real estate markets.

### *The 2010 Olympic Games*

The joint bid by the City of Vancouver and the Resort Municipality of Whistler began in 1999 when the Vancouver/Whistler 2010 Bid Corporation was formed. The bid process culminated in the announcement of a successful bid on July 2, 2003 and launched a subsequent “winning city” process. Greater Vancouver will be home to an Olympic Village and events will be geographically spread from the City of Richmond (site of the speed skating competition at the new Richmond Olympic Oval) to the City of Surrey (site of the Games Preparation Centre) and the City of Vancouver (site of the opening and closing ceremonies, ice hockey, figure skating and curling); while Whistler will be home to a second Olympic Village, as well as the Nordic and alpine skiing events. Vancouver and Whistler are linked by the 100-kilometre Sea-to-Sky Highway, which winds its way from the City of Vancouver through The District of West Vancouver, up along the coast of Howe Sound to the District of Squamish (a former logging town with a population of 15,000 and the halfway point along the Highway) and then inland to Whistler. Whistler has a permanent population of 10,000, which rises to over 30,000 residents, visitors and seasonal staff during the winter ski season. The Village of Pemberton is another local community located 30 minutes north of Whistler and is home to 2,500 people. While no Games facilities are planned for either Squamish or Pemberton, both stand to benefit as Whistler’s high prices drive homeowners to these other nearby, more affordable communities. This trend has been in place for some time now despite the fact that the Games are still over a year away.

<sup>1</sup>A bubble was defined as parabolic price increases, excessive valuations and buoyant optimism causing people to extrapolate current trends indefinitely.

<sup>2</sup>*North American Residential Real Estate – Bubble Trouble?* (June 2004); *U.S. Housing Market and Rising Interest Rates – Trading Spaces, Accumulating Debt* (October 2004); *Update on the Canadian Housing Market – A World of Difference* (December 2007); *Update on the U.S. Housing Market – The Worst of Times* (January 2008).

<sup>3</sup>Source: S&P/Case-Shiller House Price Index as of August 2008, released October 28 2008

The awarding of the 2010 Winter Olympics to Vancouver/Whistler has prompted comments akin to the following: “The real estate community is preparing for what could prove to be the biggest real estate boom in British Columbia history as the province prepares to welcome the world.”<sup>4</sup>

Part of the Vancouver/Whistler Olympic bid was a provincial government promise of \$800 million to upgrade the Sea-to-Sky Highway, which presumably will benefit Squamish as well as Whistler and even Pemberton. Even before the success of the bid was determined, however, home sales were booming in all three jurisdictions, as evidenced by the average resale house price of \$1.3 million in Whistler in early 2008. The Highway project is now well underway and scheduled for completion by the fall of 2009.

Is it realistic to expect that a temporary, three-week long influx of 50,000 people could permanently alter the housing market in a city of 2.5 million people, such as Vancouver? While it is true that the marginal buyer and the marginal seller often drive real estate prices, few of those 50,000 attendees will opt to relocate to the Vancouver area on a permanent basis. However, it is worth taking a closer look at residential real estate trends in past Olympic host cities to determine if there is, indeed, evidence of a sustained Olympic effect on real estate prices in North America.

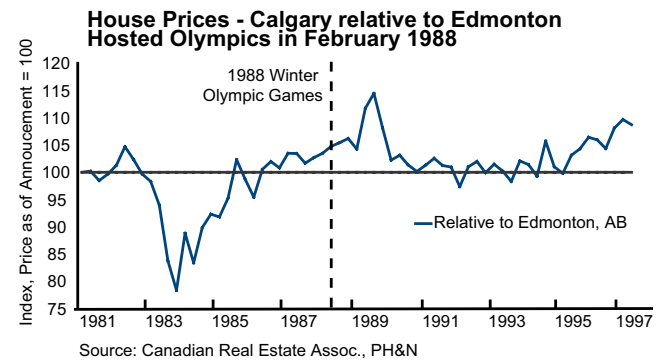
## A Review of Past Olympics

### The Canadian Experience

Calgary, Alberta<sup>5</sup> successfully hosted the 1988 Winter Olympic Games. To determine if there was an Olympic effect on house prices in Calgary, we compared that city’s housing prices<sup>6</sup> to those of neighbouring Edmonton, the province’s second largest city. Chart 1 plots the ratio of house prices in Calgary to those in Edmonton starting with 1981, the year in which the success of the Calgary bid was announced. A rise in the charted line means that housing prices in Calgary were rising faster than those in Edmonton, while a decline in the charted line indicates that the prices in Calgary were dropping faster than those in Edmonton. These relative movements may be a result

either of changes in the house prices in Calgary or changes in those in Edmonton.

Chart 1



While the 30% rise in the ratio from 1984 to 1988 may be attributable to some pre-Olympic buoyancy in Calgary, it is clear that the impact was not sustained. As well, the recovery in Calgary prices relative to Edmonton prices in the two years leading up to the Olympics only brought the Calgary prices back to the modest premium they had enjoyed at the start of the 1980s. After the Olympics, the ratio averaged about 105 from 1991 to 1997, a similar level to that experienced from 1981 to 1983 when it was also 105. In fact, house price movements in Calgary followed the same general pattern as those in Edmonton, before and during the Olympics, debunking the existence of an Olympic Effect in the real estate market.

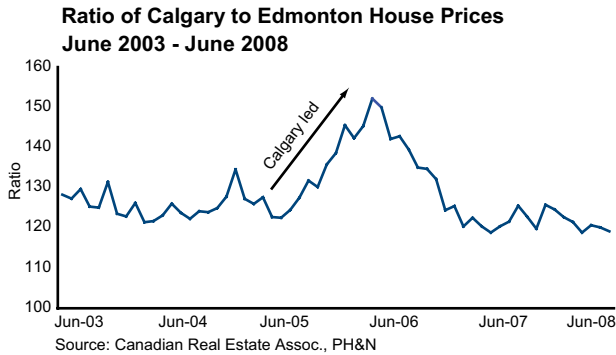
Note that although there was a post-Games spike from 1988 to 1990 in the performance of Calgary’s housing market when compared to Edmonton’s, this coincided with a period of strong gains in crude oil prices, which may have disproportionately affected Calgary (at the time, Calgary had more oil production than Edmonton). Prices moved from \$12/barrel in 1986 to over \$32/barrel in 1990. In the current commodity cycle, soaring crude oil prices resulted in large gains in home prices in both cities. Calgary’s market initially led the way but the recent valuation premium of roughly 25% was subsequently re-established in early 2007 as a surge in new building re-established the supply and demand balance in Calgary (See Chart 2).

<sup>4</sup>Canadian Housing by Frank O’Brien, Distributed by Inman News, August 2003

<sup>5</sup>Unfortunately, we were not able to examine data for the period surrounding the 1976 Games in Montreal as sufficient residential real estate information is not available. The Montreal Olympics are often cited as an example of the potential negative consequences of hosting the Olympics. In 1970, the Olympic Stadium in Montreal was projected to cost \$134 million to build, but strikes and construction delays escalated the cost to \$264 million by the time the Games opened with the stadium still unfinished. Taxpayers ultimately paid for the stadium through a special tobacco tax implemented in May 1976.

<sup>6</sup>These are nominal prices.

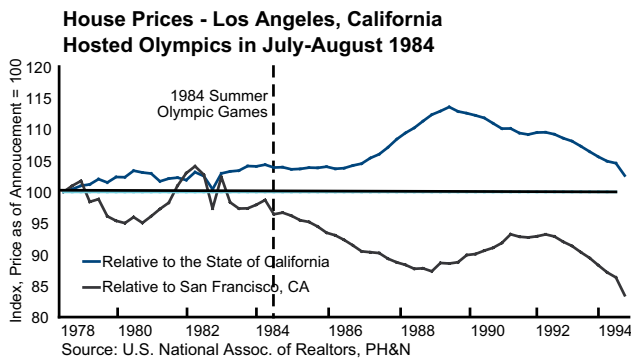
**Chart 2**



**The U.S. Experience**

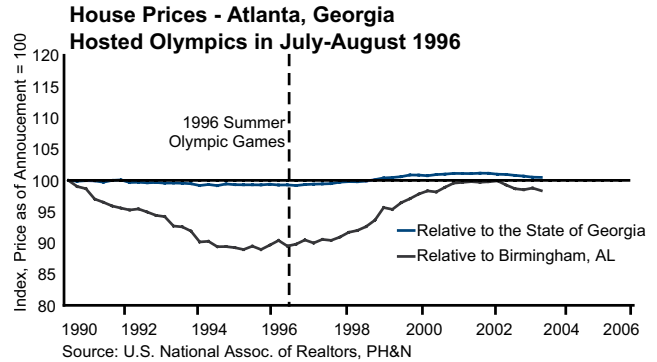
Looking slightly farther afield in a market that is nonetheless similar to our own, we then examined the U.S. experience. Los Angeles (LA) hosted the 1984 Summer Olympics; Atlanta won the bid for the 1996 Summer Games; and Salt Lake City was home to the 2002 Winter Olympics. We plotted house prices for these three cities, as shown in Charts 3 to 5. On an absolute basis in each major centre, any run up in prices occurred at least five years prior to the actual Games. Prices in Los Angeles rose steadily from 1978 and came to a peak compared to the rest of the State of California in 1980, but actually declined after that until 1983 and then levelled off through to 1986 – in other words, from before the Games until long after they were done and gone (Chart 3). Note that relative to San Francisco, LA house prices declined after the announcement of the Olympics and only enjoyed a brief period of outperformance in 1982.

**Chart 3**



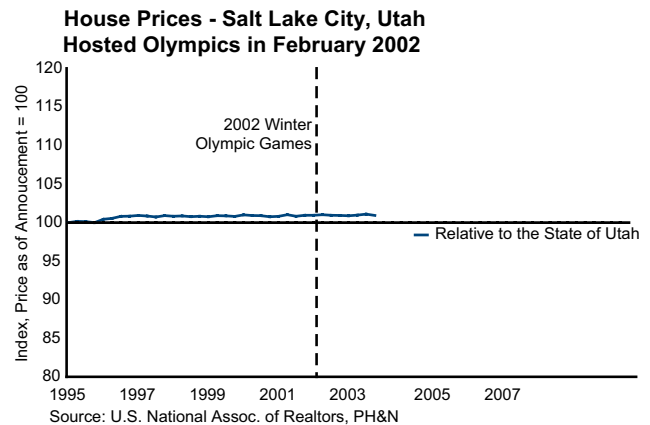
The Atlanta Games were announced just as the U.S. economy was about to enter a recession. While real estate prices are largely driven by local factors, they are also influenced by more “national” factors such as the level of interest rates and the stage of the economic cycle. Chart 4

**Chart 4**



shows that prices in Atlanta showed little if any difference as compared to prices in the State of Georgia more generally; moreover, relative to Birmingham (the largest city in neighbouring Alabama), prices in Atlanta hit their low as the Games commenced.

**Chart 5**



In Salt Lake City, prices for real estate showed little difference relative to overall trends in the State of Utah from the time that the Games were announced until well after their completion.

*Despite the small sample size, it appears that the Olympics have very little consistent effect on house prices, even in smaller markets such as Salt Lake City. On balance, it appears that if there is an Olympic effect on real estate prices, it occurs well in advance of the Games. Indeed, the greatest impact of the Olympics on real estate value would appear to be an announcement effect that boosts real estate values on a temporary basis when the bid is awarded.*

### **The Projected 2010 Olympic Effect**

In 2006, Canada Mortgage and Housing Corporation (CMHC) commissioned the Baxter Urban Futures Institute to study the impact that the 2010 Olympics could have on demand for housing in the local area from 2006 until the event and in the aftermath as well.<sup>7</sup> To study the impact on housing required projections for factors that impact housing such as employment, migration and population. Two projection scenarios were outlined – one that incorporated the Olympics and one that assumed no Olympics.

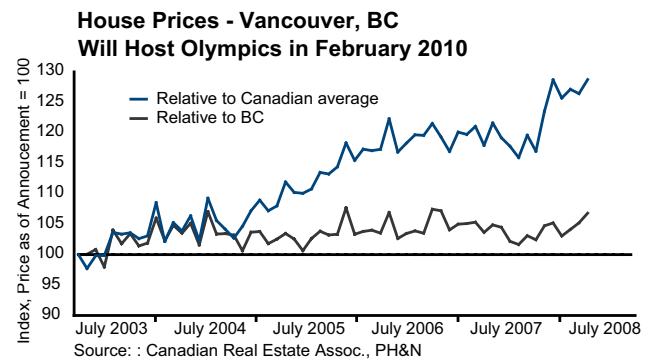
The study concluded that employment in the Lower Mainland (Greater Vancouver and the Fraser Valley) would rise by an additional 92,000 jobs due to the Games, an increase of 4.6% when compared to the “no Games” scenario. Population and migration would also increase. The impact on housing demand was estimated as an incremental increase of 4% with real prices for new units of housing on average 3% higher.

The impact was estimated to be relatively larger for centres in the Sea-to-Sky Corridor (Squamish, Whistler, Pemberton and Lillooet, a town two hours northeast of Whistler) with population rising an estimated 10.5% in the Games scenario and demand for housing (including rental units) rising by 9.5%. The study also looked at the impact on commercial accommodation (motels, hotels and bed & breakfasts) and, based on information at the time (2006), found the impact ranged from a small surplus to a small shortage, which could have a potential impact on the residential sector. However, overall the study characterized the impact of hosting the Olympics as relatively modest but not transformative.

<sup>7</sup>Impact of the 2010 Winter Olympic Games on the Vancouver and Sea-to-Sky Housing Markets; Canada Mortgage and Housing Corporation, November 2006

Chart 6 shows real estate prices in Vancouver relative to the Province of B.C. and relative to the Canadian average since the announcement of the Games in July 2003. It appears there may have been a small bump up in the order of 3-4% in Vancouver prices relative to the rest of the province once the announcement was made, but the premium has remained steady since then. However, relative to the rest of Canada, the chart shows that real estate prices have boomed. In our view, this is not due to an Olympic effect but, instead, to soaring commodity prices that have strengthened the relative performance of the B.C. economy compared to much of the rest of Canada, as well as strong demand for housing and relatively short supply. More recently, though, supply appears to have caught up with demand, with July existing-home sales down 44% year-over-year and prices overall down 1% from levels one year earlier.

**Chart 6**



### **Conclusion: Sorry, No Lasting Olympic Effect**

The hosting of the Olympic Games may have some impact on residential real estate prices, but our analysis of four North American experiences suggests that the impact, if any, is likely to be experienced over a fairly long time frame during the lead up to the Games and does not persist after the Games are done and gone. The impact may depend on the size of the local property market – presumably the smaller the market, the more noticeable the impact – but, neither Calgary (population 657,000 in 1988) nor Salt Lake City (population 182,000 in 2002) experienced a material

Olympic effect. The effect may be less pronounced for a larger urban centre such as Vancouver (population 2,361,833<sup>9</sup> anticipated for 2010) and a luxury resort like Whistler, particularly since Vancouver is already the country's least affordable real estate market and Whistler is already a world-renown destination resort (with the associated high-priced real estate). Added to this is the fact that Vancouver was arguably already in the midst of one of the strongest real estate booms ever. Annual homeownership costs amounted to 79% of household disposable income in Vancouver at the end of 2007<sup>10</sup>; almost double the average among Canada's major cities.

When all is said and done, the impact of the 2010 Olympics will likely be both indirect and direct through increased international exposure for the Province of B.C., Vancouver and Whistler as well as the construction of permanent facilities and improvements to infrastructure including the significant upgrades to the Sea-to-Sky Highway and various sporting facilities. However, our research indicates that those hoping for an Olympic effect to provide a sustained boost to an already heated residential real estate markets may be in for a disappointment.

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<sup>9</sup>Source: BC Government Statistics – data for Greater Vancouver only.

<sup>10</sup>RBC Economics Housing Affordability Report March 2008.

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**PHILLIPS, HAGER & NORTH**  
Investment Management Ltd.

**VANCOUVER**

Waterfront Centre  
20th Floor  
200 Burrard Street  
Vancouver, British Columbia  
Canada V6C 3N5

**VICTORIA**

St. Andrew's Square I  
Suite 312  
737 Yates Street  
Victoria, British Columbia  
Canada V8W 1L6

**CALGARY**

Bankers Hall  
West Tower  
Suite 4430  
888 - 3rd Street S.W.  
Calgary, Alberta  
Canada T2P 5C5

**TORONTO**

Suite 2320  
1 Adelaide Street East  
Box 207  
Toronto, Ontario  
Canada M5C 2V9

**MONTREAL**

Tour McGill College  
Suite 1640  
1501 McGill College Avenue  
Montreal, Quebec  
Canada H3A 3M8

**INVESTMENT FUNDS ADVICE & INFORMATION**

Telephone: 1-800-661-6141 Facsimile: 1-800-666-9899 Website: [www.phn.com](http://www.phn.com) Email: [info@phn.com](mailto:info@phn.com)