

The Market – Up, Down or ?

Source: The Real Estate Board of Greater Vancouver, October 2008

The average price chart for the Board tells the story of real estate prices. Since 1977, the evidence is clear. For periods in each of the past three decades there have been dips in the market. The chart also illustrates that real estate has consistently been an appreciating investment over time. The degree of increase depends on the type of unit bought and its location. The MLS® Housing Price Index tells this story (see the attachment).

If we go back five years to 2003, we see that a buyer of a detached home on Vancouver's Westside, or on the North Shore, would have an investment that has doubled in value since then. A buyer of a home in Vancouver Eastside has seen their home appreciate 83 per cent. In Coquitlam that same house would be up 80 per cent. Squamish has had a 33 per cent price increase for a detached home since 2003, and Pitt Meadows a 49.5 per cent increase.

Condominium buyers have fared even better over the past five years. Port Coquitlam condominiums increased 116 per cent, Vancouver East condominiums increased 110 per cent, New Westminister 103.5 per cent, and Richmond and Port Moody 101 per cent.

When did the present slowdown begin?

In August 2007, sales began to slow and by March 2008 prices had begun to slow as well. In the last four months we have seen about a 3 – 4% reduction in residential sales, depending on the property type.

Last month, 107 homes changed hands in North Vancouver, a decline of 45% from 195 in Sept 2007. In August, prices began dropping which, in turn, began having a leveling impact on house price appreciation.

Andrew Ramlo, an economist at the Urban Futures Institute, believes we have to preface discussion of the slowdown with the fact that for five to seven years we've had unprecedented growth.

Why?

There are a number of reasons, but low consumer confidence – it's at a seven-year low – is the main reason, according to Cameron Muir, Chief Economist at the BC Real Estate Association.

"Home buyers are cautious not just because of news reports about the market downturn, but because they're seeing increases in staples such as oil and food prices. As a result, they are reevaluating their spending habits and their budgets." Muir explains that even a modest decline in the real estate market has a psychological effect on potential buyers.

"If the price of gas falls anywhere in the Lower Mainland, we see drivers lining up to buy more gas. If the price falls again the next day, we see even more drivers line up to buy, even if prices are expected to continue to decline." But with a house, it's an entirely different psychology.

“A house is something we rarely buy, and right now we see there is a tendency to put off that buying decision until prices stop falling.” During a changing market, home buyers are more apt to take a ‘wait and see’ approach. This hesitation is having an impact on the local economy.

A decline in home sales and prices results in fewer housing starts and construction employment, says Helmut Pastrick, Chief Economist at Central 1. “This adds up to less demand for a whole range of products and services – from furniture sales to lawyers and notaries.”

What’s next?

Will the situation improve, continue to pause or lead to a housing recession? Most economists are not forecasting lengthy declines, though almost every major country is revising their economic forecasts downward. “Overshadowing our growth is the slowdown in the U.S.,” Ramlo says. However, the underlying economic fundamentals remain strong in the province. “Our economy is robust, our employment rate is stable, and we expect continued growth in immigration.”

Pastrick expects home prices will likely continue to decline for the rest of 2008 and through 2009 in most of the Lower Mainland. “An important statistic will be the supply of homes for sale. When this number begins to shrink, the bottom is near.” Muir thinks that what will get the market going is a supply adjustment. “This means fewer listings coming on and remaining, a process that will play out and is now underway.”