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## 'Granite-countertop' effect drives prices higher

Buyers are demanding higher-quality finishings in their higher-priced abodes

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Call it the granite-countertop effect: As British Columbia housing prices skyrocket, buyers demand higher-quality finishings befitting high-priced property, which in turn drives the already astronomical amounts people are spending even higher.

Statistics Canada on Friday reported that British Columbians spent \$3.23 billion on residential construction in the second quarter, a whopping 22.5-per-cent increase over the same period in 2005.

Combined with Alberta, where the white-hot oil economy pumped residential construction spending up 36 per cent to \$3.12 billion, the two western provinces were largely responsible for an 8.5-per-cent gain in residential spending nationwide.

Statistics Canada reported that Canadians spent \$20.8 billion on residential construction and all three components of the market: New-home building, renovations and overall rising costs contributed to the substantial gain.

Chris Ricketts, president of the Canadian Home Builders' Association in B.C., said buyers' expectations for what amenities their very expensive homes should have adds to the inflation.

"In Victoria, we're [building] in a fairly exclusive neighbourhood," said Ricketts, who is also a building contractor in that city.

"So a house that used to be \$500,000, is now worth \$550,000. And because of the price range, people expect a bit more, so it's actually \$600,000 because people are putting in heated floors, double sinks and bigger vanities."

Ricketts added that generally, all builders' costs for labour and material are "going through the roof" already. And he said British Columbians are simply building more houses, which also pushes the spending figure upward.

Tsur Somerville, director of the centre for urban economics and real estate at the Sauder School of Business at the University of B.C., noted that "\$10,000 in extras looks like a lot less when it's on a \$1-million house."

However, he added that buyers in certain segments of the market, such as the Okanagan's recreational property sector, are wielding a lot of wealth from price gains in their primary residences.

"If you look at what's being built in the Okanagan, the stuff is a lot fancier than it used to be, which is showing up in these numbers," Somerville said.

The question, however, is how much longer British Columbians will be able to afford

to spend so lavishly on their housing.

Earlier this week, analysts at TD Economics called the price gains being experienced in Calgary and Vancouver "unsustainable". The TD Economics report hypothesized that Vancouver's price gains "will be brought back to earth by an increase in supply."

Andrey Pavlov, a business professor and real-estate expert at Simon Fraser University, said markets typically do build new housing to the point of oversupply, because developers don't stop building until it becomes unprofitable to build and units sit empty.

"But is it going to happen in a month, or a year later or two years later, I can't tell you that," Pavlov said. "There is really no mechanism for anyone in the market to foresee when over-supply [is occurring]."

Ricketts does not believe B.C. is close to building into a housing over-supply situation. He said the province built 45,000 new homes in 1992. That number declined to just 13,000 in 1999.

So to Ricketts, the projection that British Columbians will build 35,000 new homes this year means the province is simply "playing catch up" for demand that should have been there during the 1990s.

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