



B.C. unlikely to see lower house prices soon

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The upside of British Columbia's real-estate-market cycle has been steep, but the downside will not be as rapid as in the U.S., according to the real estate firm Century 21 Canada.

House prices in select B.C. markets have been flat or risen up to 12 per cent in the last year. That follows a much steeper rise of between 89 per cent and 114 per cent over the last five years, Century 21 reported Wednesday in its annual survey of house prices.

However, while the median U.S. house price dropped 11.5 per cent compared with a year ago, Century 21 Canada president Don Lawby said B.C.'s economy is strong enough and its real estate sector different enough to isolate the province from a similar decline.

Lawby, in an interview, said that while real estate sales have dropped, B.C.'s economy has grown more than the U.S. economy, and is spread across a more diverse base than has been the case in the past.

By contrast, certain U.S. markets -- California, Arizona, Florida and some parts of the North East in particular -- have been hit by a string of ailments, Lawby added, from weakening economic conditions to speculative building that has faltered on a shifting financial landscape.

For one, Americans have had a longer history with exotic loans, such as the no-money-down and interest-only mortgages.

"[They] have tax-deductible mortgage interest in the U.S.," Lawby added. "We don't in Canada. So people use their homes more like ATMs in the U.S."

He added that as prices went up in the U.S., owners extracted a lot of wealth from their homes to finance consumer spending.

However, the steady rise of mortgage rates and increase in mortgage payments have put a crimp in some U.S. markets.

"What I see is the new-housing market has slowed in some places," Lawby said. "That's what's happening in those [specific American] areas."

Tsur Somerville, director of the centre for urban economics and real estate at the University of B.C.'s Sauder School of Business, agreed with Century 21's assessment that economic factors in B.C., the Lower Mainland in particular, will keep it immune from downturns in U.S. markets.

The province benefits from the current strong world market for commodities and abnormally high levels of government spending on infrastructure that support employment.

Forestry-dependent communities, however, "will be proportionally hit much harder" by a slump in U.S. housing starts, Somerville said.

"We would expect to see much more trouble in Ontario [real estate markets] before we saw trouble in B.C.," Somerville said.

However, the UBC economist added that there are some unknown factors in B.C.'s market that could come into play.

A rising number of those exotic mortgages, which have only recently been approved in B.C., is one factor.

The reaction of pre-sold condominiums buyers to a price decline or economic slowdown is another, Somerville added .

"You can cancel pre-sales at a much lower cost than the purchase of a finished unit," he said.

People's expectations about future price gains form another big unknown, Somerville added.

Expectations are a big part of any economic model he said. Often, economic models look back to previous-year gains to form an estimate for future gains.

"That's only good for a while," Somerville said. "But if people's psychology changes, then even with strong underlying economic fundamentals, we could get more of a hit to the real estate market."

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UPSIDE

Realtors at Century 21 Canada have tracked the rise of real estate prices in select locations. Some examples:

Location 2006 price 2001 price 6-month change 5-year change

Burnaby \$600,000 \$280,000 3% 114%

Kelowna \$375,000 \$185,000 7% 103%

Vancouver

West side \$1.1 million \$551,000 10% 100%

Victoria \$445,000 \$235,000 6% 89%

Calgary \$445,000 \$207,815 1% 144%

Source: Century 21 Canada

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