

## Could a big price drop be approaching?

Prices sometimes fall into substantial troughs, expert says

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In a sea of buoyant sentiment about Greater Vancouver's rising real estate prices, a pair of Canaccord Capital Corp. investment advisers are cautioning their clients not to get too high on the gains they've seen.

It is not like Mark Hewett and Erik Dekker are doomsayers. B.C.'s economy has a lot of positives, Hewett said in an interview.

However, a Canaccord researcher sent some Vancouver price data to U.S. financial analyst Dennis Gartman, and Gartman -- who Hewett said knows the city well -- included a technical analysis of the price graph in one of his recent newsletters.

Hewett and Dekker included Gartman's findings in one of the research notes they send to clients, a copy of which wound up in the hands of The Vancouver Sun.

Gartman's assessment is that Vancouver real estate prices have been on a run, reaching "levels that we think suggestive of one of Vancouver's rather regular and seemingly inevitable breaks."

Canada Mortgage and Housing Corp. forecast a seven-per-cent price increase for Vancouver, and the Credit Union Central B.C. estimated a six-per-cent rise for 2007.

And Vancouver-based experts say Gartman is drawing conclusions from looking at price alone.

Gartman, however, noted that the line of Vancouver's real estate never goes

### THE PRICE IS RIPE IN VANCOUVER HOME MARKET



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Mark Hewett added he doesn't believe Vancouver's real estate market will experience anything like the technology-sector meltdown of 2000.

straight up. It moves in waves reaching peaks, then falling into sometimes substantial troughs. For instance:

- In the dark days of 1981-82, the fall from peak to trough was 40 per cent, and it took seven years to climb out.
- Prices peaked again in 1990, then fell 20 per cent before recovering in 1992.
- The next peak in 1995 ended with a long bear market with no new highs until 2003.

By Gartman's estimate, in the current cycle a Vancouver detached house rose from \$340,000 at the last trough in the winter of 1998-99, reaching nearly \$800,000 this year.

"If the peak was made earlier this year, and if history is any guide to us," and Vancouver prices decline by the average of the last three cycles, Gartman said it could take 25 to 30 months to go down the trough, and 65 to 70 months to see a new peak.

Based on past experience, Gartman added that the drop could be in the order of 28 per cent, taking that \$800,000 house down to \$575,000.

What will really happen? Hewett said the downside perhaps won't be as drastic as Gartman suggests, and noted that Gartman didn't crunch Vancouver's economic fundamentals.

Hewett said no one really knows if the market turn will be two months, one year or five years from now.

Just that "based on past cycles, prices will retreat at some point," Hewett said.

For anyone who thinks it's different this time and the market will go up forever, Hewett adds, "It's never different. We've seen it too many times before."

Hewett and Dekker's advice to clients is, if they're selling, consider doing it soon and at a "fair market price." If they're buying, wait a few months to gauge the trend.

Hewett added he doesn't believe Vancouver's real estate market will experience anything like the technology-sector meltdown of 2000. Still, he advises clients "it's good to be cautious. As in any sector, you don't want to over leverage yourself."

Cameron Muir, chief economist with the B.C. Real Estate Association, said Gartman's observation ignores the prevailing economic conditions that brought about past "price breaks," such as the crushing interest rates of the early 1980s, or the economic stagnation that B.C. experienced in the late 1990s.

"[That] history repeats itself certainly is a truism," Muir said. "But all the circumstances of history have to repeat."

Muir added the current market cycle is closer to the end than the beginning, but current economic conditions are different than at the peaks of previous cycles: Interest rates are low and not likely to rise to levels that would shock the market, and the economy is still expanding.

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