

Chinese spreading wealth make Vancouver homes pricier than NYC

BY HUI-YONG YU AND CHRISTOPHER DONVILLE, BLOOMBERG NEWS MAY 16, 2011 5:50 PM



Expensive home sales in Metro Vancouver have skewed average sale prices upward for B.C. and Canada

Photograph by: CNS files, .

Vancouver's Royal Pacific Realty had such a surge of business during the first two weeks of February that agents and assistants worked day and night shifts to find homes for Chinese buyers visiting during the Lunar New Year.

"It was unprecedented," said Royal Pacific Chief Executive Officer David Choi. "I called them sleepwalkers."

Sales of detached homes, townhouses and condominiums in metropolitan Vancouver jumped 70 percent in February from January, to 3,097 units from 1,819, and were up 25 percent from a year earlier, according to the Real Estate Board of Greater Vancouver. In March, sales climbed 32 percent from February, to just shy of a record for the month of 4,371 transactions set in 2004. Sales increased by 80 percent from two years ago.

Buyers from mainland China are leading a wave of Asian investment in Vancouver real estate as China tries to damp property speculation at home. Good schools, a marine climate and the large, established Asian community as a result of Canada's liberal immigration policy make Vancouver attractive, said Cathy Gong, who moved from Shanghai to the Shaughnessy neighborhood on Vancouver's Westside about three years ago.

"The schools here are the best and there are a lot of Chinese people here," said Gong, whose son is in sixth grade at Shaughnessy Elementary School. Eastern Canada wasn't an option because "I cannot bear cold weather," Gong said. Vancouver has the second-largest immigrant Chinese population in Canada after Toronto.

China Curbs Speculation

China, where home prices rose 28 percent in Beijing and 26 percent in Shanghai last year, according to the country's biggest real estate website owner SouFun Holdings Ltd., has taken steps to curb property speculation within its borders. Chinese home prices gained for 19 straight months through December and climbed in almost all 70 cities tracked by the government during the first quarter. Premier Wen Jiabao placed curbs on mortgage lending, boosted down-payment requirements and limited the number of purchases.

"As the Chinese get more and more prosperous, they are diversifying their assets out of China," said Jim Rogers, an American investor who moved to Singapore from New York four years ago so his daughters could learn Chinese. "Vancouver is very high on the list."

Pricier Than New York

In 2010, Vancouver had the third-highest housing costs among English-speaking cities worldwide, according to Canada's Frontier Centre for Public Policy. Only Hong Kong and Sydney, another magnet of Asian immigration, were more expensive. Vancouver's median home price of C\$602,000 (\$618,000) was 9.5 times the annual median household income of C\$63,100, the group said in a study released Jan. 24. Canada had a 4.6 national multiple, making it "seriously unaffordable," while the U.S. at 3.3 was "moderately unaffordable," the study showed. To be affordable, the multiple must be 3 or less.

Vancouver was more expensive than San Francisco, London and New York by that measure, the Winnipeg-based center said.

"This makes it all the more difficult for people who are already struggling to get into the market or businesses who can't hire people to come here because of the high housing prices," said Peter Ladner, a former Vancouver city councillor and a columnist for the Business in Vancouver weekly newspaper. "There are a lot of people who are really frustrated."

Unlike London or New York, "we don't have enough jobs with high incomes to justify" the home prices, said Ladner. He noted Australia has placed restrictions on foreign home ownership. The British Columbia government also could consider an increase in property transfer taxes for foreigners, he said.

'Control the Price'

Cecilia Huang, a Canada resident since 2003, also is concerned about rising prices.

"I hope the government can do something to control the price" so younger generations can buy, said Huang, who paid almost C\$1 million for a condo in the Westside's Kitsilano neighborhood two months ago so her daughter, now aged 6, could attend school nearby. She couldn't afford a house and prefers apartment living because she doesn't like yard maintenance. She also likes the views from her sixth-floor condo.

Holidays in China have been a popular time to look for houses in Vancouver. Sales picked up in

October during China's weeklong national holiday, said Winnie Chung, a Royal Pacific agent who represented buyers or sellers in C\$285 million of home sales in 2009 and 2010 combined. Chung employs eight full-time assistants and travels to China twice a year to meet potential clients.

50 Sales

Mainland Chinese are buying houses primarily in Vancouver's Westside, boosting the median sales price to C\$2 million in the district known for its wide boulevards, beaches, expansive parks and stucco Tudor mansions. Prime Westside neighborhoods include Point Grey, Shaughnessy and Dunbar. The University of British Columbia is at the area's western end.

"Our office has done 50 sales this year, which is pretty incredible," said Vancouver realtor Tom Gradecak at his office in Point Grey, where he has one colleague who speaks Mandarin and Cantonese and is hiring a second. "Half of those sales are from mainland China."

One Chinese buyer paid C\$1.7 million in March for a five-bedroom, three-bath house that the previous owners had completely renovated in 2003, C\$150,000 more than the asking price, said Gradecak. The buyer plans to tear it down and build anew.

"There's more value in the land," he said. "We're seeing a lot of empty nesters cashing out."

Many existing houses were built in the 1940s and '50s and have outdated electrical systems and plumbing and are "much smaller" than allowed today, said Vancouver architect Loy Leyland. As buyers prefer to demolish old houses than renovate, new homes for Asian clients make up two-thirds of his more than 30 current projects.

"I've never been busier" in a 30-year career, Leyland said.

Leyland's clients usually stick to traditional styles such as Villa or Georgian for exteriors. Inside, designs are changing. Every new house has two kitchens: a large Western-style one and a small "wok" kitchen with a stove, sink, strong exhaust fan and door to seal off cooking aromas, said Leyland.

Some buyers acquire multiple homes, one to live in and others for investment, said Chung, the broker. Her clients made their money in a variety of businesses, she said, including mining, stainless steel manufacturing and real estate. About 10 percent of them speak English, she said.

The Westside, also known as Vancouver West, had the biggest five-year gain of all 15 areas in greater Vancouver, edging out Richmond, the municipality just south of Vancouver, according to the Real Estate Board. Westside home prices rose 77 percent during the past five years through April amid the housing collapse in the U.S. People of Chinese or South Asian ancestry make up more than 60 percent of the residents in Richmond, a hub of Hong Kong immigration during the 1990s.

In 2010, the average home price in greater Vancouver rose 14 percent from 2009, according to the Real Estate Board. Excluding the three most expensive areas — the Westside, Richmond and West Vancouver — the average price gained 8 percent. West Vancouver is a separate municipality on the

north shore across Lions Gate Bridge from downtown and not to be confused with the Westside. The three priciest areas usually account for about one-third of annual home sales in greater Vancouver.

Third Wave

The current group of Chinese homebuyers in Vancouver is the third "wave" from Asia since 1990, following Taiwanese and Hong Kong immigration, said Manyee Lui, a veteran Vancouver realtor. "People from mainland China are the new immigrants," Lui said.

Vancouver's Expo '86 was pivotal in the city's growth. In 1988, the Expo site downtown on the shore of False Creek was acquired by Concord Pacific Developments with investors led by Hong Kong billionaire Li Ka-shing. The group developed high-rise condos and sold them in Asia during the early 1990s. Concord Pacific Place today is Canada's biggest master-planned urban community, comprising about 50 buildings with 10,000 homes, parks, a school and daycare centers.

"That was like turning on a switch; it's okay to invest in Vancouver because Li Ka-shing did," said Peter Cowley, who grew up in Vancouver and is director of school performance studies at the Fraser Institute, which grades schools in Canada on academic performance. Chinese immigrants routinely check the Institute's website to decide where to buy homes.

Migration to Vancouver also was spurred by the 1989 Tiananmen Square massacre and a flight from Hong Kong in the years before its return to Chinese rule from British sovereignty in 1997. Vancouver home prices dropped when some people returned to Hong Kong after the handover.

British Columbia, the province where Vancouver is located, gets about 55 percent of Canada's investor-class immigrants, people who have a minimum net worth of C\$1.6 million, said Cameron Muir, chief economist of the British Columbia Real Estate Association. The province drew a total of 3,779 investor-class immigrants from China last year, or 69 percent of all investors moving to British Columbia, said Muir.

Starting about 18 months ago, so many homeowners applied to change the last two digits of their addresses to remove or shift the number 4, which in Chinese sounds like the word for death, or add the numeral 8, which is considered lucky, that Vancouver began turning down some requests, said Bonnie Lee, addressing coordinator for the city.

"We used to do eight or nine a month but in March we did 25," said Lee. "A lot of it is cultural. A lot of it is just people trying to change it before they list because estate agents are telling them to."

It's not just the Chinese who are shopping for homes, said Gradecak. Korean and Taiwanese buyers also have been active, he said.

"Foreign investment in Vancouver residential real estate is showing no signs of slowing," said Gregory Klump, chief economist of the Ottawa-based Canadian Real Estate Association, in a May 9 report. The surge of multimillion-dollar sales in Vancouver prompted the trade group to revise its forecast for national home sales. It now expects Canada home sales through the Multiple Listing Service to fall 1.3 percent in 2011 to 441,100 units, less than the 1.6 percent decline it forecast in February.

Low Rates

Low interest rates inflated home prices and created a bubble, said Lawrence Wong, an immigration lawyer with many Chinese clients. Unlike the U.S., Canada has no tax deduction for mortgage interest.

"There is this psychological fear that 'Ok, if I don't get into the market, I might not be able to get in later on," said Wong.

Chinese buyers frequently are absentee owners, wealthy businessmen who buy second or third houses for their wives and children while continuing to live in China for work, said Norman Chow, a fourth-generation Canadian engineer who lives near Quilchena Park on the Westside.

"You see a lot of these satellite families," said Chow. He said it's not unusual to see college-age kids of wealthy Chinese parents driving Bentleys, Maseratis and Porsches around the Westside. "The kids seem pretty nice," he said.

Forty-one percent of the pupils at the Westside's Maple Grove Elementary have English as their second language, according to the Vancouver-based Fraser Institute, the school-ranking organization. The institute doesn't break out ethnicities for ESL students. The Living Word Chinese Baptist Church at Arbutus St. and 33rd Avenue West introduced a Mandarin fellowship last October after 16 years of only Cantonese and English.

While education for children often is the primary goal, some immigrants just want to move money out of China because they don't feel it's safe, according to one homebuyer who moved to Vancouver from Wuhan with her son two months ago and asked that her name not be used. Her husband remains in Wuhan for work.

Interest is spreading to other parts of Vancouver as prices on the Westside jump. The latest hot markets are West Vancouver and the southern bedroom community of White Rock, said Raymond Wong, a local realtor.

Because houses in West Vancouver are built on the mountainside with their backs to the Coast Range, they generally face south, providing views of English Bay and Burrard Inlet. This situation conforms to the principles of feng shui, the proper placement of features within and surrounding a house to increase wealth and deflect bad luck, said Wong.

In November, Osaka Supermarket, part of Canada's biggest grocery chain, opened its second Vancouver-area store in West Vancouver's Park Royal shopping center. Osaka offers items ranging from marinated duck wings to a full dim sum bar and Asian fruits such as mangosteens, rambutans and longans that can be hard to find in North America.

"Five years ago, Chinese buyers avoided West Vancouver because of the Lions Gate bridge — it just wasn't convenient," said Wong. "Now Osaka makes it much better and Chinese people are spreading the word."

By contrast, Richmond has cooled since the March 11 earthquake and tsunami in Japan, said Wong. Parts of Richmond are at or just above sea level because of its location in the Fraser River delta.

Nonstop Flights

Beginning June 15, China Southern Airlines Co. will offer Canada's first nonstop flights to China's most populous province, Guangdong, with service between Vancouver and Guangzhou, the province's capital city.

"Canada is a very attractive country these days for many reasons," said Rogers, the investor. "They've done a much better job than the U.S. has over the last 15 to 20 years."

Canada's natural resources-based economy has gained from the economic growth in China and other countries. The Canadian dollar climbed 70 percent against the U.S. dollar since 2002, reaching parity in 2007 for the first time since 1976 as rising prices for commodities such as oil and gold boosted Canada's export revenue. Nine years ago, one Canadian dollar bought 65 U.S. cents. Today it buys \$1.03.

Overseas homebuyers can act much more quickly on a purchase since their offers often aren't contingent on the sale of another residence, said Gradecak, the Westside realtor.

"It's definitely for real," Gradecak said. "How long it's going to last, that's an unknown. I get asked the same question every single day."

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