

Bank adds to opinions on shallow housing dip

Derrick Penner, Vancouver Sun

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Canada's housing boom is over, but a growing body of forecasts is leaning to the downside of the real estate cycle being shallow rather than deep.



Real estate prices are predicted to drop up to 15% nationally, more in B.C.

Photograph by: Jeff Haynes, Getty Images

The latest assessment from Scotiabank Economics predicts price corrections in the 10-to-15-per-cent range from peak to trough nationally, though Vancouver and B.C. markets -- where prices soared highest -- will see more significant drops.

The reason, according to Scotiabank senior economist Adrienne Warren, is that Canada's markets are in a cyclical decline driven by unaffordable prices pushing too many buyers out of the market, and now a softening economy.

Warren said it is different from the American decline, which was driven by a glut of home foreclosures on the market due to sub-prime mortgage failures, followed by the U.S. economy falling into recession.

"I don't think we have the kind of risks that initially drove down the U.S. housing market," Warren said in an interview, "so I don't think [Canada] is going to mirror what has happened there."

Warren's assessment, in her Real Estate Trends report released Thursday, follows forecasts by the Canada Mortgage and Housing Corp., B.C. Real Estate Association and

Central 1 Credit Union, which forecast B.C. prices to fall between nine and 18 per cent before bouncing back.

Warren added that while nationally, prices will likely decline in the range of five per cent next year, B.C. market declines will be more like 10 per cent, so overall it "will be a little more than 15 per cent [to the bottom]."

She said high inventories of unsold homes in B.C. could push prices lower than that, and that the same risk applies to the Saskatchewan market.

Warren said prices will likely remain flat for a number of years while the affordability of housing "reaches a point that people can get back into the market."

The Scotiabank forecast is based on the assumption that B.C. and Canada will follow their current economic course. Warren said Scotiabank's economics department believes the country is entering or already in a mild recession.

However, she added that there are "almost daily" reports that further downgrade projections for global growth, and the risk that her own forecast will prove inaccurate is on the downside, with a more significant economic downturn.

The Scotiabank report noted that Vancouver had the highest average housing prices in the country at \$592,658, compared with Calgary with the next highest at \$402,267.

Warren noted those prices are averaged over 10 months. Vancouver's average price peaked in February at more than \$630,000, and by October had fallen to almost \$552,000.

However, on balance, home-price appreciation in Canada has been less than in a number of major developed nations over what has been a 10-year housing boom. Price growth here did outpace the U.S., where prices rose 50 per cent, compared to 61 per cent in Canada.

But run-ups in Ireland, Britain, Spain, France and Australia all exceeded 100 per cent.

However, the driving forces behind the price appreciation as well as current supply and credit conditions are more important than just the run-up in prices, the Scotiabank report said.

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CANADA IN COMPARISON

Canadian home prices have shot up over the last seven years, but not as high as some other countries. Examples that Scotiabank Economics has followed are below.

MARKET CHANGE

1997-2007

Ireland 167%

U.K. 146%

Spain 117%

France 108%

Australia 92%

Canada 61%

Italy 61%

U.S. 50%

Germany -20%

Japan -30%

Source: Scotiabank Economics