

Real estate sales grind to standstill in November

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By Derrick Penner December 3, 2008 3:00 PM



The so-called benchmark price across all property types hit \$495,704 in November, a 13 per cent fall from May, and 8.3 per cent below the same month a year ago.

Photograph by: CNS files

METRO VANCOUVER — The correction in Lower Mainland real estate markets deepened in November, in another month of turbulent economic news that continued to hold buyers at bay.

In Greater Vancouver, realtors saw transactions drop 70 per cent to 874 MLS-registered sales compared with the same month a year ago, according to Real Estate Board of Greater Vancouver statistics released Tuesday.

The so-called benchmark house price hit \$665,525 in November, an almost 14-per-cent fall from May and nearly nine per cent below the November 2007 benchmark.

Fraser Valley saw 507 MLS sales in November, a 62-per-cent decline from the same month a year earlier. The average house price in the valley dipped to \$511,698, down almost seven per cent from May, and nearly even with the average price in November 2007.

"I guess it is a deepening of the existing trend we've seen since the spring," Robyn Adamache, senior analyst with Canada Mortgage and Housing Corp., said in an interview. "I'd say it's mainly due to uncertainty stemming from developments we've seen in economic and financial markets."

Price declines will be a relief for potential buyers, who have been saving money waiting to get in, she said. However, when prices will stop declining is an open question.

Adamache's forecast is for a nine-per-cent drop in 2009 compared with 2008, assuming B.C.'s economic situation does not worsen.

Dave Watt, president of the Real Estate Board of Greater Vancouver, said markets started to turn when some in the market could no longer afford to buy.

"It was affordability, and now we do have some return to affordability," Watt added. "I know there are buyers out there, and they are just looking for good value."

Other analysts, however, suggest prices in B.C.'s real estate markets could continue dropping until they've knocked 25 to 30 per cent off peak prices seen early in 2008.

That is how far real-estate economist Carl Gomez says he believes B.C. prices overshot their equilibrium point, based on comparing the per-capita incomes of British Columbians against the average prices of homes.

"Fundamentally, what has shifted is psychology," Gomez said in an interview. "There is recognition that some residential real estate may be far overvalued."

His analysis for Bentall Investment Management showed that since 1981, B.C. house prices averaged about nine times a working British Columbian's annual per-capita income.

However, since about 2001, B.C. prices have shot up to the equivalent of 14 times per capita income, which proved to be unaffordable for too many potential buyers.

Gomez said the correction that markets are experiencing doesn't yet account for the real impacts of job losses and other effects of B.C.'s and Canada's slowing economies.

He also says the beginning of Vancouver's housing decline has been much steeper than in U.S. markets such as San Francisco, Los Angeles and San Diego.

"The markets that went up the highest [and] the fastest are the ones that will come down the fastest," Gomez said. And that's in the absence of the same exposure to subprime lending that helped inflate American house prices.

Gomez argues that it was the unaffordability of housing in many U.S. markets that started to squelch demand and triggered initial price declines.

However, the house-price-versus-income comparison isn't quite a complete picture of a market like Vancouver's, where housing supply is constrained by geography and regulation, says another expert.

In such markets, the average prices will rise compared to income, and buyers respond by moving into smaller units, said Tsur Somerville, director of the centre for urban economics and real estate at the Sauder School of Business at the University of B.C.

Somerville conducted his own analysis of Vancouver prices earlier this year that compared the cost of buying a house versus the cost of renting a similar unit. He concluded Vancouver real estate was 11-per-cent overvalued.

"There are different ways to think about it," Somerville added, but both his and Gomez's analyses show the market is in a down-cycle. Where it stops, however, is another question.

Somerville said in current economic conditions, it is difficult to see the bit of positive economic news that would turn around sentiments in B.C.'s housing markets.

"When I talk to people who are looking to buy, I say, 'Use this as an opportunity to look for the unit you want,' " Somerville said. "In all likelihood, prices are going to continue to decline, but it's not like I can tell you when they will hit the low point."

People need to remember, "You should be buying a house for a place to live, not as an ATM machine," he said.

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IT'S ALL ABOUT AFFORDABILITY

Real estate economist Carl Gomez has studied markets across Canada and says he believes prices in British Columbia, which reached a peak at 14 times per capita disposable income, have overshot their equilibrium. And price declines from peaks reached this past spring have happened more rapidly than in several U.S. markets.

BENCHMARK SALE PRICE (with change since Nov. 2007)

Vancouver West \$1.116 million (-18.5%)

Vancouver East \$605,207 (-9.8%)

West Vancouver \$1.283 million (-8.8%)

North Vancouver \$748,569 (-13.8%)

Burnaby \$654,790 (-11.2%)

Richmond \$679,956 (-5.2%)

South Delta \$567,148 (-8.3%)

Maple Ridge \$421,308 (-7.1%)

Pitt Meadows \$484,121 (+0.6%)

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