

Tail-end of the B.C. housing tailspin looms

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For years, the real estate market in B.C.'s Lower Mainland acted a lot like the mythical perpetual motion machine.

Buyers were jumping into the market because prices were rising and, hey, why miss out on the capital-gains fun? So sales jumped, and bidding wars ensued, sending prices a little further up into the stratosphere – and luring more buyers into the market. The mere fact that prices were rising far above historical rates, and well beyond any rational measure of affordability, was of no consequence.

Of no consequence, that is, until last summer, when prices started to edge downward, and the wheels of the great B.C. perpetual motion machine stopped spinning. A tiny drop in average prices – 2.3 per cent between May and August – coincided with an enormous drop in volume. The drop in the volume of sales accelerated through the winter.

Now, any buyer faces the unhappy prospect of watching a newly purchased property decline in value. For most buyers, that's not likely to become a real loss – stay put and, eventually, any short-term loss would be reversed. (Buyers looking to quickly flip properties are another matter, and the downward trend in prices has all but obliterated that activity in the Lower Mainland.)

Yet, that cold logic is of cold comfort to a middle-income buyer who would be watching the value of their house dribble away. The overwhelming temptation is to stay on the sidelines, and wait for the market to bottom out – the classic deflationary trap to consumer spending. The perpetual motion machine had spun into reverse, with scant sales driving down prices, thereby scaring off buyers and depressing sales volumes. Sales and average prices for November, December and January all reinforced that gloomy prognosis.

And, at first glance, so do the data from February, with a continued decline in unit sales and average prices. But there are some glimmers of hope in the most recent statistics, with the numbers indicating that the B.C. housing market is pulling out of the dizzying tailspin of the last 10 months.

Admittedly, it does take a burst of sustained optimism to find an upside to a 51-per-cent drop in February unit sales between 2008 and 2009, and a 10-per-cent decline in average prices in the same period. But Cameron Muir, chief economist for the British Columbia Real Estate Association, makes a critical point – sales and prices are dropping, but at a slowing rate. He notes that seasonally adjusted sales rose by 17 per cent from January to February, although that

increase has at least as much to do with the unmitigated disaster of January than with any recovery last month.

The fact that sales are not dropping as fast as they did through much of the winter could prove to be significant, though. Mr. Muir thinks the moderating decline could be the first indication that the market is stabilizing, saying it's possible the decline in sales, at least, could soon be ending. Prices will be a different matter – the bottom of the trough might not be reached until the end of the second quarter. Even that guarded a forecast is on the optimistic side. A report this week from Toronto-Dominion Bank predicts a nationwide decline in the housing market through the middle of 2010 – with B.C. underperforming the national average.

Yet, even the best- (or less worse) case scenario that Mr. Muir describes only means that the housing market won't be getting that little bit more disastrous. It could be stable, sure, but at a far lower level than the province grew accustomed to this decade.

For a true rebound in the housing market, domestic consumer confidence will need to return, and the United States will have to cease acting as the black hole of the global economy. There is some modest hope on the first score. Marketing research firm TNS Canadian Facts has seen an intriguing uptick in its assessment of the mood of consumers. The overall index of consumer confidence, and consumers' assessment of the current economic situation, remains dim. But on two components of consumer confidence, as measured by TNS, there is a glimmer of optimism, particularly in Western Canada, says Michael Antecol, Vancouver-based vice-president at the Toronto firm.

Those two measures – consumers' expectations of their economic situation in six months and their propensity to make a major purchase – are soaring, with the rise most pronounced in the West.

The tailspin in B.C.'s housing market may not be quite over. But at least the aircraft isn't headed straight down any longer.