

Housing bubble fears over-inflated

Savvy shoppers can still do relatively well in Vancouver by searching for the right unit in the right location

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The trading of expensive houses in upscale neighbourhoods has skewed the average resale price in Vancouver, but the lower end favours buyers. As well, the market is softer in more affordable areas like Port Coquitlam, Port Moody and Coquitlam, which have lost some market share over the past year. Here are a look at some of the houses available in those markets - at the region's average benchmark price in June.

Photograph by: Mark Van Manen, PNG Files, Vancouver Sun

Vancouver's existing housing market seems to defy economic logic. The Conference Board's Metro Resale Index shows that Vancouver remains a balanced market. Since neither buyers nor sellers should have bargaining advantage under these conditions, prices should grow near their trend rate.

But the average resale price was up more than 20 per cent from a year earlier in both May and June, the latest in a six-month string of double-digit price hikes, and well above the six-percent long-term trend of price growth.

Sales have recovered from a dip in 2010, but are easing gently. This has steadily eroded the sales-to-listings ratio. With few signs that the market is going to cool significantly, there is chatter that Vancouver's housing market is a bubble waiting to pop.

Yet, the situation facing homebuyers seems somewhat less dire than at first glance. Vancouver's average resale price has been skewed upward by trading of expensive units in tony neighbourhoods and by a modest shift toward single-detached homes that carry higher price tags. Those seeking shelter, both physically and from high prices, can still find relatively affordable units and decent bargaining conditions if they are careful, knowledgeable, flexible and ready to shop around.

Vancouver's housing market certainly is top-heavy. The clearest signal is a widening difference between Vancouver's average price, which exceeds \$800,000, and its median price (the price of the middle unit when houses are ranked by price), which was below \$600,000 during the first quarter of 2011 (the latest data available).

Why the significant gap between the average and median price? Segments - and regions - of Vancouver's housing market are boosting the average price. Single-detached units, which are higher

priced, are taking a bigger bite of the market. Singles have a relatively high sales-to-active listings ratio and strong price increases. The expensive West Vancouver district is also gaining market share - its first quarter sales-to-active listings ratio was at a four-year high, and prices are rising robustly.

Fortunately for those on tighter budgets, market conditions in all price ranges below \$500,000, which includes many apartment condominiums and row units, have shifted in favour of purchasers. Resale markets for both town houses and apartments were either in or near a buyers' state (where a large supply of listings gives buyers more choice and bargaining power) during the first quarter, with correspondingly modest price growth.

As well, the market is softer in more affordable areas like Maple Ridge, Port Moody and Coquitlam, which have lost some market share over the past year. Median price growth is relatively subdued here - Coquitlam's median price fell both last autumn and over the winter.

In light of these facts, the prevailing wisdom that Vancouver has a housing bubble should perhaps be reconsidered. Certainly normal metrics, like the ratio of average price to income, are extraordinarily high and could well be in danger territory. But, existence of more affordable geographic pockets in the Lower Mainland where buyers' conditions prevail, and softness among apartment and townhouse dwellings, suggest that some markets are much less inflated.

In sum, price growth due to a changing composition of sales (and rising prices in individual neighbourhoods) does not necessarily produce a housing bubble. Savvy shoppers can still do relatively well in Vancouver by searching for the right unit in the right location, which after all, is the whole mantra of real estate.

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