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Article rank  | 20 Nov 2015 | The Vancouver Sun | [Barbara Yaffe byaffe@vancouver.sun.com](mailto:Barbara.Yaffe@vancouver.sun.com)

Real estate ‘notably overvalued’

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Economist survey: Business council cites magazine in pointing to renting as a possible source of ‘short-term value’

A recent Economist magazine survey of 26 housing markets around the world shows that Canada has the highest housing prices in relation to its residential rental rates.

The survey, according to the Business Council of B.C., suggests that “renting may provide more short-term value in the Canadian market.”

Britain and Ireland have traditionally been ahead of Canada when it comes to such relatively low rates on rental housing. But Canada overtook these two countries following the 2008 global financial crisis, and has maintained its first-place rank ever since.

Relatively inexpensive rents are great, of course, but a lack of availability of rental housing stock in a city like Vancouver is clearly an impediment to accessing them. Moreover, the low rents appear to be harder to capitalize on these days as landlords keep taking every opportunity to jack up prices.

The Economist survey identified Canada, Britain and Australia as having “notably overvalued (real estate) markets,” featuring houses it asserts are more than 30 per cent overpriced. In comparing house prices to the countries’ respective rental rates, and to residents’ after-tax incomes, The Economist found Canada at the top of its charts, along with countries like Australia, Sweden and Britain, which also feature wallet-busting residential properties.

The Economist found that Canada is not alone in its housing challenges. Property prices around the world are on the rise, increasing in 21 of the 26 markets surveyed — at a median pace of 4.7 per cent annually. Prices are falling only in China, Singapore, France, Greece and Italy.

The numbers show that since 2005, prices for Canadian residential property have jumped 42 per cent, surpassed only by increases in Israel and Sweden.

But you have to wonder what the findings would have been had The Economist scrutinized numbers for the Vancouver area exclusively, instead of looking at numbers for all of Canada. It is well known that Vancouver, along with Toronto, has sky-high prices in relation to national real estate values.

Records kept by the Real Estate Board of Greater Vancouver reveal just how extreme price increases for Vancouver have been since 2005. Prices for all types of residential housing jumped 99 per cent in East Vancouver, and 82 per cent on the West Side.

In just the past year, across the Metro region, typical prices for attached properties and condos escalated by 10 per cent, detached housing by 20 per cent.

Warnings about overvaluation of Canada’s housing market largely have fallen on deaf ears, with Canadians showing no hesitation in continuing to buy, especially in Vancouver and Toronto.

Among those warnings: Fitch Ratings Agency in July estimated Canada’s housing market was 20 per cent overvalued. The International Monetary Fund has warned the country’s housing market is overvalued by between seven and 20 per cent, depending on the region. The Bank of Canada suggested late last year that Canada’s housing market may be overvalued by as much as 30 per cent.

But it is not clear any of these warnings apply to Vancouver. As recently as August, the Canada Mortgage and Housing Corporation pointed out that Vancouver’s housing market is at low risk of correction.

That is because prices here tend to be high for substantive reasons that are likely to endure — a finite land base restricted by the area’s geography, and steady population growth. The business council notes that in addition to immigrant inflows, more Canadians are now moving to B.C., particularly from Alberta and Ontario. The province received nearly 4,000 people from other provinces in the second quarter of 2015.

In Vancouver, bidding wars for property also suggest that housing here is not viewed as overvalued by all. Such bidding suggests the buyers involved believe the properties they are bidding on hold even more value than their sellers might think.



Of course, low interest rates — which are subject to change — are another factor keeping prices high on the west coast. If they go up, the housing market in both Vancouver and Canada could shift.

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