

# Harvey Enchin: Housing correction coming, maybe

## Market is unsustainable, but prices keep rising, numbers suggest

BY HARVEY ENCHIN, VANCOUVER SUN COLUMNIST    MAY 10, 2014



If history is any guide, the Vancouver housing market will correct at some point, but no one can predict when that will happen.

**Photograph by:** Gerry Kahrman, Vancouver Sun

VANCOUVER — A well-worn investment adage advises that it's not timing the market but time in the market that yields the best returns. Nimble stock market investors have proven it wrong time repeatedly but buy and hold remains the mantra of many financial planners.

The housing market, however, appears to be the exception that proves the rule. Most people don't buy a home to flip it but to live in it, and those lucky enough to have held Vancouver property during the last decade have done well, their property often doubling in value in that period.

For all the talk of bubbles bursting, a disorderly crash in Vancouver real estate prices seems unlikely. Still, homeowners should prepare for a market correction; the pundits tell us they are all but inevitable.

In investment terminology, a correction is any change, usually down, greater than 10 per cent. That would lower the market value of the typical \$1-million Vancouver home to \$900,000. There are circumstances in which a decline of this magnitude would be a problem — seniors forced to sell, for example, or highly-leveraged investors who bought just before the dip — but those able to ride out the ups and downs will probably come out ahead in the long run. Still, the Vancouver housing market tends to be more volatile than other major Canadian markets, the Royal Bank of Canada noted in a commentary a couple years ago.

But with higher risk comes greater reward and the value of Vancouver housing has appreciated more rapidly than other

markets.

International observers, such as The Economist, the Organization for Economic Cooperation and Development and Deutsche Bank, have warned that Canada's — and by extension, Vancouver's — housing market is over-valued. TD Bank estimated this year that Vancouver housing is over-valued by 25 per cent if interest rates return to historic norms. But it added the market is under-valued by six per cent if they stay where they are.

Bank of Canada Governor Stephen Poloz said to a Saskatoon audience last month that higher interest rates are not likely until the economy is firing on all cylinders, probably in 2016 — and even then rates are expected to remain below historic levels. If low interest rates are the new normal, an imminent crash in Vancouver's housing market seems improbable.

Meanwhile, the latest data from the Real Estate Board of Greater Vancouver indicates a shift from a balanced market towards a seller's market. The board reported residential housing sales rose to 3,050 in April (from 2,627 a year earlier), while active listings declined 7.3 per cent to 15,575. That works out to a sales-to-active-listings ratio — a measure of the balance between supply and demand — of 19.7 per cent. A figure of 20 or above is considered a seller's market. In April 2013, the ratio stood at 15.7 per cent. In September 2012, it was eight per cent.

Economics 101 tells us when demand rises faster than supply, prices should rise.

However, Vancouver is already the second most expensive housing market in the world, according to a recent Demographia survey of 360 cities. The average house in Vancouver costs 10 times annual median income; only Hong Kong is more expensive at 15 times.

Affordability statistics show the minimum annual income required to purchase a single-family home in Vancouver is \$163,867. Home ownership costs for a basic Vancouver bungalow consume more than 90 per cent of a typical household's pre-tax income.

These numbers scream unsustainability yet Vancouver's housing prices continue to rise — not as quickly as before perhaps — but rise nevertheless. Real estate watchers declared in April that the era of the \$600,000 Vancouver house had come to an end after a house listed at \$599,000, Vancouver's cheapest detached home, sold for \$643,000.

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