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CMHC not too worried about housing price growth in Vancouver

Canada Mortgage and Housing Corp., the Crown corporation that monitors the residential real estate market, said Wednesday it sees some overvaluation in Vancouver.

But while CMHC is now witnessing strong evidence of overvaluation in Canada's most expensive city — with a "moderate" overall risk factor — it said price acceleration isn't a concern at this point, rating that issue as "weak."

"When we think about price acceleration, we certainly have seen fairly strong price growth in the Vancouver (census metropolitan area) and a lot of price growth has been targeted in certain parts of the market more than others," said Bob Dugan, chief economist with CMHC, in a conference call with journalists.

The Real Estate Board of Greater Vancouver reported that prices have risen 23.2 per cent from a year ago, according to its price index. The average cost of a detached home in Metro Vancouver was $1.7 million in March.

"We have seen faster price growth and it is having an impact on our measure of price acceleration, but it isn't sufficient to get to a threshold where we would get to problematic at this point in time," Dugan said, noting price acceleration is evaluated over a three-year window.

"Over that (period), we've seen periods where prices are up in Vancouver and prices are down as well. That mix of conditions means we haven't got acceleration above the threshold yet, but it is something we are monitoring."

Robyn Adamache, principal, market analysis in Vancouver with CMHC, said while price has been strong along all types of residential housing, it is a segmented market and in the detached category it has been particularly strong.

CMHC said prices are being affected by detached home prices, which are caused by land constraints in the Lower Mainland.

"We have different types of homes being built than a few years ago. Homes are much larger and often include a secondary suite and/or a laneway home," said Adamache, explaining the price growth.

Overall, the CMHC gave Vancouver a "moderate" rating when it comes to evidence of problematic conditions, due to strong economic fundamentals in the city. "We've had a continuation of strong job growth in the Vancouver area with about five per cent growth, that means about 65,000 jobs added (in the first quarter) compared to the same period last year," the CMHC market analyst said.

Toronto, Calgary, Saskatoon and Regina were the only cities on the list of 15 that had strong evidence of problematic conditions. CMHC defines problematic conditions as imbalances in the housing market that occur when overbuilding, overvaluation, overheating and price acceleration, or a combination of those issues exceed historical norms.

"In Toronto this is due to a combination of price acceleration and overvaluation," said Dugan.

The escalation in land prices is the problem! -cjk