Barbara Yaffe: CMHC arrives at an obvious conclusion about Vancouver real estate

BY BARBARA YAFFE, VANCOUVER SUN NOVEMBER 3, 2015 6:16 PM

The CMHC is predicting Vancouver housing prices will rise 9.2 per cent this year, but are expected to increase only by three per cent next year, and 2.1 per cent the year after.

Photograph by: Gerry Kahrmann, Vancouver Sun

The Canada Mortgage and Housing Corp. has finally determined that Vancouver's real estate prices are "overvalued".

The housing corporation has consistently refused to peg the sky-high housing market on the west coast as excessively frothy or due for correction. It contends that underlying fundamentals justify and support Vancouver's crazy housing prices, and earlier this week, CMHC officials asserted the region offers a range of affordability in its housing stock.

But in a recent Housing Market Assessment, it states: "There is moderate evidence of overvaluation in the second quarter due to continued strong price growth."

For a lot of folks here, incredulous at bidding wars and lineups for pre-sales, that might seem an understatement.

The activity around real estate in Vancouver, for many, reflects a state of madness involving deferral of all of life's other temptations for the sake of owning some bricks and mortar.

But Vancouver's economic growth, low unemployment rate, immigration and in-migration from other provinces, mean housing here is in high demand, with limited supply creating a seller's market.

That said, all the mayhem and jostling over a place to call home, according to CMHC, may well come to an end a year or so from now.

That's because interest rates, and thus mortgage rates, are expected to start rising in late 2016, "contributing to a modest slowdown in housing markets".

Note the adjective "modest". CMHC explains: "Underlying fundamentals suggest that the demand will be well supported going forward (with sales) likely to retreat slightly to still-elevated levels, while prices are expected to increase at a slower pace over the forecast horizon."

So, housing prices that have grown by 9.2 per cent this year are expected to increase only by three per cent next year, and 2.1 per cent the year after.

The average MLS home sale this year was at $887,600, reflecting the fact that fully one-third of the 2015 sales were for detached homes costing at least $1 million.

Of course, it is not just house buying that is problematic in Vancouver. Renting also can be a nightmare.

And CMHC is predicting ongoing high demand for rental housing, in part because of the high cost of buying.

"The high cost of home ownership in Vancouver is expected to keep many in the rental market longer as they save for downpayments."

Housing experts contend a rental market is healthy when the vacancy rate, at minimum, is three per cent.

The Vancouver area's vacancy rate is expected to fall to 0.8 per cent in the near term, rising to no better than one per cent next year. Vancouver's rental market, along with that of Kelowna, is the tightest in Canada.

And certain parts of the region are worse than others. Last year, in North Vancouver, the vacancy rate got as low as 0.3 per cent, 0.5 per cent on the west side of the city.

CMHC notes that builders have responded to the region's low vacancy rates and that rental construction is on an upward trend.

"Demand is also being met by a large and growing secondary rental market of investors renting out condo units."

Some 51,600 condo units in the Vancouver area — more than one-quarter of the total stock — are being rented out. And these condos now account for one-third of all market rental units.

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