Economics

Two Housing Myths of 2013

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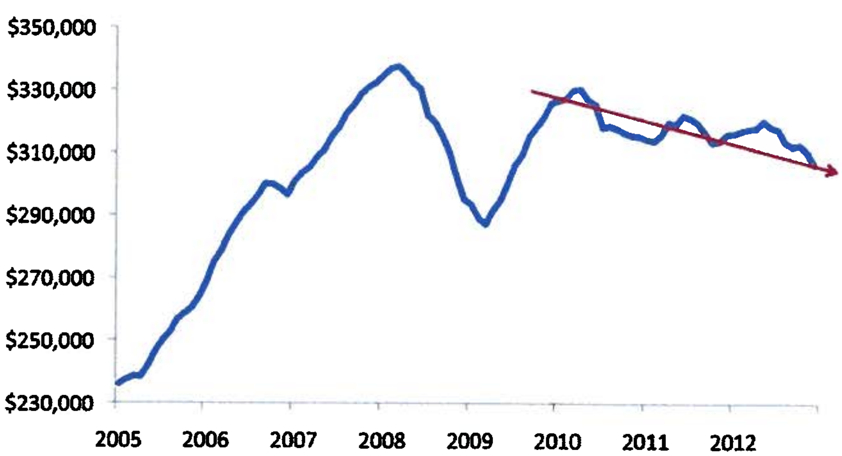
Volatility is the spice of life, especially for economists. It keeps us on our toes. It keeps us questioning the assumptions, forecasts, and even the analysis we do. And it certainly leaves us scratching our heads from time-to-time. Two head scratchers that seem to permeate contemporary economic and housing market commentary are the great housing crash of 2013 and Vancouver's notoriously hot condo market.

Home prices are not headed over the proverbial cliff despite repeated attempts by media outlets like *Maclean's* magazine to sensationalize a slowdown in consumer demand. Housing market meltdowns are typically caused by household financial disaster at a large scale, caused by such things as a recession or rapidly rising interest rates. In other words, a large proportion of households can't afford to buy or even keep their homes because of lost jobs or big jumps in monthly mortgage payments.

Those conditions simply don't describe today's economy. In fact, employment growth in the province was only eclipsed by Alberta, Saskatchewan and Newfoundland in 2012. And while job growth slowed over the last quarter, part-time jobs are continuing to decline in favour of full-time employment. Combine this with persistently low interest rates, indications of a more substantial recovery in the US, and strong trade diversification globally, and you get a relatively solid foundation to household finances.

Over the past four years, policy makers in Ottawa have deemed it necessary to restrain mortgage credit with the most impactful change coming from a shortening of amortizations on high-ratio mortgage from 40 to 25 years. While some tightening of lending standards was prudent in the wake of the US sub-prime fiasco, the rationale provided by the Federal Government has not always been air-tight, particularly when it comes to Vancouver. When explaining the need for tighter mortgage lending standards, it is common to hear the words "overheated" or "red-hot" when it comes to Toronto and Vancouver condo markets.

Inflation Adjusted Benchmark Condo Price - Vancouver



Note: REBGV HPI Apartment Price deflated by BC CPI
Source: CREA; Statistics Canada

Since recovering from the global financial crisis, inflation adjusted condo prices in Vancouver have actually trended some 6 per cent lower since 2009. The same story holds for condo sales, which fell dramatically during the financial crisis, posted a strong recovery, and have fallen well below pre-recession levels since. To an impassioned observer, the Vancouver condo market appears to be entering the fourth year of a quintessential soft landing, where flat prices gradually lead to improved affordability as inflation adjusted prices decline or incomes grow relative to the price level. The Vancouver condo market has not been "hot" for quite some time. Perhaps it is time for federal policy makers to update their talking points.

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www.bcrea.bc.ca
Printed on recycled paper.

ISSN: 1705-3307