

Metro home prices will slip, not plunge: Central 1 Credit Union

Low rates and employment growth will help level prices, economist says

BY BRIAN MORTON, VANCOUVER SUN AUGUST 8, 2012



Realtor Newell Cotton, pictured in Vancouver on August 8, said he's already starting to see reduced listings as sellers realize they aren't getting their top price anymore.

Photograph by: Steve Bosch, Steve Bosch

Metro Vancouver home prices may slip a bit over the next year, but don't expect them to drop sharply, according to a report released Wednesday by Central 1 Credit Union.

The report was released on the same day as a Scotiabank report with a more pessimistic outlook for prices, saying the downside risks to Canada's housing market are increasing with a correction concentrated in Toronto and Vancouver, and that prices should fall 10 per cent over the next two or three years.

"Right now, we're undeniably in a sales slowdown with substantial declines in sales over the past several months," said report author and Central 1 economist Bryan Yu. "But we've also seen positive employment growth and continuing very low interest rates.

"We believe the supply side will adjust substantially. When prospective sellers see weak sales and pricing, they pull their listings. [Most] don't have to sell. This balances out the supply side environment."

Yu's report maintains home prices in Metro Vancouver should drop more than five per cent this year before rising 2.9 per cent in 2013 and 2.0 per cent in 2014.

"A recent tumble in home sales coupled with a drop in headline prices have some wondering (hoping?), whether Canada's longtime poster child for a potential housing price bubble is set to burst," the report concluded. "While a weakening state of demand in Metro Vancouver makes short-term price drops a near certainty, we expect that declines will be both modest and temporary.

"Prospective sellers are expected to respond to weaker market conditions by curtailing listings activity, which will limit excessive inventory in the housing market. Short of another recession and large-scale job losses, market activity in the Lower Mainland is expected to be characterized by a relatively low sales and a flat-to-weak pricing environment."

According to Central 1, B.C. as a whole should also see prices decline this year before rising slightly in 2013 and 2014.

As well, Yu's report stated: Vancouver has become a buyers' market with the number of active listings the highest in two years; new mortgage rules will dampen sales of entry-level homes; the rental market will remain tight; and B.C. new home starts will finish the year at 26,700, before dropping to 26,500 in 2013 and rebounding to 30,000 in 2014.

Local realtor Newell Cotton, with Dexter Associates Realty, said he agrees with the Central 1 conclusion that prices will not plummet.

"There's a fair amount of product out there and they're not selling quite as quickly as they did earlier in the year. Buyers can be more aggressive with their negotiating, but it still has to agree with the seller."

However, Cotton said he's already starting to see reduced listings as sellers realize they aren't getting top price any

more. "We're seeing the numbers of listings coming on are less. And some are coming off the market."

Meanwhile, Scotiabanks' Special Report on Canadian Housing concluded that while Canada's housing market should avoid the sharp downturn experienced in the U.S. and Europe," risks are increasing although the full impact may not be fully visible until mid-decade.

According to the report, record prices combined with regulatory tightening are reducing affordability and the housing market's earlier momentum, despite the lowest borrowing costs on record.

It also said pent-up demand has been effectively exhausted after a decade-long housing boom, and the global outlook also has become much more challenging.

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