

## B.C. Real Estate: 'You can't burst a bubble that wasn't there'

BY FRANK LUBA, THE PROVINCE    SEPTEMBER 10, 2012 11:35 AM



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Sagging home sales and flat prices have prompted speculation that the "housing bubble" might be about to burst — a prospect that immediately catches the attention of British Columbians.

But there is no housing bubble, according to Tsur Somerville, director of the University of B.C.'s [Centre for Urban Economics](#) in the Sauder School of Business.

"You can't burst a bubble that wasn't there," said Somerville. "But you can have prices above where they should be and it not be a bubble.

"A bubble isn't just defined by high prices," he said.

Somerville identified a housing "bubble" as conditions akin to what was happening in 2007.

"It didn't matter what the condo looked like or what it's going to look like or who was building it, people were lined up around the block and snapping it up," he said. "They were saying, 'I'll take 12, please.' That's more of a bubble environment."

While it might not be a bursting bubble, what is going on in the Vancouver area right now is not exactly normal, either.

Greater Vancouver home sales in August were the [second lowest since 1998](#) and represented a drop of 30.7 per cent compared to August of last year, and were 21.4 per cent lower than in July of this year.

The 1,649 sales of detached, attached and apartment homes were also 39.2 per cent below the 10-year August average of 2,711.

But prices were relatively flat. The Real Estate Board of Greater Vancouver composite benchmark of \$609,500 for residential properties in August was down only 1.1 per cent from July, and just 0.5 per cent down from this time last year — despite 2011 being a busy year for high-end property sales.

If there was a large number of unsold units coming onto the market or a huge change in the economic environment, Somerville said, "that would really cause prices to tank."

"Most people don't have to sell their house," he said. "You bought it for \$200,000. The price is now \$150,000. Unless you have to, why would you sell it?"

For prices to go down significantly, contended Somerville, "You need people who have to sell, either because the economy has collapsed and they don't have any income or developers have built a whole bunch of units that are unsold and the bank is screaming at them or foreclosing or something like that."

None of those conditions appears imminent.

Somerville said it would take "some negative shock," such as an economic meltdown or mortgage interest rates jumping from four per cent to nine or 10 per cent, to trigger lower prices.

"The euro melting down would cause one of those [shocks]," he said. "If the Canadian government changes its immigration policy and slammed the door on wealthy Asian immigrants, that would affect [prices]."

"I don't have a crystal ball but if I had to guess I would be more likely to guess this kind of lower sales/flat prices is more likely to continue."

The B.C. Real Estate Association is more optimistic. Chief economist Cameron Muir is predicting increased sales in 2013 because of continuing low interest rates, population growth and more full-time jobs.

Employment growth in the Greater Vancouver area in the first seven months of the year, according to Muir, has been 3.5 to 4 per cent higher than the same period last year.

"I would expect to see sales pick up before the end of the year, at least on a seasonally adjusted basis," Muir said.

Adding to his optimism is increased consumer demand for housing in the Okanagan and in B.C.'s North, where resource extraction continues but where there has also been more economic diversification.

The BCREA is forecasting Multiple Listing Service sales to go down by four per cent this year compared to last year but to go up by 7.5 per cent in 2013.

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