

COVER Experts warn of a gentle landing, but investors appear confident of another rocket ride into next year

Housing outlook '08

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WESTERN INVESTOR

In our housing outlook for 2008, *Western Investor* profiles three British Columbia markets that refuse to fade, and two Prairie markets that may have already peaked.

Vancouver

Just a day after experts told a Vancouver housing outlook conference that sales are slowing and price hikes are moderating, buyers snapped up 901 unbuilt Surrey condominiums in the biggest single pre-sale in the region's history.

Many of the buyers who jammed into the **Young In Development Ltd.**'s Sky Tower sales site in Whalley, it turned out, were investors, with some of them buying \$179,000 homes for their teenage children to give the kids a stake in a market that has set record price appreciation for nine straight years.

"We are into extra innings," said **Peter Simpson**, executive vice-president of the **Greater Vancouver Home Builders' Association**. "It's a whole new game now."

Simpson was among attendees at the annual **Canada Mortgage and Housing Corporation Outlook 2008 Conference** in Vancouver in early November, where the cautions about an overheated market were muted.

The British Columbia housing market will quiet in 2008, the conference was told, but only in relation to the roaring volume of the past few years.

"People will keep buying and building in B.C.," said **Carol Frketich**, CMHC's B.C. regional economist, in forecasting that the average B.C. house price in 2008 will increase six per cent to \$464,500. This price hike is in comparison to this year, when prices rose 12



Mixed forecast: Carol Frketich, B.C. regional economist for Canada Mortgage and Housing Corp. and Mark Belling, owner of Fifth Avenue Marketing Ltd. of Vancouver: it will still be a seller's market in 2008, but don't expect prices to soar as in 2007.

per cent across the province, and 2006, when they soared 17.7 per cent.

Total 2008 sales of existing houses, she forecast, would be in the 90,000 range, down only moderately from 2007, and new housing starts, at 33,250, will be only about 10 per cent below the pace in 2007.

The outlook for Metro Vancouver is even more bullish. "It will remain a seller's market," **Robyn Adamache** CMHC senior market analyst for Vancouver/Lower Mainland told the conference, even though the number of homes listed for sale is forecast to increase by about 20 per cent next year.

The average price of a detached house in Metro Vancouver will increase 10 per cent

in 2008 to \$887,000, she said. The average price of a townhouse will rise nine per cent to \$515,000, she added, and the average condominium apartment price will leap eight per cent to \$408,000, from \$378,000 this year.

Some Van-couper markets are already posting much higher prices, the conference was told. For instance, the average price of a condominium in North False Creek is now \$824,442, while it is \$793,000 in Coal Harbour.

"Housing demand will be supported through 2008 by ongoing job growth and steady flow of people moving to the region," Adamache said, noting, "Both new home starts and existing home sales will stay near record levels, but

edge down slightly in the year ahead."

More than 30,000 people, net, are moving into Metro Vancouver every year, Adamache said.

Most resale homes are selling for close to the asking price, Adamache said, and one third are selling at or above the asking price, showing a deep consumer confidence.

As in the rest of B.C., most Metro Vancouver new home starts in 2008 will be townhouse and condominiums, not detached houses, as a result of affordability issues, she added.

According to a CMHC survey of B.C. households released at the conference, eight per cent plan to buy a home within the next two years, and 35 per cent of these are first-time home buyers.

Mark Belling, president and owner of **Fifth Avenue Real Estate Marketing Ltd.**, who shared a regional housing panel at the conference, said investor interest in the local housing market has not dimmed. He estimated that 72 per cent of condo buyers in central Surrey are investors, but Belling said the overall investor profile is changing from "quick flippers" to those into the market for a longer term. His advice? Buy now in the eastern Fraser Valley, because that is where the action is heading.

The apartment rental vacancy rate in Metro Vancouver next year is forecast to be just one per cent, and the one-year mortgage rate will be a relatively modest 7.19 per cent, both of which should buoy investor confidence, he added.

Victoria

After startling annual sale and price increases since 2000, the Victoria housing market will slow modestly in 2008, according to **Peggy Prill**, CMHC market analyst for Vancouver Island, but "will experience another robust year."

Prill forecasts that the average resale price for a detached house will hit \$485,000 next year, up 4.3 per cent from 2007, while the average new house in the capital will cost \$640,000 in 2008, up from \$615,000 in 2007.

Sales of existing houses in Victoria are expected to be down about eight per cent next year after posting a 10.7 per cent increase in



No fear: Buyers jam into the Sky Tower sales site in Surrey in November: 901 high-rise condominiums were sold in 30 hours, a new B.C. record for a pre-sale residential project.

2007, and the number of homes listed for sale is forecast to drop by 5.6 per cent.

Total housing starts will fall seven per cent, to 2,275 units in 2008, but Prill said this is due more to a lack of land than slower demand.

The rental vacancy rate in Victoria, the lowest in Canada, will loosen slightly to just 0.9 per cent in 2008, she said.

Kelowna

Parents buying condominiums for their teenage – or slightly older – children is a new trend being seen in Kelowna, according to **Paul Fabri**, CMHC market analyst for the central Okanagan.

Fabri said that such investors believe the red-hot Kelowna market will not cool down anytime soon, and the outlook for next year shows they may be right.

“The downside risk is very low,” Fabri said, though CMHC is forecasting moderate housing action than has been the norm over the past few years.

Fabri noted that half the new homes started in Kelowna are now resort-type developments,

and he pointed to the Westbank area of the city as the hotspot in 2008.

The average Kelowna house price will rise nearly nine per cent next year to \$561,000, Fabri said, though sales will decline by 5.5 per cent, compared with a 14.8 per cent increase this year.

Starts of new homes, dominated by condominium apartments that make up half the market, will reach 2,700 units in 2008, virtually the same as this year.

The rental vacancy rate in Kelowna will be one per cent in 2008, also nearly unchanged from 2007.

Edmonton

At the recent Jurock Real Estate Outlook conference in Vancouver, **Ozzie Jurock** told of arriving to scout properties in Edmonton last year and finding that local realtors were expecting a payment of \$1,000 to tour buyers around, non refundable if nothing was bought. “They aren’t asking for that \$1,000 anymore,” Jurock said.

This is because the high-flying Edmonton

housing market suddenly tanked in the second half of this year, with sales plunging as much as 24 per cent in some neighbourhoods compared with a year earlier. Listings of homes for sale soared by nearly 50 per cent, dumping 38,000 resale homes onto a market already glutted with new and unsold condominiums and houses.

“Housing market conditions have changed in the Edmonton region since the spring of 2007,” understated **Richard Goatcher**, CMHC’s senior market analyst in Edmonton. “Despite a continued strong economy which has generated tens of thousands of new jobs, lower levels of net migration into the province this year combined with soaring new house prices has undermined demand. In addition, resale inventories have climbed to record levels, putting an end to accelerating prices and creating a market balance which favors the buyer.”

Goatcher expects housing starts in Edmonton to fall about 15 per cent next year, as home builders adjust to the new reality. In all, 12,400 new homes are forecast to break ground in 2008, compared to more than 14,500 in both 2006 and 2007.

Still, CMHC sees resale home prices staging a mild rally next year, with the average detached house price rising 5.9 per cent to \$360,000 – an increase that is far below the breathtaking 35 per cent increase in 2007.

The rental vacancy rate in Edmonton is forecast to be a low 0.8 per cent in 2008, and the area will post an unemployment rate of just four per cent.

Jurock is among investors who see an Edmonton recovery next year.

“Edmonton has very strong fundamentals,” Jurock said, in forecasting the market will begin to pick up, perhaps as early as the spring of 2008.

Saskatoon

Housing prices will continue to rise in Saskatoon during 2008, but not at the record pace of the past 16 months, **Harry Janzen**, executive officer of the **Saskatoon Region Association of Realtors** told *Western Investor*.

“The housing boom actually started in the fourth quarter in 2006 when we began to receive a lot of calls from investors in Alberta who believed the market had topped out there,”

Janzen said. “They liked Saskatoon because our economy was strong, and our real estate prices were much, much lower.”

Condo conversions started to fuel the real estate boom, he said.

“Local investors stepped up to the plate so to speak and said that if people from outside the province are investing in Saskatoon, we should too,” Janzen said.

At the same time, former Saskatchewan residents living in Edmonton and Calgary see Saskatoon as an attractive market.

“Younger families who wanted a better quality of life and were living in a housing market where the average price of a home was double ours began to cash out their equity and move to Saskatoon with money in their pocket,” he said.

“Our housing prices were well below the \$400,000 average price in Edmonton, Calgary and other Alberta centres, so it was almost a natural step for many families to come home to Saskatchewan and plant their roots in Saskatoon.”

The rapid run up in housing prices was caused by two factors, he said. “We believe there was a market correction, meaning our housing was undervalued compared with other cities across the West and Canada,” Janzen said.

“People coming here pushed the price up. Then, that caused a shortage in the market with demand outstripping supply so that added more pressure to prices. We believe the boom is going to continue, but not at the levels of the past year.”

The average Saskatoon detached house sales price in October was \$255,613 up 53 per cent from last year.

During the first 10 months of 2007, Saskatoon realtors sold \$1.19 billion dollars of real estate. That’s nearly double the similar period in 2006 when \$609.5 million of real estate was sold.

Many Saskatoon residents appear to be trying to capitalize on the housing boom by selling their houses. This could be a signal that the sudden boom could already be fading.

The Real Estate Board reports that buyers had 650 residential properties to select from at the end of October, 43 per cent more than at the end of the previous October, with many listed at record high prices. ♦

Housing 'experts' missed on market predictions last year

For anyone who follows the housing market closely – which is about 98 per cent of the adult population in British Columbia – the official outlook for the market next year is a bit unsettling.

Not because the pundits are calling for a soft landing in 2008, but because they were so spectacularly wrong a year ago when they attempted to predict what would happen in 2007.

Like most media, we report the forecasts, but we must warn would-

be investors they may be better off trusting their own gut instinct – or perhaps reading tea leaves – than banking on the expert opinions.

Here are a few examples:

Last November, analysts at **Canada Mortgage and Housing Corporation's** real estate outlook conference told the audience that the average house price in Kelowna in 2007 would rise modestly to \$395,000. A new home price might reach \$480,000, the experts said.

Instead, the average Kelowna price crashed above the \$500,000 level by mid-year 2007, and the new house price is now closing on \$620,000.

The experts also intoned that Kelowna would see a four per cent decline in housing sales in 2007, with no more than 4,100 buyers. Instead, 5,500 homes will be purchased this year in Kelowna, a 15 per cent increase from a year ago, and an all-time record.

The experts from CMHC were even further off base when they attempted to predict what would happen in Victoria's capital region. Instead of the four per cent decline in housing sales forecasted, sales soared more than 10 per cent to 8,300 units, the highest ever seen. Starts of condominium apartments were supposed to plunge 21 per cent to just 805 units. Instead, metro Victoria condo starts reached 1,310 units, second only to the level of 2006.

A better reading of what is really happening in the B.C. housing market could be found, perhaps, at new sales sites.

On the weekend following the November 1 CMHC housing outlook conference in Vancouver, buyers – some of whom had waited overnight – snapped up 901 new condos in just 30 hours at a Surrey project's sales office. Just days earlier, buyers were lining up to buy condos worth \$1 million and more at two sites in downtown Vancouver.

And in Kelowna, which is supposedly bracing for a market correction, virtually all of the villas offered at the new Lakestone project, where prices start in the million dollar range, sold out in the first few days.

So what is the official outlook for B.C. housing into 2008? According to CMHC, we can expect a softer market with a moderate decrease in housing starts, a 6.7 per cent decline in sales, and a modest six per cent increase in average prices.

We don't buy it. Our gut feeling is that 2008 will again be a barn-burner of a housing market across B.C., and the time to get into it is right now.

NEXT MONTH

Western Investor presents our annual outlook on Western Canada's commercial real estate market for 2008, including interviews with top real estate professionals who pick the hottest market plays for the new year. Our regional reporters visit the Tri-Cities of Greater Vancouver and the industrial hub of Leduc, with our first spotlight feature on Medicine Hat. Plus, we present all the news for western investors.

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