Housing Bubbleoney

By Cameron Muir, BCREA Chief Economist

I am now convinced that we will never hear the end of housing bubble speak. The premise is now as firmly entrenched in popular consciousness as carbon emissions and TMZ. It has taken the form of idolatry in the blogosphere, where any countervailing narrative is demonized. It has catapulted university dropouts into media darlings because of a hackneyed webpage and an opinion. It has been tarted up by so-called experts who predict impending doom year after year, despite being completely wrong every time.

Now, I'm not wearing tinted glasses. Housing markets go up and they go down. However, my point is that sharp and significant declines in home prices are usually created by massive economic shocks, like the 21 per cent mortgage rates and recession of 1982. Yes, there can be short-term speculative bubbles that float back to earth after the circus leaves town, but

home prices in Vancouver, for example, have been incongruous with other Canadian markets for decades.

The big test was 2008. That was the year of the doomsayers, when the largest financial crisis since the Great Depression besieged us and the collateral damage hurled us into a global recession, one from which we still haven't fully recovered. The airwaves were all a buzz with end of the world prophets and those predicting home prices would be chopped in half, at least. It was going to be the big one! The housing market had gone through a significant inflationary period leading up to 2008. Unlike today, speculation was clearly evident. Accusations abounded that Vancouver was overvalued, unsustainable and frothy. One financial institution even had a publication called *Housing Bubble Watch*, now defunct, in which Vancouver was always the straw man.

So what happened? Home prices fell 15 per cent from peak to trough, but that was short-lived. Indeed, once the clouds of uncertainty dissipated only a few months later, buyers came back in droves.

The most dramatic turnaround ever recorded occurred in Vancouver during 2009, when the year began with 1980s level consumer demand and ended with sales tracking near record levels. Prices came right back to where they were before the crisis, and have stayed there, for the most part, for the past three years. If such a severe financial crisis and global recession couldn't trigger a meltdown of the housing market or pop any asset balloon, what could?

The main misconception about housing markets is that they behave like the stock market. They don't. Bad news can drive

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stocks lower in a matter of seconds, whereas homes are relatively illiquid; they take a long time to sell and have higher closing costs. In addition, owner-occupiers typically don't speculate with the family home. In times of hardship, the home is typically the last thing to go. Instead, they hold off on other expenditures like lattes, movie tickets, new TVs and vacations.

In a market that has a well-diversified economy and expanding population, fire sales are extremely uncommon. Unless there is household financial catastrophe on a large scale, potential home sellers simply wait until market conditions improve.

I write this piece as home sales in Vancouver and many other markets stagnate and homes prices tread water (see the Canadian Real Estate Association's Multiple Listing Service® Home Price Index for an accurate reading). I have no doubt that the voices of impending doom will soon renew their bellicose refrain. Perhaps their tea leaves will be right this time and the market will indeed collapse, leaving homes selling for 50 cents on the dollar. I'd put my money on that refrain continuing for a long time to come.

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