

FEATURE Cautious lenders, tighter mortgage rules and falling prices challenge Metro investors

"Tougher to make a buck in housing"

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Vancouver housing prices have plunged 22 per cent from the peak seen last year, and sales in the Metro market were down 18 per cent in July from a year earlier. Mythical foreign buyers have apparently vanished, and capitalization rates for rental properties have fallen to record lows.

"It's tougher to make a buck in housing these days," said one Vancouver realtor after adjusting the price down on a West 17th Avenue duplex to just under the average neighbourhood house price of \$2.2 million.

Vancouver's West Side, the national poster child for real estate speculation, has cooled. In July there were 1,037 new listings for detached houses in the area but only 51 sales. In all, just 11 per cent of homes listed on MLS sold in July – the slowest pace for that month in 10 years – compared with 16 per cent a year ago, says the **Real Estate Board of Greater Vancouver**.

Pity the poor real estate flipper, once a key player in Vancouver's condo market. Those who bought six months or a year ago have seen prices drop or plateau, and few believe they will correct upward any time soon.

It's not just the toney West Side seeing a downturn.

"The Lower Mainland is in a buyers' market," confirmed **Helmut Pastrick**, chief economist with **BC Central 1 Credit Union**,

"suggesting flat or declining price levels" over the next two years.

Central 1 quotes real estate board figures that suggest the big price correction has already happened, and average prices will see just a further 0.6 per cent drop this year. The credit union forecasts that the "peak to trough" price drop will only be about 5 per cent, but recent numbers make that appear optimistic.

No one really knows exactly where or how deep the trough is.

Condo market

Some condo developers are not waiting to find out. They are offering buyer incentives and watching pre-sale trends closely to decide whether to pull the trigger on new product.

"On a whole, new [condominium] prices haven't really moved a whole lot either way. Pricing is always sticky as developers are very reluctant to publicly discount," said **Jeff Hancock**, senior manager with **MPC Intelligence Inc.**, which publishes the definitive *Metro Vancouver Condo Market Opportunities Report*.

"We have seen some downward pressure in some submarkets, but overall average prices haven't really moved too much. What has changed is the size of units being offered, typically smaller, and an increase in unadvertised incentives and more price negotiating."

Hancock said that if the autumn market "falls flat," some of the 6,000 new condos planned to begin marketing this year may be

"If you have to sell, sell now."

postponed.



B.C. housing prices are down from a year ago – especially in Vancouver – but some secondary markets such as Chilliwack, shown here, are bucking the trend.

postponed.

The resale condo market is equally shaky.

"For those hoping to sell their condo in the next 12 months, the outlook is not good. The bad news is that there will be fewer buyers in the market. The good news is that prices are holding for now in most markets. If you have to sell, sell now," said **Frank Schliewinsky** of market analyst **Strategics**.

But Strategics is not forecasting a condo collapse in Metro Vancouver, estimating that prices for resale highrise condos will drop only 1 per cent over the next year, to a still-lofty \$518,000.

Expect low-rise condo prices to remain where they are now, at an average of \$325,000, Strategics concludes.

Whimper, not a bang

That appears to be the only concern in Vancouver real estate circles: not a crash, just less chance to see equity gains.

Real estate analyst **Ozzie Jurock**, who will present his 20th annual Real Estate Outlook conference September 15 in Vancouver, is also bearish on the short-term housing market in Metro Vancouver.

Jurock says a correction is natural after the unprecedented 34 per cent increase in Metro

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house prices over the past three years.

"It is strange, we call it a good market when buyers are wrestling over listings and presenting multiple bids and we call it a bad market when prices are stable and there is a good selection," he said.

Jurock believes Vancouver-area house prices will continue to increase – "but not in a straight line" – over the next 10 years and beyond.

All of the experts agreed it would be nearly impossible to buy a condo and rent it out in Vancouver and achieve positive cash flow. Making it harder for small residential investors is new federal mortgage rules that require a minimum 20 per cent down payment on investment properties, up from 5 per cent, and shorter amortizations.

Rental investors

The rental apartment market is even tougher for small investors. The average price of an apartment building in Vancouver this year is \$227,000 "per door," up 28 per cent from a year ago, according to **David Goodman**, a multi-family specialist with **HQ Realty Services Ltd.** In the suburbs, the average rental apartment in an older walk-up rental building sells for more than \$166,000, a 12 per cent jump from last year. Meanwhile, the capitalization rates for rental apartment buildings are at record lows, not uncommon to be below 3 per cent.

It is hard to make money with those numbers, said **Walter Schultz**, manager of business development with **TD Commercial in Vancouver**. Schultz said he discourages novice investors from buying Vancouver-area apartment buildings because the prices are too high and returns are too low.

"There are no more deals in the rental apartment market," he said, adding that smaller investors are left with what REITs and other big players have already picked over.



Photo: Concord Pacific

Schultz said investors should look at secondary markets, where prices are lower and yields are higher. Good examples in B.C. could include Chilliwack, Nanaimo and Kamloops, he suggests.

Secondary markets

The latest B.C. sales figures back this up. This summer, areas outside of Metro Vancouver posted an 11 per cent sales increase, compared with a year earlier, while they fell 18 per cent in the city. Some small markets posted big numbers. Home sales were up 25.8 per cent in Kamloops, 24.5 per cent in Chilliwack and saw double-digit jumps on

central Vancouver Island and in the Kelowna area, reports the **BC Real Estate Association**. Both Kamloops and Chilliwack also posted modest increases in average prices, bucking a 12.2 per cent decline seen across the province in July, which dropped the average house price in B.C. to \$474,954.

Alberta

Serious residential investors should bypass B.C. altogether and head straight to Calgary and Edmonton, says **Ed Deprato**, an Alberta realtor and investor who will speak at Jurock's Real Estate Outlook conference this month.

A buyer could purchase three or four hous-

Snapshot of B.C. housing prices July 2012

Market	Avg. price*	% change from 2011
Greater Vancouver	\$667,500	- 12.4
Fraser Valley	\$479,500	- 4.8
Chilliwack	\$312,400	+ 1.4
Kamloops	\$311,400	+ 8.5
Kootenays	\$275,500	- 6.3
Okanagan Mainline	\$381,200	- 6.6
Vancouver Island	\$315,400	- 1.1
Victoria	\$475,700	+ 1.9
Province	\$474,900	- 12.2

*All types of housing combined. Source: BC Real Estate Association

An estimated 6,000 highrise concrete condos started marketing this year in Metro Vancouver – and about 45 per cent have already sold.

es in either of Alberta's biggest cities for the price of a bungalow in Vancouver, he noted.

And, unlike Vancouver, housing sales and prices are accelerating in both cities.

Calgary posted a 21.3 per cent increase in MLS sales in July, compared with July 2011, and the average price of a house spiked up 9 per cent to \$432,000. Condominium sales rose nearly 10 per cent, with average prices up 2 per cent to \$247,600.

The rental vacancy rate in Calgary, meanwhile, has fallen to a tight 2.5 per cent, according to **Canada Mortgage and Housing Corp.**, and the typical rent for a two-bedroom apartment is now north of \$1,000. Alberta has no rent controls.

But it is Alberta's capital city that is really ripe for residential investors, Deprato said. "You can buy a \$300,000 duplex in Edmonton that will have immediate positive cash flow," he said.

With a vacancy rate of 2.7 per cent, a young population and near zero unemployment – "the oilpatch flows through Edmonton" – the city has among the lowest house prices of any major city in Canada. "There is nothing to be afraid of in Edmonton," Deprato said. ♦

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