



BRITISH COLUMBIA
REAL ESTATE
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Expect Balance

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What a difference a year can make.

This time last year, BC housing markets were showing signs of fatigue: inventories were edging up, sales were trending down and moderation in housing demand appeared imminent. While affordability was the largest constraint to home ownership, the economy was still firing on all cylinders, with no trouble on the horizon. So, what happened?

Instead of slipping back, housing demand accelerated and, by year end, the province recorded its second highest level of annual MLS® transactions. First-time homebuyers remained a powerful force in the market, backed by 40-year mortgage amortizations and a housing stock that was increasingly oriented toward condominiums. Second home purchases by equity-rich empty nesters buoyed urban apartment markets and drove up sales and prices in the recreation and retirement markets of the Kootenays, Okanagan and Vancouver Island.

The rapid ascent of the dollar surprised everyone, except the most radical doomsayers, leading one institutional

economist to quip he was giving up forecasting exchange rates because “it makes us look like fools.” The high dollar boosted the purchasing power of BC consumers during the holiday season, but was devastating to the forest industry. BC exporters of all stripes felt the pinch of falling profits brought on by exchange rate parity with the US.

Many US housing markets slumped as a result of the subprime debacle. The promise of easy credit for homebuyers ended disastrously when interest rate resets came home to roost. Investors from around the world, including ICBC and UBC, that had shoveled billions into securitized subprime portfolios saw their investments shrink to pennies on the dollar, at best. Plummeting housing demand south of the border put the brakes on home building and caused a free fall in lumber prices. Economists are now scrambling to reduce their forecasts of BC economic growth for this year.

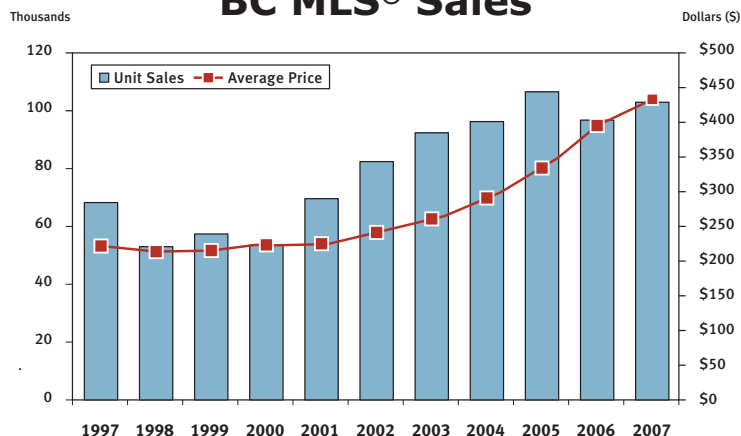
BC homebuyers likely didn't notice the real cost of borrowing increased more than the posted rates suggested. The spread between mortgage rates and bond yields increased dramatically, reflecting

higher risk premiums demanded by investors. In addition, mortgage rate discounts, now commonplace for good credit borrowers, went from deep to shallow in a matter of months.

In 2008, will BC housing markets suffer a similar fate of many in the US? No. While the province is not immune from the trials and tribulations south of the border, demand is expected to remain strong in markets not dependent on the forest industry.

Home sales likely won't post any records this year—eroding affordability will see to that. However, the number of transactions is expected to be above the ten-year average. Home prices still face upward pressure, but that pressure is waning. After six years of a bull real estate market, a return to more balance between demand and supply may be the best scenario for the long term.

BC MLS® Sales



Source: CREAA, BCREA Calculation

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