

# Been waiting for the real estate bubble to burst ?



## ...find out what's happening in today's real estate market

**Everybody wants to know what's happening in today's real estate market.** First-time buyers are afraid of buying now only to see prices drop further in 6 months? Downsizing? Should you sell now or wait 6 months? Worried about buying high and selling low as you look for a new home?

Please find attached the most comprehensive update on what's happening in today's real estate market: British Columbia Real Estate Council's Housing Forecast.

### *Here's a brief summary of what it says...*

Fewer homes are selling and there are too many houses on the market, leading to lower prices. Conditions are expected to improve next year and the number of homes sold will increase slightly (4 per cent). Home prices have been dropping since the spring but most of these price corrections will occur this year.

Consumer confidence has weakened. Though 2007 saw a big increase in people coming to BC from other provinces this number will decline slightly in 2008. International in-migration is forecasted to increase by 6 per cent however. Housing starts in the province are expected to dip a modest 2 per cent due to falling consumer demand, rising new home inventories and tighter credit.

Mortgage rates are expected to drop from current levels and remain flat for most of 2009 before trending upward. But what does this mean for the average consumer?

*"For homebuyers, this means an increase in effective mortgage rates, either through higher posted rates or a lowering of the discounts commonly offered during the last few years. In the variable rate market, consumers are paying at or above the prime rate, in contrast to the discounts offered last year"*

Though the actual rates have not changed the availability of credit is tighter, the incentives are less and the restrictions on borrowing have increased. As a result, of the decline in consumer confidence demand for housing has fallen to a level not seen since the beginning of the decade. The global financial crisis and volatile equity markets are keeping consumer sentiment low. It's a buyer's market. Buyers are benefiting from a wide selection of homes for sale, at lower prices.

Increased affordability and some improvement in consumer confidence are expected to lift home sales by 4 per cent to 28,000 units in 2009. While a small increase in home sales is not sufficient on its own to firm up home prices, a reduction in the inventory of homes for sale is expected to trend the market toward more balanced conditions in 2009. After three years of record-breaking performance, MLS® residential sales are expected to decline 25 per cent to 13,500 units this year, before edging up 4 per cent to 14,000 units in 2009. Sellers are expected to delay putting their homes on the market until conditions improve. This will reduce the number of homes for sale, creating a more balanced marketplace and firmer home prices.

*The full report follows...*

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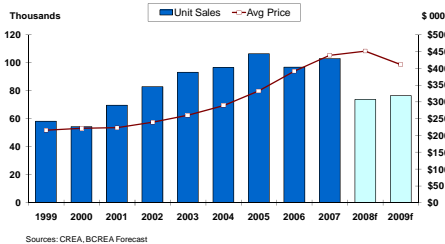
# HOUSING FORECAST

ECONOMICS FALL 2008

## CONSUMER CONFIDENCE STALLS HOME SALES

Residential unit sales on the Multiple Listing Service® (MLS®) in BC are forecast to decline 28 per cent to 73,700 units this year. Reduced consumer confidence has many households delaying the purchase of a home this year.

BC MLS® Sales



While eroded affordability was expected to slow sales in 2008, a sharp increase in fuel prices in the spring caused a tipping point in consumer confidence. More recently, the global liquidity crisis and volatile equity markets have households concerned about a weakening economy and an erosion of their retirement savings. This combination is problematic to consumer spending on big-ticket items. Under the strain, many households are tightening their monthly budgets and putting major purchases on hold.

While BC economic performance is among the strongest in the country, weaker growth is forecast



for this year and in 2009. Economic growth in the province is expected to decline from 3.1 per cent in 2007 to 1.4 per cent this year. An increase in consumer spending in the second half of 2009 is expected to boost economic growth next year to 1.6 per cent.

Most BC housing markets are experiencing a sharp decline in home sales and much larger inventories. The imbalance between supply and demand is putting downward pressure on home prices in many markets. Conditions are expected to improve next year, with home sales forecast to increase a modest 4 per cent to 76,500.

While the average MLS® residential price in BC is forecast to rise 3 per cent to \$453,000 this year, the increase is a result of record prices in the first quarter. Home prices have been edging lower since the spring and most of the correction in prices will be observed this year.

Despite low consumer confidence, the fundamentals of the housing market warrant a higher level of sales. Once global financial and equity markets stabilize, The housing market will again reflect the fundamentals of employment, wages and population growth.

See **HOUSING STARTS** Page 3

MLS®	07	08f	09f
Sales	102,805 6%	73,700 (28%)	76,500 4%
Avg Price	438,975 12%	453,000 3%	413,000 (9%)
\$ Volume	45.1 Bil 7%	33.2 Bil (26%)	31.4 Bil (5%)
<b>Housing Starts<sup>1</sup></b>			
Total	39,195 8%	38,500 (2%)	29,000 (25%)
Single	14,474 (6%)	12,700 (12%)	11,500 (9%)
Multiple	24,721 18%	25,800 4%	17,500 (32%)

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1. Sources: CMHC, BCREA Forecast



## ECONOMIC OUTLOOK

Economic growth in the province is slowing. Weaker consumer confidence, global liquidity problems, volatile equity markets and recessionary conditions in the US are all negatively impacting the BC economy. Real GDP growth is forecast to decline from 3.1 per cent in 2007 to 1.4 per cent in 2008.

Weakness in the forest sector will persist until US housing markets improve. The value of solid wood product exports was down 30 per cent year-to-date through August. A recovery is not expected until late 2009 at the earliest. In addition, belt tightening by US consumers will also limit the number of US tourists to BC through next year.

Consumer confidence has weakened, reaching a 26-year low in Canada. Declines in housing and automobile sales are a result of consumer reticence to undertake major purchases. Retail sales growth has slowed, and is expected to increase by approximately 1 per cent this year and in 2009, on an inflation-adjusted basis. A timely end to the financial and equity market turmoil is needed to restore a higher level of consumer confidence.

Labour market conditions in the province are forecast to ebb as the economy weakens in tandem with world industrialized countries. While the BC economy is expected to continue out-performing the nation, lower employment growth and higher unemployment is forecast. The unemployment rate in BC fell from 4.8 per cent in 2006 to 4.2 per cent last year. This year, the unemployment rate is expected to average 4.4 per cent and rise to 4.9 per cent in 2009. Growth in construction employment that has more than offset job losses in the forest sector is expected to slow, with the potential of shedding some jobs toward the end of next year. While the ranks of the unemployed will grow, the jobless rate will nevertheless remain relatively low from a historical perspective.

Employment growth has moderated from an annual rate of 3.2 per cent in 2007 to an expected 2.4 per cent this year. Further deterioration in employment growth is forecast in 2009, to 1.8 per cent. Weaker labour market conditions will contribute to slower growth in wages and personal disposable income. However, wages and incomes are expected to surpass the headline inflation rate, thereby increasing modestly in real terms.

	07	08f	09f
Real GDP Growth	3.1%	1.4%	1.6%
Employment (Millions)	2.27	2.32	2.37
	3.2%	2.4%	1.8%
Unemployment (000s)	100.0	104.9	119.0
Rate	4.2%	4.4%	4.9%
Personal Disposable Income (\$ Millions)	115,928	122,650	128,900
	6%	5.8%	5.1%
Average Weekly Wage	\$748	\$778	\$804
	3.0%	4.0%	3.5%
Retail Sales (\$Billions)	56.4	57.9	59.6
	7%	2.6%	3.0%
Net International Migration	39,617	42,000	43,500
	5%	6%	4%
Net Interprovincial Migration	13,385	9,000	10,000
	31%	(33%)	11%
Total Net Migration	53,002	51,000	53,500
	10%	(4%)	5%

Sources: Statistics Canada, BC Stats, BCREA Forecast



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## MORTGAGE RATE FORECAST

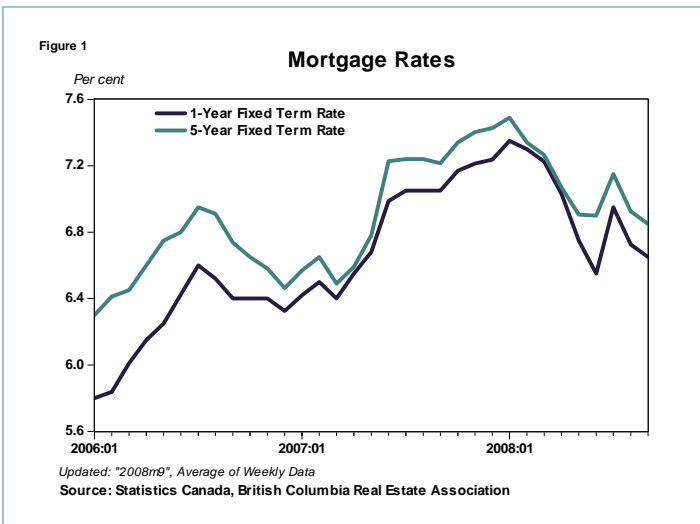
Borrowing costs on three- and five-year fixed-rate mortgages rose during the last week of September by 30 basis point (bps) to 7.05 and 7.20 per cent, negating the declines recorded in early August. One-year rates have dropped 30 basis points to 6.35 per cent (Figure 1).

BCREA forecasts mortgage rates to drop from current levels in the near term and remain flat for most of 2009 before trending upward. In the short term, tight credit market conditions are expected to partially offset the impact of monetary easing by the Bank of Canada (BoC).

A lack of trust in the financial markets and efforts to shore up internal balance sheets by lenders have contributed to tighter credit markets worldwide. While increases in credit risk premiums in Canada have been milder vis-à-vis other nations, consumers and businesses face higher borrowing costs and tighter lending restrictions. For homebuyers, this has meant an increase in effective mortgage rates, either through higher posted rates or a lowering of the discounts commonly offered during the last few years. In the variable rate market, consumers are paying at or above the prime rate, in contrast to the discounts offered last year reflecting higher cost of raising funds in capital markets.

The credit crisis has further compounded what was already a weakening US economy and is contributing to an even sharper downturn in domestic spending and business investment, while pushing unemployment up further. As a result, the near-term economic prospect for Canada, which counts the US as its largest export destination, has eroded. An economic slowdown in Canada and lower energy prices will dampen inflationary fears despite high headline inflation in September. However, the recent drop in the value of Canada's currency vis-à-vis the US may increase import costs, providing some offset to lower inflation pressures.

The BoC slashed its key interest rate by 50 bps on October 8 in a coordinated effort with central banks around the world and a further 25 bps on October 21 to support the economy. BCREA expects the BoC to cut rates by another 25 basis points by year end, as economic conditions deteriorate and downside risks to inflation grow. Rates are expected to rise near the tail end of 2009, reflecting better economic conditions in 2010. While mortgage rates should also lower, high credit risk premiums will offset some of the BoC's interest rate cuts in the near term, despite lower inflationary expectation for the future. Expect credit markets to normalize in 2009.



Global financial market turmoil is the latest chapter of the credit crisis that began more than a year ago as a US sub-prime mortgage issue. Equity markets have experienced a drop in value since the last week of September, as credit markets seized and fears of a significant global economic downturn emerged. Rising foreclosures, falling home prices and non-performing mortgage loans in the US, combined with the packaging and selling of this bad debt through complex financial instruments in global markets, have pushed financial markets into crisis. Massive write downs on mortgage assets have led to the failure of financial giants, the conservatorship of Fannie and Freddie Mac, and a consolidation of the financial sector, while holders of mortgage backed securities have suffered significant losses.

Governments around the world have implemented multi-billion dollar bailout packages, nationalized banks and flooded markets with liquidity in a bid to thaw credit markets and restore confidence to the financial system.

Mortgage Rate Forecast								
	2008				2009F			
Term	Q1	Q2	Q3	Q4F	Q1	Q2	Q3	Q4
1-Year	7.30	6.80	6.79	6.15	6.05	6.00	6.00	6.20
5-Year	7.37	6.97	6.99	7.10	7.00	6.80	6.80	7.10

# REAL ESTATE BOARD OF GREATER VANCOUVER

A marked decline in consumer confidence occurred earlier this year in the wake of rising fuel prices and eroded home affordability. As a result, housing demand fell to a level not seen since the beginning of the decade. The global financial crisis and volatile equity markets are keeping consumer sentiment low, and the prospect of a US recession and near recession in Canada are causing many households to delay major purchases.

Waning consumer demand and a sizable increase in the number of homes for sale has weighted the market heavily in favor of homebuyers. While homebuyers are benefiting from a wide selection of homes for sale, the imbalance between supply and demand has put some downward pressure on home prices. The average MLS® residential price is expected

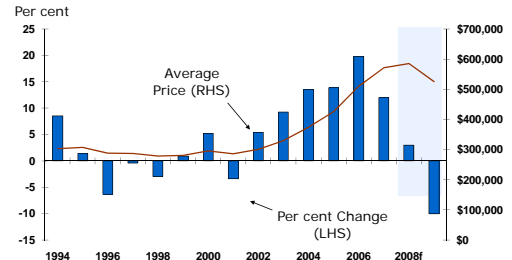
to increase 3 per cent this year to \$585,000. However, the increase is due to a cyclical price peak in the first quarter. Home prices have been edging lower since then and, while a 10 per cent decline in

the average residential price is forecast in 2009, most of that decline will have already occurred by the end of 2008.

MLS® residential sales in Vancouver are expected to decline 31 per cent to 27,000 units this year. However, the combination of increased affordability and some improvement in consumer confidence are expected to lift home sales by 4 per cent to 28,000 units in 2009. While a small increase in home sales is not sufficient on its own to firm up home prices, a reduction in the inventory of homes for sale is expected to trend the market toward more balanced conditions in 2009.

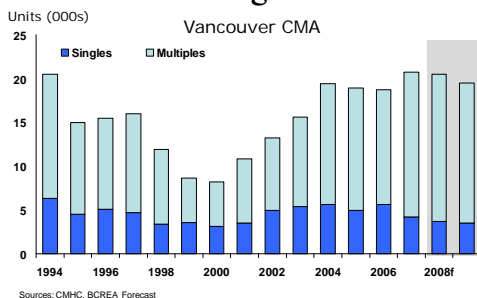
Housing starts are forecast to increase 2 per cent this year as a result of project commitments during the first two quarters. However, reduced demand, rising inventories and difficulties securing affordable credit are expected to cut new home production by 22 per cent to 16,500 units in 2009. A notably slower expansion of the housing stock will contribute to a narrowing of the gap between supply and demand.

MLS® Prices



Sources: CREA, BCREA Forecast

Housing Starts



Sources: CMHC, BCREA Forecast

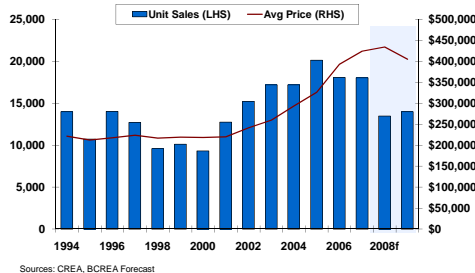
MLS®	07	08f	09f
<b>Sales:</b>			
Total <sup>1</sup>	38,978	27,000	28,000
	7%	(31%)	4%
Detached	14,934	10,000	10,300
	5%	(33%)	3%
Attached	6,843	4,800	5,000
	8%	(30%)	4%
Apartment	16,479	11,750	12,150
	9%	(29%)	3%
<b>Avg. Price:</b>			
Total	570,795	585,000	525,000
	12%	3%	(10%)
Detached	814,132	870,000	780,000
	12%	7%	(10%)
Attached	477,804	495,000	450,000
	14%	4%	(9%)
Apartment	387,967	394,000	352,000
	13%	2%	(11%)
<b>Housing Starts<sup>2</sup></b>			
Vancouver CMA			
Total	20,736	21,050	16,500
	11%	2%	(22%)
Single	4,211	3,950	3,500
	(25%)	(6%)	(11%)
Multiple	16,525	17,100	13,000
	26%	4%	(24%)

1. Sum of product types may not match as total may include other property types; i.e., mobile, house and acreage

2. Sources: CMHC, BCREA Forecast

# FRASER VALLEY REAL ESTATE BOARD

**MLS® Activity**



Sources: CREA, BCREA Forecast

MLS®	07	08f	09f
<b>Sales:</b>			
Total <sup>1</sup>	18,032	13,500	14,000
	0%	(25%)	4%
Detached	9,278	6,750	7,150
	(5%)	(27%)	6%
Attached	3,654	3,050	3,200
	7%	(16%)	5%
Apartment	3,648	2,775	2,885
	8%	(24%)	4%
<b>Avg. Price:</b>			
Total	423,761	434,000	405,000
	8%	2%	(7%)
Detached	520,087	532,000	495,000
	11%	2%	(7%)
Attached	326,611	339,000	320,000
	12%	4%	6%
Apartment	216,941	235,000	215,000
	15%	8%	(9%)
<b>Housing Starts<sup>2</sup></b>			
Abbotsford CMA			
Total	1,088	1,355	940
	(9%)	25%	(31%)
Single	527	400	340
	23%	(24%)	(15%)
Multiple	561	955	600
	(28%)	70%	(37%)

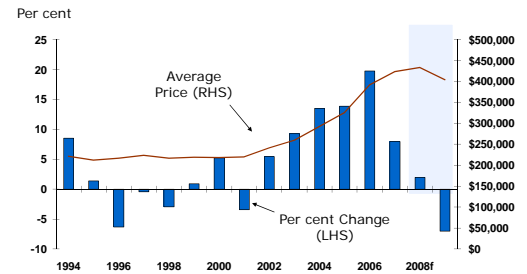
1. Sum of product types may not match as total may include other property types; i.e., mobile, house and acreage

2. Sources: CMHC, BCREA Forecast

After three years of record-breaking performance, MLS® residential sales are expected to decline 25 per cent to 13,500 units this year, before edging up 4 per cent to 14,000 units in 2009. Despite a relatively strong economy, consumer confidence has been low. Concern for household budgets and uncertainty surrounding the financial and equity markets is curtailing housing demand.

Fewer home sales and a sizable increase in the number of homes for sale has created imbalance in the market and put downward pressure on home prices. However, unlike conditions in the US, Fraser Valley households are on a solid footing. Foreclosure rates are near historic lows and with a low unemployment rate and low interest rates, home sellers are not facing financial hardship and are not obliged to liquidate their real estate assets. As a result, many potential home sellers are expected to delay putting their homes on the market until conditions improve. This will reduce the number of homes for sale, creating a more balanced marketplace and firm home prices.

**MLS® Prices**

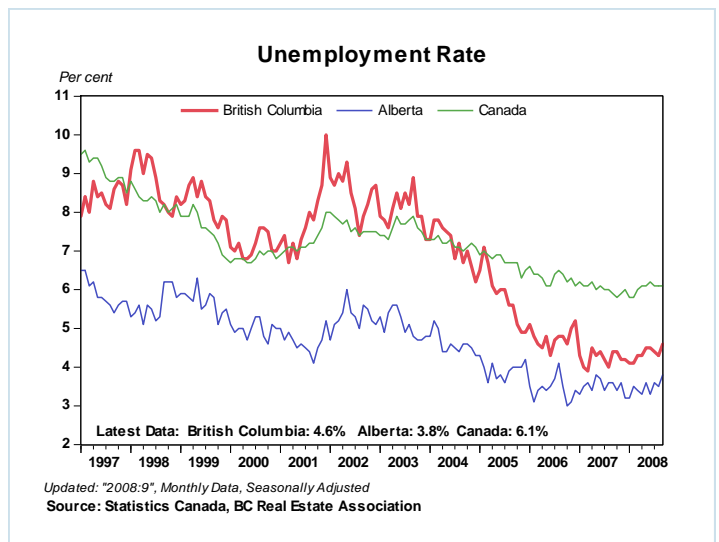
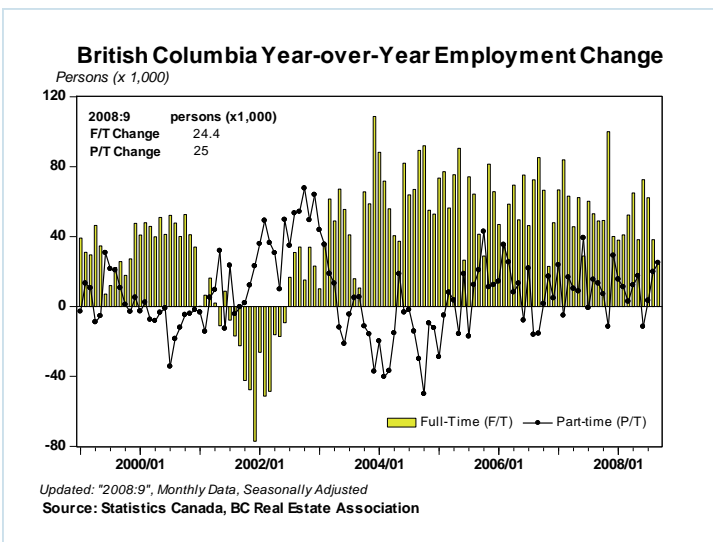
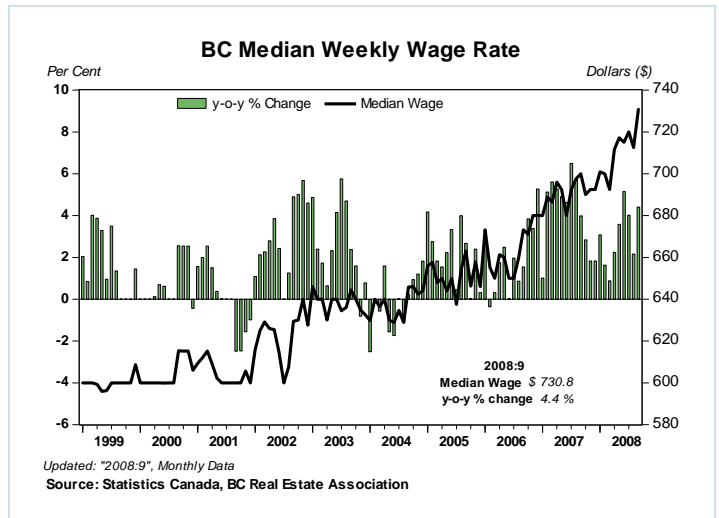
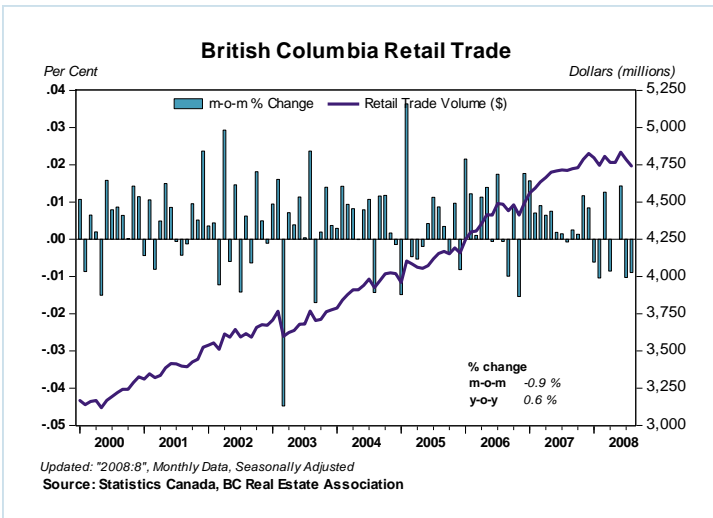
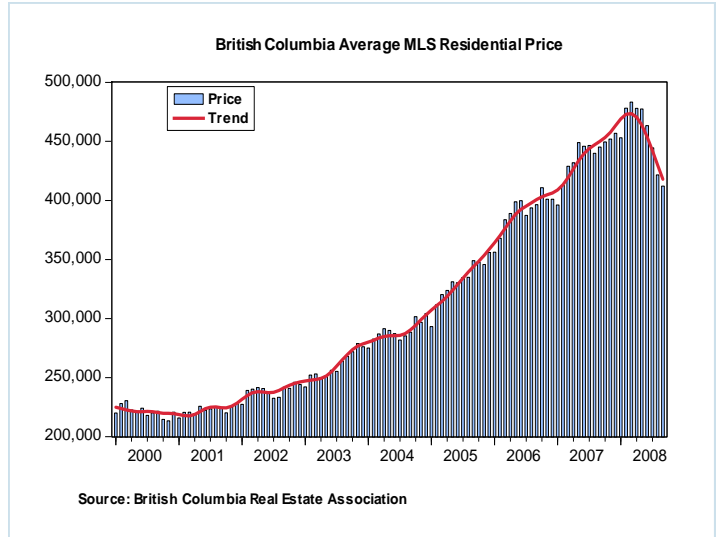
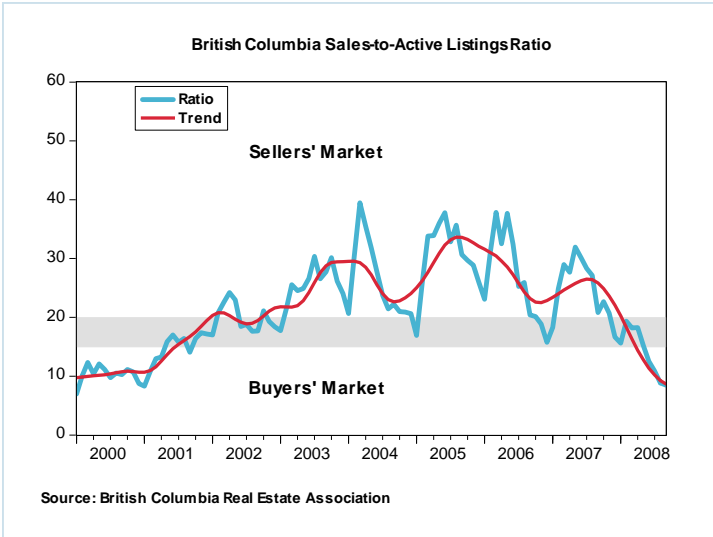


Sources: CREA, BCREA Forecast

Despite home prices edging lower since the spring, the average MLS® residential price is forecast to increase 2 per cent this year to \$434,000. This is a result of record prices being recorded in the first quarter. Next year, the average residential price is forecast to decline 7 per cent to \$405,000. It should be noted that most of the decline in home prices will occur in 2008, and that firmer prices are expected next year.

A 25 per cent increase in Abbotsford housing starts this year has increased new home inventories in the face of waning demand. A larger inventory of new homes and tighter credit conditions are expected to reduce new home construction in 2009. Housing starts in the Abbotsford CMA are forecast to decline 31 per cent to 940 units in 2009. The most significant decline will occur in multiple starts, down 37 per cent to 600 units. A timely response by home builders to slower consumer demand will contribute to reducing an oversupply in the overall housing market.

# BC MARKET INDICATORS



## HOUSING FORECAST SUMMARY— FALL 2008

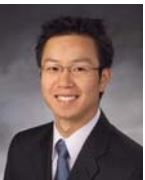
Board Area	Unit Sales			Average MLS® Price (\$)		
	2007	2008F	2009F	2007	2008F	2009F
Victoria	8,403 12%	6,650 (21%)	6,900 4%	466,974 9%	486,300 4%	455,000 (6%)
Vancouver Island	9,887 12%	7,300 (26%)	7,520 3%	311,472 11%	329,600 6%	308,000 (7%)
Powell River Sunshine Coast	296 1%	225 (24%)	235 4%	241,083 18%	250,000 4%	230,000 (8%)
Greater Vancouver	38,978 7%	27,000 (31%)	28,000 4%	570,795 12%	585,000 3%	525,000 (10%)
Fraser Valley	18,032 0%	13,500 (25%)	14,000 4%	423,761 8%	434,000 2%	405,000 (7%)
Chilliwack and District	3,268 2%	2,250 (31%)	2,375 6%	299,592 11%	315,000 5%	290,000 (8%)
Kamloops and District	3,501 6%	2,400 (31%)	2,500 4%	275,474 24%	306,000 11%	273,000 (11%)
Okanagan Mainline	8,702 12%	5,800 (33%)	6,100 5%	387,523 19%	410,000 6%	370,000 (10%)
South Okanagan	2,447 11%	1,550 (37%)	1,620 5%	325,667 20%	335,000 3%	302,000 (10%)
Kootenay	3,476 22%	2,300 (34%)	2,380 4%	272,138 30%	288,000 6%	258,000 (10%)
Northern Lights	502 0%	480 (4%)	450 (6%)	175,818 18%	194,000 10%	199,500 3%
BC Northern	5,400 (4%)	4,240 (21%)	4,400 4%	195,487 18%	215,700 10%	200,000 (7%)
<b>BC Total</b>	<b>102,892</b> 6%	<b>73,700</b> (28%)	<b>76,500</b> 4%	<b>438,975</b> 12%	<b>453,000</b> 3%	<b>413,000</b> (9%)

BCREA Economics provides timely research, analysis, and information on economic factors affecting British Columbia and its housing markets.

This publication/research is generously funded, in part, by the Real Estate Foundation of British Columbia.



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### British Columbia Real Estate Association

BCREA represents 12 member real estate boards and their more than 18,000 REALTORS® on all provincial issues, providing an extensive communications network, standard forms, economic research and analysis, government relations, required post-licensing courses and continuing education.

To demonstrate the profession's commitment to improving Quality of Life in BC communities, BCREA supports growth that encourages economic vitality, housing opportunities, environmental preservation, property owner rights and better communities.

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