Vancouver to remain a seller's market, credit union association forecasts

Over the next two years, Metro Vancouver's sky-high housing prices will continue rising – just not at this year's torrid double-digit pace – as the lack of supply and a strong local economy help offset a slowdown in sales prompted by the province's new foreign-buyer tax, according to a prominent national credit union association.

The latest housing forecast from Central 1, which provides payment processing and other banking services to more than 300 Canadian credit unions, predicts the number of sales in and around Vancouver will cool by 7 per cent next year, a trend that started this summer and appears to have accelerated the first two weeks of August after B.C.'s new 15-per-cent tax on foreign buyers kicked in.

Central 1 senior economist Bryan Yu predicted Wednesday that sales will rebound the following year, in 2018, to increase 7 per cent.

The stratospheric housing prices in Vancouver and Toronto have financial analysts on edge, especially with the softening of the Vancouver market.

Cooling began in June, when year-over-year sales volumes of detached homes were down 19 per cent, but the dip accelerated in July with a 31-per-cent drop in sales over the same month last year.

Figures compiled by the Real Estate Board of Greater Vancouver for the first two weeks in August showed a 66-per-cent decline in sales from the same period in 2015.

On a Wednesday earnings conference call, Royal Bank CEO David McKay said that his bank was "closely monitoring" the still-climbing housing prices in Vancouver and Toronto, where RBC pegs home-ownership costs for a single detached house at 109 per cent and 71.4 per cent of the median household income, respectively.

Central 1's Mr. Yu said the credit union's analysis suggests a tank in the market isn't likely, even with the tax.

The only way prices are likely to correct is if the federal government, which is striking a task force to look at Toronto and Vancouver's runaway housing market, hikes down payments in the region or implements other tightening policies, according to his analysis.

Over the next two years, Metro Vancouver and many other parts of British Columbia will remain a seller's market, with Mr. Yu predicting the provincial median annual price will rise 12 per cent this year to $480,000 and gain at least another 3.5 per cent each of the next two years.

Annual median home prices in and around Vancouver will increase by roughly 4 per cent next year and again in 2018 until the average home in the region costs $765,000, Mr. Yu's forecast states.

The bigger picture in the region and across British Columbia is that the economy is still doing very well, he says. Employment in the province grew 3.5 per cent over the past year, while in Metro Vancouver it grew 5 per cent.

Housing starts are projected to remain above 40,000 units in 2017 and 2018, he says.

Dan Morrison, a realtor and president of the Real Estate Board of Greater Vancouver, said despite the uncertainty brought on by the new tax, he doesn't see prices in his region decreasing any time soon.

"It is crazy, I've never seen a market like this," he said. "This has been happening for years and we've had to change the expectations of buyers.

"If you want a detached home with a white picket fence within a five-minute commute of downtown Vancouver? You're not going to get it. So you've got to move out to the suburbs, you've got to change your expectations."

Premier Christy Clark, who faces an election next spring, has said that her government brought in the new foreign buyer tax to limit international demand and rein in "these silly price increases that we've seen" in and around Vancouver. The government says foreign buyers are involved in one of every 10 sales in the region.

Mr. Yu says it is still too early to determine how the new 15-per-cent tax is affecting foreign buyers who target Metro Vancouver, but sales in more affordable Victoria and Kelowna are likely being driven by other factors, such as retirees cashing out of the Lower Mainland or workers fleeing Alberta.

Mr. Yu said he doubts foreign buyers who are put off by the new levy would choose another B.C. community over a city such as Toronto.

“I would think that a buyer would want to have direct access to a property … in a city that is larger and more cosmopolitan,” he said.

As the pace of Metro Vancouver's market slows over the next year and a half, Mr. Yu forecasts more Canadians will start buying in Victoria and Kelowna, where sales are expected to increase in 2017 by 7 per cent and 4 per cent, respectively.

During the recession, few new homes were built in these regions and they suffered from excess supply, he says. But now, most of the extra housing stock has been sold off.

At the same time, Victoria has seen 2-per-cent employment growth, with lifts in tourism, the film and television industry, and the public sector.

All these factors are helping to drive a 20-per-cent annualized rise in home prices in Victoria, he said.

With a report from The Canadian Press

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