

Housing sector ringing in happy New Year

REAL ESTATE: No 'bubble' here

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First the good news. Greater Vancouver's amazing housing construction and marketing race will continue for yet another year.

And now, the really good news. Housing-price increases in the most expensive market in the country are only expected to be around 4.8 per cent to six per cent in 2006, far less than the double-digit increases that have been the norm in the last half decade.

And if all that isn't enough, according to RBC Financial Group, housing is getting slightly more affordable here.

Despite dire warnings of a pending "real estate bubble" -- emphatically rejected by senior Vancouver marketing analyst for Canada Mortgage and Housing Corporation Cameron Muir -- about the only possible cloud standing in the path of another very strong housing market is the possibility of a spike in interest rates.

"A housing bubble does not exist in Greater Vancouver," Muir told CMHC's recent annual outlook conference, which is closely followed by the real-estate and development industry. "Speculative activity and growth in home prices are less than in any previous market cycle."

There may be some fall-off in starts this year, but it will be mainly due to builders already at capacity being extremely careful about starting new projects, so they can keep their vital skilled trades schedules in line.

Muir says the market is entering a second wave of consumer demand backed by strong economic fundamentals. He has the strong backing of the BMO Financial Group about the economy.

Rick Egelton, chief economist at BMO Financial Group, said late last week that growth in B.C. and Alberta will be even stronger than 2005, propelled by B.C.'s construction boom, which is partly related to the approaching 2010 Winter Olympics and rising oil production and oilsands construction in Alberta.



Starts may fall off this year due to careful scheduling by builders already working trades to capacity. Photograph by : The Associated Press

"Next year, the westward tilt is expected to continue, although Newfoundland and Labrador will be the exception to the rule as major developments in the mining and oil sectors ramp up to full production," he said.

While housing markets elsewhere in Canada may falter due to consumer demand being better met, they won't here. The great unknown is interest rates, but Egelton expects them to keep rising.

BMO predicts the Bank of Canada will raise its trend-setting overnight rate, now at 3.25 per cent, to four per cent by April and 4.5 per cent by next fall.

While every increase knocks some buyers out of the market, the Canadian Real Estate Association believes rates will not rise more than 100 basis points this year.

Gregory Klump, chief economist at the association, points out that most expected larger interest-rate increases in 2005 and it didn't really happen.

Additionally, Klump points out that even with the increases that did come, much sought-after five-year mortgages are available at around 6.15 per cent, only slight ahead of where they were in mid-summer of 2005.