

THE MARKET

Sensing a change in the wind

Strato-housing-sphere: How will Vancouver's housing boom end?

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The Vancouver chapter of the international developer lobby and educational group named the Urban Development Institute delivers a monthly luncheon with speaker. Serving as desserts to the first courses of saffron chicken in cream sauce or halibut primavera, some of these talks are technical affairs, where investors and designers rise to the podium to hash out their latest proposals through pictures and numbers.

More intense buzz at UDI is generated when local experts speak of subjects near and dear to any local developer's heart: the direction of Vancouver's housing market, the prices actually paid for condos and houses, and the supply of new units about to go on sale. These are the crucial factoids that will shape our housing marketplace in months and years to come.

Remember, developers need to think in the future tense, as it now takes years for new housing projects to go through planning approvals, finance, design, construction and marketing. All this means developers need to know when a housing boom is over long before anyone else — their businesses are on the line.

Super-realtor and urban king-maker Bob Rennie has a track record as the hero of these UDI sessions, getting hundreds of developers up on their feet with rafter-shaking cheers. His 2006 talk was nothing short of tumultuous, land investors hearing what they had clearly come to hear: the Vancouver boom was on, it would go on indefinitely, and all was right in the world. His spring talk this year was somewhat more subdued, but it was still a defiantly feel-good affair, with quiet assurance spread around the room as deep and delicious as the mousse au chocolat.

Things may be changing.

Just as the seasons clicked over on June 21, the mood in the Four Seasons convention hall much, much more sober. You could hear a pin drop there throughout a talk by housing market observer Jennifer Podmore, scion of Vancouver's leading development industry clan (her dad is president of union-owned housing developer Concert Properties, her mother the promoter of the annual fundraiser which has architects and builders creating castles of canned-goods for the food bank.)

Sensitive to the sensibilities, careers and investment fortunes on the line in the room, Ms. Podmore put a positive spin on things for UDI. But hers was a savvy audience, and their

un-characteristic silence was induced by recent events more than her talk. Over the past few weeks local developers have watched the American housing market tank, mortgage interest rates creep up, the bond market send out worrisome tremors of more increases to come, and perhaps most disturbing of all, a marked rise in the housing un-affordability index — it now requires 70 per cent of the average Vancouver income to pay for the average Vancouver house.

Average.

Hey, average buyer, just try eating, drinking, breeding and saving for your retirement on that remaining 30 points! Consequently, most are agreed that Vancouver's housing market is poised at a turning point.

Just where it is headed is the source of disagreement these days. Could it be a mere levelling off, our vaulting housing boom parachuting down to a soft landing? Or will this be a market turn of a shorter radius, doing harm solely to low-level speculators who borrowed too heavily in search of quick profits? Or is Vancouver headed towards a 180 degree reverse in housing price trends — like the one we saw here in the 1980's — where inflation-adjusted prices took a dozen years to recover?

Jennifer Podmore's take on all this is simple, but simply ominous for developers: "The consumer is taking a collective pause." Her graphs and verbal summaries tell the story, which is more sobering news for Vancouver than it is for Surrey and other south-of-the-Fraser communities.

To start, construction costs have risen out of sight: Ms. Podmore reported that housing now retails at an average of \$800 per square foot in Vancouver; \$500 per square foot in Fraser Valley communities. In response, she sees developers turning to wood frame over more expensive concrete construction, and literally down-sizing their product, in consort with a marketplace where the average household size has dropped to 2.6 people (the big family Surrey figure is 2.8 per household.) Those 2.6 people are increasingly living in smaller spaces, and an environment of high construction costs means that Vancouver's average physical size of houses and apartments drops by a few percentage points each year. By way of comparison, figures from the American Institute of Architects indicate that apartment sizes —whether studio, ones, twos or threes — are on average one quarter larger in the Miami market than in Vancouver, and lucky them, they get to hang out on roomy beaches for twelve instead of two months per year.

There are some positive implications in all of this murk. Ms. Podmore observes that Vancouver's is now a market driven by, "innovative design for the smart consumer." Gone are the days of condominiums-as-commodities, where buyers bought by the square metre, hardly looking at generic space that could be quickly flipped, sight un-seen, for an instant profit.

Interpreting the data collected by her firm, MPC Intelligence Inc., Ms. Podmore proposes that for the first time in years, Vancouver buyers are now interested in "exterior detailing,

architectural finishes, interior features, and building/neighbourhood character." This means 'Yeah' for architects and buyers with an eye, 'Oh-oh' for bottom-end developers and remote-control purchasers.

Given her analysis, developers about to go to market with sausage-style condos-by-the-yard should be very worried, especially downtown. Her year-end real estate figures indicate that just over four high rise apartments were sold in 2006 for every Vancouver area single family house. But that ratio is about to change, since her data tables indicate that 4,335 new high rise condo apartments are "coming soon" to market, compared to a mere 559 single family houses. This means the ratio will soon be ten-to-one.

This ratio is worrisome, as Ms. Podmore reports that prices are holding better in affordability areas (think places with a commute of one hour or more, or selling at less than that killing 70 per cent of average income annualized price) and for single family houses than they are for mid- to high-rises in the strato-housing-sphere around our downtown peninsula. Yes, Ms. Podmore indicates that not everyone can afford a luxury condominium, and yes again, a few builders are about to learn a hard lesson.

Design now matters and prices will not rise like they have — it is easy for this architecture critic to find some silver linings in Vancouver housing's newly-arrived dark clouds.