



'Tough to quantify' any effect on housing market

Derrick Penner

Vancouver Sun; With files from Canwest News Service

Tuesday, March 18, 2008

It is too soon to say whether the rising turmoil in world financial markets will shake the confidence of British Columbians and scare them out of the housing market, according to economic observers.

High prices in B.C. remain the bigger issue, pushing first-time buyers out of the market and dampening overall sales more than the fallout from U.S. subprime mortgage losses.

The big banks were among the Canadian companies hardest hit as investors dumped their stocks following news from the U.S. that banking giant JPMorgan Chase is stepping in to buy the foundering investment bank Bear Stearns. The subprime mortgage crisis -- in which homebuyers defaulted on loans they couldn't afford, causing losses for institutions holding the mortgages as securities -- hit Bear Stearns particularly hard.

The S&P/TSX index lost just over 300 points. CIBC saw the biggest loss among banks, shedding \$2.96, or just under five per cent of its value, in Monday trading on the TSX.

Scotiabank dropped \$1.21, or 2.7 per cent; RBC lost \$1.20 of its share value, or 2.64 per cent. BMO and TD bank both declined \$1.02, which represented 2.6 per cent and 1.66 per cent of their respective share values.

"Certainly buyers, and not only first-time buyers, could be prompted to postpone decisions [to purchase real estate] because of the uncertainty," Helmut Pastrick, chief economist for Credit Union Central B.C. "[But] it's a tough one to quantify."

Pastrick released his 2008-09 housing forecast Monday, which predicts sales will slow to 124,500 units in 2008 from 133,800 units in 2007 before rebounding to 129,700 units in 2009. He expects average sale prices will rise to \$485,000 in 2008 from \$439,123 in 2007, and \$509,000 in 2009.

Pastrick said it is those prices that will deter first-time home buyers, "not because of restrictions in credit."

The consulting firm Altus Clayton, in a recent survey, found that short-term buying intentions among renters are declining. Only 6.1 per cent of renters reported plans to buy homes in the next year compared with 9.4 per cent a year ago.

Pastrick said that generally, except for forest-dependent regions of the province that have suffered job losses in logging and lumber production, B.C. is still experiencing job, income and immigration growth.

And while U.S. bankers have reported substantial "credit rationing" of available money to lend their best borrowers, Pastrick said he has heard of no corresponding restriction of loans in Canada.

Adrienne Warren, a senior economist at Scotiabank, added that Canadian banks might be more restricted in their ability to offer discount rates on loans because long-term credit has become more expensive, they haven't tightened up lending criteria to the point of excluding larger numbers of borrowers.

Short-term interest rates, she said, have been coming down, led by cuts to the key rates of central banks such as the Bank of Canada and U.S. Federal Reserve.

"We're seeing a little bit more [tightening of credit] south of the border where they have more weak borrowers on their balance sheets," Warren said. "[In Canada] that hasn't been an issue."

Certainly the U.S. economic slowdown will spill over into Canada right across the country, but "we will probably see things hitting Central Canada more so than the West." Westerners have resource-sector growth going for them, as well as infrastructure spending. In B.C. she said "there is a lot of excitement in the lead up to the Olympics. I think [the West] is a little bit more insulated."

However, she added that Metro Vancouver, having the most expensive real estate in Canada, is the least affordable place to buy and that "is starting to pinch."

And if the uncertainty in financial markets causes people to worry about their job prospects, Warren said buyers could still become hesitant about making decisions to buy.

depenner@png.canwest.com

© The Vancouver Sun 2008

CLOSE WINDOW

Copyright © 2008 CanWest Interactive, a division of [CanWest MediaWorks Publications, Inc.](#) All rights reserved.
CanWest Interactive, a division of [CanWest MediaWorks Publications, Inc.](#) All rights reserved.