

U.S. land slide to affect Canadian market

Shock waves from 'big elephant in the room next door' will hit north, says report

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U.S. real estate markets will bottom out next year and then founder for much of 2010, negatively affecting Canadian markets along the way, an Urban Land Institute report said Tuesday.

"Less volatile Canadian real estate markets cannot avoid shock waves emanating from the big elephant in the room next door," the 2009 Emerging Trends in Real Estate report said.

Report author Jonathan Miller said conservative Canadian lending policies have created a more stable banking system that avoids the disasters caused by sub-prime mortgages.

"But Canada is still vulnerable to the overall world economy and we can expect Canada to have some real issues," he said in a media conference call.

The report said the supply-constrained Vancouver market remains an "urban jewel" with high office and apartment occupancy rates and economic activity boosted by the 2010 Olympics.

"But condo sales ebb, housing prices stabilize after strong advances and tourism declines," the report said. "Mills and mining industries in the hinterlands endure some reversals, which 'filter back' regionally."

Miller said the Calgary real estate market -- a longtime "hot-growth market" -- is due to slow down next year following a downturn in the energy sector.

"It won't have a critical downturn but certainly it will cool off," he said.

The report said Toronto -- Canada's "bellwether" real estate market -- is suffering from weakness in the financial and manufacturing sectors.

"Condo sales soften after a building blitz of highrise residences and developers wisely postpone some projects," the report said.

Urban Land Institute representative Stephen Blank said real-estate professionals interviewed for the report generally agree 2009 will be the

worst year for U.S. real estate since the 1991-92 industry depression.

"We expect to see drops in value, negative returns and sharp increases in delinquencies and foreclosures," he said. "It's a bleak picture. ... Some owners will drown in debt as values decline and many lenders have no capital to lend as they practise unprecedented risk avoidance."

The report ranked Seattle as the top U.S. real estate market now, followed by San Francisco, Washington, New York and Los Angeles. But Miller noted even Seattle has suffered a real-estate downturn in the past year, with Seattle-based Starbucks having to downsize operations and Washington Mutual Savings collapsing in the biggest bank failure in U.S. history.

The report said cash-rich offshore buyers will be the main beneficiaries of the U.S. real estate downturn, as they take advantage of a weak U.S. dollar to buy "trophy" properties in major cities.

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