

Report on **Business**

Economy

B.C. housing slump 'nastiest' in nation

But numbers slowly improving on low interest rates, lack of supply glut

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Many of British Columbia's lumber mills sit idle. Coal exports are down 40 per cent. The price of natural gas, one of its key commodities, has collapsed.

And now, economists say, an industry that had helped fuel the province's economic growth, residential home and condominium construction, is suffering the "nastiest" downturn among the provinces - though there is hope among builders this is the low ebb for the business. Still, B.C.'s building boom has gone bust, even as most of the rest of Canada sees some improvement in the sector.

"We're in a full-scale recession in B.C.," said Jock Finlayson, executive vice-president of the Business Council of British Columbia. "Getting out of it is going to depend on when the global economy, and the U.S. economy, bottom out, and how things look after that."

Yesterday, Canada Mortgage and Housing Corp. data showed national housing starts in May at an annualized rate of 128,400 units, considered weak, but it was an increase from the 13-year-low rate of 117,600 recorded in April.

In most of Canada, there were improvements. It was a "spring thaw," said Robert Kavcic, an economist at BMO Nesbitt Burns, suggesting "the worst of the residential construction recession might be behind us."

B.C. isn't immediately so fortunate - Mr. Kavcic said the province "arguably [has had] the nastiest residential construction recession this cycle."

And any added oomph from the coming Vancouver 2010 Winter Olympics is gone, in terms of new building, since major projects such as the 600-plus units for the athletes' village just south of downtown are nearing completion.

But even if it looks like bad news today, some big B.C. builders say a stronger construction market could emerge quickly. Low interest rates have made homes much more affordable, especially for first-time buyers, and there isn't a massive supply glut, according to Neil Chrystal, president of Vancouver-based Polygon Homes Ltd.

The slow pace of building this spring is a symptom of the convulsions of last fall, when the market froze, he said.

"It does take a while to get new projects approved and financed and ready for construction," Mr. Chrystal said. "We haven't started a lot this year - but the second half of the year looks to be quite busy. It's lagged but we're feeling more confident now."

Mr. Chrystal's confidence is underpinned by Polygon sales: April and May this year were better than a year ago.

Robert Grimm, a principal at Portrait Homes Ltd., based in Richmond, is active in Maple Ridge, another suburb, starting nearly 30 homes this year, more than the 25 or so at this time last year, buoyed by buying interest sparked by low interest rates and lower construction costs. "We've got a bunch of land and we're busy building," Mr. Grimm said.

Still, new building in B.C. continues to slide, for now.

The annualized rate tumbled in May to 11,200 from 11,700 in April - down by a massive two-thirds from the 34,000 booked in the boom of 2008. The severity and swiftness of the oscillation from boom to bust is illustrated by the 25,000 starts the B.C. government expected in its February budget, a projection assembled from various forecasters. Expectations among economists have been tempered and a number of around 15,000 starts would be considered reasonable as the province's gross domestic product contracts by an estimate 2 per cent this year.

Beyond the bad news, another positive sign is that the pace of decline in B.C. has slowed. "This province seems likely to find its bottom near the May level of 11,200 units," said economist Pascal Gauthier of Toronto-Dominion Bank.

In terms of actual starts, CMHC reported 809 in B.C. in May, down from 842 in April - and a shadow of the 3,080 starts in May, 2008.

It was a "very heady market" in 2008, said Peter Simpson, chief executive officer of the Greater Vancouver Home Builders Association.

"There's no doubt housing starts are abysmal," Mr. Simpson said. "Builders are hesitant to put shovels in the ground when there's inventory that hasn't sold. But we believe we have reached bottom."

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