5 Unbelievable Facts About the Vancouver Real Estate Market

Description

Although the Toronto real estate market seems to dominate the headlines, values in Vancouver have consistently dwarfed those in Toronto over the last few years. And like with Toronto, the market is split between people who are bullish and folks who are bearish.

Vancouver real estate bulls believe that the city is the best in Canada, and deserves the premium. They point to the warm climate, the influx of capital from Asia, and the competition for desirable neighborhoods as evidence the market is in great shape.

Bears look at things like the inflated price-to-household income levels, the widespread use of secondary suites in order for homeowners to make ends meet, and the multi-million values for push-down properties that are sitting on pricey land as evidence that the market is overvalued, and is due for a correction.

Like with Toronto, I think it’s obvious that the Vancouver real estate market is overvalued, and is primed for a fall. The issue becomes timing. Just how long can the party last?

Here are five facts about the Vancouver market that should concern every homeowner in the region.

1. 14.1%

Over the last year, the value of Vancouver homes are on fire. Compared to May 2014, the value of the average Vancouver detached home is up 14.1%. Apartments and attached homes also did well, increasing 4.6% and 6.4% respectively year over year.

Considering Vancouver already has the most expensive real estate in the country, it begs the question — just how expensive can it get?

2. $1.9 million

The average price of a detached house in Vancouver has now surpassed $1.9 million. That makes Vancouver among the richest markets in the world, on pace with places like Hong Kong or New York

City. And according to a projection from a local credit union, the average detached house could cost up to $4.4 million in 2030.

3. 173% in 10 years

According to data from Vancity, the same credit union that predicted the $4.4 million average price by 2030, the value of Vancouver's real estate has gone up 173% since 2005. To put that in perspective, the TSX Composite is only up 37.8% during the same time period.

4. 48 times

One common metric to determine real estate affordability is to look at a market's price-to-rent ratio. The higher the ratio, the more overpriced the market is.

Vancouver's price-to-rent ratio is an eye-popping 48 times, which is by far the highest in Canada. Or, to look at it another way, someone buying a typical Vancouver property can only expect a cash flow of 2.1% per year. That's not even covering the interest on the mortgage, never mind other expenses.

5. 12.3 times

The median household in Vancouver made just shy of $73,400, according to the most recent statistics available. The average price for all types of real estate has recently broken through $900,000. That puts the average piece of real estate at 12.3 times the income of the average family. There's no way that's sustainable.

How will it affect your portfolio?

There really isn't a company that's overly exposed to Vancouver real estate, unlike **Home Capital Group** and its almost singular focus on the Toronto market.

One stock investors should avoid is **Canadian Western Bank** (TSX:CWB), which has 33% of its loans outstanding in British Columbia. Canadian Western Bank isn't the perfect proxy on the Vancouver market, but it also has exposure to Alberta, as well as many commercial loans to the energy sector. That combination isn't attractive in today's world.

The other stock investors should avoid if they're bearish on real estate in general is **Genworth MI Canada Inc.** (TSX:MIC), Canada's largest privately held mortgage insurer. Even if the bubble only bursts regionally, investors will still avoid the stock, afraid that a nationwide decline is just around the corner.

For years, rumors from mortgage brokers have said that Genworth is more lax than CMHC in approving loans. If this is true, I wouldn't want to hold Genworth during a time when real estate values are declining.

And finally, if you're a believer that a housing bust is imminent, you'll want to avoid holding Canada's largest banks. They're likely to survive any prolonged slump in housing, but profits won't be great during those lean years.

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1. TSX:CWB (Canadian Western Bank)
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Author
nelsonpsmith