Has Vancouver’s Real Estate Bubble Just Popped?

Description

A few weeks ago the provincial government in British Columbia made headlines by instituting a 15% extra land transfer tax on any real estate transactions from foreign buyers in an attempt to cool Vancouver’s red-hot real estate market.

Reaction to the new law was strong on both sides of the issue.

Realtors, mortgage brokers, and bullish investors decried the move, calling it unfair and racist. This group not only thought the law itself was unfair, but the decision to implement the new tax immediately drew extra ire. Imagine entering the biggest decision of your financial life and then having to pay 15% extra on a contract you already signed in good faith.

On the other side of the coin, folks who think the Vancouver property bubble is out of control applauded the new law. According to them, Canada has become nothing more than a vessel for laundering money out of China, which has made buying property unaffordable for struggling Canadian families. This is a welcome move to even up the playing field.

This is likely a bill that will be debated and questioned for years. Instead, let’s look at the immediate consequences of it.

We don’t have much data yet, but thus far it looks like the new tax is having a big effect on the market. Sales of single family homes in the Greater Vancouver Area fell 66% in the first two weeks of August compared with the same period last year. That’s after July was slow as well; sales were down 30% compared with last year.

Sales of condos and apartments were also weak, although this wasn’t as bad as the detached market. Additionally, communities that have previously been popular with foreign buyers, like Richmond, have seen particular weakness.

Sellers are reacting to this much like one would expect, causing listings to surge in recent weeks. New listings of detached houses in the area are nearly double compared to a year ago, indicating many owners want to sell now and ask questions later.

Declining sales and increasing listings isn't usually a combination homeowners want to see. Although prices haven't really fallen in Vancouver yet, it may only be a matter of time if the current conditions persist.

How will this affect your portfolio?

If this truly is the start of the much-anticipated Vancouver real estate crash, investors will want to avoid two companies in particular.

The first is **Canadian Western Bank** (TSX:CWB), an Alberta-based bank with operations in that province, Saskatchewan, Manitoba, and British Columbia. The bank was an aggressive lender to oil and gas companies–a move that hurt its value back in the winter. Shares have recovered since as loan-loss provisions haven't been as bad as feared.

The company also has some pretty significant exposure to Vancouver's real estate market. Management doesn't disclose exposure to each specific market, but Canadian Western Bank does have some $8 billion in mortgages outstanding to borrowers in British Columbia. With many of its B.C.-based branches located in the Vancouver area, it's easy to assume that much of its exposure to real estate in the province is in these markets.

If the market is searching for a way to play crashing Vancouver real estate, it's likely that Canadian Western Bank will be the first choice.

The second choice could very well be **Genworth MI Canada Inc.** (TSX:MIC), Canada's largest privately held mortgage default insurer.

Genworth is diversified nationally, but that will be of little comfort to investors who remain convinced that one tipping market will bring other overvalued markets down with it. A coast-to-coast decline in real estate could, in theory, wipe out Genworth, since it only has $3.5 billion in tangible equity to cover some $300 billion worth of insured loans.

The risk is real

Two weeks of data does not make a trend. I'll be the first to argue that.

But at the same time, there's plenty of information out there that points to Vancouver's real estate market being wildly overvalued. If this is the start of a new downtrend, investors will want to get out in a hurry.

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