



5 Unbelievable Facts About The Vancouver Real Estate Market

Description

The narrative has changed in the Vancouver real estate market. What was once a stellar investment is quickly cratering. Sales in March dipped some 31% versus the same month last year, and it represented the slowest results for the month since 1986.

But at the same time, I'm not convinced the market is about to enter a period of prolonged downturn. Despite measures taken by various governments, like taxing vacant units and charging a foreign buyers' tax, there's still one big factor hanging over the market. There simply aren't enough homes to meet demand — even if some of that demand is at a lower price.

Let's take a closer look at the Vancouver market by looking at some unbelievable facts about Canada's third-largest metro area.

1,000,000

According to a recent report issued by the Metro Vancouver Regional Planning Commission, the Greater Vancouver Area is projected to get a whole lot bigger over the next three decades.

The current population of the region is approximately 2.57 million. By 2050, the population is predicted to increase by a little more than one million people, hitting 3.6 million.

Anyone who has ever visited Vancouver knows it's an incredibly dense city today. Where will all these people live?

Recent Statistics Canada numbers estimate approximately 40% of Vancouver's population is made up of first-generation Canadians. This alone makes the city an attractive destination for more immigrants, since they'll have a support system of folks with similar cultural backgrounds.

61.76%

Even after this current weakness, it's been good to own a property in Vancouver over the last decade.

In early 2010, the average price for property in the region was approximately \$620,000. These days the average is still over \$1 million, checking in at \$1.01 million. That's an almost 62% return over the last decade.

This understates the true impact of such a move, too. Say the average homeowner put down \$200,000 back in 2010 and financed a little more than \$400,000. That property is now worth more than \$1 million. That's a stunning return based on the amount originally invested.

3%

Vancouver real estate has become one of the most sought-after investments in the country. Landlords have crowded into the market to take advantage of what most viewed as sure capital gains.

There's just one problem: this leaves landlords with pretty anemic rental yields. The cap rate on the average Vancouver apartment is approximately 3%. Meanwhile, a normal five-year fixed mortgage rate is closer to 3.5%. It doesn't take a genius to see those numbers don't add up.

\$3,200,000

\$3.2 million is enough for the average middle-class person to have a very comfortable retirement in most places in Canada. In West Vancouver, perhaps the nation's most exclusive neighborhood, it gets you an average house.

Investors should note that's down a bit from recent highs. The average price in the neighborhood was \$3.8 million six months ago.

\$8,900,000,000

Canadian Western Bank ([TSX:CWB](#)) has quietly grown into one of Canada's largest regional banks, with operations primarily in Alberta and British Columbia. Four of the company's 16 B.C. branches are located in Vancouver, with additional locations in suburbs like Surrey, Langley, and Richmond.

The company doesn't break down its loans beyond each province, but we do know that at the end of 2018 the company had \$26.3 billion lent out and that 34% of those loans were to folks in British Columbia. This works out to approximately \$8.9 billion.

Not all of this capital is lent to homeowners in the Vancouver area, of course. But the company certainly has a lot of exposure to Vancouver real estate. It also will be impacted if real estate values drop in the region, since so much wealth is tied to property.

The bottom line

To Vancouverites, none of this is truly shocking. The city's real estate has been expensive for as long

as most can remember, and even if values continue to fall, I wouldn't bet on the market becoming cheaper than Winnipeg's.

But at the same time, I can see the market continuing to fall. There are an awful lot of landlords in the region that are subsidizing property and the average house is still very expensive, especially when looking at the region's income levels.

If values do go down, it likely won't be good for Canadian Western Bank shares.

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