



MACDONALD REALTY BGV LTD.

PENNY GRAHAM

BEVERLEY WEAVER

MONIQUE BADUN

KIM CRAIG

## IN THE NEWS

604-263-1911

### **Two-Minute Realty Check**

*Sourced from: The Bulletin, BC Real Estate Association*

*Date: December, 2008*

*By: Cameron Muir, BCREA Chief Economist*

The world financial crisis and extremely volatile equity markets have cut consumer confidence off at the knees.

Many households fear their savings are worth pennies on the dollar, and that they'll need to work well past retirement age to re-coup their losses. They're also worried about their jobs, the price of fuel and the value of their most important assets: their homes. Amid your daily dose of doom and gloom, consider the following as a quick reality check.

Home sales will be down nearly 30 per cent this year, and are expected to remain at 2001-2002 levels (the beginning of the last cycle) through 2009. Slower home sales began last spring as rapidly rising fuel prices caused a tipping point in consumer confidence, which has since been intensified by the global financial crisis. Consumer confidence is now at its lowest level in 26 years.

The housing market is highly dependent on the financial condition and confidence of people who live, work and raise their families in BC. Even though confidence is low, the financial condition of households is relatively solid. This is important, so I'll explain further.

The housing recession in the United States is the result of financial hardship, caused by loose lending practices and over-leveraging with complex financial instruments. Americans are losing their homes due to foreclosure and job losses. Relinquishing one's home is a last resort and a signal of a collapse in the economy. Remember the old saying, "If your neighbour loses her home it's a recession; if you lose your home it's a depression."

Financial hardship is typically caused by job loss and /or an onerous jump in interest rates. By comparison, the unemployment rate in BC remains low – only half what it was ten years ago. While some job losses are likely next year, the unemployment rate is expected to remain low, from a historical perspective. Mortgage interest rates are also low from a historical perspective and are expected to stay near their current level, at least through 2009.

BC households aren't expected to face the same financial hardship as house-holds south of the border. This means home sellers aren't under duress to sell at any price. In fact, statistics back this up: the proportion of BC mortgage holders in arrears (three months or more behind in their payments) is the lowest in Canada and the lowest in BC in more than a decade. It's a leading indicator of foreclosures, since a home owner must first stop payment before foreclosure proceedings commence.

Any comparison that concludes a similarity between the US housing market and our own housing market ignores the fundamental difference of household financial conditions. While home prices have edged lower over the past several months, it's not the result of household financial calamity. There's a million miles between households putting off major purchases and being foreclosed upon.