

SMART MONEY

YOUR WEEKLY GUIDE TO PERSONAL FINANCE

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Should I buy or should I rent?

B.C. MARKET | With falling home sales and moderating prices, prospective buyers are asking whether they should wait out this period of volatility

BY MILTON KIANG

When Jim Wall, 41, a controller at a TSX Venture Exchange-listed company, and his wife purchased their home in Willingdon Heights in Burnaby in late summer of 2006, B.C.'s real estate market was sizzling.

Wall remembers visiting up to 60 properties, making multiple but failed bids, and submitting offers without any subject financing or inspection clauses. Those were the days when a \$500,000 purchase decision had to be made instantly.

Many prospective homebuyers even brought their surveyors when they viewed homes for the first time because they didn't have the ability to do an inspection later.

A time of uncertainty

Today, the real estate market is different.

"Home sales have slowed to a level not seen since the beginning of the decade," says Cameron Muir, chief economist for the British Columbia Real Estate Association.

Residential unit sales in B.C. fell to 6,541 units in July, down by 37 per cent compared to July 2007. The average MLS residential price in B.C. was \$444,358, down 0.5 per cent from the same month a year ago.

British Columbians face a time of uncertainty. With inflation climbing at 3.3 per cent and fuel prices climbing, consumer confidence has fallen dramatically. Throughout the province, people are reassessing their risks, taking a closer look at their savings, and re-evaluating their household budgets.

In a recent Merrill Lynch economic report, Canadian real GDP growth is expected to come in at zero for Q2, following a 0.3-per-cent contraction in Q1.

A recent CIBC World Market report states that Canadians are seeing their net wealth position shrinking. Debt is now rising faster than assets, and the debt-to-asset ratio rose in the first quarter of 2008 to just under 18 per cent — the highest level since early 2003.

With a sharp drop in housing sales, gone (at least for now) are the days of multiple bids for the same property. Homes are no longer being sold in just two weeks.

The right time to buy?

Jamie Hunter, 36, a sports marketing executive and prospective homebuyer, thinks housing prices have yet to come down to realistic levels. When he sees four "House for Sale" signs within one block in his Kitsilano neighbourhood, he views this as a reflection of an overvalued, oversupplied market.

Hunter said when people are paying 60 per cent to 75 per cent of their incomes just for housing, something



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has to give, and income levels certainly aren't catching up. He would prefer to wait out the market, and this isn't an unusual reaction amongst many

British Columbians.

However, it's awfully difficult to time the market, says Tsur Somerville, associate professor at the Sauder School of Business at the University of B.C. "For current homebuyers, even if prices drop another five to 10 per cent, things tend to work themselves out," meaning prices eventually go back up over the long term.

What's more important, says Somerville, is the "parameters of your search" — and at this moment, buyers have more selection. Buyers can be more careful, allocating more time to finding the right home. It's this time of uncertainty which favours the buyer.

Moreover, the federal government's elimination of the 40-year amortization mortgage, making 35 years the longest term permitted, together with the elimination of zero-per-cent-down mortgages, both coming into effect in October, gives an added incentive to buy now.

Marolyn Hum, investment specialist at Vancity Investments in Port Coquitlam, says, "Unlike a stock or bond, a home is unique. If there's something you like and it jumps out at you, you'll want to take it before someone else does. And if prices fall by another 10 to 15 per cent? You're still living in your home, nothing's changed. And if anything, you pay less property tax."

One question to ask is whether one is buying for the long term or short term. If it's the long term, then a drop in housing prices — perhaps 10 to 15 per cent — will not make a big difference.

If one contemplates holding the property on a speculative basis, for a year or less, then it wouldn't be a good idea. If housing prices fall, a homebuyer may end up in a negative-equi-

ty position, owing more to the bank than the property's market value.

Stability of the market

Muir says the stability of the B.C. real estate market depends on two factors: interest rates, and the health of the economy.

Some fear the housing market is in a bubble similar to that of the early 1980s when there was a mad rush for homes, with up to half of all purchased homes sold again, or "flipped," within one year.

But mortgage rates were as high as 21 per cent at the time, and buyers found it difficult to get mortgages or renew them. This sent housing prices tumbling, and by 1985 homes were considered undervalued (taking into account increased consumer prices).

Despite the current inflation rate, experts predict that the Bank of Canada will rein in interest rates in order to sustain economic growth. According to another Merrill Lynch economic report, the central bank is expected to resume cutting rates later in the year.

As for economic indicators, B.C. has the nation's lowest level of mortgage arrears, and the unemployment rate has declined for five straight years and is at a 43-year low due to robust economic growth and a more mature work force.

B.C. leads the nation in employment growth at 3.4 per cent. The Merrill Lynch report expects national incomes to rise, albeit at a slower rate than in recent years.

These factors, combined with continuing migration to B.C. and the province's strong economic fundamentals, suggest housing prices will hold.

The Merrill Lynch report stated they "don't believe that the overvaluation is extreme enough, or credit conditions tight enough, or new home inventories high enough, to support

the view of a sustained outright decline in home prices nationally."

But the same report also cautioned that they don't dismiss a drop in hous-

ing prices, but not down to the levels seen in the U.S. They report a decline of five to 10 per cent is certainly plausible.

On the other hand, there's no rule that housing prices must come down, says Somerville. They can stay flat, and this underscores his view that it's difficult to time the market.

In the near term, Muir says that we can expect a pull-back on housing inventory. Typically, it takes two to three months before sellers react to falling demand, either repricing their homes or pulling them out of the market.

When supplies tighten, this generally means that prices stabilize.

More than just an investment

From a broader perspective, buying a home is more than just a financial investment, "it's a lifestyle decision," says Muir. When he was in his 20s and bought his first home, Muir didn't really think about whether the value would go up or down, only whether the home itself was right for him.

So another question to ask is, would you rather spend the next two to three years in a less-than-desirable flat, far from work, or a home of your choice in a preferred location? Unlike a stock or bond, one derives enjoyment from a home investment.

In addition, says Muir, the net worth of homeowners is greater than renters in the long term. This view is supported by Somerville's 2007 report for the Centre for Urban Economics and Real Estate, comparing the amount of wealth that a renter and a homeowner with a given income could amass over a period between 1979 and 2006.

The reports states that in Vancouver, both renter and homeowner would come out financially even only

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If the renter was disciplined enough to invest his or her spare capital (money that would have gone to mortgage payments and home maintenance costs) into profitable investments,

Unfortunately, says Somerville, most people aren't disciplined enough or savvy enough in their investment decisions to come out financially even with homeowners.

Contributing factors to a homeowner's wealth accumulation are the forced savings element of regular mortgage payments and a tax exemption over capital gains whenever a principal residence is sold.

Current outlook

Does Wall have any regrets in buying during that manic period of 2006? "Not one bit," he says. Reiterating Muir's sentiments, Wall says buying his home was as much a financial decision as it was a lifestyle one.

Since buying his home, Wall has cut his commute time drastically, lives in a more family-friendly community, and enjoys the shopping that his neighbourhood offers.

He and his wife are now happier, more relaxed, whereas in the past, living far from the city centre, they were constantly stressed by their long commute times, and always in a rush.

"How do you put a price on this?" he asks.

Special to The Sun

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