

## It Was Easy Earlier...

There's a guy we know who doesn't like walls and anything or anyone that gets in the way. Years ago he was the owner and head guy at a large real estate office about to get larger, expanding into the vacant office next door.

He owns the building, there's a chainsaw handy (it's that type of office), he decides not to wait for the contractors. So fire it up and much to the interest of his staff, rip into the top of the wall . . . rrrRRRRRAAH . . . big vertical slice, bits of panel flying . . . down, down, down -- ka-ZAP!!

There's a power line in the wall, live and kicking, and in a flash of sparks, he's thrown backwards and across the room.

<sup>1</sup>% change Q4 2013- Q1 2014 <sup>2</sup>% change Q1 2013- Q1 2014

BC		Q1 2014	Q4 2013	% Chg <sup>1</sup>	Q1 2013	% Chg <sup>2</sup>
Number of Sales		17,285	22,706	-23.87%	13,581	27.27%
Total Value of Sales		\$9.79B	\$11.80B	-16.98%	\$6.59B	48.72%
Detached	Average	\$550,697	\$511,121	7.74%	\$474,379	16.09%
	Median	\$515,000	\$477,500	7.85%	\$455,570	13.05%
Condo	Average	\$330,651	\$335,087	-1.32%	\$307,504	7.53%
	Median	\$329,000	\$337,500	-2.52%	\$300,000	9.67%
Attached	Average	\$378,301	\$365,852	3.40%	\$356,264	6.19%
	Median	\$366,000	\$355,000	3.10%	\$342,205	6.95%

Our guy took it well (anything up from being dead is a bonus). Later on, after de-frizzing his hair and checking the fuse box, he went back at the wall. Never start what you can't complete.

Walls going down, big changes that once started, can't be stopped, open spaces beyond and the perils of in between; it's a decent analogy for the current(s) state of real estate in BC.

Especially in the Lower Mainland and the classic descending range of product: single-family detached (SFD) with 'attached' or townhouse figuratively in the middle and condominium at the end, concrete preferred over wood-frame.

## The Doors Open

Real-estate pundits have long predicted that the Lower Mainland's overheated markets are long overdue for a correction, severe or otherwise. That's still in the cards but in another opinion, it's likely not across all product classes.

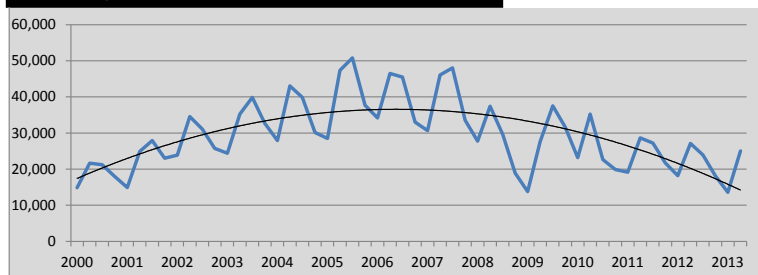
When walls come down and new spaces open up, especially when these new spaces are seen as open, clean, not crowded and comparatively cheap, it's no surprise that others flow in. Once here and settling in (and barring a financial or physical catastrophe), that's the new status quo.

Just an opinion among others but single family detached (SFD) in Metro Vancouver is now almost immune to downward pressures, especially in certain favoured areas and as these localized SFD prices rise, they pull up SFD prices in other areas.

It's classic supply and demand. Here in the constrained Lower Mainland, the set number of existing titles and zoned lots physically limits the current and future supplies of SFD. As more money enters the markets chasing this limited supply, prices rise. Barring the Big One and its ilk, Metro Vancouver SFD prices might wobble but longer term, there's no going back.

Being physically linked to the neighbours, townhouses aren't quite in the same exclusive limited league but if and where SFD is no longer available or affordable, quality attached is the second-best choice; private entrance ways, designated patches of dirt, quasi-SFD.

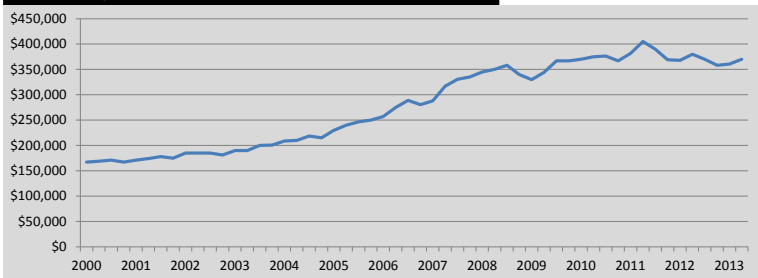
### Quarterly Sales Counts/ BC All



Condominiums? For those who crave home ownership in what's now one of the world's most expensive cities and can't afford (or don't want) the above, condos are the only doors left open, be it wood frame or concrete.

But not all condos are alike. With the dripping echoes of the Great Leaky Condo Crisis of the late 1990s (and ongoing), wood-frame condo construction is still easier to build and thus more affordable but it has become harder to market.

### Quarterly Median Sales Prices/ BC All



Among condo buyers, concrete is preferred . . . but although concrete and rebar are water resistant, in a (few) years to come and depending on the types used, the exterior walls of many of today's condo towers could be called into question, the next great leaky condo crisis gone vertical.

Window walls? Curtain walls? Punched windows?

More about this, later.

## The Numbers: Another Nick in the Wall

In a word or two: the BC markets are down over the last quarter, up year over year. Compared to Q4/13, first quarter 2014 was muted with volumes and values spotty, declines in almost all market matrices.

In Q4/13 the province saw 22,706 sales valued at \$11.08 billion. In Q1/14 it was 17,285 sales and \$9.79 billion in value for declines of 23.87 and almost 17 percent respectively.

However, on the year-over-year scale and despite the eternal expectations of a correction, median and average values are up province wide. SFD is double-digit strong, attached/townhouse and condo shows healthy gains, up 22.3 percent in sales (13,581 in Q1/13) and an impressive 48.7 percent in value, markedly up from \$6.59 billion last year.

As always, the Metro Vancouver matrix dominates the provincial scene in sales volume and values: 8,666 sales in Q1/14 worth \$6.94 billion or 50.14 percent of all BC sales and 70.83 percent of total value. On the year-over-year scale, Metro Vancouver is up 8.75 percent in volume and a whisper above 10 percent in yearly value. The numbers are all positive, seemingly relentless: increased prices and sales.

Down over the last quarter, up year-over-year; the basic pattern largely holds true for the rest of the province with SFD showing the most resilience (and rebound), condos the least, attached somewhere in the middle. However, the other matrices show mixed numbers, in flux and unlike relentlessly 'positive' Metro Vancouver

So why Metro Vancouver?

## When the Walls Open . . .

Call it another opinion but what The Economist calls "the greatest and most consequential wave of emigration in modern Chinese history" is seeing nouveau middle-class, largely Mainland Chinese not necessarily seeking better opportunities nor political freedom, but a better quality of life: "Chinese emigrants are leaving good jobs, cashing out their high-priced homes (or investment properties) and leaving China's rat race behind."

The Hurun Research Institute keeps track of the PRC's richest people via its annual "Wealth Report"; in its latest polls, 64 percent of respondents with a net worth of US\$16 million plus have either already secured a 'green card' or the foreign-visa equivalent or they plan to acquire one. Not necessarily for immediate use or for permanent emigration (business wise, the Asian economies are the places to be) but just in case. Meanwhile, prepare a safe place for family abroad.

Compared to the PRC's 1.3 billion population, the exodus of those with the means and wish to decamp is relatively small but the numbers are growing. In 2013 some 9.3 million Chinese citizens had obtained permanent resident status abroad, up almost 50 percent or four million from 2000.

Australia and North America are the big lures. In Canada, the two main magnets are Metro Vancouver and the Greater Toronto Area (GTA) with certain areas within being particularly strong draws, albeit with some pushback.

Ottawa recently suspended the federal 'investor immigrant' program; of the roughly 65,000 applications on the backlog, about 70 percent or 45,000 are Chinese nationals.

<sup>1</sup>% change Q4 '13- Q1'14 <sup>2</sup>% change Q1 '13- Q1 '14 <sup>3</sup>% change month to previous month

Gr. Vancouver		Q1 2014	Q4 2013	% Chg <sup>1</sup>	Q1 2013	% Chg <sup>2</sup>
Number of Sales		8,666	11,383	-23.87%	6,261	81.81%
Total Value of Sales		\$6.94B	\$8.08B	-14.12%	\$4.24B	90.55%
Detached	Average	\$964,905	\$934,482	3.26%	\$822,416	13.63%
	Median	\$865,000	\$838,000	3.22%	\$749,625	11.79%
Condo	Average	\$387,167	\$378,906	2.18%	\$364,066	4.08%
	Median	\$378,575	\$365,000	3.72%	\$351,500	3.84%
Attached	Average	\$476,916	\$461,558	3.33%	\$446,507	3.37%
	Median	\$439,900	\$428,000	2.78%	\$413,018	3.63%

Gr. Van. Monthly		Jan.	Feb.	% Chg <sup>3</sup>	Mar.	% Chg <sup>3</sup>
Number of Sales		3,207	2,547	-20.58%	2,912	-9.20%
Total Value of Sales		\$2.59B	\$1.96B	-24.60%	\$2.39B	-7.89%
Detached	Average	\$992,133	\$941,968	-5.06%	\$956,071	-3.63%
	Median	\$890,000	\$850,000	-4.49%	\$840,000	-5.62%
Condo	Average	\$401,597	\$385,667	-3.97%	\$371,648	-7.46%
	Median	\$392,750	\$368,000	-6.30%	\$362,000	-7.83%
Attached	Average	\$479,333	\$482,872	0.74%	\$469,445	-2.06%
	Median	\$439,900	\$442,500	0.59%	\$434,234	-1.29%

Vancouver Island		Q1 2014	Q4 2013	% Chg <sup>1</sup>	Q1 2013	% Chg <sup>2</sup>
Number of Sales		2,855	3,560	-19.80%	2,375	20.21%
Total Value of Sales		\$1.03B	\$1.31B	-21.66%	\$0.84B	23.10%
Detached	Average	\$387,275	\$390,312	-0.78%	\$377,240	2.66%
	Median	\$393,000	\$384,900	2.10%	\$381,500	3.01%
Condo	Average	\$239,765	\$237,865	0.80%	\$229,685	4.39%
	Median	\$235,871	\$241,646	-2.39%	\$235,182	0.29%
Attached	Average	\$316,567	\$303,453	4.32%	\$296,965	6.60%
	Median	\$325,000	\$304,750	6.64%	\$305,000	6.56%

Van. Island Monthly		Jan.	Feb.	% Chg <sup>3</sup>	Mar.	% Chg <sup>3</sup>
Number of Sales		920	887	-3.59%	1,048	13.91%
Total Value of Sales		\$346.74M	\$317.02M	-8.57%	\$366.29M	5.64%
Detached	Average	\$397,068	\$380,239	-4.24%	\$385,108	-3.01%
	Median	\$399,000	\$385,000	-3.51%	\$392,700	-1.58%
Condo	Average	\$237,414	\$244,974	3.18%	\$237,351	-0.03%
	Median	\$235,871	\$247,965	5.13%	\$233,000	-1.22%
Attached	Average	\$309,085	\$337,591	9.22%	\$308,088	-0.32%
	Median	\$300,000	\$342,000	14.00%	\$323,000	7.67%

Okanagan		Q1 2014	Q4 2013	% Chg <sup>1</sup>	Q1 2013	% Chg <sup>2</sup>
Number of Sales		2,128	2,968	-28.30%	1,742	22.16%
Total Value of Sales		\$0.69B	\$0.96B	-27.38%	\$0.54B	29.56%
Detached	Average	\$379,748	\$367,764	-29.33%	\$355,464	-26.88%
	Median	\$385,000	\$371,555	-27.33%	\$360,414	-25.09%
Condo	Average	\$207,180	\$209,884	-1.29%	\$202,187	2.47%
	Median	\$206,750	\$220,000	-6.02%	\$199,950	3.40%
Attached	Average	\$269,921	\$267,168	1.03%	\$263,294	2.52%
	Median	\$270,500	\$278,000	-2.70%	\$280,000	-3.39%

Okanagan Monthly		Jan.	Feb.	% Chg <sup>3</sup>	Mar.	% Chg <sup>3</sup>
Number of Sales		684	643	-5.99%	801	17.11%
Total Value of Sales		\$222.27M	\$209.10M	-5.93%	\$263.22M	18.43%
Detached	Average	\$387,767	\$385,010	-0.71%	\$368,561	-4.95%
	Median	\$391,000	\$386,000	-1.28%	\$373,500	-4.48%
Condo	Average	\$208,095	\$199,859	-3.96%	\$211,620	1.69%
	Median	\$206,250	\$203,500	-1.33%	\$212,200	2.88%
Attached	Average	\$268,006	\$272,461	1.66%	\$269,979	0.74%
	Median	\$269,000	\$270,000	0.37%	\$284,000	5.58%

<sup>1</sup>% change Q4 '13- Q1'14   <sup>2</sup>% change Q1 '13- Q1 '14   <sup>3</sup>% change month to previous month

Fraser Valley		Q1 2014	Q4 2013	% Chg <sup>1</sup>	Q1 2013	% Chg <sup>2</sup>
Number of Sales		1,967	2,279	-13.69%	1,714	14.76%
Total Value of Sales		\$0.76B	\$0.89B	-14.20%	\$0.65B	16.95%
Detached	Average	\$458,470	\$451,920	1.45%	\$446,470	2.69%
	Median	\$445,888	\$442,250	0.82%	\$440,000	1.34%
Condo	Average	\$175,826	\$177,834	-1.13%	\$186,823	-5.89%
	Median	\$187,000	\$187,500	-0.27%	\$194,700	-3.95%
Attached	Average	\$286,834	\$284,758	0.73%	\$284,876	0.69%
	Median	\$290,000	\$283,135	2.42%	\$287,000	1.05%

Fraser Valley Monthly		Jan.	Feb.	% Chg <sup>3</sup>	Mar.	% Chg <sup>3</sup>
Number of Sales		653	580	-11.18%	734	12.40%
Total Value of Sales		\$250.23M	\$226.59M	-9.45%	\$285.18M	13.97%
Detached	Average	\$462,948	\$467,818	1.05%	\$447,979	-3.23%
	Median	\$454,643	\$450,100	-1.00%	\$437,500	-3.77%
Condo	Average	\$178,248	\$174,794	-1.94%	\$174,138	-2.31%
	Median	\$190,057	\$185,500	-2.40%	\$185,000	-2.66%
Attached	Average	\$300,288	\$287,547	-4.24%	\$274,515	-8.58%
	Median	\$312,500	\$289,000	-7.52%	\$281,000	-10.08%

BC North/NW		Q1 2014	Q4 2013	% Chg <sup>1</sup>	Q1 2013	% Chg <sup>2</sup>
Number of Sales		1,126	1,691	-33.41%	1,043	7.96%
Total Value of Sales		\$244.43M	\$357.55M	-31.64%	\$213.18M	14.66%
Detached	Average	\$236,674	\$239,392	-1.14%	\$228,355	3.64%
	Median	\$250,000	\$251,250	-0.50%	\$237,500	5.26%
Condo	Average	\$96,764	\$135,901	-28.80%	\$92,143	5.02%
	Median	\$104,500	\$142,857	-26.85%	\$93,000	12.37%
Attached	Average	\$210,806	\$207,423	1.63%	\$189,114	11.47%
	Median	\$255,000	\$238,750	6.81%	\$205,000	24.39%

BC North/NW Monthly		Jan.	Feb.	% Chg <sup>3</sup>	Mar.	% Chg <sup>3</sup>
Number of Sales		324	368	13.58%	434	33.95%
Total Value of Sales		\$72.04M	\$76.02M	5.52%	\$96.37M	33.76%
Detached	Average	\$240,339	\$229,406	-4.55%	\$239,764	-0.24%
	Median	\$250,000	\$250,000	0.00%	\$250,000	0.00%
Condo	Average	\$108,635	\$93,226	-14.18%	\$97,983	-9.80%
	Median	\$105,000	\$93,000	-11.43%	\$104,500	-0.48%
Attached	Average	\$211,090	\$208,591	-1.18%	\$212,979	0.89%
	Median	\$257,450	\$205,551	-20.16%	\$280,000	8.76%

Kootenay		Q1 2014	Q4 2013	% Chg <sup>1</sup>	Q1 2013	% Chg <sup>2</sup>
Number of Sales		543	825	-34.18%	446	21.75%
Total Value of Sales		\$125.64M	\$203.00M	-38.11%	\$108.64M	15.65%
Detached	Average	\$259,912	\$272,352	-4.57%	\$253,773	2.42%
	Median	\$270,000	\$280,000	-3.57%	\$264,500	2.08%
Condo	Average	\$156,917	\$169,388	-7.36%	\$153,130	2.47%
	Median	\$161,500	\$187,500	-13.87%	\$173,000	-6.65%
Attached	Average	\$269,510	\$250,221	7.71%	\$238,451	13.03%
	Median	\$259,500	\$255,595	1.53%	\$233,223	11.27%

Kootenay Monthly		Jan.	Feb.	% Chg <sup>3</sup>	Mar.	% Chg <sup>3</sup>
Number of Sales		175	155	-11.43%	213	21.71%
Total Value of Sales		\$39.89M	\$37.05M	-7.13%	\$48.70M	22.07%
Detached	Average	\$246,539	\$263,428	6.85%	\$267,881	8.66%
	Median	\$262,500	\$273,000	4.00%	\$275,000	4.76%
Condo	Average	\$127,692	\$191,904	50.29%	\$155,675	21.91%
	Median	\$114,000	\$227,500	99.56%	\$150,000	31.58%
Attached	Average	\$308,579	\$239,947	-22.24%	\$253,533	-17.84%
	Median	\$306,250	\$246,300	-19.58%	\$256,202	-16.34%

Prior to the cancelation of what Prime Minister Stephen Harper called the “Canadians of convenience” program, investors/immigrants were required to invest \$800,000 in return for a visa.

But that was then. As The Economist speculates “Canadian officials feel they set the bar too low” noting that a two-bedroom condo in Beijing sells for \$725,000 and that’s in a mega-city sprawl not known for its air quality, lifestyle, clean water, rule of law and so forth.

But even with the shelving of the federal investor/immigrant program, other provinces such as Quebec have their own similar programs. Meanwhile and going by the relentlessly rising annual price gains, specific areas of Canadian real estate are still coveted from outside, despite so-so economic indicators on the inside.

## Closer to Homes

Ottawa is tightening up the banks’ capital requirements, working to reduce the economy’s historic dependence upon the United States with trade agreements with the European Union and South Korea. Aside from plans for contentious figurative and literal oil and gas pipelines (and tankers) to Asia, Canada is now a member of the Trans-Pacific Partnership.

On the negative side, the IMF predicts that Canada’s GDP growth will be 2.3 percent in 2014; respectable but so-so in G7 terms. Ditto for job creation and other economic drivers. Or to again cite The Economist: “A long-predicted recovery in business investments and exports has yet to appear, leaving the tapped-out [Canadian] consumer as the main driver of growth.”

Driving? Perhaps ‘careening’ is the better word. Household debt has moderated, slightly, but it’s still a worrisome 93 percent of GDP in Q3/13 (versus a ‘mere’ 76 percent in Q3/07) Much of it is in the form of mortgages.

In turn and according to the latest figures from The Economist, Canadian housing markets are overvalued nationally by 76 percent and by 31 percent when set against long-term average rents and incomes respectively. These are national figures and don’t section out the big three; Metro Vancouver, Greater Toronto Area (GTA) and Calgary.

Despite the Bank of Canada and Ottawa’s attempts to cool the housing markets and restrict CMHC insurance, overall residential markets aren’t listening. In hothouse markets such as the GTA, Metro Vancouver and Calgary and specific to certain product types, quite the contrary. Prices just keep climbing, especially with coveted SFD.

For example and it’s what The Vancouver Sun (May 13/14) calls “the latest weirdly expensive anomaly to hit the Vancouver housing market”, a Vancouver Westside home sold in 24 hours for \$3 million plus and \$190,000 above the asking price. The property’s former owners bought the four-bedroom abode in 2000 for \$739,000 and have now realized a \$2.3-million or \$450 a day gain in value.

The price gain isn’t the weird news. The increasingly common anomaly is that the four-bedroom 2,950-square-foot house will likely be torn down. Bad luck for the old abode but it sits on a one-fifth acre lot; the allowable buildable maximum is 5,300 square feet and the new owners reportedly want the max.

The \$3-million sale: basic lot value, not to mention the cost of demolition.



In the most desired areas of Metro Vancouver, SFD sells fast, often above the asking price and 'tear downs' are not uncommon. In The Sun article, Re/Max Select Properties realtor Wayne Hamill says in the buyers' eyes, it's simple economics: get the maximum use from the available land.

The Sun notes the "teardown trend is driven in part by land-hungry developers looking for space to fill the insatiable demand for top-end Vancouver luxury homes. It also appears to reflect the size preference of the market's largely Chinese buyers."

The Sun cites a number of recent West Vancouver examples: the cozy 1,400-square-foot 1954 rancher that sold for \$1 million more than the \$1.8 million asking price, the triple-lot-potential 50-year-old waterfront mansion in "reasonably good condition" listed as a \$38-million teardown. As Hamill noted: "Anyone who purchased a house on the West Side more than five years ago, is sitting on a lottery ticket."

The 'spare no cost (spare no walls)' phenomena aren't confined to West Van. In April, a three-bedroom 100-year-old house in East Vancouver, which The Sun says "briefly held the title of the city's cheapest listed house", sold for \$633,000 and \$44,000 above asking price.

For years, pundits have impatiently expected the Vancouver residential market to go 'pop' and crash or at best, deflate. Although there has been the odd tremble, the market stubbornly refuses to listen, especially in the prized SFD arena and even more so in certain targeted areas, buoyed up by limited supply/lack of land and seemingly endless – and well heeled – outside demand, still unfazed by prices which are now unaffordable by most local standards.

Frankly, it's hard to blame the buyers. Vis-à-vis the rest of the world and even though Metro Vancouver is 'boring' in terms of business opportunities, it's green, clean, the tap water is sweet, and the air is relatively clear. What with the global travails of climate change inexorably bearing down, with unimaginable political and social unrest to follow, culturally diverse Metro Vancouver is a good place to be . . . and the world knows it.

## Of Course, Others Disagree

The world's largest manager of bond funds, London-based Pacific Investment Management Co. (Pimco) predicts that by year's end, the "overvalued" Canadian housing markets will begin to "roll over" and fall by as much as 20 percent over the next five years. In December, Deutsche Bank called the Canadian market the most overvalued in the world with prices 60 percent too high and unsustainable. On a more muted note, in April the International Monetary Fund and TD Bank put the overvaluation at a mere 10 percent overall but without singling out specific markets.

Back in those specific markets, ever fewer seem willing to listen to Cassandra. In early May, the Bank of Montreal released a national survey where 34 percent of those polled were willing to enter into a bidding war to secure a property; last year a mere 13 percent were willing to enter the fray. Unsurprisingly, Toronto posted the highest number of combatants at 44 percent. Vancouver was next at 41 percent -- roof warriors, all.

## Oh Yes, Back to Those Walls

As SFD goes out of reach for most, the next step up (or down): townhouses and condos. Urban land is valuable. Mindful of price

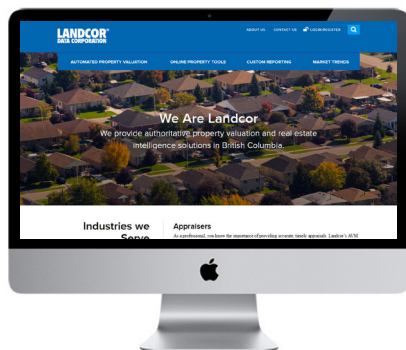
points, developers prefer to maximize the yield per acre, city planners generally favour select densification versus sprawl and 'affordable' piled-up condos make the most sense.

Unlike land that is eternal, sort of, anything built by humans buildings aren't around forever, roofs leak, gutters drip. Even concrete towers age, the innards wear out and maintenance fees rise. However, there's 'rising' and there's 'ravenous'.

In the next issue, we'll look at the rise of the condo towers and exterior-window assemblies, specifically the differences between 'punched' windows versus 'curtain wall' versus 'window wall' construction and why the 'city of glass' could be setting itself up for the Great Leaky Condo Crisis Gone Vertical.

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