

# Current Real Estate Market and Potential Risk Factors

Presentation for G-Force  
Real Estate Recovery Solutions  
– A Seminar for Lenders  
Tsur Somerville  
June 2009

## Suddenly It Is Happy Days

- **National resale housing market activity returned to pre-recession levels in May 2009.**  
*Canadian Real Estate Association news release June 15, 2009*
- **The national MLS® residential average sale price in May 2009 reached the highest monthly level on record.... Over the past four months, the national MLS® residential average price has recovered 16.4 per cent from the low in January.**  
*Canadian Real Estate Association news release June 15, 2009*
- **“The increase in May {in housing starts} is broadly based, encompassing both the singles and multiples segments,” said Bob Dugan, Chief Economist at CMHC’s Market Analysis Centre.**

*CMHC News release June 8, 2009.*

- A seven-year real estate bubble has burst in the Metro Vancouver housing market, the Real Estate Board of Greater Vancouver said Monday... {Board President} Watt said the perception is that prices are still falling, so it is hard to identify the bottom of the market..

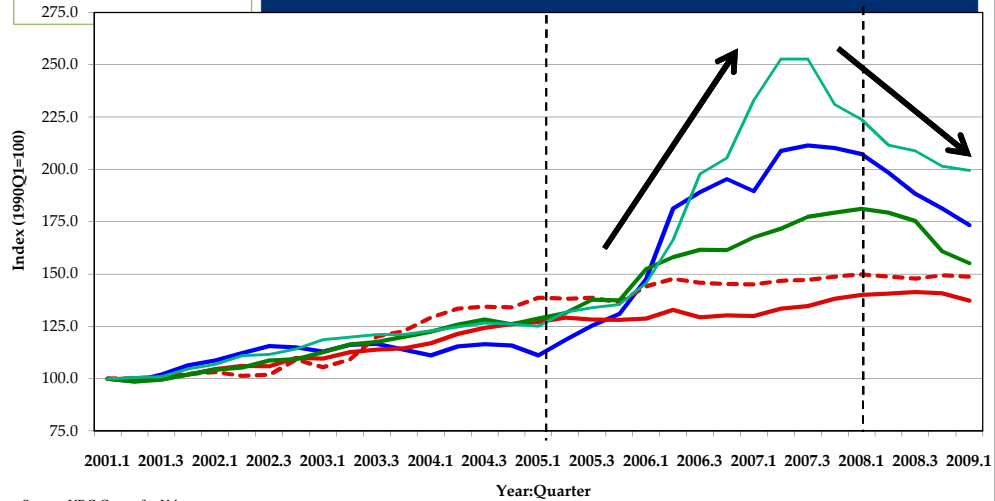
*CBC January 5, 2009*

- To some real estate agents, the market looks as good as it did before the global financial crisis began to bite last summer.

*Globe and Mail June 20, 2009*

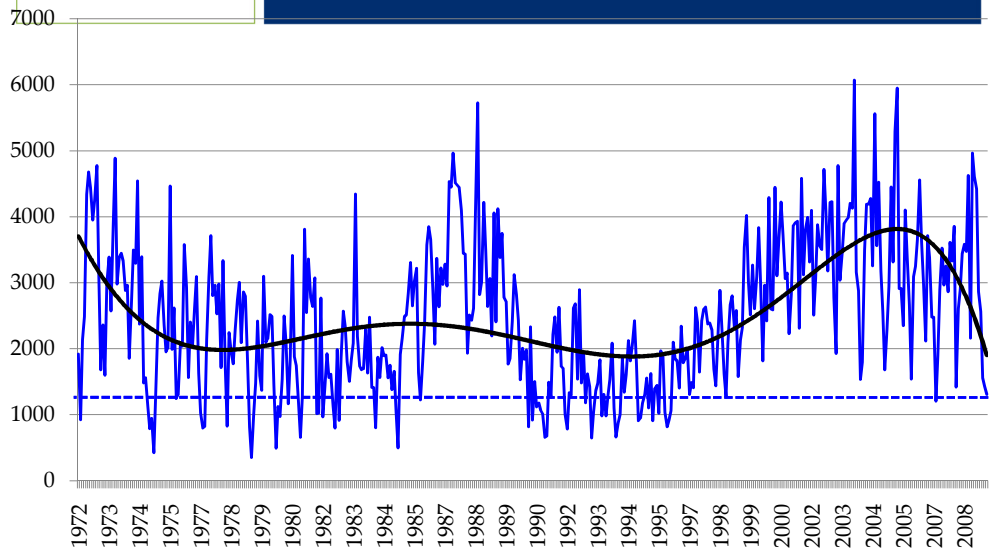
- **Layout**
  - Conditions
  - Concerns
- **Identify key issues**
  - Interest rates
  - Economic fundamentals
- **Highlight: Things to be worried about**

## 2001-2008: Inflation Adjusted House Prices Select Canadian Metropolitan Areas

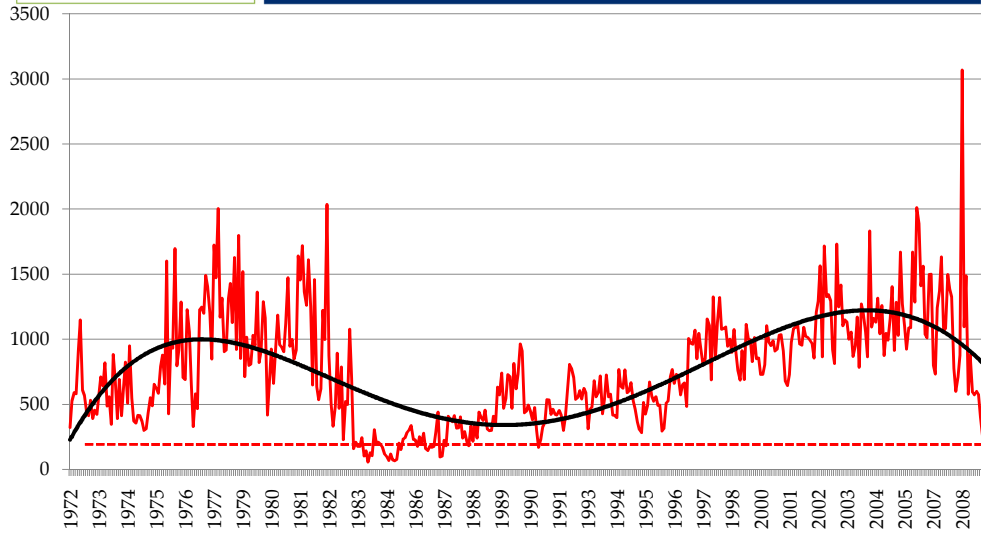


Source: UBC Centre for Urban Economics and Real Estate calculations using Royal LePage and Terranet house price data

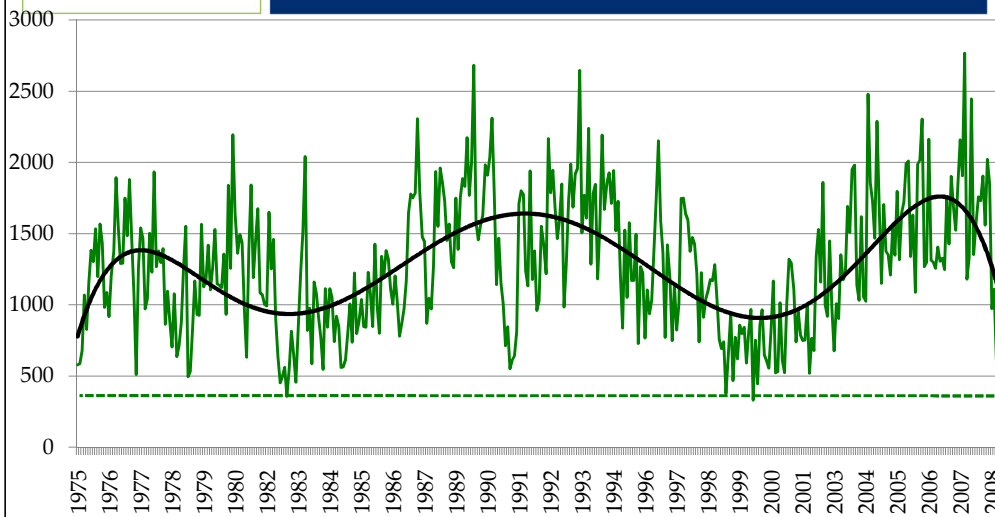
## Drop in Starts - Toronto



## Drop in Starts - Calgary



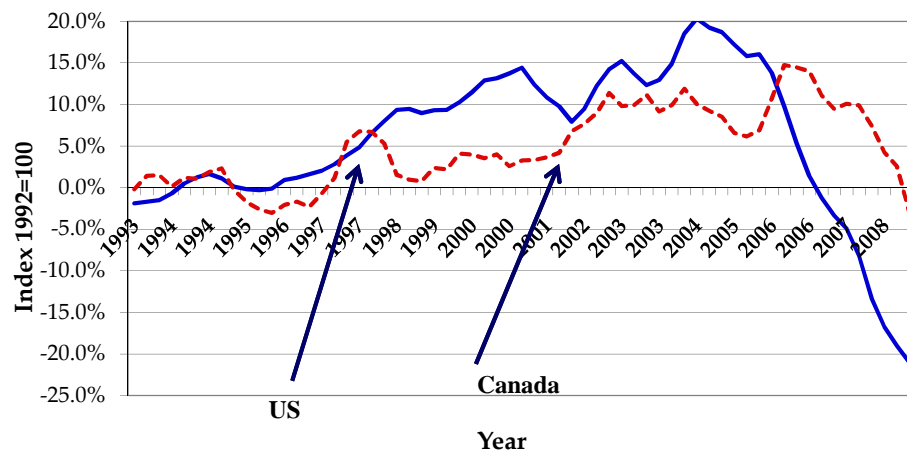
## Drop in Starts - Vancouver



## The Latent Worry: Are We the US

- US Started into decline earlier
- It has been deeper
- Not uniform
- Financial system differences

## Change in House Prices



Sources: US, S&P/Case Shiller 10 City Composite;  
Canada, 9 City Composite of Royal LePage house price data

— US    - - - Canada

- Not uniform across US
- In problem cities: high growth, steep fall

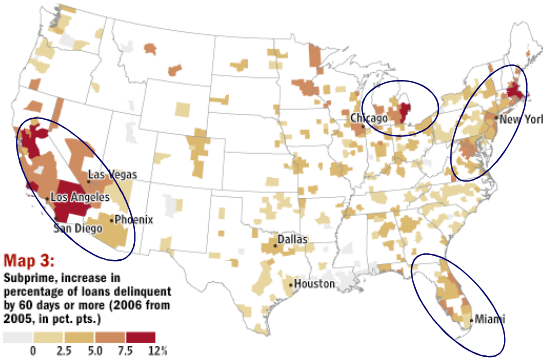
City	Months with growth >20%	Peak annual growth rate	Peak-trough
Phoenix	19	49%	-46%
Los Angeles	23	33%	-37%
Miami	23	32%	-41%
Las Vegas	16	53%	-44%
Chicago	0	10%	-18%
Seattle	0	19%	-17%
New York	0	18%	-15%

Source: S&P Case-Shiller

City	Quarters with growth >20%	Peak annual growth rate	Drop: Peak-Trough
Calgary	4	49%	-17%
Edmonton	6	48%	-20%
Halifax	0	14%	-7%
Montreal	0	20%	-1%
Ottawa	0	16%	-1%
Regina	5	45%	-7%
Toronto	0	10%	-5%
Vancouver	0	19%	-14%
Winnipeg	0	14%	-5%

Sources: UBC Centre for Urban Economics and Real Estate consolidation of price data from Royal LePage Survey of Canadian House Prices

## Increase in Subprime Delinquency

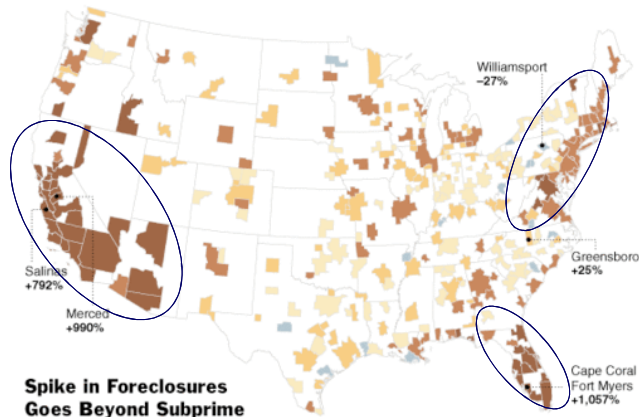


**Map 3:**  
Subprime, increase in percentage of loans delinquent by 60 days or more (2006 from 2005, in pct. pts.)

0 2.5 5.0 7.5 12%

Metropolitan areas	State	MAP 3: Change in delinquencies from '05, in pct. pts. †
Sacramento	Calif.	10.68
Merced	Calif.	9.82
Modesto	Calif.	9.74
Brockton	Mass.	9.72
Stockton-Lodi	Calif.	9.27
Barnstable-Yarmouth	Mass.	9.24
New Bedford	Mass.	9.00
Fitchburg-Leominster	Mass.	8.93
Yuba City	Calif.	8.88
Lowell	Mass.; N.H.	8.83

## Jump in Foreclosure on Prime Mortgages: In High House Price Growth Areas



### Spike in Foreclosures Goes Beyond Subprime

All but 15 of 301 metropolitan areas had an increase in foreclosures on prime-rated loans this February versus a year earlier. California and Florida were hit the hardest — 19 of the 20 worst cities were in those states — and foreclosures have risen more than 500 percent in some areas.

Source: First American CoreLogic

**Foreclosures on prime mortgages**  
Change from February '07 to February '08

DECREASE INCREASE

0 +25 +50 +200%

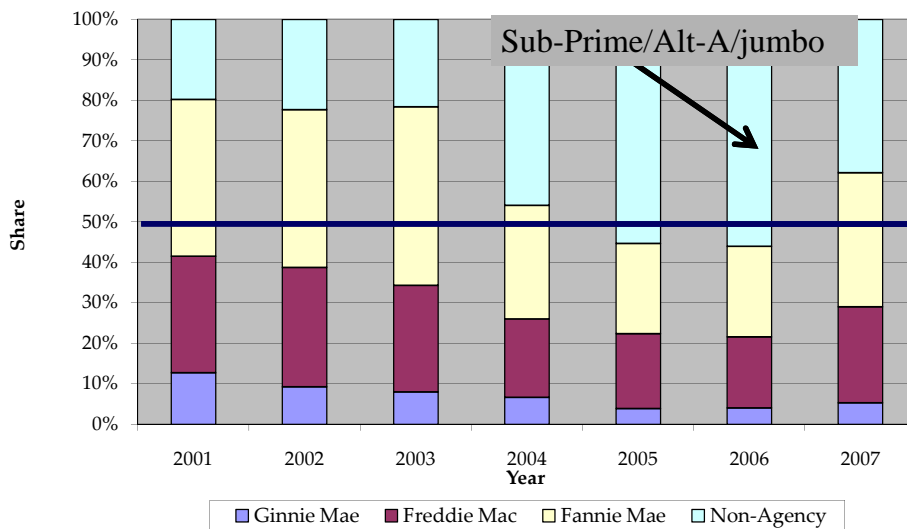
## US Subprime Share of Single Family Originations

Year	FHA/VA	Conventional / Conforming	Jumbo	Subprime	Alt-A	Home Equity Line of Credit
2001	7.9%	57.1%	20.1%	7.2%	2.5%	5.2%
2002	6.1%	59.1%	19.8%	6.9%	2.3%	5.7%
2003	5.6%	62.4%	16.5%	7.9%	2.2%	5.6%
2004	4.6%	41.4%	17.6%	18.5%	6.5%	11.3%
2005	2.9%	34.9%	18.3%	20.0%	12.2%	11.7%
2006	2.7%	33.2%	16.1%	20.1%	13.4%	14.4%
2007	4.9%	47.3%	14.3%	7.9%	11.3%	14.4%

15% (arrow pointing to 7.2% in 2001)

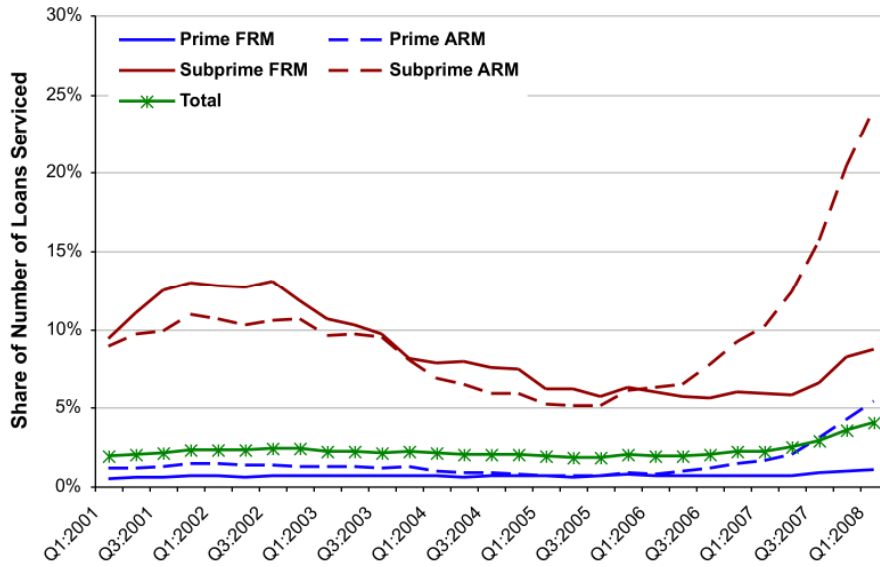
48% (arrow pointing to 11.3% in 2007)

## Similar Story for Securitization: US Shares of MBS Issued

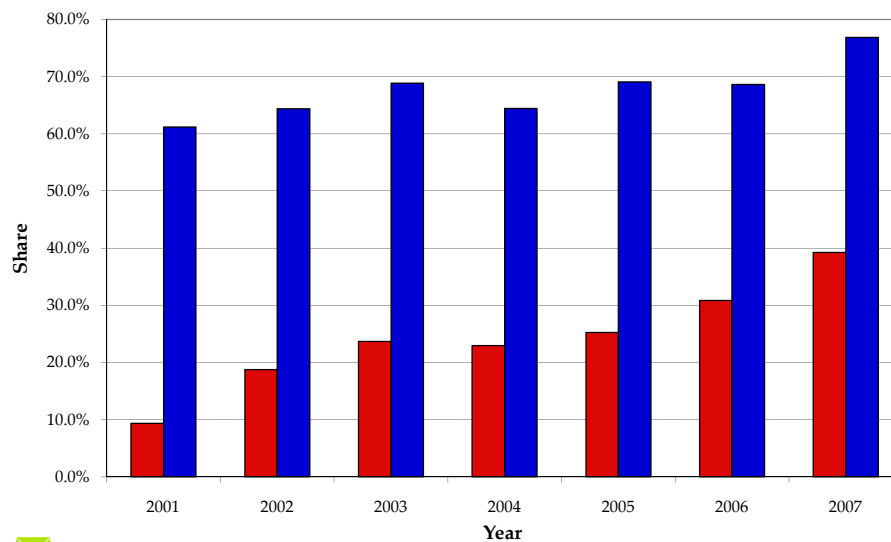




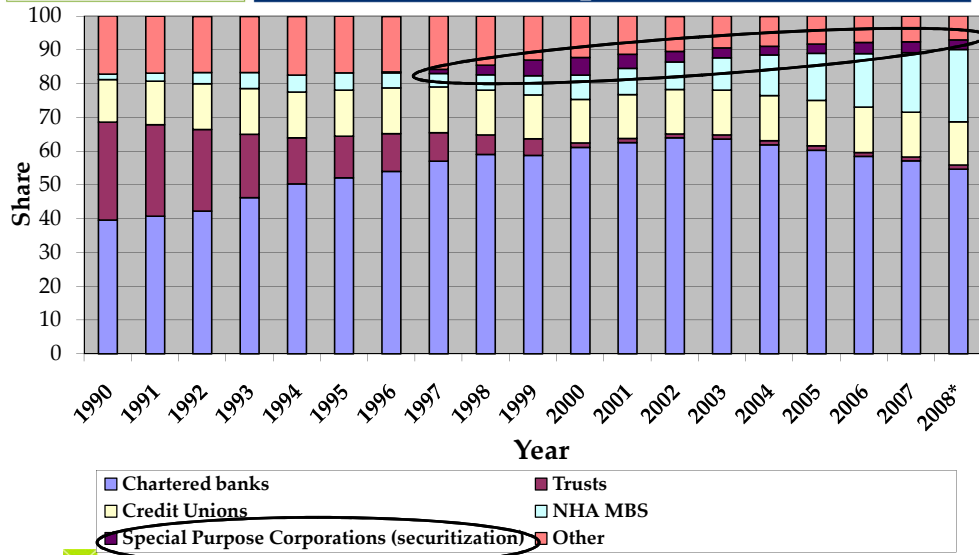
# US Delinquency Rates



# MBS Share: Single family origination US vs Canada



## Canada: Mortgage Debt Shares Securitized Subprime is Small



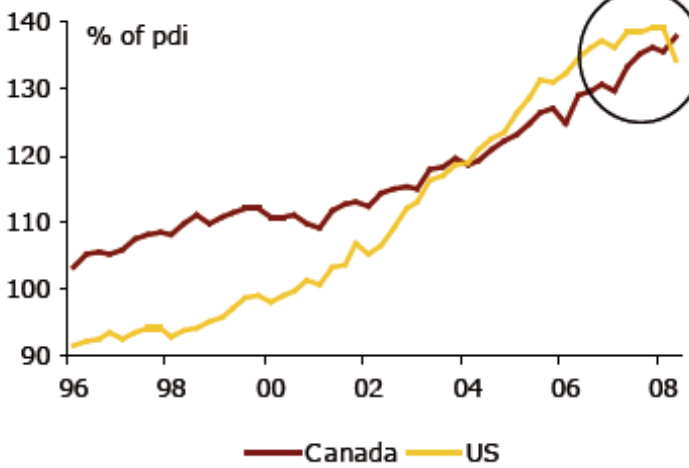
## The Worry: Part One

- Downturns don't turn around in 5 months
- Structural problems

## Recovery Time: Vancouver Real Prices



## Household Debt to Income: US vs Canada



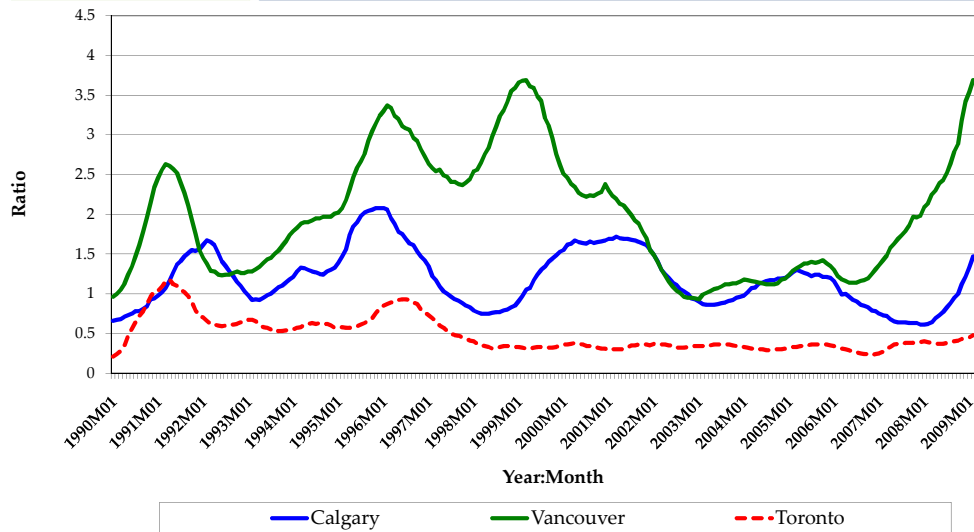
Source: CIBC World Markets,  
Household Credit Analysis 3/09

## Mortgages in Arrears (%)

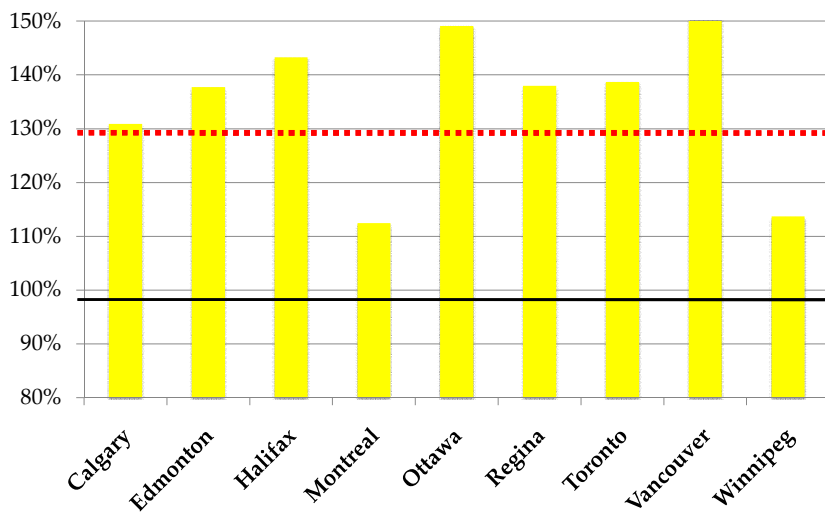


## Supply Issues

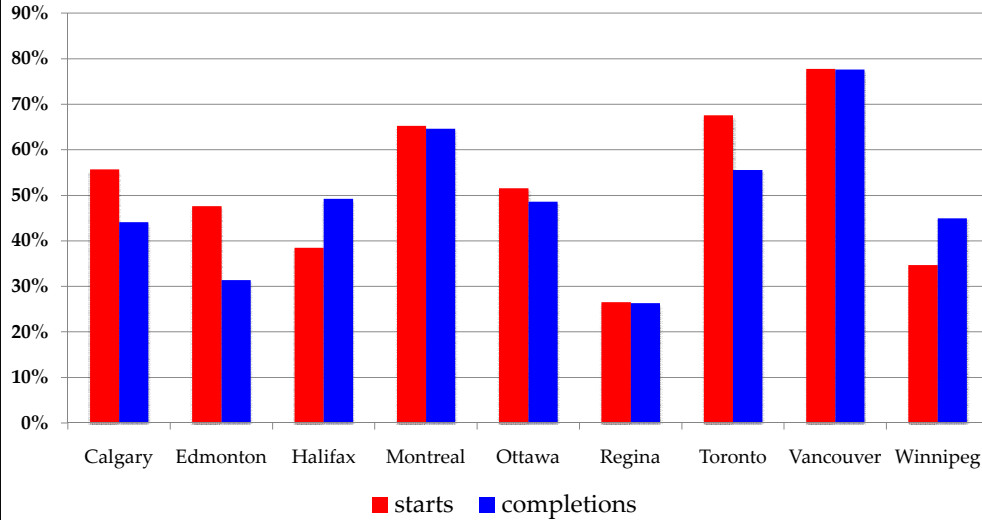
## Ratio Unabsorbed Units to Absorption



## Starts as % of Est. Household Growth: 2001-06



## Percent of New Construction in Condos/Apartments/Townhouses



## Vancouver Demand/Product Composition

Household type	Percent of 2001-06 Growth	Median Income 2006
<b>Two adults w/ children</b>	<b>20%</b>	<b>\$79,900</b>
Two adults w/o children	38%	\$70,400
Single	27%	\$30,300
Other	15%	\$51,800

Unit Type	Percent of 2007-08 Growth
<b>Single Family</b>	<b>20%</b>
Duplex	3%
Townhouse	12%
Apartment	65%

## Interest Rates and the Current Boom

- Rates are at historic lows
- Interest rate conditions are driving current market

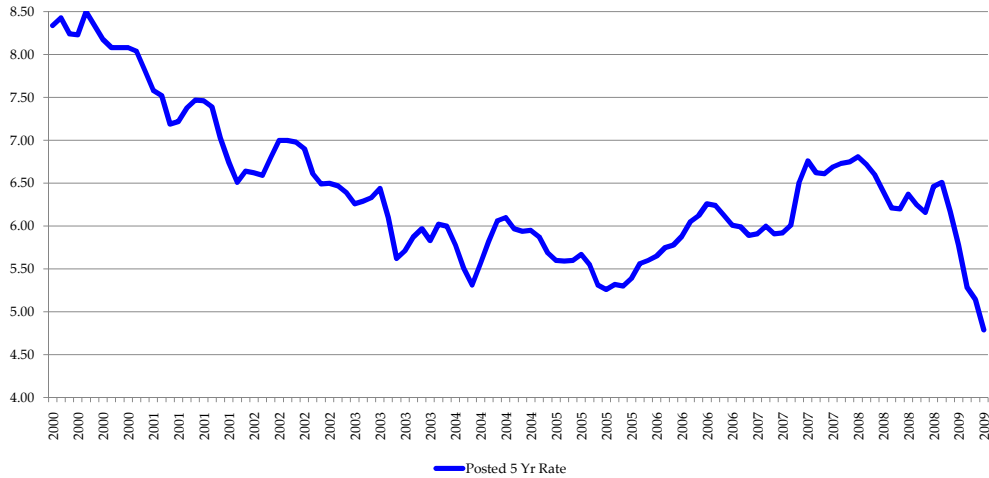
## Caveat on Interest Rates

Posted 5 Yr Rate

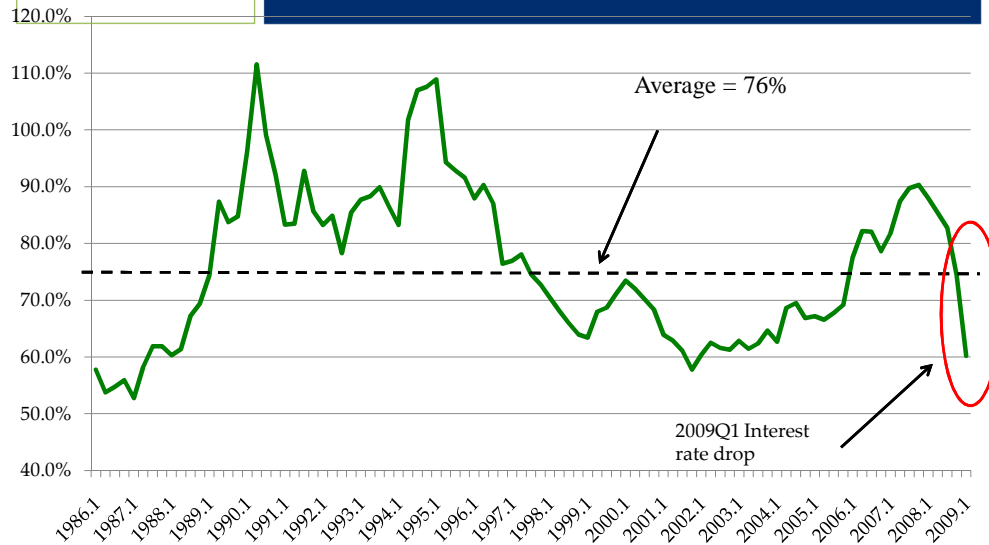


# Over Boom Years

Posted 5 Yr Rate



# Vancouver Loan Payment: Median Income Ratio (80% LTV, Median Income, Detached House)





- **Supports higher prices**
  - In an asset equilibrium
  - Improves Affordability: payment/income ratio
- **Equilibrium analysis is problematic**
  - Are these the “right” rates?

- **From Whence the Recovery?**
- **Construction and the Last Boom**



Dubai	Vancouver
Trade	Pacific Gateway
Tourism	Tourism
Commodities (Oil)	Western Canada = Commodities
Construction Boom	Infrastructure & real estate construction

## Vancouver Economic Boom = Construction Boom

### Shares of GDP

Sector	Dubai (2004)	Hong Kong(2006)
Construction	11%	3%
Real Estate	10%	4%
Trade	16%	31%
Finance	10%	12%

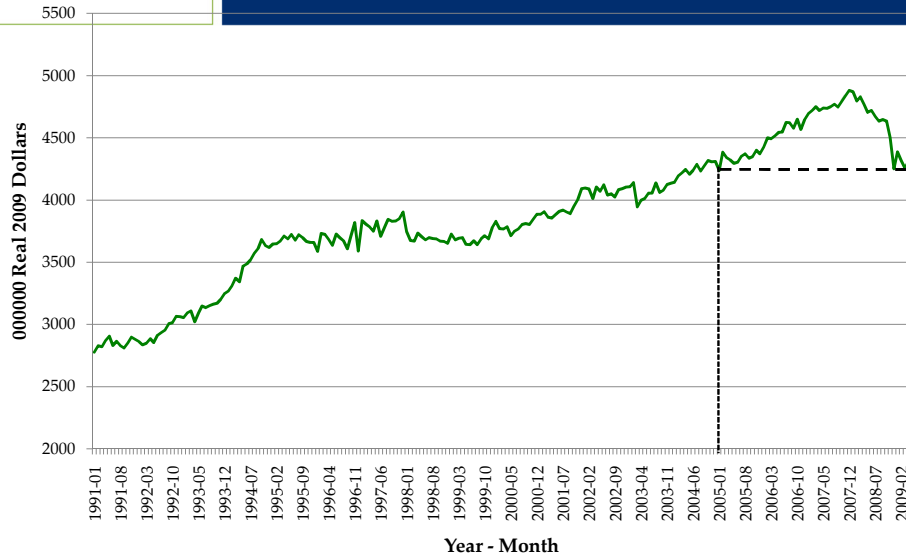
### Vancouver Construction Employment

Share	
Share of Total Employment (11/2008)	9%
Share of Employment Growth 2001-08	32%
Share of Employment Growth 1981-2008	14%

## Going Forward

- Whither interest rates?
- Credit supply/ refinancing
- All those condos

## BC Retail Sales - Constant Dollars



## Refinancing Crisis?

	2007	Using Historic cap	Current w/ 15% drop in NOI
NOI	\$500,000	\$500,000	\$425,000
Cap Rate	0.059	0.0735	0.0735
Value	\$8,475,000	\$6,803,000	\$5,782,000
<b>Loan</b>			
LTV	0.7	0.6	0.6
Amount eligible	\$5,932,500	\$4,081,800	\$3,469,200
Equity draw for refinance		\$1,850,700	\$2,463,300
Remaining equity		\$870,500	\$(150,500)

- **Faltering Pre-sales**
  - Conditions
    - > Prices down 15%
    - > Projects built with pre-sales of < 15% deposit
  - Buyer incentive to complete sale?
- **Investors**
  - Downtown: estimated 40% of condos
  - Owner occupier: sell and buy new (-1, +1)
  - Investor: sell and invest elsewhere (-1, 0)