

REAL ESTATE

Smaller cities likely best sellers' markets

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TORONTO -- Saskatoon and Sudbury are the cities most likely to buck an expected cooling in home prices this year, according to Adrienne Warren, senior economist at the Bank of Nova Scotia.

"We look at demand, affordability and supply. These are the only two centres to hit all three of those measures positively," Ms. Warren said in Toronto at the bank's annual real estate outlook conference for 2008.

Last year, Saskatoon ranked first and Sudbury fourth in terms of gains in resale home prices. Edmonton, Regina and Calgary rounded out the top five.

Reduced affordability has finally cooled Alberta's residential real estate markets, where a glut of supply has actually tipped Edmonton from a sellers' into a buyers' market, Ms. Warren said.

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It's the smaller cities where homes can still be had for less than \$300,000 that are expected to thrive in 2008, said Phil Soper, president and chief executive officer of Brookfield Real Estate Services, who also spoke at the event.

Other markets identified as likely to outperform the average this year include Regina, Winnipeg, Hamilton, Quebec City and St. John's.

As Canada's "strongest and longest" housing boom of the post-Second World War era winds down this year, growth in housing prices is expected to moderate, Ms. Warren said.

House prices are likely to rise about 3.5 per cent this year from 2007, while the number of houses sold are expected to drop about 4 per cent, Mr. Soper said.

That compares with a 10.8-per-cent home price increase and 7.9-per-cent jump in sales year over year in 2007, according to data from the Canadian Real Estate Association.

Home prices climbed by an average of 65 per cent during the nine-year housing boom that took place from 1998 to 2007. That compares with a range of between 32 to 56 per cent during the prior booms of the 1960s, 1970s, and 1980s.

While Canada's residential real estate market is expected to remain much stronger than that of the United States, the elephant in the room is the unknown severity of the economic downturn south of the border.

Highly exposed Windsor, Ont., exhibited Canada's weakest performance in terms of home price gains and demand fundamentals, such as employment growth, in 2007.

In the event of much deeper U.S. economic woes, that pain could spread to other manufacturing centres in Ontario and Quebec, eating into real estate activity, Ms. Warren said.

Another trend in the housing market is the growth in popularity of condominiums because there are more older and first-time buyers, and the cost of owning a detached home has increased. In 2009, home builders will likely construct more multiresidential than detached buildings for the first time since the 1950s, Ms. Warren said.

The country also doesn't appear set for a dramatic real estate correction like the one that took place in the 1980s.

Builders stuck with large inventories in the previous housing bust have been more cautious about putting up new buildings before making sales, and there have been less speculative buyers in the market this time around, Ms. Warren said.

More stable scenario

On much more solid footing this time around, Canada's residential real estate market is in little danger of a 1980s-style collapse. Why?

lower inventories of unsold homes

tighter lending guidelines for developers

less speculative home buying by investors

and average yearly price growth of 6 per cent, compared with 10 per cent in the 1980s.

Source: Bank of Nova Scotia

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