



HOME AFFORDABILITY

by Peter Dolezal [The Naked Homeowner](#)

As I predicted over the past few months, Greater Victoria's real estate market is definitely moving from an undisputed Buyer's Market, back toward a more Balanced Market. "SOLD" signs are popping up at a pace not seen for almost a year.

The combined effect over the past year, of record-low interest rates, and a downward price-adjustment approaching 10%, has enticed first-time buyers back into the market.

First-time buyer activity is the most important signal of market recovery. Entry-level real estate purchases drive market activity on more expensive properties, as sellers move up the price scale with their next purchase.

The big question now is, how long will this market pick-up last? Is it a flash in the pan, or is it the beginning of a long-term turnaround?

Already, the mortgage market is signaling higher interest rates, responding to recent bond-yield improvements which drive mortgage rates. In the short-term, perhaps over the summer, buyers will continue to scramble for mortgage pre-approvals before rates increase further. When, or if, confidence returns to the economy, interest rates will rise.

A short-term recovery in the real estate sector appears certain. The longer-term remains unpredictable.

I remain a proponent of first-timers jumping into this market, and locking into a 5-year mortgage at incredibly attractive rates. In so doing however, they must recognize, and start planning now, for the likelihood of much higher interest rates when they renew their mortgage five years later.

Today, real estate affordability has returned for many. It's likely however, to decline again in future years. How will the industry and society cope over the longer term?

Skeptics argue that changing demographics and declining affordability will result in permanent value declines. In some areas of the country, this may in fact occur. But because our local area will continue to be a magnet for those from other parts of Canada, I consider this to be highly unlikely in Greater Victoria.

Unlike cities like Calgary and Edmonton, Greater Victoria has little land available for development. This will maintain an upward pressure on land values. With neither labour nor materials likely to become less expensive over time, it's hard to see how our long-term real estate values can avoid continuing on an upward trajectory as well.

As this probability plays out, affordability for many will therefore again decline. Solutions will need to be found, not by government, but rather by the market place itself. As unit construction costs continue to increase, society may have to adjust to smaller-sized homes once again.

After World War II, the average new home was seldom more than 800 to 900 square feet in size, and usually sited on a tiny lot. In the late 50's and 60's, average new-home sizes moved up toward 1200 to 1400 square feet. In subsequent years, sizes skyrocketed to an average of well over 2000 square feet.

Perhaps we will have no choice but to see this size-cycle reverse itself. If the costs-per- square-foot are destined to increase, then the smaller home size may become the only real solution to affordability.

Already, Vancouver and Victoria have condo developments where the average unit size is less than 500 square feet. Many European countries, where unit costs are much higher than ours, have used the smaller-sizing solution for many decades.

Over time, both locally and in Canada generally, we may see this trend to smaller homes accelerating, both for condos and single-family homes. Something to ponder, as you plan your next move!

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