

Barbara Yaffe: Could interest-rate hike cool B.C.'s real estate market?

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An interest-rate increase for next spring hinted at Wednesday by the Bank of Canada could hit hardest in B.C., where home buyers have taken on big mortgages to deal with stratospheric property prices and where a low interest rate environment has added kindling to a red-hot housing market.

Photograph by: Gerry Kahrmann , PNG

If the Conference Board is correct in its latest prediction, things could become interesting in B.C. next spring.

Not “good” interesting. “Scary” interesting.

“We believe the Bank of Canada will begin raising (interest) rates in March 2016,” a new report from the Ottawa-based economic think-tank says, predicting slow and gradual rate increases thereafter.

The bank will be pressured to act in response to “inflation pressures (which) will begin to brew early next year.”

Clearly such a scenario could hit hardest in B.C. where home buyers have taken on big mortgages to deal with stratospheric property prices and

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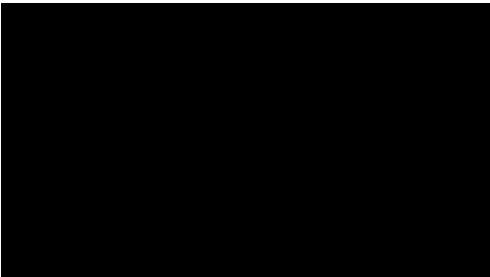
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where a low interest rate environment has added kindling to a red-hot housing market.

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British Columbians are second only to Albertans in the average per capita consumer and mortgage debts they are carrying.

Could an interest-rate hike in March act as a bucket of cold water on consumer and real estate activity?

Could it finally slow down the bidding wars that have been driving property prices higher in a fiercely competitive market?

For those with both mortgages and large debt loads, the effect of any interest-rate increase will be “unambiguously negative,” says Blair Mantin, vice-president of bankruptcy trustee Sands & Associates.

Mortgage payments take priority in people’s budgets, he says, and so, “we might also see increased needs to restructure unsecured debts,” such as credit-card balances.

Mantin believes interest-rate hikes would trigger “a deflationary impact on house prices in the Lower Mainland.”

The only way that would not occur is if incomes were to rise in tandem. But that is unlikely because “when interest rates are increased to control inflation, the economy often cools and any upward pressure on wages would be relieved.”

The real estate and finance industries are highly influential in the Vancouver region. Yet the Conference Board does not forecast any slowdown here in either the housing or retail sectors.

“We have a favourable outlook for retail sales and the housing market in B.C. next year,” said Marie-Christine Bernard, the board’s associate director of provincial forecasting, “because even though interest rates start to gradually move up at the beginning of the year, we have strong economic growth boosting labour demand and household disposable income.”

Certainly, for now, says the report, “the housing markets, both new and resale, remain in good shape.

“The resale market in Vancouver is the hottest in Canada, with solid demand and price increases so far this year.”

The report forecasts an increase in housing starts next year.

Retail sales in B.C. are projected to increase 9.2 per cent this year, against an average increase of 2.6 per cent nationally. An anticipated increase of 4.5 per cent in 2016 will keep the province in first place in retail sales growth.

The report, outlining its predictions for all the provinces, singles out B.C. as “the (economic) leader,” the only province that will see GDP growth of more than three per cent in 2015, at 3.1 per cent, followed by 2.7 per cent growth in 2016.

Only Manitoba is expected to surpass B.C. in economic growth next year,

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with a 2.8-per-cent increase in GDP.

With oil prices low, the two provinces have supplanted Alberta and Saskatchewan as Western Canada's economic kingpins.

At present, B.C.'s jobless rate is 5.8 per cent, which is pretty close to full employment, usually measured at 5.5 per cent.

The unemployment rate in 2016 is forecast to decrease to 5.7 per cent, which would be lower than that of Alberta, at 5.8 per cent.

B.C.'s per capita household income, at \$38,890, will exceed the national average of \$37,588 next year, and will be second highest in the country, behind Alberta.

Two points of uncertainty cited by the Conference Board were job creation in B.C. and the future of an LNG industry.

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