

A Comment on Vancouver Housing Prices

High Vancouver housing prices have recently been making headlines with reports that relative to income, affordability has declined sharply.¹ This is not surprising given the level of the commonly referenced Real Estate Board of Greater Vancouver (REBGV) average MLS® price, which reached \$831,500 in May. A recently released report from a Canadian bank estimated that the price-to-income ratio in Vancouver had reached 11.2 in April.²

This price-to-income ratio is astronomical, but we argue that it overstates actual market conditions. The figure is inflated due to a mismatch between the geographic definition of the housing market and that of income, as well as the use of average price levels. We make use of land title transfer data to make our case.

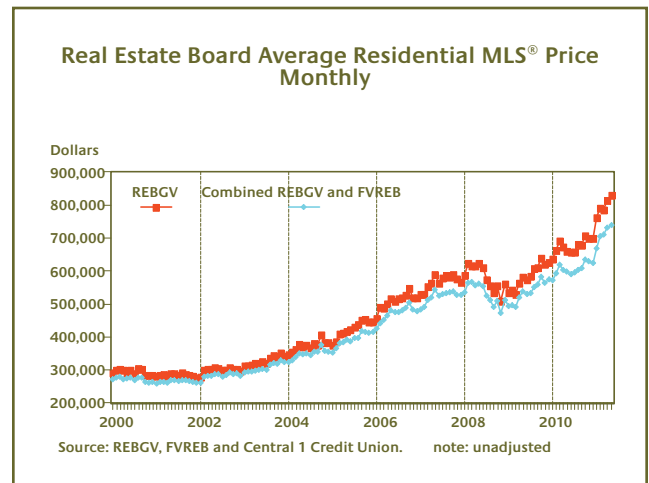
The REBGV average price data is the most commonly cited market metric in analyzing Metro Vancouver prices levels and price growth given the ease of comparability of average prices with other markets in B.C. and across Canada. However, its data limitations contributing to over-inflated price metrics are seldom discussed.

Geographic Composition Matters

The key drawback in the exclusive use of REBGV data is geographical composition. While the REBGV geography includes the majority of the markets comprising Metro Vancouver, it remains incomplete.

The Metro Vancouver housing market is in two distinct real estate boards, the REBGV and the Fraser Valley Real Estate Board (FVREB). The latter represents Surrey, North Delta, White Rock, Langley, and Abbotsford/Mission regions.

Excluding Abbotsford/Mission, all other FVREB markets are part of Metro Vancouver, a fully integrated region where individuals cross municipal borders daily for work and leisure. This is a key omission since these



Fraser Valley municipalities comprise nearly 30% of the Metro Vancouver’s population, and since 2006 have driven regional population gains.³ More importantly in the context of housing markets, price levels in areas such as Surrey and Langley are generally lower than those observed in the REBGV markets.

A rough estimate of the Metro Vancouver MLS® average price can be computed using aggregate information from both real estate board areas. A combined REBGV and FVREB average MLS® price yields a May figure of \$738,250 – approximately \$93,000 (11%) less than the REBGV average. While this figure also includes Abbotsford-Mission, the impact on the overall figure is likely modest.

Nonetheless, the significant difference between the REBGV and combined real estate board average price means that prices are considerably less than the often reported figures. A more accurate Metro Vancouver average price can be constructed using an alternative data set.

Of Averages and Medians

While an average price of more than \$738,000 is still unarguably high, the value is being skewed by higher priced home sales. The extent of this skewed average can be reflected in a comparison of average price levels to median prices.

As the median value of combined real estate board data is unavailable, we generate Metro Vancouver

¹ Demographia, 7th Annual Demographia International Housing Affordability Survey: 2011 <http://www.demographia.com/dhi.pdf>
² BMO Economic Research, A Tale of Three Canadian Housing Markets, June 10, 2011 <http://www.bmonesbittburns.com/economics/focus/20110610/feature.pdf>

³ Delta is included in this 30% share, but only North Delta is captured under FVREB statistics, while South Delta is captured in REBGV figures.

average price data and median price data from land title transfer information.⁴ The median being the numerical price that separates the higher half of sold home prices from lower half of home prices. This measure is less impacted from extreme high or low priced homes as compared to the average price and is a better measure of home prices. Average values were overlaid with real estate board level information to ensure comparability.

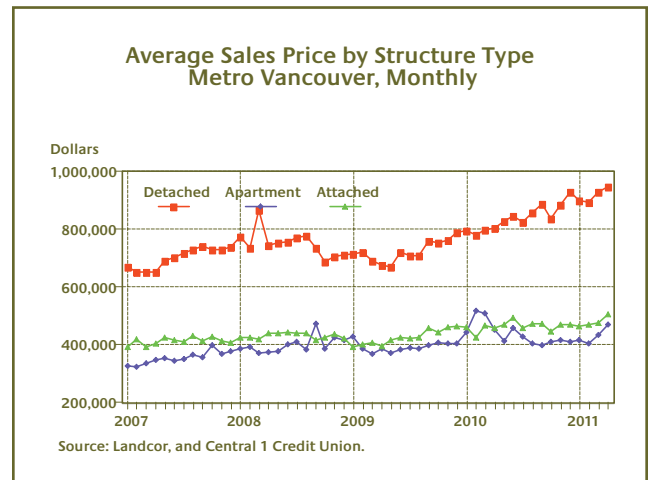
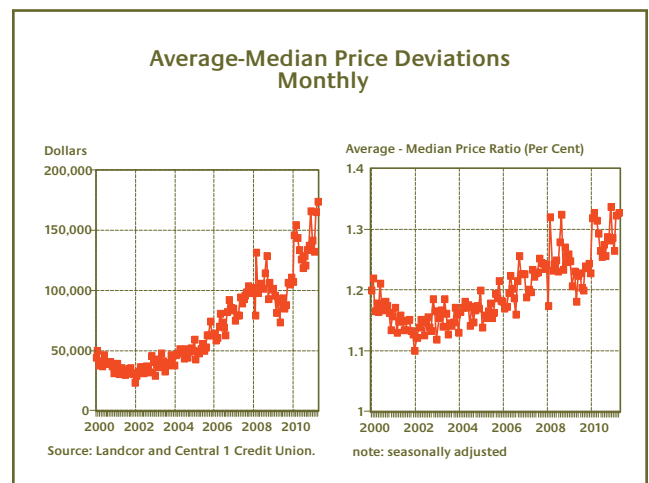
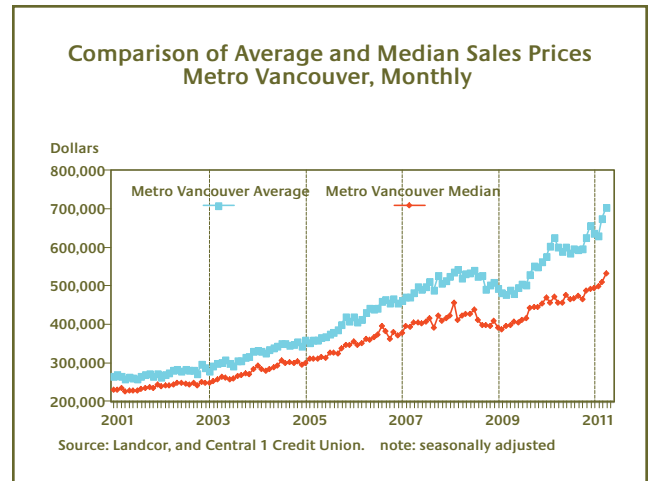
In contrast to the combined real estate board statistics, this data excludes Abbotsford/Mission and is true representation of the Metro Vancouver geography. However, since the data is based on title transfer rather than sales date, the information is slightly less timely than real estate board figures. The most recently available data is for April 2011.

The immediate observation is that the average price is well above the median price. After adjusting for seasonal factors, the average price in Metro Vancouver in April was just above \$700,000. This contrasted with a median value of about **\$530,000**, representing a differential of about \$170,000. This differential has widened since 2005 and points to higher-priced home sales skewing market statistics. From January 2010 through April 2011, the average transaction price rose 22% while the median price increased by a lesser 13%.

The absolute average-median price differential has grown from about \$100,000 to more than \$170,000 during this same time-span.

Based on average-median deviations at the structure-type level, these higher priced sales have largely been observed in the detached home market and largely in certain regions of the lower mainland like Richmond, west-side Vancouver and West Vancouver. Apartment and attached unit sale prices have been relatively stable.

An analysis of recent REBGV data shows that while year-to-date detached price levels were up 21% in June, excluding these three regions, the average price was up 9%.⁵ However, these three markets accounted for only 37% of total year-to-date REBGV detached sales – again underscoring the pitfalls of the average price metric as lower volume but higher priced markets drive aggregate average price changes.



The Impact on Price-to-Income Ratios

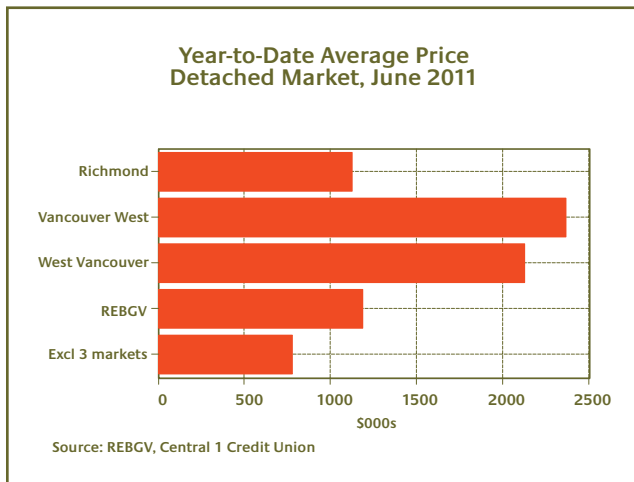
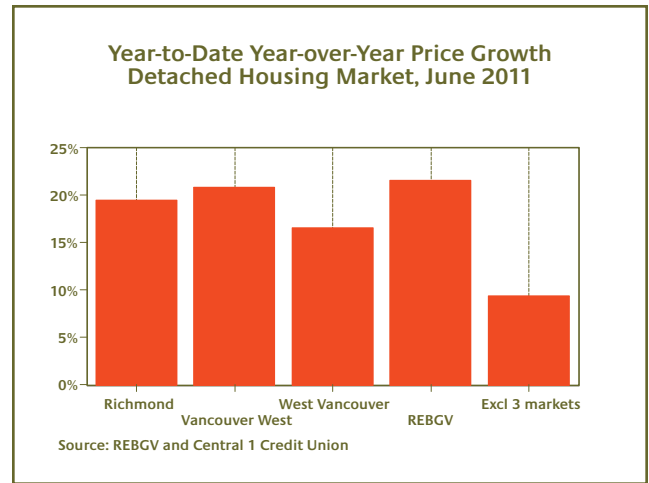
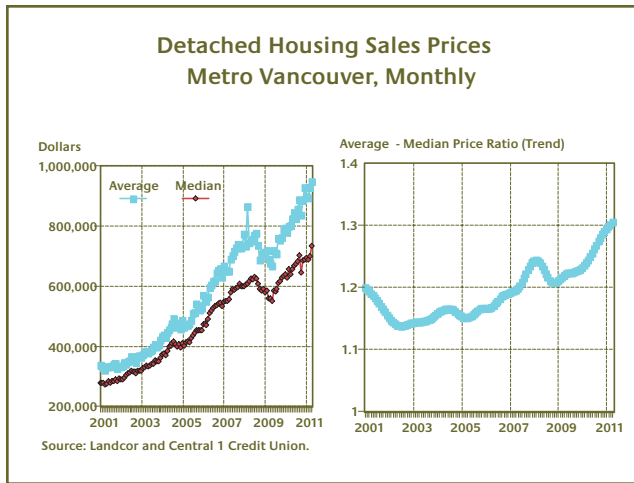
Applying geographic corrections to the data and using median price levels reveals the upward bias evident in past commentary regarding Vancouver price-to-income ratios.^{6,7}

⁶ Income estimates are obtained from Statistics Canada CANSIM series V21188717, median total income for all families which is available up to 2009. 2010 and 2011 figures are estimates based on Canada-wide growth in personal and unincorporated business income.

⁷ Further upward bias in the price-to-income ratio may also result from an inappropriate income measure. While this report is consistent with other reports in its use of median family income for all family units, an argument can be made to restrict this to non-elderly family units since it is more representative of a home buying population.

⁴ Housing prices calculated from arms-length market transactions, single-unit ownership, improved properties excluding bare land and properties over 2 acres

⁵ A comparison to combined REBGV and FVREB detached sales is unavailable. Land title transfer information at neighbourhood level was also unavailable at the time of writing.



Price -to-Income Ratio

	REBGV Average Price	Metro Vancouver Average	Metro Vancouver Median
2001	5.4	5.1	4.4
2006	8.1	7.1	5.9
2009	8.8	7.7	6.3
2010	9.6	8.6	6.7
2011*	11.5	9.9	7.5

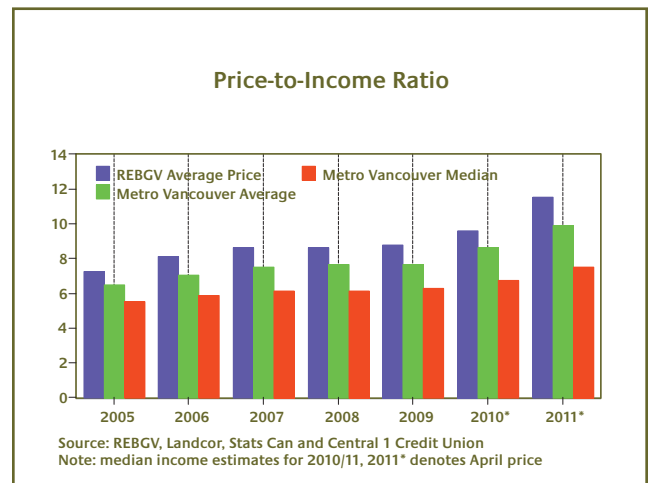
Source REBGV, Landcor Data Corp, Statistics Canada, C1CU Median Income for all families, 2010 and 2011 estimates *denotes April 2011 price, all other prices are annual

Correcting for geographic inaccuracies to better match the economic region (which is consistent with income) yields a significant lower price and hence price-income-ratio. In addition, median prices are a better measure of market prices due to the lessened impact of high-priced homes atypical of the market.

The use of more accurate price metrics of the Metro Vancouver region, leads to lower price-to-income ratio and suggest that this ratio has climbed at a slower pace over the last decade then estimated in other reports. While the ratio has more than doubled from 2001 based on average REBGV price levels, the use of a more inclusive geography and median price levels shows growth closer to 70%.

Conclusion

Average sales price data are readily available and consequently widely used. In many instances this does not cause any substantial problems for analytical purposes but for Vancouver it is a deficient measure of housing prices. The REBGV average sales price overstates by a wide margin the actual average price



in Metro Vancouver and any housing price-to-income ratio calculated using that average. The incomplete geography of the REBGV relative to Metro Vancouver is the main reason for this deficiency as well as the recent price performance of detached houses in certain markets.

By any measure, Metro Vancouver housing prices are high and unaffordable for many. This analysis does

not alter that fact. However, public discussion and commentary is better served by using more accurate and representative price data than the REBGV average sales price in place of a Metro Vancouver average or better yet, a median price.

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