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Building a Pacific portfolio

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Mark Bentz bought his first house for \$350,000 -- an eyesore with ancient plumbing and a dirt floor in the basement in a run-down part of the city. He renovated it from top to bottom, filled it with tenants and went back to his massage therapy practice. That was two years ago. The house was recently appraised at \$650,000, so Mr. Bentz remortgaged it to buy two more homes, for a total of \$670,000. He and his wife are now in the process of renovating them and, if all goes according to plan, the rent they'll get will cover the mortgage.

"Real estate has turned into a fun thing for us because everything is going so well," says Mr. Bentz. "When I get home from work, I look at real estate for an hour. When my wife gets up, she looks at real estate for half an hour." Today, the couple -- both in their late 30s -- own three houses, plus the condo they live in. And Mr. Bentz is hoping to add to his portfolio soon.

Now the bank wants him to put at least 25% down on each property. "That's the only thing that's slowing us down," he says.

Welcome to the Vancouver real estate market, one of the fastest rising markets in the country and the most expensive by a wide margin. While prices in other cities have been moving up at more gradual single-digit rates, Vancouver has been skyrocketing, a gold mine for anyone who can figure out the magic of low interest rates and flexible mortgage rules.

Even before Vancouver real estate caught fire a couple of years ago, it was hardly what you might call affordable. Now, says Cameron Muir, an analyst at the Canada Mortgage and Housing Corp. (CMHC), buying property here is well beyond the means of the average middle-class family. A basic three-bedroom bungalow in the city's West Side district, Mr. Muir says, will set you back \$800,000. "To move up to a two-storey house, you'll pay \$1.2-million. Even 30 or 40 kilometres outside of town, you're looking at \$500,000 for a new house."

By contrast, the average price of a house in Edmonton is less than half that, around \$200,000, according to the Canadian Real Estate Association. In Toronto, you'll pay about \$330,000.

So what's so special about Vancouver? For a start, there's the scenery. Cradled in the lush Coastal Mountains, with the Pacific Ocean lapping at its doorstep, the city regularly ranks among the top places in the world to live, along with similarly agreeable cities such as Zurich and Melbourne. The residents of such cities have long known that prospective buyers will happily pay a premium for all the natural beauty and world renown that comes with it. Now Vancouver has joined that exclusive club.

Another factor unique to Vancouver is that, not only is living space in high demand, but there isn't much of it. Calgary and Toronto can expand almost forever; Vancouver can't. Hemmed in by its own dramatic geography, it is basically limited to a narrow strip of land along the Fraser River. You can't build condos on mountainsides. Apart from a few pockets of private land that become available from time to time, the only way to increase housing stock is by redevelopment.

In fact, demand has become so strong that real estate companies are rapidly converting office space in the city's downtown core into condominiums. Indeed, the decline in the amount of office space has become so severe, the Vancouver Board of Trade recently warned that the city is in danger of driving out its business sector.

There's no doubt a lot of Vancouverites look at their housing market in the same way other people look at the stock market: as a great place to invest for the future. Mr. Bentz, for instance, already has a six-figure real estate portfolio, but he's hoping that, by the time he retires, he'll have at least 25 properties -- enough to generate the kind of income he'll need for a comfortable lifestyle.

How many Mr. Bentzes are out there? It depends on who you talk to. According to the CMHC's Mr. Muir, not nearly as many as there used to be.

Back in 1981, he says, during one of the most serious housing bubbles to hit the city in living memory, speculators accounted for as much as 40% of all buying activity. (He defines a speculator as someone who buys and sells a house in the same year.)

That year, homebuyers -- driven frantic by inflation -- pushed up housing prices by a staggering 50%. The following year, thanks to soaring interest rates, prices tumbled by 40%, causing hardship for a lot of people.

One reason Mr. Muir believes the current market will stay healthy is because there isn't nearly so much speculative activity. He says the CMHC has studies to show that less than 10% of the transactions this year are aimed at turning a quick profit. "There's some speculation going on in the market today," he says, "but nothing like it was in 1981."

But according to Clay Gillespie, a Vancouver financial advisor, "it's very common" for people to buy real estate to make money. Mr. Gillespie says that when the stock market went south four years ago, many people moved their savings into local real estate, believing that "it's safer because at least you can kick it," he says. "Though it's really no safer than buying shares in BCE. So real estate has become the next place to invest."

Meanwhile, the Bentzes are being careful they don't get sideswiped by a sudden drop in the market. They're charging lower rent to keep their 14 tenants happy, though the money they're bringing in still covers their mortgages. And those mortgages are locked in for 10-year terms.

Mr. Bentz doesn't expect the real estate market to stay this strong. It may even soften over the next few years. But he figures he's protected himself well enough that he'll be able to ride out whatever comes. "I'm now 38 years old," he says. "If things go well, I'll have it all paid off in 15 years."

Monday: Spotlight on Calgary

Illustration:

- Colour Photo: Jeff Vinnick for National Post / Vancouver real-estate prices might frighten the typical homeowner elsewhere, but Mark Bentz isn't fazed. He and his wife own three houses and a condo and are eager to buy more.
- Black & White Photo:
- Chart/Graph: RBC Housing Market Outlook
- Statistics Canada
- National Post / SPOTLIGHT: VANCOUVER Average price of standard two-storey home: \$485,406 % change Y/Y: 7.3% B.C. average price: \$414,480 Qualifying income*: \$100,975 * Minimum annual income needed to make mortgage payments, as determined by lenders Average prices, income and affordability index as of Q2 2005. Index based on 25% down payment and a 25-year mortgage loan at a five-year fixed rate.
- Chart/Graph: RBC Housing Market Outlook
- Statistics Canada
- National Post / Housing starts.
- Chart/Graph: RBC Housing Market Outlook
- Statistics Canada
- National Post / AFFORDABILITY INDEX: Home ownership as a percentage of pre-tax income.

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