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Global Housing Bust

April 30th, 2008 · [15 Comments](#)

The [news on the housing front out of the U.S. continues to be bleak](#)

- prices were down 12.7% on average in 20 markets in February 2008 compared to the same time last year, with prices dropping 20% or more in Las Vegas, Miami and Phoenix. In Canada, [at least one analyst boldly declared the housing boom "officially over"](#), not to mention [an entire grim book on the subject](#) but [the IMF thinks that Canada is in a much better position compared to other major economies](#). Here's [the housing bust is playing out around the world](#):

Australia: Home prices have started to fall in many Australian cities ([Melbourne](#) and [Sydney](#)) and [some estimates suggest property prices could fall as much as 25%](#). With interest rates at 7.25%, [many reports indicate that overleveraged homeowners are struggling to pay the mortgage](#).

Ireland: The *Independent* newspaper colourfully labelled 2007 as "[the year the roof began to fall in](#)" and another later report notes that [Irish home prices fell by an average of 7.3% in 2007](#).

United Kingdom: Reports indicate that [the housing bubble has already started to deflate in the U.K.](#) *The Times* [featured anecdotal reports of falling home prices](#), while *The Economist* magazine [calls for a "hard landing"](#).

Spain: [Property sales are down, prices are moderating](#) and [home buyers are treated like movie stars](#).

India: After prices tripled over four years, [reports indicate that housing prices have fallen as much as 20 to 30 percent](#).

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15 responses so far ↓

- [1 Four Pillars](#) // Apr 30, 2008 at 7:48 am

I like reading those kind of articles but it's so hard to tell what is really happening given the media's tendency to write whatever sells newspapers.

Even the summary of bad RE markets in the US might not be so bad if you look at the entire market.

If my house value dropped 20% - A) I probably wouldn't notice it since I don't even know my current house value. and B) so what?

Mike

- [2 Canadian Capitalist](#) // Apr 30, 2008 at 9:37 am

Mike: Good point. I find this story fascinating because real estate markets are supposed to be local but the housing bust seems to be happening everywhere. I fall in the same boat as you. If home prices in Ottawa fall, I'll be in the 'don't care that much' category. Actually, we might be looking for a slightly bigger home 😊

- [3 Chris H](#) // Apr 30, 2008 at 10:51 am

I agree with Mike - it is an interesting read (especially the articles from around the world) but it's also to sell newspapers.

An illustration of what the prices have done over the last 3 years would be more telling. Vegas is the poster child with over 20% drop in the last year, but I'm sure I've read they were up 50% in 2005 and 30% in 2006. Most articles don't mention how much was gained in the run up. So, if you bought a \$100,000 house (for easy figuring) in 2005:

2005 : 100,000

2006 : 150,000

2007 : 195,000

2008 : 156,000

Unless you bought in 2007, it's no big deal. And a longer timeframe would make it even smoother (I think the average home ownership is something like 7 years).

It's the same as listening to the radio on the way home from work and the newsreader breathlessly talking about the TSX being down 100 points on the day. It's not even 1%!! But they have to try to make it interesting....

Chris

- [4 Curt](#) // Apr 30, 2008 at 11:07 am

A funny thing

Our local newspaper just ran a front page article about how the average home price has dropped by \$20,000. Then, the next day I got a letter from the city tax assessor saying that they are willing to drop my tax base by \$3,000.

- [5 Canadian Capitalist](#) // Apr 30, 2008 at 11:28 am

Chris: It's true that the news media that only a few years back cheered rising prices (Time magazine put out a cover story: Home, Sweet Home) and is now breathlessly covering falling prices. But, the analysts who reckon that the pain is just beginning might have a point (not that I put any store in predictions).

For people who wanted that condo in Florida, the time might be right to start researching. Our dollar is high, property prices are falling and it takes months to find a suitable property...

- [6 global housing bust — award tour](#) // Apr 30, 2008 at 4:13 pm

[...] Global Housing Bust. so when's the other shoe gonna drop in canada? [...]

- [7 Jon D.](#) // Apr 30, 2008 at 4:54 pm

CBC ran in exact piece on this last night, not only buyers, but Canadian agents going down to arizona:

http://www.cbc.ca/video/popup_nlp.html?http://www.cbc.ca/mr13/8752/news/features/petricic-landrush080429.wmv

- [8 Tony Danza](#) // Apr 30, 2008 at 6:11 pm

A couple of questions have come up in my circle regarding the effects of potential housing deflation and mortgage refinancing. Can anyone here answer these questions:

What happens with mortgage refinancing if your home is worth less than the balance of you mortgage? If I bought my place for 100k in 2005 and in 2010 it's worth 90k do I have to make up the difference at refinancing?

The other thing that will come out of housing deflation are stricter lending standards (witness the US right now). If banks go back to traditional lending standards will you be approved for refinancing? Do the banks use the same standards in refinancing as they do when your mortgage is originated? If I bought with 0 down and have no equity at the time of refinancing could the bank require a down payment?

Thanks!

- [9 Jon D.](#) // Apr 30, 2008 at 6:27 pm

Something else I'd like to add, this idea of Home Price Perception. Compare other capital properties with investments. Investments we see a value assigned to them regularly if not daily, so everyone Ooo's and Awww's over stock prices, bonds, etc.... Yet, there's no big ticker board outside out car, home, cottage telling us what the theoretical value is at any given time. It's only determined when sold - IF there's a buyer. I think for the heck of it I'll be installing a number generator on my doorstep so people know how much to offer me. 😊

- [10 Phil S](#) // Apr 30, 2008 at 6:50 pm

I hear a lot of people talking about real estate going bust, but I personally just don't see it. I've been semi-active in looking to upgrade to a bigger condo or townhouse but the prices have NOT been falling in Toronto, from what I've seen. It might be falling in some less desirable neighbourhoods (where I haven't been shopping for homes), but all along the subway line or along the lakeshore, the prices are simply NOT falling and in fact they still seem to transact fairly quickly.

I'd also been considering getting into rental properties, but the same problem applies. I simply can't find a property with a cap rate that is worth my while - the house prices are way too high to justify the potential rental income. If I can make the same rate of return from a GIC than I can from the cap rate of a rental property, you can sure as heck bet I'm not going to go through the trouble of buying, renovating and finding renters for that property!

- [11 Cash Instinct](#) // Apr 30, 2008 at 8:28 pm

I personally hope that residential real estate prices will go down during the next years for the prices to become more affordable when I will buy a piece of real estate.

This is a personal bias I suppose!

- [12 Canadian Capitalist](#) // Apr 30, 2008 at 10:08 pm

Jon: Thanks for the link to the fascinating CBC story. Personally, we don't want to own any vacation property at this stage of our lives in Arizona or Florida.

Tony: I believe an appraisal is done and loan-to-value determined each time a mortgage is renewed. So, if a home owner is upside down, they'll have to come up with the difference. One more reason to be careful about taking a loan against the home to invest...

Phil: I totally agree with you on the cap rate is very low now and has been that way for many years. While real estate sales are down, prices are still firm here.

- [13 ThickenMyWallet](#) // May 1, 2008 at 10:05 am

... and if the housing correction brings us from insanity to historical valuations why is this such a bad thing?

- [14 Tony Danza](#) // May 1, 2008 at 11:13 am

Thanks for the answer CC, I fear for many of my friends who have bought in the last few years with 0 down!

I simply can't find a property with a cap rate that is worth my while - the house prices are way too high to justify the potential rental income.

That means house prices are too high and will fall, the same conditions existed in the US, GB, Aus and India where prices are taking a nose dive.

Thanks

- [15 The Financial Blogger | April Monthly Top Ten](#) // May 7, 2008 at 5:36 am

[...] Global Housing Bust by Canadian [...]

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