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Real estate recovery will be weak in Canada due to limp demand, report shows

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The real estate market didn't fall as hard or as fast in Canada as it did in the U.S., but some spots did suffer steep losses and a recovery will be slow as investors worry about another potential economic dip, a new report suggests.

Total losses in value across Canada will average between 10 to 20 per cent compared to the highs of two years ago, according to the study by PricewaterhouseCoopers and the Urban Land Institute.

But some areas saw a much deeper drop. The report released Wednesday predicts a slow recovery to begin by the end of next year.

"For 2010, we are rating only fair investment outlooks for most property types and predict generally weak conditions for development," said Chris Potter of PricewaterhouseCoopers.

"Limp demand threatens to soften property cash flows across all sectors and most markets."

The annual Emerging Trends in Real Estate 2009 report is based on surveys of more than 900 real estate investors developers, lenders, brokers and consultants in both Canada and the U.S. It shows Canadian real estate investors are still worried about more potential economic shocks, particularly from the U.S. financial system.

That is despite conservative banking practices in Canada and stricter regulation that saved many Canadian investors from overleveraging during the recent housing recession.

The report forecasts a relatively stable market for developments such as condos, hotels and other developments, which will favour buyers over sellers.

It said prospects for apartment investments rank barely above a fair rating at 5.44 out of 10, followed by office at 5.04, retail at five, industrial/distribution at 4.68 and hotels at 3.69.

"We expect to see developers curbing their activity in light of softened demand as bankers rein in construction loans," said Lori-Ann Beausoleil, also of PricewaterhouseCoopers.

She said certain condo projects will likely "stall out" until residential prices firm up in Vancouver and Toronto.

Beausoleil said Canadian office markets performed better than expected, with vacancies averaging about eight per cent.

Vacancy rates were much higher in cities such as Calgary, which has been hit hard by the impact of the recession on the oil and gas sector.

Calgary had the biggest decline in North America, coming in at 4.75 out of 10 for investment prospect and 3.58 for development. The city has overbuilt not just office space, but condos and housing as well, the report states.

Toronto ranked third highest in the report, with investment prospects ranked 5.63 out of 10 and development prospects at 3.83.

"New condominium high rises and office tower projects adorn downtown streetscapes, raising concerns about too much construction in a problematic economy," the report states.

Vancouver was the best performer in the survey, although with a ranking of just 5.75 out of 10 for investment prospects and 4.68 for development prospects.

"Many wonder what will happen after the Olympics," the report says.

The report follows another released this week showing the value of industrial land in Metro Vancouver fell by as much as 30 per cent in the last year, driven down by speculators trying to sell their property bought near the market's peak.

Average land prices doubled between 2003 and 2008, reaching approximately $600,000 per acre in Abbotsford, B.C. to $2 million per acre in Vancouver - and a record $4 million per acre in some locations - said the Avison Young report.

It said land values have generally fallen 20 to 25 per cent, and in some cases more than 30 per cent in the area.

Meantime, vacancy rates rose to 4.4 per cent in Metro Vancouver in the third quarter of 2009, up from 2.4 per cent in fall 2008.

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