

Real Estate Statistics 101: What every Canadian homeowner should know about home price statistics

**A White Paper By Don Lawby
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During these first days of summer, as economists are telling us that the worst of the recession may be over, Canadians are wondering how the values of their largest financial assets — their homes — are holding up.

Media reports of real estate statistics have left many Canadian homeowners rightfully confused. The problem is that these statistics are usually based on averages of city, provincial and national markets. Such averages are pretty much irrelevant to what's really happening in specific neighbourhoods.

Our analysis suggests that Canadian homeowners should avoid relying on city, provincial or national averages to value their homes. Instead, sellers should monitor selling prices of similar homes in their own neighbourhoods. Buyers should monitor selling prices of typical homes in the neighbourhoods where they want to live.

A cautionary tale

A number of authoritative real estate organizations issue monthly home price surveys from which price averages are extracted and extensively reported in the media. Often these organizations caution that average prices do not reflect actual prices in neighbourhoods with specific geographies and housing

types, but these cautions are largely overlooked.

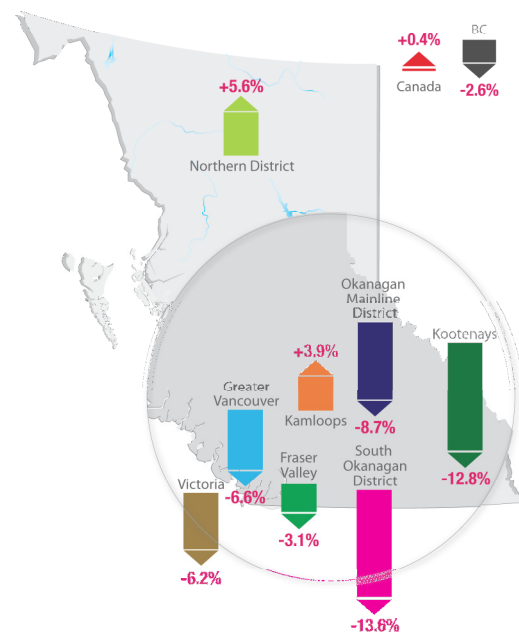
Here are examples that illustrate some limitations of averages.

Canada

In mid-June, CREA reported that the Canadian national average price for home sales via the Multiple Listing Service® (MLS) in May 2009 was \$319,757, +0.4% compared with May 2008.

British Columbia

Local markets vary significantly from provincial and national averages
May 2008 to May 2009



Source: Canadian Real Estate Association and British Columbia Real Estate Association

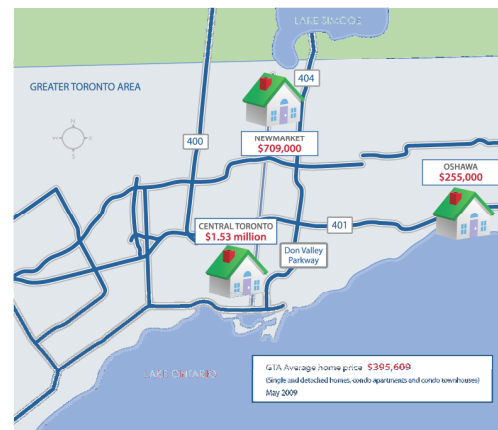
For British Columbia, the survey's average price in May 2009 compared with May 2008 was -2.6%.

As reported by the British Columbia Real Estate Association (BCREA) for a mix of 12 British Columbia cities and regions, average prices in May 2009 compared with May 2008, varied widely from the provincial average including:

- +5.6% in the Northern district,
- -12.8% in the Kootenays,
- +3.9% in Kamloops, -8.7% in Okanagan mainline district, and -13.6% in the South Okanagan district,
- -6.6% in Greater Vancouver, compared with -3.1% in the Fraser Valley and -6.2% in Victoria.

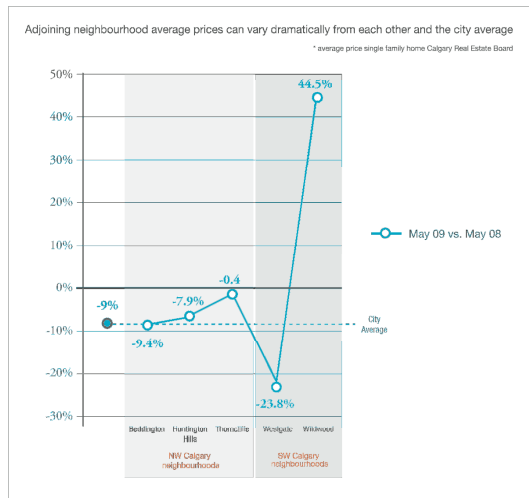
of Beddington, Huntington Hills and Thorncliffe were -9.4%, -7.9% and -0.4% respectively in May 2009 compared with May 2008. Similarly, in the adjoining southwest neighbourhoods of Wildwood and Westgate, prices in May 2009 vs. May 2008 were +44.5% and -23.8%.

Greater Toronto



The Toronto Real Estate Board reports that the average home price in May 2009 was \$395,609 for all transactions (single and detached homes, condo apartments and condo townhouses) in the Greater Toronto Area (GTA). The GTA is the country's most populous urban concentration bounded by Lake Ontario on the south, Lake Simcoe on the north, Burlington on the west, and Newcastle on the east.

Calgary



The Calgary Real Estate Board reports that the average price of a single family Calgary metro home in May 2009 was \$436,427, -9% from May 2008 when the average price was \$479,564. However, price performance in specific neighbourhoods — including adjoining neighbourhoods — can vary substantially from the city average. For example, average prices of single family homes in the adjoining northwest neighbourhoods

This average price has little relevance to prices in the specific neighbourhoods and communities in the GTA, where prices for single detached homes ranged from \$1.53 million in the Toronto neighbourhood between St. Clair Avenue and Bloor Street east of Bayview Avenue; to \$709,000 in a rural neighbourhood

east of Newmarket; to \$255,000 in Oshawa.

Average home prices

Averages themselves are largely misleading.



Suppose that in Year 1 five homes sold for \$200,000, \$220,000, \$260,000, \$290,000 and \$500,000 (average \$294,000), but in Year 2 only the first four homes sold (average \$242,000). Statistically, this would mean that the average price of homes sold in this neighbourhood in Year 2 fell by \$52,000, or 18%, from Year 1, even though all houses that were actually sold fetched identical prices to the previous year. Homeowners in this neighbourhood who didn't carefully analyze the data would think their home values had fallen dramatically

over the year, when, in fact, values of typical homes in the neighbourhood were stable.

According to the May 2009 British Columbia Real Estate Association (BCREA) survey, the average price of homes sold in British Columbia was \$465,139, with the highest regional price being Greater Vancouver at \$583,674 and the lowest regional price being the Northern Lights region in the province's Peace River district at \$157,245. However, because 52.4% of the total value of all residential sales occurred in Greater Vancouver, the provincial average drops 19.3% to \$375,147 if Greater Vancouver is taken out of the picture.

Getting an accurate value of your home

So, the question remains: How does a Canadian homeowner determine the value of his or her existing home? Or how does a buyer determine the value of a prospective purchase?

The fact is, the Canadian housing market is made up of thousands of local housing markets that are affected by national, regional and local issues.

Local issues are many and varied. Prices of homes vary with proximity to rapid transit, shopping, parks and schools. Mountain or lakeside vistas are preferred over powerline panoramas or flight paths. Prices of homes in neighbourhoods a stone's throw apart will vary with age, size and type of home. Homes at the base of a hill are more affordable than view homes at the top.

The most relevant housing market is the one that is closest to where you live today or want to live tomorrow. Neighbourhood surveys are more useful than city surveys, city surveys better than provincial and so on.

Most relevant are surveys of recent selling prices of similar homes on the same street or in the same neighbourhoods.

That said, it is difficult for homeowners to do their own surveys because listing prices — not selling prices — are available to the general public on the local MLS. The best course is to ask a realtor of your choice to show you statistics of selling prices of homes similar to yours in your neighbourhood. You will incur no obligation and, depending on your evaluation of the statistics you are shown, you will have a head start on your search for a realtor should you decide to sell your home.

CENTURY 21 Canada home price surveys

CENTURY 21 Canada produces home price surveys to provide useful

and relevant information to homeowners. Our surveys monitor prices of homes that are typical in specific neighbourhoods in major markets across the country. On June 11, 2009, we published a survey of the Hottest Neighbourhoods in Canada. Other CENTURY 21 Canada surveys have provided insights on national and regional housing markets by comparing average prices of Canadian cities with major cities around the world or by comparing pairs of Canadian and American cities that have similar economies and geographies.

Summary

The objective of this White Paper is to help homeowners understand the relationship between widely-reported real estate statistics and the value of their homes. We recommend that homeowners carefully scrutinize home price surveys from a variety of real estate organizations and economists. We hope this White Paper helps homeowners extract information from those surveys that is most relevant to them.