

December, 2012

Some market thoughts, as we go into this final month of the year. These are some of my impressions of 2012, and already it's time to be looking forward to 2013's adventure. It's been good news in 2012, though, for real estate sales in secondary home regions, & that includes on Salt Spring & other Gulf Islands & in Vancouver Island communities. On Salt Spring, sales volume was up dramatically in entry level residential options, over the past two years.

The real estate downturn has been with us, in the residential segment, since 2006...certainly in secondary home/discretionary regions...& globally so. Not just about Salt Spring or another Gulf Island or Vancouver Island or Sunshine Coast, then...the absence of action, this slowing sales activity, was also visible in Spain & Aspen & Muskokas & Turkey...any seasonal/second home marketplace.

No one "has to" buy a second or third home, or retire in any particular time-frame. Such decisions are always by choice, & this choice now also includes the location in the world, in this post-Internet time. Suddenly, "some place" is in competition with "every place"...time is an element in all transactions in a secondary home region. Choice of the where and the when of a purchase also delivers time lags in action.

So, even before October 2008's plunge into economic meltdown territory, our kind of area was slowing. 2006 saw maintenance of pricings & inventory but less buyer action. Same story in 2007, but by Fall of that year prices were softening. In early 2008, prices were apparently down about 10 to 12% and sales were perhaps down about 20%. By end of 2008, the world had gone into the financial abyss.

2009, 2010, 2011 continued the lack of action in all secondary home markets. In B.C., that included Vancouver Island (outside of core Victoria), all Gulf Islands, Sunshine Coast, all B.C. Interior communities (even once buoyant Okanagan "grid"). Only some few neighborhoods in Vancouver experienced the "Chinese effect". The rest of the city remained quiet. In our local area, appraisers generally feel prices reduced, between mid-2007 & mid-2012, by around 35%.

In 2012, on SSI, but only in entry level residential options, a significant increase in sales volume took place...this action mainly fell between January & June. It revolved around 3 bed/2 bath houses, older properties/older areas...these houses would be best described as rental situations...family homes. The buyers, then, might best be understood as investor buyers & were not, in the main, end users. The majority of 2012 sales fell into this description...with most sales on Salt Spring coming in below \$500,000.

Since late August, we have finally begun to see action in the over one million residential segment...with the same dramatic price reductions, for the moment, as seen in the early months of 2012, in the entry level category.

A traditional seasonal buyer on the Gulf Islands has been an Albertan...throughout late 2011 & most of 2012, they were buying in sunbelt states where prices had dropped from 50 to 70% and the Canadian Dollar was around par or higher. Their absence was noted on Salt Spring, during the past two years.

Another strong buyer profile on Salt Spring had been a seasonal resident from the U.S. This buyer, since the economic downturn, has also thinned. Seasonal purchases can be put on hold, indefinitely.

The local real estate companies reacted to continuing slow patterns by consistently dropping prices, throughout 2011 & 2012, searching for a bottom. Unfortunately, this doesn't make buyers come forward in secondary home marketplaces...sales in discretionary areas are by choice, & can be put on hold until better times. Buyer confidence is the driver to action in any discretionary area.

Apparently, according to Salt Spring's Chamber of Commerce, tourism was down by 40% in 2010/11. Tourism discovery is a large part of real estate activity, I think, in any secondary home market. People visit, fall in love with an area, buy recreational or future retirement options...and that real estate purchase delivers activity to architects, designers, contractors, lawyers, site prep businesses, grocery stores, furniture/hardware locations, restaurants, retail outlets, galleries, insurance, banks...all of a community's infrastructure benefits from a real estate transaction. In a discretionary region, the initial action begins with tourism...the discovery & enjoyment of an area.

If it's true that markets move in cycles, and that the real downturn in all discretionary areas began in 2006, then we may be going into year 8 of an 8 to 10 year cycle...& there could be a natural uplift.

Until early September, 2012, there had been a lack of activity in higher end residential, in undeveloped land options, & in commercial/business opportunities. It may be that 2013 will see an uptick in these segments, to match the action seen in the entry level residential category, in 2012.

Certainly, just since early September, we've seen sales begin in upper tier residential offerings...up to 1.825...yet most of these over one million options do fall between 1.1 & 1.395, and most would have been on market for 5 +/- years, & all had reduced hugely...dropping from 3.3 & selling for 1.325, say. The original list prices matched the

market at that time...then these properties followed the market down, adjusting prices consistently, seeking a bottom. Nevertheless, there are now several such residential sales between 1 & 1.5 million, mainly in waterfronts, & this sales action didn't happen last year or the year before.

Apparently, in key U.S. States, where two years ago people were forecasting an inventory supply of 10 to 12 years, they are now down to a 6 to 8 month supply...again, mainly in the entry level price points. In that pricing envelope they are starting to see multiple offers...based on inventory thinning out.

In January 2012, locally, in the lower end, there was a price reduction delivered at the point of the offer, in spite of big reductions en route. By late June, a buyer had to come closer to seller's wish list, and this narrowing of the spread between list & sale is another marker of an improving market trend.

In a transition moment, everything is on the table/all at the same time: good & bad media reports, sales & no sales, worry & euphoria...all going on at once. Makes it very difficult to clearly see a path forward, especially when a seller is just managing to hold on & this effort to survive is creating exhaustion.

Nothing stays in the basement or the attic "forever". There is significant movement in real estate sales this year. Yes, pricing is not yet stable, but hard asset purchases are underway, & sales volume is slowly improving. Perhaps a preservation of capital seeking & a safe haven search are driving this shift?

Even with a second incorporation study & referendum to eventually take place on Salt Spring, the Trust & the bylaws remain. A Gulf Islands municipality is a special form of a municipal structure. There would still be 2 elected trustees, the overall Islands Trust document would remain & zoning/bylaw growth controls would remain. The CRD (Capital Regional Director) position would be replaced by on island elected council members. Salt Spring would have more control over tax monies raised. Bowen Island voted for this type of municipal structure some years ago, & one can study that Island's outcomes. The cap on growth delivered by the Islands Trust's "preserve & protect" mandate is a form of protected investment...over time, price points rise in such areas & lack of scope for development ensures stability of the individual purchase.

Locally, it's disturbing that we saw both the collapse of Royal LePage as a branch office & the closing of Mark's, a mini-department store clothing franchise outlet, in 2012. Other small businesses may be struggling, & yet several new ones have opened. Channel Ridge development may still be unresolved, & yet Bullock Lake parcel's new owner is trying to organize something on that former SS Village Resort site. Everything on the table at

once, again? Up & down visible, all at the same time? A marker of a transition moment? With an upward direction? I think so....

I often think that January/February of a new year carry forward the themes of late Fall, of the previous year. It seems to take until March for the rhythm of a new year to be clear. Perhaps we will find a renewal of seller's market patterns in play? Hmm...where is that crystal ball!

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