Resource stocks to the rescue of bursting B.C. real estate bubbles

PODIUM

BOB THOMPSON

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My father was born in Vancouver in 1930 and was raised in the city he loved. Until recently, Vancouver and Canada as a whole have suffered from the same affliction: having an economy that is dependent on the commodity cycle.

This cyclicality can cause planning issues when an individual is constantly worried about how to take care of a family. He finally left in 1960, going to California where things were booming. Vancouver doesn't suffer from this correlation to the commodity market these days, but for all of us it's important to take a step back and look at the long-term picture of how the Canadian stock market has done, which is somewhat dependent on resources.

First of all, realize that markets generally revert to the mean over time. In other words, bull markets create bear markets and bear markets create bull markets. According to the 2017 **Morningstar** Andex Chart, the Canadian stock market has shown a 9.8% annualized return since 1950. This number is unbelievable to many because we get caught up in the latest economic problems, trade wars or any other event that can take our eyes off the ball, which is retiring with an adequate amount of money. It's an emotional roller-coaster out there, but one that people can overcome with a little help in the behavioural finance department.

In the last few years, we have been saved in Vancouver by a roaring real estate market, but in case you haven't noticed, the resource market, in contrast, has been terrible. This means that the **Toronto Stock Exchange** (TSX) has had a poor showing over the last 10 years since its peak in April 2008. It has had a compound price return of less than 1% per year since the spring of 2008. If this sounds lousy, it's because it is.

Let's delve deeper into this Andex chart though. All we hear about is how the U.S. market is doing so well, but from August 2000 to February 2013, the U.S. market as measured by the S&P 500 showed zero return. That's quite painful to deal with. Unfortunately in 2012, many investors were racing to get into the hot Canadian market – exiting the U.S. market at exactly the wrong time. As usual, performance chasers got it wrong.

Back in 1960 when my dad left Vancouver, we had just come off a North American recession, and things didn't look great. As they say, when the U.S. sneezes, Canada catches a cold. Markets were in the middle of a correction. **John Diefenbaker** was prime minister, the Avro Arrow was cancelled and **Dwight Eisenhower** was president of the United States. In 1950, when the data set starts, there were about 13.7 million people in Canada and only 7.8% of the population was over 65, while the male life expectancy was 66 years old. Oil was $2.50 a barrel and unemployment was 2.4%. The minimum wage was $1 in 1965 under prime minister **Lester Pearson**, and Vietnam was a going concern later in the 1960s.

With all the inflation, wars, political upheavals and other "important events of the day," the Canadian stock market has still risen almost 10% a year since 1950. Recently, the TSX has been significantly below the long-term average, and if you believe in reversion to the mean, it should outperform over the next few years.

At a time when everyone is racing to buy into the U.S. market, maybe we should be looking north on a relative basis. Commodities haven't been this cheap in relation to equities since the tech bubble in 1999. Does this sound familiar with the FAANG (**Facebook**, **Amazon**, **Apple**, **Netflix**, **Google**) stock surge today?

Before that, it was 1971 that commodities were this cheap relatively. Each of those times we saw a major increase in commodities versus equities. Reversion to the mean tells us this should happen. If my bet is right, Vancouver may be saved from the coming real estate fall by a mining market that once again gets the city excited. It may be the mining types, not the real estate developers, buying the Porsches and west-side houses again. The **Investec** Mining Clock tells us this, but that's a story for another day. ■

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Residents increasingly share a dim view of real estate developers

PODIUM

MARIO CANSECO

Thinking about your city, who do you think has more influence on the look and feel of your neighbourhood?

	Metro Vancouver	Gender		Age			Region		
		MALE	FEMALE	18-34	35-54	55+	VANCOUVER	SURREY	ALL OTHERS
DEVELOPERS	39%	44%	34%	39%	38%	39%	38%	39%	40%
THE MUNICIPAL GOVERNMENT	24%	29%	19%	22%	22%	29%	23%	24%	27%
THE COMMUNITY ITSELF	22%	17%	27%	17%	29%	20%	20%	25%	24%
NOT SURE	15%	10%	20%	23%	11%	12%	19%	11%	10%

SURVEY ON DEVELOPERS IN METRO VANCOUVER, SEPTEMBER 2018

For the past three years, housing has consistently topped the charts as the most important issue facing most cities in Metro Vancouver. Aside from Surrey, where crime and public safety are regarded as a more pressing concern, all other municipalities are primarily worried about housing.

Earlier this month, 67% of respondents to a **Research Co.** poll in the city of Vancouver said housing is the top issue facing the city.

The proportion has been strikingly similar in Burnaby and the adjacent communities to the east, as well as on the North Shore.

The discussions related to where people will live affect all generations. In Vancouver, 74% of residents aged 18 to 34 and 71% of residents aged 55 and over are concerned about housing. Millennials who rent desperately want to get into the real estate market. Baby boomers who own their home are not ready to see their equity disappear.

Housing anxiety has not been accompanied by a rejection of the policies coming out of the provincial government. The recently introduced housing taxes have been very popular, even among voters who are traditionally critical of the governing **BC New Democratic Party** (NDP).

Just where residents place the blame for the housing crisis depends on several factors. Politically, residents may be upset with previous or past governments for perceived setbacks and evasions of responsibility. Foreign owners have also become a favourite scapegoat for many residents. But there is another group that has patently fallen out of favour with Metro Vancouverites: real estate developers.

Earlier this month, only 31% of Metro Vancouverites said they had a positive opinion of real estate developers, while 58% outlined negative views. In stark contrast, the rating flips for building contractors, who have a positive rating of 51% and a negative rating of 39%.

One of the issues that have played a role in the sudden loss of esteem for real estate developers is the perception of cosiness with sitting municipal administrations. This becomes clear when Metro Vancouverites are asked a simple question: who has more influence on the look and feel of your municipality?

Across the Lower Mainland, only 24% of residents believe their municipal government is the deciding authority when it comes to the future of neighbourhoods. A slightly smaller proportion (22%) believe the community itself has more influence.

Who is regarded as the most powerful voice when it comes to how our neighbourhoods look and feel? Developers, as stated by two in five Metro Vancouverites (39%). Men (44%) are more likely to express this opinion than women (34%), but all generations agree that governments and communities are taking a back seat in these discussions.

The public is also particularly critical of the idea that, in an effort to build, the character of their municipality is being abandoned. Three in four Metro Vancouverites (74%) feel that developers are too quick to demolish and rebuild when existing facades and structures could be kept.

The results outline two problems for incoming city councils. One is the perceived lack of consultation from members of specific communities, who may find it difficult to attend meetings or have a voice in traditional forums. The other is the feeling of powerlessness when the relationship between developers and municipal politicians is as entrenched as it is in some cities.

Taking big money out of politics motivated a wide range of people to seek seats in councils all across the Lower Mainland. In the early stages of the municipal campaign, it would seem that the councils that will take over in most cities will be considerably different from the ones they will be supplanting.

In Vancouver, only the **Non-Partisan Association** nominated enough candidates to control council and the mayor's chair, if the stars align in their favour. In Surrey, the complete domination of the agenda by the **Surrey First** party could come to an end.

In this new context, the relationship of communities with the incoming councils and mayors will be crucial. Right now, people feel left out, with many looking at their serving municipal politicians as catering to the wishes of developers. It will take a change in culture, and in the way the relationship works between those who want to build and those who issue the permits, to repair this lost trust. ■

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