

China's economic turmoil likely to affect Vancouver real estate market — but how?

Experts have varying forecasts after stocks crash, yuan devalued

BY SAM COOPER, THE PROVINCE JANUARY 8, 2016 11:04 AM



An investor sits near a display board showing the plunge in the Shanghai Composite Index at a brokerage in Beijing on Thursday. — The Associated Press

Photograph by: Ng Han Guan, THE ASSOCIATED PRESS

As China's stock market crashes again, sparking fear in global financial markets, experts are speculating on whether the turmoil will inflate or prick Vancouver's housing bubble.

Faced with its own housing bubble and a rapidly slowing economy, China started aggressively devaluing its currency last summer.

The moves triggered a stock market crash of about 40 per cent before stocks bounced back in the fall.

But China's government has kicked off 2016 with another devaluation drive meant to support the country's trade, sending Chinese stocks on a dizzying slide of 12 per cent in four days.

Global markets are in shock, and Canada is already absorbing effects as oil prices drop to new lows. Analysts typically bullish on Vancouver real estate, including Bank of Nova Scotia economist Derek Holt, see a silver lining.

"Stand by and watch your life savings go down as the yuan is deliberately pushed lower ... or get out one way or another, including buying the U.S. dollar and more homes in Vancouver," Holt told clients Thursday. "That's not easy for investors to do in China, but getting easier."

The question of how much money is flooding from China into Vancouver property continues to be debated in Vancouver, but a growing body of data and expert opinion assert Chinese cash is a dominant and growing factor.

This week Vancouver Mayor Gregor Robertson came close to acknowledging the China money influence, saying "runaway" Metro Vancouver housing prices are "divorced" from local incomes and senior governments should start tracking foreign investment data.

If local incomes can no longer afford Vancouver homes, it suggests market turmoil in China should be impactful to local home prices, one way or the other.

Tung Chan, a former TD Bank executive and leader of Vancouver's immigrant society S.U.C.C.E.S.S., believes political and economic turmoil in China could support Vancouver housing.

Chan said his contacts in Hong Kong point to growing fear of China's reach after five employees of a Hong Kong book publisher that planned to write about President Xi Jinping's sex life disappeared last week. Chan said some citizens of Hong Kong, Taiwan and Mainland China will likely seek safety in Vancouver and other western cities as the Chinese government asserts its power in volatile times.

"I think it is a convergence of factors making it more likely that money will be coming to Vancouver," Chan said.

But some business insiders and money managers who have been prescient about the events in China predict the flood of Chinese money to Vancouver may have peaked in 2015, and could reverse.

Seth Daniels, managing partner for the Boston hedge fund JKD Capital, provides research to an investment fund that services wealthy Canadians who believe the housing market is in danger.

The fund bets against Canadian real estate to help clients manage the risk of their homes plummeting in value. After China's markets bounced last fall, Daniels correctly predicted a fresh currency devaluation and market crisis in China in 2016.

Daniels told The Province as Chinese asset values are destroyed in a market rout there will simply be less money to send abroad. At the same time, the Chinese government is anticipating the reaction to its currency devaluations and clamping down on capital flight.

Daniels added luxury housing markets boosted by Chinese money, such as Hong Kong and Sydney, are already softening, and the same is expected in Vancouver.

Hilliard MacBeth - an Edmonton money manager and author of the book, When the Bubble Bursts: Surviving the Canadian Real Estate Crash - does not believe investment to Vancouver will increase

amid China's problems.

"Everybody, when they get under financial stress, brings their money back home," MacBeth said.

"The Chinese property bubble is even bigger than the Vancouver bubble. So it has been Chinese people borrowing against a bubble to invest in a bubble, and those kind of bubbles burst spectacularly."

Ozzie Jurock, a B.C. real estate investment adviser, said he remembers what happened when China's market and global commodities crashed in 2007. Within a year global markets were in crisis and Vancouver property corrected significantly.

"Everyone wants to know, will the crash in China send more money here, or take money away?" Jurock said. "We think real estate markets are in danger and I see similarities to 2008."

A former citizen of China who works in a Vancouver import-export business predicted China's early-2016 yuan devaluation to a Province reporter.

The man, who did not want to be named, said he has done import deals with one of the big-name B.C. suspects on China's Operation Sky-Net anti-corruption list.

The Vancouver importer said the feeling in his line of work is the flow of big money from China to Vancouver has already occurred, and the stream will slow in 2016.

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