Location, Location, and Mountaintops

Great climbers and great investors are adventurous and patient, careful and calculated, but still interested in greater things. And the best ones are focused on the long view.

Ed Viesturs, a Seattle-based mountaineer, has a motto for planning his ascents: "Reaching the summit is optional. Getting home is mandatory." Yet, using this safety-first approach has not restricted him from conquering the highest peaks of the world. On the contrary, it has enabled him to be one of the greats, and the first American to stand atop the 14 highest mountains worldwide without the aid of bottled oxygen.

In one famous climb, he and a partner were inching their way toward the summit of Everest when light snow began to fall on them. The hint of inclement weather gave them pause. They were 300 feet from the top, and several weeks in to their journey. He describes their decision to turn around there as a huge disappointment, but in the end a "completely logical decision." Those last 300 feet would haunt him for the next few years, as he planned his next effort, but his calculated decision, along with many others like it, enabled Viesturs to quit his day job (a veterinarian) and take up climbing full-time.

Viesturs was also among the climbing teams who made their way toward the Everest summit in the ill-fated 1996 climbing season, where severe storms took 8 lives. But again, he and his team turned around well before the summit, not letting ambition and pride get in his way.

He is now considered one of the best of the best, and returns home to his family each time after his latest adventure. Viesturs has another, less quoted motto: "Pain is temporary, glory is forever." Presumably that would include the pain of disappointment and delayed gratification, as well as perseverance when the path is sure but the feet hurt.

It is easy to jump to stock market parallels, but there are some important differences in the two experiences. Stock markets are very much about perseverance, but not so much about ascending a static peak. The market peak is a moving target, so the journey here is much more about the right fit for the climber (the investor) than standing atop a chart and celebrating having arrived. And like mountains, jumping off is a tricky business. Slow and steady wins the day.

Likewise, the real estate business has some parallels which need perspective. Real estate has at least a couple of fundamental objectives – positive cash flow and price appreciation, but the former will theoretically always win out in the long term. In short, we would expect the money for the price appreciation, ignoring speculation, to be fueled by positive cash flows. When speculation plays too large a role, the price peak can be flimsy.

And so, alas, Canadian house prices are experiencing a downturn of late. What to make of it? What fundamentals are at play in key Canadian cities? RBC Economics makes a few comments below.

Toronto's correction now rivals the 2008 downturn
The dramatic drop in home resale activity in the GTA in the past four months certainly doesn't look like a 'soft landing'. On a seasonally adjusted basis, resales have plummeted by 44% since the March peak, which is quickly approaching the previous significant downturn in the area—the 48% plunge recorded between December 2007 and December 2008. Still, we don't believe that a 'crash landing' is unfolding. Our view is that the GTA's market correction is now overshooting.

The current standoff between buyers and sellers is partly tactical—buyers want to see how low prices will get—and we expect the overshoot to get reversed once buyers conclude that prices won't spiral downward.

To be sure, demand-supply conditions in the GTA swung significantly to the benefit of buyers in the past few months. The sales-to-new listings ratio fell to 0.40 from May to July—at the edge of a buyers' market—after reaching a cyclical peak of 0.94 in January. This sharp swing caused the area's benchmark price to fall steeply by 4.7% between June and July. Toronto's benchmark price in fact fell more in a single month than Vancouver's benchmark price did (-3.7%) during its entire down-cycle between August last year and January of this year. We believe that the extent of Toronto's price decline in July will prove to be an aberration. We point out that demand-supply conditions in the area aren't that weak— not quite a clear-cut buyers' market—and the fact that new listings are returning to more normal levels after surging to record levels this spring. We see little further downside to demand-supply conditions that would depress prices to the point of collapse. Rather, we expect a period of modest prices declines in the near term before stabilizing later this year or early next.

Vancouver: fears of market conditions overheating again may be overblown

July statistics provided further evidence that the Vancouver-area market isn't on a path of overheating again. Home resales fell for the third-straight month by 1.7%. The sales-to-new listings ratio also eased for the fourth time in the past five months, and now suggests that sellers are only slightly in command. The annual rate of increase in the area's benchmark price ticked higher to 8.7% for the first time since July last year when it reached a cyclical high of 32.5%. Nonetheless, we expect any further increase to be modest in the short term as the market stays close to balanced conditions.

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