

Real Estate Monthly



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Positive Perspective To Real Estate Downturn in Report

There's actually some good news out there, although you'd never know it most days. For example, the "Real Estate Trends" report recently released by the Scotiabank Group was remarkably positive once you got past the first line.

The opening line of the Global Economic Research report by Adrienne Warren of Scotia Economics bluntly declared that "Canada's longest housing boom of the postwar period has come to an end."

We all know that, but the balance of the report put that opening statement into some healthy perspective, something that has been sorely lacking in most recent media reports on the state of the housing market.

"We argue against taking an overly alarmist view to domestic housing prospects," says Warren. "This is not a U.S.-style bust caused by overbuilding, speculative buying and imprudent lending, but rather a cyclical slowdown accompanied by a valuation adjustment in several large centres (out West) where booming demand conditions and temporary supply constraints led to an overshooting in prices."

Driving home the U.S. comparison, Warren writes that "Canada's

mortgage market is significantly different from its U.S. counterpart, with a much smaller subprime exposure, less interest rate reset risk, lower use of home equity withdrawal and investor mortgages, and more conservative lending criteria."

"Canadian households are far less leveraged than those in the United States and less exposed to any erosion in underlying asset values," Warren continues.

"Record unsold housing inventories, mounting foreclosures, overbuilding and credit constraints are bigger factors behind the continuing and steep slide in U.S. home prices than overvaluation, none of which are major concerns in Canada."



She goes on to note that, apart from mortgage and balance sheet considerations, there are other key differences between the United States

and Canada, including the fact that the inventory of for-sale homes on both the new and resale market, while moving up, is still well-contained relative to prior cycles.

"With builders in most jurisdictions beginning to slow the pace of new construction, and with a low risk of widespread foreclosures, the Canadian market does not face the massive inventory glut underlying record-setting U.S. price declines."

Based on the International Monetary Fund's housing valuation model, which estimates the extent to which house price increases are unexplained by fundamentals, Canada's housing market is the "least overvalued."

Eye on Ottawa Real Estate

Sales of existing housing decreased by 27.4 percent in Ottawa in November as worries about the economy drove away buyers.

The Ottawa Real Estate Board (OREB) reported that 646 homes were sold in November compared to 890 units a year earlier.

OREB said that year-to-date sales are now 5.5 percent below 2007, a record year, and just 1.3 percent ahead of 2006, which was a strong year.

Economic worries appear to be affecting first-time buyers and those looking for lower-priced housing hardest.

Average house prices for the month were \$291,441 compared to \$270,712 a year earlier, up by 7.7 percent.

OREB's president said the sales decline is in line with market forecasts by Canada Mortgage and Housing Corp. "Sale prices continue to rise, and CMHC says that Ottawa is becoming a balanced market."

Call today for real estate advice and information!

Market Change Is Good News For Buyers

For those willing to take the plunge, there are lower interest rates, reduced prices and greater choice

You could easily pardon anyone looking for a new condominium today for having a case of the jitters. Every day, we are bombarded by U.S. reports of a housing market meltdown. CNN headlines a survey that shows that one of every 452 homes in the United States is in foreclosure.

The media is chock-a-block with stories about a credit crunch, banks reluctant to lend to other banks, let alone new-home buyers.

Yes, sales are down, but then again, last year was a blip, an anomaly, a Yukon gold rush. The market, experts say, is returning to the levels of more normal times.

That is probably good news. It may mean that the rise in prices will slow or, even better, stall. It also means that buyers will have an enormous range of choice.

And, as a shiny red cherry on top, mortgage money is still available for most buyers and at reassuringly low rates.

Granted, lenders are unlikely to offer the discounts on rates across the board that they did last year in the frenzy to do business. First-time buyers with anything less than 5 percent cash to put down may face a tough time. New Canadians with no credit history in this country can expect to face challenges.

Jim Murphy, president of the Canadian Association of Accredited Mortgage Professionals, which represents brokers, lenders and mortgage insurers, says that it is, in fact, business as usual.

"There is a plentiful supply at reasonable rates for any borrower who can qualify," he points out. "Condos have taken over from single-family housing as the major force in the residential market and the industry has recognized that."

"There is no issue with supply, and those lenders that focused on subprime mortgages have left the market."

Five-year, fixed-rate mortgages are available starting at 5.55 percent and variable-rate mortgages are in plentiful supply at about one percentage point above prime.

"You can occasionally negotiate a discount on fixed-rate mortgages if you have great credit, but discounts on variable-rate mortgages have disappeared," Mr. Murphy says.

At HSBC Bank Canada, Loree Gray, Vice-President, Branch Banking for Toronto, says that lending to condo buyers continues as strong as ever — to those who meet credit requirements.

"We look for strong employment, enough income to service the debt (between 32 and 45 percent of income), an acceptable down payment and a strong credit history," she explains. Buyers who meet all of those tests and can plunk down 20 percent of the purchase price as their down payment will be welcomed with open arms by lenders, the bankers say.

Less than that 20 percent down, however, means that you likely will have to seek an insured mortgage from Canada Mortgage and Housing Corp. (CMHC). In that case, the federal government, acting through third-party insurers, guarantees that the mortgage will be repaid if the borrower defaults.

These insurers charge between 2 and 3 percent on top of the mortgage interest rate, and, this fall, CMHC set out new rules for mortgage insurance.

As Mr. Murphy explains, there are three basic guidelines that borrowers should be aware of.

First, condo buyers must be able to make a down payment of at least 5 percent of the purchase price, but at the same time, they can borrow that if they can find a lender willing to take the risk.

Second, CMHC says no more 40-year amortization periods. Now, 35 years is as long as it is willing to go.

Finally, borrowers must have a credit score higher than 600. (This score is a statistical analysis of a person's credit file.)

