

**CBCnews**

# Real estate not about to burst

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**Canadian Press: Talbot Boggs**

(Special) - Canadian investors and homeowners worried about a meltdown in the real estate market here in Canada can relax.

The subprime mortgage crisis in the U.S. isn't like to happen up here in the cooler, more fiscally conservative north. The Canadian housing market is not a bubble waiting to burst and owning a home is still a good investment and wealth management strategy, financial experts believe.

"You have a bubble situation when there is a lot of speculation and leverage in the market," says Patricia Lovett-Reid, senior vice-president with TD Waterhouse. "We are not seeing that in Canada now."

Lovett-Reid says Canadians don't need to be worried about the subprime mortgage crisis in the United States spilling across the border.

An August forecast by the Canadian Real Estate Association shows that the average price of a residential home in Canada is expected to rise 10.4 per cent during this year and national home sales will increase 8.1 per cent, setting new annual records in most provinces. In the U.S., however, the National Association of Realtors in its September outlook projected a drop of 8.6 per cent in existing home sales and 1.7 per cent in home prices during the year.

Many of the conditions that led to the subprime mortgage situation in the U.S. don't exist here in Canada.

Interest rates in Canada have not gone up as much as they have in the United States and mortgage financing here is much more conservative than it is south of the border.

Americans can get a tax write off of their mortgage interest payments, which encourages them to borrow and assume larger mortgages to buy a home.

"The deductibility of mortgage interest payments in the U.S. causes people to take on more debt because of the tax break," says Paul Taylor, chief investment officer of BMO Harris Investment Management Inc. "Canadian homeowners are generally less indebted than Americans."

At the peak of the housing mania in the U.S., subprime lenders were offering homeowners "dubious" instruments such as NINJA (No verification of INcome, Job status, or Assets) loans, Lovett-Reid says.

"As the mania for home ownership grew in the U.S., sub-prime lenders made homes seem affordable to a section of the population which would not have qualified under conventional mortgage terms," Lovett-Reid says.

Overall, the real estate market in Canada looks healthy although a correction might be coming.

A TD Economics report says the sales of existing homes in Canada could decline by four per cent next year compared to its projection for this year.

"The probability of the market busting is small," says Lovett-Reid. "A cooling of the Canadian housing market (likely will) proceed in an orderly fashion."

Taylor says housing prices and starts will flatten out over the next few years, but real estate should continue to be a good investment strategy as part of a diversified portfolio.

Canadians can invest in real estate in several ways - by owning real estate that is their primary residence, owning rental property, land, or investing in real estate company stocks or Real Estate Investment Trusts (REITs).

REITs were exempted from the controversial tax on income trusts announced by federal Finance Minister Jim Flaherty in October last year.

REITs make up about 11 per cent of the S&P/TSX Income Trust Index. The S&P/TSX REIT Index rose 24.7 per cent in 2006 and the popular investment vehicle has not had a down year since 199, says the Guardian Group of Funds.

Another positive omen for real estate remaining a good, long-term investment is that the market is being driven by fundamentals, not speculation. Commercial real estate developments such as condominiums and housing subdivisions, for example, are being done a pre-sold basis, Lovett-Reid says.

And TD Economics expects national average home prices will rise by an average annual rate of four per cent over the next 25 years.

"While real estate purchased for speculative or income-generating purposes is a financial investment, home ownership offers the opportunity for capital gains through rising prices over time," Lovett-Reid says. "There could be considerable variation at the individual city or neighbourhood level and volatility from year to year, but as one of, if not your largest asset, a home should be a part of your financial plan," she says.

Talbot Boggs is a Toronto-based business communications professional who has worked with national news organizations, magazines and corporations in the finance, retail, manufacturing and other industrial sectors.

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