

Condo market returning to normal

KATHY MCCORMICK
CALGARY HERALD

It's all in the perspective. "I remember seeing an article in the Calgary Herald in January of 2002," says Don Campbell, real estate author and president of a REIN (Real Estate Investment Network), a real estate investing firm with more than 1,300 members.

"It said that Calgary would be leading the nation in property value growth from 2002 to 2011, and all of us investors were so excited. It was going to go up a total of 25 per cent," or about 2.5 per cent a year on average.

"Then we had three 'Tiger Woods' years in 2005, 2006 and 2007, and now everyone thinks those years are the norm."

But they're not.

Prices of new single-family homes jumped more than 100 per cent in the last five years alone. Resale condo prices were up close to 90 per cent in the same time period. And sales skyrocketed.

But the hectic pace of construction in both the single- and multi-family sector was not sustainable, says Campbell. In fact, "18 months ago, people were wishing for the market to return to normal," he says.

"Well, now it has, and everyone is panicked."

Speculators have dumped their homes, and especially their condos, on the MLS market, and inventory is rising at the same time as more and more condos are being constructed.

"Fear and emotion have entered the market, but the economy in Calgary is stronger than it was two years ago," Campbell says. "That's not reflected in housing."

Naum Shteinbah, general manager of Street-side Development Corp., is one of the city's largest condo developers. "Giant projects are going forward, with some pre-sales," he says.

"Those are builders who paid exorbitant prices for land in the downtown area in 2006 and 2007. Now, they're facing the test, because prices have reduced somewhat and costs have increased."

A total of 2,888 condos were in the resale inventory as of the end of July, with another 5,383 units started in the new condo sector as of the end of August — and a large number of them are in the Beltline area.

"It takes four to five years now for a project to go from land acquisition to construction," so multi-family builders are at high risk if there is a downturn, says Shteinbah.

And the high-rise builder is at the greatest risk, since it then takes an additional couple of years for such a project to be built. Builders face the risk of pre-selling units at a given price, then seeing costs of construction rise to the point where they aren't making any money on the project.

One building, Gateway Midtown, was recently shut down by Resiance Corp. The two-tower complex is in the ground, with the parkade now under construction — and buyers are waiting to see what will happen.

Even so, positives in the overall Calgary economy will help, says Campbell.

"The economy is slated to be the best in the country in 2009 and 2010 and the fundamentals are strong. In 2008, the market is making a predictable (albeit soft) correction resulting in slightly more affordable housing compared to recent years."

Canada Mortgage and Housing Corp. is forecasting a record number of condo starts this year — 7,000 in total — but that will drop to just 3,000 in 2009.

"The market has slowed to the point where the builders have reacted and slowed production," says Shteinbah.

"They've reacted appropriately by shrinking production in the short term — and in the long term, builders are not buying land like they were compared to a year ago."

Lai Sing Louie, senior market analyst with CMHC's Calgary branch, says that no apartment condominium unit permits were taken out by builders in the city in July. "It's been a long time since that happened. It's a sign that apartment developers are holding back."

As a result of the large number of units on the market, there has been "a downward pressure on prices," says Louie. "The resale average condo was \$296,338 for July. That's the first time since January of 2007 that the condo prices were below \$300,000."

"The biggest issue is consumer confidence," says Shteinbah. Calvin Buss, president of Buss Marketing, agrees: "It's psychological," he says. "It affects investors and home buyers. But if the dynamics change — and people sense the bottom of the market, that could change quickly."

Waiting will mean an increased pressure on prices, says Shteinbah. "Since (most developers) have stopped acquiring land for condos in future for more than a year now, in three to four years, the city will face a shortage of condos again."

His prediction: "In 10 to 12 months, the supply and demand in the condo market will be normalized. It's starting to shrink already."



Calgary Herald Archive

Cranes work on several condominium apartment developments in Calgary's downtown and Beltline areas.

Campbell sees four reasons for the continued demand for condominiums as a lifestyle choice: Affordability, green priorities, high-demand locations, and the "sanctuary feel," where people want security, safety and the "lock-it-and-leave-it" lifestyle.

"The supply of condos will be absorbed. It will just take longer."

"It's always less expensive to build a box in the sky versus a ground-oriented unit," he says.

As for the green initiatives, "condominiums are

less expensive to heat, the square footage is less, and there is less water usage, for starters."

The high-demand locations are usually downtown, or at least close to the LRT routes that take people downtown.

That means less automobile usage, more pedestrian walkways, and conservation of energy once again.

The active adult population is growing, and with it, the desire for an easier lifestyle, with no maintenance and good security, he says.

ASK THE EXPERTS

Determine monthly payments before making an offer

ROB PETKAU
FOR THE CALGARY HERALD

We asked Don Peard, RBC's vice-president of mortgage specialists for Alberta, about pre-approved mortgages.

Q: What is the difference between a pre-approved mortgage and pre-qualified mortgage?

A: Pre-qualifying gives you a much more informal, rough idea of how much you might be able to afford to buy a house.

Pre-approval is a very formalized, structured process. You're essentially going through an entire mortgage application process with a lender, albeit you may not have a specific property in mind.

On the street, the terms become interchangeable, but there is quite a difference.

Pre-qualifying may be a good initial step for a first-time homebuyer. It will give them a sense of what they probably can afford. But the advantages of a full pre-approval are many.

If you know what your monthly payment amounts will be, your real estate agent will likely serve you better because they know you're serious and ready to buy.

Pre-approved status may even give you more negotiating power with a seller.

Q: What do I need to do to get a pre-approved mortgage? What's the process?

A: You can literally do it online these days, through telephone banking, through a

Pre-approval is a very formalized, structured process. You're essentially going through an entire mortgage application process with a lender

DON PEARD

lender at any financial institution, or through mortgage specialists.

You come to that meeting or process prepared, with your income, your assets, liabilities and monthly expenses.

Q: If you know that the client will use the pre-approved mortgage to shop for a condo, do you factor condo fees into the calculations?

A: Depending on the size and price of the condo, fees can vary quite dramatically.

I think it's good financial advice to build in a couple hundred dollars a month for condo fees.

I would much rather build in their property taxes, utilities and condo fees too much, and get some added flexibility, as opposed to them being surprised after they take possession.

Q: Because condo fees have to be taken into account when determining a property's affordability, would a buyer qualify for a more expensive single-family home mortgage than a condo mortgage?

A: Potentially. But there may be other costs associated with buying a condo that may not be as expensive.

Maybe the insurance isn't quite as high. Quite typically, utility costs are less. I don't believe it affects the mortgage size too much overall.

Q: If I have a pre-approved mortgage, should I still make my offers "subject to financing?"

A: For the most part, our pre-approvals are firm approvals. So you wouldn't have to. But it's still good risk mitigation to make offers subject to financing and an inspection.

Q: How long is a pre-approved mortgage good for? Can I get an extension? What has to happen to meet this deadline?

A: We have, attached to our pre-approvals, a 90-day interest rate commitment.

We can go up to 270 days, but there is some additional cost involved. On the new housing side, we can give up to an 18-month interest rate commitment.

If you have a 90-day commitment, that means you have 90 days to close the deal and fund the mortgage.

The intent is that people get shopping in the next month or so, and they're ready to move in by the time those 90 days are up.



Don Molyneux, Calgary Herald Archive
Don Peard, RBC's vice-president of mortgage specialists for Alberta.

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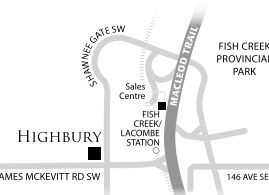
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