Experts urge buying for long haul

Slower price hikes mean profit on resale may take little longer

By Denise DeveauSeptember 30, 2008

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Photograph by : Joe Raedle, Getty Images News

The housing crisis has put the U. S. economy into a tailspin, but what about Canada's situation? Experts agree our conservatism has prevented a housing crash from happening here, and that any slowdown on that front will be relatively easy to take.

One area of concern might be employment, as job losses in industries tied to the health of the U. S. economy may become a possibility. When job security hangs in the balance, big-ticket items like house purchases are likely to be postponed.

Canada's cautious approach has definitely provided some insulation from the volatility we see south of the border, says John Turner, Bank of Montreal director of mortgage sales for the greater Toronto area. "That being said, our market is slowing down. In July, 2008, for example, house, condo and low-rise unit resales in both Ontario and Toronto were down 12% versus July, 2007. With unit sales going down, inventory will increase, which means we are moving from a seller's to a buyer's market and we can expect to see fewer multiple offers and competitive bidding on properties. Given the conversations about what is happening south of the border, it's natural human behaviour."

Ted Tsiakopoulos, regional economist for Canada Mortgage and Housing Corp. in Toronto, confirms the slowdown in Canada is relatively shallow and housing sales and starts in Canada remain close to historical highs. "What's important to consider is the rate of appreciation vis-a-vis the rate of income growth. Home prices in Canada on average are in line with economic fundamentals such as the job creation rate and income growth. In regions such as Florida, housing prices were rising at six to seven times the rate of income growth up to 2004, before the financial crisis started to lead to more moderate pricing."

The Ontario housing market performance, however, is expected to fall short of national levels. CMHC's latest forecasts indicate that 2009 sales volumes for resale houses and condominiums will drop by 5.9% in Ontario compared with a 2.6% across Canada as a whole. Resale house prices in 2009 are expected to grow 2.3% in Ontario versus 3% across the country. New-construction housing market figures show very similar trends.

"The boom in western Canada has driven prices higher in that region," Mr. Tsiakopoulos says. "At the same time, Ontario's stronger ties to the U. S. economy and the slowdown in our manufacturing sector means we're not keeping up with the national average."

One distinction of note is that Canada's default rate is near historic lows. A mere 0.27% of outstanding mortgages are in arrears, according to the Canadian Bankers Association. In 2006, some U. S. markets, by comparison, were posting well above 5% default rates for prime borrowers and in the double digits for sub-prime borrowers, Mr. Tsiakopoulos says.

This speaks favourably to the stability of our lending market versus the U. S.'s, where just about anyone could qualify for a mortgage with a 0% to 5% down payment, says John Mehlenbacher, chief operating officer of the Condo Store in Toronto. "Here, you usually need a 25% down payment [for a new condo build], so you can't go out and buy 20 units at a time. That's the type of thing that has put the U. S. real estate market in such a mess at the moment."

While Canadian banks currently do offer 95% and 100% financing options, Mr. Mehlenbacher says options are one thing, but qualifying for them is a different matter altogether. "A majority of people here will never qualify [for that type of financing], whereas in the U. S. it was a completely different picture. Anyone could get approval just by signing their name. That's the real difference between the two markets." (See page PH2 for an article on upcoming changes to Canadian high-ratio-mortgage rules.)

A long run of escalating housing prices and booming markets in recent years has also led to some unrealistic expectations in the minds of today's homebuyers. "Everyone was so used to gangbuster sales figures.

What people are missing is that sales were so high [historically]. So even with the drop in sales we are seeing, the market is healthy, especially for [condo] units under the $300,000 price point," Mr. Mehlenbacher says.

Fence sitters hoping for drastic price cuts before buying will be disappointed to hear that no one in the industry is expecting any, Mr. Mehlenbacher adds. "If we were in a real estate bubble we would have felt something in the last month. Yes, sales have slowed down, but they haven't stopped. Don't start thinking you'll be able to buy a $3-million condo for $2-million -- you'd still be paying $2.8-million, which isn't that much of a difference."

With decades of experience in the market, Hugh Heron, president of Heathwood Homes, a Toronto-based developer, sees it all as part of the inevitable cycles that comes with the territory. "We've had an extremely strong market for the last 10 years," he says. "Residential sales have been in excess of 40,000 [new condo and low-rise] units a year in the GTA for the last number of years compared to the low 8,000s in 1990. But even if it went to 30,000 to 35,000, that's still a very healthy market."

Consumers should expect pricing to remain static for now. "There are some buying opportunities, but prices may be stagnant for some time," cautions Adrienne Warren, senior economist with Scotiabank. "It's a good market if you are looking at a home for long-term investment purposes. But it's not good for speculators looking for profit."

"Given the uncertainty in the market, the volatility of the stock exchanges, and the fact that borrowing costs are still at pretty low levels, real estate is a good investment -- but it's a long-term one," Mr. Turner says.

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