

# Real Estate Journal

Your Monthly Home & Financing News

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## DID YOU KNOW...

Borrowers are coping with their debts better than expected in the wake of the recession, 2009 third-quarter results from Canada's major banks

Dear ,  
Happy New Year! Welcome to the January issue of the *Real Estate Journal*, which is designed to help you make a more informed decision the next time you're buying or selling a property!

This month's edition offers an explanation on average home prices, as well as takes a closer look at Canadian mortgage debt. Please feel free to ask questions or offer feedback regarding anything outlined below via phone or e-mail.

Thanks again for your continued support and referrals!

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## Average Price and Your Home

While being "average" is nothing to brag about, it does have its place in the world of real estate. It shows us the big picture and helps us understand where we stand in terms of the potential value of our homes.

Market statistics help us establish broad market trends. These figures convey the lay of the land, and help homeowners compare the overall market

### Think "Comparable" or "Typical"

A more useful measure of your home's value is the selling price of homes that are similar to yours and located nearby – in other words, "typical" or "comparable" homes in your neighbourhood.

Any given neighbourhood will consist of houses of different ages, sizes and types, with varying proximity to parks, schools, transit, shopping and other amenities. That means the typical home in your neighbourhood will be different from prices of typical homes in other neighbourhoods – and also different from the average price of all homes in

suggest.

There are signs that the number of consumers struggling with payments is stabilizing, and businesses are increasingly able to pay off their loans. For Canada's banks, this suggests the total toll the economic downturn inflicts will not be nearly as bad as suspected when the slump first hit.

The first wave of the crisis, caused by a sudden lack of liquidity, did less damage to Canadian banks than it did to their global competitors, many of whom were crippled by writedowns and toxic exposure in their capital markets businesses.

It now appears the second wave, caused by the recession, will have less of an impact on Canadian banks' bread-and-butter lending businesses than it is having on many institutions, especially in the US. Many bankers now predict the amount of soured loans will peak by April 2010, the halfway point of the current fiscal year.

## MORTGAGE MATTERS

While most Canadians spend a lot of time, and expend a lot of effort, in shopping for an initial mortgage, the same is generally not the case when looking at mortgage term renewals. Omitting proper consideration at the time of renewal costs Canadians thousands of extra dollars

at-a-glance in any given province, region or city. your town/city.

But, these sweeping generalizations often lose relevance the moment you try relating them to the largest single asset you will likely ever own: your home.

Many homeowners would like to know how well their properties are holding their value these days, while others, lured by historically low interest rates, are thinking about getting into the market for the first time.

In either case, the average prices of a given city or region – the ones we see so widely reported because they intrigue the widest range of people – likely have little bearing on your own situation in your own neighbourhood.



## Canadian Mortgage Debt – A Closer Look

**N**ewspaper editorials have been overflowing lately with speculation on how rising rates may lead to a surge in mortgage defaults. In response to this issue, CIBC Economist Benjamin Tal released a report that took a closer look at the facts and determined history doesn't support this premise. Below is a summary of Tal's report.

### House Prices – Some Overshooting

Over the past two years, the degree of volatility observed in the Canadian housing market has been unprecedented. Within this short timeframe, house prices fell by almost 13%, only to rebound by an impressive 21%.

Meanwhile, resale activity is now rising by close to 67% on a year-over-year basis after falling by close to 40% in 2008. Housing starts are presently 33% higher than in April 2009 despite dropping by more than 50% earlier in the recession.

That said, it is difficult for homeowners to do their own surveys because only listing prices – not selling prices – are available to the general public on the local MLS. The best course is to ask your real estate professional or team to show you statistics of selling prices of homes in your neighbourhood that are similar to your home.

As always, if you have any questions about pricing your home accordingly, answers are just a phone call or e-mail away!

### What Worries the Bank of Canada?

Rather than house prices, it is the accelerated pace of borrowing at very low rates that is beginning to raise some concerns at the Bank of Canada. For the first time in the post-war era, real household credit continued to expand through a recession. In fact, mortgage credit is now rising at a year-over-year rate of more than 7%.

This strong performance is a clear reflection of an extremely effective monetary policy in Canada. With Canadian consumer confidence only 10 points below its pre-recession level (versus a 50% decline in the US), Canada is benefiting not only from properly functioning credit channels, but also from a household sector that is willing and able to take on new credit.

Remember that low rates only work as an economic stimulus if Canadians take advantage of them. The wave of borrowing does, however, have consequences in terms of consumer debt levels. The household debt-to-income ratio is

every year. Homeowners should never accept the first rate offer from their existing lender. Without any negotiation, simply signing up for the market rate on a renewal is unnecessarily costing the homeowner a lot of money on their mortgage. Speak to your mortgage professional or lender prior to signing your next renewal form.

## HOMEOWNER TIPS

### **Humidifier Maintenance:**

Whether you have a power humidifier or just a simple pan-type model, you will have to clean your humidifier on a regular basis to ensure proper operation. As water evaporates, it leaves behind mineral deposits that clog the mechanisms in the humidifier, eventually causing it to stop working. You will be able to tell when cleaning is appropriate as the mineral deposits will be noticeable to the eye and to the touch. The sponge drum in a power humidifier will be crusty and stiff instead of soft and pliable. Check at least twice a year and more often in the winter when your humidifier is likely to be working harder.

### **Hiring a Snow Removal Contractor:**

Following are some questions to ask when choosing a snow removal contractor:

1. Does the company have insurance (general liability insurance specifically

In fact, no other segment of the economy has rebounded as fast as the housing market, making it one of the real surprises of this recession. This rapid uptick in housing activity, in the face of recessionary conditions elsewhere in the economy, raises concerns about its sustainability, and is causing some to wonder whether house prices are, in fact, rising too quickly given current economic fundamentals.

Tal estimates that the Canadian housing market as a whole is indeed beginning to overshoot its "fair value". At just under \$350,000, the current average price of a home is estimated to be roughly 7% over what would be consistent with current housing market fundamentals such as interest rates, income growth, rents and demographics.

But this modest overshooting is far from uniform across the country. Those figures are skewed to western Canada, which has seen the most dramatic swings in house prices over the past 24 months. That market now appears to be overvalued by roughly 10-15%, suggesting that the imbalance in the rest of the country is much more modest.

Note, however, that overvaluation does not necessarily mean a bubble or a dramatic price correction. Given that the current overvaluation is occurring in a context of historically low interest rates, what we are most likely witnessing is a temporary period of exuberance that is "borrowing" activity from the future, as households take advantage of lower rates and accelerate their borrowing and home purchasing activities.

To the extent that current activity is simply a redistribution of sales from the future to the present, the housing market of tomorrow may be in store for a more muted level of activity. Housing starts will also catch up with the sudden spurt in demand, with the increase in supply helping to moderate price trends. Rather than plunging, house prices are more likely to stagnate in coming years (or fall modestly in the most overheated markets) as fundamentals catch up with a market that has gotten ahead of itself.

now at a new all-time high of more than 140%.

Despite a record low 4.4% effective mortgage rate, overall mortgage interest payments as a share of after-tax income are now at levels that in the past were consistent with a 6% effective mortgage rate. Since rates will no doubt at some point return to those higher levels, the Bank of Canada is worried that Canadians are making themselves increasingly more vulnerable in terms of their ability to continue to service these new, higher debt loads.

### **How Big is the Problem?**

The relevant question, however, is just how serious a problem it is becoming, and here we have to dig a bit deeper to get the answers. Aside from an unlikely scenario of a 1970s-type stagflation, any future increase in interest rates will be in response to an improving economy. As such, any analysis of the potential impact of higher rates on the household sector in general, and the housing market in particular, should be done with tomorrow's healthier economy in mind.

After all, the reality is that, in the past, interest rates have played only a minor role in driving mortgage default rates. Historically, it's clear that mortgage arrear rates are highly correlated with the unemployment rate, with little or no correlation with changes in interest rates. The same goes for the economy in general. Over the past three decades, personal bankruptcies have risen twice as fast in an environment of falling interest rates than in an environment of rising rates.

And the logic here is obvious – interest rates rise when the economy recovers, and the benefits to employment and incomes of an improving economy easily offset the sting of higher interest rates on debt service costs.

[Click here](#) to read the full Benjamin Tal report.

covering snow removal operations)?

2. Is the organization registered with the Better Business Bureau?
3. Are the employees of the company covered by workplace health and safety insurance?
4. How long has the firm been operating?
5. Does the company have solid references in your area?
6. What type of equipment will be used?
7. How will the company communicate with you?

# About



RE/MAX was established in 1973 by two 20-something real estate agents from Denver, Colorado, who decided to develop a new real estate concept. They created RE/MAX – an acronym for “real estate maximums”. The company’s system encourages quality real estate salespeople to realize and develop their outstanding business potential.

On its 5th birthday, RE/MAX boasted 1,000 sales associates and launched its first widely recognized trademark – the RE/MAX Hot Air Balloon. And still to this day the Hot Air Balloon trademark is well known all over the world.

In 1979, two Canadians – Frank Polzler and Walter Schneider – launched RE/MAX Ontario-Atlantic Canada.

Today, the RE/MAX franchise network is the most recognized global real estate system operating in more than 60 countries. RE/MAX sales associates lead the industry in professional designations, experience and production while providing real estate services in residential, commercial, referral, relocation and asset management.

The RE/MAX website – [www.remax.ca](http://www.remax.ca) – offers helpful information through both a Buyer’s and a Seller’s Guide.



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