

# REAL ESTATE NEWS

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## CANADA'S HOUSING MARKET IS THERE A "HOUSING BUBBLE" IN CANADA?

While there have been concerns of a "house price bubble" in Canada, **there is no clear evidence of a "housing bubble"**. The key characteristic of a bubble is an environment where house prices exceed levels that would be suggested by underlying demographic, economic and financial factors (migration, income, interest rates, wealth, etc.) and where the growth rate of prices is accelerating. When house prices are out of line with these fundamentals and are growing at an accelerated rate, it can be the result of a significant increase in speculative activity in the housing market, a key ingredient of a housing bubble.

While some markets may deviate somewhat from prices suggested by long term fundamentals, currently prices are generally in line with long term fundamentals. Significant levels of speculative activity typically result in over-building of new homes. However, there is currently no evidence of significant over-building in Canada:

- The pace of housing starts is moving back in line with demographic requirements.
- Stocks of completed and unoccupied new housing units have risen but remain significantly below previous peaks, which coincided to the last known housing bubble in Toronto in the late 1980s early 1990s.

- Condominium vacancy rates across the larger urban centres are relatively stable.

Given that house prices have mirrored closely changes in the balance between housing supply and demand, and considering all the factors that drive house prices (not just income), house prices are not likely to be significantly overvalued in most markets in Canada. Although there are different opinions on the price outlook, none call for substantial price gains, thus averting unreasonably optimistic expectations that could lead to speculative activity.

It has been suggested that Canadian housing markets will experience the same severe adjustments as U.S. markets did, however housing markets in Canada are generally not exposed to the same circumstances that shaped the recent U.S. experience. The sub-prime market, in particular, never took hold in Canada to the extent that it did in the U.S. Lending standards have remained rigorous in Canada, and the rate of mortgage arrears is more than 10 times lower in Canada than in the U.S., according to the Canadian Bankers Association.

Source: CMHC's Newsroom - "Just The Facts"

## SOLID JUNE FOR OTTAWA HOME SALES

Members of the Ottawa Real Estate Board (OREB) sold 1,712 residential properties in June 2011 compared with 1,543 in June 2010, an increase of 11 percent. There were 1,659 sales in May 2011.

"It's obvious that the dream of home ownership is alive and well in Ottawa, with solid sales numbers like these. First-time buyers are out in the market in a big way, due to continued low interest rates, and after last year's HST-affected spring, we're seeing a return to what the June resale market usually looks like in Ottawa," said OREB's President.

The average sale price of residential properties, including condominiums, sold in June in the Ottawa area was \$353,560, an increase of 8 percent over June 2010. The average sale price for a condominium-class property was \$275,996, an increase of 9.6 percent over June 2010. The average sale price of a residential-class property was \$375,539, an increase of 7.3 percent over June 2010.

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## REAL ESTATE NEWS

# CANADIANS CONFIDENT IN THE INVESTMENT POTENTIAL OF RECREATIONAL PROPERTIES: SURVEY

**BULLISH ATTITUDE TOWARD RECREATIONAL PROPERTIES REFLECTS RECENT STRENGTH OF HOUSING MARKET, ACCORDING TO ROYAL LEPAGE**

An overwhelming majority of Canadians who have either purchased or who intend to buy recreational property in the next 24 months believe that buying a vacation home is a good long-term investment, according to a nationwide survey of Canadian attitudes towards recreational property ownership commissioned by Royal LePage Real Estate Services and run on the Angus Reid Forum.

Overall, the survey found that 89 per cent of current owners and prospective buyers agree that recreational properties are a good long-term investment. Broken down by region, this included 92 per cent of respondents from Alberta, 91 per cent of Ontarians, 87 per cent of BC residents and 81 per cent of people surveyed in Quebec.

When respondents were asked to compare recreational properties to the stock market in terms of providing a larger financial return on investment, 50 per cent said recreational properties provided a larger return. Only 29 per cent replied investing in the stock market, while 21 per cent were undecided.

"Canadians' confidence in recreational property values is mirroring what we have been seeing in Canada's urban centres," said Phil Soper, president and chief executive, Royal LePage Real Estate Services. "This spring, the horror stories from some fundamentally flawed international housing markets that had dampened demand for cottage-type living during the recession era, are being shrugged off. Canada's traditionally buoyant recreational property market appears to have found its groove once more."

Interestingly, a majority of respondents (57 per cent) said that the expectation of interest rates rising will not affect their desire to purchase a recreational property. Among this group, 55 per cent of respondents aged 35-54 (and 70 per cent of respondents aged 55+) said an expected rise in interest rates would not affect their desire to purchase a recreational property.

When it came to financial and lifestyle sacrifices to purchase a recreational property, more than a third polled (35 per cent) responded that they were most likely to reduce personal spending throughout the year. The two least favoured strategies were to drive as far as necessary and to make the recreational property a primary residence, both 13 per cent. "Relentlessly wet and miserable weather has delayed the 2011 buying season in some regions of the country. But

while weather delays intent, it doesn't change it. The Royal LePage Recreational Property Report shows that the steadily improving economy has stoked consumer confidence which should impact demand positively. We expect to see considerable activity in the coming months – especially in higher-end and luxury segments," added Soper.



More than half (51 per cent) of those polled said they are, or will be, renting out their property to offset their mortgage and other associated costs. However, many of those willing to rent plan to be selective (32 per cent) and only rent their recreational property to someone who have been referred by someone they knew.

"We are seeing more buyers purchase properties with the intent to offer them as rentals. This cost-offset strategy may allow younger families to acquire a cottage earlier in their lives than they would otherwise, and others may be able to buy in a region that would have been out of their reach, price-wise. The purchase motivation for most is not financial planning. It remains lifestyle driven – satisfying the needs and wants of their family," said Soper. "In fact, 92 per cent of those we polled agreed that a recreational property is a great way to bring family together."

The survey was commissioned as part of the 2011 Royal LePage Recreational Property Report, an annual market analysis of recreational property prices, trends and activity in selected leisure markets across the country.