REAL ESTATE NEWS

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First-time buyers still entering housing market

Mortgages considered 'good debt'

Low interest rates and favourable economic circumstances are keeping substantial numbers of first-time home buyers entering the Canadian housing market.

They feel confident in weathering a downturn in the market and consider mortgage debt to be "good debt," according to a consumer survey by the Canadian Association of Accredited Mortgage Professionals (CAAMP).

The report looks at Canadians' attitudes about their purchase decisions and found that homeowners appear to be "happy with the decision to buy their home." Their attitudes are the same whether they live in Toronto, Calgary or Vancouver, where prices continue to rise, or in areas where home prices are stabilizing.

Highlights

Fifty-five percent of homes purchased in 2013 were bought by first-time buyers; Most Canadians say they have no regrets taking on the size of mortgage they did and that real estate is a good long-term investment;

Sixty-six percent agree to some degree that mortgages are a form of "good debt";

House prices in Toronto, Calgary and Vancouver have increased by a year-over-year rate of 8.2 percent, compared to just 2.9 percent in the rest of Canada;

By next year, housing starts will have fallen by 20 percent compared to levels in 2011 and 2012;

More than 80 percent of homeowners in Canada have 25 percent or more equity in their homes;

The average mortgage interest rate is 3.24 percent, a drop from the average of 3.5 percent found in the fall 2013 survey.

“Key to the current stability in the mortgage market is the fact that Canadians continue to pay down their mortgage debt faster than they are required and they continue to take out five-year, fixed-rate mortgages," said Jim Murphy, president and CEO of CAAMP, in a news release. "Canadians who renew their mortgages are seeing their interest costs reduced, which is boosting their personal financial circumstances, and this will continue to be a positive force during the coming year."

Spring buyers have come out of hibernation

Members of the Ottawa Real Estate Board (OREB) sold 1,792 residential properties in May 2014 compared with 1,797 in May 2013, an decrease of 0.3 percent. There were 1,420 home sales in April 2014.

“Looking at the units sold this year in comparison to last year, there is only a difference of five units. April was a bit slow for the Ottawa market, but it appears that with the great weather in May, buyers have come out of hibernation,” said OREB's President. “May sales are up 26.2 per cent from April – or 372 units. The inventory on hand continues to grow, and prices remain stable”, he added.

The average sale price of residential properties, including condominiums, sold in April in the Ottawa area was $381,172, an increase of 3.2 percent over May 2013. The average sale price for a condominium-class property was $280,661, a increase of 6.9 percent over May 2013. The average sale price of a residential-class property was $401,626, an increase of 2.1 percent over May 2013.

“If we look at the residential property class alone, the units sold year over year are up 1.2 per cent. Although the residential property class is performing as anticipated, the market for condos has been a bit sluggish” explains OREB's President. “We're seeing a 19 percent increase in the amount of inventory on hand over this time last year and unit sales are down 7.1 percent. If you are looking to buy and hold, the selection and prices are attractive."

Call today for real estate advice and information!

10 TIPS FOR FIRST TIME REAL ESTATE INVESTORS

Many people consider investing in real estate as a way to build a nest egg and have tenants help you pay the mortgage. There are pros and cons to taking that leap, but if you do, here are 10 things to know.

1 Visit with a mortgage broker or your bank to determine how much money you can afford to borrow responsibly for your investment.

2 Look for properties that generate a positive cash flow. What this means is that the rent that you receive from tenants should be enough to pay your mortgage payment, property taxes, utilities and insurance bills. Budget an additional ten percent on your overall payments to pay for minor repairs that will invariably arise. Currently this is very difficult to find in the Toronto area. Do not be afraid to expand your search to smaller communities, where you will be able to find more properties that match your search criteria.

3 Use an experienced local real estate agent who also invests in real estate themselves. Investors learn about the pitfalls only through first-hand experience, both good and bad, and you want that experience working for you as well.

4 Have any property inspected by a professional home inspector. In addition, find a contractor who you can trust to give you the right advice for any minor repairs or renovations that may be required, especially for older properties, in order to add the most value to your investment.

5 Consult with your accountant and lawyer as to how you will take ownership of the property. There are some benefits in taking title in the name of a limited company, in order to protect yourself against personal liability should someone get hurt on the property and for other tax planning purposes. However, on the other hand, you will also have to pay about $1,000 in incorporation fees and have to file a separate tax return each year for your company.

6 Keep proper records of income and expenses for your investment property. Do not mingle these with your personal bank account as it will become difficult to properly trace this when you have to file a tax return at the end of the year, regardless whether you own the investment in your personal name or in a company name.

7 If you are buying with a partner, make sure you have a proper partnership or joint venture agreement to protect both of you should things not work out as planned. In particular, provisions should be made if one of the partners wants to sell and the other one doesn't, one partner is not paying their share of expenses or what happens if one of the partners dies.

8 Hire an experienced property manager to assist you in finding suitable tenants and dealing with any ongoing maintenance, repairs or other complaints by tenants. You do not wish to be woken up in the middle of the night to handle emergency repairs. Budget an additional $100 per month for this service.

9 Be careful not to buy and sell properties quickly. The Canada Revenue Agency may view this activity as business income. This means that you will have to pay tax on any profit you make on your investment. It is preferable to buy properties for the long term, rent them out and use your positive cash flow to reduce the amount of your mortgage owing, building equity in your property. If you then sell years later for a profit, it will likely be classified as a capital gain and thus one half of your gain will be tax free.

10 Don't be afraid to walk away if the deal does not work for you, no matter how much time you may have invested in the property.