REAL ESTATE NEWS

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MORTGAGE MATH:

RATES AREN'T EVERYTHING, DON'T FORGET TO CONSIDER TERM

You shopped around for the best deal on your mortgage and weighed the pros and cons of going with a fixed-rate or a variable-rate loan, but another key factor to consider is the term.

A majority of borrowers opt for a five-year mortgage -- about 54 per cent according to Mortgage Professionals Canada -- but experts say homebuyers need to consider how long they want to commit to when it comes to their loan.

James Laird, co-founder of interest rate-comparison website RateHub, says when people are buying a house and signing a mortgage it can feel like nothing is going to change for the next 10 or 20 years, so signing for a five-year term may seem like it's no big deal.

"But life is a bit different than that," Laird said, as relationships and jobs can change.

"Sometimes it is new relationships forming where someone buys a condo, gets a five-year fixed-rate, but then they meet someone and get married... That usually dictates a change in the residency that they have and the mortgage is broken."

"That can really set you back," he added, noting that penalties for breaking a fixed-rate loan will be more severe than those for terminating a variable-rate.

While mortgages in Canada generally have terms of one to 10 years before the remaining balance needs to be renewed, refinanced or paid in full, Laird said the average Canadian will only have their mortgage for 3.8 years.

For those nervous that interest rates are going to be significantly higher in five years, it might make sense to take a longer term -- but that means making a prediction on where rates are headed in the future.

Choosing a longer term mortgage can help protect you if interest rates rise, Laird says, but the reverse is also true.

For instance, when the rate charged for a 10-year term dropped below four percent in 2012, some borrowers leapt at the chance to lock in at what was seen at the time as a great rate for a decade.

However, Laird says rates continued to fall and what seemed like a deal at the time, no longer looked so appealing.

He says the rate difference between a five-year and a 10-year mortgage has been around 1.5 to two percentage points.

"That's a big jump in rate, especially in that initial five-year period, to have to pay just to get that rate for the following five years," he said.

Mortgage rates today are sitting near historic lows and while it's unlikely they will return to the high teens of the 1980s, a move higher five years from now is not out of the question.

Canadian mortgage lenders raise the money they need on the bond markets and bond yields have risen since the U.S. election last year, pushing up the cost of fixed-rate mortgages.

"Ultimately, choosing the right mortgage type and term length is a matter of personal preference and what option best suits customers and their personal needs".

SPRING MARKET IS PRIMED FOR COMPETITIVE SEASON AHEAD

Members of the Ottawa Real Estate Board (OREB) sold 1,010 residential properties in February 2017 compared with 908 in February 2016, an increase of 11.2 percent. The five-year average for February sales is 872. There were 667 residential sales in January 2017.

"Numbers continue to indicate a positive trend for Ottawa as a whole," said OREB's President. "Even with the additional day in February last year due to the leap year, sales this year are up in both the residential and condo property classes. Keep in mind though, that all real estate is local, and that prices and conditions will vary from neighbourhood to neighbourhood."

"A total of 2,066 homes were listed this month, up almost 25 percent from January, while inventory on hand still remains low compared to last year," OREB's President went on to explain. "Now is a great time to list your home in anticipation of the increase of buyer interest in the spring that will pick up as early as March."

February's sales included 233 in the condominium property class and 777 in the residential property class. The average sale price of a residential-class property sold in February in the Ottawa area was $417,374, an increase of 8.5 percent over February 2016. The average sale price for a condominium-class property was $258,397, an increase of 4.0 percent over February 2016.

"In the residential market the most active price point was the $300,000 to $399,999 range for the month of February, followed by the $400,000 to $499,999 range, combined accounting for 54.6 percent of the market. The condominium market was most active in the $150,000 to $249,999 price range, accounting for 54.9 percent of the market," added OREB's President.

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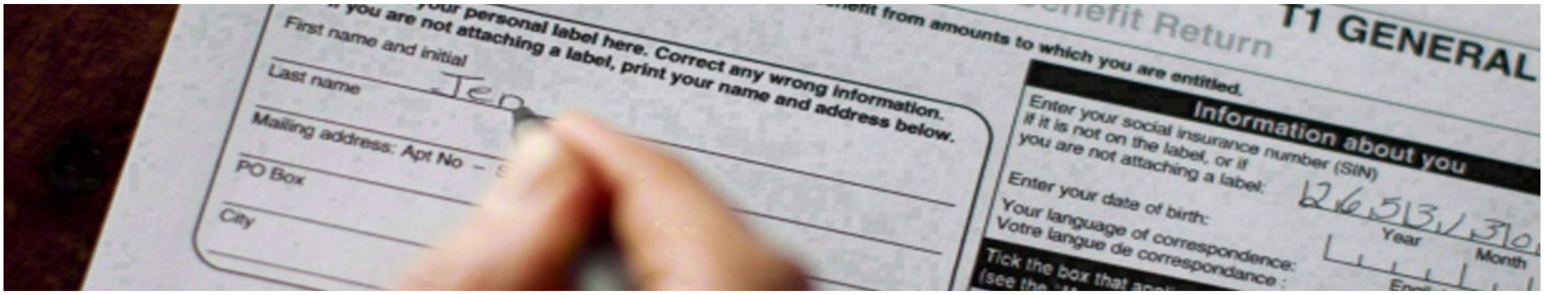
5 tax changes that will impact your 2016 return



Tax season is just around the corner, and Ottawa has made several changes that could impact your 2016 return.

NO MORE FAMILY TAX CUT

The federal government has done away with the Family Tax Cut, also known as the Income Splitting Tax Credit, a reduction measure that allowed individuals to transfer up to $50,000 of income to a lower earning spouse, if they have a child under 18 years old, to a maximum benefit of $2,000.

CHANGES TO CHILD BENEFITS

Ottawa is also ushering in sweeping changes to tax breaks designed to help parents cope with the cost of raising children.

Children's fitness and arts credits have been cut in half for the 2016 filing year. Parents are eligible to claim eligible fees paid in the year up to $500 per child under 16 for fitness activities, down from $1,000 last year, and up to $250 for arts activities, down from $500 last year. Parents of children with disabilities are eligible to claim eligible fees paid in the year up to $500 for both credits, and apply these benefits to children up to 18 years old. The refundable portion of the credit is 15 per cent of the total eligible fees.

Tax savvy parents were allowed to pre-pay 2017 arts and fitness programs on their 2016 tax returns as long as total spending for 2016 does not exceed the $250 and $500 limits, respectively. Those credits are set to be eliminated in 2017, along with two for education expenses and text books.

The good news for parents was announced last July, when the Canada Child Benefit replaced the Enhanced Universal Child Care Benefit. Parents of children under 18 can get up to $6,400 per year ($533 per month) for each child under the age of six. While children between six and 17 can receive up to $5,400 per year ($450 per month) for each child aged 6 to 17.

Unlike the Enhanced Universal Child Care Benefit, the Canada Child Benefit is a non-taxable transfer, and weighted based on income and the number of children per family. Families with less than $30,000 in net income receive the maximum benefit.

The federal government also topped up the limits of the Child Care Expense Deduction for 2016, raising the maximum to $8,000 for each child under age of seven, $5,000 for each child age seven to 16, and $11,000 for any child eligible for the Disability Tax Credit.

PRINCIPAL RESIDENCE DESIGNATION

The Canada Revenue Agency (CRA) is training its eye on real estate earnings with a new rule requiring taxpayers to report the sale of their principal residence, whether they owe tax or not, starting with the 2016 return.

Sales of primary residences have long been immune to the taxman, thanks to the principal-residence exemption, which eliminates the potential capital gain. Therefore, there was no reason to report it.

FEDERAL TAX BRACKET SHAKE-UP

Two changes to the tax rate table this year favour the middle class at the expense of top earners.

Canadians earning between $45,282 and $90,563 per year will see their tax burden drop to 20.5 per cent, versus 22 per cent in the second lowest bracket last year. Meanwhile, a new bracket has been added for those earning over $200,000 annually that will see them pay 33 per cent on every additional dollar earned above that figure, up from 29 per cent in 2015.

ACCESSIBILITY RENO REBATES

Finally, Ottawa is addressing the large cohort of baby boomers who wish to remain in their homes as long as possible, with a tax break for mobility-focused upgrades. Seniors, their spouses, and those who qualify for the Disability Tax Credit can claim 15 per cent of eligible home improvements up to $10,000 up to a maximum benefit of $1,500 under the Home Accessibility Tax Credit.