

Hot Markets

By: Wayne Karl – May, 2009

When host George Stroumboulopoulos and producers of the CBC TV show *The Hour* needed an expert to put today's real estate market in perspective, they called on a guy named Don Campbell.

A Vancouver-based real estate consultant who studies the Canadian market, Campbell may not exactly be a household name.

But appearing on the popular *The Hour*, whose audience is largely young Canadians – many of them in the first-time homebuyer demographic – in March, with another appearance tentatively scheduled for early June, Campbell simplified for many the often complex factors that influence real estate performance. Most of his research is marketed to his more than 3,100 paying members of his investment club, Real Estate Investment Network, who own about 23,000 properties worth \$2.6 billion.

But whether you're a seasoned homeowner or a first-time buyer looking to time your entry into the market, the same principles apply.

It's all about economic fundamentals: population growth, increasing average income and property affordability. Base your home-buying decision on these factors, Campbell says, and you're off on the right foot.

"Instead of falling in love with a particular property, fall in love with the potential of that property," Campbell says.

Indeed, 'location, location, location' is the most cited rule of thumb for buying real estate – meaning that your home's proximity to amenities such as schools, shopping and transportation will go a long way to determining resale value. But in today's climate, with economic uncertainty combined with seemingly weekly reports of declining home prices, you need a lot more than that. Timing of your purchase, and the information you use to guide your selection, are critical.

"First-time buyers' focus is often determined more by price than actual location," Campbell told HomeTrader.ca. Buyers getting into the market for the first time are usually limited to a certain budget, and often adjust their choice of neighborhood or specific property accordingly.>

"However, during these times of very low interest rates, location choices become more plenty for the first time buyer. The key with any purchase right now is that the buyer has at least a five-year window for ownership, they look at the future potential of the neighbourhood in which they are buying, and they negotiate the deal they want as the market is now in buyer's

territory, providing the first-time home buyer with lots of options and time to be picky on what they want to own.

On the plus side for buyers are declining prices: the average price of a home in Canada (new and resale) fell 0.7% in 2008, to \$303,594 from \$305,822, according to the Canadian Real Estate Association. The beginning of 2009 brought even steeper declines: -11.2% in January, -8.9% in February and -7.7% in March, year over year, compared to corresponding months in 2008. As of March 2009, then, the national average home price in Canada was \$288,641, meaning a lower entry point and greater affordability for first-time buyers. Listings are also up over last year, which means more choices are available when shopping.

Also in buyers' favor are low interest rates. Mortgages from Canada's big five banks can be had for as low as 3.9% for one year, and 5.25% for five years. Compare this, for example, to a five-year closed fixed-rate mortgage from Bank of Montreal, of 6.17% in 2008, 6.69% in 1998, 12.13% in 1988 and 11.53% in 1978. So, though it may sound cliché, money has never been cheaper.

Combine these factors with the coming of spring, which generally leads to a pick-up in home buying; a recent report for major realtor Re/Max which says first-time buyers are a driving force in the market more than ever; the new federal First-Time Home Buyer's Tax Credit; and news from the Conference Board of Canada that consumer confidence in April reached its highest level in seven months. It all points to what sources say is a great time to buy.

"You've got extremely low interest rates now, and that's one of the best things attracting the first-time buyer," Benjamin Tal, senior economist at CIBC World Markets and another of Canada's foremost real estate experts, told HomeTrader.ca.

"At the same time, when you buy now, you have to make sure that in five years when you renew your mortgage, you will be able to pay 2 or 3 basis points higher than you pay now."

The economy is currently in an "environment of emergency," he says, with governments in Canada and the US spending billions of dollars on economic stimulus packages to ensure this recession remains only that – a recession – and not something worse. When conditions improve, and there are already signs this is happening, interest rates are likely to rise.

"Emergencies do end," Tal says. "And when this emergency ends, you will see inflation increase, leading to rising interest rates."

So, all of this begs the question, if we accept that now is a good time to buy, where are the 'hot' markets?

Again, Campbell and others stress that real estate is not a national or even provincial phenomenon; potential home buyers should examine the specifics – and the economic

fundamentals – of prospective areas on a micro level, down to particular neighborhoods and even streets. And as any realtor and developer will tell you, nearby amenities such as schools, shopping and public transit, on top of any features of the individual property, are key factors to consider.

Proximity to transportation such as highways and transit, in fact, is one of the most significant influences on property values. The federal and provincial governments are spending billions of dollars on such infrastructure improvements, leading to strong real estate performance in areas surrounding key projects.

Research from the Real Estate Investment Network, in fact, shows that properties located within 500 metres of new transit stations are found to increase in value, by as much as 20%, more than those distant to it. Homes located within 800 metres show a premium of 10% to 15%.

These are some of the key factors in making some of the markets mentioned below solid areas to buy in over the long term, say five to seven years, according to Campbell.

“As the economy begins to return to normal, oil prices will increase, thus increasing the demand for transit,” says Campbell. “This demand will drive up properties in these 800-metre circles more than the rest of the market.”

Top 5 markets in Canada

Edmonton

- Solid long-term economic fundamentals supported by billions in infrastructure development
- Oil sands development and resulting growing population
- Burgeoning condominium market

Calgary

- Though Alberta and the city of Calgary were among the markets hardest hit by the recent downturn, the Canadian Real Estate Association says the province will also help lead the rebound in 2009 and 2010
- Strong connection to the oil and gas industry means Calgary is poised for long-term growth
- As energy prices begin to rise, as Tal of CIBC expects they will in the near future, project construction in the oil patch will increase

- This will all lead to a pick-up in economic activity, job growth, population influx and housing construction and sales

Barrie and Orillia, Ont.

- Not just cottage country any more
- Growth of post-secondary institutions and other industry, plus expansion of GO Train service connecting Barrie to Toronto
- Leading to growth in these formerly sleepy vacation communities

Kitchener-Waterloo and Cambridge, Ont.

- Home to two large and growing universities, a healthy technology sector, including Blackberry maker Research in Motion, and other growing industries
- Lower average prices than big-city Toronto, though still within reasonable distance

Hamilton

- Steeltown, as it has long been known, but perhaps no more
- Stroumbouloupoulos registered surprise when Campbell mentioned this city on The Hour as a top potential market to buy in (and long before there was any mention of the NHL's Phoenix Coyotes potentially moving to the city). After all, US Steel recently shuttered operations there
- Central to the rejuvenation is expansion of GO Train service and highway improvements
- Easier for people to live in Hamilton, where home prices are cheaper, and commute to Toronto
- Also supporting the growth is growing university and health care sectors

Making your money work hard for you

Not everyone wants or can afford to buy a home where they live, even when market characteristics are as favorable as they are now.

For example, if you want to live in the downtown area of a major city and maintain that lifestyle, but your budget can't quite support a purchase there just yet, consider buying elsewhere.

“Why not have your money work for you elsewhere?” asks Don Campbell, Vancouver-based real estate consultant.

For instance, you could continue to rent where you currently live, and buy a property in another city or even province which is showing economic growth, and rent it out.

This affords you the opportunity to own a home, though it’s not your primary residence. Your tenants pay your mortgage, helping you build equity in the property, and you gain from any value increase down the road when you sell.