

Real Estate Monthly

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Canada's Housing Market : Vigorous and Stable

For most of Canada, the housing market exhibited moderate price increases and stable unit sales during the third quarter of 2006, according to a report recently released by Royal LePage Real Estate Services.

Nationally, market trends established through the first three quarters are forecast to continue for the remainder of the year. Robust economic conditions, low unemployment rates, modestly growing salaries and wages, and sound consumer confidence contributed to the overall strength of the residential real estate sector.

Of the housing types surveyed, the highest average price appreciation occurred in detached bungalows, which rose to \$300,365 (+16.3%) year over year, followed by standard condominiums, which rose to \$211,562 (+14.2%), and standard two-storey properties, which increased to \$365,380 (+13.2%).

"Canada's sturdy housing market continued to demonstrate steady growth during the third quarter. For all but the West, we have moved on

from the frenzied expansion that characterized the first half of this decade and are poised to show continued growth at a more moderate pace," said Phil Soper, President and Chief Executive Officer, Royal LePage Real Estate Services.

Despite the double-digit rise in



average national house prices, considerable regional variances were exhibited again this quarter. The shift to balanced market conditions, which began

in late 2005, has continued throughout most of the central and eastern regions of the country. In the core energy-producing Western Provinces, the combination of very high immigration, manageable affordability and a shortage of inventory has driven record-breaking price appreciations.

In Ottawa and Toronto, growth remained steady, supported by solid economic fundamentals, an increase in available inventory and strong consumer confidence. While the pace of price appreciation in Ontario leveled off slightly, the province's real estate market remains poised for modest growth.

Eye on Ottawa Real Estate

According to statistics just released by the Ottawa Real Estate Board (OREB), 1,015 homes were sold in October 2006 compared with 931 in October 2005. There were 1,087 sales in September 2006.

"Condominium properties are selling faster than at this time last year, with an average of 42 days on the market, down from 48 in October 2005, and their average selling price is up 9% over last October, indicating that condo sales are a driving force in Ottawa's resale housing market," said OREB's President. "In addition, residential properties are selling at the same brisk pace as last year, and sales numbers are up more than 9%, demonstrating continued solid growth."

The average price of the homes sold in October in the Ottawa area was \$255,763, an increase of 4.7% over October 2005. Year to date, the average price is \$256,129.

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All About Price

When it's time to set the list price on a property, the roles are clear. Real estate professionals provide detailed data and selling strategies relevant to the specific property and market. Property owners decide on the list price. One Canadian researcher wondered what trade-off between time on the market and sale price is reflected in the choice of list price.

"It is important to identify which segment of buyers you want to attract," said Dr. Paul Anglin, currently Associate Professor of Real Estate and Housing in the Department of Marketing and Consumer Studies in the University of Guelph's newly created College of Management and Economics.

"Do you set the list price high and wait for someone to come along, or does the high list price scare away buyers? There is a trade-off between time and money, and several parts of my research are trying to come to grips with high selling price versus quick selling time. Sometimes, you just get lucky and sell for a high price in 2 or 3 days. How much is luck and how much is the listing price strategy? Distinguishing luck from good choices requires careful analysis of the data."

Anglin undertook research based on 3 years (1997 to early 2000) of listing information provided by the Windsor Real Estate Board. Through the Board's cooperation, data for more than 20,000 houses, including those that did not sell, were available for statistical analysis. The resulting study, entitled "House Prices and Time-till-sale in Windsor," attempted to quantify the trade-off between time on the market and sale price as a reflection of selected list price.

"The key step in our analysis was that we tried to compare to a benchmark," said Anglin, who used a three-bedroom/two-bathroom bungalow as the standard for comparison. "An increase in the list price has an effect relative to a benchmark."

Analysis revealed that, on average, over that 3-year period:

- Smaller houses sold faster, while increased time-till-sale (TTS) was the case for properties with 5 or more bedrooms.
- Bungalows and side-splits sold at the same pace, but

condominiums, ranch-style and "rental" properties took more time.

- TTS differed significantly by location, while properties outside Windsor consistently had longer TTS.

Descriptive remarks on the listing form had the following effects:

- The words "beautiful" or "gorgeous" reduced TTS by 15 percent and "beautiful" houses sold for more. "Landscaping" reduced TTS by 20 percent and "move-in" condition did so by 12 percent. However, "must see" and "vacant" houses apparently had no statistically significant effect.
- Houses identified as "Starter" homes sold in 9 percent less time; however, "Handyman Specials" sold approximately 50 percent faster. "Rental" properties were on the market 60 percent longer.
- Seller intent described as "motivated" or "must sell" were associated with a 30 percent increase in the average TTS, while "moving" had no statistically significant effect.



Following the research statistic "Degree of Over Pricing" (DOP), which measures the difference between the list price chosen by the seller and the average list price for that type of house, the DOP of unsold houses was roughly 4.5 percent higher than that of houses which sold.

Among owners who select a list price higher than current market data indicate are those who may be "testing the market" -- content to stay in the property rather than sell for less. Real estate professionals who take on listings at prices that match inflated owner expectations may not fare well either. Anglin's research reveals that houses which are listed, but do not sell, use up more of the real estate professional's time and resources.

According to the study, owners setting a list price should bear in mind that wanting more may not result in more: "The single most important message that a seller can send to a buyer is their choice of list price. A high list price encourages potential buyers to inspect similar lower-priced houses, both those that are available currently and those which will become available.