Real Estate Monthly

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REAL ESTATE MARKET RESILIENT IN Q1

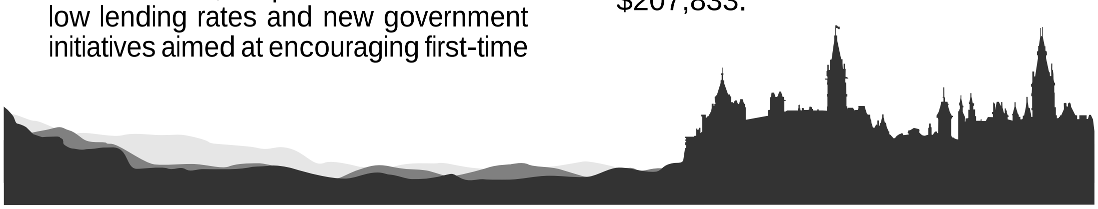
According to a quarterly House Price Survey recently released by Royal LePage Real Estate Services Ltd., markets in Central Quebec and Eastern Ontario held steady with areas of modest growth and limited declines. Moderate growth occurred for detached bungalows in Montréal (up 2%) and Ottawa (up 1.9%).

"We expected a sharper decline in house prices across Canadian markets during the first quarter," said Phil Soper, President and Chief Executive Officer, Royal LePage Real Estate Services Ltd. With economic hardship dominating our global consciousness, it was predictable that dwindling consumer confidence would continue to drive prices lower. But markets were relatively resilient during the period. Soper continued, "Canadians in most regions should not expect the prices of their homes to begin appreciating again until the overall economy begins to stabilize, likely in the first half of 2010."

"Condominiums are generally the most affordable housing option, especially in urban centres," Soper said. "With record low lending rates and new government initiatives aimed at encouraging first-time buyers to enter the market, ownership at the entry level is becoming increasingly accessible."

Noting recent global efforts to address the economic crisis, including the coordinated response from the world's leading economies coming out of the G20 meeting and stimulus package announcements at home and in the United States, as well as what appears to be the beginning of equity market recovery, Soper commented, "These glimmers of economic hope are coinciding with a time of year that typically brings renewed interest in the housing market. Traditional spring trends – increases in open house attendance, calls to brokers and viewing appointments – tell us that potential buyers are stepping off the sidelines and an increase in purchase activity is likely to follow."

In Ottawa, bungalows sold for an average price of $317,500 during the first quarter of 2009, a year-over-year increase of 1.9%. Standard two-storey houses sold for $318,500, an increase of 2.8% over the same period in 2008; the average price for standard condominiums increased by 4.9% to $207,833.



Eye on Ottawa Real Estate

Members of the Ottawa Real Estate Board (OREB) sold 1,594 residential properties in April 2009 compared with 1,560 in April 2008, an increase of 2.2 percent. There were 1,162 sales in March 2009.

"Spring is historically the busiest time in the Ottawa real estate market, and it is clear that this year is no exception. Out-of-town buyers, as well as local buyers, are taking advantage of the low interest rates and our stable real estate market," said OREB's President.

The average price of residential properties, including condominiums, sold in April in the Ottawa area was $298,150, an increase of 1 percent over April 2008.

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LOOKING INSIDE YOUR MORTGAGE OPTIONS

With interest rates at historic lows, many homeowners are tempted to break their five-year fixed-rate mortgages to reap the potential savings offered by variable-rate loans.

Mortgage experts say the itch to switch is definitely in the air but warn that it could come at a steep price. The trick to avoiding a nasty financial shock is to understand the "fine print" of the existing loan.

First and foremost, consumers must determine if they are able to break their contracts and what penalties they'll pay if they do. Probing those details will reveal whether those costs wipe out the possible savings of switching to a variable-rate loan.

They need to check what their prepayment penalty is because it can be astronomical; some mortgages can have a $40,000 penalty to get out of them.

Interest penalties can vary from lender to lender, so it is important to get the nitty-gritty details directly from the financial institution. Generally speaking, though, there are two approaches that the industry uses to calculate these types of charges.

The first is a straight three-month interest penalty. It is likely the least punitive but that option is quickly falling out of favour with banks. That same penalty can also be called a "three-month interest bonus" – contract language that is a potential source of confusion for homeowners. In this case, “bonus” means “penalty.”

Most financial institutions, however, are now charging an "interest rate differential" or IRD to break an existing mortgage deal. There is no standard way of calculating this type of charge and each bank uses its own formula.

The penalty is usually based on the difference between the mortgage's interest rate and the current market or posted rate. But lenders also take into account other variables like how much time is left on the loan's term and the outstanding balance.

Homeowners who potentially stand to benefit the most from switching from a five-year fixed-rate mortgage to a variable rate are those facing the three-month interest penalty or those whose contracts are up for renewal. In such cases, penalty charges could be relatively low versus the possible savings, experts say.

By contrast, if you just started on a five-year mortgage a year or so ago, those costs could be prohibitive.

One technique to reduce those interest penalties is to utilize any prepayment options written into the existing contract. That's because annual lump sum payments can bring down the mortgage's outstanding balance and thereby reduce potential breakage costs.

Some lenders also provide "blend and extend" options that may allow customers to capture part of today's lower rates.

The penalties for breaking the original contract are included in the blended rate calculation, so the customer may not have to pay any upfront charges, he added.

In addition to interest penalties, homeowners who switch could also be on the hook for a slew of other possible costs, including legal charges, appraisal fees and added insurance premiums.

Still, with all those caveats, there are some advantages to having a variable-rate mortgage at the present time for some homeowners. The Bank of Canada's trendsetting overnight rate is now near zero.

Commercial banks have, in turn, slashed their prime lending rates – the interest rate charged to their most creditworthy customers. That's key because the banks' prime rates influence borrowing costs on variable-rate mortgages.

Interest rates could remain at historic lows for some time. That means that borrowing costs on variable-rate mortgages could remain low into 2010. For example, compare how a $200,000 mortgage with a five-year fixed-rate of 4.24 percent stacks up against one that fetches a five-year variable-rate of 3.3 percent. In the first year on that variable-rate mortgage, you would save $1,800 in that difference. If all things were to remain the same for five years, you would save about $9,000 in interest.

Longer-term interest rates, such as five- and 10-year rates, will begin drifting higher a little earlier in 2010. That means homeowners may begin locking in early next year.

Consumers with variable-rate mortgages need to be aware of their own risk appetites and their financial capacity to absorb higher payments.