

Bleak house outlook? Not in Canada

Various forecasters predict sales of new and used homes will slow in Canada this year, but nothing like is happening in the United States.

They all foresee prices going up. In fact the latest forecast, which benefits from having more recent data, is among the most optimistic for home prices.

Economists at the Royal Bank of Canada are predicting larger average increases than some other forecasts released earlier, including for Ontario and Toronto.

Yet they also foresee an improvement in affordability, at least compared with the latter part of 2007, thanks to a coming dip in interest rates and a healthy increase in household spending power.

Economist Derek Holt does warn, however, that the increasing popularity of long-duration mortgages to reduce monthly expenses could



JAMES DAW

cause problems later on.

"Alberta, and then Ontario, lead the country on the take-up rates for new mortgage products introduced over the past two years," he said yesterday. "In fact, the 40-year mortgage is now only about 15 months old and already dominating mortgage purchase applications."

Homebuyers who extend their amortization period only to 33 years instead of 25 years can cut their monthly bill by as much as a 1-percentage point drop in interest

rates.

But if interest rates are higher when it comes time to renegotiate terms in four or five years, then borrowers could see their spending pinched.

In the United States, where home prices moved higher faster, the housing market is in a major slump. The commerce department reported yesterday that sales of new homes tumbled 26 per cent last year, the biggest decline on record.

Although the average price of new homes did not fall the way resale prices have fallen, there is no prospect for an early pick-up in sales. The inventory of new homes is equivalent to 9.6 months worth of sales, according to economist Michael Gregory of BMO Capital Markets.

Here in Canada, the pace of sales of used homes and the number of

new homes starts began to decline toward the end of 2007.

But the Canadian Real Estate Association reported yesterday that resales totalled 520,747, up 7.6 per cent from a year earlier. Prices rose an average 11 per cent to \$314,591, while the Toronto Real Estate Board reported earlier that prices in the Toronto area rose an average of 10 per cent to \$415,041.

Forecasters are not unanimous about their outlook for 2008. The Canada Mortgage and Housing Corp. is predicting a 6 per cent decline in new housing starts, and a 4 per cent decline in home resales. But all forecasters expect home prices to rise, at a slower pace than last year.

CMHC is predicting a 4.2 per cent rise in resale home prices across Canada, and a 3.3 per cent rise in Ontario. The real estate association predicts 5.5 per cent and 4.8

per cent, respectively; Toronto Dominion Bank 6.3 and 3.8 per cent; Royal LePage Real Estate Services 3.5 and 3.4 per cent.

The latest forecast from Royal Bank is for increases in the 5 to 7 per cent range, with Ontario coming in at the low end and Toronto at the high end of the average.

Holt bases this forecast on his expectation that five-year mortgage rates will drift lower by half to three-quarters of a percentage point, and floating-rate mortgages by half a percentage point.

Dianne Usher, vice-president of the Johnston & Daniel division of Royal LePage, said her company would now likely forecast higher price gains this year in light of declining interest rates.

James Daw, CFP, appears Tuesday, Thursday and Saturday. He can be reached at 416-945-8633; 416-865-3630 by fax; or at jdaw@thestar.ca.

INTO THE BR
A new move
Living Yoga s
PAGE L3

GEN

Mc
Car
eno

nom

But even
the smash
it's a good
homegrow

PETER HOWELL
MOVIE CRITIC

MCDONALD'S

Dismal
December
U.S. sales



Verizon net up 4%
on mobile growth