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CMHC Sees Big Jump in Ottawa House Prices

Canada Mortgage and Housing Corp. (CMHC) predicts that the average price of a newly constructed home in Ottawa will rise 5.7 percent in 2010 to \$442,250, more than double the 2.3 percent increase this year.

It said that the combination of limited supplies, stable job markets and rising incomes will lift prices for new construction.

"Spillover demand from the existing housing market combined with low levels of construction this year and declining new home inventories will set the foundation for a strong rebound," the agency said in a report.

Expensive new houses are expected to make up a higher proportion of sales, also driving the average price increase. Still, the median price, which factors out the impact of hyper-expensive units, will increase by a brisk 5 percent to \$406,000.

Price increases for new semi-detached houses will also rise, up 2.3 percent to \$280,000 this year and 3.3 percent next year to \$289,250.

In the resale market, CMHC expects average prices of all classes of resale housing to rise by 2.3 percent to \$307,000 in 2010, down from a 3.3 percent increase to \$300,000 this year.

The Ottawa market pulled out a tailspin earlier than most Canadian markets this spring with resale house sales and average prices now on track to post gains for the full year.

However, contractors have been much slower to break ground on new construction, partly because of tight financing and caution.

While past recessions have been followed by major cuts to government spending and jobs in the past, CMHC believes that the Ottawa economy will keep rolling along.

The CMHC forecasts assume that Ottawa employment will stabilize this year at 494,000 jobs and recover to pre-crisis levels of about 500,000 jobs in 2010. It also expects average weekly earnings will continue to rise -- up 5.9 percent this year and 2.6 percent next year.



Eye on Ottawa Real Estate

Members of the Ottawa Real Estate Board (OREB) sold 1,202 residential properties in October 2009 compared with 964 in October 2008, an increase of 24.7 percent. There were 1,220 sales in September 2009.

"Once again we saw record-setting sales numbers for the month of October. This brings our sales year-to-date to four percentage points higher than the same period last year. Ottawa's resale market has been buoyed by buyers taking advantage of low interest rates," said OREB's President. "Listing inventory remains at a low level, and combined with brisk sales, indicates that we are still in a strong sellers' market here in the capital," he added.

The average price of residential properties, including condominiums, sold in October in the Ottawa area was \$318,655, an increase of 13.6 percent over October 2008.

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Canada's Housing Market Rebounds

Economists are running out of superlatives to describe the rebound in Canada's housing market, in which sales are up 60 percent from earlier this year.

"The speed and magnitude of the rebound in sales activity" is "remarkable," says the Canadian Real Estate Association (CREA). Association president Dale Ripplinger says, "The difference in the resale housing market now, compared to the beginning of the year, is night and day"

"The Lazarus-like rise in sales has halted the slide in prices – say, whatever did happen to the meltdown in Canadian housing anyway?" asks Douglas Porter, deputy chief economist at BMO Capital Markets.

"The turnaround in Canadian housing this year might be the single most surprising turnabout we've seen in any economic indicator I can think of. The extent of it is nothing short of amazing," Porter says.

Like Porter, most economists were caught by surprise, and most of them have had to revise their real estate forecasts for this year. CREA predicted in May that MLS sales in Canada would drop by 14.7 percent this year compared to 2008. Now, it says that sales will decline by just 0.4 percent. The association says prices will rise by 1.5 percent this year.

Canada Mortgage and Housing Corp. (CMHC) also has a revised forecast and is calling for a small drop in sales activity and sales.

In the Toronto market, economist Will Dunning says, "For the past three months, resale activity has been much stronger than I had been expecting, and the sales rate has been raised very substantially." He boosted his forecast from 62,100 to 83,000.

In Vancouver, "resale activity has staged one of the most spectacular comebacks in Canadian real estate history," says RBC senior economist Robert Hogue in the Housing Trends and Affordability report. "From their lowest levels in about 19 years at the end of 2008, sales of existing homes more than tripled by July to levels just shy of peaks reached before the downturn."

So what happened? Why is housing leading Canada's economic recovery?

"Low interest rates are boosting sales by returning home buyers to the market who moved to the sidelines last year," says Gregory Klump, CREA's chief economist. "Buyers are also shifting purchase decisions forward as they take advantage of attractive interest rates now before financing costs increase."

RBC reports that housing affordability improved in Canada for the fifth consecutive quarter during the second quarter this year, driven down by low interest rates and dropping prices.

With prices and activity down early this year, many vendors decided to take their homes off the market until the situation improved. That created a shortage of listings, and thanks to the law of supply and demand, stopped the slide in prices. In August, it's been reported that 14 percent of listings in the Toronto market had multiple offers submitted.

"Yes, Virginia, it's a sellers' market again," says Porter. "The biggest, priciest, and previously hardest hit markets are the very cities that are now rebounding most rapidly."

Now, the economists are over their shock and are throwing cold water on the idea that the market can continue to expand at this rate. Klump says that, since buyers moved their purchases ahead to take advantage of low mortgage rates, next year will see a more stable market.

"The strong pace seen in the second quarter of this year reflects, in part, activity that was delayed in the previous two quarters and is not likely to be sustained," says CMHC. "The level of sales will move back to be closer in line with improving economic conditions."

Toronto economist Dunning agrees. "I think the sales rate will erode rapidly in the next few months. The stronger resale market has arrested the drop in values seen earlier this year. But, if sales slow to the extent I expect, the price recovery may be just about finished."

Only Porter at BMO Capital Markets seems to be hedging his bets in predicting the boom times are over. "Record-low borrowing costs and the mounting sense that the worst of the economic storm has passed are the key ingredients in the remarkable turnaround," he says. "We keep saying that further gains will be harder to come by, but the market keeps churning out those gains."

