

WHY NOW IS A GOOD TIME TO BUY

By *peter kinch*

The prospect of rising interest rates, the impact of the Harmonized Sales Tax in BC and Ontario, and now softening sales and prices in some markets. Canadian real estate seems to be facing a handful of challenges – at least that’s how it looks on the surface.

In reality, spring conditions were set to create a perfect storm for a spike in the real estate market. There was the fear of rising rates, the “pending doom” of HST in Ontario and BC, and the simple fact that it was a spring market – which typically is busier than usual.

These exact same factors will create the perfect storm for a drop in the market. We’re already seeing that the fear of rising rates, the unknown implications of HST and a traditionally slower summer market are causing consumers to be cautious. Naturally, subsequent inactivity will lead to softening prices.

The irony of it all is that there has been no “spike” in interest rates. Sure, the Bank of Canada raised rates by a quarter point twice in recent months, but if you look at the long-term rates, they’ve stayed very steady and in many cases actually come down. Then, if we look at the HST a little closer, we see that the new tax impacted only new homes over a certain price, realtor’s commissions and the legal fees. In terms of real impact, it was and is negligible.

Importantly, we’re not in a “normal” market environment and the one factor that makes predictions unpredictable is consumer confidence – mostly because it is emotionally driven. Consumer confidence is a major factor in all components of the economy, but especially in real estate. We are dealing with something of a fragile consumer psyche right now. The scars of last year’s recession are still fresh, and the general populace is susceptible to negative headlines. It doesn’t take much to shake consumer confidence these days, and the net effect is inactivity. When consumers are worried or lack confidence, they tend to do nothing. What should really be a natural slowdown in the market due to the fact people are on summer holidays, will be misconstrued for a “double-dip” fueled by the fear of rising rates and the HST. Headlines compare summer numbers to spring numbers, and some consumers start to believe their fears.

Everything will play itself out over the fall and winter months and consumers will begin to realize two things:

1. Fears of a sharp rise in interest rates were unfounded. The only reason the Bank Of Canada will raise rates is in an effort to cool an inflationary market. We will see in the fall that although we have one of the most fundamentally strongest



economies in the world, Canada is not immune to global economic influences. And right now, some of those influences are not overly positive. The result could be a slowing of our economic recovery, resulting in, importantly, less of a need to raise rates.

2. The impact of the HST will be muted as consumers realize that it has little or no impact on the housing market.

Both of these issues will be replaced by a renewed confidence by next spring, and that spring market will do what every spring market does – bounce back and cause prices to rise again. We should see the spring of 2011 recapture any fallback from recent months.

Facts will replace hype, and the markets will begin to settle again.

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