

Where do we go from here?

What does the new year hold? Author and investor Peter Kinch, one of the foremost experts in financing real estate portfolios, tracks the state of the real estate markets as we gear up for 2011

Q With all the concerns over rising rates and a slowdown in the market this summer, where do you see things going?

A Well, first off we need to take a look at the spring market and realize that market conditions were set to create a perfect storm for a spike in the real estate market. First of all there was the fear of rising rates, then in Ontario and B.C., the pending doom of HST and, lastly, the simple fact it was a spring market, which makes it busier than usual.

How much of a drop do you think we can expect to see in real estate prices?

Well that's the irony of it all. The truth is there has been no 'spike' in interest rates. Sure the Bank of Canada raised rates by a quarter point twice, 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 will see that the new sales tax only impacted brand new homes over a certain price, Realtors' commissions and the legal fees. In terms of real impact, it was and is negligible. Combine this with the fact that real estate markets by definition slow down in the summer months at the best of times, and we should naturally see a slowdown and drop in pricing by up to three per cent.

So you're saying a three per cent drop in prices would be normal?

Yes, but 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 the real estate market. We are dealing with what I call a 'fragile' consumer psyche right now. The scars of last year's recession are still fresh and the general populace is very susceptible to negative headlines. It doesn't take much to shake consumer confidence these days and the net effect of a shaken confidence is inactivity. When consumers are worried or lack confidence, they tend to respond by doing nothing. My concern is that what should really be a natural slowdown in the market, due to the fact people are on holidays, will be misconstrued for a 'double-dip' fuelled by the fear of rising rates and HST. Headlines will start to compare summer numbers to the spring numbers and consumers will start to believe their fears. It becomes a 'self-fulfilling prophecy' and what should be a simple three per cent drop in real estate prices due to the economic fundamentals may result in a sharper decline of up to six per cent due to unsubstantiated fears.

Do you envision the downturn to last long?

No. I actually believe that everything will play itself out over the fall and winter months and consumers will start to realize two things;

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 down an inflationary market. We will see in the coming months 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, those influences are not overly positive. The result will be a slowing down of our economic recovery resulting in less of a need to raise rates.

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

I predict that both of these issues will be replaced by a renewed confidence by next spring and the 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 losses of the summer/fall of 2010. The facts will replace the hype and the markets will start to settle again – or at least until someone finds a new reason to shake things up. ■

Peter Kinch is an author, speaker, entrepreneur and investor who has been educating Canadian mortgage consumers for over 10 years, and is recognized as one of the foremost Canadian experts in financing real estate portfolios.