



Real Estate Journal

Your Monthly Home & Financing News

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Welcome to the February issue of the *Real Estate Journal*, which is designed to help keep you in the know regarding Real Estate and Mortgage related matters!

This month's edition looks into Property Assessments as a measure of real estate value. It also goes deeper into the impacts of the Bank of Canada lowering lending rates and how that affects mortgages. Please feel free to ask questions or offer feedback on anything outlined below via phone or email.

Thanks again for your continued support and referrals!

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Property assessments as a measure of value

DID YOU KNOW...

Lenders make a lot more money when they renew your mortgage than on your initial term. That's partly because they don't have to compensate anyone for referring your business (or compensate them as much). But it's also because many clients fail to contact their Mortgage Broker. According to a recent Maritz survey, only 56% of borrowers negotiated their mortgage rate at renewal. A

When homeowners receive provincial Property Assessment notices, some will smile and have a bit more spring in their step, feeling the assessed value is accurate or perhaps even overly

completed with 30 days, as markets can move significantly month over month.

For these reasons, among others, a provincial property assessment should not be relied upon

remarkable four in 10 took the first rate their bank offered. That's a scary statistic considering banks rarely, if ever, offer their lowest rate upfront regardless of how long you've been a customer! That's why it's so important to contact your Mortgage Broker at renewal as well.

HOMEOWNER TIPS

Reduce Heating Costs

Your furnace or boiler is the largest energy user in most homes. If health permits, keep thermostat at 20°C or below. Lower the thermostat at night and when no one's home. Check the furnace filter once a month during the heating season. Change or clean when dirty. Have a professional tune-up of your heating system every other year. Replace your older, 60% efficient furnace with one of at least 90% efficiency.

positive. Others will wilt and lament a modest gain or even a decrease in the assessed value over the previous year or period. Reactions will of course vary factoring in the potential increase in property taxes that tends to come along with stronger assessments. The reality, setting aside taxation concerns, is that neither parties' emotions should be tied to the 'value' printed on these notices.

A provincial property assessment is an approximate value based on the (broadly) estimated market value as of the previous years. There is a lag time between the estimation of valuation and delivery of the envelope. It also fails to involve a formal site visit or viewing of the inside of the home to consider either significant upgrades or significant deterioration.

To put this in perspective, few lenders will work with a detailed official appraisal report that is even 90 days old. Most prefer a report

as a totally concrete indicator of value for the purposes of either purchase, sale, or financing.

Always enlist a licensed professional, or perhaps even two or three, in order to get a timely and detailed appraisal of current market value. This will provide a much more accurate reflection of current market values reflecting recent comparable sales, value for zoning, renovations and/or other unique features to the property. An appraiser is an educated, licensed, and heavily regulated third party offering an unbiased valuation of the property in question.

Think of your provincial property assessment as something akin to a weather forecast spanning far larger and more diverse areas than the unique ecosystem that is your neighbourhood, street, and specific property.

The forecast may call for rain in your city, yet you might have a ray of sunshine radiating upon your street specifically.



Bank of Canada lowers overnight rate by 0.25%

On the heels of headlines forecasting

'inevitable interest rate hikes' came (from left field for many journalists, less so for many Mortgage Brokers) the announcement of a 0.25% rate reduction to the Bank of Canada's overnight lending rate.

The majority of Mortgage Brokers found themselves spending the first two work weeks of 2015 calming clients in the face of multiple headlines forecasting interest rate 'shocks' ahead. In turn, the past two weeks were spent explaining to variable-rate clients the subtle, yet important difference between the bank of Canada's Prime rate and their mortgage lenders' 'Prime' rate.

any potential gains for new mortgage applicants. Existing closed variable-rate discounts will of course continue to be honoured until the end of the client's mortgage term.

In short, although this rate reduction may bode well for clients currently in a variable-rate mortgage, it may not be of significant net benefit for clients applying for a variable-rate product in the coming weeks. Although today we have both deep discounts on variable rate products, and the new lower 2.85% Lender Prime rate. New applicants may have their cake and eat it too.

Fixed rates, although largely dictated by the bond market, have been edging downward since Jan 5. Despite this material and documented decline, there had not been a major headline noting this. Rather headlines were largely promoting the opposite of what was occurring in reality. The day that the Bank of

Lenders base variable-rate mortgages on what is referred to as their own internal Prime rate. Although historically lenders have moved in lockstep with the Bank of Canada decisions, there was some initial reticence to lower effective interest rates on current variable-rate mortgages and after nearly a week without movement Lenders reduced their internal Prime rate from 3.00 to 2.85% sharing some of the Bank of Canada's reduction with variable rate mortgage and line of credit holders, but not all of the rate reduction.

One important point is that the Bank of Canada's Prime rate is specifically NOT used to qualify clients for mortgages. In other words, Canadians do not currently qualify for any more mortgage debt today than they did the day before the rate reduction announcement. Accordingly this reduction in interest rates does not directly strengthen purchasing power for home buyers, and thus should do little to add more fuel to real estate values.

It is further worth noting that, historically, as lenders reduce their own Prime lending rate on variable-rate products, the discounts offered on these products—mortgages, lines of credit, etc.—tend to be adjusted upward, negating

Canada announced the cut of 0.25%, the bond market saw a (then) record low of 0.83% and has since dipped below 0.60%.

This has created significant increases in lenders' fixed-rate profit margins, and arguably calls for further rate reductions to fixed-rate products, in particular the five-year fixed-rate mortgage. However, as with the cut to Prime, lenders have thus far been slow to respond. Offering 0.05% and 0.010% reductions and reaping the increased profits. Lenders remain unlikely to make any significant moves until one breaks ranks. With strong property values coupled with strong sales activity in most major markets, there seems little incentive—or fundamental desire—on the part of lenders to reduce rates further.

What is evident at this time is that variable-rate clients will continue to be the big winners into the foreseeable future, and those clients who prefer a fixed-rate product will also continue to benefit from historic lows as well. It should be a very busy Spring market!

About

The logo for Royal LePage, featuring the company name in a bold, black, sans-serif font. The text is centered between two horizontal red bars. To the right of the text, there are two vertical bars of varying heights, each composed of a series of thin, vertical black lines, creating a stylized architectural or grid-like element.

ROYAL LEPAGE

Royal LePage is Canada's oldest and largest Canadian owned real estate company. Founded in 1913 by Albert LePage when he was just 26 years old, Royal LePage is now Canada's largest real estate company with more than 14,000 agents in more than 600 locations across the country. And we firmly believe that you can only become the oldest and largest company by being the best.

Over the years, we've learned a lot about real estate – and how to provide the best possible service for our clients. Since the mid-1990s, Royal LePage has more than tripled the size of its sales force and almost doubled its market share.

Throughout our successes, we remain dedicated to helping you through the real estate process. Our commitment to innovation and customer service is as strong as ever.

We offer all of our REALTORS® – from those serving tiny communities to those in major urban centres – strong support from our national pool of knowledge, skill and technical expertise. We regularly invest time, money and resources to develop and provide the knowledge and tools they need to best market your home, including:

- Up-to-date information about local market conditions
- Quarterly housing reports
- Creative brochures and newspaper ads to showcase your home
- Ongoing negotiation, marketing and technical training

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