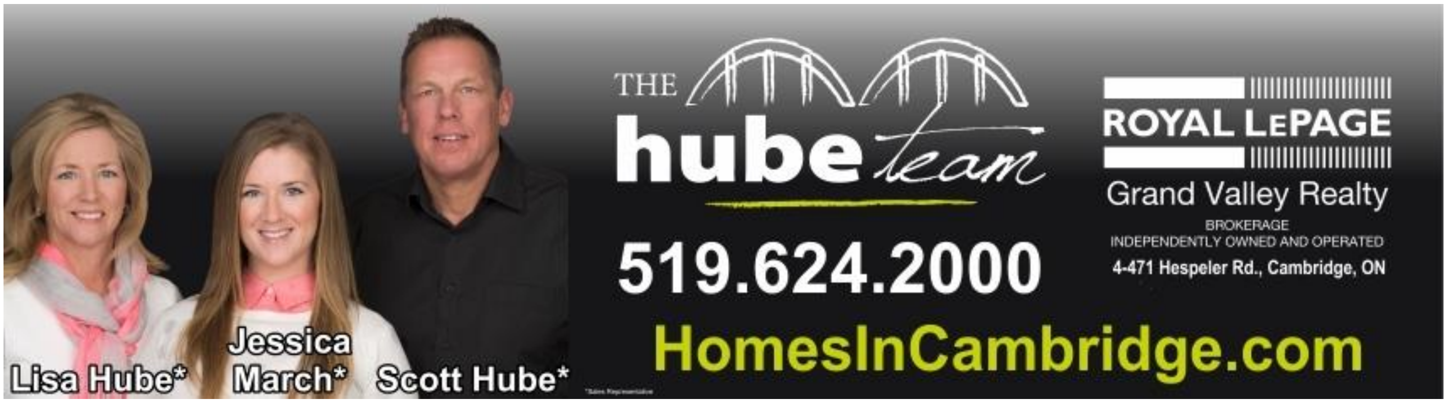

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The Hube Team
Royal LePage Grand Valley Realty
Brokerage
Independently Owned & Operated
Phone: 519-621-2000
Cell: 519-624-2000
Fax: 519-621-4027
E-mail
Website

DID YOU KNOW...

Claim your First Time Home Buyer's Tax Credit
Did you buy your first home in 2015? If so, the Federal Government has a program that just might put $750.00 back in your pocket, or half of that if only one of the two people on title is a first-time home buyer. To confirm whether or not you meet the criteria, be sure to research all the details on the Department of Finance Canada Website. Search under 'First Time Home Buyer's Tax Credit'.

Happy New Year, and welcome to the January 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 at the down payment changes, US interest rate movement, and what that home you bought is doing for your bottom line. Please let me know if you have any questions or feedback regarding anything outlined below.

Thanks again for your continued support and referrals!

Down Payments, Optics, and US/CDN Interest Rates

The federal government recently announced changes to minimum down payments on properties priced below one million dollars. Many headlines are oversimplifying and inaccurate. The change is not as simple, nor as painful, as a jump to 10% down on homes over 500K — this is not the correct math at all.

This brings us to USA's decision to hike their own interest rates by 0.25%, a first in nine long years. There is much fanfare around this being a signal that the US economy is resilient and recovering. Perhaps so, but the increase itself is marginal and it will be the quantity and pace at which any further hikes are introduced that will tell the entire story.

HOMEOWNER TIPS

Let the Heat Reach You:

Dust or vacuum radiators, baseboard heaters and furnace duct openings often and keep them free from obstructions such as furniture, carpets and drapes.

Replace/Clean Furnace Filters:

Check and clean or replace furnace air filters each month during the heating season. Ventilation system filters, such as those for heat recovery ventilators, should be checked every two months.

Hopefully all of you have recovered from turkey and eggnog-induced doziness, as well as any pulled muscles during seasonal feats of strength, such as wrestling nephews and un-packaging toys with 88 twist ties holding them into the box, and are ready to take on a brilliant 2016!

It is a sliding-scale increase, meaning that the extra dollars required rise gradually (i.e., a $675,000.00 home now requires a down payment of $42,500.00 or ~6.3% down — NOT 10%). As such, the impact on markets is expected to also be gradual and marginal, save for possibly Calgary where an already cooling market needs anything but further restrictions.

One might ask why further restrictions for prime borrowers are required at all in a nation with historically (and consistently) low arrears rates. Mortgage arrears rates have come down from their 'high' of 0.43% in 2009 to a current 0.29%.

The answer is, in a word, Optics. There is an undeniable statistical link between the amount of equity homeowners have in a property and those same homeowners' likelihood of falling into arrears or foreclosure. More equity = less risk. The optics of this change appear as good governing. This looks like an effort to moderate rapidly rising prices in the two largest markets (Toronto and Vancouver), and increase stability.

This regulatory change also has a net effect similar to a subtle increase in interest rates from the Bank of Canada. More restrictive lending guidelines are far more targeted than the Bank of Canada moving interest rates, which affect the entire economy, not just real estate.

Moving interest rates is simply too big a macro-economic lever to lean on in an effort to slow, or lower, home prices in just two cities of the nation.

Interestingly, this move acts for the Bank of Canada as a de facto rate cut here. It will further soften the Canadian dollar against the US. Arguably, this will lower the chances of the Bank of Canada reducing Prime at their next meeting. Economists are still predicting no movement in the Canadian prime lending rate for 2016.

In other words, no action on CDN interest rates is expected in either direction anytime soon.

Paying your mortgage down faster

By refinancing, you may extend the time it will take to pay off your mortgage, but there are many ways to pay down your mortgage sooner to save you thousands of dollars in interest payments. Most mortgage products, for instance, include pre-payment privileges that enable you to pay 15 – 20% of the principal (the true value of your mortgage minus the interest payments) per calendar year. This will also help reduce your amortization period (the length of your mortgage), which, in turn, saves you money.

You can also increase the frequency of your mortgage payments by opting for accelerated bi-weekly payments. Not to be confused with semi-monthly mortgage payments (24 payments per year), accelerated bi-weekly mortgage payments (26 payments per year) will not only pay your mortgage off quicker, but it's guaranteed to save you a significant amount of (interest) money over the term of your mortgage.

As always, if you have any questions about refinancing, reducing debt or paying down your mortgage quicker, I'm here to help!

No doubt at this time of year many of us will be reviewing annual investment returns from savings, stocks, bonds, TFSAs, RRSPs, RESPs etc. Few of us, as part of this process, will sit down and

However, few homeowners are looking to sell their property after just one year.

Best wishes for a new year filled with health, happiness and spectacular success!

calculate the actual rate of return on our investments in real estate. As we know, Canadian real estate has long been one of the soundest investment decisions one could make, with all too many Canadians finding that, come retirement, nothing else came close to matching it.

'We should have bought two or three more properties', is all too common a comment of people in their 50s, 60s, 70s and beyond. But for our purposes in this article let's not look at investment properties; rather, let's try to measure the return on investment in your single owner-occupied property - your home.

We all have to live somewhere, and paying somebody else's mortgage seemed like a bad idea, so you scraped together the down payment and bought a home - the cost per month between renting and owning seemed worthwhile for the stability. Stability becomes a more important topic as we form new families.

In the examples below, we use conservative estimations to illustrate the benefits, and we show the impact over a seven-year period, the minimum suggested average amount of time often suggested for ownership of a property.

Multiply and adjust the figures below accordingly in order to reach your personal figures. All examples use a 2.79% fixed interest rate and the maximum amortisations allowable. Percent gains are presented inclusive of mortgage pay-down under the assumption that an equal amount of money would have been spent on rent instead.

<u>Example - The 5% down buyer</u>

<u>Year one</u>

$100,000.00 purchase price
5% down payment.
$3,420.00 (3.6% CMHC premium)
$98,420.00 opening mortgage balance

Total investment - $5,000.00

$2,000.00 gain in value (average 2%)
$2,767.69 mortgage principal reduction

Net value
$102,000 property value

So let's fast forward seven years, a more typical timeline before making a move to the next property.

<u>Year Seven</u>

$100,000.00 purchase price
5% down payment.
$3,420.00 (3.6% CMHC premium)
$98,420.00 opening mortgage balance

Total investment - $5,000.00

$14,868 gain in value (average 2% compounding)
$21,424 mortgage principal reduction (assuming renewal at same rate)

Net value
$114,868 property value
$78,576 mortgage balance ($3,420.00 CMHC premium included)

$36,292 net equity

~ 103% annual gain on the initial investment factoring in the CMHC expense and mortgage pay down.

~725% total gain (over 7 years) on the initial investment.

These numbers are approximations, and contain generalisations. The purpose of this exercise is not to argue that real estate is superior to any other form of investment. In fact, under 4% of Canadians will purchase an investment property. The purpose is to demonstrate that the homes in which we live are an excellent investment over the long term, far better than most of us realize until many years later.

Working out a formula for the annual appreciation that you are comfortable with is a conversation worth having with the input of multiple sources, your Realtor, Mortgage Broker, Accountant, and Certified Financial Planner being the top four among them.

There is value well past what most people realise in owning their homes. One of the keys is the leveraged nature of the investment. Five percent down to get your foot in the door presents a wonderful opportunity for many. The fact is, we are far more comfortable with a leveraged investment in our homes than we are in any part of the stock market because there is no

$95,652 mortgage balance ($3,420.00 CMHC premium included)

$6,348 net equity

~26% annual gain on the initial investment factoring in the CMHC expense and mortgage pay down.

Admittedly this is a paper gain; to convert this gain to cash would involve related expenses to dispose of the property that would almost certainly put the owner into a net loss position.

risk during the term of a mortgage of receiving the dreaded 'margin call'.

Real estate, in particular Canadian real estate, is largely boring, as it should be.

When taking stock of your financial picture for 2015, don't forget to factor in the increase in the value of your home, as well as the pay down of your mortgage. You may be pleasantly surprised.

About 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