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DID YOU KNOW...

CMHC has increased mortgage loan insurance costs (insurance for the lenders, costs for you the borrower) as of March 17, 2017

The changes reflect the Office of the Superintendent of Financial Institutions (OSFI's) new capital requirements which require mortgage insurers (CMHC, Genworth, & Canada Guaranty) to hold additional capital reserves. Capital reserves create a buffer against potential losses, helping to ensure the long term stability of the financial system.

There was much opposition from the industry that cited the long history of stability, including during the 2008 financial crisis, and the significant current cash reserves of CMHC. Nonetheless future

Welcome to the May issue of my monthly newsletter which is designed to help keep you in the know regarding Real Estate and Mortgage related matters!

This month’s edition explores the foreign buyer tax in Toronto and Vancouver and whether getting more than the asking price on a sale should be considered “found money.” You will also get an update on CMHC’s mortgage insurance premium increase. Please let me know if you have any questions or feedback regarding anything outlined below.

Thanks again for your continued support and referrals!

homebuyers will pay more, a lot more.

For example homebuyers with a 15 per cent down payment, some of the least likely to every default, previously paid a 1.8 per cent of balance premium, but will now pay 55 per cent more, which is a 2.8 per cent premium.

While this may result in 'just $5.00 more per month' (CMHC's words) the average CMHC-insured loan was approximately $245,000 during 2016.

This is a $2,450 effective increase in the cost of purchasing for a 15 per cent down client. That's $2,450 taken from the pockets of hard working Canadian families that saved up a 15 per cent down payment and had the impeccable credit history required to qualify.

A significant cost for the average Canadian family.

HOMEOWNER TIPS

Spring 'To-Do' List:

We will go easy on you this month with a brief 'to-do' list for homeowners;

1. Clean and maintain your gutters and downspouts
2. Address cracks. From driveways and walkways to window seals.
3. Tidy your outdoor space, from leftover snow shovels and sleds to attacking the budding weeds early on.
4. Ensure outdoor faucets, lights and plugs are all in working order.
5. A great time for a semi-annual furnace filter change as well.
6. Mix a pitcher of lemonade and sit back

How much of the current record-setting price gains in several Ontario and BC markets are self perpetuating?

That is, *'I just got paid $100,000 over asking, so now I too will pay $100,000 over asking…'* After all it is 'found money' – easy come easy go.

For those of you smart enough to avoid the casino, you may not be familiar with the term house money. This describes a players winnings, gambling with said winnings – with the house money rather than their own. Of course it is actually the players money, it is in their hands not the 'houses', but it arrived easily and quickly and thus no deep attachment has formed – unlike with hard earned and slowly built up savings.

And we humans often take bigger chances with 'found money'.

The effect can be seen in stock markets as well. Strong market performance will change an individuals risk tolerance profile, as profits grow so too does tolerance for risk. The opposite happens with sustained losses.

Many real estate markets are on a winning streak (winning if you already own, or bought last year, or even last week in some cases) and indeed some liken it to a casino, simply a stack of speculators running prices up.

Is it possible though that the house money effect is in play?

And if so, is the house money effect in play for typical buyers and sellers, not just for the gamblers and speculators who, in fact, make up a very small percentage of actual market activity?

The No. 1 driver of real estate purchases is new-household-formation. It's the kids moving out, it's pair bonding and multiplying, it's migration from other provinces, and it's immigration from

We quickly locked down a new property, and as much as we would have liked to make an offer below the asking price, we were now buyers in a rapidly rising market. Albeit buyers flush with an extra $100,000 of 'found' money.

During the purchase negotiation on the new home, reviewing comparable sales, I felt like we might be paying as much as $100,000 too much, but I took comfort in that extra $100,000 we had from the sale. Easy come, easy go.

Some months later I found myself having a frank conversation about the price adjustment with the buyers of our previous home. Sounds awkward I know, but I like difficult conversations, and as it turned out, they had received $130,000 over the asking price for their previous home – $130,000 more than they had expected to sell it for.

It was $130,000 of found money. 'House money.'

So the $100,000 bump in our price was not too big an issue for them to overcome.

Had the buyer of their home had a similar experience?

How many transactions back could this extra money be traced?

In any event prices have risen another 30 per cent since our purchase, putting a healthy buffer between any future softening on price and our actual purchase price, but still I wonder about the self-perpetuating effect of buyers paying an extra $50,000, $100,000, or $130,000 for their new home after getting paid a similar premium for their old home.

How big a role does the House Money effect play in perpetuating the rising prices were are enduring? It is a soft data point, intangible, not easily measured.

Yet it is a real thing.

All it takes to understand this is a few lucky hands of blackjack in a row, a few wins in and enjoy a Sunny Sunday afternoon.

outside Canada. New people forming new households need homes.

In 2015 during final negotiations on the sale of our then residence we increased the price by $100,000 in the 11th hour. And the buyers agreed to it… quickly. Amazing! That was the easiest $100,000 ever! Yes but...

a row on a slot machine, or an above-asking offer on your home.

The effect of foreign buyer tax still up in the air

On April 21, Toronto became the second Canadian city to implement a 'foreign buyer tax'. The impact that the 15 per cent tax on residential real estate will have on the market remains to be seen. The fact remains that Toronto's residential real estate supply remains at a 37-year low, and economics 101 taught us that reduced supply results in increased prices.

Trying to tackle the problem of rapidly rising house prices from the demand side is popular when it is a method that primarily impact 'other people', especially outsiders who we grant less of a right to real estate ownership. Understandably we favour locals, or at least a definition of 'local' that resonates with voters.

Vancouver was first to this approach in August of 2016, although the results remain unclear. The stats on the impact were skewed as many of the transactions set to close in the months following the tax were rushed to completion in the final week between the announcement of the 15 per cent tax and its actual implementation. Thereby increasing the number of transactions before the effective tax date and artificially decreasing the number of transactions after the tax date for at least 90 days.

Ninety days later we had December, a very slow month in a year for real estate. And to top it off Vancouver suffered a real Canadian winter unlike any in decades previous which literally, not just metaphorically, froze the local market for the better part of January, February and part of March. Few Vancouverites own a snow shovel, let alone have winter tires to drive around to open houses – which were not open due to the snow.

While activity in the market may have slowed significantly since the tax was introduced in Vancouver, the true impact of it will not be measurable until the end of June 2017 to compare the pretax spring market (2016) to the post tax spring market (2017).

Interestingly, Ontario Premier Kathleen Wynne would not comment on what she expects the taxes impact to be on house prices as a result of the housing plan, which contained other measures in addition to the foreign buyer tax.

One would presume for the voters owning property the desire would be for stability and perhaps a slight increase year-over-year, and for the buyers currently priced out of the market a reduction. But one cannot have both of these things together. Time will tell.

About

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:

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- Quarterly housing reports
- Creative brochures and newspaper ads to showcase your home
- Ongoing negotiation, marketing and technical training