

House prices have peaked for the year

BY SUNNY FREEMAN

TORONTO — Skyrocketing home prices appear to have reached their height and are expected to stabilize for the rest of the year and into 2011 as the real estate market cools significantly, economists say.

Gregory Klump, chief economist at the Canadian Real Estate Association, foresees a slight decline in year-over-year prices in the latter half of 2010 before they flatten in 2011. This will happen as new listings come onto the market faster than anticipated and balance out the dynamics between buyers and sellers.

On Wednesday, the real estate association revised its projected housing price increase for this year down from 5.4 per cent to just 1.6 per cent over 2009.

The association predicted that the national average housing price will decline by 1.5 per cent by 2011, driven down by lower prices in the strong markets of B.C. and Ontario, while prices in the rest of the country will remain stable.

Will Dunning, chief economist at the Canadian Association of Accredited Mortgage Professionals, said this year's prices have likely peaked, and should remain flat for the rest of the year before falling in 2011.

"Last year there was a pattern during the year — slow at the start, strong at the finish, and it's going to be the opposite this year, almost a mirror image," he said.

"Somebody who's in a position to buy can take the time to make sure they get the property they want at a price they're comfortable with," he added.

The real estate association also lowered its 2010 national forecast for resale transactions by nearly 40,000 from its previous forecast of 527,300 due to a weaker-than-expected start to the year in British Columbia, Ontario and Alberta.

"The biggest contributor to the downward revision in annual sales activity would be British Columbia, where affordability has begun to bite into sales activity. Their first quarter came in weaker than expected and that's expected to carry throughout the year," Klump said.

The association now expects 490,600 units will be resold nationally this year through the Multiple Listing Service. This is still up 5.5 per cent from 2009.

A number of temporary factors pulled sales forward to the latter part of 2009 and the first part of this year, including anticipation of higher mortgage rates, tougher mortgage lending regulations and new taxes in Ontario and B.C. that will add thousands of dollars to the final price tag of many houses starting July 1.

The association's revision came a day after the Bank of Canada announced it was hiking its key lending rate from an emergency low of 0.25 per cent to 0.5 per cent. Many economists predict that the era of historically low interest rates has come to an end and that rates are now on an upward trend.

Although mortgage rates have gone up and are expected to rise further, the association says the higher cost of borrowing will have a minimal impact on the market this year. Instead, sharp price increases earlier in the year appear to have been the main factor for the expected decrease in demand in British Columbia and Ontario.

Dunning said while some buyers "could drive themselves crazy" trying to calculate whether it's better to get into the market now while mortgage rates are low but prices are high, or to wait until the opposite is true, it's so difficult to get it right that homebuyers should just buy when the time is right for them.

Rob Hafer, regional manager at Invis mortgage brokerage, agreed that market timing is tough, and generally not worth the headache since a house is such a long-term investment.

"If you're going to buy real estate, it's a long-term investment, so if you can afford the home now ... no matter when you bought within a couple years you're probably ahead of the game anyway," he said.

"If you can get in now and you can hold it long term, it's always a good time to buy," he added.

Klump said the market adjustment will stop short of venturing into a buyers' market as "a more challenging pricing environment" will deter some potential sellers and limit the supply of available homes.

"A lot of people who were thinking they were going to clean up on their asking price are going to be faced with a lot of competition from other sellers out there, and ultimately will take their house off the market and try again when the pricing environment becomes more to their liking," he said

But Dunning said balanced markets don't last very long and said he believes market conditions will soon favour buyers.

"It's usually always one way or the other, and we've had this immensely powerful sellers' market and ...there could be a very rapid transition so that it now becomes a buyers' market."

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