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## Will nervous first-time buyers make this spring housing market bloom?

By TARA PERKINS

*When a home buyer first enters a market, it can set up a chain reaction with owners looking to sell and trade up and a retiree looking to cash out. We look at the state of affairs in four major Canadian cities*

With the spring selling season approaching, all eyes are on a crucial segment of the real estate market – the first-time home buyer.

It's a group that includes people such as Tyler Padley and his wife Jamie McGovern, who have been renting in the west end of Toronto and are now looking to buy their first house and start a family. Like many prospective homeowners, they are struggling to find what they want at a price they can afford – even though they've saved up a sizable down payment. With the average home price hovering at around \$510,000, they're realizing they may have to settle for a place that's smaller or further from the city's core than they wanted – assuming they take the plunge at all.

Whether this couple, or others like them, choose to wade into the market will determine whether Canada's housing market begins to recuperate or continues to weaken this spring. New entrants are a critical part of what makes the market tick: For every first-time buyer, there's an owner who's looking to sell and trade up, and for every upgrade, there's a retiree looking to cash out. The "trickle-up" effect can make the difference between hot and cold in the market.

This year, the big question is: Will the first-timers come back? Many were driven away last summer by Ottawa's new rules on home loans, which banned mortgage insurers from covering any mortgage with an amortization period of longer than 25 years. It was an effort to cool the market amid fears that house prices and consumer debt levels were growing at alarming rates, and it worked: Property sales have been sinking ever since.

Data from seven large cities suggest that last month's sales nationally are about 12 per cent lower than a year ago, BMO Nesbitt Burns economist Douglas Porter said in a research note this week. "It still seems that the much greater risk is that sales weaken further, not that they surprise to the high side," he wrote.

Prices remain stubbornly high in most urban markets. Fitch, a ratings agency, said this week that prices nationally are about 20 per cent too high. Such headlines add to the fear among first-time buyers that, even if they can afford to get into the market, now might not be the time.

It's tough to gauge exactly how many first timers are staying away. "There's no real hard statistics on the number of first-time buyers that are in the market," says Shaun Hildebrand, senior market analyst in Ontario at Canada

Mortgage and Housing Corp. But one of the ways the housing agency attempts to track it in Toronto is to look at the share of sales that are below \$400,000. That was 45 per cent in 2012, down from 52 per cent in 2011, "so that's one of the indicators that we use to suggest that first-time buying has slowed down," Mr. Hildebrand says.

Another is the rental market: Canada's most populous city saw more condos rented out over the Multiple Listing Service than sold over MLS during 2012, he notes. And the trickle-up effect is under way in that city.

"The first segment of the market to begin to slow was the lower end of the market, where first-time buyers tend to be a bit more active," he says. "It then started to slow in the \$400,000-to-\$600,000 price range, the next step up. That range has kind of flattened out in terms of sales, whereas it was one of the strongest areas of the market in recent years."

But "even though we've seen first-time buying reduced, it doesn't mean that first-time buyers have been inactive," Mr. Hildebrand says. Yes, many potential buyers are instead renting. But some are choosing to readjust their expectations and live in cheaper locations or smaller houses. For instance, more affordable areas in and around Toronto, such as Scarborough and Ajax, are attracting a larger share of buyers.

And with interest rates remaining low for a long period of time, it's quite possible the housing market could regain strength once again. Experts such as CIBC World Markets economist Benjamin Tal are arguing that the spring season is likely to be stronger than expected.

"Market activity over the past two or three weeks seems to have been picking up quite nicely," says Andrew Charles, CEO of Canada Guaranty Mortgage Insurance Co. "It hasn't shown up in the February numbers, but I think you're going to see it in the March numbers."

Large marketing campaigns and incentives on the part of mortgage lenders are likely to play a significant role in driving the market this spring. "People buy payments, they don't buy house prices," says Toronto-based mortgage planner Calum Ross. "There is a huge psychological impact of five-year mortgage rates dropping below three per cent." Mr. Ross adds that he's now seeing "massive" amounts of marketing by mortgage lenders.

Mr. Charles at Canada Guaranty says he is now seeing more applications for mortgage insurance from buyers with a down payment of less than 20 per cent, suggesting the start of an uptick among first-time buyers.

David Resnick, who deals with financial institutions for Google Canada, said the number of searches for the word "mortgage" jumped by 50 per cent after Bank of Montreal cut the advertised price of its five-year fixed-rate mortgage from 3.09 per cent to 2.99 per cent. "That's huge," he said. "And home insurance searches spiked more than 80 per cent in the 24 hours following the announcement, suggesting that people are looking at actual purchases."

Phil Soper, CEO of real estate agency Royal LePage, said the slowdown is a good thing, because the market was too hot, but he thinks that the changes that Mr. Flaherty made in July went too far. "It pushed things for young people, for first-time buyers, to a place it didn't need to be," he said.

Now, he says, the impact of the change has largely been felt. "Young people have had eight months to either save up a larger down payment or look farther afield for a home," he says. "As long as the cost of mortgage financing remains very low, we're going to attract financially stable young people, first-time buyers, into the housing market. The desire to own one's home hasn't changed one bit."

## **VANCOUVER: STICKY PRICES DETER BUYERS**

Alice Soo is developing a case of spring fever for real estate.

In 2011, five years after graduating from university, she made a final payment to erase \$25,000 in student loans. At the same time, she has been a disciplined saver, with \$30,000 now socked away. Ms. Soo, a clinical secretary at Vancouver General Hospital, is eager to use it for a down payment on a condominium in the suburb of Burnaby, and soon.

Why the urgency? Condo prices in Greater Vancouver have slipped 3 per cent over the past year, but Ms. Soo believes the softness in the market won't last. "I'm worried about keeping pace. I'm worried that no matter how long I keep saving, the prices will keep climbing and I'm never going to be able to catch up. That is my main concern."

Such is the psychology of the first-time buyer in Vancouver, the country's most expensive property market. Prices

here have soared 24 per cent since the summer of 2009, according to the Teranet-National Bank house price index, and the price of a typical detached home is still about \$900,000. But prices have cooled and sales activity is way down – there were nearly 30 per cent fewer transactions this February than a year earlier – so Ms. Soo's concern about missing out may be unwarranted.

Cameron Muir, chief economist at the B.C. Real Estate Association, forecasts housing prices will be flat in the Vancouver region this year, before a slight recovery emerges next year. February benchmark prices in Greater Vancouver for single-family homes, condos and townhouses were off a relatively mild 3.3 per cent to \$590,400. Homes in some prime neighbourhoods have been harder hit: Prices for detached houses on Vancouver's west side declined 9.2 per cent to \$2-million.

For Ms. Soo, who is now renting the basement of her sister's home, the first choice is to buy a Burnaby condo priced at roughly \$300,000, preferably close to a SkyTrain rapid transit station. Given her modest annual pretax salary of \$39,000, Ms. Soo is excited by the prospect of moving into her own place by the time she turns 30 this summer. But price remains the sticking point for buying a condo this spring. She and her agent, Eddy Shan of Homeland Realty, are finding that sellers aren't budging much from their asking prices.

Will McKitka, a real estate agent with Macdonald Realty, said the spotlight has turned on the slump in property sales in February, but prices haven't collapsed. "People use the B-word, in terms of a housing bubble. Vancouver isn't in one," Mr. McKitka said. Monthly sales volumes are being crimped by stalemates over pricing, he noted.

Two of his clients watched negotiations fall apart last month, even though the asking and offering prices were tantalizingly close. "Not close enough," he said. But Mr. McKitka insists that buying into the Vancouver area's cooled-off housing market makes sense. Gone are the days of huge jumps in home values, but for those able to save for a down payment in 2013, it will be a better financial decision to own than rent, he argues.

*Brent Jang, Vancouver*

## **CALGARY: A HOPE NEW PIPELINES WILL KICK-START MARKET**

If there is a cloud on the horizon in the Calgary housing market this spring, it's emanating from the oil patch.

The market is going through a relatively placid period, having suffered staggering year-over-year price hikes in the boom years of 2005, 2006 and 2007, and then saw less-dramatic price dips in 2008 and 2009 during the economic downturn.

Home prices have recently made small year-over-year gains as immigrants and migrants from other provinces flock to the city for jobs. There are less affordably-priced, single-family listings available in the resale market than last year, and the rental market is downright tight – the vacancy rate sits at 1.3 per cent, one of the lowest in Canada.

Calgary Real Estate Board chief economist Ann-Marie Lurie says these and other signs point toward relatively "balanced" growth in the residential market this spring.

But the combination of stubbornly low natural gas prices and the discount on Canadian heavy oil – in part due to pipeline congestion – is a wild card, she says. "We are able to attract migrants here because we have good, high-paying, full-time jobs. If we can't attract those migrants here, then that does start to impact that [housing] growth."

That doesn't deter Salem Woodrow.

"I always have my doubts about the economy, so it always makes me step back and think, 'well maybe we wait six months,' " says Ms. Woodrow, 25. "But at the same time, I don't believe that the economy will change so much that it will seriously affect my purchase."

Ms Woodrow, has no doubts about what she wants: a house built between 1980 and 2005, somewhere in Calgary's south, with a final price tag no higher than \$350,000. Originally from Winnipeg, she and partner Ryan Mayman, 28, think they'll be living in Calgary for at least five more years. And with a sizable down payment, they're continuing in their search for a home despite lingering fears about overinflated real estate values and the health of the province's economy.

"I'd feel much more comfortable if some of these new pipeline expansion projects went through," Ms. Lurie says. "That is really our bread and butter."

Even with some uncertainty, the Canada Mortgage and Housing Corp. is forecasting that sales in Calgary will rise moderately, and the average residential resale price – which includes single and multifamily homes – will hit \$423,000 this year, up by about 2.6 per cent from 2012. The CMHC also said that the number of new single-family housing starts will stay flat, while multifamily starts will actually decline from 2012.

Calgary realtor Betty Pach – who specializes in first-time buyers – says gone are the days when young buyers were "dazzled by the stainless steel and granite glitz." She credits increased steadiness in the housing market to a number of factors, including Ottawa's decision to cool things down by capping the maximum mortgage amortization period at 25 years instead of 40.

"That is realistic," Ms. Pach says. "Overextending themselves is not going to make them a happy homeowner."

*Kelly Cryderman, Calgary*

## **TORONTO: EXPENSIVE, WITH EVEN RENTAL PRICES MOVING UP**

Prospective Toronto first-time buyers Mr. Padley and Ms. McGovern are coming to terms with the fact that the house they want probably isn't the house they can afford.

"A semi-detached would be ideal, but for our price range it's going to have to be a townhome and it's going to have to be outside of the area that we want to live in," says Mr. Padley, 31.

Mr. Padley works in software development and his wife in pension administration, and the couple has managed to save up a 20 per cent down payment. They want to spend no more than \$350,000 to \$400,000, but their bank preapproved them for a mortgage of about \$900,000. "It's ridiculous."

The couple currently expect that they will remain renters for much or all of the year. They looked into renting a larger place, one big enough to start a family in, but balked at the costs of those as well.

Such are the challenges of many young prospective first-time buyers in the country's most populated city. Home prices in the Greater Toronto Area (GTA) rose by 6 per cent in just the first six months of 2012, reducing affordability, said Shaun Hildebrand, senior market analyst in Ontario at Canada Mortgage and Housing Corp. They then nudged down about 2 per cent during the fall, and have since essentially stabilized.

Given the high prices, many people are choosing to rent. Rental vacancies are at one of the lowest levels of the past decade and rent levels are rising.

"What's been common is that an owner will list their property for both sale and rent at the same time, and then whatever is most appealing, they'll go with that," Mr. Hildebrand says.

Sales over the Multiple Listing Service in February fell 15 per cent in the GTA. Sales of condos in the downtown region covered by the 416 area code dropped 20 per cent, with prices falling 4.7 per cent from a year ago to \$352,614 on average. Sales of detached homes in that same downtown area fell 17 per cent, while the average price held roughly flat, rising 0.1 per cent to \$823,329.

But the Toronto Real Estate Board is still forecasting that the average price for all types of homes in the GTA will rise from its current \$510,580 to \$515,000 during the year. That's a phenomenon that's helped in part, the home-building industry says, by the restriction of the supply of detached homes created by regulations and land constraints including the greenbelt.

And a number of observers speculate that the market is already beginning to bounce back from the softening.

"We've seen sales levels slow down since the summer, but since January, February, we've actually seen the monthly trend begin to stabilize," Mr. Hildebrand says. "When you look at things on a monthly basis, you start to see a bit of momentum actually being added back into the market."

Condo developers are luring buyers into buildings that are about to undergo construction with incentives such as lower down payment requirements, free initial maintenance fees, or even guaranteeing that they'll find a tenant to rent the unit – or else pay the rental costs – for the first two years.

Despite that, Oliver Baumeister von Bretten, a broker with Re/Max who specializes in Toronto condos, has yet to see a significant resurgence among first-time buyers in the lower end of the market. "They're coming back, but very

cautiously," he says. "I had a guy ready to buy in Queen West and then he said, 'with the condo bubble coming I think I've got to rent for another year,' " adding that this segment of the market appears to be more highly influenced by comments from policy makers and economists.

*Tara Perkins, Toronto*

## **MONTREAL: TRENDING TO A BUYER'S MARKET**

Avigail Aronoff always loved the character of Montreal's old houses and apartments – the original crown moulding, the history, the hardwood floors. But when she set her budget for her first home purchase, she also had to decide if she was willing to pay another price.

"Do I really want crown moulding or do I want my bed to stay put?" Ms. Aronoff said. "There's so much there that is so quaint and lovely. And then you get in and you start looking at it like a buyer, and you realize, oh except this corner of the room is three inches lower than that corner of the room."

So she decided on a newer place, cautious about having to invest later in replacing aging pipes or grappling with structural issues. On Monday, Ms. Aronoff received the keys to the two-bedroom condo that made her a first-time homeowner. Like many apartments in Montreal's Plateau neighbourhood, it's a duplex divided up into units, and the place came in right on the budget she set for herself, in the low \$300,000s.

For the agents involved, it's a welcome piece of business. Montreal's market has shifted into a lower gear. There's a lot for sale – there were 28,824 active listings in January, 9 per cent more than the year before – but fewer deals are getting done. Total sales were down 14 per cent in the month, and prices are basically flat.

That's a shift. Condo prices had increased nearly every month since August, 2009, according to the Greater Montreal Real Estate Board, but they aren't rising now. And it all points to a subdued year for the Montreal market. "The single-family home market is becoming balanced and the condominium market is leaning towards a buyer's market," Paul Cardinal, the analysis manager at the Quebec Federation of Real Estate Boards, said in a statement<sup>1</sup>.

Ms. Aronoff's decision to buy was the result of a number of factors. After she began her search in earnest about six months ago, there was rarely a Sunday when she did not find an open house she wanted to check out. She was tired of renting after 10 years, is financially stable on her own, and her grandmother left her some inheritance but stipulated it could only be used toward buying a primary residence.

"I always look at houses. I'm a house porn addict," she said, laughing. But the habit led her to have realistic expectations of what she could afford.

She was surprised by how easy the process of finding her first home was. The daunting part, she said, is all the expenses that come after it, including moving, painting and other small projects, the municipal tax increases to come, and Montreal's real estate transfer tax. "Just watching the money fly out of your wallet, it's unbelievable."

There's just one regret. "I'm just sorry I didn't wait to buy until after the provincial election," she said. "In Montreal, the PQ isn't great for housing prices."

*Susan Krashinsky*

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*Editor's note: Canada Mortgage and Housing Corp. looks at the proportion of Toronto house sales below \$400,000 as a measure of the number of first-time buyers. In 2012, that proportion fell to 45 per cent, down from 52 per cent in 2011. An article on Saturday incorrectly described that \$400,000 figure as a median price.*

## References

1. [cms.centris.ca/medias/nouvelles/statsmls\\_january2013\\_2.pdf](http://cms.centris.ca/medias/nouvelles/statsmls_january2013_2.pdf)



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