

# Real Estate Rebounds!

*After a long dry spell, here is some very good news.*

According to the Canadian Real Estate Association, home sales are expected to increase by 6.6 % in 2009 and by 7 % in 2010. Statistics Canada reported that the value of building permits in Canada rose 18% or by \$6.1 billion in October, with residential construction leading the way, increasing by 3.8% or by \$3.4 billion over the previous month. TD Bank noted that last October, home sales were up 74% and prices were up 24% from their lows in 2008, while housing starts, according to CMHC, were up from 157,400 in October to 158,500 in November.

All this points to a resurgent housing market. For example, in Toronto and Vancouver, people are once again lining up to purchase condos that have yet to be built — something not seen since those heady pre-recessionary days of multiple bids and offers and counter-offers.

The new vigour of the housing market is one of the surest signs yet that economic recovery is under way. For an economy that last year at this time was in the grips of the worst crisis in 60 years, this is a remarkable turnaround. Credit for this stunning performance can be attributed to a number of factors:

- Canada's not-so-secret economic weapon: our banking system.

The more regulated nature of Canada's banks, coupled with their more conservative lending practices, meant that there was no need for any of the rescue packages that were hurriedly cobbled together in the United States and Europe. The resilience of Canada's banking system meant that our economy, although

battered by the same storms, remained afloat and was able to come out of the recession sooner.

- Another contributing factor was that the Canadian real estate market remained largely stable. Subprime mortgages that precipitated a cascade of failures in the US made up a much smaller portion of the Canadian mortgage marketplace, and the failure rate in Canada was much lower.
- The appetite for new homes in Canada continues to be whetted by interest rates at or near the lowest levels ever.

A side effect of the economic crisis was the freezing of global credit markets, which meant that everything from building projects to mortgage negotiations ground to a halt. The Bank of Canada, in an effort to thaw the frozen credit markets, cut interest rates to historically low levels. This bolstered Canadian housing sales through low mortgage rates, particularly variable rate ones. Furthermore, the Bank of Canada has indicated that it does not intend to raise its present overnight rate of ¼% until at least the end of the second quarter of 2010. This means that mortgage rates will be kept low for a while longer.

While a few are concerned that the surge in activity may be the start of another housing price "bubble," most see what's happening as the release of pent-up demand by Canadian home-buyers who think that this is a good time to buy their first home or move up to something bigger. At the same time, experts say that homebuyers also need to be prepared for the eventual return of higher interest rates and keep their eyes set on what is affordable.

*By most measures, the real estate market is a leading indicator of economic health. By all measures, a rebounding housing market is good news.*

