REAL ESTATE ROUNDUP

Ottawa's changes to long-term mortgage rules draw a round of industry applause

But housing starts and apartment sales point to slowdown in B.C. real estate market

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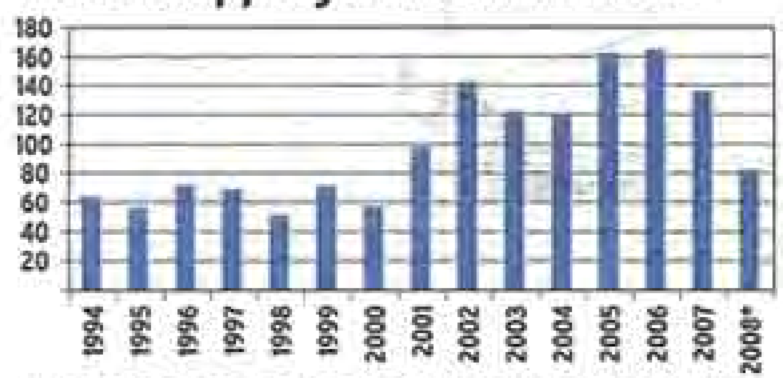
New mortgage legislation

The critics of 40-year mortgages who claimed that lengthy amortization periods were setting Canada's housing markets up for a fall had something to cheer about when Ottawa nixed government-backed mortgages of longer than 35 years as of October and announced that borrowers would need to make down payments of at least 5% to secure government-backed insurance (available through the **Canada Mortgage and Housing Corp.**).

Genworth Financial Canada, the largest private mortgage provider in Canada, debuted a 40-year mortgage in Canada in 2006, and CMHC followed suit later the same year. Since then, the market has grown with long-term mortgages now accounting for 9% of the market. Approximately 37% of all new mortgages last year were for terms longer than 25 years – the traditional standard.

The move came as the federal **Department of Finance** sought, in its words, "to reduce the risk of a U.S.-style housing bubble developing in Canada." While it acknowledged that Canada's housing markets enjoy strong fundamentals, government financiers believe zero-down and long-term mortgages are a risk in Canada.

Metro Vancouver apartment sales dropping thus far in 2008



* Projection based on 41 sales in the six months ended June 30, 2008.

SOURCE: GOODMAN REPORT/MACDONALD COMMERCIAL

CMHC isn't the only organization insuring mortgages in Canada, however.

Genworth Financial Canada, the largest of the private mortgage insurers, continues to insure 40-year mortgages, as does **AIG United Guaranty**. While the **Canadian Association of Accredited Mortgage Professionals**, a national association representing Canada's mortgage industry applauded the tightening of mortgage terms, it also noted that borrowers in Canada haven't acted in the same manner as those in the U.S.

"Paying down debt is still the goal," said CAAMP chairman **Andrew Moor**.

Perhaps that's why most lenders aren't following the government's lead, and why **Mike Averbach**, principal of **Averbach Mortgages Ltd.** in Vancouver (which operates under the **Mortgage Group** umbrella), isn't expecting a major impact on his business.

"There's a very small percentage of clients that need that 40-year amortization to get into the market," he said.

He added that he would be more worried if clients weren't able to afford a home and opted for a 40-year mortgage to get into the market without factoring in interest rate increases and other variables.

"If you are looking for the 40-year [amortization] just to get into the market, and … you're just getting by, by the skin of your teeth – maybe you shouldn't be in it in the first place," he said.

Starts and sales

The spate of statistics regarding the residential sector for the first half of the year suggests slower times ahead for 2008's second half.

Canada Mortgage and Housing Corp. reports strong housing starts for the first half of 2008, with totals up 9% over the first six months of last year for the Vancouver CMA. Solid growth of 64% in Vancouver and 58% in Surrey helped offset drops of up to 43% in North Vancouver, Maple Ridge and the Burnaby/New Westminster markets.

In real numbers, starts stood at 10,176 units; if the pace of starts seen thus far continues, that would put Metro Vancouver on track for more than 20,350 starts for the year.

CMHC, however, isn't so optimistic; its current forecast calls for 19,000 starts in Vancouver this year. Moreover, starts in the second quarter of the year increased 2.6% versus last year, a growth rate well below the half-year, suggesting that momentum is decreasing.

The good news is that Vancouver remains ahead of the national trend. Housing starts for Canada as a whole rose just 1.5% in the first half of this year compared with the first half of 2007.

A recent report from the **Royal Institution of Chartered Surveyors** attributed much of the change in Canada to shifts in Alberta, where sales and starts have slowed in recent months. While volumes are down in B.C., price appreciation remains strong.

The **Canadian Real Estate Association** reported last week that the average price of a residence in Metro Vancouver was up 9.6% in the first half of this year versus a year earlier, topping $615,000. That, despite a 20.2% drop in unit sales – the third-greatest in Western Canada, behind only Calgary (down 32.3%) and Edmonton (down 27.6%).

While well behind the double-digit gains seen in Newfoundland and Labrador, Saskatchewan and Saint John, New Brunswick, the average home price in Vancouver remains the most expensive in Canada. That, if anywhere, is where the risk lies.

Speaking at a panel discussion the **UBC Centre for Urban Economics and Real Estate** hosted at the end of June, **Bentall Investment Management** vice-president, research, **Carl Gomez** said the biggest risk facing further price gains in the city is that homes may be overpriced.

Apartment sales decline

Word is listings are rising in the multi-family market as in other markets, and a six-month report for Lower Mainland apartment properties from **David Goodman** of **Macdonald Commercial** gives some indication of the slower pace of sales.

A total of 41 properties changed hands in the first six months of this year, down from 77 during the same period in 2007. In 2006, when building sales peaked at 164 properties for the year, the first six months saw 89 transactions.■

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