



Housing Insight

Free Real Estate Information



this issue

A Buying Opportunity of a Lifetime!
Hottest Trend in Canadian Real Estate
With Furniture or Without?

One of Canada's Hottest Real Estate Trends.

One of the hottest trends in Canadian real estate is parents assisting their adult children with the purchase of their first home. Many parents realize that as housing prices continues to rise and financing regulations tightens, the next generation may need help financially so that they are able to afford a home in today's economy. The escalated real estate prices have many young professionals, even with a good income, unable to save for the necessary down payment.

Let's consider the Victoria real estate market where the median price for a condo is approximately \$285,000. The required down payment for a conventional mortgage would be \$57,000 or 20 percent of the purchase price. For many young folks, this figure is inconceivable. They simple do not have access to this amount of savings. Thankfully, the

A Buying Opportunity of a Lifetime!

There was a time not so long ago when I thought 7 trillion dollars was inconceivable. This is the amount of wealth that American's lost in the dot.com bust. However, this was just the start of it. Since 2007, American's have lost more than 12.7 trillion in household net worth.

What does this mean to Canadians? It means that Canadian investors are benefiting from a fortunate situation.

With the American real estate market still in the midst of the worst recession since the 1930s, many Canadian investors have decided to go south of the border with their valuable Canadian dollars. They are easily finding second homes that are half of what they were in 2008.

States such as Arizona has cooled so much that real estate prices are comparable to 1990 levels. For example, in Phoenix, Arizona, the median property has dropped from \$235,000 USD in 2007 to \$102,000 USD in November 2010. It is common to find a 10 year old home that is 2,000 square feet for just over \$100,000.

But it's not just the large drop in prices that makes these American properties such a great investment. There are other key factors that have contributed to this unprecedented opportunity that Canadian investors are seeing.



Canadian investors are benefiting from a fortunate situation

For starters, interest rates are close to the lowest they have ever been. Canadians are able to get historically low mortgages from American banks. This combined with the cheap real estate prices definitely indicate to real estate investors that now is a good time to buy.

In addition to these undeniable reasons to buy now, there are even more compelling reasons, which include the replacement value, the cash flow opportunity, and the resurgence of inflation.

Many of the houses are selling for below replacement cost. For instance, let's look at the example above. If we use a conservative construction price of \$125 per square foot, it would cost \$250,000 to build a brand new 2,000 square foot house. Granted our comparison is a 10 year old home, but even if you renovated the entire house, you wouldn't come close to paying \$250,000. In fact, you could put on a new roof, install new windows, completely renovate the kitchen and bathrooms, put in new floors, and paint the entire house for approximately \$75,000. After the renovations are done you would have a brand new house for \$175,000. This is \$75,000 less than if you built from scratch. And this doesn't even include the value of the land!

As well, the drop in housing prices has helped make positive cash returns a reality. The same 2,000 sq foot home that can be purchased for around \$100,000 will rent for approximately \$1,000 a month. These numbers make it easy to achieve capitalization rates of 7% or more. And don't worry about the rental pool. The demand for rental properties continues to increase at a steady rate because as the recession continues to affect home owners, these people have no choice but to foreclose and find a home to rent. In addition, if you purchased in Phoenix, you would also have the security of knowing that you bought in one of the largest population migration cities in the U.S.

Last but not least, is the power of appreciation. If you hold onto your property through the recovery period, you will also benefit from leveraged appreciation. The equity you have gained in amortization coupled with the appreciation of the market recovery, will give you some solid returns.

With our strong Canadian dollar, we have an amazing opportunity to profit from the U.S. market downturn. No one knows how long this window of opportunity will last so don't wait too long or you may lose out on one of the best investment opportunities to come around in a long time.

If you are interested in getting involved in the exciting USA investment opportunities give Gloria Carvalho a call at 250-888-2246.

government recognizes the need to make home ownership more affordable and accessible for Canadians by offering a high-ratio mortgage for as little as 5 percent down or \$14,250. But with these high-ratio mortgages the affordability of purchasing a home becomes even more difficult.

In order to qualify for a mortgage all of the housing costs, including monthly mortgage payments, property taxes, heating expenses and ½ the strata fees should not exceed more than 32 percent of the gross monthly income. For someone purchasing a \$285,000 condo with 5 percent down this would mean they would need to have a gross monthly income of approximately \$6,000. Because many first time home buyers will have trouble meeting these requirements, they will have difficulty getting approval for a mortgage.

Parents understand the difficult predicament that their children are having with these financial requirements. They realize that they may be their children's best means to becoming first time home owners. According to a recent study, 40% of first time home buyers are receiving help from their parents. These parents are willing to delay retirement or remortgage their homes so that they can help their children. Some parents, an estimated 25 percent, have gone as far as withdrawing money from their savings, while 15 percent simply acted as guarantors on the home

With or Without Furniture?



One of the longest ongoing debates is whether you should sell your home with furniture or without. Some realtors will argue that everything should be removed so that potential buyers can see themselves with their stuff in the house. My experience as a realtor and as a home owner/investor for the last 22 years says differently.

I have found that buyers see an empty house as “abandoned and cold”. They see the vacant property as just a house and since most people want to buy a “home” and not just a “house” the emotional connection that is necessary for a sale to occur is lost. Empty rooms fail to project the lifestyle which the buyer is looking to buy into.

What most home owners are unaware of is that about 90% of people lack the ability to see the potential that a vacant house may have. Buyers have trouble visualizing their stuff in an empty house. They cannot imagine what they cannot see no matter what the house has to offer.

In addition, a vacant home distracts a buyer from really looking at the home. Instead they wonder why the house is vacant. Is it a divorce? Were the sellers transferred to another city? They will automatically assume the seller is desperate and believe that there is a bargain to be had with a low-ball offer.

Vacant homes also scream out “look at my flaws”. After all, when there is nothing else to look at but normal wear and tear, what do you think buyers will notice? Every nail hole, carpet wear, or dust mite will be magnified. An unusual shaped room, a unique feature or an outlandish paint colour will stand out.

The buyer will notice every flaw but will fail to notice how great the space may be. With a furnished house, home decor and furnishings that are designed to enhance the room’s features will easily help camouflage those imperfections.

The only advantage I can see from an empty house is the chance to start from scratch and stage the house properly. With an empty house there will be no clutter to deal with or excess furniture to move; however, sometimes starting with nothing is a bigger job than removing the clutter and furniture so this may not be an advantage

loan.

The fact is that most baby boomer parents recognize that they have the financial resources to help their children. Not only are they financially comfortable, but studies show that in the upcoming years they are due to inherit billions of dollars from their parents. So they have no adversity to giving their children an “early inheritance”.

For those parents that do not feel comfortable or do not have the means to “give” their children a substantial amount of money, there are other options that are becoming equally as popular. One of them is to equity share with your children. How this works is the parents will typically supply the down payment so that the child can qualify for a conventional mortgage. When the property sells, the parents get back their initial stake plus a percentage of the profits. With equity sharing, parents are able to help their children while still investing for their retirement years.

Usually, a legal written agreement will spell out all the details such as the child will pay for all mortgage payments, property taxes etc. Some parents insist on an end date, when the investment will be paid back through sale or refinancing.

Similar to equity sharing is shared ownership. Instead of outright lending your children the money, parents purchase the property with them. They can still supply the down payment but title will be in both the parents and child’s names. Title can be held in any

With or Without Furniture...continued

The reality is that vacant homes are harder to sell. They simply are not as desirable as staged homes and do not command as much money. So even though there are buyers that can see through the emptiness and can see the possibilities that your house may have, statistics have proven that homes that sell the fastest and for the most amount of money are staged. This explains why most home builders in today's market will invest money on furniture and home décor to showcase their homes.

In a competitive market, choosing to stage your home over leaving it vacant should be an easy decision. As a seller your goal should be to market your home to the majority of buyers, which are unable to see the potential that your home may have until it's furnished or staged, otherwise, you risk selling at a lower price and/or a longer time on the market.

Mortgage Rates as of July 2011

Closed Terms	Best Rates	Bank Rates
1 Year	2.60%	3.60%
2 Year	3.35%	3.95%
3 Year	3.50%	4.45%
4 Year	3.60%	5.14%
5 Year	3.65%	5.54%
7 Year	4.75%	6.80%
10 Year	4.94%	6.90%
Variable	2.10%	3.00%

denomination, for example 75 percent in the parent's name and 25 percent in the child's name or vice versa. Title can be joint tenants with right of survivor or tenant in common so that on the death of either the parent or the child, the portion of ownership will go to their estate.

Another possible option is for the parents to purchase the property in their name and lease it to their child through a "rent to own" contract. Parents would then gradually deed more and more of the property to their child as they pay their parents back.

There are many creative ways in which parents can assist their children. Just be sure to sign a written agreement stating all the terms that have been agreed upon. Whatever you decide to do, I am positive of one thing, there are plenty of grown children hoping that their parents will continue to follow along with Canada's hottest real estate trend.

Gloria Carvalho is a Realtor - Associate Broker with Fair Realty. She has been recognized in press releases for assisting first time home buyers with their real estate needs.



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This information is courtesy of Gloria Carvalho. Gloria has her bachelor degree in Business and has been involved in real estate investing for over 22 years. She is also involved in the Arizona Real Estate Market.