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MARKET TRENDS

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SIGNS OF LIFE

CONSUMERS TAKING ADVANTAGE OF IMPROVED SELECTION AND AFFORDABILITY

Given the economic uncertainty, low energy prices, and fears about an oversupply of homes in the market, the first half of 2009 has been very positive in the new multi-family market in Calgary. Compared to 2008, the new multi-family market has experienced a resurgence in demand as consumers who waited out the market in 2008 began to return to take advantage of improved selection and affordability.

These improvements can be related back to three significant factors; a decrease in mortgage interest rates, a reduction in construction costs, and an increase in the number of readily available homes. The lower interest rates have allowed buyers to more easily qualify for mortgage approval, as well as significantly reduce the monthly interest payments. On a typical townhouse suite, a one per cent

Builders have passed along these savings to consumers in order to boost interest and sales, and new construction prices have decreased by five to 10 per cent from the peak back in 2008.

Finally, the slowing sales in 2008 allowed many builders to catch up with construction and now have a supply of ready-built homes with quick possessions. This means that consumers can buy a new home with the associated quality and

choice benefits, without having to wait months for possession.

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decrease in the interest rate can save a consumer over \$150 per month in interest alone on a typical 25 year mortgage!

The slower demand for new housing has also resulted in lower construction costs as suppliers and construction trades become more competitive.

buyers to purchase in 2009 compared to 2008, with year-to-date sales up almost two per cent. The strongest growth has occurred in the suburban markets, where strong demand for townhouse product has boosted sales by almost 50 per cent compared to last year. The growth in sales have occurred as first-time home buyers came back into the

market and began to rapidly absorb the affordable housing opportunities, particularly for townhouse and apartment units priced below \$300,000.

The slowing economy and weak demand for housing in other parts of the country have created a desirable, and affordable, situation for consumers looking to buy a new house. However, this situation is not expected to last forever. The current supply of ready-built homes will not continue to last as builders offer aggressive pricing to sell some of their remaining inventory. Once this product is sold, developers will go back to selling pre-sale homes which will be impacted by higher inflation, potentially pushing prices higher.

The impact of inflation is also expected to push up the longer term mortgage interest rates, and a rise in interest rates can have a much more significant impact on your housing affordability than the price of the home. A one per cent rise in the annual interest rate on a 25 year mortgage would require an equal price drop of almost 10 per cent to keep the monthly payments the same.

The supply of new homes in the market is not expected to rise significantly in the short term as builders work through their existing inventory of readily available homes, which now account for the majority of the suburban market. This, coupled with the stronger sales seen since the beginning of the year, is expected to offer some price stability for the balance of 2009 and a continuation of the market improvements experienced to date. **CL**

