

BC HOMES

THE BUSINESS OF HOME BUILDING

A Sure Thing

Lock in low interest rates today for savings tomorrow

Now is the time to buy...and here's why.

The number one reason to buy is rates just keep getting lower. Interest rates hit historic lows in January 2012 as the Bank of Montreal cut its five-year fixed mortgage rate to 2.99% and other banks and lenders followed suit.

Dianne Dohan, a Mobile Mortgage Specialist at Coast Capital Savings in Victoria, says, "We have the lowest rates we've ever had. The past three weeks they're just getting lower. I don't know if we are going to see these kind of rates six months from now."

Her credit union's four-year fixed rate was 2.95% in January 2012, which she says is the lowest it has been in 20 years.

Rates Versus Property Values?

However reports are as conflicted as always about the future of the Metro Vancouver housing market.

Resale home prices are predicted to rise 2.2% this year to an average \$805,000 in the Vancouver Census Metropolitan Area, according to the Canada Mortgage and Housing Corporation (CMHC) Fall 2011 report.

On the other hand, TD Bank predicts sales deflating by 15% and prices by 12% on a quarterly, peak-to-trough basis over the 2012-13 period, in a December 22, 2011 report.

“There’s a debate – do you want to wait for a potential decrease in property values or take low interest rates now?” says Kevin Lutz, Regional Sales Manager Residential Mortgages for RBC. He notes recent property assessments are higher, with Vancouver showing an increase of 16%, and property values are holding steady.

Low Mortgage Rates Now vs Potential Price Decrease

How much would home prices need to decrease to offset potentially higher mortgage rates?

Here’s how three different mortgage rates affect a five-year fixed mortgage of \$350,000 with a 35-year term and

Interest rate	Monthly payment	Term interest cost	Amortization interest cost
3.75%	\$1491.70	\$62,747.73	\$276,509.67
4.25%	\$1594.72	\$71,288.38	\$319,774.07
4.75%	\$1700.82	\$79,849.12	\$364,341.76

monthly payments.

Source: RBC mortgage calculator at www.rbcroyalbank.com.*

A one percent increase means you pay \$17,101.39 more interest in the first five years of your mortgage, says Lutz.

You may be able to save \$60,000 on a \$500,000 home if prices declined 12% over 2012-13 as predicted by TD Bank. But if rates increase by one percent, you pay \$87,832 more in amortization interest over the term of your mortgage.

Lutz says, “Why not go for the sure thing and lock in today’s low rates?”

[Share](#)

Kimberley Fehr

We have natural gas rebates
for your next project
Discover how much you can save



Search..

BCHOMES

THE BUSINESS OF HOME BUILDING

Why Now?

Low rates aren't the only reason to buy now

Interest rates aren't the only thing to consider when deciding when to buy. Availability and demand make a difference on whether you can find your dream home.

"There is so much economic activity in our region that no one is paying attention to," says Bill Macklem, owner of Dominion Macklem Mortgages in Surrey.

He reels off an impressive list of numbers.

- 62,000 people projected to move into BC this year
- 17,000 builds coming onto the market in 2012 with 50 percent already sold
- Three new Walmarts and six new Cactus Clubs in the works for our region
- Tsawwassen's Roberts Bank Port is poised to double in size.

He could go on.

Bubble trouble?

He refers to a Vancouver Board of Trade meeting called 'Bubble Trouble' in October 2011 where industry

experts said the region's real estate market is not a bubble about to burst.

Ward McAllister, president and CEO of Ledingham McAllister Properties, told the meeting the real estate market will face supply pressure. "Simply looking at immigration numbers we are going to be under-supplied for the next two to three years," he said.

Pent-up demand

Macklem adds this to the pent-up demand created when Canada's mortgage rules changed last March, reducing the maximum length of insured mortgages to 30 years from 35

"Normally that creates a six-month lull because someone changed the rules and people aren't sure what to do," says Macklem.

The May 2011 Federal Election also gave people another reason not to buy, he says. "Then the playoff frenzy came. And my phone stopped ringing."

He says the sales-to-listings ratio improved in December 2011, which means there were less sales compared to the number of active listings, and greater choice for buyers.

"Ultimately, there's going to be a lot of pressure in our market," says Macklem.

Victoria homes sell below assessed value

Dianne Dohan, a Mobile Mortgage Specialist at Coast Capital Savings in Victoria, feels the housing market is a good opportunity right now. "In Victoria, I find there's a lot for sale, a lot of production and many houses are selling for less than the assessed value."

Her family just sold their house at the assessed value, but they were strategic about pricing. Three nearby houses haven't sold.

But the best reason to buy is still the ridiculously low interest rates. "You qualify for a lot more money when rates are low," she says.

Kevin Lutz, Regional Sales Manager Residential Mortgages for RBC, agrees. "Today you qualify for a \$400,000 mortgage. Increase the rate by 1% and you reduce what you qualify for by \$52,000. That's the reality of waiting."

[Share](#)

Kimberley Fehr

We have natural gas rebates
for your next project
Discover how much you can save



How Much Mortgage Can You Bear?

Like 0

Banks and mortgage brokers use a formula to calculate how much mortgage they will give you, but what about you? Low interest rates can't last forever. What factors do you need to consider when deciding how much mortgage is good for you?

How much can you have?

Banks and mortgage brokers use your down payment and income to calculate what you qualify for. No more than 32% of your gross income should go to your mortgage debt, and no more than 40% of your income should go towards your total debt, including your mortgage, car loans and credit card, etc.

Banks are very stringent on those numbers, says Kevin Lutz, Regional Sales Manager Residential Mortgages at RBC.

"Our lenders built this rationale to prevent what happened in the States," says Jamie Moi, a Mortgage Broker for Dominion Lending Services in Langley.

Are you ready for a rate rise?

"A lot of people feel that because interest rates have been sitting in and around 4% for such a long time, that this

is normal... and it's not," says Moi. "Rates are going to rise at some point."

An interest rate increase from 4.00% to 5.00% on a \$400,000 mortgage with a 35-year amortization means an extra payment of \$240 a month, up from \$1763.21 to \$2005.69, says Lutz.

He suggests new mortgage customers pay now as though rates are already higher, by shortening the amortization, choosing accelerated bi-weekly payments or doubling payments.

Your personal crystal ball

"Human nature means people take the maximum possible amount," says Lutz. "We try to help people look into the crystal ball – are your earnings realistically likely to increase? Will you be borrowing more for a car or home reno, and if so, should you consider a lower purchase price now?"

Look at yourself. Moi says you should ask: "Are you comfortable in your job? Will you have a job in six months?"

You also need to budget for the costs of buying a BC home, condo fees, property taxes, HST where applicable, life insurance for couples. Then there's routine maintenance, increasing property taxes and unexpected repairs. Three to six months of expenses should be set aside for unexpected emergencies.

Distinguish between needs and wants

Less mortgage might be more peace of mind. "Make a distinction between what you need and what you want in a home," says Moi. The Real Estate Board of Greater Vancouver offers a [dream home checklist](#) to help you decide.

Kimberley Fehr