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Ben's Thoughts

My, what a difference a little sun makes! After a historically slow winter season, the local housing market has rebounded with a vengeance this Spring. In what felt like an overnight transition, we went from properties sitting on the market for months, to multiple-offers and bidding wars. Homes that have been priced correctly are selling extremely quickly as first-time home buyers have flooded to market to take advantage of lower prices and interest rates that are as low as we will probably ever see. I'm not sure how long this buying frenzy will last, but it is definitely nice to see some movement in life in the market again.

Increased Demand Steadies Housing Market in Vancouver

A continued increase in buyer activity over the last four months has resulted in increased home sales and lessened the downward pressure on housing prices in Greater Vancouver.

The Real Estate Board of Greater Vancouver (REBGV) reports that the number of residential property sales in Greater Vancouver totaled 3,524 in May 2009, an increase of 17.4 per cent from the 3,002 sales recorded in May 2008, and an increase of 18.9 per cent compared to last month.

"The increased level of buyer activity over the last few months has had a stabilizing effect on home prices across our region," Scott Russell, REBGV president said. "MLS® data continues to show a trend toward a balanced market in the region."

This is good news for most of us, as a stable market is welcome change from much of the economic instability that has been present for the past year and half.

How can mortgage rates being going up when prime is static?

Let's clarify how fixed-rate and variable-rate mortgages are priced and you'll see the difference.

Variable rates are tied to your bank's prime rate, which is based directly on the Bank of Canada rate. The Bank of Canada is our central bank, operating at arm's length from the federal government. The central bank uses its rate as a tool to achieve the goals of "Low and stable inflation, a safe and secure currency, financial stability, and the efficient management of government funds and public debt." Our central bank sets the trend for short-term interest rates and has a direct impact on short-term rates for mortgages and lines of credit, as well as rates paid on deposits and investment certificates.

Fixed-term rates, such as long-term mortgage rates, by contrast, are based on the bond market. Bonds are issued by governments and large businesses. The "yield" of the bond is the annual rate of return, expressed as a percentage. Bond yields can be volatile and fluctuate in response to various political and economic factors, such as inflation and unemployment figures, and developments in the stock markets. They are increasingly affected by global forces. Long-term mortgage rates (3 years and longer) are based on bond yields, but are less volatile because financial institutions absorb the daily market fluctuations in order to create a more stable rate environment for their customers. Generally speaking, higher bond yields increase funding costs for banks, which in turn leads to increased long-term fixed rates. Conversely, lower bond yields lower banks' funding costs and lead to lower long-term mortgage rates.

So, short-term rates move with the Bank of Canada's needs, while longer-term rates are tied to the bond market. The Bank of Canada can influence long-term rates, but it has no direct control over them. This difference in how rates are set is the reason we sometimes see short-term and long-term rates moving in unison, while at other times they diverge.

If it seems difficult to choose between a fixed and variable or long and short mortgage, you don't necessarily have to choose. Perhaps the easiest and best solution is to break your mortgage into pieces and diversify your borrowing across short and long terms. This is mortgage "laddering," a concept Canadians know and use to stagger their GIC maturities for diversification, but which surprisingly few of us use for our mortgages. By blending different types of mortgages and staggering maturities, you can diversify your interest rate risk, and perhaps minimize your interest costs.

Closing Remarks

If you have a low rate (sub-4%) locked in on a pre-approval and can find a home you love, do not be afraid to jump back into the market. With rates like these, your monthly payment will be more manageable than 5%+ mortgage rates most people are paying. Though the inventory is moving briskly, if you are prepared, know what you want and act quickly, there are still some great deals out there.

Seller's, if you are thinking selling, consider doing it soon. Once rates increase, I suspect that traffic will slow slightly as we head into what is a typically slower Fall season.

I welcome your questions and comments, and hope to hear from you soon!

Ben

Market Stats

The BCREA reported that MLS® residential sales in the province rose 3% to 8,270 units in May 2009 compared to the same month last year. It was the first year-over-year increase since December 2007. The month of May also posted the highest number of residential sales since April 2008 and was the fourth consecutive month of rising home sales.

Year-to-date, MLS® residential sales dollar volume was down 31% to \$11.7 billion over the same period last year. A total of 26,359 units were sold in the first five months of 2009, down 26% from 2008, while the average MLS® price declined 7% to \$443,252.

Mortgage Update

Well, it finally happened... Mortgage rates have bottomed out. With as much as a .9% increase in fixed rates over the past two weeks, and further increases expected, this is definitely the time to lock in your rate if you haven't already done so.

For those of you who are locked in at low rates, the next few months will be prime buying season to make use of the 'cheap' money before your rates get bumped up.