

Bulletin – CDN Real Estate

August 2017

Canadian real estate is in for a precipitous drop due to a trifecta of factors.

Demographics

Arguably the biggest driver of the real estate market over the previous three decades has been demographics and the baby boomers. As this large segment of the population bought homes to raise families, and upsized as their families grew, along with this, prices rose.

This same generation has held onto their single family dwellings as they have watched tax free capital gains on their largest asset grow, reducing liquidity.

However, in the coming decade, they will start downsizing, moving into nursing homes due to mental incapacity, or liquidating this large portion of their net worth to fund their retirement.

Interest rates

Interest rates have been at historical lows since the 9/11 and dot com bubble bursting. The great recession afterwards, along with the QE of the US Federal Reserve continued to have central banks depress interest rates worldwide.

As economic conditions start to normalize, rates will rise to normalized levels (5% instead of under 1%) and this will put overstretched buyers into underwater mortgages, causing margin calls by lenders as the equity is no longer sufficient to cover debts – and also increasing monthly payments perhaps beyond what people can afford.

Foreign money

Much hay has been made about foreign money in the Canadian real estate market. However this money is “fast money” and is mostly just a place to park funds exported from countries like China.

These speculators and investors have little connection or ties to the markets they have bought homes in. Once they see a decline in prices, they are very likely to sell quickly, even at a loss, because they are buying real estate mostly as a parking vehicle that cannot be recovered by their foreign governments and to go somewhere else with better returns.

Synopsis

If most of your net worth is tied up in real estate, it is time to consider taking some of your gains off the table, either through downsizing or selling and renting. Real estate swings can be huge and in dramatic market conditions it can be difficult to liquidate this asset as it is not liquid.

KLT Group

1342 112 Ave.
Surrey, BC
V3R 2E7
604-357-7064

www.kltgroup.ca

Solving one client problem at a time –
every day