

Bulletin – CDN Real Estate

September 2018

The chickens have come home to roost. I have been speaking of a precipitous decline in Canadian real estate, and we are starting to see the beginning. Clients, especially retirees, would be well advised to sell and rent or downsize.

Interest rates

Interest rates have been ticking upwards, which has a detrimental effect on property values. Higher interest rates squeeze those in variable mortgages relatively quickly. Those on 5 year terms will feel a big pinch when renewing their mortgages.

Legislation

Several governments have introduced foreign buyers taxes, and “empty home tax”, especially targeting the Toronto and Vancouver markets where foreign capital has been flowing as a place to park money outside of the reach of foreign governments like China.

This money is “fast money”, meaning if they see it as no longer an appreciating asset, they will liquidate at even below market prices and the flight to somewhere else will be rapid and depress real estate values by quickly increasing supply.

Boomers

Boomers are starting to downsize and go rural. When I see news articles that markets like even tiny Powell River (where I went to high school) are seeing soaring housing sales, it is obvious that this trend is starting and it will only continue to accelerate.

We are at the tip of the iceberg on this one, and even more important than foreign buyers, this generation has the ability to monumentally move the market given their numbers.

Retirees are starting to cash out, go rural and buy boats, or buy condos and go travelling. Retirees with a significant amount of debt in personal lines of credit should be cautious and close up these debts, else risk going underwater and getting margin calls from their banks. Selling is the easiest choice.

Conclusion

The days of financing your retirement or using real estate as an investment for equity are coming to a close. Having 60-80% of your net worth tied up in real estate is no longer a great plan.

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