



AGENT BOSKO'S JOURNAL

Welcome to my January 2011 Newsletter!

Please see below for what the Toronto Real Estate Board said in their recent report...

TORONTO, January 6, 2011 -- Greater Toronto REALTORS® reported 4,395 existing home sales for the month of December, bringing the 2010 total to 86,170 – down by one per cent compared to 2009.

“Market conditions were anything but uniform in 2010. We went from super-charged sales activity during the first four months of the year, to a marked drop-off in transactions in the summer and then in the fall saw sales climb back to levels that are sustainable over the longer term,” said TREB President Bill Johnston.

“New Federal Government-mandated mortgage lending guidelines, higher borrowing costs and misconceptions about the HST caused a pause in home buying in the summer. As it became clear that the HST was not applicable to the sale price of an existing home and buyers realized that home ownership remained affordable, market conditions improved,” continued Johnston. The average home selling price in 2010 was \$431,463 – up nine per cent in comparison to the 2009 average selling price of \$395,460. In December, the average annual rate of price growth was five per cent.

“At the outset of 2010, we were experiencing annual rates of price growth at or near 20 per cent. This was the result of extremely tight market conditions coupled with the fact that we were comparing prices to the trough of the recession at the beginning of 2009,” said Jason Mercer, TREB’s Senior Manager of Market Analysis.

“Balanced market conditions in the second half of 2010 resulted in more moderate home price appreciation,” continued Mercer. *“Expect the average selling price to grow at or below five per cent in 2011. With this type of growth, mortgage carrying costs for the average priced home in the GTA will remain affordable for a household earning an average income.”*

“Ownership housing is available in a diversity of types and price points across the GTA, allowing plenty of choice for first time buyers and experienced home buyers alike. This housing diversity is one factor that continues to make the GTA a popular choice for households and businesses,” concluded Johnston.

Sincerely,

INSIDE THIS ISSUE

TREB Report.....	1
2011 Real Estate Outlook.....	2
2011 Real Estate Outlook Con't..	3
Mortgage Storm on the Hori- zon.....	4

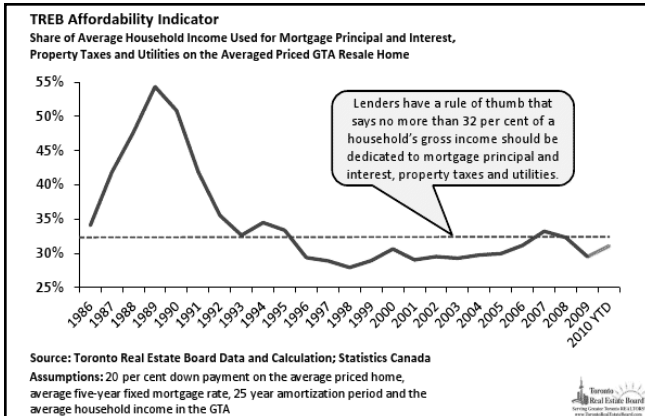


Real Estate Outlook for 2011

Let's take a look at the factors that have the greatest effect on GTA Real Estate.

1. Affordability

One of the most important statistics that I look at is the Affordability index. This index tells us the percentage share of Household income used for mortgage principal and interest, property taxes and utilities on the average priced GTA home.



Let's imagine that the average selling price always had to correct to make sure that the mortgage payment, property tax and utility costs never accounted for more than 32 per cent of the average household income in the GTA.

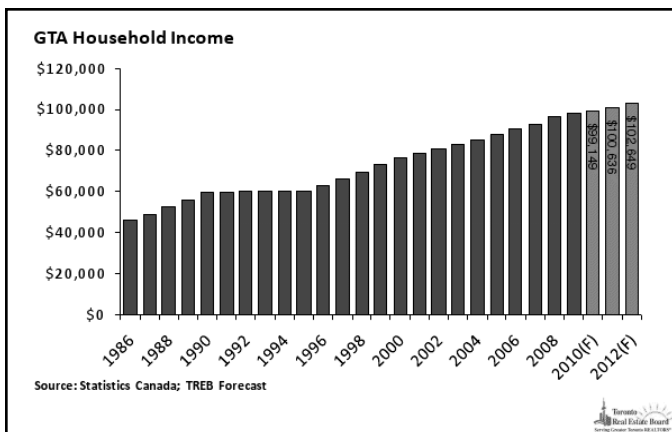
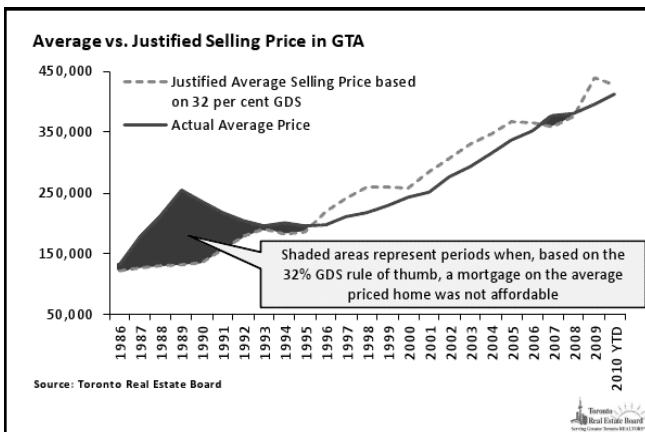
Essentially, this would provide us with a JUSTIFIED PRICE – i.e. justified by the accepted lending rule of thumb (max 32% GDS).

2. Justified Average Selling Price

Justified average MLS selling price assuming 32 percent GDS.

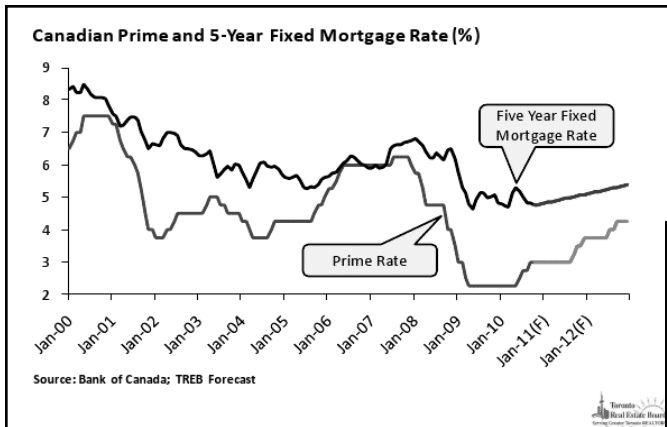
3. Growth in income from 1986-2010 and forecast for 2011-2012

Income growth rate will be below average through 2012.



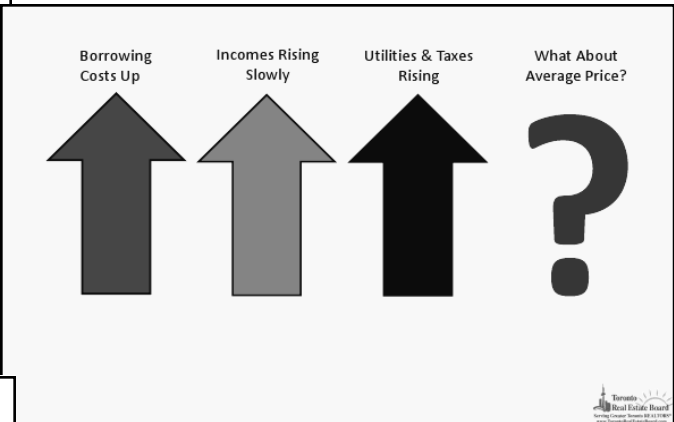
4. Interest Rates

Interest rates will increase more slowly than originally expected.



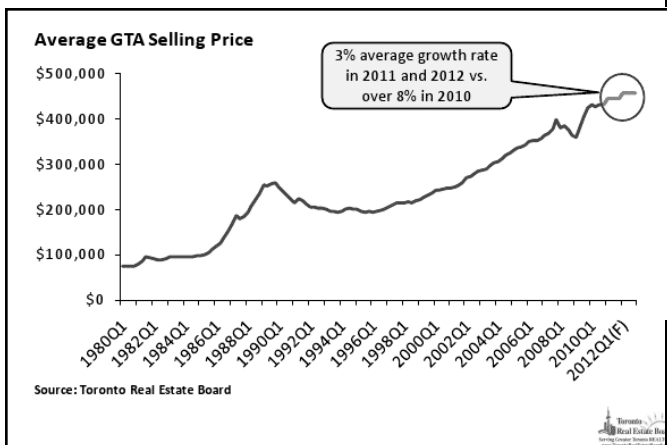
5. Affordability Recap

As you can see in the slide below, we have borrowing costs going up. Incomes are rising very slowly and utilities and taxes are rising.



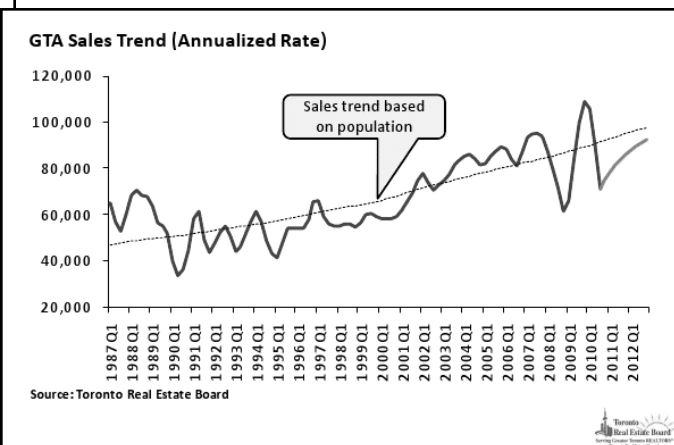
6. Average Selling Price

I think it will be a maximum of 5% this year.



7. Annual Sales Volume

MLS sales should track population growth in 2011 and 2012



Summary

The pace of economic recovery has slowed (not stalled). The Bank of Canada has more flexibility with the direction of interest rates. The market consensus is for fewer rate hikes than originally expected through the end of 2012.

The average price level, on its own, does not tell much about where price will go. Historically the best determinant of price growth or decline has been affordability. Right now affordability remains in check, thus the current average selling price is justified. Price growth will be slower in 2011 and 2012.

MLS® sales will move closer to the long-term trend over the next two years and will more often than not hover in the 80,000 to 90,000 range on a seasonally adjusted and annualized basis.



Storm Clouds on the Mortgage Front

There has never been a better time to re-finance or buy a home. Interest rates are at historically low levels....but there are a few “storm clouds” on the horizon:

1. The government of Canada and Banks are becoming increasingly worried about the current debt levels of Canadians and are taking measures to rein in Canadians personal debt levels.

2. The banks have already increased the Beacon Score (or credit score) required to get lending from “A” lenders. The Beacon score is a summary of your credit worthiness as determined by an automated system at the credit bureau. Many bankers rely heavily on this score for loan/mortgage approvals and the interest rate you qualify for. The beacon scores required for preferred lending have risen lately and looking forward, I see them raising this further in the New Year.

Beacon Score	Interest Rate
719-850	The Best Rate
700-719	+0.20%
675-699	+0.65%
620-674	+1.70%
560-619	+2.50%
500-559	+3.50%

3. Bank of Canada has indicated that it may raise rates in the 2nd quarter of 2011

4. Affordability is reaching its “max” rate of 32% of Gross Income and 60% on Net Income. If rates rise, many people will be paying more.

In Conclusion... Rates are rising, prices are forecasted to rise and banks are tightening their borrowing criteria.

Action Steps:

If you are thinking about re-financing...do it now.

If you know of someone who is thinking about buying or selling, they must do it now while rates are at historic lows and before prices are about to rise. Please tell all of your friends that they must call me to get pre-approved at the lower rates and buy before prices rise in the Spring!!



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