

# The Spring 2006 Real Estate Market

*By Brian Madigan*

Everybody always wants to know what's happening in the real estate market, and most of the time they don't want to believe it.



If they own a piece of property, they want to think that the market is going up at a rate much higher than the stock market. If they don't own a piece of property, then they like to think that the market is levelling off, and about to drop abruptly. Frequently, these are firmly held views and some people can get quite argumentative about it. In neither case, however, do they really look at the economics and the numbers behind the statistics.

What are some of the factors that influence real estate? The answers are straightforward: 1) the general economy, 2) supply, 3) demand, and 4) affordability.

So let's look at them, one by one. The general economy is very good in Canada. In fact, it's the best economy we have had in recent years and is part of a long-term trend starting in 1993. So, at this point, that's 13 years running. Look at the strength of the dollar. It's at its height, again going back 13 years. If you look at the North American economy, you will find the same thing. As well, the worldwide economic situation for developed countries is very much the same. So, this should bode well for real estate.

What about the supply? They say, of course, that real estate is a very good investment because they're not making any more of it. But, this really isn't true! Consider condominium apartments and new building lots in the suburbs. These are truly new pieces of real estate in the making. One factor to take into consideration is the lag time between the intention to create the new properties and the time when they are actually delivered to the market. It can take as long as 5 years.

And, what about the demand? This is another important and crucial factor. Demand is in large measure driven by demographics. New people moving

into Canada, the net increase in population (people being born less people dying), the formation of new households, having children, retiring, buying recreational property and investment property, these are all trends in the marketplace indicative of the demographics or driven by it.

Finally, the matter of affordability. If people can't afford it, they won't buy it. Basically, this is going to come down to after-tax incomes and interest rates. Statistically, affordability has never been higher, and interest rates continue in a range near their all-time low's.

In Toronto West, in December 2005, it took over 40 days on average to sell a house. By February 2006, it was closer to 30 days. What does this mean? A 25% decrease, you would think that prices this Spring will be going through the roof. No, not really, it's just seasonal. Most people don't want to sell during the last six weeks of the year, and most people don't put their properties onto the market until March. So, basically this happens every year.

You will also have to watch for sales being transacted at 100% or more of the list prices. Generally, in a relatively healthy market the average percentage will be around 97%. In the Toronto West market, there are several areas where the 100% figure has been achieved. This means the prices are going up! Often, this escalation will first occur in the particularly hot and fashionable areas. However, there is a general equilibrium, and if your area hasn't seen price increases, then it is due in a month or two.

Here, there could be a little advice. If you're buying, buy now! If you're selling, sell in a month or two! But, don't wait too long or the buyers will be gone.

In February 2006, there were 6,756 transactions in the GTA at an average price of \$ 353,928.00. This was the highest ever. The last time we had a real estate bubble was in 1989, and you will recall at that time, high inflation, interest rates more than double what they are now, and concerns about the adequacy of the economy.

Today, you might say there are some concerns about the auto industry. But, those concerns relate to the traditional domestic auto manufacturers, not the industry. The auto industry in Ontario is really very, very healthy. Now,

people are just more likely to work for Toyota or Honda, than GM or Ford. However, these workers still have to buy houses.

So, try to avoid the newspaper headlines and ask an experienced realtor for advice about the real estate market in your area.

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