

## Real Estate Futures



**By Brian Madigan LL.B.**

Betting on the real estate market is as easy as picking up brochures in the model home.

Let's assume that you believe that the real estate market is going up. If you buy a house you will have to pay for it in 2 or 3 months. But, if you buy it off plans, you may not have to pay for it for a year. What is required is a small deposit, and you get to tie up the property for a year.

The best choice would be a long closing. And, that's where condominiums come in. If you attend the grand opening you can get your Offer in right away. Just the deposit will hold it for the next 3 years. By then, it will have risen substantially in value and you'll be able to cash in on your profits. At least, that's the theory. Until recently, that actually worked. It was just like buying real estate futures.

You made a bet with the developer that real estate values would go up over those three years. The developer waited until 60% of the units had been sold, secured his financing and started construction. In the meantime, you reaped in all the profits. As the units were sold, the developer raised the prices. This told you that you were smart and had made an excellent investment. But, the only way to realize your profits was to hang-on, wait 3 years, and close the deal.

The problem in the last 12 months has been excess competition and an oversupply of product, combined of course, with too few buyers. There were a lot of condo developers and condo investors all doing the same thing. The question was "who is going to occupy these units once they have been built"? You already have a house, you don't need an apartment. That means that you are going to rent or you are going to sell. Both of these place downward pressure on the market value of your condo.

If you were one of the first to buy, you might be alright, but if you were one of the

last, then you probably paid too much.

The same economic rules that effect the futures market in stocks and commodities apply to speculative real estate purchases of long term completion transactions.

Be careful here, you will have a number of facts to consider. Three years ago would you have predicted the drop in oil prices, the worldwide financial crisis, the bailout of financial institutions, a stock market that lost half its value, and the demise of Chrysler and GM?

Those matters all effect the real estate market, and at times, the most vulnerable market of all is the speculative world of real estate futures. But that may be somewhat dependent upon the closing date. The downtown Toronto condo market has been declining for two years. If you are closing this year, your unit may be worth less than what you paid for it, however, if you bought at a good discounted price last year, you still have two years for the market to recover. So, you haven't lost money yet.

Just remember that real estate futures are speculative. You can make a lot of money and you can lose a lot of money!

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