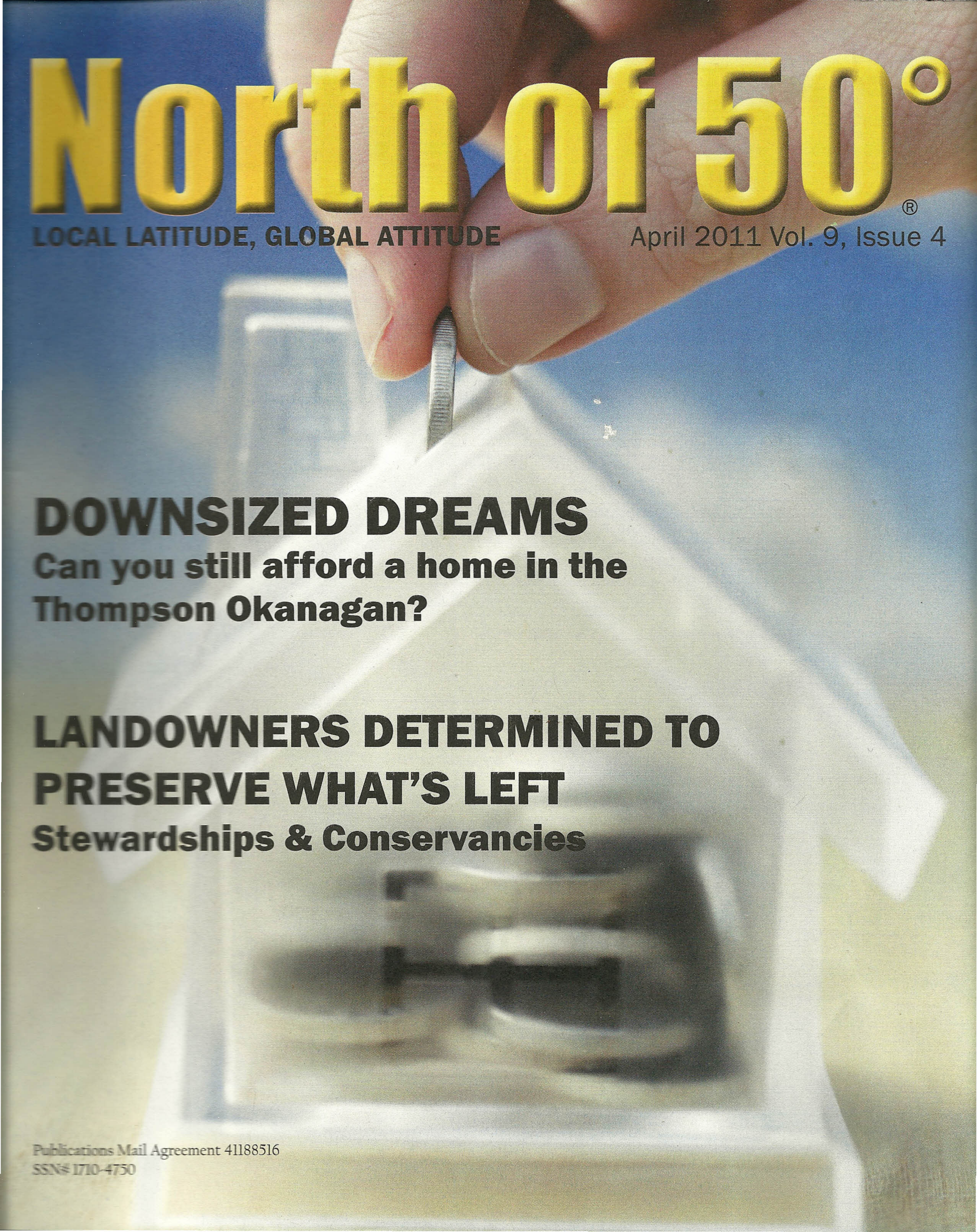

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DOWNSIZED DREAMS

Can you still afford a home in the Thompson Okanagan?

LANDOWNERS DETERMINED TO PRESERVE WHAT'S LEFT

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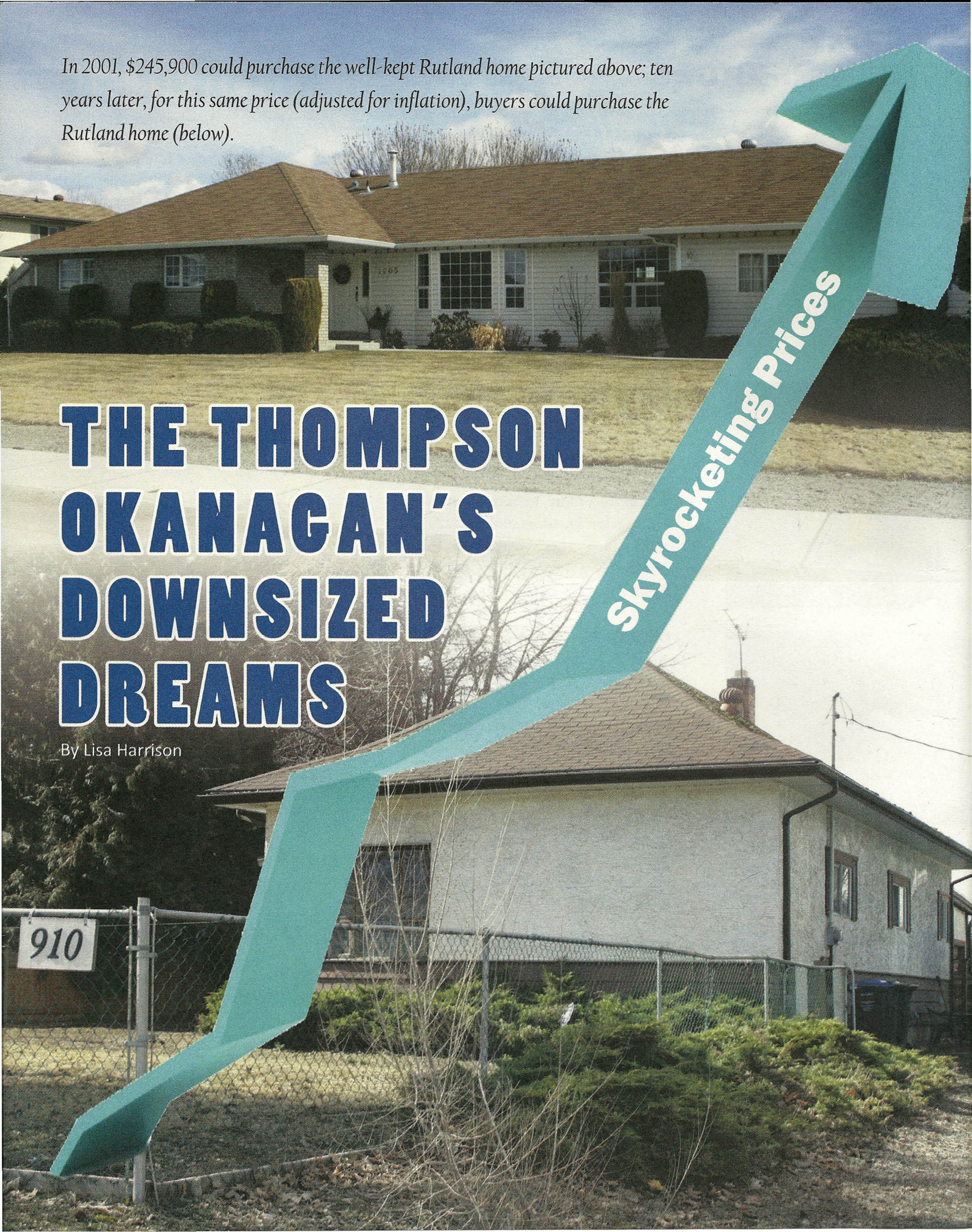
In 2001, $245,900 could purchase the well-kept Rutland home pictured above; ten years later, for this same price (adjusted for inflation), buyers could purchase the Rutland home (below).



THE THOMPSON OKANAGAN'S DOWNSIZED DREAMS

By Lisa Harrison

BETWEEN DECEMBER 2001 AND FEBRUARY 2011, the average price of a single-family home in the Central Okanagan more than doubled, from $190,552 to $443,360; in the North Okanagan, it increased by 2.24 times, from $148,070 to $330,946, and in the Shuswap/Revelstoke region, it nearly tripled, from $134,415 to $377,947. Price data for Kamloops and district in 2001 was unavailable; however, in February 2011, a single family home cost an average of $333,000 in Kamloops and slightly less in surrounding areas.

In the wake of these dramatic increases and the tightening of mortgage rules, can first-time buyers still afford a home in the Thompson Okanagan? Is the dream of owning a house with a nice yard still achievable?

Consider the reasons for the rise in prices. This sunny, temperate region, long popular with retirees, is attracting more attention as Canada's population ages, while Alberta's booming economy created buyers eager to purchase vacation homes. Even the 2003 wildfires contributed to the area's growth as scenes of the devastation (and the beautiful surroundings) were broadcast across the country and around the world. As in other Canadian communities, historically low interest rates lured many buyers into the market.

In January 2011, Federal Finance Minister Jim Flaherty announced tighter mortgage rules designed to "strengthen the Canadian housing market." Flaherty's plan included a reduction in the maximum amortization period from 35 to 30 years, which took effect on March 18, 2011. This change makes home ownership less attainable for some buyers, but it also reduces mortgage interest. Using the example of a $300,000 mortgage at three percent interest, the five-year reduction in amortization increases the monthly payment by $110 but, over the life of the mortgage, saves the homeowner almost $30,000.

For some young buyers like Andre and Sandra, who work in the retail and restaurant sectors, higher overall interest was the price they were willing to pay to get into the real estate market. When they heard that the 35-year amortization was going to be eliminated, they rushed to find a home. (Using this example, a couple would need a $20,000 down-payment and a minimum household income of $70,000.)

"We were motivated to start shopping and we had an idea of what our house would look like," says Sandra. "In the $400,000 range, it is not as grandiose as you would think! Basically, you're looking at a 1970s house that is possibly half renovated. We had to adjust our expectations." To help with mortgage payments, this couple was hoping to find a home with a legal suite or the option to build a carriage house. They put in two offers on a foreclosed property and were outbid each time. In the end, they found a satisfactory house in North Glenmore and are looking forward to starting their family. They intend to rent the first level to close relatives.

Interestingly, their rush to take advantage of the 35-year amortization before the March 18 deadline was fairly uncommon. The mortgage brokers and realtors interviewed for this article experienced a surprising dearth of buyers motivated by the upcoming regulation changes. Dick Pemberton, President of the Kamloops & District Real Estate Association, calls the numbers "insignificant." "Generally, we feel it was a prudent move on the part of the federal government. Our advice to young buyers is to reduce their outside debt such as credit card balances and car loans."

Reducing debt and establishing a good credit score are key pieces of advice that Ted Rhind, a mortgage broker at Invis, gives to those who are new to the real estate market. "Credit scores range from 300 to 900. The minimum credit score to qualify for a mortgage is 600 and a rating of 680 or higher qualifies buyers for more favourable debt servicing calculations." Canada Mortgage and Housing Corporation (CMHC) has two methods of calculating debt: Gross Debt Service Ratio and Total Debt Ratio. CMHC suggests monthly housing costs (including mortgage payment, property taxes and heating expenses) should not be more than 32 percent of gross monthly income (i.e. your paycheque before deductions). However, many lenders will allow a slightly higher percentage of debt to help new homebuyers get into the market.

More isn't always better, though. Rhind notes that first-time buyers should be aware of important cost savings. "First-time buyers may be eligible to be exempt from the property purchase transfer tax. There are a few requirements: they have to have lived in B.C. for at least a year, this must be their first home purchase anywhere in the world and the price must be $425,000 or lower." For qualified buyers, the tax savings on a $425,000 home is about $6,500.

As an economic stimulus, in January 2009, the Canadian government announced two new initiatives to assist first-time buyers. One was the introduction of the First-Time Home Buyers' Tax Credit, which provides up to $750 in federal tax relief. The other was a $5,000-increase to the

Home Buyers' Plan. Through this plan, first-time buyers can withdraw up to $25,000 from their registered retirement savings plan (RRSPs) to buy or build a home. The money must be repaid to RRSPs within 15 years to avoid income taxes.

Nancy and Ron have listed their West Kelowna home privately.

The increase in the Home Buyers' Plan is particularly helpful for those struggling to gather the five percent minimum down payment required for a mortgage. However, home buyers who have only five to 20 percent for a down-payment should be prepared for an additional cost: mortgage insurance. When buyers pay less than 20 percent of the home's value upfront, the mortgage is considered "high ratio" and, by law, they must pay mortgage insurance, which adds a few percent to the cost. This amount is paid to one of three federally-regulated insurers: CMHC, Genworth, or Canada Guaranty.

To clarify, mortgage insurance protects lenders. Although first-time buyers are often least able to afford the additional expense, CHMC's website provides this explanation: "Mandatory mortgage loan insurance provides a necessary safety net to the financial system, helping to ensure the availability of mortgage funding during times of recession and economic downturns."

Reducing debt, building a good credit score and saving for a down-payment sound good on paper; however, wages have not kept pace with the cost of home ownership, making all of these things more difficult. From 2001 to 2006, wages in the Thompson Okanagan's largest community, Kelowna, increased by 16.8 percent while the average value of all owned dwellings increased by 99.9 percent (according to the most recent data from Statistics Canada and compiled by BC Stats).

Saving for a down payment is also hampered by rising student loan debt. As of January 2009, the national student debt with the Canada Student Loan Program was $13 billion. The number of large debt holders (defined as $25,000 or more per student) increased from 17 percent in 1995 to 27 percent in 2005. By 2009, university graduates had $26,680 in debt while college graduates had $13,600 in debt, according to the Canadian Council on Learning.

People intent on buying a home often need to find creative solutions. Tony Kreutzer, Regional Manager for the B.C. Interior at Invis, typically sees two tactics. "I would say the major way that people are looking to offset their home costs is with a legal suite. They can include the rent in their income to help them qualify for a mortgage. We also have first-time buyers who ask their parents to join them on the application for a few years or longer."

Non-traditional ownership is another method. Rhind's two daughters recently bought a property together. One lives upstairs with her family and the other lives downstairs. They registered the property as "Tenants in Common" giving each a percentage ownership of the property. In the event of one owner's death, their investment passes to their estate. This differs from "Joint Tenancy," which is typical when a husband and wife purchase a home.

Not every creative purchasing idea is successful. Nancy, 73, and her husband Ron, 85, wish to sell their attractive West Kelowna home. Since purchasing it in November 2001, the value has more than doubled. The couple has chosen to sell privately to save realtor fees and, as a result, they have had to field some unusual pitches from potential buyers.

"We had one man with a young family who wanted to move in and pay us rent until his business got off the ground," says Nancy. "Then he would start paying the principal. That wouldn't work for us since we need the money up front to buy a condo."

More recently, they received a call from a woman in Alberta who saw the property online. "She asked if there was room to build an extra two-car garage. I wasn't sure I understood her correctly but when I asked if she needed space for a four-car garage, the answer was yes! I don't know if zoning allows for that."

This potential buyer from Alberta is just one of thousands coming from outside of this region. According to a survey by the Okanagan Mainline Real Estate Board, from September 2010 to January 2011, 57.28 percent of buyers were local while the rest came from across Canada and around the world. The largest single external source was Alberta at 14 percent. (The weekly wages in Alberta in 2010 were the highest in the country at $947.21 compared to $822.81 in B.C. and $820.65 across Canada.)

When asked if he felt the dream of buying a first home has become more difficult in recent years, Cliff Shillington, owner of RE/MAX Kelowna, was candid. "Yes I do. But to clarify, the choices are different....Now, for first-time buyers, because of the cost of housing, their options are different than they would have been 10 years ago or certainly 20 years ago. I have three kids who are a perfect example of that. They all bought condos initially and now one son was able to sell his condo and move up to a house. Sometimes it takes a stepping stone to get there."