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APARTMENT DIGEST

Rising Mortgage Rates Could Damper Market

Mortgage rates are on the rise in Canada, a trend that could cool the housing market even as the economy struggles to recover from the effects of low oil prices.

Lenders have already begun boosting their mortgage rates from their September lows. Five-year, fixed-rate mortgages, which represent the largest share of Canadian mortgages, have risen by as much as 20 basis points in the past two months as Canadian government bond yields have moved higher. (A basis point is 1/100th of a percentage point.) Variable-rate mortgages are seeing their first sustained increase since 2012.

While the increases are small, they represent a significant reversal from the trend that has shaped the mortgage market for much of the year. Mortgage rates plunged to historic lows on the heels of two Bank of Canada interest rate cuts in January and July, helping to boost national resale home prices by more than 4 per cent compared with the same period last year.

With the U.S. Federal Reserve widely expected to raise interest rates next month, Canada's fixed-mortgage rates could rise by another 60 to 70 basis points, estimates Toronto-Dominion Bank economist Diana Petramala. That could drive down national existing-home sales by as much as 10 to 15 per cent over the following six months, based on how the housing market has historically responded to changes in interest rates and the fact that Canadians have become sensitive to even small increases in mortgage payments, she said.

The country's hottest and most expensive markets should feel the greatest pinch from higher rates. "Places like Toronto and Vancouver are a bit more sensitive to interest-rate movements and you would likely see bigger impacts from higher rates – especially following the runup in sales seen this year," Ms. Petramala said in an e-mail.

A constellation of factors are already helping to push mortgage rates higher in Canada even as the Bank of Canada has held its key overnight lending rate at its lowest level in history.

Fixed mortgage rates are tied to long-term Canadian government bond yields, which in turn are tied to U.S. bond yields. Those have risen since September as investors have increasingly come to expect Fed Chair Janet Yellen to boost rates before the end of the year. The Canadian and U.S. bond markets are tightly linked as investors generally expect the Canadian economy to be affected by changes in the U.S. economy.

Rising variable mortgage rates have been a bigger surprise, says Robert McLister, a mortgage planner at intelliMortgage Inc. and founder of RateSpy.com., particularly since they are more closely tied to banks' prime rates, which have fallen this year. "It's a huge change in the variable-rate market – one that very few people anticipated," he said.

Lenders have been faced with rising costs to fund their variable-rate mortgages, Mr. McLister says. Greater competition for deposits has pushed up rates on high-interest savings accounts and GICs. New restrictions on how both lenders and investors use Ottawa's mortgage-backed securities program have also affected rates.

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Economic Indicators:

Real GDP Growth
Q2 2015 -0.5%

Toronto Employment Growth
Sep 2015 5.1%

Toronto Unemployment Rate
Sep 2015 6.9%

Inflation
Sep 2015 1.0%

Bank of Canada Overnight Rate
Oct 2015 0.5%

Prime Rate
Oct 2015 2.7%

5 Year Mortgage Rate Fixed
Oct 2015 4.6%

Water Rates to GO THROUGH the ROOF

Toronto homeowners could be in for heftier bills when it comes to water and garbage next year.

City staff is recommending that council approve an eight per cent hike to water rates and a 3 per cent hike to garbage collection rates for 2016.

The increases are needed to help boost the capital reserves in the water and solid waste budgets and pay for necessary repairs, according to Budget Chair Gary Crawford.

Specifically, the water rate increase is part of a previously approved plan to hike fees by 8 per cent in 2015, 2016 and 2017 to restore $1 billion in funding that has been lost due to a decrease in water consumption.

"Any increase that will be happening will actually be going into the capital improvements that really I think everyone wants," Crawford told CP24 on Friday morning. "Whether it is water or solid waste, the extra money you are going to be spending will be going into those capital reserves and to fixing what we need to fix. "

The average Toronto household paid $882 for water in 2015, so an increase of eight per cent would translate into an extra $70.56 on the average bill.

Meanwhile, the three per cent increase to garbage rates would cost Torontonians an extra $7.35 to $14.35 depending on the size of their trash bins. The city's budget committee is considering both increases today as it finalizes Toronto's waste and water budgets.

Members of the public will be invited to weigh in on the proposed increases at a meeting on Nov. 13.

Source: Chris Fox and Codi Wilson, CP24.com

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Canada's Most Expensive Rental Markets

Preliminary data from CMHC's Fall Rental Market Survey shows that average monthly rents are still rising in Calgary and Edmonton despite fewer Canadians moving there.

In October, the vacancy rate for Calgary's condo rental market was 4.9 per cent while the apartment building market saw a vacancy rate of 5.3 per cent.

But, as energy companies cut back on capital spending and eliminate jobs in the face of the oil slump, both cities continue to rank among the Top 5 most expensive rental markets in Canada.

According to the report, here are the most expensive condo rental markets in Canada (based on an average 2-bedroom condo):

Toronto	$1,754/month
Vancouver	$1,543/month
Calgary	$1,522/month
Edmonton	$1,461/month
Ottawa	$1,330/month

At $1,065/month, Quebec City was the least expensive of the 16 condo markets surveyed.

Meanwhile, the Top 5 most expensive apartment rental markets in Canada (based on an average 2-bedroom apartment) are as follows:

Vancouver	$1,360/month
Calgary	$1,332/month
Toronto	$1,274/ month
Edmonton	$1,259/month
Ottawa	$1,172/month

Trois-Rivieres, Quebec, has the least expensive expensive apartment rents in the country at $581.

Source: REMI Network

Rising Mortgage Rates – cont'd page 1

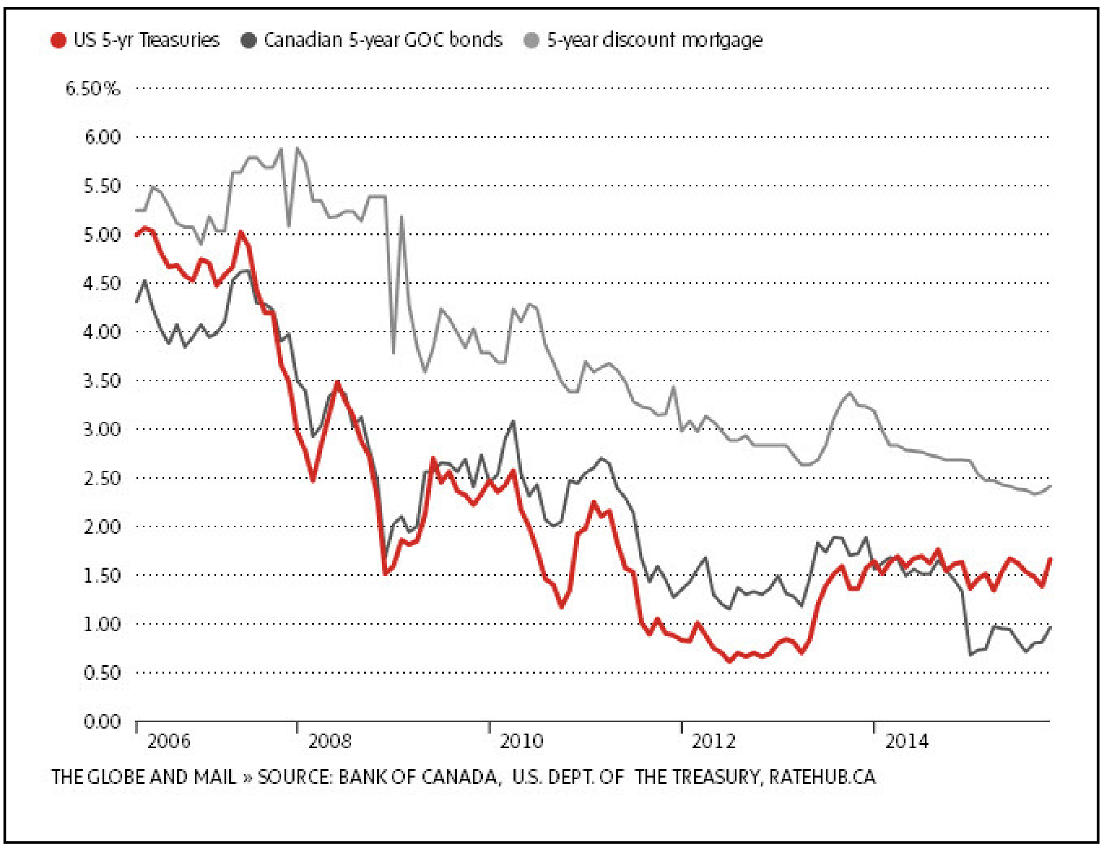
More broadly, investors have begun to demand greater risk premiums on bank debt.

Some of the factors pushing up rates may be temporary. Lenders tend to get less aggressive toward the end of the year as banks hit their sales targets and the housing market slows down for winter, says Alyssa Richard, founder of rate-comparison website RateHub.ca. Many raise rates in November and December in anticipation of rolling out aggressive mortgage rate specials at the start of the spring market in February and March. "We saw prime rates come down but variable rates go up," she says. "That suggests it's not economic factors, it's lenders making decisions for other reasons."

While rising rates are expected to cool the market over the next year, they could provide a short-term lift to the housing market in winter as buyers rush to lock in to lower rates. Buyers should be cautious about doing so, Mr. McLister says. He suspects rates could rise only to fall again in a few years as the Canadian economy underperforms.

"It's not the time to just rush out and buy," Ms. Richard said. "You've got to ask yourself the same question of whether you can afford to buy and what does buying mean in today's market?"

Source: Tamsin Machon
Globe and Mail



RECENT SALE GTA

Address/City	Suites	Price MM	Price Per Suite	Cap Rate
688 Sheppard Ave. E. North York	35	$5.5	$157,140	4.3%
10 Wycombe Rd. North York	160	$18.0	$112,500	NA
2323 Eglinton Ave. E. Scarborough	75	$10.28	$137,065	4.4%
280 Morningside Ave. Scarborough	165	$18.9	$114,545	4.8%
1366 Elgin Ave. Burlington	23	$2.35	$102,175	NA
2006 Churchill Ave. Burlington	15	$1.45	$96,665	NA

Source: Realtrack, CFAS

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