

The COST of Waiting (For homebuyers “on the fence” in 2009)

Waiting to purchase in Calgary’s Real Estate market can be a good idea... or not.
Listening to the news (always negative), waiting can be only a good thing.
They say “Save money. Don’t spend”. Doom and gloom.

One only knows prices have bottomed when they are higher. When the “Sales” and “good deals” are over and done. Nobody wants to pay full price. Everybody wants a good deal.

Yes we are in a recession in Canada – and it is affecting a number of Calgarians (although far less). However, there are other facts that cannot be ignored.

Economists project CALGARY (not the rest of Canada) will still have an ok year in '09. In the Residential Real Estate market: We hear of home values from minus 2% to plus 2% of Dec 31/08 value at Dec 31, 2009. That’s plus or minus 2% of value. On a \$400,000 home that 2% is a net difference of plus or minus \$8000 on the purchase price. (And we can negotiate the purchase price down that much in this market anyway!!) That is plus or minus \$8000 of the equity in your home, which most certainly in Alberta is forecast to go up the following year. Do not confuse equity with cash.

Fact: *Interest rates allow you at the moment to get a mortgage at 4.5% FIXED for 5 years!!! That is the lowest rate offered in Canada to date since the 40’s (with a brief exception in May '04).*

I locked in at 5.9 for 5 years, which is good, but nothing like 4.5%!! Check this out:

Fact: *On a \$400,000 mortgage which must be paid (cash) monthly, the difference of one percent is, over the 5 year period, \$13,600 CASH dollars out of your pocket over the next 5 years. See the mortgage tables!! It’s true! And it all goes to interest, not principal!!!*

So when interest rates go up later this year, which they positively will – what is the cost of waiting?

Fact: *Last year, before the Bank of Canada stepped in due to impending recession, most mortgages were at 6.5%+. Should rates return by December to this 6.5% (ok, lets say 6% at the bank – you will pay an additional \$20000 CASH to **interest** payments – not principal over the 5 year period)!!*

So, my point is... if you are in a financial position to act this winter or even spring before rates start moving up, you will save substantially in the long run. Like \$20,000 towards your principal – not interest! Or keeping the \$20,000 in your pocket – depending on how you structure the mortgage. But only if you act in the next very few months! *See the attached payment schedule.*

Interest rates have been dropped as an incentive for people to act now – not “in a while”. These low rates will not last long.

Finally, late in the year, will we have the inventory to choose from that we have now? Not likely. Right now it’s about the interest rates – more so than slow moving house prices. And one more possible interest rate decline this year – in mid March. Only up from there!

Where do you think the price of oil will go this year? And next?

Not including newborns, Calgary's net migration to the city is still forecast for 2009 at about 10,000 people. While low, it's an increase, not flat or declining. And with the new job shortage in Ontario...

By buying now, note that what you're saving in cash interest payments will easily offset any small variance in market value or short term equity position.

Sure, part of my job is to sell, but I also have an obligation to clients – and to friends, to inform them of real opportunities of which they may otherwise be unaware!

Now, armed with this information... can you really afford to wait?

Remember, the total costs (PIT) of the mortgage cannot exceed 32% of gross family income.

URGENT: DON'T JUST LOOK: STUDY THE CHART BELOW

The following Canadian Mortgage payment tables are created to illustrate the effects on the consumer dollar of the current low (4.49% 5 year fixed) interest rate (TD Bank) when compared to historical and more recent averages and the benefit of locking in now.

The last 3 years have averaged 6.25% for 5 years fixed. It was on the increase until Dec 3rd, 2008 when the 6.45 fixed rate posted for that date started the decline to the current 4.49% (TD) based upon the Bank of Canada's decreases in the Prime Lending Rate.

Most feel that we have (within 1/4%) reached the lowest point and will see only increases.

Note too that the incredibly low variable rates can only go up from here, and in a huge way!

Based upon 60 months (5yrs), monthly payments, \$200,000 mortgage, 25 year Amortization

Interest Rate	Monthly Pmt.	To Principal (5yrs)	To Interest (5yrs)	Paid Out (5yrs)	Balance
4.49%	\$1,106.00	\$24,436.00	\$41,914.00	\$66,350.00	\$175,564.00
5.50%	\$1,221.00	\$21,625.00	\$51,622.00	\$73,247.00	\$178,375.00
6.50%	\$1,340.00	\$19,089.00	\$61,290.00	\$80,379.00	\$180,911.00
7.50%	\$1,463.00	\$16,791.00	\$70,995.00	\$87,786.00	\$183,209.00

Based upon 60 months (5yrs), monthly payments, \$300,000 mortgage, 25 year Amortization

Interest Rate	Monthly Pmt.	To Principal (5yrs)	To Interest (5yrs)	Paid Out (5yrs)	Balance
4.49%	\$1,659.00	\$36,654.00	\$62,871.00	\$99,525.00	\$263,346.00
5.50%	\$1,831.00	\$32,437.00	\$77,433.00	\$109,870.00	\$267,563.00
6.50%	\$2,009.00	\$28,633.00	\$91,935.00	\$120,568.00	\$271,367.00
7.50%	\$2,195.00	\$25,186.00	\$106,493.00	\$131,679.00	\$274,814.00

Based upon 60 months (5yrs), monthly payments, \$300,000 mortgage, 30 year Amortization

Interest Rate	Monthly Pmt.	To Principal (5yrs)	To Interest (5yrs)	Paid Out (5yrs)	Balance
4.49%	\$1,502.00	\$26,942.00	\$63,196.00	\$90,138.00	\$273,058.00
5.50%	\$1,678.00	\$23,114.00	\$77,580.00	\$100,694.00	\$276,885.00
6.50%	\$1,860.00	\$19,775.00	\$91,804.00	\$111,579.00	\$280,224.00
7.50%	\$2,047.00	\$16,852.00	\$105,987.00	\$122,839.00	\$283,148.00

Based upon 60 months (**5yrs**), monthly payments, **\$400,000** mortgage, 25 year Amortization

Interest Rate	Monthly Pmt.	To Principal (5yrs)	To Interest (5yrs)	Paid Out (5yrs)	Balance
4.49%	\$2,212.00	\$48,873.00	\$83,827.00	\$132,700.00	\$351,127.00
5.50%	\$2,442.00	\$43,250.00	\$103,244.00	\$146,494.00	\$356,750.00
6.50%	\$2,679.00	\$38,178.00	\$122,580.00	\$160,758.00	\$361,822.00
7.50%	\$2,926.00	\$33,582.00	\$141,991.00	\$175,573.00	\$366,418.00

Based upon 60 months (**5yrs**), monthly payments, **\$500,000** mortgage, 25 year Amortization

Interest Rate	Monthly Pmt.	To Principal (5yrs)	To Interest (5yrs)	Paid Out (5yrs)	Balance
4.49%	\$2,765.00	\$61,091.00	\$104,784.00	\$165,875.00	\$438,909.00
5.50%	\$3,052.00	\$54,063.00	\$129,055.00	\$183,118.00	\$445,937.00
6.50%	\$3,349.00	\$47,722.00	\$153,225.00	\$200,947.00	\$452,278.00
7.50%	\$3,658.00	\$41,978.00	\$177,489.00	\$219,467.00	\$458,022.00