

WHAT'S ALL THE FUSS about a 'market correction'?

by **PETER KINCH**

PICK UP ANY NEWSPAPER TODAY AND NO ONE could blame you if you got a little worried about the state of the economy or the fear of a pending market correction in Canadian real estate. What if Greece defaults? What about the “fiscal cliff” in the US? Are Canadians taking on too much debt? Have mortgage rules gone too far? Is there a housing bubble about to burst? What if there is a market correction?

The real question is, do Canadian homeowners or prospective buyers need to be concerned? Every time there is talk about a market correction in Canadian real estate, the tone is quite negative. But let's take a closer look at that situation: rather than argue about whether we may have a market correction, let's analyze what it really means to Canadians if there is one.

FIRST-TIME HOMEBUYERS:

If you're a first-time homebuyer, you have likely felt the pinch of the rising cost of housing, and the new mortgage rules certainly haven't helped any either. So a slight market correction would be welcome news for you; you can still get into homeownership with only five per cent down, but since your maximum amortization is now limited to only 25 years, a drop in pricing is exactly what you'll need to be able to get into this market.

Conclusion: A market correction is a good thing for you.

CURRENT HOMEOWNER BUYING OR SELLING – MOVING UP OR DOWNSIZING:

It is very rare that someone buys something without selling something first, and vice versa. If you are a homeowner and you're looking for the right time to

sell your house so you can buy another, you may be concerned that the price of your current home is dropping. But let's take a closer look at that: assume the value of the house you are selling drops by 10 per cent. Let's also assume that you plan to buy another home (whether upsizing or downsizing). The key to remember in a downturn market is that the person selling their home to you is going through the exact same thing. In other words, if the value of your home dropped 10 per cent, so too did the value of the new home you are buying. Focus on what your bottom line “net” is, rather than what you thought or had hoped to sell your home for.

Conclusion: in most cases, the net effect of a market correction is zero.

REAL ESTATE INVESTOR OR SECOND-HOME BUYER:

If you are buying real estate as an investment either for cash flow or as a second home, then this is the perfect market condition for you. When there are more sellers





Bottom line: a lot of people will fret about this topic over the water cooler tomorrow morning – but the majority of them really don't need to

than buyers, you have more bargaining power. If you are able to negotiate a better deal and pay a little less for the property you are looking for, it simply makes the deal that much more affordable.

Conclusion: you should be hoping for a market correction.

CURRENT HOMEOWNER WITH NO PLANS TO SELL:

The majority of Canadians fall into this category, and let's be honest – the single biggest reason we worry about a housing correction is the fear that it will erode

our home equity and net worth. Over the last decade, a significant amount of the net worth of Canadians has been tied up in their home equity, and this has provided the foundation for a lot of retirement plans – so there is obvious concern.

But should there be? Again, let's look at the facts. For the majority of Canadians, the plan is to stay in their current house for at least the next three to five years. So here's a simple fact: equity is only gained or lost the day you sell. In other words, if the value of your house were to drop by 10 per cent tomorrow, you may feel anxiety over the drop in your net worth – but it would only be on paper unless you actually sold your house tomorrow. If you have no intention of selling soon and you can still afford your monthly payments, then all you need to do is sit and wait and go about your normal life until the market bounces back – which it has always done for the past 100 years.

Conclusion: a market correction may very well have zero impact on you.

In the end, the headlines will continue to talk of impending market corrections. The key for you is to decipher one of three things:

1. Is this a real concern for you?
2. Is this an opportunity? Or,
3. Am I just getting worked up about nothing?

Bottom line: a lot of people will fret about this topic over the water cooler tomorrow morning – but the majority of them really don't need to.

Until next time, this is the Mortgage Minute.



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