



To Buy or not to Buy? Sept. 2010

While uncertainties exist in today's economy, it is important to recognize some very important facts when deciding whether the time is right to purchase Real Estate.

- Since 1977 there have been only 6 of 33 yrs where detached house prices have dropped in Greater Vancouver.
- Largest drop was during 1981 (approx 20%) *however* it is important to recognize that house prices nearly doubled during the previous year, 1980.
- During the 2008 economic crisis, house prices dropped approx 10%, however prices recovered the very next year.
- At the beginning of 2011, prices will be similar to the beginning of 2008...therefore, 3 yrs without substantial increase.
- Fixed mortgage rates are near historic lows.
- Since 1977, house prices have remained level or increased 27 of 33 years.

Let's assume that house prices remain level for the next year and that the 5 yr Fixed rate follows the rising prime rate and returns to a more normal "low" of 5%. See the chart below, using a \$500,000 home for example

	Next Year? 2011	Vs	This Year 2010	<u>SAVINGS</u>
Purchase Price (PP)	\$500,000		\$500,000	\$0
Interest Rate	5.00%		3.54%	1.46%
Mortgage (80% of PP)	\$400,000		\$400,000	\$0
Monthly Payments	\$2,006		\$1,656	\$350
Total Interest 5 yr term	\$96,154		\$67,621	\$28,533
Mortgage balance (end of term)	\$375,283		\$368,234	\$7,049

**In closing, if rates return to more normal levels and a purchase is delayed for another year:
>20% increase in monthly payments**

>40% increase in total interest paid over 5 yrs.

Higher mortgage balance at the end of 5 yr term...less equity.

Risk of increased Real Estate prices.

Please feel free to contact me at any time for further advice or assistance.

Lynn M. Smith