



Novel Marketing Approach Not Without Risks

Recently, the sellers of a home in The Beach listed their home for sale with a reputable agent. They were aware that buyers were starting to shy away from multiple offers as a result of a collective disappointment in the entire multiple offer process.

One complaint was that there were suspicions that the listing salespeople were providing unfair advantages to their own buyers, from whom they could obtain a higher commission.

Another complaint was around the practice of listing a property, but indicating that no offers would be accepted for five days, in order to permit interested buyers to conduct inspections before submitting offers. Sellers hope that this will create an atmosphere for multiple offers. However, there were examples where buyers would bring in pre-emptive offers before the five day period, and sellers were in some cases accepting them.

The agent in this case suggested a novel marketing approach. The property listing indicated that offers would not be accepted for six days and that the asking price would be \$539,000. The house was priced, after a careful review of comparable prices in the neighbourhood, and the sellers hoped that with multiple offers, they might obtain \$550,000 to \$560,000. The realtor asked them what their "dream price" would be and they indicated \$590,000.

Accordingly, the realtor included a note on the listing that simply stated "Buy tonight, \$590,000" and on her "For Sale" sign invited buyers to call for the "buy tonight price." This appears similar to how products are sold on eBay, where the consumer is given the choice to either bid on the item in the online auction or decide to "buy now" at a set price.

In my opinion, the advertisement of a buy tonight price would probably not be enforceable by a buyer, even if an offer came in at that price. It could be argued that this was still an "invitation to treat" by the seller, thus not binding. The Statute of Frauds in Ontario requires that all real estate agreements be in writing and signed by the parties. In addition, no other terms were mentioned in the advertisement, so if a buyer brought in a full price offer, but with a closing date two years from now, and with a very low deposit, this would clearly not be what the seller had intended. In addition, what would occur if two buyers came with similar offers on the same evening?

Still, a buyer did come in and presented an offer of \$590,000, which was accepted by the sellers. The buyers were very happy to avoid the multiple offer process and the sellers were very happy to obtain their price.

The multiple offer process is not easy. You require an experienced real estate salesperson to guide you through the process.

For a seller, it means understanding not only the prices that other properties have sold for, but also what the mood or pulse of the market is at that exact point in time, so that a strategic marketing plan can be put into place to obtain the maximum price.

For a buyer, it mean understanding what the fair market value of the home is and not getting caught up in the emotion of the bidding process, to ensure that you only spend what you can afford.

CRISP CORNER

Housing Market Expected To Moderate This Year And Next:

CMHC

"Canadian housing markets have recovered from the low levels posted in early 2009," Bob Dugan, chief economist for CMHC, said in a release.

"Moving forward, housing starts will moderate as activity becomes more in-line with long term demographic fundamentals. New measures for government backed mortgage insurance introduced by the government of Canada that took effect on April 19, 2010 will continue to support the long-term stability of Canada's housing market."

The mortgage insurer said in its second quarter market outlook it expects housing starts in 2010 to be in a range of 166,900 to 199,600 units with a "point forecast" of 182,000 units. In 2011, it expects starts to be in a range of 148,600 to 208,800 units with a forecast of 179,600 units.

Resales, meanwhile, are forecast in 2010 to be in a range of 484,000 to 513,300 units with a forecast of 497,300 units. In 2011, they are forecast to be in a range of 443,500 to 504,900 units with a forecast of 473,500 units.

Dugan said the existing home market will move toward balanced conditions over the next two years as inventory levels increase, a trend already occurring according to figures released Monday by the Canadian Real Estate Association, which showed April inventories rising to record levels.

The market was influenced in late 2009 and early 2010 by pent-up demand and record low borrowing cost, Dugan said.

That resulted in what many feared was an overheated housing market, driving average Multiple Listings Service prices up almost 20 per cent in 2009. "Once this demand is exhausted, and as mortgage rates gradually rise, the pace of activity in the resale market will ease," Dugan said.

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Foreclosure Wave Deemed Unlikely

Canadians will be spared a U.S.-style wave of foreclosures when the housing market corrects and interest rates rise, according to a report from DBRS Ltd. examining Canada's \$1-trillion mortgage market. DBRS expects housing prices to fall and acknowledges that the soaring trajectory of consumer debt is worrying. But the debt-rating firm's study nonetheless paints a picture of a home lending business that is on much more stable footing than the one in the U.S. before its bust. For that reason, any housing correction in Canada is likely to have a muted effect on the financial sector, nothing like the systemic problem that the U.S. downturn created by crippling banks and mortgage insurers.

"You're not likely to have factors supporting further [home] price increases; you could have factors leading to price corrections, but they shouldn't be anywhere near the scale we've seen in the U.S.," said study author Jerry Marriott, who specializes in rating mortgage-backed bonds for DBRS. "There are just some fundamental characteristics of the Canadian market that make lending in Canada less risky than in the U.S. – a combination of the fact that the banks have continued to use prudent underwriting and maintained better capital ratios." DBRS believes that the market is already cooling, Mr. Marriott said.

The report echoes the conclusions of major banks such as Canadian Imperial Bank of Commerce and Toronto-Dominion Bank. They also call for moderate cooling in house prices after their long runup, as more homes come on the market and higher rates and prices force some buyers out of the market. CIBC World Markets economist Benjamin Tal said this week that prices might fall by as much as 10 per cent in the next two years, but that a "violent" correction like the United States experienced remains unlikely. TD Bank recently put out a report predicting prices could fall by 2.7 per cent in 2011.

If a correction happens, Mr. Marriott said that it's unlikely Canadian banks will have to foreclose on many mortgages, saving Canada from one of the factors that exacerbated the U.S. plunge, when banks seized homes and tried to sell them at vastly reduced prices. Laws in Canada are more lender-friendly, forcing people to keep paying mortgages, and banks were more careful about who they lent to.

Canadians are also less likely to end up under water – owing more than their home is worth – because they generally have more equity in their homes. For the decade and a half leading up to the U.S. housing bust, U.S. borrowers had "consistently" less equity than Canadians, by 8 per cent on average, DBRS found. What's more, DBRS argues that while Canadians are racking up debt at a fast pace, they are nowhere near as indebted as some analysts assert, and much less in hock than Americans, so should better be able to handle the stress of higher rates or a housing correction. While the widely watched measure of debt-to-personal-disposable income shows that Canadians are more indebted than Americans, DBRS argues that the gauge should be adjusted to reflect differences in the two countries, such as the fact that Americans pay lower taxes but have to pay health-care bills out of pocket.

When that's taken into consideration, at "the end of 2009, Canadian households remained financially less leveraged by 10 per cent to 45 per cent compared with U.S. households," the report said. "The Canadian market has been doing just fine, but it is not without risk, and [showing that] is what we're trying to do in this study," Mr. Marriott said.

OF THE MONTH

TIP

If you live in a smaller home you can increase your storage capacity by maximizing your vertical space. Placing cabinets and shelves above larger pieces of furniture such as desks, countertops and toilets as well as floor to ceiling shelving can make all the difference. Captains beds, and multi use furniture such as an ottoman with storage or a coffee table with shelving is ideal for storing all manner of objects. Remember as well, that a neat and uncluttered environment makes for a greater sense of spaciousness.

Contact me at
416.419.0944
to find out what your home is
worth in today's market