Lisa Fitzpatrick Sales Representative
Real Estate

Office: 613-592-6400
Direct: 613-324-5472

www.lisafitzpatrick.ca info@lisafitzpatrick.ca

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Buyers spring back: Sidelined Canadians plan return to market

More than a quarter of Canadians who put their home purchase plans on hold over the last year say they will resume their search this spring

Climbing interest rates have given many Canadian homebuyers reason to pause their purchase plans over the last year. Nearly one quarter of Canadians (24%) were in the market for a new home this past year, and 63% of them say they postponed their plans due to rising rates, according to a recent Royal LePage survey, conducted by Maru/Blue. Now, with the Bank of Canada placing a hold on the overnight lending rate for the first time since March of 2022, many homebuyers intend to resume their purchasing plans once again. Of those who say they postponed their plans, 62% now intend to return to the market.

The survey found that more than a quarter (26%) of Canadians who put their home purchase plans on hold over the last year due to rising interest rates will resume their search this spring, following the Bank of Canada's announcement last month to hold the overnight lending rate at 4.5%. Meanwhile, more than one third (36%) say they plan to move forward with their buying intentions, but will wait for the central bank to maintain the current rate for several consecutive months. Some 25% of those who postponed their home buying goals stated that they do not intend to resume their plans in the near future.

"Eight times a year, the Bank of Canada announces changes to its key interest rate, and for eight consecutive meetings, they aggressively raised rates in an effort to tame runaway inflation. On March 8th, 2023 they did nothing and doing nothing was a very big deal," said Phil Soper, president and CEO, Royal LePage. "Based on our just-completed national survey, this was the signal that many Canadians were waiting for – an indication that it was safe to wade back into the housing market to search for the family home they so desperately want or need."

For those Canadians who intend to jump back into the housing market, many are gravitating towards a fixed rate mortgage, which can shelter homeowners from fluctuating interest rates. More than half (53%) say they would choose a four- or five-year fixed rate mortgage, and 17% say they would choose a short-term fixed-rate mortgage (1-3 years). Some 16% of respondents say they would opt for a variable rate mortgage.

"The Bank of Canada has indicated that it believes the rate hikes completed over the past twelve months are working their way through the economy, and that inflation should fall to three per cent by mid-year," continued Soper. "While stating that they believe this period of rising rates is behind us, the bank qualified the statement, stating that if needed, it will increase rates again in the future. That said, it is unlikely we will see another period of back-to-back rate hikes in the near future.

March Resales: Signs of Spring Surge Sprouting

Members of the Ottawa Real Estate Board (OREB) sold 1,194 residential properties in March 2023 compared with 2,003 in March 2022, a decrease of 40%.

"The recent rise in transactions is a sign of typical spring activity, even if we're behind the pandemic peaks of 2022. As spring unfolds, so too will a clearer picture of Ottawa's balanced market state," says OREB's President. "As evidenced by the recent climb in freehold prices, Ottawa's resale market is stabilizing along with the interest rate. Condos remain steady due to their lower price point, there's more affordability based on the current interest rate structure. Prices are certainly headed in the right direction—if you are looking forward."

The average sale price of a residential-class property sold in March in the Ottawa area was $710,070, a decrease of 17% from a year ago. The average sale price for a condominium-class property was $418,670 a decrease of 13% from 2022.

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Saving for your first home? Here's what you need to know about Canada's First Home Savings Account (FHSA)

When it comes to putting money away to buy their first home, the federal government's 'tax-free in, tax-free out' First Home Savings Account aims to give Canadians a helping hand.

As of April 1st, Canadians aged 18 or older who are purchasing their first home are eligible to enroll in a tax-free First Home Savings Account (FHSA). Introduced in the 2022 federal budget, the FHSA combines elements of a Tax-Free Savings Account (TFSA) and a Registered Retirement Savings Plan (RRSP), allowing users to make tax-deductible contributions and tax-free withdrawals from the account for the purposes of saving for a home.

Am I eligible for the FHSA?

In order to open an FHSA, users must be at least 18 years old and a Canadian resident. Account holders must also be a first-time homebuyer — someone who has not owned a home and lived in it during the calendar year before the account is opened, or at any time during the prior four calendar years.

An FHSA can be used for a maximum of 15 years, and stay open until December 31st in the year that the account holder turns 71 years old. Users cannot contribute to their spouse or common-law partner's FHSA.

How much can I contribute to my FHSA?

FHSA holders can contribute an annual maximum of $8,000 into their account, with a lifetime contribution limit of $40,000. Unused contribution room can be carried over to the next year up to a maximum of $8,000. Carry-forward amounts start accumulating after the user opens the FHSA for the first time. Only the account holder can claim an income tax deduction for contributions made in a particular taxation year.

It is possible to have more than one FHSA open at a time, but the total amount that an individual can contribute to all of their FHSAs cannot exceed their annual and lifetime contribution limits. Similar to a TFSA, a 1% tax is applied on over-contributions to an FHSA for each month that the excess amount exists in the account.

What are the benefits of the FHSA?

An FHSA marries together the concepts of a TFSA and an RRSP in one account.

Contributions to an FHSA, like an RRSP, are tax-deductible. Additionally, any withdrawals made for the sake of purchasing a home are non-taxable, similar to a TFSA, including any investment growth. Users can take advantage of a series of qualified investments in their FHSA, including mutual funds and publicly-traded securities, plus government and corporate bonds. Users can also set up a self-directed FHSA to manage their own portfolio.

What happens when I want to take money out of my FHSA?

If a user wants to withdraw funds from their account, there are a few things to keep in mind.

The account holder must be a first-time homebuyer at the time a withdrawal is made. The qualifying home must be acquired (or construction must be completed) no more than 30 days prior to the withdrawal, and before October 1st of the following year, with the intention of occupying the property as their principal residence within one year after acquiring it. Be sure to read carefully the definitions of a first-time homebuyer and a qualifying home.

If you wish to transfer money out of your FHSA to another account, you can do so to another FHSA, an RRSP or a Registered Retirement Income Fund (RRIF). Be sure to close your FHSA on or before December 31st of the year following your first qualifying withdrawal, when your participation period concludes.

To learn more about the First-Home Savings Account, visit Canada.ca.