

Can Canadian real estate weather the global financial storm — Here's how to analyze how your property will fare

By Don Campbell & Russell Westcott

Merrill Lynch, and now *Macleans*, have recently come out with predictions of a national real estate calamity. Yet, Canadian real estate values stubbornly remain close to their all-time highs. Canadians know that the truth lies somewhere between these two points of view. Here's how to analyze your property's exposure to the financial storm fronts that are buffeting real estate worldwide.

First, it's vital to remember that property markets are not national; they are regional and local, and even vary widely from neighbourhood to neighbourhood in the same city. Looking at national numbers and coming up with an average is like putting your head in an oven and your feet in a freezer, and saying on average that the temperature is fine. That being said, there will always be some hot real estate markets and others that will be cold, but national and provincial figures are much too generalized to be used by Canadian homeowners and investors to make fundamentally sound decisions on their most important asset.

The road to good decisions is via research, followed up with careful analysis. The twelve questions listed below will help you decide if your local area and personal property is poised to go up, stay flat or collapse. Each of these factors can affect real estate prices in any direction, and each is an important component in determining which way real estate values will be going. Overall, to dramatically reduce your risk, ask and analyze these key questions, and don't fall in love with a property. The more "yes" answers you get, the better the market will perform.

1. Is the area's average income increasing faster than the provincial average?
2. Is the area's population growing faster than the provincial average?
3. Is the area creating jobs faster than the provincial average?
4. Does the area have more than one major employer?
5. Is real estate booming in the surrounding region more than where you're looking?
6. Will the property values benefit from a major new development nearby?
7. Has the local and provincial political leadership created a "growth atmosphere"?
8. Is the region's economic development office helpful and pro-active?
9. Is the neighbourhood located in an area of renewal or gentrification?
10. Is there a major transportation improvement occurring nearby?
11. Is the area attractive to "baby boomers"?
12. Is there a short-term perceived problem (negative stories, short-term layoffs) that will disappear?

Current real estate market conditions don't tell us what the market will look like in the future. Only addressing the above economic fundamentals can help in making projections of long-term values.

And, in fact, there are thirteen major influences on the long-term value of property. Underlying the local analysis above of your property market is the thirteenth factor: the positive outlook for Canada generally. While the world is undergoing significant economic and financial turbulence, Canada is well positioned to provide other countries with what they need over the coming decade, even if

there is an economic slowdown. These factors are called the three “Fs” of existence: food, fuel and fertilizer.

In a hot economy, the world needs these badly and, as we’ve seen over the last few years, they command a premium price. Even with a slowing or recessionary economy, the world will continue to consume these staples. As a stable democracy, Canada will be a provider of choice. Therefore, generally speaking, the Canadian economy and real estate is among the best positioned to withstand the economic storms that are buffeting property values in many other countries.

That’s a good general forecast for Canada but only by analyzing the above fundamental factors for your specific city or neighbourhood can you properly evaluate your property’s prospects for withstanding today’s financial and economic storms. It’s also the way to sleep better at night, while the winter winds howl outside our Canadian home.

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