

New Homes Month 2009

Consumer Information Backgrounders

**Canadian
Home Builders'
Association**



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The Right Time to Buy a Home

Buying a new home is always a big decision that takes a lot of thought, no matter what the housing market is like. It is a significant commitment, both financially and personally, and you want to make sure you are making the right move.

Today's housing market offers exceptional value and affordability. The combination of highly competitive new home prices and historically low mortgage rates means greatly reduced monthly mortgage costs.

But these conditions won't last forever. As housing markets come into balance and economic conditions begin to improve, the cost of homeownership will rise. So right now may be the right time for you to buy a new home. Consider these factors:

- **New home prices are very competitive.** The current housing market is seeing tight pricing by new home builders and great value for homebuyers. New home quality, the latest technology, better energy efficiency and more features, at very competitive prices—this is an excellent time to invest in a new home.
- **Homebuyers have a lot of choice right now.** From condo apartments to townhouses to single-family homes, from suburban communities to urban infill, the marketplace offers a wide selection of homes, in many styles and price ranges, and available within reasonable timeframes. The time to get the best homes and locations is now.
- **Mortgage rates are exceptionally favourable.** The cost of borrowing money for a home purchase is the lowest it's been for a very long time. Mortgage interest rates have fallen by more than 25% over the last two years, and this can mean much lower monthly costs for you. Now is the right time to talk with your financial institution or a mortgage specialist.
- **The marketplace is less rushed.** A slower housing market is a better marketplace for homebuyers. If you value being able to make important choices at your own pace, the time to buy is now.
- **A sound investment for the long term.** Housing is a solid investment that performs well over time. If you want to enjoy the financial security of homeownership, the time is right—start laying the foundation now.
- **First-time homebuyer initiatives.** Beginning this year, there is a little extra financial help available for some buyers. First-time homebuyers may be eligible for a federal tax benefit of up to \$750 for costs associated with the purchase of a home. Further, under the Home Buyers' Plan, you can now withdraw up to \$25,000 from your RRSPs tax-free, or \$50,000 for a couple.

Take a first step towards homeownership. Visit the new home builders in your community and find out what's available. Contact a mortgage specialist to get pre-qualified for a mortgage—it doesn't cost anything and doesn't obligate you to accept the loan they offer you. Now you are well prepared and ready to buy a new home anytime you decide the time is right for you.

“Improved Housing Affordability” Means You Save Money!

If you've been thinking about buying a new home, you've probably read newspaper articles about how housing affordability is improving. But what does this really mean?

For most homebuyers, the “bottom line” is what they will have to pay, each month, to own their home. This is determined by two things: the price they pay for their home, and the interest cost of their mortgage.

Today, if you look at prices without considering mortgage interest, you could be missing a great home buying opportunity. Here's why:

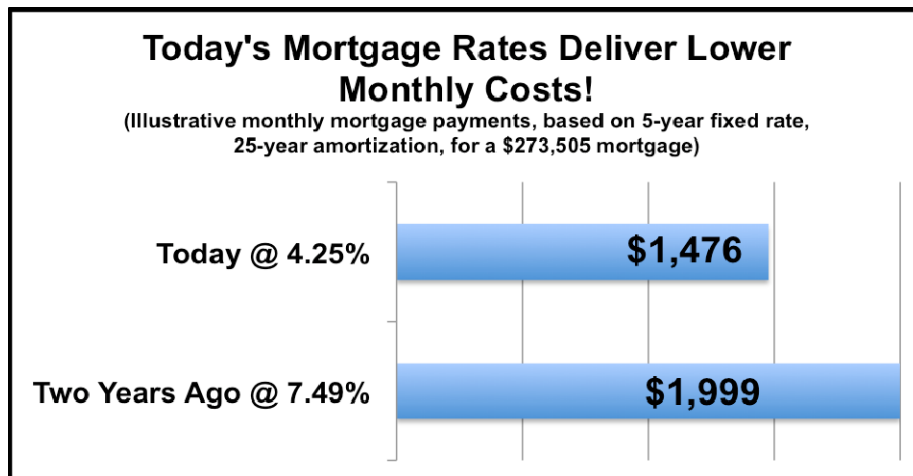
Just two years ago, at the end of 2007, the average posted interest rate for a five-year fixed-rate mortgage was 7.49%. Today (March 26/09) lenders are offering the same mortgage for just 4.25%.

What this means is your monthly mortgage payment today will be 26% less than in 2007!

Here's an example. According to Canada Mortgage and Housing Corporation (CMHC), the average home price in Canada in 2009 is expected to be \$287,900. If you purchased a home for this price with a 5% down payment, you would require a mortgage of \$273,505.

At the 2007 five-year fixed rate of 7.49%, a mortgage for this amount, amortized over 25 years, would mean monthly payments of \$1,999.

At today's low 4.25% rate, you would pay only \$1,476 for the same mortgage. That amounts to saving \$523 each month, or \$6,384 each year, or \$31,920 over the five-year term.



Conversely, if you decide to pay what you would have in 2007 – \$1,999 per month – you can fully pay-off your mortgage about nine years sooner. This would save you more than \$150,000 in total interest charges.

Mortgage lenders offer a number of other mortgage options, some of which can save you even more each month.

That's what "improved housing affordability" means – today you can own a home for less money each month.

So why is right now the right time to buy? According to CMHC, "(Mortgage) *rates are expected to remain low in a historical context, but climb higher later this year and in 2010*". So there is a good chance that the great mortgage deals being offered today won't last.

If you want to own a home, and get monthly payments that are 26% less than two years ago, take a look at a new home today.

Good News for First-Time New Home Buyers

If you are wondering about buying your first home, here's some good news. This is a great time to purchase a home, so take a first step and start exploring your opportunities now.

Mortgage rates are at historical lows, which means it costs much less to carry a mortgage. On a month-to-month basis, the cost of homeownership may compare very well to renting a home. Why help someone else pay off their mortgage when you can invest in your own financial security? Consult with a mortgage specialist and find out how best to achieve your goal of owning a home.

Visit new home sales centres and talk with builders and sales agents. The new home market offers a wide selection at highly competitive prices. From the quality of construction to state-of-the-art technology and the latest designs and products, there is tremendous value in today's new homes. Builders will explain all your options and assist you in creating the home that's just right for you and your budget.

Buying a brand new home has a lot of financial and lifestyle benefits for first-time buyers.

- First, you won't have costly home repairs or replacements anytime soon—this is a big advantage if you are on a tight budget for a few years.
- Save on energy costs. New homes are also more energy-efficient and come with many green options that make them easier on your pocketbook as well as easier on the environment.
- Enjoy new home comfort. Designed for modern life, a brand new home is easy to maintain and takes little upkeep. It's a great place to come home to after work, and for entertaining family and friends.
- Experience the joy and pride of ownership. There is no feeling like buying your first home.

Home buying just became a little more affordable with the federal government's income tax benefit of up to \$750 for first-time homebuyers for costs associated with a home purchase. And under the Home Buyers' Plan, first-time buyers can now withdraw up to \$25,000, or \$50,000 for a couple, tax-free, from their RRSPs for use in the purchase of a home, up from \$20,000.

When you add it all up, it makes a lot of sense to investigate homeownership now.

Canada's Housing Market: A Factual Perspective

In times of economic uncertainty, it is important to focus on facts.

The housing industry experienced a number of years of unprecedented growth in housing activity and escalating prices. A continued "hot" market was not sustainable and a cyclical downturn was expected.

Canada's housing sector remains resilient. The housing situation is significantly different than elsewhere in the world. We are not experiencing a U.S.-style housing slump.

Fact: There is nothing to suggest that housing markets in Canada are vulnerable to the oversupplies and plunging prices that characterize many markets in the U.S.

Fact: Canadian standards for qualifying mortgage borrowers are prudent. The use of sub-prime mortgages in Canada has been exceedingly limited, unlike in the U.S., where a significant amount of mortgages (estimated at 20 to 25% of new mortgages issued 2004-2006) went to people with inadequate income, few assets, and little or no credit history.

Fact: There is no "glut" of unsold new homes in Canada as there is in the U.S. Most builders pre-sell their homes, and generally "inventories" of unsold new homes are about one month's worth of sales. Current inventories have gone up, but are still small and manageable. By comparison, in the U.S. inventories have risen and are very large.

Fact: Canadians have far less household debt and typically have much greater equity in their homes than their U.S. counterparts. Therefore, they are at much less risk of defaulting on their mortgages.

Fact: Mortgage default rates in Canada are low. By comparison, U.S. mortgage default rates in 2008 were 10 times higher than in Canada, leading to foreclosures, driving home prices down and creating a glut of resale properties.

Fact: Only 0.3% of Canadian mortgages are in arrears, compared to more than six per cent in the U.S. Lenders and mortgage insurers will work with borrowers to find manageable solutions if they are having difficulties repaying their mortgages.

Fact: Canadian banks are solid and profitable, and they are ready and willing to write mortgages for new home buyers. In fact, Canadian banks are recognized to be among the strongest in the world.

Fact: Mortgage rates are at historical lows. Lower interest rates mean lower monthly payments, which in turn means that more people can qualify for a mortgage and afford to buy a home.

Fact: Home prices remain quite stable in most Canadian markets. The current drop in home prices, where it has occurred, is much less than generally reported, as declining prices and sales at the high end of the market have a disproportional impact on the overall numbers.

Fact: The cost of building materials has fallen since September 2008. This follows significant increases between 2003 and the middle of 2008. In the current competitive markets, there is evidence that builders are passing these savings on to homebuyers.

Fact: Canada's homeownership rate in 2006 was 68.4%. This was achieved without relaxing the standards for qualifying mortgage borrowers.

Fact: Housing remains a solid and stable investment in Canada. Over time, on a historical basis, homes have appreciated by about 1% above the rate of inflation.

Enjoy the Benefits of a Brand New Home

Today's new homes offer more than ever. When you are ready to buy a home, one of your first decisions should be to visit the new home builders in your area and explore what's available. Consider:

You know what you are getting. When you buy new, you take the guesswork out of homeownership. You know how the home is built and what's behind the walls. The builder will explain what to expect, how to operate and maintain the systems, and how to take care of various components in your home. That's very reassuring, whether it's your first home or your fifth.

Get what YOU want. When you buy a brand new home, you can tailor it to suit your own taste and preferences, right from the beginning. You don't have to "settle for less" or live with someone else's decisions, or spend extra time and money setting things right.

Better construction. It is a fact that "they don't build them like they used to". Today's new homes are better than ever—built to the latest codes and standards, using state-of-the-art construction techniques and materials. A brand new home is an investment in comfort and quality living.

No repairs and replacements for a long time. When everything in your home is new, you can plan ahead financially for a number of years, with the confidence that your budget will not be strained by sudden and unexpected expenses due to items in your home that break down or wear out.

A third-party warranty. Enjoy the peace of mind that comes with knowing that your new home is protected by a warranty. Be sure to ask your builder for detailed information, and never buy a home without third-party warranty. Many of the products used in your home are also covered by the manufacturers' warranties for an extended time.

Energy performance. Thanks to better construction and better products like windows and heating and cooling systems, a new home will reduce your energy costs, year after year— a comforting thought in a world of uncertain energy prices. Talk with your builder about opportunities to cut energy use throughout the house.

Other "green" features. Materials with recycled content, or made from renewable resources. Non-toxic products. "Clean air" features. Reduced water consumption. Buying a brand new home makes it easy to incorporate green choices upfront to reduce the environmental impact of your home and enhance your lifestyle.

Designs for the way you live. Bright open spaces with lots of windows and natural light make "home" a warm and wonderful place to be. Well-designed kitchens, work and

storage areas give busy families a break. Entertainment rooms gather the household for relaxation. New home builders understand and build for the needs of the modern family.

Convenience and low maintenance. Expect to spend less time “keeping house” and more time enjoying the things in your life that really matter. Your builder will show you how to look after your home to maintain its beauty and ensure that everything stays in great operating condition, with minimum effort and cost.

“Greening” Your New Home

When thinking about buying a new home, one of the things that may be high on your list is energy and water efficiency, and other environmental features.

- Investing in energy efficiency will help to reduce the cost of homeownership, not only today, but also down the road. It will also protect you against sudden large increases in energy costs that can play havoc with your budget—a reassuring thought.

Energy efficiency will result in a more comfortable home for you and your family, and it is the most important step you can take to reduce your home’s impact on the environment.

There are many options available to new home buyers. The key is to talk with new home builders to find out what they offer and get their advice on features, benefits and costs.

Common energy upgrades include more insulation, high-performance windows and upgraded heating and cooling systems. You may want to look more closely at heat pumps, on-demand water heaters, dual-purpose systems for space and water heating—these are now mainstream technologies. Increase your energy savings with Energy Star™ appliances as well as halogen, compact fluorescent and LED lighting.

- Similarly, water efficiency will result in lower costs and better use of resources. It is also a hedge against future increases as many municipalities are looking to update decaying infrastructure, with users likely being asked to shoulder some of the cost. The starting point for homebuyers is low-flow toilets and faucets, as well as water-conserving landscaping. Also talk with your builder about grey water recycling and rain collection, for non-potable water use.
- Healthy indoor air is important to you and your family. Ventilation is key to protecting the quality of your home’s air, and a heat recovery ventilator will continuously exhaust stale air, and bring in fresh air from the outside. The use of non-toxic materials and products in the building of your home also helps keep the air from becoming contaminated. Hard-surface flooring and other non-porous surfaces make it easy keep the house clean and free of dust and molds.
- There is a vast selection of resource-smart products that give you the look and function you want while reducing the impact on the environment. This includes products made from recycled waste or from easily renewable or well-managed sources, locally produced products, and products with a longer lifespan. Ask for details, so you know that a product is truly greener and better for the environment.

- Greening your home can also save you money at the time of purchase. You may be eligible for a 10% reduction on the mortgage insurance premium when you buy an energy-efficient home. Some financial institutions offer reduced interest rates or a rebate on a “green mortgage”, and some provincial governments and utilities have green incentive programs. Be sure to check with your lender and your builder to see what may be available in your region.

The New Home Buying Experience

If you have never bought a brand new home, or it's been a long time since you last worked with a new home builder, you are in for a pleasant surprise. Today's home builders offer a very personal buying experience—one that treats home buying as a partnership between the builder and the home purchaser.

“Sales consultants” are trained to help homebuyers through the buying process. “Customer relations representatives” look after your needs during construction. “Client communication” is an important part of a company's processes, and the primary goal is “customer satisfaction”, ensuring that your new home purchase is an enjoyable and satisfying experience.

While every company has its own approach, here is what the typical home buying experience is like.

- **Choosing your home.** Most new home builders sell from model homes and plans. The job of the sales consultant is to help you become familiar with the builder's range of homes and lots, features, upgrades and prices. The consultant will also want to get to know you, what you need and want in a home, and how much you are willing to invest, so they can help you arrive at the best decisions.

It usually takes a number of visits to reach final decisions. During this time, the sales consultant will help you work through your choices, and find solutions to any special requests you may have. When you are ready to sign the agreement, the sales consultant or builder will go through the contract with you in detail. They will also explain the next steps, so you know what to expect in the months coming up.

- **The pre-construction meeting.** Before construction of your home begins, the builder will go over the working drawings and the construction process with you. This is done to eliminate errors and ensure that everyone is in agreement. They will explain the blueprint and verify any changes you made to the standard plan. This is also your opportunity to meet the site manager who will be supervising the work on your home.
- **During construction.** Builders know it can be difficult for homebuyers to sit back and wait patiently for their homes to be built. You are excited, want to know what is going on and begin to make plans for moving in. Most builders schedule a series of site visits at various stages of construction. You may also get updates by phone or e-mail. A few builders install a web cam on site so you can check on your home 24/7.
- **Colour selections.** At some point before or during construction, you will be asked to make your selection of finishing products—tiles, flooring, cabinets, countertops, faucets, and so on. This is an exciting and enjoyable part of the buying experience—your opportunity to personalize your home and get exactly what you want. Builders

offer a range of products, and will usually have a trained coordinator or designer available to assist you with selections.

- **The walk-through.** Shortly before the builder is ready to hand over the home, you will be asked to go through the home from top to bottom, inside and out. This is another highlight—seeing your home completed and your dream turned to a reality. The purpose of the walk-through, or pre-delivery inspection as it is known in some areas, is to verify that everything has been done according to plan. Anything outstanding will be noted and completed before or right after move-in. The builder will also explain the operation and maintenance of the systems and products used in your home.
- **After-sales service.** The customer experience doesn't stop when you move into your home. Expect to hear from your builder from time to time, checking to see how you are enjoying your new home, or reminding you of milestones in your warranty coverage. Some will also ask you to complete a customer satisfaction survey to get your opinions on your home and the buying experience—crucial feedback that will allow the builder to keep improving their products and their services.

A Tradition of Excellence

It is widely recognized that Canada builds the best homes in the world. Canadian builders have a strong tradition of excellence and work closely with government, researchers and manufacturers in a continuous effort to improve and build ever better homes.

The industry's environmental success story demonstrates this commitment clearly. Canada's home building industry started "going green" many years ago. Begun as a research project, energy efficiency became an integral part of new home construction over several decades, as thousands of builders were trained. Today, the housing sector is the only one in the country that has not only met, but also surpassed the Kyoto targets for greenhouse gas emissions.

When you buy a new home from a reputable builder, whatever the size of the company, you will enjoy the quality of construction that has made Canada the envy of the world. Consider:

- Your builder understands the science behind building—how to make all parts of your home work together to optimize building performance and prevent building failure.

This may sound "dry", but it means that there is nothing haphazard or accidental about the way your new home is put together and how it works. Building science is the key to the livability, durability and comfort of your home, and protects your health as well as your financial investment in your home.

- Your builder will offer you sound advice on energy efficiency, explain green features, benefits and cost in detail, and will build you a new home that will help you save energy, save money and reduce your environmental impact for years to come.

Individually, new home builders are constantly upgrading their own knowledge and skills so they can build better homes more effectively and stay competitive.

Collectively, hundreds of new home builders at any given time participate on committees and work groups with governments, researchers, regulators and other parties in an ongoing quest to improve housing quality, choice and affordability.

This ensures that homebuyers will continue to enjoy the best in housing, from design to construction to community development, from codes to financing to warranty.

Canada's new home builders are represented by the Canadian Home Builders' Association (CHBA)—the voice of the home building industry.

What You Should Know About Mortgages

So you are thinking about buying a new home? You may be wondering how mortgages work, if you would qualify for a mortgage, and if there are any special issues you should be aware of.

Here is a quick look at some facts and information about mortgages.

- Canada has one of the most solid mortgage systems in the world, evolved over many decades. It's a balanced system that is intended to help people become homeowners, while not taking excessive risks—that is, it demands responsible behaviour from both lenders and borrowers.
- The vast majority of lenders follow prudent and careful lending practices. Borrowers are qualified for a mortgage according to how much debt they are able to manage. Traditionally, lenders estimate that 32% of the borrower's income can be safely allocated to "housing debt", i.e. repayment of a mortgage with interest, taxes and energy use. Other debt is also factored in—car loans, student debt, credit card balances and so on. In total, up to 40% of total income can go towards debt payment. (Note: some lenders may use different percentages.)
- Lenders will also consider other personal information, such as length and security of employment, credit history and proven ability to handle debt. For instance, did you take out loans before, and did you pay them back on time?
- Typically, you should have a minimum down payment of 5% of the value of the home you are buying.
- Mortgage insurance is mandatory in Canada for all high-ratio mortgages, where the mortgage represents 80% or more of the total value of the property. This protects the lender in case the borrower becomes unable to pay the mortgage. For homebuyers with less than a 20% down payment, mortgage insurance allows them to benefit from the same mortgage rates and features as those with higher down payments.
- Most mortgages are amortized over 25 years—that's how long it will take to pay the loan off completely. For most people, this offers manageable monthly payments. A longer amortization period lowers your monthly payments, but you will end up paying more in the long run, because the longer you borrow the money, the more it will cost in interest. There may be times, such as the initial years of homeownership, where a longer amortization period can be considered. Consult with your mortgage professional about the options that best match your needs and circumstances.

- The interest rate you pay on your mortgage will fluctuate over the lifespan of the mortgage. The rate is locked into specific terms that can range from six months to 18 years or more. Many people chose terms of five to seven years, because they tend to offer the best balance between an attractive rate and the security of knowing exactly what your housing expenses will be for a considerable length of time.
- Mortgages come with a great deal of flexibility. It is important to discuss your options, such as pre-payment, with your lender so you can tailor your mortgage to best suit your own situation and preferences.
- Lenders are realistic and know that sometimes borrowers encounter financial difficulties, due to illness or lay-offs, for instance. Talk with your lender about any special programs they may have to deal with “what if” scenarios, such as deferred payment plans. Mortgage insurance providers will also work with homeowners experiencing financial difficulties to help them keep their homes.
- Some new home builders offer mortgages at preferential rates for their homes. In such cases, the builder is not the lender, but has made arrangements with their own financial institution to provide mortgages to qualified purchasers.

Take a first step towards homeownership. Talk with a mortgage specialist to see what lenders are offering—mortgage rates are at a historical low right now. Get pre-qualified for a mortgage so you know exactly how much you can spend on your new home, if you decide to go ahead. Then visit the new home builders in your community and see what is possible on your budget.

If you are ready, this is a great time to buy a new home.