

Housing seen immune to rate rise

Residential market considered strong enough to withstand rising mortgage costs

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Interest rates may have risen yesterday, but the housing market has been so strong that experts see little impact on the residential market.

"Our biggest problem is getting enough houses for sale," said Brad Lamb Jr., president of Brad Lamb Realty Inc. in Toronto. "This is a really hot market. We really are short."

In words that were echoed by a selection of economists, housing experts and real estate agents, Mr. Lamb said interest rates could rise

another two or three percentage points and mortgage rates would still be affordable.

Higher interest rates may "take a few people out of the market," he said, "but it won't choke off the market."

Don Lawby, president of Century 21 Canada Ltd. in Vancouver, agreed. "There will be no dramatic impact," he said. "We're still a long way from double-digit interest rates."

In fact, Mr. Lawby said, yesterday's Bank of Canada 0.25-percentage-point rise may stimulate the market.

"This will convince some people to come off the fence and make a commitment," he said, suggesting consumers might decide to buy a house before rates move even higher.

Eventually, however, the housing market will start to slow, said Sherry Chris, a vice-president at Royal LePage Residential Real Estate Services Ltd. in Toronto.

She said a progression of rate increases over several months will undoubtedly affect the market. Fewer will qualify for their first mortgage, and some buyers will have to trade down to a cheaper house than they hoped to buy.

"They may not be able to offer \$400,000 for a house, but they'll be able to buy for \$350,000," Mr. Lamb said. Interest rates are the single

biggest factor affecting the residential housing market, economists said. But there are plenty of other factors that have made this the strongest market in about 12 years.

The economy is bouncing back, employment is growing, consumer confidence is strong and immigration is high. And those factors, the economists said, create a housing market strong enough to withstand a jump in mortgage rates.

Craig Wright, chief economist at Royal Bank of Canada, pointed out that five-year mortgage rates have been creeping up slowly since November, with little impact on housing sales.

During that time, the five-year rate has climbed from a low of 6.45 per cent to the current 7.45 per cent. "We're in a period of rising

rates," Mr. Wright said. "This [recent rise] won't make it or break it."

Peter Norman, vice-president of Clayton Research Associates Ltd. in Toronto, said the five-year rate tends to oscillate around 7.5 per cent, and has done so for many years. The rate may move to about 7.75 per cent by year-end, but he does not expect much deviation from the mid-sevens.

"Without a doubt, rates will be coming up," he said. "But there won't be a major change."

He expects a calming of "the extremely stimulating rates of the past six months. We are not looking at punitive rates."

And he pointed out that Canada is a long way from the 20-per-cent rates of the early 1980s. "We're not in the same ballpark."