

When Canadian snowbirds attack



by [Tamsin McMahon](#) on Wednesday, October 3, 2012 11:00pm - [2 Comments](#)

WHAT IS THIS ?



Phoenix was the epicentre of America's subprime real estate bust, with property values plunging more than 50 per cent during the depths of the recession. Then came the Canadians, enticed by year-round sun and the prospect of brand new bungalows with backyard pools that could be had for less than the average Canadian household income—about \$60,000 at the bottom of the market.

Armed with cash, they've been coming by the plane load, pushing up prices by 18 per cent in the past year and even squeezing out local buyers for prime real estate. "I love my Canadian buyers," says Scottsdale real estate agent Diane Watson. "They come down here, they stay three or four days, they look at 10 properties, they buy something, they get on a plane and they go home."

Canadian snowbirds have been flocking to Phoenix for years, but Watson says she's noticed an uptick in Canadian buyers in the past year. They were the largest foreign buyers of American real estate last year, representing about a quarter of international buyers. By contrast, their closest competitor, the Chinese, represented 11 per cent. Virtually all the foreign buyers in the Phoenix market in the past year—94.9 per cent—were Canadians, mostly from Alberta and B.C., according to real estate research firm [DataQuick](#). "I fly down and the plane is full of people who just bought a place," Lastiwka says. "I go to some of the nicest areas and some of the nicest cars you see here have Alberta licence plates."

It's no longer the typical snowbird who comes to find property in Phoenix. Canadians are increasingly buying U.S. real estate as investors, either to renovate and flip or to rent. They include a handful of buyers who bought up entire blocks of condominiums in the Phoenix area in the past year, totalling nearly 1,000 units. Commercial investors in Canada have also turned their attention to Phoenix. Winnipeg real estate investment trust [Artis REIT](#) snapped up four office and industrial buildings in the Phoenix area in the last 15 months, including the regional headquarters for the [FBI](#). The investment helped bump Phoenix into the top 10 U.S. markets for foreign commercial real estate investments in the second quarter of this year.

It's not surprising that Canadian savers have been setting their sights on the U.S., where the high Canadian dollar and cheap real estate mean they can get a bang for their buck at a time when both affordable Canadian property and high-return investments are in short supply. "I'm a believer in real estate because you can touch and feel it," says Dario Matrundola, who owns an Ontario-based aviation company and has started buying property in Phoenix this year. "You can't do that to a piece of paper in my drawer that says I own so many shares of something. I've seen those pieces of paper worth nothing."

Matrundola set his sights on Phoenix after scouring Toronto's overheated real estate market for a rental property and coming up empty-handed. He walked away from a 700-sq.-foot suburban Toronto condo when the owner wanted \$420,000. He's since bought two single-family homes in the Phoenix area for around \$250,000. "You can't buy a garage for that here," he says. "There you can buy a really nice place."

Like many Canadian investors, Matrundola financed his Arizona purchases with cash and a line of credit after banks in both the U.S. and Canada balked at giving him a mortgage for foreign investment properties. More than 60 per cent of foreign buyers in the U.S. have paid cash, according to DataQuick. Home equity lines of credit are among the most popular way that Canadians are coming up with the money. A study last year from insurance company [LawPRO](#) found that nearly 10 per cent of Canadians have withdrawn equity from their homes to fund investment properties.

Gord Stevenson, a Calgary IT professional, has bought three rental homes in Phoenix since 2009 using a home equity line of credit. The interest on the line of credit was lower than it would have been with a U.S. loan, he says, and gave him a leg up as a cash buyer. Stevenson started a blog, "[Canadians with U.S. Property](#)," to chart his journey through Phoenix real estate and says he's contacted about once a week by Canadians looking south. So far, he says, his investment has been a good one. "We have been getting about five or six per cent annual return on investment," Stevenson says. "That is not enough to get rich on, but better than some other options."

But some warn that prices have risen so high so quickly in Phoenix that the days of no-fail deals in the Arizona desert are quickly coming to an end. And Canadians who jump into the market now, lured by the success stories of their friends and neighbours, could be in for a rude awakening. Prices for the most sought-after properties, those below \$200,000, have risen 10 per cent in the past year, compared to the historical average of two or three per cent, says Brett Barry, a Phoenix-area real estate agent. "I've had a gut feeling for the last year that Canadians are getting a little too giddy, maybe a little bit cocky and starting to overextend themselves similar to the way the Americans did," he says.

The activity has been most frenzied at the courthouse auctions for bank-owned foreclosures. Investors, including hedge funds but also plenty of individual Canadian buyers, have been bidding up foreclosed properties to prices even beyond what neighbouring properties sell for on the open market. "It's kind of

alarming when investors are paying, in some cases, more than anything that's been on the Multiple Listing Service and the stuff on the MLS is not distressed," says Lynda Person, a Scottsdale real estate agent who buys properties at auction and flips them.

Even as more investors pile into the market for distressed homes, the number of foreclosures up for auction is dwindling as banks hang onto their inventory in hopes of pushing prices up still more, says Barry. A study last month from DataQuick found that lenders were holding on to around 11,000 foreclosed properties in the Phoenix area. That number doesn't include the roughly half of Phoenix homeowners who are still underwater on their mortgages, Barry says—well above the national average of 30 per cent. "A lot of those people probably will walk away at some point," he says. That could send Phoenix property values plunging once more, Barry warns.

For Matrundola, who's hoping to buy a third investment property in Phoenix in the next six months, it's a justifiable risk. If the bottom drops out of the market, he figures he'll have three nice winter homes for himself and his two business partners. "The people there are friendly. There's beautiful stores and grocery stores and shopping centres. You get up and the sun is shining all the time. How can you not feel good?" he says. "But talk to me in two or three years, I might tell you a different story."

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holding these properties waiting for foreign purchasers to run up the prices!

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Mauvilla • 14 days ago

The FHA is about to drop a brick on the US taxpayer. Yes, the mortgage guarantor of last resort in the US is about to ask for a bailout. Which will lead to another leg down in US RE prices. I hope you Canadians who took out equity in your inflated home values to invest in US RE are prepared for the pain that is coming. When will people get it? There will be no RE recovery in the US. Home prices in the US are RESETTING to a more realistic value. The bubble has burst. Unless the US economy starts raging at over 3-4% GDP growth, unemployment drops dramatically, or your hero's Obama and Bernanke are able to artificially inflate the RE market (none of which will happen), Home prices will only keep dropping.

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