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HOME, HOME
OUT OF MY PRICE RANGE

With more and more Calgarians paying for their middle-class lifestyles with credit, we're becoming a society of ostriches, with our heads in the sand and our tushes in the air. So how would *you* deal with the financial exposure that comes with buying the house of your dreams?

BY SHELLEY YOUNGBLUT

Exclusively in the calgary herald

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HOME, HOME
OUT OF MY PRICE RANGE

What happens after you stumble upon the home of your dreams, which will also be the largest investment you'll ever make? If you let your head rule your heart, you'll wind up taking a crash course in personal finance and realize we're all living just *that* much beyond our means. **by Shelley Youngblut**

It was meant to be. A friend had just returned from a weekend in Eureka, Montana, raving about this little pocket of heaven just over the Roosville border. This guy from Virginia—get this, his name is Bob, *Bob the builder*—had created a subdivision of magical vacation properties and she and her husband were smitten. Giddy, she showed them to me on Bob Etchells' website, houseinmontana.com. With rough-hewn wood interiors, Scandinavian exteriors and obvious craftsmanship throughout, these were one-of-a-kind homes. Nestled in the Tobacco Valley, surrounded by mountains and forest reserve, they both blended into the land and punctuated it. They seemed rooted, as if they couldn't exist anywhere else, yet added unexpected, exuberant bursts of colour to the landscape. The sky-blue Sapphire House, pistachio-green Sagebrush House and clay-red Sun Stone Cabin had an intangible allure that *spoke* to both of us. "It will change your life for the better," I told my friend, aching with a longing for something I hadn't realized I was missing.

The next weekend, my husband and I packed up the kids and drove to Eureka for the day. None of us had been to Montana before; it was just a lark. Etchells' company, Eureka Design & Building, was hosting open houses for the properties and we wanted to check them out in person. Later that night, driving back over the border, we found ourselves scheming about how to get our hands on an absurd amount of money. That's how it happens: one day, you're fine with your lot in life. The next, you're desperate to have that house, that car, that dress. Just 48 hours earlier, we'd exhibited zero interest in owning a vacation property, particularly one in Montana. As I later joked with my friend, "God knows what Bob is putting in the water down there, but you can't be around him and not want to drink the Kool-Aid."

Here's the kicker: the house we fell in love with wasn't even part of the open house. The Covered Bridge House is Bob's masterpiece: a tall, skinny, rustic-modern barn with an actual bridge running the length of the house between the second floor and the post-and-beam roof. I can't begin to list everything that makes it special, but suffice it to say, it was our dream house and it had been originally listed at $589,500. When it didn't sell, Bob took it off the market. The weekend we went down, Kevin Dworak, the architect Bob works with, had flown in from Maryland and was staying in the house, designing the plans for EDBC's next subdivision, a series of garage-studio lofts priced at $229,000.

Bob and Kevin walked us around the 2.43-acre property, divulging its secrets. Like how they'd lain in the grass, trying to figure exactly the right place, the right angle to build the house on so as to maximize the views and the light. How Bob had been saving these weathered yellow-and-red oak barn boards from his home state of Virginia, which he had hauled across the country to panel the main-floor stairwell. How there was this 13-foot slab of basalt volcanic rock that Kevin told Bob to bury upright in the ground on the west side of the house. It became the inspiration for the house's unorthodox landscaping, which we affectionately called Stonehenge.

Some folks might have hated the idea of a bunch of big rocks in their yard. We, on the other hand, were besotted. If we were to custom-build our dream property, it wouldn't be any different, just a quarter of a million dollars more. Suddenly, I was fantasizing about idyllic getaways—no TV, no shopping malls, no fast food, just swimming and playing and being together as a family. Retiring someday to Montana had become a tangible goal.

I know you're supposed to consider every major financial investment with your head. I just don't imagine that most people can do this when they desire something truly special, whether it's a Rolex, a Lexus, a week in Disney World or a house in Montana. It didn't make it any easier to get our heads out of the clouds when the Canadian dollar started to rise. Simultaneously, the air started blowing out of the American housing bubble and U.S. prices were dropping 10... make that 20 percent. When Bob had the Covered Bridge House up for sale

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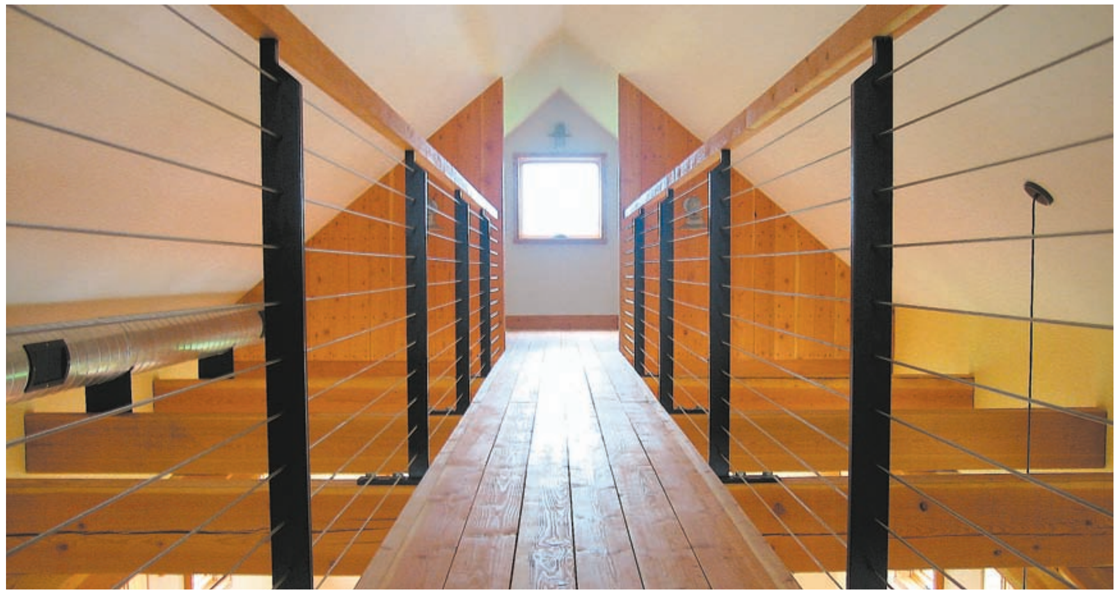



in the summer, there were no takers. Now, buoyed by interest from oil-rich Calgarians, he set his price at $459,000.

If making serious money is all about timing, it looked like we had lucked into the right opportunity at the right time. Where else, within a five-hour drive from Calgary, would we be able to find the perfect house for under half a million in a resort area just about to take off? We had kicked ourselves for missing out on Kelowna, Vernon, Fernie, Invermere and Whitefish. Now here was Eureka—the last, great place. We weren't the only ones who saw its potential. Just 10 minutes away from the Covered Bridge House, Calgary's Norcal Group was building the Wilderness Club, replete with 272 custom-built homes and 47 luxury cabins. The centrepiece of the lakeside resort is a 7,000-yard golf course designed by Nick Faldo that will be ready to play in 2008. Not only do I golf, I've always had a soft spot for Faldo. It's not just that he looks like Harrison Ford, it's the memory of the compassionate way he handled himself during what I consider to be the most dramatic moment in modern sports—playing partner Greg Norman's six-stroke collapse on the back nine of the final round of the '96 Masters. Indian Springs, another major golf-course and housing development, is being built on the other side of the highway into Eureka, which boasts an organic food store, a vintage movie theatre and a diner called Cafe Jax. No fast food. No big-box stores. Who could ask for anything more?

Yes, it was risky—a home built in 2005 in the same area was for sale at $269,500 (reduced), so we'd be buying in at double the neighbourhood comparative price. What if we had to relocate too far away to be able to drive to Eureka in four hours? What if we lost our jobs or simply lost interest in Montana: would we be able to sell the house for what we paid for it, as well as recoup the yearly interest on our loan, the maintenance and incidentals? Who would our potential buyer be? Canadians would have to be willing to cross the U.S. border, while many Americans would be unable to afford rec property as a result of the popping U.S. housing bubble and tightened lending standards.

Our bank was willing to lend us almost the full asking price. They based it on the comparable value of our Calgary home, which, like the homes of so many of us, has almost doubled in value since 2004. When we turned to our parents for advice, they talked about regretting being too cautious when they had similar opportunities. Real estate always goes up, right? And smart investors use the bank's money to make money. And so, the next weekend, we packed up the kids, brought along the grandparents and drove back down to Eureka for another sip of Kool-Aid. Bob let us camp out overnight in the Covered Bridge House—if you can test-drive a car, you certainly should be able to test-drive a house. Let me just say it makes all the difference in the world to actually *live* in a space before you buy it. Let me also say that when you're talking about your *dream* space, you might as well just take out your chequebook and hand it to the developer at the door.

Whenever you read about people buying real estate, you never hear about the back and forth, the joy and the panic, the hope and the fear. It's simple: we saw it, we wanted it, we bought it—no sweat. Hah, they don't call it sweat equity for nothing. We left that second weekend desperate to make the deal work. The head made one last-gasp attempt to regain control over the heart as we took a cold, hard look at our cash flow. Now, there comes a point in every grown-up's life when you realize you can't always get what you want. For us, that moment was when we ran our income, assets and expenses through an Excel spreadsheet. No matter how we diced and sliced the numbers, we were $100K short of what Bob was asking for the house in Montana.

"The Covered Bridge House is Bob's masterpiece: a tall, skinny, rustic-modern barn. I can't begin to list everything that makes it special, but suffice it to say, it was our dream house."

Yes, according to our lender, we could have done it. But it would have required taking out a second mortgage that was triple the size of our original mortgage. (And, let's face it, folks, the bigger the loan, the more money the bank makes.) The only way we could afford the monthly payments—not biweekly, the smart repayment schedule was beyond us—was if we amortized the loan over 40 years. That $450K house in Montana would end up costing us well over a million by the time we paid it off. In the meantime, once we added in property taxes, insurance, maintenance, heating, furnishings and incidentals, we weren't richer than we thought—we were house poor. No more maximizing our RRSP contributions, no more retail therapy at the mall, no more popcorn shrimp at Joey's Only because it's Tuesday. We would become debt serfs, just to "own" a place that we might sleep in 50 nights out of the year.

Nobody wants to talk about debt, the flip side of dirty, sexy money. That sinking feeling 21 days after the Christmas party, when the credit-card bill for the Banana Republic dress comes in the mail. If you live in anything like the average Canadian household, you're carrying between $2,700 and $3,000 on your credit cards, which adds up to about $60 billion nationally. According to a recent survey by the Certified General Accountants Association, in 2006, total household debt in Canada reached $1 trillion—say it in your best Dr. Evil voice, *one trillion dollars*—while 20 percent of us are raiding our RRSPs before retirement, "mainly to pay for daily living expenses."

The average savings rate in Alberta is five percent of our annual income. But don't start patting yourself on the back just yet—in the '80s, it was 20 percent. And, according to one Calgary debt expert, "The reason most people are putting money into an RRSP is not that they want to retire, it's that they want the tax break. They are looking at the short term," says Alan Frank of the Credit Counselling Services of Alberta.

Frank knows the ins and outs of a personal balance sheet, having worked for the banks for two decades and been a credit counsellor since 1999. "There are two big things Canadians don't do when it comes to debt," he tells me. "We don't look at the what-if scenarios, and there are a lot of what-if scenarios. What if house prices go down? What if I lose my job or become sick? We just assume that this economy is going to keep going at the pace it is going. The second thing they don't consider is the cost of credit," he continues. "When they walk in and they want credit, all people look at is what the payment is. They just want the lowest payment to get them what they want. And they want it all right now."

It's not only our American neighbours who have grown accustomed to using their home equity as personal ATMs. Whip out your mental calculator and do the math. In 2005, the median family income in Calgary was $75,400. The median house price in October was $412,500, *six times the median income*. At some point, you must have looked at our collective lifestyle and realized middle-class Canadians can't possibly afford it. And by afford, I don't mean using revolving credit-card debt, a line of credit, a home-equity loan or, God help us, cash from a loan shark to stay in the black. I'm talking the old-fashioned definition: that the money that goes out is *at least* equal to the money coming in.

The CGA-Canada survey found that one in five Canadians say they wouldn't be able to handle an unforeseen expenditure of $5,000; 50 percent of us are only one or two paycheques away from financial disaster. I asked Frank how many people are treading water. "I would say three quarters of Calgarians are exposed without fully knowing what they have done," he replies. "They have their heads in the sand, and if your heads are in the sand, your asses are in the air."

We're becoming a society of financial ostriches, with a "kick-me" sign on our tushes. "It's not just the young people, it's cutting across all age groups," Frank says. "People are looking at it thinking: 'I don't have debts because I have assets that match the debt. I have a house that is going up in value. I have a job that is always going to be there. I am getting good bonuses and right now a pay increase that is exceeding the cost of living.' They haven't looked at the other side of it."

You would think that Calgarians, having survived the boom/bust scenario of the '80s, would be leery of hitching their wagons to another bubble, but it looks like our next bumper sticker might read: "God give me another oil boom and this time I promise I won't *spend* it away." "Financing your lifestyle on credit is not a good thing. If you really can't afford it, you shouldn't be buying it," Frank says. "If you combine the lack of education about finances with a society that is consumer-driven and has access to easy credit, these three elements spell disaster for people who haven't sat down to look at the overall picture. In my entire 25 years working in a bank, only one person actually read the mortgage document before they signed it. Everybody else just signs."

I know I've spent more time thinking about Britney Spears' latest misadventure than about my mortgage. But, hey, what my house is *worth* has doubled since 2004. Why wouldn't I want to take advantage of all that new equity? Well, to quote *The Princess Bride*'s Inigo Montoya, "You keep using that word. I do not think it means what

AS THE bubble BURSTS

In the U.S. housing market, keeping up with the Joneses has taken on a whole new meaning

If you want to know more about why the U.S. housing market is wobbling like a Weeble in a hurricane, you might want to check out the Housing Bubble Blog (thehousingbubbleblog.com). Launched in 2004 by Arizona-based accountant Ben Jones, the website documents the crazy rise and current fall of home and condo prices in the U.S. Several times a day, Jones posts a roundup of news stories about real estate, lending and finance that he culls from every corner of the U.S., as well as Canada, Australia, Japan and Europe, with readers adding hundreds of comments to each entry. The result is a unique archive dedicated to what Jones sees as the biggest story of our time: a financial mania that rivals the Internet bubble of the '90s—remember Pets.com?—and the 17th-century tulip craze, in which a single bulb sold for 6,000 florins at a time when the average yearly Dutch income was 150 florins and eight pigs would set a farmer back 240 florins. "They're all examples of mass delusions," Jones says. "There's this saying: 'When men lose their minds, they lose them altogether in herds, but they get them back one at a time.' "

Initially a lone voice crying wolf, he's been adding converts one at a time. "Back in 2005, we were under attack," Jones says. "People thought we were crazy." Today, with more mainstream media outlets catching up on reporting about the subprime lending mess, along with the resulting tsunami of bad credit decisions, overbuilding and foreclosures, the Housing Bubble Blog boasts 50,000 unique page views a day. That number is rising, hand-in-hand with the number of Americans struggling to cope with the ripple effects of the housing bubble collapse.

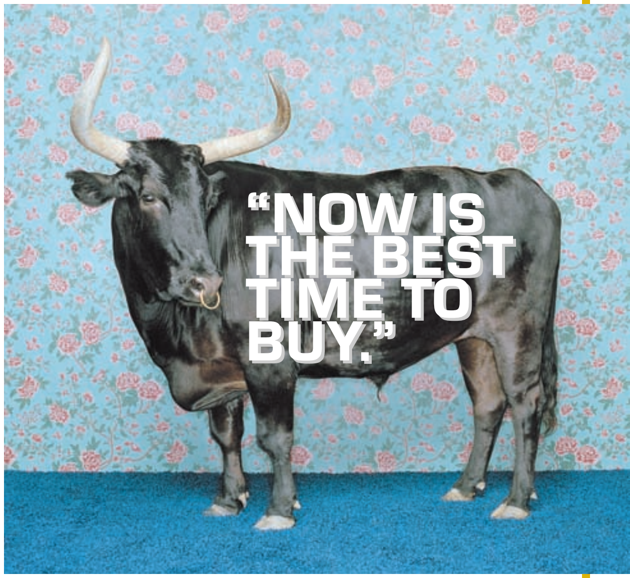
Jones' readers are a smart, sensible lot, hailing from across the political spectrum: liberals, conservatives, libertarians, anti-immigrationists. What they have in common is a suspicion of easy money; a propensity for renting, shorting the stock market and buying gold; and a cynicism about the motives of realtors, mortgage brokers, banks, Wall Street and the Federal Reserve. Essentially, HBers (as they call themselves) believe housing should be affordable for all Americans, whether you own or rent, and that, as Jones says, "speculation is not a sign of strength." No longer dismissed as bitter naysayers—you try telling your brother he was crazy to buy and flip properties back in 2006—they've begun meeting in the flesh at local restaurants, reserving their tables under the name "Mr. Jones."

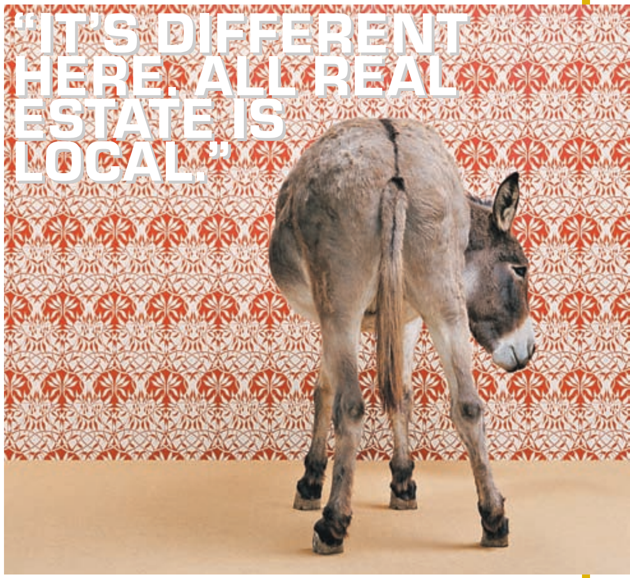
Because his readers are able to highlight local trends as they happen, Jones has been able to connect seemingly isolated dots. As early as 2005, what could have been dismissed as individual pricks in the bubble instead add up to signs that the air is whistling out of the U.S. economy as a whole. "We call it a Rolling Bubble," says Jones, describing how what happens in Florida rolls into Nevada... South Carolina... California... Massachusetts. "Similar trends break out all over the country, they're just not in sync."

Does this mean the Rolling Bubble could eventually hit Calgary? "You guys are like a time machine for me," says Jones. "The news stories remind me of what was happening here in 2005." That was when the U.S. industry had exhausted the pool of qualified buyers but kept building more houses and condos. Bingo—exotic loans appeared on the scene: no documentation of income required, interest-only loans over 40-year ammortizations with insanely low initial payments. Maybe now would be a good time for Calgarians to take a step back and not repeat the same mistakes. "These things die hard," Jones says. "Financial manias tend to run to insane lengths until someone kicks the wheels out from under them."

Of course, even Jones, the ultimate bubble burster, says he didn't think housing prices would continue to inflate as long as they have. "I thought the industry would just say, 'That was a good run, let's just all go to the Caymans and wait for the next housing cycle." Now, Jones is writing a book on the subject. "This isn't an academic exercise, this is real life," he says. "You have to look at the Housing Bubble Blog as a lens. Now we're into the clean up, the explanations and the reform."

—Shelley Youngblut





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you think it means." A house is only worth what someone will pay you for it. Today. Not yesterday. Or a year ago. And if you can't afford to pay the price your home has inflated to over the past four years, who can? The pool of buyers able to purchase a $750,000 house in Calgary without putting themselves in the red wouldn't fill the Stampede Grandstand, particularly now that the oil companies are re-evaluating their expenditures in the wake of the royalty review. Could the days of stupid money flowing through Calgary be winding down?

As much as we would all like to believe we've hit the real-estate lottery, there is no easy money. There never really was. As someone very sensible commented on the Housing Bubble Blog (see left), "Earned money has a higher value than easy money. That's because earned money has *two* values: The first value is the price in time and labour paid to get it. The second value is what the money can buy. Easy money only has one value: What it can buy. Thus the phrase, 'easy come, easy go.' "

Even the most ostrich-like among us must get a stone in the pit of their stomach every time they drive past another For Sale sign on their block, or hear that the average selling price for a home in Calgary isn't rising in double-digits anymore. No one is going to swoop in and protect us from our basic human desire to want more. And then *more*. As the siren song of easy money infiltrates our economy, it's our responsibility to wise up, grow up and put our feet back on the ground. No, the sky isn't falling... yet, but would it really be such a bad idea to sit down, run the numbers and get a clear grasp on what your true debt exposure really is?

Here, I'll walk you through it. Write down your living expenses, including the 40 percent of everyday spending that most of us blow without being able to remember what we spent it on. Think of this as the Latte Factor. Now account for big-ticket purchases—a high-def TV, that trip to Mexico, a garage makeover—as well as whatever debt you have. Don't forget the interest it will take to pay it off. And yes, that includes the long-term commitment you made to repay your mortgage. (Mortgage, you see, comes from the French words "mort" or dead, and "gage" or pledge. You have to pay it back... unless you pass on to that dream house in the sky. Then your heirs get the bill.)

Now, tally your liquid assets, meaning assets easily converted to cash and not the beer in the fridge. Write down how much you make *after* taxes and deductions. That's net, not gross: it's much less than you deserve to take home, but it is what it is. No, you don't get to add in your RRSPs—you leave those put, mister, or you'll be driving a school bus at 70. And don't even think about including the value of your home, even if it makes you smile. Tomorrow, it might be making you sob. Here's a trick I learned from a guy in the natural-gas business: always overestimate the costs and risks on one side of the ledger, then underestimate the rewards on the other side. It may not look pretty, but you've given yourself some breathing room to deal with unexpected change. And, contrary to popular belief, there are no guarantees when it comes to real estate.

Harsh, I know. When we did our own balance sheet, we quickly realized that the vacation home in Montana was way out of our price range. "The standard rule is that housing should cost no more than 35 percent of your gross income," says Frank, whose organization offers a range of financial seminars (check them out at moneymatters.ca). One exercise, which no one wants to do, is to write down everything you spend in a month. At the end of the process, "a lot of people are shell-shocked and embarrassed," he says. "But how can you spend $1,000 more than you make and be shocked? They just don't get the long-term implications."

And so, we bowed out of our dream purchase. I'd like to say it was easy, that there's something wonderful about scaling back your expectations, about accepting the reality of your limited means—but that would be lying. The truth is, we just couldn't deal with the financial exposure. And that means someone else will scoop up the Covered Bridge House. Maybe that someone will be you. Earlier this month, in fact, a college soccer coach from Iowa fell under Bob the builder's spell. Doug Mello saw the 3,300-square-foot Sagebrush House listed for $395,000 online and jumped on a plane with his wife to test-drive the house for four days as Bob's guests, experiencing up-and-coming Eureka in all its golfing, fishing and skiing glory. "Bob, as the conductor of this great orchestra, was very alluring," Doug says. "We're not mystical people, but we felt a real connection. Our initial plan was just to look around and discuss it back home." Instead, the Mellos signed a contract before they left, and will close on their dream house on Nov. 30th. "We just knew," Doug says.

I know the feeling.