Annual State of the Residential Mortgage Market in Canada

December 2016

MORTGAGE PROFESSIONALS CANADA

MORTGAGE PROFESSIONALS CANADA

Annual State of the Residential Mortgage Market in Canada

Prepared by

Will Dunning, Chief Economist

December 2016

Table of Contents

1.0 Introduction and Summary	**3**
Too Big a Change?	4
Overview of this Report	5
Evolving Approaches	5
Mortgage Choices	5
Financial Parameters	6
Consumer Sentiment	9
Consumers' Expectations About Changes to Mortgage Insurance	10
Outlook for the Mortgage Market	11
About Mortgage Professionals Canada	11
About the Author	12
About Bond Brand Loyalty	12
Disclaimer	12
2.0 Mortgage Choices	**13**
Dimensions of the Mortgage Market	13
Housing and Mortgaging Activity During 2016	13
Fixed-Rate Vs Variable-Rate Mortgages	14
Mortgage Amortization Periods	15
Actions that Accelerate Repayment	16
Renting Secondary Suites	18
Mortgage Arrears	19
Types of Mortgage Professionals Consulted	21
3.0 Financial Parameters	**22**
Interest Rates	22
Mortgage Rate Discounting	23
Housing Equity	24
Equity Take-out	27
Sources of Down Payments by First-Time Homebuyers	28
The Rising Cost of Down Payments	30
Homeownership as "Forced Saving"	31
A Further Note on Housing Affordability	33
Mortgages and Retirement	35
4.0 Consumer Sentiment	**37**
Attitudes to Topical Questions	37
Expectations	38
Happiness With Decision to Buy a Home	40
An Investment or a Place to Live?	41
Reasons for Not Owning a Home	41
Making Home Ownership More Affordable	42
5.0 Consumers' Expectations About Changes to Market Insurance	**45**
6.0 Outlook for the Mortgage Market	**52**
The Housing Market Background	52
Trends in the Resale Market	53
Housing Starts	54
Forecast of Mortgage Activity	55
A Scan Across Provincial Resale Markets	56

List of Tables

Table #	*Contents*	*Page*
Table 2-1	Percentages of Mortgages by Type, for New Purchase Mortgages and Recent Renewals	15
Table 2-2	Percentages of Mortgages by Length of Original Amortization Period	16
Table 2-3	Actions Taken in the Past Year to Shorten Amortization Periods, by Period of Purchase	16
Table 2-4	Homeowner Reasons for Renting Out Part of their Homes, by Age Group	19
Table 2-5	Consumers' Use of Mortgage Representatives	21
Table 3-1	Average Mortgage Interest Rates	22
Table 3-2	Changes in Mortgage Interest Rates for Mortgages Renewed During 2016	23
Table 3-3	Equity Ratios for Canadian Homeowners, as of Fall 2016	25
Table 3-4	Percentages of Available HELOCs Advanced, as of Fall 2016	26
Table 3-5	Equity Ratios for Canadian Homeowners, as of Fall 2016, by Period of Purchase	26
Table 3-6	Percentages of Homeowners Taking Out Equity During the Past Year, by Period of Home Purchase	27
Table 3-7	Equity Positions for Homeowners Taking Out Equity During the Past Year Versus Those Who Have Not Taken Out Equity	28
Table 3-8	Average Down Payment for First-Time Homebuyers, by Period of Purchase	28
Table 3-9	Sources of Down Payment for First-Time Homebuyers, by Period of Purchase	30
Table 3-10	Older Mortgage Holders, by Age Group and Employment Status	35
Table 3-11	Expected Impact of Mortgages on Retirement Plans, by Age Group	36
Table 4-1	Summary of Consumer Responses to Topical Questions, by Date of Survey	38
Table 4-2	Summary of Consumer Responses on Expectations, by Date of Survey	40
Table 4-3	Happiness with Decision to Buy a Home, by Period of Purchase	40
Table 4-4	Housing as a Place to Live and as an Investment, by Age Group	41
Table 4-5	Reasons for Not Owning a Home, by Age Group	42
Table 4-6	Likelihood of Renting Out Part of Future Home, by Age Group	43
Table 4-7	Expectations About Buying with Other People, by Age Group	43
Table 4-8	Attitudes Towards Three Strategies for Making Home Ownership More Affordable, by Age Group	44
Table 5-1	Consumers' Responses to Seven Statements About the Impacts of Mortgage Insurance Changes	46

1.0 Introduction and Summary

Since 2005, Mortgage Professionals Canada has produced semi-annual reports on the housing and mortgage market in Canada. The reports are based largely on consumer surveys. The objective for the reports is to create and share data that would not otherwise be available, on mortgage activity and consumers' attitudes, and to offer thought-provoking interpretations of trends in the housing and mortgage markets, and in the realm of government policies related to mortgages and housing.

The housing market and its close relative the mortgage market continue to receive a great deal of attention in Canada, and for good reason. During the post-recession period, housing activity has been one of the most successful generators of new jobs in Canada, and this has become even more true, now that the energy sector has been hobbled.

The housing market has provided great rewards within Canada, to individual home owners as well as to the broader economy. It also represents great risk: during the past decade, the volume of mortgage indebtedness in Canada has roughly doubled, due to the strength of demand and rapid price growth. It is proper that the government, and all Canadians, consider whether that debt is healthy and sustainable, or hazardous to our economic well-being.

At the same time, given the leading role that housing is playing in the economy, regulations and policies must seek the right balance between the risks and the rewards.

On October 3, the federal government announced a set of changes to mortgage insurance rules. The most substantial change is that in order for a mortgage to be insured, it must be "stress tested" using the so-called "posted rate" for five-year fixed-rate mortgages, to confirm that the borrower could afford the payments that would result. This benchmark rate is currently 4.64%, which is far in excess of the actual interest rates that can be obtained in the market (which are two percentage points or more below the posted rate).

Thus, homebuyers who could easily afford the payments that would result at their actual contracted interest rates may find that they did not pass the stress test (at the posted rate), and therefore they cannot complete their purchase. Some of them will be able to make adjustments, so that they can complete a purchase (by accessing additional funds, or buy a less expensive property); others in this group may be unable to find any solution that meets their needs and for which they can obtain financing, and will be forced out of the home ownership market.

It will take several months (likely until mid-February or later) before there is enough market evidence to begin assessing the actual impacts of the rule changes. Meanwhile there is quite a wide range of expectations about the impacts.

It appears to this writer that the most common expectation is for an 8% reduction of housing market activity in Canada. The author accepts that as the "most likely" impact – but, as a direct,

first-round effect. Given that this first-round impact is not trivial, there are likely to be subsequent effects. The author has explored this in a separate report[1]. Rather than repeating the substance of the arguments here, a short summary follows.

Too Big a Change?

Subsequent effects of the rule changes include:

- Since there will be fewer buyers at the entry level, some people who already own homes and would like to sell (in order to move-up, move-down, or move-away) will find that they cannot sell their home at the price they need. Therefore, second-round buying (and further rounds of buying) will be reduced.
- Housing starts will be reduced.
- Because there will be less transactional activity related to home sales, and less housing construction, there will be fewer jobs than there would otherwise be.
- This reduction of employment would further reduce housing demand.
- With demand being reduced, house price growth will be less than it would otherwise be. The "housing wealth effect" is an important driver of job creation. With less price growth, job creation will be reduced compared to what it would otherwise be. Some communities may experience house price reductions as a result of these adjustment processes, which would have more severe economic consequences.
- To the extent that housing starts are reduced, there will be a later slowdown in housing completions. This will mean that there will be fewer opportunities for tenants to move out of rentals into homeownership. The result will be that starting about two years from now, vacancy rates will be lower compared to what would otherwise happen, and furthermore, rents will increase compared to what would otherwise happen. As a result, the rule change will not just affect people who want to buy homes – it will affect tenants as well.

Since the start of the recession in the fall of 2008, there had been five sets of tightening of the mortgage insurance rules. Four of these changes had trivial effects, as homebuyers were able to make adjustments. Only one of the five prior changes (the elimination of 30 year amortization periods, in July 2012) had a notable effect in the housing market. Six months after that change, there was a downshift in job creation in Canada, which has persisted up to the present.

Thus, there is a concern that in attempting to address risk in the housing and mortgage markets, the new rule change (the sixth change since 2008) might be going too far (by relying on an interest rate that is more than two percentage points above actual market interest rates). There is risk attached to any regulatory policy. This particular policy may be creating a risk to the broader economy that is greater than the risk it is trying to prevent.

---

[1] The report, "Slamming on the Brakes – Assessing the Impacts of Changed Criteria for Mortgage Insurance Qualification", can be found at http://www.wdunning.com/, on the Recent Reports page.

Overview of this Report

This report has been prepared for Mortgage Professionals Canada by Will Dunning, Chief Economist. It provides an overview of the evolving state of the residential mortgage market in Canada. Major sections of this report consist of:

- Introduction and Summary
- Mortgage Choices
- Financial Parameters
- Consumer Sentiment
- Consumers' Expectations About Changes to Mortgage Insurance
- Outlook for the Mortgage Market

Data used in this report was obtained from various sources, including an online survey of 2,000 Canadians. More than half (58%) were homeowners with mortgages and the rest were renters (16%), homeowners without mortgages (22%), or others who live with their families and are not responsible for mortgage payments or rent (4%). The survey was conducted by Bond Brand Loyalty for Mortgage Professionals Canada during October 21 to November 3.

Evolving Approaches

Mortgage Professionals Canada has conducted semi-annual consumer surveys since 2005. The research has a core of data on the mortgage market. The content has evolved over time, as Mortgage Professionals Canada has sought to contribute to an increased understanding of the residential mortgage market. Mortgage Professionals Canada has developed new data to support better decision-making by consumers, lenders and policymakers.

Included in this edition of the survey, in addition to the core research, is:

- Consumers' opinions were sought on the impacts for the new mortgage insurance rules.
- A short discussion ("A Further Note on Housing Affordability") illustrates the consequences of using posted rates to analyze housing affordability, rather than the mortgage interest rates that can actually be found in the market.
- Expectations about retirement (in relation to mortgage indebtedness) are explored.
- Consumers were asked about three options for making home ownership more affordable: renting out part of the home, buying with friends, and buying with relatives.

Mortgage Choices

Mortgage Types and Amortization Periods

About 690,000 homes will have been purchased for owner occupancy during 2016. Of these, 615,000 will have required financing via a mortgage and/or a Home Equity Line of Credit ("HELOC"). The total associated amount of financing is estimated at $172 billion.

For homeowners with mortgages, fixed-rate mortgages remain most popular. For homes that have been purchased during 2016, and have a mortgage, 80% of the mortgages have fixed interest rates, 17% have variable or adjustable rates, and combination mortgages have a 3% share.

For mortgages on homes purchased during 2014 to 2016, 84% have contracted amortization periods of 25 years or less and 16% have extended amortization periods. For all mortgages (regardless of the date of purchase) 85% have contracted periods of no more than 25 years.

For homes purchased during 2014 to 2016, the average contracted amortization period is 22.4 years. Canadians are highly motivated to repay their mortgages as quickly as possible and these surveys find consistently that each year more than a third of mortgage holders take actions that will shorten their amortization periods (making lump sum payments, increasing their regular payment to more than is required, or increasing the frequency of payments). The most recent buyers expect that, on average, they will repay their mortgages in 18.8 years, which is 3.6 years shorter than their average contracted period.

Among Canadian homeowners, 8% rent out part of their home (representing about 820,000 secondary residences). This activity is not just confined to first-time buyers, or recent buyers – it is widespread across different groupings of homeowners who have mortgages. This frequently occurs out of economic necessity but, for a large minority (42%), it is a choice, not a necessity.

Secondary suites don't just support homeownership – they are also an important source of moderate cost rental accommodations.

The rate of mortgage arrears remains very low in Canada, at just 0.28%, which is close to the lows seen before the recession. The most important (and difficult) cause of mortgage arrears is a reduction of income (most often due to job loss). Arrears that are caused by higher interest rates are much easier to fix (for example, by adjusting the required payment through an amendment of the amortization period).

Among borrowers who took out a new mortgage during 2016, 47% obtained the mortgage from a Canadian bank and 43% from a mortgage broker. Other categories accounted for 11% of new mortgages.

Financial Parameters

There are currently about 9.86 million homeowners in Canada, of whom about 5.78 million have mortgages and may also have a Home Equity Line of Credit (HELOC). 510,000 have no mortgage but do have a HELOC. In total, about 1.91 million Canadian homeowners have HELOCs (but 440,000 of them owe no money on the HELOC). An estimated 3.57 million homeowners have no financing on their homes.

Interest Rates

Looking at interest rates, Mortgage Professionals Canada's data indicates that:

- The average homeowner mortgage interest rate is 3.02%, a small drop from the average of 3.07% recorded a year ago.
- For mortgages on homes purchased during 2016, the average rate is 2.76%.
- For mortgages renewed this year, the average interest rate is 2.70%.
- Looking further, for borrowers who renewed a mortgage during 2016, a majority (64%) saw their interest rate drop. Among all borrowers who renewed in 2016, on average their interest rates fell by 0.40 percentage points.
- Among about 950,000 borrowers who will have renewed or refinanced mortgages during 2016, 625,000 to 800,000 will have reductions in their interest rates, 100,000 will have no change, and about 225,000 to 250,000 will have increases (very few of these have increases of more than 1 percentage point).
- Mortgage rate discounting remains widespread in Canada. So far this year, the average actual rate for 5-year fixed-rate mortgages (2.72%) has been 1.94 percentage points lower than "posted" rates (which have averaged 4.66%).

Home Equity

Mortgage Professionals Canada's study posed several questions that yielded estimates of homeowner equity:

- On average, home equity in Canada is equivalent to 74% of the value of the homes.
- Among homeowners who have mortgages (but not HELOCs), on average, their home equity represents 55% of the value of the homes.
- For owners with both mortgages and HELOCs, the equity ratio is 58%.
- For owners without mortgages but with HELOCs, the equity share is 83%.
- 89% of homeowners in Canada have 25% or more equity in their homes.

Equity Takeout

About 9% of homeowners (about 860,000 out of 9.86 million) took equity out of their home in the past year. The average amount is estimated at $47,600. These results imply that the total amount of equity takeout during the past year has been $41 billion, of which $30 billion was via mortgages and $11 billion was via HELOCs.

The most common use of funds from equity take-out are renovation or home repair ($12.8 billion), followed by debt consolidation and repayment ($11.68 billion), $9.1 billion for investments, $3.9 billion for purchases, and $3.6 billion for "other" purposes. Equity takeout is most common among homeowners who purchased their home during 2000 to 2009.

Sources of Down Payments by First-time Homebuyers

On average, first-time buyers make down payments equal to 21% of the price of their homes. This percentage has remained quite stable over time.

The largest source of funds for down payments is personal savings (49% for all first-time buyers and 51% for buyers who purchased their first home during 2014 to 2016). The share for personal savings has been roughly stable since 1990. Funds from parents and other family members (in the form of loans and gifts) have been a small part of down payments, averaging 14% for all first-time buyers. This share was stable until recently, rising to 18% for recent buyers (2014 to 2016). Loans from financial institutions have been a larger source of down payments, at a share of 26%, which has been stable over time. Other sources include 8% via withdrawals from RRSPs (including via the Home Buyers' Plan), and 4% from all other sources. The share from RRSPs rose after the Home Buyers' Plan was created in 1992, but has fallen during the past decade.

The Rising Cost of Down Payments

For new homebuyers, monthly mortgage costs have been relatively stable compared to incomes, as interest rates have fallen. But, the rapid rise in house prices means that required down payments have increased relative to incomes. As a simple illustration of this, a 20% down payment on an average priced house is now equal to 102 weeks at the average wage in Canada. This is a doubling compared to 15 years ago.

This is not to say that it takes 102 weeks to save a down payment – the actual period depends on individual circumstances, including what percentage of income can be saved. Actual periods for saving down payments will generally be considerably longer, which causes most first-time buyers to resort to other sources of funds in addition to their savings.

Homeownership as "Forced Saving"

Mortgage payments are a blend of interest payment and repayment of principal. As interest rates have fallen, the share of the payment that goes to principal has increased sharply. At today's rates, and assuming a 25-year amortization period, 52% of the first payment is principal repayment. A decade ago the share would have been 28%.

Among the implications of this are:

- Rapid repayment of principal means that, once the mortgage loan is made, risk diminishes rapidly.
- It may also help to explain why consumers consider mortgages "good debt".
- During the past decade, monthly mortgage payments have been roughly flat as a share of income. But, the cost of interest has fallen as a share of income and principal repayment has increased. This ratio of principal repayment versus income is a "saving rate", and today that saving rate is quite high.

- The "net cost" of homeownership (which should include interest costs, but not the principal repayment) is now very low in historic terms (in relation to incomes, and indeed relative to the cost of renting equivalent accommodations). This goes a long way to explaining the continued strength of housing activity in Canada, despite rapid growth of house prices.

Another important implication of this analysis is that in analyzing housing affordability, it is important to use the interest rates that can actually be found in the market. Most affordability analysis use the posted rate, which gives a distorted impression of the current level of affordability, and of how current affordability compares to the past.

Mortgages in Retirement

The survey data indicates that there are 480,000 Canadians aged 55 or older who have retired and who have mortgages. Other data from the survey suggests that a large majority of them are comfortable with that situation.

Among the age groups younger than 55 years, about one-in-seven mortgage holders currently expect that they will delay retirement because they will still have a mortgage. Their feelings will be mixed about the trade-offs they have made.

Consumer Sentiment

In this section, consumers were asked to indicate their level of agreement or disagreement with six different statements. A score of 10 would indicate complete agreement while a rating of 1 indicates complete disagreement.

Consumers generally agree (average score of 7.03) with a statement that "low interest rates have meant that a lot of Canadians became homeowners over the past few years who probably should not be homeowners".

But, responses to questions about personal circumstances – ability to weather a potential downturn in home prices (average rating of 7.02) and low levels of "regret" about their own mortgage choices (a low average of 3.60) – paint a different picture. As individuals, Canadians have behaved cautiously. It is not immediately obvious how this contradiction can be resolved. Perhaps the responses to the first question reflect what they are seeing in the media and hearing in comments from opinion leaders more so than reflecting actual behavior.

There is a strong belief that "real estate in Canada is a good long-term investment" (7.17) and agreement that mortgages are "good debt" (7.02).

By a very large margin, Canadian homeowners are happy with their decisions to buy their homes (91% are "happy"). To the extent that some of them regret the decision to buy, the regrets are about the particular property purchased (7%) rather than about homeownership in general (2%). This pattern holds for both recent buyers and those who purchased earlier.

A home is both a place to live and an investment. According to the fall 2016 survey, Canadian homeowners (those who have purchased during the past decade) see their homes as: 73% a place to live and 27% an investment. This allocation is consistent across buyers who purchased during different periods and among different age groups.

Consumers' Expectations About Changes to Mortgage Insurance

This edition of the survey investigated consumers' opinions about the likely effects from the new changes to mortgage insurance. The responses showed a very wide range of opinions.

Analysis of the data discovered a pattern that helps us to understand those varied responses: opinions depend a great deal on whether the person would expect to have a down payment of less than 20%, and therefore whether they would be subjected to the stress test.

People who have a strong expectation that their down payment would be less than 20%:

- Expect that their ability to buy a home or apartment will be severely impacted.
- Expect that the overall housing market will be weakened (although they also expect that the impact on themselves will be much greater than the overall impact. This is a reasonable view for them to have, given their situations).
- Expect that the economy will be weakened.
- Believe that the "playing field" in the housing market will become less equal.
- Agree that the rules will make it easier for buyers to afford higher interest rates on renewal.
- Agree that it will be harder for them to buy a property in their preferred neighbourhood.

On the other hand, people who have strong expectations about having a down payment of at least 20% have quite different expectations about the impacts of the new rules:

- They expect that the effect on their ability to buy a home or apartment will be neutral.
- They expect that the overall housing market will be strengthened (given that the aim of the new rules is to reduce housing activity, this expectation is hard to justify).
- They expect that the economy will be strengthened (the responses on this are almost identical to the responses on the market impact).
- Believe that the "playing field" in the housing market will become more equal.
- Agree very strongly that the rules will make it easier for buyers to afford higher interest rates on renewal.
- Agree that it will be harder for them to buy a property in their preferred neighbourhood (this response is hard to justify, given the responses on the first point).

The overall impression from this part of the survey is that individuals who might be subject to the stress testing (at the posted rate) may have a good understanding of the various impacts. But people who will not be tested have no particular need to think about the impacts, and for many of them their opinions are probably not based on careful reflection.

To reiterate the findings: people who expect that they would be subject to the stress test expect to experience substantial negative impacts on themselves and that there will be negative impacts in the housing market and the broader economy.

Outlook for the Mortgage Market

Growth of mortgage credit in Canada is driven by several factors. The most important is the volume of new housing that is completed and requires mortgage financing. In the wake of the rule changes for mortgage insurance, housing completions are expected to slow, starting in late 2017 and into 2018.

Another significant factor is that low interest rates mean that consumers pay less for interest and, therefore, are able to pay off principal more rapidly. Current low interest rates have, therefore, tended to reduce the growth rate for mortgage debt.

Resale market activity and price growth tend to increase the growth rate for mortgages. To the extent that the new mortgage test rules reduce housing activity, there will be a slowdown of credit growth.

A further factor, which will persist for the long term, is that Canadians move away from slow growth communities to high-growth areas that have higher house prices and larger associated mortgages. This factor drives as much as a quarter of mortgage growth in Canada.

Mortgage credit growth in Canada has averaged 7.1% per year during the past decade. The growth rate has slowed, and is currently 6.1% year-over-year (as of August). The growth rate is likely to slow gradually during 2017 (to about 3.5% by year-end). As housing completions slow during 2018, the growth rate for mortgage credit will continue to fall, to 1.5%.

By the end of 2016, total outstanding residential mortgage credit is forecast at $1.45 trillion. By the end of 2017 the figure may be just under $1.5 trillion, and at the end of 2018 the total may be $1.525 trillion.

About Mortgage Professionals Canada

Mortgage Professionals Canada is the national mortgage broker channel association representing the largest and most respected network of mortgage professionals in the country. Its membership is drawn from every province and from all industry sectors. Through its extensive membership database, Mortgage Professionals Canada provides consumers with access to a cross-country network of the industry's most respected and ethical professionals.

The association ensures an effective and efficient mortgage marketplace by:

- Promoting consumer awareness of the benefits of dealing with the mortgage broker channel
- Advocating for member interests on legislative and regulatory issues
- Developing, monitoring and promoting responsible mortgage industry standards and conduct
- Providing timely and relevant information to members and mortgage consumers

About the Author

Will Dunning is an economist, and has specialized in the analysis and forecasting of housing markets since 1982. In addition to acting as the Chief Economist for Mortgage Professionals Canada, he operates an economic analysis consulting firm, Will Dunning Inc.

About Bond Brand Loyalty

Bond Brand Loyalty is a wholly owned subsidiary of Maritz Inc., the largest performance improvement company in the world, headquartered in St. Louis, Missouri. For more than 20 years, Maritz Inc. has been one of the largest providers of customer satisfaction research in North America, and a major supplier of research, helping clients understand Choice, Experience, and Loyalty to their brand. In Canada, Bond Brand Loyalty has been developing marketing research solutions for Canadian clients under the Thompson Lightstone and Maritz brands since 1977, and has grown to become one of Canada's largest full-service marketing research consultancies.

Disclaimer

This report has been compiled using data and sources that are believed to be reliable. Mortgage Professionals Canada, Bond Brand Loyalty, Will Dunning, and Will Dunning Inc. accept no responsibility for any data or conclusions contained herein.

The opinions and conclusions in this report are those of the author and do not necessarily reflect those of Mortgage Professionals Canada or Bond Brand Loyalty.

2.0 Mortgage Choices

This section uses data from the consumer survey to highlight consumer choices in the mortgage market.

Dimensions of the Mortgage Market

There are currently about 14.3 million households in Canada[2], including:

- 9.86 million homeowners, of whom 5.78 million have mortgages. Of these, 1.40 million also have Home Equity Lines of Credit (HELOCs) and 4.38 million have a mortgage without a HELOC.
- 510,000 have no mortgage but do have a HELOC.
- In total, about 1.91 million homeowners have HELOCs. Of these, about 440,000 have a zero balance owing.
- 3.57 million have neither a mortgage nor HELOC.
- There are about 4.44 million tenants.

Housing and Mortgaging Activity During 2016

Combining various data from the consumer survey, it is estimated that:

- By year-end, about 690,000 households will live in homes that they purchased during the year (newly-constructed or resale). The average price is $376,000, for a total value of $259 billion.
- Of these, about 75,000 did not take out any financing. Out of the 615,000 who took out financing (a mortgage and/or HELOC), 510,000 took out a mortgage only, 25,000 took a HELOC only, and 80,000 took out both a mortgage and a HELOC.
- The total amount of financing (mortgages plus HELOCs) for these recent buyers is $172 billion.
- The average loan to value ratio (including mortgages and HELOCs) of these recent purchasers is 66%.
- Among these recent homebuyers, 35% (about 240,000) also sold their existing home. Two-thirds of these traded-up (purchasing a home that cost more than the home they sold) and one-third traded-down. Among these 240,000 homebuyers, the average change was an increase of $66,000 (14%).
- Out of the 240,000 homebuyers who also sold a home, about 64% had a mortgage on the previous home, with an estimated total principal of $28 billion, which would have been discharged or transferred at the time.

---

[2] The estimates of total homeowner and renter households are based on data from Statistics Canada's 2011 National Household Survey, updated using data from Canada Mortgage and Housing Corporation on housing completions and changes in vacancies. The estimates of types of finance are derived from the consumer survey.

- The combination of $172 billion in financing on purchased homes minus $28 billion on prior dwellings means that home purchases in 2016 have resulted in a net credit growth of $144 billion.
- Based on the survey data, 210,000 Canadian homeowners fully repaid their mortgages during 2016. The combined total of their original mortgage amounts is estimated at $37 billion.
- About 950,000 homeowners will renew or refinance their mortgages during 2016. The remaining principal for these mortgages averages $199,000, for a combined total principal of $189 billion. About 330,000 of the borrowers who will have renewed their mortgages in 2016 also have HELOCs (although of these about 130,000 have a nil balance owing on the HELOC). Among the 200,000 who owe money on a HELOC, the average owed is $95,000, for a combined total of $19 billion.

Other findings on mortgaging activity include:

- The fall 2016 survey estimates that 860,000 homeowners (9% of all homeowners) took equity out of their homes during the past year, adding about $30 billion to their home mortgages and $11 billion to their HELOCs, for a combined amount of $41 billion.
- Based on the various information provided by consumers, it is estimated that regular mortgage payments average $1,508 per month. For the 5.78 million mortgage holders in Canada, this amounts to total payments of just under $105 billion per year. This includes $30 billion for interest payments and $74 billion in paydown of mortgage principals. As such, across all mortgage holders, out of total regular mortgage payments, just 29% is for interest and 71% is for principal repayment.
- In addition, it is estimated later in this section that about one million current mortgage holders made lump sum payments in the past year, totaling $17 billion.
- Furthermore, among the 210,000 Canadians who have (or are expected to) repaid their mortgages during 2016, lump sum payments total about $5 billion.
- About 925,000 mortgage holders voluntarily increased their regular payments during the past year, by amounts that equate to $4.1 billion per year.

The reader is cautioned that these estimates are based on a sample survey and, as such, are subject to variation.

Fixed-Rate Vs Variable-Rate Mortgages

The study found that 68% of mortgage holders (3.93 million out of 5.78 million) have fixed-rate mortgages, 26% (about 1.5 million) have variable-rate or adjustable-rate mortgages, and 6% (about 350,000) have "combination" mortgages, in which part of the payment is based on a fixed rate and part is based on a variable rate. As is shown in the first column of the first table, among mortgages for homes that were purchased during 2016, fixed-rate mortgages were chosen much more frequently, with the share at 80%. Among these recent buyers, 84% of first-time buyers chose fixed-rate mortgages versus 66% for repeat buyers. For mortgages that have been renewed this year, the fixed-rate share is lower, but at 74% it remains the majority choice. This year, the spread between fixed-rate mortgages and variable-rate mortgages (both on 5-year

terms) has only been about one-quarter of a percentage point. This spread can be seen as the cost of "insurance" that the monthly mortgage cost will be unchanged for five years. With the cost of that insurance now quite low, an increased share of home buyers are opting for the security of a fixed rate. A sizable minority of borrowers is choosing the lower payment associated with a variable-rate mortgage rather than the higher (but secure) cost of a fixed-rate mortgage.

Table 2-1
Percentages of Mortgages by Type,
for New Purchase Mortgages and Recent Renewals

Mortgage Type	*Purchase During 2016*	*Renewal or Refinance During 2016*	*Did Not Purchase or Renew/Refinance During 2016*	*All Mortgages*
Fixed Rate	80%	74%	66%	68%
Variable or Adjustable Rate	17%	21%	27%	25%
Combination	3%	6%	6%	6%
All Types	100%	100%	100%	100%

Source: Mortgage Professionals Canada survey, Fall 2016; Analysis by the author.

Mortgage Amortization Periods

Mortgage holders were asked several questions related to mortgage amortization, to profile their choices and expectations.

- Mortgage holders were asked about the contracted amortization periods at the time the mortgages were initiated, and when they expect to have their mortgages repaid. This data is used to compare their current expectations to the original amortization periods.
- Then, more detailed information is obtained on actions taken by mortgage borrowers to shorten or lengthen their amortization periods, (e.g., through voluntary payment increases, lump sum payments, etc.).
- On the other hand, equity take-out adds to indebtedness.

A large majority of residential mortgages in Canada have contracted amortization periods of 25 years or less. The first column of the next table indicates that 84% of mortgages have original contracted periods of no more than 25 years and 16% have original contracted periods exceeding 25 years. For homes that have been purchased recently (during 2014 to 2016), the proportion with amortization periods of 25 years or less is lower, but at a still-high 75%. The share with extended amortization periods had increased during the prior half decade due to the availability of longer term mortgages (during 2009 to 2012, the average contracted amortization period was longer, at 23.8 years). But, since July 2012, the maximum amortization period for insured mortgages is 25 years. Uninsured mortgages can be amortized over longer periods.

As is discussed in the next section, large numbers of mortgage holders are taking action to shorten their amortization periods, and expect to repay their mortgages in less than the contracted amount of time.

Table 2-2 *Percentages of Mortgages by Length of Original Amortization Period*		
Amortization Period	*All Mortgages*	*Purchase During 2014-16*
Up to 24 Years	45%	36%
25 Years	40%	47%
26-30 years	11%	15%
More than 30 Years	4%	1%
Total	100%	100%
Average Amortization Period	21.4	22.4
Source: Mortgage Professionals Canada survey, Fall 2016; Analysis by the author.		

Actions that Accelerate Repayment

The Mortgage Professionals Canada survey asked homeowners who have mortgages about actions that can change the number of years it takes to pay off a mortgage. Three different actions were listed. The responses are summarized in the next table. Mortgage holders who purchased their homes during 2005 to 2009 are most likely to take one or more of these actions. Those who purchased most recently (during 2014 to 2016) are slightly below average in taking one or more of the actions.

Table 2-3 *Actions Taken in the Past Year to Shorten Amortization Periods, by Period of Purchase*					
Period of Purchase	*Increased Amount of Payment*	*Made a Lump Sum Payment*	*Increased Frequency of Payments*	*Took One or More of these Actions*	*Took None of these Actions*
Before 1990	8%	5%	Nil	13%	87%
1990s	6%	9%	8%	20%	80%
2000-2004	17%	11%	9%	37%	63%
2005-2009	22%	22%	10%	42%	58%
2010-2013	18%	21%	6%	38%	62%
2014-2016	13%	28%	7%	32%	68%
All Purchase Periods	16%	18%	8%	35%	65%
Number Taking Action (1)	925,000	1,025,000	450,000	2,050,000	3,750,000
Source: Mortgage Professionals Canada survey, Fall 2016; Analysis by the author. (1) *total does not add to 5,780,000 due to rounding.*					

The survey also collected data on the dollar amounts of increased payments and lump-sum payments. Various survey data can be combined to estimate total amounts.

- About 925,000 mortgage holders voluntarily increased their regular payments during the past year. The average amount of increase was about $375 per month, for a total of just over $4 billion per year. This is the effect of increases that were made during the past year. In addition, voluntary increases that were made in prior years continue to contribute to accelerated repayment of mortgages.
- Just over one million made lump sum payments during the past year. The average amount was about $16,600, for combined repayment estimated at $17 billion.
- As shown in the previous table, 8% of mortgage holders (about 450,000) increased the frequency of their payments.
- 35% of mortgage holders (about 2.0 million out of 5.78 million) took one or more of these three actions during the past year.

In addition, the survey asked homeowners without mortgages when they had repaid their mortgage. About 210,000 borrowers will have repaid their mortgages by the end of this year. On average, lump sum payments of $24,000 are being made at the time of pay-off, for a combined total of just over $5 billion for 2016.

The survey data indicates that total regular mortgage payments average $1,508 per month. Of this $439 (less than 30%) is for interest and $1,069 is repayment of principal. Among the most recent buyers (2014 to 2016) the average monthly mortgage payment is $1,799, which includes $609 for interest (34% of the total payment) and $1,190 for principal repayment (66% of the total payment).

This snapshot of efforts to accelerate amortization portrays activity during a short period of just 12 months. Similar efforts have been found in the prior editions of the survey, resulting in considerable shortening of actual amortization periods compared to the originally contracted amortization periods.

On the other hand, out of 9.86 million homeowners, about 9% (860,000) took out equity during the past year. The total amount of takeout is estimated at $41 billion. Most of this ($30 billion was through increasing their mortgage amounts, and $11 billion was borrowed via HELOCs[3]. Equity takeout averaged about $47,000 per household that took out equity.

These activities, in combination, are shortening amortization periods.

[3] In issues of these reports up to the spring of 2013, equity takeout was calculated only for takeout via increased mortgage principals. Therefore, equity takeout calculations here should not be compared to estimates in the prior reports.

- Among homeowners who purchased during 2014 to 2016, the average expected total amortization period is 18.8 years, which is 3.6 years shorter than their average contracted amortization period of 22.4 years.
- The expected amortization period for these recent buyers is slightly shorter than for buyers who purchased during 2010 to 2013 (19.2 years) and for buyers who purchased during 2005 to 2009 (19.9 years).
- In total, more than half of mortgage holders (57%) expect to pay off their mortgages in less than their contracted amortization period. For the most recent buyers, the figure is 61%.
- For Canadians who previously had a mortgage but have paid it off, on average the actual periods were 6.1 years shorter than the originally contracted periods.
- For current mortgage holders, actual amortization periods will of course depend on their evolving circumstances. Regardless of uncertainty about future incomes, the survey data show that Canadian homebuyers are focused on retiring their mortgages.

Renting Secondary Suites

This edition of the survey investigated the extent to which homeowners (with or without mortgages) either rent or plan to rent an area (e.g., basement, room in a house, etc.) within their primary residence. The survey found that 8% of home owners (820,000 out of 9.86 million) do rent part of their dwelling. Another 4% (400,000) plan to do so in future. On the other hand, 88% (8.64 million) do not have any plans to do so. Looking at the population in different ways:

- For homeowners with mortgages, 10% rent out part of their home and a further 6% plan to; 84% do not. For owners without mortgages, lower shares rent (6%) or plan to (2%) and a higher share (92%) do not.
- First-time buyers are more likely to rent out part of their home (at 11% versus 6% for owners who have owned more than one home) or plan to (6% versus 3%). 84% of first-time buyers do not have such plans, versus 91% for repeat buyers.
- Looking at homeowners by age groups, the 18 to 34 bracket is most likely to rent out part of their home (12%) or plan to (8%) while 80% do not. In the middle (35 to 54), 9% rent out, while 5% plan to, but 87% do not. For homeowners aged 55 or older, 6% rent out or 1% plan to, while 92% do not.
- Looking at the dates when the homes were purchased, the tendencies are similar for purchases that happened in 2000 or later, with 8% renting out part of their home, 5% planning to do so, and 87% without such plans. For purchases that occurred before 2000, 7% rent and 1% plan to, while 92% do not.
- The responses show little variation across the regions of the country.

The mortgage holders who do rent part of their dwelling were asked to characterize their situations (from a list of 4 choices):

- 24% indicated: "I need to rent a room/unit in my home to afford my mortgage".
- 15% chose: "I would have to make major lifestyle changes if I did not have rental income".

- 18% responded: "I would have to make minor lifestyle changes if I did not have rental income".
- 42% selected: "I don't need to rent a room/unit in my home to afford my mortgage but I choose to".

As is illustrated in the next table, the responses vary by age group. The answers from the youngest and middle age brackets indicate that one half of them need the additional income (as they selected the first or second responses). For the oldest age bracket, the predominant selection of the fourth responses indicates that the choice to have a tenant is often a preference, rather than a financial need. Among the youngest and middle age group, there are also significant minorities for which the space is rented as a preference rather than due to financial need.

Table 2-4
Homeowner Reasons for Renting Out Part of their Homes, by Age Group

Reason	*18-34*	*35-54*	*55 +*	*All Ages*
I need to rent a room/unit in my home to afford my housing costs	28%	29%	14%	24%
I would have to make major lifestyle changes if I did not have rental income	21%	21%	2%	15%
I would have to make minor lifestyle changes if I did not have rental income	11%	21%	19%	18%
I don't need to rent a room/unit in my home to afford my housing costs but I choose to	40%	29%	64%	42%
Total	100%	100%	100%	100%

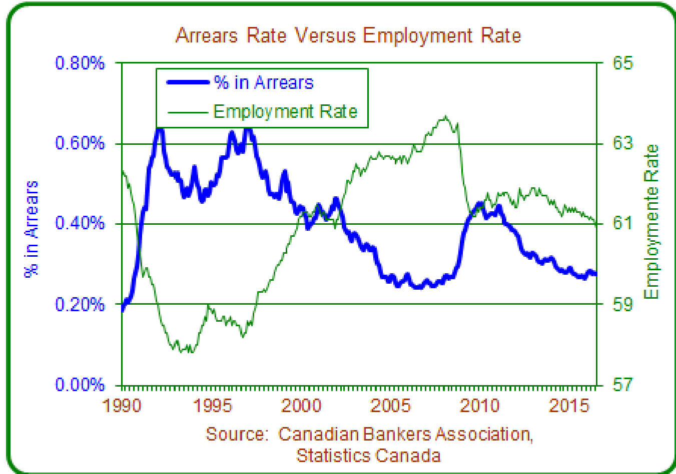
Source: Mortgage Professionals Canada survey, Fall 2016; Analysis by the author.

These "secondary suites" often reside in grey areas, in regard to municipal zoning and property standards (as well as insurance). Given that secondary suites have for many years been an important source of support for homebuyers, as well as an important source of moderate cost rental accommodations, it would be useful for municipalities to clarify and simplify the processes for complying with their standards, and communicate them within their communities.

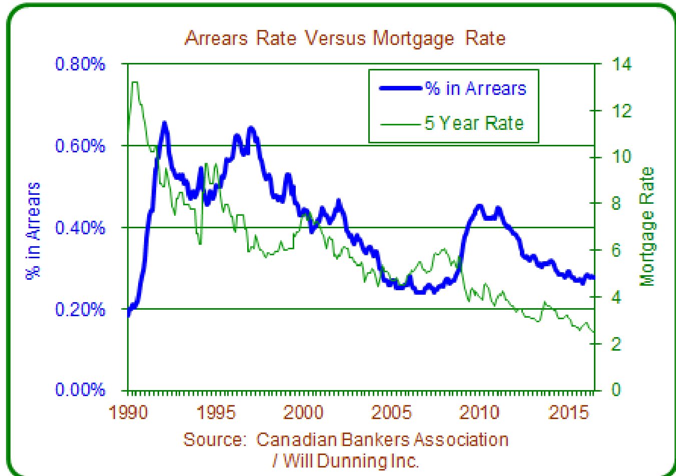
Mortgage Arrears

Data on mortgage arrears from the Canadian Bankers Association, which covers 10 major banks, shows that a very small percentage of Canadian mortgage holders are behind on their payments (this data shows mortgages that are three or more months in arrears). As of July 2016, the arrears rate of 0.28% (1-in-360 borrowers) is quite low in historic terms.

In Canada, most mortgage defaults are due to reduced ability to pay, especially including job loss, but also income reductions due to reduced hours or reduced hourly pay rates. Marital breakdown is also a cause of financial difficulty (this usually fits into the category of reduced ability to pay). The chart to the right illustrates the importance of changes in the employment situation. It contrasts arrears rates with the Canadian "employment rate" (the percentage of adults who are employed). This data shows very clearly that changes – up or down – in the employment rate are followed in a few months by changes in the arrears rate (in the opposite direction). The recent data appears, at first glance, to show a breakdown in that relationship, as the employment rate for Canada has slipped in recent times but there has not been a corresponding change (a rise) in the arrears rate. This can be explained by looking at the provinces individually. Several provinces (the oil producing provinces plus Manitoba and Atlantic Canada) have falling employment rates and they have the (expected) rising arrears rates. Quebec, Ontario, and British Columbia are stronger economically and have falling arrears rates (as we would expect).



Mortgage defaults can also be caused by unaffordable rises in mortgage costs. This chart illustrates that there is a very weak relationship between changes in mortgage interest rates and the arrears rate: the employment situation is much more important. This is confirmed by statistical analysis[4]. The greater strength for the employment rate is because a problem with increased mortgage costs can usually be solved if the borrower has a steady income (for example, rescheduling payments by extending the amortization period), whereas problems caused by the loss of a job are much more difficult to address.



[4] For the technically-minded: regression analysis of the arrears rate against the employment rate and the mortgage interest rate results in a t-statistic of -25.8 for the employment rate (very strongly significant) but just -1.0 for the interest rate (not statistically significant). Based on the statistical analysis, a one point rise in the employment rate has an impact 37.5 times larger compared to a one point rise in the mortgage interest rate.

Types of Mortgage Representatives Consulted

Mortgage holders were asked from which type of representative they obtained their current mortgage on their primary residence.

For all current mortgages on homes, 56% were obtained from a bank (in the last column of data in the table below). Mortgage brokers had a 33% share, credit unions were the source for 7% of these mortgages, followed by 2% from life insurance or trust companies and just 2% reported obtaining their mortgage via an "other" source.

For recent homebuyers (the first column of data), 47% of mortgages were obtained from banks, 43% from mortgage brokers, 5% from credit unions, just 2% from life insurance and trust companies, and 4% from "other".

For renewals and refinances, there was a higher tendency to use banks (67%). One-quarter of renewals and refinances occurred via mortgage brokers (25%), and just 8% occurred via the remaining sources.

Table 2-5
Consumers' Use of Mortgage Representatives

Type of Mortgage Representative	*Purchase During 2016*	*Renew or Refinance During 2016*	*Not Active During 2016*	*All Mortgage Holders*
Mortgage Representative from a Canadian Bank	47%	67%	56%	56%
Mortgage Broker	43%	25%	33%	33%
Mortgage Representative from a Credit Union	5%	5%	7%	7%
Mortgage Representative from a Life Insurance or Trust Company	2%	2%	2%	2%
Other	4%	1%	2%	2%
Total	100%	100%	100%	100%

Source: Mortgage Professionals Canada survey, Fall 2016; Analysis by the author.

Measured as a share of total mortgage principals, for purchases during 2016, banks account for 49%, mortgage brokers for 45%, and the other categories of mortgage professionals account for 6%.

3.0 Financial Parameters

Interest Rates

The consumer survey collected data on mortgage interest rates for current mortgage holders. The average mortgage interest rate for these mortgage borrowers is 3.02% as of the fall of 2016, and down from the 3.07% rate seen in the fall of 2015.

Very few residential mortgages in Canada have high interest rates. In this survey, only 3% of mortgages have interest rates of 5% or more and 1% have rates of 8% or more.

The next table looks at average mortgage interest rates by type of mortgage, for all mortgages and for three subsets: mortgages for homes purchased during 2016 up to the date of the survey, renewals this year, and mortgages for which there was neither an initiation nor renewal this year.

This survey data shows that:

- For mortgages that have been initiated or renewed this year, interest rates are generally equal to or lower than interest rates for all mortgages.
- Interest rates vary depending on mortgage type, with fixed-rate mortgages generally having higher rates than for variable/adjustable mortgages. For mortgages for new purchases that occurred during 2016, the spread between fixed versus variable/adjustable rates is just 0.10 percentage points.

Table 3-1
Average Mortgage Interest Rates

Activity During 2016	*Mortgage Type*			*All Types*
	Fixed Rate	*Variable or Adjustable Rate*	*Combination*	
Purchases During 2016	2.79%	2.69%	NA(1)	2.76%
Renewals During 2016	2.71%	2.58%	3.01%	2.70%
Not Active During 2016	3.11%	2.71%	2.99%	3.02%
All Mortgages	3.02%	2.70%	2.97%	2.95%

Source: Mortgage Professionals Canada survey, Fall 2016; Analysis by the author.
Note: (1) *insufficient data to produce an estimate*

The survey also asked those who have renewed a mortgage what the interest rate was prior to renewal, and those rates have been compared to the mortgage borrower's current rates. The results are summarized in the next table. It shows that, among borrowers who have renewed a mortgage during 2016, almost two-thirds (64%) had a reduction in their interest rate. One-quarter (26%) had an increase and 10% had no change. On average, for all mortgages renewed during this year, the interest rate was reduced by 0.40 percentage points.

Table 3-2 *Changes in Mortgage Interest Rates for* *Mortgages Renewed During 2016*			
Change in Interest Rate	*Fixed Rate*	*Variable or Adjustable Rate*	*Total*
% with Rate Decreased	66%	54%	64%
% with Rate Unchanged	9%	16%	10%
% with Rate Increased	25%	30%	26%
Total	100%	100%	100%
Average Change in Interest Rate (percentage points)	-0.41	-0.18	-0.40
Source: Mortgage Professionals Canada survey, Fall 2016; Analysis by the author.			

Combining the various estimates developed in this study, out of 5.78 million homeowners who have mortgages:

- About 950,000 will renew their mortgage during 2016.
- For 600,000 to 625,000, their mortgage rates will have fallen.
- About 100,000 will have no change in their interest rate.
- About 225,000 to 250,000 will have their rates increase. For three–quarters of these, the increase is 0.5 percentage points or less.
- Very few of these households (estimated at about 30,000) have seen increases of 1 percentage point or more.

The data from this study indicates that few mortgage borrowers have been negatively affected by increases in interest rates for their mortgages.

Mortgage Rate Discounting

As was reported earlier, for new homes purchased during 2016, the average interest rate for fixed-rate mortgages was 2.79%. Since the start of 2016, posted rates for 5-year terms have averaged 4.66%[5]. The much lower actual rates found by the survey confirm that there is a substantial amount of discounting in the mortgage market.

This section uses the survey data to generate an estimate of the extent of discounting.

The study group includes a wide range of mortgages, including a full range of lengths of term to renewal, fixed-rate versus variable-rate mortgages, and mortgages that have been originated over a prolonged period. This results in a wide range of mortgage rates. In order to produce a

[5] Source: For posted rates, data are obtained from the Bank of Canada, using "conventional mortgage" rates (estimated as of each Wednesday), up to November 2.

meaningful summary of the interest rates, one subset of the study group was selected for further analysis:

- Mortgages that were initiated, renewed, or refinanced since the beginning of 2016.
- With fixed rates, rather than variable rates.
- With five-year terms.

For this group of mortgage borrowers:

- The average mortgage interest rate is 2.72%. In contrast, the average posted five-year mortgage rate over the same period was 4.66%. Based on this data it appears that Canadians negotiated mortgage rate discounts averaging 1.94 percentage points (for five-year terms).
- Within this subset of the database, just one response had an actual interest rate higher than the average posted rate (at 5.2%).
- The lowest interest rate reported within this group was 2.00%.

Housing Equity

The consumer survey provides data that can be used to generate estimates of home equity in Canada: the equity amounts are calculated by comparing the current value of owner-occupied homes in Canada with the associated mortgages and HELOCs.

The next table shows the estimates of equity positions for four groups of homeowners. In the current survey, the overall equity position is estimated at 74%. In other words, for every $1,000 in house value in Canada, there is about $260 of debt (mortgage and/or HELOC) and $740 of homeowner equity.

Two main findings have been consistent across these annual surveys:

- For all homeowners, more than 85% have equity ratios of 25% or higher (this includes owners with housing related debt and those with no housing related debt). This year, the figure is 89%.
- Even among the 5.78 million homeowners who have mortgages (with or without a HELOC), more than 75% have equity ratios of 25% or higher.

The data for the fall of 2016 indicates that out of 9.86 million homeowners in Canada, 8.75 million have 25% or more equity. On the other hand, fewer than 250,000 (2.5% of homeowners) have less than 10% equity.

Combining data from the survey, the total value of owner-occupied primary residences in Canada is estimated at $4.66 trillion. Associated finance (mortgages and HELOCs) on these

dwellings is estimated to total $1.23 trillion. In consequence, as of the fall of 2016, total homeowner equity in Canada exceeds $3.4 trillion[6].

Table 3-3 ***Equity Ratios for Canadian Homeowners, as of Fall 2016***					
Equity as Percentage of Home Value	*HELOC only*	*Mortgage only*	*Mortgage and HELOC*	*Neither Mortgage Nor HELOC*	*Total*
Negative Equity	0%	1%	1%	0%	< 1%
0-4.99%	0%	1%	3%	0%	1%
5-9.99%	0%	2%	1%	0%	1%
10-14.99%	0%	3%	2%	0%	1%
15-24.99%	0%	13%	11%	0%	7%
25-49.99%	12%	35%	26%	0%	20%
50-74.99%	16%	25%	38%	0%	17%
75-99.9%	61%	20%	20%	0%	15%
100%	11%	0%	0%	100%	37%
Total	100%	100%	100%	100%	100%
Number of Households	510,000	4,380,000	1,400,000	3,570,000	9,860,000
25% or more	100%	80%	83%	100%	89%
Average Equity Ratio	83%	55%	58%	100%	74%
Source: Mortgage Professionals Canada survey, Fall 2016; Analysis by the author.					

Among Canadian homeowners who have HELOCs, not all of the available funds have been accessed. The survey data indicates that the average approved HELOC is $168,000, but the actual amount owed averages about $67,000. As such, HELOC holders have, on average, accessed 40% of the available amounts. The survey found that 23% of HELOC holders do not currently owe anything on the HELOC. On the other hand, 7% have fully utilized the available HELOC.

[6] These calculations are for homes that are occupied by their owners as "principal residences". They exclude second homes (such as cottages), as well as investment properties and vacant dwellings.

Table 3-4 *Percentages of Available HELOCs Advanced, as of Fall 2016*	
% Advanced	*% of HELOC Holders*
0%	23%
0.1% to 10%	8%
10.1% to 25%	13%
25.1% to 50%	15%
50.1% to 75%	13%
75.1% to 90%	11%
90.1% to 99.9%	9%
100%	7%
Total	100%
Source: Mortgage Professionals Canada survey, Fall 2016; Analysis by the author.	

A further analysis of equity looks at how the equity ratios vary depending on when the homes were purchased. Results are summarized in the next table. Even for the most recent purchase period (2014 to 2016), there is considerable home equity: within that group, 74% have 25% or more equity. On the other hand, among the most recent purchasers, just 8% have less than 10% equity.

Table 3-5 *Equity Ratios for Canadian Homeowners, as of Fall 2016, by Period of Purchase*							
Equity as Percentage of Home Value	*Before 1990*	*1990-1999*	*2000-2004*	*2005-2009*	*2010-2013*	*2014-2016*	*Total*
Negative Equity	0%	1%	0%	1%	1%	1%	1%
0-4.99%	0%	0%	0%	1%	1%	3%	1%
5-9.99%	0%	0%	0%	1%	1%	4%	1%
10-14.99%	0%	1%	1%	0%	1%	6%	1%
15-24.99%	0%	3%	2%	7%	11%	13%	7%
25-49.99%	1%	8%	10%	19%	31%	32%	20%
50-74.99%	7%	5%	14%	28%	21%	13%	17%
75-99.9%	13%	15%	29%	15%	10%	6%	15%
100%	79%	69%	43%	28%	23%	22%	37%
Total	100%	100%	100%	100%	100%	100%	100%
25% or more	100%	96%	96%	90%	86%	74%	89%
Source: Mortgage Professionals Canada survey, Fall 2016; Analysis by the author.							

Equity Takeout

The survey data indicates that 9% of all homeowners (860,000 out of 9.86 million homeowners) took out equity from their homes or increased the amount of the mortgage principal within the past 12 months. This matches the share seen a year ago, but is lower than the estimates for prior years (which were typically about 11%).

The total amount of takeout is estimated at $41 billion, and the average amount of equity takeout is estimated at about $47,600. Out of the $41 billion, $30 billion was via increases to mortgage principals and $11 billion was via HELOCs.

Those who took out equity were asked what they used the money for. Some people indicated more than one purpose. Based on the responses, it is estimated that:

- $11.6 billion (28%) of the money would be used for debt consolidation or repayment.
- $12.8 billion (31%) would be used for renovation or home repair.
- $3.9 billion (9%) would be used for purchases (including spending for education).
- $9.1 billion (22%) is for investments.
- $3.6 billion (9%) is for "other" purposes.

Further analysis found that takeout was considerably less frequent for recent buyers (5% among homeowners who purchased during 2014 to 2016, versus the overall average of 9%). This action was most common among owners who purchased during the decade of the 2000s.

Table 3-6
Percentages of Homeowners Taking Out Equity During the Past Year, by Period of Home Purchase

Period of Purchase	*% Taking Equity*
Before 1990	8%
1990s	10%
2000-2004	16%
2005-2009	14%
2010-2013	8%
2014-2016	5%
All Periods	9%

Source: Mortgage Professionals Canada survey, Fall 2016; Analysis by the author.

The next table compares equity positions for buyers who have taken out equity versus those who have not. This data shows that, for those who have taken out equity, equity ratios are very similar for all homeowners. Notably, among those who have taken out equity, there are very few

who have little equity remaining. Out of 860,000 who took out equity, none have less than 10%, 20,000 have 10% to 14.9% equity. On the other hand, over 700,000 have more than 25% equity.

Table 3-7
Equity Positions for Homeowners Taking Out Equity During the Past Year Versus Those Who Have Not Taken Equity Out

Equity as Percentage of Home Value	*Did Not Take Out Equity*	*Took Equity*	*All Homeowners*
negative equity	< 1%	0%	< 1%
0-4.99%	1%	0%	1%
5-9.99%	1%	0%	1%
10-14.99%	1%	2%	1%
15-24.99%	5%	15%	7%
25-49.99%	15%	29%	20%
50-74.99%	14%	20%	17%
75-100%	63%	34%	52%
Total	100%	100%	100%
< 10%	2%	0%	3%
25% or more	92%	83%	89%

Source: Mortgage Professionals Canada survey, Fall 2016; Analysis by the author.

Sources of Down Payments by First-Time Homebuyers

Starting with the fall 2014 report, this survey has explored down payments made by first-time buyers. Homeowners have been asked when they bought their first home, and how large the down payment was as a percentage of the purchase price. The responses indicate that down payment amounts have been quite stable over time, at an average close to 20%.

Table 3-8
Average Down Payment for First-Time Homebuyers, by Period of Purchase

Period	*% Down-Payment*	*% With Down Payment of Less than 20%*
Before 1990	22%	53%
1990-1999	20%	50%
2000-2004	20%	54%
2005-2009	21%	48%
2010-2013	20%	42%
2014-2016	23%	39%
Total	21%	49%

Source: Mortgage Professionals Canada survey, Fall 2016; Analysis by the author.

Comments have been made about a growing role for the "Bank of Mom and Dad". The suggestion is that, in a more expensive housing market, parents are increasingly helping their children with down payments, via gifts and loans: the children need larger down payments; because the value of the parental home has increased rapidly during the past decade and a half, the parents are in a better position to assist the children.

The data indicates that there is truth to the suggestion that parents are providing more help, but it also shows that this help is less significant than may be imagined. The next table summarizes the responses on sources of down payments.

Looking at the table's bottom line, the largest source of down payments has, by far, been the buyers' personal savings. Help from parents is a considerably smaller source, including help in the form of gifts (9%) and loans (5%), for a total of 14%. Loans from financial institutions (26%) have constituted a major source of funds for down payments as have withdrawals from RRSPs (8%).

There have been some interesting changes over time:

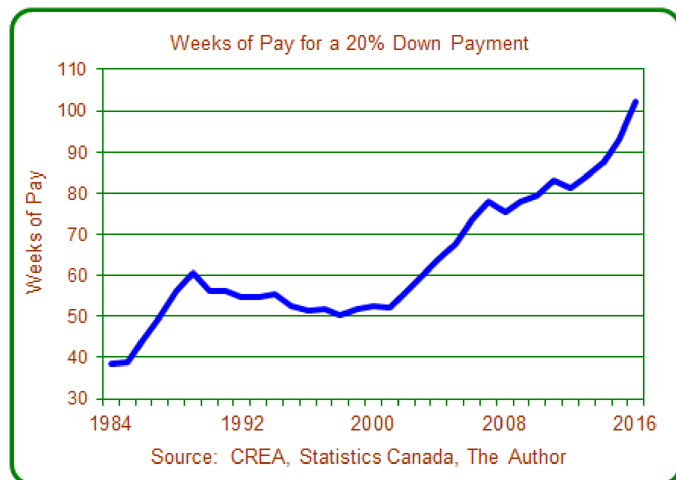
- Personal savings have not diminished as a source. In fact, the data for the most recent buyers shows a share that is slightly above the long-term average.
- On the other hand, withdrawals from RRSPs are now much higher than in the earlier years (because the Home Buyers' Plan, or HBP, which allows tax-free access to RRSP funds, started in 1992). However, the share for RRSPs has fallen quite substantially from the peak seen during 2000 to 2004. This is because the maximum amounts allowed under the HBP have not kept up with rising prices.
- Combining personal savings plus RRSP withdrawals, the combined share has been relatively consistent (at an average of 57%). The implication is that the role of personal savings has not really changed, but the advent of HBP provided an opportunity to save some income tax.
- Combining two categories of support from family members (gifts and loans), the share has trended upwards over time. The share for the most recent period (18%) is above the long-term average of 14%. But, even at this recently elevated share, we cannot say that this source of funds has become an important driver of home buying, contrary to some often-heard opinions.
- The share provided by loans from financial institutions has trended downwards during the past decade, and the most recent share (19%) is below the long-term average (26%).

Table 3-9 *Sources of Down Payments for First-Time Homebuyers, by Period of Purchase*								
Period of Purchase	*Personal savings or co-buyer's personal savings*	*Gift from parents/ other family members*	*Loan from parents/ other family members*	*Loan from a financial institution*	*Loan from my employer*	*Withdrawal from RRSP (including Home Buyers' Plan)*	*Other*	*Total*
Before 1990	54	5	7	28	1	2	3	100
1990s	44	10	6	28	1	9	3	100
2000-04	46	7	3	27	1	14	2	100
2005-09	44	10	5	27	0	12	1	100
2010-13	45	13	5	23	1	11	3	100
2014-16	51	15	3	19	0	10	2	100
Total	49	9	5	26	1	8	3	100
Source: Mortgage Professionals Canada survey, Fall 2016; Analysis by the author.								

The Rising Cost of Down Payments

Deep reductions for interest rates have created "space" in which house prices could rise (more rapidly than incomes), and still be affordable. That affordability has resulted in strong housing demand, causing housing prices to increase. The rates of increase have varied across the country, depending on local conditions. To varying degrees across the country, house prices have filled some of that available space. Even so, price rises have not fully kept up with the lower interest rates. Therefore, the ability to afford mortgage payments has not been substantially impaired (as will be explored shortly).

On the other hand, the rapid rise in house prices has made it more difficult to save down payments. The chart explores this. It results from comparing the dollar amounts for 20% down payments (based on the average resale house price, reported by the Canadian Real Estate Association) versus the average weekly earnings (as reported by Statistics Canada). It now takes about twice as long to save for a down payment as it did a decade and a half ago.



This is a simplistic presentation, as potential first-time homebuyers do not save all of their income (obviously). Moreover, most of them do not have average incomes or buy average-priced homes. In consequence, actual times required to accumulate down payments will vary. For many prospective home buyers, the time required will be longer than the periods shown.

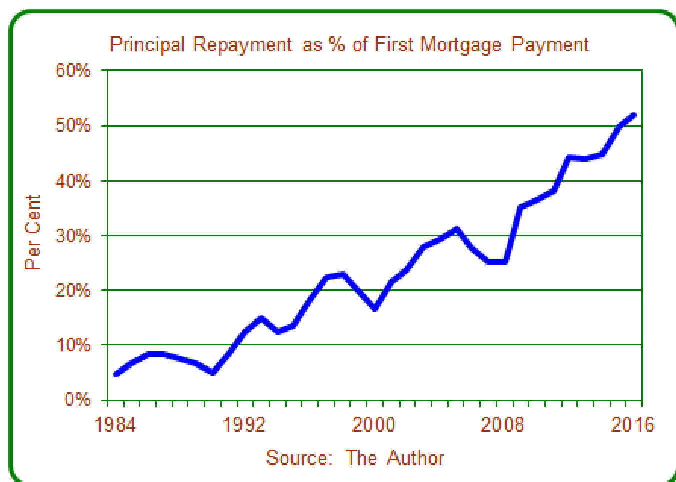
It was shown on the previous page that down payments by first-time buyers have been consistent over a long period of time, at about 20% of purchase prices, and that sources of down payments have changed relatively little. Given the greatly increased burden of down payments relative to incomes, that stability is surprising. It implies that it is now taking longer for first-time buyers to get ready to buy than it did in the past.

Job creation is one of the two main drivers of homebuying activity (the other being affordability). History shows that it takes time for jobs to actually result in purchases, because of the amount of time required to save down payments ("housing activity lags behind job creation"). A corollary of this analysis of worsening down payment burdens is that those lags may be getting longer.

Homeownership as "Forced Saving"

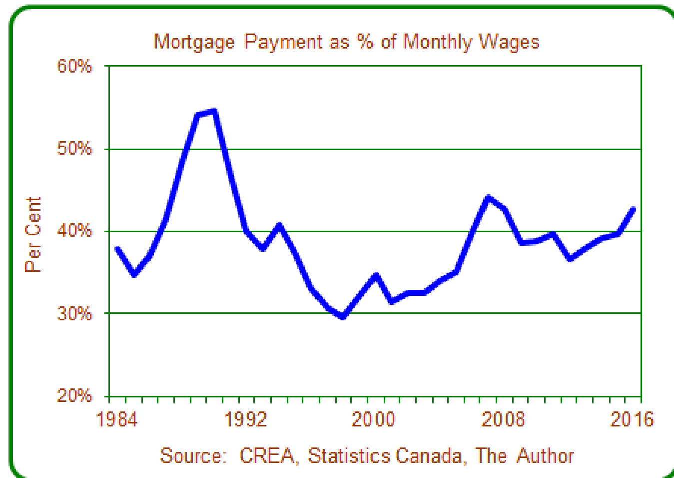
Mortgage payments include a blend of interest and repayment of principal. As was discussed earlier, on average in Canada, total mortgage payments are currently about one-third interest and two-thirds principal repayment.

At the start of a mortgage, the blend between principal and interest depends on the interest rate (and, of course, on the amortization period). At lower interest rates, the monthly payments include a higher amount of principal repayment, in both absolute dollar terms and as a percentage of the monthly payment. Several charts explore the implications of this.



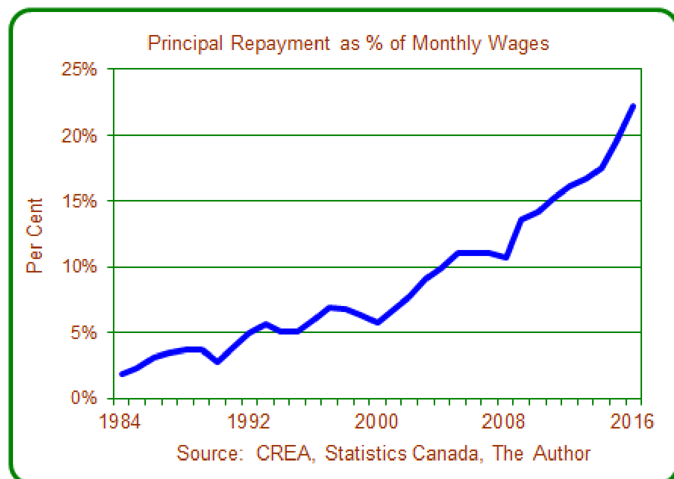
As mortgage interest rates have fallen, the mix has shifted markedly away from interest costs towards principal repayment. This chart shows the evolution of the shares that are principal repayment (assuming a 25-year amortization period, and based on typical rates each year for a five-year, fixed-rate mortgage, after lender discounts). At current discounted interest rates (typically 2.6%) from major lenders, in the first month, 52% of the total payment is repayment of principal. (For a typical variable rate, say 2.35%, the factor would be 56%.) A decade ago, based on interest rates at the time (typically 5.25%), the share would have been 27%. Two decades ago (typical rate of 6.9%), the share would have been 18%.

This chart shows the relationship between monthly mortgage payments for average priced homes (at an 80% loan-to-value ratio, at typical market rates) versus average monthly incomes. Situations for actual families will vary, depending on actual purchase prices, how many income earners there are in the household, and total household incomes. The point being illustrated is that the debt-service burden (in relation to income) has been roughly flat (at an average of 40%) during the past decade. This has occurred despite very rapid growth in house prices. The figure for 2016 (42.7%) is above the average level, but is within the range seen during the past decade.



Recalling that mortgage payments are a mix of interest and principal, many homebuyers will surely consider the components: how much will they actually pay in interest versus how much forced saving will they do? The chart to the right shows that the interest burden (in relation to wages, as of the first month) has fallen sharply and during 2015 and 2016 has been at the lowest level in this entire history. The figure for 2016 (20.5%) is far below the long-term average of 30.1%.

On the other hand, the forced saving component of mortgage payments has risen sharply in relation to incomes. In 2016 forced savings via mortgage payments amount to 22.3% of monthly incomes (versus the long-term average of just 8.6%).



The share of payments that is principal repayment will rise incrementally each month. For an average priced home purchased in 2016, with an 80% mortgage at a 2.6% interest rate: during the first year the total principal repayment would be $12,855 (an average of $1,071 per month). This would exceed the total interest cost of $9,952 for the year ($829 per month).

To conclude this discussion:

- The affordability of homeownership can be calculated on a "gross" basis (considering the total blended mortgage payment). On this basis, homeownership affordability is currently at a typical level.
- But, we should also consider affordability on a "net" basis because, while principal repayment is a cost, it improves the homeowner's bottom line by reducing mortgage indebtedness. On this net basis, homeownership is now at its most affordable in a very long time.
- Homebuyers are now entering into very aggressive forced saving programs.

This excellent "net affordability" goes a long way to explaining why housing activity remains quite strong in Canada, despite the rapid run-up in house prices.

A Further Note on Housing Affordability

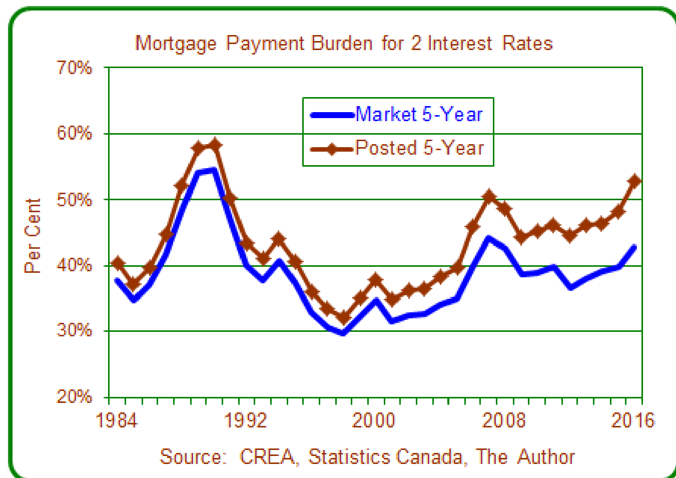
The preceding discussion has used the author's estimates of actual rates that are widely available in the market (from major mortgage lenders; even lower rates can be found at smaller lenders).

On the other hand, analysis and commentary on housing affordability in Canada usually rely on the "posted rates" that are published by the Bank of Canada. Yet, these posted mortgage interest rates have a very artificial existence. Since virtually no mortgages are actually contracted at the posted rates, they are therefore not being determined by the marketplace. They are set by lenders for administrative purposes. Their primary use is in the calculation of penalties when someone repays their mortgage before the end of the contracted term. A second administrative purpose is in the qualification of borrowers for mortgage insurance.

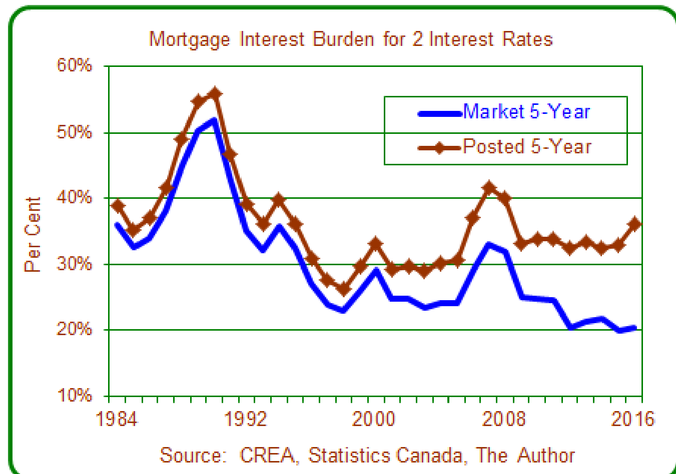
While posted rates do not reflect the reality of the marketplace or of the actual circumstances of Canadian mortgage borrowers, they do have one very favourable attribute: they are "official" statistics and they are available for a long period of time. This provides the rationale for the analysts who use them, rather than actual market interest rates.

The choice to use posted rates rather than actual market rates has substantial costs in terms of the accuracy of the analysis. The next chart compares ratios of the mortgage costs versus incomes for posted rates versus market rates.

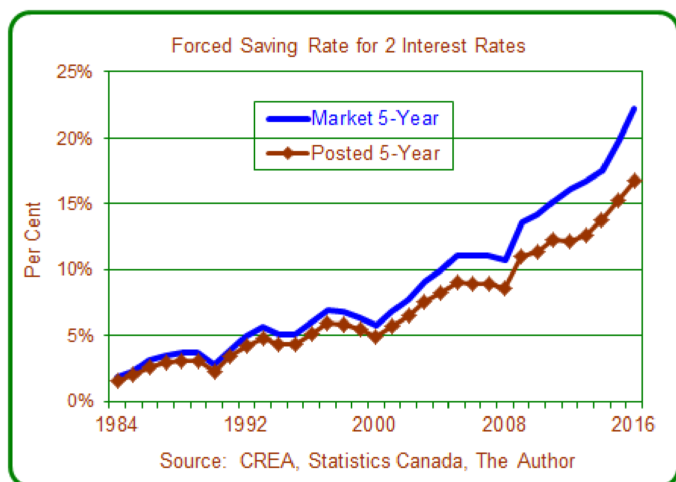
- Using market rates, the current ratio is 42.7%, and is reasonably inline compared to the past decade (with an average of 40.0%).
- Using the posted rate, however, the ratio is much higher, at 52.9%, and is well above the average for the past decade (47.2%).
- Using the posted rate has two effects:
    - Firstly, in "absolute terms" it over-estimates costs.
    - Secondly, it suggests that affordability is now unfavourable in historic terms, but the reality is that affordability is now in-line historically.



Extending this comparison, to look at the interest component of mortgage payments, the burden using posted rates is now 36.2%, almost double the figure for market rates (20.5%). Furthermore, using these two different sets of interest rates leads to very different conclusions about the current situation in an historical context. Using market rates, the current burden of 20.5% is far below the long-term average of 30.1%. On the other hand, using posted rates, the current burden of 36.2% is very close to the long-term average of 36.3%.



Considering the issue of forced savings: repayment of principal represents substantial rates of saving (as a percentage of the borrower's income) for either interest rate. In this scenario, the current saving rate is 22.3% when the correct rate (market rate) is used, versus 16.7% when the artificial posted rate is used.



Mortgages and Retirement

Out of 9.86 million homeowners in Canada, about 9% (935,000) are aged 55 years and older and have a mortgage.

The survey data indicates that in the 55 to 64 age bracket, 29% of homeowners (about 550,000) have mortgages. For home owners aged 65 and older 19% have mortgages (about 385,000).

About one-half of these older mortgage holders are retired, including about one-third in the 55 to 64 age group and three-quarters of those aged 65 and older. On the other hand, just under one-half of these older mortgage holders are in various employment situations. A small percentage of them are not employed (but don't consider themselves retired).

The next section of this report asks mortgage holders to rate their level of "regret" about the mortgage choices they have made. On average, all mortgage holders rate their level of regret at 3.60 out of 10 (see Table 4-1). Analysis of the responses for this subset (older mortgage holders) is summarized in the last three rows of this table. The responses show that their levels of regret are below the overall average of 3.60. It appears that they are generally comfortable with their choices that have resulted in them having a mortgage in their later years.

Table 3-10
Older Mortgage Holders, by Age Group and Employment Status

Status	*55-64*	*65 and Older*	*Combined*
Working	300,000	105,000	405,000
Not Working	50,000	0	50,000
Retired	200,000	280,000	480,000
Total	550,000	385,000	935,000
Level of Regret About Mortgage (10-point scale)			
Retired	2.87	2.44	2.62
Not Retired	3.29	2.57	3.12
Combined	3.14	2.47	2.86

Source: Mortgage Professionals Canada survey, Fall 2016; Estimates by the author.

The next table looks at the younger age brackets of homeowners. The first row of data in this table shows that as homeowners get older, they are less likely to have mortgages.

In the survey, each homeowner who has a mortgage and is not yet retired was asked "Thinking about your retirement, how does your outstanding mortgage balance impact your retirement planning?" The second line of data shows the percentages who expect that their mortgages will cause them to delay their retirement. In the youngest age group, 12% expect that to occur,

followed by 16% for the 35 to 44 age bracket, and 27% for the 45 to 54 group. The third line of data combines those responses, to calculate the percentages of homeowners who currently have mortgages and expect that the mortgage will cause them to delay retirement.

Mortgage holders who expect to delay retirement due to their mortgages do show levels of regret that exceed the overall average of 3.60 (as shown in the second last row of data). That said, their levels of regret are below the midpoint of the scale (5.5).

The second last row of data shows the percentages of those who expect to delay their retirement and also indicates an elevated level of regret (7 to 10 on the 10 point scale).

The first, second, and second last lines of data in this table can be combined, to estimate the numbers of home owners who expect to delay retirement and have elevated regret about their mortgage choices:

- For the 18 to 34 age group, 4% of home owners fall into this group.
- For the 35 to 44 age group, the share is 3%.
- For the 45 to 54 group, the share is 5%.

These responses do not tell us how these home owners actually feel now (or might feel in future) about their future retirements, or about how their mortgages will influence the choices they make about work. We can expect that the feelings will be quite mixed. Some will feel regret. Others will be comfortable that they are trading a prolongation of their career for good housing (and for increased housing equity that will be a resource for them later in life). Some of them will feel that an extended career is a good thing in itself.

Table 3-11
Expected Impact of Mortgages on Retirement Plans, by Age Group

	18-34	*35 to 44*	*45-54*
% of homeowners who have mortgages	92%	85%	66%
"I will delay retirement because I will still be in debt"	12%	16%	27%
% of home owners who expect to delay retirement due to mortgage	11%	13%	18%
Level of Regret About Mortgage (10-point scale)			
Do not expect to delay	3.62	3.52	3.21
Expect to delay retirement due to mortgage	5.08	4.71	4.59
Of these, indicate elevated regret	33%	25%	27%
Expect to delay retirement and regret mortgage choices	4%	3%	5%

Source: Mortgage Professionals Canada survey, Fall 2016; Estimates by the author.

4.0 Consumer Sentiment

Attitudes to Topical Questions

Since 2010, the consumer surveys have investigated attitudes on current issues related to housing markets and mortgages. The respondents have been offered various statements and asked to indicate the extent to which they agree or disagree with each, on a 10-point scale. A response of 10 would indicate complete agreement and a response of 1 indicates complete disagreement. Average responses of 5.5 out of 10 would indicate neutrality.

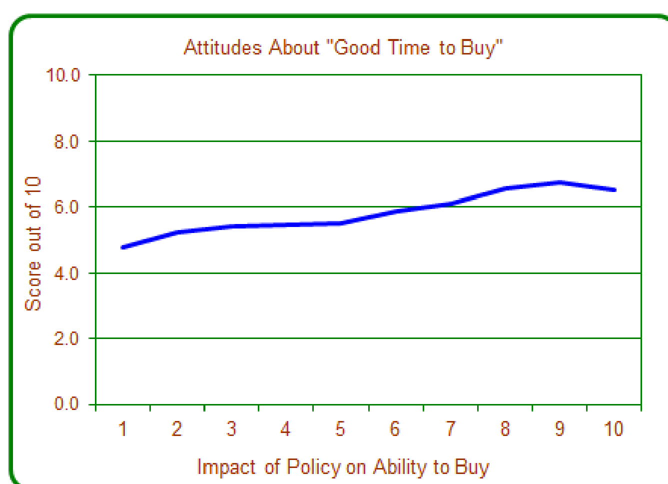
The statements are about current issues, some of which have been widely discussed in the media. The next table summarizes responses, showing the average scores. The responses have changed relatively little over time.

- It remains true that there is moderately strong agreement that "low interest rates have meant that a lot of Canadians became homeowners over the past few years who should probably not be homeowners". For the fall of 2016, the score of 7.03 is slightly above the average seen during the prior six surveys (6.97 out of 10), but is well within the range.
- On the other hand, consumers seem to be satisfied with the choices they have made, as few "regret taking on the size of mortgage I did" (this question is asked only of mortgage holders). The average score for 2016 is the lowest seen in this survey. Collectively, consumers believe their choices have been responsible, but collectively they believe that other people are being irresponsible. It is likely that beliefs about other people are shaped by messages in the media and from pundits more so than by actual behaviour.
- Levels of regret about mortgages vary, depending on when the homes were purchased. For buyers during 2010 to 2013, the average level is 3.68 out of 10, and for buyers during 2014 to 2016 it is 3.77. For both of these groups of recent buyers, the level of regret is lower than the average seen (for all buyers) in the prior surveys (3.86).
- Canadians' confidence about their ability to weather a downturn in the housing market has strengthened, as the average rating for 2016 is the highest seen in the history of the survey. For the most recent buyers (2014 to 2016), the average rating is 7.03 out of 10, essentially equal to the average for all homeowners.
- Canadians have strongly agreed with the proposition that real estate is a good long-term investment. However, the average score dipped this year: the figure of 7.17 is below the prior average of 7.30.
- The level of confidence about the economy also dipped this year. The average score of 5.99 is above the neutral score (5.50), but is below the prior average of 6.20. Confidence is strongest in Manitoba, Ontario, and Quebec, and weakest in Saskatchewan, Alberta, and British Columbia
- There is strong agreement that mortgages are "good debt". The figures have been relatively stable over time, although the average rating for 2016 (7.02) is slightly below the prior average (7.11).

Table 4-1 *Summary of Consumer Responses to Topical Question, by Date of Survey* *(Average Scores on a Scale of 1 to 10)*							
	Fall 2010	*Fall 2011*	*Fall 2012*	*Fall 2013*	*Fall 2014*	*Fall 2015*	*Fall 2016*
Low interest rates have meant that a lot of Canadians became homeowners over the past few years who should probably not be homeowners	6.88	7.11	7.01	7.04	6.98	6.80	7.03
I regret taking on the size of mortgage I did	3.86	4.04	3.88	3.82	3.89	3.67	3.60
I/My family would be well-positioned to weather a potential downturn in home prices	6.54	6.72	6.67	6.93	6.95	6.92	7.02
Real estate in Canada is a good long-term investment	7.13	7.27	7.26	7.44	7.35	7.37	7.17
I am optimistic about the economy in the coming 12 months	N/A	6.02	6.13	6.36	6.25	6.23	5.99
I would classify mortgages as "good debt"	N/A	7.07	7.05	7.20	7.15	7.06	7.02
Source: Mortgage Professionals Canada survey, Fall 2010 to fall 2016; Estimates by the author.							

Expectations

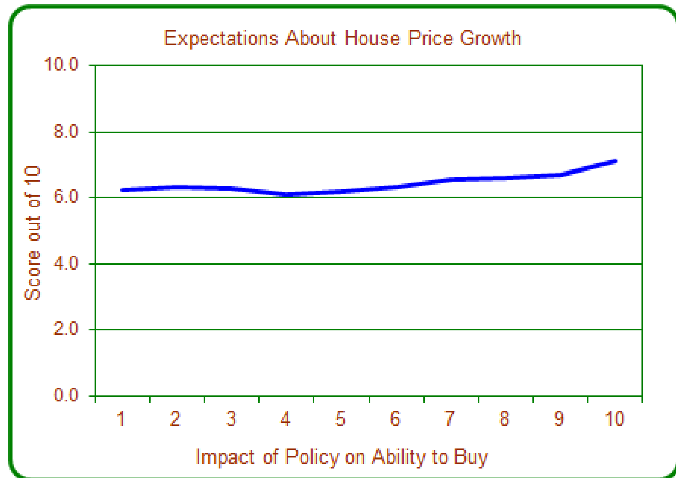
For several years, questions have been asked about expectations. Again, the responses are given on a 10-point scale. In the past, these responses had seemed to be quite stable over time. The 2016 survey was completed on November 3, before the US election, and therefore these results were not influenced by the changes that have occurred subsequently (such as the sharp rise in bond yields in the US and Canada). The history of the survey results is shown in a table below.



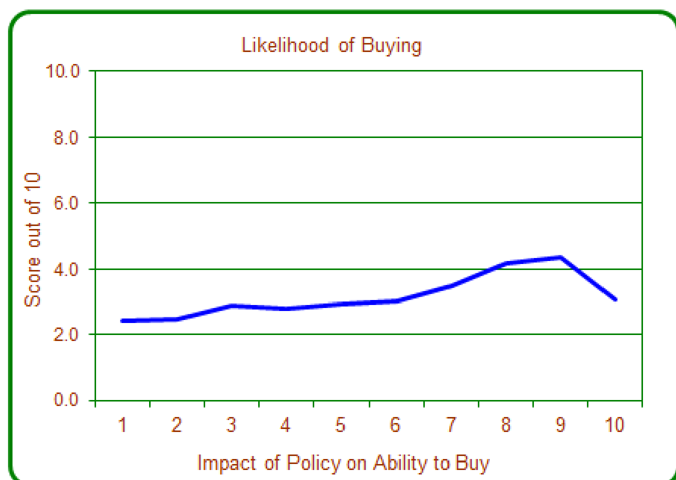
- For the question of whether this is a good time to buy a home or condominium in their own community, the responses for 2016 show a significant disruption, with a drop to 5.60 out of 10 (barely above the neutral level of 5.5). This is 8% below the average for the prior years (which is 6.08, and those prior figures had been quite stable). In the chart to the right, the fall 2016 responses to this question have been contrasted with consumer opinions on how the new mortgage insurance rules would affect their ability to buy a home or condominium. There is a clear relationship, as those who expect negative personal impacts from the policy are much less

confident about the housing market. People who expect a neutral or a positive impact from the policy have increasingly positive attitudes about whether it is a good time to buy.

- It should be noted that within the survey, these questions about attitudes (including whether this is a good time to buy) were asked well before the questions about the impacts of the changes to mortgage insurance. So, these attitudes about buying, etc. were not influenced by the discussion of the rule changes. Nonetheless, this analysis implies quite strongly that their attitudes have been influenced by what they already knew about the policy change.
- Concerning house price growth, the responses indicate expectations for moderate growth. The average response for this year (6.43 out of 10) is slightly above the prior average of 6.34. Canadians who expect to be negatively affected by the policy change have lower expectations for price growth compared to those who expect neutral or positive impacts on themselves.



- Canadians continue to expect moderate rises for mortgage interest rates: the current average score of 6.24 is above the neutral level of 5.5. The current score is slightly below the prior average of 6.37. These scores have been roughly flat since 2013. When the current scores are compared to the expected impacts of the policy change, there aren't any meaningful variations.
- Expectations about buying homes have also been flat over time, and the average score for 2016 (2.98) is essentially equal to the prior average of 2.99. The low level of the average scores is appropriate, since only about 5% of Canadian households buy a home in any given year. For 2016 the responses clearly vary, depending on the expected personal impacts of the policy change. There is one exception, a surprisingly low expectation of buying among people who think that the policy will benefit themselves most positively (they gave a score of 10 on the personal impact).



- It should be noted that history has shown these responses on expectations do not provide good predictions about the future market. For 2014, a rise in the average score was followed by a stronger market in 2015. On the other hand, the reduced average score in the 2015 survey gave the wrong signal, since 2016 will set a new record for resale activity. Therefore, while the score in the 2016 survey seems to indicate some slowing for 2017, we will no doubt be surprised by actual events.

Table 4-2 *Summary of Consumer Responses on Expectations, by Date of Survey* *(Average Scores on a Scale of 1 to 10)*							
	Fall 2010	*Fall 2011*	*Fall 2012*	*Fall 2013*	*Fall 2014*	*Fall 2015*	*Fall 2016*
Now is a good or bad time to buy a home/condominium in my community	6.08	6.21	6.10	6.00	6.05	6.03	5.60
Expectations for housing prices in my community	6.18	6.64	6.34	6.22	6.31	6.35	6.43
Expectations for mortgage interest rates	6.54	6.56	6.51	6.21	6.21	6.16	6.24
How likely are you to purchase a new property in the next year (this could be a primary residence, a second residence or investment property)?	2.93	3.00	2.91	2.98	3.10	3.04	2.98
Source: Mortgage Professionals Canada survey, fall 2010 to fall 2016; Estimates by the author.							

Happiness with Decision to Buy a Home

Since the spring of 2014, homeowners have been asked whether they are happy with their decision to buy their home. This question finds a very high degree of satisfaction with homeownership. Three optional responses were available:

- By far, homeowners are happy with the decision to buy their home (91%).
- A very small minority (2%) indicated that "I regret my decision and – I wish I did not choose to own a home".
- In addition, 7% indicated "I regret my decision – I wish I had purchased a different home/property".
- These responses are very similar to the results from prior surveys.
- For the most recent buyers, responses are very close to the overall averages.

Table 4-3 *Happiness with Decision to Buy a Home, by Period of Purchase*							
	Pre 1990	*1990s*	*2000-2004*	*2005-2009*	*2010-2013*	*2014-2016*	*Total*
I am happy with my decision	96%	92%	93%	88%	89%	92%	91%
I regret my decision – I wish I did not choose to own a home	1%	1%	1%	4%	2%	2%	2%
I regret my decision – I wish I had purchased a different home/property	3%	6%	6%	8%	9%	6%	7%
Total	100%	100%	100%	100%	100%	100%	100%
Source: Mortgage Professionals Canada survey, Fall 2016; analysis by the author.							

An Investment or a Place to Live?

To what extent do people see their homes as an investment? This is related to the on-going debates about whether there is a "housing bubble" in Canada: if housing is viewed too strongly as an investment, and expectations about price growth cause activity to depart significantly from what it should be (based on economic fundamentals), then there would be risk of a bubble.

Homeowners who purchased during 2005 or later were asked: "How do you think of your home from these two perspectives [as a place to live versus as an investment]? These two numbers should add up to 100%." The responses indicate that, on average, homes are viewed 73% "as a place to live" and 27% "as an investment". We don't have a benchmark for what is reasonable, and we don't know what the responses would have been in earlier times, but we can use the data to look at variations for different buyers. The results are remarkably stable whether we look at age groups, period of purchase of the current home or of the first home, income groups, or region of the country. The view that housing is about 30% an investment does not seem excessive considering that homeownership has indeed performed very well as an investment.

Table 4-4
Housing as a Place to Live or as an Investment, by Age Group

	18-34	*35-54*	*55+*	*Total*
As place to live	*73%*	*73%*	74%	73%
As an investment	27%	27%	26%	27%
Source: Mortgage Professionals Canada survey, Fall 2016; Analysis by the author.				

Reasons for Not Owning a Home

The fall 2016 survey asked consumers who are not homeowners for the reason (or reasons) they do not own a home. Ten possible answers (plus an "other" option) were available. More than one response could be given. Responses are summarized in the next table.

- Within the younger age groups, responses vary quite widely, covering a variety of conditions that relate to their personal financial circumstances (needing more time to save a down payment is mentioned by 43% among the youngest age group). Lack of financial stability (29%) is also frequently mentioned. As well, waiting for home prices to drop is another significant reason, at 26% (although it isn't clear whether these people believe prices will drop or need them to drop before they can afford to buy).
- Within the oldest age group, lifestyle and preference reasons are cited much more frequently than financial considerations. "Renting is a better option for me" is the most frequent reason given, cited by 45%, followed by "I am comfortable in my current situation" (37%).
- Interestingly, concern about future interest rate rises is rare across all ages.

Table 4-5 *Reasons for Not Owning a Home, by Age Group*				
Summary	18-34	35-54	55 +	Grand Total
Nervous that rates will increase	6%	11%	4%	7%
Lack of financial and/or employment stability	29%	23%	18%	24%
Waiting for home prices to decrease	26%	20%	9%	20%
Renting is a better option for me	20%	31%	45%	30%
I need more time to save for a down payment	43%	28%	4%	28%
Living with my parents/family is all I can afford	14%	5%	2%	8%
The idea of owning a home is too stressful	7%	20%	6%	10%
I am not interested in owning a home	4%	12%	17%	10%
I don't believe homeownership is a good investment	2%	10%	1%	4%
I am comfortable in my current situation	26%	34%	37%	31%
Other	5%	12%	14%	10%
Number of Reasons	1.8	2.1	1.6	1.8
Source: Mortgage Professionals Canada; Survey, Fall 2016; Analysis by the author.				

Making Home Ownership More Affordable

This new section in the fall 2016 consumer survey explored a few options for making home ownership more affordable.

Firstly, consumers were asked "When you purchase a home, do you plan to rent an area (e.g. basement, room in a house) within your primary residence?" Responses were given on a 10 point scale, where 1 indicates "definitely will not" and 10 indicates "definitely will". The next table summarizes the responses for a subset - people who expect to purchase a primary residence during the next two years. As is shown, within each of the age groups, most of the consumers are quite unlikely to do this. But, there are non-trivial minorities that might take up the option. That likelihood is higher for the youngest and middle age brackets than for the older group.

Table 4-6 *Likelihood of Renting Out Part of Future Home, by Age Group*				
	18-34	*35-54*	*55 +*	*All Ages*
Ranges in a 10 point scale				
Low (1 to 3)	58%	51%	72%	57%
Moderate (4 to 7)	26%	31%	17%	27%
High (8 to 10)	17%	17%	10%	16%
Average Score	3.89	3.90	3.06	3.76
Source: Mortgage Professionals Canada; Survey, Fall 2016; Analysis by the author.				

Secondly, consumers were asked "When you purchase a home, do you plan to buy jointly with another person or people?" Four response options were provided, plus "don't know". Among those who expect to buy during the next two years, more than one-half indicated that they plan to buy with a significant other and almost one-third plan to buy alone. Buying with friends was selected by a very small minority (although this was selected by the youngest age group more often than the older groups). Buying with relatives was also chosen by a small minority, although about one-tenth picked it in the youngest and oldest age brackets.

Table 4-7 *Expectations About Buying with Other People, by Age Group*				
	18-34	*35-54*	*55 +*	*All Ages*
Yes, I plan to buy jointly with friend(s)	6%	4%	2%	4%
Yes, I plan to buy jointly with relative(s)	10%	3%	11%	7%
Yes, I plan to buy with my significant other	54%	54%	46%	53%
No, I plan to buy alone	23%	35%	31%	29%
Don't Know	7%	4%	10%	6%
Total	100%	100%	100%	100%
Source: Mortgage Professionals Canada; Survey, Fall 2016; Analysis by the author.				

All consumers in the survey were also asked in more general terms about strategies for making home ownership more affordable. Their responses were given on a 10 point scale, where 1 indicates they "completely disagree" with the idea and 10 indicates they "completely agree". The next table summarizes the responses, by providing the average scores on the 10 point scale.

- The idea of renting out part of the home was most accepted, as the average rating of 6.79 was well above the neutral score of 5.5. The rate of acceptance was consistent across the age groups.
- The idea of buying with friends was not well received, as the average score of 4.62 was well below the midpoint. The oldest age group was most negative. Opposition was less strong for the youngest age group, but still well below the neutral level.
- The attitude to buying with relatives was neutral overall, at 5.57 out of 10. Responses by the youngest age group were slightly above the neutral level. For the oldest age group, responses were slightly below the neutral level.

Table 4-8
Attitudes Towards Three Strategies for
Making Homeownership More Affordable, by Age Group

Averages on a 10 Point Scale	*18-34*	*35-54*	*55 +*	*All Ages*
Renting out a part of the home	6.89	6.76	6.74	6.79
Buying a home with one or more friends	4.85	4.70	4.36	4.62
Buying a home with one or more relatives	5.87	5.62	5.30	5.57

Source: Mortgage Professionals Canada; Survey, Fall 2016; Analysis by the author.

5.0 Consumer Expectations About Changes to Mortgage Insurance

The federal government has announced a set of changes to the mortgage insurance program. This edition of the survey investigated consumers' knowledge and expectations about one of the changes, which would affect them most directly.

In designing this part of the survey, the concern was to describe the change as simply as possible while still capturing the important points. Before being asked for their responses, the consumers were given the following description:

> *On October 3, 2016 Finance Minister Bill Morneau announced a series of changes to Canada's mortgage rules. This policy change will require that for many new mortgages, the borrower's ability to afford the payments must be assessed using the "posted rate", which currently is 4.64%, and exceeds the interest rates that can actually be obtained for a mortgage. The intent is to reduce the risk that higher interest rates in future will cause these borrowers to be unable to afford their payments.*

This section of the report discusses the consumer responses. (In a separate report, this author's opinions on the likely impacts on the housing market and the broader economy are discussed in detail. That research has been very briefly summarized in the Introduction of this report.)

The survey was conducted during October 21 to November 3, meaning that consumers have had some time to become aware of the changes.

More than one-half (58%) of the consumers indicated that they had been "aware of the changes before today". Awareness varies across groups within the population:

- Homeowners are more aware (64%) than tenants (46%) and people who live with their parents or others (37%).
- People who plan to buy within the next two years have above average awareness (at 63%).
- The youngest age group (18 to 34) has lower awareness (45%) compared to the 35 to 54 age group (56%) and the 65 and over bracket (69%).

When asked "have you thought about or heard about the impact of the new rules?" 50% said "yes".

- More homeowners said yes (55%) than tenants (40%) and people who live with their parents or others (38%).
- Among people who plan to buy within the next two years, an above-average share said yes (61%).
- The youngest age group (18 to 34) said yes least often (43%) compared to the 35 to 54 age group (49%) and the 65 and over bracket (57%).

Next, seven statements were offered about impacts. For each question, responses were given on a 10 point scale, where a score of 1 indicates a "complete disagreement" with the statement and a score of 10 indicates "complete agreement". Once again, the neutral level is 5.5 out of 10. The table below summarizes the responses for each of the seven statements by firstly compressing the 10 point scale into three ranges, and then showing the average ratings.

Table 5-1
Consumers' Responses to Seven Statements About the Impacts of Mortgage Insurance Changes

Statement	*Responses on a 10 Point Scale*				
	1-3 (Disagree)	*4-7 (Neutral)*	*8-10 (Agree)*	*Total*	*Average Score*
1. With these changes in the mortgage rules, it will be easier for me to buy a home or condominium.	29%	59%	12%	100%	4.75
2. The new rules will be beneficial to the housing market as a whole.	11%	64%	25%	100%	6.06
3. The new rules will be beneficial to the economy overall.	11%	63%	26%	100%	6.10
4. The new rules will make it a more level playing field for those looking to buy a home in the near future.	16%	63%	21%	100%	5.68
5. The new rules will ensure that homebuyers will still be able to afford their homes if interest rates rise by a large amount in future.	7%	48%	45%	100%	6.97
6. The new rules will make it harder for me to buy a home in my preferred neighbourhood.	24%	51%	25%	100%	5.47
7. The new rules will have no impact on me, because I will save for a 20% down payment.	19%	43%	38%	100%	6.28

Source: Mortgage Professionals Canada; Survey, Fall 2016; Analysis by the author.

The table above shows that the responses cover a very wide range. In general:

- For most of these questions, the majority of responses are neutral (in the middle section of the 10 point range).
- The responses to the first statement indicate that on average, consumers expect a slightly negative impact on themselves (since the average response of 4.75 is below the neutral level of 5.5). The number of people who expect to be negatively affected is about 2.5 times the number who expect to benefit.
- Expectations for the impacts on the housing market and the overall economy are positive, and are highly similar to each other.
- Attitudes are neutral on whether the rules will contribute to a more level playing field within the housing market.

- There is quite strong agreement (6.97 out of 10, with very few negative opinions) that the new rules will reduce the risk that future increases in interest rates could cause homeowners to default on their mortgages. Given that this is the designed purpose of the policy, this agreement is to be expected.
- The responses are neutral overall on whether the changes will make it easier or harder for consumers to buy in their preferred neighbourhoods. But, there are large numbers of responses on the positive and negative ends of the distribution.
- The final question resulted in positive responses overall: most of the consumers agree that the new rules will not affect them, because they will have down payments larger than 20%. But, the minority that does expect to be affected is quite important for this discussion.

In one respect, the responses are somewhat puzzling.

- By its design, the policy is meant to apply to only some mortgage borrowers: those who have a down payment of less than 20% or whose mortgage lender plans to "securitize" their mortgage (bundle it with others and sell to investors). They will be tested using the "posted rate".
- This analyst expects that about one-quarter to one-third of home buyers might be newly subjected to the testing under the new rules.
- Those who are tested will either pass the test (and therefore be unaffected by it) or they will fail the test (and will need to change their plans). So, the impact on them will be either neutral or negative.
- The majority of home buyers will not be subject to that test. They will be unaffected by the policy.
- Overall, therefore, we might expect that for the statements about personal impacts (numbers 1 and 6), a minority of the responses should be negative and most should be neutral.
- The puzzle is that in statement 1, approximately one-eighth of consumers expect to benefit from the policy and in statement 2, one-quarter expect to benefit.

The theory expressed in the bullet points above might be the expectation about the "direct" impact of the policy. However, astute consumers might anticipate that there will be indirect benefits to themselves: since some potential buyers (a small minority) will be removed from the market, those who are still in the market will face less competition (albeit that reduction in competition should be minor). Therefore, they might expect that they will indirectly receive a personal benefit.

This might explain why some consumers see personal benefits in questions 1 and 6.

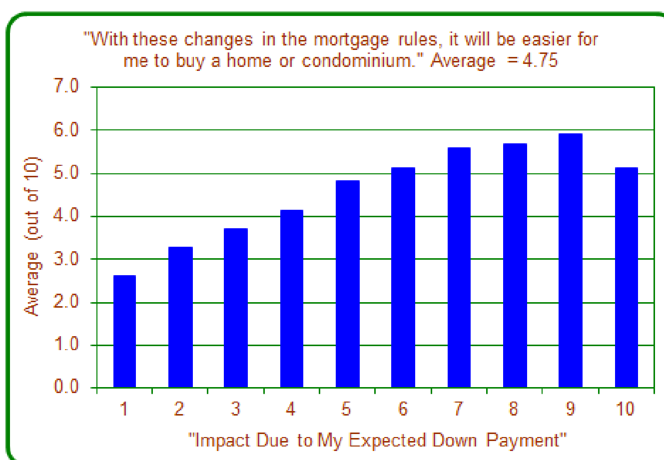
Yet, if that is their thinking, they should also expect that the overall housing market will be weaker. But that does not occur. In the first statement (about personal impacts) 12% expect to benefit from the new rules. Within this group, most (61%) expect that the housing market will be stronger as a result of the policy (the second statement) and a further 35% expect a neutral impact. Just 4% of them see a negative overall impact. But, to get their personal benefit, there needs to be a negative effect in the market.

The point of discussing this inconsistency is to say that not all consumers have taken rigorously analytical approaches to these questions. This isn't a criticism of these consumers. It is recognition that most Canadians will not be directly impacted by the new rules. Therefore, we should not expect them to have given much (if any) thought to the issues, and we should be cautious in using their responses.

On the other hand, for those who will be affected by the change, and have given it some thought, we might learn something from their responses. The last of the seven statements identifies the consumers that expect to be affected by the new rules because they won't have 20% down payments (the group of people who gave the lowest scores). The remainder of this section explores the responses, in relation to the consumers' responses to the seventh statement.

Statement 1: "With these changes in the mortgage rules, it will be easier for me to buy a home or condominium."

This chart illustrates that the consumers who expect to be most affected by the new rules (they gave low scores about their expected down payment) are highly pessimistic about how they will be affected: they expect that it will be much harder to buy. On the other hand, the right hand side of this chart shows the responses of people who expect most strongly that they will not be affected by the policy (because they will have a down payment larger than 20%). These people expect that the impacts on themselves will be neutral: their responses to question 1, about the impact on their ability to buy, are close to the neutral threshold of 5.5. The data illustrated in this chart is almost exactly what we expect based on the theory (discussed above) about the direct impacts of the new rules.

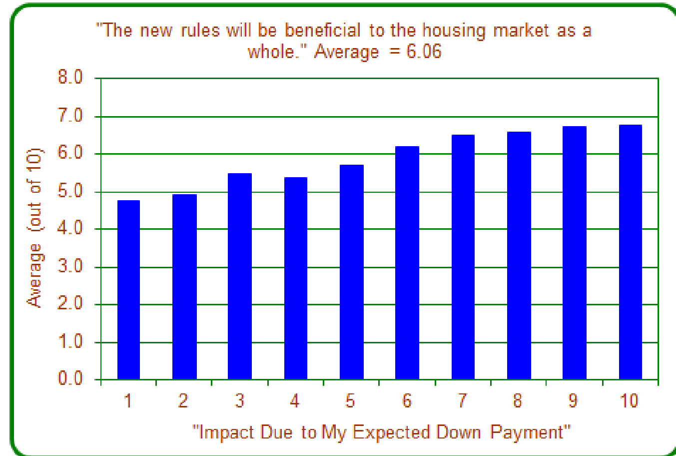


In the data that combines questions 1 and 7, a small minority (6%) gave ratings of 1 to both questions, indicating that they are very unlikely to have 20% down payments and they expect to experience highly negative impacts on their ability to buy. This 6% of the population represents those who will have the greatest negative impacts from the new rules. Expanding the range of the data slightly (consumers who answered 1 or 2 to both questions), 8% might be severely affected. A further expansion of the range (to ratings of 1 to 3 on both questions) raises the share affected to 12%. This data does not give us enough information to tell us how many consumers will be substantially affected (how many will find that the new rules prevent them from buying anything that meets their reasonable needs, even though they can afford to buy based on the actual interest rate they can obtain in the market). While there is uncertainty, this

data hints to this researcher that the severe impact is in the range of 6% to 12% of the total housing market. This is the direct impact. There may also be indirect impacts, as is discussed in the Introduction.

Statement 2: "The new rules will be beneficial to the housing market as a whole."

The responses to this statement give us an "aggregation problem". The previous discussion showed that the responses on personal impacts, when aggregated to a total, yielded an expectation that the overall outcome will be negative (an average score of 4.75). But, in this section the same population is suggesting a very different overall outcome (a positive rating of 6.06).

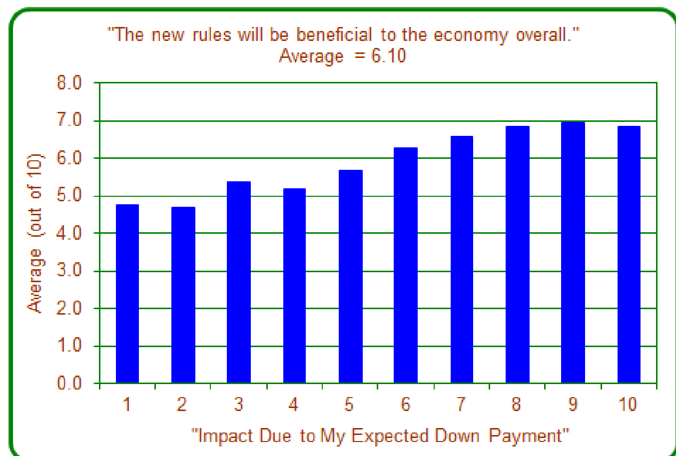


The theory about impacts tells us that the people who expect to be badly affected (in the left side of the chart) should expect that the overall market will be affected, but not as badly as they will be personally. That's what we see in this chart. For example, for the first group, the average response about the market-wide effect is 4.76 – a negative result, but much less negative than their expectations about how they will be affected personally (the average of 2.62 seen in the first bar of the first chart).

Similarly, we should expect an opposite pattern on the right hand side of the chart: the first chart showed that these people expect that they will be unaffected by the new rules. In consequence they should expect that (at best) the overall market will be unaffected. Or, if they are aware that some people will be negatively affected, they should expect that they overall market will "under-perform" in comparison to their situation. Yet, they expect the opposite – that the overall market will "out-perform" their situations.

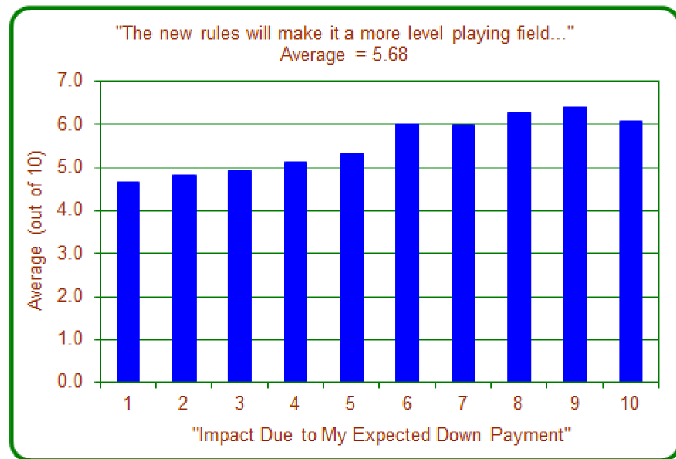
Statement 3: "The new rules will be beneficial to the economy overall."

In this chart there is a clear pattern, that those who expect to experience negative personal impacts (on the left side) also expect negative effects for the economy. On the right side, those who will have a large down payment (who expect neutral personal impacts) expect large positive effects for the economy. We don't know how they reach that conclusion: they



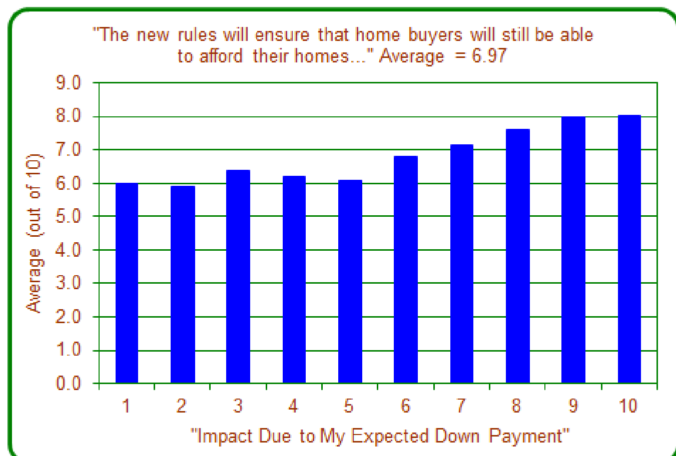
might be accepting the argument that there will be a reduction in overall risk that will be beneficial in the long-term. If, however, they are thinking about short-term economic consequences, the responses are harder to explain. It can be seen that the reactions to this statement are very similar to those about the overall market. It is possible that these responses by consumers were not derived through rigorous analysis.

Statement 4: "The new rules will make it a more level playing field for those looking to buy a home in the near future."



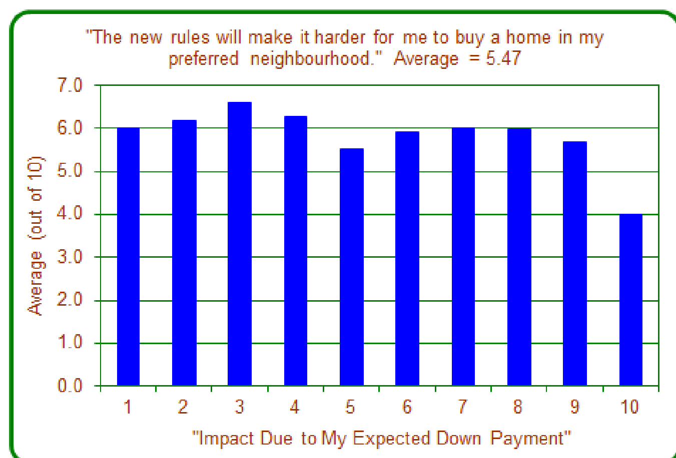
Once again, the reactions to this statement vary, depending on how people expect to be affected personally. Those on the left side, who expect to be negatively affected, believe that the playing field will be less level. Those who won't be affected expect a slightly more level playing field.

Statement 5: "The new rules will ensure that homebuyers will still be able to afford their homes if interest rates rise by a large amount in future."



All of the groups are in agreement with this statement to some degree. Again, there are differences in the strength of agreement, depending on the expected personal impacts.

Statement 6: "The new rules will make it harder for me to buy a home in my preferred neighbourhood."



For this statement, higher scores indicate negative outcomes. The scores do not show much variation: indicating that small negative effects are expected. There is one exception: for the right-most group, the responses show expectations of strong personal benefits, that it will be easier to buy in their preferred neighbourhood. The average rating of 5.47 suggests that overall no impact is expected.

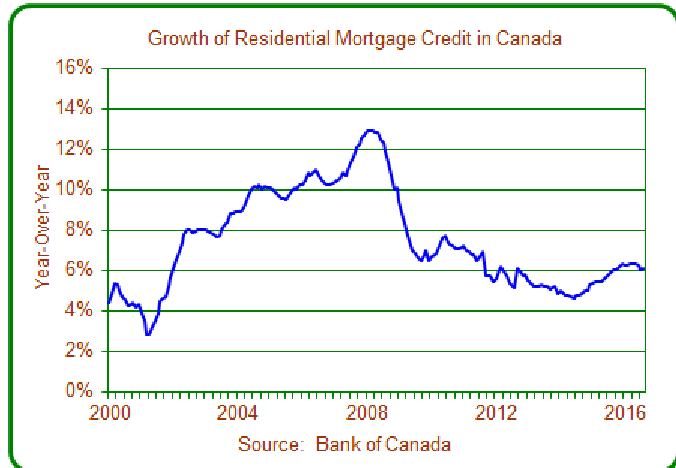
Conclusion

The first and last of the six statements show that a minority of the population expects to be tested under the new rules, and that they will be severely affected when the testing concludes that they would not be able to afford payments at the (artificial) "posted rate". But, most potential home buyers expect that if they need a mortgage, they will be tested at their actual contracted interest rates and that, therefore, the new rules will not affect them, for better or for worse. We should expect that the consumers who will be unaffected by the new rules won't be able to give us rigorous responses about the consequences of the rules.

6.0 Outlook for the Mortgage Market

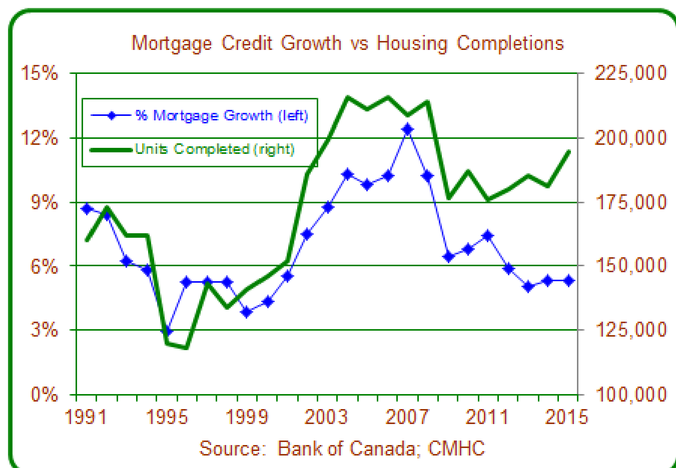
The Housing Market Background

Mortgage credit growth remains rapid in Canada. As of August, the year-over-year growth rate is 6.1%. Over the past 10 years, growth averaged 7.1% per year. As of this August, outstanding residential mortgage credit in Canada stands at $1.417 trillion. These data from the Bank of Canada exceed the estimates that come from our surveys, because the Bank of Canada data includes mortgages on investment properties, vacation properties and vacant dwellings, which are excluded from our calculations.



Many factors influence the growth of mortgage credit.

- One factor, which is a long-term, persistent trend, is that Canadians move away from slow growth communities (which have relatively low house prices) into communities with stronger job markets, which also have higher house prices and larger associated mortgage amounts. This factor alone may account for about a quarter of mortgage credit growth in Canada. So long as there are economic disparities across Canada, which cause Canadians to move in search of economic opportunities, this factor will make a sustained contribution to growth of mortgage credit.
- Trends in housing activity – in the resale market and in the new construction arena – also affect mortgage demand.
- Growth of mortgage credit is highly related to completions of new homes, as can be seen in the chart to the right. As new homes and apartments are completed and are ready to be occupied, there are usually new mortgages attached.
- But, during the second half of the time period shown in the chart, the relationship between housing completions and mortgage credit growth has become less close: credit growth has slowed compared to what

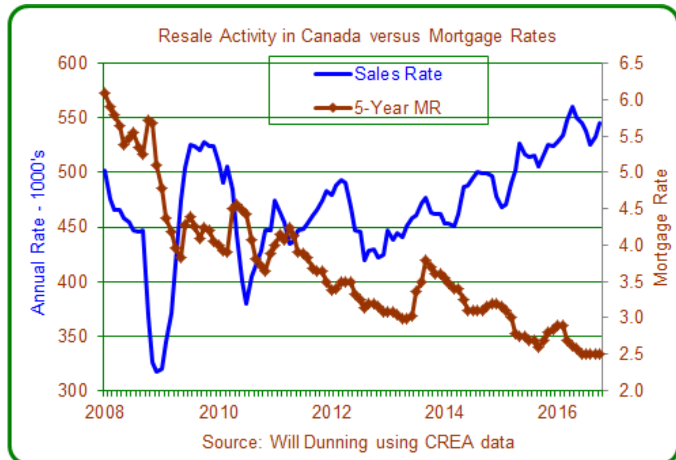


we would expect based on housing market activity alone. Clearly, there are other factors involved.

- Statistical analysis shows that levels of interest rates also affect the rate of credit growth. On a statistical basis, each one point change in mortgage interest rates affects the rate of credit growth by about half of a point per year. Very low mortgage interest rates are allowing Canadians to more quickly repay their mortgage principals. As was shown in an earlier section, Canadians are making significant efforts to repay their mortgages more rapidly than is required.
- Trends in the resale housing market (including the rate of price growth and the total dollar value of sales) are also statistically related to mortgage credit growth, but the impacts are less strong. The reason is that when a resale property is purchased and a mortgage is obtained there is often an existing mortgage that will be discharged (or transferred). As such, on a "net" basis, resale activity is less important compared to construction of new dwellings.

Trends in the Resale Market

In the short-term, resale activity is highly influenced by movements in mortgage interest rates: in this chart, almost all of the large swings in sales activity were associated with movements of interest rates. Most recently, very strong sales activity (even better than the record levels seen prior to the recession) are associated with record low interest rates.



On occasion, however, there are changes in the housing market that are at odds with interest rates. One example of this, which has been discussed at length in prior issues of this report, began in the summer of 2012: interest rates remained very favourable, but a large reduction in sales was caused by a change in mortgage insurance criteria (the elimination of mortgage insurance for amortization periods that exceed 25 years). The most recent gyration seen during the summer and fall of this year was caused by the introduction of a 15% tax on foreign buyers in Vancouver. Now, the mortgage insurance changes that were announced on October 3 (chiefly, the stress testing of all insured mortgages at the posted rate) can be expected to reduce activity, regardless of what happens to interest rates. It is possible that the effect of the recent changes will be as large as the 2012 impacts. It should be further noted that following the 2012 change, interest rates fell further, which mitigated the impacts of that policy. It is quite unlikely that interest rates will ride to the rescue this time. Besides, this new rule change is designed to blunt the benefits of low interest rates, and even if market rates were to fall, they would provide little benefit.

We continue to hear calls for further tightening of mortgage lending, such as raising down payment requirements. Due to the uncertainty about the impacts of the October 3 announced

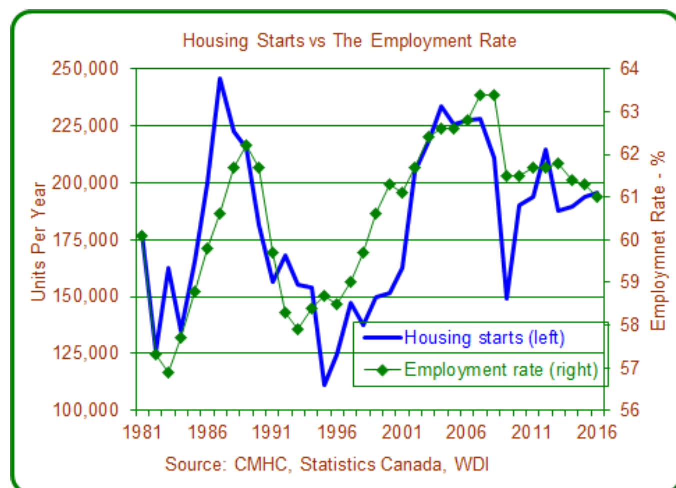
changes, it is to be hoped that no further actions will be taken until we can draw conclusions about the effects of the recent tightening.

More fundamentally, in terms of economic management, deliberate suppression of housing market activity carries its own risks.

- Central banks (including the Bank of Canada) have encouraged low interest rates in order to support ongoing recovery from the recession.
- The housing market is the most interest-sensitive component of the economy. Low interest rates have supported job creation because they have stimulated housing activity.
- Housing affects the economy through direct means (the jobs that are created in housing construction, housing sales, and related activities) and indirect means (especially the "wealth effect", as rising prices raise consumer confidence, which encourages other activities that generate employment).
- During the post-recession period, another major source of job growth has been investment in energy projects. That source of growth has been severely hobbled during the past two years.
- Since then, housing has been the last remaining economic driver. There are hopes that a weakened dollar will result in more exports from Canada. But, for that to generate jobs, there is a need for companies to invest more in new production facilities. So far, that is not happening.
- In consequence, the policy-induced weakening of housing activity will have some negative effects on the broader economy, and at this point there is no obvious source of growth that will make up for that negative effect.

Housing Starts

It was noted above that housing completions are an important driver of mortgage growth. Given the volumes of housing that are currently under construction, we can expect that this source will be roughly constant for the coming year. The chart to the right illustrates that housing starts are closely related to the employment situation (as measured by the employment rate, also known as the employment-to-population ratio). Recently, the employment rate has been relatively high in historic terms and so have housing starts (with consequences for mortgage lending). With this new mortgage insurance rule change, it is possible that housing starts will be reduced next year and into 2018. It will take some time for housing completions to follow that reduction, and therefore this component of mortgage demand will be unaffected until late next year, at the earliest.

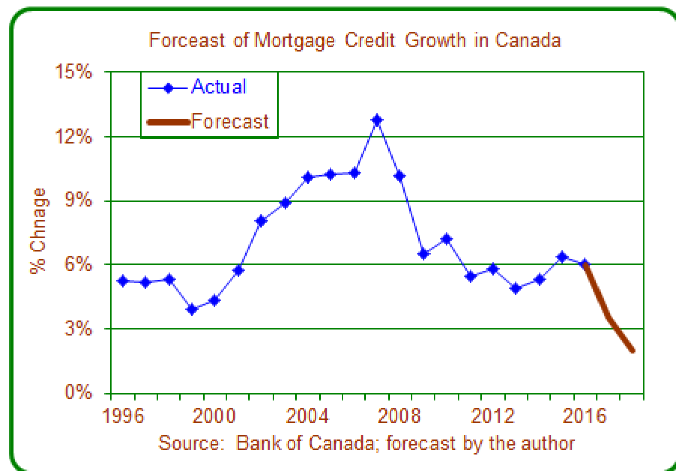


Forecast of Mortgage Activity

During the past decade, residential mortgage credit in Canada has expanded at an average rate of 7.1% per year. The year-over-year growth rate is now at 6.1% (as of August)

The volume of outstanding residential mortgage credit in Canada is $1.42 trillion.

Most of the key factors suggest that there will be little change in the growth rate in the near term:



- Housing completions will be flat during most of 2017, but then begin to fall.
- Canadians will continue to move away from communities with low-cost housing into communities that offer more job opportunities and commensurately have higher housing costs and larger associated mortgages.
- Low interest rates will continue to allow mortgage holders to make extra efforts to repay their mortgages, through lump sum payments and, more importantly, to regularly pay more than they are required to (based on their amortization schedules).
- However, due to the changes to mortgage loan insurance, resale market activity will fall during the coming months. This analyst expects that sales will fall be 10% to 12% during 2017, with further losses in 2018.

Based on these factors, mortgage credit growth is projected to slow during 2017, ending the year at about 3.5%. As housing completions slow during 2018, there will be a further drop in the growth rate for mortgage credit, to 1.5% for the year.

By the end of 2016, total outstanding residential mortgage credit will be in the range of $1.45 trillion. By the end of 2017, the level may be just under $1.5 trillion and by the end of 2018 the figure may be $1.525 trillion.

A Scan Across Provincial Resale Markets

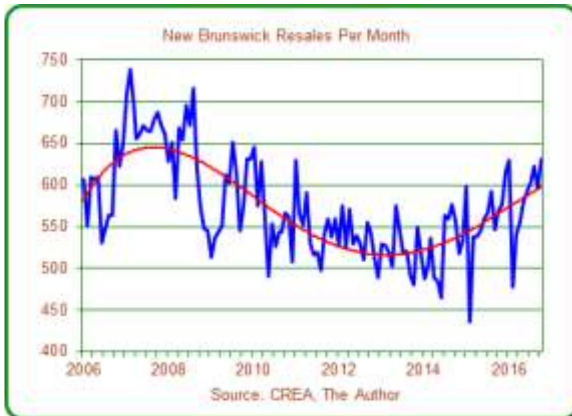
In this section, resale market trends are reviewed for the 10 provinces. Charts are shown for sales and average resale prices. Since the data can be volatile from month-to-month, trend lines have been added. In some cases, the mechanically-generated trend lines are not especially trustworthy. While conditions vary across the provinces, it is clear that prior trends were disrupted by the policy change that occurred in July 2012. Subsequent recoveries vary. A drop in mortgage interest rates early this year resulted in strong markets in many, but not all, regions of Canada. In the weakest areas, the effect of low interest rates may have been to prevent declines. Most local housing markets in Canada are in balance (having reasonable relationships between supply and demand). However, any negative disruptions could push them into decline. The recent change to mortgage insurance rules is a major risk factor for those communities.

In *Newfoundland and Labrador*, the sales trend has been flat for a long time. A weakened provincial economy has discouraged consumers from responding to this year's very low mortgage interest rates. The price trend has shown erosion during the past two years, and is down by about 10%. However, the data for 2016 hints that prices may be stabilizing.

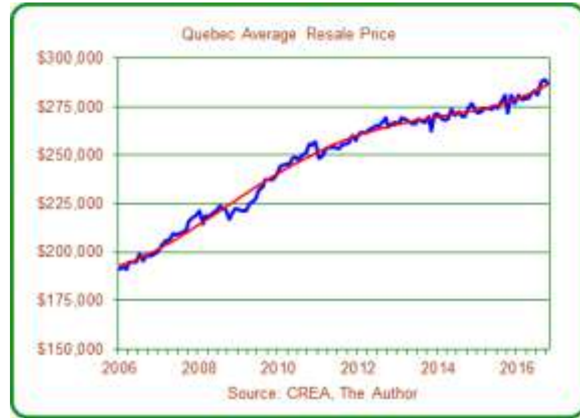
For *Prince Edward Island* the provincial housing market has responded quite strongly to low interest rate, and the sales trend is up by about 40%. For prices, the trend line suggests that rapid growth is now occurring, in the range of about 8% over the past year.

In *Nova Scotia*, a quite substantial slump may be coming to an end (although the changed mortgage insurance rules may bring another slowdown). The price trend shows quite clearly that weakened sales have resulted in flat house prices.

Similarly, in *New Brunswick*, the sales trend is showing a sustained recovery from what had been a deep slump. The price trend in New Brunswick had been flat for some time, although the recent data hints that moderate growth may be developing.



The highly volatile data for *Quebec* makes it impossible to fit a reliable trend line to the sales data. That said, it is obvious that sales have recovered quite strongly during the past two years and are now at a healthy level. Price growth had been very slow, but has increased to about 3% over the past year, on a trend basis.



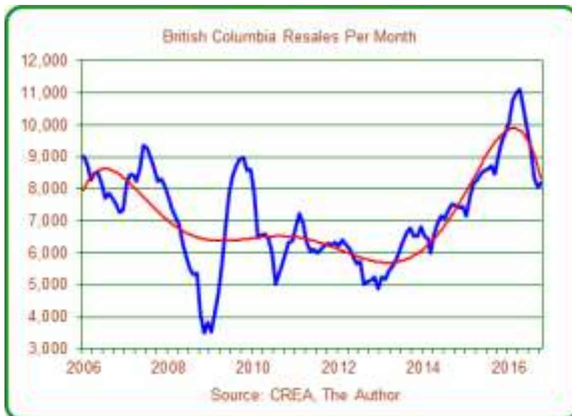
In *Ontario*, a reliable trend line cannot be created for the first half of the period shown. For the second half, there is an obviously very strong growth trend. Activity now exceeds the pre-recession level, as the result of low interest rates and improved population growth (since the drop in the price of oil has made Ontario an attractive destination for job seekers). Price growth in Ontario is now clearly excessive: a decade-long shortfall of new housing construction has resulted in a severe supply crunch in the Toronto-centred region.

For *Manitoba*, sales levels are slightly lower than a half-decade ago. This slight slowing ended a prolonged period of rapid price growth. During the past two years price growth has been very gradual.

Saskatchewan continues to show the consequences of the plunge in the price of oil. The trend might be stabilizing, at almost 20% below the prior peak. However, the changed mortgage insurance rules are likely to result in a further down leg. The price data is variable from month to month, but shows that prices have been roughly flat for more than two years.

The boom-and-bust *Alberta* housing markets have slowed quite sharply, with the sales trend now at the same level as in a post-bubble period (the bubble occurred during 2005 and 2006). Prices have been roughly flat for more than two years. As elsewhere, the changed mortgage insurance rules are likely to be disruptive.

The data for *British Columbia* shows the influence of the 15% foreign buyers' tax for Vancouver. While some activity has moved elsewhere within the province, there has been a net drop for BC. Activity is now at a level that can be considered healthy. The data on the average price tells us very little of interest, as it is being highly distorted by shifts in where sales are happening and what is being sold.



Mortgage Professionals Canada
2005 Sheppard Ave. E., Suite 401, Toronto, ON M2J 5B4
Tel: 416-385-2333/888-442-4625 • info@MortgageProsCan.ca

MORTGAGE
PROFESSIONALS
CANADA