CAAMP
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A Profile of Home Buying in Canada

Prepared for:

Canadian Association of
Accredited Mortgage Professionals

By:

Will Dunning
CAAMP Chief Economist

June 2015

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1.0 Introduction and Summary

Introduction

Each year in Canada, about 620,000 households move into dwellings they have purchased[1]. This home buying generates a great deal of economic activity, across a broad range of industries (including construction, real estate sales, finance, legal services, moving, landscaping, etc.). Since most of these buyers will require a mortgage, these purchases also result in substantial amounts of new indebtedness.

Not surprisingly, home buying and mortgage activity generate a great deal of discussion about the related benefits and risks. But, in the Canadian context, there is often a lack of good data to support fulsome discussions.

For this reason, the Canadian Association of Accredited Mortgage Professionals ("CAAMP") has for the past decade published semi-annual reports that focus on mortgage lending, and include some discussion of housing market trends.

This spring 2015 report from CAAMP seeks to further expand the information base, by focusing on homebuyers, and profiling some key aspects of their decision making process, as well as the financial parameters of their decisions.

In addition, the final section of this report updates the semi-annual reviews of trends in the housing and mortgage markets.

Data in this reported is based largely on a survey of over 800 Canadians that was conducted during late April and early May by Bond Brand Loyalty Inc.

The spring survey was restricted to persons who purchased a home during the period of 2013 up to the survey date.

Due to this significant change in the sample framework, results in this report should not be compared to data from prior CAAMP surveys.

Summary

<u>*Who is Buying?*</u>

Of the 620,000 homebuyers per year, approximately 45% (280,000) are first-time buyers. Most of these are between the ages of 25 and 34, although first-time buying also extends into the 45 to 64 age group.

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[1] The amount of home buying activity in Canada is not known with certainty. The figure of 620,000 sales per year is based on residential sales activity as reported by the Canadian Real Estate Association ("CREA"), which accounts for about three-quarters of home buying. In addition, data on housing completions (reported by Canada Mortgage and Housing Corporation, or "CMHC") is used to estimate the number of newly constructed homes that are owner-occupied each year. For the CMHC data, the author has developed and relied upon an estimate of the proportion of total housing completions that are owner-occupied. Without going into detail, there are several issues that might cause these datasets to under-count or over-count home buying.

Just over one-fifth of homebuyers (130,000 per year) are making their second purchase. Most of this activity also occurs in the 25 to 34 age bracket. Third-time and subsequent purchases account for one-third of buying (210,000 per year). This activity tends to be concentrated in the 45 to 64 age group.

Home buying covers a very wide part of the income spectrum, with some purchases occurring at income levels of less than $40,000 per year (which accounts for 6%).

What Are They Buying?

Based on the survey data, single-detached homes (estimated at 360,000 per year, or 57% of the total) account for the largest share of home buying for all of Canada. The two other main low-rise housing forms (semi-detached homes and row homes) each account for 60,000 units per year. Purchases of condominium apartments amount to 19% of the total (120,000 per year), with very wide variations across the provinces.

The average price for all of these purchases, including resale homes and newly-constructed homes, is about $347,400 (this reflects buying that occurred during 2013 up to the time of this survey). Prices range from less than $100,000 (6% of purchases) to more than $1 million (slightly above 1%).

Among homebuyers who were not first-timers, we can calculate the differentials between prices paid for newly-acquired homes versus the prices received for homes that they sold. On average, the difference was about $28,500. For 38% of these repeat buyers, the purchased home had a lower price than the property that they sold (they “moved-down”). Just 1% “moved-sideways”. The remaining 61% “moved-up”.

Financing

On average, the homebuyers in our survey made down payments of about $119,000, equal to one-third of the price of the homes. In total, down payments from 620,000 buyers per year amount to $74 billion, out of a total purchase cost of $219 billion.

For first-time buyers, down payments averaged $67,000, equal to 21% of their average purchase price.

The buyers were asked if they would still have been able to purchase the homes they did if the minimum down payment had been 10% (rather than 5%). Six per cent (equal to 35,000 buyers per year out of 620,000 would have been “definitely not able” to make the purchase and a further 80,000 would have been “probably not able”. A 10% down payment requirement would have resulted in a reduction of sales large enough to have tipped many local housing markets into downturns, causing price reductions, which would have caused significant negative consequences for local economies.

Sources of down payments were investigated. The largest source for all buyer groups is personal savings, accounting for about $42 billion out of total down payments of $74 billion per year.

Loans and gifts from parents and other family members account for 7% of down payments overall, with 18% coming from these sources for first-time buyers.

Withdrawals from RRSPs (usually, but not always, via the Homebuyers Plan) account for 3% of down payments. For first-time buyers this source provides 10% of down payments. For other buyer groups, RRSPs provide very small proportions.

For repeat buyers, equity from an existing home is a major source of down payment funds.

The homebuyers indicated what their target price ranges were at the start of their home search. On average, actual prices paid were 93% of the target maximums. In this section, outcomes for first-time buyers were very similar to other buyers.

On average, buyers financed 67% of their purchase prices via mortgages and Home Equity Lines of Credit (HELOC). The figures range from 81% for first-time buyers, to 67% for second-time buyers, and 50% for those who have purchased more than two homes.

Comparing actual amounts borrowed with the amounts that were pre-approved, on average 76% was utilized. For first-time buyers, the amount was slightly above average (81% of the approved amount). For second-time buyers it was 76% and for buyers with more than two purchases it was 69%.

The survey found that out of 620,000 homebuyers per year, 80,000 would own outright (with no finance on the home), 420,000 would own with a mortgage but without other finance on the home, 90,000 would have a mortgage and other credit, and 30,000 would have no mortgage but would have other credit on the home.

For these homebuyers, fixed rate mortgages are most common (72%). 21% are variable or adjustable rate mortgages and 7% combine fixed and variable rates. The shares are similar across the buyer groups.

Most mortgages have five-year terms (67%) and the proportions are similar across buyer groups.

On average, the amortization period is 22.1 years. For first-time buyers the figure (22.7 years) is slightly longer than the overall average.

On average these borrowers expect to pay off their mortgages in 5.0 years less than their amortization periods.

The mortgage market remains extremely competitive in Canada. For these borrowers, who purchased their homes during 2013 to the present, the average mortgage interest rate is 3.00%.

Most of the borrowers gave significant consideration to the possibility of future increases for interest rates. First-time buyers gave this slightly more consideration than the other buyer groups.

The Process

Among first-time buyers the process of home buying is often kick-started by a change in personal circumstances or their financial circumstances, or by their perceptions about financial advantages of homeownership. Repeat buyers are more likely to mention dwelling location and features.

Buyers report doing relatively little shopping when they chose their real estate and mortgage professionals.

It terms of mortgage originations, 52% of mortgages were from banks, with 34% from mortgage brokers (and the remainder from credit unions, life insurance or trust companies, and other lenders). First-time buyers are more likely to use mortgage brokers (39%) than the other buyer groups.

Circumstances, Expectations, and Opinions

Most buyers are employed full-time and have high confidence about their employment security.

They expect that interest rates and house prices will rise modestly during the coming year, and by more during the next five years. The amounts of the increases are not expected to be extreme.

In responding to a set of "topical questions", the homebuyers indicated they:

- perceive that low interest rates have encouraged too many Canadians to buy homes. But, as we have commented in the past, this opinion is hard to square with their own behaviours and their assessments of their own circumstances: they appear to harshly judge the behaviour of anonymous strangers.
- consider themselves well-positioned to handle a housing market downturn.
- consider real estate a good long-term investment.
- are mildly optimistic about the short-term economic outlook.
- don't regret the size of their mortgage (and first-time buyers have slightly less regret than other buyers).
- agree that mortgages are "good debt".
- are on-the-fence about whether their own local housing market is in a bubble.

The Housing and Mortgage Markets

Job creation has slowed during the past two years, which would usually result in reduced activity in both the resale market and for new housing construction. However, further reductions for mortgage interest rates, to yet another all-time low, have generated a new wave of activity in the resale market.

In much of Canada, housing demand has weakened: resale activity is quite moderate and prices are close to flat. However, in a few major market areas, notably the Toronto and Vancouver areas, there are severe supply constraints (due to shortages of building lots for low-rise housing). In Toronto and Vancouver, the determining factor is lack of supply rather than reduced demand. In those two markets, prices are increasing very rapidly, which is causing the national average resale price to increase. This distorted rate of price increase is masking what is more generally a weakened national housing market.

A factor that is further contributing to reduced housing activity is the mortgage insurance policy changes that took effect in July 2012. The changes reduced activity by about 20% at the time. The negative impact has been diminished, but only by about one-half, with the effect that housing activity is lower than it would otherwise be. In consequence, housing is making less of a contribution to the broader economy than it could be making. This has contributed to the slowdown of job creation in Canada.

For 2015 and 2016, housing activity is widely expected to be similar to recent levels, or to slow slightly.

Mortgage arrears remain low and relatively stable at about 0.30%, although the most recent data from the Canadian Bankers Association (as of February 2015) hints that the national arrears rate may have increased fractionally.

It is possible that in the oil-producing provinces, job losses due to the plunge in the price of oil will bring increased mortgage difficulties, including higher arrears and mortgage defaults. In the remaining provinces, we expect stable arrears and defaults.

CAAMP is concerned that these difficulties should not lead to a “pro-cyclical” tightening of lending conditions on the part of the federal government, mortgage insurers, or lenders. Any such tightening would aggravate the weakness in the housing market, with the further consequence that weakness in the broader economy would also be aggravated.

Assuming that there is no tightening of lending conditions, CAAMP projects that residential mortgage credit in Canada will expand by 4.5% in both 2015 and 2016, slightly lower than recent growth rates that are just above 5%.

About CAAMP

CAAMP is the national mortgage broker channel association. With 11,500 mortgage professionals, its membership is drawn from every province and from all industry sectors. This diversified membership enables CAAMP to bring together key players with the aim of enhancing professionalism.

Established in 1994, CAAMP has taken a leadership role in Canada’s mortgage lending industry and has set the standard for best practices in the industry.

In 2004, CAAMP established the Accredited Mortgage Professional (“AMP”) designation to enhance educational and ethical standards for Canada's mortgage professionals.

CAAMP’s other primary role is that of consumer advocate. On an ongoing basis CAAMP aims to educate and inform the public about the mortgage industry. Through its extensive membership database, CAAMP provides consumers with access to a cross-country network of the industry’s most respected and ethical professionals.

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 CAAMP he operates an economic analysis consulting firm, Will Dunning Inc.

About Bond Brand Loyalty

Bond Brand Loyalty (previously Maritz Research Canada) 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 provider of customer satisfaction research in North America, and a major supplier of research that helps our 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. CAAMP, 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 CAAMP or Bond Brand Loyalty.

2.0 Who is Buying?

Table 2.1 uses the survey data to estimate numbers of homebuyers per year, by age group and the number of homes that the person has owned.

The estimates indicate that 45% of purchases are made by first-time buyers, with a further 21% by buyers who are purchasing for the second time. The balance (34%) of buyers have purchased three or more homes. Out of these 210,000 buyers who have purchased more than two homes in their lifetimes to date, two-thirds (140,000) have purchased three or four homes. The balance (70,000) have purchased five or more homes.

Most first-time buying occurs during the ages of 25 to 34, although there is some first-time buying in the 45 to 64 age group, in addition to a small number of buyers who purchase before the age of 25. Second-time buying also occurs most frequently in the 25 to 34 age group, and also extends into later ages. Subsequent buying is seen most often among those aged 45 to 64.

The survey data indicates that very small numbers of home purchases (perhaps about 10,000 per year, or less than 2% of the total) are made by buyers aged 75 years or older. Of those, most are "subsequent" purchases.

Table 2-1
Estimate of Annual Home buying in Canada, by Age Group

Age Group	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*Total*
18-24	20,000	0	0	20,000
25-34	160,000	50,000	20,000	230,000
35-44	50,000	30,000	40,000	120,000
45-54	30,000	30,000	50,000	110,000
55-64	20,000	< 10,000	60,000	90,000
65-74	< 10,000	< 10,000	30,000	50,000
75 +	Negligible	Negligible	< 10,000	10,000
Total	280,000	130,000	210,000	620,000

Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.
Note: Totals may not add due to rounding.

Looking across the country, Table 2.2 provides estimates of annual home buying by province (or region in the case of the four Atlantic provinces). In these estimates, the shares of buyers that are first-timers are close to the national average (45%) in most regions. Two exceptions are that the first-time buyer shares are elevated in Alberta (about 55%) and low (about 35%) in Atlantic Canada. These two exceptions are due to migration patterns: Alberta sees large inflows of young adults looking for work opportunities (resulting in strong first-time buying) whereas the Atlantic Region sees some out-migration by young people (which reduces the numbers of younger buyers).

Table 2-2 ***Estimate of Annual Home buying in Canada, by Province/Region***				
Age Group	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*Total*
Atlantic	15,000	10,000	15,000	40,000
Quebec	65,000	35,000	40,000	145,000
Ontario	110,000	50,000	85,000	245,000
Manitoba	5,000	5,000	5,000	15,000
Saskatchewan	5,000	0	5,000	10,000
Alberta	40,000	15,000	20,000	75,000
British Columbia	40,000	15,000	35,000	85,000
Total	280,000	130,000	210,000	620,000
Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author. *Note: Totals may not add due to rounding.*				

The household incomes reported by these buyers cover a wide range. A small minority reported low household incomes (below $40,000). Among first-time buyers about one-half (49%) have household incomes below $80,000. Almost one-third (31%) have incomes of $100,000 or more. Incomes are generally higher for repeat buyers, as incomes are below $80,000 for 39% of second-time buyers and 41% of buyers who have purchased three or more homes; also, among second-time buyers, 47% have incomes of $100,000 or more, as do 44% of subsequent buyers.

Table 2-3 ***Income Ranges of Homebuyers in Canada***				
Income Range	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*Total*
Less than $40,000	7%	5%	5%	6%
$40,000-$59,999	22%	16%	17%	19%
$60,000-$79,999	20%	18%	20%	20%
$80,000-$99,000	19%	14%	14%	16%
$100,000-$149,999	22%	31%	26%	25%
$150,000 or more	9%	16%	17%	13%
Total	100%	100%	100%	100%
Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.				

3.0 What Are They Buying?

The type of home purchased most frequently is single-detached (accounting for 57% of the total, or about 360,000 dwelling units per year). Among first-time buyers, the share who bought a single-detached home is just under one-half (47%, representing about 130,000 purchases per year). The shares were significantly higher for second-time buyers (70%, which equates to 90,000 purchases per year) and subsequent buyers (64%, or 130,000 purchases per year).

Condominium apartments accounted for a significant minority of purchases, at 19% of the total (about 120,000 purchases). Purchase of a condominium apartment was most common for first-time buyers (22%, or 60,000 per year). For move-up buyers, 14% of purchases (20,000 per year) are condominium apartments and for subsequent buyers the share is 17% (40,000 per year). For both semi-detached homes and townhomes, there are about 60,000 purchases per year. About two-thirds of these (40,000) are bought by first-time buyers and the remainder are purchased by second-time and subsequent buyers.

Table 3-1
Estimate of Annual Home buying in Canada, by Type of Dwelling

Type of Dwelling	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
Detached house	130,000	90,000	130,000	360,000
Semi-detached house	40,000	10,000	10,000	60,000
Condominium apartment	60,000	20,000	40,000	120,000
Townhome	40,000	10,000	20,000	60,000
Other	10,000	< 5,000	10,000	20,000
Total	280,000	130,000	210,000	620,000

Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.
Note: Totals may not add due to rounding.

In all of the provinces/regions, singe-detached is the dominant housing type. The shares for single-detached homes range from a low of 43% in British Columbia to a high of 81% in Manitoba. Condominium apartments are purchased most frequently in British Columbia (31%) and Ontario (21%). The share for condominiums is lowest in the Atlantic region (7%), followed by Saskatchewan at 8%.

Table 3-2
Estimate of Annual Home buying in Canada,
Type of Dwelling, by Province/Region

Region/ Province	*Detached house*	*Semi-detached house*	*Condominium apartment*	*Townhome*	*Other*	*Total*
Atlantic	30,000	5,000	5,000	< 5,000	< 5,000	40,000
Quebec	85,000	20,000	30,000	5,000	5,000	145,000
Ontario	135,000	25,000	40,000	40,000	5,000	245,000
Manitoba	15,000	< 5,000	< 5,000	< 5,000	< 5,000	15,000
Saskatchewan	5,000	< 5,000	< 5,000	< 5,000	< 5,000	10,000
Alberta	45,000	10,000	15,000	5,000	5,000	75,000
British Columbia	40,000	5,000	25,000	15,000	< 5,000	85,000
Total	355,000	60,000	115,000	70,000	20,000	620,000

Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.
Note: Totals may not add due to rounding.

Among the homebuyers in the survey (who purchased their homes from 2013 to the present), the average price was about $347,400. As is illustrated in the next table, for first-time buyers the average price was about $308,100, for second-time buyers the average was $366,400, and for subsequent buyers it was $390,200.

Prices paid cover a very wide range, with a minority (6%) paying prices under $100,000, and an even smaller group (just over 1%) paying more than $1 million.

Table 3-3
Price Ranges for Homes Purchased in Canada, by Buyer Group (2013 to present)

Price Range	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
< $100,000	7%	7%	6%	6%
$100,000-$149,999	5%	7%	4%	5%
$150,000-$199,999	12%	10%	11%	11%
$200,000-$249,999	16%	17%	9%	14%
$250,000-$299,999	14%	6%	8%	11%
$300,000-$349,999	13%	3%	12%	11%
$350,000-$399,999	7%	14%	8%	9%
$400,000-$449,000	8%	8%	10%	9%
$450,000-$499,000	8%	11%	8%	9%
$500,000-$599,999	3%	6%	6%	4%
$600,000-$799,999	4%	7%	14%	8%
$800,000-$999,999	1%	4%	3%	2%
$1,000,000 or more	1%	2%	2%	1%
Total	100%	100%	100%	100%
Average Price	$308,061	$366,353	$390,279	$347,361

Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.

Prices vary across the dwelling types, with the highest average seen for single-detached homes (about $360,000). Surprisingly, the average for townhomes ($351,500), condominium apartments ($336,200) and semi-detached homes ($327,500) are not much lower. This occurs because these housing options are most often found in high-price communities.

Table 3-4 *Price Ranges for Homes Purchased in Canada, by Type of Dwelling* *(2013 to present)*						
Price Range	*Detached house*	*Semi-detached house*	*Condominium apartment*	*Townhome*	*Other*	*Total*
< $100,000	8%	0%	3%	3%	29%	6%
$100,000-$149,999	6%	5%	4%	3%	14%	5%
$150,000-$199,999	12%	14%	16%	3%	0%	11%
$200,000-$249,999	12%	19%	14%	16%	14%	14%
$250,000-$299,999	9%	14%	15%	12%	14%	11%
$300,000-$349,999	9%	12%	13%	15%	14%	11%
$350,000-$399,999	9%	10%	8%	9%	10%	9%
$400,000-$449,000	9%	10%	5%	14%	5%	9%
$450,000-$499,000	9%	5%	12%	9%	0%	9%
$500,000-$599,999	5%	3%	4%	7%	0%	4%
$600,000-$799,999	10%	5%	4%	7%	0%	8%
$800,000-$999,999	2%	3%	1%	0%	0%	2%
$1,000,000 or more	2%	0%	2%	0%	0%	1%
Total	100%	100%	100%	100%	100%	100%
Average Price	$360,023	$327,502	$336,159	$351,537	$206,214	$347,361
Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.						

The lowest average house prices are found in the Atlantic provinces and Quebec, then Manitoba and Saskatchewan. The highest prices are in British Columbia, followed by Ontario and Alberta.

Table 3-5 *Price Ranges for Homes Purchased in Canada, by Province/Region* *(2013 to present)*								
Price Range	*Atlantic Provinces*	*Quebec*	*Ontario*	*Manitoba*	*Sask.*	*Alberta*	*B.C*	*Canada*
< $100,000	23%	8%	4%	10%	18%	5%	2%	6%
$100,000-$149,999	21%	7%	3%	10%	0%	3%	3%	5%
$150,000-$199,999	19%	19%	8%	19%	9%	6%	8%	11%
$200,000-$249,999	15%	24%	12%	19%	18%	8%	6%	14%
$250,000-$299,999	11%	15%	9%	5%	18%	12%	7%	11%
$300,000-$349,999	2%	10%	12%	10%	0%	12%	11%	11%
$350,000-$399,999	4%	6%	11%	14%	9%	11%	7%	9%
$400,000-$449,000	4%	3%	9%	10%	9%	18%	11%	9%
$450,000-$499,000	2%	5%	9%	5%	9%	6%	22%	9%
$500,000-$599,999	0%	2%	6%	0%	0%	6%	5%	4%
$600,000-$799,999	0%	0%	12%	0%	9%	9%	15%	8%
$800,000-$999,999	0%	0%	3%	0%	0%	2%	4%	2%
$1,000,000 or more	0%	0%	3%	0%	0%	1%	1%	1%
Total	100%	100%	100%	100%	100%	100%	100%	100%
Average Price	$179,323	$245,950	$405,272	$254,476	$295,909	$381,768	$433,207	$347,361
Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.								

For most repeat buyers, a home was sold at the same time as one was purchased. The table below summarizes the increments of price change for these buyers. While the average price increment was not large (less than $30,000), there was a great deal of variation.

For 38% of these buyers, the current home had a lower price than the one they sold (they "moved-down"). Moving-down was more frequent for subsequent buyers (47%) than for second-time buyers (23%). Conversely, moving-up occurred more frequently for second-time buyers (75%) than for subsequent buyers.

Table 3-6
Changes in House Prices for Repeat Homebuyers
(2013 to present)

Change in Price Due to Move	*2nd Time Buyer*	*Subsequent Purchases*	*All Repeat Buyers*
-$200,000 or Below	8%	9%	9%
-$150,000 to -$199,999	1%	4%	3%
-$100,000 to -$149,999	1%	7%	5%
-$50,000 to -$99,999	5%	11%	9%
$1-$49,999	8%	17%	13%
No Change	2%	1%	1%
$1 to $49,999	9%	12%	11%
$50,000 to $99,999	17%	10%	12%
$100,000 to $149,999	20%	9%	13%
$150,000 to $199,999	14%	6%	9%
$200,000 or More	15%	14%	14%
Total	100%	99%	99%
Average Change	$58,491	$12,398	$28,470
For Move-Down Buyers			
For Move-Up Buyers			
Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.			

4.0 Financing

Down payments

Among these homebuyers, the average down payment was just under $120,000, equivalent to about one-third of the purchase price. For first-time buyers, average down payments are below average, in both dollars and as a percentage of the price; for buyers who have purchased more than two homes, the figures are above average. As is shown in the last two lines of the table, the total value of sales is estimated at $219 billion per year and the total amount of down payments is $74 billion per year.

Table 4-1
Down Payments for Homes Purchased in Canada
(2013 to present)

Item	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
Average Down payment (1)	$67,060	$126,992	$185,493	$119,183
Average Price (1)	$314,317	$380,414	$389,886	$353,137
Average % Down payment	21.3%	33.4%	47.6%	33.7%
Purchases Per Year	280,000	130,000	210,000	620,000
Annual Value in $ Billions				
Down payments	$19	$17	$39	$74
Sales	$88	$49	$82	$219

Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.
(1) down payments and average price are calculated for homebuyers for which both data items are available.
Note: Total may not add due to rounding.

The next table provides more detail, showing the distribution of down payment percentages. Almost one-half (49%) of all buyers had down payments that were 20% or less of the purchase price. Among first-time buyers, well over one-half (62%) had down payments that were 20% or less. Down payments of less than 20% were frequent among repeat buyers, including 46% of second-time buyers and 35% for buyers who have purchased more than two homes.

Table 4-2
Distribution of Down Payment Percentages for Homes Purchased in Canada
(2013 to present)

% Down Payment	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
Up to 5%	6%	2%	2%	3%
5.01%-10%	30%	16%	15%	22%
10.01%-20%	26%	28%	19%	24%
20.01%-30%	22%	17%	12%	18%
30.01%-50%	12%	13%	13%	12%
50.01%-75%	1%	13%	13%	8%
75.01%-99.99%	0%	2%	8%	3%
100%	3%	9%	19%	10%
Total	100%	100%	100%	100%
Subtotal – 20% or less	62%	46%	35%	49%

Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.

The homebuyers in the survey were asked "If the minimum down payment requirement was 10% instead of 5%, would you still have been able to afford to purchase your current residence?" Six per cent (or 35,000 per year put of 620,000) indicated that they definitely would not have been able to make the purchase, and a further 13% (80,000 buyers per year) probably would not have been able to buy their home. Absence of 35,000 (or more) buyers from the market would have had profound impacts on sales activity, leading to downward price pressure, which would in turn have had significant impacts on the Canadian economy (due to the important role of house prices in determining consumer confidence and as a driver of job creation).

Moreover, the loss of at least 25,000 first-time buyers would have made it more difficult for move-up buyers to sell their existing homes, which would have prevented many of them from making their purchases. This would have amplified the negative impacts in the housing market and the broader economy.

On the other hand, 62% of all buyers (380,000) definitely would have been able to make the purchase and a further 20% (125,000 buyers) probably would have been able to make the purchase.

Table 4-3
Impact on Ability to Purchase Current Home
if Minimum Down Payment Was 10%

	1st Time Buyer	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
Definitely Able	130,000	85,000	165,000	380,000
Probably Able	75,000	25,000	20,000	125,000
Probably Not Able	50,000	10,000	15,000	80,000
Definitely Not Able	25,000	5,000	5,000	35,000
Total	280,000	130,000	210,000	620,000

Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.

The homebuyers were asked about the sources of their down payments. Buyers were able to identify more than one source. The next table shows the resultant estimates of the total amounts from each source.

By far, the largest source is from personal savings (including the savings of the survey respondents and any co-buyers). This accounted for an estimated $41.6 billion out of $74.2 billion (56%) of total down payments. For each of the three groups of buyers, the share was above 50%.

Parents and other family members provided 7% of the total down payment funds, in the form of gifts (5%) or loans (2%). Not surprisingly, family members were much more important as funding sources for first-time buyers (18% of the total), than for second-time (5%) and subsequent buyers (2%).

Loans from financial institutions accounted for 7% of the total down payments, including 6% provided by the same institution as the mortgage and 1% from a different institution. This source was relied upon by repeat buyers for 9% of total down payments, with the share for first-time buyers at 8%. For second-time buyers the share was just 3%.

A very small proportion of down payment funds came from credit cards (about $100 million, or 0.2% of the total).

Withdrawals from RRSPs (including via the Homebuyers Plan) was a significant source for first-time buyers (10%), but much less important for second-time buyers (3%) and subsequent buyers (1%).

TFSAs provided just 2% of down payment funds, although the share was 5% for first-time buyers.

Finally, “other” was the second largest source of funds, accounting for 24% of total down payments. Most of the time, the source was indicated to be funds from sale of the existing home. Correspondingly, “other” provided 59% of down payments for subsequent buyers and 30% for second-time buyers, but just 7% for first-time buyers.

Table 4-4
Sources of Down Payments for Homes Purchased in Canada
(billions of dollars per year)

Source of Funds	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
My personal savings or my co-buyer’s personal savings	$10.0	$8.4	$23.2	$41.6
Gift from parents or other family members	$2.2	$0.7	$0.6	$3.4
Loan from parents or other family members	$1.1	$0.2	$0.4	$1.6
Loan from the same financial institution as my mortgage	$1.2	$0.4	$2.9	$4.4
Loan from a different financial institution than my mortgage	$0.3	$0.1	$0.4	$0.7
Withdrawal from my credit card	$0.1	$0.0	$0.0	$0.1
Withdrawal from an RRSP (including via the Homebuyers Plan)	$1.9	$0.5	$0.2	$2.6
Withdrawal from a TFSA	$0.9	$0.5	$0.4	$1.7
Other	$1.3	$5.7	$11.1	$18.0
Total	$18.8	$16.5	$39.0	$74.2
Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.				

Buyers who had used funds from an RRSP were asked if they had borrowed money to top-up the RRSP. One-in-six (16%) indicated that they had. The shares were similar to that rate for each of the buyer groups.

The buyers were asked what their initial target price ranges were at the time they started looking. The next table compares the actual prices paid to the maximums of the initial ranges. The data shows that for almost three-quarters of the buyers (73%), the ratio of actual to target price is less than 100% (that is, actual prices were below the maximum targets). Among the 27% who paid more than their initial target, most (19% out of 27%) were within 10% of the target maximums, and 8% paid 10% or more than they had initially budgeted. On average, the buyers paid 93% of their target maximums. In this section of the research, the figures are quite consistent across the three groups of buyers.

Table 4-5 Actual Prices Paid by Homebuyers Versus Initial Target Maximum				
Ratio of Actual to Maximum Target Price	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
< 80%	12%	11%	15%	13%
80%-89.9%	16%	13%	20%	17%
90%-99.9%	44%	46%	40%	43%
100%-109.9%	19%	18%	19%	19%
110%-119.9%	5%	8%	2%	5%
120% or more	3%	4%	3%	3%
Total	100%	100%	100%	100%
Average Ratio	94%	95%	91%	93%
Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.				

The buyers were asked "What, if any, compromises did you have to make when you purchased your current residence?" More than one factor could be mentioned. Results are summarized in the next table. One-quarter indicated that no compromises were required. The most cited compromises were proximity to work (21% overall, and 26% for first-time buyers), size of property (20%), and quality (20%). Within the "other" group, parking arrangements were mentioned most frequently.

Table 4-6 Compromises Made by Homebuyers				
Description of Compromise	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
Size	16%	13%	15%	15%
Location (i.e. city/town, or area of city/town)	19%	15%	17%	18%
Setting (i.e. specific street, immediate surroundings)	10%	10%	8%	9%
Proximity to work	26%	18%	17%	21%
Size of home, or specific rooms	22%	16%	16%	19%
Size of property (including yard)	22%	20%	17%	20%
Quality (e.g. finishings, décor)	19%	17%	22%	20%
Proximity to amenities	7%	8%	9%	8%
Type of residence (i.e. home, condo, etc.)	15%	10%	11%	13%
Other	5%	5%	5%	5%
None, this residence met all of my needs and desires	23%	30%	29%	26%
Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.				

Financing Obtained

On average, the surveyed homebuyers financed 67% of their purchase prices (combining mortgage amounts plus Home Equity Lines of Credit that were negotiated at the same time). Excluding those who have no finance on their homes, the average finance ratio is 78%, with the figures ranging from 85% for first-time buyers to 67% for subsequent buyers.

Table 4-7 ***Finance as % of Purchase Price***				
Mortgage + HELOC as % of Purchase Price	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
0%	5%	14%	25%	14%
0.1%-49.9%	5%	11%	20%	12%
50%-74.9%	16%	17%	15%	16%
75%-79.9%	10%	10%	8%	9%
80%-84.9%	9%	8%	8%	9%
85%-89-9%	5%	5%	3%	4%
90%-94.9%	11%	9%	7%	9%
95-99.9%	15%	4%	7%	10%
100%	17%	16%	4%	12%
> 100%	6%	6%	2%	5%
Total	100%	100%	100%	100%
Average	81%	67%	50%	67%
Excl. those with 0%	85%	78%	67%	78%
Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.				

The survey also asked borrowers about pre-approved mortgage amounts. The table below shows the percentages of the approved amounts that were actually borrowed[2]. Few homebuyers borrow their maximum approved amounts: in this survey, 64% borrowed less than 90% of the approved amounts; this includes 58% of first-time buyers.

Table 4-8 ***Percentages of Approved Amounts Borrowed***				
% Borrowed	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
< 50%	7%	13%	24%	14%
50%-74.9%	25%	29%	30%	27%
75%-79.9%	8%	10%	7%	8%
80%-84.9%	8%	8%	7%	8%
85%-89-9%	9%	4%	6%	7%
90%-94.9%	12%	13%	6%	10%
95-99.9%	12%	4%	6%	8%
100%	12%	11%	12%	12%
> 100%	6%	8%	4%	6%
Total	100%	100%	100%	100%
Average	81%	76%	69%	76%
Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.				

[2] The calculations also include HELOCs. Buyers who obtained pre-approvals but did not actually borrow are excluded from the calculations.

Mortgage Characteristics

Out of about 620,000 homebuyers per year, 13% (about 80,000) have no financing on their property. A further 5% (about 30,000) are mortgage-free but have other financing. The remainder, 82% (about 510,000) have a mortgage and may have other financing as well. Of these, 420,000 have a mortgage but no other financing and 90,000 have a mortgage plus other financing.

Table 4-9
Types of Finance on Homes, for Purchases From 2013 to Present
(Based on 620,000 Purchases)

	1st Time Buyer	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
Own with a mortgage(s)	210,000	90,000	115,000	420,000
Own with a mortgage and other credit (e.g. family loan, bank loan, line of credit)	45,000	15,000	30,000	90,000
Own without a mortgage, but with other credit (e.g. family loan, bank loan, line of credit)	10,000	5,000	15,000	30,000
Own outright (with no mortgage or other debt)	15,000	15,000	50,000	80,000
Total	280,000	130,000	210,000	620,000

Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.

Among the homebuyers who have mortgages, 55% report that their mortgage is insured. This includes 63% for first-time buyers, 53% for second-time buyers, and 43% for subsequent buyers.

72% of the mortgage holders have fixed rate mortgages, 21% have mortgages with variable or adjustable rates, and 7% have mortgages that are a combination of fixed and variable. As can be seen in the next table, these shares vary only slightly for the different groups of buyers. Further analysis also found that the shares by type of mortgage do not vary materially for insured mortgages (73% have fixed rates) versus uninsured mortgages (71% have fixed rates).

Table 4-10
Types of Mortgages, for Homes Purchased
From 2013 to Present

Mortgage Type	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
Fixed-rate	75%	65%	73%	72%
Variable or adjustable rate	18%	29%	20%	21%
Combination of fixed and variable rates	7%	6%	7%	7%
Total	100%	100%	100%	100%

Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.

Regarding mortgage terms (the length of time before the mortgage would be due for renewal or renegotiation), the most popular choice by far is five years, which was selected by two-thirds of the buyers who took mortgages. About one-quarter chose terms of less than five years. Just 5% took terms longer than five years. These choices are consistent across the groups of buyers.

Table 4-11 ***Terms for Mortgages, for Homes Purchased From 2013 to Present***				
Length of Term	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
1 year	3%	4%	5%	4%
2 years	9%	6%	7%	8%
3 years	9%	11%	9%	9%
4 years	6%	8%	10%	7%
5 years	67%	70%	64%	67%
6 years	0%	0%	0%	0%
7 years	1%	1%	1%	1%
8 years	0%	0%	0%	0%
9 years	0%	1%	0%	0%
10 years	5%	0%	5%	4%
Total	100%	100%	100%	100%
Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.				

Amortization Periods

The survey found that among these recent buyers, the contracted mortgage amortization periods average 22.1 years. The contracted periods are slightly longer for first-time buyers (22.7 years) than for second-time (22.0 years) and subsequent buyers (21.1 years). Across all three groups of buyers, very few have contracted amortization periods of longer than 25 years. One-third have contracted amortization of less than 25 years.

Table 4-12 ***Contracted Amortization Periods for Mortgages, for Homes Purchased From 2013 to Present***				
Contracted Period	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
10 years or less	11%	9%	15%	12%
11-15 years	4%	7%	8%	6%
16-20 years	9%	19%	13%	12%
21-24 years	3%	8%	4%	5%
25 years	57%	40%	50%	51%
More Than 25 Years	16%	17%	10%	14%
Total	100%	100%	100%	100%
Average	22.7	22.0	21.1	22.1
Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.				

Very few mortgage borrowers pay off their mortgages according to the original amortization agreements. Prior editions of the CAAMP studies have found that each year about 35% to 40%

of mortgage borrowers take steps to accelerate repayment (increasing the regular payments, making lump sum payments, and/or changing the frequency of payments). In addition, many borrowers' regular payments exceed the required amounts. In consequence, most mortgages are repaid early. On the other hand, very few borrowers encounter circumstances that require them to lengthen their repayment periods.

The spring 2015 survey asked the mortgage borrowers when they expect to have fully repaid their mortgage. The responses indicate that 70% of borrowers expect to repay early, 16% expect to use the full amortization period and 14% expect to take longer than the contracted period. Overall, the average actual repayment period is expected to be 5.0 years shorter than the contracted periods. The amount of anticipated acceleration is slightly less for first-time buyers (4.3 years) than for second-time buyers (5.0 years) and subsequent buyers (6.1 years).

Table 4-13
Anticipated Changes in Amortization Periods
Compared to Contracted Periods

Change	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
Shorter	63%	76%	77%	70%
No Change	22%	10%	12%	16%
Longer	15%	14%	11%	14%
Total	100%	100%	100%	100%
Average Change	-4.3	-5.0	-6.1	-5.0

Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.

At current very low interest rates, mortgage principals are repaid very rapidly.

- At a typical rate of 2.75% for a five-year fixed-rate mortgage, with a 25 year amortization period: for a $300,000 mortgage, the monthly payment would be about $1,382 per month. In the first month, less than one-half ($684) would be for interest and more than half ($698) would be principal repayment. During the first year, 2.8% of the mortgage would be repaid.
- For variable rate mortgages, a rate of 2.2% is typical. Based on a $300,000 mortgage, the monthly payment would be $1,299. In the first month just $547 (only 42% of the total payment) would be interest and $752 would be principal repayment. During the first year, 3.0% of the mortgage would be repaid.
- The shares of the payments that go to principal repayment accelerate over time: as the mortgage balance is reduced, less interest is paid each year.

Discussions of housing affordability usually look at total mortgage payments (in addition to costs for taxes and utilities), and overlook the growth of equity that results from the principal repayment. Any thorough review of the financial impacts of homeownership should consider the repayment of principal.

Interest Rates

The Canadian mortgage market remains extremely competitive. For the buyers in this survey, the average rate was 3.0%. Looking separately at the year of the home purchase, the averages are 3.08% for 2013 purchases, 3.00% for 2014 purchases, and 2.68% for purchases so far in 2015.

Over that same period (since the start of 2013) the average "posted rate" for five-year fixed rate mortgages was 5.01% (this includes averages of 5.23% for 2013, 4.89% for 2014, and 4.73% for 2015 up to the time of the survey). Clearly there has been a great deal of competition and discounting in the mortgage market, as the average of actual rates is more than two percentage points below the posted rates.

Looking at types of mortgages, for fixed rate mortgages (taken by 72% of these borrowers), the average was slightly above the overall figure, at 3.03%. For variable rate mortgages (21% of the mortgages) the average was 2.68%. For the small minority (7%) of mortgages that combine fixed and variable rates, the figure was 3.13%.

The buyers were asked "at the time you bought your current residence, to what extent did you consider the possibility of interest rates rising in the future?" A 10-point scale was used, with 1 indicating "gave it no consideration at all" and 10 indicating "strong consideration". Not surprisingly, those who have no financing on their homes gave this little consideration. The next table summarizes the responses of those with home finance. A small share (about 15% in total) gave relatively little consideration, and a substantial share (60%) gave quite a lot of consideration to the possibility. The data shows that first-time buyers gave this more consideration than did repeat buyers.

Table 4-14
Degree of Consideration Given to Future Interest Rates

Degree of Consideration	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
Very Little (1 or 2)	6%	6%	9%	7%
Some (3 or 4)	7%	7%	9%	8%
Moderate (5 or 6)	24%	24%	29%	26%
Significant (7 or 8)	40%	45%	35%	40%
Great Deal (9 or 10)	23%	18%	18%	20%
Total	100%	100%	100%	100%
Average Score (out of 10)	6.9	6.7	6.5	6.7
Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.				

5.0 The Process

The buyers report that they visited or considered an average of nine dwellings. One-half of them considered from one to five dwellings, one-quarter considered six to 10, 10% considered 11 to 15 dwellings, and the remainder (about 15%) considered more than 15. Most of these buyers made very few offers to purchase: 68% reported making only one offer and only 2% made five or more offers. On average, the buyers made 1.5 offers each. These numbers are consistent across the three groups of buyers.

The homebuyers were asked to indicate which factors "prompted you to purchase your current residence when you did?" The responses are summarized in the next table. To generalize about these responses:

- First-time buyers cite more factors than do other buyers (possibly reflecting that for them this has been a bigger life change).
- Personal events (marriage, starting a family, to leave the parental home) are mentioned more frequently by first-time buyers than other buyers.
- Financial aspects of home ownership (low interest rates, financial security, building equity) were also mentioned more frequently by first-timers.
- Factors related to dwelling location and characteristics (community, proximity to family or friends, dwelling not meeting needs, down-sizing) were mentioned more often by repeat buyers.

Table 5-1
Factors Prompting Decision to Buy

Factors	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
Saved the money	25%	10%	5%	15%
Moved due to a new job	6%	8%	7%	7%
Started a family	13%	4%	1%	7%
Got married	9%	5%	3%	6%
Good time for investment	21%	11%	10%	15%
To stop renting	51%	13%	8%	29%
Financial security	12%	2%	7%	9%
Low interest rates	25%	14%	10%	18%
Pride of ownership	32%	11%	10%	20%
To get out of my parents' home	12%	1%	0%	6%
To build equity/appreciation/growth	32%	13%	12%	22%
Freedom	24%	11%	9%	16%
To move to a better community	13%	21%	18%	16%
To upsize from my previous residence	22%	41%	20%	25%
To downsize from my previous residence	3%	8%	24%	11%
Previous residence was no longer meeting all my needs/wants	18%	36%	35%	27%
To move into an area with better schools	5%	8%	4%	5%
To move closer to family or friends	4%	13%	15%	9%
Other	4%	7%	9%	6%
Average Number of Factors	3.3	2.4	2.1	2.7

Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.

Most of the buyers did relatively little shopping in terms of choosing their real estate agents and mortgage professionals:

- 16% said they did not consult before choosing an agent, and the number of agents consulted averaged only 1.3.
- Similarly, among the buyers who obtained financing, 16% did not consult and only 1.2 mortgage professionals were consulted on average.
- 9% of borrowers say they did not obtain mortgage quotes (likely meaning that they accepted the offer from their usual financial institution), and the average number of quotes received was just 1.6.

Table 5-2 Real Estate and Mortgage Professionals Consulted					
	1st Time Buyer	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*	*% Saying "0"*
Real Estate Agents Consulted Before Choosing	1.3	1.4	1.3	1.3	16%
Mortgage Professionals Consulted	1.2	1.2	1.1	1.2	16%
Mortgage Quotes Obtained	1.7	1.7	1.5	1.6	9%
Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.					

Mortgage borrowers consulted most frequently with major banks (76%), followed by mortgage brokers (56%), credit unions (26%), and life insurance or trust companies (16%) – more than one type of professional could be consulted. Slightly over one-half (52%) of mortgages were obtained from banks, 34% from mortgage brokers, and 10% from credit unions. There are differences across the buyer groups: bank use is lowest for first-time buyers (47%) and highest for buyers who have purchased more than two homes (58%). Conversely, use of mortgage brokers is most frequent for first-time buyers (39%) and lower for repeat buyers.

Table 5-3 Use of Mortgage Professionals				
	1st Time Buyer	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
Professionals Consulted				
Representative from a Canadian bank	75%	78%	77%	76%
Mortgage broker	61%	54%	48%	56%
Representative from a credit union	26%	20%	20%	23%
Representative from a life insurance/trust company	18%	13%	13%	16%
Other	0%	3%	3%	2%
Total	180%	168%	162%	172%
Mortgage Obtained From				
Representative from a Canadian bank	47%	54%	58%	52%
Mortgage broker	39%	32%	28%	34%
Representative from a credit union	10%	10%	9%	10%
Representative from a life insurance/trust company	3%	1%	2%	2%
Other	0%	3%	3%	2%
Total	100%	100%	100%	100%
Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.				

6.0 Circumstances, Expectations, and Opinions

The homebuyers in the survey indicated their employment status as of the time when they bought their current dwelling.

- Most of the buyers were employed full-time, especially the first-time and second-time buyers, although a relatively high share of the subsequent buyers were in retirement.
- Among first-time buyers, a small but notable share was involuntarily employed part-time.
- Very few first-time buyers were self-employed.

Table 6-1
Employment Status of Homebuyers

Status	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
Employed Full Time	79%	76%	50%	69%
Employed Part Time (by choice)	1%	1%	4%	2%
Employed Part Time (would like to be full time)	7%	2%	1%	4%
Self-Employed	2%	3%	10%	5%
Contract Work	1%	1%	1%	1%
Unemployed (would like to be employed, but unable to find work)	1%	1%	1%	1%
Not Working (by choice)	3%	7%	4%	4%
Retired	5%	10%	29%	14%
Total	100%	100%	100%	100%

Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.

They also provided opinions on “at the time you purchased your current residence, how secure did you feel in your employment situation?” Responses were given on a 10-point scale where 1 indicates “not at all secure” and 10 indicates “very secure”. While levels of security were very high across all of the buyer groups, security was slightly higher for repeat buyers than for first-time buyers. This may be related to the older ages of the repeat buyers.

Table 6-2
Degree of Employment Security Among Homebuyers

Degree	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
Very Little (1 or 2)	1%	0%	1%	1%
Some (3 or 4)	5%	4%	2%	4%
Moderate (5 or 6)	11%	12%	10%	11%
Significant (7 or 8)	38%	34%	37%	37%
Great Deal (9 or 10)	44%	50%	49%	47%
Total	100%	100%	100%	100%
Average (out of 10)	8.0	8.2	8.3	8.1

Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.

Questions were asked about expectations for home prices and interest rates (also on a 10-point scale, with 1 indicating "go down dramatically", five or six meaning "about the same", and 10 indicating 10 indicates "go up dramatically". For both house prices and interest rates, the expectation for the next year is modest increases (as average scores are slightly above the mid-point of 5.5). For the next five years, there are expectations of slightly larger rises: with the averages not far from the midpoint, the expectations are far from extreme.

Table 6-3 ***Homebuyers' Expectations for House Prices and Interest Rates*** ***Average Scores Out of 10***				
Expectation	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
Housing Prices in my Community				
In the Next Year	6.5	6.4	6.6	6.5
In the Next 5 Years	7.2	7.0	7.2	7.2
Mortgage Interest Rates				
In the Next Year	6.2	6.0	6.1	6.1
In the Next 5 Years	6.9	6.8	7.0	6.9
Source: survey by Bond Brand Loyalty for CAAMP; analysis by the author.				

In prior editions of CAAMP's semi-annual studies, several topical questions have been asked (related to issues that are often raised in the public discussions). A set of tables here summarizes the responses for seven topics. Once again, a 10-point scale is used, with 1 indicating "completely disagree" and 10 indicating "completely agree".

Because this edition of the survey focuses on a small subset of the population (recent homebuyers) the responses here should not be compared to prior editions (it will be impossible to know if any changes are due to real shifts of opinion, or if they reflect different attitudes within this subset compared to the population overall).

There is relatively strong agreement with a proposition that low interest rates have encouraged too many to buy homes. But, as we have seen before, that set of opinions is contradicted by responses to other questions about their own circumstances. It seems that we unfavourably judge the behaviour of the bulk of strangers, even when our own situations should give us more comfort.

Table 6-4 ***"Low interest rates have meant that a lot of Canadians became homeowners over the past few years who should probably not be homeowners"***				
Rating	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
Very Little (1 or 2)	1%	1%	4%	2%
Some (3 or 4)	9%	8%	8%	8%
Moderate (5 or 6)	30%	27%	26%	28%
Significant (7 or 8)	43%	45%	43%	44%
Great Deal (9 or 10)	17%	19%	20%	18%
Total	100%	100%	100%	100%
Average	6.8	7.0	6.9	6.9
Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.				

Overall, homebuyers are confident about their ability to handle a downturn in the housing market. Repeat buyers are even more confident than first-time buyers, which no doubt reflects that most are older and have become more secure financially.

Table 6-5 ***"I/my family would be well-positioned to weather a potential downturn in home prices"***				
Rating	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
Very Little (1 or 2)	4%	2%	1%	2%
Some (3 or 4)	10%	8%	3%	7%
Moderate (5 or 6)	36%	29%	26%	31%
Significant (7 or 8)	37%	42%	44%	40%
Great Deal (9 or 10)	13%	19%	25%	19%
Total	100%	100%	100%	100%
Average	6.4	7.0	7.4	6.8
Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.				

It isn't surprising that homebuyers are confident about real estate as an "investment". But, it is surprising that repeat buyers are significantly more confident than are first-time buyers.

Table 6-6 ***"Real estate in Canada is a good long-term investment"***				
Rating	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
Very Little (1 or 2)	2%	1%	1%	2%
Some (3 or 4)	5%	4%	2%	4%
Moderate (5 or 6)	30%	27%	16%	25%
Significant (7 or 8)	43%	49%	52%	47%
Great Deal (9 or 10)	20%	18%	28%	22%
Total	100%	100%	100%	100%
Average	7.0	7.2	7.6	7.3
Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.				

Expectations about the economic outlook are mildly positive.

Table 6-7 ***"I am optimistic about the economy in the coming 12 months"***				
Rating	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
Very Little (1 or 2)	4%	1%	3%	3%
Some (3 or 4)	12%	13%	9%	11%
Moderate (5 or 6)	38%	45%	36%	39%
Significant (7 or 8)	35%	31%	41%	36%
Great Deal (9 or 10)	12%	11%	11%	11%
Total	100%	100%	100%	100%
Average	6.3	6.3	6.4	6.3
Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.				

Few of these recent homebuyers regret the size of their mortgage. Interestingly, the level of regret among first-time buyers is no higher than (and possibly a bit lower than) for repeat buyers.

Table 6-8 ***"I regret taking on the size of mortgage I did"***				
Rating	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
Very Little (1 or 2)	32%	26%	25%	29%
Some (3 or 4)	29%	35%	37%	33%
Moderate (5 or 6)	25%	20%	27%	24%
Significant (7 or 8)	11%	17%	6%	11%
Great Deal (9 or 10)	3%	2%	4%	3%
Total	100%	100%	100%	100%
Average	3.8	4.1	3.9	3.9
Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.				

Attitudes are positive towards mortgage debt. First-time buyers may be slightly less positive than repeat buyers.

Table 6-9 ***"I would classify mortgages as good debt"***				
Rating	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
Very Little (1 or 2)	3%	3%	2%	2%
Some (3 or 4)	5%	2%	4%	4%
Moderate (5 or 6)	28%	26%	20%	25%
Significant (7 or 8)	42%	49%	52%	47%
Great Deal (9 or 10)	22%	20%	22%	22%
Total	100%	100%	100%	100%
Average	7.1	7.2	7.3	7.2
Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.				

Homebuyers are on the fence on the question of a housing bubble in their community. Very few of them either agree strongly or disagree strongly with this proposition.

Table 6-10 ***"The housing market in my community is in a bubble"***				
Rating	*1st Time Buyer*	*2nd Time Buyer*	*Subsequent Purchases*	*All Buyers*
Very Little (1 or 2)	5%	5%	7%	6%
Some (3 or 4)	16%	19%	25%	20%
Moderate (5 or 6)	51%	46%	43%	47%
Significant (7 or 8)	22%	26%	17%	21%
Great Deal (9 or 10)	7%	4%	7%	6%
Total	100%	100%	100%	100%
Average	5.7	5.6	5.3	5.6
Source: Survey by Bond Brand Loyalty for CAAMP; Analysis by the author.				

7.0 The Housing and Mortgage Markets

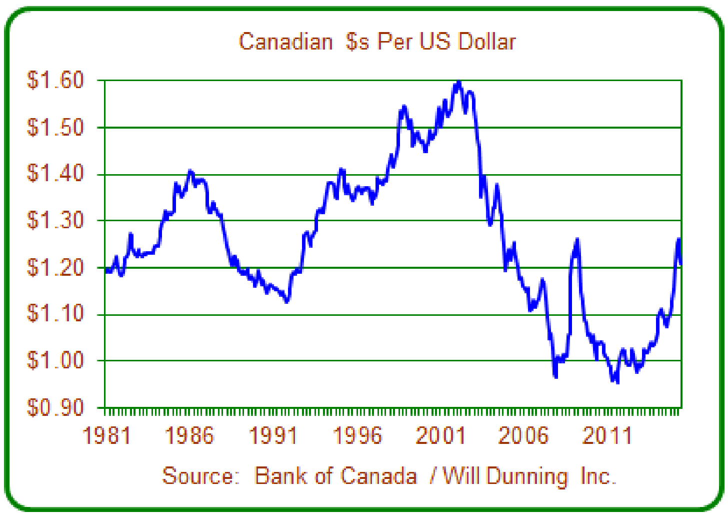
The Economic Background

Since our fall 2014 report, the economic background has changed drastically. We accept the widely-held opinion that while the sharp drop in the price of oil will hurt the producing provinces (economically and in their housing markets) there will be benefits in the other (consuming) provinces.

But, there are going to be differences in timing. The key word is "asymmetry". In the face of bad economic news, we can react very quickly. Our responses to good news, however, tend to be much more gradual. This combination means that we are currently seeing more negative than positive impacts.

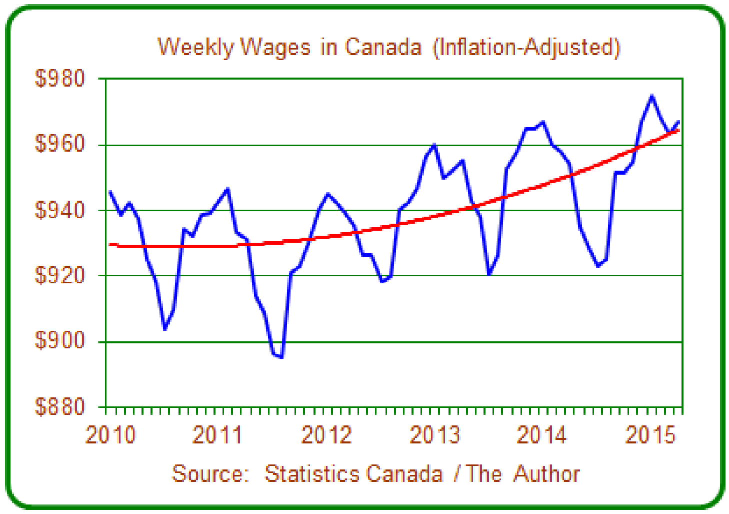
A critical unknown is how long it will take for the positives to start significantly offsetting the negatives. Most opinions being expressed suggest that the benefits will increasingly accrue during the second half of this year. This economist sees that as far from being a certainty.

In particular, one of the strongest positive factors is the weakening of the Canadian dollar relative to the US dollar, which will make it easier for us to sell goods and services to the rest of the world. Commentary assumes that benefits will soon start to flow. But, there are some limiting factors.



- As can be seen in this chart, while our dollar is weaker than it was two years ago, in historic terms it is now only mid-range – at this level we cannot expect the same economic benefits as accrued during the 1990s.
- Secondly, benefits occur through various channels, which take varying amounts of time. The earliest benefits include more sales of our services to other countries (this includes increased visits to Canada by tourists). Then, we might see increased sales and production in goods-producing industries that were already in good shape. A third wave is recovery in industries that are weak. The final wave would be investment in new activities that have become viable.
- History – comparing employment data with the exchange rate – shows that it takes five or six years for the benefits to fully accrue.
- Overall, therefore, benefits from the weaker dollar will materialize quite slowly.

For consumers, drops in oil prices will reduce costs for motorists and others, enabling them to spend more on other things. (For businesses, they will reduce costs in many industries, and lower prices will stimulate demand). But, the weakening of the dollar also means that prices have increased and are likely to rise further for the products that we import (including food and clothing). The balance of these effects is uncertain. A quick way to get a sense of the net effect is to compare growth of wages to the overall inflation rate (and to recalculate wages in inflation-adjusted dollars). The chart to the right does that. It shows that during the past three years, inflation-adjusted wages have trended upwards. But, the trend has not been altered materially, yet. If the evolving trends for consumer prices in Canada produce a net benefit, then we would see acceleration for inflation-adjusted wages.

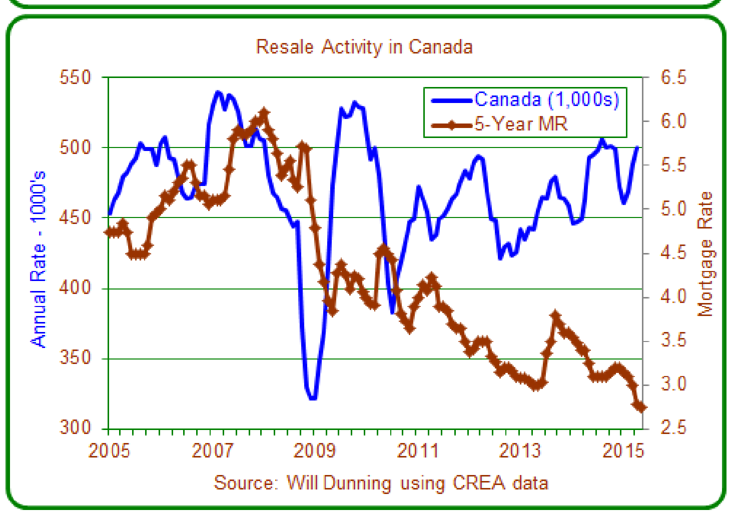


A further effect is that many of the job losses that will result from lower oil prices are in high wage industries, and this will tend to lower the wage trend. It is quite possible that these price and wage adjustments will, in combination, yield a mildly positive outcome. Due to asymmetry, that mild benefit will take time to materialize.

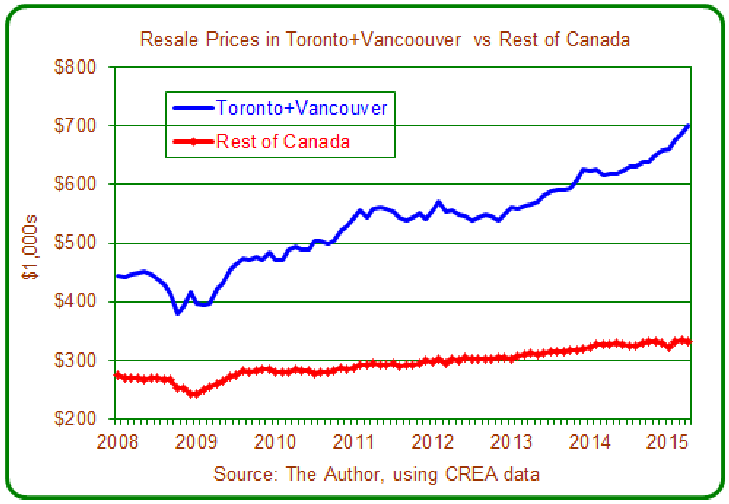
Employment data (especially the employment-to-population ratio, or the percentage of adults who have jobs) show that the Canadian economy is relatively strong in historic terms, although it remains weaker than it was prior to the recession. Furthermore, the employment rate has dropped slightly during the past two years. Overall, it appears quite likely that the employment rate will continue to weaken during the coming months, as job losses in oil-producing regions more than offset growth elsewhere.

Housing Market Conditions

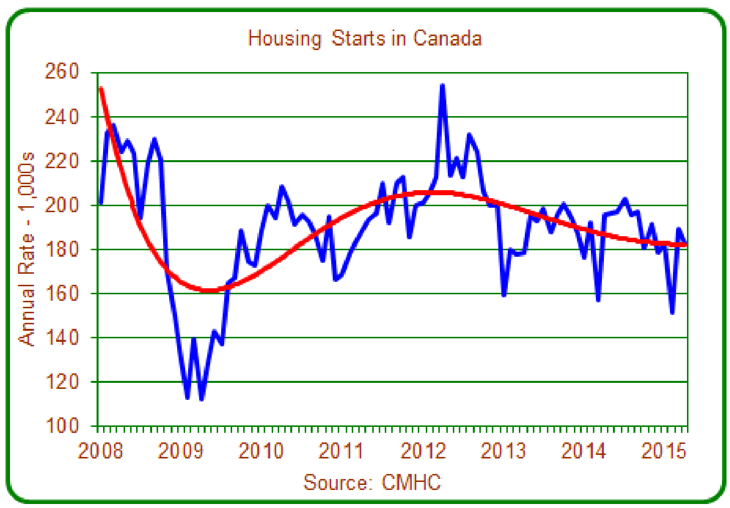
An economy that is weaker than it was prior to the recession means that the housing market is also weaker in relative terms. The recent fall of the employment-to-population ratio (and the likelihood of a continuation) suggests that housing market activity is likely to slow.



Longer-term trends in the housing market depend critically on job creation. But, in the short-term, interest rates are highly influential. The chart above illustrates that the negative effects of a weaker economy have been offset by on-going drops for mortgage interest rates. With mortgage rates (after typical discounts) now at a new all-time low, we are seeing the consequence in a surge of sales. But, considering how extremely low mortgage rates are, the current wave is not all that impressive. This testifies that the uncertainty around reduced oil prices is causing some hesitation.



The average resale house price in Canada is rising very rapidly, with the seasonally-adjusted price up by 9.5% year-over-year, as of April. This is driven by very strong activity in a few major markets, most notably Toronto and Vancouver. In combination, their house prices have increased by 13.1%. In the rest of the country, the seasonally-adjusted price is up by just 1.4% and the average has been essentially flat since last fall. In Toronto and Vancouver, there are shortages on the supply side (limited building lots are available for new homes). Therefore, in these two communities, price growth has been determined on the supply side. Elsewhere in the country, weak demand is the key factor.

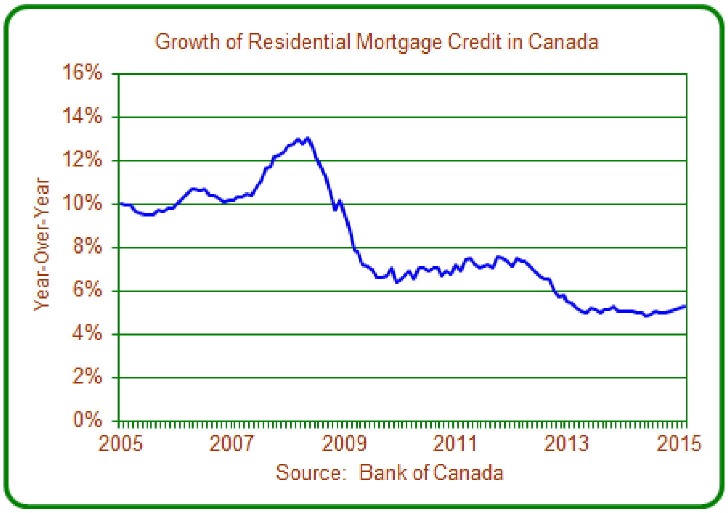


Looking at new housing construction, activity peaked in 2012 and has trended downwards. The trend is now about 10% below its peak level.

The outlooks for resale market activity and housing starts are being influenced by the slowdown of job creation over the past two years. While interest rates are at exceptionally low levels they are unlikely to fall further, and we will not experience more of the boosts that occur when rates fall. Furthermore, the uncertainty about the economic outlook (the consequence of rapid change in energy markets) is bound to inhibit housing activity. Overall, we should expect to see further gradual erosion of housing starts. And, as the stimulus caused by recent falls in mortgage rates begins to fade, we can expect some slowing of resale activity.

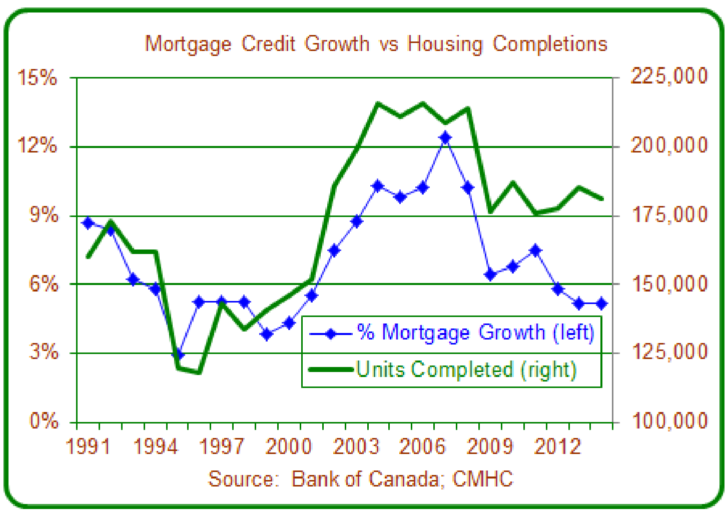
Mortgage Market

Growth of residential mortgage credit has stabilized at just over 5% per year. While this is considerably slower compared to the pre-recession period, it continues to exceed the rate of growth of the broader economy. Mortgage credit continues to expand relative to the economy and to total household income.



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 one-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, this chart also shows that the relationship may have broken down. Not exactly "broken down" – there is another important factor that has caused mortgage credit growth to slow, and that factor (very low interest rates) has become stronger.



- Very low levels of interest rates mean that Canadians are paying less interest and have more money available that they can use to repay their mortgage principals. CAAMP's surveys have found that Canadians are making significant efforts to repay their mortgages more rapidly than they have to. Therefore, a statistical analysis shows that reductions in interest rates in Canada tend to reduce the rate of mortgage credit growth; conversely, rising interest rates lead to increased mortgage growth. On a statistical basis, each one point change in mortgage interest rates affects mortgage credit growth by about one-half of a point per year.
- 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

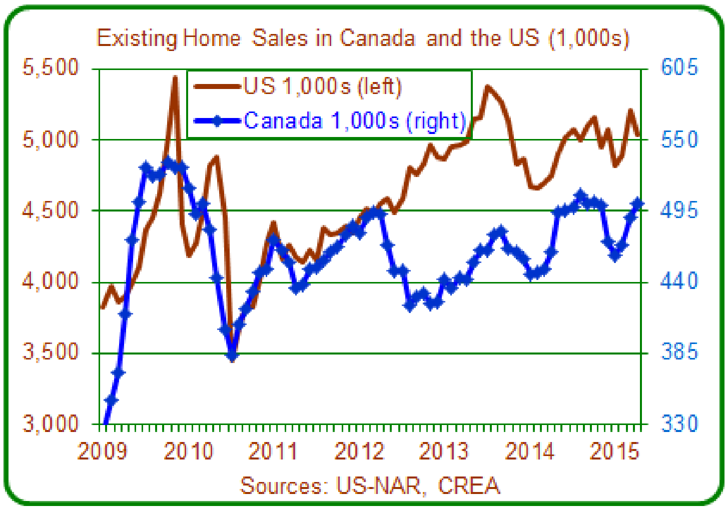
obtained there is often an existing mortgage that will be discharged. Therefore, on a "net" basis, resale activity is less important compared to construction of new dwellings.

However, resale activity is very important to mortgage demand, in an indirect way. Evolving conditions in the resale market influence how much new housing will be constructed: when there are shortages in the resale market and/or prices are rising, there is a need for more new construction. More new homes will be sold. These sales will lead to increased housing starts and subsequently housing completions will rise.

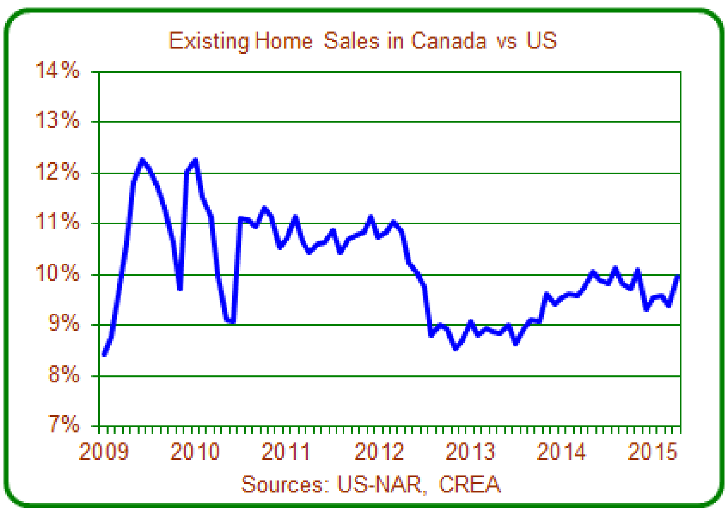
Previous issues of these semi-annual reports discussed a change in mortgage insurance policies that took effect in July 2012, and its negative impacts in the housing market, which would in turn affect the broader economy. Our subsequent research has found that the negative effects are diminishing, but are still substantial. We have used two approaches. Firstly, a comparison of housing market trends in Canada versus the US (which is updated below). Secondly, a statistical analysis of resale market activity across the provinces of Canada (this was discussed in detail in the fall 2014 report and is not repeated here).

Resale Activity: Canada vs the US

Canada's population is equal to 11% of the US's. The chart to the right contrasts resale market activity in Canada and the US using that 11% factor. It shows that resale activity in the two countries was closely matched on a proportional basis from early 2009 until mid-2012. But, at that time, activity expanded in the US (based on reductions in interest rates combined with on-going moderate job creation). The same conditions existed in Canada: sales in Canada should have maintained a proportional relationship to the US.

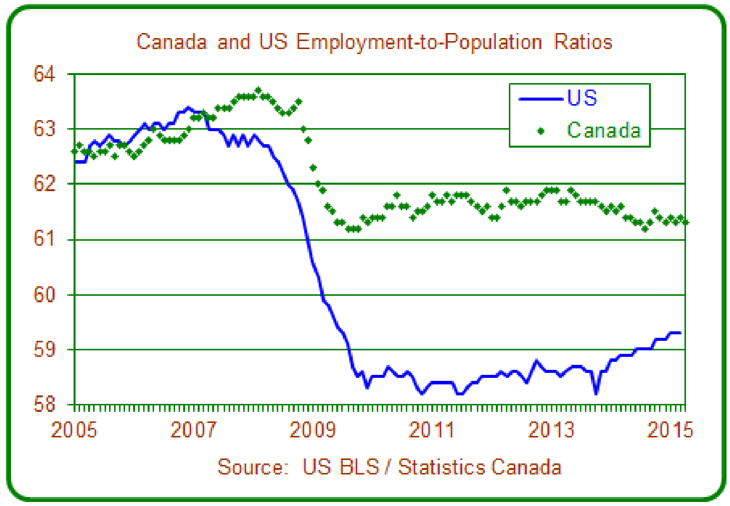


Subsequently, there have been waves of activity in both Canada and the US, and those waves have occurred roughly in parallel. But, the waves in Canada have been notably lower on a proportional basis. The chart to the right shows the proportions. Prior to the policy change, Canadian activity was about 11% of the US level; after the policy change the proportion was reduced to about 9%, showing a 20% drop in proportional terms.



Subsequently the proportion has improved, but with the ratio averaging 9.8% during the last 12 months, sales in Canada are still much lower than they should be.

During the past half-decade, key economic drivers of housing activity in Canada have been very similar to those in the US: mortgage interest rates in Canada and the US have moved roughly in parallel (although the US rate is for 30 year mortgages; the Canadian rate is for five year mortgages).



A second economic parallel is that during 2011 and 2012 the employment-to-population ratios were rising very gradually in both countries, indicating that employment was growing slightly more rapidly than the population in both cases. This was making a minor contribution to the rising sales trend in the US and should have done the same in Canada.

During the past two years, the US employment rate has risen substantially, while the Canadian rate has slipped. Our economies are now parting company in this regard. Since employment trends affect housing markets only gradually, we are probably just now starting to see the consequences of divergent performances on employment. The effect can be seen in the relative rates of resale activity: the ratio of Canada versus US sales was starting to recover from the low of about 9%, but in the past year that improvement has stalled at less than 10%. The combination of divergent economic conditions and the continuing negative effects of the changes in mortgage insurance criteria will prevent the Canada:US sales ratio from returning to a healthy level of 11%.

The under-performance of the Canadian economy during the past two years has multiple causes. The most important negative factor has been a strengthening of the Canadian dollar during 2005 to 2012, which severely impact our manufacturing industries. But, the under-performance of housing activity in Canada has surely been an additional negative factor for the Canadian economy.

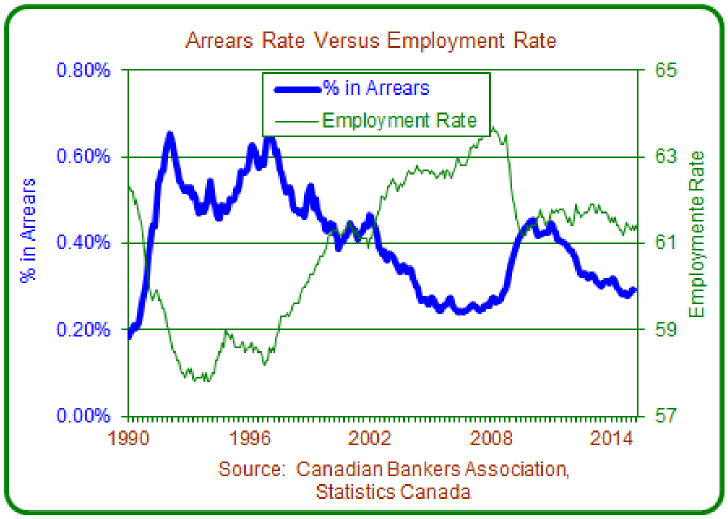
Mortgage Arrears

During the past year, the rate of mortgage arrears in Canada (as reported by the Canadian Bankers Association) has been roughly stable, at a quite low rate (just under 0.30%), although the rate may have increased fractionally in recent months).

Difficulties in meeting mortgage obligations can be attributed to two sets of causes:

- Unaffordable increases in payments, for example due to a rise in the interest rate. This can arguably be considered the prime cause of the US housing market crash of 2007-2008. There have been times in the past when large rises in mortgage rates contributed to large numbers of mortgage defaults in Canada (notably 1981-1982 and 1989-1990).

- The second major cause is reduction of ability to pay, due, for instance, to loss of a job or marital breakdown. During the past two and a half decades covered in the charts, we can see a very close relationship between changes in the employment-to-population ratio versus the arrears rate: a rise in the employment rate tends to lead to lower arrears; conversely a fall in the employment rate tends to bring a rise in arrears. Thus, the (possible) small rise in the arrears rate in recent months may be attributable to the lower employment rate.



It is reasonable to ask if future rises in mortgage interest rates will cause large numbers of Canadians to suffer "unaffordable increases in payments" (the first cause of mortgage arrears that was discussed above). Our research finds that Canadians are well aware that interest rates can and will increase at some point and they have allowed themselves considerable room to absorb future rises in mortgage costs. Meanwhile, they continue to take advantage of low rates to pay off their mortgages as quickly as they can.

This leaves the second cause of default ("reduction of ability to pay") as a potential threat. With the economic outlook highly uncertain, it is possible that job losses could lead to more arrears and defaults. The greatest risks would be in the regions that produce oil and natural gas. In the remaining provinces, where economic outlooks are more favourable, mortgage difficulties are much less likely.

Thus, depending on future economic conditions in Canada, we may very well experience a higher level of mortgage arrears during the coming year, with that increase focused in a few provinces.

We have commented in the past that mortgage insurance policies have been "pro-cyclical": most favourable to borrowing at the same time as housing markets were peaking during 2006 to 2008 (and thereby adding to the strength of the peak and to the job creation that results from housing activity). Conditions were tightened in the aftermath of the recession (and thereby constrained the recovery of housing activity and limited the contribution to job creation).

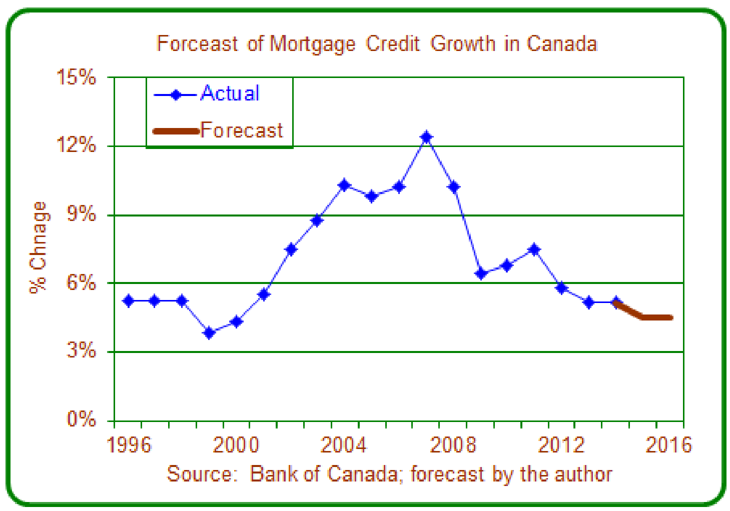
We are concerned about the possibility that a developing economic slowdown (and its consequent weaker housing activity and higher mortgage arrears and defaults) could result in a further pro-cyclical tightening of mortgage lending, through any changes to mortgage insurance policies and/or increased caution on the part of lenders. Any reduction in availability of mortgage credit would further dampen housing activity and aggravate the default issues. Moreover, because housing has such an important role in the economy, this would add to the negative economic risks in Canada.

Forecast of Mortgage Activity

During the past decade, residential mortgage credit in Canada has expanded at an average rate of 7.9% per year. The moderation of housing activity since the recession has resulted in slower growth of mortgage credit. For the past five years, growth has averaged 6.1% per year. The year-over-year growth rate has been roughly stable for two years, and is now 5.3% (the most recent data is for February). The volume of outstanding residential mortgage credit in Canada is $1.29 trillion.

Key factors suggest that there will be little change in the growth rate in the near-term:

- Housing completions will fall only slightly during 2015 and 2016.
- 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.
- Resale market activity is widely anticipated to remain close to current levels during 2015 and 2016.
- 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).



Based on these factors, mortgage credit growth is projected to slow gradually this year, ending at about 4.5%. With only very small changes expected in housing market activity, the growth rate is expected to remain close to 4.5% during 2016.

By the end of 2015, total outstanding residential mortgage credit would be in the range of $1.34 trillion and by the end of 2016 the figure may be very close to $1.4 trillion.

In presenting this forecast, we are assuming that there will not be further "pro-cyclical" constraints on mortgage lending, through changes in either mortgage insurance criteria or the policies of mortgage lenders. If there is tightening, all bets are off, in terms of housing market performance, mortgage defaults, and the severity of a recession.

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