



MORTGAGE
PROFESSIONALS
CANADA

Rapidly Evolving Expectations in the Housing Market

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1.0 Introduction

Our key objective in this set of reports is to track changes in Canadians' attitudes and expectations about their employment situations (and about homeownership) during the COVID-19 emergency. The top-level message in this edition of the report is that the mix of news that was seen before and during the fifth survey period (discouraging news about the current course of the pandemic and positive news about future vaccinations) did not cause material changes to attitudes and expectations. But, there is one notable exception to this, which has strengthened during each of the editions of this survey. Perhaps the most significant finding is that many of us (and the number continues to rise) are deciding to change our living arrangements: This is now resulting in extremely robust home buying. A lot of people are characterizing this market frenzy as FOMO or panic buying. I fear that there might be some truth to that, but I also think it's important to remember something I have said many times: Buying a home is hard work and people do it after carefully considering their needs and options, and their capacities to meet their financial obligations. As is discussed in the third section of this report, exceptionally low interest rates have resulted in improved affordability (even in the face of large price rises). Large numbers of Canadians are now looking at their own circumstances and deciding that buying a home is in their best interests.

As was discussed in the first edition, in this rapidly changing environment, any economic forecasting is even more uncertain than it usually is, because of extreme uncertainty about the key factors that will drive consumer decisions. As an alternative to forecasting, in these reports, we are creating some new data on shifting attitudes and expectations about the housing market to help us interpret evolving market conditions and possibly provide clues about future changes.

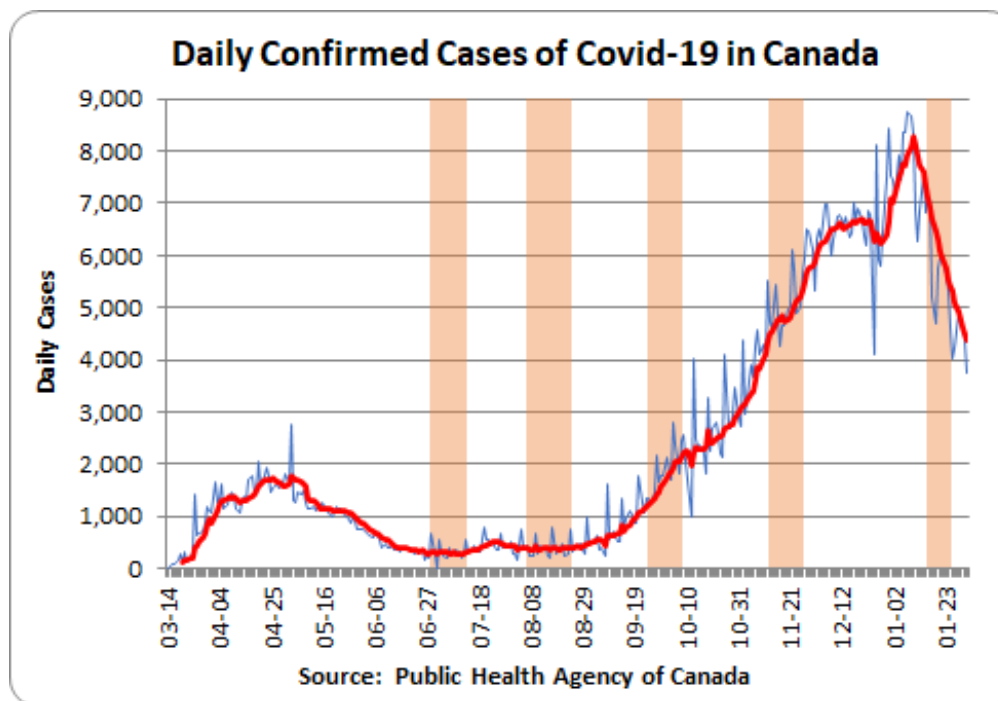
These reports are based largely on data from consumer surveys. The survey for this fifth edition report occurred during January 14 to 25.¹ For this edition, the consumer survey included 1,000 Canadians²: Of those, 764 were homeowners with mortgages, 192 were renters and 44 were others (usually people who live with their parents).

¹ The first four waves of the consumer survey occurred from June 29 to July 13, August 7 to 24, September 25 to October 8 and November 16 to 26. Links to the editions of the report can be found here: <https://mortgageproscan.ca/membership/resources/covid-19-consumer-reports>

² Of those, everyone completed at least one of the previous four waves. (Just over half completed three or more prior waves.)

Rounding the Corner?

This chart summarizes the progress of the COVID-19 pandemic, in terms of daily numbers of new positive diagnoses in Canada. The thin blue line shows the daily numbers, the thicker red line shows the seven-day moving averages, and the pale orange bars illustrate the dates when the five survey waves occurred. As is illustrated, the numbers of new cases were increasing rapidly during the third and fourth survey periods, and increased further during December and in the days after the holiday period. By the time the fifth survey wave began, we were seeing very early hints that the wave might be abating, and then there were further improvements throughout that period. During the fifth survey period, new COVID-19 diagnoses averaged 5,574 per day. While this was encouragingly below the peak level (a seven-day average of more than 8,000), it remained very high. (The average during the fifth wave was 11% above the rate for the fourth wave of the survey.³) As can be seen in the chart, the curve continues to improve: As of February 1, the seven-day average has dropped to 4,368.



We are getting mixed signals on what the future will bring. During the fall and into the start of this year, some provincial governments and municipalities reimposed some economic restrictions, and there is uncertainty about whether further measures will be needed.

Recent economic data (notably, the employment data for December) is showing some deterioration (although the changes are much less severe than the changes that were seen during the spring). On the other hand, during November there were announcements that experimental vaccines have been very successful in reducing symptomatic infection and the severity of infections, and vaccinations are

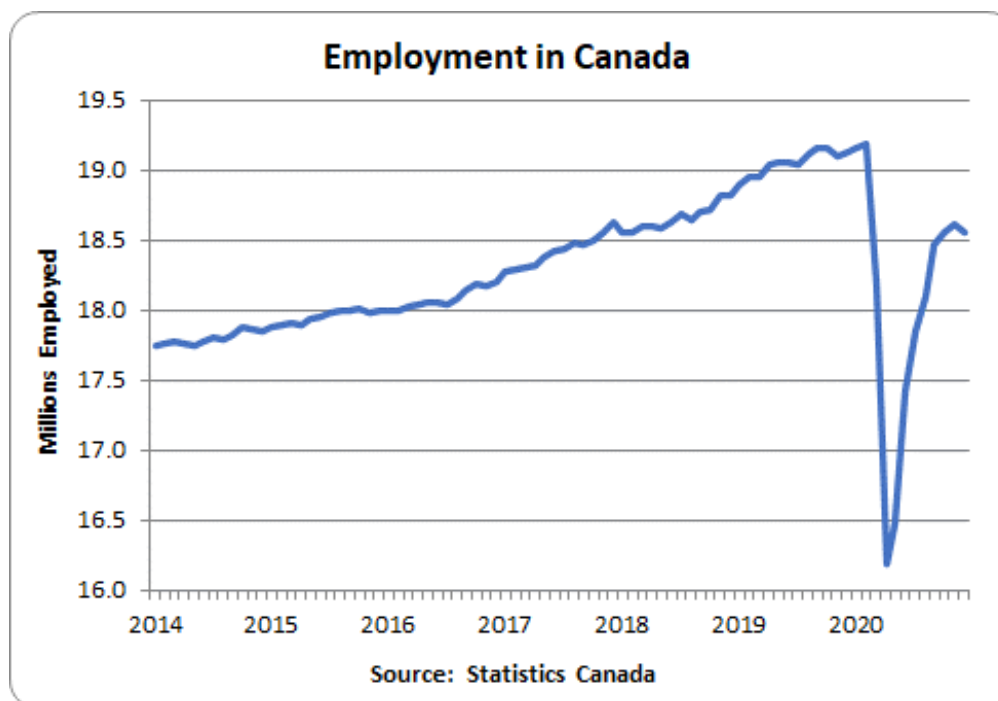
³ This report was largely completed as of February 2 and the chart of COVID-19 cases includes data up to February 1.

now occurring. There is huge uncertainty about when daily life will return to something like normal. Overall, the messaging seems to be that the next few months are going to be very challenging, but that we will see a lot of improvement during the second half of this year.

The Economic Recovery

Canada has seen a substantial recovery from the economic crash that occurred during the early months of the pandemic. However, the level of employment has still not returned to the prior level. Worryingly, the data for December (which reflects the second week of the month) showed a further reduction in employment (a drop of 63,000). As of December, employment in Canada was estimated to be 3.3% lower than it was in February (illustrated in this chart). In terms of total hours worked, the shortfall is estimated at 5.3%. The commentary from Statistics Canada that accompanied the data for December indicated that subsequent economic restrictions may have resulted in additional job losses that will be reflected in data for January (which will be released on February 5).

The data from our consumer surveys (the first occurred during late June/early July) shows that a sizable minority of us (representing millions of people) have experienced negative impacts on employment and financial situations and/or created fears about future negative effects. In the body of this report, Table 2-1 shows that about one-fifth of us have experienced some impairment of our incomes due to COVID-19. The impairment has been greater for renters and “others” (mostly young adults who live with their parents) than for homeowners. On the other hand, three-fifths of us have seen stable or increased incomes.



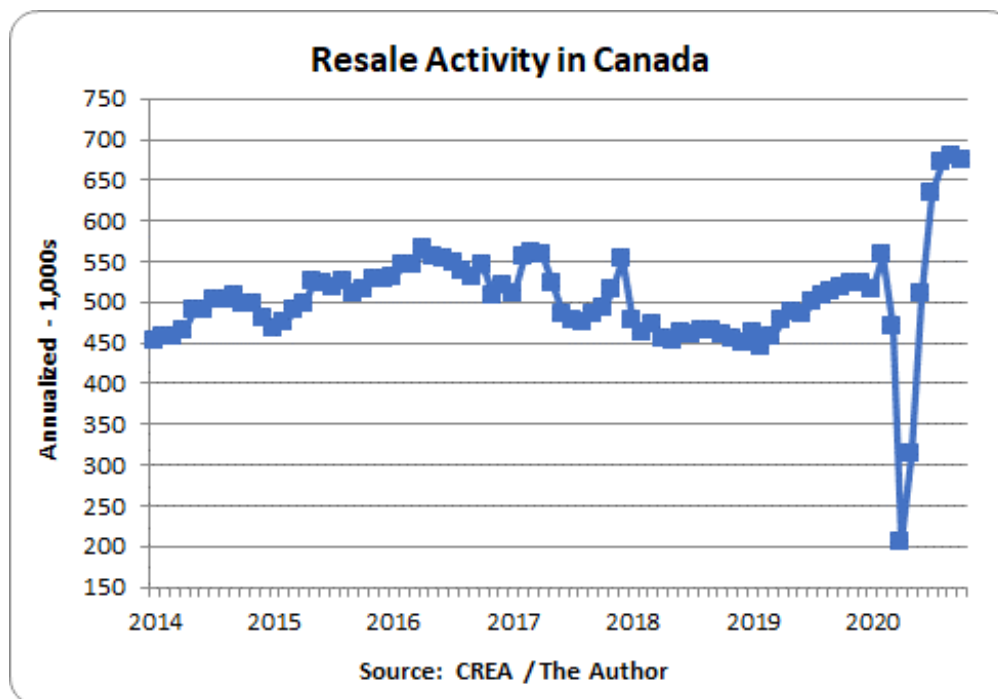
The survey also asked Canadians to look forward, at how their employment situations might change in the coming months. As is shown in Table 2-2, about three in 10 of us are optimistic that there will be some improvement. Almost one-half of us expect little or no change. But, about one-tenth of us are worried that our employment situations could worsen.

Table 2-3 goes further and finds that among people who are experiencing impaired incomes, there is a higher degree of optimism about improvement (more than 40%) but within this group there is also a larger minority who are worried about worsening (close to 30%). About one-quarter of these people expect little change (in other words, these people are not hopeful about personal financial recoveries). Among people whose incomes are similar to or higher than pre-pandemic, less than one-tenth are worried, 30% are optimistic and a very large share (close to 60%) and in this group expect little change.

Housing Markets

Housing market indicators have been extremely volatile. During the last four months of the year, resale market activity (as reported by the Canadian Real Estate Association (CREA)) exceeded prior monthly records. For the entire year, the total number of sales was 12.6% higher than in 2019, and a new annual record was set (about 552,400 sales) that was 2.3% above the prior annual record (which had been set in 2016).

As is discussed in section 3 of this report, the pandemic is causing many of us to want to change our living arrangements (especially for people living in rentals or with their parents) and extremely low interest rates are making that feasible. At the end of 2019, 7% of non-homeowners indicated that they expect to buy a home in the coming year. The share increased in each of the five waves of this survey, and in the fifth wave was at a



startling 27%. There has also been an increase in expectations about buying among people who already own (but the rise is much less substantial from 7% at the end of 2019 to a current 10%).

Very strong interest in buying is far in excess of the available supply, and the imbalance between demand and supply is now resulting in very rapid price growth in many communities across Canada. Clearly, not everyone who wants to buy a home will be able to.

Another consequence of the pandemic is that there is some shifting of housing demand away from renting, toward ownership, and there may be some return to parental homes. But, the shift away from renting may be less than we expected. Data from a rental market survey by the Canada Mortgage and Housing Corporation (CMHC), which was released on January 28, implies that the number of vacant rental apartments increased by only about 20,000 dwelling units compared to a year earlier. Meanwhile, rent growth has been quite rapid during the past four years, and for 2020 the increase is estimated at 3.7%.

It must be noted that this data on rental markets across Canada is from a survey that was largely conducted during the first half of October. It is possible that there have been substantial changes since then.

Therefore, it is recommended that CMHC conduct its rental market survey quarterly (not just annually) and it would be useful to accelerate the release of the data (two years ago, the survey results were released on November 28).

We have to wonder whether the availability of COVID-19 vaccines will reverse the elevated interest in home buying. Two months after the first announcements of positive results, there has not yet been any reversal, as is demonstrated by our survey results (showing a further rise in interest in home buying) and by continued extremely robust sales rates.

Similarly, the high share of people who are now working from home has resulted in higher rental vacancies, with quite large increases in central locations. As vaccinations occur during 2021, how many people will continue to work at home? To what extent will employers move jobs to locations that are less congested? These future outcomes will be important in shaping housing market trends (the locations and types of housing that are in most demand).

Attitudes and Expectations on Topics Related to Housing Markets and Mortgages

For a decade, our consumer surveys have investigated opinions on some housing-related and mortgage-related issues. The new data (shown in Table 4-1) indicates that, in general, opinions have not become more negative during this emergency period:

- Mortgage holders are not showing any increased regrets about their mortgages.
- Homeowners have not become more worried about their ability to weather a downturn in the housing market.
- There is still a high degree of confidence that real estate is a good long-term investment.
- There is still a strong opinion that mortgages are “good debt.”
- Not surprisingly, the first wave of this survey showed a downshift in confidence about the economic outlook. There has been some recovery, but the most recent results continue to show that confidence is lower than at the end of 2019.
- A question added in the first wave of this survey is about anxiety related to the impact of COVID-19 on family finances. The responses can be characterized as showing a moderate degree of anxiety, but there has not been a material improvement since the summer.
- Asking about whether this is a good time to buy a home or condominium, attitudes have been slightly more positive during the COVID-19 period than they were at the end of 2019.
- Looking at expectations about growth of house prices: The acceleration in actual growth has resulted in increasingly bullish sentiment about future growth.
- Concerning interest rates: Every time we have asked, the responses have shown an expectation that rates will rise (the average scores are above the neutral level of 5.5). This time is not an exception. That said, the scores seen in the five waves of this survey are lower than previously.
- Canadians continue to see the home they own as primarily a place to live, and secondarily as an investment. In the third to fifth waves of this survey, the average response was that housing is 77% a place to live and 23% an investment. This strikes me as a healthy attitude in which housing decisions will be based on our needs and our financial capacities.
- Very few Canadians regret becoming homeowners, and that opinion has not changed in the COVID-19 period: In the fifth wave of this survey, 91% of homeowners are happy with their decision to buy their current residence. A small minority (7%) “wish I had purchased a different home.” Just a tiny share (2%) “wish I did not choose to own a home.” People who bought their homes recently give very similar responses.

The Mortgage Deferral Program

As employment plunged in the early stages of the COVID-19 emergency, there was a severe risk that loss of ability to make mortgage payments could cause a crash in local housing markets, which would result in further economic devastation. In response, the federal government allowed mortgage lenders to defer payments for up to six months. Hundreds of thousands of Canadians decided to defer payments and a prolonged housing market crash was averted.

Most of the deferrals have ended. Section 5 of this report discusses what we know (and also what we don't know) about the effects.

Data from the Canadian Bankers Association (published on January 27) shows that by the end of December about 95% of its members' deferrals had expired, and the remaining mortgages still in deferral amount to less than 1% of their total mortgage portfolios. Commentary indicates that among borrowers whose deferrals have ended, close to 100% are meeting their obligations. However, it should be noted that these comments are based on data with an effective date in September, which in turn reflects deferrals that ended in August (or earlier). Therefore, we do not have clear data on what is happening now. That said, I have seen nothing that gives me any concern that serious problems are developing:

- Mortgage lenders have not issued any advisories about developing problems.
- I haven't noticed any related scuttlebutt.
- Our survey data shows that a large share of mortgage borrowers is not suffering impaired incomes (62%, versus 17% whose incomes are impaired).
- A large majority of mortgage borrowers (76% in the fifth wave of our survey) expect "no problem" making their payments. However, about one-fifth of the mortgage holders anticipate that they might have "some difficulty." A small share (less than 5%) indicate that they might have more than "some difficulty."
- For borrowers who do encounter difficulties, it should be possible to find good solutions in a very large share of cases. Due to exceptionally strong market conditions in most communities across Canada, it will usually be possible for distressed owners to make a graceful exit. With rapid price growth over the past years, many will exit with more equity than they started with. In fact, it is possible that there have been exits already by many mortgage holders who were experiencing or anticipating difficulties.
- With all of this said, it is still early days in the unfolding consequences of the end of mortgage deferrals.

About Mortgage Professionals Canada

Mortgage Professionals Canada (“MPC”) is the national mortgage industry association representing over 12,000 individuals and 1,000 companies, including mortgage brokerages, lenders, insurers and industry service providers. Our members make up the largest and most respected network of mortgage professionals in Canada. MPC represents members’ interests to government, regulators, media and consumers. Together with our members, the association is dedicated to maintaining a high standard of industry ethics, consumer protection and best practices. 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 Canadian-owned global customer experience and engagement agency that specializes in building brand loyalty for the world’s most influential and valuable brands. We build measurable, authentic, and long-lasting relationships through a combination of services that includes marketing research, loyalty solutions, customer experience measurement, marketing and management, customer analytics, live brand experiences, and proprietary technology platforms.

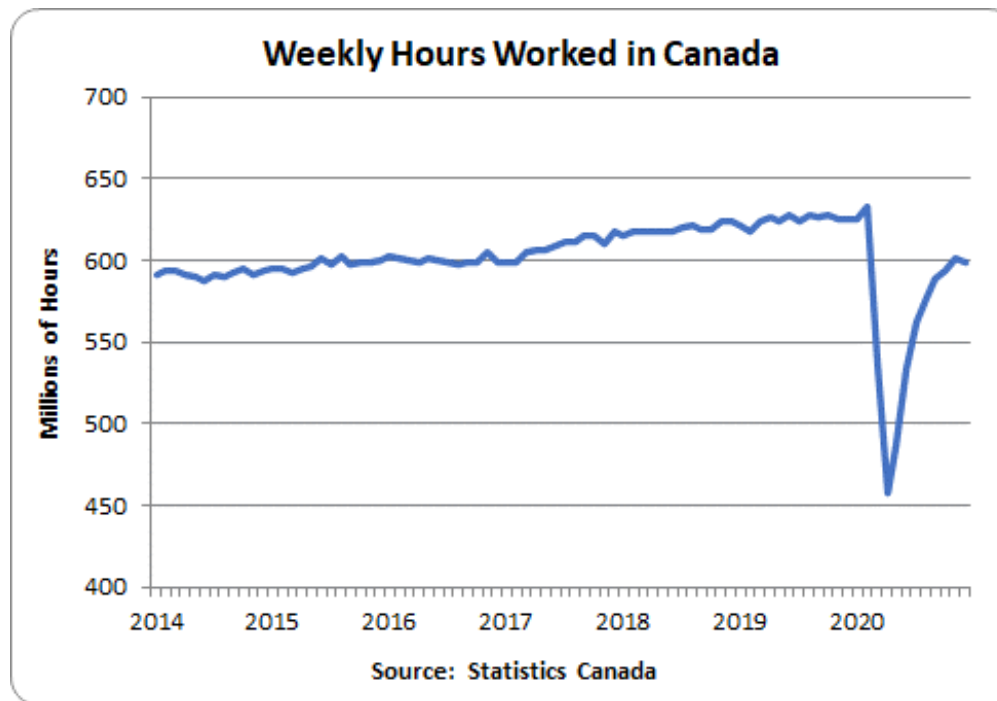
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2.0 Changing Employment Situations

The COVID-19 emergency affected the Canadian economy very sharply, although evolving data has shown a considerable recovery.

Employment plays a key role in supporting housing demand (for both ownership and renting). The employment situation can be portrayed using several different statistics. The chart below uses total hours worked in Canada, as estimated by Statistics Canada's monthly Labour Force Survey. According to these estimates, by April, total weekly hours worked were 28% lower than in February. Improvements were seen during each month from May to November, although the rates of improvement were diminishing. Then, in December, there was a small drop. As of December, total hours worked were 5.3% lower than in February. In its reporting on the data for December, Statistics Canada noted that the data reflects the week of December 6 to 12, and that there have been further health measures that may affect the results for January.



Our survey asked Canadians how their (and, if applicable, their partner's) "employment situation changed as a result of COVID-19." Nine options, plus an "Other" category were provided. The table below summarizes the results for respondents plus their partners. At the bottom of the table, the response options have been collected into major groupings.⁴

Each of the waves of the survey indicated that homeowners were affected less severely than renters and others (people who don't own or rent, such as living with parents). There were higher proportions with impaired incomes for renters and others than for homeowners. Similarly, the proportions with similar (or more) income were higher for homeowners than for renters and others. As is shown in the table below, in the fifth wave, "similar (or more) income" was reported by 62% of homeowners, 55% of renters and 47% of others. Correspondingly, "impaired income" was reported by 17% of homeowners, 26% of renters and 27% of others.

The data from the fifth wave, compared to the fourth wave, indicates that homeowners have seen further improvement (a small rise in the share reporting similar or increased income and a small reduction in the share reporting impaired income). On the other hand, among renters and others, there were reductions in the shares who reported improved incomes and rises in the shares who reported impaired incomes. This discouraging news among renters and others is consistent with the new shutdowns that have occurred for lower-wage service industries (including stores, bars and restaurants).

A deeper investigation of this data looked at the impacts for the most recent homebuyers (purchases made during 2015 to the present). This data shows that recent buyers are more likely to have experienced similar or increased incomes (66% versus 62% for all homeowners) and are less likely to have impaired incomes (15% versus 17% for all owners). Can we also view this as a positive indicator for the long-term stability of the housing market, that young, first-time buyers are starting on promising, and hopefully stable, careers that are making them very good candidates for homeownership?

⁴ Within the subtotals: "Similar (or more) income" combines "Earning a similar amount of money as before," "Was laid off, but I'm back working for the same money," and "Was laid off, but I'm back working for more money." "Impaired Income" includes five of the options, in order from "Working a similar amount, but for less money" to "Was laid off, but I'm back working for less money."

Table 2-1
Changes in Employment Situations Due to COVID-19

Change in Situation	Owners					Renters					Others					Total				
	1 st Wave	2 nd Wave	3 rd Wave	4 th Wave	5 th Wave	1 st Wave	2 nd Wave	3 rd Wave	4 th Wave	5 th Wave	1 st Wave	2 nd Wave	3 rd Wave	4 th Wave	5 th Wave	1 st Wave	2 nd Wave	3 rd Wave	4 th Wave	5 th Wave
Was not working before COVID-19	16%	16%	16%	16%	17%	15%	11%	13%	14%	13%	8%	10%	10%	13%	9%	16%	14%	15%	15%	16%
Earning a similar amount of money as before	55%	57%	57%	57%	59%	40%	49%	53%	51%	48%	42%	48%	42%	42%	42%	51%	55%	55%	54%	56%
Working a similar amount, but for less money	4%	6%	4%	6%	5%	5%	5%	5%	4%	6%	3%	3%	4%	3%	2%	4%	5%	4%	5%	5%
Working less hours now, and making less money	8%	7%	6%	6%	7%	8%	10%	9%	10%	12%	4%	7%	12%	7%	9%	8%	7%	7%	7%	8%
Laid off temporarily	6%	4%	3%	4%	3%	7%	6%	3%	4%	2%	9%	8%	4%	5%	8%	7%	5%	3%	4%	3%
Laid off permanently	1%	1%	2%	2%	2%	3%	3%	2%	4%	3%	5%	4%	6%	5%	5%	2%	2%	2%	2%	2%
Was laid off, but I'm back working for less money	1%	1%	1%	1%	1%	2%	2%	0%	1%	3%	2%	4%	2%	2%	5%	1%	1%	1%	1%	2%
Was laid off, but I'm back working for the same money	1%	3%	3%	3%	2%	7%	4%	3%	5%	5%	3%	5%	5%	7%	5%	3%	3%	3%	4%	3%
Was laid off, but I'm back working for more money	0%	1%	1%	1%	1%	1%	2%	1%	2%	1%	0%	1%	0%	0%	0%	1%	1%	1%	1%	1%
Other	7%	6%	6%	5%	5%	11%	8%	11%	6%	6%	25%	10%	14%	17%	17%	9%	6%	7%	6%	6%
Subtotals																				
Similar (or more) income	57%	60%	61%	61%	62%	48%	55%	56%	57%	55%	45%	54%	47%	49%	47%	54%	59%	59%	60%	60%
Impaired Income	20%	19%	16%	19%	17%	26%	25%	20%	22%	26%	22%	26%	28%	22%	27%	21%	20%	18%	20%	19%
Not Working Before COVID-19	16%	16%	16%	16%	17%	15%	11%	13%	14%	13%	8%	10%	10%	13%	9%	16%	14%	15%	15%	16%
Other	7%	6%	6%	5%	5%	11%	8%	11%	6%	6%	25%	10%	14%	17%	17%	9%	6%	7%	6%	6%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Mortgage Professionals Canada survey, 2020/21. Five waves. Estimates by the author. Totals might not add due to rounding.

We also asked about “your expectations with respect to how your employment situation might change over the coming months.” The next table shows the responses (the data includes responses about the expected change for the respondents’ partners, where applicable). Comparing the responses across the three tenures for the fifth wave, renters and others are more optimistic than owners,

as 44% of renters (up from 41% in the fourth wave) expect improvement (“significant” or “some”), 39% of others expect improvement (similar to the 38% in the fourth wave) but fewer owners (26%) expect improvement (27% in the fourth wave).

Comparing the five waves of the survey, the most positive response was seen in the first wave (34% expected “significant” or “some” improvement), but the share fell slightly in the second wave (31%) and in the third to fifth waves, the shares have been just under 30%. As can be seen in the third row of data, the shares who expect little or no change have tended upward during the five waves of the survey. The share that expects worsening (“somewhat” or “significant”) was stable during the first four waves (at 14%), but improved in the fifth wave.

Table 2-2
Expectations About Changes in Employment Situations

Change Situation in	Owners					Renters					Others					Total				
	1st Wave	2nd Wave	3rd Wave	4th Wave	5th Wave	1st Wave	2nd Wave	3rd Wave	4th Wave	5th Wave	1st Wave	2nd Wave	3rd Wave	4th Wave	5th Wave	1st Wave	2nd Wave	3rd Wave	4th Wave	5th Wave
I am optimistic there will be significant improvement	12%	10%	11%	11%	10%	22%	17%	19%	19%	21%	22%	19%	17%	19%	14%	15%	12%	13%	13%	12%
I am optimistic there will be some improvement	17%	16%	14%	16%	15%	24%	25%	22%	22%	23%	19%	20%	14%	19%	25%	19%	19%	16%	17%	17%
I expect little or no change	44%	47%	47%	47%	50%	34%	37%	36%	34%	30%	35%	36%	41%	36%	41%	42%	44%	44%	44%	46%
I am worried the situation will somewhat worsen	11%	10%	10%	9%	7%	9%	10%	12%	11%	9%	6%	9%	9%	6%	0%	10%	10%	10%	10%	7%
I am worried the situation will worsen significantly	3%	4%	4%	4%	3%	5%	3%	3%	5%	5%	5%	3%	4%	3%	5%	4%	4%	4%	4%	4%
Not applicable	12%	12%	14%	13%	13%	7%	8%	7%	8%	12%	12%	13%	14%	17%	14%	11%	12%	13%	12%	13%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Mortgage Professionals Canada survey, 2020/21. Five waves. Estimates by the author. Totals might not add due to rounding.

Recent homebuyers (purchases made during 2015 to the present) are slightly more optimistic about their future employment situations (compared to all owners). Detailed data from the fifth wave of the survey shows that 13% of recent buyers expect “significant” improvement (versus 10% for all owners, which is shown in the fifth data column of Table 2-2), 17% expect “some” improvement (versus 15% for all owners). Conversely, 8% of recent buyers worry about worsening (“some” or “significant”) versus 10% for all owners.

Looking at the data in Tables 2-1 and 2-2, most of us feel that we are at least as well off financially as we were prior to COVID-19 and most of us are confident about our prospects. But, there is a significant minority of us (more than one-tenth, numbering in the millions) who feel that they are worse off and/or are concerned that their financial circumstances could worsen.

Table 2-3 combines the data from the two questions about the employment and financial impacts of COVID-19 (but only for the fifth wave of the survey). Perhaps the most important findings in this table are in the second column of data. The responses show that among people whose incomes have been impaired due to COVID-19, less than half (42%) are optimistic about their employment situations, about one-quarter (26%) expect little or no change and 28% are worried about worsening.

<i>Table 2-3</i>					
<i>Expectations About Changes in Employment Situations, by Current Impact of COVID-19</i>					
<i>Expectations</i>	<i>Impact of COVID-19 on Employment and Income</i>				<i>Total</i>
	<i>Similar (or more) income</i>	<i>Impaired Income</i>	<i>Not Working Before COVID-19</i>	<i>Other</i>	
I am optimistic there will be significant improvement	13%	17%	4%	13%	12%
I am optimistic there will be some improvement	17%	25%	5%	19%	17%
I expect little or no change	59%	26%	26%	23%	46%
I am worried the situation will somewhat worsen	6%	16%	2%	2%	7%
I am worried the situation will worsen significantly	2%	12%	0%	2%	4%
Not applicable	2%	3%	62%	40%	13%
Total	100%	100%	100%	100%	100%
Source: Mortgage Professionals Canada survey, 2021. Fifth wave. Estimates by the author. Totals might not add due to rounding.					

3.0 *Expectations About Home Buying*

This survey has investigated expectations about home buying. The new data indicates that there has been an increase in the percentage of Canadians who expect to buy a home in the coming year (the first row of data in the next table) and in the following two years (the second row).

In each of the five waves of this survey, the percentage of non-owners who expect to buy a home in the coming year has increased, and is sharply higher compared to the 7% figures seen pre-pandemic, at 14% in the first wave of this survey, 16% in the second wave, 19% in the third wave, 23% in the fourth wave and 27% in the fifth wave. Similarly, there has been a large drop in the percentage who expect to never buy a home (the third last row of data).⁵

The data has also shown increased interest in buying among people who already own a home, but that rise has been much smaller than for non-owners. About one-tenth of current owners expect to buy during the coming year.

As was discussed in the report on the first wave of the survey, interpreting the new data and then drawing a conclusion about market effects is challenging.

- It is clear that the evolving emergency has caused more non-owners to want to buy homes (for example, to move out of an apartment building, where social distancing is challenging, to a lower-density environment).
- At the same time, record low mortgage rates and lower interest rates are making ownership much more affordable, and altering the renting-versus-owning calculation.
- We also need to bear in mind that not everyone who expects to buy has realistic prospects of actually buying. Also, some people, when they research their options, may decide not to buy. Or, they might discover that because of the mortgage stress tests,

⁵ In this new survey, our final dataset includes non-homeowners only if they expect to buy during the coming five years. But, in conducting the survey we did contact a broader sample of non-owners, in order to ask them if they expect to buy (those non-owners who do not expect to buy within the next five years were then removed from the rest of the survey). The data shown in this table for non-owners is based on all of the non-owners who were asked this screening question. On that basis, we believe that the data reasonably reveals that there has been a very substantial rise in home-buying interest among non-homeowning Canadians.

they would be unable to obtain the financing they would require. Or, they might hesitate due to uncertainty about their employment situations or other important factors in their lives.

- Therefore, not all of these people who expect to buy homes will actually buy within the time frames that they have indicated.
- Furthermore, this is data from a sample survey, and these surveys occasionally produce “out-riders” (inaccurate estimates).

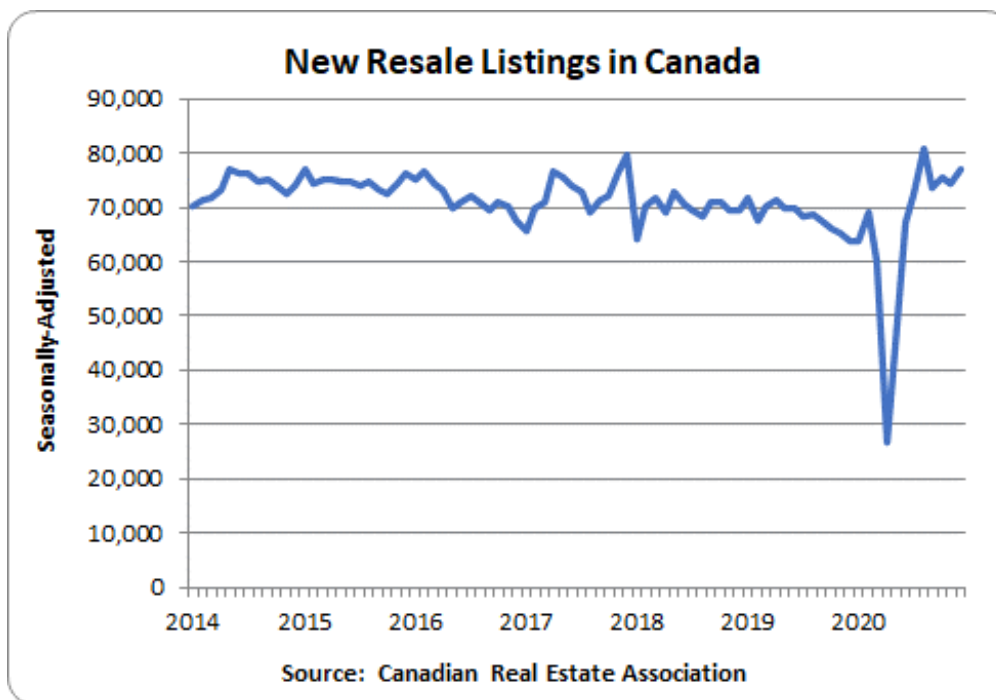
Table 3-1
Consumer Responses on Expectations of Buying a Home,
By Date of Survey

Period of Expected Purchase	Non-Owners							Homeowners (with Mortgages)						
	Fall 2018	Yearend 2019	2020 – 1 st Wave	2 nd Wave	3 rd Wave	4 th Wave	5 th Wave	Fall 2018	Yearend 2019	2020 – 1 st Wave	2 nd Wave	3 rd Wave	4 th Wave	5 th Wave
In the next year	7%	7%	14%	16%	19%	23%	27%	8%	7%	9%	10%	11%	9%	10%
In the next 3 years	16%	19%	23%	25%	32%	35%	42%	10%	11%	14%	12%	12%	15%	13%
In the next 5 years	27%	22%	27%	24%	22%	21%	24%	23%	25%	23%	21%	21%	21%	23%
In the next 10 years	19%	15%	15%	10%	7%	7%	3%	16%	15%	15%	18%	16%	15%	14%
Sometime after the next 10 years	7%	6%	7%	7%	4%	4%	1%	22%	20%	19%	20%	19%	20%	19%
Never	26%	32%	14%	19%	16%	10%	3%	20%	23%	19%	19%	21%	20%	22%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Subtotal - Next 5 Years	49%	47%	64%	65%	73%	79%	92%	41%	43%	47%	43%	45%	46%	45%

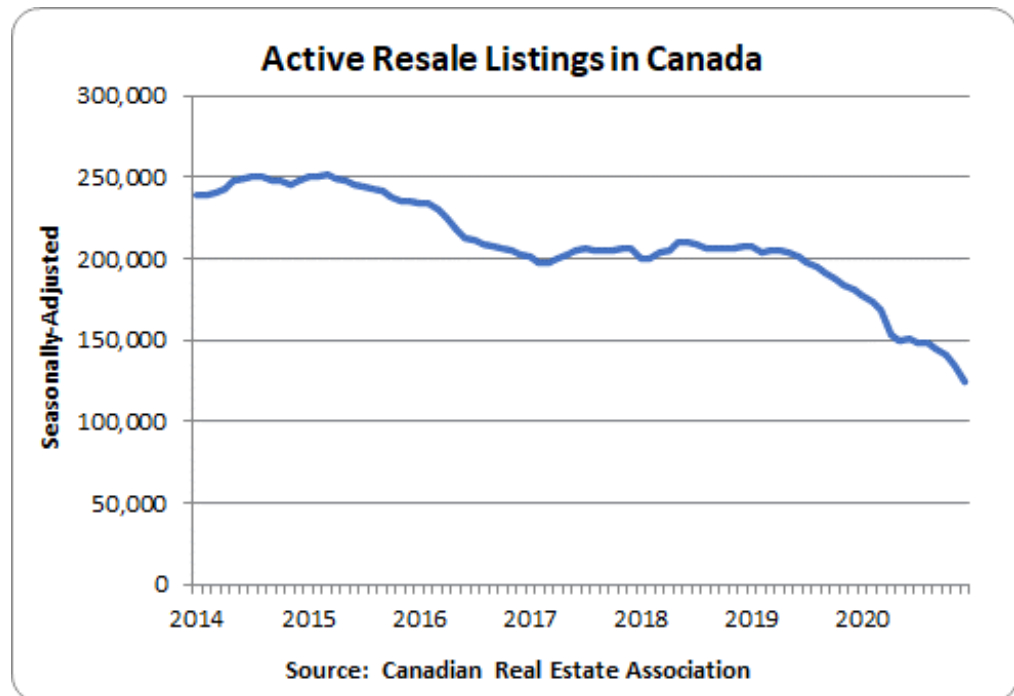
Source: Mortgage Professionals Canada survey, 2020/21. Five waves. Estimates by the author. Totals might not add due to rounding.

The differing expectations for owners versus non-owners is contributing to serious imbalances within Canadian housing markets.

Most of the housing supply that is available to buy results from decisions of current owners that they want to buy a different home, and therefore they have to sell the home that they currently occupy. Because there has been a small rise in the number of owners who want to sell their homes, there has been a small rise in the numbers of new listings that are flowing into resale housing markets across Canada, as can be seen in this chart.



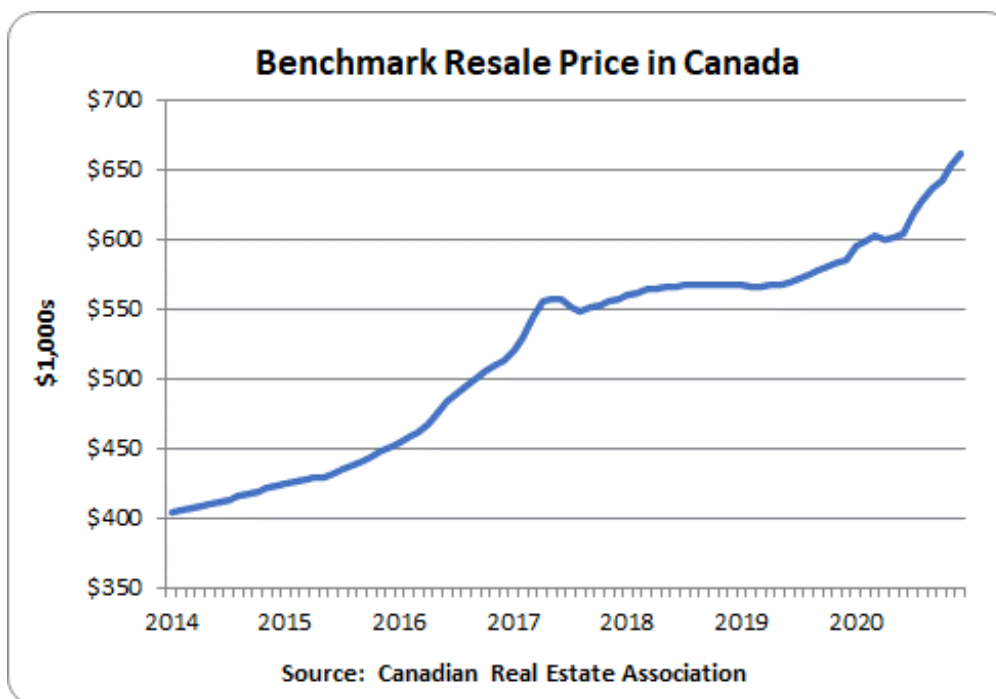
But, because there has been a very large rise in the number of non-owners who want to buy, those newly listed homes are being purchased very rapidly. The consequence is that the number of homes that are still available to be purchased (“active listings”) has fallen sharply, as can be seen in this chart.



Buyers are competing intensely for the available listings, which is now resulting in rapid growth of selling prices. This chart shows estimates produced by the Canadian Real Estate Association (for typical home prices). During the second half of 2020, the estimated benchmark price increased by 9.6%.⁶

Price trends vary across the country, but most communities are experiencing very rapid growth of house prices.

Another pattern seen across the country is that consumer interest is shifting away from apartments toward single-family homes. In consequence, the benchmark price for single-family homes increased by 12.3% in the second half of 2020, while the rise for apartments was a much more modest 2.6%.



⁶ Expressed on an annualized basis, the rise for that six-month period is calculated as 20%. Alternatively, expressed as a year-over-year change, the rise is 13%.

Motivations for Homebuying

In our survey, people who indicated that they expect to buy within the next three years were asked “Which of the following is the main reason you are considering buying?” (Seven options plus “other” were provided.) As is shown in the next table, among homeowners, the most common reason, selected by a large minority, has consistently been “my current home is no longer suitable (i.e. size, location).” Among renters, the most common reason has been “I want to live in a nicer home,” followed by “low interest rates make this a good time to buy.” For “other” people (who neither own nor rent, which usually means they live with parents) “other” has been selected most frequently. Two other frequent responses have been “low interest rates make this a good time to buy” and “my current home is no longer suitable (i.e. size, location).”

For people selecting “other” as the reason for buying, there was an option to write in the reason. Among the non-owner/non-renter respondents (“others”), the most common written-in responses related to wanting to leave the parental home. Among renters, the “other” responses were mostly about not wanting to rent or wanting to own. For current homeowners, there were just a handful of “other” responses.

Looking at the entire set of responses, “suitability” has been the most important driver of desires to buy homes (23% in the overall sample for the fifth wave), followed closely by wanting “to live in a nicer home” (21% in the fifth wave). Low interest rates are also mentioned frequently (by 18% in the fifth wave).

The survey data tells us that wanting to buy homes is driven largely by needs and desires, and lower interest rates are causing many thousands of Canadians to believe that it is now possible to satisfy their homeownership needs and desires. Each week, I create an opinion-estimate on typical rates for five-year, fixed-rate mortgages advertised by major lenders. At the time of the first wave of this survey (late June/early July), the estimate was 2.3%. For the second wave, the estimate was 1.95%, for the third wave it was 1.9%, for the fourth wave it was 1.85% and for the fifth wave the estimate has fallen even lower, to just 1.65%. Recent rates are, by far, the lowest ever recorded. The previous record low was 2.5% during the summer of 2016. Current rates are now 1.2 percentage points below the average seen over the past five years (2.84%).

The survey data shows that only a small percentage of people believe that “this is a good time to get a deal,” and the five waves of the survey have shown reductions in the numbers of people who believe this, which reflects the increasingly difficult challenges that face potential homebuyers.

Table 3-2
Reasons for Wanting to Buy a Home, by Current Housing Tenure

Reason	Owners					Renters					Other				
	1st Wave	2nd Wave	3rd Wave	4th Wave	5th Wave	1st Wave	2nd Wave	3rd Wave	4th Wave	5th Wave	1st Wave	2nd Wave	3rd Wave	4th Wave	5th Wave
1. Low interest rates make this a good time to buy	10%	16%	13%	15%	17%	12%	18%	16%	18%	19%	12%	25%	24%	25%	18%
2. The current situation makes this a good time to get a deal	11%	12%	10%	8%	8%	14%	9%	9%	9%	7%	15%	11%	10%	9%	9%
3. My current home is no longer suitable (i.e. size, location)	38%	31%	34%	27%	33%	14%	19%	20%	12%	14%	12%	22%	17%	18%	23%
4. I want to live in a nicer home	13%	16%	15%	11%	17%	28%	27%	25%	26%	27%	16%	11%	5%	5%	9%
5. I want to live somewhere less expensive	9%	4%	9%	11%	7%	11%	9%	9%	11%	9%	4%	6%	5%	7%	5%
6. I can no longer afford my current home	3%	4%	4%	4%	3%	2%	1%	1%	0%	2%	0%	0%	2%	0%	0%
7. I want to be closer to friends and family	5%	6%	7%	11%	6%	3%	3%	3%	6%	5%	8%	2%	5%	2%	2%
Other	10%	11%	9%	13%	10%	17%	13%	18%	16%	18%	33%	25%	33%	35%	34%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Mortgage Professionals Canada survey, 2020/21. Five waves. Estimates by the author.
Totals might not add due to rounding.

How Much Has COVID-19 Affected the Desire to Buy Homes?

In designing this part of the survey, we were wondering to what extent people found their current dwelling unsuitable for reasons related to COVID-19. For that reason, for people who indicated that they want to buy because their current dwelling is no longer suitable, we asked a follow-up question, about the reason the dwelling isn't suitable. Some of the response options that were offered are related to impacts of COVID-19 (especially the options that are numbered 1, 5, 6 and 7 in the next table). The responses suggest that, up to this point COVID-19 has had some effect on desires to move. Among homeowners who expect to move, 12% chose one of

the COVID-related reasons as the main reason for wanting to move. For non-owners, the share was also 12%. Contrasting these results with the data in the first and fourth rows of Table 3-2, it appears that wanting to live in a nicer home (21%) and low interest rates (18%) are more important motivators than COVID-19.

<i>Table 3-3 Reasons Current Dwelling is Not Suitable</i>		
	<i>As % of All Who Expect to Buy in Next 3 Years</i>	
	<i>Owners</i>	<i>Non-Owners</i>
1. Spending more time at home means I need more space	6%	7%
2. I don't need all of the space I have now	9%	2%
3. I need to be closer to where I work	2%	1%
4. I no longer need to be as close to where I work	5%	0%
5. I want to live somewhere where social distancing is easier (i.e. no elevators, less or no roommates, less crowded sidewalks and stores, etc.)	3%	2%
6. When quarantined, the property doesn't support my mental health or provide enough outdoor space (i.e., a garden, balcony, terrace, etc.)	3%	6%
7. The space isn't conducive to the inclusion of a dedicated work area and can't be or isn't easily modified	5%	4%
8. I want to rely less on public transit	1%	0%
Other	12%	2%
Subtotal – One or More of Reason 1, 5, 6, or 7	12%	12%
Source: Mortgage Professionals Canada survey, 2021. 5 th wave. Estimates by the author.		

The survey asked people who expect to buy a home at any time “What impact did COVID have on this decision?” As is shown in the next table, among people who currently own their homes, three-quarters see their decision as unaffected by COVID-19. On the other hand, among non-owners, a large share indicated that they have to delay their home purchase. A small share of prospective buyers indicated that COVID-19 has caused them to accelerate their purchase.

	Owners	Renters	Others
There was no impact	77%	42%	39%
I am planning to purchase sooner than I originally would have	7%	16%	11%
I had to delay my purchase	16%	42%	50%
Total	100%	100%	100%
Source: Mortgage Professionals Canada survey, 2021. 5 th wave. Estimates by the author.			

As these reports have cautioned, the responses seen in the survey data, and the rapidly changing housing market conditions, reflect the circumstances that currently exist. The data does not necessarily provide any reliable predictions, because we might see further substantive shifts in conditions and therefore in expectations and actions by consumers. In particular, it might be that many non-owners are currently overly optimistic about their prospects for buying homes. That said, while the pandemic situation is causing us to be highly cautious in many aspects of our lives, current conditions are highly encouraging for homebuying, including extremely low interest rates, stability in personal financial situations for most of us and, for significant numbers of us, a newly discovered desire to adjust our housing situations.

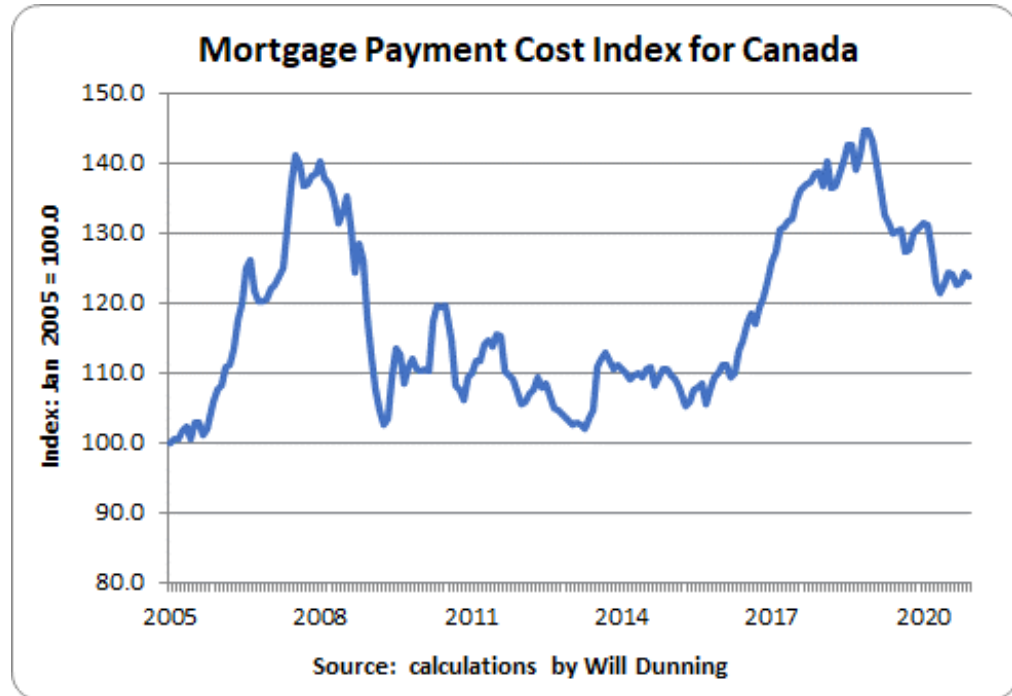
It will also matter a great deal to what extent some current homeowners will be forced to sell their homes, because changes to their employment and incomes have made them unable to fully meet their mortgage obligations. Early in the pandemic period, the federal government made temporary policy changes that allowed mortgage borrowers to defer their mortgage payments by up to six months. Most of those deferrals have ended. It is too early to know to what extent mortgage borrowers will find themselves unable to make their required payments, and for those who encounter difficulties, if there will be solutions that enable them to stay in their homes.

Last May, Canada Mortgage and Housing Corporation forecast that by early 2021 house prices in Canada might fall by 9% to 18%, because of a future softening of sales combined with an expansion of listings, from mortgage borrowers who are unable to make their payments. At this time, this is a minority viewpoint. That said, this analyst's opinion remains that it is impossible to forecast reliably, because of extreme uncertainty about the course of the pandemic and its economic effects. In these circumstances, any forecast of the housing market (and for the broader economy) is really just a set of assumptions rather than a rigorous opinion that we can rely on. If we want to be forward looking, it is more useful to list assumptions that might be made, to explore the implications of various assumptions and then to talk about how governments should respond in varying scenarios.

Affordability Has Improved

Sharp reductions in mortgage interest rates have resulted in record-setting levels of homebuying in Canada, which has resulted in rapid price growth across the country. This section looks briefly at the effect on housing affordability for Canada as a whole (of, course, there will be variations across the country).

The first chart compares the mortgage costs associated with the purchase of a typical home in Canada, versus employment incomes.⁷ In these charts, low levels of the index indicate a low cost burden (favourable affordability). Recently, the rapid drop in the mortgage cost index signals that while prices have increased, that has not fully offset the benefit of lower interest rates. The chart also shows that while affordability is now better than during 2017 to 2019, it is still not as good as during 2009 to 2016.



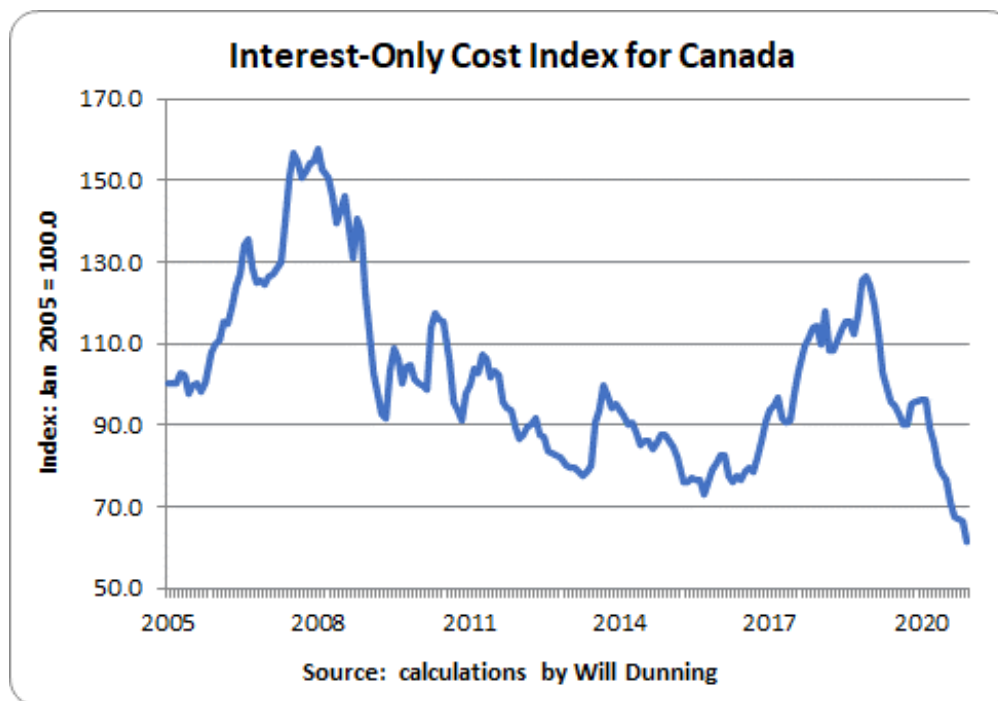
Of course, a mortgage payment consists of a mix of interest and repayment of the mortgage principal. The part that is principal repayment is a form of saving, and a borrower might believe that the cost of financing is the interest part only.

Our consumer surveys do indicate that most mortgage borrowers understand this. In making their borrowing decisions they give the most consideration to the total payment, but they give almost as much consideration to how much interest is paid and how quickly the mortgage will be repaid.

⁷ The calculations combine data from CREA (the aggregate house price index), Statistics Canada (average weekly wages for full-time work) and the author (typical “special offer” interest rates for five-year, fixed-rate mortgages advertised by major lenders).

At current interest rates (in these charts, the rate assumed for December 2020 is 1.65%) the payment in the first month is about one-third interest and two-thirds principal repayment: The “forced saving” rate is very high. The chart to the right compares the interest cost in buying a typical home versus incomes, and shows that on this basis, affordability is extremely favourable.

COVID-19 has caused many Canadians to evaluate their housing situations. After considering their housing needs, their financial circumstances (and their expectations about how those might change) and the expected costs for potential housing options, extraordinary numbers of Canadians are deciding that it is in their best interests to buy a home.



Rental Housing Markets

The worst economic impacts of COVID-19 have been experienced by young adults and by workers in low-wage service industries. In consequence, it has been expected that housing market impacts will be more substantial in the rental sector than for homeowners.

On January 28, CMHC released data from its annual survey of rental markets across Canada. This new data shows changes in rental market conditions that might be less severe than some people expected. Highlights include:

- For “privately initiated” apartment buildings (that is, excluding government assisted housing) the vacancy rate rose from 2.2% in 2019 to 3.2% in 2020. The vacancy rate for 2020 is equal to the long-term Canadian average (for 1990 to 2020).
- CMHC does not say this, but the available data can be used to estimated that the number of vacant units increased by a relatively small amount, about 20,000, compared to a year earlier.

- Rents for apartments are estimated to have increased by 3.7%. This is a slightly slower rate of increase than in 2019 (4.1%) but it is the fourth consecutive year in which increases exceeded 2%.
- For the first time, CMHC conducted a survey of rental arrears, and estimated that 6.1% of rental apartments are in arrears. The total amount of arrears was calculated at \$157 million. CMHC indicates that this is an arrears rate of just 0.59% when compared to total annual expected rent (\$26.7 billion). On the other hand, if the arrears are compared to monthly expected rent, the arrears rate would be a much larger share, at about 7%.

The CMHC survey was largely conducted during the first half of October. Today, more than three months later, it is possible that there have been further changes in conditions within Canada’s rental markets: The pandemic period (which I date from mid-March) was less than seven months old when the survey was conducted. It is now 10.5 months old. The additional passage of time may have allowed more people to make decisions to change their housing arrangements and to make those changes. In addition, the arrears situation has the potential to cause rapid change in the market. Additionally, leases are expiring: What is the evolving impact of that?

The rental housing market is a very important element within the social fabric of Canada, and indeed within the economic system (note the CMHC estimate that the annual rent bill for “privately initiated” apartments is \$26.7 billion, and there will be additional amounts for rented condominiums, as well as for housing types other than apartments). For other major economic activities of similar scale, data is produced monthly. Producing the CMHC rental market data more frequently (perhaps on a quarterly basis) would be useful in many different spheres, including:

- Enabling tenants to better understand their options in the marketplace, and likewise for landlords.
- Assisting governmental policy makers in their ongoing evaluations of conditions and fine-tuning of policy responses related to housing supply, housing subsidies, landlord-tenant relations, income supports, etc.
- Supporting decision-making by potential investors in rental properties.
- Supporting decision-making by lenders to the sector.
- Supporting analysis and decision-making regarding financial market securities, such as exchange traded funds.

4.0 Consumer Sentiment

Attitudes to Topical Questions

This set of reports repeats a line of questioning that has been used in our surveys since 2010, investigating attitudes on issues related to housing markets and mortgages. The survey 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.

This edition of the survey has targeted two subsets of the population, rather than being structured as a “general population” sample. Therefore, the results found here should not be compared to prior surveys. However, to permit some comparisons, the first table below does include re-estimates, for the same subsets of the population, from the most recent prior survey (yearend 2019).

The first subset of the population includes homeowners who have mortgages. The second subset includes tenants and others in non-ownership situations (such as living with parents), who expect to buy a home within the next three years.

The data from the fifth wave of this survey shows that attitudes continue to recover:

- Once again, 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.” The degree of agreement increased slightly in the fifth wave and remains higher than at the end of 2019, for both homeowners and non-owners. The average score in this wave is 6.99 out of 10, which is well above the neutral figure of 5.5. A large minority of respondents (44% in the fifth wave) agree strongly with this statement (8 to 10 on the 10-point scale), and only 5% disagree strongly (1 to 3 on the 10-point scale).
 - On the other hand, and as we have seen in prior surveys, mortgage holders have low levels of regret about the size of mortgages that they took on. The levels of regret have shown small variations across the five waves of this survey. The figure for the fifth wave (3.47 out of 10) is below the average rating seen over the past decade.
 - As we have commented in prior years, the combination of these two questions poses a paradox: On a collective basis, consumers believe their own choices have been responsible, but collectively they believe that other people are being irresponsible. This inconsistency suggests that these beliefs about “other people” are shaped by messages in the media and from pundits and/or by inherent cognitive biases more so than by actual behaviour.

- In this wave of the survey, a small minority (just 8%) indicated that they have elevated levels of regret (8 to 10 on the 10-point scale) about the size of their mortgages, while 58% indicated quite low levels of regret (1 to 3).
- Canadians' confidence about their ability to weather a downturn in the housing market (through reduced home prices) has not changed materially during the COVID-19 period. For homeowners, the average score has shown small variations (6.91 out of 10 in the first wave, 6.94 in the second wave, 7.02 in the third wave, 6.88 in the fourth wave and 6.99 in the fifth wave). For non-owners, there have been small variations. The overall rating for the total sample in the fifth wave (6.96) was close to the average seen over the past decade (6.87).
 - In the new data, only a small minority (8%) of responses indicate quite low levels of confidence (ratings of just 1 to 3 on the 10-point scale), while 45% indicated high confidence (8 to 10) and 47% were in the mid-range (4 to 7).
- For a similar proposition "I/My family would be well positioned to handle a potential increase in mortgage interest rates," the responses are slightly positive and have shown a small improvement during the COVID-19 period. For homeowners the average response fell from 6.39 out of 10 at the end of 2019 to 6.11 in the first wave, 6.17 in the second wave, 6.15 in the third wave, 6.22 in the fourth wave and 6.28 in the fifth wave. These scores remain slightly above the neutral score of 5.5. For non-owners the results have been slightly less positive and slightly less stable. There was a larger drop in the first wave, from 5.94 to 5.34, but then there was a partial recovery, to 5.63 in the second wave, 5.64 in the third wave, then a larger improvement to 6.02 in the fourth wave, followed by a small reduction in the fifth wave, to 5.90. These scores for non-owners remain slightly above the neutral level.
 - Looking at the detailed responses (in the new edition of this survey), a minority (16% of homeowners and 18% of the renters and others) gave low ratings (1 to 3 on the 10-point scale, which indicates higher anxiety about the impact of higher interest rates). On the other hand, larger minorities (37% of homeowners and 25% of renters and others) gave high ratings (8 to 10), indicating little or no anxiety. The remainders (47% of owners and 57% of renters and others) gave mid-range ratings of 4 to 7.
- Canadians agree strongly that real estate is a good long-term investment and, at this point, the scores have shown slightly more optimism during the COVID-19 period. The average rating among homeowners remains quite high, at 7.45 in the first wave, 7.53 in the second wave, 7.59 in the third wave, 7.52 in the fourth wave and 7.64 in the fifth wave. Scores are also high among non-owners (from 7.17 at the end of 2019 to 7.39 in the first wave, 7.49 in the second wave, 7.39 in the third wave, 7.33 in the fourth wave and 7.49 in the fifth wave).
 - Very few (just 3%) disagreed strongly with this proposition (scores of 1 to 3), while 59% agreed quite strongly (scores of 8 to 10), and 38% gave mid-range responses.
- The level of confidence about the economy fell in the first wave (but, at 5.53, the average rating was essentially at the neutral figure of 5.5). There has been gradual improvement in the subsequent waves of the survey, to an overall average of 5.91 in the

fifth wave. Opinions vary quite widely: Within the new data, 17% of responses were quite pessimistic (scores of 1 to 3 out of 10), another 27% were strongly optimistic (scores of 8 to 10) and 57% of responses were mid-range (4 to 7).

- There is still substantial agreement that mortgages are “good debt.” The current figures are slightly higher compared to the end of last year for both homeowners and non-owners. Only 4% of responses disagreed strongly with this statement (1 to 3 out of 10), while 58% agreed strongly (scores of 8 to 10) and 39% were mid-range (4 to 7).
- The survey asked about how COVID-19 has affected anxiety about finances. For homeowners, the impact has been moderate and the responses have been relatively stable (average rating of 5.12 in the first wave, 5.14 in the second wave, 5.19 in the third wave, 5.16 in the fourth wave and 5.01 in the fifth wave). Non-owners indicate more anxiety, although the level of anxiety among the non-owners has fallen slightly, from an average of 6.25 in the first wave, to 5.86 in the second wave, 5.93 in the third wave, 5.85 in the fourth wave and 5.72 in the fifth wave).
 - The detailed data shows that 23% of the respondents have high levels of anxiety (scores of 8 to 10). Among homeowners, 21% have high anxiety and for non-owners the share is somewhat higher, at 30% (this is down from 40% in the first wave of the survey). Relatedly, among homeowners, 33% indicated that they have a low anxiety level (scores of 1 to 3 out of 10), but among non-owners 27% indicated low levels of anxiety. Moderate levels of anxiety (scores of 4 to 7) were indicated by 45% of owners and 43% of non-owners.

For some of these topics, we did a further dive into the data from the fifth wave of the survey, to see if opinions for recent buyers (2015 to the present) are different compared to opinions of all of the mortgage holders. This analysis finds that there are only quite minor variations.

- Looking at levels of regret concerning sizes of mortgages, among the most recent buyers the average level of regret is 3.67 out of 10, which is slightly above the average of 3.47 for all mortgage holders. Among the recent buyers, just 8% reported elevated regret (ratings of 8 to 10), which is the same as for all mortgage holders.
- Recent buyers have a similar level of confidence about their ability to weather a downturn in housing prices (average rating of 7.03 compared to 6.99 for all mortgage holders).
- For recent buyers, the ability to handle higher interest rates was rated at an average of 6.51, which is better than for all mortgage holders (6.28).
- Considering whether housing is a good long-term investment, recent buyers gave similar responses (an average of 7.52) compared to all mortgage holders (7.64).
- For the question about how COVID-19 has affected anxiety about finances, recent buyers reported an average level of anxiety at 5.06 out of 10, which was fractionally worse than the average for all home mortgage holders (5.01).

Table 4-1
Summary of Responses to Topical Questions by Housing Tenure
(Average Scores on a Scale of 1 to 10)

	Homeowners						Non-Owners (Expect to Buy)					
	Yearend 2019	2020 – 1 st Wave	2 nd Wave	3 rd Wave	4 th Wave	5 th Wave	Yearend 2019	2020 – 1 st Wave	2 nd Wave	3 rd Wave	4 th Wave	5 th Wave
Low interest rates have meant that a lot of Canadians became homeowners over the past few years who should probably not be homeowners	6.62	6.65	6.79	6.95	6.88	6.97	6.89	6.44	6.67	6.97	6.85	7.05
I regret taking on the size of mortgage I did	3.81	3.54	3.37	3.50	3.76	3.47	NA	NA	NA	NA	NA	NA
I/My family would be well-positioned to weather a potential downturn in home prices	6.91	6.91	6.94	7.02	6.88	6.99	6.59	6.75	6.83	6.75	6.88	6.87
I/My family would be well positioned to handle a potential increase in mortgage interest rates	6.39	6.11	6.17	6.15	6.22	6.28	5.94	5.34	5.63	5.64	6.02	5.90
Real estate in Canada is a good long-term investment	7.45	7.45	7.53	7.59	7.52	7.64	7.17	7.39	7.49	7.53	7.35	7.49
I am optimistic about the economy in the coming 12 months	6.20	5.53	5.58	5.52	5.69	5.93	6.07	5.50	5.40	5.41	5.49	5.86
I would classify mortgages as “good debt”	7.40	7.31	7.50	7.45	7.50	7.66	6.90	6.81	7.02	7.00	7.05	7.24
As the result of COVID-19, I am anxious about my/my family’s financial situation over the next few months	NA	5.12	5.14	5.19	5.16	5.01	NA	6.25	5.86	5.93	5.85	5.72

Source: Mortgage Professionals Canada survey, 2020/21. Five waves. Estimates by the author.

A second look at the survey data reviews the current responses, segmented by how COVID-19 has affected employment and incomes. For that purpose, the consumers’ reported impacts have been combined into four groups:

- Similar or increased incomes (599 responses out of the total sample of 1,000).
- Impaired incomes: currently laid off or income is lower than previously (194 responses).
- Was not working before COVID-19 (150 responses).
- Response of “Other” impact (57 responses).

The survey data indicates:

- Levels of regret about sizes of mortgages are substantially higher for those with impaired incomes (at 4.00 out of 10) compared to people whose incomes have been stable or increased (3.43). Even for those with impaired incomes, the average level of regret is still below the neutral score of 5.5. Among those with impaired incomes, 13% have elevated levels of regret (scores of 8 to 10), versus 7% for mortgage holders with similar or increased incomes.
- Similarly, those whose incomes have been impaired by COVID-19 are less confident about their ability to weather a downturn in home values (although the average score of 6.27 remains above the neutral figure of 5.5).
- Sentiments are weaker concerning ability to handle higher interest rates (the average rating of 5.25 for those with impaired incomes is slightly below the neutral level).
- Attitudes about real estate as a long-term investment are less positive for those with impaired incomes (average score of 7.36) compared to those whose incomes have not been reduced (7.58).
- Expectations about the economic outlook are neutral for those with impaired incomes (5.49), but slightly positive (5.98) for those with similar or increased incomes.
- Attitudes about mortgages as “good debt” are slightly less positive for those with impaired incomes (7.18) versus 7.52 for people with similar or increased incomes.
- As we should expect, anxiety about financial situations is considerably higher for those with impaired incomes (average rating of 6.59 out of 10, versus 4.96 for people with stable or increased incomes). For those with impaired incomes, a considerable share (42%) rate their level of anxiety as high (in the range of 8 to 10 out of 10), just 14% rate their anxiety as low (1 to 3 out of 10) and 44% indicate moderate anxiety (4 to 7 out of 10). By contrast, for those who reported similar or higher incomes, 19% gave a high rating for their anxiety, 33% gave a low rating and 48% gave a moderate rating.

<i>Table 4-2 Summary of Responses to Topical Questions by Change in Employment Situation, Winter 2021 (Average Scores on a Scale of 1 to 10)</i>				
	<i>Similar (or Higher) Income</i>	<i>Impaired Income</i>	<i>Not Working Before COVID-19</i>	<i>Other</i>
Low interest rates have meant that a lot of Canadians became homeowners over the past few years who should probably not be homeowners	7.05	6.91	6.91	6.88
I regret taking on the size of mortgage I did	3.43	4.00	3.05	3.53
I/My family would be well-positioned to weather a potential downturn in home prices	7.07	6.27	7.33	7.18
I/My family would be well positioned to handle a potential increase in mortgage interest rates.	6.40	5.25	6.36	6.72
Real estate in Canada is a good long-term investment	7.58	7.36	8.00	7.65
I am optimistic about the economy in the coming 12 months	5.98	5.49	6.37	5.46
I would classify mortgages as "good debt"	7.52	7.18	8.15	7.75
As the result of COVID-19, I am anxious about my/my family's financial situation over the next few months	4.96	6.59	4.43	4.60
Source: Mortgage Professionals Canada survey, 2021. Fifth wave. Estimates by the author.				

Expectations

This edition of the survey repeated some of the prior questions about consumers' expectations. Again, the responses are given on a 10-point scale.

- Once again, the responses show only minor changes compared to the earlier waves.
- For the question of whether this is a good time to buy a home or condominium in their own community, the average score (currently 6.04, fractionally above the fourth wave average of 6.00) remains slightly above the neutral level of 5.5.

- The non-homeowners included in this survey expect to buy within the next three years. In that light, the average rating of just 6.19 is surprisingly low. These responses indicate that while they are interested in buying, they might be finding the environment quite challenging. That said, the average score for this group is still higher than it was at the end of 2019.

In this current series of surveys, we have added two slightly different questions.

- Concerning whether this is a good or bad time to **sell** a home, opinions have become increasingly positive during the waves of this survey. Notably, Canadians see this as a better time to sell a property than to buy one, which is consistent with evolving conditions across the country in which most communities are now distinctively “sellers’ markets.”
- In response to whether this is a good time to **buy an investment property**, responses have become slightly more positive over time. Average scores are slightly above neutral for both owners and non-owners.
- Expectations about growth of house prices downshifted sharply in the first wave, but then there was a substantial rebound in the following waves. By the fourth wave, the scores had returned to the same level as was seen at the end of 2019. In the fifth wave, scores are even higher. At the end of 2019, market conditions were very strong, with rapid price growth in many communities across Canada. At present, housing market conditions have become extreme. As was discussed in an earlier section, a combination of exceptionally good affordability (especially when looking at the cost of finance on an interest-only basis) is combining with personal factors to generate very strong interest in homebuying.
- This survey data reflects consumer expectations about price growth. This report is not expressing or endorsing any opinion about what might actually happen to prices. The future housing market will be the result of factors that are unpredictable, including
 - The path of the pandemic,
 - The timing of vaccinations (and the ultimate performance of the vaccines),
 - Evolving economic conditions (whether the economic recovery continues, stalls, or reverses direction in the short term, and then what happens during the second half of this year), and
 - Shifts in Canadians’ opinions and expectations about their own circumstances.
 - In addition, future policy responses will be very important for the housing market. It is discussed elsewhere in this report that the federal government’s housing agency (Canada Mortgage and Housing Corporation) expressed an opinion last spring that the ending of mortgage deferrals will lead to substantial reductions in house prices, in the range of 9% to 18% by this spring. As far as I can tell, CMHC has not publicly disavowed that opinion. At this point, virtually all other housing market analysts disagree with the CMHC scenario and data on market trends makes it look increasingly unlikely.
 - Policies in other areas will affect economic trends and thereby the housing market, including sick leave, child care and caregiver policies, and financial supports.

- At this time, most analysts expect further price growth, although there are differences of opinion about magnitudes of increase and about how long this over-heating phase will last. It is possible to imagine many different scenarios for all of these considerations and therefore for housing prices. This economist chooses not to forecast in this highly uncertain environment.
- The first three waves of this survey showed downshifts in expectations about interest rates. Responses in the fourth and fifth waves show slightly higher expectations about increases in interest rates. The average responses to this question have always been above the neutral threshold, showing expectations of rising rates (the lowest average score in the prior editions was 6.16). This data historically has not predicted what actually happened to interest rates. Even with the recent rise in the average scores, they remain lower than prior to COVID-19.

Table 4-3
Summary of Consumer Responses on Expectations by Housing Tenure
(Average Scores on a Scale of 1 to 10)

	<i>Homeowners</i>						<i>Non-Owners (Expect to Buy)</i>					
	<i>Yearend 2019</i>	<i>2020 – 1st Wave</i>	<i>2nd Wave</i>	<i>3rd Wave</i>	<i>4th Wave</i>	<i>5th Wave</i>	<i>Yearend 2019</i>	<i>2020 – 1st Wave</i>	<i>2nd Wave</i>	<i>3rd Wave</i>	<i>4th Wave</i>	<i>5th Wave</i>
Now is a good or bad time to buy a home/condominium in my community	5.82	6.05	6.18	6.01	5.97	5.99	5.23	6.28	6.19	5.98	6.07	6.19
Now is a good or bad time to <u>sell</u> a home/condominium in my community	NA	5.41	6.19	6.44	6.40	6.55	NA	5.09	5.80	6.22	6.26	6.35
Now is a good time to buy a home/condominium in my community <u>as an investment property</u>	NA	5.66	5.70	5.69	5.79	5.77	NA	5.79	5.98	5.83	5.88	6.04
Expectations for housing prices in my community (the coming year)	6.71	5.94	6.46	6.63	6.77	6.88	6.93	6.20	6.91	6.84	6.93	7.23
Expectations for mortgage interest rates (the coming year)	6.25	5.83	5.83	5.70	6.00	5.95	6.61	6.14	6.11	6.07	6.12	6.30

Source: Mortgage Professionals Canada survey, 2020/21. Five waves. Estimates by the author.

Homeownership as an Investment

These surveys have occasionally investigated to what extent people see their housing as a place to live versus as an investment. The respondents give two numbers (the percentage “a place to live” and the percentage “an investment,” and the two numbers must add to 100%). At different times, this has been asked of varying subsets of the survey samples (sometimes all owners, sometimes mortgage holders only). This time, we asked the entire sample (although, once again, the reader should note that we used a targeted sample rather than a general population sample).

The five waves of this survey have provided results that are broadly the same as was seen in our yearend 2019 survey, finding that Canadians see their housing as about three-quarters a place to live (75% in the first wave, 76% in the second and 77% in each of the third to fifth waves) and one-quarter as an investment (25%, 24% and 23% respectively). I don’t know if there is a correct percentage, but this strikes me as a healthy attitude.⁸

Also, as has occurred in the past, analysis that looks at different groupings of the population found only very small statistical variations: This opinion that homeownership is three-quarters a place to live is consistent across the provinces, age groups of the population, for owners versus renters, for different levels of household incomes (and even looking at whether COVID-19 has affected employment situations). In particular, the responses are the same for people who expect to buy a home in the next three years as for people who do not expect to buy. This data has hinted in the past, and continues to hint, that homebuying decisions (being made by people who will occupy the dwellings themselves) are not being excessively driven by an “investment motive” or a “speculative mindset.”

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 once again finds a very high degree of satisfaction with purchase decisions. Three optional responses were available:

⁸ The first time we asked this question, homeowners replied that they saw their housing as 70% a place to live (and 30% as an investment). The “place to live” percentage has crept upward since then.

- By far, homeowners are happy with the decision to buy their home (the 90% figure for the first wave, 92% for the second wave, 90% for the third and fourth waves, and 91% in the fifth wave are essentially the same as the 2019 yearend figure of 91%).
- A very small minority (2% or 3% in each of the waves) indicated that “I regret my decision – I wish I did not choose to own a home.”
- In addition, small percentages indicated “I regret my decision – I wish I had purchased a different home/property” (7% in the fifth wave).
- As is shown in the table below, for the most recent buyers, satisfaction levels are quite similar to the figures for all homeowners.

Table 4-4

Happiness with Decision to Buy a Home, by Period of Purchase

<i>Survey Date</i>	<i>Yearend 2019</i>		<i>2020 = 1st Wave</i>		<i>2nd Wave</i>		<i>3rd Wave</i>		<i>4th Wave</i>		<i>5th Wave</i>	
<i>Period of Purchase</i>	<i>2015-2019</i>	<i>All Periods</i>	<i>2015-2020</i>	<i>All Periods</i>	<i>2015-2020</i>	<i>All Periods</i>	<i>2015-2020</i>	<i>All Periods</i>	<i>2015-2020</i>	<i>All Periods</i>	<i>2015-2021</i>	<i>All Periods</i>
I am happy with my decision	90%	91%	90%	90%	91%	92%	88%	90%	89%	90%	90%	91%
I regret my decision – I wish I did not choose to own a home	4%	3%	3%	3%	2%	2%	3%	2%	4%	3%	3%	2%
I regret my decision – I wish I had purchased a different home/property	6%	6%	7%	8%	7%	7%	9%	8%	8%	8%	7%	7%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Mortgage Professionals Canada survey, 2020/21. Five waves. Estimates by the author.

Note: Totals may not add due to rounding.

5.0 The Mortgage Deferral Program

The data from the five waves of this survey indicates that there has been very little change in opinions regarding difficulties with mortgage payments.

The survey asked mortgage holders: "Thinking only of the impact of COVID-19, what level of difficulty do you expect to have in making your regular mortgage payments during the coming months?" The table summarizes the responses for the fifth wave, segmented by periods when the homes were purchased. The final three columns of this table repeat the data from the first four waves (but showing only the total result, not segmented by purchase period).

The data shows that the share who expect "no difficulty" (76% in the fifth wave) was slightly higher than in the prior waves. Corresponding to this, there have been only small variations in the shares who expect "some difficulty" (20% in the fifth wave). There have been negligible changes in responses showing "a lot of difficulty" (4% to 5%). There has been essentially no change in the last two categories: All five waves of this survey show extremely small shares of mortgage borrowers are most challenged (being able to make only partial or infrequent payments or not being able to make any payments).

The detailed data in the first three columns of the table show that the degrees of difficulty are similar across the purchase periods.

Table 5-1
Expected Difficulty in Making Mortgage Payments,
By Period of Purchase

	<i>5th Wave by Periods of Purchase</i>				<i>1st Wave</i>	<i>2nd Wave</i>	<i>3rd Wave</i>	<i>4th Wave</i>
	<i>Before 2010</i>	<i>2010-2014</i>	<i>2015-2021</i>	<i>All Periods</i>	<i>All Periods</i>	<i>All Periods</i>	<i>All Periods</i>	<i>All Periods</i>
I/we will have no problem making our regular payments	73%	74%	79%	76%	72%	74%	72%	72%
I/we will make our regular payments, but there may be some difficulty	23%	19%	18%	20%	23%	20%	23%	23%
I/we will make our regular payments, with a lot of difficulty	4%	6%	3%	4%	4%	5%	4%	4%
I/we will only be able to make partial or infrequent payments	<1%	0%	<1%	<1%	<1%	<1%	<1%	<1%
I/we will not be able to make any payments	0%	<1%	0%	<1%	<1%	<1%	<1%	<1%
Total	100%	100%	100%	100%	100%	100%	100%	100%

Source: Mortgage Professionals Canada survey, 2020/21. Five waves. Estimates by the author.

Note: Totals may not add due to rounding.

A different look at the responses found that for first-time buyers, expected difficulties are very slightly greater than for repeat buyers (people who have owned more than one home).

<i>Table 5-2 Expected Difficulty in Making Mortgage Payments, First-Time versus Repeat Buyers</i>		
	<i>First-Time Buyers</i>	<i>Repeat Buyers</i>
I/we will have no problem making our regular payments	74%	77%
I/we will make our regular payments, but there may be some difficulty	21%	19%
I/we will make our regular payments, with a lot of difficulty	4%	4%
I/we will only be able to make partial or infrequent payments	<1%	<1%
I/we will not be able to make any payments	<1%	0%
Total	100%	100%
Source: Mortgage Professionals Canada survey, 2021. Fifth wave. Analysis by the author.		
Note: Totals may not add due to rounding.		

Looking at these responses relative to how COVID-19 has affected employment situations, the next table shows that:

- For people who have similar or higher incomes than previously, a substantial majority (80%) expect no difficulty and a further 17% expect “some” difficulty. A very small minority (just 3%) expect their difficulty may be worse than “some.”
- But, for people whose incomes have been impaired to some degree, a lower share (just 49%) expect no difficulty, 38% expect “some” difficulty and a noteworthy minority (13%) expect greater difficulty.

<i>Table 5-3 Expected Difficulty in Making Mortgage Payments, By Impact of COVID-19 on Employment or Income</i>				
	<i>Similar (or More) Income</i>	<i>Impaired Income</i>	<i>Not Working Before COVID- 19</i>	<i>Other</i>
I/we will have no problem making our regular payments	80%	49%	85%	79%
I/we will make our regular payments, but there may be some difficulty	17%	38%	13%	18%
I/we will make our regular payments, with a lot of difficulty	3%	12%	2%	3%
I/we will only be able to make partial or infrequent payments	<1%	2%	0%	<1%
I/we will not be able to make any payments	<1%	0%	0%	<1%
Total	100%	100%	100%	100%
Source: Mortgage Professionals Canada survey, 2021. Fifth wave. Analysis by the author. Note: Totals may not add due to rounding.				

The Cliff for Mortgage Deferrals

In the economic recovery from the pandemic, one of the great issues is to what extent mortgage holders will or will not be able to fully meet their payment obligations. As was shown in the three tables above, most mortgage holders expect that they will have no difficulty, but there is a sizable minority who expect varying degrees of difficulty, especially among people whose income has been disrupted. This data does not tell us, however, to what extent adjustments can be made to their payments, or whether they have other financial resources (savings, credit facilities, other assets that could be sold, personal connections, etc.) that can help them make their payments.

As the onset of the pandemic resulted in economic shutdowns last spring, there were massive job losses across the country. The federal government very reasonably introduced emergency policies that would allow mortgage borrowers to defer their payments by up to six months, thereby substantially preventing (or at least delaying) severe damage to personal financial situations, as well as to the housing

market, that would have been caused by the job losses. Canada's mortgage lenders agreed to deferrals by hundreds of thousands of their borrowers. The deferrals have largely ended.

As was noted earlier within this report, most (but not all) of the job losses have been recovered and most (but not all) of us have financial circumstances that are no worse than before the pandemic.

In consequence, there may be some mortgage borrowers whose deferral periods have ended (or will end) before they are able to fully resume their payments, or who may be able to manage for some time, but whose resources will eventually be insufficient.

Ongoing reporting from the Canadian Bankers Association has provided several updates on mortgage deferrals by its member banks. A January 27 update⁹ indicates that "as of December 31, 13 CBA member banks have provided help through mortgage deferrals or skip a payment to more than 799,700 Canadians, which represents about 16.7% of the number of mortgages in bank portfolios." The report states further that "more than 761,000 (about 95%) of banks' total deferred mortgages have expired as of December 31." While this is not stated in the CBA report, the data implies that as of December 31, there were about 39,000 residential mortgages still in deferral. This would amount to less than 1% of the banks' outstanding residential mortgages.

The report from the CBA also notes that "according to the Bank of Canada, over 99% of households with expired deferrals on any kind of debt have resumed payment." However, the document from the Bank of Canada¹⁰ (which is dated November 23) indicates (on page 4) that this finding reflects data as of September, and it further indicates that the data reflects accounts that are at least 30 days behind on payments. Therefore, this commentary refers to deferrals that ended in August or earlier. The Bank of Canada report comments "many mortgage deferrals ended only in October, so we may not have a full picture of how many homeowners have fallen behind on those payments until the end of the year or early 2021."

At this time, there are considerable information gaps related to the end of mortgage deferrals:

⁹ Source: All of the editions of the updates have been available through this link <https://cba.ca/canadian-banks-are-standing-by-canadians>

¹⁰ The Bank of Canada document can be found here: <https://www.bankofcanada.ca/wp-content/uploads/2020/11/remarks-2020-11-23.pdf#chart2>

- We don't know to what extent borrowers whose deferrals have ended were able to meet their payment obligations in the closing months of last year and at the start of this year.
- We don't know how many mortgage borrowers are experiencing reduced incomes but are able, for now, to meet their obligations by calling on their other resources.
- We don't know how long those affected borrowers will be able to rely on their other resources and we don't know what their prospects are for restoring their incomes
- For borrowers who have not fully met their obligations, we don't know to what extent other solutions (such as rescheduling payments) are being implemented (and how durable those solutions might be).
- We don't know if there will be further economic damage, depending on how the pandemic evolves in the coming months, or whether there will be a substantial economic rebound.

Given these enormous knowledge gaps, it does not seem possible to draw conclusions on the extent to which mortgage difficulties will affect the housing market (including how many homes will become available for sale as the consequence of mortgage defaults) or what the spin-off effects will be for the broader economy. CMHC's scenario that the end of deferrals will be followed by a 9% to 18% reduction in Canadian house prices is still a possibility (although at this time it seems less likely than other scenarios that are much less dire).

With all of that said, I haven't noticed any seemingly reliable information that identifies emerging severe issues. But, this is still early days.