



MORTGAGE
PROFESSIONALS
CANADA

Rapidly Evolving Expectations in the Housing Market

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1.0 Introduction

This is the third report (out of an expected four) that explores changes in consumer attitudes and expectations about housing and mortgages, during the COVID-19 emergency.

These reports are based largely on data from consumer surveys. The survey for this, the third edition of the report, occurred from September 25 to October 8.¹ For this edition, the consumer survey included 1,000 Canadians: 701 were homeowners with mortgages, 236 were renters and 63 were others (usually people who live with their parents).

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. This information should help us interpret evolving market conditions and possibly provide clues about future changes.

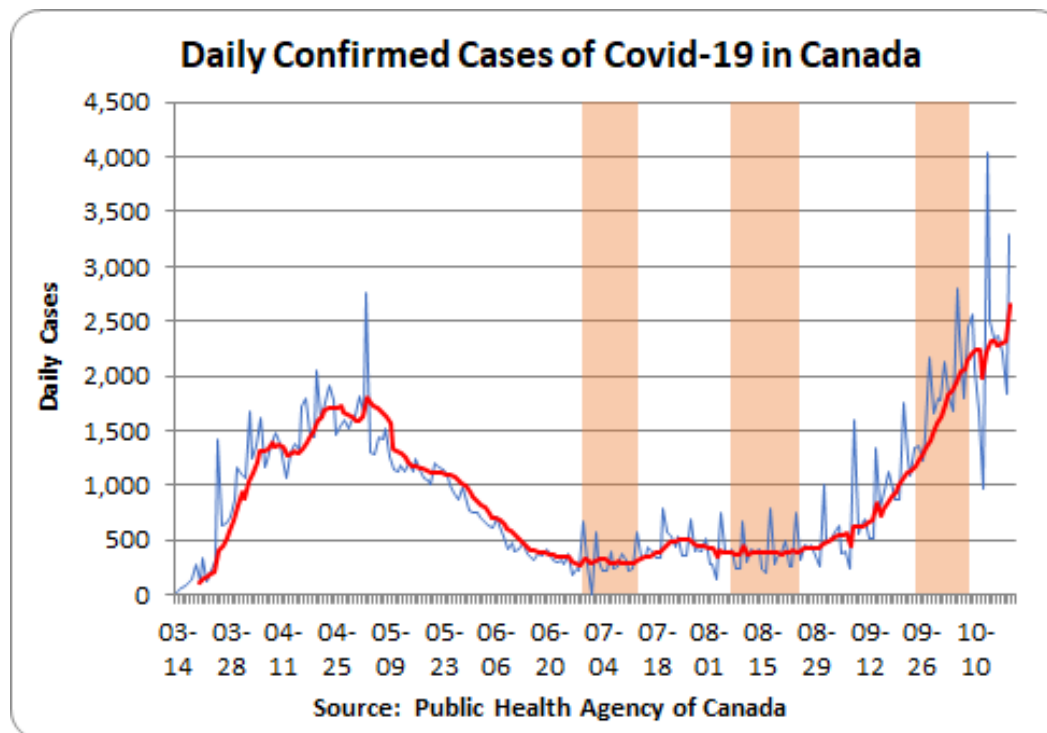
The Second Wave of COVID-19

The chart below summarizes the progress of the COVID-19 pandemic, in terms of daily numbers of new positive diagnoses in Canada. In this chart, 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 three survey waves occurred. As is illustrated, the first two survey waves happened during periods when there were relatively low amounts of new infections. By the time the third wave of the survey started, the numbers of new cases had been increasing rapidly for almost a month and the numbers continued to rise during the survey period (and beyond). During the new survey period, new COVID-19 diagnoses averaged 1,890 per day, which was almost five times the average (399 per day) seen during July and August.²

¹ The first two waves of the consumer survey occurred from June 29 to July 13 and August 7 to 24. Links to the editions of report can be found on this page: <https://mortgageproscan.ca/membership/resources/COVID-19-consumer-reports>

² This report was largely completed as of October 15. The chart of COVID-19 cases was updated on October 20 and includes data up to October 19.

A key question that is being considered in this report is to what extent consumers' attitudes and expectations about their employment situations and about homeownership have been affected by the second wave of infections. The new survey data indicates that—so far, as of the survey period of September 25 to October 8—there has not been a discernible negative impact on perceptions about current employment situations or in attitudes toward homeownership. However, there may be a small deterioration in optimism about future employment.



Economic Recovery

During March and April, economic indicators plunged by unprecedented amounts. Subsequent months have seen unprecedented rises. In some cases (especially for retail spending and investment in construction of buildings) the most recent data shows that activity has returned to the pre-pandemic level. For others, most notably employment and GDP, activity has recovered only part of the losses, and

the data continues to show severe impairment. For example, during March and April, employment in Canada fell by 3.0 million. As of September, about 2.3 million jobs had been regained. The level of employment is still 720,000 million (3.7%) lower than in February. Total hours worked are 6.9% lower than in February.³

More recently, there has been a partial renewal of COVID-19-related economic shutdowns. The shutdowns in some areas of Ontario were announced on October 9, the day after this wave of the survey was completed. It remains to be seen, of course, whether there will be further economic repercussions from the second wave of infections.

Housing market indicators have been extremely volatile. As can be seen in the chart (next page), resale market activity (as reported by the Canadian Real Estate Association (CREA)) fell very sharply in April (to an annualized rate of 204,000), but has recovered in each of the following months. New all-time records were set in each month from July to September. For September, the annualized sales rate was 677,000.

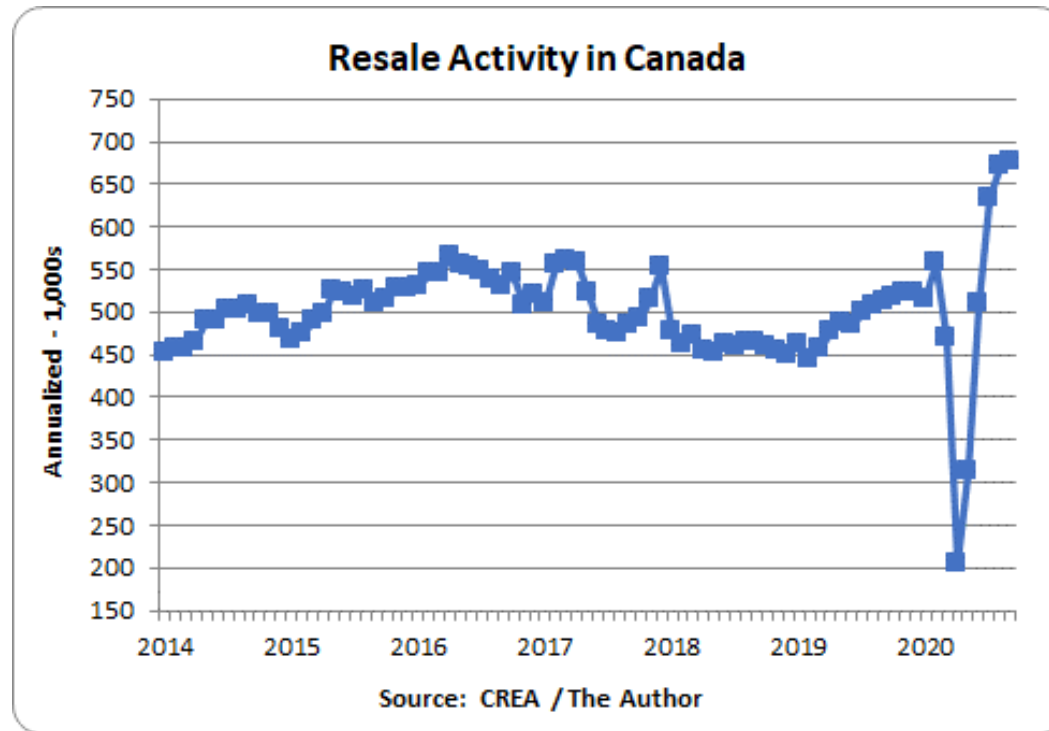
By contrast, looking at sales over the past 20 years, and then making an adjustment for population growth, the long-term average annualized sales rate is about 530,000.⁴

Opinions will differ on how this data should be interpreted.

- Some people focus on the recent data (sales in September were 28% above the long-term population-adjusted average) and conclude that activity is unjustified during an emergency (the result of the extremely low mortgage interest rates that are now available).
- Others look at the average rate for the pandemic period (501,000 during April to September), which is 5% below the population-adjusted average. Interpretations of this can also vary, with some people concluding that the market has only partially recovered sales that did not happen during April to June. Others will believe that a reduction of only 5% is too small in the circumstances.

³ These calculations are based on seasonally adjusted data from Statistics Canada's Labour Force Survey.

⁴ Calculated for 2001 to the present.



One of the reasons we look at economic trends is that, most of the time, the recent past gives us reasonably reliable clues about what might happen in the near future. That is not the case in these extremely abnormal times: For each month during the March-to-July period, the new data on sales failed very badly at foretelling what would happen in the following month. September is the first month when activity was reasonably similar to the prior month. Given what we have seen, we should not expect that the recent data is sending us any reliable messages about what will happen during the rest of this year, let alone into next year.

That said, the data from the three waves of this consumer survey shows that the pandemic has had very powerful negative and positive effects for home buying.

- Many Canadians have experienced deteriorations in their personal economic circumstances or are worried about their futures, which has affected their attitudes about the housing market and their ability or willingness to buy.

- But, for many Canadians the pandemic has raised interest in making housing changes, to make it easier to socially distance, or to find housing that is more suitable in a work-at-home/spend-more-time-at-home world.
- Extremely low interest rates have also made homeownership more accessible for first-time buyers and altered the calculations for potential move-up buyers.
- For people in reasonably stable economic situations who expect that stability to continue (and the survey data indicates that most of us are in this situation), there is currently heightened interest in home buying.

Regarding the rental sector: Official data on Canada's residential rental markets is available only once per year, through Canada Mortgage and Housing Corporation's (CMHC) Rental Market Survey, which is conducted during September and the first half of October.

Data from multiple unofficial sources is now indicating that there has been a sharp rise in availability of rentals, and sharp reductions in asking rents for available dwellings. There is little or no data available on what is happening to rents for dwellings with continuing occupancies—the CMHC survey will shed light on this when the data is released in December or January.

The currently available unofficial data is hinting very strongly that the pandemic is resulting in substantial movements out of the rental sector, which would be mainly due to impaired employment and incomes for younger and lower-income Canadians, as well as desires to increase social distancing, with some movement into homeownership. It is quite likely that most movements out of rentals are to return to parental homes or to double up with others.

This would be a very good time for CMHC to increase the frequency of its rental market survey, from annual to quarterly, and to accelerate the release of the data.⁵

Repeating a note from the first edition of this report:

- Our prior consumer surveys have usually looked broadly at the population. In this survey, we have chosen to focus on two groups within the population: non-homeowners who think that they might buy a home during the coming three years and mortgage holders (who, depending on their situations, might have difficulty making their payments during this emergency period).

⁵ CMHC's website currently indicates that the data from the October 2020 survey will be released in January, which would be 2.5 to 3 months after the completion of the survey. A release within 4-6 weeks (the second half of November) would be a strong goal.

- Because of the narrow sample used here, readers should be aware that none of the findings apply to the entire population—they are specific to the two groups that were surveyed. For this reason, readers should not compare this data with our prior research. Where possible, we are contrasting these new estimates with prior data for the same population subsets.

This report has four major sections that highlight consumer opinions and expectations.

How COVID-19 Has Affected Employment and Incomes

Within the population that we surveyed, the data indicates that 59% now have incomes that are the same or higher than prior to the onset of COVID-19. This is an improvement from the first wave, when the share was lower, at 54%. The data continues to show that incomes have been impaired for a substantial minority (18%) of Canadians. The remainder indicated that they weren't working previously (15%) or indicated that they have experienced some other impact (7%).

The survey asked about expectations for changes in personal situations (with regard to employment). The commentary focuses on people who have experienced some impairment of their income: 40% of these people are optimistic that there will be some improvement in the coming months, one-quarter (24%) expect no change, and one-third (34%) expect worsening. Among people whose incomes are now similar (or more) compared to pre-pandemic, most (58%) expect little change, 29% are optimistic about improvement, and a small minority (11%) are worried about a worsening.

Expectations About Buying Homes

The survey responses show higher expectations about buying homes in the near future. Among non-homeowners, the expectation of buying in the next year has more than doubled, from 7% at the end of last year to 14% in the first wave of the survey, 16% in the second wave and 19% in the third wave. There has also been a rise in expectations about buying for people who already own their home, from 7% at the end of last year to 11% in the third wave of the survey.

As discussed in the body of this report, these heightened expectations could reflect the sharp reductions in mortgage interest rates, as well as desires to move to situations where social distancing is easier or to dwellings that are more suited for working at home and

spending more time at home. But, as is also discussed, an increased desire to buy homes won't necessarily result in more actual purchases.

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 indicates that, in general, opinions have not become more negative during this emergency period:

- Mortgage holders are actually showing reduced levels of regret about their mortgages.
- Homeowners have not become more worried about their ability to weather a downturn in the housing market; however, they show a small reduction in confidence about the hypothetical impact of higher interest rates.
- 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, there has been a downshift in confidence about the economic outlook and there has not been a material improvement in the second or third wave of the survey. However, it might be surprising that the degree of confidence is almost exactly at the neutral level.
- There is now more confidence that this is a good time to buy a home or condominium. However, the degree of confidence softened in the third wave of this survey compared to the second wave.
- There was a big downshift in expectations about growth of house prices in the first wave of the survey, but there was a substantial rebound in the second wave and again in the third wave. The average score given is well above the neutral level, and is now close to the quite high level seen at the end of 2019 (which was a quite exuberant period in Canadian housing markets). There is now a strong expectation of rapid price growth. We have seen in the past that these survey results are not good at predicting what will actually happen to prices; they are more a reflection of recent trends.
- 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, although the new data from the third wave of the survey is the lowest we've seen during the past decade (an average score of 5.81).
- Anxiety levels about the personal economic effects of COVID-19 are higher for non-homeowners than for homeowners (because non-owners tend to be younger and/or have lower incomes, and these groups have been hit harder by the economic fallout).

- Canadians continue to see homeownership as primarily a place to live, and secondarily as an investment. In the COVID-19 period, the opinion has not budged: at 75% “a place to live” in the first wave, a very similar 76% in the second wave and 77% in the third wave. Canadians see their homes as three-quarters a place to live and one-quarter an investment.
- Very few Canadians regret becoming homeowners, and that opinion has not changed in the COVID-19 period.

Opinions About the Mortgage Deferral Program

A large majority of mortgage holders (72%) expect that they will have “no difficulty” making their payments and a further 23% expect “some difficulty.” This leaves 5% who expect a higher degree of difficulty. (4% indicated “a lot of difficulty,” less than 1% indicated “only be able to make partial or infrequent payments,” and less than 1% indicated “not be able to make any payments.”) These figures have shown only minor variations in the three waves of this survey.

Opinions about the mortgage deferral program are mixed.

- The share of mortgage holders who see the program as supportive (52%) is considerably larger than the share who believe it takes advantage of consumers (30%). Very few (just 4%) believe that the program should not be allowed, and 15% have no opinion.
- The survey asked for opinions about what is motivating the banks to allow deferrals, from a list of five options. Slightly more than half (59%) selected one of the altruistic motives and 27% chose the selfish motive. 14% chose the option that banks are only doing what the government wanted them to do.

As is detailed in Section 5 of this report, these responses were very similar in the three waves of this survey.

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

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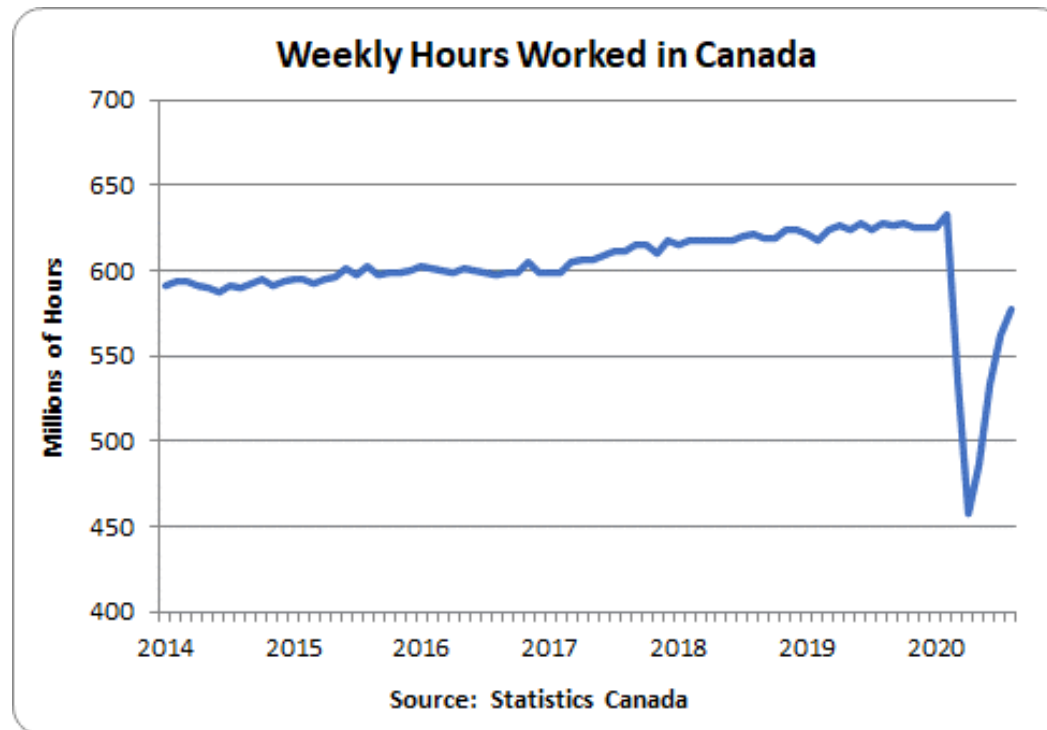
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2.0 Changing Employment Situations

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. As of September, the recovery left total hours 44 million (6.9%) lower than in February. As of September, 75% of the drop in hours had been recovered. Total hours worked have increased in each of the past five months, but the rate of recovery has slowed: Total hours increased by 28 million in May, 48 million in June, 28 million in July, 16 million in August and 11 million in September.



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.⁶

Each of the three 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), as 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 third wave, "similar (or more) income" was reported by 61% of homeowners, 56% of renters and 47% of others. Correspondingly, "impaired income" was reported by 16% of homeowners, 20% of renters and 28% of others.

For homeowners and renters, the data shows that there have been improvements over time, as there were increases in the shares who reported similar (or more) income and reductions in the shares who have experienced reduced income. For the third group in the survey ("other"), however, the data does not show the same extent of improvement: Between the first and third wave there was only a small rise in the share who reported a similar (or more) income and there was a rise in the share who reported impaired income.

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

Source: Mortgage Professionals Canada survey, 2020 1st, 2nd and 3rd waves; Estimates by the author.
Totals might not add due to rounding.

This survey data is broadly consistent with other research that has been published on changes in the employment situation, which shows that employment impacts have been worst for the groups that typically rent (younger ages and in industries that have low wages).

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, renters and others are more optimistic than owners, as 41% of renters expect improvement (“significant” or “some”), 32% of others expect improvement but fewer (25%) owners expect improvement. Since

renters and others have experienced greater negative effects (as was shown in Table 2-1), it makes sense and is encouraging that many renters and others are optimistic about their own situations.

Comparing the three waves of the survey, the responses indicate that there has been a slight reduction in optimism for each of the three tenure groups. For owners, the “optimistic” share fell from 29% in the first wave to 27% in the second wave and 25% in the third wave. For renters, the change went from 46% to 42% and then 41% in the third wave. For others, the change went from 41% to 38% to 32%. Combining the three tenures, the total “optimistic” share fell from 33% in the first wave to 31% in the second wave and 29% in the third wave. As can be seen in the third row of data, the share of respondents who expected little or no change was slightly higher in the second and third waves than in the first wave. The share of respondents that expected worsening (“somewhat” or “significant”) has shown very little change.

Drawing a final conclusion from Table 2-2 might provide a bit of a litmus test for people’s innate optimism or pessimism.

- Some people might conclude that these results show that expectations about employment situations are positive overall (29% expect improvements versus 14% expect worsening).
- Others will be concerned that, in the current serious difficulty, less than one-third of us expect improvement in our employment situations, almost half expect no substantive improvement and more than 10% expect further worsening.
- Others will focus on changes between the three waves. Some will see the diminution in the degree of positivity as bad news. Others will see the stability of the negative expectations (in total, 14% expected “worsening” in both waves) as neutral or even good news.

Table 2-2
Expectations About Changes in Employment Situations

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

Source: Mortgage Professionals Canada survey, 2020 1st, 2nd and 3rd waves; Estimates by the author.

Totals might not add due to rounding.

A deeper dive into the data looks at expectations about changes in employment situations versus the current effects of COVID-19 on employment and incomes (but only for the third wave of the survey). Perhaps the most important finding in Table 2-3 is in the second column of data. The responses show that among people whose incomes have been impaired due to COVID-19, 40% are optimistic about their employment situations, about one-quarter (24%) expect little or no change, and one-third (33%) are worried about worsening.

Table 2-3					
<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	14%	15%	9%	10%	13%
I am optimistic there will be some improvement	15%	25%	8%	8%	16%
I expect little or no change	58%	24%	22%	25%	44%
I am worried the situation will somewhat worsen	9%	21%	5%	5%	10%
I am worried the situation will worsen significantly	2%	12%	1%	0%	4%
Not applicable	2%	2%	55%	51%	13%
Total	100%	100%	100%	100%	100%
Source: Mortgage Professionals Canada survey, 2020 3 rd 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 three waves of the 2020 survey, the percentage of non-owners who expect to buy a home in the coming year has increased sharply: from 7% pre-pandemic, 14% in the first wave of this survey, 16% in the second wave and 19% in the third wave. Similarly, there has been a large drop in the percentage who expect to never buy a home (the third last row of data).⁷

The data also shows an increase (although the rise is much less substantial) in the share of owners (who have mortgages) who expect to buy.

As was discussed in the report on the first wave of the survey, interpreting the new data is challenging.

- It is possible that the evolving emergency has caused more non-owners to decide that they 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, lower interest rates are making ownership more affordable, and rates were even lower when the second and third waves of the survey were conducted.
- 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, they would be unable to obtain the financing they would require.
- Therefore, not all of these people who expect to buy homes will actually buy within the time frames that they have indicated.

⁷ 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 5 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 substantial rise in home-buying interest among non-homeowning Canadians.

- 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

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

Source: Mortgage Professionals Canada survey, 2020 1st, 2nd and 3rd waves; Estimates by the author.
Totals might not add due to rounding.

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, is “My current home is no longer suitable (i.e. size, location)”. Among renters, the most common reason is “I want to live in a nicer home,” followed by “My current home is no longer suitable.” For “Other” people (neither own nor rent, which usually means they live with parents) the most frequent response is “Other” followed by “Low interest rates make this a good time to buy.”

For people selecting “Other” as the reason for buying, there was an option to specify the reason. Among the non-owner/non-renter respondents (“Others”), the most common 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 was just a handful of “Other” responses.

Comparing the responses for the three waves, several shifts can be seen:

- For each of the three tenure groups, low interest rates were more of a factor for the second and third waves than for the first wave. Each week, I create an opinion-estimate on typical rates for 5-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 is 1.95%, and for the third wave it is 1.9%. Recent rates are, by far, the lowest ever recorded. The previous record low was 2.5% during the summer of 2016.
- For the two groups of non-owners, there was a downshift in the opinion that this is a good time to get a deal, which is consistent with the considerable market strengthening (and increased upward pressure on prices) that has been seen since July.
- There have been variations in the numbers of respondents who choose “My current home is no longer suitable,” but this remains the most common response overall (chosen by 24%). “I want to live in a nicer home” was chosen by 19% of the total survey sample and “Low interest rates make this a good time to buy” was chosen by 16%.

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

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

Source: Mortgage Professionals Canada survey, 2020 1st, 2nd and 3rd waves; Estimates by the author.
Totals might not add due to rounding.

For those who indicated that the reason was that the current home is no longer suitable, we asked about reasons the dwelling isn't suitable. People could select any (one or more) of the reasons, from a list of eight, plus "Other." In Table 3-3, the results are summarized in two ways. The first block (the first two columns of data) summarizes the responses as percentages of those who see their dwelling

as unsuitable. The second block shows the responses as percentages of the total sample (of people who expect to move in the next three years).

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. That consideration resulted in some of the response options that were offered (especially the options that are numbered 1, 5, 6 and 7 in Table 3-3). The responses suggest that to this point COVID-19 has had some effect on desires to move. Among homeowners who expect to move, 20% chose one of the Covid-related reasons as the main reason for wanting to move. For non-owners, the share was 9%.

	<i>As % of "Not Suitable"</i>		<i>As % of All Who Expect to Buy in Next 3 Years</i>	
	<i>Owners</i>	<i>Non- Owners</i>	<i>Owners</i>	<i>Non- Owners</i>
1. Spending more time at home means I need more space	24%	26%	8%	5%
2. I don't need all of the space I have now	36%	12%	13%	2%
3. I need to be closer to where I work	11%	14%	4%	3%
4. I no longer need to be as close to where I work	9%	5%	3%	1%
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.)	7%	16%	3%	3%
6. When quarantined, the property doesn't support my mental health or provide enough outdoor space (i.e., a garden, balcony, terrace, etc.)	15%	21%	5%	4%
7. The space isn't conducive to the inclusion of a dedicated work area and can't be or isn't easily modified	16%	33%	6%	6%
8. I want to rely less on public transit	4%	2%	1%	0%
Other	27%	28%	9%	5%
Subtotal – One or More of Reason 1, 5, 6, or 7.	42%	55%	20%	9%
Source: Mortgage Professionals Canada survey, 2020 3 rd 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 Table 3-4, 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 indicates that they have to delay their home purchase. As was shown earlier, the impacts of COVID-19 on employment and incomes has been worse for non-owners than for owners. A small share of prospective buyers indicated that COVID-19 has caused them to accelerate their purchase.

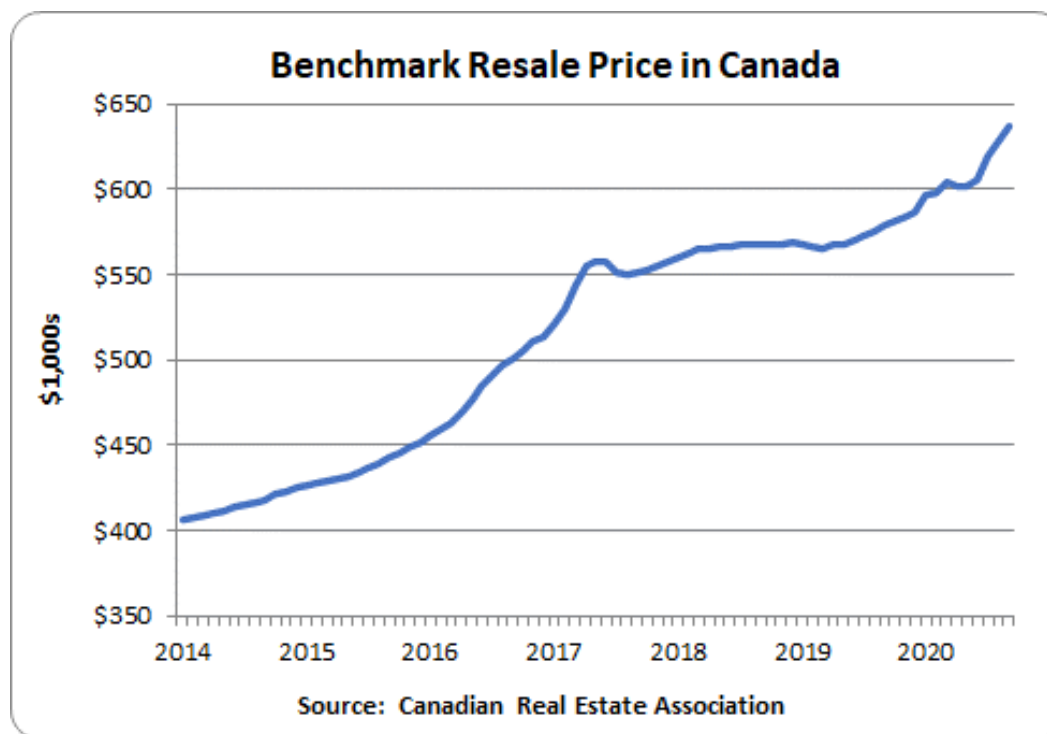
<i>Table 3-4</i>			
<i>Impact of COVID-19 on Expectations About Home Buying, by Current Housing Tenure</i>			
	Owners	Renters	Others
There was no impact	76%	40%	37%
I am planning to purchase sooner than I originally would have	8%	12%	17%
I had to delay my purchase	16%	47%	46%
Total	100%	100%	100%
Source: Mortgage Professionals Canada survey, 2020 3 rd wave; Estimates by the author.			

The survey also asked current homeowners about their plans to sell their current home. Not surprisingly, expectations about selling are very similar to their plans about buying. A follow-up question asked if COVID-19 had affected those plans. A majority (80%) indicated there was no impact. Just 7% indicated that they are “Planning to sell sooner than I originally would have” and 13% are delaying the sale of their home.

In all three waves of this survey, we saw a disconnect: COVID-19 is causing some homeowners to delay selling their current homes, but there is strong interest in buying, especially by people who aren’t yet homeowners. This combination has caused us to conclude that there could be inadequate flows of listings into the market in relation to demand. This could cause a tightening of the overall “balance” in the market, increasing pressures for prices to rise. The emerging market data is showing that there are indeed shortages, which have resulted in rapid price growth in many areas within Canada. The graph below uses estimates produced by the Canadian Real Estate

Association (for typical home prices). The last datapoint is for September. During the past four months, the benchmark price has increased by an extraordinary 5.9%.⁸

The flow of new listings into the housing market has increased, but not as strongly as sales have expanded. The result is that the Sales-to-New-Listings Ratio has increased. For the third quarter (July to September) the ratio averaged 72.7%. This is far above the threshold for a “balanced market,” which I estimate is 52% for Canada (this is the ratio at which prices are expected to rise by 2% per year). The current extreme imbalance in the resale housing market is now resulting in extreme price growth.



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.

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. Evolving government policies with respect to income supports and mortgage deferrals will be crucially important.

At this time, there appears to be some reluctance on the part of mortgage lenders and regulators to allow for longer deferral periods. In particular, the federal regulator announced on August 31 that new deferrals approved by lenders in September will only qualify for 3 months of relief from additional capital requirements. After October 1, any new deferrals will not qualify for any capital relief.⁹ As such, we expect that at present and going forward there will be very few if any new deferral participants or extensions of existing deferrals.

In short, a key issue for the future evolution of the housing market is whether there will be large numbers of homeowners who are forced to sell their homes, or have their homes repossessed, due to economic hardship.

⁹ The Office of the Superintendent of Financial Institutions announcement can be found here:
https://www.osfi-bsif.gc.ca/Eng/osfi-bsif/med/Pages/20200828_nr.aspx

4.0 Consumer Sentiment

Attitudes to Topical Questions

This special report repeats a line of questioning that has been used 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.

As was discussed in the introductory section, 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 people in other non-ownership situations (such as living with parents), who expect to buy a home within the next three years.

We are, of course, keenly interested to see whether the current results differ from the pre-COVID-19 results, and whether the third wave of this survey shows any changes compared to the first two waves. These estimates indicate:

- 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,” and the degree of agreement strengthened in the third wave. Among homeowners and non-owners, the average ratings of almost 7 out of 10 are well above the neutral figure of 5.5.
- On the other hand, and as we have seen in prior surveys, mortgage holders have low levels of regret about the size of mortgage that they took on. The levels of regret have shown small variations across the three waves of this survey. The figure for the third wave (3.5 out of 10) remains low in historic terms.
 - In this wave of the survey, a small minority (8%) indicated elevated levels of regret about their mortgages (8 to 10 on the 10-point scale), 34% were in the mid-range (4 to 7), and 58% indicated quite low levels of regret (1 to 3).
- We have commented in prior years that 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 more so than by actual behaviour.

- Canadians’ confidence about their ability to weather a downturn in the housing market (through reduced home prices) has not weakened. For the homeowners, the average score has increased fractionally (6.91 out of 10 in the first wave, 6.94 in the second wave and 7.02 in the third wave). For non-owners, there have been small variations.
 - In the new data, 48% indicated high levels of confidence (8 to 10 on the 10-point scale), 44% were in the mid-range (4 to 7), and just 8% of responses indicate low confidence (ratings of just 1 to 3).
- 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. 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 and 6.15 in the third wave. These scores remain slightly above the neutral score of 5.5. For non-owners, 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 and 5.64 in the third wave. These scores for non-owners remain close to the neutral level.
 - Looking at the detailed responses (in the new edition of this survey), 35% of home owners and 25% of renters and others gave high ratings (8 to 10 on the 10-point scale), indicating little or no anxiety. About one-half (47% of owners and 54% of renters and others) gave mid-range ratings of 4 to 7. A minority (19% of home owners and 21% of the renters and others) gave low ratings (1 to 3), indicating higher anxiety about the impact of higher interest rates.
- Canadians continue to agree strongly with the proposition that real estate is a good long-term investment, and at this point the scores have not changed materially during the COVID-19 period. The average rating among homeowners remain quite high, at 7.45 in the first wave, 7.53 in the second wave and 7.59 in the third 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 and 7.39 in the third wave).
 - In this wave of the survey, 58% agreed quite strongly (scores of 8 to 10) while 38% gave mid-range responses. Very few (just 4%) disagreed strongly with this proposition (scores of 1 to 3).
- The level of confidence about the economy fell in the first wave (but was still very close to the neutral figure of 5.5). There were only fractional changes in the average scores for the second and third waves of the survey.
 - Opinions vary quite widely: Within the new data, 22% were strongly optimistic (scores of 8 to 10 out of 10), 57% of responses were mid-range (4 to 7) and 22% of responses were quite pessimistic (scores of 1 to 3).
- There is still substantial agreement that mortgages are “good debt,” The current figures are slightly higher compared to the end of last year.
 - Just over half (54%) agreed strongly (scores of 8 to 10 out of 10) and 41% were mid-range (4 to 7). Only 5% of responses disagreed strongly with this statement (1 to 3).

- The survey asked about how COVID-19 has affected anxiety about finances. For homeowners, the impact has been less substantial (average rating of 5.12 in the first wave, 5.14 in the second wave and 5.19 in the third wave) than for non-owners (average of 6.25 in the first wave, 5.86 in the second wave and 5.93 in the third wave). The data from the second wave showed that there was some lessening of anxiety among non-owners. The third wave, with very small rises in the average responses for both owners and non-owners, hints at a small deterioration of confidence.
 - The detailed data from this wave shows that 25% of the respondents have high levels of anxiety about finances (scores of 8 to 10 out of 10). Among home owners, 21% have high anxiety and for non-owners the share is somewhat higher, at 33% (this is down from 40% in the first wave of the survey). Moderate levels of anxiety (scores of 4 to 7) were indicated by 47% of owners and 45% of non-owners. Among homeowners, 32% indicated that they have a low anxiety level (scores of 1 to 3), but among non-owners just 21% indicated low levels of anxiety.

Table 4-1
Summary of Responses to Topical Questions 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>Yearend 2019</i>	<i>2020 – 1st Wave</i>	<i>2nd Wave</i>	<i>3rd Wave</i>
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	6.89	6.44	6.67	6.97
I regret taking on the size of mortgage I did	3.81	3.54	3.37	3.50	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	6.59	6.75	6.83	6.75
I/My family would be well positioned to handle a potential increase in mortgage interest rates.	6.39	6.11	6.17	6.15	5.94	5.34	5.63	5.64
Real estate in Canada is a good long-term investment	7.45	7.45	7.53	7.59	7.17	7.39	7.49	7.53
I am optimistic about the economy in the coming 12 months	6.20	5.53	5.58	5.52	6.07	5.50	5.40	5.41
I would classify mortgages as “good debt”	7.40	7.31	7.50	7.45	6.90	6.81	7.02	7.00
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	NA	6.25	5.86	5.93

Source: Mortgage Professionals Canada survey, 2020 1st, 2nd and 3rd 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 (592 responses out of the total sample of 1,000).
- Impaired incomes: currently laid off or income is lower than previously (196 responses)
- Was not working before COVID-19 (146 responses).
- Response of "Other" impact (66 responses).

The survey data indicates:

- For the first proposition (about the effects of low interest rates), comparing people with stable or increased incomes versus people with impaired incomes, there are minor differences of opinion.
- Levels of regret about sizes of mortgages are substantially higher for those with impaired incomes (at 4.52 out of 10) than for the other groups (although the average level of regret is still well below the neutral score of 5.5). Among those with impaired incomes, 20% have elevated levels of regret (scores of 8 to 10), versus 8% for all mortgage holders.
- 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 6.47 remains above the neutral figure of 5.5). Sentiments are weaker concerning ability to handle higher interest rates (at 5.4 for those with impaired incomes).
- Attitudes about real estate as a long-term investment are less positive for those with impaired incomes (average score of 7.19) compared to those whose incomes have not been reduced (7.58).
- Expectations about the economic outlook are slightly negative (5.21) for those with impaired incomes versus for those with similar or increased incomes (5.6).
- Attitudes about mortgages as "good debt" are slightly less positive for those with impaired incomes (7.02) versus people with similar or increased incomes (7.37).
- As we should expect, anxiety about financial situations is considerably higher for those with impaired incomes (average rating of 6.99 out of 10). For those with impaired incomes, almost half (48%) rate their level of anxiety as high (in the range of 8 to 10 out of 10), just 11% rate their anxiety as low (1 to 3 out of 10), and 41% 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, 34% gave a low rating and 47% gave a moderate rating.

<i>Table 4-2 Summary of Responses to Topical Questions by Change in Employment Situation, Fall 2020 (Average Scores on a Scale of 1 to 10)</i>				
	<i>Similar (or More) 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	7.07	6.83	6.77	6.79
I regret taking on the size of mortgage I did	3.34	4.52	3.13	3.03
I/My family would be well-positioned to weather a potential downturn in home prices	7.13	6.47	7.01	6.42
I/My family would be well positioned to handle a potential increase in mortgage interest rates.	6.29	5.40	5.88	5.45
Real estate in Canada is a good long-term investment	7.58	7.19	7.78	7.58
I am optimistic about the economy in the coming 12 months	5.60	5.21	5.58	5.11
I would classify mortgages as "good debt"	7.37	7.02	7.41	7.52
As the result of COVID-19, I am anxious about my/my family's financial situation over the next few months	5.00	6.99	5.08	5.18
Source: Mortgage Professionals Canada survey, 2020 3 rd 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.

- For the question of whether this is a good time to buy a home or condominium in their own community, the responses in the third wave were less positive compared to the second wave, but were more favourable compare to yearend 2019. The drop in the third wave was similar for homeowners and for non-owners. The responses do remain slightly above the neutral level of 5.5.
- For the non-homeowner group, the survey includes only people who expect to buy within the next three years, and therefore we should expect to see positive opinions on whether this is a good time to buy. Therefore, the current average rating of just 5.98 is surprising, indicating that while they are interested are buying, they might be finding the environment quite challenging.

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, for both owners (currently 6.44 out of 10) and non-owners (6.22). The responses in the third wave of this survey are well above the neutral level. This is consistent with the tightened conditions that have been seen across the country during the past three months.
- In response to whether this is a good time to buy an investment property, responses are just slightly above neutral for both owners and non-owners, in all three waves of the survey.
- Expectations about growth of house prices downshifted sharply in the first wave, but then there was a substantial rebound in the second and third waves. As of the third wave, the scores are just fractionally lower than at the end of 2019. This is consistent with the rapid change in market conditions, which is currently resulting in rapid price growth in many communities.
- This report is commenting on consumer expectations about price growth, and does not express any opinion about what might actually happen. The future housing market will be the result of factors that are unpredictable, including the path of the pandemic, the extent of economic recovery and whether there is continued recovery or whether the second wave of the pandemic causes further economic deterioration. Future policy responses will be very important for the housing market (including income supports and the mortgage deferral program). It is possible to imagine many different scenarios. This economist chooses not to forecast in this highly uncertain environment.
- The three waves of this survey have shown downshifts in expectations about interest rates, although the average scores remain above the neutral level. In prior editions of the survey, the responses have always shown an expectation 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. As commented earlier, due to the sampling approach used in this edition of the survey, we shouldn't compare current results to prior surveys. That said, it appears quite likely that the average score in the current survey (an overall average of 5.81) is the lowest ever recorded by this survey.

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>Yearend 2019</i>	<i>2020 – 1st Wave</i>	<i>2nd Wave</i>	<i>3rd 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	5.23	6.28	6.19	5.98
Now is a good or bad time to <u>sell</u> a home/condominium in your community	NA	5.41	6.19	6.44	NA	5.09	5.80	6.22
Now is a good time to buy a home/condominium in your community <u>as an investment property</u>	NA	5.66	5.70	5.69	NA	5.79	5.98	5.83
Expectations for housing prices in my community (the coming year)	6.71	5.94	6.46	6.63	6.93	6.20	6.91	6.84
Expectations for mortgage interest rates (the coming year)	6.25	5.83	5.83	5.70	6.61	6.14	6.11	6.07
Source: Mortgage Professionals Canada survey, 2020 1 st , 2 nd and 3 rd 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 two waves of this new survey yielded the same result as the 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 the third) 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.¹⁰

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 buying 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:

- By far, homeowners are happy with the decision to buy their home (the 90% figure for the first wave, 92% for the second wave and 90% for the third wave are essentially the same as the yearend figure of 91%).
- A very small minority (2% or 3%) 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" (8% in the third wave).
- As is shown in the table below, for the most recent buyers, satisfaction levels are quite similar to the figures for all homeowners.

¹⁰ 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 upwards since then.

<i>Survey Date</i>	<i>Yearend 2019</i>		<i>2020 = 1st Wave</i>		<i>2nd Wave</i>		<i>3rd 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 am happy with my decision	90%	91%	90%	90%	91%	92%	88%	90%
I regret my decision—I wish I did not choose to own a home	4%	3%	3%	3%	2%	2%	3%	2%
I regret my decision—I wish I had purchased a different home/property	6%	6%	7%	8%	7%	7%	9%	8%
Total	100%	100%	100%	100%	100%	100%	100%	100%
Source: Mortgage Professionals Canada survey, 2020 1 st , 2 nd and 3 rd waves; Estimates by the author. Note: Totals might not add due to rounding.								

5.0 The Mortgage Deferral Program

The data from the three waves of this survey indicate that there has been 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 third wave, segmented by periods when the homes were purchased. The final two columns of this table repeat the data from the first and second waves (but showing only the total result, not segmented by purchase period).

The data shows that the share who expect "no difficulty" (72% in the third wave) has changed very little (it was 72% in the first wave and 74% in the second wave). Corresponding to this, there have been only small variations in the shares of respondents who expect "some difficulty" (23% in the third wave versus 20% in the second wave and 23% in the first 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 three waves of this survey show extremely small shares of mortgage borrowers are most challenged (bring 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.

<i>Table 5-1 Expected Difficulty in Making Mortgage Payments, By Period of Purchase</i>						
<i>Period of Purchase</i>	<i>3rd Wave</i>				<i>1st Wave</i>	<i>2nd Wave</i>
	<i>Before 2010</i>	<i>2010- 2014</i>	<i>2015- 2020</i>	<i>All Periods</i>	<i>All Periods</i>	<i>All Periods</i>
I/we will have no problem making our regular payments	67%	74%	76%	72%	72%	74%
I/we will make our regular payments, but there may be some difficulty	28%	20%	21%	23%	23%	20%
I/we will make our regular payments, with a lot of difficulty	4%	5%	2%	4%	4%	5%
I/we will only be able to make partial or infrequent payments	0%	1%	0%	0%	1%	1%
I/we will not be able to make any payments	0%	1%	0%	<1%	0%	0%
Total	100%	100%	100%	100%	100%	100%
Source: Mortgage Professionals Canada survey, 2020 1 st , 2 nd and 3 rd waves; Estimates by the author. Note: Totals might not add due to rounding.						

A different look at the responses found that for first-time buyers, expected difficulties were 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>Period of Purchase</i>	<i>First-Time Buyers</i>	<i>Repeat Buyers</i>
I/we will have no problem making our regular payments	70%	75%
I/we will make our regular payments, but there may be some difficulty	25%	21%
I/we will make our regular payments, with a lot of difficulty	5%	3%
I/we will only be able to make partial or infrequent payments	0%	1%
I/we will not be able to make any payments	0%	1%
Total	100%	100%
Source: Mortgage Professionals Canada survey, 2020 – 3 rd wave; analysis by the author. Note: Totals might 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 (78%) expect no difficulty and a further 19% expect “some” difficulty. A very small minority (just 3%) expect their degree of difficulty may be worse than “some.”
- But, for people whose incomes have been impaired to some degree, a lower share (just 46%) expect no difficulty, 40% expect “some” difficulty and a noteworthy minority (13%) expect greater difficulty.

<i>Period of Purchase</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	78%	46%	80%	79%
I/we will make our regular payments, but there may be some difficulty	19%	40%	18%	18%
I/we will make our regular payments, with a lot of difficulty	3%	9%	2%	3%
I/we will only be able to make partial or infrequent payments	0%	2%	0%	0%
I/we will not be able to make any payments	0%	2%	0%	0%
Total	100%	100%	100%	100%
Source: Mortgage Professionals Canada survey, 2020 – 3 rd wave; analysis by the author. Note: Totals might not add due to rounding.				

In response to COVID-19, mortgage borrowers (with the agreement of their lender) have been allowed to defer their mortgage payments for up to six months, if they were facing financial difficulties. The missed payments and accrued interest must be made up later.

A new report from the Canadian Bankers Association (published on October 14) indicates that “As of August 31, 13 CBA member banks have provided help through mortgage deferrals or skip a payment to more than 778,000 Canadians, which represents about 16% of the number of mortgages in bank portfolios.” The report states further that “Roughly 32% of Canadians who opted to defer their mortgage payments (254,000) have resumed payments as of August 31.” While this is not stated in the report, the data implies that as

of August 31, there were 524,000 residential mortgages still in deferral.¹¹ This would amount to about 11% of the banks' outstanding mortgages. Since the end of August, there has no doubt been a further reduction in the numbers of mortgages in deferral. The banks represent about three-quarters of outstanding residential mortgages in Canada. It is unknown how many deferrals have occurred at other lenders.

In the second report in this series, we noted that there has been unofficial commentary that the banks expect that 1% to 5% of their mortgages might go into arrears after deferral periods end. More recently, one major bank has suggested that 20% of its deferred mortgages might go into arrears once the deferrals have ended. Since 10 to 11% of mortgages are in deferral, this implies an expectation that 2% of that bank's total mortgage portfolio might go into arrears.

While there is considerable uncertainty about the future impact of the ending of mortgage deferrals, it is clear that there is a potential for a sharp rise in arrears. The banks have reported that about 12,000 mortgages were in arrears as of April. If 20% of deferred mortgages (more than 500,000) enter arrears in the coming months, that arrears number would jump sharply, to as much as 100,000.

Lenders will work with the impacted borrowers to find solutions. If substantial numbers of those mortgage holders are forced to sell their homes due to financial hardship, the expanded supply in resale markets could be disruptive to the housing market and, potentially, to the broader economy. It is very important for the government, in consultation with mortgage lenders, to publicly discuss the implications of ending the deferrals and whether policy changes are needed.

Our survey investigated consumer opinions about the mortgage deferral program.

According to the survey data, 83% of mortgage holders were aware of the mortgage deferral option "before today." This is up fractionally from 80% in the first wave of the survey.

¹¹ Source: <https://cba.ca/canadian-banks-are-standing-by-canadians>

Two questions investigated mortgage holders' opinions about the deferral program.¹²

We asked "How do you feel about this program?" (Four response options were available.) Responses showed very little change compared to the first wave.

- 54% chose "This option provides support to consumers during a difficult period." (That was a small change from the 52% in the first and second waves.)
- 30% chose "This option takes advantage of consumers when they are vulnerable." (That was 28% in the first wave and 29% in the second wave.)
- 4% chose "This option should not be allowed." (That was 3% in the first wave and 4% in the second.)
- 15% chose "Don't know or no opinion." (That was 15% in the first wave and 14% in the second.)

We asked "Which of these statements best describes the motivation of banks for providing this option?" (Five optional responses were provided.) Again, responses showed very little change.

- 22% chose "The banks want to help people stay in their homes to support them, and to avoid market disruption." (Compared to 18% in the first wave and 20% in the second.)
- 3% chose "The banks are making a financial sacrifice for the good of the country." (Compared to 4% in the first wave and 3% in the second.)
- 34% chose "The banks are taking a short-term revenue loss instead of forcing defaults. This action protects both impacted Canadians and the banks' own financial positions." (Compared to 32% in the first wave and 34% in the second.)
- 27% chose "The banks are only thinking of themselves—they're offering the options to make more profits on deferred interest." (Compared to 29% in both of the first two waves.)
- 14% chose "The banks are only doing this because the government pressured them to do it." (Compared to 17% in the first wave and 15% in the second.)

¹² For both questions, the response options were presented in random order.

Approaching the Cliff for Mortgage Deferrals

Government policymakers have dealt urgently with economic issues related to the COVID-19 emergency, including:

- How to support Canadians in safely returning to work.
- What income supports should be provided to Canadians whose employment has been disrupted.

A second tier of policy issues relates to supporting Canadians who have been less able to afford their housing costs, including their mortgage payments.

In my semi-annual reports on the mortgage market for Mortgage Professionals Canada, I have commented at length that the greatest risk for mortgages is a loss or reduction of income (rather than changes in interest rates). Furthermore, in a modern economy, one of the greatest risks is a reduction in house prices that badly impairs consumer confidence and thereby badly impairs the broader economy.

We are therefore facing an economic risk that at the end of mortgage deferrals there could be large numbers of Canadians unable to meet their mortgage obligations, forcing them to sell their homes (and sometimes resulting in repossession of homes by the lenders). This could result in an excess of homes available for sale, which causes prices to fall and, in turn, impairs the economy.

The CMHC, our federal housing agency, has forecast that by next spring house prices in Canada could fall by 9-18% from the pre-pandemic levels. At this time, prices have not fallen. In fact, they are currently rising quite rapidly in some areas. But, it is not impossible that the ending of mortgage deferrals and/or income supports could cause a very sharp downward turn in housing markets across Canada.

I understand that there is a strong counter-argument that a government policy to prevent house price declines would be risky in itself, as there is a “moral hazard” associated with any policy that protects people against losses. My personal opinion is that the economic risk from a sharp drop in Canadians’ housing wealth (which, history shows us, would impose a serious drag on the economy, for a half-decade or even longer) is much worse than the risk that the housing market could be unduly strengthened, especially because the mortgage regulation system that we have in Canada makes it difficult for people to make bad home buying decisions.

At this time, I consider it impossible to decide on any housing market forecasts, because of uncertainty for key factors. This includes the unpredictable course of the pandemic itself. Of at least equal importance is the uncertainty about future government policies and therefore about their impacts on the housing market.

In order to support good policy making, and to obtain the widest possible consensus on what those policies should be, it would be useful to have a lot more discussion in public.

In my opinion, the federal government and the major lenders should publish research on mortgages that are in deferral and on the ability of the borrowers to resume their payments. There is a need for data-based scenarios about what might happen to mortgage defaults under a variety of policy options, and how these policies would affect the housing market and the broader economy.