MORTGAGE PROFESSIONALS CANADA

Rapidly Evolving Expectations in the Housing Market

DECEMBER 2020

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4

1.0 Introduction

This is the fourth report 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 edition of the report, the fourth this year, occurred from November 16 to 26.[1] For this edition, the consumer survey included 987 Canadians: 696 were homeowners with mortgages, 234 were renters, and 57 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 to 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 illustrates the dates when the four survey waves occurred. As is illustrated, the first two survey waves happened during periods when there were relatively low amounts of new infections. The numbers of new cases increased sharply before and during the third survey period. During the fourth survey period, new COVID-19 diagnoses averaged 5,064 per day, which was roughly triple the peak levels for the trend seen during the first wave, and more than 10 times the average (399 per day) seen during July and August.[2] As can be seen in the chart, the curve continues to rise: As of December 3, the seven-day average has reached 6,168.

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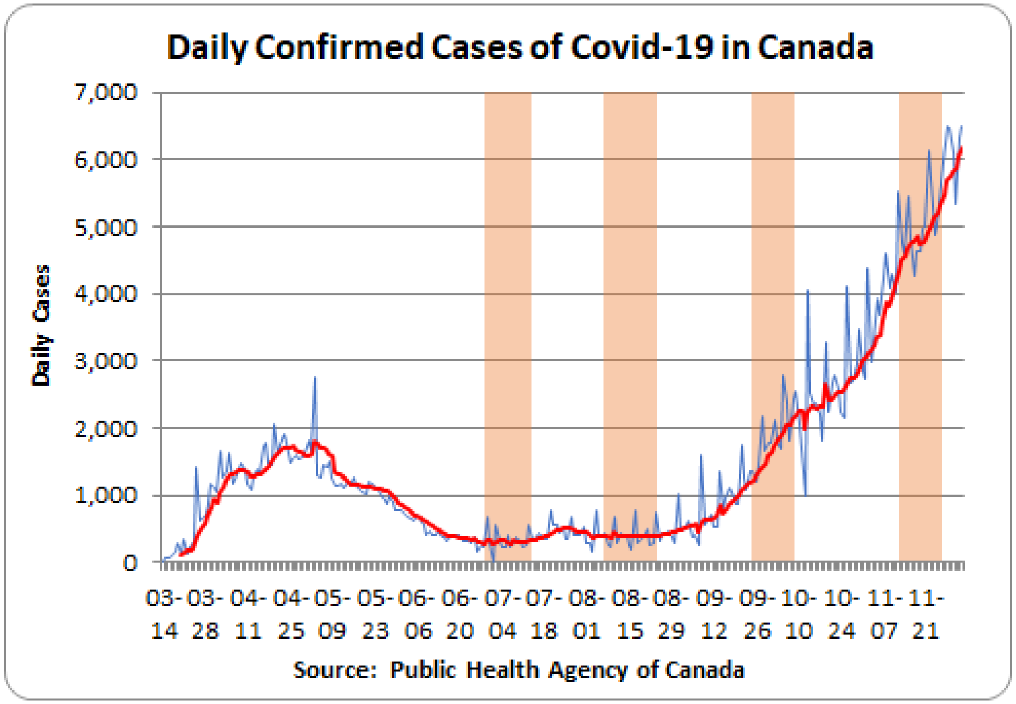
[1] The first three waves of the consumer survey occurred during June 29 to July 13, August 7 to 24, and September 25 to October 8. Links to the editions of report can be found on this page: https://mortgageproscan.ca/membership/resources/covid-19-consumer-reports

[2] This report was largely completed as of December 4 and the chart of COVID-19 cases includes data up to the 3rd.



Before and during the fourth survey period, some provincial governments and municipalities re-imposed some economic restrictions. In response to rapidly rising numbers of infections there has been discussion about whether further measures will be needed. On the other hand, during the survey period there were two announcements that experimental vaccines have been very successful in reducing symptomatic infection and the severity of infections. It is expected that vaccinations will occur during 2021 (although there was then, and still is, uncertainty about timing).

One of the key issues being considered in this set of reports is to what extent Canadians' attitudes and expectations about their employment situations (and about homeownership) have evolved. The mix of news that was seen before and during the fourth survey period (discouraging news about the current course of the pandemic and positive news about future vaccinations) does not seem to have caused material changes to attitudes and expectations about economic conditions.

- The first set of responses (from late June/early July) showed that a sizable minority of us (representing millions of people) experienced negative impacts on employment and financial situations and/or feared future negative effects. The second wave of the survey (mid-August) found some improvement, and increased numbers of Canadians reported that their income was similar to (or even higher than) pre-COVID-19. But, there was negligible change in the third and fourth waves.
- The share of Canadians who fear that COVID-19 could negatively affect their employment situations has been unchanged (at 14%) through the four waves of the survey.
- On the other hand, there has been a sharp and continuing rise in the share of Canadians who expect to (or perhaps we should say "aspire to") buy homes: It appears that COVID-19 (with the encouragement provided by extremely low interest rates) has caused many of us to evaluate our housing situations and to decide that we would like to make changes.

Economic Recovery

During March and April, economic indicators plunged by unprecedented amounts. Subsequent months saw unprecedented rises. In some cases (especially for retail spending and investment in construction of buildings) activity has returned to the pre-pandemic level. For other economic indicators, most notably employment and GDP, the losses have been only partially recovered and the data continues to show impairment. For example, during March and April, employment in Canada fell by three million. As of November, about 2.43 million jobs have been regained (81% of the drop has been recovered). The level of employment is still 574,000 million (3%) lower than in February. Total hours worked are 5% lower than in February.[3]

More recently, there was a partial renewal of COVID-19-related economic shutdowns during October and November. It remains to be seen, of course, whether there will be further economic repercussions from the second wave of infections (the most recent data for employment has an effective date of November 8-14).

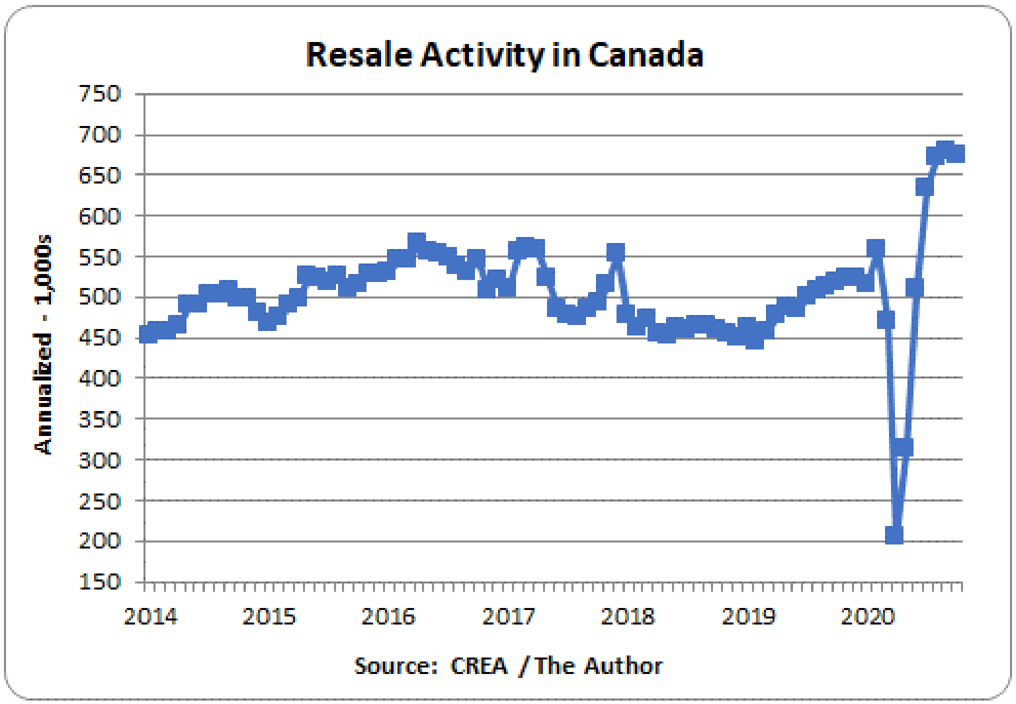
Housing market indicators were extremely volatile during the early months of COVID-19. As can be seen in the chart (next page), resale market activity, as reported by the Canadian Real Estate Association (CREA), fell very sharply in April (to an annualized rate of 204,000), but recovered during May to August. Sales rates for August to October exceeded prior all-time records (the average rate during those three months was 675,000). By contrast, looking at sales over the past 20 years, and then making an adjustment for population growth, the long-term average sales rate is about 530,000. At this time (December 4) data has been released by local real estate boards that

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

represent about 60% of Canadian sales. This emerging data hints that the total national sales rate for November will be similar to the figures seen during August to October, and will continue to show very robust home buying (complete data for November will likely be released by CREA on December 15).

Opinions will differ on how this data should be interpreted.

- Some people focus on the recent data (sales from August to October were 27% above the long-term population-adjusted average), and conclude that activity is unjustified during an emergency.
- Others look at the average rate for the pandemic period (526,000 from April to October), which is essentially equal to the long-term population-adjusted average of 530,000. Interpretations of this can also vary, with some people concluding that the market is showing decent health as the result of low interest rates and because most of us are experiencing stable financial circumstances. Others will believe that sales are too strong in the current circumstances.



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 from March to July, the new data on sales failed very badly at foretelling what happened in the following month. We are seeing stability in the more recent data, but there is no certainty that this will be sustained. Given what we have seen, we should not expect that the recent data is sending us any reliable messages about what will happen next year.

That said, the data from the four 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 caused us to review our housing situations. This 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.

Looking forward, it is quite possible that there will be further shifts in housing expectations. As vaccines become available during 2021, will a massive return to workplaces dampen interest in moving? How many people will continue to work at home? For employers who want their employees to return to the workplace, how many will decide to move the workplaces to locations that are less congested?

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. It should also be noted that most of this data is for rented condominiums and recently constructed rental complexes. There is little or no data available on what is happening to rents for dwellings with continuing occupancies and for the older buildings that provide most rental opportunities. The CMHC survey will shed a much more detailed view on the rental market when the data is released in January.

The unofficial data hints very strongly that the pandemic has caused substantial movements out of the rental sector, which would be mainly due to impaired employment and incomes for younger and lower-income Canadians. These out-movements would include return to parental homes or doubling-up with others. It is also quite likely that there has been movement out of rentals into homeownership. There have also been fewer movements into rentals, due to a very sharp drop in immigration into Canada, and new household formations by young Canadians have probably been substantially reduced.

Looking forward, as vaccination becomes increasingly widespread, how many people will return to prior working arrangements and what will be the impacts within the rental sector? Will there be a bounce-back for immigration? How many young people will leave the parental homes? 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.[4]

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).
- 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 report on consumer opinions and expectations.

[4] 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 4-8 weeks would be a strong goal.

COVID-19 Has Affected Employment and Incomes

Within the population that we surveyed, the data indicates that 60% now have incomes that are the same or higher than prior to 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 (20%) of Canadians. The remainder indicated that they weren't working previously (15%) or indicated that they have experienced some other impact (6%).

The survey asked about expectations for changes in employment situations "over the coming months." This commentary focuses on people who have experienced some impairment of their income: 44% of these people are optimistic that there will be some improvement in the coming months, 22% expect little or no change and 31% expect worsening. Among people whose incomes are now similar (or higher) compared to pre-pandemic, most (58%) expect little change, 30% are optimistic about improvement and a small minority (10%) 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 tripled, from 7% at the end of last year to 14% in the first wave of the survey, 16% in the second wave, 19% in the third wave and 23% in the fourth wave. There has also been a rise in expectations (although much less substantial) about buying for people who already own their home, from 7% at the end of last year to 9% in the fourth wave of the survey.

As is discussed in the body of this report, these heightened expectations could reflect the sharp reductions of 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 not showing any increased regrets about their mortgages. (The first three waves of the survey found reduced levels of regret. In the fourth wave, the level of regret was similar to that seen at the end of 2019.)
- Homeowners have not become more worried about their ability to weather a downturn in the housing market; however, they show a reduction (although quite small) 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, the first wave of this survey showed a downshift in confidence about the economic outlook. There was not a material improvement in the second or third wave of the survey, but the fourth wave hints at a small rise in confidence.
- Asking about whether this is a good time to buy a home or condominium, attitudes have been more positive during the COVID-19 period than they were at the end of 2019.
- 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 each of the subsequent waves. In the fourth wave, the average rating was slightly higher than at the end of 2019 (and that 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. That said, the scores seen in the four waves are lower than previously.
- Anxiety levels about the personal economic effects of COVID-19 are higher for non-owners 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 shifted fractionally toward "a place to live": 75% in the first wave, a very similar 76% in the second wave, and 77% in the third and fourth waves. 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: 90% of homeowners are happy with their decision to buy their current residence. A small minority (8%) agreed with the statement "[I] wish I had purchased a different home." Just a tiny share (3% in the fourth wave) agreed with the statement "[I] wish I did not choose to own a home."

The Mortgage Deferral Program

Trends in housing markets are very important in the economy of Canada, due to the jobs created by real estate transactions and housing construction, and because “housing wealth” is a key element in our financial well-being and for consumer confidence.

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 has 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.

Now that the deferral periods are ending, there is uncertainty about what might happen. Current indications are quite encouraging. Earlier fears (and some dire economic forecasts) now appear to be much less probable: Available data shows that there is now only a very small minority of mortgages still in deferral (in the area of 2%), and among borrowers for whom deferral periods have ended a very large majority (just under 100%) are now making the required payments. As is discussed at the end of this report, more than ever we can’t know what the future holds, because of the unpredictability about the course of COVID-19 and the economic consequences. This leaves us highly uncertain about how many Canadians will have difficulty making their future mortgage payments.

Our survey data indicates that a substantial majority of mortgage holders (72% in the fourth wave) expect that as a result of COVID-19 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 they will “not be able to make any payments”). These figures have shown only minor variations in the four waves of this survey.

Opinions about the mortgage deferral program are mixed.

- The share of mortgage holders who see the program as supportive (47% in the fourth wave) is considerably larger than the share who believe it takes advantage of consumers (29%). Very few (just 4%) believe that the program should not be allowed, and 21% 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 (58%) selected one of the altruistic motives and 25% chose the selfish motive. 17% 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 four 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

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.

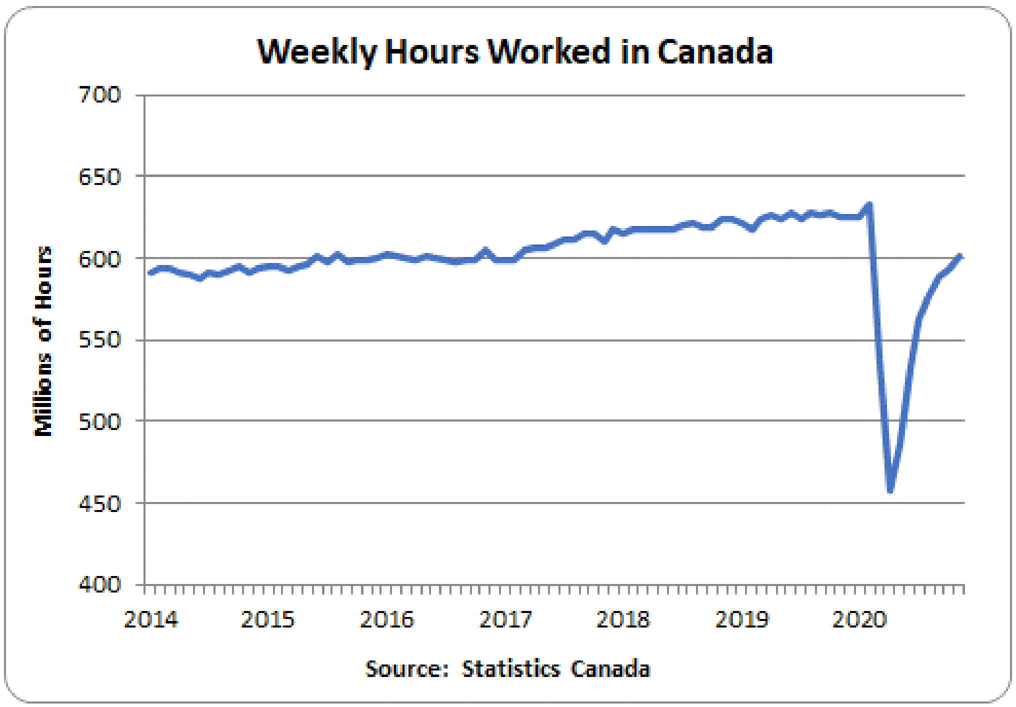
Disclaimer

This report has been compiled using data and sources that are believed to be reliable. Mortgage Professionals Canada, Bond Brand Loyalty, Will Dunning, and Will Dunning Inc. accept no responsibility for any data or conclusions contained herein. The opinions and conclusions in this report are those of the author and do not necessarily reflect those of Mortgage Professionals Canada or Bond Brand Loyalty.

2.0 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 owning 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 November, the recovery left total hours 32 million (5.0%) lower than in February. Also as of November, 82% of the drop in hours has been recovered. Total hours worked have increased in each of the past seven 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, 11 million in September, 5 million in October, and 7 million in November.



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.[5]

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), 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 fourth wave, "similar (or more) income" was reported by 61% of homeowners, 57% of renters and 49% of others. Correspondingly, "impaired income" was reported by 19% of homeowners, 22% of renters and 22% of others.

For each of the three housing tenure groups (and for the total) there were substantial improvements during the second wave in terms of the shares who reported that their incomes were the same or had increased. However, there were negligible changes in the third and fourth waves: In the fourth wave, for all households, the share with similar or higher incomes (60%) was just fractionally higher than in the second and third waves (59%).

The survey data also shows that there has been very little recovery for the shares who report that their incomes have been reduced due to COVID-19: There had been a small reduction in the third wave, but that was reversed in the fourth wave. The data shows a substantial share of us (one-fifth) have experienced income reductions.

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 (67% versus 61% for all homeowners) and are less likely to have impaired incomes (15% versus 19% 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?

[5] 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*			
	1st Wave	2nd Wave	3rd Wave	4th Wave	1st Wave	2nd Wave	3rd Wave	4th Wave	1st Wave	2nd Wave	3rd Wave	4th Wave	1st Wave	2nd Wave	3rd Wave	4th Wave
Was not working before COVID-19	16%	16%	16%	16%	15%	11%	13%	14%	8%	10%	10%	13%	16%	14%	15%	15%
Earning a similar amount of money as before	55%	57%	57%	57%	40%	49%	53%	51%	42%	48%	42%	42%	51%	55%	55%	54%
Working a similar amount, but for less money	4%	6%	4%	6%	5%	5%	5%	4%	3%	3%	4%	3%	4%	5%	4%	5%
Working fewer hours now, and making less money	8%	7%	6%	6%	8%	10%	9%	10%	4%	7%	12%	7%	8%	7%	7%	7%
Laid off temporarily	6%	4%	3%	4%	7%	6%	3%	4%	9%	8%	4%	5%	7%	5%	3%	4%
Laid off permanently	1%	1%	2%	2%	3%	3%	2%	4%	5%	4%	6%	5%	2%	2%	2%	2%
Was laid off, but I'm back working for less money	1%	1%	1%	1%	2%	2%	0%	1%	2%	4%	2%	2%	1%	1%	1%	1%
Was laid off, but I'm back working for the same money	1%	3%	3%	3%	7%	4%	3%	5%	3%	5%	5%	7%	3%	3%	3%	4%
Was laid off, but I'm back working for more money	0%	1%	1%	1%	1%	2%	1%	2%	0%	1%	0%	0%	1%	1%	1%	1%
Other	7%	6%	6%	5%	11%	8%	11%	6%	25%	10%	14%	17%	9%	6%	7%	6%
Subtotals																
Similar (or more) income	57%	60%	61%	61%	48%	55%	56%	57%	45%	54%	47%	49%	54%	59%	59%	60%
Impaired Income	20%	19%	16%	19%	26%	25%	20%	22%	22%	26%	28%	22%	21%	20%	18%	20%
Not Working Before COVID-19	16%	16%	16%	16%	15%	11%	13%	14%	8%	10%	10%	13%	16%	14%	15%	15%
Other	7%	6%	6%	5%	11%	8%	11%	6%	25%	10%	14%	17%	9%	6%	7%	6%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Source: Mortgage Professionals Canada survey, 2020 1st, 2nd, 3rd and 4th 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 include 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"), 38% of others expect improvement, but fewer owners (27%) expect improvement.

Comparing the four waves of the survey, the responses indicate that there was a small drop in optimism in the second wave (31% expected "significant" or "some" improvement) compared to the first wave (34%), but little change since then. For each of the three tenures, the level of optimism is now lower than was reported in the first wave. As can be seen in the third row of data, the shares who expect little or no change were slightly higher in the second to fourth waves than in the first wave. The share that expect worsening ("somewhat" or "significant") has been stable at 14%.

Table 2-2
Expectations About Changes in Employment Situations

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

Source: Mortgage Professionals Canada survey, 2020 1st, 2nd, 3rd and 4th 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 future changes to their employment situations (compared to all owners). Detailed data from the fourth wave of the survey shows that 13% of recent buyers expect "significant" improvement (versus 11% for all owners, which is shown in the fourth data column of Table 2-2); 20% expect "some" improvement (versus 16% for all owners); conversely, 10% of recent buyers worry about worsening ("some" or "significant") versus 13% 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 (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 fourth wave of the survey). Perhaps the most important finding in this table is in the second column of data. The responses show that among people whose incomes have been impaired due to COVID-19, 43% are optimistic about their employment situations, about one-fifth (22%) expect little or no change, and 31% are worried about worsening.

Table 2-3
Expectations About Changes in Employment Situations, by Current Impact of COVID-19

Expectations	*Impact of COVID-19 on Employment and Income*				*All respondents*
	Similar (or more) income	*Impaired Income*	*Not Working Before COVID-19*	*Other*	
I am optimistic there will be significant improvement	13%	17%	9%	11%	13%
I am optimistic there will be some improvement	17%	26%	8%	9%	17%
I expect little or no change	58%	22%	22%	36%	44%
I am worried the situation will somewhat worsen	8%	20%	4%	4%	10%
I am worried the situation will worsen significantly	2%	11%	3%	2%	4%
Not applicable	2%	3%	55%	38%	12%
Total	100%	100%	100%	100%	100%

Source: Mortgage Professionals Canada survey, 2020 4th wave; Estimates by the author.
Totals might not add due to rounding.

3.0 Expectations About Homebuying

This survey has investigated expectations about homebuying. 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 four waves of the 2020 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% figure seen pre-pandemic, at 14% in the first wave of this survey, 16% in the second wave, 19% in the third wave and 23% in the fourth wave. Similarly, there has been a large drop in the percentage who expect to never buy a home (the third last row of data).[6]

The data has also shown an increase (although the rise is much less substantial) in the share of owners (who have mortgages) who expect to buy. The newest data indicates that among current owners, there was a reduction in the share who expect to buy in the coming year compared to the third wave. The new figure is still higher than was seen at the end of 2019. In addition, there was a rise in the share who expect to buy during the following two years. In combination, 24% of owners expect to buy during the coming three years, versus 18% at the end of 2019.

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

- It is highly 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, record low mortgage interest rates are making ownership much more affordable.
- 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,

[6] 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.

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

Source: Mortgage Professionals Canada survey, 2020 1st, 2nd, 3rd and 4th 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 "Low interest rates make this a good time to buy." 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 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 was just a handful of "Other" responses.

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

- There have been variations in numbers who choose “my current home is no longer suitable” but this remains the most common response overall (chosen by 19%). In the fourth wave, “I want to live in a nicer home” was a close second, chosen by 18% of the total survey sample. “Low interest rates make this a good time to buy” was also chosen by 18%.
- For each of the three tenure groups, low interest rates are an important driver. 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 is 1.95%, for the third wave it is 1.9% and for the fourth wave the estimate has fallen even lower, to just 1.85%. 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 a full percentage point below the average seen over the past five years (2.88%).
- For each of the tenures, there has been a downshift in the opinion that this is a good time to get a deal. This is consistent with the considerable market strengthening (and increased upward pressure on prices) that has been seen since July. As of this fall, resale activity for Canada is at the highest level ever seen, and prices are increasing rapidly in many communities.

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

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

Source: Mortgage Professionals Canada survey, 2020 1st, 2nd, 3rd and 4th 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 the table below, 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 the next table). The responses suggest that, 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-19-related reasons as the main reason for wanting to move. For non-owners, the share was 11%. Contrasting these results with the data in the first and fourth rows of Table 3-2, low interest rates and desires to live in nicer homes (both at 18%) are more important as motivators than COVID-19.

Table 3-3
Reasons Current Dwelling is Not Suitable

	As % of "Not Suitable"		*As % of All Who Expect to Buy in Next 3 Years*	
	Owners	*Non-Owners*	*Owners*	*Non-Owners*
1. Spending more time at home means I need more space	20%	46%	5%	7%
2. I don't need all of the space I have now	37%	8%	10%	1%
3. I need to be closer to where I work	4%	3%	1%	0%
4. I no longer need to be as close to where I work	11%	5%	3%	1%
5. I want to live somewhere where social distancing is easier (i.e. no elevators, fewer or no roommates, less crowded sidewalks and stores, etc.)	11%	18%	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%	23%	4%	4%
7. The space isn't conducive to the inclusion of a dedicated work area and can't be or isn't easily modified	15%	36%	4%	5%
8. I want to rely less on public transit	4%	5%	1%	1%
Other	20%	12%	7%	3%
Subtotal – One or More of Reason 1, 5, 6 or 7.	43%	74%	12%	11%

Source: Mortgage Professionals Canada survey, 2020 4th wave; Estimates by the author.

The survey asked people who expect to buy a home at any time "What impact did COVID-19 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 indicate 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.

Table 3-4
Impact of COVID-19 on Expectations About Home Buying, by Current Housing Tenure

	Owners	Renters	Others
There was no impact	75%	38%	37%
I am planning to purchase sooner than I originally would have	9%	16%	19%
I had to delay my purchase	16%	46%	44%
Total	100%	100%	100%

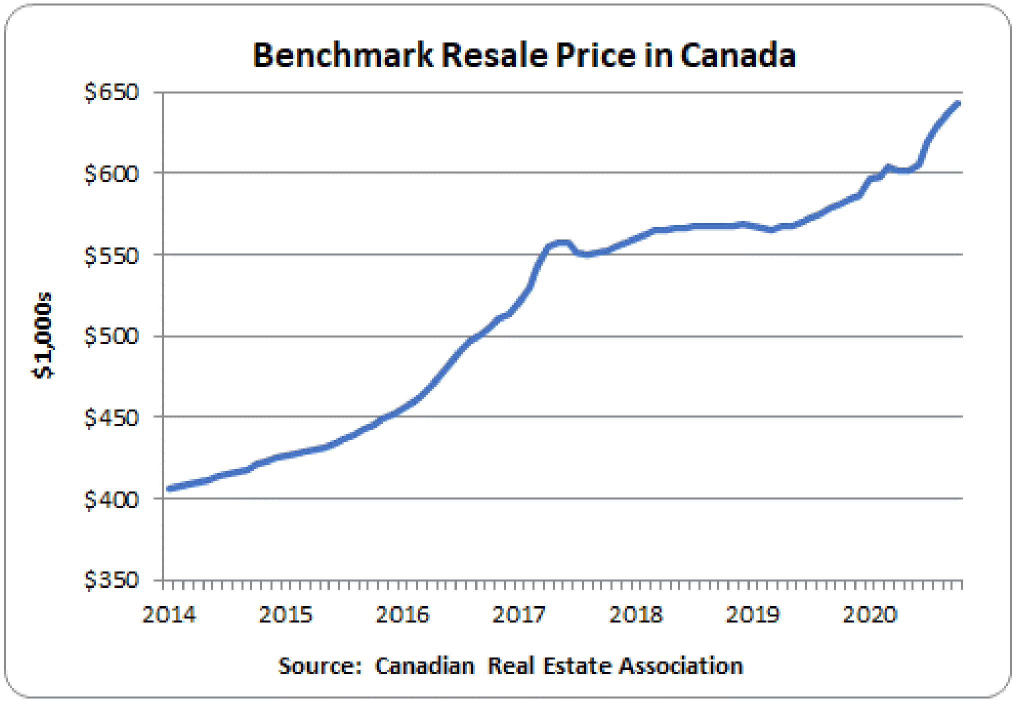
Source: Mortgage Professionals Canada survey, 2020 4th wave; Estimates by the author.

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 has 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 four waves of this survey, we have seen a disconnect. COVID-19 is resulting in elevated interest in buying homes for potential first-time buyers. There has also been increased interest in buying among people who already own homes, but that rise is much smaller. This implies that there could be inadequate flows of listings into the market (because the largest source of listings is from owners who want to sell their current home and buy a different one). A shortfall of listings 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 CREA (for typical home prices). The last datapoint is for October. During the past five months, the benchmark price has increased by an extraordinary 6.9%.[7]

[7] Expressed on an annualized basis, the rise for that five-month period is calculated as 17%. Alternatively, expressed as a year-over-year change, the rise is 10.7%.

As expected, 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. During the past five months (June to October) the ratio averaged 71.2%. 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. 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. Evolving government policies with respect to income supports and mortgage deferrals will be crucially important.

- At this time, there is 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 three months of relief from additional capital requirements. Any new deferrals that start after September 30 will not qualify for any capital relief.[8] 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 because they are unable to meet payment obligations.
- CMHC has forecast that by next spring, house prices in Canada may fall by between 9% and 18% because of a future softening of sales combined with an expansion of listings due to mortgage borrowers who are unable to make their payments. At this time, this appears to be a minority viewpoint.
- Since March, this analyst's opinion has been that it is currently 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. Therefore, 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 (especially concerning mortgage deferrals) and then to talk about policy responses that would be appropriate in varying scenarios. In my opinion, there has not been enough discussion about contingencies and appropriate responses.

[8] 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 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.

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 other people in 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 fourth wave of this survey shows any changes compared to the first three 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." The degree of agreement was reduced fractionally in the fourth wave (but is still slightly higher than at the end of 2019). Among homeowners and the non-owners, the average ratings of almost 7 out of 10 are well above the neutral figure of 5.5. A large minority of respondents (44% in the fourth wave) agree strongly with this statement (8 to 10 on the 10-point scale), and only 7% 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 four waves of this survey. The figure for the fourth wave (3.76 out of 10) is equal to 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 than by actual behaviour.

- In this wave of the survey, a small minority (just 10%) indicated that they have elevated levels of regret (8 to 10 on the 10-point scale) about the size of their mortgages, while 54% 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 weakened during the COVID-19 period. For the homeowners, the average score has shown small variations (6.91 out of 10 in the first wave, 6.94 in the second wave and 7.02 in the third wave, although the score fell slightly to 6.88 in the fourth wave). For non-owners, there have been small variations. The overall rating for the total sample in the fourth wave (6.88) was very close to the average seen over the past decade (6.87).
    - In the new data, only a small minority (9%) of responses indicate quite low levels of confidence (ratings of just 1 to 3 on the 10-point scale). High confidence (8 to 10) was indicated by 45% and 45% 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 been stable 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 and 6.22 in the fourth 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, 5.64 in the third wave and then a larger improvement to 6.02 in the fourth wave. These scores for non-owners remain close to the neutral level.
    - Looking at the detailed responses (in the new edition of this survey), a minority (17% of homeowners, and 15% 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 (36% of homeowners and 30% of renters and others) gave high ratings (8 to 10), indicating little or no anxiety. The remainders (47% of owners, and 55% 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 not changed materially 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 and 7.52 in the fourth 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 and 7.33 in the fourth wave).
    - Very few (just 4%) disagreed strongly with this proposition (scores of 1 to 3), while 56% agreed quite strongly (scores of 8 to 10). Mid-range responses were given by 40%.
- 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 small changes in the average scores for the subsequent waves of the survey. Opinions vary quite widely: Within the new

data, 19% of responses were quite pessimistic (scores of 1 to 3 out of 10) and 24% were strongly optimistic (scores of 8 to 10). A total of 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. Only 6% of responses disagreed strongly with this statement (1 to 3 out of 10), while 55% 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 and 5.16 in the fourth wave). Non-owners indicate more anxiety (average of 6.25 in the first wave, 5.86 in the second wave, 5.93 in the third wave and 5.85 in the fourth wave). The data from the second wave showed that there was some lessening of anxiety among non-owners, but there was little change for the subsequent surveys.
    - The detailed data shows that 25% of the respondents have high levels of anxiety (scores of 8 to 10). Among homeowners, 22% have high anxiety, and for non-owners the share is somewhat higher, at 31% (this is down from 40% in the first wave of the survey). Relatedly, among homeowners, 32% indicated that they have a low anxiety level (scores of 1 to 3 out of 10), but among non-owners just 22% indicated low levels of anxiety. Moderate levels of anxiety (scores of 4 to 7) were indicated by 46% of owners and 47% of non-owners.

For some of these topics, we did a further dive into the data from the fourth wave of the survey, to see if opinions for recent buyers (2015 to the present) are different compared to 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 3.94 out of 10, which is only slightly above the average of 3.76 for all mortgage holders. Among the recent buyers, just 12% reported elevated regret (ratings of 8 to 10), which was just slightly above the 10% figure 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 6.85 compared to 6.88 for all mortgage holders).
- For recent buyers, the ability to handle higher interest rates was rated at an average of 6.31, which was fractionally better than for all mortgage holders (6.22).
- Considering whether housing is a good long-term investment, recent buyers gave very similar responses (an average of 7.50) compared to all mortgage holders (7.53).
- For the question about how COVID-19 has affected anxiety about finances, recent buyers reported an average level of anxiety at 5.28 out of 10, which was slightly worse than the average for all home mortgage holders (5.16).

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 – 1st Wave*	*2nd Wave*	*3rd Wave*	4th Wave	*Yearend 2019*	*2020 – 1st Wave*	*2nd Wave*	*3rd Wave*	4th 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	6.89	6.44	6.67	6.97	6.85
I regret taking on the size of mortgage I did	3.81	3.54	3.37	3.50	3.76	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	6.59	6.75	6.83	6.75	6.88
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	5.94	5.34	5.63	5.64	6.02
Real estate in Canada is a good long-term investment	7.45	7.45	7.53	7.59	7.52	7.17	7.39	7.49	7.53	7.35
I am optimistic about the economy in the coming 12 months	6.20	5.53	5.58	5.52	5.69	6.07	5.50	5.40	5.41	5.49
I would classify mortgages as “good debt”	7.40	7.31	7.50	7.45	7.50	6.90	6.81	7.02	7.00	7.05
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	NA	6.25	5.86	5.93	5.85
Source: Mortgage Professionals Canada survey, 2020 1st, 2nd, 3rd and 4th 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 (595 responses out of the total sample of 987).
- Impaired incomes: currently laid off or income is lower than previously (197 responses).
- Was not working before COVID-19 (142 responses).
- Response of “Other” impact (53 responses).

The survey data indicates:

- Levels of regret about sizes of mortgages are substantially higher for those with impaired incomes (at 4.73 out of 10) compared to people whose incomes have been stable or increased (3.61). 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, 18% have elevated levels of regret (scores of 8 to 10), versus 8% 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 6.31 remains above the neutral figure of 5.5).
- Sentiments are weaker concerning ability to handle higher interest rates (at 5.49 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 7.23) compared to those whose incomes have not been reduced (7.53).
- Expectations about the economic outlook are fractionally positive for those with impaired incomes (5.66) and for those with similar or increased incomes (5.64).
- Attitudes about mortgages as "good debt" are slightly less positive for those with impaired incomes (7.03) versus 7.47 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 6.68 out of 10, versus 5.09 for people with stable or increased incomes). For those with impaired incomes, a considerable share (41%) rate their level of anxiety as high (in the range of 8 to 10 out of 10), just 12% rate their anxiety as low (1 to 3 out of 10), and 47% indicate moderate anxiety (4 to 7 out of 10). By contrast, for those who reported similar or higher incomes, 21% gave a high rating for their anxiety, 32% gave a low rating and 47% gave a moderate rating.

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)*				
	Similar (or Higher) Income	*Impaired Income*	*Not Working Before COVID-19*	*Other*
Low interest rates have meant that a lot of Canadians became homeowners over the past few years who should probably not be homeowners	6.92	6.68	7.19	6.21
I regret taking on the size of mortgage I did	3.61	4.73	3.28	3.35
I/My family would be well-positioned to weather a potential downturn in home prices	7.08	6.31	6.87	6.72
I/My family would be well positioned to handle a potential increase in mortgage interest rates	6.49	5.49	6.06	5.25
Real estate in Canada is a good long-term investment	7.53	7.23	7.69	7.06
I am optimistic about the economy in the coming 12 months	5.64	5.66	5.68	5.36
I would classify mortgages as "good debt"	7.47	7.03	7.61	6.85
As the result of COVID-19, I am anxious about my/my family's financial situation over the next few months	5.09	6.68	4.84	4.89
Source: Mortgage Professionals Canada survey, 2020 4th 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 most part, there were only minor changes in opinions in the fourth wave compared to the third wave.

- For the question of whether this is a good time to buy a home or condominium in their own community, the responses in the fourth wave showed only small changes, and the average scores remain 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 6.07 is surprisingly low. These responses indicate that while they are interested are 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 were more positive in the third and fourth waves than in the first wave. This reflects the sharp strengthening of market conditions that make it much easier to sell homes.
- 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 four 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 waves, with further rises in the third and fourth waves. As of the fourth wave, the scores are quite similar to the end of 2019, which was a time of very strong market conditions and rapid price growth in many communities across Canada.
- 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 2021), 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 (CMHC) expects that the ending of mortgage deferrals will lead to substantial reductions in house prices, in the range of 9% to 18% by next spring (although many other housing market analysts disagree with that scenario).
    - Policies in other areas will affect economic trends and thereby the housing market, including sick leave, child care, and caregiver policies, and financial supports.
    - 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 have shown downshifts in expectations about interest rates, but there was a (minor) reversal in the fourth wave. 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. Even with the rise in the average score in the fourth wave, it remains 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)

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

Source: Mortgage Professionals Canada survey, 2020 1st, 2nd, 3rd and 4th 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, and the percentage "a place to live" and the percentage "an investment" 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 four waves of this new 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 both the third and fourth 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.[9]

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:

- 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 and fourth waves are essentially the same as the yearend figure of 91%).

[9] 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.

- 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 fourth 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

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

Source: Mortgage Professionals Canada survey, 2020 1st, 2nd, 3rd and 4th waves; Estimates by the author.
Totals may not add to 100% due to rounding.

5.0 The Mortgage Deferral Program

The data from the four 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 fourth wave, segmented by periods when the homes were purchased. The final three columns of this table repeat the data from the first three 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 fourth wave) has changed very little. Corresponding to this, there have been only small variations in the shares who expect “some difficulty” (23% in the fourth 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 four 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 shows that the degrees of difficulty are similar across the purchase periods.

Table 5-1 Expected Difficulty in Making Mortgage Payments, By Period of Purchase							
	4th Wave by Periods of Purchase				*1st Wave*	*2nd Wave*	*3rd Wave*
	Before 2010	*2010-2014*	*2015-2020*	*All Periods*	*All Periods*	*All Periods*	*All Periods*
I/we will have no problem making our regular payments	72%	70%	72%	72%	72%	74%	72%
I/we will make our regular payments, but there may be some difficulty	24%	23%	23%	23%	23%	20%	23%
I/we will make our regular payments, with a lot of difficulty	3%	6%	4%	4%	4%	5%	4%
I/we will only be able to make partial or infrequent payments	0%	1%	1%	1%	1%	1%	0%
I/we will not be able to make any payments	<1%	<1%	<1%	<1%	0%	0%	<1%
Total	100%	100%	100%	100%	100%	100%	100%
Source: Mortgage Professionals Canada survey, 2020 1st, 2nd, 3rd and 4th waves; Estimates by the author. Totals may not add to 100% due to rounding.							

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

Table 5-2 *Expected Difficulty in Making Mortgage Payments,* *First-Time versus Repeat Buyers*		
	First-Time Buyers	*Repeat Buyers*
I/we will have no problem making our regular payments.	68%	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	<1%	<1%
I/we will not be able to make any payments	<1%	<1%
Total	100%	100%
Source: Mortgage Professionals Canada survey, 2020 – 4th wave; analysis by the author. Totals may not add to 100% 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 (77%) expect no difficulty and a further 21% expect "some" difficulty. A very small minority (just 3%) expect their difficulty may be worse than "some."
- But, for people who whose incomes have been impaired to some degree, a lower share (just 45%) expect no difficulty, 39% expect "some" difficulty and a noteworthy minority (15%) expect greater difficulty.

Table 5-3 *Expected Difficulty in Making Mortgage Payments,* *By Impact of COVID-19 on Employment or Income*				
	Similar (or More) Income	*Impaired Income*	*Not Working Before COVID-19*	*Other*
I/we will have no problem making our regular payments	77%	45%	83%	71%
I/we will make our regular payments, but there may be some difficulty	21%	39%	13%	23%
I/we will make our regular payments, with a lot of difficulty	2%	12%	3%	3%
I/we will only be able to make partial or infrequent payments	0%	2%	1%	3%
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 – 4th wave; analysis by the author. Totals may not add to 100% 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.

Our survey asked mortgage holders two questions about their opinions regarding the deferral program.[10]

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

[10] For both questions, the response options were presented in random order.

- 47% chose “this option provides support to consumers during a difficult period” (a small reduction from the 52% in the first and second waves and 54% in the third wave).
- 29% chose “this option takes advantage of consumers when they are vulnerable” (28% in the first wave, 29% in the second wave and 30% in the third wave).
- 4% chose “this option should not be allowed” (3% in the first wave and 4% in the second and third waves).
- 21% chose “don’t know or no opinion” (15% in the first wave, 14% in the second and 15% in the third).

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.

- 20% chose “the banks want to help people stay in their homes to support them, and to avoid market disruption” (18% in the first wave, 20% in the second and 22% in the third wave).
- 5% chose “the banks are making a financial sacrifice for the good of the country” (4% in the first wave and 3% in the second and third waves).
- 32% 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” (32% in the first wave and 34% in the second and third waves).
- 25% chose “the banks are only thinking of themselves – they’re offering the options to make more profits on deferred interest” (29% in both of the first two waves and 27% in the third wave).
- 17% chose “the banks are only doing this because the government pressured them to do it” (17% in the first wave, 15% in the second and 14% in the third wave).

The Cliff for Mortgage Deferrals

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 adversely impacts the broader economy.

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 are now ending. As was noted earlier within this report, most of (but not all of) the job losses have been recovered and most of us (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.

Ongoing reporting from the Canadian Bankers Association has provided several updates on mortgage deferrals by its member banks. A November 25 update[11] indicates that "as of October 31, 13 CBA member banks have provided help through mortgage deferrals or skip a payment to more than 796,300 Canadians, which represents about 16% of the number of mortgages in bank portfolios." The report states further that "more than 686,000 (about 86%) of banks' total deferred mortgages have expired as of October 31st." While this is not stated in the CBA report, the data implies that as of October 31, there were about 110,000 residential mortgages still in deferral. This would amount to about 2% of the banks' outstanding residential mortgages. Most of the remaining deferrals will end soon.

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 Canada[12] indicates (on page 4) that this finding reflects data as of September. 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".

During the week of November 30, the major Canadian banks released their financial reports for their fiscal years (which ended on October 31). These reports confirm that there have now been very substantial reductions in numbers of mortgages that are still in deferral (at this time, it appears that 2% or less of mortgages are still in deferral). The banks' reports also indicate that payments have been resumed for very high percentages of the expired deferrals (close to 100%, to the extent that the banks' reports provide comments). However, it is unknown to what extent some borrowers who have resumed payments will be unable to continue making the payments in future, if they are in distressed circumstances. It is also unknown to what extent the borrowers who are still in deferral

[11] Source: https://cba.ca/canadian-banks-are-standing-by-canadians

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

will be able to resume their payments. It is, of course, also unknown if the evolving emergency will have any additional adverse economic effects.

Lenders will work with the impacted borrowers to find solutions. It is unclear at this time whether any significant numbers of mortgage borrowers will be forced to sell their homes due to financial hardship, and therefore whether there could be a disruptive expansion of supply in resale markets that causes prices to fall (with potential negative impacts on the broader economy). It is very important for the government, in consultation with mortgage lenders, to monitor the effects of the ending of deferrals and to discuss whether additional policy changes are needed.

The federal housing agency (CMHC) has forecast that by next spring house prices in Canada could fall by 9-18% from the pre-pandemic level, due mainly to sales by homeowners who can't make their mortgage payments. At this time, prices have not fallen (in fact, they are currently rising rapidly in many communities across the country). The CMHC forecast appears to be a low probability event, but it is not impossible that the ending of mortgage deferrals could cause a sharp downward turn in housing markets across Canada during 2021.