



MORTGAGE  
PROFESSIONALS  
CANADA

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WE BROKER RESULTS



# The Next Generation of Homebuyers

June 2016

Highlights from Mortgage Professionals  
Canada's Spring 2016 Consumer Survey

The next generation of homebuyers gives  
their take on the housing market and  
their homeownership plans

# INTRODUCTION

The Next Generation of Homebuyers is based on survey results from research conducted by Bond Brand Loyalty on behalf of Mortgage Professionals Canada.

Results are derived from Mortgage Professionals Canada's Spring 2016 Consumer Survey. The research was conducted online among a population of 1,009 non-homeowners aged 18 to 39, and 101 recent homebuyers aged 21 and older. The survey was fielded in April 2016.

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Mortgage Professionals Canada is the national association representing mortgage brokers, lenders, insurers and other industry stakeholders operating within Canada's mortgage broker channel. One of the association's priorities is to provide members with timely information about the market, and about Canadians and their priorities when obtaining a mortgage. It is with this priority in mind that Mortgage Professionals Canada has partnered with Bond Brand Loyalty to conduct semi-annual consumer surveys for the past decade.

This report details many of the key findings taken from our most recent round of research, which was conducted in April 2016. This report is provided by Mortgage Professionals Canada to its members as a tool to help better understand and serve Canadian mortgage consumers and, ultimately, maintain and grow a healthy mortgage broker channel in Canada.

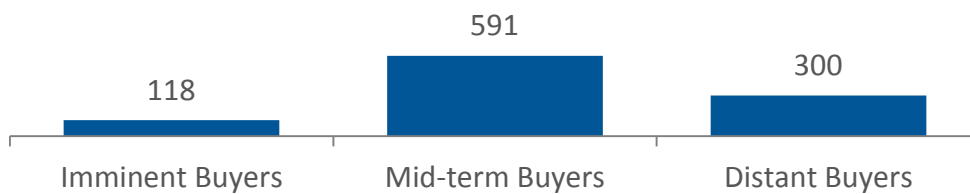
## IN THIS REPORT

Since 2005, Mortgage Professionals Canada has published semi-annual reports on the state of the residential mortgage market in Canada. These reports have included discussion of economic and housing market conditions, as well as related policy issues. Last year (spring 2015), we focused on the characteristics of recent homebuyers and the choices they have made.

This edition steps into the future, by looking at the Next Generation of Homebuyers: adults under the age of 40 who don't currently own a home but expect to own in future.

We analyzed the results in several ways, one of which was by respondents' purchase time horizon. The Next Generation of Homebuyers can be segmented into three categories: Imminent Buyers (purchasing in the next year), Mid-term Buyers (purchasing in one to five years) and Distant Buyers (purchasing beyond the next five years).

### Next Generation of Homebuyers: segment breakdown (number of respondents)



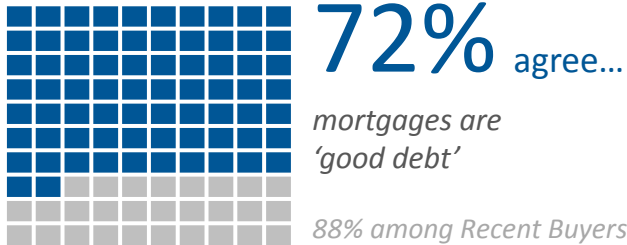
Those with more distant horizons may be less informed about relevant matters, in terms of housing market conditions, and the processes involved in buying a property and obtaining financing. In this, and in other ways, they are less prepared to make a purchase decision. As they get closer to their purchase decisions, they will be better informed. Many of them will have seen changes in their personal circumstances and their expectations, compared to their current situations. As such, looking at those who intend to buy in the near future may give us the best understanding of the Next Generation as a whole.

Topics of interest included in this report:

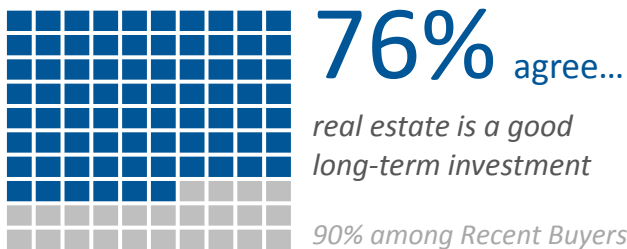
- Opinions on the housing and economic outlook
- Expectations about the timing of a future purchase
- Characteristics of future buyers
- Anticipated personal events that are likely to influence the future purchase
- What they expect to buy
- Expectations about down payments and mortgage requirements
- Expected monthly costs in relation to incomes
- Priorities for home features and locations, and trade-offs that the Next Generation of Homebuyers is prepared to make
- Attitudes and behaviours with respect to mortgage brokers

## OPINIONS ON THE HOUSING AND ECONOMIC OUTLOOK

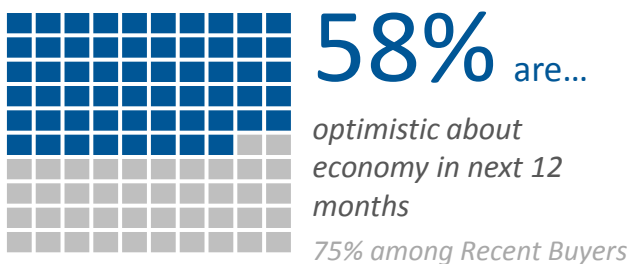
The Next Generation of Homebuyers proves to be cautiously optimistic about the economy and housing market. The majority believe in a recovering economy and feel that Canadian real estate is a good long-term investment. Much like generations before them, most dream of homeownership. But the next generation of homeowners will face challenges, and do have some concerns with their ability to make this dream come true.



Debt levels in Canada have come under great scrutiny over the past decade, particularly among young Canadians who are carrying heavier student loans than any previous generation. Debt implications play a major role in the decision to buy real estate. Historically, however, all segments of Canadians have viewed mortgages as good debt compared to other forms of debt, which typically carry a range of negative emotions. This holds true among Next Gens, 72% of whom agree that mortgages are good debt. Among Imminent Next Gens, 88% say mortgages are good debt, on par with recent homebuyers.



We asked respondents to predict the movement of home prices over the next five years, and found that three quarters (76%) of Next Gens believe they will increase, including 15% who expect them to 'go up dramatically'. Imminent Buyers have a higher expectation of a dramatic increase in home prices, with 21% expecting prices to 'go up dramatically', compared to 12% of Recent Buyers.



Fifty-eight percent of Next Gens say they are *optimistic about the economy in the next 12 months*. Those with a shorter purchase horizon, however, are far more optimistic, suggesting economic confidence is a key driver of real estate market entry. In fact, 74% of Imminent Buyers feel *optimistic about the economy in the next 12 months*, which is on par with Recent Homebuyers at 75%, while those who are not as confident about the economy tend to have a longer purchase horizon.

This pattern continues when addressing the issue of the long-term housing market. There is overwhelming confidence in this market, but less so among Next Gens, with 76% agreeing that *real estate is a good long-term investment*, versus 90% of Recent Homebuyers. Once again, Imminent Buyers are just as confident as Recent Buyers, with 87% agreeing that *real estate is a good long-term investment*.

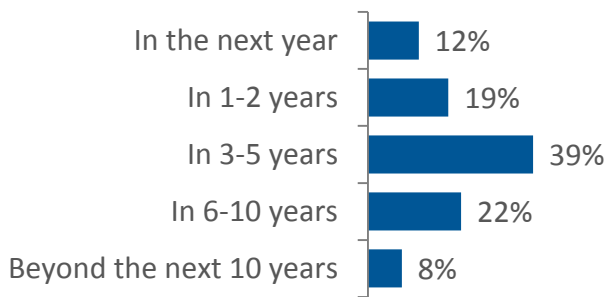
## PURCHASE INTENT AND WHO'S BUYING

# 94%

of non-homeowners aged 21-39 plan to own a home

Overall, 94% of Next Gens say they plan to own a home sometime in the future. This overwhelming majority highlights strong reasons for continued optimism for growth in housing and mortgage markets.

### Next Generation Homebuyers plan to own



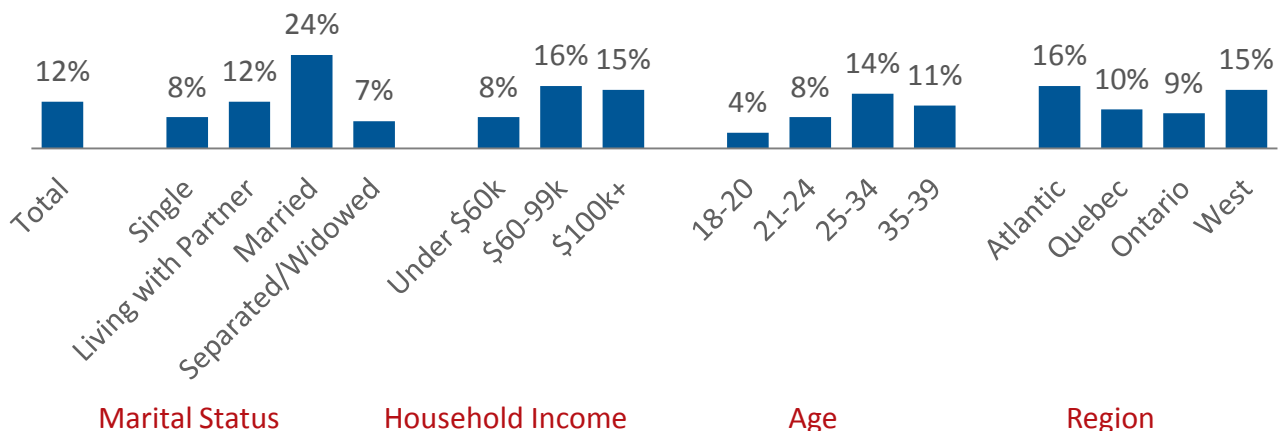
Among the 94% of Next Gens who do plan to own, many have relatively short planned timelines for homeownership: 12% plan to buy in the next year; 31% plan to buy no more than two years out; and 70% plan to own sometime within the next five years. Distant buyers (more than five years in the future) make up just 30% of Next Gens who plan to own.

### Who plans to buy in the next year?

When we focus on next-year purchase intent, we find some interesting differences across demographic segments. Intention to buy in the next year is strongest among married people (24%), and weakest among singles (8%) and those who are separated (7%).

Geographically, Atlantic Canadians are most likely to purchase in the next year (16%), followed by those living in Western Canada (15%), Quebec (10%) and Ontario (9%).

Next-year purchase intent is also high among those with \$60-99k and \$100k+ in household income (16% and 15%, respectively), compared to those with income under \$60k (8%). Not surprisingly, Canadians under the age of 25 are less likely than average to purchase a home in the next year, while those in the 25-34 category are most likely to be imminent buyers, at 14%.



## PURCHASE INTENT AND WHO'S BUYING

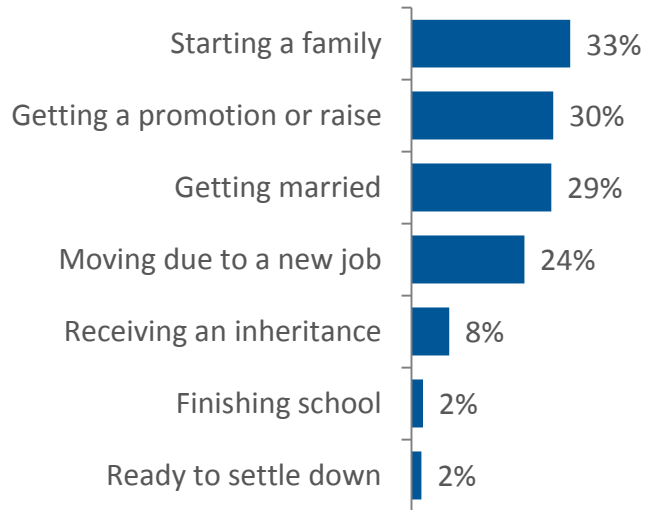
### Events that will influence purchase

In addition to financial considerations, the decision to enter homeownership is often driven by key life events, and this also holds true for Next Gens.

For many, the reasons are personal, such as starting a family (33%) or getting married (29%) – the majority in these categories anticipate these life events to happen more than three years in the future.

For others, the reasons are work-related, such as getting a promotion or raise (30%), or moving due to a new job (24%). Among these Next Gens, nearly half (48%) expect this event to happen in the next two years.

### Waiting for life event (multiple responses allowed)



## HOUSING EXPECTATIONS

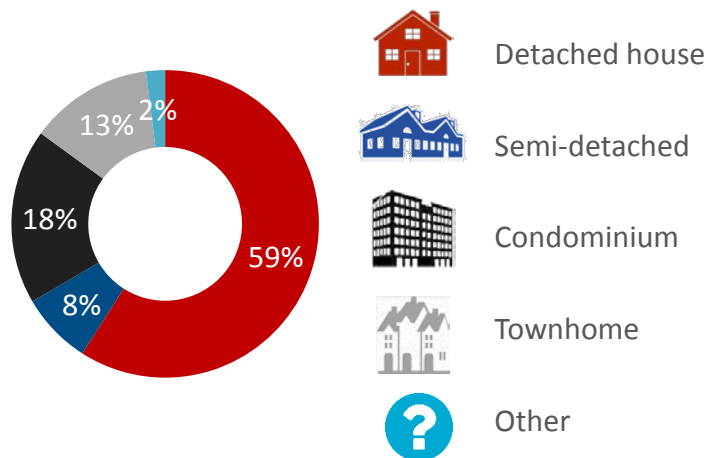
### Type of home Next Generation Buyers are seeking

After analyzing the economic outlook and housing market conditions, the next topic we pursued with Next Generation Homebuyers was the actual home itself.

In terms of the type of home this segment is looking for, the large majority of Next Gens prefer a low-rise dwelling (80%) rather than a condominium (18%). In fact, many prefer detached (59%), while just over one-in-ten (13%) are pursuing a townhome and fewer than one-in-ten (8%) are looking for a semi-detached home. This sentiment is prevalent across all segments and geographic regions.

The type of home Imminent Buyers are seeking is similar to Next Gens as a whole, with slightly fewer opting for a condominium (16%), and slightly more opting for a townhouse (14%).

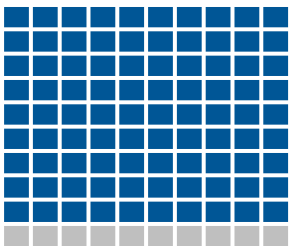
Preference does differ geographically, with those living in Ontario and Western Canada slightly more likely to opt for a condo (19% and 21%, respectively) compared to those in Atlantic Canada (10%). As well, significantly more single people plan to live in a condo (23%) compared to those living with a partner (13%) and those who are married (10%).



## HOUSING AFFORDABILITY

As housing prices continue to rise, affordability has become a key consideration for an increasing number of people, Next Gens in particular. As such, we asked them whether they've begun saving for a home and, if so, how much they have saved. The results show that almost two thirds of Next Gens are currently saving for a home, with an average amount of \$27,000 having already been put aside for a down payment.

Not surprisingly, the large majority of Imminent Buyers (90%) have started saving for a down payment, with an average savings of \$37,000. Even Mid-term Buyers have made great progress on their down payments, with 72% currently saving, with an average of \$27,000 set aside.



**90%**  
*of Imminent Buyers  
are currently saving  
for a down payment*

Average savings  
among Imminent  
Buyers

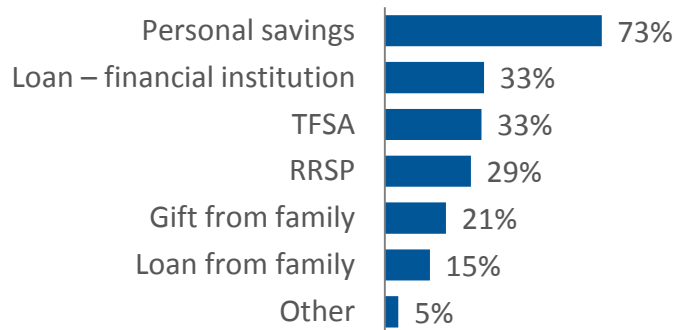


## SAVING FOR A DOWN PAYMENT

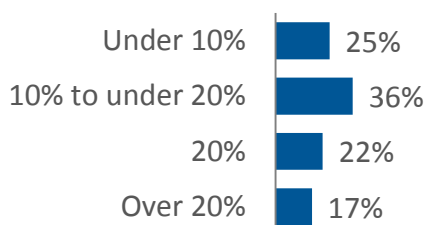
To further shed light on the topic of affordability, we asked respondents to identify the sources of their down payment. While several sources are being used to save, the largest is personal savings, cited by almost three quarters (73%). The next largest down payment sources are loans and TFSAs at 33% each, followed by RRSPs (29%) and family gifts (21%).

Imminent Buyers are more likely to withdraw from an RRSP (38%) compared to Next Gens as a whole, and are less likely to use a loan from a financial institution (22%).

### Sources of down payment (multiple responses allowed)



### Down payment goal (percentage of purchase price of the home)



In terms of a savings goal, the majority of Next Gens (75%) plan to use a down payment of 10% or more, while only a quarter (25%) aim to put down under 10%.

Those with a shorter timeline, however, trend towards a smaller down payment. Nearly half of Imminent Buyers (46% vs. 25% overall) aim to put down less than 10%.

## SAVING FOR A DOWN PAYMENT

### New down payment minimums

In February, the federal government increased the minimum down payment for new insured mortgages from 5% to 10% for the portion of the house price above \$500,000. The 5% minimum down payment for properties up to \$500,000 remains unchanged. Considering the potential impact these new rules could have on Next Gens in particular, we wanted to know if they were aware of these changes and, if so, what impact they have had.

We discovered that just over half (53%) are aware of the new rules. Awareness is significantly higher among those with a shorter purchase time horizon, with 75% of Imminent Buyers being aware, compared to 58% of Mid-term Buyers and 37% of Distant Buyers.

In terms of impact (for those aware of the changes), nearly two thirds (63%) said the new rules would have no impact, though more than a third (37%) said they would change their decision-making due to the new rules. Specifically, 17% say they will now buy a home under \$500k, 15% say they will have to save over a longer time period and 8% say they will have to increase their down payment.

Imminent Buyers are slightly less impacted (36%) compared to Mid-term Buyers (38%).

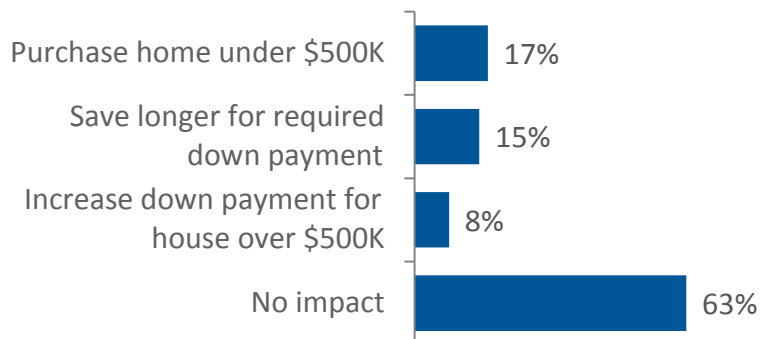
Imminent Buyers impacted by this change were most likely to say the rule will cause them to purchase a home under \$500,000 (20%), but few say it will impact their market entrance timing (8%).

Overall, those currently looking for a home, those aged 21-24, and those living in Western Canada say they are most impacted by the new rules.

# 53%

of Next Generation Homebuyers are aware of new federal down payment minimums

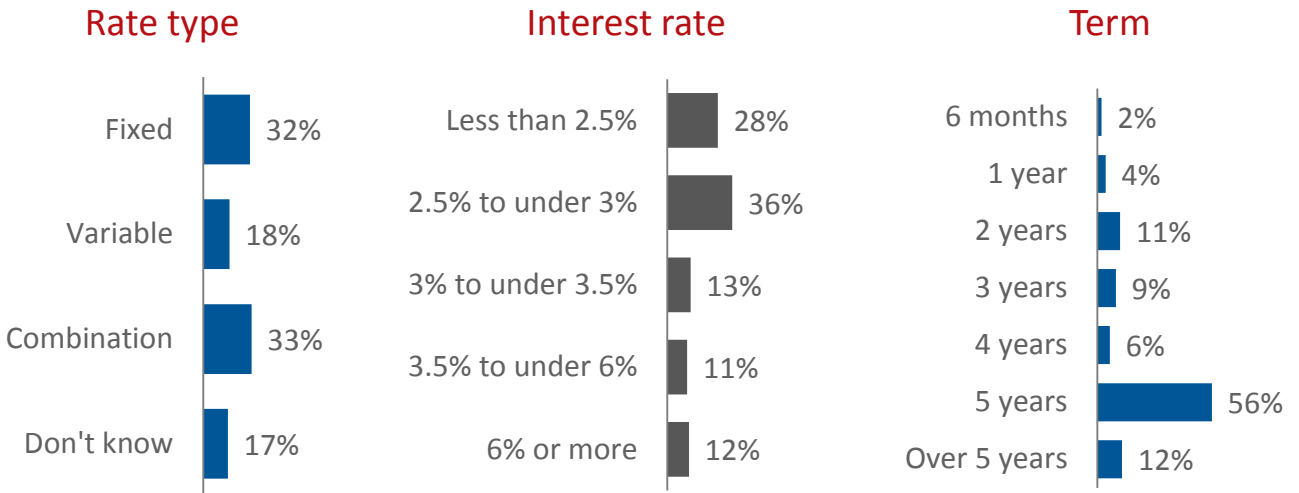
### As a result of new rules, they will now... (multiple selections allowed)





## MORTGAGE EXPECTATIONS FOR IMMINENT BUYERS

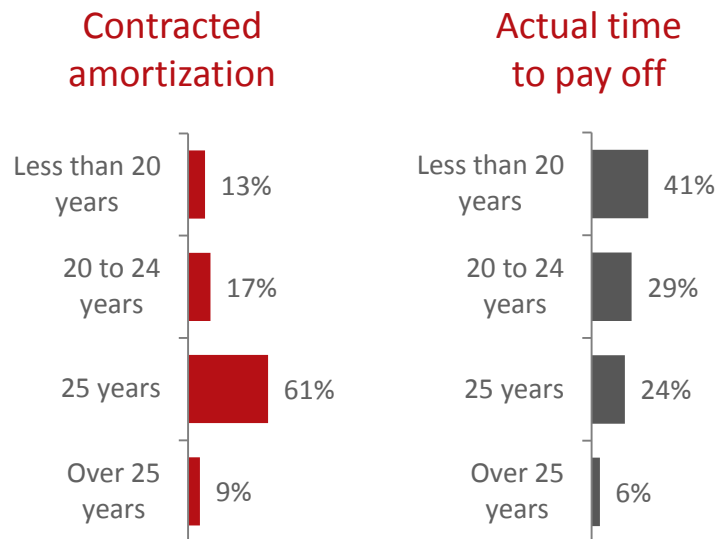
As they approach their purchase decision, we asked Imminent Buyers if they've given some thought to what their first mortgage will look like. Of those who know, most expect either a fixed-rate or combination mortgage. There are a wide range of interest rate expectations, with the median coming in at exactly 3%. The majority (68%) expect a mortgage term of five years or longer.



When it comes to interest rates, expectations differ widely based on purchase horizon. The top response for Imminent Buyers is '2.5 to under 3%', while for Mid-term Buyers it was '3 to under 3.5%', and for Distant Buyers it was '3.5 to under 6%'. This reaffirms the fact that those with a longer purchase time horizon don't have as clear a picture of current market conditions.

Nearly two thirds (61%) of Imminent Buyers expect an amortization of 25 years, while 71% expect to pay off their mortgage in less than 25 years.

Overall, 58% of Imminent Buyers plan to repay their mortgage in less than the contracted period. Those with longer time horizons are less likely to agree, with 45% of Mid-term Buyers and 31% of Distant Buyers expecting to repay in less than the contracted period.

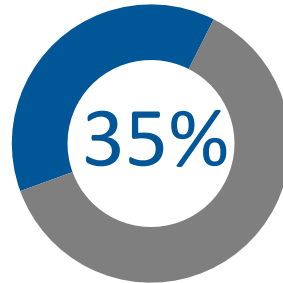


## EXPECTED COST OF OWNERSHIP

After learning about their expectations on what their mortgage would look like, we set out to understand Next Generation Homebuyers' expectations on overall cost of ownership.

Next Generation Homebuyers are anticipating a Gross Debt Service ratio (GDS)\* of 35%. This expected GDS is on par with the mortgage insurance maximums, and just slightly above the stated cost of ownership for Recent Homebuyers (30%).

Median anticipated cost of ownership  
(as a percentage of income)



40% among Recent Buyers

\*GDS is defined as the percentage of gross income that will be used for payments of principal, interest, taxes and heating costs.

## HOME FEATURE PRIORITIZATION

Next we presented respondents with 26 unique features of a potential home and asked them to rank features by levels of importance.

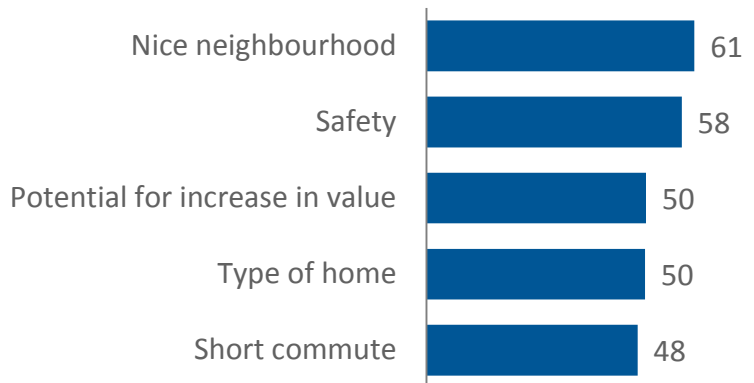
*Neighbourhood* and *Safety* are the two most important features Next Gens seek in a home. The next tier includes *Potential for the home's value to increase*, *Type of home* and *Short commute to work*.

Imminent and Mid-term Buyers agree on the top five home features, but Imminent Buyers place more importance on *Size of home* compared to those with a longer time horizon.

Distant Buyers have a slightly different prioritization of these features, with *Neighbourhood*, *Safety*, *Short commute*, *Maintenance fees* and *Type of home* selected as the top five most important features. Interestingly, Distant Buyers place more importance on *Energy efficiency*, *Proximity to shopping* and *Proximity to public transit* compared to Imminent or Mid-term Buyers.

Looking at Next Gens overall, the *Quality of schools* ranked in the top 10 among parents, but fell to the bottom five among those without kids. Additionally, parents with more children placed a greater importance on *Size of yard* and less importance on *Short commute*.

Top 5 home features  
(Index score\*)



\*Represents each feature's importance on a scale of 0-100

## WHAT WILL IMMINENT BUYERS PAY MORE FOR?

There are long-held beliefs in real estate concerning what buyers will pay a premium for when deciding on a home purchase. We decided to investigate this, and presented 26 features to respondents in an exercise to determine the must-haves, as well as the nice-to-haves.

Three of the most important features Imminent Buyers are willing to pay a premium to acquire include *Neighbourhood*, *Short commute* and *Safety*. *Type of home* and *Potential for increase in value* also made the list.

Features that can be sacrificed in order to stay within a budget and timeline include *Smart technology* and *Rental units*, as well as *Finished basement*, *Quality of schools* and *Age of building*.

### Features worth a premium

1	Nice neighborhood	33%
2	Short commute	31%
3	Safety	29%
4	Type of home	27%
5	Potential for increase in value	26%

### Features that can be sacrificed

1	Smart technology	56%
2	Inclusion of a rental unit	51%
3	Finished basement	44%
4	Quality of schools	41%
5	Age of building	36%

As seen before, Next Gens with a longer time horizon have slightly different priorities. Mid-term buyers place a premium on *Available parking* and *Privacy*, while Distant Buyers will pay more for *Proximity to public transit* and *Energy efficiency*. Both groups are less likely to pay a premium for *Type of home* and the *Potential for increase in value*, compared to Imminent Buyers.

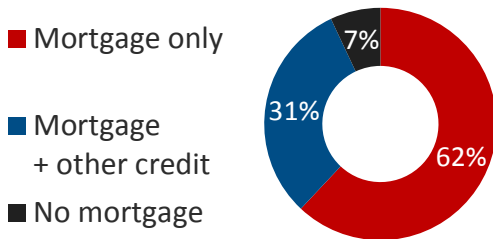
## Other key findings on importance of features

- Significantly more Western Canadians are willing to sacrifice a *Short commute* (26%) compared to Quebec and Ontario residents (each at 16%)
- 34% of Quebec residents and 30% of Ontarians are willing to pay a premium for a *Short commute*
- Residents of Atlantic Canada are significantly more willing to sacrifice *Proximity to shopping* (44%) compared to the rest of Canada (25%) and are more likely to pay a premium for *Energy efficiency* (32%)
- Ontarians are least likely to sacrifice *Proximity to public transit* (21% compared to 31% for the rest of Canada)
- Quebec residents are least likely to give up *Suitability for entertaining* (21% compared to 31% for the rest of Canada)
- Canadians earning a household income of \$100,000+ are more likely to put a premium on *Nice neighbourhood*, *Shorter commute*, *Type of home* and *Potential for increase in value*, while those earning under \$60,000 are more likely to put a premium on *Safety*

## MORTGAGE BROKER ADOPTION

The mortgage broker channel is well-established as a key player in the mortgage industry. It now represents 30% of all outstanding mortgages placed in Canada, up from 23% in 2009. This significant growth has come through gaining share from the bank channel, as well as others such as credit unions. This wave of research sets out to understand awareness and knowledge of the broker channel among Next Generation Homebuyers.

### Sources of financing

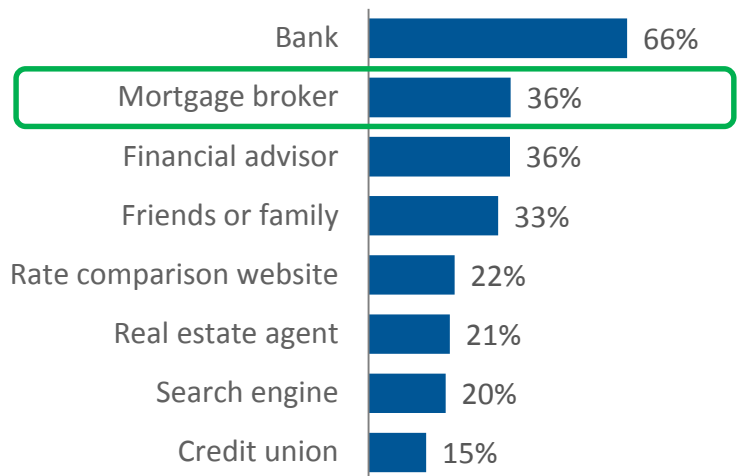


Virtually all Next Gens (93%) say they will be obtaining a mortgage to finance their home purchase. This includes those who will only use a mortgage (62%), as well as those who will use other types of credit in addition to a mortgage (31%).

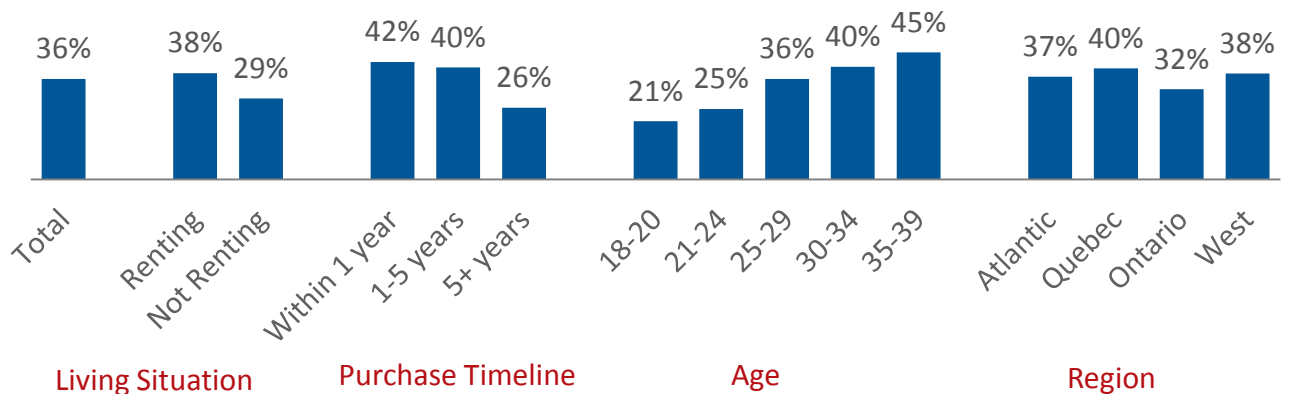
### Who to turn to for advice?

Prior to explaining the services a mortgage broker offers, just over a third (36%) say they intend to consult a mortgage broker for their needs.

So who are these people? Well, intention to consult with a broker was highest among Imminent and Mid-term Buyers, along with Renters, those aged 30-39 and those living outside of Ontario.



### Mortgage broker adoption by segment



## ATTITUDES ABOUT MORTGAGE BROKERS

### Top five reasons to use a broker

Regardless of whether respondents intend to consult with a broker, we wanted to know what they perceived as key benefits to using a broker.

As shown in the table, *Specialization* and *Expertise*, along with *Getting the best rates*, are the two main benefits, accounting for almost half (44%) of all responses.

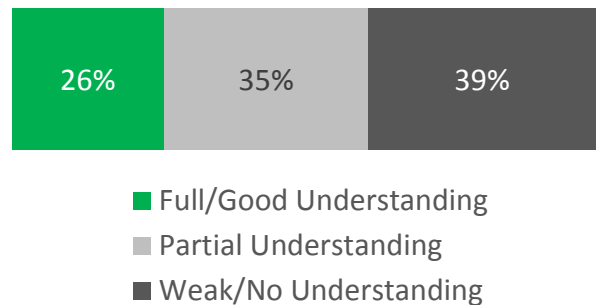
1	Experts/Specialize in mortgages	26%
2	Getting the best rates	18%
3	Help you negotiate a better deal	10%
4	Have access to more lenders	9%
5	Convenient, one-stop shop	8%

### What do brokers do?

While a certain portion of Next Gens intend to consult with a mortgage broker, and most could envision at least one benefit of dealing with this type of professional, when asked to assess their understanding of the services a broker provides, three quarters (74%) admit they have at best only a 'partial' understanding.

Level of understanding is much higher for those with a shorter purchase timeline. Forty-one percent of Imminent Buyers state they have a good or full understanding, compared to 29% of Mid-term Buyers and 15% of Distant Buyers.

#### Level of understanding



### Likelihood of using a broker

We then set the record straight and gave respondents a brief description of the services a broker provides. Once aware, likelihood of using a broker jumped to 59% overall from 36% seen previously. And likelihood increases to 75% among those who have a 'good' or 'full' understanding of what a broker does.

**59%** of Next Generation Homebuyers will likely use a mortgage broker once aware of their services

Likelihood of using a broker is highest among Imminent Buyers (64%) and Mid-term Buyers (63%). Just over half (51%) of Distant Buyers are likely to use a broker.

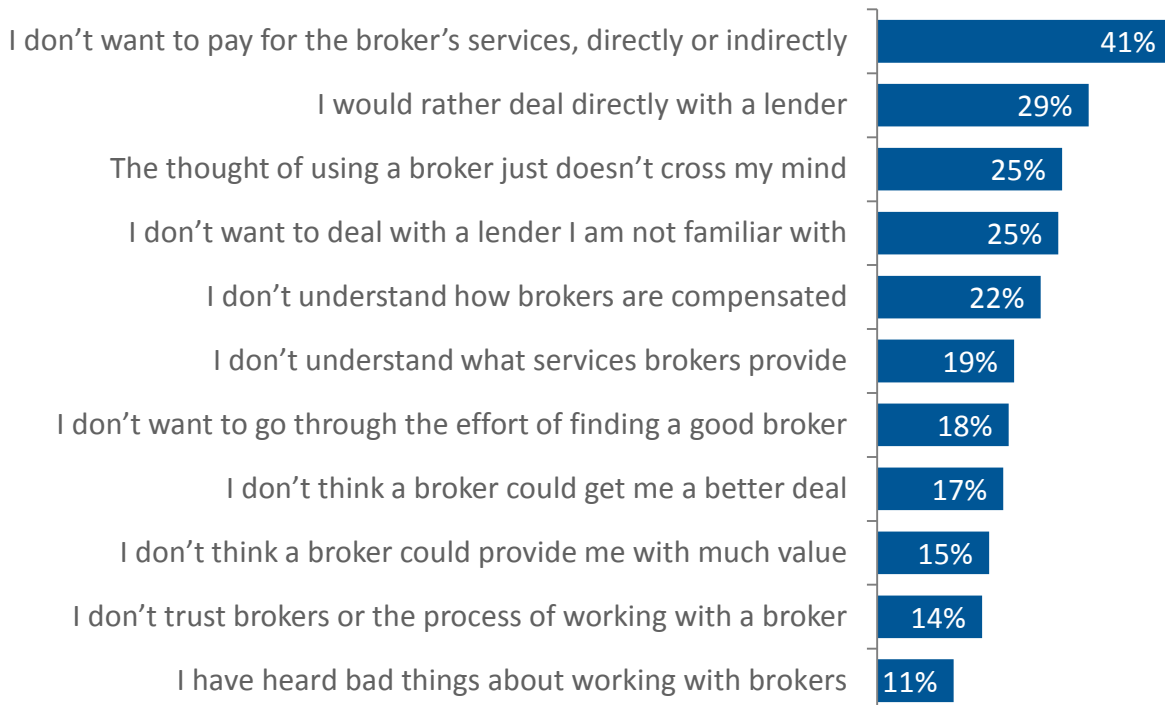
## ATTITUDES ABOUT MORTGAGE BROKERS

And what about those who still don't intend to use a broker? We asked them why, and their reasons are shown in the chart below.

“ I don't understand what services brokers provide.

Most answers emanate from a lack of understanding, including concerns about broker compensation, services provided and the engagement process, which can be addressed through education. Misunderstanding about compensation is highest for Distant and Mid-term Buyers (24% and 23%, respectively).

### Reasons for not using a mortgage broker



# ABOUT THE CONTRIBUTORS

## Mortgage Professionals Canada

Mortgage Professionals Canada (formerly CAAMP) is Canada's national mortgage broker channel association representing more than 11,000 members from coast to coast.

We recognize that Canadians need and deserve more. We believe in competition as it produces better options and demands ever-improving service and products. We believe in choice as it benefits Canadians and delivers an environment of opportunity. We believe in professionalism as it demonstrates commitment, trust and excellence.

The mortgage broker channel is a critical and valuable profession. It creates possibility, fuels the economy and provides Canadians with choice when making among the most important financial decisions of their lives.

## About the Author

**Kyle Davies** leads the Marketing Research + Insights practice at Bond Brand Loyalty. He has over 12 years of experience conducting marketing-research based consulting for some of Canada's leading organizations, focused primarily in the financial services, telecommunications, and retail sectors. His work focuses on helping clients to gain a better understanding of customer sentiment, and helping them to harness that knowledge to create happier and more loyal customers.

## Bond Brand Loyalty



Bond's Research + Insights team provides consultative services based on primary marketing research to many of Canada's top companies and organizations. Our focus is on helping our clients to understand and optimize customer experience and loyalty. Bond is a Gold Seal Member of Canada's Marketing Research and Intelligence Association (MRIA).