Annual State of the Residential Mortgage Market in Canada

Prepared for:

Canadian Association of Accredited Mortgage Professionals

By:

Will Dunning

CAAMP Chief Economist

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1.0 Introduction and Summary

The health of the residential mortgage market depends on trends in the housing market, as well as the broader Canadian economy.

The Canadian economy continues to expand, but the rate of growth is moderating. Employment growth is at 1.2% year-over-year, as of October. This is fractionally slower than the rate of population growth, which is estimated at 1.3% for the same period. Ideally, we would like to see job creation at least matching the rate at which the population is growing. It would be even better if job creation was faster than population growth.

Housing played a major role in the recovery from the recession of 2008/09: housing construction, resale market activity, and mortgage lending contributed directly to job creation. Even more importantly, rising housing values supported consumer confidence and consumer spending, and thereby led to job creation.

However, since mid-2012, in the wake of government policies that were intended to slow the housing market, housing activity has indeed slowed. This analyst believes that the slowdown in the broader economy has a great deal to do with the weaker housing market. Moreover, the economic impacts have not yet been fully felt: resale market activity has been reduced, but the adjustment of housing starts has just barely begun.

This report has been prepared for CAAMP by Will Dunning, Chief Economist. It provides an overview of the evolving state of the residential mortgage market in Canada. Major sections of this report are:

- Introduction and Summary
- Mortgage Choices
- Financial Parameters
- Consumer Sentiment
- Outlook for the Mortgage Market

Data used in this report was obtained from various sources, including an online survey of 2,223 Canadians. Close to 60% were homeowners with mortgages and the rest were renters, homeowners without mortgages, or others who live with their families and are not responsible for mortgage payments or rents. The survey was conducted by Maritz Research (a national public opinion and market research firm) for CAAMP, during October 2013.

Evolving Approaches

CAAMP has conducted semi-annual consumer surveys since the fall of 2005. The research has a core of data on the residential mortgage market. The contents have evolved over time, as CAAMP has sought to contribute to better understanding of the residential mortgage market. CAAMP has developed new data, to support better decision-making by consumers, lenders and policy-makers.

In this edition of the survey:

- In the financial parameters section, a new analysis looks at potential changes in interest rates for mortgage borrowers with pending renewals (and finds that the interest rate changes may be beneficial overall in the near term).
- A section on “consumer sentiment” reviews responses to six “topical questions” related to housing and mortgages and summarizes consumers’ predictions about trends in housing values for the next five years.

Mortgage Choices

Mortgage Types and Amortization Periods

For homes that have been purchased recently (during 2013 up to the time of the survey), fixed rate mortgages are most popular, with an 82% share of new mortgages. Variable and adjustable rate mortgages, and combination mortgages each have 9% shares.

With federal mortgage insurance now being limited to amortization periods of no more than 25 years, mortgages with longer mortgage amortization periods are now seeing a falling share. For mortgages on homes purchased during 2013 to the present, 84% have contracted amortization periods of 25 years or less and 16% have extended amortization periods. Overall, the data indicates that 81% of all mortgages have contracted periods of no more than 25 years.

Analysis of the survey data compares borrowers’ expectations about their repayment horizons with the original contracted horizons. In addition, for homeowners who have fully repaid their mortgages, actual amortization periods are contrasted with the original contracted periods. In both analyses, repayment horizons are being significantly accelerated:

- For mortgages that have been repaid during the past two decades, actual repayment periods have generally been 30% shorter than the contracted periods.
- For current mortgages, borrowers are making significant efforts to accelerate repayment, including voluntarily increasing their regular payments and making lump sum pre-payments.
- The analysis finds that some owners who bought their properties many years ago have refinanced their homes, with the result that their total amortization horizons (the length of time from the date of purchase to the final repayment) can be long. However, in those few cases, loan-to-value ratios are quite low.

Among borrowers who took out a new mortgage during 2013 up to the time of the survey in October, 42% obtained the mortgage from a Canadian bank and 40% from a mortgage broker. Other categories accounted for 18% of new mortgages.

Financial Parameters

There are currently about 9.52 million homeowners in Canada, of whom about 5.58 million have mortgages and may also have a Home Equity Line of Credit (or "HELOC"). An estimated 3.94 million homeowners are mortgage-free, although they may have other forms of debt. In total, about 2.3 million Canadian homeowners have HELOCs.

Interest Rates

Looking at interest rates, the CAAMP/Maritz data indicates that:

- The average mortgage interest rate for homeowners' mortgages is 3.50%, fractionally lower than the average of 3.52% found in the spring 2013 survey.
- For mortgages on homes purchased recently (during 2013 to date), the average rate is 3.23%. For mortgages renewed recently, the average is 3.20%.
- Looking further, for borrowers who have recently renewed a mortgage, the average interest rate is now lower (by 0.82 percentage point) than the rates prior to renewal. Among about 1.5 million borrowers who have renewed so far this year, about 975,000 saw their interest rate fall, 350,000 saw increases, and 175,000 had no change. For borrowers who saw their interest rates increase at renewal, the increases were minor for most. It is estimated that about 100,000 of these borrowers had their rates increase by more than 1 percentage point. This is a very small number relative to the 5.58 million Canadian homeowners who have mortgages.
- Mortgage rate discounting remains widespread in Canada. During 2013 to the present, the average actual rate for 5-year fixed rate mortgages (3.06%) has been 2.15 percentage points lower than typical "posted" rates (which have averaged 5.21%).

Impacts of Future Rises in Interest Rates

Low interest rates in Canada have strongly stimulated housing activity, and consequently resulted in growth of mortgage credit. It is very reasonable to ask – as many have – if consumers will be able to afford their mortgage payments when interest rates inevitably rise.

CAAMP has addressed this important question in several forums, including a special research report ("Revisiting the Mortgage Market – The Risk is Minimal") published in January 2011. That research concluded that Canadian mortgage borrowers and lenders have been prudent and there is very substantial room to absorb higher interest rates. Anyone with an interest in this topic should read that report, which is available at the CAAMP website.

In this edition of the report, analysis has been conducted of pending renewals, and the current actual mortgage interest rates for those mortgages have been compared to current market interest rates.

- For mortgages that will be renewed in the next half year (fourth quarter of this year or first quarter of next year), the current average rate is 3.90% and the average interest rate should fall after renewal. As many as 96% of these mortgage borrowers may see their interest rates fall or be unchanged after the renewal.
- For renewals during the following half year, most borrowers are expected to benefit from renewals.
- In other words, for about the next year, mortgage renewal is likely to be a positive event for the borrowers and therefore for the broader economy.

Home Equity

The CAAMP study asked questions that yielded estimates of homeowners' equity.

- On average, home equity in Canada is equivalent to 66% of the value of the homes.
- Among homeowners who have mortgages (but not HELOCs), on average their home equity represents 46% of the value of the homes.
- For owners with both mortgages and HELOCs, the equity ratio is 43%.
- For owners without mortgages but with HELOCs, the equity share is 76%.
- For owners without mortgages or HELOCs, equity is (of course) 100%.
- 83% of homeowners in Canada (about 7.9 million out of 9.52 million) have 25% or more equity in their homes.

Equity Take-Out

About 11% of homeowners took equity out of their home in the past year. The average amount is estimated at $57,000. These results imply that the total amount of equity take-out during the past year has been $59 billion.

The most common uses for the funds from equity take-out are debt consolidation and repayment (estimated at $16.6 billion), followed by $15.1 billion for investments, $12.3 billion for renovation or home repair, $9.7 billion for purchases (including education), and $5.3 billion for "other" purposes.

Consumer Sentiment

In this section, consumers were asked to indicate their degrees of agreement or disagreement with six different statements. A score of 10 would indicate complete agreement; conversely, a rating of 1 indicates complete disagreement.

Consumers generally agree (average score of 7.04) with a statement that "low interest rates have meant that a lot of Canadians became homeowners over the past few years who probably should not be homeowners".

But, responses to questions about personal circumstances - ability to weather a potential downturn in home prices (average rating of 6.93) and low levels of “regret” about their own mortgage choices (average of 3.82) paint a different picture of cautious behavior. It is not immediately obvious how this contradiction can be resolved. Perhaps the responses to the first question reflect what they are seeing in the media and hearing in comments from opinion leaders, moreso than reflecting actual behavior.

There is a strong belief that “real estate in Canada is a good long-term investment” (average score of 7.44) and agreement that mortgages are “good debt” (average of 7.20).

Asked about their predictions for changes in housing values during the next five years, most expectations (60%) are in neutral territory – stable or slowly growing values. That said, a minority have negative expectations (8% believe that a bubble will burst and 17% expect a slow decline in values).

Outlook for the Mortgage Market

Resale activity slowed considerably in the wake of changed mortgage insurance policies during the summer of 2012. Recently, the rate of sales has returned to the level seen prior to the change. But, it is too soon to say that the market has fully recovered, and especially that the effects of the policy change have been reversed.

- Looking at the entire period since the policy change, average monthly sales are 5.0% lower than prior to the change.
- In seven out of 10 provinces, the drops in sales exceed the national average. A surge of activity in Alberta (which is all about the provincial economy and not about mortgage policy) has lessened the national impact.
- The recent surge in activity may have been influenced by a rise in mortgage interest rates, which is believed to have caused a temporary rush into the market. In that case, we might get better evidence of underlying trends (and the impacts of the policy change) during future months.
- Housing starts are affected more slowly than the resale market. Dampening effects in the new construction arena are probably just starting to develop now, and it will be well into 2014 before we get a sense of direction.

Mortgage credit growth in Canada has averaged 8.6% per year during the past decade. The growth rate has slowed, and is likely to be 4.5% for all of 2013.

During 2014, completions of new housing will begin to slow, and this will bring a further deceleration of mortgage credit growth. For 2014, the growth rate is forecast at 3.25% and for 2015 the forecast is 3.0%. By the end of 2015, total outstanding residential mortgage credit is forecast at $1.29 trillion, up from the most recent figure of $1.19 trillion (as of August 2013).

About CAAMP

CAAMP is the national organization representing Canada's mortgage industry. With 12,000 mortgage professionals, its membership is drawn from every province and from all industry sectors. This diversified membership enables CAAMP to bring together key players with the aim of enhancing professionalism.

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

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

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

About the Author

Will Dunning is an economist, and has specialized in the analysis and forecasting of housing markets since 1982. In addition to acting as the Chief Economist for CAAMP he operates an economic analysis consulting firm, Will Dunning Inc.

About Maritz Research

Maritz Research is a wholly owned subsidiary of Maritz Inc., the largest performance improvement company in the world, headquartered in St. Louis, Missouri. For more than 20 years, Maritz Inc. has been the largest provider of customer satisfaction research in the United States and a major supplier of brand equity research. In Canada, Maritz Research has been developing marketing research solutions for Canadian clients under the brand Maritz-Thompson Lightstone since 1977, and has grown to become one of Canada's largest full-service marketing research consultancies.

Disclaimer

This report has been compiled using data and sources that are believed to be reliable. CAAMP, Maritz, Will Dunning, and Will Dunning Inc. accept no responsibility for any data or conclusions contained herein.

The opinions and conclusions in this report are those of the author and do not necessarily reflect those of CAAMP or Maritz.

2.0 Mortgage Choices

This section uses data from the consumer survey to highlight consumer choices in the mortgage market.

Dimensions of the Mortgage Market

There are currently about 13.8 million households in Canada[1], including:

- 9.52 million homeowners, of which 5.58 million have mortgages and 3.94 million are mortgage-free.
- Among the 5.58 million owners who have mortgages, about 1.65 million also have Home Equity Lines of Credit (known as "HELOCs"). Among homeowners without mortgages, about 650,000 owe money on a HELOC. This leaves about 3.3 million homeowners who have neither mortgages nor HELOCs.
- In total, about 2.3 million homeowners have HELOCs
- There are about 4.28 million tenants.

Mortgaging Activity During 2013

Combining various data from the consumer survey, it is estimated that during 2013 (up to the time of this survey):

- About 450,000 households bought homes. Of these, about 50,000 did not take mortgages. Out of the 400,000 buyers who took mortgages, about 50,000 also took a HELOC. As of this fall, the total outstanding mortgage principal for these buyers is estimated at $122 billion, and a further $10 billion is owed on HELOCs.
- Among the 450,000 households who have purchased homes so far in 2013, 57% (about 250,000) were first-time home buyers.
- About 100,000 Canadian homeowners fully repaid their mortgages during 2013 (up to the date of the fall survey).
- About 1.5 million homeowners with mortgages renewed or refinanced their mortgages so far during 2013. The combined total principal is $218 billion. One-third of the borrowers who have renewed their mortgages so far in 2013 also have HELOCs, on which they owe a total of $21 billion.

Other findings include:

- Just over one million homeowners (11% of all homeowners) took equity out of their homes during the past year, adding about $36 billion to their home mortgages and $23 billion to their HELOCs.

[1] This estimate of total households is based on data from the 2011 Census, updated by this author based on data from Statistics Canada's 2011 National Household Survey, as well as data from Canada Mortgage and Housing Corporation on housing completions and changes in vacancies. Prior issues of CAAMP's semi-annual reports used earlier data sets. In consequence, estimates of the numbers of households by housing tenure have been substantially revised.

- Based on the various information provided by consumers, it is estimated that regular mortgage payments resulted in a $60 billion pay down of mortgage principal. In addition, annual mortgage interest costs are estimated at about $31 billion (thus, across all mortgage holders, out of total regular mortgage payments of about $91 billion per year, slightly more than one-third of the total are for interest and almost two-thirds of the payments result in reduction of principal).
- In addition, it is estimated later in this section that about 900,000 current mortgage holders made lump sum payments in the past year, totaling $12 billion.
- Furthermore, among the 160,000 Canadians who have (or are expected to) repaid their mortgages during 2013, lump sum payments total about $6 billion.
- About 900,000 mortgage holders voluntarily increased their regular payments during the past year, by amounts that equate to more than $4 billion per year.

The reader is cautioned that these estimates are based on a sample survey and as such are subject to variation.

Fixed Rate Versus Variable Rate Mortgages

The CAAMP/Maritz study found that 66% of mortgage holders (about 3.7 million out of 5.58 million) have fixed rate mortgages, 26% (1.5 million) have variable and adjustable rate mortgages, and 8% (about 425,000) have "combination" mortgages, in which part of the payment is based on a fixed rate and part is based on a variable rate. In this edition of the CAAMP/Maritz study (as has been the case in prior surveys) variable rate mortgages are slightly more popular with people in the oldest age bracket compared to the younger age groups.

Table 2-1
Percentages of Mortgages by Type,
By Age Group

Mortgage Type	*18-34*	*35-54*	*55 +*	*Total*
Fixed-rate	67%	67%	62%	66%
Variable or adjustable-rate	25%	27%	28%	26%
Combination	8%	6%	10%	8%
All Types	100%	100%	100%	100%
Source: Maritz survey for CAAMP, fall 2013; analysis by the author.				

As is shown in the first column of the next table, among mortgages for homes that were purchased during 2013 to the present, fixed rate mortgages were chosen much more frequently, with the share at 82%. The share for fixed rate mortgages is similar for first-time buyers and for repeat buyers. For mortgages that have been renewed this year, the fixed rate share of 66% is identical to the overall share; variable and adjustable rate mortgages are much more frequent for those who have renewed recently than for those who have purchased recently.

Table 2-2 ***Percentages of Mortgages by Type,*** ***For New Purchase Mortgages and Recent Renewals***			
Mortgage Type	*Purchase During 2013*	*Renewal or Refinance During 2013*	*All Mortgages*
Fixed-rate	82%	66%	66%
Variable or Adjustable Rate	9%	24%	26%
Combination	9%	10%	8%
All Types	100%	100%	100%
Source: Maritz survey for CAAMP, fall 2013; analysis by the author.			

The data was further examined to look at choices of mortgage type, for recent buyers, and by levels of initial down-payments. The data indicates that for borrowers with less than 20% down-payments, 86% were fixed rate mortgages, just a handful had variable or adjustable rates (estimated at 2%) and 12% had combination-type mortgages. On the other hand, for borrowers who had down-payments of 30% or more, 75% took fixed rate mortgages, 13% took mortgage with variable or adjustable rates, and 11% had combination mortgages.

Mortgage Amortization Periods

Mortgage holders were asked several questions related to mortgage amortization, to profile their choices and their expectations.

- Mortgage holders were asked about the contracted amortization periods at the time the mortgages were initiated, and when they expect to have their mortgages repaid. This data is used to compare their current expectations to the original amortization periods.
- In addition, data was collected from homeowners who no longer have mortgages, to compare their actual amortization periods to the original contracted periods.
- The subsequent section discusses steps taken to change amortization periods.
- Then, in the following sections, more detailed information is obtained on actions taken by mortgage borrowers to shorten or lengthen their amortization periods, for example through voluntary payment increases, lump sum payments, and, on the other hand, through equity take-out.

A large majority of residential mortgages in Canada have contracted amortization periods of 25 years or less. The first column of the table below indicates that 81% of mortgages have original contracted periods of no more than 25 years and 19% have original contracted periods exceeding 25 years. The share with extended amortization periods had increased during the prior past half decade, due to the availability of longer term mortgages. But, as of July 2012, the maximum amortization period for insured mortgages is 25 years. The second column of data shows the distribution for homes that were purchased during 2013. This data indicates that a minority (16%) of homes purchased during this period had extended amortization periods. This share is lower than in prior years – as is shown in the table, for homes that were purchased during 2011 or 2012, 22% had extended amortizations; looking farther back, for homes purchased during to 2008 to 2010, 34% of mortgages had extended amortization periods.

Prior to the current survey, the share with extended amortizations had been rising. As of the spring of 2013, 20% of all mortgages had extended amortization periods; as of the fall of 2013, that share has fallen, to 19% - the rising trend has ended. It should be expected that for the total mortgage portfolio, the share with extended amortizations will fall further during the coming years.

The fourth to sixth columns in the table summarize consumers' expectations about how long their actual amortization periods will be, considering their current payment levels and plans for the future (including lump sum payments and additional efforts they have and will make to repay their mortgages). This data shows that some borrowers expect that their actual repayment horizons will be longer than their originally contracted amortization periods. In general, however, most borrowers expect to repay early, as the average expected amortization of 20.8 years (fourth column) is slightly shorter than the average contracted period (21.6 years, shown in the first column).

For the most recent buyers (which are illustrated in the second and fifth columns of data) large numbers expect to substantially accelerate repayment: the average expected repayment period of 18.2 years is 22% shorter than the average contracted period of 23.3 years, and 90% of recent buyers expect their actual amortization periods to be 25 years or less. A similar conclusion applies for home purchased during 2011 and 2012: the expected average amortization period is 16% shorter than the average contracted period, and the 83% share who expect amortization periods of 25 years or less is higher than the 78% share for contracted amortization periods. We can, of course, question whether these expectations are realistic. A later section provides data on additional efforts that mortgage borrowers are making, and it does indeed appear that consumers' behavior is consistent with their expectations.

In all cases, the actual and expected amortization periods shown here are the numbers of years since the homes were purchased. A small number of mortgages have very long expected amortization periods (in the fall 2013 survey, 3% of the mortgages have expected amortizations exceeding 40 years). Most of these cases (87%) related to homes that were purchased before 1993. The data does not allow us to definitively interpret these cases, but it is quite likely that the mortgages were obtained at a later date than the purchase, for example, to finance a renovation, to make a major purchase (such as a vacation property), to invest, or to assist children (with education expenses, a down payment for a home, or a wedding). For those mortgages, therefore, the total expected amortization periods may have been over-estimated (since there were some years that were actually mortgage-free).

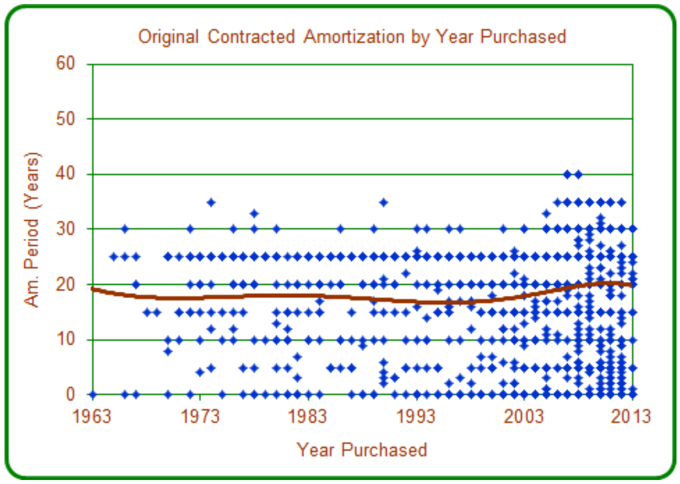
Table 2-3 ***Percentages of Mortgages by Length of Original Amortization Period and by Current Expectation***						
Amortization Period	*Original Contracted Amortization Period*			*Expected Total Amortization Period*		
	All Mortgages	*Homes Purchased During 2013*	*Homes Purchased During 2011/12*	*All Mortgages*	*Homes Purchased During 2013*	*Homes Purchased During 2011/12*
Up to 25 Years	81%	84%	78%	77%	90%	83%
More Than 25 Years	19%	16%	22%	23%	10%	17%
Including…						
26-30 years	13%	16%	18%	12%	10%	14%
31-35 years	6%	0%	4%	5%	0%	3%
36-40 years	1%	0%	0%	7%	0%	0%
Total	100%	100%	100%	100%	100%	100%
Average Amortization Period	21.8 years	23.3 years	21.3 years	20.7 years	18.2 years	17.8 years
Source: Maritz survey for CAAMP, fall 2013; analysis by the author.						

Two charts below provide more detailed presentations of the data. In these charts, each data point represents one or more actual mortgages. The first chart looks at original contracted amortization periods, sorted according to the year in which the property was purchased. The second chart looks at actual amortization periods for mortgages that have been repaid in full and expected amortization periods for mortgages that are still being repaid.

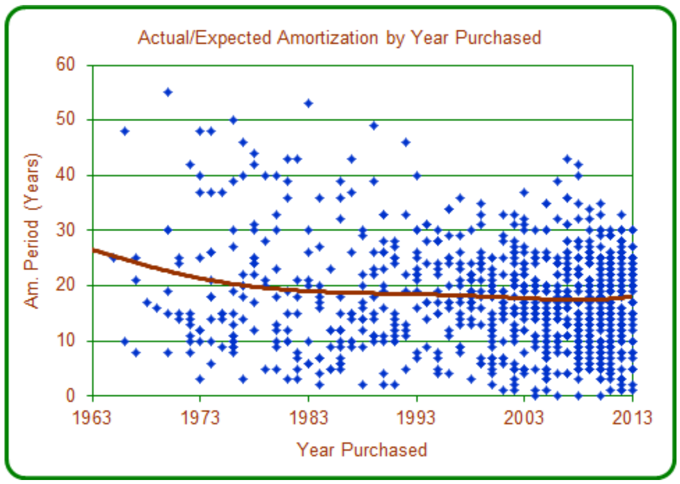
In both of the charts, another line has been added: the thin brown curved line shows a trend – essentially, the average amortization periods for the various purchase years.

A short technical discussion might be helpful here. The first chart contains 1,323 data points. But, because there are some combinations that occur frequently, the full detail is not visible. For example, for purchases made in 2012, there are 37 points for which the contracted period is 25 years, but in the chart these look like just one point; similarly, for purchases in 2012, there are 16 points for which the contracted period is 30 years. Most of the mortgages have amortization periods close to the trend line. The point of this discussion is that in the chart it appears that a large share of mortgages have quite long amortization periods, but in fact out of 1,323 mortgages in the first chart, there are 48 (about 4%) for which the contracted amortization period is longer than 30 years. Similarly, only 14% of the mortgages have amortization periods exceeding 25 years.

In this chart, the trend line shows average contracted amortization periods, depending on the year when the property was purchased by the current owner. Most contracted amortization periods have been 25 years (or shorter) and the average contracted periods were even shorter. During the period when extended amortization periods were widely available, the average contracted period increased, but only slightly, to about 20 years.



This chart illustrates actual and expected amortization periods by year of purchase. The trend line is close to flat for almost all of the purchase years. This continues even for purchases made during the period when extended amortization was available. The message is that while many buyers took advantage of extended amortization, most of them have the intention of paying off their mortgages at about the same pace as their parents did.



This section ends with survey data on mortgages that have been repaid. For mortgages that were repaid during the 1990s and into the present, the actual periods were considerably shorter than the original contracted periods. During the period covered in this table, the average actual amortization period (13.1 years) was 30% shorter than the average contracted period (18.6 years).

Table 2-4
Original and Actual Amortization Periods (Averages), For Paid-off Mortgages, by Year Paid Off

Year Mortgage Paid off	*Original Amortization Period*	*Actual Amortization Period*	*Change*	*Actual as % of Original*
1990s	17.9	12.9	-5.0	72%
2000-2004	20.0	14.3	-5.7	72%
2005-2009	17.3	10.2	-7.2	59%
2010-2013	19.1	14.7	-4.4	77%

Source: Maritz survey for CAAMP, fall 2013; analysis by the author.

This data on outcomes for past generations of borrowers does not prove anything about what will be achieved by current borrowers, but for those of us who believe that

Canadians have a culture of repaying debt promptly, the data in the next section provides confirmation.

Actions that Accelerate Repayment

The fall 2013 CAAMP/Maritz survey asked homeowners who have mortgages about actions that can change the number of years it takes to pay off a mortgage. Three different actions were listed. The responses are summarized in the next table.

The consumer responses indicate quite clearly that recent purchasers are more likely to take steps to shorten amortization periods than are prior purchasers (to increase their payments, make lump sum payments, or increase the frequency of payment).

Table 2-5
Actions Taken in the Past Year to Shorten Amortization Periods, by Period of Purchase

Period of Purchase	*Increased Amount of Payment*	*Made a Lump Sum Payment*	*Increased Frequency of Payments*	*Took One or More of these Actions*	*Took None of these Actions*
Before 1990	12%	6%	4%	24%	76%
1990s	12%	16%	7%	34%	66%
2000-2004	20%	11%	5%	34%	66%
2005-2009	19%	21%	8%	40%	60%
2010-2013	14%	18%	10%	37%	63%
All Purchase Periods	16%	17%	8%	38%	62%

Source: Maritz survey for CAAMP, fall 2013; analysis by the author.

The survey also collected data on the dollar amounts of increased payments and lump sum payments. Various survey data can be combined to estimate total amounts.

- About one-in-six mortgage holders (16% out of 5.58 million, or about 900,000) voluntarily increased their regular payments during the past year. The average amount of increase was about $400 per month, for a total of about $4 billion per year. This is the effect of increases that were made during the past year. In addition, voluntary increases that were made in prior years are contributing to accelerated repayment of mortgages.
- The survey data indicates that total regular mortgage payments result in about $60 billion in principal repayment (at an annualized rate).
- About 17% of mortgage holders (about 925,000) made lump sum payments during the past year. The average amount was about $14,000, for combined repayment estimated at more than $12 billion.
- As is shown in the table above, 8% of mortgage holders (about 425,000) increased the frequency of their payments.
- 38% of mortgage holders (2.1 million out of 5.58 million) took one or more of these three actions.

In addition, the survey asked homeowners without mortgages when they had repaid the mortgage. About 100,000 borrowers have repaid their mortgage so far during 2013 (up to the time of the survey in October). Total lump sum payments made at the time amounted to just under $4 billion. A further 60,000 expect to fully repay their mortgages by the end of this year. If they make lump sum payments at the same rate as has occurred so far this year, total lump sum payments at the time of mortgage retirements would be about $6 billion for 2013.

This snapshot portrays activity during a short period of just 12 months. It seems very reasonable to assume that over longer periods similarly substantial percentages of mortgage borrowers will take these actions to shorten their repayment periods.

The survey asked mortgage holders in what year they expect to fully repay their mortgages (taking into account all anticipated changes to their mortgages, including refinancing, accelerated payments, etc.). For 2014, about 185,000 expect to fully repay, followed by 300,000 for 2015. These numbers (compared to the 160,000 who are expected to repay during 2013) suggest that the total amounts of lump sum payments could increase during the next two years, perhaps to $7 billion for 2014 and $11 billion for 2015.

On the other hand, out of 9.52 million homeowners, about 11% (or just over one million) took out equity during the past year, through either increasing their mortgage amount (about 550,000 households), drawing on a HELOC (about 450,000 households), or by taking both actions (a very small number, in the range of 25,000 households). Withdrawals via mortgage increases totaled about $36 billion and draws on HELOCs totaled about $23 billion, for a combined total of about $59 billion[2]. Equity take-out averaged about $57,000 per household that took-out equity. Averaged across all 9.52 million home owners, the figure is about $6,200.

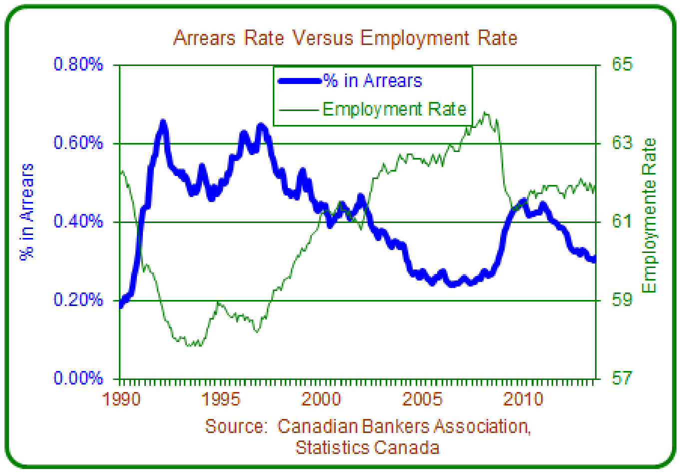
Mortgage Arrears

Data on mortgage arrears from the Canadian Bankers Association, which covers 7 major banks, shows that a very small percentage of Canadian mortgage holders are behind on their payments (this data shows mortgages that are three or more months in arrears). That data shows that there was a rise in mortgage arrears during the recession, with a peak at the end of 2009 (although at a lower level than during the recession of the early-to-mid-1990s). The arrears rate fell during 2010 until late in 2012. For almost a year, the rate has been roughly flat, at just over 0.3% (about 1-in-300 borrowers).

In the Canadian context, most mortgage defaults are due to reduced ability to pay, especially including job loss, but also income reductions due to reduced hours or reduced hourly pay rates. Marital breakdown is also a cause of financial difficulty (this might usually fit into the category of reduced ability to pay).

[2] In prior issues of these reports, equity take-out was calculated only for take-out via increased mortgage principals. Therefore, equity take-out calculations here should not be compared to estimates in prior reports. The figures found here for take-out via mortgage s(i.e. the $36 billion figure) is in the same range as in prior reports (in the spring 2013 the estimate of take-out via mortgages was $39 billion).

The chart to the right illustrates the importance of changes in the employment situation. It contrasts arrears rates with the Canadian "employment rate" (which shows the percentage of adults who are employed). This data shows very clearly that changes – up or down – in the employment rate are followed several months later by changes in the arrears rate (in the opposite direction). The job losses that occurred during the recession was the primary cause of the rise in mortgage arrears: a sharp drop in the employment rate was followed several months later by increased arrears. The employment rate has not completely recovered (it is about two percentage points below the pre-recession peak), which helps explain why the arrears rate has not returned to the low level seen before the recession.



Types of Mortgage Representatives Consulted

Mortgage holders were asked which types of mortgage representatives they consulted when obtaining their current mortgages on their primary residence and, secondly, through which type of mortgage representative they obtained their mortgage.

For all current mortgages on homes that were purchased during 2013 (shown in the second column of data in the table), 42% were obtained from a bank. Mortgage brokers were close behind with a 40% share. Credit unions were the source for 8% of these mortgages, followed by 5% from life insurance or trust companies and 5% were from an "other" source.

Looking more broadly, at all current mortgages (regardless of when the property was purchased, shown in the fourth column of data), 55% were obtained from a bank, 28% from a mortgage broker, 9% from a credit union, 4% from a life insurance or trust company, and 3% from an "other" source.

The first and third columns of data indicate which types of mortgage professionals were consulted at the time the mortgages were obtained. Since more than one type of professional could be consulted, the percentages sum to more than 100%. Bank representatives were consulted most frequently (by 69% of all current mortgage holders), followed by 43% for mortgage brokers. For properties purchased so far during 2013, 59% of mortgage borrowers consulted bank representatives and 52% consulted mortgage brokers.

Table 2-6 ***Consumers' Use of Mortgage Representatives***				
	Purchased During 2013		*All Purchase Periods*	
Type of Mortgage Representative	*Consumer Consulted Mortgage Professional*	*Obtained Through Mortgage Professional*	*Consumer Consulted Mortgage Professional*	*Obtained Through Mortgage Professional*
Mortgage Representative from a Canadian Bank	59%	42%	69%	55%
Mortgage Broker	52%	40%	43%	28%
Mortgage Representative from a Credit Union	15%	8%	18%	9%
Mortgage Representative from a Life Insurance or Trust Company	15%	5%	13%	4%
Other	5%	5%	4%	3%
Total	145%	100%	147%	100%
Source: Maritz survey for CAAMP, fall 2013; analysis by the author.				

3.0 Financial Parameters

Interest Rates

The CAAMP/Maritz study collected data on mortgage interest rates for current mortgage holders. The average mortgage interest rate for these mortgage borrowers is 3.50% as of the fall of 2013, down fractionally from the 3.52% rate seen in the spring of 2013.

Very few residential mortgages in Canada have high interest rates. In this survey, less than 1% of mortgage rates are 8% or higher.

The next table looks at average mortgage interest rates by type of mortgage, for all mortgages and for two subsets: mortgages for homes purchased during 2013 up to the date of the survey and mortgages that were renewed during the same period.

This survey data shows that:

- Mortgages that have been initiated or renewed during the past year have, on average, lower interest rates compared to all mortgages.
- Interest rates vary depending on mortgage type, with fixed rate mortgages having higher rates than for variable/adjustable mortgages. For recent mortgages (the second and third lines of data), for recent purchases the average rate for fixed-rate mortgages is 0.33 points higher than for variable/adjustable rate mortgages; for recent renewals, the average for fixed rate mortgages is slightly (just 0.04 points) lower than for variable rates.

Table 3-1
Average Mortgage Interest Rates

	Mortgage Type			*All Types*
	Fixed-rate	*Variable or Adjustable Rate*	*Combination*	
All Mortgages	3.65%	3.05%	3.70%	3.50%
Purchases During 2013	3.18%	2.85%	4.19%	3.23%
Renewals During 2013	3.17%	3.21%	3.54%	3.20%

Source: Maritz survey for CAAMP, fall 2013; analysis by the author.
Note: (1) insufficient data to generate an estimate

The survey also asked those who have renewed a mortgage what the interest rate was prior to renewal, and those rates have been compared to the mortgage borrowers' current rates. The results are summarized in the next table. It shows that among borrowers who have renewed a mortgage during 2013, almost two-thirds (64%) had a reduction in their interest rate and just 24% had an increase. On average, for all mortgages renewed during that period, the interest rate was reduced by 0.82 percentage point.

Table 3-2 Changes in Mortgage Interest Rates for Mortgages Renewed During 2013			
Change in Interest Rate	*Fixed-rate*	*Variable or Adjustable Rate*	*Total*
% with Rate Decreased	73%	40%	64%
% with Rate Unchanged	7%	26%	12%
% with Rate Increased	20%	34%	24%
% with Rate Increased by 1 Point or More	7%	5%	6%
Total	100%	100%	100%
Average Change in Interest Rate (percentage points)	-1.06	-0.14	-0.82
Source: Maritz survey for CAAMP, spring 2013; analysis by the author. Note: estimates are not available for combination type mortgages due to small sample size.			

Combining the various estimates developed in this study:

- Out of 5.58 million homeowners who have mortgages,
- About 1.5 million have renewed their mortgages during 2013 to the present.
- About 975,000 have seen their mortgage rates fall.
- About 175,000 had no change in their interest rate.
- About 350,000 had their rates increase.
- About 100,000 of these households have seen increases of 1 percentage point or more. For many of these households, the increases in monthly mortgage payments may be significant, but in the big picture of the Canadian housing market, this is less than 2% of all mortgage holders and just 1% of the 9.52 million Canadian households who own homes.

The data from this study indicates that very few mortgage borrowers have been negatively affected by increases in interest rates for their mortgages.

Impacts of Future Rises in Interest Rates

In prior issues of these reports, the question about "impacts of future rises in interest rates" was addressed through two pieces of analysis:

- Through retrospective discussion of earlier research on actual mortgages (in two editions of a special report "Revisiting the Mortgage Market" that were published by CAAMP in January 2010 and January 2011). The analyses found that the vast majority of the borrowers were positioned to afford payment increases that would result if their interest rate rises to a 5% rate: very small numbers (about 2,000 to 2,500 home buyers who purchased in 2010) might have total debt service ratios ("TDS ratios") of 45% or more.
- In addition, the CAAMP/Maritz semi-annual consumer surveys have shown repeatedly that substantial shares of mortgage borrowers have voluntarily increased their regular payments and/or made lump sum payments. These payments reduce

their potential amortization periods to less than the contracted periods. It means that if interest costs increase to unaffordable levels, the borrowers can often reduce their payments (within the limits imposed by the contracted amortization period).

In this edition of the CAAMP/Maritz study, mortgage holders were asked about the "length of time remaining in your term". Now that interest rates have increased from their historic lows, there appears to be a considerable amount of interest (among the news media and analysts) concerning the impacts on mortgage borrowers as they renew. Therefore, the analysis that follows combines the responses on length of time to renewal with the borrowers' data on current interest rates.

The analysis shows (in the first column of data) that for mortgages that will be renewed during the coming one-half year (the fourth quarter of 2013 or the first quarter of 2014):

- The average of the actual mortgage rates is 3.90%. This is slightly higher than advertised discounted rates for five year fixed rate mortgages (which at present are typically in the range of 3.6% to 3.7%). Typical discounted rates are even lower for shorter terms (for example 3.1% to 3.25% for one year fixed rate mortgages). For variable rate mortgages, advertised rates are currently in the range of 2.45% to 2.6%. Therefore, for this group of mortgages, the average interest rate should fall after renewals.
- The table also summarizes the distributions of current interest rates. Among those mortgages that will be renewed during the coming half year, just 4% have rates less than 2.5%. In other words, almost all of these borrowers (as much as 96%) would see their interest costs unchanged or even reduced if they take a variable rate mortgage.
- 44% of these upcoming renewals have current rates exceeding 3.75%: most of these borrowers should see their interest rates cost fall at their renewal, regardless of the choices they make about mortgage type or term, if they negotiate a typical discounted interest rate.
- 20% of the mortgages have current interest rates in the range of 3.5% to 3.75%: most of these borrowers should see little or no change in their interest costs if they renew with a fixed rate mortgage with a five year term. In fact, if they choose a shorter term or a variable rate mortgage, these borrowers would likely see their interest costs fall.
- The range of 2.5% to 3.49% is a grey area, with the outcomes more dependent on the types and terms of mortgages chosen.
- Overall, this data suggests that for most mortgage holders who renew during the coming half year, interest costs will either fall or be unchanged. Very few of these borrowers will see substantial rises in their interest costs.
- In the second column of data (for mortgages that will be renewed during the second or third quarter of 2014), there is a slight shifting. Overall, it appears that this group will also, in most cases, benefit from renewals, but the benefits will not be as large as in the first group.
- For the third group (renewals during the fourth quarter of 2014 or the first quarter of 2015) and the fourth group (the second or third quarter of 2015) there are larger minorities (11% and 16% respectively) whose current rates are below 2.5% and who are likely to see interest costs increase. For the remainder, outcomes will depend on the choices of mortgage term and mortgage type, and of course on the extent to which mortgage rates change.

The bottom line is that during the next year, renewal of mortgages is likely to result in reduced interest costs: it will be a positive factor for these borrowers and therefore for the broad economy. Farther out, the outcomes are likely to be closer to neutral.

Table 3-3 ***Mortgage Interest Rates for*** ***Mortgages with Upcoming Renewals***				
	Time Until Renewal			
	Up to 0.5 year	*0.5 to 1 year*	*1.0 to 1.5 years*	*1.5 to 2 years*
Average Actual Mortgage Interest Rate	3.90%	3.74%	3.44%	3.29%
Distribution of Interest Rates				
<2.5%	4%	3%	11%	16%
2.5-3.49%	32%	41%	33%	40%
3.5-3.75%	20%	21%	25%	13%
>3.75%	44%	35%	31%	31%
Total	100%	100%	100%	100%
Source: Maritz survey for CAAMP, fall 2013; analysis by the author.				

Mortgage Rate Discounting

The average mortgage interest rate reported here (3.65%) for fixed rate mortgages is well below the typical posted (advertised) rates that have been available during the past year. So far in 2013, posted rates for five year terms have averaged 5.21%[3]. The much lower actual rates found by the survey confirm that there is a substantial amount of discounting in the mortgage market.

This section uses the survey data to generate an estimate of the extent of discounting.

The study group includes a wide range of mortgages, including a full range of lengths of term to renewal, fixed rate versus variable rate mortgages, and the mortgages have been originated over a prolonged period. This results in a wide range of mortgage rates. In order to produce a meaningful summary of the interest rates, one subset of the study group was selected for further analysis:

- Mortgages that were initiated, renewed, or refinanced since the beginning of 2013.
- With fixed rates, rather than variable rates.
- With 5-year terms.

For this group of mortgage borrowers:

- For those mortgages, the average mortgage interest rate is 3.06%. In contrast, the average posted 5-year mortgage rate was 5.21%. Based on this data it appears that Canadians negotiated mortgage rate discounts averaging 2.15 percentage points (for 5-year terms).
- Every mortgage within this subset of the database had an actual interest rate lower than the average posted rate. In fact the highest recorded actual rate was 3.90%.

[3] Source: For posted rates, data are obtained from the Bank of Canada, using “Conventional mortgage” rates (estimated as of each Wednesday).

- All of these borrowers received a discount of 1.3 percentage point or more versus the average posted mortgage rate.

Housing Equity

The consumer survey provides data that can be used to generate estimates of home equity in Canada: the equity amounts are calculated by comparing the current value of owner-occupied homes in Canada with the associated mortgages and home equity lines of credit (known as "HELOCs").

The table below shows the estimates of equity positions for four groups of home owners, as estimated during the past six surveys. In the current survey, the overall equity position is estimated at 66%. In other words, for every $1,000 in house value in Canada, there is about $340 of debt (mortgage or HELOC) and $660 of home owner equity.

The estimates from past surveys have varied slightly over time (ranging from 66% to 70%). We have to expect these small variations with any survey[4]. The overall message is that the surveys are consistently finding very high equity ratios in Canada.

Two further finding that has been consistent across the surveys are:

- For all home owners, more than 80% have equity ratios of 25% or higher (this includes owners with housing related debt and those with no housing related debt).
- Even among the 5.58 million homeowners who have mortgages (with or without a HELOC), more than 70% have equity ratios of 25% or higher.

Table 3-4
Equity Positions of Canadian Homeowners

Equity as Percentage of Home Value	*Mortgage Only*	*Mortgage and HELOC*	*HELOC Only*	*Neither Mortgage Nor HELOC*	*Total*
Fall 2013	46%	43%	76%	100%	66%
Spring 2013	47%	49%	79%	100%	67%
Fall 2012	51%	57%	78%	100%	70%
Spring 2012	41%	49%	82%	100%	67%
Fall 2011	42%	51%	81%	100%	68%
Spring 2011	49%	43%	65%	100%	66%

Source: Maritz survey for CAAMP, spring 2011 to fall 2013; estimates by the author.

Equity Take-out

The survey data indicates that 11% of all homeowners holders took out equity from their homes or increased the amount of the mortgage principal within the past twelve months. The average amount of equity take-out is estimated at about $57,000.

[4] There are larger variations for the four categories of home owners, which is also expected when using survey data.

Various findings from the survey can be combined to estimate total equity take-out by Canadian mortgage holders:

- At present there are about 9.52 million homeowners in Canada.
- 11% of them have taken out equity during the past year (slightly over one million households).
- The average amount taken out was about $57,000.
- Combining these factors, the total amount of equity take-out is calculated as $59 billion during the past year.

Those who took out equity were asked what they used the money for. Some people indicated more than one purpose. Based on the responses, it is estimated that:

- $16.6 billion (28%) of the money would be used for debt consolidation or repayment.
- $12.3 billion (21%) would be used for renovation or home repair.
- $9.7 billion (16%) would be used for purchases (including spending for education).
- $15.1 billion (26%) is for investments.
- $5.3 billion (9%) is for "other" purposes.

4.0 Consumer Sentiment

During the past four years, the fall editions of the CAAMP/Maritz consumer surveys have investigated attitudes on some current issues related to housing markets and mortgages. The respondents were 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.

The statements are about current issues, some of which have been widely discussed in the media. CAAMP has added others with lower profiles that it considers worthy of examination. To minimize the risk that the ordering of the propositions might affect responses, they were presented in randomized order.

The list of questions has evolved over time. The next table summarizes responses – showing the average scores – for the questions asked in this year's survey.

- Most consumers agree with the first proposition (that "low interest rates have meant that a lot of Canadians became homeowners over the past few years who should probably not be homeowners"), and the degree of agreement has not changed much over time. However, while consumers believe other people have been irresponsible the responses to other questions (discussed below) show that they believe their own behavior has been responsible. It isn't clear how we can reconcile the paradox of widespread positive beliefs about "selfs" versus widespread skepticism about "others" (this same challenge has emerged on other occasions when these questions have been asked). It is likely that beliefs about other people are shaped by messages in the media and from pundits.
- It appears that consumers have become more confident over time about their ability to weather a downturn in the housing market.
- At the same time, there has been increased agreement with the proposition that real estate is a good long-term investment.
- Economic confidence has improved this year, although the average score of 6.36 is not far above the neutral mark of 5.5.
- In response to the proposition "I regret taking on the size of mortgage I did", the average scores are well below the midpoint, and have been roughly stable over time. This year, a minority of mortgage holders (17%, or one-in-six) gave a ranking of 7 to 10, indicating some degree of regret. Conversely, 63% gave responses of 1 to 4, indicating that they do not regret their mortgage choices.
- On the over hand, there is strong agreement that mortgages are "good debt", with the average score reaching 7.2 this fall. Just 8% gave dissenting scores (1 to 4) and 68% indicated degrees of agreement (scores of 7 to 10).

Table 4-1 ***Summary of Consumer Responses to Topical Questions*** ***(Average Scores on a Scale of 1-to-10)***				
	Fall 2013	Fall 2012	Fall 2011	Fall 2010
Low interest rates have meant that a lot of Canadians became homeowners over the past few years who should probably not be homeowners	7.04	7.01	7.11	6.88
I/My family would be well-positioned to weather a potential downturn in home prices	6.93	6.67	6.72	6.54
Real estate in Canada is a good long-term investment	7.44	7.26	7.27	7.13
I am optimistic about the economy in the coming 12 months	6.36	6.13	6.02	N/A
I regret taking on the size of mortgage I did	3.82	3.88	4.04	3.86
I would classify mortgages as "good debt"	7.20	7.05	7.07	N/A
Source: Maritz survey for CAAMP, fall 2010 to fall 2013; estimates by the author.				

Consumers were also asked for their predictions for changes in the values of homes and condominiums during the next five years. The next table summarizes the responses, in total and by age group.

- More than one-half of consumers expect a relatively stable environment (that prices will either be flat or increase slightly). The expectations do vary by age group: older age groups are more likely to expect relative stability than are younger groups.
- On the other hand, while less than 10% expect that a housing bubble will burst, that expectation is stronger for young groups than for older groups.
- About one-out-of-six expect that prices will decline slowly, and this is consistent across the age groups.
- Very few expect rapid growth in valuations.
- Uncertainty is expressed more frequently by younger age groups than by older groups.

Table 4-2 ***Consumers' Predictions About Changes in Valuations*** ***During the Next Five Years, by Age Group***							
	18 to 24	25 to 34	35 to 44	45 to 54	55 to 64	65+	All Ages
The bubble will burst	13%	10%	10%	8%	5%	8%	8%
Slow decline in valuations	18%	17%	19%	17%	14%	17%	17%
Stable (values will stay the same)	29%	23%	27%	28%	21%	21%	24%
Slow growth in valuations	16%	30%	26%	31%	48%	45%	36%
Rapid growth in valuations	7%	3%	3%	2%	2%	1%	2%
Unsure	18%	16%	16%	14%	11%	8%	13%
Total	100%	100%	100%	100%	100%	100%	100%
Source: Maritz survey for CAAMP, fall 2013; estimates by the author.							

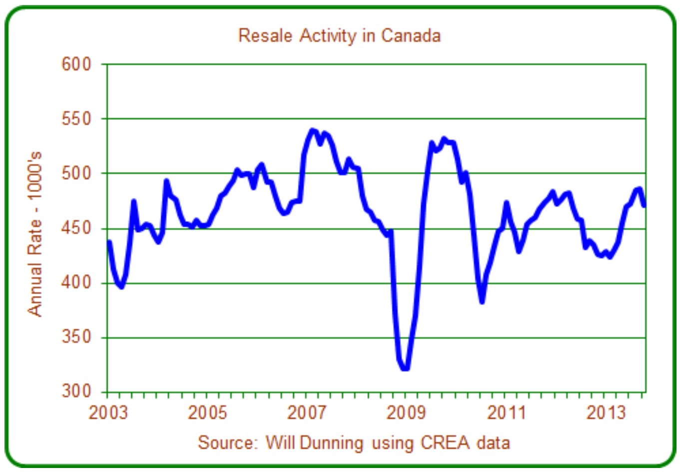
5.0 Outlook for the Mortgage Market

The Housing Market Background

Conditions in the residential mortgage market are highly connected to conditions in housing markets. This section of the report starts with analysis of housing markets, leading to expectations about the future of the mortgage market.

The past two issues of CAAMP's semi-annual reports on the residential mortgage market have taken out-of-consensus positions on the outlook for the Canadian housing market – based on analysis and an opinion that the changes made to mortgage insurance criteria (which took effect in July of 2012) had the potential to have prolonged negative consequences for Canadian housing markets. Subsequently, most other analysts acknowledged that there has been an impact, but also stated that the impacts should be short-lived, and markets would soon return to prior levels of activity.

During the spring and summer of this year, resale activity started to rebound. During August and September, the sales rates were more-or-less equal to the rates seen prior to the policy change. This has led many housing market analysts to conclude that the negative impact has ended and the market is back on course. This analyst believes that it is too soon to draw that conclusion, for three major reasons:



- Firstly, the rise in activity coincided with a sudden and unexpected jump in interest rates. During the past summer, I commented that the sales surge was due to an acceleration of purchase decisions, to take advantage of pre-approved mortgages at low interest rates, and that once the pool of pre-approved mortgages was exhausted, the pace of sales could be expected to slow. Several other analysts have expressed the same opinion. If this interpretation is correct, the rebound of sales was not entirely due to a reversal of the policy impact. And furthermore, if this theory is correct, the monthly resale figures will soon start to fall. Data for October show a small drop in the sales rate from September (3.2%) and August (3.0%). While it is too soon to call this a turning point downwards, it does appear that the rise in the sales rate has ended.
- Secondly, while the recent sales rates have been close to the levels seen before the policy change, there were quite a few months during which sales were far below the prior levels, as is quite clear in the chart above. Looking at all of the months since the policy change, the average pace of monthly sales is 5.0% lower than during the year prior to the policy change. At this date, therefore, there has been an overall negative impact on resale market activity.
- Thirdly, the recent rebound of the resale market has not been evenly distributed across the country. The point above noted that nationally sales are down by 5.0% compared to the year prior to the policy change. The percentage reductions are

worse than that in seven out of ten provinces; the market changes are better than average in only three provinces (Alberta – an 11.3% rise; Manitoba – a 3.3% reduction; and New Brunswick – a 2.6% drop). If not for the surging housing market in Alberta, which is due largely to a resurgent economy, the overall drop nation-wide would be larger than the 5.0% figure.

This analyst has an additional approach for assessing the sales figures: the population is growing and the housing inventory is expanding as new housing is constructed. Therefore, we should expect that the sales trend will rise over time. An analysis question is whether the sales trend is rising more or less slowly than it should. The solution being examined is to look at sales as a ratio: monthly sales per 1,000 adults in each study area[5].

Data for Canada is shown in the next table. It compares sales rates since the policy change to the rates during the year prior to the policy change. Two sets of data are shown: sales rates as reported by the Canadian Real Estate Association ("CREA") and the analysis of sales per one thousand adults. For each of those sets of data, the table provides comparisons of the recent sales paces versus longer periods prior to the policy change. A set of tables in the Appendix presents the data for each of the provinces.

The data shows that for all of Canada: since the policy change that took effect in July 2012, the sales rate has averaged 1.31 sales per month per 1,000 adults; for all of the periods prior to the policy change, the sales rates were higher, ranging from 1.35 per 1,000 to 1.46 per 1,000. The final row of data in the table for Canada shows that the rate of sales since the policy change is 10.3% lower than during the decade prior to the policy change.

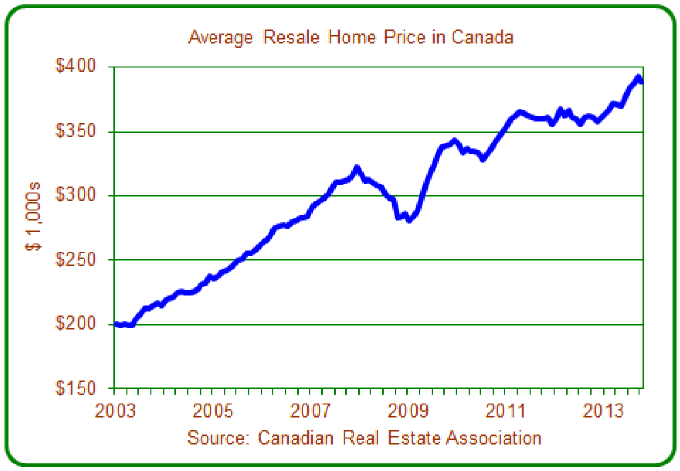
The provincial data shows that (compared to the decade prior to the policy change, on the basis of sales per 1,000 adults) activity increased in two provinces (Saskatchewan and Newfoundland, both of which have experienced profound economic turnarounds based on natural resource industries). One province (Manitoba) is at the same level as during the prior decade. In seven provinces (including Alberta) the recent rates of resale activity per 1,000 adults are noticeably lower than during the prior decade.

Table 5-1
Resale Market Indicators for Canada

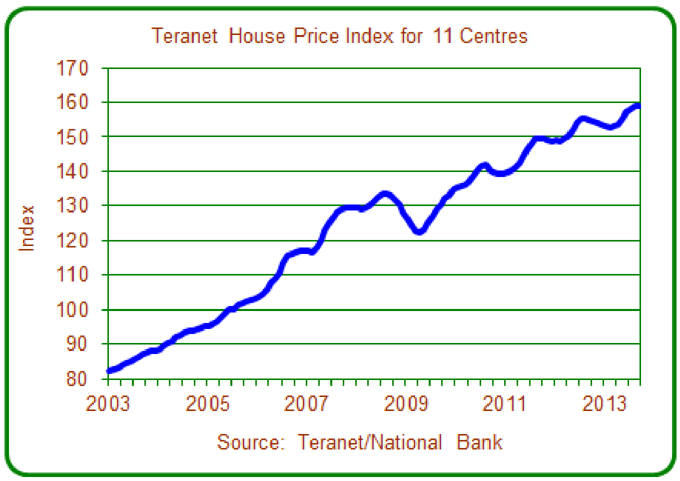
Time Periods	*Monthly Sales*	*Change in Present Period vs. Prior Periods*	*Sales Ratio*	*Change in Present Period vs. Prior Periods*
Present (starting Aug 2012)	37,318		1.31	
Jun 2011-May 2012	39,277	-5.0%	1.40	-6.5%
Jun 2010-May 2012	37,652	-0.9%	1.35	-3.0%
Jun 2009-May 2012	39,217	-4.8%	1.41	-7.5%
Jun 2008-May 2012	37,658	-0.9%	1.36	-4.2%
Jun 2007-May 2012	38,421	-2.9%	1.40	-6.8%
Jun 2006-May 2012	38,977	-4.3%	1.43	-8.8%
Jun 2002-May 2012	38,542	-3.2%	1.46	-10.3%
Sources: CREA, Statistics Canada; analysis by the author				

[5] Monthly estimates of the adult population for Canada and the provinces are taken from Statistics Canada's Labour Force Survey.

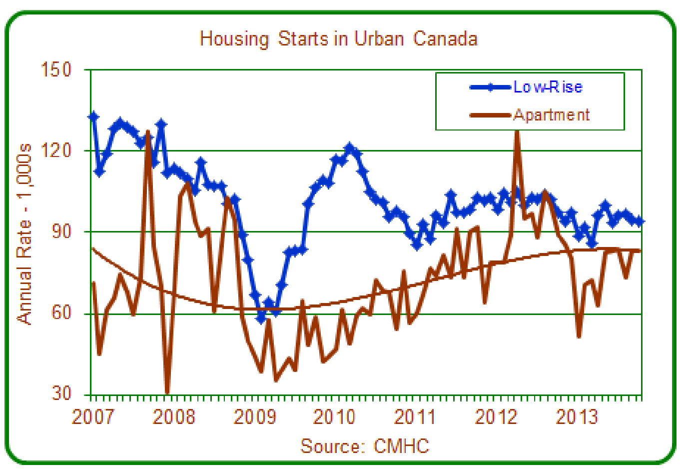
There has been much discussion of trends in house prices: the average resale price reported by CREA rose by 7.4% in the year to October. This has led to discussions about whether housing markets are over-heating and whether the government should take further steps to cool the housing market. CREA has commented (and other analysts have concurred) that the spike in the average price is due to a shift in activity towards the highest price communities, and that in reality price movements are much more gradual.



There are several alternative sources of price data – indexes that try to capture changes in actual prices and avoid the distortions caused by changes in what is sold or where it is sold. The longest established of these indexes is the Teranet/National Bank House Price Index. It shows that for 11 major urban areas in Canada, the most recent year-over-year growth rate is 2.7%. While this exceeds the overall inflation rate, it is not alarming.



Turning to the new construction arena, CAAMP's research concluded that housing starts are likely to fall sharply. However, the reductions would be delayed. For low-rise housing (single-detached, semi-detached, and row housing), a slowing would become apparent during the second half of this year. For apartments, the reductions would occur during 2014. The chart shows monthly housing starts in urban areas of Canada[6]. For the low-rise sector, it appears that a slight slowing has occurred (which is our expectation). For apartments, the data is highly volatile from month-to-month. Therefore a trend line has been added. My



[6] The data for urban areas is used because data on rural areas is collected for a sample of rural areas and then an estimate is created for all rural areas – this data may not be as reliable as the urban areas data.

interpretation is that the slowdown that occurred earlier this year was just a pause following a strong wave of starts during 2012; the trend line is still flat at a very high level[7]. The drop-off that we expect for 2014 has not yet occurred.

Housing Market Forecasts

The Canadian Real Estate Association forecasts (as of September 16) that resale activity will total 449,900 units in 2013, a 1.2% drop from 454,463 units in 2012. For 2014, the forecast is a rise of 3.5% to 465,600 units.

Forecasts from Canada Mortgage and Housing Corporation are similar to the CREA forecasts, as CMHC expects 456,700 sales for 2013 and 468,200 for 2014.

Concerning average resale prices, CREA forecasts rises of 3.6% for 2013 and 1.7% for 2014. CMHC expects rises of 4.0% for 2013 and 1.9% for 2014.

While these sales forecasts indicate that sales in 2014 will exceed 2012 levels, using my indicator of monthly sales per 1,000 adults, they represent rates of just 1.31, almost identical to the average seen since the policy change, and well below the average seen over the decade prior to the policy change (1.46 sales per 1,000 adults). In other words, these forecasts indicate continued sluggishness in resale markets.

Concerning housing starts, CMHC expects totals of 185,000 for 2013 and 184,700 for 2014. This would be lower than each of the years from 2010 to 2012. During those three years, housing starts averaged about 199,600 units per year.

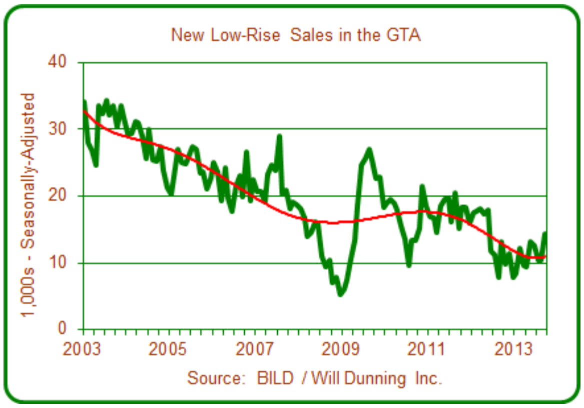
If the theory is correct that housing starts will soon start to fall in the low-rise sector, and that a downturn for apartments will follow next year, starts in 2014 could be well below the CMHC forecast. If the 2014 total is 175,000, that would be a 12% drop from the 2010-2012 average; a drop to 165,000 in 2014 would be a 17% reduction compared to the average for 2010 to 2012.

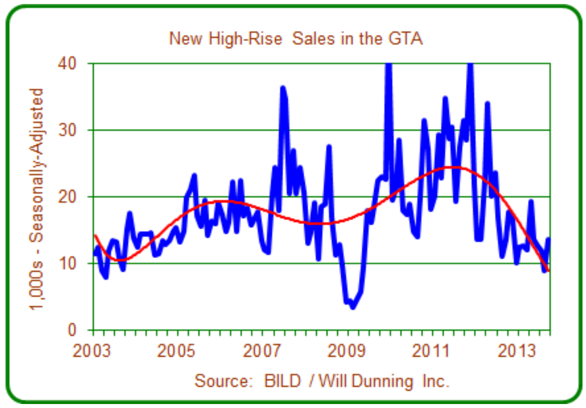
New Home Sales in the Greater Toronto Area

For the Greater Toronto Area, we are fortunate to have data on new home sales, which provide an excellent resource for forecasting housing starts. That data and the relationships were explored in detail in CAAMP's spring 2013 report. Without repeating that analysis, it can be pointed out that the data that has become available subsequently reveals very similar trends and points towards a pending sharp drop in housing starts. That data and the analysis leads this analyst to conclude that there is a substantial risk that housing starts will fall very sharply in the Greater Toronto Area during 2014, and that the reduction will persist into 2015.

[7] If any analysts are tempted to conclude that there was a short-lived reduction for apartments after the policy change and that the impact has ended, I would suggest that they don't understand the construction process and the length of time that is required to bring a project from conception to start of construction.

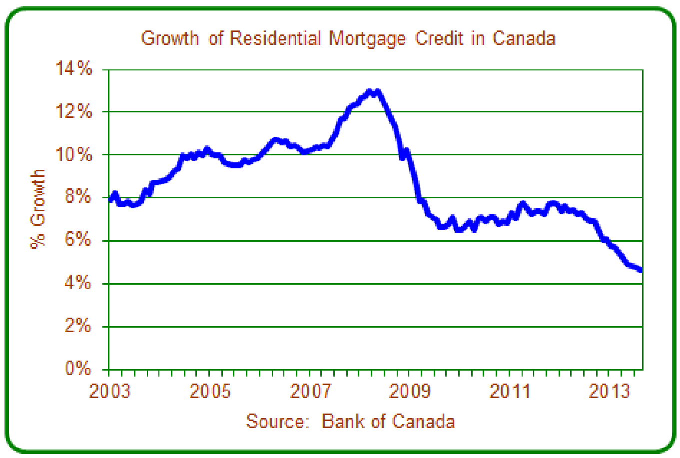
Unfortunately, we don't have the same data for the rest of Canada, and we can't say whether we should expect the same impacts elsewhere. We can say, however, that the coming change in Toronto will directly reduce the total national statistics.



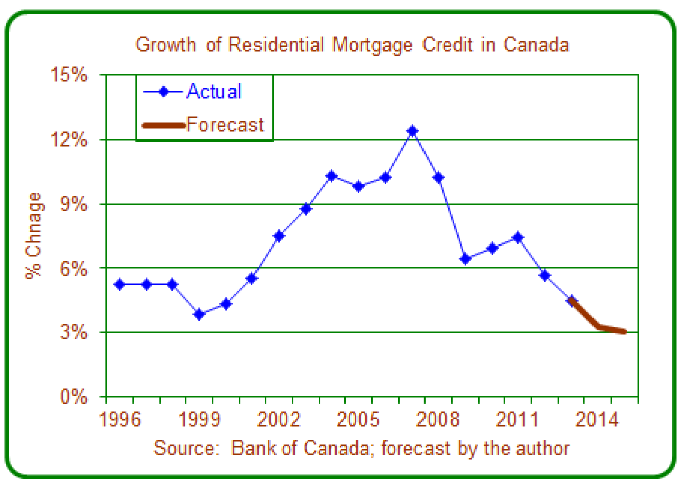


Forecast of Mortgage Activity

During the past decade, residential mortgage credit in Canada has expanded at an average rate of 8.6% per year. The moderation of housing activity since the recession has resulted in slower growth of the mortgage market. The current rate of 4.6% (in the year to August 2013) represents moderate growth. The volume of outstanding residential mortgage credit is $1.19 trillion as of this August.



Mortgage credit will continue to expand, but the growth rate will decelerate further. As is illustrated in the chart to the right, the volume of residential mortgage credit outstanding is projected to grow by 4.5% in 2013 (about $52 billion, to $1.21 trillion at year end). For 2014, the forecast growth rate is 3.25% (to $1.25 trillion), followed by 3.0% growth in 2015 (to $1.29 trillion). The primary cause of mortgage growth is completions of housing, which are expected to slow during 2014 and 2015.



Appendix

Resale Market Indicators by Provinces

Table A-1 Resale Market Indicators for British Columbia				
Time Periods	*Monthly Sales*	*Change in Present Period vs. Prior Periods*	*Sales Ratio*	*Change in Present Period vs. Prior Periods*
Present (starting Aug 2012)	5,690		1.48	
Jun 2011-May 2012	6,155	-7.6%	1.62	-8.8%
Jun 2010-May 2012	6,148	-7.5%	1.63	-9.1%
Jun 2009-May 2012	6,712	-15.2%	1.79	-17.5%
Jun 2008-May 2012	6,251	-9.0%	1.68	-12.0%
Jun 2007-May 2012	6,606	-13.9%	1.80	-17.7%
Jun 2006-May 2012	6,832	-16.7%	1.88	-21.3%
Jun 2002-May 2012	7,307	-22.1%	2.08	-28.9%
Sources: CREA, Statistics Canada; analysis by the author				

Table A-2 Resale Market Indicators for Alberta				
Time Periods	*Monthly Sales*	*Change in Present Period vs. Prior Periods*	*Sales Ratio*	*Change in Present Period vs. Prior Periods*
Present (starting Aug 2012)	5,308		1.69	
Jun 2011-May 2012	4,771	11.3%	1.57	7.3%
Jun 2010-May 2012	4,426	19.9%	1.47	14.7%
Jun 2009-May 2012	4,609	15.2%	1.55	9.2%
Jun 2008-May 2012	4,522	17.4%	1.53	10.4%
Jun 2007-May 2012	4,640	14.4%	1.59	6.4%
Jun 2006-May 2012	4,940	7.5%	1.72	-1.5%
Jun 2002-May 2012	4,916	8.0%	1.79	-5.8%
Sources: CREA, Statistics Canada; analysis by the author				

Table A-3 Resale Market Indicators for Saskatchewan				
Time Periods	*Monthly Sales*	*Change in Present Period vs. Prior Periods*	*Sales Ratio*	*Change in Present Period vs. Prior Periods*
Present (starting Aug 2012)	1,113		1.35	
Jun 2011-May 2012	1,178	-5.5%	1.47	-7.5%
Jun 2010-May 2012	1,066	4.4%	1.33	1.7%
Jun 2009-May 2012	1,031	8.0%	1.30	4.5%
Jun 2008-May 2012	969	14.9%	1.23	10.6%
Jun 2007-May 2012	983	13.2%	1.25	8.0%
Jun 2006-May 2012	974	14.3%	1.25	8.4%
Jun 2002-May 2012	861	29.2%	1.12	20.9%
Sources: CREA, Statistics Canada; analysis by the author				

Table A-4 **_Resale Market Indicators for Manitoba_**				
Time Periods	*Monthly Sales*	*Change in Present Period vs. Prior Periods*	*Sales Ratio*	*Change in Present Period vs. Prior Periods*
Present (starting Aug 2012)	1,147		1.18	
Jun 2011-May 2012	1,186	-3.3%	1.24	-4.5%
Jun 2010-May 2012	1,144	0.2%	1.20	-1.6%
Jun 2009-May 2012	1,136	1.0%	1.20	-1.5%
Jun 2008-May 2012	1,121	2.3%	1.19	-0.9%
Jun 2007-May 2012	1,129	1.5%	1.21	-2.3%
Jun 2006-May 2012	1,128	1.6%	1.22	-2.7%
Jun 2002-May 2012	1,077	6.5%	1.18	0.0%
Sources: CREA, Statistics Canada; analysis by the author				

Table A-5 **_Resale Market Indicators for Ontario_**				
Time Periods	*Monthly Sales*	*Change in Present Period vs. Prior Periods*	*Sales Ratio*	*Change in Present Period vs. Prior Periods*
Present (starting Aug 2012)	16,189		1.45	
Jun 2011-May 2012	17,315	-6.5%	1.58	-8.0%
Jun 2010-May 2012	16,449	-1.6%	1.51	-3.7%
Jun 2009-May 2012	17,065	-5.1%	1.57	-7.9%
Jun 2008-May 2012	16,289	-0.6%	1.51	-4.0%
Jun 2007-May 2012	16,495	-1.9%	1.54	-5.9%
Jun 2006-May 2012	16,561	-2.2%	1.56	-7.0%
Jun 2002-May 2012	16,289	-0.6%	1.58	-8.1%
Sources: CREA, Statistics Canada; analysis by the author				

Table A-6 **_Resale Market Indicators for Quebec_**				
Time Periods	*Monthly Sales*	*Change in Present Period vs. Prior Periods*	*Sales Ratio*	*Change in Present Period vs. Prior Periods*
Present (starting Aug 2012)	6,051		0.91	
Jun 2011-May 2012	6,662	-9.2%	1.01	-10.2%
Jun 2010-May 2012	6,479	-6.6%	0.99	-8.1%
Jun 2009-May 2012	6,693	-9.6%	1.02	-11.5%
Jun 2008-May 2012	6,540	-7.5%	1.01	-9.9%
Jun 2007-May 2012	6,556	-7.7%	1.01	-10.7%
Jun 2006-May 2012	6,523	-7.2%	1.01	-10.7%
Jun 2002-May 2012	6,181	-2.1%	0.98	-7.6%
Sources: CREA, Statistics Canada; analysis by the author				

Table A-7 Resale Market Indicators for New Brunswick				
Time Periods	*Monthly Sales*	*Change in Present Period vs. Prior Periods*	*Sales Ratio*	*Change in Present Period vs. Prior Periods*
Present (starting Aug 2012)	523		0.84	
Jun 2011-May 2012	536	-2.6%	0.86	-2.6%
Jun 2010-May 2012	546	-4.3%	0.88	-4.4%
Jun 2009-May 2012	562	-7.1%	0.91	-7.5%
Jun 2008-May 2012	570	-8.4%	0.93	-8.9%
Jun 2007-May 2012	588	-11.1%	0.96	-11.9%
Jun 2006-May 2012	595	-12.2%	0.97	-13.2%
Jun 2002-May 2012	558	-6.4%	0.91	-7.8%
Sources: CREA, Statistics Canada; analysis by the author				

Table A-8 Resale Market Indicators for Nova Scotia				
Time Periods	*Monthly Sales*	*Change in Present Period vs. Prior Periods*	*Sales Ratio*	*Change in Present Period vs. Prior Periods*
Present (starting Aug 2012)	777		0.99	
Jun 2011-May 2012	910	-14.6%	1.17	-14.8%
Jun 2010-May 2012	860	-9.7%	1.10	-10.0%
Jun 2009-May 2012	868	-10.5%	1.12	-10.9%
Jun 2008-May 2012	856	-9.3%	1.10	-9.9%
Jun 2007-May 2012	878	-11.6%	1.13	-12.4%
Jun 2006-May 2012	888	-12.5%	1.15	-13.5%
Jun 2002-May 2012	861	-9.8%	1.12	-11.5%
Sources: CREA, Statistics Canada; analysis by the author				

Table A-9 Resale Market Indicators for Prince Edward Island				
Time Periods	*Monthly Sales*	*Change in Present Period vs. Prior Periods*	*Sales Ratio*	*Change in Present Period vs. Prior Periods*
Present (starting Aug 2012)	123		1.02	
Jun 2011-May 2012	141	-12.1%	1.17	-12.7%
Jun 2010-May 2012	131	-5.6%	1.10	-7.0%
Jun 2009-May 2012	128	-3.4%	1.08	-5.5%
Jun 2008-May 2012	126	-2.3%	1.08	-5.1%
Jun 2007-May 2012	128	-3.4%	1.10	-6.9%
Jun 2006-May 2012	128	-3.4%	1.11	-7.5%
Jun 2002-May 2012	125	-1.0%	1.10	-6.9%
Sources: CREA, Statistics Canada; analysis by the author				

Table A-10 ***Resale Market Indicators for Newfoundland and Labrador***				
Time Periods	*Monthly Sales*	*Change in Present Period vs. Prior Periods*	*Sales Ratio*	*Change in Present Period vs. Prior Periods*
Present (starting Aug 2012)	362		0.84	
Jun 2011-May 2012	388	-6.6%	0.90	-6.7%
Jun 2010-May 2012	366	-1.1%	0.85	-1.2%
Jun 2009-May 2012	375	-3.4%	0.88	-3.5%
Jun 2008-May 2012	374	-3.2%	0.88	-3.6%
Jun 2007-May 2012	378	-4.2%	0.89	-4.7%
Jun 2006-May 2012	367	-1.4%	0.86	-2.0%
Jun 2002-May 2012	327	10.6%	0.77	10.0%
Sources: CREA, Statistics Canada; analysis by the author				