

Rental Income and Housing Affordability Highlight a “New Normal” For Young Canadians in the Mortgage Market

TORONTO (December 8, 2016) Canadians who purchased their first home within the past two years reflect a “new normal” in the Canadian housing market, according to Mortgage Professionals Canada’s fall 2016 survey. Thirty-four per cent of recent first-time buyers think it is important to generate income from their properties, and 13 per cent of those who undertook renovations on their homes did so to add space for a rental unit. Half of 18-34 year-olds do not own a home, primarily because they are saving for a down payment.

“Creating income remains a useful tool for first-time homebuyers,” said Paul Taylor, President of Mortgage Professionals Canada. “People are looking for ways to make owning a home more affordable. Generating income allows them to reduce their mortgage more quickly.”

Canadians responding to the survey underscore this point. For homes purchased during 2014 to 2016, the average contracted amortization period is 22.4 years. Each year more than a third of mortgage holders take actions that will shorten their amortization periods. The most recent buyers expect that, on average, they will repay their mortgages in 18.8 years, which is 3.6 years shorter than their average contracted period.

On October 3, the federal government announced that for all insured mortgages, the borrower’s ability to afford the payments must be tested using the “posted rate”, which is currently 4.64% and far above the actual interest rates found in the market.

“It is too soon to measure the impacts of this policy change,” said Will Dunning, Mortgage Professionals Canada Chief Economist and author of the **Annual State of the Residential Mortgage Market in Canada** report. “The survey finds that among potential homebuyers who expect to be subject to that test, their ability to buy a home will be impaired. As a result, they also expect that there will be negative impacts in the overall housing market and in the broader economy.”

Highlights

- 34% of recent first-time buyers think it is important to generate income from their property
- 1-in-5 recent first-time buyers either rent or plan to rent part of their homes
- First-time buyers are more likely to rent out part of their homes (11%) compared to those who have owned a home previously (6%), and 20% of 18-34 year-olds plan to rent out part of their home
- 40% of those who rent part of their home do so to afford their housing costs
- 13% of those who renovated their homes did so to add space for a rental unit
- 50% of 18-34 year-olds do not own a home
 - Why? 43% are saving for a down payment, 29% lack financial stability and 26% are waiting for prices to decrease
- 42% of 18-34 year-old mortgage holders found homeownership costs to be higher than expected
- 9% of homeowners took out equity on their homes in the past year, most commonly to pay for home renovation or repair

- The mortgage broker share of the market continues to increase – of those who purchased in 2016, 43% used a mortgage broker, 47% used a mortgage representative from a Canadian bank.

Renting trends

The fall 2016 survey found that, currently, 12% of homeowners rent or plan to rent a part of their home (for example a basement apartment). For mortgage holders, this number increases to 16%. Younger Canadians in the 18-34 year-old demographic are the most likely to rent out part of their home, at 20%. Of the individuals who do rent out part of their home, 40% identified that they do so to afford their mortgage costs. Broken down by age bracket, Canadians in the younger and mid-range age demographic (18-34 and 35-54) rent part of their homes to alleviate costs, while older Canadians (65+) do so as a preference.

Sources of down payments: gifts from parents have tripled since pre-1990

In the fall of 2014, Mortgage Professionals Canada began studying down payments made by first-time buyers. While down payment amounts have remained around the 20% mark over several years, the sources of down payments have varied. Personal savings has increased slightly as a source (46% for homes purchased in 2000 compared to 51% for homes purchased between 2014 and 2016) but gifts from parents have doubled (7% for homes purchased in 2000 compared to 15% for homes purchased between 2014 and 2016). This number has actually tripled since pre-1990, when it was 5%. Loans from parents have remained the same (3% for homes purchased in 2000 as well as those purchased between 2014 and 2016) suggesting that parents are giving money to their children rather than loaning it.

The Rising Cost of Down Payments

The rapid rise in house prices has meant that required down payments have increased compared to incomes. For example, a 20% down payment on an average-priced house is now equal to 102 weeks at the average wage in Canada, double compared to 15 years ago.

Consumer sentiment about buying a home

Canadians are less inclined to say that now is a good time to purchase a home. The survey asked the degree to which they agree with the statement that now is a good time to buy a home or condominium in their community. Responses were given via a 10-point scale. This report found the average response was just 5.6 out of 10, a sharp drop of 8% compared to previous years (when the average rating was 6.08). However, 80% agree that real estate is a good long-term investment and 78% would classify mortgages as “good” debt.

About Mortgage Professionals Canada

Mortgage Professionals Canada 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.

The Annual State of the Residential Mortgage Market report is available for download in full by clicking [here](#).

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