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As millions of mortgages approach renewal, what will Canada's real estate market look like?


Christopher Liew || November 16, 2023

As some COVID-era mortgages approach their renewal dates, many homeowners and potential homebuyers may be curious about whether the country is on the cusp of a buyer's market

From interest rate trends to our changing economy, I'll explain some of the key factors affecting the current real estate landscape and discuss how buyers might soon hold the reins in many Canadian markets.

WHAT IS A HOMEBUYER'S MARKET?

Let's start by defining exactly what a homebuyer's market is.

Essentially, it's the real estate version of a shopper's paradise, where "For Sale" signs tend to linger a bit longer on front lawns, and prices are less likely to be inflated, leaning in favour of the buyer.

In this case, many homes have outstayed their welcome on the market, and sellers are more inclined to negotiate their prices, which may result in better deals for buyers.

A buyer's market doesn't just pop up overnight – it's a direct result of the imbalance between the number of homes for sale and the number of buyers willing to purchase them. When supply outweighs demand, buyers can afford to be more choosy and take their time when buying a home.

Major cities such as Toronto and Vancouver in particular appear to be on the cusp of a buyer's market, as real estate supply begins to outpace demand, leading to more favourable buying conditions for prospective homeowners.

A report released by the Royal Bank of Canada on Wednesday also points to more favourable conditions for buyers in many Ontario markets such as Hamilton, Niagara, Barrie and Kingston.

Additionally, new data published by the Canadian Real Estate Association (CREA) on Wednesday shows Canada's sales-to-new-listings ratio dropped to 49.5 per cent in October, a 10-year low. This ratio is used by real estate experts to analyze the relationship between the number of homes sold over a specific period of time, and how many new listings were added to the market. According to the association, a lower percentage points to a buyer's market.

Don't get your hopes up without doing your due diligence, though. Just because the tables are turning in one region, this doesn’t mean the rest of the country will follow suit.

To really understand if Canada is shifting towards a buyer’s market, prospective homebuyers and those expecting to renew their existing mortgages need to watch for telltale signs, such as:

- Higher inventory levels
- A drop in median sale prices
- An increase in the average number of days homes spend on the market

These key indicators often reveal whether the housing market is turning in favour of homebuyers rather than sellers. One of the best ways to stay updated on this information is by reviewing the monthly housing market statistics provided for free by the CREA around the middle of each month.

THE COVID-ERA MORTGAGE LANDSCAPE

Faced with historically low interest rates during the early part of the COVID-19 pandemic, many homeowners saw reduced monthly mortgage payments. As the pandemic recedes, though, we're hitting a financial crossroad, with interest rates climbing at a pace not seen in more than 40 years.

About one in three borrowers have seen their monthly mortgage rates increase since interest rate hikes began in March 2022, according to data released by the Canada Mortgage and Housing Corporation (CMHC) on Nov. 9. This has particularly been the case for those with variable-rate mortgages, where interest rates fluctuate based on the Bank of Canada’s policy rate.

The CMHC report also showed that during the first half of 2023, more than 290,000 mortgage holders renewed their agreement at a higher rate than they previously held, possibly indicating the beginning of a trend. These renewals would have taken place after a number of years, depending on the length of each mortgage holder’s agreement. In Canada, most mortgage terms are five years or less, according to the federal government.

Fast forward to 2024 and 2025, and we're looking at a staggering 2.2 million mortgages due for renewal – that's nearly half of all Canadian mortgages, many of which were signed with rock-bottom rates.

CAN MORTGAGE RENEWALS AFFECT THE HOUSING MARKET?

But this isn't just about higher monthly payments – this will likely produce a ripple effect that could jostle the entire housing market.

The CMHC estimates that average monthly mortgage payments could increase by an estimated 30 to 40 per cent as mortgages come up for renewal over the next few years. This means that Canadians, as a whole, would need to find an additional $15 billion within their household budgets to afford housing costs.

While Canadian homeowners are known for prioritizing their mortgage payments above many other financial obligations, higher housing costs are clearly causing financial strain, as there's been a noticeable uptick in mortgage delinquencies year-over-year, especially when compared to other types of debt. However, mortgage delinquencies remain below pre-pandemic levels.

In September 2021, five-year fixed mortgage rates fell to a historical low of 1.44 per cent, leading to lower monthly payments for many homeowners. Fast forward to this year, however, and the average five-year fixed mortgage rate sits at 6.49 per cent, according to real estate company WOWA.

Homeowners who benefitted from the incredibly low mortgage rates during the early part of the pandemic, particularly those who locked in fixed rates, may be in for a major shock as their agreements come up for renewal. Facing the highest average mortgage rates in more than a decade, these homeowners can expect their monthly payments to increase.

Ultimately, higher mortgage payments could lead distressed homeowners to sell their property in order to find more affordable housing. This, in turn, could cause housing inventory to increase, and tip the scales in favour of a buyer's market with increased competition among sellers.

ARE YOU A PROSPECTIVE HOMEBUYER?

In these uncertain times, potential homebuyers should approach the market with both caution and patience. Ultimately, it's a waiting game as we'll have to see how the housing market unfolds with the impending renewal of COVID-era mortgages.

Stay informed by tracking indicators such as inventory levels, average sale prices, and the amount of time homes spend on the market, which will allow you to see any shifts in conditions.

During this time, don't rush. Instead, budget wisely, consider the possibility for potential interest rate hikes, and understand your financial limits.