Mortgaged until I die? For many, that's okay

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Homeowners are no longer anxious to pay their mortgage off. Many of them refinance mortgages and reset the clock.

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With money so cheap and home appreciation so high, home ownership has taken on a whole new meaning.

A key feature is that it's altered our relationship to mortgage debt. The days of the mortgage burning party are long over, replaced with an acceptance of long-term borrowing, often well into retirement, and even for life. No longer anxious to pay them off, many homeowners refinance mortgages and reset the clock.

Retiree age owners might reverse them so they can lend money to grown kids shut out of the market, or to stay in their houses longer. Housing experts say it only makes sense that they would take advantage of all that tax-free equity on a principal residence.

Mortgages 101: What's a mortgage and how to choose between fixed and variable rates in Canada?

"People view it as a piggy bank, because the cost of homes is so high," says Victoria mortgage broker Matthew Olberg. "They think, 'we can pay three-per-cent interest on this $1.5-million house, and if we refinance, pull our money out and re-invest in something else, we can make more. A lot of people are going that way, it seems."

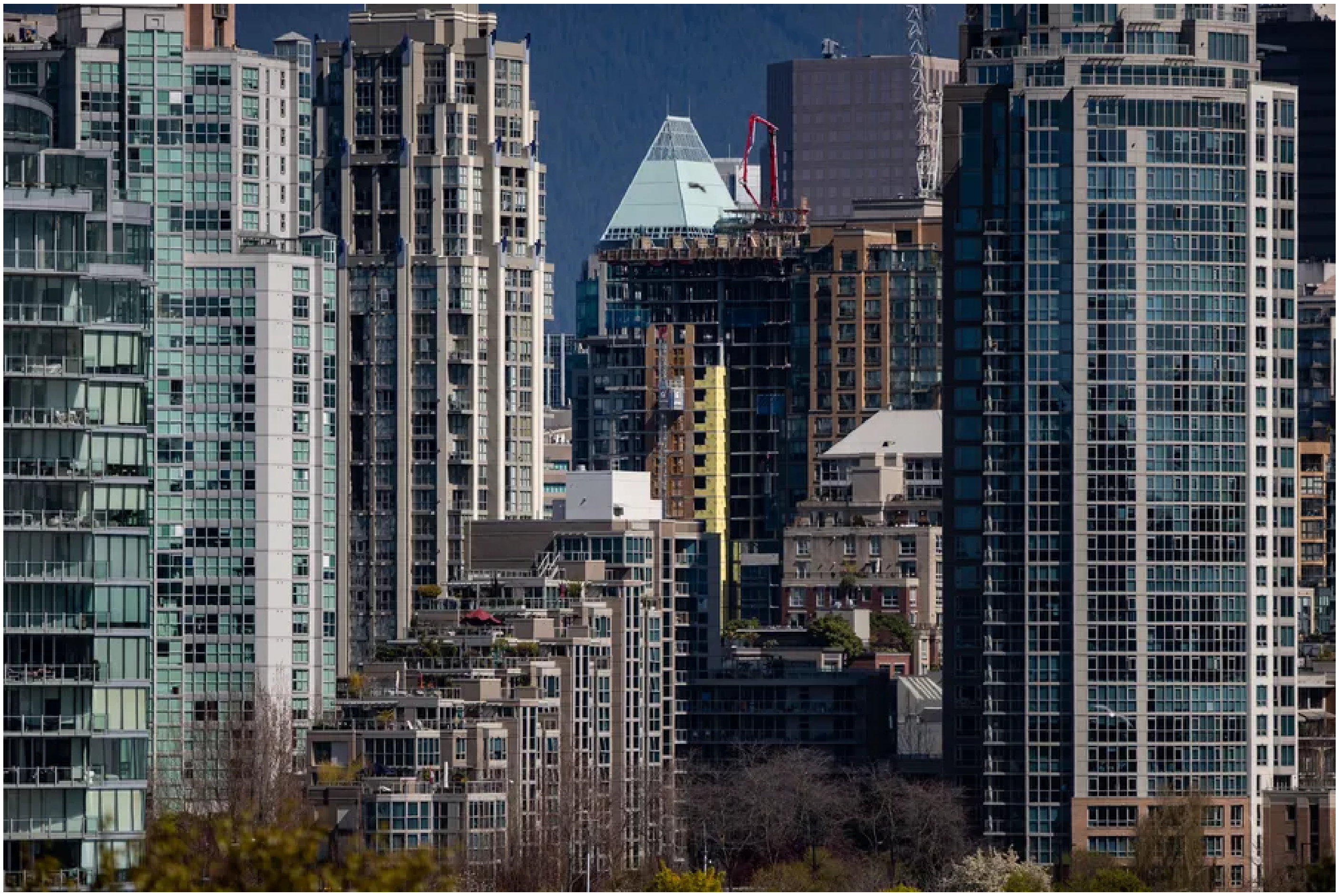
And unlike the previous generation's situation, it helps that so many younger homeowners have a mortgage helper, he adds.

"Because they see the housing market appreciate so much year after year, they think, 'Well, if I get out, I'll make money. I'll be okay either way.'"

As well, the younger generation didn't live through the 12-per-cent or 18-per-cent interest rates of the 1980s, says mortgage broker Alex McFadyen.

"They're not worried about retiring with a mortgage. It's better to have higher cash flow than lower debt," he says. "Let's assume that with a rental property, rental rates increase over time. … But your mortgage itself is a static payment. It's not going to change a lot. You amortize it over the term, and rates may go up slightly, but not a lot.

"What makes more sense? Increase cash flow, or decrease debt load? There is obviously a nuance to that, but understanding your personal circumstance, and the time and effort it might take, most people would rather have a large amount of cash coming in than a lower amount of debt."



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Duncan Maclennan, economist and public policy professor at the University of Glasgow, has studied housing markets in Canada, the U.K. and Australia. He says governments have an “outmoded” perception of how home ownership actually operates. They think it’s still a matter of getting onto the bottom rung of the property ladder. But that’s become a huge challenge now that home ownership is age-specific, or for those privileged enough to have parental support for down payments. Once people get onto the ladder, their demand for more housing than they need grows.

“Home ownership, when originally introduced as a policy, was about encouraging people to save by mortgages. Home ownership is now a speculation system, and getting into it creates wealth at substantial rates,” Prof. Maclennan says.

He argues that there’s a lack of coordination between federal and provincial housing policies, and the way they impact the market, and what gets built. For example, Canada is building fewer social housing units a year than Scotland.

"Effectively, what we have is an excess demand problem for housing in Vancouver. There might be sluggish supply, but it also means certain types of demand are unnecessarily high."

He points to a tax structure that incentivizes home investment, and an older demographic that is leveraging their equity.

"The biggest speculators in Canadian housing markets are actually the Canadians age 50 and upward in terms of holding that extra house.

"The excess demand for housing as a space is being leveraged up by excess demand for housing as an investment, reflected by investors displacing first-time home buyers and others, but also in terms of groups such as my age group holding onto much bigger houses than they actually require."

The age of the high-rise arrives in Brampton

As market thaws, signs of migration back to the city

About two-thirds of Canadians are homeowners and of those, three out of five have mortgages, says policy research consultant Steve Pomeroy, who's studied housing for almost four decades.

"There was that war-time mentality of being savers, not relying on credit, and folks who didn't want to take on more debt. I think with today's values, we have a much higher tolerance for debt than we had in the past. And if you are sitting on a house in Vancouver and the mortgage is $300,000 and it's worth $2-million, you probably don't care. You kick off, and your estate pays off the mortgage and there's plenty left over."

Alex Kjorven, chief product officer of a new home financing model, says that the home ownership industry is ready for disruption.

"We are challenging those norms," she says.

The company, Ourboro, lends new buyers down payments in exchange for a share of the future equity, with a 10-year term. Ourboro – which is funded by a real estate investment firm – has a beneficial interest, and the homeowner, who lives in the residence, pays taxes and maintenance.

For example, the buyer contributes half the down payment and Ourboro pays the other half, and then has a 50 per cent stake in the future profit of the property. The buyer is compensated for the mortgage principal when they sell. If they want to sell before the 10 years is up, they can buy out Ourboro at fair market value.

The company is based in Toronto but has plans to expand. They just started marketing and have almost 200 applications from qualified homebuyers and have committed to more than $2 million in co-ownership investments. says Ms. Kjorven.

“It’s about getting people into the market. We are here to help you buy your first home, not your forever home.”

Because they have a co-investor, the new homeowner can now free up their savings, says Ms. Kjorven.

“Even buyers who may have the full amount of down payment, why would it make sense for them to put 15 years worth of savings into one lump sum investment? You wouldn’t do that with any other investment. So even if you have the full down payment amount, why not diversify? Co-own with professional co-owners and real estate experts who have programmed services to increase the value of your asset.”

Mr. Pomeroy says that the leveraging of one home for another has its impacts on the overall housing system, including those who can’t get onto the property ladder, which then puts pressure on those who rent.

“Three quarters of buyers are existing homeowners trading up or trading down,” he says. “This divergence between home prices and income, and the capacity to pay, well, that doesn’t really matter, because three-quarters of folks that are buying are bringing a whole bag full of equity that appreciated from them sleeping in bed at night, in their existing house.

“What is driving up prices is the low cost of finance and the low cost of mortgages – and also the fact that people have accumulated such a large level of appreciation. "