

# REIX

October 18, 2023



## **The Effects of Mortgage Rate Hikes on Housing: Crucial Insights for Real Estate Professionals**

In recent years, the Canadian housing market has been exceptionally active, driven by a combination of factors.

The onset of COVID-19-induced lockdowns led to an economic slowdown, coinciding with historically low interest rates. These low rates allowed individuals who might not typically meet the Canada Mortgage and Housing Corporation's (CMHC) stress test criteria to secure substantial, long-term mortgages.

However, the landscape is shifting dramatically.

Two significant challenges have emerged: escalating inflation rates and a series of interest rate hikes by the Bank of Canada. Variable interest rates have surged, and many homeowners who purchased properties above the list price with no conditions are now facing mortgage renewals. Roughly around 20% of mortgages reach their renewal dates every year, signaling a rising tide of homeowners potentially facing difficulty meeting their mortgage obligations.

REIX anticipates a substantial increase in foreclosures. With homeowners beginning to list their homes prior to the property being foreclosed upon, real estate professionals must do their due diligence and be well prepared for the risks they and their clients (both buyers and sellers) could face. Neglecting to do so may result in unfavorable consequences such as:

1. Insufficient funds from the sale of the property to cover commissions.
2. Deals that collapse because the proceeds from the property sale cannot satisfy the mortgage.
3. New registrations being registered on Title (such as a second or third mortgage) that were not previously disclosed or discovered.
4. Wasted time and effort on properties that struggle to find buyers.
5. Buyers losing out on a property they were interested in purchasing and spending money that they can no longer recover.

To sidestep these potential pitfalls, REIX recommends the

following steps:

1. Always pull the Title, without exception. Even if it was pulled three months ago, revisit it and thoroughly review all registrations on Title and make sure you and your client understand them. Title should be pulled at the time of list, when an offer comes in/is being made, and prior to close (with the lawyers). It may also be useful to pull Title prior to conditions being waived.
2. Engage in extensive conversations with sellers, posing multiple questions concerning the property's financial health: How many mortgages are involved? Have they exhausted a line of credit? If there's a shortfall, where will the required funds come from? What is the property's equity status, if any? Does the property need to be listed at a higher price or does the real estate professional need to negotiate a lower commission (because a lower commission is better than no commission at all).
3. Ensure that buyers are aware of what they are offering to purchase and that they are aware of and understand everything registered on Title. Ensure that Title is pulled and reviewed with buyers prior to them making any decisions or giving instructions relative to making an offer and/or waiving conditions.
4. Ensure that buyers are aware of the risks with unconditional offers and the risks they could face if they are unable to close on the property due to debt/mortgage issues the seller is facing with respect to the property.
5. Keep an eye out for warning signs. Real estate professionals have reported instances where their instincts suggested potential issues with a transaction, however they chose to overlook those issues to keep the deal moving forward, which then led to even bigger issues in the future. Pay attention to these indicators and investigate

further when warranted.

6. Review all Transaction Documents and Representation Agreements (including conditions, terms, etc.) with your clients to ensure they understand what they are agreeing to and that they are aware of the potential risks they may face. Make sure that any verbal discussions are followed up with a confirming email.

It is imperative for real estate professionals to allocate the necessary time and due diligence to gather all the information required to make well-informed decisions and provide adequate advice to their clients.

With the anticipation of increasing foreclosures looming, this proactive approach can save both you and your clients from unnecessary turmoil in the long run.

As always, please [contact REIX](#) with any questions or concerns that may arise.

## **A Passion for Risk Management**

Do you like what you have just read? Are you passionate about risk management in real estate and ready to challenge yourself in a new way? If so, we encourage you to apply for the REIX [Risk Management Program Advisor](#) role.

Join our dynamic team and make a meaningful impact in the world of real estate risk management. Your expertise and knowledge could be the perfect fit for our organization. Don't miss out on this exciting opportunity to shape the future of risk management. Apply today and embark on a rewarding journey with us!

---

The [Real Estate Insurance Exchange \(REIX\)](#) provides mandatory errors and omissions insurance to over 17,000 Alberta and Saskatchewan real estate industry members and nearly 1,250 brokerages. We're dedicated to providing high value to our subscribers through exceptional claims, risk and financial management. Follow us on [Facebook](#) and [LinkedIn](#)!

*All content copyright © 2023 Real Estate Insurance Exchange*

**Real Estate Insurance Exchange**  
#205 – 4954 Richard Road SW  
Calgary, AB T3E 6L1

Want to change how you receive these emails?  
You can unsubscribe from this list.