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Real Estate News

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Consumer Confidence Cautiously on the Rise in Ottawa Resale Market

The number of homes sold through the MLS® System of the Ottawa Real Estate Board (OREB) totaled 1,179 units in October 2024 — an increase over the 1,047 units sold last month.

Home sales were 3.9% below the five-year average and 0.9% below the 10-year average for the month of October.

On a year-to-date basis, home sales totaled 11,662 units in October 2024 — an increase of 9.4% from the same period in 2023.

"We're seeing positive movement in Ottawa's market with sales activity up," says OREB President. "This is especially interesting because there has been sustained activity throughout the year instead of the typical seasonal spikes and lulls. Consumer confidence is getting stronger, boosted by another consecutive Bank of Canada interest rate cut — though many are waiting for additional rate drops."

The 50-basis-point reduction might offer optimism following Ontario's tabling of the Fall Economic Statement where housing starts projections were scaled back to 81,300, representing another reduction in projections and is even further from the province's goal of creating 125,000 new homes in 2024. The Ontario government cites high interest rates and a tough economic environment as pervasive challenges for homebuilders.

"The challenge remains supply," says OREB President. "We know from experience that Ottawa's inventory leans tight and can swing quickly from balanced territory to a seller's market — which can compound affordability and accessibility challenges. Now is always the time for fresh action and innovative policies that can create much-needed inventory."

By the Numbers – Prices:

The MLS® Home Price Index (HPI) tracks price trends far more accurately than is possible using average or median price measures.

- The overall MLS® HPI composite benchmark price was $639,500 in October 2024, an increase of 0.4% from October 2023.
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  - The benchmark price for single-family homes was $724,500, up 0.7% on a year-over-year basis in October.
  - By comparison, the benchmark price for a townhouse/row unit was $506,900, up 1.6% compared to a year earlier.
  - The benchmark apartment price was $407,500, down 3.4% from last year.
- The average price of homes sold in October 2024 was $668,690 increasing 1.2% from October 2023. The more comprehensive year-to-date average price was $678,081, increasing by 0.9% from October 2023.
- The dollar volume of all home sales in October 2024 was $788.3 million, up 47.7% from October 2023.

OREB cautions that the average sale price can be useful in establishing trends over time but should not be used as an indicator that specific properties have increased or decreased in value. The calculation of the average sale price is based on the total dollar volume of all properties sold. Prices will vary from neighbourhood to neighbourhood.

By the Numbers – Inventory & New Listings:

- The number of new listings saw an increase of 10.4% from October 2023. There were 2,089 new residential listings in October 2024. New listings were 6.7% above the five-year average and 17% above the 10-year average for the month of October.
- Active residential listings numbered 3,354 units on the market at the end of October 2024, a gain of 8.9% from October 2023. Active listings were 40.6% above the five-year average and 6.7% above the 10-year average for the month of October.
- Months of inventory numbered 2.8 at the end of October 2024, compared to 3.8 in October 2023. The number of months of inventory is the number of months it would take to sell current inventories at the current rate of sales activity.

Breaking Your Mortgage Early

As mortgage interest rates fluctuate throughout 2024, many homeowners are contemplating whether breaking their mortgage early is worth the penalty. The idea of locking in a lower rate and reducing monthly payments can be tempting, but the cost of breaking a fixed-rate mortgage can be substantial. Here's a breakdown of when it makes financial sense to break your mortgage early, and when it might be better to stick with your current terms.

Why Break Your Mortgage Early?

There are a few key reasons why homeowners consider breaking their mortgage before the term ends:

1. Securing a Lower Interest Rate
   One of the main motivations for breaking a mortgage is the potential to secure a lower interest rate, which could significantly reduce monthly payments. If rates have dropped since you locked into a fixed-rate mortgage, you might be able to refinance at a lower rate, saving thousands of dollars over the term of the loan.
2. Accessing Home Equity
   As home values rise across Canada, some homeowners may want to access their home equity to pay off debts, renovate, or invest. Refinancing by breaking your mortgage can allow you to borrow against your home's increased value, often at a lower rate than other types of loans.
3. Life Changes
   Major life events like moving, divorce, or financial changes may necessitate breaking your mortgage early. If you're moving to a new home and can't transfer your mortgage, or if your financial situation has changed, you may need to rework your mortgage to suit your new circumstances.

Understanding the Penalties

Breaking a mortgage typically comes with penalties, which can be calculated in one of two ways, depending on your lender:

1. Interest Rate Differential (IRD)
   The IRD penalty is most common for fixed-rate mortgages. It is based on the difference between your current interest rate and the lender's current rates for a similar mortgage term, multiplied by the remaining balance and the length of the term. This penalty can be particularly high if rates have dropped significantly since you locked in.
2. Three Months' Interest
   For some fixed and variable-rate mortgages, the penalty is calculated as three months' interest on your remaining balance. This method generally results in a lower penalty compared to the IRD, making it more attractive to break variable-rate mortgages.

Is It Worth the Cost?

To determine whether breaking your mortgage early makes sense, you'll need to calculate the potential savings versus the cost of the penalty. Here's how to approach it:

1. Calculate the Penalty
   Start by asking your lender for an estimate of your mortgage-breaking penalty. Be sure to ask whether the penalty will be calculated using the IRD or the three months' interest method, as this can significantly affect the total cost.
2. Estimate Your Savings
   Once you know the penalty, calculate how much you would save by refinancing at a lower interest rate. Use a mortgage calculator to compare your current rate to the new rate and see how much your monthly payments would decrease. Multiply the monthly savings by the number of months remaining in your term to estimate your total savings.
3. Compare the Costs and Benefits
   Subtract the penalty cost from your estimated savings. If the savings are greater than the penalty, breaking your mortgage could be a smart financial move. However, if the penalty outweighs the savings, it's likely better to wait until the end of your term to refinance.

Scenarios Where It Makes Sense

1. Interest Rates Have Dropped Significantly
   If you locked into a fixed-rate mortgage when rates were high and rates have since dropped considerably, the long-term savings from securing a lower rate may outweigh the penalty. For example, a homeowner with a 5-year fixed rate at 5.5% might benefit from breaking their mortgage early if they can secure a new rate of 4.2%.
2. You Have Significant Home Equity
   If your home's value has increased substantially, refinancing to access that equity might make sense, especially if you can lock in a lower rate on a larger mortgage. This can be particularly beneficial if you plan to use the equity to consolidate high-interest debt or make value-adding renovations.

Scenarios Where It's Not Worth It

1. Minor Rate Changes
   If the drop in interest rates is only marginal (for example, 0.5% or less), the savings might not justify the cost of the penalty. In such cases, it's often better to wait until your mortgage term ends to refinance without penalties.
2. High IRD Penalties
   If your mortgage lender calculates the penalty using the IRD method, the cost of breaking your mortgage can be prohibitively high. In such cases, even a significant drop in interest rates might not make it worth paying the penalty.

Conclusion

Breaking your mortgage early can be a strategic move in 2024, especially if interest rates continue to drop or if you need to access home equity. However, the decision ultimately depends on the penalty you'll face and the potential savings. Carefully calculate the costs and benefits, and consult with a mortgage broker to explore your options. In many cases, it's worth waiting until your term ends to avoid penalties, but if the savings are substantial, breaking your mortgage could be a smart financial decision.