RESEARCH ARTICLE

"A DESCRIPTIVE ANALYSIS OF THE ROLE OF MORTGAGE PLANNING IN QUICK SALE OF RESIDENTIAL PROPERTIES IN THE CITY OF BRAMPTON, CANADA"

Tariq Sardar

PhD Research Scholar, Department of Business Administration, Azteca University, Mexico. North America.

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Abstract

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The research article describes the role of mortgage planning in sale of residential properties in the city of Brampton, Canada. Mortgage financing is an essential part of real estate buying & selling process in Canada where a number of people rely on mortgage loans to purchase houses. The need of housing is rapidly increasing but still a large quantity of listed properties is left UNSOLD in the real estate market despite of buyers' demand. At the same time, the ratio of mortgage decline is also increasing and buyers cannot make a purchase without having the required funds. The paper examines the 07 years' data from 2011 to 2017 and attempts to explain the function of mortgage planning in smooth sale of real estate. Some people pursue to get a pre-approval of mortgage from lenders before searching for properties because it gives an idea about the borrowing capacity of buyers. The paper investigates the percentage of buyers who purchase houses with a pre-approval of mortgage, the gender of buyers, the percentage of co-signers in the mortgage applications and the percentage of bargain on listed pricing, and also an analytical review on duration of time for marketing the listed properties and closing the transaction of sale. The paper relies on Asymmetric Information Theory which states that imperfect knowledge of information restricts the smooth or quicker sale of products in the markets.

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Introduction:-

The city ofBrampton is located in Southern side of Ontario, Canada with 593,638 residents. It is the 3[rd]largest suburban city in Greater Toronto Area (GTA) after Toronto and Mississauga. The city population has been growing from 10,000 in 1950 to almost 0.6 million in 2016.Brampton is currently part of the Regional Municipality of Peel [25], [2], [5], [22]. The sale of residential properties in Brampton contributes its great share in Toronto's real estate market which is the largest market in North America where more than 53,000 realtors are affiliated to Toronto Real Estate Board (TREB) and serving the community [28].

Corresponding Author: -Tariq Sardar
Address: -Research Scholar, Department of Business Administration, Azteca University, Mexico. North America.

Figure 1: -Map of Greater Toronto Area, Arrow to Brampton [30].

GTA is mostly populous area in the southern Ontario with more than 6.4 million residents [25] where all listing and purchase transactions are overseen by TREB. This market collectively sells nearly 100,000 residential properties every year through Multiple Listing Service (MLS) platform. The data from 2011 to 2017 shows that there were 89,347 residential properties sold in 2011. Next year in 2012, the sold residential properties were 85,496. The data reveals that sold residential properties were 87,049 in 2013 and 92,782 in 2014 however 102,213 properties were sold in 2015. The market sold 113, 040 properties in 2016 and 92,335 properties in 2017 [28]. The core concept of research paper is based on "resale" of all types of residential properties located in Brampton which is bordered by Town of Halton Hills, Town of Caledon, City of Vaughan, City of Toronto and City of Mississauga.

The sales data specifically related to Brampton reveals that 7,647 properties in 2011 and 7,956 properties in 2012 were sold. The market sold 7,564 properties in 2013 and 8,332 in 2014. There were 9,365 properties sold in 2015 and 10,964 in 2016. The numbers of sold properties were 8,771 in 2017. The MLS system listed 12,939 homes in 2011 and 15,175 in 2012. There were a total of 14, 946 listings in 2013 and 13,694 in 2014. The system listed 14,087 homes in 2015 and 14,627 in 2016 however 18, 288 properties were listed in 2017 [28]. An averagely 59% of properties were sold and remaining 41% of all the listed properties were left "unsold" in the real estate market. A number of real estate buyers in Canada normally borrow funds from lenders to purchase a house. According to a recent study 4.3 million out of 9.8 million houses in the country had mortgages and almost a half of million (500,000) houses were under home equity line of credit (HELOC) that is another type of mortgage debt [8].

Mortgage financing still remains a hot issue despite of increase in personal income of Canadians. It is mentioned that personal income of residents in the country has risen up to 12.5% during the previous five years but people still require a loan to buy residential properties [15]. The statistics also show that 1.8 million Canadian residents/homeowners had both the residential mortgage and HELOC, and they were ultimately obligated to pay off the both debts. The 21% of all buyers, who purchased residential properties in 1990s, have not paid off the mortgage loan yet and they are still making monthly payments to clear the debt [8]. Approximately 3.5 million houses were paid off until 2017 and only those buyers were enjoying living in debt-free properties. Another research article earlier claimed that "house ownership rate" in Canada is 9.7 million, and 5.71 million Canadians had both the mortgage loan and home equity line of credit on their residential properties however 520,000 Canadians had only home equity line of credit [12].

CMHC analyzed that new mortgages for residential buying were slightly declined in the year of 2017. There were 959,074 new mortgage loans during the year and as compared to 2016, a decline of 6.5% was recorded [9]. The figures tell that 134,258 loans were extended but renewed through new lenders and the decline was 17.4% as compared to 2016. The refinancing category was decreased by 8.3% during the mentioned period. The categories of new owners and repeat buyers were also dropped by 5% and 5.4% respectively as compare to the year of 2016. The new amendments in mortgage rules were also introducedin 2016 and the consumers who put less than 20% down payment would have to qualify at the greater contract mortgage rate and the 5 years' fixed conventional mortgage rates announced by the bank of Canada [9].

Problem Statement:

According to sales data, averagely 41% of all listed properties in the residential real estate market of Brampton remain "unsold" despite of buyers' demand. Real estate buyers require mortgage financing to buy a property, if they do not get enough funds, they cannot purchase it. The information discloses that a large number of listed properties did not get sold and meanwhile mortgage decline is also increasing that may restrict the prospective buyers to purchase those properties due to unavailability of funds or lack of financing. The article anticipates to justify the characters of financial preparation in real estate buying. The basic curiosity is to describe the role of mortgage planning in property sales by calculating percentage of buyers who have a mortgage pre-approval before they go to search for residential properties in Brampton. It includes the gender of buyers and if they have a co-signer in mortgage applications. The article also examines the listed prices and whether sellers bargain or negotiate on asking price, and what role a mortgage planning plays in the duration of sale and deal closing time. The article describes whether sellers prefer the buyers who are pre-approved for mortgage and who can close the sale transactions on time. Buyers cannot purchase a property whentheir desired mortgage is refused but if they have a pre-approval of mortgage they would know their borrowing limits, can find a property within the range and timely complete the transaction of sale. It is added that realtors in GTA spend lots of time and money on farming potential buyers. If at some pointtheir clients are refused for financing and not able to close the deal transactions, the realtors would face the loss of time and money because the remuneration of services can only be claimed once the deal is successfully closed according to the real estate practices in GTA. The research articleattempts to describe the role and importance of planning for mortgage loan in real estate buying.
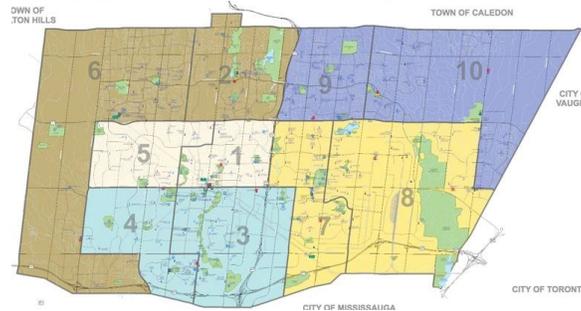
Figure 2: - Map of City of Brampton [11]

Research Objectives:-
The research article outlinesthe following aims and objectives to describe the goal of study:
1. To know the percentages of buyers who have Pre-approval of mortgage when they start search for residential properties in the city of Brampton, Canada.
2. To identify the percentage of real estate purchasers based on gender (males and females) in the city of Brampton.
3. To learn the calculation of buyers who normally have a co-signer when they apply for mortgage to purchase residential properties in the city of Brampton.
4. To understand if sellers of residential properties bargainthe listed price with buyers who have mortgage pre-approval in the city of Brampton.
5. To recognize whether a Pre-approval of mortgage helps the buyers to purchase residential properties quicker than other buyers who do not have an approval.

Mortgage Planning:
Planning is considered an intellectual procedure to decide ahead of time, when, how and what is to be done and who will do it to achieve the target [6]. A solid planning of mortgage is an important issue in the real estate buying. As far as the mortgage planning in this article means, it tells how to manage your resources to plan for the mortgage loan. The planning starts from the personal financial evaluation, initial information of mortgage funding and obtain the loan to close or complete the real estate transactions. It involves all, the decision of buying, what property is needed, financial credit report, where and which lender to contact for loan, interest rates, mortgage terms, a pre-approval, property value, bargain on asking price, down payment, co-signing if required, offer and deal closing time, evaluation of mortgage default insurance, closing cost and other expenses [4], [20], [19]. A consultation for pre-qualification may also help buyers to understand the actual price range according to their financial capacity and affordability [3]. It boosts the confidence of buyers related to pricing [17] and can save lots of time to find the required mortgage after putting an offer to purchase [18]. A pre-approval takes only a few days if all documents are ready [24], it costs nothing to buyers but help them to search properties in their range [3], however, the approval

process may be delayed if buyers are in a rush and do not give enough time to lenders [7]. It is difficult to get mortgage financing in Canada but the process can be easier if borrowers have good credit scores [23].

Ontario Mortgage and Real Estate overview:
The Ontario mortgage business has a history of hundreds of years. The lending business has been growing throughout the years. It is a most common way for people to get funds by mortgage and purchase a house for living. Mortgages were originated from England, presently part of United Kingdom when people didn't have enough resources and could not purchase a piece of land in one transaction to build a house for living. There were no banks and other outside parties in mortgage deals in those days and buyers would get mortgage loans directly from the sellers. The terms of contract were different than today when buyers of land had no right to live on the purchased land until the entire amount of property was paid to the seller. The buyers would forfeit their right to the property and whatever the prior payments they had made to sellers in case they failed to keep continue the agreed amount of remaining payments. By 1900, there were changes in mortgage trends and buyers were able to secure long-term loans, and the interest on loans was being charged on monthly basis. The borrowers could save some amount towards the repayment of original amount of mortgage. The mortgage market was under great depression in 1920 and during World-Wars when many borrowers could not even pay the interest on the property. Some lenders were carrying the amount of loan that was actually not secured by the value of the homes [14]. This situation later forced to the introduction of long-term fully amortized mortgages like Ontarians are enjoying in the existing era where borrowers repay some amount each month towards both, the principal amount and the interest payments. The normal amortization period is fixed for up to 25 years. In 1946, the federal government created Canada Mortgage and Housing Corporation (CMHC) to administer the Canadian National Housing Act. In the beginning, Canadian banks were not allowed to offer mortgages to home buyers in Ontario and the borrowers used to get mortgage financingonly from life insurance companies. In 1954, Government of Canada modified the Bank Act and allowed banks to offer mortgage loans to home buyers. Initially the authorities set the limit of 6% interest on mortgage loans until 1967 when the Banks Act was amended to remove the 6% interest rate. The 61% of overall mortgages were being provided by Canadian banksuntil 2010 [29].On July 01, 1998, Government of Ontario took the step to regulate mortgage industry, formed the Financial Service Commission of Ontario (FSCO) under the Ministry of Finance by merging the former Ontario Insurance Commission, Pension Commission of Ontario and Deposit Institutions Division of the Ministry of Finance. Later on, the Mortgage Brokerages, Lenders and Administrators Act, 2006 (MBLAA) was introduced to govern the growing mortgage industry in the provincial jurisdictions.The history of real estate in large urban areas of Canada including Ontario is also more than one hundred years old [21]. The Ontario Real Estate and Brokers Act was passed in 1930 when the legislators decided to bringreal estate professionals under the law. The business has been growing up dramatically after the World War II and become an integrated part of Canadian economy. Like other business markets in North America, the residential real estate is also a cycling industry in Ontario where excessive supply of homes bring the property prices down and too little supply can cause the price hike in the market [16]. The financing and available credit is still a major factor that is the reason behind the short term business of Housing Developers in Ontario. It seems that housing developers do not really consider "the supply and demand" principle when there is the shortage of new homes. The residents of Brampton like all other Torontonians have to rely on resale housing since the new inventory is not added into housing market of the area.

Theoretical Framework:
The study relied onAsymmetric Information Theory to reach to the conclusion. Asymmetric information is the situation where there is imperfect knowledge of information about something. It occurs when one party has different information about someone or something to another [1]. Asymmetric information can cause market failure in several fields of business. Insurance industry and auto sales are not the only example;the real estate is also another case of Asymmetric information where sellers have more information about the property than prospective buyers. As sellersare the existing homeowner so they know more about the listed property than buyers but at the same time buyers know about their financial situation more than the sellers [13].

Research Methodology:-
The study followed aDescriptive Research Design based on Quantitative Analysis to obtain a general behaviour of the role of mortgage planning in property sales without affecting any normal performance of real estate transactions. The research took a case-study approach by documents analysis. The article picked the Simple Random Sampling that is part of probability sampling techniques which provides all the elements of sampling frame an equal chance to get selected and be part of the sampling frame without any bias and favoritism towards the result of final analysis

[10]. The study collected 370 samples out of the targeted population and analyzed the quantifiable data through statistical software. The qualitative information was coded and converted into quantifiable data. The article used SPSS statistical software to analyze the data related to the research questions. The article presents quantitative data in descriptive statistics form and provides the detailed description based on statistical analysis. The final results of the data were in percentage format. [27].

Research Findings:
The descriptive research article finds that almost 20% of real estate buyers in the city of Brampton had mortgage pre-approval to purchase residential properties. The remaining 80% of buyers did not have a pre-approval of mortgage however they successfully complete the transactions of sale. As far as mortgage pre-approval and the closing of deal transactionsis concerned, it did not stop the process of completion. The both types of buyers, with or without pre-approvals, bought residential properties in the city. There were 98.9% male buyers and only 1.1% females who purchased properties in Brampton. The percentage of buyers who had a co-signer for mortgage is 42.7 % and remaining 57.6% buyers did not have a co-signer however the paper does not know the reasons behind the decision of buyers for not having a co-signer however a further research is recommended to answer the question. The paper finds that 99.5% sellers accepted bargain and reduced the listed or asking price of properties but 0.5% sellers sold their properties above the asking price. They either did not accept the bargain, had multiple offers or instead raised the price of listed properties. Those sellers were givenover the asking price but the study does not comment on the reasons of price increase. There could be several reasons when a property is sold over the asking price. Sometimes sellers play games by advertising the properties on a very low price to attract more buyers and then increased the price to start competition between the buyers. There may be multiple offers for the same property and bidding war among the buyers when asking price goes up due to higher offers from different buyers and it is difficult for researchers to provide any single definite answer of this situation. The study finds the average days on market for properties before they get sold were 15.91 days and when we specifically look on the listings purchased by the buyer with pre-approval, the average days on marker for those properties were 14.46 days. The numbers of days were slightly higher as 16.27 for the properties purchased by those who did not have a pre-approval. The properties bought by the buyers with pre-approvals were sold 02 days quicker than other properties purchased without approvals. The overall deal/transaction closing time for sold properties was averagely 54.40 days. The deal transaction of properties purchased by the buyers with pre-approvals was closed or completed within 53.83 days and the time of closing for properties purchased by the buyers without pre-approvals was slightly above as 54.55 days however again the paper cannot explain the reasons of why this minor increase in time durationwas occurred. The deal transaction was closed averagely 01 day earlier than other buyers who did not have an approval before searching for suitable houses.
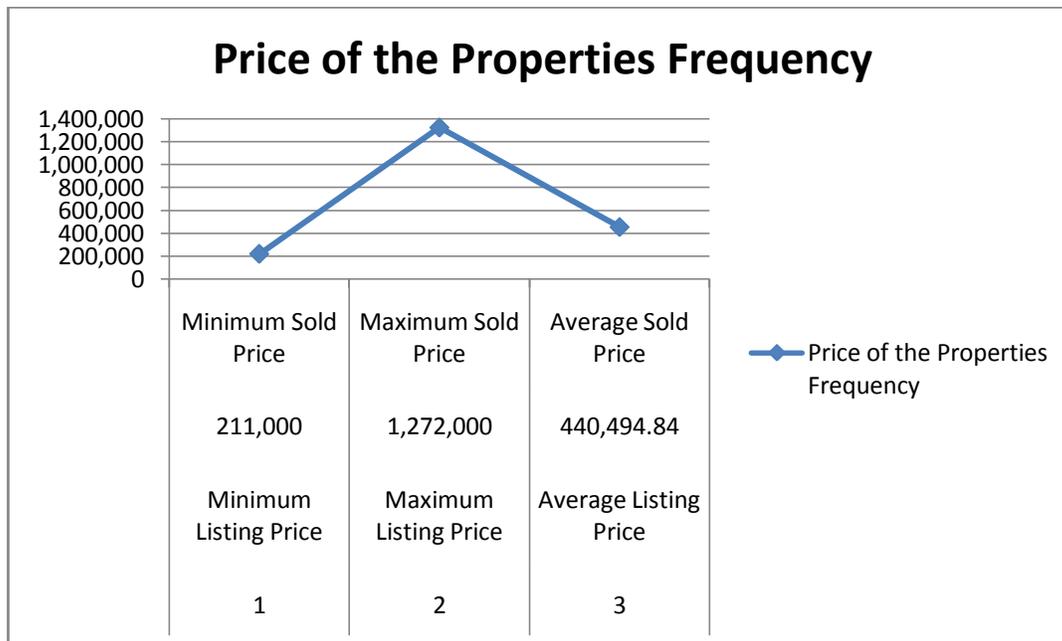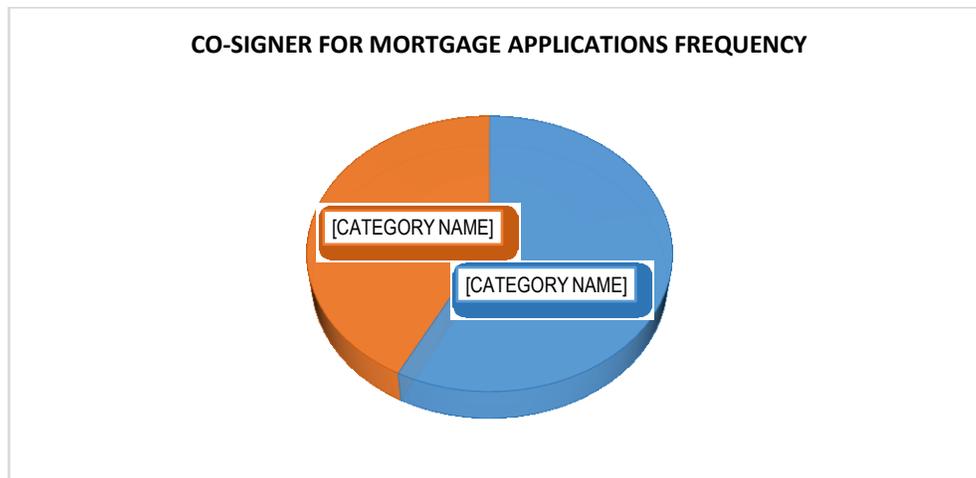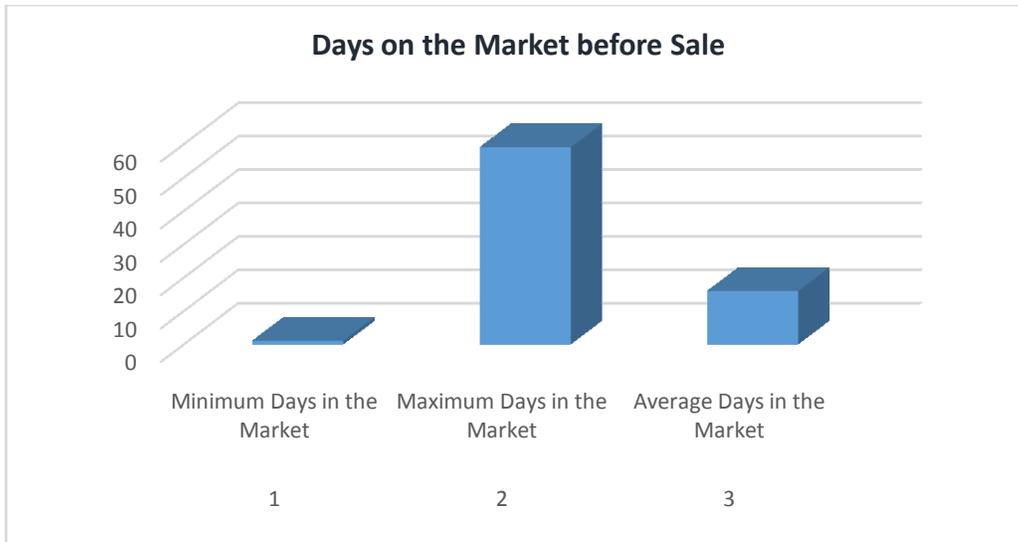

Figure 3:- Research Findings (source: by the Author).

Discussion:-

The findings indicate that only twenty percent of residential buyers in Brampton actual do the mortgage planning and have pre-approvals. It is also feasible to argue that property selling time varies according to offers received from buyers and the acceptance by sellers. Once an offer is accepted by the seller, the property is considered "SOLD" and the realtor from seller's side removes the listing from MLS. Sometimes the listing realtors do not takeoff the property from MLS but only change the status of property as SOLD. The time duration since the property is listed and the time when the seller accepts an offer is considered the advertisement of properties in the market and called "days on market" in real estate term. The article finds that when buyers have a pre-approval of mortgage to know the borrowing capacity, their agents (realtors) actively search for a suitable property within the range. The sellers also negotiate with buyers on the basis of known facts. A pre-approval motivates the sellers to sell their property to qualified and approved buyers because this is a positive sign that those buyers would arrange funds timely to close the sale & purchase deal according to their expectations. With reference to the data analysis, the properties purchased by the pre-approved buyers stayed shorter in the market than other properties purchased by the buyers who did not have pre-approvals. The difference in time was not much but enough to answer the research questions of the article and it clearly defined the phenomenon.

If we discuss about the education and information related to the mortgage financing, we cannot blame the concerned units who already emphasis that pre-approval of mortgage tells borrowers the maximum amount they can qualify for and what would be the interest rates after estimating their mortgage payments. The potential lenders can lock their mortgage interest rates for 60 to 120 days. It seems that buyers are not paying much attention on this side even though governmental institutions have announced time to time that pre-approval is the process to tell real estate buyers the maximum amount they may get when a formal loan application is submitted. They also put some cautions by adding that there is no guarantee of the specific loan amount and it would be decided when buyers actually have submitted their applications for mortgage loan. It is possible that due to this caution, buyers do not want to spare extra time to go to lenders and get pre-approved for mortgage until they have seen an actual property and confirmed the purchasing price with sellers. We cannot make an accurate claim, it may be the assumptions at this stage because mortgage approval by banks or other lenders essentially depends on the value of property the buyers have chosen and the amount of payment they have put upfront as "down payment". In the above scenario, the article agrees with the advice of public corporations for buyers to look at lower priced properties, stretching the purchasing budget because buyers would need more and extra money for closing cost, moving expense and ongoing maintenance of the purchased property. A theoretical implication approach suggests realtors to make the pre-approval of mortgage an integral part of the business practice and services to improve the overall performance. The paper recommends and suggests that realtors should promote the benefits of mortgage pre-approval to improve the sales volume.

Price of the Properties Frequency

	Minimum Sold Price	Maximum Sold Price	Average Sold Price
	211,000	1,272,000	440,494.84
	Minimum Listing Price	Maximum Listing Price	Average Listing Price
	1	2	3

Legend: Price of the Properties Frequency

Days on the Market before Sale

Deal Closing Time (Days)

CO-SIGNER FOR MORTGAGE APPLICATIONS FREQUENCY

Conclusion:-

The article analyzed the role of mortgage planning in smooth sale of residential properties and based on the primary data described that a sold mortgage planning with a pre-approval may help real estate buyers to purchase residential properties a little earlier than other buyers who do not do any planning before searching for properties. The examination also included the gender of buyers, information of co-signers, bargain on listed pricing, days on

market and deal closing time. The article endorsed that asymmetric information plays its role in real estate sales when sellers do not know about the credit worthiness and financial circumstances of buyers and as well as their readiness to make the purchase.Once the sellers are aware of that buyers are pre-approved for mortgage, they consider the buyers as a serious purchaser and "seriously" consider the offers and bargain with them to sell the property. It convinces the sellers, not only to think about the received offers but also bargain on price if fewer offers are given, to sell the property quicker than other deals which take longer time due to asymmetric information. The information about buyers' position through a pre-approval for mortgage can bridge the gap between sellers and buyers to make the buying process easy and smooth.

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