

Home ownership in Canada back on an upward curve

After a period in which the rate of owner-occupation fell, the proportion is now back over 60%, says Eugene Flichel

ACCORDING to the latest published census, the Canadian population was 24.3 million in 1981. Appropriately, 97% of this population made up the 8.3 million private households in Canada, of which 5.2 million, or 62%, owned their homes. The remaining 3.1 million, or 38% of the private households, occupied rented accommodation. Some 82% of home-owners lived in single-detached dwellings, while 83% of renters lived in multiple-unit housing.

Canadians typically form separate households in their twenties. Newly-formed households usually rent their dwellings. Those who aspire to become home-owners will begin to save toward the required down-payments for their first home. Homes which first-time buyers can afford are average-sized and modestly-priced pre-owned units. Home-owners with increased income and a need for more housing over time will subsequently move up to larger and more expensive houses. It is common for elderly households to retain home ownership, although some will prefer carefree alternatives such as renting.

The overall rate of home ownership is influenced by the age distribution of households and tenure choice. The determinants of tenure choice include family needs, affordability, security of tenure, tax considerations and government policies.

Post-war baby boom generation

The national home ownership rate was 66% in 1951. The rate remained

unchanged in 1961. Over the next 10 years the proportion of home-owners declined to 60% of households in 1971. During the 1970s the rate of home ownership rose again to reach 62% in 1981.

The pattern of home ownership observed in the past two decades was one of the legacies of the post-war baby boom generation. The latter refers to Canadians born between 1952 and 1965. The post-war baby boom was caused by a combination of high fertility rates and a large number of females reaching child producing age.

The requirement to house the baby boom generation was initially met by rented housing. This began to be felt in the 1960s and culminated in increased renter household formation and a corresponding decline in the rate of home ownership. This trend was reversed in the 1970s by

ageing and the movement of the baby boom generation from renter tenure to home ownership.

Changing age composition

Canadian housing policies in the 1970s were also a factor shaping recent home ownership trends. A variety of government incentives such as grants, interest-free loans and tax-deductible savings improved the accessibility of home ownership. The non-taxation of capital gains on principal residence and on imputed rents made home ownership financially attractive *vis-à-vis* other non-tax preferred investments.

Recent government initiatives to protect borrowers against extraordinary increases in interest rates at mortgage renewal, and to facilitate the return of long-term mortgage money, further improved the security of home ownership.

→ 10



Family house in Quebec.

← 9

The effect of favouring home ownership is to reduce rental to a residual choice among households. This has had the effect of changing the mix of home-owner population. Between 1961 and 1981, home ownership rates declined in the under age 25 bracket from 24% to 18%, in the age 55 to 64 bracket from 75% to 74%, and in the age 65 and over bracket from 77% to 63%. During the same period, home ownership rates increased in the 25 to 34, 35 to 44 and 45 to 54 age brackets from 50% to 52%, from 67% to 72%, and from 73% to 76% respectively. This suggests that accessibility to home ownership has increased for middle-age households but decreased otherwise.

Move up-market

There are a number of interesting developments resulting from the increase in home ownership rates amongst middle-aged households. One is the emergence of a move up-market which is geared to the needs of a more affluent and demanding clientele. Homes being built today are more expensive, considerably larger, contain more standard features, and have a higher degree of customisation. This increase in unit construction value has moderated the adverse impact of steadily declining house-building volumes since the late 1970s in response to lower rates of household formation.

Renovation fever

There is an increasing number of home-owners who prefer to renovate their own homes rather than to trade up. For some, renovation is trendy. For others, it is the means to upgrade without having to move. As a result, in the past few years expenditure on renovation has exceeded expenditure on new housing construction, although the ageing of the housing stock in Canada is also a contributory factor. While most of the work is conducted by firms primarily engaged in new construction, firms

which specialise in renovation are increasing.

Coming of age of condominiums

Condominium tenure appeared in Canada in the late 1960s. It was initially conceived as a means to make home ownership affordable to first-time buyers in the face of rising land costs in several major urban

the benchmark mortgage instrument in Canada. Record high and volatile interest rates during the early 1980s have brought about an aversion to mortgage debt. This is particularly so among borrowers who had to renew their mortgages at considerably higher interest rates during that period.

As a result, borrowers are now paying down their mortgage debt at increased rates. The results of a survey conducted last year showed that

Canadian home-ownership rate

Age of Household Head	Home-owners as % of all households				
	1961	1966	1971	1976	1981
Under 25	23.9	16.4	14.3	19.0	18.3
25-34	49.8	46.1	42.9	51.6	52.1
35-44	67.5	67.2	67.1	70.9	72.0
45-54	73.2	7.25	72.5	74.3	75.8
55-64	75.1	72.8	71.5	71.9	73.6
65 and over	77.0	72.1	67.8	64.3	63.0
Overall	66.0	63.2	60.3	61.8	62.1

Source: Statistics Canada. Census of Canada, 1961, 1966, 1971, 1976, 1981.

centres. The demand for condominiums throughout the 1970s was limited as the preference for freehold tenure remained strong and because of the perception of lower price appreciation potential.

In the past few years, the industry has switched from building condominiums as low-cost starter homes to marketing them as one alternative in luxury accommodation. The demand has increased, particularly among high-income "empty nesters" and older people. Less expensive condominiums are still being built, but they are purchased primarily for investment purposes and are occupied by tenants.

Increased borrower conservatism

Home purchase typically involves the use of mortgage financing. Adjustable rate mortgages, where the rate of interest is subject to change in accordance with prevailing market interest rates when the mortgage is renewed for another term, are

mortgageless home-owners represented about half of all home-owners in 1986, up from 46% some five years ago.

Conclusion

Measured against indicators such as facilities, crowding and physical conditions, Canadians are very well housed. Home ownership is a goal within the reach of the vast majority of Canadians, although changed market conditions have made two incomes a pre-condition for an increasing number of households. Single-person households and childless families are historically tenants. That is slowly being changed by the investment aspect of home ownership. ■

EUGENE A. FLICHEL is senior vice-president, policy, research and programmes, for the Canada Mortgage & Housing Corporation, based in Ottawa.