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Homeownership, income, and residential property values

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Homeownership, income, and residential property values

by **Jumana Al-Tawil**

Overview

This article analyzes the income characteristics of residential property owners in British Columbia, Ontario and Nova Scotia in 2018. It provides new information on owners who claimed the home buyers' amount tax credit in 2017 to offer insights on the income of first-time home buyers and their properties. This article also explores the relationship between owner income and property values, and investigates income distributions of owners in selected areas.

Key findings:

- Owners earned twice as much income as those who did not own a residential property, and were more likely to be employed in higher wage industry sectors.
- First-time home buyers who claimed the home buyers' amount (HBA) tax credit in 2017 earned higher income but owned lower valued properties than all other owners in British Columbia and Ontario.
- The median income of HBA claimants in British Columbia was 30.2% higher than that of other owners in the province while the median value of their properties was 30.9% lower.
- The median property assessment value-to-income ratio was highest in the Vancouver census metropolitan area (CMA) where property values were nine times greater than the income of owners.
- Residential properties owned by the bottom 20% income earners had the highest property value-to-income ratio of 32.3 in the Vancouver CMA.
- Properties owned by the lowest income earners were more likely to be co-owned with non-residents of Canada, and these properties had higher value-to-income ratios than properties owned solely by residents.

Introduction

House prices in Canada have been growing faster than household income. Based on the Teranet-National Bank House Price Index, house prices increased 69.1% between 2007 and 2017 (Teranet and National Bank of Canada, 2019), while median income rose by 27.6% over the same time period (Statistics Canada, 2019). Beyond this, in the first quarter of 2019, Canada's house price-to-income ratio was among the highest across member nations of the Organization for Economic Co-operation and Development (OECD, 2019). These statistics raise questions on the relationship between the income of homeowners and the values of their properties.

Using data from the Canadian Housing Statistics Program (CHSP) for reference year 2018, this article aims to shed light on the income of residential property owners and the value of their real estate holdings in British Columbia, Ontario, and Nova Scotia. New data on claimants of the home buyers' amount (HBA), a federal incentive program for first-time home buyers, provide insights on the characteristics of new entrants into the housing market and their first properties.

This article is structured into two main sections. The first section focuses on individual tax filers in British Columbia, Ontario and Nova Scotia, and performs a comparative analysis of residential property owners[1] to tax filers who did not own any residential property. The focus on owners continues with an analysis of single-property owners who claimed the HBA in 2017 for their first residential property purchase. Following this analysis, the second section compares owner income[2] at the property level to property assessment values to shed light on owner demographics and property characteristics.

1. This subset of owners accounts for 88.1% of the overall population of individual owners who have their primary residence in Canada.
2. The owner income at the property level is obtained by summing the family income of all the property's titleholders.

Section 1. Analysis of owner income

A snapshot of residential property owners

The first part of this section compares the before-tax income and demographic characteristics of tax filers split into residential property owners and those who did not own any property in British Columbia, Ontario, and Nova Scotia.

Largest share of owners work in higher wage industries

The income of residential property owners was considerably higher than the income of those who did not own any residential property. Data from the 2016 Census of Population also show that higher homeownership rates in Canada are generally associated with higher income (Statistics Canada, 2017). The majority – around 70% – of the population in scope for this section, being tax filers, in British Columbia, Ontario, and Nova Scotia were employed[3] in 2017. The largest share of those who were not employed in 2017 earned public or private pension income.

In British Columbia, Ontario, and Nova Scotia owners and those who did not own property were employed in different industry sectors.[4] The largest share of owners in British Columbia and Nova Scotia worked in the public administration sector, which comprises federal, provincial, and municipal governments, while in Ontario they were employed in the manufacturing sector. By comparison, the largest share of those who did not own property in the three provinces worked in the retail trade sector. Wages in the retail trade sector were the lowest among all industries in Canada, where the median hourly rate in 2017 was $16.00, compared to $33.33 in the public administration sector and $22.07 in the manufacturing sector (Statistics Canada, 2018).

Property owners are older and more likely to be married

In each of the three provinces, residential property owners tended to be significantly older than those who did not own property, with the median age of owners around 55 years old while that of individuals who did not own property around 37 years old. More than three-quarters of owners in British Columbia, Ontario, and Nova Scotia were married or in a common-law relationship compared to around one-third of those who did not own property in these provinces.

Spotlight on first-time home buyers

The analysis on owner income provides insights on first-time home buyers who claimed the home buyers' amount in 2017. It also offers details on these owners and the properties[5] they purchased between January 1st and December 31st, 2017.

Home buyers' amount claimants

Claimants of the home buyers' amount refers to individuals who claimed the amount ($5,000) in their federal income tax return form for the taxation year in which the home was acquired. According to the Canada Revenue Agency rules, the claimant and their spouse must not have lived in another home they owned during the preceding four years and must intend to occupy their new home within one year of purchasing it. As such, claimants of homebuyers' amount represent a subset of all first-time home buyers, since some may omit to claim the amount, and include those who may have been homeowners in the past.

HBA claimants in British Columbia and Ontario own lower valued properties

HBA claimants represented around one percent of all single-property owners in British Columbia, Ontario, and Nova Scotia in 2018.

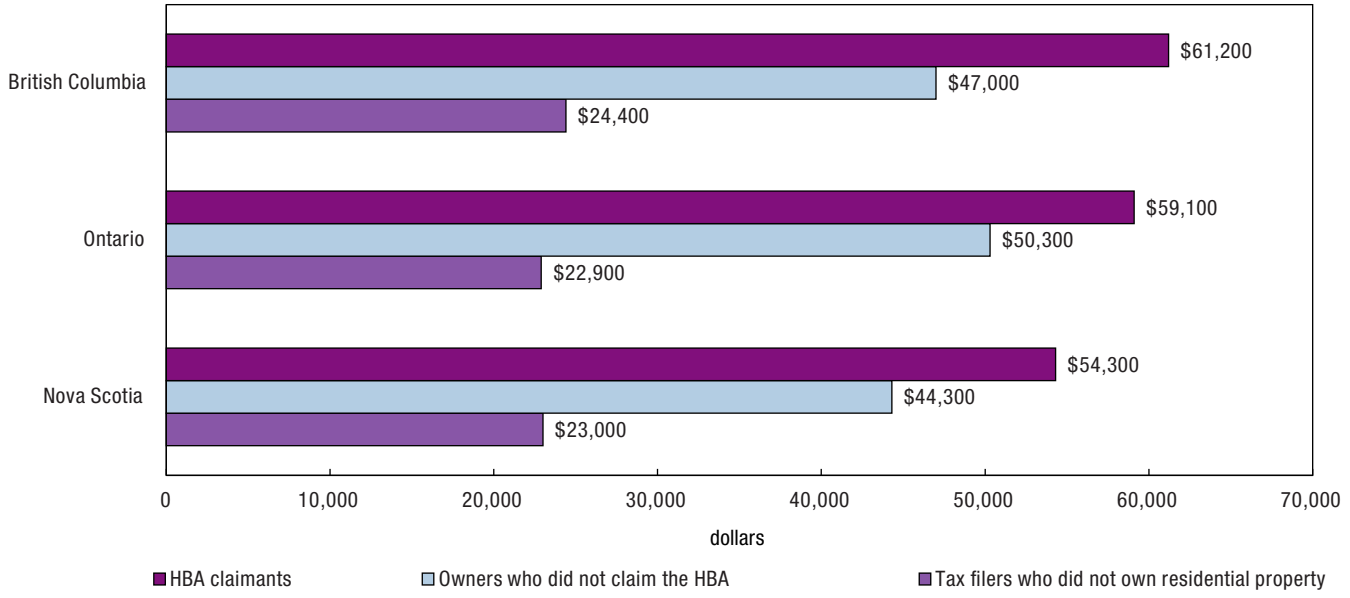
3. The employment status of tax filers is determined based on whether they received employment income in 2017.
4. Figures do not include the sectors for self-employed individuals. Industry sector specifications are based on the North American Industry Classification System (NAICS).
5. This subsection restricts the population to resident single-property owners.

In British Columbia and Ontario, the largest shares of HBA claimants bought their first property in Vancouver (55.5%) and Toronto (40.5%), respectively, similar to the proportion of the provinces' population living in those centres. The majority (53.8%) of HBA claimants in Nova Scotia bought their property in the Halifax CMA, while the population in that province was more concentrated outside the CMA.

HBA claimants earned higher income than owners who did not claim the HBA[6] as well as individuals who did not own property (Chart 1). The income of HBA claimants provides an indication of the income of new entrants to the housing market in these provinces.

Both the median income of claimants and the income gap between claimants and owners who did not claim the HBA (30.2%) were highest in British Columbia.

Chart 1
Median before-tax income by ownership and home buyers' amount (HBA) claimant status, 2018



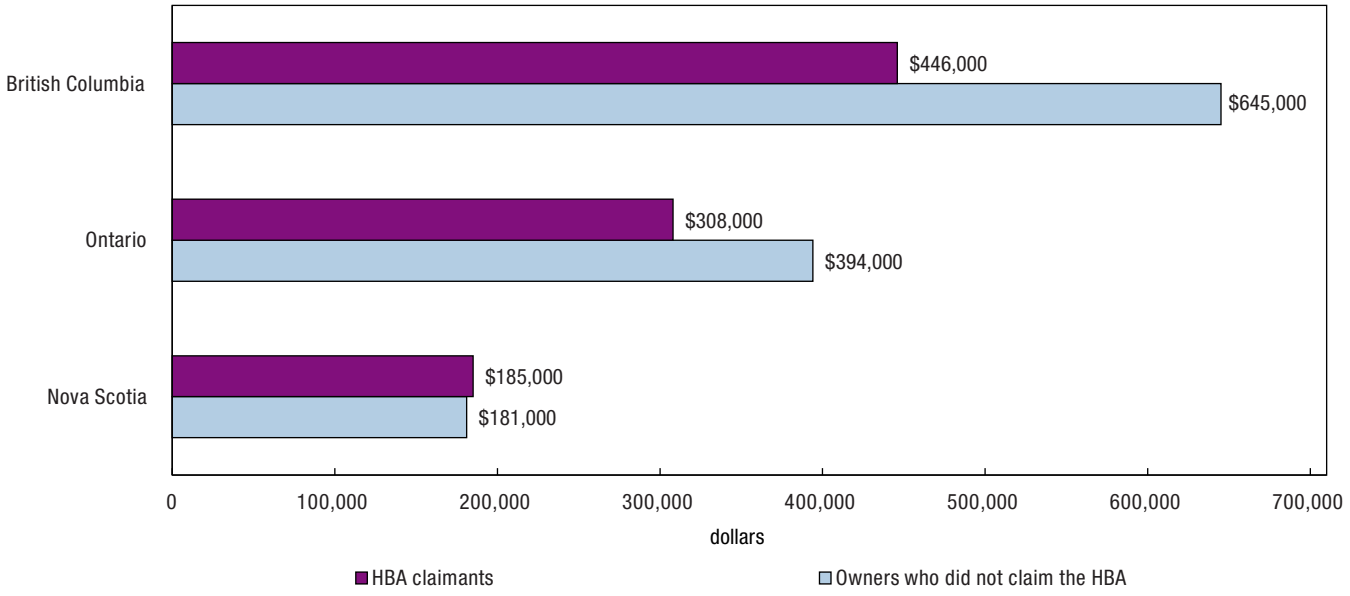
Source: Statistics Canada, Canadian Housing Statistics Program (CHSP) 2018, Tables 46-10-0047-01 and 46-10-0048-01.

Claimants of the HBA earned higher income with 97.9% being employed in 2017 compared to less than three-quarters of all other owners who did not claim the HBA. When restricting to those who were employed, HBA claimants and owners who did not claim the HBA had similar income in Ontario and Nova Scotia, while HBA claimants in British Columbia still earned higher income (7.7%) than owners who did not claim the HBA in the province.

Even though owners who claimed the HBA in British Columbia and Ontario earned higher income than those who did not claim the HBA, claimants purchased properties with lower assessment values than the value of properties owned by those who did not claim the HBA, as shown in Chart 2. The difference was greatest in British Columbia, where the median assessment value of properties bought by claimants was 30.9% lower.

6. These include owners who did not recently purchase property and new home buyers who did not claim the tax credit.

Chart 2
Median assessment values of residential properties by home buyers' amount (HBA) claimant status, 2018

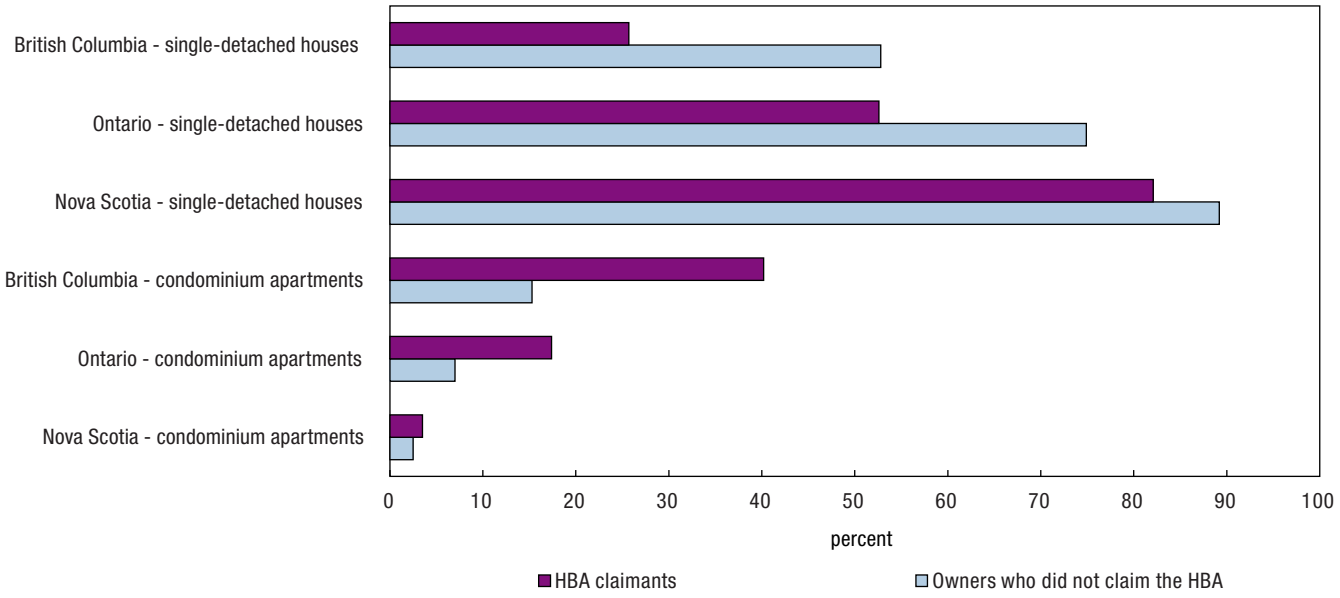


Source: Statistics Canada, Canadian Housing Statistics Program (CHSP) 2018, Table 46-10-0048-01.

HBA claimants in British Columbia and Ontario purchased lower valued properties compared to owners who did not claim the HBA and they had noticeably lower ownership rates of single-detached houses (Chart 3). In fact, one-quarter of the properties bought by claimants in British Columbia were single-detached houses, compared to 52.8% for owners in the province who did not claim the HBA. Claimants in these two provinces also had higher ownership rates of condominium apartments and row houses, as these property types are generally more affordable options than single-detached houses, particularly for first-time home buyers.

By contrast, in Nova Scotia, HBA claimants purchased properties that were slightly higher valued (2.2%) than the properties of owners who did not claim the HBA (Chart 2). Claimants were more likely to live in the higher valued Halifax CMA and own newer and larger properties than owners who did not claim the amount.

Chart 3
Ownership rates of selected residential property types by home buyers' amount (HBA) claimant status, 2018



Source: Statistics Canada, Canadian Housing Statistics Program (CHSP) 2018, Table 46-10-0048-01.

HBA claimants are younger and more likely to be the sole owners of their property

The median age of HBA claimants in the three provinces was between 31 and 33, more than 20 years younger than other single-property owners, and also younger than individuals who did not own any property.

Although overall ownership rates tended to be evenly split between males and females, the share of males among HBA claimants was higher at 58.7%.

Just over half of HBA claimants were married or in a common-law relationship compared to three-quarters of owners who did not claim the amount.

Even though the majority of HBA claimants co-owned[7] their first property, they were still less likely than other owners to co-own. Co-ownership patterns of claimants also varied by property type where more than half who bought a condominium apartment were the sole owners.

7. Co-ownership refers to cases where there is more than one owner registered on the property title.

Section 2. Analysis of owner income at the property level

A comparison of property values to income

In this section, the analysis is conducted at the property level to show the association between property values and the total family income of all owners on the title. While the ratio provided represents a snapshot in time, it is a distinct measure from affordability. These figures do not take into account wealth, past income, unreported income or financial assistance from relatives, as well as the price paid at the time of purchase or if the property was mortgage-free.

Property values are nine times owner income in the Vancouver CMA

Table 1 shows that the assessment value-to-income ratio was highest in British Columbia, particularly in the Vancouver CMA where property values were nine times greater than the income of owners. This value-to-income ratio in the CMA was even more marked for single-detached houses, with assessment values 11.5 times higher than the income of owners.

Table 1
Median assessment value and before-tax income of residential properties and property owners in British Columbia, Ontario, Nova Scotia, and selected census metropolitan areas (CMA), 2018

Geographic region	Median assessment value	Median before-tax income	Median value-to-income ratio
	dollars		
British Columbia	**608,000**	**89,600**	**6.8**
Vancouver	889,000	92,600	9.1
Victoria	661,000	96,300	6.6
Ontario	**376,000**	**95,100**	**3.9**
Hamilton	399,000	98,900	4.0
London	248,000	90,100	2.7
Ottawa–Gatineau (Ontario part)	370,000	117,000	3.1
Toronto	594,000	99,000	5.7
Nova Scotia	**174,000**	**80,700**	**2.1**
Halifax	238,000	97,600	2.4

Source: Statistics Canada, Canadian Housing Statistics Program (CHSP) 2018, Table 46-10-0049-01.

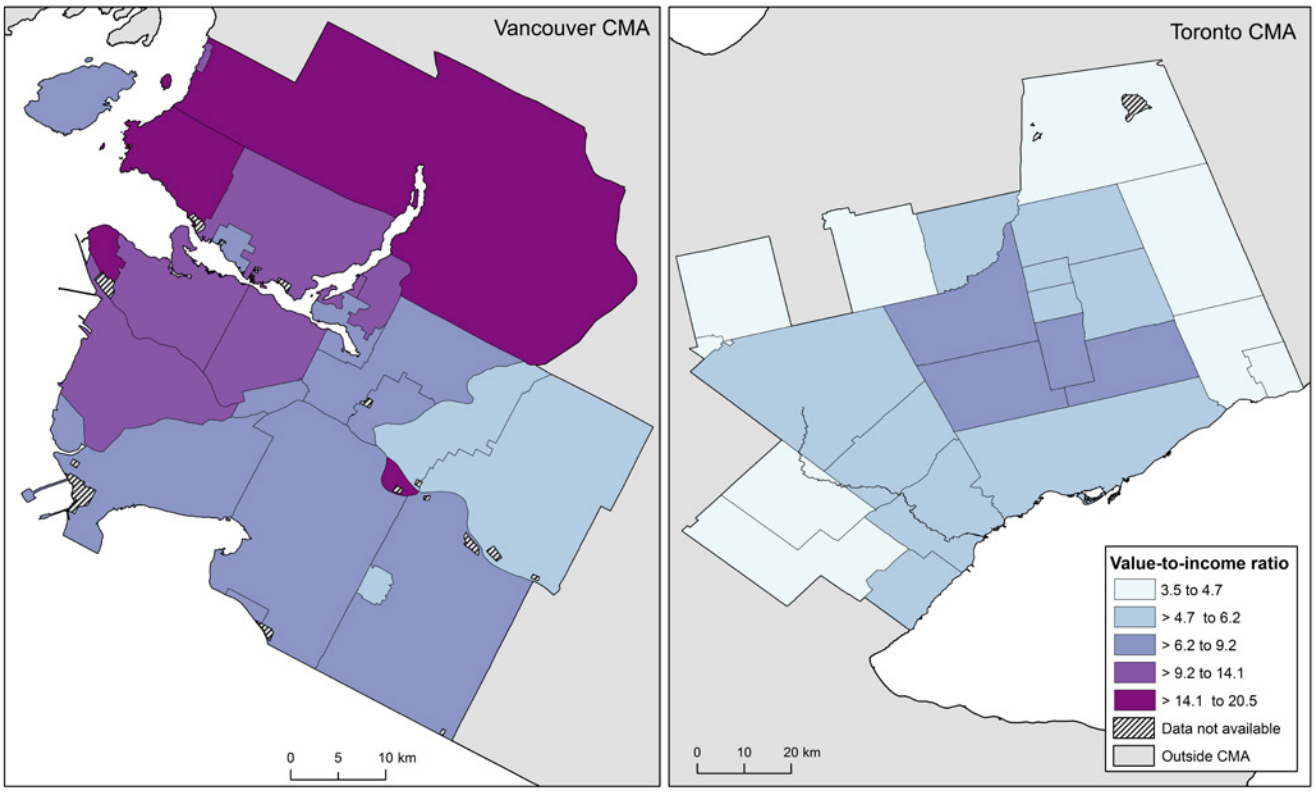
Within the Vancouver CMA, the value-to-income ratios were highest in the census subdivisions (CSD) of West Vancouver (20.5) and Metro Vancouver A (17.7). In West Vancouver this is due to the highest median assessment values ($2.7 million), while in Metro Vancouver A the median income of property owners ($68,800) was the lowest in the CMA.

In Ontario, the highest value-to-income ratio was in the Toronto CMA where property values were 5.7 times the income of owners. This ratio was higher in certain CSDs such as Markham and Richmond Hill where properties were valued around eight times owners' income.

Among all CMAs in the three provinces, the median income of property owners was highest in Ottawa-Gatineau (Ontario part). As a result, the value-to-income ratio (3.1) in the CMA was lower than the provincial level (3.9) even though assessment values were similar. Owner income in Ottawa-Gatineau (Ontario part) was among the highest across all CMAs in these provinces for each of the four main residential property types;[8] particularly owners of single-detached houses whose median income was 33.0% higher than that of all single-detached owners in Ontario.

8. The four main property types comprise single-detached houses, semi-detached houses, row houses, and condominium apartments.

Map 1
Value-to-income ratio ranges in the Vancouver and Toronto census metropolitan areas (CMA) by census subdivision (CSD), 2018



Note: The Metro Vancouver A census subdivision (CSD) includes several unincorporated areas within the Vancouver census metropolitan area (CMA), including the University Endowment Lands and the University of British Columbia, the area north of West Vancouver and North Vancouver, and several islands.
Source: Statistics Canada, Canadian Housing Statistics Program (CHSP) 2018, Table 46-10-0049-01.

Exploring income quintiles in the Vancouver, Toronto, and Halifax CMAs

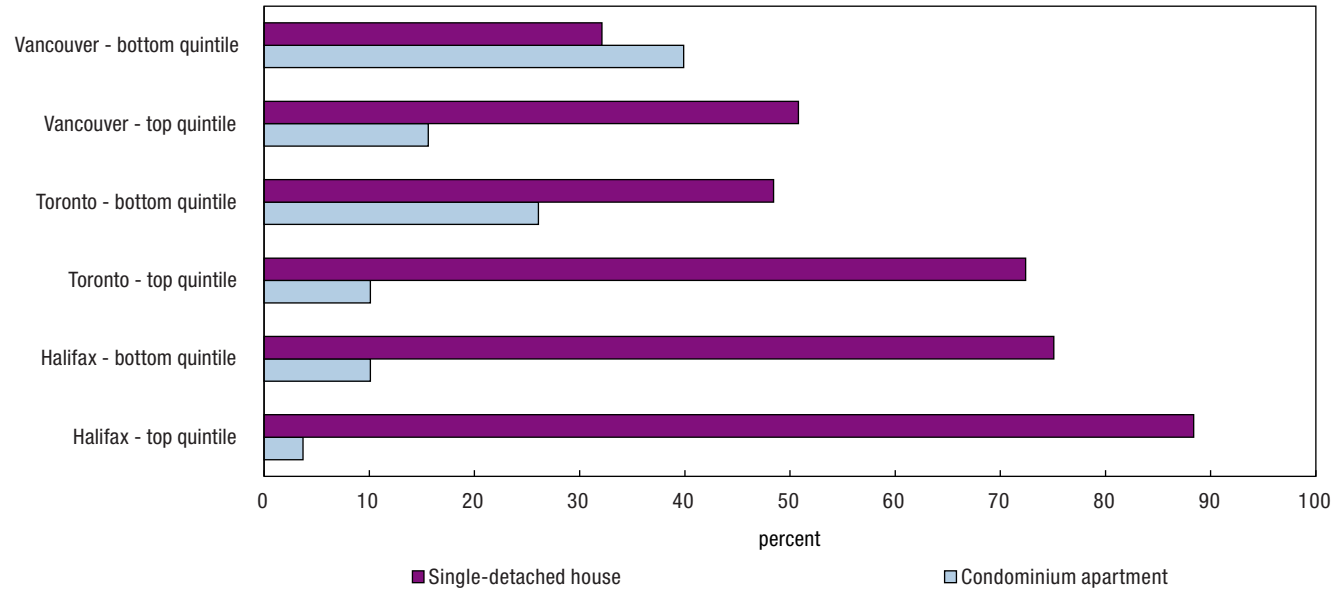
To examine ownership characteristics across different levels of income, the analysis in the remainder of this section is based on the distribution[9] of properties by the income of their owners in the Vancouver, Toronto and Halifax CMAs. The CMAs of Vancouver and Toronto had the highest value-to-income ratios and they accounted for the largest proportion of properties in their respective provinces.

Condominium apartments are more popular in the lowest income quintile

Property owners in the first income quintile (bottom 20% income earners) had higher ownership rates of condominium apartments relative to owners in higher income quintiles (Chart 4). In the Vancouver CMA, 39.9% of the properties in the lowest income quintile were condominium apartments compared to 15.6% for the highest quintile in the CMA. Conversely, single-detached houses accounted for the majority of properties in the fifth income quintile (top 20% income earners) particularly in the CMAs of Halifax (88.4%) and Toronto (72.4%).

9. Income distributions associated with residential properties are classified into five groups of equal proportion, or quintiles. These quintiles are unique at the CMA level to control for regional variations. Refer to Table A.1 in the appendix for income quintile ranges in the CMAs of Vancouver, Toronto, and Halifax.

Chart 4
Ownership rates of selected residential property types by the bottom and top income quintiles, 2018



Source: Statistics Canada, Canadian Housing Statistics Program (CHSP) 2018, Table 46-10-0050-01.

The highest share of properties in the lowest income quintile is owned by unattached individuals and lone-parent families

Exploring patterns of family composition across income distributions reveals that the largest proportion of properties in the lowest income quintile were owned by unattached individuals and lone-parent families, while more than 90% of properties in the top quintile were held by married couples and common-law families.

Properties owned by the lowest income owners have the highest value-to-income ratios

Table 2 reveals that the value-to-income ratio was highest for the first income quintile and lowest for the fifth quintile in the CMAs of Vancouver, Toronto, and Halifax. The differences between the ratios for the lowest and highest income quintiles were more pronounced in the CMAs of Vancouver and Toronto relative to Halifax.

Table 2
Median value-to-income ratios by income quintile, Vancouver, Toronto, and Halifax census metropolitan areas (CMA), 2018

	Vancouver CMA	Toronto CMA	Halifax CMA
Income quintile	value-to-income ratio		
First	32.3	17.1	5.1
Second	12.8	8.2	3.1
Third	8.7	5.5	2.4
Fourth	6.7	4.3	2.0
Fifth	5.1	3.1	1.6

Source: Statistics Canada, Canadian Housing Statistics Program (CHSP) 2018, Table 46-10-0050-01.

The Vancouver CMA had the highest overall value-to-income ratio at 9.1 (Table 1) and the highest ratios across all income quintiles among all CMAs in the three provinces (Table 2). In the Halifax CMA, the value-to-income ratio for the lowest income quintile was similar to the ratio for the top quintile in Vancouver.

Within all CMAs in the three provinces, the CSD of West Vancouver had considerably higher value-to-income ratios across all income quintiles relative to all other CSDs. For the lowest income quintile, the median value-to-income ratio in West Vancouver was 96.4. In the Toronto CMA, the highest value-to-income ratios for the bottom quintile were in Richmond Hill (26.4) and Markham (24.1).

These high value-to-income ratios could be a result of property owners that may have acquired their properties in the past when assessment values were substantially lower, or may no longer be carrying a mortgage. Moreover, these owners may have earned pension income or accrued income outside of Canada, as the following findings show.

More than half of properties in the bottom quintile are owned by pensioners

Properties with owners receiving pension income were more prevalent in the lowest income quintile. More than half of the properties in the Vancouver, Toronto and Halifax CMAs in the bottom income quintile had owners who received pension income from public or private sources. By comparison, around a quarter of the properties in the highest income quintile were owned by pensioners.

Non-resident co-ownership most prevalent in lowest quintile

Properties in the lowest income quintile were more likely to be co-owned with non-residents.[10] Properties which had a combination of resident and non-resident owners generally had higher value-to-income ratios than properties owned solely by residents.

Table 3
Median value-to-income ratios of residential properties by income quintile and residency mix, Vancouver, Toronto, and Halifax census metropolitan areas (CMA), 2018

	Vancouver CMA	Toronto CMA	Halifax CMA
Income quintile		value-to-income ratio	
First			
Resident owners only	32.0	17.0	5.1
Mix of resident and non-resident owners	42.0	22.5	5.9
Second			
Resident owners only	12.8	8.2	3.1
Mix of resident and non-resident owners	14.9	8.7	3.4
Third			
Resident owners only	8.6	5.5	2.3
Mix of resident and non-resident owners	9.4	6.0	2.7
Fourth			
Resident owners only	6.7	4.3	2.0
Mix of resident and non-resident owners	7.0	4.2	2.1
Fifth			
Resident owners only	5.1	3.1	1.6
Mix of resident and non-resident owners	5.0	2.9	1.7

Source: Statistics Canada, Canadian Housing Statistics Program (CHSP) 2018, Table 46-10-0050-01.

In the Vancouver CMA, 4.3% of residential properties – about 3,900 – with owners in the lowest income quintile had a mix of resident and non-resident owners, compared to 1.7% for the top income quintile. Within the CMA, the share of properties co-owned with non-residents was highest for the lowest income earners in the CSDs of Vancouver and Metro Vancouver A at 5.6%.

10. Non-resident owners in most cases do not report any Canadian income, and the data used for this article do not account for worldwide income earned by non-resident owners.

Note to readers

The data used in this study are compiled from the Canadian Housing Statistics Program (CHSP) for the reference year 2018 which is linked to tax data from the T1 family file (T1FF) for the tax year 2017. Data in the T1FF includes all individuals who filed an individual T1 tax return which is combined with other tax files received from the Canada Revenue Agency.

The analysis in Section 1 is restricted to individuals who filed non-negative and non-zero income in their T1 tax return form in 2017. Non-individual owners (such as firms and governments) and non-resident owners are not included. This section includes single-property and multiple-property owners. The subsequent subsection on claimants of the home buyers' amount refers to single-property owners only who also claimed non-negative and non-zero income in 2017. Although the division of tax filers into owners of residential property and those who do not own property covers all tax filers, more than one owner may be on the title for a property, and the non-owner group may include people who are living in the owner's property, such as a spouse who is not on the property title.

The analysis in Section 2 is restricted to residential properties that are owned and occupied by single-property owners whose aggregated family income at the property level in 2017 was greater than zero. Properties owned by non-individuals such as firms and governments, as well as properties that are solely owned by non-residents of Canada are excluded.

Demographic analysis such as age, sex, and marital status, does not include unspecified values when calculating percentages to bring totals to 100%. Age is calculated as of December 31st 2017.

The number of home buyers' amount claimants in the CHSP does not correspond to the number of claimants published by the Canada Revenue Agency. This may be explained by:

- Claimants who purchased newly built properties or properties still undergoing construction which have not yet been occupied and assessed as of the reference period, or
- Claimants who did not yet occupy their property, as they are required to do so within one year of purchase.

Before-tax individual income refers to total income of individual, before deductions for income taxes, during the year 2017. This income measure is the sum of market income and government transfers. Market income includes employment income, investment income, private retirement income and other income from market sources. Government transfers refer to all cash benefits received from federal, provincial, territorial or municipal governments during the year 2017.

Employment income refers to wages and salaries, commissions from employment, training allowances, tips and gratuities, and net self-employment income (business, professional, commission, farming and fishing income).

Residential property refers to all land and structures intended for private occupancy, whether on a permanent or a temporary basis. A residential property may have more than one owner.

Assessment value refers to the assessed value of the property for the purposes of determining property taxes. It is important to note that the assessed value does not necessarily represent the market value. Given that different provinces and territories have their own assessment periods and durations of the valuation roll, it is difficult to make accurate comparisons of similar properties from one province or territory to another. The assessment values in Nova Scotia and British Columbia are in 2017 dollars, while the assessment values in Ontario are in 2016 dollars. For properties that are being utilized for both residential and non-residential purposes, only the residential portion's value has been taken into account.

Pensioner refers to an individual who received pension income in 2017 from public and private sources such as Canada Pension Plan (CPP) or Quebec Pension Plan (QPP), Old Age Security (OAS), net federal supplements, and Registered Retirement Savings Plan (RRSP).

Appendix

Table A.1
Before-tax income ranges of residential properties by quintile, Vancouver, Toronto, and Halifax census metropolitan areas (CMA), 2018

	Vancouver CMA	Toronto CMA	Halifax CMA
Income quintile	before-tax income range		
First	Less than $44,100	Less than $49,300	Less than $53,900
Second	Greater than or equal to $44,100 and less than $75,800	Greater than or equal to $49,300 and less than $81,800	Greater than or equal to $53,900 and less than $83,400
Third	Greater than or equal to $75,800 and less than $111,300	Greater than or equal to $81,800 and less than $118,200	Greater than or equal to $83,400 and less than $113,900
Fourth	Greater than or equal to $111,300 and less than $162,300	Greater than or equal to $118,200 and less than $173,700	Greater than or equal to $113,900 and less than $157,000
Fifth	Greater than or equal to $162,300	Greater than or equal to $173,700	Greater than or equal to $157,000

Source: Statistics Canada, Canadian Housing Statistics Program (CHSP) 2018.

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