



Socio-economic Series

Issue 8

Concentration of wealth through ownership

Introduction

Most two thirds of Canadians live in their own home. They, like many others with the same aspirations, see owning their home as a way of improving their financial situation in the long run. Inflation in property prices and the capital gains tax exemption for principal residences can help increase the wealth generated by ownership.

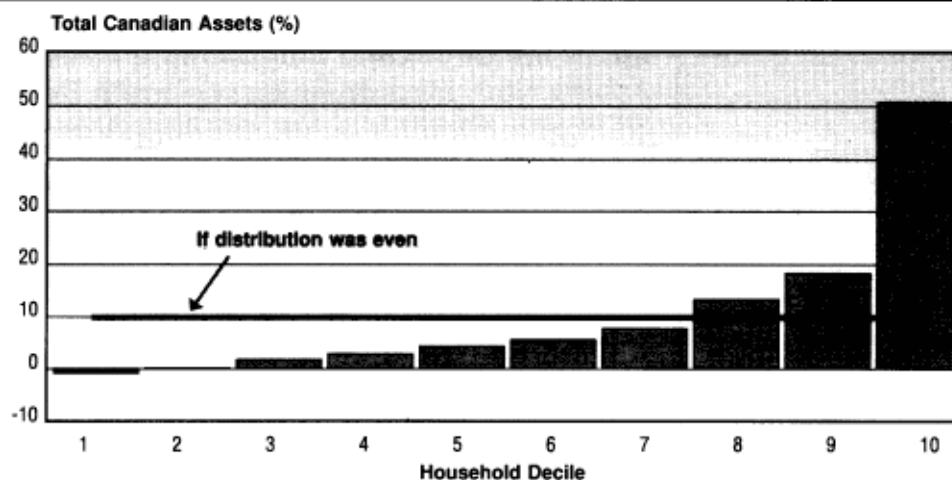
Are home owners much wealthier than renters? Has the concentration of wealth in the hands of the property owners increased in recent years? This issue contains the findings of a study on these questions by CMHC.

The answers to these questions are based on data from the Survey of Consumer Finances conducted by Statistics Canada. The most recent survey was carried out in 1984.

For our purposes, wealth is measured as the difference between assets and debt, also called "net worth." Assets include liquid goods such as cash, savings and bonds; less liquid financial assets; the resale value of cars; and the value of real estate and commercial, agricultural or other goods. Personal debts and mortgages, as well as debts on commercial and farm property, are subtracted from the total value of the assets to determine "net worth."

Are
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Figure 1
Distribution of Household Wealth, 1984



Findings

Distribution of Wealth

Wealth is not evenly distributed among Canadians. More than one half of the country's total wealth is controlled by 10 per cent of households (last decile on the chart). Forty per cent of households alone control 89 per cent of total net worth. Almost all of these households (93 per cent) own their own residence.

On average, owners are seven times wealthier than renters. The average net worth of owners was \$121,197 in 1984, compared to \$16,440 for renters.

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Property Assets Compared to Total Wealth

A major portion of the owners' wealth is traced to their residence. In fact, the capital tied up in residences, minus the outstanding mortgage, accounts for 68 per cent of total net worth. The importance of net property values is highest in Ontario, at 75 per cent. It is the only region where the percentage increased since 1977. Everywhere else, the importance of net property values declined between 1977 and 1984.

**Table 1
Net Property Values as a Percentage of Total Worth**

	1977	1984
CANADA	71	68
Atlantic Provinces	83	72
Quebec	68	63
Ontario	73	75
Prairies	63	61
British Columbia	75	64

Profile of Owners and Renters

Apart from wealth, certain socio-economic characteristics such as age, income and education distinguish owners from renters and, to a certain extent, determine the degree of wealth. On average, owners are older and earn more than three times the income of renters.

**Table 2
1984 Profile**

	Owner	Renter
Average income	\$66,150	\$19,740
Average age	49 years	42 years

In general, owners are not more educated than renters. However, owners with outstanding mortgages are more likely to have reached the post-secondary level than renters.

Table 3
Level of Education in 1984

	Renters (%)	Owners (%)	Owners	
			with mortgages (%)	without mortgages (%)
Primary	22	26	13	39
Secondary	44	41	44	39
Post-Secondary	33	33	42	22

Differences in Wealth between Owners and Renters

The gap in wealth between owners and renters did not widen between 1977 and 1984. It remained at approximately 104 000 constant dollars. The concentration of wealth did not, therefore, increase during this period. Given a lack of data, we were unable to examine more recent periods.

The most reasonable explanation for the stable gap is the modest impact of inflation on property prices during this period. In fact, the price of new housing across the country increased by 22 per cent between 1977 and 1984, while the general consumer price index rose by 80 per cent over the same period. Property was therefore not a wealth-generating asset.

Regional Variations

The gap in wealth between owners and renters even decreased in Ontario (by approximately 1 per cent) and in the Prairie provinces (by 9 per cent). However, the gap widened considerably in Quebec (19 per cent) and in the Atlantic region (20 per cent), and slightly in British Columbia (3 per cent). The increasing concentration of wealth in the hands of owners in the Atlantic provinces and Quebec is not due, however, to an increase in the net value of their properties. The importance of net property values decreased in both regions between 1977 and 1984, as Table 1 shows.

Table 4
Gap in Wealth between Owners and Renters
(in thousands of constant dollars)

Region	1977	1984
CANADA	104.0	104.8
Atlantic provinces	53.9	64.8
Quebec	70.5	83.9
Ontario	111.8	110.4
Prairies	140.3	127.5
British Columbia	122.5	126.6

Between 1977 and 1984, property was not a wealth-generating asset. The gap in wealth between owners and renters remained at approximately 104000 constant dollars.

Table 5
Gap in Wealth between Owners and Renters (in thousands of constant dollars)

Region	Urban pop. ~ 100,000		Urban pop. ~ 100,000		Rural	
	1977	1984	1977	1984	1977	1984
CANADA	108.7	113.0	81.3	83.0	116.2	104.8
Atlantic	81.7	87.2	47.7	64.2	51.8	57.9
Quebec	80.1	90.3	66.7	77.4	64.5	80.4
Ontario	108.1	119.9	90.6	76.9	161.7	118.9
Prairies	117.1	100.8	105.9	101.4	213.2	181.9
British Columbia	145.7	147.6	78.5	103.0	113.0	87.0

Difference by Zone

The gap in wealth narrowed in rural areas between 1977 and 1984. In the most densely populated areas, however, the differences generally grew sharper, although the Prairie region is an exception.

Conclusions

Wealth is concentrated in the hands of Canadian property owners. However, ownership is no guarantee of wealth accumulation. Between 1977 and 1984, owners' wealth did not appreciably increase because of property assets.

Renters, however, are more vulnerable to economic conditions than owners. In general, renters are younger, their incomes are lower and they are less wealthy than owners. They also have less education than owners with outstanding mortgages.

These findings were compiled from work by the Research Division of Canada Mortgage and Housing Corporation. Any questions concerning the content of this issue can be addressed to Marie H el ene Pastor, Researcher Economic Analysis, (613) 748-2314.

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