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IN BRIEF

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Rates of Home Ownership and Household Debt

MORE AND MORE CANADIANS OWN THEIR OWN HOMES

Over the past 30 years, the number of homeowner households in Canada has increased faster than the number of renter households. Accordingly, the proportion of owner-occupants has grown steadily. Between 1991 and 2001, the number of homeowner households increased even more rapidly, whereas the number of renter households increased only slightly. According to census results, the proportion of homeowner households rose from 62.6%, in 1991, to 65.8%, in 2001 – a considerable increase.

| Proportion (in %) of Homeowner Households in Canada | | | |
|-----------------------------------------------------|------|------|------|
| | 1971 | 1991 | 2001 |
| Newfoundland and Labrador | 80.0 | 78.6 | 78.2 |
| Prince Edward Island | 74.3 | 73.6 | 73.1 |
| Nova Scotia | 71.2 | 70.6 | 70.8 |
| New Brunswick | 69.4 | 74.1 | 74.5 |
| Quebec | 47.4 | 55.5 | 57.9 |
| Ontario | 62.9 | 63.7 | 67.8 |
| Manitoba | 66.1 | 65.8 | 67.8 |
| Saskatchewan | 72.7 | 69.9 | 70.8 |
| Alberta | 63.9 | 63.9 | 70.4 |
| British Columbia | 63.3 | 63.8 | 66.3 |
| Yukon | 50.2 | 57.6 | 63.0 |
| Northwest Territories | 27.4 | 31.5 | 53.1 |
| Nunavut | n/a | n/a | 24.2 |
| Montréal | 35.5 | 46.7 | 50.2 |
| Toronto | 55.4 | 57.9 | 63.2 |
| Vancouver | 58.8 | 57.5 | 61.0 |

Source: Canada Mortgage and Housing Corporation (CMHC).

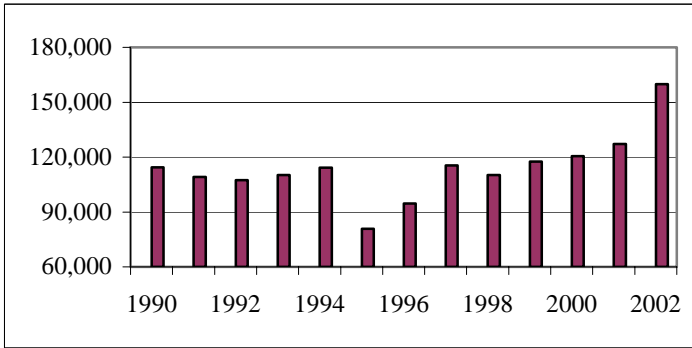
The most spectacular increase in the rate of ownership has, without a doubt, been in Quebec, where the rate jumped by 10.5 percentage points in 30 years. In 2001, for the first time ever, the number of homeowners exceeded the number of renters in the metropolitan Montréal area (50.2%). Even more appreciable increases may be seen in the Territories. It should be noted, however, that the rate of ownership declined over the past 30 years in four provinces – Newfoundland and Labrador, Prince Edward Island, Nova Scotia and Saskatchewan. Rural exodus and urbanization may be at the root of this decline.

A CONTINUING GENERAL TREND

Demographic trends contributed to the increased number of owner-occupants. The probability of becoming a homeowner increases with age. In the 1970s, the first of the baby boomers began to leave home. By the end of the 1990s, most of the baby boomers, aged in their late 30s to late 50s, had bought a home.

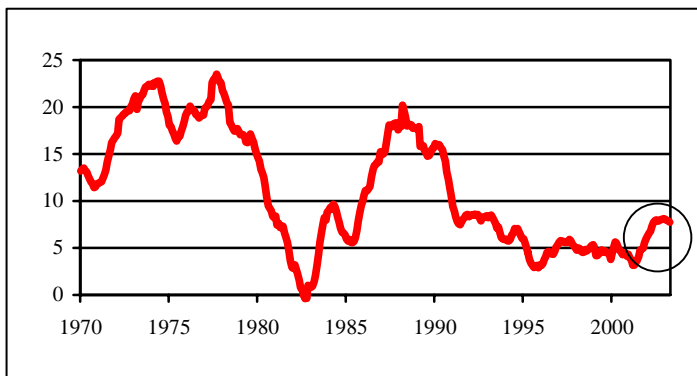
In economic and financial terms, the drop in mortgage rates, increased employment, an increase in disposable income and the opportunities offered by flexible federal programs encouraged many renters to buy. Given the trends indicated by data on housing starts (Figure 1), the mortgage credit (Figure 2), housing sales and the vacancy rate, the number of Canadians owning their own homes continued to grow in 2002 and 2003.

Figure 1
Single and Multiple Housing Starts in Canada



Sources: CMHC and Library of Parliament.

Figure 2
Annual Growth (in %) of Mortgage Credit



Data seasonally adjusted and annualized.

Sources: Statistics Canada and Library of Parliament.

RATES OF OWNERSHIP IN CANADA AND IN THE INDUSTRIALIZED WORLD

Despite real and forecast increases in recent years, fewer people own their own home in Canada than in a number of English-speaking countries with which it is often compared. In the United States, the rate was 68.6% at the end of 2003, according to the Census Bureau. The aim of American authorities (Fannie Mae)⁽¹⁾ is to raise the rate to 70% by 2010. In Australia, the rate is 71.5%, and in the United Kingdom it is nearly 70%.

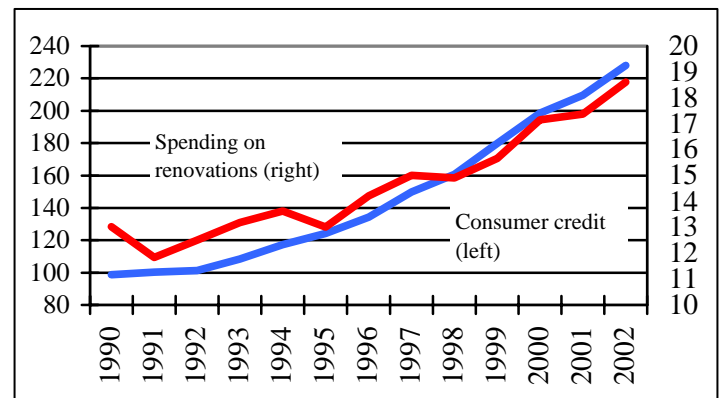
Data (from 1999) on the countries in the European Union (excluding the United Kingdom) vary considerably in terms of ownership rates. They are very high in Spain (81%), Ireland (79%) and Belgium (74%), but relatively low in Germany (43%), Denmark (51%) and the Netherlands (52%).

RATES OF HOME OWNERSHIP AND HOUSEHOLD DEBT

Given the data on the rising rates of ownership, it should come as no surprise today that household debt in Canada has reached 101.2% of disposable income. Some 71.2% of this debt takes the form of a mortgage on an asset that, fortunately, appreciates over time. Insofar as mortgage payments are adjusted to households' ability to pay, the purchase of a house is usually a wise financial decision.

Most troubling to observers is the fact that the ratio of consumer credit to Canadian household income is 30% (as opposed to 23.8% in the United States).⁽²⁾ While consumer credit includes various things (cars, etc.), homeowners are well aware that the purchase of a home involves expenses that tenants rarely face. These expenses go well beyond monthly mortgage payments, municipal taxes and heating costs, which are often higher than those used in the credit evaluations done by financial institutions. Houses are both a consumer good and an investment. The *consumer* aspect often takes precedence, and the increased consumer credit may be explained in part by the increased household expenses (other than the mortgage). In this regard, the rapid increase in spending on renovation and the growing number of home renovation depots in Canada are significant (Figure 3).

Figure 3
Consumer Credit and Spending on Renovations*
(\$ billion)



* Spending on remodelling and improvements only.

Sources: Statistics Canada and Library of Parliament.

In short, household debt, which is often associated with the purchase of an asset, is probably underestimated both quantitatively and qualitatively, because of the consumer spending habits of many households.

- (1) See the Web site of Fannie Mae, the official name of which is the Federal National Mortgage Association (<http://www.fanniemae.com>).
- (2) The American mortgage system makes it easier to refinance mortgages and withdraw equity. In this way, households can *remortgage* their principal residence to cover consumer spending. This option is very popular among American homeowners, as the interest on their mortgage payments is tax deductible. The mortgage debt of American households represents 79.8% of their disposable income.