

Investigating Intergenerational Wealth Within GTA's Real Estate Industry

In a massive oceanic storm, a lifeboat suddenly appears, to save only one out of the three that were fighting for their lives. Similarly, generational wealth works like this; many will struggle, but some have the advantage to have assets, with monetary value transferred down from one generation to them, thus having a significant financial advantage over those who do not have any inherited wealth. In real estate, the recent trend of generational wealth transfer from parents to their children impacts the supply, demand, competition for housing properties and ultimately increases the prices in the Greater Toronto Area, whilst perpetually benefitting the rich, and hurting the poor. First, the generational wealth transfer has created more demand for housing properties and has increased competition in the real estate market in the Greater Toronto Area. Since demand and supply are intertwined, this whole movement has created less supply of affordable houses for buying and renting in the Greater Toronto Area. Moreover, rising housing prices are the result of the increase in demand, less supply, which overall stems from generational wealth transfer. As a result, there are plenty of housing options available in the Greater Toronto Area for the wealthy, to live and invest in, but not for those who do not have the advantage of hereditary wealth.

First, the generational wealth transfer has created more demand and competition in the real estate market in the Greater Toronto Area. In the GTA, those who have wealth could invest in buying properties, renting, and, passing it on to future generations who could sell it eventually. Real estate investment will create passive income for the investors- specifically those given the advantage of wealth transfer: In the case of rent, albeit prices may fluctuate sporadically, investors can obtain tax advantages, such as the opportunity to claim depreciation as a tax exemption. Homes, on the other hand, have continually gained in value annually and thus the following generation could also opt to sell it for significantly more than the original cost. Those

children with access to transferred wealth, have the money to buy such properties, and thus competition arises, as they bid for other houses. To continue building wealth, this cycle often repeats itself, as there is more demand from investors (with the intergenerational wealth), and thus as the affluent continue buying properties, there is less supply. Moreover, the surge in demand for ground-related housing is the consequence of basic causes such as ageing millennials' propensity to move out of their parents' houses and into the ground-related property in regions across the GTA; those backed by generational wealth have an advantage (Clayton F, 2016). Furthermore, even though the overall number of new housing units in the Greater Toronto Area has risen at a rate per the underlying population rise in the number of families, this does not imply that everyone has equal access to housing alternatives. Since the population of people who did not have such an advantage-passed on wealth/money to put down payments for buying houses is also increasing yearly, and there will be significant competition for rental properties. With Canada being deemed as a vast, well-developed country with a good economy, one would think the supply would meet the demand, right? Well, unfortunately, that is not the case. According to the Canadian Urban Institute, the demand for new housing in the Greater Toronto Area “far outweighs supply” (Scrinko, 2021). This would mean that the government would have to spend money on creating prospective housing properties. Overall, demand soon outstrips supply, prices grow enormously, and customer expectations fuel speculation.

Moreover, since the concept of demand and supply is inextricably linked, the generational wealth transfer trend has resulted in a decrease in the number of affordable residences for sale and rent in the Greater Toronto Area. Since homebuyers, with this intergenerational wealth, are meticulous about the type or size of the housing they live in the market is not in a reasonable balance between demand and supply; and thus, price does not

increase at moderate at the regional level. In the Greater Toronto Area, a substantial proportion of the new completions have been high-rise condominium apartments whereas most of the demand has been for ground-related housing. Thus, because there are few uninhabited, ground-related houses, for those who have inherited wealth to purchase, the cycle of high bidding continues. Therefore, prices increase, and so there is going to be less affordable houses, for those in lower classes, without this intergenerational wealth. Some people may opt to rent, or some may choose to live in community houses. Unfortunately, sometimes there is a long waiting time for both social and community housing, it could be around five to seven years (Scrinko, 2021). This seems like forever- people should not have to wait for so long only to continue living in housing insecurity, as community housing does have its disadvantages. The solution to greater housing access and affordability is to increase the supply; According to Executive Chairman of PMA Brethour Real Estate Corp. Inc, the rampant issue with this approach is that “municipal approvals take more than 10 years, on average, from land purchase to project construction and delivery” (Andrew Brethour, 2016). However, with growing demand from the population, those without the advantage of wealth cannot wait that long. With less supply, more demand, those prices will continue increasing, more bidding wars continue, making the affluent-with intergenerational wealth richer- and those without, more in need.

Moreover, rising prices of homes stem from generational wealth transfer, which causes an increase in supply and demand. Subsequent generations that inherit properties will be able to receive a profit on their grandparent's or parents' initial investments. The prospective generation with transferred generational wealth can perpetually place high bids for houses, to buy, and sellers continue increasing the housing prices, and it becomes a cycle. However, purchasing a housing property remains a challenge for many as property prices continue to rise in tandem with

inflation and increased borrowing costs. Homeownership seems more like a pipe dream for young individuals, in the GTA. Students or children from university who have access to their parent's assets are well-off and can be able to afford to buy such expensive houses. However, those who have not had the wealth passed, on, will not have any money to buy houses.

According to a tenured University of BC professor, young people are being hurt by this issue and thus "the deck is stacked against younger Canadians," (Kershaw, 2015). Indeed, housing disparities caused by a lack of intergenerational wealth transfer marginalize many students even further, therefore "reproducing social hierarchies and class, gender, racialized, or ageist divides" (Sotomayor, Tarhan et. al, n.d). Thus, the lack of affordable housing impacts students' academic life, health, and overall wellbeing. Moreover, an increase in competition for prospective buyers, (not students), results in higher prices, and those people who are now buying real estate, especially in the middle classes end up putting most of their salary to cover housing, mortgages. As a result, the employees on whom the Toronto region is reliant, such as healthcare professionals, supply teachers, social workers "continue to be priced out of the communities in which they work" (Smith, 2021). According to Wowa Leads Inc, the average home sold price in Toronto increased by 28% year over year to \$1,334,544 in February 2022, making Toronto the most expensive housing market in Canada (2022). This is crazy high- for those earning minimum wage, or even higher salaries without that advantage of wealth transfer, still would not be able to afford this. As well, for those who are homeowners right now but want to buy a property for investment, there are more likely to buy one outside the GTA as there are more affordable. Placing down payments, covering mortgages, would all be as difficult as fitting an elephant into a miniature room. Due to this, outmigration becomes a rampant problem, and people, lacking generational wealth opt to go to universities, find employment, or buy homes to live outside of

the GTA, to avoid the soaring prices of homes, and to get more affordable housing, housing that optimizes their salary. Thus, according to Prism Economics' analysis of the research, the cumulative losses from outmigration, greater turnover, wage pressure, and lost productivity caused by rising housing costs, would be \$29.4 billion to \$37.9 billion over five years in the GTA. (Smith, 2021). Overall, these dramatic increases in homes, can be attributable to the transfer of generational wealth, need to invest, less supply, yet more demand and need to invest in housing properties.

In summary, there are plenty of housing alternatives accessible for the affluent in the Greater Toronto Area, but not for numerous who do not have the privilege of generational wealth. Thus, the recent trend of generational wealth transfer from parents to their children impacts the supply, demand, competition for housing properties and increases the prices in the Greater Toronto Area. First, the generational wealth transfer from parents to their children or grandchildren has created more demand and competition in the real estate market in the Greater Toronto Area. Furthermore, the generational wealth transfer from parents (or grandparents) to their children (or grandchildren) has created less housing supply in the real estate market in the Greater Toronto Area and as a result, there has been an increase in housing prices. Finally, additional pricing flexibility is required, as well as a review of Toronto's overall housing policy by the city council to reduce housing inequalities and accommodate more people: If this endeavour is taken seriously, the housing market, as well as the inhabitants of the GTA, will prosper.

References

- Kershaw, P. (2015, October 6). *How the deck got stacked against young Canadians*. Thestar.Com. Retrieved March 22, 2022, from <https://www.thestar.com/opinion/commentary/2015/10/06/how-the-deck-got-stacked-against-young-canadians.html>
- Scrinko, J. (2021, October 12). *5 Causes Behind the Toronto Housing Crisis*. Precondo. Retrieved March 22, 2022, from <https://precondo.ca/toronto-housing-crisis/>
- Smith, A. (2021, July 21). *Housing Affordability Crisis Costs GTA Up to \$8B Annually*. Retrieved March 22, 2022, from <https://storeys.com/gta-housing-affordability-crisis-8-billion-anually/>
- Toronto Housing Market: Mar. 3rd, 2022, Update | Interactive Map | Price History Since 1954 - WOWA.ca*. (n.d.). Wowa Leads Inc. Retrieved March 22, 2022, from <https://wowa.ca/toronto-housing-market>
- Sotomayor L. et. Al. (2022). *When students are house-poor: Urban universities, student marginality, and the hidden curriculum of student housing*. ScienceDirect. Retrieved March 22, 2022, from <https://www.sciencedirect.com/science/article/pii/S0264275122000117>
- Frank A. Clayton. *Will GTA Homebuyers Really Give Up Ground-Related Homes for Apartments?* (2016, August 15). Retrieved March 22, 2022, from https://www.ryerson.ca/content/dam/centre-urban-research-land-development/pdfs/Projects/CUR%20Report_Will%20GTA%20homebuyers%20give%20up%20ground-related%20houses%20%20for%20apartments.pdf