The Great Wealth Transfer and its Impacts on the Epidemic of Housing Unaffordability in the GTA

Much has been researched, predicted, and suggested about the next generation in relation to the significant wealth transfer on the horizon in Canada — their readiness; the various social, educational, workforce, and economic trends they may face; and how these and other factors may impact their financial decisions or planning approach. As an anticipated 9.6 million baby boomers enter retirement (*Generations in Canada*), the Great Wealth Transfer is already well begun, transferring up to $1 trillion in wealth to future generations through inheritances and assets such as real estate (Manulife Private Wealth). Over the next 10 to 25 years, a wealth transfer of this magnitude will have an impressive impact on the real estate market. According to experts, this transfer will turn young people into "alpha buyers of real estate and other high-ticket items" (Coughlin), as well as fantastic next-gen clients of financial advisors, banks, and other businesses. In the GTA, demand and competition for mid-priced properties will skyrocket, the supply of single-family homes will dramatically increase, and the price of homes will continue to accelerate. Consequently, the average person looking to become a homeowner will struggle to fulfill this desire without the privilege of help from affluent parents.

One does not need to be an economist to understand the relationship between supply and demand and how it affects values. There is a severe scarcity of residences in the mid-price bracket (Altstedter). As a result, parents and grandparents are giving more money to their children so that they can buy a more expensive home, which is more readily available. All baby boomers, those born between 1946 and 1964, will be

65 years old or older by 2030 (*OK, boomer! The future for Canada's soon-to-retire demographic*). As such, this time in their lives can include estate planning to lower heirs' tax burdens, simplifying or reducing their real estate portfolio, or arranging for care in their later years, which may include in-home or other senior housing options. All of these factors have an immediate and long-term impact on the real estate market by affecting the supply and demand for specific properties. Baby boomers own a substantial share of Canada’s real estate (Stokes). While many people prefer to age at home, this generation will eventually pass away or require full-time care, necessitating a move to a senior living facility. Over the next couple of decades, this transformation will boost the supply of single-family houses while increasing demand for senior housing, such as assisted living or nursing facilities.

This transition explains why so many millennials are buying homes: they may borrow money from their parents, who have downsized and noticed a big difference between the price they paid for their single-family home and the price they paid for their smaller condominium or condo. “This has been a huge impact in what we are seeing now 100 percent," says Andrew Ramlo, vice president, consulting, for The Rennie Marketing Group of Vancouver (*The Great Generational Wealth Transfer is under way*). He described a hypothetical couple in their late 30s with enough money to buy a $500,000 condo. Then, their parents show up with a $100,000 offer. They now have enough money to buy a much more expensive condo without having to increase their mortgage payment. “This is something that will gradually have an impact on market prices across the country,” Mr. Ramlo predicted. “It will also explain, at least in part, the disparity between median family income and the value of the homes people are buying.”

That median income doesn't include the tax-free cash that parents contributed. One can assume that once the pandemic comes to an end and its financial consequences have been tallied, governments will be looking for methods to pay for everything. In regards to this notion, Mr. Ramlo “believe[s] they will want to tax wealth in some form or another.” As such, baby boomers have a greater incentive to part with more of their money now, before the government seizes it.

Aside from merely large sums of money, much of the wealth that will be passed down may be in the form of real estate. The heirs may desire to preserve the property as a primary or secondary house or for short- or long-term rental income, however, they frequently sell it (Brumer-Smith). Given that the typical property appreciates 6.11 percent each year (Rendaje), folks who inherit a home may have a fantastic opportunity to profit from their parents' or grandparents' value. Due to the difficulties that inheriting a home in these circumstances might bring, distressed-property real estate speculators frequently target out-of-state heirs or numerous heirs when buying a home in probate (King et al.). This indicates that over the next few decades, investors may see an increase in probate trades. The tax burden and estate planning involved in making the wealth transfer as easy and inexpensive as possible are, however, the most important aspects of the wealth transfer as a whole. Those about to retire or who are already retired should have a plan in place, especially if they own real estate, as heirs who inherit money or a home without making suitable provisions may face steep inheritance taxes (Brumer-Smith). Though there is considerable discussion concerning the widening wealth gap between baby boomers and millennials, this massive wealth transfer is a significant aspect of what can and will help close that gap. Inheriting money or real estate can be a critical stepping stone to success, particularly in a difficult economic or housing market.

The emergence of affluent millennials, wealthy families with large financial reserves, and remote-working habits have produced a “perfect storm” in the world of high-end real estate (Mullen). In an interview with the Financial Post, Don Kottick, CEO of Sotheby's Canada, said, “We've witnessed altering homeowner and buyer needs.” The desires of individuals in terms of what they look for in their home has changed fundamentally (Mullen). As a result, the way in which realtors conduct their business with their clients has been impacted significantly. According to many realtors, there have been instances where a buyer's representative realtor disagreed with the list price and urged their client not to pay it (Faulkner). The home then falls into pending status, and their buyer misses out. Realtors can no longer advise on a buy or a listing based only on previous sales prices. Additionally, due to the inability of younger consumers to spend money due to economic downturns, many millennials are opting to invest their newfound savings in real estate (Mullen). They are also taking advantage of cheap mortgage rates to purchase higher-end homes, typically with the assistance of cash-rich parents. Not all baby boomers, however, plan on financially supporting their children in their dreams of home ownership.

Unfortunately for millennials hoping to cash in on their inheritance cheques, there have been numerous reports of parents omitting their adult children from their wealth transfer plans (Coughlin). The reasons for this differ. Divorce rates among baby boomers are at an all-time high (Bein), straining relationships with adult children, complicated asset transfer arrangements, and frequently resulting in unanticipated costs. For some, skipping is punishment for adult children deemed to be undeserving, sluggish, immature, or otherwise irresponsible. For others, skipping is considered to be a motivational method. Kevin O'Leary of Shark Tank wants to safeguard his children from the "curse of not having to work and finding their own success," as he puts it (Coughlin). O'Leary and others are using trusts to generate income but avoiding giving significant quantities of money to their children. Instead, revenue is distributed over generations to enable grandkids, even great grandchildren, to get started while not making adult children wealthy. It is evident that the Great Wealth Transfer is considerably more complicated than the popular narrative today, which goes something like this: baby boomers have a lot of money, baby boomers will die soon, millennials (and some gen X) will inherit money to buy big, invest big, and so on. That could have been true if all baby boomers had money, shared their parents' ideals, had relatively simple family dynamics, and were unlikely to live longer than previous generations. Fortunately for millennials who have been waiting patiently to trade in their inheritance for a chance at home ownership, regardless of what wealth distribution plan the vast majority of baby boomers have, the shortage of single-family homes will be remedied (Hogue).

A notable consequence of the Great Wealth Transfer is that single-family homes will continue to dramatically increase in supply. According to Fannie Mae's housing insights, the number of single-family houses for sale will range between 10.5 and 11.9 million from 2016 to 2026 (Myers et al.). The objective is that this constant increase in supply will assist to balance out the current market's dramatically low supply. Mortgage Professionals Canada states that roughly 4.5 or 5 percent of Canadian households buy a home each year, however this figure could have lately risen by 1 or 1.5 percentage points (Dunning). Meanwhile, older homeowners are staying put. A 2020 survey by Sotheby's and Mustel Group demonstrates that around 80 percent of senior homeowners intend to stay in their houses as long as feasible (Mullens). Additionally, as COVID-19 vaccines make travel more feasible, one can predict that increased demand will be bolstered by an influx of overseas customers. As emphasized by the government-backed research tank Toronto Finance International, Toronto is currently the second largest financial center in North America. Canada's image as a growing financial center and technology hub attracts overseas buyers looking for a wealthy and stable location. With housing supply being impacted by both domestic and foreign real estate clientele, public policy should be modified to eliminate red tape around new homes and encourage developers to start new projects. Adequate policy reform is necessary for transforming the surge in supply of single-family homes into one that is affordable for the vast majority of millennials and gen x.

During the coronavirus epidemic, historically low mortgage rates, a competition for space, and a hurry to get into the market ahead of stricter borrowing requirements all contributed to a jump in property prices. Housing has become a topic that epitomizes what baby boomers have and what millennials desire. With a severe scarcity of mid-priced homes, accelerating prices, and a dramatic increase in the supply of single-family homes, the GTA’s real estate market will undergo many changes in upcoming years. This will undoubtedly make it more difficult for the average income to become a homeowner without the help of affluent parents. The epidemic of unaffordability is spreading—unless major policy reforms are made in the coming years, housing prices will continue to unfairly push generations out of the market.

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