HOME OWNERSHIP TRENDS

MODERN FAMILY HOME OWNERSHIP TRENDS

PART 2: FINANCING THE CANADIAN DREAM

MUSTEL GROUP
MARKET RESEARCH

Sotheby's
INTERNATIONAL REALTY
Canada

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ACKNOWLEDGEMENTS

MUSTEL GROUP

Mustel Group has been a leading market research and public opinion research firm in Canada for more than 30 years, trusted by a wide range of the country's most esteemed public and private sector institutions to design and conduct qualitative research, quantitative research and omnibus surveys in order to understand the thoughts and motivations underlying peoples' emotions, opinions and behaviours.

SOTHEBY'S INTERNATIONAL REALTY CANADA

Sotheby's International Realty Canada is the leading international real estate sales and marketing company for the country's most exceptional properties. With offices in over 30 residential and resort markets nationwide, and a global affiliate network of over 970 offices in over 72 countries and territories, the company showcases every property it represents, regardless of neighbourhood or price point, on a premier, global digital and publications network.

INTRODUCTION

Sotheby's International Realty Canada releases a series of reports that capture real estate data and consumer trends across the country's largest metropolitan markets.[1] Based on results from a survey conducted in partnership with leading market research and public opinion firm Mustel Group, the **Modern Family Home Ownership Trends Report**, is a multi-part series examining the challenges, preferences, and home buying habits of today's "modern families",[2] a moniker for young, urban families with a focus on those where the adults are between the ages of 20 to 45. Over half of survey responders are Millennial (Generation Y) homeowners, while the remaining represent homeowners from the younger segment of Generation X.[3]

This Mustel Group/Sotheby's International Realty Canada initiative is the first Canadian survey to focus on home ownership trends of young urban families, covering topics such as home feature and location priorities, financial challenges and trends, and levels of real estate market confidence. The report series also highlights regional nuances between modern families in Vancouver, Calgary, Toronto and Montreal, and differences between affluent families,[4] and those with more average incomes.

Financing the Canadian Dream is the second report in this series. It uncovers the key obstacles faced by today's young families when saving for a home, and the specific financial, career and personal strategies taken to overcome them. The report sheds new light on the degree to which urban Canadian families are challenged with the choice between buying a home versus saving for retirement, and provides additional insight into the considerable role that financial gifts, living inheritances and inheritances are playing in home buying.

The report series is based on findings from a survey of 1,743 families in Canada's four largest Census Metropolitan Areas (CMAs): Vancouver, Calgary, Toronto and Montreal,[5] using a disproportionate sampling method to enable analysis within each metropolitan area, as well as across the combined CMAs. The sample was weighted to match Statistics Canada census data on the basis of age, household income and home ownership within each CMA and to bring the total sample into proper proportion based on relative populations.[6] [7]

More than half of households surveyed (57%) are couples with one or more children, 35% are couples without children, and 8% are single parents. The age of the oldest adult in each household is between 20–40 years for 53% of the families surveyed; the oldest adult of 37% of the families surveyed is 40–44 years, and 45–49 years in 9% of the families. The large majority of households with children under 18 years of age have one or two children (84%). Less than 13% have three children or more, and fewer than 3% have children older than 18 years of age residing in the household. The gender of respondents was fairly evenly split at 54% male and 46% female.

Data for this report series was gathered from August 9 to September 6, 2018.[8]

1 The information contained in this report references survey results, plus market data from MLS boards across Canada. Sotheby's International Realty Canada cautions that MLS market data can be useful in establishing trends over time, but does not indicate actual prices in widely divergent neighborhoods or account for price differentials within local markets. This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information and analysis presented in this report, no responsibility or liability whatsoever can be accepted by Sotheby's International Realty Canada, or Sotheby's International Realty Affiliates or Mustel Group for any loss or damage resultant from any use of, reliance on or reference to the contents of this document.

2 For the purpose of this report, "families" refer to "census families" as defined by Statistics Canada. Census families include couple families: couples (married or common-law, including same-sex couples) living in the same dwelling with or without children, and lone parent families: single parents (male or female) living with one or more children.

3 While demographic and statistical researchers and commentators do not cite universal start and end dates for "generations", for the purposes of this report the parametres referenced are: Generation X born between 1965 and 1979 (currently ages 39–53) and Generation Y/Millennial, born between 1980 and 2000 (ages 18 to 38).

4 For the purposes of this report, "affluent family" is defined as any family with over double the median provincial household incomes based on the 2016 Canadian Census. These medians are British Columbia: $69,995, Alberta: $93,835, Ontario: $74,287 and Quebec: $59,822.

5 While the panel sample is demographically representative, margins of error only apply to random probability samples. (The margin of error on a random probability sample of 1,743 respondents is ±2.3 percentage points, 19 times out of 20, and ranges from ± 3.5 to 4.9 points for 400-800 respondents).

6 The distribution of the total sample of modern families reflects the relative population proportions across the four CMAs surveyed. Toronto represents 41% of the total, Montreal 29%, Vancouver 16% and Calgary 14%.

7 Respondents in the Montreal CMA had a choice of taking the survey in English or French.

8 An online methodology was employed, using a robust national panel of Canadians who reside in the four greater metropolitan areas of interest: Vancouver, Calgary, Toronto and Montreal. The panel is maintained to be representative of the Canadian population and provide high quality data. Panelists are recruited by a double opt-in method from large databases of reputable channels (e.g., major brands/retailers/reward programs/not for profits, etc.) using industry standards of panel quality assurance, validation, verification and best practices for panel management. Panelists receive point system rewards for participation in surveys.

NATIONAL SUMMARY

HIGHLIGHTS

• 33% of "modern family" home owners in Canada's key metropolitan areas report that covering the cost of basic living expenses is their main obstacle to saving for a home. This is the leading barrier to home ownership in every region surveyed.

• 20% of young urban family home owners delayed saving for retirement in order to save for their home purchase. Outside of minimizing non-essential lifestyle expenses, deferring retirement savings is the most common strategy employed by young urban families.

• Other strategies for down payment saving include securing a job with a higher salary (19%), adding part-time or freelance work in addition to a full time job (14%), delaying the decision to have a child (12%) and moving in with family (9%).

• 71% of modern family home owners used personal savings for their downpayment.

• 52% relied on financial gift, living inheritance or traditional inheritance; for the majority who benefitted from this, gifted funds comprised less than 30% of their downpayment.

• 31% of homeowners in this cohort borrowed from RRSPs for their down payment.

• 78% of young, urban Canadian families believe their home will either outperform or match the performance of their financial investments in the next five years; 48% state that real estate will outperform financial investments.[9]

BASIC COSTS OF LIVING: THE GREATEST BARRIER TO SAVING FOR A HOME

Across Canada's key metropolitan areas, young urban families identified the cost of covering basic living expenses, such as rent, groceries and utilities, as their leading financial barrier to saving for home ownership. This factor surpassed the significance of other financial obstacles, such as paying for non-essential lifestyle expenses, paying off debt or student loans, and other obligations.

Overall, 33% of modern family homeowners reported this as their primary obstacle. Rates exceed this average in Calgary (38%), Vancouver (37%) and Toronto (35%). 25% of families in Montreal reported basic costs of living as their greatest challenge, significantly below the national average.

With Canada's Consumer Price Index (CPI) rising 2.0% on a year-over-year basis in December 2018, and with the CPI posting gains of 3.0% in British Columbia, 2.1% in Alberta, 2.3% in Ontario, and 1.1% and Quebec,[10] young families will continue to face mounting challenges to attaining home ownership.

HOME SAVING STRATEGIES: SUPERFICIAL TO SIGNIFICANT

While minimizing or reducing non-essential lifestyle spending is the most common measure taken by modern family homeowners when saving for a downpayment, findings from the Mustel Group/ Sotheby's International Realty Canada survey reveal that many are also undertaking significant, and at times severe, financial, career and personal measures to successfully attain home ownership.

As part of their efforts to save for a down payment, a significant 20% of modern family homeowners delayed saving for retirement. 19% secured a job with a higher salary while 14% added a part-time or freelance job to full-time work. 12% chose to delay the decision to have a child in order to save for a home, and 9% moved back in with family.

9 "Modern Family Home Ownership Trends Report: Part 1 – The Evolution of the Canadian Dream", Mustel Group and Sotheby's International Realty Canada, November 2018.
10 Consumer Price Index, Statistics Canada, December 2018

RETIREMENT SAVINGS VS. HOME OWNERSHIP

Results from the Mustel Group/Sotheby's International Realty Canada survey reveal the degree to which young urban families are challenged with the choice between buying a home, and saving for retirement.

Even as 20% of modern family home owners postponed retirement savings in order to achieve home ownership, another 31% of this cohort withdrew funds from their RRSPs for their down payment. Under the federal government's Home Buyers' Plan, first-time home buyers may withdraw $25,000 of RRSP savings ($50,000 for a couple) to finance the down payment on a home without tax penalty if the amount is repaid within 15 years.

Survey findings also reveal that confidence in the real estate market remains high amongst modern family home owners, with 78% believing that their home will either outperform or match the performance of their financial investments in the next five years, and 48% confident that real estate will surpass the performance of financial investments.[11]

Notably, the flow of funds into RRSPs from 25 to 54 year old Canadians has declined in recent years. According to Statistics Canada, the number of RRSP contributors within this age range fell 16% from 5.0 million in 2000, to 4.2 million in 2013.[12] Although it is not possible to determine if this trend results partly from shifts toward investment into other means of wealth accumulation, including home equity, it underscores the ongoing challenges of balancing competing financial opportunities in face of finite financial resources.

FINANCIAL SELF-SUFFICIENCY VS. RELIANCE ON OUTSIDE SUPPORT

In major metropolitan real estate markets across the country, the steep escalation of housing prices in recent years has raised concerns about housing affordability, as well as concerns about how and whether the next generation of young urban families might be able to enter the housing market without outside assistance.

Mustel Group/Sotheby's International Realty Canada survey findings reveal further insight into how modern family homeowners utilized diverse strategies and funding sources to successfully purchase a home.

71% of families used personal savings or cash and 31% borrowed from their RRSPs. 25% used proceeds from the sale of real estate.

52% of this cohort relied on a financial gift, inheritance or living inheritance, while a further 12% were assisted by a personal loan from friends or family. 11% relied on a secured loan for a down payment, while 8% used their credit card.

THE IMPACT OF FINANCIAL GIFTS

The survey results shed additional light on the degree to which financial gifts, inharitences and living inheritances contribute towards a home purchase.

For most, gifted funds comprised less than 30% of their down payment. Financial gifts comprised less than 10% of the total down payment for 14% of modern family homeowners, while 10% of families received gifts that funded 10-19% of the total. 12% of families received gifts that contributed 20-29% of their down payment.

11 "Modern Family Home Ownership Trends Report: Part 1 – The Evolution of the Canadian Dream", Mustel Group and Sotheby's International Realty Canada, November 2018.
12 Economic Insights Trends in RRSP Contributions and Pre-retirement Withdrawals, 2000 to 2013, Statistics Canada, February 2017.

MEASURES TAKEN WHEN SAVING FOR DOWN PAYMENT

1 IN 5 (20%) YOUNG, URBAN FAMILY HOMEOWNERS DELAYED SAVING FOR RETIREMENT IN ORDER TO SAVE FOR A HOME.

THE MOST COMMON MEASURES TAKEN BY "MODERN FAMILIES" WHO PURCHASED REAL ESTATE IN CANADA'S LARGEST METROPOLITAN AREAS INVOLVED REDUCING OR ELIMINATING NON-ESSENTIAL LIFESTYLE EXPENDITURES.

Findings from the Mustel Group/Sotheby's International Realty Canada survey reveal that reducing or eliminating non-essential lifestyle spending is the most common strategy taken by families to save for their down payment. 51% reduced or eliminated dining out, 45% reduced or eliminated travel and vacations, while another 45% sacrificed personal expenditures such as clothing or technology purchases. As part of their efforts to save for a home, 37% of families reduced or eliminated, entertainment, health and fitness expenditures and 15% reported reducing or eliminating car ownership.

While minimizing superfluous lifestyle expenses are the most common measures taken, many families across Canada's largest urban real estate markets also make significant financial, career and personal adjustments in an effort to attain home ownership.

Across the metropolitan markets surveyed, a significant 20% of urban families reported that they delayed saving for retirement in order to save for a home purchase instead. 19% secured a job with a higher salary while 14% added part-time or freelance work to an existing full-time job. 12% chose to delay the decision to have a child in order to save for a home, while 9% moved back in with family.

There are minor variations in savings strategies from region to region.

While limiting or eliminating dining out, travel and personal expenditures are the top three home purchase savings strategies for young families across all metropolitan areas surveyed, they are most frequently employed in Calgary, at rates of 54%, 51% and 47% respectively. Modern family homeowners in Calgary are the most likely to have delayed saving for retirement in order to attain home ownership, with 23% reporting the use of this strategy. Along with those in Vancouver, families in Calgary are also more likely to secure a job with a higher salary to save for a home, with 21% citing this as a strategy. They are among the least likely to move back in with family in order to save for their down payment, at a rate of 5%.

In Toronto, modern family home owners are also highly likely to have foregone non-essential lifestyle spending in order to save for their down payment: 54% eliminated or reduced dining out, 47% eliminated or reduced travel, and 45% eliminated or limited other discretionary personal expenditures. Compared to families in other metropolitan areas surveyed, those in Toronto are the most likely to have added part-time or freelance work, with 16% citing this as a strategy. 20% delayed saving for retirement in order to achieve home ownership, on par with the average of the metropolitan areas surveyed. Toronto families are also significantly more likely to delay the decision to have a child and to move back in with family to save for a down payment, at rates of 15% and 13% respectively.

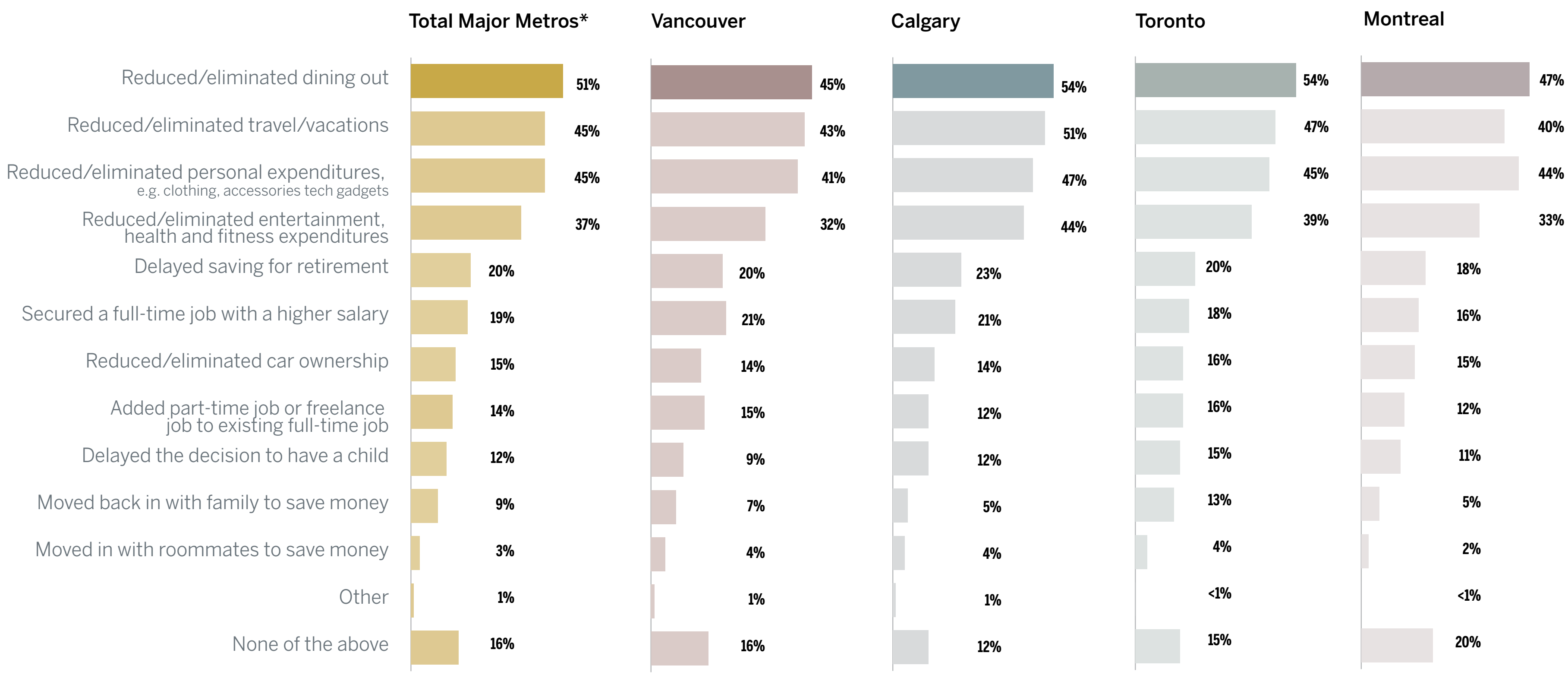
Despite housing affordability challenges, young family homeowners in Vancouver are less likely to have sacrificed non-essential lifestyle spending in order to save for their down payment than in other Canadian metropolitan areas. 45% reported that they eliminated or reduced dining out, 43% eliminated or reduced travel, while 41% sacrificed other personal expenditures. Along with their counterparts in Calgary, Vancouver families are more likely to secure a higher paying job to save for their downpayment, at a rate of 21%.

20% delayed saving for retirement to achieve home ownership. Vancouver families are the least likely of their urban Canadian counterparts to delay the decision to have a child in order to save for a home, with 9% reporting this as a strategy used.

Montreal families reported reducing or eliminating dining out, travel and non-essential personal expenditures in order to save for a home at rates of 47%, 40% and 44% respectively. Notably, they are the least likely to delay retirement savings to save for a down payment, with 18% reporting this as a strategy used to achieve home ownership. 5% reported that they moved back in with family to save for a home, in line with the rate in Calgary, but below the 7% reported in Vancouver and the 13% reported in Toronto.

MEASURES TAKEN WHEN SAVING FOR A HOME

Q. WHAT WERE THE PERSONAL OR FINANCIAL MEASURES YOU TOOK IN ORDER TO SAVE FOR YOUR HOME?



* Note: Percentages may not add to 100% due to multiple responses.

* Base: Total Major Canadian Metropolitan Areas (n= 1,743)
** Vancouver (n=401), Calgary (n=414), Toronto (n=502), Montreal (n=426):

MAIN FINANCIAL BARRIER FACED WHEN SAVING FOR DOWN PAYMENT

FOR YOUNG, URBAN FAMILIES, THE MAIN BARRIER TO SAVING FOR A HOME PURCHASE IS THE COST OF BASIC LIVING EXPENSES (SUCH AS RENT, GROCERIES AND UTILITIES), CITED BY 3 IN 10 (33%) FAMILIES.

The cost of basic living expenses is the most commonly reported hurdle to saving for a down payment by modern family homeowners across every metropolitan area surveyed, at a rate of 38% in Calgary, 37% in Vancouver, 35% in Toronto and 25% in Montreal.

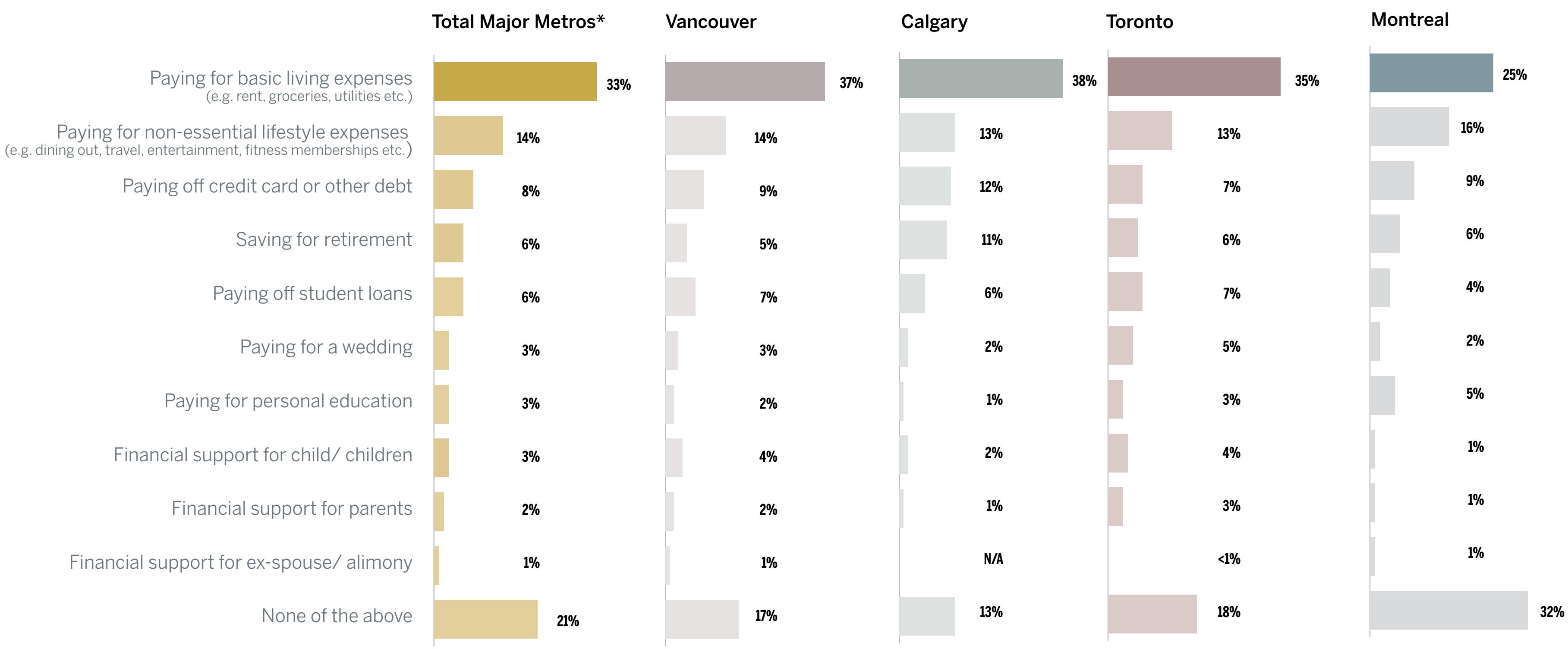
Other frequently cited barriers to saving for a home purchase include paying for non-essential lifestyle expenses such as dining out, travel, entertainment, fitness memberships (14%), paying off credit card or other debt (8%), saving for retirement (6%) and paying off student loans (6%).

Regional variations include the fact that Montreal families are significantly less likely to consider basic living expenses a barrier to savings (25%). They are slightly more likely to report non-essential lifestyle expenditures as an obstacle, at a rate of 16% compared to 14% in Vancouver, and 13% in Calgary and Toronto.

Calgary families are more likely to cite paying off credit card debt and saving for retirement as key obstacles to down payment saving, at rates of 12% and 11% respectively, compared to 9% and 6% in Montreal, 7% and 6% in Toronto and 9% and 5% in Vancouver.

MAIN FINANCIAL BARRIER FACED WHEN SAVING FOR DOWN PAYMENT

Q. WHAT WAS THE MAIN FINANCIAL BARRIER YOU FACED WHEN TRYING TO SAVE MONEY FOR THE DOWN PAYMENT FOR YOUR HOME PURCHASE?



* Note: Percentages may not add to 100% due to rounding.

* Base: Total Major Canadian Metropolitan Areas (n= 1,743)
** Vancouver (n=401), Calgary (n=414), Toronto (n=502), Montreal (n=426)

SOURCES OF FUNDS
FOR DOWN PAYMENT

OVER 7 IN 10 (71%) YOUNG, URBAN FAMILY HOMEOWNERS USED THEIR OWN PERSONAL SAVINGS FOR THE DOWN PAYMENT ON THEIR CURRENT PRIMARY HOME. APPROXIMATELY 1 IN 3 (31%) BORROWED FROM THEIR RRSP.

According to the Mustel Group/Sotheby's International Realty Canada survey, personal savings are the leading source of down payment funds for modern families across the Canadian metropolitan areas surveyed (71%).

52% of survey responders reported financial gifts, living inheritances or inheritances as a down payment source, while 12% cited a personal loan from family and friends.

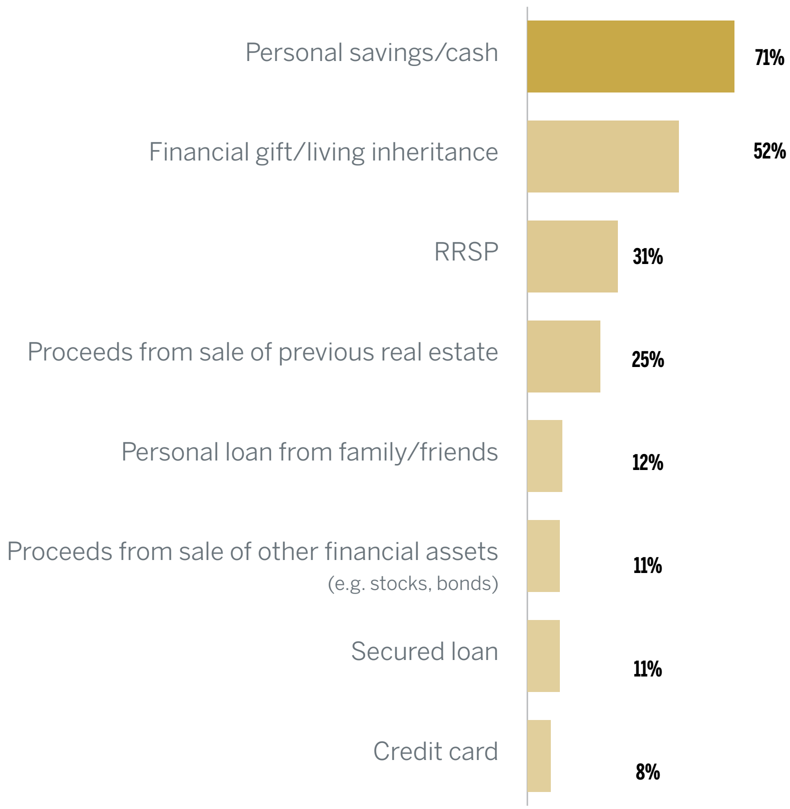
31% borrowed from their RRSPs. 25% of families utilized proceeds from the sale of previously owned real estate towards the down payment of their home, while 11% applied proceeds from the sale of financial investments such as stocks and bonds.

11% relied on borrowing through a secured loan for their down payment, while 8% leveraged credit card borrowing.

These trends reflect a balance between financial self-sufficiency and the reliance on external financial support amongst home buyers within the modern family cohort.

SOURCES OF FUNDS FOR DOWN PAYMENT

Q. WHERE DID YOU OBTAIN FUNDS FOR A DOWN PAYMENT?



* Note: Percentages may not add to 100% due to multiple responses.

* Base: Total Major Canadian Metropolitan Areas (n= 1,743)

PROPORTION OF DOWN PAYMENT RECEIVED AS A FINANCIAL GIFT

OVER HALF (52%) OF "MODERN FAMILY" HOME OWNERS RELIED ON A FINANCIAL GIFT, LIVING INHERITANCE (GIFT OF INHERITANCE FUNDS WHILE THE GIVER IS STILL LIVING), OR INHERITANCE FOR AT LEAST PART OF THEIR DOWN PAYMENT.

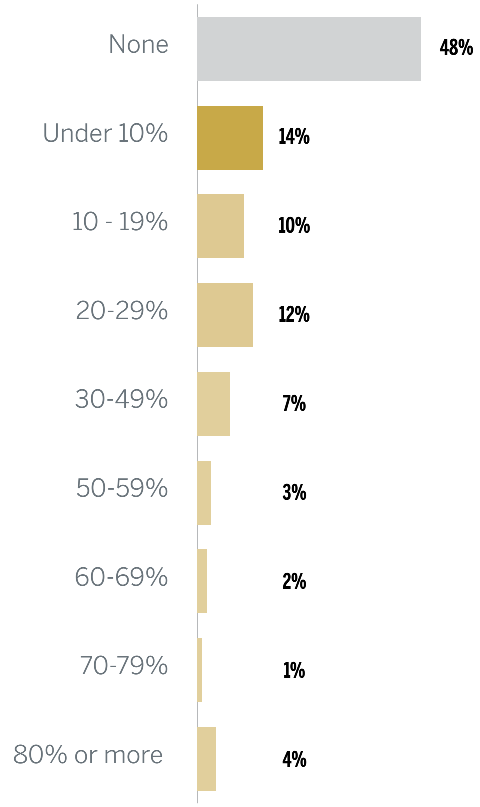
Findings from the Mustel Group/Sotheby's International Realty Canada survey reveal that while a slight majority (52%) of modern families who have purchased real estate in Canada's major metropolitan areas relied on a financial gift, living inheritance or traditional inheritance as part of the down payment, 48% bought their home without any such assistance.

Notably, the proportion of funds received as a financial gift comprised less than a third of the total down payment for a significant share of families. 14% of responders indicated that a financial gift comprised less than 10% of their total down payment, while 10% of responders indicated that a financial gift comprised 10-19% of the down payment. 12% of families surveyed reported that a financial gift contributed 20-29% to their down payment.

17% of survey responders reported receiving a financial gift that made up 30% or more of their down payment.

PROPORTION OF DOWN PAYMENT RECEIVED AS A FINANCIAL GIFT

Q. WHAT PERCENTAGE OF YOUR TOTAL DOWN PAYMENT WAS A FINANCIAL GIFT, LIVING INHERITANCE (A GIFT OF INHERITANCE FUNDS WHILE THE GIVER IS STILL LIVING), OR INHERITANCE?



* Note: Percentages may not add to 100% due to rounding.

* Base: Total Major Canadian Metropolitan Areas (n= 1,743)

REAL ESTATE
MARKET CONFIDENCE

From *Modern Family Home Ownership Trends Report: Part 1 The Evolution Of The Canadian Dream*

8 IN 10 (78%) OF YOUNG, URBAN CANADIAN FAMILIES BELIEVE THEIR HOME WILL EITHER OUTPERFORM OR MATCH THE PERFORMANCE OF THEIR FINANCIAL INVESTMENTS IN THE NEXT FIVE YEARS, WITH 5 IN 10 (48%) MAINTAINING THAT REAL ESTATE WILL OUTPERFORM FINANCIAL INVESTMENTS, AND 3 IN 10 (30%) BELIEVING THEY WILL BE ON PAR.

As previously reported by Mustel Group/Sotheby's International Realty Canada, confidence in the real estate market remains high for young Canadian family owners across the country's major metropolitan areas, with levels within a consistent range across Vancouver, Toronto and Montreal.

Real estate market confidence levels are highest in Toronto, where 83% of young families believe their home investment will outperform or match their financial investments over the next five years. 55% believe real estate gains will outstrip their financial investments, the highest confidence levels of the metropolitan areas surveyed. According to Sotheby's International Realty Canada experts, consumer apprehension in the Greater Toronto Area following the introduction of the Ontario Fair Housing Plan and the tightening of mortgage lending rules has largely dissolved, with overall real estate consumer confidence levels expected to strengthen.

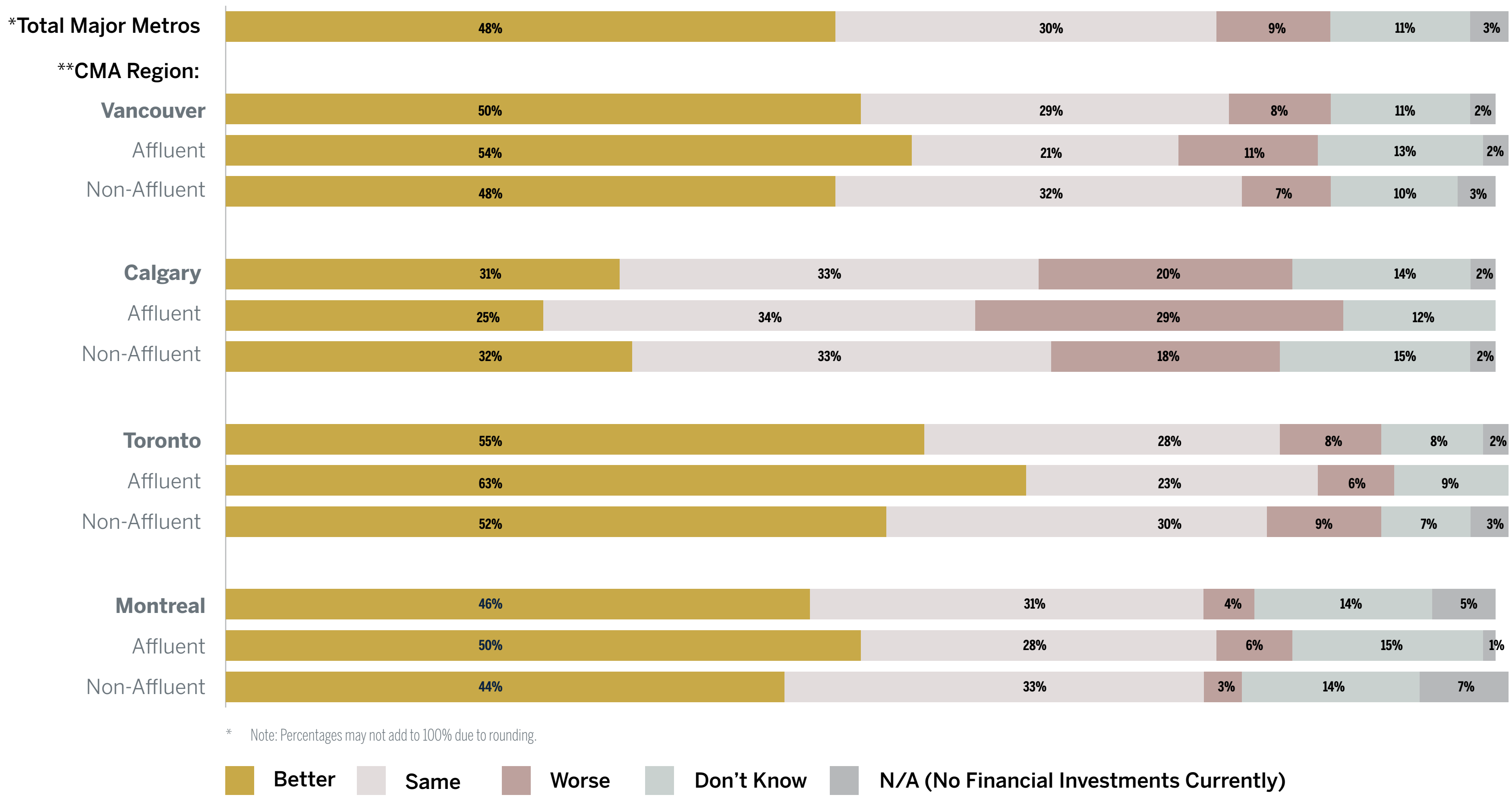
In spite of a decelerating real estate market, 79% of Vancouver families believe that financial gains on their home will outperform or be on par with financial assets over the next five years. 50% believe that real estate gains will surpass financial asset performance.

Real estate market confidence is also high in Montreal, where 77% of young families maintain that financial returns on their home property will either exceed or match financial investments, with 46% indicating that real estate will surpass financial investments. With record-setting gains reported in Montreal's conventional and top-tier real estate markets, Sotheby's International Realty Canada experts report that confidence levels are strengthening across all real estate consumer segments.

In spite of significant challenges confronting the Calgary real estate market, including economic headwinds, a pullback in heavy oil prices and rising mortgage rates that have disproportionately impacted homebuyers in a recovering economy, real estate confidence levels are resilient amongst the region's young families. 64% of families who own real estate maintain that their homes will outperform or match their financial investments in the next five years, with 31% believing that real estate will surpass other financial investments. However, 20% of Calgary families believe real estate will perform worse than other financial investments, more than double the levels of other major metropolitan areas.

FUTURE PERFORMANCE OF HOME INVESTMENT VS. FINANCIAL INVESTMENTS

Q. CONSIDERING EVERYTHING, HOW DO YOU THINK YOUR HOME PROPERTY WILL PERFORM COMPARED TO YOUR FINANCIAL INVESTMENTS (E.G. RRSP, TFSAS, STOCKS/ BONDS, ETC.) IN THE NEXT 5 YEARS?



* Note: Percentages may not add to 100% due to rounding.

* Base: Total Major Canadian Metropolitan Areas (n= 1,743)
** Vancouver (n=401): Affluent (n=143), Non-affluent (n=258)
Calgary (n=414): Affluent (n=98), Non-affluent (n=316)
Toronto (n=502): Affluent (n=180), Non-affluent (n=322)
Montreal (n=426): Affluent (n=177); Non-affluent(n=249)

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