

Canadian Economic Observer

The impact of age, income, and family structure on homeownership

by Feng Hou



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- . not available for any reference period
- .. not available for a specific reference period
- ... not applicable
- 0 true zero or a value rounded to zero
- 0^s value rounded to 0 (zero) where there is a meaningful distinction between true zero and the value that was rounded
- ^P preliminary
- ^r revised
- X suppressed to meet the confidentiality requirements of the *Statistics Act*
- ^E use with caution
- F too unreliable to be published
- * significantly different from reference category ($p < 0.05$)

Published by authority of the Minister responsible for Statistics Canada

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The impact of age, income, and family structure on homeownership

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Introduction

Homeownership is one of the most significant investments made by Canadians. It leads to increased savings during periods when mortgages are being paid off. It provides an asset that generates housing services and can be liquidated for retirement income or other needs.

This paper asks two questions. First, to what extent do Canadians acquire and retain homeownership at different stages of life, particularly after the age of 65? Of particular interest is the extent to which Canadians of different ages, incomes, and family structures make this investment.

Second, we ask whether the age profile of homeownership has changed over time? Have succeeding generations of Canadians become less likely to purchase a home, and are retirees less able to benefit from homeownership?

Using data from the eight censuses between 1971 and 2006, we examine these questions by following homeownership rates of various cohorts born in the 1910s through the 1970s, beginning with the young adults of each cohort through to seniors.

Households adjust their housing in response to their economic circumstances and the need for housing services. As people change family status from being single to a couple, usually with children and careers, housing choices often progress from rental accommodation to ownership and then to upsizing in terms of quality and price. Although previous studies have examined the timing and correlates of these transitions in housing, reliable estimates of the homeownership age profile are rare. ² This is because separating the age profile from differences across birth cohorts requires observations over an individual's entire lifespan. The present study takes advantage of eight censuses from 1971 to 2006, which contain consistent, comprehensive, reliable, and up-to-date estimates on housing tenure by birth cohort over a long period.

Tracking cohort differences in homeownership and their potential causes helps follow the progression in housing tenure for cohorts that have just begun their careers to those in their retirement years.

Homeownership by age cohorts

In order to follow the housing life cycle, homeownership rates are calculated for household primary maintainers (the person who pays for shelter costs) across age groups for each census and plotted in Figure 1. ³ These profiles cover birth cohorts from 1916-20 through to 1976-80. ⁴

There is a strong regularity in the age profile of homeownership across generations. ⁵ The trajectories of the various birth cohorts are tightly clustered, particularly among young adults and the prime working-age groups, reflecting a consistent age profile of homeownership. There are some cohort differences in

ownership rates in the pre-retirement and retirement age groups, though the shapes of their trajectories remain similar.

Overall, homeownership rises quickly with age up to the early 40s, and continues to climb at a slower pace until reaching a plateau of over 75% near age 65. The homeownership rate changes little from age 65 to 74, and starts declining after age 75.

The pattern of homeownership after age 65 is consistent with the hypothesis of a “ratchet effect” in housing: households tend to adjust their housing consumption upward but seldom reduce it (Kendig 1984). On the basis of past experience, most boomers are likely to retain their houses for more than 10 years after age 65.

In this study, successive generations achieved ever higher homeownership rates near the later part of their working lives. The plateau of ownership increased slightly across birth cohorts. The peak level of ownership was 73% for the 1916-20 birth cohort, 76% for the 1926-30 cohort, 77% for the 1936-40 cohort, and 78% for the 1941-45 cohort.

The homeownership plateau also shifted towards later ages. Those born in the 1910s and 1920s reached a plateau at age 55-to-59. Among those born in the 1930s and early 1940s, the plateau was not attained until age 60-to-64.

Cohort differences by age group

A comparison of ownership differences across similar age groups at different censuses provides a snapshot of how changing economic conditions affected the life cycle of homeownership described above. New-house prices, interest rates, unemployment, and rental housing vacancy rates all influence the affordability of owning a home relative to rental housing. Similarly, the affluence of different cohorts changed over time as boomers matured and as new cohorts entered the labour market.

An upward trend in the homeownership rate among the pre-retirement age group (55-to-64) is evident in Figure 2. This is the only broad age group which posted a steady increase in ownership over the 35-year period. This increase coincided with the longer expectancy of healthy and independent life after retirement. Between 1951 and 2006, the life expectancy of Canadians increased by 12 years. By 2006, individuals aged 65 can expect to live for another 20 years on average. Longer life expectancy is one possible reason for individuals of pre-retirement age to increasingly acquire and retain homeownership. More importantly, the prospect of stable income after retirement also improved with the gradual expansion of Canada’s retirement income system. The birth cohort that turned age 65 in 1976 started to receive full CPP/QPP benefits; later cohorts increasingly benefited from the expansion of pensions that took place between the 1950s and the 1970s (Myles 2000).

Among seniors 65 years and older, ownership declined during the 1970s, particularly among those 75 years and over. Early in the 1970s, people reaching age 65 did not receive full CPP/QPP benefits. This was also the period of rapid increases in housing prices. Since the 1980s, ownership among seniors has risen gradually, probably reflecting rising family income.

In contrast to lower homeownership among seniors in the 1970s, ownership increased during this period among young adults, aged 20 to 34, and the prime working-age group, aged 35 to 54. This was a period of a tight rental market that strongly affected young adults, who are mostly renters. The first boomers turned 25 in 1971, raising the share of young adults aged 25 to 34 in the total population from 13.6% to 17.6% over the next decade. Their growing numbers, enhanced by a decreasing tendency of staying in their parents’ home, drove down vacancy rates, and rents rose accordingly (Foot and Stoffman 1998). ⁶ The tight rental market and the rapidly rising home prices in the early 1970s made buying a house an attractive option for those who could afford it.

From the early 1980s to the mid-1990s, ownership decreased for both young adults and the prime working-age group. This was a period of high interest rates, recessions in the early 1980s and in the early 1990s, and a less tight rental market in the 1990s. Although the wave of boomers entering the housing market had not yet peaked in 1989, the pressure of their rising numbers on the rental housing market was to a large extent offset by the growing tendency of young adults to stay in their parents' homes. While 8.3% of young adults (age 25 to 34) did not leave their parents' home in 1981, the rate increased continuously to 17.9% by 2006. Over the same period, the labour market outcomes of young men deteriorated: fewer of them worked full-time, and their weekly earnings also declined (Beaudry and Green 2000).

After the mid-1990s, ownership rates increased again among young adults and the prime working-age group. This coincided with a period when interest rates were low and labour market conditions improved. In particular, the earnings of young workers increased in absolute terms and relative to older workers (Morissette 2008). Changes in mortgage regulations also contributed to increased homeownership in this period. In 1998, the CMHC made two of its temporary programs permanent: the Home Buyers' Plan and the First Home Loan Insurance Program, which insures mortgages up to 95% of the value of a house (Hulchanski 2003). It was also easier than it had been in the past to get mortgage approval from lenders with little or no down-payment (Thomas 2005).

Between 1971 to 2006, the overall ownership rate increased from 60% to 69% among households whose primary maintainers were aged 20 and over. About half of this increase was due to changes in age structure, particularly the large increase in the share of people aged 45 to 59 and people over age 75. There was also increased homeownership within each five-year age group, despite large fluctuations in homeownership rates among young adults and seniors.

Income, family structure, and homeownership

The profile of homeownership by age and cohort group in previous sections was an aggregate of individual homeownership rates, which differ substantially by income and family type. Changes over time in homeownership reflect both changes in the relationship between these characteristics and homeownership, and the changing composition of the population.

The observed average age profile of homeownership partly reflects income growth over time. Incomes generally increase with work experience. The pace of earnings growth tends to be fastest in the first 10 to 15 years after entering the labour market, and slows down and stabilizes later in life (Lemieux 2006). Homeownership follows a similar pattern.

Within an age group, homeownership increases in families with higher income. Some of the largest differences in this regard occur among young adults. In 2006, in the 20-to-34 age group, over three-quarters of households in the top income quintile were owners versus less than one-fifth of households in the bottom income quintile. Among these young households, the ratio of ownership rates between top and bottom income quintiles was 4. The corresponding ratio was 2 in the 35-to-54 age group and 1.7 in the other three older age groups.

The impact of income on homeownership is large and often offsets the differences in homeownership across major life stages. Young people with high income have rates of ownership similar to those of people 10 to 20 years older with low income. As shown in Table 1, ownership in 2006 in the top quintile of family income (adult-equivalent-adjusted) for the 20-to-34 age group was similar to the middle-income quintile of the prime working-age group (35-to-54) and the second quintile of both the 55-to-64 and 65-to-74 age groups. ²

For each age group, homeownership has risen in the three top income quintiles over the last 35 years. The top income quintile in each age group experienced the fastest increase, followed by the fourth income quintile. To a lesser extent, homeownership also rose in the second income quintile, with the exception of people aged 75 and over. During this period, real family income (deflated by the CPI) also increased the most in the top income quintile in each age group, followed by the fourth quintile.

In contrast to the rising trend of homeownership in upper-income quintiles, ownership declined among households in the bottom 20% of the income distribution. As a result, the gap in ownership across the

income distribution widened, especially among young adults and the prime working-age group. In the 20-to-34 age group, the top income quintile had homeownership rates that were 23% higher in 1971, 119% in 1981, and 300% in 2006 than those of the bottom quintile. The corresponding gap in the 35-to-54 age group grew from 18% in 1971 to 45% in 1981 and 97% in 2006. Among older age groups, the increase in this gap occurred primarily in the 1970s.

Within each age group, households in different income quintiles did not follow the same upward trajectory as that observed in the overall population. For instance, in the 1970s, ownership rose considerably among both the 25-to-34 and 35-54 age groups. However, ownership in the bottom-income quintile did not increase, as a result of either choice or necessity. While the rental market was very tight during this period, homeownership became less affordable due to rising house prices and higher interest rates. Ownership declined for both age groups into the 1980s and early 1990s, especially for the lowest two quintiles. Only after the mid-1990s did ownership increase in all income quintiles.

Family structure is a second factor associated with differences in homeownership. Within similar income levels, ownership rates vary by family types, likely resulting from differences in housing needs associated with differences in conjugal relationships and childbearing activity. Among those who can afford to own a home, family structure can independently influence the likelihood of buying and retaining a house (Kendig 1984).

Individuals not living in a family had the lowest ownership rate within an income quintile in every age group. However, the difference in their homeownership rate compared to that of other family types has declined significantly over the last 30 years. This is because non-family individuals with higher income were much more likely to purchase homes in 2006 than the same age group had been three decades earlier. For instance, in the 20-to-34 age group, ownership rates of non-family individuals in the top income quintile has grown 48 points (from 12.5% to 60.4%) in the last 35 years, compared with 29 points (from 65.4% to 93.6%) among couples with children.

Despite the various changes experienced over time by the non-family group, conjugal relationships and the presence of children were still associated with higher ownership than non-family status. Among young adults aged 20-to-34, the presence of children was associated with a higher level of homeownership than was a conjugal relation. In the 35-54 and 55-to-64 age groups, conjugal relation was more important than the presence of children in influencing ownership. Lone parents tend to have much lower ownership rates than couples with or without children, especially in the bottom two income quintiles.

The share of couples with children increased the most in the two upper-income quintiles among senior households and by 2006 was much higher in the upper-income quintiles than in the lower-income quintiles. The same pattern holds in the 55-to-64 age group. These results suggest that the rising trend of young adults living with their parents occurred mostly in high-income families. Overall, ownership rates for those 65 years and older in the upper-income quintiles were high regardless of family type.

Summary

There is a strong regularity in the age profile of homeownership across generations. Homeownership rises quickly before the age of 40, after which it continues to climb at a slower pace until reaching a plateau near age 65. The homeownership rate changes little from age 65 to 74 and then starts declining. Still, the majority of seniors continued to own their homes for more than 10 years after the age of 65.

The plateau of homeownership increased slightly across birth cohorts from the 1970s to 2006. The peak level of ownership rose from 73% for those born in the early 1910s to 78% for those born during World War II. Today, over three-quarters of Canadian households own their home by the age of 65.

Family income has been closely related to both the level of homeownership and the increase in homeownership since 1971. There was a substantial difference in homeownership across income quintiles throughout the period; this difference increased over time, because the homeownership rate declined for the lowest-income group but rose for higher-income groups.

Families with children were the most likely to own a home in 1971, and this pattern continued in 2006. However, the difference relative to other groups declined over time as homeownership increased more for couples without children and for unattached individuals than for families with children.

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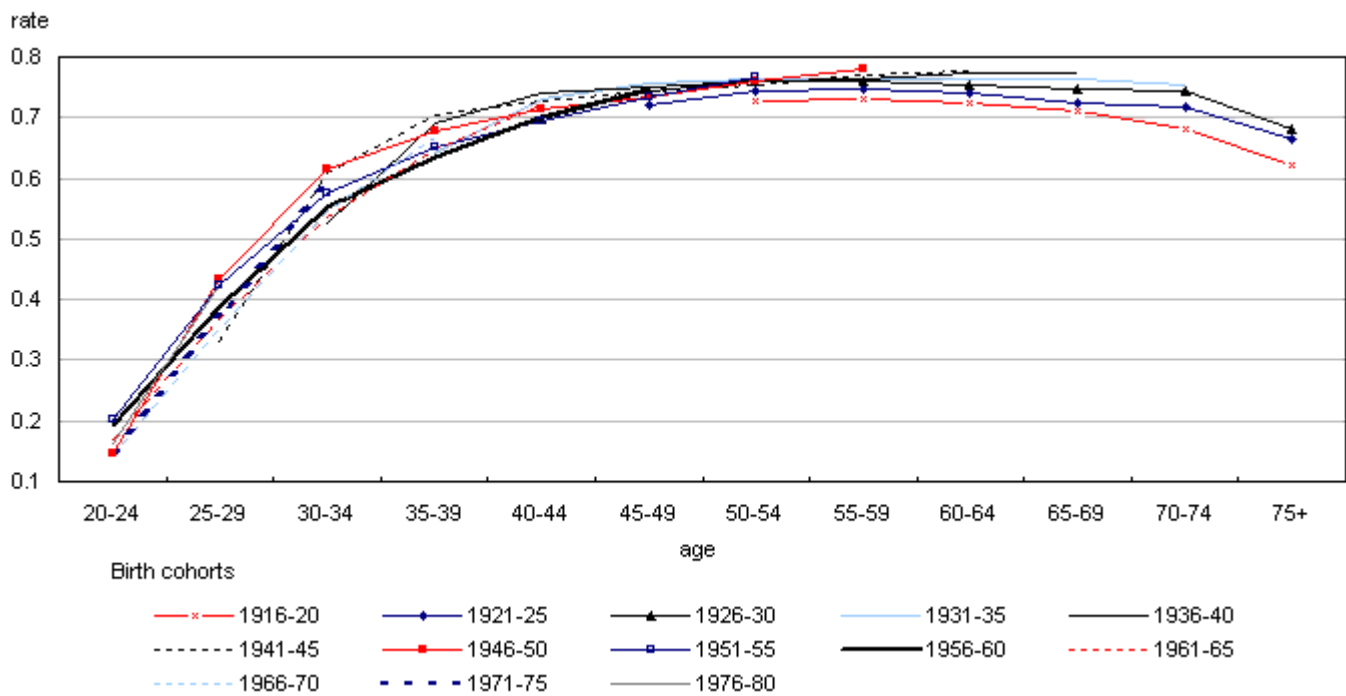
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Notes

1. Social Analysis Division (613-951-4337)
2. We are aware of only one previous study that uses repeated cross-sectional survey data to estimate the age profile of homeownership in Canada (Crossley and Ostrovsky 2003).
3. We exclude residents in collective dwellings and Indian reserves in all censuses.
4. Since the ownership rates pertain to the primary household maintainer, they will not correspond to the percentage of the population living in a household owning its house.
5. The validity of synthetic cohort analysis rests on the assumption that the population composition of birth cohorts does not change over time (i.e., across different points of observation). In reality, the composition of cohorts may change if individuals with different characteristics join or leave a birth cohort at different life stages. Immigration could affect a cohort's size and characteristics. We checked whether immigration affects our estimates of homeownership age profiles across cohorts by computing rates for the Canadian-born only and found little difference in the age and cohort profiles between the Canadian born and the total population. This is because the Canadian-born population accounts for over 80% of the total population and the age-adjusted difference in homeownership rates is small between immigrants and the Canadian born.
6. The share of young adults aged 25 to 34 living in their parents' homes decreased from 9.3% in 1971 to 8.3% in 1981.
7. Adult-equivalent adjusted family income assumes that certain economies of scale accrue to people who live together in families and is calculated by dividing total family income with the square root of family size. Income quintiles based on adult-equivalent adjusted family income are derived from all people (regardless whether they are household primary maintainers) within each broad age range.

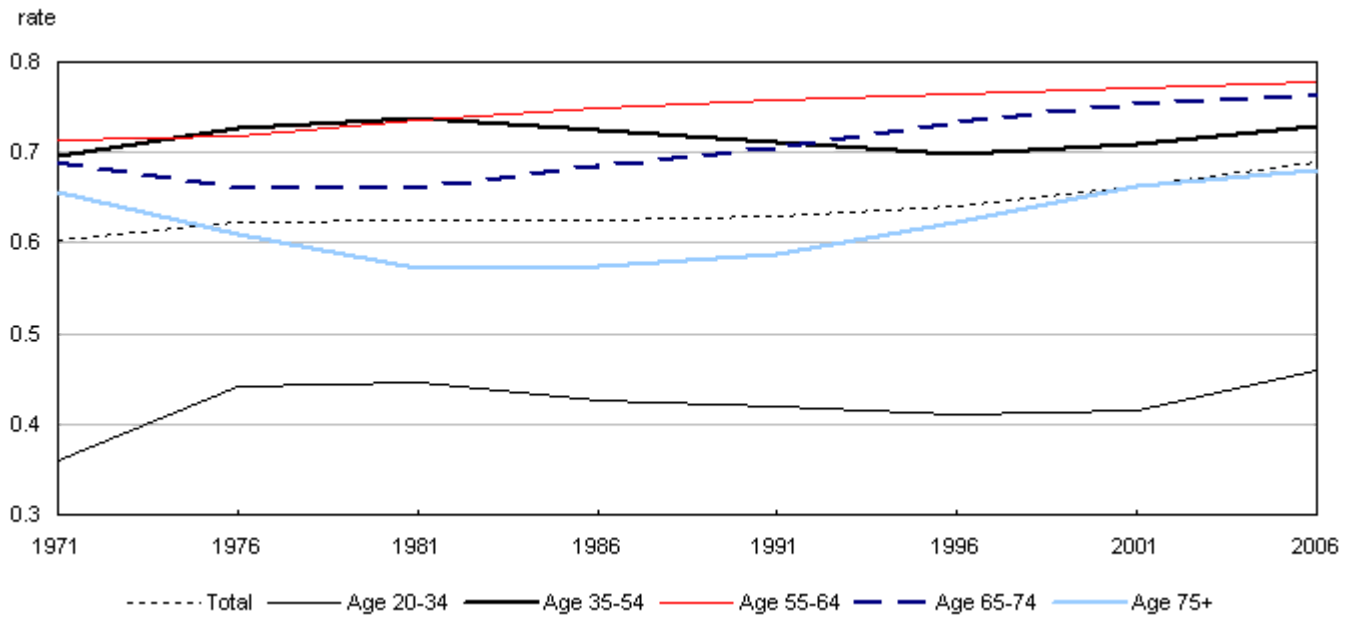
Chart 3.1 Ownership rates among household primary maintainers



Source(s): Census of Population, 1971, 1981, 1986, 1991, 1996, 2001, 2006



Chart 3.2 Homeownership among household primary maintainers



Source(s): Census of Population, 1971, 1981, 1986, 1991, 1996, 2001, 2006



Text table 3.1 Homeownership by age and family income quintile by age

Income quintile by age group	1971	1981	1986	1991	1996	2001	2006
	percent						
20-34							
Bottom	0.308	0.275	0.226	0.197	0.155	0.173	0.190
Second	0.358	0.433	0.397	0.386	0.343	0.360	0.371
Third	0.393	0.478	0.482	0.472	0.485	0.471	0.516
Fourth	0.371	0.497	0.514	0.521	0.572	0.557	0.645
Top	0.379	0.601	0.594	0.630	0.678	0.660	0.767
35-54							
Bottom	0.623	0.568	0.516	0.480	0.418	0.439	0.457
Second	0.673	0.729	0.716	0.690	0.673	0.681	0.681
Third	0.716	0.786	0.778	0.765	0.769	0.770	0.795
Fourth	0.733	0.807	0.807	0.804	0.823	0.830	0.858
Top	0.738	0.821	0.831	0.851	0.864	0.871	0.902
55-64							
Bottom	0.679	0.579	0.567	0.553	0.539	0.543	0.545
Second	0.701	0.718	0.732	0.728	0.734	0.744	0.745
Third	0.708	0.754	0.776	0.786	0.803	0.814	0.823
Fourth	0.728	0.799	0.826	0.846	0.860	0.871	0.885
Top	0.755	0.841	0.870	0.893	0.908	0.914	0.930
65-74							
Bottom	0.628	0.506	0.517	0.527	0.543	0.564	0.529
Second	0.702	0.659	0.660	0.665	0.688	0.718	0.747
Third	0.710	0.701	0.734	0.744	0.774	0.799	0.815
Fourth	0.701	0.723	0.762	0.793	0.833	0.854	0.872
Top	0.721	0.772	0.812	0.852	0.885	0.898	0.919
75+							
Bottom	0.595	0.442	0.433	0.437	0.462	0.502	0.489
Second	0.656	0.565	0.560	0.557	0.569	0.609	0.635
Third	0.686	0.631	0.619	0.615	0.658	0.685	0.719
Fourth	0.674	0.625	0.645	0.671	0.715	0.763	0.788
Top	0.696	0.676	0.697	0.730	0.793	0.834	0.851

Note(s): The 1976 census did not collect income information.

Source(s): Census of Population, 1971, 1981, 1986, 1991, 1996, 2001, and 2006.