

Economics
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Gifting for down payments — an update

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In 2021, when Covid controlled every element of our lives and the real estate market was on fire, we took a first look at the phenomenon of gifting towards down payments. Since then, we have received numerous requests to update that study. The following brief note does exactly that.

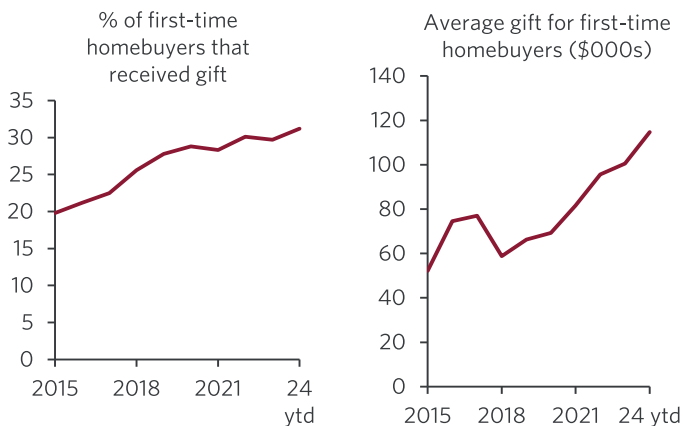
Homebuyers relying on a wealth transfer from their parents in order to purchase a home is becoming the norm in Canada. But with housing market activity cooling from its Covid-era peaks, has that dependence changed recently? Using CIBC data, we find that the reliance on gifts is still an important source of down payments, with gift amounts in fact continuing to increase.

- As shown in Chart 1 left, the share of first-time homebuyers that received financial help from family members is sitting at 31%, up substantially from 20% in 2015, but relatively flat over the past few years. Given the surge in home prices during the pandemic, it's not surprising that gift amounts have risen sharply (Chart 1, right), and have risen recently despite the decrease seen in home prices. Gifts in that

group are sitting 73% above 2019 levels, with the average gift now at \$115,000.

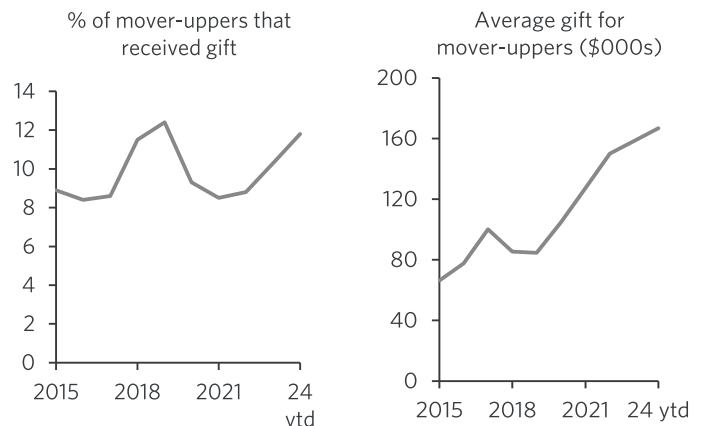
- Mover uppers are also benefiting from gifts, but to a lesser extent, with 12% utilizing gifted funds (Chart 2, left), towards the higher end of the range seen since 2015. Gifts in that segment are higher than their first-time homebuyer counterparts, with the average sitting at \$167,000 (Chart 2, right), in line with the fact that they are presumably purchasing bigger and therefore more expensive houses on average.
- It's no surprise that gift amounts have a strong correlation with home prices (Chart 3), although gifts have continued to increase despite the drop in home prices seen since 2021. While the benchmark home price has fallen by 14% since its Covid-era peak, prices are still 33% above pre-Covid levels, and that means that gifts have risen faster than home prices over that period. The increase in gift sizes has likely been facilitated by parents downsizing, and

Chart 1: The gift that keeps on giving for first-time homebuyers



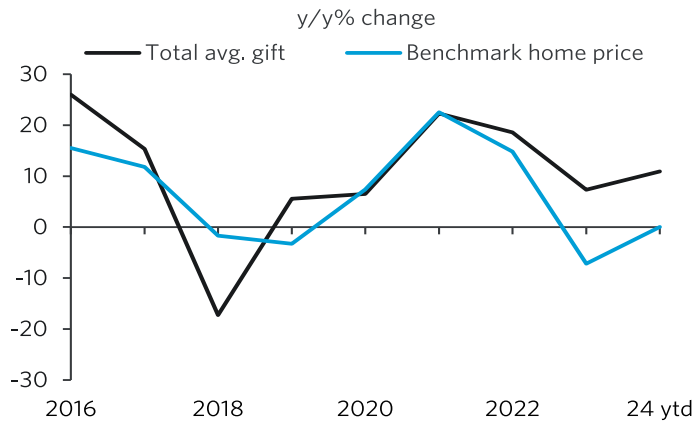
Source: CIBC

Chart 2: Mover-uppers reaping the benefits of higher gifts



Source: CIBC

Chart 3: Home prices down, gifts up

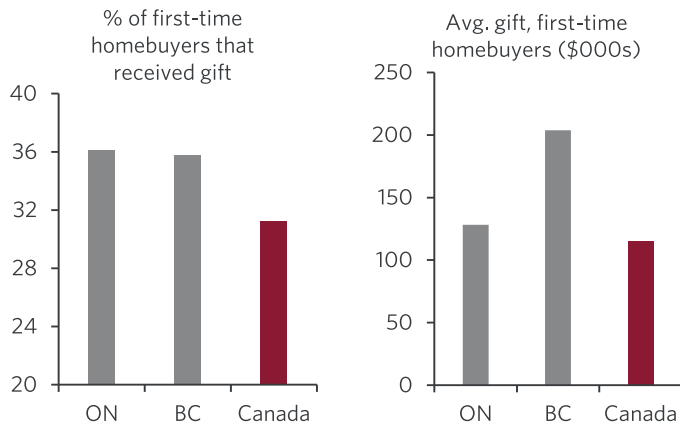


Source: CIBC

reaping the benefits of high home prices upon selling their principal residence.

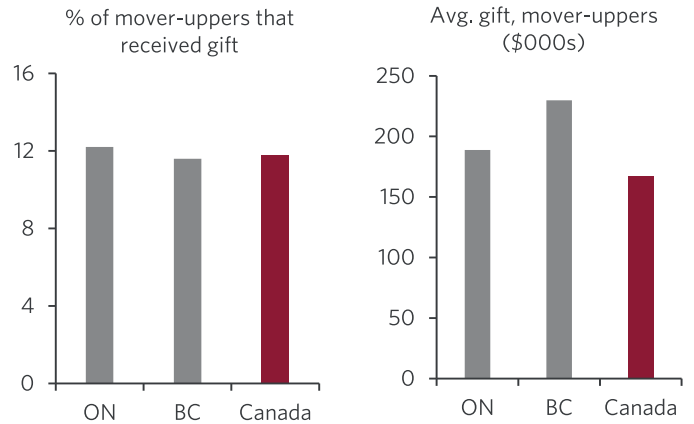
- Ontario and BC, Canada’s most stretched provinces in terms of affordability, have naturally seen a higher reliance on gifts for first-time home purchases (Chart 4, left), with 36% of that segment receiving gifts, a full 5%-points above the national average. The gift size is substantially bigger in BC, where home prices are higher, with the average first-time homebuyer gift amounting to \$204,000 (Chart 4, right). In Ontario, that figure sits at \$128,000. Gift amounts to first-time buyers have risen by 90% since 2019 in BC, well above the national average increase of 73%, with Ontario behind that figure at 52%.
- Interestingly, mover-uppers in Ontario and BC aren’t any more likely than the national average to receive a gift, with 12% across the board receiving support (Chart 5, left). However, the gifts are more generous in those provinces,

Chart 4: Gifting to first-time buyers in Ontario and BC



Source: CIBC

Chart 5: Gifting to mover-uppers in Ontario and BC



Source: CIBC

with the average in Ontario at \$189,000, and \$230,000 in BC, above the national average of \$167,000 (Chart 5, right). The increase in gift amounts since 2019 is sitting at 97% at the national level, with BC at 46% and Ontario at 93%.

- Importantly, this phenomenon is helping to mitigate the bite of housing inflation for buyers, but unfortunately it is also contributing to a widening of the already wide wealth gap in Canada.

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