

Economics
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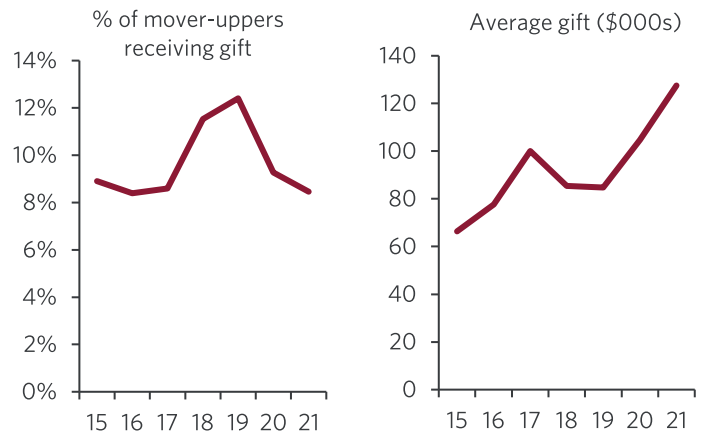
Gifting for a down payment—perspective

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It is hardly a secret that home buyers are increasingly turning to parents for support. But how big is this phenomenon? Using CIBC data, the following brief note sheds some light on that issue.

- The share of first-time home buyers that received help from family members was just under 30% during the past year. Note that this is not a new phenomenon as that share stood at close to 20% in 2015 and has risen gradually since then, alongside home prices. Interestingly, the share of first-time home buyers receiving help did not rise during the pandemic (Chart 1, left).
- As for the size of the gift, in 2015 it stood at just over \$52,000 and has risen steadily since then. Note, however, that while the share of gift receivers did not rise during the pandemic, the average gift has risen notably to reach a record high of \$82,000 (Chart 1, right).
- First time buyers are not the only ones receiving gifts. Just under 9% of mover-uppers also receive help. While that share has been on a declining trend (Chart 2, left), the size of the gift has risen dramatically to reach \$128,000 in September 2021 (Chart 2, right).

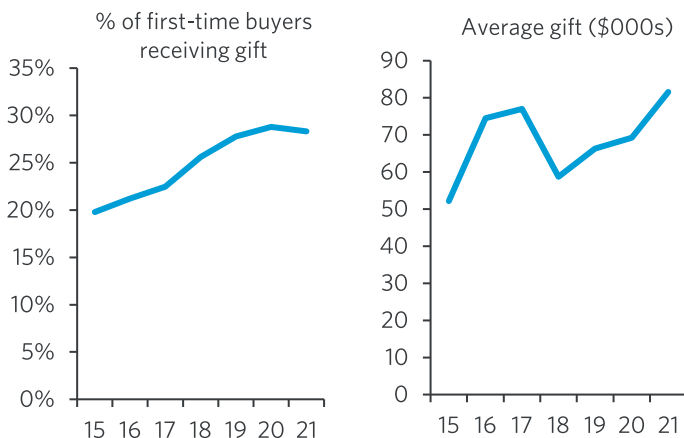
Chart 2: Mover-uppers also receive gifts



Source: CIBC

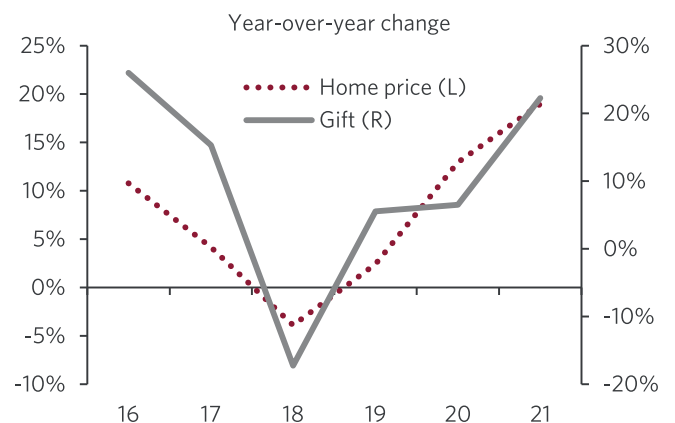
- As illustrated in Chart 3, the average size of a gift is highly correlated with home prices. In fact, over the past half a decade, growth in the average size of gift outpaced home price inflation, averaging 9.7% per year—a full two percentage points faster than growth in home prices.

Chart 1: Gifting to first-time buyers—rising fast



Source: CIBC

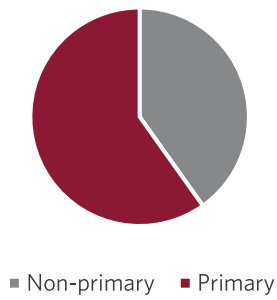
Chart 3: Gifting moves alongside home prices



Source: CREA, CIBC

Chart 4: Majority of gifts are primary source of down payment

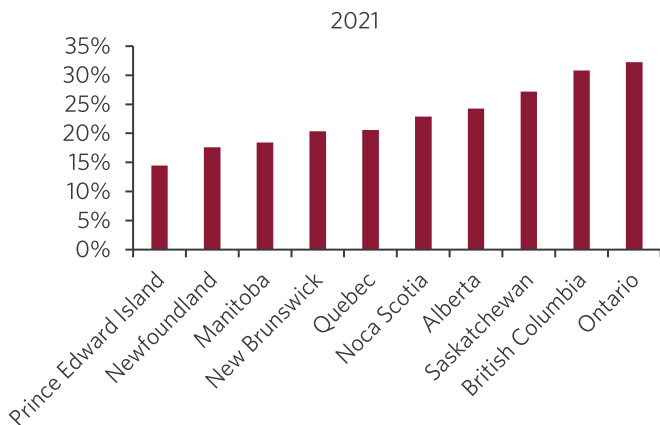
Share of gifts that are primary source of down payment



Source: CIBC

- No less than two-thirds of first-time buyers that received a gift indicated that the gift was the primary source of their down payment (Chart 4, left). Naturally, here the gift is more substantial, averaging \$104,000 for first-time buyers and no less than \$157,000 for mover-uppers (Chart 4, right).
- Overall we estimate that over the past year, gifting amounted to just over \$10 billion, accounting for 10% of total down payments in the market as a whole during that period.
- By province, the most expensive provinces naturally see the largest share of gifting (Chart 5). Zooming in on Toronto and Vancouver, Charts 6 and 7 illustrate the dramatic increase in gifting those cities. The average

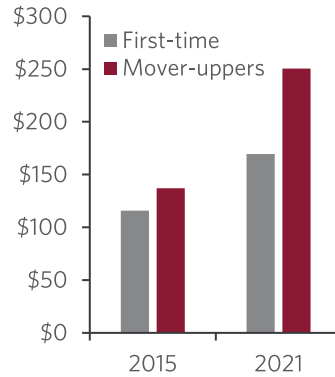
Chart 5: Share of first-time home buyers receiving gift



Source: CIBC

Chart 6: Gifting in Toronto

Average gift size (\$000s)



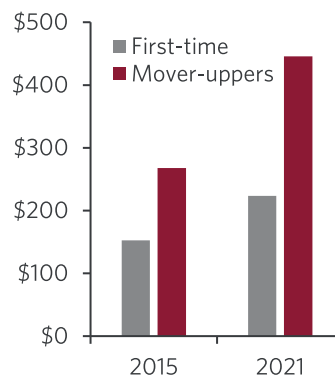
Source: CIBC

gift in Toronto during the first 3 quarters of 2021 is now estimated at more than \$130,000 for first-time buyers while mover-uppers enjoyed a gift of almost \$200,000. In Vancouver, those gifts are even larger, averaging \$180,000 and \$340,000 respectively.

- How do parents come up with this money? The narrative is that many of them get themselves into debt to support their kids. The evidence, however, questions that assertion. Based on Equifax information, we estimate that only 5.5% of gifting parents use debt to finance gifting. That rate is higher than seen in 2019 but it's still relatively low (Chart 8). No surprise, the highest share of parents using debt to assist are in Vancouver and Toronto. Therefore, it seems that a large portion of the gifting comes from parents' savings,

Chart 7: Gifting in Vancouver

Average gift size (\$000s)



Source: CIBC

Share of gift receivers

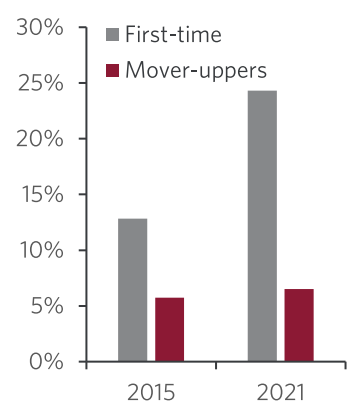
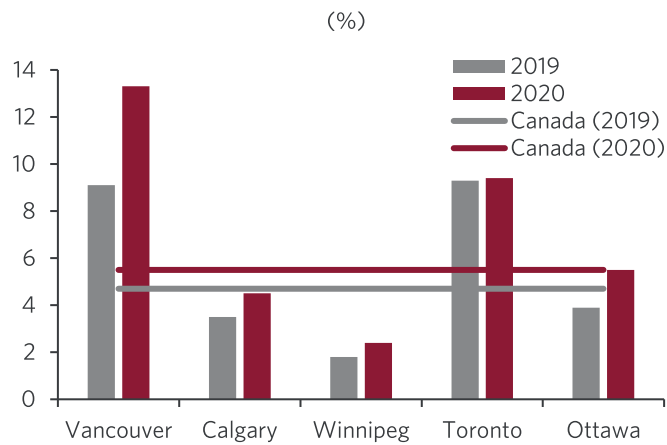


Chart 8: Share of gifting parents that use credit to support kids



Source: Equifax, CIBC

which of course grew notably during the pandemic—allowing for the increases in the size of the average gift.

- Given the trend and the size of gifting, it is clear that this phenomenon is becoming an important factor impacting housing demand and therefore home prices in Canada. As for the impact of wealth inequality, clearly gifting acts to narrow somewhat the wealth gap between gifting and non-gifting parents. At the same time however, gifting clearly works to widen the wealth gap between receivers and non-receivers. That increase in the gap is much larger than the actual gift size as it might make the difference between owning and not-owning a house, with receivers potentially benefiting from future home price appreciation. Furthermore, gifting also works to reduce the size of the mortgage and therefore leads to significant savings on interest payments over time.

To learn more about the tax and estate considerations of gifting, see our report “Give a little bit” which can be found online at: https://www.cibc.com/content/dam/personal_banking/advice_centre/tax-savings/give-a-little-bit-en.pdf

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