MARKET INSIGHTS

THE CANADIAN SOURCE FOR HOUSING INFORMATION | Q3 2022

We are pleased to share with you the next edition of the Teranet Market Insight Report. This report delivers a comprehensive analysis and new insights into the real estate market in Ontario derived through our data analytics team's analysis of sales registration activity in the Ontario Land Registry.

In the Q2 2022 Market Insight Report, we reported that, as of April 2022, just under 25% of all residential properties in Ontario are owned by multi-property owners. Out of those properties, over 53% are owned by those with only two properties in their portfolio. In addition, our analysis suggested that the majority of multi-property owners are purchasing for long-term holding and value, with only a small fraction demonstrating high rates of turnover and shorter holding periods in their property portfolios that is indicative of speculative activity.

In this edition of the report, we will continue to focus on multi-property ownership (MPO) profiles in Ontario to understand how they are purchasing, what they are purchasing, and how they are financing such purchases. In addition, we will profile MPOs that are corporate entities.

Multi-Property Owner Definition

The following two metrics are used to measure the activity of multi-property owners in this report:

1 Purchases by multi-property owners

- Purchase activities by those parties who already own another Ontario residential property at the time of the purchase[1].
- Historical trending available from 2011 onwards.

  Year to date (YTD) 2022 results are reflective of purchases up to and including July 31st.
- Unless specifically stated otherwise, this metric represents only purchases by individuals (ie. not corporate entities).

2 Properties owned by multi-property owners

- Measures the ownership of all Ontario residential properties by those who own multiple Ontario residential properties at a point in time. For the purpose of this analysis, this measure is based on ownership status as at July 31, 2022.

Note that in both metrics, the properties owned by multi-property owners could represent any combinations of principal residence, recreational properties, or investment properties.

Throughout this report, we will use the metric out of the two that is best suited to illustrate the multi-property ownership profile of interest.

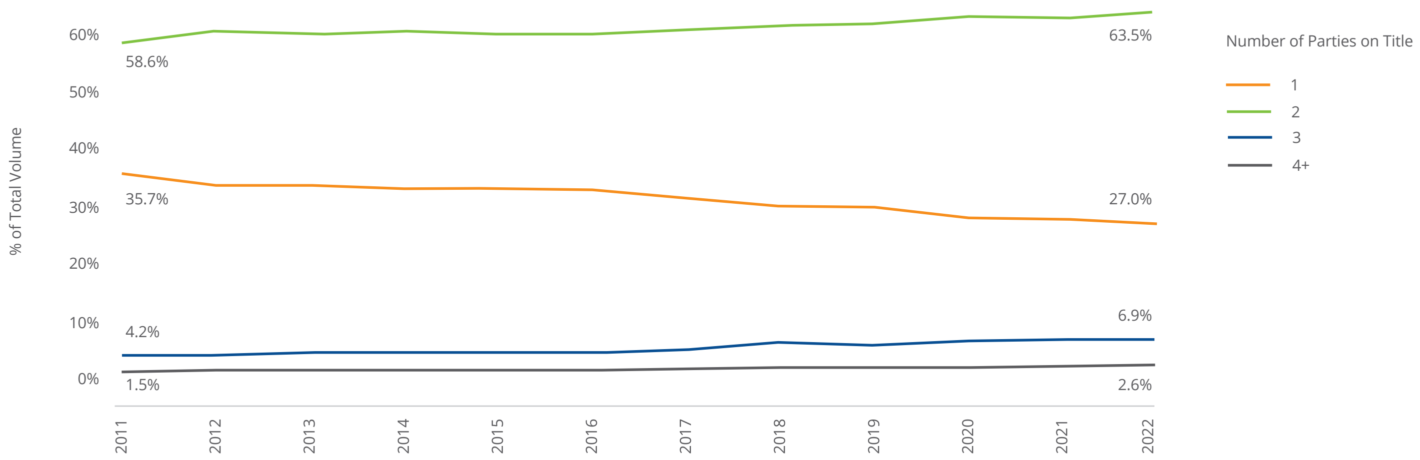
[1] For this metric, the existing properties held by the multi-property owners continue to be owned for at least 180 days after the property purchase of interest. Specifically, scenarios where a buyer purchase a new property and subsequently sold the sole existing property within 180 days would not be classified as a purchase by multi-property owner, but will instead be classified as a "mover" activity.

Parties Purchasing Properties Together

In analyzing Ontario property purchases made by multi-property owners since 2011, we observe that approximately 60% are purchased by parties of two, and 30% by those purchasing individually (Figure 1). The proportion of multi-property purchases made by a single owner is steadily decreasing, from 36% in 2011 to only 27% year-to-date in 2022. This emerging trend is likely indicative of the erosion in housing affordability observed in Ontario during the period.

Figure 1

Proportion of properties purchased by multi-property owners who either purchased individually, through a purchasing group of two, three, or four or more individuals.



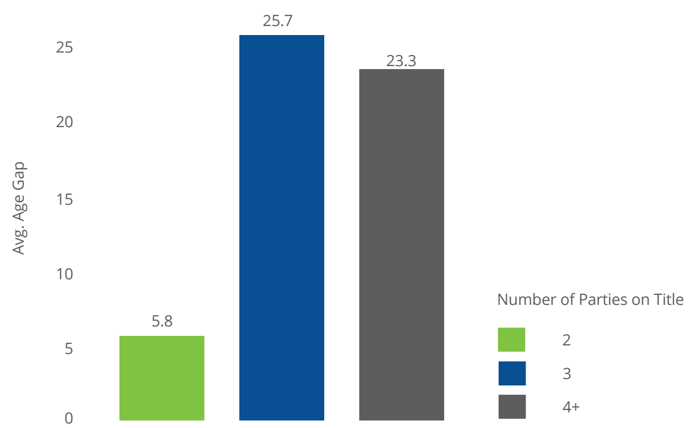
Analyzing the ages of the purchasers within a purchasing group and calculating the age difference between the youngest and the oldest in the group may inform on the likely relationships within the purchasing group and how multi-property owners are making their purchases (Figure 2).

The average age gap in a two-party purchasing group is six years, a trend that has held steady in the last 11 years. Such an age gap is likely indicative of purchases by couples or between friends. The age gap in purchasing parties of three or more is at least 23 years, which may be indicative of purchases involving multiple generations, pooling funds together.

Overall we observe that the majority of multi-property owner purchases are made by parties of two, with an average age gap of six years between the parties, likely indicative of purchases made by couples.

Figure 2

The average age gap between the youngest and the eldest purchaser in the group for those purchasing groups made up of two, three, or four or more individuals.



Multi-Property Owner Portfolio

As of July 31, 2022, 53% of properties owned by multi-property owners are by those who own two properties, 18% owned by those with three properties, 8% by those with four properties, and the remaining 21% by those who own five or more properties (Figure 3).

It can be observed that the types of properties held by those with different portfolio sizes tend to differ.

Based on sales activities from 2011 to July 2022, of those multi-property owners with two properties in their portfolio (Figure 4), we observe that 25% are fully comprised of properties within the GTA excluding Toronto condos, 21% are fully comprised of Ontario properties that are outside the real estate hotbeds of the GTA, Ottawa, University towns and cottage country[2] and lastly that 17% are comprised of one Toronto condo and another property within the GTA.

We observed differing trends amongst multi-property owners with five or more properties in their portfolios (Figure 5). 25% of multi-property owners with five or more properties are fully comprised of Ontario properties that are outside the real estate hotbeds of the GTA, Ottawa, university towns and cottage country. Additionally, 19% are comprised of at least one Toronto condo and other properties within the GTA. Lastly, 11% are comprised of at least one GTA property and other properties outside of the widely held real estate hotspots of the GTA, Ottawa, university towns and cottage country.

In summary, contrary to popular belief, we observe that multi-property owners with two properties have a preference for GTA properties that are not Toronto condos. When looking at the portfolios of multi-property owners, it appears that despite the number of properties in their profile, this segment tend to have similar weightings in Toronto condo properties, which supports the perceived appeal of this kind of property. Across all multi-property owners, an unexpected trend has emerged in which a quarter have all holdings outside of the real estate hotpots of the GTA, Ottawa, cottage country and university towns.

Figure 3

Proportion of properties owned by MPOs by the number of properties in the portfolio.

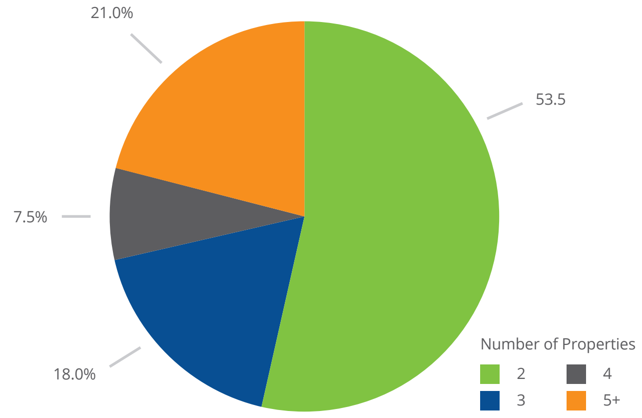
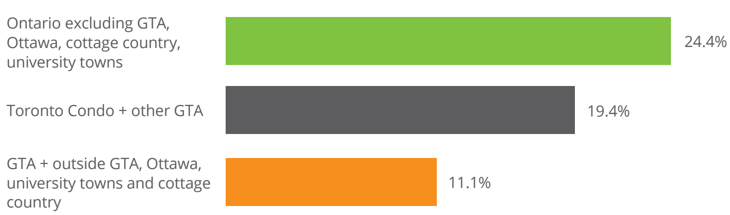


Figure 4

Proportion of properties within 2-property MPO portfolios by Top 3 property profiles

Figure 5

Proportion of properties within 5+ property MPO portfolios by Top 3 property profiles



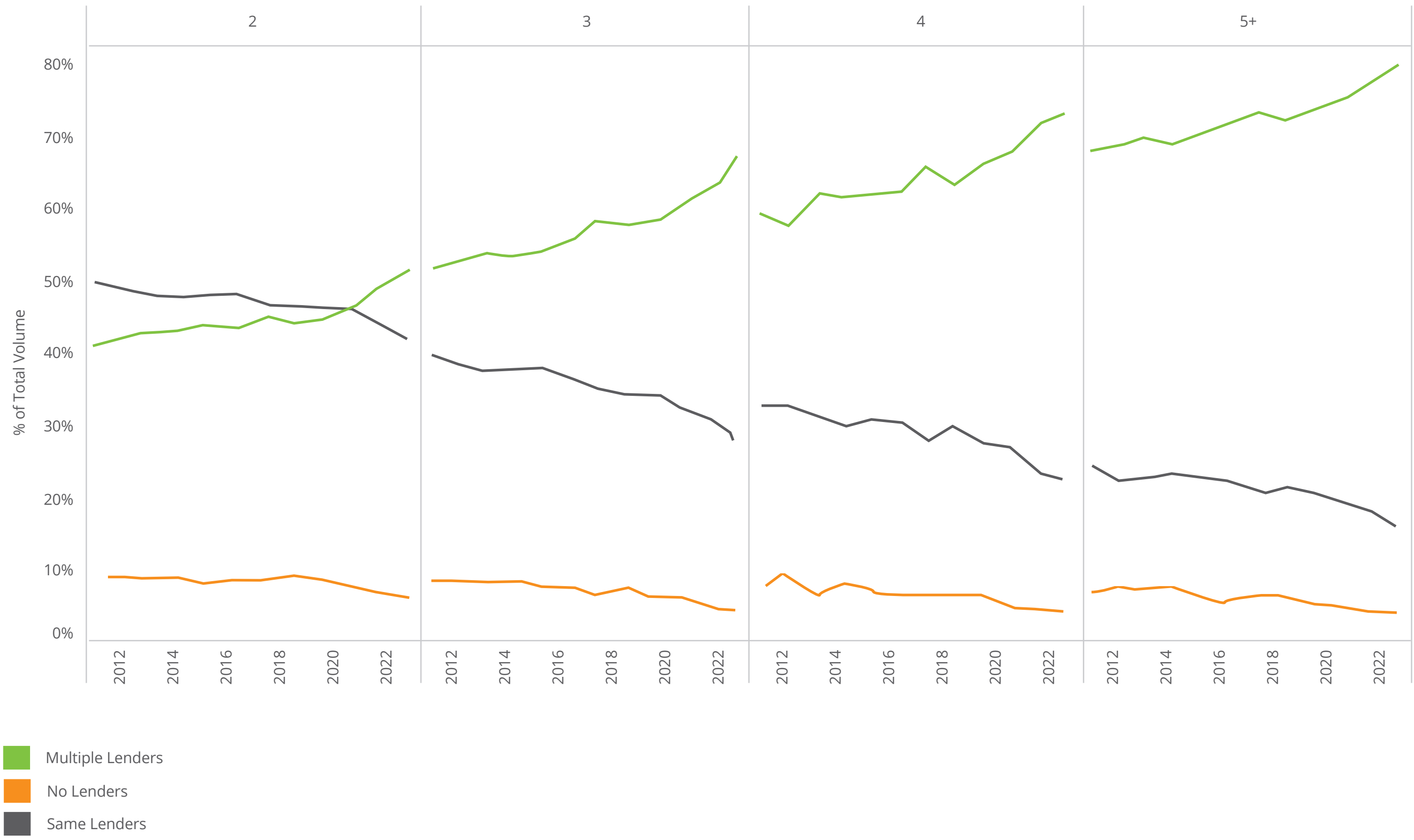
[2] Regional boundaries as defined by Ontario Land Registry Offices
GTA includes Toronto, Peel, York, Durham, and Halton
Cottage Country includes Muskoka, Simcoe, Haliburton, Victoria, and Peterborough
University Towns includes Middlesex, representing London, and Waterloo

Multi-Property Owner Financing

When profiling multi-property owners, we also analyzed how they are financing their purchases at the time of purchase. Amongst multi-property owners with two properties in their portfolio, it has historically been fairly even in terms of seeking financing from the same lender for both property purchases, compared to those that seek different lenders (Figure 6). As the property portfolio size grows, there is a greater tendency for multi-property owners to seek different lenders for the different properties, with over 70% of multi-property owners with five or more properties choosing different lenders for the properties within their portfolios. Across all portfolio sizes, there has been an increasing trend since 2011 to use different lenders to finance purchases, likely indicative of the heightened level of competition between mortgage lenders.

Figure 6

Proportion of MPO property purchases financed with same lender or different lenders as the rest of the portfolio at the time of purchase, by the number of properties in the portfolio

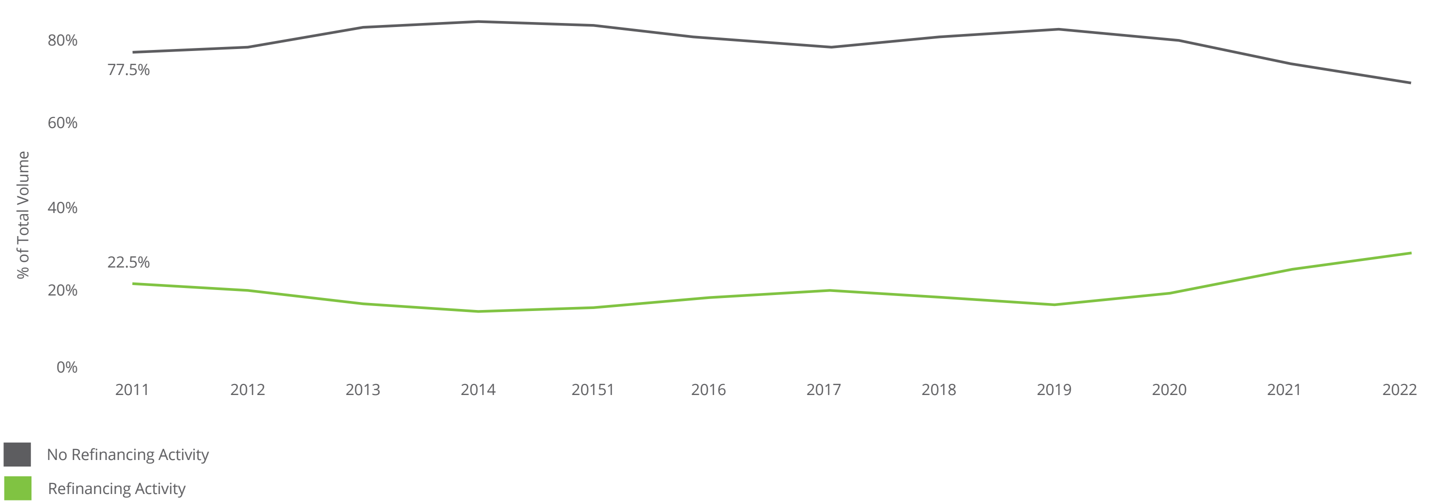


It can also be observed that while the majority of multi-property owners with two properties still tend to borrow exclusively from the Big 5 banks at 54%. However, this preference declines with more properties in the multi-property owner portfolio. Amongst multi-property owners with five or more properties, only 38% finance their purchases exclusively with the Big 5 banks, while the remainder choose smaller lenders or combinations thereof.

It is a widely held belief that multi-property owners refinance other properties in their portfolio to fund new purchases, but our analysis indicates that only a fraction of multi-property owners do. In analyzing refinancing activities within one year of the purchase of a new property in the portfolio, we found that this occurs in under 30% of multi-property owner purchases, based on activities since 2011 (Figure 7). There is an increasing trend to refinance other properties in the portfolio since 2019, coinciding with the significant increase in home prices.

Figure 7

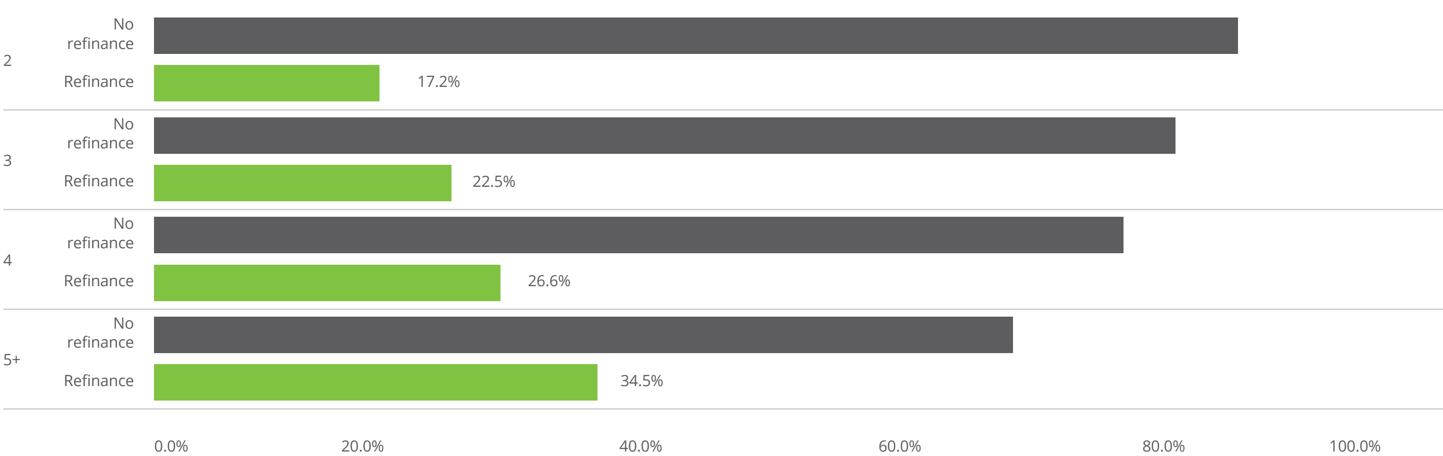
Proportion of MPO purchases for which a refinance occurred on another property in the portfolio within one year of the purchase



As expected, the bigger the property portfolio, the higher the propensity to refinance properties in the portfolio to fund new purchases (Figure 8). Only 17% of purchases by multi-property owners with two properties saw a refinance of the existing property within a year while those with five or more properties are twice as likely to do so at 34%.

Figure 8

Proportion of MPO purchases for which a refinance occurred on another property in the portfolio within one year of the purchase



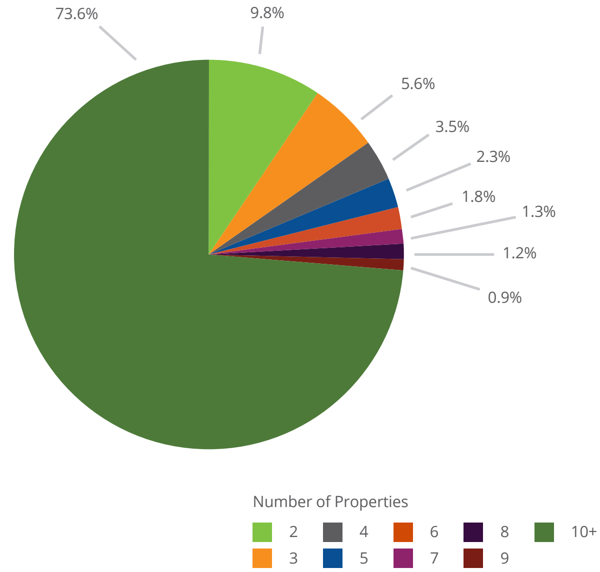
Corporation Multi-Property Owners

As of July 31, 2022, multi-property owners that are corporations account for ownership of just under 4% of residential properties in Ontario. Of those, 95% are held in portfolios that reside in the same region; for example, a corporation that owns ten properties, all of which are in Ottawa. This is illustrative of the likely nature of property ownership for income-generating purposes, where the portfolio of properties is held in the same region for ease of maintenance.

Of the properties owned by corporation multi-property owners, 73% own ten or more properties (Figure 9). This again speaks to the likelihood that those who own multiple properties through corporate entities are likely doing so for income-generating purposes.

Figure 9

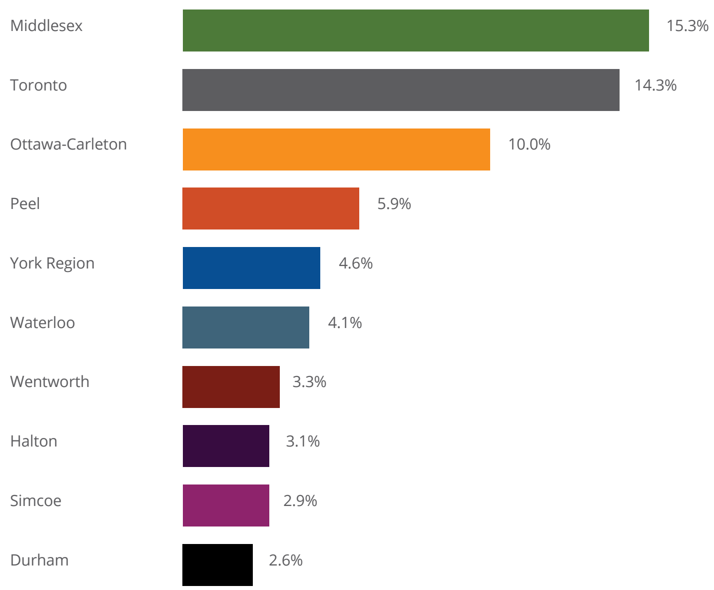
Proportion of properties owned by Corporate MPOs by the number of properties in the portfolio



Interestingly, the top region with properties held by corporation multi-property owners is Middlesex, representing the London region, at 15% (Figure 10). The second most popular region is Toronto at 14%. As Waterloo takes sixth place with 4%, it appears that university towns like London and Waterloo are attractive for corporate multi-property owner investors.

Figure 10

Proportion of properties owned by Corporate MPOs by top ten regions



Conclusion

In analyzing different dimensions of multi-property owners in Ontario, we see the following profiles emerge:

- The majority of multi-property owners purchase in groups of two, with an average age between the two parties of six years, suggesting these owners are couples.
- Most multi-property owners have only two properties in their portfolio, and they have a preference towards GTA properties that are not Toronto condos.
- The larger the portfolio of a multi-property owner, the more likely it is they will use a variety of lenders to fund portfolio purchases, and the less likely it is they will use a Big 5 bank exclusively for financing.
- Less than 30% of multi-property owner purchases are made within one year of a refinance of another property in the portfolio, which contradicts a widely-held belief that this segment habitually refinances other properties in their portfolio in order to fund new properties.
- Lastly, Corporations own less than 4% of residential properties in Ontario. Amongst Corporations that own multiple properties, the London area is most popular, and 73% have ten or more properties in their portfolio.

If you need more information about the data presented in this report, the Teranet Data Science Lab can help you dig deeper. Our data analytics team will work closely with you to answer your questions with insights from our proprietary database.

Contact your Teranet account manager to learn more.

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