

## **The Future of Generational Wealth: A Glimpse Into Reality**

According to Investopedia, “generational wealth” refers to assets passed by one generation of a family to another, such as stocks, bonds, real estate, and family businesses (Daugherty). Generational wealth equips the heir with significant buying power that is particularly beneficial when making financial purchases such as real estate especially in a hot housing market. I have identified 4 sources of wealth transfer to younger home buyers in the Greater Toronto Area: the withdrawal of equity from homes that have increased in value to provide down payments to first-time home buyers, the inheritance of homes that are mortgage free in desirable area that will likely sell for above average prices, the gifting of early inheritances to heirs, and adult children selling their own homes to cohabitate and care for elderly parents (Dangerfield; Weinstein). Based on these 4 examples, the recent trend of generational wealth transfers from grandparents or parents to children has created a greater division in socioeconomic status in the Greater Toronto Area (GTA). The results are a competitive market, decreased housing supply, and inflated home prices.

### **A Competitive Market**

Generational wealth has increased both competition and demand in the real estate market by enabling first-time home buyers to compete in active real estate despite the inflated home prices. According to Global News, Generational Squeeze has reported that in 1976, it took a young individual 5 years on average to save a 20 percent down payment on an average-priced home in the GTA (Dangerfield). Comparably, due to rising home prices, in 2021, it takes a millennial (someone born between 1981 and 1996) 24 years to save a 20 percent down payment (Dangerfield). The rising real estate market, combined with factors such as inflation and wages that don't match inflation, have resulted in the number of years required to save a down payment

to increase by almost 5 times (Dangerfield). Generational wealth plays a role, more important now than ever, with housing prices being the highest they have ever been. This inherited wealth allows some first time home buyers to make sizable down payments by providing them with the funds needed to not only enter the hot market, but to reduce the amount of their monthly mortgages. This newly acquired wealth enables domestic buyers to compete with the wealth of foreign buyers. For example, one of my friends lived in a home across the street from her grandmother. They recently sold their home for above the asking price at \$1.5 million, and moved into her grandmother's home to support her as she ages. With this additional money, her parents have reinvested in other properties and are able to invest in her post-secondary future, thereby leaving my friend with generational wealth. On the flip side, for families that have experienced financial struggles, newer generations don't have the advantage of generational prosperity and are therefore unable to compete with those who have access to it. This has resulted in a "snowball effect" over the years, with the number of young people who are unable to "get their foot in the door" of the real estate market, increasing exponentially as housing prices continue to rise beyond wages (Dangerfield). For the Greater Toronto Area, this results with bidding wars, where those with generational wealth can be active competitors, whereas those without this privilege are left behind in the dust. For example, if an individual receives \$300,000 in inheritance, they can place a higher offer on a home, with a sizeable down payment, providing them with a competitive edge which may result in the home selling above the asking price. An individual who doesn't receive that same inheritance money is more likely to not place an offer, be forced to withdraw their offer or have their offer rejected as they are unable to compete. Generational wealth therefore negatively and positively affects competition, leaving some able to compete and others unable to.

### **Decreased Housing Supply**

The transfer of generational wealth has also created a seller's market with heirs choosing to sell the homes that are inherited, leading to a decrease in housing supply (Wild). The GTA has a large aging population of Baby Boomers who don't want to move out of their home. Resultantly, adult children are choosing to move in to provide their parents with care. If heirs do not sell their parents' homes and are instead choosing to move in, the supply lowers, thereby creating a seller's market (Wild). By creating a seller's market, the demand for homes increases simultaneously with the competition, with more buyers than sellers. For those that want to buy homes, this places them in a difficult situation where they are unable to find a home within their approved price range. This type of market creates a domino effect, leaving few in a "winning" position. The seller's market causes bidding wars by enabling the seller to hold back on offers to create a bidding war, thereby manipulating the market to induce offers above asking price (Burriss). Low housing supply is a factor that has contributed to high prices of homes in the GTA, with many wanting to live in the GTA for convenience but the area not having enough homes to meet the demand.

### **Inflated Housing Prices**

The demand for homes combined with the low housing supply creates a socioeconomic division in terms of who can afford to live in the GTA, thereby contributing to inflated housing prices. The GTA is a desirable area to live in as it is home to multiple large corporations and businesses, the entertainment district, and sporting venues to name a few. The more desirable an area is, the more people will want to live there. For example, if an individual's office is located in the GTA, they will most likely want to live as close as possible to their office for convenience and

commuting purposes. The desirable factor of the GTA adds to the demand, however with the GTA having a limited housing supply, the price increases since it's an area many people want to live (McNutt). This can be seen in most big cities throughout North America like Vancouver, New York, and Los Angeles where people are forced to decide between high home prices and the time and cost of commuting from more affordable suburban locations (O'Neil). The transfer of generational wealth, while contributing to housing supply, also allows GTA housing prices to be affordable for a select few, giving them the edge needed to obtain homes in desirable locations.

### **Conclusion: The Future of Generational Wealth**

Overall, the recent trend of generational wealth transfers has largely affected an individual's ability to compete with the demand and competition, housing supply, and price of the growing real estate market. When referring to the facts, it can be clearly observed how generational wealth can exclude those without access to inheritances from the housing market, while providing advantages to those with inheritances. If an individual's parents or grandparents offer to assist by contributing to the majority of their down payment, this allows individuals to compete in bidding wars, make offers above asking, and participate in the market with little to no issue while carrying an affordable mortgage. Comparably, for those who don't have the privilege of generational wealth, buying a home is less feasible and therefore less achievable. Generational wealth has aided a portion of the home-buying population however, this luxury is not an attainable resource for all; not every individual has an inheritance left for them. The addition of this new financial resource assists some while acting as a deterrence for others; generational wealth thereby holds power by deciding the limits of one's competitiveness in the housing market. This new reality forces us to examine the question: can there be a middle ground or will the housing

market forever be separated by socioeconomic status? As an individual surrounded by school peers who are fortunate to have generational wealth through their parents' investments, or grandparents' wealth when reviewing facts such as these, I often wonder how I myself will be able to afford a home in the future. It is market conditions such as these that forced me to begin with the end in mind when choosing my future career. Part of my research included visiting sites such as [realtor.ca](http://realtor.ca), and entering the criteria for my dream home to see what the prices were today. To my surprise the prices I saw were astronomical, however I turned this shock into motivation to choose a future career not only based on my passion and career demand but also on a salary that when compared to estimated future home prices, will enable me to enter the market and afford a comfortable lifestyle. As shocking as this may seem, this is my reality and the reality of all future generations that do not have a significant inheritance coming their way, who presently reside in the GTA and wish to continue living in the GTA while not sacrificing family time for a lengthy commute to work. The alternative to this would be to move to another state, or another country, however this is not an option for me as I love the GTA; it is where I was born, where I grew up and where I plan to one day give back to the city in any way that I can.

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