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Résumé de l'article

Cette étude se penche sur le financement de la production et de la consommation des logements dans cinq subdivisions de Toronto au début du 20e siècle. Elle examine principalement les diverses sources de financement du logement à l'intérieur des villes. Cette étude révèle la persistance d'une formule traditionnelle de financement du logement, caractérisée par une abondance d'argent comptant et de financement privé. Les établissements de prêts jouèrent un rôle relativement mineur dans le financement des hypothèques, quoique leur importance ait été significative dans le financement des logements de luxe. La prépondérance d'argent comptant, de financement privé et de prêts hypothécaires consentis par les vendeurs montre que Toronto a une aptitude remarquable à financer le développement de ses logements.

Housing Finance in Early 20th Century Suburban Toronto

Ross Paterson

Abstract

This study examines the financing of housing production and consumption in five early twentieth-century Toronto suburbs. The study areas range in status from upper-middle class to working class.

Research findings include the persistence of a traditional pattern of finance characterized by high levels of cash transactions and private financing. Institutional lenders, while influential in financing high-status housing, played a relatively minor role in the overall provision of mortgage funding.

The study adds to our understanding of the role of housing finance during this formative period when the major element of modern suburbanization, including the emergence of a corporate land development industry, were being established.

Résumé

Cette étude se penche sur le financement de la production et de la consommation des logements dans cinq subdivisions de Toronto au début du 20e siècle. Elle examine principalement les diverses sources de financement du logement à l'intérieur des ville. Cette étude révèle la persistance d'une formule traditionnelle de financement du logement, caractérisée par une abondance d'argent comptant et de financement privé. Les établisse ments de prêts jouèrent un rôle relativement mineur dans le finance ment des hypothèques, quoique leur importance ait été significative dans le financement des logements de luxe. La prépondérance d'argent comptant, de financement privé et de prêts hypothécaires consentis par les vendeurs montre que Toronto a une aptitude remarquable à financer le développement de ses logements.

Introduction

The development of Canada's early 20th century suburbs has received much attention in the recent literature. A major focus of this research has been the emergence of a corporate land development industry and its role in creating new suburban landscapes.[1] However, an important aspect of the suburb-building process—housing finance—has been relatively neglected. In North America, access to owner-occupied housing has come to hold significant implications for the life chances and social status of households.[2] This situation has had important repercussions for the shaping of attitudes and perceptions about the appropriateness of owner-occupancy and suburban lifestyles. For most households access to mortgage financing remains a critical determinant in achieving the socially prescribed status of owner-occupier.

The purpose of this study is to examine the financing of housing production and consumption in early 20th century suburban Toronto. The analysis is based on a study of land registry records, specifically a sample of properties located in five subdivisions which were largely built between 1911 and 1941. The central focus of the study is intra-urban variations in the sources of housing finance. The paper will examine the residential mortgage environment during the early 20th century and its impact on the city-building process in suburban Toronto.

Housing Finance in Early 20th Century Canada

Only fragmentary evidence exists on patterns of housing finance in early 20th century Canada. The available information suggests that the home mortgage market was dominated by private lenders with only minor participation by financial institutions. The major role of private lenders would appear to represent a continuation of an earlier pattern. Research on the 19th century city has indicated that the overall involvement by institutional lenders was quite low and that the majority of mortgages were held by private lenders. Most mortgages, at that time, represented a relatively small proportion of the purchase price. Indeed, taking all transactions into account, cash appears to have been the most important form of financing in the 19th century.[3]

Relatively little has been written on the historical evolution of the Canadian mortgage market. Naylor and Drummond are among the few who have explored this topic.[4] They suggest that the shift from entrepreneurial to corporate business organization at the turn of the century was influential in changing conditions in financial markets. The period leading up to the First World War was marked by a large number of mergers of financial institutions and an increasingly less restrictive regulatory environment. In the process, large pools of capital could have been made available for investment in urban development. In addition, the lack of demand for rural mortgages beginning in the 1890s, combined with the urbanization of Canadian society, presumably could have resulted in a shift of investment to the urban built environment.

Nevertheless, private lenders continued to dominate the residential mortgage market throughout the late 19th and early 20th centuries. Doucet and Weaver, in an examination of the business activities of a real estate and property management agency between 1860 and 1920 in Hamilton, Ontario, have shown the importance of property specialists, such as real estate agents and lawyers, in coordinating the investment activities of thousands of individuals.[5] In Hamilton, significant amounts of capital, derived largely from the trustees of estates and well-to-do widows, were invested in the residential mortgage market through these intermediaries. The multitude of accessible real estate and lawyers' offices, staffed with personnel knowledgeable about market conditions and potential investment opportunities, clearly had a distinct advantage over financial and other institutions in a period before the widespread opening of branches.[6] Consequently, low risk, easily administered government and municipal bonds were preferred as investment vehicles by financial and other institutions.

In the early 20th century, home financing was carried out through an extremely conservative mortgage instrument: the balloon payment mortgage. The balloon mortgage, unlike the fully amortized long-term mortgage in widespread use today, was not self-liquidating and periodic payments were for interest only. The entire loan balance was, technically, owing at the end of the contract term as a balloon payment. Balloon mortgages were short-term, generally for five years, which necessitated regular refinancing with attendant high commissions and finance charges. As the average loan was in the range of 50 percent of the value, an equity investment of an equal amount or a second mortgage, sometimes referred to as "junior financing" was required.[7] Ballon mortgages were unattractive to institutions like insurance companies whose investments generally were required to be long-term.

The limited evidence available would appear to suggest that where financial institutions became involved in the home mortgage market they did so at the high end. These loans would have been for larger amounts and, presumably, would have involved a lower degree of risk. However, borrower preference for private and vendor-take-back mortgages, which were more widely available, and possibly more flexible in terms of repayment or refinancing, contributed to the dominance of non-institutional sources in the residential mortgage market.

The preceding discussion raises a number of questions concerning the levels of private and institutional involvement in the mortgage market and intra-urban patterns in housing finance in early 20th century Canada. What was the level of institutional involvement in the home mortgage market? How was home purchase financed in lower-status suburbs if institutional mortgages were targeted at the high end of the market? Was there a continuation, into the early 20th century, of the 19th century pattern of housing finance, marked by a predominance of cash financing?

Another issue which needs to be examined in greater detail is the distinction between the financing of housing production and consumption. A large proportion of the literature on housing finance is given over to housing consumption. Yet, in terms of the creation of the suburban landscape, the provision of financing for housing production is clearly a critical element. This study will attempt to resolve these questions with reference to Toronto between 1911 and 1941.

Research Method

Two approaches can be employed when sampling properties for the study of urban housing finance. The first approach involves the sampling of a large number of properties across an urban area which can then be analyzed through aggregation into spatial units. The second approach is based on the selection of a small number of areas and the sampling of properties within them. In work of an historical nature, where computerized data banks are rare and manuscript sources cover many volumes, the latter approach is often the most feasible one. Data retrieval for a large number of properties when using land registry records as the primary data source is greatly facilitated by the adoption of a small-area strategy.

Five study areas were selected for analysis. Their selection was based on previous work which examined land subdivision activity in Toronto during the period leading up to the First World War.[8] The study areas consist of five subdivisions named Lawrence Park, Monarch Park, Danforth-Woodbine Park, Silverthorn Park Addition and the Parsons Estate (see Figure 1). The study areas are not statistically representative of Toronto's early 20th century suburbs but encompass a cross-section of the full range of subdivision types.

When constructed, the five subdivisions ranged from very high status, Lawrence Park, to a shacktown, the Parsons Estate. The selection of Lawrence Park, located in high-status North Toronto, was based in part on the availability of Bordessa's detailed study of its development.[9] Monarch Park and Danforth-Woodbine Park were chosen to represent the east end of the city. Although located in close proximity to each other, the housing stock is larger and of better quality in Monarch Park. Both subdivisions were developed with lower middle and working-class homebuyers in mind. Silverthorn Park Addition and the Parsons Estate were selected primarily because they were directed at a largely working-class market. Of the five study areas the greatest variation in the housing stock was found in Silverthorn Park Addition. The housing stock in the southern portion of the subdivision, located in close proximity to St Clair Avenue, was larger and more expensive than the housing in the remainder of the suburb. In advertisements, the Parsons Estate was explicitly promoted as a low cost opportunity for the self-builder. Both subdivisions are located near the heavy industrial and meat packing district at the north-western boundary of the City of Toronto.[10]

The relative status of the five subdivisions can be judged from the information presented in Tables 1 and 2. Table 1 shows the variation in construction dates between the five subdivisions. The three middling subdivisions: Monarch Park, Danforth-Woodbine Park and Silverthorn Park Addition, were built out in the period immediately following the First World War. High-status Lawrence Park and the shacktown: the Parsons Estate, took considerably longer to complete and many of the building lots were not constructed on until the post-W.W.II period.

Dollar values for house sales provide one indicator of the status of the five subdivisions. Table 2 aggregates house prices by two time periods. The table suggests the impact of general economic conditions on house prices during the study period. The period up to 1926 was marked by increasing house prices with the reverse holding true for the late 1920s and 1930s. Lower house price values in the second time period may also be attributed to the production of less expensive housing in response to changing market conditions. The data in Table 2 support the rank ordering of the subdivisions described above.

Using a random systematic method, a 20% sample of properties was derived from complete address listings compiled for the study areas. The sample represented 449 properties. The size of the sample, while somewhat arbitrary, was felt to be reasonable given the time and resources necessary to search 30 years of title (1911-1941) for 449 properties, including examining title deeds and land transfer tax affidavits.

Growing interest in the study of city building has encouraged the exploration of a largely untapped source of information: land registry records. Two widely cited examples of this work are Katz, Doucet and Stern's study of mid-Victorian Hamilton and Edel, Sclar and Luria's analysis of Boston's suburbanization.[11] In both these studies, however, land registry data formed only a small portion of data sets which included information from the manuscript census and assessment rolls. This study of housing finance employs land registry records as the principal data source.

In Ontario, records of all land transactions made since the mid-19th century have been preserved and are readily available to the public at a fee. A summary of all registered instruments filed in the Registry Office is recorded in an abstract book. Two types of abstract books exist which summarize land transactions before and after subdivision. These are, respectively, concession books and plan books.[12] The original instruments, if not discharged, are also available for examination. Unfortunately, for historical research purposes, once a mortgage instrument is discharged the original mortgage documents are destroyed. Thus the abstract books of deed represent one of the few historical sources of information on mortgage financing. From the abstract books it is possible to determine the volume and timing of mortgages, a dollar amount and the lender. In addition, by examining the difference between the date of the mortgage and the discharge date it is possible to estimate the length of time of the mortgage.[13]

Table 1:
Estimated Dates of Construction for Sampled Properties, Five Toronto Subdivisions, 1911-1941.

Time Period	Lawrence Park	Monarch Park	Danforth-Woodbine Park	Silverthorn Park Addition	Parsons Estate
% <1921	11.1	58.8	23.7	15.9	29.0
% 1921 – 1925	11.1	36.8	68.8	63.8	27.5
% 1926 – 1930	24.7	4.4	4.3	17.4	2.9
% 1931 – 1935	13.6	0.0	0.0	2.9	8.7
% 1936 – 1940	7.4	0.0	1.0	0.0	1.4
% >1940	32.1	0.0	2.1	0.0	30.4
Number of Properties	81	68	93	69	138

Table 2:
Bona Fide Values for House Sales, Aggregated by Time Period, Five Toronto Subdivisions, 1911 – 1941

	Before 1926		1926 – 1941	
	Number	Median	Number	Median
Lawrence Park	14	$18,520	43	$9,500
Monarch Park	42	$4,200	25	$3,900
Danforth-Woodbine Park	69	$4,350	49	$3,325
Silverthorn Park Addition	29	$4,600	23	$4,400
Parsons Estate	38	$2,450	63	$2,600
All Five Subdivisions	192	$4,275	203	$3,500

As this study is concerned with housing finance throughout the building process, from lot purchase to occupancy, it was necessary to distinguish between the spheres of production and consumption. The sphere of production is defined as encompassing all property transactions from the lot sale by the land developer to the completion of construction. The sphere of consumption is represented by all property transactions following the occupation of a dwelling. Unfortunately, it is not possible to establish the timing of construction or occupancy from the registry records.

For the purposes of this study establishing a date of occupancy was considered to be more important than the timing of construction. An important consideration is the fact that construction does not necessarily commence upon the issuance of a building permit. The date of first occupancy was determined by preparing a complete residence history for each sampled property from city directories. Beginning in 1941, and working backwards annually, a listing of the occupants of the 449 properties was compiled. Where an address was not listed it was assumed that the residence had not yet been constructed and occupied.

Analysis of the land registry and additional information explored a number of issues related to housing finance: the level of private involvement in the mortgage market, intra-urban variations in institutional mortgage lending and the proportion of transactions financed with cash. The analysis is divided into two parts which respectively examine the financing of housing production and consumption.

Financing Housing Production

Information on the sources of financing for all transactions, by first mortgage, in the housing production phase is presented in Table 3. Table 4 contains information on the sources of second and subsequent mortgages. In Table 3 a transaction involving a cash payment is indicated by the category "No Mortgage."

The most striking feature of Table 3 is the high percentage of cash financing—49.3% overall. Cash financing was especially pronounced in the lower-status subdivisions of Silverthorn Park Addition and the Parsons Estate. Even in upscale Lawrence Park, which had a relatively high level of institutional financing, over a third of the transactions in the production phase were financed with cash rather than a mortgage. However, the pattern of financing among the five subdivisions differed significantly.

Private mortgages and vendor-take-back mortgages formed the principal source of financing for more than one-third of the transactions by first mortgage and more than two-thirds of the second and subsequent mortgages. The predominance of cash and private financing in the production phase indicates the weakness of the capital base available to the home-building industry at the time. In lower-status suburbs, for example the Parsons Estate, self-building was pursued as a means of providing affordable housing an option actively promoted by the developers. Institutional lenders would have been reluctant to accept the risk which would have been incurred in financing self-building.

Four main types of institutional lender were identified from the land registry records: 1) trust, loan and savings companies, 2) life insurance companies, 3) subdivision developers, and 4) other institutions, for example, churches, unions and fraternal organizations. In both the production phase and the consumption phase the majority of the institutional mortgages were held by life insurance companies and trust companies.

In spite of the much touted "Instalment Plans" promoted by subdivision developers in advertisements, developers played a relatively minor role in housing finance. Only in high-status Lawrence Park was the developer, the Dovercourt Land, Building and Savings Company, an important source of mortgage financing. It is interesting to note the integration of land development with savings, for this suggests the sophisticated corporate structure of the land development industry evolving at the time.[14]

Table 3:
Housing Production, Sources of Financing for all Transactions by First Mortgage, Five Toronto Subdivisions, 1911-1941.

Lender Type	Lawrence Park	Monarch Park	Danforth-Woodbine Park	Silverthorn Park Addition	Parsons Estate	All Five Subdivisions
% No Mortgage	35.8	36.7	37.8	50.9	68.8	49.3
% Private	11.2	24.7	24.4	20.1	15.1	18.5
% Vendor-Take-Back	16.1	28.0	24.0	12.4	11.4	17.3
% Institutional	36.9	10.6	13.8	16.6	4.7	14.9
Number of Transactions	187	150	217	169	343	1066

(X2 = 166.1 > Crit .001)

Table 4:
Housing Production, Sources of Financing for all Transactions by Second and Subsequent Mortgages, Five Toronto Subdivisions, 1911–1941.

Lender Type	Lawrence Park	Monarch Park	Danforth-Woodbine Park	Silverthorn Park Addition	Parsons Estate	All Five Subdivisions
% Private	56.1	76.2	63.3	74.3	92.1	70.8
% Vendor-Take-Back	1.8	9.5	20.0	2.6	0.0	5.4
% Institutional	42.1	14.3	16.7	23.1	7.9	23.8
Number of Transactions	57	21	30	39	38	185

An examination of Table 3 would appear to suggest that the middle three subdivisions—Monarch Park, Danforth-Woodbine Park and Silverthorn Park Addition—had broadly similar patterns of housing finance in the production phase. High-status Lawrence Park and the shacktown, the Parsons Estate, seem to represent deviations from the pattern identified in the other three study areas. Table 5 has been prepared in order to test this notion. In Table 5, Cramer's V statistic has been employed to indicate the strength of association between each pair of subdivisions.[15] Only Monarch Park and Danforth-Woodbine Park show no significant difference in financing patterns. However, Lawrence Park and the Parsons Estate do stand out as having significantly different patterns of housing finance from the other three study areas.

The evidence presented so far indicates the importance of cash financing to the city-building process in early 20th century suburban Toronto, even in high-status housing developments. It would appear that the provision of capital for housing production from institutional lenders was quite meagre. Heavy reliance on cash and private financing may have been an important contributing factor in the perpetuation of a highiy fragmented building industry during this period.

Financing Housing Consumption

The sphere of housing consumption refers to transactions involving sales and mortgages on newly-built homes and resales. This area of housing finance has often been addressed in the literature. Information on sources of consumption financing is presented in Tables 6 and 7. In Table 6, as in Table 3, the category "No Mortgage" signifies cash sales.

A comparison between Table 3 and Table 6 shows that institutional mortgage lending was even lower in the consumption sphere (4.2%) than in the sphere of production (14.9%). While cash continued to be a significant source of financing, the dominant mode of home financing in the sphere of production was the vendor-take-back mortgage. Indeed, with the exception of Lawrence Park, private financing either through private mortgages or vendor-take-back mortgages was the most important means of housing finance. However, a significant difference was again found between the levels of financing among the five study areas. Table 7 shows the higher involvement of institutions in providing second and subsequent mortgages in four of the five study areas.

As was the case in the sphere of production, the three middle subdivisions—Monarch Park, Danforth-Woodbine Park and Silverthorn Park Addition—appear to have

Table 5:
Housing Production, Sources of Financing for all Transactions by First Mortgage, Five Toronto Subdivisions, 1911–1941.

	Lawrence Park	Monarch Park	Danforth-Woodbine Park	Silverthorn Park Addition	Parsons Estate
Lawrence Park	–				
Monarch Park	0.33**	–			
Danforth-Woodbine Park	0.29**	0.06	–		
Silverthorn Park Addition	0.26**	0.23*	0.17*	–	
Parsons Estate	0.45**	0.31**	0.31**	0.23**	–

(* = .01, ** = .001)

Table 6:
Housing Consumption, Sources of Financing for all Transactions by First Mortgage, Five Toronto Subdivisions, 1911-1941.

Lender Type	Lawrence Park	Monarch Park	Danforth-Woodbine Park	Silverthorn Park Addition	Parsons Estate	All Five Subdivisions
% No Mortgage	50.0	31.9	34.1	28.6	44.8	37.7
% Private	10.0	12.1	10.3	14.3	19.0	13.4
% Vendor-Take-Back	25.0	52.7	52.4	55.5	34.5	44.7
% Institutional	15.0	3.3	3.2	1.6	1.7	4.2
Number of Transactions	60	91	126	63	116	456

(X2 = 32.8 > X2 Crit .005)

had broadly similar patterns of financing, with the Parsons Estate and Lawrence Park representing divergent patterns. This notion is tested in Table 8 using the Cramer's V statistic. In this case it is only Lawrence Park, with its higher level of institutional mortgage provision and higher level of cash sales, which has a significantly different pattern of housing finance from the other study areas.

Clearly, the hesitancy of financial institutions to provide mortgages on lower-cost housing, combined with borrower preference for some form of private financing, were critical factors in shaping the residential mortgage market. These factors, in turn, may have played a significant role in influencing the form of the built and social environments. The production and consumption of a residential landscape of higher density and less commodious housing would have been one important outcome.

Another aspect which deserves further comment is the level of cash financing in Lawrence Park, which at 50% was even higher than that for the Parsons Estate (see Table 6). Studies of the United States city associate a high proportion of cash sales with of redlining or discriminatory lending practices.[16] Studies of residential mortgage-lending practices in the contemporary American city have discovered higher proportions of cash sales in the less affluent inner city. A divergent pattern has been found in present-day Toronto. In a study of

Table 7:
Housing Consumption, Sources of Financing for all Transactions by Second and Subsequent Mortgages, Five Toronto Subdivisions, 1911-1941.

Lender Type	Lawrence Park	Monarch Park	Danforth-Woodbine Park	Silverthorn Park Addition	Parsons Estate	All Five Subdivisions
% Private	36.8	62.5	64.6	73.7	93.8	69.9
% Vendor-Take-Back	5.3	7.1	6.2	7.9	6.2	6.7
% Institutional	57.9	30.4	29.2	18.4	0.0	23.4
Number of Transactions	19	56	48	38	48	209

Table 8:
Housing Consumption, Sources of Financing for all Transactions by First Mortgage, Five Toronto Subdivisions, 1911-1941.

	Lawrence Park	Monarch Park	Danforth-Woodbine Park	Silverthorn Park Addition	Parsons Estate
Lawrence Park	–				
Monarch Park	0.33**	–			
Danforth-Woodbine Park	0.31**	0.03	–		
Silverthorn Park Addition	0.38**	0.07*	0.09*	–	
Parsons Estate	0.28**	0.20**	0.20**	0.20**	–

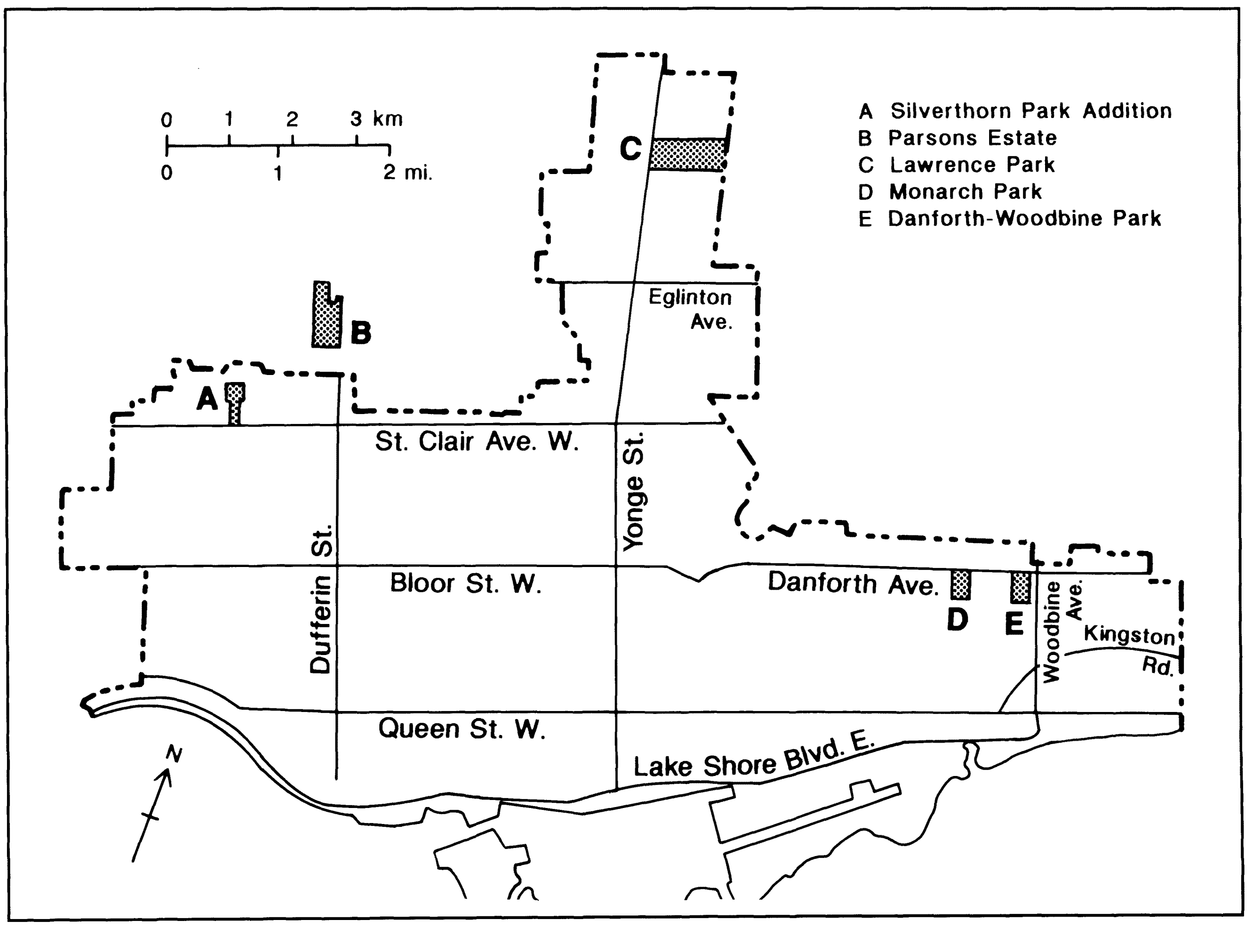
(* = .01, ** = .001)

the demand for institutional mortgage financing in Metropolitan Toronto during the mid-1970s, it was found that cash sales were concentrated in the high-income areas.[17] In Canada, unlike the United States, federal income taxation does not exempt mortgage loan interest and local property tax expenses.[18] Consequently, little incentive exists, from the perspective of reducing income taxation, for Canadians to finance home acquisition with a mortgage. The preponderance of cash financing for home purchase in a high-status area like Lawrence Park during the early 20th century would not appear to be entirely at odds with current Torontonian practice.

Conclusion

This study has analyzed the financing of housing production and consumption in early 20th-century suburban Toronto. Data derived from land registry records on property transactions for a sample of 449 properties distributed across five study areas were examined.

The study has demonstrated the persistence of a traditional pattern of housing finance in Toronto during the early 20th century which was characterized by high levels of cash transactions and private financing. Institutional lenders played a relatively minor role in the provision of mortgage financing. For the production of housing, the dominance of cash and private financing appear to suggest that builders had to work with a relatively insecure capital base. This condition may have in retarded the development of the building industry and contributed to the persistence of its fragmentary nature. However, it is also possible to suggest that builders may have been able to secure financing outside the residential mortgage market. Loans from banks could have been made available to building contractors, on the security of their businesses, and to building suppliers, who could, in turn, have extended credit to the builders. The small scale of opera-



tions of the building industry allowed for few economies of scale to be realised. Consequently, self-building and self-financing were feasible options in the provision of less expensive housing for working people where sweat-equity could play a critical role.

Although institutional lenders were scarce in the overall picture, they were influential in the financing of high-status housing. The position of financial institutions in the residential mortgage market at the time is a reflection of their preference for alternative investment vehicles and the strong competition from a multiplicity of small, locally-based lawyers' and real estate offices. The preponderance of housing finance through cash, private financing and vendor-take-back mortgages suggests that Toronto appears to have had a notable capacity to finance its own housing development.

This study represents only a starting point. Many questions remain unanswered. Of particular interest would be an examination of the private lenders: Who were they and where did their capital come from? Out of a total of 1,739 property transactions examined only 105, or 6.0%, resulted from financial difficulties. This finding suggests that residential mortgages provided a fairly low risk investment. Indeed, taking the five subdivisions together, the risk of foreclosure tended to be lower in the working-class suburbs. Certainly, more work needs to be undertaken on patterns of housing finance in other Canadian cities during this formative period.

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