the rennie brief

MARCH 2019

key budget elements for housing:

- a new First-Time Home Buyer Incentive Program

- expansion of the first-time Home Buyer Plan (HBP)

- a national Housing Supply Challenge

- expansion of the Rental Construction Financing Initiative (RCFI)

- enhancement of tax compliance measures for the real estate sector

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Federal Budget 2019 seeks to establish three broad housing-related goals: make home ownership more affordable for first-time buyers, boost housing supply, and increase fairness & transparency in the sector.

MAKING HOUSING MORE AFFORDABLE:

The First-Time Home Buyer Incentive Program will allow eligible first-time home buyers who have their minimum down payment for an insured mortgage to finance a portion of their home purchase through a shared equity mortgage with Canada Mortgage and Housing Corporation (CMHC). This would allow first-time buyers to lower their borrowing costs as CMHC would provide interest-free loans equal to 5% (existing homes) or 10% (newly-constructed homes) of the home price. The larger contribution towards newly-constructed homes is intended to stimulate new home construction.

The program would be open to first-time buyers with household incomes under $120,000, with mortgages capped at four times annual household income ($480,000). This would limit the program to home purchases of up to about $500,000 ($480,000 max insured mortgage and incentive, plus the down payment amount).

This incentive program is similar to BCs Home Owner Mortgage and Equity Partnership program launched by the Liberal government in 2016 and canceled by the NDP in 2018 due to low participation (3,000 loans in the first year versus an expected 15,000).

While this program would help reduce monthly mortgage payments for eligible first-time buyers (see example), in the short-term the impact of programs such as this would be to push up prices up if no additional supply is added to balance the additional number of new homeowners who otherwise would not have purchased.

As the number of new housing starts in the region continue to fall, this could be the case in the short-term for certain markets (those priced under $500,000) until supply levels adjust to accommodate additional demand.

Other specifics, such as repayment schedules or how this relates to the pre-sale market, have not been released.

Additional details will be clarified in the coming months as the program is expected to be in operation by September 2019.

Further to this program, the Home Buyers' Plan (HBP), which allows first-time home buyers to access funds from registered retirement savings plans (RRSPs) for down payments, was expanded to $35K from $25K.

	insured mortgage	insured mortgage with incentive	
		EXISTING HOME	NEWLY CONSTRUCTED
HOUSE PRICE	$500,000	$500,000	$500,000
DOWN PAYMENT	$25,000 (5%)	$25,000 (5%)	$25,000 (5%)
INCENTIVE	-	$25,000 (5%)	$50,000 (10%)
MORTGAGE	$475,000	$450,000	$425,000
MONTHLY PMT.	$2,460	$2,315	$2,180
COST REDUCTION		-$145 (6%)/mo	-$280 (11%)/mo

BOOSTING HOUSING SUPPLY:

The Housing Supply Challenge is a $300 million fund designed to encourage new initiatives that break down barriers that are limiting the creation of new housing.

The Rental Construction Financing Initiative will also provide an additional $10 billion in low-cost financing to help build 42,500 new affordable rental units.

Finally, an Expert Panel on the Future of Housing Supply and Affordability has been established to identify and evaluate measures that build on recent investments and initiatives to increase the supply of housing. CMHC will invest $4 million to support the work of the panel.

INCREASING FAIRNESS & TRANSPARENCY:

Enhancement of tax compliance in the real estate sector will be targeted through the creation of four new dedicated residential and commercial real estate audit teams in high-risk regions, notably in British Columbia and Ontario. Statistics Canada will also be provided with $1 million over two years to conduct a data needs assessment to inform enforcement on tax compliance.

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