



FOCUS ON CANADA'S HOUSING MARKET

March 20, 2019

Should millennials cheer Budget 2019's housing measures?

In the end, it was the way the federal government chose to help millennials buy a first home that was a surprise, not the fact that it did. Budget 2019 included a plan that will see CMHC share the cost of owning a home with a first-time homebuyer. We believe the CMHC First-time Home Buyer Incentive, along with an increase in the amount that can be taken from an RRSP for a down payment on a first home, will bring temporary relief at best. However, the measures will do little to ease millennials' elevated debt levels and could have a distortionary effect on the housing market over the next several months.

Details suggest incentive is an interest-free loan

CMHC will offer shared equity mortgages to qualified first-time buyers (with household income of less than \$120,000)—a financing scheme that will provide up to 10% of the value of a newly constructed home or up to 5% of the value of an existing home. The point is to reduce the amount a first-time homebuyer needs to borrow as a (first) mortgage and pay every month to service that debt. The savings could potentially be in the hundreds of dollars each month. No payments on the CMHC incentive will be required until the owner sells the property. While full details (including on whether CMHC will share any capital gain on the property) won't be released until later this year, the information provided to date leads us to believe the incentive will effectively be an interest-free loan.

As rumoured, the government also announced an increase in the Home Buyers' Plan that will allow first-time homebuyers to take out a maximum of \$35,000 from their RRSP to make a down payment on a home (up from \$25,000 currently).

The measures could inflate prices

So will millennials be in a better position to buy their first home? Perhaps not for long. As we have argued previously, policy measures such as these that ultimately boost home demand without really addressing housing-supply gaps in short order are poised to inflate prices. Any near-term benefits therefore could be quickly reversed by a loss of affordability arising from higher property values.

Perhaps the more perverse effect is that these measures could add to millennials' heavy debt loads. If CMHC's first-time home buyer incentive is set up similarly to BC's home owner mortgage and equity partnership introduced in 2017 (and cancelled last year due to low participation), the shared equity mortgage would be registered on title as a second mortgage on the property. In other words, it's another debt.

Finally, we believe the incentive will be of limited help to millennials in Vancouver and Toronto where affordability pressures are the most intense. The program's conditions restrict the combined value of the insured mortgage and incentive amount to four times a household's income. Given that only first-time buyers with income of less \$120,000 will be considered, this caps that value at \$480,000. Adding in the buyer's down payment (equity contribution), the maximum property value of the home purchased will range from \$505,000 (5% down payment) to \$600,000 (20% down payment). That may be enough to buy a small- to medium-size condo apartment in those markets but probably not a family-friendly home.

Supply-side measures are welcome but will take time

The budget does offer some constructive initiatives to tackle the real issue behind Canada's affordability challenges: a lack of housing options that ordinary Canadians can afford in some of our country's larger markets. Those supply-side initiatives will take a while to make a noticeable difference to millennials.



We welcome the expansion and extension the 'rental construction financing initiative' launched in 2017 to support the construction of 42,500 new rental units for modest and low-income households across Canada by 2027-2028. Yet with only 50 projects totalling 500 units announced since the program's inception, this won't be a quick fix. We also like the \$300 million 'housing supply challenge' that will motivate municipalities and other stakeholders to come up with new ways to remove barriers holding back homebuilding.

Expect near-term turbulence as first-time buyers initially hold off

As for the housing market impact of Budget 2019, expect some turbulence in the coming months. First-time home buyer activity is poised to slow down between now and September 2019 (the launch of CMHC's first-time home buyer incentive program), as many house-hunting millennials await more details and crunch their numbers. This could depress the market even further during that period. Any delayed purchases will fuel stronger activity in the fall. We expect to see first-time home buyers then return to the market with purchasing budgets boosted by the CMHC incentive and larger RRSP take out—setting the stage for upward price pressure to re-emerge.