Submission to the
House of Commons Standing Committee on Finance
for the

Pre-Budget Consultations in Advance of the 2019 Federal Budget

The Canadian Real Estate Association

August 2018

Executive Summary

The housing sector plays a critical role in the economy and provides long-term social and financial benefits to homeowners. Owning a home allows Canadians to accumulate equity for retirement and is the basis for positive social, economic, family and civic outcomes. With the purchase of a home comes the pride of ownership and the sense of belonging to a community, which in turn fosters participation and engagement.

In 2017, each home sale in Canada generated some $63,000 in spin-off spending, including professional fees to lawyers, appraisers and home inspectors. When Canadians purchase a new house, they typically acquire new appliances or furnishings and undertake renovations that tailor the new home to specific household requirements. MLS® home sales and purchases in 2017 added an estimated $31.8 billion in spin-off spending to the economy.

The Canadian Real Estate Association represents over 125,000 Realtors® from coast to coast and together we advocate on behalf of property owners, buyers and sellers. Our objective in this submission is to present socially and fiscally responsible proposals that will help Canadians who own a home or wish to achieve the dream of homeownership.

In the past few years, federal government policies and regulations have made accessibility to housing in Canada increasingly difficult for middle-class families and in particular, millennials. While the dream of homeownership continues to be strong amongst millennials, affordability is often out of reach for many who struggle to accumulate enough capital for a down payment. Without the financial support of family, many first time homebuyers are unable to enter the housing market. Research undertaken for CREA shows that homeownership is millennials' number one concern and priority. At the same time, they believe the policies of the federal government have made it more difficult for them to enter the housing market.

New regulations, such as the B-20 stress test, are designed to ensure that Canadians don't take on more debt than they can afford, and to safeguard the financial system as a whole. These are laudable goals and the regulations are having a significant impact on the housing market. However, they are having negative effects in markets that were facing economic challenges already. This includes cities like Calgary, Saskatoon and St. John's, where the economy is still recovering.

CREA is recommending that Budget 2019 include measures that ensure the Canadian housing market continues to contribute to the economy. The following recommendations would assist Canadians fulfill their homeownership goal and start building equity.

- **Recommendation 1**: Help homeowners reduce debt: increase the existing First-Time Home Buyers' Tax Credit (HBTC).

- **Recommendation 2**: Evaluate policies that affect homeownership in Canada, including a review of the "one-size-fits-all" nature of policies that impact housing markets across the country.

1. Help homeowners reduce debt

Home Buyers' Tax Credit

Established in 2009, the First-Time Home Buyers' Tax Credit (HBTC) is a non-refundable tax credit available to home buyers. Eligible home buyers are able to claim a tax credit of 15% on $5,000 against their income taxes for the year in which they acquired their home, reducing the amount of income-tax owing. The homebuyer must intend to occupy the home as a principal place of residence no later than one year after it is acquired in order to benefit from the tax credit.

The HBTC is calculated by multiplying the lowest personal income tax rate for the year i.e. 15% in 2018 by $5,000. For eligible homebuyers, the current HBTC will provide $750 in tax relief.

Originally designed to compensate for some of the costs associated with a home purchase, the HBTC needs to be enhanced in order to more accurately reflect the current costs facing home buyers in Canada.

CREA proposal:

CREA is proposing an increase to the existing tax credit to help first time homebuyers. An enhanced HBTC would provide meaningful assistance and enable more Canadians to enter the housing market. CREA recommends that the $750 non-refundable tax credit be replaced with a $2,500 non-refundable tax credit per qualifying home for first time homebuyers. This revised credit would not require the current formula which does not relate to the actual costs facing home buyers in Canada and provide meaningful help in defraying closing costs for first time homebuyers.

2. Re-evaluate One-Size-Fits-All Housing Policies

CREA acknowledges there is no simple strategy to make homeownership more accessible in some of Canada's most active markets. However, we are concerned certain federal government policies designed to cool these markets have had a deleterious impact on the homeownership goals of many Canadians outside of those markets. In particular, the 'stress test' implemented in January 2018 has had unintended consequences in many balanced markets across the country. A report by Mortgage Professionals Canada in July 2018, estimates about 100,000 Canadians (or 18 per cent of buyers) have been prevented from buying their preferred home since late 2016 because of new federal mortgage rules.

In extremely volatile markets, the implementation of the stress test could curb prices and reduce potential household debt. However, in stable, balanced markets, the stress test has driven millennials and middle-class families further away from reaching their goal of owning a home. In many part of Canada, it is increasingly difficult for first time homebuyers to find a home that is affordable.

CREA believes the stress test should have been applied only in markets that warranted its application. Going forward, the federal government should take regional differences into consideration when implementing new measures that affect homebuyers. Factors such as housing market activity and employment levels should be considered to allow for the implementation of a policy that would better fit with markets across the country. Indeed, there is precedent for national programs being tailored to address regional socio-economic factors. For example, there are regional applications of the Employment Insurance Program that reflect the realities of local or regional labour and employment markets.

The stress test as currently designed ignores the fact that borrowers typically experience income growth over time. [1]During the past five years, the average weekly wage in Canada has increased by 11.9%, or an average of 2.3% per year. The stress test ignores this, as it assumes the same income as at the mortgage initiation. When the mortgage is up for renewal, a substantial amount of the mortgage principal will have been repaid and the higher interest rate should be applied to a smaller mortgage principal. A fair stress test should also incorporate income growth and principal repayment.

These tightening measures have also resulted in more Canadian homebuyers being forced to rely on non-traditional sources of finance. These alternatives are normally more expensive than traditional sources and pose a larger risk to the borrower which in turn increases risk to the country's financial system.

CREA Proposal:

All real estate is local and just as real estate markets vary across the country, so should the policies and programs that affect these housing markets. The federal government should consider:

- Coordinating housing related policies between the Office of the Superintendent of Financial Institutions (OSFI), Finance Canada, the Bank of Canada and Statistics Canada;
- Coordinating with similar agencies from other levels of government to better understand the impact of all measures on homebuyers; and
- Calibrating Guideline B-20 only to specific markets that are out of balance.

[1] *Mortgage Professional Canada, Report on the Housing and Mortgage Market in Canada, July 2018*