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The Budget

Putting the 'M' back into CMHC: New housing incentive plan | John Fox

By **John Fox**

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(March 21, 2019, 11:03 AM EDT) -- Judging by the reaction, the federal government caught more than a few people by surprise with their new housing incentive plan in Tuesday's budget. That's the plan that provides a shared equity loan to first-time home buyers. Some people think it's a great way to get young people into homes, others are warning that it's going to cause a housing bubble.

There is one consistency in the reaction — no one is calling the government wimpy or unfocussed. This is not small ball. Putting $1.25 billion into the housing market through shared equity loans is a big deal. Yes, the 'M' of mortgage in CMHC is back in a big way! This is a bold move. (It's actually a relief to say something nice about the government. I have been brooding over SNC-Lavalin for weeks.)

The actual program is not an invention of the government. While shared equity loans have not been mainstream in Canada, they have formed the backbone of affordable ownership housing programming for years, not to mention private non-profits like Options for Homes and Trillium Housing, both of which provide deeper affordability, but that's another story.

What's really different here is that the federal government is running this program at scale nationally, and the eligibility criteria — at income of $120,000 — is higher than the former programs. That's consistent with their stated aim of helping first-time home buyers, especially young Canadians.

National programs have limitations because they are applied equally in parts of the country with very different economic realities. The federal website describing the program shows a family of four happily chatting in their what is presumably their new home. The example on the same page relates to the purchase of a $400,000 home.

So, where in Canada is that picture a reality? It's not the GTA or Vancouver. Trenton? Laval? Baie Comeau? Don't get me wrong, I am happy for them. The point is the program will impact different parts of the housing market in every corner of Canada. That's not ideal, but its not a reason not to press on, either.

What's really interesting here are the economics.

Before the budget, there was a good deal of advocacy from the real estate sector to adjust the stress test. In particular, to extend the permissible amortization period and/or to lower the interest rate at which the stress test is applied. In many cases, advocates pointed to helping first time homebuyers — and with good reason — the stress test is frustrating for anyone who can carry the mortgage for the home they want but can't meet the stress test and borrow the money.

Relief on the stress test would also be a less targeted intervention, though the prime beneficiaries would have been the same. In other words, there was broad agreement in the sector that putting more money into the system through private borrowing would be a good idea.

Yet, one of the initial criticisms of the new plan is that putting money into the system through a government loan will drive prices up. These two lines of thinking are not necessarily the same source — but the concern here is real: Regardless of how money is coming into the system, the more supply constrains the market, the more prices will rise, resulting in no affordability gain and defeating the purpose of the policy.

So, the government made a choice — keep the stress test, which the real estate industry points to as a culprit in a slowing market. I would love to see an economic analysis of the two policy options, but my guess is that if the government intended to help young people through shared equity lending, they *could not* also provide relief on the stress test. They need it to keep prices in check. Plus, if you’re young and carrying university debt, the fact that you are not paying interest on this loan is going to be appealing.

What does it all mean?

First, if you are making $110,000 right now, you might want to buy a home before you ask for a raise. Second, we won’t know if the policy works or not until we have the program details and there is data from the execution of the policy. The government should be attentive to that and be willing to adjust if necessary.

And finally, it’s more likely to be effective when supported by planning regimes which allow growth, and municipalities should act accordingly.

John Fox is a real estate lawyer at Robins Appleby*. He specializes in construction, development and affordable housing. He is a former chair of the Laidlaw Foundation and the Daily Bread Food Bank and was heavily involved in the redevelopment of Toronto’s Regent Park community.*

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