



BRITISH COLUMBIA
REAL ESTATE
ASSOCIATION

Submission to the House of Commons Standing
Committee on Finance:

Canadian Real Estate Market and Home Ownership

Robert Laing, Chief Executive Officer
British Columbia Real Estate Association

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The British Columbia Real Estate Association (BCREA) appreciates the opportunity to make a submission to the Standing Committee on Finance on the recent federal mortgage rules changes and the impact on homebuyers.

Background

The October 2016 changes to regulations affecting mortgage lending have added to housing market uncertainty among buyers and sellers. For first-time homebuyers, the stress test for those who need mortgage default insurance will cause them to rethink how much home they can afford and even price them out of certain housing markets.

BCREA notes that the new mortgage rules require all insured homebuyers to qualify at the posted five-year rate, as opposed to any reduced rate they may have negotiated with a lender. As a result, we expect first-time buyers will experience a decline in housing affordability as high as 20 per cent and reduced purchasing power. Consider these examples:

- A family with an annual household income of \$80,000 and a 5 per cent down payment will see their purchasing power fall from \$505,000 to \$405,000 (-\$100,000).
- An individual with an annual income of \$60,000 and a 5 per cent down payment will experience a reduction of purchasing power from \$380,000 to \$305,000 (-\$75,000).
- A household earning \$120,000 per year and a 10 per cent down payment will see a reduction in purchasing power from \$803,000 to \$651,000 (-\$152,000).

Impacts

We expect this policy to have the following impacts:

1. Housing demand will slow as millennials, other first-time and early move-up buyers are squeezed out of the market.
2. This reduction in demand may cause imbalances and declining prices across some product types in some communities. In addition, new home construction activity will lag along with related employment and economic growth.
3. Pent-up demand will intensify, contributing to another cycle of rapidly rising prices in the future as financially retrenched millennials buy up an undersupplied housing stock.

The increased mortgage insurance rates announced by the Canada Mortgage and Housing Corporation on January 17, 2017 will have a further negative impact on first-time homebuyers. Although the effect of the increased premiums will be small, taken in conjunction with the impacts from the mortgage rule changes last fall, we are concerned that too many people are being excluded from the opportunity of home ownership, as a direct result of federal government intervention.

According to the Canadian monthly GDP growth statistics for November 2016, the real estate sector posted its first monthly decline since 2012—likely the result of tighter mortgage regulations.

Recommendations

Given the impact on affordability, BCREA is calling for federal government action to support all Canadian homebuyers and help those most vulnerable with changes to the Home Buyers' Plan, as follows:

- Modernize and extend eligibility for the Home Buyers' Plan to Canadians who relocate to secure employment, accommodate an elderly family member in the family home, become widowed, or suffer marital breakdown.

- Make home ownership affordable by indexing, to the Consumer Price Index, the withdrawal limit of the Home Buyers' Plan in \$2,500 increments, a limit that has not increased with inflation since 2009.

BCREA further calls for the federal government to:

- Provide additional support for off-reserve housing to improve housing outcomes for Indigenous families.
- Create more green incentives for homeowners to help contribute to Canada's climate change goals.

Committee members may already be familiar with these recommendations, which the Canadian Real Estate Association (CREA) champions.

Thank you again for the opportunity to provide input. If BCREA can assist in any way, please contact me directly (rlaing@bcrea.bc.ca; 604.742.2787).

BCREA is the professional association for more than 21,000 REALTORS® in BC, focusing on provincial issues that impact real estate. Working with the province's 11 real estate boards, BCREA provides continuing professional education, advocacy, economic research and standard forms to help REALTORS® provide value for their clients.

Yours sincerely,



Robert Laing
Chief Executive Officer