



BRITISH COLUMBIA
REAL ESTATE
ASSOCIATION

August 31, 2007

Brian Pallister, Member of Parliament (Portage-Lisgar)
Chair, Standing Committee on Finance
Sixth Floor, 180 Wellington Street
Ottawa ON K1A 0A6

Dear Mr. Pallister:

Re: Federal Budget 2007 - Adjust the Home Buyers Plan

The British Columbia Real Estate Association (BCREA) is pleased to respond to the Standing Committee on Finance's request for budget recommendations that ensure "a tax system for a prosperous future." Housing makes a significant contribution to economic and social prosperity in BC and across Canada. BCREA is providing budget input to help keep this sector strong.

Residential property sales make a significant economic contribution to our national economy. From 2004-2006, home sales facilitated by the Multiple Listing Service® (MLS®) generated \$15.3 billion in direct spending, created more than 158,600 jobs¹. In addition, each real estate sales transaction generated \$32,200 in spin-off economic activity nationally and **\$40,450 in BC**.

The Home Buyers Plan (HBP) is a national success that helped 1.8 million Canadians purchase a first home between 1992 and the present. However, both rising inflation and market housing costs have eroded housing affordability across Canada, diluting the impact of the intended goals of the program.

After 15 years without adjustment, it is time to update the plan. Increasing the plan's maximum withdrawal limit will help address these increased costs and make housing more affordable.

BCREA recommends that the federal government, in budget 2008:

- Raise the borrowing limits from \$20,000 to \$25,000 per plan holder (\$50,000 per couple)
- Index rate increases to the rate of inflation as calculated through the Consumer Price Index (CPI) and adjust the limits every five years.

Updating the plan will stimulate economic activity, generate tax revenues for government and provide housing opportunities that reinforce the quality of life for citizens.

¹ Altus Clayton and Clayton Research Associates, *Economic Impact of MLS® Home Sales 2004-2006*, www.crea.ca, June 12, 2007.

Who We Are

BCREA represents 12 member real estate boards and their nearly 17,500 REALTORS® on all provincial issues, providing an extensive communications network, standard forms, government relations, required post-licensing courses and continuing education.

BCREA is committed to improving the Quality of Life in BC communities by promoting economic vitality, housing opportunities, preserving our environment, protecting property owners and building better communities across the province.

Background

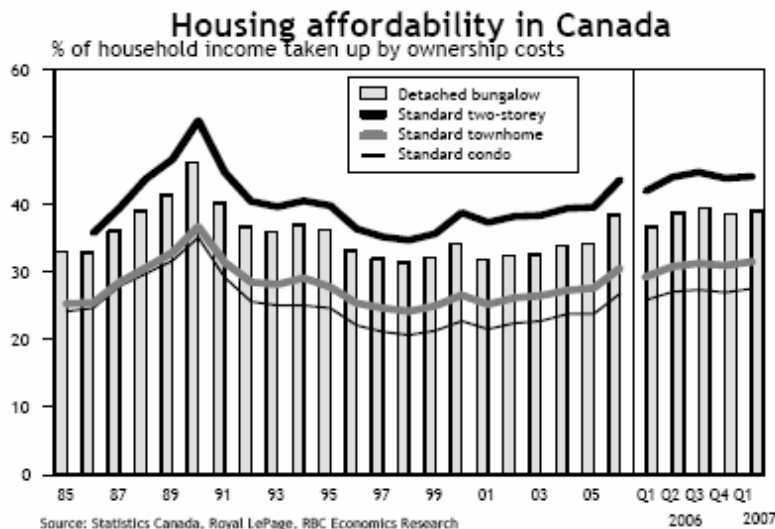
The HBP plan gives people the option of borrowing up to \$20,000 (\$40,000 per couple) from their own Registered Retirement Savings Plan (RRSP) to finance the purchase of their first home. Since 1992, the plan is estimated to have helped with over 900,000 home purchases.

The Problem

Rising inflation and market housing costs have eroded housing affordability since the government introduced the HBP, diluting the impact of the intended goals of the program. The maximum \$20,000 accessible under the HBP to first-time buyers for a down-payment is lagging behind both inflation and the soaring cost of housing. Between 1992 and 2005:

- MLS® residential average home prices rose 66 per cent.
- The Consumer Price Index (CPI) rose 27 per cent over the same period.²

The lack of a mechanism to allow for inflationary adjustments and the increased cost of market housing is an oversight in the design of the HBP.

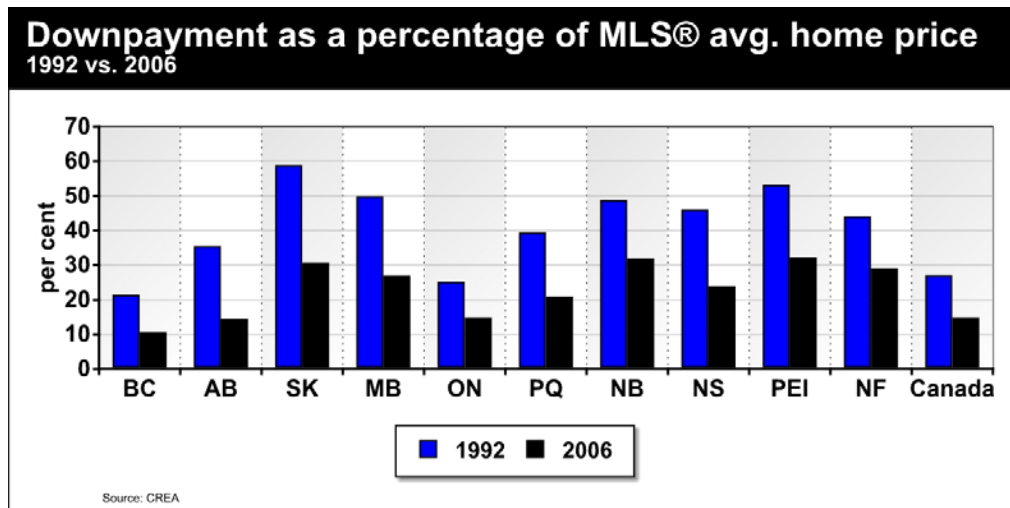


² The Canadian Real Estate Association calculates that if the maximum loan available under the plan were adjusted for inflation, it would now stand at \$25,400.

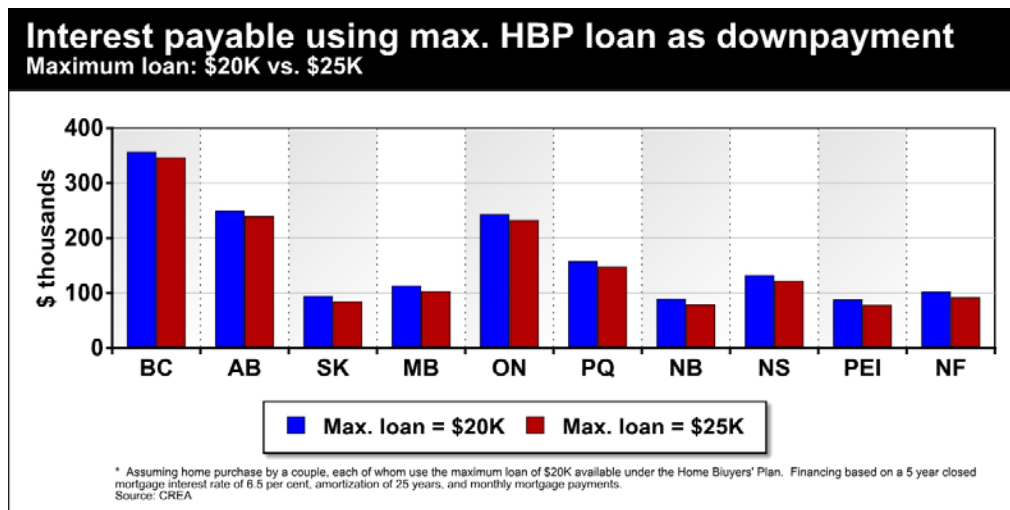
Impact on Canadians

Burden of Down Payment

The HBP supports homeownership by encouraging citizens to save their own money in an RRSP so that later it can be withdrawn and used for down-payment on a first home. Unfortunately, the portion of a down-payment covered by the plan is a diminishing percentage of a home's purchase price.



To make up the difference, people using the plan must also finance bigger mortgages, causing their debt burden to rise. Low interest rates and seemingly flexible mortgage insurance options facilitate larger levels of personal indebtedness. Down payments made through the HBP helps buyers to minimize their level of indebtedness over time.



Declining Home Ownership

The rate of homeownership has increased nationally from 62.3 per cent (1991) to 66.1 per cent (2001). The HBP can take some of the credit for the expansion. Mortgage insurance flexibilities have been expanded and interest rates have dropped over the same period. While growth in the overall rate is positive, ownership rates for young people and immigrants have fallen.³

- Aged 55 and up: drove increased ownership rate (68 per cent in 1981, 74 per cent in 2001).
- Aged 34 and under: ownership rate fell (44 per cent to 41 per cent, same period).
- Aged 35-44: ownership rate fell (72 per cent to 67 per cent, same period).
- Aged 45-54: ownership rate fell (76 per cent to 74 per cent, same period).
- Immigrants: ownership rates fell (62.0 per cent in 1981 to 57.9 per cent in 2001)⁴

Housing Affordability

Although many regions of the country are experiencing erosion in the affordability of housing, deterioration is significant in BC. Competitive market forces and interest rate increases continue to put pressure on the ability of individuals and families to purchase their first homes.

The average residential price of a home for the first six months of this year rose to \$315,332 nationally — the highest level for the first half of any year on record.⁵ In BC, the average residential price during that period was \$445,747.⁶ This means that the province's first-time buyers must earn \$114,000 per household, \$21,500 more than in January, to afford an average priced home.⁷

These cost and erosion factors are significant. First-time buyers are vital to the overall health of the housing market, accounting for approximately 30 per cent of home sales across the province.⁸

³ Vanier Institute, *The Current State of Canadian Family Finances, 2004 Report*

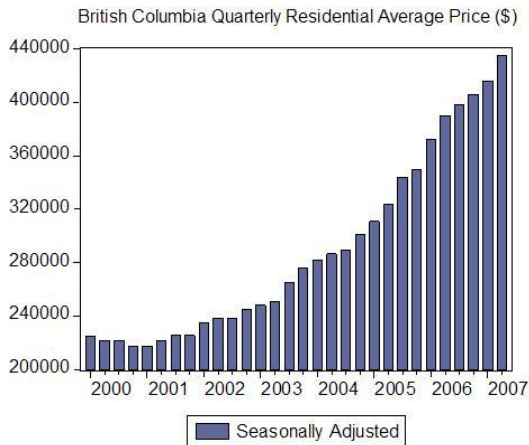
⁴ *The Decline of the Immigrant Homeownership Advantage: Life-Cycle, Declining Fortunes and Changing Housing Careers in Montreal, Toronto and Vancouver, 1981-2001*, Urban Studies, Vol. 42., No. 12, 2191-2212, November 2005.

⁵ Canadian Real Estate Association, MLS® statistics news release, July 2007.

⁶ British Columbia Real Estate Association, MLS® statistics news release, July 19, 2007.

⁷ Ibid.

⁸ Property Transfer Tax Branch, Ministry of Small Business and Revenue, Government of British Columbia, 2005.



Recommendation

BCREA recommends that the federal government, in budget 2008:

- Raise the borrowing limits from \$20,000 to \$25,000 per plan holder (\$50,000 per couple)
- Index rate increases to the rate of inflation as calculated through the Consumer Price Index (CPI) and adjust the limits every five years.

Cost of Recommendation

The financial cost of this recommendation to the government and impact on the budget have not been fully analyzed. CREA is pleased to receive your questions on this question.

CREA emphasizes that the money citizens save and then withdraw from their RRSPs through the plan is their own, adding that citizens are required to pay withdrawals back over 15 years.

The Canada Revenue Agency indicates that home buyers are repaying their loans. Repayments as a percentage of withdrawals under the plan amounted to 41.3 per cent in 2004, 49.0 per cent in 2005, and 59.9 per cent in 2006.⁹

BCREA is confident that by acting on this recommendation, the government will generate resources it needs and contribute to a prosperous future for all citizens.

Thank you for this opportunity to bring it forward.

Yours sincerely,

⁹ Canada Revenue Agency, data analysis commissioned by CREA, July 24, 2007.



Andrew Peck
President

