Enough with the Band-aids

While our governments enact piecemeal solutions to the housing affordability problem, long-term vision is hard to find

BY SAMANTHA GALE

March ushered in a new federal budget, which included a few new housing-related measures. Most you will have already heard of the new shared equity program for first-time home buyers, which will be administered by Canada Mortgage and Housing Corp. The incentive enables home buyers to reduce the amount of money required for an insured mortgage without increasing the amount they must save for a down payment.

It is a shared equity model. The rationale behind it is to enable eligible first-time home buyers to lower their borrowing costs as CMHC would own a share of the equity in the home. Repayment to CMHC for its stake in the home would be made at the time it is sold.

Here is an example of how the shared equity model works, provided by the Department of Finance:

$400,000 House purchase price
$ 20,000 5% down payment from purchaser
$ 20,000 5% shared equity from CMHC

$360,000 size of first mortgage

Of course, CMHC fees are still charged, bumping up the first mortgage to approximately $372,000.

If we hypothetically assume that the owners want to sell five years later, and we also assume prices have jumped to the point where this property sells for $600,000, then the numbers should look like this:

$600,000 House sale price
$ 30,000 5% shared equity owing to CMHC
$316,917 balance of mortgage after 5 years, no penalty

$253,083 equity to owner

For the right first-time home buyer, in the right market, this program might provide some tangible assistance. CMHC estimates that it will help 100,000 first-time home buyers over three years. Of course, in expensive markets like British Columbia's Lower Mainland, where the average cost of a condo exceeds $650,000, it is expected that few prospective homeowners will be able to take advantage of it.

Certainly, government down payment assistance programs are far from novel. The B.C. government had anticipated that 100,000 first-time buyers would be able to take advantage of its now defunct second mortgage program, introduced in 2017. However, the program was suspended just one year later, as only 3,000 home buyers had participated. Qualifying for the program was by all accounts a complex, awkward process, which took a relatively hefty government bureaucracy to administer. With luck, the CMHC program will be more streamlined when it is deployed later this year.

PART OF A PATTERN

So far, we have witnessed the provincial and federal governments deploying piecemeal strategies to improve both the housing supply and homeowner affordability. This includes the introduction of taxes on foreign ownership, high-priced homes and vacation properties. It now also includes some new federal measures, such as the shared home equity plan. However, we have yet to see this translate into any true success on the housing affordability front, particularly in Canada's urban centres. Softening home prices in what are now considered to be

buyers' markets still have no real impact on helping the next generation of home buyers swing the hefty down payment and mortgage payments required for their first purchase.

So now what? Has government exhausted its bag of tricks?

In the Fall 2018 issue of *Canadian Mortgage Broker*, we wrote about the housing model deployed in Japan. Initiated approximately 30 years ago, Tokyo, the world's most populous city, built a record amount of housing when Japan enacted legislation to force local governments to radically simplify zoning rules and eliminate permit approval times. This resulted in accessible housing despite a surge in demand. As of last January, the average price of a newly constructed single-family house in Tokyo was the equivalent of $780,000 (Canadian) and only $510,000 (Canadian) in its western suburbs. Tokyo avoided urban sprawl, and instead of housing people in ever diminishing square footage, increased people's living space by approximately 28 per cent.

Media reports indicate that the City of Toronto is in the process of constructing an astonishing number of new skyscrapers – more than 400! This will undoubtedly provide first-time home buyers with an array of urgently needed purchase options. However, this will also inevitably result in what has been dubbed "urban tall and sprawl," with vertical sprawl in the city centre and horizontal single-family sprawl away from the downtown cores.

MISSING MIDDLE

Of note from the housing solutions is the "missing middle," represented by low-rise townhouse and laneway house options; these could supply more appropriate family homes in yellow belt regions. If you are unfamiliar with the term "yellow belt," it was coined by urban planner, Gil Meslin, to describe the vast swaths of land occupied by single family homes. The Ryerson City Building Institute has recently completed a comprehensive report which concludes that the city of Mississauga could transform its yellow belt regions into 174,000 new multi-unit homes through low- and medium-density intensification. This yet-to-be-adopted solution provides opportunities for families to live close to transit, jobs, schools and services in desirable neighbourhoods, while preserving greenbelts.

While our governments introduce fragmented, piecemeal solutions to enhance housing supply and affordability, real, long-term solutions which have the potential to create desirable, livable communities are hard to find. We still need all governments at the municipal, provincial and federal levels to come together on this one. If this cannot happen on its own due to the lack of political willpower, then perhaps it is time to adopt the Japanese model, and set regional mandates to create real, tangible solutions to our housing affordability problem. MB