

# Cost Estimate of Election Campaign Proposal

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Short title: Enhancing the First-Time Home Buyer Incentive

Description: Expanding the eligibility for the First-Time Home Buyer Incentive (FTHBI) in select targeted markets:

- Greater Toronto, ON
- Oakville-Milton, ON
- Vancouver, BC
- Lower mainland, BC
- Fraser Valley, BC
- Victoria, BC

In these select markets, the proposed policy would increase the FTHBI qualifying income from \$120,000 to \$150,000 and the maximum mortgage-to-income ratio from 4 to 5. The qualifying income threshold would not be indexed to inflation. All other program design elements would be consistent with the current FTHBI. Volumes of beneficiaries would be demand-driven, without a limit on the overall funding available. The pilot expansion would start on November 1, 2019, ending on December 31, 2022. Revenue from the program will be re-invested in related measures to support housing affordability.

Operating line(s): Other revenues

| Data sources: | <u>Variable</u>   | <u>Source</u>                                |
|---------------|---|--|
|               | Historical data on number of FTHB                                       | Canada Mortgage and Housing Corporation      |
|               | Historical data on average home prices in select regions                | Canada Mortgage and Housing Corporation      |
|               | Historical data on type of purchase (new or existing) in select regions | Canada Mortgage and Housing Corporation      |
|               | Housing price growth rates  | PBO Election Proposal Costing (EPC) Baseline |
|               | Projected debt charges  | PBO public debt charges calculator           |

Estimation and projection method: PBO's cost estimate is restricted to FTHBs who become eligible under the expanded income and mortgage-to-income criteria for the FTHBI.

PBO received data from CMHC on the number of mortgage insurance applicants in the targeted regions that would have fit the enhanced eligibility criteria if the program existed in 2016 to 2018. PBO also received information on the corresponding type of build and average house prices for these types of home buyers. To project beyond 2018, PBO assumed no growth in the volume of eligible buyers, no changes in the type of homes purchased and grew average home prices based on PBO's forecast of residential house prices.

PBO assumed a 50% take up rate for eligible FTHBs. PBO also assumed CMHC mortgage loan insurance applications represented 50% of the overall market.

The program has both revenues and costs. For example, PBO estimated the capital gains from the Government's equity stake in the value of the homes participating in the expanded FTHBI, using PBO's projection for housing prices. PBO assumed no sales by FTHBI participants over the projection period and that CMHC recognizes unrealized shared equity capital gains annually in net income.

Program costs reflects the cost of borrowing the Government's initial capital contribution for the shared equity portion of newly eligible FTHBs. PBO used its public debt charges calculator to estimate these costs. Because of data limitations, PBO did not include any additional operating costs or credit loss provisions from the expansion of the FTHBI.

Uncertainty  
assessment:

The estimate has high uncertainty. PBO has no estimated or actual data on uptake for the existing FTHBI nor this expansion among qualified home buyers – we assumed 50%. Net gains or losses from shared equity arrangements will fluctuate with price growth for residential housing in these targeted regions. This estimate is a static costing, as PBO does not account for a behavioural response among potential first-time home buyers.

### Cost of proposed measure

| \$ millions | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 | 2025-2026 | 2026-2027 | 2027-2028 | 2028-2029 |
|-------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Total cost  | -1        | -8        | -5        | -11       | -13       | -16       | -18       | -17       | -17       | -17       |

#### Notes:

Estimates are presented on an accruals basis as would appear in the budget and public accounts.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

"-" = PBO does not expect a financial cost