

Real-estate reform: What you need to know about Ottawa's overhaul

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EXPLAINER



BEN NELMS FOR THE GLOBE AND MAIL

The Globe and Mail

The federal government is throwing some cold water on Canada's overheated housing market, hoping to keep Canadians out of unaffordable debt and slow down foreign investment in Toronto and Vancouver's real-estate markets.

Here's a guide on what has happened so far, what it means and what's next.

Are you a first-time home buyer concerned about the housing rule changes? E-mail RYounglai@globeandmail.com and you could be featured in a story.

What's changing?

On Monday, Finance Minister Bill Morneau [announced a major shakeup](#) of Canada's mortgage and foreign-ownership rules for real estate to take effect this fall. There are four big changes involved, The Globe's [Bill Curry explains](#):

1 Expanding stress tests to all insured mortgages, not just high-ratio mortgages in which the buyer has put down less than 20 per cent of the purchase price. This may make it harder for some buyers to get insured mortgages, even if they make a larger down payment, because it ends a two-tier system where some mortgages were weighed differently against the buyer's income to see whether the mortgage is affordable.

2 Closing a tax loophole that some foreign buyers have used to claim exemptions in capital-gains tax for selling properties that they falsely claim as their primary residences. Now, home buyers must file taxes in Canada, as a resident, the same year they buy a home, before they can later claim the principal residence exemption on any gains for that year.

3 Launching consultations to see if banks can take on added lending risks, which would lighten Ottawa's obligations to pay for insured mortgages in the event of a housing crash – but could also lead to higher mortgage rates. ([Here's David Berman's analysis](#), for subscribers, on how bankers feel about this.)

4 Changing the restrictions on portfolio insurance, a type of bulk

insurance for mortgages with down payments of 20 per cent or more.

Ottawa targets foreign real-estate investment with new housing measures

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Why are they doing this?

To crack down on foreign real-estate speculation: [Investigations by The Globe and Mail](#) over the past year have also shed light on how local and foreign buyers have been flipping Vancouver-area homes for profit, buying and selling properties in the names of relatives or corporations and collecting tax windfalls in the process. In B.C., fears of wealthy foreign buyers inflating Vancouver's sky-high housing prices have led to tougher restrictions on how the market is regulated and taxed provincially (more on this below); now Ottawa is hoping to close the federal tax loopholes too, [a move met with cautious optimism on Monday](#) by the B.C. government.

To keep Canadians out of debt: Mr. Morneau hopes that applying the same stress test to all high-ratio mortgages will make prospective home buyers think twice about taking on more debt than they can pay for. "We want to ensure that we have measures in place to help them to take on risks that they can afford, especially in the situation where mortgage rates go up or their family income goes down," Mr. Morneau said [in an interview with The Globe](#).

To keep Ottawa off the hook: The federal government currently assumes the full cost of insured mortgages in the event of defaults. Mr. Morneau's changes would mean Ottawa would pay less, and banks might pay more – costs that the banks might pass on to homeowners by raising rates. The changes to low-ratio mortgage insurance would put the government in less

risk in markets with lots of residential mortgages worth \$1-million or more, such as Vancouver and Toronto.

What have provinces been doing?



B.C. Premier Christy Clark speaks in Vancouver on June 29, 2016.

JOHN LEHMANN/THE GLOBE AND MAIL

The federal government is part of a task force along with the B.C. and Ontario governments that is looking at housing prices in the Toronto and Vancouver areas. Here's what those provinces have been up to in their own jurisdictions:

British Columbia: This summer, Premier Christy Clark's government began more rigorous tracking of home buyers' nationalities and instituted a 15-per-cent tax on home purchases in Metro Vancouver that involve foreigners. The number of foreign-involved transactions plummeted once the tax took effect on Aug. 2; [more Vancouver housing numbers released on](#)

Tuesday showed a further drop in property sales in September.

Ontario: Premier Kathleen Wynne says the province needs more information about the factors behind Toronto's red-hot real estate market before adopting a foreign-buyer tax like B.C.'s.

What else has Ottawa already done?

The federal government's most recent measures come after years of fine-tuning Canada's housing laws in the aftermath of the 2008-09 financial crisis. Here's what Justin Trudeau's Liberal government and the Harper Conservatives before it have already done so far:

Feb. 15, 2016: The minimum down payment for new government-backed insured mortgages increases from 5 per cent to 10 per cent for the portion of a house price over \$500,000.

July 9, 2012: The maximum amortization period for new government-backed insured mortgages drops to 25 years from 30 years. Ottawa lowers the maximum amount Canadians can borrow when refinancing to 80 per cent from 85 per cent and stops offering insurance on mortgages for homes worth more than \$1-million, instead requiring borrowers for such homes to make a minimum down payment of 20 per cent.

April 18, 2011: Ottawa withdraws government insurance backing on lines of credit secured by homes, such as home equity lines of credit.

March 18, 2011: The maximum amortization period for government-backed insured mortgages is cut to 30 years from 35 years and the maximum amount Canadians can borrow in refinancing their mortgages is reduced to 85 per cent from 90 per cent of the value of their homes.

April 19, 2010: Ottawa introduces a requirement that all borrowers meet the standards for a five-year fixed rate mortgage even if they choose a mortgage with a lower interest rate and shorter term. The government also lowers the maximum amount Canadians can withdraw in refinancing their mortgages to 90 per cent from 95 per cent of the value of their homes and requires a minimum down payment of 20 per cent for government-backed mortgage insurance on non-owner-occupied properties bought for speculation.

Oct. 15, 2008: The maximum amortization period for new government-backed mortgages is fixed at 35 years and a requirement for a minimum down payment of 5 per cent is introduced. Ottawa also establishes a consistent minimum credit-score requirement and introduces new loan documentation standards.

What happens next?

Here are some important dates to watch out for as the changes come into effect:

- **Oct. 17:** The new stress-test rules come into effect for borrowers.
- **Nov. 30:** The new rules for low-ratio mortgages come into effect.
- **April 30:** For most Canadians, this is the deadline day for filing taxes. The new housing rules affect when you have to declare the sale of your home to the government.

Will this actually work?



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When it comes to housing prices and sales, we won't know for a while what effect Ottawa's latest measures will have, or whether they're working as the Trudeau government intends. Not all the factors behind Toronto and Vancouver's high prices – like the shortage of single family houses in those cities, or global trends that drive foreign investment in real estate – are within the federal government's control, [The Globe's Barrie McKenna explains](#), and mortgage stress tests may not be a sufficient fix.

Phil Soper, president of Royal LePage, said in an interview with The Canadian Press on Monday that he didn't expect Ottawa's measures for insured mortgages to have a significant impact on the overall market. Instead, he predicted the market would cool down on its own, with the federal measures serving more as a “tap on the brake” that would lead to a “slight, additional slowing of a market that's already slowing.”

[Here's Kathy Tomlinson and Mike Hager's report](#) on what some real-estate experts predict will happen after the federal changes take effect. Over time, monthly housing reports will also paint a clearer picture of how they're affecting home buyers' bottom line across the country. To see how the market is shifting in your city or neighbourhood, get the latest numbers and analysis from [The Globe's house-price data centre](#).

With reports from Bill Curry, Tamsin McMahon, Kathy Tomlinson, Mike Hager, Barrie McKenna, Adrian Morrow and The Canadian Press

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