

2010-2011 Pre-Budget Consultations

“Help for the Housing Sector: Four Avenues for Intervention”

Aspects Relevant to Québec

Further to the 2010-2011 pre-budget consultations announced by the Minister of Finance, the Honourable Raymond Bachand, on November 24, 2009, the Québec Federation of Real Estate Boards drew up a list of recommendations intended for the various levels of government. The proposed measures are grouped under four main headings: renovation assistance, taxation, home ownership support and social housing. The QFREB recommendations aimed specifically for the provincial government champion primarily the first two of the above-mentioned headings.

Ownership is a basic component of the lives of individuals and communities; it is an important determinant of wealth and well-being and often represents a household's primary asset.

Years of sustained increases in real estate prices have made home ownership far more difficult for many Québec households. Between 1996 and 2006, the average price of a single-family home in Québec rose from \$101,715 to \$194,024, an increase of 91%. During the same period, the average household income increased by only 43%. In 1996, the average price of a single-family home represented 3.2 times the average family income; in 2006, this ratio had risen to 4.2. Today, we estimate this ratio to be 4.5. This imbalance between income and the cost of housing limits many households in their choices regarding where they can live, their type of housing or even transportation.

Action Plan

Housing is a major sector of the economy and one of the stabilizing issues in social policies. Accordingly, the QFREB has identified four measures the Québec government could implement to support the housing sector as part of a return to a balanced budget. In particular, it recommends maintaining the Renovation Québec program, opening the Home Buyers' Plan (HBP) to anyone holding an RRSP, indexing calculation of the property transfer tax and exempting all first-time buyers from payment of the transfer tax.

While the federal government acts through the Canada Mortgage and Housing Corporation (CMHC), the Québec government acts by way of the Société d'habitation du Québec (SHQ), which is the main housing organization in Québec. The SHQ financial assistance programs aim to meet the needs of tenants and low income home-owners, as well as housing associations. The goal of these measures is to facilitate access to suitable housing conditions, improve property conditions and encourage the building of affordable housing.

The SHQ offers financial and renovation assistance programs in cooperation with participating municipalities. It funds a portion of the assistance programs, for which the municipalities assume responsibility for administration. Montréal and Laval, for example, have developed renovation and home ownership assistance programs.

Renovation Assistance

Rénovation Québec Program (Québec government by way of the SHQ)

The SHQ offers *Rénovation Québec*, a framework program that supports municipalities that wish to establish a renovation assistance program. The funding for completed projects comes from the Québec government, the municipality and the owner. The Québec government provides 66.6% of the funding for low-income household residential renovations and 50% for other housing interventions.

An example of a municipal program covered by the *Rénovation Québec* framework program is the City of Montréal's Major Residential Renovation program. The latter covers the renovation of an entire residential building and offers financial assistance to building owners to renovate all components of the building in need of repair. The residences concerned must meet a certain number of criteria, such as building age and geographic location, and must have at least one major component whose condition is such that it requires substantial renovation. The minimum eligible amount is \$15,000 per dwelling, while the maximum amount varies between \$24,000 and \$50,000, depending on the size of the unit. The financial assistance covers 75% of expenses in the case of an owner-occupied dwelling.

In the case of an owner-occupied 4½ dwelling unit, this program would reimburse up to 75% of expenses for renovations valued at between \$15,000 and \$40,000.

The QFREB would like to see a long-term commitment to the *Rénovation Québec* program and better support for these municipalities from the SHQ in developing the program.

Taxation

Specific improvements are necessary, such as taxation support for buyers so as to maximize activity on the real estate market. In addition to the various types of tax credits and specific options for the reimbursement of taxes offered by each level of government, the HBP and property transfer tax are among the taxation issues in terms of housing.

Home Buyers' Plan (HBP) (Department of Finance Canada)

The 2009 federal budget increased the maximum withdrawal from a registered retirement savings plan (RRSP) under the Home Buyer's Plan (HBP), which rose from \$20,000 to \$25,000. This simple, direct and effective measure is very appropriate; however, only new buyers can use it. A home buyers' plan not limited to new buyers would be better able to help numerous Québec households currently excluded from the program. A reconstituted family should have access to the HBP even if one of the spouses has already benefited from the program when buying a first home. This is also the case for a laid-off worker who has to move to find a new job.

The QFREB recommends that anyone holding an RRSP be eligible to use the HBP.

Transfer Duties (Québec's Ministère des Affaires municipales)

The transfer tax, also called the "welcome tax," has substantially increased over the past 15 years. The non-indexation of the taxation scale, combined with a strong increase in residential real estate prices, has greatly contributed to the increase in this tax.

The current taxation thresholds are 0.5% on the first \$50,000 of a transaction, 1% from \$50,000 to \$250,000 and 1.5% on the remainder.

A property that was valued at \$100,000 in 1994 resulted in a transfer tax of \$750. The same property, which is today valued at \$200,000, would require the buyer to pay out \$1,750 in transfer tax. The new bill, which is more than double the initial amount, represents an annual average growth in transfer tax of 5.8% for a property whose value has increased annually by 4.7%. This amount is deemed disproportionate to the current situation. Since it must often be capitalized before being disbursed, the marked increase can easily lead to debt and can thus be considered as an obstacle to home ownership.

The QFREB proposes that the taxation scale for calculating transfer tax be doubled. The taxation thresholds would therefore change as follows: 0.5% on the first \$100,000, 1% from \$100,000 to \$500,000, and 1.5% on the remainder.

In applying these new indexed thresholds, the property in the example above, valued at \$200,000 today, would have a transfer tax of \$1,500.

Some provinces have already addressed the problem caused by the increase in real estate prices on the level of property transfers tax. In British Columbia, for example, buyers are exempt from paying the transfer tax when buying their first main home whose value is below \$450,000.

A first-time buyer's transaction initiates at least two other real estate resale transactions, thereby providing a real leverage effect. Considering this significant impact on the real estate market cycle and its related economic spinoffs, such measures can have a decisional effect in encouraging people to make the transition from tenant to owner.

The QFREB proposes that first-time buyers be exempt from payment of the transfer tax.