New First-Time Home Buyer Incentive Might Fuel the Housing Bubble

Description

Canada’s housing market is on fire right now. More accurately, it has been on fire for a relatively long time, and unfortunately, no serious measures have been taken to tone down the heat. The average housing price in Toronto and Vancouver reached new heights, and no signs are indicating that the prices will come down any time soon.

Several experts drew parallels from Canada’s housing market to New Zealand’s. They speculated that the Canadian government might put its foot down and finally control the rampaging housing market as New Zealand did.

Things are going the other way, it seems.

Canada’s incentive to first time home buyers

The First-Time Home Buyer Incentive (FTHBI) was launched in 2018. The concept was that government/taxpayers would provide funds to first-time homebuyers in a deal that would ideally benefit both parties. The homeowners will get 5% or 10% of their home purchase price to put towards a down payment. This is helpful even if they *have* saved up for a down payment because it will lower the monthly mortgage payment significantly.

The loan would be considered a shared/second mortgage. It needs to be paid back in full (not monthly installments) in 25 years or when the home is sold. The benefit for the government, i.e., partial mortgage owner, is that if the home value increases in 25 years (or when you sell the house), it will turn a profit. Conversely, it will lose money if the value comes down. It’s government investing in the housing market through first-time home buyers.

The eligibility requirements are simple. You can't make more than $120,000 a year and can't borrow more than four times your annual income. The maximum purchase price that qualifies under this program is four times the annual income plus the down payment they have saved up for (5% or more). So if a family has an annual income of $100,000, they might hit a maximum purchase price of$420,000 if they have already saved up $20,000 for the down payment.

This is how things stand today, but the government has expanded its FTHBI for three cities, Toronto, Vancouver, and Victoria. First-time homebuyers in these cities have more leverage now because families with annual income up to $150,000 qualify, and the maximum purchase price can reach up to 4.5 times the annual income. So if a family has $60,000 saved up for a down payment, they can go for a home as expensive as $735,000 in the three qualifying cities.

This means a larger pool of first-time potential home buyers now has access to a lucrative incentive. They might be more enticed to make a move now, which will only blow the housing bubble even larger (even though it is already unsustainably large).

A stock to consider

Whether this move is good or bad, if you want to leverage it for investment, you might consider investing in Toronto-based mortgage lender **First National** (TSX:FN). It's the largest non-bank lender in the country and an aristocrat of nine years that has recently grown its payouts by 11.8%. It's offering a mouthwatering 5.5% yield and has a very stable payout ratio.

Though it hasn't been a consistent growth stock in the past, it has grown its market value by over 79% in the last 12 months. The price-to-earnings is still at 13.1%, so the company can grow to a much higher mark without becoming unbearably expensive. Also, it's both a residential *and* a commercial mortgage lender, so even if you are worried about the housing market, the company is unlikely to sink with it to the bottom.

Foolish takeaway

Many factors are adding to the already disproportionately high housing market in Canada, but the revamped FTHBI is a new variable in the equation. We have yet to see how it will impact the housing market. A substantial increase in potential home buyers might indicate the previously, the market was propped up by investors.

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