A Special New TFSA for 1st-Time Homebuyers?

Description

The Tax-Free Savings Account (TFSA) has been immensely popular with savers and investors. Now, the Liberal Party of Canada has announced its intention to replicate the program to support first-time homebuyers.

It's one of many strategies proposed during this ongoing election campaign to mitigate the national housing crisis. But will it work? Here's a closer look at what the Trudeau administration has proposed and what it could mean for potential Canadian homebuyers.

TFSA for housing

The Liberals have proposed a first-home savings account (FHSA?) that would allow Canadians up to age 40 to save $40,000 toward their first home. This amount could be deposited and invested tax-free, much like the TFSA.

However, the amount is nowhere close to what a first-time home buyer needs. The average home price across Canada is roughly $680,000 right now. Buyers would need $136,000 to place a 20% deposit on the average home. That's more than triple the amount the first home savings account can hold.

Even if you assume tax free growth in the account, it would take several years for the account to cross six figures. Meanwhile, house prices could move even higher.

Other promises

The Liberals have also proposed several other measures, ranging from a ban on foreign buyers to raising the first-time home buyers' tax credit from $5,000 to $10,000. Meanwhile, the Conservatives want to encourage investments in purpose-built rental units and increase the limit on mortgage insurance.

The housing crisis is the central theme of this year's election. However, none of the plans go far enough to address the true cause of the housing crisis — record-low lending standards and inventory.

The only real solution to the housing crisis is a collapse in selling prices, which no political party can trigger.

What should you do?

It's worth remembering that all major political parties made promises to solve the housing crisis during the last election. Since then, home prices have hit the stratosphere.

Canadian home buyers shouldn't rely on a solution to this crisis from the top down. Instead, potential buyers may need to consider ways to boost their savings faster than home prices expand.

A tech stock like **Constellation Software** (TSX:CSU) has delivered a compound annual growth rate of 40.5% over the past 10 years. That's a much faster rate of appreciation than national house prices.

Constellation's pace of growth doesn't seem to be slowing down. This year, the company announced it would reduce its dividend payout and use its cash flow to target larger acquisition targets. These acquisitions have been the primary engine of Constellation's growth over the past two decades.

Investing in a hyper-growth stock like that could help you multiply your savings faster than home prices rise. Doing so through a TFSA (or a potential FHSA) could be even better.

Bottom line

The Liberals have proposed a first-home savings account that could be considered a TFSA for home buyers. However, the amount is capped ($40,000) and may not be enough to tackle the housing crisis. Buyers should consider hyper-growth stocks to accumulate a down payment.

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