PRIVATE WEALTH

THE STAN CLARK FINANCIAL TEAM'S

PERSPECTIVES

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Financial & Estate Planning

BUYING YOUR FIRST HOME

By Tom Cowans, Wealth Advisor

You've finished school. You've got the job. You're settled in your city. What's next? Buying your own home, of course!

Buying a home is often the first – and largest – financial decision people ever make. Your first step: Look at what you can afford and how you will pay for it.

You will need to save for your down payment – at least 20% to avoid the Canada Mortgage and Housing Corporation (CMHC) insurance premium. You'll also need to save for closing costs, typically 2% to 5% of the purchase price. And be sure to budget for any strata/maintenance fees and property tax.

If you're like most home buyers, you will have to finance your purchase with a *mortgage*, a loan that uses the home you buy as security. Your mortgage payments build your personal equity, as opposed to renting, where your money goes directly to the building or unit owner.

When you apply for a mortgage loan, your credit score will factor into the interest rate you pay. The higher your credit score, the easier it is to get a loan at a lower interest rate. Personal finance expert and author Preet Banerjee, host of the Oprah Winfrey Network's *Million Dollar Neighbourhood*, and financial panelist on CBC's *The National*, provides tips on when buying is more attractive than renting. Banerjee advises you to:

- Have a sufficient down payment saved up.
- Consider staying put once you do buy (for at least 10 years – with the option to rent out during that time).
- Have enough money left over every month for both saving and living a balanced life – this ties in with how much of a down payment is required and how much you feel comfortable putting down. Ideally you should still be able to contribute to your retirement savings as well as building equity in your home.

In the long term, owning a home is typically a wise investment. Home prices usually rise with inflation. Over time the return on this kind of investment (especially when factoring in the impact of leverage) can be substantial, coupled with the fact that principal residence sales are not currently subject to capital gains tax.

Buying your first home and building equity is your first step on the property ladder. It gets you into the housing market and allows you the potential to trade up to better homes as your circumstances allow. The key to your first purchase is to be creative and strategic in your approach. You will likely have to compromise on your first home; that's okay. Stay focused on the long-term opportunities that being on the property ladder can bring.

Buy to wait instead of waiting to buy

Realize that your first place likely won't be your last! Despite real estate prices continuing to rise across many parts of Canada, the recent development of work-from-home technologies and the improving transit infrastructure have opened up real estate possibilities that weren't possible before.

Your first purchase will likely not be perfect. Try to compare buying your first place to getting your first job. You can upgrade your job, right? Well, you can also upgrade your home! You can either wait for the upgrade to happen – or you can plan for the upgrade and eventually make it yourself.

Here are other tips for first-time home buyers:

- Make a wish list of wants vs. needs. Identify what is important to you, e.g., if you don't have a car, being near transit is a need.
- Talk to a mortgage broker or your bank about your financing options. Interest rates are currently a lot higher than they were one to two years ago. It is worth looking at shorter-term options, depending on where interest rates are forecast to be in the next few years.
- Find a realtor who is right for you.
- Have patience! The right place will come along.

One source of down-payment funds for a first-time buyer can be a tax-free withdrawal from a Registered Retirement Savings Plan (RRSP) under the Home Buyers' Plan (HBP). I encourage you to check out the CRA RRSP Home Buyers' Plan online. You'll see that this plan allows you to withdraw up to $35,000 tax-free from your RRSP for the purchase of your home, with the caveat that these funds must be re-contributed in the following 10-12 years.

In late 2022 the federal government passed legislation to create the new Tax-Free First Home Savings Account (FHSA). This new registered plan will give prospective first-time home buyers the ability to save $40,000 (annual contributions capped at $8,000) on a tax-free basis towards the purchase of a first home in Canada.

Like an RRSP, contributions to an FHSA will be tax-deductible. Withdrawals to purchase a first home, including from any investment income or growth earned in the account, will be non-taxable, like a TFSA. The new legislation confirms that a first-time home buyer can use both the FHSA along with the existing HBP to purchase their first home. You will also be able to transfer your annual $8,000 contribution limit from an existing RRSP. CIBC Wood Gundy anticipates launching this account in early 2024.

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