How parents can help their offspring enter the housing market

Christina Commisso, CTVNews.ca Writer
Published Monday, May 2, 2016 6:20AM EDT

Over the last few years homeowners in Toronto and Vancouver have watched the values of their homes skyrocket. But some parents are now wondering if their children will ever be able to afford properties in the cities where they grew up.

"I'm having this conversation with a lot of parents," Toronto-based financial planner Shannon Lee Simmons told CTVNews.ca. "What happens if my kid can't afford to buy something?"

Vancouver-based financial planner Annie Kvick says having some extra cash to save for your kids' future housing dreams "is a good problem to have," as long as your own finances are in check first.

Kvick said when parents want to build up savings for their kids, they should begin with maximizing TFSA contributions.

"You don't pay any taxes at all on the growth, and you are in control of the money," she said. "The account is in your name, and you could give (your kids) as much as you want, or as little as you want."

Simmons, however, said she'd rather see parents use their TFSA for their own retirement savings.

She said baby boomers between 50 and 65 years old should use their TFSA to set aside any extra savings they may have. If they tap into the savings in their TFSA in retirement, they won't have to pay tax on the money.

Invest in income property, but do the math
Simmons said parents who've suddenly found themselves sitting on plenty of equity on their homes are often tapping into that equity to invest in an income property, with the intention of eventually handing the property over to their children.

In these cases, she recommends investing in a low-maintenance property, such as a condo or a townhouse.

"With baby boomers who are about to enter retirement, the more volatile your spending is, the worse off you are," she said. "The one nice thing about condos is they don't tend to have the vast repair and maintenance expenses as houses do."

She added that because condos typically cost less than houses, it's easier to put a larger down payment on a condo, which would keep the monthly mortgage payments lower.
"In bigger cities like Toronto and Vancouver, you can command a rent that you'll actually break even with," she said.

Kvick said while investing in property can have huge returns, especially if housing prices continue to rise, there are also drawbacks.

She said if parents decide to one day hand over the property to their children, the property will be subject to capital gains.

For example, if a parent purchased a condo for $200,000 and plans to give it to their child years later at a fair market value of $400,000, that would be a $200,000 profit on an income property, of which half ($100,000) would be taxed at the parent’s marginal tax rate.

Kvick said in this type of transaction, some parents could find themselves saddled with a $50,000 tax bill.

She added that simply "gifting" a $400,000 condo may not set the best example for young adults.

"They need to learn how to manage money and take some financial responsibilities," she said.

She suggests that in these situations, children should consider taking out a loan or a line of credit to cover the tax bill.

Save money for your children in a trust account
The decision to put money aside for your children in a trust is largely dependent on a family's particular situation, Kvick said.

With an informal in-trust account, the money put into the account will be held for the beneficiary (the child) until they reach the legal age in their province of residence.
The beneficiary will not pay tax on the money that their parents' have put into the account.

But Kvick said once a beneficiary reaches the age of majority, parents lose control over the money in the trust.

"They can take the money and spend it at the casino, or on a night out," she warned.
With a formal in-trust account, parents can formally dictate what the money in the account can be used for and when it can be accessed. But Kvick noted that there are hefty lawyer and accountant fees needed to maintain a formal trust.

Introduce your children to the stock market
Simmons said memories of the 2008 financial crisis and stock market crash are fresh in the minds of many millennials. Meanwhile, over this same period of time, housing prices in many markets have "exploded."

"That's why it's easy to believe that the only way to build wealth and equity is through real estate," she said. "But diversifying between real estate and the stock market is important."

Simmons said parents can introduce their children who are over 18 years old to the stock market and give them some money to buy their own stocks.

"When it's not your own money, you have a higher risk tolerance," Simmons added. "You actually get to feel what it's like have your money go up and down."

Delay downsizing so your kids move back home

Some parents are opting to stay in their larger homes with the intention of having their children live with them for longer than they may have once anticipated.

Simmons said this can be a good way for children to save up for a future down payment on a property. But she noted that adult children living with their parents will ideally contribute some rent money to go towards food and utilities.

Kvick said many of the clients she works with plan to help their children get into their own homes when they downsize.

"If they're staying in their homes longer, the value of their homes is going up, and they can actually give their kids more," she said.