Helping Adult Children Buy A Home

Posted on: January 11, 2021

With the average price of a home in Canada [1] costing roughly $530,000 in 2020 , it's getting harder for first-time buyers to enter the market. This is likely why a growing number of parents are stepping up to help their adult children purchase a home. While it's admirable to offer this level of support in an increasingly expensive world, it's also a complex decision that both parents and their adult children should ponder carefully.

For example, Gerry and Joanne were happy to offer their daughter and new husband a sizable down payment to purchase their first home. Unfortunately, the marriage was short-lived. Because no one had anticipated this scenario, their ex-son-in-law got half of the proceeds when the house sold after the divorce. Gerry and Joanne felt conflicted about their hard-earned money - and a sizable portion of their daughter's inheritance - going to someone they no longer cared for.

Nicholas and Amanda took a different approach to help their son and his partner buy a home. "It was important for us to find a way to help our son, have enough income in retirement and still have the ability to help our other children someday," explains Nicholas. On their financial advisor's advice, they approached the transaction as a second mortgage rather than a gift. In this scenario, their son and his partner were responsible for all payments and associated costs of owning the home. They also signed an agreement detailing their obligation to repay what Nicholas and Amanda had lent them. Nicholas and Amanda's financial advisor also encouraged them to add a provision to their will to have their son's portion of the debt wiped out upon their death.

For Nancy's daughter Alyssa, the issue of homeownership was less about the down-payment and ability to afford the mortgage and more about her recovering credit rating. Nancy spoke at length with her financial advisor before agreeing to sign as a guarantor on her daughter's first mortgage. After some difficult conversations, Nancy and Alyssa agreed to several conditions, including an exit date when Nancy's name would be removed as guarantor. Alyssa purchasing her own home also allowed Nancy to downsize and, in turn, increase her contribution to her investments.

While helping your adult child achieve the significant milestone of homeownership may seem like a natural extension of the parent/child relationship, it's also a significant commitment that raises important questions around financial planning and family dynamics.

Contact our office [1]to get assistance with navigating this decision by establishing financial priorities, estimating cost and determining a beneficial strategy to help ensure that you don't jeopardize your own financial goals in the generous act of helping your children.

**Fictional characters for illustrative purposes only. For more information, please contact your accounting and/or legal professionals.*

Sources:

1. The Canadian Real Estate Association. "Quarterly Forecasts". https://www.crea.ca/housing-market-stats/quarterly-forecasts/ [2]

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