Canada Secondary Suite Program & Secondary Suite Refinance Program

Canada Secondary Suite Program

Definition: The Canada Secondary Suite Loan Program is a government initiative offering low-interest loans to homeowners to finance the construction or renovation of secondary suites on their primary residence, enhancing rental supply and affordability.

Details:

- **Date of Effect**: Initially launched in April 2024 with a $40,000 limit, increased to $80,000 per project on December 10, 2024, with rollout set for some time in 2025.
- **Key Features**: Provides up to $80,000 per project at a fixed 2% interest rate over a 15-year term, administered by the Canada Mortgage and Housing Corporation (CMHC). Eligible projects include self-contained units like basement apartments, laneway homes, or garden suites.
- **Eligibility**: Homeowners must own the property and either live in it or have a close relative occupy one unit; new suites must be long-term rentals (short-term rentals like Airbnb are excluded).
- **Important Considerations**:
  - Costs exceeding $80,000 (common in urban areas) require additional financing.
  - Local zoning, permits, and building codes must be navigated, adding time and expense.
  - Repayment is approximately $95,000 over 15 years (~$530/month), manageable with rental income.

How It Benefits Real Estate Investors:

- **Low-Cost Capital**: The 2% interest rate is far below private loans or HELOCs (5-10%+), reducing borrowing costs for renovations (~$50,000–$100,000 for a suite).
- **Rental Income**: A suite renting for $1,500–$2,000/month in high-demand areas generates $270,000–$360,000 over 15 years, far exceeding loan repayment, boosting cash flow.
- **Property Value Increase**: Suites can raise property value by 10-20% (e.g., $100,000–$200,000 on a $1 million home), enhancing ROI upon sale.
- **Government Backing**: CMHC administration lowers lender risk, easing approval for investors with limited credit or unconventional income.

How It Solves Financing Issues for Canadians:

- Many Canadians struggle to secure financing for income properties due to high interest rates, large down payment requirements (20%+), and strict lender criteria. This program provides affordable, purpose-built funding without requiring significant upfront capital or equity withdrawal, enabling homeowners to create income-generating suites within their existing property, thus bypassing traditional barriers to purchasing additional real estate.

Secondary Suite Refinance Program

Definition: The Secondary Suite Refinance Program, implemented as the CMHC Refinance 90% LTV, allows homeowners to refinance their mortgage up to 90% of their property's post-renovation value to fund the addition of up to four rental units, increasing housing density and rental income potential.

Details:

- **Date of Effect**: Effective January 15, 2025, as part of CMHC's updated mortgage insurance rules aligned with government housing initiatives.
- **Key Features**: Offers refinancing up to 90% loan-to-value (LTV) of the post-renovation property value (capped at $2 million), with a 30-year amortization period. Funds are restricted to construction costs (e.g., adding secondary suites), not general equity cash-outs.
- **Eligibility**: Applies to owner-occupied properties (1-4 units) where the homeowner or a close relative resides in one unit; additional units must be long-term rentals. Requires CMHC mortgage loan insurance, with debt service ratios (GDS/TDS) met using the greater of the contract rate + 2% or 5.25%.
- **Important Considerations**:
    - The $2 million cap may limit projects in high-cost markets like Vancouver or Toronto.
    - Only 10% equity remains post-refinance, risking negative equity in a downturn (mitigated by rental income).
    - Occupancy requirements limit flexibility for pure rental investors unless creatively structured (e.g., temporary residency).

How It Benefits Real Estate Investors:

- **Access to Capital**: Refinancing at 90% LTV (e.g., $900,000 on a $1 million property vs. $800,000 at 80%) unlocks more equity with just 10% equity needed, freeing funds for reinvestment or upgrades.
- **Improved Cash Flow**: A 30-year amortization (vs. 25 years previously) lowers monthly payments, easing financial strain in high-interest environments.
- **Funding Enhancements**: Proceeds can finance suites (e.g., $100,000 for a duplex conversion), boosting rental income (e.g., $1,800/month) and property value.
- **Overcoming Barriers**: CMHC insurance reduces lender risk, enabling competitive rates and approvals for investors with weaker credit (minimum 600) or self-employed income.
- **Portfolio Growth**: Investors living in one unit can use funds for down payments on new properties, scaling their portfolio within a competitive market.

How It Solves Financing Issues for Canadians:

- Canadians face challenges like high interest rates, limited lender appetite for investment properties, and equity constraints when financing income properties. This program leverages existing home equity up to 90% LTV, backed by CMHC insurance, allowing homeowners to fund rental units without the 20%+ down payments or high-rate loans required for new purchases, making income property development more accessible and affordable.