



Harmonization hurts affordability

Presentation to the Select Committee on Finance and Government Services

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Real Estate Board of Greater Vancouver

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It's a record that hurts home buyers

Greater Vancouver ranks as Canada's least affordable place to buy a home¹, and new home buyers in Greater Vancouver pay a premium, as much as 88% more than the provincial average. Worse, Vancouver is now the 10th most expensive place to live in North America, the only Canadian city on the list.²

Affordability is about to deteriorate even further with the government's decision to implement the 12% Harmonized Sales Tax (HST).

Greater Vancouver's costly home prices mean home buyers here will pay a disproportionate share of the HST tax burden in comparison with the rest of the province. The \$549 million in new revenue from new home sales across the province forecast by the BC Progress Board³ concerns the Real Estate Board of Greater Vancouver since much of this amount will come from the pockets of Greater Vancouver home buyers.



Greater Vancouver's high home prices

The average price for a new detached home in Greater Vancouver has reached \$822,605. In contrast, province-wide, excluding Greater Vancouver, the price tag is \$438,388. The next highest priced area in which to buy a new detached home is Victoria at \$541,804, 34% less than Greater Vancouver.⁴

Greater Vancouver also has the highest new townhome and condominium apartment prices in the province.

Greater Vancouver - highest new home prices

Location	Detached average sales price (Jan. – Aug. 2009)	Attached average sales price (Jan. – Aug. 2009)	Condominium Apartment average sales price (Jan. – Aug. 2009)
Greater Vancouver	\$822,605	\$446,884	\$416,317
Victoria	\$541,804	\$466,404	\$414,830
Kelowna	\$525,016	\$423,784	\$313,727
Abbotsford-Mission	\$510,710	\$307,016	\$210,014
Chilliwack	\$411,567	\$252,990	\$189,489
Kamloops	\$396,256	\$299,580	\$384,155
Nanaimo	\$400,839	\$319,500	\$251,334
Prince George	\$342,284	\$280,000	N.A.
Province (excluding Greater Vancouver)	\$438,388	\$400,824	\$377,138

Greater Vancouver's high land prices

The average assessed land value for a new detached home is \$446,513. In the rest of the province, the comparable land value is \$175,049.

Data source: Landcor® Data Corporation. Note: Landcor's data includes all new homes registered with the Land Title and Survey Authority of BC whereas only some new homes are sold on MLS®. N.A. = Not available.

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Average residential assessed land values – new homes

Location	Detached (Jan. – Aug. 2009)	Attached (Jan. – Aug. 2009)	Condominium (Jan. – Aug. 2009)
Greater Vancouver	\$446,513	\$264,162	\$303,824
Victoria	\$246,172	\$220,092	\$267,516
Kelowna	\$210,652	\$177,725	\$164,646
Abbotsford – Mission	\$229,812	\$122,071	N.A.
Chilliwack	\$174,697	\$131,816	\$55,130
Kamloops	\$136,308	\$118,860	\$175,333
Nanaimo	\$162,000	\$203,029	\$157,238
Prince George	\$110,035	N.A.	N.A.
Province (excluding Greater Vancouver)	\$175,049	\$171,323	\$204,759

Data source: Landcor® Data Corporation



The new home rebate threshold

The proposed new home rebate threshold of \$400,000 is too low for Greater Vancouver. Only 23% of new homes sold on the MLS® in Greater Vancouver are priced at less than \$400,000 and the average MLS® new home price has reached \$701,580 (detached, attached and condominium apartments combined). A threshold of \$700,000 would more realistically reflect new home sales prices.

Tax impact of the HST

Current Structure					July 1, 2010				
	Cost (1) (2) ⁶	GST @ 5%	PST @ 7%	Total cost		Cost (1) (2)	HST @ 12%	Total	Additional Tax
Purchase price plus taxes and rebates	700,000	35,000	0	735,000	Purchase price plus taxes and rebates	686,274	82,353* (\$62,353)	\$748,627	13,627
Property Transfer Tax	12,000	0	0	12,000	Property Transfer Tax	11,725	0	11,725	(275)
Notary/Legal fees	500	25	35	560	Notary/Legal fees	500	60	560	0
Non taxable disbursements	240	0	0	240	Non taxable disbursements	240	0	240	0
GST taxable disbursements	70	4	0	74	GST taxable disbursements	70	8	78	4
Home inspection	350	18	0	368	Home inspection	350	42	392	24
Total closing costs	713,160	35,047	35	748,242	Total closing costs	699,159	102	761,622	\$13,380

Source: Real Estate Board of Greater Vancouver

*Rebate is \$20,000

The net tax increase due to the HST is \$62,353 (\$82,353 - \$20,000). If home buyers of a modest home in Greater Vancouver have to finance this extra cost through a loan over 25 years at today's five-year closed mortgage rate (4.5%), the monthly payment on this amount is \$345 or \$103,532 in total payments during the life of the mortgage.



Prices in Greater Vancouver neighbourhoods

In Greater Vancouver neighbourhoods, prices also vary significantly for new homes.

MLS® residential average new home price by location

Location	Detached	Attached	Condominium Apartment
Vancouver Westside	\$2,144,071	\$830,183	\$641,541
Vancouver Eastside	\$845,700	\$571,354	\$354,061
Burnaby	\$914,206	\$535,500	\$357,964
Maple Ridge	\$543,567	\$387,872	\$231,715
North Vancouver	\$1,289,814	\$737,433	\$481,966
Richmond	\$1,051,320	\$480,271	\$378,554
Coquitlam	\$743,162	\$489,952	\$347,001

The HST and our neighbourhoods

Through REALTORS®, the Real Estate Board has heard from home buyers about what they think of the HST – buyers of new condominiums on Vancouver’s eastside, buyers of new townhomes in Steveston and buyers of small new detached homes in Maple Ridge.

Buyers are telling us that the HST will be a hardship that may prevent them from buying a home.

For years, families looking for a small detached home have been increasingly anxious about their ability to save for a down payment and closing costs including the Property Transfer Tax. The HST will take a significant toll on their budgets and will severely limit their options by forcing them to wait longer to buy a home, to raise children in small apartments or to commute long distances to a home they can afford to buy.

Home buyers also worry about the implications for the environment as a result of the cancellation of tax exemptions for energy efficient home products.

Home buyers choosing to buy a resale condominium are worried that their home may have future building envelope problems which will be a significant cost given the cancellation of the Reconstruction Loan Program and the PST Rebate Program.

Families renting their homes worry that building owners may not be able to keep buildings in good shape since goods and service costs will be so much higher with the HST.

Not just home buyers

The HST also significantly adds to the cost of selling a home since it will be applied to a wide range of services now PST exempt including appraisal fees, real estate commissions, renovation services, land surveys, home inspections, landscaping and moving expenses.

Economic impact of MLS® sales in Greater Vancouver

Home buyers create economic spin-offs and jobs and support our communities.

- Every time a home changes hands in BC, the sales transaction generates \$42,000 in economic output, \$20,000 in gross domestic product and \$13,000 in household income as well as 0.28 jobs.⁵
- A total of 24,626 homes were sold through the MLS® in 2008 totaling \$1.034 billion in economic output including \$493 million in GDP and \$320 million in household income.
- MLS® residential sales activity in 2008 in Greater Vancouver generated more than 6,895 jobs.

Endnotes

¹ RBC Economics Department, *Housing Trends and Affordability*, September 2009, p. 4. www.rbc.com/economics/market/pdf/house.pdf

² Coldwell Banker®, *Home Price Comparison Index*, September 23, 2009.

³ Andrew Sharpe et al, *Investment in British Columbia: Current Realities and the Way Forward. A Companion Discussion to the Eighth Annual Benchmark Report*, BC Progress Board, December 12, 2008, p. 31.

⁴ Landcor® Data Corporation.

⁵ BC Real Estate Association.

⁶ (1), (2) This includes the embedded 2% cost savings pass-through to purchasers by builders, which reduces the home's final price to \$392,157, the Property Transfer Tax, taxes on closing costs, and the HST of \$27,451 net of the \$20,000 purchaser rebate.

⁷ <http://www.rto.gov.bc.ca/content/news/default.aspx> and BC Apartment Owners and Managers Association (BCAOMA).

⁸ Email from Anne Foy, BC Ministry of Finance, *More Clarification*, September 23, 2009 and September Budget Update, 2009/2010 – 2011/2012.

Recommendations

To mitigate the significant cost of the HST on home buyers and to make home ownership more affordable:

1. Exclude the land value from the HST

The GST applies to the full construction cost of a new home including land. The PST applies to materials only, not land. Under the HST, both the land and materials will be taxed, resulting in a 7% higher tax burden.

In the long term, excluding the land value will help home buyers in areas with higher land values and will accommodate significant variations in price across the province and changes in land values over time.

Land values can be determined by the seller at the time of the transaction and may be subject to an audit.

We appreciate this recommendation may take time to implement. So, in the short-term, we recommend the following.

2. (a) Raise the proposed \$400,000 rebate threshold to \$700,000 in expensive markets in BC and annually index it to Statistics Canada's New Housing Price Index

Greater Vancouver's average new home price for all units (detached, attached and apartment condominiums) is \$701,580 compared to the proposed rebate threshold of \$400,000. A \$700,000 threshold means that Greater Vancouver new home buyers will not bear a disproportionate share of the HST burden.

(b) Adjust the proposed New Home Rebate program to reflect the higher threshold

The current proposed rebate on a \$400,000 new home is \$20,000. The provincial rebate formula applied to a \$700,000 home as proposed by the Real Estate Board of Greater Vancouver is \$35,000.

To mitigate the significant cost of the HST on current home owners and renters:

3. Reinstate an HST Rebate or Tax Credit for leaky condominium repairs

This will help owners with repair costs, protect future owners and ensure that building envelope repairs are completed to accepted standards.

4. Allow input tax credits for owners of residential rental accommodations

Owners of rental apartment buildings can't claim GST input tax credits for goods and services to provide the rental service. Under the HST, the GST rules apply. To recover higher tax costs, owners cannot raise rents more than 3.2%⁷, which will result in a shortfall of 2-2.5%.

Allowing input tax credits will help building owners maintain their buildings and protect the rental housing stock, while not requiring large rent increases for tenants.

5. Extend the HST Rebate or Tax Credit on energy efficient products

PST exemptions for energy efficient products will end on March 31, 2010 or on July 1, 2010 with the implementation of the HST, depending on the product.⁸

In line with the government's objectives for climate change and to help home owners make their property more energy efficient, the government should provide an exemption for the provincial portion of the HST on energy efficient products. This incentive could be a point of sale rebate or a tax credit similar to the federal Home Renovation Tax Credit.



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The Real Estate Board of Greater Vancouver is a not-for-profit association with provincial, national and international affiliations, representing 9,400 residential and commercial REALTORS® in the Greater Vancouver area.

