



Saving the neighbourhood, one home at a time

Stabilizing BC's housing market

Presentation to the Select Standing Committee on Finance and Government Services
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by

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Saving the neighbourhood, one home at a time

The Real Estate Board of Greater Vancouver's statistics tell the story. After eight years of solid, often double-digit annual growth, signs of the housing market slowdown are everywhere. From "For Sale" signs on almost every block to fewer customers in home renovation stores, the evidence is clear: home buyers are now sitting on the sidelines.

This is not good for our neighbourhoods. Although our economy is stable and expected to grow at a modest rate, this growth is overshadowed by the perception that the sky is falling. This is largely a result of the turmoil in the U.S. housing and financial markets, which translates into the lowest level of consumer confidence since 2000.¹ Home buyers are wondering whether this is a cyclical dip or whether disaster is heading our way. Families across the Board area are clearly worried about their financial future.

How far have the numbers fallen?

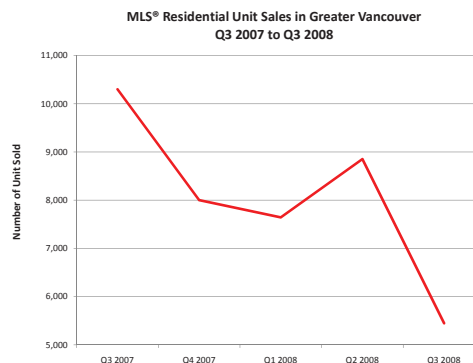
The third quarter of 2008 is shaping up to be one for the record books. Total residential sales in the Greater

Vancouver area dropped 47% to 5,446 sales compared to 10,300 sales in the third quarter of 2007.

While this slowdown is reflected in all property types, detached homes were hardest hit, dropping 50.6% to 1,934 sales from 3,916 sales in the third quarter of 2007.

Attached townhome sales dropped 47.7% to 956 units from 1,827 units, and condominium apartment sales decreased 43.3% to 2,476 units from 4,362 units in the third quarter of 2007.

Just nine multifamily complexes and 72 lots (vacant land) sold in the third quarter of 2008.



The slowdown in sales is throughout the entire Real Estate Board area.

MLS® Residential Unit Sales by Neighbourhood

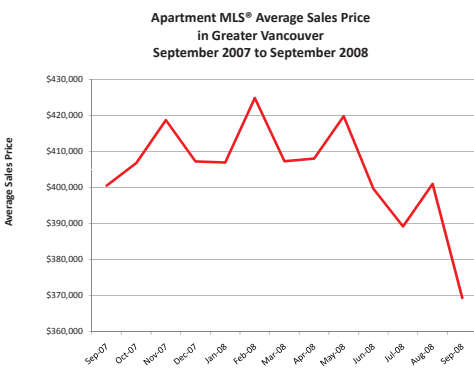
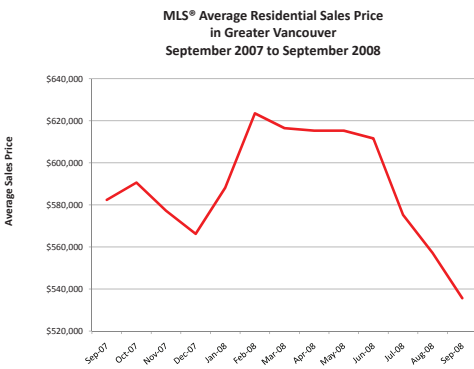
	Q3 2007	Q3 2008	% Change
Burnaby			
Detached	335	164	-51.0
Attached	271	154	-43.2
Apartment	554	321	-42.1
Coquitlam			
Detached	348	165	-52.6
Attached	114	72	-36.8
Apartment	242	133	-45.0
Maple Ridge & Pitt Meadows			
Detached	415	246	-40.7
Attached	140	79	-43.6
Apartment	84	56	-33.3
North Vancouver			
Detached	262	176	-32.8
Attached	119	69	-42.0
Apartment	293	150	-48.8
Richmond			
Detached	495	200	-59.6
Attached	417	149	-64.3
Apartment	566	350	-38.2
Vancouver Eastside			
Detached	563	276	-51.0
Attached	109	52	-52.3
Apartment	403	264	-34.5
Vancouver Westside			
Detached	440	180	-59.1
Attached	222	136	-43.2
Apartment	1463	758	-48.2

For home sellers, this is not good news. There are far more listings than sales and homes are staying on the market longer.

Prices stall

During the past year, home prices have also begun to fall. In September 2008, the average home price throughout the Real Estate Board area decreased 8% to \$535,600 from \$582,350 a year earlier.

- The average price of a detached home fell 3.6% to \$790,040 from \$819,790 in September 2007.
- The average price of a condominium apartment fell 7.8% to \$369,350 from \$400,530 in September 2007.



Although falling prices have helped some home buyers get into the market, overall prices are still too high for many first-time and moderate income buyers. This means that too many homes are

sitting on the market unsold. If this continues or worsens, consumer confidence could turn into a crisis of confidence.

Housing and the economy

Home buying is important to our provincial economy – driving employment and spin-offs – and it needs to be a provincial priority. How important is it?

MLS® residential sales in 2007

In the Real Estate Board area, 38,050 homes changed hands and generated:

- \$1.6 billion in economic impact;
- \$761 million in GDP;
- \$495 million in household income; and
- 1,065 jobs.²

Residential construction in 2007

In the Metro Vancouver area, 20,736 housing starts generated:

- \$8.4 billion in economic impact;
- \$3.5 billion in GDP;
- \$3.1 billion in wages; and
- 68,120 jobs.³

Real estate sales are also very important to government revenues, generating about \$1 billion in 2007 alone.

How can the government help?

Home buyers sitting on the fence need an incentive. A break on the Property Transfer Tax (PTT) would certainly help. This tax makes home ownership less affordable for those who can least afford it – moderate income home buyers, who end up spending a larger percentage of their income on their home because the PTT lessens the amount of their down payment. This is the time for government to encourage home buyers to enter the market.

Recommendation 1

Raise the price threshold for the Property Transfer Tax First-Time Home Buyer's Program to \$600,000 from \$425,000 in urban areas.

In urban areas such as Metro Vancouver, the Fraser Valley, Victoria, eastern portions of Vancouver Island and the Okanagan, home prices are higher than in the rest of BC.

Real Estate Board	Average Price August 2008*
BC Northern	\$219,675
Chilliwack	\$303,972
Fraser Valley	\$431,642
Greater Vancouver	\$557,114
Kamloops	\$290,987
Kootenay	\$267,011
Northern Lights	\$228,981
Okanagan Mainline	\$414,359
Powell River	\$232,903
South Okanagan	\$327,817
Vancouver Island	\$328,414
Victoria	\$452,205

*Source: BC Real Estate Association
Most recent data available

Before 2007, under the First-Time Home Buyer's Program exemption criteria, there were two categories of exemption thresholds. The higher exemption threshold was applied to urban areas such as Greater Vancouver, the Capital Region and the Fraser Valley. The lower threshold was applied to the rest of the province.

Since 2007 there has been just one province-wide exemption threshold which is now \$425,000. We would like to see the return of separate urban and rural price thresholds to better reflect price differences across regions. We are asking for the government to raise the price threshold in high cost urban areas to \$600,000.

How many more first-time buyers would qualify for the full rebate? In the Board area in 2007, 5,183 homes priced between \$425,000 and \$600,000 were sold. Of these, we estimate there would have been almost 100 additional first-time buyers. (See *Appendix A*)

Benefits

We estimate that as a result of the urban threshold increase to \$600,000, almost 100 additional first-time home buyers would be eligible to qualify for a full PTT exemption.

Recommendation 2

Raise the price threshold of the first 1% of the Property Transfer Tax to \$400,000 from \$200,000 for all home buyers.

In 1987 when the PTT was introduced, the \$200,000 price threshold was meant to cover about 95% of residential property transfers. Today, the threshold would have to be \$1.4 million to maintain the same coverage in the Board area. Only 692 homes sold in 2008 were priced at less than \$200,000.

Benefits

We estimate that as a result of the threshold increase to \$400,000, about 150 additional first-time home buyers would be eligible to qualify for a full PTT exemption. (See *Appendix B*)

Combined benefits of our recommendations

In total: 250 additional home buyers per year would qualify for the full PTT exemption. Assuming the 2008 economic impact figures remain

constant, in five years the 1,250 additional first-time home buyers would result in:

- \$52.5 million in economic impact;
- \$25 million in GDP;
- \$16.25 million in household income; and
- 350 jobs. (See *Appendix A*).

The choice is obvious

Home buyers have been helping to fuel strong economic growth in our neighbourhoods for the past several years. Every time a home sells, we all benefit from the resulting job growth, higher earning power and prosperity.

But if home buyers don't get a break on the PTT, consider the implications. Every time a potential home buyer is unable to buy a home because of the PTT, everyone in the neighbourhood suffers – from appraisers and mortgage brokers to appliance and home improvement stores. Government revenues also significantly decrease.

The government needs to help home buyers. If the government acts on our recommendations, this will make home ownership more affordable for 250 home buyers each year in the Real Estate Board area. It will also boost consumer confidence.

Decreasing the PTT will spur home buying, lead to economic spin-offs in our neighbourhoods and maintain government revenues. It's a win-win for everyone.

The Facts

- **Fact 1:** The PTT adds \$8,712 to the average home price⁴ of \$535,600 in the Real Estate Board area. At 6% amortized over 25 years, this amounts to an extra \$16,722 or \$55.74 per month.⁵
- **Fact 2:** The median family income in Vancouver is \$60,300.⁶ A family earning this amount can afford a \$240,000 home.⁷ In the Real Estate Board area in 2007, 3,699 homes (about 10%) sold for this amount or less.
- **Fact 3:** Home ownership is the primary source of savings and wealth accumulation for most of us.⁸
- **Fact 4:** Overall BC tax revenues for 2007/08 are \$1.2 billion higher than forecast.⁹

Who we are

The Real Estate Board of Greater Vancouver is a non-profit association with provincial, national and international affiliations, representing just under 10,000 REALTORS® in the Greater Vancouver area. The Board:

- provides members with the structure and services to ensure a high standard of business practices and ethics to effectively serve the real estate needs of the community;
- develops and delivers professional educational programs and services to give members the tools to better serve home buyers, sellers and investors;
- provides an extensive grassroots legislative advocacy program that represents members on local, provincial and federal issues; and
- operates the MLS® system.

The Real Estate Board's boundaries extend from Pemberton and the Sunshine Coast in the North to Tsawwassen in the South; from the Southern Gulf Islands in the West to Maple Ridge in the East. Our area includes 22 municipalities, three regional districts, 14 federal ridings and 29 provincial constituencies.

The REBGV has had longstanding concerns about the PTT. We have presented submissions on this subject since before the tax was implemented in 1987 and we continue to contend that the PTT remains a barrier to affordable home ownership.

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Endnotes:

- ¹ Conference Board of Canada, *Consumer Confidence Index*, July 2008.
- ² A typical MLS® residential sale generates \$42,000 in economic output, \$20,000 in gross domestic product, and \$13,000 in household income as well as 0.28 full time equivalent jobs according to BC Real Estate Association, *Economic Impacts, Multiple Listing Service® Residential Sales*. September 2, 2008.
- ³ Greater Vancouver Home Builders' Association of BC, October, 2008. Metro Vancouver includes Surrey, White Rock and the Langleys which are not in the REBGV area.
- ⁴ Average price is current to September 30, 2008.
- ⁵ Note: although the PTT is a closing cost and theoretically cannot be financed, first-time buyers who don't know about the tax typically take it out of the down payment and have to finance more of the principal.
- ⁶ Statistics Canada, "Income of Canadians," *The Daily*, May 5, 2008.
- ⁷ (Gross Debt Service (GDS) ratio for a \$60,300 home is 30% or \$18,090) / 12 months of payments = \$1,507.50, (max. monthly payment). Assumes a 5% or \$12,000 down payment at a 6% interest rate for a 5 year mortgage and 25 year amortization.
- ⁸ Tsur Somerville et al, *Are Renters Being Left Behind? Homeownership and Wealth Accumulation in Canadian Cities*, Vancouver: UBC Sauder School of Business Centre for Urban Economics and Real Estate, January 2007.
- ⁹ BC Ministry of Finance and Ministry Responsible for the Olympics, *B.C. Strengthens Fiscal Position Amid Steady Growth*, Press Release, September 12, 2008.

Appendix A

Increasing First-Time Home Buyer's Program exemption limit to \$600,000 from \$425,000

Using the midpoint of \$425,000 to \$600,000: \$512,500
 5% down payment = \$25,625
 95% mortgage loan = \$486,875
 6% mortgage rate
 25 year amortization
 PTT before change = \$8,250
 PTT after change = \$0
 Difference = \$8,250

If PTT loan of \$8,250 is financed:

Loan before change: \$495,125
 Monthly payment (P&I) = \$3,168
 Income required: \$126,714

After change (no PTT due or added to mortgage):

Loan after change: \$486,875
 Monthly payment (P&I) = \$3,115
 Income required: \$124,602

Income required: \$126,714
 Income required: \$124,602
 Difference = \$2,112

Estimated number of households able to service the mortgage loan:

Before change: 68,484
 After change: 72,691
 Difference: 4,207 more households
 Estimated number of first-time buyers: 631
 Estimated annual first-time buyer sales: 95 (round up to 100)

Appendix B

Increasing the price threshold for first 1% rate to \$400,000 from \$200,000

Using September 2008 average sales price: \$538,156
 5% down payment = \$26,908
 95% mortgage loan = \$511,248
 6% mortgage rate
 25 year amortization
 PTT before change = \$8,763
 PTT after change = \$5,382
 Difference = \$3,381

If PTT loan of \$8,763 is financed:

Loan before change: \$520,011
 Monthly payment (P&I) = \$3,327
 Income required: \$133,083

After change, if PTT loan of \$3,382 is financed:

Loan after change: \$516,630
 Monthly payment (P&I) = \$3,305
 Income required: \$132,217

Income required: \$133,083
 Income required: \$132,217
 Difference = \$866

Estimated number of households able to service the mortgage loan:

Before change: 58,518
 After change: 59,517
 Difference: 999 more households
 Estimated annual first-time buyer sales: 150



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