

## REAL ESTATE

# Housing market shows signs of improvement improves

## Harmonized tax a worry for analysts

BY ERIC LAM

Canada's slumping housing market is showing signs of stabilizing, but the coming Ontario harmonized tax will cause problems for builders and prospective homeowners alike, analysts say.

Toronto's usually oversaturated condominium market has also begun to tighten, the first hints of a turnaround in 2009.

"The rise in demand, combined with fewer new listings, has restored a better balance to the market," Scotiabank analyst Adrienne Warren wrote in a new report on Canadian real estate trends.

Ms. Warren noted a healthy pickup in home sales through the first part of the year, coupled with a drop in the national new-listings-to-sales ratio to 2.2 in March from a peak of 2.7 last November as reason for cautious optimism.

Ms. Warren has also cut Scotiabank's 2009 expected housing starts to 140,000, down from 155,000 in

February.

"Buyers, especially first-time, are being lured by historically low mortgage rates, greater affordability and [overall] increased supply," she wrote.

As well, Ms. Warren suggests the "winter deep-freeze" in new condo sales is beginning to thaw.

"Several major developers, including in both Toronto and Vancouver, reported sharply higher sales volumes in March," she wrote. "This mirrors the improvement in the broader real estate market."

TD analyst Pascal Gauthier also expects Toronto's condominium market, in the midst of a "cyclical downturn," to stabilize and begin to recover before the end of 2009.

"Is the Toronto condo market either experiencing or headed for a crash? Our short answer would be no," Mr. Gauthier wrote.

While many analysts believe there are too many condos under construction in Toronto, Mr. Gauthier says the numbers are falling back to reasonable levels.

Some 24,000 units were built in 2008, but the city is only on pace for about 18,000 units this year.

Mr. Gauthier expects that figure to

top out between 11,000 and 13,000 units.

He also predicts the median price of existing condos to hover between \$230,000 and \$250,000 for at least a year.

Meanwhile, the new Harmonized Sales Tax (HST) introduced by the Ontario government in its budget in March is also a major cause for concern.

The proposed tax, which will merge the PST and GST into a flat 13% rate, is set to be introduced on July 1, 2010.

"[We are] likely to see a front-loading of new condo sales between now and then, in effect displacing some sales that would have otherwise occurred later," Mr. Gauthier wrote.

However, BMO Capital Markets analyst Douglas Porter sees the HST having even more far-ranging effects on the market.

"Raising taxes on a product that is often considered an investment, such as housing, is simply not good policy," he wrote in a special report on the new tax.

Currently, new homes face a 5% GST but no PST. There is also a 1.8% GST rebate for houses less than \$350,000.

Beginning July 2010, the HST will be applied on all new homes. Housing costing less than \$500,000 will be eligible for as much as 6% in tax rebates, but anything priced above that gets the full 13% tax.

*Financial Post*  
elam@nationalpost.com