

# TORONTO

## Toronto Land Transfer Tax Will Exaggerate Price Declines

The Effects of the Toronto Land Transfer Tax on Fourth Quarter 2008 Average Prices



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### *Toronto Land Transfer Tax Exaggerates Price Decline*

**Record Sales in 2007** Toronto's real estate market experienced a record number of sales in 2007. One of the factors contributing to this rise in demand was the introduction of the 40-year mortgage.

**The 40 year mortgage fueled the real estate market** Research from several financial institutions suggests that the 40 year mortgage was the principal cause for the increase in home sales in 2007. The 40 year mortgage made home buying more affordable for all Canadians which spurred demand for homes. Lenders found that a very material amount of new mortgages were opting for longer amortizations.

**Land Transfer Tax** In late October of 2007, the city of Toronto approved a new municipal land transfer tax which took effect in early 2008. The sliding tax rate of up to 2% of a property's value is payable by the purchaser on closing. All properties purchased before January 1, 2008 were effectively exempt from paying the new tax regardless of when the property actually closed. The tax caused a bit of a stir in Toronto's real estate market during the final quarter of 2007 as home buyers rushed to beat the January 1, 2008 deadline.

Annual Key Metrics			
	2006	2007	% Change
<b>Average Sale Price</b>	\$ 380,214	\$ 415,421	9.3%
<b>Median Sale Price</b>	\$ 302,500	\$ 325,800	7.7%
<b>Number of Sales</b>	35,797	40,645	13.5%

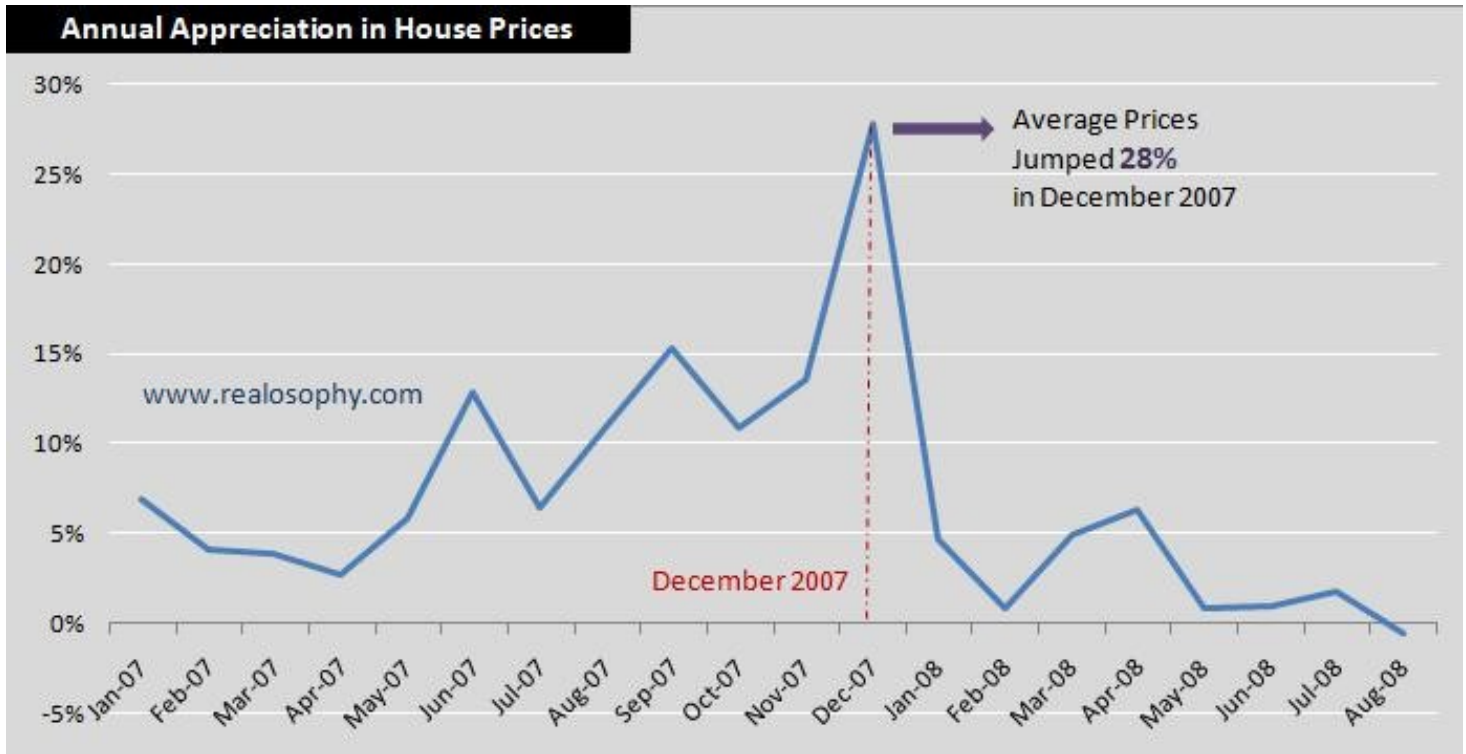
Fourth Quarter Key Metrics			
	Q4-2006	Q4-2007	% Change
<b>Average Sale Price</b>	\$ 378,098	\$ 437,437	15.7%
<b>Median Sale Price</b>	\$ 299,000	\$ 340,000	13.7%
<b>Number of Sales</b>	7,602	9,165	20.6%

The tax was in the planning and negotiating stages for months before it was finally approved. One of the principal concerns among councillors was the impact the new tax might have on first time home buyers. City council agreed to offer first time buyers a full rebate for homes valued up to \$400,000.

If we compare several key real estate metrics for 2007 against the fourth quarter of 2007 we see very different figures for the final quarter. The percentage change in the number of sales, average price and median price for the fourth quarter of 2007 were all significantly higher than the annual percent changes.

Real estate sales typically decline during the fourth quarter which suggests that the surge in sales and prices in the fourth quarter of 2007 was likely the result of purchasers rushing to buy before the tax took effect.

Note: All data in this report is based on resale home sales through the Toronto Real Estate Board. Sales statistics do not include private sales or new construction and only include homes in the City of Toronto.



*Appreciation surges during Q3 and Q4 of 2007*

Over the past ten years prices in the Greater Toronto Area have appreciated by an average of 6% per year.

The above chart shows the 1 year appreciation in prices in the city of Toronto from January 2007 to August 2008. Prices appreciated by an average of 14% during the final two quarters and 17% during the last quarter of 2007.

The side chart shows the average price for a home in Toronto for both 2006 and 2007. Price changes in 2007 tracked 2006 prices very closely. The notable exception occurred during the final two months of both years where prices diverged.

Prices declined considerably during the final two months of 2006. In 2007 prices peaked during the final two months of the year. Prices peaking at the end of the year is not typical as real estate markets typically slow down in the final quarter.



The average price for a home appreciated the most in December 2007 when the average price jumped from \$351,540 in December 2006 to \$449,541 in December 2007. This is a \$98,000 or 28% increase in just a single year.

Did every house in Toronto appreciate by 28% in December 2007 or were more people buying expensive homes in order to avoid the land transfer tax?

## Comparing Sales by Price Range

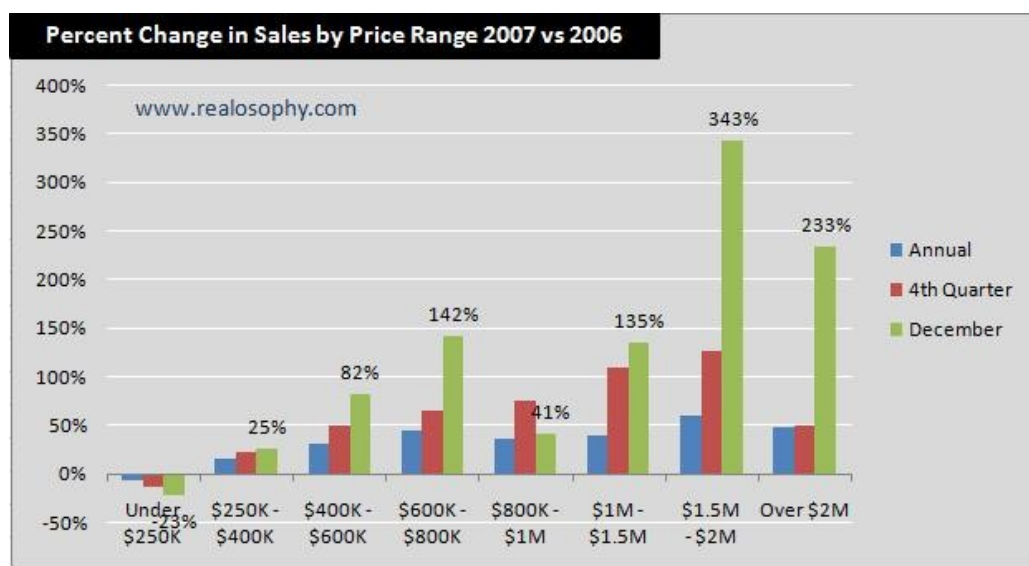
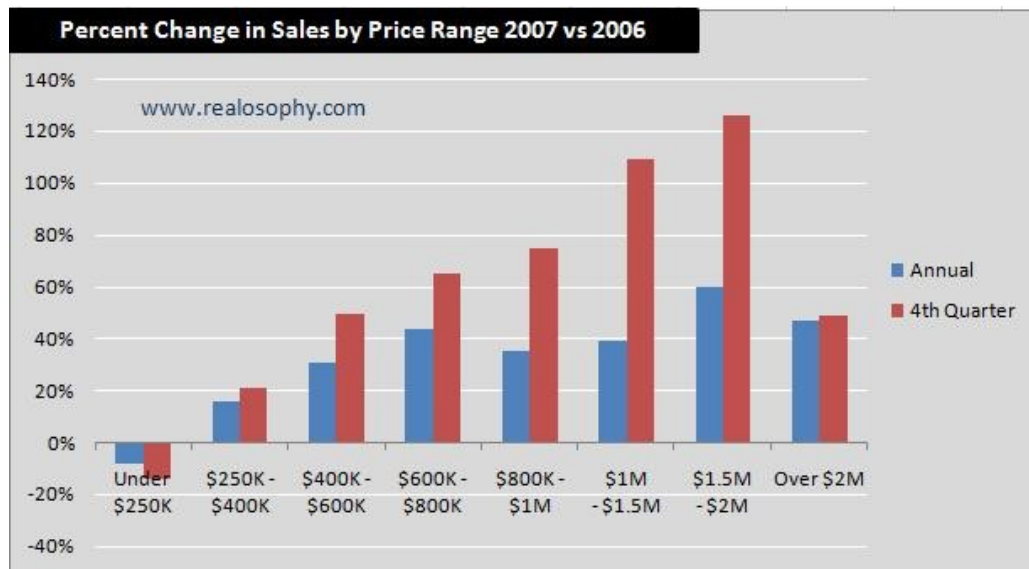
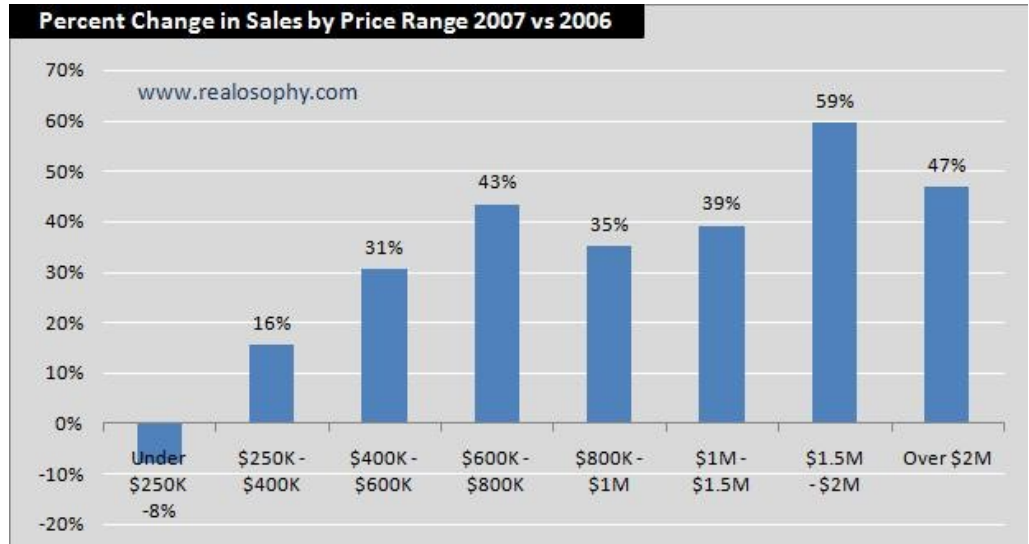
Since most first time buyers are exempt from the tax we would expect purchasers of higher priced homes to have been more motivated to purchase in 2007 to avoid the new tax. We can gain some more insight into the effects the land transfer tax may have had by looking at the growth in sales across several price ranges.

The first chart shows the growth in sales from 2006 to 2007 across several different price ranges. Homes priced above \$600,000 saw the biggest increase in sales relative to the previous year.

The second chart compares the annual change in sales to the growth in sales from the fourth quarter in 2006 to the fourth quarter of 2007. Sales of homes priced between \$800,000 and \$2M in the fourth quarter grew twice as much as the annual growth rate. This shows that there were a disproportionately higher number of homes selling in the \$800K to \$2M price range during the final quarter of 2007.

The final chart compares annual and fourth quarter growths to the growth in sales between December 2006 and December 2007. Recall that December 2007 saw a 28% increase in the average price for a home over the previous year. Sales of homes priced above \$1M increased by 178% during December 2007.

The disproportionately high increase in sales of \$1M+ homes suggests that the land transfer tax influenced sales of high end homes. It also suggests that the average price for a home in December 2007 was exaggerated by the high proportion of sales priced above \$1M.



### The Impact on Prices

Even though homes priced above \$1M make up a very small percentage of the total sales in Toronto, they can have a tremendous impact on average prices. Consider the fact that the two most expensive homes that sold in December 2007 increased the average price for a home for that month by roughly \$10,000 from \$439,714 to \$449,541.

In December 2007 there were 131 sales of houses priced above \$1M compared to 47 in December 2006. These 84 additional sales inflated the average sale price for a home that month by \$50,000 to \$75,000

Median prices typically serve as a more accurate measure of prices because they are not as susceptible to big swings the way average prices are. In the case of 2007, even median price were skewed during the final quarter because the growth in sales was not consistent across all price ranges. Higher price ranges saw a noticeably higher growth in sales than lower price ranges. Houses priced under \$400,000 saw a relatively minimal increase in sales in 2007.



### Final Thoughts

Sales during the final quarter of 2007 saw a disproportionately high increase in the number of homes sold over \$1M as many purchasers rushed to avoid the city of Toronto land transfer tax. The increase in sales of homes in this price range had the unfortunate side effect of skewing average sale prices up during the final quarter of 2007.

Even if actual house values remain unchanged during the last quarter of 2008, we will still see a significant decline in average prices because we anticipate fewer sales of \$1M+ homes this quarter. Thus any decline in average prices during the final quarter of 2008 will be exaggerated by the inflated prices in 2007. This will make Toronto's real estate market appear to be depreciating at a much faster rate than it really is.