

# BUSINESS BC

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SALES TAX



Ranjit Rai has built nine houses on spec in a Surrey subdivision with hopes of selling them before the HST comes into effect on July 1.

BY DERRICK PENNER  
VANCOUVER SUN

Developers are doing what they can to beat the harmonized sales tax July 1 deadline, building units ahead of schedule and hoping to make sales earlier rather than having to charge the unpopular tax later.

Opportunities are limited, the time fleeting, but with the tax adding a cost in the tens of thousands of dollars to homes, builders who have serviced lots figure they're better off taking the risk of having to hold onto excess inventory.

For Ranjit Rai, it has meant building nine houses on spec on lots in a Surrey subdivision he is developing rather than customizing them to suit buyers, just so he has them done before July 1.

"It is risky for me," Rai, head of Raicon Developments Inc., said in an interview. "I'm relying on a lot of people wanting to get in before July 1 and that I can move that inventory."

New homes have always been subject to the seven-per-cent federal GST, but the harmonized tax will add the five-per-cent provincial tax to transactions.

The province included a rebate program that will pay consumers back the equivalent of the provincial tax portion on new homes up to \$525,000, with the full tax owing on amounts above that threshold.

In Metro Vancouver in March, the benchmark price, which is an average for typical properties sold, hit \$800,341 for detached homes.

Rai said that after July 1, the HST will add \$35,000 to \$40,000 in taxes to his \$750,000-to-\$800,000 homes.

## Working to beat the HST deadline

New tax would add \$40,000 to the price of an \$800,000 home after July 1

"Homes are getting priced out of the comfort zone of a lot of buyers," he said.

Rai, however, was lucky that he had poured the foundations for the homes some 18 months ago and had been building houses to suit buyers.

Peter Simpson, CEO of the Greater Vancouver Home Builders' Association, said the public will likely see more advertisements from developers looking to clear outstanding inventory as July 1 gets closer.

There is no HST rebate for secondary homes, so developer Jon Van Geel decided he was better off doubling the construction program on his Cottages at Cultus Lake project and building 20 to 30 cottages on spec in addition to the pre-sold units he was already building.

"We thought then that [the HST] was going to have a pretty big impact on recreational real estate in general in

B.C.," Van Geel said in an interview.

"We thought we have to take advantage of that and push [construction] as hard as we can."

His incentive is being able to sell units in the development without having to tack on the five per cent the HST will add to prices of cabins that now range from \$379,000 to \$629,900. Van Geel was also fortunate. Cottages at Cultus Lake development, with 230 building lots in total, was already well underway with 90 units already built.

Van Geel's remaining lots are serviced, he had enough cash reserves and previous sales to convince banks to put up financing for spec construction and with the region's residential construction sector still not running at full speed, he had crews willing and able to work.

George Hare, with Higher Ground Project Marketing, Van Geel's sales

agent, said the company is launching its 2010 sales campaign about 12 weeks early to try to move the spec-built units before July 1.

Rudy Nielsen, president of the recreational property firm NIHO Land and Cattle Co., said Van Geel has hit on a good marketing tool, but doubts it will be repeated by a lot of recreational developers who were caught in the middle of the recession with the HST announcement.

"It takes a while to develop a subdivision, let alone build a cabin on [a piece of land]," Nielsen said. "People just weren't ready for [the HST] so most people won't do [what Van Geel has done]."

Van Geel said that after July 1, he will return to his usual model of pre-selling first and building later, but will first have to get post-HST repricing from his suppliers and contractors to see how it will affect his new costs.

As businesses, they will receive HST input tax credits, so Van Geel wants to see if he will be able to pass some of those savings into his final prices.

Nielsen doubts that the HST will put too big a hit on the recreational real estate market.

He recalled that when the federal GST was applied to recreational properties in the late 1980s, buyers and sellers adjusted relatively quickly.

Nielsen said the GST forced sellers to bargain more with buyers, which he said will be likely again once the HST is in effect.

"I don't like the HST as much as anyone," Nielsen said.

"I think it was bad for the government to do, but I still think people will get over it and it will be bargained in as part of the price."

depenner@vancouver.sun.com

ANALYSIS

## Bank of Canada expected to raise rates, but not yet

BY DEREK ABMA

The Bank of Canada is not expected to raise interest rates at its scheduled announcement this Tuesday, but it might provide clarity on its intentions on whether it will act earlier than previously planned.

The central bank's overnight lending rate has been set at a record-low 0.25 per cent since last April, when it took unprecedented steps to mitigate the impact of the recession.

Since then, numbers on gross domestic product, employment and — perhaps most important — inflation have come in higher than expected.

This has created anticipation for near-term interest-rate hikes from the Bank of Canada.

When the central bank lowered its rate to an all-time low, it said it would keep it there until — at earliest — the second half of 2010, which starts in July. But this was "conditional on the inflation outlook," it said at the time.

Policy-makers last year did not expect core inflation to get to an annualized rate of two per cent until the second half of 2011. However, the last two consumer-price index reports had it at this level or more for both February and January.

Economists have been trying to figure out whether these developments will result in an earlier-than-expected rate hike from the Bank of Canada. The next two chances to raise rates after Tuesday are June 1 and July 20.

Avery Shenfeld, chief economist at CIBC World Markets, said the Bank of Canada might as well stick to its original plan. "We would urge the bank to stay with its conditional commitment to keep rates on hold through June," Shenfeld said in a research note. "That delays the first hike by only six weeks, trivial in terms of the economic outcome a year or so hence but helpful if it ever again has to use such a declaration as a means of lowering one- or two-year yields."

Shenfeld and others, such as TD Securities chief economics strategist Eric Lascelles, agree that the interest rate that results from the Bank of Canada's Tuesday announcement is not in question; it's the accompanying statement and the accompanying monetary-policy report on Thursday that matters. "The coming Bank of Canada decision and the accompanying April 22nd monetary-policy report will provide important insight into the timing of the Bank of Canada's first hike," Lascelles wrote in a report Friday. "TD continues to predict a July 20th starting point, but June 1st is still a viable [if less] possibility."

When the central bank is done issuing its interest-rate decision and policy report, a certain amount of vindication or second-guessing could follow when Statistics Canada releases March's inflation data on Friday.

The consensus among economists is for annual inflation remaining at 1.6 per cent, unchanged from February, and the core rate — excluding volatile items — to ease to 1.9 from 2.1 per cent.

Financial Post

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