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New home prices still climbing

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By Garry Marr, Financial Post



The housing sector received a small boost Wednesday with news from Statistics Canada that new home prices are continuing to climb, albeit slowly

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The housing sector received a small boost Wednesday with news from Statistics Canada that new home prices are continuing to climb, albeit slowly.

The StatsCan data, which shows prices up 2.9% from a year ago, follows reports from last month that sales of existing homes climbed in August for the first time in four months. Existing home prices continued to fall, dropping 1.6% in August from a month ago.

With the Canadian Real Estate Association set to release September results Friday, any price increase has to be seen as positive news for the industry. StatsCan did say the price increase from July to August was only 0.1% nationwide.

Craig Alexander, chief economist with TD Bank Financial Group, was cautious about interpreting the latest results as a turnaround for a resale housing sector that saw sales dip 20% in August from a year ago.

“The bulk of the change in new home prices is reflective of what is happening to construction costs not what is happening to supply and demand in the real estate market,” says Mr. Alexander, suggesting it may not play out for the entire housing market.

He did see the trend on new home prices does look good. “It’s consistent with the view that the Canadian economy has picked up,” says Mr. Alexander. “Overall the housing market is showing signs of stabilizing.”

Even within the housing industry, the word seems to be caution with few experts expecting any kind of dramatic rebound in the coming months.

Victor Fiume, the president of the Canadian Home Builders' Association, said his members are finding pricing tough. "There is still a lot of discounting going on. We are not buying as many deals as we used to buy throwing in extras or dropping prices," he said. "There were not a lot of deals last year where the builder didn't contribute by dropping prices or throwing in extras. You don't see that [in the new housing price data]."

But he did note times are getting better for his industry, saying "last year maybe we were giving away \$50,000 in extras and this year it's \$30,000. Right now I still see the market as treading water."

Mr. Fiume, who is a builder in Oshawa east of Toronto, uttered the familiar refrain about the market now being impacted by the new harmonized sales tax that went into effect July 1 in Ontario and British Columbia. The theory is people bought their homes ahead of the new tax, taking a number of buyers out of the market for rest of the year.

"We used up all those people. People who would have bought in the fall are gone. There is no pent up demand out there," says Mr. Fiume.

Optimism among existing home sellers is not much higher. Don Lawby, chief executive of Century 21, doesn't see prices falling but he also doesn't expect much upward movement.

"It's just pretty stable. Inventory levels are slowing down but it won't drive prices because the consumer today that is buying is looking around and is pretty conservative in the offers they are going to make," said Mr. Lawby.

Financial Post

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