

ONTARIO 360 – MARKET-BASED HOUSING – TRANSITION BRIEFING

Land-use planning reform is key to restoring housing affordability in the
Greater Golden Horseshoe

Issue

There is widespread awareness that something is amiss in the housing market in the large region centred on Toronto¹ with increases in housing prices and, less so, rents, outpacing income growth by a wide margin. Increasingly middle-income households are joining lower-income groups in not being able to access the kinds of housing their counterparts in previous generations were able to afford without paying excessive portions of their incomes. The incoming government will need to enact policies to address housing affordability challenges for low- and middle-income Ontarians.

Overview: Market-based housing is becoming unaffordable in the GTA

Housing prices in the Greater Golden Horseshoe remain elevated even after several policy interventions by the federal, provincial, and municipal governments. Recent data that show a short-term softening should not obscure the overall trends. Remember housing affordability hit its worst levels in 27 years in Q2 2017.² Royal Bank's housing affordability measure (which shows the proportion of median pre-tax housing income required to service the costs of owning the average home) is now roughly 75 percent in Toronto.³

¹ The Toronto-centred region is defined in alternative ways – as the Greater Toronto Area (GTA), the Greater Toronto and Hamilton Area (GTHA) or as the Greater Golden Horseshoe (GGH). Here we refer generally to the Toronto region.

² Craig Wright, Housing Trends and Affordability, Royal Bank Economics, September 2017. Available at: <http://www.news1130.com/wp-content/blogs.dir/sites/9/2017/09/29/20170929-ha.pdf>.

³ Craig Wright, Housing Trends and Affordability, Royal Bank Economics, December 2017. Available at: <http://www.rbc.com/newsroom/assets-custom/pdf/20171221-ha.pdf>.

PROJECT PRINCIPALS

Sean Speer
Project Director,
Ontario 360

Peter Loewen
Director,
School of Public Policy
& Governance

Rudyard Griffiths
Project Chair,
Ontario 360

BOARD OF ADVISORS

Mel Cappe
Professor,
School of Public Policy
& Governance

Robert Prichard
Chair, Torys LLP and
President Emeritus,
University of Toronto

Drew Fagan
Senior Fellow,
University of Toronto
and Former Ontario
Government Deputy
Minister

Karim Bardeesy
Distinguished Visiting
Professor and
Special Advisor to the
President Ryerson
University

Janice Stein
Belzberg Professor of
Conflict Management,
Department of
Political Science

Mark Cameron
Executive Director,
Canadians for
Clean Prosperity

Megan Leslie
President and CEO,
World Wildlife Fund
Canada

These elevated costs have various economic and social implications – including (but not limited to): high household debt, long commutes, wealth transfers, labour market distortions, and so on. Policymakers from all levels of government and from across the political spectrum thus continue to grapple with how best to address housing unaffordability.

Reducing demand for housing not the answer

Many observers, including politicians, media and the general public, blame demand factors for this deterioration in overall affordability. There is no question that rising demand has been an important contributor to rising housing prices and rents. Fundamental demand sources like migration-generated population growth, aging of millennials, and job creation along with extremely low mortgage interest rates have created a robust demand for housing over the past 15 years.

But housing affordability relief will not be coming from the demand side. The consensus is that demographic and economic forces will continue to favour a robust demand for housing in the coming years though not at the speculative-driven fervent pace of 2016. The aging of millennials and the rising influx of migrants are expected to tilt demand to ground-related homes (singles, semis and townhouses) and to low-rise apartments like stacked townhouses.

The need for reform: Improving the responsiveness of new housing supply to demand and price increases

The relief will have to come from the supply side of the housing market – namely the construction of more new housing units. As economics 101 tells us, housing prices are mutually determined by the interaction of supply and demand. When supply fails to expand to meet demand the result is high and rising housing prices or rents. Recent research published by CMHC documents that the response of new housing supply to a given rise in housing prices is much lower in the Toronto and Vancouver regions than in other large urban regions examined especially Edmonton and Montreal. If the supply responsiveness in the Toronto region were to increase to that of Edmonton

and Montreal we would be building 3,000-5,000 more units every year which would help counter upward price pressures.⁴

The single largest cause of the sluggish supply responsiveness of the new housing supply to rising prices is the land-use planning system that governs the supply of serviced sites for new housing whether on greenfield lands in the 905 regions or on redevelopment sites in built-up areas like the city of Toronto.

The Province is the architect of the regional planning system which municipalities are required to implement. The current system pays little attention to the necessity to have an ample supply of “shovel-ready” sites in inventory to accommodate the demand for new housing for a range of housing types and locations. Builders cannot construct new housing without zoned sites serviced with sewer and water – an inadequate supply of new housing by unit type means higher prices.

Providing serviced sites to meet the demand for new housing when it arises is an important goal of land use planning. Unfortunately, in Ontario since the Growth Plan for the Greater Golden Horseshoe was introduced in 2006 this key goal has been overshadowed by an array of mainly environmental goals.

Other limitations of the current planning regime are the unrealistic premise that a housing unit is a housing unit whether it is a single-detached house or a 600 square foot suite in a high-rise condominium building, and a focus on longer-term land needs rather than the more pressing immediate needs for serviced sites on which to build.

How to move forward: Policies to enhance the responsiveness of new housing supply to demand and price signals

Before turning to housing policies to significantly increase the supply of new housing, there is a need for the province to acknowledge:

⁴ Author unknown, Examining Escalating House Prices in Large Canadian Metropolitan Centres, CMHC, February 7, 2018. Available at: <https://www.cmhc-schl.gc.ca/odpub/pdf/69262.pdf?fr=1522467180028>.

- There are two broadly distinctive housing submarkets in the Toronto region – ground-related homes and high-rise apartments – with low-rise apartment forms like stacked townhouses providing a bridge between these submarkets. This is not the case at present.
- The inability of the land-use planning system to respond quickly to housing demand shifts both in total and by submarket is a key factor behind high and rising housing prices in the Toronto region. This too is not the case at present.
- Ground-related housing does not have to be single-detached houses on larger lots. Townhouses can provide many of these attributes at a much higher density (units per hectare) than single-detached houses (even with houses being fitted on lots as small as 26-foot width). Even low-rise apartments, liked stacked townhouses, are preferred by many buyers over multi-storeyed apartments if they are unable to afford a single-detached house or a townhouse.

Immediate policy thrusts to raise the supply of shovel-ready sites to accommodate the demands for new housing include:

- Amending Policy 1.4.1 of the 2014 *Provincial Policy Statement* to require municipalities to have a continuous five-year supply (from the current three-year provision) to accommodate expected short-term housing demand by housing submarket (ground-related, low-rise apartment, high-rise apartment) and monitoring and enforcing compliance with this policy.
- Amending the 2017 *Growth Plan for the Greater Golden Horseshoe* to make the amended Policy 1.4.1 of the *Provincial Policy Statement* paramount to the Growth Plan provisions.
- Encouraging the City of Toronto to convert large tracts of obsolete or lower-priority industrial lands into new ground-related housing communities as it has done with the Warden Woods community spanning north and south of the Warden subway station.

Long-term policies to enhance the supply of serviced sites for new housing include:

- Launching a New Zealand-type inquiry to examine ways that the land-use planning system in the Toronto region is affecting housing costs and look at ways to reform the system to counter price pressures by making the system more flexible and receptive to market demands.
- Introducing more financing for provision of sewer and water infrastructure to accommodate growth both in built-up areas and on greenfield lands including private-public partnerships.

Frank Clayton is a Senior Research Fellow at Ryerson University's Centre for Urban Research and Land Development

