Ryerson University

Centre for Urban Research & Land Development
Faculty of Community Services

Affordable Housing and Land Supply Issues in the Greater Toronto Area (GTA)

Policy Report

By:

Professor David Amborski
Director
Centre for Urban Research and Land Development
Ryerson University

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CENTRE FOR URBAN RESEARCH AND LAND DEVELOPMENT

Ryerson University

Faculty of Community Services

Centre for Urban Research and Land Development

350 Victoria Street

Toronto, ON M5B 2K3

General Enquiries

416-978-5000 ext. 3348

Campus Location

111 Gerrard Street East,

3rd floor, GER-204D

Toronto, Ontario

www.ryerson.ca/cur

cur@ryerson.ca

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EXECUTIVE SUMMARY

This policy report addresses three separate, but related, issues which are linked to land supply and affordable housing issues. The first are issues of land supply or, more specifically, the supply of serviced and approved land, and the role it plays in relation to the current increases in the price of ground-related housing. Some economic indicators or data are provided to support the concern that supply constraints are contributing to the rapidly escalating prices.

Second, the role of containment policies and regulation are discussed in terms of their contribution to price increases and affordability. The economic and planning literature is discussed to support this impact.

Finally, some broader economic impacts are identified as resulting from rapid price increases and affordability. These include the impact on the Gross Domestic Product (GDP) in cities, and the negative impacts on household and labour mobility which historically has helped to address the income disparity of households on a regional basis. In the U.S., the President's Council of Economic Advisors recently identified these issues as a concern on a national level. This analysis has led to a White House report on the need to address the issues that lead to these outcomes. This discussion and analysis is intended to make land use policy analysts and decision makers aware of the economic aspects and variables which are related to land supply, regulation and the related resulting impacts of housing affordability problems.

1. THE IMPACT OF LAND SUPPLY ON THE PRICE OF NEW GROUND-RELATED HOUSING UNITS

It is important to clarify the fact that we are not suggesting that the dramatic increase in the price of ground-related units is solely the result of the land use planning regulations, including the Greenbelt and the Growth Plan for the Greater Golden Horseshoe. Planning tools are necessary to guide the growth of the region. However, these tools, as all regulations do, have economic impacts that need be identified, understood, and considered when undertaking policy decisions. Growth-containment plans can have a more immediate impact on land supply than greenbelts. However, even greenbelts, by their very nature, have the impact of reducing the supply of land which is available for development, and may have long-run impacts, or even short-run impacts, in some submarkets. The latter case relates to the spatial sensitivity of land markets.

Land use regulation does have impacts on the price of housing. This has been clearly documented by economists and their studies, some of which are referred to in the next part of this discussion. However, the focus at this point is on the land supply for new ground-related housing units, and the recognition of what the relevant supply to consider would be when understanding this issue.

Prices are determined by the intersection of supply and demand. In the GTA, the sizeable number of people who come to the region each year cause an increase in housing demand, and this household formation puts upward pressure on prices Economic theory would expect that the supply would respond to meet this growth in market need thereby moderating price increases. However, we continue to see dramatic increases in prices, especially for ground-related homes.

Therefore, there is a need to look at supply and demand to determine why we have seen these dramatic increases. Most of the growth in demand over the past decade was anticipated (as the expected population growth in the region is well documented), so we must look to the supply side for answers. The factors that underlie the supply curve, i.e. the inputs to construct new housing, are land, labour and capital. As there appears to be adequate labour and capital in the marketplace, we need to examine land supply to see if this is an issue underlying the price increases.

Some urbanists and planners have argued that there is an adequate supply of land in the GTA. However, we need to examine how the relevant supply of land which is required to build new housing is defined. The broadest definition of supply is the total physical supply, i.e. all of the vacant land in the region which is not targeted for non-residential uses. However, this definition is not very helpful since, for a wide range of reasons, not all of this land can be built upon. Other studies and reports, such as those from Neptis Foundation, have calculated the amount of land which Official Plans have "designated" for residential use. Their arguments, in turn, have

suggested that this supply of land is adequate to meet current and future needs, and that land supply is not a problem or factor which contributes to the rapid increase in ground-related housing prices.

However, this definition of supply is not appropriate when considering the ability of the marketplace to provide the land supply which is necessary to respond to the annual increases in housing demand. Not all "designated land" is available to produce new housing units in the short, or even medium, term. The reason for this is that land must be serviced and have the necessary planning approvals (subdivision, zoning, and building permits) prior to being built upon. When indicating that land must be serviced, we are not referring to the internal servicing which the developers provide but, rather, the external servicing and allocations to servicing which the municipalities provide. In addition to this, the supply is location sensitive and it must be in areas where the demand for housing is strong.

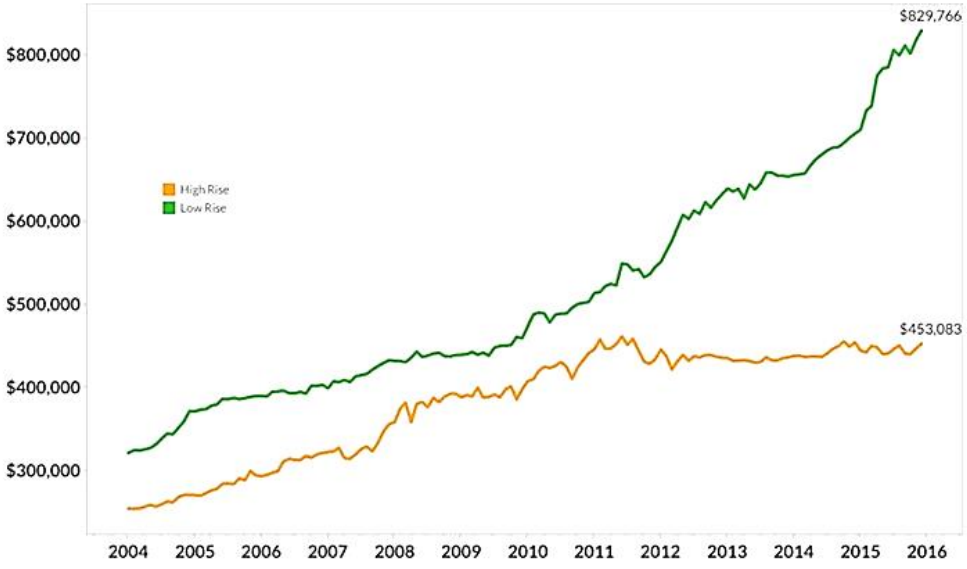
Consequently, economists argue that the relevant supply to consider is land which has been approved and serviced for new housing. This is the relevant land supply for short-term housing production. Much of the "designated land" is years away from obtaining servicing allocations and obtaining subdivision approvals.

An analogy would be a situation in which oil prices increased dramatically to $200 per barrel and a government said that this is not a problem since we have a 100 year supply of oil reserves in our country. However, the reserves are deep in the ground, there are no oil wells in place to pump the oil supply out of the ground, and permits are required for companies to obtain permission to access the oil. In the short term, with no infrastructure or permits, this supply is irrelevant and can't be used to meet short-term demand.

Consequently, the lesson is that for the housing sector, the relevant supply is that supply of land which has been approved and serviced since this is the land which can be used to meet short term increases in demand.

What is the evidence, or what are the indicators, that there is a land supply problem? The first indicator is the dramatic increase in the price of ground-related homes, especially when compared to the condominium apartment market.

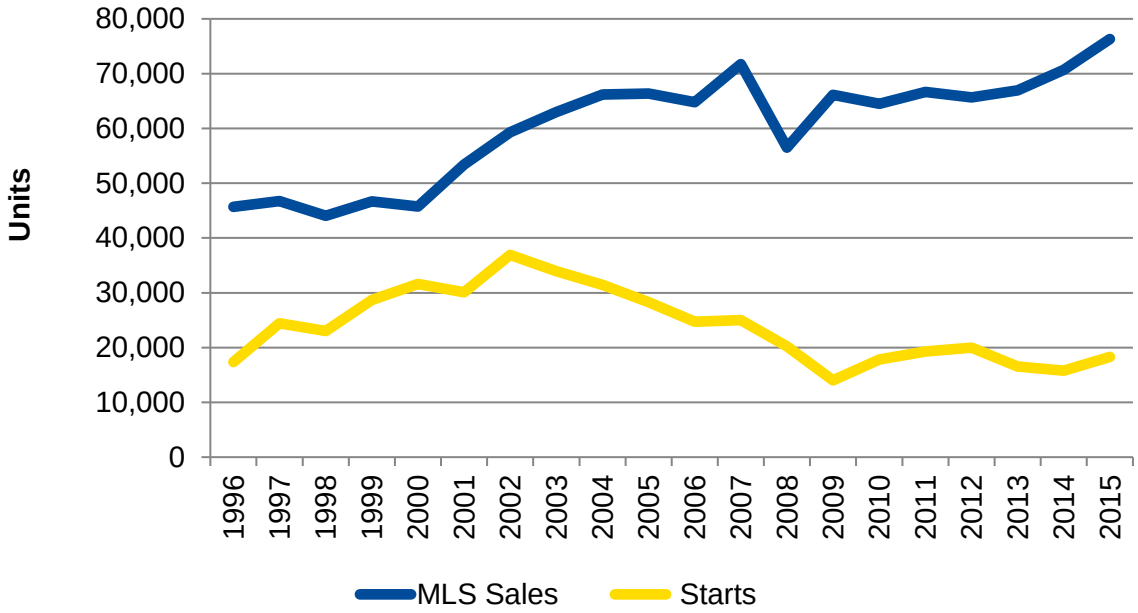
Figure 1:
Monthly New Home Price Index, Greater Toronto Area, 2004-2016



Source: CUR based on data from Altus Data Solutions

This is illustrated in Figure 1. It is hard to imagine that the price increase could be attributed to the shift in demand from condos to ground-related homes, or to a rising demand from off-shore buyers. Even if there were an unexpected significant shift in demand, we would expect that there would be a supply response by increasing the number of new ground-related units that were built. This, in fact, has not happened. As Figure 2 illustrates, there has actually been a decrease in ground-related housing starts despite increases in the price of housing.

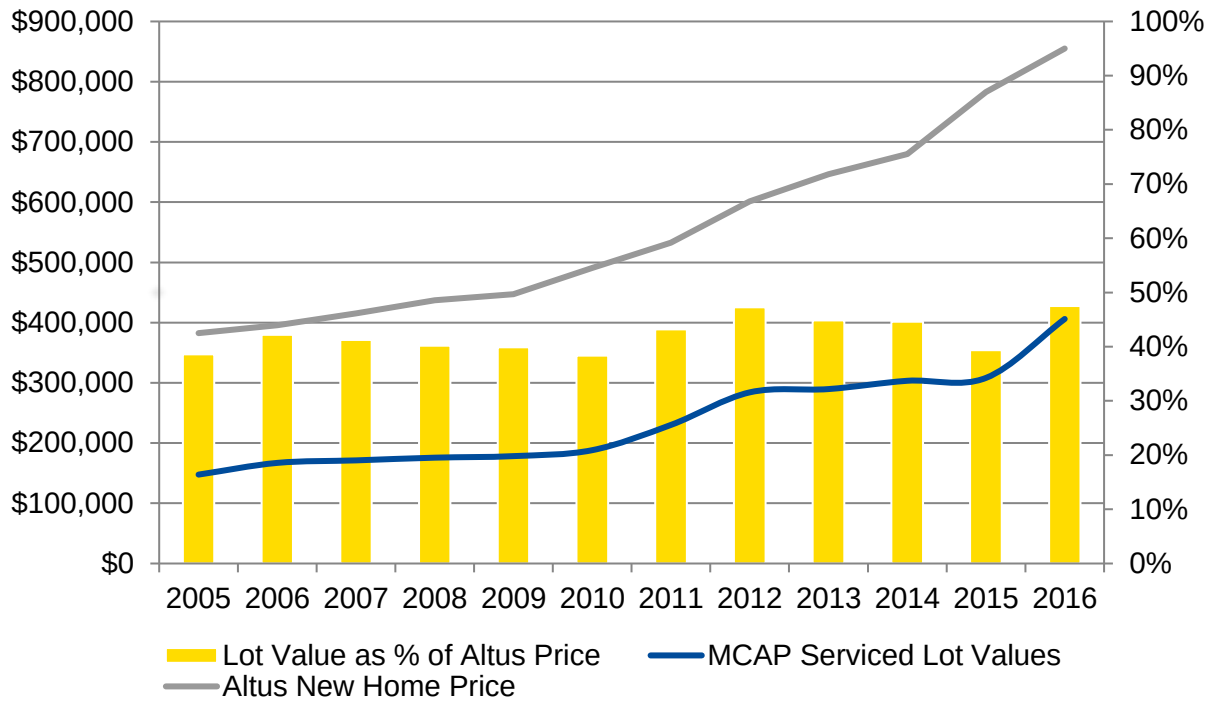
Figure 2:
Ground-Related MLS Housing Sales and Housing Starts, GTA, 1996-2015*



*Ground-related homes: single-and semi-detached dwellings and townhouses.
Source: CUR based on data from CMHC and TREB.

Additional evidence is provided in Figure 3 which shows that the price of serviced lots for ground–related units has been increasing, both absolutely and as a percentage of the market prices of hew homes. This, again, suggests that the supply of serviced land or lots is limited.

Figure 3:
Lot Prices & New House Prices, GTA, 2005 - 2016



Source: CUR based on MCAP Lot Values and data from Altus Data Solutions.

The Building Industry and Land Development Association (BILD), in a release based on data collected by Altus Data Solutions, has provided further evidence that there has been a decrease in the supply of unsold ground-related homes in developments which are being marketed in the GTA. This release reports that the builders' inventory of unsold ground-related homes fell from 16,560 homes in June 2006 to just 1,379 homes in August 2016 (BILD, Press Release, 2016 could be a Record Year for GTA High-Rise Sales, September 22, 2016).

In addition to CUR, other groups and economists have recognized that the supply of land, i.e. serviced land is a major cause of the increases in ground-related housing prices and the current affordability issue. Reports by both the TD Bank and CIBC have identified land supply as a problem (CIBC Economics, *The GTA Housing Market: Is There Logic Behind the Madness?*, August 15, 2016; and TD Economics, All Eyes on Toronto and Vancouver, August 30, 2016).

The land supply issue was also addressed at the recent CMHC-organized National Housing Strategy Expert Roundtables event "Let's Talk Housing", which brought together housing experts from across the country to provide advice to the Federal government's National Housing Strategy. Tsur Sommerville, a professor at UBC's Sander School, reported from the roundtable on "Affordability in High priced Markets: Toronto and Vancouver". He stated that there was

consensus that land supply is a major issue contributing to the rapid increases in ground-related housing prices.

Over the last 20 years, land supply has emerged as an important concern across a number of broad land use planning exercises in North American, Britain and New Zealand. These include plans that fall under the titles of 'growth management, 'urban containment' and 'smart growth', all of which share similar regulatory constraints. Land and housing supply concerns have been identified by a number of planners and economists who have analyzed these plans. For example, as early as 2003, Gerrit Knaap (Executive Director for the Smart Growth Center for Research and Education at the University of Maryland) wrote that monitoring the supply of land and housing is an important activity that government should undertake when they implement a growth plan. Other publications demonstrated how the monitoring of land supply has been a key to the success of the plan in Portland, Oregon, and explain why land supply monitoring is an essential planning tool. (Knaap, Lincoln Institute of Land Policy, 2003; and Knapp, National Centre for Housing and the Environment, 2005). The Ontario Government's 'Places to Grow' plan, which originated as a smart growth initiative, falls within the approaches taken in these types of plans.

In contrast to these urgings, the Province does not enforce its own policies which are contained in the Provincial Policy Statement (PPS, Policy 1.4.1.b). This policy requires that municipalities maintain, at all times, at least a three year supply of serviced or readily serviceable sites for a mix of housing types to meet projected requirements of current and future residents. Research by CUR has documented the fact that none of the regional municipalities and very few local governments within the GTA are meeting these requirements of the Provincial Policy Statement, by type of unit.(CUR, "Why There is a Shortage of New Ground-Related Housing in the GTA", June 2015).

Given the above analyses and the commentaries by a number of economists and experts in the field, there is little doubt that restrictions in the supply of serviced lots has been a significant contributor to the rapid increase experienced in the price of ground-related homes in the GTA.

2. THE IMPACT OF REGULATION ON HOUSING PRICES

From a policy perspective, land use planning regulation is no different from regulatory tools in other policy areas such as environmental policy or international trade policy. All regulatory tools have market impacts. In fact, like other regulatory tools, land use regulations are intended to have market impacts since this is typically the objective of policy. However, it may also have unintended impacts that should be understood and taken into consideration when making policy decisions. Land use planning is intended to lead to better quality of life and living conditions by encouraging a better urban form, a more efficient pattern of development, enhancing the environment, minimizing externalities, etc. However, there may also be unintended impacts of this land use planning process which should be considered in making policy decisions about the type and magnitude of land use regulation to be imposed. The benefits of the regulation should be considered in conjunction with the costs that it might also impose. This is not to suggest that there should not be land use regulation but, rather that the type and magnitude of the regulation should be considered along with the costs of the specific policies that are being imposed.

The impacts of land use regulation have been studied and identified by numerous prominent economists in the United States and Canada for a number of years. For instance, the impacts of growth management on affordable housing were identified in 2003 by Anthony Downs of the Brooking Institution. He found that growth management programs contain provisions that limit the land available for development and, therefore, they normally place upward pressure on housing prices (Downs, 2004).

In addition to pure economists reaching these conclusions, similar concerns have been raised by planning academics in planning literature where they have raised concerns about the impacts of urban containment policies on land and housing prices (Nelson and Dawkins, 2004). Smart Growth policies have also been studied for jurisdictions in the United States. Growth management policies were the forerunner of Smart Growth policies, and the Growth Plan was originally developed in Ontario as part of the Smart Growth movement. Therefore, it is also useful to look at the literature that addresses housing prices and Smart Growth policies. Smart Growth Policies: An Analysis of Programs and Outcomes, published by the Lincoln Institute of Land Policy, led to the following conclusions:

- *"Housing in the four Smart Growth States became less affordable during the 1990's than in the four other selected states"*

- *"The presence of smart growth programs had a statistically significant relationship with multifamily additions and with higher shares of both owners and renter paying at least 30% of their income for housing"*

- *"The presence of a state Smart Growth program was the strongest predictor of owner cost burden. (Ingram, 2009)*

There have also been other empirical studies in the U,S. For example, Glaeser, Saks and Gyourko estimated that the share of property costs attributable to the regulatory limits of supply in 1998 was approximately 20% in Boston and Washington and as high as 50% in San Francisco and New York (Glaeser et al., 2005).

In addition to the United States, there has been recognition of the impacts of land use regulation on house prices and affordability in other jurisdictions such as the United Kingdom, other parts of Europe, and New Zealand. Paul Cheshire and Christian Hibler have undertaken work similar to Glaeser's for London, Paris and Milan where they estimated that the house price impacts are even greater than the impacts identified in the U.S. cities. (Cheshire et al., 2014). The more popular press has picked up the relevance of this issue on a comparative basis. An article in The Economist entitled "The Paradox of the Soil "reports on the work of these economists and the further implications of these impacts, including impacts on productivity, GDP and the ability of labour mobility to areas of higher productivity.(The Economist, 2015). Several of these themes are referred to in the next section of this document. A recent report from the Productivity Commission in New Zealand states: "Constraints on the release of land and development capacity, both within and on the edge of cities, creates scarcity, limits housing choice, and increases dwelling prices. These impacts are disproportionately felt by low-income groups."

More recently the impact of land use regulation on housing affordability has become an issue of attention with the federal government policy analysts in the United States. The most recent report of the President's Council of Economic Advisors identified land use regulation as having an impact on housing affordability in the United States. The White House both echoed and addressed this concern in a recent report which states: "accumulated [local] barriers to housing development can result in significant cost to households, local economies and the environment." This document also suggests tools that municipalities can use to encourage the provision of more affordable housing (The White House, 2016). Economists' concerns in these reports reflect additional economic impacts of high house prices that are discussed below.

These reports and policy directives provide both credibility to the negative aspects of land use regulation, and the necessity to guard against excessive regulation when considering the impacts on housing prices. This, once again, suggests the need to focus on the costs and benefits of regulatory controls and make sure that the costs include all of the unintended impacts.

3. ECONOMIC IMPACTS OF HIGH HOUSE PRICES AND AFFORDABILITY

In terms of the extended economic impact of high house prices, several economists have undertaken empirical studies which examine the broader economic impacts of high housing prices and lesser affordability. These broader impacts that affect such areas as municipal gross domestic product (GDP) and income disparity may well explain why high housing prices have captured the attention of policy makers at the national government level in both the United States and Canada. In the United States, this can be illustrated by the publications cited above. In Canada, the roundtable topic at CMHC's expert roundtable addressing the high prices in Vancouver and Toronto may reflect this concern. Also, Minister Jean-Yves Duclos, Federal Minister responsible for CMHC, indicated at the "City of Toronto Housing Summit" that there is a. Federal government committee examining the high housing prices and increases. He also said that he has instructed CMHC to examine the causes of rising housing prices, particularly in the Toronto and Vancouver regions.

Richard Florida referenced an example of these impacts when he reported in CityLab on recent work by economists Hisch and Moretti. Their work identified the fact that increased house prices and reduced affordability has had negative impacts on amount of the GDP created by cities. Florida states that the estimates of the loss are $1.6 trillion per year across the U.S. (Florida, 2015). When we examine the specific work undertaken, it indicates that the greatest impacts were in cities with the highest productivity. Chang and Moretti estimate that GDP was reduced by 13.5% with most of the loss arising due to increased constraints on housing supply. Constraints on the supply of new housing and ultimately higher prices limit the number of workers who move to the most productive cities (Chang and Moretti, 2015).

Ganog and Shoab, in a very recent study, identify the relationship between regulation leading to high house prices and the more recent lack of convergence of income disparity across regions in the United States. Their study shows that the disparity across regions in terms of household incomes has not been decreasing in recent years as it had in earlier times. The authors attribute this trend to high house prices that stem from land use regulations. Higher housing costs make migration less attractive to lower wage workers which prohibited them from better paying employment opportunities. The authors also showed that higher income places that did not have tightened land use regulations showed greater income convergence (Ganog and Shoab, 2016).

These impacts on the broader economy would appear to be part of the reason why the U.S. President's Council of Economic Advisors is concerned about the house price increases and affordability issues, and part of the reason why The White House released its "Housing Development Tool Kit" document (The White House, 2016). The 'Toolkit" refers to and builds

upon the issues that were identified in the Council of Economic Advisor's Report. Although land use regulations are not under the policy jurisdiction of the federal governments in the United States and Canada, the impacts on GDP and regional disparity are clearly part of their policy domain. Consequently, there is a need to make the governments who are responsible for land use regulation aware of these impacts and encourage them to take them into consideration when designing land use regulatory policy. In the US context, this is the intent of The White House "Tool Kit" document.

4. CONCLUSION

The literature and evidence which is provided above and is referenced below reflect the work of prominent and mainstream urban economists and planners who undertake economic analysis related to land and housing markets. The objective of this commentary is to demonstrate the fact that the economic impacts which have been discussed are not new, but they have been identified and accepted by economists and planners for some time. Denying or ignoring these economic impacts is not the appropriate policy response. Rather, it is necessary to understand the impacts and consider them when formulating land use policy regulations, and making policy decisions that affect the affordability and pricing of houses.

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