

Association of Municipalities of Ontario's "Fixing the Housing Affordability Crisis" Paper Misses the Mark on Land Supply



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*The opinions expressed in this research report are those of the authors only and do not represent the opinions and views of either CUR or Ryerson University.

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Executive Summary

The Association of Municipalities of Ontario (AMO) recently released a paper titled, “Fixing the Housing Affordability Crisis: Municipal Recommendations for Housing in Ontario”, which purports to provide a road map to fixing the housing affordability crisis in Ontario through the coordinated actions of the three levels of government. The paper includes 63 recommendations in total, 40 of which are intended to increase the supply of affordable housing.

Of the 40 recommendations, a few are likely to be beneficial in increasing the supply of housing. These include calling on municipalities to update zoning by-laws; looking at how to expand secondary suites; and recommending an electronic-permitting system to speed up the building permit process.

Still, AMO’s recommendations fail to address aspects of the provincial legislative framework (e.g., the Ontario Places to Grow Act) and the municipal land use planning system that put the biggest constraints on the supply of affordable housing – those that limit the availability of serviced sites for development. The most important step the Province can make to ease the affordability problems for all households is to enforce Policy 1.4.1 of the Provincial Policy Statement (PPS), which requires municipalities to meet minimum thresholds in providing development-ready land at all times to accommodate a range of new housing.

This report argues that a lack of affordable housing is a two-pronged problem. The first housing affordability challenge impacts lower-income households who lack the income to pay market prices/rents for accommodation suitable for their needs. The second affordability challenge occurs in communities where average prices/rents have risen substantively compared to household incomes, resulting in affordability problems for middle-income households.

This situation compounds the difficulties of lower income-households, who are now competing with middle-income households for a limited supply of affordable units.

Therefore, an overall increase in market housing could help improve the trajectory of housing affordability for both low-income and middle-income households. Any improvement of overall affordability in the marketplace would assist lower-income households to find affordable housing by reducing the competition they face from middle-income households. Governments could then devote their resources to the housing challenges of households with the greatest need by providing direct subsidies, income support, or a combination of the two.

1. Introduction

The Association of Municipalities of Ontario (AMO) recently released a paper on affordable housing, “Fixing the Housing Affordability Crisis: Municipal Recommendations for Housing in Ontario”.¹ In this paper, AMO made 63 policy recommendations of which:

- 40 are meant to increase the supply of housing; and
- 23 are targeted at providing services and financial support to those at the lower end of the income spectrum with the greatest housing need.

While it is laudable of AMO to draw further attention to the important issue of affordable housing, the paper’s 63 recommendations will not solve the problem of housing affordability in Ontario as they focus overwhelmingly on the roles of the three levels of government only. The biggest challenge faced by municipalities is a constrained new housing supply, which is driving up housing costs for all income ranges. It is argued here that the biggest bang for the buck would be

changes that enhance the private sector's ability and willingness to build more housing. Economic theory reminds us that improvements in housing affordability require structural changes to how the housing market and the regulatory system interact.²

Achieving more affordable housing at the market-wide level does not require the enactment of AMO's 40 recommendations.³ Rather this can be achieved largely through making one straightforward structural change: governments must service enough land to meet the demographic requirements for housing, both backlog and projected, and to provide a competitive land market with a choice of unit types and locations.

Recommendations that would significantly improve housing affordability must recognize that:

- The priority affordability issue is the excessively high rent/price to income ratios in the Toronto region (providing relief here helps lower-income households as well as middle-income households);
- The solution is to encourage a massive increase in the production of new housing units, enough to accommodate demand and produce significantly higher numbers of vacant units;
- The Province and municipalities can improve supply constraints by bringing more serviced sites into play and reduce the costs developers face in bringing new housing on stream;⁴ and
- The single most important step in easing the affordable problems of middle-income households is for the Province to enforce municipal compliance with Policy 1.4.1 of the Provincial Policy Statement (PPS).

2. The roots of the problem

Policy recommendations should be assessed on their ability to get at the root cause of the housing affordability crisis faced by municipalities in Ontario. So, we start here by defining the problem.

2.1 The two-pronged housing affordability challenge

It is argued here that affordable housing is a two-pronged problem.

The first housing affordability challenge impacts households who lack the income to pay market prices/rents for accommodation suitable for their needs, those defined as in "core housing need" by the Canada Mortgage and Housing Corporation (CMHC). CMHC considers households in "core housing need" if their housing is unacceptable (does not meet one of more of the adequacy, suitability or affordability standards) and if acceptable alternative housing would cost 30% or more of before-tax income.

According to the Census of Canada, about 17% of Ontario households and 20% of those in the Greater Toronto Area (GTA) were in "core housing need" in mid-2016. For the most part, these households are renters paying 40% or more of their income for housing.⁵

The second housing affordability challenge occurs in communities where average prices/rents have risen substantively compared to household incomes. As a result, many middle-income households are now joining lower-income households in paying 30% or more of their income for suitable housing. RBC Economics reports that the average-income household in the GTA would have to spend an extraordinary 66.1% of its income to buy an average-priced home.⁶ This ratio has remained at this level since 2017, though it was even higher back in 1989-1990.

This deterioration in affordability for middle-income households has compounded the difficulties of lower income-households, as they are now competing with middle-income households for a limited supply of more affordable units.

2.2 Inelastic markets are more unaffordable

In a milestone 2018 report, CMHC highlighted the supply constraints faced by Canada's largest metropolitan areas. The report concluded that the supply response to rising prices for new housing in the GTA and Greater Vancouver markets is very inelastic, meaning supply does not respond well to changes in demand. CMHC found that for every 1% rise in housing prices in the GTA, housing starts rise by only 0.5 %, a response much lower than the 1% to 2% seen in Montreal, Edmonton, and Calgary.⁷ In Figure 1, the lower the height of the bars, the less the responsive new housing supply is to housing price increases – the bars for Toronto and Vancouver are the lowest.

The most price inelastic housing markets are also the most expensive markets in Canada.

The land use planning system (broadly defined here to include infrastructure) is the primary cause of the inelastic supply response to price changes. As will be discussed below, serviced land is the only significant factor of production not directly responsive to price signals in

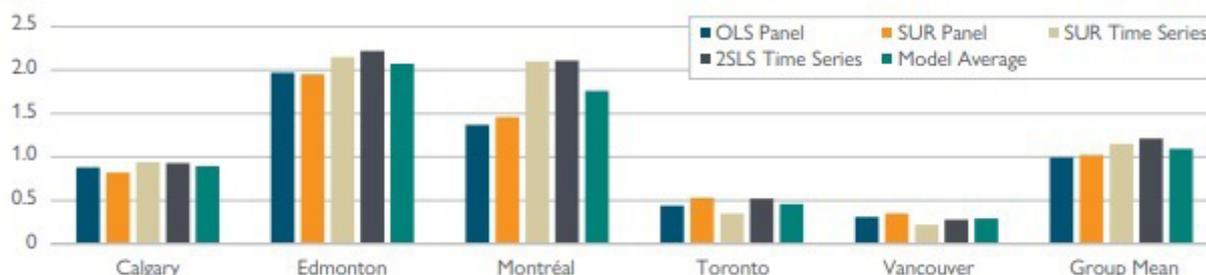
the marketplace. A variety of non-market considerations (e.g., environmental, budgetary, ratepayer concerns) enter the decision-making process by which municipalities and their planners determine the supply of serviced land for new housing and its specification by unit type and location.

It is not a coincidence that Canada's most supply-restrained markets are also its most expensive markets. The appendix to this analysis explores how new housing supply responds to changes in demand and how this influences housing prices in practice through the use of a conventional demand/supply analytical framework.

2.3 Lack of serviced land is the clog in the production of housing

The bulk of all new housing is provided through the private sector, where the profit motive drives the supply of new housing. Labour, building products, technology, financing, entrepreneurship and profitability expectations all respond when the housing market demands more (or less) new housing. The only significant factor of production not directly responsive to the profit motive is the supply of serviced sites, which is dependent on a government-directed planning process. Ensuring the provision of an ample supply of serviced sites for a variety of housing types, both greenfield and intensification, is the biggest contribution that municipalities can make to the provision of affordable housing.

Figure 1: CMHC Estimated Long-Run Supply Elasticity of Housing Starts in Canadian Metropolitan Areas from Different Models



Source: Canadian Mortgage and Housing Corporation (2018). "Examining Escalating House Prices in Large Canadian Metropolitan Centres." [Online] Available: <https://www.cmhc-schl.gc.ca/en/data-and-research/publications-and-reports/examining-escalating-house-prices-in-large-canadian-metropolitan-centres>

3. Assessing AMO's recommendations against this backdrop

3.1 Defining what a solution would look like

With continued growing housing demand in the GTA from buoyant immigration and robust job growth, it is clear that housing affordability can only be enhanced by accelerating the responsiveness (elasticity) of housing supply to changing demand conditions and rising prices.

Any improvement of overall affordability in the marketplace would assist lower-income households to find affordable housing by reducing the competition they face from middle-income households. Governments could then devote their resources to the housing challenges of households with the greatest need by providing direct subsidies, income support, or a combination of the two.

As noted above, ensuring the provision of an ample supply of serviced sites for a variety of housing types, both greenfield and intensification, is the biggest contribution that municipalities can make to the provision of affordable housing.

3.2 The scope for AMO recommendations to improve affordability

The AMO paper provided 63 recommendations, some of which we liked, none of which will get to the root cause of the problem – a lack of serviced buildable land.

Of the 63 recommendations, only a few were targeted at removing barriers to the supply of new housing. Some of the more laudable recommendations include:

- Encouraging municipalities to update zoning by-laws to be consistent with official plans;
- Recommending an e-permitting system to speed up the approval process;
- Recommending that municipalities encourage secondary suites;
- Fast-tracking the permitting process for desired developments; and

- Encouraging the use of Community Planning Permits (as will be enforced by Bill 108).

A recent CUR study concluded that incentivizing secondary suites in existing single-detached houses is the quickest and most cost-effective way to increase the supply of affordable rental housing.⁸ CUR also found, in a study completed with support from the Residential Construction Council of Ontario (RESCON), that the building permit process needs to be updated to minimize permitting delays.⁹

While these measures will help improve the regulatory environment of the housing market in Ontario, none of these recommendations will help provide enough housing to address the scale or the root of the problem.

Of the other 50 plus recommendations, most are focused on the roles played by the three levels of government in the provision of housing, with little focus on big picture measures that could help the private sector deliver more market housing.

The recommendations in the paper do not address the critical role played by the private sector and the important but narrower role of governments within a largely market-driven environment. In other words, the interaction between governments and the private sector and its impact on housing markets is crucial to the affordability conversation.

3.3 What the AMO recommendations are missing

Regrettably, AMO's recommendations do not address aspects of the provincial legislative framework (e.g., the Ontario Places to Grow Act) and the municipal land use planning system that limit the supply of affordable housing. They do not address the need for governments to service enough land to meet the demographic requirements for housing, both backlog and projected, and to provide a competitive land market with a choice of unit types and locations.

The single most important step in easing the affordable problems of middle-income

households is for the Province to enforce Policy 1.4.1 of the Provincial Policy Statement (PPS) which now reads:

To provide for an appropriate range and mix of housing types and densities required to meet projected requirements of current and future residents of the regional market area, planning authorities shall:

- a. maintain at all times the ability to accommodate residential growth for a minimum of 10 years through residential intensification and redevelopment and, if necessary, lands which are designated and available for residential development; and
- b. maintain at all times where new development is to occur, land with servicing capacity sufficient to provide at least a three-year supply of residential units available through lands suitably zoned to facilitate residential intensification and redevelopment, and land in draft approved and registered plans.¹⁰

While the PPS requires municipalities to ensure an adequate supply of serviced-land, Policy 1.4.1 is rarely enforced. A key recommendation flowing from our analysis is for the Province to enforce this policy. The Province should also make it clear to municipalities in regards to the adequacy of the supply of sites under Policy 1.4.1(b):

- These are to be examined by type of unit and the sites must be serviced or have services under construction or pending;
- A three-year minimum supply actually means a four-year minimum supply with annual monitoring;
- The three-year supply (really a four-year supply) is only a minimum and municipalities should be encouraged to exceed this minimum, not just meet it; and

- Annual land adequacy monitoring reports should be prepared and submitted to the Province near the beginning of each calendar year.

The Province should take action to increase the residential land supply where municipalities are failing to maintain the minimum required supply.

4. Summing Up

The biggest way municipalities can help encourage affordable housing is to ensure the provision of an ample supply of serviced sites, both greenfield and intensification, for a variety of housing types. The Canada Mortgage and Housing Corporation (CMHC) has documented the low responsiveness of new housing supply in major Canadian metropolitan areas, most notably Vancouver and Toronto, to increases in demand and prices. The land use planning system (broadly defined here to include infrastructure) is the primary cause of this inelastic supply response to price changes.

AMO's recommendations do not address aspects of the provincial legislative framework (e.g., the Ontario Places to Grow Act) and the municipal land use planning system that create the greatest resistance to the supply of affordable housing. The most important step the Province can make to ease the affordability problems of middle-income households is to enforce Policy 1.4.1 of the Provincial Policy Statement (PPS) and require municipalities to meet minimum thresholds in providing development-ready land at all times to accommodate a range of new housing.

Any improvement of overall affordability in the marketplace would assist lower-income households to find affordable housing by reducing the competition they face from middle-income households. Governments could then devote their resources to the households facing the greatest housing need, by providing direct subsidies, income support or a combination of the two, rather than diluting the impact of their resources by building new housing for the middle-class.

Endnotes

- 1 Association of Municipalities of Ontario (2019). "Fixing the Housing Affordability Crisis: Municipal Recommendations for Housing in Ontario." [Online] Available: <https://www.amo.on.ca/AMO-PDFs/Reports/2019/Fixing-Housing-Affordability-Crisis-2019-08-14-RPT.aspx>
- 2 "Structural changes" here are not synonymous with subsidies.
- 3 The AMO paper provides a total of 68 recommendations which relate to four umbrella issues: increasing the supply of affordable market housing for families (40 recommendations), creating a financially sustainable model for community housing (9 recommendations), expanding affordable housing options (5 options), and ending homelessness (8 options).
- 4 See Amborski, David, Frank Clayton and Diana Petramala (2018). "Action Plan for Improving Housing Affordability in the Greater Golden Horseshoe." Centre for Urban Research and Land Development. [Online] Available: https://www.ryerson.ca/content/dam/cur/pdfs/policycommentaries/CUR_Housing_Affordability_Policy_Recommendations.pdf; Clayton, Frank (2017). "Why Are There Not More Townhouses Being Built in the Greater Toronto Area and What is the Outlook?" Centre for Urban Research and Land Development. [Online] Available: https://www.ryerson.ca/content/dam/cur/pdfs/Projects/Why%20are%20there%20not%20more%20townhouses%20being%20built%20in%20the%20GTA%20and%20what%20is%20the%20outlook_2017.05.30%20.pdf; Amborski, David (2016). "Affordable Housing and Land Supply Issues in the Greater Toronto Area (GTA)." Centre for Urban Research and Land Development. [Online] Available: https://www.ryerson.ca/content/dam/cur/pdfs/CUR%20Policy%20Report_Affordable%20Housing%20and%20Land%20Supply%20Issues%20in%20the%20GTA.pdf; Amborski, David and Frank Clayton (2016). "The Need to Make Housing Affordability a Primary Goal in Regional Planning for the Greater Golden Horseshoe." Centre for Urban Research and Land Development. [Online] Available: https://www.ryerson.ca/content/dam/cur/pdfs/policycommentaries/CUR%20Policy%20Report%20%20Response%20to%20Proposed%20Growth%20Plan_2016.pdf; Clayton, Frank (2015). "Why There is a Shortage of New Ground-Related Housing in the GTA." Centre for Urban Research and Land Development. [Online] Available: https://www.ryerson.ca/content/dam/cur/images/CUR_PC%234_Shortage_New_Ground-Related_Housing_June1%2C%202015.pdf.
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- 6 RBC (2019). "Soft housing market in Canada provides affordability relief." [Online]. Available: <http://www.rbc.com/newsroom/news/2019/20190328-housing-affordability.html>
- 7 Canadian Mortgage and Housing Corporation (2018). "Examining Escalating House Prices in Large Canadian Metropolitan Centres." [Online] Available <https://www.cmhc-schl.gc.ca/en/data-and-research/publications-and-reports/examining-escalating-house-prices-in-large-canadian-metropolitan-centres>, 7.
- 8 Clayton, Frank and Diana Petramala (2019). "A Strategy for Significantly Increasing the Supply of "Missing Middle" Housing in the City of Toronto." Centre for Urban Research and Land Development. [Online] Available: https://www.ryerson.ca/content/dam/cur/pdfs/TREB/CUR_Missing_Middle_Housing_Toronto.pdf, 24-25.
- 9 Amborski, David and Lynn Duong (2017). "Modernizing Building Approvals in Ontario: Catching Up with Advanced Jurisdictions." Centre for Urban Research and Land Development. [Online] Available: https://www.ryerson.ca/content/dam/cur/Housing_Toronto.pdf, 24-25.
- 10 The Province in July released proposed changes to the PPS. Included in the proposals is the extension of minimum land supply requirement in Policy 1.4.1(a) from a ten-year supply to that of a 12-year supply. It is also proposing that upper- and single-tier municipalities be allowed the choice to increase the minimum supply of land in Policy 1.4.1(b) from an ongoing three-year supply to an ongoing five-year supply. It is our position that all municipalities in growth areas should be required to plan for enough serviced sites for a minimum of five years rather than be given a choice.

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APPENDIX

Illustrations of how increasing the quantity and price elasticity of housing supply moderates housing prices

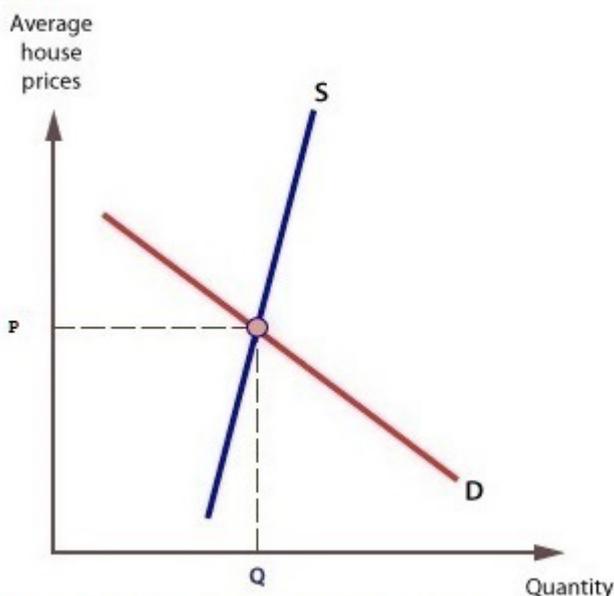
Let's explore how new housing supply responds to changes in demand and how this interaction influences housing prices in the real world using a conventional demand/supply analytical framework.

Scenario 1: Demand is more sensitive to price changes than new housing supply

Figure 1 illustrates how new housing demand and new housing supply behave when the price of housing changes. This scenario relates to demand from the population already living in the market area.

The downward sloping demand curve (D) indicates that as home prices go up, households will demand less housing, and the opposite occurs when prices decline. The upward slope of the supply curve (S) tells us that as prices rise, builders will provide more new housing since they expect to make larger profits. Housing prices are determined jointly by supply and demand: the intersection of the demand curve (D) and the supply curve (S) meet at price (P) where the supply of housing provided (Q) equates demand and supply.

Figure 1: Housing Prices Determined Jointly by Supply and Demand



Source: CUR, modified from "Economics Online." [Online] Available: https://www.economicsonline.co.uk/Competitive_markets/The_housing_market.html

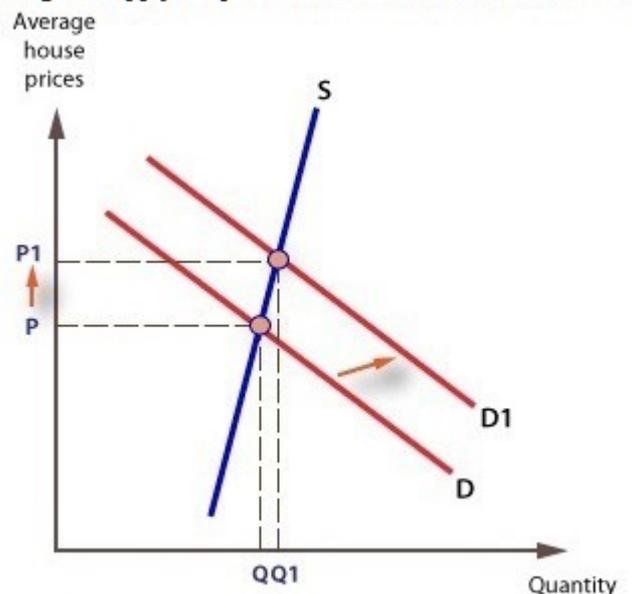
The demand curve is flatter than the supply curve, meaning that new housing demand is more sensitive to housing price changes than supply. In economic jargon, demand is said to be more price elastic than supply, or, conversely, supply is more price inelastic than demand. The primary reason? The serviced land supply does not respond directly to price signals of the marketplace and builders cannot build new housing without serviced sites.

Scenario 2: Demand is growing due to an external factor like immigration

Figure 2 illustrates what happens when there is growth in housing demand due to an external source such as immigration. The growth in demand is represented by a shift in the demand curve to the right (D1). Now there is a greater demand for new housing at each price than in the original demand curve (D). (In this scenario, the supply curve is unchanged.)

As a result of the growth in demand, more new housing is provided by builders (the difference between Q and Q1) but only at a higher price (P1). Given that no conscious actions by government are undertaken to increase the supply of serviced sites in response to the increase in demand, market-wide affordability diminishes. The lack of a supply response and the resulting lessening of housing affordability adds to the housing woes of lower-income households.

Figure 2: Impact on Housing Prices from Higher Immigration Assuming No Supply Response from Providers of Serviced Land



Source: CUR, modified from "Economics Online." [Online] Available: https://www.economicsonline.co.uk/Competitive_markets/The_housing_market.html

Scenario 3: Supply of new housing increases, but not by as much as demand

More likely there will be some supply response by municipalities in response to deteriorating affordability, possibly due to the urgings of developers, the media and economists. This shifts the supply curve to the right (S2) (see Figure 3). The response will be more muted than for demand because of the greater inelasticity in the supply curve caused by a lengthy planning process and the limited role rising land prices plays in decisions to expand the supply of serviced sites.

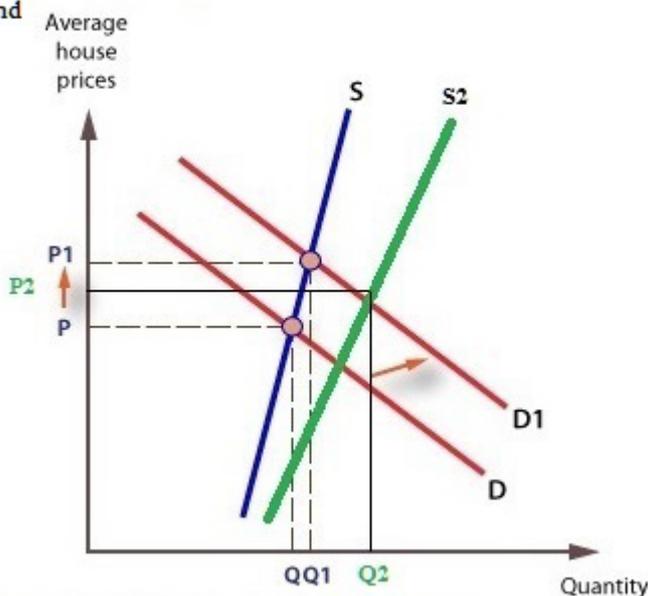
The price (P2) will be less than when there was no enlargement of the supply of serviced sites (S). Under this scenario, which is reflective of the behavior of the GTA housing market, the increase in demand and the resulting supply response still means higher prices (reduced affordability) than without any shifts in the demand or demand curves (see Figure 1).

Scenario 4: The supply of new housing not only increases but becomes more responsive to changes in housing prices (increased elasticity)

The best scenario for maintaining housing affordability at a reasonable level is for the land market to become more responsive to housing price changes. This can be done if, for example, governments regularly monitor and anticipate five- to 10-year land demand and bring enough serviced sites on the market to accommodate the expected demand as well as providing land to ensure competition and to provide choice. In addition, ensuring a shovel-ready supply of serviced sites equivalent to two- or three-year demand is always available will contribute to making the supply side more elastic.

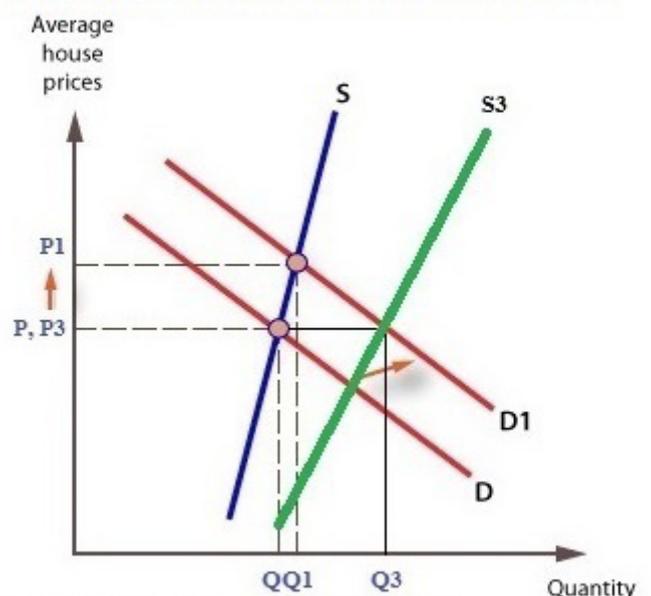
Figure 4 illustrates this scenario, indicating that taking action to both ensure the increase in the serviced land supply and to enhance its responsiveness to changing market conditions results not only in the largest supply of new housing (Q3) but also brings prices back to roughly where they were before, if not lower.

Figure 3: Impact on Housing Prices from Higher Immigration Assuming a Limited Supply Response from Providers of Serviced Land



Source: CUR, modified from "Economics Online." [Online] Available: https://www.economicsonline.co.uk/Competitive_markets/The_housing_market.html

Figure 4: Impact on Housing Prices from Higher Immigration Assuming a Larger Supply from Providers of Serviced Land



Source: CUR, modified from "Economics Online." [Online] Available: https://www.economicsonline.co.uk/Competitive_markets/The_housing_market.html

Bottom line: Improved middle-income housing affordability is predicated on increasing the responsiveness of supply to changes in housing prices

With continued growing housing demand in the GTA resulting from buoyant immigration and robust job growth, it is clear that housing affordability can only be enhanced by accelerating the supply of serviced sites, greenfield and intensification, to the marketplace and increasing the responsiveness of land supply to changing demand conditions and rising housing prices.

The improvement of overall affordability in the marketplace will assist lower-income households to find affordable housing by reducing the competition they face from middle-income households. Governments can then devote their resources to the housing challenges facing lower-income households, by providing direct subsidies, income support or a combination of the two, rather than diluting the impact of their resources by building new housing for the middle-class.