



# The Impact of Land Use Planning on Housing Affordability: An Economic Analysis

Presentation by:

Frank Clayton, Ph.D.  
Senior Research Fellow  
and  
Diana Petramala, M.A.  
Senior Economist

For the Ontario Professional Planners Institute's Annual Conference, 2020

September 23, 2020









# Scope

---

- Why land use planning regulation is pivotal for housing affordability
- How planning regulation affects housing prices
- Empirical studies of the impact of planning regulation on housing prices
- Making planning regulation a positive force for housing affordability
- How individual planners can facilitate housing affordability

# Understanding the housing market and its drivers

---

- Housing prices are determined by interaction of demand and supply
- The dog (existing housing prices) wags the tail (new housing prices)
- Point in time: PRICE  DEMAND  ; PRICE  SUPPLY 
- Exogenous increase in DEMAND  (interest rates  or foreign investors ), no increase in SUPPLY, PRICES 
- Supply should respond to higher prices (price mechanism)
- Price mechanism works for new housing inputs (e.g. materials, labour, financing), EXCEPT for land (approved serviced sites)

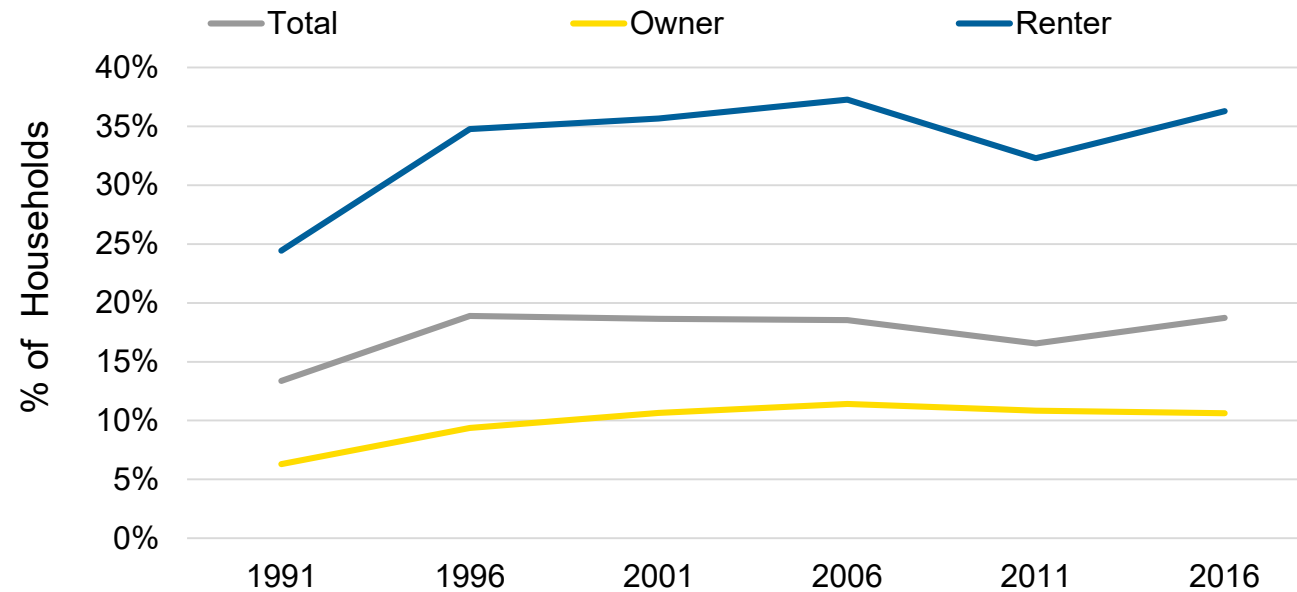
# Understanding housing affordability

---

- Two distinct problems:
  - Lower-income households unable to afford acceptable housing; and
  - Our focus here: Housing price/income ratio excessively high (affecting more middle- income households)
- High housing price/income ratio aggravates housing problems of low-income households through more competition by middle-income households

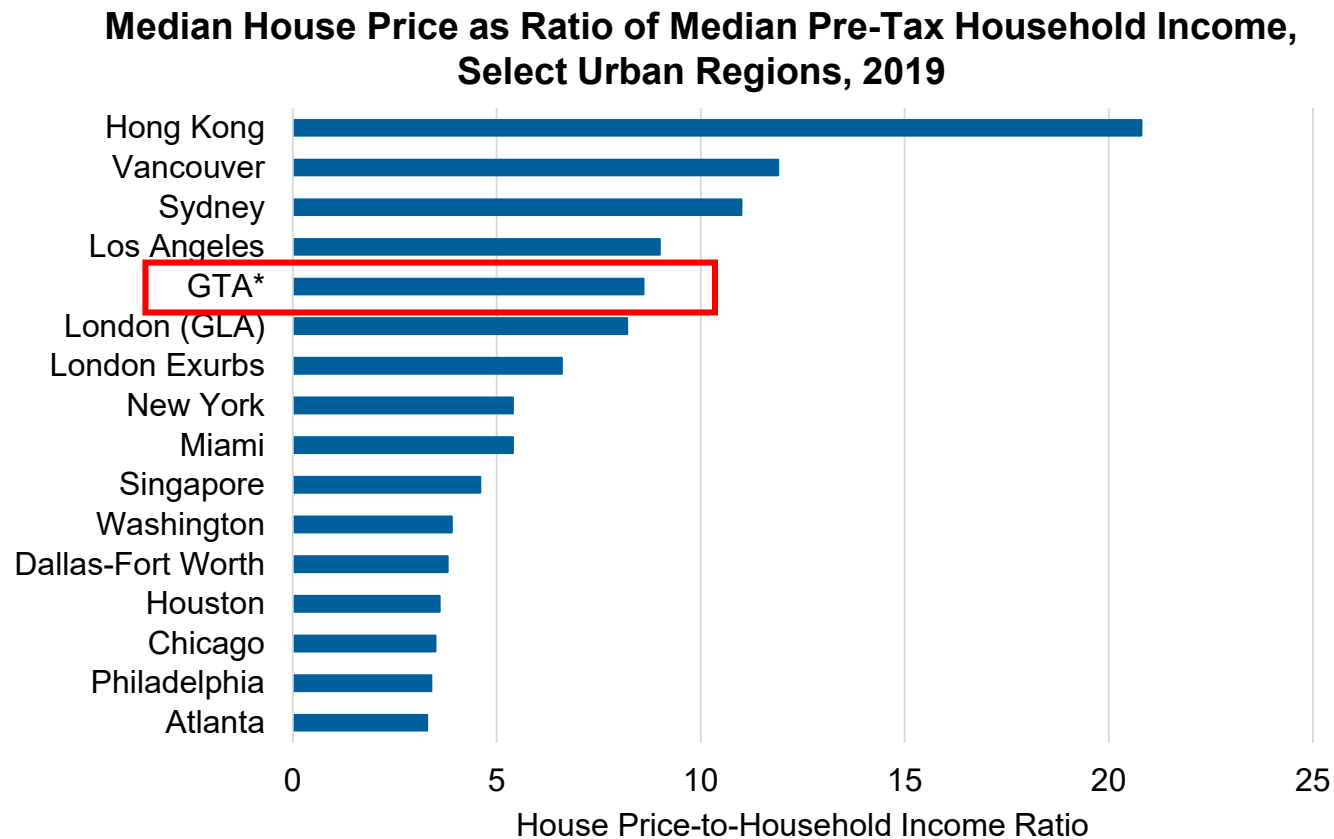
# Affordability: lower-income households

Percent of Households in Core Housing Need by Tenure, GTA, 1991-2016



Source: CUR, based on data from CMHC

# Affordability: macro measure



Source: CUR, based on data from 16th Annual Demographia International Housing Affordability Survey

# Why land use planning regulation is pivotal to housing affordability

---

- New housing cannot be built without approved serviced sites (greenfield & intensification)
- Lengthy process: official plans, zoning, secondary plans, site plan review, community review, urban containment, infrastructure
- **KEY:** sufficient supply/inventory of serviced sites available to accommodate “demographic requirements” by housing type
- **PLUS:** surplus of ready-to-go sites essential to prevent shortages of serviced sites (“contingency/vacancy factor”) by housing type
- Planning regulation is tasked with ensuring this supply of serviced lots by type of housing (**P.P.S., Policy 4.1**)

# Understanding the supply side of the housing market

---

- Most new housing built by builders/developers is responding to demand
- Majority of homebuyers buy a resale home
- Resale and new home markets are intricately intertwined
- All housing inputs (except approved serviced sites) provided by private sector where price mechanism operates
- If housing prices rise, supply follows to the degree land-use planning allows
- Developers/builders proceed if project expected to generate at least minimum profit target
- **Supply of approved serviced sites dependent upon a political/planning process**



# How the planning regulation impacts housing supply vs. a baseline “no planning” scenario

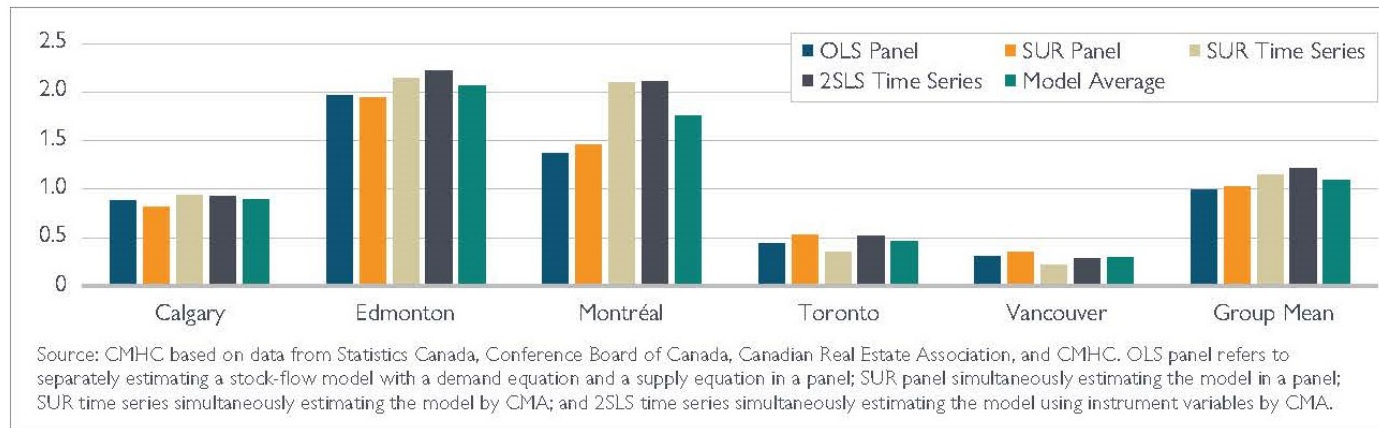
---

- Limits on where new housing can be built, types and densities
- Delays in bringing approved serviced sites to the marketplace – not responsive to demand changes
- Uncertainties for development of specific sites and unit/density permissions
- Imposition of variety of financial obligations on developers/builders
- With “no planning” housing will be less expensive for homeowners
- Planning often dictates a different housing mix than what market wants – a mismatch with consequences for housing prices/affordability

# Empirical evidence of the responsiveness of housing supply to changes in housing prices in the GTA

- CMHC study documents the sluggish responsiveness of housing supply to increases in housing prices in Toronto and Vancouver CMAs

*Estimated Long-Run Supply Elasticity of Housing Starts from Different Models*



*CMHC: “We found that supply responses to price increases in Toronto and Vancouver were proportionately weaker than the responses in other cities, which is consistent with corresponding regulation and geographic characteristics.”*

# Empirical evidence of the impact of land use planning for housing prices

---

- Quantifying the Impact of Land Use Regulations: Evidence from New Zealand, July 2017

*“In Auckland, land use regulation could be responsible for up to 56 percent or \$530,000 to the cost of an average home.”*

- The Effect of Land Use Regulation on Housing Prices: Theory and Evidence from California, April 2019

*“Our estimated effects show that Los Angeles is the city whose housing prices are most impacted by regulation. In our calculations, if land use regulations in L.A. were to be decreased to the level observed in the least regulated cities, housing prices would decline by approximately 25%.”*

# How to strengthen the planning system so it becomes a positive force for housing affordability

---

- **Municipal buy-in.** Reducing housing price/income ratio in the GTA requires colossal increase in approved serviced sites ready-to-go for a range of housing to satisfy market-driven demand and provide ample vacant inventory - making this a municipal priority
- **Municipal action.** Proactive support for and compliance with P.P.S. (2020) Policy 1.4.1 for supplies of ready-to-go serviced residential sites and land in the planning process

# How to strengthen the planning system so it becomes a positive force for housing affordability (cnt'd)

---

## Provincial Policy Statement (2020)

- 1.4 Housing
  - 1.4.1 To provide for an appropriate range and mix of *housing options* and densities required to meet projected requirements of current and future residents of the *regional market area*, planning authorities shall:
    - 1.4.1 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
  - Housing options: means a range of housing types such as, but not limited to single-detached, semi-detached, rowhouses, townhouses, stacked townhouses, multiplexes, additional residential units, tiny homes, multi-residential buildings

## How to strengthen the planning system so it becomes a positive force for housing affordability (cont'd)

---

- Upper-tier and single-tier municipalities should opt for the minimum 5-year supply of ready-to-go serviced sites rather than required minimum 3 years
- Municipalities should interpret Policy 1.4.1 b) correctly
- Maintaining at all times at least a 3-year supply of ready-to-go sites – this means with an annual review a minimum of 4-year supply
- Years' of supply must be monitored by type of unit (not just total)
- The requirement is a minimum – AIM TO EXCEED IT!

## How to strengthen the planning system so it becomes a positive force for housing affordability (cont'd)

---

- Assess all planning initiatives (existing and proposed) in terms of the impact on the supply of housing by unit type and development costs
- Greater priority on pre-zoning, development permitting, proactive infrastructure expansions and greatly expediting the approval processes (all housing)
- Add a section to staff planning reports which addresses “impact on housing supply by unit type and housing production costs”

# How individual planners can contribute to housing affordability

---

- Be cognizant of the cause of a lack of macro housing affordability – an insufficient supply relative to demand
- Familiarize yourself with two economic tools for the housing market: (a) supply/demand framework and (b) development financial pro formas
- Mentally think of “impact on housing supply by unit type and housing production costs” in your day-to-day work
- Get on the CUR mailing list for publications and events



# Contact

---

## **Centre for Urban Research and Land Development**

Faculty of Community Services

Ryerson University

Toronto, ON

T: 416-979-5000 ext. 3348

E: [cur@ryerson.ca](mailto:cur@ryerson.ca)

[www.ryerson.ca/cur](http://www.ryerson.ca/cur)