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Centre for Urban Research & Land Development
Faculty of Community Services

How an Appreciation of Economics Will Make You a Better Land Use Planner

Presentation by:

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To:

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Why am I here today?

- I am an economist who dabbled in land use planning for half a century – a better urban economist
- Convinced urban land use planners who dabble in economics are better planners
- Economic concepts/tools most relevant in land use planning few in number and (I think) easy to grasp
- A one-hour urban economics primer – guaranteed to make you a better planner or I refund my speaking fee!

Messages to take away

- As a municipal planner you can control land and the urban landscape (supply) in your municipality but not demand – demand is regionally based
- Don’t ignore/downplay economic objectives in the pursuit of non-economic objectives (e.g. environmental)
- Successful planning understands the private marketplace and works with it
- “The tail does not wag the dog” in real estate markets
- Be cognizant of impacts – short- and long-term, intended and unintended – real estate price and fiscal key impact indicators
- Regulation is integral to planning but over-regulation a problem – explore market-based options (pricing, taxation, subsidies) to modify market behaviour

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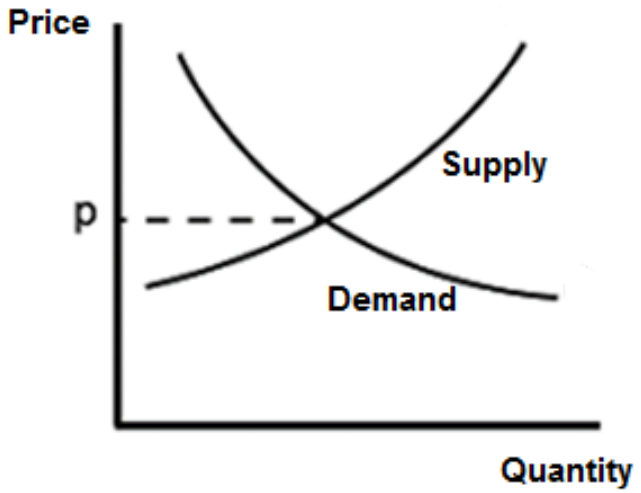
What is economics all about?

- Economics is the study of getting the “biggest bang out of a buck” – society’s wants unlimited – resources finite – how to use the finite resources (the “buck”) to maximum the benefits (the “bang”)
- Private marketplace best mechanism for getting “biggest bang from a buck” as long as private market benefits and costs closely approximate social benefits and costs (no positive or negative externalities)
- “An externality is the cost or benefit that affects a party who did not choose to incur that cost or benefit” (Wikipedia)
- Economics concerned with both private and social benefits and costs

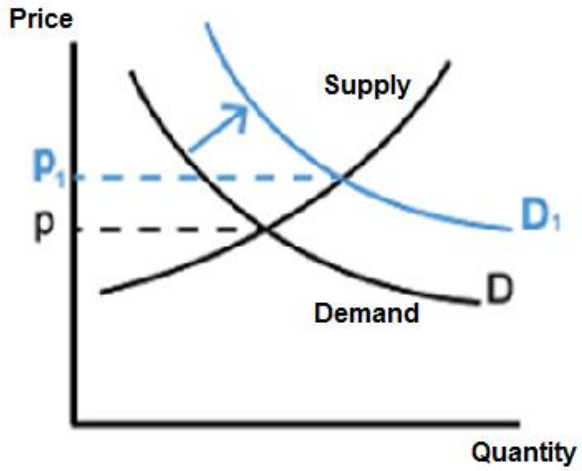
Understanding how real estate markets function – price determination: Single-detached houses

- Demand curve downward sloping – price down, demand up
- Supply curve upward sloping – price up, supply up
- Price determined by interaction of supply and demand (scissor analogy)



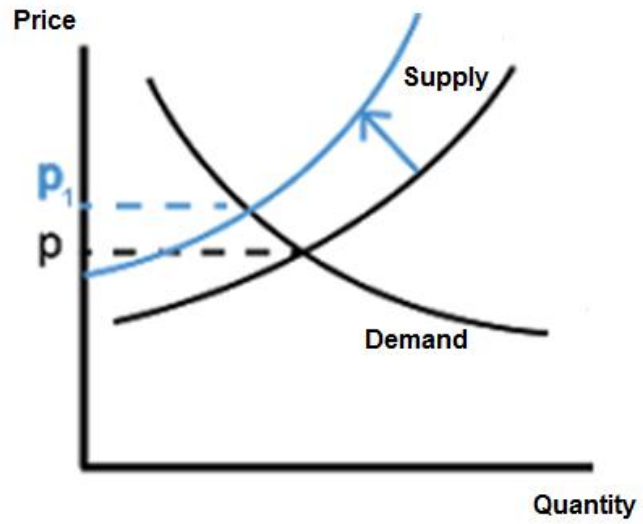
Impact of an increase in demand on price

- Demand increases (speculation/investors)
- Price rises even though supply grows



Impact of a supply decrease on price

- Supply of serviced lots for single-detached houses drops (Growth Plan)
- Prices rise



Getting inside the minds of real estate developers

- Profit expectation – at least equal to expected return on alternative investments with similar risk profiles
- Pro forma tells them how much they can pay for serviced sites and still achieve minimum profit expectation

Simplified Financial Pro Forma for Proposed Development	
Revenue from real estate sales	**$1,000,000**
– Costs	
Hard construction costs	**$500,000**
Soft development costs	**$125,000**
– Expected Profit (10% of revenues)	**$100,000**
(Residual land value)	
= Maximum price to pay for serviced site	**$275,000**

Using the demand/supply/price and proforma tools to assess economic impacts

- **Impact of new planning provisions that increase costs, extend time frame and/or increase uncertainty**

  Reduces profitability/shifts supply curve left – less supply at given price

- **Increase in development charges/extending rent controls to newly-built apartments**

  Same impacts

- **Zoning for medium density housing along arterials – developer expectations of rezoning for more density**

  Increases asking price for serviced sites – no longer financially viable for medium density

- **Requiring office development in suburban municipality to (a) build underground parking or (b) providing no parking**

  (a) Reduces profitability and shifts supply curve left

  (b) Reduces profitability and shifts demand curve left

Closing the gap between private and social costs: GHG emissions and new single-detached houses – regulation vs. market-based pricing?

Current Ontario policy:

- Limit new single-detached house construction through land use planning
- Dictate X% of new cars electric
- Subsidize purchase of new electric cars (very expensive)

Alternative (market-based approach)

- Price GHG emissions based on estimated social costs and add to private costs
- Let market decide on how many single-detached houses and electric cars to be sold

Benefits

“Market-based policies promote both economic efficiency, greater fairness and encourage individuals and industry to search for alternatives including more economically sound ways to achieving the public policy objective” (Globe & Mail) – Places the cost of the externality on those who are causing it

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Increasing the supply of affordable housing in a municipality (1)

Housing for "workforce" – not social housing

Current initiatives (spasmodic)

- Municipal direct/indirect subsidies (incentives) for particular projects:
- Property tax/DC relief, below-market priced sites, subsidies
- Direct funding (federal, provincial and municipal governments)
- Laneway housing, small houses
- Secondary suites (limited by planning restrictions)
- Inclusionary zoning

Increasing the supply of affordable housing in a municipality (2)

The economic response

- Flood the market with ready-to-go sites
- Pre-zone large amounts of sites in built-up areas for housing (e.g. by transit stations, arterials, avenues)
- Redesign large swathes of industrial lands in established municipalities which are past their prime
- Reve up approvals and the servicing of greenfield land, especially for townhouses
- Open up all single-detached neighbourhoods to secondary suites/reduce standards

Benefits

- Reduce or slow growth in home prices/rents relative to incomes

Reviewing messages to take away

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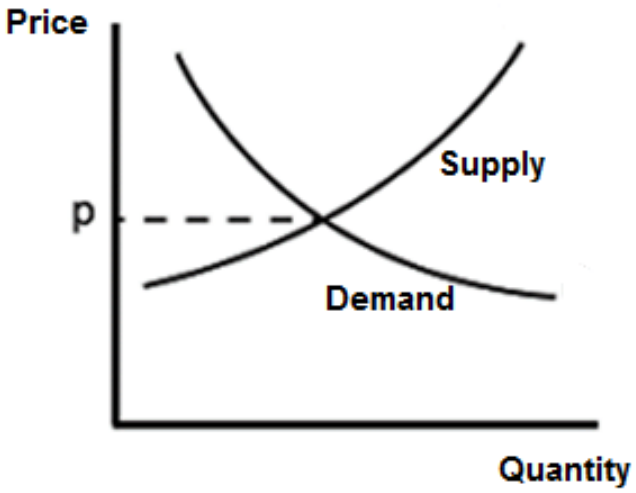
Economic tools to remember

- Demand, supply, price schema
- Financial pro formas



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