THE GLOBE AND MAIL

HTTP://WWW.THEGLOBEANDMAIL.COM/REPORT-ON-BUSINESS/ROB-MAGAZINE/THE-REAL-REASON-HOUSE-PRICES-IN-TORONTO-ARE-SOARING/ARTICLE33763162/

ROB MAGAZINE

Why can't I buy a house with a yard?

High demand and low interest rates aren't the only factors behind insane house prices in Toronto and Vancouver. Evidence is growing that government "greenbelt" policy restricting development is playing a major role. But good luck getting an urban planner to admit it.

JOHN DALY
THE GLOBE AND MAIL (INCLUDES CORRECTION) LAST UPDATED: THURSDAY, FEB. 02, 2017 12:48PM EST

Two summers ago, Marianna Martinez and her husband, Yeison, were living in a house in midtown Toronto. It wasn't their own house, mind you, but the basement of her mother's two-bedroom 1930s bungalow. When the couple had their first child, they began to feel cramped. Like a lot of new parents, Marianna and Yeison, both 31, wanted a house of their own—one with a yard where their young son could play. But they could only get approval for a mortgage in the $200,000s. Toronto was far too expensive. So was Mississauga, a booming suburb. So was Milton, a rapidly growing community even further west.

So the Martinezes decided to "drive until you qualify"—the term real estate agents use for the tactic of going progressively further out from the city to find homes one can afford. In the Martinezes' case, that meant heading more than an hour outside Toronto. They settled on Guelph or Kitchener and, in November, 2015, started driving out there every weekend. They got involved in about a dozen bidding wars. "It was crazy," says Marianna.

Finally, last July, they snagged a two-bedroom townhouse in Guelph for $231,000. It has a small yard, but Marianna is satisfied. “In the summer, we have a blow-up pool and a hammock,” she says. “And a barbecue.”

Lise Anne Janis, a Guelph real estate agent who worked with the couple, wasn’t surprised by the family’s willingness to move so far. The average price of a new detached house in the Greater Toronto Area has soared from $440,000 a decade ago to more than $1.2 million. Even in most suburbs, the average exceeds $750,000. Low interest rates and a relentless population influx into the Toronto area have much to do with that surge, but there is another factor many believe plays a significant role: complex land-use policies the provincial government implemented in 2006 with the aim of curbing sprawl and preserving green space around the city. About two-thirds of buyers in Guelph now come from beyond that city’s borders, and Janis says the policies are a driving force. “There’s been an explosion of prices in Toronto and surrounding areas, and now we’re feeling it here,” she says.

Builders complain that municipal growth boundaries, density requirements and vast amounts of red tape are frustrating their efforts to erect the houses with yards that families so desperately want. According to the Greater Toronto Area’s Building Industry and Land Development Association (BILD), developers had just 2,036 new low-rise homes (detached, semis and townhouses) in inventory at the end of November—one-eighth the number in June, 2006, when the province’s land-use policies took effect. As for the price increase, Frank Clayton, a senior research fellow at the Centre for Urban Research and Land Development, a think tank at Toronto’s Ryerson University, estimates that the policies are responsible for a quarter to a third of the rise. Politicians and planners have “forgotten about the economics,” he says. “It’s all about the environment.”

Ontario is by no means unique. Similar land-use policies are in effect in dozens of metropolitan areas in Europe, the United States and Asia, and almost all of those cities have very high housing prices. This link has sparked a heated international debate between economists and urban planners about whether the policies inevitably lead to affordability crises. In Canada, several major cities, including Montreal, Ottawa and Calgary, have such measures in place, but the controversy is most intense in booming Toronto and Vancouver, where unrelenting demand for detached houses has collided with unresponsive supply. In Ontario, things are about to get more heated still: After commissioning a detailed 10-year review of the existing policies, the province's Liberal government says it will decide soon about acting on recommendations to tighten them even further.

Out in the marketplace, most homebuyers appear to be unaware of the debate. But a widespread fear that those treasured houses with yards will only get scarcer keeps driving prices ever higher. Erika Streich, a real estate agent with Royal LePage who works in east Toronto and the suburbs, says that millennials she deals with might settle for a downtown condo for a few years, but once they start having children, they want the types of homes many of them grew up in. And they worry that their hopes are doomed, says Streich: "The Canadian dream of a big detached house with a yard is almost gone because no new ones are going to come."

It's striking how much of the land-use debate is still driven by ideology. At its core is an urban planning and transportation theory called "smart growth," which gained popularity among planners and academics in the 1970s. Smart growth aims to curtail sprawl and automobile use by building denser and more walkable communities along transit routes, with a mix of housing, businesses, and schools and other institutions.

In Ontario, smart growth arrived in stages. Mike Harris's Conservative government passed a law in 2001 restricting development on the ecologically sensitive Oak Ridges Moraine, north of Toronto. In 2005, the Liberals enacted more policies to combat sprawl and protect green space around the Toronto region. All the plans were then folded into the Growth Plan for the Greater Golden Horseshoe, which was implemented in 2006. The rules are complex, but, basically, the government set up a 1.8-million-acre greenbelt around Toronto, then tried to corral development within existing municipal boundaries. Inside those boundaries, the plan set intensification targets: At least 40% of new residential development must occur in already built-up areas. To build on any remaining undeveloped “greenfield” land, average density must be at least 50 residents or jobs per hectare (2.5 acres)—about enough to justify regular bus service.

In 2015, the Liberals—under new Premier Kathleen Wynne—appointed a panel to review the Growth Plan. The panel recommended expanding the greenbelt and raising the building-density targets. Last May, the government endorsed most of those changes, and invited public comment. In an interview in December, Municipal Affairs Minister Bill Mauro said more stringent targets aren’t a certainty, but added that the government remains committed to smart growth “because we know it provides more housing choices, expands access to transit and employment, improves quality of life, and ultimately allows people to spend more time with their families.”

Many critics, largely from the right side of the political spectrum, don’t think smart growth is smart at all. Wendell Cox is a principal at Illinois-based Demographia, which publishes a widely cited annual house price survey of more than 350 metropolitan areas around the world. He has also written several studies about Toronto and Vancouver for Canadian think tanks. Cox calls growth-boundary measures “urban containment” or, more disparagingly, “radical densification.” Of the 29 major metropolitan areas in the Demographia survey that now have severely unaffordable housing (a median house price more than five times greater than median household income), 28 have implemented the smart-growth theory. According to the most recent survey, released in January, Toronto’s median price is 7.7 times the median income, and Vancouver’s is a multiple of 11.8.

Randal O'Toole, a senior fellow with the right-leaning Cato Institute in Washington, D.C., sees smart growth as a misguided product of a generation of planners and academics who were inspired by Jane Jacobs's hugely influential book, The Death and Life of Great American Cities, published in 1961. She wrote it while living in New York City's Greenwich Village, which she held up as a model of a diverse and compact community with a mix of housing and businesses, and minimal car use. "Their solution to anything is to build a Greenwich Village," says O'Toole, "even in the suburbs." But lots of people today don't want to live in close quarters in a noisy neighbourhood that may be far from their jobs. They want space, and they like to drive to work, shopping malls or their children's hockey practices.

O'Toole and other critics have utopias of their own. They would do away with containment and put their faith in free markets, which they believe will efficiently allocate land to its highest-value, most-desired use—whether housing, farming, offices or factories. If any type of housing gets too expensive, builders will quickly supply more of it. Yes, governments should protect land that has genuine ecological value. But if auto emissions or gridlock become problems, governments should deal with them directly through stricter vehicle emission requirements, fuel taxes and road tolls, not land-use policy.

Based on this economic theory, the soaring demand for single-family homes in Toronto should lead builders to supply more of them. Yet, since the Growth Plan took effect, housing starts for single detached homes in the Greater Toronto Area has declined from 15,797 in 2005 to just over 11,000 last year. Why aren't developers capitalizing on the market opportunity? The industry complains that the plan put in place several new impediments. One is the greenbelt itself, which reduced the overall amount of land available for development.

Additionally, the builders say there is a lack of so-called serviced land—lots roughed out for development, with pipes in the ground for water, drainage and sewage. Under provincial rules implemented in response to soaring house prices in the late 1980s, municipalities are supposed to keep a three-year supply of serviced land ready for building. That rule is still in effect, but even Bill Mauro admits that it has been hard for the province to track if municipalities are complying with this regulation.

Thanks to the growth plan, now it can take years—and $48,000 per unit in costs and fees—to develop serviced land.

The new layers of approvals are also a big factor in pushing up house prices, builders say. They complain that the Growth Plan has added so much bureaucracy at the provincial and local levels that it now often takes years—and an average of $48,000 per unit in compliance costs and fees—to get approvals to develop even serviced land.

Bob Finnigan, president of the Canadian Home Builders' Association and an executive at Herity, a Toronto-based developer and homebuilder, points to Country Lane, a development in Whitby, east of Toronto, as an example of just how difficult and time-consuming it is to get detached homes to market. Country Lane is a joint venture with Andrin Homes to be built on a former golf course. The builders released the first phase of 400 lots last spring. About 5,000 prospective buyers registered, and the homes sold out within weeks. Most were detached, and priced in the $700,000-to-$1-million range. Finnigan says his company bought the site in 2004 and had hoped to sell the houses by 2007. But delays pushed the launch back by almost a decade, in large part because Ontario's regional governments and municipalities all had to update their local growth plans to conform with the province's 2006 plan. "And our company is not unique," he says.

The Growth Plan's density requirements are forcing builders to put up houses on narrower lots than buyers want, or mix detached single-family houses with townhouses, even in far-flung suburbs. In the 1970s and ‘80s, says Finnigan, 50-foot-wide lots for detached houses were an industry norm. By the 1990s, that was down to 36 feet. Country Lane has some on 26-foot-wide lots. If the provincial government adopts recommended stricter density requirements, “the single-family home as we know it will be a thing of the past,” he says.

It’s generally much faster to get approvals and do environmental testing for a downtown condo tower than a subdivision of houses, says Finnigan. “We can take a soil sample for a high-rise in a day.” Out in the ‘burbs, “we may have to watch a stream for 18 months.”

And building high-rise condos is exactly what developers are doing—at a torrid pace. As of last October, sales of new high-rise units in Toronto had already topped 20,000 for the year, and appeared to be heading to a new annual record. Paul Golini, co-founder of developer Empire Communities, admits that even before the Growth Plan took effect, Toronto’s condo boom was cranking into high gear, fuelled by millennial buyers flocking downtown. About 40% of his company’s business is now in high-rises—a share similar to what other major builders in Southern Ontario report—and the proportion reached as high as 70% for Golini in 2011. Since the Growth Plan came into effect, Toronto hasn’t had enough greenfield land, and high-rises are a “logical response” to the plan’s intensification targets, Golini says.

But while condos remain popular, many buyers—especially millennials as they get older—start hankering for houses with yards. Real estate agent Erika Streich, who is 31, and her husband, Eric Sutton, 29, are a case in point. Two years ago, they were renting a cramped 450-square-foot apartment in a condo tower in downtown Toronto. “It was a junior one-bedroom,” Streich says. “There was a sliding glass door to a small sleeping area.” In October, 2014, they paid $430,000 for a three-bedroom house in a 1980s subdivision in Pickering, a suburban community east of Toronto. The couple has no plans to have kids yet, but Streich is happy there’s a backyard where she can grow vegetables and frolic with Con, the cockapoo they bought after they moved in. “If I’m gonna live in the ‘burbs, I need some green space,” she says.

Planners and analysts who support smart growth insist that little—if any—of the dramatic increase in prices for houses with yards is due to the Growth Plan. So, what’s causing it? Start with the more than 100,000 people a year who are moving into the Golden Horseshoe, a pace forecast to continue for decades. Then there are mortgage rates, which were already relatively low in 2006 when the Growth Plan came into effect, and have sunk to rock-bottom levels since.

Proponents of smart growth say that intensification under the Growth Plan may eventually increase housing supply and put downward pressure on prices. The key, says Cherise Burda, director of Ryerson’s City Building Institute, is to build denser and more diverse neighbourhoods along transit lines. For example, low density is still solidly entrenched north of most of the city’s east-west subway line 50 years after it opened.

As for a land shortage, what land shortage? In 2013, the Neptis Foundation, an urban issues research organization based in Toronto, estimated that, when the Growth Plan took effect in 2006, there were more than 200,000 acres of greenfield land within existing municipal boundaries available for development in the Greater Golden Horseshoe. More than 45,000 acres have been added since then, for a total area 1.5 times the size of Toronto. As of last April, only about 20% of that area in Greater Toronto and Hamilton had been built on. “This argument that the Growth Plan has constrained the land supply in the long term is just not true,” says Neptis executive director Marcy Burchfield.

Neptis's numbers also don't support the builders' argument about a lack of serviced land. In a study released in October, Neptis took a detailed look at the booming suburban city of Brampton, northwest of Toronto, where roughly one-fifth of new residential building in the GTA is happening. It found that Brampton has about 2,500 acres of serviced land available—more than three years' supply at the community's current development rate—and plenty of greenfield for the years beyond that.

So why aren't builders putting up more detached houses? Burda says Neptis's numbers point to one conclusion: "There's speculation and they're sitting on [the land]." But even before the Growth Plan came into effect, it's been standard practice for developers in the Toronto area to buy land decades in advance of selling homes to buyers. Bill Mauro has heard charges that developers are speculating in land, but says, "I don't have any evidence that's the case."

Builders argue that sitting on land would be absurd. "You have to turn over your capital," says Bob Finnigan. "You want to get your money back and move on to the next project." Still, limiting the supply of anything almost inevitably prompts buyers—whether you call them investors or speculators—to bid up the price, and to hoard the supply. Frank Clayton points to an influential 2015 report by New Zealand's Productivity Commission, which argues that smart growth is a cause of high house prices in that country. "Where demand for new residential land exceeds the supply allocated through the planning system, landowners and developers can act like local monopolists," the report says. "They have an incentive to 'drip feed' the supply of zoned and serviced land to maintain high prices."

In the case of the hot markets in Toronto and Vancouver, urban containment has created other "policy traps," says Tsur Somerville, a senior fellow at the University of British Columbia's Centre for Urban Economics and Real Estate. Buyers will pay more for single-family homes within the city boundaries and fight to preserve neighbourhoods full of similar houses, making it harder to reach the higher densities for which the policies strive. Just outside the boundary, land buyers are also willing to pay more in the hope that the limits may be expanded or development restrictions relaxed.

What would happen if Ontario removed containment boundaries? Even critics on the right acknowledge that we would probably get sprawl. But sprawl may be underrated.

One motivation for the Growth Plan was a fear that the region's "prime agricultural areas" were being swallowed up by subdivisions. Roughly half of the greenbelt—857,000 acres, an area about five times the size of Toronto—consists of 5,500 farms. However, a Fraser Institute study released in January, 2016, argues that the amount of cropland in Ontario is about the same as it was two decades ago (though the report is careful to distinguish between cropland, where crops are grown and animals fed, and farmland, a broader category that includes unused rural land). If the province removed growth boundaries, development would likely replace more farmland around Toronto, acknowledges Kenneth Green, the institute's senior director of natural resource studies. But markets trigger adjustments. For example, crop yields have been rising for decades, allowing farmers to produce more on less land, and bringing formerly marginal land into production. "No particular use of land is sacred, or should be sacred," he says.

Critics of smart growth point to Houston and Atlanta, two metropolitan areas with populations of similar size to the GTA and growing quickly. Neither has urban containment boundaries, and Houston has hardly any zoning rules. The median single-family house price in and near both cities is about $200,000 (U.S.). Yes, traffic can be bad, and the architecture would make urban hipsters blanch. "I don't care about that," says Demographia's Cox. "I care about poverty and affluence. Cities do not exist to be beautiful. They exist to improve the lives of people." House prices aren't the only important criterion, of course. UBC's Somerville notes that the least affordable cities in Demographia's survey—namely, Hong Kong, Vancouver and London—"are places where lots of people really want to live," whereas some of the cheapest markets "are places you'd never want to live."

Whether or not Ontario tightens restrictions in the Growth Plan, few expect the province to roll it back. Based on Frank Clayton's formula, even without the land-use policies, the average new detached house in the GTA might still cost more than $900,000. That likely means that a growing contingent of homebuyers will head well beyond city boundaries to get that dream house with a yard. Empire Communities, for one, has been building outside Toronto for two decades, mostly in the Hamilton, Kitchener and Niagara areas. One of its hottest current subdivisions is Wyndfield, in Brantford, Ontario, a planned community that will eventually have 2,500 homes of various sizes. Paul Golini says that when Empire started work on Wyndfield about 15 years ago, it figured most of the buyers would be from the Brantford area. Today, about 70% are from Hamilton, Toronto and other cities outside of the area.

Like the Martinezes, these buyers prefer to "leapfrog" than to be stuck in a small townhouse or apartment in a big city. "Guelph is very green, very small," says Marianna. Her mom, Natasha Zwanck, a widow in her 50s, liked Guelph, too, so she sold the house where they all lived in Toronto for $650,000 and bought a four-bedroom bungalow for $425,000. Toronto was getting too busy and noisy, says Zwanck. "I look out in my backyard and I see trees and birds, not cars and other houses."

Yet, even in Guelph and other smaller cities, builders are bumping up against municipal boundaries and wrestling with the Growth Plan's intensification rules. The Wynne government has proposed that 60% of new development happen in existing municipalities, up from 40%, and that the number of jobs and residents per hectare (2.5 acres) rise to 80 from 50. In October, Guelph city council endorsed a report by planning staff that declared those targets too high for the city.

Across the Greater Golden Horseshoe, a similar scenario may play out in the future: builders putting up far-flung pockets of townhouses and mid-rises mainly to meet density requirements, but fewer of the detached houses that buyers really want. BILD is lobbying hard against the targets. “The province needs to take a more measured approach,” says Bryan Tuckey, CEO of BILD. “The demand for single-family homes has not diminished over the past 10 years. We need to start talking about supply.”

How “urban containment” drives up prices

For more than 10 years, housing development in Toronto has been restricted by a massive 1.8-million-acre greenbelt around the city, plus intensification targets within existing municipal boundaries. Vancouver, Calgary and Montreal also have government-mandated greenbelts or plans designed to prevent sprawl and increase urban density.

Are these policies helping to drive up home prices? Probably not in Calgary and Montreal, but as you can see in the graph (right), surging prices in Toronto got even more erratic and out-of-control after Toronto’s restrictive Growth Plan was implemented in 2006.

Vancouver

In 1974, British Columbia’s government established an Agricultural Land Reserve (ALR) around Vancouver and up the Fraser River Valley to Harrison Lake. It’s been a political lightning rod ever since. Opponents of urban containment argue that this barrier to development was the catalyst for the city's real estate bubble. In the early 1970s, says Demographia's Wendell Cox, house prices in Vancouver were not much higher than those in Calgary, Toronto and other major Canadian cities. But as Vancouver's population grew, and foreign and domestic real estate investors poured in, prices soared. The Vancity credit union has forecast that the average detached house price within Vancouver's city limits will crack $4.4 million by 2030.

Some buyers are going to extraordinary lengths to circumvent land-use policies. By some estimates, only about half the land within the ALR around Vancouver is farmed; much of the rest is used for parks or golf courses, or lies fallow. A Globe and Mail investigation last year of 122 properties on the ALR found that many owners had built mega-mansions, and either leased the remaining land to farmers or not cultivated it at all. Nevertheless, the ALR remains politically popular—Vancouver has a strong environmentalist streak.

Calgary

Calgary doesn't have an explicit urban-growth boundary or greenbelt. But in 2009, city council passed the Municipal Development Plan, based on smart-growth principles that would set the direction for the next 60 years. The plan seeks to foster "a more compact, efficient use of land," boost transit ridership and preserve the environment. It includes very detailed guidelines for areas zoned industrial, established residential, new (higher-density) inner-city residential, public open spaces and so on. There is also an elaborate capital-budgeting process that schedules when neighbourhoods will be developed or redeveloped.

Coldwell Banker's Patrick Murray, like many local real estate agents, believes the policies have contributed to rising house prices. But the impact so far has been limited because of the oil price collapse of 2014, which slowed the city's population growth and cooled the real estate market. Notably, while the prices of condos and townhouses have declined, the prices of detached houses "have weathered the storm quite well," says Murray, particularly in the inner city and the northwest, because these urban houses with yards are what buyers want.

Montreal

Montreal has a greenbelt and land-use policies in place, but the city hasn't grown as fast as Toronto and Vancouver, so it is still a relative real estate bargain. Starting in 1978, the provincial government designated 15.6 million acres across the province as agricultural zones, including 618,000 acres that roughly ring Montreal. In 2012, the provincial Liberals passed a land-use plan to accommodate a projected 530,000 new residents in the Montreal metropolitan area by 2031. The plan protects 17% of the land from development, and aims to locate 40% of new residential development close to transit.

According to Demographia's Wendell Cox, who is also an economic researcher at the Montreal Economic Institute, since 2004, the median house price in the city has climbed above the threshold for affordability (greater than three times median income), and the land-use plan will make things worse. But Paul Cardinal, manager of market analysis for the Québec Federation of Real Estate Boards, says housing demand in Montreal isn't as strong as in Toronto and Vancouver, and the land-use policies "are not creating a big constraint on the supply right now." You can buy a detached house with a yard for just over $300,000.

View more images from the popular Instagram account @dailyoverview by photographer Benjamin Grant, whose most popular images have been gathered into his new book: http://www.dailyoverview.com/home2

Editor's Note: An earlier version of this story said Vancity credit union has forecast that the average detached house price in Vancouver will crack $2 million by 2030. In fact, that figure is $4.4 million. This online version has been corrected.

An earlier version of this story said that a review panel appointed by Ontario's Wynne government in 2015 had recommended that 60% of new development in the Greater Golden Horseshoe happen in existing municipalities, up from 40%, and that the number of jobs and residents per hectare (2.5 acres) rise to 80 from 50. In fact, the numerical targets were proposed by Ontario's ministries of Municipal Affairs and Housing in their response to the review panel's report.