

THE AFFORDABILITY CONUNDRUM

Can the Fair Housing Plan protect the value of people's homes while making housing more affordable?

By Cherise Burda, Ryerson City Building Institute



Like Dutch tulip-mania in the 1630s, and dot-coms in the late 1990s, GTA housing has become the defining economic story of this decade. And, seemingly, no one is immune. Domestic and foreign investors, young people starting out, house-wealthy baby boomers trying to help their millennial offspring, all have felt the urgency to dive into the market before prices get even higher.

This FOMO (Fear of Missing Out) effect is also a key contributor to rising debt levels among Canadians. In fact, in 2016, the Financial Post reported that the level of household debt held by Canadians had exceeded the country's gross domestic product for the first time in history. So, in response to rising inflation and rapidly escalating activity, this April, the Province of Ontario acted to cool down the sizzling real estate market. The Fair Housing Plan has prescribed 16 measures intended to reduce demand, stabilize housing prices, and facilitate more supply. But can this plan maintain the value of people's homes while making them affordable to an increasingly priced-out generation? Is it even possible for the province to implement rules that are fair to both those who own housing and those who want to own?

Supply and Demand



Canada's major banks, U.S. ratings agencies, and international economists have all sounded the speculation alarm on the Ontario real estate market. They argue that the exceptional price increases over the past few years cannot be simply attributed to normal factors such as population growth, economic growth, or rising incomes. In their view, GTA home prices have become detached from basic economic fundamentals.

What's causing this? Well, many discussions around GTA real estate point to supply: there just aren't enough homes to go around. The simple solution, some argue, is to build more homes. However, according to TD Economics, relative to population growth, there are already a record number of new units under construction in the GTA, while townhomes and single family houses are at a 10-year high in the most desirable neighbourhoods.

This would suggest that the GTA's population is not growing fast enough to justify the rapid price increases. In other words, other demand factors are also at play.

Unfortunately, this escalating demand for new housing units — despite stable population growth — limited the available housing inventory throughout 2016 and early 2017. Data from TREB illustrates that while new listings remained fairly steady over this time, active listings hit record lows, due to increased sales volume. One oft-cited source for the increase in sales is the historically low cost of borrowing. Certainly, low interest rates have made obtaining a home easier, however this phenomenon holds true for all of Canada, and despite cheaper mortgages, we aren't seeing spikes in sales volume or price points cross-country, like in the GTA and Vancouver. One explanation is the influence "speculative demand" factors have had on these markets.

Great Expectations



If Toronto real estate continues to be viewed as a foolproof investment, demand will stay strong, forcing buyers to accrue additional debt while many potential sellers hold their properties in the hopes of a better payday down the road. Such expectations fuel rising prices and draw down inventory, which drives up prices, creating a vicious cycle. Finding a way to break away from this cycle — and land softly by stabilizing price growth — is important if we want to keep housing affordable without harming the investment value of existing owners.

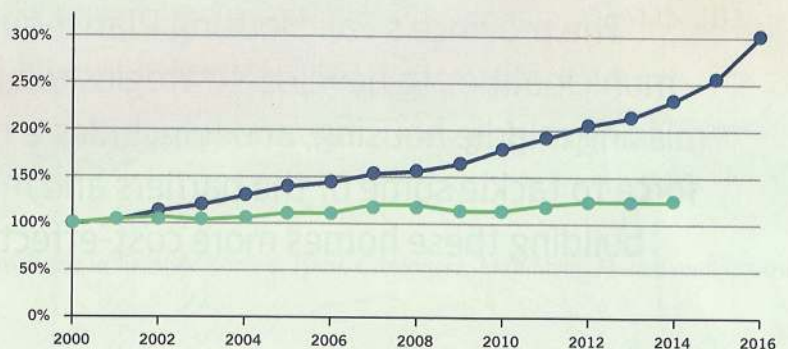
Earlier attempts by the federal government to stabilize demand such as Canada-wide mortgage rules and the 2016 "stress tests" designed to discourage first-time buyers from taking on mortgages they couldn't afford if interest rates rise, had little to no effect on their own. However, if the recent shift in buyer-seller dynamics within the GTA is any indication, these new provincial actions may have already begun to change expectations that prices always go up.

Median Income Growth vs. TREB* House Price Growth

- Median Individual Income Growth
- Average TREB House Price Growth

*Toronto Real Estate Board

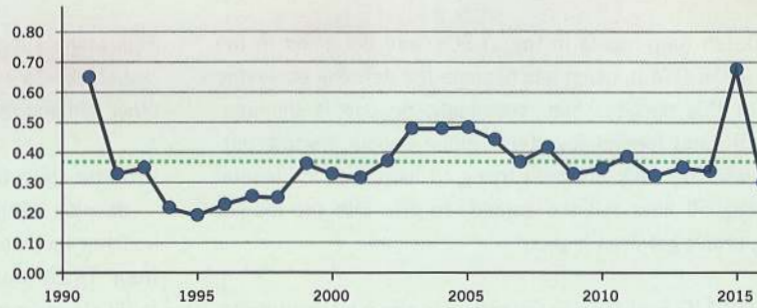
Source: Data from TREB and census.



GTA Completed Units/ Added Population

..... Average
● Annual Data

Source: Data from Canada Mortgage
and Housing Corporation and census.



Now, build the right kind of supply.

Ontario's Fair Housing Plan, which includes a non-resident surtax (NRST) and rules to deter short-term paper "flipping" may have already started changing market expectations. Experts have reported that buyers are now pausing to see what these new rules will do to the market, while listings are substantially higher this spring than they were a year earlier as some sellers have chosen to list before the situation changes further. Already in April, when this article was being written, there were 33 percent more new listings added to the market than in the previous year.

Although data shows that Ontario is creating enough supply, the question remains: are we building the right supply for the end user — our families? In an era of shrinking floorplans and a rising price-per-square-foot, how do we ensure that we build supply to house the region's population and not just feed speculation? As the province introduces new policies to intensify the region and reduce urban sprawl, we must ensure that denser growth results in housing types that accommodate families and mixed incomes.

Currently, GTA homebuyers have limited affordable options: to live in small high-rise condos or move to the fringes of our region where new detached houses are being constructed. These locations often come without easy access to schools, public transit, and other services, and require long commutes, contributing to the region's congestion.

The province's Fair Housing Plan requires municipalities to develop strategies to build missing middle housing, and it includes a task force to tackle some of the barriers and make building these homes more cost-effective.

What the GTA needs is more "missing middle" homes: multi-unit dwellings such as townhouses, stacked flats or midrise buildings that are more affordable than semi- or single-detached houses, and easier to locate closer to jobs, amenities, and transit. These types of homes are also appropriate for a range of family sizes and incomes.

For example, a townhouse on average is about half the price of a detached home in the GTA, and a mid-rise unit a third of the cost. A townhouse can accommodate an average-sized family like the average detached home, but it means letting go of a large backyard and forgetting the super-sized house. More compact living might not be for everyone, and for those who want more space, detached houses are still being constructed in green space further afield. Of course, not everyone wants to commute long hours to access a detached house; the solution is affordable and suitable choices for families in more proximate locations.

The province's Fair Housing Plan requires municipalities to develop strategies to build missing middle housing, and it includes a task force to tackle some of the barriers and make building these homes more cost-effective. Though still early to determine the plan's impact on reducing speculative demand, encouraging development remains a critical component of the Fair Housing Plan that we hope the province gets right so we build the right supply that GTA residents need, regardless of whether or not we are living in a housing bubble.

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