

# Housing Market Digest

Greater Toronto Area, February 2022

## **Something That's Been on My Mind**

A long time ago (maybe about 15 years ago), I read somewhere (it might have been in comments about the Growth Plan from the Neptis Foundation) that within the GTA there was enough land designated for low-density housing to meet needs for 60 years. Yet, during the past two decades, new supplies of low-rise housing have been grossly inadequate. There are some questions that I'd like to see answered (but not by me):

- What is the current land inventory within the GTA, by stage of approval, ranging from designated to ready-to-build (fully-approved and mostly-serviced)? For a few years, the provincial government, working with the regions, produced a detailed land inventory. That work needs to be revived, and urgently.
- Secondly, what are the many reasons that the supply of potential lands is not getting converted into built housing? I am sure that it's not just land-use planning, and that there are many reasons (including servicing, obviously, but others, which might include preferences and choices of land owners, and government-imposed costs). That is another research project that could be led by the province.

## **"Report of the Ontario Housing Affordability Task Force"**

The report can be found here:

<https://t.co/veKpROH0KU>

Some great commentaries have been made. I'd like to mention a few points that I think could be more prominent in the discussions and policy deliberations.

The report briefly notes that demand-side solutions have not worked. For example: 'For too long, we have focused on solutions to "cool" the housing market. It is now clear that we do not have enough homes to meet the needs of Ontarians today, and we are not building enough to meet the needs of our growing population. If this problem is not fixed – by creating more housing to meet the growing demand – housing prices will continue to rise. We need to build more housing in Ontario.'

Housing demand results from household formation, which is driven by population growth and job creation. The policies that supposedly

suppress demand aren't actually reducing demand, they're just distorting the allocation of demand (between owning and renting, continuing to live with parents, and living in over-crowded shared accommodations...). Therefore, the report could have gone farther, to say something like "Making it harder for people to buy homes doesn't reduce the real need for housing, it just makes it harder for people to meet their housing needs, and prevents people from making housing choices that are in their best interests".

And, there is another argument that needs to be made, which I put as follows: "Demand-suppression is one of the factors that have contributed to supply shortages, because those policies reduce new home sales, which means fewer housing starts occur." Those policies are mostly beyond the control of the Ontario government, but it is in a position to make arguments to the federal government.

There is a different discussion to be had on two areas of interest to our federal and provincial governments: aggressive immigration policies that expand housing demand, versus the housing situation. I don't want to argue here for any specific policy result, I just think that our governments need to consult with Canadians about the trade-offs.

Financing of infrastructure: the report notes the very large amounts of fees and charges that are paid for new homes and apartments (in the area of one-quarter of current selling prices). The consequences of this could have been spelled out in more detail, including: prices for new homes have to be raised to allow the builders to recover the additional costs. In order for that to occur, prices need to rise in the resale sector (reducing affordability for both resales and new homes). Plus, it takes time for prices to adjust, so on-going increases in fees and charges have caused delays in construction, contributing to the shortfalls of housing supply.

The report makes some good suggestions about waiving charges in some situations (in-fill projects and affordable housing projects).

I see a need for a more fundamental discussion, about how infrastructure is financed. Many years ago, it was financed with government debt (CMHC), and then realty taxes were used to service that debt. I believe that is how it should be done, rather than extracting the costs upfront from

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(ultimately) the home buyer. I know that there will be a lot of push-back from “Growth should pay for growth” arguments, but the current system is doing a lot of harm. The report goes partway there, in its recommendation 44: “Work with municipalities to develop and implement a municipal services corporation utility model for water and wastewater under which the municipal corporation would borrow and amortize costs among customers instead of using development charges.” This thinking should be applied to all of the major charges, not just waterworks.

Production targets: the report suggests a very ambitious target of 150,000 housing starts per year during the next decade. During the past five years, starts in Ontario have averaged 81,649 dwelling units per year. Last year, the total was fractionally above 100,000.

I recently published a report on housing shortages across Canada (the first item on this page: <https://www.wdunning.com/recent-reports>). The detailed calculations indicate that for the past five years, the all-areas Ontario housing requirement averaged 91,300 units per year. With an increased rate of population growth expected for the future, the requirements will increase. And, there is a further need, to alleviate existing shortages: actual production (housing completions) during the past five years was 21,500 units per year less than required. We need at least 125,000 new starts per year in Ontario.

The mix of production: It’s not just the total amount of housing that matters. The housing forms need to be suitable for the needs of the population. For some time, the actual mix of housing production has not been suitable: shortfalls have been especially acute for family-friendly housing options. The report should have discussed this. The Growth Plan was based on a premise that Ontarians would willingly substitute away from ground-oriented options (singles, semis, and town homes) into apartments. There has been a shift on the production side, but it’s far from clear to me that families have happily made those substitutions. Having an ambitious production target is laudable, but the details are going to matter a great deal.

Why isn’t enough family-friendly high-density housing getting built? (I mean mid-rise apartments with 2- and 3-bedroom units, in communities that have amenities that will make them attractive for families.) I don’t think there is a simple one-part

answer to this question. Also, are there planning tools that could be used to encourage creation of this form of housing community (without being yet another impediment to new supply)?

Rental housing supplies: The new report (and a lot of other voices) is calling for more production of purpose-built rentals. During the past three decades, there actually has been a lot of rental production, primarily in the form of investor-owned condominiums. This has become a very important part of the housing system, and on balance, we should welcome that supply. But, the report seems to see this supply as problematic (second paragraph on page 20). There are issues around those rentals that require some difficult discussions (especially security-of-tenure).

One sentence in the report expresses concern about conversion of rental apartments to condominiums. I don’t share that concern, because conversion doesn’t change total housing supply or demand, it just changes the labels. I’m actually in favour of condo conversion, because it is an affordable step into ownership.

I’d like to see discussion about duplexing (dividing one home into two or more dwelling units), to identify impediments, especially in existing municipal policies. For example, I have noticed that within the City of Toronto, property standards and application requirements make it difficult to create legal duplexes.

Politics: a provincial election is coming very soon. I wonder to what extent the parties will incorporate the report’s arguments, conclusions, and recommendations into their platforms, and then I wonder which ideas will get turned into new policies.

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