



# Getting Serious about Tackling the Housing Affordability Challenge in the GTA: Advice for Our New Political Leaders

## Presentation by:

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# Purpose of seminar

- Bring the voice of economists to GTA's affordable housing challenge
- Draw awareness to how reduced housing affordability for middle-income households worsens the housing situation of lower income households
- Discuss how to mobilize the private housing market to reverse deteriorating housing affordability

# Difference between “housing is not affordable” and “lack of affordable housing”

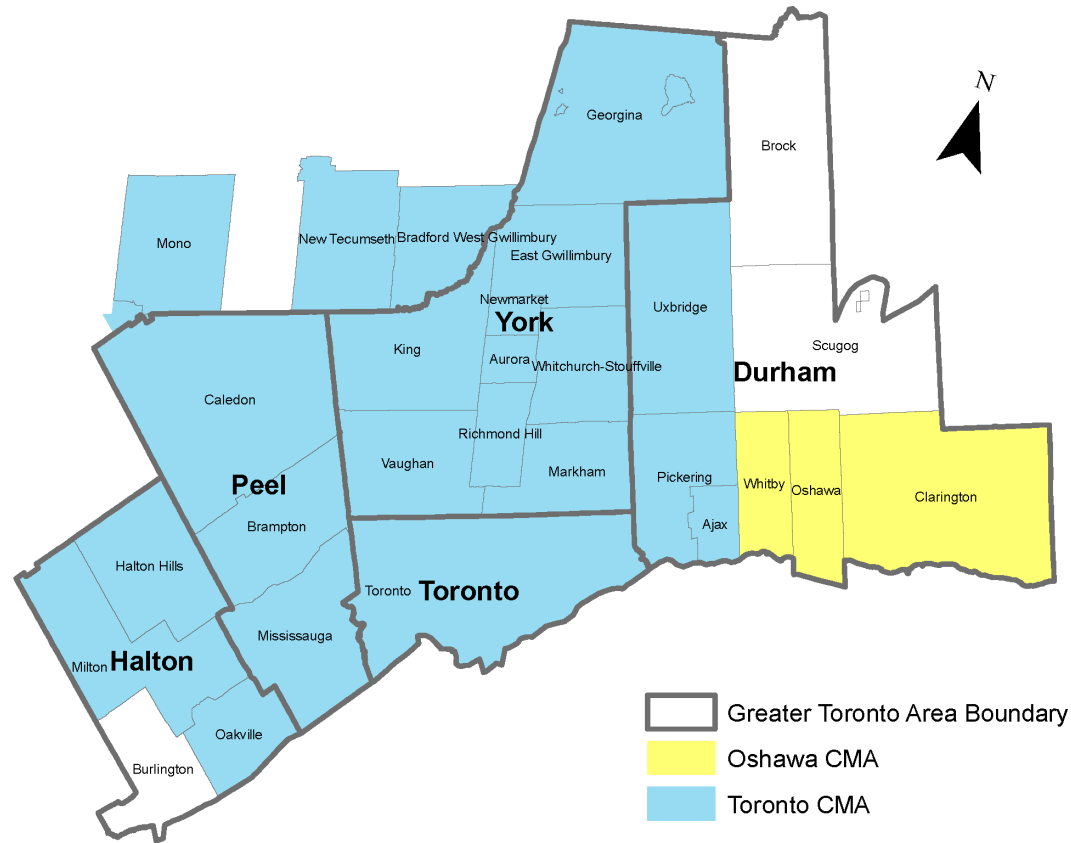
- **“Housing is not affordable”**

- All housing is too expensive – a problem for middle-income households as well as low income households
- Solution: build more to mitigate pressure on prices and rents

- **“Lack of affordable housing”**

- A lack of affordable, suitable and adequate housing for lower income households
- Solution: ramp up the supply of affordable housing and/or provide shelter cost subsidies to lower income households

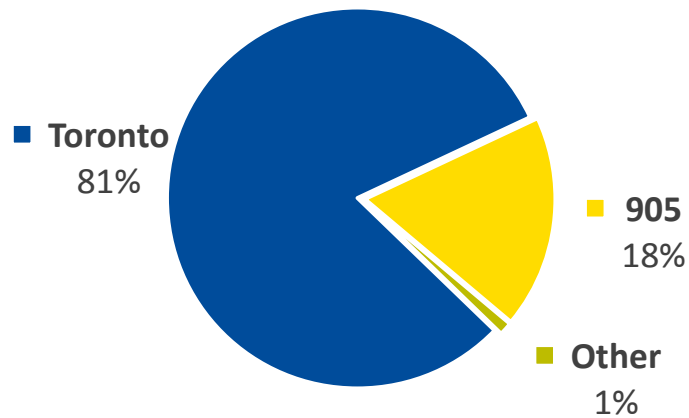
# City of Toronto housing market does not operate in a silo – all GTA markets are in it together



Source: CUR based on Census of Canada

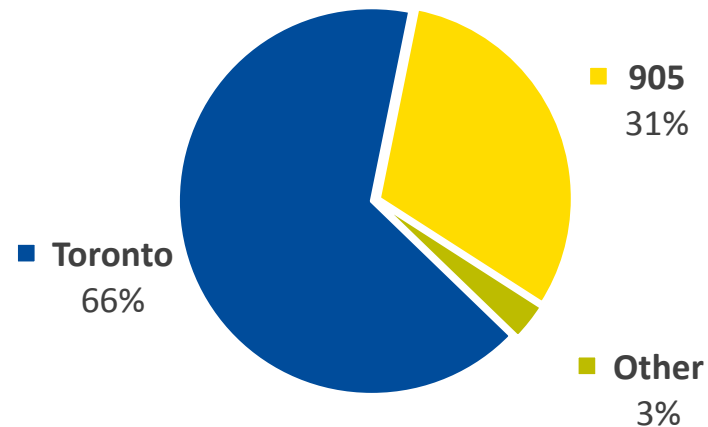
# One-third of Toronto's workforce lives in 905; one-in-five Toronto employed residents works in 905

Figure 1: Where City of Toronto Residents Work (2016)



Source: CUR based on Census of Canada

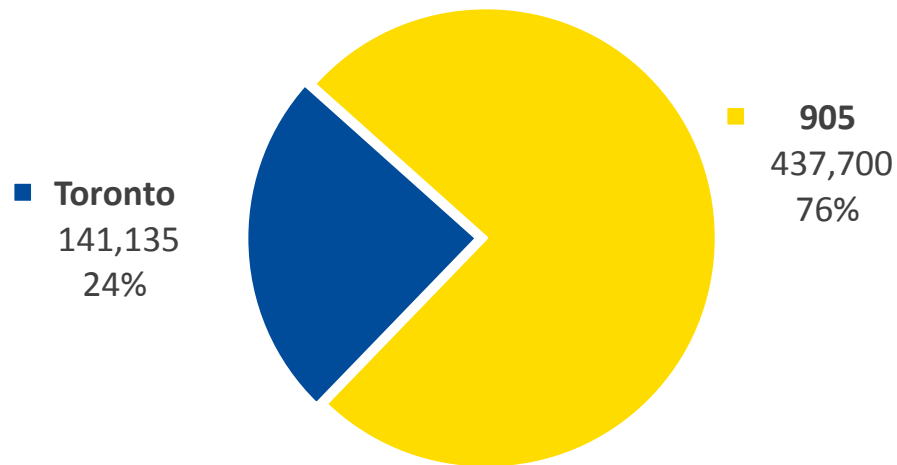
Figure 2: Where City of Toronto Workforce Lives (2016)



Source: CUR based on Census of Canada

## Lots of people move from Toronto to 905; fewer from 905 to Toronto

**Figure 3: Intra-Provincial Migration in 5 years  
Ending 2016**



Source: CUR based on Statistics Canada

## Implications of treating a GTA municipality as a self-contained housing market

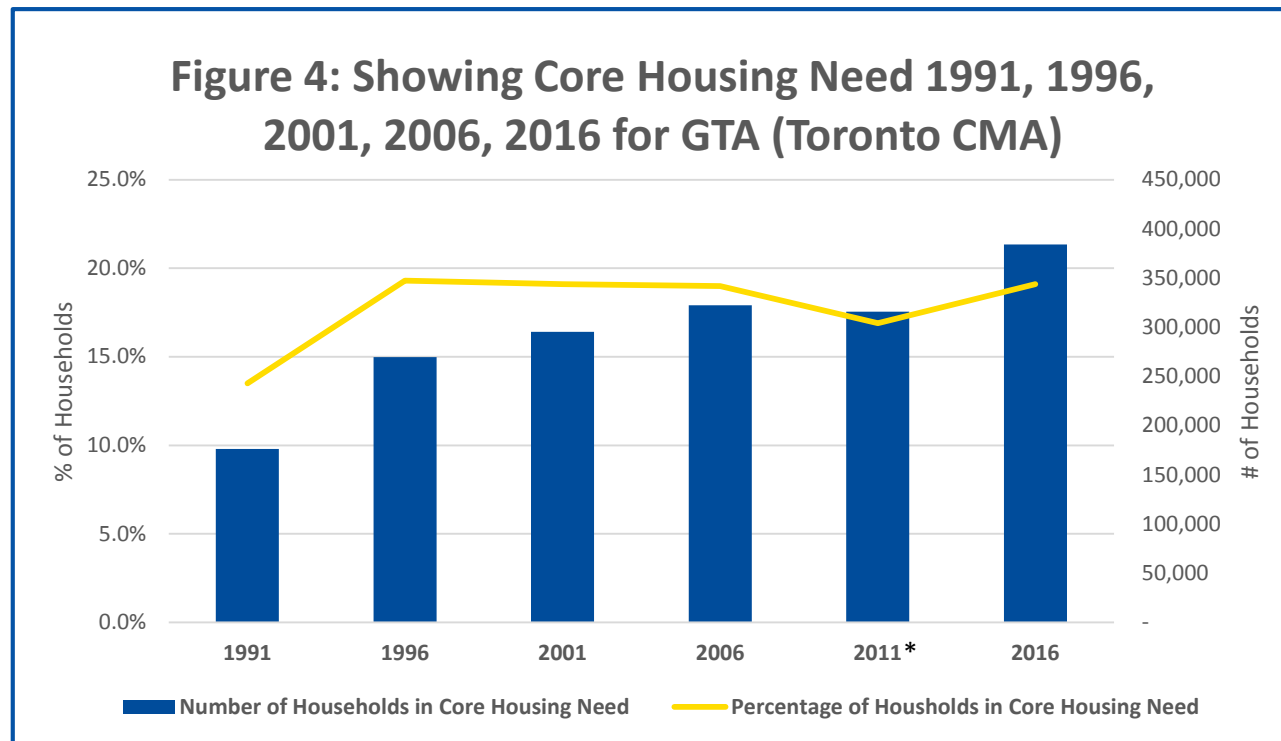
- Efforts by one municipality alone to improve housing affordability or provide affordable housing units will be thwarted by movement of people from other municipalities
- A regional approach is needed for effective action
- Without a GTA-wide regional government, the responsibility falls on the Province

## Understanding affordable housing need - Core Housing Need

- A household is said to be in Core Housing Need if its housing is below at least one of the adequacy, affordability or suitability standards, and it would have to spend 30% or more of its total before-tax income to pay the median rent of alternative local housing that is acceptable (meets all three housing standards).
  - Excludes:
    - households with sufficient income to obtain adequate and suitable housing
    - Non-family households aged 15-29 attending school full-time
    - Individuals not part of a private household (e.g. homeless)



## % of GTA households in Core Housing Need stable since 1996 – total number up due to household growth



Source: CUR based on CMHC Canadian Housing Observer

\*2011 data not comparable to other years due to change in survey and data collection during that year

## Core Housing Need – more of an issue among renters

Figure 5: Tenure of Households in Core Housing Need (Toronto CMA, 2011)	% of households in core housing need	% of Total Households
Owner	41%	10%
Renters	59%	32%
Total	100%	17%

Source: CUR based on CMHC

## Affordability is main concern for households living in Core Housing Need

Figure 6: Characteristics of Households in Core Housing Need (Toronto CMA, 2011)	Renter	Owner
# of Households in Core Housing Need	184,910	131,005
% that are Below Affordability Standard Only	60%	80%
% that are Below Multiple Standards	27%	15%
% that are Below Suitability or Adequacy Standard Only	13%	5%
Total (%)	100%	100%

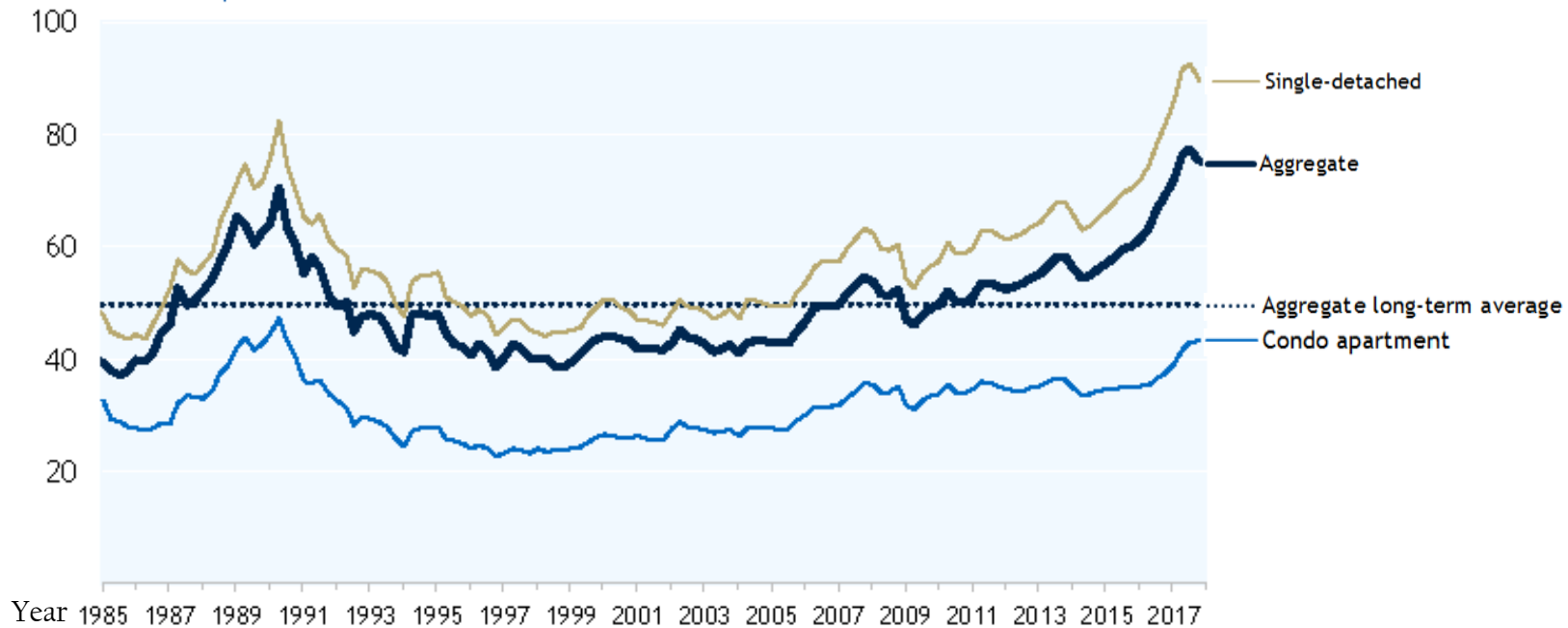
Source: CUR based on CMHC

# Homeownership affordability hits 30-year high - RBC

**Figure 7: RBC affordability measure for homeownership**

**Toronto Area**

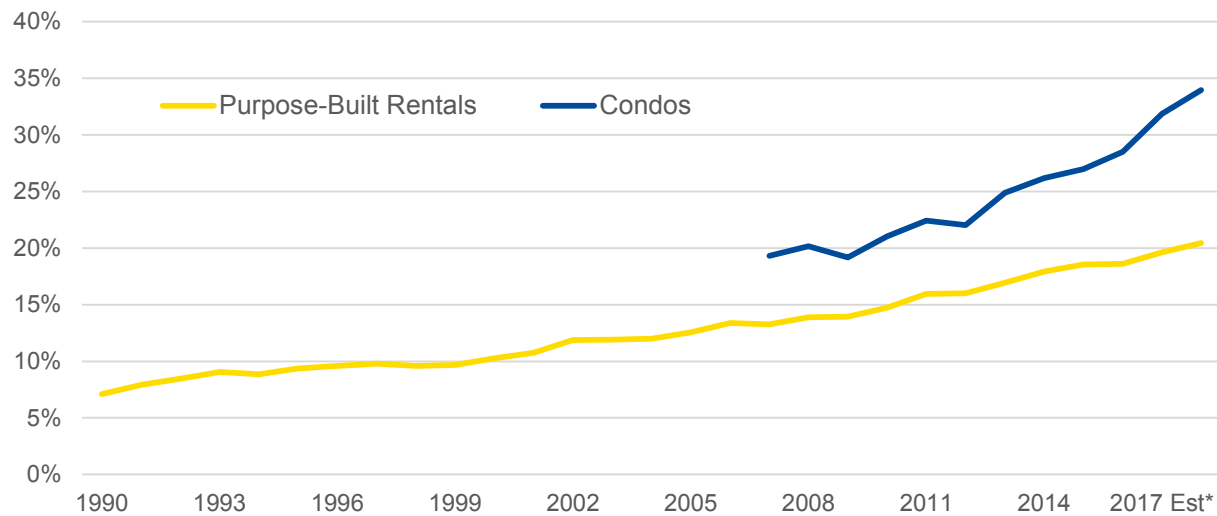
Ownership costs as % of median household income



(Source: RBC, *Housing Trends and Affordability*, April, 2018 )

# Affordability on rentals also deteriorating

**Figure 8: Average Rents as a % of Average Household Income, Toronto CMA, 2016 Dollars, 1990 to 2018**



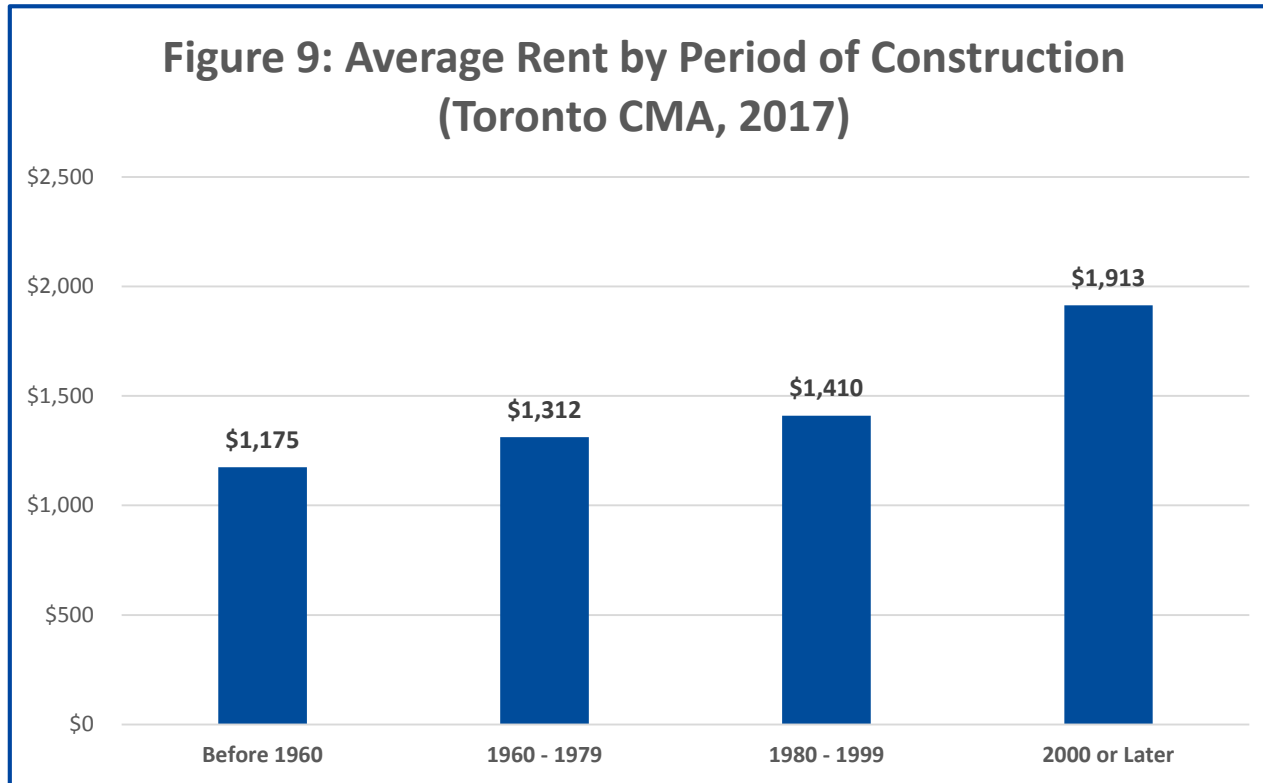
Source: CUR based on Statistics Canada and CMHC

\* Ratio assumes Real Incomes rise by 2% per year through 2017 and 2018

# Understanding the filtering process in the housing market

- Over time housing should become more affordable as it depreciates
  - New housing with the latest “bells and whistles” is typically more expensive than existing housing
  - It is a long-term process
- Offsets include:
  - Positive impact of filtering on affordability swamped by growing demand in high-demand markets;
  - Gentrification/major renovations and rising land values in prime locations

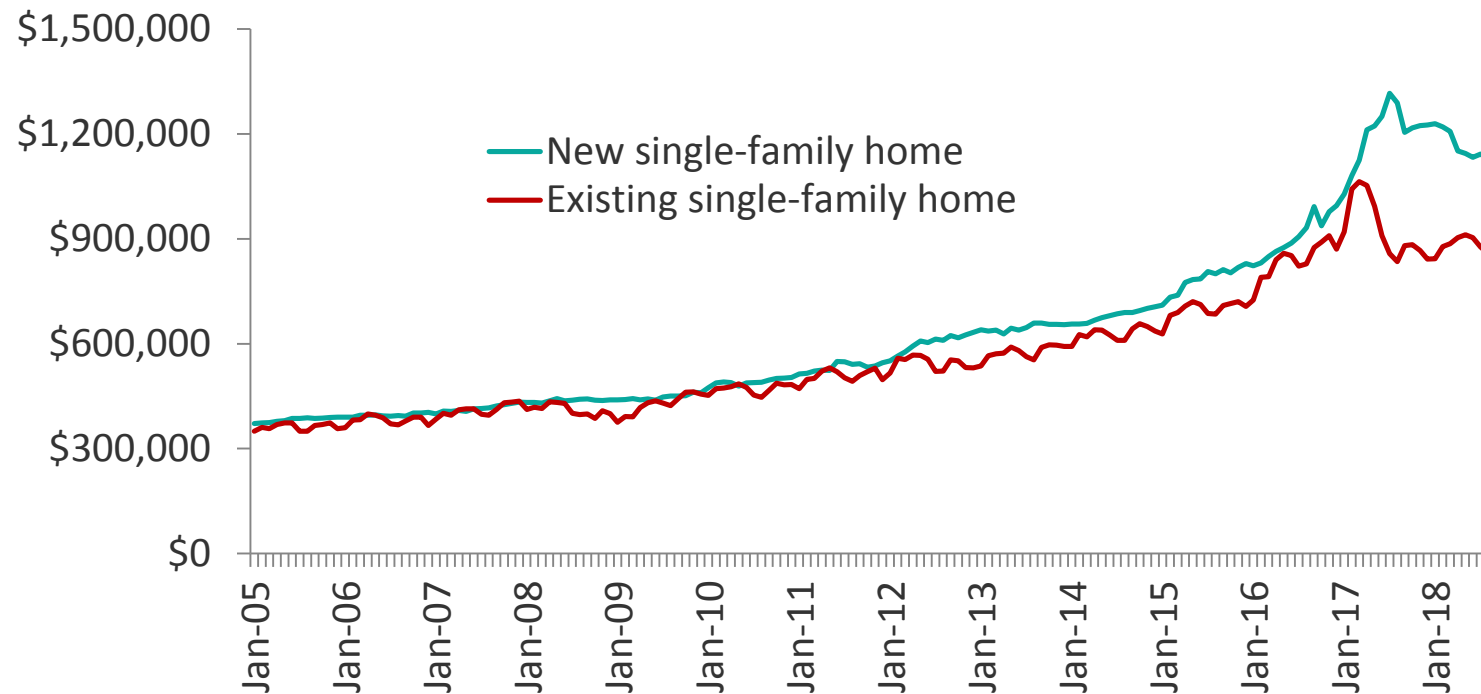
## Filtering process works – older rental housing cheaper than newer units



Source: CUR based on CMHC

## Both resale and new housing prices rose sharply followed by some softening

**Figure 10: GTA Home Sale Prices in the New and Existing Market**



Source: Altus Group, Data Solutions (new homes) and TREB (existing homes) data

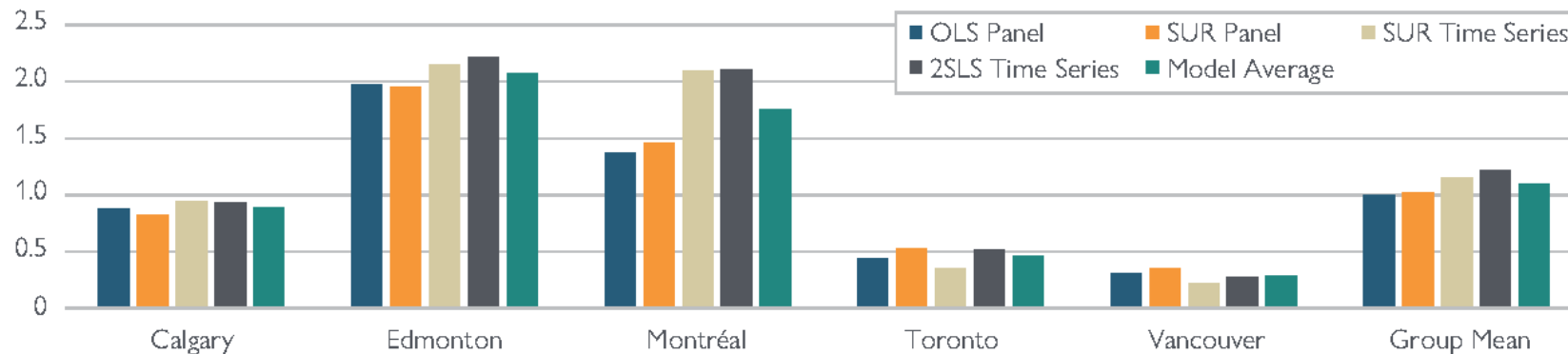


# Housing prices determined jointly by the interaction of demand and supply

- Neither supply or demand alone influence housing prices/rents
- Movement in prices/rents of new homes generally reflect movement in resale prices
- For housing prices to increase rapidly:
  - Demand grows faster than supply which causes an immediate price jump
- Over time prices fall back if supply expands to accommodate demand
- If supply does not expand enough to satisfy the demand, prices will remain high
- New housing supply in the GTA, esp. singles, semis and townhouses, has not responded to meet growing demand

## CMHC documents the unresponsiveness of new housing supply in the GTA (and Vancouver) to rising housing prices

**Figure 11: CMHC estimates of supply elasticities**



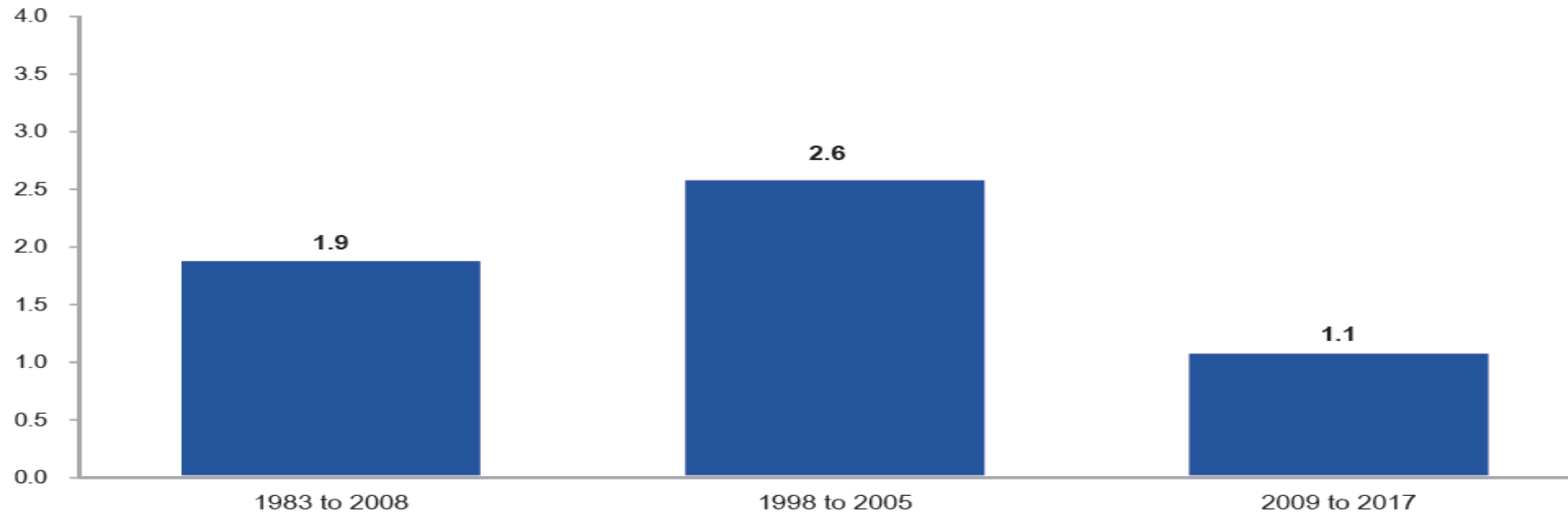
Source: CMHC based on data from Statistics Canada, Conference Board of Canada, Canadian Real Estate Association, and CMHC. OLS panel refers to separately estimating a stock-flow model with a demand equation and a supply equation in a panel; SUR panel simultaneously estimating the model in a panel; SUR time series simultaneously estimating the model by CMA; and 2SLS time series simultaneously estimating the model using instrument variables by CMA.

# Province of Ontario's measure of price responsiveness of GTA housing supply to price changes has deteriorated since 2006

## NEW RESIDENTIAL CONSTRUCTION LESS RESPONSIVE TO CHANGING DEMAND

Price Responsiveness of Supply  
(Percentage Points)

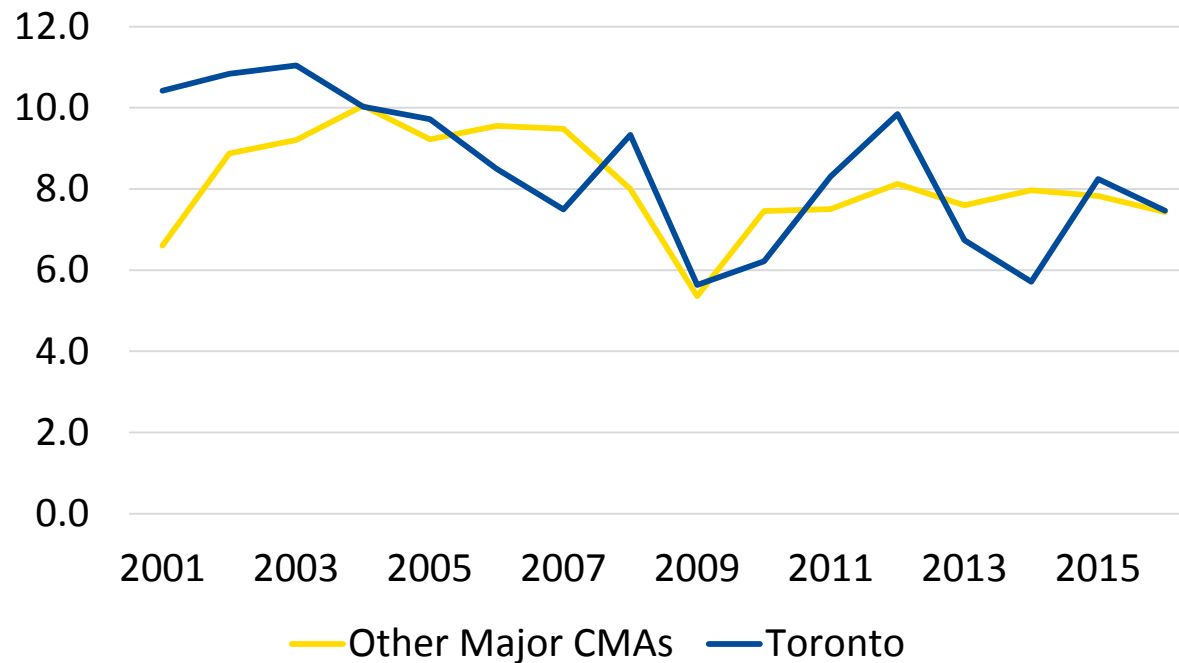
Estimated percentage point increase in new supply  
of housing for every one percentage point increase  
in real house price



Sources: Statistics Canada, Canadian Real Estate Association and Ontario Ministry of Finance.

# Supply not keeping up with population demands across Canada, but Toronto has biggest decline since 2001

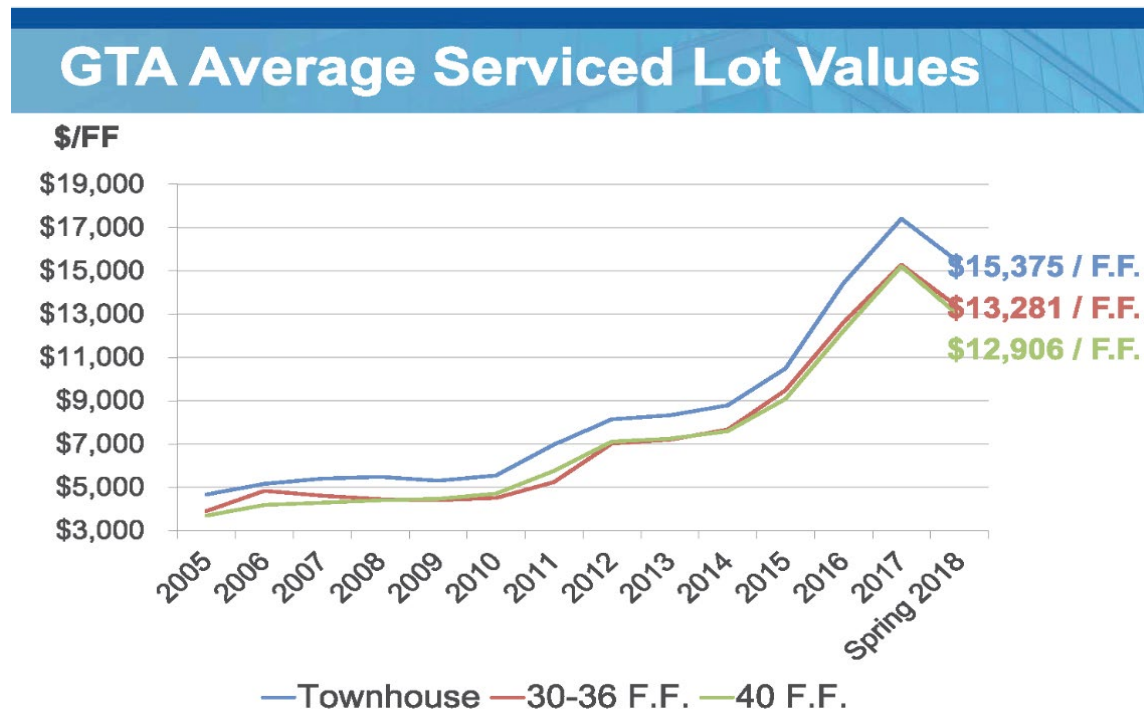
**Figure 13: Housing Starts Per 1,000 of Persons**



Source: CUR based on CMHC & Statistics Canada

## Marked rise in serviced lot values reflect shortage of serviced sites relative to demand

Figure 14:



Richmond Hill Country Club – June 21, 2018

54

Source: MCAP Breakfast Meeting, Spring, 2018.

**Ryerson  
University**

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Faculty of Community Services

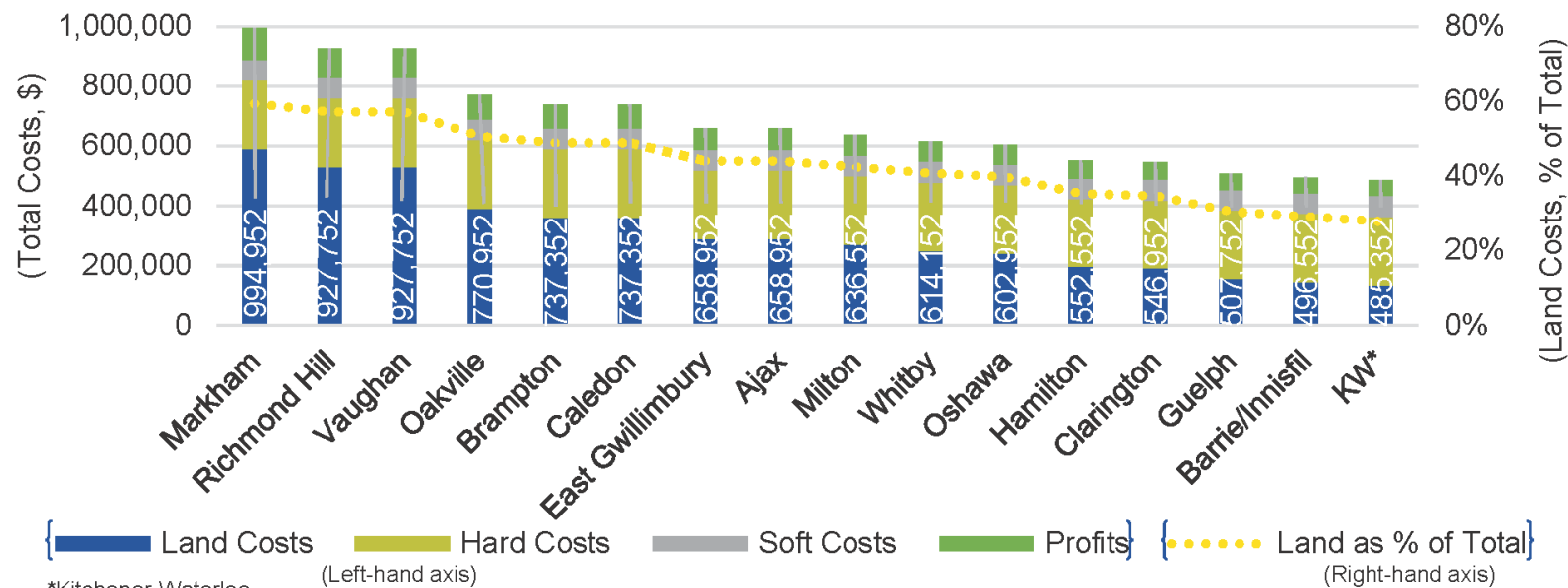
## Government-imposed costs a significant cause of higher new housing prices

Figure 15 – Government imposed costs as % of home value	Single-Detached		High-Rise	
	Government Charges	% of Final Value	Government Charges	% of Final Value
Oakville	\$ 232,498	19%	\$ 132,048	25%
Brampton	\$ 192,889	29%	\$ 138,784	30%
Markham	\$ 219,940	18%	\$ 159,893	30%
Bradford West Gwillimbury	\$ 119,999	21%	\$ 68,779	16%
Ajax	\$ 146,741	24%	\$ 72,597	18%
Toronto	\$ 205,926	22%	\$ 164,527	22%

Source: Altus Group, *Government Charges and Fees on New Homes in the Greater Toronto Area*, May, 2018)

# New housing must be financially viable or it will not be built

**Figure 16: Estimated Prices of New Townhouses in Select Municipalities in the GGH, Spring 2018**



\*Kitchener-Waterloo  
 Source: CUR estimates, details included in Appendix A

Source: Clayton & Olsen, *Townhouses Not a Magic Bullet for GTA Ground - Related Housing Affordability*, CUR, October 2018.

**Adding suites to existing single-detached homes is the most cost effective way of generating affordable rental units**

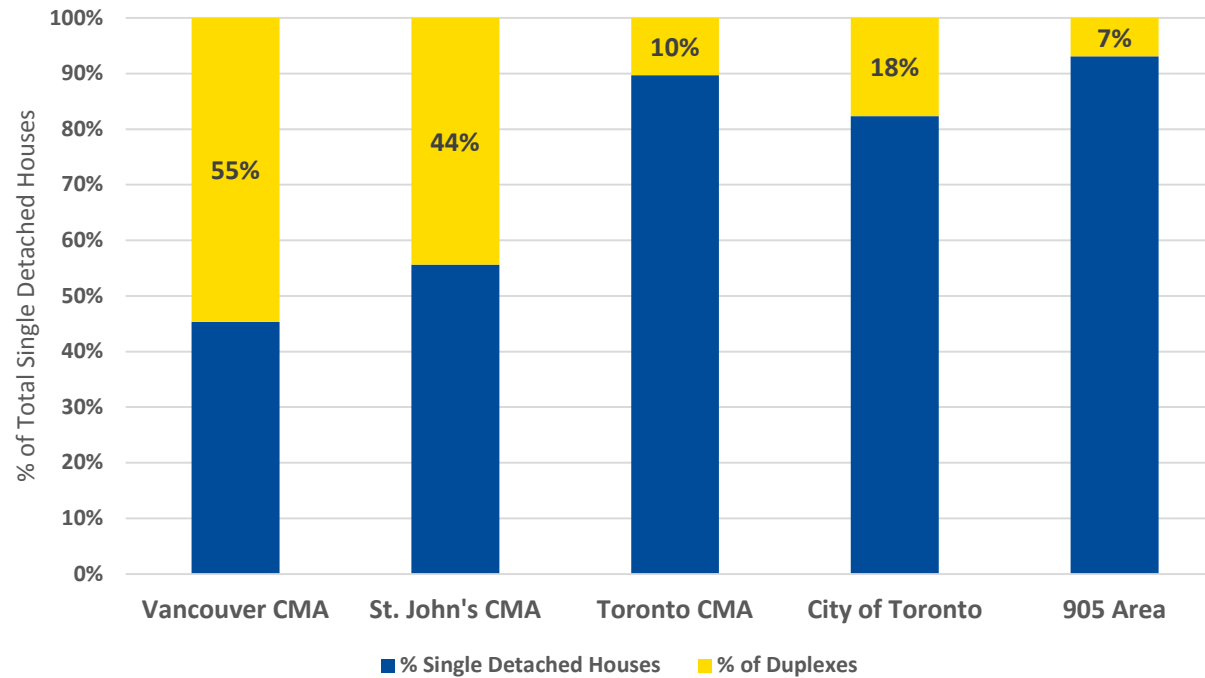
Figure 17: Secondary Suite vs New Construction Comparison	Total Cost Per Unit (Excluding Development Charges)	Monthly Rent Per Unit
<b>New Rental Apartment Suites</b>		
High-end Downtown	\$425,680	\$2,025
Median Central (Not Downtown)	\$345,746	\$1,675
Basic Fringe	\$242,623	\$1,575
Non-Profit (No Return)	\$229,000-\$266,000	\$1,250-1,225
<b>New Secondary Suites</b>	<b>\$55,000</b>	<b>\$1,000</b>

Source: Altus Group, City of Mississauga, CMHC & N. Barry Lyon Consultants



# Lots of potential opportunities for creating second suites in single-detached houses

Figure 18: Stock of Single-Detached Houses and Duplexes (2016)



Source: CUR based on Census of Canada

# Priorities to improve housing affordability in the GTA

- Increase the supply of ground-related and mid-density housing
- Increase the supply of affordable rental housing
- Reduce the level of direct and indirect government-imposed costs embedded in the price of new housing
- Support competition in the housing industry, especially on the land development side

# Actions to improve housing affordability in the GTA

- Monitor land supply by development status, as is being done in Ottawa and Edmonton
- Incorporate housing types in the Province's housing need methodology
- Enforce municipal compliance with Policies 1.4.1 a) and b) found in the 2014 Provincial Policy Statement to foster an ample supply of short-term land by housing type
- Expedite the expansion of municipal sewer and water infrastructure in the 905 region
- Enforce municipal compliance with provincial policy to allow secondary suites in houses as a matter of right to increase the supply of affordable rental housing
- Require municipalities to commit to ample serviced sites for the development of mid-density units like townhouses, stacked townhouses, and low-rise apartments

## Actions to improve housing affordability in the GTA – cnt'd

- Interpret policies in the Growth Plan for the GGH where possible in ways that encourage the construction of a range of housing types
- Delay inclusionary zoning as a municipal housing tool until better regulations are developed which require municipalities to assess their specific market conditions in developing its policy application
- Conduct an in-depth review of Ontario's land use planning system to improve its efficacy and minimize adverse impacts
- Retain the Non-Resident Speculation Tax for the foreseeable future and use its revenues to fund sewer and water infrastructure

# Contact

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# Affordable Housing in Action

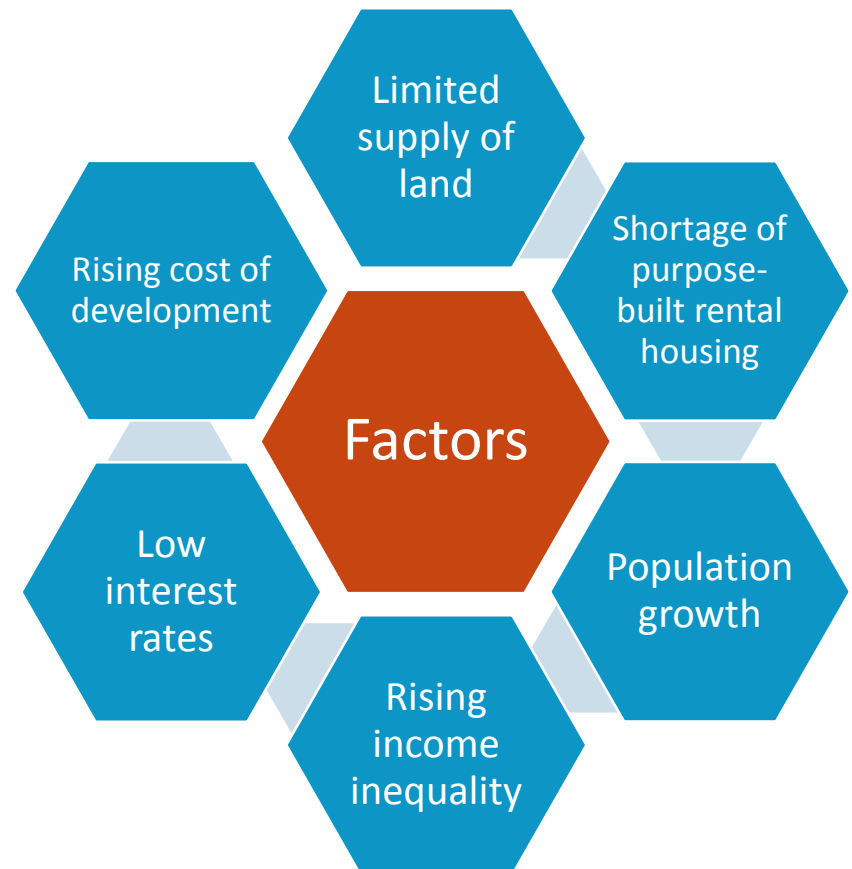
Sean Gadon, Director, Affordable Housing Office

Nov. 30, 2018



# A Turbulent Housing Market

- Drivers include a mix of supply and demand factors
- Sale prices/rents outpacing income growth, residents' capacity to afford renting/buying in Toronto and GTA





# Protect and Enhance Existing Housing Supply

**A.**

**Preserve and revitalize legacy social housing homes**

**B.**

**Maintain affordability and quality of private rental housing**

**C.**

**Prevent the loss of rental housing through conversion/  
demolition**

**D.**

**Promote right-sizing measures**





# Support New Housing Supply

**A.**

**Collaborate in the local delivery of the National Housing Strategy**

**B.**

**Reduce land costs through developing on public surplus sites**

**C.**

**Scaling-up municipal funding and financing initiatives**

**D.**

**Negotiate implementation of inclusionary zoning**

**E.**

**Promote and implement innovations such as laneway housing, modular homes, tiny homes**



# Action on Affordable Housing

- There is a housing crisis in Toronto and region
- The crisis has grown as the cost of housing has risen at a rate faster than incomes, has resulted in displacement of the people and resulted in a mismatch between supply and demand
- Moving forward, action is required on both maintaining and enhancing our existing housing supply, providing new income supports and providing a range of new supply measures
- Action on housing requires new ways of thinking and bold new measures.



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