

CUR'S GTHA Urban Digest

“Promoting Better Urban Policy through Economic Understanding”

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Underestimating New Housing Needs at Odds with Mitigating Housing Unaffordability in the GTHA

In September of 2019, the governments of Canada and British Columbia put together an Expert Panel to recommend solutions to increase the supply of housing and affordability of housing in the province. We identified one aspect of the Panel’s final report as being very relevant to current Ontario practice – that of incorporating an **affordability adjustment** into the methodology of housing needs forecasting.

In this note, we define an affordability adjustment, discuss how it can be applied to the Greater Toronto and Hamilton Area (GTHA), and what it means for determining the number of new housing units required to be built in the GTHA.

CMHC and the provincial governments of BC and Ontario utilize a housing needs methodology, which is a tool to "guesstimate" how much new housing supply should be built to meet future demographic need. The “Coles Note” for this method is that the forecaster projects what household growth can be expected over a defined future period (roughly 30-years in the Ontario context). This approach looks at expected population growth, age structure of the population, and household-forming propensities.

The Canada-BC Expert Panel's final report (**Opening doors: unlocking housing supply for affordability**) argues this methodology is flawed. The report notes that:

“Household growth on its own is insufficient as an indication of future housing needs because household formation is constrained to the available supply – new households cannot form if there is nowhere for them to live (see appendix 5)...In particular, an "affordability adjustment" is necessary to account for past undersupply.” (p. 28)

The Panel recommends using an affordability adjustment, which:

“is somewhat arbitrary, but it should place the estimated number of housing units needed above the projected number of households to close the undersupply and affordability gap.” (p. 63)

Let's put this into context using the Vancouver example from the report. The Panel projects that average annual housing unit needs in the Vancouver census metropolitan area (CMA) will amount to 27,438 units during 2021-2026, about 10,000 units (57%) more than household growth. (p. 65)

This sizable difference is due mainly to the affordability adjustment. The Panel calculates the adjustment factor using a formula that calculates the extent to which the median housing price-to-median household income ratio exceeds four. It also adjusts for the number of units needed to make up for losses in the existing housing stock (demolitions and net conversions) and the number of additional units required to increase vacancy rates.

This publication provides a commentary on what we are reading in regards to the performance of economies and real estate markets, as well as land-use policy issues across the GGH. Feel free to pass this issue to your colleagues and let us know your reactions to our observations.

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The calculation of average annual housing needs in the Vancouver CMA between 2021 and 2026 would then look like the following:

- Household growth = 17,440 units
- Affordability adjustment = 6,374 units
- Demolitions and conversions = 3,100 units
- Vacancy allowance = 524 units

Total average annual housing need = 27,438 units, or 57% more than household growth

CUR Response (Frank Clayton)

There is no question that there has been an underproduction of new housing in the GTHA, particularly of ground-related units (singles, semis, townhouses). Will Dunning estimates there has been a shortfall of 89,300 units in the latest 13 years, or almost 7,000 units per year, and the deficiency has been in the construction of ground-related homes. (Dunning, **Not Enough Places to Live**, p. 5).

In Ontario, the demographic approach is utilized to forecast housing needs – analyzing household growth and the type of housing units needed to forecast future needs. The province's land needs methodology mentions the household forecasts can be adjusted by various factors, including replacing net losses in the existing stock (e.g. demolitions), changes in vacancies, market contingency, but these are not required. (**Land Needs Assessment Methodology for the Greater Golden Horseshoe**, pp. 8 and 14).

However, there is no mention of an affordability adjustment to compensate for past underbuilding of housing in the Ontario methodology. All the housing needs forecasts we have seen to date for municipalities in the GTHA are based on household growth alone.

Expanding Ontario's housing needs methodology to incorporate the affordability adjustment and the other adjustments introduced by the Canada-BC Expert Panel would significantly enlarge the average estimate for annual housing needs in the GTHA between 2021 and 2031. Allowing for these adjustments would increase the projected required housing needs from the average 50,400 households (units) per year forecast by Hemson Consulting in 2020 (**Hemson Report GGH Growth Forecasts to 2051**, p. 60), to an estimated 79,300 units per year. The forecasts apply the Vancouver CMA factors:

- Household growth = 50,400 units
- Affordability adjustment = 18,400 units
- Demolitions and conversions = 9,000 units
- Vacancy allowance = 1,500 units

Total average annual housing need = 79,300 units or 55% more than household growth

Incorporating an affordability adjustment into “market contingency” makes eminent sense.

In the absence of an affordability adjustment, the housing needs forecasts prepared by municipalities in the GTHA as part of the update of their municipal comprehensive reviews and official plans will significantly underestimate the new housing required to both accommodate household growth **and** close the affordability gap. Affordability will continue to deteriorate in the GTHA if the new supply is insufficient to accommodate both household growth and net losses in the existing housing stock.

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