



Why Are There Not More Townhouses Being Built in the Greater Toronto Area and What is the Outlook?

May 30, 2017

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May 30, 2017

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EXECUTIVE SUMMARY

The fundamental question being addressed here is why have the construction of townhouses been lower and not increasing across the Greater Toronto Area (GTA) since the first half of the 2000s. With the sharply reduced affordability of single-detached homes and the Province's planning interventions favouring townhouses and other denser forms of housing over single-detached houses, the expectation would have been for townhouse starts to increase, not to decline.

The main findings of the report are summarized below.

GTA Townhouse Starts Fell About 25 Percent on Average during 2006-2016 from 2001-2005

- Despite the Province's intention in the 2006 *Growth Plan for the Greater Golden Horseshoe* (the *Growth Plan*) for a shift to the construction of townhouses and other more dense housing types away from single-detached homes, the number of townhouse starts in the GTA declined from an average of about 6,800 units per year in 2001-2005 to about 5,000 units in 2006-2016, a drop of about 25 percent;
- The decline in the 905 area of the region, where most new townhouse production occurs, mirrored the GTA-wide decline falling from an average annual 5,700 units in 2001-2005 to 4,400 units in 2006-2016;
- Over the past two decades York Region has been the largest producer of townhouses in the 905 area followed by Peel and Halton Regions with Durham being the laggard;
- The decline in 905 townhouse starts between 2001-2005 and 2011-2015 largely occurred in Peel and Halton Regions – in 2016, Durham's starts surpassed Peel Region's; and
- Annual townhouse starts in the City of Toronto fell sharply from an average of 1,076 units in 2001-2005 to just 509 units in 2011-2015 before rising slightly in 2016 to 623 units.

A Scarcity of Serviced Sites is a Primary Cause of the Decline in Townhouse Construction

- The prima facie evidence point to a scarcity of serviced sites as a primary cause of townhouse construction not increasing since:

- There has been a robust demand for townhouses, as reflected by rising existing (MLS) townhouse sales, so demand is not a factor in causing sluggish townhouse starts; and
- There is some indication that development economics are resulting in developers shifting their focus to stacked townhouses from townhouses but the numbers have not been large. Stacked townhouses are categorized as apartments by the Canada Mortgage and Housing Corporation (CMHC).

The Outlook is for Higher Townhouse Construction in the GTA but Not Enough to Meet the Future Need

- GTA townhouse starts increased in 2015 and 2016 and in the first four months of 2017 but the increases are modest, according to CMHC;
- Sales of new townhouse units have picked up even more recently which should be soon translated into higher starts;
- However, a much larger increase in townhouse starts is essential to counter the sizeable policy-induced decline in single-detached house starts and to accommodate the unfulfilled demand for ground-related homes; and
- There is a pressing need for the Province to recognize the challenge of augmenting the supply of new townhouses in the GTA and to require both municipalities in the 905 area and the City of Toronto to significantly increase the supply of serviced sites for townhouses within their boundaries – the former on greenfield sites and the latter on lower-priority employment (industrial) lands.

1. BACKGROUND

The Province of Ontario in its recently announced update of the *Growth Plan for the Greater Golden Horseshoe*¹ accepted many of the recommendations from the Crombie Advisory Panel's report.² The Crombie Panel Report in December 2015 recommended raising the Province's desire for higher density forms of housing, i.e. townhouses and apartments, over the traditional single-detached house. It viewed the growth of single-detached homes in a negative light:

Much of the recent urban growth has been in the form of low-density, car-dependent suburbs, providing many residents with affordable, single-detached homes. However, this form of development, often known as urban sprawl, has resulted in loss of farmland, traffic congestion, deteriorating air and water quality, impacts on human health, and the loss of green space, habitats and biodiversity. (P. 9)

Townhouses are the primary higher density alternative to single-detached homes which provide several of the same desired amenities – ground level entry, yard for kids and dogs, barbequing and privacy³ (apartments do not provide comparable amenities). Conventional townhouses fronting on municipal streets provide more housing units on less land, approximately double the yield per hectare when compared to single-detached homes – about 50 units per hectare (20 units per acre) for townhouses compared to about 25 units per hectare (10 units per acre) for single-detached houses in net density.⁴ Innovative townhouse configurations fronting on private roads or on green space and back-to-back townhouses have significantly higher yields.⁵

The Crombie Panel Report also noted that the size of single-detached lots had been diminishing over the past two decades which includes the decade before the *Growth Plan* was enacted:

Since 1986, there has been a long-term trend towards smaller lot sizes across the GGH, but many of the houses built on those smaller lots are still detached dwellings in car-dependent suburbs. (P. 25)

¹ Province of Ontario, *Growth Plan for the Greater Golden Horseshoe*, May 2017.

² Ministry of Municipal Affairs and Housing, *Planning for Health, Prosperity and Growth in the Greater Golden Horseshoe: 2015-2041* (The Crombie Panel Report), 2015.

³ Clayton, Frank, *Will GTA homebuyers really give up ground related homes for apartments?*, Centre for Urban Research and Land Development, Ryerson University, August 15, 2016.

⁴ Given, Don, *Economics and land use planning seminar: Observations, comments and suggestions on the draft provincial growth and greenbelt plans*. Presented at the Centre for Urban Research and Land Development's *Economics and Land Use Planning in the Greater Golden Horseshoe*, October 28, 2016.

⁵ See discussion at the end of this section why semi-detached houses are not considered in the analysis here.

Apparently this shift to more compact single-detached development was deemed insufficient by the Crombie Panel (and now the Province as well). It should be noted that the frontage of lots for single-detached homes in the GTA is now as narrow as 26-28 front feet in new projects being marketed.⁶

Crombie also favourably observed the greater variety of housing types built since 2006 as noted in the *Growth Plan* performance indicator report:

Growth Plan performance indicators found that there was a greater variety of housing types being built in 2013 compared to 2006, with a larger proportion of higher-density developments across the region. This shift not only contributes to higher densities and less land consumption, but also increases the housing options available to residents with varied housing needs. (P. 25)

This shift away from single-detached houses occurred entirely in the apartment sector, however, as the numbers of new townhouses built in the GTA declined since the first half of the 2000s decade as did the construction of new semi-detached houses.

While trends in semi-detached house starts are shown in several of the figures, they are not explicitly addressed in the text. These starts have been trending downward even more than single-detached house starts and currently are not very large. The GTA as a whole had just 832 starts of semi-detached houses in 2016 and 1,026 units in 2015.

The shrinkage of lot frontages for single-detached houses has significantly reduced the market and financial viability of semi-detached houses. Builders now can build two narrow lot single-detached houses on a lot that previously accommodated two semis. Given a choice of a small price differential, most buyers opt for a dwelling without a common wall with another dwelling (for a single over a semi).

⁶ This is based on a review of several recent new developments being marketed in the GTA.

2. ISSUES CONSIDERED

The sharp drop in the production of single-detached houses since the first half of the 2000s occurred at a time MLS sales of existing houses were increasing. This decline in single-detached starts is the direct result of a shortage of serviced sites.⁷ However, the production of townhouses has not increased to replace the reduced single-detached house production as envisaged by the *Growth Plan*.

We would have expected the townhouse production to rise in the time since 2006 to offset the declining production of single-detached houses as well as the decline in starts of semi-detached houses because:

- Townhouses are a substitute for single-detached houses by homebuyers who want more affordable ground-related housing; and
- Townhouses yield a greater density for a given parcel of land than singles.

The failure of townhouse starts to increase since the *Growth Plan* came into place in 2006 could be the result of: (a) a lack of consumer demand; (b) a scarcity of serviced sites on which to build townhouse developments in both the 905 regions and the City of Toronto; and/or (c) site development economics that favour the rezoning of townhouse sites to higher densities (e.g., stacked townhouses). Each of these potential factors is examined in the report.

The outlook for townhouse starts is also explored.

⁷ Clayton, Frank, *Will GTA Homebuyers Really Give Up Ground-Related Homes for Apartments?*, August 15, 2016 and *Countering Myths About Rising Ground-Related Housing Prices in the GTA: New Supply Really Matters*, April 25, 2017, Centre for Urban Research and Land Development, Ryerson University.

3. TERMINOLOGY

For this report we use CMHC's housing type definitions:⁸

Single-detached houses - These structures contain only one dwelling unit which is completely separated on all sides from any other dwelling or structure. It includes link homes where two units share a common basement wall but are separated above grade.

Semi-detached houses – These consist of one of two dwellings located side-by-side in a building adjoining no other structure with a common or party wall extending from ground to roof.

Townhouses - Also called row housing, these are dwelling units in a row of three or more dwellings which are attached but separated by common or party walls extending from ground to roof. Stacked townhouses are categorized as apartments, not townhouses.

Apartments – Include all dwelling types other than single detached, semi-detached and townhouse dwellings. These include stacked townhouses, duplexes, triplexes, double duplexes and row duplexes in addition to conventional apartment buildings.

⁸ Canadian Mortgage and Housing Corporation, *Housing Now Tables – Canada*, 2016. Retrieved from: https://www.cmhc-schl.gc.ca/odpub/esub/63830/63830_2016_M12.pdf?fr=1483721323477&sid=kQm8ZPWbgZfZmS2KiaQi1Rw8c1EyuoO1OVxP6JRusiY8i5GGEc5i6QpWnXnjy1X

4. A LOOK AT HOUSING START PATTERNS BY TYPE OF HOUSING UNIT IN THE GTA⁹

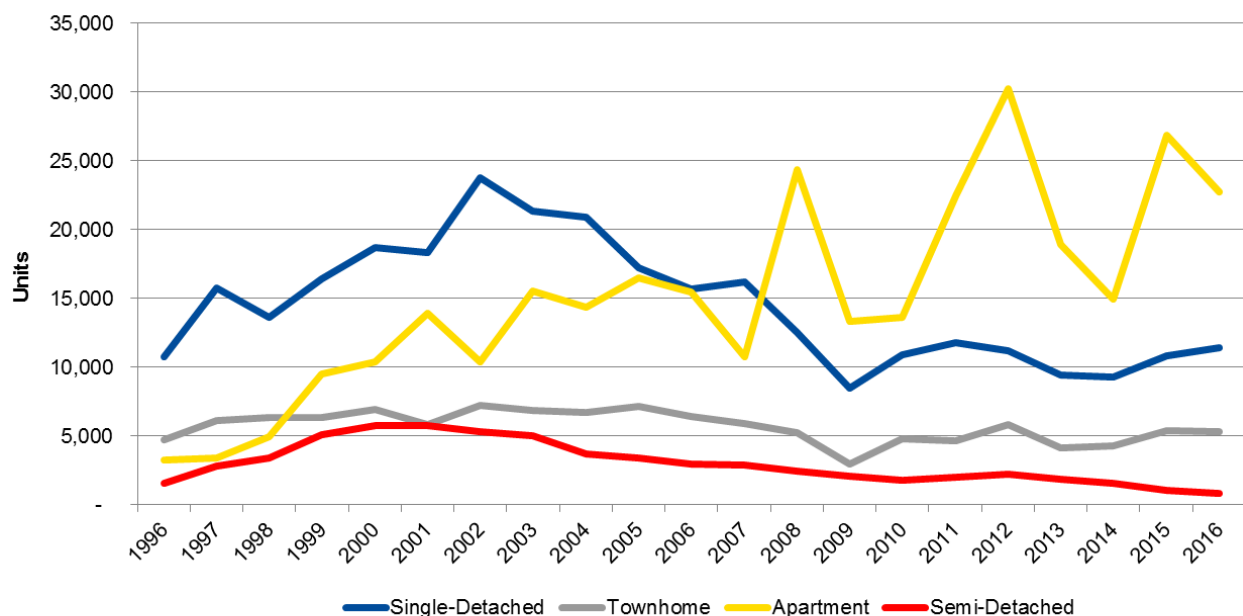
Our research looks at housing starts by unit type from 1996 to 2016 – roughly the decade before and the decade after the 2006 *Growth Plan* was enacted in order to analyze the shifting trends in residential development in the GTA. Highlights of the research results follow.

4.1 The Drop in GTA Single-Detached Starts has not been offset by Higher Townhouse Starts

Instead of rising in response to a sharp drop in single-detached house starts, the production of new townhouses in the GTA also fell by about 25 percent since the first half of the 2000s (see Figure 1). The average number of townhouse starts per year average about 5,000 units over the past six years compared to about 6,800 per year in 2001-2005.

These declines occurred at a time of rising demand for both single-detached houses and townhouses in the GTA, as reflected in higher MLS sales of existing homes (see Figure 5).

Figure 1:
Housing Starts by Unit Type, GTA, 1996-2016



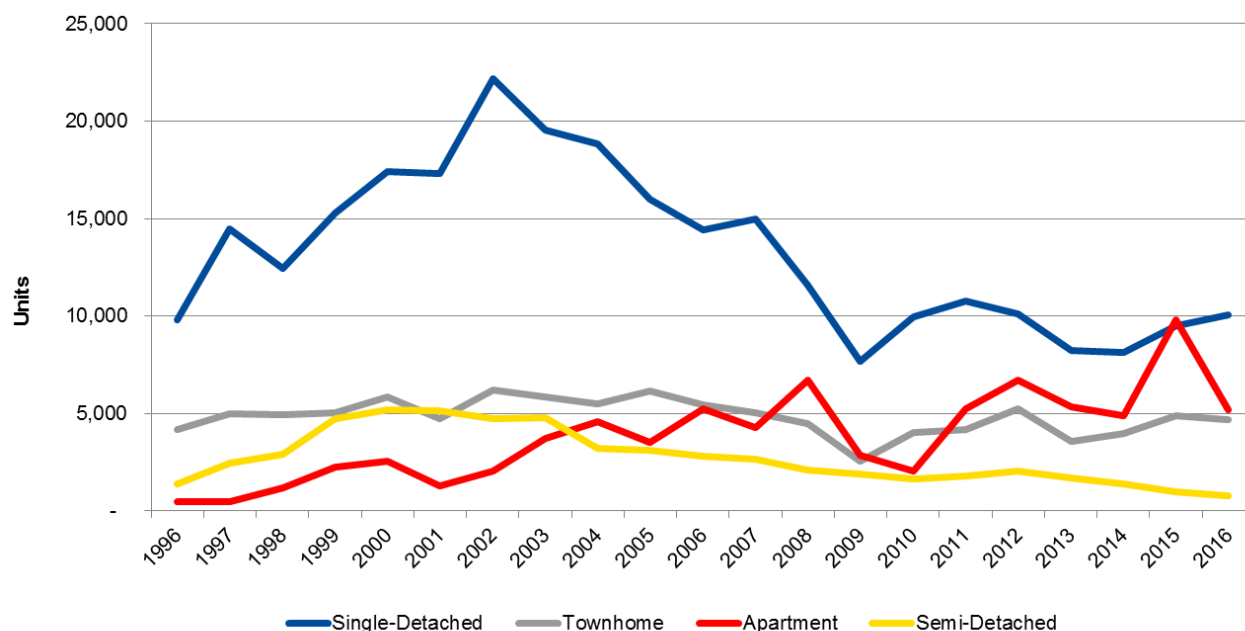
Source: CUR based on CMHC data.

⁹ As noted previously, semi-detached units are excluded from the discussion here given their small numbers. Like singles, starts of semis have declined over the past couple of decades.

4.2 The Decline in 905 Townhouse Starts Mirrored the GTA Decline in Starts

The decline in the 905 area of the region, where most new townhouse production occurs, mirrored the GTA-wide decline falling from an average annual 5,700 units in 2001-2005 to 4,400 units in 2006-2016 (see Figure 2).

Figure 2:
Housing Starts by Unit Type, 905 Area of the GTA, 1996-2016

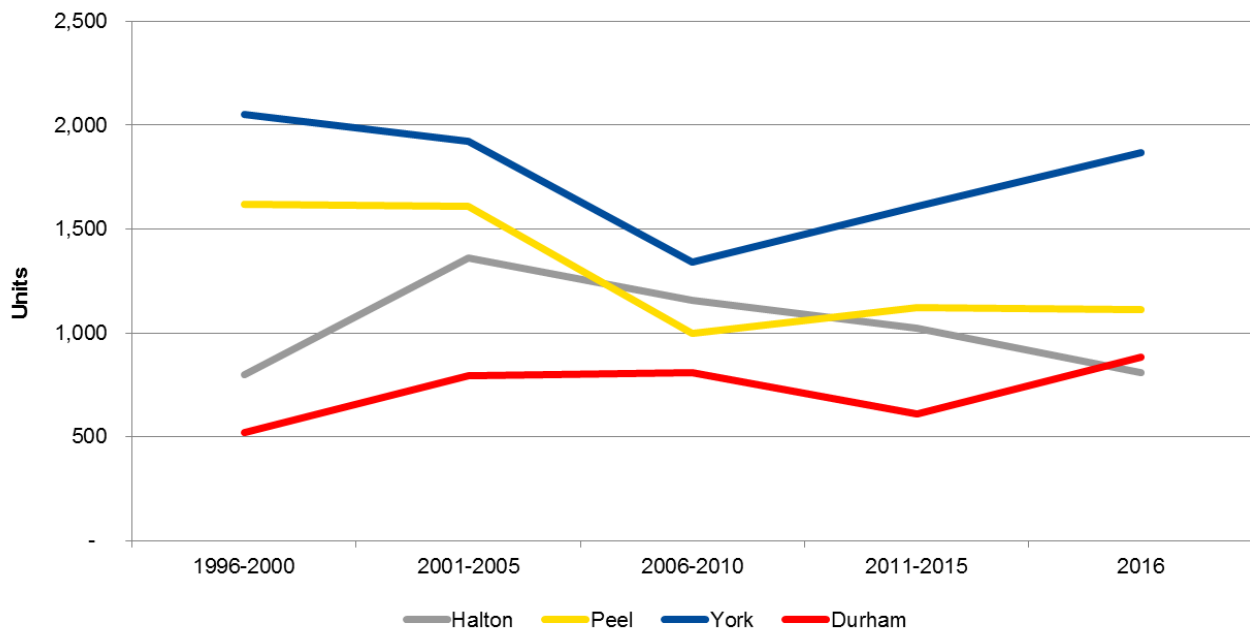


Source: CUR based on CMHC data.

4.3 York Region Largest Producer of Townhouses in 905 Area

Over the past two decades York Region has been the largest producer of townhouses in the 905 area followed by Peel and Halton Regions with Durham being the laggard (see Figure 3). The decline in 905 townhouse starts between 2001-2005 and 2011-2015 largely occurred in Peel and Halton Regions – in 2016, Durham's starts surpassed Peel Region's.

Figure 3:
Average Annual Townhouse Starts by 905 Region, GTA, 1996-2016

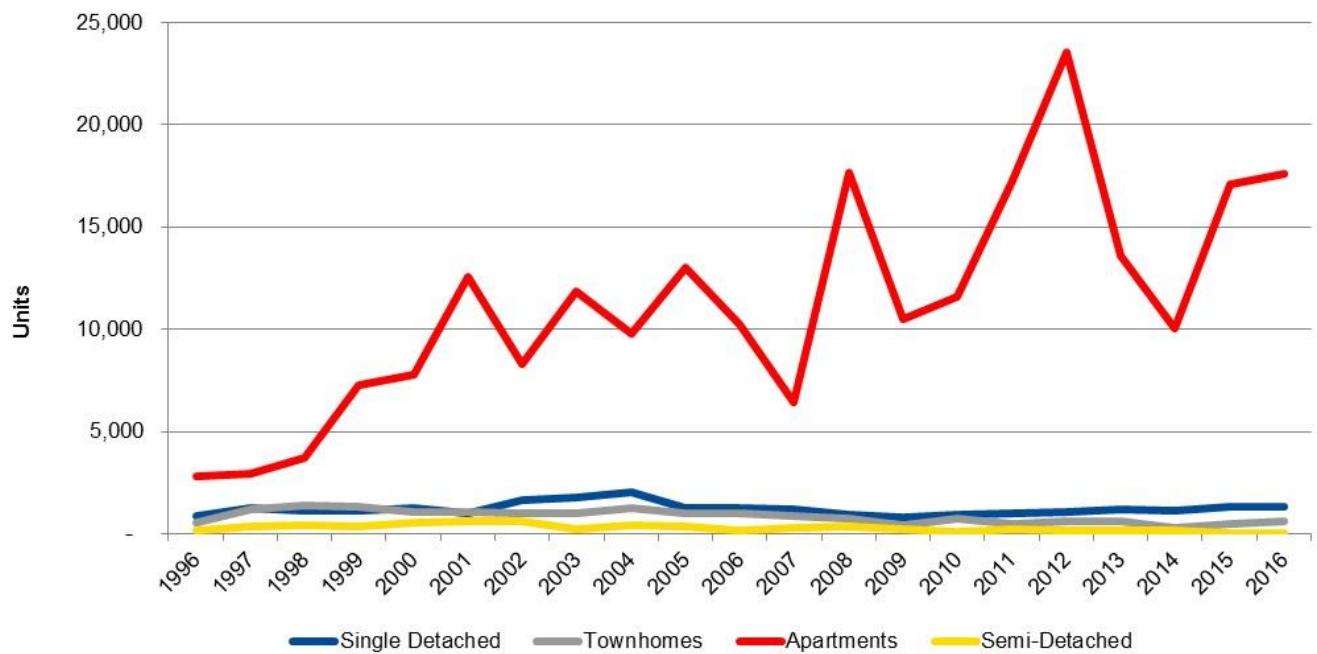


Source: CUR based on CMHC data.

4.4 Townhouse starts fall sharply in the City of Toronto

In the City of Toronto, townhouse starts make up a very small portion of annual housing starts, which are mostly apartment units (see Figure 4). Even so, annual townhouse starts in Toronto fell sharply from an average of 1,076 units in 2001-2005 to just 509 units in 2001-2015 before rising slightly in 2016 to 623 units.

Figure 4:
Housing Starts by Unit Type, City of Toronto, 1996-2016



Source: CUR based on CMHC data.

5. POTENTIAL EXPLANATIONS FOR WHY TOWNHOUSE STARTS HAVE NOT INCREASED IN THE GTA

Three possible reasons for the decline in townhouse starts both before and after the 2006 *Growth Plan* was enacted are explored:

- A lack of consumer demand;
- Site development economics that favour applying to rezone townhouse sites for higher densities; and
- A scarcity of serviced sites on which to build townhouse developments in both the 905 regions and the City of Toronto.

5.1 Lack of Consumer Demand

For most non-condominium apartment homebuyers, single-detached houses have been the top housing type preference. Townhouses come on the radar screen only at times of what the RBC economists have called “intense affordability stress.”¹⁰ There are exceptions of course. Households wanting to live centrally in the City of Toronto, where affordability has long been an issue, are more likely to regard a townhouse as a substitute for a single-detached house. Some empty nesters and retirees look favourably on the concept of bungalow-style townhouses in communities with adult-style amenities.

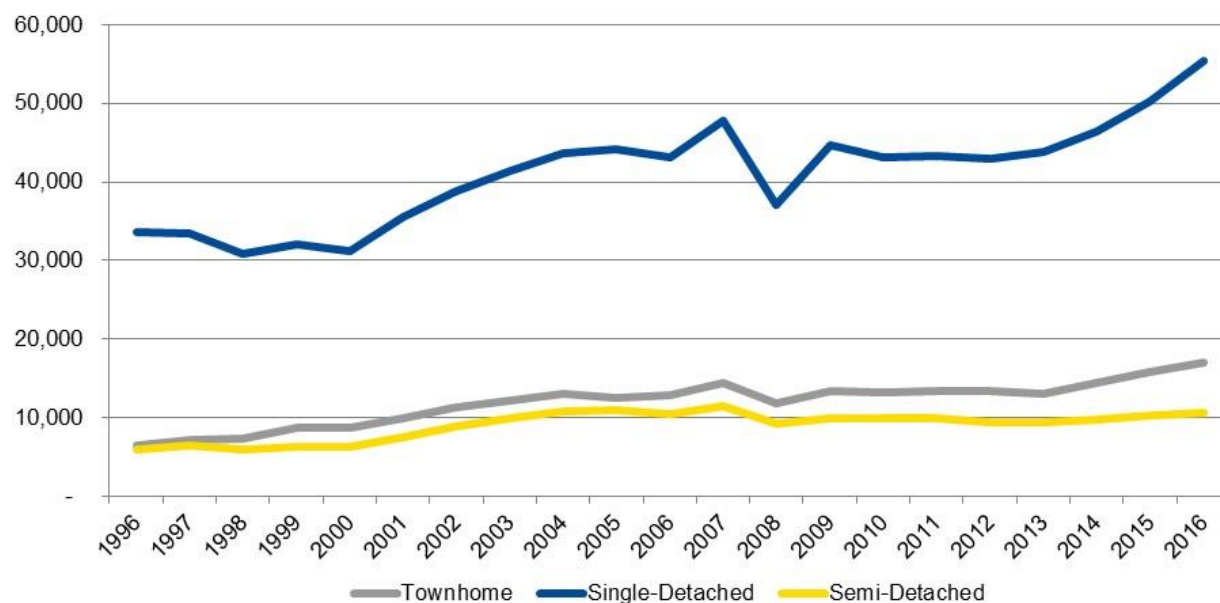
There are actually two ownership townhouse sub-markets – freehold and condominium. Freehold townhouses are the least expensive to buy and maintain as there typically are fewer amenities and no monthly condominium fees. There is also a hybrid townhouse niche sometimes referred to as freehold condominiums.

There has been an upward trend in sales of resale townhouses over the past two decades centred in 2001-2007 and 2014-2016 - existing single-detached house sales were also robust (see Figure 6).

It is odd that the strength in townhouse sales in the resale market has not spilled over to the new home market under robust market conditions. In our view, there has been and is an underlying demand for new townhouse units which is not being met by the homebuilding industry.

¹⁰ RBC Economics, *Housing Trends and Affordability*, December 2016. Retrieved from: <http://www.rbc.com/newsroom/assets-custom/pdf/20161221-ha.pdf>

Figure 5:
MLS Ground-Related Home Sales by Type of Unit, GTA, 1996-2016



Source: CUR based on TREB data.

5.2 Site Development Economics

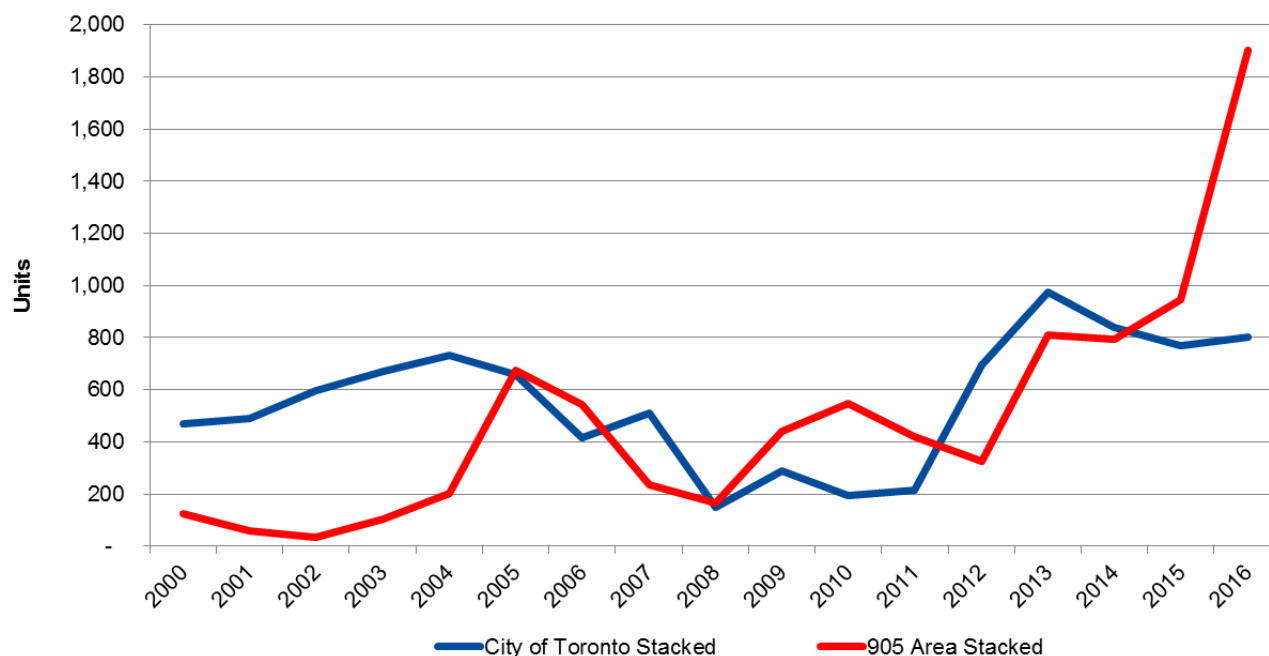
The economics of building townhouses on a particular parcel of land will typically be more favourable than single-detached houses because of the greater profitability from selling 20+ townhouses than, for example, 10 single-detached houses. The opposite is the case if a developer is able to obtain planning permissions to build stacked townhouses or conventional apartments on a land parcel instead of townhouses.

There is no comprehensive data on the rezoning of sites intended for townhouses to permit a higher density of development so it is unclear how big a factor this might be in the failure of townhouse starts to move higher in response to demand resulting from the deteriorating supply and affordability of single-detached houses. Data on sales of new units in stacked townhouse projects support the likelihood that there have been situations in which townhouse sites have been rezoned for stacked townhouse projects.

We do have Altus Group data on the sales of stacked townhouses in the new projects on the market in the GTA and the City of Toronto which point to a rise in the numbers of new stacked townhouses

being marketed. Even with the sharp increase in stacked townhouse starts in the 905 area in 2016, the total numbers are not large (see Figure 6).

Figure 6:
Sales of New Stacked Townhouses, GTA, 2000-2016



Source: CUR based on Altus Group data.

5.3 Scarcity of Serviced Sites for Townhouses

So far it has been ascertained there is a strong underlying demand for new townhouse units in the GTA and that some potential townhouse construction has been deflected to stacked townhouse projects. But the question remains: why have developers not put more townhouse projects on the market to capture the untapped demand? The only logical answer is a scarcity of serviced sites, just like the situation for single-detached houses and short-term land supply data for the GTA compiled by the Province's Ontario Growth Secretariat confirms this.

As at the end of 2016, the 905 area had an inventory of sites equivalent to 15,195 townhouse units in registered subdivisions (5,003 units on unbuilt sites) or draft approved subdivisions (10,192 units).¹¹ This short-term supply represents a years' supply of between 2.7 and 3.3 years in the 905 area depending upon the demand measure used:

¹¹ Short-term land supply information at the end of 2016 provided by the Ontario Growth Secretariat to Professor David Amborski in an email dated May 15, 2017. The City of Toronto is not included in the short-term land supply data provided.

- 3.3 years using 2016 townhouse starts;
- 3.2 years using Hemson forecasts of average annual growth in households living in townhouses between 2011 and 2021;¹² and
- 2.7 years using the average annual townhouse starts in 2001-2005 as the demand measure.

At an absolute minimum from a policy perspective the short-term supply of townhouse land should be 4 years.¹³ Clearly a years' supply of 2.7 years to 3.3 years in the 905 area falls short of this requirement.

From a market perspective, it is evident that even a larger inventory of vacant registered sites or draft approved sites is required to support an increase of townhouse starts from recent levels in the GTA. The target should be more than a six years' supply of short-term land at all times which should be sufficient to maintain stable or below inflation housing price increases over the longer-term.¹⁴

¹² Hemson Consulting Ltd., *Greater Golden Horseshoe Growth Forecasts to 2041: Technical Report (November 2012) Addendum*, Ministry of Infrastructure, June 2013.

¹³ The 2014 *Provincial Policy Statement* requires that planning authorities maintain at least a three-year land supply "at all times." This means the minimum supply of land must be four years each time the monitoring is done with annual monitoring.

¹⁴ Clayton, Frank, *Greater Golden Horseshoe Short-Term Residential Land Adequacy Report Series Overview*, No.1, Centre for Urban Research and Land Development, Ryerson University, March 2, 2017.

6. OUTLOOK FOR TOWNHOUSE STARTS IN THE GTA

There are signs that the numbers of townhouse starts are and will likely continue to increase in the coming year:

- Townhouse starts in the GTA climbed modestly from 4,288 units in 2014 to 5,293 units in 2016 and the increase has continued into the early months of 2016; and
- Townhouse sales have increased even more in the last two to three years, according to Altus Group, which should translate into further increases in starts over the next year or two.

However, a much larger increase in townhouse starts is essential to counter the sizeable policy-induced decline in single-detached house starts and to accommodate the unfulfilled demand for ground-related homes in the GTA.

There is a pressing need for the Province to recognize the challenge of augmenting the supply of new townhouses in the GTA and to require both municipalities in the 905 areas and the City of Toronto to significantly increase the supply of serviced sites for townhouses within their boundaries – the former on greenfield sites and the latter on lower-priority employment (industrial) lands.