



Countering Myths about Rising Ground-Related Housing Prices in the GTA: New Supply Really Matters

Policy Report

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April 25, 2017

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ABSTRACT¹

The public discussion on the fundamental causes behind the rise in prices of ground-related housing (singles, semis and townhouses) in the GTA over the past decade by ignoring or downplaying the role played by the shortfall of serviced sites available to build new homes misses the only viable solution to dealing with deteriorating longer-term affordability – significantly increasing the number of new ground-related housing units built.

A robust requirement for new ground-related homes in the GTA was predicted as far back as 1993 so it is a fallacy to blame an unexpected surge in underlying demand for the rising prices. The blame falls largely on the Provincial Government and municipalities for failing to respond effectively to the expected demand.

What is required is a shift in the direction of the Provincial Government's land-use planning policy to one of aggressively supporting a major initiative to bring more serviced sites for ground-related housing to the marketplace as soon as is practically possible. There is a need to attack this fundamental supply shortfall of serviced sites for the construction of ground-related housing independent of short-term measures designed to curtail short-term speculative-type demand.

The expansion of the serviced land supply for ground-related housing needs to happen sooner than later. By necessity this largely will take place in the 905 regions which have vacant lands designated for housing. The key is to expedite the approval and servicing of these designated lands for ground-related housing. The City of Toronto can contribute by redeveloping obsolete or low-priority industrial (employment) lands into new ground-related housing communities (like it did with the Warden Woods community in former Scarborough).²

This report discusses the myths inherent in much of the current discussion of the rising housing price problem which are not supported by objective and comprehensive data-based research and presents the market realities.

¹ This commentary was authored by David Amborski and Frank Clayton. David Amborski is Director of the Centre for Urban Research and Land Development at Ryerson University and a Professor of Urban and Regional Planning. Dr. Frank Clayton is a Senior Research Fellow at the Centre for Urban Research and Land Development.

² See Frank Clayton, *Warden Woods: A Case Study of Building Affordable Market Family Housing on Former Industrial Lands*, Centre for Urban Research and Land Development, Ryerson University, April 27, 2015.

BACKGROUND

We are in agreement with a recent report on the Greater Toronto Area (GTA) housing market which stated that:

“It is important to get the diagnosis right about the causes of high housing prices. Without the right diagnosis, policy aimed at affordability will either be ineffective or counter-productive.”³

Unfortunately, the author and many others, by ignoring or downplaying the role of a lack of serviced land on constraining the productions of new ground-related housing units (singles, semis and townhouses), do not get the economic analysis right.

A number of beliefs about the GTA’s ground-related housing market and the causes of rising housing prices over the past decade are myths – positions not supportable by objective and comprehensive data-based research. Policies based on these myths will be “ineffective or counter-productive” because of the wrong analysis of the root cause of the rising prices.

These myths and the corresponding housing market realities are discussed below.

This report focuses on the market fundamentals in the GTA market for ground-related housing since 2006 and not on the frenzied behaviour that has come to the forefront during the past 12 months. While there is a need to take action to remove speculative-type purchasers from the GTA housing market, this is not a solution to improving housing affordability of ground-related housing in the GTA over the longer-term. This requires a sizeable ratcheting up of the number of ground-related housing built annually, which cannot be done without a significant rise in the supply of serviced sites on which to build these homes to meet the demand.

³ Josh Gordon, *In High Demand: Addressing the Demand Factors Behind Toronto’s Housing Affordability Problem*, Ryerson CBI Policy Paper, March 13, 2017, p. 1.

MYTH #1: THERE HAS BEEN ENOUGH NEW HOUSING BUILT TO MEET THE NEEDS OF POPULATION GROWTH IN THE GTA OVER THE PAST TWO DECADES

Reality: The total number of new housing units completed in the GTA on average per year has maintained a pace reasonably close to underlying demographic increase in the number of households over the past two decades.⁴ If homebuyers did not care about the type or size of the housing they lived in (e.g., they were indifferent between a one or two-bedroom condominium apartment and a three or four single-detached house), the market would have been in reasonable balance between demand and supply and price increases moderate at the regional level.

Unfortunately, there has been a marked mismatch between the types of units brought to the market and the types demanded. A large proportion of the new completions have been high-rise condominium apartments whereas a large proportion of the demand has been for owner-occupied ground-related housing.

The strength in the demand for ground-related housing is the result of fundamental factors including high employment growth and immigration, low interest rates and a shifting preference by the aging millennials to move out of apartments or their parents' homes into ground-related housing at locations throughout the GTA.

Figure 1 documents the mismatch between completions of ground-related housing units and apartments and the mix envisaged in the forecasts prepared by Hemson Consulting (Hemson) for provincial ministries.⁵ For Hemson (2005) two forecasts are presented: Current Trends (reflecting the market preferences of households) and Compact (Hemson's compact forecasts were adopted by the Province for purposes of the 2006 Growth Plan and allows for the effect of policy interventions to discourage ground-related housing):

- For the 2001-2011 decade, the Hemson (2005) forecast that about 70 percent of new housing should be ground-related and about 30 percent apartments – ground-related completions at 68 percent of the total were close to the forecast because of high completions in first half of the decade before the Growth Plan);
- For the current 2011-2021 decade, the two Hemson (2005) forecasts diverge with the proportion of ground-related housing forecast to 63-68 percent with the Compact

⁴ A household is defined as one or more persons occupying a dwelling unit.

⁵ Forecasts of a robust growth in total households and households opting for ground-related housing in the GTA date back to 1993. See Hemson Consulting Ltd. And The Coopers & Lybrand Consulting Group, *The Outlook for Population and Employment in the GTA*, prepared for The Office for the Greater Toronto Area, August 1993.

scenario the lowest – in contrast, ground-related housing’s share of total completions fell to 46 percent to date in the decade.

Thus the mismatch in the share of total housing accounted for by ground-related housing types between the Current Trend housing forecast in Hemson (2005) and completions in the current decade is a whopping 22 percentage points (68 percent minus 46 percent).

**Figure 1:
Completions and Forecasted Household Growth by Unit Type, GTA, 2001-2021**

| | % of Total Units | | | |
|------------------------------|------------------|------------|------------------|------------|
| | Ground Related | Apartments | Ground-Related | Apartments |
| Hemson (2005): | 2001-2011 | | 2011-2021 | |
| Current Trends (2005) | 71% | 29% | 68% | 32% |
| Compact | 70% | 30% | 63% | 37% |
| Hemson (2013) | n/a | n/a | 54% | 46% |
| | % of Total Units | | | |
| | 2001-2010 | | 2011-2016 | |
| Completions | 68% | 32% | 46% | 54% |

*Ground-related homes: single- and semi-detached dwellings and townhouses.

Source: CUR based on CMHC data and Hemson Consulting Ltd., *The Growth Outlook for the Greater Golden Horseshoe*, prepared for various Provincial Ministries, January 2005 (Hemson. 2005) and Hemson Consulting Ltd., *Greater Golden Horseshoe Growth Forecasts to 2041*, Technical Report, November 2012 and Addendum. June 2013, prepared for the Greater Golden Horseshoe Forecast Committee (Hemson. 2013).

Under the latest Hemson forecasts Hemson (2013) the shift in housing mix away from ground-related housing to apartments is even more pronounced for 2011-2021 than in the 2005 forecasts. This reflects provincial policy directions and not a shift in market demands.

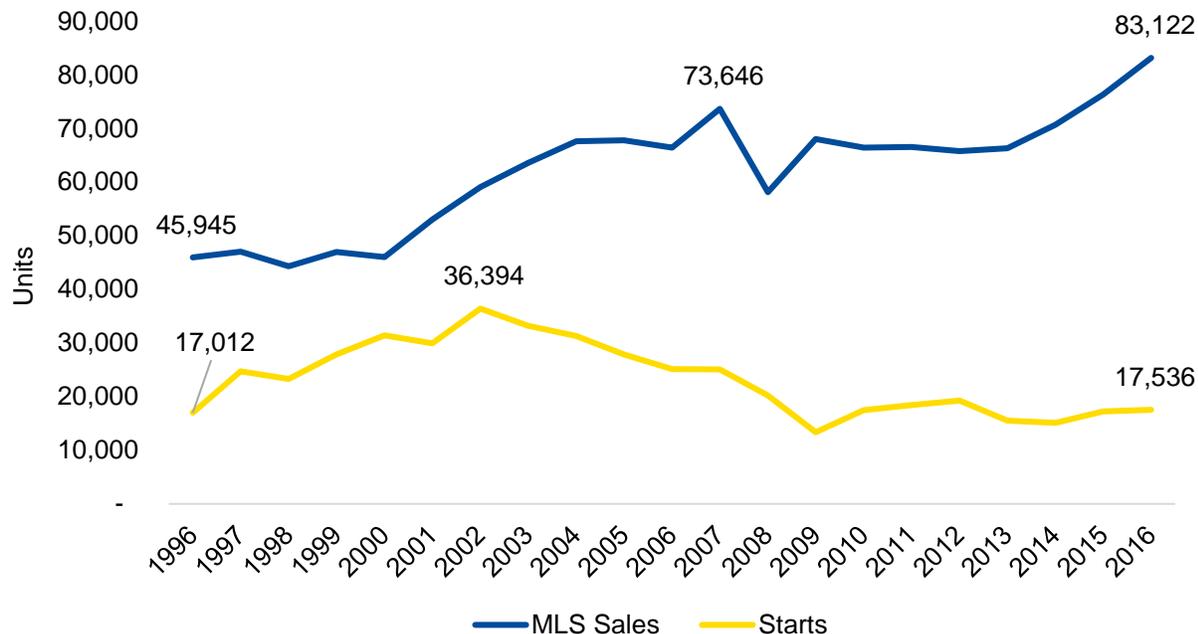
Unfortunately, the housing mix envisaged in the Growth Plan and the mix demanded in the marketplace is far apart. The shortfall in the amount of new ground-related housing built from that demanded is the root cause of the rising price phenomenon since 2006.

MYTH #2: DEMAND FACTORS ARE THE PRIMARY CAUSE OF RISING HOME PRICES IN THE GTA SINCE 2006

Reality: Supply factors have been the primary cause of rising ground-related housing prices in the GTA since 2006. The higher demand that occurred over these two decades had been anticipated by forecasters in published planning-related studies conducted for the Ontario Government. The robust demand for ground-related housing that has occurred should not have come as a surprise to the Province, GTA municipalities or developers and homebuilders.

As Figure 2 shows, the demand for ground-related housing in the GTA has been increasing over the past two decades with sales of existing homes (MLS) rising by 80 percent. Yet, despite rising demand and prices, builders started 50 percent fewer ground-related housing units in 2016 than in 2002 – 17,536 starts vs. 36,394.

Figure 2:
Ground-Related MLS Housing Sales and Housing Starts, GTA, 1996-2015*



*Ground-related homes: single- and semi-detached dwellings and townhouses.
 Source: CUR based on data from CMHC and TREB.

Normally, businesses increase production in a strong market in order to generate greater profits. The fact homebuilders did not is due to a shortage of one indispensable input for new ground-

related housing construction - serviced sites. Builders were able to increase their production of condominium apartments in response to a rising demand because there was an ample supply of sites available to accommodate new projects, especially in the City of Toronto.

The bottom line is obvious. With the demand for ground-related housing being strong, which had been anticipated by forecasters, and supply declining, rising prices are a reflection of a shortage of supply, not an unexpected surge in demand.

MYTH #3: THE GROWTH PLAN IS NOT HAVING A NEGATIVE IMPACT ON GROUND-RELATED HOUSING PRICES IN THE GTA

Reality: An insufficient supply of serviced sites has been a significant cause of the rise in prices of resale and new ground-related housing in the GTA during the past decade. An important reason for this shortage is the shift in provincial land use planning priorities as engendered in the Growth Plan for the Greater Golden Horseshoe (the Growth Plan) which was enacted in 2006.

The Growth Plan policies were contrary to the policies of the three previous provincial governments which stipulated that regional municipalities in the GTA were to forecast demand for a range of new housing including all types of ground-related homes and to provide sufficient approved and serviced (or readily serviceable) land (referred to as short-term supply here) to accommodate the demand. These policies had been put in place in response to the serviced land shortages that contributed to the surge in ground-related housing prices in the latter 1980s.⁶

Under the Growth Plan providing sites for apartments became the priority for the regions to the disadvantage of land for ground-related housing, especially single-detached houses. The Growth Plan encumbered an already dysfunctional municipal urban land-use planning system and delays in the extension of trunk servicing infrastructure, like sewer and water, thus hampered the provision of serviced sites for ground-related housing.

While comprehensive data on the short-term supply of residential land in the GTA has not been available since 2003,⁷ we have been able to piece together a short-term land supply data series for York Region for various years between 1994 and 2014. As Figure 3 shows, there has been a close correlation between the size of the inventory of short-term land available in the region and the number of ground-related starts (which have been mostly single-detached houses).

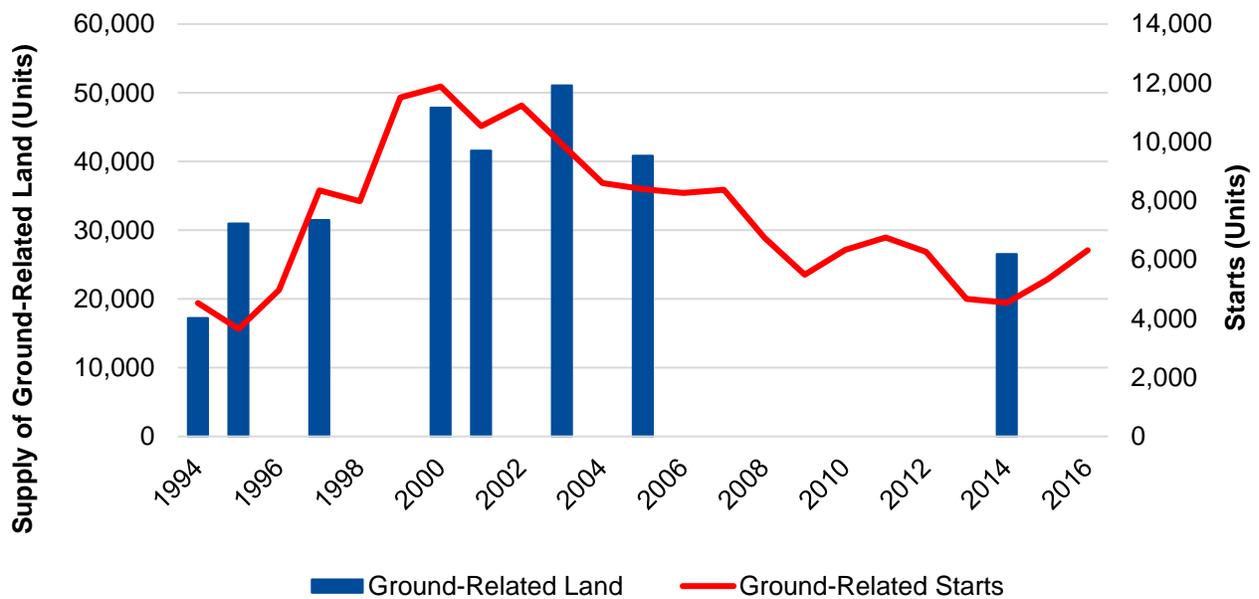
York Region had a sizeable and expanding inventory of short-term land for ground-related homes between 1994 and 2003 and the construction of new ground-related homes rose sharply following the deep recession of the early 1990s. In contrast, over the past decade, the inventory of ground-related housing land fell sharply and there was a concomitant drop in ground-related

⁶ Ontario Government, *Land Use Planning for Housing Policy Statement*, July 13, 1989; Ministry of Municipal Affairs, *Comprehensive Set of Policy Statements*, February 15, 1995; Ontario Government, *Provincial Policy Statement*, Revised February 1, 1997; and Ministries of Municipal Affairs, Housing, Finance, and Agriculture, Food and Rural Affairs, *Projection Methodology Guideline: A Guide to Projecting Population, Housing Need, Employment and Related Land Requirements*, 1997.

⁷ Between 1994 and 2003 CMHC and the Ontario Ministry of Municipal Affairs and Housing commissioned a number of land supply studies which ceased in 2014, the year the current provincial government was elected.

housing starts. This decline in serviced land supply coincides with the time the Growth Plan has been in place.

**Figure 3:
Ground-Related Housing Starts and Short-term Land Supply by
Unit Type, York Region, 1994-2016**



Source: CUR based on:
 1. Housing Starts data from CMHC.
 2. Short-term land supply: 1994-2003: CMHC and Ontario Ministry of Municipal Affairs and Housing, *GTA Residential Land Inventory*, various years; and
 3. Short-term land supply, 2005 and 2014 data provided by York Region Planning and Economic Development in an email dated January 8, 2016.

With York Region and the GTA as a whole experiencing comparable declines in the starts of ground-related housing since the early 2000s, it is reasonable to conclude that the inventory of short-term land denoted in York Region also occurred elsewhere in the GTA over this period.

MYTH #4: THERE IS MORE THAN ENOUGH SUPPLY OF VACANT DESIGNATED GREENFIELD LAND AVAILABLE IN THE GTA FOR GROUND-RELATED HOUSING CONSTRUCTION BEYOND 2031

Reality: There is a debate about the quantum of lands “designated” in the Official Plans of the 905 Regions to accommodate residential demands up to the year 2031 (Neptis Foundation,⁸ Malone Given Parsons).⁹ Regardless of which position is correct, much of the designated land is years away from obtaining servicing allocations and obtaining subdivision approvals.

Municipalities stage the development timing of designated lands according to various criteria including the availability of infrastructure like sewer and water so not all designated lands are intended for immediate development. Even for designated lands ready to start building housing on, the approval process from the time a developer’s application for development to the availability of serviced sites for ground-related housing typically is at least 10 years.

Lengthy approval processes and the lack of available capacity in municipal servicing infrastructure in time when needed to accommodate the demands for ground-related housing are endemic throughout much of the GTA. An illustration of the lengthy delays in getting serviced lands on to the market is York Region’s experience in communities such as Queensville and Holland Landing. While these communities have had approvals in place since the 1990s it looks like it will be upwards of 30-years later that serviced lands become available for new housing to be built.¹⁰

The relevant supply to consider is land which has been approved and serviced for new housing, not designated land. This is the relevant land supply for short-term housing production.

⁸ Neptis Foundation, *No Shortage of Land for Homes in the Greater Toronto and Hamilton Area*, October 2016.

⁹ Malone Given Parsons, *Getting the Growth Plan Right*, April 4, 2017. <http://www.mgp.ca/implement/getting-growth-plan-right/>

¹⁰ Mike Collins-Williams, Director of Policy, OHMA, Speaking Notes for a presentation at a session sponsored by TABE, ULI Toronto and Ryerson CBI, November 28, 2016.

MYTH #5: HOMEOWNERS WILLINGLY WILL GIVE UP THEIR SINGLE-DETACHED HOUSES TO LIVE IN HIGHER-DENSITY, TRANSIT-EFFICIENT, MIXED USE LOCATIONS

Reality: Most households in the GTA would not give up their single-detached houses in post-war subdivisions to move into apartments in communities with a mix of uses and transit nearby. This myth originated from a 2014 report of the Pembina Institute which, in our view, is flawed. While the study finds that 81 percent of survey respondents would give up their single-detached house in a conventional subdivision to live in a transit-efficient community, 80 percent of respondents say they are already living in a location-efficient community!¹¹

Consumer surveys show a strong affinity for ground-related housing, specifically single-detached housing, among recent buyers and prospective buyers in the GTA. In 2016, a time when the affordability of ground-related housing was the worst since the latter 1980s, nearly two-thirds of all homes sold in the GTA (new and resale) consisted of ground-related housing (see Figure 4). A survey of prospective buyers which the Toronto Real Estate Board (TREB) commissioned in late 2016 found that only 23 percent of likely buyers in the GTA indicated a preference for apartments, while over three-quarters expressed a preference for ground-related housing especially single-detached houses. About 80 percent of millennials intending to buy a home in the GTA stated they intended to buy a ground-related home, according to a late 2015 TREB Survey.¹² A survey of home buyers buying homes in the City of Toronto in 2015 conducted for Genworth Canada found that 61 percent of the buyers bought a ground-related home.¹³

¹¹ See Frank Clayton, *Will GTA Homebuyers Really Give Up Ground-Related Homes for Apartments?*, Centre for urban Research and Land Development, Ryerson University, August 15, 2016.

¹² Clayton, *Ibid*, p. 13.

¹³ Clayton, *Ibid*, pp. 13-14.

Figure 4:
Housing Choices and Preferences by Homebuyers and Likely Homebuyers by Unit Type, GTA, 2016

| | Ground-Related* | Apartment | Total |
|-------------------------------------|------------------|-----------|-------|
| | Percent of Total | | |
| Total New and Existing Sales | 63 | 37 | 100 |
| Preference of Likely Buyers | 75 | 23 | 100 |

*Ground-related homes: single- and semi-detached dwellings and townhouses.

Source: Sales: new home sales data from Altus Group; Resale (MLS) sales data from TREB.

Likely Buyer Preferences: TREB, *Market Year in Review Outlook Report 2017*, p. 20.

MYTH #6: DEVELOPERS WANT TO PAVE OVER THE GREENBELT WITH LARGE SINGLE-DETACHED HOUSES ON LARGE LOTS

Reality: It is our understanding the development industry is much more concerned with the impacts of the Growth Plan and the future of so-called whitebelt lands (the vacant undesignated lands between the outer edge of the vacant designated lands in the regions and the inner edge of the greenbelt) than the Greenbelt Plan. The reason is that for the most part the whitebelt lands are in the path of future development before the greenbelt lands.

Moreover, contrary to what some have been saying the development community is not intent on building 1950s style sprawl with increasingly larger houses in far flung communities.¹⁴ The truth is exactly the opposite. The Crombie Panel report in late 2015 observed there has been a long-term trend towards smaller lot sizes in the GTA since 1986.¹⁵ Research done by the Neptis Foundation found that there had been a decline in the built-up area expansion in the GTA during the 2001-2011 decade which it attributed to private developers building more compact communities before the Growth Plan was implemented.¹⁶

¹⁴ Erin Shapero, *4 Real Facts About House Prices in the Greater Golden Horseshoe*, February 9, 2017.

<http://environmentaldefence.ca/2017/02/09/4-real-facts-about-house-prices-in-the-greater-golden-horseshoe/>

¹⁵ Ministry of Municipal Affairs, *Planning for Health, Prosperity and Growth in the Greater Golden Horseshoe: 2015-2041*. December 2015, p. 25. <http://www.mah.gov.on.ca/AssetFactory.aspx?did=11110>

¹⁶ Neptis Foundation, *Understanding the Fundamentals of the Growth Plan*, March 20, 2015.

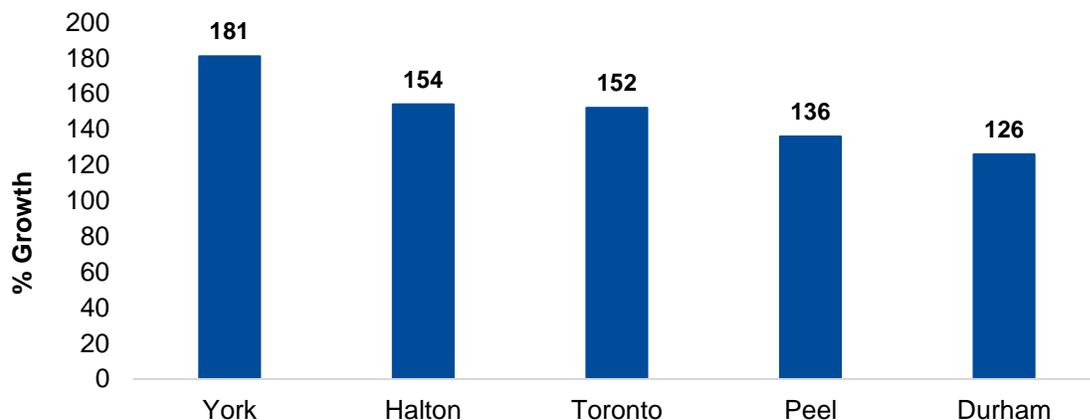
http://www.neptis.org/sites/default/files/gp_primer/understanding_the_fundamentals_of_the_growth_plan_march20_0.pdf

MYTH #7: RISING GTA HOUSING PRICES ARE A CITY OF TORONTO PROBLEM

Reality: The GTA housing market is a regional market that disregards municipal boundaries. The 905 regions account for the lion's share of new and resale ground-related housing sales in the GTA. Only initiatives of a regional nature can realistically address the issue of rising home prices and the reduced affordability of ground-related homes in the GTA.

The performance of housing prices by region is illustrated in figure 5. The 905 portions of the GTA account for the lion's share of new and resale ground-related housing sales in the region.

Figure 5:
Increase in Prices of MLS Single-Detached Homes Sold by Region in the GTA, January 2005 - February 2017



Source: CUR based on the MLS Price Index Published by TREB.

The marked reduction in the construction of new ground-related homes in the 905 regions over the past decade has impacted housing prices in the city of Toronto as well as the regions. A shortage of serviced sites in the 905 regions causes homeowners living in the city of Toronto to remain in their current houses and renovate instead of moving up to larger houses in one of the adjacent regions. This reduces the supply of resale listings in the city of Toronto thereby contributing to higher house prices in Toronto.

The slide in ground-related housing starts since the first half of the 2000s has had a large impact on the size of the ground-related housing stock in the GTA. If ground-related housing starts over the past 11 years had remained at their average level in 2001-2005, the stock of these housing types would have been 141,000 homes larger than is the case – even more if starts had been able to increase in response to the demand. Almost all this increase would have occurred in the 905 regions.

POLICY IMPLICATIONS

While there is a need to take immediate action to remove speculative-type purchasers from the GTA housing market to reduce the probability of a bubble popping, this is not a solution to improving housing affordability of ground-related housing in the GTA over the longer-term. This requires a sizeable ratcheting up of the number of ground-related housing built annually to accommodate the unsatisfied demand for these housing types.

The supply of new ground-related housing can only happen if the Provincial Government alters course and makes the provision of serviced sites a key priority of the municipal land use planning system. While these sites will largely be on greenfield lands in the 905 regions, the City of Toronto has an important role to play by converting large tracts of obsolete or low-priority industrial lands into new ground-related housing communities as it has done with the Warden Woods community spanning north and south of the Warden subway station.¹⁷

Urban policies pursue environmental objectives by constraining the supply of new ground-related housing even while expanding the supply of apartment sites will lead to even higher house prices, sub-optimal location choices, and huge capital gain windfalls for the lucky owners of existing houses and vacant lands on which new ground-related homes could be built.

¹⁷ See Frank Clayton, *Warden Woods: A Case Study of Building Affordable Market Family Housing on Former Industrial Lands*, Centre for Urban Research and Land Development, Ryerson University, April 27, 2015.