The Toronto Housing Market – Can we ever get it right?

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Toronto's housing challenges underscore three trends that have emerged across most large North American cities: first, continued low density sprawl at the periphery[1]; second, the emergence of a handful of cities that are now rapidly growing up as well as out; and third, distinctive demographic trends reshaping household formation.

Cities that are now expanding vertically as well as horizontally, such as the GTA, are marked by rising house prices and desirable urban neighbourhoods that are far richer than they used to be, with fewer school age children. A significant feature is the increasing concentration of desirable higher-wage jobs, choice retail outlets, and other amenities catering to well-paid workers and residents. The downside is lack of decent housing for a large segment of the population that constitute a workforce on whom we depend[2].

The clustering of people and jobs in downtowns is driving vertical growth, but also increasing the competition for a scarce resource, namely land. As jobs and people get pushed together in a highly competitive economic environment, restrictions on land availability drive house prices even higher, resulting in increased densities on those sites that do become available.

This group of cities includes New York, Washington, Boston, Philadelphia, Chicago, San Francisco, Seattle, Los Angeles and Toronto. One proxy for the pace of this vertical construction is the tower crane. At the beginning of 2017, there were more tower cranes in use in Toronto than any other city and, of all tower cranes in use in North America, nearly 50 percent of them are in Toronto, Chicago and Seattle.

Two observations: in horizontally expanding cities, real estate developers appear to exert outsized influence and the greater the sprawl, the more powerful the developers seem to get[3]. In vertically expanding cities, zoning and land use regulations compounded by the effects of NIMBY sentiment are increasingly restricting new housing supply[4]. The end result is very low densities at the periphery and high density vertical housing solutions in the inner core, with not much in between. In fact sprawl continues to make cities less, not more dense[5]. The real winner is detached luxury priced housing in established neighbourhoods. In contrast, very little, if any, truly affordable housing is getting built. How we manage urban land, the *sine quo non* of affordable housing, becomes the key issue.

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[1] Jed Kolko. **Seattle Climbs but Austin Sprawls: The Myth of the Return to Cities**. New York Times. May 22, 2017.

[2] Richard Florida. **The Unaffordable Urban Paradise**. MIT Technology Review. June 20, 2017

[3] Paul Krugman. **Why Can't We Get Cities Right?** The New York Times. September 4, 2017

[4] Mike McPhate. **California Today: A Spreading 'Yimby' Movement**. New York Times. July 14, 2017

[5] Shlomo Angel. **Planet of Cities**. Lincoln Institute of Land Use Policy. September 2012.

Let me set the context for my remarks with a few observations on the Toronto housing situation and its relationship to the land issue:

For the past 40 years we have been consuming housing and the land upon which it sits at an unprecedented rate. This is despite a plummeting fertility rate (from 1961-1971, rate dropped from 4 children/woman to under 2.0 and has remained relatively stable since then at between 1.75 and 1.5 children/woman). [6] This has driven a declining household size in Toronto from around 3.5 persons in the 1975 to 2.8 persons in 2011.[7]

In 1975, the average size of a new house was 1,050 square feet. By 2010 new homes being built almost doubled to an average of 1,950 square feet. This represents a 132% increase in space consumed per person, from 300 square feet to 696 square feet. This casts a somewhat different light on housing affordability. As one writer stated back in a 2012 article, *"Instead of buying beer we've switched to champagne, but we can still only afford beer[8]."*

77% of Toronto's housing stock has been developed since 1986, primarily as single-detached housing at the periphery, until the past decade when the condo boom took hold. Over the past 30 years, most of Toronto's established neigbourhhoods have added little or no new housing to the existing supply. This has resulted in the depopulation of neighbourhoods across the City and under enrolment and school closures in 48% of Toronto's neighbourhoods[9] . *"Drive 'till you qualify"* has been the mantra for so many new households faced with the affordability question.

Despite the Provincial Policy Statement mandating intensification of existing urban land, the Toronto Official Plan has embraced protection of existing neighbourhoods and effectively blocked housing options that could address a range of future housing needs. Almost two-thirds (62%) of Toronto's residential land is zoned Residential Detached (RD), permitting no more than one household per structure[10].
The Toronto housing challenge is largely a supply-side problem where households wishing to rent or buy are limited to detached, or semi-detached, housing at the outer periphery; a fixed supply of expensive detached or semi-detached housing in existing neighborhoods; or high rise units, primarily in the downtown or at suburban nodes where NIMBYism does not restrict supply.

Given that it is the existing stock, not new stock, that sets the price of housing, it can be argued that it is the imbalance between demand and supply for the fixed stock of detached houses in existing neighbourhoods that is driving up house prices. More significant is the fact that price increases in

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[6] Cheryll Case and Tetyana Bailey. **Protecting the Vibrancy of Residential Neighbourhhoods**. Unpublished Paper. 2017
[7] http://www.statcan.gc.ca/pub/11-630-x/11-630-x2015008-eng.htm
[8] Preet Banarjee. **Our Love Affair with Homeownership May be Doomed**. Globe & Mail. September 6, 2012.
[9] Cheryll Case and Tetyana Bailey. **Protecting the Vibrancy of Residential Neighbourhhoods**. Unpublished Paper. 2017
[10] Ibid.

existing neighbourhoods represents a transfer of wealth to current homeowners as the added increment flows directly to the land. Land accounts for only 30% of total house price in Montreal, but around 80% in Vancouver and Toronto[11]. The increasing importance of land as a financial asset makes it more prone to being held as a speculative investment by owners and also underscores the role of land in the affordability equation.

A further consequence of rising land cost for redevelopment in existing neighbourhoods is the fact that only expensive infill detached or semi-detached replacement houses can justify high land acquisition costs. It is a vicious cycle weighted heavily against those households trying to enter the housing market, except at the extreme upper end.

Who are the future renters and purchasers and what are their housing needs and preference? These questions tend to get lost in the frenzy to track current market transactions.

The two fastest growing household cohorts are at the two ends of the demographic spectrum.   At one end is the Millenial generation (people born between 1981-2001), a cohort that could reshape housing demand in profound ways.[12] This is the generation with the potential to repopulate aging neighbourhoods, introduce greater racial and ethnic diversity, and increase demand for more shared resources. This generation will be the largest source of household formation through 2026. Across Canada these households are expected to more than triple, from 5.5 million in a low growth scenario, to 7.0 million in high-growth scenario, compared to 1.7 million in 2011.

The housing needs and preferences of the Millennial generation are reasonably predictable; they want what we want, namely homeownership and preferably in well-established neighborhoods with access to good amenities and schools. About 72% of Millennial households are projected to own their own home in 2036 and the share of couples with children in the Millennial cohort is projected to rise from 15% in 2016 to 29% in 2036[13]. To satisfy their household and locational preferences they will look to existing neigbourhoods, with high-rise condo as the default or short-term option.

While the number of young adults entering the housing market will grow rapidly, the aging population is growing even faster with more people than ever living into their 80s and beyond. Across Canada, over one-third of households will be senior-led in 2036 (65 years and older). The number of senior households is projected to be between 5.6 million (lowest growth scenario) and 6.7 million (highest growth scenario) in 2036. Senior households are projected to account for 38% of projected household growth. The number of older senior households (aged 75+) is projected to increase between 120% (lowest growth scenario) and 170% (highest growth scenario) from 2011 to 2036, and grow at the highest annual growth

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[11] CMHC, Unpublished Research. 2017

[12] CMHC, Research Insight. **Long-Term Household Growth Projections for Millennial Generation**. November 2016

[13] Ibid.

rate of any age group. Among senior-led households, more than half of the household maintainers will be aged 75 or older in 2036.

This dramatic shift will drive up the demand for a variety of housing options to accommodate age-related reductions in mobility and agility, and the need for services to facilitate seniors staying in their own homes. Multi-generational living arrangements will steadily rise for individuals over 70[14]. However, the biggest increase in housing demand will come from the growing number of single person households living independently. These are not households prone to gravitate to either suburban locations or downtown high-rise living.

Solutions are only possible if we can come to some agreement on the root causes of our housing predicament. The current paradigm is what Richard Florida refers to as "winner take all urbanism" or Professor Davidoff, a noted urban economist at UBC, refers to as "socialism for the rich" in which the most advantaged residents haul in the majority of the gains, the working and middle classes struggle to stay in place, and the poor and disadvantaged fall further and further behind[15] . Current homeowners in established neighbourhoods are the big winners in this unrelenting cycle of 'windfall profits' and generational wealth creation.

Solutions must be multifaceted, grounded in a sound understanding of real estate economics and the intimate relationship between demand and supply that recognize the true economic and social costs of land use regulations. Governments must acknowledge the long-term negative effects of restricting housing development by addressing outdated zoning and the destructive forces of NYMBY sentiment.

What is needed is land use reform to free up "locked-in" residential land; incentives to create medium density mixed-use neighbourhoods that can repopulate older parts of the city with both the young and the old; a different concept of community to that which shaped the post-WW-II city[16]; an acknowledgement of living arrangements that extend beyond the traditions of the nuclear family; and, experimentation with new housing forms better suited to future housing needs, including a much sharper focus on the housing needs of an aging population.

The current housing situation in Toronto is neither tenable nor sustainable. We have effectively excluded a share of the population from partaking in the urbanization process and enjoying the economic benefits of our prosperity. There is clearly a mismatch for a large number of households between where they are now, where they are likely to be if things continue as is, and where they want to be. The question remains: Can we get it right?

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[14] Joint Center for Housing Studies of Harvard University. **The State of the Nation's Housing,** 2017.

[15] Richard Florida. **Why America's Richest Cities Keep Getting Richer**. The Atlantic. April 12, 2017.

[16] Ilana E. Strauss. **The Hot New Millennial Housing Trend is a Repeat of the Middle Ages.** The Atlantic. September 26, 2016