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A Tale of Two Cities

A cornerstone of the federal housing strategy is to encourage municipalities to change their land use framework and make missing middle and affordable housing developments more accessible. A recent report by Frank Clayton at Metropolitan University examines why housing affordability in Toronto, Ontario's largest metropolitan area, has deteriorated much more than Ottawa, the province's second-largest metropolitan area.

In the mid-1980s, a median-income household had equal ability to purchase an average priced single-detached home in both urban areas. However, by 2022, the gap between the two areas had widened significantly. In Toronto, a median-income household had to spend almost twice its income share for the same home purchase as an Ottawa household. In his report, Clayton examines how demographic, economic, and housing market factors contribute to the growing affordability gap between the two metro areas, with the influence of planning systems determined as a residual factor.

LINK TO ARTICLE

Clayton suggests that the affordability gap is most likely due to:

- Municipal and planning fragmentation in metropolitan Toronto versus a dominant municipality in metro Ottawa.
- Ontario's imposition of additional planning layers in the Greater Golden Horseshoe (Canada's most densely populated and industrialized region, stretching around the western part of Lake Ontario) under the Growth Plan for the Greater Golden Horseshoe and the Greenbelt Act.

The negative impact of "overly zealous" land use planning regimes on housing affordability has been highlighted in the literature. Of note, a study by the C.D. Howe Institute estimates the regulatory burden on home prices in Toronto to be approximately $168,000 compared to $112,000 in Ottawa. Additionally, Clayton's research supports our position that central metropolitan areas (CMAs) with more price inelastic housing supply tend to experience higher prices in response to increased demand.

As a further example, a New Zealand study found that land-use regulations in cities could account for as much as 56% of the cost of an average home in Auckland, compared to a scenario without these regulations. This underscores the potential improvement in affordability that could be realized with less restrictive land-use regulations.

Looking again at Ontario, Clayton identifies Hamilton as an anomaly in its approach to using greenfield (undeveloped) land. Hamilton City Council "voted against bringing more greenfield land into its urban boundary. What this decision means is that few ground-related housing units will be built in the city despite a robust requirement for them. The result will be higher prices for existing homes in the future than otherwise would be the case." Although Hamilton faces infrastructure challenges related to provincial regulations on lake water distribution in the Niagara escarpment, the city is wasting an opportunity to expand ground-related housing types on greenfield sites.

Clayton calls for more analysis of the impact of land use planning regimes on short-term land inventories and new ground-related housing production in both Toronto and Ottawa. He highlights how Ottawa has done a much better job of ensuring there is a short-term land inventory for ground-related housing compared with Toronto. In the past, CMHC worked with the province to assess the status of these inventories in the Greater Toronto Area. Instead of talking about what could be done, this is something tangible CMHC's housing economists could deliver.

Additionally, while CMHC engaged Statistics Canada to develop a framework for evaluating regulatory burdens, it should also be providing regular reports on the regulatory obstacles to development, specifically in the Greater Toronto and Hamilton Area (GTHA) and the Greater Vancouver Area (GVA). As Peter Drucker famously said, "[only] what gets measured, gets managed." If CMHC were to produce a quarterly report card on land use regulation, it would shine a light on areas where municipalities are improving the affordability of their communities.

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Kevin has had a long career in capital markets, housing finance, and public policy. He has worked as an economist for Alberta Treasury, Saskatchewan Policy Secretariat, the Bank of Canada, and the Department of Finance Canada. His work has included tax policy, economic forecasting, as well as monetary policy and debt management. While at the Bank of Canada, he authored two Bank of Canada Review articles on monetary policy tactics. Kevin has worked on a variety of debt programs from treasury bills to domestic and foreign bond issues, and interest rate swaps. He worked on building and managing the federal real return bond program, the Canada Savings Bond program, and built out the bond buyback program and a synthetic foreign funding program – two programs which are still in use today by the federal government. While at CMHC, Kevin managed the market funding program for social housing, built and managed the Canada Mortgage Bonds program, and expanded the products offered under the NHA MBS program. He has worked for several mortgage insurers including CMHC, Canada Guaranty, Triad Guaranty and Genworth. This work encompassed product development and risk management across housing markets in North America, Europe, Asia, Australia, and New Zealand. More recently he has had senior management roles with residential lenders managing underwriting, risk, product development, capital markets, and strategic planning.

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