

**Enhancing Housing
Affordability
A Review of The
Conference Board of
Canada Report**

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Enhancing Housing Affordability A Review of The Conference Board of Canada Report

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1 ENHANCING HOUSING AFFORDABILITY: TWO VIEWS IN ONE REPORT

The Conference Board of Canada released a study on housing affordability in Canada in March, entitled “Building From the Ground Up – Enhancing Affordable Housing in Canada.”

The study provides an assessment of the magnitude of the housing affordability problem in Canada, a review of theoretical and empirical issues around housing affordability, and prescriptive tools for addressing housing affordability.

The report’s analysis is comprehensive and provides an excellent scoping of key issues in housing affordability in Canada. The report’s critical findings include:

- The private sector in Canada does an excellent job of delivering housing that is affordable to the vast majority of Canadians;
- Where high shelter costs or rental housing shortages do exist, they are primarily linked to high development costs, including high government-imposed costs;
- Existing government approaches are inefficient or ineffective;
- The magnitude of the segment of the population suffering affordability problems is generally overstated;
- Housing is “unaffordable” for many because of income problems, not housing supply issues;
- Government policies and taxation are responsible for shortages in the rental market;
- Municipal planning and zoning and other government policies drive up the cost of housing;
- Sound infrastructure planning and investment improves the supply of housing that is affordable; and
- Effective solutions to affordability should involve less direct involvement of governments on the housing supply side, and more emphasis on income support programs.

Despite the comprehensive nature of the analysis and the very clear implications for policy, the report's summary and recommendations curiously appear to point in a different direction.

In the executive summary, the report sets out:

- The private sector does not provide adequate housing for lower-income persons;
- Housing unaffordability is a widespread and growing problem;
- The private sector is good at delivering on projects, but governments should “engineer deals”; and
- Governments should “leverage their planning and building permission powers” with inclusionary zoning and density bonusing.

In the final chapter, which provides tools and templates to “stakeholders” such as planners, developers and civil society organizations, the tools appear to focus primarily on public-private and civil-society-private partnerships (which the analysis in the report showed generally to be inefficient); government provision of housing and/or land (which the analysis warned against); and the implementation of inclusionary zoning and density bonusing (which the analysis showed to be ineffective, and simply another onerous tax on housing).

The clear and unequivocal findings of the report were that any affordability issues, or shortages of rental housing, that exist in Canada are primarily linked to high development charges, taxes and other government-imposed costs on housing, on ineffective government income support programs, and on zoning and land planning policies that encourage higher densities and standards at the expense of housing affordability.

Given these findings, it would be more reasonable to see recommendations that focused more on reducing government-imposed charges on housing; fixing the tax treatment of rental housing investment, addressing income problems through sensibly designed income support programs for those in housing need, responsible financing and investment in urban infrastructure, and more far-sighted land planning and zoning policies.

2 CRITICAL FINDINGS WITHIN REPORT

The Conference Board report¹ provides a comprehensive review of a wide array of available literature and sets out a number of critical findings with respect to housing and affordability issues.

2.1 The private sector in Canada does an excellent job of delivering housing that is affordable to the vast majority of Canadians

...a majority of Canadian households – about 75% - already reside in market-built affordable housing without any public subsidy.... (p. 2)

[In terms of rental housing supply]...building new construction is generally more expensive than purchasing existing stock [but]... to be sure, there are so-called “filtering” effects, where older stock is vacated as the market absorbs [newly-built] units. (p. 19)

The number of households renting actually declined between 2000 and 2005, with an offsetting increase in the number of condominium owners.... (p. 30)

Ownership levels in Canada are now at an all-time high, which many see as a positive development. (p. 30)

Research suggests that the private sector is most efficient at innovating to lower shelter costs.... (p. 32)

Private sector developers and operators are the most efficient at innovating to drive down shelter costs, when markets are competitive. They have the best economies of scale and the core competency to deliver housing to the marketplace. (p. 36)

2.2 Where high shelter costs or rental housing shortages do exist, they are primarily linked to high development costs, including high government-imposed costs

...due to the high costs of development – which include the costs of land, materials, and labour, as well as taxes and other government-imposed costs – private developers tend to focus on providing “affordable” housing for people whose incomes are in the middle- or upper-income quintiles. (p. 2)

The Golden Report also showed that governments had significantly added to the cost of shelter through a wide variety of direct charges and zoning practices.... (p. 8)

Housing is one of the most highly regulated and taxed goods. (p. 15)

...government-imposed charges are a very significant cost component of any new construction project, accounting for ... more than the builder's profit margin. (p. 15)

According to 2006 data, GICs – excluding property taxes – contributed an average of \$41,184 to the cost of a median-price house. The story is similar for row houses and condominiums. (p. 17)

...such charges may reflect inefficiencies in the provision of these services [public infrastructure and related public services] and that the structure of the charges may not adequately reflect residents' ability to pay. (p. 17)

... development charges are, in effect, regressive taxes on low-income Canadians, who pay a greater percentage of their income to fund them than do higher earners. (p. 17)

One effect of property taxes and development charges – whatever their virtues – is to drive costs up and make housing less affordable for households with low income. (p. 17)

One of the main challenges in creating affordable units is the relatively high base cost of delivering affordable units to the marketplace ... including the costs imposed by the public sector. (p. 50)

2.3 Existing government approaches are inefficient or ineffective

[The] Mayor's Homelessness Action Task Force (the Golden Report) ... also showed that ... government action on homelessness was stymied by gridlock among the various layers of government. (p. 8)

...the social housing model may not be the best way to encourage some occupants to raise their own incomes... (p. 3)

While the social housing model itself is not the problem, the associated level of income support may create a "welfare wall" that discourages some individuals from transitioning toward market housing, as well as prompting tax increases that inhibit economic growth and income increases.(p. 3)

[In order to avoid the "welfare wall" that social housing approaches can create] Housing policy needs to be consistent with the thrust of these income support initiatives [i.e. the federal Working Income Tax Benefit and Child Tax Benefit, each of which has a program design that provides support while not discouraging transitions to the workforce], as part of an integrated approach to addressing the core issue of

long-term low income. (p. 35) [That is, shelter allowances or support are not the problem, better program design is required]

Generally, we did not find that collaborative mechanisms, such as public-private partnerships or even civil society-private partnerships, are necessarily more efficient than the private sector acting on its own in response to client needs. (p. 36)

2.4 The magnitude of the segment of the population suffering affordability problems is generally overstated

Overall, ... Canadians have ... a less than 1 in 10 chance of experiencing [affordability] challenges for long periods. (p. 25)

The data show that most Canadians who have an affordability challenge escape it within two years. (p. 9/10)

Unaffordability is a transitional state for most ... (p. 24)

The good news is that unaffordability is a short-term phenomenon for many Canadians, as shown by a study using data from Statistics Canada's Survey of Labour and Income Dynamics. ... almost half [of those experiencing affordability issues] did so for only one year and over 65% did so for two years or less. (p. 24)

2.5 Housing is "unaffordable" for many because of income problems, not housing supply issues

...incidence [of affordability problems] rates are extremely sensitive to changes in household composition and income. (p. 18)

... the income profile of a community will conform to shelter costs because prices adjust to demand. But as the existing stock becomes fully occupied, new construction costs will tend to determine the cost of shelter. (p. 18/19)

Certain groups are much more likely than others to experience persistent affordability challenges. (p. 25)

These data show that three major factors heighten the risk of living in unaffordable housing for prolonged periods: [first risk] risk of low income ... (p. 28)

[from Table 8] Above-Average Risk Groups Not Meeting the Affordability Standard....[first group] Female lone parents. (p. 28)

Our objective is to alleviate poverty and encourage transitions to more affordable housing. (p. 34)

We have demonstrated that much of the growth in unaffordability stems from the fact that Canada relies increasingly on immigrants for its population growth and that these immigrants tend to move to expensive cities. (p. 38)

2.6 Government policies and taxation are responsible for shortages in the rental market

The business case for building new rental units, especially those targeted at lower-income households, is weakening. A Toronto study [Golden et al] showed that the decline in the supply of rental stock is due to the fact that rental apartments are a poor investment, as they require a large capital outlay and only generate returns in the very long run. (p. 30)

Rent controls, taxation, and land-use practices and policies affect the cost of developing new rental stock. (p. 15)

...rent controls discourage the creation of new rental stock and may partially explain the gradual reduction of Canada's total rental stock. (p. 17)

Governments could spur creation of affordable housing by allowing rollover of capital gains that are reinvested in new construction. Others have suggested direct fiscal incentives such as low-income housing tax credit, which has substantially increased the affordable housing stock in the United States. (p. 37)

2.7 Municipal planning and zoning and other government policies drive up the cost of housing

Urban planners attempt to integrate neighbourhoods ... [which] may lead to political opposition to new development – the so-called not-in-my-backyard or NIMBY syndrome – that eventually manifests itself in zoning restrictions and high-level development standards that incrementally drive up the cost of housing for new entrants. (p. 15)

Land-use policies determine how land can be used for residential purposes, sometimes creating scarcity that drives up housing costs. (p. 15)

High density signifies scarcity of housing. When housing is scarce, higher income households will tend to bid up the price. That increases shelter costs per square foot of living space. Cities with great population density try to deal with scarcity to some extent, but urban strategies eventually push up against limitations on available development sites. (p. 17)

Building codes determine construction standards. Rent controls, taxation, and land-use practices and policies affect the cost of developing new rental stock. (p. 15)

Land-use policies determine how land can be used for residential purposes, sometimes creating scarcity that drives up housing costs ... One study found that the main driver of affordability was whether a municipality maintains “prescriptive” land-use practices [i.e., ‘smart growth’ or other approaches that restrict land supply and lead to less affordability] or “responsive” land-use policies [i.e., approaches that allow development to respond to demand]. (p. 15)

[Inclusionary zoning and density bonusing] ... act as a sort of internalized tax on development projects. They raise the costs of the project, lower revenue, or do both. (p. 46)

[Inclusionary zoning and density bonusing] ... may succeed in creating affordable units. However that is likely to be the case only in situations of high and rising property prices. And even then, the evidence is that these techniques, at least in Canada, actually add relatively few affordable units and may be limited through provincial statutes. (p. 46/48)

2.8 Sound infrastructure planning and investment improves the supply of housing that is affordable

There is a trade-off between investments in transportation systems that leverage Canada’s abundance of land and investments in housing in high-cost urban cores. Investments in transportation can lower the cost of commuting from communities with lower land costs and, therefore, more affordable housing. (p. 18)

2.9 Effective solutions to affordability should involve less direct involvement of governments on the housing supply side, and more emphasis on income support programs

This is in keeping with our suggestion that governments move away from micromanaging individual projects toward merely funding them under set criteria. (p. 37)

... most provinces use rent supplements to produce equitable results in the rental market. (p. 42)

...there is likely to be an ongoing need for some sort of transfer to help low-income families deal with affordability challenges. (p. 39)

¹ All page references in this section to: The Conference Board of Canada, *Building From the Group Up: Enhancing Affordable Housing in Canada*, March 2010. Available at www.conferenceboard.ca/affordablehousing