

A New Foundation

A Backgrounder for
the Housing Action Lab
on the Future of Housing in the
Greater Toronto and Hamilton Area.



Mowat Centre Info

The Mowat Centre is an independent public policy research centre located at the School of Public Policy & Governance at the University of Toronto.

The Mowat Centre is Ontario's non-partisan, evidence-based voice on public policy. It undertakes collaborative applied policy research, proposes innovative research-driven recommendations, and engages in public dialogue on Canada's most important national issues.

Contacts

720 Spadina Avenue, Suite 218
Toronto, ON M5S 2T9

416.978.7858

mowatcentre.ca

info@mowatcentre.ca

[@MowatCentre](https://twitter.com/MowatCentre)

About Evergreen Cityworks

An initiative of Evergreen, a national non-profit that inspires action to green cities, Evergreen CityWorks is driving innovation that tackles our critical infrastructure issues and advances our economic, social and environmental prosperity. Evergreen CityWorks brings together the public, innovators and decision makers to accelerate the shift to green infrastructure in cities across Canada and beyond. They experiment with new ideas and build coalitions behind them to ensure their adoption. This work is based on the belief that transformative change can happen when Canadians are engaged with new ideas, in ways that are relevant to them.

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Author Info



Noah Zon

Noah Zon is a Senior Policy associate at the Mowat Centre. His research focuses on intergovernmental relations and fiscal federalism. Prior to joining the Mowat Centre, Noah worked on a range of policy files at the Ontario Ministry of Intergovernmental Affairs, and the Ontario Climate Change Secretariat. He holds degrees from the London School of Economics and Political Science and from McGill University.

NOAH@MOWATCENTRE.CA



Nevena Dragicevic

Since joining Mowat in March 2013, Nevena has contributed to a variety of research projects in areas such as poverty reduction, integration of public services, and Ontario's economic future. Before Mowat, she worked as policy associate at the Ontario Ministry of Economic Development, Trade and Employment, and as a non-profit marketing professional at a cultural centre in downtown Toronto. Nevena holds a bilingual Master's degree in Public Policy and International Affairs from York University.

NEVENA@MOWATCENTRE.CA

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The purpose of this brief is not to identify solutions, but to provide context and background and to begin to build a shared understanding of the core elements of our housing system...



Executive Summary

The Greater Toronto and Hamilton Area's (GTHA) housing system is increasingly failing to serve the region's needs. Trends in land use and built form have encouraged inefficient sprawling development and energy-inefficient construction that is ecologically unsustainable and costly for municipalities, landlords and residents alike. Rising income inequality, soaring housing costs and the shortage of new affordable housing (especially rental) have all resulted in an affordability crisis for many low- and middle-income households while environmental pressures persist.

Our housing system is fragmented, with a range of governments, public agencies, residents' groups, private enterprises and other organizations undertaking activities with little shared understanding of mutual interests and opportunities or shared vision of the overarching challenges, the public policy objectives, and how incentives can be aligned to help address them. As it stands, these widespread private concerns are not viewed, or organized, as public issues. As a result our region faces environmental, affordability and economic threats to our quality of life.

In response to this, Evergreen CityWorks and its partners are initiating a multi-year project to examine our system with the goal of identifying and advancing scalable solutions that can help to overcome these threats.

This brief is the first step in that conversation. Its purpose is not to identify solutions, but to provide context and background and to begin to build a shared understanding of the core elements of our housing system, to understand what factors produced these threats and identify our underlying assumptions about our housing system.

Our current housing system is not well-equipped to meet the needs of our population.

- Our current housing system presents an *environmental* threat. Our low-density, high square footage, energy-inefficient housing system uses an unsustainable amount of natural resources.
- Our current housing system presents an *affordability* threat. For too many households, the cost of adequate and suitable shelter is out of reach, creating ripple effects throughout their lives.
- Our current housing system presents an *economic growth* threat. Sprawl and congestion hurt productivity and high costs of housing dampen growth because people spend too much of their income on housing.

To address these threats, we need to understand the core elements of our housing system.

Key Actors

The interests and decisions of **households, housing market actors, and government** all shape our housing system in different ways. While we all share a collective interest in a well-functioning system, individual decisions by households and housing market actors reflect different priorities.

Policy Landscape

Decisions by individual actors are shaped by a wide range of incentives by governments. The broad policy landscape of **investment tools, legislative and regulatory approaches, and revenue-related tools** include a number of direct and indirect ways to shape those individual choices to support a well-functioning housing system for the GTHA.


Contextual Challenges

The way these policy levers influence decisions is also framed by some important contextual challenges in the GTHA housing system. These include **cultural expectations** about home ownership and user fees and the **fragmentation of responsibility and authority** for the housing system between governments, between government departments, and between different housing system actors.

Scalable solutions to overcome our housing system need to bring together the disparate elements of the housing system to work in one direction.

- We have a number of major policy levers in effect to shape our housing system to better meet our needs (for example, *The Big Move* and the *Growth Plan for the Greater Golden Horseshoe*). However, these efforts alone have not been enough to overcome the housing system threats.
- The major challenge for the Action Lab is to find ways to start a new conversation, one that brings together all of these working parts in a way that makes clear what we need from our housing system and ensures that our investments, rules, and efforts all move in that direction.
- From that new foundation, the Action Lab can identify testable, scalable solutions to overcome the threats to our region posed by our current housing system.



A red and white Toronto streetcar is shown on a city street. In the background, there are modern buildings with large glass windows and the CN Tower. The sky is blue with some clouds.

For the 6.6 million people of the Greater Toronto and Hamilton Area, our current housing system is not equipped to meet our growing needs.

1

Our Housing System Threat

How housing shapes people's lives is much broader than any particular four walls and roof. While our homes sometimes exist within larger buildings, they always sit within neighbourhoods and communities. The lived experience of housing goes beyond our front doors to our safety and wellbeing in our communities, our access to services and employment opportunities, and our ability to connect to other areas of our city-region.

For the 6.6 million people of the Greater Toronto and Hamilton Area, our current housing system is not equipped to meet our growing needs. As the various elements of our housing system fail to work together effectively in our common interest, the collective decisions of households, housing market actors, and governments are generating three major threats to the quality of life in the city-region: an environmental threat, an affordability threat, and an economic growth threat.

These threats are highly interrelated. For example, low-density residential sprawl threatens the environment in its consumption of sensitive land, water, and energy. It also threatens economic growth by increasing the cost of doing business in the region through longer commute times. Protection of sensitive agricultural land or parkland can create affordability challenges by decreasing housing production. The transformation of residential areas into more vibrant mixed-use communities can have the undesirable impact of greater affordability challenges by driving up demand. These interconnected threats cannot be effectively addressed in isolation.

THE ENVIRONMENTAL SUSTAINABILITY THREAT

The shape of our housing system has significant impacts on our natural environment through our residential energy, water, waste and transportation. A system-wide view is important to capture the scope of the issue — while greenhouse gas (GHG) emissions from operating our homes accounted for 11.7 percent of Ontario's 2011 emissions, the broader housing system was responsible for 34.2 percent.¹

This impact varies with the different housing types and densities that are found throughout the region. A University of Toronto study found that the average total per capita GHG emissions for residential areas in the Greater Toronto Area (GTA) were lowest in high-rise dominated East York, five times higher in Etobicoke, and ten times higher in Whitby.²

Our homes are important drivers of energy demand, primarily to heat our homes and our water³

- The residential sector is responsible for 31 percent of electricity use in the province and 37 percent of natural gas use, producing air pollution and greenhouse gases.⁴ While the shift to cleaner energy sources has mitigated some of the environmental impact of this resource intensity, this high energy demand is a source of environmental and economic stress.
- The older high-rise apartments that are a unique feature of the GTHA are particularly energy hungry. One in six GTHA households can be found in these towers, typically found in clusters surrounded by parkland in inner suburbs and occupied by lower income renters.⁵ As a result of their concrete frame design, they use on average 25 percent more energy per square metre than even single-family detached houses.⁶

Our housing system also poses a significant threat to our water resources

- The GTA's average water consumption is estimated at 386 litres per person per day—60 percent of which is residential demand.⁷
- While local consumption has declined in recent years, GTA water use remains well above the Canadian average, nearly twice the daily use of Sweden or two and a half times the daily use of France.⁸

Our housing system is a major contributor to waste challenges

- Residential waste comprises 35 percent of total waste in the city-region.⁹
- Only 50 percent of residential waste is diverted from landfill—for multi-unit residential buildings the rates are only on average 16 percent.¹⁰

FIGURE 1

Percentage of the population 18 and over making all trips by car in the Toronto CMA (as driver or passenger)¹⁶

Housing Density	
High	52%
Medium	63%
Low	73%
Total	66%
Sprawl	
Distance from centre < 5k	43%
Distance from centre 5-9 K	51%
Distance from centre 10-15 k	61%
Distance from centre 15 K +	74%

NOTE: DENSITY AND SPRAWL ARE STRONGLY LINKED TO THE RELIANCE ON PERSONAL VEHICLES, ON THE REFERENCE DAY

Our housing system shapes the environmental impact of our transportation system, and vice versa

- The GTHA as a whole is relatively low density by urban standards, with higher density areas almost entirely within the City of Toronto (with the exception of some portions of Mississauga and near Hamilton's Central Business District).¹¹
- People in low-density areas are much more likely to rely on driving their own cars instead of public transit, cycling or walking—an environmental impact that outweighs even heating large homes.¹²
- GTA Households in the outer suburbs also own twice as many cars on average as those in the central area and drive over two and a half times the average distance for their weekday commutes.¹³
- The reliance on cars is a product of both density and transit availability—currently only 42 percent of GTHA residents live within two kilometres of a rapid transit option.¹⁴
- The absence of active transportation options (walking, cycling) can also have meaningful impacts on population health, through lower rates of physical activity and hurdles to access services.¹⁵

THE AFFORDABILITY THREAT

For our housing system to adequately serve GTHA residents, it needs to be reasonably affordable to access appropriate, decent quality housing. The inability of GTHA residents to access affordable housing is widespread and worsening, a fundamental threat to the prosperity and well-being of the city-region.

What 'reasonably affordable' means has been the subject of some debate. Rent-geared-to-income housing projects in Toronto often used 20 or 25 percent of gross income, before raising targets to 30 percent in the 1980s.¹⁷ For home ownership, mortgage guidelines in Canada call for a measure of housing costs (Gross Debt Service) to be no more than 32 percent of gross monthly income.¹⁸ The most commonly used measure is Core Housing Need, which captures households that cannot access adequate and suitable housing without spending more than 30 percent of household income.

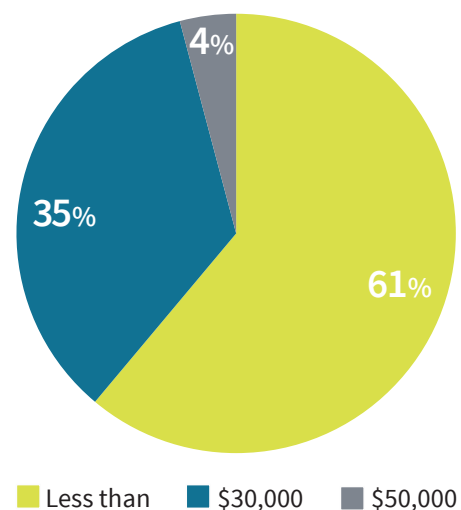
The affordability threat in the GTHA is widespread, with over 18 percent of households (366,000) in core housing need in 2006

- More than 150,000 of these households (nearly 8 percent), were spending over 50 percent of their income on shelter costs (in deep core housing need).¹⁹ For these households, the cost of shelter crowds out their ability to spend their income productively in ways that help themselves and their communities.
- These households are almost entirely low and lower-middle income earners. Three fifths of Ontario households in core housing need in 2006 had household income of less than \$30,000 and a further 35 percent had incomes between \$30,000—\$50,000.

Home ownership in particular is out of reach for the median earner in Toronto

- Demographia's International Housing Affordability Survey put Toronto's market at a rating of "severely unaffordable" based on its 5.9 "median multiple" (which measures the median house price as a multiple of median gross income).²⁰
- According to RBC's Home Affordability index for the Toronto Census Metropolitan Area (CMA), the total cost of ownership for a standard two-storey home would eat up 62.7 percent of the median household income; a detached bungalow would consume 53.8 percent; and a 900 sq. ft condominium represents consumes 33.5 percent.²¹
- In Hamilton, by contrast, owning any of these housing types eats up well below 30 percent of local median household incomes.²² This differential is a major driver of citizen pressure for suburban sprawl in the GTHA.

FIGURE 2
Incomes of Ontario Households in Core Housing Need



SOURCE: CANADA MORTGAGE AND HOUSING CORPORATION (CMHC), 2006 CENSUS HOUSING SERIES

Renters are also far more likely than owners to face affordability challenges

- This can be explained by the lower average incomes of renters,²³ as well as by the lack of new supply to meet their needs.
- With the economics of development moving away from building rental towards ownership housing models,²⁴ Toronto saw a net loss of 17,500 rental units during 1996-2001, with existing units replaced by ownership housing.²⁵
- In the decade between 1996 and 2006 only 5 percent of new housing completions were purpose-built rental.²⁶

While rental of condominium units has picked up some of this slack, they do not necessarily provide affordable rental options, as condominium rents are on average 9.3 percent higher than average rents in Toronto.²⁷

The affordability challenge impacts immigrants more than the general population

- Rates of core housing need for immigrants in Ontario are over 70 percent higher than for non-immigrants.²⁸
- For recent arrivals to Ontario (less than five years) rates were 350 percent of the rate of non-immigrants.²⁹
- Given that the GTHA depends heavily on immigrants for economic growth this presents not only an acute affordability threat but an economic growth threat.

Housing affordability challenges are worsened by income polarization—the gap between the cost of housing bid up by upper income households and what lower and middle income households can afford to pay, which creates mismatches in the housing market.³⁰ Hamilton and Toronto have seen some of the starkest increases in income polarization over the last few decades in Canada.³¹

THE ECONOMIC GROWTH THREAT

The inadequacy of the GTHA housing system poses a threat to the region's economic prosperity. The economics and geography of the GTHA housing system make it more challenging to attract new immigrants to the region, more difficult for employers and workers to connect, and constrains the productivity and wealth of the city-region.

Our housing system poses a threat to our ability to attract the immigrants that are critically important to the GTHA's labour market and competitiveness³²

- With such a significant percentage of the region being foreign-born (more than half of the Toronto CMA), the economic wellbeing of new arrivals is essentially synonymous with the economic wellbeing of the city-region.
- Recent trends demonstrate the threat posed by our housing system to this driver of economic growth. Compared to earlier waves of immigrants, a 2008 University of Toronto study showed that recent immigrants to the GTA “are staying longer in rental units, making less progress in earning income, and seeing their children lag in school and job market performance”—a trend reinforced by the inadequacies of the housing system.³³
- As new immigrants are pushed by lack of affordable housing options away from economic opportunity and cultural amenities, the city-region faces a risk in its ability to attract the skilled immigrants needed to support economic growth. Recent Martin Prosperity Institute research suggests high housing costs have been the main driver of middle income out-migration from New York City—a significant growth threat for the GTHA.³⁴

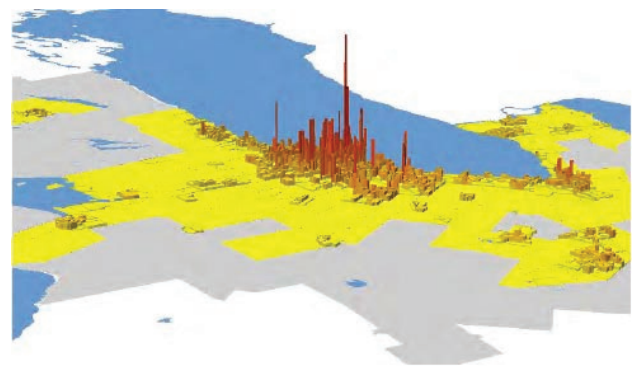
GTHA residents face difficulty finding housing near employment opportunities, with housing costs pushing workers further and further from work sites

- As our housing has sprawled over time, our employment has not traveled with it. While some employment clusters have emerged in 905 areas, they remain isolated from their workers.³⁵
- This has left a mismatch between where people live and where employers are located, making it difficult for workers to find jobs or employers to staff their workforce.³⁶
- Land use policies that keep residential and commercial areas separate exacerbate these trends, creating a situation where (with the exception of central Toronto) areas with high residential density in the GTHA have low employment density, and vice-versa.³⁷ This is a threat to the need for mixed-use communities that support living and working.

Long travel distances between home and work have combined with inadequate transportation options to give the GTHA the longest commute times in Canada.³⁹

- A recent C.D. Howe Study, building on Metrolinx analysis, assesses the economic costs of this congestion at \$7.5B-\$11B annually.⁴⁰
- This lost productivity represents a threat to the prosperity of the city-region that will only grow more acute over time if congestion is not addressed.


FIGURE 3
Three Dimensional Projection of Employment by Census Tract³⁸



SOURCE: HESS ET. AL, 2007. "URBAN DENSITY IN THE GREATER GOLDEN

The high cost of housing also contributes more broadly to a drain on overall consumer spending, which places a drag on the economy

- Households spending higher than affordable amounts on their housing are forced to reduce or delay spending elsewhere, with multiplier effects throughout the economy.
- There is also evidence that high housing costs are delaying household formation in Canada,⁴¹ losing in turn the positive ripple effects of that household spending.⁴²

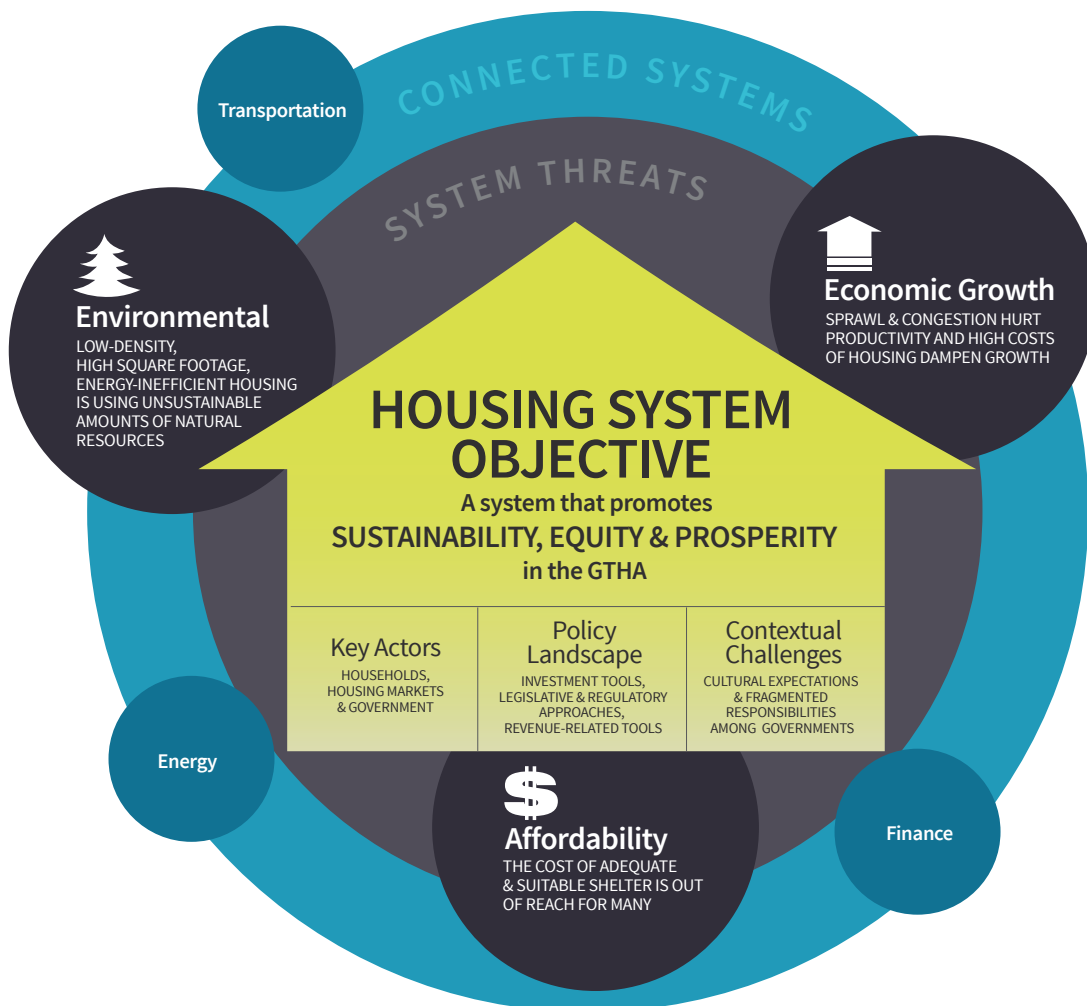
An aerial photograph of a suburban residential neighborhood. The houses are large, single-family homes with brown roofs and brick or stone exteriors. There are many trees and green spaces. A swimming pool is visible in the middle of the neighborhood. A road with a car is visible in the foreground. The text is overlaid on a dark, semi-transparent rectangular area in the upper left portion of the image.

The decisions to build, finance, and reside in large single-family homes places heavy pressure on infrastructure, energy, and water resources.

2

Understanding Our Housing System

A housing system that works for the GTHA is one where people can live affordably in vibrant, mixed-use communities, with reasonable ease of access to work, services and culture. These interests are shared across government, the private sector, community organizations, and the broader public. They are clearly defined in major regional planning frameworks like the *Growth Plan for the Greater Golden Horseshoe*, *The Big Move*, and municipal Official Plans. However, as the previous pages explained, our housing system remains ill-suited for these goals. To understand why this is the case, and the prospects for improvement, we first need to understand the various elements of our housing system and how they interact with one another. The graphic below illustrates how the various elements of the system relate to each other to influence our prosperity, sustainability and affordability.





INTRODUCING THE SYSTEM

Key Actors

Our housing system has three main groups of actors whose actions and decisions influence each other and their shared context.

- The core unit is households, which make decisions on where to live based on their needs, means, and preferences.
- The next group is housing market actors—the developers, financiers, and housing market professionals⁴³ who build and invest in housing for commercial interests.
- The final group is the government/public sector actors who set rules and shape incentives around all aspects of the housing system, as well as connected systems (such as energy and transportation).

While the motivations and roles of these three groups of actors are distinct, their interests and actions are highly interdependent. Any efforts to address threats arising from our current housing system need to take into account all of these groups of actors and the relationships between them. A few examples can illustrate how the individual interests and decisions of the various actors in the housing system can lead to undesirable results when taken as a whole.

These individual decisions have broader implications for society. The decisions to build, finance, and reside in large single-family homes places heavy pressure on infrastructure, energy, and water resources. Affordability challenges, low-density, and low transit access make it more difficult for employers (particularly in the service sector) to recruit from a labour force that can't afford to live within a reasonable travel distance of their business.

EXAMPLE #1

Density and Driving in the Housing System

The interaction between density and transportation is influenced by the preferences, interests, and incentives in our housing system. Households continue to have preferences for owner-occupied, large, resource-hungry, detached homes. The housing market responds by building this form of housing. Yet these individual decisions have a collective impact of worsening affordability and making it difficult to spur compact communities.

Housing choices that rely heavily on private vehicles produce the environmental and economic impacts of sprawl and congestion. This mode of development has left 58 percent of residents living more than 2km from public transit.⁴⁴ The incentives from the public policy landscape are mixed: some encourage greater density and greater role for public transit, while others help to further entrench the problematic status quo.

Residents of low-density areas are **40% more likely** to make all of their trips by car than in high-density areas



Only 42% of residents live within 2km of rapid transit



Factors contributing to the current density & driving situation:

32 government voices
FEDERAL, REGIONS,
MUNICIPALITIES

Distance
BETWEEN EMPLOYMENT
& RESIDENTIAL AREAS

Policy Landscape
TRANSIT INVESTMENTS,
AFFORDABLE HOUSING,
LAND USE PLANNING,
FUEL TAXES ETC.

PREFERENCE FOR
Large homes

DEVELOPER FOCUS ON
Ownership housing

HOUSING FINANCE
COMMUNITY
Investing in mortgages

EXAMPLE #2

Tenure & Development in the Housing System

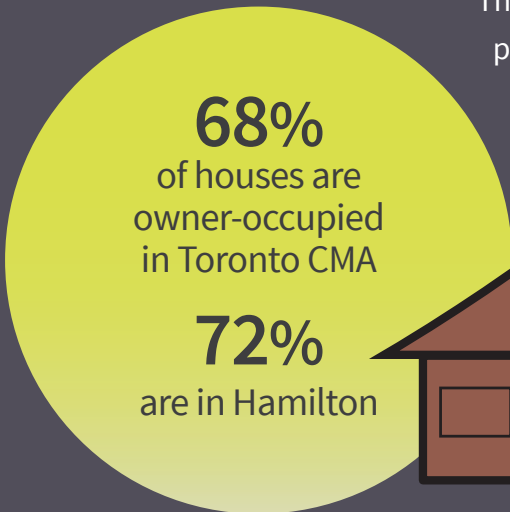
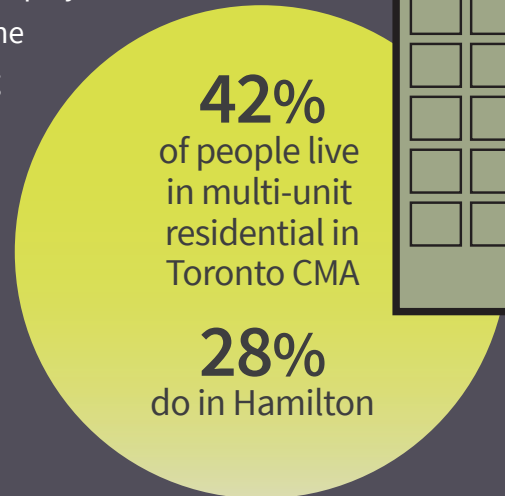
We see a similar contrast of interests at play if we look at the factors that explain the high rates of owner-occupied housing in the GTHA housing system. The widespread cultural preference for home ownership interacts with the interests of developers and the financial community to shape what housing is built, redeveloped, leased, or purchased. The combination of ownership preferences and available returns on

capital have pushed investment into suburban development and luxury condos

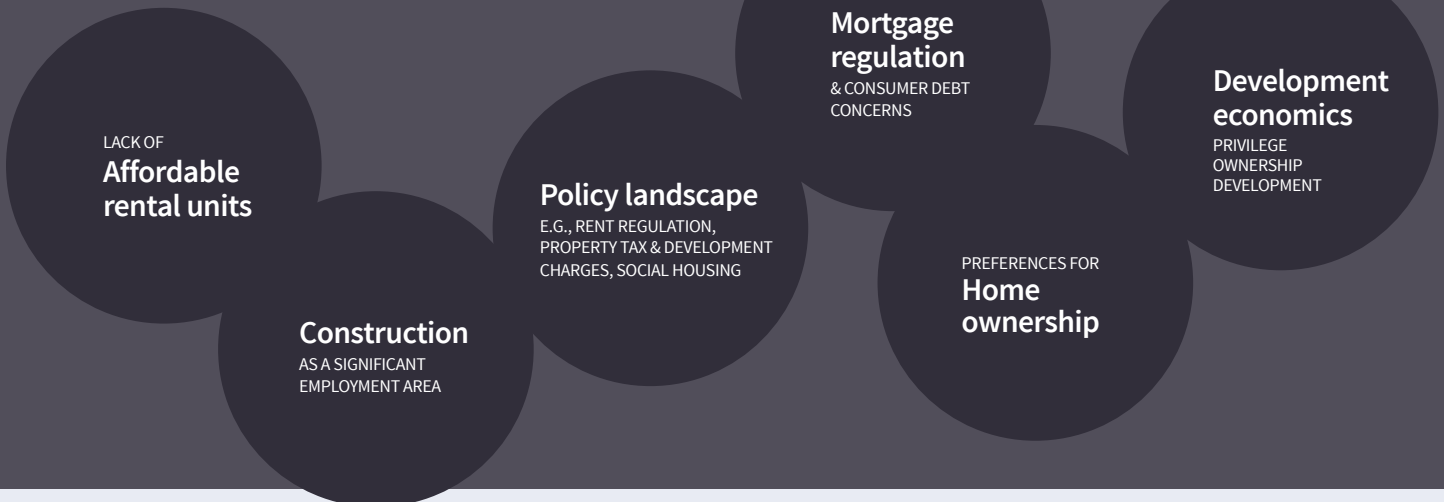
and away from purpose-built rental buildings.

Lower available returns on affordable rental make it less attractive from an investment standpoint, exacerbating supply shortages and housing need.⁴⁵

DATA SOURCE: CMHC⁴⁶



Factors contributing to the current tenure & development situation:



The Policy Landscape

The various players within the housing system operate in an environment that is framed by the housing system policy landscape. Governments have at their disposal a wide range of policy tools that directly and indirectly shape what our housing system looks like, including its environmental impact, affordability, and relationship to economic growth. These levers fit into three main categories: investment tools, legislative and regulatory approaches, and revenue-related tools.

FIGURE 4
Housing System Policy Tools

Investment Tools	Legislative & Regulatory Approaches	Revenue Related Tools
PUBLIC PROVISION Government provision of social housing or housing services, such as mortgage insurance.	LAND-USE PLANNING Macro-level planning includes Places to Grow and official plans on density and use. Micro-level includes zoning, secondary plans.	PROPERTY TAX Property tax design influences density and affordability. Property tax waivers can encourage affordable development.
	BUILDING CODES Technical requirements include energy efficiency, parking requirements.	EXCISE TAXES E.g., fuel taxes, these can encourage more efficient resource use and raise revenue.
SUBSIDIES Includes capital grants to developers for affordable housing, subsidies for renters, and subsidies for energy efficiency retrofits.	RENT REGULATION Can limit private rent increases. Only apply in Ontario to buildings built pre-1992.	DEVELOPMENT CHARGES Used to finance new infrastructure, these often don't take into account the relative costs of delivering services.
	TRANSPORTATION REGULATION Shapes private vehicle use, especially insurance and car sharing rules.	INCOME AND CAPITAL GAINS TAX A number of tax expenditures are currently in place to make home ownership more affordable.
INFRASTRUCTURE INVESTMENT Public infrastructure, including transportation and social infrastructure such as schools and hospitals, shapes the economic and environmental costs of living in a certain area.	HOUSING FINANCE REGULATION Mortgage rules shape affordability, access, and tenure choices.	USER PRICING Residents of the GTHA pay relatively low prices for electricity and water, which encourages inefficient use.
		TRANSPORTATION PRICING Tolls, congestion charges, and road pricing can change the incentives around long commutes and neighbourhood design.

Many of these tools have multi-faceted impacts on the housing system. An intervention to address one issue can have an undesired influence on another. For example, regulations protecting sensitive agricultural land can have the unintended effect of worsening affordability due to decreased land supply. Understanding the housing system holistically is important if these policy tools are going to be deployed effectively with an understanding of their strategic interactions.

MAJOR LEVERS OF THE GTHA HOUSING POLICY LANDSCAPE

The housing system is influenced by a diverse range of policy levers and economic contexts. However, four major interconnected levers in land-use planning and infrastructure investment carry significant influence over the GTHA housing system.

The Places to Grow Act (Land-use planning)

Passed in 2005, this legislation authorizes the Ontario government to develop regional growth plans that identify where and how growth should take place in a given region of the province. The *Act* reflects an integrated approach to the housing system, the environment, and economic growth needs.

The Growth Plan for the Greater Golden Horseshoe (Land-use planning)

The first plan established under *Places to Grow* (in 2006), the 25 year plan designates density targets, intensification areas, transit areas/corridors, and other broad plans and objectives for the housing system in the area encompassing the GTHA. This plan goes hand in hand with the *Greenbelt Act*, which protects a ring of parkland and agricultural areas from development, and the Provincial Planning Statement.

The Big Move (Infrastructure Investment)

Adopted by Metrolinx in 2008, *The Big Move* is a 25 year regional transit plan for the GTHA. While focused on transit, *The Big Move* plan is in many ways interlinked with the *Growth Plan for the Greater Golden Horseshoe*, and uses complementary time frames, planning frameworks, and priorities. The first wave of projects in *The Big Move* is currently under construction.

Building Together and Building Canada Plans (Infrastructure Investment)

The provincial and federal long-term infrastructure plans (*Building Together and Building Canada Plan* respectively) are the most significant funding sources for the infrastructure investments envisioned under *The Big Move* and to complement the growth under the *Growth Plan for the Greater Golden Horseshoe*.

Major policy levers such as the *Growth Plan for the Greater Golden Horseshoe* and Metrolinx's *The Big Move* explicitly take into account the urban system of the GTHA as a whole, promoting densification, transit accessibility, and environmental sustainability. These macro-level plans provide the framework for a coherent policy and regulatory framework for the region (see sidebar). However, other levers held by GTHA governments and the interests of housing system actors are often out of alignment with these overarching goals. A more detailed analysis of all policy levers and their primary uses in the GTHA can be found in an appendix to this brief.

CHALLENGES IN THE HOUSING SYSTEM

Governments have a wide range of policy tools available to address economic, environmental and affordability threats posed by our housing system. Why then do these threats persist? The answer lies with two fundamental challenges to the goal of a housing system that supports sustainability, equity, and prosperity in the GTHA:

1. Overcoming deeply held cultural expectations in how we view housing
2. Aligning fragmented responsibilities and approaches to the housing system

Any successful initiative to transform the GTHA housing system to better meet the region's needs must work within this challenging context. Moving past these challenges will be essential to unlocking the future potential of the region.

CHALLENGE #1

Overcoming Deeply Held Expectations in How We View Housing

The GTHA exemplifies a strong Canadian preference towards a particular type of housing system, dominated by home ownership, large homes, and a particular view of public and private roles.

Canadians have a strong preference for owning over renting

- While overall rates of owner-occupation peaked in the mid 20th century, this cultural preference has been a persistent influence on the form that housing takes in the GTHA, tied up with ideas about financial security as well as status and cultural norms.⁴⁷
- Home ownership preferences are not in themselves an obstacle; owning a home can ensure stability, commitment to a community, and pride of ownership. However, the Canadian preference for home ownership has led to a series of policies⁴⁸ that privilege home ownership over other forms of housing tenure, and over other forms of investment.
- Cultural preferences for home ownership can stifle labour mobility and new business investment⁴⁹ and pose risks to retirement income security as Canadians invest equity in their homes that they are unable or unwilling to recoup.⁵⁰
- There are some signs that this preference is beginning to wane—notably for immigrants to the Toronto area. The last three decades demonstrate a cultural trend away from home ownership preferences in a manner that cannot be explained by economic factors alone.⁵¹

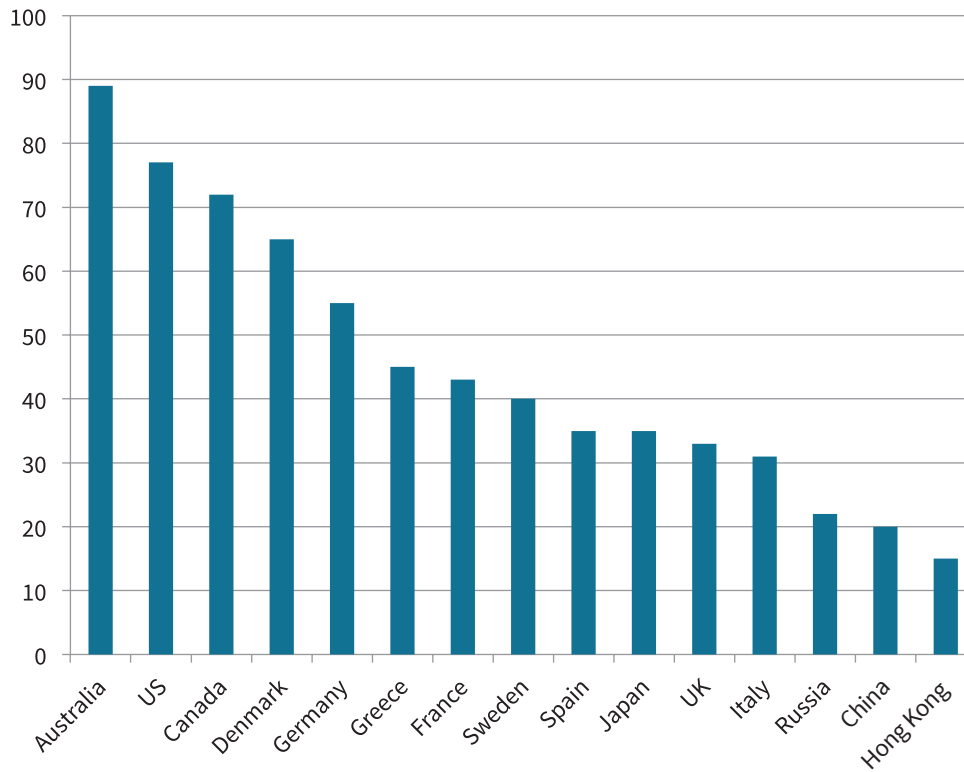
Canadians also have a strong bias towards large homes

- Between the mid 1970s and the mid 2000s, the average size of a new Canadian house more than doubled to 2300 square feet, despite declining household size.⁵²
- Taking into account all residences, Canadian new homes are significantly larger than peer jurisdictions—more than twice as large as Spain or the UK.⁵³
- Large homes increase demand for home energy needs, as we cool and heat more of our homes and run more appliances and electronics.⁵⁴

A 2012 study by the Pembina Institute of GTA residents underscores this bias. Four out of five GTA residents expressed a preference to live in a mixed-use neighbourhood with high walkability and transit options—essentially, a housing system that would mitigate some of the environmental and economic growth threats.⁵⁵ However, an equal number surveyed acknowledged that they chose where they lived based on the cost of their home, a trend borne out by the ‘revealed’ preference of their choices. This preference for greater space and larger lots was strongest among the 35-59 demographic.⁵⁶ While this reflects family and household size, it also presents an opportunity to shift preferences among Generation Y/Millennials as they form households and make decisions about their housing preferences.

FIGURE 4

Average Per Capital Floor Area of All New Builds in 2009 (m2)



Our housing system reflects strong embedded preferences about the nature of public and private roles

- Residents prefer to fund most services related to the housing system out of general tax revenues, rather than pay more visible user fees, reflecting an expectation of public provision.
- User fees can help to adequately finance services by encouraging efficient use of public resources, such as roads, or reducing externalities, such as air pollution. Yet they are also deeply unpopular ‘pocketbook issues,’ facing entrenched opposition from those who feel that services that were once free should continue to be free.⁵⁷
- The pressure to fund services out of the general tax base both obscures important price signals and places heavy pressure on certain tax bases to fund services. This is particularly true at the municipal level, where revenue tools are more limited.
- Conversely, Canadians tend to view their own housing choices as largely market-driven private decisions. Private choices about where to live are rarely seen as public or political in nature.

CHALLENGE #2

Aligning Fragmented Responsibilities and Approaches

The pressures facing our city-region call on us to look at housing as a system in order to understand the importance for our broader economy, environment, and society. However, a series of systemic challenges create obstacles to consistent and coordinated use of the available policy levers to address these threats. The dimensions of this fragmentation are:

1. Silo-thinking
2. Jurisdictional overlap
3. Misaligned incentives

The tendency towards “silo-thinking” separating housing from other policy areas undermines effective responses to threats posed by the housing system.

- There is a considerable body of evidence that links an individual’s housing situation to their outcomes in a range of other areas.⁵⁸ However, housing policies and programs are very rarely integrated with other programs, such as employment supports.
- Where better integration has taken hold, such as the Housing First approach used for the *At Home/Chez Soi* program from the Mental Health Commission of Canada, it has been limited to targeting the most vulnerable members of society.

A major obstacle to integrated systemic approaches to housing is the overlapping and often entangled roles and responsibilities in our heavily decentralized federation

As the figure below illustrates, the housing system reflects a patchwork of jurisdiction, demanding a high degree of policy coordination and priority-setting among federal, provincial, and municipal governments.

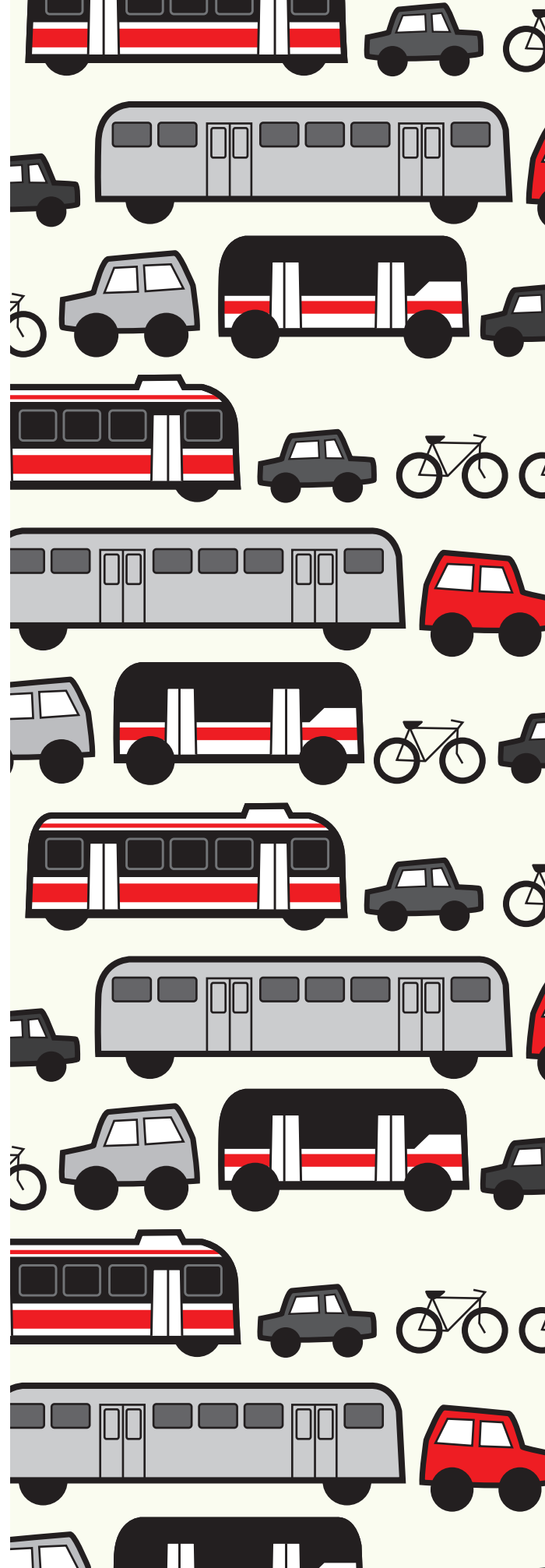


FIGURE 5

Jurisdictional roles on selected housing-related policy areas

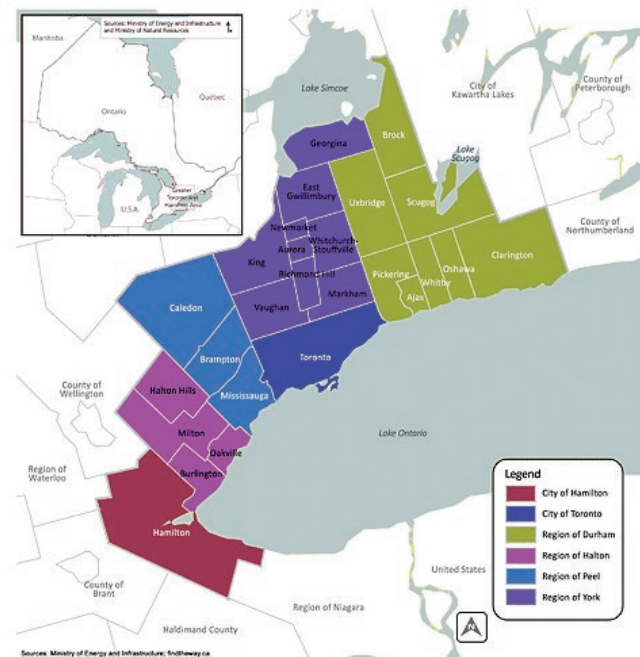
Policy Area	Federal Government	Provincial Government	Municipal Government
Infrastructure Investment	✓	✓	✓
Social and Affordable Housing	✓	✓	✓
Income Tax	✓	✓	
Property Tax and Development Charges		✓	✓
Land Use Planning		✓	✓
Excise Taxes	✓	✓	
Building Code	✓	✓	
Resource Pricing (including energy, water)	✓	✓	✓
Housing Finance Regulation	✓		
Rent Regulation		✓	

The jurisdictional picture is further complicated by the number of municipal governments involved in the GTHA. The city-region is far from seamless, comprising 26 municipalities and four regional municipalities (Toronto and Hamilton are single-tier municipalities).⁵⁹ Addressing our housing system in an integrated fashion means working amongst these governments to plan infrastructure and growth, deliver services, and align incentives. This requires both cooperation and leadership to make decisions for the common good of the region and to overcome NIMBYism.

Aligning fragmented responsibilities and approaches requires more than cooperation amongst governments alone. Effective responses must draw on the expertise of the private sector and civil society in a broader array of program and policy design. For example, Portland State University has launched an Urban Sustainability Accelerator to bring university, private sector, and non-profit expertise to bear on housing challenges.⁶⁰ Taking a similar approach in the GTHA will depend on overcoming traditional expectations about clearly delineated roles of government and non-government actors.

FIGURE 6

The Greater Toronto and Hamilton Area



The misalignment of incentives facing residents, developers, and policy-makers is a systemic challenge to an integrated response to the threats posed by our housing system

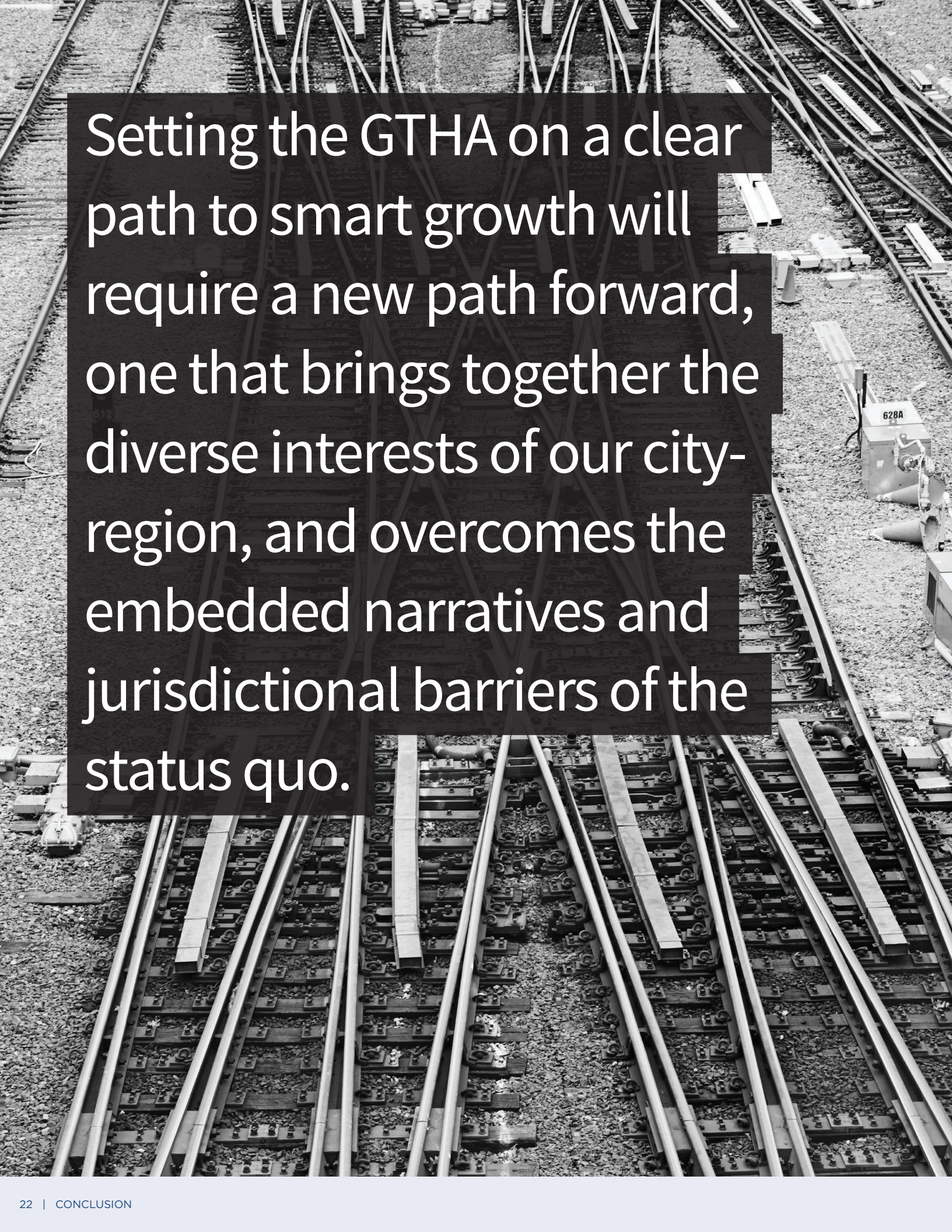
A major misalignment (and one not unique to housing) is between short-term and long-term interests and incentives. Governments facing voters in the next four years are less inclined to make decisions with costs borne today and benefits most keenly felt in a decade. Short-term efforts to improve affordability for some residents may encourage lock-in to an urban design pattern with long-term costs. Housing decisions are of course very long-term, and today our system is shaped by decisions made decades before to promote low-density developments.

The incentives of a particular household can also contradict the good of the public at large. As Pembina's 2012 survey showed, GTHA residents face incentives in the housing system that make lower density choices the lower-cost option, even if the infrastructure, economic, and environmental costs of that decision to society at large are far higher.⁶¹

The same is true from the perspective of developers, where the economics of investing in condominium over rental construction have not been aligned with the city-region's need for greater investment in affordable rental stock.⁶²

The misalignment of incentives between tenants and owners can also pose an obstacle to addressing environmental threats, particularly around energy use. Where heating or electricity costs are included in rent, tenants have operational control but not economic incentive to conserve. Conversely, where tenants cover these costs, owners do not have the incentive to make investments in energy efficiency in their properties.





Setting the GTHA on a clear path to smart growth will require a new path forward, one that brings together the diverse interests of our city-region, and overcomes the embedded narratives and jurisdictional barriers of the status quo.

Conclusion

As our city-region continues to grow, one of the most fundamental determinants of our success or failure will be our system of housing. The environmental, affordability, and economic growth threats posed by the current system require a new level of attention, cooperation, and innovation. Continued urbanization and the need to adapt to climate change will only make these challenges more acute.

Policy makers have a wide range of tools at their disposal. Likewise, our community can draw on considerable expertise from the private sector and civil society.

To date however, these tools and resources have not been enough to set the GTHA on a clear path to more sustainable 'smart' growth. Doing so will require a new path forward, one that brings together the diverse interests of our city-region, and overcomes the embedded narratives and jurisdictional barriers of the status quo. The challenge facing the Evergreen CityWorks Action Lab will be one of changing the conversation in a way that demonstrates the shared interest in ensuring a housing system for the GTHA that puts our future on a solid foundation.

Appendix

The Housing System Policy Landscape

INVESTMENT TOOLS

Public Provision

The most direct lever available to governments is the public provision of housing. Public provision of housing can allow the government to influence the affordability, location, form, and density of housing. The federal and provincial governments have actively employed public (and publicly-funded non-profit) housing programs to build over 122,000 social housing units in the GTHA to provide more affordable housing options.⁶³ As much of this housing was built in the 1960s and 1970s (and ended in the mid-1990s when public housing was devolved to the local level), social housing is a more significant feature in the City of Toronto, where it accounts for 20 percent of the rental market, than in many other areas of the GTHA that have seen significant growth in the last two decades.

While public provision programs for housing have taken a number of forms, (e.g. cooperatives, non-profit ownership, mixed developments, scattered housing), their key feature in the GTHA has been a focus on affordability through rent-geared-to-income (RGI) housing. More recent programs have been more modest in their affordability goals—funding new units built by private and non-profit housing that have rents 20 percent lower than the market average for that type of unit. Other programs based on Housing First approaches have turned perspectives on delivering social housing on their head, placing individuals in need into stable housing as a first step, as a foundation to provide other supports.

Public provision can also apply to other services shaping the housing system. The federal government has also been in the business of public provision of mortgage insurance for almost 60 years through the Canada

Mortgage and Housing Corporation. CMHC currently has \$570B in mortgage loan insurance in force, covering both homeowner properties and multi-unit residential.⁶⁴ This public provision is combined with a regulatory approach (requiring insurance for high-ratio mortgages).

As a policy tool, public provision can also be used to stimulate greater environmental sustainability. For example, governments can provide either customer-friendly financing options or direct services for energy efficiency improvements that minimize the environmental harm of the housing system.

Subsidies

Governments provide a range of subsidies to shape the housing system—whether through direct spending or tax benefits. The use of tax breaks and other subsidy programs for private rental apartments through the 1960s and 1970s was hugely influential in the GTHA's housing system.⁶⁵ The majority of the City of Toronto's current private apartment rental units were built during this period, assisted greatly by these subsidies.⁶⁶

Subsidies to make housing more affordable can take the form of up-front capital grants to developers, or subsidies to residents (such as housing benefits). There are trade-offs in the choice between these approaches, as focusing on supply gives governments more certainty on what the housing system will look like, while housing benefits put more freedom and choice in the hands of residents in need. There are also a range of options within these approaches. For example, instead of straight subsidies, refundable loans can provide a self-replenishing pool of capital.⁶⁷

The broader social safety net, particularly income supports, is also an important policy tool to influence affordability. Social assistance in Ontario explicitly

includes a component for shelter costs (albeit inadequate to cover market housing in the GTHA). Broader income support programs, such as Old Age Security and the Ontario Child Benefit, are also forms of subsidy policies that help alleviate affordability challenges. In these cases, they are targeted based on demographic factors.

Subsidies are also commonly used to mitigate the environmental impact of our housing system. For example, in recent years the federal and provincial governments funded a subsidy program for investments in weather-proofing and energy-efficient appliances to reduce the energy impact of the housing system.⁶⁸

Infrastructure Investment

Government choices in the provision of public infrastructure are critical to shaping the housing system. In particular, publicly provided transportation infrastructure and social infrastructure, such as schools, hospitals, and community centres, are the most visible and essential common aspects of the neighbourhood. Investments in rapid transit, highways, and bike lanes reshape the economic and environmental costs of living in a certain area.

These investments do not necessarily need to be strictly financed or delivered by public entities. Given the well-developed real estate and infrastructure development industry in the GTHA, private and non-profit partners lead new affordable housing development and a significant portion of infrastructure development as well. Other novel financial arrangements that leverage these partnerships have become more prominent in governments toolkits, especially social finance and tax increment financing (which takes into account the future increases in tax revenue generated by an infrastructure or development investment). In New York City, the housing authority is leveraging an underused public asset in the land surrounding their “towers in the park” to raise investment for affordable housing.⁶⁹

Government choices about infrastructure investment do not happen in a vacuum. They are typically shaped by policy and regulatory frameworks—with land-use planning by far the most prominent.

LEGISLATIVE AND REGULATORY APPROACHES

Land-use Planning

Land-use planning is an essential tool in managing city growth. Effective land planning can discourage sprawl, provide more affordable housing, preserve valuable agricultural land, and create easier access to centres of economic activity. Land-use planning takes places at different levels of geographic scope:

- At the macro level we have regional planning, most prominently seen in the GTHA in the *Places to Grow Act* and the *Growth Plan for the Greater Golden Horseshoe*, which combine growth planning and density requirements for municipalities with protection of sensitive greenbelt space. This lever reflects the broad powers the province holds over municipal affairs.
- At a more local level, the official planning process is undertaken by individual municipalities according to provincial legislation. City-wide Official Plans and neighbourhood-level Secondary Plans are versatile tools to set goals and policies for development, and provide a framework for land-use planning in the city-region. For example, Toronto’s most recent Official Plan commits to work with the province and surrounding municipalities to provide a full range of housing types, encourage affordability and mixed use communities, and to ensure compact communities well-served by transit.⁷⁰ As part of these plans, some municipalities have adopted “inclusionary zoning” policies that require a certain percentage of affordable housing as part of new developments.⁷¹

- Individual zoning decisions within these planning frameworks include two notable aspects that can lead to deviation from land use planning goals. One is the opportunity for public input (and in many cases NIMBYism). The other is Section 37 of Ontario's *Planning Act* which allows municipalities the flexibility to trade a valuable exemption from the Plan, such as higher density or increased height, to a developer in exchange for a benefit in cash to the government or other in-kind contributions to the community. While this provision has been touted as an opportunity to leverage more affordable housing development, the results on this front have been minimal.⁷²

Building Codes

Governments have a wider system of regulations directly tied to the housing system beyond land use planning. The most prominent of these is the building code. By setting out technical requirements, the building code not only sets out the size and access requirements that shape the suitability of housing, it also includes provisions for energy efficiency that influence the environmental impact. Looking outside the home, minimum requirements for off-street parking are another example of these levers, where efforts to manage street congestion can also encourage private vehicle dependence and can act as a drag on the creation of new units.⁷³

Rent Regulation

Governments can regulate private market residential rents, a tool usually focused on limiting the rate of rent increases. In Ontario, rent increase limitations only apply to buildings built and occupied before January 1991, leaving out some 20 percent of today's units.⁷⁴ In New York City, where nearly half of rental apartments are rent-controlled or non-market, rent control policies have driven significant escalation in the rents of units not covered by the controls, as demand outstrips supply.⁷⁵

Transportation Regulation

Regulation related to transportation can be an important lever for density and housing choices, particularly whether or not a household owns their own vehicle, since the number of cars owned per household is the strongest predictor of the number of vehicle kilometres traveled in Canadian urban areas.⁷⁶ Regulatory approaches that facilitate car sharing or allowing for pay-as-you-go insurance could help to discourage private vehicle reliance.

Housing Finance Regulation

Federal regulations on housing finance have significant influence on affordability. In particular, minimum down payments and maximum amortization terms for mortgages influence affordability and tenure options, helping to drive high rates of ownership.⁷⁷ These tools have been frequently altered over the last decade as policymakers seek to balance affordability with high household debt.⁷⁸

REVENUE-RELATED TOOLS

Property Tax

One of the most widely-used but poorly-analyzed components of the housing system policy toolkit is the use of revenue-related tools, such as taxation and user pricing. A wide array of tax instruments drive incentives and disincentives that help shape our housing system.

Property tax is the most clear cut tool for influencing development and consumer behaviour in the housing system. In Ontario, property tax is levied on the assessed market value of land and buildings. Some economists have pointed to property taxes levied in this way as a driver of urban sprawl, compared to a land-only tax that treats land neutrally regardless of what is built on it.⁷⁹ Municipalities also offer property tax exemptions to affordable housing developments and property tax relief to low-income home owners as levers to promote their objectives in the housing system.⁸⁰

Excise Taxes

Excise and resource taxes are another revenue related tool that can influence behaviour and development decisions. Revenues raised can also be invested in public infrastructure.

- Provincial and federal governments place excise taxes on fuel use, which raises the cost of driving, discouraging sprawl.
- Likewise carbon pricing policies can encourage choices that mitigate the environmental threat of the housing system by pricing in the environmental externalities generated by housing choices.
- These taxation tools can also be applied to resource-inefficient devices, as the Ontario Tax for Fuel Conservation does on new fuel inefficient vehicles.

Development Charges

Development charges are levied on building permits by GTHA municipalities as an important source of revenue to finance new infrastructure and services to the growing community. These charges typically do not take into account the relative cost of providing services to different housing types.⁸¹ For example, road and street systems and utilities are significantly more expensive to build and to maintain in lower-density/suburban housing systems (other infrastructure, such as parks, schools, and public buildings, are relatively consistent).⁸² As it stands, these costs vary significantly throughout the GTHA (see figure 7). As a policy tool, governments may choose to adjust development charges to encourage desired aspects of the housing system, for example, promoting the development of multi-unit residential.⁸³

FIGURE 7

Development Charges Across the GTHA

Municipality	Existing Total Single Detached & Semi-Detached Dwelling Average Charge
Toronto	\$19400
Mississauga	\$55300
Brampton	\$63900
Oakville	\$50000-\$60000
Burlington	\$30000-\$50000
Milton	\$30000-\$35000
Hamilton	\$30000
Oshawa	\$34000
Pickering	\$10000
Ajax	\$35000
Markham	\$60000-\$70000
Vaughan	\$45000-\$50000

SOURCE: METROLINX INVESTMENT STRATEGY REPORT, BASED ON PUBLIC MUNICIPAL WEBSITES⁸⁴

Income and Capital Gains Taxation

Income taxation and capital gains taxation in Canada include a number of policy levers for the housing system. The Home Buyer's Plan allows individuals to borrow up to \$25,000 tax free from their RRSP for the purchase of their first home. An exemption provided to home owners from capital gains taxation on principal residences is worth approximately \$4.5B nationally in lost federal tax revenue, with the First Time Homebuyers income tax credit (distinct from the Home Buyer's Plan) worth a further \$110M.⁸⁵

These policy levers today are heavily weighted towards promoting home ownership. In the United States, tax expenditures are also the primary means of supporting affordable housing development. The Low-Income Housing Tax Credit is structured in a manner which allows the tax benefit to be syndicated, so that non-profits can also benefit and raise money from investors.⁸⁶

User Pricing

Usage-based and full-cost pricing approaches to the use of limited resources are typically focused on addressing environmental threats in the housing system. Current approaches include a number of distortions to incentives for efficient use.

Residents of the GTHA pay relatively low prices for electricity compared to international peer cities, which does not penalize inefficient use.

Price signals about energy can lead to significant changes in household energy use. A 28 percent price increase over six years in the UK led to a 25 percent decrease in energy use.⁸⁷ Ontario has moved in this direction through the use of smart meters and time-of-use pricing. Water costs are charged on an average model for usage but have historically charged less than the true full cost of delivering services. For example, owners of large “impervious” properties that place strain on stormwater management face no higher costs than property owners that have taken steps to mitigate these risks by installing, for example, permeable pavement solutions.⁸⁸ The city of Kitchener has opted for a tiered user fee for their stormwater services.⁸⁹

Transportation Pricing

There are a wide range of pricing options available to reflect societal costs of congestion and encourage more efficient choices in the housing system. These include highway tolls, congestion cordons, road pricing/vehicle kilometers travelled charges, and zone-based transit charges.⁹⁰ By increasing the financial costs of commuting, governments can encourage mixed-use neighbourhood choices that mitigate the environmental and economic threats. Depending on implementation, these additional charges can place increased affordability challenges on those without other options.

SUPPORTIVE POLICIES

In addition to these more direct policy tools, there are a number of supportive policies that governments could explore to ensure that the aforementioned levers can operate effectively.

Supporting research and providing information has been an ongoing public function in the housing system since post WWII development when CMHC published a series of architectural plans for new housing. Information provision is also critical for a better understanding of the environmental impact of the housing system, where programs like EnerGuide and WaterSense give guidelines to consumers about making more sustainable choices.

The government also has a role in providing market institutions that ensure fair dealing, whether in real estate home ownership transactions or through the Landlord-Tenant board. Without reliable and transparent public institutions, direct policy levers will not work effectively.

Other partnerships and regulations can help to unleash investment in energy efficiency. For example, the “Green Deal” in the UK has implemented a suite of policies to allow home owners to have energy efficiency improvements to their home financed by private sector partners and repaid over the long-term in a charge attached to their energy bills.⁹¹

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