AFFORDABLE HOUSING:

Canada’s Crises in 90s

Land Price Escalation Inhibits Home Builders From Offering Houses in Reasonable First-Time Buyer Range

By Rob Bradford, publisher, Construction Business Publications

Almost nine out of 10 Toronto and Vancouver-area home builders polled last year said they would not be able to build a home in the first-time buyer range in 1989. For 1990, the problem promises to grow.

Toronto and Vancouver are the hot spots at the moment, where land prices have climbed so high the starter home is virtually out of the question. The Royal Bank of Canada uses an “affordability index” to track the problem, and it reflects the percentage of income a median-income family has to pay for an average bungalow with 25 percent down and a 25-year mortgage. In Toronto the bank’s index rose as high as 75 percent last year and in Vancouver the figure was 65 percent.

But while Toronto and Vancouver get all the press, other Canadian centres face the same affordability problems to varying degrees. Montreal, for example, has an affordability index in the range of 47 percent which is still much higher than the traditional 33 percent rule of thumb.

Affordability has all of a sudden become the number one public and industry issue and both feel that the limits have been stretched beyond acceptability. It hasn’t happened all of a sudden. These crisis situations always take time to build to the breaking point and there is never just one reason.

It is currently popular to talk about Toronto as becoming a “world-class city,” and equally popular to look at the soaring prices of new homes as an inevitable side effect of earning this coveted designation. As cities become world-class, land prices rise and the most valuable land never gets used for housing, or so the theory goes.

One can’t discount this as a factor in the affordability situation, but few are willing to accept that urban growth has to occur at the complete expense of housing. It is true, though, that the long-standing benchmark of 25 percent or 30 percent for the land component of new housing is now 55 percent or 60 percent of the final sale price.

In the British Columbia market, especially Vancouver, an added pressure on land prices is the amount of offshore investment in residential real estate coming from places like Japan, Hong Kong and Taiwan.

Serviced land shortages . . .

Ask any builder in Vancouver or Toronto why he can’t build a so-called affordable home and the answer you will get most often is the lack of availability of serviced land.

“The real root cause of the problem in Metro Toronto is the availability of serviced land,” said Hamilton home builder Tom Cochrane, president of the Canadian Home Builders’ Association, in a radio interview last year.

“Everywhere in Ontario, and especially Southern Ontario, there is a critical need for new infrastructure,” confirmed Alido Di Iorio, past-president of the Ontario Home Builders’ Association, at a housing conference last year.

“New transportation systems, new arterial roads, trunk sewers and water mains, garbage disposal systems . . . as tens of thousands of people move here (Toronto) every month they cannot continue to put more and more demands on the services put in place long ago to serve a smaller population,” added Di Iorio.

The story of the Canadian infrastructure is a whole other “crisis” topic, documented well by The Road Information Program (TRIP) of the Canadian Construction Association. For several years the TRIP program has studied Canadian roads, bridges and sewer/watermain systems and found them to be lacking. Further, it is clear that governments at all levels are spending much less to maintain and expand the infrastructure than is required given current growth patterns.
Faced with a difficult situation, the way in which many municipalities respond to the need for new services is to put off the need for major new investment by approving only low-density projects. Low-density housing puts off the need for major new services but, as Di Iorio pointed out: “You can’t turn big homes spread across big lots into moderate-cost housing.”

One noticeable trend is to make the developer-builder pay for an increasing share of the servicing required for new housing developments. This extends to not only local sewers and roads, but is expanding into areas like major arterial roads. The developer or builder already pays for new community facilities such as parkland, recreation centres, etc. In late 1989, two major Toronto-area developments were being considered and both were proposals based upon the developer picking up a major portion of the servicing costs in return for enhanced development rights.

**The NIMBY Syndrome. . .**

Municipal governments and their current ratepayers must also take responsibility for another huge barrier to affordable housing. Masters of the Not-In-My-Backyard (NIMBY) game, they do not want to become guinea pigs for innovative housing alternatives which could go a long way to solving the affordability problem. Smaller houses on smaller lots would sell, but there is no place to build them because no municipality wants to risk the wrath of taxpayers afraid of dropping property values, or take measures that might erode the local property tax base.

In the age of the acronym, NIMBY is one which captures the social attitudes of a generation; the doctrine of protecting what’s yours by whatever means necessary, even if it means abrogating social responsibility. Why the strong, sometimes irrational defense of Canadian neighborhoods? There are several perspectives.

First, and most obviously, the
A homeowner wants to protect his property value and sees the intrusion of lower-cost housing on his street as a financial threat.

More subtly, there is the unspoken determination to protect the lifestyle and the status of the community in the face of the perceived negative effects of lower-income people joining the community. It is more often a judgement about financial and therefore social status than anything of a racial or ethnic nature, but it can be either.

But NIMBYism is not only a civilian mindset. It is also a political force founded upon crass expediency. Politicians recognize less-costly homes as having less potential for expanding the local tax base. More important, NIMBYists represent votes, while the potential owner of an unbuilt new home is not yet a voter.

Politicians are, in fact, the NIMBYist’s closest ally and the coalition is a formidable one for anyone with ideas about how to provide more low-cost housing.

Panelists made it clear at a housing forum in Toronto last year that it is the provincial and municipal governments which are impeding the introduction of affordable housing solutions. Frank Giannone, president of the Toronto Home Builders’ Association, told the audience about how a proposal to build affordable homes in Mississauga, a Toronto suburban community, “did not become a reality because we failed to overcome the negative attitudes.” The municipal council said they didn’t want “those kinds of people.”

**Regulation a Powerful Weapon...**

Government regulation is the NIMBYist’s primary weapon and willing, local politicians are only too happy to create new layers of regulation which effectively eliminate the possibility of affordable housing projects. In a 1986 speech which identified the NIMBY syndrome just when affordability was beginning to emerge as an issue, former Canadian Home Builders’ president, Albert De Fehr, said: “The emphasis must be on the original purpose of regulations such as health and safety, rather than on the growing trend towards protection of value and provision of amenities.

“A major potential market is for housing types now not permitted; for example rooming houses which are now prohibited in many areas but which often exist illegally and are, therefore, not adequately designed or built,” said De Fehr. “A potentially larger market is in conversions of larger homes into smaller units.”

There is no shortage of ideas about how to build more affordable homes in Canada, only the dogged determination of the NIMBY set not to let it happen.

Rooming houses, granny flats or garden suites, coops, smaller houses, smaller lots... all are technically feasible and completely acceptable ways of providing affordable housing—given the social will to do so.

A perfect example of what can be accomplished by the home building industry if given the chance was unveiled at the national home builders conference last year—CHARLIE the convertible house.

CHARLIE is a “made-to convert” house which can be used as a horizontally-split duplex or changed from two one-bedroom
apartments to a large single-family home by removing one wall. The house got a lot of good press but its concept would not be accepted in most Canadian municipalities, including Hamilton where it was temporarily erected for the conference.

**Taxed to Death. . .**

Taxation is another subject you have to cover if you want to understand why nine out of 10 Toronto and Vancouver builders didn’t think they could build a starter home last year. Taxation in the form of provincial land transfer taxes and regional and municipal lot levies that can add tens of thousands of dollars to the sale price of a new home.

“Lot levies once paid for new services that new communities required,” says Alido Di Iorio. “Now there is no policy basis, no limit to lot levies. Municipalities double and triple them at will with no assurance that they will not raise them again before a development is finished.”

“A new neighborhood can be taxed this way to carry the entire financial burden for a city hall meant for the entire community, or a tennis court in another neighborhood, or simply to write off the fiscal mistakes of past years.”

Late last year, the Ontario government took the levy concept into dangerous new territory when it passed a “Land Development Charges Act” to pay for local education services. Education has always been considered a general social responsibility and opposition from the industry was heated, but to no avail.

Home builders pointed out that the new Ontario law, which gives municipalities the right to impose levies for educational and other community infrastructure will add between $5,000 and $10,000 to the price of a new home in Toronto in 1990. This in a city where the average resale home now sells for $280,767 and the average new house price sits at over $260,000.

And if local levies and taxes aren’t enough, along comes the Goods and Services Tax (GST) in 1992. Replacing the existing manufacturers’ sales tax of 13.5 percent, which is unevenly applied with an across-the-board tax of 7 percent on all goods and services at the consumer level, the GST will deal another tremendous blow to housing affordability.

“**As cities become world-class, land prices rise and the most valuable land never gets used for housing, or so the theory goes.”**

The Canadian Home Builders’ Association estimates that the average Canadian new home will rise in price by about $3,000 in 1992 as a result of the GST. In Toronto and Vancouver markets, the increases would be more like $9,200 and $4,700, respectively, because of a graduated rebate system which declines to zero at the $400,000 mark. A $400,000 home in Toronto and Vancouver is not a palace by any means, but those who own them will be hammered hardest by the GST.

The GST will also affect the rental housing sector as there are no GST rebates for private sector investors or developers of rental housing. They will face a large increase in the federal taxes they pay, from 4.7 percent to 7 percent, and rent controls in most provinces will prevent them from recouping the difference for some time.

**Interest Rates Rising. . .**

One of the factors creating housing affordability problems may, in the short-term, be the one that pushes the greatest number of potential first home buyers over the brink of affordability. Interest rates. They remained high through 1989 and even though some forecasters are predicting a slight easing of rates early in 1990, it is almost certain they will be pushed up again at the end of the year to counter the inflationary effects of the GST introduction.

But interest rates are up and down and a fact of life for home builders. Their effect on affordability is as often positive as it is negative in the buyer’s perception. High interest rates won’t make housing affordability a chronic situation, but some of the other factors mentioned have that potential.

Interviewed early last year, federal housing minister, Alan Redway, was asked if the affordability crisis in Toronto and Vancouver is a chronic one. He replied that he doesn’t believe it has to be, but it certainly will become chronic if some of the root problems are not addressed. Redway suggested that solutions such as intensified usage of existing land and housing, and making federal lands available for housing development, are under consideration.

But if you ask the Canadian home builder what he needs to build starter homes now and in the future, he will tell you the solutions lie in coordinated federal and provincial housing policies committed to removal of unnecessary regulation and levies, accelerated infrastructure growth, streamlined approvals process and an enlightened attitude toward innovative design and land-use solutions. He also wouldn’t mind it if governments stopped considering the home building sector to be a “cash cow” whenever they need more money.

The affordable starter home is not yet dead in Canada. But in Toronto, Vancouver and a growing number of other urban centres it won’t be built in 1990.