

'One-month' housing approval process takes two years, says report



RICHARD LYALL
RESCON

It takes at least 10 years to build a new home from servicing the land to occupancy, and a lot of that time involves municipal approvals. We at RESCON have studied parts of the housing approvals process to learn why it takes so long, in particular the very routine and technical building permits and site-plan control approvals.

But how does this affect you?

Every bit of red tape that holds up a housing development slows down the supply chain of new housing entering the GTA marketplace, restricting construction and ultimately increasing prices. And that's why you should care.

In light of our country's recent 150th anniversary, chew on this fact: the City of Toronto was used to gauge Canada's building permit process by the World Bank's

2016 Doing Business study.

"It ranks Canada's building permit process at 57th in the world, with site plan approval delays being one of the major factors in this low ranking," says Michael de Lint, RESCON director of building regulatory reform and technical standards, and a global consultant on regulations.

"Slow building approval processes reduce supply of new ownership and rental housing, and discourage innovation."

Again – this affects the supply issue, which ultimately affects prices.

RESCON teamed up with Ryerson University's Centre for Urban Research and Land Development to take a hard look at the building permit processes around the GTHA.

The result was the study "Modernizing Building

Approvals in Ontario: Catching up with Advanced Jurisdictions."

Our work, in consultation with many building professionals, revealed that a mandated one-month site-plan approval process actually takes up to two years.

My friends, this is crazy.

So, let's explain site-plan control.

It's a form of development control provided to municipalities by Ontario's Planning Act. Before any development can be approved by an Ontario municipality, the following details (and many more) must get the green light:

- How far should a building be set back from the road?
 - How should the parking be set up?
 - What should the building look like?
 - Are other amenities needed to round out the neighbourhood, such as bicycle racks?
 - Do services for water, electricity and roads need to be upgraded?
 - Are there any new environmental issues as a result of the new work?
 - Does it have a heritage requirement?
- We could go on.



Every bit of red tape that holds up a housing development slows down the supply chain of new housing entering the GTA marketplace, restricting construction and increasing prices.

While our site-plan control can take up to two years, our friends in Houston only have to wait one day for certain developments. Homebuyers don't complain about lack of supply deep in the heart of Texas: they fret over their many housing options.

You can read the Ryerson report at rescon.com/news, but I'll spoil the ending for you: it says the building per-

mit approval process should be modernized to ensure it is more transparent, predictable and less time-consuming — including introducing online e-permitting to speed up reviews, inter-agency communication and reduce paperwork.

In Phase 2 of our project, we will work with progressive municipalities and industry to develop detailed best practices.

If these changes went through and ultimately increased the region's housing supply, wouldn't it be great to fret about your many options?

— Richard Lyall is president of the Residential Construction Council of Ontario and has represented Ontario's residential construction industry since 1991. Visit www.rescon.com.

Blame low interest rates for price increases



JOHN MELINTE
GUEST COLUMN

Second in a three-part series where a local actuary debunks fears of a Toronto real estate bubble by digging deeper into the data.

Putting aside the pre-suppositions floating around in the media and in general conversation, let's start with the most basic question — is this an actual bubble, or just a case of unaffordability and globalization? Is there a difference?

Unfortunately, this is not exactly the approach stake-

holders in Toronto have taken. Talk of how to address this problem has been all over the map.

Our government has recently implemented measures to address what they see as the main problem — foreign buyers. There is some logic to this, because in a global context, Toronto is a world-class city with real estate prices that are still relatively cheap (think Hong Kong, New York, London, etc).

However, data shows that only 4% - 5% of recent real estate deals in Toronto

involved actual non-resident buyers. It's quite likely that a significant proportion of deals involve foreign money being passed through local residents (spouses, relatives, business associates, etc), although there is no way to quantify this and no easy way for the provincial government to control it either (which may explain their focus on foreign buyers instead of foreign money).

In Part 1 of this article we summarized our findings and concluded that while we're not necessarily looking at a bubble, we may have an unaffordability problem. Here's a breakdown of how two factors contributed to the average price increase:

1. Inflation was responsible for roughly 19% of the increase (out of a total of 100%).

2. Mortgage interest rates decreased by roughly 3% per year during the period. Math-

ematically, this means that for the same monthly mortgage payment (based on a 25-year amortization), a buyer can now afford a mortgage loan amount that is 60% higher than before.

So, between inflation and lower mortgage rates, we could now explain almost 80% of recent price increases. At this point we got lazy and decided that all "other" factors (including foreign money) were responsible for the remaining 20% of the increase.

But why would buyers be willing to agree to a 60% higher purchase price for the same property? One could argue that the majority of buyers look only at their initial monthly payment and tend to ignore the risk of rising interest rates.

While this may not seem like rational behaviour for an investor, buying a home (especially for personal use) is

often an emotionally charged decision.

Still, we felt like there may be something more to it. For example, the last 3-4 years have seen much less movement in mortgage rates and still high price increases.

At this point we developed a theory — what if average statistics were not really based on the same homes? How many renovations, flips and complete rebuilds has Toronto had in the last several years, and how was this activity impacting real estate values over the last 3-4 years? This was NOT an easy question to answer.

The first logical step was to try to identify properties that had been subject to significant "value added" activity (such as major renovations, or complete rebuilds) in the last 3-4 years. Obviously, this type of extensive activity would be less frequent and more difficult to identify in condos, so

we decided to stick to houses for the purpose of this exercise.

We downloaded almost 16,000 transactions from the MLS system (where realtors list houses for sale) that happened during the period of 2013 - 2017.

We focused on detached and semi-detached houses in the "central" Toronto MLS districts. We put all 16,000 transactions into an Excel spreadsheet.

Of these, we were able to identify roughly 1,000 that had been bought and sold again during that same period (specifically between August 2013 and March 2017). This now became our data set.

Next week: What the data actually reveals.

— John Melinte is an associate of the Society of Actuaries and a partner at Sky View Suites, a corporate housing firm base in Toronto.