

# CONDOBUSINESS

## Big data backs medium-density development

Computer simulations confirm role for 'missing middle' in housing affordability

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By Michelle Ervin

The development of more courtyard apartments, multiplexes and town homes could be among the building blocks of better housing affordability in Ontario and the Greater Toronto and Hamilton Area (GTHA), according to big-data analysis. Collectively referred to as the 'missing middle,' these housing types hold the potential to help mediate a mismatch between supply and demand, according to a [report released](#) last week.

[Understanding the forces driving the shelter affordability issue](#) builds on research into the complex web of factors influencing the housing market. In this latest phase of its work, the Canadian Centre for Economic Analysis (CANCEA) used computer simulations to model the various effects of different events. The independent study was sponsored by the Residential Construction Council of Ontario, the Residential and Civil Construction Alliance of Ontario, the Ontario Association of Architects and the Ontario Construction Secretariat.

In its [initial phase](#) of work, CANCEA produced a new measure of affordability, aimed at more completely capturing the many forces affecting the ability of households to meet their basic housing needs. The shelter consumption affordability ratio (SCAR) index represents all costs associated with shelter divided by the amount of disposable income left over after covering other necessities.

In Ontario, one in four households have a SCAR index of more than 60, which is the threshold for unaffordability. In the GTHA, it's one in three households.

Population growth, paired with the shrinking average size of household, has contributed significantly to the rising SCAR index in the last 10 years, the research found. Debt was also a major factor in increasing affordability pressures. At the same time, increasing average wages, diverging ownership and rental prices, and growing government transfers acted as mitigating forces.

The research found that demographic factors and diverging ownership and rental prices also have the potential to have an outsized impact on the SCAR index looking ahead. So do average wages, employment rates and the mismatch between shelter demand and supply.

Industry groups have characterized housing affordability as a supply problem, but Paul Smetanin, president of CANCEA, cautioned that it would be a mistake to discount the demand side of the supply-demand equation. With the region projected to require \$100 billion to \$150

billion worth of construction in the next decade, the research points to the importance of the suitability of supply.

“This is not about necessarily increasing the volume of what we’re currently building,” said Smetanin. “This is about changing what we build, and starting to look at the productivity of land being used.”

Gentle-density options, somewhere between single-family home and sky-scraping condo, would give households an opportunity to ‘right-size’ their home based on their needs, he explained. As it stands, a similar scenario is playing out in communities across the GTHA, where empty nesters tend to be sitting on extra bedrooms while households of five or more tend to be short on bedrooms.

This finding was eye-opening for city councillor Ana Bailao, who chairs Toronto’s affordable housing committee and represents Ward 18 Davenport. It suggested that a provincially and federally supported city program designed to help seniors age in place might be less than constructive with respect to housing affordability.

“We’re actually incentivizing people to stay longer in their homes, paying for renovations and so on,” said Bailao, speaking on a panel following the release of CANCEA’s report. “So now we have all this data in front of us that should tell us maybe this is not the best way to actually invest that money.”

Smetanin also noted the lack of attractive alternatives available to baby boomers who might otherwise downsize from detached homes. What’s conspicuously absent on the market is what has come to be known as the ‘missing middle.’

“One part of the community is rat, pack and stack, and the other part of the community is very flat,” he said.

The CANCEA report cites zoning as a contributing factor, with vast swaths of residential land limited to detached homes in Toronto. It goes further to suggest that adding gentle density to serviced, well-located areas such as Danforth Avenue could be a cost-effective way to increase housing.

It’s not just about building the right size of units, but providing the right mix of tenures. A cultural fixation on home ownership has pushed ownership levels far beyond those found in most modern cities, said Smetanin, while the construction of purpose-built rentals has stagnated, until recently.

“Every time we turned down the supply of rental, we started to see frothiness, and we started to see bifurcation toward basically people in good situations and people in bad situations,” he said of the computer simulations.

The availability of attractive rental options also facilitates right-sizing by giving consumers who sell their homes the option of renting if no homes meeting their needs are on the market at that time, said Smetanin.

Renewed interest in constructing purpose-built rentals was just picking up steam when the provincial government announced plans to lift the previous 1991 cut-off on rent control.

“One of the great tragedies of what we’ve seen over the last month or so is that Greater Toronto and Hamilton Area was on the verge of a massive expansion of purpose-built rental,” said Jim Murphy, president and CEO of the Federation of Rental-Housing Providers of Ontario, speaking on a panel following the release of CANCEA’s report. “And a lot of those [units] are now at risk.”

Meanwhile, condos have outpaced purpose-built rental construction in the GTHA by more than 10 fold over the last two decades, according to the CANCEA report. As a result, condos have acted as a stopgap in the rental market, with one in three of the units in Toronto currently rented.

However, development timelines that stretch years cause a lag in responses to consumer demand and prompt builders to depend heavily on investors, observed Diana Petramala, economist, real estate, TD Economics.

“[Builders] are primarily selling to investors at pre-construction stage, and they’ve got to sell about 60 to 80 per cent of their units before they can actually start or get the funding for a building,” said Petramala, speaking on a panel following the release of CANCEA’s report. “That means that investors, particularly foreign investors, are determining our future supply — what the size looks like.

“Do we need to tax them and do we need to cut that off right away? No, because we don’t have anything its place.”

The CANCEA report flagged the agility of developers to respond to demand — which hinges on timely regulatory approvals, among other things — for particular attention as well as speculation that results in empty units or over-bidding. In addition to right-sizing and tenure-matching, these were identified as behaviours likelier to respond to policy intervention.

The CANCEA report projected that the cumulative effect of curbing speculation, stimulating rental supply and demand, and tempering over-housing could be to bring the SCAR index below 1990s levels. Just getting developers to deliver right-sized units and getting consumers to match their shelter to their needs could bring the SCAR index below 2000s levels.