

New Toronto policy will only raise price of new housing

by Richard Lyall 24 Nov 2021



Toronto council approved an inclusionary zoning policy that will force developers to set aside a percentage of units for affordable housing if they're putting up condos near transit stations. However, the framework will drive up prices for buyers of market-priced units.

Council had two choices. Give builders a break on development charges to build up the stock of affordable housing in the city or arbitrarily impose regulations on them. They unwisely chose the latter.

Starting in September 2022, the city will force developers who put up condo developments near big public transit stations to designate five to 10 per cent of the units as affordable housing. By 2030, the figure is set to rise to between eight and 22 per cent.

The new framework will not solve the housing supply problem. It will only penalize those buying market-priced units, as costs will be passed on to them. In effect then, new home buyers will end up shouldering the added costs of providing affordable housing. The policy will end up hurting those on a limited budget or who are barely able to put together enough funds for a mortgage.

The irony here is that qualified buyers might ultimately have to move to the list of affordable home seekers.

The city, in effect, is placing the burden solely on the back of purchasers of new homes – at a time when housing supply is already under great pressure and affordability is more elusive than ever.

The policy is not going to materially add to the aggregate supply of housing overall. In fact, it could have a chilling effect on future projects and make some untenable, leading to fewer condos being built.

The policy affects new rental developments as well so, in the end, the cost of affordable rental units will be borne by other unit holders. Some think builders will absorb this but that's not how markets work. So, it is effectively regressive. Those most affected will be those who can least afford it.

Buying land and constructing a building in Toronto doesn't come cheap. Developers operate on tight budgets. If they can't make money, they won't build. Simple as that. In turn, that will lead to fewer housing units.

If the city wants to tackle the housing affordability crisis, it should instead remove barriers that strangle growth.

The city could have and should have taken a different approach. Instead of regulations, developers had asked for incentives. Waiving density limits so they could build higher, for example, would have been a more preferable option.

We have a serious housing supply crisis in the GTA. Reducing red tape, streamlining the approvals process, and giving developers a break on development charges would have been a better approach.

As part of its Official Plan review, the city could also opt to ease zoning restrictions to allow developers to build more mid-rise buildings, semi-detached homes, townhouses and multiplex buildings in neighbourhoods that presently allow only single-family homes. This would help speed-up the building timeline, as developers wouldn't have to keep seeking site-specific rezoning.

Barring systemic change, the housing crunch will continue to get worse. The policy adopted by the city certainly won't help. Rather, it will only complicate matters. Regrettably, market supply economics has been effectively ignored for the sake of political expediency.

Thankfully, the province has announced a Housing Affordability Task Force that will identify opportunities to get shovels in the ground faster, remove duplication and barriers, and make housing more affordable.

With more than 400,000 immigrants expected to enter Canada in each of the next two years, we need policies that will increase housing supply to meet anticipated demand – not penalize developers.

Instead of improving the situation, it would appear this particular inclusionary zoning approach is more ideological than practical.

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