

Solving Canada's Housing Crisis

The world's a big place. Is there anything out there worth trying here?



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Our housing crisis has been growing for decades, but recent years have driven things to a whole new level of dysfunction.

Consider how, back in 2000, the average detached house in Toronto went for around \$250,000 while the average annual household income in the city was just north of \$72,000. That meant your house would cost you around 3.5 years worth of full income.

Now compare that with the \$1.4 million the average Toronto home cost in 2022 - when an annual income was \$126,300. That means it'll take *11 years* of income to cover that same house. The affordability ratio has tripled. Something's come seriously unstuck.

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Anyone with an internet connection and a pulse is already perfectly familiar with what's going on. The trick would be to figure out how it can be fixed.

Possible partial solutions being bounced around include:

- Increasing the flow of government money into the housing market by loosening eligibility rules for CMHC-insured mortgages to make homes more affordable. The likely outcome of such a program would be to drive up prices by sparking bidding wars among cash-happy buyers. Equity partnerships (where governments own a share of your house) come with a similar level of risk.
- Providing low cost loans to developers of affordable housing projects. As [I've written](#), capital-rich construction markets have failed to increase affordable housing in other overheated regions, but they also tend to lead to poor outcomes and corruption.
- Penalizing vacant homes and quick-turnover sales. Taxing properties left vacant or immediately resold for a quick profit can encourage healthier unit life cycles. Although there's a risk that such taxes will lead to unplanned economic distortions.

- Indexing immigration-driven population growth to housing availability. This would almost certainly be helpful...if it were ever actually tried.
- Reducing the regulatory and zoning restrictions holding back new developments. It would be hard to disagree with the underlying principles. But it would equally hard to imagine that such efforts could, on their own, increase housing inventories at the scale we need.
- Opening up government-owned land (like [Downsview Lands](#) in Toronto) to housing development. The idea is fine but, at the current rate of progress, it'll be decades before the first families start moving in. Governments move far too slowly for such plans to have a serious real-world impact.

Proponents of those ideas aren't by any means evil. At least they're making an effort to address a monstrous problem. And so long as I haven't contributed my own solutions I'm in no position to complain. But I thought it might be useful to at least offer a survey of what's being attempted around the world.

Affordable Housing Overlays

The original inspiration for this post was a recent [article by Terry Glavin](#) that referenced the idea of Affordable Housing Overlays (AHOs).

AHOs are neighborhoods where city zoning rules allow higher-density construction and streamlined approval flows exclusively for developers who commit to building only affordable housing units. The idea is that the benefits of greater scale and quicker approval turnaround - along with reduced land-purchase costs - can offset the lower per-unit profits from affordable housing.

The catch is that the plan seems to require landowners to sell their properties to developers at below-market prices. But why would anyone agree to give up millions of dollars to comply when non-AHO developers are bidding at full price? AHO advocates feel that the promise of faster transactions and approvals, non-contingent contracts,

and tax benefits (like lower capital gains exposure and - possibly - charitable donation tax credits) should be enough to convince landowners to participate.

The flagship AHO project was launched a few years ago in Cambridge Massachusetts. [Proponents claim](#) that their AHO has increased the average annual creation of new affordable housing units from 40 to 200. But there's no data available indicating whether scaling that up to game-changing levels will be possible.

Tax Incentives

There's strong evidence that tax credits and exemptions can at least play a positive role in increasing affordable housing supply. U.S. federal government [Opportunity Zones](#) - created as part of the 2017 Tax Cuts and Jobs Act - allowed developers to defer or eliminate capital gains taxes on investments made in such zones. Similarly, US government Low-Income Housing Tax Credits have been around for decades and are at least [partially responsible](#) for more than 3.65 million affordable units.

[Some Canadian cities](#) have also offered property tax exemptions for buildings providing social housing. This can obviously be an incentive to build from scratch or convert existing properties to affordable housing.

This is an idea that, historically, has already proven its value. It would make sense to push harder to see just how far the benefits of tax incentives can be extended.

Micro Units

One way to address the high cost of urban land is to increase density - with an overall goal of reducing the per-unit occupancy costs. That could mean adjusting zoning rules to allow for taller buildings or smaller individual units. [Co-living](#) or co-housing spaces that provide individuals with private spaces and shared common areas are a related format.

Construction costs and completion timelines for such projects can often be reduced

through the use of modular sections that are manufactured off-site and delivered to the site for installation. [The Carmel Project](#) in New York is an example of developments using such methodologies.

Some of the same savings and efficiencies can be achieved using [3D printing technologies](#) and pre-fabricated tiny homes (which, believe it or not, can be ordered [from Amazon](#)). Some Canadian cities already allow homeowners to rent out tiny homes on their property.

While micro units may have their place in the big picture, because of their size, they fail to address the housing problems faced particularly by young families. Ignoring one of the key factors getting in the way of family formation and fertility recovery would certainly not be a great idea.

The Vienna Model

Nearly half of all Viennese residents live in city-owned units, and many of those pay below-market rents. The system is also open to people earning higher incomes to prevent stigmatizing residents of public housing estates.

This isn't a new experiment: it's actually been going on for more than a century. And, for the most part, it seems to have worked. Sure, you'll apparently hear complaints about the months or even years it can take to find an available unit. And it can make life difficult for private developers. But, after a century, it does feel sustainable.

Could some variation of the Vienna model work in Canada? Possibly not. The up-front investment needed would require tax increases that would be difficult to implement. And the culture that contributed to Vienna's success might be unique. In fact, despite many attempts, no city has managed to replicate the program at anything near the Vienna scale.

Land Value Taxation

What if homeowners weren't taxed on the value of their homes, but on the value of the land on which their homes sat? Cities around the world seem to have experienced greater success than failure using variations of this policy.

Got a 100x200 foot property with a modest 1,200 square foot house? You might end up paying a lot more property tax than your neighbour with the 3,600 square foot house. That's because the goal of a land value tax is to incentivize landowners to develop their properties rather than just leaving them underutilized. The idea is that landowners are more likely to make better use of their land, since improvements have no impact on tax rates.

Of course, getting the balance exactly right is easier said than done. You don't want farmers plowing their crops under in favor of residential development. And you similarly don't want to push retirees out of their generational homes because they can no longer afford the property taxes.

Community Land Trusts

Community Land Trusts (CLTs) are another way to strip home value away from land value. A CLT might come into existence as a grant of government land transferred to the control of a non-profit or community organization. The CLT could then oversee the development of residential property as affordable income-indexed rental units or for outright sale (where the land itself remains the property of the CLT).

Either way, the occupancy costs would be far below existing market rates because land is usually the highest part of a real estate purchase. But developers (and their suppliers) could still enjoy exactly the same profit margins as before.

To illustrate the role of land in property prices, a derelict house in my Toronto neighborhood will generally sell for at least 90 percent of value of the fully livable house next door.

Remove all or most of the cost of the land, and you're looking at sustainable prices.

When CLTs are large enough, they can even drag down prices on all properties in the area.

Throwing around creative ideas from around the world certainly can't hurt. And, when you consider how much suffering the crisis is causing, serious new ideas are about the closest things to helpful tools we've got right now.
