

Improving the Provincial Policy Statement: Removing Barriers to Housing Supply

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Review of the Provincial Policy Statement: Removing Barriers to Housing Supply

Executive Summary

The Federation of Rental-housing Providers of Ontario (FRPO) welcomes the opportunity to provide comments on the review of the Provincial Policy Statement. FRPO represents owners, managers and investors in Ontario's private rental housing sector. Our members supply over 250,000 rental homes across the province, and are sensitive to the impact of land use planning and management policies on the industry's ability to invest in new rental housing.

We are supportive of planning policies that remove barriers to the supply of housing. To accomplish the objective of ensuring residential development can meet the needs of the population, the Provincial Policy Statement must support the supply of all types of housing at all ranges of prices, and abandon outmoded and unworkable policies that focus on targets for the provision of "affordable" housing.

The province must provide clear direction to municipalities to ensure an adequate supply of land be available for development. This means expanding the available land supply, removing restrictive zoning, and eliminating the damaging effects of localized community opposition as early as possible in the planning process.

Our comments on the Provincial Policy Statement stem from the abundance of research that shows that housing affordability is primarily affected by the supply of housing (e.g. Lansing, Clifton & Morgan, 1969). That research has determined that restrictive planning policies and zoning regulations are the key cause of housing problems (see Malpezzi & Green, 1996). When restrictive zoning or planning regulations impact on supply, it prevents the normal functioning of the housing market where people move to new housing which in turn creates more affordable vacancies in the existing stock of housing.

Ironically, many proposals the province will receive on the Policy Statements will be for stricter regulation (e.g. inclusionary zoning), which increases the cost of supplying new housing, and therefore reduces the amount of supply, thereby having the opposite of their intended impact. It should be noted that FRPO members generally benefit from policies which make it more difficult to supply new housing – many of our existing customers leave for newly constructed housing. So FRPO does not take this position out of self interest.

Summary of Recommendations

Our comments on the Provincial Policy Statement will focus on elements that affect the housing sector in Ontario. In summary, our key recommendations are that:

1. Planning authorities and municipalities be required to remove policies that prohibit or restrict the demolition, conversion or redevelopment of housing projects

2. Planning policies remove obstacles to the supply of residential developments caused by community opposition
3. Planning authorities and municipalities be prohibited from imposing inclusionary zoning targets for residential developments
4. Provincial direction should promote a less complex and less burdensome planning and approvals process for residential developments

The above four recommendations all contribute to the objective of encouraging investment in all types of housing by removing restrictions and regulations that make it difficult, and in some cases impossible, for the private sector to supply housing to Ontarians. Each of these recommendations is described in more detail below.

1. Remove policies that prohibit or restrict the demolition, conversion or redevelopment of housing projects

Policies that prohibit demolition and conversion of existing housing imposed by planning authorities and municipal governments may claim to protect existing affordable housing. However, they do little more than prevent the construction of newer and typically more intensified development. It is not uncommon for municipal officials to suggest that demolition or conversion of rental housing will result in a loss of rental housing or “affordable” housing for a municipality. The evidence does not support this viewpoint.

There is considerable misunderstanding regarding the consequences of the conversion of rental units into homeownership and condominium units. The conversion of rental units into ownership units is a natural response to market demands, especially in light of Ontario’s long term trend toward a higher percentage of the population choosing homeownership over renting. For the vast majority of tenants who have no affordability problem, conversion of rental to condominium offers the opportunity of affordable homeownership.

Conversion has minimal impact on housing supply

Studies have shown that conversion policies have minimal impacts on the supply of housing. A 1980 U.S. HUD study found that conversions clearly provided for a disproportionately high number of ownership opportunities for single people, especially single females, and for minorities, in comparison with the rest of the ownership stock. The study also found that the impact on rental supply is minimum, because many existing renters buy, taking themselves off of the rental market, and because a number of units remain rental. Ontario also has lifetime security of tenure for existing renters in a conversion situation, so there is little to worry about in allowing conversions with such strong protections.

Finally, concerns about rental supply are merely a holdover from the old days of restrictive rent controls. Under restrictive rent controls, as can be expected under such regulation, supply and demand go into imbalance – demand expands beyond the price clearing point, and

supply retracts. As the chart right shows, rental supply shortages were a result of strict rent control regimes. In more recent times, rental supply and demand in Ontario has moved into balance, and there is an abundance of available rental housing in the province.

Condominium Stock is a Vital Source of New Rental Housing Supply

There is also an abundance of rental supply from non-traditional sources in Ontario. This makes public policy makers' concerns about traditional rental supply unwarranted. For example, when single detached homes are first built, only a small percentage of them are rented. However, as they age, an increasing portion of these homes switch tenure from the ownership market to the rental market. This same process happens to all new ownership housing over time, especially in the condominium market.

Urbanation, a Greater Toronto Area condo market research firm, has estimated that approximately 30 percent of new condo purchases in 2007 were for investment purposes. Many of these units will be available for rent once construction is complete. The condominium market has become a vital source of new rental housing supply.

The addition of rental units to the housing stock from non-conventional sources such as low-rise houses and condominiums is often ignored in discussions about the rental stock, since they are not included as "purpose built" rental housing. Consideration of nonconventional sources of rental housing challenges the view that there is a supply shortage for rental housing.

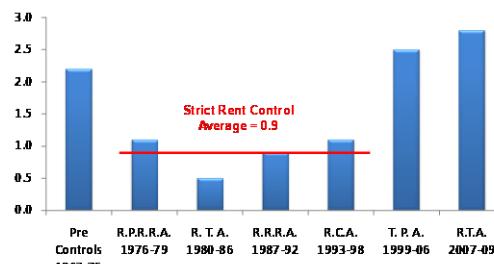
Conversion Supports Residential Intensification

Another benefit from conversion is that it almost always results in intensification. Therefore, policies to allow conversion would support provincial planning goals towards intensification. Intensification is also good for the environment, buttressing other provincial goals in this area. Allowing older less dense rental sites to redevelop would result in more people living closer to work, closer to transit, and fewer cars on the streets.

Overlaid with evidence of Ontario's long-term trend of a declining percentage of renter households, higher vacancies and falling rents, it becomes clear the provincial government should:

- Develop policies that promote and encourage the development of all forms of housing that meet the demands of the market, since a critical determinant of the growth in rental supply depends on growth of total housing supply; and,

Vacancy Rates Under Various Legislative Regimes, Toronto



- Rather than allow policies that expropriate property rights to prevent conversions and demolitions of rental housing, there should be policies to *promote* conversions and demolitions, since a significant portion of detached homes and condominiums become rented to tenants.

2. Remove obstacles to the supply of residential developments caused by community opposition

For many low income households, or those with special physical or social needs, the type of housing most accessible to them is that found in higher density rental housing in existing residential neighbourhoods. In many cases, these projects face strong resistance getting through the planning process. Political and policy barriers are often thrown in the way of rental housing, affordable or supportive housing developments due to negative public attitudes towards special needs groups.

Local opposition to housing and NIMBY (not in my backyard) attitudes are two of the most significant hurdles for the province and the private sector to overcome with respect to the provision of housing. Unfortunately NIMBYism has the potential to derail renewed efforts by the province to develop an affordable housing strategy as part of a poverty reduction initiative.

Local Opposition to Development Does Not Reflect Community Consensus

The attitudes of residents and politicians that are opposed to any new development are rarely in the best interest of the greater community or the province-at-large. NIMBY attitudes usually represent just a few vocal and forceful residents and are often not a true reflection of the general consensus of a community; the opposition to any infill and affordable housing projects by local stakeholders is not usually a true democratic representation of most communities. Unfortunately these few vocal and forceful residents and politicians often drive the current planning process.

To remove the obstacles to housing projects caused by local opposition, provincial policy direction should:

- Put the broader public interest first in considering the benefits of new housing to Ontario;
- Eliminate the effects of NIMBYism as early as possible in the planning process; and,
- Ensure that the Ontario Municipal Board (OMB) has the ability to overturn local decisions that prevent housing development based on NIMBY reaction.

Without clear direction and action from the provincial government to remove the obstacles caused by local opposition at the municipal level, the local planning process will continue to discourage the development and supply of housing.

3. Prohibit inclusionary zoning targets for residential developments

A fundamental flaw in the current provincial policy statement are two conflicting policy objectives, namely one housing policy under section 1.4 that calls for a range of housing types and densities to be provided to meet the requirements of the population, and an opposing housing policy that calls for quantitative, minimum targets for the provision of “affordable” housing.

The imposition of rigid and arbitrary targets for a certain type of housing is incompatible with the objective of ensuring an overall adequate level of housing supply for the population. Too often, governments interpret this policy to justify inclusionary zoning targets, which ultimately constrain efforts by developers to provide housing.

Growing research indicates that the number one cause of housing affordability problems in any jurisdiction is barriers to the supply of housing. This research demonstrates that the cause of affordable housing problems has little to do with the supply of new “affordable” housing. Rather, it is driven by obstacles that prevent the supply of homes at all price ranges.

For some, this conclusion is counter-intuitive. Provincial policy must reflect the fact that it is housing development targeted to the middle and high end of the market that has the most significant impact on improving affordability – not low and moderate income housing as suggested by the Provincial Policy Statement. This is done through a process called filtering: adding to the overall housing stock creates new opportunities for households who can afford the cost of new construction to move, freeing up more affordable units. As more affluent households move into the new, higher-valued supply they vacate lower cost more affordable housing, create vacancies, and put downward pressure on housing costs.

Inclusionary Zoning is a Barrier to Housing Supply

Inclusionary zoning is significant barrier to overall housing affordability and supply. As the term is used, “inclusionary zoning” would require the developer of any new development to sell a percentage of the units at below market prices. For example, if a builder proposes a development of five units, one unit would have to be sold for significantly less than the other four. The ultimate impact of this policy is that the remaining four units would subsidize the below-market unit, resulting in higher sales prices for the four market units. That causes an affordability issue for the market units.

Since the remaining inventory of market units that are subsidizing the below-market units would experience significant price increases, many housing projects simply will not be economically viable. That reduces the overall supply of new houses, and blocks the filtering effect of moves from existing dwellings into new dwellings. Inclusionary zoning would make housing less affordable for more households.

Proponents of inclusionary zoning, acknowledging the current unattractiveness of building new purpose built rental housing (Gladki & Pomeroy, 2007), have proposed complex changes

to the *Planning Act* and stipulations for exchanging mandatory price cuts to market housing in exchange for increased densities. Such changes are an intrusive and restrictive approach to housing policy, have a negative effect on the supply and cost of housing, and should be avoided.

4. Provincial direction should promote a less complex and less burdensome planning and approvals process for residential developments

The land development approval process has become increasingly complex and burdensome. This leads to two consequences: less housing and higher prices. Many municipal governments have adopted long-term planning policies which restrict growth and drive up housing costs. Land shortages result from self-imposed policies that prevent development on suburban green-field sites. This cuts off the supply chain and drives up housing prices within cities.

While development of residential housing to meet population demands should be planned, it should not be restricted. The current restriction on new land supply by growth management policies will negatively impact the supply and affordability of housing.

There is a need for both industry and government to undertake a Housing Affordability Impact Audit on existing planning and building regulations and how they affect the delivery of both brownfield and greenfield development.

The Ontario government should thoroughly review all planning and regulatory policies with a view to promoting intensification across the province, as supported by the Provincial Policy Statement. While there have been attempts to expedite the development and building approvals process, a comprehensive supply side review has yet to be undertaken in Ontario.

Given the current situation, it is urgently needed to identify significant savings and substantially improve affordability. There are many opportunities for the government to support intensification through less complex planning and zoning policies and ensuring that the Ontario Municipal Board upholds new policies and plans against local government resistance to the development of higher density housing projects.

Conclusion

The Provincial Policy Statement includes the stated goal of improving land use and development to promote the supply of a mix of housing and intensification to support residential land use needs of the population. Past approaches however, based on restrictions, regulation and constraining planning and zoning laws, will only limit the supply of housing and increase its cost.

Removing policies that prohibit or restrict the conversion or redevelopment of housing projects, minimizing the impact of local opposition to development, prohibiting inclusionary

zoning and fostering a less complex planning process, will help increase the supply of all types of housing, at all price ranges, for all Ontarians.

Provincial Policy Statement is an Inappropriate Housing Affordability Tool

The goal of improving housing affordability should not be attempted through planning and land development policies. There are other ways by which the Government can achieve its goal for providing housing for low to moderate income households that do not restrict the housing industry, and cause the overall cost of housing to increase. The government should address housing affordability issues through poverty reduction strategies, and focus on improving income assistance and housing benefit allowances to eligible households. These are far more effective, and less impactful on land use development, than through land use planning regulation. Any requirement to provide affordable housing targets should be removed from the Provincial Policy Statement.

Rather than a focus on what the housing industry should not do, the Provincial Policy Statement should create opportunities for housing providers to do more to fulfill the government's land use and development objectives. We are confident that our recommendations in this submission will set a stronger foundation for improving the supply of housing to Ontarians.

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