

## What to do and not to do with the housing bubble: Opinion

This bubble doesn't need to burst. A little air can be released, however, through thoughtful policy coordination and timely strategic investment.



"Political will, strategic investment and seamless communication between the three orders of government will ensure positive outcomes," during our current housing bubble, writes Mitchell Cohen. (GRAEME ROY / THE CANADIAN PRESS)

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Everyone is talking about “the bubble.” In barber shops, beauty salons, and boardrooms across the city there are a myriad of opinions as to what can and should be done. Should government intervene? Or should we allow the free market to do its thing, with the risk that a bubble bursting in the Greater Toronto and Hamilton Region could bring down the overall Canadian economy?

Given the clear and present danger, it is indeed timely that Federal Finance Minister Bill Morneau has reached out to Toronto Mayor John Tory and Provincial Finance Minister Charles Sousa to discuss potential intervention strategies.

The reality, however, is that it’s not complicated. Political will, strategic investment and seamless communication between the three orders of government will ensure positive outcomes. As the three leaders contemplate discussion points for the meeting, here are a few suggestions on what to do and what not to do:

#### 1. Get Money for Affordable Housing Flowing Now

The federal government has rightly determined that housing is “infrastructure.” Roads, bridges and sewers have long been considered ‘infrastructure’ worthy of investment. Finally, a national housing strategy will ideally declare safe, secure and affordable homes as ‘infrastructure’ and a fundamental right for all Canadians. This is decades overdue, and cause for significant optimism.

In addition, the Feds have announced a healthy investment in new affordable housing, with funding rolling out over the next ten years. The ‘bubble’ imperative, however, demands that a great deal of that investment should be front ended, as in now.

The “not-for-profit” sector (housing co-ops, municipal and private non-profits) is ready, willing and able to build affordable housing, particularly if all three levels of government jump on board with the item No. 2 on the “to do” list. In addition, affordable home ownership programs have been road tested with tremendous success, and down payment assistance programs for individuals and families living in social housing can be implemented immediately.

## 2. Intentional Disposition of Public Land

Each level of government owns a substantial supply of land that has been declared surplus. Opportunities to create both affordable rental and ownership housing on public lands are being squandered, even as the bubble moves ever closer to bursting. Land, the fundamental ingredient in every recipe for affordable housing, is most often sold to the highest bidder with zero requirement for affordable housing.

Fortunately, the City of Toronto understands the value of its land bank and is leveraging that value to create affordable housing. Recently, the city demonstrated true “intentionality” by including a 30 per cent affordable housing requirement in a proposal call for a surplus parcel of land. On the other hand, the province has sold and is currently marketing public land without any requirement for affordable housing, a complete and inexcusable abdication of responsibility.

## 3. Using Tax Incentives to Create Rental Housing

Purpose built rental housing is finally beginning to be built, as pension funds and other “patient capital” are attracted to the stable returns of residential income producing properties. However, as long as new home and condominium sales continue generating significant short term profit, the vast majority of new developments will be market housing.

Many housing analysts are calling for a substantial increase in rental supply. An “incentive based” government intervention could make that happen in a heartbeat through the creation of a new “property tax class” for purpose built rental housing. This new tax class would provide the certainty across municipalities that will be required by institutional investors. It could also incorporate two levels of incentive, with deeper levels of assistance provided if affordable units are incorporated within new developments.

A successful precedent for this “incentive based” approach has been demonstrated in the City of Toronto. The IMIT (Imagination, Manufacturing, Innovation and Technology) Program has proven that government can target and incentivize specific sectors for

development. A similar program could be implemented immediately for “purpose built rental.”

It is also important to note that the creation of thousands of new rental units under an IMIT-type incentive will have a significant moderating influence on rents across all market levels, rendering an adjustment to the current rent control guidelines unnecessary.

#### 4. Inclusionary Zoning

Ontario has demonstrated tremendous leadership by enabling municipalities to implement inclusionary zoning bylaws, which is the only way to ensure affordable housing will be built by the private sector. Although it’s time to put that puck in the net, inclusionary zoning bylaws will only succeed if both the province and cities acknowledge that the responsibility, and thus the cost, should be shared between the public and private sectors and phased in over a period of time.

#### 5. Taking Speculators Out of the Equation

A housing market stimulated by speculation is not a healthy market. The past 17 years has been an extremely balanced market, with end users and long term investors driving sales, rather than speculators. Over the past several months, however, speculators have taken centre stage, and an unsustainable feeding frenzy is well underway.

There are a few simple actions that would take speculators out of the equation. Firstly, eliminate the assignment clause in purchase agreements that allows a speculator to flip a unit without ever closing. Second, impose a foreign buyers tax on those who do close, and an additional vacant housing tax as a further disincentive to simply buy a property, keep it vacant and sell it at some point down the road.

These measures could be implemented immediately, as part of a comprehensive strategy inclusive of everything else on the to-do list.

## A Few Things Not To Do

1. As mentioned above, do not impose rent controls on new purpose built rental. There is almost unanimous consensus that thousands of new rental units need to be built. Rent controls on new rental units will have the absolute opposite effect.
2. Do not mess with the Greenbelt or the Places to Grow Act, unless to strengthen them. For decades, low density suburban development gobbled precious agriculture lands in pursuit of an unsustainable dream — the single family detached home. Opening up more land for low density residential development will not increase affordability. Rather, it will simply create longer commute times, higher levels of greenhouse gas emissions and an even deeper dependence on food being delivered from longer distances rather than from our own backyard.
3. Do not abolish or limit the authority of the OMB. Placing control over development in the hands of municipal councils will bring all intensification initiatives to a grinding halt. Existing communities do not want change, and for the most part local councillors will defer to their constituents. As a result, applications for market housing will have an even rougher ride than they do today. Market rental projects will be given an even rougher ride and affordable rental housing won't stand a chance.

This bubble doesn't need to burst. A little air can be released, however, through thoughtful policy coordination and timely strategic investment. The key is to act now, before the impact of a bursting bubble in Toronto and environs reverberates across the country.

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