A Macdonald-Laurier Institute Publication

A HOME FOR CANADA'S MIDDLE CLASS

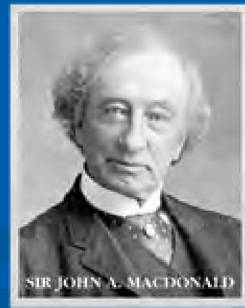
A Plan for Housing Affordability and Opportunity in Canada

Brian Lee Crowley and Sean Speer

September 2016

True North in Canadian public policy

True North in
Canadian public policy



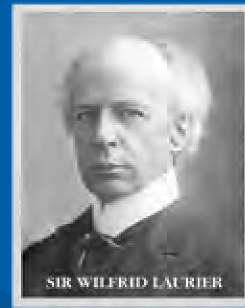


Table of Contents

The authors of this document have worked independently and are solely responsible for the views presented here. The opinions are not necessarily those of the Macdonald-Laurier Institute, its directors or supporters.

Executive Summary

Housing affordability has become one of the hottest media issues in Canada, as news reports pile up about rising prices in major markets such as Toronto and Vancouver. The trouble is, most of the debate has misidentified the key causes of rising prices, and ignored the fact that poor government policy is a major contributor to a housing affordability problem that is crushing middle class dreams, and constraining the success of those vital economic drivers: our big cities.

The government is right to be concerned about housing affordability and focused on supporting affordable and responsible homeownership. Homeownership is positively associated with a raft of economic and social benefits that strengthen families, communities, and the country. As one major study concludes: "there is considerable evidence that positive homeownership experiences result in greater participation in social and political activities, improved psychological health, positive assessments of neighborhood, and high school and post-secondary school completion." In fact widespread and affordable homeownership is one of the most effective ways to get people into the middle class and keep them there.

> "Most of the debate has misidentified the key causes of rising prices, and ignored the fact that poor government policy is a major contributor to a housing affordability problem."

Yet notwithstanding the political rhetoric about the importance of the middle class in Canada, so much of government policy – such as greenbelts and land reserves, exclusionary zoning and obstructive building and construction regulations – make homeownership harder rather than easier, with little offsetting benefit.

Vancouver and Toronto: Where the Jobs Are

A little understood aggravating factor is that virtually all the net job creation that has occurred in Canada in recent years has been in the Toronto and Vancouver markets. These cities are increasingly at the centre of investment, job creation, and middle-class opportunity.

High housing prices are almost certainly therefore a constraint on the continued success of the engines of prosperity for the entire country, as participation in the labour markets of these two cities is increasingly priced out of reach of Canadians who do not already live there and cannot afford to move there to pursue new opportunities. Median households must now dedicate 71.7 percent and 119.7 percent of their pre-tax incomes to own a single-family detached home in the Toronto and Vancouver areas respectively. New evidence shows that people are being forced into the suburbs and outer regions of major cities in search of housing affordability.

Moreover, in the current politically-charged atmosphere caused by runaway prices in Toronto and Vancouver, politicians and others have clearly fastened on to marginal factors such as foreign investment or unoccupied houses as the primary problem despite limited evidence and little analytical reason to think that such factors explain the rapid price rises of recent years.

Population Growth + Rising Opportunity – Adequate Housing Supply = Rising Prices

Far more relevant is the basic economic principle of supply and demand. Housing supply has failed to keep up with demand as Canadians seek to move to these dynamic urban areas and join the middle class. A decades-long campaign of provincial and local restrictions on housing supply has contributed to this gulf between supply and demand, which in turn helped to create the housing affordability challenges gripping these regions. It was not foreigners who caused the number of single-family detached homes in the Vancouver area to remain essentially unchanged for the past quarter century, or who limited detached home construction in the Toronto area in 2015 to its lowest level in 36 years.

The justification for these anti-development policies is weak, they frequently produce perverse outcomes, and they run directly counter to the federal government's stated wish to preserve and promote the middle class.

How Ottawa Can Unlock Middle Class Housing Supply in Our Most Expensive Cities

This paper argues that Ottawa should make itself the spokesperson and agent for the middle class on the housing file and use its spending programmes to spur provinces and municipalities to stop obstructing housing supply and the rise of the middle class.

We present a blueprint to restore homeownership as a key foundation for upward mobility, middle-class opportunity, and economic growth. The goal is to inform the enactment of a smart, pro-homeownership agenda for Canada.

Such an agenda would incorporate the following policy recommendations:

- Ottawa's new social housing and infrastructure funding to the provinces and cities should be conditional on reforms to restrictive zoning and housing regulations that support more housing supply. It is counterproductive to reward provinces and municipalities with affordable housing and infrastructure funding if these same governments are impairing housing affordability and in turn undermining the national economy and middle-class opportunity.
- Provinces and cities should revisit "urban containment" strategies with a clear eye to their impact on housing affordability. Policy-makers must be more transparent about the trade-off between urban containment policies (such as anti-development greenspace and obstructive zoning and construction rules) and the real economic consequences that artificially constraining the housing supply imposes.
- Future social housing spending should be reformed so that it supports responsible homeownership for low-income families rather than hastening further "class barriers" and a renter underclass. The emphasis should be on social housing that tenants can ultimately purchase on favourable terms. Partnering with Habitat for Humanity is one option to advance such reform.

Sommaire

Comme en fait foi la multiplication des reportages sur la hausse des prix dans les grands marchés comme Toronto et Vancouver, l'abordabilité des logements est devenue un des enjeux les plus médiatisés au Canada. Malheureusement, le débat n'a pas permis de cerner les principales causes de la hausse des prix ni d'éclairer le fait qu'une mauvaise politique gouvernementale peut grandement contribuer au problème de l'abordabilité et étouffer du même coup les aspirations de la classe moyenne et la réussite de ces moteurs économiques vitaux que sont nos grandes villes.

Le gouvernement a raison de s'inquiéter de l'abordabilité des logements et de faire de l'accession à la propriété abordable et responsable son cheval de bataille. L'accession à la propriété est positivement associée à un ensemble d'avantages sociaux et économiques qui renforcent les familles,

les collectivités et le pays. Conformément aux conclusions d'une étude importante : « De nombreux faits démontrent que les expériences positives en matière d'accession à la propriété augmentent la participation des citoyens aux activités sociales et politiques, améliorent la santé psychologique des individus et redressent l'image des quartiers et des établissements scolaires de niveau secondaire et postsecondaire. » En fait, l'expansion du logement abordable est un des moyens les plus efficaces d'inciter les gens à grossir les rangs de la classe moyenne pour de bon.

> “ Pratiquement toutes les créations nettes d'emplois au Canada au cours des dernières années ont eu lieu dans les marchés de Toronto et de Vancouver, un facteur aggravant mal compris.”

Pourtant, en dépit de la rhétorique politique sur l'importance de la classe moyenne au Canada, de nombreuses politiques gouvernementales – notamment en ce qui a trait aux espaces verts et aux réserves foncières, aux zones d'exclusion et aux règles visant les bâtiments et les constructions incompatibles avec le voisinage – fragilisent l'accès à la propriété avec peu d'avantages compensatoires.

Vancouver et Toronto : là où sont les emplois

Pratiquement toutes les créations nettes d'emplois au Canada au cours des dernières années ont eu lieu dans les marchés de Toronto et de Vancouver, un facteur aggravant mal compris. Ces villes sont de plus en plus au cœur de l'investissement, de la création d'emploi et de l'ascension de la classe moyenne.

Les prix élevés du logement freineront donc presque certainement à l'avenir les moteurs de la prospérité pour tout le pays, car l'accès au marché de l'emploi dans ces deux villes coûtera trop cher à ceux qui souhaiteront y vivre pour profiter des possibilités offertes. Dans la région de Toronto et de Vancouver, les ménages médians doivent maintenant consacrer respectivement 71,7 pour cent et 119,7 pour cent de leurs revenus pour posséder une maison unifamiliale. De nouvelles données montrent que les gens sont forcés de se déplacer vers les banlieues et les régions périphériques des grandes villes à la recherche d'un logement abordable.

En outre, compte tenu de l'atmosphère politiquement chargée suscitée par la flambée des prix à Toronto et à Vancouver, de toute évidence, les politiciens et bien d'autres se sont repliés sur des facteurs marginaux tels que l'investissement étranger et les taux d'inoccupation pour expliquer la situation, et ce, malgré les preuves limitées et le peu d'arguments analytiques à l'appui de la notion voulant que ces facteurs expliqueraient la hausse rapide des prix ces dernières années.

La croissance de la population + alliée à la multiplication des opportunités - mais à une offre de logements inadéquate = se solde par une hausse des prix

La loi de base de l'économie, soit celle du jeu entre l'offre et la demande, est beaucoup plus pertinente. L'offre de logements n'a pas réussi à répondre à la demande des Canadiens qui cherchent à se déplacer vers ces zones urbaines dynamiques pour grossir les rangs de la classe moyenne. La longue campagne de restrictions sur l'offre menée pendant plusieurs décennies par les gouvernements provinciaux et municipaux est un des facteurs à l'origine du déséquilibre entre l'offre et de la demande, lequel a, à son tour, contribué aux problèmes d'abordabilité dans ces régions. Ce ne sont pas les étrangers qui ont causé la stagnation du parc de maisons unifamiliales à Vancouver depuis un quart de siècle ni qui ont limité en 2015 la construction dans ce segment à Toronto, ville où un creux de 36 ans a été enregistré.

Ces politiques préjudiciables au développement sont difficiles à justifier, produisent fréquemment des résultats contraires et vont directement à l'encontre des politiques fédérales visant à protéger et à promouvoir la classe moyenne.

Comment Ottawa peut-il libérer l'offre de logements au profit de la classe moyenne dans nos villes les plus chères?

Dans cette étude, on soutient que dans le domaine du logement, Ottawa devrait se faire le porte-parole de la classe moyenne et l'intermédiaire entre cette dernière et les paliers inférieurs de gouvernement en utilisant ses programmes de dépenses pour inciter les provinces et les municipalités à lever les obstacles à l'offre de logements, à l'ascension de la classe moyenne et aux principaux moteurs de la croissance au pays.

On propose un plan pour restaurer l'accession à la propriété comme fondement clé d'une mobilité accrue, d'une ascension de la classe moyenne et d'une croissance économique. Son but est d'appuyer la mise en œuvre d'un programme intelligent favorisant l'accession à la propriété pour les Canadiens.

Un tel programme incorporerait les recommandations de politique suivantes :

- Les nouveaux fonds fédéraux pour la construction de logements sociaux et d'infrastructures ne devraient être alloués aux provinces et aux villes qu'à la condition qu'elles réforment leurs règlements restrictifs sur le zonage et le logement en vue d'accroître l'offre. Il serait contre productif de lotir les provinces et les villes de logements abordables et de fonds pour les infrastructures si ces mêmes gouvernements compromettent l'abordabilité des logements, la croissance de l'économie nationale et l'ascension de la classe moyenne.

- Les provinces et les villes devraient revoir les stratégies de « confinement urbain » en examinant bien leurs retombées sur l'abordabilité. Les décideurs doivent montrer plus de transparence quant aux compromis réalisés entre les politiques en matière de confinement (comme la délimitation des espaces verts préjudiciables au développement et les règles visant le zonage et les constructions incompatibles avec le voisinage) et leurs effets négatifs artificiels sur l'offre de maisons pour les familles à revenu faible et moyen et l'économie dans son ensemble.

- Les dépenses à venir en matière de logement social devraient être réformées pour encourager l'accession responsable à la propriété des familles à faible revenu plutôt que les « barrières entre les classes » et l'émergence d'une sous-classe locative. Il faudrait privilégier les logements sociaux que les locateurs peuvent ultimement acquérir à des conditions favorables. Un partenariat avec *Habitat pour l'humanité* serait une des options à envisager pour mettre de l'avant une telle réforme.

Introduction

Ottawa is rightly focused on support for "inclusive economic growth" and bolstering Canada's middle class. It has been at the core of the government's agenda since its election nearly one year ago. "Middle class" appeared 114 times in last March's budget and another 14 times in the finance minister's speech. Tax relief, a new child benefit, and more generous grants for post-secondary education are examples of the steps that the government has taken thus far to support long-term economic growth and middle-class opportunity.

Yet notwithstanding this early progress, housing affordability is threatening these positive developments. Growing concerns about rising prices in major markets such as Toronto and Vancouver have dominated financial and political news and drawn the attention of the Canada Mortgage and Housing Corporation (CMHC), the Bank of Canada, and the International Monetary Fund. Housing affordability is now among the top middle-class issues facing the Trudeau government.

Political pressure is increasingly mounting on the federal government and the provinces "to act" (Davidoff 2016). The BC government has already announced a new 15 percent property transfer tax on foreign purchases of residential homes (Office of the Premier 2016). The federal government has launched a new multi-government panel to study housing and is expected to announce further action to support affordability in the coming weeks (Department of Finance 2016a). No doubt there will be more to follow.

The debate thus far has mostly focused on the impact of foreign investment in the residential real estate market and the need for governments to crack down. Little consideration has been given to the role of domestic factors and especially government policy in constraining housing supply. The resulting risk is that any new government policies "to fix the problem" have little effect or even exacerbate it (Gordon 2016).

> "Homeownership confers benefits on homeowners and society and thus should be a matter of national interest and public policy."

Greater attention to housing affordability is nevertheless welcome. Canadians should be concerned that house prices are increasingly out of reach in certain parts of the country. Homeownership confers benefits not just on homeowners but on all of us and thus should be a matter of national interest and public policy. The trouble is that far too much government policy has lost sight of this and is actually making homeownership *less rather than more attainable.*

The consequence is that the government's own goals with regard to inclusive growth and middle-class opportunity are being undermined by a *government-induced housing crisis.* It is therefore incumbent on Ottawa to catalyse reforms to support affordable and responsible homeownership for Canada's middle class.

What can Canadian governments do as part of such a pro-homeownership agenda? That is the subject of this study.

We examine existing public policies related to homeownership, consider the different factors that are driving up house prices, and assess what policy changes can be made to strengthen homeownership as a key foundation for economic growth and opportunity. The goal is to inform the enactment of a smart, pro-homeownership agenda for Canada.

The first section provides a brief primer on housing affordability and how owning one's home is increasingly becoming out of reach for low- and middle-income Canadians and their families. The second section establishes the relationship between homeownership and the middle class, and the case for why housing affordability ought to concern policy-makers. The third section will briefly outline the role of the federal government in promoting and supporting homeownership. The fourth section examines how provincial and local government policy affects home prices and the extent to which the current policies – particularly restrictive zoning regulations – are constraining housing supply and in turn driving up prices. The fifth section shows how "snob zoning" is blocking aspiring home buyers from entering the market and is contributing to less economic opportunity and more income inequality. The sixth section will discuss the recent focus on the role of foreign investment in driving up housing prices in Canada. The final section will set out recommendations to improve housing affordability and support responsible homeownership as part of the broader agenda for middle-class opportunity.

The paper's recommendations will lay out a smart, new pro-homeownership policy, including:

- Ottawa's new social housing and infrastructure funding to the provinces and cities should stipulate clear conditions that these governments replace restrictive land-use regulations with new, more flexible regimes that support more housing supply.
- Provinces and cities should revisit "urban containment" strategies – such as the creation of anti-development greenspace and broader densification policies – with a clear eye to their impact on housing affordability.
- Future social housing spending should be reformed so that it supports responsible homeownership for low-income families rather than hastening further "class barriers" and a renter underclass. The emphasis should be on social housing that tenants can ultimately purchase on favourable terms.

The goal of these recommendations is to remove government-imposed obstacles to affordable, responsible homeownership by drawing on federal power to catalyse reform. It does not mean that there are no other factors that affect the housing market or that the result will be an immediate change in housing affordability. But if Ottawa is truly committed to its vision of inclusive growth and middle-class opportunity, it ought to prioritize promoting and supporting housing affordability in Canada.

Homeownership Dream Is Increasingly Out of Reach

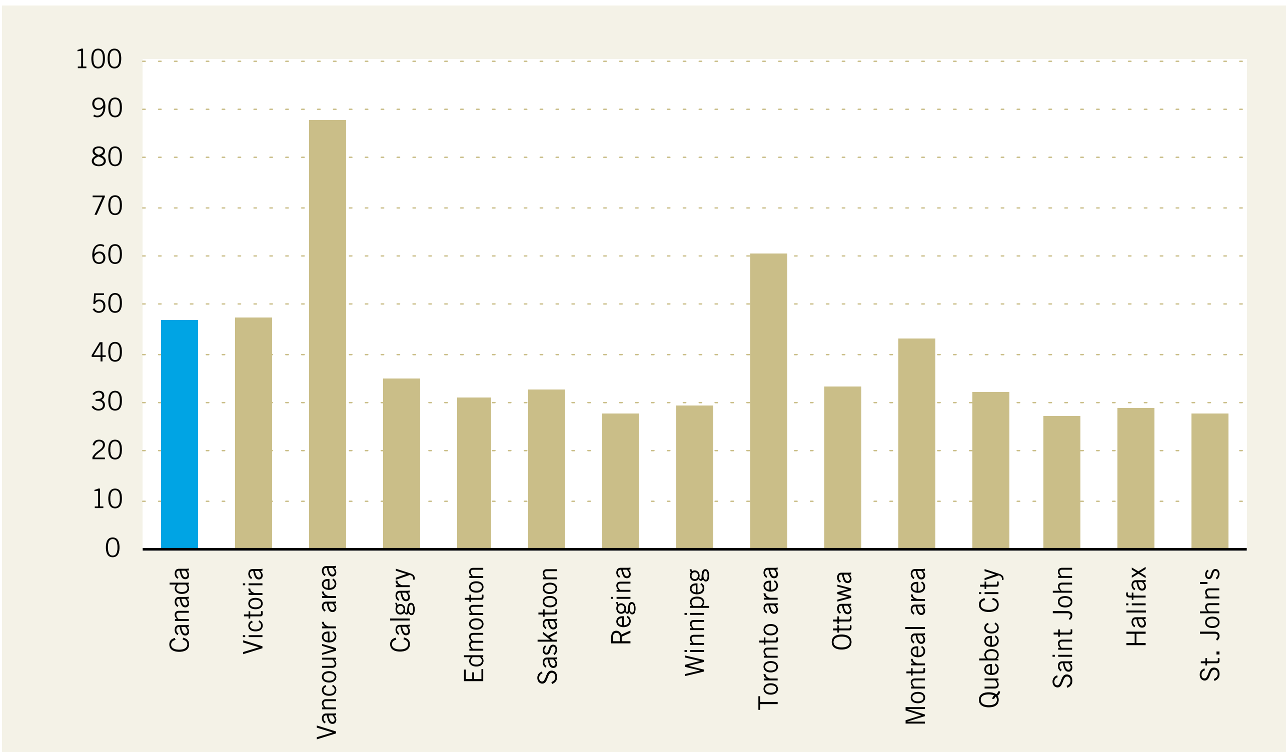
The perception that rising house prices are increasingly making homeownership unattainable for young Canadians and their families has become a political axiom. It placed housing issues near the top of the agenda in last year's federal election and continues to dominate politics in Toronto and Vancouver. The prime minister has recently called it "a very significant crisis" (Viera 2016). Housing has emerged as the sleeper issue of the Trudeau government's first year in the office.

And for good reason. Concerns about housing affordability are substantiated by a growing body of evidence. A series of new data shows that Canadian housing prices continue to climb faster than household income in key markets. The result is that homeownership is becoming cost prohibitive for many Canadians living in these cities.

The Royal Bank's most recent housing report (Wright and Hogue 2016) shows that affordability has deteriorated nationally with the median household now needing to dedicate more than 47 percent of its income to homeownership.[1] As a general rule, CMHC (2016) guidelines indicate that the total mortgage payment, property taxes, and utilities should not exceed 35 percent of gross income.

Yet nation-wide figures mask considerable local variation (see chart 1).

Chart 1: Housing affordability index measure, Q1 2016



Source: Wright and Hogue 2016.

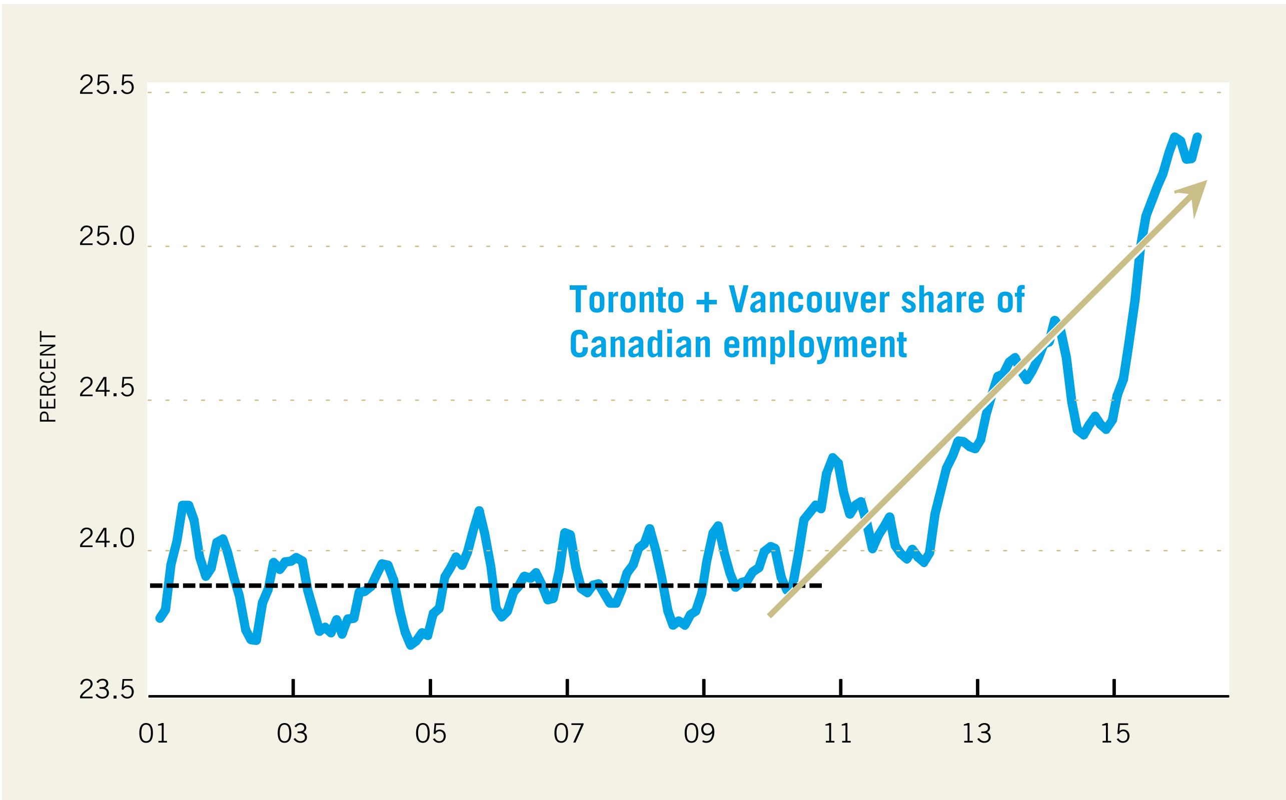
The costs range from 87.6 percent in the Vancouver area to 27.5 percent in Saint John. Of the 14 cities covered in Royal Bank's analysis, 7 cities score ratios that fall below CMHC's general guidelines. The Greater Toronto Area and Greater Vancouver Area stand out from the pack for exceeding them by a wide margin.[2]

The market in Vancouver has experienced an "epic surge" (Wright and Hogue 2016). Aggregate prices (including single-family detached homes and condo apartments) jumped by 8 percent between the fourth quarter of 2015 and the first quarter of 2016 – the largest quarterly increase in 25 years – and year-over-year prices were up by nearly 25 percent. It has never been so unaffordable to own a home or a condo in Vancouver.

Toronto's market is also marked by housing affordability challenges, particularly for single-family detached homes, which has reached the most stressed levels since 1990. It would now take 71.7 percent of a typical household income to cover ownership costs for a single-family detached home at market prices. The condo market remains less prohibitive in large part due to a relative supply boom in recent years. But the general trend is an increasing lack of affordability for aspiring first-time home buyers and middle-class Torontonians.

What do the Greater Toronto Area and Greater Vancouver Area have in common? What characteristics distinguish them from the rest of the country in addition to their housing affordability challenges? New BMO research shows that these two cities have accounted for all of Canada's net job growth over the past year and now account for 25 percent of all Canadian jobs, the highest share in at least 15 years (see chart 2). There are roughly 250,000 more jobs in Toronto and Vancouver today than there would be if they had maintained their average employment share of the 2001–11 period. As BMO economist Douglas Porter (2016) puts it, "that's a strong marginal boost to housing demand."

Chart 2: Toronto and Vancouver's share of national employment, 2001–2015

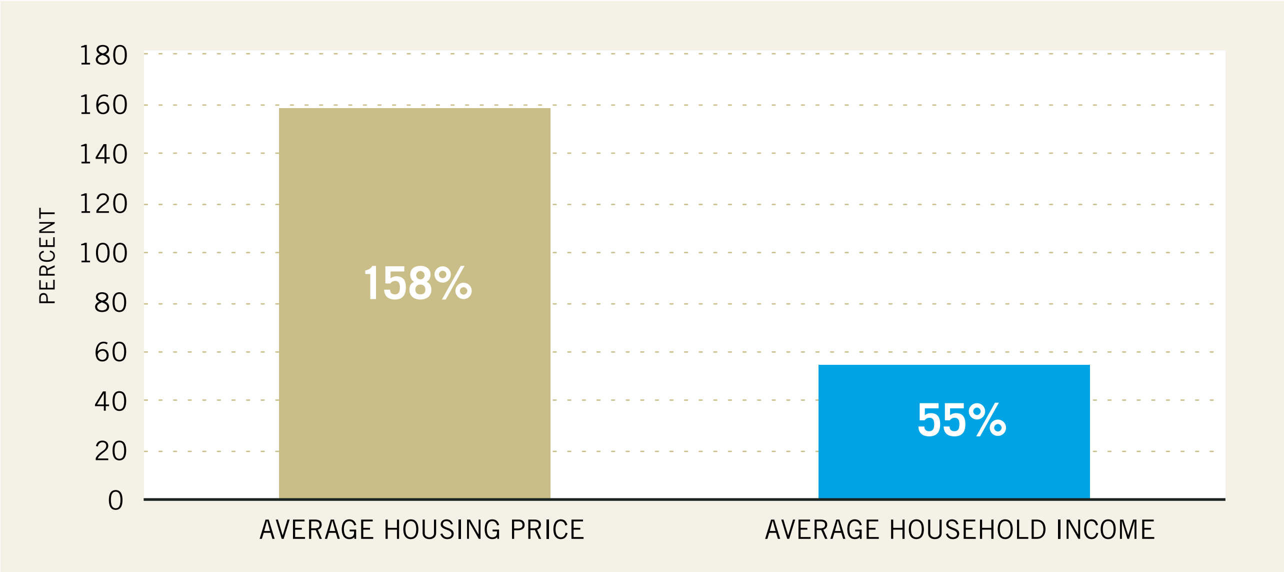


Source: Porter 2016, chart 3, page 8. Data from BMO Economics, Statistics Canada, and Haver Analytics.

And these are not new developments. Statistics Canada data show that Toronto and Vancouver have represented more than 25 percent of the national economy since 2001 and Toronto's economy itself is larger than every provincial economy except for Ontario and Quebec even though it accounts for only 1 percent of Canada's land mass (Brown and Rispoli 2014). Housing demand continues to climb in large part because people are drawn to these cities and the economic opportunities available in them. Housing affordability has thus become a barrier to relocating or remaining in these dynamic, high-growth cities, and the result is opportunity costs in the form of lower incomes, less employment, and fewer middle-class opportunities.

It ought to be a real concern for policy-makers especially since the growth rates of house prices and household income are beginning to diverge across the country. A recent study by urban policy expert Wendell Cox finds that Canada's house prices have grown nearly three times faster than household income since 2000 (see chart 3). This stands in stark contrast with the stable relationship between house prices and household income during the previous three decades (Cox and He 2016). Canadians are for the first time increasingly being priced out of the housing market in key cities.

Chart 3: Changes in house prices and household income in 35 Canadian housing markets, 2000–2015



Source: Cox and He 2016.

These trends show that public concerns about housing unaffordability are well-founded. The problem is particularly acute in Toronto and Vancouver where the "affordability stress" appears to be worsening rather than abating and raising serious questions about the future of homeownership in Canada (Wright and Hogue 2016).

Homeownership and the Middle Class

Homeownership has long been seen as a critical ingredient to upward mobility and middle-class opportunity. The underlying assumption has been that homeownership provides stability, community, commitment, and a valuable financial investment. This is one of the primary reasons that policy-makers should care about Canada's housing affordability challenges. A subsequent section will consider the relationship between housing affordability and broader economic goals such as productivity and growth.

Economists describe these broad-based societal benefits as "positive externalities", which is econospeak for when the consumption or production of a good such as homeownership confers benefits on more than just the immediate individual. There is some debate about the magnitude of these benefits but few economists or housing policy experts contend that homeownership is not advantageous or does not produce community and social good. As US policy commentator Reihan Salam (2015) writes, "homeownership is an important engine of economic growth and provides a path to prosperity for low- and middle-income families."

There is a strong relationship between homeownership and various positive economic and social indicators including social capital (including better health, higher educational attainment, and civic participation) and wealth accumulation. Here are some highlights from the wide body of academic and think-tank literature on the subject.

- Coulson and Fisher (2009) find that homeowners are less likely to be unemployed (though they can have lower wages due in part to limitations to geographical mobility).

- Kulkarni and Malmendier (2015) analyse the link between homeownership and upward mobility and find a strong positive relationship for the children of homeowners that the two economists attribute to the stability and social capital that is associated with owning one's home.
- A post-recession update to past research on the broad economic and social benefits of homeownership by Rohe and Lindblad (2013) concludes that "there is considerable evidence that positive homeownership experiences result in greater participation in social and political activities, improved psychological health, positive assessments of neighborhood, and high school and post-secondary school completion."
- Ni and Decker (2009) study the relationship between homeownership and crime and find not only that "homeownership itself has a strong and statistically significant negative effect on both violent and property crime rates" but that increases in homeownership rates reduce criminal activity over time.
- Rohe and Stegman (1994) find that low-income earners who recently became homeowners reported higher life satisfaction, higher self-esteem, and higher perceived control over their lives.
- DiPasquale and Glaeser (1998) inquire whether homeowners are more active citizens and conclude that "homeownership is strongly correlated with variables that attempt to measure good citizenship, such as membership in non-professional organizations and involvement in local politics."
- Haurin et al. (2002) study the link between homeownership and educational performance for children and find that it leads to a 13 percent to 23 percent improvement in a higher-quality home environment, greater cognitive ability, and fewer child behaviour problems relative to renting.
- Harkness and Newman (2003) examine whether children from lower-income and higher-income families benefit equally from homeownership and find that for children growing up in families with incomes less than 150 percent of the federal poverty line, homeownership raises educational attainment, earnings, and welfare independence in young adulthood.
- A 2004 study commissioned by the US Department of Housing and Urban Development (Boehm and Schlottmann) on the relationship between homeownership and wealth accumulation finds that homeownership is critical source of wealth accumulation, particularly for low-income households.
- Homeownership is vital for households seeking to expand opportunity, solidify family finances, and hedge against economic uncertainty. Brandeis University economist Thomas Shapiro has called it "by far the single most important way families accumulate wealth" (The Economist 2009). It is no surprise, for instance, that the primary residence is by far the largest asset for most Canadian families, representing one-third of the total value (Statistics Canada 2014).

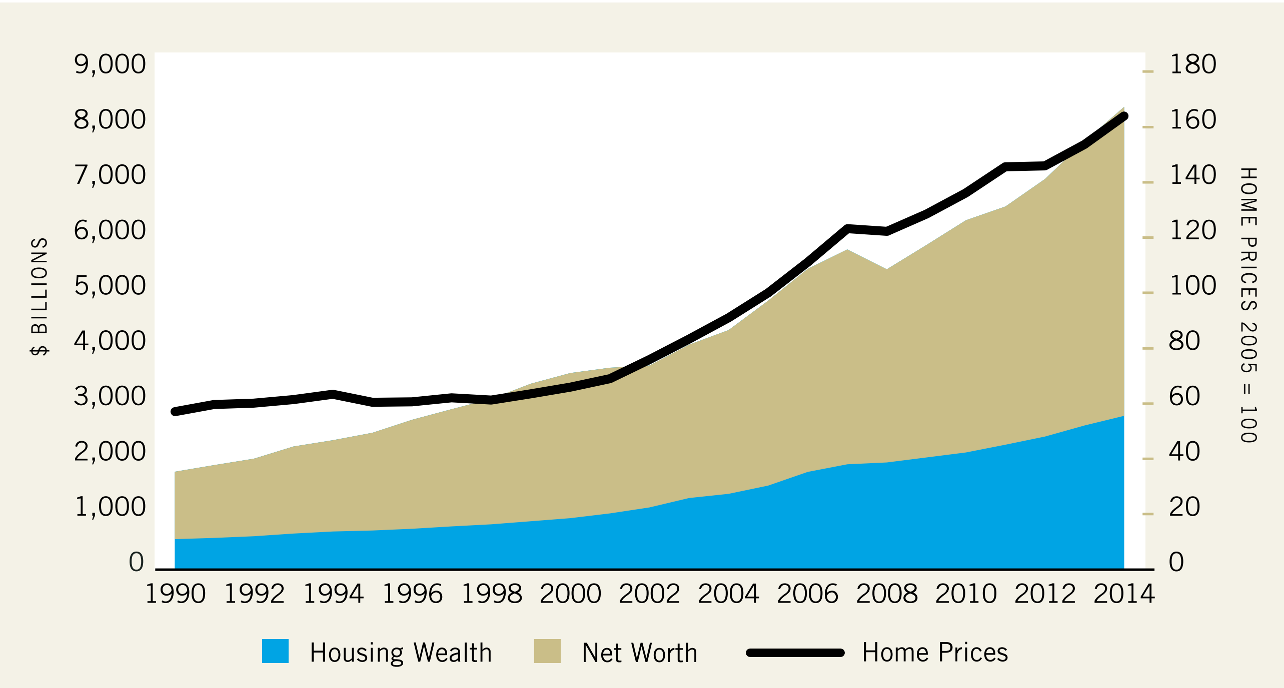
These studies show the direct and spillover benefits that can come from a pro-homeownership society. Limited research has tested these findings in the Canadian context. Yet the work that has been done finds similar experiences and results.

A 2013 CMHC survey of nearly 1000 Canadians who purchased a home through Habitat for Humanity casts light on the significant benefits that come with homeownership. Respondents showed positive results across a range of economic and social indicators, including labour force attachment, the educational performance and behaviour of their children, improved personal finances, better health, and general happiness. Most respondents identified that these benefits derived "from the security, stability and sense of control that comes with homeownership" (2).

A 2012 study commissioned by Habitat for Humanity Toronto found similar results in its assessment of the "social impact" of homeownership. The findings are powerful: 95 percent of respondents said that their families were stronger, 81 percent reported an improvement in their child's social life, 76 percent reported improvement in their children's grades, 72 percent reported strong community and neighbourhood ties, and 50 percent reported that they felt safer.

As for wealth accumulation, housing has been a major driver of overall household net worth in Canada. A 2015 report by TD Economics finds that it represents about one-third of the roughly $6.6 trillion increase since 1990 (see chart 4).

Chart 4: Housing as a share of net worth in Canada, 1990–2014



Source: TD Economics 2015, chart 2, page 2. Data from Statistics Canada and TD Economics.

The importance of housing wealth has even increased as an overall share of household net worth and accounted for 40 percent of the total increase in net worth since 2001 (TD Economics 2015).

While there are a number of factors that contribute to upward mobility and middle-class opportunity including education, family, and culture, homeownership plays a strong role in Canada and elsewhere. This is a critical point: the evidence shows that the benefits are not just limited to homeowners. Society benefits when families have access to affordable, responsible homeownership.

Federal Support for Homeownership

It is no surprise therefore that most industrialized countries promote or support homeownership through public policy (Andrews, Sánchez, and Johansson 2011). Government support for homeownership draws on a range of policy levers including state-backed mortgage insurance, tax incentives, and direct financing for social housing.

It is no different in Canada where federal, provincial, and local governments are involved in promoting and supporting homeownership. This section of the study will describe current pro-homeownership policies in Canada with a focus on the federal government. It does not provide an exhaustive analysis of every provincial and local initiative related to homeownership. This is because the study is focused on housing affordability and many provincial and local programs tend to focus on social housing (what is often described as affordable housing), which is mostly outside the scope of this paper.

It is worth mentioning that "housing affordability" and "affordable housing" are often confused in political debates and media reporting. The supply of social housing may or may not be a pressing public policy issue but it is a mistake to conflate it with public policies to make homeownership more affordable. "Affordable" housing affects a small share of the Canadian population who require subsidized housing and so adding a small number of social housing units will have a trivial effect on average house prices. Housing "affordability" affects millions of Canadians who wish to enter the housing market or change homes. Confusion about the real problem can be an obstacle to reaching policy solutions on the housing file.

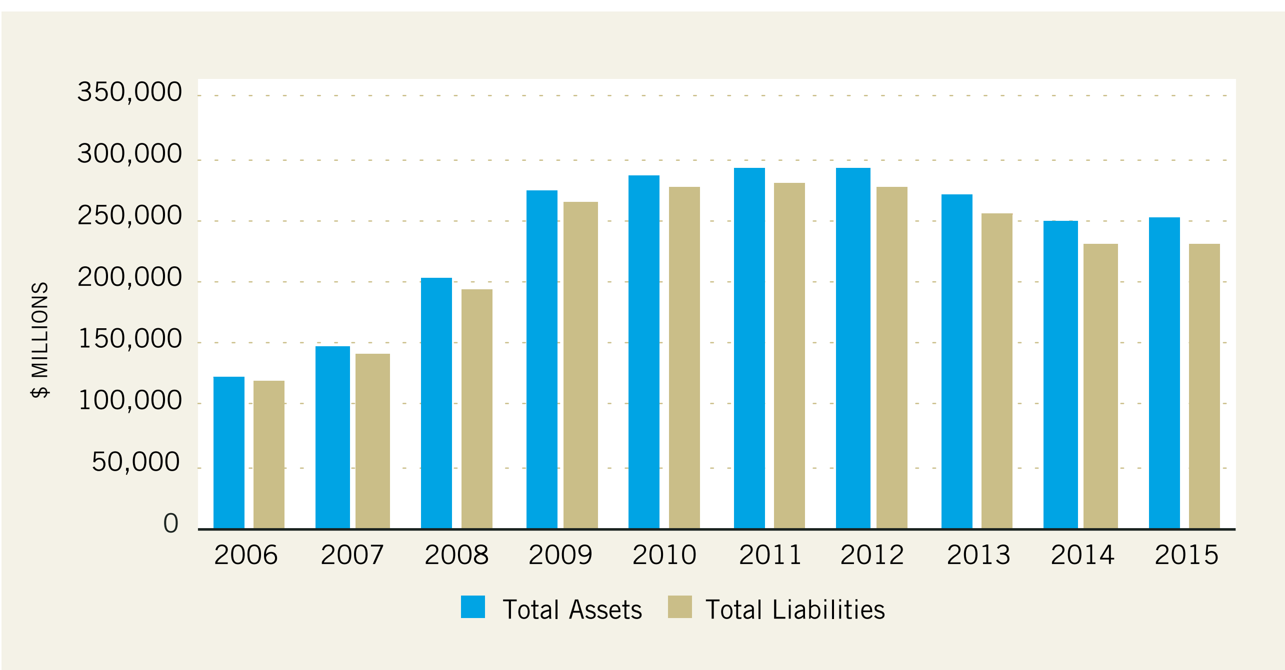
It is useful to remember that the housing market is a function of basic supply and demand. The demand for housing is determined by such factors as local population growth, local economic growth, household wealth, and the cost of borrowing. Supply is determined by the quantity of land, the extent to which land can be used for residential homes, and construction costs. Other things being equal, an increase in household wealth will increase demand (and increase prices) while an increase in the quantity of land should increase supply (and decrease prices). Think about the description of Toronto's condo market on page 8 as an example. A rising supply of condo apartments has largely kept up with demand, and market prices therefore are more stable and affordable than for single-family detached homes.

Government policy can and does affect both sides of the equation. But most of what Ottawa does is focused on bolstering demand.[3] The federal government provides different benefits and incentives to help home buyers purchase homes and it sets the parameters for mortgage lending and thus affects the ability of aspiring homeowners to borrow.

Ottawa's primary form of support for homeownership is the Canada Mortgage and Housing Corporation's role in the mortgage insurance market. CMHC was created 70 years ago to provide low-cost mortgages and support the construction of social and rental housing for returning WWII veterans.[4] Today its main function is to sell insurance to Canadian residential mortgage lenders to protect them against mortgage defaults. The cost of insurance premiums is passed through to the borrower. Insurance is mandatory on mortgages with less than 20 percent down payments (Le Goff 2007).

CMHC has come to hold a significant financial position in the housing market (see chart 5).

Chart 5: CMHC total assets and total liabilities, 2006–2015



Source: CMHC Annual Reports.

The value of home loans insured by the corporation nearly doubled between 2006 and 2013 and it now reports assets totalling more than $250 billion after efforts by the Harper government post-2012 to constrain its activities (CMHC 2015; Bloomberg News 2013). It is now insuring 304,518 homes totalling $55.3 billion in mortgages (CMHC 2015).

The federal government also promotes and supports homeownership through the tax-and-transfer system. These policies are designed to help first-time home buyers save for a down payment or cover closing costs and to encourage homeowners to build up equity in their primary residences. The total cost of these measures was roughly $6.1 billion in 2015 (see table 1).

TABLE 1: Federal tax incentives for homeownership, 2010–2017 (millions)

	2010	2011	2012	2013	2014	2015	2016	2017
First-time home buyers' tax credit	$105	$110	$110	$105	$115	$120	$120	$120
Non-taxation of capital gains on principal residences	$4,105	$4,700	$3,900	$4,160	$5,100	$5,920	$5,320	$4,975
Home Buyers' Plan	$75	$75	$75	$75	$75	$75	$75	$75
Total	**$4,285**	**$4,885**	**$4,085**	**$4,340**	**$5,290**	**$6,115**	**$5,515**	**$5,170**

Source: Department of Finance 2016b.

The capital gains exemption on the sale of one's primary residence is the most significant federal incentive, representing 97 percent of total direct federal initiatives related to housing. This tax treatment has been criticized by some commentators for disproportionately benefiting high-income earners or disadvantaging renters (Lee and Ivanova 2013; Shapcott 2002). It has even been characterized as "winning the lottery" for wealthy homeowners (Lee 2016).

This type of narrow distributional analysis fails to recognize that taxing capital gains on principal residences amounts to double taxation since home equity is built up through after-tax payments (which is a broader problem that Tax-Free Savings Accounts are beginning to remedy) and the utility of the current tax treatment in encouraging equity-based homeownership. We have written elsewhere about how Canada's non-taxation of capital gains is a far better option than the U.S. government's provision of mortgage interest deductibility to promote and support homeownership (Crowley and Speer 2016). This differing tax treatment is one of the reasons that Canadians own greater equity in their homes than Americans and mortgage arrears are eight times lower here (Crowley and Speer 2016).

> "Demand-side policies can distort people's behaviour and cause them to take on too much housing debt."

The other two federal incentives are focused on helping first-time homebuyers save for a down payment or cover their closing costs. These measures are more minor and the Home Buyers' Plan may become less relevant in the future as more Canadians rely on Tax-Free Savings Accounts as a vehicle for saving for a home rather than their RRSPs (Carrick 2011; Marr 2012).

The Liberal Party (2015) platform proposed enhancements to the First-Time Home Buyers' Plan but these changes were excluded from the 2016 budget and it is unclear if or when the government will fulfill this outstanding commitment.

More generally, it is widely recognized that over-relying on demand-side policies is risky because these measures can distort people's behaviour and cause them to take on too much housing debt. A compelling body of evidence shows that the 2008/09 financial crisis in the United States was due in large part to government incentives that irresponsibly pushed people into the housing market and more expensive homes (Agarwal et al. 2012; Husock 2000).

This is part of the reason that Ottawa has recently tightened mortgage rules by raising the minimum down payment from 0 to 5 percent, the equity requirement from 5 percent to 10 percent for refinancing, requiring a 20 percent down payment for investment properties, and reducing the maximum amortization period from 40 years to 35 years to 25 years. There is a key difference between encouraging homeownership and artificially sustaining it.

It does not mean that there is no opportunity to rethink how the federal government supports homeownership – new proposals to shift mortgage insurance to subsidize savings for a down payment for instance should receive attention from policy-makers (Gyourko 2015) – but ultimately we believe the solution for an affordable, responsible pro-homeownership agenda lies in removing provincial and local barriers to the housing supply, the subject of the next section.

Government Distortions to the Housing Market: The Case of Restrictive Land-Use Regulations

Ottawa has typically played a limited role in housing supply with the exception of First Nations reserves and military bases. The Trudeau government has committed to new federal spending on social and rental housing units in conjunction with provincial and local governments but this funding is unlikely to have much of an impact on middle-class housing affordability. Increasing the supply of single-family homes and condo apartments for middle-class ownership rests with the provincial and local governments.

> "Provincial and local governments set the policy parameters for housing supply."

Provincial and local governments influence the housing supply by designating where new homes can be built through land-use regulations, the cost of new homes through development fees and other levies, and the scope of renovations and additions to existing homes through building codes and city permits. These policy levers have been mostly overlooked in much of the political and media attention about foreign investment but their importance in understanding the dynamics of the housing market cannot be overstated.

It is not to say that the government fully controls the housing supply. Geographical and natural barriers such as the size of a land mass or intruding bodies of water or mountains necessarily limit the size of the housing stock. But government policy helps to shape the housing supply in the remaining space. And the evidence suggests that Canadian policy is discouraging housing supply and in turn driving up house prices.

At the core of the issue is what Cox (2015) and other urban policy experts call "urban containment" strategies. Basically these strategies comprise a restrictive land-use regime that seeks to limit urban sprawl to promote compact and contiguous development. The purposes of these strategies vary from protecting greenspace to preserving agriculture lands to reducing greenhouse gas emissions. But the outcome is the same. The result is an artificial constraint on the land available for urban development and more housing supply.

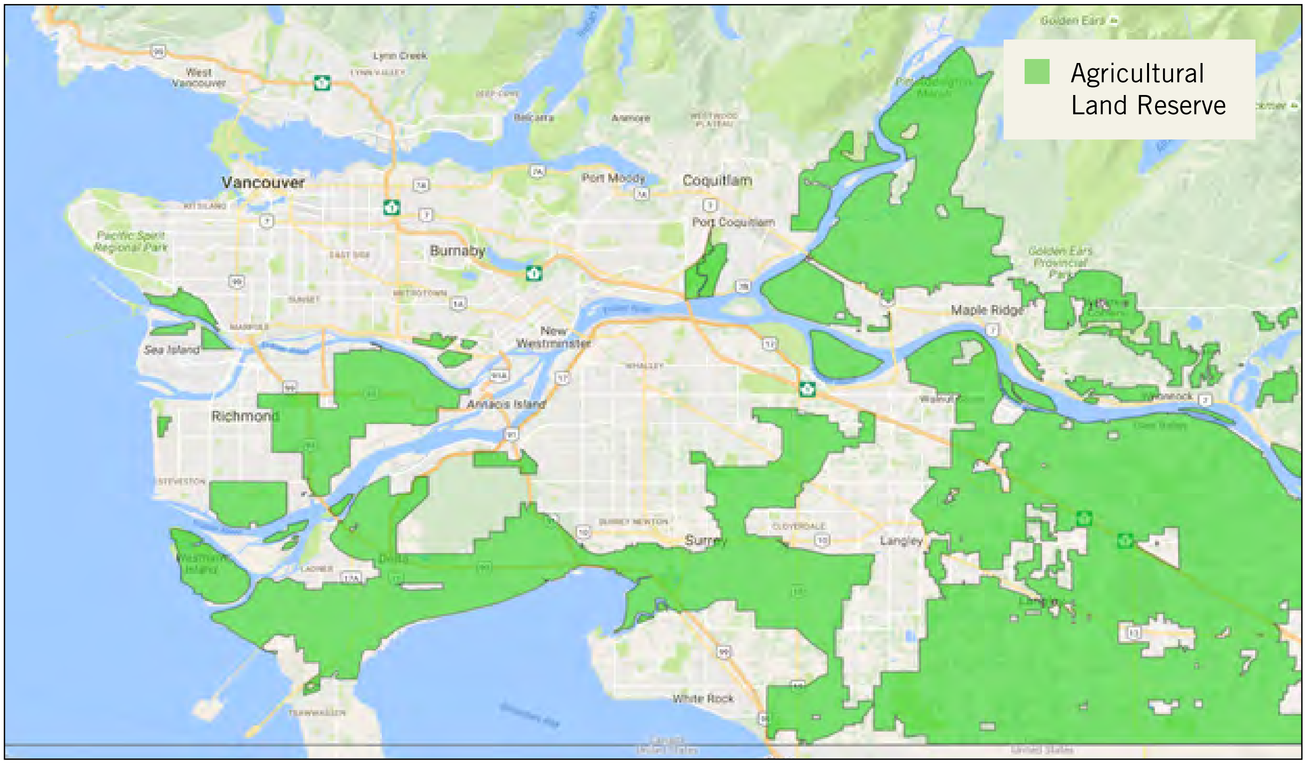
The impact of restrictive land-use regulations on housing prices can be significant. Here are some highlights from the wide body of academic and think-tank literature on the subject.

- Glaeser, Gyourko, and Saks (2005) estimate that approximately 50 percent of the price of a house can be attributed to restrictive land-use regulations in the US.
- Eichler (2008) examines the dynamic between supply and demand in 250 US housing markets and finds that the "estimated increase in housing prices associated with regulation is, on average, substantially larger than the effects of income and population growth."
- Quigley and Raphael (2005) study the housing market in California and find that housing prices and rents are higher in cities with stricter land-use regulations and that new house construction is also lower.
- Former New Zealand central bank governor Donald Brash (2008) contends that "[t]he affordability of housing is overwhelmingly a function of just one thing, the extent to which governments place artificial restrictions on the supply of residential land."
- A study of the London housing market reaches the following conclusion: "Absent regulation, house prices would be lower by over a third and considerably less volatile. Young households are the obvious losers, yet macroeconomic stability is also impaired and productivity may suffer from constrained labour supply to the thriving cities where demand is highest" (Cox 2016).
- Hsieh and Moretti (2015) examine the relationship between land-use regulations and local economic growth in 220 US cities over a 45-year period. The two economists estimate that lowering regulatory constraints in high productivity cities like New York, San Francisco, and San Jose to the level of the median city would increase US production by 9.5 percent.
- A broad review of the economic literature by Ikeda and Washington (2015) finds: "Most of these studies find that both traditional land-use policies and newer policies, such as smart growth and inclusionary zoning, increase the cost of housing. And because housing takes up a larger share of the budgets of lower-income households relative to higher-income households, these policies are regressive – a disproportionate share of their costs falls on the relatively poor."

There is plenty of evidence that these types of "urban containment" policies are present in Canada and have the exclusionary and costly effects identified in these studies. University of British Columbia's Tom Davidoff (2016) refers to it as "snob zoning" whereby existing homeowners mobilise to protect greenspace or block home construction at the expense of aspiring home buyers.

The Agricultural Land Reserve (ALR) in British Columbia is a good example of containment of growth. The ALR was established in 1973 and now consists of 47,000 square kilometres of public and private land that greatly restricts residential development. The map on page 17 shows how the ALR affects development in the Vancouver area. The case for the ALR has evolved over the years from concerns about agricultural supply to environmental concerns and now anti-urbanism on the part of some of its defenders (Brown 2016). Irrespective of the motivation the consequence is less housing development in the BC market.

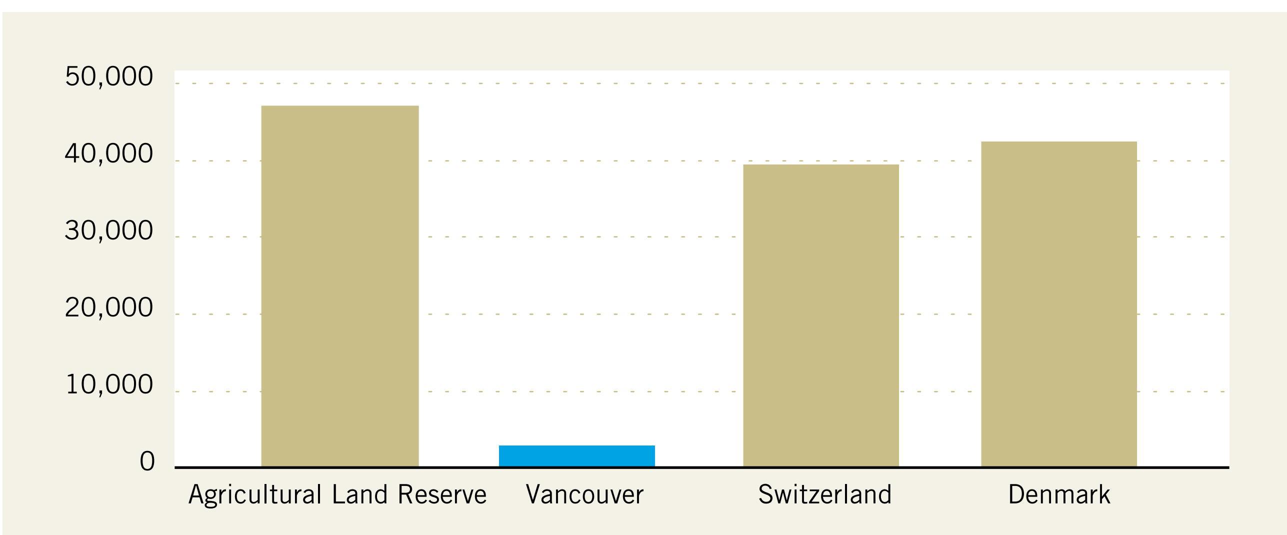
Map 1: Agricultural Land Reserve locations in the Greater Vancouver Area



Source: Provincial Agricultural Land Commission.

And the implications are hardly insignificant. The ALR encompasses more than 20 percent of the land in the Lower Mainland or roughly twice as large as the amalgamated City of Toronto or nearly as big as Israel (Katz 2009). The overall size of the ALR in BC is 16 times larger than the Vancouver metropolitan area and roughly the equivalent size of Denmark or Switzerland (see chart 6).

Chart 6: BC'S Agricultural Land Reserve relative to other countries and cities (square kilometres)

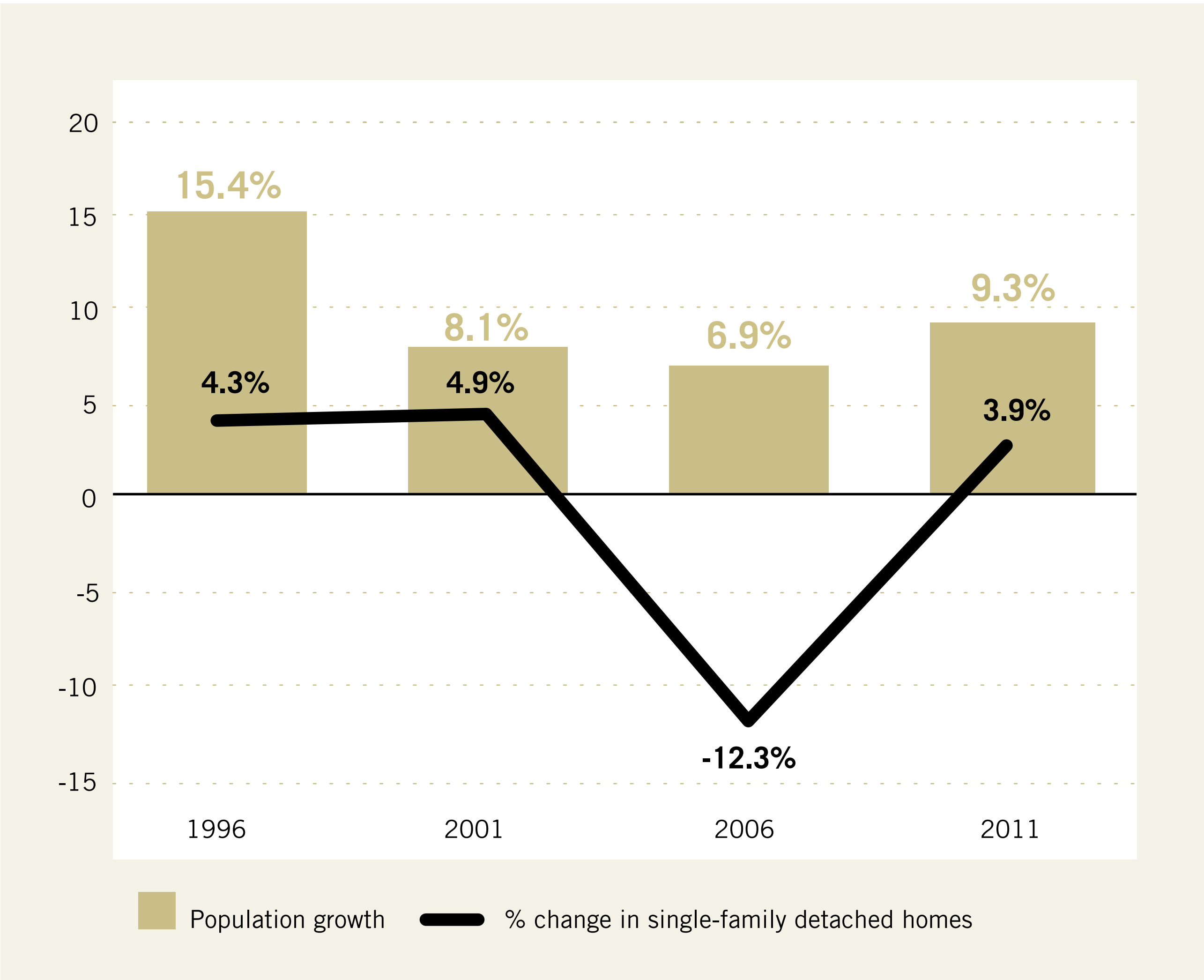


Sources: Provincial Agricultural Land Commission 2014; Statistics Canada 2012; World Bank 2016.

Denmark has a population of 5.6 million and Switzerland has more than 8 million living in a land tract that the BC government has basically excluded for residential development. Yet the ALR's defenders still wrongly claim it is too small to make a difference to housing prices (Brown 2016).

This type of restrictive land-use regulation has led to an increasingly incompatible tension. The Vancouver metropolitan area's population has continued to climb while the housing stock of single-family detached homes has remained essentially flat over the past quarter century (see chart 7).

Chart 7: Population growth and change in number of single-family dwellings in Vancouver, 1991–2011

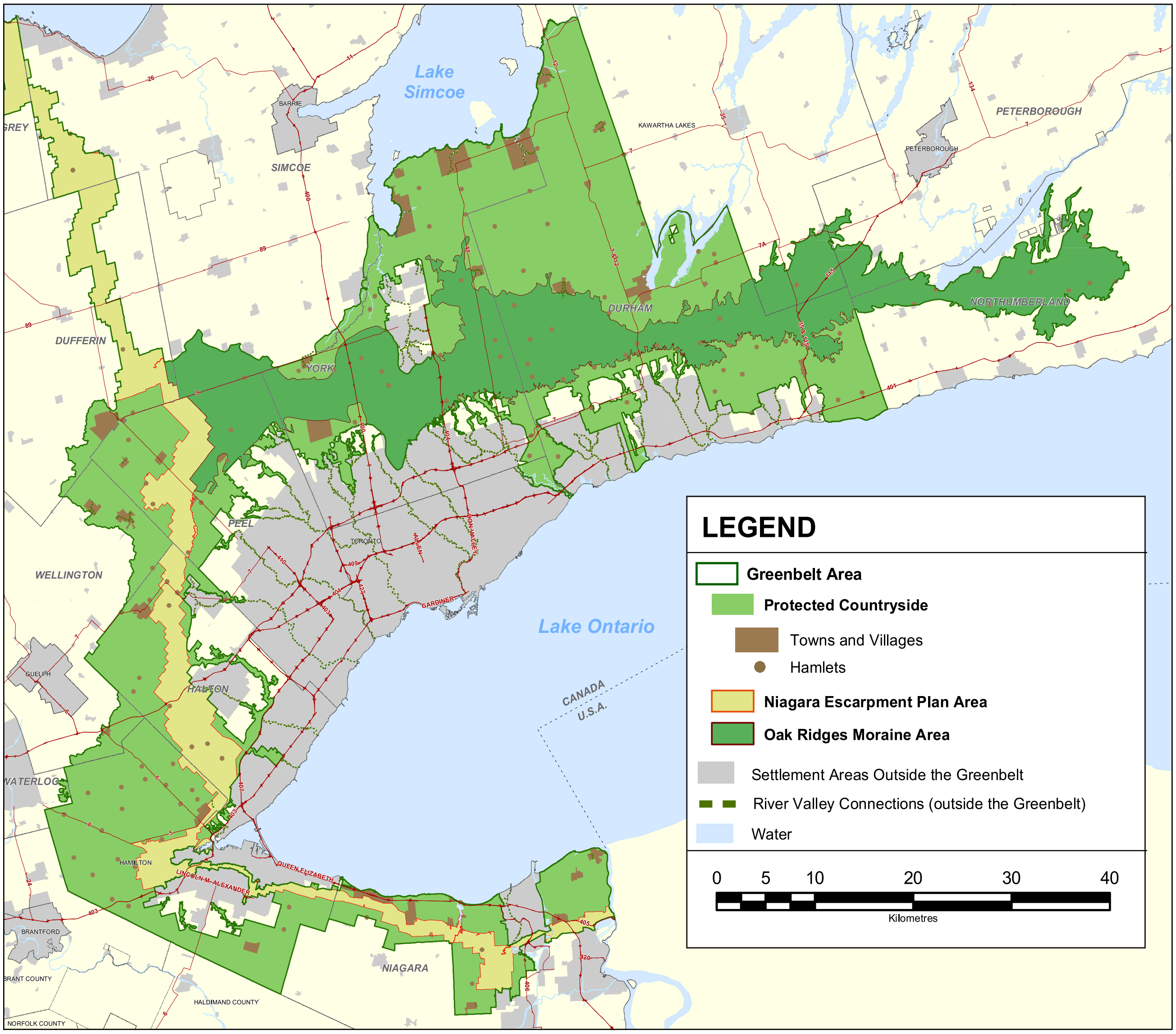


Source: Statistics Canada 2015.

The population has grown, on average, by nearly 10 percent every five years between 1991 and 2011 and yet the stock of single-family dwellings has grown by only an average of 0.2 percent over this same period. That multiple-family dwellings have grown more substantially of course helps but the general mis-trajectory of population and housing has led to Vancouver's affordability challenges.

But Vancouver is far from the only city that maintains these types of "urban containment" policies in the face of rising housing prices. Ontario's "Greenbelt" (which includes the Niagara Escarpment and Oak Ridges Moraine) was established in 2005 as a 7300 square kilometres area in southern Ontario that was designed to prevent urban sprawl and protect greenspace (see map 2). Estimates of an additional 4 million inhabitants to the region by 2031 suggest that governments will soon need to make trade-offs between environmental goals and housing affordability (Allen and Campsie 2013). There are already reports that Niagara Falls is only the latest community "beyond the belt" to become a commuter city as families leap over the "containment" fence to find affordable detached homes even at the price of a very long commute (Marr 2016).

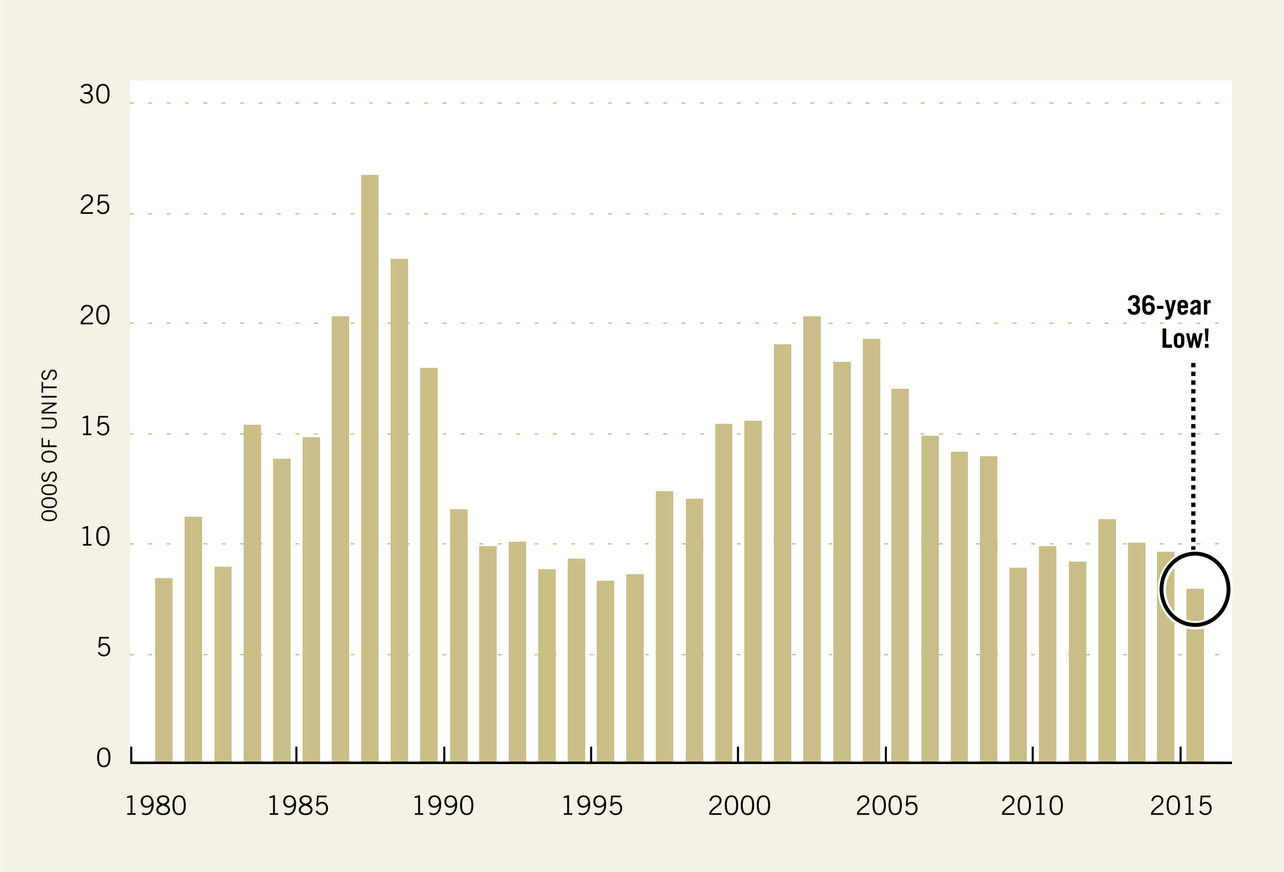
Map 2: Ontario's Greenbelt area



Source: Ontario 2005.

This westward shift is being driven in large part by densification policies and the lack of single-family detached homes in the Greater Toronto Area. Despite rapidly rising prices, the number of detached homes completed in Toronto in 2015 was the lowest since 1979 (see chart 8).

Chart 8: Detached home completion in Toronto, 1980–2015



Source: Porter 2016, chart 6, page 9. Data from BMO Economics, CMHC, and Haver Analytics.

There is now the widest gap between detached home construction starts and condominium construction starts since the 1960s (Kavcic 2015). As a TD Bank economist explains, "demand for a detached home is being fulfilled by an outward push into adjacent metros, inflating prices in markets that are further afield to their first-choice destination for [sic] live, work and play" (Caranci 2016).

A new study written by Ryerson University urban policy expert Frank Clayton (2016) also fingers Toronto's "urban containment" policies as responsible for urban densification with more stacked townhouses and multi-purpose condo apartments at the expense of single-family detached homes. The analysis shows that these land-use policies diverge from people's preferences and drive up house prices. As he writes:

> The view that most households in the GTA would willingly give up single-detached houses to move into higher density housing in location-efficient communities is wrong. Urban policies which try to force this type of development by constraining the supply of new ground-related housing will lead to even higher house prices, sub-optimal location choices, and huge capital gain windfalls for the lucky owners of existing houses and vacant lands on which to build new ground-related homes. (28)

And it is not just these high-profile government policies that can affect housing supply and affordability. Exorbitant development fees, onerous restrictions on renovations or alterations to one's home, and prescriptive building codes conspire to further limit the construction of new homes and the expansion of current ones. These nagging rules impose significant costs on homebuilders and discourage current homeowners from altering or expanding their current space to meet changing needs.

As an example: the City of Toronto (2016) requires a home builder or owner to obtain a building permit before constructing a second or third story addition, adding or removing walls, or finishing a basement or adding a secondary suite. This means that city bureaucrats effectively determine whether a homeowner can add a basement suite for an aging parent or a tenant to defray the cost of one's mortgage. The City of Vancouver also imposes considerable building requirements (including new ones related to "green buildings") that have driven up the cost of renovations and contributed to the city's affordability challenges (Gold 2014).

> "A mix of economic growth and 'urban containment' and nagging government regulations can have significant effects on housing affordability."

It is not to say that urban containment policies and all of these building and construction rules and requirements are inherently unjustified. Bolstering greenspace and encouraging densification can have positive environmental effects, improve quality-of-life and aesthetic qualities, and even limit municipal infrastructure costs. Similarly there is a case for building requirements that protect against infringing another's property rights or ensure proper health and safety. But policy-makers must recognize that these macro and micro rules can carry a significant cost in the form of less housing supply and higher house prices. The enactment of new urban containment policies and building and construction rules must therefore involve a clear-eyed assessment of the impact on housing supply and in turn housing affordability.

The key takeaway is that the mix of economic growth and "urban containment" and nagging government regulations can have significant effects on housing affordability, as we have witnessed in Toronto and Vancouver. Thus any new policies to "fix" the housing affordability challenges facing the country must understand how provincial and local governments are contributing to the problem through restrictive land-use regulations or "snob zoning." Ignoring this critical factor disproportionately hurts low- and middle-income Canadians who are precluded from entering the housing market as a result.

"Snob Zoning" and Income Inequality

The economic and social costs (what economists refer to as "negative externalities") imposed by restrictive land-use regulations and in turn higher house prices can be significant. Hsieh and Moretti have even estimated that tight land regulation in the US may have reduced GDP by as much as 10 percent (The Economist 2016). This is in large part because housing affordability challenges throw up massive barriers for people to move to cities with the highest growth and most opportunities. The national economy is undermined when the only two cities in the entire country with net job growth are basically unaffordable for a share of the population. Housing costs are therefore obstacles to raising incomes, growth, and productivity for everyone.

But it is not just the absolute or aggregate costs that are problematic. New research has found that exclusionary land-use regulations disproportionately affect low- and middle-income citizens, particularly younger families. Exclusionary or "snob zoning" thus has the consequence of exacerbating economic disparities between age and income groups and existing homeowners and aspirational homebuyers. Restrictive land-use regulations can act as "class barriers" that become a real obstacle to upward mobility.

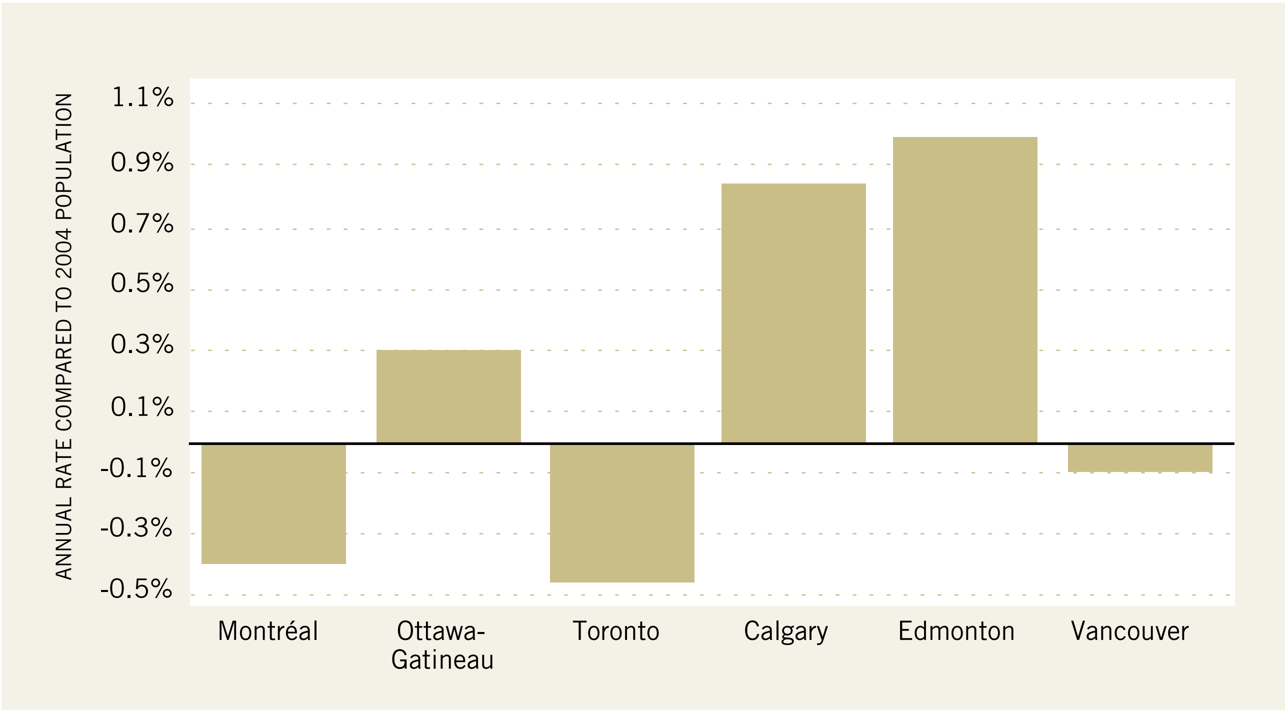
At a time when the Trudeau government in particular and Canadian governments more generally are focused on reducing income inequality and promoting middle-class opportunity, the evidence shows that the intersection between land-use regulations and social disparities should be a target.

That exclusionary zoning exacerbates economic and social disparities is well-documented in a wide body of economic and policy literature. Here are some highlights from various commentaries on the subject:

- President Obama's chair of his Council of Economic Advisers, Jason Furman, says in a 2015 speech: "zoning regulations and other local barriers to housing development allow a small number of individuals to capture the economic benefits of living in a community, thus limiting diversity and mobility."
- The 2004 Barker Report commissioned by the UK government similarly warns that restrictive land-use regulations and a lack of housing supply could ultimately create a "widening social and economic divide between those able to access market housing and those kept out."
- Reeves and Halikias (2016) describe exclusionary zoning as a form of "opportunity hoarding" that sharpens the divide between rich and poor in a society.
- Creighton University economist Diana Thomas (2012) studied the regressivity of housing regulations and concludes that: "Well-intentioned regulation often represents the preferences of the wealthy by regulating otherwise negligible risks. By driving up prices for all consumers, such regulation is likely to have disproportionately negative or regressive effects on the poor".
- Glaeser, Gyourko, and Saks (2005) call exclusionary zoning a "regulatory tax" that transfers wealth from the less affluent to the more affluent, promotes housing segregation by excluding poor citizens from living near wealthy ones, and discourages residents from living near the productive metropolitan areas because of house prices.
- Washington (2015) finds that restrictive land-use regulations increase the cost of housing in a jurisdiction's most productive cities and thus reduces income mobility and economic growth.
- Ganong and Shoag (2016) examine the relationship between restrictive land-use regulations, labour mobility, and economic inequality between US states and conclude that the growing geographical divide in economic outcomes is attributable to tight zoning. The study estimates that the increase in hourly wage inequality from 1980 to 2010 would have been approximately 10 percent smaller if convergence in economic growth across states due to mobility had maintained the same pace as the 40-year period between 1940 and 1980.

These findings are increasingly evident in the Canadian context. One measure is internal outmigration from major metropolitan centres with exclusionary zoning to more affordable suburbs and exurbs. Cox (2015) shows that Canadian cities with the most expensive "urban containment" strategies experienced substantial net internal outmigration between 2003/04 and 2013/14 (see chart 9).

Chart 9: Net internal migration in Canada's major metropolitan areas, 2003/04 to 2013/14



Source: Cox 2015, figure 5, page 37. Data from Statistics Canada.

The Toronto metropolitan area experienced an annual net population loss of 0.5 percent relative to 2004 and the Vancouver metropolitan area had an annual loss of 0.1 percent during this period. This shows that people are being forced to leave central city cores and move to the suburbs or even further into the outer regions in search of housing affordability.

The result of this type of migration defies most economic considerations since Toronto and Vancouver are Canada's most dynamic, productive metropolitan areas. Hilber and Vermeulen's (2016) work on London's experience with restrictive land-use regulations shows the negative economic impact of inadequate housing supply. This appears to be playing out in Toronto and Vancouver where low- and middle-income Canadians are unable to move in or remain in spite of high economic growth and job opportunities due to the constrained housing supply. The result is opportunity costs in the form of lower incomes, less employment, fewer middle-class opportunities, and longer commutes and less time with family. Both the national economy and the affected individuals and their families therefore suffer.

And for those who remain in these cities but for whom owning a home is not an option, these conditions lead to income segregation, which has been extensively researched by University of Toronto urban policy scholar David Hulchanski. His 2010 study examined housing prices and income polarization in Toronto neighbourhoods between 1970 and 2005, and found "three cities" with low- and middle-income families in the exurbs and suburbs and high-income earners in the city centre. Rising house prices driven in large part by exclusionary zoning have led to significant income polarization in Toronto neighbourhoods over this 35-year period. The number of middle-income neighbourhoods in the city has fallen from 66 percent in 1970 to 29 percent in 2005. Poverty has moved from the centre to the city's edges and away from jobs and opportunities in the city core.

The lessons from the international body of research and Canada's own experience is that rising house prices can harm economic growth, living standards, upward mobility, and community cohesion. Policy-makers must be more clear-eyed about the trade-off between more greenspace and other aesthetic considerations and these real economic consequences of artificially constraining land use and the housing supply. A real agenda for middle-class opportunity would start by putting an end to "snob zoning" and the economic and social costs it imposes on Canadians and their families.

The Role of Foreign Investment in Canada's Housing Market

We would be remiss if the paper did not address the ongoing debate about the role of foreign investment in contributing to Canada's housing affordability challenges. It has certainly been the dominant topic in recent months leading, of course, to the recent announcement about the BC government's new property transfer tax on transactions involving foreign buyers. There is clear evidence that the new policy is popular with nearly 90 percent of Vancouverites expressing support in a recent poll (Stone 2016). But it is far less clear that foreign investment is as significant a problem as the government and other commentators make it out to be.

There are plenty of definitive opinions to be found on the subject but little empirical evidence. The debate continues to be mostly fuelled by anecdotes and incomplete pictures of the extent to which foreign investment is driving up house prices in key markets. Claims of a widespread problem are unsubstantiated.

It is peculiar then that so much attention has been paid to a factor for which we have limited information and so little has focused on the role of zoning policies despite such overwhelming evidence of their economic cost and disproportionate burden on low- and middle-income citizens. It was not foreigners who caused the number of single-family detached homes in Vancouver to remain essentially unchanged for the past quarter century or who limited detached home construction in Toronto in 2015 to its lowest level in 36 years. Yet this point seems lost on local politicians and NIMBYs calling for a crackdown on foreign investment instead of reform to exclusionary or "snob" zoning.

> "The BC government's new 15 percent property transfer tax for foreign investments is based on data from four days in July 2016."

The onus must be on policy-makers proposing new limits on foreign investment in residential real estate to make the case that it is a problem. That the BC government's new 15 percent property transfer tax for foreign investments is based on data from four days in July 2016 is hardly compelling (Office of the Premier 2016). This is far from "evidence-based policy." The risk is that considerable time and resources are dedicated to pursuing this distraction instead of focusing on the negative effects of NIMBYism particularly on low- and middle-income Canadians aiming to climb the economic and social ladder.

It is time for policy-makers to look in the mirror. The focus on foreign investment obfuscates the extent to which government policies are a major contributing factor to housing affordability issues. How does the BC government justify cracking down on foreign investment without acknowledging how its own policies, such as the preservation of the Agricultural Land Reserve or onerous building codes, are limiting housing supply and driving up house prices? It is a bit rich for politicians to target foreigners and overlook their own complicity in the housing affordability challenges. Canadian governments should adopt a "do no harm" approach to zoning and housing policy before making any assertions about the role of foreign investment, especially ones based on such flimsy and anecdotal evidence.

> "Simultaneously supporting exclusionary zoning policies and lamenting the lack of housing affordability requires a degree of self-delusion that new limits on foreign investment will not fix."

Similarly, current homeowners who demand policies that discourage home construction in their neighbourhoods for aesthetic or financial reasons should recognize the real costs this imposes not only on the economy but on the economic and social well-being of low- and middle-income Canadians. Simultaneously supporting exclusionary zoning policies and lamenting the lack of housing affordability requires a degree of self-delusion that new limits on foreign investment will not fix. Policy-makers must be more transparent with citizens about the trade-offs between "urban containment" policies and the real costs that they are imposing on the national economy in general and low- and middle-income Canadians in particular.

This subject is likely to remain a major part of the housing policy debate for the foreseeable future. The key is that we confront it with evidence and analysis and that we not let it distract us from the real and significant ways that current government policy is contributing to Canada's housing affordability challenges.

Recommendations For a New Pro-Homeownership Agenda for Canada

Thus far we have shown how housing affordability is a growing challenge in Canada, that it ought to be a cause for concern for policy-makers because homeownership creates considerable economic and social benefits for the national economy in general and low- and middle-income citizens in particular, and the extent to which government policy is actually *exacerbating* the problem.

The question is: what can Canadian governments do to address housing affordability and advance a plan for affordable, responsible homeownership as part of a broader agenda for middle-class opportunity? A smart, new pro-homeownership agenda would incorporate the following three policy recommendations.

1. Federal Conditionality on Affordable Housing Funding

A one-size-fits-all solution to the country's housing affordability challenges would fail to recognize that local constraints on supply are the major source of the problem and that those constraints vary widely from one community to another. It would thus invariably cause problems in different parts of the country as the prime minister has rightly maintained (Kane 2016).

But that does not mean that Ottawa should ignore the problem. The Trudeau government is rightly focused on supporting middle-class opportunity and much of its early agenda has contributed to progress thus far. Present housing affordability challenges however threaten to undermine the government's goals. It is therefore incumbent upon Ottawa to catalyse reforms to support affordable and responsible homeownership.

The federal government can play a key role by discouraging provincial and local policies that erode housing affordability. Federal leadership on supporting affordable and responsible homeownership is among the most effective ways to support low- and middle-income families as they climb the economic and social ladder.

The 2016 federal budget committed to $2.3 billion in new social housing funding over the next two years and signaled that more is to follow as part of a National Housing Strategy (McMahon 2016). This new federal funding represents less than 10 percent of total residential construction investment in the first quarter of 2016 and therefore is not a real solution to the problem of housing affordability (Statistics Canada 2016). But it can be useful if Ottawa uses it to catalyse provincial and local reforms to zoning rules and building codes.

Ottawa's new social housing agreements with the provinces and cities should stipulate clear conditions that federal funds will only flow to governments that reform their land-use regulations to support more housing supply. It makes no sense for the federal government to transfer significant funding to the provinces and cities for affordable housing if these governments are undermining housing affordability with their zoning policies. The prospect of provinces and cities accepting affordable housing with one hand and exacerbating housing affordability with the other must be discouraged.

Imposing some conditions on provincial and local land-use rules would therefore ensure that federal funding produces a net improvement to the housing stock as opposed to simply partially and ineffectually offsetting the negative effects of exclusionary zoning.

This type of conditionality is hardly unprecedented. Present federal funding agreements with the provinces and cities for social housing and infrastructure stipulate conditions on the tripartite funding mix, the types of projects that are eligible, and public communications and reporting. Broadening these conditions to incorporate expectations with regards to land-use regulations would ensure that Ottawa's objectives related to upward mobility and middle-class opportunity are advanced by these new federal investments.

The evidence is strong that removing unjustified barriers to homeownership is among the most important reforms that Canadian governments can enact to support economic growth, upward mobility, and middle-class opportunity. This should therefore be a national priority and placing firm conditions on federal funding – including for social housing and even extending it to infrastructure payments – is a proportionate response to the present housing affordability challenges and the upside that affordable and responsible homeownership offers. The "bang-for-buck" potential for the national economy in general and low- and middle-income Canadians in particular could be significant.

2. Revisiting "Urban Containment" Strategies

Similarly the provinces and cities should revisit "urban containment" strategies – such as the creation of anti-sprawl greenspace and broader densification policies – with a clear eye to their impact on housing affordability. Many of these governments talk about income inequality and upward mobility but fail to recognize how their land-use regulations are contributing to the problem.

Policy-makers must be more transparent about the trade-off between urban containment policies and the real economic consequences that artificially constraining the housing supply imposes. It does not necessarily mean that all urban containment strategies or building and construction rules are inherently harmful and must be abandoned. But provinces and cities should ensure that the enactment of such policies involves a clear-eyed assessment of the impact on housing supply and in turn housing affordability.

Pricing low- and middle-income Canadians out of the country's most dynamic, high-growth cities produces opportunity costs in the form of a smaller national economy, lower incomes, less employment, and fewer opportunities for those aiming to climb the economic and social ladder. Reform is needed.

Such reforms could include a moratorium on new urban containment policies as Cox and He (2016) proposed or the introduction of a "zoning budget" whereby city planners would need to support a minimum number of new houses each year before implementing any new containment policies (Hills, Jr. and Schleicher 2011). Both of these ideas would stall the enactment of further anti-development, anti-sprawl policies, and arrest the negative effect on housing affordability.

A simpler, more ambitious approach though would entail a clear, quantitative review of current land-use policies and their impact on housing affordability and a transparent process for reforming exclusionary zoning, restrictive building codes, and high development costs. The circumstances in Toronto and Vancouver are sufficiently acute that it is no longer adequate to focus on future rules. Policy-makers must come to understand the connection between land-use policies and housing affordability, and take action immediately to reverse the ill effects of their current policies. Federal incentives can reward and accelerate such reform.

3. Pro-homeownership Focus in Social Housing

As Ottawa and the other levels of government increase spending on social housing, they should ensure that social housing does not hasten further "class barriers" and limit the potential for low-income families eventually to own their own homes.

Research shows that homeownership brings significant economic and social benefits and so any social housing policy should be designed to help people transition to homeownership rather than becoming stuck in a renter underclass. The goal should be to turn housing into a source of upward mobility rather than a burden weighing people down for those able to attain homeownership. The emphasis should therefore be on social housing that allows tenants ultimately to purchase their units on favourable terms.

The UK government's *Right to Buy* experiment provides some insight into the effectiveness of such a policy and lessons for Canadian governments on how to shift social housing into a basis for homeownership. *Right to Buy* was launched in 1980 to give tenants of councils and some housing associations the right to buy, at a substantial discount, the home they are renting. Approximately 1.8 million properties were purchased between 1980/81 and 2013/14. The policy has been reformed a few times but remains in place and the current government has even committed to expanding it by increasing the generosity of the discount (Cole et al. 2015).

One option would be to expand public support for Habitat for Humanity, which presently offers a unique model of subsidized housing that ultimately involves people owning their own homes. It has produced significant results in Canada and elsewhere (Habitat for Humanity Canada 2013). But its scale is limited – approximately 2200 families have received Habitat homes in Canada – and could be bolstered by greater public support.

As part of its much-anticipated National Housing Strategy, Ottawa should therefore consider options for partnering with Habitat for Humanity or attaching conditions on the provinces and cities that federal funding will only flow to projects where tenants can ultimately buy their units on favourable conditions rather than simply increasing permanent rental housing. The result would be not just more social housing stock but a path to homeownership and the middle class for thousands of low-income Canadian families.

Conclusion

Housing affordability has emerged as a major political issue in Canada in recent months. Rising prices in key markets such as Toronto and Vancouver are threatening to preclude low and middle-income Canadian families from reaping the economic and social benefits of homeownership and constraining the national economy as a result. Canadian policy-makers ought to be concerned.

This study has shown how housing affordability challenges are undermining the prospect of homeownership for Canadians and the extent to which current government policies are the source of the problem. Exclusionary or "snob" zoning runs counter to national objectives with regards to economic growth, upward mobility, and middle-class opportunity. Government policy at all levels must change to eliminate unjustified barriers to homeownership and the economic and social benefits that it confers.

We have thus set out clear, concrete recommendations to support affordable, responsible homeownership as part of a broader agenda for middle-class opportunity. The time has come to restore the homeownership dream for middle-class Canadians and in turn boost the national economy for all Canadians.

About the Authors

Brian Lee Crowley

Brian Lee Crowley has headed up the Macdonald-Laurier Institute (MLI) in Ottawa since its inception in March of 2010, coming to the role after a long and distinguished record in the think tank world. He was the founder of the Atlantic Institute for Market Studies (AIMS) in Halifax, one of the country's leading regional think tanks. He is a former Salvatori Fellow at the Heritage Foundation in Washington, DC and is a Senior Fellow at the Galen Institute in Washington. In addition, he advises several think tanks in Canada, France, and Nigeria.

Crowley has published numerous books, most recently *Northern Light: Lessons for America from Canada's Fiscal Fix*, which he co-authored with Robert P. Murphy and Niels Veldhuis and two bestsellers: *Fearful Symmetry: the fall and rise of Canada's founding values* (2009) and MLI's first book, *The Canadian Century; Moving Out of America's Shadow*, which he co-authored with Jason Clemens and Niels Veldhuis.

Crowley twice won the Sir Antony Fisher Award for excellence in think tank publications for his heath care work and in 2011 accepted the award for a third time for MLI's book, *The Canadian Century*.

From 2006–08 Crowley was the Clifford Clark Visiting Economist with the federal Department of Finance. He has also headed the Atlantic Provinces Economic Council (APEC), and has taught politics, economics, and philosophy at various universities in Canada and Europe.

Crowley is a frequent commentator on political and economic issues across all media. He holds degrees from McGill and the London School of Economics, including a doctorate in political economy from the latter.

Sean Speer

Sean Speer is a Munk Senior Fellow for fiscal policy at the Macdonald-Laurier Institute. He is also an associate fellow at the R Street Institute and a fellow at the University of Toronto's School of Public Policy and Governance.

He previously served in different roles for the federal government including as senior economic advisor to the Prime Minister. He has been cited by *The Hill Times* as one of the most influential people in government and by *Embassy Magazine* as one of the top 80 people influencing Canadian foreign policy.

He has written extensively about federal policy issues, including taxes and government spending, retirement income security, social mobility, and economic competitiveness. His articles have appeared in every major national and regional newspaper in Canada (including the *Globe and Mail* and *National Post*) as well as prominent US-based publications (including the *Wall Street Journal* and *National Review Online*). Sean holds an M.A. in History from Carleton University and has studied economic history as a PhD candidate at Queen's University.

References

Agarwal, Sumit, Efraim Benmelech, Nittai Bergman, and Amit Seru. 2012. "Did the Community Reinvestment Act (CRA) Lead to Risky Lending?" NBER Working Paper No. 18609. Available at http://www.nber.org/papers/w18609.

Allen, Rian, and Philippa Campsie. 2013. *Implementing the Growth plan for the Greater Golden Horseshoe: Has the strategic regional vision been compromised?* The Neptis Foundation. Available at http://www.neptis.org/sites/default/files/growth_plan_2013/theneptisgrowthplanreport_final.pdf.

Andrews, Dan, Aida Caldera Sánchez, and Åsa Johansson. 2011. "Housing and the Economy: Policies for renovation." Powerpoint. *Going for Growth, OECD. Available at* http://www.oecd.org/economy/growth/46941804.pdf.

Barker, Kate. 2004. *Review of Housing Supply. Delivering Stability: Securing our future housing needs. Final report, recommendations.* HM Treasury. Available at http://news.bbc.co.uk/nol/shared/bsp/hi/pdfs/17_03_04_barker_review.pdf.

Bloomberg News. 2013. "Flaherty Regrets Massive Growth of CMHC, Vows Mortgage Action If Needed." *Financial Post,* December 6. Available at http://business.financialpost.com/personal-finance/mortgages-real-estate/flaherty-cmhc-mortgages.

Boehm, Thomas P., and Alan Schlottmann. 2004. "Wealth Accumulation and Homeownership: Evidence for low-income households." U.S. Department of Housing and Urban Development. Available at https://www.huduser.gov/publications/pdf/wealthaccumulationandhomeownership.pdf.

Brash, Donald. 2008. "Introduction." *4th Annual Demographia International Housing Affordability Survey.* Available at http://demographia.com/dhi4-preface.pdf.

Brown, Mark, and Luke Rispoli. 2014. "Metropolitan Gross Domestic Product: Experimental estimates, 2001 to 2009." *Economic Insights* series, November. Available at http://www.statcan.gc.ca/pub/11-626-x/11-626-x2014042-eng.htm.

Brown, Martyn. 2016. "An Essay on BC's Housing Crisis and What to Do About It." *Georgia Straight,* May 19. Available at http://www.straight.com/news/702206/martyn-brown-essay-bcs-housing-crisis-and-what-do-about-it.

Canada Mortgage and Housing Corporation [CMHC]. 2013. "Building Families' Futures and Opportunities Through Habitat Homeownership." *Research Highlight, Socioeconomic Series,* May. Available at https://www03.cmhc-schl.gc.ca/catalog/productDetail.cfm?cat=176&itm=7&lang=en&fr=1370283102598.

———. 2015. *Why Housing Matters: 2015 Annual Report.* CMHC. Available at https://www.cmhc-schl.gc.ca/en/corp/about/anrecopl/anre/upload/annual-report-2015-cmhc.pdf.

———. 2016. "CMHC Purchase." CMHC. Available at https://www.cmhc-schl.gc.ca/en/hoficlincl/moloin/hopr/upload/CMHC_Purchase.pdf.

Caranci, Beata. 2016. "Moving on the Monopoly Board: Buyer gridlock in the Toronto and Vancouver housing markets." *Perspective,* May27. Available at https://www.td.com/document/PDF/economics/special/Buyer_Gridlock.pdf.

Carrick, Rob. 2011. "What's the Best Way to Save for a House: RRSPs or TFSAs?" *Globe and Mail,* July 18. Available at http://www.theglobeandmail.com/globe-investor/personal-finance/whats-the-best-way-to-save-for-a-house-rrsps-or-tfsas/article625924/.

Clayton, Frank A. 2016. *Will GTA Homebuyers Really Give Up Ground-Related Homes for Apartments?* Centre for Urban Research & Land Development, Ryerson University. Available at http://www.ryerson.ca/content/dam/cur/pdfs/Projects/CUR%20Report_Will%20GTA%20homebuyers%20give%20up%20ground-related%20houses%20%20for%20apartments.pdf.

Cole, Ian, Stephen Green, Lindsey McCarthy, and Ben Pattison. 2015. *The Impact of the Existing Right to Buy and the Implications for the Proposed Extension of Right to Buy Housing Associations.* Centre for Regional Economic and Social Research, Sheffield Hallam University. Available at https://www.parliament.uk/documents/commons-committees/communities-and-local-government/Full-Report-for-Select-Committee-141015final.pdf.

Coulson, Edward, and Lynn M. Fisher. 2009. "Housing Tenure and Labor Market Impacts: The search goes on." *Journal of Urban Economics* 65: 252–264.

Cox, Wendell. 2015. A Question of Values: Middle-income housing affordability and urban containment policy. Frontier Centre for Public Policy. Available at https://www.fcpp.org/sites/default/files/documents/Cox%20-%20A%20Question%20of%20Values.pdf.

———. 2016. "LSE/Netherlands Research Documents Price Effects of Tight Housing Regulation." Blog post, April 12. *New Geography.* Available at http://www.newgeography.com/content/005215-lsenetherlands-research-documents-price-effects-tight-housing-regulation.

Cox, Wendell, and Ailin He. 2016. *Canada's Middle-Income Housing Affordability Crisis.* Frontier Centre for Public Policy. Available at https://fcpp.org/sites/default/files/documents/Cox%20%26%20He%20-%20Middle-Income%20Housing%20Crisis.pdf.

Crowley, Brian Lee, and Sean Speer. 2016. "Canada's Housing Lesson for the U.S." *Wall Street Journal,* June 2. Available at http://www.wsj.com/articles/canadas-housing-lesson-for-the-u-s-1464907370.

Davidoff, Thomas. 2016. "Opinion: Governments need to act on housing affordability." *Vancouver Sun,* May 20. Available at http://vancouversun.com/opinion/opinion-governments-need-to-act-on-housing-affordability.

Department of Finance. 2016a. "Minister Morneau Announces Federal, Provencial and Municipal Group on Housing Market." Press release, June 23. Department of Finance, Canada. Available at http://www.fin.gc.ca/n16/16-083-eng.asp.

———. 2016b. *Report on Federal Tax Expenditures: Concepts, estimates, and evaluations.* Department of Finance Canada. Available at http://www.fin.gc.ca/taxexp-depfisc/2016/taxexp-depfisc16-eng.pdf.

DiPasquale, Denise, and Edward L. Glaeser. 1998. "Incentives and Social Capital: Are homeowners better citizens?" Chicago Working Paper in Law and Economics. Available at http://www.law.uchicago.edu/files/files/54.Glaeser.Home_.pdf.

Eicher, Theo S. 2008. "Housing Prices and Land Use Regulations: A study of 250 major US cities." University of Washington working paper. Available at http://faculty.washington.edu/te/papers/Housing051608.pdf.

Furman, Jason. 2015. "Barriers to Shared Growth: The case of land use regulation and economic rents." Speech given at the Urban Institute, November 20. Available at https://www.whitehouse.gov/sites/default/files/page/files/20151120_barriers_shared_growth_land_use_regulation_and_economic_rents.pdf.

Ganong, Peter, and Daniel Shoag. 2016. "Why Has Regional Income Convergence Declined?" Hutchins Center Working Paper #21. Available at https://www.brookings.edu/wp-content/uploads/2016/08/wp21_ganong-shoag_final.pdf.

Glaeser, Edward L., Joseph Gyourko, and Raven Saks. 2005. "Why Have Housing Prices Gone Up?" NBER Working Paper No. 11129. Available at http://www.nber.org/papers/w11129.

Gold, Kerry. 2014. "Renovating? In Vancouver, it's about to get way more complicated." *Globe and Mail,* August 8. Available at http://www.theglobeandmail.com/real-estate/renovating-in-vancouver-its-about-to-get-way-more-complicated/article19975603/.

Gordon, Josh. 2016. "The Housing Problem Isn't Supply, It's Unsustainable Foreign Demand." *Globe and Mail,* June 10. Available at http://www.theglobeandmail.com/report-on-business/rob-commentary/housing-costs-are-rising-but-its-not-a-supply-issue/article30380106/.

Green, Richard K., and Michelle J. White. 1997. "Measuring the Benefits of Homeowning: Effects on Children." *Journal of Urban Economics* 41(3): 441–461.

Gyourko, Jow. 2015. "A New Direction for Housing Policy." *National Affairs* 23 (Spring). Available at http://www.nationalaffairs.com/publications/detail/a-new-direction-for-housing-policy.

Habitat for Humanity Canada. 2013. "The Huge Benefits of Home Ownership for Low-Income Families." *HuffPost Impact Canada,* June 4. Available at http://www.huffingtonpost.ca/habitat-for-humanity-canada/habitat-for-humanity-canada_b_3384883.html.

Habitat for Humanity Toronto. 2012. *The Social Impact of Habitat for Humanity Homes in Toronto.* Habitat for Humanity Toronto. Available at http://198.57.162.202/~habitatgta/images/publications/building_a_better_city_web.pdf.

Harkness, Joseph M., and Sandra J. Newman. 2003. "Effects of Homeownership on Children: The role of neighborhood characteristics and family income." *FRBNY Economic Policy Review* (June) 87–107. Available at https://www.newyorkfed.org/medialibrary/media/research/epr/03v09n2/0306hark.pdf.

Haurin, Donald R., Toby L. Parcel, and R. Jean Haurin. 2002. "Does Homeownership Affect Child Outcomes?" *Real Estate Economics* 30 (4): 635–666. Available at https://www.researchgate.net/publication/23523770_Does_Home_Ownership_Affect_Child_Outcomes.

Hilber, Christian, and Wouter Vermeulen. 2016. "Regulation Is to Blame for England's Surging House Prices." *Vox,* April 10. Available at http://voxeu.org/article/regulation-blame-england-s-surging-house-prices.

Hills, Jr., Roderick J., and David Schleicher. 2011. "Balancing the 'Zoning Budget'." *Regulation* (Fall): 24–32. Available at http://object.cato.org/sites/cato.org/files/serials/files/regulation/2011/9/regv34n3-6.pdf.

Hsieh, Chang-Tai, and Enrico Moretti. 2015. "Why Do Cities Matter? Local growth and aggregate growth." University of Chicago working paper. Available at http://faculty.chicagobooth.edu/chang-tai.hsieh/research/growth.pdf.

Hulchanski, J. David. 2010. *The Three Cities Within Toronto: Income polarization among Toronto's neighborhoods, 1970–2005.* Toronto: Cities Centre Press. Available at http://www.urbancentre.utoronto.ca/pdfs/curp/tnrn/Three-Cities-Within-Toronto-2010-Final.pdf.

Husock, Howard. 2000. "The Trillion-Dollar Bank Shakedown That Bodes Ill for Cities." *City Journal,* winter. Available at http://www.city-journal.org/html/trillion-dollar-bank-shakedown-bodes-ill-cities-12096.html.

Ikeda, Sanford, and Emily Washington. 2015. "How Land-Use Regulation Undermines Affordable Housing." Mercatus Research, Mercatus Center at George Mason University. Available at http://mercatus.org/sites/default/files/Ikeda-Land-Use-Regulation.pdf.

Indigenous and Northern Affairs Canada. 2016. "First Nation Housing." Indigenous and Northern Affairs Canada. Available at https://www.aadnc-aandc.gc.ca/eng/1100100010715/1100100010719.

Kane, Laura. 2016. "Trudeau Warns Housing Solution in Toronto and Vanvouver Could Hurt Elsewhere." *Toronto Star,* June 17. Available at https://www.thestar.com/business/2016/06/17/trudeau-warns-housing-solution-in-toronto-and-vancouver-could-hurt-elsewhere.html.

Katz, Diane. 2009. "The BC Agricultural Land Reserve: A critical analysis." *Studies in Risk and Regulation.* Fraser Institute. Available at https://www.fraserinstitute.org/sites/default/files/BCAgriculturalLandReserve.pdf.

Kavcic, Robert. 2015. "Shifting Housing Supply on the 'Island of Toronto'." *Focus,* April 2. Available at http://www.bmonesbittburns.com/economics/focus/20150402/feature.pdf.

Kulkarni, Nirupama, and Ulrike Malmendier. 2015. "Homeownership and the American Dream: An analysis of intergenerational mobility effects." Working paper, University of California Berkeley. Available at http://faculty.haas.berkeley.edu/nirupama_kulkarni/Homeowners_KulkarniMalmendier.pdf.

Le Goff, Philippe. 2007. “Canada Mortgage and Housing Corporation Surplus.” Parliament of Canada. Available at http://www.lop.parl.gc.ca/content/lop/researchpublications/prb0601-e.htm.

Lee, Marc. 2016. “Marc Lee: Public control of real estate is answer to affordability.” *The Province,* May 18. Available at http://theprovince.com/opinion/marc-lee-public-control-of-real-estate-is-answer-to-affordability.

Lee, Marc, and Iglika Ivanova. 2013. *Fairness by Design: A framework for tax reform in Canada.* Canadian Centre for Policy Alternatives. Available at https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2013/02/Fairness_By_Design_A_Framework_For_Tax_Reform_In_Canada_0.pdf.

Liberal Party. 2015. *A New Plan for a Strong Middle Class.* Liberal Party. Available at https://www.liberal.ca/files/2015/10/New-plan-for-a-strong-middle-class.pdf.

Londerville, Jane. 2010. *Mortgage Insurance in Canada: Basically sound but room for improvement.* Macdonald-Laurier Institute. Available at http://www.macdonaldlaurier.ca/files/pdf/MortgageInsurance.pdf.

Marr, Garry. 2012. “RRSPs or TFSAs: Which is better to use when buying your first home?” *Financial Post,* January 28. Available at http://business.financialpost.com/personal-finance/mortgages-real-estate/rrsps-or-tfsas-which-is-better-to-use-when-buying-your-first-home.

———. 2016. “Don’t Look Now Toronto Homebuyers, Niagara Falls Just Might Be Your New Suburb.” *Financial Post,* May 16. Available at http://business.financialpost.com/personal-finance/mortgages-real-estate/dont-look-now-toronto-homebuyers-niagara-falls-just-might-be-your-new-suburb.

McMahon, Tamsin. 2016. “Budget Offers $2.3-Billion Boost for Affordable-Housing Measures.” *Globe and Mail,* March 22. Available at http://www.theglobeandmail.com/news/politics/budget-offers-23-billion-boost-for-affordable-housing-measures/article29346419/.

Ni, Jinlan, and Christopher Decker. 2009. “The Impact of Homeownership on Criminal Activity: Empirical evidence rom United States’ county level data.” *Economics & Business Journal: Inquiries & Perspectives* 2 (1): 17–37. Available at http://ecedweb.unomaha.edu/neba/journal/EBJIP2009NiDecker.pdf.

Office of the Premier. 2016. “Action on foreign invenstment, consumer protection and vacancy puts Britsh Columbians first.” Press release, July 25. Office of the Premier, British Columbia. Available at https://news.gov.bc.ca/releases/2016PREM0080-001346.

Ontario. 2005. “Schedule 1: Greenbelt plan area.” Ontario. Available at http://www.mah.gov.on.ca/AssetFactory.aspx?did=12342.

Porter, Douglas. 2016. *Focus: A weekly financial digest.* BMO Capital Markets Economics, June 17. Available at http://www.bmonesbittburns.com/economics/focus/recent/160617doc.pdf.

Provincial Agricultural Land Commission. 2014. “ALR & Maps.” Provincial Agricultural Land Commission. Available at http://www.alc.gov.bc.ca/alc/content/alr-maps.

———. n.d. “ALR Property and Map Finder.” Provincial Agricultural Land Commission. Available at http://apps.gov.bc.ca/pub/dmf-viewer/?siteid=7180127263339106301.

Quigley, John M., and Steven Raphael. 2005. “Regulation and the High Cost of Housing in California.” *AEA Papers and Proceedings* 95 (2): 323–328. Available at http://urbanpolicy.berkeley.edu/pdf/QR_RegAER0406.pdf.

Reeves, Richard V., and Dimitrios Halikias. 2016. “How Land Use Regulations Are Zoning Out Low-Income Families.” Brookings Institute *Memo,* August 16. Available at https://www.brookings.edu/2016/08/16/zoning-as-opportunity-hoarding/.

Rohe, William M., and Mark Lindblad. 2013. “Reexamining the Social Benefits of Homeownership after the Housing Crisis.” Joint Center for Housing Studies: Harvard University. Available at http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/hbtl-04.pdf.

Rohe, William M., and R. Stegman. 1994. "The Effects of Homeownership on Self Esteem, Perceived Control, and Life Satisfaction of Low Income People." *Journal of the American Planning Association* 60(2): 173–84.

Salam, Reihan. 2015. "Housing." *Room to Grow* series. Conservative Reform Network. Available at http://conservativereform.com/wp-content/uploads/2016/07/CRN_Housing_FINAL.pdf.

Shapcott, Michael. 2002. "Housing for all Canadians: A nation-wide crisis requires a national solution." TD Forum on Canada's Standard of Living. Available at http://www.urbancentre.utoronto.ca/pdfs/elibrary/Shapcott_Housing-National-C.pdf.

Statistics Canada. 2012. *Focus on Geography Series, 2011.* Statistics Canada Catalogue no. 98-310-XWE2011004. Ottawa, Ontario. Analytical products, 2011 Census. Available at https://www12.statcan.gc.ca/census-recensement/2011/as-sa/fogs-spg/Facts-cma-eng.cfm?LANG=Eng&GK=CMA&GC=933.

———. 2014. "Survey of Financial Security, 2012." *The Daily*, February 25. Available at: http://www.statcan.gc.ca/daily-quotidien/140225/dq140225b-eng.htm.

———. 2015. "Census of Population Program Data Sets." Statistics Canada. Available at http://www12.statcan.ca/datasets/Index-eng.cfm.

———. 2016. "Table 1 Residential construction investment." *The Daily.* Available at http://www.statcan.gc.ca/daily-quotidien/160602/t001b-eng.htm.

Stone, Felicity. 2016. "90% of Vancouverites Support Foreign-Buyers Tax: Poll." *BCBusiness,* July 29. Available at http://www.bcbusiness.ca/real-estate/90-of-vancouverites-support-foreign-buyers-tax-poll.

TD Economics. 2015. "Home is Where the Wealth Is." *Observation,* November 24. Available at https://www.td.com/document/PDF/economics/special/HousingWealth2015.pdf.

The Economist. 2009. "Shelter, or Burden?" *The Economist,* April 16. Available at http://www.economist.com/node/13491933.

———. 2016. "The Grip Tightens: Faulty land-use regulation is throttling the capital." *The Economist,* April 30. Available at http://www.economist.com/news/britain/21697575-faulty-land-use-regulation-throttling-capital-grip-tightens.

Thomas, Diana. 2012. "Regressive Effects of Regulation." Mercatus Center working paper No. 12-35. Available at http://mercatus.org/sites/default/files/RegressiveEffects_Thomas_v1-0.pdf.

Toronto. 2016. "When Do I Need a Building Permit?" *Toronto.ca.* Available at http://www1.toronto.ca/wps/portal/contentonly?vgnextoid=798d32264661a410VgnVCM10000071d60f89RCRD&vgnextchannel=e7c14b1c296c0410VgnVCM10000071d60f89RCRD.

Viera, Paul. 2016. "Canadian Prime Minister Vows to Tackle Housing Affordability." *Wall Street Journal,* June 16. Available at http://www.wsj.com/articles/canadian-prime-minister-vows-to-tackle-housing-affordability-1466109891.

Washington, Emily. 2015. "How Land Use Regulations Hurt the Poor." Blog post, November 13. *New Geography.* Available at http://www.newgeography.com/content/005098-how-land-use-regulations-hurt-poor.

World Bank. 2016. "Land Area (sq. km)." World Bank. Available at http://data.worldbank.org/indicator/AG.LND.TOTL.K2.

Wright, Craig, and Robert Hogue. 2016. *Housing Trends and Affordability.* RBC Economics. Available at http://www.rbc.com/newsroom/_assets-custom/pdf/20160622-ha.pdf.

Endnotes

1 RBC's housing affordability index is calculated based on the share of median pre-tax household income required to service the cost of mortgage payments (principal and interest), property taxes, and utilities based on the average market price for single-family detached homes and condo apartments, as well as for an overall aggregate of all housing types in a given market. See: Craig Wright and Robert Hogue, 2016, *Housing Trends and Affordability*.

2 This paper typically uses Toronto and Vancouver as short-hand for the Census Metropolitan Areas unless otherwise stated. This particular section refers to the Greater Toronto Area and Greater Vancouver Area which are similar to yet distinct from the Census Metropolitan Areas.

3 The main exception is First Nations housing where the federal government is primarily responsible for financing housing supply. Ottawa spent $2.3 billion on First Nations housing over the 8-year period between 2006/07 and 2013/14. See Indigenous and Northern Affairs Canada, 2016, "First Nation Housing."

4 For a solid history of CMHC and its role in Canada's mortgage market, see Jane Londerville, 2010, *Mortgage Insurance in Canada.*

MLI

True North in
Canadian public policy

Critically Acclaimed, Award-Winning Institute

The Macdonald-Laurier Institute fills a gap in Canada's democratic infrastructure by focusing our work on the full range of issues that fall under Ottawa's jurisdiction.

- The Macdonald-Laurier Institute fills a gap in Canada's democratic infrastructure by focusing our work on the full range of issues that fall under Ottawa's jurisdiction.
- One of the top three new think tanks in the world according to the University of Pennsylvania.
- Cited by five present and former Canadian Prime Ministers, as well as by David Cameron, the British Prime Minister.
- First book, *The Canadian Century: Moving out of America's Shadow*, won the Sir Antony Fisher International Memorial Award in 2011.
- *Hill Times* says Brian Lee Crowley is one of the 100 most influential people in Ottawa.
- The *Wall Street Journal*, the *Economist*, the *Globe and Mail*, the *National Post* and many other leading national and international publications have quoted the Institute's work.

"The study by Brian Lee Crowley and Ken Coates is a 'home run'. The analysis by Douglas Bland will make many uncomfortable but it is a wake up call that must be read."
FORMER CANADIAN PRIME MINISTER PAUL MARTIN ON MLI'S PROJECT ON ABORIGINAL PEOPLE AND THE NATURAL RESOURCE ECONOMY.

Ideas Change the World

Independent and non-partisan, the Macdonald-Laurier Institute is increasingly recognized as the thought leader on national issues in Canada, prodding governments, opinion leaders and the general public to accept nothing but the very best public policy solutions for the challenges Canada faces.

CTV
cpac FOR THE RECORD
Corus ENTERTAINMENT
CBC news
FP Foreign Policy
tvo
The Economist
WALL STREET JOURNAL
THE HILL TIMES
THE GLOBE AND MAIL CANADA'S NATIONAL NEWSPAPER • FOUNDED 1844
NATIONAL POST

About the Macdonald-Laurier Institute

What Do We Do?

When you change how people think, you change what they want and how they act. That is why thought leadership is essential in every field. At MLI, we strip away the complexity that makes policy issues unintelligible and present them in a way that leads to action, to better quality policy decisions, to more effective government, and to a more focused pursuit of the national interest of all Canadians. MLI is the only non-partisan, independent national public policy think tank based in Ottawa that focuses on the full range of issues that fall under the jurisdiction of the federal government.

What Is in a Name?

The Macdonald-Laurier Institute exists not merely to burnish the splendid legacy of two towering figures in Canadian history – Sir John A. Macdonald and Sir Wilfrid Laurier – but to renew that legacy. A Tory and a Grit, an English speaker and a French speaker – these two men represent the very best of Canada's fine political tradition. As prime minister, each championed the values that led to Canada assuming her place as one of the world's leading democracies. We will continue to vigorously uphold these values, the cornerstones of our nation.

Working for a Better Canada

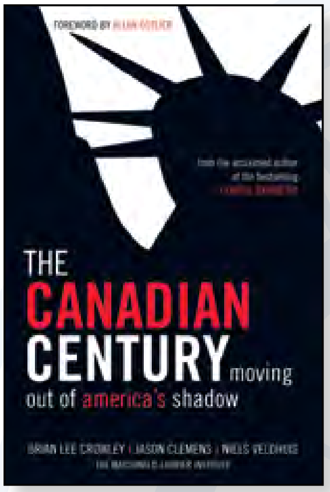
Good policy doesn't just happen; it requires good ideas, hard work, and being in the right place at the right time. In other words, it requires MLI. We pride ourselves on independence, and accept no funding from the government for our research. If you value our work and if you believe in the possibility of a better Canada, consider making a tax-deductible donation. The Macdonald-Laurier Institute is a registered charity.

Our Issues

The Institute undertakes an impressive programme of thought leadership on public policy. Some of the issues we have tackled recently include:

- Aboriginal people and the management of our natural resources;
- Getting the most out of our petroleum resources;
- Ensuring students have the skills employers need;
- Controlling government debt at all levels;
- The vulnerability of Canada's critical infrastructure;
- Ottawa's regulation of foreign investment; and
- How to fix Canadian health care.

Macdonald-Laurier Institute Publications



Winner of the Sir Antony Fisher International Memorial Award BEST THINK TANK BOOK IN 2011, as awarded by the Atlas Economic Research Foundation.

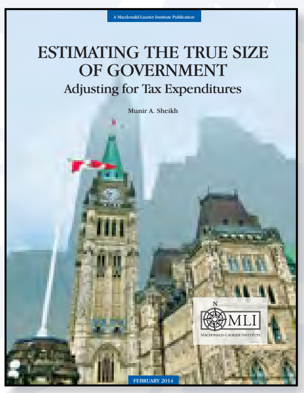
The Canadian Century
By Brian Lee Crowley,
Jason Clemens, and Niels Veldhuis

Do you want to be first to hear about new policy initiatives? Get the inside scoop on upcoming events?

Visit our website www.MacdonaldLaurier.ca and sign up for our newsletter.

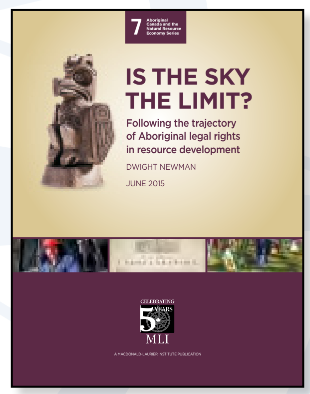
RESEARCH PAPERS

How Markets Can Put Patients First
Audrey Laporte

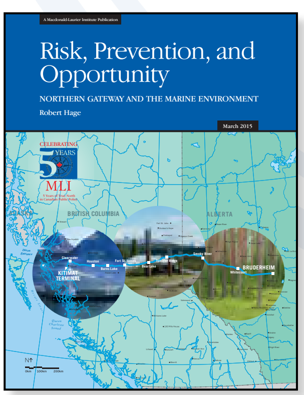


Estimating the True Size of Government
Munir A. Sheikh

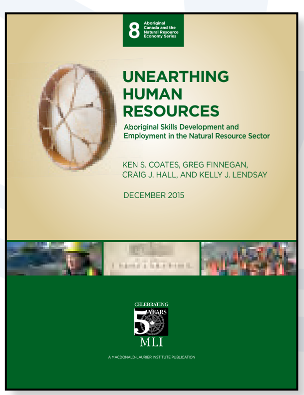
A Defence of Mandatory Minimum Sentences
Lincoln Caylor and
Gannon G. Beaulne



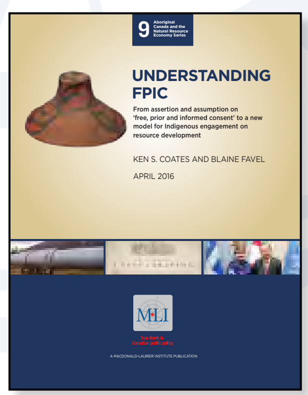
Is the Sky the Limit
Dwight Newman



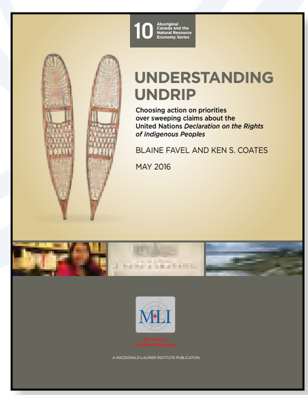
Risk, Prevention and Opportunity
Robert Hage



Unearthing Human Resources
Ken S. Coates,
Greg Finnegan, Craig J. Hall,
and Kelly J. Lendsay



Understanding FPIC
Ken S. Coates and
Blaine Favel



Understanding UNDRIP
Blaine Favel and
Ken S. Coates

True North in Canadian public policy

CONTACT US: Macdonald-Laurier Institute
8 York Street, Suite 200
Ottawa, Ontario, Canada K1N 5S6

TELEPHONE: (613) 482-8327

WEBSITE: www.MacdonaldLaurier.ca

CONNECT WITH US:

@MLInstitute

www.facebook.com/MacdonaldLaurierInstitute

www.youtube.com/MLInstitute

What people are saying about the Macdonald-Laurier Institute

In five short years, the institute has established itself as a steady source of high-quality research and thoughtful policy analysis here in our nation's capital. Inspired by Canada's deep-rooted intellectual tradition of ordered liberty – as exemplified by Macdonald and Laurier – the institute is making unique contributions to federal public policy and discourse. Please accept my best wishes for a memorable anniversary celebration and continued success.

THE RIGHT HONOURABLE STEPHEN HARPER

The Macdonald-Laurier Institute is an important source of fact and opinion for so many, including me. Everything they tackle is accomplished in great depth and furthers the public policy debate in Canada. Happy Anniversary, this is but the beginning.

THE RIGHT HONOURABLE PAUL MARTIN

In its mere five years of existence, the Macdonald-Laurier Institute, under the erudite Brian Lee Crowley's vibrant leadership, has, through its various publications and public events, forged a reputation for brilliance and originality in areas of vital concern to Canadians: from all aspects of the economy to health care reform, aboriginal affairs, justice, and national security.

BARBARA KAY, NATIONAL POST COLUMNIST

Intelligent and informed debate contributes to a stronger, healthier and more competitive Canadian society. In five short years the Macdonald-Laurier Institute has emerged as a significant and respected voice in the shaping of public policy. On a wide range of issues important to our country's future, Brian Lee Crowley and his team are making a difference.

JOHN MANLEY, CEO COUNCIL