SPECIAL REPORT

TD Economics

January 19, 2015

Executive Summary

GTA HOUSING BOOM MASKS GROWING STRUCTURAL CHALLENGES

Deteriorating Affordability, Lack of Housing Choice and a Strained Transportation System Require a Regional Policy Approach

The stakes are high surrounding the fortunes of the Greater Toronto Area (GTA) housing market. A healthy housing system is critical a region's economic fortunes. And with the GTA key to Canada's economic engine, the success or failure of housing in this region carries significant national importance.

All eyes have been on a housing boom in the region that has lasted more than a full decade. Supported in part by growing in-migration to the region, housing activity and prices have embarked on a rally that has surpassed that of most other major global markets. We've calculated that as much of one-quarter of Toronto's job creation over the past 10 years has flowed from the direct and indirect effects of the housing boom.

That being said, there are two sides to every coin. The strength has concealed some growing challenges that have been percolating under the surface, of which include deteriorating affordability, an increasingly weak diversity of housing choice and a transportation system that is struggling to keep up. Addressing these challenges through a more collaborative regional approach will be critical to securing economic, social and environmental prosperity in the future.

Deteriorating affordability

The affordability challenge has traditionally been heavily concentrated among low-income residents within the rental market. And, in many respects this remains the case. Average rents amount to almost half of household income for earners in the bottom 40% and the share of those in core housing need remains unacceptably high. However, the problem of affordability has spilled over to residents in higher income levels and to those in homeownership. Higher land costs and restrictive government regulations that have stretched out development project time lines to as much as seven years have made it increasingly difficult to supply housing at an affordable cost across the GTA. What's more, rising costs have been instrumental in driving up average debt-loads in the region, leaving households vulnerable to any unanticipated negative economic shock.

Shrinking diversity of the housing stock

Rising costs and other incentives have not only tilted new development in the GTA towards condo towers but to shrinking unit sizes. The focus of supply on small multi-residential units has resulted in growing price premiums for both townhouses and single-detached units across the region, thus contributing to poorer housing choice and reducing mobility of residents. This widening cost divergence between small and larger homes is also a major challenge in the rental market. Furthermore, the stock of

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purpose-built rental units in the region is aging and requires substantial new investment. While increased densification has been a laudable goal of the provincial and municipal governments in recent years, it can reasonably be argued that the pendulum has swung too far in favour of units that are typically tailored for shorter-term living. It raises the question of how the GTA will accommodate the future changing housing needs of both the echo generation who will begin families as well as the growing population of seniors.

Inadequate infrastructure, notably transit

A mix of continued rapid growth in the 905 area code and revival of Toronto's downtown core has been placing increasing strains on the region's infrastructure. The most visible challenges are in transit, where an inadequate regional system has led to growing congestion and costs in terms of foregone productivity. While there have been some notable investments in roads and transit infrastructure in recent years, progress in the GTA to construct a regional transportation system for the 21st century has been slow.

Little reprieve from eventual housing slowdown

To the extent that the housing boom has been a culprit in driving the longer-term challenges of reduced affordability, shrinking housing diversity and pressures on infrastructure, one might reasonably expect that a long-awaited housing slowdown might help to halt these trends. However, any relief is likely to be modest at best:

- With household formation rates likely to stay strong, few forecasters have been calling for anything more than a moderate cool down in home prices. And, any correction is likely to be concentrated in the condo sector, leading to a further widening in the price gap between small units and other types of dwellings.
- The influx of an expected 60,000 condo units to the market over the next several years point to a further shrinking in housing diversity.
- Prospects for moderately higher interest rates over the next several years are likely to lead to some increased financial hardship for a growing share of the region's residents.
- Renting is expected to become a more popular choice, leading to a further tightening supply in the purpose-built rental market. At the same time, ongoing government restraint and soft income growth promises to sustain the struggles of residents in core housing need.

Policy recommendations

As such, the greatest challenges facing the GTA housing market are structural in nature and won't be addressed without concrete actions on the part of policy makers in the region. Housing policies that bring down the cost of construction, speed up delivery and improve the economics of investing in a broader array of housing types – including rehabilitation – would translate into lower costs for residents over the longer run. Importantly, the GTA needs to start thinking like a region with respect to housing. This would entail much greater regional coordination and synergies across the three levels of government, municipalities, not-for-profits, private developers and investment community.

Strengthen and better align housing policies

Housing policies appear to be falling well short in achieving a balance between affordability, environmental protection and smart land use decisions. Developers complain of lengthy permitting processes, while zoning regulations and bylaws are complex and can be out of sync with the official plans. Other unnecessary costs are imposed on new development projects. For example, in the City of Toronto, a certain square footage is allocated for parking within new high-rise developments despite the high cost and the fact than an increasing number of residents work within a transit ride or walk. Other policies are detrimental to the diversity of the housing stock. Property tax systems continue to disadvantage multi-residential properties relative to single-detached properties, while the positive differential between multi-residential taxes between 416 and 905 properties is substantial. In some municipalities, development fees are higher on two bedroom units than they are on one bedroom units regardless of the size of the project. The list goes on. More efforts should be made to tie building permit approvals based on demographic need. Recently, the Ontario government approved the development of six story wood-framed housing, which will go some way in decreasing costs of new development. The region must look for more of these opportunities.

Ease rent regulations

Provincial rent regulations are still targeted at buildings constructed prior to 1991, which remain an important part of the rental stock. While well intended, these regulations are likely inflicting longer-term damage on the housing system by raising uncertainty and stifling renewal investment. We encourage the Ontario government to consider other models for rent regulations – notably that used in New York City – which build in rising costs to landlords and that provide good protection of tenants' rights.

Unlock cheaper land

Rising land costs reflect a significant amount of underutilized land in the GTA. Land owners continue to hold on to significant idle land, likely with the aim of earning a higher profit on sale due to appreciating values. These holdings are located across the GTA and within the private, public and quasi-public sectors. In cases where surplus land is being unlocked – such as public lands in the City by Toronto – movement to sell land parcels has been slow. Some countries have turned to tax incentives to encourage property owners to unlock idle lands for development. In addition, there exist opportunities for the region to take better advantage of infill development, particularly close to social housing and public transit hubs.

Often the cheapest land is available in the suburbs, but the challenge is a lack of infrastructure. As the Ontario government revisits its growth plan, focus should not just be placed on building up along transportation corridors, but building more transportation corridors. An underdeveloped transit system has become one of the most pressing issues facing the GTA economy. Support from municipalities and their regional transit commissions will be crucial in ensuring that a long-term regional transit plan becomes reality.

Address low-income housing needs

Removing costs and barriers to new supply will help alleviate affordability issues in the region, particularly for the large population of moderate income households. But there is still a segment of the most disadvantaged residents that will continue to struggle. Helping these individuals most in need will require government subsidies, either through incentives to increase the supply of lower-cost housing or through targeted income support. One example would be to create a new income-tested housing benefit that is portable and is not tied to the welfare system.

Scarce government resources to address affordable housing will remain a significant challenge, especially at the provincial level, where large deficits are still being run. The recent plunge in oil prices and resulting hit to revenues will limit the federal government's leeway to implement new measures as it continues to set its sights on a balanced budget by next year. Our hope is that as oil prices likely recover over the next few years, the federal government will be better positioned to take on a growing leadership role in this space, while recognizing that challenges are local in nature and best addressed by municipalities.

Private and not-for-profit sectors critical

Limited government resources and a growing interest in the private sector to become involved in housing-related challenges provide significant upside potential within the GTA. The involvement extends from private-sector investment in the aging social housing and rental stocks to social impact investing to philanthropy and volunteering.

The importance of the not-for-profit sector in delivering housing and other services to disadvantaged residents cannot be overstated. The region boasts some 250 organizations in the housing space – which despite ongoing funding challenges – have emerged to address growing demands. While many of these entities target specific local needs, there may be opportunities to reduce overlap and boost efficiency through a more coordinated approach. The private sector has a comparative advantage in the development and supply of rental units, while the not-for-profit sector enjoys comparative strength in the management and provision of supports to low-income tenants. Thus, there is a natural synergy.

With interest rates expected to remain relatively low, there is the potential for capital market vehicles to fill an increasing share of the sizeable investment financing needs in the coming years. In particular, investors in real estate investment trusts (REITs) and pension funds are looking for opportunities to earn moderate and stable annual returns. In the current cost environment, however, these vehicles would be hard-pressed to generate the required returns. All the more reason for governments to step up efforts to bring down land costs in part through smarter regulations.

Bottom Line

There is little doubt that the housing boom enjoyed in the GTA over the past decade has benefitted many in the region. Yet the boom has been hiding some growing issues within the housing market, chief among them include deteriorating affordability, an increasingly weak diversity of housing choice and a transportation system that is struggling to keep up. Addressing these challenges through a more collaborative regional approach will be critical to securing economic, social and environmental prosperity in the future.

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GTA HOUSING BOOM MASKS GROWING STRUCTURAL CHALLENGES

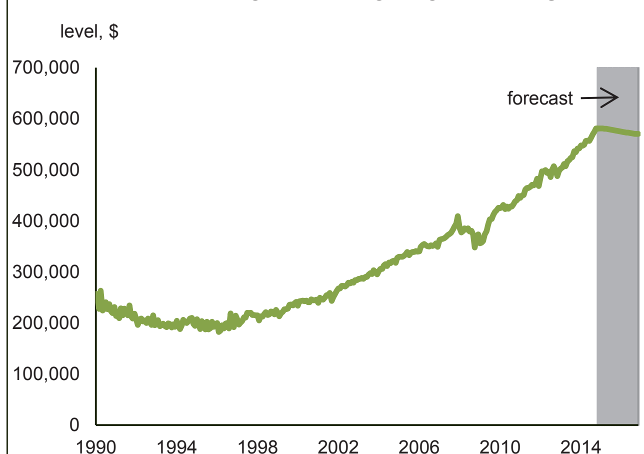
Deteriorating Affordability, Lack of Housing Choice and a Strained Transportation System Require a Regional Policy Approach

Apart from suffering a temporary setback during the 2008-09 recession, Toronto region's housing boom has extended more than a decade. The strength in home prices and new construction has delivered numerous economic benefits to the region – increased construction employment, buoyant housing-related service activities and household spending tied to rising net wealth to name a few. Indeed, we've calculated that as much of one-quarter of Toronto's job creation over the past decade has flowed from the direct and indirect effects of the housing boom.

That being said, there are two sides to every coin. The focus on the housing strength has over-shadowed a number of growing concerns that could severely hamper quality of life and the Toronto region's longer-term economic performance. These cracks will become increasingly visible once housing activity inevitably cools and the tailwinds of the boom begin to subside. Chief among them:

- Residential development has been concentrated in meeting homeownership and rental demand for the growing middle and upper income classes. Toronto has the highest share of households in core housing need among most Canadian cities, and while progress has been made over the last decade, much more is needed.
- Even then, housing affordability has become an obstacle for a growing share of middle-class residents. The leap into home ownership is becoming more difficult, and those that have purchased condos as starter homes will face limited flexibility in moving up given rising housing costs. Rising debt-loads have left many households with little wiggle room in the event of an unanticipated economic event.
- Amid a building frenzy of high-rise condos, the housing market may not meet the diverse needs of the cities changing demographic profile.
- Infrastructure has struggled to keep up with the rapid pace of residential development and resulting population growth. The region's transit system is facing particular strains.

CHART 1: GTA AVERAGE HOME PRICES



Source: Canadian Real Estate Association, F. by TD Economics as of January 2015

To the extent that the housing boom has contributed to these challenges, one might expect that a widely- and long-awaited hous-

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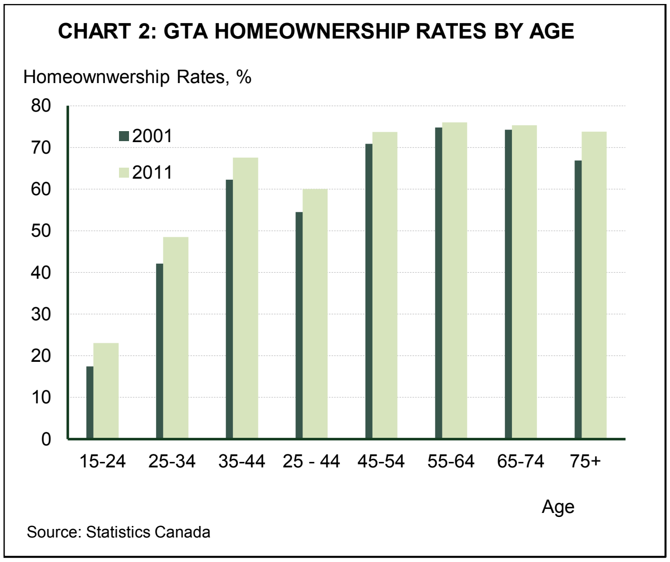


ing correction will help alleviate them. And in some areas, this may occur. For example, a cooling in home prices will help to take pressure off affordability. That being said, any improvement in this regard is likely to be fairly modest, and in some cases challenges are on track to intensify further. Most notably the number of residents facing financial pressures and/or in core housing need will likely increase. With the housing market core to the region's economic and social foundation, it will critical to address the structural barriers that impede both affordability and diversity.

In 2003, TD Economics issued a report on affordable housing that provided a new lens to which governments and housing-sector players could view the affordable housing challenge. The best longer-term solution to the problem was implementing a mix of policies to raise economic outcomes of low-income earners, increase financial assistance to spur new affordable rental supply and eliminate market distortions that impede the development of affordable units. That paradigm remains relevant today.

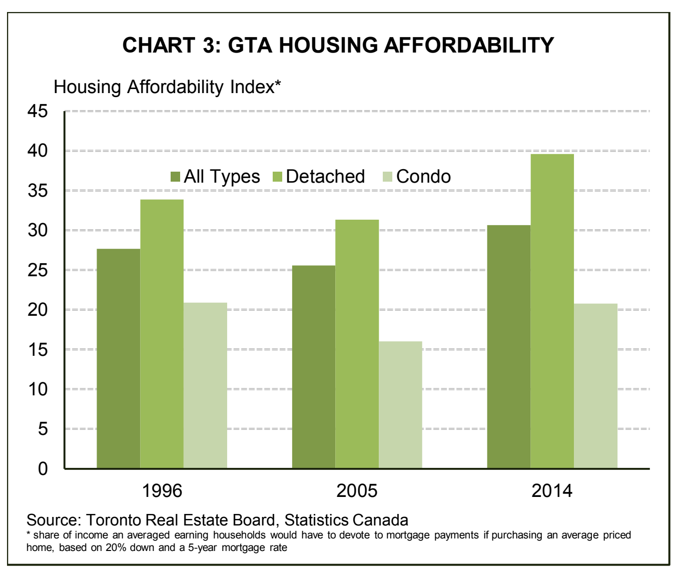
In many respects, however, the housing challenge is even more complex a decade later. Affordable housing is no longer just a concern for low income renters but has broadened to include the homeownership market. Furthermore, overall fiscal circumstances of governments are more challenging than a decade ago, especially for the Ontario government, which is currently facing a sizeable deficit. In this environment, the best chance of real success involves a more coordinated regional approach that better targets scarce government resources and focuses on bringing down the cost of development. A successful strategy would leverage the relative strengths of the federal, provincial and municipal governments, as well as the not-for-profit and private sector.

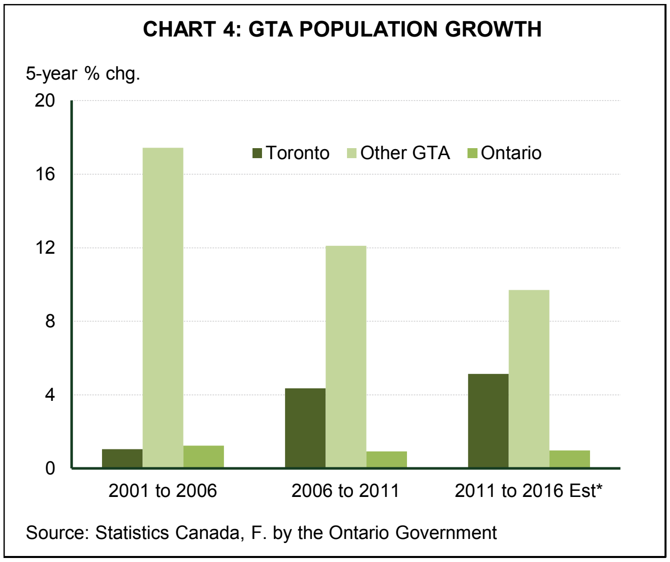
Almost 15 years of booming homeownership

Since the early 2000s, few major global housing markets have recorded such robust and steady gains in prices and homeownership rates than the Greater Toronto Area (GTA). Average resale prices in the GTA – which includes the City of Toronto and surrounding Durham, York, Peel and Halton regions – have doubled since 2002, yielding an annual average gain of about 6% per year. The boom has coincided with more and more Torontonians making the leap into homeownership. Two decades ago, the population in Toronto was almost evenly split between renters and owners. However, in 2011, the homeownership ratio converged on the national average at a lofty seven in 10.

Increases in housing demand have been driven in no small part by an improvement in affordability in the first half of the decade. A trend decline in borrowing costs, lengthened amortizations and an overall loosening in lending standards together spurred a growing appetite for purchasing real estate. Indeed, this mix put homeownership within reach for even those with little savings. Since 2009, average affordability levels have eroded somewhat in view of further growth in prices and a subsequent tightening in insured mortgage lending guidelines. Still, as we discuss later, an explosion in supply of more affordable, smaller condominium units has helped to keep home sales in the GTA extremely brisk over the past few years.

Demographics have been another important driver of growing demand for homeownership in the GTA. The





favourable affordability picture has enabled many of the growing pool of echo boomers, new migrants and single individuals – households that may not have bought otherwise – to purchase. Indeed, homeownership rates increased by 3 percentage points for single females alone. Since the early 2000s, some 36,000 new households have been created each year in the GTA, well above its 1990s average of 25,000. Almost half of the increase in household formation was driven by single households and couples without children, with many of those individuals in turn part of the large echo generation. Toronto region remains a prime destination for new migrants, accounting for almost 90% of the overall increase in the working-age population. Indeed, with help from the new flow of residents to the GTA, the core working age – those most likely to own a home – has been the fastest growing segment of both the population and housing demand.

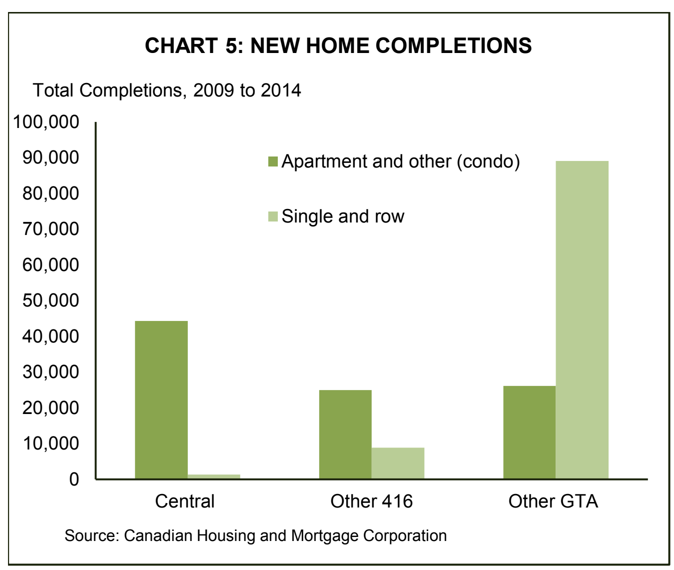
Revival of downtown living a striking trend

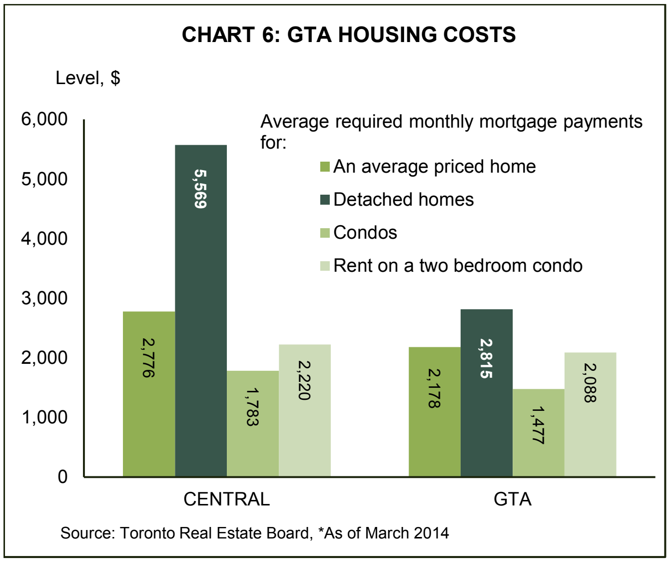
City living has become increasingly popular across the province as younger professionals from across Ontario have increasingly been gravitating to the GTA. Among the most prominent trends of the recent housing boom has been the revival of the City of Toronto's downtown. Population in the suburbs is growing at a faster pace than in the City of Toronto. But the differential in growth rates between the 905 and 416 has narrowed. The improvement in the 416 has largely reflected booming growth in the downtown core (as defined by Trinity-Spadina and Toronto Centre), where population gains quadrupled between 2006 and 2011. Formally-deteriorating industrial and commercial buildings in the downtown have been replaced by new high rise and commercial developments. The desire to be closer to amenities and public transportation has also pulled the younger population to the core. In response, employers have opted to re-allocate head offices to the city centre in order to tap this important (and highly educated) segment of the labour market. As such, the residential boom has been paralleled by a surge in major office projects in the downtown. According to the City of Toronto, the downtown core only accounts for 3% of the land space in the City of Toronto, but for 50% of GDP and 33% of employment.

Condo, condo, condo, condo

While a return to the core has been most visible in the downtown core, other city centers in suburban areas have also experienced blistering population growth – such as Richmond Hill and Vaughan where population grew by 50% between 2006 and 2011. The shift of the young working age population towards city centers has coincided with a breathtaking surge in high-rise condominium development. Developers earmark their investments to where demand is strongest and where returns are most attractive. And the verdict has been loud and clear: build upwards. Condominiums accounted for over 40% of all new homes built in the late 1990s, while more recently the share of condos under construction has jumped to 80%, half of which are being built in the downtown core. At the peak, it had been estimated that has many as 175 high rise projects were being constructed, well ahead of other major global cities.

There have been other major policy changes and economic factors that have fanned the shift in development





patterns to smaller, high-rise condominiums. In order to meet the growing housing and employment demands of a rapidly-expanding working age population, the provincial government introduced the Places to Grow Act in 2005. The Act sets clear guidelines on how cities can grow and where and what developers can build with an overriding goal to arrest the long-term trend of growing urban sprawl. Through the establishment of density targets for municipalities, development has been concentrated in already-built-up areas and around major transportation corridors and stations.

The Ontario government also passed the Greenbelt Plan in 2005, which permanently protects 1.8 million hectares of green space from residential and commercial development. Since then, construction activity has been directed to areas where land is more expensive, such as the downtown core. In addition, municipal development charges have also been hiked in order to fund the growing cost of infrastructure. For example, the City of Toronto has increased development charges on new homes by 100% to 400%, bringing the level of charges to around $18,000 for multiple units and $28,000 on a single family home[1]. Embarking on high-rise projects have allowed builders to keep prices down by spreading these growing costs across more units.

Condos providing source of new rental supply

The GTA condo boom has given young professionals an affordable housing option – allowing first time home buyers to jump into the housing market. With the rise in condo development, homeownership became more economical than renting in many cases.

In addition to being a more affordable option for homeowners, condominiums have also been an ideal choice for investors, which have been a key driver of market activity. According to Canada Mortgage and Housing Corporation, some 30% of the GTA condo stock is currently held for investor purposes as an income generating asset, and this excludes some foreign purchases, where little hard data are available. This has helped translate into a significant source of new supply for the region's rental market. Over the past decade, all of the new rental supply has been supplied by the condo market and Canada Mortgage and Housing Corporation estimated that 40% of units currently under construction will be used as rental properties[2].

Prior to the condo boom, the region's rental stock had suffered from years of decline. And, indeed, over the last ten years, purpose-built rentals have only accounted for 4% of construction activity, while conversions of many existing aging units to condos and other purposes had placed further downward pressure on the region's rental stock. The key challenge that has conspired against purpose-built rental investment has been that it condo development has proven far more economical for developers and investors. They often have high financing costs, are risky (they have to be built before demand can be assessed) and are capital intensive. In 2006, a University of Toronto study found that a purpose-built rental would require a rent of $2,250 just for the developer to earn a return (i.e., 10-15%) that would compensate for the risks[3]. To put that in perspective, average rents on condos are close to $1,700. Owing to the condo rental boom, the total rental stock in the GTA (i.e., condos and purpose-built rental units) has been on the rise since 2006.

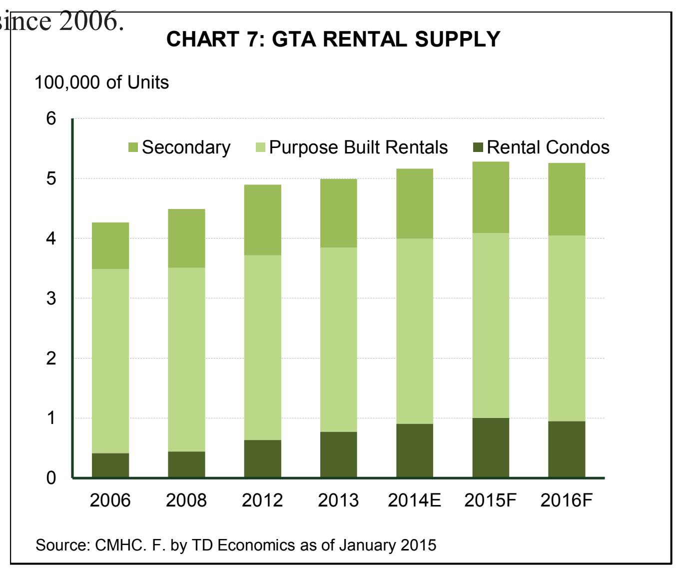
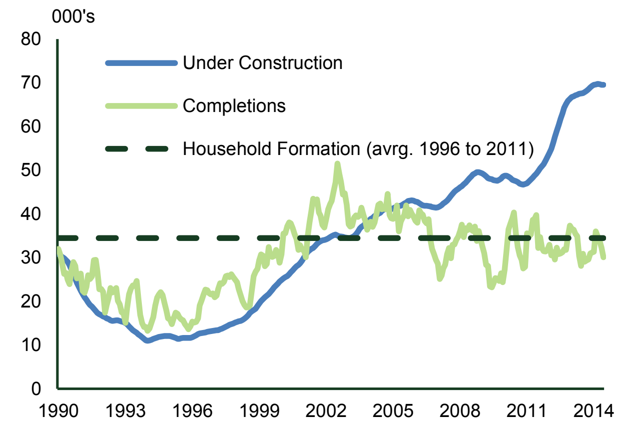


CHART 8: GTA NEW HOME BUILDING AND HOUSEHOLD FORMATION



Source: Canadian Mortgage and Housing Corporation, Statistics Canada

Supply does not equal demand

Notwithstanding the rapid pace of construction activity over the last decade, the region has still fallen short of meeting demographically-driven demand. The plethora of cranes dotting the skyline over the past several years has increased concerns about vast over-building in the GTA. And, indeed, a considerable 69,000 units are estimated to remain under construction in the region. However, this statistic hides the fact that actual units completed have been stuck at lower levels. Largely reflecting a combination of delays in permitting, infrastructure shortages and a lack of available labour and capital, time lines for construction projects have been significantly longer than normal. Production delays have been instrumental in driving continued housing market tightness and home price increases. This is evidenced by the fact that the existing home market is well in seller's territory and the rental vacancy rate is 1.6% for purpose built rentals and 1.3% for condo rentals – both of which indicate a tight rental market.

Challenges growing under the surface

Amid the surge in condo homeownership, the region's housing market faces a number of longer-term challenges that have been growing under the surface and which pose a significant risk to the future economic prospects:

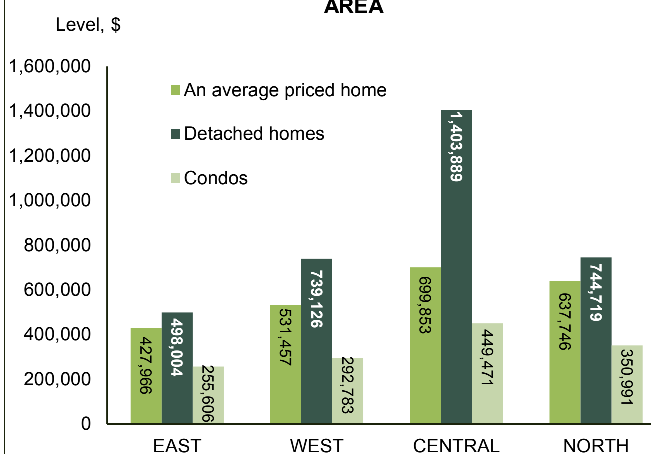
1) Deteriorating affordability of housing

The steady rise in average home prices has transformed Toronto region into one of the most expensive markets across Canada and globally. In 2004, Toronto region was in the middle of the pack in terms of home prices among 260 international cities. By 2014, the GTA's ranked as the 323rd most expensive city of the 360 surveyed[4]. In what is likely to come as a surprise to many, housing costs relative to income in the GTA are now comparable to those in high-priced New York. This comparison also takes into account the suburban areas for both major metropolitan areas.

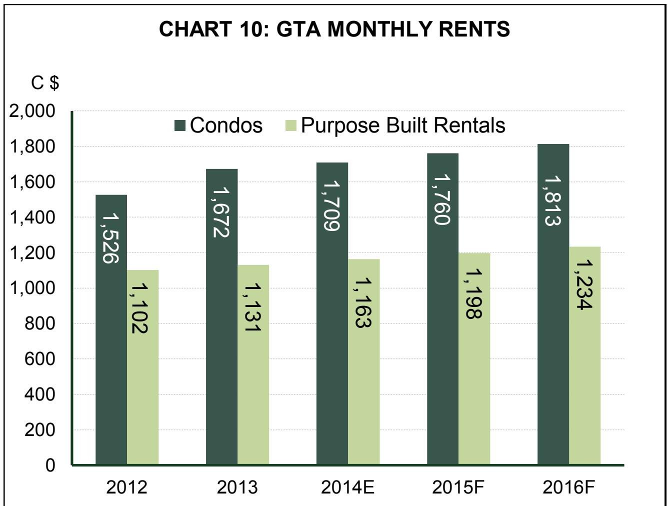
As a result of the rapid appreciation of home prices, some of the focus of the affordability problem in the GTA has shifted from renter households – where traditionally the bulk of the challenge has been concentrated – to the homeownership segment. Housing is considered to be "affordable" if living expenses do not exceed 30% of a household's monthly pre-tax income. In 2011, just over one in four owner-households in Toronto region devoted 30% or more of their income to shelter costs. Since 2011, this ratio has likely climbed further. Despite a continued drop in interest rates, rising home prices have pushed the cost of carrying a mortgage on an average priced home up an average of 5% per year over the past 3-4 years. Water, fuel and electricity bills have jumped by an average of 7% per year. Meanwhile, incomes have only managed to grow by about 3% per year.

Current homeowners have benefited from the sharp home price appreciation and the resulting rise in net worth. However, their wealth has become increasingly tied up in their homes. According to Ipsos Reid's Canadian Financial Monitor, real estate accounts for over 90% of household assets. And, households across the GTA have taken on high debt burdens to fuel their purchases. Equifax data show that the average household across the GTA carries a whopping $409,000 in combined mortgage and consumer loan debt,

CHART 9: GTA HOME PRICES BY TYPE AND AREA



Source: Toronto Real Estate Board, *As of March 2014



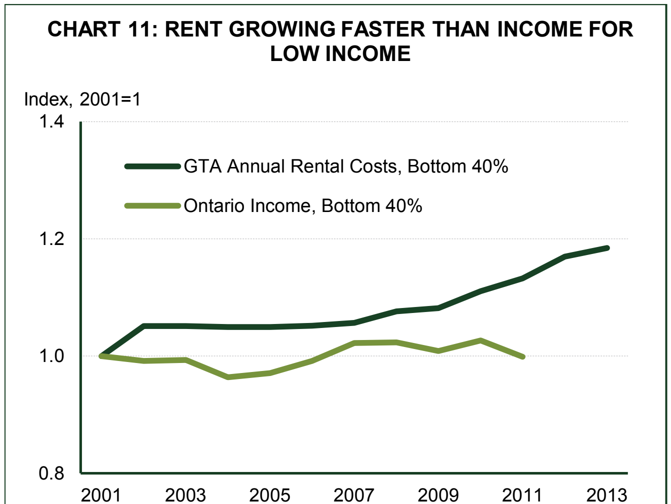
Source: Canadian Housing and Mortgage Corporation. F. by TD Economics as of January 2015

leaving residents at the top end of the indebtedness tables (both in absolute terms and relative to income) in Canada.

Rising costs and tightened regulations have made it more difficult for first time homebuyers to make the leap into home ownership. Condos city-wide have proven to be a more affordable option, especially in the 905 region – where prices are on average $100,000-$200,000 lower than comparable condos in the City of Toronto. Nonetheless, the need to save for the down-payment and afford the monthly payments are leading residents to wait longer to purchase. CMHC estimates that the age of an average first time homebuyer rose to a new high of 37 years in 2014[5]. Furthermore, households looking to upgrade from a condo to a townhouse or single-detached home have been facing a significant sticker shock. Based on our calculations, in order to finance an average priced single family home (roughly $740,000) with a 10% down payment would require a well-above-average income of $140,000.

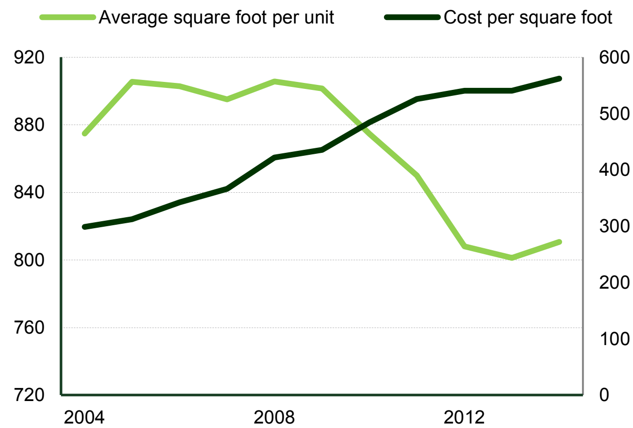
More residents have been taking a close look at the rental market as an increasing attractive and affordable alternative. While rents for newer condo units tend to still be quite pricey, especially in the downtown core, average lease rates relative to home prices has fallen to a historical low. However, for the region's lower income residents, finding affordable housing has become even more challenging:

- All the new rental supply added over the last decade has been in condos geared to middle-income households with an average monthly rent of $1,700.
- While average rents in the bottom 20-40% of the rental market have been growing at a moderate pace, these cost increases have still managed to narrowly outstrip gains in income. Average rents on properties in the bottom 40% of the rental market amounts to about 47% of average income for this group of earners.
- CMHC defines a household as being in core housing need if it is spending 30% of its pre-tax income on shelter costs and is living in a space that is inadequate (i.e.,requires major repairs) or in a dwelling that is unsuitable (i.e., does not have enough bedrooms). According to the National Household Survey, about one in three renter households are in core housing need. The incidence of core housing need is highest among seniors and individuals living alone.
- Within the GTA, there were roughly 250,000 low income renter households in 2011, many of which relied on modest-rent private purpose built and public housing. The Toronto Community Housing Corporation was able to support up to 164,000 tenants, leaving 90,000 low income household on a waiting list.
- The average wait time to receive a subsidized housing unit is 5.5 years for seniors, 7 years for non-seniors and almost 6 years for families – but can reach 12 years for many. In the City of Toronto – which is home to the majority of the public housing units in the GTA – there has been considerable attention on the declining condition of the public stock. The estimated cost of bringing the units back to a state-of-good repair has reached $2.6 billion. According to the Ontario Non-Profit Housing Association, residents in Peel, York and Toronto face the longest waits within the GTA



Source: Statistics Canada

CHART 12: HIGH RISE UNITS SMALLER AND MORE EXPENSIVE



Source: RealNet

Before moving on, one final word on the affordability issue. The strength in house prices and costs can reasonably be viewed as a reflection of economic strength of the GTA relative to other large economies and its maturation into a world class city region. There is no secret that large, successful world cities – such as New York, London and Hong Kong – are home to the highest property prices in the world. In these destinations, low-rise properties are also out of reach for the average household.

At the same time, however, there is an equally compelling case that elevated home prices can only be sustained if supported by continued underlying strength in income growth. And on this front, the Toronto region faces a number of medium-to-longer term challenges. In particular, much of the recent growth has been driven by booming home construction and other cyclical forces that are likely to turn into headwinds over the next several years, holding back income and job generation. Government revenues have also become heavily tied to the housing sector, particularly with land transfer costs accounting for a significant share of the City of Toronto revenue sources. We cite a number of other longer-term challenges are presented in a TD Economics' 2013 report, "Staying on Track: Sustaining Toronto's Momentum After the Global Recession"[6].

2) Market falling short of meeting diverse needs

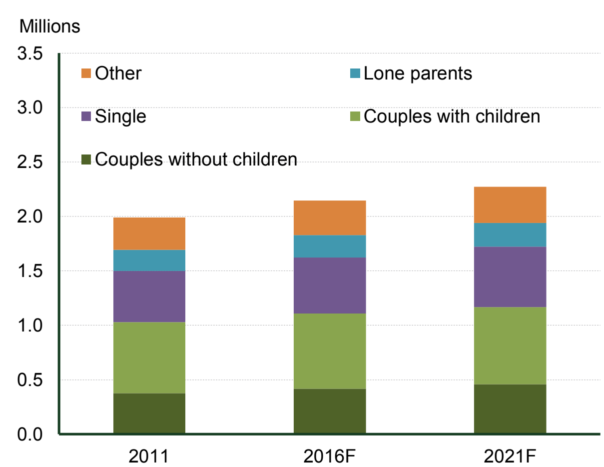
The GTA is among the most diverse city regions in the world by many measures – the demographic makeup chief among them. Yet there is a good case to be made that the housing market is falling short in meeting the diverse needs of its population, both today and in the future.

As we already argued, the incentives in the marketplace have increasingly tilted development to smaller, high-rise condominium units. Most projects have required developers to pre-sell about 80% of the units in order to secure financing and begin construction. This has been an attractive proposition to builders, but the policy has set the foundation for increased investor activity. Investors have become a growing market for these units, partly reflecting the long project time frames (which may not appeal to many homeowners). Investors in general place more emphasis on affordability in order to generate a reasonable return and less emphasis on livability, size and quality.

In light of rising land and development costs, developers have been building smaller units. The average size of a new home was roughly 800 square feet in 2014, compared to over 900 square feet at the start of the decade. The majority of the condo units built since 2011 have been one bedroom units (roughly 60%). Pre-construction purchasers have recently been demanding two bedroom condos. However, what used to be a 800 square foot one bedroom is now a 800 square foot two bedroom. Alternatively, builders have been charging a premium for larger units and cost per square foot has been rising faster than unit size. As condo towers have come to dominate the new home marketplace, other types of housing – notably singles, larger purpose-built rental units and other types of rentals – have declined in importance. Regionally, there has been a massive swing towards development in certain key areas of downtown and away from other parts of the 416 and 905 regions.

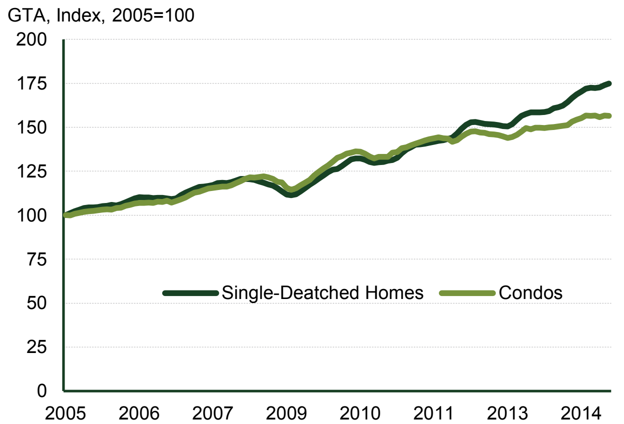
Builders of high-density condominiums reasonably argue that they have been responding to rising demand in

CHART 13: GTA HOUSEHOLDS BY TYPE



Source: Statistics Canada, F. by TD Economics as of Dec 2014

CHART 14: DIVERGING TRENDS IN HOME PRICES BY SEGMENT TYPE



Source: Canadian Real Estate Association

the market from both homeowners and investors. However, price dynamics across the GTA raise questions about how well these unit types align with both current and future demand, especially when many of the younger residents are either having or starting to have families. An important share of these units may be suitable for short-term rentals, but not for longer-term living nor homeownership. While the single population is growing rapidly in the GTA, more than half of households (56%) are still estimated to be couples, or couples with children, who may prefer more space. In addition, about half of households surveyed by the City of Toronto in 2011 planned on moving within five years in attempt to find more affordable, larger, family-friendly housing[7].

In the future, market choices could be limited by the growing price gap between smaller and larger units. Although most of the attention has been levelled on this differential in home prices, it is also an increasing challenge in the rental market, where 2 bedroom and 3-bedroom apartments command the highest rents and have the lowest vacancy rates. About one in five renters in the GTA cited living in inappropriately sized units in 2011 – roughly double the national average. The lack of housing options may be a factor encouraging residents, such as seniors, to stay in their existing single family residences longer rather than downscaling to a smaller unit, even if they perceived it to be more conducive to their lifestyle.

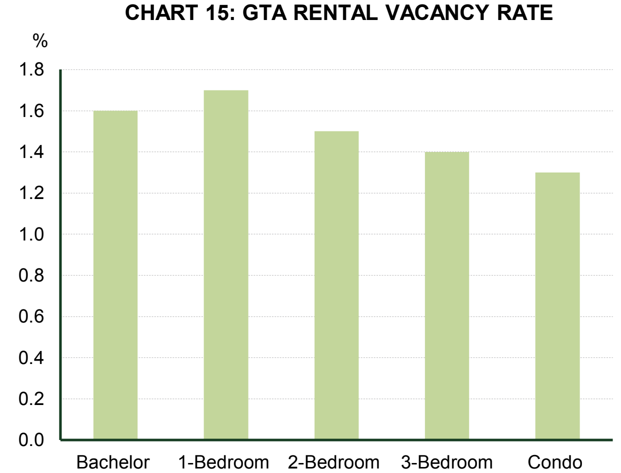
3) Transportation infrastructure has not kept up

The rapid growth in development along with shifting development patterns has been placing increasing strains on the region's infrastructure. The most visible challenges are in transit, where an inadequate regional system has contributed to growing congestion. More than two million automobile trips are made during the peak morning rush hour, while average commute times in the region remain lofty, at more than half an hour. But even then, there is a large discrepancy between commuting by public transit and by car. The average morning commute by car takes roughly 20 minutes, while the average commute by public transit takes between 50 minutes to an hour[8]. By some estimates, the cost of congestion in terms of lost productivity in the region could reach $15 billion by 2031 if nothing is done in the meantime[9].

While there have been significant efforts in the region to curb urban sprawl, population growth in the suburbs continues to grow quickly – as households seek out more family-friendly communities and housing. Many of which still commute into the City of Toronto for employment. However, transit corridors in many pockets of the 905 region remain under-developed, leaving households reliant on cars. Large swaths of residents in the downtown have abandoned their vehicles in favour of transit, but 40% still commute to employment in the suburban regions and use congested highways. The trend towards revitalization of downtown communities has been a key factor in their revival. But an unintended consequence of this new investment is higher rents that have pushed out many low-income residents to the inner suburbs,often increasing distances to employment. These individuals rarely can afford a car. As such, inadequate transit has reduced their mobility and access to employment.

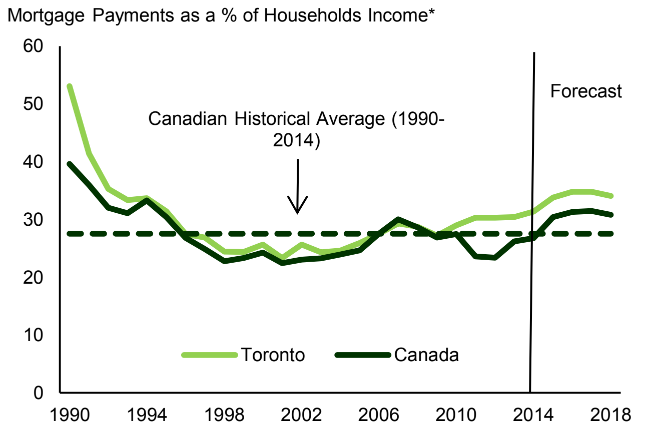
At least some relief may be on the horizon. The 2014

CHART 15: GTA RENTAL VACANCY RATE



Source: Canadian Housing and Mortgage Corporation

CHART 16: HOUSING AFFORDABILITY



Source: CREA, Statistics Canada. *Assuming average home price, 25% downpayment, 25 year amortization. As at Q3, 2014.

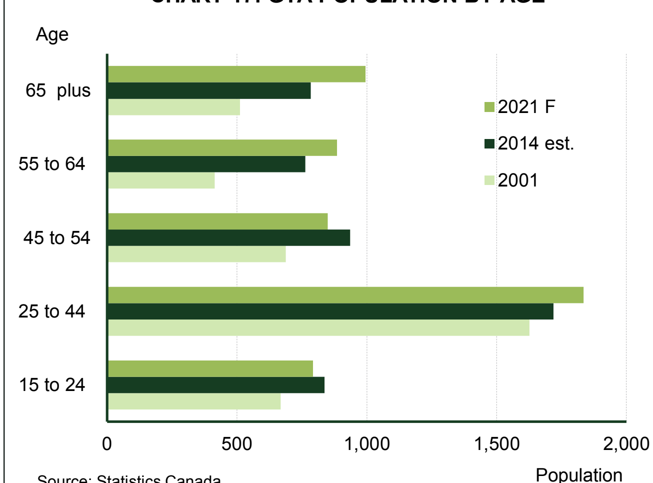
Ontario budget included a $29 billion, 10-year transit plan. Consistent with the priorities of the Greater Toronto Transportation Authority (Metrolinx), the plan will support transit projects mainly in the Toronto and southern Ontario regions. The budget also confirmed the commitment toward two-way, all-day GO Transit rail expansion with a goal of having trains in each station every 15 minutes. However, in the funding plan, the government left off the table higher user charges or other taxes that would have increased the link between road use and congestion. These recommendations had flowed from earlier reports by Metrolinx and an Advisory Panel struck by the Premier. Instead, much of the funding for the plan will come from existing revenue pools.

Housing booms don't last forever

While the GTA housing market has shown few signs of slowing this year, one thing remains certain: housing booms don't last forever. The million-dollar questions are: when and to what extent will the downswing take place? TD Economics' baseline GTA housing forecast is a tale of headwinds and tailwinds, with the former likely to win out and cool the market beginning in 2015.

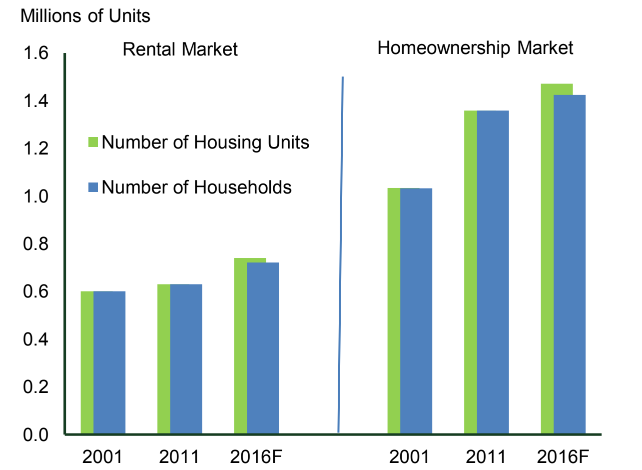
- Despite ongoing global uncertainty, the GTA's economic train is hitched the U.S. economy, where medium-term economic prospects remain bright. Rising exports to the U.S. will help to drive steady but modest job creation in the region of about 1% per year. While a shift to more export-led growth could feed through to higher productivity and wage gains, income gains are expected to remain relatively soft.
- Demographic pressures on housing are likely to continue over the next three to four years. TD Economics expects some 30,000 to 35,000 households to continue be formed each year over the next half decade, although in the near term, the pace could exceed that range as a growing share of echo boomers head into prime working age
- Renting will become even more attractive as homeownership becomes relatively more expensive. A notable headwind will be higher interest rates, which are expected to increase gradually over the next few years, mirroring developments in the U.S. Demand for homeownership in a high priced market such as the GTA will be more negatively affected by rising rates than any other lower-priced markets in Canada.
- By our estimate, the rental share of total households going forward will rise to about one-third over the next several years. While the number of low income renters will continue to advance, a greater share of the rental market is likely to be driven by medium-to-higher earning households.
- The condominium market appears headed for a more pronounced correction compared to the market for singles and low-rise units. Some 60,000 units are slated to hit the market over the next few years. Given the pace of recent construction activity, it is estimated that the homeownership market will become oversupplied by 25,000 units. The impact of increased supply of condo rental units is expected to only partially offset by rising rental demand. In this environment, the cost of condos will likely exceed what an investor can earn on the rent. This, along with weakening prospects for capital appreciation, is expected

CHART 17: GTA POPULATION BY AGE



Source: Statistics Canada

CHART 18: GTA HOUSING DEMAND AND SUPPLY



Source: Statistics Canada, F. by TD Economics as of January 2015

to lead to reduced investor demand.

Accordingly, we expect the homeownership market in the GTA to cool moderately over the next several years. Average resale price growth is expected to fall from about 5% in 2014 to near zero in 2015. In 2016-17, a 2% drop is anticipated. In the condo market, price declines of 4% annually are forecast.

This relatively benign view is at odds with some predictions that have been bandied about in international media pointing to massive price over-valuation on the order of 40-50%. As we discuss in the accompanying text box on page 14, those expectations are built on spotty analysis. Where there appears to be broad consensus, however, is that prices in the region have overshot levels that can be sustained by income and other fundamentals, creating a vulnerability to an outsized price correction in the event of an unanticipated domestic or global economic shock.

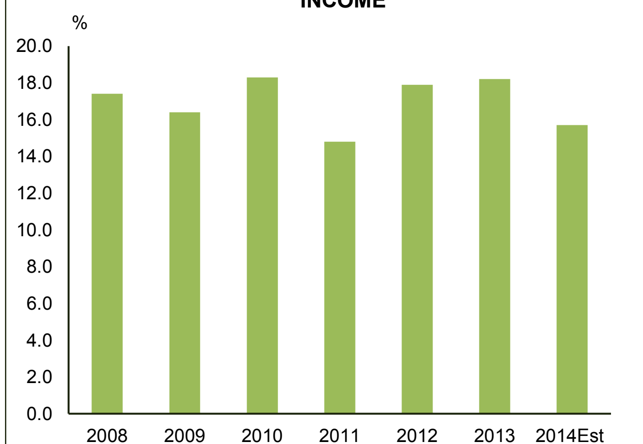
Implications of TD Economics' housing outlook

To the extent that the housing boom has been a culprit in driving the longer-term challenges of reduced affordability, shrinking diversity and pressures on transit, one might reasonably expect that a widely and long-awaited housing slowdown might help to alleviate them. However, any relief is likely to be modest at best. First, home prices are likely to remain elevated both compared to fundamentals and relative to history, which will keep affordability an obstacle to homeownership. Condo owners looking to upgrade may also find it increasingly difficult to move up as the price of a condo and a single-family continue to diverge sharply. This will limit the choice of residents and restrain labour mobility. At the same time, home prices have risen much more sharply than rents over the last decade. While investors have helped support the rental market, investing in Toronto's condo market may not make economic sense at current prices. Either rents need to increase or investors will continue to demand smaller units in order to keep investing affordable.

Second, rising costs of servicing debt are likely to cause increased financial hardship for a growing share of the region's residents. A two percentage point increase in interest rates could push up the number of GTA residents in financial stress – or those devoting more than 30% of their monthly income to principle and interest payments – from 16% to 20%.

Third, with rental demand likely to rebound over the next several years and grow on the order of about 10,000 to 15,000 households per year, there remains a need for more suitable and affordable housing, particularly for seniors who will account for the lion's share of increased rental demand over the next decade. Still, diversity will continue to shrink, especially in light of the influx of condo units expected to hit the market over the next few years. While a continued low rental vacancy rate (which we expect will remain below 2%) and a slowdown in the condo market may encourage more developers to consider purpose-built rentals, this interest will likely continue to limited to higher-end units. More generally, the economics of building apartments aimed at moderate income residents will remain difficult. With older buildings about $150,000 to $200,000 per unit cheaper than new builds, there may be more opportunities for developers to purchase and rehabilitate existing apartment complexes.

CHART 19: SHARE OF HOUSEHOLDS WITH DEBT SERVICE PAYMENTS IN EXCESS OF 30% OF INCOME



Source: Ipsos Reid

MANY WAYS TO MEASURE AN OVERVALUATION

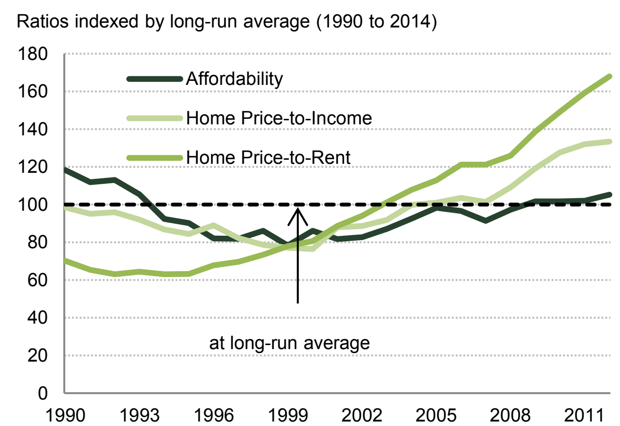
Home price growth is usually a good thing, and largely indicative of a well performing economy. But, housing markets in general are prone to excessive growth and how much is too much appears to be the million dollar question. Home prices can be excessive when they have grown consistently faster than household disposable income for a long period of time and/or faster than the income they can generate (rent). As such analysts use a number of metrics to estimate overvaluation, including the home price-to-rent ratio and the home price-to-income ratio.

When talking about Toronto, most analysts like to use the home price–to-rent ratio. By this measure, home prices appear to be 60% overvalued – meaning that home prices would have to fall 60% to bring this ratio back in line with its long run average. This measure can be misleading for a number of reasons. For one, a large chunk of Toronto's rental stock is quite old and rent regulation limits landlords ability to raise rents on units built before 1991, which may artificially holding back rents. Also, the ratio is not an apples-to-apples comparison. The majority of price pressures over the last decade have come from single-family homes. However, the majority of the rental stock is in condos and signle family homes. An even more accurate comparison would be to look at condo prices to average condo rents – and that ratio has been more flat over time.

The home price-to-household income ratio also points to a sizable overvaluation in Toronto home prices of about 25%. However, this measure fails to take into account the decline in interest rates over the last 30 years. The cost of borrowing is much lower today than it was during the 1990's – allowing households to hold higher debt relative to their incomes. As such, we think a more appropriate measure of overvaluation is an affordability index – which looks at how much income an average earning household would have to devote to mortgage payments if purchasing an average priced home. Largely due to low interest rates, this ratio is roughly inline with its long-run average – pointing to a fairly valued market. An increase in the number of condos in the overall housing stock is one factor keeping affordability with historical norms. The affordability index for single-family homes is far above historical norms.

Overall, high home prices in Canada are a function of a low interest rate environment, which we think is unsustainable. While we do think that the rise in interest rates will coincide with income growth over the next 3 to 4 years, we do think the vulnerability to higher interest rates points a 10 to 15% overvaluation.

GTA MEASURES OF OVERVALUATION



Source: Statistics Canada, Canadian Real Estate Association

However, if current trends continue, higher rental demand will continue to be serviced through condo development, with all new units continuing to be built for middle-to-higher income households. Lower income households will find it increasingly difficult to find affordable housing.

And, fourth, a combination of ongoing government restraint, particularly at the provincial level, and soft income growth is expected to sustain the struggles of residents in core need in the rental market. While rent growth could slow for higher-end condos, history shows that knock on effects to lower end units is usually modest. As a result, the challenge of core housing need could intensify, especially with the limited diversity of supply and poor conditions of public stock. By our estimates, the number of households in core housing need in the GTA is likely to rise from 315,000 in 2011 to 360,000 by the end of 2016 – 288,000 of which will be renters in the bottom 40% of income earners.

The path from here

Since many of the challenges facing Toronto's housing market are structural in nature, they are unlikely to dissipate significantly in the wake of a cyclical slowdown in the region's home ownership market. Concrete policy actions aimed at knocking down the structural barriers erected in the way of an affordable and diverse housing market are required.

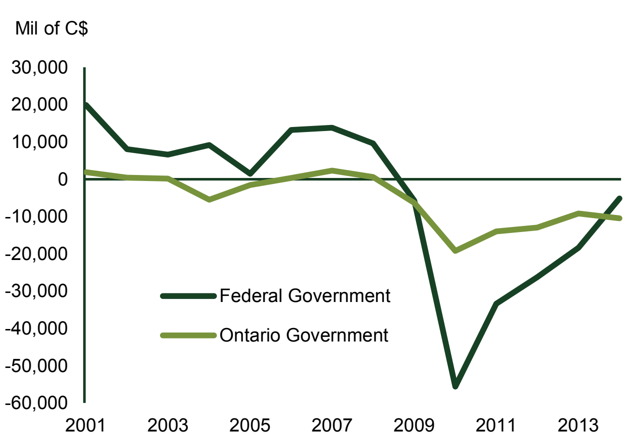
Little progress made since 2003

This is not the first time TD Economics has weighed in on the serious issues facing the housing market. In 2003, we released a report "Affordable Housing in Canada: In Search of a New Paradigm"[10] that argued that the conventional model used in this country for dealing with an inadequate supply of affordable housing was flawed. The focus during the 1990s and early 2000s had been primarily on measures to boost supply of affordable rental housing, which as we've noted is where the majority of households in core housing need had resided. A plethora of tax subsidies – many of which were used in Canada in prior decades or some new ideas from other countries – were hotly debated.

Remarkably, little attention had been given to the challenge of market imperfections that prevented the creation of affordable housing. These imperfections included everything from property tax biases, to rent controls, to a lack of available land in reasonable-cost locations to low-density zoning regulations that prevent low cost construction. Even more importantly, income levels in policy circles were taken as given, with little thought going into ameliorating the root cause of the affordable housing problem – that there are simply too many low-income households in Canada. In light of this three-pronged solution, the 2003 study highlighted a number of complementary measures to address both elevated demand for – and inadequate supply of – affordable housing.

Since then, the progress recorded in addressing the affordable housing challenge can be characterized as modest overall, with some notable bright spots. In particular, there have been a number of positive steps to address the demand side of the equation. Enhancements of the federal Working Income Tax Benefit and National Child Tax Benefit, the introduction of a provincial Ontario Child Tax Credit are some of the key initiatives that have been undertaken. Cost-shared programs between the federal and provincial governments and/or housing providers have helped both to generate some limited new rental housing supply as well as provide assistance to households in the GTA. There has been some success in addressing inefficiencies in the housing system that have worked to inflate costs – including urban sprawl – but as we've argued, headway on that front has been sporadic across the region.

CHART 20: GOVERNMENT BUDGETARY BALANCE



Source: Federal and Ontario Government

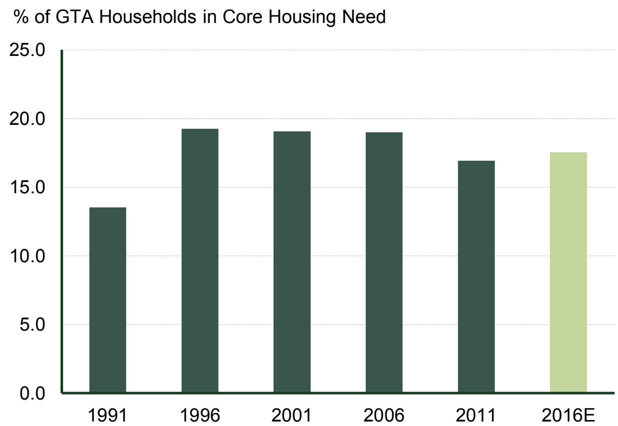
Model needs tweaking

Progress may have been partly stalled by a rapidly-shifting landscape in recent years. Budget deficits re-emerged at the federal and provincial levels, which has limited their ability to invest in social housing and ramp up assistance for those most in need. The boom in homeownership and rising debt levels has broadened the dimension of the affordability challenge from lower-income households in the rental market to middle-class households more generally. The focus of development on high-rise condos has raised concerns about the adequacy of the housing stock in meeting needs, both today and in the future. We still believe that the housing model of the past decade remains relevant, but will need to be tweaked to confront these emerging structural issues. One key ingredient that has remained constant over time is the need to achieve better regional collaboration. And by this we are referring to a regional approach where greater synergies can be enjoyed across the three levels of government, the social housing sector, not-for-profits, private developers and other private-sector players.

Federal and provincial cooperation critical

Regional alignment will require strong federal-provincial cooperation, especially with respect to their critical role of providing assistance to help those residents most in need. In contrast to the deficit-plagued Ontario government, the federal government has effectively eliminated its shortfall. However, the recent plunge in oil prices and resulting hit to revenues will limit the federal government's leeway to implement new measures as it continues to set its sights on a balanced budget by next year. Our hope is that as oil prices likely recover over the next few years, the federal government will be better positioned to take on a growing leadership role in this space, while recognizing that challenges are

CHART 21: GOVERNMENT SUPPORT HELPS DRIVE IMPROVEMENT



Source: Canadian Housing and Mortgage Corporation

local in nature and best addressed by municipalities.

There was some good news recently when the federal and provincial governments signed on (and more recently extended) the Investment in Affordable Housing (IAH) program. Over the past decade, the federal, provincial and municipal governments have provided support to affordable housing through cost-sharing programs that have been delivered locally. Over the past three years alone, the federal and Ontario governments have jointly provided $480 million to municipalities across the province to invest in affordable housing, either through providing income support to low income renters, or capital to renovate existing stock or creating new affordable housing. The combined money earmarked will amount to $800 million over the next five years, which could help create affordable housing for 34,000 to 40,000 households across the province, the majority of which will flow to the GTA.

Income tested housing benefit offers potential

As we move forward, the federal and provincial governments could build on the IAH investments by considering traditional tax breaks to help spur affordable housing development and rehabilitation that have been floated around, including the elimination of the HST on rental housing. Another popular option is a tax incentive modelled after the U.S. Low Income Housing Tax Credit (LIHTC), which would encourage private investment in purpose-built rentals without requiring developers to put up a significant share of the capital costs.

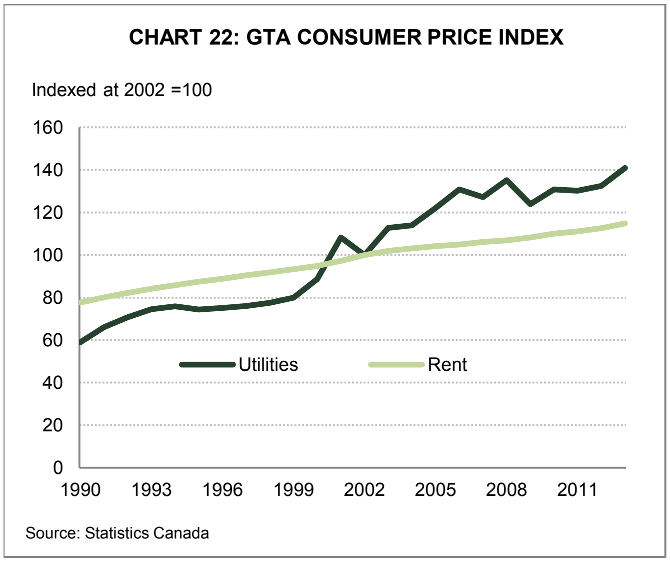
An option that we believe deserves merit is the design of a housing benefit targeted at low income earners that are not collecting social assistance. This solution has received broad support across many housing stakeholders. We have estimated that the housing gap (the difference between the rent they pay and the rent they can afford) for the bottom 40% is on average $4,100 a year and rising. A housing benefit that would work to close much of the gap between income and rent levels would cost roughly $1 billion for the GTA alone. Given its relatively heavy price tag, the cost could be lowered initially by targeting select groups of low-income earners and then expanded over time. For example, just focusing on low-income seniors alone would cut the cost for the GTA to about $100-$150 million. There are opportunities for collaboration on such a benefit with the provincial government, once resources become available.

Much emphasis has been placed on developing new affordable housing. However, the slowdown in the housing market could provide an opportunity for governments to increase the supply of affordable housing units. Incentives (such as tax credits) could be used to incentivize builders to donate unsold units to the government or non-profit organization who in turn would manage the stock. This would extend the governments' assistance from funding the building of lower-rent units to funding the purchase of already-built units.

Improving the regulatory environment

The existence of a deficit does not preclude the provincial government from taking further regulatory actions that do not come at a cost to the treasury – not to mention its role as a leader and champion for positive change within the region. This leadership role should include ensuring that municipalities have the administrative and financial tools they require to carry out their responsibilities. It also involves facilitating a greater alignment of municipal policies throughout the GTA.

Indeed, regional fragmentation has led to sometimes contradictory housing policies and zoning and permitting processes that do not encourage smart growth or diversity. Despite a trend toward densification, a number of municipalities have been dragging their feet on addressing urban sprawl or have implemented bylaws that are out of line with official plans or the provincial growth plan. Differences in regulations can be significant. For example, single occupancy rooming houses and basement apartments can provide a safe and viable affordable rental alternative to low-income residents, but these units remain unregulated in some



905 areas. Property tax systems continue to disadvantage multi-residential properties relative to single properties. Furthermore, the positive differential in multi-residential taxation between 416 and the 905 area is substantial. The tax differentials drive demand for single-family homes in the 905 area and are counter to the Places to Grow Act plans to curb urban sprawl.

Another example of policy that creates the wrong type of incentives is related to municipal development charges. Development charges in the 416 area are $5,000 higher on two bedroom units than they are on one bedroom units, regardless of whether it is in a high rise, low rise or purpose built apartment building. Development levies are also higher for multi-purpose rental buildings than they are for condo developments. In addition, city planners across all municipalities in the GTA need more innovative methods for incentivizing smart building. For example, in British Columbia, the approval system for building permits is a function of the rental vacancy rate. As the vacancy rate rises, the rate at which building permits for homeownership properties are approved is slowed. As another example, the City of Toronto is focusing on tying building permit approvals to demographic needs, issuing more permits for two bedroom units. That said, builders have responded to this regulation by constructing a two bedroom unit in a 800 square foot space that was traditionally one bedroom.

There are other actions that could lower the cost of development but will not impede the quality of life of households. Case in point, the City of Toronto mandates a certain square footage be allocated to parking within new high-rise developments, despite the high cost and fact that an increasing number of residents work within a transit ride or walk. On a positive note, the Ontario government recently permitted wood frame buildings within the province for six floors and higher, which will lower the cost of lower-rise developments and help the challenge surrounding a lack of housing diversity.

Easing rent regulations

One area that needs a close look at is the current rent regulations in Ontario. While well intended, these regulations are likely inflicting longer-term damage on the housing system by limiting the rehabilitation and new development of market rental units. These regulations are targeted at buildings constructed before 1991, which remain an important part of the rental stock. Rents have been allowed to rise by the rate of inflation. However, owner costs (i.e., property taxes, utility fees, etc.) have been rising considerably faster. In New York City, rent controls are considerably more flexible. The government determines a maximum base rent on units built before 1947 – which takes into account the need for a landlord to make a reasonable profit. Rents are then allowed to rise at 7.5% per year until they reach this maximum prescribed base rate, which in turn is set every two years. Landlords of newer developments may join the rent stabilization program in exchange for tax credits. In sum, rent regulation must not just focus on tenants' rights but must also encourage investment in rental properties.

While hard to pin down an exact cost with precision, the often complex and onerous housing regulations across the GTA lead to higher costs. But, as importantly, they also weaken the ability of developers to respond to the major changing market demands that loom. Going forward, one of the fastest growing segments of the population will be those aged 65 years and older. While development over the last decade has been geared to younger residents, more thought and planning needs to go into suitable senior housing. In order to meet growing senior – or even family – housing needs, the solution may not necessary be to spur new development. The GTA has a significant amount of older purpose-built rental building that could be retrofitted. In fact, about one third of the rental housing stick is older than ten years and requires some or major repairs.

Unlocking surplus land can help ease cost pressure

Unlocking surplus land is one avenue to reduce upward pressure on real estate costs in the GTA. In particular, sharp land price gains may encourage public and private institutions to hoard land. However, rising land values in built-up areas tends to lead to hoarding of these lots. And while the City of Toronto is moving to sell 40 properties through its development corporation, Build Toronto, movement has been proceeding at a fairly decorous pace. Some countries have turned to tax incentives to encourage property owners to unlock idle land[11]. This includes offering tax exemptions to land used for development and imposing an idle tax on land that is held. There are also opportunities to supply public lands at below market price for the construction of affordable housing.

Start building transit

Often the cheapest land is in the suburbs, but the challenge is a lack of infrastructure. As the Ontario government revisits its growth plan, focus should not just be placed on building up along transportation corridors, but building more transportation corridors. In recent years, long-term transit expansion in the GTA has floundered due to a lack of consensus across the region on the best approach to take. But as the discussion has continued, the costs of doing nothing have increased. An under-developed transit system is becoming one of the most economic, social and environmental issues facing the GTA economy. Metrolinx, the province's regional transportation authority, has outlined a $50 billion Big Move plan to improve gridlock in the GTHA. In its 2014 budget, the Ontario government followed up with a $29 billion, 10-year transit funding plan. Support from municipalities and their regional transit commissions will be a key step to ensuring that this regional plan moves forward.

Needed: new funding sources

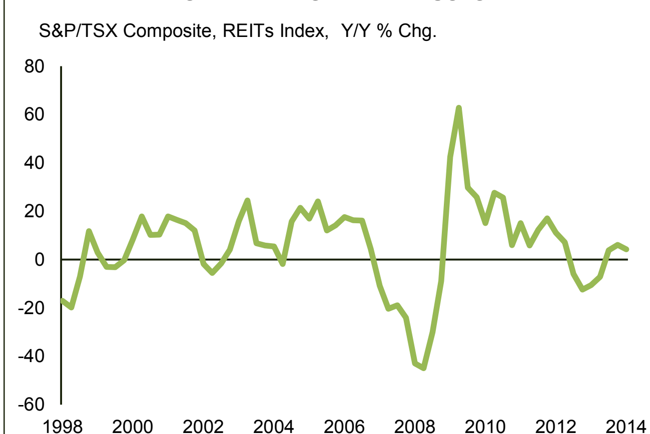
Investment required to strengthen the GTA's housing stock in the future will come at a hefty price tag. Limited government resources and a growing interest in the private sector to get involved in housing-related challenges provide significant upside potential for the GTA. The involvement extends from private-sector investment in the aging social housing stock to social impact investing to philanthropy and volunteering.

One new financing technique that offers promise is leveraging the large investment opportunities from real estate investment trusts (REITs) and pension funds which are looking for stable returns in a low-rate environment. Indeed, following the launch of a REIT in the United Kingdom which invested in social housing, the City of Toronto is assessing whether Toronto Community Housing could leverage a REIT model to raise capital. REITs however, generally require a rate of return of 4% to 6% to be competitive and require significant scale to compensate for risk. At current construction costs, REITs would be hard pressed to earn that return at market rents. In order to achieve scale, the REIT would likely have to be set up at the national level. The federal government could also contemplate tax incentives to increase the after-tax return on a social housing REIT. As CMHC moves away from homeownership insurance and returns closer to its knitting, which included supporting housing needs, consideration could be given to provide some backing to affordable housing REITs in order to reduce risk.

The importance of the not-for-profit sector in delivering housing and other services to disadvantaged residents cannot be overstated. The region boasts some 250 organizations in the housing space. However, the rapid growth in demand has created a patchwork of service delivery organizations. Many of these services target specific local needs. Even taking this important aspect into account, there may be significant opportunities to reduce overlap and boost efficiency through a more coordinated approach.

Other funding arrangements can benefit from what we expect will be a rising tide of philanthropy and social impact investing. Canada's population of ultra-high net worth individuals has been growing rapidly and many are reaching a stage in their lives when they wish to give back

CHART 23: RETURNS ON CANADIAN REAL ESTATE INVESTMENT TRUSTS



Source: S&P/TSX

to society either through giving or utilizing the skills they have developed in their careers to volunteer. B.C. housing has developed an endowment fund that has successfully leveraged philanthropists. The principal remains invested in the fund, but returns can be used to invest in affordable housing. Since its inception in 2007, The B.C. endowment fund has helped develop nearly 400 affordable housing units. In addition, there is a growing trend of residents, financial institutions and other market participants in the hybrid model of social impact investing or generating positive impact in addition to a financial return. Investors give up a little bit of return to provide a social good.

Within the GTA, there have been a few recent examples of funds raised through the capital markets. Notably, in 2012, the YWCA successfully raised $1 million at a 4% interest rate through a bond issuance to help build 330 affordable housing units. The YWCA sold the bond to one investor group, the Muttart Foundation. The organization also collected $80 million from the Federal and Provincial Government. The YWCA issuance was successful in part because the organization had a good track record for effectively delivering social housing projects and the investment was viewed as being relatively risk-free. Our hope is that as more projects are undertaken, philanthropy and impact investing will be able to generate scale with respect to supporting housing needs for households in low income. But the success of the YWCA underscores the view that a fulsome solution begins with a viable plan.

Conclusion

There is little doubt that the housing boom enjoyed in the GTA over the past decade has benefitted many in the region. Yet the boom has been hiding some growing issues within the housing market, chief among them include deteriorating affordability, an increasingly weak diversity of housing choice and a transportation system that is struggling to keep up. Addressing these challenges through a more collaborative regional approach will be critical to securing economic, social and environmental prosperity in the future.

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