

## Opinion: To Fix the Housing Crisis, Liberalize Zoning Laws

Thomas Mihaljevic

ECON 3328A

28 Nov. 2021

The purchasing of a new home is arguably the most important decision a person can make in North American society. However, for many in Canada, purchasing a home is becoming more and more expensive. For many, the idea seems impossible, with as many as a third of Canadians saying they cannot purchase a home (Sharma par. 1). The cost of housing is rising in many cities nationally (Bank of Canada), and the short housing supply is to blame. For Canada to overcome its housing affordability crisis, it must do away with restrictive zoning regulations, limiting the speed of new housing units and the number of people a unit can house. Research shows that these cumbersome regulations are to blame for the rising cost of housing in Canada. This article will make the case using data from economic analysis showing that Canada has a shortage of supply and that these proposals would serve to both increase supply and lower the cost of housing.

Firstly, it must be proven that there is, in fact, an affordability crisis in the Canadian housing market. Data shows that in almost all of Canada's largest metropolitan areas, the cost of housing has been rapidly rising (National Bank of Canada 12). In many areas, housing prices have increased to their highest since the early 2000s. This is seen in Toronto, Vancouver, and Victoria (National Bank of Canada 2, 4, 11). In these areas, it

currently takes several years of savings to afford a mortgage, compared to others where it may take roughly a year of savings to afford a mortgage (National Bank of Canada 12).

So, if housing costs are proven to be restrictively high for Canadians, what is the cause of this problem? Data suggests a shortage of housing supply is responsible. Since 2015, Canada has increased its population growth, mainly due to rising levels of immigration (Scotiabank). These new Canadians are most likely to settle in large metropolitan areas like the Greater Toronto Area (El-Assal par. 3). As a result of this increase in housing demand, instead of increasing the supply of housing as the laws of supply and demand may suggest, something far more damaging has taken place. Instead, supply has fallen in the years following 2015 (Scotiabank par. 4). This decline has dramatically increased housing prices nationwide. The main culprits of this statistic are many of Canada's largest metropolitan areas. Since 2015, all but Montreal and Quebec City have been below the national average for houses per 1000 residents (Scotiabank par. 13). Only Vancouver and Quebec City have improved this ratio and increased housing availability in the same time frame (Scotiabank par. 13). Among G7 nations, Canada currently has the fewest housing units per 1000 residents. To overcome this and reach the G7 average, Canada must construct an additional 1,800,000 housing units (Scotiabank par. 11). This data demonstrates the reality of the Canadian housing market. There is an affordability crisis, and a supply shortage is causing it.

The question then remains, how can policymakers increase the rate of new home construction? The answer is to liberalize existing zoning laws found in many of these localities, which artificially restrict supply and decrease suppliers' ability to respond to

changes in demand. These laws are in practice in cities such as Toronto, which prohibit existing single-family homes from being converted into townhouses and other types of multifamily units (Hughes par. 2). In the United States, before an increase in the use of these regulations in the 1970s, large markets such as New York City could keep housing prices relatively stable with the cost of construction (Glaeser, Gyourko, & Saks 6). When these regulations were introduced, limiting their ability to construct affordable housing units and multifamily complexes, housing prices increased relative to their previous pace (Glaeser, Gyourko, & Saks 20). "Measures of zoning strictness are highly correlated with high prices. While all of our evidence is suggestive, not definitive, it seems to suggest that this form of government regulation is responsible for high housing costs where they exist." (Glaeser & Gyourko 21) Even currently, there are many localities in which housing remains relatively affordable, and prices have stayed in line with the cost of construction. Only in markets that have these zoning laws in place do we observe an increase in housing prices.

To see how the administrative burden of zoning laws affects prices, Glaser and Gyourko (2002) built a model to quantify how prices responded to an additional implied zoning tax. "Increasing a single category in terms of permit issuance lag is associated with a nearly \$7 per square foot increase in the implicit zoning tax." (Glaeser & Gyourko 20). This data shows how on top of restrictive zoning laws, it is also evident that neighborhood organizations and lengthy approval processes also serve to drive up prices for prospective homebuyers.

However, is zoning truly the reason that the housing supply is short? Are zoning ordinances justified? Rather than factors such as density, geographic location, land cost and

availability, studies show that zoning regulations reduce housing supply. If geography were the driving factor, we would expect unit prices in tall apartment buildings with no geographical limitations on upwards construction to be somewhere around the cost of adding a floor (Glaeser par. 16). This is not the case; for example, in New York City, apartment unit prices still far exceed the cost of construction (Glaeser par. 16) Environmental concerns are often cited in defense of zoning regulations but limiting construction based on negative environmental externalities only affects environmental outcomes locally, not nationally (Glaeser par. 20). If a home cannot be built in Toronto, it could be built in nearby Markham, thus still resulting in an overall increase in emissions or environmental damages. Nuisance, such as noise pollution, is also a common defense of zoning laws, but zoning fails to differentiate between different forms of nuisance and does not construct a cost-benefit analysis, therefore blocking potentially beneficial development from taking place (Leef par. 7).

It is then evident that immediate action is needed. The federal government should collaborate with provinces, municipalities, and neighborhood organizations to create ways to loosen or bypass zoning regulations. This can be enforced by withholding funding from the federal government for jurisdictions that do not meet zoning liberalization standards, land made available for development, and construction of multifamily and affordable housing units. Canada would also benefit from broadly implementing By-Right Development, which creates rules-based standards for developers to follow (National Multifamily Housing Council 2). As opposed to Discretionary Development, which is more subjective and fails to incorporate cost benefit analysis, this method has been shown to

speed approval processes, reduce demand spill over into other localities, increase supplies quantity and responsiveness, and reduce construction cost market prices (National Multifamily Housing Council 6, 8-11). A model to base these proposals could be from California, where a recent suite of bills signed by Governor Gavin Newsom makes similar changes. These bills limit approval processes, locality's ability to enact new zoning laws that restrict density, height, and unit numbers, allow homeowners to subdivide their existing plots of land or build duplexes, and enable cities to rezone existing plots to house up to ten units (Gibson Dunn par. 2-4, 7, 17). Each of these proposals is expected to increase the supply of new housing and supply-side responsiveness to changes in demand, thus lowering new home prices and rent.

A more affordable housing market is possible in Canada. However, it requires bold action by all levels of government to overcome restrictive laws that only serve to reduce supply and drive-up prices. If successfully enacted, Canadian society will be better off.

## Work Cited

- “California Governor Newsom Signs Three Important New Bills into Law Impacting Residential Zoning and Development.” *Gibson Dunn*, 25 Oct. 2021. [www.gibsondunn.com/california-governor-newsom-signs-three-important-new-bills-into-law-impacting-residential-zoning-and-development/](http://www.gibsondunn.com/california-governor-newsom-signs-three-important-new-bills-into-law-impacting-residential-zoning-and-development/).
- El-Assal, Kareem. "Which Cities in Canada Attract the Most Immigrants?" *CIC News*, Canada Immigration News, 21 Feb. 2020. [www.cicnews.com/2020/02/which-cities-in-canada-attract-the-most-immigrants-0213741.html#gs.h7z99g](http://www.cicnews.com/2020/02/which-cities-in-canada-attract-the-most-immigrants-0213741.html#gs.h7z99g).
- Glaeser, Edward L., and Joseph Gyourko. “The Impact of Zoning on Housing Affordability.” *Harvard Institute of Economic Research*, 18 Feb. 2002. [scholar.harvard.edu/files/glaeser/files/the\\_impact\\_of\\_zoning\\_on\\_housing\\_affordability.pdf](http://scholar.harvard.edu/files/glaeser/files/the_impact_of_zoning_on_housing_affordability.pdf).
- Glaeser, Edward L., et al. “Why Have Housing Prices Gone Up?” *National Bureau of Economic Research*, Feb. 2005, [www.nber.org/system/files/working\\_papers/w11129/w11129.pdf](http://www.nber.org/system/files/working_papers/w11129/w11129.pdf).
- Glaeser, Edward. “Reforming Land Use Regulations.” *Brookings*, 24 Apr. 2017, [www.brookings.edu/research/reforming-land-use-regulations/](http://www.brookings.edu/research/reforming-land-use-regulations/).
- Hughes, Stephanie. “Ontario Urged to Overcome NIMBYism and Change Zoning Laws to Ease Toronto's Housing Crunch.” *Financial Post*, 30 Sept. 2021, [www.financialpost.com/real-estate/ontario-urged-to-overcome-nimbyism-and-change-zoning-laws-to-ease-torontos-housing-crunch](http://www.financialpost.com/real-estate/ontario-urged-to-overcome-nimbyism-and-change-zoning-laws-to-ease-torontos-housing-crunch).
- “Housing Affordability Monitor.” *National Bank of Canada*, 9 Nov. 2021, [www.nbc.ca/content/dam/bnc/en/rates-and-analysis/economic-analysis/housing-affordability.pdf](http://www.nbc.ca/content/dam/bnc/en/rates-and-analysis/economic-analysis/housing-affordability.pdf).
- Leef, George. “Zoning Laws, the Housing Market and the Ripple Effect.” *Market Urbanism*, 28 Dec. 2017, [www.marketurbanism.com/2017/12/28/zoning-laws-housing-market-ripple-effect/](http://www.marketurbanism.com/2017/12/28/zoning-laws-housing-market-ripple-effect/).

Perrault, Jean-Francois. "Estimating the Structural Housing Shortage in Canada: Are We 100 Thousand or Nearly 2 Million Units Short?" *Scotiabank*, 12 May 2021,  
[www.scotiabank.com/ca/en/about/economics/economics-publications/post.other-publications.housing.housing-note.housing-note--may-12-2021-.html](http://www.scotiabank.com/ca/en/about/economics/economics-publications/post.other-publications.housing.housing-note.housing-note--may-12-2021-.html).

"Real Estate Market: Definitions, Graphs and Data." *Bank of Canada*,  
[www.bankofcanada.ca/rates/indicators/capacity-and-inflation-pressures/real-estate-market-definitions/](http://www.bankofcanada.ca/rates/indicators/capacity-and-inflation-pressures/real-estate-market-definitions/).

Sharma, Neil. "66% Of Canadians Concerned about Housing Prices: Poll." *Canadian Real Estate Magazine*, 28 Jun. 2021, [www.canadianrealestatemagazine.ca/news/66-of-canadians-concerned-about-housing-prices-poll-334726.aspx](http://www.canadianrealestatemagazine.ca/news/66-of-canadians-concerned-about-housing-prices-poll-334726.aspx).

"Tool: By-Right Development - The Housing Affordability Toolkit." *National Multifamily Housing Council*, Apr. 2019, [housingtoolkit.nmhc.org/wp-content/uploads/2019/04/F2\\_NMHC\\_PDF-Sections\\_Tools\\_By-Right-Dev\\_PG-63-TO-73.pdf](http://housingtoolkit.nmhc.org/wp-content/uploads/2019/04/F2_NMHC_PDF-Sections_Tools_By-Right-Dev_PG-63-TO-73.pdf).