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Barriers to housing-supply growth affect affordability

Better regulations would help, Kenneth Green, Ian Herzog and Josef Filipowicz write

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Vancouver might have the best scenery of Canada's metropolises, but its real claim to fame is sky-high housing prices, which have risen 86 per cent over the last decade. Common explanations for this relentless growth touch on foreign investment, low interest rates and questionable practices by real estate agents. But while these factors have an impact, the supply side of the housing market is often overlooked. According to new research from the Fraser Institute, barriers to housing supply growth, and how to eliminate those barriers, must be an integral part of the growing local, provincial and federal discussion on housing affordability in Metro Vancouver.

Some of the geographical factors that make Vancouver so attractive — the mountains, the ocean, the proximity to the U.S. border — also limit the ability to keep pace with housing demand. However, policy choices matter. The study found that regulations causing long and unpredictable approval timelines for homebuilders have substantially reduced the amount of housing available in Canada's biggest cities, preventing the most in-demand places from growing more dense. Why? Because these regulations make it more difficult, and less likely, for the housing supply to respond to demand with homebuilding.

In fact, opposition to new building, long development approval timelines and uncertainty tend to be especially problematic in central cities where demand is strongest. So, people who might prefer to live centrally end up commuting to Vancouver from Surrey, Langley or other parts of the Lower Mainland.

Meanwhile, policy-makers have chased policies that are unlikely to significantly affect home prices. For example, Vancouver city hall's recently announced tax on empty homes will generate some revenue, but vacant homes comprise a small share of a small housing stock. Better regulations for the real estate industry might make the marketplace fairer and improve confidence, but will not translate into large price shifts. These policies miss the heart of the housing problem: Like anything else, housing prices grow because housing is scarce.

Reforming the minutiae of the buildingpermit process might not seem exciting, but it can encourage homebuilding and affect prices. Further, big improvements are completely feasible throughout the Lower Mainland. In fact, cities such as Port Moody and New Westminster tend to issue building permits in about half the time it takes in West Vancouver, and these approval timelines are more predictable, too.

However, it's true that allowing housing supply growth will inevitably cause real change in some neighbourhoods, but the benefits outweigh the costs. Besides, there's no reason why addressing anti-growth pressures, streamlining approvals or mitigating uncertainty in residential development must compromise good planning. The additional homebuilding that would follow can provide good jobs and address rising house prices.

Still, we cannot ignore other challenges to Metro's growth and affordability. Low-density zoning constrains some of the region's most desirable neighbourhoods. And the Agricultural Land Reserve, which is meant to preserve rural areas, effectively takes land off the table for would-be homeowners, with important side-effects. In fact, development in some parts of the Lower Mainland has leapfrogged over the ALR, leaving many to commute through patches of farmland on their way downtown from the suburbs.

The good news is that local governments can improve affordability by encouraging a healthy supply of new homes. Any discussion of housing affordability in the Lower Mainland should consider ways to make land-use regulations more amenable to growth.