

Sorry kids, no detached homes for you — at least in Toronto and Vancouver

Garry Marr, Financial Post 06.08.2016



Values for real estate in Vancouver, BC continue to escalate

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You may not want to hear this, but the reality of today's housing market is that young people need to kiss the dream of owning a single family detached home goodbye. It's over.

If you live outside the metro areas of Toronto and Vancouver, you're probably tired of all the whining — this doesn't even apply to you — and if you own a detached home in Calgary, you wish likely someone would just buy your house, because the market is stagnating.

Prices were up about 30 per cent in Vancouver in May from a year ago and 16 per cent in Toronto during the same period, putting pressure on Ottawa to “do something.”

Bank chief executives are weighing in, calling for action to restrict borrowing, and would-be homeowners, egged on by anecdotal media reports, seem to perceive all can be fixed by just limiting foreign ownership of homes.

Missing is discussion of whether government policy, which has restricted development and constrained supply, is part of the reason elevated prices exist in both Vancouver and Toronto.

Builders have been discussing it for years. But this week the federal Finance Minister Bill Morneau waded into the issue and suggested that, maybe, among the many other issues, it's not all about demand.

“We have supply issues,” Morneau said during the Canada Summit conference, held in Toronto Wednesday. “There's 5.5 families for every single detached home in Vancouver. There's 1.8 families across the country for every single detached home.”

Afterwards, talking to reporters, he hinted more broadly that perhaps some of the responsibility for the state of housing markets in Vancouver and Toronto may lie at another government level.

“I think, as you'll recognize, the housing market is one where we have to work together with provinces and municipalities. That's an ongoing consideration for us. We wouldn't want to talk about actions without ensuring that we've fully considered all the evidence and all of the drivers. That's the stage we're at,” said Morneau, whose government is also looking at other factors including foreign ownership.

Good for him. The supply side of the housing equation is mostly ignored by both municipal and provincial governments — even though they are at least partially responsible for prices today.

The Toronto-based Building and Land Industry Association says the gap between a high-rise condo and low-rise home has never been wider, with the average new detached home in the Greater Toronto Area now \$1,059,263. Toronto's Greenbelt — land around the city that can't be developed — is actually set to grow and with it more price disparity.

Single family house hunters now travel as far as Niagara Falls for a dream home that includes a 90 minute commute to the city on a good day. Concerns about a glut of condos in Toronto seemed to have faded as even at \$1,000 per square foot, they seem like a viable option to commuting.

“What we are seeing is rapid price growth, it’s in single detached homes and that’s because we are not building them,” said Craig Alexander, vice-president of economic analysis at the C.D. Howe Institute. He added that the latest housing start numbers show we are building two multiples for every detached home, and that’s a national ratio.

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Benjamin Tal, deputy chief economist at CIBC World Markets, says Toronto is simply 10 years behind Vancouver because Canada’s largest city didn’t put in its greenbelt restriction until 2006.

The situation in Vancouver has been exacerbated by a lack of rental accommodation, which has created a stock that is mostly 50-plus years old, says David Goodman, a principal at HQ Real Estate Services. “It takes two and half years to get the approval process before you can even build,” Goodman said, adding the vacancy rate in the city has dipped to a “preposterous” 0.6 per cent.

Government policies are finally coming back to haunt his city, says Bob Rennie, a marketing specialist known locally in Vancouver as the “condo king.” He says Vancouver is 56 per cent zoned for single family, leaving not much room for high-rise development.

“We can have low density or low prices, we are not entitled to both,” said Rennie, adding that 193,000 out of Vancouver’s 657,000 homes are owned clear title by those aged 55 or over; one in 11 are owned by people over age 75.

The problem with these restrictive land policies in both Vancouver and Toronto is they confer a benefit on people who got in there first. Everybody else: you’re too late.

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