

SHAPING FUTURES PRESSURED METROPOLITAN HOUSING MARKETS

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OUTLINE

1. Metropolitan Economic Growth, and Housing Demands
2. Metropolitan Housing Supply (system productivity, Albuoy)
3. Market-System Adjustments
4. Policy

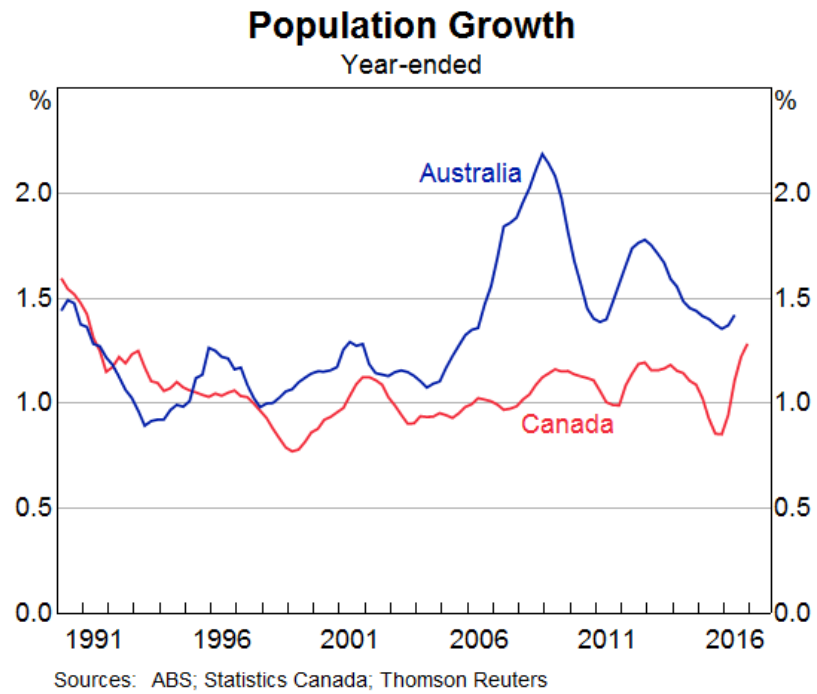
1. The Metropolitan Future

Views on Cities Moved from 'Decay-Divide-Disadvantage' to 'Growth/Congestion', though declining places and concentrated disadvantaged remain, reform

- Global scale 50pc urban: metro south main spatial change to 2050; OECD, 360 plus metropolitan areas
- **Canada's population increased by 3.5 million people 2006-2016**, 97% of this increase occurred in CMAs
- 75% of Canada's 3.5 million increase occurred in 9 CMAs: Toronto, Montreal, Vancouver, Calgary, Edmonton, Ottawa-Gatineau, Quebec City, Winnipeg, Kitchener-Cambridge-Waterloo
- 55% of the increase occurred in 4 CMAs: Toronto, Montreal, Vancouver, Calgary.
- 23% of the increase in Toronto CMA (6pc in City of Toronto)
- 10% of the increase in Vancouver CMA (2pc in the city of Toronto)

WHY

BUT WHY



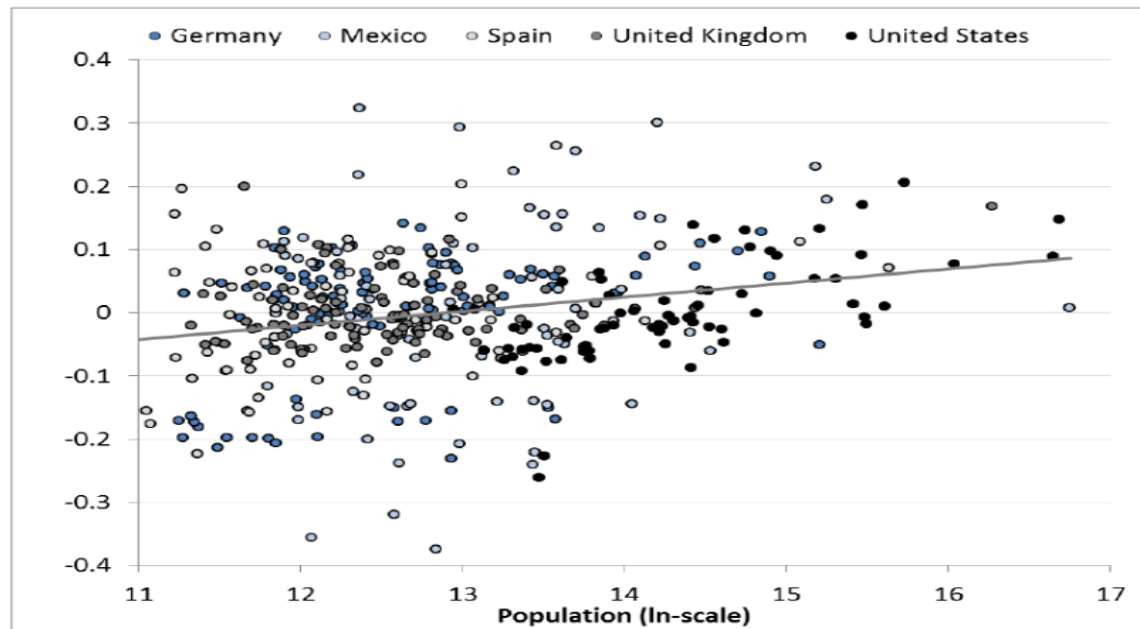
....REFLECTS A NEW SENSE OF 'TRIUMPH'.

NOW

1. STRONG ARGUMENT THAT CITIES SHAPE MAJOR OUTCOMES AND MATTER NATIONALLY
2. NEW ADVOCACY OF LOCALISM; DEVOLUTION OR DUMPING: NEW POLITICS.
3. CHANGED ECONOMIC ROLES
 - IMPORTANCE OF AGGLOMERATION ECONOMIES
 - Labour markets
 - Innovation Systems
 - GLOBAL CONNECTION
4. MODRN ECONOMIES ARE 'METROPOLITAN LOVING', HIGHEST PRODUCTIVITY LOCATION FOR TRADEABLES

EUROPE AND NATIONS, BRICS AND OTHERS SEE CITIES AS VITAL. THIS IS THE START OF A PROCESS THAT WILL CHANGE CITIES AND GOVERNANCE PERMANENTLY AND WE NEED TO RETHINK HOW WE ANALYSE, RESEARCH, DEFINE (POLITICALLY), MANAGE AND GOVERN CITIES AND THEIR HOUSING.

City productivity increases with city size even after controlling for sorting



2. FUNDAMENTAL: INELASTIC SUPPLY

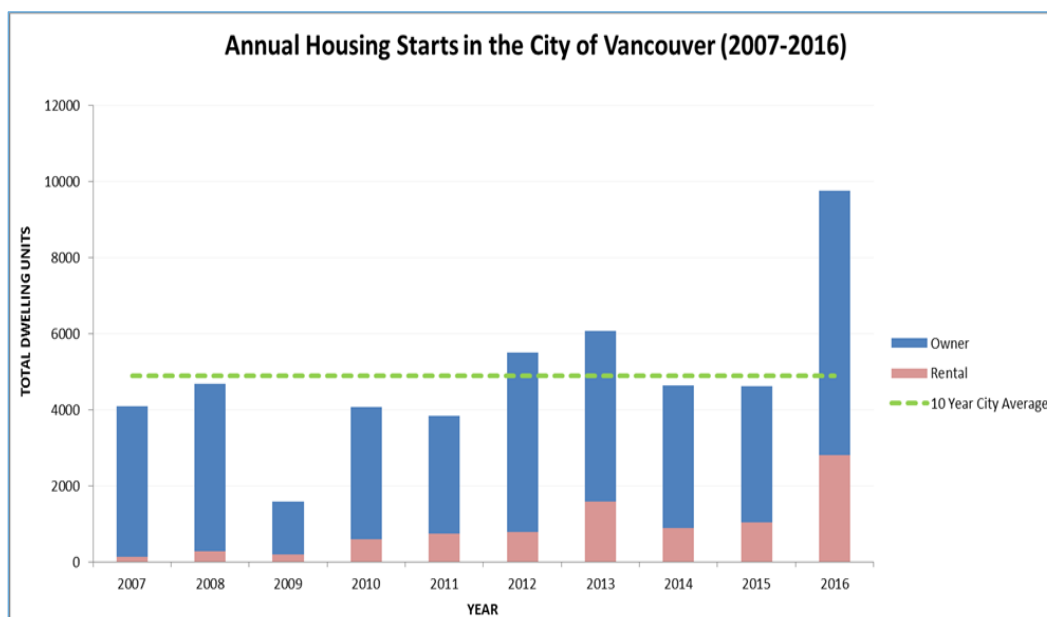
Inelastic housing Supply is a fundamental of city growth

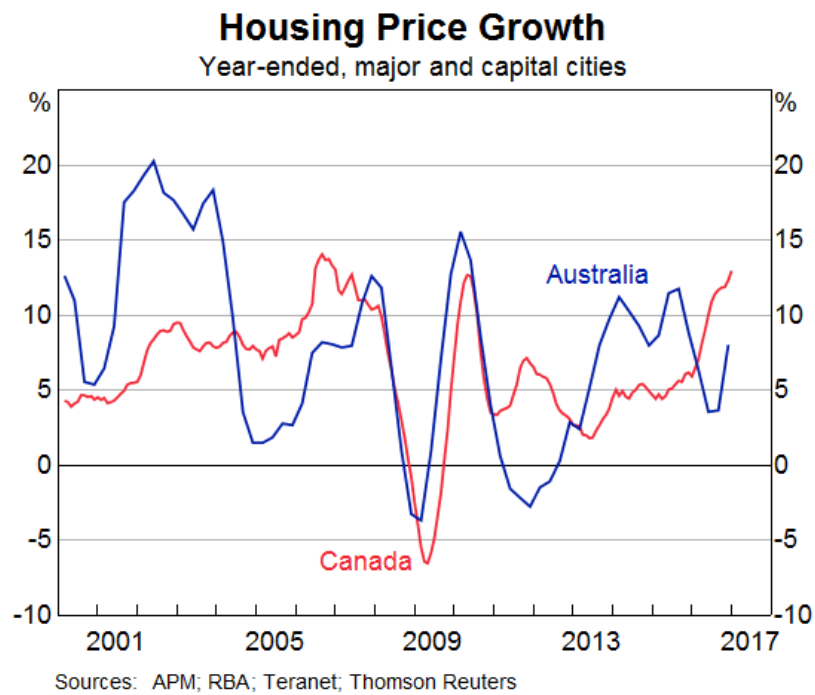
- Evidence consistent across metropolitan areas, but parameters vary
- Supply lags demand (cf China)
- Inelastic
 - Land use regulations/planning
 - Infrastructure
 - Labour supply, materials
 - Industry/firm strategies
- So price rises inevitable, concern is the extent of reinforcing processes
- Albuoy evidence on different Metropolitan system productivities

HOW DO HOUSING SYSTEMS ADJUST TO ELASTIC DEMANDS AND INELASTIC SUPPLIES: ECONOMICS 101 NOT ENOUGH

Record Housing Starts – But Not the Right Kind of Housing

Figure 3: Annual Housing Starts in City of Vancouver (2007-2016)





Escalating Housing Prices Are Creating New Pressure



Source: CMHC Rental Market Report, MLS Home Price Index

From October 2007- October 2016, we saw the following price increases

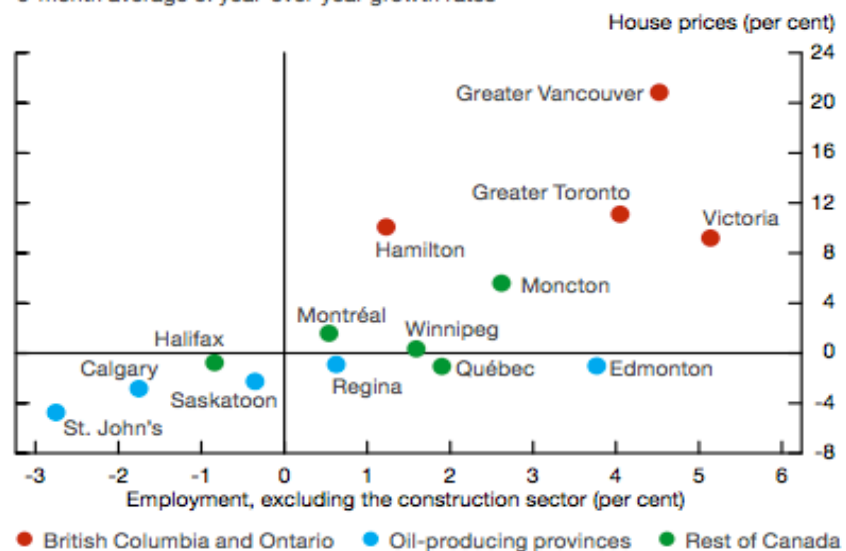
Eastside condo benchmark price: \$452,800 to \$771,000.

Eastside condo benchmark price: \$282,600 to \$450,000.

City-wide average rents across all bedroom types: \$945 to \$1,324.

Chart 9: Regional divergence in house price growth partly reflects employment growth

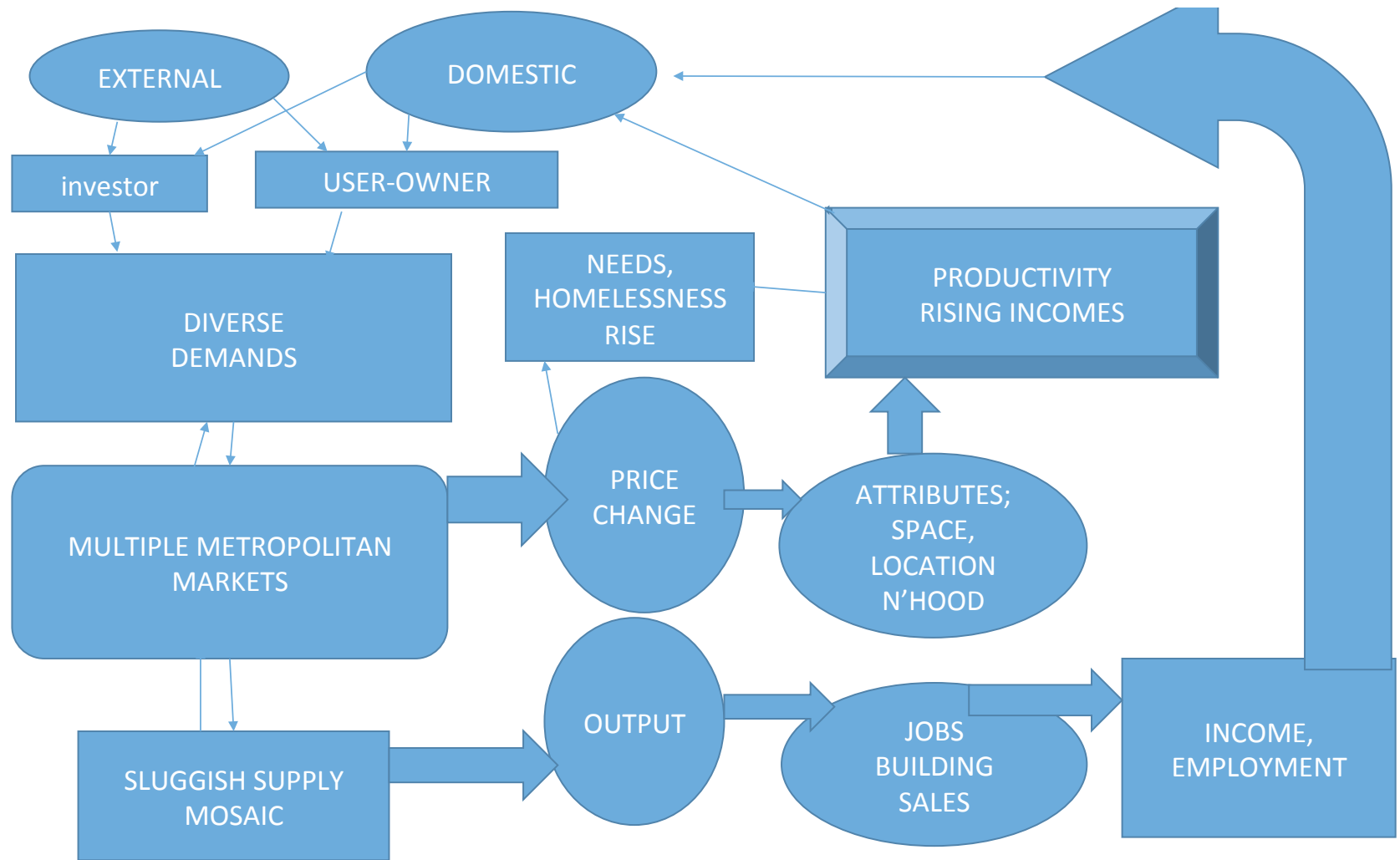
6-month average of year-over-year growth rates



Sources: Employment growth: Statistics Canada Labour Force Survey; house price growth: Teranet-National Bank (Edmonton, Halifax, Hamilton, Québec and Winnipeg) and Canadian Real Estate Association (Calgary, Greater Toronto, Greater Vancouver, Moncton, Montréal, Regina, Saskatoon, St. John's and Victoria); and Bank of Canada calculations

Last observation: April 2016

3. Adjustments in Metro Markets



3. Complex Chain of Impacts of Pressures

- *House Price/Rent Increases*
- Rising housing costs, largely driven by house price increases above national averages. They may, depending on policy structures generate multiple, overlapping responses.
- Rising house prices, and rents, immediately divert household spending from other (higher productivity in production): increases employment in the housing sector but employment and productivity growth are attenuated in other sectors.
- Housing prices risen most in locations accessible to major employment locations, displacing poorer households to lower quality homes and to the metropolitan edge. Growing separation of income groups.
- Social housing queues rise, homelessness rises

A Second Round of Effects: Wealth for older, renting for younger

- As prices rise housing wealth rises for existing owners, becomes largest (half)element of household wealth
- 65pc wealth is held by owners aged over 65, proportion acquired by real mortgage repayments around 25pc; unearned, and often untaxed, housing capital gains have turned housing ownership from a savings vehicle to a speculative venture.
- Rising house prices make home-ownership, despite low interest rates post, less affordable and more risky. Loan to value/price ratios and loan to income ratios have also risen significantly.
- Younger households who aspire to home-ownership (9 out of 10 households aspire to eventual ownership) run into rising house prices, deposits required,have increasingly entered rental housing
- former owners divorcing also constitute a growing stream of older renters and older households with the share of owners with active mortgages beyond the age of 65 rising significantly (this has an over 65 labour supply effect).
- Larger shares of under 35's now enter market rental and stay in the tenure longer (and don't enjoy benefits of lower interest rates

...so BUY-To-Let extends the difficulty

- Once house prices seen as a safe bet, more households with retirement plans buy a house to let; not efficiently financed/managed
- Competition for small rental properties with typical first-time homebuyers, reinforces price changes against the latter. With this mechanism metropolitan housing markets acquire a new dynamic, a significant increase in the demand for 'investment' properties.
- In the UK with sluggish market housebuilding and reduced affordable housing output the BTL sector has, in effect, all the net addition to UK household numbers since 2000. BTL examples are presented in the slide pack.
- Housing wealth owned by older households may then drive market prices against young home-buyers. But now transfer chunks of equity to children/grandchildren. In UK, some 80pc of first time buyers have a substantial tranche of equity provided by parents
- But what about large families? What about the daughters and sons of rental sector parents. Social mobility must fall. There is evidence that these processes are now well entrenched in Canada and Australia
- Once house prices are rising, expectations of future price increases may increase rather than reduce (equilibrate) ownership demand in subsequent (medium term) periods. BTL bidding further raises prices.
- This creates a new price dynamic, but it is reinforced by external investor demands
- Then, the largest metropolitan areas, may then be seen as safe havens, for shelter and money, for households living in less economically and politically stable countries. The empirical evidence on this topic is quite mixed. The numbers involved seem to constitute a late additional layer of speculative demand in already pressured markets. But the fundamental market drivers mainly relate to domestic demands of different kinds.

- The first 'stylised' fact is: metropolitan growth is driven by relatively high productivity but that does not mean productivity related wage increases for all and that poorer workers and younger people are falling behind growth in average earnings.
- The second stylised fact is: metropolitan housing markets have slow, partial housing system responses and this means that supply is inelastic (and asymmetrically so in housing booms and busts). There are a variety of potential causes of low elasticities. Inelastic supply for a good for which demand is income elastic and price inelastic means that market systems will tend to rising house prices and quite sustained periods of market disequilibrium
- The third stylised fact is that rising house prices in metropolitan areas can very quickly intra and inter-generational inequalities of wealth and incomes and that inequalities fuel 'investor' investment in housing.
- The fourth stylised fact is that as home ownership has grown and become a repository of unearned gains the recycling or leveraging of these gains in investor purchases may prolong price upswings in ways that attract other speculator investor flows. Housing policies with foresight might be better way of tackling this than ad hoc, and ex post, policies
- The fifth stylised fact, is that inadequate policy strategies to promote more effective market outcomes and that stabilise emerging price booms, have produced price, rent and other housing outcomes that are now reducing metropolitan productivity. Taken together with the third stylised fact this observation places housing markets in metropolitan areas as a critical influence on inequality outcomes and in shaping the nature of different kinds of economic progress (rentier versus entrepreneurial in style) and how firms might relocate to lower productivity locations. Meso metropolitans drive key national 'macro' outcomes, housing outcomes blunt competitive edge.
- The sixth stylised fact is that across the countries we are examining metropolitan areas neither have most of the powers to better shape long-term housing-economy interactions nor the growth induced fiscal resources to deal with them. At national scales, arguably we are neither modelling nor managing the spatial dimensions of economic development in a very effective fashion.

4. KEY STYLISED FACTS

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SUMMARY POLICY POINTS

1. Metropolitan Governance of Housing Needed!
2. Resources and Vertical Fiscal Imbalance.
3. Importance of Multi-order Investment/Policy Strategy: local lead
4. Tax before or After
 - Productivity case for inclusionary zoning
5. Rent Regulation
6. Gains roles for Reformed (local agency) non-profits