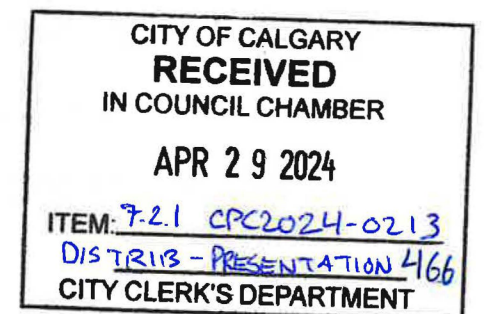


Some Comments Regarding Proposed Citywide Rezoning

Dr. René Wells, CFA

Panel # 132



What economic theory and available empirical evidence suggest?

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No overall conclusive macro evidence regarding city-wide blanket rezoning.

- Relatively few data points and problem of confounding factors as well as attribution issues.
- Challenge to quantify and value hard to observe effects (e.g. 'loss of enjoyment').
- Probably **overall small positive effects** but likely require time to manifest materially.
- Likely to accelerate gentrification to the sole benefit of higher income deciles.

Citywide blanket rezoning resulting in relaxation of zoning rules is likely, on average, to **slightly increase value of old housing stock.**

Blanket upzoning proposals **unlikely to be well received by long-time owner-residents.**

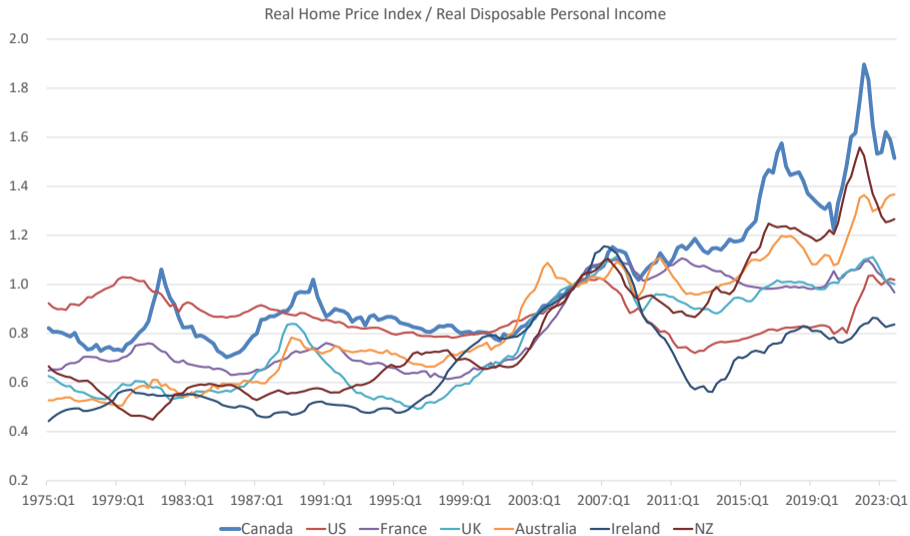
- They feel their standard of living and quality of life to be heavily influenced by the residence they own (as shelter and investment), their neighborhood, and their pension (e.g. CPP).
- 'Loss of enjoyment' + limited ability/willingness to cope with uncertainty/unknowns.

Feedback to date: 'Loss of enjoyment' → no 'densification lottery', but 'finer grain approach'.

Preferable to ensure new public policy be highly credible and to avoid flip-flops of public policy. Feedback to date: 'be brave' or 'hold a referendum or see you election time'

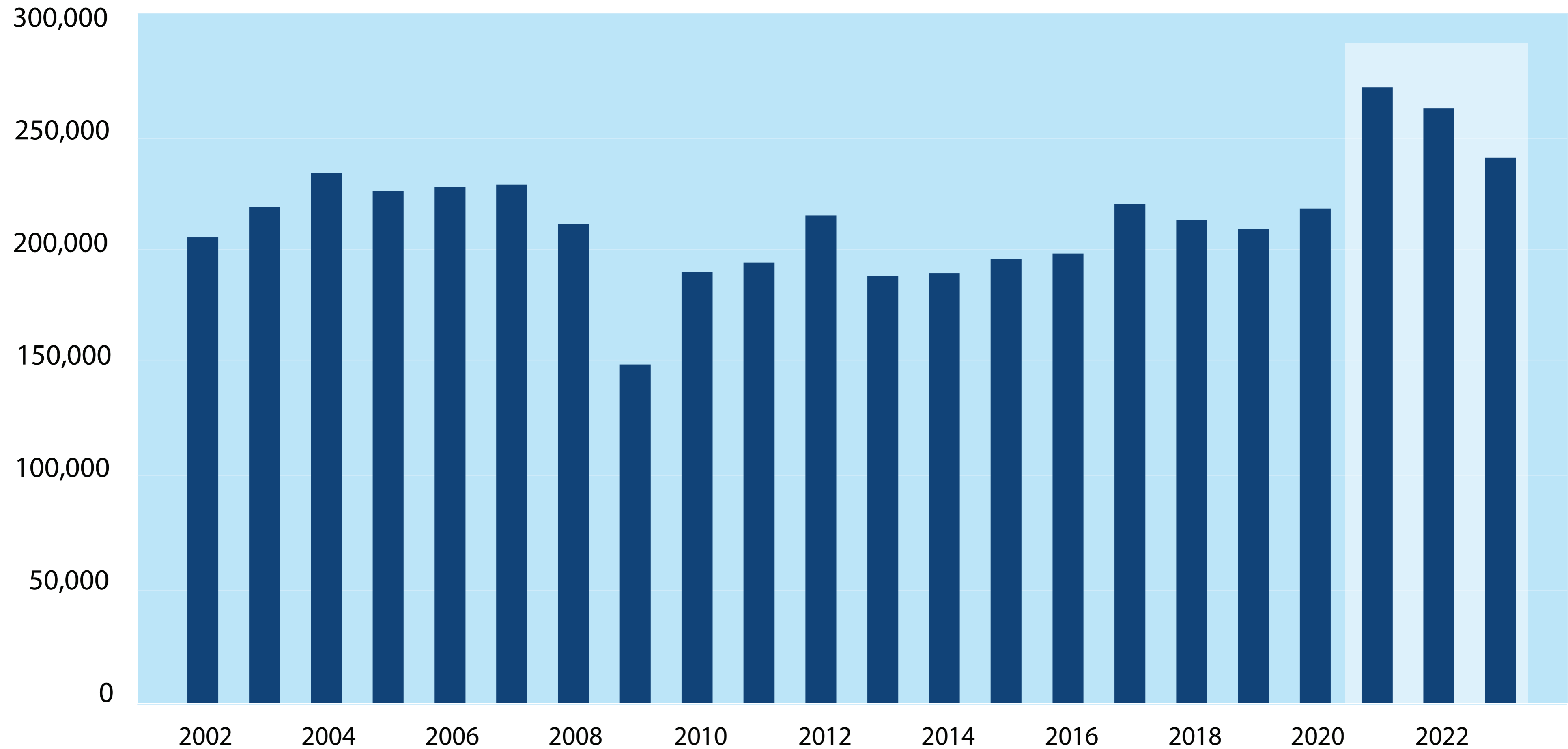
Affordability? Cost to Income Affordability (data: FED Dallas)

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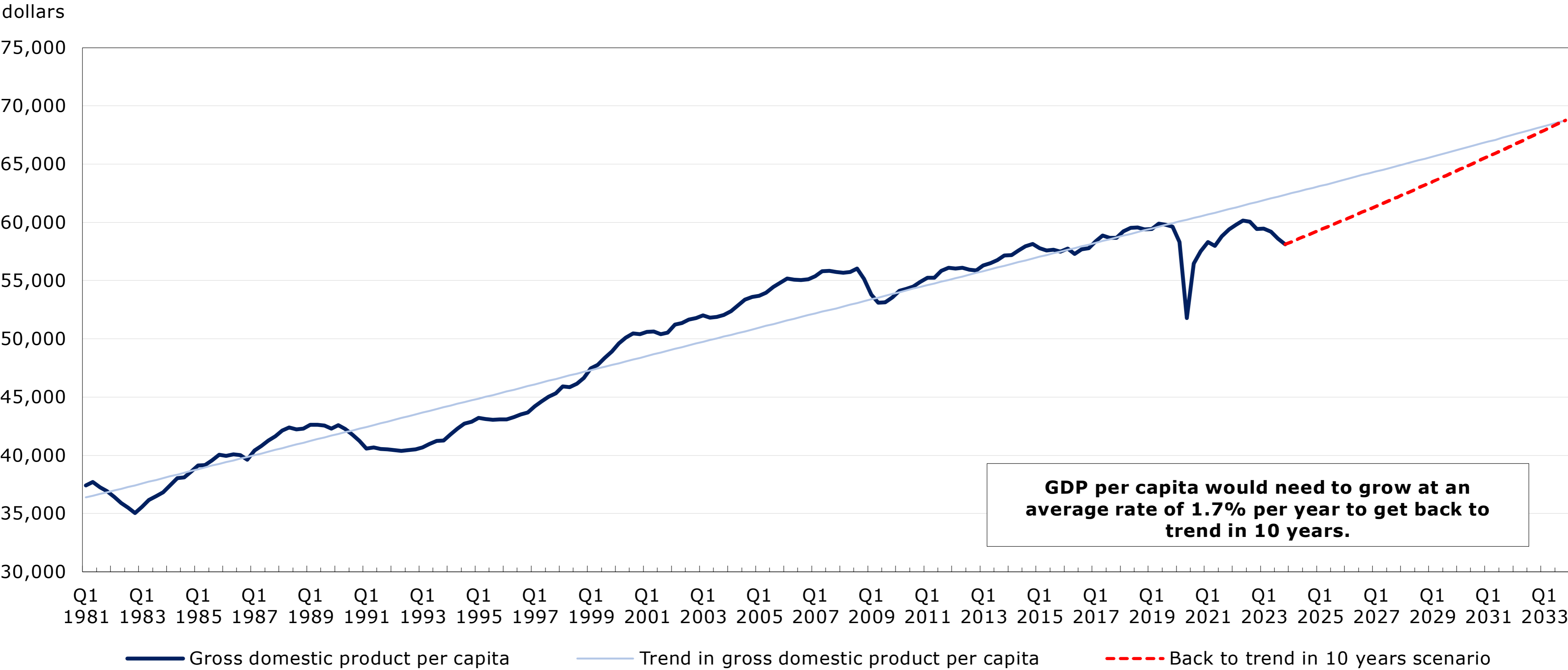
High interest rates took the wind out of homebuilding's sail

Housing starts in Canada, in units



Source: CMHC, RBC Economics

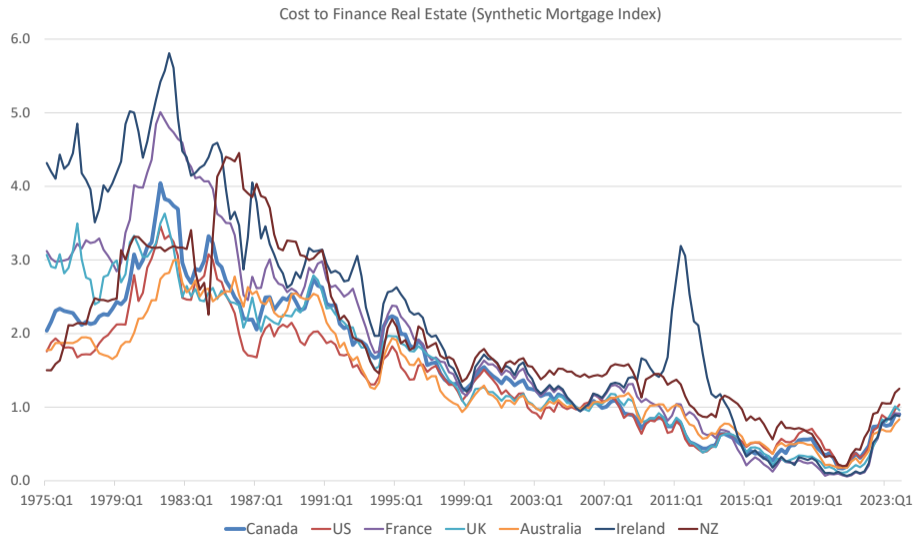
Gross domestic product (GDP) per capita return to trend scenario analysis



Sources: Statistics Canada, tables 36-10-0104-01 and 17-10-0009-01.

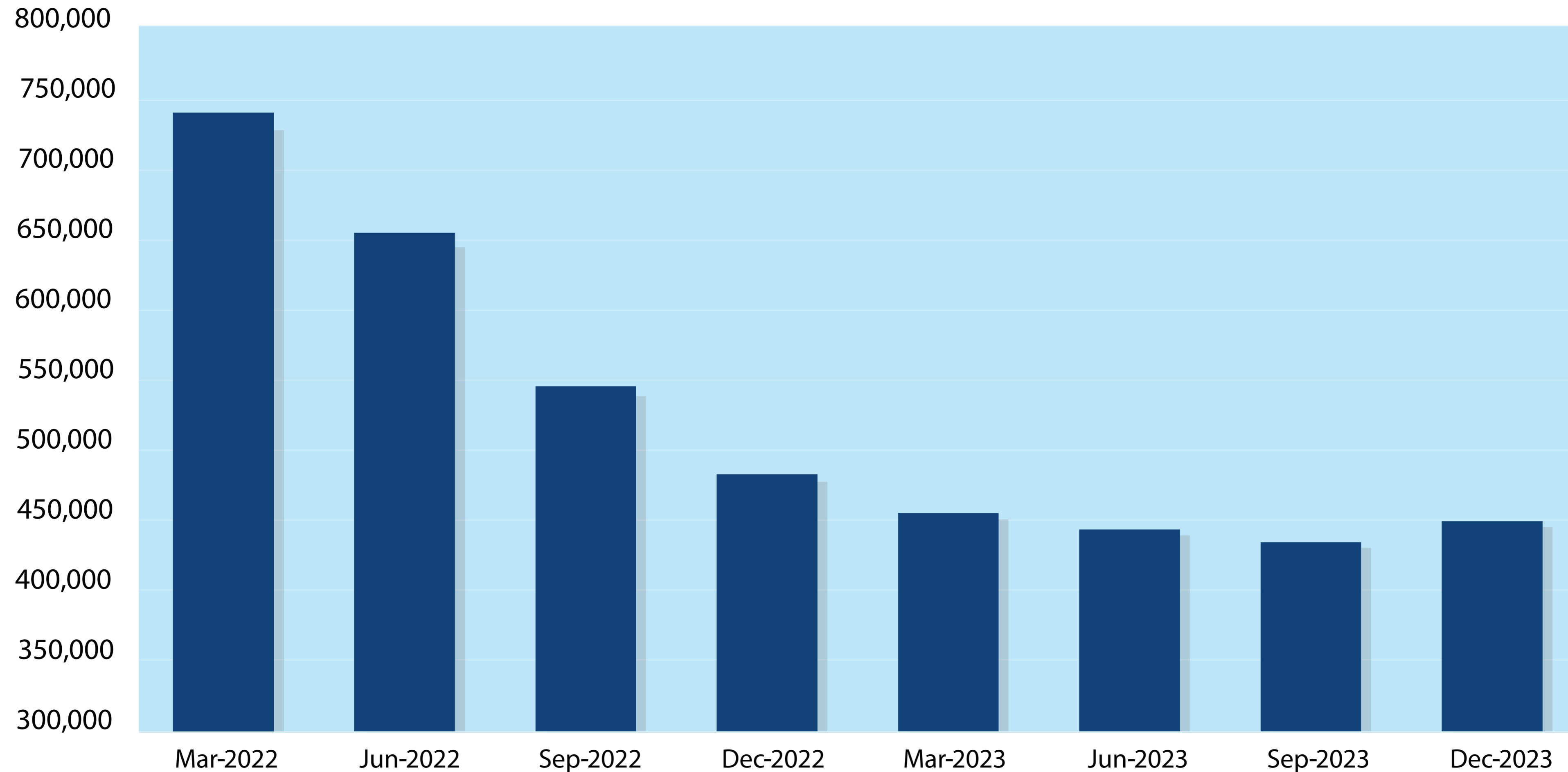
Affordability? Finance Affordability (data: OECD)

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Rate hikes have seriously compressed buyers' budget

Maximum home purchasing budget* for a median-income household, in \$

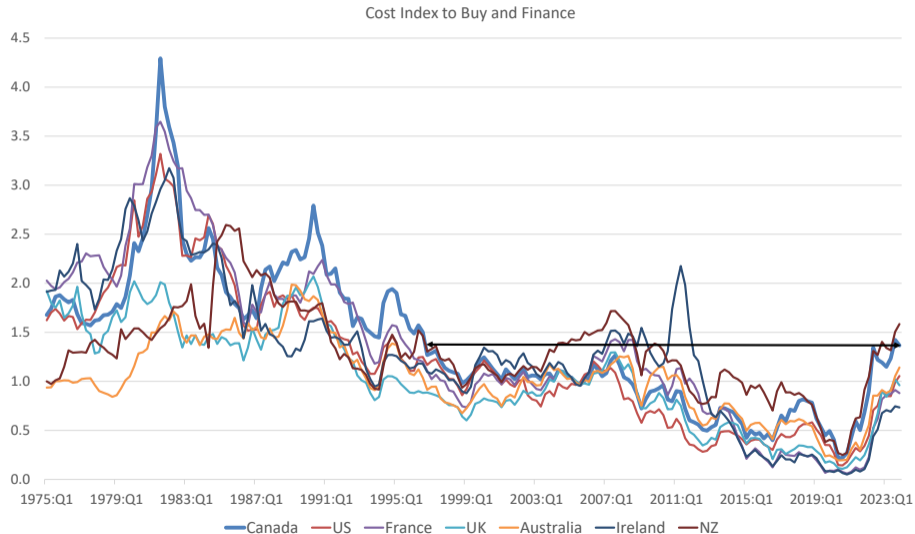


* Based on 20% down payment, 25 years amortization, 35% GDS ratio, variable mortgage rate

Source: Statistics Canada, Bank of Canada, RBC Economics

Affordability? Cost to Income x Finance Affordability

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Real markets are different from Econ 101 ideal markets

- When a **significant gap** takes hold long enough **between the supply of housing and the latent demand for housing, pricing dynamics are altered** from an ideal market close to equilibrium. Indicators of such disequilibrium are: very low rental vacancy, rapidly increasing rents, rapidly increase in house prices, sales of houses within 2 or 3 days of listing, unusually high portion of disposable income required for housing, working adults returning living with their parents, little or even no house price response to significant increase in financing costs.
- Then a **small increase in supply has no impact on reducing pricing** (aka affordability).

Binding Constraint(s)

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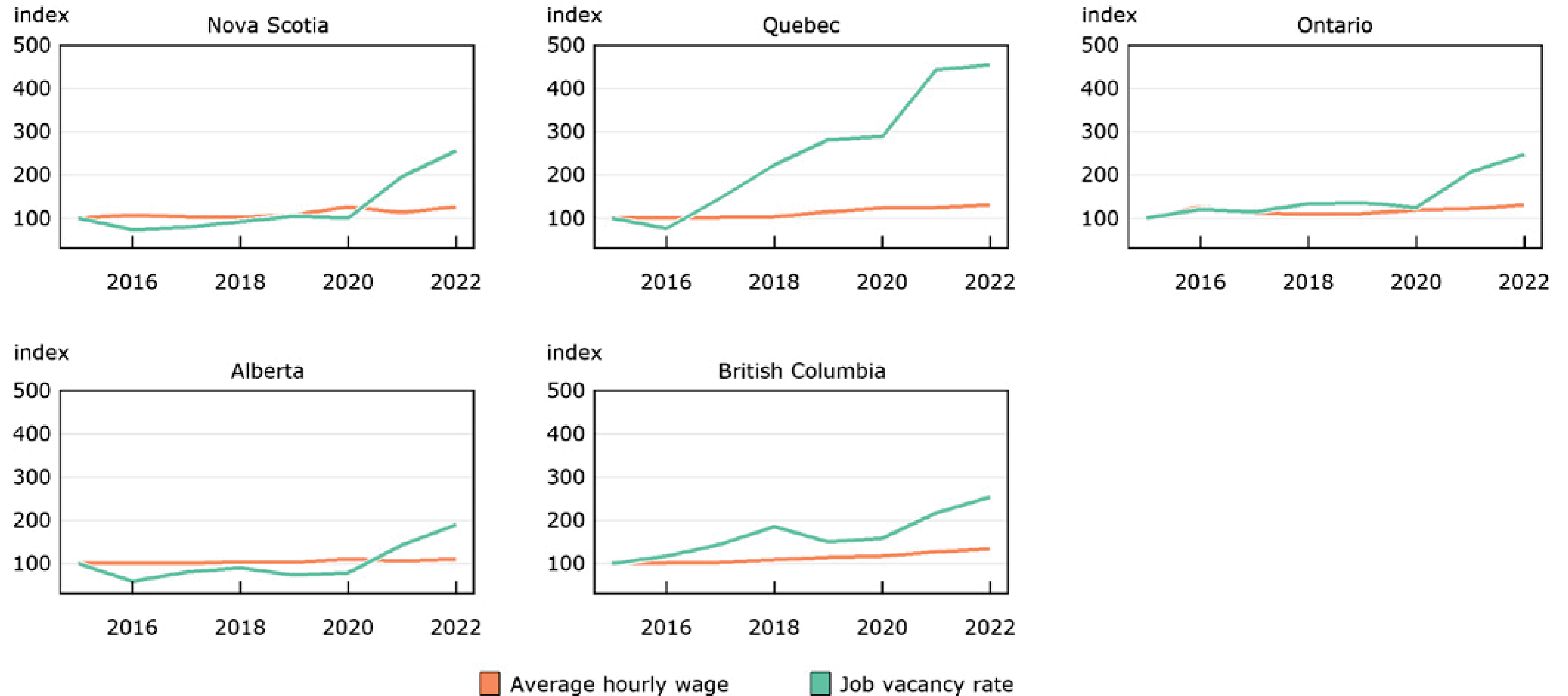
Possible binding constraints influencing supply (availability of newly built housing)

- Since early 2000s in Canada, significant increases in housing prices have not seen significant increase in the number of housing starts in relation to increased demand. It is counterintuitive.
- One constraint could be **land availability**, per local topography (Vancouver), green zones (Toronto), and overly restrictive zoning.
- Another possible constraint is the **availability of construction labor** (i.e. so-called 'trades').
- Finally, **developers/builders could be financially constrained**.

For Calgary, which constraint(s) is(are) binding?

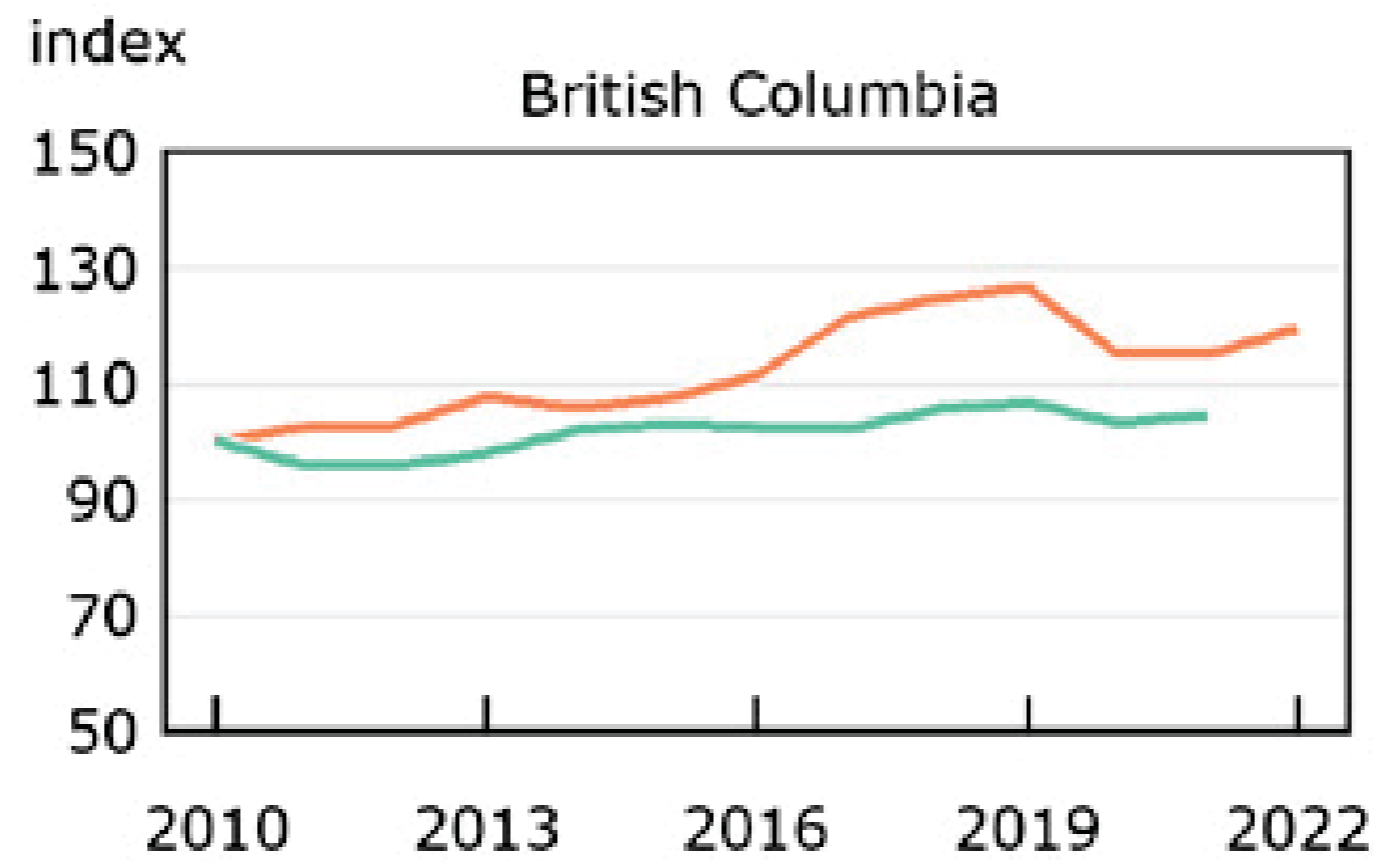
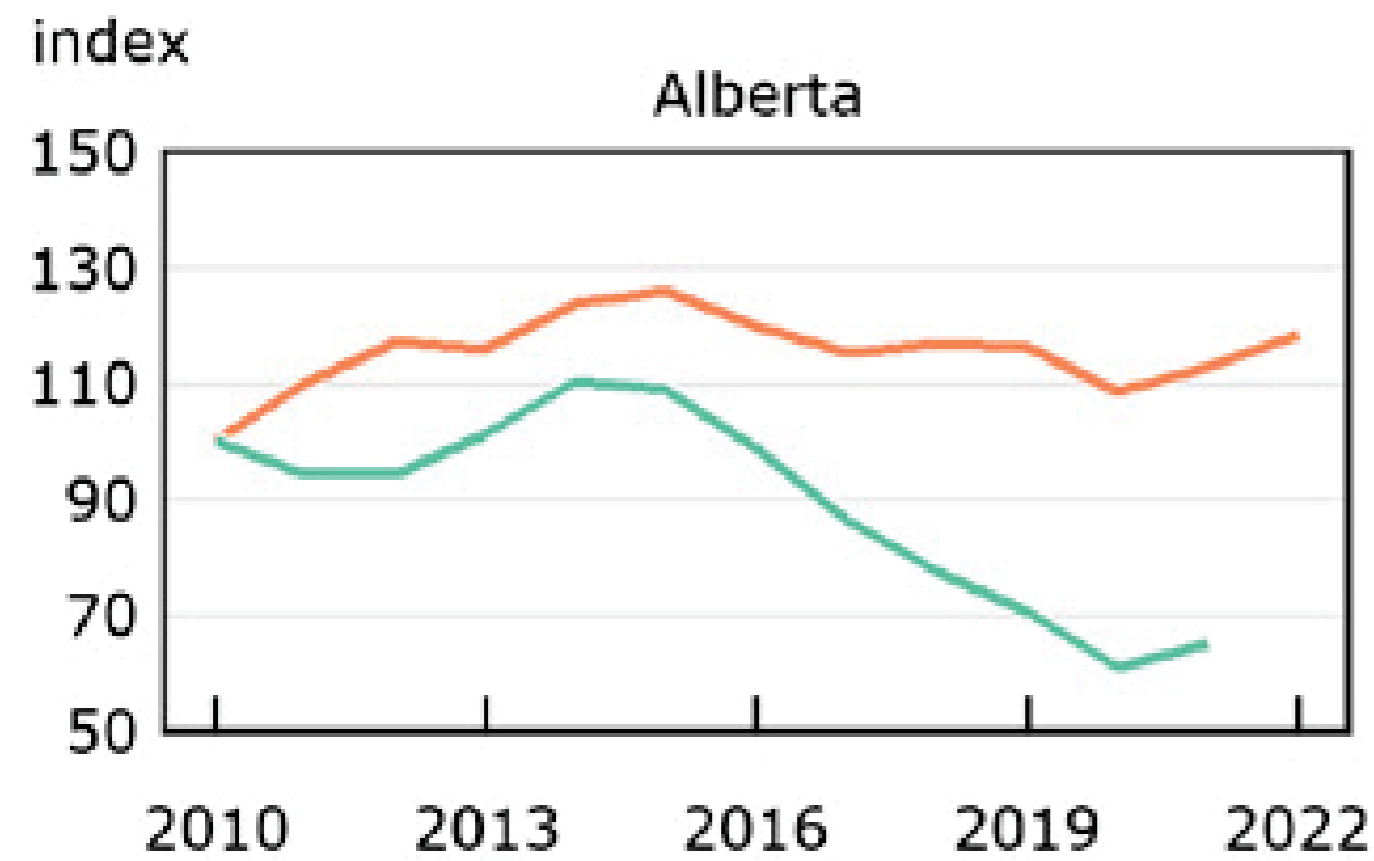
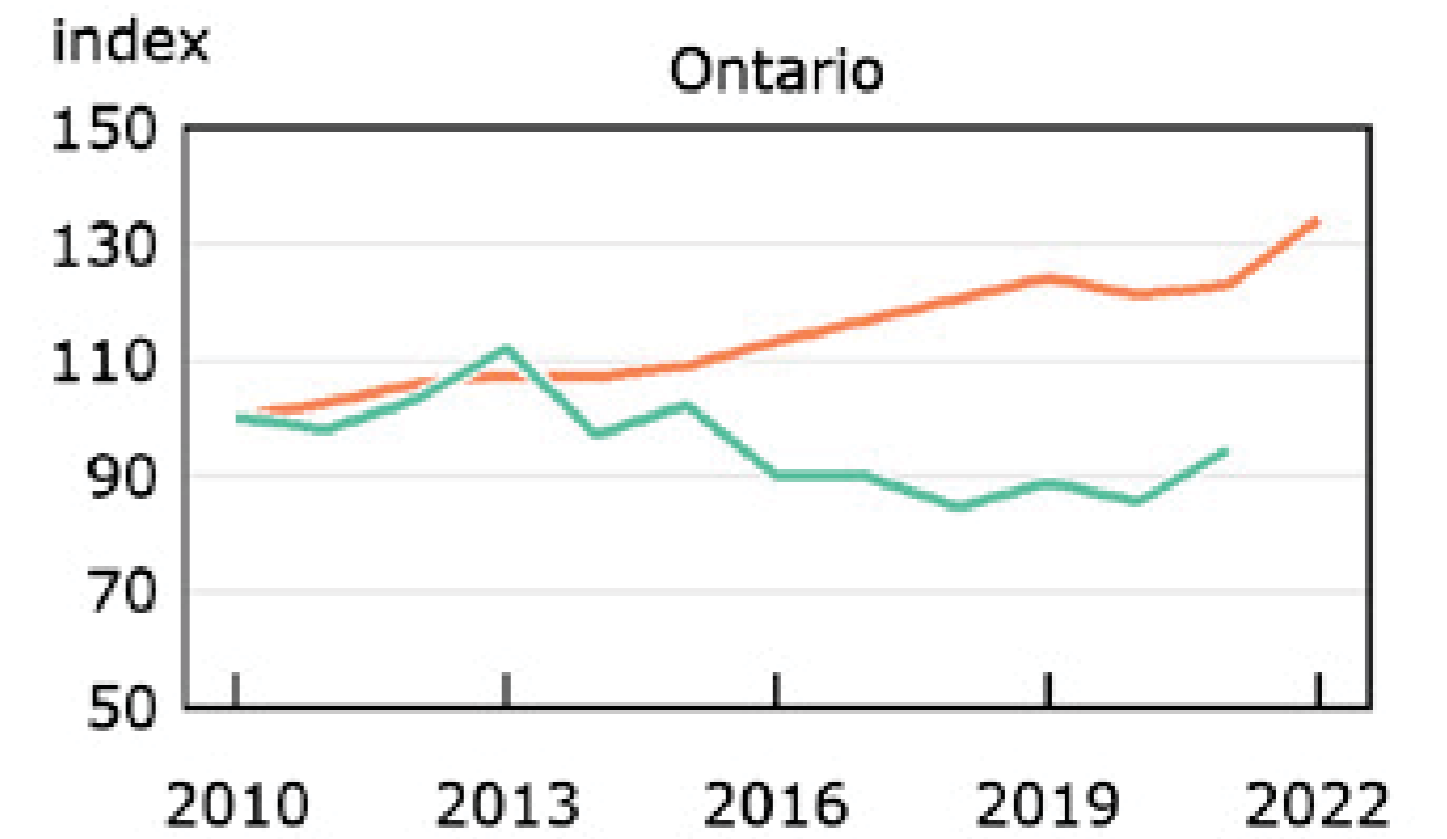
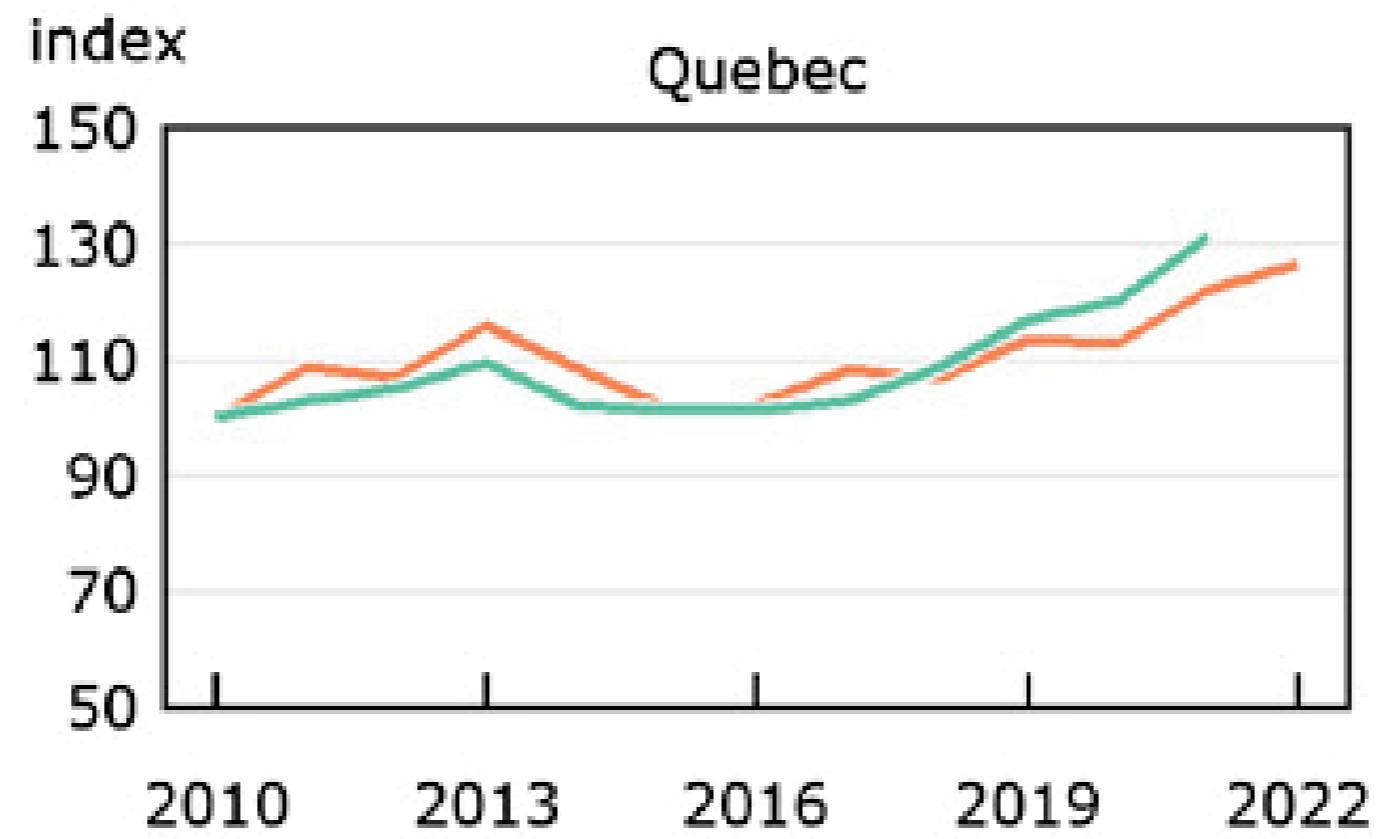
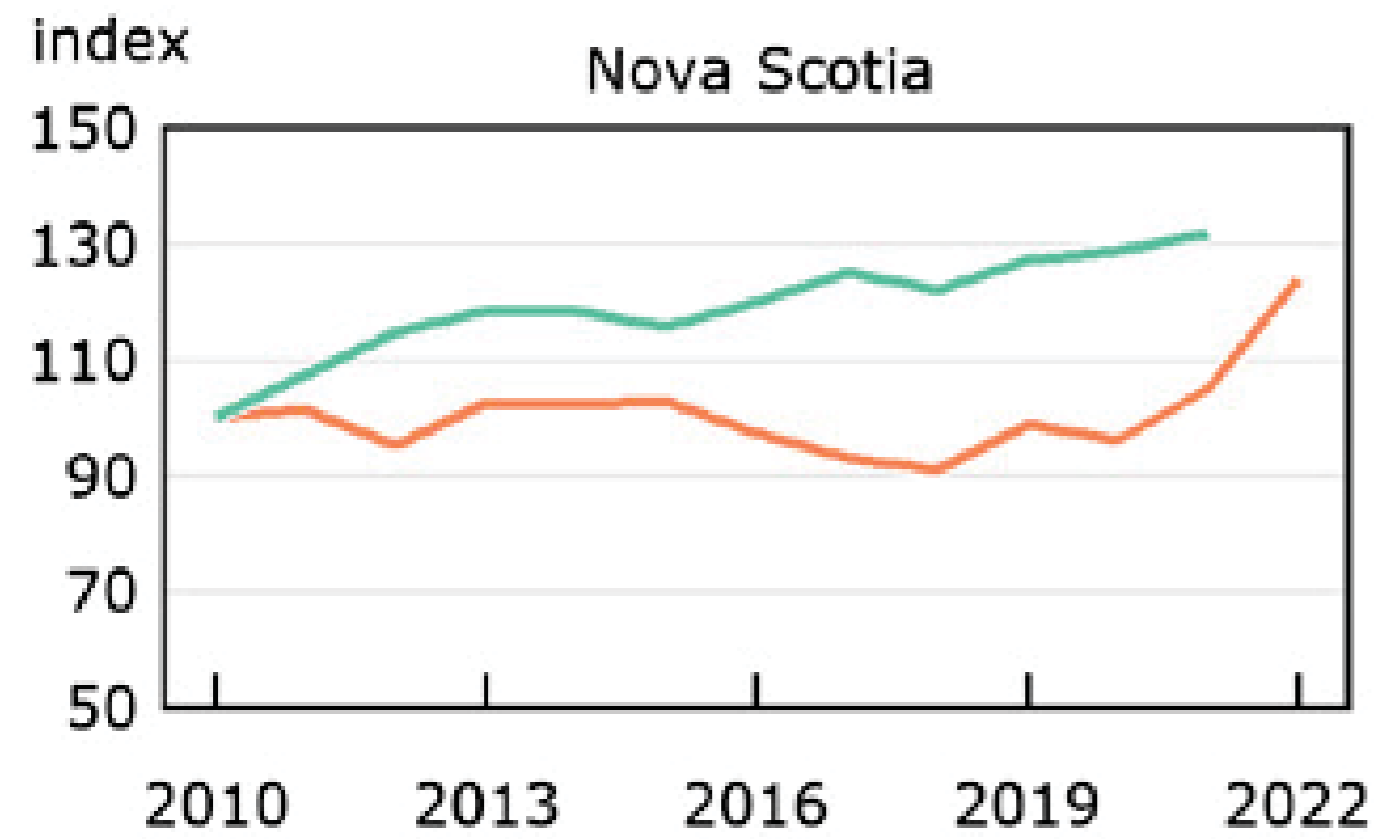
- Given the topography of Calgary, many large new communities being approved to be concurrently developed (not sequentially), that land rezoning applications are usually approved 95% of the time, it is **more likely than not that the binding constraint is labor and not land availability**.
- Since infills are inefficient in terms of affordability and availability because of lack of efficiency of scale, assuming the binding constraint is construction labor availability, City should plan for and support **large scale social housing projects** then **purposefully built large scale rental projects**.

Average hourly wage and job vacancy rate in the construction sector, 2015 to 2022, by province



Source: Statistics Canada, table 14-10-0326-01.

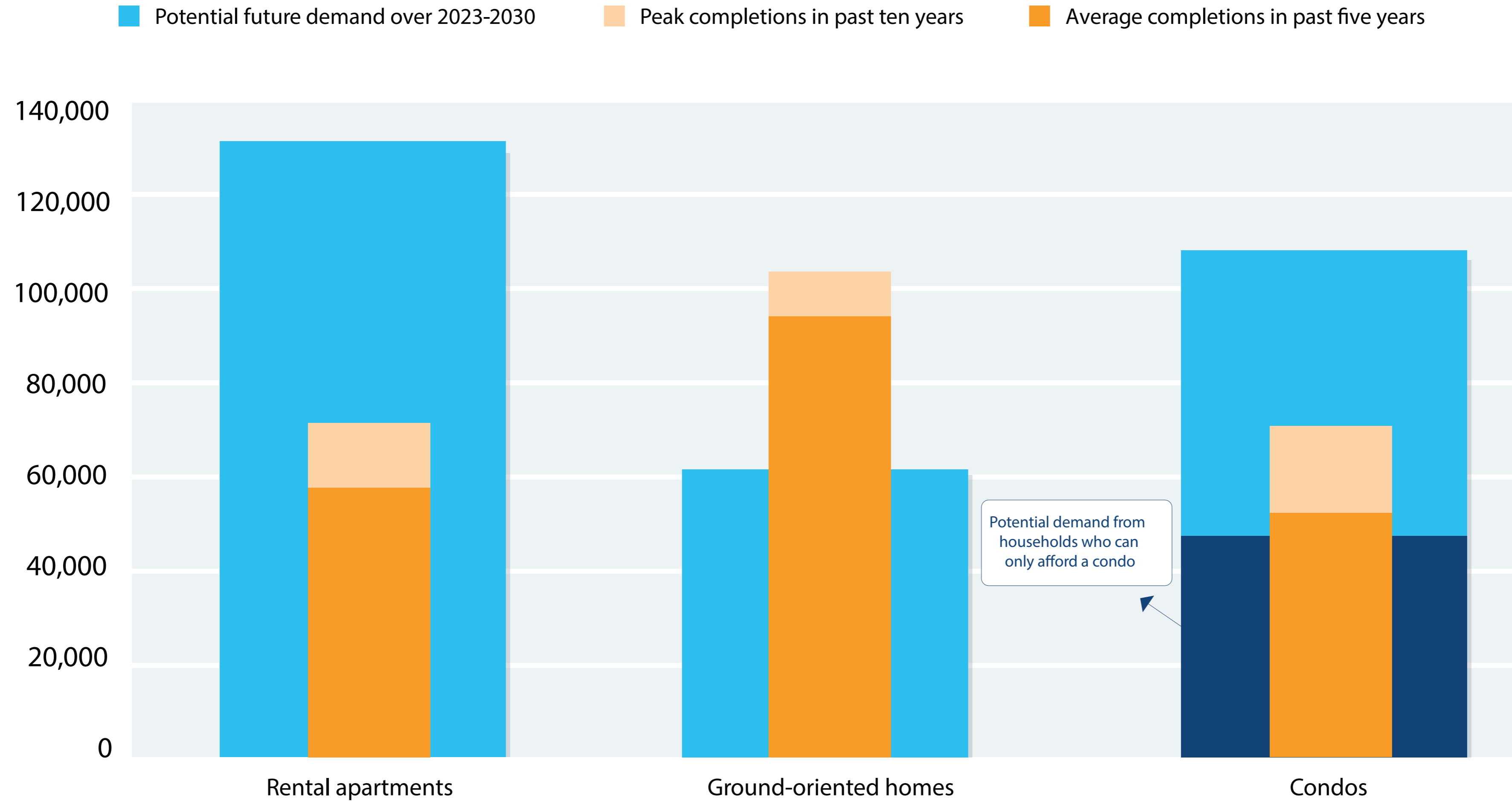
Employment and number of apprentices in construction trades, 2010 to 2022, by province



■ Employment
 ■ Number of apprentices

Recent mix of construction won't match future demand

Average number of units per year over 2023-2030, Canada



Source: Statistics Canada, CMHC, RBC Economics