

## Canadian Housing

# Ontario Greenbelt: Behind the Boom, Not the Bubble

**Robert Kavcic**, Senior Economist • robert.kavcic@bmo.com • 416-359-8329

As our **Chief Economist, Douglas Porter**, wrote in *Talking Points* and *Focus* this week, “Our only goal of calling Toronto’s housing market a bubble was to reinforce the message that it had become divorced from economic fundamentals and was becoming potentially dangerously overheated. This is not a near-term call on the market—in fact, given the outlook for interest rates and an improving underlying economy, there’s nothing obvious to meaningfully slow the market at this point.”

In the meantime, others suggest removing part of the **Ontario Greenbelt**, as if that would be a magic bullet to slow the recent pace of home price growth. Here are a few points on this issue and why we believe that likely wouldn’t be the case:

**Background:** The lack of new supply in the detached market is indeed partly the result of provincial development policy that took effect in 2006. The Ontario Places to Grow Act set intensification targets and development restrictions around the GTA, including the designation of the Greenbelt which effectively prohibits development on ecologically-sensitive land around the region (*Chart 1*). That effectively turned the GTA/Hamilton/Niagara region into an island with respect to housing development, and development in some areas has indeed begun to push up against the Greenbelt.

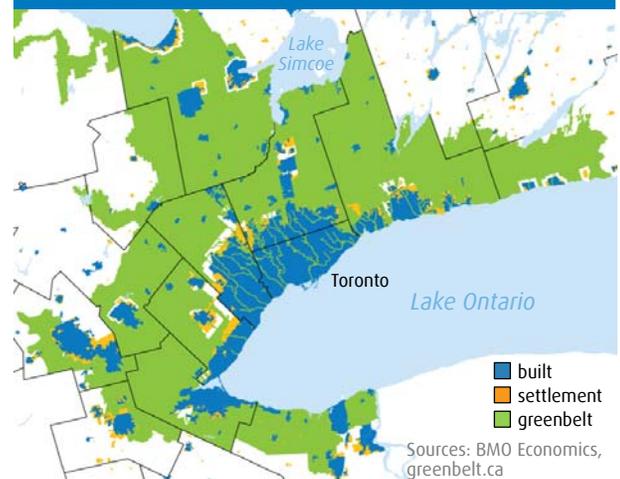
**We are not out of land:** Contrary to popular belief, however, there is still enough land to support 15 years or more of outward growth according to some Neptis Foundation estimates, with only 20% of that designated for development used up since 2006. Simply removing the Greenbelt therefore won’t bring any more supply to the market.

**Bigger issue is intensification:** Most municipalities are now required to work with a minimum 40% intensification rate (it’s higher in practice), which effectively means that for every 6 homes built in undeveloped areas, 4 or more are going up on the existing footprint. This means infill, splitting lots and building townhomes and condos, leaving 50 foot-wide detached lots a relic of the past. Without question, this has supported strong price growth in that segment.

**New detached ≠ old detached:** On a similar note, stricter densification requirements mean that today’s single-detached homes (the handful that *are* being developed) look nothing like the coveted properties that were developed through the 1970s and 80s (see North Oakville versus South Oakville, for example). Some 26-foot wide lots are classified as detached today, which is half the norm of the 1980s—they might as well be semis.



Chart 1  
**The Ontario Greenbelt**



**Transit:** Finally, opening more of the Greenbelt won't do much without appropriate transit. For example, detached home supply is far less scarce around the perimeter of the Greater Golden Horseshoe, but good luck getting to work on time in Toronto from somewhere like St. Catharines or Caledon.

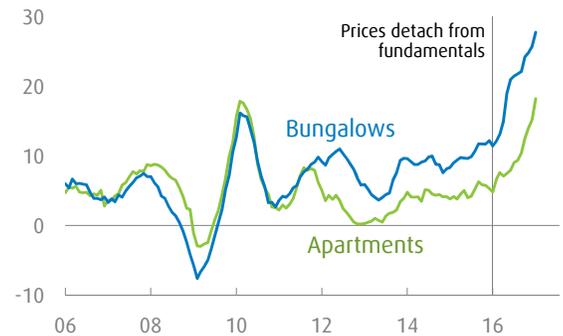
With that in mind, the supply-side issue isn't about numbers, as we're building what we need. It's about composition, as traditional detached homes become scarcer and scarcer within the overall GTA housing stock. But with current development practices and transit limitations, simply opening more Greenbelt won't change that.

More importantly, this is a trend that we have been flagging since the cycle started and, until very recently, detached home prices were growing at about 8% a.r. and condo prices at 4% a.r.—both reflecting the underlying supply-demand fundamentals very well. Over the past year, however, those growth rates have suddenly ballooned to 24% and 18%, respectively (*Chart 2*). Clearly something else like **foreign investment** and/or **increased speculation** is at work, and simply removing part of the Greenbelt is not a policy move that in any way is going to stop what is now a runaway price train.

Chart 2  
**Boom to Bubble**

Greater Toronto (y/y % chng)

**MLS Home Price Index**



Source: BMO Economics, Haver Analytics

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