

Building more homes will boost supply, lower costs

Government needs to reduce regulation, streamline approvals process and allow more land use flexibility, based on good design



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REAL ESTATE MATTERS

It's supply, stupid. There's nothing like ignoring the obvious solution when you are desperately searching to solve a problem.

I can't count the number of local governments in the Lower Mainland and in other fast-growing parts of the province that have recently hired consultants to do research projects that they hope will result in solutions to the so-called housing-affordability challenge.

Local politicians everywhere are looking for that silver bullet — that one initiative that will temper housing prices and quiet ratepayers from complaining about skyrocketing property values.

Two warnings are in order. There is no silver bullet — it's all about supply and what local governments can do to remove the barriers in the way of building more homes.

The second warning — when you talk about wanting to see the top of the market for housing prices — be careful for what you wish.

We have seen the top and the bottom of the housing market many times. For some, the bottom has come too many times. The housing market, like the overall economy, is cyclical. Since 1980, there have been at least four noticeable downward slumps in housing prices.

Few remember how quickly the market fell in the first couple of years of the 1980s. More

can remember the slow but gloomy slide in housing prices during the dark days of NDP rule in B.C. and the frigid economy of the last half of the 1990s. No one was complaining about housing affordability in 1998.

There are many out there today seriously considering alternatives to the free market economy for the sale and ownership of homes as one solution to high housing prices.

Some believe we can devise a model where we restrict housing prices, yet still allow supply and demand to drive the market. Of course, reality is otherwise.

Imagine, though, we allow the frenzied discussion about the current cyclical peak in housing prices to go on among public policy makers and they seriously consider policies that would restrict your gain in the value of your home.

Your home is your biggest asset and the asset that has the promise of the biggest equity gain for most Canadians.

Or imagine a new policy that would see your middle income neighbour qualifying to live in a government-built subsidized home so long as she/he is willing to give up any gain when the home is re-sold.

Imagine restrictions that prevent you from enjoying the same benefit because your annual income might be a thousand or two higher. The original COPE proposal for southeast False Creek was based on such a scheme.

These are schemes being considered by some as viable solutions to the so-called crisis. These kinds of solutions come from those who are confusing traditional non-market responses to provide for social housing — for those income-challenged people who can't afford the full costs of shelter regardless of the current point in the housing market cycle.

Senior governments have

traditionally responded to this obvious social need for this small segment of the housing consumer market by intervening and upsetting the normal forces of supply and demand to make housing available for those with these special needs.

But the same solutions are not transferable to the mass consumer housing market. To intervene in the mass market with the same kind of objective — upsetting the normal forces of supply and demand — is scary thinking. No government has the capacity to meet the expectations that might come from such intervention.

I am pretty sure not too many Canadians are willing to render useless the free market that has supplied the vast majority of our housing to a government-regulated housing industry.

It is not government intervention that's needed to temper housing costs. Restrictions, like the one Vancouver city council is considering, to stop the demolition of existing rental apartments, will simply exacerbate the affordability problem.

Government needs to reduce regulation, streamline the approvals process and allow more flexibility in land use — based on good design — to allow more homes to be built. The more supply of housing, the lower the costs will be.

It's all about supply and demand. Restricting the supply side won't work. Nor will subsidizing the demand side.

Finally, this may all be a moot point two or three years from now when we are in the downward side of the normal economic cycle.

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