

Constrained Land Supply for New Housing is Hampering the Recovery in the Greater Toronto Area

New report from economist Will Dunning points to sharp impacts in the GTA housing market

Toronto, ON (July 10, 2012) – Shortages of building lots have reduced new home construction in the Greater Toronto Area.

“New housing construction usually provides an outlet, whenever housing markets overheat” explained Will Dunning. “But, for the past five years, a worsening supply shortage has prevented that outlet from operating normally”.

The result is that demand in the resale housing market has been stronger than it should have been, causing rapid growth in house prices. The report, “Constrained Land Supply for New Housing is Hampering the Recovery” estimates that:

- During the past five years, housing starts in the Greater Toronto Area have been 50,000 units less (10,000 units per year) than they should have been, based on economic conditions.
- This has cost 22,000 jobs per year in construction and related industries.
- House prices in the GTA are now 15% higher than they should be, due to the shortage of supply.

Mr. Dunning added “A further result is that fewer tenants have been able to move to home ownership. In consequence, the vacancy rate is lower than it should be, and rents are higher”.

According to Canada Mortgage and Housing Corporation, the apartment vacancy rate was 1.4% as of October 2011. The Dunning report estimates that if housing supply had been at normal levels, the vacancy rate should have been almost twice as high, at 2.7%. Low vacancy rates have resulted in rent increases. As of the fall of 2011, rents were estimated to be about \$25 per month (or \$300 per year) higher than they needed to be. This excess level of rents will continue to expand for as long as housing supply remains constrained.

For a full copy of the report, visit www.wdunning.com.

Will Dunning has been studying housing markets since 1982. Will Dunning Inc., established in September 2000, provides economic analysis on housing and mortgage markets to clients in the private and public sectors.

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