

# IN-BETWEEN ISSUES: EXPLORING THE “MISSING MIDDLE” IN ONTARIO

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# ABOUT

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## EXECUTIVE SUMMARY

By 2041, the population of Ontario is expected to exceed 18.5 million residents, a 30% increase from its current population of 14.2 million (Ministry of Finance, 2018). As this report demonstrates, accommodating future population growth in Ontario does not just mean increasing the supply of housing, but rather building the right type of housing. Although the housing stock data shows a clear gap in Missing Middle housing in the Toronto CMA, an inefficient housing stock across the Province has contributed to decreased housing affordability for middle-income earners.

The term Missing Middle was coined by architect Daniel Parolek in 2010 when referring to medium-density housing types that fall between the scales of single-family homes and mid- to high-rise apartments. Missing Middle housing types can contribute to “gentle” density increases both within and on the periphery of existing neighbourhoods by introducing medium-density housing options that are compatible in scale with single-family homes. This report explores reasons why Missing Middle housing types represent a decreasing proportion of new housing starts in Ontario, and identifies several contributing factors. First, current land use planning regulations are believed to artificially restrict land available for new housing development, which makes low- and high-density development more favourable. Second, the cost associated with development projects has been identified by developers and homebuilders, which makes the construction of Missing Middle housing uneconomical. Lastly, although shifting demographics are resulting in an increased demand for medium-density housing, existing residents are generally opposed to new development.

The use of the term Missing Middle has grown alongside the middle-income housing affordability crisis and is increasingly used to describe this phenomenon. This report explores factors that contribute to housing unaffordability faced by middle-income earners in Ontario. Overall, it is believed that the current supply of housing is forcing residents into worse housing options, such as buying when they should rent, “driving to quality”, or living in housing that is too large or small for their household size. Increased reliance on private landlords for rental housing represents an unstable alternative to purpose-built rental, as private landlords have the ability to readily convert their unit to ownership or short-term rental, and poses an increased risk of tenant discrimination during the selection process. Lastly, development costs and a level of economic uncertainty causes developers and homebuilders to prefer single-family homes and high-rise condominiums, which have a more guaranteed return on investment.

By increasing the stock of Missing Middle housing types, middle-income earners will be able to choose a living situation that suits their household’s needs. In addition to providing housing between the scales of single-family and high-rise condominiums, Missing Middle housing provides a price point that falls between these housing types. In order to meaningfully contribute to Missing Middle housing supply and middle-income housing affordability in Ontario, cooperation and coordination between governments, developers, and local communities is essential.



# INTRODUCTION

By 2041, the population of Ontario is expected to exceed 18.5 million residents, a 30% increase from its current population of 14.2 million (Ministry of Finance, 2018). As municipalities work to accommodate this growth, it has become increasingly clear that Ontario's housing stock does not reflect the needs of the current population, nor will it be able to support future population growth. In several municipalities, the composition of new housing starts demonstrates a shift from single- and semi-detached homes towards condominium apartments, which has resulted in a housing stock characterized by "tall and sprawl" development (CMHC, 2018; Haines & Aird, 2018). In addition, the cost of housing continues to rise in Ontario, and an increasing proportion of middle-income earners are spending more than 30 percent of their income on housing (City of Mississauga, 2017; Wright & Hogue, 2019).

In response to the observed mismatch between the current housing stock, shifting demographics, and demand for urban living, architect Daniel Parolek coined the term "Missing Middle" to describe medium-density housing types that have gone missing from new residential construction since the 1940s due to "regulatory constraints, the shift to auto-dependent patterns of development, and the incentivization of single-family home ownership" (Parolek, 2012). Recently, the term has expanded beyond built form to describe housing challenges faced by middle-income households and the lack of available and affordable housing options for this group (Clayton & Petramala, 2019; Evergreen & Canadian Urban Institute, 2018; Haines & Aird, 2018). This term has quickly become a planning buzzword in Ontario, especially in the Greater Toronto Hamilton Area (GTHA), as municipalities work to address the complexities associated with intensification and growth, stable neighbourhoods, complete communities, and housing choice and affordability.

Although the federal and provincial governments have identified the issue of housing unaffordability related to tight supply-demand conditions, there are still several barriers that prevent its implementation in Ontario (Government of Canada, 2017; MMAH, 2018). The purpose of this report is to identify and understand issues and opportunities associated with Missing Middle housing in Ontario.

# DEFINING THE MISSING MIDDLE

American architect Daniel Parolek coined the term "Missing Middle Housing" in 2010 when describing the mismatch between the current housing stock, shifting demographics, and an increased demand for walkable urban living (Parolek, 2012). He identifies Missing Middle housing types as those that fall between the densities of single-family homes and mid- to high-rise apartments – such as duplexes, triplexes and fourplexes, bungalow courts, townhouses, live/work buildings and courtyard apartments – that achieve medium-density yields (Parolek, 2012). He believes that these housing types have disappeared from new residential construction since the 1940s as a result of increased regulatory constraints, a focus on automobile-oriented development, and the incentivization of single-family home ownership (Parolek, 2012).

Missing Middle housing has the ability to increase land productivity in existing neighbourhoods as it contributes to "gentle" density increases and takes advantage of well-connected and amenity-rich areas with access to transit, schools, employment areas and other services (CANCEA, 2017; Clayton & Petramala, 2019; Evergreen & Canadian Urban Institute, 2018; Haines & Aird, 2018). Further, since the footprint of Missing Middle housing types is comparable to that of a single-family detached home, Missing Middle housing can be distributed throughout a neighbourhood to achieve blended density; or act as a gradient between low- and high-density housing or other land uses (Parolek, 2019).

Although the term Missing Middle emerged primarily in reference to the form and scale of medium-density housing typologies, it has increasingly been used to describe housing unaffordability faced by middle-income households and families interested in urban living (Clayton & Petramala, 2019; Evergreen & Canadian Urban Institute, 2018; Haines & Aird, 2018). Historically, medium-density housing represented a more affordable alternative to single-family dwellings, but reduced construction rates paired with increased demand has resulted in significant price increases of existing Missing Middle housing stock, especially in metropolitan areas (Haines & Aird, 2018; Parolek, 2019; Statistics Canada, 2015).

Taking both of these elements into consideration, Missing Middle housing can be defined as "housing that is appropriate and affordable for a range of household and family sizes, and incomes" (Haines & Aird, 2018). Overall, Missing Middle housing is believed to facilitate the intensification of low-density residential areas and contribute to affordability relief by providing a more diverse range of housing options.

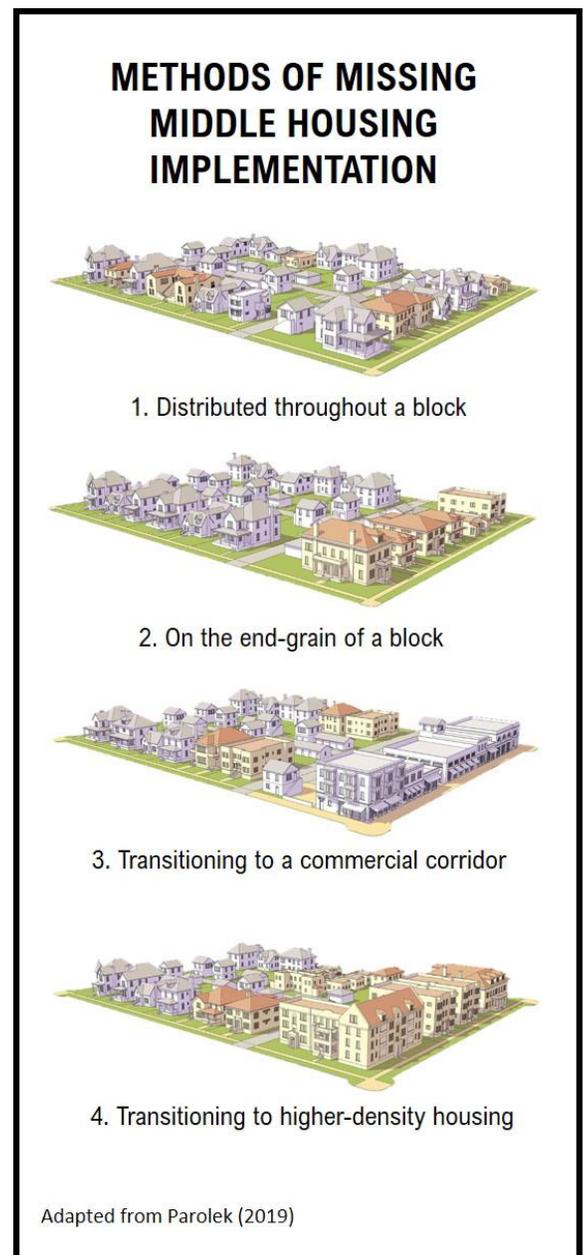


Figure 1: Methods of Missing Middle Housing Implementation (Parolek, 2019)

## MISSING MIDDLE HOUSING TYPES

Housing types are broadly categorized into low-, medium- and high-density – with medium-density housing representing the most varied category. According to Parolek (2012), Missing Middle housing types include: duplexes, triplexes and fourplexes, bungalow courts, townhouses, live/work units, and courtyard apartments (Figure 1).



Figure 2: Missing Middle Housing Types (Parolek, 2019)

However, as identified by the Canadian Centre for Economic Analysis (CANCEA), “medium-density is a context-dependent concept” (2018). Therefore, in larger cities where 40-plus-storey skyscrapers are abundant, 10-storey buildings might be considered medium-density; whereas in smaller cities where buildings do not exceed 15-storeys, the definition of medium-density might differ (CANCEA, 2018). This concept is reflected in the Ministry of Municipal Affairs’ (MMAH) (2018) consultation document Increasing Housing Supply in Ontario, where mid-rise buildings are identified as a type of Missing Middle housing in Ontario (Figure 2).



Figure 3: Missing Middle Housing Types (MMAH, 2018)

For the purposes of this report, Missing Middle housing types will follow those identified by Parolek and not include mid-rise apartment buildings. Mid-rise developments are defined as buildings that are between five- and 11-storeys – which cannot be distinguished from high-rise housing types as Statistics Canada combines these categories into “apartment in a building that has more than five storeys” (Burda & Collins-Williams, 2015; Statistics Canada, 2017a). Therefore, when applying this definition of Missing Middle housing to the Canadian context, Missing Middle units include row houses such as townhouses or garden homes; apartments or flats in a duplex; apartments in a building with under five storeys; and other single-attached housing types that may be attached to a residential or non-residential structures (Statistics Canada, 2017a).

## EVOLUTION OF PLANNING

Although Parolek was the first to identify this gap in North American housing stock as the “Missing Middle”, earlier criticisms of the dispersed form of housing development provide further insight to the origins of this concept. For example, in the 1960s, Lewis Mumford described the “suburban escape” fueled by new highway construction and the dominance of the private automobile as resulting in a “low-grade uniform environment” (Mumford, 1961). At the same time, Jane Jacobs “criticized the rise of single-use housing projects, car-dependent thoroughfares, and segregated commercial centres” and “argued for the continued relevance and utility of mixed-use neighbourhoods” (Jacobs, 1961 in Beaudreau, 2014). Beginning in the mid-1980s, the New Urbanist movement “called for change and a return to traditional urban design forms” by de-emphasizing the presence of the private automobile, and re-introducing a diverse mix of housing types (Katz, 1994 in Beaudreau, 2014). Today’s planners are continuing to work towards this ideal and recognize the need to redesign the built form of neighbourhoods to achieve a more diverse housing mix (Beaudreau, 2014).

## A NORTH AMERICAN PHENOMENON

Although Canada is an urbanized country, it is increasingly recognized that Canada is a suburban nation (Gordon, Moos, Amborski, & Taylor, 2018). When examining housing stock in other countries – particularly in Europe – it becomes clear that medium-density housing represents a larger portion of the housing mix. For example, in Paris, multi-family flats represented the dominant form of housing beginning in the 17th century and were popular among the growing middle class (Olsen, 1986). A similar form of housing is seen at a much larger scale in 18th century Vienna, where mid-rise buildings occupied entire city blocks and contained upwards of 100 units (Olsen, 1986). Housing development in London was dominated by six-storey row houses that were frequently subdivided to create smaller units, or connected with neighbouring units for more square footage (Olsen, 1986).

Although it is evident that European cities have higher stock of medium-density housing than their North American counterparts, it is important to recognize that most development in European cities occurred before the prominence of technology – which restricted development limits to “how far people were willing to walk” and building heights to “how many flights of stairs people were willing to climb” – posing favourable conditions for mid-rise housing (Beaudreau, 2014). Because of this, until the 19th century, the only solution to accommodate further growth in cities was through intensification. Therefore, it becomes clear that the Missing Middle is a phenomenon unique to younger nations where the majority of residential development occurred after World War II. Although there are remnants of European planning ideals in early North American cities developed during European colonization and settlement, North American cities quickly developed a distinct pattern of development characterized by low-density dispersed development (Beaudreau, 2014). This type of development was facilitated by technology advancements in the construction industry and the growing use of the private automobile – making living outside the city centre both accessible and affordable for residents.

# FINDING THE MISSING MIDDLE IN ONTARIO

## EVOLUTION OF HOUSING

New housing development is dependent on many factors ranging from the sociopolitical and economic environment to shifting consumer demand associated with changing demographics. Beginning in the 1950s, suburban development on greenfield lands represented the majority of new housing starts in Canada. High demand for single-family homes was associated with the 1946 establishment of Canada Mortgage and Housing Corporation (CMHC) and their loan insurance model, which made housing more affordable and accessible for Canadians (Statistics Canada, 2015b). Demand for more residential development continued into the 1960s with the post-war economic boom, the birth of the Baby Boom generation, and high immigration rates (Statistics Canada, 2015b). However, this decade was characterized by a surge in multi-family dwellings – over 60 percent of new building permits in Canada were issued for this type of housing between 1962 and 1973 (Statistics Canada, 2015b). New construction starts of single- and multi-family dwellings equalized in the 1970s (Statistics Canada, 2015b). However, a preference for the "suburban dream" became evident as homebuyers increasingly viewed medium-density housing solely as an "entry point to the housing market" (CMHC, 2000). In 1981, mortgage rates peaked at a high of 22 percent, which resulted in a significant decrease of new housing starts, where 30 percent of builders in Ontario went out of business (CMHC, 2000). Following the recession, new housing construction saw "the return of the single-family home" and the decline of multi-family residential construction (Statistics Canada, 2015). In the new millennium, apartment-condominiums became the dominant form of new housing construction due to their ability to provide higher-density housing in areas with limited developable land (Statistics Canada, 2015b).

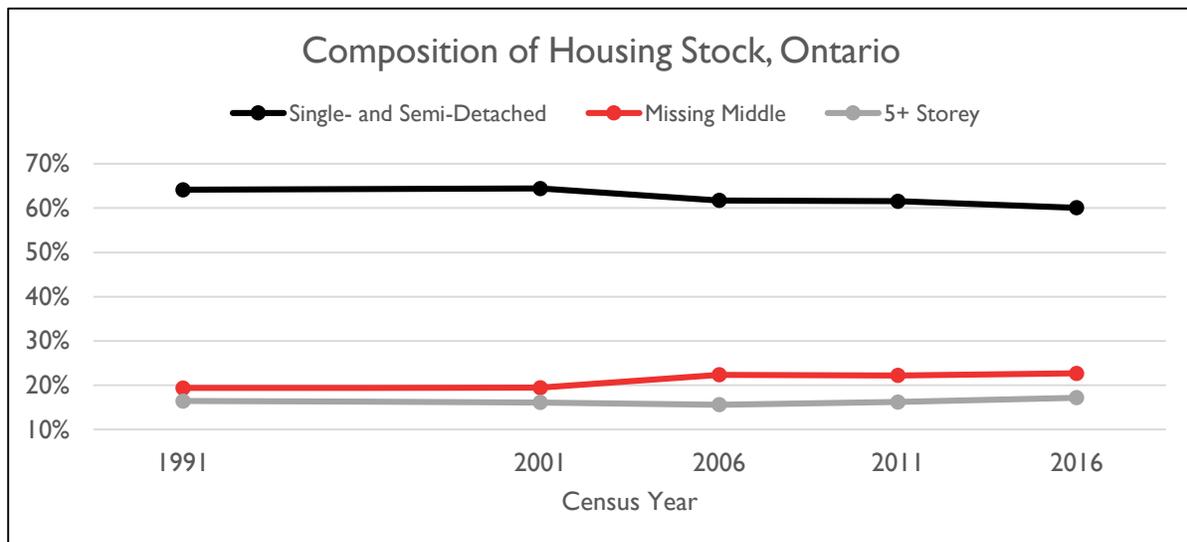


Figure 4: Composition of Housing Stock, Ontario (Statistics Canada)

As Figure 4 demonstrates, Ontario's housing stock has evolved over time. Since 2001, single- and semi-detached homes have declined from representing 64 percent of the total housing stock to 60 percent. Concurrently, however, this has been matched by an increase in Missing Middle housing types (row houses, apartment or flats in duplexes, apartments in buildings with less than five storeys and other single-attached housing types), increasing from 19 to 23 percent. Apartments in buildings with five or more storeys have remained constant at 16 percent until 2016, where they rose to 17 percent. In sum, when examining the housing stock of the province at large, the Missing Middle housing phenomenon is not evident.

## CURRENT STATE OF HOUSING

Although the Missing Middle housing phenomenon is not evident at the provincial scale, it does emerge when examining the composition of housing at the Census Metropolitan Area (CMA) scale (Figure 5).

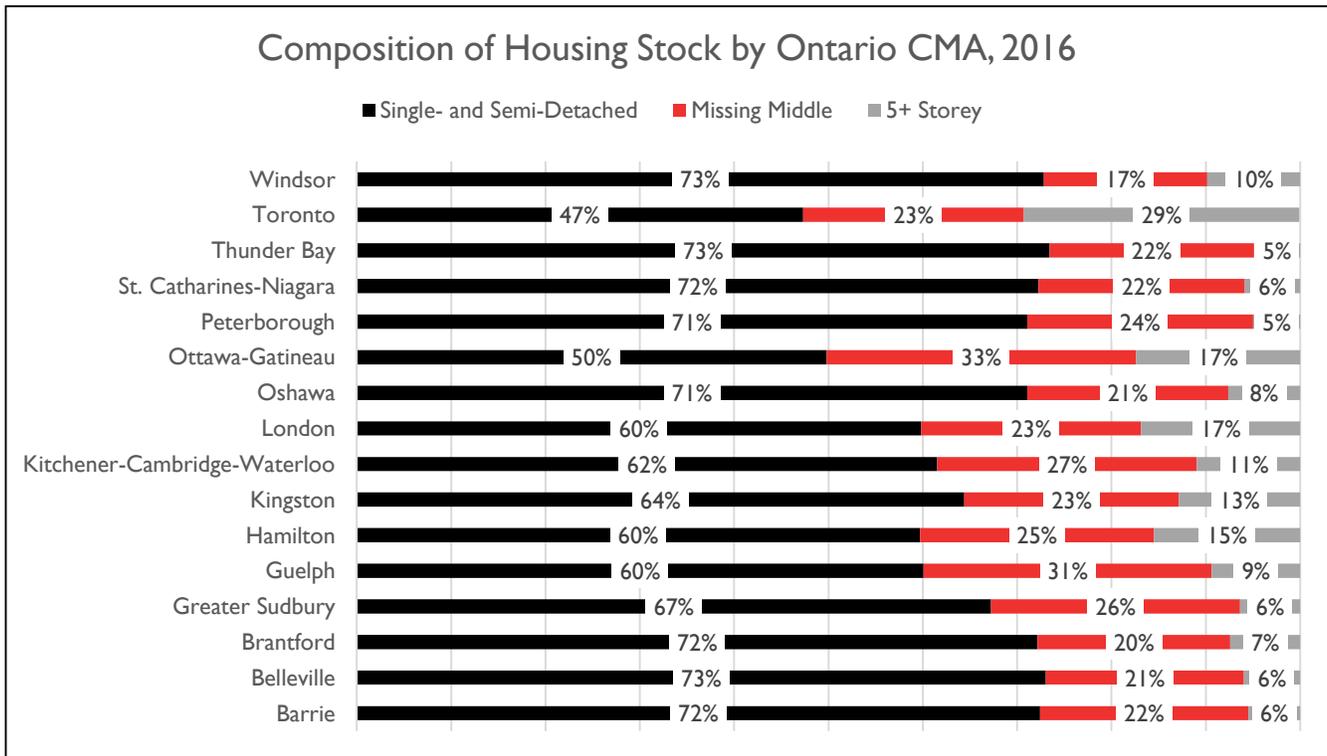


Figure 5: Composition of Housing Stock, Ontario CMAs (Statistics Canada, 2016)

Housing stock in the majority of Ontario’s CMAs show a gradient – with the majority being single- and semi-detached, followed by Missing Middle housing types, then apartments in buildings with five or more storeys. Toronto is the only CMA in Ontario that demonstrates the concept of the Missing Middle – as it is characterized by “tall and sprawl” development (Haines & Aird, 2018). This form of residential development can be attributed to the introduction of provincial planning legislation and increased demand for urban living associated with shifting demographics. On a larger scale, in the GTHA, according to the CANCEA (2018), 45 percent of the housing stock consists of low-density dwelling types; followed by 35 percent in high-density types; and 20 percent in medium-density dwelling types. Therefore, it is clear that in Ontario, the Missing Middle phenomenon is relatively unique to Toronto – providing justification as to why most of the literature on the subject focuses on the geography of the GTHA.

Although Toronto is the only CMA that demonstrates increasing polarization between low- and high-density housing types, decreased housing affordability related to an inefficient supply is evident throughout the Province. Housing affordability is said to be at crisis levels in Toronto, and an increasing proportion of residents in the surrounding municipalities are spending more than 30 percent of their income on housing (Wright & Hogue, 2019; City of Mississauga, 2017). The housing market in Ottawa has also experienced a surge, where “low inventory, reduced days on market, and multiple offers” have contributed to increased selling prices (Pilienci, 2019; Wright & Hogue, 2019). Housing unaffordability is also evident in the rental sector. Vacancy rates remain below 1 percent in Kingston, Huntsville and Collingwood (CMHC, 2018). Further, planners in Ottawa have observed increased competition for existing rental stock due to a shortage of purpose-built rental units (Porter, 2019). Overall, a homogeneous and/or limited supply of housing results in Ontarians being forced to live in unsuitable and unaffordable housing.

## POLICY CONTEXT

Historically, the Province has downloaded the responsibility of land use planning to municipalities. Provincial involvement in planning remained limited to its role as an independent adjudicative tribunal for planning-related disputes, through the Ontario Municipal Board (OMB). In recent years, however, the Province has become increasingly involved in the planning process, as part of a conscious effort to change the prevailing low-density, car-oriented pattern of development towards one of recentralization (Allen & Campsie, 2013).

Municipalities are required to frame their Official Plans around provincial interests as outlined in the *Planning Act* (1990) and subsequent revisions to the Provincial Policy Statement (2014). These documents have been revised over the years and currently reflect the Province's focus on urban intensification to foster complete communities. Together, these documents support an integrated approach to land use planning that co-ordinates planning across municipalities.

In addition to planning legislation enforced on all Ontario municipalities, the *Places to Grow Act* (2005) allows the Province to designate geographic regions as growth areas with a specific focus. This resulted in the issuance of the Growth Plan for the Greater Golden Horseshoe (GGH) (2006, updated 2017) and the Growth Plan for Northern Ontario (2011). Further, The Greenbelt Plan (prepared and approved under the *Greenbelt Act, 2005*), and associated Oak Ridges Moraine Conservation Plan, (*Oak Ridges Moraine Conservation Act, 2001*) and Niagara Escarpment Plan (*Niagara Escarpment Planning and Development Act, 1990*), help determine where and how growth should occur.

In addition to influencing land use planning, both the federal and provincial governments have identified challenges associated with housing stock and affordability. In 2017, the federal government released Canada's National Housing Strategy, which identifies the need to address housing needs across the continuum of income earners to "create a new generation of housing in Canada", that emphasizes new residential construction that is mixed-income and mixed-use, and that is "fully integrated into the community – close to transit, close to work, and close to public services" (Government of Canada, 2017). Additionally, the Province is developing a *Housing Supply Action Plan* that will "address barriers to creating more housing" to create a more diverse housing stock (MMAH, 2018). Through their consultation process, they identified five barriers to increasing housing supply in Ontario.

A consistent theme across these documents pertains to the need for municipalities to "provide an appropriate range and mix of housing types, tenures, and densities to meet the current and future needs of residents" (Evergreen & Canadian Urban Institute, 2018). Although municipalities frame their Official Plans around these goals, the majority are failing to implement these goals into practice.



# SUPPLY & BUILT FORM PERSPECTIVES

The original use of the term Missing Middle was in reference to the limited supply of medium-density housing types evident in many cities. The Toronto CMA's current housing stock reflects this phenomenon as single-family and high-rise residential buildings continue to represent the dominant form of available housing in the area. Although inadequate housing supply has been identified by all levels of government and a variety of stakeholders, Missing Middle housing types remain largely absent from new residential construction. This section will identify common perspectives pertaining to the opportunities and challenges associated with incorporating Missing Middle housing in Ontario, with a focus on the GTHA – as this is where most of the literature is.

## INCREASED DEMAND FOR URBAN LIVING

The Province is experiencing a demographic shift away from the traditional nuclear family, yet most of the housing stock is built for this type of household composition (Goodbrand et al., 2017). There are several elements to this demographic shift that contribute to the demand for a more diverse housing mix. First of all, as the Baby Boom generation continues to age, they will need to decide “whether to downsize from their suburban homes or age in place” (Moos et al., 2015). The number of seniors aged 65 and over in Ontario is expected to double by 2041 to 4.6 million (Ministry of Finance, 2018) Second, multigenerational households were the fastest growing type of household in Canada between 2001 and 2016 – representing 3.9 percent of Ontario's population – which can be attributed to the Province's changing ethnocultural composition or to the high cost of living in some regions (Statistics Canada, 2017b). Lastly, and perhaps the most notable demographic shift is the increasing urban centralization of young adults since the early 1980s (Moos, 2014). Shifting demographics and an increased demand for urban living represent a strong case for integrating Missing Middle housing into existing urban neighbourhoods.

## LIMITED LAND SUPPLY

According to CANCEA (2017), many developers believe that limited supply of serviced and developable land prevents the construction of Missing Middle housing types in Ontario. However, they note that in the GTHA, housing starts per household have more than doubled in the last 10 years, yet the housing stock per capita has remained the same (CANCEA, 2017). Further, a Neptis Foundation study of the proportion of "Designated Greenfield Area" in the GGH found that "sufficient land had been set aside to accommodate population and employment at average densities similar to those that are typical today" (2013; revised 2017). Lastly, a case study of the City of Mississauga's intensification potential found that the City could meet its density targets without relying on any greenfield development (Haines & Aird, 2018). Overall, CANCEA (2017) suggests that rather than focusing exclusively on the availability of land to build more housing, the focus should shift to building appropriate housing by increasing the productivity of the land.

## RESTRICTIVE POLICY

### PROVINCIAL & MUNICIPAL PLANNING POLICY

Related to the perspective of the limited supply of serviced land available for residential development is the belief that provincial and municipal planning policy restricts where new residential development can occur. In response to shifting provincial interests and a renewed focus on intensification and redevelopment before greenfield development, municipalities were required to update their Official Plans to reflect these ideals. In the GGH, since density targets are imposed on specific areas within municipalities (e.g. Downtown Kitchener), development is concentrated to these areas, and restricted elsewhere. For example, in the Toronto Official Plan (2015), development is directed to *designated growth areas*, which comprise 25 percent of the City's land. Therefore, in these areas, Missing Middle housing types are not as attractive as their high-rise counterparts as they make hitting density targets more challenging.

### MUNICIPAL ZONING BY-LAWS

Restrictive zoning is another element that has been identified as a barrier to the implementation of Missing Middle housing in Ontario (Cox & He, 2016; Haines & Aird, 2018; MMAH, 2018). For example, in the Toronto Official Plan (2015), residential land use designations are identified as *Neighbourhoods* or *Apartment Neighbourhoods*. Missing Middle housing types fit in the *Neighbourhoods* category, where five types of residential development are permitted, ranging from single-family detached homes to walk-up apartments under four storeys. Two of these zones, *Residential Detached* and *Residential Semi-Detached* occupy the older residential neighbourhoods of Toronto (referred to as the “Yellowbelt”) and prevent Missing Middle housing types because they simply do not permit medium- and high-density residential development (Evergreen & Canadian Urban Institute, 2018). The third zone, *Residential Townhouse* excludes all Missing Middle housing types except townhouses. The remaining three zones, *Residential Townhouse*, *Residential* and *Residential Multiple* could include Missing Middle Housing types but occupy much of the existing built-up lands, with little room for intensification (Evergreen & Canadian Urban Institute, 2018). In sum, through municipal zoning by-laws, the Missing Middle housing is restricted to few areas – it cannot be implemented within existing single- and semi-detached neighbourhoods, and its ability to be used as a gradient from low- to high-density or other land uses is limited.

### PARKING

Currently, developers are required to provide a designated number of parking spaces per residential unit in Ontario. According to Burda and Collins-Williams from the Pembina Institute (2015), parking requirements in many municipalities do not align with neighbourhood characteristics such as walkability and access to transit – which make residents less likely to own a car. However, according to Toronto-based real estate developer Brandon Donnelly (2019), Missing Middle housing types attract more end-users who will have access to a vehicle, thus increasing the demand for parking. Parking spaces are more expensive for mid- to high-rise developments, but developers are more likely to opt to build high-rise developments where the cost of parking can be distributed across many units (Burda & Collins-Williams). Overall, parking requirements can greatly influence the productivity of Missing Middle housing – if current parking requirements are kept, Missing Middle housing types will not be an efficient use of land as a significant proportion of the lot must be reserved for parking – but if parking requirements are reduced, productivity can increase by allowing for more units to be constructed and encouraging residents to take advantage of alternative modes of transportation.

## BUILDING CODE

Although building codes are implemented to ensure the safety and well-being of residents, modern building codes prevent replications of previously common medium-density housing types (Beaudreau, 2014; Goodbrand, Humphrey, & Gondek, 2017). As Beaudreau (2014) from the University of British Columbia explains, the historic four- to six-storey rowhouses in many North American cities, including Toronto, could not be recreated today due to changes in building codes. Modern building codes would require a row house with more two separate units to have two egresses with two concrete-enclosed staircases, where external staircases such as fire escapes were previously sufficient (Ellis, 2004 in Beaudreau, 2014). In Ontario, before a new residential building can be inhabited, an inspector must assess the building to ensure its compliance with the Ontario Building Code. However, the Province is facing a shortage of qualified inspectors paired with a longer permit and inspection process associated with the revised building code; and an increased demand for inspections related to higher levels of development (Osman, 2018). In the City of Ottawa, for example, the frequency of meeting legal inspection deadlines dropped from 90 percent in 2015 to 64 percent in 2017, which they attributed to their lack of inspectors and increase in inspection requirements (Osman, 2018). Therefore, the Ontario Building Code itself and the process to have a residential project inspected is a barrier to increasing the stock of Missing Middle housing types.

## REGULATORY STRINGENCY

In a survey of developers and homebuilders conducted by the Fraser Institute (2016) to discover how the supply of new housing is affected by residential land-use regulation in the GGH, an overarching theme related to the “regulatory stringency” surrounding the development process prevailed. Respondents identified several elements of the development process and their associated timelines in cities across the GGH. First, project approval timeline estimates ranged from 15 to 20 months in Burlington to 24 months in Georgina (Green, Filipowicz, & Herzog, 2016). Second, respondents noted that zoning classifications needed to be changed in 90 percent of GGH cities for new residential development more than 50 percent of the time – which could add an additional month to the project timeline in King Township to 11 months in Hamilton (Green et al., 2016). The long and uncertain approval process can make developers wary of constructing medium-density housing developments, as the limited number of units available pose more financial risk for developers.

## NIMBY ATTITUDES

Although shifting demographics have resulted in increased demand for housing choice, “density is often slowed or halted by local residents” as a NIMBY (not in my backyard) attitude towards new development is prevalent (Beaudreau, 2014; CANCEA, 2018; Moos, 2017). In a poll of 1,500 GTA residents conducted by the Building Industry and Land Development Association (BILD) and the Toronto Real Estate Board, most residents believe housing affordability can be improved by new development and by-laws supporting Missing Middle Housing types, but they do not want new development near their place of residence (BILD, 2018). Additionally, results indicated that opposition increased with the proximity and density of the new development (BILD, 2018). Results from a Fraser Institute survey of housing developers and homebuilders indicated that community and council oppositions to residential development are strongest in cities where dwelling values are highest (Green et al., 2016). In sum, resident opposition to redevelopment projects is likely associated with their fear of a high-rise development towering over their residence – yet smaller low-rise developments such as Missing Middle housing types have the ability to increase density without increasing height (Rogers, 2016 in CMHC, 2018).



## AFFORDABILITY PERSPECTIVES

The use of the term Missing Middle has evolved to include the housing unaffordability experienced by middle-income earners (Evergreen & Canadian Urban Institute, 2018). Middle-income housing affordability has generally been overlooked by governments and policymakers, however, the substantial housing price increase relative to income in recent years has called for reform (Cox & He, 2016). According to Cox and He from the Frontier Centre for Public Policy (2016), increased house prices results in less discretionary income, which in turn can lower standards of living. Increasing the stock of Missing Middle housing is believed to be one element of improving housing affordability, however, there are several factors that contribute to housing unaffordability in Ontario, which will be explored in this section (BILD, 2019; CANCEA, 2018; Haines & Aird, 2018).

### PEOPLE ARE LIVING IN UNSUITABLE HOUSING

According to CANCEA (2018), if current housing development trends continue, more households will face shelter unaffordability and be forced into living arrangements that do not suit their household's needs. For example, housing unaffordability has the potential to force households into unsuitable housing conditions such as buying when they should rent, "driving to qualify" for housing they can afford, or living in housing that is too large or small for their household size (CANCEA, 2017; Haines & Aird, 2018). In Ontario, about 12 percent of the population is described as under-housed, whereas over half of the population is over-housed (CANCEA, 2017). In the GTHA, the average number of bedrooms in a high-density unit is between 1.5 and 2, yet the average number of persons per bedroom exceeds one person in Toronto, the Region of Peel, Hamilton and York Region – more than 25 percent of renters are under-housed by multiple bedrooms (CANCEA, 2018). The proportion of residents living in unsuitable housing conditions is directly related to the lack of availability and affordability of housing options. By increasing the supply of Missing Middle housing types, residents will be able to choose a housing situation that fits both their household's budget and their household's size and needs.

## CONDOS HAVE REPLACED PURPOSE-BUILT RENTAL

According to CMHC (2018), the stock of rental condominiums has increased as buy-to-rent investors continue to purchase a high proportion of new condominium units. As stated by Evergreen and the Canadian Urban Institute (2018), “condo apartments have become a de facto substitute for purpose-built rental housing”. In the GTHA, the construction of purpose-built rental units has decreased by more than 30 percent in the last 20 years (CANCEA, 2017). Increasing reliance on private landlords to supply rental housing is problematic for several reasons. First, the cost of renting privately-owned units has proven to be more expensive than purpose-built rental (CMHC, 2018). Second, privately owned condominiums represent a less stable form of tenancy – they can easily be reverted back to ownership, thus removing it from the rental market (Evergreen & Canadian Urban Institute, 2018). Lastly, increased competition for available rental units allows landlords to be more exclusive in the tenant selection process – which could pose threats of discrimination (CANCEA & Canadian Urban Institute, 2019; Evergreen & Canadian Urban Institute, 2018; Goodbrand et al., 2017). As purpose-built rental represents an affordable and stable housing option for residents, an increasing reliance on private landlords to supply rental housing can contribute to further housing unaffordability and discrimination.

Although there has been an increase in purpose-built rental starts in recent years, many of these projects exclude the middle class socially or financially. For example, Kitchener-Waterloo has seen an increase in rental housing targeted at students since 2011, with almost 20,000 purpose-built rental units marketed exclusively to postsecondary students (Haider & Morains, 2018; Pi, 2018). In the Toronto CMA, purpose-built rental starts have increased dramatically since 2013, reaching levels not seen since the early 1990s (Ryerson City Building Institute & Evergreen, 2017). However, a high proportion of new purpose-built rental developments have been focused on higher-end and luxury rentals, which are largely unattainable for middle-class renters (Ryerson City Building Institute & Evergreen, 2017). Traditionally, developers have favoured condominium projects over purpose-built rental projects, however, luxury rental units have become an attractive alternative in light of increased demand for rental housing – as these units can achieve above market rents, and are more economically attractive for developers in areas with high land costs (Ryerson City Building Institute & Evergreen, 2017). In sum, the current stock of purpose-built rental housing does not meet the needs of the middle class.

## THE RISE OF SHORT-TERM RENTALS

As buy-to-rent privately owned condominiums can readily be reverted back to ownership, they can also be converted into short-term rental units through home-sharing sites such as Airbnb – removing more units from available rental supply, which, in turn, contributes to rent increases for available units (Barron et al., 2018). This trend has emerged in Ontario’s large cities such as Toronto and Ottawa with more than 7,000 and 1,000 units respectively, as well as in and smaller municipalities that are popular tourist destinations (Wachsmuth, Kerrigan, Chaney & Shillolo, 2017). Several municipalities have adopted or are in the process of adopting zoning by-laws and other rules in efforts to regulate short-term rentals. For example, Toronto council created new rules requiring landlords to obtain a license, register with the City and pay a 4 percent Municipal Accommodation Tax – however this is currently on hold as associated zoning by-law amendments have been appealed (City of Toronto, 2019). Additionally, there are questions regarding the overall effectiveness of implementing by-laws and other regulations for short-term rentals as enforcement occurs on a complaint basis and municipal staff do not monitor these sites. In the Town of Caledon, for example, short-term rentals are not permitted under zoning by-law, yet dozens of listings remain on short-term rental sites (Martin-Robbins, 2019).

## CONSTRUCTING MISSING MIDDLE HOUSING IS UNECONOMICAL

Results of the MMAH's consultation for the *Housing Supply Action Plan* (2018) identified the high cost of development as a theme associated with the current state of housing in Ontario. According to the Fraser Institute's survey of developers and homebuilders (2016), increased affordable housing options via medium-density housing is largely prevented by policy and development fees. Reported compliance costs and fees per residential unit in the GGH range from \$21,000 in Hamilton to \$60,500 in Oakville, with the average compliance cost in Toronto being \$46,570 per residential unit (Green et al., 2016). Overall, increased cost associated with new residential development in Ontario makes the construction of Missing Middle housing types economically unattractive for developers, who resort to constructing many units in a high-rise apartment in high-density zoned areas, or larger constructing larger homes in areas zoned for single-detached homes – where the increased number of units or square footage can facilitate a better return on investment (Burda & Collins-Williams, 2015; CMHC, 2018; Evergreen & Canadian Urban Institute, 2018).





## KEY ISSUES

As demonstrated through this report, there are many factors that contribute to the challenges of housing supply and affordability in Ontario. Increasing the supply of Missing Middle housing can help to diversify Ontario's housing stock and provide more affordable housing options for middle-income earners. However, there are several key issues that need to be resolved before this can occur.

Although both the federal and provincial governments have recognized challenges pertaining to housing supply and affordability, policies that support Missing Middle housing development remain largely absent at the municipal level. How can municipalities encourage the development of Missing Middle housing types through policy? Identified policy barriers include by-laws that restrict where Missing Middle housing types can be developed and parking requirements that are not reflective of transit-oriented development practices. Further, how can policy be used to increase the stock of purpose-built rental units and deter landlords from converting their units to short-term rental?

Developers and homebuilders identified the development process itself as a barrier to them taking on medium-density housing projects. Increased timelines associated with processes related to development approvals, re-zoning applications, and building inspections are all contributing factors to developers' reluctance of Missing Middle housing projects – as longer timelines result in increased costs. This can also reduce the productivity of homebuilders, reducing the amount of new houses being added to the market. How can the planning process be streamlined to encourage developers to take on medium-density housing projects?

Community opposition is another major factor that prevents new housing development. As opposition increases with density, can Missing Middle housing be an effective compromise to contributing to subtle density increases in existing neighbourhoods? How can community perspectives be changed to support infill development?

Increasing housing choice and affordability is not just a matter of increasing housing stock, but rather building the right type of housing. Missing Middle housing has the potential to address these challenges by incorporating housing that is between both the scales and price points of single-family and high-rise condominiums. The success of increasing the supply Missing Middle housing in Ontario relies on partnerships between developers, local communities, and governments (CMHC, 2018).

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