



**REGULATING THE LAND MARKET:
The costs and benefits of urban sprawl and
growth boundaries in the Greater Toronto Area**



SAMUEL R. STALEY

AIMS COMMENTARY



June 2005

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Published by Atlantic Institute for Market Studies
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Edited and prepared for publication by Barry A. Norris.

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About the Author

Samuel R. Staley, Ph.D., is Director of Urban and Land Use Policy, at Reason Foundation, in Los Angeles, California. His work on growth management, land use, and urban policy has appeared in a wide range of publications, including the *Journal of the American Planning Association*, *Urban Land, Planning & Markets*, *Planning* magazine, *Reason* magazine, and newspaper throughout North America. He has recently been invited to write feature articles for special issues on housing innovation for the *Journal of Urban Planning and Development* and on sustainable development for *Town Planning Review*. He is the co-editor of *Smarter Growth: Market-Based Strategies for Land-Use*

Planning in the 21st Century (Greenwood Press, 2001), and author of *Planning Rule and Urban Economic Performance: The Case of Hong Kong* (Chinese University Press, 1994), among other books. He received his Ph.D. in public administration with concentrations in urban planning and public finance from the Ohio State University, M.S. in applied economics from Wright State University, and B.A. in economics-public policy from Colby College in Waterville, Maine.

This essay is based on comments written for his participation in a panel on Urban Sprawl and Smart Growth for the Canadian Regional Science Association in Toronto, June 4, 2005.

From Mumbai...

Eight days ago, I was standing on the roof of a recently built low-income housing complex in the middle of the world's largest slum, Dharavi. Dharavi is in Bombay, now called Mumbai, and is home to 900,000 people on just 2 square kilometres. Mumbai is one of the most densely populated cities in the world, and Dharavi may be the densest part of the city.

Mumbai is part of the so-called developing world, so incomes are low. Few people can afford a car, so they use public transit. Eighty-five percent of the commuters use the rail system, and the others walk or use the bus. Unlike New York City, which has one-tenth the densities, Mumbai's transit system makes money. But that's not why I mention Dharavi.

Dharavi is unique in its scale — it's a city in and of itself. But unlike many North American slums, most of Dharavi's residents are working and earning income. They include domestics, small businessmen, policemen, and construction workers. As the World Bank's Alison Barrett told me, slum dwellers "are not income poor, they are quality of life poor." This is a city — and it is a city — where vast improvements in the quality of life are measured in added metres of living space, being able to tap into electricity legally, having in-door running water, and moving to a flat with a private toilet.

What struck me more than anything else was that it was quite clear that Dharavi had a functioning market economy. It was almost all underground, but it was there nonetheless, and it was largely a money-based economy. Its residents trade in the necessities of life — food, clothing, shelter — as well as the luxuries — maid service, hot

plates, even TVs. But there was no doubt in my mind that the single most important good or service that could improve the quality of life of these residents was a home. And there, the issue wasn't so much the lack of income as it was the inability of the private market to provide housing at a reasonable price. And Mumbai, like North American cities, depends on the private sector to provide that housing. The city has been completely inept in providing public or "social" housing. A promise ten years ago to build 500,000 units of affordable housing to replace slum dwellings has netted a meagre and completely inadequate 20,000.

The biggest constraint on housing in Dharavi, however, is not private initiative or public sector resources — it's regulatory. And here is where the parallels become relevant to North America.

Mumbai has maximum-density restrictions that prevent developers from building vertically. That means they have to build out. But incomes are sufficiently low that the vast majority of people must use transit. That means, for all practical purposes, they must live within walking distance of a railway stop. Existing housing is the most valued, so rents are bid up well beyond the incomes of low-, moderate-, and, increasingly, middle-income households.

The solution is fairly straightforward: loosen the density restrictions, allowing buildings to go up, and the private sector would fill the gap rather quickly.

...To Toronto

I think you can see where this is going. It's not the specifics of Dharavi that are of interest in Canada and the rest of North America; it's the fact that land and housing markets exist and operate regardless of the

The biggest constraint on housing...is not private initiative or public sector resources — it's regulatory.

regulatory regime. Where there is demand, supply will meet it. Supply will meet demand in both the formal economy and the informal economy.

But the regulatory approach has dramatic impacts on the type, quality, and quantity of housing available. In Mumbai, regulation makes it difficult for working Indians to obtain a habitable flat. This does not differ so much from the circumstances faced by a growing number of North American metropolitan areas. How many teachers, secretaries, policemen, and firemen can afford a \$900,000 home in San Jose? We don't even need to bother calculating the exchange rate to answer that question. In California, the search for affordable housing is sending thousands of families into the farmland in the interior despite daily commutes of an hour or more.

Regulating the Land Market...

The choices we make about how we regulate the land market have profound implications for the choices we face everyday as homeowners, parents, employees, and employers. The choice Mumbai made to limit densities effectively wiped out the legal housing sector for low- and moderate-income families. The decision to loosen up the low-density policy regime by creating a transfer of development rights program has allowed the formal market to re-enter and serve these needs while also boosting production in other, newer suburbs where incomes support middle-income, market-rate housing.

This is why I approach many "smart growth" proposals with more than a little skepticism. Many proposals are explicitly designed to replace private market decision-making with political decisionmaking, and rarely have the full implications been

explored either through public discourse or a rational analysis of the data. Take the arguments used to justify Toronto's greenbelt and densification policy (data from Cox 2004):

- Development is supposedly eating up open space at unsustainable rates, yet development in Ontario accounts for just 5 percent of all land.
- Development supposedly threatens the nation's food supply, yet Canada, like the United States, is a net exporter of food.
- Decentralized development supposedly wreaks havoc on the environment, yet air quality has been steadily improving in Canada's urban areas since 1980.
- Transit supposedly reduces traffic congestion, yet 85 percent of greater Toronto residents depend on their car to get to work and run errands. Auto-related travel demand is expected to grow by 50 percent over the next 30 years, but roadway capacity is expected to increase by just 10 percent.

Meanwhile, study after academic-and-peer-reviewed study documents the numerous ways in which planning and case-by-case development review raise housing and land costs. These studies (see, for example, Malpezzi and Green 2004; Staley and Gilroy 2001) are ignored in the debate even though they raise serious concerns about the implications of further politicizing the development approval process. Lengthier and more uncertain reviews raise the cost of development, reduce the supply of housing units produced, and raise the costs of the ones that are built. Low-income citizens suffer the most, as the Royal Bank of Canada notes in its report on housing affordability trends in the United

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States (see Grant 2005). The results of these studies are not unique to the United States or Mumbai — they apply to Canada as well, as Cox (2004) shows.

...Limits Choices, Especially for Low-Income Families

In the end, the argument for a growth boundary rests on a lifestyle choice: some people, notably environmental activists and regional planners, do not want people to live in low-density neighbourhoods. They prefer the more urban, dense, mixed-used neighbourhoods of cities that existed before the car greatly expanded mobility for the vast majority of citizens. Indeed, one of the most frustrating aspects of this debate is the unwillingness to recognize the inherent tradeoffs in adopting a more politicized approach to land use.

Adopting a greenbelt or urban growth boundary fundamentally limits choices available in the housing market. This is truer in Canada than in the United States. Many of Canada's cities have retained a vibrancy in their urban core that supports traditional urban living. But greenbelts limit low-density housing as a viable option for large sections of Canada's population.

One doesn't have to look far to see the consequences. Low- and moderate-income families have fewer housing choices, not more. Instead of being able to choose among a bungalow, a two-storey house, a townhouse, or an apartment, lower-income households are often limited to the townhouse or apartment and are forced to rent.

Some argue that the tradeoff is a greater sense of urban community. But this ignores the fact that our notion of community is changing quickly with technology and

increasingly mobility. My 11-year-old daughter's community includes the children in the neighbourhood as well as her friends an hour away. Instant messaging, e-mail, and, soon enough, real-time video allow her to expand her world and her community.

The Solution: Embrace Market Forces

This doesn't mean that growth doesn't present challenges — it does, and we have to face them. We have to ensure the infrastructure is in place to service new housing and growth, whether new roads, a sewage system, or water. Families need to be sure that their children can attend school.

But there are ways we can address these challenges without limiting housing choices and negatively affecting the quality of life for low- and moderate-income households. Political approaches to land-use planning increase uncertainty and development costs, putting unnecessary upward pressure on housing costs. Explicit attempts to increase densities without market demand to support them will limit the housing choices available to low-, moderate-, and eventually middle-income families. Urban growth boundaries and greenbelts are blunt instruments that are likely to undermine housing and neighbourhood choice by artificially limiting the supply of land.

In the end, Canadians are more likely to achieve their growth-management objectives by embracing market forces rather than by attempting to trump them through more comprehensive government control of land.

Canadians are more likely to achieve their growth-management objectives by embracing market forces rather than by attempting to trump them through more comprehensive government control of land.

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