

# Prices Crises: Cost and Benefits of Reducing Housing Prices

Daedalus Analytics Incorporated

Written by David Baxter

Copyright 2016 Daedalus Analytics Incorporated

There has been a growing chorus of cries for governments to “do something to bring down housing prices to help with housing affordability” in metropolitan Vancouver<sup>a</sup>. Thus far, these cries have not led to government action, but, now, some politicians who call themselves conservatives and some who call themselves progressives have joined the chorus. This is indeed a strange political situation when the “property-is-liberty” crowd sings with the “property-is-theft” crowd in calling for government intervention. In such an environment, there is a possibility that some level of government might attempt to bring down prices without fully considering such an intervention’s costs and benefits.

Government price controls – and that is what government action to reduce housing prices directly or indirectly involves - are relatively heavy artillery to use on a market that is fundamental to people’s lives. I find the calls for such significant intervention worrisome, as no one has yet said how much which prices will be brought down, or who will bear the burden and who will get the benefit that would result from an intervention. It seems reasonable that before we go too far down this road there should be an evidence-based social and economic cost/benefit analysis to demonstrate how effective arbitrary housing price reductions would be in improving housing affordability and to measure the costs and benefits. Not only would such a study prepare us for the consequences of such actions, it might well indicate that there are more effective ways to deal with affordability issues.

In the absence of this kind of study, it is appropriate to jump in, at least to consider the dimensions of what such a study might involve. I won’t discuss how government might act to bring down housing prices, as there are many ways, each with its nuances in implementation and impact. The discussion of the tools of price controls can wait until after the case is made, if it can be, for intervention to bring down prices: only if such a case exists is there need to consider what tools that might be used to do it.

To start with we would need to know which housing prices are to be brought down to improve affordability. There are a wide range of housing whose sales go into the “prices” that government might bring down: in 2014<sup>1</sup> the average price of housing sold in metropolitan Vancouver was \$719,570: the mid-point (median price was only \$500,000. 25 percent of the housing sold for less than \$300,000; 25 percent between \$300,000 and \$499,999; 25 percent between \$500,000 and \$749,999; and 25 percent for \$750,000 or more. The policy question is which price ranges should the government target to enhance affordability?

---

<sup>1</sup> This price range data will be updated when the 2015 price data are available.

While not addressed by the chorus, the answer to this question lies with the objective of bringing prices down to assist in affordability - the focus has to be on prices that, when reduced, will help affordability. And here I have to find my way through a bit of fog, as there is no clear and consistent definition of affordability. From the discussion of the topic one might reasonably infer that improving affordability means helping people who are not yet homeowners become so. In this context, the goal is to help folks who are not on the ownership train get on; those who are already on, are, well, already on, and hence have affordability under control, at least insofar as affordability is defined as being able to own a home.

This means that the focus of government intervention must be on prices in the entry level housing ownership market. First time entrants are not aspiring, one hopes, to purchase property at the top end of the market: if they are, then the affordability discussion involves expectations and entitlements that are so out of touch with reality that we must ignore it. Bringing the price of Chip and Shannon Wilson's \$70 million house on Point Grey Road down by ten, twenty, thirty, or forty million is not going to do anything to improve affordability for first time homebuyers. Thus one can only conclude, if one accepts that improving affordability means helping folks enter home ownership, that if prices are to be brought down to do so, that they are of the lower priced entry level dwellings.

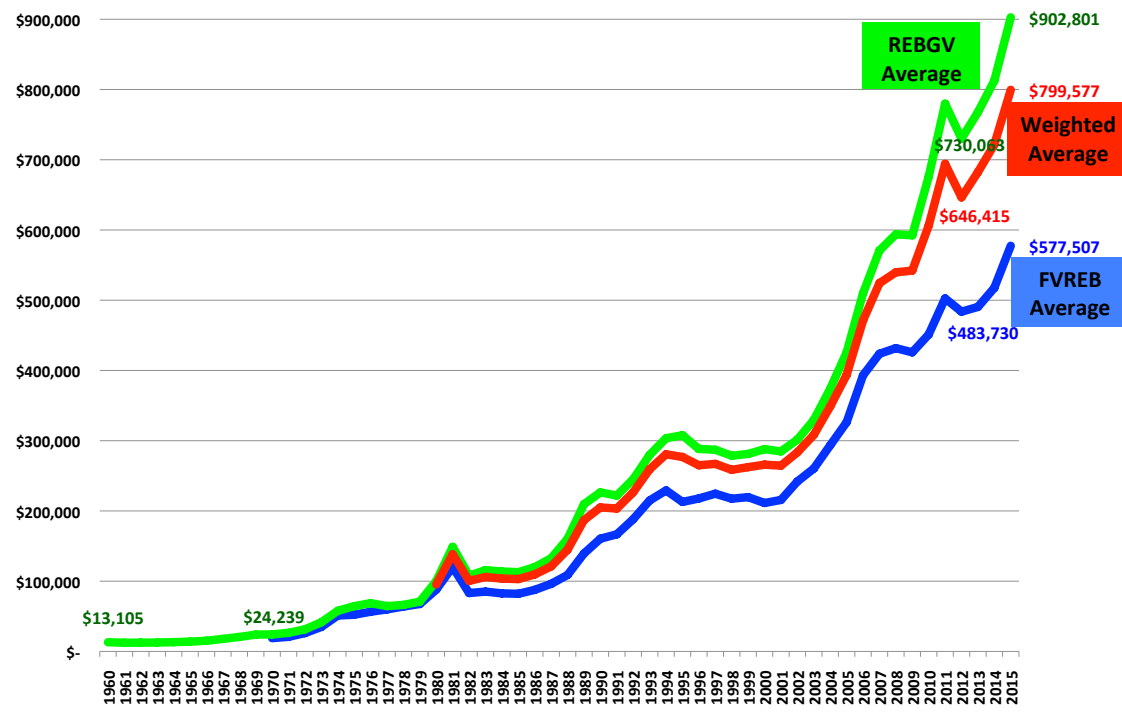
In one sense, the "reduce prices to improve" affordability discussion could end here - can you actually see a politician standing up and say "we are going to push down prices in the lower half of the market where low and moderate income owners live so that the lower prices will improve affordability for those who are not yet owners?" It is not going to happen. Certainly politicians are willing to say that they are going to go after the "wealthy", but that won't help entry-level purchasers - if prices have to come down to help with affordability, they have to be entry-level prices.

Having said this, it is informative to continue with the exploration of what must be considered in the cost/benefit analysis of arbitrarily bringing down housing prices. Let us presume that politicians, good Canadians all, opt to skate on the issue, to go after all housing prices, in a nice egalitarian way, to bring down the prices at the entry level of the price scale along with all the rest of them. In this case, the magnitude of the impact of the intentional reduction in housing prices will be shown in the average price, even though we know that to help people enter the ownership market, it is only reduced starter housing prices that can improve affordability.

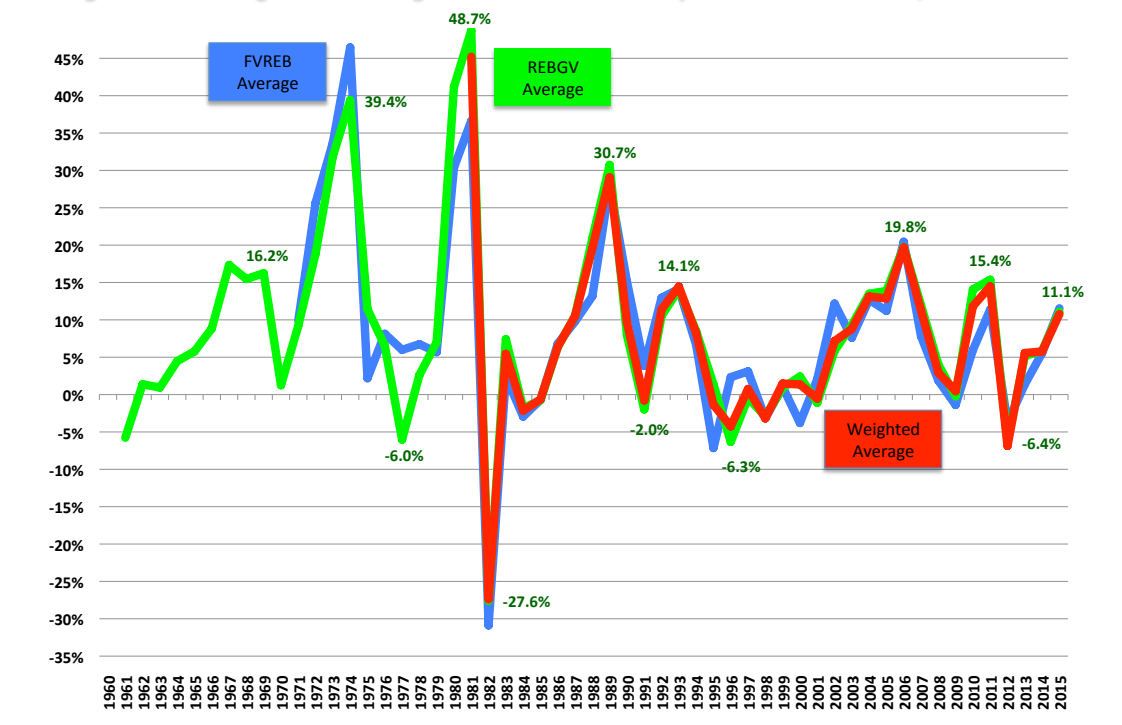
So now there is a target market (all ownership housing) and a measure (change in average price), the next thing an impact study needs is a magnitude - What must prices be to be affordable? How much must the prices be brought down to improve affordability? As the affordability chorus has not yet told us what prices must be, we must search for some metric to use. We can, perhaps, find the answer by looking at our housing history: when we do, we find that the cries of unaffordability have been with us for a long time, going back, at least in my memory, to the early 1970s.

## Prices Crises: Costs and Benefits of Reducing Housing Prices

**Fig 1: Metropolitan Vancouver MLS Average Residential Sales Price by Real Estate Board Area, 1960 to 2015**



**Fig 2: Annual Change in MLS Average Residential Sales Price by Real Estate Board Area, 1960 to 2015**



In 1975 the GVRD's The Livable Region 1976/1986 Proposals noted (p.6) that "people are worried about the high costs of housing ... many are worried about whether they can afford to buy any type of home". Concerns about affordability were also expressed in the late 1970s, and the late 1980's. More recently, the unaffordability chorus has had something to sing about since the Winter Olympics; for examples, we need look no farther than the discussion of and around the City of Vancouver's Mayor's Task Force on Housing Affordability of 2011-2012, established to determine how to deal with the then prevailing affordability crisis.

Examining the data that document this history – for example as shown in average real estate board sales prices for sales in the Metropolitan Vancouver housing market – requires looking at the average of prices from the two real estate boards that serve the metropolitan area<sup>b</sup>. The first is the Greater Vancouver Real Estate Board (GVREB), which represents the central and more expensive part of the region's housing market that lies north of the Fraser River and west of the Pitt River. The second is the Fraser Valley Real Estate Board (FVREB) that includes the communities south of the Fraser River and east of the Pitt River, where the region's lower priced housing is found. By looking at the data from these two board areas, we are able to see what is happening in the entire spectrum of housing available in the region, from Point Grey and West Vancouver to Surrey and the Langleys, and everywhere in between: to consider only one of these two Board areas is to not look at the region's entire housing market.

In 2015, the GVREB average residential price was \$902,801, and the FVREB average sales price was \$577,507 (Figure 1); the GVREB sales volume was 43,145 dwelling units, 68 percent of the region's board's total of 63,200 (there were 20,055 dwelling unit sales through the FVREB). The weighted average of these two average prices, \$779,577, is the metropolitan region's average residential sales price, an average that represents transactions of mega-million houses in West Vancouver, the City of Vancouver and Surrey; condominium apartments in Burnaby, the City of Vancouver and Langley; row houses in Richmond; duplexes in the Tri-Cities; and all of the rest of the housing market. The fact that these two real estate boards operate in one regional housing market is clearly shown in the identical patterns of price changes they have experienced (Figure 2).

Figure 2 shows that concern with affordability is highly correlated with significant percentage increases in prices. In the mid- and late-1970s prices were increasing in the 40-50 percent per year range; in the late 1980s in the 30 percent per year range; in the early 1990s in the 14 percent range; in the 20 percent range in the mid-2000s; by 15 percent immediately after the Olympics; and, most recently, in the 11 percent range. [Parenthetically, I find it puzzling that, even though the recent percentage increases are modest compared to those experienced historically, they are the ones that are seen as most catastrophic – do we really have such short attention spans?]

Interestingly, history shows one instance of the impact of government policy bringing down housing prices – in 1981, the "battle against inflation" led to a policy based decision to increase interest rates. As a result, between August 1980 and August 1981

## Prices Crises: Costs and Benefits of Reducing Housing Prices

the posted rate for 1-year term mortgages almost doubled from 12.75 percent to 21.25 percent, and from 13.5 to 21.75 percent for 5-year term mortgages. This certainly brought down housing prices, by 27 percent between 1981 and 1982, but these falling housing prices did nothing to improve affordability. You don't have to take my word for it – just ask anyone who had to make payments on a 21 percent mortgage about how falling housing prices affected affordability for them. They will tell you that, in the early 1980s, mortgage defaults and foreclosures skyrocketed, housings sales dropped, residential construction fell - it was not at all a pleasant time even though prices were much lower. The consequences of government-induced reductions in housing prices were, for most homeowners, disastrous. Now I realize that some people will say that this time will be different, that that was then and this is now, but it useful to at least consider what has happened in the past even if we are in a brave new world.

So, back on topic: does history show us what prices must be to achieve affordability? The answer is no, not really, for while the prices were lower in the past than they are now, some people still felt that the prices were not affordable in the then prevailing context. And yet, in order to analyze the benefits and costs of government housing price controls, there must be a price target to evaluate impact - without identifying the magnitude of the decline required to achieve affordability, it is not possible to evaluate costs and benefits.

In the absence of either a historical price that would be deemed to be affordable today or a price advanced as affordable by those chorusing for government intervention to reduce prices, I am just going to pick one. This is not a recommendation, but merely to have a number so that evaluation can proceed. If you don't like this choice, you can use your own – on the following page there is a scalar that you can use to measure impact of whatever number you choose. Clearly to improve affordability after years when prices were deemed not to be affordable, the price decline cannot be a small percentage, say 1% or 2%, as that will do nothing to change the mathematics of affordability. So it would require a major decline in prices.

Let us start with the metric for the price that must be pushed down: I will use the 2015 real estate boards' average sales price for metropolitan Vancouver of \$799,577. The reason I chose this price is that it roughly corresponds to the valuation for the assessment notices that the region's homeowners received in January of 2016 that are in turn the value upon which municipalities are charging property taxes.

For an affordability target, let us take the corresponding value for 2012, the year the City of Vancouver's Housing Affordability Task Force reported its findings: this value of \$646,415 is 19% percent (\$153,000) lower than the 2015 price. So, what do you think? If prices were 19 percent lower today, would homes in Metropolitan Vancouver be affordable? Your call – my focus is measuring the impact of forcing prices down.

Let us start the impact analysis by looking at the situation of existing homeowners, the folks who will bear the burden of an average of \$153,000 drop in the value of their

homes. Working with an estimate of 656,966 households in the region who are owner-occupiers in their homes (the calculations that underlie this estimate are discussed on Pages 12 and 13 following): this represents 64 percent of the households in the region, households that are home to 70 percent of the region's population<sup>2</sup>. If governments intervened to push housing prices down 19 percent in the name of improving affordability collectively homeowners would experience a \$100 billion<sup>3</sup> loss in the value of the equity in their home, measured not against their current equity, but against their 2015 value.

Now, I don't know how politicians think, but to me, with elections in 2017 at both the provincial and municipal level, and the image of 70 percent of the region's population staring at 2017 assessed values for their homes that were 19 percent lower than they were in 2016, and saying "Where did my equity go?", would make me stop talking about driving prices down and start talking about preserving the value of people's homes. This would lead perhaps to affordability discussions about how to help people get on the train without pushing some of those already on off.

A number of comments about this estimate of the cost of government intervention to drive down prices are warranted. First, you may not agree that a 19 percent drop in prices is necessary or sufficient. This example gives you a scalar that you can apply once you have decided what magnitude of price decline is necessary for affordability. As a rule of thumb, working from the 2015 average of real estate boards' residential sales prices that are reflected in current assessed values, for every 10 percent drop, knock off an average of \$75,000 per home owner, a total reduction of \$50 billion.

Second, there will likely be some people who will say that the values of homes are not real, that they are just paper values, so it does not matter if they are pushed down or not. These people, of course, cannot include either municipal politicians (who are taxing people on these values), or financial institution such as credit unions and banks (who are basing loan repayment amounts and schedules on these same values). And please recall I am using 2015 averages for the baseline value, not today's.

In this context, to the extent that recent prices are the basis for mortgage loans, the cost of arbitrary price reductions will be real enough, as some people will be repaying mortgages whose outstanding balance exceeds their home's value. Having said this, ultimately, if governments intervene to bring down housing prices, there will be a forceful discussion as to whether the equity people have in their houses at 2015 prices is real or not, and this discussion will be between home owners, the governments who brought the prices down, and mortgage lenders.

---

<sup>2</sup> There are an average of 2.8 persons per households in owner-occupier households compared to only 2.1 per household in tenant households, so owner-occupier housing accounts for a disproportionate share of the population.

<sup>3</sup> \$153,161 times 656,966 households equals \$100.622 billion.

Third, I have to note that thus far I have only talked about direct costs. Indirect costs would include the loss of construction jobs that would result from the reduction in housing construction; the loss of development fees and charges that municipalities would experience; the drop in renovation and refurnishing expenditure and employment as housing equity shrank; the loss in revenue to credit unions and other financial institutions as a result of mortgage default by some recent home buyers whose properties would have negative equity; and, of course, reduced lawyers conveyancing fees, real estate commissions and property transfer tax revenue – all of which would inevitably go with a 19 percent drop in housing prices.

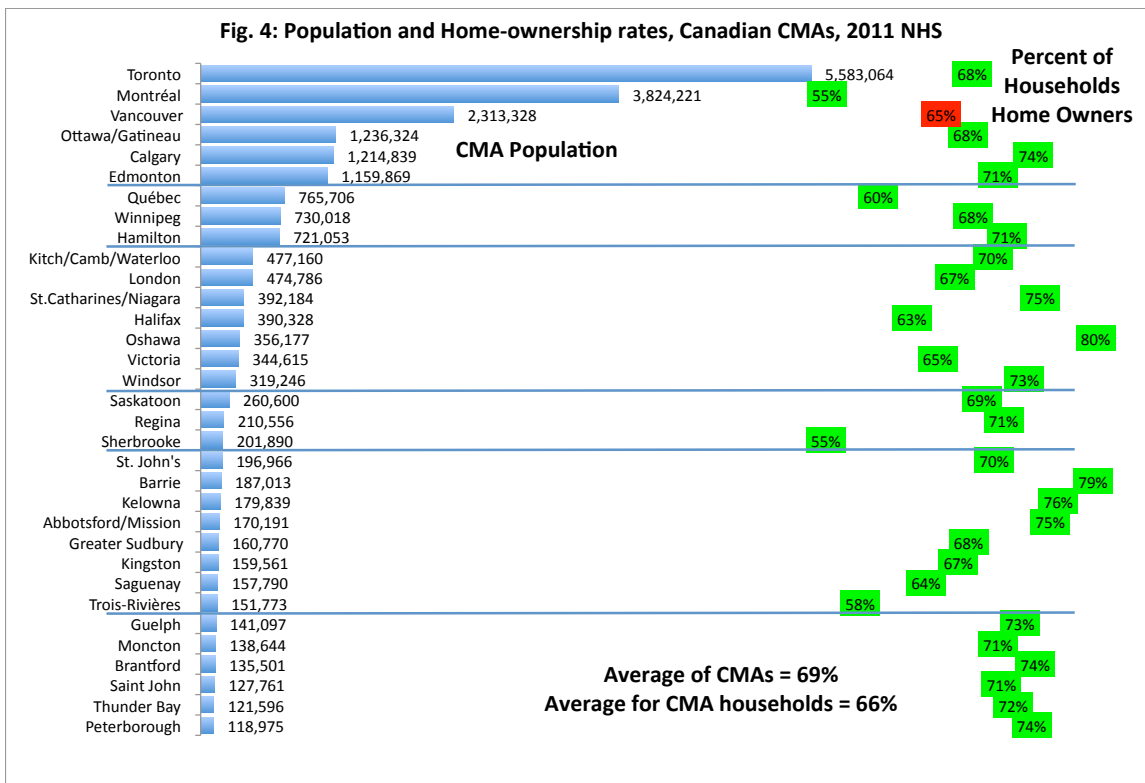
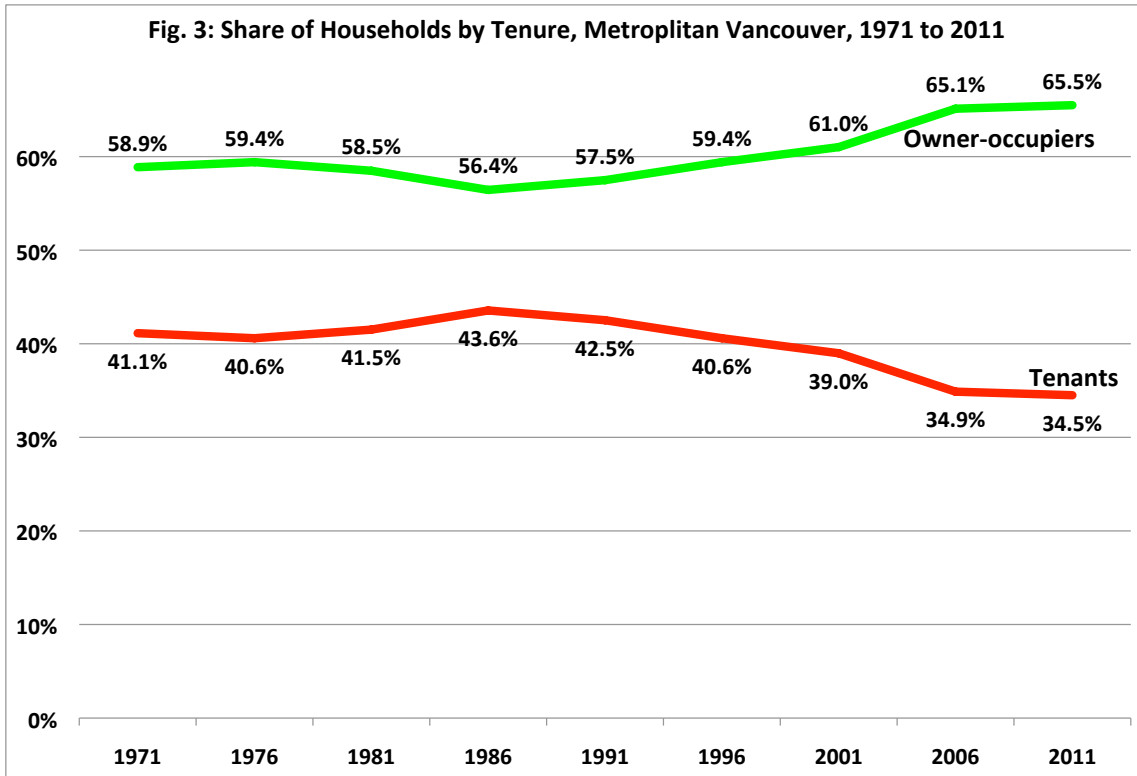
There may be some who will say none of this will happen – but how can it not, as it is merely the math of reduced prices: if prices are reduced equity is reduced, the mortgage certainly doesn't. And, to reiterate, if the intention is to improve affordability by getting first time purchasers into the ownership market, its impact has to be felt by owners of lower than average priced homes, as it is these homes that first time purchasers can reasonably aspire to acquire.

Having looked at who will bear the burden of forcing prices down, it is now time to look at who would benefit from these folks losses. Interestingly, while there is much talk of people not being able to afford to own a home because of current prices, no one has actually indicated how many people are in such circumstances. So my next task is to offer some metric to measure the number of households that have affordability problems that might be solved by price reductions.

With 64 percent of the households in the region already owner-occupiers, we must start with consideration of the 36 percent of the households that are tenant-occupiers to see who is being kept out of the ownership market by high prices. While it is tempting to regard all of these people as potential owners, many tenant households would not become owners even if ownership prices were forced down to assist in affordability. Households opt for rental accommodation for a wide range of reasons, ranging from personal and career lifestyles to income and/or down payment constraints. Never in the history of this region, or in any other metropolitan region in Canada, have all households been owner-occupiers; there have always been people who by choice, timing or circumstance are not homeowners.

If we are to measure the degree to which housing prices are precluding households who would (not who want to, but who would) become owners if prices were lower, we must have some empirical measure that shows the degree to which current prices are actually creating a situation that is different from historical or relative norms. If intelligent policies are to be implemented, surely there must be some empirical measure of the degree to which a problem that needs correcting exists – evidence based decisions are likely to be more effective than opinion based ones. So we are faced with the following question: We are currently at an ownership share of 64 percent of all households; when will we have achieved affordability? 70 percent? 75 percent? 80 percent?

Prices Crises: Costs and Benefits of Reducing Housing Prices





To seek an answer to this question, let us look first to our history to see the extent to which the current situation departs from historical levels. History shows that we are in a period where homeownership is in the highest range ever, and that a record level was established every Census from 1996 to the 2011 National Household Survey (NHS). The current estimated level of 64 percent of households being owner-occupiers compares to the high of 65 percent measured in the 2011 NHS, the low of 56 percent after the severe decline in housing prices in the early 1980s, and the 59 percent that prevailed when the current metropolitan region was established in 1971 (Figure 3). Interestingly, if we consider Figures 1 and 3 together, we see that most of the increase in home ownership as a share of all households has been since 2001, a period when housing prices have also increased after a decade of relatively constant prices from 1991 on: increasing home ownership shares have accompanied rising prices.

It would appear that our metropolitan history cannot provide us with a measure of what the normal level of homeownership would be if there were no affordability constraints, as the most recent period for which we have data shows the highest level of home ownership. At this point, we can turn to look at the data for other metropolitan regions in Canada to see if they can offer some guidance as to what market share ownership must have to let us know that we have achieved affordability. For this comparison, we can look at 2011 Census/NHS data in our search for a comparator: alas, when we do it does not help us much in a search of a measure of affordability (Figure 4), as ownership market shares are all over the place.

If a relatively low percentage share of households are owner-occupiers indicates affordability problems, then there is an affordability catastrophe in Quebec: all of the low percentage shares occur in that province. Only 55 percent of the households in the Montreal and Sherbrooke CMA are owner-occupiers; only 58 percent in Trois-Riviers; and only 60 percent in Quebec City. Yet we hear nothing of an affordability crisis in these regions, suggesting that low owner-occupier shares are not, perhaps, the best indicators of an affordability problem – but let us set the data for these CMAs aside.

Looking at the remaining CMAs, there is a general pattern of relatively high owner-occupier shares in small CMAs, as most of the CMAs with populations under 500,000 have owner-occupier shares of 70 percent or more. Clearly home ownership is much more prevalent in these small metropolitan regions, but not a lot of people want to live there. With the Quebec CMAs excluded, the 14 smallest CMAs (Saskatoon and smaller) in Canada combined accommodate fewer people than the Metropolitan Vancouver CMA. But even in small CMAs there are exceptions – Halifax CMA has a smaller home ownership share than Vancouver CMA (63 percent to 65 percent) and yet Halifax is not on the affordability crisis radar. Looking at these small regions offers little in the way of guidance for what home ownership rates would be in a major metropolitan region such as Vancouver. Surely those who say that there is an affordability crisis in this region do not aspire to a life style here comparable to that of Moncton or Thunder Bay: so let us put the data for these small regions aside as well.

So now we have only the seven regions with 700,000 or more people in them to consider in our search for an indicator that affordability has been achieved. In this group we find Hamilton (71 percent), Edmonton (71 percent) and Calgary (74 percent) with ownership shares above 70 percent; Winnipeg, Ottawa-Gatineau and Toronto with 68 percent ownership shares, and Vancouver with a 65 percent share. So are the ownership shares of Calgary or Edmonton what we should expect home ownership shares to be, these sprawling metropolitan regions, in the midst of a prairie that provides an unending supply of land and half our population? Or should we look to Toronto, with more than twice our population and with its land supply constrained on the southern boundary, just as our region is, but, unlike our region, not constrained on its other hemisphere.

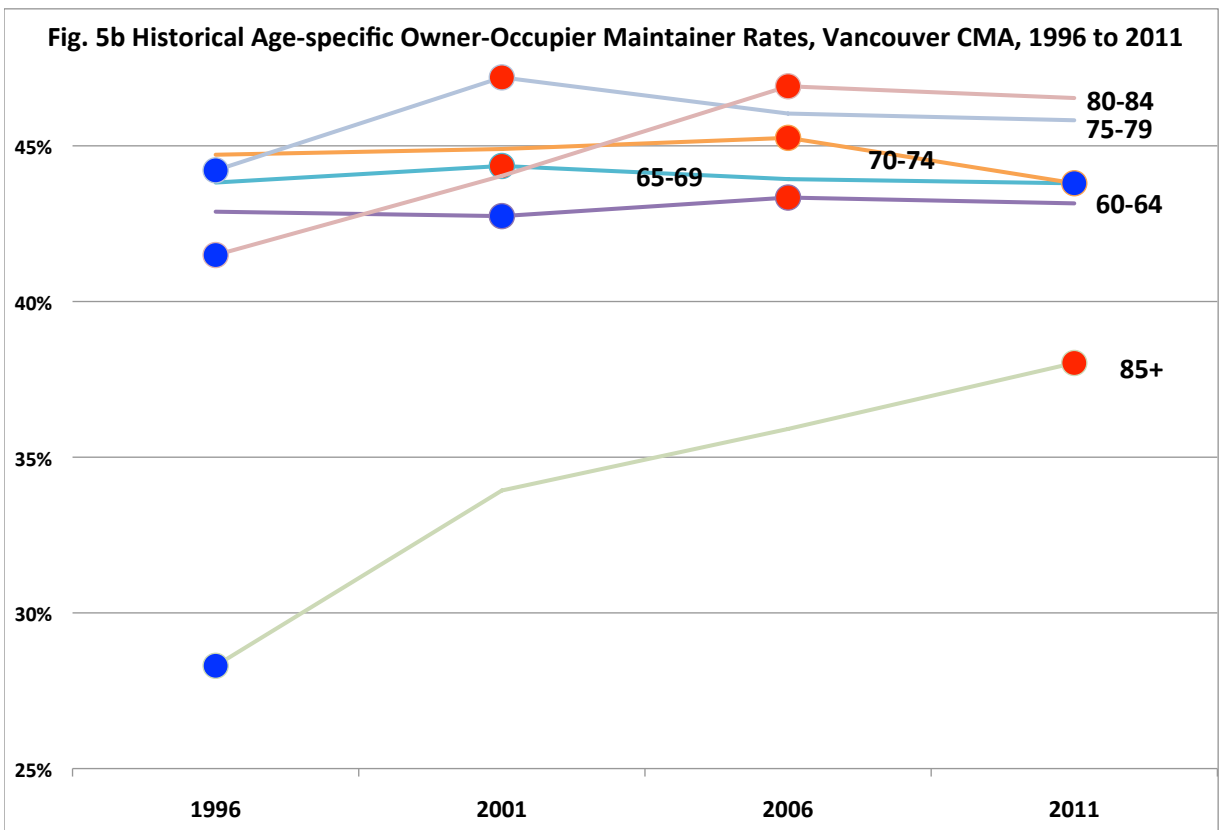
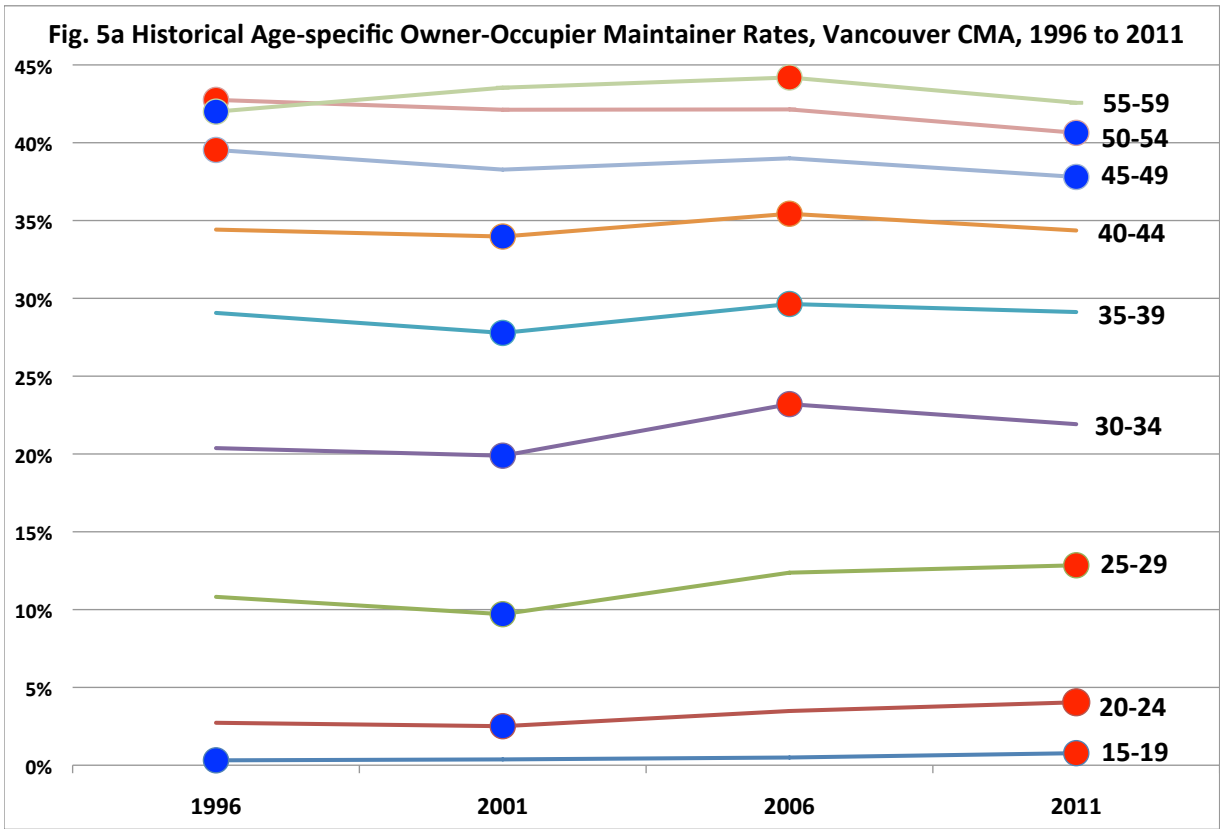
It is not possible to build a case to select any one region as a standard to be used as an ownership target either to measure how many people in this region are suffering from the affordability crisis or to tell us when we have achieved affordability. There are just too many special conditions, not only for this region, but also for all other regions. We are not a small town, so using small towns as a comparator is not appropriate; we are not a metropolitan region with an unlimited land supply, so using prairie metropolitan regions or Ontario ones as comparators is not appropriate.

If neither our region's history of homeownership shares nor a comparison of these shares with other metropolitan regions in Canada can provide us with an empirical measure of the incidence of the affordability crisis, what can we possibly do to determine how many people will be helped by bringing down the value of people's homes by 19 percent? While not as simple to calculate as ownership shares, there is a measure, derived from data for this region, which gives an indication of the changing pattern of home ownership on an age specific basis.

This measure involves studying changes in age-specific household maintainer rates, the percent of people in each age group that are identified by the household as being primarily responsible for the household (these people are called primary household maintainers in the Census data). Of specific interest are the percent of people in an age group who are household maintainers for households living in owner-occupied dwellings (here referred to as age specific ownership rates). For consistency it will also be necessary to consider the percentage of people in an age group who are maintainers of households living in rented accommodation (age specific rental rates).

The sum of age specific ownership and rental rates, the age specific maintainer rates, are less than one hundred percent of the population in an age group, as neither includes people who live in households where someone else is designated to be the household maintainer. Figures 5a and 5b show the pattern of change in the age specific ownership rate for 5 year age groups in the Vancouver Census Metropolitan Area for 1996 to 2011: prior to 1996 five year age group data were not published.

Prices Crises: Costs and Benefits of Reducing Housing Prices



Changes in the percentages for each age group over time can reflect many factors, including behavioral change, changing cultural mix of the population, and economic factors. If we ignore all of this very real complexity, we could say that the only thing that affects the percentage of people in an age group who are home owners is affordability, then we can look at the historical pattern of change by age group to see when people have a high level of ownership (most affordable) or a low level (most unaffordable). Then, by estimating where we are today on this historical spectrum, we can come up with an order of magnitude estimate of how many households are actually affected by current conditions.

On Figures 5a and 5b, the red dots show the Census year in which the age specific home ownership rate was at its highest level during the period from 1996 to 2011, and hence, the most affordable period for the age group: the blue dot marks the year when the age-specific home ownership rate was at its lowest level, hence the point of least affordability.

In terms of the youngest age groups, (15-19, 20-24, 25-29) affordability, using its equation to relatively high ownership rates, increased steadily over the period, attaining its highest level in 2011, a phenomenon likely linked to the bank of mom and dad, or of grandma and grandpa. An even stronger pattern of increase in home ownership rates was observed for the oldest age group, the 85 plus group, whose ownership level increased from 28 percent to 38 percent: most of this increase is likely attributable to the physical-ability to remain in their home, supplemented of course by an accompanying afford-ability.

As a general pattern, however, most of the red dot maximum affordability levels occurred in 2006, while most of the blue dot minimum affordability levels occurred in 2001 and 1996. Only in two age groups (45-49, 50-54) do we see high points in 1996, and these maximums are not far from the minimums recorded in 2011 (for the 45-49 age group from 39.5 percent in 1996 to 37.8 percent in 2011; for the 50-54 age group, from 42.8 percent to 40.6 percent). Similarly, only two age groups recorded maximums in 2001, the 65-69 and the 75-79 age groups.

The general pattern of peaks and valleys in age specific ownership (i.e., affordability) rates corresponds well with patterns of unemployment in the region (Figure 6), as most of the high affordability points occurred in the 2006 period when unemployment rates were in 4 percent range, while most of the low affordability points occurred in the 1996 and 2001 data when unemployment rates were higher, in the 6.6 to 8.1 range. Appropriately, in 2011, when unemployment rates were in the 7.5 percent range, only the youngest and oldest age groups recorded relatively high ownership rates – for most other age groups, the peak of affordability was back in 2006, when unemployment rates were almost half of those that prevailed in 2011.

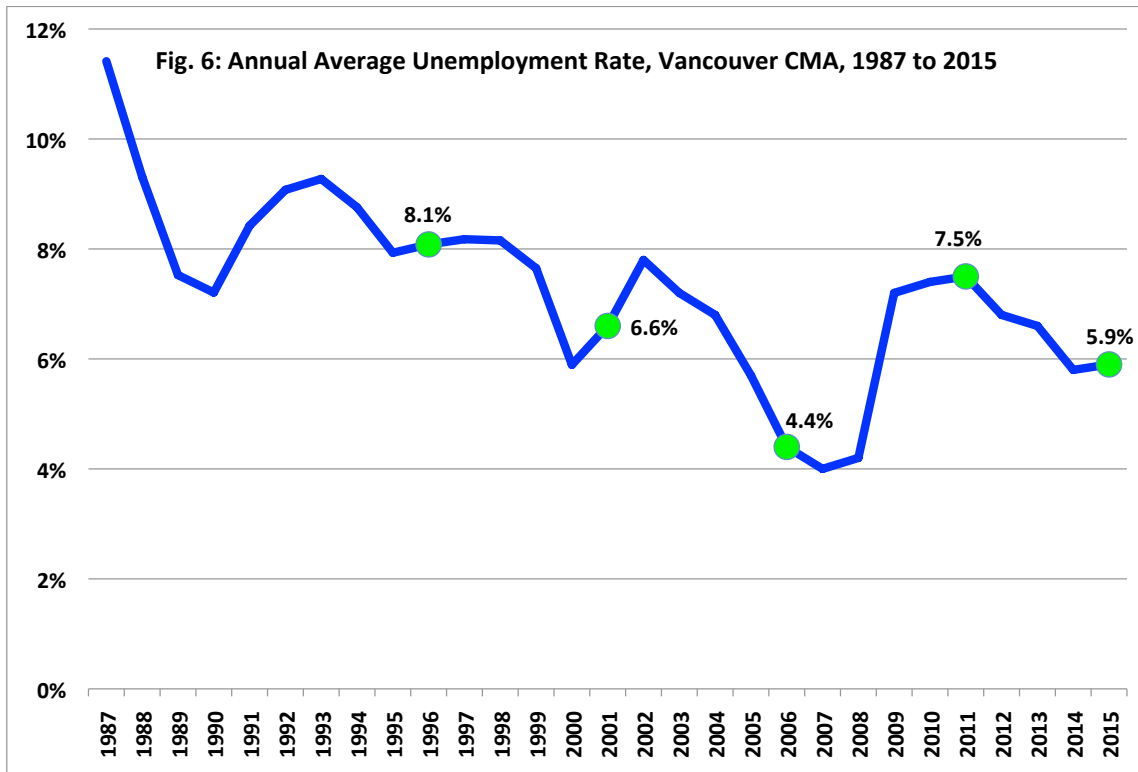
The first thing we can do with these percentages is to calculate what attaining affordability would look like, as the measure of affordability is achieving maximum historical ownership rates in each and every age group. When the maximum age

## Prices Crises: Costs and Benefits of Reducing Housing Prices

specific rates for each age group are applied to the estimated current population in those age groups, and the results summed, an estimate that there would be, right now, 675,497 ownership if each age group was at its highest historical ownership rate. For consistency, the same approach must be applied for tenant age specific rates, expect that the minimum age specific rental rates would be used for tenants. The result is an affordability target of 67 percent owners and 33 percent tenants.

If maximum age specific ownership rates define the best of times, the worst of times in terms of affordability would be measured by using the minimum age specific ownership rates that prevailed at the four census dates. When these minimum rates are applied to the population estimate, the total number of owner-occupier households is only 629,170 households (a 61 percent ownership rate).

Thus the range from having achieved affordability, in terms of hitting the highest age specific maintainer rate recorded in the 1996 to 2011 period, to a situation where the region is experiencing its worst affordability problem in two decades, would be measured by 46,327 households who are not able to own in the worst of times compared to the number who would in the best of times.



So where are we now? Well, I would say that now is neither the worst of times, as the unemployment rate is not 8.1 percent, nor is it the best of times, as the unemployment rate is not 4.4 percent. We currently sit at a 5.9 percent unemployment rate; this is 60 percent better than the worst, and 40 percent worse than the best.

Let us place ourselves in the corresponding affordability range between high and low age-specific ownership rates, at the rates that match this 60/40 marker. The result is an estimate that there are currently 656,966 owner-occupier households<sup>c</sup> in the region, a 64 percent ownership rate. When compared to the maximum affordability target of 675,497 owner-occupier households, this means that there are 18,531 households that would be owner-occupiers at maximum historical ownership rates who are not – these would be the potential beneficiaries of changes in the affordability context using empirical criteria.

Earlier I calculated that if governments intervene to push housing prices down by an average of \$153,000 (19 percent) per unit, the estimated 656,966 households in the region who are owner-occupiers would individually would see their equity shrink by this amount, and collectively would see a \$100 billion loss in the value of the equity in their home<sup>4</sup>. These are the people who would bear the burden of the policy to push down prices.

The beneficiaries, if they were actually able to buy a home as a result of the 19 percent (\$153,000) average price reduction, would be the 18,531 households who would be home owners at maximum ownership rates but who are not. If each of these would benefit by \$153,000, there would be a collective benefit of \$3 billion. The loss to 656,966 current owners would be 33 times greater than the possible benefit to 18,531 current renters who might become home owners if prices were lower. It seems such a waste, to destroy a \$100 billion of people's equity in order to gain a benefit of only \$3 billion. Note that this is a high side estimate of benefit, as the \$153,000 is the average of a 19 percent reduction on all housing, high priced and low. As people wishing to enter the home ownership market would be focused on the below average priced housing, their net benefit would be lower than the \$153,000 average reduction.

Now, before the quibbling begins about how many people are “actually” having affordability problems as a result of current prices, let us step back a bit from the numbers. If you think that now is, from an affordability perspective, the worst of times, and you want to achieve the best of times, then you would say that it is 46,327 tenant households who would benefit from the \$153,000 price reduction, for a total benefit of \$7 billion. In the worst of times, of course, there are fewer owners to start with, so only 629,179 owner-occupiers would suffer the \$153,000 loss, for a total loss of \$96 Billion. The loss is still 14 times greater than the maximum benefit. Even if one argues that all tenant households should be owner-occupiers to achieve affordability, the costs will be more than double the benefits, as there are twice as many owner-occupier households than tenant households.

---

<sup>4</sup> Recall that this loss is not measured against their current equity, but against their 2015 value.

Let us take yet another step back, to ask the question of whether the arbitrary forcing down of prices would actually improve affordability for the 18,531 households who would be owners at the best of times but are not now? When we examine the situation that would prevail post-price control intervention, it is not apparent that there would in fact be any benefit to this group. The reason is that intervention to push down prices would not change the number of dwelling units that households compete for (in fact it would lead to a smaller future supply as few new units would be constructed). These 18,531 households would still have the same debt serving ability as they had before relative to all other households, so they would have no improved competitive advantage as a result of the price reduction. There is no readily apparent mechanism to ensure that overall price reductions can be linked to benefits for a specific group of people, no matter how worthy they may be.

Now, patient reader, you are likely not surprised to hear that while interventions to force down prices could be successful within the narrow measure of the housing market, they would also create a fascinating set of shadow market as home owners figured out ways around them.

Consider this hypothetical example: a government imposes a 100 percent tax on all increases in value above the 2012 level. In such circumstances, no property would sell for more than its 2012 assessed value, so the government would not get any revenue from the tax. Home owners, facing an average \$153,000 loss on the value of their homes, would simply sell them furnished, with the price for the house being its 2012 assessed value, and the value of the furniture being the difference between what a willing buyer would pay for the property and the 2012 value. Or, as has happened in the past, there would some very valuable art work sold as part of the deal: Jeff Koons once sold 4 vacuum cleaners as art for \$11 million, so why wouldn't some here sell their vacuum cleaner for \$2.5 million? Surely the government is not proposing to regulate the sales price of works of art.

Such shadow markets would make the housing market much less transparent, and would favour those with cash, as the mortgage would be tied to the value of the property, not the art or furniture. But this is what would happen if there were interventions to push down prices below there market value.

In conclusion, there is no assurance that government housing market interventions to push down housing prices will improve housing affordability either in general or for specific groups. Further, the cost burden of arbitrarily pushing down prices would be much greater than its benefits. There is no rational case, in the context of affordability, for governments to impose price controls on housing markets.

So what should governments do to improve affordability? Simply put, they should focus on the problem. This means focusing on those who have affordability problems, and working with them, rather than implementing market wide programmes that are indifferent to circumstance, resources, and consequence.

If they do so, governments are going to have to manage both their expectations and those of potential beneficiaries. Housing is a big-ticket item, for both households and governments. Governments, therefore, will need a set of rules and priorities to determine how to allocate their scarce resources: one standard rule that might be considered in this regard is the old international development rule – help those who need help most first. This, alas, may mean that the discussion may not be about being able to own a home, but rather to be able to have a home.

And finally, given the burden that a arbitrary reduction in housing prices would bring to the two-thirds of households that already own, it would seem obvious that governments, if they are going to do anything general with respect to housing markets, should be working to ensure price stability in the market, not talking about bringing prices down. History shows that the only thing worse than a rising housing market is a falling one.

## Endnotes

---

<sup>a</sup> The Metropolitan Vancouver housing market is generally seen to be equivalent to the region included in the administrative area of the Greater Vancouver Regional District (GVRD), which is in turn synonymous with Statistics Canada's Vancouver Census Metropolitan Area. The boundaries of this region extend from Lions Bay and Bowen Island on the west to include Langley District and Maple Ridge on the east and south from the North Shore Mountains to the 49<sup>th</sup> Parallel. This area is delimited functionally as it contains the places of residence of the majority of the people who are employed in the region and the places of work for the majority of the people who live in it. As the place of residence for the region's workers and the place of work for the region's residents, it describes the region's housing market, the space within which households reasonably consider home locations. As it has for the past decades, the boundaries of the housing market will continue to extend outward as adjacent communities become increasingly engaged in this region's economy. Thus, in the future, Abbotsford, Mission, and Squamish may become part of the metropolitan region, just as Surrey, Maple Ridge, and the Langleys did in the past. As of the 2011 Census, this had not occurred.

<sup>b</sup> The published data on housing sales prices in Metropolitan Vancouver come from two sources. The first is Real Estate Board of Greater Vancouver, whose sales data include the communities that are north of the Fraser River and east of the Pitt River: Whistler, Sunshine Coast, Squamish, West Vancouver, Bowen Island, Lions Bay, the North Vancouvers, Vancouver, the University Endowment Lands, Burnaby, New Westminister, Richmond, Port Moody, Port Coquitlam, Coquitlam, New Westminister, Pitt Meadows, Maple Ridge, Anmore, Belcarra, South Delta, and non-band housing on leased land in the several First Nations Lands adjacent to these communities.

Also note that the GVREB area excludes areas that are part of the metropolitan region. These areas are part of the Fraser Valley Real Estate Board: North Delta, Surrey, White Rock, Langley Township, Langley City, Abbotsford, Mission, and non-band housing on leased land in the several First Nations Lands adjacent to these communities. Again, note that this board area also includes some communities that are not part of the metropolitan region (Abbotsford and Mission).



---

Thus when we look at average prices in this region, neither Real Estate Board's data include the entire housing market: the GVREB area accounts for 68 percent of the region's residential sales through real estate boards, and is characterized by higher priced properties, while the FVREB accounts for 32 percent, and is characterized by lower priced properties. To talk about the metropolitan Vancouver housing market, we must combine these two Board areas, and acknowledge that while they also include communities outside the current metropolitan areas, these external communities are small relative to the scale of the metropolitan market – and these external areas are slowly becoming part of it.

<sup>c</sup> Data on the stock and occupancy of the housing in the region is provided every five years, with the dissemination of the results of the Statistics Canada's Census survey. The last Census was conducted in 2011; the next one will be held this spring, with the result to be released periodically through 2017. Between Census dates, analysis relies on estimates based on Census data plus other more frequently released data. These estimates are subject to the assumptions made to produce them, and hence one finds variance in estimates: these are usually modest in overall magnitude, as they rely on the same core published data. In this paper, for example, the estimate of the current number of ownership households was based on historical maximums and minimums in age specific ownership rates and unemployment rate data. An alternative approach to estimating the current stock of owner-occupiers is to ignore the question of relative historic levels of affordability, looking instead to trends. Such an approach could involve historical trends in age-specific home ownership rates and population trends and projections for metropolitan Vancouver, calibrated to Statistics Canada's 2011 Census/NHS and Quarterly Demographic Estimates. Such a trend based projection results in an estimate of 671,281 owners, a 67 percent rate. All estimates can be verified and revised when the 2016 Census results are available in 2017.