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## The “Missing Middle”



# CANCEA RESEARCH: The “Missing Middle”

## Section Summary

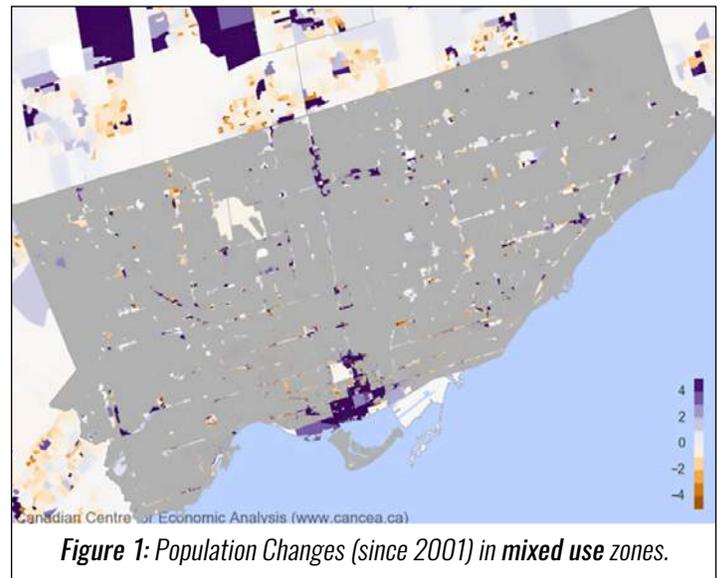
- There are over 5 million spare bedrooms in Ontario, equivalent to 25 years’ worth of construction. There are over 400,000 homes in Ontario that have three or more empty bedrooms, representing nearly 1.3 million empty bedrooms in family-sized homes.
- In the GTHA, approximately 45% of housing units are single-detached homes and 35% are in apartment buildings (equal to New York City metro area); only 20% are “missing middle” housing.
- 30% of GTHA commuters commute 45+ min. each way. Outside the GTHA, 85% commute by car (5% by transit). In the GTHA, 70% commute by car (20% by transit).
- Housing affordability could be improved significantly over the next 15 years by incentivising households to right-size and developers to build appropriately sized units. These changes could reduce housing affordability pressures to levels below those seen in the 2000s.

**FAST FACT** 20%  
*is the number of GTHA households living in “missing middle” type housing.*  
 Source: Canadian Centre for Economic Analysis (CANCEA)

- If housing stock formation in the GTHA began to incentivise people to select right-size homes (moving to better fit housing), house sales in the region would grow by 67,500 to 94,500 over ten years, being an annual increase of 7.1% to 10.1% in house sales.

## Productivity and the “Missing Middle”

Currently, about 45% of GTHA households live in detached homes and 35% live in apartment buildings. This leaves 20% living in what is often called the “missing middle” – that is, the “gentle density” housing types such as semi-detached, row homes, townhomes, multiplexes, and courtyard apartments. Such housing types provide more affordable ground-level (or close to it) housing, without having to live in smaller, family unfriendly units, many stories off the ground.



**Figure 1: Population Changes (since 2001) in mixed use zones.**

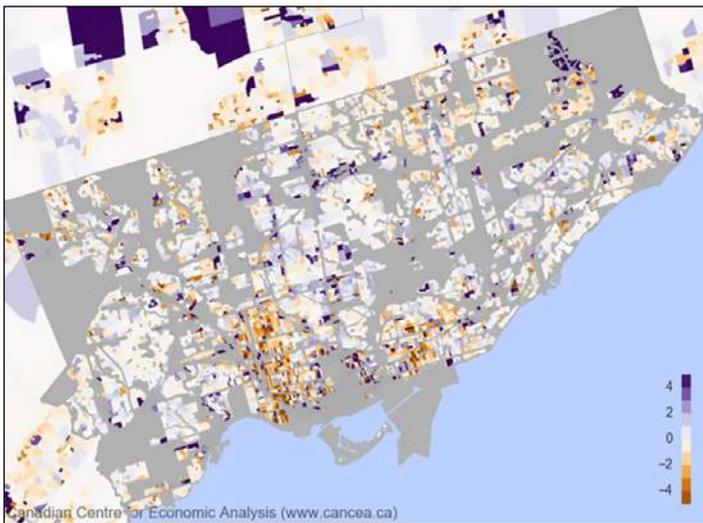
However, “gentle density” is not being built to the levels required as it is restricted in many places. Even in the City of Toronto, where condo towers are plentiful, a significant portion of the city only allows detached homes (“yellow” belt). It has been estimated that up to 40% of the city is zoned this way (Novakovic, 2017), or roughly 60% of the residentially-zoned lands (Kalinowski, 2017).

Increasing the productivity of land that is already serviced would be a more cost effective way of producing appropriate and affordable housing stock without having to open up new land supply farther afield from employ-



ment centres, which is generally unproductive. This is especially true in seemingly obvious places, such as the TTC’s Line 2 subway, along much of which (e.g., along Danforth Avenue) is surprisingly low density.

Tying this back to zoning highlights an interesting trend in Toronto. By “graying out” all zones other than mixed use residential, residential apartment, and unclassified (e.g., much of the waterfront) (Figure 1), since 2001 we can see significant population growth (dark colours), largely where there are a lot of new towers (Figure 1).



**Figure 2: Population Changes (since 2001) in residential-only zones.**

Moreover, population decline is seen in most zones (white and brown colours) limited to ground level housing (residential-only, excluding residential apartment) (Figure 2). These are the zones that also tend to see more over-housing.

## Right-Sizing

Although numerous experts argue that the GTHA has a generic housing supply problem, the main issue is that as a society we are not matching families with appropriate housing in a broad sense of the term. Such experts

simply advocate building more, but there is a more cost effective alternative with more winners: reducing the significant “over-housing” that exists in Ontario. That is, when people are living in homes that are much bigger than their needs, they limit appropriate options for growing families.

### FAST FACT

# 30%

*of GTHA households are currently under-housed or nearly under-housed.*

*Source: Canadian Centre for Economic Analysis (CANCEA)*

In the GTHA, over 30% of households are either under-housed or nearly under-housed. Of the under-housed, they are “short” by nearly half a million bedrooms; at current construction rates, it would take over two years to construct the housing to accommodate these families.

Unfortunately, discussions around appropriate housing do not discuss “over-housing.” But, as it turns out, nearly two-thirds of Ontario households are over-housed to the tune of over 5 million empty bedrooms. At current construction rates, this represents 25 years of housing

### FAST FACT

# 25 Years

*of housing supply represented by the over 5 million empty bedrooms in Ontario.*

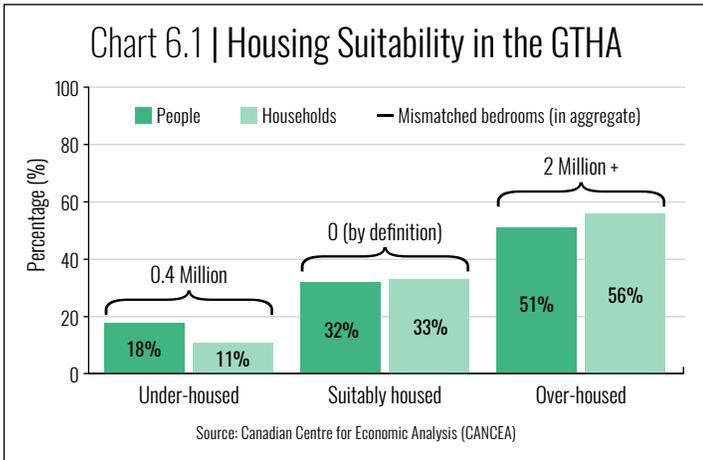
*Source: Canadian Centre for Economic Analysis (CANCEA)*



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supply. In other words, the number of spare bedrooms in the homes of the over-housed represent 10.5 times the number of bedrooms the under-housed are short.

The following table shows that the GTHA has less of an over-housing issue than the rest of the province, and that less than a third of Ontarians are actually “suitably” housed.

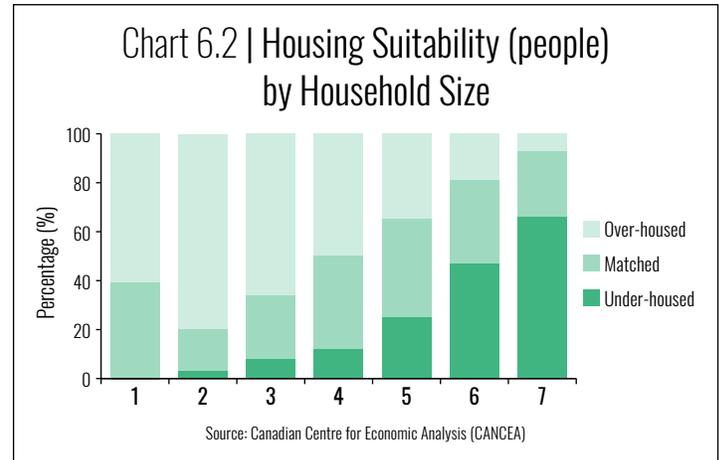


Breaking this down shows that this housing suitability issues comes from a mismatch between the housing sizes needed and available – in other words, it is a housing fit problem.

**FAST FACT** *17 Years*  
*of supply represented by spare bedrooms in the GTHA (40 years outside GTHA)*  
 Source: Canadian Centre for Economic Analysis (CANCEA)

Perhaps not surprisingly, the proportion of people who are under-housed increases with household size: 80% of people in 2-person households are over-housed whereas 67% of people in 7+ person households are under-housed.

In gross count terms, a majority of under-housed people live in 5+ person households whereas a majority of over-housed people live in 1–3 person households. Furthermore, housing suitability also varies by location, tenure, and income.



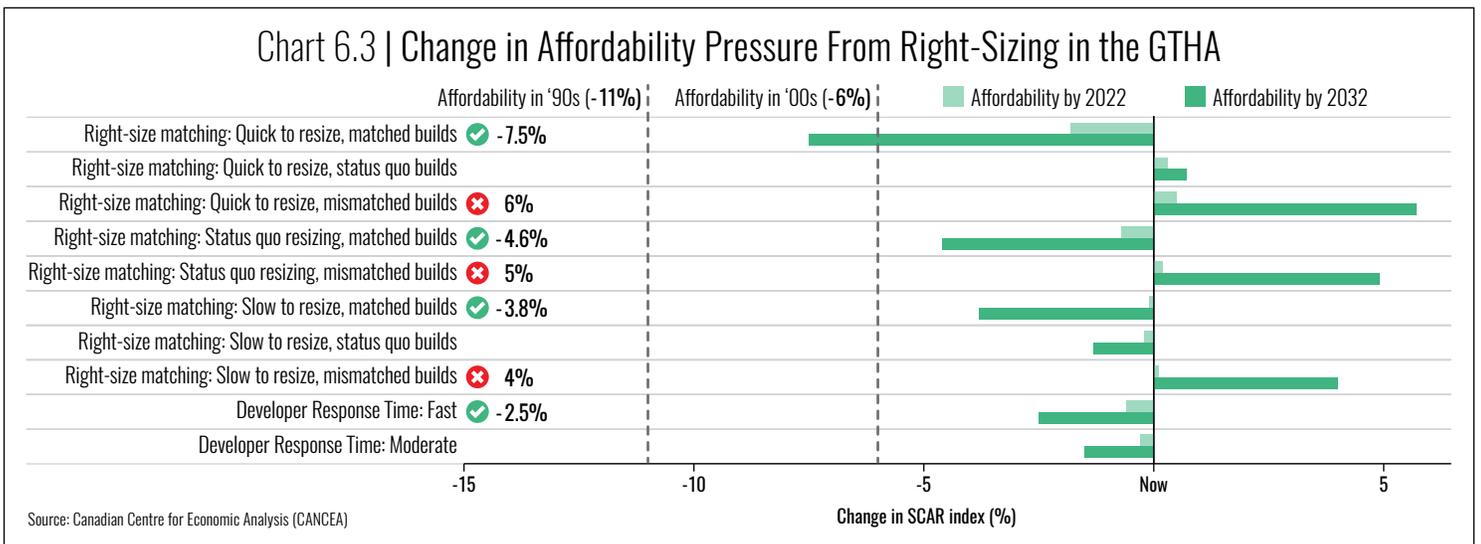
## Impacts on Affordability

Through the analysis of many factors of affordability contained in “Understanding the forces driving the shelter affordability issue” (Canadian Centre for Economic Analysis, 2017), we find that right-size matching is a critical component to be addressed as part of addressing the housing affordability problem. Right-size matching is split into two pieces:

- (1) The propensity for households to right-size their housing (e.g., reduce over-housing). Such behaviour is affected by the likes of housing style preference (rather than utility), transaction costs, and having appropriate housing options (e.g., a place to downsize to) available to them.
- (2) What developers build (i.e., matched to needs, status quo, or purposefully mismatched needs). Such behaviour is largely affected by regulation, business models and risk-adjusted profit potential.



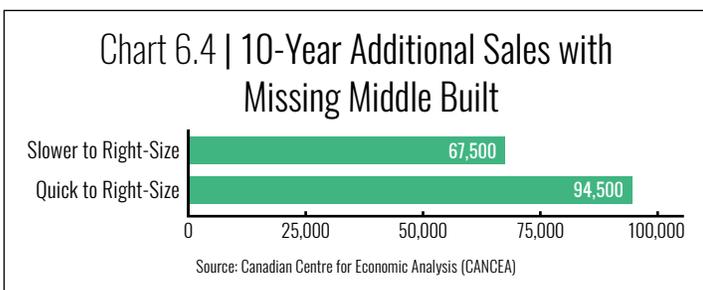
Chart 6.3 | Change in Affordability Pressure From Right-Sizing in the GTHA



Housing affordability could be improved significantly within the next 15 years by incentivising households to right-size and developers to build appropriately sized units. These changes could reduce housing affordability pressures (as measured by the SCAR index) to levels below those seen in the 2000s, which means better housing affordability outcomes.

- A lack of appropriate housing choice: in terms of size, location/transit access, and tenure;
- A lack of housing productivity: in terms of lots of over-housing and density being too low; and
- Many families being “forced” into worse options, for example, people buying when they should rent or moving farther away (e.g., from their work).

Chart 6.4 | 10-Year Additional Sales with Missing Middle Built



As part of the right-sizing process, house sales in the region would grow by 67,500 to 94,500 over ten years, being an annual increase of 7.1% to 10.1% in house sales, as illustrated below (assuming no other changes in the real estate market).

## Conclusions

GTHA’s affordability pressures are generally due to a few key linked issues:

FAST FACT

# 67%

*of people who live in 7+ person households are under-housed.*

Source: Canadian Centre for Economic Analysis (CANCEA)

By inspiring the building of the appropriately sized housing (e.g., missing middle) and incentivising current households to right-size to more appropriate and desirable housing, scenario analysis suggests that a dramatic dint could be made to housing affordability pressures.