Housing Horizons: Models for Real Estate and Community Investment

Working Paper

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Abstract

Toronto’s housing system is in crisis. As we persist in maintaining this failing system, we are limiting ourselves to the possibility of creating transformational change. Toronto’s housing arena is a complex organism of competing interests and influences, reinforcing a stratification between those who benefit from it and those who do not. With limited housing choices, many Torontonians are left with few opportunities to invest in their communities and to generate personal financial wealth for their futures. Through foresight methods, systems analysis, and generative design research techniques, this project asserts that we can create change in Toronto’s housing system by transforming real estate investment into an inclusive community-building tool. Housing Horizons begins by describing the evolution of the housing arena in Canada and analyzing the dynamics at play in the current system. The research then proposes several design principles for innovation: shift the power in the development industry to smaller community-based players, create wealth-generating mechanisms suitable for renters, and foster collaboration across stakeholders in the system. A city where all citizens can thrive is only possible when the housing system contributes to the wellbeing of its entire population – this vision can be realized through strategies that level the playing field for all.

Keywords: affordable housing, housing system, foresight, systems thinking, Toronto

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Introduction

This project started with a simple question: “What does home mean to you?”; and a feeling of defeat in the face of an increasingly uncertain future for all Torontonians. Roughly 82,414 families in Toronto are on a social housing waiting list and have been for an average of eight years (ONPHA, 2016a). A child in a family on the waiting list may have spent their entire elementary school career living in an unsafe, unaffordable, or inadequate housing situation. In 2017, the average price of a single-detached home in the City of Toronto hovers around the $1-million mark (CMHC, 2017; Toronto Real Estate Board, 2017). Households hoping to enter the ownership housing market are slowly seeing that dream slip away.

This project aimed to pose critical questions about the current housing affordability crisis in Toronto, to develop an understanding of how we got to where we are today, where we are now, where we may be heading, and how we may arrive at a new housing system in the future. This project journey was designed to achieve the following goals:

1. To start a conversation with Torontonians who are facing affordability challenges, making big housing decisions, or who are concerned about their personal housing futures;
2. To understand what change Torontonians are hoping for or might be willing to accept in the system; and
3. To begin working with the community to explore how we might provide more Torontonians with opportunities to live in safe, affordable, and adequate housing.
Methodology

This project combines tools and methods from the fields of design thinking, foresight, and systems thinking. The information-gathering and analysis components of this project follow a series of phases of divergence (where new information was gathered) and phases of convergence (where information was analyzed and synthesized).

Three Horizons Model

The Three Horizons Model was used over the course of the project methodology as a generative research tool with study participants, as an analytical tool to make sense of the primary and secondary data, and as a framework for telling this story of hopeful housing futures for Torontonians. The Three Horizons Model is a foresight technique developed by Baghai, Coley, and White (1999) and popularized by Curry and Hodgson (2008). The model aims to “connect the present with desired (or espoused) futures” (Curry & Hodgson, 2008, p. 2). The model maps “three conditions of the same system, over time, against its level of viability in its changing external environment” (Curry & Hodgson, 2008, p. 2). The X-axis reflects time, moving from the short-run to the long-run, and the Y-axis represents the system’s strategic fit within its “political, economic, organizational, and cultural” context (Curry & Hodgson, 2008, p. 7). Horizon 1 illustrates the current system, in decline. This system is slowly losing “fit” within its external context. Horizon 3 represents “one of a number of competing worlds that is desired by those who propose a different service model, a different political, cultural or institutional framework, or a different paradigm” (Curry & Hodgson, 2008, p.7). These are “proposals for transformational change” which can only be observed “in small pockets of the future embedded in the present” (Curry & Hodgson, 2008, p.7). Finally, Horizon 2 represents a promising alternative system. It is the transition stage between Horizon 1 (in the present) and Horizon 3 (in the future). In this horizon, orthodoxies can be challenged, allowing for alternatives to “business as usual” to emerge. References to the Three Horizons model are found throughout this paper. Insights emerging from the project’s workshops report on participants’ perspectives and mindsets related to each of the three horizons of the housing system.

![Figure 1: The Three Horizons Model; Adapted from Curry & Hodgson, 2008](image-url)
Primary Research

Expert Interviews

Two primary research methods were used to develop this project. First, semi-structured interviews were conducted with experts in housing, planning, real estate development, and personal finance. The interviews helped identify signals, trends, and drivers of change within the Toronto housing system. The experts interviewed for this project include:

1. Martin Blake, Vice President, The Daniels Corporation
2. David Nugent, Chief Operating Officer, Wealthsimple
3. Sharad Kerur, Executive Director, Ontario Non-Profit Housing Association
4. Brandon Donnelley, Vice President, Slate Asset Management
5. Leah Meisterlin, Assistant Professor, Graduate School of Architecture, Planning and Preservation, Columbia University
6. Sarah Lever, Real Estate Sales Representative, Harvey Kalles Real Estate Ltd.
7. John van Nostrand, Founding Principal, SvN Architects + Planners
8. Ene Underwood, Chief Executive Officer, Habitat for Humanity Greater Toronto Area

Workshops

Second, workshops were conducted with three groups in the Greater Toronto Area communities. The workshops involved generating a shared vision of a hopeful future for Toronto’s housing system and helped develop an understanding of the needs and pain points of individuals looking to design a desirable housing future for themselves and their families. Participants took part in a make tools exercise and collaborated to complete the Three Horizons Model.

The workshops conducted for this project include:

1. **Workshop with Greater Toronto Area residents (24 participants):** This group was recruited using a snowball method, through the Strategic Foresight and Innovation network at OCAD University. Participants were selected based on their interest in exploring the future of housing in Toronto. Participants ranged in age from 20 to 55 years: an age cohort of individuals at a stage in life where they may be making decisions about their personal housing situations.

2. **Workshop with financial services professionals at one of Canada’s largest banks (8 participants):** This group had an interest in exploring the future of housing in Toronto from their personal perspective and from a professional perspective, being employees of a large financial institution. Individuals within strategy, product development, and research departments participated voluntarily.

3. **Workshop with housing policy and real estate development professionals (6 participants):** This group had an interest in using their industry expertise to explore the future of the affordable housing system and sector in the Greater Toronto Area.
Secondary Research

An in-depth literature review was conducted to gain an understanding of the housing system and its stakeholders. Principal domains of inquiry included: the Toronto housing market, housing policy, the non-profit and private sector real estate development processes, impact investing and social enterprise, alternative housing tenure models, and foresight in the residential real estate industry.
Horizon 0: How we got here

The Evolution of Housing

Toronto is experiencing a housing crisis. As the cost of a place to live continues to account for the largest proportion of household spending in the city, policymakers are working to find solutions to fill the affordable housing gap. Before investigating some of these solutions, it is important to understand how we got to where we are today. Our current situation is the product of a century of policy directives; changes in societal values; and innovations across the construction, financial services, and policy sectors.

Big Shifts in History

The literature review revealed two big shifts in the historical evolution of the housing landscape in Canada and the United States, which helped compose the complex system that exists today. Six historical eras described in the report are categorized by these shifts.

Figure 2: Evolution of Housing Matrix

Shift 1: Government intervention

There is evidence of movement between high levels of government intervention and lower levels of government intervention in the housing system. Types of intervention include participating in any aspect of the system: from altering interest rates, to developing housing, to providing policies and programs at the federal, provincial, or municipal levels. These shifts reflect political interest in directing the real estate market to provide housing for individuals whose needs are not met by the supply created by free market forces.

Shift 2: Commoditization of housing

There is evidence of movement between treating housing as a basic need and as an asset. The housing evolution timeline depicts technologies, policies, and events that reflect our current mental models of housing as well as the associated products, services, and policies that exist in the housing market. Historical shifts between mindsets of housing as a basic need and housing as an asset were determined based on signals of a societal emphasis on the intrinsic value of the house (the value in and of itself) versus an emphasis on the extrinsic value (or instrumental value) of the house (the house as a tool or instrument for achieving something else).
Figure 3: Eras in the Evolution of Housing
Horizon 1: Where we are now

How the System Works

Before moving into a deeper discussion of the housing system in Canada, it is important to define the boundaries of the system examined in this project. Housing contexts are determined by planning, policy, and economic factors, unique to the geographic area, including zoning bylaws, planning regulations, tax policy, factors affecting the construction industry (such as the cost of materials and labour), political climate, demographic trends, citizen values, and topographic characteristics. For this study, the housing system in Toronto includes the following supply- and demand-side elements, based on Gharajedaghi’s elements of the “iterative process of inquiry for understanding complexity” (Gharajedaghi, 2011).

**Figure 4: Housing System Elements**

<table>
<thead>
<tr>
<th>Demand</th>
<th>Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Housing consumption</td>
<td>3. Real estate development</td>
</tr>
<tr>
<td>2. Policy-making</td>
<td>4. Financing</td>
</tr>
</tbody>
</table>

**Stakeholder Tensions**

The system’s complexity is evident. Tensions between stakeholders with competing interests and levels of influence also contribute to the functions and processes that constitute Toronto’s housing situation. The stakeholder matrix developed for this project is a representation of research conducted to map the landscape of actors and to explore the competing interests and levels of influence in the system. This process is also used to help prioritize areas and opportunities for intervention and innovation in the housing system.

**Competing interests and influence**

Over time, we have seen increasing numbers of interests come into play in the housing and real estate development space. A key outcome of the expert interviews and literature review is an understanding of stakeholder roles, influence, and incentives that exist in the current system. This analysis helps identify where resistance to change might exist within the system and what strategies might be successful in promoting acceptance of change.

Stakeholders in the housing and real estate development systems; their relative interest, influence; and a hierarchy of their needs are depicted in this project. In this context, influence (along the Y-axis) is the stakeholder’s power over a system’s elements and outcomes. Interest (along the X-axis) is the
likelihood that the stakeholder participates in actions involved in exercising their influence. The analysis also includes an important distinction between actors with a high level of interest in maintaining the current system, versus those with an interest in changing the system. This differentiation brings critical tensions to light: in a complex multi-stakeholder system, many competing agendas must be reconciled (Kaplan Financial Knowledge Bank, 2012). Some of the most influential stakeholders are described in the full report.

![Stakeholder Matrix](adapted-from-Mendalow's-Matrix)

**Figure 5: Stakeholder Matrix, adapted from Mendalow's Matrix**

**System Dynamics**

This section, describing the housing system dynamics at play, reveals some of the barriers to change within the system. The analysis covers the households, policymakers, real estate development, and financing layers. The exercise of system mapping informs the solution-finding phase by identifying promising points of intervention for creating system change.

**Dynamic 1: Disproportionate investment in assisting Canadians to reach the homeownership dream strengthen inequalities between owners and renters and incentivize more households to purchase homes.**

The Success to the Successful systems archetype describes this dynamic. As policy directives and funding for programs that support homeownership (over rental) increase, real estate developers and housing system players (such as financial institutions) have greater incentive to create products and services for this segment; for instance, commercial banks issuing lines of credit to homeowners. These activities may reinforce the potential for upward social mobility for homeowners and thus validate government policies and programs geared towards assisting households to move into the ownership market. Given limited public budgets and resources, this means less funding for access to affordable rental for low-income families. Without significant investment in this infrastructure (quality, quantity, and appropriateness) and fewer wealth-generating mechanisms in the market for
this customer segment, renters may have a more difficult time climbing the social stratification system. For investors and policymakers, these outcomes can paint an unfavourable picture of the potential economic impacts of providing affordable rental housing to those in need. This phenomenon is reflected in Hulchanski’s dualism of housing policy argument, where he notes Canada Mortgage and Housing Corporation provided financial assistance to 746,157 homeowners with mortgage insurance versus 633,300 social housing households in 2000 (Hulchanski, 2007a).

**Figure 6: Success to the Successful System Archetype; Perpetuating wealth generation among homeowners over renters; Adapted from Kim, 1992**

**Dynamic 2: Housing policies mainly focus on maintaining the current system.**

Since the devolution of housing administration to the local municipalities in 2001, the housing system in Canada relied almost entirely on market mechanisms to allocate an equilibrium of supply of a range of housing options at prices demanded by all households (Hulchanski, 2007a). What private-market homeowners often forget, is that all housing in Toronto is subsidized, in one way or another (Medina, 2015). Any tax break in place for owners is a housing subsidy. Highways built by our public infrastructure departments, spanning into the suburbs also subsidize the cost of living a great distance from the workplace. Another example of this discrepancy is between tax rates which are 0.5081190% for residential (single-family) dwellings versus 1.5290188% for multi-residential buildings (generally, rental apartment buildings of more than one dwelling) in Toronto (City of Toronto, 2015). This policy decision indicates an incentive to own a single-family dwelling.
Dynamic 3: Short-term fixes on the housing system prevent system-level long-term changes to emerge.

This system archetype illustrates the effects of creating short-term policy solutions that “shift the burden” of the housing affordability issue. For instance, by offering second mortgages, we open homeownership up as an (artificially) affordable option for more households, distracting us from coming up with alternative housing models that could have large-scale impacts on housing affordability. Evidence of this is the lack of innovation in the mortgage market in recent years. The 2008 Financial crisis was an example of potential effects of these types of “fixes” on the overall economic stability of a nation: allowing the financial industry to create incentives for households to purchase homes they could not afford, instead of addressing the core housing affordability issues.

Dynamic 4: The speculative real estate environment distorts our ability to understand the size of the social need for housing.

The following figure describes two demand-side groups dipping into the same pool of real estate supply: Toronto households looking to purchase homes as their primary residence and all other investors buying housing either as second homes, for investment purposes, or for earning rental revenue. Municipal housing studies that inform policy at the local level attempt to quantify the need and demand for housing in a municipality. As the supply of housing increases, however, it is not a guarantee that the growing local population will absorb the additional housing stock. Real estate’s attractiveness as an investment opportunity creates this tension between local Torontonians who are seeing housing (primarily) for its intrinsic value and those who are seeking residential real estate for its extrinsic value. Currently, governments do not have tools to provide residents with priority for new housing developments in Toronto. As depicted in the system diagram, as the return on investment of housing increases, demand for housing (as an investment) increases (Linneman & Megbolugbe, 1992). Escalating demand for real estate investments also fuels the secondary mortgage market and an increase in demand for financial investments like mortgage-backed securities, which move investors farther away from their investments (the homes, themselves) (Badger, 2012).
Dynamic 5: The secondary rental market does not provide Toronto renters with adequate security of tenure.

The source of rental housing in Toronto is mainly created by investor-owned condominium developments, turned rental units. These units are part of the secondary rental market. Incentives for private developers to build ownership housing outweigh those for constructing purpose-built rental: the highest return on investment comes from building high-quality housing. To build a rental dwelling, the developer must assume operations of residential development upon completion or find a buyer (often a pension fund, mutual fund, or REIT) to purchase and operate the building. For developers, this increases the risk of an already-risky development process (B. Donnelly, personal communication, October 5, 2016). The condominium pre-sale phase in an ownership development allows developers to secure early-stage funding for the project and to prototype design ideas with buyers and to re-design elements of the building based on feedback from buyers before construction begins (B. Donnelly, personal communication, October 5, 2016). The result: almost no additions to the primary rental market in Toronto in recent years (CMHC, 2017a).

What does this mean for renters? Households do not experience optimal security of tenure. In Toronto, landlords can terminate a lease to either: work on significant upgrades to the dwelling, to sell the property, or for themselves or a family member to move in (Government of Ontario, 2016). Until rent control policies were recently reintroduced, landlords could increase your rent simply by providing notice if your home was built after 1991. In a purpose-built rental, landlords are less likely to sell the entire building, and thus eviction happens generally in the case of the tenant breaking the terms of their lease (CMHC, 2017c; Government of Ontario, 2017). This power dynamic between stakeholders in secondary rental market situations creates an adversarial relationship between renters and landlords. Landlords are incentivized to pursue a return on investment on their property,
meaning they make decisions (such as selling their dwelling or raising the rent) that have consequences for the renter, who has limited power in the relationship. When the landlord raises the rent or sells the property, the home no longer provides security of tenure to the renter, who must either vacate the dwelling or pay higher rents.

Figure 9: Accidental Adversaries System Archetype; Pitting secondary rental market renters against condominium owners, Adapted from Kim 1992

**Design Implications**

There is significant investment in this problem at all levels of government – yet, policymakers cannot completely understand the social need for housing: many assumptions are made based on readily-available demographic data such as household information (size, count, and type), income levels, and other economic indicators. There is an opportunity to develop new data tools to understand housing need and preferences for Torontonians at all income ranges.

The households most in need are also those with the lowest level of influence over the future of the housing system. This cohort may have difficulty envisioning an alternative future, given the complexity of the housing system. There is an opportunity to redistribute power to this cohort, to provide policymakers with a richer understanding of their housing preferences, and to provide this group with the tools to design their destinies.

The system analysis demonstrates the political nature of the issue. A small group of housing system stakeholders hold most of the power. Entire economies bank on the maintenance and growth of the sector, and more specifically of the mortgage market. Innovators must be mindful of the level of influence of these stakeholders and the implications of disrupting our economic system.
Horizon 3: *Where we could be*

Drivers of Change

A key element of the strategic foresight methodology is environmental horizon scanning – the process of searching for changes in the environment that may implicate the future of the sector in question. For this study, STEEP-V taxonomy was used to conduct the initial scan for signals of change. The scan included conducting secondary research (the literature review) and primary research (in the form of expert interviews). The report provides a summary of some of the key trends and drivers of change on the minds of real estate, financial services, non-profit housing, and planning experts. The Verge Framework was then incorporated as a second layer of analysis to describe the anthropological elements of each of the trends described.

Co-designing a hopeful future

A person’s housing situation is directly linked to many other community and urban planning elements, from where they send your children to school, to where they access healthcare services, to where they grab their morning coffee. The housing model innovation discussion spans envisioning new tenure models, to rethinking land-use planning design, to discussing neighbourhood and community elements that individuals hold dear. The full report includes the findings of the Horizon Two discussion of the Three Horizons model workshop which aimed to develop a shared vision of a hopeful housing future for a group of Torontonians.

Another goal of this exercise was to guide participants in moving away from the first-Horizon mentality (where we are fixated on “keeping the lights on” and creating innovations that maintain the failing system). Curry & Hodgson (2008) note that it is easy to default to the conversations focused on designing solutions that help us maintain current structures and ways of doing things. Part of the value in using the Three Horizons model is to encourage a shift in that dialogue to shed light on how stakeholders might co-design a shared vision for an alternative in Horizon Three. Workshop participants collaborated to develop visions for a hopeful future in Toronto’s housing system. Three key insights emerged from the discussion and are outlined in the full report.

Design Implications

The foresight trends point to several potential changes to the housing landscape in Toronto. They provide provocation for a new mental model of housing to emerge.

There is evidence of trends such as decentralization and a movement away from government involvement in all aspects of housing and human services. However, innovators must study the implications of introducing new housing models on all stakeholders (including low-income communities and suburban neighbourhoods). Many government policies are in place to regulate housing resources and to (aim to) redistribute access to housing. There is an opportunity to introduce policies that redistribute real estate wealth, as well.
Finally, to ensure sustainability, there is an opportunity to create housing models that do not rely on the current narrative and trend of increasing house prices and return-on-investment in the housing sector.
Horizon 2: How we could get there

Making Room for Change

The housing system went through several periods of change in the last century. Policy-making, real estate development, and real estate financing all evolved in response to local and global events, shifts in values and paradigms, and demographic trends. The most recent events, namely the 2008 Financial Crisis, the election of Justin Trudeau, and the call for Canada’s first National Housing Strategy signal an opportunity for change in the way we understand, allocate, build, and legislate our housing and urban planning resources in Toronto.

System orthodoxies

There are many housing system orthodoxies worth uncovering. These orthodoxies exist in the domains of policy-making, real estate development, and financing. A list of twelve key system orthodoxies were identified in the complete report for this project.

Design Implications

Torontonians, politicians, and other housing players recognize the need for change to improve the affordability issues and inequities created by our current system. There is a willingness to innovate but within a low-risk tolerance threshold. Real estate development is inherently risky due to high up-front costs required, the number of consultants and professionals involved from different sectors, and the highly-regulated planning and development environment. There is an opportunity to de-risk the development process and an opportunity to innovate in an adjacent, lower-risk space to improve housing outcomes for Torontonians.
Moving forward

Our housing system represents the manifestation of decisions we made over the past several decades about almost every aspect of our lives: how and where we want to work, our modes of transportation, where and with whom we live, how our economy functions, and how we measure individual and collective success. This historical precedence, along with the volume of stakeholders vying to maintain or to change the current system, create a recipe for complexity and inequity between Toronto’s many population segments. What is more, the persistent dynamics ruling our housing landscape mean every policy, business model, or design innovation comes with many possible outcomes and implications for the broader community. This environment limits our ability to measure the true impact and effect of our interventions.

Through this project, we learned that the topic of housing system innovation is political. There are many competing political, philosophical, and world views on housing issues. These beliefs sit adjacent to our theories about our welfare and economic systems, meaning these views become a big part of what housing system solutions we are able and willing to envision and accept.

We also learned that the topic of housing is emotional. Our homes remain symbols of self-identity and personal success. Many of us will not always make rational economic decisions when it comes to where, how, and with whom we want to live. System innovators must take a human-centred approach and inject empathy into new solutions and models they design.

This project asserts that we can create change in Toronto’s housing system by transforming real estate investment into an inclusive community-building tool. The research then proposes that we must shift the power in the development industry to smaller community-based players, create wealth-generating mechanisms suitable for renters, and foster collaboration across stakeholders in the system. A city where all citizens can thrive is only possible when the housing system contributes to the wellbeing of its entire population – this vision can be realized through strategies that level the playing field for all.
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