

NHA POLICIES AND PROGRAMS FOR THE SEVENTIES

VOLUME 6

Land and Infrastructure Policy

**Policy Planning Division
Central Mortgage and Housing Corporation**



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VOLUME 6

LAND AND INFRASTRUCTURE POLICY

POLICY PLANNING DIVISION

CENTRAL MORTGAGE AND HOUSING CORPORATION

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THE INFRASTRUCTURE POLICY

THE CONTEXT

Definition:

"Infrastructure" is presently defined as key physical elements (land and servicing requirements) whose presence is a prerequisite to the production of housing stock. In future, the definition can be expanded to include the question of social infrastructure or the provision of facilities and services which serve to catalize or rejuvenate community or neighbourhood life. However, at this time, the proposal for an Infrastructure strategy is directly limited to those areas where the Corporation has a history, namely, trunk servicing and land assembly. By reviewing "Infrastructure" as a basic building block in the urban system and giving it a consistent objective based on its role and potential, the policy attempts to provide a rational basis for these programs.

The Development Process:

The development of an Infrastructure policy which can support related programs begins with the identification of infrastructure's role in the intended process of extended growth realization.

The following summary describes the general stages in the development of peripheral land. Admittedly, there are and have been special circumstances of a different nature, however, they are usually a variation of the described core process.

- a) The intention to build initiates a search for suitable land.
- b) Raw land is acquired by the developer. To purchase, the developer puts down a certain amount of his own cash as equity and secures a mortgage on the rest. The mortgage may either be held by the owner of the land, by a financial institution or an investment company. On default of the mortgage the ownership of the land returns to the mortgagor.
- c) The land is now held by the developer in an unused state. Given a favorable market situation, the decision to develop depends primarily upon available trunk services, or upon municipal (or provincial) plans to extend the existing service corridors. Only in isolated cases will the developer choose to do this himself and charge it to the front-end cost of the lots.
- d) The potential for extending the trunks allows the developer to prepare a draft plan for the subdivision which, at the same time, will argue for servicing extensions. This draft plan then goes through the municipal approval process. There are some time inefficiencies in this process.
- e) Draft plan approval and extension of the core servicing permits the developer to internally service the land. He must return to either a bank, financial institution, or investment cartel for short-or medium-term monies. The cost is dependent upon the standards required in the subdivision. All internal servicing costs are normally charged against the front-end cost of the lots. The lot price must also include the cost of extending the core servicing (except in Quebec, Manitoba, Saskatchewan). The core servicing extensions

charged for are sanitary, storm and possible water lines. These costs are either directly included in the lot price or are charged as a municipal impost against the buyer of each lot.

- f) Once internal servicing is complete, unit construction begins. The developer receives progress advances during various stages from the eventual long-term mortgagor of the units. Upon completion and sale of the units the developer recoups all costs (labour, materials, money in principal and interest) and pays off his costs.

The Dynamic Relation of Land and Servicing to Supply:

Consistency of land supply is influenced by the financing mechanisms available to developers. Financing can not be done through a single investment process, which covers all costs from raw land acquisition to the point of progress advances from the long-term mortgagor, but is viewed as a series of short-term steps each of which is separately financed. This arises from and reinforces the notion of risk in land development. However, it is questionable whether any risk exists in present demand-rich, supply-poor markets, especially those of the fastest growing centres where risk really only consists of waiting for municipalities (or provinces) to extend core services.

Effective supply of serviced land also depends upon the relationship of the un-serviced raw land to present major servicing arteries i.e., its relation to trunks, interceptors, treatment plants, etc. To measure this factor there must be an appreciation of the cost and time involved in extending

these major facilities such that internal subdivision servicing can begin.

The basic skeleton for determining the form and rate of urban growth (namely core servicing) is in provincial and/or municipal hands. Do they consciously preplan their own concept of the timing and scale of development and instal core servicing consistent with such a plan? Do they see the use of servicing as a directive lever in urban growth? Or do they see their role as a response to developers' requests for servicing and only support this growth by providing the core services on demand?

Our analysis of the present dynamic suggests that municipalities view themselves as "supportive" to growth and respond to requests in this way. Ironically, they can be directive in a negative way, for if they cannot respond to requests for extension of core servicing, development cannot proceed. The reasons for this approach are:

- 1) the institutional history of the development process in Canada;
- 2) the political influence of the developers;
- 3) the capability of the municipality to preplan and
- 4) turn around time for installation of trunks and internal services.

However, the crucial variable appears to be the municipal financial base, i.e., their ability to borrow capital and dependence on a diminishing share of real property taxation.

The Question of Municipal Finance:

The Plunkett Study, The Financial Structure and the Decision-making Process of Canadian Municipal Government, (pg. 127-128) suggests that:

"Faced with a constantly increasing annual rate of expenditure requirements, these governments (municipal) must still...rely on the yield from real property taxation as the principal source of revenue. And yet this mainstay of the municipal revenue system is being increasingly eroded by the needs of education... In the face of a diminishing share of real property taxation, municipal governments have had to shoulder new responsibilities and also witness traditional functions expand at an ever-increasing rate. Continued dependence on the real property tax...has important implications for the decision-making process of the municipal government. The most important of these is the fact that the process inevitably forces all major decisions to be made in terms of their impact on this regressive form of taxation."

The municipal tax base concern has influenced development, but from a perspective which does not always bring positive results because,

- 1) municipalities strive for balance of assessment between residential and industrial land use in new development areas;
- 2) all relevant core servicing costs are charged to either the front-end cost of the lot or are recouped through imposts;
- 3) increased educational costs are charged through imposts and ;
- 4) higher level of standards in subdivisions in order to both keep down maintenance costs and to upgrade the assessment level, and therefore revenue, are required.

The resultant cost structure alone limits access to new residential development. However, the time (and hesitancy) municipalities take to make decisions and ensure fiscal safety has a wider effect - - it limits supply and encourages market oligopoly, prices become out of line and access is further restricted.

The Infrastructure Policy cannot make a meaningful impact on the municipal financial problem given the present revenue base. It can only be sufficiently sensitive to the problem, such that provision of infrastructure by municipalities can be accomplished with a minimum of financial grief.

The Traditional Role of CMHC in the Provision of Infrastructure:

In the past, the Corporation has provided at least two elements of Infrastructure (Land Assembly and STP Programs) thereby supporting the provision of housing stock and has responded to municipal or provincial requests in this manner. The STP program was initiated to be, and has become, a major vehicle for "pollution" control. However, this program has, to date, failed in its impact to consciously use the urban component. Namely, how can the time, scale and direction of trunk servicing be used to influence the form of urban growth and facilitate greater supply of serviced land? The Land Assembly Program has also failed to make a significant impact,

at least in areas most subject to growth pressures; it was used in a residual and start support manner (especially Section 35C since 1969).

Elsewhere, however, CMHC contributed significantly to the provision of basic infrastructure through mortgages on dwellings.

Federal Support to Infrastructure
Implicit in Mortgages.*

		<u>At 10%</u> <u>Content</u>	<u>At 15%</u> <u>Content</u>	<u>At 20%</u> <u>Content</u>
CMHC	1954-1970	\$ 591,484,000	887,226,000	1,182,968,000
Capital	1961-1970	496,928,000	745,392,450	993,856,600
Funds Only				
Total	1954-1970	\$1,313,526,800	1,970,290,200	2,627,053,600
NHA	1961-1970	962,568,100	1,443,852,150	1,925,136,200

* Compiled from Economics and Statistics Division Tables.

N.B. These figures do not include funding through the Land Assembly and Sewage Treatment Programs.

There has, until now, been no determined effort to see these costs in the wider context of urban development investment.

The major issue is the extent of public control over both the end costs and the form and scale of development. Presently, CMHC provides initial funds for STP trunks but not for land, or internal servicing except in the case of Land

Assembly projects. If the Corporation provided financing for the land, internal servicing and STP servicing to the municipality in a programmed manner and on a sufficient scale, leverage could perhaps be effected. The municipality could use the funds in a manner consistent with its own objectives. It is suggested that effective use of these funds could increase the supply of serviced land, and price could be reduced or stablized. Eventually, the mortgage would again cover these costs, but a reduction in price could make mortgage money go further.

The purpose of this argument is not to suggest alternate institutional mechanisms to financing, but to show the implicit role CMHC plays in Infrastructure, while having no real leverage over price or growth, while allowing the municipality to effectively use it. It again suggests the cumbersome nature of financing development where lack of available cash means development is curtailed, reducing supply; and that when those monies are paid, the Corporation has substantially no leverage power.

INFRASTRUCTURE, ITS DYNAMICS AND TRENDS

This section is designed to provide some of the data and analysis which describes the present situation of land and servicing. The projections presented should be viewed not as final accurate figures but as indicators about the order of magnitude we are discussing.

Land Price Trends

William Hamilton¹ pointed out that although the cost of urban land differs greatly among Canadian cities, averages can still be revealing. From 1951 to 1967, land costs for housing rose by 206.3 percent whereas construction costs per square foot rose 42.7 percent. Over the same period, land costs as a proportion of total housing costs rose from 10% to 17%. The most recent data on land to housing cost is given in Table I.

In recent years the price of serviced land has increased tremendously. Joseph Chung² has estimated that "between 1961 and 1970 the Canadian Consumer Price Index rose by 30 percent, while the price of land rose by 64 percent.

1 W.A. Hamilton, "Public Land Assembly in Canada", in P. Spurr's Preliminary Land Study CMHC May 1971.

2 Joseph Chung, "Land and Low Income Housing", background paper for Task Force on Low-Income Housing CMHC, 1971.

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TABLE I

Land Cost as a Component of Dwelling Cost:

From Table 83 Estimated Costs of New Bungalows Financed
Under the National Housing Act, Canada 1967-1969¹

<u>CMHC Field Office</u>	<u>Total Cost</u> ² 1969	<u>Land Cost</u> ³ 1969	<u>Land Cost</u> as % of Total Cost
MARITIMES			
Fredericton	18,935	2,293	12%
Halifax	21,463	2,907	14%
St. John's	18,912	3,180	17%
QUEBEC			
Chicoutimi	16,358	1,554	9.5%
Côte Nord	19,083	2,520	13%
Hull	16,715	2,490	15%
Montréal	15,063	1,719	11%
Québec	17,744	2,358	13%
Rimouski	18,562	1,926	10%
St-Lambert	16,723	1,850	11%
Sherbrooke	17,275	1,546	9%
Trois-Rivières	16,186	1,393	9%
Val-d'Or	17,522	1,022	6%
ONTARIO			
Barrie	22,530	4,190	19%
Fort William	22,746	4,111	18%
Hamilton	26,279	8,253	31%
Kingston	21,755	3,924	18%
Kitchener	22,343	5,906	26%
London	21,732	5,316	24%
North Bay	23,470	3,702	16%
Oshawa	25,331	8,124	34%
Ottawa	23,233	4,087	18%
Peterborough	21,268	3,636	17%
St. Catharines	22,809	6,098	27%
Sault Ste Marie	20,616	3,538	17%
Sudbury	23,502	4,234	18%
Toronto	28,812	9,533	33%
Windsor	24,644	5,671	23%

PRAIRIES

Calgary	21,914	4,659	21%
Edmonton	22,083	4,614	21%
Lethbridge	21,566	2,884	13%
Red Deer	20,218	2,834	14%
Regina	19,830	3,069	15%
Saskatoon	19,419	3,394	17%
Winnipeg	21,590	4,011	19%

BRITISH COLUMBIA

Cranbrook	20,453	2,400	12%
Kelowna	22,225	3,993	18%
Prince George	24,043	3,297	14%
Vancouver	23,913	5,613	23%
Victoria	23,049	4,207	18%

Canada Average:	20,315	3,623	18%
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- ¹ Excludes loans approved on leasehold property.
- ² Includes land, construction and other costs, but excludes the mortgage insurance fee.
- ³ Land cost data reflect the prices paid for lots regardless of the extent of servicing or the method of financing.

SOURCE: CHS, 1970. Estimated costs of New Bungalows
Financed under the NHA, Canada 1962-67.

In addition, the annual rate of increase rose from 11 percent a year in the period 1964-67 to 19 percent in the period 1968-70. (Table II). The latter increase occurred at a time the average size of lots decreased and the construction of multiple unit projects increased.

TABLE II

RATE OF INCREASE IN LAND PRICES 1964-1970

<u>REGION</u>	<u>1964-67</u> <u>(%)</u>	<u>1968-70</u> <u>(%)</u>	<u>1964-70</u> <u>(%)</u>
Canada	11	19	17
Maritimes	7	19	19
Quebec	2	19	9
Ontario	15	17	21
Prairies	8	11	11
B.C.	15	38	33

SOURCE: Drawn from J.H. Chung, Land and Low Income Housing
Table IX

Assuming an average lot size of 55' frontage, then on the bases of Chung's projections (Table III), by 1981 a lot in any of Canada's major urban areas would exceed \$15,000.

PART III

Projected Cost* of Land in 1981 in Major
Canadian Cities
(in dollars per frontage foot)

	<u>1970 Price</u>	<u>Residual</u>	<u>1981 Price</u>	<u>%Increase</u>
	\$	\$	\$	
Calgary	105	-3	167	59
Edmonton	136	28	200	47
Halifax	109	28	169	55
Hamilton	207	75	287	39
London	80 (1967)	-23	174	118
Montreal	40 (1967)	-95	191	378
Ottawa	102 (1967)	-20	199	95
Quebec	54	-13	117	117
Saint John	38	-28	81	113
St. John's	106	35	174	64
Toronto	321	73	448	40
Vancouver	168	34	322	92
Victoria	71	15	219	208
Winnipeg	88	-22	155	76

Source: Joseph H. Chung Land & Low Income Housing Table XII
(Task Force calculations and CMHC statistics)

*Projected cost plus 1970 residual found in price regression

Exploring Traditional Economic Logic About Land Markets ³

(a) Summary of Argument

The basic argument made about the benefit of speculation and competition in land markets is:
Land is a market commodity which fluctuates in price;
speculation in urban land markets is competitive;
speculators buy land on the gamble that future price will yield net profit; speculation can either increase (destabilize) or decrease (stabilize) land price fluctuations; if a speculator gains, the market is stabilized. Therefore speculation reduces intertemporal price movements, doesn't create huge profits, and governments might better assist its stabilizing function by reducing the risk of speculators' location decisions.

(b) Critique of Assumptions

- (1) "Land is a market commodity which fluctuates in price".

It must be recognized that there is neither a hypothetical nor a national urban land market. Urban land is a localized scarce resource and over 100 district urban economies exist in Canada. The price of an individual parcel decreases infrequently; Appendix B of C5 Lithwick documents price increase

3 Summarized by Alison Black from N.H. Lithwick's Urban Policy Papers (Preliminary Land Study) Ancillary Papers, Pgs. 31-44

in 89% of its examples. Understandably price decreases have occurred in unusual economic circumstances (regional recession, depression); however these have been situations of total economic failure of all markets.

Land traditionally is valued for its performance in maintaining and building value, even though the rate of increase does change over time.

(2) "Speculation in urban land markets is competitive."

Some information exists indicating existence of widespread oligopoly which challenges the notion of competitive urban land markets. The widespread occurrence of rapid price increases suggests that local markets are purposefully manipulated. It is clear that a prerequisite to state consideration of land ownership and price movements to understand their competitive, oligopolistic or sectorial monopolistic nature.

The fact that oligopolistic indicators do exist, requires that any federal land policies proposed cannot be predicted on competitive markets.

(3) "Speculators buy land on the gamble that future price will yield net profits."

The element of pure gamble is questioned here. In oligopolistic markets, an obvious risk-reducing

technique would be limitation of supply. The speculator's strategy to minimize risk takes advantage of various market elements including the financing system prevalent, rising interest rates and land values, while minimizing annual outlay over the speculation period. The worst a speculator can do there is play real costs against the overall rise in market prices and the anticipated rise in the development value of his land. Frequently he leases speculator-owned agricultural land to farmers generating revenue to offset annual expenses and in particular, minimizing taxes. This approach to land development effectively maximizes the odds that the speculator will win. Undoubtedly, some speculators lose, usually when price increases occur but are inadequate to cover speculative costs or when decreases in speculative land prices occur, but they are sufficiently exceeded by the increases that the net market prices increase. In either case, as aggregate prices rise in all urban markets, Urban Canada bankrolls the game, covering losers and winners alike.

- (4) "Speculation can either increase (destabilize) or decrease (stabilize) land price fluctuation. If speculator gains (buys low, sells high) the market stabilizes."

Land price fluctuation in practice is a varying

rate or price increase. In a stabilized market then, the rate of price increase is relatively constant. Although the speculator and the bureaucracy (for planning forecast purposes) benefit from this process, the consumer obviously does not.

Other imperfections to this stabilization notion exist. If speculator activity in competitive markets tends to stabilize them, is the effect strong enough to exceed other destabilizing forces? Intra-market price variances could emerge from varying public policies (servicing, zoning, etc.) and demands rooted in broad socio-economic and temporal forces. It is doubtful that any price stabilization arising from speculator activity outweighs these forces.

A final problem with this notion is that it assumes that speculative activity has no destabilizing effects. Speculators, with direct interests in rapid urbanization as a result of land purchases on the periphery, become major political actors supporting policies of rapid urbanization. As purchasers, speculators are often the primary demand in what was an agricultural market and as sellers, may be the only suppliers. Price increase and instability would appear to be closely related to speculative activity.

(c) General Disagreement with the Speculation Model

A preliminary criticism of the model is the use of macro-economic theory, recognizing that land, labor and

capital are "factors of production" - generic units at the foot of productivity, yet treating land as a normal commodity.

One must also examine the speculative system of marketing land in terms of efficiency and productivity. Sufficient documentation exists to show that the system is the principal reason for the disorganized and scattered development of the city, making effective planning impossible. Moreover the system is unproductive; the vast capital sums invested do not produce facilities for the production of real wealth.

Relating Residential Land Requirements to Oligopoly.

In August 1971, the Task Force on Low Income Housing asked CMHC Head Office Appraisal Division to survey the CMHC branches in the major urban areas to discover what the branches felt the land requirements for the decade 1971-1981 were and to obtain an estimate of how much land was held by the six leading developers. A summary of these results is presented in Table IV.

This information indicates that in all major urban areas except Montreal, developers hold enough land to satisfy the decade's requirements for residential land.

There is some information on the identity of these land holders, however, the extent of their interconnection or even their total holdings through other corporations they control is unknown. It is a fair assumption that all the present information is in fact an understatement of the degree of concentration in the residential development field.⁴

4 Dan Burns, "The Land Problem", Vol 4, Part X of the Task Force on Low Income Housing.

TABLE IV

Residential Land Requirements 1971-1980*

	<u>(Acres) **</u>		<u>Extent Acreages in Column 2 Controlled By Six Leading Developers</u>
	<u>Mr. Chung 1</u>	<u>Branch 2</u>	
Calgary	5,260	7,500	7,500
Edmonton	5,264	8,790	8,500
Halifax	631	2,250	1,600
Hamilton	7,153	3,375	Not yet available
London	3,834	4,252	3,820
Montreal	25,699	12,000	3,000
Ottawa-Hull	8,128	8,128	7,000
Quebec City	4,887	N/A	N/A
Saint John	531	N/A	N/A
St. John's	689	N/A	N/A
Toronto	29,117	19,600	18,000
Vancouver	20,619	8,000	6,900
Victoria	4,571	4,571	Nil
Winnipeg	3,968	8,000	6,155
Windsor	N/A	3,000	1,500
Regina	N/A	1,250	1,250

* Mr. Chung's estimates extend to 1981.

** For this purpose understood to include internal public and private streets but to exclude parks, schools, shopping centres and other non-residential land.

Appraisal Division
CMHC, September 1971

Note: The differences in projections of land requirements arises out of differing assumptions about density and growth.

SOURCE: D. Burns, *ibid.*, Table I.

Indicators of Concentrated Ownership:

In order to define the oligopolistic tendencies more accurately, it is necessary to determine which development companies belong to a parent firm. Furthermore it is advisable to identify their roles in the market in terms of the kinds of units they produce and where they operate geographically in the particular market. Peter Spurr in his Preliminary Land Study compiled the following rough estimate of the concentration of ownership.

URBAN AREA	OWNER, NOTES ON LAND MARKET, OR NUMBER OF OWNERS	ACREAGE	AREA STARTS 1970	SOURCE
TORONTO, METRO	Bramalea Consolidated Developments Limited	6,365		CREA
" "	The Caledon Mountain Estates Limited	2,401		" "
" "	Markborough Properties Ltd.	3,716		" "
" "	S.B. McLaughlin Associates Limited	5,345		" "
" "	Pinetree Development Co. Limited	1,564		" "
" "	(5)	19,391	30,521	
KITCHENER	Buildevco Limited	1,000		CREA
" "	Major Holdings and Developments Ltd.	2,040		" "
" "	(2)	3,040	3,075	
CALGARY	Nw-West Home Limited	3,600		CREA
" "	Quality Construction Ltd.	1,500		" "
" "	(2)	5,100	6,740	
" "	less competition, large developers dominant.			UPP
OTTAWA	Campeau Corporation Limited	3,000 ⁺		CREA
" "	Canadian Interurban Properties Ltd.	3,200		CREA
" "	Minto Construction Ltd.	710		CMHC
" "	Costain Estates Ltd.	1,400		CMHC
" "	Nepean Carleton Development Co. Ltd.	800		CMHC
" "	(5)	9,110	8,204	
" "	few large speculators control market			UPP

SOUTH PICKERING TWP	One developer	2,200		OAPADS
OSHAWA	Twelve developers	1,240	1,302	OAPADS
WHITBY	Seven developers	1,000		OAPADS
WINNIPEG	Four large developers			UPP
HAMILTON	Most land owned by developers			UPP
LONDON	Five major developers			UPP

SOURCES: CREA - The Canadian Real Estate Annual, 1970
 UPP - Appendix "B" Chapter 5, Urban Policy Paper
 OAPADS - Oshawa Area Planning and Development Study,
 Report # Two, Volume #1, p. II-51
 CMHC - Review of Ottawa Vacant Lands, CMHC, A.&P Division.
 AREA STARTS - CHS, 1970, TABLE 7.

Relationship between Master Plans, Regional plans and escalating land prices.

The development of a master plan by a municipality or a regional plan by a provincial or regional municipal government has the tendency to inflate land prices. The formulation of such a plan (the Toronto Centred Region is a good example) will define for the developers their relationship to the necessary supply of land during the life of such a regional plan. It substitutes the conventional need to outguess or project the municipal growth strategy with a firm grasp on what that growth strategy is. The Lithwick report and the crude market survey in this document suggests that the land necessary for the next five to ten years is already in the hands of developers. Consequently the emergence of the plan will define whose land will be used. Given that land is a limited commodity in the context of the regional plan, it is creditable to suggest that the developer will be able to price his land at what the market will bear. Consequently, it is argued that the formulation of a regional plan should be matched by the development of policy tools to prevent oligopolistic tendencies and the "restrained" development of raw land.

Projected Commitments given no Policy Change

Given that the Corporation decides to make no major intervention into the land development process the following scale of commitments are to be anticipated:

PROJECTED COMMITMENTS

Thousands of Dollars

Year	S.T.P. (1)	Land Assembly (2)
1971	\$87,000	43,000
1972	92,000	45,000
1973	98,000	48,000
1974	104,000	51,000
1975	110,000	54,000
1976	117,000	57,000
1977	124,000	60,000
1978	131,000	63,000
1979	139,000	67,000
1980	<u>148,000</u>	<u>70,000</u>
TOTAL	<u>1,150,000</u>	<u>558,000</u>

1. Annual increase of 6% based on 3% population increase,
and 3% price increase as forecast by Budget Division.
2. Annual increase of 5.5% as forecast by Budget Division.

Residential Land Requirements 1970-1981

Chung made two separate estimates for residential land requirements over the next decade. He concluded that by 1981 the total residential land requirements would be approximately 250,000 acres (Table VIII). Of this, 33,000 acres would be required to fill the need for low-income housing land (Table VI).

These residential land need estimates must be viewed in the following context:

- a) The projections assume the continuation of the past/
present trend of type-mix of housing dwellings.
- b) Average density by dwelling type:

	<u>Type of Dwellings</u>	<u>Average Density</u>
Type 1	Single-Semi	5
Type 2	Duplex and Triplex	13
Type 3	Row House	22
Type 4	Apartment	45

TABLE VI

Residential Land Requirements for Low-Income
Housing, 1971-81

	<u>Land Acreage</u>
Canada	32,582
Maritimes	3,150
Quebec	9,278
Ontario	12,753
Prairies	3,589
British Columbia	3,812
Calgary	473
Edmonton	526
Halifax	183
Hamilton	858
London	192
Montreal	3,341
Ottawa	894
Quebec	684
Saint-John	165
St. John's	165
Toronto	3,785
Vancouver	1,237
Victoria	320
Winnipeg	476

Source: Joseph H. Chung "Land and Low-Income Housing"
Table IIB

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TABLE VII

Residential Land Requirement 1971-81

	<u>Land Acreage by Dwelling Type</u>				
	<u>Type I</u>	<u>Type II</u>	<u>Type III</u>	<u>Type IV</u>	<u>Total</u>
Canada	215,967	10,807	4,445	24,184	255,403
Newfoundland	3,361	47	36	25	3,469
P.E.I.	706	29	15	8	758
Nova Scotia	3,989	107	40	159	3,295
New Brunswick	3,115	87	45	95	3,342
Quebec	46,623	3,597	536	7,233	57,989
Ontario	87,843	5,005	2,799	10,625	106,272
Manitoba	5,207	168	119	423	5,917
Saskatchewan	4,346	137	13	164	4,660
Alberta	19,671	594	331	1,451	22,047
British Columbia	42,106	1,036	511	4,001	47,654
Calgary	4,526	266	58	410	5,260
Edmonton	4,533	94	135	502	5,264
Halifax	456	56	16	103	631
Hamilton	6,079	89	181	804	7,153
London	3,112	154	173	395	3,834
Montreal	17,132	2,460	355	5,752	25,699
Ottawa-Hull	6,266	484	512	866	8,128
Quebec City	4,157	153	30	547	4,887
Saint-John	474	26	8	23	531
St. John's	635	28	15	11	689
Toronto	19,600	2,454	1,111	5,952	29,117
Vancouver	17,156	311	181	2,971	20,619
Victoria	3,863	123	35	550	4,571
Winnipeg	3,280	172	86	430	3,968

Source: Joseph H. Chung, "Land" & Low-Income Housing Table II

Price and Cost Projections to 1981 for the Required 250,000 Acres

The following table states some projections about the potential increase in the price of land over the decade.

Cost of Serviced Land	Rates of Increase **	
	Continuous	Arithmetic

A. 20.3 Billion	13.9%	30%
B. 15.7 Billion	11.0%	20%
C. 12.1 Billion	6.9%	10%
D. 5.5 Billion	4.0%	5%

In the foregoing table, projections A, B and C are based upon an assessment of the national average price of an acre of land. This price is then extrapolated under the alternative sets of assumptions about the rate of increase.

Briefly the underlying assumptions are:

1. Single family dwellings at 5/acre will require 85% of the land, their present national average price is \$25,000/acre.

** The purpose of this chart is not to provide the definitive statement of the price/cost difference over the decade. It merely serves to show that given the continuity of present trends, under alternate assumptions of their continuing nature, these are likely to be the order of magnitude of their differences.

2. Multiple unit projects at 45/acre will require 10% of the land, their present national average price is \$90,000/acre.
3. Row housing, etc. at 15/acre will require 5% of the land, their present national average price is \$45,000/acre.

The average present national cost for an acre with this proportion of use is \$32,500/acre.

Projection D is formulated under a different set of assumptions. It examines the present structure of production in land development adds a real growth factor of 5% over the decade to show the cost projection of the required 250,000 residential acres. Briefly the assumptions are:

The price of raw land will be assumed to be \$5,000/acre. It is much less than this in many parts of the country (for example, in the Edmonton land assembly project, it cost only \$2,000/acre).

The national average for servicing at the present time is about \$50 a front foot (although it is \$100 in Toronto). Servicing land for single family dwellings would thus be about \$12,500/acre. Servicing costs for other types of residential buildings are not substantially different. Then the present costs of purchasing and servicing raw land is in the order of \$17,500/acre. Over the decade the increased cost of servicing and the cost of money borrowed to work land while it is serviced is assumed to increase the cost of land by 50% (or 5% per annum average). This gives a decade average for land prices of \$22,000/acre (approximately). For 250,000 acres this comes to \$5,500,000,000.

The Cost of Public Intervention

Given that the intention is to stabilize the price of serviced land (while recognizing the real growth in the economy) the following range of costs are seen to be the rough scale of capital involved in such intervention.

The present projected cost of servicing 250,000 acres with a 5% growth in cost was determined as \$5,500,000,000. Therefore, in hypothetical terms a banking program directed at controlling price would need to sell one-half of the required land. The cost of this would be some \$2,250,000,000.

However, considering the "cash flow" problem inherent in this expenditure and recognizing the need to develop a cash disbursement strategy it is necessary to determine what the components of this capital are. We have assumed that roughly one-quarter of the final cost in our cost-based example is the cost of raw land. The capital requirement for raw land is \$550,000,000. The other component is servicing its capital requirement is \$1,700,00.

The intention is to relate the capital requirement for raw land under the previous cost assumption to the projected commitments discussed earlier.

Projected Land Assembly
Budget to 1980

\$558,000,000

Projected Raw Land Costs
(as above)

\$550,000,000

It is important to emphasize that the Land Assembly programs capital budgets contain funds for internal servicing. At the same rough one-quarter assumption about raw land the Projected L.A. Budget's raw land capital is approximately \$140 Million. This is a short-fall of \$410 Million for raw land acquisition.

Projected S.T.P. Budget
to 1980

\$1,150,000

Projected Servicing
Costs

\$1,170,000

The Sewage Loan Program budget is heavily weighted in the direction of capital cost for treatment plants themselves. Under the assumption that in the future the treatment plant costs could be maintained at 60% content that leaves 460 Million which can be directed at servicing requirements for the land bank. Adding the \$418 Million of the servicing component of the Land Assembly Budget's aggregates to \$878 Million or a short-fall of \$292 Million.

Consequently the total short-fall over the decade in these rough terms is: \$410 Million (for raw land acquisition) and \$292 Million (for servicing) which totals to approximately \$702 Million.

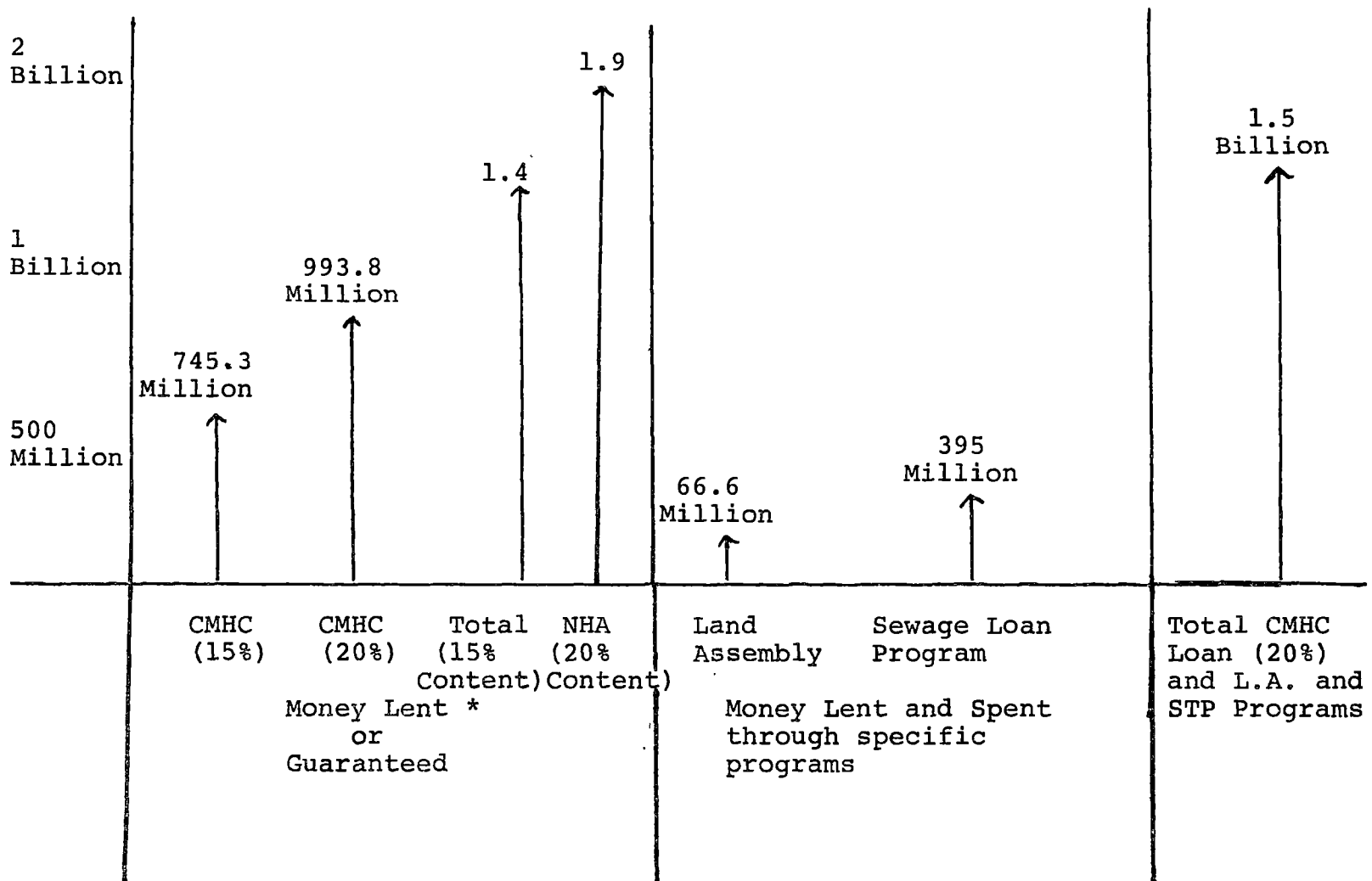
Given that it is likely that the projected commitments will be spent the cost of intervention is the short-fall or some \$702 Million. This short-fall must also be seen as

existing before any estimate has been made about the implicit infrastructure commitments through CMHC lending activities. The key issue here is the starts mileage CMHC and the Federal Government will get out of the CMHC capital budget if basic serviced land costs continue to balloon.

Conclusions

The following conclusions emerge from the preceding data and analysis: land prices will continue to escalate, oligopolistic tendencies will be reinforced, production of needed supply is costly given the present process continues, government intervention has the potential of saving capital resources and redirecting them into other sectors.

Federal Resources Directed At Infrastructure
1961 - 1970:



* Note, the infrastructure content was averaged out at 15 or 20 percent. Our assumption is that the arithmetic average for the decade is near the 20% figure.

THE POLICY OPTIONS

Statement of the Issues:

The preceding discussion of current trends and the role of infrastructure within the context of urban growth, identifies three critical issues:

- 1) the nature of the inflationary element in price and the trend towards, and consolidation of, oligopoly positions. The relation of supply and price suggest that there are serious problems as to who gets access to new stock and the alternatives open to them;
- 2) the present process of land development together with the form of decision-making and its underlying rationales, specifically at the municipal level, seriously questions the extent and kind of control the municipality has over growth in that most municipalities do not use infrastructure for facilitating their plans and its potential for influencing supply and price;
- 3) if the Federal government is to encourage the formulation and use of programs to influence price, supply and access, it must be sensitive to the municipal (and in some cases provincial) fiscal base.

These issues set the framework for what might be done with present CMHC "infrastructure" programs. They also provide a context for examining other "core physical requirements" which might be incorporated into the present programs.

The Infrastructure Policy Alternatives:

The key policy decision which must be made is: What is the role of the Federal government, through CMHC in addressing these issues?

OPTION 1: RESPONSIVE POLICY

Assumptions:

The problem of the inflationary element in land price and aggregate land needs over the next decade is the responsibility of the provincial and municipal governments. They will respond to this problem in terms of their view of its nature and the tools they are capable of using. They have sufficient tools, such as zoning and assessment practices to force or encourage an increase in the supply of land. The acquisition, development and disposal of land is purely a private market function. That market might be encouraged to function more satisfactorily. However, the basic nature of the market should not be interfered with by the public actor.

The Federal Government, through CMHC has no direct role in this process other than responding to provincial and municipal requests for Land Assembly funds and Sewage Treatment loans.

Responsive Policy Thrust:

The Land Assembly and Sewage Treatment programs would continue to be seen as separate entities with their own

particular purpose. It is generally expected that provinces and municipalities would use these programs to reinforce the present market process. The Federal Government might attempt to reinforce the present developmental process by responding to private industries' requests for ways to rationalize and regularize the present system of financing development.

OPTION 2: RESPONSIVE-SUPPORTIVE POLICY

Assumptions:

The responsibility of intervening in the problem of the inflationary element in land price and aggregate land needs over the next decade, rests firmly with provincial and municipal governments. However the tools that are available to the municipal and provincial governments might not be sufficient to have major effects on the current characteristics of specific markets.

The Federal government, through CMHC, must be sensitive to this problem because it influences the success of Federal

housing and urban goals. The Federal government would, therefore, be prepared to respond to provincial and municipal requests for increased support in the relevant program areas. In Land Assembly, the Federal government might increase its level of funding to allow land banking for specific municipal or provincial projects.

In the Sewage Loan Program, the Federal government might increase its level of funding especially as it relates to trunks, in order to facilitate the production of a larger supply of serviced lots. These actions, however, are not meant to jeopardize the basic market processes but to encourage them to perform at a more optimum level.

Responsive-Supportive Policy Thrust:

The Corporation would respond to provincial and municipal requests for funding under the Land Assembly and Sewage Loan Programs. These programs would continue to be seen as separate entities with their own particular purposes, but the level of funding would be increased. It is generally expected that provinces and municipalities would use these programs to reinforce the present market process. The Federal government might attempt to reinforce the present developmental process by responding to private industries' requests for ways to rationalize and regularize the present system of financing development.

OPTION 3: INITIATIVE-SUPPORTIVE POLICY

Assumptions:

The problem of the inflationary element in land price and aggregate land needs over the next decade has a major influence on the effectiveness of Federal housing and urban policies. Furthermore, the present pattern of "unconstrained growth" in both price and spatial terms, has serious consequences to the achievement of national unity and the Federal desire to encourage national equity in housing needs and urban affairs. The final decision on the form and scale of intervention would be made at the municipal and provincial level. However, the Federal government is not convinced that they have sufficient tools to have a major leverage effect on the present market dynamics. The Federal government, although sensitive to the need to maintain private development activity is concerned that the market be influenced to perform more effectively and equitably over the longer term. The provinces and municipalities are not capable of using the present programs, -- Land Assembly and Sewage Treatment Program -- effectively to meet their assumed goals.

Initiative-Supportive Policy Thrust:

The Federal government, through CMHC, would restructure its Land Assembly and Sewage Loan Programs to influence price,

supply and access. Therefore, Central Mortgage and Housing Corporation would be prepared to encourage provinces and municipalities to use these programs to stabilize developed land costs and facilitate rationally planned development.

The Corporation would be prepared to support the re-structured programs with a satisfactory level of funding to make them effective. It would also explore the possibility of providing planning support to municipalities (provinces or regional municipalities where applicable) to ensure effective implementation of the policy.

This document will now discuss the options for the use of the Sewage Loan Program and the Land Assembly Program within this policy context. Emphasis is placed upon educating the provinces and municipalities to the need for concerted action and providing them with support for upgrading their planning capability in order to effectively use the programs.

THE SEWAGE TREATMENT PROGRAM

(PART VIII OF THE NATIONAL HOUSING ACT)

THE SEWAGE TREATMENT PROGRAM

OBJECTIVE

In the context of the overall infrastructive concept previously developed, and in concert with the development of a feasible land policy, the objective of the Sewage Treatment Program is to:

- 1) further develop the policy option chosen by management;
- 2) examine the implications in financial, legislative and programming terms; and
- 3) recommend action for 1972-73.

Within the overall policy option already chosen, which states the intent to re-structure the Sewage Treatment Program to emphasize its urban/housing support role, there are two sub-options open. The major differences between these sub-options are in the following areas:

- the timing for introduction of the re-orientation, and initiative in setting priorities
- the level of funding in the short term
- the potential for direct support of the Land Assembly policy to be adopted
- the relative importance of environmental clean-up funds in the total program

In selecting between the two options, it must be recognized that the choice will determine the range of opportunities open for the Land policy.

THE POLICY OPTIONS

OPTION NO. 1 -- ENVIRONMENTAL PROGRAM NOW,
URBAN ORIENTATION DEFERRED.

There is a general public demand for action on environmental questions now, and substantial funds are being committed for this purpose. It would be inadvisable to either institute a major change in emphasis or to seek a substantial increase in the amount of money allocated to the Sewage Treatment Program at this time beyond what will be necessary for Department of Environment Programs.

OPTION No. 2 -- URBAN ORIENTATION NOW,
PARALLEL WITH THE ENVIRONMENTAL PROGRAM

The perceived increasing demands of urban growth and the need to reduce the pressure on land prices require that funds for the Sewage Treatment Program be increased immediately and that the program be administered as an explicit support for the Federal Government's urban and housing policies. Existing commitments and the necessary negotiations require a phased approach to the re-orientation. The objective would be an integrated Infrastructure Program by 1975.

The two options' different elements are as follows:

OPTION No. 1. EMPHASIS ON ENVIRONMENTAL PROGRAM NOW,
URBAN ORIENTATION DEFERRED

Policy Stance

This option, while recognizing the urban/housing relationship to the Sewage Treatment Program, would deem it inadvisable to introduce a major re-orientation at this time in view of current national emphasis on pollution-abatement and the latter's heavy demands on national capital. The program would retain its residual and responsive role while the government attempted to clean up a large part of the environment. No attempt would be made to initiate -- in concert with a re-structured Land Assembly Program -- a major assault on the land problem. C.M.H.C. would continue to accept priorities for spending as established elsewhere, and increased budget allocations would be sought only in response to additional Department of Environment Program needs.

Advantages

1. option limits pressures on Federal and C.M.H.C. budgets
2. requires little or no change in C.M.H.C. personnel or in administrative procedures
3. avoids the possible introduction of conflict over priorities
4. addresses itself to program effectiveness problems

Disadvantages

1. the real probability of developing a backlog of servicing for urban growth needs which would lead to
2. upward pressure on price of land and housing, and
3. the likely restraint on other federal urban and housing program effectiveness which would lead to
4. a build-up of external pressures through other governmental levels for increased funding
5. the time span of Department of Environment Programs (e.g. Fraser Valley -- probably 10 years, Montreal area -- 15 years) indicates that the environmental backlog will be with us for a considerable time
6. during this same period another dimension of the problem will be growing in importance -- the obsolescence and need for replacement or modernization of existing plants.

Legislative Implications

None.

Budgetary Implications

	(i) <u>Carry on, Present Level</u>	(ii) <u>Carry on, Higher Level</u>
1972	\$92 millions	\$98 millions
1973	\$98 millions	\$110 millions
1974	\$104 millions	\$123 millions
1975	\$110 millions	\$138 millions

(6% p.a. increase)

(12% p.a. increase)

(i) These figures are based on Budget and Analysis Division projections which allow for a 3% population increase and a 3% price increase.

(ii) These figures add an additional 6% for increased demand.

N.B. Additional funds for Department of Environment requirements are included only so far as they are known at this time -- i.e. Lower Great Lakes agreement only.

OPTION NO. 2. URBAN ORIENTATION NOW, PARALLEL WITH
THE ENVIRONMENTAL PROGRAM

Policy Stance

This option takes the position that the re-orientation of the Sewage Treatment Program, from an anti-pollution to a directive urban/housing policy support role, should begin now. It recognizes the necessity to take action in concert with an appropriate Land Assembly policy in order to meet the projected needs of urban growth and housing over the next decade. It also maintains that to secure maximum benefit from funds committed, Federal involvement must become less responsive and more directive. The responsive role in administering an anti-pollution program on behalf of the Department of the Environment is not eliminated, but is seen as having its own quite discrete objectives. There is a need to increase the S.T.P. budget to meet the growing demand from increasing family formation rates and urbanization, as well as to finance environmental 'clean-up' programs.

Advantages of this Option over Option No. 1

1. Used in parallel with the Land Assembly Program it can be a major instrument in helping to achieve Federal housing/urban objectives
2. It can contribute towards the stabilization of land and housing prices over the next 5-10 years

Disadvantages

1. It requires Federal (C.M.H.C.) participation in the programing priority-setting role previously the sole concern of provincial and municipal governments

2. It requires a substantial short term increase in federal funding

Policy Change - Phased re-orientation

Although the process may begin immediately, certain constraints must be recognized which necessitate the programming of a careful transition through the next 3 - 4 years.

Despite the criticisms which have been made about the present cost-sharing formula it does not appear feasible to change it at this time. The provision for a 25% forgiveness feature in a loan agreement was extended quite recently to March, 1975, in order that provinces just beginning to use the program on a substantial scale might benefit from it. In addition, the Lower Great Lakes' agreement recently signed with the Province of Ontario is based on the current cost-sharing formula, and any subsequent agreements with other provinces will be expected to carry the same terms and conditions. Provincial/Municipal expectations are clearly for a continuation of this program -(preferably with a larger budget)- in its present form, and there would be no immediate gains to the Federal Government if major changes were made at once.

Policy Objective

It is recommended that the re-shaping of the program and its integration with Land Assembly into an Infrastructure Program aimed at controlling the supply and price of serviced land be implemented in two stages. Stage 1 covering the re-orientation period would take until 1975, at which time Stage 2 involving the completely re-shaped program with its clearly defined urban and housing objectives would begin.

As presently perceived Stage 2 would see the Sewage Treatment Program with its emphasis on pollution control replaced by a Trunk Servicing Program in support of, and closely co-ordinated with the Land Assembly Program. The elements to be involved should ideally include the sanitary and trunk storm sewers, water mains and roads necessary to open the land assembly areas for development. The degree of federal involvement, including the level of financial support, in such a comprehensive program must be the outcome of a careful analysis of need and negotiation with the other governments. The internal servicing of the land assembly areas would continue to be financed as at present through the Land Assembly Program. The installation of treatment plants and their main trunk collectors would continue to be regarded as essentially an anti-pollution activity and as such could be regarded as a responsibility of the Department of the Environment. Continued federal participation in their financing should be regarded as a separate matter with its own funding provisions, quite distinct from the Trunk Servicing Program, C.M.H.C. could continue to administer the program on behalf of the Department of the Environment.

Policy Change - Stage 1. 1971-1975

This first stage, covering the period of program development, is itself perceived in two parts.

Phase 1. - 1971-73

Although major program changes are not envisaged at once, a start must be made to establish the concepts underlying the policy and to lay the groundwork for the more substantial shift of emphasis to follow.

The following specific actions are recommended for immediate implementation -

1. Amendment of the present policy to ensure that any trunk sanitary sewers, required to service Land Assembly Projects, are eligible for assistance under the Sewage Treatment Program. This will not involve a major increase in spending but is necessary to cover a number of situations where financing of trunks needed to open up a project is presently ineligible under both the S.T.P. and Land Assembly Programs.
2. Recent projections have confirmed the Seaden Report findings that there is a short-fall between actual needs and our current level of funding. It is recommended that the budget allocation be increased by a further 6% per annum during the next 2 years additional to the 6% already allowed for in the budget projections to cover inflation and increased demand.
3. Although no change is proposed in the terms of funding at this point, it would be highly desirable that there be a policy shift in the method of allocating the funds to the provinces annually. A program directed towards the problems of urban growth and land costs must be aimed to those provinces and metropolitan areas where the growth pressures are strongest. Use of the program

to correct regional disparities or to favour 'have not' provinces would be to distort the program's objectives.

4. This report has previously identified the need for a land market analysis of the major urban centres to properly develop the programming strategy for a Land Program aimed at stabilizing price and supply of land. In the same way there is need for a much more precise definition of the scale of the trunk servicing support needed to parallel such a program, both to "firm-up" budgetary requirements and to permit implementation of the extended Sewage Treatment Program as an urban support according to the policy option selected.

It is recommended that a detailed analysis be undertaken to more precisely measure the infrastructure needed to support projected urban growth over the next ten years. Such a study should be undertaken concurrently with an in depth land need analysis of the major urban centres. Both of these should be undertaken co-operatively with the Provincial governments.

Phase 2. - 1973-75

1. The analysis recommended above should permit a fairly accurate measurement of the dimensions of an infrastructure program directed towards the support of an urban land banking and development strategy.

It will than be feasible, and indeed necessary, to establish a series of programming priorities directly related to the perceived objectives of the National Housing Act and its various programs. Such priorities will be quite discrete and separate from those arising from either the anti-pollution programs of the Department of the Environment or the regional disparity programs of the Department of Regional and Economic Expansion. This does not exclude the continued use of the Act or of C.M.H.C. as delivery mechanisms for such programs on behalf of the other departments. It should however require a separate budgeting for them, in order to emphasize the separateness of their objectives and therefore the fact that funding allocations are not interchangeable.

2. Successful implementation of this program will require development of appropriate plans and programs for each urban region. The Federal Government should provide aid for this work in order to facilitate the necessary level of expertise. There should be little or no difficulty in production of the basic land use 'master' plans since work at this level has been undertaken in many major urban centres over the past decade or more. There will be additional need however for planning of an implementation strategy in some detail over an extended period of time, and development of

management expertise in programming acquisition, servicing and development to achieve the basic objectives.

3. The first steps should be taken to broaden the Sewage Treatment Program by including trunk storm sewers as eligible for assistance where these are necessary in support of Land Assembly projects.

There are several reasons why storm sewers should be the first addition to the program apart from their obviously complementary function. They are frequently installed simultaneously with the sanitary trunk sewers and may parallel the latter over a considerable distance. There is growing evidence that, especially in major urban centres, that storm water may contain an unacceptably high level of pollution and may need to be collected for treatment prior to disposal. There are still many situations where combined sanitary/storm collection systems are the most appropriate, and our current practice of funding only sanitary trunks either results in an arbitrary division of costs, or leads a municipality to adopt a less economical system in order to maximize its benefits from the current program.

An essential concept of the proposed Infrastructure policy is that the servicing support be integrated with the land banking and development strategy. It is recommended therefore that initially eligibility be limited to trunk storm sewers needed to service land

assembly projects rather than that funding be made universally available. The greater degree of universality would lie conditional upon the readiness of municipalities to undertake the long term land banking and development programming mentioned above. It is possible that some municipalities would be ready to move into this broader program by 1973.

4. The lending provisions should be amended to provide for a 90% loan instead of the 66 2/3% loan now available. This will benefit the less affluent municipalities and provinces, but the principal reason for the change is to place the lending provisions of the Infrastructure program and of the Land Assembly program on the same basis. This will emphasize their interdependence and will facilitate their later closer integration into a single composite program. The forgiveness feature could be reduced to a lower percentage of the loan in order to keep the absolute amount constant.
5. The Seaden report on the Sewage Treatment Program identified what the consultant considered to be serious shortcomings in various aspects of the "state of the art". These included the level of design skills, consequent less than optimum solutions to specific problems, need for special incentives for pilot experimental projects, need for more research through Part V. of the N.H.A., and the lack of skilled per-

sonnel for plant operation. It is recommended that these issues be thoroughly explored with the various agencies and governments involved to establish their relative dimensions and to establish the best mechanisms for resolving them.

6. One aspect of the process of developing technology of sewage treatment would perhaps be more effectively provided for if it were to be an integral part of the infrastructure program rather than part of a broader research and development strategy. This is the pilot or demonstration project phase where full-scale testing is undertaken in an operational situation. In order to ensure the availability of the substantial funds needed for this type of work it is recommended that initially, the first 5% of the annual budget for the sewage treatment program be reserved for this type of project which has both an (operational) as well as (developmental) component. It would be beneficial if additional financial incentives could be attached to this aspect of the program to encourage optimum participation in this final stage of the research/development process.

7. Consideration should be given to the desirability of 'global' agreements with the provinces to cover programs over a period of years. These could be along the lines of the recent Lower Great Lakes agreement and would be feasible and successful according to the

effectiveness of the activities outlined in paras. 1 and 2 above. Such agreements would ensure continuity of the flow of funds to other government levels, and would encourage efficient management techniques through planning, programming and budgeting. They should also help to ensure continuity in the supply of serviced land and have a beneficial effect on the stability of the industry. They would, however, lock-in the federal government's spending pattern and reduce its ability to intervene at the project level in order to safeguard the realization of its own objectives.

8. Although detailed program planning must await policy decisions, it needs to be recognized that adoption of a land assembly and servicing policy of this nature will require procedures which involve a greater federal involvement in local programming and project development. To allow proper participation by field staff it is recommended that pre-design applications be submitted for all projects. Such an application could be in the form of a brief outlining the technical and broader planning aspects of the proposal. It would describe the design hypothesis and provide the basic data upon which the design was based. The relationship would thus be established with the previously developed overall plan for land banking and servicing.

LEGISLATIVE IMPLICATIONS

Phase 1. 1971-73

None.

Phase 2. 1973-75

1. Amend Part VIII of the National Housing Act to permit financing of trunk storm sewers.
2. Amend Section 51 to provide for 90% loans instead of the 66 2/3 loans now permitted.
3. Amend Section 52 to reduce 'forgiveness feature' proportionately in order to keep the absolute amount forgiven constant.
4. Introduction of an additional grant feature in support of projects built under the 5% demonstration project provision.

BUDGETARY IMPLICATIONS

1972	\$98 millions)	
1973	\$110 ")	12% increase
1974	\$132 ")	
1975	\$158 ")	20% increase (1)

- (1) This higher annual increase will be necessary after the introduction of trunk storm sewers into the program.

N.B. Additional funds to meet Department of Environment requirements are included only so far as they are known at this time - - i.e. Lower Great Lakes agreement only.

NOTE

The proposed phased approach to the program changes is based upon the need for detailed studies of the requirements of the individual urban areas and in anticipation of a period of fairly lengthy negotiations with the other levels of government. The date for introduction of the re-structured program or some parts of it could however be brought forward if this process were to be accelerated.

THE LAND ASSEMBLY POLICY OPTIONS

INTRODUCTION

The Land Assembly policy options presented for decision within this document arise from a number of sources. The basic research emerges out of Peter Spurr's Preliminary Land Study, Joseph H. Chung's Land and Low Income Housing and Capital Gains Tax, Land Banking and Low Income Housing (done for Low Income Housing Research Group). Personnel from the operating divisions of the Corporation were involved in a series of seminars on Land Assembly at Head Office (see Appendix A). Regional staff were involved in discussions about this issue through a field trip. Other resource material included Notes on Federal Provincial Meeting on Housing and Urban Development 1968, The 1965 Advisory Group Report on NHA Inquiry, Briefing Book on Federal Provincial Conference on Housing and Urban Development, December 1967 and T. J. Plunkett's The Financial Structure and Decision-Making Processes of Canadian Municipal Government.

THE LAND ASSEMBLY POLICY OPTIONS

1. IMMEDIATE FULL SCALE INTERVENTION
 - Public land banking, tax tools, expropriation tools and transfer payments to force price stabilization.
2. POLICY DIRECTED AT MEDIUM SIZED CITIES
 - Public land banking in medium sized cities to force price stabilization.
3. RESIDUAL FUNCTIONS ONLY
 - Land Assembly to operate where market does not operate.
4. PHASED POLICY LEADING TO PUBLIC DOMINANCE
 - Use public land banking to stabilize price after building information, education and planning base.
5. FEDERAL FINANCIAL SUPPORT TO PRIVATE LAND DEVELOPMENT

LAND ASSEMBLY POLICY OPTION NUMBER ONE

IMMEDIATE FULL SCALE INTERVENTION

1. INTRODUCTION

This land assembly policy option seeks to reflect the Low Income Housing Research Group's position on Land Assembly. The policy option is presented in its substantive form for management's consideration at this time. However, the research group will include its final detailed recommendation and arguments on Land Assembly when their report is completed.

2. THE CORE ASPECTS OF THE POLICY

1. The Federal government through Central Mortgage and Housing Corporation will provide the necessary capital funds (at 100% loan) to the provinces or the municipalities for land banking in an effort to stabilize or freeze prices over the decade.
2. The monies will be distributed through a self-sustaining and self-liquidating fund (Revolving Fund). This fund will be structured such that it returns the initial loan outlay in both principal and interest.
3. The lots in the Land Assembly projects might initially be sold at cost or sufficiently below the market to ensure an effective stabilization of land prices.
4. The policy does not advocate sole public participation - only sufficient public participation to stabilize price

(the degree of intervention is the function of the market). Therefore private participation in the market is encouraged when they produce lots at a reasonable price for a reasonable return. The public participation is the lever to ensure that this does happen.

5. The question of lease or resale is left to the discretion of the borrower but it is bounded by the necessity to repay. The intention is to foster internal project subsidy such that the aggregate return approximates cost but individual lots (directed at different income levels) need not necessarily do this.
6. The policy is to be linked with a development charge strategy. This development charge is designed to interpose a charge between the appreciation of land and the income tax system. This charge could be levied by any level of government.

3. ASSUMPTIONS ON WHICH POLICY IS BASED

1. The understanding that presently exists about price and demand trends suggests the possibility that urban and housing goals will not be met unless decisive action is taken.
2. Although the understanding is presently at the aggregate and trend level this is sufficient knowledge to adopt a policy direction. More specific data is needed from each market when intervention takes place.
3. The nature of the present development process which is geared to short term responses and which operates under a mythical notion of risk cannot be left with the responsibility of producing sufficient supply at acceptable prices. The present and emerging oligopoly situation further mitigates against this.
4. The costs of the program although high must be borne in order to facilitate the effectiveness of the government's longer term housing and urban policies especially those of low income housing.
5. These costs when seen within the longer term time frame of a self-sustaining and self-liquidating fund result in a "cash flow" problem not in an expenditure problem. This "cash flow" problem can be managed in the pricing and disposal procedures. The costs must also be viewed in the light of non-intervention where they can be shown as higher.

6. The notion of the high cost of initial intervention is only valid within a limited time frame. The "relatively" high cost of land immediately purchased becomes an absolutely lower cost when viewed a few years into the program - stabilization is the key. Furthermore the cost is lower than if land had to be acquired in 5 or 10 years especially as it relates to the provision of low income housing.
7. The Federal government has a role and responsibility in this area. This recognition emerges out of an analysis of the trends and their implication towards meeting housing and urban goals.
8. The policy seeks to ensure effective control by municipalities over their growth. It becomes a major resource to the implementation of community plans and the program is to be structured such that it encourages this form of planning at the municipal, urban regional or provincial level - where appropriate.
9. It is anticipated that there will be favourable response from the majority of provinces and municipalities to this thrust. The federal initiative in this area will provide them with additional leverage to overcome the local vested interests which they are incapable of tackling alone. In areas where there is resistance it is hoped that education to the problem will bring support before other measures are considered.

10. It is anticipated that there will be tremendous pressure from the vested private interests in the development field. This pressure can be turned back through government public relations to inform the Canadian people of the validity of the move. Discontent over prices and access is already being shown. This could be directed at the development industry. Furthermore, the developers threat of pulling completely out of the market is not to be taken seriously as they will still have a role to perform and will receive "reasonable" returns on this role.
11. The residual function performed by the contemporary land assembly policy will cease and become one of the sub-systems satisfied within the larger context of the policy.
12. The land banking policy will be reinforced by the Sewage Loan Program which will provide the necessary trunk services in order to allow the internal servicing of the land assembly project.

4. BENEFITS

- Ensuring a stabilization on the price of land.
- Defines "value" in social rather than "what the market will bear" terms.
- Stabilization will ensure greater access to home ownership by removing a major price obstacle.
- Such access is further reinforced by internal project subsidy.

- Availability of servicing funds permits rapid turn around on land from raw to serviced allowing larger supply at consistent level.
- Larger consistent supply suggests building industry will begin to look toward efficiencies of scale and could also have push down pressure on price.
- Consistent production of units on pre-planned basis allows the formation of stable non-seasonal labour force in this area.

5. REAL COSTS

- Initial necessary capital outlay may well be beyond the fiscal capability of the government.
- The "cash flow" problem internal to self-sustaining fund. Certainly eventually all monies can be returned both principal and interest. However, the period between fund outlay and return may interrupt the government's cash position and prove a problem in times of international monetary crisis. Furthermore, it could have an effect on the position of the capital markets.
- The unwillingness of the province or the municipality to embrace this strategy because of their position vis a vis vested interests.
- The incapability of the municipalities and some provinces to use the program because of its consequences to their fiscal/financial position.

- The poor planning capability of the provinces and/or municipalities might result in poor decisions and inefficiency in the use of funds.
- The question of how to monitor the program such that internal subsidies are distributed and used in an equitable manner.
- Does not appear to encourage the formation of an institutionalized and regularized method of private investment in development stretching from raw land acquisition to the point of first long term mortgage advance.

6. CONSTRUED COSTS

(These are cost arguments which can be shown as invalid.)

- The federal initiative will drive the developers out of the market - leaving full vacuum which government must move into at increased costs.
- Internal project subsidy will place the subsidized into a position where they can accrue a capital gain.
- The government would have to buy land at an inflated price level - provides excessive capital gain to land holders at the inception of program. Could place eventual cost out of the meaningful range which is sought.
- The financial inefficiency of holding this land over time.

7. BUDGETARY IMPLICATIONS

The total cost component for public land banking is seen as \$2.25 Billion.

1972	\$282.5 million
1973	282.5 million
1974	198.0 million
1975	198.0 million

It is assumed the level of the budget will remain at 198.0 million up to 1981.

8, LEGISLATIVE IMPLICATIONS

The replacement of both Section 35A and 35C (even with its 1969 amendment) with a single Section called The Land Banking and Neighbourhood Servicing Act. This section of the Act should allow for:

- (a) The granting of 100% loans.
- (b) The first pay back feature at 30% of lot sale in the land bank area.
- (c) Extension of the life of the loan to 25 years before all pay back must be accomplished.
- (d) To the formation of a self-sustaining and self-liquidating financial mechanism for the funding.
- (e) All land sold must at least return cost over the life of the entire project, internal project subsidies are allowed.

POLICY OPTION NUMBER TWO

POLICY DIRECTED AT MEDIUM SIZED CITIES

1. CORE ASPECTS OF THE POLICY

(a) The Mid to Far Term Policy

1. The Federal government, through CMHC, will undertake a longer-term policy of providing capital funds (on a conditional basis related to need) to provinces and municipalities for public land banking in the medium-sized cities in order to stabilize lot prices.
2. The funding will be provided through the Land Assembly section of the NHA.
3. The policy does not intend to cause solely public participation in a market rather than only sufficient public participation to stabilize the price. The degree of intervention is therefore relative to the specific market.
4. The question of lease or resale is left to the discretion of the borrower, however, it is bound by the necessity to repay the loan.
5. The policy will allow for the provision of funds for the development of new communities by a public agency or a government. The funding will only be extended for the acquisition of the core of the new town.

7. The lots in the land assembly project are not to be sold at "market". They are to be sold at cost or below "market" in order to extend a stabilizing force.

(b) The Near Term Policy

The implementation of this long term policy is dependent upon the following near term policy approaches.

1. Extensive intergovernmental consultations on the nature of the longer term problem, together with an exposition of the suggested policy approach.
2. The provision of funds to provinces, municipalities or regional municipalities in order to enable them to prepare longer term development plans.

The specifics of this policy are defined in the Urban Assistance Sector report.

3. In 1972, the development and implementation of a "market research study" in the twenty-one major urban centres.

This study should focus on:

- (a) the present and ten year projected demand for land
- (b) the cost of land now available for development
- (c) the amount of land held by developers and its anticipated sale price
- (d) the extent of competition between developers in each land market
- (e) the amount of extra cost added to land prices by inefficiencies in the development process

and oligopolistic markets

- (f) an assessment of the volume of land, and time it must be held by the public to reduce land cost and assure orderly development
- (g) the amount of private gain realized through land price increases created by public infrastructure, and social growth investments.

This "market study" should be designed and funded at the federal level where the final national data analysis should take place. However, the actual implementation of the study and the initial analysis should be done at the municipal or regional municipal level. This will serve as a vehicle to educate them to the problem and provide the core data for determining the kind of intervention they might be prepared to make in each market area.

4. Redefinition of the policy objectives of the land assembly program over the next two years in order to make it consistent with the longer term approach.

Specifically, this entails:

- (a) funding priority be given to the land banking needs of the medium-sized cities
- (b) funding for such assemblies only be given if it meets, and it can be clearly shown as consistent with, the overall price and development influence strategy
- (c) funding to land banking and other functions be provided only if the scheme fits into some overall notion of a development plan

- (d) the second priority on funding be given to provinces or regional municipalities who are about to embark upon a new community strategy to take pressure off major urban centres. Such funding be given for the acquisition of the core of the new community.
- (e) land assembly funding be provided in support of DREE initiatives only if they conform to the foregoing overall policy parameters

2. ASSUMPTIONS ON WHICH POLICY IS BASED

1. The present description of the nature of the land problem, specifically the demand and price trends suggest that decisive action be taken where it is feasible.
2. The aggregate or average understanding of the problem is sufficient to make a policy choice. Implementation requires more definitive market-by-market data in the areas where the policy will apply.
3. The present and emerging character of the land development market suggests that in order to hold prices in line and ensure adequate supply, some form of public intervention, where feasible, is required.

4. The costs of an "all out" program are too high. However the cost of intervention in the medium-sized cities is acceptable.
5. The cost of the program when seen within a longer-term time frame and in the context of a self-sustaining fund, result in a "cash flow" problem and not an expenditure problem.
6. One of the major contributing reasons for directing the policy at the medium-sized centres is the high cost of intervention in the major growth areas. Such a program would have high costs over its life and would pay high initial costs for the land. However, such a perspective does not apply to the medium-sized cities. First the overall cost of the program is less. Second the price for the acquisition of the land is not unreasonable. It is high, but that is relative to today's market. This relatively high cost becomes an absolutely lower cost when viewed a few years into the program due to the stabilization of escalating price.
7. The Federal government, through Central Mortgage and Housing Corporation, has a valid role in this area in order to ensure the effectiveness of its housing and urban goals. However, this support must be given within the context of the expenditure capability of the government.
8. The policy initiative, if it is to be successful, depends upon its implementation being tied to longer term community, municipal or regional plans. Consequently

the federal government through the Corporation should be prepared to provide the necessary assistance to create such a planning base. The existence of such a planning base is, of necessity, the prime requisite for the use of program funds.

9. It is anticipated that the reaction of the provinces and/or municipalities will be favourable to the program if its introduction is phased to take into account: educating them to the needs the policy intends to meet, the necessity for upgrading their planning capability, readjusting their planning capability and readjusting their delivery mechanisms. Furthermore, it is anticipated that federal initiative in this area will provide them with additional leverage to overcome the local vested interests (developers) which they are incapable of tackling alone.
10. It is anticipated that there will be localized pressure from the vested interests in the development field. Such a reaction can be deflected through a federal information program to inform the Canadian citizens of the underlying reasons for the initiative. Public discontent over housing prices (of which land content is high) together with the question of who has access, could be directed at the vested interests. Furthermore, any threat by private developers to withdraw from the market is not to be taken seriously. Not only do they have investments they are not about to lose, but will continue to have a role to perform for which they will receive a reasonable

rate of return.

11. The residual function performed by the contemporary land assembly program will be incorporated as a sub-component of any initiative in the medium-sized city. Certain recognition must be given in the program for residual functions which could be performed in the other centres.
12. The land banking policy will be reinforced by a "servicing" policy which seeks to supply the requisite funding to ensure that trunk services can be provided so that the land can be internally serviced.

3. BENEFITS

- Ensuring a stabilization on the price of land in medium-sized cities and an influence on price in new communities.
- Defines "value" in social rather than "what the market will bear" terms in these areas.
- Stabilization of price will ensure greater access to home ownership by removing major price obstacle.
- Such access is further reinforced by potential internal project subsidy.
- The cost of the program is not prohibitive while having a beneficial effect in the growth pattern and community processes of medium-sized cities.
- The potential for the acquisition of easement rights for trunks reinforces the use of the sewage loan program in the infrastructure policy.
- It leaves open the option for a larger scale longer term

intervention in all urban centres. It could be the base for such a policy.

- Larger consistent supply suggests the building industry will begin to look toward efficiencies to scale which could also have a push down pressure on price.

4. COSTS

- The intervention is not directed at the core of the problem in the major growth areas.
- The unwillingness of the province or the municipality to embrace this policy because of their relationship to vested interests.
- The policy although limited in scale is still costly and may not be able to get the requisite level of funding to be fully effective.
- The poor planning and implementation capability of the province and/or municipality might result in poor decisions and inefficiencies in the use of funds.
- Does not appear to encourage the formation of an institutionalized and regularized form of private investment in development, stretching from raw land acquisition to the point of first long term mortgage advance.

5. BUDGETARY IMPLICATIONS

The following budgetary requirements are seen as necessary for the program:

1972	45 million
1973	65 million

1974	75 million
1975	90 million
1976	110 million

6. LEGISLATIVE IMPLICATIONS

The implementation of this policy requires:

- (a) Section 35C (as amended 1969) should be extended.
- (b) Change the financial requirements of the acts to allow municipalities to use a debenture-like feature.
- (c) The repayment feature of Section 35C be amended to extend the life of the loan to 20 years. First pay back of accumulated interest only be made after two years. First principal (together with uncharged interest) be paid back after 30% of the lots are sold.
- (d) Restructure the administrative procedure such that additional land assemblies added to the project or the internal servicing be structured into a single account which would have a composite interest rate.

LAND ASSEMBLY POLICY OPTION NUMBER THREE

RESIDUAL FUNCTIONS ONLY

1. CORE ASPECTS OF THE POLICY

1. The purpose of the Land Assembly policy is to provide monies for the assembly of land in those sectors and locations where the private market does not operate.
2. The land assembly program is to be supportive of the provision of housing for low income or become the "market" where there is no private activity.
3. The land is not to be sold at cost but at, or near, market price in order not to cause a disruption in the basic market processes.
4. The present Sections of the Act would necessarily remain the same, with minor amendments to clean up administrative difficulties.
5. The policy would provide funding for the acquisition of land for low income housing.
6. The policy would respond to provincial requests for funding for the acquisition of land for the core of new communities in order to stimulate their development.
7. The policy would continue to respond to the requests for support from DREE if they were consistent with the foregoing general policy objectives.

2. ASSUMPTIONS ON WHICH POLICY IS BASED

1. The present description of the nature of the land problem, specifically the demand and price trends suggest that policy alternatives for the problem should be pursued further.
2. The present data is mainly an aggregate or average assessment of the problem. The data is not sufficiently complete or locally specific to be acceptable.
3. The most effective means to ensure adequate price performance in a given market is to stimulate a free market situation. The supply/demand dynamic is the best means to ensure adequate price.
4. The costs of a full scale federal intervention into land prices are prohibitive. Furthermore, land development is strictly a private market function where the government has no responsibility.
5. The costs viewed in any time-frame are prohibitive.
6. The initial costs of intervention into the process are high and unjustified. There are better ways to achieve the same ends.
7. The Federal government, through CMHC, is concerned about the relationship between land supply and price trends and the possibility of meeting its housing and urban goals. However, it has no responsibility to directly intervene in the private market. It may attempt to influence the supply/demand dynamic through other techniques, but land banking is too severe and costly.

8. Rational planned development is accepted as the necessary mechanism for urban planning. The Corporation has and continues to support this notion. The provision of land assembly funds depends upon such a capability at the municipal, regional municipal or provincial level.
9. The policy if it continues to respond to requests from provinces and municipalities, will continue to be used and supported.
10. The private development industry will not be affected. Consequently the adverse reaction which is anticipated from a more initiative policy will be avoided.
11. The explicit purpose of the policy is to cater to "residual needs" not being performed by the market and respond at a restrained level to requests from municipalities and provinces.
12. The question of the servicing of the assembled land will be dealt with in the traditional manner. The Land Assembly section of the Act will continue to provide funding for the internal servicing of the acquired land.

3. BENEFITS

- Does not commit the Federal Government into heavy longer-term expenditures.
- Seeks to meet residual needs which the market does not meet, especially those of the low-income groups.

- The possibility of acquiring easement rights reinforces the infrastructure objectives of the Sewage Loan Program.
- The acquisition of the core of new communities provides a public catalyst to private initiative in such areas. Could be used to take pressure off high growth areas.

4. COSTS

- Makes no significant contribution to stabilizing escalating land prices and encouraging an increased supply of serviced land.
- Becomes indirect subsidy in market by only performing residual function, therefore, does not encourage market to perform at optimum level.
- Specifically defines land as a private commodity and depends on private market to provide for future urban needs.
- Provinces and municipalities who wish to engage in land assembly for price and development influence will not have a readily available source of funds.
- Land prices will tend to continue to inflate, placing the federal government's longer-term housing and urban policies into jeopardy.

5. BUDGETARY IMPLICATIONS

The foregoing policy has the following budgetary requirements:

1972	45 million
1973	48 million
1974	51 million
1975	54 million
1976	57 million

(5.5% annual increase as forecast by Budget & Financial Analysis Division).

6. LEGISLATIVE IMPLICATIONS

The implementation of this policy requires:

- (a) Continuation of present 35A section of the Act, however, before loans are committed, project objective agreements would be required in order to not lock in the senior partner (CMHC).
- (b) The extension of the 1969 amendment to Section 35C for an indefinite period of time.
- (c) The change in the financial mechanisms of the Act to allow the use of a debenture like instrument by the municipalities.
- (d) Change in the pay back procedure of Section 35C to allow the municipalities to pay back with equal annual payments of principal and interest. Provision for amendment in Section 35C to allow a conditional 2 year initial deferral of pay back at the discretion of the Corporation.
- (e) The provision of a financial mechanism to allow internal servicing of the project to be made part of a single account with a composite interest rate.

LAND ASSEMBLY POLICY OPTION NUMBER FOUR

PHASED POLICY LEADING TO PUBLIC DOMINANCE

1. CORE ASPECTS OF THE POLICY

(a) Mid to Far Term Policy Approach

1. The Federal Government through CMHC, will provide the necessary capital (on a conditional loan basis related to need) to the provinces and/or the municipalities for land banking in an effort to stabilize land prices.
2. The monies will be distributed through a self-sustaining fund. This fund will be structured such that it returns the initial loan outlay in both principal and interest terms.
3. The policy does not advocate complete public control - only sufficient public participation to stabilize the price. The degree of intervention is relevant to the specific market.
4. The lots from the land assembly project are not to be sold at the "market" price, rather they are to be sold at cost or sufficiently below the "market" price in order to effect a stabilization of land prices.
5. The question of lease or resale is left to the discretion of the borrower, however, it is bound by the necessity to repay the loan amount.
6. The intention is to introduce internal project subsidy such that the aggregate return approximates cost, but individual lots (directed at different income levels need not necessarily do this).

7. The policy will be reinforced through the provision of increased funding in the Sewage Loan Program such that trunk services are provided when it is necessary or desirable to internally service the land.

(b) Near Term Policy Approach

The implementation of this mid to far term policy is dependent upon the following near-term policy approaches.

1. Extensive intergovernmental consultation on the nature of the long-term problem together with an explanation of the suggested policy approach.
2. The provision of funds to provinces, municipalities or regional municipalities in order to enable them to prepare long-term development plans. This policy is developed and described in the Urban Assistance Sector report.
3. The immediate initiation of a "market research study" in the twenty-one major urban centres directed at determining:
 - (a) The present and ten year projected demand for land
 - (b) the cost of land now available for development
 - (c) the amount of land held by developers and its anticipated sale price
 - (d) the extent of competition between developers in each land market
 - (e) the amount of extra cost added to land prices by inefficiencies in the development process and oligopolistic markets

- (f) an assessment of the volume of land, and time it must be held by the public to reduce land cost and assure orderly development
- (g) the amount of private gain realized through land price increases created by public infrastructure, and social growth investments.

This "market study" should be designed and funded at the federal level where the final national data analysis should take place. However, the actual implementation of the study and the initial analysis should be performed at the municipal or regional municipal level. It would serve as a vehicle to educate them to the problem and provide the core data for the extent of intervention they must be prepared to make in each market area.

4. Redefinition of the policy objectives of the land assembly program over the next two years in order to make it consistent with the longer term approach specifically this entails:

- (a) no more pure residual funding except for the provision of low income housing. This should be done by requiring that 30% of the lot content of an assembly be set aside for low income housing. And/or 30% of the content of the capital funds be used to bank for future low income housing needs.
- (b) funding for land assembly only provided if the assembly meets the overall price and development influence strategy
- (c) no funding to a borrower unless the land assembly fits into some overall notion of a development plan

- (d) land assembly funding support for DREE initiatives only if it fits into these overall objectives
- (e) funding be extended to provinces or regional municipalities who intend to develop a new community. The funding be provided for the "core" of the new community together with the percentage of residential land necessary to stabilize price.

2. ASSUMPTIONS ON WHICH THIS POLICY IS BASED

1. The understanding that presently exists about price and demand trends suggest the possibility that housing and urban goals will not be met unless decisive action is initiated in the near to mid term.
2. Although the understanding is at the aggregate and trend level alone, this is sufficient data for the choice mid to far term policy approach. The specific scale of the approach and its full implementation depends upon the generation and evaluation of specific data from the market areas of the twenty-one major centres.
3. The nature of the present development process which is geared to short-term responses and which operates under a mythical notion of risk cannot be left with the responsibility for producing sufficient supply at acceptable prices. The present and emerging oligopoly situation mitigates further against this.

4. The costs of the program, although they will be high, must be borne in order to facilitate the effectiveness of the government's longer-term housing and urban policies.
5. The costs of the program when seen within a longer-term time frame, and in the context of a self-sustaining and to some extent self-liquidating fund, result in a "cash-flow" problem and not in an expenditure problem. The "cash-flow" problem can be managed through pricing and disposal procedures. These intervention costs must be viewed from the perspective of the costs of non-intervention, escalating land prices, supply poor demand rich markets and their effects on urban growth patterns, and especially access.
6. Although at this point in time prices suggest that large scale intervention will be high cost, such a perspective is valid only within present time frame. The "relatively" high price of land immediately purchased becomes an absolutely lower cost when viewed a few years into the program - the stabilization of the inflationary trend will make the present price "relative".
7. The Federal Government, through CMHC, has a valid role in this area if it is serious about meeting its housing and urban goals. This role is not merely supportive in that it provides necessary funding, but it also helps develop intervention strategies, upgrades planning and provides the climate for such a policy to be effective.

8. The longer-term policy objective if it is to be successful, depends upon its implementation being tied to longer-term community, municipal and regional plans. Consequently, the federal government through the Corporation, should be prepared to provide the necessary assistance to create such a planning base - which is, of necessity, a prime requisite for use of program funds.
9. It is anticipated that the reaction of the provinces and/or the municipalities will be favourable to the program if its introduction is phased to take into account (educating them to the needs the policy intends to meet) the necessity for upgrading their planning capability and readjusting their delivery mechanisms. Furthermore, it is anticipated that federal initiative in this area will provide them with additional leverage to overcome the local vested interests which they are often incapable of tackling alone.
10. It is anticipated that there will be tremendous pressure from the vested interests in the development field. Such reaction can be deflected through a federal government information program to inform the Canadian citizens of the underlying reasons for the initiative. Public discontent over housing prices (of which land content is high) together with the question of who has access, could be directed to deflect the private industries uproar. Furthermore, the threat by private developers to pull completely out of the market is not to be taken seriously. Not only do they have a role to perform for which they will receive a reasonable "rate" of return.

11. The residual function performed by the contemporary land assembly program will be one of the sub-systems satisfied within the larger context of the policy.
12. The land banking policy will be reinforced by Sewage Loan Program which will provide the funding necessary to extend trunk sanitary and storm servicing such that the land assemblies may be internally serviced.

3. BENEFITS

- The phasing of the policy allows the federal government to preplan its expenditures, to consult with and educate the provinces and municipalities.
- The "market research" study will allow the federal government to determine specifically the extent of intervention needed in each market in order to maximize the cost effectiveness of the program. The "market research" also provides an information and education level.
- Ensuring a stabilization on the price of land.
- Defines "value" in social rather than "what the market will bear" terms.
- Stabilization will ensure greater access to home ownership by removing a major price obstacle.
- Such access is further reinforced by internal project subsidy.
- Availability of servicing funds permits rapid turn around on land from raw to serviced allowing larger supply at consistent level.

- Larger consistent supply suggests building industry will begin to look toward efficiencies to scale could also have pushdown pressure on price.
- Consistent production of units on pre-planned basis allows the formation of stable non-seasonal labour force in this area.

4. COSTS

- Initial necessary capital outlay may well be beyond the fiscal capability of the Government.
- The "cash flow" problem internal to self-sustaining fund. Certainly eventually all monies can be returned both principal and interest. However the period between fund outlay and return may interfere with the government's cash position and prove a problem in times of international monetary crisis. Furthermore it could have an effect on the position of the capital markets.
- The unwillingness of the province or the municipality to embrace this strategy because of their position vis a vis vested interests.
- The incapability of the municipalities and some provinces to use the program because of its consequences to their fiscal/financial position.
- The poor planning capability of the provinces and/or municipalities might result in poor decisions and inefficiency in the use of funds.

- The question of how to monitor the program such that internal subsidies are distributed and used in an equitable manner.
- Does not appear to encourage the formation of an institutionalized and regularized method of private investment in development stretching from raw land acquisition to the point of 1st long term mortgage advance.

5. THE BUDGETARY IMPLICATIONS

In order to affect the policy the following budgetary estimates are given. The first two year estimates are seen as realistic. The last three years are an educated guess the final budgetary assessment will come out of the "market research" study.

1972	45 million if locked in
	55 million if leeway can be achieved
1973	60 million
1974	200 million
1975	200 million
1976	100 million

6. THE LEGISLATIVE IMPLICATIONS

The legislative process has two phases, consistent with the overall thrust of the policy. The first phase requires changes in order to implement the short term (2-3 year) policy. The second phase is the final rewrite of the acts which would take place when the market research becomes available.

These legislative revisions cannot be accurately discussed at this time. Short term Legislative Requirements:

- (a) Section 35A be left in its present form. A policy decision directs that 35A be used primarily in the so-called "have-not" provinces. Legislative amendment to Section 35A to allow the Corporation the discretion to advance the junior partnerships 25% in the form of a loan. Before any 35A loans are committed more definitive project objective agreements be signed to prevent the senior partner from being completely locked in.
- (b) The incorporation of the 1969 amendment to Section 35C into that section of the Act for an indefinite period of time.
- (c) The change in the financial mechanisms of both sections of the Act (applies to 35C and the 25% discretionary loan in 35A) to allow the municipalities to use a debenture-like feature to eliminate mortgage discharges.
- (d) The amendment of Section 35C to extend the life of the debenture-like device up to 40 years.
- (e) The amendment of Section 35C to require an annual payback of interest during the life of the debenture device. However, the payback of the first principle amount be required only after 30% of the lots have been sold.
- (f) Change in the Regulations to provide that the project agreement includes a proven cost revenue technique

when the debenture device is used. This is done to ensure the province or the municipality uses the program consistent with its objectives. The proven cost revenue device is to be structured to allow the Corporation to recoup profit into a self-sustaining fund or to encourage internal project subsidy.

- (g) Change in the Regulations to allow the provision of a financial mechanism to facilitate that the internal servicing of the project and other charges, be made part of a single account with a composite interest rate.

THIS IS THE PREFERRED OPTION

LAND DEVELOPMENT POLICY OPTION NUMBER FIVE

FEDERAL FINANCIAL SUPPORT TO PRIVATE LAND DEVELOPMENT

1. THE CORE ASPECTS OF THE POLICY

(a) The Mid to Far Term Policy Approach

1. The Federal Government through CMHC, will provide the necessary capital through a 90% loan to cover the costs of acquisition, holding and internal servicing of land to private development companies.
2. The monies will be distributed through a revolving fund.
3. The policy directly encourages full private participation in an orderly and planned land development process. It attempts to ensure its efficiency and performance by creating an institutionalized and regularized method of financing for land development.
4. The policy, in order to meet its price stabilization and increased supply objectives, will provide the loans only on the basis that such objectives are met within the specific market area by the development company.

(b) The Near Term Policy Approach

1. Continue to use the Land Assembly program under Section 35A for two years. Extend the 1969 amendment to Section 35C for two years. Then remove the programs, or retain some aspects of the programs at a reduced scale to perform residual functions.

2. Consultation with the provinces about the proposed policy change.
3. The immediate initiation of a "market research study" in the twenty-one major urban centres directed at determining:
 - (a) the present and ten year projected demand for land;
 - (b) the cost of land now available for development;
 - (c) the amount of land held by developers and its anticipated sale price;
 - (d) the extent of competition between developers in each land market;
 - (e) the amount of extra cost added to land prices by inefficiencies in the development process and oligopolistic markets;
 - (f) an assessment of the volume of land, and time it must be held by the public to reduce land cost and assure orderly development;
 - (g) the amount of private gain realized through land price increases created by public infrastructure, and social growth investments.
4. Initiate the formulation of the revolving fund. Once the market research is received, review it in order to develop the proper conditional features for the program.

2. ASSUMPTIONS ON WHICH THIS POLICY IS BASED

1. The understanding that presently exists about price and demand trends suggest the possibility that housing and

urban goals will not be met unless decisive action is taken to influence those trends into a more positive direction.

2. Although the understanding is based on aggregate and trend data alone, this is sufficient for the choice of a mid to far term policy approach. However, the specific scale of the approach and its full implementation depends upon the generation and evaluation of specific data from the market areas of the twenty-one major centres.
3. The present development process is basically valid and ultimately is the most efficient means of producing developed land. However, the nature of its present processes, especially the short-term financing and short-term response of the industry, must be restructured. There is a real risk in the present private process but it is the financing mechanisms which should be corrected in order to generate better price and supply performance.
4. The costs of such a program, although high, must be borne in order to encourage the more effective performance of the private development industry. Such an improved performance will aid in achieving the government's longer-term housing and urban policies.
5. The costs of the program when seen within a longer-term time frame, and in the context of a revolving fund, result in intermittent "cash flow" problems and not in a federal expenditure problem. The costs of intervention

must be viewed from the perspective of the costs of non-intervention especially the price, supply and demand trends.

6. The initial costs of such a policy will tend to be high, but the monies will be rolled through a revolving fund. The costs must be seen in the perspective that better price and supply performance will justify them.
7. The Federal Government, through CMHC, has a valid role in the area of reinforcing the operations of the private market. It is justified in using this device if it reinforces the possibility of meeting its housing and urban goals.
8. The longer-term policy objective, if it is to be successful, must be related, in the implementation stage, to the longer-term community, municipal and regional plans. These levels of government must be in the position of being able to influence the development plans in the community. The Federal Government, through the Corporation, should be prepared to provide the necessary assistance to create such a planning base -- which allows the effective influence over development.
9. It is anticipated that the reaction of the provinces and/or the municipalities will be favourable to the program if its introduction is phased to take into account: education and consultation about the needs the policy intends to meet, providing them with assistance to upgrade their planning capability and readjusting their delivery mechanism.

10. It is anticipated that the development industry (especially small developers) will be generally supportive of the intent. They are likely to resist the imposition of conditions for the use of the money-- especially if there are supply level or price level conditions.
11. The present land assembly programs of the Corporation will be phased out, or restricted, and their capital used as seed money for the revolving fund.
12. The land development policy must be reinforced by the Sewage Loan Program to provide the funding necessary to extend trunk sanitary sewers so that the development land can be internally serviced.

3. BENEFITS

1. The accessibility of land development monies could, at various times, provide money at a lower interest rate than offered by the market, aid in redefining the notion of "risk" in land development (which leads to short-term financing), allow the efficient production of serviced land.
2. The potential for reducing the rate at which land prices escalate, together with the production of a greater volume of serviced land.
3. Encourages the more effective performance of the land market and could tend to persuade the financial

institutions into developing a regularized financing package for land development stretching from raw land acquisition to the point of first mortgage advance.

4. The existence of the land development fund would allow the smaller builders and land developers to increase their role in the market. This could have the tendency of increasing competitiveness, increasing the potential supply and stabilizing prices.
5. The phasing of the policy allows the Federal Government to preplan its expenditure, to develop the revolving fund mechanism and to determine the conditional features it will attach to the program.
6. The "market research" study will allow the Federal Government to determine the specific nature of the needs being expressed by the land developers. Furthermore it will provide the necessary market-by-market information about what conditions should be attached to the program.
7. The capability of the industry to consistently supply an increased volume of serviced land suggests the building industry will begin to look toward efficiencies of scale which could also have a pushdown pressure on price.

4. COSTS

- The policy to be effective must have conditional features in order to ensure that price escalation is moderated.

It is unlikely that national guidelines can be created for the policy because land markets tend to be specific geographic areas (at the most regional municipal). If guidelines are not enforced the policy would not be effective.

- The land development industry which is generally well capitalized would probably not use the program if the conditional features reduced the profit they were capable of extracting from the "market" or were otherwise onerous.

Our experience with the developers tends to confirm this.

- Furthermore, the developers we have dealt with do not seem to be interested in obtaining public funding for land acquisition. Those who were, tended to be smaller, undercapitalized developers/builders who wanted a longer share of the action.
- Ensuring the land developers a consistent integrated form of funding would not only increase their market power but also would allow them to direct heavier pressure on the municipalities for subdivision approval. This approval might not be consistent with the municipalities' growth plans and could tend to exacerbate "uncoordinated" growth.
- The "growth pressures" exerted by the development industry could, if they are not resisted by the municipality, further jeopardize the municipal fiscal

base. If the municipality did hold off growth there is every indication that when development proceeded again the lot price would have gone up.

- The "cost" savings in this approach -- in those years when the interest rate on the fund was less than market -- would be marginal.

5. THE BUDGETARY IMPLICATIONS

In order to effect the policy the following budgetary estimates are given. The first two-year estimates are seen as realistic. The last three years are an educated guess. The final budgetary assessment should arise out of the "market research".

1972	45 million (land assembly programs)
1973	25 million (residual land assembly) 45 million (seed money for revolving fund)
1974	leave 15 million/year for residual land assembly 100 million for revolving fund
1975	15 million for residual land assembly 100 million for revolving fund
1976	75 million for residual land assembly 75 million for revolving fund

6. THE LEGISLATIVE IMPLICATIONS

The Legislative process has two phases, consistent with the overall thrust of the policy. The first phase requires amendments to facilitate the near term policy (2 - 3 years). The second phase is the writing of the Land Development Assistance Act.

Short-term requirements:

1. Extend the 1969 amendment to Section 35C for an indefinite period of time.
2. Change the financial mechanisms of Section 35C to allow the municipalities to use a debenture-like feature to eliminate mortgage discharges.
3. The amendment of Section 35C to extend the life of the debenture-like device up to 40 years.
4. The amendment of Section 35C to require an annual payback of interest during the life of the debenture device. However, the payback of the first principle amount be required only after 30% of the lots have been sold.
5. Change in the Regulation to allow the provision of a financial mechanism to facilitate that the internal servicing of the project and other charges, be made part of a single account with a composite interest rate.

APPENDIX "A"

PARTICIPANTS IN LAND ASSEMBLY AND INFRASTRUCTURE SESSIONS

The following personnel from the Corporation's Head Office were involved in the Land Assembly/Infrastructure sessions held by Concept Development Group.

Mr. G. Boivin	Policy Planning Division
Mr. S. Bourns	Policy Planning Division
Mr. R. Cooper	Urban Renewal & Public Housing Div.
Mr. J. Dawes	Urban Renewal & Public Housing Div.
Mr. J. Fowlie	Policy Planning Division
Mr. B. Gray	Economics & Statistics Div.
Mr. P. Hustwitt	Architecture & Planning Div.
Mr. C. Leclerc	Urban Renewal & Public Housing Div.
Mr. T. Mitchell	Economics & Statistics Div.
Mr. G. Nordmann	Assistant Chief Planner Architecture & Planning Div.
Mr. G. Purchase	Assistant Director Appraisal Division
Mr. J.W. Sanderson	Assistant Director Urban Renewal & Public Housing Div.
Mr. A. Smith	Director Urban Renewal & Public Housing Div.
Mr. H. Work	Engineering & Construction Div.

*Mrs. Elizabeth Hay PPD who did much of the Statistical Research and Literature Search.