

RESEARCH INSIGHT

Breaking Ground, Breaking Barriers: Land Use Regulations and the Impact on Housing in Canada

Evidence from a Large Sample of Canadian Municipalities



Insight Summary

Housing affordability is influenced by many factors and is a very complex subject. One important piece of the puzzle is how we regulate land and develop new homes. Housing regulations are meant to protect public interest and help communities to prosper, but they can also lead to trade-offs that may affect how much housing is built, how affordable it is, and how quickly it gets developed.

CMHC's analysis using the 2022 Municipal Land Use and Regulation Survey¹ found a *causal* connection, showing that more restrictive land use regulation: (1) lowers the growth rate of new supply, and (2) increases the cost of housing.

¹ <https://www.cmhc-schl.gc.ca/observer/2023/approval-delays-linked-lower-housing-affordability>

Key Findings

1

Strict land use rules make housing less affordable, even when considering city size, growth, density, and income.

2

Stricter land use rules also slow down housing supply growth over time.

3

Areas with the highest demand to upzone for more housing often have the lowest approval rates, especially in expensive markets. Recent moves to allow for as-of-right upzoning are a positive step toward better land use policy.

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Canada's housing affordability problems have motivated new regulatory reforms in many cities, including through the Housing Accelerator Fund. Among others, we've seen cities:

- Relax zoning restrictions to allow for more dense housing
- Improve efficiency of processes, including through e-permitting.²

Our findings further support and encourage ongoing initiatives around easing barriers to new housing supply.³

“A 10% increase in the regulatory restrictiveness of a municipality leads to a 14% increase in house prices.”

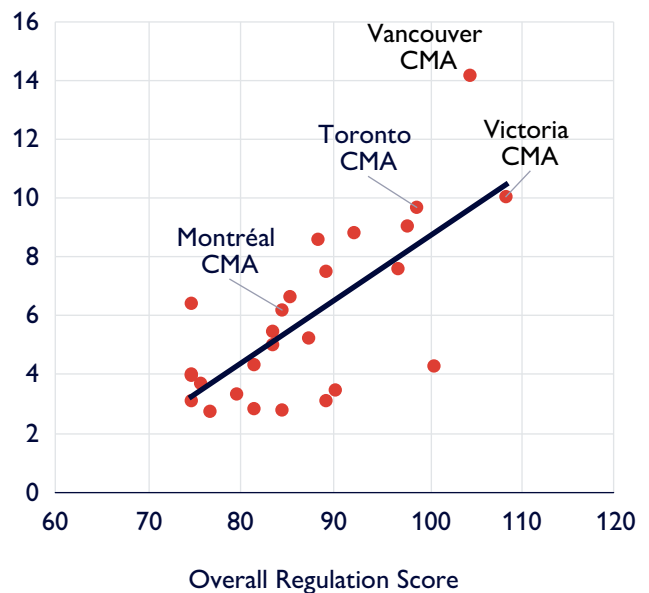
Brief Analysis

Higher Regulation Comes with Trade-offs for Housing

We've combined several key themes from the survey into the **Municipal Land Use and Regulation Index**. This score acts as an indicator of how supportive and efficient a city's development approval process is. It reflects both the capacity and willingness to move projects forward with minimal obstacles. This can include extra fees, long timelines, or complex planning requirements.

Figure 1: Association of Housing Unaffordability with Regulation Score, Select CMAs, Provinces and Territories

Housing Unaffordability
(House Price to HH Income)



Notes: According to data from 2021 Canadian Census and the Municipal Land Use and Regulation Survey.

² Readers may be interested in the Housing Accelerator Fund's 10 Best Practices.

³ This survey was conducted in 2023, with 2022 serving as the reference period. Over 400 cities were surveyed. Cities answered many questions around zoning, fees, approval times, and more. It provides a good benchmark of what the regulatory landscape looked like before many of these reforms were adopted.

As Figure 1 shows, there is a strong correlation between a total regulation score and housing unaffordability across Canada. Among CMAs, Toronto, Vancouver and Victoria have higher average regulation scores. These markets also tend to have the most unaffordable housing in Canada. The London and Québec City CMAs have lower scores, and relatively more affordable housing.

However, many things can affect the cost of housing. In fact, there's a saying that "correlation is not causation." For example, our largest metropolitan areas have high regulation scores but face additional challenges in developing new housing. Being dense and populous can also mean having limited land and coordinating with infrastructure constraints.

In this research, we went beyond exploring patterns—we built statistical models that test if a more restrictive set of regulations are actually *causing* problems with supply and affordability.

This analysis reveals that:

- When a city's housing regulations become 10% more restrictive, house prices go up by about 14%, even after accounting for population, density, growth and other factors. The finding is statistically significant.
 - To illustrate what a 10% increase in the regulation measure means, cities in Ontario are, on average, 15% more restrictive than those in Alberta.
- Increases in regulation reduce the annual growth of the housing stock - a finding that is also statistically significant.⁴
 - Over time this can compound to a much lower supply of housing.

As most of existing cause-and-effect studies on the impact of municipal regulations tend to be U.S.-based, this study is a valuable contribution from a Canadian perspective. Since our cities, laws, and growth patterns differ from other countries, it's important to study how land use rules affect housing here instead of relying only on insights solely from abroad.

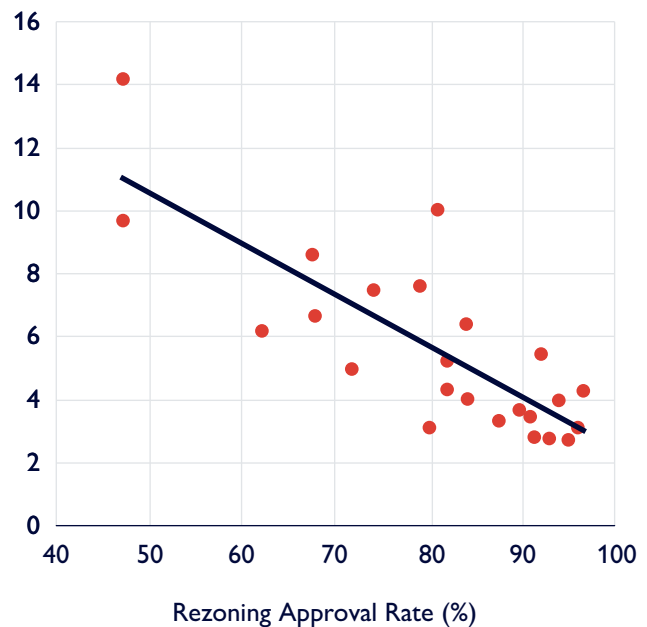
What Important Themes Stand Out?

Elsewhere in our research, longer approval times remain a concern for supply and affordability. Approval times were found to rise with the size of a city, with other forms of regulation, and with more community opposition.

The rate at which cities approve changes in zoning for residential construction is also found to be a concern. Canada's most unaffordable markets see the strongest demand for rezoning, but tend to approve these at the lowest rates (see Figure 1). Recent efforts to improve as-of-right upzoning mark an important change to make development easier and more flexible. As-of-right upzoning means cities are changing zoning rules so property owners can build more units on the same lot without needing special permission or extra approvals.

Figure 2: Association of Housing Unaffordability with Rezoning Approval Rate, Select CMAs, Provinces and Territories

Housing Unaffordability
(House Price to HH Income)



Notes: According to data from 2021 Canadian Census and the 2022 Municipal Land Use and Regulation Survey.

⁴ A one log point rise in the regulation score is linked to a 1.6 percentage point drop in the annual growth of the housing stock.

How Did We Determine Causality?

Our study's methodology compares cities that are similar in their housing demand, population, income, and density - but for where regulation differs for reasons unrelated to the housing market itself. This involves using a statistical method called "instrumental variables". The instrumental variables methodology used in our study follows similar literature in the United Kingdom (Hilber and Vermeulen, 2016) and United States (Quigley et al., 2008; Lin and Wachter, 2020). Like CMHC, these international studies show a stricter regulatory score leads to more unaffordable housing.

Implications for the Housing Sector

Land use regulation is important because it shapes how land is used and developed in our communities. These regulations are often meant to support other goals around housing, protecting the environment, and helping the economy. But sometimes, there are trade-offs. Adding more restrictions can often make housing more expensive and harder to develop.⁵

Our study used data surveyed in 2023, with 2022 as a reference year. Many cities have already introduced new measures aimed at boosting housing supply, which may take time to have their intended effect. This data and research give us a useful baseline to understand an important factor in why housing costs still vary significantly between cities across the country.

Cities will have to continuously look at their regulations, policies, and approval processes to ensure they support the housing outcomes they want to achieve.

⁵ Examples can include restricting dense housing types or increasing setbacks.

Further Reading

Breaking ground, breaking barriers: Land use regulations and the impact on housing in Canada

https://assets.cmhc-schl.gc.ca/sf/project/archive/research_6/landuseandregulation_en.pdf

References

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Lin, D. & Wachter, S. (2020). Land Use Regulation, Regulatory Spillover and Housing Prices. Available at SSRN: <https://ssrn.com/abstract=3363947> or <http://dx.doi.org/10.2139/ssrn.3363947>.

Quigley, J. M., Raphael, S., & Rosenthal, L. A. (2008). Measuring land-use regulations and their effects in the housing market. *Institute of Business and Economic Research Program on Housing and Urban Policy Working Paper Series*. W08-004, 1-44.



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Alternative text and data for figures

Figure 1: Association of Housing Unaffordability with Regulation Score, Select CMAs, Provinces and Territories

Region	Overall Regulation Score	Housing Unaffordability (House Price to HH Income)
Alberta	75	4.04
Edmonton	82	4.35
British Columbia	89	8.62
Kelowna	99	9.05
Nanaimo	93	8.81
Vancouver	106	14.18
Victoria	110	10.04
Manitoba	80	3.32
New Brunswick	82	2.82
Moncton	90	3.11
Saint John	85	2.78
Fredericton	77	2.75
Nova Scotia	75	3.11
Ontario	86	6.65
Kitchener – Cambridge – Waterloo	98	7.60
London	75	6.41
St. Catharines – Niagara	90	7.50
Toronto	100	9.67
Windsor	88	5.26
Ottawa – Gatineau	84	5.47
Prince Edward Island	102	4.28
Quebec	84	5.00
Montréal	85	6.18
Québec City	75	3.97
Saskatchewan	76	3.68
Territories	91	3.47

Notes: According to data from 2021 Canadian Census and the Municipal Land Use and Regulation Survey.

Figure 2: Association of Housing Unaffordability with Rezoning Approval Rate, Select CMAs, Provinces and Territories

Region	Rezoning Approval Rate (%)	Housing Unaffordability (House Price to household Income)
Alberta	84	4.04
Edmonton	82	4.35
British Columbia	67	8.62
Vancouver	47	14.18
Victoria	81	10.04
Manitoba	88	3.32
New Brunswick	91	2.82
Moncton	96	3.11
Saint John	93	2.78
Fredericton	95	2.75
Nova Scotia	80	3.11
Ontario	68	6.65
Kitchener – Cambridge – Waterloo	79	7.60
London	84	6.41
St. Catharines – Niagara	74	7.50
Toronto	47	9.67
Windsor	82	5.26
Ottawa – Gatineau	92	5.47
Prince Edward Island	97	4.28
Québec	72	5.00
Montréal	62	6.18
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