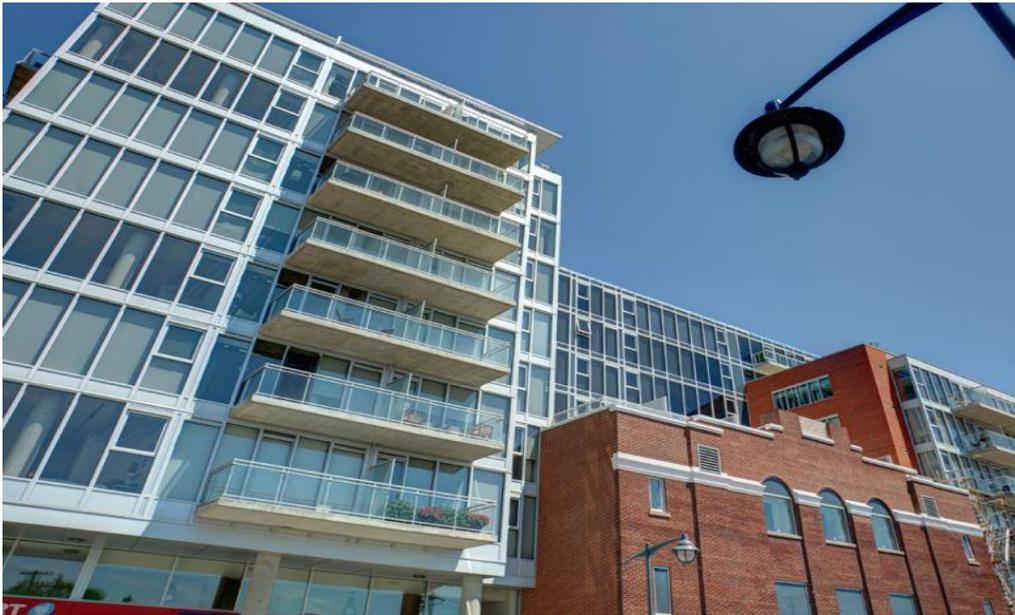


FINANCIAL POST

The 'missing middle' in real estate is missing for a reason: No one wants to live in mid-rise housing

Advocates for mid-density housing believe millennials are most likely to benefit, but they prefer low-rise, large homes



Mid-rise condos in Ottawa. Chris Mikula/The Ottawa Citizen

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December 19, 2018

Housing advocates believe something is missing from the housing mix in urban Canada. The new housing construction is dominated either by high-rise towers or low-rise detached housing. Some proponents of mid-density housing, also known as the missing middle, consider it to be a panacea for meeting the growth targets in the greater Toronto area.

A recently released report calls for a greater share of medium- to high-density housing in new construction. A failure to increase the supply of mid-rise and stacked housing types will “lead to more households facing shelter unaffordability and living in units that do not fit their needs,” argues an independent [report](#) commissioned by the **Residential and Civil Construction Alliance of Ontario**.

A series of recent reports have made similar demands to build more mid-rise housing. Since the amount of land is fixed, it is a mathematical certainty that as the region's population is expected to increase by 45 per cent in the future, the population density will also increase by 45 per cent. The uncertainty is about how much of the new housing will be built as the missing middle.

The reports advocating the need for the missing middle have mostly come from a planning perspective. What's missing in the missing middle debate is the voice of builders and consumers.

Two important questions need to be asked. First, do households prefer mid-rise housing? Second, do builders see mid-rise housing to be as profitable as the high-rise housing?

The demand for housing is generated by households, whose housing needs are diverse. Large-sized households need more space, and hence they gravitate to places where land prices are lower. Smaller-sized households need less space by virtue of their size. They are often younger and have not yet reached higher incomes or savings to be able to purchase large-sized homes.

The advocates for mid-rise housing believe young professionals or millennials are the ones most likely to benefit from the missing middle housing. But there is a small problem with this prognosis. Recent surveys of millennials revealed they prefer low-rise housing to mid- and high-rise options.

A survey of young professionals released by the Toronto Board of Trade in 2017 revealed that 51 per cent of respondents would prefer to live in a detached home. Over 80 per cent revealed that they would not like to live in a condominium. The desire for low-rise housing is rooted in the desire for more space such that 69 per cent revealed a preference for three-plus bedrooms.

In fact, almost all consumer surveys reveal a strong preference for low-rise and large-sized housing.

The consumer preferences for spacious housing conflicts with prescriptions for smaller-sized housing. An earlier report by Ryerson's City Building Institute suggested that Mississauga, a municipality in Ontario with more than 700,000 residents, could add 174,000 new units of an average size of 1,000 square feet to meet the future demand for housing.

However, Mississauga's demographics demand larger-sized dwellings. More than 35 per cent of the households in Mississauga have four or more persons. Concomitantly, 38 per cent of Mississauga's housing stock comprises single-detached type.

A comparison with demographics in Vancouver is in order where 15 per cent of dwellings are of the single-detached type. At the same time, only 16 per cent of the Vancouver households have four or more persons, resulting in an appropriate fit with the underlying demographics.

Builders' choices are dictated by consumer demand and land prices. Corey Libfeld, an owner of the Conservatory Group, observed that land prices are set higher because landowners believe the builders will be able to build at a higher density than what the land is originally zoned for. Once

builders pay higher land prices, the more density they can negotiate for a site, the more it makes sense to build at higher density there.

At the same time, the economies of scale favour high-rise construction over mid-rise construction for a given parcel because in addition to fixed land and some construction costs, some ownership costs are also independent of the number of units. For instance, irrespective of a building having five or 25 floors, the concierge and security costs would not differ much.

The proponents of missing middle are correct in asserting that higher densities do not necessarily require high-rise buildings. Montreal offers an excellent example of mid-rise construction with higher densities where apartments in buildings with fewer than five storeys and multiplexes account for more than 70 per cent of the housing stock.

Demographics though matter in Montreal as well where 71 per cent of the households are either single or two-person households, most of whom rent.

The missing middle housing outcomes must be designed to work around the challenges resulting from land prices and demographics. This is easier said than done.

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