A Domestic Geography of Money: How Mortgage Debt, Home Prices, and Toronto’s Condominiums “Prop up” the Canadian Economy

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Abstract

The most recent financialized redefinition of the home in Canada has arisen in response to the global financial crisis of 2008. The global financial crisis negatively impacted nations around the world, yet, in Canada the effects were lightly felt. In response to this crisis, Canadian banks received significant financial support from the government through the Insured Mortgage Purchase Program and the Canada Mortgage Bond program totaling roughly $137.55 billion. These two programs incentivized Canadian lenders to relax mortgage qualifying standards, to generate increased mortgage debt which could then be packaged into mortgage backed securities. Through discourse analysis of primarily government reports, this thesis contextualizes the inflation of house prices and household debt since the global financial crisis and considers how an “adverse economic event” may cause a downward spiral of unemployment, mortgage default, and a steep decline in house prices. It examines the significance of Toronto and its condominium market in “propping up” the economy through the increased generation of mortgage debt. It is through this urban, geographical analysis that we see the human and physical realization of Canada’s current economic milieu.
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# Table of Contents

Chapter 1: Introduction and Field of Study

1.0. Introduction

1.1. Field of Study

1.2. Summary

Chapter 2: Review of the Literature

2.1. Social Geography and Gentrification

2.2. Richard Florida’s Creative Class

2.3. Neoliberalism and Political Geography

2.4. Financialization and Economic Geography

2.5. Homeownership, Debt, and the Condominium

2.6. Debt and Credit in a Capitalist Economy

2.7. The Role of Liquidity

2.8. Shadow Banking

2.9. Mortgage-Backed Securities and the Canadian Case

2.10. The Canadian Bank “Bailout”

2.11. Literature Review Summary

Chapter 3: Methodology

3.0 Personal Interest in the Topic

3.1. Discourse and Discourse Analysis

3.2. Why Discourse Analysis?

3.3. Silent Discourses

3.4. Data Selection

3.4.1. Bank of Canada Financial Reports

3.4.2. Federal Documents

3.4.3. Provincial Documents

3.4.4. Municipal Documents

3.4.5. The Toronto Star

3.4.6. Condominium Developer’s Advertisements and Websites
Chapter 4: The Federal Government’s Response to the Global Financial Crisis

4.1. Canada’s Regulatory Structures

4.2. The Role of Canada Mortgage Bonds and National Housing Act Mortgage-Backed Securities Immediately Following the GFC

4.3. The Insured Mortgage Purchase Program

4.3.3. The IMPP Immediately Following the GFC

4.3.4. The End of the IMPP

4.4. Conclusions

Chapter 5: Rising Real Estate Prices and Household Debt

5.1. Canadian House Prices

5.2. Mortgage Default

5.3. Canadian Household Indebtedness

5.3.1. Charting Debt Growth in Canada

5.3.2. Young Adult Homeownership

5.3.3. Over-indebtedness and Canadian Economic Risk

5.4. Mortgage Lending Regulations

5.5. Conclusion

Chapter 6: Toronto’s Historical Housing Developments, 1880-1979


6.1.1. The Government’s Role in Housing

6.1.2. Social Housing in Toronto

6.1.3. Public-Private Housing Development

6.2. Private Sector Development of Toronto’s Housing

6.2.1. Toronto’s Rise of the Apartment

6.3. Toronto’s Historical Levels of Homeownership, 1899-1979

6.3.1. Toronto’s Historical Homeownership Statistics

6.3.2. Federal Push towards Homeownership

6.4. The Home as a Speculative Investment
Table of Figures and Maps

Map 1: Number of condominium units proposed, under construction, and constructed between January 2006 and July 2015, in Toronto………………………………………………………………………………10
   Source: Webb & Webber 2017, 49

Figure 1: Comparison of NHA MBS and the CMB program………………………………………………………………………………59
   Source: Chapman, Lavoie, and Schembri 2011, 33

Figure 2: Mortgage securitization in Canada as a percentage of total residential mortgages……60
   Source: Bank of Canada Financial System Review, December 2013, 58

Figure 3: Estimated extraordinary support received by Canadian banks…………………………………………………………………66
   Source: Macdonald 2012, 6

Figure 4: House prices relative to income in Canada…………………………………………………………………………………………71
   Source: Financial System Review, June 2012, 22

Figure 5: Household debt-to-income in the United States, United Kingdom, and Canada……..80
   Source: Financial System Review, June 2012, 20

Figure 6: Household debt and age……………………………………………………………………………………………………………………..81
   Source: Financial System Review, December 2015, 13
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Chapter 1: Introduction and Field of Study

1.0. Introduction

The following explores what I can call “a domestic geography of money” in Canada, because the study of money and economy through geographical analysis allows for the physical grounding of the seemingly intangible flow of capital. This “grounding” or spatializing of money is best exemplified by the home, which is constantly redefined within our current capitalist system. One of the most recent redefinitions is characterized through the financialization of the home where once spatially-fixed housing becomes a financial asset to be traded in global markets. This financialization of the home is made possible by the processes of mortgage securitization where individual mortgages are packaged together and sold to international investors as mortgage-backed securities (MBS). Mortgage securitization provides banks with funding and liquidity since they no longer have to hold mortgage assets for their full amortization period. Such financialized practices highlight the growing neoliberalization of government policy in Canada seeing that funding and development are continually achieved through the private sector. While the home has been redefined by the processes of financialization, this thesis argues the idea that Canada’s most recent redefinition of the home occurred as a consequence of the global financial crisis (GFC) of 2008 and the bank “bailouts” that followed; these bank bailouts encouraged the relaxation of lending standards to increase the number of Canadian homeowners and thus intensify the generation of mortgage debt which could be sold through securitization. Such practices increased the country’s economic dependence on housing and resulted in a surge of household indebtedness and house prices caused by an influx of new mortgagees; this is further exaggerated in the City of Toronto where the condominium has been a vital tool in the densification of mortgage debt. As the country’s dependence on mortgage debt grows, so does the redefinition of the home, which is increasingly
understood through its exchange value – a financial asset that holds a speculative sale value – rather than its use value: the home as a place to live (Madden and Marcuse 2017). It is through this analysis of the home, that the domestic geography of money is manifested.

The mortgage is essential to understanding Canada’s domestic geography of money because 1) for most Canadians it is a necessity in the home ownership process, and 2) it functions as both a financial debt-creation instrument at a federal level and a geographical tool of urban redevelopment municipally – and this relationship thus exemplifies the federal government’s financial dependence on the spatial connection between mortgages and the built environment. The geographical reorganization of housing within the city functions through the mortgage because it is an essential tool of capitalist space manipulation. The “mortgagification” of cities has allowed developers and financiers to profit from the basic human urge for shelter, by providing high-density housing with shrinking living conditions relative to mid-to-late twentieth century norms. The mortgage facilitating urban development is essential to the geography of middle-class homeownership, because it is the desire to own property which has funded the most recent phase of urban reorganization. Harvey (1985, 25) describes this urban reorganization as “[c]apital represent[ing] itself in the form of a physical landscape created in its own image, created as use values to enhance the progressive accumulation of capital. The geographical landscape that results is the crowning glory of past capitalist development.” As such, the modern financialization of the home is quintessentially geographical, because the mortgage could not exist without its primary connection to space. This disconnect between the spatial consideration of a mortgage with its increasingly financial understanding, in part, led to the global financial crisis (GFC) when the fraudulent and speculative processes of global finance detached the value of a mortgage from its spatially fixed foundation.
The GFC shocked economies around the world with harmful effects, yet, in Canada a narrative was created that the country fared well during the crisis, exemplified by former Finance Minister Jim Flaherty proudly claiming: “Canada’s regulatory regime ensures that stability and efficiency are balanced. As a result, Canadian tax payers have not had their money put at risk in response to this crisis” (McCormack & Workman 2015, 2). These claims are troublesome. First, Canada’s regulatory structure alone did not sustain the healthy functioning of the country’s economy. Canadian banks received a significant “bailout” from the Canadian government through the intensification of the already existing Canada Mortgage Bond (CMB) program and the creation of the Insured Mortgage Purchase Program (IMPP). These two programs fostered greater liquidity in the country allowing Canadian banks to continue lending during the time of a global credit crunch. The banks were able to sell their risky mortgage-backed securities (MBS) to the Canada Mortgage and Housing Corporation (CMHC) through the IMPP as well as to international investors through the CMB program. Second, Canadian tax payers were put directly at risk through these actions because the federal government – and Canadian tax payers – came to own $69 billion in MBS as well as fully insuring the mortgages packaged into the CMB program. According to Walks (2014, 271-272), approximately $510 billion was summoned by the Canadian government by the end of 2009 for potential injection into the banking system. While roughly $280 billion was drawn upon by the banks, the most restricted definition of a bank “bailout” (ignoring the CMB program) came to “$179 billion, or 11.6% of Canada’s 2009 GDP, not dissimilar to the combined cost of the direct federal bailout/stimulus programs in the US” (Walks 2014, 271-272).

All of this is not to say that the actions of the Canadian government were necessarily reckless or unjust. Were it not for the bank bailout, the consequences of the crisis in Canada
would have been more severe. However, it remains to be seen whether the government’s actions averted or simply delayed the crisis. If “delayed,” then a potentially looming crisis has the capacity to be more severe than would have been experienced in 2008, since the government has effectively “doubled-down” on the real estate market to further support the Canadian economy through the aftermath of the GFC. Regardless of either scenario, and belying Finance Minister Jim Flaherty’s claims, it is the Canadian tax payers who have had their money and livelihood put at risk because of the government response to the GFC. It is we, the Canadian tax payers, who owned the MBS purchased from the banks, we who have guaranteed the mortgage credit which has fueled bidding wars, and it is we who are facing extreme levels of indebtedness to simply purchase and own a home (Walks 2014, 272).

This thesis offers two ideas as they relate to the definition of the home in Canada: first, rising Canadian house prices and household indebtedness can be directly attributed to the GFC and subsequent bailout by the Canadian government. Through the bailout, the Canadian economy became increasingly dependent on the generation of mortgage debt which could be packaged and sold to investors – which was already integral economic activity leading up to the GFC. Economist David Rosenberg estimated that roughly 50% of Canadian nominal GDP growth between the onset of the recession and May 2010 was attributable to the stimulus-driven housing boom (Walks 2014, 273). To generate this boom, levels of debt climbed as mortgage lending standards were relaxed and a flood of new homeowners drove up real estate prices.¹ Second, Toronto and its condominium market were vital to the process of generating mortgage debt after the GFC. Increasing levels of homeownership and the densification of mortgage debt

¹ Along with this flood of new homeowners, the greed of companies, speculative investors, individual homeowners, and real estate agents must also be considered as partially responsible in fueling bidding wars and driving house prices up.
has been facilitated through Toronto’s condominiums. Almost a decade has lapsed since the GFC and the Canadian housing market is just starting to slow, with Toronto re-sale prices dropping 12 per cent since February of the previous year; however, prices still remain over 2016 levels.\(^2\) Canadian homeowners are growing increasingly indebted because income fails to keep pace with rising house prices. To understand this current real estate climate, it is vital to apprehend its historical formations – which the thesis examines in chapter 5. Beyond these two arguments, the thesis also seeks to uncover and contrast the government discourses affecting the above economic phenomenon, since government narratives have the power to produce hegemonic understandings of the GFC, such as those produced by former Finance Minister Jim Flaherty.

The first step of this thesis is to undertake a discourse analysis of federal documents and the Bank of Canada’s financial reports. These publications provide insight into how the government viewed the IMPP and CMB program in relation to a bank “bailout.” This is the focus of Chapter 4, which charts the rhetoric surrounding Canada’s banking structure and the financial crisis of 2008. Chapter 5, moreover, operates within the thesis’ first argument, since it analyzes how Canadian house prices and household indebtedness have continued to rise in response since the GFC and the proceeding bank “bailout” through the mortgage market. In this chapter, the ways the federal government explains the reasons for the current housing climate in Canada is explored.

The second undertaking of this thesis explores the extant Canadian economic climate – an economy scholars believe is effectively “propped-up” and perhaps still overly reliant on the

real estate sector and the generation of household debt.\(^3\) In 2017, Canada ranked highest in the world with its “household debt as a share of per-capita GDP” at 101% - Canada being the only country above 100%.\(^4\) The thesis expands on an existing body of knowledge by analyzing Toronto’s condominium market since the intensification of the condo has fostered massive construction projects, an increase in national rates of homeownership, and a greater generation of mortgage debt through high-density housing developments. In a country seemingly dependent on the real estate sector, the condominium serves as the primary tool for intensifying many of the elements of traditional housing development – especially the creation of greater debt. Through a discourse analysis of federal, provincial, and municipal government documents, Bank of Canada reports, *Toronto Star* newspaper reports, and condo developer’s advertisements and websites, the thesis uncovers the discourses that substantiate the growing prevalence of the condominium within Toronto. Chapter 6 analyzes Toronto’s housing development since the late nineteenth century to provide historical context for the city’s current housing approach through the condo. The chapter also analyzes the nature of urban development from the prospective of the private and public sector, the historical formation of a homeownership society in the city, and the growing understanding of the home as a site of speculative investment. Thus, with Toronto’s geography of housing established, Chapter 7 assesses Canada’s economic dependence on Toronto’s condominium market in generating sufficient mortgage debt, federally, since the GFC. It further argues that the national economy is increasingly dependent on the continued success of Toronto’s condominium market. While Toronto’s condominium market is nationally significant, it is important to recognize the condominium as a prevalent urban development tool in many

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other Canadian cities such as Vancouver and Montreal. This final chapter also contrasts the various discourses pertaining to how federal, provincial, and municipal governments view the significance of Toronto’s condominiums.

The two main undertakings of the thesis, then, are guided from a set of research questions which pertain to Canada’s geography of money:

- How are National Housing Act mortgage-backed securities (NHA MBS), the Canada Mortgage Bond (CMB) program, and the Insured Mortgage Purchase Program (IMPP) discursively discussed across official government publications?

- How is the connection between the Canadian bank ‘bailouts’ and the post-GFC rise in house prices and household indebtedness presented discursively? Do official publications discuss an overreliance on the country’s housing sector in supporting the national economy?

- How does Toronto’s late-nineteenth to mid-twentieth century approach to housing development and homeownership contextualize the current neoliberal era of urban (re)development achieved through the condominium?

- According to scalar government discourses, what is the national economic role of Toronto’s condominiums? What are the social, physical, and economic implications of Toronto’s development strategy centered on the condominium?

These research questions allow for a geographical and historical analysis of Canada’s housing economy since 2008.
1.1. Field of Study: Toronto and the Condominium

Situated on the north shore of Lake Ontario, around and between the Don and Humber Rivers, Toronto is the largest and most populous city in Canada with 2,731,571 residents in 2016 representing nearly eight per cent of the country’s population.\(^5\) Toronto was incorporated as a city in 1834 and became one of the largest cities in North America through its 1998 amalgamation when the regional municipalities of Metropolitan Toronto, East York, Scarborough, York, and the City of Toronto were dissolved into a single municipality called the City of Toronto.\(^6\) Throughout this thesis, Toronto will be discussed two ways, as the above mentioned City of Toronto and as the Toronto Census Metropolitan Area (CMA). The Toronto CMA incorporates more regional municipalities and has a population of 5,928,040 according to the 2016 census. Both categorizations are necessary since the economic significance of the City of Toronto extends far beyond its geographical boundaries. Thus, when referring to the economic significance of Toronto it is necessary to consider the sprawling impacts it has on its surrounding geography.

Toronto and its massive condominium market obtain national economic significance. According to Rosen and Walks (2015, 305), Toronto’s condo market stands within the top five cities in North America (Miami, Chicago, New York, and Los Angeles) with roughly 360,000 condo dwellings. In 2015 alone, condominium apartments constituted roughly 70 percent (43,000 units) of Toronto’s new housing developments. A condominium here can be simply defined as a building that contains individually owned units with shared access to public features and maintenance. The recent condo boom in the City of Toronto has been largely achieved

\(^5\) Retrieved from the Statistics Canada 2016 census.
through high-density condominium apartments which contain hundreds of units – Toronto’s average condominium structure has increased from 250 to 350 units since 1990 – allowing for the densification of mortgage debt within a given spatial boundary (Rosen & Walks 2015, 293). This increase in the number of units has been accompanied by a shrinking of average unit sizes with “internal square footage declining by over 5% between 2006 and 2011” (Rosen & Walks 2015, 293). However, many of the Toronto CMA’s newer condominiums are also in the form of townhouses and single-detached units. Regardless of their form, they both serve as a housing format which facilitates mortgage densification. Toronto’s condominium impulse has, accordingly, significantly altered Toronto’s physical and social landscape.

North York, Scarborough, and Etobicoke (representing Toronto’s post-war inner suburbs) made up a bulk of condo development from 1970 to 1979 but since the 1990s, central Toronto and North York have grown in significance by facilitating 56 per cent of all condo construction between 2000 and 2010 – a decade which effectively doubled the entire stock of Toronto’s condominiums (Rosen & Walks 2015, 295). Lehrer, Keil, & Kipfer (2010, 84) found that a majority of Toronto’s new condos have been built in, “former industrial-zoned areas, along railway corridors, subway lines and major arteries throughout the city, with its highest concentration in the downtown core.” Toronto’s downtown and waterfront districts have been reimagined by the condominium where over 362 residential condo builds have been constructed in the downtown since the 1970s, representing roughly 30 per cent of all condo development in the city; see “Map 1” for these spatial trends. In 2016, the downtown was responsible for roughly nine per cent of the city’s population with 250,000 downtown dwellers; with only three
per cent of the city’s land mass, the downtown is expected to facilitate 37 per cent of Toronto’s residential growth over the next 25 years. The condo will expectedly house this growth.

Map 1: Number of condominium units proposed, under construction, and constructed between January 2006 and July 2015, in Toronto (Webb & Webber 2017, 49)

The condo and its increasing population of new city dwellers has enabled the redefinition of the downtown into one represented by Richard Florida’s “creative class” concept by transitioning the downtown from a central business district to an area that encapsulates the so-called “creative class” worker’s aspirations to have close “proximity of work, home, and leisure spaces” (Kern 2010, 365). Apart from the creative class workers, the condominium in Toronto largely hosts seniors looking to downsize their home, and immigrants. According to Kern (2010, 365), the condominium functions as a “magnet” for newcomers to the country seeing that it is the cheapest method to obtain home-ownership in the city. Along with reshaping the physical and social landscape of Toronto, the condo’s influence is so pervasive in the city’s economy that it is

not unreasonable to regard the condominium as *the* primary instrument of urban (re)development in twenty-first century Toronto.

A result of the nature of today’s neoliberal landscape, cities such as Toronto are forced to compete in a global market to attract dormant capital for urban development, rather than receive revenue transfers from the other levels of government. This stance reflects the city’s growing policy changes towards an entrepreneurial agenda which positions Toronto as an autonomous global city within the global economy (see Lehrer & Wieditz 2009, 88). To attract such capital investment, the role of the new global city is to mitigate barriers and risk for potential private investment (see Harvey 2005, 66). In these circumstances, the private investors largely have control of Toronto’s municipal development and redevelopment trajectory. This private trajectory strives for intensive urban development – and, consequently, gentrification – because waning traditional industrial expansion is being replaced by mortgage credit as the primary driver of urban growth (Rosen & Walks 2015, 290). Within such an urban development climate, the condominium becomes the chief tool in the urban intensification toolkit – via mortgage credit, which allows for the sale of a greater number of mortgages within a given spatial boundary.

The uniqueness of the condominium as a method of urban development and gentrification – the central point of its use as a development and, thus, capital circulation instrument – is that it accelerates home-ownership within Toronto in an era of prohibitively high resale and new-build single-family dwelling (SFD) prices – despite the average price of an SFD in Toronto, as of December 2017, of $1,085,100 and the average cost of a condominium apartment of $490,500. In five years’ time, the aggregate cost of a home in Toronto has increased by 63.07 per cent to $743,500 in 2017. The apparent (if counterintuitive) enthusiasm of homebuyers for this form of
housing can in many ways be explained by the discourses informing, supporting, and generating “condo development – the lion’s share of which takes place in the city.” Discourse analysis presents a unique opportunity to investigate the ways condo development and ownership “melt profit with idealism, i.e., [sic] promote certain values and policy implementation together with economic considerations” (Rosen 2016, 610).

1.2. Summary

In summary, the purpose of this thesis is twofold. First, it seeks to uncover government discourse related to the generally un-discussed bank bailouts following the GFC – as well as how these bailouts have restructured the economy to one perhaps dangerously dependent on real estate. The bailouts were achieved largely invisibly through Canada’s mortgage-backed securities market, Canadian mortgages packaged and sold to both the CMHC (through the IMPP) and private investors in the shadow banking sector (through the CMB program). Investor demand stemming from the shadow banking sector (defined in the literature review) effectively enticed Canadian banks to follow an “originate to sell-and-distribute” lending model, where mortgages are formed with the sole intention of packaging and selling them in the form of a security. Second, the role of the Toronto’s condominium impulse is examined within this economic framework to uncover both the predominant and silent discourses substantiating the condominium as an economic development tool to facilitate the intensification of traditional real estate development and debt. Together, these two ideas suggest that 1) the unofficial bailout has continued to affect real estate values, 2) the economy is over-dependent on continually rising house prices and debt, and 3) that the condominium has been an effective debt generation tool which has exaggerated the financialization of the home in Canada. Through this literally grounded economic analysis, the domestic geography of money is articulated.
Chapter 2: Review of the Literature

Within the literature, three areas of overlapping inquiry have arisen as they relate to Toronto’s condominium development: the urban economic, urban social, and urban political geographic (the latter overlaps with the two former lines of thinking, although policy as a predominating area of concern will be distinguished as a separate focus of study). Respectively, these three areas of inquiry involve discussions of financialization, gentrification, and neoliberalism. Beyond this, the thesis focuses on literature analyzing Canada’s general economic and political milieu including discussions of Richard Florida’s contentious (Peck 2005; Scott 2006; Kratke 2011) but nevertheless politically popular creative class concept, homeownership and debt, the role of debt and credit in a capitalist economy, the function of liquidity, shadow banking, Canada’s mortgage-backed securities (MBS) market, and the bank “bailouts” of 2008.

2.1. Social Geography and Gentrification

Modern gentrification is framed as a “progressive” shift in urban development containing themes of, “urban regeneration, residential mixing, and urban sustainability” (Bunce 2009, 655). Yet, urban social geographers traditionally worry about gentrification as the systematic displacement of, and a form of urban revanchism against, marginal city dwellers (see Less, Slater and Wyly 2010) – achieved through the seemingly “commonsense” process of redeveloping low-income neighbourhoods, using “ground rent” and “rent gap” to determine the value of housing stock or built space generally (Weber 2002; Lippert 2012, 286; Lehrer & Wieditz 2009, 86). Such purely economic evaluations of the city’s built space and housing create social tensions (Madden and Marcuse 2017). Smith & Lefaivre (1984, 44-54) have defined gentrification as “a social process which involves the movement of capital and people creating a conflict between
opposed class interests,” as well as a phenomenon displacing low-income individuals who can no longer afford the cost of living in a newly gentrified neighbourhood. Through an analysis of City of Toronto official publications, Lehrer & Wieditz (2009, 86) contend current forms of gentrification function through mixed-income redevelopment projects (a mix of social housing and homeownership) and neglect adequate provision of social housing; these redevelopment projects function primarily as spaces of private capital investment overlooking the social implications of gentrification. Toronto’s current gentrification strategy follows the path of mixed-income redevelopment with the condominium the preferred gentrifying tool. Notwithstanding the social repercussions and ironies, gentrification is actively promoted in Toronto as a means of attracting private investment to enhance economic development. Urban redevelopment remains at the forefront of neoliberal restructuring and functions as a dominant global strategy of economic development (August 2016, 3407-3408).

The city’s mixed-income redevelopment projects represent the modern relationship between government and private capital since the municipality depends on private interest to engage in redevelopment, a consequence of the withdrawal of federal and provincial funding (Kelly 2013, 182). However, Moos, Vinodrai, Revington, and Seasons (2018, 7) have found that, “housing in mixed-use zones remained less affordable than housing in the rest of the city and in the metropolitan region.” Toronto’s two largest mixed-income developments – Don Mount Court and Regent Park – highlight this public-private provision of housing seeing that the municipal government’s role becomes one of risk mitigation to ensure the private sector provides some degree of social and/or affordable housing. The development of these projects loosely resembles a strategy of euthenics – a Victorian idea positing that improved environments improved social behaviour, attitudes, and health and thus a better urban citizenry – where close proximity to ideal
home-owning citizens and their middle-class housing will change residents of public housing into “clean-living, productive, legitimate users of urban space” (James 2010, 83). August (2014, 1163) has expressed concern over the social implications of these mixed-income redevelopment projects, because they foster localized sites of class conflict as a consequence of the ineluctable hegemony of the home-owners over the renters of social housing units.

Lippert (2012, 286) argues Toronto has become an exclusionary landscape for the low-income, renter-class because of the continual downscaling of affordable housing and the high cost of renting/owning a condo unit. As the government’s role increasingly becomes one of mitigating private sector risk, what does the provision of “affordable” housing look like when left up to the private sector and market forces? Do the seemingly exclusionary practices of gentrification only provide affordable housing for the ideal, middle-class citizen? Does the condominium provide greater access to affordable housing or does it further exaggerate social and economic unevenness across different social demographics and income groups?

2.2. Richard Florida’s Creative Class

Richard Florida’s creative class concept has functioned as an economic development strategy (embraced widely by municipal governments across the West (Peck 2005) throughout the 2000s), resembling a “bottom up” approach, where change is ostensibly initiated by creative individuals rather than large scale development projects. According to Florida (2014, 198), the role of the city within this framework is to attract creative individuals through “technology, talent, and tolerance” which would putatively entice large employers to the city. Florida’s creative class concept has been adopted by Toronto, and substantiates the city’s Cultural Plan for the Creative City’s use of patently Floridian discourse: “‘[c]reative cities and their citizens have an overwhelming impact on the economies of their countries and compete for investment
and, most of all, for talent”’ (City of Toronto, 2003, 1 in Darchen 2013, 189). Areas such as Toronto’s Liberty Village have experienced this reurbanization (or enticing people back to the city) and redefinition where it has become a host to 500 different businesses, a majority of which operate in creative or high-tech industries (Catungal, Leslie, & Hii 2009, 1101). To facilitate this city-wide, creative-backed revitalization, the municipality of Toronto has actively boosted the construction of downtown housing to attract creative workers.

Toronto enthusiastically engages in gentrification and reurbanization to meet such housing demand because persuading creative workers to occupy the inner city functions as a core feature of Toronto’s economic prosperity in a neoliberal, knowledge-based economy (Lehrer & Wieditz 2009, 89). Logically, the condominium is the primary housing tool to effect the housing demands of this new “creative” demographic because high density condo construction is seen as the best method to both accommodate these large numbers of creative workers in downtown areas, and to meet the capitalist housing imperative of providing a social need for substantial profit. Condo dwellers typically share similar demographics to the creative worker since they live close to work, are primarily between 20 and 40 years of age, earn above average incomes, are highly educated, and without children (Lehrer & Wieditz 2009, 95). Toronto’s use of the condo represents its embrace of the “creative city” discourse as well as the entrenchment of neoliberalism in municipal planning.

Toronto’s broad and uncritical acceptance of Florida’s creative development approach has left the city exposed to the many problematic aspects of Florida’s theory. Scholars such as Peck (2005, 741), have criticized this creative approach because it “mixes cosmopolitan elitism and pop universalism, hedonism and responsibility, cultural radicalism and economic conservatism, casual and causal inference, and social libertarianism and business realism.” This
leads to the lumping together of “creative individuals,” neglecting focus – and even implying disdain – towards the “un-creative,” and creating localized landscapes of social and economic inequality.

Krätke (2011, 45-46) finds Florida’s grouping of “creative” problematic, because “creative” professionals active in finance, real estate, management, and consulting sectors do not represent a relevant driver of regional economic success when compared to other occupational groups, such as the ‘scientifically and technologically creative’ workforce.” Such professionals differ from other creative categorizations since the wealth they create is generated in other productive regions rather than through a “bottom-up,” localized context. Furthermore, Krätke (2011, 42) sees this sub-grouping of the creative class as a “dominant class” whose members are the political and economic elite. Thus, Florida’s definitions of what a “creative individual” is, are conceptually thin.

Moreover, Florida’s analysis of the “un-creative” lacks attention. Peck (2005, 759) describes the “creative underclasses” as merely secondary to Florida’s thinking, since their role is seemingly portrayed as “servants” to the creative class. Peck (2005, 746) further argues that the creative class can only be maintained with an army of service workers, those who, “will launder the shirts in this creative paradise” (757). Such service jobs account for two-thirds of society, yet, Florida would have us believe that these service workers simply have to channel their creativity in an attempt to bear the “fruits of the creative Eden” (Peck 2005, 757). This divide is more evident in cities which subscribe to Florida’s preachings, because creative cities display higher levels of inequality (McCann 2007, 193).

Creative districts within cities have created localized spaces of inequality where over-inflated housing prices have pushed the uncreative outwards. Ponzini and Rossi (2010, 1053),
have claimed Florida’s concepts have led to a restructuring of “uneven geographies of power generated by a creative city policy within a context of neo-liberal urbanism,” because municipal planning policies focusing on creative development neglect those urban dwellers not directly involved in creative enterprise. Zimmerman (2008, 241) further supports this concept; the indoctrination of Florida’s ideas has led to resurgences in downtown activity while the periphery of cities fall to secondary focus in municipal planning. Toronto’s Liberty Village has displayed such trends, because the enhancement of creativity within its borders has increased polarization outside and within the Village (Catungal & Leslie 2009, 2593). The growth of creative industry – such as finance or advertising firms – has consistently inflated real estate values in the area, leading to the displacement of lower-income earners. Ironically, Liberty Village’s creative enclave has led to the displacement of the creative artists and photographers who were the early, creative innovators of Liberty Village (Catungal, Leslie, & Hii 2009, 1108). This further supports Krätke’s critique of Florida’s categorizing of the creative class, since there is a clear hierarchy between creative demographics.

2.3. Neoliberalism and Political Geography

Neoliberalism is the political-economic theory which proposes that free markets, free trade, and strong private property rights can enhance human well-being by liberating individual rights and freedoms (Harvey 2005, 2). This theory gained traction during the late 1970s when Keynesian policies were blamed for the crisis of accumulation which caused stagflation across global economies. The implementation of neoliberalism marked the restoration of an elite capitalist class, resulting in the top one per cent of income earners in the United States seeing

8 Stagflation is economic stagnation accompanied by high levels of inflation and unemployment.
their wealth share grow from eight to fifteen per cent by the end of the twentieth century (Harvey 2005, 15-16). From 1978 to 1999 alone, the top 0.1 percent witnessed their share of wealth grow from two per cent to six per cent (Harvey 2005, 16).

Harvey (2005, 64) states that “[a]ccording to theory, the neoliberal state should favour strong individual property rights, the rule of law, and the institutions of freely functioning markets and free state.” Furthermore, private enterprise is seen as the key component of wealth creation; the elimination of poverty and the improved well-being of citizens can be achieved through privatization and free markets (65). While these characteristics are elemental to the neoliberal state, Brown (2006, 693) argues that thinking must move beyond understanding neoliberalism as an economic phenomenon which “spills over” into the political and social. Rather, neoliberalism is “the explicit imposition of a particular form of market rationality on [social and political] spheres.” Furthermore, Brown (2006, 694) suggests that neoliberalism’s foundational depiction of free markets and free trade is achieved through normative social and economic policy. This is to say, that neoliberalism does not simply exist as an economic phenomenon which then affects others spheres of life; rather, neoliberal ideologies are engrained in the social and political which then facilitate the economic implementation and predominance of such thinking. In this normalized understanding of neoliberalism, the state and its citizens are reinvented through market terms; the individual is redefined as a rational economic actor with “equal” access to the free market.

Peck and Tickell (as cited in McBride & Whiteside 2011, 47; see also Keil 2009 and Brown 2006) made the distinction between “roll-back” and “roll-out” neoliberalism where the mid-1990s exemplify the emergence and entrenchment of roll-out neoliberalism where the government becomes an active supporter of private capital rather than a laissez faire deregulator.
McBride and Whiteside (2011, 47) argue the main elements of roll-out neoliberalism are “social program reform (rather than simply program cuts), tax expenditures as new forms of the welfare state (rather than removing all support), establishing partnerships with the private sector (rather than full-scale privatization), and re-regulation (rather than deregulation).” In this context, this thesis is concerned with the ways in which roll-out neoliberalism has infiltrated and dominated federal government thinking in Canada as well as how this has filtered down to provincial and municipal governments, and then made its way into housing policy.

The infiltration of neoliberal thinking into Canadian economic policy has resulted in a top-down approach where urban economic development stands as the responsibility of the municipality attributable to the scaling back of federal and provincial government oversight. “The province [of Ontario],” Keil writes (2002, 590; see also Lehrer & Wieditz 2009, 87), “has since continued to cut rather than expand the powers of local government to tax or otherwise raise funds in order to meet the growing needs of an expanding world city reality.” The consequence has left municipalities such as Toronto in need of private capital to sustain economic development. The city must compete in a global market to attract dormant capital – surplus capital in the primary sector that is invested in – or “switched” to – the built environment (Aalbers 2008, 149). Within an urban framework, this has repositioned the role of municipal government to one of risk mitigation (for private capital) where the state finds value in the built environment through a critical assessment of “the economic life of buildings, the priority given to different components of value, the sources of devaluation, and the interrelationships between buildings and neighbourhoods” (Weber 2002, 524). James (2010, 75) points to three main elements of an urban, neoliberal ideology: “the primacy of the individual as the ‘normative center of society’, that the free market is the superior means of providing for individual
autonomy, and that the ‘interventionist state’ is the ‘chief impediment’ to this.” Within such an ideology the economic autonomy of the individual remains curtailed by government intervention, and only through the superimposition of the private sector liberties (and the abolishment of government regulation) can the individual reclaim freedom and independence. Such neoliberal approaches to governance have resulted in an urban climate where private capital has become entrenched in the economic urban development trajectory of Toronto.

The condominium has become the preferred urban economic development tool by Toronto’s private developers. The intensity of condominium development has largely been encouraged by the “Places to Grow Act” and the Greenbelt legislation, since they have promoted an anti-sprawl sentiment – which favours urban intensification. Condo developers have pointed to such legislation as the justification for “higher-density owner-occupied residential development” (Rosen & Walks 2015, 301). Condominiums persist as fundamental to Toronto’s intensification strategy and reflect a neoliberal approach where “housing needs are met via the private sector, governance is shifted to the resultant private buildings or communities, and home ownership (as opposed to rental housing) is promoted as the preferred type of property development in the central city” (Kelly 2013, 183). Lehrer & Wieditz (2009, 86) view this intensified, urban redevelopment through the condominium as “revanchism,” where urban space is made secure – often vengefully with regard to the urban poor – for private capital and the new, desired middle-class citizen. McBride and Whiteside (2011, 50) further argue neoliberalism in Canada has led to, “the entrenchment of inequalities… consistently marked by fiscal austerity, deterioration in the position of the majority (the middle class in particular), and rising affluence for a minority of Canadians.”
2.4. Financialization and Economic Geography

Christopher (2015, 211) argues discussions of finance within geography have largely remained limited to the periphery, despite David Harvey’s advancements since The Limits of Capital (1982). In the modern world, Harvey (as cited in Christopher 2015, 211) argues, “finance cannot be reduced to the conceptual margins. It is… [now] central, and must be theorized as such.” Financialization here can be understood as the extension and acceleration of typical finance – such as mortgage lending before securitization – caused by the crisis of profitability occurring in the real sector (the realm of production and consumption) of the economy, leading to the massive growth of fictitious capital and fictitious profits since the 1970s (Smith 2010, 8). Fictitious capital is a Marxist concept which refers to money invested into assets without any productive or commodity-based materials. Thus, fictitious capital represents money invested into speculative financial markets, where value is determined by the anticipated future value of an asset. Hence, these assets are fictitious because they are derived from a future, speculated value. Securitization and collateralization can be understood as not creating any real value (or surplus value), rather they create profit (Rasmus 2008, 27). The mass creation of profit without adding any value to the capitalist system results in reduced levels of investment in real assets because of the high profitability of fictitious assets. The growth of the financial sector and the shrinking of the real sector is evident by the degree of profits shared between them. The financial sector accounted for roughly ten per cent of total profits in the 1980s, by 2007 this number had increased to forty per cent. Furthermore, the ratio of financial assets to GDP stood at four to one between 1950 and 1970, by 2007 the ratio was ten to one (Smith 2010, 9).

Capital increasingly invests in speculative assets, because their anticipated future value represents more profitability than calculated in the real sector. With such growth in speculative
assets, the processes of financialization restructure existing markets into financial markets for their own good (emphasis added) (Aalbers 2008, 149). The creation of a mortgage-backed securities market exemplifies this, as once spatially-fixed investments are converted into financial assets ready for trade in the global market. Financialized assets become disassociated with their original, fixed value (such as the cost of the home) as their anticipated future value inflates through processes such as fraud and speculation; the financialization of the mortgage created a market which did not produce any real value yet the price of the assets grew detached from their local, “on-the-ground” value (Rasmus 2008, 27). The continued speculation in the MBS market created an asset bubble in the United States which inevitably burst once the expected future value of MBS came under question leading to financial panic. The motivations behind such speculative flurry can be explained by the concept of “asset-based welfare.”

Asset-based welfare is a government initiative which reduces dependencies on the welfare state by converting would-be welfare dependents into individual investors and financialized subjects (Doling & Ronald 2010, 165). By promoting investor subjectivities, individuals purchase assets which inflate over time and thus reduce their future need for government support. This is a popular method to reduce the role of the state in supporting retirees, since the financial growth of their asset functions as an income supplement. Watson (2009, 46) sees this as a new form of insurance, where the ownership of assets insures against future income reductions. Those that choose not to invest in assets can then be understood as “leaving future welfare needs uncovered and inviting moral condemnation for doing so” (Watson 2009, 46). By enhancing financial literacy, governments are able to promote financialized subjectivities, where the discursive reconstruction of the citizen is centered upon creating greater opportunities for individuals to ideologically and economically invest into the financial system
Homeownership thus becomes the dominant approach to enter the financial system as a speculative investor.

Doling & Ronald (2010, 168) argue that “owner-occupied housing has [sic] become central under the ethos of asset-based welfare… and the financialization of everyday life.” Malpass (2008, 2) further argues that the private housing market is the cornerstone of the new welfare state. As such, the Canadian bank bailout presented government with an opportunity to not only avert a recession, but also restructure the welfare state to one resembling this asset-based approach. By dramatically increasing the number of new homeowners, the state has likely reduced future welfare dependencies if the cost continually rises faster than inflation rates. This form of “welfare” thus places greater risk on individual investors, because their livelihoods are increasingly dependent on financial markets – markets that are inherently volatile. Furthermore, credit and debt is essential to this asset-based approach, since investment into the financial system – specifically through the mortgage – likely requires taking-on a significant amount of debt. This further exaggerates the distribution of capital accumulation towards creditors and leads to even greater inequalities of wealth (Finlayson 2009, 415). This debt-based, asset-backed welfare is fundamentally urban.

The city becomes the chief site of financialization where dormant capital is invested in the built environment to avert the crisis of over-accumulation (where the reinvestment of capital no longer produces returns) occurring in the primary sphere of the economy (Krätke 2014, 1663). Capital must then sit dormant in the urban landscape for long periods of time for accumulation to materialize (Aalbers 2008, 159). Harvey, drawing from Henri Lefebvre, has termed this phenomenon as “capital switching” where disinvestment occurs in the primary sphere and then “switches” into the built environment which results in a property boom (as cited in Christophers
2011, 1350). Hence, the condominium is an urban development tool to accelerate the processes of financialization and the urbanization of capital.

With nearly 360,000 condominium dwellings in 2014, Toronto stands as one of the largest condominium markets in North America (Rosen & Walks 2015, 305). “Condo-ism” (as termed by Rosen & Walks) is central to Toronto’s economic and cultural development and functions as “a key process through which the financialization and gentrification of the city is articulated” (Rosen & Walks 2015, 305). There are two main factors. First, mortgage credit and housing construction has replaced industrial expansion as the primary method of urban, economic growth in many post-industrial cities (Rosen & Walks 2015, 290). Condominiums provide the physical and financial structure to support a mortgage credit-based economy because they promote high-density, home-ownership commodities unparalleled to other methods of development. Second, this has been described as the “financialization of the home” where housing has facilitated financial liquidity from the spatially fixed city as financial institutions can trade housing stock in the form of mortgage-backed securities (Walks 2013a, 35). Walks (2014, 260) views this financialization of the home as a form of “Ponzi neoliberalism” where “rising housing costs and household debt became instruments for the monetization and ‘financial expropriation’ of the salaries of the working class.”

2.5. Homeownership, Debt, and the Condominium

The promotion of homeownership has become a preferred method to generate debt within “advanced economies.” Residential mortgage lending has gained favour amongst banks since it is relatively low-risk compared to other financing agreements which require difficult assessments about a project’s future prospects and potential resale value (Turner 2016, 71). Residential real estate lending accounted for 30 per cent of all bank lending in 1928; by 1970 it had increased to
35 per cent, and before the collapse of 2008 represented 60 per cent (Turner 2016, 66-67). These statistics exclude commercial real estate and thus, all forms of real estate took up a larger proportion of bank lending than 60 per cent leading up to the MBS crisis. In the United States alone, mortgage debt as a percentage of GDP rose from 48.8 per cent in 1973 to 102.8 per cent in 2009 (Buchanan 2017, 666). The United States in an extreme example, as a study of seventeen “advanced economies” showed, mortgage loans as a percent of GDP increased from 20 per cent in 1914 to 64 per cent in 2010 (Fernandez & Aalbers 2016, 74). On average, mortgages in Canada make up roughly two-thirds of total household debt, with credit card debt representing only 6.5 per cent (Walks 2013b, 165). Walks (2016, 165) argued this economic predominance of debt has drastically affected low-income households since “the proportion of Canadian households with debts greater than five times their annual disposable income increased from 3.4 percent in 1999 to 10.8 percent in 2012.” The onset of the condominium has played an integral role in increasing the amount of mortgage debt nationally by providing an “affordable” housing solution.

The federal relaxation of lending standards has encouraged a large amount of money to flow into mortgage debt and the condo now functions as a “vehicle for absorbing the huge new supply of mortgage credit as well as meeting demand for rental housing in the absence of new state provision” (Walks & Clifford 2015, 1633-1634). In Canada, major cities are the sites of this absorption because they contain the fastest-growing levels of household indebtedness (Walks 2013b, 165). This growth in household debt is found at urban fringes as well as newly gentrified neighbourhoods near central business districts (Walks 2013b, 172). Areas gentrified via the condominium obtain significantly higher levels of debt than those gentrified without (Walks 2013b, 173). Furthermore, Walks (2013b, 178-179) argues that
for every 10% increase in condominiums as a proportion of residential units, the level of household debt increases by another 2.3 percentage points (of disposable income)… in regions with more condos (which have tighter housing markets), the effects of condominium tenure dissipate… These findings suggest a dynamic linked to local housing market conditions, with condos representing relatively more affordable accommodation in regions with tighter housing and job markets, but fulfilling more boutique and speculative functions in other regions.

The function of debt and credit here is vital to the development and purchasing of housing and the condominium. According to Harvey, (2010, 17) financial institutions “awash with credit” began to finance both real estate developers as well as potential homeowners – even those without a steady income. By financing these parties “[t]he financial institutions collectively controlled both the supply of, and demand for, housing” (Harvey 2010, 17). This dual-sided debt relationship in housing represents the greater relationship between debt and credit within capitalist economies.

2.6. Debt and Credit in a Capitalist Economy

Debt and credit are economic and social constructs integral to the sustainability of the capitalist global economy. They represent the future value of a good or service, with interest rates functioning as the speculative tool to “predict” future money (Harvey 2010, 26). Credit and debt markets are vital in the promotion of “long-term economic growth… [and] emphasis should be on implementing government policies which lead to the deepening of the credit market” (Durusu-Ciftci, Ispir, & Yetkiner 2017, 303). The creation of credit increases both the power of production and consumption. Stagnant markets, for example, can be revitalized through immediate access to money to spur production. Consumer-side credit then absorbs this credit-
driven rise in production creating a cyclical debt-financed relationship fostered by banks. On the other hand, credit that primarily fuels consumption can lead to dangerous economic climates; debt-financed consumption has proven to be unsustainable (Turner 2016, 64). Turner (2016, 64) describes the house as an ideal example of this unsustainability: for example, increased access to low-interest rates on mortgages can make housing seem increasingly affordable yet, when prices fall, households become over-indebted leading to mortgage default and/or deleveraging, which in turn depress the economy. Increased indebtedness endangers national economies, as well, Harvey (2014, 224) argues, it has served as a primary way in which massive capital accumulation by elite income groups occurs.

The relationship between debt accumulation and wealth has been tightly associated since the 1970s as public, corporate, and private debt all contribute to the aggregation of capital (Harvey 2014, 224). Harvey (Ibid.) believes global governments have attempted to reduce national indebtedness, assuming the risk of massive accumulation through debt threatens the future of capital. Yet, the attempts of the private sector to foster and accumulate massive amounts of debt has led to the increasing prevalence of asset bubbles across capitalist economies. The MBS crisis of 2008 exemplifies this relationship; the continued financialization of the home through securities and derivatives was an attempt to accumulate capital through debt-financed mortgage lending.

Credit and debt effectively fuel these speculative bubbles because the credit cycle tends to “amplify the effects of a crisis of over-accumulation” (Lucarelli 2010, 212). Shuklian (1991, 214) argues the credit system remains the “main lever of crisis” since the production system is forced to extreme limits when typical barriers in the production process are overcome through increased access to credit. The destruction of such barriers and the extreme stretching of limits
deepens the necessity of credit to compete in productive processes. The credit system cannot eliminate its many internal contradictions and barriers; rather, increased credit “often exacerbates these contradictions, making periodic crises inevitable” (Shuklian 1991, 215). Harvey (2014, 228) argues these practices are becoming increasingly unattainable owing to the capitalist drive to gain roughly a three per cent rate of return on their capital. In 1970, six billion dollars of growth globally was needed to meet this three per cent, by 2030 profitable investment will need to stand at three trillion dollars with an expected global economy valued at 96 trillion dollars (Harvey 2014, 228).

2.7. The Role of Liquidity

In order to drive the continued creation of debt, lenders must have ample access to liquidity. Rather than holding assets, banks now sell their holdings in secondary markets – such as securities and derivatives markets – which permits them to remove large debts and risks off their balance sheets and to continue lending increasing amounts of credit (Prates & Farhi 2015, 568). Lending remains vital during times of economic uncertainty and crisis, because banks must continue providing loans to avoid a credit crunch – a reduction in accessible credit – and thus evade the deepening of crisis (Longworth 2014, 278). Chapman and Damar (2015, 467) found that Canadian banks are quite sensitive to liquidity risk; a 25 per cent increase in bank assets results in a 9.9 per cent drop in domestic lending, while a 25 per cent decrease in asset holdings leads to a domestic lending increase of 7.8 per cent. The drive for increased liquidity has come at a cost, since the reliance of selling local assets on international markets has led to a global intertwinement of risk – as opposed to the claim that such market practices “spread” risk (Prates & Farhi 2015, 568).
According to Harvey, (2010, 30) surplus cash and liquidity rose increasingly since the 1970s as banks began to increase their debt-deposit ratio from 3 to 1 in the early 1970s, to 30 to 1 by 2005. The increasing reliance on financial innovations – MBS, derivatives, and shadow banking (explained below) – to support this new ratio of bank lending has generated increased volatility and risk of economic crisis globally. These financial tools were developed, in part, to avert credit crunches through increased liquidity. However, *the need of liquidity to avert crisis has come at the cost of financial tools that effectively create crisis.* In other words, in times of economic crisis, banks need capital to continue lending to avoid a credit crunch and the resulting deepening of a recession. Financial innovations such as securitization have been pivotal to the generation of such liquidity. However, the liquidity innovation of mortgage securitization effectively led to the greatest financial crash since the Great Depression. Thus mortgage securitization is contradictory: it is the liquidity generator which leads to liquidity crises.

### 2.8. Shadow Banking

The shadow banking system (also called “market-based financing”) refers to “financial intermediaries” which supply credit and liquidity to the financial system through the purchasing of assets; yet, they are not subject to the same regulatory requirements as more traditional banking institutions. Shadow banking institutions thus provide the necessary liquidity to the capitalist system, but, the means through which this is achieved lacks transparency and institutional oversight. Shadow banking emerged in the United States in the 1970s as a response to low liquidity and rapidly changing interest rates (Brean, Kryzanowski, & Roberts 2011, 265). While Canada does have a shadow banking sector, it developed much later and to a lesser degree than in the United States and other advanced economies; however, it remains relevant in modern Canada. As discussed in the previous subsection, to continue lending banks package their assets
into financial tools such as securities and sell them to investors in the shadow banking sector. The term “shadow” – originating in the U.S. – here refers to the sector’s lack of a regulatory framework: investors are not required to meet asset standards required by Basel regulations – international reforms designed to improve regulation and risk management in the banking sector – and can thus hold riskier assets (Lavoie 2013, 229-230). Securitization and shadow banking has created a disconnect between banks and capital losses caused by bad loans. This disconnect has exaggerated hazardous banking practices such as predatory lending, where banks make loans which are purposefully risky but which are then offloaded to the shadow banking sector without fear of the asset collapsing – although they did worry when such practices collapsed the global economy (at least until their debt was absorbed the public). During this rise in subprime and predatory lending, the quality of securitized loans mattered less than the quantity produced (Rasmus 2008, 13).

The shadow banking system has effectively accelerated new forms of fictitious, debt-financed capital which has increased the “leverage on loans to the US economy and, in particular, the amount of money-like liabilities backed by these loans” (Plantin 2014, 146). Without regulatory restraints, shadow banking has injected the decidedly fictitious volatility of financial markets into the lives of many – if not all – citizens, through its continuous need to accumulate capital via increasing amounts of debt (Turner 2016, 98). The lack of regulation in this sector means that safe Basel requirements in relation to acceptable ratios of debt are disregarded and, thus, “shadow banking systems left to themselves are bound to create too much of the wrong sort of debt and leave economies facing severe debt overhangs” (Turner 2016, 161). As the predominance of the shadow banking sector grows, government interventions grow more difficult and the ability to stabilize unsteady markets weakens (Duca 2016, S23).
2.9. Mortgage-Backed Securities and the Canadian Case

The expansion of global debt was in part achieved by the creation of the mortgage-backed securities (MBS) market where the initial mortgage market converted from merely a secondary circuit for capital accumulation (spatially-fixed real estate investment) to a quaternary circuit where mortgage markets become “markets in their own right” (Aalbers 2008, 150-151). Securitization faced rapid growth starting in 1998 where securitized assets globally accounted for less than 100 billion dollars and by 2006, securitized assets accounted for more than one trillion dollars worldwide (Rasmus 2008, 13). Such growth in securitization can be partly attributed to the finalization of the mortgage where a once spatially-fixed house price becomes increasingly irrelevant once securitized and revalued as fictitious holdings with a speculative future value. Banks originate mortgages which are rated based on their likelihood of default. These are then packaged together – securitized – and sold to private investors in the shadow banking sector. As Aalbers (2008, 155) suggests, investors no longer require local knowledge since they can easily compare “price, risk, and expected profitability of MBS between countries.” Such disregard for local knowledge and trust in “security ratings” was, in part, responsible for the GFC of 2008 since the fraudulent ratings of MBS led investors to purchase overvalued assets which eventually collapsed once their more accurate value was obtained. This is exacerbated by financial derivatives and collateralized debt obligations (CDOs). Derivatives are antithetical to the nature of value because they have no intrinsic value, rather value is derived from other assets and financial products. CDOs formed from MBS exemplify this, because the value of the CDO is derived from MBS, while securities are derived from physical assets, CDOs are derived from fictitious assets. Their worth is largely determined by their speculative demand rather than the
social capital required to produce them (Smith 2010, 81). This pyramid of value can be understood through the relationship between MBS and CDOs.

Leading up to the collapse of 2008, differently rated MBS were packaged into CDOs effectively re-securitizing the MBS and further distancing the “on-the-ground” value of an asset with its fictitious worth. The demand for CDOs led to the creation of synthetic CDOs where CDO 2s were created and derived from CDOs and then CDO 3s were derived from CDO 2s (Buchanan 2017, 670). This intensification of speculation and fictitiousness created one of the largest asset bubbles the world has ever experienced. According to Smith (2010, 44), the derivatives market represents capital’s drive to grow “for growth’s sake.” This drive for growth in fictitious markets has come at the cost of those who individually own the asset used for speculation. While such shadow banking practices have shaped banking in the United States, Canada has been less dependent on them.

In the lead-up to the GFC, liabilities in the United States’ shadow banking system were 50 per cent greater than traditional banking liabilities. During this same period, the Canadian shadow banking system held liabilities roughly in line with the country’s traditional banking system of roughly 1.4 trillion dollars (Chapman, Lavoie, & Schembri 2011, 31). Once the GFC occurred in the US, the shadow banking sector’s liabilities dropped to 25 per cent greater than traditional banking, while the Canadian ratio remained equal. By 2013, shadow banking liabilities in Canada had reduced to ten per cent less than traditional banking activity, which was a 10 per cent decrease from GFC levels (Gravelle, Grieder, & Lavoie 2013, 56). By 2016, Canada’s shadow banking sector had reduced further to 50 per cent less than traditional banking activity representing an estimated value of 1.1 trillion dollars (Chang, Januska, Kumar, & Usche 2016, 27). Despite these factors, Canada did experience significant economic turmoil stemming
from its shadow banking sector because its “non-bank-sponsored asset-backed-commercial-papers” market collapsed. Because of this, National Housing Act mortgage-backed-securities (NHA MBS) – fully guaranteed by the Canada Mortgage and Housing Corporation – continued to make up a greater share of Canada’s shadow banking sector after this collapse, through their implicit guarantee. In 2007, NHA MBS accounted for 25 per cent of Canada’s shadow banking activity – up from 5 per cent in 1999 – and by 2012 they accounted for 60 per cent of all activity in this sector; the significance of this will be discussed in chapter 4 (Gravelle et al., 2013, 57). The prevalence of NHA MBS in the shadow banking sector has led to the greater financial dependence on individual household mortgage repayment.

Walks and Clifford (2015, 1626), have argued the securitization of mortgages has financialized the home where house prices rise to meet the demands of financial markets – hence my use of the term “domestic geography of money” in relation to the housing market; such demand in the shadow banking sector led to a global expansion of credit as prospective home-owners gained access to less restrictive and more affordable lending standards. This new-found affordability and access has fuelled global housing bubbles where a wave of demand resulting from favourable lending conditions leads to a pushing up of house prices (Walks & Clifford 2015, 1626).

The securitization of these markets was initially conceived to “spread risk” globally but it has done the opposite by increasing the interdependence between countries because national economies fail together (Smith, 2010, 57). This globalized interdependence makes national regulation ineffective in combatting the processes of global volatility. Canada’s MBS markets

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9 Asset-backed-commercial-papers represent promissory notes – contracts with the obligation to make specific payments to the holder of the paper – with maturity dates of no more than 364 days.
exemplify this relationship since they did hold higher regulatory standards compared to many other “advanced economies” yet still faced the economic crisis originating in the United States.

Canada’s securities market began to develop in 1987 as the federal government touted the US securitization system as successful in “reducing US banks capital funding costs and freeing them to increase lending, increasing US rates of home-ownership and stabilizing their mortgage finance system” (Walks & Clifford 2015, 1631). Furthermore, the CMHC described securitization as “one of the most important initiatives in Canadian housing finance since the introduction of public mortgage insurance” (Walks & Clifford 2015, 1631). At the time of introduction, only National Housing Act (NHA) insured mortgages stood as eligible for securitization and by 2003, variable loans insured by the CMHC were included in Canadian MBS (Londerville 2004, 203). The role of the CMHC here stands quite unique compared to other global securitization markets because it functions as a federally-managed institution responsible for structuring, regulating, insuring, guaranteeing, and purchasing mortgages which are packaged into MBS (Walks & Clifford 2015, 1627). Globally, privatized special purpose vehicles (SPVs) are responsible for the purchase, pooling, and tranching (splitting up) of MBS. In Canada, this is performed through the federal government’s special purpose trust called the Canada Housing Trust (CHT) which sells 100 per cent guaranteed mortgages (risk free) through the Canada Mortgage Bond (CMB) program to private investors (Walks & Clifford 2015, 1628). The funds raised from the sale of CMBs allows the CHT to purchase National Housing Act mortgage-backed securities (NHA MBS) from the banks allowing the banks to remove them off their books and foster greater liquidity. Thus, the CHT “is a public body that absorbs credit risk and reduces the amount of capital the banks are required to hold in reserve, allowing them to ramp up their lending” (Walks & Clifford 2015, 1628).
The CMHC’s function as an insurer and guarantor of mortgages renders Canada a unique investment climate with little to no risk for private capital. CMHC insured mortgages are 100 per cent guaranteed by the federal government and private insurers receive a 90 per cent guarantee on their outstanding mortgages. This structure effectively limits risk for private investors since the Canadian government – and essentially the Canadian public – absorb credit risk to allow for bank liquidity; the Fraser Institute (as cited in Walks and Clifford 2015, 1627-1628) describe this as a “high taxpayer vulnerability mode[1].” This regulatory structure of Canada’s banking and securitization system have been attributed as the main reasons for Canada’s relative success through the 2008 global financial crisis (Brean et al., 2011, 251; McCormack & Workman 2015, 41).

2.10. The Canadian Bank “Bailout”

Immediately following the onset of the GFC of 2008, Canada’s financial and automotive sectors received significant amounts of bailout money to foster continued liquidity and avoid job loss. Canadian banks received a majority of the bailout money though both the US Federal Reserve and the Canadian Extraordinary Financing Framework (EFF) which were again designed to alleviate the global credit crunch by injecting excess liquidity into the financial system (Bernard 2014, 35). Canadian banks borrowed 33 billion dollars from the US Federal Reserve in December 2008 with RBC, Scotiabank, and TD bank making the most significant use of the US bailout program (Macdonald 2012, 13). The banks borrowed an extra 41 billion dollars in December 2008 (under the EFF) through the Bank of Canada’s short-term collateralized loans. Most significantly, the federal government instituted the Insured Mortgage Purchase Program (IMPP) through the EFF to purchase mortgage loans and mortgage-backed securities from the banks (Walks 2016, 23).
The IMPP allowed the CMHC to purchase MBS from the banks to offload their questionable debt – MBS becoming questionable assets because their value collapsed in the United States – to provide liquidity and continued bank lending. In October 2009, the IMPP authorized the purchasing of 25 billion dollars’ worth of MBS and by February 2009, $125 billion was authorized alongside the expanding amount of mortgage credit the CMHC could insure (Walks 2014, 269). By the end of 2009 the CMHC had purchased $69 billion in mortgage assets while insuring a further 83.4 million dollars’ worth (Walks 2014, 269-270). According to Walks (2014, 271-272),

approximately $510 billion of liquidity, stimulus, bailouts and guarantees had been summoned up for potential injection into Canada’s banking system by the end of 2009, representing roughly 33% of Canada’s annual GDP (with about $280 billion eventually drawn upon). Even at its most restricted definition… the minimum total Canadian ‘emergency’ bailout comes to $179 billion, or 11.6% of Canada’s 2009 GDP, not dissimilar to the combined cost of the direct federal bailout/stimulus programs in the US… Yet, the idea continues to be floated that ‘Canadian banks did not need a bailout’.

The IMPP portion of the Canadian bailout does not resemble a typical financial injection because the assets were purchased by the government rather than through a loan or direct cash deposit. However, this was recorded as a loan to the CMHC from the federal government, resulting in the IMPP mortgages being labelled as assets. Through the IMPP, the CMHC did not provide funds that had to be paid back, “[t]he CMHC program was thus a straight cash infusion for Canada’s banks. It was CMHC that was left to decide what it was going to do with $69 billion worth of

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10 $69 billion was the total amount of MBS purchased through the IMPP
mortgages” (Macdonald 2012, 19). According to Walks and Clifford (2015, 1639), the CMHC “had by 2011 underwritten 84% of the securitization market and, through purchases made by the state under the CMB program, come to directly own (not just insure) 55% of all MBS outstanding.”

Both the Canada Mortgage Bond (CMB) program – or National Housing Act Mortgage-Backed Securities (NHA MBS) repackaged into semi-annual bonds and sold to private investors – and the IMPP programs fostered continued mortgage lending through the crisis and it has been estimated, “that around 50% of the growth of nominal GDP in Canada from recession through May 2010 is attributable to the direct and indirect stimulus originating from the housing boom” (Walks 2014, 273). The housing sector effectively propped up the national economy and in the process came to resemble the US mortgage market before the crash, where over 30 per cent of outstanding mortgage credit was securitized into mortgage backed securities (Walks 2014, 273). The actions by the Canadian government here successfully managed to provide the Canadian banks with greater liquidity and thus, fostered continued lending throughout the aftermath of the GFC where other countries faced significant credit crunches. However, the bailout has made the Canadian economy increasingly dependent on the continuing levels of housing construction, real estate sales, and mortgage lending. The solvency of the CMHC remains reliant on maintaining inflated house prices (Walks 2014, 278). Alongside the Canadian bailout, interest rates were also reduced to again avoid a potential credit squeeze. The CMHC effectively subsidized mortgage lending leading to increased accessibility, affordability, and demand for housing immediately after the events of 2008. This increase in demand caused house prices to accelerate as the average mortgage in 2001 was 182 per cent of the average income, rising to 235 per cent directly after the GFC (Walks 2014, 275). As of December 2017, the aggregate cost of a home in Canada
was $600,300 representing a 48.32 per cent increase from December 2012. Canadian households must now become more indebted simply to own a home. This scenario is worsened for those just entering the housing market and low-income earners (Walks 2016, 25). The continued success of the Canadian economy is now maintained through the increasing indebtedness of Canadians.

2.11. Literature Review Summary

The literature discussed here serves several purposes. First, discussions regarding debt, credit, liquidity, shadow banking, and Canada’s mortgage-backed securities market provide an understanding into how these processes generally function within a capitalist system. In order to discuss the role of mortgage debt, the condominium, and the Canadian economy generally, an economic context detailing the vital capitalist functioning of credit and debt is necessary. As such, the creation of debt and credit through bank lending is now dependent on banking liquidity. Liquidity that is primarily achieved through the shadow banking sector’s largest financial asset: mortgage-backed securities. Second, the exploration of Canada’s shadow banking sector, MBS market, and the unofficial bank “bailout” are necessary topics of focus because they form the foundational understandings of this thesis. Without the Canadian bailout, the economy would have travelled along a different trajectory; one that was significantly less dependent on over-inflated real estate values and the over-indebtedness of Canadian households to maintain its “success.” Third, discussions of gentrification, the creative class, neoliberalism, and financialization help explain Canada’s housing climate and the specific role of the condominium in the production of a domestic geography of money.

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Chapter 3: Methodology

3.0. Personal Interest in the Topic

This research originated from my curiosity in the inevitability of the crises of capitalism. Such an interest brought me to our most recent global financial crisis (GFC) originating in the United States’ market-backed securities (MBS) market. As my research continued, I grew more attentive to Canada’s experience of the lead-up to and aftermath of the GFC. Of particular interest was the work by Alan Walks (2014), which details the Canadian government’s response to the crisis and the consequent economic fallout – specifically rising house prices and household indebtedness.12 As a young adult hoping to purchase a home, such a market is worrisome because of its sheer unaffordability. Thus, through this research I hoped at least to understand how this housing market, fueled by greed and bidding wars, came to be. This led me to my next area of interest: Toronto. Living in Niagara Falls, the significance of Toronto is always present since its city boundaries are constantly breached because of its importance as both a national and global city. As such, Toronto’s housing market directly impacts its surrounding geography and its reach has spread 130km around Lake Ontario to my hometown of Niagara Falls.13 Thus, I want to understand how Canada’s economy since 2008 has altered Toronto’s housing market. This leads inexorably to the condominium, because its influence as a housing development is seen more frequently in Canada’s larger cities such as Toronto and Vancouver (Rosen & Walks 2013, 163). The condominium is an obvious high-density solution to problems of urban sprawl and a legislated “greenbelt” hemming in the GTHA, but its function as a debt-instrument

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12 As well as Macdonald (2012) and Bernard (2014)
fascinates me. Thus, by combining crisis, prices, condos, and debt I hope to make sense of both Toronto’s housing market – and perhaps my own local housing conditions.

3.1. Discourse and Discourse Analysis

This thesis will employ discourse analysis to reveal so-called economic “truths” about condominiums in Toronto, Ontario. Because the thesis involves political economy, the approach to its discourse analysis will involve taken-for-granted, top-down political economic knowledge. It is especially concerned to apprehend the hegemonic infiltration – and broad acceptance – of financialized and openly neoliberal ideas, in their present and historical and cultural context. The government documents I analyze do not present the “truth” of this history, rather, they provide insight into both the government’s perspective of the events since 2008 as well as the potential “truths” governments would like reproduced. This means the thesis is curious about the ways knowledge (specifically real estate knowledge) becomes socially constructed, and how that leads to varied social understanding and action (Jorgensen & Philips 2002, 5-6). According to Cresswell (2009, 213), discourse in geography is unique because of three main elements: 1) context is produced through space and time (the analysis of varying levels of government reports form this context); 2) origins of discourse are geographically specific (the top-down infiltration of federal discourses); and 3) behaviour within space is mediated through dominant representations and discourses (hegemonic acceptance of the Canadian economy’s “success” and the condominium as simply facilitating homeownership through high-density, anti-sprawl sentiments). The discourses analyzed in this thesis represent a complex geographical relationship where documents published online by government departments and organizations have the ability to spread their discursive knowledge of real estate and housing throughout the country. Such understandings of discourse make geography ideal for discourse analysis.
Discourse analysis engages in three main practices: 1) text analysis (structure of text and grammar); 2) analysis of discursive practices (how meaning is shaped through context and framing); and 3) the analysis of social practices (discourses occurring within power structures) (Jacobs 2006, 42). The analysis of discursive practices here is of interest; meaning constructed through various contexts and frames can limit language, context, and scope of thinking by establishing boundaries within which discussions take place (Wilson 2015, 779). A great deal of the material used for the discourse analysis in this thesis occurs within the power structures of government organizations such as the Department of Finance and the Canadian Mortgage and Housing Corporation. Such institutions create scalar discourses; in this case, the federal discourses filters down to local housing transactions. Indeed, the power to define and explain political economic phenomena typifies hegemonic discursiveness: the power to transform political economic narratives into practicable, brick-and-mortar “truths.” Such discursive influence can normalize the thought processes of individuals, to the degree that dominant narratives become the habits and ideas of the everyday (Wilson 2015, 472) – such as the uncritical belief that Canada’s regulatory banking structure was responsible for the country’s economic “success” through the GFC. The same is true in reverse for Toronto’s condominium boom: its role in increasing national debt through mortgage densification remains hidden by discourses boosting condominium development as both an affordability and sprawl solution. Thus, language is capable of producing and maintaining discursive political economic patterns rather than reflecting an extant reality (Jorgensen & Philips 2002, 12).

3.2. Why Discourse Analysis?

A discourse analysis is an appropriate method for the given research topics because it allows for the investigation of how discourses are shaped through the power structures of
government institutions which then have the potential to form hegemonic understandings and acceptance at localized levels. The Canada Mortgage and Housing Corporation (CMHC) and the Bank of Canada, for example, have the power to shape local real estate knowledge which then filters down to individual consumption. As this thesis will make clear, narratives blindly promoting the prosperous future of housing have the ability to shape social action – action that fuels the continued speculation of housing, where individual homeowners become “can’t lose” investors. Such a narrative is important, because the “guaranteed” inflation and success of housing is how the Canadian economy is sustained. By convincing the population that buying a home is a risk-free and profitable endeavour, the Canadian government is able to generate necessary levels of mortgage debt to sustain the national economy. In the same way Brown (2006, 694) discusses neoliberalism, the current economic context of the home is first achieved through social and political acceptances. While these documents are rich in discourse, their information is also used to support the arguments of this thesis.

The process of analyzing documents for their discourses as well as using their information to draw my own conclusions puts me in a precarious position. I am both using the information from these reports to better contextualize and understand the current Canadian economic milieu, while concurrently analyzing the same text for its discursive capabilities. In the same way that Mackintosh (2017, 31) builds a historical Toronto through the newspaper, rather than using the newspaper as a primary source to construct the history of Toronto’s streets. Thus, the work presented in this thesis cannot be seen as representing the “truth” about the Canadian housing economy, rather, it is a “truth” created through the analysis of government documents and private sector narratives. The production of this “truth” is both dependent and skeptical of the rhetoric presented by government, yet, without access to rich primary data on the Canadian
economy it would be difficult within the framework of this Master’s thesis to engage in an analysis which could produce a similar quality of report to the Bank of Canada or CMHC. Thus, these financial reports stand as valuable resources which provide both a glimpse into Canadian economic data as well as how this data is presented across different institutions and scales.

3.3. Silent Discourses

According to Berg (2009, 219), discourses often rely on silences to maintain their power and it is the job of discourse analysts to both identify and theorize how silences create and erase certain “truths.” Economic discourses have the power to produce “truths” – similar to Finance Minister Jim Flaherty’s belief that a strong Canadian economy protected the money and livelihoods of Canadians, a powerful discourse in the wake of the 2007/08 crash. Through such truth-talk, the lived reality of many can be silenced. Canadians still struggling to find decent employment, unable to afford a home, and living in poverty have had their existence and their struggle silenced through powerful economy-speak – because one thing we have learned in the crash aftermath is that what is good for the Canadian economy is not necessarily what is good for all Canadians. The usage of terms such as “Canadians” and “class” also have the ability to silence certain truths within this thesis, since not all citizens of this country share the same economic and social struggle equally. The current housing climate for example, is of greater concern for younger individuals who hope to own a home than for established homeowners who have seen the value of their investment accelerate over the last decade. This can be further divided by other descriptors such as race and gender (see Kern 2010). While “class” has the power to silence certain voices, within the context of this thesis it is an important descriptor. Yes, class can be a problematic term since it has the power to generalize the diversity of individuals within specific income groups (see Blumin 1989, 1-16) on the difficulties of defining class,
especially a “middle class”). Yet, in our current stage of capitalist development we are seeing the rise of “accumulation through dispossession,” “ponzi neoliberalism,” and the shrinkage of the middle class caused by the great accumulation of wealth by an extremely small percentage of the population. In response, this thesis asks overarching questions regarding Canadian housing and its domestic geography of money within our current capitalist context – a context which advocates we generalize class to understand how Canada’s economic milieu since 2008 has represented, as we have seen, Walks’ concept of Ponzi neoliberalism, where exorbitant housing costs and household debt are the instruments for the dispossession of the wages and disposable income of home owners.

3.4. Data Selection

Using literature pertaining to Canada’s economic climate and Toronto’s condominium circumstance, I created a list of key words to search documents and media as a way to initially gauge their relevance to the topic. Keywords (and their variations) such as affordability, displacement, condo/condominium, density, credit, debt, crisis, homeownership, rent, house prices, real estate, mortgage, mortgage-backed securities, and shadow banking were used to determine relevance. Yet even documents lacking these keywords were useful, through their potential to reveal silences. Silenced discourses leapt from discussions of condominium development, especially when the latter excluded issues such as displacement, access to social housing, unaffordability, and rent. Documents dating back to 2007 were sampled because of my primary concern with the events and aftermath of the GFC in Canada. Using this framework, I derived six sources to use as the focus of my discourse analysis – Bank of Canada financial financial.

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reports; federal documents; provincial documents; municipal documents; *The Toronto Star*, and condominium developer’s websites and advertisements – whose employment in the thesis I justify in the following.

### 3.4.1. Bank of Canada Financial Reports

The Bank of Canada was created after the Great Depression when Canada’s banking system came under criticism partly attributable to the absence of a central bank.\(^{15}\) In 1935 the Bank of Canada opened as a privately-owned institution and in 1938 the *Bank of Canada Act* nationalized the institution.\(^{16}\) The Bank of Canada is still owned by the federal government but it stands as a unique Crown corporation which has considerable independence to act outside of government oversight. The Bank of Canada’s principal role is “to promote the economic and financial welfare of Canada,” with its four main areas of responsibility in monetary policy, the financial system, currency, and funds management.\(^{17}\) Part of the Bank’s responsibility is the publication of financial reports. The two reports I focus on for the discourse analysis are the *Annual Report* and the *Financial System Review*. Both are valuable as they concern the state of the Canadian economy generally and do not directly focus on housing; as such, all discussions that fall within the scope of real estate are of specific interest. The *Annual Report* focuses on the status of both the Bank of Canada and the economy more generally; annual reports since 2007 will be analyzed here with the 2017 quarterly financial reports supplementing the yet to be published *Annual Report* of 2017. The *Financial System Review* contains rich data which

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\(^{16}\) Ibid.

generally focus on the risks associated with the current state of the Canadian economy. This is a bi-yearly publication and reports since the second half of 2007 will be examined here.

3.4.2. Federal Documents

The federal documents analyzed were published both by the Department of Finance (DF) and the Canada Mortgage and Housing Corporation (CMHC). The DF publishes an *Annual Financial Report of the Government of Canada* which is formulated from the audited financial statements of the Government of Canada. The financial reports selected cover each fiscal year, starting in 2007-2008. The DF is responsible for implementing “strong and sustainable economic, fiscal, tax, social, security, international and financial sector policies and programs… to ensure that the Government's agenda is carried out and that ministers are supported with high-quality analysis and advice.”18 The largest source of federal documents comes from the CMHC because of the institution’s direct involvement and management of Canada’s housing needs. According to the CMHC, its reports “contribute to the stability of the housing market and financial system, provide support for Canadians in housing need, and offer objective housing research and advice to Canadian governments, consumers and the housing industry.”19 The CMHC produces a wide variety of reports that span across federal, provincial, and municipal scopes of focus. I analyzed the CMHC’s *Condominium Owners Report: Toronto and Vancouver* (yearly from 2014-2017); *Mortgage and Consumer Credit Trends* (quarterly from the third quarter of 2016); *Housing Market Assessment: Canada* (quarterly since the fourth quarter of 2015); *Housing Market Assessment: Toronto* (quarterly since the fourth quarter of 2016);

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Housing Market Insight: Canada (bi-yearly since December 2015); Housing Market Insight: Ontario (September 2016); Housing Market Insight: Toronto CMA (July 2016 and January 2017); Housing Market Outlook: Canada (nine publications since the second quarter of 2014); Housing Market Outlook: Ontario Region Highlights (nine publications since the second quarter of 2014); and, lastly, Housing Market Outlook: Greater Toronto Area (four publications since the Fall of 2015). These reports’ value lies in their production of government discourses and silences pertaining to the short-term historical trajectory and current state of Canada’s, Ontario’s, and Toronto’s real estate markets.

3.4.3. Provincial Documents

The historical consistency of Ontario-published reports is considerably spare compared to federal accounts. Most of the reports analyzed here have been published in the last several years without a long history of publication – and the come largely from the Ontario Ministry of Finance (MOF). The MOF is a central government agency with a “variety of roles, all focused on supporting a strong economic, fiscal and investment climate for Ontario, while ensuring accountability with respect to the use of public funds.”20 The quarterly Ontario Economic Accounts is an MOF publication. Older publications are not available online and thus, only three of these reports are available starting from the fourth quarter of 2016. These economic accounts are primarily data driven but some discussion of the results does occur. Also published by the MOF is Ontario’s Fair Housing Plan (2017) which I analyze briefly. The second series of reports I used were Ontario’s Long-Term Report on the Economy published by the Ministry of Municipal Affairs and Housing (MMAH). These reports look to the future of the province’s

economic prosperity within the context of its current state. Publications occurred in 2005, 2010, 2014, and 2017. I also used MMAH’s *Ontario’s Long-Term Affordable Housing Strategy* (2016). The MMAH’s role aims to reduce homelessness, implement long-term affordable housing strategies, set annual rent-increase guidelines, and respond to landlord and tenant complaints among various other goals. Importantly, these provincial documents were further supplemented by the above federal reports which pertain to Ontario.

**3.4.4. Municipal Documents**

Like Ontario’s formal reports, those published by the City of Toronto lack consistency compared to federal documents. Most publications analyzed were produced within the last five years and, thus, their coverage of the GFC is spare. However, they offered useful information for Chapter 7, which analyzes the role of Toronto’s condominium market nationally. Using these sources, I contrast the rhetoric occurring at varying levels of government as well as analyze the discourses prevailing across the private and public sector. These municipal documents include multiple publications of: the City of Toronto’s *Annual Financial Report*, the *Report on the Condominium Consultation*, *Toronto Economic Bulletin*, *Housing Occupancy Trends*, *Toronto Employment Survey*, *Making Homeownership Happen*, *Taking Action on Housing*, and *How Does the City Grow?* These publications provide insight into the city’s understanding of the condominium and housing generally.

**3.4.5. The Toronto Star**

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The Toronto Star (Star) was established in 1892 – then called the Toronto Daily Star – and quickly grew to become Toronto’s leading liberal newspaper in 1899 and the city’s largest newspaper by 1913.\textsuperscript{22} It is Canada’s most liberal daily newspaper, substantiated and justified by adherence to its own “Atkinson Principles:” “[a] strong, united and independent Canada; Social justice; Individual and civil liberties; Community and civic engagement; the rights of working people; the necessary role of government.”\textsuperscript{23} And as Canada’s “largest daily newspaper, with the largest readership in the country,” its vast historical online archive and status as the leading Toronto-based newspaper in the country has made it a medium of choice for this thesis.\textsuperscript{24} The Star will be used primarily in Chapter 6’s historical housing analysis of Toronto, dating back to the late nineteenth century – although before 1899 the Star was, in fact, conservative (Mackintosh 2017, 28). An analysis of the Star’s historical publications provides insight into the shifting, dominant, and silent discourses of the time. The paper will be used to supplement arguments regarding the nature of homeownership, the home as a speculative investment, and the contrasting nature of urban development between the public and private sector.

3.4.6. Condominium Developer’s Advertisements and Websites

The websites and advertisements of Toronto’s largest condominium developers were analyzed to contrast the discourses among all levels of government and the private sector. The developer websites and advertisements tend to supplement the other documents I used, but nevertheless serve the purpose of reflecting the economic discourses extant in government reports. The advertisements were found in the Star’s weekly “Homes & Condos” section. The

narratives produced by these developers resemble typical advertising language, where the developers bolster themselves as proving social services, such as Tridel claiming it has “redefined what ‘home’ is.” According to (Rosen 2016, 611), Toronto contains a group of twenty dominant developers who have produced 31 per cent of all condos in the city. This group is made up of one giant development company (Tridel), seven major actors (Menkes, Concord Adex, Monarch, H & R Developments, Camrost, Pemberton Group, and Daniels), and approximately twelve mid-size firms (Rosen 2016, 611). The top-ranked developers are self-admittedly highly capitalistic following a profit-oriented strategy (Rosen 2016, 613).

3.5. Analyzing the Discourses

After all these documents were selected for analysis, I organized them by their publisher and sub-grouped their topic of focus. For example, CMHC documents were bundled in sequential order, then categorized by their publications (Housing Market Insight, Housing Market Outlook etc.), and further by their scope of focus (Canada, Ontario, and Toronto). All were then imported into “ATLAS.ti” – a qualitative data analysis and research software. ATLAS.ti can group documents by topic and automatically search them for keywords, which allowed me to code my own categorizations as I read through each of the above documents. In total, 143 federal, provincial, and municipal reports were inputted and analyzed in ATLAS.ti with some being more relevant to this thesis than others.

Keywords are an ineffective approach to gauge the content quality of a document since their frequency does not account for the context of each usage. “Affordability,” for example, could be discussed as both a problem and a solution within the text but without the context

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behind the usage, its mere appearance in the text is insufficient. As such, the auto coder in ATLAS.ti highlighted the keywords to uncover areas of the text which could contain richer discussion of the topics of interest. This also let me uncover silences within the text; for example, the dearth of a keyword in a document allowed me to refine the analysis. Overall, fifteen keywords (incorporating their many variations) were searched with ATLAS.ti: affordability, developer, condominium, Toronto, credit, debt, mortgage-backed securities, mortgage, interest rate, financial crisis, foreign ownership, homeownership, house prices, rent, and sprawl.

Once the keywords were established I began to read and code each document using my own coding scheme to categorize relevant discourses and areas of silence. Simple categorizations were initially used to further highlight sentences and/or paragraphs that contained keywords with rich content directly pertaining to my research. For example, when analyzing the Bank of Canada’s *Financial System Review*, any instances discussing the condominium in relation to the economy were highlighted and coded in ATLAS.ti. Since condominiums are not the focus of the *Financial System Review*, their mere appearance in this text signaled its importance. Other keywords such as “affordability,” “debt,” “credit,” or perhaps “financial crisis,” were further coded by instances containing rich discourses and context. The same approach was used for silences – such as a paragraph detailing house prices could suspiciously neglect discussions of affordability.

Beyond these basic keywords, a coding scheme was used to signify discussions which could not be found with a simple keyword search. For example, I coded areas of each text which discussed government initiatives with regard to economic activity; without the subjective analysis of the text, a mere keyword search would not be capable of highlighting such areas of interest. Such a subjective endeavour required a careful reading of each text to ensure contextual
information was considered during the manual coding process. Once the coding was complete, I had a rich network of documents and codes on ATLAS.ti which could then easily be re-read depending on document or code type. Finally, I engaged in this re-read based on each code grouping as a method to further select relevant discourses and suspicious silences.
Chapter 4: The Federal Government’s Response to the Global Financial Crisis

The thesis thus far has established how the Canadian government responded to the events of the global financial crisis.26 This chapter extends this, by analyzing federal documents which directly pertain to the functions of the Canada Mortgage Bond (CMB) program, National Housing Act Mortgage-Backed Securities (NHA MBS), and the Insured Mortgage Purchase Program (IMPP). Because the thesis is concerned with Canada’s economic milieu as it relates to real estate, mortgage debt, and MBS, these three government initiatives exemplify how the government actively managed the economy through mortgages. Because of liquidity-inducing initiatives such as the MBS, Canadian banks could accelerate lending throughout the global financial crisis (GFC); increased levels of lending led to an influx of new Canadian mortgagees via favourable mortgage conditions. How these three initiatives functioned directly after the financial crisis is the focus of this chapter, while Canada’s economic trajectory since the GFC will be examined in Chapter 5.

Crucially, the present chapter shows that the government succeeded in averting major economic crisis – relative to other “advanced economies” – through its strong regulatory framework and the usage of CMBs, NHA MBS, and the IMPP program. The chapter reveals the federal government’s motivation as it engaged in Canada’s unofficial “bailout,” specifically through use of the IMPP.

Nevertheless, there exists some troubling government rhetoric as it relates to the GFC, such as “Canada’s banks did not need capital injections from the public sector, nor did they have

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26 See Walks (2014), Macdonald (2012), and Bernard (2014)
to significantly deleverage by shedding assets... As a group, Canada’s major banks also remained profitable throughout the crisis.”\(^{27}\) As the following will clearly demonstrate, all three of these claims made in the Financial System Review (FSR) of 2010 discursively undercut the dangers associated with capitalism’s inherent tendency towards crisis. They also downplay the economic climate which directly resulted out of the Canadian bank “bailout,” where the CMB program and IMPP effectively injected liquidity into the financial system – at the cost of rising house prices and household indebtedness. The country’s economic “success” functioned through the mortgage which has led to the exaggeration of spatial reorganization across Canadian cities; as such, Toronto’s (as well as other Canadian cities with high levels of condominium development such as Vancouver and Montreal) condominium market has experienced the fallout of this bailout more so than other cities because of the city’s urban “mortgagification” via the condominium. Thus, the chapter’s argument relies on the Bank of Canada’s Annual Reports and Financial System Reviews as well as the Department of Finance Canada’s Annual Financial Reports to support the above claims.

4.1. Canada’s Regulatory Structures

In a 2007 study, the IMF assessed Canada’s financial system as “mature, sophisticated, and well managed” and the country’s financial stability was underpinned by strong regulatory and supervisory structures with well-designed arrangements for crisis management.\(^{28}\) According to the Bank of Canada’s Annual Report (2008, 22), it was,

Canada’s regulatory framework [that] contributed to financial stability in Canada during this period of turmoil. The ability of Canadian financial institutions to continue extending


credit was helped by leverage ratios lower than those of many of their international peers, lower exposure to asset-backed products, better risk management practices, and success in raising new capital… The Canadian mortgage market remained healthy, owing largely to conservative lending practices.

Canadian banking and mortgage lending are of particular interest here because they directly contributed to the quality of the country’s MBS market. As such, Canada’s securities regulatory structure is praised throughout these financial documents in its support of the stability of Canada’s financial system. Whether this praise is deserved is questionable, knowing that the Canadian banks’ relied on bailout programs throughout the crisis. And while Canadian regulatory structures did allow the government to manage crisis “effectively,” it was not simply strong regulatory structures which aided the country through 2008, as the following will demonstrate.

Canada’s securities markets, as we have seen, began to develop in 1987 as the Canadian government boosted its significance in “reducing US banks capital funding costs and freeing them to increase lending, increasing US rates of home-ownership and stabilizing their mortgage finance system” (Walks & Clifford 2015, 1631). Since then, securitization has been a valuable liquidity tool to offload bank assets to the shadow banking sector. However, according to the Bank of Canada, the Canadian banking system depends less on securitization as a funding source than the United States.29 This has resulted in higher global demand for Canadian securities due, in part, to “the relative strength of Canada’s banking, corporate and government sectors.”30 Through the country’s regulatory practices in the banking and securitization market, the

government was able to sustain demand for Canadian MBS at a time when their global value fell dramatically during the sub-prime crisis in the United States. The Canada Mortgage Bond program and National Housing Act Mortgage-Backed Securities were responsible for this continued global demand through the seeming transparency and safety associated with their produced assets. Soon after the GFC, it was becoming discursively apparent that to global investors strong regulatory structures insulated Canadian financial assets from global crisis – but we will see that it was not regulatory practices alone that sustained the value of Canadian financial assets.

4.2. The Role of Canada Mortgage Bonds and National Housing Act Mortgage-Backed Securities Immediately Following the GFC

Canada’s regulatory system may well have been integral to the alleviating of the symptoms of the global financial crisis – but it was not because of these regulatory structures that the country’s economy did not fail. Rather, a combination of both regulatory practices and the Insured Mortgage Purchase Program (IMPP), Canada Mortgage Bond (CMB) program, and National Housing Act Mortgage-Backed Securities (NHA MBS) that enabled the government to more effectively manage economic crisis. While the IMPP garners the greatest amount of discussion across government reports (regarding government action following the crisis), the role of the CMB program and NHA MBS have also been described as influential in averting a credit crunch.

For example, NHA MBS are securities created out of residential mortgages that are insured through either the Canada Mortgage and Housing Corporation (CMHC) or private insurers. NHA MBS issued by the CMHC are fully guaranteed, while securities offered by private companies are 90 per cent insured by the CMHC (for a fee) leaving the remaining ten per
cent to be covered by the private institution.\textsuperscript{31} The lack of risk associated with NHA MBS is attributable to the full guarantee by the government of Canada has meant these types of securities remained in high demand through the GFC which aided in the prevention of a crisis of liquidity, as these assets were easily removed from the balance sheets of the banks.\textsuperscript{32} Investors holding NHA MBS have a government guarantee that the mortgages will be insured against default as well as a guarantee of timely payment of interest and principal on the outstanding mortgages. The only risk faced by investors holding NHA MBS is the event of borrowers fully or partially prepaying their mortgage, meaning a loss of total interest.\textsuperscript{33} Yet even the risk of prepayment is removed for private investors through the CMB program. These programs prevent economic loss for private investors, which in turn protects against significant market corrections because the Government of Canada is liable for the losses incurred.

The Canada Mortgage Bond program was created in 2001 as a method to increase the volume of NHA MBS in secondary mortgage markets. This was done to achieve greater levels of banking liquidity and to provide Canada’s banks with the ability to access emergency cash through the securitization and sale of their mortgages through the CMB (Macdonald 2012, 17). The CMB program facilitates the sale of these NHA MBS to the Canada Housing Trust (CHT). The CHT then repackages the securities as, “non-amortizing, semi-annual coupon bonds backed by the mortgage pools and fully guaranteed by CMHC and the Government of Canada.”\textsuperscript{34} CMBs are a more appealing investment because their structure eliminates the risk of prepayment unlike

\textsuperscript{32} Global demand for Canadian securities allowed banks to sell their mortgage assets during a period of international uncertainty because of the United States’ sub-prime mortgage market. The ability to sell such assets ensured Canadian banks could continue lending through the crisis, avoiding a credit crunch.
\textsuperscript{33} Ibid, 57.
a typical NHA MBS. Figure 1 displays the relationship between NHA MBS and the CMB program. Regardless of how NHA MBS were packaged and sold, their importance through the GFC was amplified.

![Diagram of NHA MBS and CMB program](image)

**Figure 1: Comparison of NHA MBS and the CMB program** (Chapman, Lavoie, and Schembri 2011, 33).

NHA MBS were responsible for twenty per cent of outstanding residential mortgages securitization in Canada before the GFC. Issuance of these securities grew rapidly between 2008 and 2010 to provide mortgage lenders with greater liquidity. According to the Bank of Canada, the growth of NHA MBS in Canada continued beyond the IMPP and represented 34 per cent of residential mortgage securitization by 2013; Figure 2 displays this trend. Throughout these

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35 The structure of CMBs eliminate the investor’s risk of prepayment because the bonds are structured through “swap transactions.” A swap transaction is when two parties exchange financial instruments for the purpose of mixing the type of cash flow (variable versus fixed) to mitigate prepayment risk.


government documents, the acceleration of NHA MBS and the CMB is typically discussed in conjunction with the IMPP as it was an active government effort to promote liquidity in Canada. The IMPP may resemble a more typical “bailout” but the actions by the government through NHA MBS should still be understood as a form of capital injection into the economy, in spite of claims that Canadian banks received no such support. *Without intervention by the government of Canada, typical MBS held by the banks would have been far less appealing to risk averse investors during a time of global uncertainty regarding the quality of such assets.* Banks would have had a difficult time unloading MBS off their books and the risk of a credit crunch in Canada would have increased – however, in January and February of 2009 the IMPP made the Canadian government the only purchaser of Canadian mortgage securities because of global investor hesitation. And this difficulty selling MBS occurred because of the sub-prime lending practices and fraudulent rating activity in the United States’ which ignited the GFC: the hyper-inflated value of MBS came crashing down when their valueless-ness was realized, making investors wary of global securities and their lack of transparency. Thus, the Canadian government obviated
the problem of transparency: NHA MBS transferred risk from the banks and investors to the federal government and Canadian citizens by fully guaranteeing mortgages through the CMHC.

The implications of this risk-amelioration by the federal government are silent throughout the various financial publications, because the government – and, thus, the public – is effectively responsible for the payment of these mortgages in the event of default. With NHA MBS growing throughout the financial crisis, the government became increasingly responsible for a growing amount of mortgage debt. And in the event of mass default, the government would have been faced with a heavy financial burden.

Importantly, the only mention of this risk across the 44 financial reports analyzed comes from the Bank of Canada’s December 2015 Financial System Review, where the Bank acknowledges the CMHC may be called upon to cover payment guarantees. However, this risk is calculated, since the “CMHC reserves for this risk by charging lenders guarantee fees, and it holds capital against its securitization exposures of about $1.6 billion (year-end 2014)” (46). In other words, money collected from mortgage insurance would be sufficient to pay-out investors in the event of mortgage default; however the following chapter will argue the insufficiency of this contingency in the event of nationwide mortgage defaults. The further implications of this risk abatement will also be discussed (in the following chapter), and which will link these actions with the changing real estate landscape in Canada.

4.3. The Insured Mortgage Purchase Program

While this chapter is concerned with the immediate actions by the Canadian government following the GFC, this subsection focuses on both the impact of the IMPP, as the primary driver of liquidity throughout the financial reports, and the winding down of the program shortly after
its implementation. Again, the language concerning the IMPP varies, since it tends not be regarded as a cash-injection into the economy following the GFC, yet scholars such as Walks (2014) would argue it functioned directly as one. Yet to deny this would be to deny the efforts of the Canadian banks “scrambling to get enough product to put into the federal government’s Insured Mortgage Purchase Program” (Scotiabank economist, quoted in Walks 2014, 274). The Canadian banks had an asset they could not lose money on, so they sold as many mortgages as possible because they did not have to incur the risk and cost of bad mortgages. Such “scrambling” for mortgage debt points to the condominium as the tool Canadian banks would use to raise mortgage funds which could then be easily sold in the IMPP. And while the particulars of the IMPP’s funding structure and purposes have been well detailed throughout the thesis thus far, it is the purpose of this subsection to demonstrate how the IMPP has been imagined by government institutions.

4.3.3. The IMPP Immediately Following the GFC

How the government discusses the IMPP is important, because without it Canadian banks would have had a far more difficult time selling their MBS and the country would have been faced with critically insufficient levels of banking liquidity. Bailout or not, Canadian banks are for-profit entities, and had their output purchased and secured through the state. For example, the Bank of Canada typically refers to the IMPP as funding the Canadian banks through the purchasing of mortgages.38 Framed this way, the IMPP does not look like a bailout, since banks receive funding through the sale of their assets rather than via a straight capital injection. True, the IMPP was not a cash injection per se, but the IMPP represents a necessary move by the

government to secure the value of the banks’ MBS. Without the intervention of the CMHC, banks would have faced dire liquidity risk because of the volatility of their MBS. Thus liquidity is the justifier of the federal implementation of IMPP, especially since these reports fret over the “freeze-up” of bank lending worsening an already bad situation.39

Yet, the principal focus of these publications is the financial requirements needed to purchase the MBS as well as the yearly revenue obtained from the interest paid on mortgages. In order to finance purchases made through the IMPP, the federal government increased its unmatured debt – debt which contains financial obligations since it has yet to mature, or come due – “largely through the issuance of treasury bills and marketable bonds.”40 The funding requirements of the IMPP accelerated the ratio of unmatured debt from roughly 25 per cent before the GFC to 36.6 per cent by March 31, 2010.41 It is important to note that the IMPP mortgages purchased by the CMHC were not considered a part of this federal debt. However, this ratio is significantly below its peak of 57 per cent in the mid-1990s. Much of the rhetoric throughout these reports highlights Canada’s debt ratio as a consequence of funding the IMPP, although little discussion beyond the simple displaying of data occurs. The Department of Finance Canada’s (DF) Annual Financial Reports tend to occlude negative statistics by comparing them to a less robust economic point in Canada’s history. For example, sections of the Annual Financial Reports that discuss Canada’s debt ratio continuously compare post-2008 Canada to the mid-1990s. The IMPP is presented positively, the MBS purchases seen as calculated investments by the government.

Under the IMPP, the CMHC purchased MBS through a competitive auction process, “designed to ensure that the rate of return on the purchased mortgages exceeds the Government’s own cost of borrowing.” Furthermore, the Department of Finance’s Annual Financial Report (2009, 13) detailed the IMPP as a potential revenue stream through two sources: 1) the government received a large increase of yearly interest paid on their loans caused by the steep increase of federal interest-bearing assets through the IMPP; and 2) the government had unrealized gains on the year end revaluation of their IMPP securities reflecting an increase in their market value. Thus, the healthy functioning of the country’s mortgage market caused even greater worry for the government since MBS purchased through the IMPP acquired the expectation of generating a profitable return on investment. Because the government acquired a vast majority of Canadian mortgages issued near the onset of the GFC of 2008, the livelihood of the national economy grew more dependent on the ability of Canadian homeowners to service their debt payments and avoid mortgage default.

4.3.4. The End of the IMPP

Purchasing under the IMPP occurred within a short time, the CMHC slowing down its acquisition of NHA MBS by March of 2010. Between 2009 and 2010 the CMHC received an increase of 10.6 billion dollars to fund the remaining purchases under the IMPP. In total, the CMHC purchased 69 billion dollars’ worth of MBS from the Canadian banks through the IMPP. The assets acquired through the IMPP had a short maturity date and by 2014 the Department of Finance Canada reported a decline in interest revenues coming from IMPP

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43 Unrealized gains meaning the market value of the CMHC’s assets increased, however, since they retained their assets no profit was made.
securities caused by principal repayment. The Department of Finance Canada’s Annual Financial Reports of 2015 and 2016 both comment again on the acceleration of principal repayment on IMPP mortgages leading to a decline in revenues for the government and signaling the successful end of the IMPP. The 2017 Annual Financial Report contains no mention of the IMPP suggesting the end of its significance in relation to federal debt.

4.4. Conclusions

The financial reports investigated here detail the economics of the CMB program, NHA MBS, and the IMPP. Yet, the discussion of the residual effects stemming from these government initiatives remain relatively silent throughout. Furthermore, the discussion of these government programs is framed as standard economic behaviour. Most troubling is the previously mentioned quote from the Bank of Canada’s Financial System Review (2010, 20) which claimed that Canadian banks “did not require a capital injection,” “they did not have to shed assets,” and they “stood profitable throughout the GFC.” I offer an alternative perspective.

First, the public sector clearly, if indirectly, “injected capital” into the banks through the purchasing of their MBS under the IMPP. Since the CMHC purchased the assets from the banks, the reports safely conclude this was not an infusion of capital – apparently buttressing Canada’s then Finance Minister, the late Jim Flaherty (MP Whitby-Ajax), who insisted Canadian tax payer money was never at risk during the crisis. However, if not for the CMHC, Canadian banks would have had to retain their volatile MBS of uncertain value, which would have led to a credit crunch because they would be unable to sell their assets, – or use them as collateral – and thus not have enough liquid capital for adequate lending. Importantly, the banks would not have engaged in

lending to the extent they did throughout the GFC without the intervention of the CMHC.

Second, the banks specifically “shed assets” through the CMB program and the IMPP. According to Walks (2014, 269), “taken together, the IMPP and CMB program purchases removed from Canadian banks’ balance sheets a full $137.55 billion of their qualifying mortgage loans between the fall of 2008 and the end of 2009.” The banks relinquished their troublesome mortgage assets to generate greater liquidity and, thus, to continue to lend. Finally, the claim of bank profitability through the crisis presents a narrative that completely ignores the financial support received by the banks to stay profitable. Such a discourse is troublesome, as Macdonald (2012, 6-7) argues; three Canadian banks – CIBC, BMO, and Scotiabank – received financial support between 2008 and 2010 exceeding the value of the companies (see Figure 3). CIBC for example received “support worth almost one and a half times the value of all outstanding shares. It would have taken less money to have simply bought all the shares in CIBC instead of providing it with support” (Macdonald 2012, 6-7). The overt and implicit language throughout these reports mimics the claims of government via Minister Flaherty that strong regulation and good government protect Canada’s banks. While Canada may be relatively stronger than other “advanced” economies, it is both reckless and potentially dangerous to promote a narrative contending the country is immune to the pressures of global finance and the inherent crisis of capitalism.

<table>
<thead>
<tr>
<th>Bank</th>
<th>Peak Support Date</th>
<th>Peak Support Value ($billion)</th>
<th>Peak Support to Company Value (Date of Peak)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIBC</td>
<td>March 09</td>
<td>$21</td>
<td>148% (March 2009)</td>
</tr>
<tr>
<td>BMO</td>
<td>January 09</td>
<td>$17</td>
<td>118% (Feb 2009)</td>
</tr>
<tr>
<td>Scotiabank</td>
<td>January 09</td>
<td>$25</td>
<td>100% (Feb 2009)</td>
</tr>
<tr>
<td>TD Bank</td>
<td>September 09</td>
<td>$26</td>
<td>69% (Feb 2009)</td>
</tr>
<tr>
<td>Royal Bank</td>
<td>March 09</td>
<td>$25</td>
<td>63% (Feb 2009)</td>
</tr>
</tbody>
</table>

Figure 3: Estimated extraordinary support received by Canadian banks (Macdonald, 2012, 6)
Without the prompt response of the Canadian government, it is unlikely that Canada’s banking system would have weathered the GFC as successfully as it did on strong regulatory practices alone. The discursive constructions of the bailout instruments neglect to acknowledge their significance in generating ample liquidity in the country – liquidity that was necessary to continue Canadian mortgage lending. By doing so, the notion of a bank “bailout” is rejected, and the Canadian economy is portrayed as sufficiently insulated from global economic shock. This is dangerous. The GFC of 2008 had real consequences which required real action by government. Because of the bailouts, Canadians have faced inflating housing costs and have had to take on extreme levels of debt to sustain this economic climate. This is not to say the bailout was a problematic response; rather, we must recognize that the bailout had a cost. We as Canadians are now individual investors and hyper-financialized subjects, where our basic right to shelter is exploited by the financial liquefying of our homes for trade on global markets. The subsequent chapter details this phenomenon.

47 Canada’s Conservative government of the time was electioneering on their stewardship of the economy through the global financial crisis; the “financial stability” narrative thus provided the Party with sufficient “political capital” in the lead up to the 2011 federal election.
Chapter 5: Rising Real Estate Prices and Household Debt

As chapter 4 argued, National Housing Act Mortgage-Backed Securities (NHA MBS), the Canada Mortgage Bond (CMB) program, and the Insured Mortgage Purchase Program (IMPP) were all responsible for the Canadian economy’s success through the GFC because of the rapid increase in bank lending producing, crucially, the very favourable mortgage conditions for consumers that followed. Banks could guarantee cash flows through fully insured mortgage-backed securities by the CMHC. The CMB program allowed them to remove these MBS off their books, and the IMPP created the demand for increased mortgage lending – so much so that Canadian banks were “scrambling” to get enough mortgage product to sell in the IMPP (Scotiabank economist, quoted in Walks 2014, 274). These three government initiatives created an economic climate which enticed the banks to originate as many mortgages as possible, in part achieved through the reduction of lending standards. A rush of new Canadians into the mortgage market led to real estate “bidding wars” – in effect, auctions – since demand for housing surged. Strangely, bidders did not fear buying more expensive housing because of the loose restrictions on a small down payment (Walks 2014, 274) – the fear of overpaying further reduced by rhetoric supporting the house as a continually inflating asset. This condition has continued, the latest round of bidding wars in Toronto having recently cooled off, yet house prices still remain high and Canadian households increasingly indebted. Yet a rapid reduction in real estate would be worrisome, Harvey (1985, 20-24) suggesting that over-investment in the built environment typically signifies the onset of a recession because,

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long-term investment in the built environment [acts] as a kind of last-ditch hope for finding productive uses for rapidly overaccumulating capital… [Fixed capital] functions as a use value and requires the conversion of exchange values into a physical asset that has certain attributes… If new and more productive fixed capital comes into being before the old is amortized, then the exchange value still tied up in the old is devalued.

In other words, once investment into the Canada’s urban built spaces becomes less profitable than other ventures, massive disinvestment would occur leading to a rapid devaluation of property.

This chapter will argue that the current state of the Canadian economy is over reliant on inflated real estate values and the presumed ability of Canadian households to service their growing debts. In such a circumstance, a precipitous drop in the economy would produce disastrous results including mass mortgage defaults across the nation. This becomes apparent when analyzing Canadian house prices, household indebtedness, and mortgage lending regulations since the global financial crisis, and the risk of mortgage default. Bank of Canada’s *Financial System Review(s)*, the CMHC’s *Annual Report, Mortgage and Consumer Credit Trends* and their *Housing Market Assessment, Insight, and Outlook*, and the Ontario Ministry of Finance’s *Ontario Budget* provide insight into both the state of Canada’s economy generally as well as the economic role in which real estate plays. Indeed, through their analysis, Canada’s economic health is better understood. And we can see how federal discourses frame this financial climate. This chapter’s analysis will illustrate the domestic geography of money, where federal banking initiatives filter down to the city and reshape local real estate markets – and thus, neighbourhoods – through the mortgage.
A curious silence throughout the documents: there is no mention of the NHA MBS, CMB program, or IMPP contributing to future housing circumstances, although economic conditions as they relate to housing are prominent. Yet the important historical “why” of such conditions is left unacknowledged. The following subsection will briefly chart Canadian housing costs, explore the government justifications for why the housing market has continued to accelerate, examine how Toronto and Vancouver are significant nationally, and how the threat of a steep decline in house prices looms as one of the country’s greatest domestic geographic threats.

5.1. Canadian House Prices

The exploration of Canadian house prices demonstrates how the country’s housing climate has accelerated since the GFC; this growth in house prices is attributed to the government’s management of crisis via the mortgage. The average cost of a home in Canada has surged – up to, throughout, and after the GFC. From 2006 to 2016 the average increased from (in 2016 dollars) $306,579 to $443,058 representing an increase of 44.52 per cent (Statistics Canada). This increase in the average is best contrasted against income, since the average after-tax income for those “15 years and over in private households” was $34,007 (2016 dollars) in 2006 and $38,977 in 2016 representing an increase of 14.62 per cent.49 Clearly, the affordability of housing has been steadily declining (Figure 4). Affordability is well documented throughout government reports, the disproportionate increase of housing costs a growing tension since 2009/2010. As such, the prevalence of “overvaluation” and affordability have dominated

attention in discussions of Canada’s economy generally. “Overvaluation” commonly means “when house prices remain significantly above the levels warranted by fundamental drivers of housing markets such as income, population, and actual and expected financing costs.”

Apprehension over overvaluation first occurs in the Bank of Canada’s 2012 Financial System Review (21-22) where house prices were fourteen per cent higher than pre-crisis levels of 2007. In its December 2014 report (17), the Bank claims Canada’s housing market has been overvalued by more than ten per cent since 2007 with slower overvaluation growth occurring after 2009. From 2016 to 2017, the tone of these reports changed to less worrisome, the CMHC claiming average house prices were moving more in line with economic fundamentals and they expect a slower rate of growth for the foreseeable future. The history of Canadian house prices are contextually important here, but beyond the purview of the chapter, which primarily seeks to uncover how these institutions have discussed the reasoning behind these price increases.

Since none of these reports connect the “bailout” with the increase in house prices that followed, what then is their rationale for this climate of overvaluation? They point to three factors: 1) strong growth in residential investment; 2) low interest rates; and 3) foreign investment. First, relative to GDP, residential investment has remained consistently high before and after the GFC. The construction of new housing and residential remodeling constitute a bulk of residential investment since developers seek to raise funds through the sale of new homes and homeowners remodel their homes to improve their speculative sell value. Many of these home improvements can be attributed to low interest rates, since homeowners can borrow money for residential investment at a low cost. Second, according to both the Bank of Canada and the CMHC, low interest rates have been primarily responsible for making homes affordable. Yet, they fail to acknowledge that low interest rates and favourable lending conditions have arisen in response to the GFC, CMB, and IMPP which has created a climate where prospective homeowners are able to bid/overpay on houses because of lower monthly mortgage payments.

Paradoxically, low interest rates have simultaneously driven up housing costs while maintaining their relative affordability – at least in terms of monthly mortgage payments. The danger arises from historically low interest rates, because a significant increase in the interest rate would leave households – especially newer households – with a rapid increase in monthly shelter costs caused by the sheer expense of a home. The last is worry over foreign investment fueling speculative activity and accelerating house prices. Starting first in 2014, the CMHC investigated the levels of foreign investment in Canada’s largest CMAs. By 2015, the CMHC officially expressed unease over foreign investment since “mobile and subject to capital flight, thereby increasing volatility

53 See the Bank of Canada’s Financial System Review of December 2010 (21), June 2011 (21-22), and June 2013 (21), the CMHC’s Ontario Housing Market Insight of September 2016 (3), and the 2016 Ontario Budget (239-241.
in Canadian housing markets. Foreign ownership can also contribute to overvaluation in housing markets.”\textsuperscript{55} Since then, provincial governments have enacted foreign buyer taxes in both Toronto and Vancouver, the effectiveness of which are now in doubt.\textsuperscript{56} Interestingly, the CMHC has had difficulty demonstrating that foreign investors contribute to increased housing prices compared to domestic purchasers. Their study conducted in Montreal found no discernable difference between properties purchased by domestic and foreign investors.\textsuperscript{57} Outside of foreign investment discussions, these federal reports have stressed the importance of Toronto and Vancouver nationally and the economic significance of their housing markets nationally.

Toronto and Vancouver predominate in these reports; they stress the idea that the national housing climate is skewed toward these two census metropolitan areas (CMAs), and typical language is as follows: “as this price acceleration is concentrated within two CMAs… CMHC judges that the evidence of price acceleration, at the moment, remains weak across Canada as a whole.”\textsuperscript{58} Together, Ontario and British Columbia constitute roughly two thirds of all resales in the country with just over 51 per cent of Canada’s population.\textsuperscript{59} With such economic significance nationally, a house price correction in one of these large CMAs has the ability to spread throughout the country leading to “widespread reductions in household net worth, market confidence and consumer demand, with negative spillover effects on income and employment. These adverse effects would then weaken the credit quality of banks’ loan portfolios and, in turn, lead to tighter lending conditions.”\textsuperscript{60} This quote is quite significant. If a substantial house price

\begin{flushleft}\textsuperscript{55} “Canada Housing Market Insight,” \textit{Canada Mortgage and Housing Corporation}, December 2015, 1. \\
\textsuperscript{57} “Canada Housing Market Insight,” \textit{Canada Mortgage and Housing Corporation}, December 2017, 4. \\
\textsuperscript{58} “Canada Housing Market Assessment,” \textit{Canada Mortgage and Housing Corporation}, Third Quarter 2016, 4. \\
\textsuperscript{59} “Canada Housing Market Outlook,” \textit{Canada Mortgage and Housing Corporation}, Fourth Quarter 2016, 5. \\
\textsuperscript{60} “Financial System Review,” \textit{Bank of Canada}, December 2013, 20. \end{flushleft}
correction occurred in Toronto then the entire country may be faced with economic crisis (this will form Chapter 7’s contextual framework where the national significance of Toronto and the condominium will be analyzed further). The danger of a house price correction beyond Vancouver and Toronto is a prominent idea throughout these reports and is often listed as the country’s greatest domestic threat, economically.

In December, 2011, the Bank of Canada’s *Financial System Review* first mentioned the threat of a steep house price decline but the report claimed that such an event would not generate systemic risk nationally (26). By June of 2012, the tone changed: the Bank of Canada now claimed “[p]rice corrections in important segments of the housing market can have adverse effects on the financial system through contagion.” A decline in house prices would lead to lower household net worth, decreased household spending, a weakening of employment in the housing sector, reduced access to credit, and generate massive loan losses for financial institutions and “certain… mortgage insurers” caused by defaults on consumer debt. “Reducing access to credit” is quickly glossed over as a standard risk throughout these reports, yet it was this threat of a credit crunch during the GFC that the Canadian government most attempted to avoid. Moreover, using the phrase “certain mortgage insurers” is somewhat dubious here: it is the CMHC and, thus, tax-paying Canadians who are the largest mortgage insurers in the country. Nonetheless, the risks listed above have the potential to spread throughout the country and cause economic uncertainty and turmoil. These risks are well-laid out, but how do government institutions believe a steep house price correction could occur?

62 See the Bank of Canada’s *Financial System Reviews*: December 2011 (26), June 2012 (24), and June 2014 (25)
A sharp rise in unemployment, attributable to either global or domestic events, poses the greatest threat to a reduction in house prices. The Bank of Canada sees this risk as low, but if such an event were to materialize its affects would be “severe.”63 A sharp or persistent rise in unemployment would stagnate income growth, resulting in increased difficulty for households to pay their debts.64 Such an event would create a feedback loop: a cycle of wage stagnation and reduced disposable income that increases unemployment. As the Bank of Canada states, “[g]iven the importance of housing to the Canadian economy and financial system, the impact of such a shock would be widespread, and there could be significant adverse feedback between economic and financial conditions that would amplify its impact.”65 This combination of steep housing decline and over-indebted households would trigger mass mortgage default across the country caused by widespread negative housing equity positions.66

5.2. Mortgage Default

Mortgage default happening outside of a significant global or domestic event remains unlikely since mortgages in arrears – mortgage payments past-due – and mortgage default are at their lowest levels since the second quarter of 2014. In the first quarter of 2017, Canadian mortgage default stood at 0.11 per cent.67 However, if an event causing a continual decline in house prices or rising unemployment were to occur, mortgage default would become a necessity or an increasingly appealing opportunity for newer homeowners. If a steady decline in house prices appears to be long-lasting then homeowners will have a difficult time refinancing their mortgages. This potential situation is heightened in Canada’s largest cities because of their short-

term, rapid increases in house prices; if such markets were to reverse, the housing equity buffer on newer mortgages could dissipate rapidly – the sale of a home would result in a loss greater than the equity.68 A mock scenario created by the Bank of Canada found that

a house price correction of 15 per cent would have caused 13 per cent of mortgages in Canada to be in a negative equity position in the 2012–14 period... This represents about 600,000 households and $280 billion in mortgage debt. Around one-third of these negative equity mortgages (4 per cent of all mortgages) would have been held by highly indebted households.69

Moreover, if such a large event were to occur, Canadian lenders would be inundated with high levels of foreclosed houses which would drive house prices down even further.

Beyond a reduction in house prices, mass levels of default could have a substantial impact on Canada’s financial markets. Bank equity prices would drop because of anxieties over the Canadian banking sector, which would then lead to the repricing of financial assets connected with the banks. Canadian assets would be seen as riskier to global investors which could then lead to “reductions in household net worth, market confidence and consumer demand, with negative feedback effects on income and employment.”70 This would likely result in a credit crunch attributable to banks’ loss in revenues and the increasing cost of acquiring funding. A feedback loop would occur since each of these potential risks reinforce the others.

Furthermore, mass default would present a troublesome scenario for the CMHC, when faced with paying the interest and/principal payments on defaulted NHA MBS and CMBs.

According to the December 2015 *Financial System Review* (46), the CMHC held roughly $1.6 billion in liquid capital to protect itself against default exposure; this capital is raised through CMHC guarantee fees on high-ratio mortgages. Such a level of liquid funds would be inadequate in the event of frequent default and, thus, the CMHC claims it has guarantee protections in place which “include limits on volumes, eligibility requirements for participants/mortgages to be securitized, and triggers to affect additional mitigating actions should a participant’s credit quality deteriorate.”71 And because of the CMHC’s exposure to mortgage default, the Bank of Canada has begun to suggest an increase in private securitization as a way to deleverage the public sector’s risk.72 This suggestion of increased private securitization, of course, contradicts the discourse averring that it was Canada’s strong banking and securities regulatory structure that alleviated the symptoms of the GFC. Such an overtly neoliberal suggestion of increased privatization may deleverage the Canadian government’s direct dealings with MBS, but it would also be less effective in minimizing economic risk. A more privatized securitization structure would have left the country’s securities market exposed to the same credit crunch faced by other “advanced economies” because it was the implicit government guarantee of payment behind NHA MBS and CMBs that facilitated global demand for Canadian assets.

If a global or domestic event were to affect interest rates or levels of unemployment, a downward spiral of house prices would probably occur and overly indebted households would be faced with mortgage default to alleviate their debts and offload their overvalued assets. Across these varying financial reports, this over-indebtedness of Canadian households stands as another powerful source of domestic risk.

71 “CMHC Annual Report,” *Canada Mortgage and Housing Corporation*, 2015, 42.
5.3. Canadian Household Indebtedness

According to the Bank of Canada, rising house prices and increasing household debt have continually reinforced each other – leading to the national ratio of debt to disposable income to reach 170 per cent by 2016.\textsuperscript{73} Canadian levels of debt are suppressed by increasing house prices because the steady growth in equity offsets these debt ratios. Hence the problem of a house price drop skewing domestic ratios of debt. This subsection will synthesize the debt-related arguments across the financial reports while analyzing the discourses associated with each, because according to the Bank of Canada, it is the over-indebtedness of Canadian households that exposes the country to an economic shock. Furthermore, the following will explore the extent to which this mortgage debt is held by those considered “sub-prime.” The inability of Canadian households to service their debts would put significant strain on the financial system. Discussions of debt in these reports generally fall into three broad categories: debt statistics, skewed levels of debt stemming from younger households, and the domestic risks of over-indebted households. The following subsections explore each of these themes to demonstrate the unstable nature of current Canadian debt. The Canadian economy is increasingly dependent on debt: specifically, the ability of Canadian households to service their debt. The following demonstrates the instability of this dependency.

5.3.1. Charting Debt Growth in Canada

Post-GFC, there appear to be three distinct periods of Canadian indebtedness. The first occurred directly after the start of the GFC, where the debt-to-income ratio rose to 137 per cent (an eleven per cent annual increase) in the second quarter of 2008, yet remaining lower than US

and UK levels at roughly 160 per cent.\textsuperscript{74} In the same 2008 report, the Bank of Canada claimed the risk associated with increasing indebtedness was “mitigated” by high-ratio mortgages insured by the CMHC. Perhaps “transferred” is a more accurate descriptor than “mitigated” because risks associated with indebtedness are spread across the Canadian public: tax payers are the ones who have insured the mortgages and it is we who will be responsible to cover the guarantee costs if the CMHC is unable to through its cash reserves. By 2010, the tone from the Bank of Canada grew more worried because Canadian wages continued to stagnate and ratios of household debt increased to roughly 143 per cent, while at the same time debt in the United States and UK edged downward to roughly 152 per cent.\textsuperscript{75} By the first quarter of 2011, Canadian ratios of debt-to-income had risen to 150.6 per cent, surpassing the United States and roughly equaling the UK.

The second period of indebtedness in Canada was welcomed as levels of debt-to-income grew at a moderate pace until 2014. However, through this period of “moderate” debt-growth, Canada surpassed both the US and UK, whose debt-to-income ratios continued to decline (Figure 5). In 2013, the Bank of Canada commented on the slowdown in debt, arguing Canadian households were becoming increasingly cautious of over-indebtedness. The Bank predicted levels of debt would trend toward more sustainable levels. They did not.

The third period of Canadian indebtedness represents an accelerating increase of debt-to-income ratios starting in roughly 2014-2015. By 2015, the ratio had risen to 165 per cent, reflecting a 15 per cent increase from 2012. Debt has continued to climb to the risky levels we are now witnessing, with the debt-to-income ratio in December 2017 of 171.1 per cent.\textsuperscript{76} The

accelerating price of a home has contributed substantially to the over-leveragedness of new households, the average loan value and average mortgage debt increasing by eight per cent from 2016 to 2017. Consumers are taking on larger mortgages because “the share of mortgage debt with balances above $400,000 continued to increase, with even faster growth among mortgages worth more than $600,000.” These trends are most pronounced in larger cities such as Toronto, because of the significantly skewed price of housing in urban centres. The average price of a single-family dwelling in Toronto, as of December 2017, stood at $1,085,100 and the average cost of a condominium was $490,500. Chapter 7 will demonstrate this relationship further, because it is the condominium that has allowed cities such as Toronto to contribute significantly to this debt above $400,000. Furthermore, this trend is realized more among new entrants into the housing market, as younger households are historically more indebted than previous generations.

77 “Mortgage and Consumer Credit Trends,” Canada Mortgage and Housing Corporation, First Quarter 2017, 11-12.
5.3.2. Young Adult Homeownership

Younger households are taking on increasing amounts of debt to purchase increasingly unaffordable housing. The CMHC and Bank of Canada typically categorize younger households as “under 25” and “25 to 34.” According to the Bank of Canada, “[a]mong the current generation of young households, those who own homes carry more mortgage debt relative to income than previous generations did at the same age.78 The growth in house prices has accounted for most, but not all, of this intergenerational growth in mortgage debt.” Figure 6 displays this trend in 2014 dollars. This debt trend would likely be exaggerated further in cities such as Toronto if not for the so-called “affordability” of condominiums. Coupled with the circumstances of typically lower incomes and high levels of debt, younger homeowners are “more susceptible to an adverse economic shock.”79 Generally, Canadian debt burdens would prove unsustainable in the event of unemployment, large interest rate increases, or a decline in homeowner equity because of a drop in house prices.80

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5.3.3. Over-indebtedness and Canadian Economic Risk

In December of 2009, the Bank of Canada recognized the indebtedness of Canadian households would emerge as a prominent risk to the economy. By June of 2010, the risk became reality when the Bank of Canada warned of the dangers of high levels of debt following an adverse a global or domestic economic event. Dangerous levels of debt have continued to be an issue since 2010, and the Bank of Canada has worried “the regulatory and policy environment continues to ensure that the quality of Canadian household debt remains high.”

The government has actively tried to manage this debt-scenario; however, the proportion of dangerously indebted households has increased since the GFC. According to the Bank of Canada, households with a loan-to-income (LTI) ratio exceeding 250 per cent are in significant danger of being unable to service their debts in the event of an adverse economic event. This is exaggerated further by households with a ratio above 350 per cent. Interestingly, after this mention in the 2015 FSR, the Bank of Canada shifted its focus to households with a ratio above 450 per cent. Why the Bank of Canada decided to shift its reporting thresholds is left unsaid throughout the documents. Of course, by neglecting the analysis of ratios between 250 and 449, the Bank of Canada is simply disregarding the risk of many Canadians. While those above 450 are in immediate danger of underservicing their debts, those below are still exposed to an adverse economic event. That said, of course the concern for LTIs of 450 is justifiable:

[roughly 15 per cent of insured mortgages originated in 2015 had an LTI exceeding 450 per cent, up from 12 per cent in 2014. Weighted by value, these high LTI mortgages accounted for 21 per cent of all insured mortgage debt originated in 2015, up from 16 per

cent in 2014. Weighted by value, these high LTI mortgages accounted for 24 per cent of uninsured mortgage debt originated in 2015, up from 19 per cent in 2014. These trends are more pronounced in Canada’s largest cities because of expensive house prices and a greater degree of speculative investment. According to most recent data, roughly 20 per cent of low-ratio mortgages (uninsured on account of a larger down payment) originated in 2017 had an LTI of above 450. The origination of high-ratio mortgages (insured) fell from roughly 20 per cent in mid-2016 to around seven per cent by November 2017, however, reflecting the efforts of the Canadian government and banks to tighten lending standards. While the government has effectively reduced new originations of high LTI mortgages, there remains the risk of those originating before 2017, as well as newer low-ratio mortgages. In response to such trends, new borrowers are now engaging in amortization periods that are longer than 25 years – which creates the problem of interest rate changes.

Along with unemployment and house price decline, the risk of significant interest rate hikes is a real and likely imminent threat to the indebtedness of Canadian households, as the Bank of Canada anticipates “higher interest rates over time” in its latest report. According to the CMHC, “if interest rates or unemployment were to increase sharply and significantly, more heavily indebted households may need to liquidate some assets. This could include their homes, which would put downward pressure on house prices and, more generally, on housing-market activity.” The Bank of Canada has admitted that, historically low interest rates have likely

underestimated the potential interest costs associated with a newly originated mortgage.\textsuperscript{88} Many new borrowers will likely face larger than anticipated monthly payments in the future. Households with already high LTI ratios may not be capable of servicing higher monthly debt payments, increasing the threat of mortgage default and all its consequences. To alleviate such pressures, the government has tightened mortgage lending practices, described below, to reduce household exposure to potentially rising interest rates.

5.4. Mortgage Lending Regulations

The Bank of Canada’s \textit{Financial System Reviews} are a rich source of both information and discourse. The documents centre on the Canadian economy and financial system, while focus on the real estate sector constitutes a considerable portion of these reports, especially since the GFC. In this context, accelerating house prices and household indebtedness remain the two largest risks facing the economy since 2008. Accordingly, the federal government has actively tried to alleviate risk by tightening mortgage lending regulations.

Before the GFC, Canada’s lending standards had been relatively relaxed. Even in the wake of crisis, a \textit{Toronto Star} writer claimed that, “[i]f you're buying a home, you should find it easier than ever to get a mortgage. While the US mortgage market is troubled, Canada's mortgage market is still healthy, competitive and innovative.”\textsuperscript{89} In response to this, the government first made changes in 2008 to mortgage lending policies to reduce riskier borrowing. That year, the maximum amortization period was shortened from 40 to 35 years (and again to 30 years in 2011); insured mortgages with no down payment were increased to a minimum of five

\textsuperscript{88} The Bank of Canada increased its benchmark lending rate to 1.25 per cent on January 18, 2018 (Evans, 2018); “Financial System Review,” \textit{Bank of Canada}, December 2013, 61.

per cent down payment; the total-debt-service ratio (a measure to determine your “creditworthiness”) was capped at 45 per cent; tighter restrictions on low credit scores were established; and better documentation standards to ensure correct information regarding the value of the potential property and the sources of the borrower’s income were instituted. In 2010, the government further adjusted mortgage lending regulations by introducing more “stringent qualifying tests” for government-insured mortgages; the maximum loan-to-value ratio of refinanced mortgages was lowered to 90 per cent from 95 per cent (further reduced to 85 per cent in 2011); and the minimum down payment on investment properties was raised from five per cent to twenty per cent.

In 2012, the government made several more significant changes: the maximum amortization period was reduced again to 25 years, the loan-to-value refinancing ratio was lessened to 80 per cent of the property’s appraised value, and high-ratio mortgage insurance was limited to houses with a purchase price of less than one million dollars. By this time, Canadian homeownership rates had surpassed those in the United States and the Bank of Canada expressed nervousness over whether these increases were triggered by an “easing in underwriting standards that increased the riskiness of borrowers.” Furthermore, the Bank commented on the degree of “non-prime” lending in Canada – borrowers with opaque income documentation, poor credit history, and less ability to make debt payments – because it had increased since the GFC. From 2005 to 2012, it was estimated that the percentage of outstanding mortgage debt considered “non-prime” had increased from five to seven per cent – still below the pre-crisis levels of

twenty per cent in the United States. However, this share was increasing in Canada since it was estimated that, “about 35 per cent of new, uninsured mortgages by smaller federally regulated banks since the end of 2012 could be considered non-prime… Other financial entities, including those that are less regulated, are also engaging in non-prime lending.” Thus, in Canada it is the unregulated lenders and banks outside of the “big six” – including the credit unions – which are responsible for a majority of the country’s “sub-prime” lending.

Further mortgage lending regulations were instituted in 2016. The government increased the minimum down payment on a house between $500,000 and $1,000,000 from five to ten per cent. Furthermore, all borrowers on a mortgage had to qualify under the total-debt-service ratio. These mortgage “stress tests” had also been tightened to gauge whether mortgage repayment would present a risk in the event of an interest rate increase. We have seen how changes to insurance standards on high-ratio mortgages were introduced to reduce the amount of borrowers with a LTI ratio of 450 or more. Consequently, the government has actively managed the regulation of high-ratio mortgages through their insurance standards. However, this has resulted in risk being spread to low-ratio mortgages that do not qualify for CMHC insurance because of larger down payments.

Concern over low-ratio mortgages emerged in 2015. The CMHC has been actively improving its mortgage insurance criteria, including stress tests, resulting in fewer risky home-buyers qualifying for a mortgage. To avoid these new stress tests and tightened lending standards, borrowers have over-extended their finances to afford a twenty per cent down

94 Ibid, 60.
payment. Unease has now arisen over how these funds are being accessed, because potential homeowners are turning to other forms of borrowing to finance their down payments. Some of these lending arrangements secure the loan against the property being purchased. Even more troubling, S & P’s Global Ratings (a global credit rating provider) detected increased levels of mortgage fraud in Canada with a suggested “52 per cent rise in suspected fraudulent mortgage applications since 2013.” According to S & P, high housing prices and debt loads incentivize fraudulent activity, such as borrower’s misrepresenting their income to meet strict mortgage qualifying criteria. This threat may be greater than assumed by government because of the opaque nature of Canada’s private mortgage market. Canadians are accessing funding from questionable sources to meet higher down payments and avoid more stringent stress testing. The private mortgage lending sector has grown from 6.7 per cent in 2007 to around 13 per cent in 2016, with private lenders catering to borrowers who could not qualify for a mortgage at the banks – a large percentage of which could be considered “sub-prime.” The mortgage market has increasingly become predatory with “cash-for-gold” type companies extending their practices into the private mortgage market, where mortgagees can qualify for a second mortgage “regardless of credit or income” as long as you “have equity in your home we can arrange a speedy no hassle mortgage in as little as 5 days!” The website “Fast Mortgages” (linked in footnote 198), highlights the manipulative and predatory language of these so-called “mortgage

lenders.” That such a market currently exists reinforces the questionable quality of outstanding Canadian mortgage debt. The unsustainability of such risky borrowing is obvious.

Added to all this is another issue: those low-ratio mortgage originations (from 2014 to 2017) with a loan-to-income (LTI) ratio above 450 have increased from fifteen to twenty per cent (high-ratio originations have decreased to roughly seven per cent). This means that roughly 2.5 million mortgages with a LTI ratio above 450 have been originated since 2014; remember that LTI ratios above 250 are deemed risky. And while the government has made moves to increase the stress testing criteria for low-ratio mortgages, which should improve the quality of future mortgage debt, these changes have come quite late. According to the Bank of Canada:

[L]ow-ratio mortgages have increased from about two-thirds of new lending activity in 2014 to around three-quarters in 2017, including about 90 per cent of new mortgages in Toronto and Vancouver. When measured in terms of the dollar value of lending, low-ratio mortgages are even more prevalent. This is because low-ratio mortgages tend to be used for larger mortgages; houses priced over $1 million are not eligible for mortgage insurance, which is required for high-ratio mortgages. In addition, the share of low-ratio borrowers who are using amortization periods longer than 25 years is increasing.

This is troubling because of the lack of rigid stress-testing which occurred on low-ratio mortgages during this time period. While the government began to increase their requirements on high-ratio mortgages, a significant amount of potentially unstable low-ratio mortgages were originated – especially in cities such as Toronto and Vancouver.

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5.5. Conclusion

What is the quality of outstanding mortgage debt in Canada? If an adverse economic event were to occur, how many households would be unable to service their monthly debt payments? How much money would be lost in a precipitous decline of house prices? How would such a feedback cycle of events affect the Canadian economy – or these homeowners’ pensions – and alter the life quality of many Canadians? The answers to such questions may all lie in speculation, such events never arising in Canada. That said, the GFC created an economic dependency on the housing sector in Canada, and the government has been actively, although incrementally, trying to deleverage this dependency through mortgage regulation changes that may (or may not) slowly reduce the origination of risky debt while attempting to stop the continued inflation of house prices from reduced demand. Yet, as this chapter has shown, the Canadian economy is quite susceptible to an economic shock, global or domestic. The Bank of Canada sees unemployment as the primary trigger. Unemployment would cause households to under-service or renege on their already over-extended debts. Mortgage default is a likely consequence of unemployment – irrespective of Canadians’ worrisome over-indebtedness. Such conditions would make mass mortgage default probable; burden banks with too many homes to sell and not enough buyers; and find the CMHC with an unsustainable amount of guaranteed NHA MBS and CMB interest to pay to private investors. The resultant rapid depression of real estate prices would be most felt by new homeowners, leaving them in a negative equity position, and feeling trapped. We can imagine how one young homeowner after another, trained discursively to see debt as part and parcel of modern life, would regard mortgage default as an
acceptable option – despite Canadians’ willingness to “prioritize mortgage payments over other debts.”

It is vital to also consider how the greed of real estate agents, relaxed real estate regulations, and the predominance of the bidding wars has fostered this unsustainable increase in house prices. Real estate agents would entice prospective homeowners to overbid on housing without any conditions – such as the home inspection – which led to homes being sold for $100,000 or more over their asking price. A powerful discourse must be at play to convince those purchasing a home that it is fiscally reasonable to dramatically overpay for housing – a discourse which discusses the inflation of housing as a guarantee and causes home buyers to act quickly before prices inflate even further. Debord (1995, 32) would refer to bidding war homebuyers as the “consumer[s] of illusion” where the use value of a home has little existence outside of the augmented commodity perception of housing. With consumption being an identity in the capitalist system, it is unsurprising that stagnating wages did not compel restraint in home purchases. Was this resulting housing context the inability of neoliberals to predict the over-indebtedness of households? Or, was this “consum[ption] of illusion” the ideological foundation which facilitated the bank bailouts? In other words, without the social and political rhetoric which has commodified and financialized housing, would the government have been able to bail out the economy through real estate? If prospective homeowners displayed hesitation over

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purchasing over-inflated housing, the federal government may not have had enough mortgage capital which could be packaged and sold to global investors.

The home is no longer a simple place of safety and comfort. The securitization of the mortgage has injected the home with all the volatilities of global finance. In this context, what is the use value of the home? Does it still exist primarily as a place to live? To answer these questions, I will need the next two chapters. While Chapter 7 (the final chapter) will examine the role of Toronto and its condominium market within this new era of neoliberal and financialized homeownership as well as how the condominium is an effective tool in creating national debt, Chapter 6 localizes the discussion. It charts the history of Toronto’s housing developments since the late nineteenth century and contextualizes the final chapter’s discussion of the condominium as a new, yet similar, phenomenon in Toronto’s historical geography of housing.
Chapter 6: Toronto’s Historical Housing Developments, 1880-1979

Toronto’s current condominium boom has a historical housing context. By examining that context, we can position the condominium as a unique housing phenomenon which has altered the nature of renting, home-ownership, the urban landscape, and the Canadian economy. This chapter investigates Toronto’s housing development prior to the emergence of neoliberal thinking in government in the 1980s. The government’s late-nineteenth century to mid-twentieth century involvement in housing and mortgage markets highlights the government’s view of housing as a social and economic necessity for the country and its citizens. This chapter examines how Toronto’s housing has been shaped by government and private capital since the late nineteenth century as well as how the house has increasingly become both a site of homeownership and speculative activity. Federal, provincial, and municipal government have proved vital in the development of Toronto’s housing since the late nineteenth century; without this history of strong government intervention in the provision of both affordable housing and mortgage rates through National Housing Act loans, the city’s numerous neighbourhoods would have formed a landscape of inaccessible, inadequate, and unaffordable housing for the average Torontonian.

This historical argument provides a necessary context for current discussions concerning the role of government in the shaping of both cities and housing. It analyses federal initiatives, such as the National Housing Act (NHA) and the Canada Mortgage and Housing Corporation (CMHC); the provision of social housing; the apartment as a liberal housing strategy; government’s push towards homeownership; the changing structure of mortgage lending; and housing’s emergence as a speculative investment. It supplements these through use of historical
housing data, the *Toronto Daily Star*, and the work of housing geographers such as Richard Dennis and John Miron among others.

6.1. **Housing Development and Urban Renewal in Toronto, 1880-1979**

The home can be understood as having both an exchange value and use value; exchange value represents the commodity/market value of a house and use value characterizes the functional utility of the home as a place to live. Capitalism’s inherent contradiction between housing’s use and exchange value creates a tension which arises from “expecting and encouraging the former to be delivered by a system which relentlessly prioritizes the latter” (Aalbers & Christophers 2014, 17). The current neoliberalization of housing represents the hyper-marketization of the home, but how did the perception of a home differ in the liberal era of development? How does this perceived value differ between government and private interest? The following attempts to answer such questions – beginning with government’s direct involvement in the provision of Toronto’s historical housing.

6.1.1. **The Government’s Role in Housing**

Federal policy and funding changes have largely influenced Canada’s and Toronto’s twentieth-century housing development. Changes at a federal level dictated the response and development trajectory of both provincial and municipal governments. Toronto experienced this federal to municipal flow of government policy because much localized housing growth occurred in line with federal initiatives. The federal government’s twentieth-century involvement in Canadian housing arguably began in December 1918 with a $25 million loan distributed throughout the provinces for the construction of new dwellings (Miron 1988, 239). This loan signaled the federal government’s shift in thinking about housing as nationally important “in its
relationship to the health and well-being of all Canadians, the welfare of returned soldiers and their families, and the employment to be generated during postwar reconstruction” (Miron 1988, 239). The next major step into housing by the federal government occurred in 1935 with the creation of the Dominion Housing Act. This Act and its subsequent amendments – the creation of the National Housing Act (1938) and its continued alterations – will function as the focus of this section: how these federal policy initiatives affected the provision of housing in Toronto from their origin in 1935 to their significant “Housing and Community Development Amendments of 1978.” Social housing persisted as an integral element of these acts (see section 1.2).

The federal government instituted the Dominion Housing Act (DHA) during the midst of the Great Depression. Throughout this time federal banking regulations and strict loan repayment terms made financing a mortgage an expensive and typically unattainable goal. The federal government associated this problem of obtaining a mortgage with the country’s residential housing shortage and created the DHA to combat the problem.107 DHA legislation allowed the federal government to make joint loans with mortgage lenders, reduce down payments on new houses, and lengthen the amortization period of a mortgage (Brushett 2007, 378). However, because of the reluctance of mortgage lenders to provide mortgages during the middle of the depression, the construction of only 7,500 homes occurred (Brushett 2007, 378). The Toronto Daily Star (Star) applauded the DHA because it managed to bolster the federal residential construction sector by increasing demand for construction materials and creating a large number of jobs.108 Toronto did not see much of this DHA-backed residential construction.

Because of the relatively low number of DHA loans, in 1938 the federal government made several amendments and subsequently renamed it the National Housing Act (NHA). The NHA continued the DHA’s emphasis on house construction and job creation. In addition, the federal government became involved in the direct creation of housing for low-income households (Miron 1988, 240). Within four months of the NHA’s creation, the total amount of loans increased by 97 per cent and the number of housing units financed grew 123 per cent compared to the same four months of the previous year.109 Even at the back end of the depression the construction industry prospered from the increased lending created by the NHA, allowing the Star to claim “[t]hese Acts have been of substantial benefit to the country and will continue to be so.”110 Most importantly, the NHA achieved its primary goal of creating low-income housing since the average number of low-cost mortgages reached a “New All-Time High.”111 Toronto’s housing market accelerated because of the NHA, adding more than 2000 low-cost homes ($2,500 to $3,500) by the end of 1939 – York Township, East York, North York, Long Branch, and Scarborough the main sites of this new construction.112 Of all the Ontario housing units financed in April 1939, 32 per cent represented loans less than $2,500 with approximately 80 per cent less than $3,500.113 The creation and implementation of the NHA signaled a government approach to housing that appreciated the use value – and necessity – of a home for all Canadians.

In 1946, the Ontario Planning Act and the Central Mortgage and Housing Corporation (changed to Canada Mortgage and Housing Corporation in 1979), were created for the specific

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111 “New All-Time High is Set in National Housing Loans,” *Toronto Daily Star*, 10 October, 1939, 37.
purpose of administering and arranging NHA loans and housing for World War II veterans. A housing expert, Albert Rose, noted that the CMHC “was designed to hide the potential iron fist of government intervention with a velvet glove of respectability or even financed profit” (in McGeachy 2006, 211). Under this guise, the CMHC implemented a set of strict housing standards regarding qualifying for an NHA loan. This led to a standardization of post-war, owner-occupied housing, leading to citizens overwhelmingly choosing to apply for the more financially affordable NHA mortgage with its condition of strict construction standards (Miron 1988, 267). This also allowed the CMHC to bolster and regulate employment in the construction sector. The 1946 director of the CMHC stressed that families had broken up as a result of a lack of places to live and the government would continue to prioritize the construction of housing as long as the need persisted. Furthermore, he stated, if private enterprise failed to provide an adequate number of houses then the dominion government would become directly involved in the creation of housing at an attainable price.

In Toronto, this direct involvement in housing occurred when the municipality and the CMHC underwent a joint venture to provide rental housing for roughly 50 war veterans. The City of Toronto acquired land at $1,802 and set development for 52 houses with the cost per unit at $2,134; the federal government provided $600 per unit through the CMHC while the provincial government contributed $300 per unit. Such government cooperation exemplifies the idea that “housing for the poor was inadequate and that government action was necessary to redress the situation” (Miron 1988, 240). This form of government involvement appears quite foreign and detached from the general trends of government intervention in the housing market.

we currently witness. However, Canada’s liberal government has just recently instituted a 10-year, $40 billion plan to improve the country’s affordable housing infrastructure.\textsuperscript{117}

Before the next major amendment to the NHA in 1954, the province created Metropolitan (Metro) Toronto in 1953 to combat its intermunicipal discrepancies.\textsuperscript{118} Metro Toronto stood as a “second-tier” municipal government which had influence over the entire metropolitan area as well as nearby rural land (Filion 2001, 90). Metro Toronto was designed to engage in large scale planning and promote the acceleration of housing construction to prevent future shortages. Housing shortages persisted as an extreme problem in Toronto throughout the 1950s and the city provided emergency housing shelters for countless families, costing 2 million dollars in municipal funds by 1955 (Brushett 2007, 380). The agency had authority over “police, public transport, highway development, public housing and land-use planning” (Filion 2001, 90-91). Toronto’s housing shortage occurred because of the lack of room to build outwards, as well as strict rent controls which made private developers hesitant to build housing because of the low profitability of rent. North York, Scarborough, and Etobicoke were the only suburbs with room to grow and thus, received a majority of Toronto’s growth during this time (Brushett 2007, 384). A consequence of these geographical restrictions, Metro Toronto began to promote high density, high rise building in the city (Filion 2001, 91).

“Urban renewal” gained prominence in the early 1950s in federal circles. Specifically, the National Film Board (NFB) of Canada created a series of propaganda-like films called Canada Carries On, which emphasized militarism and modernization (Picton 2010, 303). The series


\textsuperscript{118} Metro composed of many towns and villages surrounding the City of Toronto to engage in more coordinated development.
produced Grant McLean’s short film, “Farewell Oak Street,” narrated by the celebrated Lorne Greene in 1953. The film informed citizens on the positives of urban renewal and “slum” clearance through its negative portrayal of inner-city life. Slum clearance and massive reconstruction projects, such as Regent Park (1949-1957) and Alexandra Park (1967-1969), represented the only solution to rid Canadian cities of such degradation (Picton 2010, 303-304). Toronto’s Regent Park North was the focus of McLean’s film, where it presents the “squalid” nature of life before urban renewal, and then the “new, modern housing developments designed to offer them privacy, light and space.”  

The first formal use of urban renewal emerged with the 1954 NHA amendments which created a “Federal Urban Renewal Administration” (White 2016, 6). Urban renewal here targeted slum areas that needed partial-to-full demolition to “rehabilitate” an area. The Star seems to have no official mention of “urban renewal” until 1955: an article titled “Slums and Degradation Should Alarm Toronto” claims the city must solve “the problems of blighted and deteriorating areas. It is not enough to struggle against slums and blight and devise plans to clearing out bad housing. The really important thing is… [b]old and imaginative planning together with a realistic scheduling of specific action programs, [which] are the fundamentals for carrying forward urban renewal” (Winston 1955, 7). This focus on urban renewal also signaled a shift in federal thinking from the suburbs back to the city as the primary site of urban development. The city’s appointment in 1955 of Matthew Lawson, its first professional planner, further intensified the quest for urban renewal in the city. Working with the CMHC, the planning committee conducted a formal study to determine Toronto’s urban renewal needs – and this “Urban Renewal Study” remains a landmark document in the history of postwar Toronto (White 2016, 12). The Star continued to promote the NHA amendments of 1954,

citizens no longer enticed to purchase a home in the suburbs because of the favourable NHA loan conditions and mortgage rates for construction the purchasing of “newer” inner city homes – facilitating an early move back to the city.\textsuperscript{120}

Beyond urban renewal, further changes to the NHA in 1954 focused on the availability of mortgage funds through the replacement of the joint-loan program with the CMHC mortgage loan insurance program insuring private lenders against borrower default.\textsuperscript{121} The 1954 changes also allowed chartered banks to become eligible lenders of NHA mortgage loans.\textsuperscript{122} These changes show government drastically altering its role: from the direct provision of housing to one focused on complementing the increasing involvement of the private housing sector. However, the later NHA amendments of 1964 mark a reversal of government thinking back to the direct provision of housing. These changes substantially increased federal funding for the direct development of social housing – thus the next section examines the government’s provision of social housing leading up to its collapse in 1978.

6.1.2. Social Housing in Toronto

The history of social housing in Canada and Toronto requires its own subsection, since the federal government did not become deeply involved in its provision until the 1960s. The examination of Toronto’s historical social housing development serves as an example of the changing value of a home. Social housing here is understood as the broad attempt “to hous[e] people who could not otherwise afford decent housing” (Miron 1988, 241). The federal implementation of the Dominion Housing Act in 1935 came at a time when state intrusion into

\textsuperscript{120}“NHA Should Aid Buyers of Older Houses,” \textit{Toronto Daily Star}, 18 February, 1956, 6.
the housing market stood unwelcomed, so much so that Department of Finance claimed that “the DHA was far better than the alternative: social housing” (Belec 1997, 54). The first mention of social housing occurred in the National Housing Act of 1938 where the federal government provided loans for the construction of low-rent housing but this provision was never implemented (Miron 1988, 241). The *Star* broaches social (or public) housing in October of 1942 where it argued the “deputy housing controller” should, be a person “with knowledge of and sympathy with public housing… [and] should have the interests of the people at heart and especially interests of the lower paid workers.”123 This support for social housing in Toronto came as thousands of families flocked to emergency housing shelters thanks to the lack of access to affordable housing.

Old army barracks and staff houses in Toronto provided “emergency housing shelters” to house roughly 1,350 families during the city’s housing shortage between 1944 and 1957 (Brushett 2007, 375). Residents endured dire conditions as a shelter near Bathurst Street, for example, contained 150 crowded families with only one bathroom per ten families.124 Before the construction of the Regent Park housing project (below), these emergency housing shelters supplied Toronto’s only rent-geared-to-income housing project. Affordable rent in the city had become unachievable, with discrimination, low vacancies, and uncompetitive rental prices the main causes. During this period, rent would consume 40 per cent or more of the average family budget for those not on social assistance (Brushett 2007, 387). Emergency housing shelters were not unique to Toronto but continued to operate in the city until 1958 where most others in the country closed by the early 1950s (Brushett 2007, 376). This further supports the earlier

123 “New Housing Appointment Troubles City Committee,” *Toronto Daily Star*, 3 October, 1942, 10.
assertions that Toronto delayed developing housing through the NHA because of its lack of space and early reluctance to engage in high-density housing. Brushett (2007, 377) argues that the inability of Toronto to close its emergency shelters was caused by the reluctance of the federal government to fund and develop a social housing program to alleviate the local housing shortage and “[j]ust like today, the federal and provincial governments’ faith in private solutions to Toronto’s housing crisis exacerbated rather than solved the problem.” The Star reinforced this point by suggesting “government has permitted housing to fall into the hands of a small group of unscrupulous real estate dealers who are making a killing.”125 The NHA amendments in 1949 highlighted the first time the federal government officially entered into twentieth century public housing.

The NHA of 1949 implemented a low-income housing program where the costs and subsidies were shared between the federal and provincial government at 75 per cent and 25 per cent respectively.126 The restrictions on these funds remained extremely tight, making them largely unattainable for municipalities. The 1954 amendments to the NHA finally relaxed these restrictions and municipalities could more easily acquire federal/provincial funds for public housing development (White 2016, 11-12). This amendment accelerated the development of Regent Park South – the continuation of Toronto’s first major social housing development, Regent Park – as the CMHC became heavily involved in the project. The CMHC engaged in the venture both as a funder and builder of the project and by bringing in professional planners and architects to design Regent Park South through the use of high-rise residence (White 2016, 11-12). The 960-unit project cost roughly fourteen million dollars with the federal government

paying 75 per cent of the cost, the provincial government covering 25 per cent, and the City of Toronto providing the land.\footnote{“Governments Okay $14,000,000, 960-unit Regent Park South,” \textit{Toronto Daily Star}, 12 August, 1954, 54.} While this project garnered success in providing an increased number of social housing units in the city, its numbers remained far from adequate.

Regent Park South eventually stood as the site of two thousand housing units which far exceeded original expectations. This signified a progressive achievement for the city, but there remained a thirteen-thousand-name-long waiting list for access to social housing (Brushett 2007, 388). A public housing “expert” from Baltimore visited Toronto to assess the housing situation and claimed, “[p]ublic housing is needed because it is not possible, through the normal channels of private enterprise, to provide decent and adequate housing for people of low-income” (Nielson 1955, 7). Such thinking led the municipality to call on the federal government to provide a minimum of 1,000 units per year but Ottawa stood completely unwilling to meet such a figure. Despite all this, Toronto remained “lucky” to contain roughly one-third of the national public housing units (Brushett 2007, 388). The government eventually changed its stance in 1964 with amendments to the NHA fostering the development of social housing nationally.

A major amendment to the NHA in 1964, “allowed the federal government to make 90 per cent mortgage loans, for terms up to 50 years, for provincially initiated and owned low-rental projects” (Miron 1988, 251). Furthermore, rents in these projects functioned as geared-to-income and any operating losses incurred were shared equally between the federal and provincial government (Miron 1988, 251). The amendment also directly provided funds to the provinces to engage in their own renewal projects, quickly prompting the creation of the Ontario Housing Corporation (White 2016, 15). While this amendment provided funds for urban renewal, a great
deal of the funds spent went towards public housing. Such was the case in Toronto where federal and provincial funds funneled into the city for the purpose of social housing development.

Between 1964 and 1971, Toronto had increased its number of social housing units from 3,500 to nearly 25,000. To avoid an inner-city concentration of social housing, Toronto’s suburbs received a majority of units built throughout this period. By 1973, Toronto accounted for 60 per cent of Ontario’s public housing supply with only 24 per cent of the population (Filion 2001, 91). According to Library of Parliament, “[f]rom 1946 to 1969, federally assisted housing starts accounted for 4.4% of all housing starts. This figure jumped to 18.0% in 1975, and to 32.5% in 1977-1978. 128 Similarly, during the 1957-1969 period, 20% of CMHC direct lending had gone to low-income groups; by 1975, the proportion had soared to 99.7%.” The 1969 NHA amendments suspended funding for urban renewal/public housing, highlighting the first of two major withdrawals by the federal government. The entire urban renewal program came under question in 1969 as the Minister of Finance, Edgar Benson, stated Canada needed a better defined, long-term urban renewal policy; federal funds remained suspended until such a program materialized (White 2016, 20). Amendments to the NHA in 1978 put an end to federal government involvement in public housing, shortly before the emergence of neoliberal thinking over Canadian housing policy. The government suggested that the funding and development of public housing should occur through the private sector’s creation of mixed-income housing projects. With government unwilling and private capital hesitant to provide affordable housing, how does a low-income citizen afford to live in a city? Should the city not, first and foremost, be a place for people to live (Mackintosh 2017, 8)?

6.1.3. Public-Private Housing Development

This subsection analyzes the ways in which public and private capital have cooperatively developed Toronto’s housing sector in both the nineteenth and twentieth centuries. This excludes the relationship between government policy and private mortgage lenders and instead focuses on the public-private partnership in the direct funding, planning, and construction of housing. Such a relationship has become common in the current neoliberal era: global cities such as Toronto have limited access to federal funding – attributable to the significant withdrawal of federal support for local issues – and thus, turn to the private sector for the funds to provide adequate housing. The City of Toronto has, for example, develop social housing through the subsidizing of mixed-income redevelopment projects. The municipality covers a portion of the development costs on the guarantee the private developers provide an agreed upon number of low-income or social housing units (August 2016, 3407-3408). More recently, the city uses Section 37 of the Provincial planning act to allow private developers to negate zoning regulations in exchange for their payment of cash benefits or built amenities. Section 37 is commonly used with condominium developers who seek to build properties which exceed density regulations (Moore 2013, 2). To a city government largely dependent on tax revenue, and without the funds to engage in redevelopment alone, the municipality must turn to such agreements. The following will explore some historical examples of this public-private relationship in Toronto.

“Public-Private Partnerships,” or PPPs, in Toronto often target areas with the highest “rent gap.” Rent gap refers to an area with a sufficient difference between the actual and potential land values or ground rent; urban lands with large rent gaps represent sites of potentially greater tax revenues for government and increased profitability for private capital (Smith 1987, 464). Areas with a high rent gap do not always pose the most attractive private
investment and it thus becomes the role of the municipality to make the site a safer investment for redevelopment to occur. According to White (2016, 10), the City of Toronto’s Planning Board historically identified areas that did not represent the best economic use of the land and would then urge city council to designate them as redevelopment areas. Designating these areas as suffering from ‘blight’ often preceded their being designated for redevelopment.

Blight persisted as a popular term in the twentieth century as a way to target areas for renewal. Officials argued that blighted areas constituted “degraded property” which in turn led to the social decline of the residents (Lewis & Hess 2016, 565). The language of blight harnessed dramatic and moralizing language, allowing city officials to better argue in support of urban renewal. The Star promoted blight discourse, warning its readers of the social and economic dangers of blight in 1955: “How Baltimore Ended Slums Like Toronto’s… Slum Rot is Spreading, Present Remedies Futile… [and] Slums and Degradation Should Alarm Toronto.” These articles – among many others – used blight as the primary signifier of “slum,” where, “citizens of Toronto are paying a terrible price, both in dollars and social values, to maintain slums and blighted housing” (Winston, 1955). Blight received official recognition in the 1946 Ontario Planning Act which gave the city authority to seize property labelled as blighted and then sell the property to private developers at a low cost for the purpose of urban renewal (Lewis & Hess 2016, 576). Blight effectively fostered the PPP, since the municipality gained the ability to “fix” its slum/blight problem while private capital received subsidized land allowing for significant profits. Government assisted the private sector in housing development and private developers engaged in significant building without the assistance or oversight of the municipality.
6.2. Private Sector Development of Toronto’s Housing

Harvey’s *The Urbanization of Capital* (1985) discusses how cities have become sites of massive capital investment, where capital over-accumulated in primary sectors “switches” into the secondary sector (the built environment) in the hope of increased profitability. Capital invested in the built environment must devalue over time for reinvestment – and thus, further capital accumulation – to occur; in this context, Weber (2002) talks of capital’s ongoing valorization or devalourization of built space in the city. Harvey argues the urban geographical landscape represents past capitalist development. At the same time, however, “it expresses the power of dead labor over living labor, and as such it imprisons and inhibits the accumulation process within a set of specific physical constraints” (Harvey 1985, 25). For private developers, then, sites of quick physical degradation become optimal sites for “fixed” investments since they reduce capital’s time locked away in the landscape. A city shaped by private capital does not follow the logic of improving urban problems as they arise; rather, capitalist development of the city functions around the timing of capital availability and speculative profits. Such a development outlook fits well within the current quality of condominium development where many of these buildings, meeting an investment but not quality control imperative, are poorly constructed (Rosen & Walks 2015, 293-294). This low quality of construction makes the privatized city a site of planned obsolescence.

6.2.1. Toronto’s Rise of the Apartment

Toronto’s housing sector has slowly become privatized and corporatized since the early twentieth century. In 1920, Toronto’s Jarvis Street functioned as one of the early locations of this private shift in housing when corporate real estate companies bought and demolished houses in order to construct Westminster Hotel (Lombardo 2014, 14). This building effectively functioned
as one of Toronto’s early apartments, housing one hundred of the city’s residents. Private developers sought to embed the most profitable investment in a certain tract of land – and this was best achieved through the densification of housing and the literal rise of the apartment. The emergence of the apartment exemplifies the growing role of the private sector in the provision of Toronto’s housing and offers historical comparison to the city’s condominium impulse.

Richard Dennis defined the apartment as “a machine for profit, a product first of individual speculation, but increasingly of corporate capitalism… apartments created a landscape of modernity and were indicative of the modernization of capital” (Dennis 1994, 305). Any multi-unit building could be classified as an apartment or a tenement during the early stages of Toronto’s growth. Its first apartment building permit was issued in 1899 and by 1905 only six structures had received authorization. After 1905 apartment growth increased rapidly (Dennis 1998, 18). The construction of 250 apartment buildings occurred between 1905 and 1915 accounting for fourteen per cent of all new housing in the peak year of 1912 (Dennis 1998, 18). More than $5 million worth of new apartments were authorized between 1903 and 1914 alone (Dennis 1994, 306). Toronto’s Jarvis Street acted as a predominant site of the early corporatization of housing where single-family dwellings faced gradual conversion into apartment complexes that greatly increased the density of citizens living there. The increased presence of corporate real estate owners on Jarvis pointed to a new relationship between housing and Toronto’s mortgage and insurance sectors (Lombardo 2014, 13). Individuals or small-scale partnerships developed the majority of apartments during this period rather than larger companies; by 1914, individuals owned 86 per cent of all apartment buildings while corporations owned just under ten per cent (Dennis 1998, 26). However, corporate-owned apartments stood as the largest and most expensive buildings since they represented 23 per cent of the total assessed
value with just under ten per cent of the total buildings (Dennis 1998, 26). This disproportionate relationship foreshadowed the next wave of corporate apartment expansion which occurred in the 1920s.

Corporate ownership of apartments increased alongside the growing scale and cost of new structures built during the second wave of apartment building in the early 1920s, completely stopping by 1932. This wave peaked in 1928 with $7.4 million in new apartments representing over 42 per cent of the city’s housing construction (Dennis 1998, 18). The average value of an apartment building permit increased from $29,500 in 1903 to $123,000 in 1930; the rising cost of constructing an apartment required corporate financing (Dennis 1998, 19).

As corporate involvement increased in the construction of Toronto’s housing, so did the unaffordability of housing. Toronto experienced a dramatic housing shortage until the mid-1950s when apartment construction finally accelerated as a result of the removal of rent controls – which sent rent soaring; an average five room apartment rented for $90 (or $840 today) a month while an average six-room house rented at $125 ($1167 today) (Brushett 2007, 387). While these figures appear high, they pale in comparison to recent prices. An average one-bedroom Toronto apartment in June of 2017 rented for $1,861 a month, while an average two-bedroom rented for $2,533.129 According to the 2016 census, 46.8 per cent of Toronto renters were spending more than 30 per cent of their income on shelter costs. Contemporary Toronto’s housing market is not far-detached from its historical housing. In a period of housing shortage, the private housing market only began to develop apartments when speculative profits were perceived as high through the profitability of rent rather than as a response to the needs of Toronto’s citizens. This

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echoes the earlier point that a city shaped by private capital follows the timing of capital availability and speculative profits rather than following the logic of urban and social reform. Ironically, the apartment building was an effective tool in reducing housing shortages, yet it was also perceived as a pressing problem leading to the moral fabric decay of the city and its dwellers (Dennis, 1994).

Because the non-luxury apartment in Toronto was synonymous with slums and tenements, apartments maintained the perception of unsanitary, overcrowded, ill-ventilated, unsafe, encouraging immorality, responsible for “race suicide,” anti-family, making life too easy for women by reducing housework (Dennis 2000, 268). Apartment living thus challenged the idea of the nuclear family because of the poor living conditions and complete lack of privacy. Apartments and tenements were interchangeably defined during this time, and therefore some of these critiques remain justified because families were packed into tiny apartments with paper-thin walls, little privacy, communal bathrooms and showers, and infestations of rats and cockroaches (Brushett 2007, 381). Indeed, apartments subjected to a simple moral calculation: apartment = tenement / tenement = slum / therefore apartment = slum (Dennis 1994, 308). The blurring of apartments and tenements led to a discourse of fear for homeowners and homeownership society overall since the encroachment of an apartment threatened the social and economic value of cities. The Star for example, praised the Ontario Municipal board in 1955 for “safeguarding residential areas from the intrusion of apartment buildings.”130 Homeownership persisted as morally, socially, and economically desirable by governments and planners because those who owned a home theoretically engaged in more favourable behaviours, and maintained the economic value of their house. This distinction between morality and homeownership also

represents the binary between use and exchange value. Homeowners represent an ideal citizenry embodying the “proper” value of a home – its exchange value. The renting/apartment class represent the use value of a home as a place to live – and the reduced economic value of the latter obtains to the moral economization of the home-as-exchange-value in a hyper-marketized capitalist system. This morality-driven push towards homeownership will be of focus in the following subsection.

6.3. Toronto’s Historical Levels of Homeownership, 1899-1979

Since the onset of condominiumization in the early 1970s, levels of homeownership have steadily risen both nationally and in Toronto. Homeownership has risen faster in urban areas than the national average because of the higher concentration of condominiums in cities. In 1971 the level of homeownership was 60.3 per cent nationally and 55.4 per cent in Toronto, by 2016 the national average grew to 67.8 percent and 66.5 per cent in Toronto. The city still has homeownership figures lower than the national average but has experienced growth at a faster rate during the above period. The following section will analyze how Toronto’s homeownership society historically developed until its condominiumization. A historical analysis of Toronto homeownership is vital to contextualize the city’s current real estate boom, backed by the growing home-owning class. This will be examined through housing statistics, government initiatives promoting homeownership, and the emergence of the individualized perception of the home as a speculative investment, to understand both the growth and rationale behind Canada’s historical home-ownership impulses.

6.3.1. Toronto’s Historical Homeownership Statistics

In 1899, 27 per cent of Toronto’s housing stood as owner-occupied and by 1913 owner-occupied housing dramatically increased to 48 per cent (Dennis 1997, 381). Dennis (1997, 382-383) hypothesizes this rapid increase emerged when rents doubled between 1897 and 1907, making homeownership in the suburbs a more affordable option than renting in the city. Furthermore, “the Ward,” the central city immigrant neighbourhood of largely rental properties and which Dennis uses as a case study, saw rapid growth in homeownership when landlords began to sell previously tenant-occupied housing; between 1899 and 1909, one-eighth of the Ward’s housing stock (50 dwellings) was sold to owner-occupiers (Dennis 1997, 382-383). Toronto’s homeownership stagnated for several decades as property ownership in 1931 reduced to 46.2 percent representing a negative growth of 1.8 per cent since 1913 (Hiebert 1995, 61). Daniel Hiebert (1995, 61) also finds that homeownership and the quality of housing both increased with distance from the city centre. General ethnic patterns of homeownership emerged in Toronto with the Jewish community leading in their ownership of housing while families of British background owned the most expensive housing (Hiebert 1995, 63). Richard Harris (1985, 437) argues that overall homeownership growth, up to 1931, prevailed because of the “owners and managers” class experiencing much greater growth in homeownership than either the middle and working class. Overall, Toronto experienced a slower growth in ownership compared to the national average because of the unaffordability of a home in the city.

By 1938, Toronto had the least affordable homes nationally with western cities such as Vancouver and Calgary leading in affordability (Belec 1997, 56). NHA mortgages had the most affordable terms available and the lack of access for Torontonians represented the city’s extreme unaffordability of housing in relation to the rest of the country. Despite the unaffordability of
housing for the working-class citizen, Toronto’s levels of homeownership increased from 40 per cent in 1941 to more than 60 per cent in 1951 (Brushett 2007, 385). The national levels of homeownership stood at 57 per cent in 1941 and 65 per cent in 1951, suggesting Toronto’s homeownership market remained below the average but experienced significant growth over the decade despite glaring issues of affordability (Miron 1988, 168). Toronto’s homeownership levels increased to 55.4 per cent in 1971 while the federal rate stood at 60.3 per cent. The rise of the condominium has affected growth after this period and will thus focus the discussion in the next chapter of this thesis.

6.3.2. Federal Push towards Homeownership

Today’s homeownership society fits within the framework of debt as a capitalist growth imperative for so-called advanced economies – because increased mortgage lending facilitates the generation of federal debt. Capitalist dependency on mortgage debt has pushed governments to actively pursue policies that facilitate the growth of homeownership. Why then was homeownership so heavily promoted before the time of MBS? The following explores this question. Through federal policy – and the social and moral discourses of the dangers of renting that came with it – the Canadian government actively promoted homeownership in the twentieth-century through continual amendments to the National Housing Act. The NHA formed the basis of Canada’s housing policy, the main goal of the government to make Canada a nation of homeowners through federal loan assistance, reducing the risk of mortgage lending for financial institutions (McGeachy 2006, 210).


133 Debt which can be packaged into MBS/CMBs and sold to international investors.
The early growth of Toronto’s homeownership in the 1900s drew encouragement from government officials that claimed, “the ideal condition would be that every family, large or small, had its own home separate and distinct, with plenty of fresh air, light and room for a garden” (Lombardo 2014, 15). This rhetoric became official through the creation of the Dominion Housing Act of 1935. Through the DHA, the federal government entered the mortgage market by lowering down payments, reducing interest rates to five per cent, and increasing the amortization period to twenty years on DHA-joint mortgages (Miron 1988, 242). The new 20 year mortgage structure of the DHA assumed the citizen would cover 20 per cent, the lending company 60 per cent, and 20 per cent from the government at an interest rate low enough to make the 80 per cent joint mortgage interest rate equal to 5 per cent.134 During this time, three to five year amortization periods remained common, thus, the twenty year amortization period effectively reduced “the yearly cost of home-ownership while lengthening considerably the term of indebtedness” (Belec 1997, 54). According to Belec (1997, 58), the DHA successfully reduced the monthly cost of homeownership down to the relative levels of rent for each city making homeownership an affordable option. DHA mortgage advertisements filled the Toronto Daily Star that yelled, “Make up your mind NOW that, with the assistance of the government’s generous offer, you will become a homeowner this coming Spring, and satisfy the urge that is inherent in every ambitious man and woman.”135 Advertisements with such language proliferated in the paper, further promoting the government’s goal of increased

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134 Five per cent return was seen as a fair rate of return benefitting both the investor and mortgagee or renter. It comes from the “philanthropy and 5 percent model” established by British housing reformers circa 1900 (see Mackintosh, 2017, 20).

135 “Build Yourself a Home This Spring,” Toronto Daily Star, 11 February, 1936, 23.
homeownership. Despite intensive advertising, Torontonians only accessed 7.7 per cent of the 2,263 DHA low-interest mortgages which were lent nationally (Belec 1997, 60).

The NHA succeeded the DHA in 1938 with amendments that raised the first-mortgage limit to 90 per cent which effectively lowered the down payment for a first-time homeowner (Miron 1988, 243). Aside from the NHA, the federal government next created the Veteran’s Land Act of 1942 which facilitated the building of 10,000 homes for ownership from 1946 to 1949. In 1944, “the NHA reduced the interest rate to 4.5 and increased the maximum amortization period to 30 years” (Miron 1988, 243). The 1944 amendments also introduced the CMHC as a direct mortgage lender to service geographical areas where accessing a mortgage remained difficult. Advertisements again followed NHA amendments in the Toronto Daily Star expressing the ease of owning a home through an NHA mortgage. However, even with favourable NHA lending terms, owning a home in Toronto remained difficult as a consequence of the high cost of a home in the city. A Star writer claimed that despite NHA efforts, home ownership remained difficult for the average worker; further NHA amendments attempted to combat this (Honderich 1948, 14).

The 1954 NHA enhancements replaced the joint lending program with the current structure of CMHC mortgage insurance (Belec 1997, 53). The insurance program reduced the risk of mortgage lending which encouraged private financers to enter the market at lower interest rates than possible without government assistance (Miron 1988, 243). Alongside this, the NHA opened mortgage lending to chartered banks to increase the general supply of mortgage funds (Miron 1988, 244). As the price of a home continued to climb in Toronto, NHA changes counteracted somewhat increasing unaffordability by lowering the down payment and monthly costs. The Star praised the efforts of the federal government through the NHA by claiming that
“[d]espite the apparent risk involved, it would appear that low down payments to promote wider home ownership is of tremendous benefit to the building industry and Canadians generally” (Armstrong 1955, 18). However, according to Brushett (2007, 385), access to Toronto’s housing remained restricted to the more affluent, as a wage of $3,600 – equal to $33,000 in today’s dollars – was required to qualify for an NHA mortgage but the average annual wage earned by a Toronto worker stood at $3,120 (Brushett 2007, 385). This suggests that federal policy, despite its good intentions, needed to better account for extremities in local markets such as Toronto.

The 1960s saw the federal government set the minimum term on an insured mortgage to five years which increased liquidity for financial institutions by reducing the risk of long, fixed-term loans (Miron 1988, 244). Thus, if interest rates were to significantly rise, banks would no longer be stuck in a 25 year contract providing a low interest rate. The Star continued to discuss the NHA favourably claiming that NHA mortgage loans remained affordable for young persons while the private mortgage market engaged in the “sorry exploiting of hard-working people.”

It was because of these NHA mortgages that the government effectively facilitated increased homeownership, the CMHC concluding that between 1946 and 1970, “between one-half and one-third of all housing units built in Canada ha[d] been financed through NHA arrangements. Of the three million units built in this 25-year period more than… about half ha[d] been financed entirely with government funds” (Miron 1988, 245). The actions of the Canadian government effectively subsidized the country’s mortgage market by reducing the amount of funding required by financial institutions and thus creating more capital available for mortgage lending. Efforts by the federal government served both the use and exchange value of housing by fostering economic growth while providing accessible housing for lower-income individuals.

Alongside government policy intervention, a discourse favouring the exchange value of a home emerged. Speculative investment within the housing sector would redefined the meaning of a home for individual Canadians.

**6.4. The Home as a Speculative Investment**

The idea of the home as a speculative investment lacks a definitive starting point in Canada. However, the exchange value of a home seems to dominate the discourse about what the home *is* in the modern era. It is especially so in a time of neoliberalism and condominiums. Why? This subsection *focuses on how the everyday homebuyer began to seek a home not only as a place to live, but an investment holding a speculative future price.*

Toronto’s late-nineteenth-century use of the debenture for local improvements (Mackintosh 2017) exemplifies how working and middle class Torontonians engaged in speculative activities regarding their homes.

Debentures are fixed-interest securities issued by private enterprise or government. North American debentures functioned as unsecured loans, meaning collateral could not be collected in the event of default (Piva 1992, XV; R. M. J. 1936, 441). Originating in the mid-to-late nineteenth century, debentures – sometimes referred to as bonds – stood as a popular method to finance urban infrastructure. The city arranged debentures through a third-party financier and property owners would pay two-thirds of the total cost while the city covered the remainder (Mackintosh 2017, 172). The City of Toronto would pay the contractor through the debenture funds and the remaining cost was added to the property tax of Torontonians for the agreed upon period (Moore 1983, 456). The debenture represented a multi-faceted relationship between government, private capital, and homeowners.

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137 It has become real estate truism that homeowners should decorate their homes in anticipation of its future sale.
Local improvement debentures were promoted as a method to increase the value of a home. They financed the connection to newly built roads, sewers, water mains, sidewalks, and/or other infrastructure, and created a general discourse around the speculative future value of a property with its infrastructure improvements (Moore 1983, 455). In the case of street debentures, property owners had the right to request “a better class of pavement such as macadam, brick, or asphalt” or even minimum-grade pavements such as gravel or cedar through by-law-protected petitions (Mackintosh 2017, 146-148). After 1910, higher quality pavements prevailed as better investments because their durability and thus lifespan appeared greater; and the presence of a “better class” of pavement further increased the speculated value of an abutting home after installation. Generally, the cost of the debenture was less than the expected gain in home equity once the house was connected to public infrastructure. Moore (1983, 455) hypothesized that the cost of a typical debenture in 1892 Toronto was $113.73 in a lump sum payment or $143.8 (approximately $4000 now) if paid yearly in tax; if a home sold right after infrastructure development, a homeowner would expect to profit $100 if they paid the debenture as a lump sum. This caused many homeowners to become short-term property speculators attempting to realize quick profits through the sale of their home immediately following infrastructure improvements.

Private contractors and developers profited from this speculative enterprise through the cyclical development and redevelopment of “inadequate” infrastructure such as the conversion of worn out cedar block roads into a more expensive surface such as brick or asphalt (Mackintosh, 2017, 173). City Council even proposed (but did not implement) a minimum standard for street pavement improvements, through the use of debentures; in this case homeowners would pay for

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gravel pavement (the cheapest available) at a cost of $8,000 per mile. Debenture-based local infrastructure improvements accelerated capital circulation in the city. The cyclical nature of these developments ensured the constant recirculation of capital within Toronto, with infrastructure improvements providing profitable investment opportunities for private capital. Mackintosh (2017, 174) states that debenture-financed street infrastructure facilitated a financial environment where, “banks and individual financiers accrued interest for decades – interest that could be ploughed repeatedly back into the city as impermanent and inferior permanent pavements were devalorized, demolished, and rebuilt.” Moore (1983, 465-466) further supports this by stating that the “provision of infrastructure by the state was an integral element in the development of industrial capitalism in the nineteenth century.” Debenture-backed local improvements also facilitated the physical flow of capital through Toronto because improved streets allowed for the more efficient movement of goods through the city which in turn lowered the costs of industrial production. The simple growth of fire hydrants facilitated this flow of capital as massive investments became less risky in areas with easier prevention of fire (Moore 1983, 463-464). Toronto, and many other North American cities, facilitated the circulation of capital through debentures.

Outside of local improvement debentures, advertisements in the Star discoursed on the home as a smart investment. This discourse prevailed in a 1904 advertisement which read, “[i]f you want a home of your own – or a good paying investment – [r]ents are high all over Toronto, and they are going higher, so are land values – [n]ever before have conditions made home-ownership so desirable.” A 1924 advertisement also heralded Toronto homeownership as a

“real estate investment in a city whose growth is steady and certain.” Such persuasive language presents the home as a guaranteed investment in Toronto because land values faced “certain” growth. The newspaper advertisements here match the discourses promoted by officials and government policy which have arguably accelerated the capitalistic redefinition of the home according to its exchange value.

6.5. Conclusion

The history of Toronto’s housing development has been influenced by federal government initiatives to both engage in urban renewal and promote homeownership. Toronto’s homeownership grew considerably through the twentieth century. Homeownership growth was anchored by policy promoting it, and the infiltration of discourses promoting the home primarily as a speculative investment. The DHA and NHA effectively nurtured homeownership as well as the construction of homes in Toronto. When left up to the private sector, the accessibility and affordability of housing was often unattainable for working and middle class Torontonians. Predictively, private investment in cities does not follow a logic of fixing urban problems as they arise; rather, capitalist development of cities functions according to the timing, liquidity, and potential profitability of capital. In our current era of neoliberal development, the city has become a hyper-financialized landscape of consumption and reproduction for reproduction’s sake. With government’s role gradually decreasing and private interest increasing, what can we expect the future of housing in our cities to look like? The current model of Toronto’s neoliberal development through the condominium provides insights into this question.

Chapter 7: Toronto’s “Propping-Up” of the Economy through the Condominium

“The economy,” as used discursively in the neoliberal era, is not an ontological or metaphysical entity that hovers above the world, a superorganic entity determining all human behaviour below it (Duncan 1980). Rather, it is a continuous social and political process (see Mitchell 1996) – hence the relatively recent “efflorescence of international political economy and radical economic geography in the 1970s” (Gertler 2008, 46). This construct is nevertheless physically manifested in the city, where built space becomes shaped by capital and, thus, those living within capitalized reality are influenced to act according to its imagined-but-real geography (see Debord 1995). Moreover, the physical manifestation of capital allows urban residents to make the typically abstract processes and functions of economy real for themselves, even if or when they sometimes overlook the central importance of human life within discussions of economy. What is economy, if not a tool to mediate for the betterment of human life?

This view of economy is the lens framing the following discussion, as we see federal economic actions reflected in the urban landscape, representing Canada’s geography of money. A wonderful exemplar, Toronto’s housing geography has been reshaped by the condo towers which dominate the skyline and alter city-living and the nature of homeownership for Torontonians. Again the central argument of this thesis is the idea that condominiums in Toronto “prop-up” the economy since the Global Financial Crisis (GFC) of 2008 because of their generation of federal mortgage debt through the mortgage. This chapter will analyze the role of Toronto’s economy and housing market nationally, the varying discourses surrounding the condominium in federal, provincial, and municipal government, how Toronto’s condominium market has generated mortgage debt and property tax income, and the underlying concerns about
economic and human risks associated with the prevalence of the condominium in the city. This analysis will continue to employ the federal and provincial documents examined so far, but also condominium developer advertisements and websites, the Toronto Star (Star) newspaper, and municipal reports, such as Toronto’s Economic Bulletin, How Does the City Grow, City of Toronto Financial Reports, Report on the Condominium Consultation, among others.

7.1. Toronto’s Significance Nationally

According to Statistics Canada, in 2016 the City of Toronto represented 7.8 per cent of the country’s population with 2,731,571 residents. The Toronto census metropolitan area (CMA) – containing cities such as Mississauga, Brampton, Markham and 20 others – was host to 16.9 per cent of the country’s population with 5,928,040 residents. Since the GFC, the number of employed residents in the City of Toronto has increased by 7.5 per cent and the rest of the Toronto CMA by 16.3 per cent; over the same period Canada’s overall growth has been 6.3 per cent.142 The various City of Toronto Financial Reports consistently discuss Toronto as “the major economic engine of the country. The city is both the political capital of the Province of Ontario and the corporate capital of Canada ... The GTA is one of the largest regional economies in North America.”143 The Toronto CMA produces roughly 388 billion dollars of goods and services with the City of Toronto accounting for just over half of this total; the City of Toronto alone accounts for 26 per cent of Ontario’s GDP and nine per cent of Canada’s economic output.144 While the city’s general economic influence on the province and the country is

144 Ibid.
significant, this thesis is primarily interested with the significance of Toronto’s housing market within the national economy.

### 7.1.2. Toronto’s Housing Market

The City of Toronto’s homeownership levels have increased from 47.5 per cent in 1996 to 54.6 per cent in 2016.\(^{145}\) The Toronto CMA is responsible for 15.1 per cent of the number of the country’s owned housing stock and represents 28.7 \textit{per cent of the value} of Canada’s owned housing supply with the City of Toronto’s owned housing value at 11 per cent.\(^{146}\) To put this in perspective, the estimated value of the Toronto CMA’s owned housing stock is roughly 919 billion dollars.\(^{147}\) Of the CMA’s owned housing stock, 63.2 per cent of census respondents reported still having a mortgage; as chapter 5 contended, the quality of these mortgages are questionable. And according to the Bank of Canada, \textit{nearly half} of all high-ratio mortgages issued in Toronto during the third quarter of 2016 had a loan-to-income (LTI) ratio exceeding 450 per cent.\(^{148}\) Remember, LTI ratios above 250 are deemed risky in the event of an economic downturn. However, from 2014, high-ratio mortgages have only accounted for ten per cent of Toronto’s lending activity. Low-ratio mortgages are becoming an increasing problem in Toronto because they account for 90 per cent of the lending activity and even more of the lending \textit{value} because houses worth over one million dollars cannot qualify for CMHC insurance and must then be low-ratio loans.\(^{149}\) In 2016, 16.3 per cent of dwellings sold in the Toronto CMA were over one million dollars.\(^{150}\) The indebtedness of Toronto borrowers is trending upwards and the

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\(^{145}\) Compiled from 2016 Statistics Canada data.

\(^{146}\) Compiled from 2016 Statistics Canada data.

\(^{147}\) Calculated by multiplying the CMA’s median owned dwelling value with the number of owned dwellings.


\(^{149}\) Low-ratio mortgages are worrisome because they have not been subject to strict stress testing until recently. As such, the outstanding quality of low-ratio mortgages, especially in Toronto, is troubling.

usage of longer amortization periods is more prevalent among this borrowing group; these trends are more pronounced in younger households.\textsuperscript{151} While these Toronto statistics are significant, they do not account for the city’s housing price influence beyond the CMA.

The CMHC reports focus substantially on Toronto’s urban sprawl. Increasing house prices in Toronto have incentivized citizens to seek more affordable housing in nearby CMAs which has resulted in accelerating house prices in those centres. From the third quarter of 2015 to the third quarter of 2016, Toronto’s house prices increased by sixteen per cent. Meanwhile, “house prices climbed 10 per cent in Hamilton, 21 per cent in Oshawa, 16 per cent in Barrie, 12 per cent in Guelph, and 13 per cent in Kitchener. If Ontario had been excluded in calculating price growth in Canada, house prices would have remained flat through to the third quarter.”\textsuperscript{152} These house price spillovers have occurred beyond nearby CMAs reaching out to the St. Catharines-Niagara area. According to the CMHC, after three years “the total impact of a one per cent house price shock in the GTA [affects] Hamilton prices [by] 2.0 per cent. Guelph, Brantford, Kitchener, Barrie, and Peterborough all have impacts in the range of 1.7 to 1.9 per cent after three years, while St. Catharines has a slightly lower impact at 1.5 per cent.” As accelerating house prices have spread from Toronto, so have high LTI mortgages. According to the Bank of Canada, the proportion of Hamilton and Oshawa mortgages with LTI ratios above 450 per cent had increased from ten per cent in 2013 to roughly 25 per cent in 2016.\textsuperscript{153}

Thus, Toronto’s significance nationally goes beyond its CMA boundary since its house prices and resulting risky mortgage debt have spread like contagion throughout the province.

While this is important, the following addresses the context of the Toronto CMA and the City of

\textsuperscript{152} “Canada Housing Market Assessment,” \textit{Canada Mortgage and Housing Corporation}, first quarter of 2017, 4.
Toronto, Toronto CMA’s housing market accounting for close to 30 per cent of the value of Canada’s owned housing supply. The facilitation of such value and resulting mortgage debt is achieved through the usage of the condominium as an urban economic development tool.

7.2. Discourses Surrounding Toronto’s Condominium Market

This subsection is concerned with how federal government, municipal government, and the private sector discuss the role and significance of the condominium. Of specific interest are condominium apartments because of their effective densification of mortgage debt.

7.2.1. Federal Discourses

Throughout federal reports, the condominium is imagined in terms of foreign investment, construction versus absorption, and the price relationship between condominiums and single-detached housing. There is no mention of condominiums generating debt or increasing the number of mortgages within a given spatial boundary. Do these federal institutions not recognize this debt-generating role or do they not see debt as an important figure to consider?

Most federal discussion of the condominium is within the context of Toronto’s market, with Vancouver and Montreal receiving less focus. Since 2014, the “over-construction” – a term used by the CMHC – of condominiums has been a growing issue. In the fourth quarter of 2015, there were 43,303 condominium apartment units under construction with a majority being built in the downtown; the location and magnitude of these downtown developments caused the construction process to be generally longer. Roughly 80 per cent of condominium apartment projects in 2016 started construction once 70 per cent of their units were pre-sold. Pre-

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construction sales reached an all-time high in 2016 with close to 30,000 units being purchased by “price-sensitive homebuyers and investors.”155 Should these pre-construction sales drop, according to Bank of Canada, the ability of the units to be absorbed by prospective homeowners would be in doubt.156 And if demand were to shift because of an adverse event, Toronto would have an excess inventory of condominium apartments. This would not only put a financial strain on the developers but would also cause the price of occupied condominiums to plummet caused by the shift in supply and demand. A correction in the condominium market would then have the capability to spill over to other forms of housing.

This is a preeminent issue across all financial reports, especially since the price growth of condominiums and single-detached homes have begun to merge in recent years. In the second quarter of 2017, the condominium apartment outpaced price growth for a single-detached home.157 As more people look to a condominium for appropriate and affordable housing, Toronto’s dependence on this kind of housing development increases. As such, the condominium is usually discussed as an “affordable” housing option, even while prices continue to climb.158

7.2.2. Municipal Discourses

The various municipal reports published by the City of Toronto view the condominium favourably. This positivity tends to revolve around the condo’s ability to generate increased homeownership, and its functioning as a necessary promoter and intensifier of urban

158 “GTA Housing Market Outlook,” Canada Mortgage and Housing Corporation, Fall 2016, 4. House price growth in Toronto has declined 12.4 per cent in February year-over-year prices from 2017 to 2018. However, even after this rapid decline, house prices are still 12 per cent higher than February 2016 (Kalinowski, 2018).
development. There is, however, some apprehension, and it concerns the condo’s questionable construction quality, and its inability to accommodate growing families.

The City of Toronto’s Financial Report of 2012 recognized both the government fiscal stimulus and “a hot housing market” as responsible for the Canadian economic rebound from the GFC. Furthermore, the city attributed low mortgage interest rates as an “ongoing driver” to the country’s economic recovery since 2008. While the report does not directly attribute the condominium to this housing market or to generating increased mortgage debt, they do broach increased homeownership. It is curious why the city does not acknowledge the condo as the generator of homeownership. According to the City of Toronto, “[t]he share of home ownership grew by 11% in high-rises, while it decreased by 13% in houses and low-rise apartments between 1996 and 2011… in 2011, home ownership in the age cohort 15-29 was five times what it was in 1996.” The condo is the housing development tool to support such a drastic shift in Toronto’s young-adult homeownership; without the condo homeownership would be simply unattainable leaving young persons to rent property – likely again in the form of the condo. The speculative value of a house in Toronto has contributed to such sustained levels of growth (2014 for example) that the City of Toronto was deemed “the best bet for long-term investment in real estate according to [its] global resiliency ranking [among] 50 global cities.”

In line with federal reports, municipal documents praise the persistent levels of condominium construction in the city; the idea of “over-building” is never recognized as problematic. The City of Toronto’s yearly Financial Report (2009-2016, 7) regularly touts the levels of skyscraper construction, with Toronto and New York typically vying for the highest

159 “How Does the City Grow?” City of Toronto, 2013, 7.
levels of skyscraper construction in North America.\textsuperscript{162} The city has argued that such intensity of construction demonstrates “a strong demand for living in Toronto rather than suggesting an overbuilt market.”\textsuperscript{163} Housing completions peaked in 2015 and have finally fallen by 30.6 per cent in the third quarter of 2017 compared to the previous year. High-rise buildings still dominate Toronto construction and represent 82.5 per cent of total construction starts in the third quarter of 2017.\textsuperscript{164}

Unlike the federal government, the municipality recognizes issues regarding the construction quality of these condo units as well as their shrinking size affecting larger families.

The City of Toronto’s Report on the Condo Consultation recognized quality and size as predominant areas of discontent in condo development and living.\textsuperscript{165} Toronto residents have complained about the poor construction quality of their units and worry about the city’s role in carrying out inadequate inspections. In response to this, the city argues it is not its responsibility to conduct inspections, and “issues that are not Building Code enforcement matters are beyond the scope of the city’s responsibilities.”\textsuperscript{166} Beyond the quality of construction, reports also note the condo’s lack of accommodation for larger households. Shrinking unit sizes and carelessness regarding amenities for children has produced too many family-unfriendly buildings, those better suited to one or two people.\textsuperscript{167} Such indifference toward families means developers rely on constant influx of singletons to replace owners who have outgrown their units. Both family unfriendliness and poor construction quality will be discussed in greater detail in section 7.5. The

\textsuperscript{163} “How Does the City Grow?” City of Toronto, 2017, 4.
\textsuperscript{165} The Condo Consultation is a study conducted by the City regarding the issues condo dwellers face.
issue to remember about all of this is that the separation between private capital and government policy differs significantly in their shaping of Toronto. How then do developers imagine their role developing in Canada’s largest city?

7.2.3. Developer Discourses

According to Rosen (2016, 16), Toronto-based development firms are, of course, impelled by profit-maximization, but even in this a variety of social factors impact their decisions. Some firms are more profit-oriented than others and typically follow a “short-term profit-turning strategy, e.g. build to sell condos,” yet others invest in long term revenue streams. An analysis of some of Toronto’s top developers – Tridel, Menkes, and Daniels – websites contrast this profit-seeking impulse with the social good of building homes. Tridel insists it has “redefined what ‘home’ is. A home,” it asserts, “is more than its physical properties of bricks and mortar. It is a lifestyle and a community that connects us to each other and our surroundings.”¹⁶⁸ Menkes and Daniels echo this, touting the “outstanding quality” and “lasting value” of their condos through design that is socially and culturally responsible, leading to a “unique sense of place.”¹⁶⁹ It is not surprising that the narrative here is not capitalistic but persuasive, appealing to potential consumers as homeowners, through a branding of their condo product as “home.” As such, these websites highlight Toronto developer’s attempt to redefine the nature of the home, despite the shrinking size of condominium units. These companies’ advertisements echo similar language to their websites.

The *Star’s* weekly “Homes & Condos” section displays condo advertisements which follow the same language. Tridel, for example, seemingly has a condo advertisement on the first page of “Homes & Condos” every week, where it suggests their condos contain “stunningly large designs [which] provide the kind of freedom and space you’re used to in your own home.”

Tridel asserts that these redefined homes embody a “sleek modernity and elevated sophistication, where virtually anything you could want is just moments away.” Furthermore, Tridel attempts to capitalize on the “creative worker” type with advertisements which promote a lifestyle for those who are “in the know.” Other condo advertisements also target similar prospective homeowners by promoting life in “the City’s trendiest neighbourhoods,” allowing homeowners to “join the inner circle.” Such advertisements fit well within Christopher Hume’s car-less Toronto, where the condominium facilitates downtown living without the ownership of a vehicle because of the close proximity of amenities. Indeed, for Hume, downtown condo construction solves the problem of “a city laid waste by parking lots” (Hume 2014, 23).

These advertisements and websites highlight the private sector’s quest to redefine the nature of the home. Expensive “per square foot” housing, shrinking units, and poorly constructed buildings are simply the costs of modern living for those that wish to “join the inner circle” of downtown condo living. This redefinition of the home allows the private sector to profit from the densification of the city, while generating federal mortgage debt, rental units, and tax revenue for the city.

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7.3. The Role of Toronto’s Condominium Market in Supporting the Municipal Economy

First, the condominium signifies different uses for the municipal government than for the federal government. Toronto’s condo growth has largely been developed by the private sector which has relieved the pressure of government to provide an adequate volume of housing. While the government is involved in the housing market, the relative sheer volume produced by private developers represents and is indicative of a neoliberal approach to housing. Gluskin – President and Chief Investment Officer of the wealth management firm Gluskin Sheaf and Associates Inc. – (as cited in Rosen & Walks 2015, 305), has argued that private development companies in Toronto have been able to produce such a high number of units because of the absolute profitability of development. As he puts it: “the amount of money made by condo developers, and land developers, is so much greater than you can imagine. The return on equity because it’s so levered is fantastic… These boys and girls never put up any of their own money… it’s borrowed money.” This approach to housing development benefits the municipality since it does not have to directly fund urban development projects, yet it still reaps the benefits of increased revenue through property tax and the municipal land transfer tax (MLTT).

Throughout the municipal reports, tax revenue is discussed in the context of the economic significance of housing generally. The specific economic functions of the condominium are largely left silent. According to the City of Toronto, property tax is its largest source of revenue as it annually collects four billion dollars from residential and business property owners.\(^\text{174}\) With the average number of units in a condominium apartment increasing from 250 in 1990 to roughly 350 in 2014, the amount of property tax being generated is rapidly increasing with the replacement of single-detached dwellings (Rosen & Walks 2014, 293). In the fourth quarter of

2017, a single-family detached dwelling in the City of Toronto had an assessed value of $1,088,200 which would generate the city $7,200 annually in property tax.\footnote{“MLS® Home Price Index,” Toronto Real Estate Board, November 2017, 1. Accessed 16 March, 2018, http://www.treboard.com/market_news/home_price_index/pdf/TREB_MLS_HPI_Public_Tables_1117.pdf; Calculated using the City of Toronto’s online property tax calculator.} The average value of a condo in the City of Toronto during this same time was $549,472 which generates the city $3,635 annually.\footnote{“Condo Market Report,” Toronto Real Estate Board, Fourth Quarter of 2017, 1.} Median values were not provided so this skews the data. Nevertheless, it is easy to see that a condominium tower generates a far greater amount of property tax than multiple single-detached dwellings would. The city also generates a significant amount of tax revenue through the MLTT, which is a scaling tax paid to the City of Toronto by the purchaser of a property. The construction and sale of condominiums has resulted in increased revenue through the MLTT because a greater number – and spatially greater value – of transactions occur in high-density developments. In short, the city has a vested interest in the condo development – in a similar way Harvey Logan and John Molotch (1987, 70-73) describe the financial interest of local media in the consequences urban growth.

The MLTT was implemented on February 1, 2007 making Toronto the only Ontario municipality with authority to levy taxes outside of property tax.\footnote{“City of Toronto Financial Report,” City of Toronto, 2016, 41.} Sales between $55,000 and $250,000 result in a 1 per cent MLTT rate, $250,001 to $400,000 is 1.5 per cent, $400,001 to $2,000,000 is 2 per cent, and anything over is 2.5 per cent. In 2017 alone, the city generated $716 million in MLTT.\footnote{“Municipal Land Transfer Tax (MLTT) Rates and Fees,” City of Toronto, n.d. Accessed 16 March, 2018, https://www.toronto.ca/services-payments/property-taxes/utilities/municipal-land-transfer-tax-mltt/municipal-land-transfer-tax-mltt-rates-and-fees/} Thus, hot housing markets are beneficial to the city since they generate an increased number of transactions and an increasing value of units through bidding wars and speculative investment. And while this is certainly noteworthy, this thesis is primarily
concerned with the role of Toronto’s condo market in sustaining the Canadian economy generally.

7.4. Toronto’s Condominium Market Nationally

“Condo-ism” (as coined by Rosen & Walks) has become central to Toronto’s economic and cultural development and is “a key process through which the financialization and gentrification of the city is articulated” (Rosen & Walks 2015, 305). This has to do with two main factors. First, mortgage credit has displaced industrial expansion as the primary method of urban, economic growth (Rosen & Walks 2015, 290). Condominiums provide the physical and financial structure to support a mortgage credit-based economy as they promote high-density home-ownership unparalleled to other methods of development. Second, this has been described as the “financialization of the home,” where housing has facilitated financial liquidity from the spatially fixed city – because financial institutions can trade housing stock in the form of mortgage-backed securities (Walks 2013a, 35). Thus, cities with higher rates of homeownership should exhibit higher levels of household debt. The condo is thus effective in both generating increased homeownership and household debt. In Toronto, “for every 10% increase in condominiums as a proportion of residential units, the level of household debt increases by another 2.3 percentage points (of disposable income)” (Walks 2013b, 178).

From 1970 to 1999, roughly 92,000 condo units were added to the Toronto CMA. From 2000 to 2009 around 103,683 units were added, and since 2010 roughly 109,497 units were added to the CMA.179 The latest decade of condo developments thus represents a 32 per cent

increase in yearly condo units added, compared to the previous decade, and an annual increase of 346 per cent compared to the period of 1970 to 1999. Even the sub-prime mortgage crisis and warnings of an over-supply of condominiums in Toronto were not able to slow the intensity of development. In the second quarter of 2007, condos were constructed and sold at record numbers while the average price per square foot increased by 6.6 per cent from the previous quarter (Lehrer, Keil, & Kipfer 2010, 84). Such trends have continued into the present because condominiums continue to represent a growing share of Toronto’s housing stock. While the condominium made up 2 per cent of the Toronto CMA’s housing stock in 1981, by 2016 it had increased to 20.9 per cent.180 The city of Toronto displays an even greater reliance on the condo with it 26.3 of the city’s housing stock in 2016.

We have seen that the Toronto CMA is responsible for 15.1 per cent of the number of the country’s owned housing stock, and represents 28.7 per cent of the value of Canada’s owned housing supply. Ontario accounts for 44.53 per cent of the national owned value and the City of Toronto represents 11 per cent.181 And while the estimated value of the Toronto CMA’s owned housing stock is approximately 919 billion dollars, the City of Toronto accounts for more than a third of this number – roughly 353 billion. In December 2017, Canada’s national mortgage debt increased to 1.38 trillion dollars. Given the Toronto CMA’s 28.7 per cent of the value of owned housing supply, it can be roughly estimated that the CMA is responsible for 396 billion dollars of the country’s outstanding mortgage debt.182 Further estimation would suggest Ontario accounts for 615 billion dollars of outstanding mortgage debt, and the City of Toronto responsible for

180 Statistics Canada Census Profiles
181 Calculated by multiplying the median owned dwelling value with the number of owned dwellings. Compiled from 2016 Statistics Canada data.
roughly 152 billion dollars of that. While mortgage debt stemming from single-detached houses likely accounts for a significant portion of these figures, the proportion of this dwelling type has been consistently declining up to and after the GFC in both the City of Toronto and the CMA. At the same time, condominium tenure and apartments with more than five stories have consistently increased in the city and CMA.183 “Toronto has been successfully able to generate increased mortgage debt through the high-density development of condominiums.

According to Soederberg (as cited in Walks & Clifford 2015, 1633-1634), the federal government has created an economic climate resembling a “debtfare state” where homeownership, increased debt, and individual landlordism (individual owners of a condo unit can become landlords through the renting-out of their condo) are fostered through the condominium – because condo units have become “the main private investment vehicle for absorbing the huge new supply of mortgage credit as well as meeting demand for rental housing in the absence of new state provision.” Toronto and the condominium were thus vital in generating vast amounts of mortgage debt throughout the GFC which could be packaged and sold through the CMB program and the IMPP. No specific figures are available regarding what percentage of CMB and IMPP mortgages following the GFC were originated in Toronto, but with a thriving condo market that hardly slowed through 2008 – attributable to the profitability of development for private companies – and a CMA that represents almost 29 per cent of the country’s owned property value, it is quite apparent that Toronto’s condo market was successful in generating national mortgage debt. However, since the GFC and resulting government action through the mortgage market, Toronto has increasingly grown as a site of national anxiety because of the continued acceleration of house prices, construction, and household debt. And

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183 Statistics Canada Census Profiles
with income levels unable to keep pace, Torontonian condo owners are in the precarious position of being over-leveraged but under-paid.

7.5. Issues Facing Toronto’s Condominium Market

While the Toronto CMA accounts for nearly 30 per cent of the country’s outstanding mortgage debt, it only contains 16.9 per cent of Canada’s total population – making Torontonians more indebted than the average Canadian. In 2016, the average one-person household in the Toronto CMA earned a median, after-tax income of 12.5 per cent greater than the average Canadian; yet, the median monthly shelter costs of an owned dwelling in the CMA were 46.5 per cent higher than the national average. Employment patterns have been shifting in the city as part-time jobs have increased by 12.8 per cent since the GFC, while full-time positions have increased by less than half; residents with part-time employment made up 17.6 per cent of the working population in 2016. Furthermore, residents with temporary jobs have increased ten times faster than those with permanent employment between 2008 and 2016. Employment trends in the city and the CMA are unable to keep pace with housing costs since roughly 26.7 per cent of Toronto CMA owner households reported they spent over 30 per cent of their income on shelter costs; this is an 11.1 per cent increase compared to the national average of 16.6. Toronto’s housing and condominium markets have thus been a source of unease throughout government reports, the Bank of Canada claiming: Toronto’s “supply-demand discrepancy increase[es] the risk of an abrupt correction in prices and residential construction activity. Any correction in condominium prices could spread to other segments of the housing

184 Compiled from the 2016 census.
market as buyers and sellers adjust their expectations.” Furthermore, “the minister of finance explicitly fingered the Toronto condo bubble as his primary concern in announcing tighter new mortgage lending standards and mortgage insurance criteria in June of 2012” (Perkins & Morison, 2012 as cited in Rosen & Walks 2015, 30). In this context, the following broaches the nature of Toronto’s specific “condo bubble” and the potential hazards associated with its instability.

With private sector control over much of Toronto’s condominium development trajectory, anxiety has emerged over this commodification-of-housing approach to urban housing development (Madden and Marcuse 2017, 17). As highlighted in the previous chapter, this reliance on the private sector to develop housing leads to profit-seeking urban development trumping necessary urban housing reform. And despite the bonanza of tax revenue condominiums provide, the city of Toronto in fact worries about the current state of its housing market: “[l]ow- and moderate-income residents are trapped in a housing system that is broken and leaving them behind. Toronto faces substantial growth in population over the next 30 years and, with it, the real possibility that the city’s affordable housing challenges will negatively impact the social and economic wellbeing of Canada's largest economic region.” This same report contends it is the role of all levels of government to provide affordable and accessible housing to those that are unable to obtain market-based housing. Even with the condominium as an “affordable” housing strategy, there are still too many Torontonians who will never afford the average cost of a $549,472 condominium unit. Beyond these issues of affordability, three main problem areas arise from all federal and municipal reports which this thesis has explored: the

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inability of condominiums to accommodate families; condominiums’ “over-construction” and “under-absorption;” and their poor quality of construction. These themes will be reprised here to demonstrate their potential economic and social implications.

The condominium may be a reasonable housing choice for singles and couples but there is a growing anxiety over the lack of family-oriented housing. With the private sector’s drive for profit, the average size of a condo unit has been shrinking, because developers maximize their profit by building a greater number of units within a complex. While these units may suit the current housing market driven by speculators, there is fretting over the ability of condos to suit “tomorrow’s market.” The city has noted that condominiums are not flexible or modifiable enough to support growing families in the same way single-detached housing has been historically capable of doing.\(^{189}\) According to Gray (2017), the GTA’s condo boom is failing to provide enough family-friendly units to, “accommodate a coming wave of millennials due to hit prime child-bearing age… only 41 per cent of condominiums under construction or in preconstruction in the GTA have at least two bedrooms. That's down from 67 per cent in buildings completed in the 1990s.” With individuals ages 25-34 being one of the core demographics of condo purchasers, there is worry that once aged 35-44, this demographic will be looking to start families, and considering family-friendly housing in more affordable locales outside of the GTA.\(^{190}\) Because of this, residents interviewed during the city’s Condo Consultation feared that, “we are building the slums of tomorrow” because of the lack of suitable housing for future families and the poor quality of condo construction.\(^{191}\) The looming exodus of

“child-bearing age” condo dwellers has the ability to cause a significant price decline if buyer demand is low.

Discourses surrounding the over-construction of Toronto’s condo market are prevalent across federal and municipal documents. And while I have addressed this earlier in the thesis, it bears repeating in a new context. The CMHC notes Toronto’s current condo troubles compare to that of their 1980s absorption, or buyer demand, issue. The 1980s was fueled by speculative investment into the condo market by those seeking quick profits in housing; to meet growing demand, private developers sped-up construction with low pre-construction sales thresholds below 70 per cent.192 Once demand softened there was an abundance of unsold condominiums which caused a significant drop in prices. There is extant concern that this history is recurring, because the CMHC expects condominium sales and construction will set records in 2018 and 2019; however, it still maintains there is “low evidence of overbuilding” – when the supply of available housing units significantly exceeds demand – in the second quarter of 2017.193 Furthermore, levels of pre-construction sales have remained high and stable, reducing the risk of potentially unabsorbed units.194 Yet while construction intensity is seemingly secure, the quality of these constructed units has fallen under harsh questioning.

Construction quality was a recurrent issue in the city’s Condo Consultation because residents were dissatisfied with their units.195 With developers rushing to cash-in on a hot condominium market, shortcuts have been taken to save time and money. The main construction issue is energy inefficient “wall-to-wall glass panes” that are poorly installed and have an

194 “Toronto CMA Housing Market Insight,” Canada Mortgage and Housing Corporation, Fall 2017, 1.
“increasing tendency to explode without warning, producing a safety risk for pedestrians underneath” (Rosen & Walks 2015, 293-294). Such low-quality construction has presented the city with big environmental problems. Condos have been called, “greenhouse-gas-emitting giant thermal holes” and “radiators in the sky” since their poor insulation from weather conditions cause dwellers to use heating and cooling at rates higher than other forms of housing. Beyond their environmental implications, poorly constructed windows present future financial strain for condo owners. Developers opt for window-wall systems because of their cheaper development costs and aesthetically pleasing views. According to Toronto Architect Alex Josephson, “we’re using window wall systems that have an 18-year shelf life – less than the average lifespan of a condo’s mortgage amortization – after which they will start to fail.” The cost to replace these window-wall system[s] could range upwards of $100,000; these future costs are typically unanticipated by new condo owners and are likely not factored into their current buying costs. Poor workmanship has also resulted in “falling glass sheets” on Toronto’s streets below. Reuters holds that “[t]he life cycle is clear. They are okay for the first five years, they gradually deteriorate by year 10… and don’t even reach year 20 before significant remedial work needs to

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be done. In 50 years these buildings may well become an urban slum.” After recognizing the poor construction quality and the exorbitant cost of maintenance, condo dwellers may well begin to offload their units rather than make noise about construction issues, fearing complaints will devalourize their assets.

If such fears become a reality in the future, condo dwellers and investors will be left with properties retaining far less value than their mortgages. With a bulk of Toronto’s condominium construction accelerating since 2000 – with many window-wall systems already reaching their 18-year lifespan – we may well begin seeing this problem sooner rather than later. Faced with the potential $100,000 window replacement, those living in condos might opt for the sale of their units rather than their “upgrading.” Such noteworthy maintenance costs, among other construction-quality issues, have the capacity to affect prices dramatically and negatively, an effect which will likely spill into other forms of housing. The questions remain: is this a concern to developers? Or, is this model of housing development simply urban planned obsolescence? It is hardly over-reaching to suggest that the deficient quality of condominiums will impel the cyclical redevelopment and re-gentrification of Toronto – and in a similar way to city’s historical infrastructure development, where the repeated construction of defective “organic infrastructure” (Mackintosh 2018) presented private capital an abundance of recurring investment opportunities (Mackintosh 2017, 173).

7.6. Conclusion

Toronto’s housing market is responsible for a sizeable portion of Canada’s real estate values. At the forefront of this housing market is the condominium. Government discourses

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201 Ibid
202 Ibid.
driving Toronto’s condo market largely overlook its significance in generating ample mortgage debt since the GFC – mortgage debt that can be packaged and sold to international investors providing the Canadian banking system with adequate levels of liquidity. Toronto’s housing market has continued to boom since 2008 because of this, condominiums outstripping price percentage growth of other forms of housing. Putatively meeting a need for “affordable” housing, private developers increasingly exploit condominium construction to “cash-in” on inflated real estate prices and consumer demand. Thus, condominiums have been shrinking in size and exhibit poor quality workmanship. Such factors indicate that Toronto is facing a localized and tenure-specific condominium bubble which can spread price contagion throughout the country if or when the bubble bursts. Changes to mortgage regulations (discussed in chapter 5) have begun to slow Toronto’s housing market prices, but with record levels of condominium construction and sales expected in 2018 and 2019 there must be adequate pre-construction demand to absorb these new units.

Toronto faces a dilemma, having to build condos with prices that fall in line with “economic fundamentals,” while generating demand for resale and newly developed units. The balance is delicate, teetering between the city’s need for affordable and accessible housing and the private sector’s primary drive towards profitability. The maximization of profit on behalf of the private sector will reshape the city to one with the greatest profit-making opportunities. The adequate provision of shelter is secondary to this.
Chapter 8: Conclusions

Canada’s regulatory regime ensures that stability and efficiency are balanced. As a result, Canadian tax payers have not had their money put at risk in response to this crisis.

Former Federal Finance Minister Jim Flaherty speaking in the Financial Times (in McCormack & Workman 2015, 2).

By now, it should be clear that the rhetoric of former Finance Minister Jim Flaherty, above, was problematic and contradictory given what we have learned since 2008. Canadian banks received a significant bailout through the Canada Mortgage Bond (CMB) program and the Insured Mortgage Purchase Program (IMPP), which allowed them to move burdensome debt from their books that otherwise would have caused a credit crunch, via the global exodus of value surrounding mortgage-backed securities (MBS). The federal government acknowledges these programs were effective in providing Canada’s financial system with sufficient liquidity. But more important than these were its strong regulatory structures that allowed Canadian banks to remain profitable through the global financial crisis (GFC). Yet we have seen that, the main reason Canadian banks remained “profitable” was because of these various “bailout” programs to which they had access. It seems, then, that the federal government recognizes the importance of the liquidity measures through the IMPP and CMB, but regards them as secondary.

What are we to make of this, knowing that the value of Canadian securities remained high internationally directly because of the government guarantees? By warranting loan repayment, the federal government absorbed private investor risk. As such, the Canadian government – through the Canada Mortgage and Housing Corporation (CMHC) – and Canadian citizens themselves purchased and insured a significant amount of Canadian MBS. To generate continued mortgage debt which could then be repackaged into MBS, Canadian lending standards
were relaxed, leading to a flood of new potential mortgagees who could not have previously qualified for a mortgage.

This influx of potential mortgagees led to a drastic rise in house prices from the increased demand over such a short period of time. Canadian banks rushed to generate mortgages which they could sell to the IMPP as the government continued to package and sell mortgages through the CMB program. The persistent inflation of real estate prices and the rising indebtedness of Canadian households can be attributed to these government actions. Yet, federal reports hardly discuss household indebtedness and overvalued housing in relation to these programs.

While the federal government is quite concerned over the state of real estate prices and Canadian debt, the discussions surrounding why we are in this current situation remain questionably non-existent. I contend that for the government to admit this linkage is to imply the country’s regulatory structure was not an effective insulator from global crisis. More than this, it means that Canadians are still paying the price for the GFC, because the government managed the global crisis through the real estate market. Canadians, their homes, and neighbourhoods – their domestic geographies – were used to leverage a collapsing economy. And they continue to pay the cost of that leveraging with overvalued housing and historical levels of debt – all to substantiate a discourse of regulatory “success” since 2008. This discourse of success has had significant impact on the country’s largest cities, such as Toronto, where a booming condominium market has generated the mortgage debt that in fact keeps the discourse alive.

With the Toronto CMA responsible for nearly 30 per cent of the country’s owned residential real estate value, its economic significance nationally cannot be understated. While Toronto’s condominium market is nationally vital, it is also important to consider the extent of condo development occurring in Canada’s other large cities such as Vancouver and Montreal –
together Toronto, Vancouver, and Montreal made-up 54 per cent of Canada’s condominiums in 2016. Together, Canada’s major cities have relied on the condominium to facilitate national homeownership. Condominium construction has significantly outpaced other forms of housing development over the last couple decades in Toronto, with condo price growth finally outstripping that of single-detached dwellings. Toronto’s condo market since 2008 has facilitated an increase in homeownership through high-density, sky rise structures which effectively facilitate the densification of mortgage debt. However, the discourses surrounding Toronto focus on its GDP being significant nationally and its housing market documented as a specific national concern.

Federal rhetoric about the city’s condo market is typically concerned with levels of construction and price growth. Government discourse ignores the role of Toronto and its condo towers in generating debt; neither does it link the city’s extremely inflated real estate prices with the GFC and resulting need for debt. Rhetoric that presents Canada as immune to financial crisis functions as a marketing tool to international investors and spreads false security throughout the country. Rising house prices are never a guarantee (and usually the leading indicator of a recession (Wyly, Atia, and Hammel 2004, 629)); to spread such a rhetoric to prospective homeowners is dangerous. Moreover, Canadians – especially those recently entering, or hoping soon to enter, the housing market – are now faced with historically prohibitive housing prices (relative to income) and historically high levels of debt. Economic signifiers such as GDP may reveal the strength of Canada’s economy, but its robustness since the GFC has been carried on

203 Compiled using Statistics Canada Census.
the backs of working Canadians whose homes are now irremediably intertwined with the volatility of global finance.

Curiously, Toronto’s current condominium-milieu is not an isolated event in the city’s history; rather, it is reminiscent of its early-twentieth-century usage of the high-density apartment. This early usage of the apartment exemplifies the growth of corporate, urban development in the city. While the city’s current development trajectory follows this highly “corporatized” strategy, it has engaged in a scale of private development unseen before the neoliberal era. The city was, and still is, an urban landscape predominantly shaped by the private sector’s quest for profit. However, this phenomenon has greatly accelerated in the neoliberal era of government where cities receive inadequate government funding for housing and must turn to the private sector for a bulk of the city’s development. As such, the city is becoming a geography of planned obsolescence where shoddy workmanship ensures the cycle of devalourization will continually present private capital with profitable opportunities to reinvest/rebuild. However, this current era of planned devalourization and obsolescence will potentially be experienced greatly by those who own condominiums. Buying a condominium puts current homeowners in a precarious position of owning a unit with a potentially shorter lifespan than the mortgage attached to it. If issues of construction quality increasingly arise before mortgages reach their full term, what will be the future value of the property in relation to the total money paid on the mortgage? This will challenge the long-held discourse of the home as a safe and steady investment, leaving condo owners with a home that needs excessively expensive repairs and a low re-sale value. Such an approach to housing presents Canada with substantial risks.

Thinking about the condominium as a geography of risk and depreciation exemplifies the physical processes of financialization. In response to global crisis, the Canadian government
“bailed-out” the economy through the housing market. In essence, this bailout did not remove Canadian economic risk, rather, moved it onto the backs of Canadian households to maintain their overindebtedness because of over-inflated housing. Thus, the condominium serves as an “absorber” of federal economic risk by becoming a predominant method of generating debt within cities. Thinking geographically, immaterial economic risk becomes an urban reality through the financialization of the home via the condominium. This financialization then creates a geography of depreciation where future, and potentially obsolete, condominium towers will contain a visible history: an urban landscape of poorly built skyscrapers, displaying the physical cost of past risk abatement. Viewing the issue through a geographical lens allows for the physical grounding of economy. In doing so, a geography of money is ultimately manifested, where financialization stemming from federal economic action becomes real in the urban landscape and in our immediate housing geographies – and we see the ways in which economy doesn’t function for us.

This thesis has presented a domestic geography of money, where the country’s housing market is at the forefront of economic discussions. The work conducted here presents a geographical and historical analysis of Canada’s housing finance since the GFC. It has shown, for example, that early twentieth century apartments in Toronto provide a context for the city’s current condominium impulse. The geography of this phenomenon is essential in emphasizing how federal economic action is achieved by seeing the city as a housing geography. However, “mortgagification” of cities such as Toronto has allowed financial interests to shape the city’s housing into a geography of money. Through the use of planned obsolescence, where poorly constructed condominium towers generate the densification of mortgage debt while providing the future opportunity for private capital to redevelop areas because of the physical degradation
of buildings, we get something like the perpetual financialization of the home. This is quintessentially geographic, because the mortgage as a global financial asset could not exist without its primary connection to space.

The financialization of the home has accelerated in Canada since 2008. Leading up to the GFC, Canadian homes (via their mortgages) were traded on global financial markets. The financialization of the home was an economic imperative leading up to the GFC and was accelerated further in Canada after the bank bailouts. The Canadian home is now best defined by Alan Walks (2014, 260): a manifestation of Ponzi neoliberalism where “rising housing costs and household debt bec[o]me instruments for the monetization and ‘financial expropriation’ of the salaries of the working class.” According to government discourse, the success of the Canadian economy is increasingly dependent on maintaining inflated house prices and the ability of Canadian households to service their growing debts. The fate of Canadian houses is now intertwined with global markets: collapse in one market spreading contagion through the entire country. This is how the home has been redefined since 2008 in Canada. Its meaning as a type of financialization now hegemonic.
Glossary of Terms

**Asset-backed commercial paper (ABCP):** Promissory notes or bonds secured against an asset with a guarantee of scheduled payment typically over a span of less than 364 days.

**Basel III:** International regulatory reforms established in late 2009 as a response to the GFC. Designed to regulate banking activities and assets, as well as introducing universal risk management standards.

**Canada Housing Trust (CHT):** Issuer of Canada Mortgage Bonds which are fully guaranteed by the Canada Mortgage and Housing Corporation.

**Canada Mortgage Bond (CMB):** National Housing Act Mortgage-Backed Securities (NHA MBS) repackaged into semi-annual bonds and sold to private investors. They are structured to eliminate the risk of principal prepayment inherent in NHA MBS.

**Canada Mortgage and Housing Corporation (CMHC):** A Canadian Crown Corporation with authority on housing and mortgage insurance.

**Collateralized debt obligation (CDO):** A financial product the pools together varying assets, such as mortgage-backed securities and bonds, then divides them into differently rated tranches (pooled assets). A CDO is a promise to pay investors based on the income generating from the debt-asset ownership.

**Collateralized debt obligation squared (CDO 2):** A collateralized debt obligation backed and formed by a pool of collateralized debt obligations.

**Collateralized debt obligation cubed (CDO 3):** A collateralized debt obligation backed and formed by a pool of CDO 2s.
**Census metropolitan area (CMA):** Canada census divisions consisting of multiple municipalities. A census metropolitan area must have a population of at least 100,000.

**Credit crunch:** A sharp reduction in available money which can be lent. This typically leads to a deepening of a recession.

**Debenture:** Fixed-interest security issued by private enterprise or government. North American debentures functioned as unsecured loans, meaning collateral could not be collected in the event of default. Typically used in urban, infrastructure development.

**Debt-to-income ratio:** Monthly debt payments divided by gross monthly income. Also referred to as loan-to-income ratio.

**Derivative:** A security with a value which is derived from one or more foundational assets.

**Dominion Housing Act (DHA):** Canada’s first national housing policy created in 1935. Later replaced by the National Housing Act (NHA) in 1938.

**Exchange value:** A commodity’s market value through trade. Trade in this instance does not necessarily have to involve money. This contrasts with Marx’s concept of “use value.”

**Extraordinary Finance Framework (EFF):** Government action plan designed to provide liquidity to Canada’s banking system after the global financial crisis. The Insured Mortgage Purchase Program and Canada Mortgage Bond program were the main elements of the EFF.

**Fictitious capital:** A Marxist concept which refers to money invested into assets without any productive or commodity-based materials. Thus, fictitious capital represents money invested into speculative financial markets, where value is determined by the *anticipated future value* of an asset. Hence, these assets are fictitious because they are derived from a future, speculated value.
**Financialization**: The process where good and services are converted into financial instruments which can be traded on global markets.

**Gross domestic product (GDP)**: The monetary value of all finished goods and services produced within a given time period.


**High-Ratio Mortgage**: When the borrower’s down payment is less than 20 per cent of the property value. High-ratio mortgages must be insured by the CMHC.

**Insured Mortgage Purchase Program (IMPP)**: The CMHC purchased National Housing Act mortgage-backed securities from the Canadian banks. This achieved banking liquidity as Canadian banks were able to move significant assets of their books.

**Liquidity**: The value of liquid assets held by a company; typically in the form of cash. High levels of banking liquidity reduce the risk of a “credit crunch” during economic recession.

**Loan-to-income ratio (LTI)**: Monthly debt payments divided by gross monthly income. Also referred to as debt-to-income ratio.

**Low-Ratio Mortgage**: When the borrower’s down payment is equal to, or greater than 20 per cent CMHC insurance is not required. Low-ratio mortgages have become a concern because of the relaxed lending standards and stress tests associated with them. Borrowers can overextend their finances to achieve a 20 per cent down payment and avoid stricter lending requirements. The federal government has just recently tightened these standards in January of 2017.
Metro Toronto: The province of Ontario created Metro Toronto in 1953 to combat its intermunicipal discrepancies. Metro Toronto stood as a “second-tier” municipal government which had influence over the entire metropolitan area as well as nearby rural land.

Municipal Land Transfer Tax (MLTT): The buyer pays a tax to the City of Toronto which increases depending the value of the property acquired. Works in conjunction with the Ontario land transfer tax.

Mortgage-backed securities (MBS): Mortgages secured against the value of the property which are then packaged into a security and sold to investors.

National Film Board (NFB): An agency of the Government of Canada which produces and distributes various forms of media. Designed to produce films which interpreted Canada and Canadians.

National Housing Act (NHA): Created in 1938, the National Housing Act replaced the Dominion Housing Act. It was designed to promote the construction and repair of houses at more affordable costs than could be achieved through the private sector.

National Housing Act Mortgage-Backed Securities: Securities fully insured by the government of Canada. This government insurance protects investors from mortgage default as it is the Canadian government that guarantees full repayment through the Canada Mortgage and Housing Corporation.

Neoliberalism: The economic, political, and social doctrine which favours the free market in providing the social good for profit. This ideology positions the individual as a rational economic actor with equal access to the market.
**Securitization:** The process of converting an illiquid asset – such as the home – into a financial instrument which can be traded globally.

**Shadow Banking:** Also called “market-based financing,” refers to “financial intermediaries” which supply credit and liquidity to the financial system through the purchasing of assets. Yet, they are not subject to the same regulatory requirements as more traditional banking institutions.

**Use Value:** The physical use of a commodity. For example, the home’s use value is primarily a place to live. This contrasts with Marx’s concept “exchange value.”
Bibliography


https://www.bankofcanada.ca/about/history/.


