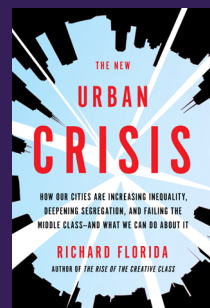


CANADA'S NEW URBAN CRISIS

Cities



The Cities Project at the Martin Prosperity Institute focuses on the role of cities as the key economic and social organizing unit of global capitalism. It explores both the opportunities and challenges facing cities as they take on this heightened new role.

The Martin Prosperity Institute, housed at the University of Toronto's Rotman School of Management, explores the requisite underpinnings of a democratic capitalist economy that generates prosperity that is both robustly growing and broadly experienced.

CANADA'S NEW URBAN CRISIS

Richard Florida

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Introduction

In recent years, the young, educated, and affluent have surged back into cities, reversing decades of suburban flight and urban decline. And yet all is not well. The very the same forces that power the growth of our great cities have generated a [New Urban Crisis](#) of gentrification, rising inequality, and increasingly unaffordable urban housing.

The New Urban Crisis is different from the older urban crisis of the 1960s and 1970s. That previous crisis was defined by the economic abandonment of cities and their loss of economic function. This New Urban Crisis is more all encompassing than its predecessor, hitting at both growing and declining cities as well as urban and suburban centres.

The New Urban Crisis is shaped by the fundamental contradiction brought on by urban clustering. On the one hand, the grouping of industry, economic activity, and talented and ambitious people in cities is the basic engine of innovation and economic growth. But, even as urban clustering drives growth, it carves deep divides into our cities and our society. As the affluent and advantaged return to cities, they colonize the best locations. Everyone else is then crammed into the remaining disadvantaged areas of the urban core or pushed farther out into the suburbs.

My new book, [The New Urban Crisis](#), reflects my experience living in Toronto for the past decade. The rise of Rob Ford in a diverse and progressive city as Toronto was a “big wake up call” to the dark-side of the urban revival. Ford’s rise

was the product of the city’s burgeoning class divide. As Toronto’s once sizable middle class declined and its old middle-class neighborhoods faded, the city was splitting into a small set of affluent, educated areas packed in and around the urban core and along the major subway and transit lines, and a much larger expanse of disadvantaged neighborhoods located far from the city center and transit. Ford’s message resonated powerfully with his constituency of working people and new immigrants, who felt that the benefits of the city’s revitalization were being captured by a downtown elite and passing them by.

I came to see this mounting class divide as a ticking time bomb. If a city as progressive, diverse, and prosperous as Toronto could fall prey to such a populist backlash, then it could happen anywhere. It did. In short order came England’s stunning and wholly unexpected decision to leave the European Union with the Brexit and then the even more unexpected and more frightening election of Donald Trump as President of the United States. All three—Trump, Ford, and Brexit—ultimately form the deep divides and contradictions of the New Urban Crisis.

Winner-Take-All Urbanism

A key feature of the New Urban Crisis is winner-take-all urbanism. In a winner-take-all economy, talented superstars like Beyoncé, Brad Pitt, or LeBron James make outsized amounts of money. Similarly, in a winner-take-all urbanism, superstar cities house disproportionate concentrations of talent and leading-edge industries.

There is a growing divide between the world's superstar cities — New York, London, Los Angeles, San Francisco, Toronto, and Vancouver — and everywhere else. Toronto, the world's 10th leading global city, is even more dominant within Canada than New York, San Francisco, and Los Angeles are in the United States.¹ As the table in *Exhibit 1* shows, Toronto generates about a fifth (17 percent) of Canada's economic output of GDP compared to New York, which generates about 9 percent of the United States' GDP.²

Vancouver generates 6.9 percent of Canada's GDP compared to 5.2 percent for Los Angeles and 2.4 percent for San Francisco of [the United States' GDP](#).³ Overall, Canada's five largest

metros account for roughly half (45.3 percent) of its GDP, while the five largest metros in the United States account for just a quarter (23.2 percent) of American GDP.⁴

Superstar cities have economies with large concentrations of high value-added industries like finance, entertainment, and media. Thanks to the shift in the locational preferences of startups from suburbs to urban centres, they now have rising shares of high-tech industries as well. *Exhibit 2* illustrates the considerable concentrations of startups and venture capital activity in the urban centers of Toronto, Vancouver, and Montreal — more than [75 percent](#) of startup activity and venture capital investment is in and around their urban cores.⁵

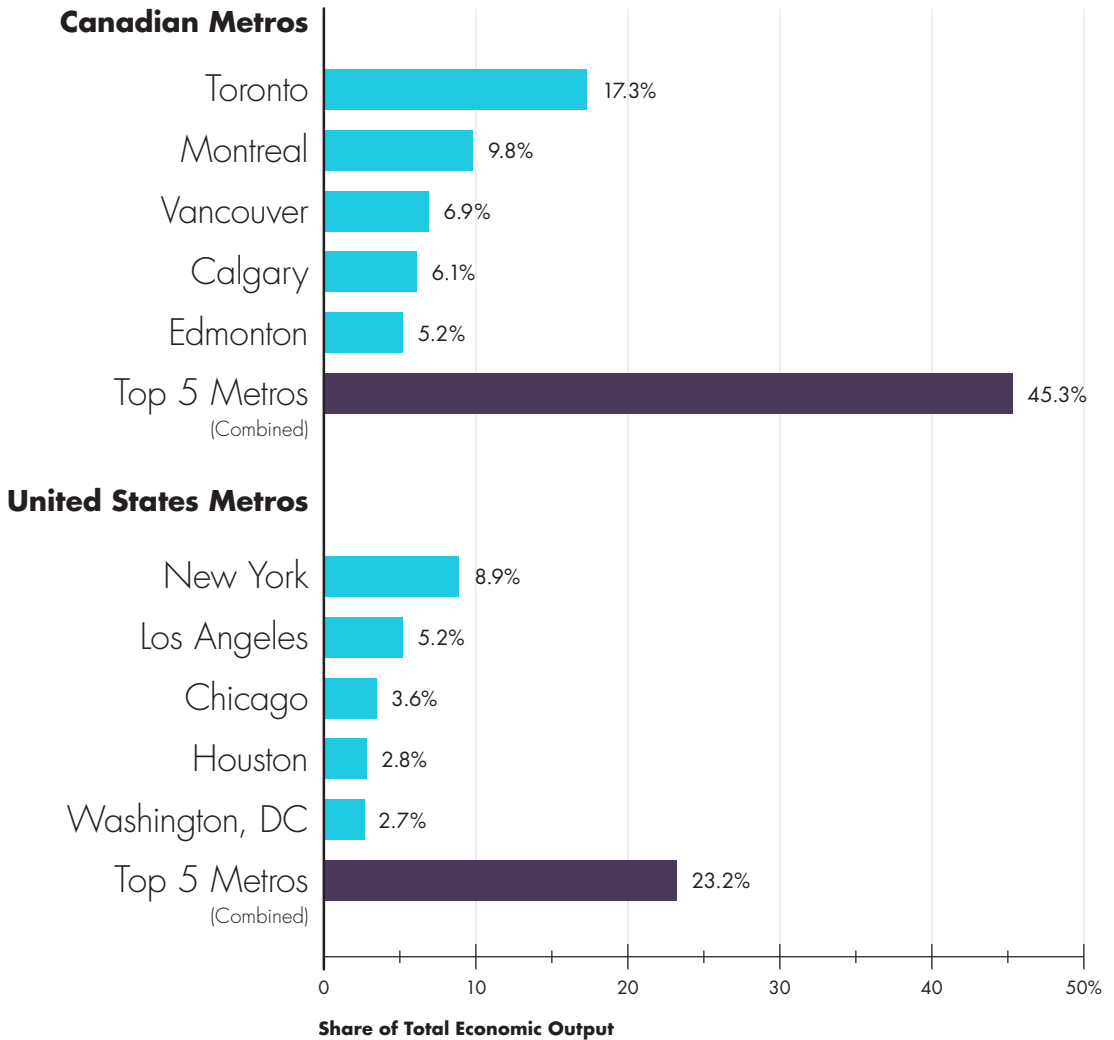


Exhibit 1: Metro share of national economic output for Canada and the United States

Source: Joseph Parilla, Jesus Leal Trujillo, and Alan Berube, *“Global Metro Monitor 2014: An Uncertain Recovery,”* *The Brookings Institution*, 2014; *“Gross Domestic Product by Metropolitan Area, 2015,”* *Bureau of Economic Analysis*, September 20, 2016.

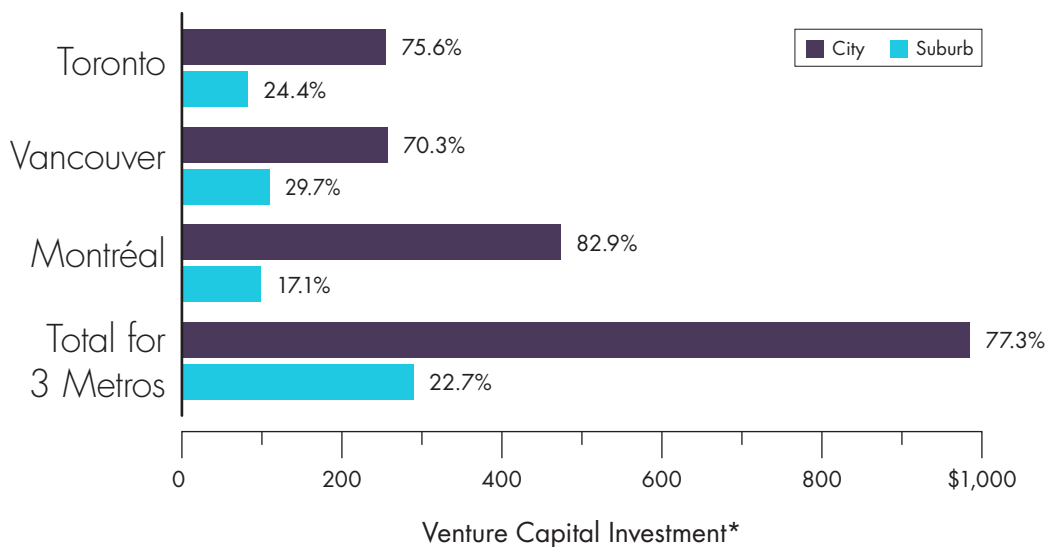


Exhibit 2: Venture Capital Investment in Cities and Suburbs

Source: Richard Florida and Karen King, *Startup City Canada: The Geography of Venture Capital and Startup Activity in Canada*, Toronto, Canada: Martin Prosperity Institute, 2015.

Rising Housing Prices

In Vancouver, the average home costs close to one million dollars in Greater Toronto, it's \$875,000.⁶ In both cities, a detached single-family home will run you more than a million dollars—\$1.7 million in Greater Vancouver and \$1.2 million in the Greater Toronto Area, though it will set you back even more, \$1.56 million in the city of Toronto proper.⁷

Canadians like to think housing in their major cities is more affordable than London or New York. And while an apartment or townhouse in Manhattan or central London is likely to cost more in dollars or pounds than one in Vancouver or Toronto, both Canadian cities suffer from serious unaffordability based on the actual incomes people make.⁸

As the third most unaffordable city in the world on this basis, Vancouver is a particularly trou-

bling case. Looking at the table in *Exhibit 3*, the median house costs almost twelve (11.8) times the median household income. Vancouver tops London, New York, Los Angeles, and San Francisco on this metric: only Hong Kong and Sydney are less affordable.

Toronto, is the world's ninth least affordable housing market based on this measure. The median house in the city costs 7.7 times the median household income, which places it just behind London and Los Angeles, but ahead of New York.

Housing in Montreal (4.8 times), Calgary (4.6), and Edmonton (4.1), all cost more than four times the median household income, the threshold for unaffordable housing. Across Canada, the median house costs almost four times the median income (3.9). Among Canada's 40

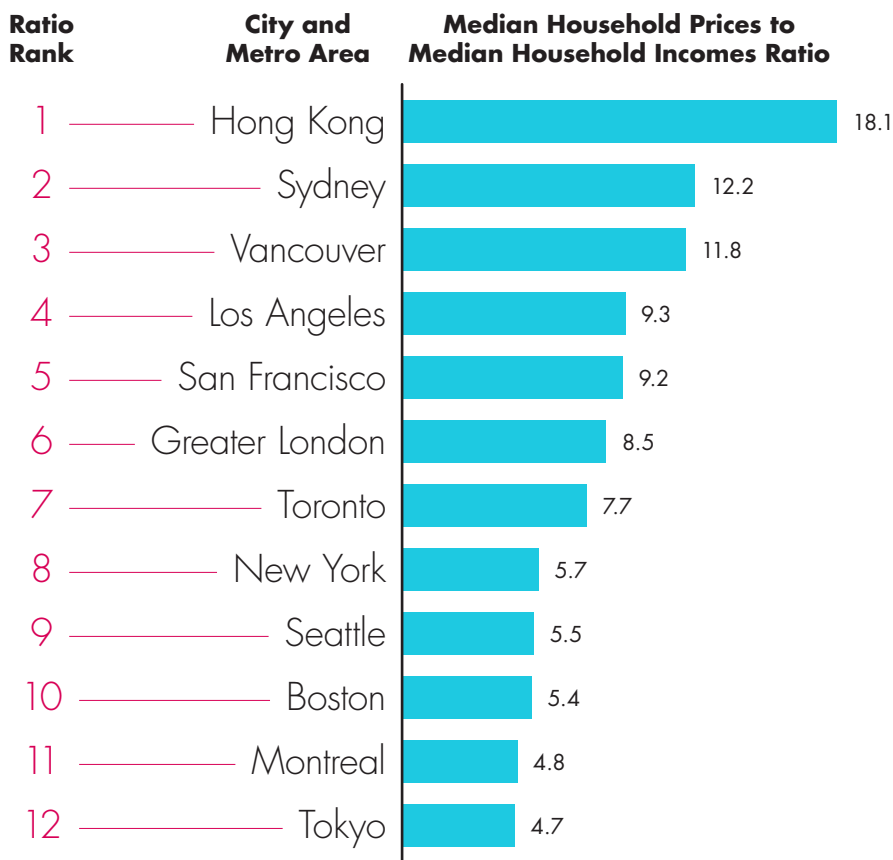


Exhibit 3: The World’s Most Expensive Housing Markets

Source: Wendell Cox and Hugh Pavleitch, *13th Annual Demographia International Housing Affordability Survey: 2017 Rating Middle-Income Housing Affordability*, Demographia, 2016.

cities, seven are severely unaffordable, 10 are seriously unaffordable, 13 are moderately unaffordable, and 10 are unaffordable.

The squeeze from housing costs hits low-wage blue collar and service workers hardest. Across Canada, these groups have just \$11,500 and \$26,400 left over after paying for housing. Comparatively, knowledge, professional, and creative workers have \$45,000 left over, according to calculations by the [Martin Prosperity Institute](#) (MPI).

In both Vancouver and Toronto, real estate has been transformed from its traditional role as

a “home,” to a new class of investment asset. Both cities have witnessed considerable foreign investment in real estate, so much so that Vancouver has imposed a controversial 15 per cent property transfer tax on foreign buyers.⁹ Foreign investment in Toronto is less than in New York and London, with foreign buyers comprising roughly [five percent](#) of real estate transactions in 2016.¹⁰

In Toronto, Montreal, and Vancouver, [gentrification](#) is occurring in about 20 percent of neighbourhoods That’s higher than the United States where about 5 to 10 percent of neighborhoods are experiencing gentrification.¹¹

Inequality and Economic Segregation

Inequality and segregation are two key features of the New Urban Crisis. Both have grown considerably across Canada's metros since the 1980s.¹²

Even though inequality and segregation are not as pronounced in large Canadian cities compared to their American peers, both are growing. Canada ranks fifth of 15 advanced nations on income inequality.¹³ Its Gini Coefficient (the baseline measure of income inequality) is 0.32, lower than the United States or the United Kingdom, but higher than Germany, France, and the Scandinavian countries. It is 21st of 34 OECD nations, in terms of the gap between the top 10 percent of affluent people and the rest. Canada's top 10 percent take in more than four times (4.2) the income of the bottom 90 percent. More troublingly, Canada's one percent earn roughly 11.6 times as much as the median Canadian, up from 7.6 times in 1982.¹⁴ The gap between the one percent and the average Torontonians doubled from six to 12 times between 1982 and 2014.

Inequality is also growing in Canada's cities and metro areas. Looking at the map in *Exhibit 4*, Toronto ranks in the middle of the pack (11th of 24) of global cities on a recent ranking of inequality with a Gini coefficient of 0.40 — higher than Montreal (0.39) and lower than Vancouver (0.42), but better than American cities like Chicago (0.49), Los Angeles (0.50), and New York (0.51).¹⁵ Toronto, Vancouver, and Montreal have the highest levels of income inequality and have seen the largest and fastest increases over the past several decades.¹⁶ These deep divides are a feature, not a bug of big cities and urban areas, and are higher and more pronounced in large, dense, affluent, knowledge-based cities.

Rising inequality in Canada's cities and metros has been driven by the decline in stable blue-collar middle class jobs (3.1 million workers, 18.6 percent of the workforce) and the split in the job market between highly paid professional, knowledge, and creative jobs (5.5 million workers, 33 percent of the workforce) and lower paid service jobs in fields like food preparation, retail shops, office, clerical work, and personal care (7.7 million workers, 46 percent of the workforce). It also reflects the growing divide between the wealthy who derive their money largely from investment income and the poor who depend on government transfers. Toronto and Vancouver in particular have seen increases in concentrated poverty, alongside sizeable growth in concentrated affluence.¹⁷

The *New Urban Crisis* ranks global cities and metro areas in terms of their number and concentration of the global super-rich measured as billionaires and ultra-high-net-worth individuals with assets of more than \$30 million. Toronto ranks 36th with 12 billionaires with a total net worth in excess of \$56 billion and Vancouver ranks 121st with three and a total net worth of \$11.5 billion. The total wealth of Toronto's billionaires is roughly 100,000 times greater than that of the average person. Toronto's super-rich wealth gap is the fourth largest of any North American city and 19th in the world.¹⁸

The book introduces a new measure of economic segregation based on a combined assessment of income, educational, and occupational segregation. With an Overall Economic Segregation Index of 0.41, Montreal is the most economically segregated metro of the three largest Canadian metros (ranking 227th of 326 metros across the United States and Canada), followed

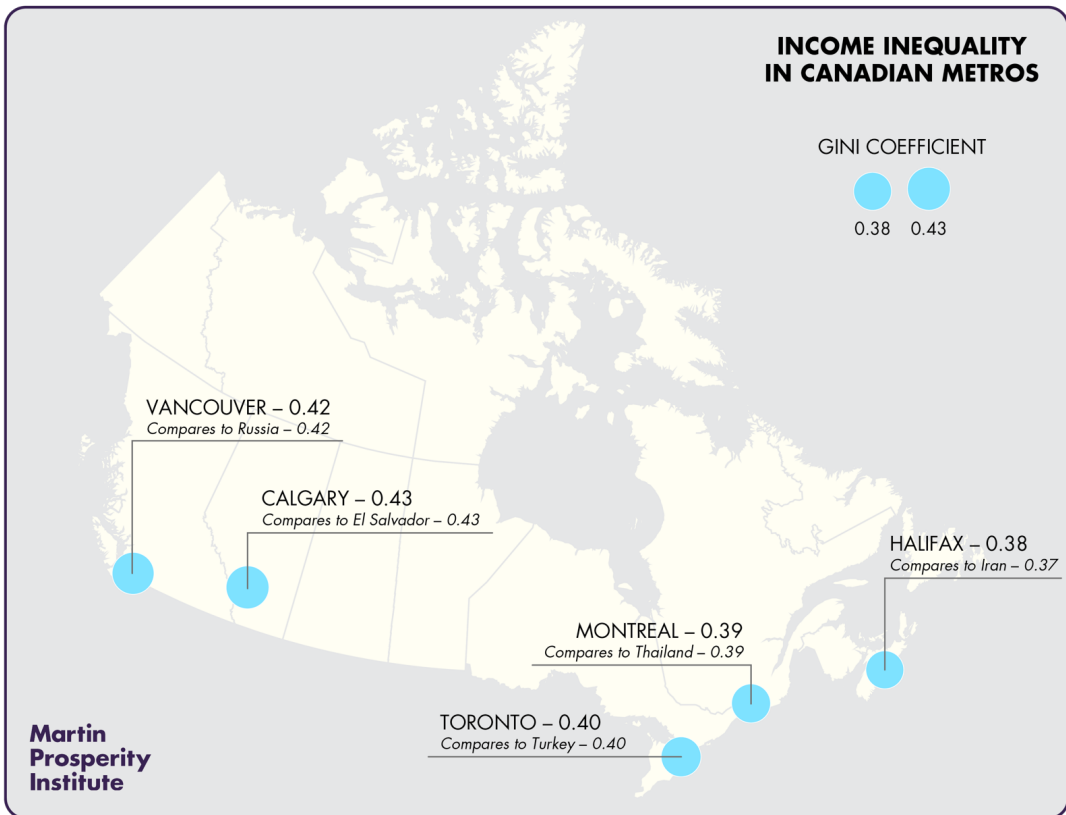


Exhibit 4: Income Inequality in Canadian Metros and Compared to Developing Nations

Source: Alan Walks, *Income Inequality and Polarization in Canada's Cities: An Examination and New Form of Measurement*, Cities Centre, University of Toronto, 2013; World Bank, *GINI index (World Bank estimate) – Country Ranking*, Development Research Group.

by Toronto at 0.37 (242nd) and Vancouver at 0.32 (269th).¹⁹ These values are far below the segregation levels for America's three largest metros: Los Angeles (0.89), New York (0.89), and Chicago (0.87) which rank 10th, 11th, and 15th respectively.

The separation of rich and poor has grown significantly in Toronto, Vancouver, and Montreal over the past several decades. This increasing geographic segmentation of rich and poor is responsible for roughly 40 percent of the growth in income polarization across Canada's metros since the 1990s.²⁰ In Canada, as in the United States, deepening economic segregation has

been driven by the increasing segregation of the wealthy, who have the resources to gain access to the most economically functional and desirable areas, leaving the working classes and the poor the spaces that are left over.

Middle Class Decline

A central feature of the New Urban Crisis is the decline of the middle class and of the once sturdy middle class neighborhoods that defined the Canadian Dream. Looking at *Exhibit 5*,

middle-class neighbourhoods made up two thirds of all Toronto neighborhoods in 1970, but declined to less than 30 percent of all neighbourhoods by 2005. Poor neighborhoods

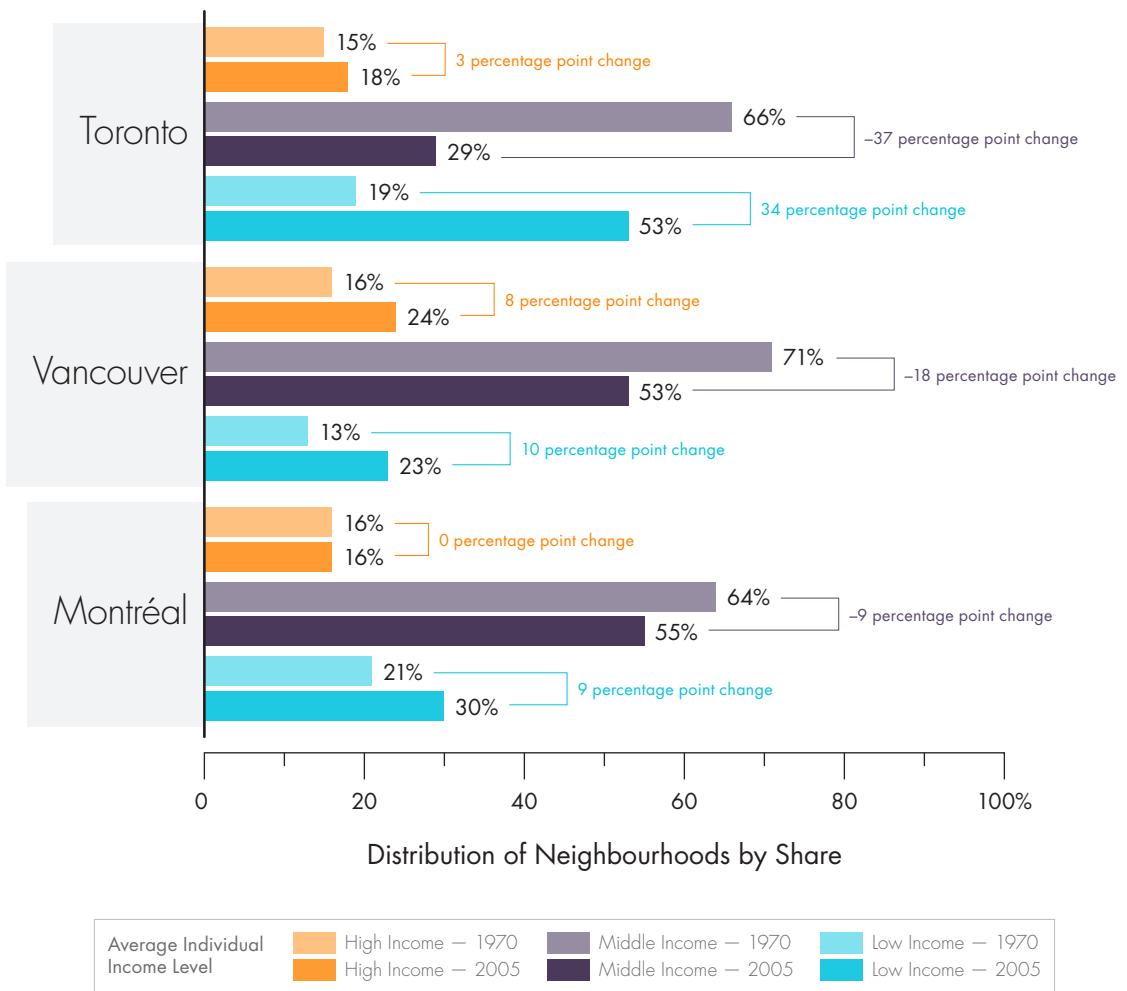


Exhibit 5: The Decline of Middle-Class Neighbourhoods in Toronto, Vancouver, and Montréal

Source: J. David Hulchanski, *The Three Cities within Toronto : Income Polarization among Toronto's Neighbourhoods, 1970-2005*, Toronto: Cities Centre Press, 2010; David Ley and Nicholas Lynch, *Divisions and Disparities in Lotus-Land: Socio-Spatial Income Polarization in Greater Vancouver, 1970-2005*, Toronto: Cities Centre, University of Toronto, 2012; Damaris Rose and Amy Twigg-Molecey, *A City-Region Growing Apart? Taking Stock of Income Disparity in Greater Montréal, 1970-2005*, Toronto, Canada: Cities Centre, University of Toronto, 2013.

increased from just 19 percent of all Toronto neighbourhoods in 1970 to more than half (53 percent) by 2005.²¹ In Vancouver, [middle-class neighbourhoods](#) declined from 71 percent of all neighbourhoods in 1970 to 53 percent by 2005,

as poor neighbourhoods increased from 13 to 23 percent of all neighbourhoods.²² In Montreal, [middle-class neighborhoods](#) declined from 64 percent of all neighbourhoods in 1970 to just 55 percent in 2005.²³

Creative Deadening

Rising housing prices and the growing divide between the rich and poor threaten to drive creative and innovative people out of cities. Together, Toronto and Vancouver account for about 30 percent of Canada's knowledge, professional, and creative class, according to

[MPI research](#).²⁴ As Jane Jacobs once told me: "When a place gets boring even the rich people leave." Fortunately, this has not happened to a great degree in Canadian cities, though it is a risk for the future.

The Crisis of the Suburbs

As the educated and affluent flock back to urban cores, poverty has moved to the suburbs. Moreover, the old city-suburb divide is losing its meaning. In Toronto, Montreal, and Vancouver, poverty has shifted from the inner-city to the suburbs, as the affluent re-colonize the

urban center. While inequality remains highest in the urban cores of Canada's largest cities, inequality has also increased in the suburbs, as they become locations for immigrants and less advantaged people who are pushed out of the urban centre as a result of rising housing prices.

Patchwork Metropolis

With the middle class eroding, Toronto and Vancouver are morphing into a new kind of Patchwork Metropolis with small areas of concentrated advantage in the downtown core, around subway and transit stations, or in affluent suburban areas, surrounded by much large spans of concentrated disadvantage.²⁵

In Toronto, the creative class clusters in the urban core, around universities and colleges, across the waterfront, and along major transit routes, especially the Yonge-University-Spadina subway line. Their locational preferences have pushed the service class out to the periphery, while there are only a few blue working class tracts in the entire metro.

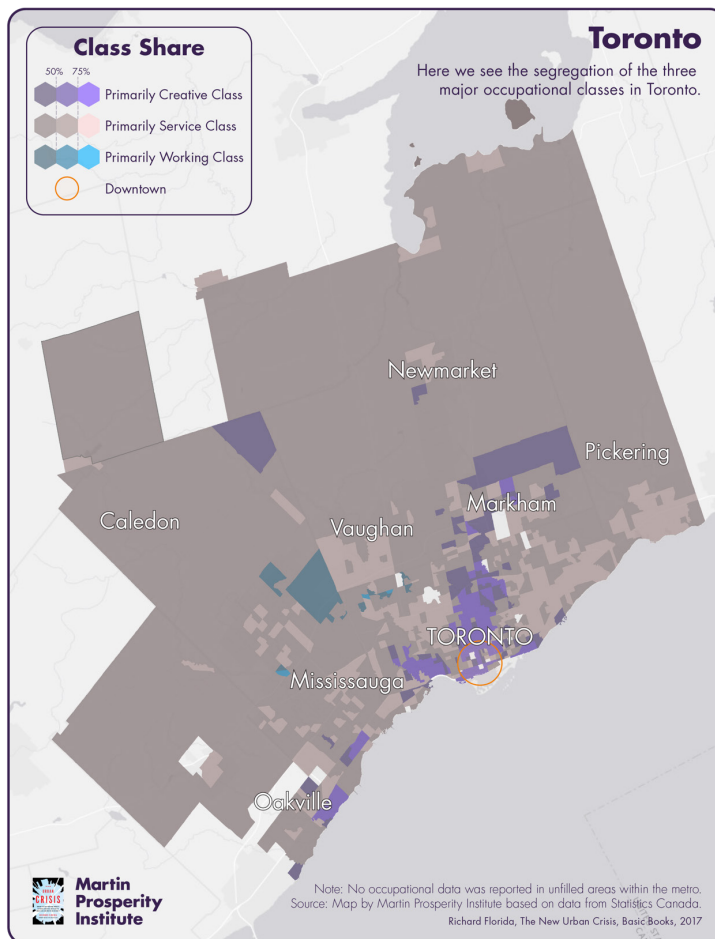


Exhibit 6: Toronto's Class Divides

Source: Richard Florida, *Canada's Divided Cities*, Toronto, Canada: Martin Prosperity Institute, 2014.

In Vancouver, the creative class clusters in and around the urban core, the waterfront and forms a huge wedge to the west and the north around other natural amenities like parks and mountains. There is a west-east class divide in the city, with the service class pushed toward the east and south. There is just one primarily working class tract in the entire metro.

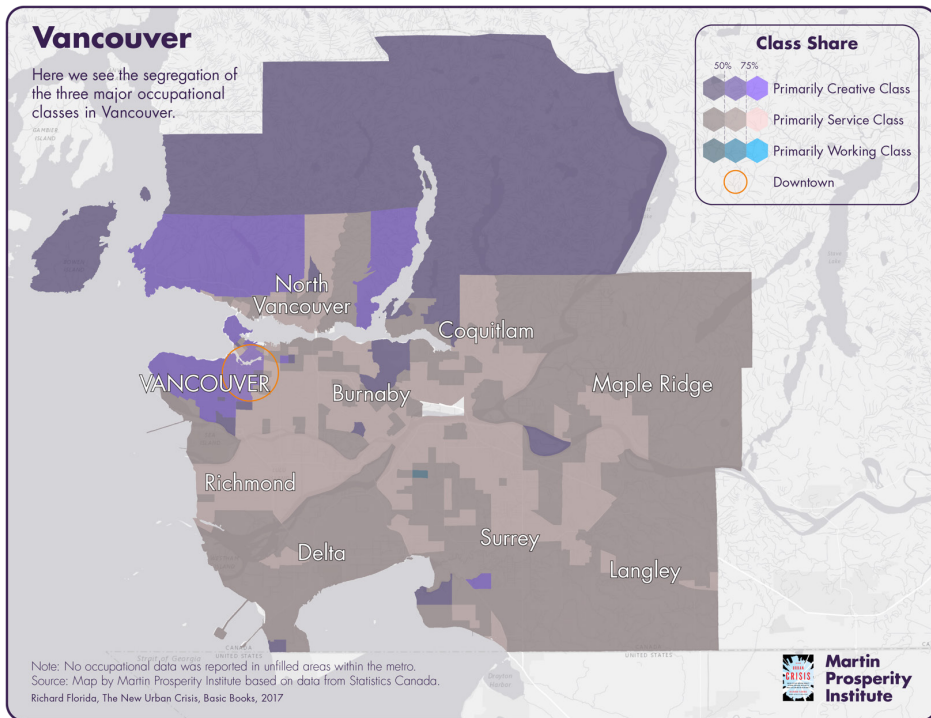


Exhibit 7: Vancouver’s Class Divides

Source: Richard Florida, *Canada’s Divided Cities*, Toronto, Canada: Martin Prosperity Institute, 2014.

Addressing the New Urban Crisis

The Trudeau administration has made a commitment to reducing inequality, rebuilding the middle class, investing in infrastructure, and generating more affordable housing in Canada's cities. This is a big advantage over the United Kingdom and United States where conservatives rule and little in the way of national investment in cities is likely to occur.

That said, there are real limits to national urban policy as there is no one-size fits all strategy that addresses the New Urban Crisis in Canada's different cities and metro areas. The challenges of housing affordability and unequal development in Toronto or Vancouver are very different than the challenge of deindustrialization in Windsor or the diversification away from natural resources in many other Canadian cities. The New Urban Crisis requires strategies tailored to these and other local conditions.

Canada has a considerable asset in its federalist system and vertical separation of powers between the federal government, provinces, and cities. The key today is shifting power from provinces to cities – giving the country's metros the fiscal capability and flexibility they need to address the problems they face and build more inclusive economies.

Overall, Canada and its cities must invest in affordable housing, upgrading low wage service jobs, providing infrastructure to connect people and places to employment centers, and create a stronger social safety net which can help society move from the current model of winner-take-all urbanism to a new model of urbanism-for-all.

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