OVER THE TOP

The Impact of Development Charges on New Homebuyers

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BUILDING A GREATER GTA
Building Industry and Land Development Association

BILD Development Charges Report | PREFACE

Owning a new home is a major milestone for families and individuals. A house or a condominium not only represents the largest-single investment that many of us will ever make, but it's also an integral part of our identities. A home allows us to raise our families, to make community connections and it gives us pride in having a place to call our own.

The Building Industry and Land Development Association (BILD), consisting of 1,500 member companies, recognizes that homeownership is an ambition that many Greater Toronto Area residents aspire to achieve. Since 1921, we have been working with our various partners to help families and individuals reach that goal. The land development, home-building and professional renovation industry is also a major engine of economic growth in the GTA.

For that reason, when our members recognized that the dramatic rise of development charges in the last decade was having a significant impact on housing affordability, BILD took a more in-depth look at this trend.

With the release of "Over The Top – The Impact of Development Charges on New Homebuyers," BILD has, for the first time, gathered data from communities across the GTA. In a word, the results were alarming. This comprehensive overview of the effect on individual consumers of development charges reveals a hidden drag on ownership. Development charges have climbed higher and higher in recent years, contributing to the rising cost of new homes and placing a heavy burden on consumers looking to enter the housing market.

BILD believes a healthy housing sector is vital not only to the GTA's growth, but to the strength of Ontario's economy. According to CMHC data as analyzed by economist Will Dunning, the housing sector was responsible for a number of key positive economic impacts in 2007, including:

- Approximately 160,000 direct and indirect jobs were generated by the combined housing activity taking place in the region.
- Total wages paid were $7.4 billion
- The value of new home construction in Greater Toronto was $8.5 billion.
- A total of $8.4 billion was spent on home renovation and repair work.
- All housing investment in our region came to $17.8 billion.
- Government revenues alone from housing activity amounted to $3.95 billion, not counting development charges, property tax or corporate tax revenues from builders and related industries.

By providing the information through this report, BILD's hope is to present new homebuyers, community leaders, governments and others partners of the housing industry with a clearer picture of development charges and their impact on housing affordability. Even more importantly, it is intended to suggest the changes required to ensure that as many families as possible can pursue the dream of home ownership.

Michael Moldenhauer
President, BILD

Development Charges and Housing Affordability

Development charges are a legitimate source of revenue for regions and municipalities when used to offset costs directly resulting from new growth. The land development and home building industries of Ontario have always recognized this and have never objected to paying their fair share.

The present situation, however, is no longer fair. Excessive reliance on revenue from development charges has forced municipalities to increase rates annually – to unsustainable levels.

As revealed by a review of development charge increases on all types of dwellings, several municipalities in the Greater Toronto Area have *doubled, tripled or quadrupled* their development charges since 2001.

Today, many municipalities, faced with an inadequate funding base and aging infrastructure, are pressing for even more development charges via a review of the Development Charges Act.

New home buyers are already significantly burdened – in many cases denied choice or entirely shut out of the market – by significant costs added to the price of a new home due to development charges. The total impact of development charges on the cost of an average new home in the GTA is approximately $30,000.

Development charges are just the tip of the iceberg. When you add in GST, PST, land transfer tax (now doubled for homebuyers in Toronto), land dedications and all the other taxes, fees and levies (such as home warranty, building permit, development application and processing fees), total government-driven costs can represent up to 20% of the average house price. According to a recent study prepared for the Canada Mortgage and Housing Corporation, total government-imposed charges exceed $60,000 in the 3 GTA municipalities of Mississauga, Toronto and Vaughan with the highest charge of over $100,000 in Toronto.

There's more to come! This impact worsens considering that at the time of writing, several municipalities such as the City of Toronto, Towns of Markham, Whitby and the Regions of Durham and Halton are actively considering significantly increasing their charges even further! Areas in Halton Region could be faced with an average of another 100% increase! That's an on-top and over the top average cost increase to new homebuyers of $20,000!

Home buyers, home builders, and Ontario's municipalities themselves are victims of the same circumstance – an inadequate and inappropriate system for funding our cities. It is time to recognize our common interests and join forces in urging the provincial government to solve the root problem.

THE ROOT PROBLEM: Inadequate Municipal Funding

It's fair to say that all of the stakeholders involved, including the provincial government, have long recognized that the present method of financing cities – reliance on property taxes, charges and fees – needs substantive reform.

Ironically, it was provincially mandated changes in the 1990s, ostensibly designed to rationalize which level of government should pay for what, that have led to present conditions, where regional and municipal governments face costs that far exceed the capacity of their funding sources.

Required to fund programs and services that are not traditionally municipal responsibilities, without offsetting provincial transfers or access to new and appropriate sources of revenue, cities face the untenable choice of reducing services, ignoring needs, increasing fees, or raising property taxes.

The problem is compounded by a perennial failure by all levels of government to properly fund infrastructure maintenance, replacement and growth. Many of these costs, which are growing as our roads, bridges and utilities age, fall to municipalities that simply don't have the funding capacity.

At the present time, the province is engaged in a review aimed at building a sustainable fiscal relationship where municipal governments and the province can meet their respective and appropriate responsibilities.

The current Provincial-Municipal Fiscal and Service Delivery Review offers a perfect opportunity for the development industry and municipalities to speak with one voice in calling for fairness on behalf of taxpayers and homebuyers.

This is also the thrust of Cities Now!, a campaign for municipal fiscal reform spearheaded by Mississauga Mayor Hazel McCallion. Cities Now! aims to remind leaders of the senior governments that municipalities are the economic engine of the country and that they must be competitive if Canada is to succeed in the global economy and if Canadians are to remain prosperous.

"Many of the local infrastructure costs once paid for by the provincial and federal governments have now been passed onto municipalities," she writes on the Cities Now! website (www.mississauga.ca/portal/cityhall/citiesnow). "Despite repeated requests from cities for funding, the federal government has chosen to use the $11.6 billion federal surplus to reduce the GST and introduce income and corporate tax cuts."

The discussion that follows addresses the specific issue of municipal development charges, providing data and analysis showing that reliance on development charges to fund general municipal needs has become counterproductive.

DEVELOPMENT CHARGES:
Excessive, Unsustainable and Counterproductive

Between 2001 and 2008, development charges on single-family homes more than quadrupled in Toronto (342%). In King Township, development charges more than tripled (215%). In total, eight GTA municipalities more than doubled their development charges for single-family homes.

Development Charges Increases 2001-2008 *Single-Family Homes*	
City of Toronto	342%
Township of King	215%
Town of Halton Hills	135%
Town of Scugog	130%
City of Brampton	128%
Town of Newmarket	120%
Town of Brock	118%
Town of Uxbridge	104%

For apartment units with two or more bedrooms, seven municipalities doubled their development charges over the period. Toronto's rates more than quadrupled (333%) and King Township's rates more than tripled (209%).

Development Charge Increases 2001-2008 *Apartments Two Bedrooms or More*	
City of Toronto	333%
Township of King	209%
Town of Newmarket	144%
City of Brampton	143%
Town of Brock	134%
Town of Scugog	118%
Town of Halton Hills	103%

For smaller apartment units with fewer than two bedrooms, eight municipalities doubled their development charges. Rates more than quadrupled in Toronto (335%) and more than tripled in Newmarket (245%).

Development Charge Increases 2001-2008 *Apartments Fewer Than Two Bedrooms*	
City of Toronto	335%
Town of Newmarket	245%
City of Brampton	134%
Town of Brock	134%
Township of King	134%
Town of Halton Hills	118%
Town of Scugog	118%
Town of Uxbridge	97%

With respect to development charges for multiple units, nine municipalities more than doubled their rates. Both Toronto and King Township's charges more than quadrupled (an astounding 338% and 313% respectively).

Development Charge Increases 2001-2008 *Multiple Units*	
City of Toronto	338%
Township of King	313%
Town of Brock	185%
Town of Newmarket	148%
City of Brampton	128%
Town of Uxbridge	125%
Town of Halton Hills	123%
Town of Scugog	106%
Town of Caledon	103%

This survey reveals that development charges in Toronto more than quadrupled for every type of dwelling unit. Development charges on single-family homes in Toronto, for instance, rose over the study period from $2,608 to $11,524.

And yet, the percentage increases or even the absolute amounts of municipal development charges do not fully demonstrate the dampening effect when cities must rely on this method of funding.

When regional development charges, economic development charges and GO Transit development charges are included, as they are in the cost of every dwelling unit sold in the GTA, the true impact on housing costs becomes evident. With respect to single-family homes, for instance, Brampton has the highest-ranking for municipal development charges, at $17,252 and has the top-ranking for overall development charges, totalling $35,398.

Total development charges add more than $25,000 to the price tag of a new home in Whitby, Pickering, Ajax, Brock, Clarington, Scugog, Halton Hills, Oakville, Mississauga, Georgina, East Gwillimbury, Newmarket, Whitchurch-Stouffville, Markham, Richmond Hill, Vaughan, King, Brampton and Aurora.

Top 10 Total Development Charges March 2008 *Single-Family Homes*	
City of Brampton	$35,398
Town of Aurora	$34,705
Township of King	$34,157
City of Vaughan	$34,011
Town of Richmond Hill	$33,598
Town of Markham	$32,666
Town of Caledon	$32,641
Town of Whitchurch-Stouffville	$32,602
Town of Newmarket	$31,526
Town of East Gwillimbury	$29,292

Top 10 Total Development Charges March 2008 *Apartments Two Bedrooms or More*	
City of Brampton	$26,190
Town of Caledon	$23,157
Town of Aurora	$21,284
Township of King	$21,140
Town of Markham	$21,000
City of Mississauga	$21,088
Town of Richmond Hill	$20,188
City of Vaughan	$20,558
Town of Whitchurch-Stouffville	$19,866
Town of Newmarket	$19,765

Top 10 Total Development Charges March 2008 Apartments Fewer Than Two Bedrooms	
City of Vaughan	$15,753
Town of Richmond Hill	$15,383
Town of Aurora	$14,881
Town of Whitchurch-Stouffville	$14,535
City of Brampton	$14,531
Township of King	$14,386
Town of Markham	$13,966
Town of Caledon	$13,513
Town of Newmarket	$13,185
Town of Scugog	$13,182

Top 10 Total Development Charges March 2008 *Multiple Units*	
City of Brampton	$35,398
Town of Caledon	$32,641
Township of King	$28,932
City of Mississauga	$28,762
City of Vaughan	$28,717
Town of Aurora	$28,629
Town of Richmond Hill	$28,084
Town of Markham	$27,166
Town of Newmarket	$26,178
Town of Whitchurch-Stouffville	$26,072

These absolute numbers reveal a significant impact on new home prices, directly reducing affordability, choice and opportunity for buyers.

By any comparison, development charges are out of control, as the chart below demonstrates. Moreover, a particularly interesting comparison is with the price of new homes, which according to Statistics Canada's New House Price Index, increased by only 26.6%. This means that development charges have increased two and a half times more than the value of new homes!

Selected Inflation Rates 2001-2008	
Clothing and Footwear	Down 6.3%
Fresh Vegetables	Down 17%
Overall Inflation Rate for Ontario	Up 11.7%
New House Price Index	Up 26.6%
Homeowners' Utility Costs	Up 27.9%
Tobacco Products	Up 50.1%
Gasoline	Up 56.6%
Average Development Charges in the GTA	**Up 75.1%**
Average Development Charges in the City of Toronto	**Up 337%**

Reduced housing affordability – independent of any other national and global economic conditions – inevitably constrains local economic development, stifles investment, reduces job growth, and diminishes a municipality's ability to compete with jurisdictions not similarly afflicted.

RECOMMENDATIONS:
Rationalizing Development Charges

1. **BILD urges the province not to re-open the Development Charges Act as requested by various municipalities as a prelude to expanding the range of development charges.**

   Let's not make the problem worse.

   The previous provincial government amended the Act with the intent of reducing development charges and making the process more accountable.

   While some municipalities define those steps as "highly restrictive," in fact the current legislation has resulted in steady increases in development charges and limited improvements in accountability (the ability of municipalities to clearly justify charges in terms of costs directly related to new growth).

   When charges can quadruple in just seven years and add tens of thousands of dollars to the cost of a new home, it appears that the burden of paying for general public improvements is being unfairly borne by home buyers and the land development and home building industries.

   In our view, the provincial government should restrict development charges to meet their legitimate purpose, contributing only to costs incurred as a direct result of new growth. The province should also bear in mind at all times the consequence of development charges unintentionally depressing housing affordability.

2. **BILD urges the province to reverse downloading and resume responsibility for funding social programs not related to the property tax base.**

   The previous provincial government eliminated more than $600 million in unconditional grants to municipalities and eradicated provincial funding for roads.

   Moreover, municipalities have been subsidizing provincial health and social services programs since the previous government's intervention, resulting over the years in billions of dollars being diverted from municipal infrastructure investment. Property tax revenue that should be reinvested in municipal infrastructure is instead directed to the provincial treasury.

   According to the Association of Municipalities of Ontario, a fiscal imbalance in excess of $3 billion a year has resulted from funding provincially-mandated services through the property tax.

   In addition to resuming financial responsibility for social services, BILD believes the province should expand its role in funding municipal infrastructure, costs which are beyond the capacity of municipalities and which represent a basic investment in a healthy and productive provincial future.

   Conversely, the province must resist municipal calls to eliminate current service exemptions in development charge by-laws, for items such as hospitals; cultural, tourism and entertainment facilities; administrative headquarters; computer equipment; and police vehicles. New homebuyers should not be made to subsidize services to existing residents.

3. **BILD urges the province to increase its role in funding hard infrastructure in Ontario municipalities.**

   The Ministry of Public Infrastructure Renewal itself has estimated a total province-wide infrastructure gap of $100 billion. This same ministry implemented the Places to Grow Act, which tells municipalities how and where to grow, but does not provide any funding to assist them with that growth.

   We believe that the province should investigate alternative financing mechanisms and explore options other than development charges to fund capital costs related to critical public infrastructure.

   Over the past few years, the province has demonstrated positive commitments to reinvest and renew infrastructure across Ontario. We would like to see this progress continue and the province provide direct funding to infrastructure projects of regional or provincial significance.

   Ontario's municipalities need a stable, reliable, permanent funding stream to assist with infrastructure investment. Economic competitiveness can be enhanced across the province through increased investments in hard infrastructure.

4. **BILD urges the province to find ways to reduce its over-dependency on municipal property taxes as the main source of municipal revenue.**

   We support the notion that local property taxes should be used principally for local needs, and not to pay for provincial programs arbitrarily imposed on a community. Municipalities need to be free to use the municipal property tax base for their own services and capital expenditures.

   Funding programs from property taxes as opposed to income taxes also does not take account of the individual taxpayer's ability to pay. The property tax base is limited and inadequate to the demand upon it, compared to the income tax base.

   Finally, buyers of new homes should not bear an undue responsibility to pay for programs and services that should be financed by other sources or by other levels of government.

5. **BILD urges the province to work in partnership with municipalities and the federal government to adequately and fairly fund municipal infrastructure.**

Federal transfer payments to the provinces have been reduced significantly in the past 15 years. BILD supports Ontario's ongoing efforts to press the federal government to enhance and improve transfer payments to Ontario, as well as for the federal government to increase infrastructure funding in the province.

New infrastructure development has lagged under financial constraints, which has resulted in deterioration of existing infrastructure, congestion of existing facilities, and inadequate accommodation of new growth.

The land development and home building industries, and through them new home buyers, should not be seen as a primary means of addressing fiscal shortfalls. BILD encourages the provincial government to actively lobby the federal government on behalf of municipalities so that quick, direct and equitable solutions to the lack of public infrastructure investment can be reached.

Ours is the most heavily taxed and regulated industry in the province. This seriously impedes our ability to provide housing that is affordable to Ontario consumers. As long as new home buyers are responsible for a significant portion of municipal capital expenditures related to both hard and soft infrastructure, housing affordability will continue to suffer.

In 2007, in the GTA, residential construction generated an average $17.8 billion in GDP and 160,199 jobs. In the same year, residential construction in Toronto generated an average $5.9 billion in GDP and 53,640 jobs. BILD members seek to work closely with all levels of government so that we may arrive at equitable solutions to public infrastructure investment and in turn create livable and healthy communities.

Established in 1921, the Building Industry and Land Development Association serves more than 1,500 member companies engaged in residential land development, home building, professional renovation and all related supply, service and professional industry segments. Our member companies operate throughout the regions of Halton, Peel, York and Durham and the city of Toronto. The BILD membership is involved in more than 40,000 new home sales per year.

BILD Development Charges Report | CONCLUSION

The information presented in this report concerning development charges is clear: the GTA housing market cannot sustain further increases. Looking to these fees as a way to make up inadequate funding for municipal infrastructure costs is not the answer. Continuing to rely on rising development charges is hurting families and individuals pursuing their dream of home ownership in the Greater Toronto Area. We fear that these hidden taxes are pushing the cost of a new home out of reach for many buyers, while eroding affordability and choice for others.

The housing sector is critical to our economic growth. New homebuyers entering the market support local retail, hospitality and commercial businesses in their communities, who, in turn, also pay property, sales, income and business taxes to all three orders of government.

The Greater Toronto Area continues to grow at a phenomenal rate. Its residents enjoy a high quality of living and we want to keep it that way. BILD and its partners are urging our community leaders and our government to take action. We want to ensure that new homes in our communities remain affordable for families and individuals, because their ability to purchase a home will only make our communities – and our province – even stronger.

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