

Building complete communities

# Striking a balance for 'reasonable and fair' development charges

Steep increase in municipal fees may pose challenges for prospective buyers

Several years ago, Lysha DeFreitas realized her dream of owning a home. She bought a 750-sq.-ft., two-bedroom condo in Mississauga. It was a milestone moment for De-Freitas. Given the cost of real estate in the GTA, being able to buy her first home was no small feat. "I'd just come out of university and had very little money saved," she recalls. "So, it was a challenge."

Landing a full-time job in sales and marketing after graduation helped. Still, she worked hard, saved diligently and eventually cobbled together the down payment. "I really wanted this particular condo," she says, "and I did everything I could to buy it."

DeFreitas was fortunate to get onto the property ladder when she did. Nowadays, prospective home purchasers find the market more challenging, as municipalities across the GTA contemplate hikes in development charges (DCs) — the taxes imposed on the construction of new homes and employment spaces to pay for growth-related infrastructure, such as roads, transit, sewer and water pipes, and parks and community centres.

"Ultimately, development charges are paid for by new-home buyers and businesses," notes Bryan Tuckey, president and CEO of the Building Industry and Land Development Association (BILD). "As the charges increase, affordability decreases."

**ALTUS GROUP REPORT**

BILD recently commissioned a report by Toronto-based Altus Group, which provides real estate consulting and advisory services, to examine the impact of government fees and charges on the cost of a new home in the GTA. Of all the fees and charges imposed on new homes, the study found that DCs represented the greatest proportion, having increased between 143 and 357 per cent across the GTA since 2004. "That's pretty shocking," says Altus Group's associate director Daryl Keleher, one of the report's authors. "It's an alarming trend." In addition to government fees and charges, land and construction are major components of the cost to build new homes and businesses.

The City of Toronto recently approved increasing its DCs by more than 70 per cent by 2016. Currently, DCs on new homes in Toronto range from \$8,356 on a one-bedroom apartment to \$19,412 on a detached home.

When the newly-approved rates begin phasing in come February

## GETTING IT BUILT

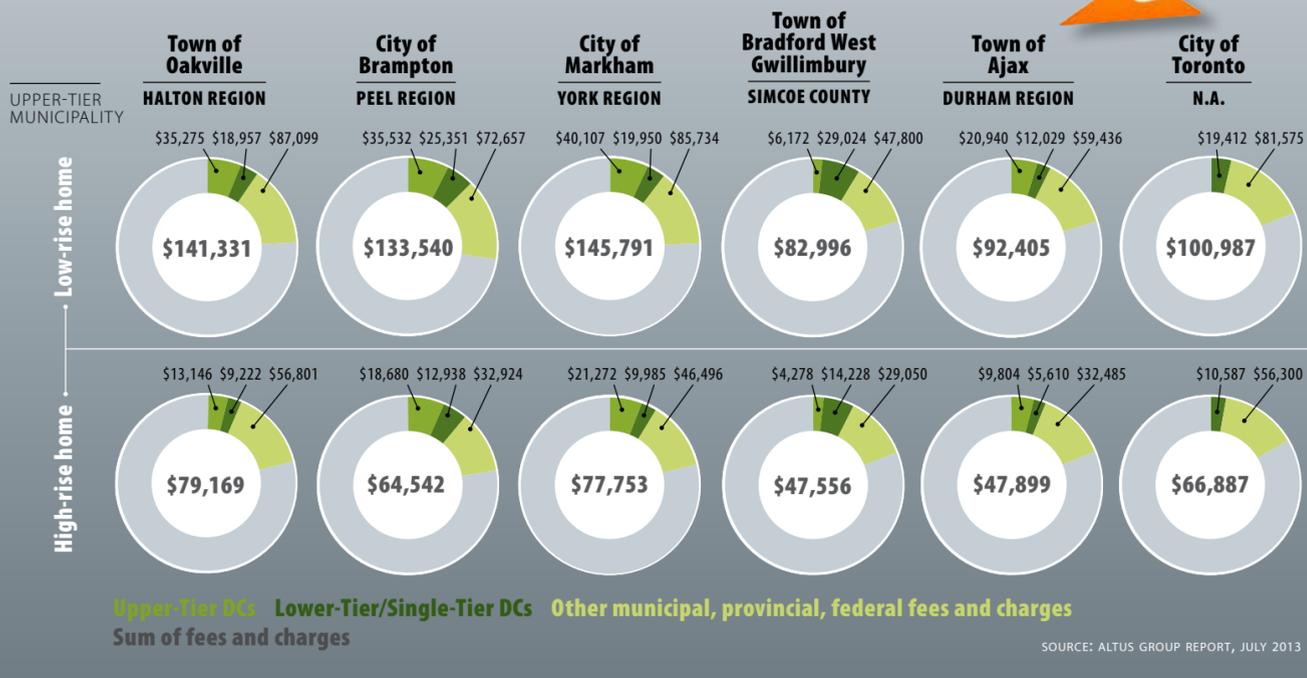
The process of housing development, land acquisition through completion, for high-rise and low-rise structures.

Land acquisition and development process  
Sales process, construction, completion



SOURCE: BILD

Where you buy affects the amount of development charges you'll pay.



2014, the DCs will jump by about 32 per cent.

It's much higher outside Toronto, in areas where infrastructure must be built to support new development. In Markham, for example, combined city and regional DCs range from \$31,257 on a condo apartment unit to \$60,057 on a detached home.

"Whether purchasers know it or not, they're paying for DCs in their mortgages," Keleher says.

**CHALLENGING AFFORDABILITY**

Rising DCs will have serious ramifications for the next generation of

purchasers, as well as the viability of companies building those homes. "These are costs they have to carry until they can get the sales," Keleher says. "It's a burden for larger builders, but smaller builders have even less flexibility to carry these costs. So, it could end up driving some independent home builders out of the market."

BILD is working with municipalities to ensure that any DC increases are reasonable and fair.

"We're advocating for affordable options," says Darren Steedman, vice-president of Concord, Ont.-

based Metrus Development Inc. and chair of BILD's Peel Region chapter. "We're trying to make sure we keep the market open to as many people as possible."

Steedman emphasizes that new-home buyers must pay their "fair share" for upgrading and building infrastructure, but at the same time, he's worried that they are shouldering a disproportionate amount of the costs. DCs in Peel have increased by more than 380 per cent since 1995, he notes. "If you look at property tax rates over the same time, they don't even come close to that."

He thinks that governments are relying too heavily on taxing new-home construction to fund infrastructure expansion, likely because purchasers don't realize that DCs are incorporated into the home price.

In the past, governments would borrow money or use property taxes as sources of funding infrastructure expansion. But elected officials today seem reluctant to raise property taxes on existing homeowners.

That's short-term thinking, according to homeowner DeFreitas. "Increasing development charges is sure to make home ownership unattainable for first-time buyers," she says. "Many of my friends are desperately trying to get into the market and they are already facing affordability issues. Increasing charges will only add to the difficulty of purchasing their own home. They are going to have to rent or continue to stay at home."

## 5 things you need to know about development charges

**1 What are development charges?**

Development charges (DCs) are fees collected by municipalities from developers at the time a building permit is issued. They help pay for the cost of infrastructure required to provide municipal services to new development, such as roads, transit, water and sewer infrastructure, community centres, and fire and police facilities.

**2 Which GTA municipality has the highest DCs?**

Of the six municipalities studied in the Altus Group report, the City of Brampton had the highest development charges; DCs there add roughly \$60,000 to the cost of a new home.

**3 How significantly have DCs increased in the past decade?**

The Altus Group study found that DCs — which constitute the highest

proportion of government charges imposed on new-home construction — increased between 143 and 357 per cent across the GTA since 2004.

**4 Why are municipalities allowed to increase DCs?**

By provincial law, municipalities can set DC rates through DC bylaws. Municipalities produce background studies to justify their infrastructure and growth

requirements. DC bylaws have a five-year time frame, but they can be reviewed and changed before they expire.

**5 When was the City of Toronto's last DC increase?**

Toronto has completed a review and in October 2013 passed a new DC bylaw. The previous bylaw was enacted in February 2009 with DC increases phased-in in February 2012 and February 2013.

This is the first in a 4-part series sponsored by BILD. Look for the next one on Sat., October 26.



## WORKING TOGETHER TOWARD A GREATER GTA

Building healthy, complete communities is a team effort. That's why BILD works closely with our partners in government to establish fair and effective policies that affect the land development, home building and professional renovation industry in the GTA. We are always at the table on behalf of the industry and new home buyers. So why is advocating on your behalf so vital to us?

