

Intelligence MEMOS



From: Benjamin Dachis

To: City Councils and Provincial Ministers of Housing

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Re: **HOW HIGH MUNICIPAL HOUSING CHARGES AND TAXES DECREASE HOUSING SUPPLY**

Home prices have skyrocketed in places like Vancouver and Toronto in the last decade. These cities have some of the highest charges on new homes and most restrictions on construction. Evidence from around the world shows that government policies that limit supply and increase the cost of housing are among the key causes of higher prices.

It is time governments take more steps to reduce these costs.

Homebuyers in Canadian cities face a multitude of taxes and charges that increase the cost of buying a home. Restrictions on housing supply and extra costs hinder the efficiency of the housing market. Recent research has found a persistent gap between the cost of building new homes and their market price in major Canadian cities. Vancouver sees an extra cost of \$644,000 for the average new house because of supply limits, while Toronto's is \$168,000. Across Canada's largest and most restrictive cities, homebuyers paid an average \$230,000 extra on a new house because of limits on supply.

To lower the cost of new housing and increase the supply, cities and provinces should change their taxes and charges on housing by taking four steps.

First, change upfront development charges on developers into per-usage fees to be paid by the ultimate homebuyer. Those buyers already end up paying higher costs due to these upfront charges to developers. Lower upfront charges will lower housing costs. This is most workable for water and wastewater charges. These are usually the largest single upfront charge that developers face. Charging the full cost of water-related capital and operations in a per-usage fee on services will also lead to less water wastage.

Second, fix outdated density bonus systems. The way this system works is that the developer gets a taller building than permitted by zoning laws. In exchange, the city gets money or community amenities. Sounds good, right? The downside is that there is great uncertainty surrounding a developer's costs because they are decided rather arbitrarily in city backrooms. For example, Community Amenity Contributions in British Columbia cause major problems for developers. The same was true of Ontario's system until recent reforms. The result of uncertainty is higher housing costs. Provinces should make these costs more predictable. They can collect the same, or more, with greater certainty and therefore lower housing costs.

Third, cities and provinces should scrap land transfer taxes. Land transfer taxes are perhaps the most economically costly tax a government can collect. They lower the number of homes available on the market because the tax puts a wedge between what buyers can afford and sellers are willing to take. They add a large amount to the upfront cost for people looking to buy. Cities that currently have them should look to reduce or eliminate them. They should instead rely more on property taxes. Provinces that have them should also eliminate them. Provinces can instead finance government services with broad-based consumption taxes.

Finally, governments should make sure that property tax reduction and deferral schemes do not lock people into their homes. Property taxes are akin to a user fee. We cannot usually charge for community parks or services such as police or fire. All residents that benefit from services should pay for them with property taxes. But many homeowners, seniors in particular, often do not have the income to pay these property taxes. So governments create programs to reduce property taxes. But why do some who own a home and pay property taxes get such support, while renters get much less? Such programs are unfair.

In addition, supports that induce people to stay in their homes to keep the property tax break have the unintended consequence of keeping these homes off the market. The economic consequence is fewer homes available for those looking to buy. British Columbia has the most generous such programs in Canada. It and other governments should replace reductions or deferrals of property taxes with income-tested supports that people can use for any kind of housing costs.

Benjamin Dachis is Director of Public Affairs for the C.D. Howe Institute and is the author of [Gimme Shelter: How High Municipal Housing Charges and Taxes Decrease Housing Supply](#).

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