

Intelligence MEMOS



From: Benjamin Dachis
To: Canadian Housing Watchers
Date: June 11, 2021
Re: **THREE STRINGS FOR OTTAWA'S HOUSING PRICE BOW**

Housing costs have become a national economic concern, reaching policymakers in Ottawa. Normally, federal moves affect the demand side of housing through lending policy. But lending power does not address lack of supply, which is the core problem. What could Ottawa do in an area that is normally provincial jurisdiction? It could use its money wisely to solve problems local governments have a harder time tackling in three areas.

First, the federal government could require that infrastructure grants only go to areas that expedite development. Here the key justification for a federal role is a need to curb local residents' opposition to construction. This opposition, which restricts entry, would be considered anti-competitive action if a business did it (and would hence involve federal power.) Supply limits caused by local government [add enormously](#) to the cost of housing. But local council members depend on local votes, making it difficult for cities to act to increase their own density. Fixing this requires action of the provinces or Ottawa, which have stronger incentives to act in a broader public interest.

Ottawa could require that provinces adopt an expedited approval process for transit station areas when they get a federal infrastructure grant. Provinces like Ontario also have such a tool. They need spurring and incentives to use it.

Transit is not even the biggest infrastructure need, however. In 2018, Ontario cities invested \$3.2 billion in water and wastewater assets, compared to \$2.3 billion on transit. Ottawa gave \$200 million in capital grants on water and wastewater to Ontario cities in 2018. Ontario gave about the same amount, with much of that money geared as matching dollars to federal money. Ottawa imposing conditions would be major leverage in this area, particularly on proposed transit lines travelling through neighbourhoods ripe for housing more people.

Development charges are a second area that could use federal attention. The largest chunk of money to finance water infrastructure comes from development charges – upfront fees on homebuyers. In 2018, Ontario homebuyers paid more than \$1 billion in water and wastewater development charges. In some Greater Toronto Area municipalities, development charges for a single, detached house in a new area can be more than \$100,000. Water-related charges are usually the largest component. Alberta and BC have similar charges. Quebec does not use development charges but collects water-related property taxes.

To build out new water infrastructure quickly without excessively burdening cities or homebuyers with debt, we need to encourage provinces and cities to take steps to create standalone water and wastewater utilities. Municipal governments would still maintain ownership and the power to set rates. But these rates should have a clearer link between the price the end-consumer pays and the amortized construction cost.

Cities in both Ontario and BC are sitting on water and wastewater development charges they have collected, which means they are not building projects buyers have paid for. Cities would have a stronger incentive to expedite development of water-related infrastructure if they got access to water-user revenues, not upfront, but only once water was actually flowing. To that end, the federal government could make utility-style water pricing a grant condition. So could the Canada Infrastructure Bank. More accurate pricing leads to less waste – bringing environmental benefits to boot. For these reasons, Ottawa's grants should also carry the condition that cities include the full amortized capital asset cost in the end-user price.

Finally, Ottawa could lower permit delays by encouraging cities to increase their use of e-permitting. The World Bank's annual [ranking](#) of international regulatory and permitting burden includes the process time for obtaining a construction permit. In Toronto, a developer must wait 249 days. In Singapore, it takes just 36 days, in Denmark and Finland only 65. Not coincidentally, these three countries are e-permitting world leaders.

The problem with e-permitting is not technological. It is training people currently working in and with today's paper permitting system, both government and industry. Ottawa should be funding e-permit training as a normal part of its skills development role.

These three measures are tangible steps Ottawa could take to boost housing supply without crossing out of its jurisdictional lane.

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A version of this Memo first [appeared](#) in the Financial Post