Intelligence MEMOS

From: Benjamin Dachis

To: Vancouver City Council

Date: July 25, 2018

Re: **City of Vancouver plans to worsen housing affordability with increased fees on developers**

House prices in Vancouver have increased dramatically in recent years. But city council is set to make affordability worse this week through increases in fees on new developments that are likely to be passed onto homebuyers.

Developers pay development cost levies (DCLs, also called development charges) to compensate municipalities for the cost of building municipal infrastructure that services homes and commercial properties. Development fees are politically popular because they are portrayed as money paid by profitable developers rather than by homeowners, who have little appetite for increased property taxes.

Vancouver City Council approved a new city-wide DCL for water and wastewater two weeks ago. It is also meeting this week to decide on increases to DCLs that cover expenses like parks, childcare, and other infrastructure. Both increases would take effect on September 30.

These charges are set to nearly double relative to charges in place now. For the average 2,000-square-foot house, the proposed DCLs would be $13,000, up from the current $7,200.

In a recent C.D. Howe Institute study I co-authored, we found that increasing DCLs in Ontario cities leads to higher house prices, not just for new houses, but for all houses (on average) in the city that increased DCLs. Vancouver City Council should be aware of this Ontario evidence, which that shows higher costs on developers get passed onto consumers.

With the recent changes, Vancouver will be joining the club of cities in which water-related charges are the largest single component of these DCLs. Water and wastewater construction charges are 20 percent of total development charges in Ontario cities like Toronto or Ottawa. Water-related charges are more than half of the DCLs in many suburban Toronto-area cities.

It would be better to charge for these services based on actual end use, as is common for electricity and natural gas, instead of through up-front fees. Only if cities charge the full cost of both annual operations and construction through gradual depreciation of assets will consumers pay the full cost of water assets. When customers pay the full cost of using an asset on a life-cycle basis, they are making the choice of consuming the right amount of water every time they turn on the tap or flush a toilet. Water prices on end use are too low in many places, partly because of municipal reliance on capital financing from development charges. Removing development charges for water and wastewater and charging consumers only on end use would better reflect the full use of water, leading to less overconsumption.

The DCLs set by the City of Vancouver are only a portion of the overall upfront cost that developers face when building homes. For example, Vancouver-area municipalities negotiate with developers to provide “Community Amenity Contributions” when a development proposal exceeds zoning bylaws. These kinds of charges increase uncertainty for developers and therefore increase the cost of housing. While amenities increase the value of housing, requiring developers to finance them results in homebuilders paying upfront for these kinds of services. The result, like DCLs, are high costs passed onto new homebuyers, resulting in high house prices for all.

If the City of Vancouver wants to improve affordability, it should find ways to better distribute the costs of new infrastructure in a way that better reflects its actual usage.

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