Intelligence MEMOS

From: Jeremy M. Kronick and Farah Omran

To: The Honourable Steve Clark, Minister of Municipal Affairs and Housing

Date: May 8, 2019

Re: **SO CLOSE YET SO FAR: ONTARIO'S HOUSING SUPPLY ACTION PLAN**

The Ontario government announced its housing policy last week. It includes a suite of policy changes aimed at reducing red tape, increasing access to new homes, and improving housing affordability. However, the plan takes only a half-measure on development charges, one of the largest regulatory cost burdens for developers, and, as a result, consumers.

The debate on how to fix housing affordability in Toronto has raged for a decade. Often the solutions lie in one of two camps: demand-side or supply-side. However, a C.D. Howe Institute report shows that supply constraints and barriers to housing development, mostly resulting from regulatory burdens – such as length of approval prices, zoning regulations, and development charges – significantly increase the price of housing. In Ontario, this burden is estimated at around $45,000 for an average detached home, reaching almost $90,000 in the GTA.

One of the more substantial and welcome changes in the new policy is aimed at speeding up the development approvals process, which can take more than two years for new structures. It includes amendments that reduce decision-making timelines by a total of 210 days and could streamline the planning approvals to 45 days.

But the plan only nibbles at development charges, exempting secondary dwelling units in new homes, such as basement apartments. It also allows developers to put off paying these charges for five years in the case of rental housing. While this helps create more rental space, it is unclear why more was not done with respect to other forms of housing.

Development charges are one of the largest regulatory burdens on housing, and they have risen in many Canadian municipalities. For example, in May 2018, Toronto announced an increase in development charges for a single-detached house to more than $80,000 by November 2020, doubling these charges in the span of almost two years. Toronto is not unique, as many GTA municipalities have increased development charges more than 200 percent in the last 15 years.

Think about these numbers in terms of house prices. The aforementioned C.D. Howe Institute report showed that a 10 percent increase in development charges on a new single-detached dwelling results in a 0.45 percent price increase. So, Toronto's doubling of these charges would result in a 4.5 percent increase in house prices. For the average price of a detached Toronto home – $1.35 million – that is an increase of approximately $60,000.

Municipalities should replace these upfront development charges with user fees based on actual end use – as is done with electricity. This would allow households to determine their desired level of consumption as they have to pay the full cost over the life-cycle of the asset. This in turn will reduce upfront costs for homebuyers, making housing more affordable.

Moreover, the province can assume some responsibility by creating independent regulators tasked with making certain that municipalities are appropriately pricing such services.

Last week's announcement presents a positive change for Ontarians looking to buy a home. It is a step forward in tackling housing affordability in Canada's largest city. But government fell short of sufficiently addressing the issue of development charges, one of the main drivers of rising prices. An opportunity missed.

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