

Opinion: Toronto's development charge increase will make housing even less affordable

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FULL TEXT

Now that Toronto's municipal election is over, the difficult business of governing resumes. Building more housing in and around the city is such a pressing issue that the Ontario government has tabled legislation that would force municipalities to allow more homes to be built. Toronto city council should do its part by re-examining its recent decision to increase development charges, which could undermine the goal of building more housing.

The fundamental problem with Toronto's housing market is that there are more people looking to buy homes than are available on the market, which serves to keep costs high. There are a number of barriers to constructing new units in the city, including restrictive zoning regulations and excessive red tape - both of which the province is now seeking to tackle. Another barrier is a sharp increase in municipal development charges.

These charges, which are levied on property developers to cover various infrastructure costs, are already among the highest in Canada, currently ranging from \$35,910 for a studio or one-bedroom apartment, to \$93,978 per detached or semi-detached home. By next year, these charges will increase to \$52,367 and \$137,040, respectively.

Here, too, the province's recently tabled legislation seeks to lighten the burden by eventually exempting non-market housing, such as homes built by non-profits, from development charges and reducing charges for larger rental units. Barring any additional changes, though, the bulk of residential development will be subject to the city's higher rates. From a local taxpayer's perspective, development charges and other similar levies are a handy way of funding infrastructure and services that are needed to service the city's growing population.

Rather than paying for these services and amenities with property taxes, Toronto has shifted a significant share of the cost burden onto property developers. This arrangement works for city councillors, who can promise more services and amenities to voters without increasing property taxes or fees.

On the surface, it would seem as though Toronto can have its cake and eat it, too. The reality, however, is that these fees make Toronto a more expensive, less inclusive place to live.

Development charges are baked into developers' feasibility calculations, just like the cost of labour, materials and land. If the market is tight, as has been the case in recent years, there's a good chance they can pass these costs directly onto home buyers and renters, in order to make projects feasible. Otherwise, they might build less housing, which would further drive up prices and rents.

In either case, those bearing the brunt of development charge increases are home buyers and renters, including first-time buyers, newcomers and lower-income households.

The rationale for development charges is that "growth should pay for growth." In other words, new infrastructure should be paid for by new, rather than existing, residents. The problem is that it's not hard for the city to justify shifting the cost of projects it would have financed either way onto immigrants, people moving from elsewhere in the country and Torontonians looking for the opportunity to become homeowners.

The list of services to be funded with this revenue stream is quite broad. Beyond the roads, sewers, police stations and other services directly tied to growth, development charges are also used to fund social or non-market housing. The irony is that by setting developer fees too high, the city risks reducing the number of units that would otherwise be built. This not only decreases the fees and taxes it might ultimately collect, but could worsen Toronto's

This is especially problematic at a time when interest rates are on the rise and some developers are already considering shelving some projects. The city should be wary of further squeezing the goose that laid the golden egg. Development charges play well politically, but are easily abused. They offer existing residents and their local councillors a seemingly perfect funding option for new infrastructure and amenities, but end up burdening first-time home buyers, newcomers and renters. Rather than make Toronto more expensive and less inclusive, city council should consider more efficient and equitable tools that don't exacerbate the city's existing problems.

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