July 11, 2022

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Sent electronically.

RE: EX34.1 Growth Funding Tools – Development Charges

RESCON is writing to provide feedback regarding EX34.1, Growth Funding Tools – Development Charges, which will be discussed at Executive Committee on July 12, 2022.

RESCON's goal is to work in cooperation with government and related stakeholders to offer realistic solutions to the many challenges facing the residential building industry, which in turn have wider societal impacts.

The City of Toronto, and the Province has a whole is facing an critical housing affordability and supply crisis. A recent and arguably unprecedented CMHC report already states drastic action is necessary to increase supply and reduce costs. The average home price in Toronto and surrounding areas is over $1.3 million. Over 400,000 immigrants are coming to Canada each year, many of whom will end up choosing to live and work in Toronto. The added demand will continue to drive housing costs if supply issues are not addressed.

The industry, as with most of society, is still reeling from the effects the pandemic, which has resulted in decreased on-site productivity, and high costs associated with materials and labour. This is now coupled with high inflation and interest rate hikes. Despite this, the City of Toronto continues to push forward with increasing development charges by 46%, which will dramatically add to the overall cost of new housing – for sale or rented. The charge for an apartment with two bedrooms or more would rise to $80,218 from $55,012, and for an apartment with fewer than two bedrooms it would rise to $53,367 from $35,910.

These development charges are just one of the many fees, levies and charges imposed on builders. Currently, they account for up to 24% of the total cost of a new home. The proposed increases to development charges will dramatically increase the total amount of taxes, fees and levies. Changes to development charges and other policy and regulatory changes have hampered the ability of the residential construction industry to build much needed housing of all forms and has exacerbated affordability issues through increases to incurred costs.

Moreover, the principle that growth pays for growth isn't evident as Toronto is riddled with poor infrastructure and as funds gathered from Growth Funding Tools are being used for an ever-increasing pool of policy objectives or left unused – an estimated $2.6 billion as of April 2022. In many cases, the City offloads responsibility to private industry instead of using funds gained from Growth Funding Tools to fix problems or improve services. This is evident in the City's groundwater foundation drainage policy. Despite storm and sanitary sewer infrastructure being under the purview and responsibility of the City, they have mandated that groundwater be managed onsite through waterproofing the undergrounds of buildings. Instead of addressing the root of the problem – aging, constrained and antiquated sewers – they are requiring developers to manage groundwater onsite, which is an added upfront cost for new high-rise units. Greater oversight of development charge reserve funds is needed to ensure that funds are being used in a timely manner and towards purposeful projects and City improvements.

The proposed increase in development charges will discourage construction of all types of housing – including affordable housing and missing middle housing. The proposed policy includes zero levies for those who build affordable housing. The GTA already has some of the highest development charges in North America, and their impacts are already being felt. Raising development charges will drive up the cost of new housing and stymie new housing supply, both counterproductive to the City and Province's own goal of increasing the supply and affordability of housing. RESCON strongly believes that any increases to development charges should freeze until economic conditions are improved, or at the very least, the 46% increase be reconsidered and clarified.

While it is apparent the City is facing serious fiscal challenges and may currently have limited recourse to additional funding, it is our view that this approach is wrong headed relative to the dire need for housing. This approach is fundamentally regressive and not income tested – it hits those who can least afford new housing the most.

As housing is a need, the only alternative is many will be forced to live in often unsafe and crowded occupancies or forced to leave entirely. Both have serious social welfare implications. This "growth pays for growth" is actually more akin to "new buyers and renters unfairly paying for growth". That is because these additional costs are passed onto consumers and ultimately not bourn by the building industry. Given the fact that construction costs have increased dramatically, the proposed increase will render potential new projects unviable.

In our view given the critical need for new housing and the already rising costs for builders for a variety of reasons, other solutions need to be explored with senior levels of government. This view has been reinforced by a recent CMHC report that recommended municipalities explore alternate tools for municipalities to raise revenue.

Sincerely,

Richard Lyall
President

Copy to:

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Tracey Cook, Deputy City Manager
Gregg Lintern, Chief Planner & Executive Director
Andrew Flynn, Controller, Office of the Controller
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