

# Intelligence MEMOS



From: Benjamin Dachis

To: House of Commons Standing Committee on Industry, Science and Technology

Date: April 16, 2021

Re: **REDUCING PERMIT COSTS IN THE CANADIAN ECONOMY**

From water hookup fees to interminable waits for approval from city hall, excess permit costs and delays are harming Canadian homebuyers and small businesses.

For homebuyers, restrictions on housing supply and extra costs hinder the efficiency of the housing market. A 2018 C.D. Howe Institute [paper](#) found a persistent gap between the cost of building new homes and their market price in major Canadian cities. This is a regulatory and permit tax on housing.

A well-functioning housing market results in the market price of housing being close to the cost of building it. If prices persistently exceed this construction cost, it is often due to barriers that inhibit new construction. These barriers often stem from excessive regulations and permit requirements that leads to protracted development times. And time is money in the development industry. And this regulatory tax is huge in some places.

We estimate that homebuyers in Vancouver see an extra cost of \$644,000 for the average new home because of supply limits. Across Canada's largest and most restrictive cities (mostly in BC and Ontario), homebuyers paid hundreds of thousands of dollars more than the construction cost of a newly built house because of limits on supply. It's an extra \$112,000 for homebuyers in Ottawa. In Calgary an extra \$152,000. And an extra \$168,000 in the Greater Toronto Area.

Vancouver's cost of housing restrictions is by far the largest in Canada, resulting in a 50 percent extra cost that is on par with costs in Manhattan. Government limits on land availability and restrictive zoning that limits new construction within cities is a clear suspect.

At the other end of the spectrum, home buying costs in the Montreal area have stayed close to construction costs. Montreal has enabled dense housing development, keeping housing costs down.

So, why are housing costs so high elsewhere in Canada? We find that restrictions and extra costs on building new housing – such as zoning regulations, development charges (which don't apply in Quebec cities), and limits on land development are dramatically increasing the price of housing.

Small businesses also suffer from the proliferation of permits.

The World Bank's [annual ranking](#) of every country's regulatory and permitting burden includes the 10 major measures of business regulation and process, including the process time for a small business to obtain a construction permit for a small warehouse.

A small business developing a warehouse in [Toronto](#) (the only Canadian city that the World Bank considers) will have to wait 248 days. It takes 28 days in [South Korea](#), 36 in [Singapore](#) and 65 in [Denmark](#) or [Finland](#). Major [US](#) cities like New York and Los Angeles see approvals within 2 to 3 months.

How do we fix this?

To expedite housing approvals, cities should increase their use of e-permitting. E-permitting is an online platform that connects all relevant building permit and planning processes. Such systems already have a proven track record of success across the globe and are starting to gain traction here.

Leading by example, governments should also enact policies that set certain design and development standards for their own projects. The federal government could set an e-permitting system requirement and standard in conjunction with willing provinces.

The problem with e-permitting is not technological, rather it is training people currently working in and with today's permitting system, both government and industry. Better training can be funded in part by the federal government.

However, e-permitting is just a technical workaround of convoluted permit rules. It addresses the symptom, not the cause.

The root cause is too many different permit requirements for development approvals.

Much of this is in the hands of provincial and municipal governments. What can Ottawa do?

First, the federal government could require that infrastructure grants such as for transit or highways only go to areas in which development is expedited. For example, Ontario can designate affected residential or employment land as subject to what is called a [Development Permit System](#). This system eliminates multiple application streams and sets strict timelines for approval. Ottawa can require that provinces adopt that or a similar approval process for nearby areas when they get a federal infrastructure grant.

Second, the World Bank's study only includes the City of Toronto. Requesting expansion – or replicating it domestically – to Canada's major municipalities would provide enormous insight into the permitting barriers across Canada. That will arm people with a better understanding of the problems of permitting barriers in numerous areas and help us lower them.

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