

Intelligence MEMOS



From: Benjamin Dachis
To: Ontario's New Government
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Re: **THE STARTLING COSTS OF REGULATION IN HOUSING PRICES**

The cost of housing has been going through the roof in many parts of Canada. But even as governments have focused on curtailing demand, supply constraints are the more likely key cause of surging prices.

Restrictions on housing supply hinder the efficiency of the housing market. Delays in building result in shortages and higher prices. One way to measure a broken housing market is to look at the gap between construction costs and sale prices. In places where it is hard to build, the costs of construction are higher. That means prices are often higher in places with little open land, but if prices persistently exceed construction costs, excessive regulation is the likeliest culprit.

In my recent C.D. Howe Institute [report](#), co-authored with Vincent Thivierge, I found that homebuyers in the eight most restrictive cities paid an extra \$230,000 on top of construction costs per new single-detached house between 2007 and 2016.

The Ontario experience provides insights as to how this happens. Look at all the restrictions and extra costs on building new housing in the province. Most major municipalities levy tens of thousands of dollars of development charges on the construction of new housing. In many cities, developers need to undergo a lengthy approval process for many new projects. Many municipalities have a large share of land dedicated to agriculture. That means less land available for housing, and higher prices. New development on Greenbelt land – the subject of much recent debate – is heavily restricted. Besides the Greenbelt, the province sets growth limits and rules on municipalities in the Greater Toronto Area.

Taking the extra costs of all barriers together, they add over \$100,000 to the price of both existing and new single-detached homes in some Ontario municipalities. A modest increase in land availability for housing development, along with cutting development and zoning costs to the provincial average, would reduce the price of housing by more than \$70,000 in Toronto and the Peel and Durham regions, \$90,000 in Halton Region, more than \$100,000 in Hamilton and nearly \$125,000 in York Region.

Land-use regulations can generate important benefits, such as making cities more beautiful, preserving important ecosystems, and separating polluting industries from housing. However, most studies find that the costs of higher housing prices imposed by housing regulation outweigh the benefits.

What to do? Toronto has not updated some zoning bylaws since the 1950s. Outdated zoning regulations mean that new developments go through a costly zoning review. It's time Toronto eased up on zoning restrictions.

Cities should also reduce politically popular development charges. Development charges are portrayed as money paid by profitable developers rather than by homeowners. In reality, the costs get passed on to homebuyers. The largest share of development charges are for water and wastewater construction. It would be better to charge for these services based on actual end use, instead of through up-front fees. The trend is going the other way, however: Toronto is planning to double development charges. The result will be higher home prices.

Rezoning more agricultural land for residential use – while keeping the size of the Greenbelt constant – would reduce home prices across the GTA. The Greenbelt is not the core issue for housing costs. Suburban municipalities are not enabling development on land between the existing urban boundary and the Greenbelt. This is partly because of provincial growth plan rules.

The evidence shows that supply restrictions are a major driver of housing prices. You have the opportunity to reduce these barriers and make housing more affordable.

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