

Barriers to Housing Supply in Ontario and the Greater Toronto Area

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ZONING
RESTRICTIONS

PERMITTING

BUREAUCRATIC
DELAYS

MUNICIPAL
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PROHIBITIONS

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Executive Summary

Housing affordability has eroded significantly in many parts of Ontario in recent years, prompting a more thorough review of governments' role in facilitating or impeding the construction of needed homes. While recent policy initiatives signal positive shifts, formidable obstacles persist. This essay summarizes the challenges hindering housing development in Ontario, with a specific focus on the Greater Toronto Area (GTA), including analysis of five major categories of barriers: high fees on development, onerous building requirements, ancillary and holding costs, land costs, and uncertainty.

Fees and taxes on development

Homebuilders in Ontario can face a number of fees, including application and permitting fees, development charges, parkland dedication, and community benefits charges. These fees, compounded with taxes imposed by all levels of government, significantly impact the cost of housing. In 2022, fees averaged \$116,870 per low-rise unit and \$79,140 per high-rise unit in the GTA (Altus Group, 2022). Variations among municipalities and the consistent upward trend of fees highlight the urgent need for further fee caps or reductions, ensuring greater feasibility for homebuilding projects. Opportunities for reform include implementing maximums, reviewing eligible services for funding, and exploring alternative infrastructure financing models.

Building requirements

Municipal and provincial regulations significantly affect the financial viability of housing projects. Zoning bylaws, building codes, official plans, and design guidelines dictate the scale, types, and features of allowable housing. These regulations often lead to constraints on the intensity of land use, minimum lot size requirements, and additional criteria such as parking spaces. A more flexible approach to building requirements would be to align the number of units allowed “as-of-right”—that is, without zoning changes—with infrastructure capacity, relax rules on property dimensions, structures, and parking requirements, and update official plans to reflect housing demand.

Ancillary costs

Developers encounter substantial ancillary costs related to staffing and holding properties over time. Complex approval processes, involving numerous studies and submissions, escalate staffing costs. Holding costs, covering the period from project approval to construction, include staffing expenses, property taxes, loan interest, and general operating costs. A solution would be to streamline the development approvals process through a provincewide digital portal, reducing the number of requirements and shortening timelines.

Land costs

Land acquisition stands as a significant factor in feasibility calculations, representing 10 to 20 percent of total development costs. Since urban containment policies, such as the Growth Plan for the Greater Golden Horseshoe and the Greenbelt, restrict outward expansion and inflate land prices, building requirements should be reformed to reduce distortions in land markets. Relaxing urban containment policies and adopting models of controlled land releases (as practised or proposed in Oregon and the United Kingdom) could also alleviate the strain on land costs.

Uncertainty

Uncertainty associated with the approval process and potential alterations in mid-project pose a considerable deterrent to homebuilding. Public consultations, appeals to the Ontario Land Tribunal, and unpredictable decision-making processes contribute to increased costs and risks. Official plan development should be made the primary stage for community engagement, reducing the need for extensive consultations during subsequent project phases.

Introduction

“Crisis” has become a common term used to describe acute housing affordability challenges across a growing number of Ontario communities. However, the persistent, worsening nature of housing prospects for renters and home buyers in the province suggests the issue has grown beyond a state of crisis. Rather, Ontario’s housing challenges have become chronic, reflecting deep underlying deficiencies in the province’s ability to deliver housing at the scale required to meet fast-growing need.

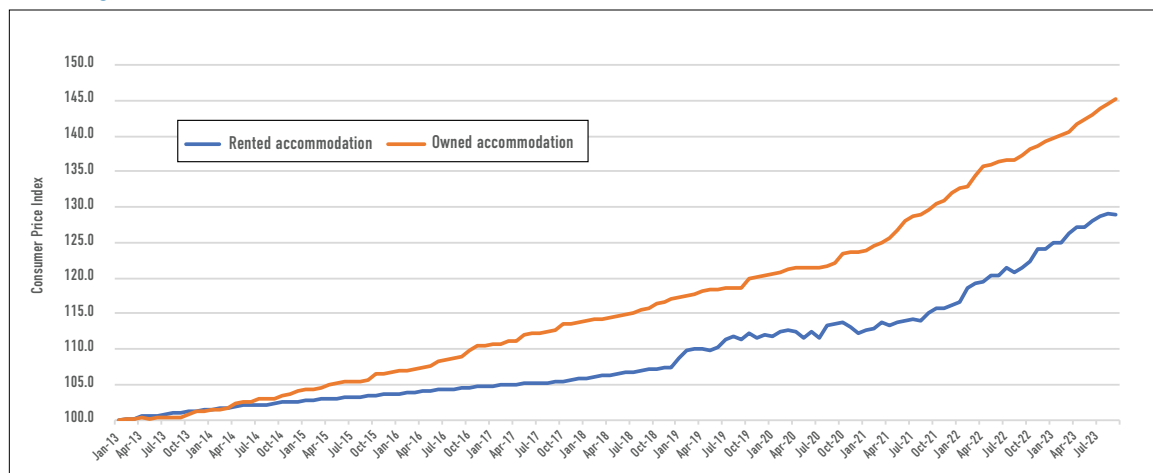
This study joins a growing body of research discussing the causes, consequences, and solutions to Ontario’s worsening housing outcomes by outlining some of the extant barriers to the housing supply’s ability to keep up with fast-growing demand, with an emphasis on the Greater Toronto Area (GTA)—Canada’s largest urban region. After briefly describing the rising costs of owning and renting housing, we then summarize some of the measures governments have implemented to alleviate Ontario’s housing shortage. Next, we outline barriers stemming from local and provincial policies: despite a growing number of pro-housing initiatives by all levels of government in recent years, significant policy obstacles remain that inhibit the more rapid expansion of Ontario’s housing supply. Finally, we highlight important opportunities for reform.

The State of Housing Affordability in Ontario

The housing affordability challenges facing Ontario communities are both significant and worsening. Figures 1.1 and 1.2 show the evolution of the housing components of the consumer price index (CPI) since 2013 in Ontario and the GTA,¹ respectively. Both the rented and owned accommodation components of the CPI have risen consistently in recent years, with accelerated growth during and since the COVID-19 pandemic. Indeed, as figure 2 shows, rents rose by anywhere from 40 percent to 58 percent over the period from 2013 to 2022, growth that was faster than that of nominal incomes over a similar period.²

Improved housing affordability—for both homebuyers and renters—remains unlikely as long as the number of households seeking housing remains greater than the number of homes available to buy or rent. To illustrate, figures 3.1 and 3.2 compare annual population growth with housing completions (the number of housing units built) in Ontario between 2003 and 2022, the two most recent decades of data. Although the number of additional people in Ontario routinely outpaced the number of homes built, this gap has widened since the mid-2010s, driven by accelerating population growth and steady or

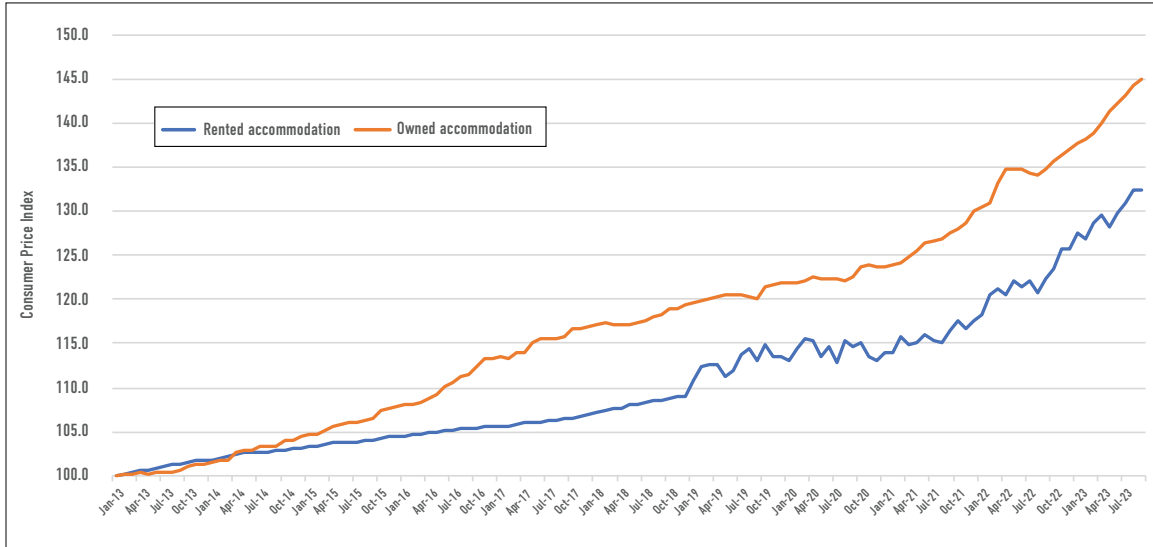
Figure 1.1: Housing-related consumer price index components, Ontario, 2013-2023 (January 2013 = 100)



Source: CANSIM Table: 18-10-0004-01 (formerly CANSIM 326-0020).

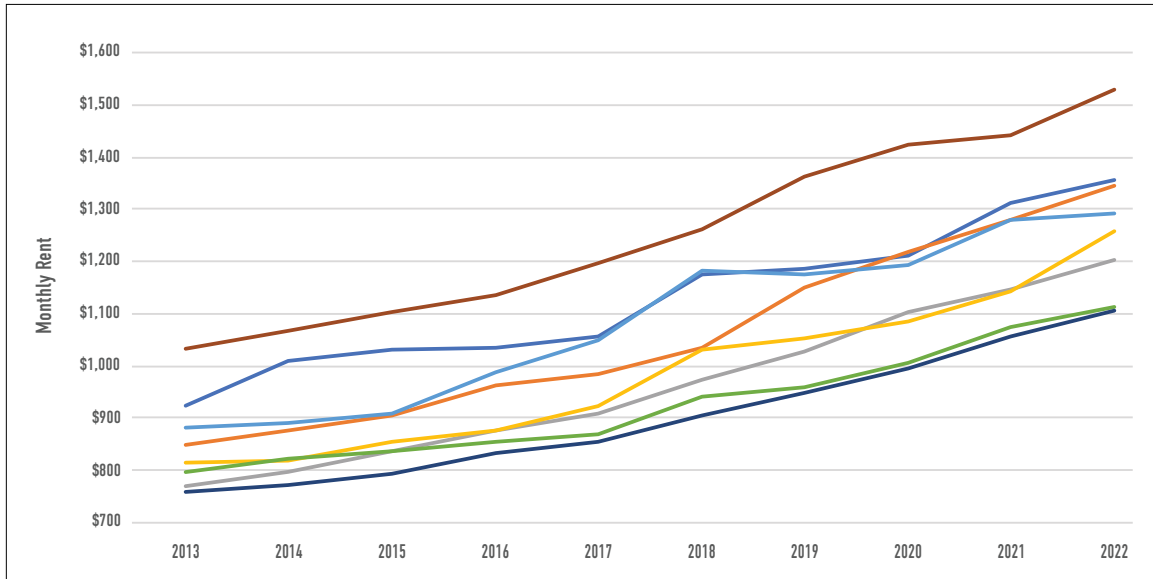
- 1 For the purposes of this study, the GTA is approximated by the Toronto Census Metropolitan Area.
- 2 Average total (nominal) income in Ontario grew by 33 percent between 2010 and 2020, the most recent decade of available census data at the time of writing (Statistics Canada, 2013, 2023c). Over the same period, nominal rents grew by between 32 percent and 55 percent in the metropolitan areas featured in figure 2, with an unweighted average of 46 percent (Statistics Canada, 2023b).

Figure 1.2: Consumer price index components, Toronto census metropolitan area, 2013-2023 (January 2013 = 100)



Source: CANSIM Table: 18-10-0004-01 (formerly CANSIM 326-0020).

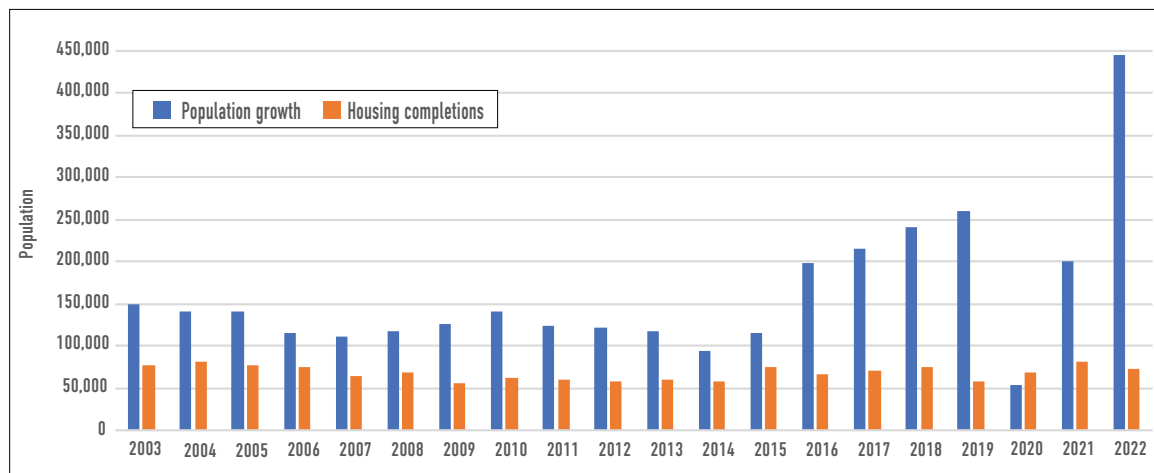
Figure 2: Average nominal rent for one-bedroom apartment, select Ontario census metropolitan areas, 2013-2022



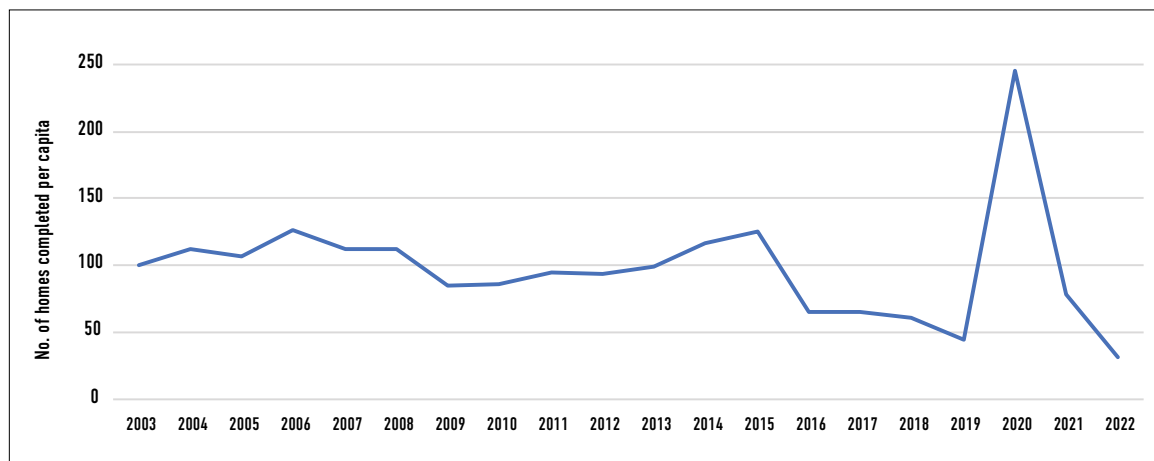
Source: Table: CANSIM 34-10-0133-01 (formerly CANSIM 027-0040).

stagnant housing completions.³ Further, the number of homes built per additional person in Ontario declined over the past two decades (with the exception of 2020, at the height of the COVID-19 pandemic), falling by 2022 below one-third the rate achieved in 2003.

3 For more on the gap between population growth and housing completions in Ontario and across Canada, see Filipowicz (2023).

Figure 3.1: Population growth and housing completions, Ontario, 2003–2022

Sources: CANSIM tables 17-10-0009-01 and 34-10-0126-01.

Figure 3.2: Index of homes completed per additional person, Ontario, 2003–2022 (2003 = 100)

Sources: CANSIM tables 17-10-0009-01 and 34-10-0126-01.

This large, widening gap between supply and demand is significant and unprecedented. As Perrault (2022) and CMHC (2023) estimate, the shortage of housing in Ontario—the number of housing units needed to match similar jurisdictions or to attain historical levels of affordability—ranges from the hundreds of thousands to well over one million units. The scale of these numbers suggests that this shortage is unlikely to diminish in the near term due to cyclical factors such as recessions. Indeed, where “crisis” implies acute, short-term deterioration, chronic problems anchor themselves in the longer term, as reflected by Ontario’s housing challenges.

These challenges affect households and communities both directly and indirectly. High shelter costs directly impact household budgets by requiring a greater share of income

to pay rent or a mortgage at the expense of other priorities. This impact disproportionately affects lower-income households and the most vulnerable individuals, who are least equipped to incur rising shelter costs. Indirectly, the challenge of housing affordability hurts communities by inhibiting labour markets and household formation. For example, workers well suited to job opportunities in cities or regions with prohibitively expensive housing markets could be deterred from moving, despite better pay, with potentially severe effects on economic growth and opportunity (Hsieh and Moretti, 2019).

Unfortunately, many Ontario communities are facing exactly these challenges, threatening the province's continued prosperity and upward mobility, and motivating growing electoral pressure to resolve these challenges. Further, the state of housing affordability across Ontario communities raises important questions about the factors driving apart the demand and supply sides of the housing equation. Although market factors such as lending costs, construction and materials costs, and changing preferences influence the number and types of homes built in Ontario, government policy also plays an important, if not leading role. Green et al. (2016) link housing supply responsiveness to a number of government-controlled factors, including restrictive land-use regulations, lengthy and unpredictable homebuilding approval timelines, and local opposition to new homes.

The State of Housing Policy in Ontario

In response to declining housing affordability and the resulting rising electoral pressure, all three levels of government have undertaken efforts aimed at reducing or removing some of the barriers that deter, slow, or prohibit the construction of additional housing.

Among several reforms undertaken by the Ontario provincial government in recent years, the most notable were implemented in the wake of the Ontario Housing Affordability Task Force, struck by the province in 2021, which presented 55 high-level recommendations for the acceleration of housing supply in its final report, published in early 2022 (Ontario, 2022).

Since the report's publication, several important recommendations have been fully or partially implemented, such as allowing the use of up to three housing units in most existing residential areas "as-of-right" (that is, without the need to amend local zoning bylaws); introducing statutory decision-making timelines for stages of the development approval process; allowing taller buildings to be built using less costly materials such as mass timber; and removing the full provincial portion of the harmonized sales tax (HST) on new purpose-built rental housing.

In all, at the time of writing, 23 of the 55 recommendations have been fully or partially implemented, the details of which are listed on a progress-tracking page associated with the Task Force's report (Ontario, 2023a). Notable recommendations that have yet to be implemented include:

- allowing zoning of unlimited height as-of-right in the immediate proximity of individual major transit stations;
- allowing zoning of buildings 6 to 11 storeys in height as-of-right with no minimum parking requirements on any streets used by public transit;
- designating or rezoning all land along transit corridors to allow mixed commercial and residential use and redesignating all residential apartments to mixed commercial and residential zoning in Toronto; and
- waiving development charges and parkland cash-in-lieu and charging only modest connection fees for all infill residential projects up to 10 units or for any development where no new material infrastructure will be required.

Several other efforts are in progress, such as improved data standards and reporting for all land development requirements, timelines, and municipal progress toward homebuilding targets.

Municipalities have also taken important initiatives to enable the supply of more homes in more neighbourhoods. For example, in 2020 the City of Ottawa changed the zoning designation of many low-density residential neighbourhoods to allow low-rise apartment buildings, while in early 2023 the City of Toronto legalized up to four units as-of-right in most residential areas. London recently updated its official plan, which guides long-term growth, and is currently revising its zoning bylaws, with the likely intention of allowing more housing types in more neighbourhoods outright.

Finally, in late 2023 the federal government eliminated its share of the HST on new purpose-built rental construction, and launched its Housing Accelerator Fund the same year. The Fund, which rewards municipalities for reforms aimed at allowing more housing construction, has been used as a tool to negotiate housing reforms in municipalities across the country. In broad terms, a minimum threshold for funding is allowing four units as-of-right on any residentially zoned lot.⁴

The reforms introduced at all three levels of government represent a notable departure from previous approaches to housing policy in Ontario. But these reforms are unlikely to meet the goal, agreed to by all parties in the 2022 provincial election, of meeting the Task Force’s recommended objective of building 1.5 million homes in 10 years, as evidenced by homebuilding trends. Indeed, in its 2023 Economic Outlook and Fiscal Review, the provincial government projected housing starts (the number of housing units for which construction has begun) to reach 89,500 in 2023, 84,500 in 2024, 89,200 in 2025, and 94,400 in 2026, far below the minimum of 150,000 new units needed each year since the Task Force’s report (Ontario, 2023b).

It is also worth noting that, although Ontario’s homebuilding rate has steadily increased in recent years, homebuilding patterns remain both below levels reached in previous decades and highly concentrated, geographically. Homebuilding in the province, measured by housing completions, has yet to reach the same level as in the 1970s (Filipowicz, 2023), while examination of housing stock growth in the GTA between 2016 and 2021 shows that more than half of development in this region occurred either in downtown Toronto (within a three-kilometre radius of Union Station) or at the urban fringe (approximately 34 kilometres from Union Station and beyond) (Filipowicz and Lafleur, 2023).

In other words, not only is Ontario building fewer homes than it did in previous decades, but vast swathes of the GTA add very few—if any—homes, suggesting significant opportunities for accelerated homebuilding in more neighbourhoods regionwide.

4 For a full list of “best practices” recommended for access to the Housing Accelerator Fund, see CMHC (2023).

Barriers to Housing Supply in Ontario

Given the magnitude and chronic nature of Ontario’s housing affordability challenges, additional, long-lasting efforts are required to bring housing demand and supply into closer balance. Many of the most significant factors affecting housing demand, such as population growth, incomes, and credit conditions, are partially or entirely outside local and provincial governments’ direct control or jurisdiction. These governments’ strongest influence on housing markets, therefore, is on the supply side of the housing equation.

In presenting a non-exhaustive list of remaining policy barriers to housing supply in Ontario, key to identifying such barriers is an understanding of housing development: the process by which homebuilding projects are conceived and executed. Housing developers—the actors undertaking the planning and construction of housing—represent a diverse range of individuals and entities with varying capacity and expertise, from individual households considering the addition of accessory dwelling units to their primary residence to large, publicly traded companies building tens of thousands of homes simultaneously across multiple markets nationally or internationally. They also include actors with varying legal, ownership, or financial status, such as private individuals, for-profit companies, non-profit organizations, and government agencies.

What all actors undertaking housing development share in common is the need for their projects to “pencil out”—that is, their projects must be financially feasible to undertake, otherwise they are not pursued. Project feasibility depends on several primary cost inputs or assumptions. These include the costs of construction, notably labour, materials, and machinery; land acquisition costs; and financing costs, including interest on loans. Developers must also anticipate a number of transaction or ancillary costs, as well as varying degrees of uncertainty, including legal and permit application costs; permanent or contract staff; municipal fees on development; and delays. Provincial and local governments wield policy levers that affect many of these inputs, either directly or indirectly. As such, policy-related barriers can be divided into the following broad categories: fees and taxes on development; building requirements; ancillary and holding costs; land costs; and uncertainty.

Fees and taxes on development

Most homebuilding projects in the GTA (and many beyond the GTA) incur direct costs in the form of fees levied by local governments. In Ontario, four different types of fees may

be applied: application and permitting fees, development charges, parkland dedication, and community benefits charges. These fees are levied in addition to the taxes levied on housing development by all levels of government.

Application and permitting fees: These include (but are not limited to) all processing costs for each stage in the development approvals process, such as building permits, plans of subdivision, zoning bylaw amendments, official plan amendments, site development plans, and plans of condominium. For example, in 2023 the City of Vaughan levied a base fee of \$45,679 for major official plan amendments, \$10,347 for zoning bylaw amendments, and \$11,926 for site development applications, as well as additional per-unit fees (typically ranging from the hundreds to low thousands of dollars).

Development charges: These are one-time fees imposed on new development by local governments to fund the capital costs associated with a broad range of offsite infrastructure—that is, infrastructure required outside a building site. Both upper (regional) and lower (municipal) tiers of local government can impose development charges at their discretion to pay for a fixed list of eligible items under the Development Charges Act. These include “hard” infrastructure such as water distribution and treatment, sewers, storm-water drainage, road widening, and electrical power services, but also “soft” services such as ambulance services, libraries, and childcare programs. In certain cases, school boards may also impose development charges to fund the acquisition of land for new schools.⁵

Parkland dedication requirements may be imposed by municipalities for the provision of parks or other recreational purposes. For commercial and industrial developments, municipalities may require up to 2 percent of the land proposed for development to be set aside for park space, or the equivalent in cash. For any other type of development (including residential), municipalities may require up to 10 percent of the land proposed for development on sites under 5 hectares, or up to 15 percent of the land for sites larger than 5 hectares (or payment-in-lieu) for this purpose. Authority for parkland dedication stems from the Planning Act.

Community benefits charges: These are an additional financial imposition on development available to municipalities to fund infrastructure or amenities not already funded by development charges or parkland dedication. Under the Planning Act, single and lower-tier municipalities⁶ can impose community benefits charges only after having developed a

5 Authority for school boards to impose Education Development Charges derives from the Education Act, rather than from the Development Charges Act, 1997.

6 Single-tier municipalities (such as the City of Toronto) encompass all municipal competencies under a single government. Lower-tier municipalities (such as the City of Mississauga) share municipal competencies with upper-tier or regional governments (such as Peel Region).

strategy for such charges that establishes desired expenditure items in advance of development applications. Community benefits charges apply only to developments with 10 or more residential units and five or more storeys, and cannot exceed 4 percent of the value of the land.

Although discretionary—that is, implemented at municipalities’ discretion—fees imposed on development are ubiquitous in Toronto, Mississauga, Brampton, Hamilton, Markham, and Vaughan, the GTA’s largest communities, and many others. They also represent a significant additional cost for new housing. Altus Group Economic Consulting estimates that, in 2022, for a sample of 16 GTA municipalities, total charges amounted to, on average, \$116,870 per low-rise unit and \$79,140 per high-rise unit (Altus Group, 2022). For context, for the same year, the Canadian Real Estate Association reports benchmark (typical) sale prices of between \$1,265,900 and \$1,591,000 for single-family homes and between \$691,900 and \$799,600 for apartments in the GTA (CREA, 2023). Further, significant variations have been observed both between municipalities and over time. In 2022, per-unit fees for low-rise units ranged from \$77,527 in Bradford West Gwillimbury to \$189,325 in the City of Toronto. Per-unit fees for high-rise units ranged from \$46,412 in Oshawa to \$121,562 in Vaughan. The municipal average in 2022 was 30 percent higher than in 2020 for low-rise units and 36 percent higher for high-rise units (Altus Group, 2022).

Taxes: Beyond the charges and fees described above, all three levels of government levy taxes on housing development. In Ontario they include the land transfer tax levied by the provincial government and the City of Toronto, the HST levied by both the federal and provincial governments, and property taxes levied by municipalities and the provincial government. Although housing developers can “pass on” these costs to homebuyers and renters, they are constrained by market rents and home purchase prices, meaning that they can rescale or even withdraw projects based on the ability to sell market units at market prices. For example, if a tax raises the “break-even” price of a condominium unit from \$500,000 to \$550,000, while the average price of comparable condominiums is \$500,000, then the developer is less likely to pursue the project.

Building requirements

The financial feasibility of building housing is also influenced by municipal and provincial stipulations determining the scale, types, and features of housing that may be constructed. In Ontario, as in other provinces, these stipulations fall under four broad categories: zoning bylaws, building codes, official plans, and design guidelines.

Zoning bylaws: These are the primary means by which municipalities govern how land can be used and how intensely land can be occupied. For example, a factory can be built only on a parcel zoned for industrial use and a home can be built only on a parcel zoned for residential use; mixed-used parcels might allow ground-level commercial retail and residences in, for example, upper floors. In large, urbanised municipalities such as Toronto and Mississauga, most of the city’s land area and parcels are zoned for residential use. In more rural municipalities such as King Township, most of the land is zoned for rural, conservation, or agricultural uses. Zoning determines the “intensity” of each use—that is, the size of buildings and the number of units that may be built—in part by stipulating building dimensions, lot sizes, and locations. For example, a parcel zoned for residential use may allow only single detached homes or larger structures such as apartment buildings, primarily with bylaws specifying how large structures can be using floor space ratios,⁷ building heights, and setbacks.⁸ Zoning bylaws can also limit the intensity of land use by minimum lot size requirements.⁹ Lastly, zoning bylaws can stipulate additional requirements such as the number of off-street parking spaces allowed on each parcel of land (for example, driveways and parking garages),¹⁰ as well as whether “inclusionary zoning” applies, meaning that a certain portion of units in a project must adhere to specific affordability criteria.¹¹

Building codes: These set standards for all structures, including those guiding residential development. The Ontario Building Code’s authority stems from the Building Code Act, 1992, which governs construction, renovation, and changes of use in buildings

7 The floor space ratio is the ratio of a building’s total floor area—that is, the cumulative floor area of all storeys in a building, in square feet or square metres—divided by the total size of the land parcel it occupies. For example, a floor space ratio of 0.5 on a 5,000-square-foot parcel of land means that a home built on that parcel is allowed to have up to 2,500 square feet of floor space.

8 Building heights and setbacks limit the size of buildings by reducing their horizontal and vertical dimensions. For example, for “R1” zoning, detached dwellings in the City of Mississauga cannot be taller than 10.7 metres, must be 9.0 metres away from the street, 1.8 metres away from the neighbouring lot, and 7.5 metres away from the rear lot line, while buildings cannot occupy more than 25 percent of a lot (Mississauga, 2023).

9 For example, detached dwellings in the City of Mississauga must occupy lots no smaller than 750 square metres (or 835 metres for corner lots) and their lot frontage (the parcel’s width along the street) must be at least 22.5 metres.

10 Typically, parking stipulations come in the form of minimums. For example, the Town of Oakville requires a minimum of two parking spaces per single and semi-detached dwelling, and one parking space per unit in duplexes, triplexes, or townhouses.

11 Inclusionary zoning, where applied, is typically expressed as a percentage of units per development project meeting predefined affordability criteria in specific zones of a city—for example, in the City of Toronto, housing affordable to households falling between the thirtieth and sixtieth percentiles of the income distribution.

provincewide. Ontario municipalities are charged with enforcing the Ontario Building Code, notably by conducting building inspections and by issuing building permits.

The primary purpose of building codes is safety—for example, by ensuring adequate plumbing, insulation, and fire prevention. Building codes also increasingly include energy efficiency requirements, such as building materials and sources of heating. Although these codes are well-intentioned, recent research highlights the additional barriers to homebuilding that overly onerous or restrictive building codes can have on the feasibility of constructing homes.

For example, means of evacuation in case of emergency—known in architectural terms as means of egress—as required by building codes can render certain building types infeasible to develop. This is especially pertinent to midrise (two-to-six-storey) apartments, which typically require two means of egress, meaning less of building's floor area can be dedicated to living space. Speckert (2023) identifies alternative approaches in cities such as Seattle and Montreal, both of which include large apartment stocks, that allow either single staircases for the evacuation of larger buildings or external staircases with fewer restrictions on dimensions.

Feasibility calculations also can be affected by energy efficiency requirements. For example, in examining the federal government's 2030 Emissions Reduction Plan—which aims among other goals to update building codes to increase energy efficiency standards in building operation and construction—McKittrick (2023) finds that, if fully adopted, these requirements could add \$54,982 per home across Canada and \$71,818 in Ontario.

Official plans: These are policy documents that guide municipalities' growth over the longer term. Required under Ontario's Planning Act, official plans specify how much and what kind of land development should occur within a municipality, and where over a specified period of time, such as 10 years. Official plans affect housing development in at least two important ways.

First, homebuilding proposals are far more likely to receive municipal approval if they conform with official plans. For example, the replacement of a single-family detached home with an apartment building requires a zoning change to allow for a larger structure containing more housing units. If the requested zoning change does not conform with the municipality's intentions for that district, as defined in the official plan, then an official plan amendment will also be required. The more a proposed development diverges from the intentions laid out in the official plan, the less likely it is to receive the necessary assent to move forward.

Second, project feasibility or likelihood of approval can be further complicated by a process called "site plan control," which municipalities are allowed to include in their official

plans. Site plan control, also enabled by the Planning Act, allows municipalities to control certain exterior physical attributes of potential development sites such as pedestrian and vehicle access, walkways, lighting, waste facilities, landscaping, drainage, and exterior design. These requirements cannot overlap with the building dimensions and interior stipulations already included in zoning bylaws and the building code. As of 2023, site plan control in Ontario applies only to developments that include more than ten units on a single parcel of land.

Design guidelines: These are measures of building design adequacy or appropriateness used to evaluate building proposals. Most, if not all, GTA communities use periodically updated local design guidelines when determining when or under which conditions to issue, for instance, amendments to zoning bylaws or official plans. For example, the City of Toronto requires tall building projects to “step back” higher floors from lower floors, or taller buildings from adjacent lower buildings through the use of angular planes (diagonal lines tilting inward from the street). Applications deemed too divergent from local design guidelines are less likely to receive approval or will require changes to project designs in order to secure approval. In practice, this often leads to a reduction in buildable floor space, and thus in the number of homes that can be built on a given property.

Combined, the building requirements stipulated in zoning bylaws, building codes, official plans, and design guidelines can present important barriers to homebuilding. Overly restrictive limits on building types and dimensions in significant portions of cities render many potential homebuilding projects infeasible, in turn reducing the overall supply of housing. For example, the majority of Toronto’s residential land was, until early 2023, reserved for single-family housing or similar low-density residential uses, meaning large-scale homebuilding or redevelopment was largely impossible in most neighbourhoods. This remains the case, to varying extents, across most cities in Ontario.

Ancillary costs

Given the varied layers of regulation and approvals surrounding housing development, property developers and landowners looking to build homes must prepare financially for a series of ancillary costs and the duration of time these costs must be incurred. These ancillary costs fall under two broad categories, staffing costs and holding costs.

Staffing costs, including full time staff and the use of external consultants, can rise in line with the scale and complexity of a project. All property development must account for municipal requirements and approval processes, but larger projects are likelier to require changes to zoning, to official plan designations, and to site plan control. These changes

require additional submissions to municipal staff and council, including technical studies and complete applications for each of the steps required. According to Altus Economic Consulting Group, up to 42 types of technical studies can apply among GTA municipalities, ranging from engineering studies specific to a site to less tangible “Market Impact Studies” (Altus Group, 2022). Property developers without the in-house capacity to complete these studies must retain external consultants, adding to project costs and further affecting feasibility. This is particularly true for smaller-scale developers and non-profit developers.

Holding costs, also called time costs or carrying costs, include the costs incurred by homebuilders as they hold properties over the duration of the development process. Common examples include ongoing staffing costs, property taxes, interest on loans, and general operating costs, which property developers begin incurring well before construction commences. According to analysis of a sample of 600 development projects across 16 GTA municipalities conducted in 2022, project approval timelines ranged from 10 to 34 months, with an average of 20 months in 11 of the 16 municipalities. As with the fees charged on development, timelines have increased since 2020, when 4 of the 16 municipalities had averages of 20 months per project (Altus Group, 2022).

Combined, the increased cost of staffing or consulting and of ongoing holding costs can profoundly affect the feasibility of building homes. Each additional month spent in the approvals process is estimated to have added \$2,600 to \$3,300 per unit in high-density developments in 2022 (Altus Group, 2022). Further, additional staffing and time requirements risk deterring smaller homebuilders from undertaking potential projects.

Land costs

One of the largest cost items in most homebuilders’ feasibility calculations is the cost of acquiring property for development. Land costs vary widely based on location, project type, and size, but some estimates suggest they typically represent between 10 and 20 percent of total development costs (Hoyt and Shuetz, 2020). Although the cost of land is determined in large part by market forces—that is, the number of potential buyers, the amount they are willing to pay, and the amount of land available—municipalities and the provincial government wield significant influence on the supply, and thus the cost, of land in the GTA in two important ways: through urban containment policies and land-use policies.

Urban containment policies, such as the provincial government’s Growth Plan for the Greater Golden Horseshoe and Ontario’s Greenbelt, present clear boundaries limiting or preventing the outward expansion of the province’s largest urban region. The former

does so by requiring at least half of all residential development occur within a “delineated built-up area,” while the latter does so by prohibiting municipalities from rezoning rural areas falling within a two-million-acre band of land surrounding the GTA (Ontario Ministry of Municipal Affairs and Housing, 2020).

By limiting the amount of land available for residential development in a fast-growing urban region, these policies place upward pressure on the price of those parcels that remain available for development. Deaton and Vyn (2014) find that, between 2002 and 2009, sale prices grew more slowly for farmland properties near urban areas but within Ontario’s Greenbelt than they did for similar properties located outside the Greenbelt. Dawkins and Nelson (2002) also find that urban growth boundaries (UGBs, a term used in urban planning to describe containment policies such as the Greenbelt) affect land prices in high-demand metropolitan areas in different parts of the world.

Land-use policies determine the amount and types of housing that can be built within existing urban areas—notably, those areas where development is not limited or prohibited by urban containment policies. Land-use policies include zoning, building code, and official planning policies as described above. The theoretical basis for the effects of land-use policies on home prices is that, by reducing the quantity and types of homes that may be built in areas demonstrating need for more housing, buyers and renters must compete for an insufficient number of available homes, in turn raising home prices and rents. Although empirical observation of this mechanism is difficult, a small but growing economic literature has emerged, especially over the past two decades, establishing direct or indirect links between land-use regulation and policies (either individually or as a bundle) and rising housing costs in various cities and regions (Glaeser, 2017).

Combined, restrictions on both the outward and upward/inward expansion of cities ultimately restrict the supply of developable land. This negatively affects housing supply because of policy and regulatory barriers that prevent homebuilding, and also because the restricted amount of available land becomes more expensive, both in absolute terms and relative to the number of homes property developers are allowed to build on it.

Uncertainty

A significant, but harder-to-measure, barrier to homebuilding in Ontario is the degree of uncertainty homebuilders face both during the approval process and before approaching municipal staff. Depending on the steps required for the development or redevelopment of a property, important aspects of a project, including timelines, building types, sizes, and the number of units, can change mid-project. For example, projects requiring amendments

to either zoning or official plans must undergo public consultations, which add time and raise the possibility that municipal councillors or staff will propose project alterations. Even smaller projects may require minor variances—public hearings by local residents—to garner consent for changes that might not conform exactly with zoning, such as the addition of a garden suite.

Concerns vary, but they often result in the loss of housing, either through height or bulk reductions, or the dedication of building space for non-residential uses, such as day care spaces. Further, all decisions may be appealed to the Ontario Land Tribunal, which adjudicates matters relating to land use and planning law. Beyond extending timelines, these less predictable project attributes add costs and risk. Indeed, Green et al. (2016) find that both timeline uncertainty and council and community opposition to projects exhibit a strong, negative relationship with overall housing supply responsiveness.

Arguably the strongest, but hardest-to-measure, consequence of uncertainty on homebuilding is its deterrence effect. It is virtually impossible to know how many projects might have otherwise been undertaken—and, thus, how many additional homes would have otherwise been built—had processes and costs, however long or high, been more predictable. It is equally hard to know how many potential participants in the homebuilding process are on the “sidelines,” and willing to undertake projects in more predictable homebuilding environments. This is especially true for smaller homebuilders, such as single-family homeowners interested in adding accessory dwelling units like basement or laneway suites, or converting their home into a duplex, triplex, or student housing.

Opportunities for Reform

Despite growing awareness and recent efforts undertaken by all governments with influence over homebuilding in Ontario, there remain significant barriers to the acceleration and expansion of the province’s housing supply. The previous section presented a non-exhaustive list of policy barriers, falling under five broad categories. This section presents opportunities for reform under each of the same five categories. These should not be interpreted as specific recommendations, but rather as a framework for the prioritization of policy proposals or policies under consideration.

Fees on development

Given the significant, growing share of per-unit costs taken up by the various fees levied on new housing, one obvious opportunity to improve the feasibility of homebuilding is to reduce these fees, either voluntarily at the local level or, more likely, via provincially legislated maximums. Progress has already been made in this regard, notably through the design of community benefits charges, which are capped at 4 percent of the value of the land, and the reduction of fees for family-sized rental units. Far more can be done, however, to reduce fees for all types of housing.

Strong variations among GTA municipalities are one indication that fees could be reduced.¹² Another indication is the list of eligible services that development charges may be used to fund. For example, “services related to public health” and “child care and early years programs and services” are included as eligible uses for funds collected from development. Health care and child care are important services, but it is not clear why they should be paid for by buyers and renters of newly built housing, or even by municipalities, given the province’s primary responsibility for health care and education.

The significant cost of fees on homebuilding should also spur change in how communities fund infrastructure. Conceptually, fees levied on homebuyers can be considered a way

12 Variations might reflect differences in municipal needs or preferences. For example, municipalities with traditionally numerous or high-value amenities such as arenas, parks, and libraries, might wish to maintain these high standards. Where this is the case, however, it means that fees will be less reflective of the base amount of infrastructure necessary to service new homes, raising important questions about the purpose of fees levied on housing development.

of internalizing the costs of growth—that is, making those who are creating the need for new infrastructure pay for it. If these fees render homebuilding infeasible, however, they risk impeding the functioning of housing markets. These risks arguably have already materialized, as evidenced by the chronic undersupply of housing relative to demand in many Ontario communities, and they should motivate greater consideration of alternative means of funding infrastructure needs, as implemented in other jurisdictions less reliant on fees. For example, the state of Texas allows the creation of Municipal Utility Districts, whose purpose is to finance infrastructure (including water, wastewater and road infrastructure) through the issuance of bonds, to be repaid by fees and property taxes over time (City of Austin, 2023).

Building requirements [level 2 head]

Arguably the greatest area for reform to improve the supply of housing is the constellation of regulations, guidelines, and legislation guiding how much housing can be built, where it can be built, what kind of housing can be built, and how it can be built. Here, too, the provincial and local governments have made progress in recent years—notably, by increasing the number of units allowed to be built on land parcels zoned for single-family housing—but far more could be done to improve the feasibility of building significantly more homes than is currently the case.

First, the number of units allowed as-of-right on all parcels should, at a minimum, match the capacity of the infrastructure servicing them. For example, if the water and wastewater connections servicing a single-family home are sufficient for the needs of six households, then six housing units should be permitted on that parcel without the need to change zoning, and certainly without the need for developers and new residents to pay the core infrastructure (water and wastewater) component of development fees.

Second, rules governing how small properties can be or how much of their surface can be occupied by a building should be relaxed, if not removed altogether. For example, reducing or eliminating minimum lot sizes, lot frontages, and setbacks while increasing building heights should allow for more building types to be built in more neighbourhoods, since building dimensions would be determined by infrastructure capacity and market demand, rather than by regulatory stipulations. Although recent provincial and municipal reforms have increased the number of housing units allowed on many low-density properties,

concurrent efforts to relax restrictions on building dimensions have been relatively less ambitious.¹³

Third, requirements pertaining to the structures that may be built should also be relaxed. At a minimum, the Ontario building code and local design guidelines should be comprehensively reviewed to identify requirements that unduly impede the feasibility of homebuilding—that is, without compromising safety standards. Means of egress, including internal and external staircases, “stepping back” structures, including through the use of angular planes, and building materials and methods should be areas of particular focus, with several international examples serving as starting points. Ontario should also join the growing number of jurisdictions¹⁴ eliminating minimum parking requirements from all development, enabling homebuilders and residents to choose the appropriate amount of parking they require.

Lastly, official plans should be rapidly updated to reflect the magnitude of demand, and zoning bylaws should reflect these changes in shorter order. As long-term plans governing how communities grow, official plans should reflect the number of additional households realistically expected to inhabit each city, and thus the number of homes required, to avoid further eroding the availability and affordability of housing. These changes necessarily will require significant relaxation of the maximum number of housing units allowed on each parcel, as well as the rules guiding building dimensions and building types. Further, although Ontario municipalities are already required to update zoning to reflect official plans within three years of adoption, these timelines are both lengthy and poorly enforced. Any long-term plans would also benefit from closer coordination with the federal government, which determines the magnitude of population growth through immigration policy.¹⁵

Ancillary and holding costs

Ancillary and holding costs associated with homebuilding could be lowered, first, by reducing the number of requirements homebuilders face and, second, by shortening development approvals processes. As a first step, the provincial government should accelerate and expand efforts to replace bespoke local approval processes with a provincewide digital

13 Ontario recently exempted laneway units, garden suites, and triplexes from minimum structure sizes in the More Homes Built Faster Act, 2022. These exemptions do not apply to other building types.

14 For a list of US cities that have partially or fully eliminated minimum parking requirements, see Hériges (2021).

15 For more on the relationship between federal policies affecting population growth and local and provincial growth plans, see Filipowicz and Lafleur (2023).

portal for all development applications, featuring all requirements associated with each parcel and a “stopwatch” feature determining how long projects spend in each step in the development approvals process.

Such a portal would make the number and types of studies or additional submissions required of development applicants transparent. It would further enable the provincial government to prohibit or merge certain requirements, such as unnecessary or subjective context studies, design guidelines, or even site plan control. Further, comprehensively measuring the length of time homebuilding projects spend waiting for approvals—including pre-application consultations—would inform efforts to shorten timelines, either by eliminating stages in the process or by enforcing existing and future maximum timelines for each stage. At the time of writing, the government of Ontario is conducting a review of data standards and municipal level reporting. This review could serve as a first step toward a provincewide portal or similar efforts toward transparency and accountability.

Land costs

The significant share of costs homebuilders must dedicate to land acquisition underscores the importance of policies that help to reduce overall land costs. The primary goal of such policies should be reducing the distortions that currently exist in land markets—notably, those created by policies that restrict homebuilding both inside and outside existing urban areas.

Major reforms to building requirements—notably, changes to zoning, the building code, design guidelines, and official planning—would reduce the distortionary effects of regulatory restrictions on desirable urban land. Even in highly prized, low-density central neighbourhoods, where these reforms might increase the average value of land, the possibility of building denser building types would reduce the land acquisition cost per housing unit, in turn improving project feasibility and the per-home cost of buying or renting.

At the urban fringe, the relaxation of urban containment policies would reduce the average value of land—all else equal—in two important ways. First, it would increase the quantity of land available for homebuilding, in turn reducing the competition for each parcel. Second, the knowledge that increases in land prices will, for example, spur the release of more land¹⁶ would reduce the risk of speculative land purchases. As other jurisdictions consider reducing the distortionary effects of urban containment policies, or have already designed or proposed mechanisms to release land in a controlled fashion (see Cheshire,

16 For example, the urban growth boundary surrounding the Portland, Oregon metropolitan region is reviewed and, if necessary, adjusted periodically, according to estimates of long-term land needs.

2019; Clayton, 2023), the Ontario government should consider how it too can reduce the cost of land required for the many additional homes the province needs.

Uncertainty

Many of the approaches and reforms proposed in this report would greatly improve the predictability of projects. Notably, by harmonizing zoning bylaws with official plans, and by requiring official plans to reflect the magnitude of housing demand, the need for community consultation and council approval would be reduced significantly. Official plan development would be the primary, if not sole, stage during which residents and councilors determine community growth, resulting from robust consultation and debate. At a minimum, Ontario could follow in the footsteps of British Columbia, where municipalities may forgo consultation on zoning amendments that are consistent with official plans.

Knowing that official plans allow for sufficient housing and that zoning bylaws match this intention (or will soon do so), homebuilders are far more likely to undertake, or at least to consider, projects, with an expectation that the project will adhere to initial drawings, budgets, and timelines. This is especially relevant to small and medium-sized projects such as townhouses or small apartment buildings, which often require similar changes to zoning or minor variances as larger projects do—including the resulting costs and delays—but generate less revenue.

POLICY BARRIERS AND RECOMMENDED APPROACHES

Fees and taxes on development

- Cap fee types that are currently uncapped—for example, by introducing legislated maximums.
- Review the list of services eligible to be funded by different fees, as well as the appropriate provider for each—for example, municipalities, provincial, federal governments, or the private and non-profit sectors.
- Consider alternative infrastructure funding models from other parts of Canada and internationally.

Building requirements

- Allow the number of units allowed on parcels “as-of-right” to match infrastructure capacity.
- Further relax or remove rules limiting the sizes and surface usage of properties—for example, minimum lot sizes and setbacks.
- Review and relax requirements pertaining to structures, such as building codes and local design guidelines.
- Update official plans rapidly to reflect the magnitude of demand, and enforce the reflection of plan changes in zoning bylaws. Coordination between federal, provincial and municipal governments will be necessary to agree on demand estimates.

Ancillary and holding costs

- Accelerate and expand efforts to replace local approval processes with a provincewide digital portal for all development applications, featuring all requirements associated with each parcel and a “stopwatch” feature determining how long projects spend in each step in the development approvals process.

Land costs

- Review urban containment policies to release buildable land in a transparent, responsible fashion in order to grow the housing supply. Examples from other jurisdictions with more flexible but managed urban growth can serve as a starting point.

Uncertainty

- Make official plan development the primary, if not sole, stage during which residents and councillors determine community growth, resulting from robust consultation and debate. Other jurisdictions recently implementing similar approaches can serve as examples.

Conclusion

As housing affordability continues to deteriorate for many Ontarians, it is essential to review the roles governments play in helping or hindering the construction of much-needed housing. An important political shift has occurred in recent years, in both tone and policy initiatives. Several new efforts by all levels of government now aim to alleviate affordability issues by fixing the province's chronic shortage of homes. This marks an undeniably positive sea change in policy making.

But significant barriers to the construction of needed homes remain. These barriers fall under five broad categories: high fees on development, onerous building requirements, high ancillary and holding costs, high land costs, and uncertainty. The suggestions in this report for reform of these barriers should help to inform priorities for future policy proposals. As housing affordability continues to erode in Ontario, further reforms are needed. By reducing or removing barriers to development, future policy efforts are far more likely to succeed in delivering significant, needed improvements to Ontarians' quality of life through the construction of additional housing.

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