

Key Facts

Consequences of Government-Imposed Costs Within the New Housing Market

- Government imposed costs represent a significant and rising share of the prices of new homes. A study by Canada Mortgage and Housing Corporation found that in 2006, direct government costs – amounts that builders pay for municipalities' development charges and other fees, for provincially-mandated charges and fees, and for federal and provincial sales taxes – amounted to 16-17% of the prices of new homes in the Greater Toronto Area.
- Those costs have increased further since 2006, especially for sales taxes and for municipal development charges, and are now close to 20% of the value of new homes.
- In addition, builders face indirect costs for complying with standards and for participating in a myriad of approval processes. No estimates of these costs are available, but they are also increasing. In particular, builders find that building standards are rising far above the standards required for structural integrity and health and safety, to address social and environmental objectives. The “excess” standards and processes add at least 5-10% to the costs of new homes.
- Total direct and indirect costs now represent – conservatively – 25-30% of the price of new homes.
- New homes will be built only if the costs can be passed into the price of the homes. And, this can happen only if price increases happen within the entire existing housing market.
- Pass-through of government-imposed costs is a significant contributor to the rapid rise in house prices that has been seen over the past decade. In the absence of this effect, housing affordability would be substantially better than it currently is.
- The research report, sponsored by RESCON and completed by well-known housing market economist Will Dunning, estimates the impacts that would result if house prices could be reduced by various increments – by reducing government-imposed costs.
- For example, if house prices could be reduced by 10%:
 - Annual housing starts in the GTA would be increased by 4,500 to 4,750 dwelling units, or 12-13%.
 - Employment in construction and in industries related to the construction process would increase by 7,400.
 - Annual wages earned would increase by \$410 million.
 - Federal and provincial revenues related to that additional income (for personal income taxes, Canada Pension Plan premiums, and Employment Insurance premiums) would rise by \$130 million.
- A large number of government entities play roles in the housing development process. Each has valid objectives. But, in combination their efforts have resulted in an unreasonable burden that affects every home buyer, for both new and existing homes, and has an unreasonable economic impact.
- There is a need to review and streamline the burden of government-imposed costs and processes. In addition, there is a need to establish over-sight processes that will subject proposed requirements to cost-benefit analysis.