ECONOMIC VIEWPOINT

The Devil's in the Development Charges

How "Growth Pays for Growth" Is Shaping Housing Supply and Affordability

By Kari Norman, Senior Economist

HIGHLIGHTS

- Development charges (DCs)—municipal fees levied on new construction to help fund growth-related infrastructure such as roads, transit and water systems—have increased much more rapidly than underlying costs. In part, this divergence reflects policy design rather than infrastructure requirements. Across Ontario municipalities, DCs have risen by roughly 500% over two decades—far outpacing underlying drivers such as construction costs, wages and inflation.
- High and rising DCs are constraining housing supply and putting upward pressure on prices. Substantial upfront charges can render some proposed projects unviable, discourage higher-density development and are largely passed on to homebuyers.
- The current model concentrates costs on new buyers and creates financing inefficiencies. DCs are embedded in home prices and therefore financed through mortgages, which typically have amortization periods of about 25 years. However, DC-funded infrastructure projects typically have much longer service lives and are eligible for lower-cost public financing.
- Alternative financing models for growth-related infrastructure exist but involve trade-offs. Options such as municipal or other government borrowing, utility-style financing and greater reliance on transfers can shift costs over time and across users but may increase debt, user fees or property taxes.

When a Canadian family buys a newly built home, part of the purchase price is allocated to municipal charges, alongside the costs of land, labour and materials. Referred to as development charges[1] (DCs), these fees are typically levied at the permit stage to fund infrastructure such as roads, transit, water systems, parks and emergency services needed to support housing growth. While they vary widely across municipalities, on average DCs have risen considerably faster than both overall inflation and construction costs specifically. As their scale and scope have expanded, they have increasingly shifted costs onto new homebuyers through higher prices while also affecting the viability of some proposed projects—constraining supply and further weakening affordability. Alternative infrastructure funding models may achieve the same objectives while lowering the cost of new construction and improving housing affordability.

The Logic Behind "Growth Pays for Growth"

The rationale for DCs is straightforward and, in principle, defensible, grounded in both fiscal fairness and economic efficiency. As cities expand, municipalities must extend or upgrade supporting infrastructure. Allocating these costs to new development helps ensure that growth does not impose undue fiscal pressure on existing residents through higher property taxes or reduced service levels. This "growth pays for growth" principle also promotes more disciplined urban planning by linking infrastructure investment to demonstrable population and service needs. In that sense, DCs are intended not only to fund growth-related infrastructure, but to support financially sustainable and orderly urban expansion.

[1] Municipal charges on new development are referred to by a variety of terms across Canada, including development charges, development cost charges, development cost levies, off-site levies and impact fees. For simplicity, this report refers to them collectively as development charges.

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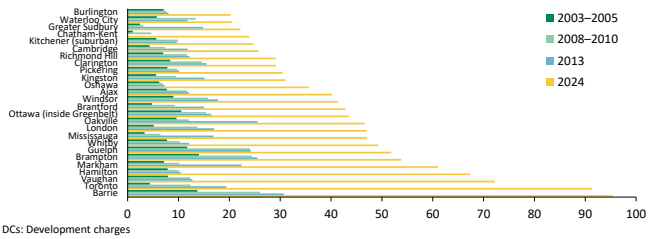
DCs Have Risen Far Faster than Costs

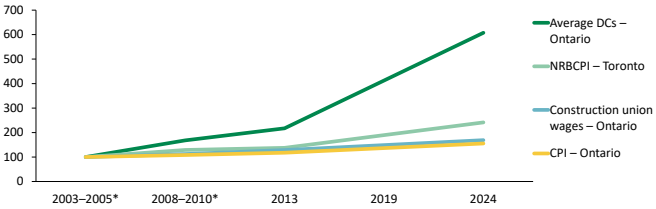
The issue isn't development charges themselves, but how large they have become. What began as a modest cost-recovery tool has since become a significant component of new home costs in some cities. Across 27 Ontario municipalities, DCs on single-detached homes increased by a whopping 500% on average over the past two decades (graph 1)—far outpacing the rise in underlying cost drivers such as the non-residential building construction price index (140%), construction wages (less than 70%) and general inflation (55%) (graph 2).

Graph 1
Municipal DCs Have Skyrocketed over the Past Two Decades Across Much of Ontario
Development fees in Ontario municipalities for a single-detached home
Thousands of dollars



DCs: Development charges
Open Council and Desjardins Economic Studies

Graph 2
Ontario DCs Have Risen Much Faster than Comparable Costs
Inflation in DCs and cost drivers
Index, 2004 = 100



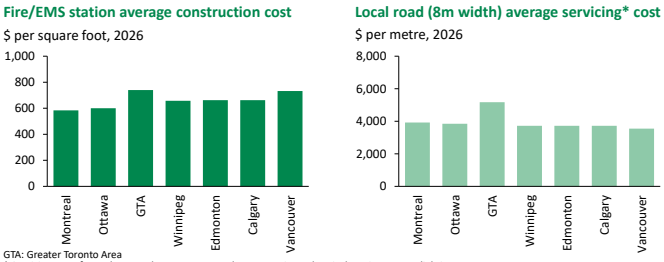
* Dates are given for the DC figures, while other data are for the midpoint of those ranges.
DCs: Development charges; NRBCPI: Non-residential building construction price index; CPI: Consumer price index
Statistics Canada, Open Council and Desjardins Economic Studies

Policy choices and structural constraints have driven reliance on DCs as a primary funding tool. Municipalities operate with limited revenue options, balanced budget requirements and constrained borrowing frameworks, while federal and provincial government contributions haven't kept pace with growing local infrastructure needs. At the same time, DC revenues are legislatively restricted to growth-related capital infrastructure and can't be used for general municipal operations or for routine repair or replacement of existing infrastructure, reinforcing their role as a targeted funding mechanism. Together, these factors have contributed to a stronger emphasis on full cost recovery from new development.

A range of cost and market pressures have pushed DCs well beyond what infrastructure cost growth alone would justify. Services eligible for DC funding were expanded to allow for a broader share of capital costs to be attributed to new development. Rising land values needed for parkland, roads, transit lines and more have also fed directly into DC calculations. Slower housing activity can further push DCs per unit higher as major system-wide infrastructure such as arterial roads or water treatment capacity must often be built in advance or at scale regardless of near-term unit counts, meaning costs are spread across fewer homes.

However, differences across municipalities suggest that DCs are not tightly linked to underlying costs. Infrastructure costs vary minimally across major Canadian cities (graph 3), yet the level and structure of levies differ markedly. DCs on a single-detached home exceed $137,000 in Toronto and $57,000 in Ottawa. Vancouver has a combination of per-unit and floor-area-based levies that could be in the order of $45,000 for a single-detached house. Calgary applies water and wastewater charges for single-detached infill set at $9,328 per unit and broader per-hectare fees for greenfield development, while Edmonton applies a suite of targeted instruments rather than a comprehensive charge. Municipalities in Quebec rely only minimally on upfront fees. Zooming in, in 2024, three adjacent Ontario communities—Oakville, Burlington and Hamilton—reported single-detached home DCs of roughly $47k, $20k and $67k respectively—a more than threefold gap despite likely facing broadly similar infrastructure construction costs for materials and labour.

Graph 3
Construction Costs Vary Only Modestly Across Cities



GTA: Greater Toronto Area
* Servicing costs for underground storm, sewer and water services, electrical services, street lighting, earthworks, curbs, asphalt roadways and sidewalks.
Altus Group and Desjardins Economic Studies

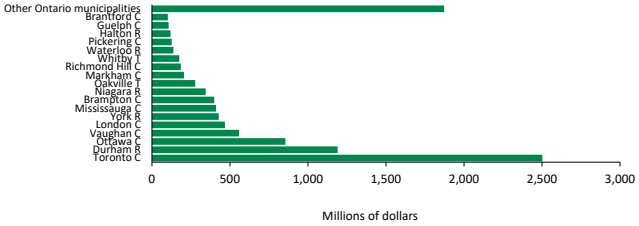
The accumulation of DC reserve funds is another indication that DCs have outpaced infrastructure delivery. Ontario's Financial Information Return reported that municipalities held roughly $10.5B in unspent DC reserves at the end of 2024 (graph 4 on page 3), generating $320M in interest and investment income that year. Some level of accumulation is expected, as DCs are collected upfront while major infrastructure projects are delivered over many years and often require large, indivisible investments. However, the scale of these balances

means that a portion of infrastructure costs is effectively pre-funded by earlier cohorts of homebuyers in order to meet future growth needs.

Graph 4

Ontario Municipalities Held $10.5 Billion in Unspent Development Charges in 2024

Development charge holdings, December 31, 2024



C: City; R: Region; T: Town

Province of Ontario and Desjardins Economic Studies

Taken together, these patterns suggest DCs are driven more by policy design than by underlying costs, with outcomes that vary markedly across jurisdictions.

High DCs Constrain Supply and Drive Up Prices

Large DCs can push some proposed developments into unprofitability. Builders operating with compressed margins may not be able to raise selling prices sufficiently to offset higher DCs, particularly when affordability constraints or market conditions limit what buyers can pay. In these cases, projects may be deferred, downsized or cancelled. Recent analysis by the CMHC found that eliminating DCs in Toronto and Vancouver could raise the number of viable projects by around 10%, with smaller impacts on viability for partial DC reductions. Some municipalities, such as Mississauga and Vaughan in the GTA, have recently reduced or removed DCs at least temporarily to support construction. Given the long timelines in homebuilding, the effects are not yet evident.

The structure of DCs can also discourage the density that would reduce long-run infrastructure costs. Compact development is more infrastructure efficient, yet charges often don't reflect this. Evidence from Metro Vancouver Regional Planning shows that onsite infrastructure costs are approximately five times greater for single-detached homes than for apartments on a per capita basis and roughly nine times higher on a per-unit basis (table 1). But regional DCs are only about 1.6 times higher for a residential lot than for an apartment unit, while DCs in the City of Vancouver are higher per square foot for high-density development (graph 5). This misalignment can discourage the construction of more efficient, higher-density housing.

Table 1

Metro Vancouver Infrastructure Installation Costs

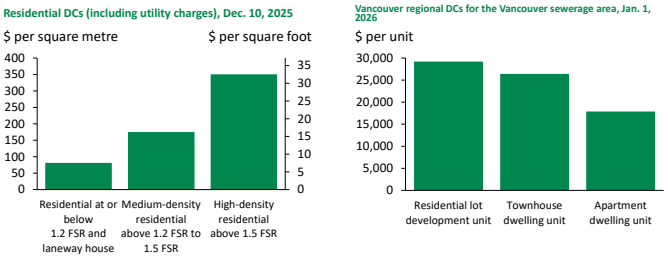
Scenario*	Housing units	Servicing cost	Cost per unit	Persons per household	Cost per capita
House (low density)	16	$640,000	$40,000	3.10	$12,903
House (high density)	24	$880,000	$36,667	3.10	$11,828
Townhouse (low density)	40	$680,000	$17,000	2.75	$6,182
Townhouse (high density)	60	$700,000	$11,667	2.75	$4,242
Apartment (low density)	100	$800,000	$8,000	1.85	$4,324
Apartment (high density)	200	$900,000	$4,500	1.85	$2,432

* All scenarios use the same amount of land and road areas, with townhouses and apartments requiring higher road standards and larger pipe sizes.

Metro Vancouver and Desjardins Economic Studies

Graph 5

Vancouver DC Rates Are Higher for High-Density Projects



FSR: Floor space ratio, calculated as the total building floor area divided by the lot area

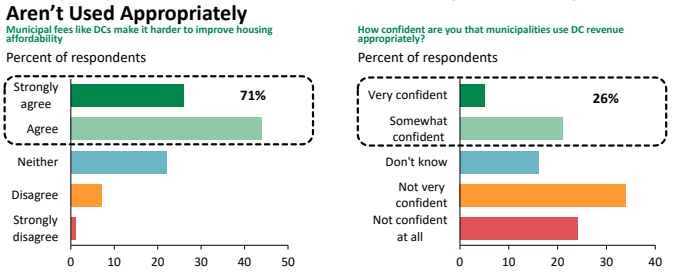
DCs: Development charges

City of Vancouver, Metro Vancouver and Desjardins Economic Studies

Development charges are typically passed on to buyers in the price of newly built homes. The CMHC found that increases in DCs are generally associated with commensurate or larger increases in home prices, reflecting the direct charge as well as indirect costs associated with financing DCs, risk premiums and builder margins. Since they are included in home prices, DCs are also subject to sales taxes, creating a tax-on-tax effect. The CMHC further estimates that DCs add between 8% and 16% to the price of a new two-bedroom condominium. Buyers ultimately finance the DCs embedded in new home prices through their mortgages, increasing both upfront and ongoing housing costs. A recent Canadian Home Builders' Association study confirmed that rising DCs have materially worsened housing affordability.

Meanwhile, confidence in DCs as a funding tool is low. Survey evidence from the Ontario Real Estate Association confirms that most households perceive DCs as worsening affordability and question whether they're being used appropriately (graph 6 on page 4).

Graph 6
Survey Respondents Believe DCs Worsen Housing Affordability and Aren't Used Appropriately



DCs: Development charges
Ontario Real Estate Association and Desjardins Economic Studies

Although DCs apply only to new homes, they also influence prices in the resale market. As new homes become more expensive, sellers of existing homes can command higher prices. Empirical estimates suggest that each $1 increase in DCs raises the price of existing homes by as much as $1.60 to $1.70 (Ihlanfeldt and Shaughnessy, 2004; Burge, 2008), shifting housing wealth toward existing homeowners.

DCs Create Adverse Distributional and Financing Effects

Unlike income or property taxes, DCs are embedded in the upfront cost of housing and can therefore be intergenerationally regressive. They raise the cost of entry to homeownership, disproportionately affecting first-time buyers by raising carrying costs and down payments, potentially delaying homeownership. In contrast, long-time homeowners were typically subject to lower, if any, DCs and benefit from higher selling prices of their existing homes.

This structure also creates financing inefficiencies. Because DCs are embedded in home prices, they are typically financed through buyer mortgages, with some borrowers incurring higher CMHC mortgage default insurance premia. These costs are then financed at interest rates higher than those available to municipal, federal and provincial governments. Furthermore, mortgage amortization periods of around 25 years are often misaligned with the long service lives of infrastructure such as roads, water networks and water treatment facilities, which can extend well beyond that horizon. Moreover, DCs are collected well in advance of when much of the funding is needed.

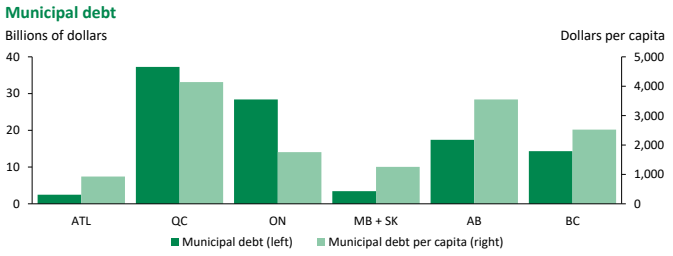
In practice, DCs can be used to finance infrastructure that serves the broader community, not just new development. Because the share of project costs attributed to growth are based on projected population increases and service levels, a significant portion of large, shared-use infrastructure can be attributed to new development. This allows municipalities to expand infrastructure while limiting property tax increases, shifting costs onto new buyers. For example, a new recreation centre in Kitchener, Ontario, was largely funded through DCs while serving all community members.

Alternative Approaches to Funding Growth Come with Trade-Offs

Growth-related infrastructure is not financed exclusively through DCs. Electricity and natural gas systems are typically rate-regulated utilities that are publicly owned, while telecommunications infrastructure is largely privately financed. This broader funding mix highlights that the "growth pays for growth" principle, as applied through DCs, is neither comprehensive across all types of growth-related infrastructure nor inevitable.

Municipal borrowing could allow infrastructure to be financed at lower cost over longer periods. Cities can issue debt such as municipal bonds or debentures, backed by their general taxing power. In principle, costs could still be recovered directly from new development buyers or distributed more broadly through future property tax revenue. Municipalities in Quebec have historically relied less on large upfront DCs and more on debt financing (graph 7) and general taxation to fund growth-related infrastructure. In the US, cities frequently rely on municipal bond financing, where interest income is often exempt from federal taxation, lowering borrowing costs. In Canada, municipal borrowing is largely constrained by provincially imposed debt and debt-servicing limits, which can restrict the ability to use debt as a broad substitute for upfront DCs and may expose municipalities to greater fiscal risk if growth does not materialize as expected.

Graph 7
Quebec Municipalities Are More Reliant on Debt Financing



Statistics Canada and Desjardins Economic Studies

A second approach is utility-style financing for growth infrastructure. While many municipalities already recover operating costs through user fees, this model could be extended to growth-related capital investment. Municipalities (or utility entities) could borrow to fund system expansion and recover costs gradually through user rates. This spreads costs over time and across consumers, reducing large upfront payments for new homebuyers, but implies higher ongoing fees and broader cost sharing. While this approach could be applied more broadly to water, wastewater and stormwater systems across Canada, it's not well suited to other types of municipal infrastructure without

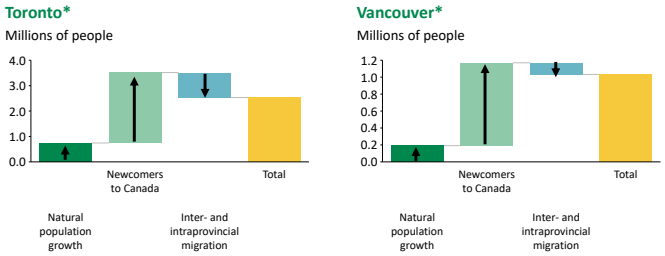
user-based pricing, such as roads, emergency services and parks, and may raise affordability concerns where user fees increase to support capital expansion. Scottish Water provides an example of a more utility-based model, where developers fund local connections, while system-wide infrastructure, including trunk networks and treatment capacity, is financed by the utility and recovered through user charges.

Cities can legally incorporate Municipal Services Corporations (MSCs) to deliver services and manage assets. MSCs operate with non-elected, skills-based boards and can finance infrastructure through user fees, municipal contributions and revenue-backed bonds, with some debt sitting outside the municipal balance sheet. Edmonton incorporated its water and electricity utility operations through EPCOR, which finances growth-related infrastructure through long-term borrowing, spreading costs over time through user rates and reducing reliance on upfront charges. EPCOR also pays about $200M in dividends to the City of Edmonton annually.

A fourth model is public–private partnerships (P3s), which could bring in upfront capital and reduce financing risk for municipalities. While municipalities would retain ownership and oversight, private partners would assume responsibility for designing, building, financing and sometimes operating the facility over a long-term contract. Canadian municipalities have used P3s to deliver growth-related infrastructure, including wastewater treatment facilities such as Regina's, where a private consortium designs, builds, finances and operates the facility, with costs repaid over time through long-term municipal arrangements. These models can spread infrastructure costs over time rather than requiring full upfront funding, but in practice are generally implemented alongside existing development charge frameworks rather than replacing them.

A final lever is expanded reliance on intergovernmental transfers. Given that population growth is driven largely by federal immigration policy—particularly in major gateway cities such as Toronto and Vancouver (graph 8) where high DCs are common—there is a strong case for increased federal financing to support that growth. Programs such as the Investing in Canada Infrastructure Program, the new Build Communities Strong Fund and Ontario's Housing-Enabling Water Systems Fund provide substantial cost-sharing support for municipal infrastructure, directly reducing the need for local funding. Major federally supported municipal public transit projects include Montreal's blue line extension, stage 2 of Ottawa's light rail transit and Calgary's green line light rail transit. The Development Charge Reduction Program, an agreement between Canada and Ontario, goes further by linking funding for growth-related infrastructure to reductions in DCs of 30%–50% or more for three years. However, as these transfers are project-specific and time-limited, their effectiveness as a long-term substitute for DCs may be limited.

Graph 8
Immigration Policy Drives Population Growth in Toronto and Vancouver



* Components of population change, 2001/2002 to 2024/2025.
Statistics Canada and Desjardins Economic Studies

Each of these alternatives involves trade-offs between efficiency, allocation, control and fiscal sustainability. By contrast, the current system concentrates costs on new homebuyers and risks constraining supply. Reducing large upfront charges can improve affordability and better align infrastructure financing with long-term use, but it may imply higher public debt, broader tax burdens or increased reliance on transfers. The policy challenge is to rebalance these trade-offs in a way that supports both housing construction and sustainable infrastructure investment, while being constrained by the current municipal fiscal framework and limited revenue tools.

Conclusion

Development charges didn't create Canada's housing crisis, but their current trajectory is contributing to it. The gap between the "growth pays for growth" principle and how DCs are applied in practice has become too large to ignore: levies in some municipalities have risen far faster than underlying costs, are concentrated on new buyers and are often misaligned with the types of housing that minimize infrastructure needs. The wide variation in approaches across Canadian municipalities shows that this framework reflects policy design rather than necessity.

Reform should start by asking whether that allocation is the right one, and whether instruments used to enforce it are calibrated to actual costs. Provincial standards linking DC levels to demonstrated infrastructure requirements would be a meaningful first step. So would greater use of financing structures that match cost recovery to asset lifetimes rather than front-loading them onto a single transaction. The goal shouldn't be to eliminate the "growth pays for growth" principle, but to optimize for equity, efficiency and fiscal sustainability.