



Beware of Hidden Development Charges

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Most homebuyers know that they'll have to pay government taxes and fees on closing. What many of them don't know, however, is that significant government costs are already buried in the purchase price of their home. The most significant of these hidden costs are development charges, and in Toronto, this cost could soon be going up.

Development charges are levies that municipalities require developers to pay, when they build new homes, to help pay for the costs of providing municipal services for those developments. These services can include things like sewers, roads, or libraries, to name just a few.

As with other costs when building a home, development charges get factored in when a builder determines the selling price, so, ultimately, the homebuyer pays the development charges. Furthermore, development charges impact housing prices even in the re-sale market because when the original buyers eventually decide to resell their properties, they will most likely base their selling price on what they paid plus any market increases, meaning that the cost of development charges will get passed on again.

The City of Toronto is reviewing its development charges. Currently, Toronto's charges range from about \$5,000 to \$11,000 per house or condo. Although it is too early to tell, it is expected that the City will be proposing significant increases. It is only fair that the cost of providing new services be carried by those who benefit from it; however, it is also fair to expect these costs be kept reasonable.

While municipalities across the Greater Toronto Area impose development charges, Toronto is unique for various reasons. Firstly, the density of most of the development oc-

curing in Toronto is much higher than other areas, which means that municipal services can be provided more efficiently for this growth. Secondly, unlike some development outside the City that occurs on raw un-serviced land, almost all development occurring in Toronto is on property that already has necessary infrastructure in place. Together, these factors should mean reduced pressure for the City of Toronto to increase development charges.

If the City moves ahead with significant increases to development charges, it will be absolutely critical that these increases be implemented in a way that doesn't sting unsuspecting homebuyers. Most importantly, homebuyers who have already entered into contracts with builders should be exempt. Often, builders' contracts allow them to pass on additional costs, including development charge increases. Unfortunately, this means that if the City doesn't specifically exempt existing deals, buyers who have already entered into a contract with a builder for a new home, could be surprised with thousands of dollars in additional costs.

Nobody expects a free ride. New development can create new costs for municipalities, so development charges are understandable, if they are kept reasonable and fair. Hopefully, these principles will guide the City of Toronto's expected new development charges.

Maureen O'Neill is President of the Toronto Real Estate Board, a professional association that represents 27,000 REALTORS® in the Greater Toronto Area.