2024 Housing Targets in Ontario

Municipalities are doing everything in their power to increase housing supply and affordability, and work towards the province's ambitious target of building 1.5 million homes over 10 years.

However, Ontario's population continues to grow faster than homes are being built, and home prices continue to increase much faster than incomes. Many Ontarians still cannot afford to enter the real estate market.

Despite years of headlines, provincial policy changes and funding announcements, housing starts for 2024 are significantly lower than 2023. Between April and September, housing starts in 2024 were 17% lower than in 2023.[1] As part of its Fall Economic Statement, the provincial government revised down its forecasts for 2024 housing starts to 81,000 – well below its stated target of 125,000.

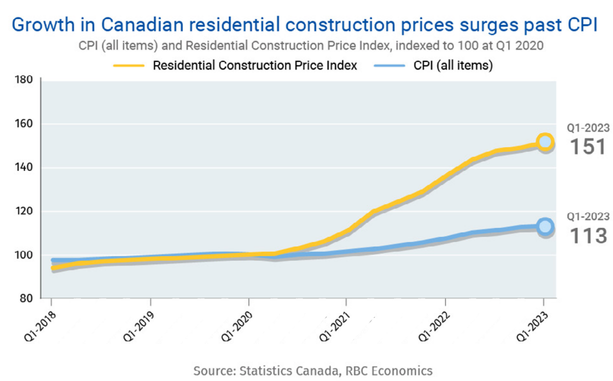
Why is this happening?

Market factors behind developers' decisions not to build

In Ontario, governments don't build housing – developers build housing as part of a market system. Taking into consideration factors like demand, supply and input costs, developers make business decisions about what and when to build and how to price homes in a way that maximizes profits.

2024 housing construction numbers are only now reflecting the impacts of the significant macro-economic factors that reached their peak in 2023, making it a bad time to build. These include:

Rising construction costs. The historic inflation that rocked Canadian consumers in 2023 pales in comparison to the construction sector. Canada's residential construction price index has soared 51% since 2020,[2] nearly four times more than Consumer Price Index for all goods and services. As well as eating into developer profits, inflation means municipalities are on the hook for much higher costs for infrastructure like water and sewer systems. This either translates into higher development charges or higher property taxes.



A shortage of workers. The lack of construction workers, particularly in the skilled trades, is driving up the labour costs for homebuilding. Wages in the sector grew 9% in 2022, nearly double the pace of other industries.[3]

High interest rates. Interest rates increased sharply by 4.75% in a sixteen-month period across 2022 and 2023. Rates didn't start to decline until June 2024.[4] Increased borrowing costs not only squeezed more homeowners out of the market, but made financing significantly more expensive for developers, as well as municipalities.

[1] Financial Accountability Office of Ontario. https://www.fao-on.org/en/Blog/Publications/OEM-2024-Q3
[2] [3] RBC. https://thoughtleadership.rbc.com/proof-point-soaring-construction-costs-will-hamper-canadas-homebuilding-ambitions/
[4] Globe and Mail. https://www.theglobeandmail.com/topics/bank-of-canada/

Myths vs Reality: Development Charges (DCs), Reserves and Municipal Housing Targets

Myth	Reality
If municipalities didn't collect DCs, home prices would go down.	Without DCs, there's no guarantee developers would pass along significant savings to homebuyers. Property taxes would have to cover the costs to extend services to new homes, impacting both homebuyers and existing residents.
We don't need DCs to pay for growth.	In 2022, property tax revenue would have had to increase about 20% to replace DC funds as a source of funding for all of the infrastructure – including sewers, water, roads, police stations – needed to support new housing.
Municipal DCs are a big part of government fees on a project.	Federal and provincial taxes make up 76%[5] of government fees on new homes. Unlike with DCs, none of these funds are required to be invested back into growth related costs.
Lengthy municipal planning approvals are also to blame for low new housing starts.	Municipalities have been taking steps to tighten up planning approval timelines, many shaving months off the process. Across Ontario, construction has not started on 330,000 housing units that already have municipal planning approvals in place.[6]
Municipalities have ample reserves to pay for growth.	Almost all reserve funds are committed to specific projects.[7] Reserve funds are heavily regulated by the province, which require municipalities to use these funds for specific purposes, including keeping assets in a state of good repair and investing in growth infrastructure.
Municipality-specific housing targets provide clear direction, accelerating housing development.	While municipality-specific housing targets can provide a useful framework for increasing housing supply, they don't always guarantee more housing starts. This is especially true as the annual targets Ontario assigned fifty municipalities are misaligned with reality. Targets were based on outdated growth projections and don't accurately reflect available development land, existing site servicing capacity, updated population growth projections, economic headwinds and developer decisions.

[5] The Canadian Centre for Economic Analysis. CANCEA-TaxationOfOntarioHousing_2023.pdf
[6] KPEC for BILD. https://www.bildgta.ca/wp-content/uploads/2024/02/FINAL-Use-It-Optimizing-Municipal-Development-Pipelines-February-2024.pdf
[7] Financial Accountability Office of Ontario. https://www.fao-on.org/en/Blog/Publications/municipal-finances-2020

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