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Building Homes, Building Communities: The Role of Development Charges (DCs) in Ontario

Key Insights

- Ontario's housing crisis is deepening with record low housing starts, widening the gap on needed new housing supply.
- The housing crisis is a complex issue driven by major economic factors. Development Charges (DCs) are not the main cause of Ontario's housing crisis.
- The biggest factors impacting housing affordability are a recent period of high interest rates, shortage of skilled labour and skyrocketing construction costs and land values. A lack of income growth to keep pace with more expensive housing makes it unaffordable and shrinks the buyer pool.
- DCs are a direct reflection of these high costs. They are a cost-recovery to help share the cost of growth. DCs help municipalities to partially fund essential infrastructure for new communities like roads, transit, and water systems.
- Cutting DCs shifts costs, it doesn't eliminate them. If DCs are reduced, the financial burden of building new infrastructure could fall on existing taxpayers through higher property taxes.
- The DC system is being modernized. Municipalities and the development industry are working together and with the province to improve the DC framework by making it more transparent and consistent. The province has also introduced targeted financial relief for developers.

Ontario's housing crisis persists, with housing starts continuing to lag. In the first quarter of 2025, Ontario's housing starts were at the lowest level since 2009[1]. AMO and municipalities across Ontario are committed to working together with all levels of government and homebuilding partners to address the housing crisis and help the province achieve its ambitious target of building 1.5 million homes by 2031.

In this context, it's important to revisit the role development charges (DCs) play in new home construction and respond to some of the urgent questions about their purpose.

Are DCs to blame for the Housing Crisis?

The housing crisis is a complex issue driven by major economic factors, not just DCs. While some argue that DCs are a key driver of high housing costs, the reality is more nuanced.

DCs are not taxes but reflect the cost of the infrastructure required to build new homes. Government taxes make up 31% of the total cost of a new home. Municipal governments receive less than a quarter of the total tax on new homes. The federal government receives 39% of the tax, while the province collects 37%.[2]

Market factors that determine whether a developer builds homes include:

- **Construction costs:** Growth in residential construction costs in Canada continued to increase and in the second quarter of 2025, year-over-year residential construction costs rose by 3.7%.[3]

- **Impact of Tariffs:** There is increased uncertainty and volatility associated with US tariffs and countermeasure tariffs by Canada, affecting the availability and price of certain construction materials. Industry projects tariffs will increase construction material costs by 8.1% this year.[4]

- **Interest rates:** Interest rates increased sharply by 4.75 basis points in a sixteen-month period across 2022 and 2023. The Bank of Canada started lowering rates in June 2024. In its October 2025 announcement, it lowered the rate to 2.25% and signaled a possible end to the easing cycle.[5] Interest rates are still higher than in recent years – making it more expensive for developers to finance projects and for homebuyers to get mortgages.

- **Lack of skilled labour:** The lack of construction workers, particularly in the skilled trades, is driving up the labour costs for homebuilding. Average weekly earnings in the sector grew 4.4% in August 2025, higher than the overall increase in other sectors.[6]

- **Strangled demand:** While housing costs and other expenses have risen, Ontarians' incomes have not kept pace. This makes it increasingly difficult for residents to afford to buy a home and has softened investor interest in condominiums.

New homes are too expensive. Can't we axe DCs to bring prices down?

DCs are the main way new development pays for the infrastructure it needs to grow. This infrastructure includes essential community assets like roads, bridges, transit, water and wastewater systems, and parks. When a new home is built, a portion of its cost goes to the municipality as a DC. This money then contributes to funding the infrastructure that supports the new home and its occupants. AMO and OHBA agree that DCs are essential for building more homes.[7]

If DCs are cut, home building costs are reduced but there is no guarantee that new homes will cost less. Prices are set by developers, depending on their profitability targets and what the market is willing to bear.

By eliminating DCs, the cost of building new infrastructure doesn't disappear; it just shifts from new homeowners to existing taxpayers through higher property taxes. Some costs could also be offset by new provincial or federal infrastructure funding.
In 2022, property tax revenue would have had to increase about 20% to replace revenue from DCs as a source of funding for all of the infrastructure needed to support new housing. Municipal reserves cannot fill this gap, as most are already committed to future projects or tied up in financing.[8]

What Is Being Done to Fix the System?

We know the current system needs to be updated. In fact, in January, the Ontario Home Builders Association (OHBA) and BILD released a study that recognized DCs as essential for growth, and advocated for targeted DC modernization as opposed to blanket reductions.

Since then, AMO and the OHBA with BILD and municipal DC representatives have been working together to find solutions.

We jointly recommended modernization changes to the provincial government. Many of our joint recommendations were included in Bill 17, the Protect Ontario by Building Faster and Smarter Act, 2025 tabled and passed in the spring.[9]

If implemented in a way that we've jointly recommended, this legislation will modernize the DC system through:

- **Greater transparency:** Making it easier to understand how DC rates are calculated.
- **Greater standardization:** Creating a more consistent approach to DC calculations across the province.

Together, this will reduce misunderstanding and friction at the local level between the municipalities that set the DC rates and developers, limiting lengthy approvals.
The bill also included changes that the province introduced to help jump-start new home building:

- **Measures to reduce the cost of homebuilding:** Once implemented on November 3, 2025, developers can defer DC payments to the municipality until a new home is ready for occupancy. This shifts the cost of borrowing from developers to the municipality, saving developers significant money and helping projects get off the ground. The bill also proposed to merge DC service categories, making it faster for municipalities to reimburse them for the growth infrastructure they build on the municipalities' behalf.

- **Targeted DC exemptions for long-term care homes:** The new rules remove DCs on these developments that benefit the wider community to encourage their development.

These changes are not about blanket cuts; they are about modernizing the system to make it more efficient and predictable for everyone. Municipalities and developers agree on the centrality of a principled, transparent, efficient and consistently applied DC regime in this system. Further, we agree on the critical importance of a sustainable, predictable approach to funding municipal infrastructure at the levels necessary to support today's unprecedented levels of growth.

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[1] Financial Accountability Office of Ontario, 2025. https://fao-on.org/en/communication/mr-oem-2025-q1/
[2] The Canadian Centre for Economic Analysis, 2023. CANCEA-TaxationOfOntarioHousing_2023.pdf
[3] Statistics Canada. https://www150.statcan.gc.ca/n1/daily-quotidien/250724/dq250724d-eng.htm
[4] Altus Group. https://www.altusgroup.com/insights/trade-tensions-tariffs-mean-for-canada-construction-market/?utm_source=google&utm_medium=organic
[5] Globe and Mail. https://www.theglobeandmail.com/business/article-bank-of-canada-interest-rate-live-updates-october-29/#1029251045
[6] Statistics Canada. https://www150.statcan.gc.ca/n1/daily-quotidien/251030/t001a-eng.htm
[7] Joint AMO and OHBA letter to Minister Flack, 2025. MMAH LTR AP OHBA Improve Building in Ontario 2025- 03-24.pdf
[8] Financial Accountability Office of Ontario, 2020. https://www.fao-on.org/en/Blog/Publications/municipal-finances-2020
[9] Joint AMO and OHBA letter to Minister Flack, 2025. MMAH LTR AP OHBA Improve Building in Ontario 2025- 03-24.pdf