BRIEFING

News

As housing starts plummet, all eyes turn to development charges: What are they, after all?

Development charges are front-end fees paid by the developer upon the issue of a building permit. Once they've collected the payments, the city or municipality must put the money aside in an earmarked account and can only dip into the funds to pay for the capital costs of constructing the specific service related to the charge.

Published Jul 10, 2025 at 9:47am

By Carolyn Gruske

Ontario is introducing two new energy efficiency programs, including one offering rebates for certain home improvements. A new housing development is seen in Belleville, Ont., on Friday, March 1, 2024. THE CANADIAN PRESS/Chris Young

It's not everyday that a municipal power governed by provincial law becomes a key campaign plank during a federal election. But it's a good indication that the topic will likely become part of the regular political discourse, so Ontario residents shouldn't be too surprised to start hearing (or hearing more) about the development charges applied to new home construction.

During the federal campaign, the Liberals — as well as the NDP — promised to slash development charges as part of their efforts to spur new home construction. The Liberals said they would "cut municipal development charges in half for multi-unit residential housing for five years by working with provinces and territories to keep municipalities whole. These revenues will be offset by federal investment in housing infrastructure like water, power lines, and wastewater systems."

Of course, to understand exactly what that means, it's important to understand exactly what development charges are, what they're not, and why they've become a subject that is up for discussion.

Origin and evolution

The *Development Charges Act* was introduced in November 1989. It laid out how cities, towns and municipalities could administer charges to real estate developers to cover the costs of building infrastructure and services that would benefit and support the new areas being developed or the addition of dwelling units to already developed neighbourhoods.

Since then, the act has received some major and minor updates, including some significant ones in 1997 (*Changes to the Development Charges Act*) and 2022's *More Homes Built Faster Act* (formerly known as Bill 23). The most recent update in 2024 only introduced a few changes to the governing rules.

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The types of projects that can be paid for by development charges vary greatly and can include everything from roads and transit to water and wastewater pipes and treatment plants to fire or ambulance stations to parks and recreation facilities.

Soaring costs and associated problems

As with most real-estate-related costs, the price of development charges has increased significantly over the years, and now people are pointing to the charges as one of the factors that's driving up the cost of homes and keeping people, especially first-time buyers and lower-income buyers, out of the housing market.

Justin Sherwood, SVP, communications and stakeholder relations for the Building Industry and Land Development Association (BILD) offered a perspective of just how much development charges contribute to the cost of a new home in Toronto. In 2025, he said the charges on a new condo are typically around $80,000 or $125,000 for a new single-family home. And they're just part of a bigger problem.

"If you take a look, in aggregate, about a quarter of the cost of a new home in the GTA is composed of government fees, taxes and charges. And that's the DCs. That's park land cash-in-lieu charges, that's educational development charges, that's land transfer tax, and HST and so on. So that's one of the contributing factors that has driven the cost of homes so high in the GTA and eroded affordability."

In January, BILD and the Ontario Home Builders' Association (OHBA) jointly published a study called "The State of DCs in Ontario: Recommendations for Fine-Tuning AND Overhauling Ontario's Development Charges System." The report tracked the increase in development charges for single-family homes between 2011 and 2023 and found triple-digit increases across the province. In that time period, the City of Toronto's development charges went up 592 per cent from an average of $14,025 per home to $97,041. Development charges were up 118 per cent in Halton Region, 242 per cent in Durham Region, 219 per cent in Peel Region, 134 per cent in York Region, and 228 per cent in Simcoe Region.

Changes to DC Rates per Single-Detached Unit, GTA Municipalities 2011-2023

	2011	2023	Change	% Change
City of Toronto	$ 14,025	$ 97,041	$ 83,016	592%
HALTON REGION				
Oakville	$ 47,690	$ 103,832	$ 56,142	118%
Milton	$ 59,168	$ 87,176	$ 28,008	47%
Halton Hills	$ 37,768	$ 89,077	$ 51,309	136%
Burlington	$ 31,720	$ 77,835	$ 46,115	145%
DURHAM REGION				
Ajax	$ 30,841	$ 105,430	$ 74,589	242%
Brock	$ 32,825	$ 93,261	$ 60,436	184%
Clarington	$ 34,151	$ 94,457	$ 60,306	177%
Oshawa	$ 26,517	$ 100,115	$ 73,598	278%
Pickering	$ 29,229	$ 95,759	$ 66,530	228%
Scugog	$ 31,725	$ 88,914	$ 57,189	180%
Uxbridge	$ 30,227	$ 85,579	$ 55,352	183%
Whitby	$ 29,947	$ 111,516	$ 81,569	272%
PEEL REGION				
Brampton	$ 40,918	$ 130,593	$ 89,675	219%
Caledon	$ 35,355	$ 132,480	$ 97,125	275%
Mississauga	$ 33,140	$ 124,025	$ 90,886	274%
YORK REGION				
Aurora	$ 46,473	$ 108,580	$ 62,107	134%
East Gwillimbury	$ 42,596	$ 129,642	$ 87,046	204%
Georgina	$ 35,937	$ 96,195	$ 60,258	168%
King	$ 42,974	$ 125,006	$ 82,032	191%
Markham	$ 49,942	$ 132,419	$ 82,477	165%
Newmarket	$ 45,013	$ 108,397	$ 63,384	141%
Richmond Hill	$ 43,108	$ 101,802	$ 58,694	136%
Vaughan	$ 43,917	$ 144,941	$ 101,024	230%
Whitchurch-Stouffville	$ 43,199	$ 104,222	$ 61,023	141%
SIMCOE				
Barrie	$ 27,289	$ 89,498	$ 62,209	228%
BWG	$ 33,150	$ 52,158	$ 19,008	57%
Innisfil	$ 28,725	$ 61,455	$ 32,730	114%
New Tecumseth	$ 35,739	$ 63,111	$ 27,372	77%
GTA Average	$ 36,666	$ 101,190	$ 64,524	176%

Note: DC rates quoted from 2023 will differ from those cited from 2022 FIRs due to changes over 2022-2023 period, such as DC indexing (10-18%), Bill 23, newly adopted DC by-laws, OLT decisions, etc.
Source: KPEC based on DC rates from July 2011 and September 2023, as compiled by BILD and KPEC

Looking further afield than the GTA, didn't make much of a difference. Charges were up 101 per cent in Ottawa, 154 per cent in Hamilton, 159 per cent in London, 220 per cent in Kitchener, 133 per cent in Windsor, 168 per cent in Guelph, 198 per cent in Cambridge and 121 per cent in Kingston.

Milton and Sudbury had the lowest reported increases listed, coming in at 47 per cent and 49 per cent respectively.

Changes to DC Rates per Single-Detached Unit, 10 Largest Municipalities Outside GTA

Municipality	2011	2023	Change	% Change
City of Ottawa (OGB)	$ 23,376	$ 46,993	$ 23,617	101%
City of Hamilton	$ 26,407	$ 66,964	$ 40,557	154%
City of London	$ 17,005	$ 44,067	$ 27,062	159%
City of Kitchener (incl. ROW)	$ 21,458	$ 68,761	$ 47,303	220%
City of Windsor (excl. SSPD) (2)	$ 17,792	$ 41,386	$ 23,594	133%
City of Greater Sudbury (2)	$ 14,829	$ 22,162	$ 7,333	49%
City of Guelph (2)	$ 24,208	$ 64,813	$ 40,605	168%
City of Cambridge (incl. ROW)	$ 24,165	$ 71,938	$ 47,773	198%
City of St. Catharines (incl. RON) (1)	$ 9,090	$ 36,014	$ 26,924	n.a.
City of Kingston (incl. Impost)	$ 14,050	$ 31,026	$ 16,976	121%
10 Largest Non-GTA Municipal Average	$ 19,238	$ 49,412	$ 30,174	157%
10 Largest GTA Municipality Average	$ 35,827	$ 110,210	$ 74,383	208%
Ratio - GTA : Non-GTA	1.9	2.2	2.5	

Note (1): the City of St. Catharines did not have a City DC prior to 2020, but would have collected Regional DCs on behalf of Niagara Region
Note (2): Data not available for 2011, but rates shown are from early 2013
Source: KPEC based on DC rates from July 2011 and September 2023, as compiled by KPEC

One of the aspects taken into consideration when calculating a development charge is land value of the building site, explains Mike Moffatt, founding director of the Missing Middle Initiative, a think tank housed at the University of Ottawa's Institute of the Environment, with a focus on the decline of Canada's middle class, particularly the young, urban middle class.

"There is a cap in the *Development Charges Act* about how high development charges can get, but that cap is kind of a function of land prices. As land gets more expensive, you're allowed to charge higher development charges, which creates what we call a 'doom loop' where development charges go up and it causes house prices to go up, which causes development charges to go up further because it raises the cap."

Moffatt says that another reason why development charges keep rising is that with few other revenue-generating tools at their disposal, cities and municipalities keep expanding the scope of what development charges are covering. Generally, development charges aren't supposed to be applied to projects that benefit the entire city or region, but he points out cases where he feels that's exactly what's happening.

Last year, for example, Kitchener's city council decided to approve the building of a $144 million soccer complex, including a FIFA-sized indoor soccer field. And while the city believes its first netzero carbon building "will meet the current, future and increasingly diverse needs of Kitchener residents for decades to come" the project financing will come from "federal and provincial governments, as well as development charge revenues, meaning the construction of this facility will have no impact on municipal taxes."

Moffat believes that as development charges — and by extension, housing prices — go up in larger cities (like London), more price-conscious buyers tend to look outside of the city limits to the edges of the nearby towns (like Lucan) for the location of their new homes. As a result, urban sprawl increases, farmland gets eaten up by new home developments and the cities lose out on development charges and property taxes while still being required to build infrastructure, including roads, to support non-resident commuters.

Pitches and proposals

For buyers and builders, coping with development charges during a booming real estate market is one issue. Dealing with them during a collapsing market is a completely different story, explained Sherwood, noting that during February only 400 new homes were sold in the entire GTA instead of the 2,500 that would normally be expected during the month.

"What you have is some challenges with being able to produce a product at a rate that the market can afford to buy it, or is willing to afford to buy it, and that's stalling-out pre-construction sales. And pre-construction sales are used to make sure that you get the housing starts. So now housing starts in the GTA are down 60% in the first-quarter versus where they were last year, and what you have is a housing industry that is slowing down precisely when we need it to be speeding up."

In order to kickstart construction, people across the province are lobbying for development charge updates. The Association of Municipalities of Ontario (AMO), for example, has partnered with the OHBA in an effort to drive change, said AMO policy director Lindsay Jones.

"We wrote to the new Minister of Municipal Affairs and Housing on his very second day on the job, essentially saying that figuring out the best way to pay for housing-enabling infrastructure is a shared priority across the development and the municipal sector, and we're really interested in working together in a variety of very specific areas to see if we can't modernize the development charges framework to make it more transparent and consistent as a way to facilitate building in Ontario."

The letter references the same "State of DCs in Ontario" report mentioned above and echoes some of the proposals it put forward, including the desire for:

- clarifying, standardizing and enhancing local service policies to promote consistency and cut down on the need for negotiation;
- improving transparency and disclosure of Benefits to Existing (BTE) estimates and calculations, and exploring opportunities for greater standardization;
- merging certain service categories to increase flexibility for both developers and municipalities.

It also expressed the belief "there is merit in working together to explore adjustments to how land value is included in DC rate calculations to mitigate land's impact on rates, while also ensuring municipalities can acquire the land they need."

Additionally, the letter noted that development charges alone can't cover all of the costs municipalities face as they continue to build out their infrastructures.

According to Jones, "The estimates are that DCs can generally pay for 80 per cent of the cost of growth infrastructure, but that was before Bill 23 made some significant changes to that framework… We have been asking the provincial government for about 18 months now to sit down with municipalities, to have a fundamental conversation around how are we going to pay for all of the infrastructure and the services that we need."

One of the primary initiatives being put forward by those like AMO, BILD, and Missing Middle is to rework how new water and waste water infrastructure is financed. Rather than doing so through a development charge, the current thinking is that a utility model would be a better approach. This would be the same way that home owners pay for services like hydro, with a monthly charge that covers the infrastructure costs as well as the kilowatts used.

Politicians sitting on the opposition benches at Queen's Park also have ideas about revamping development charges. Green Party of Ontario leader Mike Schreiner wants to see the complete removal of development charges on starter homes under 2,000 square feet in size — the type of homes first-time buyers purchase — as long as they are "built within existing urban boundaries, where we already have infrastructure." He would also like to see project-based funding disappear in favour of "an affordable communities fund that would provide municipalities with dedicated, predictable, stable infrastructure funding of $20 billion over the next four years to help make sure that they can afford to build infrastructure to unlock housing development."

While he doesn't know exactly what the government will do with regards to reviewing development charges Schreiner wouldn't be surprised if it happens.

"There has been some chatter about the Ford government looking at development charges and possibly making some changes to development charges, and I would welcome that. I would very much appreciate having the Green Party be part of that discussion, because one of my fears is, if they eliminate all development charges that could just incentivize expensive, low-density sprawl development, and we know that it costs 2.5 times more money to provide servicing for low-density sprawl than it does to build within existing urban boundaries, so from a financial standpoint, that makes no sense, and obviously it threatens our farmland and our environment."

Catherine McKenney, the Ontario New Democratic Party MPP for Ottawa Centre and the opposition's housing critic, explained that the waiver or reduction of development charges can be used to spur the growth of affordable housing or increase urban density, or improve affordability.

McKenney, who was a city councillor in Ottawa prior to becoming an MPP, said that "It depended on where the development happened. If it happened in a green field where there was little or no existing infrastructure, it is very expensive. If that development happens in an existing neighbourhood that's already largely serviced, then that's where you could spur that type of new development and remove development charges."

While there is no guarantee that a reduction or waiver of development charges will absolutely get passed along to the home buyer, McKenney said that “I know that the lower the cost per door [i.e. the cost to build each home, whether that’s a house or a condo in a multi-unit building] the more housing you will get. The less it costs somebody to build, the more they will be able to build.”

McKenney also noted that while a development charge reduction or waiver may help the first-time buyer, the second time the home is for sale, it will be at the market rate, meaning the second buyer won’t benefit from the reduction and that the stock of affordable housing won’t have increased.

The Ford PCs are moving ahead with changes aimed at lowering than financial burden for homebuilders.

The province's Bill 17 requires municipalities to allocate or spend at least 60 per cent of their development charge reserves, funds that the government says can been used to "get shovels in the ground to for critical infrastructure projects, including building homes."

The Ford government also recently worked with the Peel Region to facilitate a 50 per cent reduction in the region’s development charges at a recent council meeting, as well as eliminating the 13 per cent HST on new purpose-built rental properties and reducing municipal development charges on purpose-built rental units.

"These bold measures are lowering the cost of building rental homes, driving a 25.4 per cent increase in rental starts from January to May 2025 compared to last year — reaching near-record levels," Alexandra Sanita, a spokesperson for Housing Minister Rob Flack.

The province is also looking into a new public utility model that would shift responsibility for water and wastewater away from the Peel Region, eliminating the need to levy development charges for these services.

Executing a plan

In light of the downturn in housing starts, a few local governments have reduced their development charges in order to encourage building starts. Vaughan cut some of its charges in November 2024. And in January, it was Mississauga’s turn to take action.

Mayor Carolyn Parrish said the first thing the city did was to arrange three meetings with developers in order to first listen to their concerns and then come up with a strategy that satisfies both their needs and the city’s. As a result, the process to get plans approved was streamlined, with the city taking a “three submissions and you’re in approach” instead of a cycle of constant change requests by city officials and submissions by publishers.

The city also reduced the number of its residential planning zones from 14 to two: large lots and small lots, allowed building of fourplexes on large enough lots and reformed its internal processes.

As for development charges, the city cut those in half and entirely eliminated them from family-sized units (three bedrooms) in purpose-built rentals. Mississauga also delayed the collection of development charges until November 2026, the end of the current council’s term.

If there are 20,000 new units built in the city that are being charged the 50 per cent reduced rate the city estimates it will forego $215.2 million in revenue, but that's fine with Parrish.

"We can take the hit for a couple of years," she said.

Parrish explained that even though the city is young, it has grown out to the edges of its borders, so rather than having to create new infrastructure, the city mainly has to do preventative maintenance on infrastructure that is already in good shape — activities that won't cost taxpayers very much —and if necessary, some of that work can even be put off a bit.

Additionally, as of December 31, 2024, the city has $195,081,367 in its development charge reserve funds.

The idea of building 20,000 new homes is an attractive one, given how depressed the new home market was in Mississauga last year. In 2024 the city only issued 2,600 unit permits, and many of those were for renovations.

"This year we have had letters of intent and permits applied for for approximately 19,000 new units. Not all will get processed to building permit stage by the cutoff of November 2026. Our staff is speculating that two-thirds will," said Parrish.

**This story has been updated with comment from Minister Flack's office.*

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