The context and considerations for DC review and temporary reduction

Prepared for the City Hamilton

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Purpose

- The City of Hamilton is considering a temporary reduction in Development Charges as a way to stimulate a slowing home construction sector
- This review examines current trends in the housing market to assess potential impact
- It also explores related considerations

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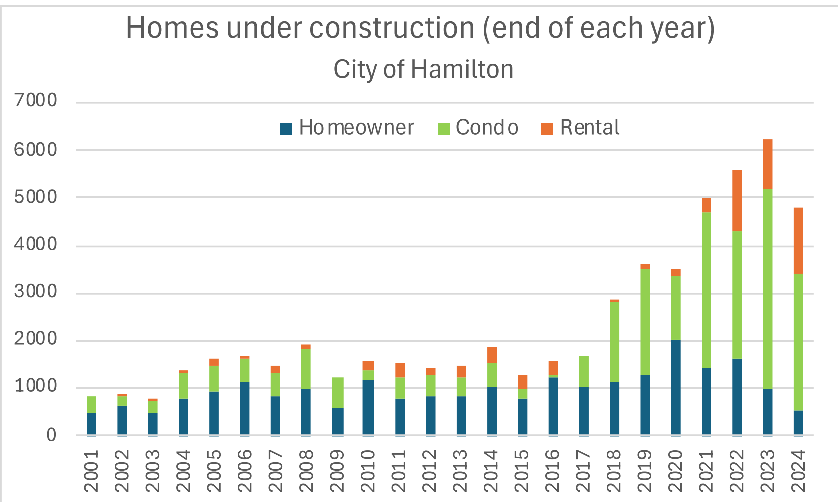
Substantial expansion in new homes



- Construction soared post 2017
- Tripled compared to average decade prior to 2015
- Primarily via large expansion of condominiums,
- But also a more recent increase in rental
- Condos attracted (and was stimulated by) investors and and now such investors withdrawing
- Single homes initially increased but have seen largest proportionate decline post 2022

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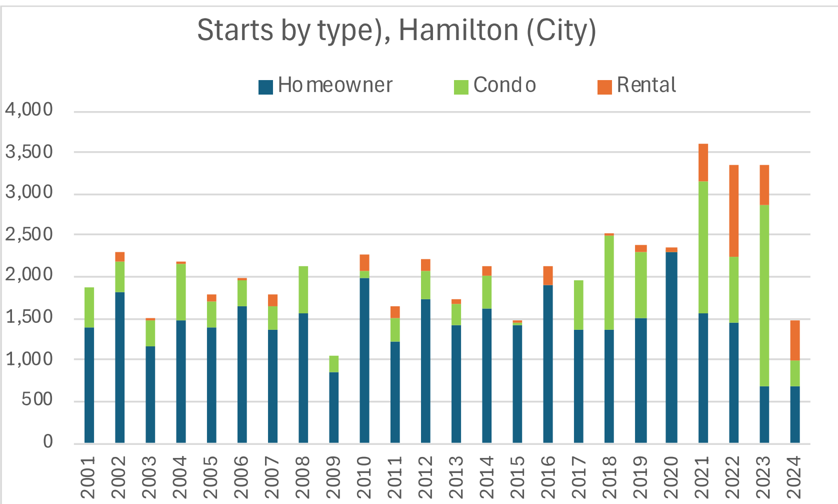
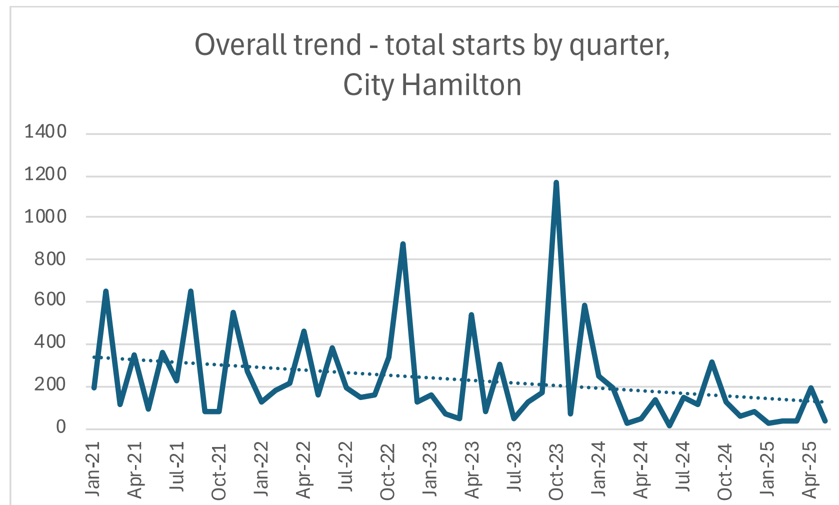
Recent starts declining dramatically

Average monthly down from 350/mo in 2021 to under 150/mo Q12 2025
ownership singles down from longer term levels
Condo down especially after recent peak
(some of rental are non-profits)

Annual data



Quarterly (so adds 2025 to Q2)



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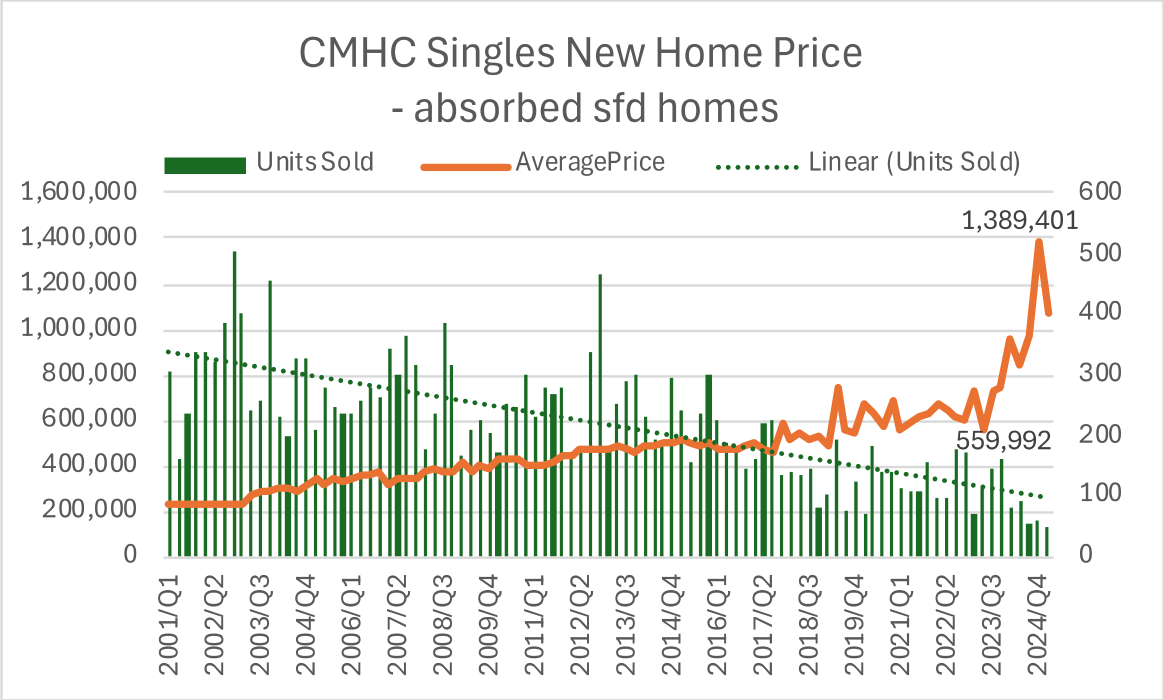
New single detached construction reacting to excessive cost and prices



Very large increase in prices for single homes
– appears to be a limited demand at those high prices as reflected in declining starts

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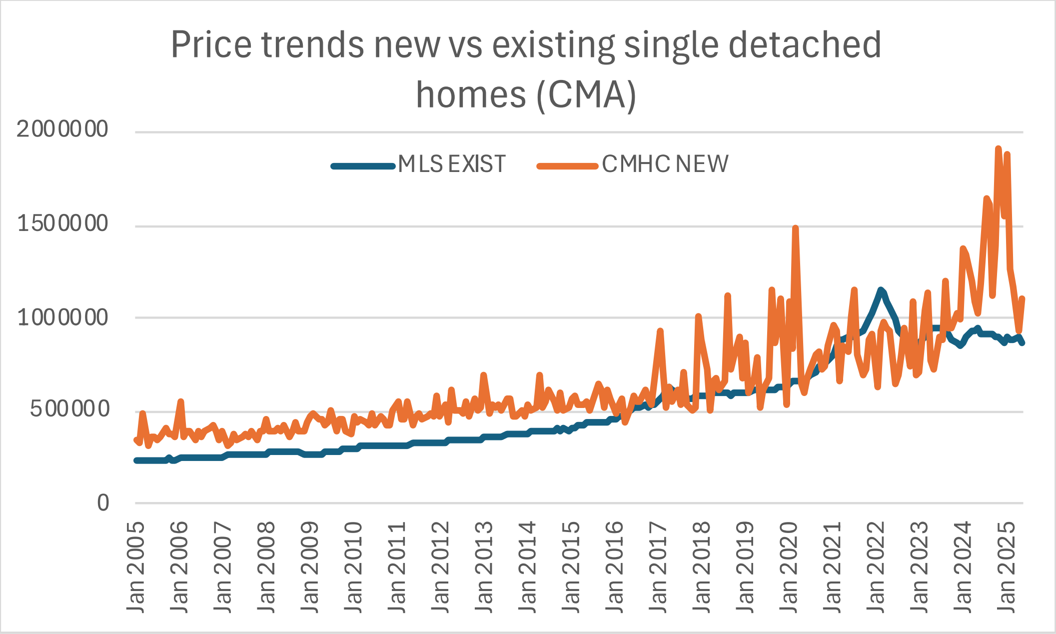
Price of new single detached increased much more than existing homes

makes new less competitive – so weaker demand and less construction of this type/price



Note- MLS sales data for Hamilton-Burlington combined, so used CMA CMHC data here (includes Burlington , Grimsby data)

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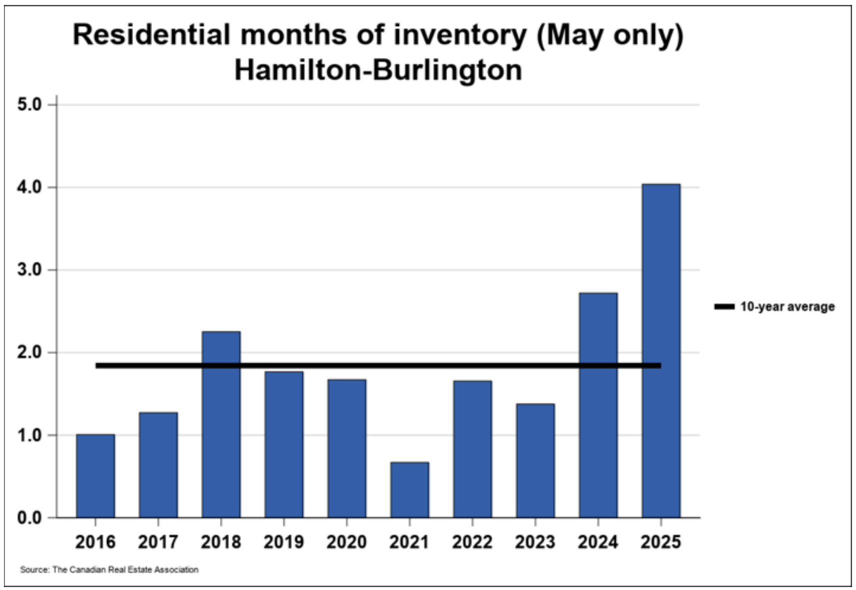
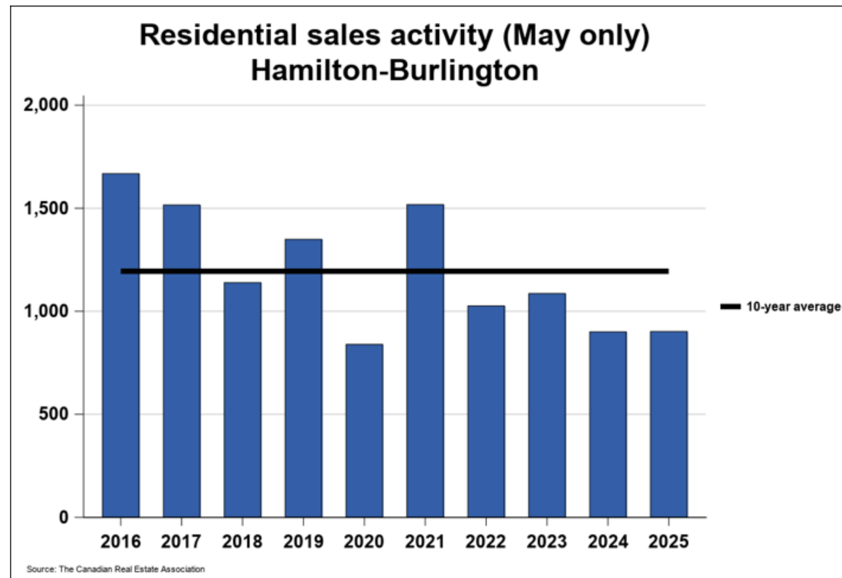
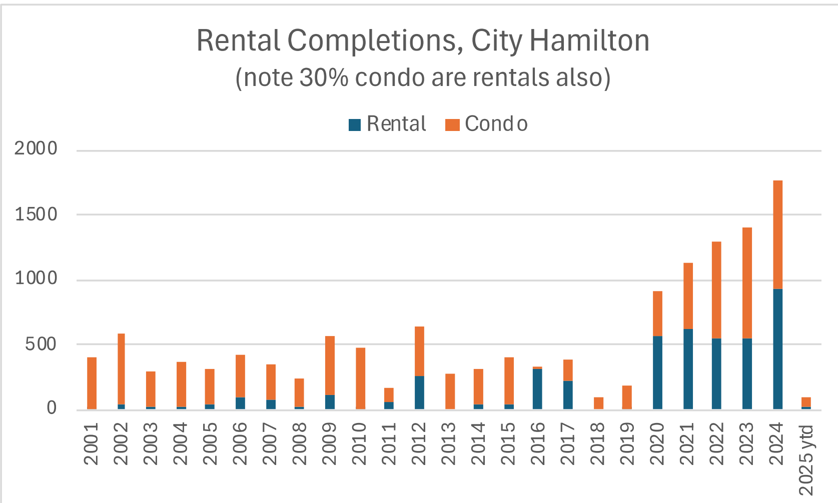
Slowing sales of existing homes Excess inventory (at lower prices) = disincentive to new starts

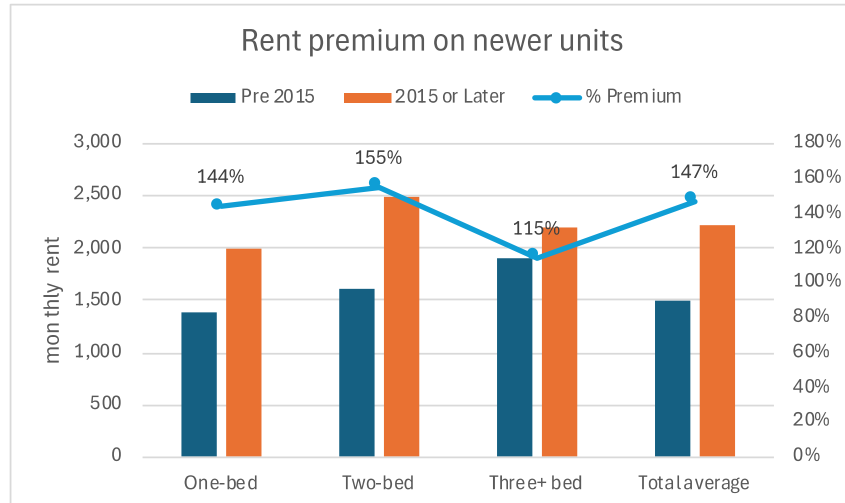




Rental part of market
– expanding, but may now also slow

(weaker demand as student visas cut, and glut of new completions)





Substantial increase in rental supply, but rents often high (147% of average)
Roughly 1/3 new condo are investors adding to rental stock – this likely to decline going forward
Potential for some condo developers to pivot into rentals (perhaps into non-market?)
* Note Bill 17 exempted non-market “affordable” development from DCs

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Targets for new home construction

related to provincial and federal incentives

MMAH and City Pledge

- The Ministry of Municipal Affairs and Housing (MMAH) has set a target of 47,000 new housing units
- This is an average of 4,700/year although this is phased in (2023 target was 3,550; 2024 was 3917).
- In 2023, Hamilton issued permits for 4,263 (120% target)
- But total starts in 2024 fell to only 1481
  - Note MMAH achievement is starts, including long term care beds and ADU's so total achieved was 1,632 (42% of target)

Federal Housing Accelerator Fund

- Executed Fall 2023, committed Hamilton to achieve a net increase of 2,675 homes over three years.
- This means a net increased on average of 891 homes against the average of last 5 years
- Ave starts 2018-22 was 2840, so implies a threshold of 3,730
- By comparison starts in 2024 totaled 1,481 and unlikely to increase in 2025
  - (The HAF targets use building g permits, rather than actual starts)
  - It also has separate initiative-based targets related to policy/processing changes and new programs

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Will City achieve targets to secure related incentive funding?

- Recent stalling in market suggests Hamilton (and many other cities will not be able to meet the provincial or federal targets
- Key question how likely is reduction in DCs to cause a substantial reversal and improvement in new home construction via private market?
- And would any resulting change in HAF and Provincial incentive revenue offset reducing DCs
- And to what extent can City supported non-market investment help to achieve targets

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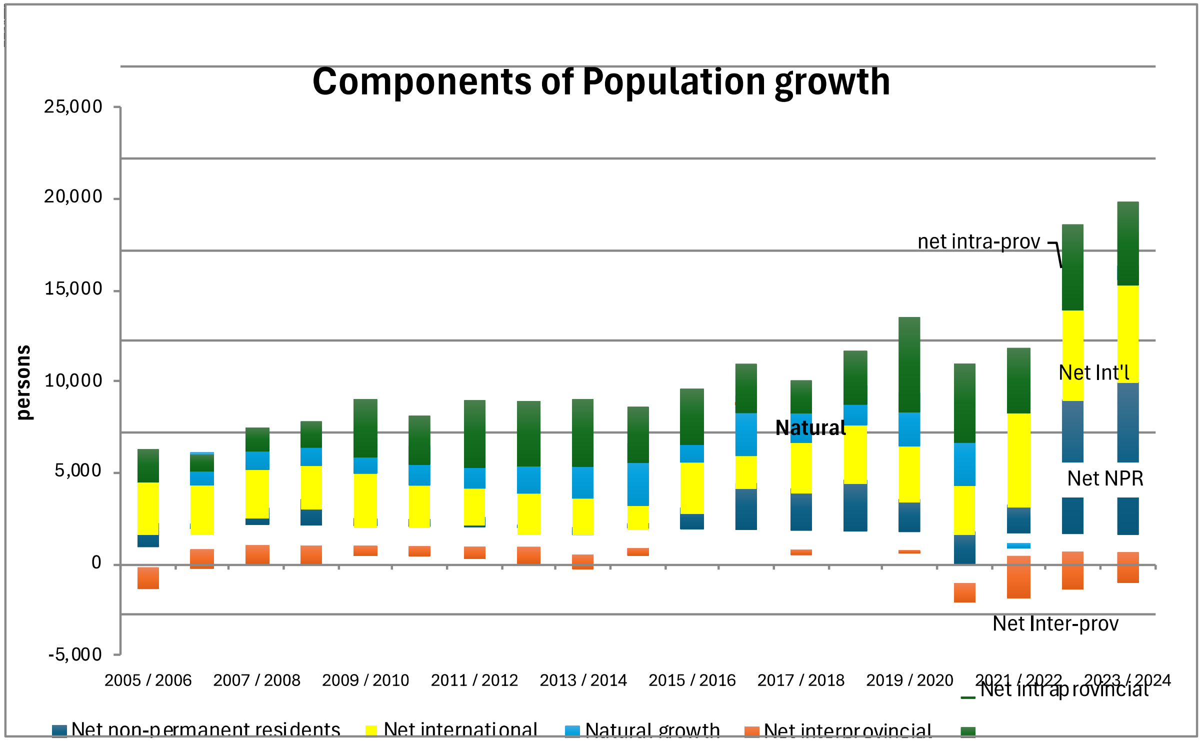
Other factors and considerations

- Immigration and migration
- Supply chain costs
- Interest/mortgage rates
- Tariff effects
- DCs and other municipal costs as a disincentive to build (price vs cost imbalance)

Strong population growth stimulated starts



- NOTE: DOESN'T YET REPORT CHANGE SINCE JULY 2024 – WITH SUBSTANTIAL DECLINE INTERNATIONAL AND NPR
- Demand growth driven by BOTH intra prov and international migration
- NPR (students especially significant) – these quotas now substantially reduced going forward = less rental demand
- And some offset from people leaving province last 4 years

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Other factors and considerations

- Supply chain costs and adjustments – still high material and labour
  - Also with peak prices, land prices inflated and baked in
- Interest/mortgage rates
  - Variable rates may be room to slightly improve (BoC rate setting)
  - Tariff effect is on bond rates, which have increased (fixed rate mortgages priced off bond market, more likely upward)
- Tariff impacts (especially steel) impact employment and household income – creates less willingness to take on new/higher mortgage debt
- So reinforces existing weakening demand
- Could potentially add to construction employment (if workers pivot out of steel plants to home construction)
- DCs and other municipal charges do add to cost – but prices are market-based vs cost based – so this may be a temporary price-cost imbalance?

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Key insights

- Market is reacting to fundamentals
  - Large inventory of listings (existing homes for sale)
  - Historically high number of units already under construction will add to “excess supply” of new homes
  - Recent high immigration and population growth have now reversed = slowing new demand
  - Logical consequence is decline in prices
  - Recent rise in supply chain (materials and labour) plus higher land costs pushed costs higher
- **When revised price potential exceeds cost to build, building stalls**

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Key insights

- Slowing construction activity has implications for the supply targets imposed by province and adopted to secure federal funding under Housing Accelerator Fund (HAF).
- Without some effort to stimulate City may lose or forego some HAF funding?
- Potential opportunities to stimulate rental part of market, including more affordable rentals
  - (nb affordable already exempt from DCs under Bill 23, and the the Affordable Housing Development Project Stream has excess demand above current program budget

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Impact of reduced starts on DC revenues

If sustain 2024 level total annual revenue loss vs. average prior decade is $40.5million (more likely starts will be lower than in 2024)

- Uses an average of area A and B, with total DCs before special area charge
- And averages DC for one bed and two- bed apartments as starts data don't distinguish bed size

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Insights from other cities

- A quick scan
- Both Mississauga and Vaughn have implemented reductions, these are reductions
- Also these two cities are among the highest DC charges in Ontario (and Canada)

Insights from other cities

- Mississauga (and Peel Region) – changes in effect until November 2026 to incentive construction
- DCs for new residential construction are temporarily reduced by 50%
- Plus full waivers for three-bedroom, purpose-built rental units.
- Mississauga also deferring payments of residential development charges until units are ready for occupancy

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Insights from other cities

City of Vaughan has implemented a DC Rate Reduction and Deferral Policy effective November 19, 2024,

- The policy introduced substantial reductions in DCs, between 88% and 92% depending on housing type, resulting in savings of up to $44,273 for single-detached or semi-detached homes
- Also includes a suspension of interest on DCs for residential projects.

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Insights from other cities

In BC the provincial enabling legislation allows municipalities to pass bylaws to waive or reduce charges certain properties, including:

- Not-for-profit rental housing
- Supportive living housing
- For-profit affordable rental housing
- A subdivision of small lots designed to result in low green house gas emissions
- A development designed to result in low environmental impact

Note – in Ontario affordable and supportive already exempt from DCs under Bill 23

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Other options

- Staff report recommends 20% reductions. If objective is the reignite stalled potential starts are there other options that can help?
- Some cities have deferred payment to occupancy vs. at building permit (helps developer cash flow)
- DCs constant by dwelling type, and don't consider value. Adjusting by dwelling value could help stimulate more moderate prices entry level homes vs large expensive homes
- Once regs from Bill 17 announced – these opportunities could be explored

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Conclusion and key question

- Overall residential construction trend is alarming
- Does this put promised federal and provincial incentive funds (linked to increased starts) at risk?
- Would some reduction stimulate enough new to preserve FP funding?

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