



True Costs Of Housing

by Morley Kells

Lee Iacocca, Chair of the Board of Chrysler, once explained that \$600-700 of the cost of every car they sold was to provide health and welfare benefits for the employees covered under the United Auto Workers contract.

I don't know what that conveys, except it tells me that in manufacturing you can break down the costs of all components and labour expenses of the product. A huge range of alternatives usually keep prices competitive.

It would seem to me that the same reasoning could be applied to the cost of housing. You can derive the true cost of the home construction, and the variable often lies in the costs of land assembly and development charges related to municipal requirements for service.

HISTORICAL PERSPECTIVE

My generation accepted mud, unfinished streets, library rarity, portable schoolrooms, no nearby shopping, hospital scarcity, septic tanks and no parks. That was long ago and was accepted as a given.

The development charges began at a point in each community when growth overran the ability to deliver facilities and services. Yet, comprehensive benefits were taken for granted. At the same time came higher salaries for politicians, school trustees and a galloping proliferation of the public service required to operate all this.

Where did all this madness start? Since 1973, The Urban Development Institute (UDI) has been publishing positions on lot levies (now called development charges). Steady efforts continued and in February 1977 Lot Levy Study in Ontario and Analysis of the Current Situation was published.

Much dialogue then took place among UDI, the provincial government and AMO with no agreement. UDI tried again in 1984 to reach a consensus on how to cope with growth and its related costs. The

report says:

The Urban Development Institute would like to make it very clear that it has always taken the position that development should pay its fair share of municipal costs and that new development should not create a burden on the financial base of any municipality. It has accepted the principle that power should be given to the Municipality to impose levies as a condition of rezoning to the extent that such rezonings intensify the use of the property and im-



forego any levies), it put Education Levies in growth areas firmly into law.

In one stroke, the provincial masters thrust the costs of growth on to the municipalities and thence on to the developer, builders and, guess what...the home buyers. The implementation and fallout are now before us.

ROLE OF DEVELOPERS

One of the most misunderstood of business enterprises is the building industry and the role it plays in the economic well-being of Ontario. Perhaps, the reason for this confusion lies in the secretive nature of the industry caused by the extreme competitiveness inherent in land development decisions. Possibly, the cloudy picture also emanates from the complex mesh of approvals necessary before projects are approved and launched.

Morley Kells is the first full-time President of the Urban Development Institute of Ontario since 1990. A veteran of elected office at three levels Morley was an Alderman in the City of Etobicoke and Metro Councillor for the area. He served as the MPP for Humber, a Parliamentary Assistant to the Minister of Transportation and Communication and in 1985 became Minister of the Environment.

The Urban Development Institute/Ontario received its charter in 1957 as a professional, non-profit organization comprising firms engaged in the development of lands in the Province of Ontario.

pose a greater burden upon a municipality than would development under the existing zoning. On the other hand, the Urban Development Institute strongly objects to levies being used to subsidize the general tax base.

Subsequent events and political wrangling accompanied by an unprecedented population explosion drove the Liberal Government to pass the Development Charges Act in November of 1989. Not only did this legislation call for Development Charge By-Laws by all Ontario municipalities within two years (or you

For many years now, the public was fed by media horror stories and by municipal politicians who failed to communicate honestly and effectively about development. People were led to believe that the cost of homes is driven up by greedy developers who are making unconscionable profits.

It is not a matter of apportioning blame; our economic woes have lifted the crisis beyond that exercise. The list is endless and well-documented. If we look back to 1985, we can see the acceleration of provincial government attempts to provide solutions which have withered because of

unclear objectives, misconceived pursuit of policy and lack of cohesive efforts.

The NDP has called upon the land and building industry to lead the way out of this recession, but they have offered nothing but red tape removal solutions which in turn are all tied up in consultation and more red tape. This is draining our industry of time and resources as we attempt to participate in all this soul searching.

WHAT HAPPENED

"The system and the process did not respond to the supply requirements of the marketplace."

Jack Winberg
UDI Chair
August, 1992

Clearly, because of lack of supply for housing in the latter half of the 80's, demand ran wild, prices surged, the political landscape changed, indecisiveness took over, speculation raged and governments failed to cope and in effect ceased to function.

Nothing illustrates this more than the Ontario government's refusal to approve Official Plans and Official Plan Amendments. The Ministry of Municipal Affairs has not approved housing statements in the new OP's when they have been prepared by municipalities. Similarly, they will not approve OP's that do not have infrastructure in place to accommodate the growth plans. Yet, in Catch 22 style, they control the construction, allocation and determination of water and sewage capabilities in the GTA.

THE PROVINCIAL FACILITATOR

Ironically, Dale Martin, the Ontario Facilitator, has called upon UDI to help solve the backlog. We have agreed to help. As a first step, he has promised to provide a timetable to release the 85 OP's currently awaiting approval at the Ministry of Municipal Affairs.

Instead of tackling red tape, which is only an admission of the failure of government policies, they should go to the heart of the matter. If affordability is crucial, and it is, the marketplace has resolved that already. Playing at public consultation is no replacement for long term understandable responses to growth projections. Approve the OP's of municipalities or provide them with new implementable policy.

It is difficult for UDI to help a government that is only concerned about enormously expensive non-profit social housing that it can not afford, but keeps talking about with rhetorical promises. Let's work our way through the problems in the system and in the process and as a conclusion suggest ways to get the development industry on a track that will contribute to the welfare of all.

ANALYSIS OF LAND DEVELOPMENT COSTS

RESIDENTIAL DEVELOPMENT

It is the contention of the UDI that the "high cost" of housing in the Greater Toronto Area (GTA) is attributable to two main factors:

- 1) holding costs related to an unduly protracted approval process
- 2) municipal fees, and levies (development charges) that are unnecessarily high on a per lot basis.

Many other factors contribute to driving up the cost of serviced land. While not universal, these show up indiscriminately throughout the GTA:

... duplication of necessary approvals is the constant nightmare of developers placing total growth cost on land with disproportionate levels of municipal engineering services with lower efficiencies, OMB delays and backlogs plus associated costs, no decisions by municipal councils 6 months prior to elections, no sharing of schools, day care and park allocations, distortion of land required for agricultural

Table 2:

ESTIMATED COSTS TO DEVELOP SALEABLE LAND IN THE GTA			
Category	\$cost/LF	000\$cost/ Net Acre	% of cost
Land	700	135	29
Servicing ¹	540	103	22
Consulting	130	25	5
Municipal Fees, and Levies ²	620	12	26
General Expenses	28	5	1
Selling Costs	40	8	2
Holding Costs	360	70	15
TOTAL Estimated Cost	418	466	100
COST OF A 40' LF LOT	\$96,720		

¹ Servicing means hydro, sewers, roads, sidewalks, external hookups and landscaping
² Municipal fees and levies include utilities, all growth related charges and education levies

production; municipalities require oversized standards and government land freezes and development suspension.

Some of our members claim that "finished land cost" for both residential and industry use is somewhere between 30% to 50% higher than need be. This could translate into a land cost differential of \$30,000 to \$50,000 to the home buyer.

A few years ago builders in the GTA estimated lot costs to be approximately one-third of the cost of building a home. In 1989, the lot cost was more than 50%; it has now been reduced to between 45% - 50%. Lot costs in peripheral areas - Cambridge - Barrie - Bowmanville - are approximately \$1,000 per front foot cheaper than in the GTA because of over-zealous requirements here and the effect of supply and demand.

An analysis of a potential subdivision project in Richmond Hill, located in the GTA immediately north of Metro Toronto, could be used to illustrate the costs.

Table 1:

SALEABLE LAND AREA (acres)	
Gross Area	100.0
Deduct:	
Flood Land	6.0
School	7.5
Park	5.0
Road	23.0
Detention, S.W.M.	3.0
Land Not for Sale	44.5
Net Saleable Area	55.5

It should be noted that only 55.5% of the original acreage is available to be sold.

This reveals the following:

- To buy the land, service it (infrastructure), pay consultants costs 56% of the saleable frontage;
- Municipal fees/levies (development charges) make up 26% of the cost; Carrying costs related to the process calls for 15% of the total

In conclusion a 40' LF lot costs \$96,720 which explains the difficulty of constructing affordable single family housing in the GTA. If we use the acknowledged construction costs of a 2,000 sq. ft house to be \$120,000, then the total price of the house is 216,720.

Table 3:

COST COMPARISON OF INDUSTRIAL PLANT DEVELOPMENT IN THE GTA AND IN THE USA		
<small>(This example is calculated for an Industrial Plant of 200,000 sq.ft on 15 acres of land, including 5 acres for expansion)</small>		
	GTA Plant	U.S. Plant
15 acres fully serviced (average cost \$350,000.00 per acres)	\$5,250,000	\$1,125,000
Plant construction hard and soft costs 200,000 sq. ft. @\$40/sq. ft.	\$8,000,000	\$8,000,000
Development Charges Act costs (average cost \$3.00/sq. ft.)	\$600,000	negligible
Total estimated cost	\$13,850,000	\$9,125,000
	\$7.00/sq.ft.	\$4.56/sq.ft.
EXCESS COST IN THE GTA : \$4,725,000		

INDUSTRIAL DEVELOPMENT

Costs to construct Industrial plants in the GTA versus nearby U.S. locations also show a similar pattern.

THE HIGH COST OF SERVICED LAND IN THE GTA

In the above examples the UDI pointed out the many elements that collectively have worked to drive up the cost of serviced land. We are willing to provide illustrations of all of this in the various components of the Greater Toronto Area. The GTA Office talks of growth patterns and healthy communities, but government actions thwart attempts to achieve most of the objectives.

Our industry built the GTA as we see it today. Even in the eyes of our most severe critics, it is generally recognized that

Ontario's citizens are among the best housed in the world. We are capable of continuing good performance, but we are being overwhelmed by bureaucracy at all levels with the predictable results.

To sum up, these are the ingredients that create the final price of a single family home:

1. Land supply plus major infrastructure;
2. Expenditures required to service the land plus development charges and levies;
3. Time to process for approvals plus environmental roadblocks; and

4. The marketplace - build what the public desires and can afford.

Our industry would like to help and see changes in the following:

- a. the costs of land development;
- b. the failure of government policies and implementation of current legislation; and
- c. the cost of normal delays in the process exacerbated by unreasonable environmental demands.

To our knowledge, the industry has never before attempted to explain the mysteries of land development. We are willing to do so to eliminate the myth that

the purchase of undeveloped land leads automatically to huge profits upon the completion of housing and industrial/commercial projects.

ARE DEVELOPMENT CHARGES WORKING?

If Development Charges were originated as a legislated device to allow municipalities to finance the cost of growth, they have proven to be a miserable failure. In essence, the patients can ill afford the medicine to their problems. Larger inner urban jurisdictions decided quickly that onerous development charges would serve to drive away business and moved to eliminate or soften their impact on prospective developers.

Mississauga, perhaps, is the classic illustration of a resolution by negotiation to produce a level of charges that are acceptable to developers. And so, UDI members have found that in some cases, a realistic approach leading to an agreement is possible. In other situations, the industry and the municipality appear too far apart to reach a practical arrangement to cover growth and maintain levels of service.

In simple terms, the highest proportion of the cost of a home relates to development charges and education levies where they have been applied. The high costs relating to land and the subsequent addition of charges and levies produce a home that costs too much for the first time home buyer.

Not surprisingly, the results help fuel the economic recession in which the land and building industry is firmly entrenched.

Governments and industry are cooperating to eliminate duplication and delay, which is one half of the problem. A more realistic approach to levels of service and growth costs by the local Councils would work wonders to bring the other half into economic acceptability.