Who Bears the Cost of Growth?

A Review on the Price Impacts from Development Charges

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Introduction

Development charges are fees imposed by municipalities and regional districts on developers of new housing.[1] These fees are intended to be used to help cover the cost of infrastructure and services needed to support new growth, including roads, water, sewers, and parks.

In recent years, development charges have increased at an alarming rate for many municipalities in Canada, often well beyond the overall rate of inflation (Dachis, 2018).[2] Amid our housing affordability crisis, this raises concerns about how costly it will be to produce the new housing that Canada needs, at an affordable price. But the main question is: who ultimately pays for development charges? Our scan of the literature on a number of outcomes finds that:

- **New homebuyers bear the burden of the development charge**. This is especially true when housing markets are trending upwards.
    - Studies show increases to new house prices are typically proportionate to, or greater than the size of the development charge.[3]
- **Prices of existing homes also rise, and at a high magnitude**.
    - Sellers of existing homes can ask for a higher price if newer homes in the area are selling at an increased price, even though development charges are only applied to new construction.
    - This points to an equity benefit for existing owners.
- **The price of undeveloped land increases in many studies, though it's not always the case**.
    - Land values can decline if increased development costs draw down from a developer's willingness to pay for a plot of land.
- **Development charges may substitute for increases in property tax (*or other fees*)**, lowering the potential costs of existing homeowners. An overreliance on development charges may produce a less diverse mix of revenues for growth-related infrastructure, potentially lowering the potential costs on existing homeowners in favour of fees on new homeowners.

Thus, while development charges are intended to shift growth-related infrastructure costs to developers, the literature widely shows that the new homebuyer ultimately absorbs the direct cost through inflated new house prices. It is also important to understand the broad spillover effects that arise from implementing these fees.

Why Should We be Concerned About Development Charges?

Understanding who ultimately bears the cost of development charges comes with an important motivation, particularly in light of recent, large increases in these fees. A recent Ontario-based report by the Canadian Centre for Economic Analysis (2024) highlights the scale of the problem. When accounting for all development charges, fees, and sales and transfer taxes, the total cost of government fees associated with an average new housing unit exceeds three times the typical Ontario household income. These charges also represent approximately 36% of the final purchase price of a new home, underscoring their significant impact on housing affordability.

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[1] Also referred to as impact fees and exactions.

[2] Large historical upward shifts in development charges were also observed in CMHC's 2022 Municipal Land Use and Regulation Survey, particularly in markets that were unaffordable.

[3] Studies mainly estimate this through hedonic modelling, with more to be discussed in the literature review.

While some of Canada's markets have relatively low and stable development charges, some of the most unaffordable regions – including in the Greater Toronto Area - have per unit charges that often exceed $100,000 (CHBA, 2024). Some of these recent increases have been well over 500% relative to a decade earlier, all while the general level of inflation rose 29% from 2014 through 2024 (Dachis, 2018; CHBA, 2024).[4]

A Brief Review of the History of Development Charges in Canada

Canada has had a long and evolving history of development charges, many of which trace their origins to the period of post-World War II urban expansion. Initially and through the 1950s, municipalities relied on informal agreements with developers to fund or develop roads, sewers, and other necessary forms of infrastructure (Skaburskis and Qadeer, 2000; Sancton, 2021).[5] Development charges play into the municipal finance picture along more user-cost forms of revenue, including property taxes, water, sewage, community amenity and other fees (Bird and Slack, 2017).

By the 1970s, provinces began to draft specific legislation surrounding development charges, and adoption became more common among municipalities (Sancton, 2021). The rising adoption of development charges over this time shares a similar pattern with municipalities in the U.S. (Evans-Cowley et al., 2003). During the 1970s in Ontario, small numbers of municipalities introduced fees that were typically quite low in amount. Development charges were soon common among all municipalities and increased generally by several multiples through into the late 1990s (Skaburskis and Qadeer, 2000). In the present day, some of Ontario's largest municipalities now receive more than $100,000 per unit (CHBA, 2024). The use and magnitude of development charges however varies significantly by region in Canada, and also typically by unit type.

While Ontario and British Columbia rely (and have relied) heavily on development charges, cities in Quebec has historically used alternative funding models, with municipalities covering more of the infrastructure costs through borrowing and property taxes (Sancton, 2021). Following the passage of Bill 122 in 2017, municipalities in Quebec are now able to utilize development charges. So far, there have been few adopters, and at modest amounts (Polèse, 2023). In the Prairies and Atlantic Canada, the magnitude of development charges is much more negligible in size compared to Ontario and B.C. (CHBA, 2024).

The recent increase in development charges has prompted many communities to reconsider their approach, leading policymakers to reduce these charges in some cases as they seek alternative strategies to encourage new housing supply. Some of these many examples include Ontario waiving development charges on non-profit housing providers (Government of Ontario, 2022), or through local reductions in key markets (see for example: Callan and D'Mello, 2024; Sliz, 2025). Other recent policy innovations have also included deferral of development charge payments until occupancy, generally, or for certain unit types (Mendoza, 2025).

[4] Inflation calculations by the authors using Statistics Canada Table 18-10-0005-01.
[5] The Ontario Local Improvement Act of 1914 allowed municipalities to install growth-related services and recover the costs by levying local improvement taxes on the property owners who benefited from the service provision.

Methods

In the following review, studies under consideration will primarily focus on quantitative research that estimates the pass-through of development charges to new house prices and related market impacts. We acknowledge that development charges are also discussed more qualitatively in other urban planning and policy contexts, which are referenced where relevant but not examined in depth. This framing ensures transparency about the review's focus on empirical evidence and measurable outcomes.

What Does the Literature Say on Who Bears the Burden?

Overview

It is commonly understood that the costs associated with infrastructure development are transferred to new homebuyers (for example: Huffman et al., 1988; Sancton, 2021). However, the extent to which these costs are passed on can depend significantly on the strength of the housing market. In stronger markets, development charges are more likely to be absorbed by new homebuyers, as demand remains high despite increased costs. Conversely, in markets with weaker demand, developers may face constraints in transferring these costs.

Competition between municipalities may also influence the ability to pass through development charges. In such cases, prospective buyers for new housing may opt to build in nearby jurisdictions with lower fees, limiting the developer's pricing power (Evans-Cowley & Lawhon, 2003). However, competition over development fees can dissipate if municipalities uniformly raise their development charges. When all jurisdictions increase fees in tandem, the option to substitute to a lower-cost market diminishes, effectively reducing buyer mobility.[6]

Over the past 35 years, Canada's persistently strong housing market suggests that developers have generally operated in an environment conducive to passing on these costs. Alternatively, in the case of declining markets, developers may be forced to absorb a greater share of the financial burden. This could manifest through reduced land costs, lower construction quality, diminished profit margins, or, in some cases, the decision not to build at all (Ellickson, 1977; Snyder & Stegman, 1986).

Direct Effects on New Housing

A longstanding body of empirical research supports the notion that development charges increase the market price of new supply and reduce affordability for new homebuyers. Because this topic is highly specialized, most quantitative studies originate in the U.S. and appear at various points beginning in the late 1980s.

- In a foundational study, Delaney and Smith (1989a) analyzed the impact of a $1,150 development charge introduced in 1974 in Dunedin, Florida. Using a hedonic pricing model and comparing outcomes with three nearby control communities, they concluded that builders were able to fully pass the cost of the fee onto buyers—indeed, the increase in home prices exceeded the fee itself.

[6] Of course, holding all other factors on the cost and benefit side that foster the development of new housing.

- At the higher end of estimates, Singell and Lillydahl (1990) examined a nearly $1,200 development charge increase in Colorado. They found that the price of new single-family homes rose by between $3,300 and $4,500, with the authors attributing approximately two-thirds of this increase directly to the implementation of the fee.
- Dresch and Sheffrin (1997) extended this analysis to California, revealing that the effect of development charges varies by income level. In low-income areas, each additional dollar in fees raised home prices by just $0.25. In contrast, in high-income areas, the same dollar increase led to a $1.88 rise in home prices, suggesting a greater capacity to absorb and pass on costs in wealthier markets.
- Ihlanfeldt and Shaughnessy (2004) estimate the effects of development charges on the prices of new single-family homes using data from Dade County, Florida. Their findings indicate that each additional dollar in fees increases the price of new housing by approximately $1.60.
- Mathur et al. (2004) analyze the impact of development fees in King County, Washington, with a focus on how these fees affect housing prices across different quality tiers. They find that development charges significantly influence new house prices, raising them by about 166% of the fee amount. The effect is especially pronounced for higher-quality homes, where prices increase by 358% of the fee.
- A comprehensive review by Burge (2006) supports these findings, concluding that development charges generally lead to higher average housing prices. Drawing on several methodologically robust studies, Burge reports that for every $1.00 increase in fees, new home prices typically rise between $1.50 and $1.70.
- Evans-Cowley et al. (2009) examine the effects of development charges on new house prices in 63 Texas cities, 38 of which had implemented such fees. The authors find that the imposition of every dollar of development charges leads to an extra $1.76 in new house prices.
- Canadian studies on this topic are relatively limited. However, Dachis and Thivierge (2018) provide evidence from Ontario, showing that, holding all other factors constant, a 10% increase in average development charges on new single-detached homes is associated with a 0.45% increase in home prices.
- In contrast with the other studies, Australia-based findings from Murray (2016) are an outlier, which concludes that “there are no measurable effects on price or quantity of new dwellings.”

The idea that an upward-trending housing market facilitates higher housing costs from development charges is well established in theory, though the findings of these studies are inherently shaped by the specific market conditions underlying their data.

Altogether, there is a relatively strong consensus in the literature that homebuyers bear the burden of the development charge. The transmission to new house prices is typically proportional to, but often greater than the size of the development charge. This markup may account not only for the fee itself but also for associated financing costs and administrative overhead associated with the fees. In another possible channel, development charges are intended to fund public infrastructure such as roads, parks, and schools, which can enhance the perceived value of a house.

Effects on Existing Housing

It has also been suggested that development charge increases also raise house prices on existing housing (Singell and Lillydahl 1990; Brueckner 1997). For example, a seller can ask for a higher price if a comparable newer home in the area is selling at an increased price, even though development charges are only applied to new construction.

- Building on their earlier work on new construction, Delaney and Smith (1989b) again investigate the effects of development charges on existing home prices using the Dunedin, Florida case study, all relative to a nearby community as a counterfactual. They found that existing homes in Dunedin sold for over $1,600 more on average than those in the comparison market. The development charge increase in this case was lower, at about $1,150 per dwelling.
- Similarly, Singell and Lillydahl (1990) show in their study that the imposition of development charges of nearly $1200 can raise the prices of existing homes by as much as $7,000. The authors argue this channel occurs because sellers can command higher prices when new homes—which are subject to the fees—are priced higher, even though these fees applied to new builds.
- Ihlanfeldt and Shaughnessy (2004) also examined the effects of development charges on existing homes in Dade County and found a price elasticity similar to that of new builds: each additional dollar in fees increased the price of existing homes by approximately $1.60.
- Burge (2008), in his broader literature review, notes that while estimates for existing homes are somewhat more variable, they generally fall between $1.00 and $1.68 per dollar of impact fee, suggesting that over-shifting is clearly present in the new home market and also in the resale market.
- Further supporting the observations of others, Evans-Cowley et al.'s (2009) analysis in Texas found that the price transmission of development charges to existing homes was several multiples higher than the value of the fee itself.

Collectively, these findings indicate that development charges have significant spillover effects on the broader housing market, influencing not only new construction but also the pricing of existing homes. Similar to new builds, this tends to be proportionate to, but most often greater than the actual cost of the development charge.

Effects on Land Prices

The effect of development charges on land costs is however more mixed, and seems to depend largely on market circumstances.

- Skaburskis and Qadeer (1992) examined the relationship between development charges and vacant lot prices in the Toronto area between 1977 and 1986. Their findings indicate that the development charges were associated with a 20 percent increase in vacant lot prices—exceeding the nominal value of the fee itself.
- Nelson, Lillydahl, Frank, and Nicholas (1992) investigated the effects of development charges on the price of developable land in Florida and Colorado. While they found no statistically significant impact in Colorado, their analysis revealed that land prices were significantly higher in Florida in areas where fees were used to finance parks and roads. In both states, the types of facilities eligible for impact fee funding were unrestricted, potentially influencing the observed variation.
- Nelson, Frank, and Nicholas (1992) conducted an analysis of development charges in Sarasota County, Florida. They conclude that development charges were positively associated with residential urban land prices.
- Evans-Cowley et al. (2005) extended this line of inquiry to several Texas markets, finding that for every $1,000 increase in impact fees, lot values rose by approximately 1.3 percent.
- In contrast with the above findings, Ihlanfeldt and Shaughnessy (2004) argue that the value of undeveloped land may decline if the increase in housing prices is insufficient to ensure developers a competitive rate of return (though this may depend on prevailing market

conditions). Their empirical analysis supports this view, showing that each additional dollar in impact fees *reduces* the price of land by roughly the same amount.

These findings are less clear. On the one hand, it's possible that development charges can increase land prices when they fund infrastructure that enhances the desirability of an area, such as through new roads, parks, and schools. This added value could then be capitalized into land prices. Under strong demand conditions, developers may also bid more for land, knowing they can pass the fees on to buyers, which further drives up land values. To the contrary, as noted by Ihlanfeldt and Shaughnessy (2004), land values can decline if increased building costs related to the development charge draw down from a developer's willingness to pay for a plot of land.

Effects on Municipal Finance, Services and Property Tax

Development charges are a financial lever that can help municipalities recover the upfront costs of infrastructure needed for new development. But however, as the literature shows, they can also increase the cost of housing in a community. The trade-off is that while development charges may make new homes more expensive, they can also improve the overall municipal environment by maintaining service levels and preventing the existing residents from subsidizing the growth.

In fact, development charges can be implemented as an alternative to property tax increases, as was the case in the study by Singell and Lillydahl (1990). If this is the case, raising revenues through development charges will lower the user cost of existing homeowners, who might ultimately pay higher property taxes in a counterfactual scenario. In support of this, Found (2019) argues that without development charges, property taxes and other municipal fees would be inefficiently high, and services provided by the municipality would be inefficiently low.

Blewett and Nelson (1988) argue that some communities adopt development charges to enhance their overall fiscal situation through increased revenues. Implementing a development charge directly adds revenues, but is also shown in the literature to raise the value of all real estate, thereby enhancing the community's tax base and increasing the municipality's fiscal base. Others, like Frank and Downing (1988) argue that the goal of escalating development charges is to act as an implicit form of growth management.

Conclusion

In summary, this review of the literature shows that development charges have wide-reaching effects across the housing market. New homebuyers bear the direct brunt of these fees, especially in strong housing markets, with studies showing that price increases are usually greater than the fee itself. Existing home prices also rise, as sellers capitalize on the higher prices of new builds. While the price of undeveloped land often increases due to the perceived value of future infrastructure, it can also decline if higher building costs reduce developers' willingness to pay. Finally, development charges may serve as a substitute for higher property taxes or other fees, potentially lowering the long-term user costs for existing homeowners. Together, these findings highlight the complex nature surrounding the price impacts of development charges, which offer a number of important insights as Canada continues to discuss their role in the housing market.

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