Impacts of Streamlining Construction Approval Processes in Ontario

A Socioeconomic Analysis

September 2020

CANADIAN CENTRE FOR ECONOMIC ANALYSIS

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FINDINGS AT A GLANCE

The analysis quantifies the social and economic impacts of reducing delays in the residential construction process as well as concurrent improvements in investor confidence. By reducing delays in the approvals process for new housing projects, and increasing investment in housing, not only can more units be brought to market sooner, but there are significant employment, GDP and taxation revenue benefits as well. We note that continued or increased investment in construction will play a critical role in Ontario's economic recovery. The tables below highlight key results in the short term (by 2025) and long term (by 2040).

Table 1 Five-year impacts of reducing approval timelines and/or increased investment

5-year Scenario/Metric		Impacts	
Homes	Process streamlined by 6 months	33,100	More homes. 80,400 additional people able to be housed
	Increased investment by 10%	39,800	More homes. 96,500 additional people able to be housed
	Both	76,200	More homes. 184,900 additional people able to be housed
Economics with 6 months reduction and 10% increase in investment	Annual GDP	$11.6B	Additional economic activity supports $1.8B of private investment
	Jobs	105,000	Supported jobs provide over $6.2B of wages annually
	Taxation revenue	$2.7B	Federal and Ontario governments could receive $1.5B and $1.2B additional revenue annually

Table 2 Twenty-year impacts of reducing approval timelines and/or increased investment

20-year Scenario/Metric		Impacts	
Homes	Process streamlined by 6 months	33,100	More homes. 80,400 people able to be housed by 2040
	Increased investment by 10%	139,200	More homes. 337,700 additional people able to be housed by 2040
	Both	175,700	More homes. 426,100 additional people able to be housed by 2040
Economics with 6 months reduction and 10% increase in investment	Annual GDP	$17.2B	$2.7B of additional private capital investment annually by 2040
	Jobs	145,600	Supported jobs provide over $8.5B of wages annually by 2040
	Taxation revenue	$4.0B	Federal and Ontario governments could receive $2.2B and $1.8B additional revenue annually by 2040

1.0 INTRODUCTION

1.1 BACKGROUND

Residential construction plays a crucial role in the Ontario economy through the direct economic activity generated by the construction industry and additional housing stock that is built. From an economic point of view, it directly contributes three per cent of the provincial GDP and almost twice that when suppliers and the economic activity of employees are considered. From a housing point of view, it is critical to providing homes for the 270,000 new people in Ontario every year. However, across the province residential construction is highly dependent upon the policies and procedures of both the Ontario government and 444 municipal governments. Despite efforts over the years to streamline approval processes for the residential construction industry, the system remains complex and Byzantine in nature. Uncertainty about submission requirements due to varying jurisdictional rules and timelines has led to higher operational costs to develop properties and resulted in delayed or cancelled projects. This has contributed to the well-documented housing crisis that Ontario now faces (CANCEA, 2017).

A recent McKinsey & Company report (McKinsey & Company, 2020) on COVID-19 infrastructure recovery pointed to the need to support modernizing operations to create efficiencies – a policy embraced in many parts of the world. The government of Germany, for example, has allocated $56 billion for modernizing and digitizing industries to recover stronger and better.

Construction will play a major role in our economic recovery given the strong demand for housing. However, government entities and regulatory bodies are a critical link in the complex housing supply chain process. While various efforts have begun to streamline and digitize the process, Canada still lags behind other advanced jurisdictions (64th globally) for dealing with construction permits (World Bank, 2020). With an expanding population and many regions beset with a chronic and worsening housing crisis, the need to increase housing supply has never been greater. Yet, the inability to manage approvals efficiently dissuades investment and hampers economic recovery and growth.

Ontario's existing development and approval processes, largely administered by municipal and regional governments, has contributed to a significant project backlog, higher development costs and project risks, resulting in lower housing production relative to demand. It can take more than three years to get the necessary approvals in some GTA municipalities. Consequently, many recent studies and reports point to the importance of streamlining approval processes while also proposing solutions (de Lint, 2018; Ontario, 2017; Duong & Amborski, 2017; McCabe, et al., 2019; McCabe, et al., 2017; KPMG, 2019). At the provincial level, some of these proposals have been adopted through the *More Homes, More Choice Act*, 2019, and the *COVID-19 Economic Recovery Act*, 2020. A few municipalities have made headway in modernizing the approval process, but the practice of fully digitizing the system is still not well understood or adopted. Municipalities that have adopted these practices have demonstrated the benefits of a more efficient process for both design and review work. A province-wide system and platform able to accommodate competitive service providers could facilitate the efficient management of approvals.

A collaborative initiative called One Ontario is underway to engage municipal and provincial governments, architecture, engineering and construction companies, software providers and academics in order to develop a streamlined approval process to deliver substantial economic benefits. According to AECO Innovation Lab's One Ontario report, *Unifying Information Exchange* (OneOntario, 2020), the notable possible benefits of an innovative province-wide system for government, industry and ultimately consumers include:

Municipalities & Provincial Agencies:

- Increased supply of housing due to fewer postponed or abandoned projects and more investment
- Lower costs and improved efficiencies can be achieved through automated data exchange and comprehensive e-permitting solutions
- More complete, professional applications will be supported by an improved and predictable regulatory process
- Prevent loss of municipal revenue from delays in approval and construction processes (post-development tax revenues much higher than pre-development)

Industry:

- Faster development and building
- More consistent permitting and approval processes across Ontario
- Lower costs and less risk due to stalled projects thanks to faster and more certain approval processes

Consumers:

- Additional housing supply to meet demographic needs and support immigration, which is crucial to Ontario's economic growth
- Better metrics derived from e-permitting data can inform strategic planning that impact all Ontarians

Given the expected population growth in the province and the significant contribution that the residential construction industry makes to the provincial economy, understanding the benefits of modernizing the system is critical to the successful implementation and adoption of new technologies and processes.

1.2 Objectives

In order to better understand the economic risks and rewards associated with streamlining construction approval processes in Ontario, the objectives of this study are to:

- Quantify the impact of the delays in the construction process on housing supply
- Investigate the sensitivity of future housing stock to approval times and certainty around the approvals system
- Evaluate the economic effects of reducing delays and increasing certainty on GDP and employment

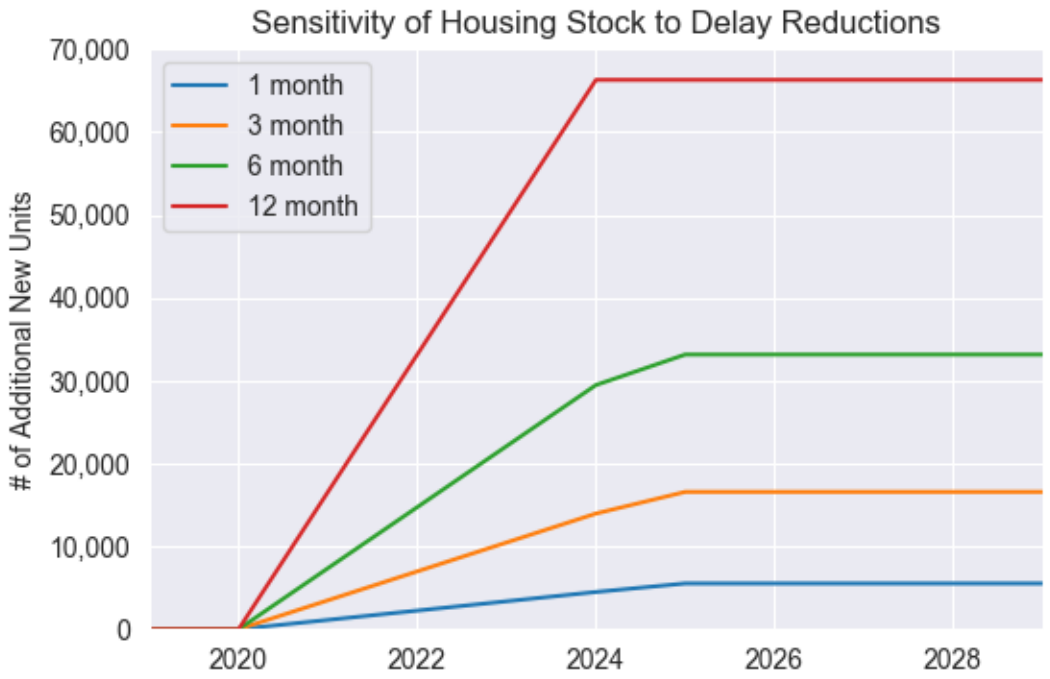
2.0 ANALYSIS

The analysis aims to quantify the key social and economic impacts of reducing delays in the construction process, from project initiation to completion, and of increasing investor confidence. Since the correlation between the reduction in delays and increases in investment is difficult to quantity, both variables are modelled independently. Section 2.1 outlines the methodology used in the analysis and Section 2.2 presents the results.

2.1 METHODOLOGY

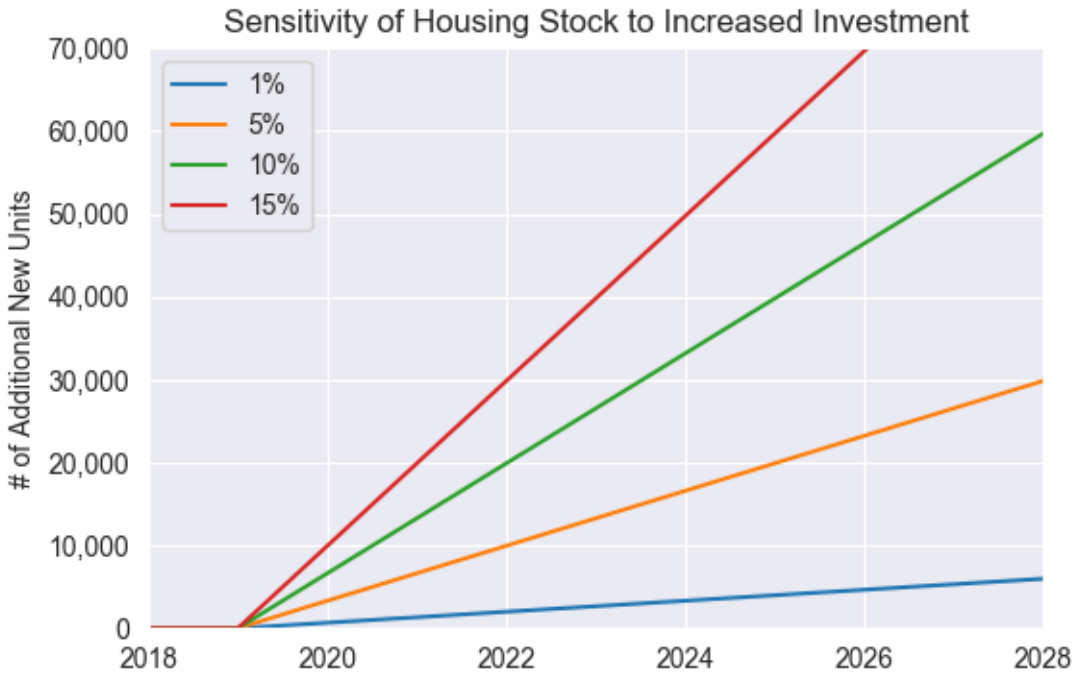
The average annual number of housing completions over the last five years (66,000) was used to establish the baseline number of completed dwelling units per year in Ontario. The effect of reducing the delays in the construction process results in new housing coming to market sooner. Any reductions in delays are assumed to be phased in over the next five years. By itself, simply reducing delays does not necessarily result in more new units overall, but the shorter time period from project initiation to completion results in housing units become available sooner.

Figure 1 Impact of reducing delays in the construction pipeline



Note that once the reduction in delays is incorporated into the system, the impact reaches a plateau. However, if greater administrative certainty in the construction process results in higher risk-adjusted rates of return for housing developers, this may attract more investment.

Figure 2 Impact of increased investment in the housing market



As shown in Figure 2, if investment in new construction is increased above the baseline trend and sustained at a given level, there would be a continuously increasing amount of additional housing stock relative to the baseline trend.

The varying amounts of housing constructed under the different scenarios give rise to economic impacts that fall into three distinct categories:

- Direct, indirect, and induced economic impact from construction activities
- Economic activity generated by the existence of the housing units (such as rent)
- Economic activity generated through a greater population

Note that frequently only the first of these economic categories is considered in other studies. By limiting the focus to only the direct, indirect and induced effects of construction activities, other analyses miss the role that housing plays in the economy. For a more holistic understanding of the economic benefits of streamlining the approvals process, the economic activity supported by the constructed dwellings must be considered.

The key economic indicators quantified in this analysis are provincial GDP and employment. All measures are presented relative to the status quo, baseline scenario where the current durations from project initiation to completion are maintained along with the current level of investment in real terms.

2.2 RESULTS

The results of the analysis are presented from the perspectives of population and housing stock as well as an economic point of view. Key statistics are included in this section, with additional details and figures included in Appendix A.

2.2.1 POPULATION AND HOUSING STOCK

Over the next five years, reducing delays in construction approval processes by six months could result in an additional 33,100 units being made available in Ontario above and beyond current baseline trends, with the current levels of investment maintained. This would be equivalent to increasing investment in the housing market by almost 10 per cent above current levels with the current approval processes in place. Over the longer term, by 2040 a 10-per-cent increase in investment would result in almost 140,000 total units above the baseline trends, while the effects of only reducing timelines would yield a significantly smaller impact. This highlights how reducing delays in the construction process can result in significant benefits in the short term, while setting the stage for greater long-term benefits by attracting higher levels of investment. If approval timelines are reduced by six months and there is a subsequent 10-per-cent increase in investments in housing, this could result in more than 175,000 additional housing units above and beyond the baseline. This additional housing stock can play a key role in meeting the provincial population growth targets and could serve to reduce housing affordability pressures by increasing supply of housing relative to demand.

By reducing approval delays by 12 months, an additional 160,800 people could be housed in Ontario by 2040. Achieving the same result without reducing delays would require an additional investment of five per cent annually each and every year (in real terms) above the current trends.

2.2.2 ECONOMIC IMPACTS

The economic impact of adding to Ontario's housing stock extends well beyond the economic activity of the construction activity itself. Housing, like many other infrastructure and capital investments, facilitates ongoing economic activity even after it is constructed. In particular, there is considerable economic activity associated with housing whether it be rent, utilities, maintenance or renovations. In addition, the availability of housing allows the population to grow – one of the key drivers of economic growth in Canada.

Over the short term, reducing delays by six months with no increased in investments could contribute an additional $4.5 billion to Ontario's economy annually in 2025 (in 2020 constant dollars). Further, the six-month reduction in delays could support an additional 40,500 jobs across Ontario. If a 10-per-cent increase in investment occurs simultaneously with the six-month reduction in delays, 105,000 additional jobs could be supported.

Over the longer term, if increased investment of 10 per cent is accompanied by a six-month reduction in delays, $17.2 billion (in constant 2020 dollars) of additional economic activity could be supported annually

by 2040. This arises not only from the additional construction activity, but the economic growth of the greater population and economic activity from the additional housing stock. This would support an additional 145,600 jobs and $8.5 billion in employment income.

The additional economic activity would also drive more government revenue through income and corporate taxes. By 2040, the federal government could be receiving an additional $2.2 billion annually, with the Ontario government receiving $1.8 billion annually (in constant 2020 dollars).

3.0 CONCLUSIONS

In the short term, the reduction of delays in the construction process from proposal to completion can achieve an increase in housing supply equivalent to a moderate increase in investment in housing. This is a particularly important factor in the current broader economic environment where investors may be more reluctant to make new investments but continued growth in housing is required to meet the demand of demographic growth and help reduce affordability pressures. Any additional housing that can support population growth and its associated economic growth can play a key role in recovering from the current economic crisis.

Even moderate improvements can have a significant effect. If a more streamlined approval process reduced delays by three months, and led to increased investment in housing construction by five per cent, it could support an additional 56,000 jobs in the short term, growing to more than 72,000 by 2040.

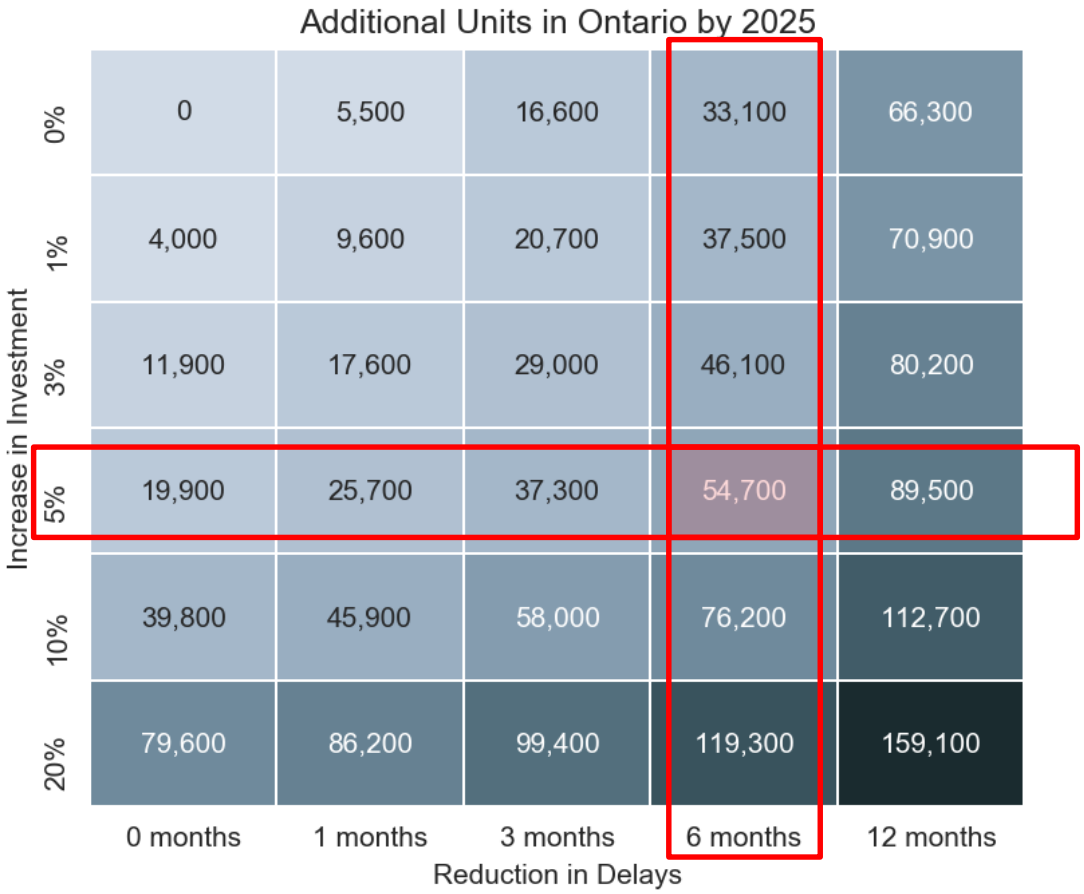
As the COVID-19 pandemic has shown, established processes can be radically changed when required. A large body of research, briefly touched upon in Section 1.1, has been conducted, examining the opportunities, solutions and technologies to streamline the approvals process. These ideas and technologies can be leveraged to realize the social and economic benefits of an improved approval process.

A. ADDITIONAL FIGURES

Additional figures illustrating the results of the sensitivity analysis are included in this appendix for reference. This will allow the reader to evaluate their own combination of factors beyond what was included in the body of the report.

A.1. READING THE RESULTS

Figure 3 Example of reading the sensitivity result figures



The results are presented as figures with the horizontal axis corresponding to reductions in delays in the pipeline and the vertical axis corresponding to increases in investment. Note that since the precise connections between the two variables are unknown (and historical relationships may no longer be accurate), each variable is changed independently. The example highlighted in Figure 3 corresponds to a reduction of six months in the construction process and a five-per-cent increase in investment into housing, yielding 54,700 additional housing units by 2025 beyond the current baseline trends.

A.2. Housing Stock and Population

Figure 4 Sensitivity of additional dwelling units by 2025 (left) and 2040 (right)

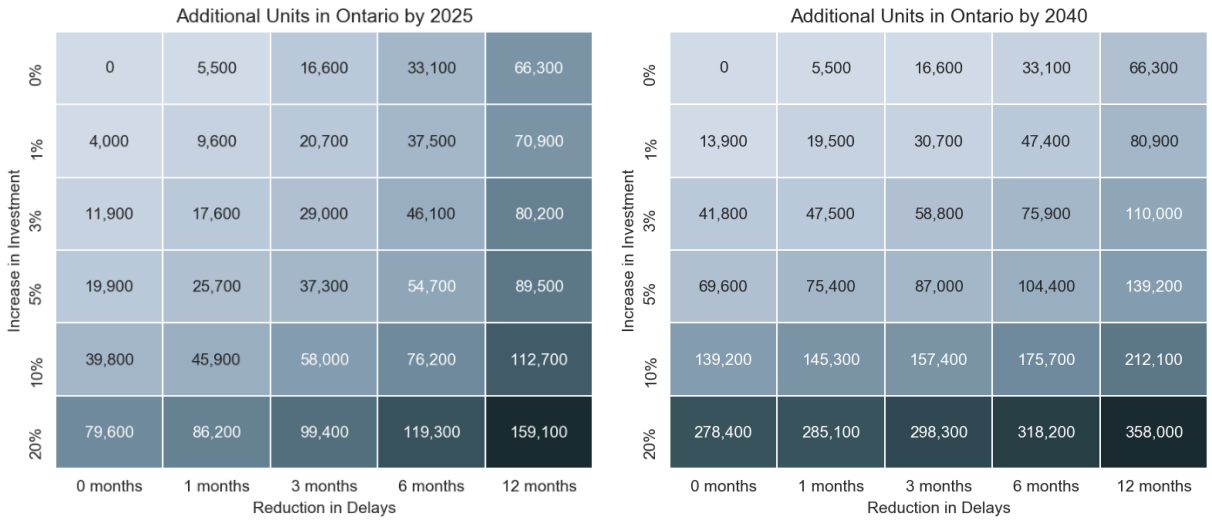
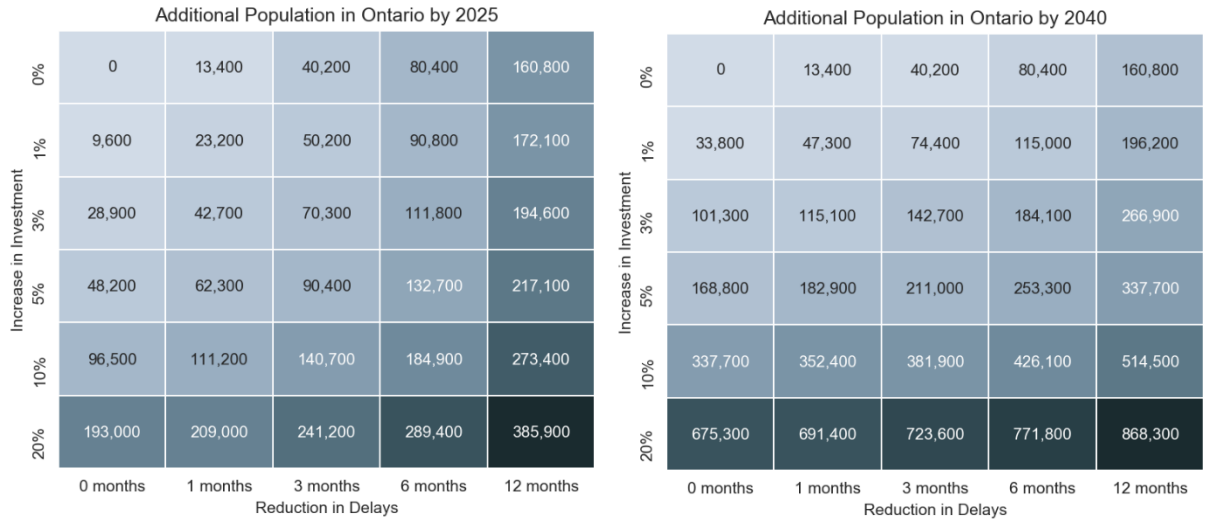


Figure 5 Additional population which could be housed by 2025 (left) and 2040 (right



A.3. Economic Impact

Figure 6 Additional annual GDP by 2025 (left) and 2040 (right)

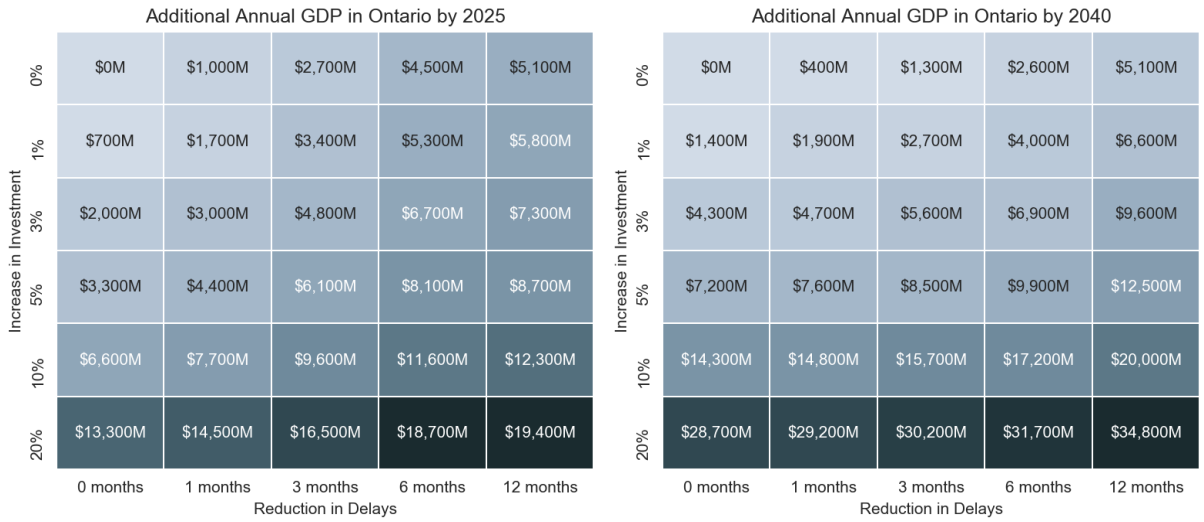


Figure 6 shows the sensitivity of the additional GDP (in constant 2020 dollars) to the reduction in delays in the construction process and increases in investment relative to the status quo, baseline scenario. The GDP impact, and the employment impact below, includes the economic activity arising from the construction activity, the economic activity supported by the buildings once constructed and that arising from the additional population housed.

Figure 7 Additional annual jobs by 2025 (left) and 2040 (right)

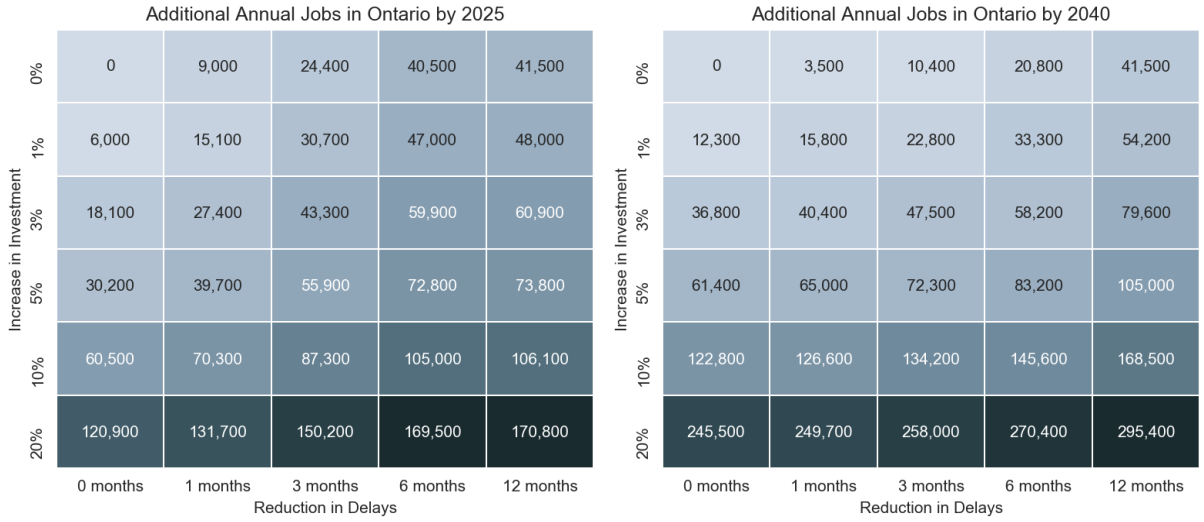


Figure 7 shows the sensitivity of the additional jobs to the reduction in delays in the construction process and increases in investment relative to the baseline.

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