



Suburban Sprawl:
Exposing Hidden Costs,
Identifying Innovations

Summary for business leaders and business media

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Suburban sprawl is a major challenge for Canada; it's bad for business because it distorts the true cost of expanding cities outwards and imposes an economic and environmental burden on all Canadians regardless of where they live. We need to recognize the hidden costs and look for alternatives. The full costs and trade-offs are not always obvious, but they are real.

A new report, *Suburban Sprawl: Exposing Hidden Costs, Identifying Innovations*, by Sustainable Prosperity, a national think tank based at the University of Ottawa and focused on market-based approaches to build a greener economy, says while many of the costs of suburban sprawl are hidden, they are nevertheless "real and substantial."

The Issue

Suburban sprawl comes at a high cost including reduced productivity, higher absenteeism, impractical and costly commutes for workers and higher energy costs and traffic congestion. Some of the costs lead to increased property, business and personal income taxes, higher fuel and insurance costs, and long-term government liabilities. Others are hidden in climate change and habitat loss. The pace of suburban sprawl can be reduced through policy measures, but its cause must first be understood and addressed.

For example, in Edmonton, the city picks up all the capital costs of fire and police stations and portions of the cost of some roads and recreation facilities. It covers all the costs of maintenance, repair and renewal of the infrastructure, including pipes and roads. What this means is that across just 17 of more than 40 planned new developments, costs to the city are expected to exceed revenues by nearly \$4 billion over the next 60 years.

A study for Halifax Regional Municipality calculated that it could save over \$700 million to 2031 by increasing the number of new dwellings sited in the urban core. Calgary found that by adopting a denser growth pattern that used 25 per cent less land it could save \$11 billion in capital costs alone.

The Cause

The main cause of sprawl is prices, which have a profound impact on the decisions of companies and individuals, including decisions about where to build new developments and establish businesses and where to buy houses. Currently, price structures encourage sprawl and pull new development toward city fringes.

Businesses make decisions based on costs. If faced by the choice between an expensive space in a downtown office tower and a cheaper space in a suburban business park, many companies will choose the latter. Businesses are also sensitive to other costs. For example, if higher shipping expenses due to traffic congestion getting in and out of town are an issue they may opt for warehouse or production space near a suburban highway interchange.

Home and business space prices are a key driver of sprawl, which is understandable: people like what they perceive as a low price and companies are required to maximize profits. While it's true that some prices that encourage sprawl are market-driven, many others are the direct result of past government decisions on regulation and budgets.

Markets exist within the framework of government policy and are heavily influenced by it. But markets can be distorted by government policies. For example, the publicly-built, free-use road networks brought suburban development to greenfield areas and created the current market in suburban housing. That market is propped up by ongoing spending on road maintenance, repair, replacement, expansion, clearing, lighting, policing, emergency medical services and other costs.

But the ongoing failure to internalize the externalities of road use such as illness, injuries, and climate change amounts to a subsidy to automobile use that makes suburban sprawl possible. Without these subsidies, the price of transportation to and from suburban locations would be much higher, and today's suburban housing market would not exist in its current form.

Undercharging developers for other municipal costs of their new greenfield developments provides further subsidies that artificially distort the market in favour of sprawling development. Utility pricing that fails to reflect the higher costs of servicing sprawling areas is another subsidy.

The Solution

Some municipalities are starting to gather the data so that they can address this fiscal burden. Those that are not yet doing so could learn from the innovators across the country and work toward new policies that encourage more efficient high-density neighbourhood development.

Calgary recently increased its financial charges on new developments. Peel Region in Ontario completed an analysis that showed that new development was not paying for itself, and as a result doubled its development charges. Other municipalities are following suit.

Additionally, utilities can be priced to reflect the higher costs of delivering services to far-flung areas. And municipal and other governments can save billions per year across Canada by reducing road subsidies, which are far larger than the subsidies to all other transportation modes.

With another six million to 14 million Canadians needing to be housed in the next 24 years, there is a tremendous opportunity to achieve urban development goals that many Canadian municipalities have started to adopt, but have not yet been fully implemented.

The Benefits

Addressing the negative externalities associated with sprawl reduces economic distortions and boosts economic efficiency and overall welfare. Higher urban density results in spreading the fixed costs of infrastructure over more businesses, reducing costs. It also improves the access of firms to workers and vice versa. Making housing in central areas with good transit less expensive provides living arrangements that are truly affordable as opposed to distant houses with low sticker prices and expensive automobile dependence and a host of hidden cost and subsidies that all Canadians are paying for.

Policy changes that could help slow urban sprawl

Transportation infrastructure

- Most roads in Canada are free to use, but are not cheap to build or maintain. Governments in Canada spend almost \$29 billion on roads every year – far more than they spend on transit, rail, air, marine and all other transportation modes combined.
- Fuel taxes, licence fees and all other motor vehicle payments cover just over half of that cost; \$13 billion is subsidized from general taxes. This large subsidy to road use is overshadowed by other costs that don't appear on financial statements: air pollution, climate change emissions, noise, delay from traffic congestion, and losses and injury from collisions. Estimates of these other costs range upwards of \$27 billion per year.
- Driving to the suburbs is a hidden cost to suburban homeowners. Suburban households drive about three times more than households close to the city centre, with consequent costs to household budgets and to the economy. Higher transportation costs for extra car ownership and fuel cancel out some of the household budget savings from lower home prices. Eliminating one car from a Calgary household's bills—at the average car cost of about \$10,000 per year--would put up to 18 times as many homes within financial reach (depending on income level), making the real cost of a suburban house much higher than its sticker price.
- Parking is also often “free” or heavily subsidized, particularly in massive suburban parking lots. Based on US estimates, the cost in Canada is in the tens of billions of dollars per year.

How transportation pricing reform might encourage more density and less sprawl.

- Fuel taxes can be adjusted to cover the costs of roads. Metro Vancouver has been granted the power to levy fuel taxes for roads. In other instances, provincial governments can share higher gas tax revenue with municipalities. Canada's are among the lowest fuel taxes in the developed world but a dedicated tax on fuel would help reduce the development of sprawl and low density housing, while boosting inner city growth. A one per cent increase in the price of gasoline causes an average

0.32 percent increase in the population living in the inner city, and a 1.28% decrease in low-density housing units.

- Parking pricing can be reformed to charge users the costs of “free” parking across municipalities – including in suburban shopping malls. Road use can be charged for directly. Highway 407 in Southern Ontario has a fully automated toll system as are other highway systems in Canada.
- Vehicle registration and licencing fees can also be set on a distance-travelled basis to reward less driving and encourage denser development.

Property taxes

The property tax system in many cities reinforces and encourages development to take place on the fringes instead of in underutilized areas closer to the core. Municipalities have several options to correct this imbalance:

- Change the tax rate based on class of development. Some Montreal boroughs have lower tax rates for multi-unit buildings, thus encouraging denser development.
- Change the tax rate based on location. If rates were to be reduced in central areas and raised in outlying areas where municipal servicing costs more, a strong signal would be sent. However, provincial legislation determines the tax rates. Ontario’s Municipal Act, for instance, would require amendment to start making this shift.
- Levy higher taxes on the land’s value and lower (or no) taxes on the buildings on the land. This “land value taxation” would encourage redevelopment of parking lots and underutilized land in city centres – thus taking some of the demand away from sprawl. Several cities in Pennsylvania have adopted land value taxation.
- Create special reductions to incent urban development.
 - Windsor has a property tax assistance program for redevelopment of “brownfield” (abandoned industrial) properties, which encourages development in established areas.
 - Ontario has reduced tax rates for farms, which encourages farmers to continue farming instead of selling their land to developers.

Development charges

Development charges in the suburbs currently hide and download infrastructure costs of new suburban developments to the broader population. Some municipalities have added up the costs and are now including those suburban infrastructure costs in the charges.

- The City of Kitchener’s suburban residential development charges are 74 per cent higher than those for central neighbourhoods. For non-residential buildings, suburban charges are 157 per cent higher
- Ottawa has higher charges for development outside of its greenbelt
- Hamilton provides a 90 per cent exemption from development charges downtown
- Calgary recently doubled its development charges on new suburbs

- Peel Region also doubled its charges

Utility charges

Providing water and wastewater services to sprawling areas tends to be more expensive, with operation and maintenance up to twice as high as in low-density areas. Larger suburban properties require longer water and sewer lines, so some municipalities are charging by the foot to connect – creating a financial incentive for denser development.

The full report is available at www.thecostofsprawl.com