Large Urban Centre Alliance

Housing Recommendations for the 2025 Federal Budget

July 31, 2025

Compendium Contents

About the Large Urban Centre Alliance

The Large Urban Centre Alliance is a coalition of development industry leaders from Canada's major census metropolitan areas. United by the shared challenges and opportunities of building in high-growth urban environments, the Alliance works collaboratively to advance solutions that support:

- Housing supply
- Infrastructure investment
- Sustainable urban development

Through strategic advocacy, research, and engagement with all levels of government, the Alliance ensures that the unique needs of large urban centres are recognized and addressed in policy and funding frameworks.

Facilitated by:
The Missing Middle Initiative and the Building Industry and Land Development Association (BILD).

Written Submission for the Pre-Budget Consultations in Advance of the Upcoming Federal Budget

By: The Large Urban Centre Alliance

A working group initially comprised of the following industry representatives from across the country, consisting of:

- Bentall Green Oak (BGO)
- Canderel
- Cantiro
- DiamondCorp
- Fitzrovia
- Great Gulf
- Mattamy Homes
- Menkes
- Minto Communities
- Polygon Homes
- RioCan
- Tricon Residential
- Wesgroup

The work of the Alliance is supported and facilitated by:

- Dr. Mike Moffatt, The Missing Middle Initiative
- The Building Industry and Land Development Association (BILD)

Date: July 31, 2025

List of Recommendations

1. That the government provide a temporary three-year expansion of the existing GST/HST New Housing Rebate to provide a rebate of 100% of the GST on new homes and those substantially renovated valued up to $1 million, and a partial rebate for homes between $1 million and $1.5 million, but otherwise keep the existing rebate criteria in place.
2. That the government implement a transparent direct-to-buyer development charge (DC) billing model that exempts the home from HST on DCs and land/property transfer taxes and provides in-stream homebuyer protection from DC increases.
3. That the government provide a GST/HST exemption for current rental developments under construction which are not currently eligible for the GST rebate and create a foreign-buyer ban exemption for new and pre-construction homes with defined conditions.
4. That the government ensure the *Apartment Construction Loan Program* (ACLP) is adequately capitalized to handle an increasing volume of applications.
5. That the government tie federal infrastructure funding to pro-housing supply municipal reforms, such as accepting surety bonds in subdivision agreements and site plan agreements and implementing an Edmonton-style automated approval programs.
6. That the government enforce the conditions set out in municipal Housing Accelerator Fund agreements.
7. That the government exempt real estate and housing-related infrastructure investment from the *Excessive Interest and Financing Expenses Limitation* (EIFEL) rules, and conduct a full review of other federal housing-related taxes and regulations, including the Office of the Superintendent of Financial Institutions (OSFI) mortgage stress test, to ensure they are designed appropriately for the current conditions.
8. That the government launch consultations on the *Multi-Unit Rental Buildings* (MURBs) tax provision this fall, with the goal of ensuring that rental projects that began construction on or after January 1, 2026, be made eligible for the tax provision.
9. That the government create a time-limited incentive for investors who currently own non-purpose-built rental properties, who sell the units and reinvest the proceeds into a project eligible for the MURBs tax provision.
10. That the government enable condominium construction to be financed after small-scale investor dollars have been shifted towards MURBs-eligible projects, by enabling banks to reduce pre-sale requirements on new condo developments via federal backstop facilities.

Breaking Point: Urgent Housing Solutions for Canada's Largest Cities and Beyond

The Current Crisis

Canada's housing system is at a breaking point. Our largest urban centres are facing a severe housing supply and affordability crisis. There is an urgent need for federal policies that reduce the cost to construct and therefore the price of new homes for Canadians and unlock an estimated $2 trillion in private capital required for housing-related construction over the next five years.

Since the second half of 2024 housing starts have declined, and all signs indicate further deterioration is likely. New home sales in the Greater Toronto Area have all but evaporated. Relative to the first quarter of 2022, new and pre-construction home sales in the first quarter of 2025 were down 89% in the Greater Toronto Area, 77% in the Greater Vancouver Area, and 51% in the Ottawa Region. Given the lag between new home sales and housing starts, new home construction is expected to remain exceptionally low in these three markets for the foreseeable future.

Other large markets—Calgary, Edmonton, and Montreal—have not yet experienced the same level of weakness but remain vulnerable to similar pressures. Combined, these six urban regions account for over 50% of Canada's housing starts, making their recovery critical to meeting national housing targets.

Meanwhile, purpose-built rental construction has increased over the past decade, but the scale of need remains enormous. CMHC estimates that Canada requires 60,000 additional rental units per year beyond current projections, with Montreal facing the largest shortfall. In the GTA, rental demand is projected to outpace supply by 121,000 units over the next decade, on top of an existing deficit of 114,000 units accumulated from 2016 to 2024.

This is not a temporary downturn. It is a systemic affordability crisis across the housing spectrum that threatens economic stability, job creation, and the federal government's own housing objectives.

Canada's housing market is facing a cost-to-build crisis. While market-based costs, such as materials and labour, are beginning to adjust, government-controlled costs remain slow to change and continue to pose a significant barrier to delivering new housing. Lowering these costs allows builders to proceed with projects at attainable price points, preserving affordability for buyers and renters while maintaining construction activity.

The Economic Stakes

The cost of inaction is staggering:

- 41,000 jobs at risk in the GTA alone if current conditions persist (Altus Group).
- $6 billion per year in lost tax revenue for all three levels of government.
- Declining housing starts widen the supply-demand imbalances, which will over time push rents higher.

Conversely, reducing costs and unlocking capital will:

- Stimulate new home construction.
- Attract billions in private investment.

- Create jobs and generate tax revenues across all jurisdictions.

Housing Policy Considerations

The housing market is in a crisis that matches the 1990s. Without action, the delivery of new rental and ownership housing will be challenged in 2027 and beyond. Urgent action is required to bring consumer-confidence back to the market and address the structural cost to build challenges.

In developing new housing policies, the federal government must:

- **Deliver on the goal to double housing starts.** 500,000 starts per year are required — far above the historic high of 300,000.
- **Maintain fiscal discipline.** Recognizing the federal government is currently seeking to substantially reduce operational costs to shrink the deficit and fund much-needed investments, policy designs should minimize costs while removing barriers to homebuilding, which boosts both housing supply and tax revenue. There is also a significant risk of increased government expenditures if the housing crisis continues.
- **Avoid stimulating demand for existing homes.** With price-to-income ratios above seven, the focus must be on lowering the cost of new construction and home purchases, not driving overall demand.

Our recommendations reflect these priorities.

Immediate Priority Actions

1. Expand the GST/HST New Housing Rebate

Proposal:

- Maintain the current criteria for the GST rebate, while providing a temporary three-year expansion to rebate of 100% of the GST on new homes valued and those substantially renovated up to $1 million and a partial rebate for homes between $1 million and $1.5 million.

Impact:

- Reduces home prices by thousands of dollars, increasing affordability for middle-class families.
- Stimulates consumer confidence in a market where sales have fallen by as much as 90%, restoring activity and protecting jobs.
- This would be a time-limited and cost-effective measure, targeted at the segment of the market critical to restoring supply.
- A 2021 Bank of Canada study finds that, all else being equal, a 1% increase in price leads to a 2.2% increase in housing supply. The effect over the past three years has been significantly larger, likely due to a combination of rising costs (particularly interest costs) and a buildup of inventory. New housing supply is particularly sensitive to large, sudden declines in price resulting from demand shocks, as there is a price threshold at which building more homes becomes financially unviable, since prices are insufficient to cover costs. In other words, in absolute terms, the impact on supply is likely to be far larger when prices drop substantially compared to an equal-sized increase.

2. Implement a Direct-to-Buyer Development Charge Model

Proposal:

- Adopt a transparent billing model where DCs are charged directly to buyers rather than embedded in builder financing, with the following features:
    - Exempt DCs from HST on DCs and land/property transfer taxes.
    - Protect buyers from mid-stream DC increases.

Impact:

- Eliminates "tax-on-tax" (double taxation) and reduces financing costs, which can add tens of thousands of dollars to the price of a new home.
- Provides clarity and fairness for buyers while reducing risk for builders.
- Assist governments in achieving its goal of reducing development charges by 50% by providing transparency.

3. Provide GST/HST Exemption for Current Rental Developments and Adjust Foreign-Buyer Ban

Proposal:

- Exempt current rental developments currently under construction from GST/HST where they are not eligible for the GST rebate.
- Create a foreign-buyer ban exemption for new and pre-construction homes (similar to Australia with its defined conditions), unlocking billions in private capital.

Impact:

- This would unlock capital that could be used in future Purpose-Built Rental projects.
- Capital from all sources, both domestic and foreign is vital to achieving CMHC's stated objective of investing $1 trillion dollars to deliver much needed housing.

4. Capitalize the Apartment Construction Loan Program (ACLP)

Proposal:

- Ensure ACLP has sufficient resources to meet growing demand and speed up approvals.

Impact:

- Recapitalization of this successful program is necessary to ensure that all eligible projects can proceed.
- This will help address the structural deficit in rental housing.

Additional Measures (Once Primary Actions Are Implemented)

While the first four recommendations are urgent, additional measures will be needed to create long term stability of supply in the Canadian housing market.

5. To accelerate the construction of new homes, tie federal infrastructure funding to pro-housing supply municipal reforms, such as accepting surety bonds in subdivision agreements and site plan agreements and implementing Edmonton-style automated approval programs.

6. To lower the price of new homes and increase the diversity of housing options available to Canadians, enforce the conditions set out in municipal Housing Accelerator Fund agreements.

7. To unlock much-needed global capital into housing construction, fully exempt real estate and housing-related infrastructure investment from the EIFEL rules, and conduct a full review of other federal housing-related taxes and regulations, including the OSFI mortgage stress test, to ensure they are designed appropriately for the current conditions.

8. To build much-needed missing-middle rental housing and to channel investor dollars towards new rental construction, launch consultations on the proposed MURBs tax provision this fall, with the goal of ensuring that rental projects that begin construction on or after January 1, 2026, are eligible for the tax provision.

9. To increase the capital available for MURBs tax provision eligible projects, create a time-limited incentive for investors who currently own non-purpose-built rental properties who sell the units and reinvest the proceeds into a project eligible for the MURB tax provision.

10. To enable condo construction to be financed after small-scale investor dollars have been shifted towards MURB-eligible projects, enable banks to reduce pre-sale requirements on new condo developments via federal backstop facilities.

Conclusion

Our recommendations align with the federal government's commitment to:

- Catalyze private capital.
- Cut red tape.
- Lower the cost of homebuilding.

The proposed measures—particularly the four immediate actions—will deliver quick, measurable impact and set the stage for long-term solutions. Our industry stands ready to support these efforts.

Breaking Point: Urgent Housing Solutions for Canada's Largest Cities and Beyond

Background Report for Large Urban Centre Alliance Pre-Budget Submission

Mike Moffatt, Founding Director | July 30, 2025

Highlights

- Canada's big cities need hundreds of thousands of additional housing units, and new home sales have all but dried up in Vancouver, Toronto, and Ottawa, falling by nearly 90% in the last three years in the GTA alone.
- There is an urgent need for federal policies to lower the price of new homes for Canadians, as well as to unlock $2 trillion in capital for housing-related construction. We recommend that the federal government take four immediate actions.
- **Recommendation 1**: Substantially lower the price of new homes through a temporary three-year expansion of the existing GST/HST New Housing Rebate to provide a rebate of 100% of the GST on new homes valued up to $1 million, and a partial rebate for homes between $1 million and $1.5 million, but otherwise keeping the existing rebate criteria in place.
- **Recommendation 2**: Substantially lower the price of new homes by removing tens of thousands of dollars of interest costs, junk fees, and tax-on-tax from the cost of new homes by implementing a transparent direct-to-buyer development charge (DC) billing model that exempts DCs from HST and land/property transfer taxes and provides in-stream homebuyer protection from DC increases.
- **Recommendation 3:** Increase the capital available for purpose-built rentals and new condo construction by providing a GST/HST exemption for current rental developments under construction which are not eligible for the GST rebate, and by creating a foreign-buyer ban exemption for new and pre-construction homes, similar to Australia's.
- **Recommendation 4:** Increase the capital available for purpose-built rentals by building on the progress the federal government has made on new rental construction, by ensuring that ACLP is adequately capitalized to handle an increasing volume of applications.

Immediate federal action is needed to boost new housing supply in Canada's large urban centers

The federal government has set an ambitious goal of doubling housing starts to 500,000 per year and has proposed a suite of policies, including the creation of Build Canada Homes, the reintroduction of the Multiple Unit Rental Building (MURB) cost allowance, and a commitment to lower development charges by 50%. These policies build on previous reforms, including the elimination of GST on purpose-built rentals and the establishment of the Housing Accelerator Fund.

Despite the reforms implemented to date, housing starts have declined in recent years across Canada, and all signs indicate further deterioration is likely. New home sales in the Greater Toronto Area have all but evaporated. Relative to the first quarter of 2022, new and pre-construction home sales in the first quarter of 2025 were down 89% in the Greater Toronto Area, 77% in the Greater Vancouver Area, and 51% in the Ottawa Region. Given the lag between new home sales and housing starts, new home construction is expected to remain exceptionally low in these three markets for the foreseeable future.

Although other large markets such as Edmonton, Calgary, and Montreal have not shown the same level of weakness to date, they are not immune to the same economic forces. These six markets are responsible for over half of all housing starts in Canada, making them vital to the country in meeting its housing supply goals.

Meanwhile, purpose-built rental housing starts have continued to rise over the past decade, but more needs to be done. The CMHC report "Canada's housing supply shortages: moving to a new framework" indicates that Canada needs to build nearly 60,000 additional rental units each year, with Montreal facing the greatest need among large cities. A forthcoming research paper finds that projected rental demand in the GTA will outpace supply by 121,000 units over the next decade, adding to a deficit of 114,000 units already accumulated from 2016 to 2024.

The large urban markets in decline offer a case study for a challenge that governments across Canada will need to address over the next decade. Restoring housing affordability will require new home prices to grow slowly, if not outright decline. However, all else being equal, lower prices also reduce, if not eliminate, the economic viability of homebuilding, as prices become too low relative to cost. Over the past three years, home prices have decreased by 6-16% in Toronto, Vancouver, and Ottawa, while home sales have declined by more than 50% in each of these markets.

Price declines leading to decreases in new housing construction should come as no surprise. A 2021 Bank of Canada study finds that, all else being equal, a 1% increase in price leads to a 2.2% increase in housing supply. The effect over the past three years has been significantly larger, likely due to a combination of rising costs (particularly interest costs) and a buildup of inventory. New housing supply is particularly sensitive to large, sudden declines in price resulting from demand shocks, as there is a price threshold at which building more homes becomes financially unviable, since prices are insufficient to cover costs. In other words, in absolute terms, the impact on supply is likely to be far larger when prices drop substantially compared to an equal-sized increase.

The only way to simultaneously have home prices that are attainable for the middle class and robust housing construction is through lowering costs. Utilizing the logic from the Bank of Canada paper, all else being equal, a 1% decline in total homebuilding costs results in a 2.2% increase in annual housing starts, or approximately 5,000 additional units per year.

The federal government should initiate an agenda to reduce costs associated with new housing construction, addressing the cost-of-delivery crisis that has led to costs being out of sync with home prices.

We recommend that the federal government, as soon as possible, adopt the following measures to address the cost-of-delivery crisis:

> **Recommendation 1**: Substantially lower the price of new homes through a temporary three-year expansion of the existing GST/HST New Housing Rebate to provide a rebate of 100% of the GST on new homes valued up to $1 million, and a partial rebate for homes between $1 million and $1.5 million, but otherwise keeping the existing rebate criteria in place.
>
> **Recommendation 2**: Substantially lower the price of new homes by removing tens of thousands of dollars of interest costs, junk fees, and tax-on-tax from the cost of new homes by implementing a transparent direct-to-buyer development charge (DC) billing model that exempts DCs from HST and land/property transfer taxes and provides in-stream homebuyer protection from DC increases.

If these measures are successful, there will be a substantial shortfall in available capital to fund this construction. A report by RBC indicates that $2 trillion in housing-related capital will be needed over the next five years. Governments must remove barriers to attracting this capital and structure rules and regulations to ensure that it can be utilized as efficiently as possible.

We recommend that the federal government, as soon as possible, adopt the following measures to address the need for more capital in homebuilding:

> **Recommendation 3:** Increase the capital available for purpose-built rentals and new condo construction by providing a GST/HST exemption for current rental developments under construction which are not eligible for the GST rebate, and by creating a foreign-buyer ban exemption for new and pre-construction homes, similar to Australia's.
>
> **Recommendation 4:** Increase the capital available for purpose-built rentals by building on the progress the federal government has made on new rental construction, by ensuring that ACLP is adequately capitalized to handle an increasing volume of applications.

We have identified those four recommendations as being the highest priority, as they will have the largest and most immediate impact on the current housing crisis. We have included an additional six recommendations, which should be adopted once the first four are implemented. Recommendations 5 and 6 address the cost-of-delivery crisis, while 7 through 10 help increase the capital available for homebuilding.

> **Recommendation 5**: To accelerate the construction of new homes, tie federal infrastructure funding to pro-housing supply municipal reforms, such as accepting surety bonds in subdivision agreements and site plan agreements and implementing Edmonton-style automated approval programs.
>
> **Recommendation 6**: To lower the price of new homes and increase the diversity of housing options available to Canadians, enforce the conditions set out in municipal Housing Accelerator Fund agreements.
>
> **Recommendation 7:** To unlock much-needed global capital into housing construction, fully exempt real estate and housing-related infrastructure investment from EIFEL rules, and conduct a full review of other federal housing-related taxes and regulations, including the OSFI mortgage stress test, to ensure they are designed appropriately for the current conditions.

Recommendation 8: To build much-needed missing-middle rental housing and to channel investor dollars towards new rental construction, launch consultations on the proposed Multi-Unit Rental Building (MURB) tax provision this fall, with the goal of ensuring that rental projects that begin construction on or after January 1, 2026, are eligible for the tax provision.

Recommendation 9: To increase the capital available for MURB tax provision eligible projects, create a time-limited incentive for investors who currently own non-purpose-built rental properties who sell the units and reinvest the proceeds into a project eligible for the MURB tax provision.

Recommendation 10: To enable condo construction to be financed after small-scale investor dollars have been shifted towards MURB-eligible projects, enable banks to reduce pre-sale requirements on new condo developments via federal backstop facilities.

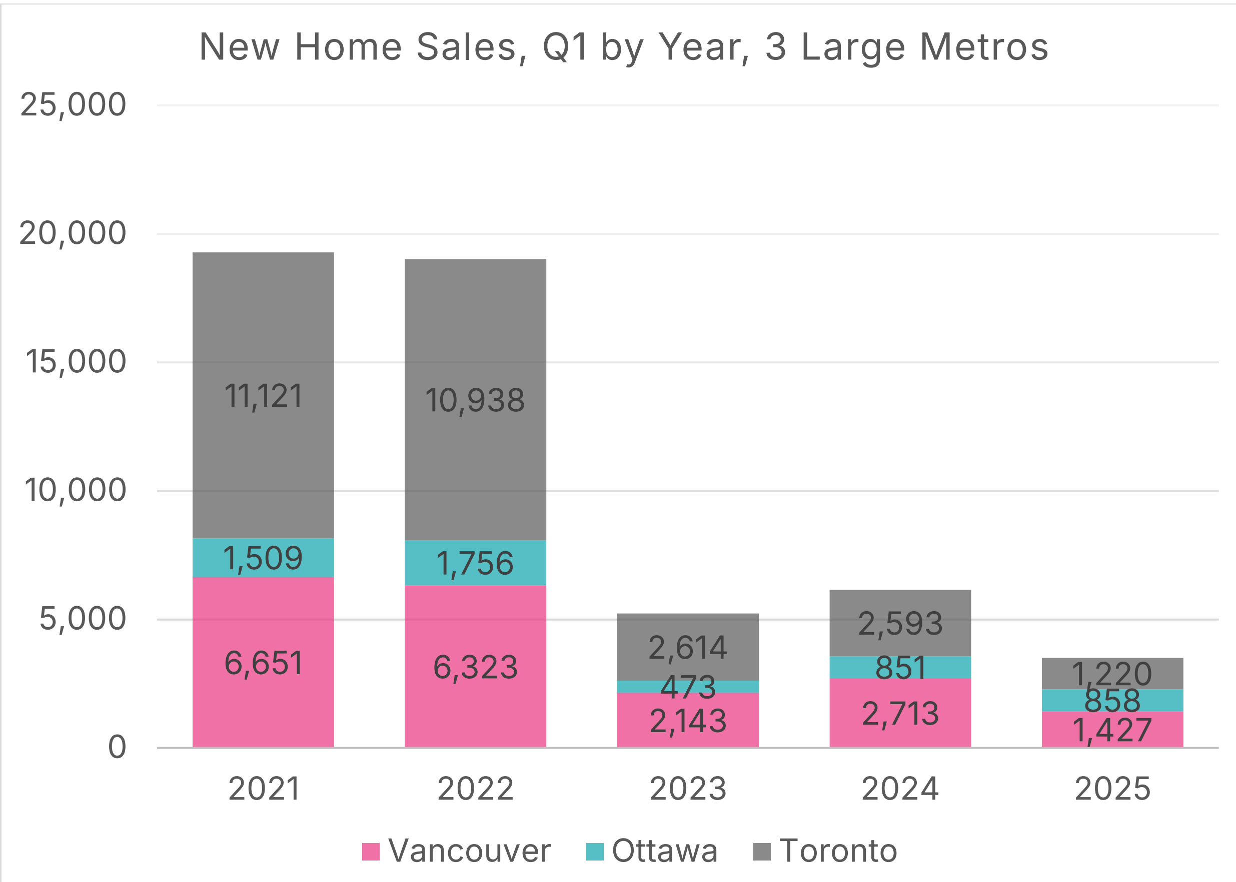
The twin focus on lowering costs and increasing access to capital aligns with the federal government's vision, which was based on the campaign promise to "make the Canadian housing market work better by catalyzing private capital, cutting red tape, and lowering the cost of homebuilding." Our recommendations are aligned with this vision.

While some of these recommendations, such as expanding GST rebates, come with a fiscal cost, there is also a fiscal cost to inaction. A recent Altus Group study finds that if current new home sale trends in the GTA continue, there will be 41,000 jobs lost across the regional economy. A Missing Middle Initiative report finds that the reduction in GTA homebuilding would result in a loss of over $6 billion per year in tax revenue for all three levels of government, excluding the cost to the employment insurance system due to increased unemployment. There are costs to both action and inaction.

The housing crash in three markets is a sign of challenges to come

New housing sales have all but evaporated in three of Canada's largest markets. Data collected for the first quarter of 2025 shows that new and pre-construction home sales in Vancouver, Ottawa, and Toronto have collectively declined by 80% compared to the first quarter of 2022, resulting in a reduction of over 15,000 home sales per quarter, or more than 60,000 per year. The massive drop in sales will reduce freehold ownership and condo housing starts by an equivalent amount in these three markets in future years, though this may be offset somewhat by changes in purpose-built rental starts.

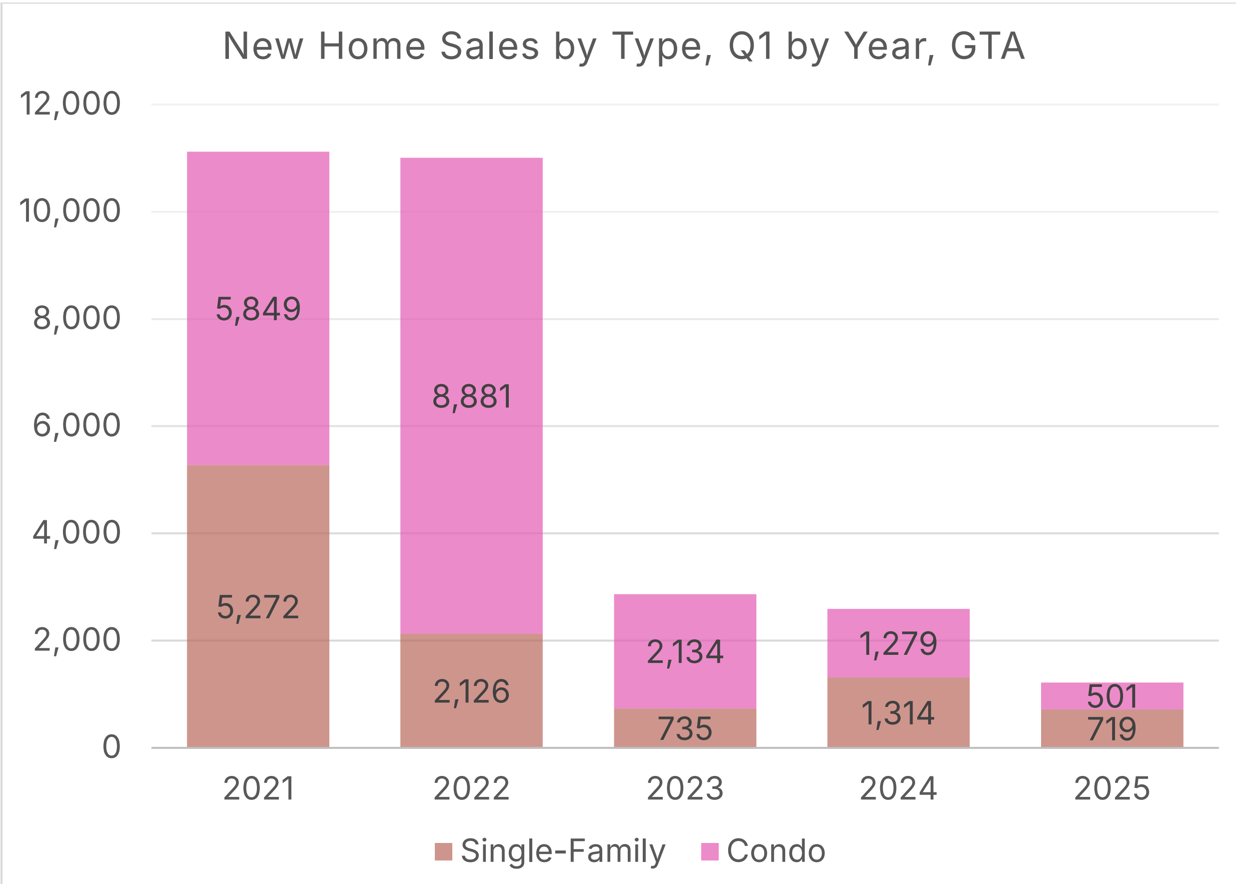
Figure 1: New Home Sales, Q1 by Year, Three Large Urban Metros



Data Sources: BILD, GOHBA, Zonda Urban. Chart Source: MMI

While new condo sales are taking the largest hit, there has also been a substantial decline in single-family sales in the GTA.

Figure 2: New Home Sales by Type, Q1 by Year, GTA

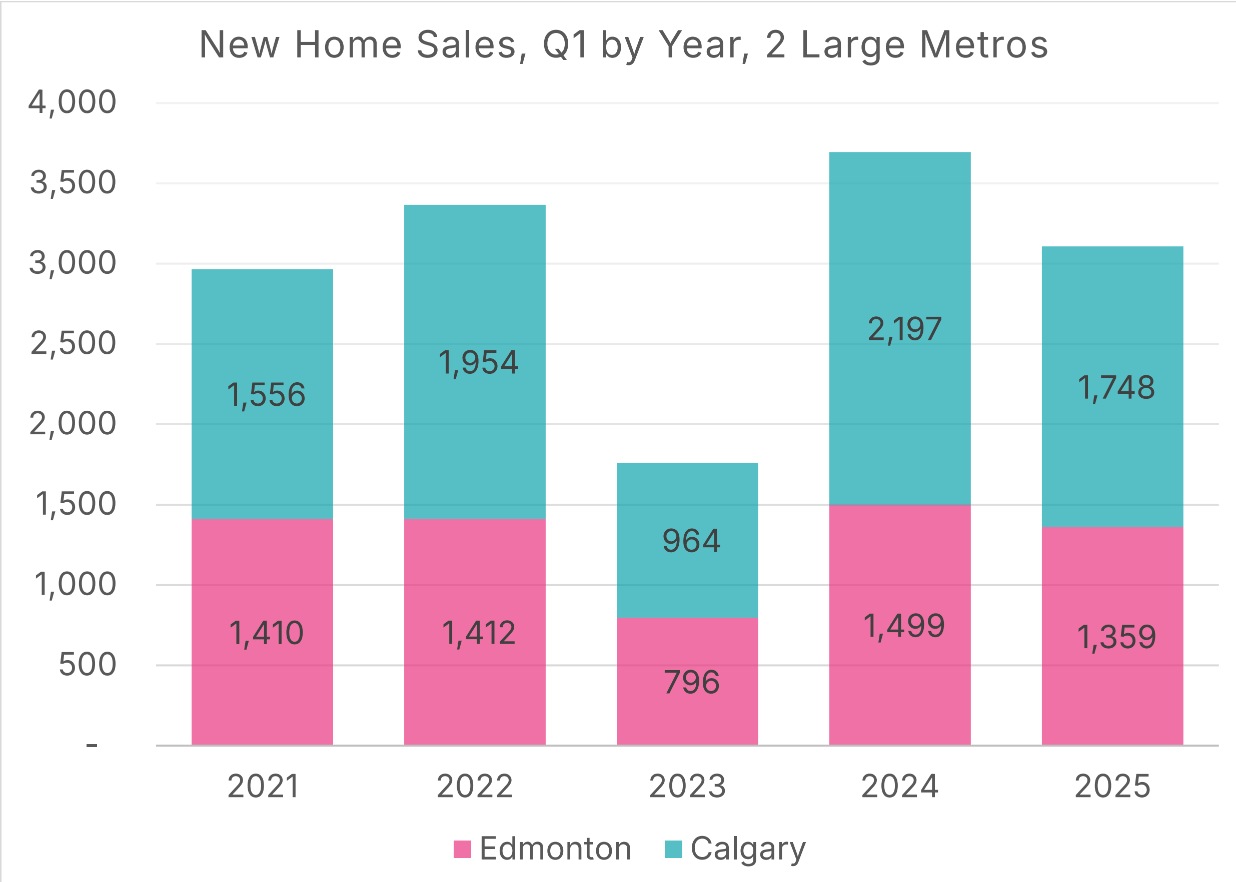


Data Source: BILD, Chart Source: MMI

Eventually, this lack of new sales translates into a reduction in housing starts (and housing completions). Although it can take years for a pre-construction sale to turn into a housing start, we are already seeing the impact in the GTA, as housing starts in the 1st half of 2025 are down 44%, or 10,000 units, relative to the 1st half of 2024.

The outlook is currently more positive in Edmonton and Calgary, which have yet to experience a decline in sales. However, we should not discount the possibility that the large drops experienced in Vancouver, Toronto, and Ottawa may spread to other major markets.

Figure 3: New Home Sales, Q1 by Year, Calgary and Edmonton



Data Source: Intelligence House, Chart Source: MMI

The impact of the drop in sales in these three large markets, and the possibility that it could spread to other large markets, should not be understated. A significant reduction in housing starts not only makes it more challenging for governments to meet their housing supply goals but also reduces employment and tax revenue.

The GTA housing crash alone is set to cost governments over $6 billion in lost tax revenue each year

A recent report by Altus Group paints a bleak picture for the GTA. It finds that if current sales trends continue, we should expect to see the following impacts:

- Single-family home starts fall from 11,000 to 4,000 starts per year.
- Condo starts fall from 22,000 to 2,000 starts per year.
- Total starts, including purpose-built rentals, are expected to fall to 13,000 units per year, down from over 47,000 in 2023.
- A loss of 41,000 jobs across the GTA.

Using the Altus scenario analysis, the Missing Middle Initiative found that the reduction in GTA home sales and housing starts would result in tax revenues for three levels of government falling by over $6 billion per year. The revenue decline includes the following annual losses:

- $800 million in GST revenue
- $1.1 billion in PST revenue
- $2.2 billion in municipal development charge (and related fees) revenue
- $330 million in provincial and municipal land transfer taxes
- $800 million in federal and provincial personal income tax
- $460 million in federal and provincial corporate income tax

These figures only represent revenue lost from the GTA's housing crash; they do not include the Greater Vancouver Area or Ottawa, nor do they consider the potential revenue loss if the current decline spreads to other markets. Additionally, they do not account for tax revenues generated through the supply chain or the additional burden on the employment insurance system that would result from job losses.

The crash as a disconnect between home prices and the cost of delivery

With the rise in mortgage rates, reduced population growth, and heightened economic instability in recent years, Toronto, Vancouver, and Ottawa have experienced a significant reduction in the number of people able and willing to purchase a new home, despite a persistent housing shortage. Over the past three years, while home prices have declined by 6-16% in Toronto, Vancouver, and Ottawa, new home sales have decreased by more than 50% in each of these markets.

Figure 4: Changes in New Home Sales and Composite Home Prices, Last Three Years

Large Urban Centre	Change in Composite Home Prices (May 2025 vs. May 2022)	Change in New Home Sales (Q1 2025 vs. Q1 2022)
Toronto	-15.7%	-89%
Vancouver	-6.2%	-77%
Ottawa	-8.1%	-51%

Data Sources: CREA, Figure 1, Chart Source: MMI

The decline in new home sales has been larger than predicted by the research, as detailed in the report "Why Lower Construction Costs and Taxes Are the Only Path to More Homes and Lower Prices." A 2021 Bank of Canada research note found that for every 1% increase in prices, new supply should increase by 2.2%. For supply-constrained metros like Toronto and Vancouver, the response should be less than 1%. We would then expect that a decrease in prices would have a similar effect, which should have lowered new home sales by 6-30%, not over 50%. These disproportionately large drops in new sales are likely due to two additional factors:

1. Supply may be more responsive to large decreases in prices, as there is a price threshold where prices are too low, relative to costs, to make new construction financially viable.
2. Higher interest rates not only affect the demand for housing but also impact the supply, as construction costs increase. So, these housing markets are simultaneously experiencing a negative demand shock and a negative supply shock.

However, this experience highlights a broader issue that Canada must address. The places in the country where housing starts are steady or growing are also places where home prices continue to rise at rates faster than wages. However, to restore affordability, we need prices to stay flat, if not decline, in nominal terms.

Governments across Canada simultaneously want:

1. **Affordability:** Home prices should grow at a slower rate than incomes, if not decline outright, in nominal terms.
2. **Supply:** The federal government, along with governments in some provinces, have called for a doubling of housing starts.

There is a natural tension here, as housing starts are positively correlated with prices; higher prices make home building economically viable. However, we also need prices not to rise to restore affordability.

The only path to increased supply and enhanced affordability is lower costs

The only way to meet the twin goals of affordability and increased supply is through substantially lowering the cost of homebuilding. For example, the federal government's focus on factory-built housing approaches, through Build Canada Homes, shows promise in reducing costs over time.

However, many of the government's initiatives to lower these costs will take several years to bear fruit, and there is an immediate need to reduce costs, particularly in Canada's large urban centers. The biggest direct lever that governments have to lower homebuilding costs is through taxes, though we should not overlook the impact that streamlining regulatory processes and accelerating approval processes can have on the cost of homebuilding.

All else being equal, a 1% reduction in overall costs is roughly equivalent to a 1% increase in prices to the viability of a project. As such, given the Bank of Canada's research, we should expect a 1% cost reduction to lead to a 2.2% increase in housing construction. Given that there were 96,000 purpose-built rental starts and 132,000 freehold and condo starts in 2024, a 1% reduction in overall costs for both forms of projects conservatively yields a 2,100-unit increase in annual purpose-built rental starts and a 2,900-unit increase in freehold and condo unit starts. This figure is almost certainly an underestimate, as we've seen that new supply has been particularly elastic in Toronto, Vancouver, and Ottawa in recent years.

Many government policies designed to reduce these costs, particularly taxes, will have a significant fiscal impact. We should also recognize that revenues from other taxes will rise due to increased housing construction. A 2023 CANCEA study found that a new $940,000 home sold in the province of Ontario generates almost $290,000 in total tax revenue, including over $110,000 for the federal government, as follows:

Figure 5: Tax revenue generated by the construction and sale of a $940,000 Ontario home

Government	Income Tax	Corporate Taxes	Sales Taxes	Production Taxes	Transfer Taxes	Total Taxes
Federal	$51,860	$18,687	$41,710	$263	$0	$112,520
Provincial	$31,145	$12,321	$43,536	$4,272	$15,196	$106,470
Local/Municipal	$0	$0	$0	$59,408	$10,130	$69,538
Total	**$83,005**	**$31,009**	**$85,246**	**$63,942**	**$25,326**	**$288,528**

Chart Source: CANCEA

Governments should make every effort possible not only to provide a costing for any policy change aimed at reducing homebuilding costs but also to estimate the boost in tax revenue associated with increased homebuilding.

Governments must also recognize the need to unlock $2 trillion in housing-related capital

Should efforts to reduce homebuilding costs be successful in reviving home sales in Canada's largest markets, access to capital will likely be a limiting factor. A recent report from RBC finds that "Tackling Canada's housing shortage will require $2 trillion in capital deployment over the next 5 years—that's a 5X increase from current levels".

There is no one single source that can provide this level of capital. Governments must remove barriers to attract and retain capital, while ensuring that rules, regulations, and outdated processes do not unnecessary encumber that capital. Capital will need to come from large investors, small investors, from outside Canada, and from governments themselves.

The capital attracted in this manner will not only facilitate the building of homes but also create jobs throughout the housing construction supply chain. The increased economic activity will provide a further boost to non-housing-related jobs and government tax revenue.

Considerations and constraints for the federal government

The federal government does not have unlimited time and resources, and any new housing-related initiatives it introduces must be aligned with its vision, integrate well with current policies (including those yet to be implemented), while recognizing the constraints under which the government operates.

While designing and implementing new housing policies, the federal government must consider the following:

- **The promise to double housing starts.** The federal government has committed to doubling housing starts, which would result in nearly 500,000 starts per year. Canada has never had more than 300,000 starts in any calendar year, so this will require a wartime-like effort. The government must be willing to take bold policy actions to achieve this goal, while also being prepared to abandon well-meaning policies that have a negative impact on housing starts.
- **The need for fiscal discipline.** The federal government is currently seeking to substantially reduce operational costs to shrink the deficit and fund much-needed investments. When designing housing policy, the government must be fiscally disciplined while being willing to remove restrictions on homebuilding, which will generate both additional housing starts and additional tax revenue.
- **The need not to stimulate demand for existing homes.** Currently, the average price-to-income ratio in Canada for a middle-class family to purchase a single-family home is over seven; 20 years ago, it was four. The government must avoid well-intentioned policies to reduce the demand for existing homes. It can achieve this by targeting policies that reduce the cost of building and purchasing a new home, rather than policies that have an overall stimulative effect on demand.

We have designed our policy recommendations with these constraints in mind.

Priority recommendations for the federal government to immediately address the cost-of-delivery crisis and remove barriers to capital

Home sales have fallen substantially in three of Canada's largest markets, and there is a risk that this could spread across the country. The federal government must take immediate steps to lower homebuilding costs and work towards attracting $2 trillion in capital investment to the homebuilding sector. And they must do so in a manner that aligns with the fiscal limitations of the federal government, respects the constitutional division of powers, and can be implemented quickly to address the current crisis.

We have divided our recommendations into two categories: those designed to reduce homebuilding costs and those aimed at attracting and retaining capital.

Priority recommendations to address the cost of building new homes

There is an urgent need to immediately reduce the cost of new home construction to address the immediate crisis. The federal government has several levers at its disposal to achieve this.

Recommendation 1*: Substantially lower the price of new homes through a temporary three-year expansion of the existing GST/HST New Housing Rebate to provide a rebate of 100% of the GST on new homes valued up to $1 million, and a partial rebate for homes between $1 million and $1.5 million, but otherwise keeping the existing rebate criteria in place.*

Because the GST only applies to new home purchases and substantial renovations (and not resale purchases), it acts as a tax on new housing construction. There is an existing rebate program to offset some of these costs; however, the program's parameters have not been updated since 1991. As a result, homes priced over $450,000 are not eligible for a rebate, which is the case for most new homes in Canada's large urban centres.

The federal government has committed to instituting a 100% GST rebate for first-time homebuyers and a partial rebate for homes priced between $1 million and $1.5 million. The Parliamentary Budget Office has estimated the policy would cost roughly $400 million per year.

Adapting the methodology used by the Parliamentary Budget Office, the Missing Middle Initiative has estimated that extending this rebate to all primary residence purchasers would increase the cost of the rebate by $1.6 billion per year, from $400 million to $2 billion. This estimate is based on previous levels of home sales, which are currently in decline, so the actual cost is likely to be lower.

Estimating the impact that this would have on new home sales is challenging. We have observed that previous estimates of supply elasticity have underestimated the current sensitivity to price changes. If we assume these complications essentially cancel each other out, then a 5% cut in costs should lead to an 11% increase in annual housing starts for non-purpose-built rentals. This figure is equivalent to 14,500 units per year in Canada.

However, Ontario's provincial government has also indicated that it would match such a rebate. A combined federal-provincial rebate would be equivalent to roughly an 11% cut in costs (and not the full 13%, since a provincial rebate still applies for homes priced over $450,000), which would lead to a 24% increase in non-purpose-built housing starts in the province of Ontario. The provincial rebate would provide an additional 7,000 units per year in the province of Ontario, in addition to the 14,500 units generated from the enhanced GST rebate alone.

In total, this back-of-the-envelope map suggests that a combined enhanced federal and Ontario rebate would increase housing starts by over 20,000 units per year. Based on the CANCEA estimates, this would generate over $1 billion per year for the federal government in increased sales tax and corporate tax revenue, offsetting much (but not all) of the cost of the rebate.

These are rough estimates, and past studies and modelling have limited predictive value, given that we are experiencing market conditions in Toronto, Vancouver, and Ottawa that have not been seen in decades. The federal government could offer such a rebate as a three-year pilot, then analyze the results to determine if such a program is a cost-effective way to reduce housing costs and increase supply permanently.

The government must act quickly. The current uncertainty surrounding the First-Time Homebuyers GST Rebate has created a chill in the market, as buyers are hesitant to make purchases due to uncertainty about whether they will receive the rebate.

Recommendation 2*: Substantially lower the price of new homes by removing tens of thousands of dollars of interest costs, junk fees, and tax-on-tax from the cost of new homes by implementing a transparent direct-to-buyer development charge (DC) billing model that exempts DCs from HST and land/property transfer taxes and provides in-stream homebuyer protection from DC increases.*

In most of Canada, development charges and related fees are paid when a building permit is obtained. The developer then carries those fees, with interest, during the construction process, and the inclusion of those fees raises profit margin requirements on a project and unnecessary encumbers working capital. An analysis by the Missing Middle Initiative finds that this can add tens of thousands of dollars to the cost of a home, costs that are passed along to the end buyer. And because these fees are buried in the final bill, they are subject to GST/HST and property transfer taxes, creating a tax-on-tax situation.

If provinces and municipalities adopted a model where development charges are directly charged to the buyer upon possession, tens of thousands of dollars in interest costs and junk fees could be avoided, and working capital would not be encumbered during the project. Furthermore, if governments treated these charges as a separate tax, they could exempt the charges from GST/HST and property transfer taxes, eliminating the unfair tax-on-tax on development charges. A transparent billing model would also enable buyers to know exactly how much they are paying in taxes and fees, thereby enhancing accountability. To ensure there are no surprises at closing, and to ensure these fees can be included in a mortgage, buyers must be provided with in-stream protection and be able to “lock-in” development charge rates when signing an agreement of purchase and sale.

While the federal government cannot directly create this model, it can require it as part of funding agreements with provinces and municipalities, and exempt development charges assessed in this manner from HST.

The Missing Middle Initiative has detailed the mechanics of a direct-to-buyer development charge billing model in its report “How a Direct-to-Buyer Development Charge System Can Save Homebuyers $68,000.”

Priority recommendations to unlock $2 trillion in capital

By reducing barriers to attracting capital, the federal government can not only achieve closer alignment with its housing supply goals, but it can also generate much-needed tax revenue through the construction of additional homes. We have identified two reforms that the federal government should treat as urgent priorities to unlock capital:

Recommendation 3*: Increase the capital available for purpose-built rentals and new condo construction by providing a GST/HST exemption for current rental developments under construction which are not eligible for the GST rebate, and by creating a foreign-buyer ban exemption for new and pre-construction homes, similar to Australia's.*

Capital will need to be obtained from many sources, including capital locked in projects that have yet to be completed. For example, approximately 75,000 rental units are under construction across Canada that began before the September 2023 GST rebate announcement, which are ineligible for the exemption. These projects will owe as much as $80,000 per unit in GST/HST at completion, creating a severe capital burden on these select projects when combined with interest rate increases and construction cost inflation. Many of these projects currently face risks of emergency capital funding, being halted or facing insolvency.

Allowing an exemption option for these in-stream projects could unlock billions in near-term capital, which could be redirected into new construction aligned with the Liberal Housing Plan. With standard financing leverage (3:1), the freed capital could generate $25 billion in new investment and support the creation of 50,000 additional rental housing units.

Foreign direct investment is another important source of capital. The foreign buyer ban was intended to prevent overseas investors from purchasing existing homes, thereby reducing the supply available to Canadians and permanent residents. Unfortunately, the ban, as currently implemented, has reduced the supply of pre-construction financing, which in turn reduces the number of units available to families in Canada.

Australia, which faced many of the same challenges as Canada, has an exemption that allows foreign buyers to purchase a "new or near-new dwelling". Canada should adopt Australia's approach, which would lead to the construction of additional homes and generate much-needed tax revenue for governments.

Recommendation 4*: Increase the capital available for purpose-built rentals by building on the progress the federal government has made on new rental construction, by ensuring that ACLP is adequately capitalized to handle an increasing volume of applications.*

CMHC's ACLP financing vehicle has been one of the primary contributors to the rental construction boom Canada has experienced in recent years. The federal government should ensure that the program has enough capital to support further growth.

Secondary recommendations for the federal government to immediately address the cost-of-delivery crisis and remove barriers to capital

The four recommendations above should be given the highest priority, as they will have the largest and most immediate impact on addressing the current housing crisis. However, there are several other useful reforms that the government should examine once the first four measures are in place.

We have included an additional six recommendations, which should be adopted once the first four are implemented. Recommendations 5 and 6 address the cost-of-delivery crisis, while 7 through 10 help increase the capital available for homebuilding.

By reducing barriers to attracting capital, the federal government can not only achieve closer alignment with its housing supply goals, but it can also generate much-needed tax revenue through the construction of additional homes.

Secondary recommendations to address the cost of building new homes

Recommendation 5*: To accelerate the construction of new homes, tie federal infrastructure funding to pro-housing supply municipal reforms, such as accepting surety bonds in subdivision agreements and site plan agreements and implementing Edmonton-style automated approval programs.*

Financing and approval costs are among the largest expenses faced by builders, and governments can mitigate these costs. The federal government must continue to identify municipal and provincial reforms that can reduce these costs, including allowing for the use of surety bonds and implementing processes to expedite approval times, and incorporate these requirements into future funding agreements.

Recommendation 6*: To lower the price of new homes and increase the diversity of housing options available to Canadians, enforce the conditions set out in municipal Housing Accelerator Fund agreements.*

The federal government included provisions in Housing Accelerator Fund agreements with municipalities, designed to lower costs and reduce red tape. Given the financial constraints of the federal government, along with the need to accelerate homebuilding, the federal government cannot afford to compensate municipalities that fail to meet their obligations under the agreements.

Secondary recommendations to unlock $2 trillion in capital

Recommendation 7*: To unlock much-needed global capital into housing construction, fully exempt real estate and housing-related infrastructure investment from EIFEL rules, and conduct a full review of other federal housing-related taxes and regulations, including the OSFI mortgage stress test, to ensure they are designed appropriately for the current conditions.*

EIFEL rules continue to be a barrier to homebuilding, particularly on more complicated projects that integrate non-retail elements. Given the push towards building “complete communities” where families can work, shop, and play, this creates a barrier to attracting investment into worthwhile projects. Canada’s implementation of EIFEL has also been a continued trade irritant in our relationship with the United States. Creating a full exemption for real estate and housing-related infrastructure can help accelerate homebuilding and attract much-needed capital.

Recommendation 8*: To build much-needed missing-middle rental housing and to channel investor dollars towards new rental construction, launch consultations on the proposed Multi-Unit Rental Building (MURB) tax provision this fall, with the goal of ensuring that rental projects that begin construction on or after January 1, 2026, are eligible for the tax provision.*

The MURB tax provision will unlock billions of dollars each year in capital from Mom-and-Pop investors and accelerate the development of "missing middle" rental housing, including multiplexes and stacked townhouses. The federal government should implement these rules as soon as possible and design the criteria and CMHC MURB-certification forms as closely as possible to the criteria for accessing ACLP, thereby streamlining the approval process, avoiding duplication, and making it easier for projects eligible for the MURB tax provision to access ACLP financing. Issues related to the certification of MURB-eligible projects are addressed in a recent report from the Missing Middle Initiative.

https://www.missingmiddleinitiative.ca/p/the-quiet-death-of-the-investor-condo

Recommendation 9*: To increase the capital available for MURB tax provision eligible projects, create a time-limited incentive for investors who currently own non-purpose-built rental properties who sell the units and reinvest the proceeds into a project eligible for the MURB tax provision.*

Over the past two decades, investors have purchased hundreds of thousands of single-family homes to address a chronic shortage created by decades of underbuilding of rental properties, coupled with accelerated population growth. While this helped address rental shortages, it also made it more difficult for young families to own their first homes and has encumbered billions of dollars in capital in these homes. The federal government should offer a time-limited incentive, such as reduced capital gains taxes, to investors who sell their existing single-family home investment properties and reinvest the proceeds into a MURB-eligible project. This initiative will simultaneously channel billions of dollars in capital into new construction, while making it easier for families to own a home.

Recommendation 10*: To enable condo construction to be financed after small-scale investor dollars have been shifted towards MURB-eligible projects, enable banks to reduce pre-sale requirements on new condo developments via federal backstop facilities.*

Financing for condo construction, particularly in the Greater Toronto Area and Greater Vancouver Area, has all but dried up. The introduction of the MURB program will create additional challenges, as some of the capital that would have been allocated to pre-construction sales will instead be redirected to the MURB market. The federal government should consider reforms that reduce the reliance of new condo construction on pre-construction sales by investors.

As a first step, the federal government should launch consultations as soon as possible to prepare a report that can inform Budget 2026.