

From promises to practice: Designing and implementing meaningful responses to Canada's persisting housing affordability challenges

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This paper is intended as a brief to senior government officials and political staffers. Context is the arrival of a newly elected government transitioning from electoral platform to articulating how they will frame this mandate.

Executive Summary

To move from campaign commitments to impactful practice, federal leadership must shift from a narrow focus on market supply to a **comprehensive, collaborative, and segmented response to Canada's persistent housing unaffordability issues that breaks the daunting system challenge into separate, but related, major policy strands.**

In the face of ongoing fiscal challenges policy agendas that demand greatly enhanced fiscal resources for housing are unlikely to be adopted. In consequence, by reinforcing existing tools, coordinating different silos within the Government of Canada, boosting collaborative, strategic housing actions across jurisdictions, and directly addressing the most vulnerable populations, this government can meaningfully shift the trajectory of Canada's housing crisis

A new government, even in difficult times, provides a critical opportunity to recalibrate Canada's approach to housing affordability, together with opportunities to lever the symbiotic role of housing in the economy and society. Housing policy overlaps and interacts with many other policy domains, especially immigration, and productivity. There is much to do make the supply side of the system more responsive, and that will require action on skills, technology and infrastructure as well as planning flexibilities. Policymakers need to look beyond supply to comprehend the demands and needs to be met.

With the arrival of a newly elected government, there is a critical opportunity to recalibrate Canada's approach to housing affordability. While recent political platforms have heavily emphasized supply-side solutions, a meaningful response must address the distinct and interrelated challenges of:

- Constrained access to home ownership;
- Deepening rental housing unaffordability;
- Rising homelessness and encampments.

Key Recommendations

1. Strengthen Federal-Provincial-Municipal Collaboration

- **Immediately convene a First Ministers' Housing Roundtable** to create an Intergovernmental Housing Council.
- Use this forum to first explore understandings of shared concerns, assess patterns of resources and responsibilities, including consultation with municipal and indigenous leaders to define shared missions for change.
- Identify new ways of doing business and **revise and relaunch Canada's Housing Plan** as a shared roadmap across jurisdictions, grounded in current realities and tailored local needs.

2. Adopt a Targeted, Segment-Specific Approach

- **Segment the crisis:** Whilst recognising that the problems faced are systemically interconnected and that housing affordability encompasses ownership barriers, rental pressure, and homelessness, urgent action requires tailored policies for each major policy strand
- Avoid over-reliance on the narrative of “chronic undersupply” as a singular cause or solution, and on private sector solutions that cannot address non-market need.

3. Reframe Supply Strategy with Realistic Targets

- **Reassess the call to double housing starts** using updated data and revised population projections and ensure that impacts of supply growth on inflation and productivity are adequately assessed.
- **Refocus efforts on enabling non-market and affordable supply**, rather than solely stimulating aggregate market activity with a reliance on filtering.
- In addition to government support, this requires non-profits to rethink their roles, expand their scales and secure finance from capital markets with Bay St recognising social housing as a useful asset class and a Canada wide system for monitoring the performance of non-profit providers.

4. Address Homelessness with Immediate and Medium-Term Tools

- **Rapidly expand the Canada Housing Benefit (CHB)**, targeting people in encampments and shelters through community-based delivery systems.
- **Scale up an enhanced Rapid Housing Initiative (RHI)** leveraging modular and prefabricated construction, coordinated nationally but implemented locally.
- **Direct part of the \$4B Urban, Rural, and Northern Housing Strategy** to Indigenous-led, supported housing for urban Indigenous populations experiencing homelessness.
- **Scale homelessness response programs** to assist people to exit homelessness, using a combination of proven approaches that include the Canada Housing Benefit, Rapid Rehousing (e.g., rent and furniture banks, social housing prioritization) and high-fidelity Housing First supported housing with consumer choice and intensive mental health and addiction supports

5. Preserve and Expand Affordable Rental Housing

- **Sustain elevated levels of purpose-built rental (PBR)** starts with continued incentives but expand by encouraging non-market models.
- **Help scale up and strengthen the non-market sector** drawing on the \$10B affordable housing capital fund by routing it through experienced provincial delivery systems to improve speed and local alignment.
- **Expand the Rental Protection Fund** to help non-profits acquire and preserve existing affordable rentals.

- **Introduce deeper rental supports** via CHB to match modest-income renters with near-market units.

6. Refine Ownership Access Measures

- **Recalibrate GST relief** to apply to all new homes below a local affordability threshold—not just for first-time buyers—encouraging moderately priced new construction to increase supply and concurrently address affordability.
- **Review and adjust macro-prudential rules** (e.g., stress tests) that limit access to mortgage credit for FTBs to improve opportunities for those that seek to buy.
- **Support assisted ownership initiatives** through partnerships with non-profits and shared equity models.

7. Reorient the proposed Build Canada Homes as a Collaborative Model

- To be effective **Build Canada Homes (BCH)** must have capacity to operate at a regional-local scale, which means **scaling the Canada Builds approach through collaborative strategic housing and infrastructure partnerships that are locally led by groups of adjacent municipalities and that work** with provincial/territorial partners.
- Align federal loans, public land, and supportive infrastructure with Provincial actions and regional/municipal efforts to accelerate local planning and development approvals and rationalize or offset high development fees.
- Direct BCH to deploy federal resources to catalyse the expansion of a healthy non-market community housing sector.

Introduction

Housing affordability was a major concern in the recent federal election. Also prominent in prior federal and provincial elections these concerns have generated an array of proposals intended to try and improve housing affordability. More recent platform proposals come on top of an existing framework of policies and programs articulated in both the 2017 National Housing Strategy and subsequent additions, as well as Canada's Housing Plan (2024).

With a newly elected government, new cabinet and a new minister, it is timely and appropriate to take stock of the nature of the housing affordability crisis and to evaluate which of the pre-existing policies and programs together with new proposals can be integrated into a revised and focused set of policies and program, with a real potential to move the needle on this crisis.

To move from campaign commitments to impactful practice, federal leadership must recognise that the diverse housing outcomes that trouble three out of five Canadians have not emerged suddenly but have evolved since the start of the century. They arise from political choices not to expand the supply of housing for Canada's poorest households or to alleviate affordability issues for low-moderate income renters as rents rose ahead of bottom quintile incomes; and a persistent failure of governments to better balance supply and demand changes (immigration and investors) in the Canadian housing market so that rising house prices have rationed growing shares of younger Canadians out of housing futures in homeownership.

There needs to be an understanding that a massive, sudden supply side boost (doubling construction to 500,000 homes per year), with a much-boosted share of slowly growing national resources including capital and labour, will both induce construction and related sector inflation (especially as related activities of infrastructure provision and housing retrofit for net zero) and lower national productivity through the major expansion phase.

These problematic outcomes in housing are reinforcing social injustice and immobility, needlessly enhancing residential carbon emissions, and reducing growth and productivity whilst continually rewarding property ownership ahead of effort and entrepreneurship. The fulfillment of the Prime Minister's worthwhile ambitions for a confident, cohesive and competitive Canada will not be delivered without disrupting our 'housing policy business as usual' approaches.

The issue of housing affordability has been a growing concern as home prices and rents have increased at much faster rates than incomes. This has been especially prevalent for young individuals and households at the beginning of their working and housing careers. And for those with minimal incomes, the insurmountable challenge of finding anywhere to live has resulted in growing housing instability, encampments, homelessness and delayed household formation.

We argue that the market alone will neither produce housing at the level desired by government, nor will it produce at the rents or purchase prices necessary to redress persisting levels of affordability need (an issue of market failure).

The critical question is how much new supply will the market be willing to produce, either under prevailing market conditions, or enhanced conditions (government makes it easier and cheaper) and to what extent will it meet the needs – based on current income profiles.¹ And what is the residual requirement that could potentially be met by the community housing, non-market sector? The market will not meet all needs, so there is a critical role for government to invest in the non-market sector to augment to complement the market.

This brief first sets the context and frames the nature of the housing affordability crisis. It then reviews the recent election proposals and identifies alignment and gaps against the elements of the crisis. Drawing from the election platform, as well as existing initiatives in the NHS and Canada’s Housing Plan (2024), it suggests how these can be combined with a focus of easing the housing affordability crisis. We argue for a re-framing of the proposed Build Canada Homes. Finally, we discuss the contention that the housing affordability crisis is a result of chronic under-supply (with a need to double construction to meet need) and argue for recalibrating this target and segmenting the response with different targets for distinct elements of the affordability crisis.

Framing and segmenting the housing affordability crisis

While the housing affordability crisis is characterized by people’s inability to afford a decent place to live without spending too much of their income, it is useful to disaggregate this problem into three distinct elements, each requiring a tailored and different set of responses (although some may be mutually reinforcing):

1. Constrained access to buy - prices too high, especially for first time buyers.
2. Increasing renter affordability problems with rents increasing in double digits yr-yr
3. Increasing homelessness and encampments as people unable to find/secure housing

And because affordability issues are at the confluence of income and housing costs (rent or purchase price and mortgage cost) it is also necessary to examine how to augment incomes and capacity to pay (demand measures), as well as ways to manage prices and costs (supply measures).

The recent discourse on addressing housing affordability has asserted that the primary cause of the affordability issues is a chronic undersupply of new homes.²

A consequence of this “it’s a supply problem” assessment is that most recent initiatives and programs, together with platform proposals emphasize supply, are premised on a belief that

¹ CMHC is reported to be undertaking a needs assessment that looks at housing needed by income levels. This can help in form segmentation of policy responses.

² This was emphasized in the 2022 CMHC report *Canada’s Housing Supply Shortages: Estimating what is needed to solve Canada’s housing affordability crisis by 2030*; and paraphrased by the Minister of Finance in Budget 2022 “Increasing our housing supply will be key to making housing more affordable for everyone’ (Government of Canada 2022).

increased supply will lead to rent and purchase price reductions, and by extension, improved affordability. But efforts to address housing affordability through supply have not produced supply or affordability. While there is a need to expand supply to respond to past and ongoing population growth the evidence does not support claims that market-based supply alone can improve affordability, especially for lower income households. Note the critical distinction between overall market supply (with initiatives to incent market activity) and targeted (more) affordable supply, which requires some form of non-market activity. In the longer run, a large increase in annual starts will put downward pressure on prices and rents, but it is unlikely that industry and investors will oversupply the market (this dynamic is discussed later).

Examining recent and current proposals (platform elements)

With the Liberal party forming government the Liberal platform is the most relevant. However, to the extent that this is a minority government and will require collaboration and compromise it is useful to also identify elements of other party platforms that could be helpful.

Accordingly, all the platforms are presented in Appendix A. The key elements of the Liberal platform are summarized below and linked to the three identified sets of characteristics as well as the issue of supply.

Proposal	Impact
Double the pace of construction to almost 500,000 new homes a year,	Increase supply
Eliminate GST for first-time homebuyers on new and majorly renovated homes under \$1 million	Increase supply (indirectly affect access to ownership)
Reintroduce a tax incentive (MURB) which, when originally introduced in the 1970s, spurred tens of thousands of rental housing units across the country.	Increase rental supply
Create a standalone agency called Build Canada Homes that will act as a developer to build affordable housing at scale, including on public lands.	Increase supply – emphasis on affordable homes
Catalyze the housing industry by providing over \$25 billion in financing to innovative prefabricated home builders in Canada, including those using Canadian technologies and resources like mass timber and softwood lumber,	Increase and accelerate supply and potentially affect affordability
Providing \$10 billion in low-cost financing and capital to affordable home builders.	Increase affordable supply
Cut municipal development charges in half for multi-unit residential housing while working with provinces and territories to keep municipalities whole.	Increase supply
Invest almost \$74 million to improve critical housing infrastructure, speed up housing development and help meet the growing demand for affordable housing in the North. Invest almost \$66 million to build, renovate and repair hundreds more homes across Nunavut, including for Indigenous Peoples and underserved groups.	Increase supply

A number of these proposals are supported or align somewhat with proposals in other party platforms, notably:

- Increase overall supply and number of new affordable homes [CPC, NDP, Green]

- Removing GST of new ownership homes (note GST on new purpose-built rental homes was already removed by prior government in May 2024).³ [CPC, BQ]
- Make federal lands available for new affordable development [CPC, NDP]
- Fund expansion of affordable housing [NDP, Green]
- Invest to scale up prefabricated and modular construction [Green]

This summary identifies an ongoing pre-occupation with supply, while other issues are less prominent or ignored entirely, especially with regard to reducing and ideally ending chronic homelessness and encampments and issues of deep affordability for renters.

Although in theory, massive oversupply will result in a reduction in home prices and rents, this simple micro-economic principle does not translate to the housing market due to the unique characteristics of housing (it is fixed in location and thus immobile, highly durable with existing homes far outweighing new supply, and highly heterogeneous in type and price).⁴ Stimulating the market to expand supply must go beyond simply setting aspirational supply targets – it requires carefully crafted initiatives, and these will need to be augmented by targeted initiative to address affordability that the market is unable and unwilling to address – these require non-market solutions.

Moreover, inherent in any supply solution is a time lag to accommodate planning approvals and construction timeframes. Even if construction is accelerated, this leaves many living in precariously – in encampments, emergency shelters and on the streets. More immediate action is critical.

And while the impetus for action is the election of a new federal government, many of the issues impacting and contributing to the housing affordability crisis cannot be resolved by the federal government acting alone. These require involvement and action at the provincial-territorial level and at the municipal level.

Collaboration only works well where roles and resources are transparent and partners are respected, the Federal government needs to be clear why they have critical roles in rebalancing national and local housing systems and that their role is as an informed, resourceful supporter of locally led strategic action focussed on better housing outcomes across Canada's cities, regions and communities.

Given the jurisdictional reality and multi-dimensional nature of the housing issue, the first order of business should be to convene a meeting of FPT housing Ministers together, when appropriate, with municipal and Indigenous leaders to initiate a collaborative approach, with each then tasked with actions and responsibilities that align with their jurisdiction and capacity.

³ <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/gst-hst-businesses/gst-hst-rebates/purpose-built-rental-housing.html>

⁴ See Nicole Gurrans paper about houses are not bananas <https://theconversation.com/going-bananas-over-affordable-housing-30029>

And within the Government of Canada there should be an immediate action to ensure that policy actions across all Departments, and the Crown Agencies they sponsor, avoid or minimize negative effects on housing outcomes in the ways that multiple actions swamped more narrowly prescribed activities of CMHC (and now HICC). Changing business as usual starts at the very top and the Prime Minister should, until better outcomes are established, Chair a quarterly meeting on Federal Housing Progress. Other orders of government could do likewise (and some big cities already come close to this approach).

An ongoing intergovernmental coordinating panel could be established to monitor and adjust progress (similar to Australia's Supply Council, or the US Interagency Council on Homelessness). This would emulate a more cooperative federalism, as practiced in earlier periods.

This intergovernmental group should review augment and update Canada's Housing Plan as a fully collaborative integrated plan, including the initiatives outlined below.

Policies to end encampments and homelessness

As noted, there is no specific proposal in the Liberal platform to address homelessness and encampments, although a number of the proposals, building on existing elements of Canada's Housing Plan could be effectively oriented to help. But these need to integrate and work in collaboration with PT programs which fund necessary support services. It has been long recognized that federal housing and homelessness programs and provincial support services need to be integrated, but this has been persistently challenging to execute.

Ultimately it is critical to expand transitional and supportive housing to enable people experiencing mental health and substance addictions to exit encampments and shelters, secure a home to avoid homelessness, and access appropriate support services. But like any supply this implies a time lag, so a more immediate initiative is needed including upstream prevention measures.⁵

A rapid response could be achieved by expanding and targeting the Canada Housing Benefit, which is already part of the NHS bi-lateral agreements. It should continue to be cost shared and delivered at the local level via the homeless serving community entities established under Reaching Home. This can be a very effective mechanism to quickly house those without challenges of high acuity and/or needed little to no support to maintain housing. For those of higher acuity, appropriate wrap around supports must be added – and most of these are funded and delivered under PT programs, so require prior consultation and agreements from PT. There are programs that have been proven to be effective and cost-effective (notably the At

⁵ The best way to reduce homelessness is to adopt prevention measures to stop or slow the flow into homelessness. This could include targeted supports to low-income households at risk including those with minimal income assistance benefits unable to afford rents, as well as revised rent regulation on vacancy decontrol to slow the loss of lower rent options

Home / Chez Soi program)⁶, but never successfully implemented and scaled – this should be a priority. Potentially the cost sharing of a CHB specific to homeless prevention could be revised to better balance the benefit cost and ongoing PT funded support services.

A revised Rapid Housing Initiative should also be pursued to complement this approach to immediately housing people experiencing homelessness. The previous iteration of RHI sought to use modular construction to quickly build permanent supported housing, and many lessons were learned as part of the 2020-22 RHI efforts. This included issues with local building officials accepting this form of construction, the disaggregation of the procurement process across multiple municipalities, and lack of prior consultation and agreement on support services from provinces.

The \$25B proposal to invest in expanding prefabrication and modular construction offers a new opportunity to reinvigorate an enhanced RHI, with a commitment at scale (e.g. 10,000 units per year for 5 years) with bulk procurement facilitated at the federal level (but coordinated with local providers). This can parallel any market focused efforts for market oriented modular homes to achieve the scale necessary for modular providers to retool production lines.

This can potentially also utilize federal lands, especially the many smaller sites identified under the CHP Federal Lands Initiative to site such new permanent supportive developments (with local governments to facilitate and accelerate zoning and approvals). Ancillary direction might also be provided by directing NRC to update the sections of the building code that were being interpreted by local officials to constrain approvals under RHI.⁷

And with a disproportionately high number of Indigenous persons in the homeless population, it is critical to accelerate and direct a portion of the \$4B committed to an Urban Rural and Northern Housing Strategy in Budget 2022 toward Indigenous-by-Indigenous supported housing development.

Expanding rental supply and addressing affordability

Recent years have seen a number of initiatives intended to encourage increased purpose-built rental construction (removing GST, favourable financing under RCFI/ACLP and the MLI Select mortgage insurance facility). Abetted by strong rental demand, this has materialized into very significant increase in new rental construction. For two decades, 1995-2015 annual purpose built rental (PBR) starts were fewer than 20,000 units per year, but this volume more than quadrupled to over 80,000 starts annually in 2022 and 2023 and 95,000 in 2024.

⁶ Paula Goering, Scott Veldhuizen, Aimee Watson, Carol Adair, Brianna Kopp, Eric Latimer, Geoff Nelson, Eric MacNaughton, David Streiner & Tim Aubry (2014). National At Home/Chez Soi Final Report. Calgary, AB: Mental Health Commission of Canada. https://www.mentalhealthcommission.ca/wp-content/uploads/drupal/mhcc_at_home_report_national_cross-site_eng_2_0.pdf

⁷ Canada's Housing Plan (p13) identified simplifying the way we build homes and proposed reviewing and adapting the National Building code, in consultation with the PTs, including approaches to facilitate factory-built housing.

While the volume of PBR construction is a success, this has only marginally improved affordability. The rents in newly completed rentals (units completed since 2020, vs. those completed prior to 2020) are typically more than 150% above the CMHC average market rent (AMR), which is well above affordable levels to low-and moderate-income households.

So the issue of rental supply is already improving (although it is important to sustain these higher levels), but the related issue of affordability is not being sufficiently addressed. With higher levels of supply the rate of rent increases has slowed, but this is occurring mainly in the upper half of the market as a surge of newly completed units compete for tenants.⁸

In the lower half of the existing rental stock, prevailing rent regulation in most provinces permits vacancy decontrol: when a rent-controlled tenant vacates, a home that previously had constrained rent increases is no longer protected and the rent is usually substantially increased to a current market level. This results in loss of affordable market rental stock and directly impacts lower income renters, driving people into homelessness and those seeking to exit homelessness. Recent research has revealed that for every new affordable unit created between 2011-21, under FPT and federal programs, 12 existing units renting under \$1,000 per month have been lost (rents have inflated to less affordable levels).

In effect there is no single rental market, there are subsets, each with different dynamics (as suggested above for new and older) and policy needs to be nuanced to recognize these variations. But the important regulatory levers exist at the PT level, not within federal jurisdiction.

So simply stimulating more market rental supply will be insufficient: specific, targeted initiatives are critical to reducing the incidence of renter affordability issues. And directing assistance (both grants and concessionary financing via a network of community based non-market organizations ensures that the units remain outside of market speculation and are affordable forever (unlike programs directed to market-based developers with a finite duration of affordability, after which units move to market).

The platform identifies \$10B in low-cost financing and capital to affordable home builders. Ideally this should target non-market providers (public, non-profit and co-op) to ensure long term permanent benefit from these investments. Here there are two possible ways to flow these funds.

- The NHS already has a unilateral federal mechanism (Affordable Housing Fund), and the proposal might align with and be used to enhance that initiative, although CMHC delivery has been strongly criticized for slow and onerous processing, in part due to lack of capacity and expertise as CMHC exited direct delivery in 1986.

⁸ Data from rentals.ca , which compares rents in newly advertised rentals in current month to the average a year ago reveal stalling in the rate of increases, compared to double digit yr-yr increases in 2021-23, and in some cities declining rents.

- In parallel, the NHS has a separate initiative delivered under the FPT bilateral agreements in which federal funding cost shares delivery by the PTs (essentially extending the 2002-2019 Investments in Affordable Housing, IAH). Over the past two decades the PTs have developed strong capacity and expertise and have a greater familiarity with local communities so there is a strong case to direct new funding via this existing PT network. This may be a more effective avenue than direct federal delivery, and aligns better with more cooperative federalism, as discussed further below.

And as mentioned under policies to end encampments and homelessness above, accelerating implementation of the URN Indigenous Housing Initiative, can augment production of more affordable homes, with a specific focus on homes for Indigenous households.

An expansion of affordable, non-market rental housing could also take advantage of the speed and potential cost savings in new innovations in manufactured, modular and prefabricated construction. Without stimulus, however, there will be insufficient demand to warrant investment in the growth and productivity of this industry. Such an investment could also result in helping companies to produce for export markets as well as domestic.

As already noted, the affordability issue relates both to the cost of rents and to incomes. Building new homes and setting rents at very low levels, as was done historically, expands on an unsustainable and unviable model. An alternative approach is to enable new supply at near market rents (e.g. 100-120% AMR) because this enhances loan leverage and reduces need for capital grants, and then separately attack the lack of income for certain households by providing targeted rental assistance. This means expanding and enhancing the funding under the bilateral Canada Housing Benefit.

In addition to building new moderately affordable homes, the new government should enable non-profit entities to purchase existing private rental housing assets. This can help to preserve existing low-moderate rents, usually at a much lower cost than new builds. This can also enable broader rental supply, if the private market vendors are required to reinvest the proceeds of these sales to new rental development.⁹

In terms of further expanding market, purpose built rental (PBR) supply (or sustaining current elevated levels) it is also necessary to review existing and proposed mechanisms.

On existing initiatives, the RCFI/ACLP is by far the largest initiative in the NHS, now funded at over \$55 Billion in loan authority. However, the evidence suggests that the ACLP has had a minimal impact, accounting for fewer than 8% of PBR since 2016, while MLI Select has had much greater take up (more than 50% of starts since inception in 2022). The fact that even

⁹ While some REIT and corporate investors have been cited for pursuing renovations and rent gouging, others have been more supportive of non-profit acquisition. A group of REITs have expressed strong support for this approach as they seek capital to development new by selling existing properties – and have identified a pipeline of up to 40,000 new rental units that could be pursued once they realize these capital gains by selling assets to non-market entities. And this can be further enhanced if sales proceeds are exempt from capital gains, provided reinvested into new rental construction (effectively the roll-over provision in the 1970's MURB program)

before MLI Select, over 90% of new rental units were proceeding without RCFI, suggests that the more favourable financing terms of ACLP could be either:

- targeted to higher cost rental markets where rental starts continue to lag (notably in the GTA); and/or
- reallocated to support non-market development at intermediate market rents (i.e. 110%-120% AMR, which operated on a non-market basis will gradually become relatively more affordable – reaching 80% of then AMR by year 15) to assist in growing the non-market sector to at minimum the OECD average of 7% of all homes (currently at 3.5%).

The Liberal platform includes another option to encourage PBR supply – by reintroducing a tax incentive (MURB) which, when originally introduced in the 1970s, spurred tens of thousands of rental housing units across the country. This reintroduced a number of favourable tax provisions that had existing prior to broad tax reform in 1972, including accelerated depreciation, immediate deductibility of soft costs, rollover provisions if property sale proceeds reinvested and ability to apply these tax deductions against non-rental income. The MURB was packaged and syndicated as a tax shelter investment for high worth individuals and thereby attracted equity investment into rental production, an impact that would be beneficial today.¹⁰

Enhancing access to ownership for first time buyers

The Liberal platform proposes to exempt new homes selling for under \$1 million from GST, when sold to first time buyers (FTBs). While helping to stimulate supply, this policy change will not immediately reduce the price for new FTBs due to the way the GST is administered. Unlike cars and other commodities where GST is added to the price, GST on new homes is absorbed into the negotiated price. The current rebate is then assigned to the builder, which along with input tax credits reduces the builder's GST liability.

This can have a positive impact on stimulating supply but will be quite limited and have minimal impact on affordability. Many FTBs buy existing homes, while newer homes attract higher income move-up buyers, drawing on their accumulated equity.

If the objective is to stimulate supply, allowing the exemption for all new homes below a locally determined threshold price (because a flat \$1m has different impact across lower and higher cost cities) would have a broader effect and encourage construction of moderately priced new homes (some of which may be suitable for seniors seeking to downsize – and thereby making larger family homes available to families).

If the objective is to improve access to ownership, which can then take some demand away from rental and help ease renter affordability issues, then specific mechanisms need to be

¹⁰ It should be noted that while associated with a surge in new rental starts, this coincided with a period of high demand from the baby boom generation forming new households and from a series of rental assistance programs (LD, ARP, CRSP), so the higher level of rental construction in 1970's is not solely attributable to MURB.

designed to address constrained access. Of course, lower purchase prices (already occurring in some markets as we go through a market correction) can help. It is important that any mechanism not simply add to price inflation, but in the current context of a softened market this is not a serious problem (enabling measures should be temporary and suspended as prices begin to inflate again).

The FES 2024 already added such a mechanism - As of December 15th, 2024, mortgage amortizations of 30 years are available for all first-time home buyers, and for any new construction purchase. The maximum purchase price for an insured mortgage is now \$1.5 million, up from the previous \$1 million.

In addition to revisiting these existing demand measures, we recommend that the government review the array of macro-prudential policies (stress tests and other qualifying criteria) that currently act to constrain access to mortgage credit, and where appropriate revise and reduce these constraints.

Another area to explore is the use of entry level assistance to FTBs. A shared equity model was introduced in 2019 (First Time Home Buyers Incentive Program), in an attempt to assist in this area. This secured very little take-up, in part because consumers did not wish to give up equity gains, the contribution was less than 10% and had upward lending limits that meant the program had limited utility in major markets. The program was not well promoted via lenders, who often sought to provide larger loans rather than encourage the adoption of the incentive. There are lessons in a CMHC evaluation that could help to revise and re-establish this approach to more directly target entry level purchasers.

There are successful affordable ownership non-profit entities across the country – some of whom accessed the Shared Equity Mortgage Providers Fund. Effort should be made to engage these entities to determine the supports required to scale, and to deliver in key markets across the country.

Observations on the proposed Build Canada Homes entity

A prominent proposal in the Liberal platform was the idea of creating a specific entity charged with getting more homes build quickly - a standalone agency called Build Canada Homes that will act as a developer to build affordable housing at scale, including on public lands. This proposal appears to have evolved from the 2024 Canada's Housing Plan.

Currently activities are spread across three federal entities, with policy development now centralized in Housing Infrastructure and Communities (HICC), and program delivery via both CMHC and Canada Lands. With this separation there is a need for close coordination and collaboration, but it is debatable whether a new (fourth) federal agency can effectively deliver given Canada's large and diverse geography.

The Federal Government is unlikely to foster the trust and collaboration required to frame and deliver these locally led strategies from Ottawa or even major regional centre offices (which would need to be created, akin to former CMHC regional and branch network).

A potential more effective approach would be to **Scale the Canada Builds approach through collaborative strategic housing and infrastructure partnerships that are locally led by groups of adjacent municipalities and that work** with provincial/territorial partners to align federal loans, public land, and supportive infrastructure with Provincial actions and municipal efforts to accelerate local planning and development approvals, and to rationalise or offset high development fees.

It is important to note that while the phrase “get back to directly building homes” was often used during the election, but the federal government has never actually had this role. It has historically **facilitated and supported** construction and affordable housing – for example in the immediate post war period it supported the creation and maturing of a construction and home financing system, and through the 1960’s and early 1970’s supported PT housing corporations who undertook development and management of public housing. Then through the mid 1970’s and early 80’s CMHC managed delivery of development and subsidy directed through non-profit and co-operative providers.

In these extensive supportive and facilitating roles between 1946 and 1986 CMHC established a network of branches across the country (at its peak in 1986 CMHC had 96 offices nationwide) all staffed with a range of expertise from appraisers, architects, inspectors, market analysts and project coordinators. They collectively provided strong local knowledge and relationships. That network and capacity no longer exists and would be difficult -- and arguably unnecessary -- to re-create.

It is also notable that when surfaced in Canada’s Housing Plan in the spring of 2024, the concept of Build Canada Homes was conceptualized very differently (see text box below), and sought to emulate the BC Builds initiative.

The 2024 proposal is clearly a very different approach than the statements during the campaign, and focuses on a more collaborative and coordinated approach, as recommended here, working through PT agencies and departments to direct federal loans, subsidies and lands. This captures the earlier suggestion (in the section of ending encampments) for a more collegial and collaborative approach. This is a more realistic approach than creating a new centralized federal entity. Alongside allocating and delivering CMHC loans and funding, this could embrace a partnership with Canada Lands to accelerate development on federal lands by working with municipalities to pre-zone and de-risk potential development sites for non-market affordable (and mixed market) housing.



Launching Canada Builds, a Team Canada Approach to Building Affordable Homes for the Middle Class, Including on Under-Utilized Public Lands across the Country

Canada Builds combines the federal low-cost loans with provincial and territorial investments to scale up construction on rental homes for the middle class, from coast to coast to coast.

We are leveraging the Apartment Construction Loan Program by making it available to provinces and territories that launch their own ambitious housing plans, similar to the recently announced BC Builds initiative. To access federal financing, provinces and territories will be expected to meet the benchmark set by BC Builds and take actions like:

- Complementing federal funds with provincial or territorial investments in housing;
- Building on government, non-profit, community-owned, and underused lands;
- Considering access to early childhood education and the expansion of non-profit and public childcare in the development process;
- Streamlining the process to cut development approval timelines; and
- Meeting the criteria of the Apartment Construction Loan Program, including affordability requirements.

BC Builds is a game-changing program. Canada Builds is taking the program national, focused on delivering affordable homes for hard-working Canadians.

[Extracted from Canada's Housing Plan 2024]

The 2024 proposal is clearly a very different approach than the statements during the campaign, and focuses on a more collaborative and coordinated approach, as recommended here, working through PT agencies and departments to direct federal loans, subsidies and lands. This captures the earlier suggestion (in the section of ending encampments) for a more collegial and collaborative approach. This is a more realistic approach than creating a new centralized federal entity. Alongside allocating and delivering CMHC loans and funding, this could embrace a partnership with Canada Lands to accelerate development on federal lands by working with municipalities to pre-zone and de-risk potential development sites for non-market affordable (and mixed market) housing.

Refining and refocusing the new supply focus

As noted, the repeated assertion that we need to at least double new home construction originates from the 2022 CMHC report and was reinforced by an Ontario Task Force report in

2022.¹¹ The context has changed, and new data should now be used to update these earlier targets.

The CMHC study was a theoretical econometric analysis that sought to answer the question “how much additional supply would be needed to restore affordability to the level that prevailed in 2004”, when there was a closer match between incomes and prices. The analysis generated a quantum that would require a reduction in 2021 home prices by 30%.

Other studies have identified a high level (and surge) in population growth as the basis for increase home building. Without a doubt there is a need to build to meet new demand – but the quantum of that demand and associated amount of new construction required needs careful assessment and recalibration in light of significant curtailment in immigration targets (especially temporary workers and students).

Since 2021, governments have called for doubling and tripling starts, but over the last three years (2021-24), the total new home starts have actually declined by 10%, and by much more in a number of centres in Ontario (CMHC Starts survey).¹²

An overlooked element of current discourse is the role of the market as a key stakeholder, but also as an impediment to expanded supply. For obvious reasons, the key actors in the market have no interest or desire to over-supply the market and drive prices down. And neither will lenders of CMHC insurance underwriters approve loans without adequate pre-sales. Additionally, a recent market correction has impacted the relationship between prices and profits vs. costs to build.

The result is a stalling of new construction, a rational response to market signals that include higher construction costs (materials and labour) and interest rates (relative to 2020 pandemic rates) and high levels of new completions. These supply factors are juxtaposed against weakening demand, especially from investors, who were a large factor in the record starts of 2022-23.

So, an immediate step would be to direct Statistics Canada, in collaboration with IRCC, to update population and household projections. Drawing from updated housing requirements (population and household projections and given expected market conditions and demand (current stalling in face of economic uncertainty) – what is a reasonable expectation for market generated supply at least in the short term (i.e. what the market believes can be absorbed). And what then is residual shortfall between gross requirements and the number the market can be realistically expected to produce.

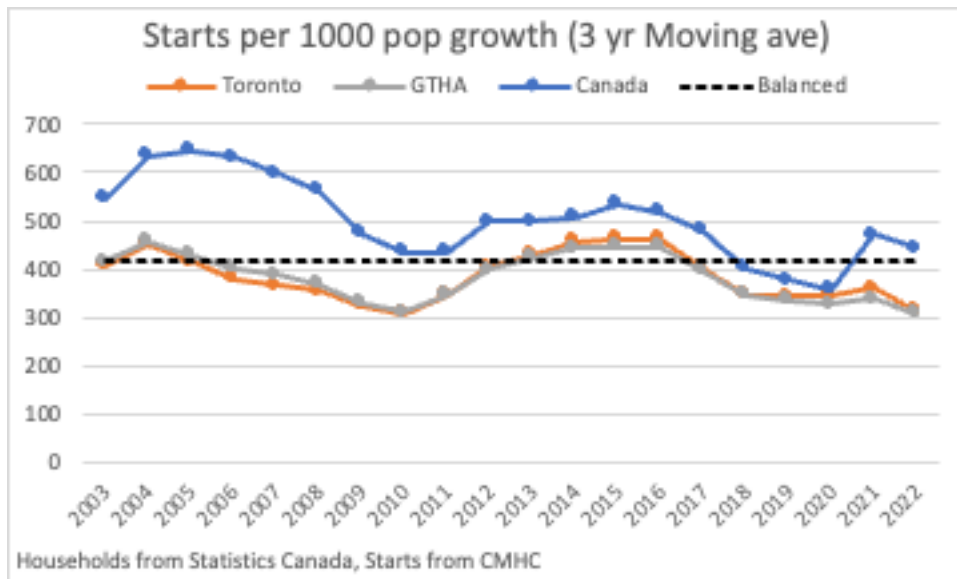
¹¹ <https://www.ontario.ca/page/housing-affordability-task-force-report>. Recommended doubling construction n to build 1.5 homes over 10 years (150,00 per year vs average of decade 2011-21 of 70,000)

¹² The national average is reduced by an increase in starts in some jurisdictions, notably in Alberta as interprovincial migration has shifted demand to Alberta).

Additionally, as discussed above, it is critical to go beyond gross supply to identify different market segments especially related to affordability for both first time buyers and lower income renters.

It should however be acknowledged that housing markets are complex and characterized by considerable churn – new construction does not need to be linked directly to first time buyers and lower incomes – new homes are often purchased by existing owners armed with substantial equity to afford higher new prices – while those at lower incomes occupy existing older homes.

Similarly, purpose build student housing, which can be developed on profitable, unsubsidized basis, can reduce the displacement effect that students seeking lower rents create in the existing rental market – leaving those homes available for lower income households, and reducing demand for new affordable homes. A targeted initiative to partner with both universities and colleges and developers to substantially expand new student housing (e.g. leveraging ACLP financing) should be considered.



The other element of this supply-affordability discourse is an assertion that there is a chronic long-term undersupply of new homes. It is true that starts were unable to respond to the sudden population growth surge in 2021-22, but it is incorrect to frame this as a chronic long-term issue.

When total household growth is compared to starts, the data reveal that, at a national scale, new home construction has typically exceeded requirements based on net household growth (balanced requirement in chart).¹³

Total supply fell below requirements in 2018-21 (based on three year moving average) although this was then offset by very low growth when the border was closed for the pandemic in 2020. That said, there has been a chronic problem in the GTA, with new construction consistently falling short – largely associated with very high levels of population growth driven by disproportionate flow of international immigration into the GTA.

Once the population projections and related requirements have been updated, these can be recalibrated against the potential mechanisms that can support and enable increased supply across all parts of the housing affordability continuum.

¹³ Households calculated using annual population growth with 2.4 persons per home, which is the current and historic lowest ratio (i.e. earlier years had larger household size so would have required fewer total homes). This does however exclude any additional homes required to replace demolitions and to address suppressed household formation.

Appendix: Housing Proposals in Platforms

Based on published platforms as well as statements during the campaign

Liberal

- Double the pace of construction to almost 500,000 new homes a year, [this is a recurring theme across party platforms]
- Eliminate GST for first-time homebuyers on new and majorly renovated homes under \$1 million,
- Reintroduce a tax incentive (MURB) which, when originally introduced in the 1970s, spurred tens of thousands of rental housing units across the country.
- Create a standalone agency called Build Canada Homes that will act as a developer to build affordable housing at scale, including on public lands.
- Catalyze the housing industry by providing over \$25 billion in financing to innovative prefabricated home builders in Canada, including those using Canadian technologies and resources like mass timber and softwood lumber,
- Providing \$10 billion in low-cost financing and capital to affordable home builders.
- Cut municipal development charges in half for multi-unit residential housing while working with provinces and territories to keep municipalities whole.
- Invest almost \$74 million to improve critical housing infrastructure, speed up housing development and help meet the growing demand for affordable housing in the North.
- Invest almost \$66 million to build, renovate and repair hundreds more homes across Nunavut, including for Indigenous Peoples and underserved groups.

Conservative

- Cut the GST on new homes up to \$1.3 million.
- End federal delays by cutting the bonuses, salaries and, if needed, firing the gatekeepers at the Canadian Mortgage and Housing Corporation if they fail to approve housing applications in 60 days or less.
- Tie federal funding to cities to the number of housing starts. Cities or municipalities would be expected to increase the number of homes they build by 15 per cent each year and municipalities that surpass that target would then receive bonuses. For every dollar of development taxes cut, a Conservative-led government would match that amount to a maximum of \$25,000 per home, for a total possible savings of \$50,000.
- Implement a NIMBY (not in my backyard) fine on municipalities that block construction because of "egregious" opposition from local residents.
- Sell off 15 per cent of federally owned buildings so the land can be used to build affordable homes.

New Democrat

- Double the pace of home building and get 3 million homes built by 2030 [500,000 per year].
- Put in place a \$16-billion strategy to support building affordable homes.
- Replace the housing accelerator fund with permanent funding for two new programs: the Canadian homes transfer and the communities first fund.
- Establish a target of 20 percent non-market housing in every neighbourhood.
- Build three million affordable homes in the next five years, including redesign and doubling the Public Land Acquisition Fund, investing \$1 billion over five years to build more rent-controlled homes.
- Set aside all suitable federal Crown land in order to build more than 100,000 rent-controlled homes by 2035.
- Speed up approvals on lands owned by the federal government to build homes sooner.
- Require the CMHC to offer low-interest, public-backed mortgages.
- More money for the Rental Protection Fund — a federal program that supports community housing projects. And ban corporate landlords from buying existing affordable rental properties and stop providing them with low-interest federal loans and mortgage loan insurance if they gouge tenants.
- Rescue “at-risk home-building projects impacted by tariffs,” with the aim of stabilizing housing markets and creating jobs in construction.
- Establish a Housing Insecurity Prevention Benefit to help 50,000 people in critical need find homes.

Green

- Triple Canada’s social housing stock over the next seven years by building 1.2 million permanently affordable homes.
- Mandate the Canada Mortgage and Housing Corporation (CMHC) to establish five regional prefabricated housing plants to mass-produce affordable housing.
- Remove GST from all affordable rental housing development.
- Require that the cost of federally funded housing be capped at 30 per cent of household income. Long-term, low-interest loans would be provided to nonprofits, co-operatives and public housing agencies.
- Stop corporations from buying single-family homes.
- Use covenants to ensure housing built with public money stays affordable “forever.”
- Close loopholes to prevent the use of real estate for money laundering.
- Eliminate unfair tax advantages for real estate investment trusts (REITs).
- Push for the creation of intergenerational co-housing.
- Require all provinces and territories to impose strong rent and vacancy controls.
- Support Indigenous-led housing by transferring federal land to community-driven housing solutions.

- Expand federal funding for youth shelters and transitional housing.

Bloc Québécois

- Transfer \$1.2 billion from the Canada Housing Infrastructure Fund to Quebec without conditions and integrate the funding to an existing program or use it for a new one that would better serve municipalities.
- GST rebate on new homes for first-time homebuyers and eliminate the GST for services related to the purchase of a first home, such as building inspections.

People's Party

- Stop accepting new permanent residents to Canada until the housing crisis has cooled down.
- Privatize or dismantle the Canada Mortgage and Housing Corporation and change the Bank of Canada's inflation target from two per cent to zero per cent.
- Would work with provinces to curb speculation and money laundering by foreign homebuyers.