

ECONOMIC VIEWPOINT

Global Housing Supply Success Stories: A How-To for Boosting Home Construction in Canada

By Jimmy Jean, Vice President, Chief Economist and Strategist, Randall Bartlett, Senior Director of Canadian Economics and Kari Norman, Economics Document Production Specialist

Highlights

- ▶ Housing in Canada is in crisis. As the situation has become more serious, all levels of government have been forced to recognize that something must be done urgently. But while sharply higher supply is widely recognized as the path forward, there is little agreement on how to make that happen.
- ▶ Governments can take numerous measures to increase the supply of housing in Canada. Those discussed in this report are extensive but are by no means exhaustive. The most important takeaway from this analysis is that there is no silver bullet that will solve Canada's housing crisis. Instead, it is a combination of different policies introduced by all levels of government in a coordinated fashion that will help to increase homebuilding.
- ▶ At the federal level, providing transfers to incent homebuilding is key. The Housing Accelerator Fund is a good start. However, it's insufficient to move the needle and has been woefully lacking in its execution. The federal government should listen to other levels of government to improve the targeting of transfers and minimize the frictions that are preventing more homes from being built. It should consider other tax incentives as well, such as foregoing the GST/HST on purpose-built rental construction. The Government of Canada must also ensure population growth advances at a pace that is sustainable and doesn't further erode housing affordability. Prioritizing immigrants with skilled trades training would help offset the aging workforce in construction.
- ▶ At the provincial level, giving municipalities the freedom to introduce measures that will support an acceleration of residential investment in their communities would help considerably. Reducing development charges on some types of housing may have a positive impact, but municipalities shouldn't be left holding the bag for lost revenues. The boon in short-term rentals must also be addressed, with the Government of Quebec's recent introduction of provincial licensing possibly providing a template for the rest of the country.
- ▶ Many communities are already making great strides in certain areas, but more needs to be done to reduce barriers to home building. Ending exclusionary zoning and moving toward by-right approvals should be a priority to support increased density. And encouraging retail-to-residential redevelopment of existing greyfield sites such as underused shopping malls could add a lot more units in relatively short order. Sharing and implementing best practices from across the country and around the world would also go a long way to making sure everyone in Canada has an affordable place to call home.
- ▶ Industry has a role to play as well. Construction sector productivity has been lagging behind the general economy for some time. From prefabricated homes to preapproved plans made available by municipalities, there is a lot that can be done to improve productivity. But construction costs from interest rates to inputs have risen considerably in the last couple of years. Governments can use policy to offset this through lower taxes and/or subsidies.

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Housing in Canada is in crisis. The supply of housing has been unable to keep up with our rapidly growing population. No type of housing has been immune from the resulting erosion in affordability. Even as home prices fell from the unprecedented levels reached during the pandemic on the back of high borrowing costs, rents for new leases soared. And in recent months, the situation has been made even worse by a rebound in existing home prices which our [analysis](#) suggests will have some staying power. As the situation has become more serious, all levels of government have been forced to recognize that something must be done urgently. But there is no agreement on what to do. (See our recent [research](#) on the housing affordability crisis for more information.)

This note provides an overview of policies that have been implemented around the world to successfully increase the stock of housing, along with accompanying local and international case studies and examples where possible. We hope it will help to inform the current debate at all levels of government in Canada and support actions being taken to increase the housing supply.

Policies for Increasing the Housing Supply

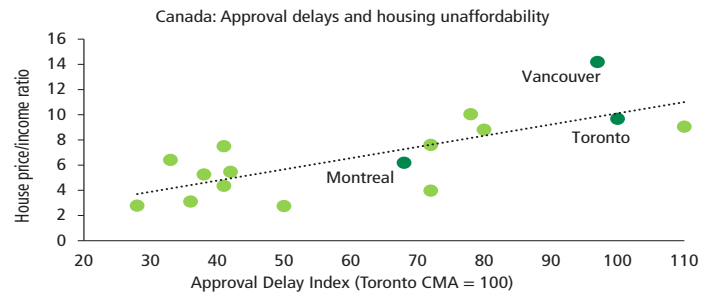
The most important thing any level of government can do under any circumstance is to minimize the negative impact of its policies on its residents. “First, do no harm” should be the mantra of policymakers. In the context of housing, this starts by reducing barriers to building new housing and expanding or converting existing structures to housing. But if that proves insufficient to build enough housing to meet the needs of its residents, governments can also provide incentives to build more purpose-built rentals and market housing as well as deeply affordable subsidized housing.

Reducing Barriers to Increasing the Housing Supply

The first thing policymakers should look to do is eliminate regulatory and policy barriers that make it more expensive to develop new housing by increasing input costs and/or delaying construction. To illustrate the importance of minimizing regulatory and policy barriers, a recent report by the Canadian Mortgage and Housing Corporation (CMHC, 2023) found that approval delays are linked to lower housing affordability (graph 1). Moreover, Canada has among the worst construction permit delays of any OECD country (graph 2). Reducing project delays not only gets people moved into homes faster, but also reduces costs, improves safety and increases quality of construction.

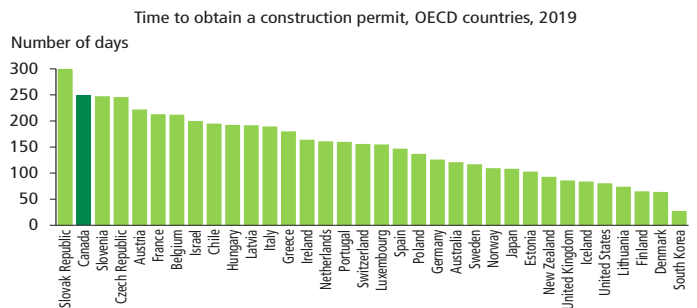
Another approach to reducing barriers to building is eliminating onerous ancillary construction requirements. A good example is parking minimums for new residential developments. In Toronto, the Residential Construction Council of Ontario has noted that an average of one-third of parking spaces are left unsold in new condo projects. In 2021, Toronto amended its bylaws to remove

GRAPH 1
Approval Delays Are Linked with Lower Housing Affordability



Note: This graph shows municipalities that responded to the 2022 Municipal Land Use and Regulation Survey. House price and household income data obtained from the 2021 Canadian Census. Sources: Canada Mortgage and Housing Corporation and Desjardins Economic Studies

GRAPH 2
Canada Has Long Construction Permit Delays



Sources: World Bank and Desjardins Economic Studies

most requirements for new developments to provide a minimum number of parking spaces.

Another avenue to reduce barriers to homebuilding is scrapping exclusionary zoning that prevents multifamily housing in residential neighbourhoods. Toronto made a step in the right direction in May 2023 by adopting new zoning and bylaw amendments allowing four-unit multiplexes city-wide. Other cities around the world have also experimented with ending or reducing exclusionary zoning. But the results have been mixed, with many jurisdictions reporting only a modest increase in density due to changes similar to those in Toronto. Take the 2018 reforms to exclusionary zoning in Minneapolis, where the number of duplexes, triplexes and fourplexes increased from 13 in 2015 to 53 in 2021. As one commentator noted, it’s “[n]ot the stuff of revolutions, and certainly not enough to address the larger supply crunch.” (Blumgart, 2022)

In part for this reason, some housing advocates have argued that Toronto needs to go further given the severity of its housing affordability crisis. This would involve approving the construction of apartment buildings with many more than four units in residential neighbourhoods, potentially on a “by-right” basis. The Report of the Ontario Housing Affordability Task

Force advocated for exactly that. It recommended “as of right” zoning up to unlimited height and density in the immediate proximity of individual major transit stations and six to 11 storeys on any streets with public transit (including bus and streetcar routes). Other Canadian cities that have experienced a similar erosion in housing affordability may want to consider following suit. Research has found that by-right approvals in California could decrease time to build by up to 30%. (Alameldin and Garcia, 2022)

The flipside of eliminating regulatory and policy barriers is eliminating market failures. Indeed, policy can be used to encourage desired activities while discouraging activities with negative spillovers to the community. For instance, landowners in Finland responded positively to an increase in taxes on vacant urban land by building more single-family housing. (Lyytikäinen, 2009) Similar Canadian examples—including the new federal Underused Housing Tax, Toronto’s Vacant Home Tax and Ottawa’s Vacant Unit Tax—are based on the value of vacant property and are intended to disincentivize holding properties that are not being lived in or rented out. Taxes or outright bans on foreign ownership have similar aims, although these have been less effective, and some have had unintended consequences on the housing supply.

Reducing Barriers to Providing Rental Housing

The focus of our analysis so far has been on reducing barriers to building more owner-occupied housing. But also important is reducing regulatory barriers to providing rental housing. Rental laws and regulations that have anti-landlord provisions and procedures can make it difficult to be a landlord and can reduce the rental supply in the process.

One possibility in this regard is to increase occupation densities in the current stock. We’ve seen progress in Toronto and other Canadian cities such as Ottawa and Hamilton. According to CMHC (2023), “Secondary suites and laneway homes continue to represent an important source of new rental supply...” in some regions. But while all new housing helps, this is really just a drop in the bucket. For example, the uptake for laneway housing so far has generally been modest in cities where bylaw changes have been introduced, with high construction and permitting costs and extensive building requirements playing a dissuading role.

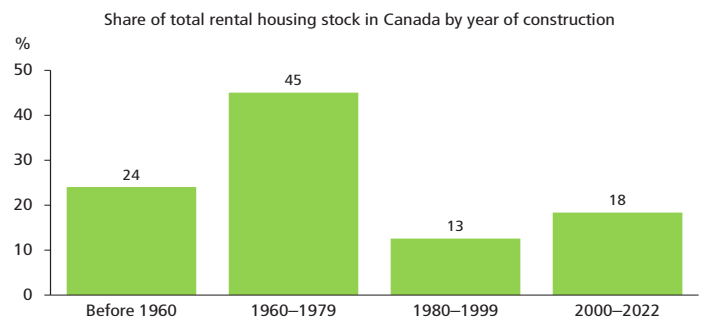
At the same time, the construction of purpose-built rental apartment buildings has not met demand. In recent decades, condominium construction has vastly outpaced the construction of purpose-built rentals due to higher returns, lower risk and lower property taxes. (Cheung, 2014) Changes in taxation policies in the 1970s and 1980s to make purpose-built rentals less favourable than investment in condominiums—including ending a capital gains tax exemption—have been shown to be a key driver of the collapse of rental apartment

construction. (Smith, 1983) As a result, over two-thirds of Canada’s purpose-built rental housing stock is over 40 years old (graph 3). While it could be argued that rented condo units have filled the space previously occupied by purpose-built rental apartments, they are generally not considered to be an ideal substitute. Indeed, our recent analysis on housing affordability demonstrated the average size of condominiums is decreasing (graph 4) while the cost per square foot is increasing.

To encourage the construction of purpose-built rentals, a recommendation that has drawn support from across the political spectrum in Canada is deferring or foregoing the Goods and Services Tax (GST) or Harmonized Sales Tax (HST) on purpose-built rental housing projects. This includes some provincial governments, such as Ontario. The impact is potentially significant, and it’s also relatively simple to implement. Condo developers get paid at least in part in pre-construction sales. In contrast, rental apartment developers pay the HST and other construction costs up front and then only make their money back slowly over many years through rents.

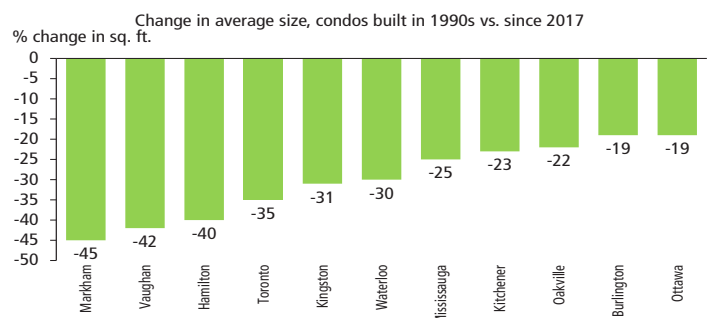
Policies that defer, reduce or waive property taxes or development charges and fees on new rental construction would also promote additional supply. Right now, upfront

GRAPH 3
Over Two-Thirds of Purpose-Built Rental Is 40+ Years Old



Sources: CMHC and Desjardins Economic Studies

GRAPH 4
Condos Keep Getting Smaller



Sources: Municipal Property Assessment Corporation and Desjardins Economic Studies

development charges, property taxes and other fees are due years before any rental income is received. According to the CMHC (2022), development charges in Toronto range between 9% and 13% of total construction cost per unit, with the highest development charges on rowhouses and the lowest on single-detached homes (graph 5). And while development charges in Vancouver and Montreal are lower, they also apply disproportionately to multifamily homes. Vancouver's Rental 100 Program waives Development Cost Levies as a key incentive to increase purpose-built rental construction. After the introduction of this program, rental housing accounted for 36% of total housing starts between 2013 and 2018 compared to only 11% between 2007 and 2012. This said, the jury is still out on whether lower development charges have a meaningful impact on reducing home prices. What we do know is that development charges are a lucrative and needed source of revenue for municipalities, particularly when provinces have shifted greater financial responsibilities onto cities. If they were to be reduced or eliminated, cities would need alternative sources of income.

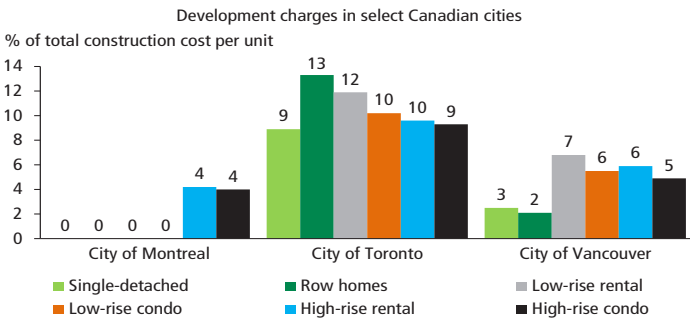
funds. As such, the federal government needs to consult with municipalities to identify where the pinch points are to building and minimize these as quickly as possible. At the end of the day, the Government of Canada should make sure that communities that quickly build housing to meet the needs of their residents are rewarded for it.

Measures to Support Deeply Affordable Housing

Much of the discussion thus far has focused on market housing or rental stock. This is an important part of the conversation, as that is where most Canadians live. Building housing to be sold or rented at market rates frees up lower-cost housing for Canadians of more modest means. But this doesn't forgo the need to increase the supply of deeply affordable housing to support the most vulnerable Canadians.

Inclusionary zoning (IZ) is a policy that has been tried to support the development of deeply affordable housing in Canada and elsewhere. It requires that new real estate development projects include some affordable housing. IZ requirements in major Canadian cities typically range between 20% and 30% of units set aside. However, while mandatory inclusionary zoning is practiced in the US, municipalities in Canada only have the power to put pressure on developers to include IZ by, for example, threatening to withhold permits or charging fines. However, this approach has a mixed track record. Instead, provinces have the legal authority to impose a full and mandatory affordable housing obligation if they so choose. In light of this, communities can also consider density bonuses, which allow developers to build more units on a given piece of land in exchange for including below-market-price units in the project. However, if density bonuses are used, the process should be made fully transparent, as the current system makes it challenging for builders to plan for this unknown cost that can come later in the development process. (FRPO, 2015) Another consideration in this context is direct supply-side subsidies to builders in exchange for them building more affordable units.

GRAPH 5
Development Charges Are Disproportionately Applied to Density



Sources: Canada Mortgage and Housing Corporation and Desjardins Economic Studies

To encourage the construction of purpose-built rentals, governments could introduce or expand other financial incentives. Low-interest loans such as those offered by CMHC (2020) and tax abatements to lower overall capital costs are just a couple of examples. Other suggestions include deferred capital gains tax and a recaptured capital cost allowance on the sale of rental housing if the proceeds are reinvested in rental stock. These measures and others like them could help to level the playing field between purpose-built rentals and condominiums. Tax preferences could also be given to new low- and mid-rise apartment buildings and other forms of missing-middle housing.

In addition to inclusionary zoning, other approaches have been tried to incorporate deeply affordable housing into large development projects. An oft-cited Canadian success story of cross subsidies in master planning is the Regent Park Revitalization Plan. Meanwhile, an example of non- or mixed-profit entrepreneurship is limited-profit housing, which is popular in some European cities such as Vienna.

An alternative to tax incentives to encourage purpose-built rental investment is subsidies, such as the federal government's Housing Accelerator Fund. But this measure took far too long to launch, had a very time-limited application window and risks being overly complicated, leading to delays in transferring the promised

To prevent the housing stock from being eroded by a lack of maintenance, improvements to rental and affordable housing must be ongoing. Policies should focus on assisting property owners to meet codes rather than penalizing them. Tax incentives or access to capital should be considered in exchange for the owner's commitment to maintaining affordable rents.

[Income Transfers and Price Controls](#)

The CMHC considers housing to be affordable when the ratio of housing cost to pre-tax income is 30% or less. This ratio depends on both the price of housing and the level of incomes, and we have discussed the former extensively. But the incomes of low-income households can also be shored up through targeted transfers from governments, for example. This is done directly today through the Canada Housing Benefit, with the transfer targeted toward the lowest income households. However, measures like this have raised the concern that they could boost rental prices, particularly in markets characterized by a lack of housing supply.

On the other hand, rent controls—often introduced in the hope of keeping housing affordable—should be avoided as they tend to lead to underinvestment in new and existing housing. Perversely, rent controls protect long-term tenants regardless of their socioeconomic status rather than supporting youth, new low-income tenants, immigrants and other vulnerable groups.

[Repurposing Existing Assets](#)

Coming out of the COVID-19 pandemic, commercial real estate vacancy rates have remained elevated as companies and their employees have opted for hybrid or remote work. This has led to a robust discussion around recycling and reusing commercial assets. Different approaches have been taken both before and after the pandemic, from Calgary to New York and London, ON to Germany. In all cases, the conversions required across-the-board relaxation of zoning codes. However, some have pointed out the complexity of converting commercial buildings to residential spaces given current zoning requirements. Indeed, only 10% to 20% of commercial buildings in Canada can be converted. (Canadian Urban Institute, 2023) Instead, empty office buildings may be better suited to more congregate living spaces such as student or senior housing, as kitchens, bathrooms and other facilities can be centrally located.

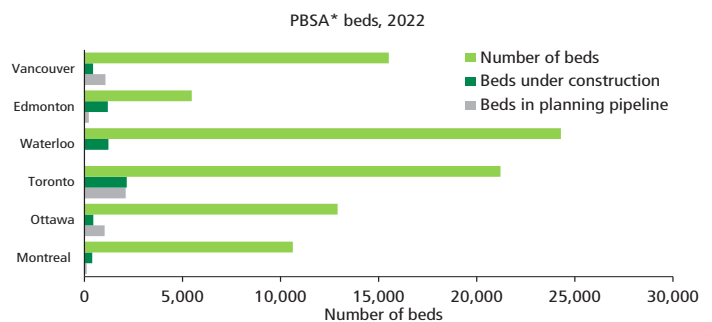
Another tack that is being taken by developers is retail-to-residential conversions. There are currently a number of older shopping malls proposed for this type of redevelopment in the Greater Toronto Area. Retail-to-residential conversions have gained significant momentum in the US as well. This is a step in the right direction, as lands around existing shopping malls are generally underutilized while these retail spaces are typically on public transit routes and provide access to goods and services. Retail-to-residential redevelopment of existing greyfield sites also provides an opportunity for large-scale investment by institutional investors, such as Canadian pension funds.

Underutilized public lands can be repurposed for housing, be it deeply affordable housing or otherwise. In 2018, the federal government announced the Federal Lands Initiative as part of the National Housing Strategy, which dedicated \$200M to support

the transfer of surplus federal lands and buildings at discounted or no cost to be developed or renovated for use as affordable housing. Provinces and municipalities have also been leveraging underutilized land to support the building of affordable housing and working with industry and the federal government to remediate brownfield sites.

Post-secondary campuses also potentially have land available for additional purpose-built student accommodation (PBSA). Students typically look for budget accommodation, thus displacing lower-income tenants in the off-campus rental housing market. With centralized cafeterias and common areas in lieu of full in-unit kitchens and living rooms, PBSAs can achieve even higher densities than typical rental apartments. As of 2022, 10,000 beds were under construction and another 8,000 were in the pipeline (graph 6). But this won't be nearly sufficient to meet the demand of 1.5 million student renters. PBSA houses only about 12% of the total student population in Canada, compared to over 30% in the US and UK. Despite the need for additional student housing, post-secondary institutions are often limited in their ability to borrow from third-party lenders. PBSA could be a great opportunity for public-private partnerships, as developers are looking for a return on investment.

GRAPH 6
Purpose-Built Student Accommodation Isn't Keeping Up with Demand



* PBSA: Purpose-built student accommodation
Sources: Bonard and Desjardins Economic Studies

[Reducing the Cost of Homebuilding](#)

Much like Canadian consumers, homebuilders are facing higher costs that are both eroding their profitability and pushing up the cost of new and existing housing. Elevated interest costs are all too familiar to Canadians. But material and services costs for construction have also risen considerably. Indeed, inflation of building construction materials has outpaced general inflation in the Canadian economy coming out of the pandemic (graph 7 on page 6). On top of this, wage growth in the construction sector has outpaced that of the general economy, albeit marginally, as the job vacancy rate in the construction sector has been higher on a sustained basis than in the broader economy since the

beginning of the pandemic (graph 8). Further, our recent [analysis](#) on housing affordability found that the average age is increasing faster among skilled tradespeople than it is in the broader labour market.

Provincial governments can lend a hand in helping to lower the cost of homebuilding by [easing credential recognition for immigrants with skilled trades experience](#). This has been a perennial issue even with tradespeople trained in Canada, let alone abroad, as provinces put up significant barriers to credential recognition within Canada. At the same time, the federal government should consider expanding express entry for Canada’s Federal Skilled Trades Program to increase the number of immigrants and non-permanent residents in skilled trades occupations. Our recent [analysis](#) on the impact of immigration on the Canadian economy found that housing affordability is likely to erode further if newcomers continue to arrive in Canada at the current pace. The surge in non-permanent residents over the past year, including temporary foreign workers and foreign students, is exacerbating the pressure on the housing market. That’s because, if history is any guide, the housing supply is unlikely to keep up. More skilled tradespeople are needed immediately to meet the urgent need for additional housing.

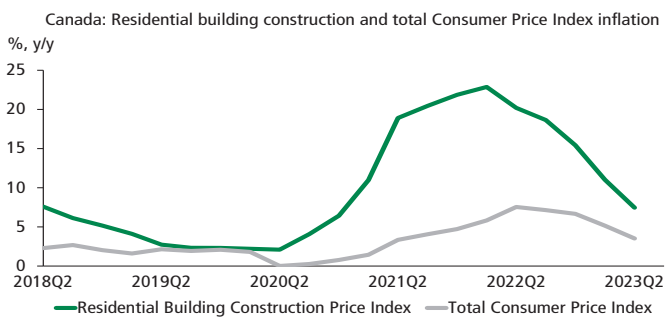
[Improving the Productivity of Homebuilding](#)

The construction sector is notoriously unproductive (graph 9). Local government support for [modular and prefabricated housing](#) would go a long way to increasing the efficiency of home building as illustrated by a recent study of three modular housing projects in BC and Iqaluit. (CMHC, 2021) Other advanced economies like Australia and Sweden have made strides in this regard. A study for Los Angeles County found off-site construction can reduce construction time by 10% to 30% and total development costs by 10% to 20%. (Pullen, 2021)

Activity in the construction industry could be accelerated even more rapidly if [building plans were pre-approved by building authorities](#) to ensure building code and zoning compliance. A recent example can be found in the Regional District of North Okanagan (2023). There, the pre-approved “designs offered have been reviewed for British Columbia Building Code compliance and preliminary zoning compliance with all participating electoral areas and municipalities [...]. When purchasing these plans, you benefit from a quicker application review process and quick and easy access to award-winning designs at a lower cost than traditional building plans.”

There is also an opportunity to increase the supply and density of housing while reducing building costs by employing [compact planning strategies](#) in greenfield and large redevelopment sites. Extensive environmental, social and economic benefits of compact planning strategies have been seen in places ranging from France to China and New Zealand to the Netherlands.

GRAPH 7
Residential Construction Inflation Has Outpaced General Inflation



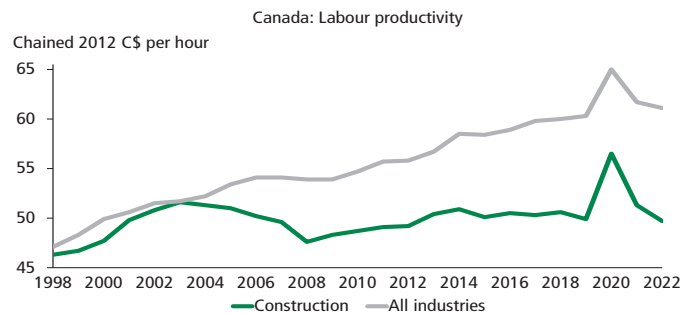
Sources: Statistics Canada and Desjardins Economic Studies

GRAPH 8
Labour Shortages Have Been Particularly Acute in Construction



sa: Seasonally adjusted
Sources: Statistics Canada and Desjardins Economic Studies

GRAPH 9
Construction Sector Productivity Has Been Falling Behind



Sources: Statistics Canada and Desjardins Economic Studies

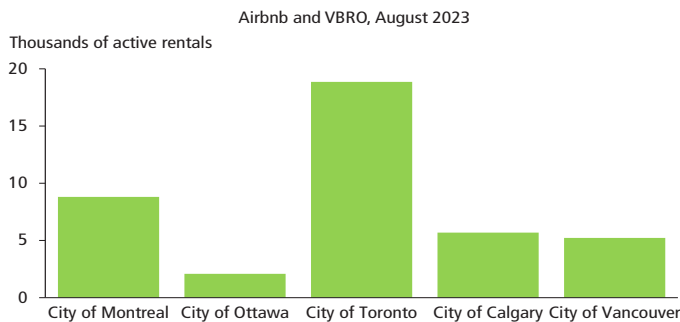
Restricting Short-Term Rentals of Non-principal Residences

According to recent analysis from Airbnb, “[i]n Toronto, nearly 70 percent of the city is home to Airbnb listings but no hotel presence showing that Airbnb is helping to disperse travel beyond high-traffic areas and tourism hubs found in the downtown core. [...] In Vancouver, Airbnb listings in areas without hotels represent more than 80 percent of the city [...]” (Airbnb, 2023) This is particularly notable as Toronto and Vancouver are the most expensive and unaffordable cities in Canada. According to AirDNA, the City of Toronto has over 18,000 short-term active rental listings on Airbnb and Vrbo (graph 10). While Toronto requires short-term rental operators to register with the City of Toronto, there are only about 7,500 addresses on file. Many cities have taken measures to restrict short-term rentals, but with mixed results. More recently, Quebec passed legislation to crack down on illegal tourist accommodation, which will require short-term rental platforms to verify that properties advertised on their platforms are properly licensed. If they aren’t, the platform could face financial penalties.

Conclusion

There are a lot of measures governments can take to increase the supply of housing in Canada. The measures discussed here are extensive but by no means exhaustive. The most important takeaway from this analysis is that there is no silver bullet that will solve Canada’s housing crisis. Instead, it is a combination of policies introduced by all levels of government in a coordinated fashion that will help to increase the pace of homebuilding. The federal government should provide transfers to incent homebuilding while ensuring population growth at a pace that is sustainable and doesn’t further erode housing affordability. At the provincial level, giving municipalities the freedom to introduce measures that will support an acceleration of residential investment in their communities will help considerably. And given municipalities are creatures of the provinces, a carrot and stick approach should be used to persuade all level of government to get shovels in the ground. Many communities are already making great strides in certain areas, but more needs to be done to reduce barriers to home building, such as scrapping exclusionary zoning. Sharing best practices from across the country and around the world will also go a long way to making sure everyone in Canada has an affordable place to call home.

GRAPH 10
Restricting Short-Term Rentals Would Open Up Additional Housing



Sources: AirDNA and Desjardins Economic Studies

TABLE 1
Housing Supply Measures

Policy measure	Sector of responsibility				Impact on net housing supply	Ease of implementation
	Federal	Provincial	Municipal	Industry		
<i>Reducing barriers to increasing the housing supply</i>						
Eliminate regulatory and policy barriers		X	X		Moderate	Moderate
Eliminate onerous ancillary construction requirements		X	X		Moderate	Easy
Scrap exclusionary zoning to increase density of low-rise		X	X		Low	Moderate
Increase as of right zoning for mid- and high-rise		X	X		High	Difficult
Eliminate market failures		X	X		Moderate	Moderate
<i>Reducing barriers to providing rental housing</i>						
Increase occupation densities in the current stock		X	X		Low	Moderate
Defer or waive HST on purpose-built rental construction	X	X			Moderate	Easy
Defer, reduce or waive development charges and fees		X	X		Moderate	Moderate
Encourage investment through financial incentives	X	X	X		High	Easy
Implement subsidies	X	X	X		Moderate	Easy
<i>Measures to support deeply affordable housing</i>						
Increase inclusionary zoning		X	X		Moderate	Moderate
Implement direct supply-side subsidies to builders	X	X	X		Moderate	Moderate
Implement cross subsidies in master planning	X	X	X		Moderate	Moderate
Increase non- or mixed-profit entrepreneurship	X	X	X		Moderate	Moderate
Improve rental and affordable housing	X	X	X		Low	Moderate
<i>Income transfers and price controls</i>						
Target transfers from governments	X	X	X		Moderate	Easy
Implement rent controls		X	X		Negative	Easy
<i>Repurposing existing assets</i>						
Recycle and reuse commercial assets		X	X	X	High	Difficult
Increase utilization of public lands	X	X	X		Moderate	Moderate
Build more purpose-built student accommodation		X		X	High	Moderate
<i>Reducing the cost of homebuilding</i>						
Ease credential recognition for immigrants with skilled trades experience	X	X			Moderate	Easy
<i>Improving the productivity of homebuilding</i>						
Increase modular and prefabricated housing		X	X	X	Moderate	Moderate
Pre-approve building plans by building authorities		X	X	X	Moderate	Easy
Introduce compact planning strategies		X	X		Low	Easy
<i>Restricting short-term rentals of non-principal residences</i>						
Restrict short-term rentals		X	X		Moderate	Easy

Note: This table is broadly modelled after that published by the Ontario Chamber of Commerce in its recent housing policy report, *Home Stretched: Tackling Ontario's Housing Affordability Crisis Through Innovative Solutions and Partnerships* (2023).

Source: Desjardins Economic Studies

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