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To build more rental housing, developers say they need this to happen

Canadian developers of purpose-built rental housing want federal tax exemptions extended to all 128,000 units under development, writes Dave Wilkes.

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Purpose-built rental projects, already under construction, are facing a difficult road, says Dave Wilkes. Labrynthe / Shutterstock.

On Sept. 14, the Federal Government announced a new initiative to encourage more construction of desperately needed purpose-built rental housing by exempting it from the federal portion of the HST. The program was quickly matched by Ontario, improving the economics of building this kind of housing in an extremely challenging environment, where inflation and interest rates are relatively high. Unfortunately, by choosing to apply the incentive only to projects that start

after the announcement date, the initiative will not achieve its full potential, not maximize the completion of purpose-built rental housing units now in production and will undermine the ability for the sector to reinvest.

Purpose-built rental housing is built specifically for long-term rental accommodation. It forms a vital segment of Canada's housing stock. Unlike other forms of rental, it is professionally managed, provides security of rental tenure, and, in many cases, provides unit sizes suitable for families.

The heyday of building purpose-built rental was the late 1960s to early 1970s, when a federal tax incentive made it an attractive form of housing to build. When the tax program ended, it became less attractive to construct, and, as a result, there has been considerably less built.

Over the last few years, there has been tremendous inflation in the cost of construction. According to Altus Group, inflation in building costs for apartments from Jan. 1, 2021 to Jan. 1, 2023 was 63.5 per cent. Single-family was even more.

This means that all home construction projects underway are challenged, and purpose-built rental housing is even more so, due to its unique economics. Simply put, purpose-built rental projects with shovels in the ground are facing a very difficult road. Developers may be facing the stark choice of halting the project, or converting what would have been rental units to condominiums for sale.

Following the announcement of the federal tax exemptions, the largest Canadian developers of purpose-built rental housing (nearly 90) wrote to the federal minister of finance requesting that the government extend the exemption, not only to projects commenced after Sept. 14, but to all 128,000 purpose-built rental housing units now under development. These companies have indicated they support the requirement that any savings realized by extending the measure to units under construction be reinvested in new purpose-built rental housing construction, effectively further jump-starting more projects.

The Building Industry and Land Development Association supports this request as a vital step to adding supply. As all Canadians now know, we desperately need more housing supply in all forms — to buy and rent. Extending the tax rebate to purpose-built rental housing units now under construction will maximize the benefits of this new government initiative.