Ontario Developer Survey 2024:

Perspectives from a Sector on Edge

STRATEGY CORP

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The StrategyCorp Institute of Public Policy and Economy provides thought leadership on important public policy issues facing Canadians and their governments across the country by combining economic and policy expertise with key political insights.

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Introduction

Since 2016, StrategyCorp has conducted an annual survey of municipal Chief Administrative Officers (CAOs) and City Managers from across Ontario which featured the voices of senior municipal administrators. In recent years, StrategyCorp has been expanding our surveys and reports to include Ontario Chiefs of Police, Ontario Police Services Board Chairs, Ontario Hospital CEOs, and Ontario Non-Profit Housing CEOs.

With an ongoing housing supply crisis, StrategyCorp identified that the direct experience of private sector homebuilders was underexplored. The objective of this report is to highlight their perspectives and insights as the industry navigates challenging circumstances.

The overwhelming majority of housing in Ontario – fully 95% – is delivered by private companies, meaning the development sector plays a crucial role in meeting the province's housing goals. If Ontario is to meet its objective of building 1.5 million new homes by 2031, it can't do it without a robust development sector firing on all cylinders. There are significant differences of opinion between industry and government on the best path forward. Fostering mutual understanding between the development industry and governments will be critical to achieving this ambitious goal.

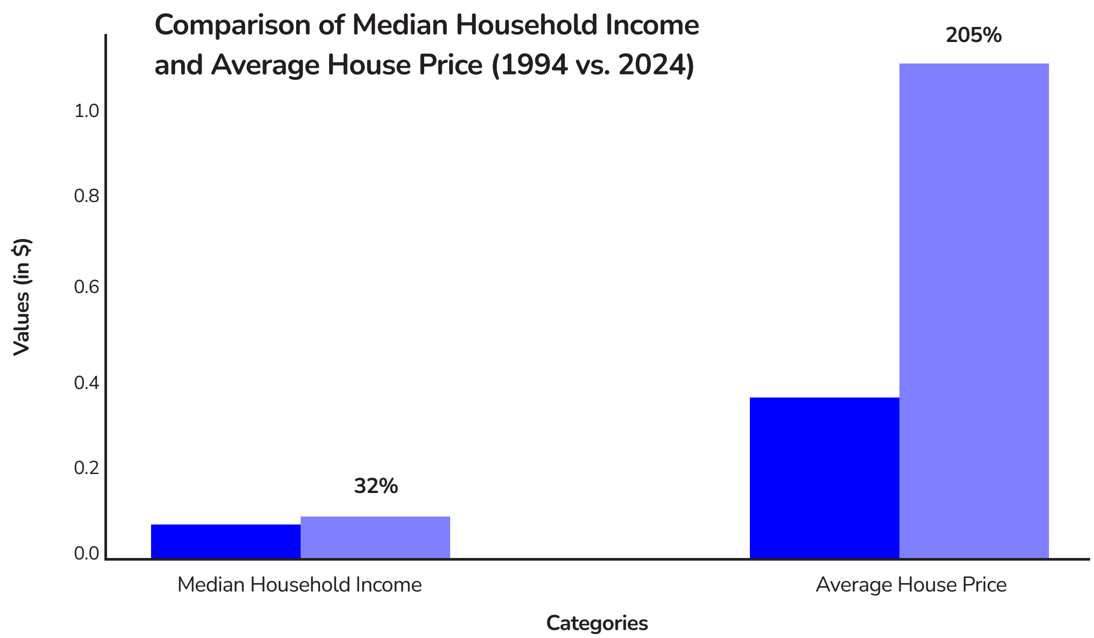
Ontario continues to grow rapidly, and while this is a good problem to have, it means that our policies and regulations must adapt to suit the new reality. The past two decades have been a period of consistent and significant change in Ontario's land use planning rules and the development industry, alongside massive population growth.

At the turn of the millennium, Ontario's population was just over 11 million people — today, it is 16 million and continues to grow faster than nearly anywhere else in the country. Under its medium-growth projection, Statistics Canada projects that Ontario will surpass 20 million people by 2048. While the federal government has recently adjusted its immigration targets, which may slow some of the short- to medium-term population increase, the fundamental patterns underpinning this growth are not likely to change.

The pace of housing construction has not kept pace with population growth, leading to a housing supply crunch that is significantly impacting affordability and further downstream effects which impact the quality of life and economic growth prospects for the province. The fundamental economic equation of supply and demand cannot be ignored, and the lack of housing supply has widened the gap between median incomes and home prices.

However, it would be overly simplistic to ignore other factors that have contributed to the deepening affordability crisis in more recent history. The negative impacts of high interest rates on builders and end users — as well as on investor demand in homebuilding — the effects of the COVID-19 pandemic and geopolitical conflicts on construction supply prices, increased labour costs and frequent changes to government planning policies and regulations all create headwinds which make building more housing at affordable prices more challenging.

To that end, StrategyCorp presents this report as a starting point for discussion about the current state of Ontario's development sector and its connection to the housing crisis. Our aim is to present the perspectives of development industry leaders and to spark a conversation about durable solutions that can be implemented to rapidly increase housing supply across Ontario.



Survey Methodology

Over the summer and fall of 2024, StrategyCorp conducted interviews with 21 real estate development executives across Ontario. These participants were selected for this report as they are responsible for investment and project development decision-making for their firms.

Taken as a group, participants currently have more than 109,200 approved homes in their development pipelines. More than half of these units are not currently economically viable to build. These units are spread out across the Greater Toronto and Hamilton Area (GTHA), Ottawa and parts of Eastern Ontario.

As with all our surveys, StrategyCorp made two promises to the participants:

- **We committed to faithfully and accurately record and report what they told us.**
- **We assured them that their comments would remain non-attributable.**

It is always our intent to represent the voices of participants as we heard them: honest and forthright. In some cases, quotes have been edited for brevity, readability, or to protect confidentiality, while remaining faithful to the sentiment expressed.

This report is qualitative research. While this survey is not intended to serve as a representative sample, we do consider the conclusions to be reflective of the views of the development sector at this point in time.

We also acknowledge our role in collating, grouping, and analyzing the data.
We believe the participants provided us with a candid snapshot of the trends and challenges facing the development industry and that we have done justice to what we heard in the pages ahead.

We hope our findings will invite further discussion about the state of Ontario's development sector and provide useful context and insights for decision makers at all levels of government.

Note: Over the course of conducting interviews, the Bank of Canada announced four interest rate cuts in June, July, September, and October, bringing the interest rate down from 5% to 3.75%.

Note: While this report was being written, the Government of Canada announced that they would be adjusting their immigration targets as follows:

- From 500,000 permanent residents to 395,000 in 2025
- From 500,000 permanent residents to 380,000 in 2026
- And setting a target of 365,000 permanent residents in 2027.

Executive Summary

Survive 2025

Through StrategyCorp's discussions with industry leaders, we set out to learn how economic and financial conditions, government policies and regulatory barriers impact their work and ability to put shovels in the ground. In the face of an uncertain economic future, where housing starts have plummeted and residential sales are down, but demand shows no signs of abating, the key goal of the industry is to somehow make it through 2025.

Meanwhile, decision-makers continue to overestimate the development sector's resilience to constant policy changes, particularly amid economic turmoil. This is a long-standing trend that needs to be reversed, or Ontario will find that the gap between the houses we need to build and the ability of the sector to build them will only widen.

This is a Crisis: We are in a generational-level crisis and governments aren't treating it like one. The industry is anxious about businesses being able to survive without launching new projects and completing existing projects. A significant gap remains between the cost of building new housing and what buyers are willing to pay for it. While interest rates have decreased in the last six months, lowering borrowing rates have not yet been enough to spur investment. There is also widespread concern regarding the feasibility of building 1.5 million new homes by 2031 using the existing regulatory framework in the current economic climate.

Uncertain Future: Although there was no unanimity on what the next five to 10 years might look like, the consensus is they won't look like the previous 20. There was broad agreement that the status quo is not working and that interest rate cuts alone will not solve the problem. Governments have not yet grasped the scale of change required to get home construction on track again and their efforts to expedite approvals through deregulation and microtargeting investments have not yet delivered the intended results.

Development Charges, Taxes, and Fees: Most participants spoke about input costs as a barrier to providing housing. In addition to material and labour costs, development charges (DCs), taxes, and other fees levied by governments were raised as a significant issue. Despite the challenging climate for housing, most Ontario municipalities have continued to increase DCs. A long-overdue debate about how we should pay for the infrastructure required to support new homes and workplaces is only just beginning in earnest.

Development Charges: Fees collected by municipalities from developers at the time a building permit is issued to help pay for the cost of infrastructure required to provide municipal services to new development.

Taxes: Municipalities charge property taxes as a means to fund municipal services. Developers pay these as carrying costs on properties they have not yet been able to redevelop.

Other Fees: Some municipalities have special levies or fees attached to property sale and development, such as the City of Toronto's municipal land transfer fees, or specific, or specific dedications granted through the Planning Act.

Process Problems are Nearly Universal: Almost every participant, regardless of the municipality in which their project is based, spoke about process challenges and delays in obtaining approvals. Many talked extensively about duplication of regulation where they went through regulatory processes or cycles of processes more than once before they could start building.

Significant Development Activity is Minimal Outside of Rentals: As housing starts have decreased across the province, participants agreed that virtually all new projects getting greenlit are purpose-built rentals. This is primarily because of funding made available by the Canada Mortgage and Housing Corporation (CMHC) or HST exemptions to spur this growth.

Red Tape and Inconsistent Planning Rules: Participants also talked about the lack of coordination between different levels of government and between departments within a single municipality leading to extended delays. Staff turnover at the local level, especially across planning departments, means that participants' applications go through duplicate rounds of evaluation, delaying timelines and costing more money than initially budgeted.

Deals Don't Pencil: For most development projects today, there are too many factors making the economics of building unfavourable. The financial headwinds include DCs and taxes, pre-sale requirements, escalating costs of labour and materials, interest rates, and costs to acquire new land. As a result, margins have been significantly reduced or in many cases eliminated, meaning projects do not go forward.

Lenders and Borrowers Have Less Appetite for Risk: Given the challenges highlighted, the appetite for risk has reduced significantly as well. Due to a lack of non-recourse financing in Canada, many developers are required to put up their own assets on projects and risk losing their personal property to get projects started. That's one reason more developers are stepping back from starting new projects. Lenders also often require minimum projected profit margins and high pre-sale numbers, some of which may be unreasonable in the current economic context. As margins get squeezed, traditional financing becomes more difficult or more expensive to secure.

Skepticism over the Public Builder Model: Many participants expressed significant skepticism at the prospect of a municipality "being in the business of home building" but did offer insight into how more government involvement could work.

Negative Market Sentiment and Economic Headwinds

Current economic conditions are significantly impacting project development. Challenges securing financing for new builds and economic shifts are influencing strategic decisions about which projects to pursue. One unavoidable conversation is around the continued rise in development charges in major urban centres, and the related public debate about who should pay for housing-enabling infrastructure. The rising costs of construction materials – driven by supply chain disruptions – labour expenses, and inflation, all create further headwinds against construction in the current context. Buyers, too, are facing obstacles from financing limitation to deeper affordability issues, which are also putting downward pressure on the market.

WHAT WE HEARD

Participants highlighted an oversupply of smaller, "investor-class" housing units and noted that with investors largely leaving the housing market in the province, there is a lack of demand for these types of units.

Despite the overall housing shortage, available inventory is often unaffordable for new home buyers and not desirable for end users based on current prices.

New homebuyers who can afford to close purchases appear willing to sit on the sidelines to wait for deals on already-built units as many existing homes are more cost competitive than prebuilds – a near complete inversion of historic trends.

Despite many homebuilders' willingness to cut pricing to attract buyers, there is only so much they can do to spur sales while still earning a return. To secure construction financing in Ontario, developers must presell 70-80% of a project's units. That benchmark is becoming extremely difficult to achieve, leading many companies to pause for-purchase housing projects until conditions are more favourable or investigate the potential to pivot to purpose-built rental.

Many participants stated that these new market conditions are leading to significant changes to their firm's business model and partnerships. This ranges from who finances projects, to how dense they should be, to who supplies the finishes – and all of these changes occurring in such a short timeframe, even though necessary, is exceptionally high risk for the health of their organization. Very few traditional condo projects can overcome these hurdles in the current environment.

HIGH DEVELOPMENT CHARGES PREVENT HOUSING STARTS

Unsurprisingly, development charges, sales and land transfer taxes, and other government fees and soft costs were identified by virtually all participants as barriers to building. They recommended everything from eliminating DCs completely to reducing them to pre-2009 levels, exempting more types of new housing from provincial and federal portions of the HST, or reducing the land transfer tax.

Development charges have risen at substantial rates, with new builds expected to pay for the expansion of servicing required for population growth, the well-worn concept that "growth should pay for growth." Some have argued that this is a responsibility that all residents should bear through their income, or property taxes, and should not fall to those building housing to front the costs which are ultimately borne by home buyers.

As a reference point, the City of Toronto, like most fast-growing municipalities in Ontario, sets development charges based on per-person occupancy averaged out across different unit types (e.g., fewer expected residents in studio or one-bedroom units results in a lower charge than for two-bedroom units or detached houses). Since 2010, Toronto has increased charges 10-fold, and today DCs add anywhere from $10,000 to $100,000 to the price of a new home. While we highlight Toronto here, similar steep increases have occurred across the province, most notably in other large population centres. To take one example, the City of Ottawa -- Ontario's second-largest city and where roughly 25% of the province growth is expected to occur -- recently increased their DCs by as much as 500% over the same period. The main takeaway was that these charges, taxes, and fees are directly contributing not only to the cost of doing construction, but ultimately the affordability of the units being purchased, as these costs will get passed along to the end user. These fees are within the government's purview and can be controlled.

I believe that development charges are an intergenerational wealth transfer from millennials to boomers and it needs to be undone. I think that the way that infrastructure should be paid for is through user fees rather than an upfront capital charge. Every boomer who bought a house didn't pay DCs. Every millennial has to pay them.

Many of the line items in developers' budgets cannot be removed or lowered as they are influenced by forces outside our control. There isn't much room on the construction material side of things to come down. The punch line is we need to cut taxes.

- "Municipalities keep asking for more from us without realizing how this affects the bottom line, and the significant amount of risk developers take on… Recent years have seen margins get smaller and smaller due to escalating costs. Municipalities can become better partners by better understanding the bottom line. They think we have endless pockets and will never feel the pinch, so they push and ask for more."
- "There are too many DCs up front in today's market. It just doesn't work. If more was deferred, and it was paid as housing came along, this would make the payment of DCs way easier."
- "Municipalities often don't understand or appreciate the risks developers take. Their perception that developers have endless resources has led to excessive costs through development charges, community benefits, and other fees, which significantly delays and hurts our ability to build attainable and affordable housing."
- "Development charges and municipal fees have skyrocketed. These are eating into profits and making some projects unviable before they even start."

- "The cost of development charges and municipal obligations have risen significantly. While construction costs have spiked and are softening, DCs keep going up, making it harder to make projects viable. Developers are absorbing more of these costs, but at some point, it's unsustainable."

RISING COSTS

Increasing costs in the form of development charges, labour, and materials were the most cited reasons for project pro formas not penciling in today's market. Participants explained how they had to compete with infrastructure projects (transit, roads, water, and wastewater, etc.) for labour and materials. After the pandemic, supply chain issues led to an increase in costs of materials. While inflation has abated, costs have not been materially reduced.

"It's difficult, with homebuilders needing to both keep pace with general inflationary costs, alongside the inflation to wages that is required to attract workers. Perhaps this gets better in 2026-27"

- "The rising construction costs and labour shortages are making it impossible to get projects off the ground. We are looking at ways to cut costs, but it's a challenge."
- "The cost of building is just exorbitant, and developers are not making profit hand-over-fist by any stretch. Many of these projects are very, very thin in terms of margins."

INVESTORS LARGELY ABSENT, AND END USERS AREN'T BUYING ENOUGH PRESALE

Participants directly linked the decline in sales, particularly presales, to rising interest rates, making buyer financing less affordable. In the past, some condo projects reached presale targets within days, but those buyers are no longer present. The absence of investors, who often represented up to two-thirds of required presales, is a major shift.

These investors – typically individuals or small corporations buying multiple units to rent out – have been driven away by high interest rates and flat or declining prices, which make it difficult to justify the investment. Many, especially those holding variable rate mortgages, have also resorted to selling their units to avoid significant equity losses.

Few believe investors will return in numbers sufficient to close the financial gap created by high rates. This skepticism seems warranted, as even with recent rate cuts, investors remain hesitant or focused on offloading inventory — competing directly with the presale market.

This lack of investor activity also undermines project financing, as pre-sales from investors are a crucial source of capital. Without this funding, developers struggle to launch projects, further reducing housing supply in an already undersupplied market.

Foreign-buyer restrictions have compounded these challenges, stalling what was once a vibrant market. Developers are increasingly reliant on end-user buyers, who historically have not driven the same level of demand.

Many end-users who can remain in the market in this environment now appear to favour resale condos, which are often 30% less expensive due to construction cost disparities and tend to be larger than newer units.

> “The high interest rates have peeled away investors from the market. People aren’t launching as many condos as they used to. There’s been a significant reduction in construction and development activity, and it’s having a knock-on effect on industries linked to development, like lawyers, brokers, and appraisers.

> “Cranes are often used to signal the sector’s health, but they’re just a lagging indicator of what was going on three to five years ago. People often complain about construction interrupting their lives today, but it’s going to be very quiet come 2027 and 2028.

> “I think interest rates are scaring people away and probably causing people to rethink where they live. But I also think the foreign buyer ban had a big impact on the condo market as well because a lot of these condos were being purchased by investors who are probably still sensitive to interest rates. And that’s another reason why we have seen this slowdown.

- “We have pushed the pause button on projects simply because the market isn’t there. If we were to launch a project we’d sell maybe 10 units, but then we would be stuck with hundreds of unsold units and unable to get financing. The people who put deposits down would have to wait years until the building got going. The reality is people just can’t afford to take on mortgages right now, so condos are not being built. That’s out the door.”
- “In early 2021, we tried to launch a condo downtown and killed it because there was just no market for it. We ended up converting it to a rental building.”
- “I’m not sure if many people will admit to that, but realistically you’re getting a lot of investor buyers. That’s your largest buyer pool. I don’t know where those investors come from. It could be a mix of foreign investors, people with excess capital who are willing to invest in and buy a second or third or fourth unit. That that pool has pretty much dried up.”
- “The root cause why [investors] have disappeared is because they don’t believe they can make money investing in condos. Investors look for where they’re going to make money and when you build a brand-new condo and it’s priced 30% higher than a resale condo because that’s the cost of building it there, then their attitude is, ‘Why would I buy that condo when I can just buy the resale?’”

AFFORDABILITY

Higher interest rates and current prices make it difficult for buyers to afford new homes. Additionally, inflation and low wages have hindered buyers’ ability to save enough for a downpayment.

As noted, the increased construction costs that are passed on to the consumer makes existing stock sometimes 30% less expensive per square foot than pre-sale, while also offering larger unit sizes.

Buyers aren’t in a rush right now because nothing is moving in the market, and the interest rates are high. Many young people today don’t save for a home, believing they can never afford one, so they spend instead. Meanwhile, investors have pulled back because the interest rates make it unattractive.

The stress test has overstayed its welcome in this high-interest environment. Buyers are either unable to qualify or simply opt to wait. First-time buyers in particular face an uphill battle due to lack of incentives.

- "They can't afford what we're putting out. They can't afford $1,200-$1,300 a square foot. People are worried. Nothing is a given in this equation. Development charges are still going up. Construction costs are still massively high. Interest rates are still high. What you're saying is, 'Will the average purchaser step up and fix this problem by making it their problem- by absorbing all of this?' And I think people have responded en masse and said, 'No.'"

DEALS JUST DON'T PENCIL

Participants discussed the various pressures they face in the current economic environment, leading many to delay development timelines, sometimes with no start dates in sight. This has resulted in developers shouldering significant holding costs that accumulate over time, impacting project viability and reducing the potential for market-driven affordability when overall conditions improve.

A common theme was the difficulty in securing financing, as banks tighten lending requirements and investors sit out of presales due to market instability.

There was also a focus on the challenge of meeting institutional partners' expectations on the expected margin. Developers expressed concerns that current new home sales activity isn't high enough to justify moving forward, especially as prices for resale homes are below the levels seen in 2021-2022. While larger firms may be able to sustain losses temporarily, smaller, and mid-sized developers lack the financial resources to lower prices substantially or inject large amounts of equity without reliable financing.

As a result, developers are exploring financing options outside of Ontario, with some out-of-province lenders more willing to support projects with lower pre-sale requirements than those typically expected by Toronto-based lenders and financial partners. This shift underscores a search for more flexible financing solutions amid a challenging market landscape.

> **We've had to pause certain developments until we see more stability in the market, especially on the financing side. It's too risky to continue at this stage.**

- "The economic downturn has made it difficult to get investors on board, and without that financing, we're facing delays on several projects."
- "Banks are tightening up on lending, so financing is tighter."
- "It is an expensive holding pattern. Even though projects aren't moving, you're still paying costs every month – whether it's mortgages, insurance, fire watch, security, or whatever. It all adds up, and time is money. The longer you wait, the less viable the project becomes."
- "We're not in the business of taking risks without some reasonable profit expectation, and right now, sales prices we need haven't been seen since 2021-2022. There's no certainty if or when those will come back."

- "The giants in the industry might be able to drop prices below cost to get projects off the ground, but most groups can't afford to do that. Smaller and mid-sized developers just don't have $200 million to inject into a project if banks won't finance it."
- "We know that the condominium market is dead for the time being and I don't say that lightly. But people can't afford to take on a mortgage right now."
- "We are speaking with lenders outside Ontario who understand how to finance projects on 40-50% pre-sales, compared to the 70-80% pre-sales that the Toronto banks are used to. It has been an interesting shift, talking to people who seem to understand the market better out west."

STRATEGYCORP'S PERSPECTIVE

The fundamentals of the housing market in Ontario's large urban centres appear to be fundamentally broken. Homebuilders have been hit with a barrage of challenging conditions which threaten to stall a significant portion of planned housing construction for the foreseeable future, all while demand continues to increase.

It remains unclear when conditions as disparate as population growth and financing will change sufficiently to get the industry back to producing housing yields that could begin to close the gap between what we have and what we need for a healthy market. So far, this does not appear to be the case. What is clear is that there is no single economic or policy lever which can be pulled to get the situation back on track.

While some observers have suggested that investor participation in the market helped cause the run-up in prices and even the shrinking of unit sizes, the fact remains that investor capital was a fundamental assumption of the development market when it functioned well, and the absence of it today is a challenge with no obvious solution. These investors also provided much of the early capital requirements that would enable projects to proceed – benefitting end-users who bought units they intended to live in the same buildings.

Since we began interviewing participants for this report, we have seen a few positive signs of recovery, but nothing transformative. The Bank of Canada has made four interest rate cuts, dropping its policy rate from 5% to 3.75% and has signaled that further rate cuts could be on the horizon. The Bank of Canada makes its next rate announcement on December 11th. This could help buyers qualify for a mortgage and existing investors reduce their carrying costs, while also reducing carrying costs and construction loan pricing for builders.

The federal government also announced changes to mortgage rules which will give first-time homebuyers and buyers of new builds the option of 30-year amortization on insured mortgages (compared to a 25-year amortization) and increasing the $1 million price cap on insured mortgages to $1.5 million. These changes should help buyers afford more at the margins, but they don't appear to have shifted the market fundamentals as of yet.

The federal government should examine whether a temporary measure offering 40-year amortizations for young buyers purchasing their first homes would assist in promoting housing affordability. The previous 40-year mortgage era was brief, starting in 2007 and ending in 2008 amid concerns of potentially inflating a housing bubble akin to that which burst in the United States. The "bubble" risk could be mitigated through limiting longer-amortization mortgages based on the borrower's age (i.e., they would not reasonably expect to retire over the amortization period), that they live in the home they purchase, and that it is available only for first-time homebuyers.

In Toronto, Mayor Olivia Chow has introduced a new incentive for purpose-built rental projects which would see a deferral of development charges and reduced property taxes for qualifying projects that have at least 20% affordable units. While they are currently only offering these incentives for up to 7,000 units, more will be possible if the federal and provincial governments provide funding for up to 13,000 more. At the time of writing, while there have been some encouraging statements, neither government has accepted Mayor Chow's invitation to support her initiative.

Nevertheless, it is this type of creative policymaking that reflects the scale of the challenge the industry is facing.

The program also highlights a harsh reality: building our way out of this hole will require public investment.

The province has taken a different approach by directly funding housing-enabling infrastructure with the objective of unlocking more housing immediately but also lightening the load on municipal capital budgets funded by development charges.

Many participants raised this as part of a growing public conversation about who should pay for infrastructure. Should growth pay for growth through development charges, or should the broader tax base fund infrastructure that ultimately helps grow the economy? Our participants were quite aligned in their view that reducing development charges will be necessary to kick-start the market, but it should be noted that this brings with it another difficult set of policy choices.

While there are some clear signs of governments taking positive steps (such as the City of Vaughan deciding to roll back DCs to their 2018 levels), it does not yet appear to be enough to push through the significant headwinds in the market.

Shifting the market fundamentals will require some combination of further external price relief (e.g., lower labour costs, lower interest rates) and bolder policy moves that get projects to pencil (e.g., significant reduction in development charges). It will also require challenging the public and political perception that reining in fees and charges won't just pad developer profits but rather help get housing supply built, ultimately leading to a more affordable market. To the layperson, this paradox is evidenced by the current housing market having slowed considerably, but with no significant changes to the costs of buying housing.

Our view is that big policy swings are justifiable because of the extent of the housing crisis we are in and the dire straits of those in the only industry – home builders – that can solve it.

A Market Adapting to Structural Change

The development industry is still adjusting to the current financial and market landscape, with many focusing particularly on strategies for making financing work when traditional models do not. Projections for Ontario's largest markets (GTHA and Ottawa) over the next five years are challenging to make, considering potential shifts in demand and pricing. With so many projects approved but not currently economically viable, expectations around the viability of those projects will force many to explore whether these projects might be reconfigured or reconceived to adapt to economic conditions.

WHAT WE HEARD

In response to current economic pressures, participants are exploring alternative financing strategies, with some shifting away from traditional bank loans and financing options toward private investors, equity partnerships, and lenders outside Ontario.

Concerns about high-risk loans and the lack of non-recourse financing in Canada were prevalent, particularly for smaller developers who, without large cash reserves, are struggling to weather this market downturn. The tightening credit environment has pushed many to seek creative financial solutions to bridge funding gaps.

Faced with escalating costs, some developers are pivoting from large master-planned communities with upwards of 1,500 units to smaller-scale infill projects with unit counts of between 150 and 400, making financing, budgets, market absorption, and ultimately, risk more manageable.

Another broad trend participants discussed was the shift from condos to purpose-built rentals. Rental development has several relative advantages in today's market, from new government incentives to the removal of HST to not needing to pre-sell in a down market. Funders for purpose-built rental also tend to be more resilient to market shifts and are patient enough to wait for long-term returns. However, this pivot is challenging for developers without deep roots in the rental market, as it requires adjustments to entire business models and forming new partnerships.

Looking ahead, there was little agreement on the future of the housing market over the next five to 10 years, but near unanimity that it will not look like the last 20 did. Participants expressed doubts about achieving Ontario's housing targets under the current conditions, noting that economic challenges and labour shortages are likely to worsen in 2025. Many anticipate continued housing supply challenges and lingering uncertainty in the condo market for quite some time.

INVESTIGATING NEW FINANCING MODELS

Participants described a challenging financing landscape due to current economic conditions, leading many to explore alternative approaches to sustain project development. Several respondents described new partnership structures and joint ventures to mitigate risks associated with traditional debt financing. Private investors and alternative lenders are playing a critical role in bridging financing gaps left by cautious traditional banks.

However, developers still face significant obstacles, particularly smaller and medium-sized firms that struggle with stringent equity requirements and limited cash reserves. This has created disparities, with larger players better equipped to adapt to market pressures. The high personal risks developers face in Canada, compared to the availability of non-recourse financing in the U.S., further exacerbate these challenges. In Canada, developers must provide personal guarantees, placing their assets, including their homes, at significant risk — a systemic issue that limits broader participation in development.

The consensus reflects a shift towards seeking innovative financing models as developers navigate tighter lending environments and heightened equity demands, with the risk appetite across the industry notably diminished.

For the big developers, it's easier to adjust to market conditions. They have the cash reserves to weather the storm and lower prices where needed, but for medium and smaller players, it's much harder. The financing requirements are tough, and without significant equity, smaller developers are struggling to get their projects off the ground.

- "We're considering alternative financing models, including joint ventures and partnerships, to mitigate the risks of relying on traditional bank loans."
- "We've had to turn to private investors and alternative lenders to cover the financing gap that traditional banks are no longer willing to fill."
- "We're now focusing on financing through equity partnerships. It's too risky to rely solely on debt financing in the current environment."
- "The appetite for risk is so much smaller than it would have been before because the value isn't there."
- "In the [U.S.], developers can get non-recourse financing but that doesn't exist in Canada. As a developer your house is on the line and if a project ends up in receivership, you are at the risk of losing your personal residence. You can get a loan with a corporate entity, but the bank will want a personal net worth guarantee. How do you tell your spouse, your family that I want to be a development entrepreneur, we just need to be OK with potentially losing the housing If we had different financing available to developers in Canada, we would have more people at the table."

PIVOT TO SMALLER PROJECTS AND RENTALS

In part due to the reduced availability of investors who in recent years made up the bulk of pre-sale buyers, participants described a substantial shift from condos to purpose-built rentals. This change is also driven in part by the relative stability and comparatively reduced financial risk of rental projects (i.e., a low rental vacancy rate almost ensures swift stabilization).

Shifting from condos to rental is not as simple as incorporating and registering the building in a different way. It almost always means design and architectural changes. For many participants, it meant forming new partnerships with large-scale "patient" investors, notably pension funds, who are more willing to finance rentals in the current economic climate.

Tax incentives further encourage this direction and, in the view of participants, are making a material difference in projects going ahead in the short term. The HST exemption on rental construction introduced by federal and Ontario governments and CMHC funding streams to support rental development are cited as major contributors to the improved viability of rental and a general lifeline to the industry overall.

However, not all developers are equipped to pivot smoothly. Firms with limited rental experience face challenges adapting to the required ownership structures and partnership models specific to rental developments. As a result, while many developers view rentals as a safer alternative, some remain constrained by their existing business models and lack of operational flexibility, impacting their ability to capitalize on this trend.

We have pivoted several projects to purpose-built rentals instead of condos. Government incentives, such as the HST credit for rentals, have helped make this shift more feasible.

- "We've shifted our approach to focus more on rental buildings because they're less risky in this market, especially when we can partner with pension funds."
- "If a developer was going to build 10,000 units, now they are going to build only 2,000 because their capital is stretching them thin."
- "We normally do condos, but it seems rental is the only place where there's any movement. Are we looking at doing more rental? I don't think we can make that shift so quickly. It's not an easy pivot. What do we do with what we have in the interim? I don't think there is a home run solution."

ONLY CONSENSUS ON THE FUTURE IS THE MARKET WILL NOT REVERT TO PREVIOUS NORMS

Participants expressed uncertainty about the long-term future of the housing market and development sector, with little consensus on what it might look like five to 10 years from now. However, they strongly agreed that the current housing crisis won't be resolved without addressing the pressing financial and planning-related challenges facing the industry today. Developers underscored that achieving Ontario's target of 1.5 million new homes by 2031 will be increasingly difficult in the current environment.

Participants highlighted the need for fundamental changes in financing options, tax structures, and regulatory approvals to make housing more feasible and meet demand. The anticipated impact of a multi-year pause in the condominium sector, coupled with diminishing consumer confidence, raises additional concerns about long-term supply and affordability. Without coordinated government support and systemic reforms, participants believe Ontario's housing shortage will deepen further in 2025 and beyond, with fewer new projects moving forward and homeownership remaining out of reach for many.

> **We'll still have a housing crisis in 2026, and I assume people will still want to live in Toronto in 2026 ... except there will be even less supply than today.**

> **It's going to get much worse in 2025, which is going to lead into the sentiment of 2026. People generally leave an industry when there is a bit of a recession. There will be a recession in the condominium construction industry. Generally, when people leave a sector, they go find another job. They usually don't come back. This means it will take longer for the industry to come back.**

- “I think five years might be tougher to project than 10 years. I am reasonably confident that Toronto remains an attractive place for people to move to, for capital, to invest in and for employers to locate in. The fluctuations in the shorter term are harder to predict.”
- “I don’t know when the condo market will come back to what it was before, or if it will be back to what it was before.”
- “There are those who believe an interest rate adjustment will be the magic bullet here – I don’t subscribe to that theory. Customer and consumer confidence has been shaken in this industry.”

STRATEGYCORP’S PERSPECTIVE

While we heard a range of perspectives from participants about what the future of our housing market will look like, it was clear from all conversations that the sector sees itself in the midst of a generational transformation.

Collectively we agree the changes will be profound, but it is nearly impossible to predict what the end result will be. Exemplifying economic Darwinism, those who thrive will likely be those who are most adaptable to the changing economic conditions. Waiting for the old status quo to return isn’t an option.

While the pivot was far from simple, shifting to rentals has clearly made many projects viable today that wouldn’t be otherwise. We expect most new starts in 2025 to be purpose-built rentals, some of which were originally planned and approved as condos. With reduced or eliminated development charges and no HST payable for these types of developments, the relative success of rentals in these challenging conditions makes a strong case for reducing taxes on all developments and aiming towards a more agnostic policy which focuses on housing abundance.

It is also promising that some in the development sector are reaching out to players in other markets. For example, some participants discussed engaging with new, western Canadian financial partners. In British Columbia, there is a cadre of financial partners who are accustomed to investing in developments geared solely to end-user purchasers which achieve significantly lower pre-sale thresholds than those expected in Ontario with its higher expectation of investor-purchaser participation.

Much of the slowdown in new construction starts today won’t be felt until 2027 when the effects of the 2023-2025 slowdown are most apparent – an anticipated drop-off of construction activity. Based on these trends, absent other major economic shifts or policy interventions, we should expect the housing supply crisis to get worse before it gets better. In the meantime, innovative players in the industry are doing their best to keep afloat through these headwinds. We wish them success.

Non-Financial Barriers and Structural Concerns

Non-financial barriers add to uncertainty, prolong project timelines, and often diminish projects from what they otherwise could be. From municipal regulations to the perception of a broken planning process, non-financial barriers arguably act as a brake on development as much as the financial ones. There are clearly identifiable attitudinal issues in the sector, with a breakdown in trust between parties harming their ability to meet the challenge of the ongoing housing crisis.

WHAT WE HEARD

All participants had stories of interactions with municipal officials and the approvals process that resulted in unplanned delays and added costs. Many highlighted the large number of people and departments involved in permitting, each requiring sign-off, significantly prolonging timelines. Staff turnover within planning departments often means that new personnel restart reviews, further slowing down approvals. These delays, coupled with the high costs of the approval process, ultimately increase project expenses that are passed on to buyers.

In addition to bureaucratic hurdles, an uncertain policy landscape poses further challenges. Frequent, abrupt shifts in government policies — such as changes to affordable housing requirements or back and forth shifts on development charge rates — raise risks, particularly for smaller developers with less capital to absorb such changes.

Participants expressed frustration over what they saw as a disconnect between policymakers and the realities of the development sector, emphasizing a need for greater partnership and understanding. The unpredictability of regulatory changes creates hesitation to initiate new projects and a need for greater financial buffering, as developers worry that mid-project policy shifts could undermine financial viability. When governments change rules to attempt to streamline processes, some participants noted that approval bodies often acted as if nothing had changed and found new ways to slow down approvals.

RED TAPE AND SLOW TIMELINES IN THE PLANNING PROCESS

Participants voiced extreme frustration with municipal planning processes, which are seen as a major barrier to housing development. They described the approval process as unnecessarily complex, with repeated submission rounds and new requirements emerging at each stage. Sequential processes, such as requiring zoning approvals before site plan applications, were cited as particularly time consuming, with timelines often stretching from two to three years – or more.

A recurring complaint was the phenomenon of a regulatory "double tap," where developers are subjected to overlapping and time-consuming reviews or redundant requirements. For instance, some participants noted being required to seek feedback from both a design review panel and an urban design department, only to receive conflicting advice. Others described frustration with needing to commission costly studies to analyze development impacts on concerns like wind or sunlight conditions, even though their proposal conforms to municipal guidelines that are said to be designed precisely to mitigate these very concerns.

Participants noted that these inefficiencies discourage smaller developers, who often cannot absorb the additional costs and delays. They also highlighted a lack of incentives for mid-rise development, which faces the same lengthy approval process as high-rise projects, limiting its potential as a viable urban housing option.

The lack of coordination between different levels of government compounds these issues, further slowing timelines and inflating development costs. Several participants noted an erosion of collaboration and trust between public and private sectors, describing the relationship as increasingly adversarial. Last-minute political interventions and unanticipated municipal decisions were also identified as sources of unpredictability and frustration.

Some participants pointed to international models, such as California's streamlined residential use permit system, as examples of how consolidating approval steps could reduce inefficiencies. The consensus view of participants was that without significant reductions in red tape and a more efficient approval process, achieving meaningful increases in housing supply will remain a challenging goal.

> **The approval process is painfully slow. We lose months, sometimes even years, waiting for permits and zoning adjustments.**

> **Municipal delays are also a big factor. For example, in Toronto, they're no longer accepting zoning and site plan applications concurrently. Developers must go through the zoning process first and only then can they submit for site plan approval. That adds significant time to the process. Previously, we could get through both in about two and a half years. Now, it is probably going to take between three and three and a half years.**

- "The municipal approval process is cumbersome and slow."
- "The planning process is a huge bottleneck. Every delay adds costs, and it's really discouraging smaller developers from even trying to build here."
- "The biggest issue is the red tape in the approval process. There is a significant delay between getting draft plan approvals and securing building permits, and the various city departments are not always on the same page, causing further delays."
- "There is no advantage to doing mid-rise if you have to go through the same lengthy rezoning and planning process. The system doesn't incentivize building mid-rise. The cost and time investment are the same. As a result, we are left with fewer mid-rise developments which is unfortunate because it is a great form of urban housing."
- "In California, if you're doing a residential or mixed use, they would call it a residential use permanent and that is your zoning, official plan, secondary plan, site plan and building permit all in one application."
- "The current process is not working. We are going into third or fourth rounds of submission and getting new comments on new things each time. Can the city work better to get projects completed collectively and in partnership? It has everything to do with leadership and dynamics at the city."
- "Over the course of my career, I have experienced 10 years of erosion of collaboration and trust between the public and private sectors. It does seem to be an increasingly adversarial position."
- "We were about to launch a community to go to sale in a week. We've been in the planning process for three years. We had everything lined up in terms of timeline and approvals, but when we went to pull a permit which would have required shutting down the road for six weeks, the councilor stopped us and said, 'You can't do this.' So, we spent the last month chasing our tails to find some solutions."
- "Municipalities set urban design guidelines for floor plate size, tower separation, and architecture and say they're based on factors like wind, sunlight, and privacy. Yet, they require us to pay for consultant reports to justify the same guidelines they are making us build. If we follow their directives, shouldn't that be sufficient?"

UNCERTAIN POLICY LANDSCAPE COMES AT A COST

Participants highlighted how frequent policy changes, even if positive, can have a negative effect on the industry's capacity to build.

They highlighted that the current landscape of economic uncertainty and shifting government policies is significantly increasing costs and undermining confidence in the industry. Many expressed that a lack of clear direction and recent policy reversals, most notably the municipal urban boundary expansions approved and then rescinded by the province, have created an environment where long-term planning feels risky and unreliable. This uncertainty, compounded by inconsistent approaches across different levels of government, has left many firms hesitant to launch new projects or to look at other jurisdictions as places to invest.

Participants voiced frustration with what they perceive as a lack of understanding by government officials of the development sector's complexities and risks. Major policy shifts and a lack of coordination between federal, provincial, and municipal governments often result in firms needing to adjust plans mid-project, driving up costs and timelines.

This uncertain and sometimes adversarial landscape is seen as a major barrier to increasing housing supply. Participants emphasized that unless there is a more stable, coordinated regulatory environment, the added costs and risks will continue to deter new developments or shift investment elsewhere.

"The frequent policy changes create uncertainty. We're hesitant to invest in projects without knowing how new regulations might impact our bottom line.

- "From a development perspective, we have seen more changes in the past six years than I think we've seen in the past 20 years. A number of changes that have occurred over the past few years have been challenging for the sector."
- "The constant policy changes make it difficult to plan long-term. We're hesitant to start projects because regulations could shift mid-build."
- "CMHC's recent changes to their Select program, which put more emphasis on affordable units, are an example of a policy shift that creates uncertainty. While I understand the reasoning behind it, these abrupt changes make development even riskier, especially for smaller and mid-sized developers who don't have the capital to absorb these shifts."
- "One of the biggest barriers is the lack of partnership between the public and private sectors. We've been screaming about the housing crisis, but the people who are implementing the policies don't really understand the economic feasibility of building housing. There's a disconnect between the people making the rules and those who are trying to build."

- “How are we supposed to complete a $100-million land purchase through our board and investors when the last time they were asked to do so, the money went down the drain because the province changed its mind on urban boundaries again?”
- “It boggles the mind how much guessing the government does because of mistrust of developers. If this was any other industry, say farming, the government would work together with the industry to achieve the best outcome. If the issue is trust, the government could have a department of ex-private sector developers to fill in the much-needed knowledge gap.”
- “Any DC rebate, or federal funding, starts to see the benefit go away as we start to see environmental requirements increase, which makes them no longer as financially attractive as they were in the past.”

STRATEGYCORP’S PERSPECTIVE

The non-financial barriers to getting housing built are often as significant as the financial ones. It is quite clear that frustrating planning processes and constantly shifting regulations are putting a damper on housing construction. Tackling this challenge while protecting the critical role planners play in city-building is complex, but there are reasons for optimism that things can be better. There are many tools governments can employ to streamline approvals processes and leave the industry with clear long-term goal posts which have little, if any, cost attached to them.

One idea raised by participants that we consider worth further investigation is the concept of a universal planning application. In principle, this concept calls for the planning system to offer applicants a single planning window through which they can submit one or a series of rolling submissions to cover all their necessary approvals, including official plan, zoning bylaw, site plan and any others. In a best-case scenario, these applications would be managed as a single, multi-layered application through one case manager who could share progress and comments through a digital platform allowing input and dialogue from all parties. Requiring all comments to be submitted through a single platform would eliminate much of the duplication or contradiction often found in the current system.

An additional suggestion is that municipalities promote planning and architectural excellence by incentivizing the use of expert design review bodies, rather than making them an additional layer of the process. They could do this by eliminating the requirement to address comments by urban design departments that would cover the same aspects as a design review body – and likely produce conflicting requirements. Further, municipal guidelines should be designed

to reduce the study requirements of an application. If a proposed development conforms to a design guideline it should be exempt from needing to produce studies on subject matter that is already supposed to be addressed through the guideline.

This streamlining would materially improve the relationship between municipal officials and the development community, reduce friction in application work, and provide clarity to all sides about progress. Guaranteed response timelines or limits to the number of rounds of comments from departments on non-core issues would make this work even better.

Aside from these more transformative changes, we agree that the development industry is right to call for a multi-year pause on other rule changes to give the sector time to get back on its feet financially and adapt to the many changes in recent years. While the majority of the policy changes were viewed by participants as positive and done with the goal of unlocking more housing development, the pace of change has been intense.

Policy and Program Prescriptions for Government

Despite housing being a top political issue in the past two to three years, there are clearly many more ways that government actions and policies could better support new home development. Each level of government has levers it can pull and a role to play in solving the crisis. At this time, it appears that voters remain hungry for solutions and are not yet satisfied with the outcomes – housing remains relatively unaffordable, housing starts are down, and there is is no relief on the horizon. More and bolder action to support the industry is required.

WHAT WE HEARD

Participants stressed that streamlining municipal approval processes and reducing red tape would help developers manage costs and timelines more effectively. Faster and more predictable approvals, supported by adequately funded planning departments, would reduce financial strain on projects and enable developers to invest more in other community benefits and priorities.

At the federal level, participants expressed that, while some policies are helpful, a broader approach to support all housing types — rental, condos, and mid-density options — would better address the full range of housing needs.

Participants agreed that simplifying regulatory requirements, deferring fees, and aligning incentives with housing needs would make projects more feasible. Consistent and stable policies, they argued, would help the development sector meet housing demand more effectively and support broader housing supply goals.

SPEED UP APPROVALS PROCESS

Nearly all participants emphasized the need to improve and streamline the municipal application process, highlighting uniformity and predictability as key elements. Participants explained that delays in approvals add significant time and cost, often threatening end-user affordability or even project feasibility. The main culprits for the slow or unpredictable approvals process were the number of layers, people, and steps involved to obtain approvals.

Additionally, turnover in planning department staffing was seen as a source of disruption, with high turnover cited as a reason for conflicting comments and re-negotiating previous understandings that may not be acceptable to a new reviewer.

Almost all participants suggested a faster, more consistent approvals process would reduce financial strain and enable developers to bring housing to market more quickly, addressing supply and affordability challenges.

Fund municipalities better to get faster approvals. City planners are the biggest gatekeepers in the process.

Streamlining the approval process would help immensely. The delays are often unnecessary, and it's costing everyone.

- "There's random stuff that municipalities like to throw in front of projects they don't like."
- "The city needs to get out of its own way. We have hired extremely qualified consultants, engineers, designers, and architects to execute on these projects, just to have the city try to put their own stamp on things, when, respectfully, they don't have the knowledge we have on our team."
- "Municipalities should also consider allowing more flexibility in their planning timelines. If projects could move through approvals faster, it would save developers millions in interest payments and allow us to invest those savings into affordable units or other community benefits."
- "Municipalities should focus on fixing the approval process. It's interminable. Even with the 'Build More Homes Fasters' push, we haven't seen any meaningful changes. The process is bogged down by endless back and forth between different departments."

COORDINATION WITHIN AND BETWEEN ALL LEVELS OF GOVERNMENT

Participants highlighted how a lack of coordination between federal, provincial, and municipal governments creates significant challenges, often reducing the effectiveness of incentives or funding programs.

Many shared experiences where a rebate or subsidy offered by one level of government was effectively cancelled out by new requirements or costs imposed by another, diminishing the intended financial relief. This fragmented approach not only raises costs but also adds unpredictability, making long-term planning difficult.

The continued presence of the mortgage "stress test" was highlighted as an example where one policy imperative (a robust banking system) conflicts with another – supporting home ownership – particularly among first time homebuyers.

Participants also expressed that frequent, sudden policy changes from any government level, either due to political headwinds or any anticipated changes of governing party, further complicate project timelines and budgets, deterring investment and delaying housing supply.

The lack of coordination between all three levels of government is a real challenge.

It has been a challenging couple of years with all the changes from the provincial government. It's been a bumpy road with the number of policy changes to keep up with, which has been quite inefficient.

- "Governments should incentivize the creation of the thing they want to see more of."
- "We're hesitant to start projects because regulations or incentives could shift mid-build."

SUPPORT FOR ALL TYPES OF HOUSING

Some participants expressed appreciation for the funding and support initiatives aimed at purpose-built rentals, noting that these incentives make rental projects more viable in today's challenging market.

However, they also emphasized the need for a broader approach that includes support across the entire housing sector. Developers pointed out that while purpose-built rentals address an important part of the housing shortage, different types of housing – such as affordable ownership options, mid-density, and family-oriented homes – are also essential to meet the varied needs of communities.

The federal government has done some helpful things for certain types of housing, but they need to do helpful things for other types of housing as well. We need 3.9 million houses in Canada and there's fewer houses being built in this past quarter century. You need condos. You need the rentals. You need the missing middle.

- "There has been a big push in municipalities toward purpose-built rentals, which is good, but I also worry if we are doing a bit of a disservice to people trying to build their equity and have some type of long-term financial stability."
- "The stress test has overstayed its welcome in this high-interest environment. Buyers are either unable to qualify or simply opt to wait. First-time buyers in particular face an uphill battle due to lack of incentives."

FREQUENTLY UNCLEAR DIRECTION FROM MUNICIPAL PLANNERS

Participants raised concerns about the inefficiencies and inconsistencies in the municipal planning process, highlighting the role of planners as a critical point of frustration. Many felt that due to workload or internal politics, planners in high-growth municipalities are often acting as "circulators," passing applications through various departments and collating comments rather than providing clear, decisive feedback to applicants. This process often results in conflicting or contradictory comments from different municipal departments, leaving developers uncertain about which requirements or perspectives to prioritize.

Some participants shared specific examples where feedback appeared copy-pasted rather than genuinely analyzed, raising doubts about the rigour of the review process. Others noted that, when planners encounter conflicting policies or feedback on non-planning matters, planning staff often defer to their colleagues in other departments.

This perceived tendency to avoid decision-making or prioritization of issues creates bottlenecks, adding time and cost to projects. Participants also noted that even site plan circulations are now taking longer to get through, and second or third circulations find "new" minor issues rather than confirming that previously identified issues have been resolved.

Participants emphasized that planners, given their expertise, should have the authority to make judgment calls on policy interpretations or conflicting viewpoints instead of deferring decisions to colleagues in other departments with differing perspectives. This approach, they argued, would streamline approvals, and provide a clearer, more predictable path for projects to move forward.

> **Planners are not being used as effectively as they should be. They are educated, understand policy, and city vision and goal, but are just being passed through and being used in the way that admin staff could be used. The planner should be working in partnership, not as a gatekeeper.**

- "At the provincial level you need to look at rewriting a combination of the Planning Act and City of Toronto Act to create a more effective system of housing."
- "The province needs to be more strong-armed. They have been ok at getting some strong bills out but there is also stuff that needs to go, like parking minimums and some aspects of Bill 185."
- "Political oversight and lack of connecting the dots is frustrating. We do everything the staff asks of us. We don't go to the market too early, we plan everything, and then at the 11th hour, there's political interference. And it doesn't change the outcome, they just get a local win in their back pocket."

STRATEGYCORP'S PERSPECTIVE

Those we spoke with have worked in housing construction, development and planning their entire careers and have seen shifts in public perception of the development industry, as well as the level of professional collaboration between the public and private sectors. Ultimately, the public will benefit from a more collegial relationship between residents, governments, and developers. Understanding that we are all rowing the boat in the same direction (decrease cost of living) and trying to reconcile differences of opinion about how to get there is important to tackling the housing crisis.

Residents need to be able to look past their individual interests and realize that developers are responding to a demand that is invisible to those comfortable in their current housing arrangement.

Decision-makers need to understand that margins are often thin for developers, and they are not a bank with unlimited resources to provide all the infrastructure benefits and improvements they want. More incentive-based programs and funding can be made available to prioritize the types of housing people want to see built.

Municipal staff need to allow planners to be planners and control applications and approvals, as opposed to the fragmented review process which often takes too much time, resulting in carrying costs that move projects closer to unviability.

All governments need to contribute to an equitable way to build the infrastructure to support housing growth, without relying so heavily upon the private sector.

If all stakeholders can play their part, we can expect to see better government and policy support for tackling the cost of living and housing affordability crisis.

A more comprehensive support strategy would help ensure that housing options are available for people at different stages of life and income levels, creating a balanced and inclusive housing landscape.

The Public Builder Concept an Alternative Development Models

Our conversations also examined the role of public sector involvement in housing development, discussing models that could effectively address current housing challenges. Participants considered the idea of a “public builder” model, where developers could potentially partner with municipalities to deliver affordable housing, exploring both the opportunities and challenges of such an approach. The discussion also touched on what municipal leaders need to consider for successful public-private collaboration. Finally, participants shared their vision of an ideal municipal housing model, highlighting effective strategies, required leadership, and actions that smaller municipalities could take to encourage housing development.

WHAT WE HEARD

StrategyCorp asked participants about their perspective on the municipality taking a more active role in building housing. This concept, referred to by some as a “public builder model,” sparked a range of responses from participants who shared both their views on a stronger government presence in housing and their advice for politicians considering such an approach.

While some acknowledged the potential benefits of public sector involvement, many participants were wary about municipalities directly leading housing projects. They expressed concerns that the public sector may lack the specialized expertise needed for effective project management.

Instead, most participants suggested that municipalities focus on creating an enabling environment for private developers, where streamlined approvals, supportive policies, and contributions of surplus lands would help accelerate and amplify housing delivery.

SIGNIFICANT SKEPTICISM TO MUNICIPALITIES LEADING HOUSING DEVELOPMENT PROJECTS

Participants overwhelmingly expressed reservations at municipalities’ ability to build housing itself. StrategyCorp also asked developers about their openness to the idea of becoming a contractor for a municipal government and about the approaches and challenges with this approach. Most participants understood why a municipal government may see this as the most direct route to getting housing built but suggested that the top-level talent required to lead a robust “public builder” agency was out of virtually every Ontario municipality’s reach.

- “I’m skeptical. The public sector doesn’t have the expertise to lead this kind of development. They need to work with private developers to make it happen efficiently.”
- “The idea of the City of Toronto getting into the business of building housing is laughable. Bureaucrats aren’t efficient at building or development. They would need to hire experts from the industry and treat them as a for-profit operation. Otherwise, it’s bound to fail as it did in the past. There are better ways to incentivize housing than having the city become the builder.”
- “If the city has the money, they can go buy these projects outright. They know about the units that got stuck and couldn’t get off the ground because they have given approval from them.”
- “Do I think the city being a builder is a good idea? No, I think that’s the worst idea in the world.”
- “I think the idea is noble in theory, but the track record hasn’t been great.”
- “The city should focus on its policy and land pricing. The best thing they could do is create the right conditions for private developers to build by addressing the cost of land and keeping government-imposed costs in check.”

PUBLIC PRIVATE PARTNERSHIP ALTERNATIVES

Some participants suggested public-private partnerships as the model to follow. Under this model, the municipality would provide land, resources or funding, or would purchase units outright in presales, providing developers with the prerequisites to get financing and ultimately turn that equity into affordable units in the market.

“Public-private partnerships would be ideal. The city can provide land or other incentives, and developers can bring their expertise to execute projects efficiently.

“It could be a solution, but only if they partner with private developers. Otherwise, it could just add more layers of bureaucracy without addressing the root issues.

- “If it’s structured right, it could work. Public-private partnerships are key. The government brings land, and we bring the expertise to build efficiently.”
- “A public builder model could work if the city offers incentives to private developers to share the risk. It needs to be a collaborative effort.”

- "I think it's fantastic the city is getting back into building housing. There has been a lack of diversity in the industry and adding the public and non-profit sectors will help address that. I'm all for the city building its capacity to do this."
- "The risk with the city becoming a builder is that public sector projects often cost significantly more than private sector ones. If the city were to take on full responsibility for building, we'd see costs balloon because of the layers of bureaucracy involved. The city needs to lower its criteria and allow private sector efficiencies to drive down costs."
- "If we went to the city and said, 'We have this idea, we want to build this project, we want to take our DCs and rather than give it to you, we're going to give our DCs to our affordable housing provider and they are going to use that as equity,' they should be ok with that."

STRATEGYCORP'S PERSPECTIVE

While the concept of a public builder was not popular with our participant group, it surfaces an important truth and even more important discussion. It is clear that there are lots of things that governments at all levels can do to make progress against the current housing crisis and dire state of the development industry, including financial contributions in some form. We agree with this – the scale of the crisis is too severe for governments to keep their financial resources on the sideline.

The broader question for each level of government to determine is given the limited resources they each have, which spending priorities in this area will lead to the best outcomes for housing supply?

The City of Toronto has tried to maximize value on several sites they own in the past through the Housing Now program. Since Housing Now began in January 2019, the City has included 22 properties across Toronto that are estimated to produce over 15,000 new homes with over 5,000 being affordable rental homes. They did this through upzoning land, including specific conditions to their sale and construction, and then putting the properties out to RFP. If the City of Toronto can expand eligibility for this program and use their powerful ability to rezone more lands, this creates substantial opportunity for Toronto to become a builder in the less literal construction sense of the word, and more so as a leader of industry.

Conclusion

The development industry is worried about the lack of housing being built and the slow pace of construction and sales. Interest rate cuts will only go so far and not solve all the problems of the sector. A shift is needed from all levels of government alongside a collaborative attitude to get housing starts from plans to construction. Getting construction cranes in the sky is a long process and their presence in 2024 is a look in the rearview mirror, not a sign of what is happening, or what is to come.

As of December 2024, new home sales across the province continued to decline, year over year, with the biggest impact on the condominium sector. High interest rates and costs have resulted in weaker buyer demand, and in turn impacting the ability of new housing starts.

Since housing starts are the housing supply of tomorrow, the longer that sales remain low the more it is expected that available housing in the 2027-2029 time period will suffer. This is going to result in limited supply in the next few years, resulting in increased competition putting upward pressure on prices, as demand outstrips supply.

This is why it is integral for all levels of government to take big policy swings to address the extent of the housing crisis and shift restrictive policies away from the only industry – homebuilders – that can solve it.

Our Land and Infrastructure Development Practice

StrategyCorp Brings Unparalleled Experience to Your Development Projects

StrategyCorp has deep expertise in the business of land development, supporting our clients from ideation through construction permitting. We have unique and unrivalled political acumen, are strong public engagement managers, and experts in strategic communication.

We are specialists in municipal government, getting projects unstuck and making things happen at City Hall. When working with StrategyCorp you can be assured that no opportunity will be left unexplored, nor issue unresolved.

StrategyCorp Knows Planning is Political

Understanding the local political landscape and how to use engagement to navigate it is a critical ingredient in land development approvals. No matter how good you feel the project is, sometimes progress doesn't happen because of politics. You need someone who understands the challenges and knows how to engage. Thinking politically about planning ultimately saves time and therefore, money.

Our Interdisciplinary Teams Have a Wide Range of Perspectives

When partnering with StrategyCorp, you work with people who have a diverse set of political and public service backgrounds, stretching across all government jurisdictions; federal, provincial, and municipal. As a pan-partisan team, every project will have a variety of political views enriching the process, ensuring every angle and opportunity is being considered. This approach allows our team of experts to have a deep understanding of political environments, planning policy landscapes, and development approvals processes in municipalities across Ontario.

An Experienced Team

Our growing team of more than 85 people in Toronto and Ottawa includes some of the best-known actors in public administration, including former City Managers and CAOs, Assistant Deputy Ministers, Chief Planners, and former political advisors to Premiers, Ministers, Mayors and Councillors. Learn more about our team at strategycorp.com/about/people.

StrategyCorp Supports All of Your Development Needs

Our Land and Infrastructure Development Team has worked to support our clients with a wide and growing range of planning needs. Knowledge of municipal planning regulations and processes, strategic community outreach, and identifying and aligning development proposals with broader transit goals (including Transit Oriented Communities) to unlock greater planning permissions, are only brief examples of the wide range of experience StrategyCorp. Our team's multi-faceted skills can help clients address their problems and achieve their goals.

Our Services:

- Municipal Planning Approvals
- Provincial Planning Approvals
- Strategic Planning
- Community and Stakeholder Engagement Strategies
- Transit Oriented Development
- Indigenous Engagement Leadership
- Implementing and Educating Clients on Strategic Policy Changes
- Strategic Communications and Issues Management
- Government Relations for Community Infrastructure Investment

For Further information

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