NAIOP
COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION

Housing Policy Reforms: Facilitating Access to Capital and Support for Converting Office Lands

2025

Expand Government Financing Support

- **Change CMHC's Mandate:**
  Transition Canada Mortgage and Housing Corporation (CMHC) from primarily a risk-adverse insurer into a development-support agency. Empower CMHC to offer low-cost loans, loan guarantees or equity for new housing projects. This would lower borrowing costs for builders and lower project risk for private lenders.
- **Leverage the Canada Infrastructure Bank (CIB):**
  Use CIB financing to amortize development-driven infrastructure costs over the useful life of the infrastructure. Municipalities could borrow via CIB to fund roads, water and sewers for new housing, then repay over the infrastructure's useful life through property taxes. This spreads out hefty Development Cost Charges (DCCs) and reduces upfront costs per unit.
- **Empower CMHC:**
  Scale up the federal Apartment Construction Loan Program and similar programs with extended terms and higher limits. Extend eligibility to a broader range of projects and builders and consider interest rate buydowns or credit enhancement for private loans to spur more construction. Longer amortizations insured by CMHC can further reduce monthly financing costs for new developments.

Reduce Taxes and Fees on New Housing

- **Raise the GST Threshold on New Homes:**
  Modernize the GST New Housing Rebate thresholds (unchanged since 1991). Eliminate the 5% GST on new homes up to $1 million and phase it out up to $1.5 million.
- **Make Development Charges Tax-exempt for Buyers:**
  List DCCs (or development charges) as a separate line item on new home sale agreements, and exempt that item from GST, provincial sales tax and land transfer tax. This prevents "tax on tax" compounding that currently inflates home prices.
- **Defer and Finance Development Fees:**
  Encourage or require municipalities to collect DCCs at project completion or occupancy instead of building permit issuance. Provinces can mandate DCC deferrals (Ontario already allows instalments for rentals), and the federal government can attach conditions to infrastructure funds to incentivize this practice. In addition, promote infrastructure utility models that allow cities to finance utilities and recover costs via user rates over time (rather than upfront fees).

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Unlock Private Capital and De-Risk Investment

- **Attract Institutional and Foreign Investment:** Remove barriers that deter private capital. Introduce tax incentives for large investors: Canada could mirror the U.S. 1031 exchange by deferring capital gains tax when proceeds from real estate sales are reinvested into new rental or housing projects. Consider an equivalent to U.S. Section 892 to entice foreign pension and sovereign wealth funds to finance Canadian housing by providing tax-exempt status on their returns.
- **Reintroduce Housing Investment Tax Incentives:** Encourage private investors to fund rental housing construction. For instance, allow investors in affordable or purpose-built rental projects to temporarily deduct losses or depreciation against other income, as was with the 1970s Multiple Unit Residential Building (MURB) program that spurred rental builds. Explore a Canadian version of the Low-income Housing Tax Credit to leverage private equity for affordable housing, learning from the successful U.S. model.
- **Expand Securitization and Mortgage Funding:** Increase the capacity of Canada Mortgage Bonds and other securitization channels to provide more low-cost mortgage capital for multi-unit projects. Likewise, regulators (Office of the Superintendent of Financial Institutions, provincial) should review capital requirements to ensure banks and credit unions are not unduly constrained from lending to viable housing projects.

Improve the Regulatory Environment for Financing

- **Coordinate Federal-Provincial Actions:** Use federal programs (Housing Accelerator Fund, infrastructure grants) to drive provincial and municipal cooperation on capital-friendly reforms. A coordinated approach across federal, provincial and municipal levels will help reverse the capital outflow to the U.S. and accelerate the building of the homes Canadians need.

Office Conversion Initiatives

- Across Canada, cities and towns are exploring ways to support the conversion of underutilized office lands to housing. The Government of Canada should help facilitate the replacement of underutilized office space with much needed housing through:
  - Financial Incentives and Tax Reforms such as tax credits and deductions, GST/HST rebate, and accelerated depreciation for office replacement projects.
  - Providing low-interest financing for office replacement projects through CMHC or the Canadian Infrastructure Bank.
  - Federal incentives to local municipalities to streamline approvals (extension of the Housing Accelerator Fund).