

SPECIAL REPORT

CANADA: ONTARIO HOUSING DEVELOPMENT

MAY 2026

Coordinated Cost Cuts Poised to Reignite Ontario Housing Construction

Ontarians face Canada's highest development charges. Affordability has long been a major barrier to homeownership in Canada. Although home prices have retreated over the past four years, they remain out of reach for many households. In Ontario, several factors contribute to elevated ownership costs, but high municipal development charges have become a particularly significant driver of home prices. Toronto levies the highest development charges among major Canadian cities, adding over \$180,000 for a single-detached home and roughly \$130,000 per unit for an apartment with two or more bedrooms and a minimum size of 700 square feet. While other municipalities in the Greater Toronto Area impose lower charges, they remain materially higher than those in many municipalities across Alberta, British Columbia, and Quebec.

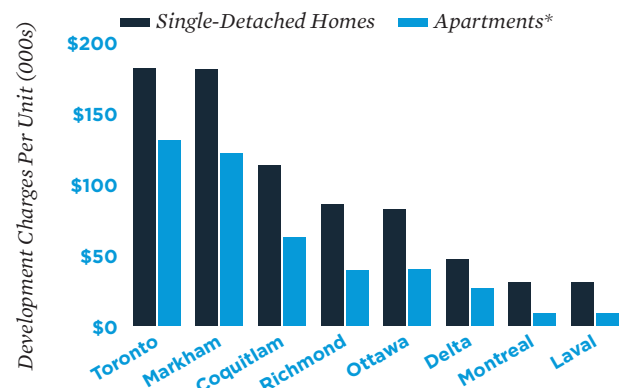
Fiscal constraints drive reliance on development charges. Development charges are a major revenue source for municipal governments in Ontario, helping fund local infrastructure projects. Today, local governments receive only about 9 per cent of total household tax revenues while being responsible for more than 60 per cent of public infrastructure. At the same time, transfers from senior levels of government have not kept pace with population growth, inflation, and the expansion of local responsibilities. Compounding these pressures, municipalities are prohibited from running operating deficits and are constrained by an Annual Repayment Limit that caps debt servicing at 25 per cent of own-source revenues. As a result, local governments are left with an inflexible and relatively small share of fiscal capacity, despite bearing the largest burden for infrastructure delivery.

High development charges weigh on construction activity. The growing misalignment between municipal revenues and responsibilities has pushed local governments to close funding gaps by several measures, with hiking development charges as a primary lever. As a result, development charges across the GTA have increased by an average of 176 per cent between 2011 and 2023. Developers are typically required to pay these charges upfront at the building-permit stage, while revenues are only realized once units are sold, often several years later. With financing costs elevated over the past two years, carrying these upfront costs has become an increasing financial burden. This challenge has been compounded by softening demand in the homeownership market — particularly in the condo segment — amid a sharp slowdown in population growth. As a result, developer appetite has weakened, dampening new project starts.

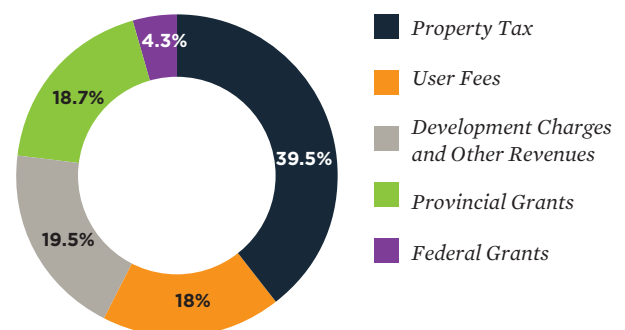
Key Takeaways

- Elevated development charges — driven by a mismatch between municipal revenues and responsibilities — have constrained housing construction in Ontario.
- A new federal-provincial push to reduce development charges could meaningfully lift housing supply.
- Lower charges may sustain growth in purpose-built rentals, putting near-term upward pressure on the vacancy rate.

Municipality Development Charges



Ontario Municipal Revenue Sources



* Units with two or more bedrooms and a minimum size of 700 square feet.

Sources: Association of Municipalities of Ontario; Canada Mortgage and Housing Corporation; Toronto Region Board of Trade

Housing construction is behind provincial target. Despite past funding support — such as Ontario’s \$1.2 billion Building Faster Fund and the \$138 million allocated to Ontario through the federal government’s Housing Accelerator Fund — homebuilding activity across most municipalities remains short of the province’s goal of delivering 1.5 million homes over the 2022-2031 period. The latest data show that in 2024, total housing completions reached only about 75 per cent of the annual target, with roughly half of all municipalities failing to meet their yearly benchmarks. Past government support has yet to materially move the needle, largely because it either fails to address the burden of development charges directly or has been too limited in scale relative to the roughly \$3.5 billion in development charges collected annually by Ontario municipalities.

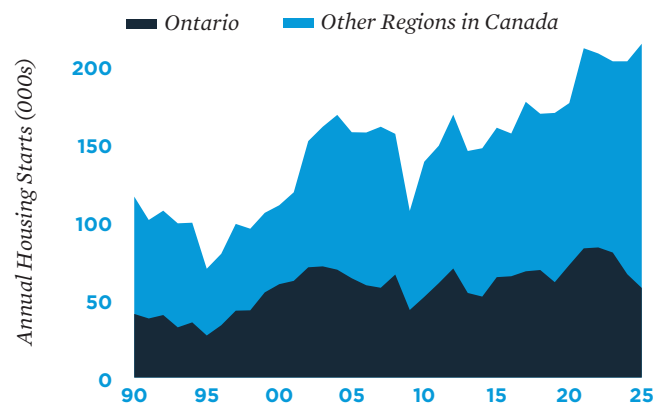
New measures aim to cut development charges in Ontario. In March, the provincial and federal governments announced an \$8.8 billion, 10-year joint funding commitment through the Build Communities Strong Fund aimed at incentivizing municipalities to reduce residential development charges. Funding will be prioritized for municipalities that commit to maintaining these reductions and is intended to offset a significant portion of the resulting revenue loss for local governments. In addition, Ontario and the federal government will jointly identify priority municipalities where development charges are deemed cost-prohibitive and housing growth is critical. To qualify for funding, these municipalities will be required to substantially reduce residential development charges — typically 30 to 50 per cent for a minimum of three years. This intergovernmental partnership represents the first large-scale funding program in Canada explicitly designed to compensate municipalities for reducing development charges.

Lower development charges to aid home supply. This new initiative is expected to boost housing supply by reducing development charges across the board. That said, the impact may not be uniform across all segments. The strongest response is expected to come from low-rise formats such as single-detached homes and townhouses, where demand remains relatively robust, and projects rely less on presales. These projects are typically driven by end users rather than investors, have shorter development timelines, and can respond more quickly to cost reliefs, allowing development charge cuts to translate more directly into improved feasibility and new housing starts. In contrast, the condo market may remain constrained by elevated unsold inventory and weak presale absorption in the near term, alongside still challenging financing conditions. As condo development depends more on achieving sufficient presales to secure funding, lower development charges alone are unlikely to unlock a meaningful near-term supply response until existing inventory is cleared and absorption rates recover.

Ontario Municipality Housing Targets and Status

Municipalities	2024 Housing Construction Target	2024 Completions	Progress % for 2024	Housing Target Status
Toronto	23,750	20,999	88%	On track
Ottawa	12,583	7,871	63%	Not met
Mississauga	10,000	3,496	35%	Not met
Brampton	9,417	5,791	62%	Not met
Hamilton	3,917	2,384	61%	Not met
Markham	3,667	2,034	55%	Not met
Vaughan	3,500	2,431	69%	Not met
Kitchener	2,917	3,067	105%	Exceeded
Windsor	1,083	2,306	213%	Exceeded
Richmond Hill	2,250	9,12	41%	Not met
Oakville	2,750	3,679	134%	Exceeded
Burlington	2,417	1,185	49%	Not met
Oshawa	1,917	949	50%	Not met
Barrie	1,917	1,459	76%	Not met

Housing Construction Sluggish in Ontario

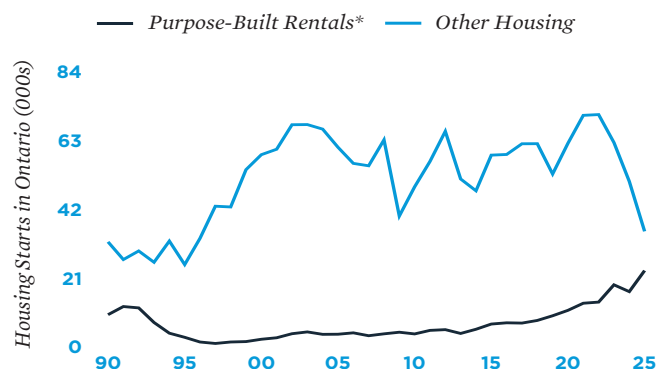


Multifamily sector sees further supply tailwinds. Rental apartment construction in Ontario has surged in recent years, supported by strong post-pandemic population growth and targeted government support programs. A key factor underpinning builders' preference for rental projects over condos is the lower development charges they face. In the city of Toronto, for instance, a one-bedroom condo unit carries roughly \$53,000 in development charges, compared with just under \$37,000 for a comparable rental unit. The latest announcement to reduce development charges across Ontario is therefore likely to further enhance the appeal of rental projects among builders over the coming years. While development charges for condos are also expected to decline, persistently weak demand and ongoing feasibility challenges are likely to continue weighing on condo development, limiting competition with the multifamily sector in the near term.

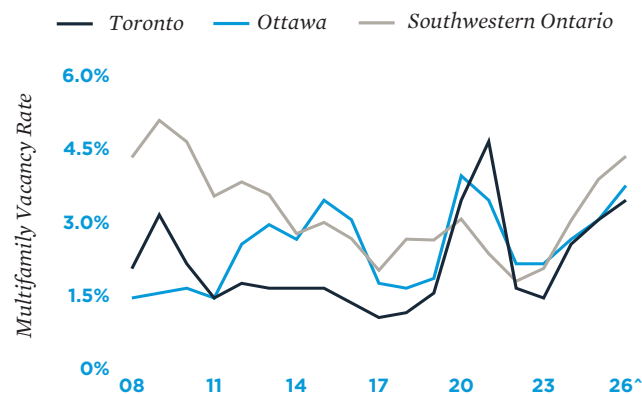
Surge in rental supply to push vacancy higher. With rentals now accounting for over 40 per cent of total housing construction in Ontario, further expansion raises the risk of a near-term supply-demand imbalance. Following a 150-basis-point increase in apartment vacancy over the past two years, additional rental supply is likely to place further upward pressure on vacancy rates in the near term amid muted population growth tied to tighter immigration. At the same time, the reduction in development charges and the introduction of a new HST rebate on new homes could lower taxes and fees by up to \$200,000 per unit for homebuyers in Ontario – a meaningful discount relative to current price levels. If effectively implemented, these measures will likely enable some households previously priced out of ownership to transition from renting to owning, further softening rental demand. Taken together, these dynamics point to sustained upward pressure on apartment vacancy rates in Ontario over the coming years.

Structural reform needed for long-term impact. Beyond the near term, the development charge reductions may have a limited impact unless accompanied by broader fiscal reform. The current program effectively provides a temporary offset to municipal revenue losses. However, it does not address the underlying structural imbalance in municipal finance. As long as local governments remain responsible for a large share of infrastructure provision without access to commensurate revenue tools, reliance on development charges is likely to persist. In that sense, development charges can only cease to be a meaningful impediment to construction and housing affordability if municipalities secure more diversified funding sources. Absent structural reform, today's cost relief may prove temporary, with construction costs rising again once government support is withdrawn. In the multifamily sector, while lower development charges can support supply over the coming years, the longer-term outlook will likely still be shaped by demand fundamentals.

Rental Starts Buck Overall Trend



Rental Vacancy Has Risen Since 2023



* Includes apartments and other rentals; ^ Forecast

Sources: IPA Research Services; Association of Municipalities of Ontario; Canada Mortgage and Housing Corporation; Government of Canada, Government of Ontario; Toronto Region Board of Trade

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