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PROPRIETARY REAL ESTATE RESEARCH

Build and Benefit: How Homebuilding Incentives Can Pay Off for Cities, Homeowners and Local Economies

In partnership:

JOHN MOLSON SCHOOL OF BUSINESS

UNIVERSITÉ Concordia UNIVERSITY

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Build and Benefit: How Homebuilding Incentives Can Pay Off for Cities, Homeowners, and Local Economies

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Executive Summary

This study analyzes Canadian housing affordability as both an outcome and a driver of broader economic performance. The study measures housing affordability using a Mortgage Pressure Index (MPI), the ratio between average annual mortgage payments and annual median gross income. Cities that reduce approval delays, add public incentives, or both, can successfully drive new housing supply, thereby improving affordability. More affordable housing in our core cities has wide-ranging benefits, including local business formation, improved affordability in nearby cities, and positive fiscal effects.

This study extends our earlier body of work by explicitly linking housing supply, affordability, and economic growth in a positive reinforcing cycle. Our earlier research shows that Canada's chronic housing shortage means that new construction is absorbed readily by excess demand, so prices keep rising even when supply increases. Using artificial intelligence (AI), we quantified how immigration and demographic pressures shape both ownership and rental markets, and we projected housing price trajectories based on current federal immigration targets based on the low, medium, and high population growth scenarios by Statistics Canada.

Two clear and actionable recommendations to municipal governments emerged as especially impactful and realistic: (1) reducing regulatory and permitting bottlenecks at the municipal level to shorten timelines and lower the carrying costs for developers, and (2) providing incentives or policy offsets to mitigate the burden of rising construction input costs. Among these, easing local approval processes represents a low-cost intervention with a relatively high return in terms of accelerating supply.

This latest research demonstrates that investments in housing supply can improve affordability while offering long-term fiscal, economic, and social benefits that can help offset the upfront investment. Furthermore, we find that improvements in affordability in major core cities such as Toronto, Vancouver, Calgary, and Montreal reduce the pressure placed on the housing markets of nearby cities.

Research Highlights

- Canada's housing shortage persists despite recent record construction delivery. New housing is absorbed very quickly, and prices remain elevated and growing. Only when annual completions exceed 4-6% of existing stock (2024 housing stock) do affordability conditions begin to stabilize. For example, in Toronto this would mean at least 96,000 additional dwellings each year, more than doubling 2024's rate.
- Using a new dataset combining CMHC completions, census demographics, and municipal approval data, we find that reducing approval delays by 20% can improve affordability by 17% relative to 2024 levels. In our view, improving regulatory efficiency remains a readily available, impactful policy lever.
- Improvements in affordability, measured by our MPI, in major core cities such as Toronto, Vancouver, Calgary, and Montreal generate measurable affordability benefits for surrounding regions. A 20% improvement in 2024 affordability levels in Canada's bigger cities reduces median home prices in surrounding areas by 5-15%.
- Affordability improvements also drive business formation. A 20% improvement in affordability compared to 2024 levels could result in the creation of 15-45 new businesses per 100,000 people.
- These dynamics drive what we call the Build and Benefit Cycle: better affordability supports household stability, stimulates consumption, and can expand municipal tax bases through both property and business revenues.
- In an illustrative model for Toronto, a $3 billion housing-supply incentive program could generate an estimated $672 million in recurring annual tax inflows, implying a four-to-five-year fiscal payback — even without accounting for further positive multiplier effects.

Build and Benefit Cycle

Canada's affordability crisis is not merely a social challenge — it is an economic constraint that holds back household financial health, business formation, productivity, and municipal revenue growth. Our findings suggest that increasing housing supply improves affordability, which stimulates economic activity, grows the municipal tax base, and — critically — helps offset the initial public expenditures.

Starting Point: Enabling Supply

Targeted policies can allow developers to build more homes, faster. This can involve:

- Easing municipal approval delays
- Reducing regulatory barriers
- Offering targeted incentives
- Policy that helps maintain input costs at favourable levels

Household Effects

When supply increases at scale, rents and ownership costs begin to moderate. Improved housing affordability has direct local benefits:

- Increased household disposable income
- Enhanced financial stability and household resources
- Greater community cohesion

Economic Response: Business Activity and Job Creation

As affordability improves, households can consume a wider range of goods and services. Spending rises, enabling productivity gains and increases in economic activity. This can take the form of:

- Employee retention
- Reduced displacement and outmigration
- Supports local economic multipliers: schools, daycares, city services, etc.
- Business creation

Municipal Revenue Growth

Economic expansion leads to higher municipal revenues through:

- Expanded commercial and residential property tax bases
- Greater business licensing and fee-based revenue
- Growth in local sales and payroll-related taxation (depending on jurisdiction)

These revenues, based on our analysis, in the cases we tested, exceed the initial cost of public intervention over time. This paper presents an illustrative case study for Toronto, but other cities tested included: Vancouver, Montreal, and Calgary. Even temporary

government incentives can generate enduring fiscal returns when structured to enable supply.

Spillover Benefits Beyond Core Cities

Improving affordability in major hubs has stabilizing effects on adjacent municipalities. When pressures ease in core cities such as Toronto, Montreal, Calgary, and Vancouver:

- Displacement to peripheral regions slows
- Price escalation in surrounding areas moderates
- Commuting and infrastructure stressors decline

Why the Build and Benefit Cycle Matters

Our model reframes the conversation of incenting the creation of new housing supply as an economic growth strategy. Major investments in supply can therefore be seen an economic trigger that improves affordability, strengthens local economies, and expands fiscal capacity. Our Build and Benefit Cycle provides policymakers, industry leaders, and investors with a clear picture of the potential returns on investments in housing supply.

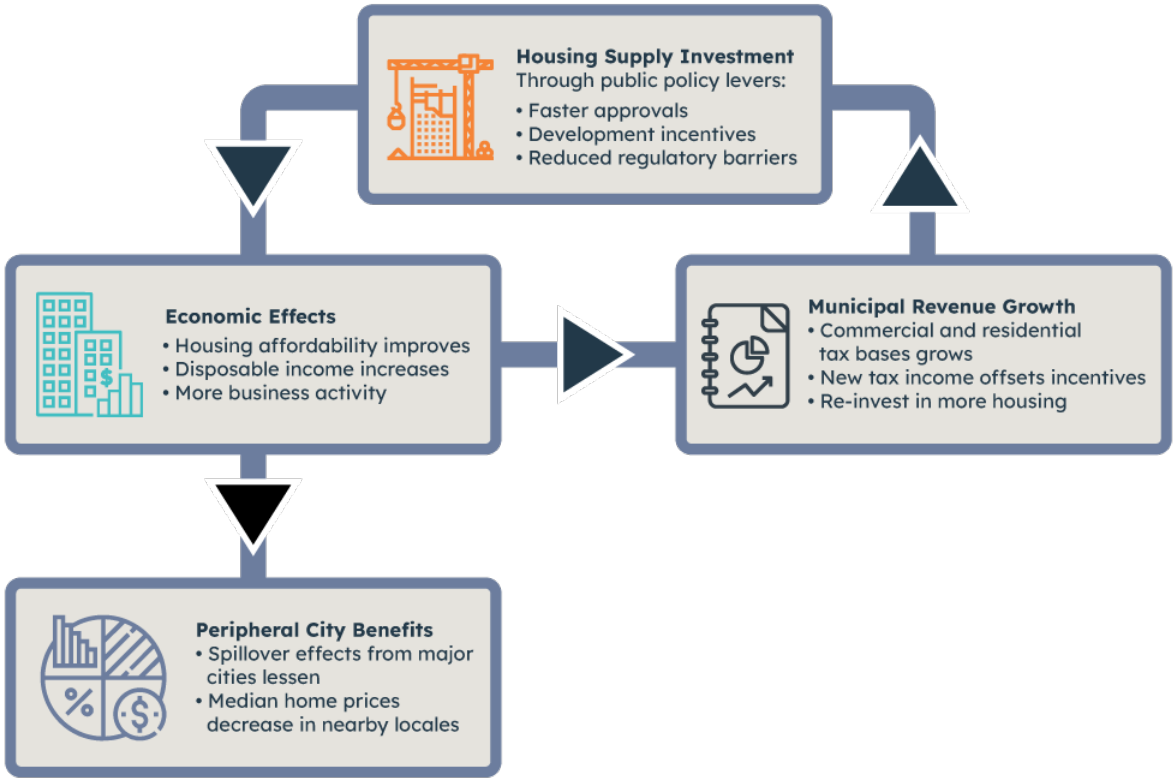

Figure 1. Build and Benefit Cycle

Data-Based Evidence Supporting the Model

To analyze the supply side of Canada's housing market, we construct a comprehensive dataset that combines high-frequency market indicators with detailed demographic and socio-economic variables. This dataset enables us to track how housing completions, prices, and population dynamics evolve across Canada's Census Metropolitan Areas (CMAs) over time.

We draw on quarterly data from the Canada Mortgage and Housing Corporation (CMHC), which include information on housing completions (single-detached, semi-detached, row/townhouse, and apartment units, both condominium and purpose-built rental) and median prices of absorbed homeowner and condominium units. These market indicators are merged with Statistics Canada's census data (collected every five years) to capture the demographic and economic characteristics shaping local housing markets. The combined dataset includes the following key variables:

- Number of dwellings and households
- Average household size
- Population density per square kilometre
- Share of residents working from home
- Educational attainment (share of residents holding a bachelor's degree or higher)
- Median household income and unemployment rate

To capture demographic changes between census years, we incorporate annual population estimates from Statistics Canada, including detailed counts of immigrants and non-permanent residents (non-PRs) at the CMA level. This integration allows us to assess how population growth and migration contribute to housing demand and affordability pressures.

To ensure comparability across both time and regions, we apply standard normalization techniques. Housing completions are expressed as a share of total dwellings in each CMA, while bachelor's degree holders, immigrants, and non-PRs are scaled by CMA-level population. These adjustments standardize the data, allowing for consistent comparison of regions with different sizes and housing stocks.

In addition, we incorporate data from the Municipal Land Use and Regulation Survey, conducted jointly by CMHC and Statistics Canada in 2022.[1] From this survey, we use the

1 Municipal Land Use and Regulation Survey

Approval Delay Index, a cross-sectional measure that quantifies the average time municipalities take to approve new residential development projects which essentially captures the processing delay in permits. This indicator describes one of the most critical bottlenecks in Canada's housing delivery system — the administrative and procedural delays between project proposal and final approval. Higher index values indicate longer approval timelines and greater friction in bringing new supply to market, while lower values reflect more efficient permitting processes. The index is normalized to 100 for Toronto, with values for other CMAs expressed relative to Toronto, where higher values indicate stricter regulations or longer approval timelines.

Our measure of affordability in this study is defined as the Mortgage Pressure Index (MPI), the ratio between annual mortgage payments and annual median gross household income at the Census Metropolitan Area (CMA) level:

$$Mortgage\ Pressure\ Index = \frac{Annual\ Mortgage\ Payment^{CMA}}{Annual\ Household\ Income^{CMA}}$$

To compute annual mortgage payments, we assume a representative loan with an 80% loan-to-value (LTV) ratio on the average house price for each year-quarter. The loan carries a 25-year amortization period and the prevailing average mortgage interest rate reported by Statistics Canada for that quarter. Payments are amortized monthly and multiplied by 12 to obtain annual values. Median gross household income is drawn from the 2016 and 2021 Statistics Canada census and held constant within each five-year window. This metric therefore captures the annual mortgage burden per dollar of household income.

In our model, a lower value for the MPI means better affordability. A value of one or greater means the average annual mortgage payment exceeds annual income. For example, Toronto's MPI in 2024 was 2.4, so average annual mortgage payments are more than double the median household's annual income. Vancouver's MPI was 4.0, so average annual mortgage payments exceeded the median household's annual income by four times.

The practical impact of a one-unit improvement will produce varying effects on affordability depending on the city due to the different factors underlying each housing market. To make the unit changes more intuitive in each city, we can think of them in terms of percentage change. As discussed above, Toronto's MPI in 2024 measures 2.4, so a one-unit drop in the MPI amounts to a 42% improvement using our affordability measure, whereas the same one-unit MPI change in Vancouver, where homes can be pricier, will produce a 25% improvement.

Our panel dataset spans Q1-2017 to Q1-2025, allowing for consistent cross-sectional comparisons over time. This unified and normalized panel dataset provides a robust foundation for examining how supply expansion and regulatory efficiency shape the affordability outlook across regions.

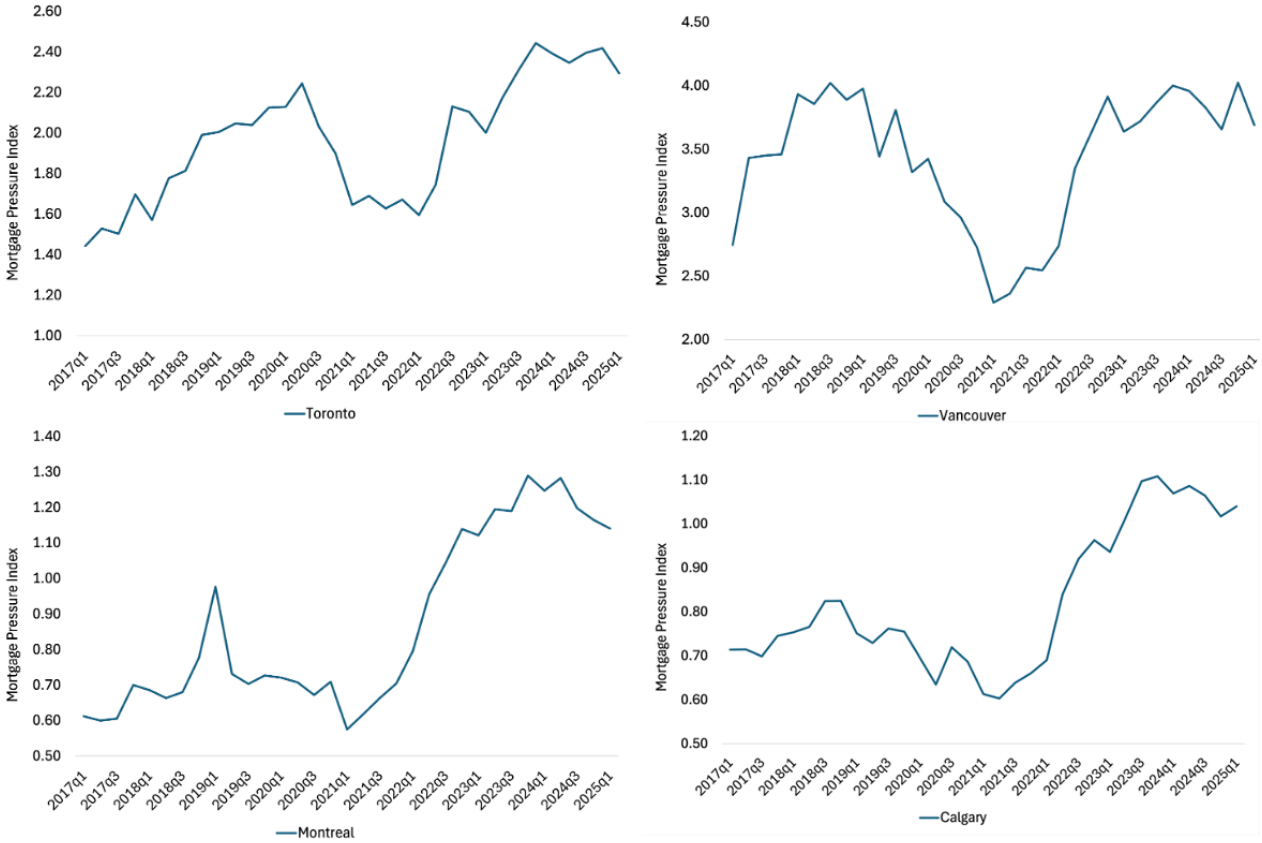

Figure 2. Mortgage Pressure Index for Toronto, Vancouver, Montreal, and Calgary from Q1-2017 to Q1-2025

We present the time series of the MPI for major Canadian core cities: Toronto, Vancouver, Montreal, and Calgary. Elevated MPI in Toronto and Vancouver indicates persistent housing unaffordability. In Q1-2025, the index reaches approximately 2.4 for Toronto, meaning that the average annual mortgage payment is 2.4 times the median household's income. The index value is about four for Vancouver, implying an even higher mortgage burden. Toronto exhibits a steady upward trend since 2017, with a temporary decline during the COVID-19 pandemic. In Montreal and Calgary, the MPI is lower than Toronto, but has risen sharply since 2020, reflecting deteriorating affordability. Even in these two relatively more affordable cities, the MPI is greater than one, meaning the average annual mortgage payment exceeds the median household income.

Housing Completions and Affordability

To evaluate how new housing supply and municipal approvals impact affordability, we model our MPI as a function of housing completions (a measure of supply flow), approval delay (a measure of regulatory friction from the Approval Delay Index), and a set of local economic and demographic controls including population growth, income, education, and unemployment.

A key challenge in this analysis is reverse causality: higher prices and worsening affordability often stimulate more construction, potentially biasing simple correlations. To address this, we use a two-stage instrumental variable (IV) strategy. In the first stage, housing completions are predicted using lagged construction cost indices (e.g., metal prices and building cost inflation). These cost shocks affect developers' ability to start new projects but are not directly tied to short-term changes in household affordability, making them suitable instruments. This approach allows us to isolate the causal effect of new construction on affordability — distinguishing whether more housing genuinely improves affordability or merely follows market tightening.

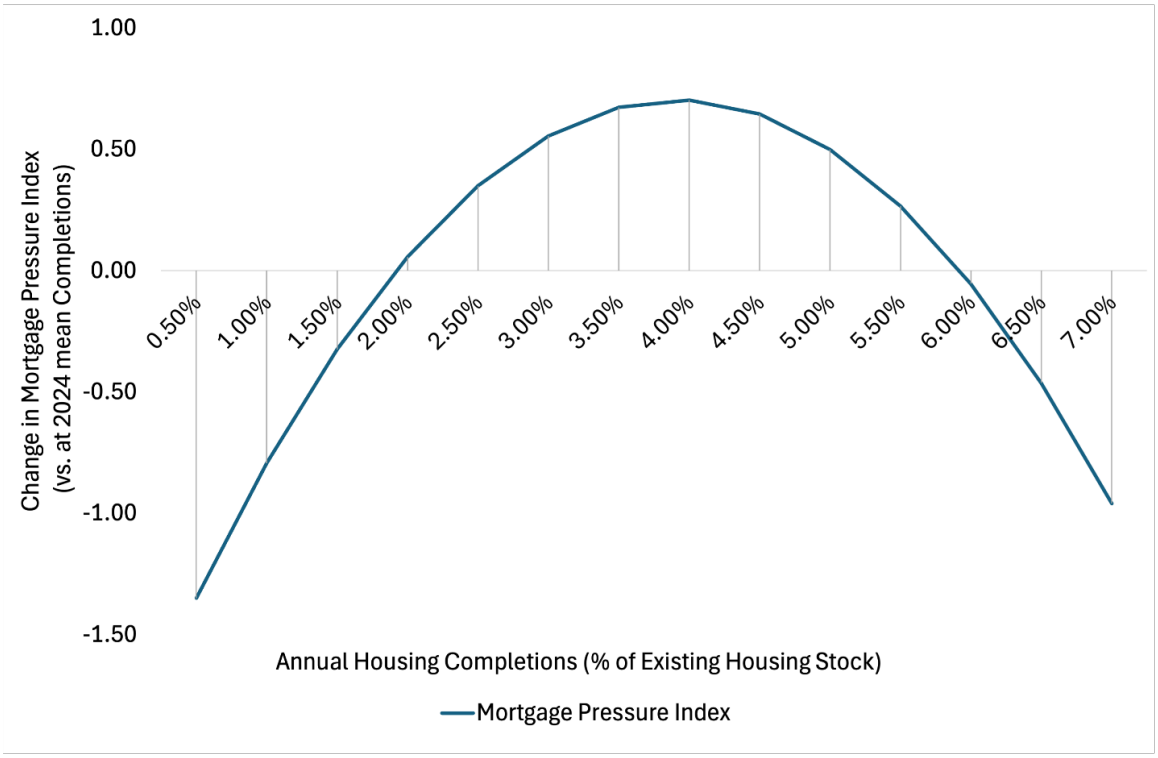

Figure 3. Impact of Housing Completions on Mortgage Pressure Index

Notes: The figure is created from the regression output presented in Online Appendix Table IO-1.

Our IV results show that increasing housing completions improves affordability, demonstrated by the falling index, but the impact is non-linear and subject to diminishing

returns. As illustrated in Figure 3 (Page 9), the relationship follows a U-shaped curve: At low construction levels, affordability worsens (MPI rises) because incremental completions are insufficient to offset the large pool of unmet demand. Once construction reaches a sustained threshold, affordability begins to improve rapidly as new housing units start absorbing that excess demand.

At Canada's 2024 completion rate — about 1.9% of the existing housing stock per year — the model suggests that affordability begins to improve meaningfully only once completions exceed roughly 4% of existing housing stock annually. The most significant gains appear at completion rates of 6% or higher, where our MPI improves sharply.

In a further quantitative example, if completions were raised even further to 7% of existing stock, the MPI across major CMAs would improve by roughly one unit — from 1.44 in 2024 to approximately 0.44, or a 69% improvement. This represents a substantial improvement in affordability and a shift toward more sustainable housing cost levels.

In a market constrained by severe undersupply and excess demand, moderate construction growth fails to improve affordability. Only when the pace of new housing delivery accelerates well beyond historical norms can affordability meaningfully stabilize. This strongly suggests that incremental policy actions yield limited relief. Canada must build faster, not just more, and to do so municipalities must streamline approval procedures.

Figure 4 (below) illustrates the estimated impact of municipal approval timelines on affordability using the Approval Delay Index. The relationship is strongly negative and nearly linear: longer approval processes consistently erode affordability. Our model suggests that reducing Approval Delay Index from 60 units (the 2024 national average) to 30 units would improve the MPI by approximately 0.40 units. In other words, a 20% cut in approval delays can mean a 17% improvement in affordability.

Importantly, the effect compounds over time — slower approvals delay housing completions, dampen investment cycles, and exacerbate local supply shortages. Because permitting reform may require less direct fiscal expenditure than some other solutions proposed by advocates, easing local approval processes can represent a low-cost intervention with a relatively high return in terms of accelerating supply.

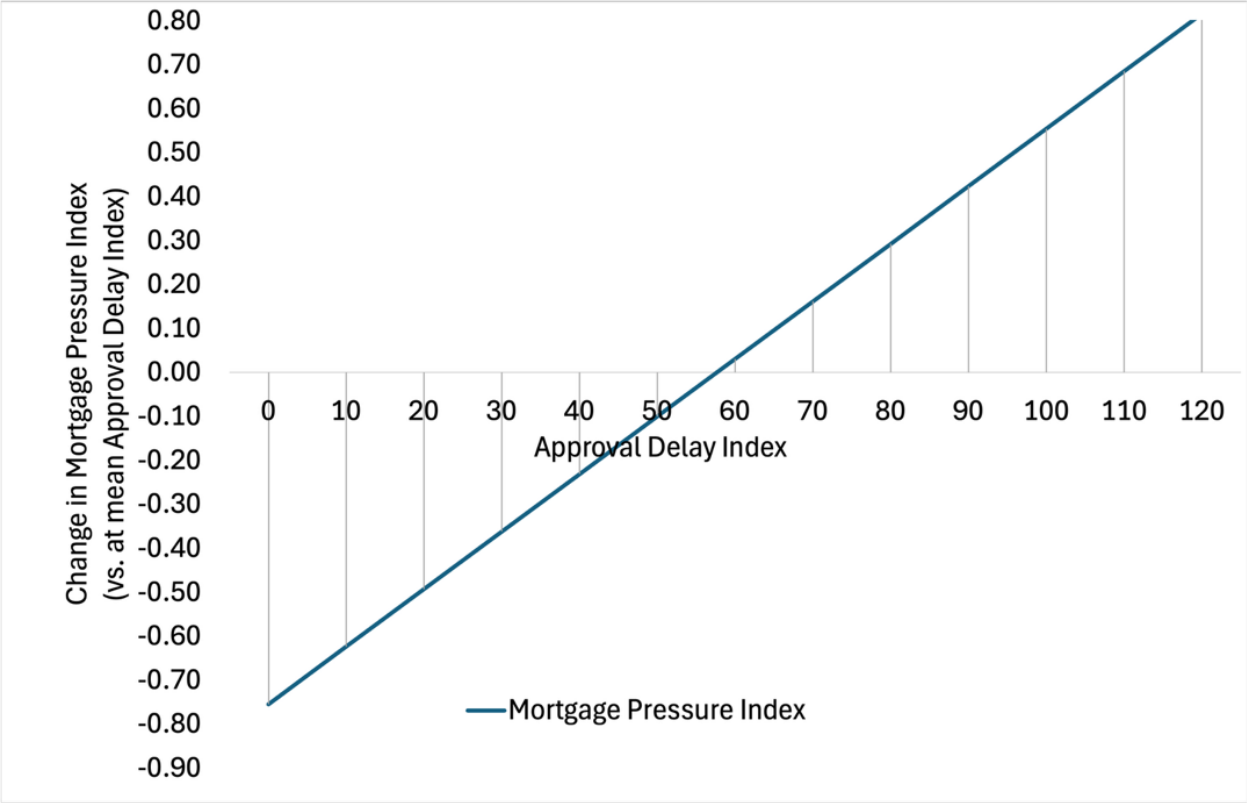

Figure 4. Impact of Approval Delay Index on Mortgage Pressure Index

Notes: The figure is created from the regression output presented in Online Appendix Table IO-1.

The results confirm that supply-oriented policies — particularly faster approvals and higher construction throughput — can yield improvements in affordability and set the foundation for broader economic gains through business formation. The data make a clear case: meaningful affordability relief in Canada can come from building more and building faster.

Mortgage Pressure Index and Business Activity

The Build and Benefit Cycle connects housing affordability to factors that support healthier local economies. Specifically, we investigate whether improvements in affordability are associated with higher levels of business formation and activity across Canada's Census Metropolitan Areas (CMAs). Business counts are obtained from the Statistics Canada Monthly Business Openings and Closures (MBOC) survey, which tracks the number of active employer businesses in Canada (those with at least one employee and a payroll deduction remittance) by industry and geography. The data includes openings, closures, and continuing businesses across provinces, territories, and selected CMAs, excluding businesses in agriculture, fishing and trapping, private households, religious organizations, and public administration.

We regress the number of active businesses per capita on our MPI, controlling for demographic and economic fundamentals such as population size, density, education, employment, and household characteristics. Both year-quarter and regional fixed effects are included to isolate intra-regional changes over time. The dependent variable — business counts-to-population — captures the density of entrepreneurial activity relative to local population size.

The regression results reported in the Online Appendix reveal a strong and statistically significant positive relationship between affordability and business activity. The coefficient on affordability is 1.89 in the baseline model and 0.49 when controlling for CMA-specific effects, which means that as homes become more affordable, business creation activity increases.

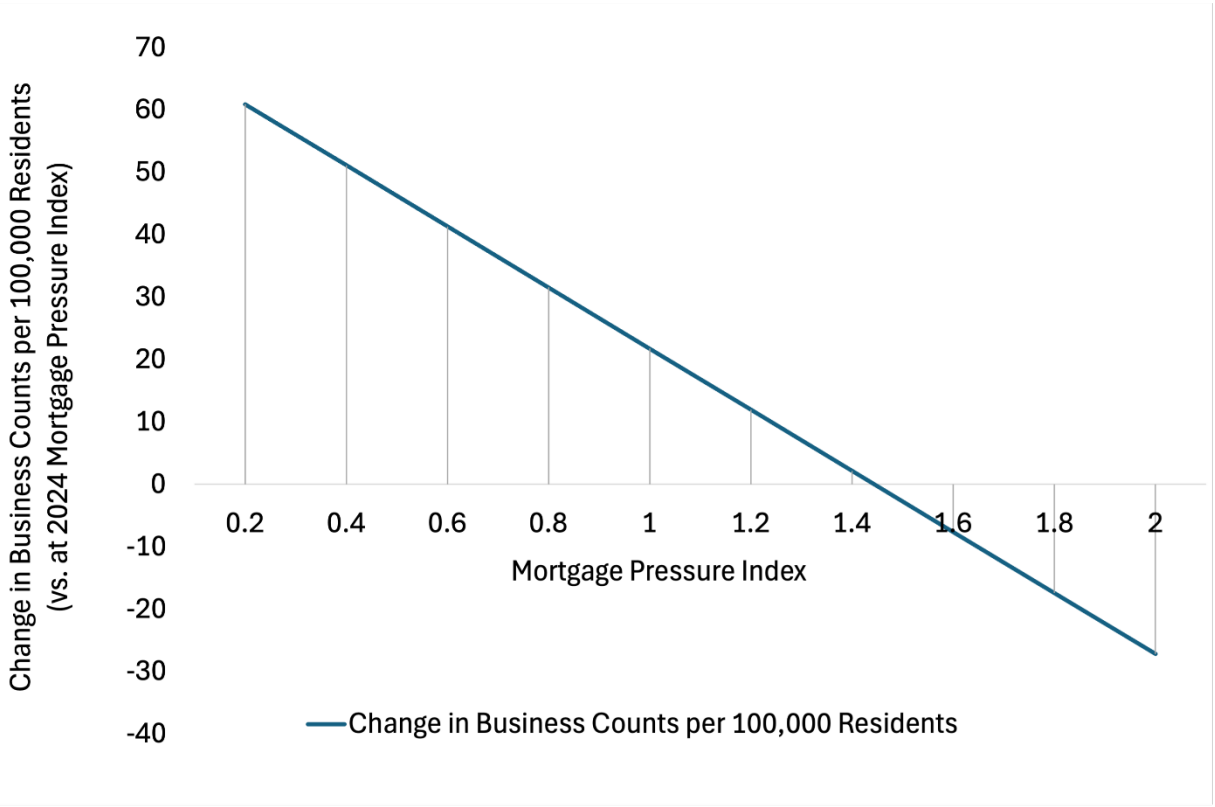

Figure 5. Impact of Mortgage Pressure Index on Business Counts per 100,000 Residents

Notes: The figure is created from the regression output presented in Online Appendix Table IO-2.

A one-unit drop in our MPI is associated with approximately 49 additional active businesses per 100,000 residents, after accounting for regional and temporal controls. This corresponds to a roughly 8% increase in the mean of the number of active business establishments in 2024. In percentage terms, this means a 20% improvement in affordability compared to 2024 levels can result in the creation of 15-45 new businesses

per 100,000 people. This relationship is illustrated in Figure 5 (Page 12), where business density rises almost linearly with improvements in affordability.

This relationship is supported by several dynamics:

- Lower living costs can lead to increased disposable income. When households spend less on housing, they may have more to allocate toward the consumption of other goods and services. This spending can lead to new business formation.
- Improved housing affordability attracts labour and talent. Lower housing costs make regions more accessible to workers and entrepreneurs, expanding both the customer base and the labour supply for local firms.
- As housing costs decline relative to income, firms may face less upward pressure on wages, all else equal, improving profitability and supporting business expansion.
- There can be a local multiplier effect as new business establishments hire locally and invest in the community, amplifying regional economic activity.

From a public finance perspective, the expansion of business activity creates a self-reinforcing fiscal mechanism. More active businesses generate higher property tax assessments, commercial levies, and local sales-related revenues, thereby increasing municipal tax income. In our estimated model, this enhanced revenue base helps offset or may even fully compensate the initial costs of development subsidies or infrastructure investments aimed at accelerating housing supply.

Municipalities that invest upfront in faster approvals or targeted development incentives can expect a fiscal return as stronger affordability attracts population growth and entrepreneurship. This virtuous cycle observed in our analysis reinforces housing policy as a form of economic and fiscal policy, where affordability improvements translate into broader prosperity and long-term fiscal sustainability.

Other model controls align with this interpretation. Larger household sizes and higher education levels are positively associated with business density, suggesting that stable households and human capital both support entrepreneurship. Remote-work prevalence also contributes positively, reflecting the decentralization of demand for services outside traditional job centres. In contrast, population density and unemployment show negative relationships, indicating that congestion and weak labour-market conditions dampen business formation.

Cross-CMA Housing Market Linkages

We also examine how improvements in affordability within Canada's largest urban centres transmit to surrounding housing markets. Because some households and firms may be mobile across metropolitan boundaries, housing market conditions in core cities such as Toronto, Vancouver, Montreal, and Calgary tend to influence affordability and prices in their economically linked peripheral regions.

To capture these cross-market dynamics, we estimate a panel regression linking core-city affordability (defined by the MPI) to median housing prices in nearby CMAs, controlling for local demographic, economic, and supply variables. The analysis is structured around core–peripheral pairs, as follows:

- Toronto → Kitchener–Cambridge–Waterloo, Hamilton, London
- Vancouver → Victoria, Kelowna
- Montreal → Québec, Ottawa–Gatineau
- Calgary → Edmonton

The regression results, reported in the Online Appendix, show a clear and statistically significant link between core-city affordability and peripheral housing prices. The coefficient on Core-City Housing Affordability is 0.35 in the baseline model and remains negative and statistically significant across fixed-effects specifications (0.10 to 0.12). Therefore, we see that when affordability improves in core markets, housing prices in surrounding CMAs decline, as one would expect.

In a quantitative example, a one unit drop in core-city MPI is associated with a roughly 10- to 35-basis-point decrease in the log of housing prices in peripheral cities. In other words, this improved affordability translates to a 10-30% reduction in median housing prices, as illustrated in Figure 6 (next page).

When the core-city MPI declines by one unit, surrounding markets experience a median price decline of about 11%, reflecting a substantial easing of outward demand pressures. In summary, a 20% improvement in 2024 affordability levels in Canada's bigger cities reduces median home prices in peripheral cities by 5-15%.

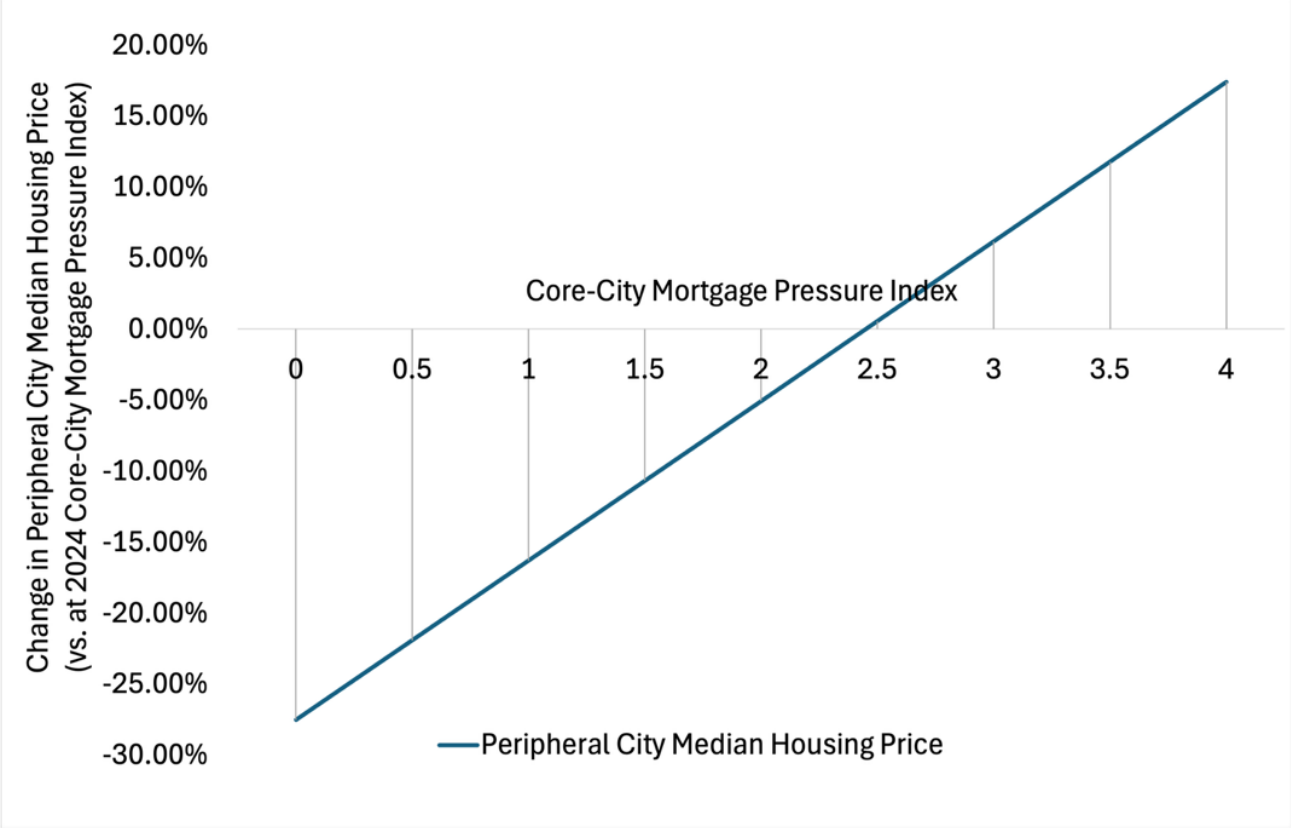

Figure 6. Impact of Core-City Mortgage Pressure Index on Peripheral City Housing Price

Notes: The figure is created from the regression output presented in Online Appendix Table IO-3.

These results reveal two interconnected channels through which affordability gains in large metropolitan centres benefit surrounding housing markets. First, when affordability improves in a core market, fewer households relocate outward in search of lower housing costs. This reduces migration-driven demand pressure on peripheral CMAs, allowing local prices to stabilize and, in some cases, decline. Conversely, when affordability deteriorates in major centres, outward migration intensifies, lowering affordability in neighbouring regions.

Second, many peripheral CMAs function as commuter and housing supply extensions of core cities. The evidence indicates that when affordability improves in the core city, housing prices in these surrounding markets tend to decline, reflecting their close integration within the same regional housing system. This mechanism helps stabilize regional housing dynamics by easing price pressures in nearby markets.

The evidence underscores the need for regionally coordinated housing and infrastructure policy. Affordability gains in large cities do not remain local; they cascade through interconnected housing systems, improving economic factors. As affordability improves,

business formation accelerates, expanding municipal tax bases and offsetting fiscal costs of development incentives. Through this lens, housing supply policy becomes a regional economic development strategy — one that simultaneously supports affordability, entrepreneurship, and fiscal sustainability.

Together, these findings complete the Build and Benefit Cycle:

- Increased housing supply and faster approvals improve affordability in core markets.
- Improved affordability stimulates business activity and broadens local tax bases.
- Spillover effects transmit these affordability and growth gains to surrounding CMAs.
- Regional stability reinforces fiscal and economic resilience, closing the link between housing policy and macroeconomic outcomes.

Build and Benefit Cycle Case Study: Toronto

Building on the empirical results presented in the previous sections, the following illustrative analysis applies the estimated relationships between housing supply, affordability, and business activity to a scenario in the Toronto CMA. The objective is to illustrate, in fiscal terms, how accelerated construction could generate measurable returns for local and provincial governments through our Build and Benefit Cycle.

Let's take a one-time, immediate, and targeted $25,000-per-unit housing supply incentive supporting 120,000 new dwellings — a total public investment of $3 billion. According to the model, this stimulus would improve the Toronto MPI by approximately 0.6 points, taking it from 2.4 in 2024 to 1.8, or a 25% improvement. Using a conservative elasticity of 49 new businesses per 100,000 residents, this gain translates into an estimated 2,000 additional business establishments across the region. Assuming an average annual revenue of $400,000 per firm[2] and a conservative effective 12% tax rate (combining corporate, payroll, and property-related revenues), these new businesses would contribute an average of $40,000 per firm, for a total of approximately $96 million in recurring annual tax revenues. But this is only part of the picture.

New housing also directly expands the property-tax base. At an effective 0.6% (rounded figure) property-tax rate on an average assessed value of $800,000 per property,[3] the 120,000 new dwellings would generate about $576 million per year in property-tax

2 https://www150.statcan.gc.ca/n1/daily-quotidien/240116/cg-c002-eng.htm
3 https://www150.statcan.gc.ca/n1/daily-quotidien/190129/cg-a002-eng.htm

revenues. Combined, these two channels yield an estimated total of $672 million in new recurring estimated annual fiscal inflows for municipal and provincial governments.

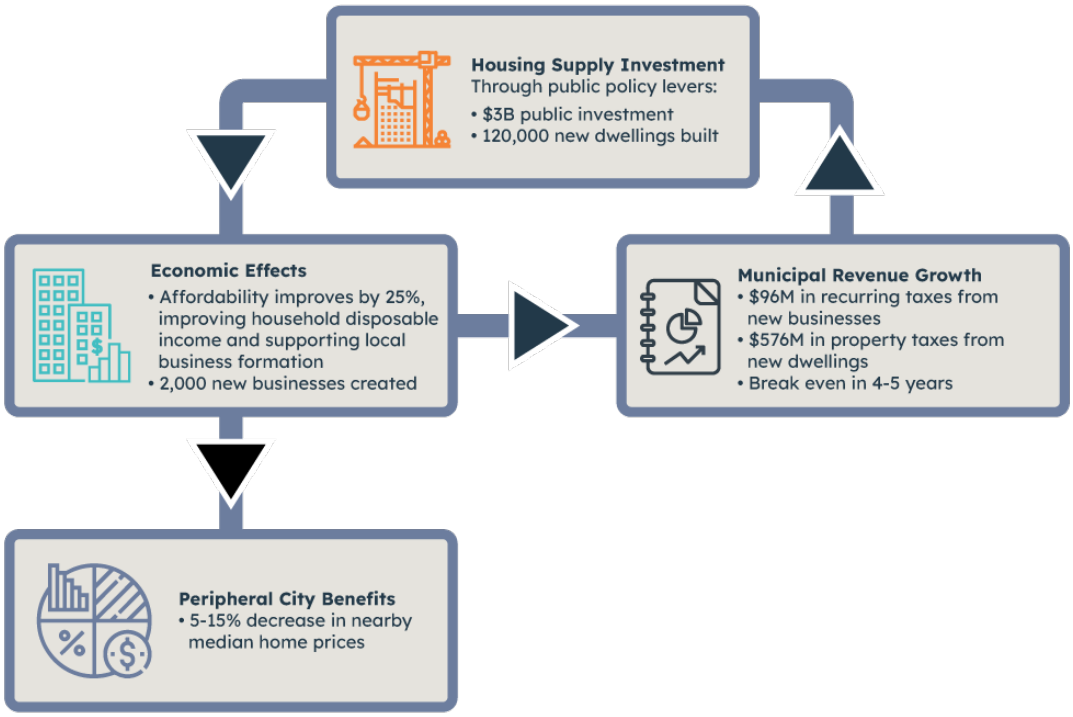

Figure 7. Illustration of Estimated Fiscal Returns from Housing Supply Expansion for Toronto

Even under these cautious assumptions — and excluding broader multiplier effects such as employment, consumption, and assessment growth — the public investment would be recovered in an estimated four to five years from the time the incentivized housing units are completed. This analysis illustrates how accelerating housing supply can create a self-sustaining fiscal cycle, where improved affordability drives business formation, expands the tax base, and reinforces local economic resilience. We present the illustration in Figure 7 (above).

These results should be viewed as illustrative and directional, rather than as precise forecasts. The exercise represents a fiscal simulation built on empirically significant relationships observed across Canadian metropolitan areas, not a fully dynamic general-equilibrium model. Because the regressions were estimated sequentially rather than jointly, possible feedback effects — for instance, between increased business activity, household incomes, and further improvements in affordability — are not captured simultaneously. In

practice, these reinforcing interactions would likely amplify the overall economic gains but quantifying them requires structural modeling beyond the scope of this report.

Furthermore, this scenario assumes a one-time increase in housing delivery. While illustrative, this is not realistic. Maintaining affordability gains would require sustained construction at or above 6% of existing stock annually, consistent with the steady-state equilibrium implied by the supply-response model. As Toronto's housing stock expands and the demand backlog gradually diminishes, the marginal fiscal and affordability impacts of new completions would be expected to moderate over time.

Summary of Findings

The findings of this paper present evidence-based support that accelerating housing supply can generate positive economic effects and even meaningful returns on public investments in housing. Our Build and Benefit Cycle shows that improving housing affordability by reducing approval delays and targeted government incentives can support affordability in other areas, encourage greater local business activity, and generate tax revenues that can yield positive returns on investment over time. Well-designed housing-supply interventions can foster tangible and recurring economic benefits for Canadian cities. However, moderate supply growth fails to improve affordability. Only when the pace of new housing delivery accelerates well beyond historical norms — combined with faster approval processes — can affordability meaningfully stabilize.

Through this work, we recognize the enormous potential benefits of implementing policies to incentivize new supply, even though the realities of the housing crisis remain nuanced. The continued exploration of effective and expedient policy solutions by governments, advocates, and the private sector is a crucial part of the solution.