

## Economics

# IN FOCUS

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## The housing market — where are we?

by Benjamin Tal [benjamin.tal@cibc.com](mailto:benjamin.tal@cibc.com) and Shaun Hildebrand [shaun@urbanation.ca](mailto:shaun@urbanation.ca) (Urbanation)

Can we describe the Canadian real estate market in one word? The answer is no. Simply put, there is no such thing as the Canadian real estate market. That has been always the case, and even more so today. What is true for Toronto is absolutely not true for Calgary. Conditions in the condo market are very different than what we currently see in the purpose-built space, and the low-rise segment of the market is dancing to a totally different tune. What's more, the current weakening in the condo space and the recent awakening of rental supply represents much more than a temporary adjustment. It's the beginning of a significant realignment of the structure of the market — mainly in centers such as Toronto and Vancouver.

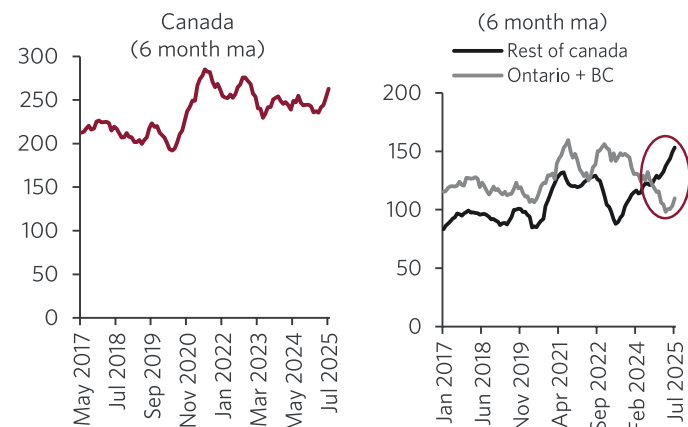
### Housing starts — the headline numbers mask the real story

Despite the weakening economy, housing starts in Canada continue to surprise on the upside. Starts in July advanced by

just under 300K while averaging well over 250K since the beginning of the year. But that relative strength masks a significant regional divergence. Atlantic Canada is in the midst of a housing construction boom not seen in the past, with housing starts reaching a record high level in recent months. At north of 60K starts, activity in Quebec is close to 20% above its long term average, while Alberta is seeing starts stabilizing at an historically elevated level of around 60K. At the same time, starts in Ontario averaged only 63K during the first seven months of the year — a full 23% below the level we saw during the same period last year. While the level of activity in BC is starting to show some signs of improvement, the trend in 2024 and early 2025 was clearly negative (Chart 1).

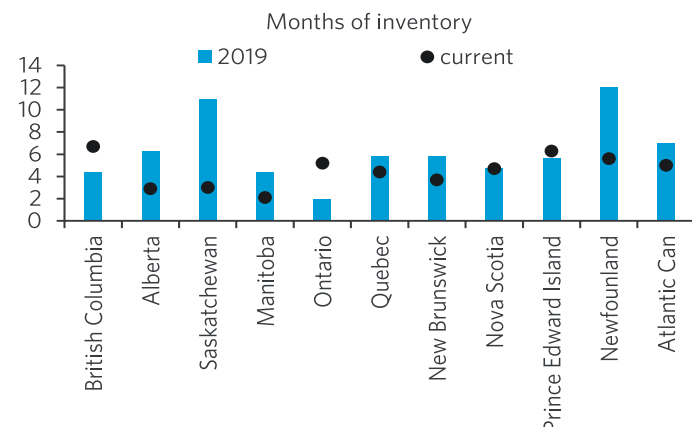
That relative weakness in Ontario and BC will be maintained into 2026, as in both provinces, inventory is notably higher than normal (Chart 2).

Chart 1: Stable housing starts (l) masks regional divergence (r)



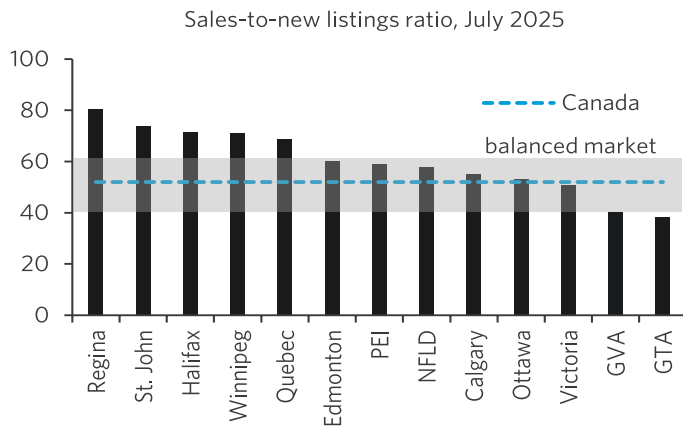
Source: CMHC, CIBC

Chart 2: Rising inventory in BC and Ontario



Source: CMHC, CIBC

Chart 3: Toronto, Vancouver: sellers' markets

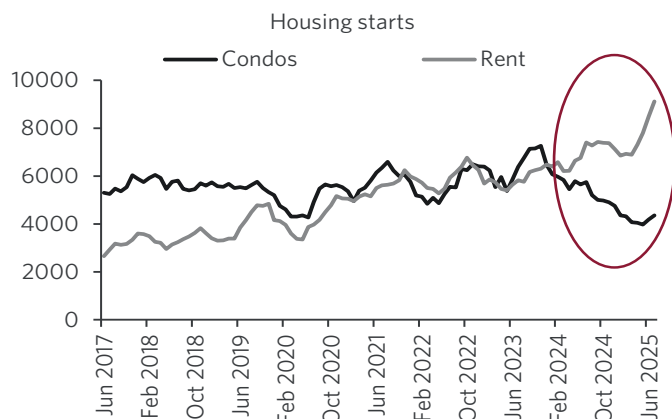


Source: CREA, CIBC

The regional divergence is also very evident in the resale market with both Toronto and Vancouver still in buyers' market territory (Chart 3).

Beyond geography, Chart 4 clearly illustrates the deviation in activity between the recessionary condo market and surging purpose built rentals. Such trajectory was unthinkable only a few years ago, but the combination of increased rental demand, falling land and construction prices, government incentives, and increased interest from institutional investors among other factors is reviving that important segment of the market.

Chart 4: Purpose built rental taking over



Source: CMHC, CIBC

## The return of the MURB

And if the government is serious about reintroducing the Multi Units Residential Building program (MURB), look for rental activity to surge to new heights.

The MURB tax provision was in effect between 1974 and 1981 and is credited with encouraging the construction of about 200,000 units. Adjusted for population size, that means close to 100,000 units a year in today's environment.

Today the Carney government is looking to revive the MURB program, and is in consultation with industry players regarding the design of the new/old program.

Simply put, the MURB allowed investors in new rental apartments to lower their personal (corporate) taxes by claiming depreciation and other soft costs associated with the rental unit/s.

The main idea behind the MURB program is to align private money with public economic agenda by using tax incentives to draw potential investors into the purpose-built construction market to create much-needed rental housing.

In fact, the move in the 2024 budget to increase the capital cost allowance rate on purpose-built rentals from 4% to 10% might have been in preparation for the eventual revival of the MURB program.

So if it was such a great program, why was it scraped in 1981? The official government line was that the main beneficiaries of the MURB provision from the supply side of the market have been the developer/promoters and investors with high marginal tax rates. The concern was that some promoters may have overvalued projects. Investors, who lack basic understanding of the economics of real estate, were purchasing the asset solely on its tax shelter aspect with no recognition of possible poor investment prospects due to inflated purchase price. But the most significant factor, in our opinion, was that the MURB program was a victim of its own success. Simply put, the accelerated pace of construction linked to MURB was too costly in terms of forgone tax revenue — \$2.4 billion according to some estimates.

Now, let's call it as it is. The new MURB will not be the silver bullet we are all looking for to solve our housing affordability issue. There are significant differences between the construction and development landscape today versus what it was in the 1970s. Construction costs today are significantly higher by any measure, approval timelines are much longer and policies are much more fragmented.

But if the MURB incentive is designed for today's market, with simplicity regarding the CCA provision, clear eligibility, efficient approval process, zoning reform, pre-approved templates and/or modular incentives, it could still be an important factor adding to the stock of rental units in the country.

The revival of the MURB would be a major signal to the market that the government is committed to purpose-built rental as an important component in its goal to improve housing

affordability. Combined with other measures such as lower development charges and deeper CMHC rental financing, aimed at attracting institutional investors into that space, we might see the needle actually moving.

Can the MURB and the condo market coexist? After all, MURB could be an interesting alternative to condo investing given the tax advantage. Note that when MURB was cancelled in 1981, we saw a gradual increase in condo activity to fill the vacuum. Let's dig deeper into the GTA condo market to get some answers.

## The condo market is down, but not out

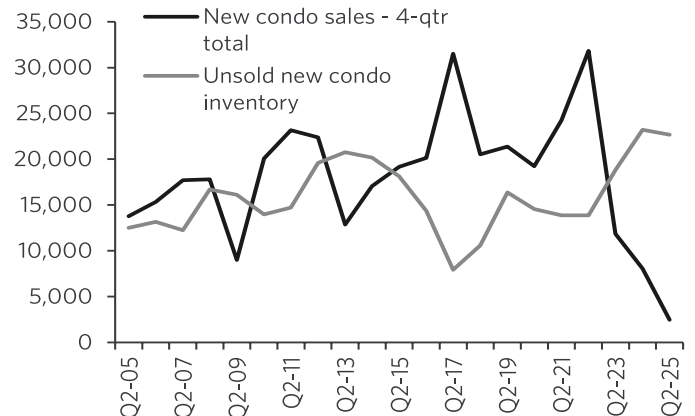
Make no mistake, the condo market has been dropped to its knees. It's not a TKO, but let's give it a standing eight count. The condo market is simply too important for the housing market to stay down. And when it gets back up, the condo sector will be leaner and structurally different than before, requiring all players to adapt. While MURBs and a push towards purpose-built rentals will help fill in some of the gaps that condo investors are leaving behind, we don't feel it will be enough. At least not in the GTA.

We've all heard that new condo sales in the GTA have fallen to their lowest levels since the early 90s, now its fourth year of the current downturn. But this isn't the 1990s. Back then, the economy was in a deep recession, with the jobless recovery preventing any meaningful market recovery. Indeed, it took more than a decade before the condo market returned to its late 1980s levels. Fast forward over the last 20 years and the GTA market has averaged close to 20,000 new condo sales annually, reaching more than 30,000 at its peak, and resulting in roughly 60% of all construction starts in the region (Chart 5) and more than 80% of all new rentals added to the market. For purpose-built rentals to replace condos, rental starts would need to triple their current level. Overall, condos will remain a critical component of the housing supply continuum.

While the days of 20,000-plus annualized new condo sales will likely stay in the rearview for the foreseeable future, a healthy,

functioning market can be achieved with less. Inventory is already beginning to decrease from its highs (Chart 6) and will continue to decline as more projects cancel, some switch to rental, new launches remain subdued, and deliveries begin to fall (more on that later). With supply slowing, the market can return to a state of balance when sales velocity emerges from its slump. That, however, will likely require further price adjustment.

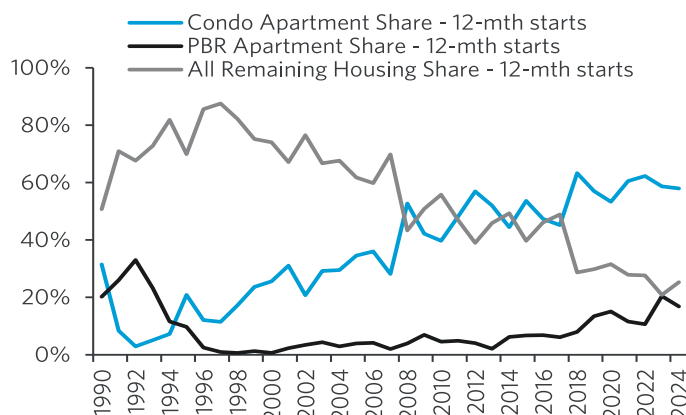
Chart 6: GTA new condo market unbalanced



Source: Urbanation, CIBC

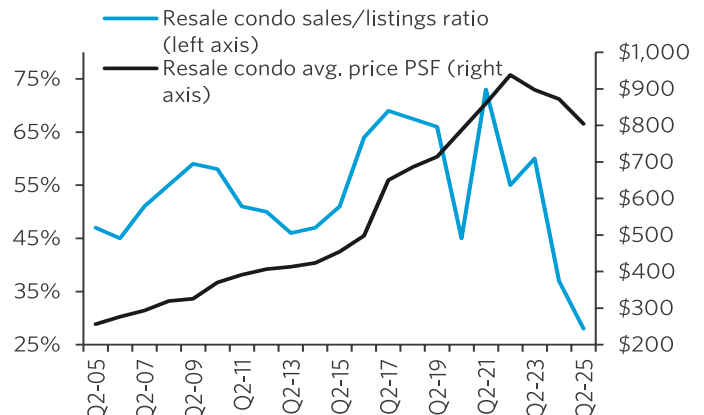
For new condo buyers to regain confidence and re-enter the market, we first need to see resale prices stabilize. However, the current ratio of sales-to-listings indicates a market that still heavily favours buyers. But after a cumulative 19% fall in prices from their peak in Q1-2022 (Chart 7), combined with reduced interest rates and the introduction of 30-year insured

Chart 5: GTA condos help fill supply gap



Source: CMHC, Urbanation, CIBC

Chart 7: Resale prices down 19% from peak



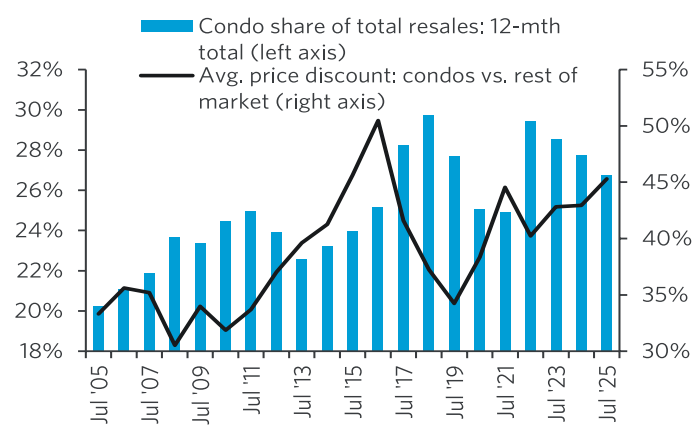
Source: Urbanation, CIBC

mortgages, affordability for condos is now at its best level since 2021. Some buyers are starting to test the waters.

In the first half of 2025, resale condo transactions in the GTA for units under \$500K increased 47% from the same period last year to reach a four-year high. Also, the luxury market for units selling at \$2M-plus is holding steady. While the typical mom-and-pop investor is still on the sidelines, there are numerous private equity groups actively raising funds and acquiring blocks of unsold units. The rest of the market will eventually follow the ‘smart money’, partly out of necessity.

Historical data clearly shows that periods where condos become more affordable compared to other housing types leads to increasing market share for condos. As the low-rise market has outperformed in recent years, the price discount that condos enjoy in the market has increased from 40% in 2022 to 45% in 2025 — the highest level since 2016 (Chart 8). However, market penetration for condos hasn’t responded (yet), with condos representing less than 27% of sales in the past 12 months — a four-year low. It’s only a matter of time before demand shifts towards condos.

Chart 8: Condos gain relative affordability

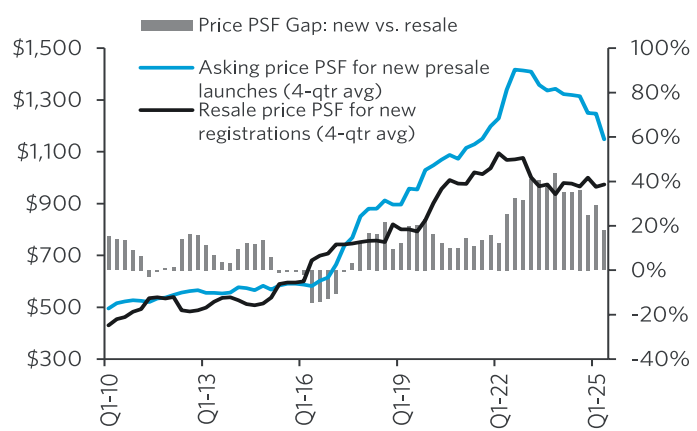


Source: Urbanation, TRREB, CIBC

For presale investors, prices are heading towards a level that will start to make sense again. The price premium between presale and recently built resale condos has fallen from 40% at its peak to 18% as of Q2-2025, which is essentially back to pre-pandemic levels between 2018 and 2019 (Chart 9). But, for buyers to be enticed back into the market, that premium likely needs to fall to less than 10%. Builders, who have already brought prices down 19% in the past three years, will need some further help via lower government fees as the costs to build currently exceed achievable market selling prices.

On the resale front, price stability should arrive shortly as supply trends down. The market has entered its peak period for

Chart 9: New condo prices adjusting to resale



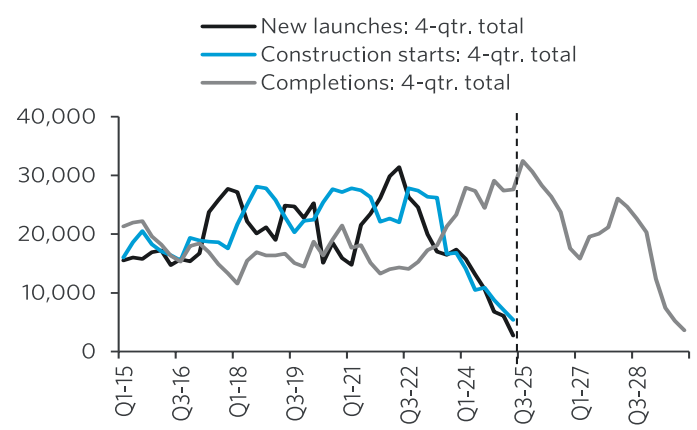
Source: Urbanation, CIBC

condo deliveries, with completions set to begin declining in 2026 and reaching multi-decade lows in a few years (Chart 10). That’s not a forecast but a reality, as what doesn’t get launched today won’t get delivered in the future. Indeed, construction starts for condos have already dropped off a cliff, totaling barely more than 5,000 units in the past four quarters — about one quarter of normal volume.

The other key variable to track as critical for new condo investors is rents, which have recently contributed to the weak sentiment currently impacting the market. Outside of black swan events like COVID, it’s highly unusual for rents to decline in the GTA, but they have fallen by about 10% from their high in 2023. Part of the reason for this can be tied back to the recent reversal of the post-pandemic population surge that caused rents to overshoot. But the bigger cause is a temporary spike in supply.

As most newly built condos end up in the rental market (even more so when investors have difficulty selling), condo

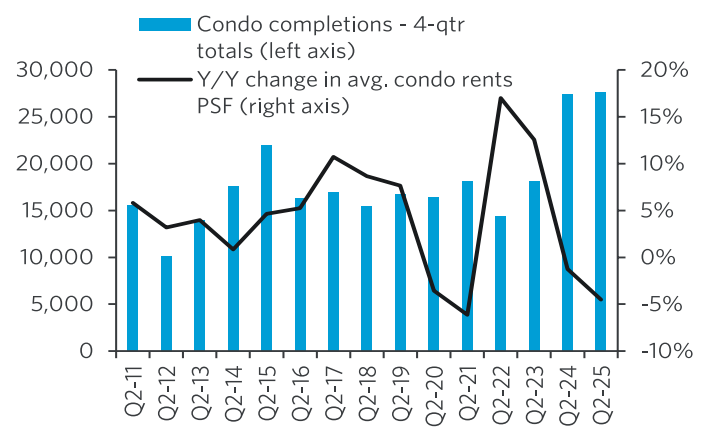
Chart 10: Condo supply is destined to fall



Source: Urbanation, CIBC

completions have a direct impact on changes in rents. And since condos represent the majority of new rental supply, they set the tone for the whole market. The inverse relationship is clear — higher completions tend to slow rents, while lower completions have the ability to push rents up faster than normal (Chart 11). As the market transitions away from high-to-low supply in the coming years, history suggests a return to strong rent increases. As for demand, actual population growth in the coming years is likely to be notably stronger than the zero growth officially projected, as we have indicated in previous research.

Chart 11: Condo supply directly impacts rents



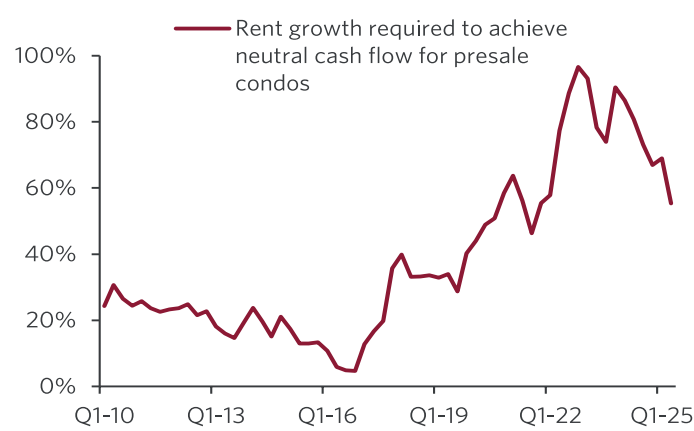
Source: Urbanation, CIBC

Along with a better alignment between new and resale prices, stronger rents will support the buy-and-hold condo investment thesis. The numbers simply don't make sense when prices are falling and investors are experiencing steep negative cash flow, which has been the case for the past few years. However, there is still work to do to get the math back to a reasonable place. At current prices and interest rates, rents would need to rise by an unrealistic level of 55% in order for a presale unit bought today to generate neutral cash flow in 4-5 years when it's finished construction (Chart 12).

So, what do we need to restart the condo engine? Likely another 5-7% or so decline in prices plus a couple more rate cuts will get things going. We're almost there. But above all else, a return of confidence is needed, which has been rattled by the current situation. Eventually though, the numbers start to simply make sense again and the market will come back.

The market will, however, look fundamentally different when it resurfaces. Speculative investors that were prevalent in the post-COVID period will stay away, having learned a painful lesson. Instead, there will be a return to the buy-and-hold investors that have underpinned the condo sector for most of

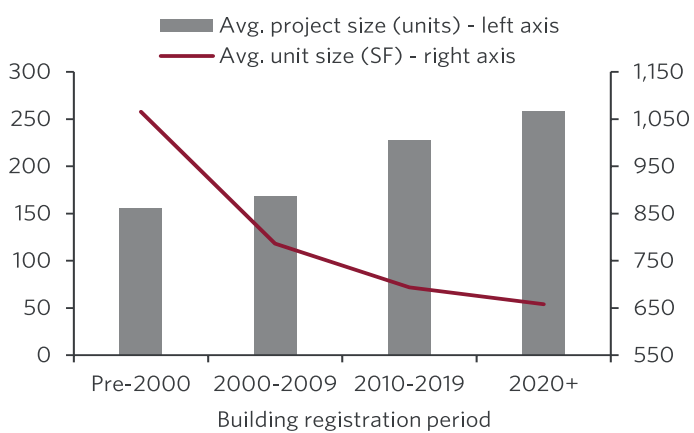
Chart 12: Rental economics improving



Source: Urbanation, CIBC

the past two-and-half decades. With less overall investor demand, the focus will shift to end-users, which will reshape the condo product being built. The precipitous increase in average project size and decline in average unit size will come to end (Chart 13), with a greater focus on design and livability. This will require a rethinking of how the industry designs, sells, finances, and builds condos going forward. But ultimately, it will result in a more structurally sound market as it enters the next phase in its ongoing evolution.

Chart 13: Tipping point for project and unit sizes



Source: CMHC, Urbanation, CIBC

## Contacts:

Avery Shenfeld  
[avery.shenfeld@cibc.com](mailto:avery.shenfeld@cibc.com)

Benjamin Tal  
[benjamin.tal@cibc.com](mailto:benjamin.tal@cibc.com)

Andrew Grantham  
[andrew.grantham@cibc.com](mailto:andrew.grantham@cibc.com)

Ali Jaffery  
[ali.jaffery@cibc.com](mailto:ali.jaffery@cibc.com)

Katherine Judge  
[katherine.judge@cibc.com](mailto:katherine.judge@cibc.com)

CIBC Capital Markets  
PO Box 500  
161 Bay Street, Brookfield Place  
Toronto, Canada, M5J 2S8  
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