

Bold Housing Policy Will Stimulate More Construction

By Peter Norman, VP & Economic Strategist
February 2026

New home sales have collapsed across Ontario setting up a significant crisis in the housing sector. What is being experienced is not a normal cyclical slowdown, it is a pipeline failure, and unless addressed soon, it will translate directly into job losses and foregone government revenues. These outcomes are largely avoidable with timely action, and now is the time for bold housing policy.

Weak new home sales in recent quarters will mean starkly lower housing starts in the next few years leading to a steep drop off in residential construction activity and related jobs and government revenues.

If action is not taken immediately to return affordability and confidence to the new home sales sector, by the end of this decade we will see:

- A loss of up to 100,000 jobs related to the construction industry;
- A loss of up to \$14 billion in GDP; and
- Loss of up to \$8.3 billion a year on government revenues including an array of municipal fees and provincial land transfer tax, up to \$1.3 billion and \$2.4 billion in provincial and federal income tax revenues respectively.

Policy Solutions

Governments should immediately consider a critical, temporary, investment in improving the affordability and accessibility of new homes in Ontario, in order quickly to stimulate a more functional level of sales. The following combination of policy interventions are being considered, and this analysis shows the likely effectiveness in stimulating additional sales:

- A full rebate of the federal and provincial portions of the HST to all qualifying new home buyers on the first \$1 million in home value. Based on 2025 sales levels this would cost a tax expenditure of some \$628m and \$605m for the province and federal treasuries respectively; and
- A 50% reduction in municipal development charges. Based on 2026 development charges across the GTA

this would cost \$66,816 per single-family home and \$40,431 per 2-bedroom apartment in the GTA and about half of this value outside of the GTA.

For a typical new home, the proposed policy measures which would provide up to \$106,000 in HST rebate (net of the existing Ontario new home rebate) and up to \$66,816 in DC relief for a combined maximum price reduction of \$172,816 on a \$1 million single family home (representing 17.3%).

The policy relief will reduce the typical mortgage payment for a new home buyer by about \$736 a month (see Note 2) (or 11%) and represent a significant improvement in affordability, reversing more than half of the decline over the past decade.

Impact Analysis

Pent-up demand (or suppressed housing demand) happens when affordability deteriorates and headship rates decline for any given age group. Altus Group has modelled recent pent-up demand stemming from the reduction in affordability between 2016 and 2026 and found that some 35,000 households per year are suppressed (which is to say if affordability returns to 2016 levels, annual household formation in the years ahead will be some 35,000 higher than current baselines) (see Note 1).

By improving affordability through the policy measures to the extent that it reverses more than half of the decline over the past decade, we conclude that it will release about half of the pent-up demand (see Note 2), while the temporary nature of the program will “trigger” sales more quickly.

In terms of ownership housing, and taking into account the range of housing values the relief would be applied to, we expect the combined policy measure to:

- Induce between **18,000-23,000 net new sales per year**

This estimate considers the magnitude of the improved affordability the policy will generate, relative to the erosion of affordability over the past decade.

Inducing an additional 23,000 sales per year would go a significant way towards avoiding the severe economic downturn by preserving up to 51,000 jobs, \$7.3 billion in GDP and \$1.8 billion in federal and provincial income tax annually.

Note 1. Pent-up demand calculations are based on an analysis using the housing demand model found in the Province of Ontario’s Projections Methodology Guideline (1995). The analysis evaluated potential housing demand based on 2026 estimated headship rates and housing propensities, and the Ministry of Finance (2025) population projections for Ontario for the 2026-2031 period. This yielded 323,000 new household requirements by 2031. The same evaluation was made employing headship rates and propensities from 2016. This yielded 496,500 new households by 2031. The difference, 173,500 (annual rate, rounded, of 35,000), is considered the quantum of suppressed housing or pent-up demand considered to exist across the province today.

Note 2. 2016 affordability is evaluated using a benchmark low-density home in the GTA in the following manner: \$905,952 price (Altus Group benchmark price), 7.24% down, 2.65% five-year insured mortgage = monthly payment of \$3,981 which is 54% of average census family income (\$91,110); 2026 baseline affordability based on \$1,484,762 price, 8% down, 4.03% rate, insured \$6,448 payment = 62% of \$125,355 estimated income (10 percentage point deterioration in affordability 2016-26). Same financing with the policy intervention is \$1,311,946 price, 8% down, 4.03% rate, insured, \$5,712 payment = 55% of \$125,355 income, which is \$736 lower than \$6448