THE LISTING

Builders say HST removal is step one in many needed to tackle housing crisis

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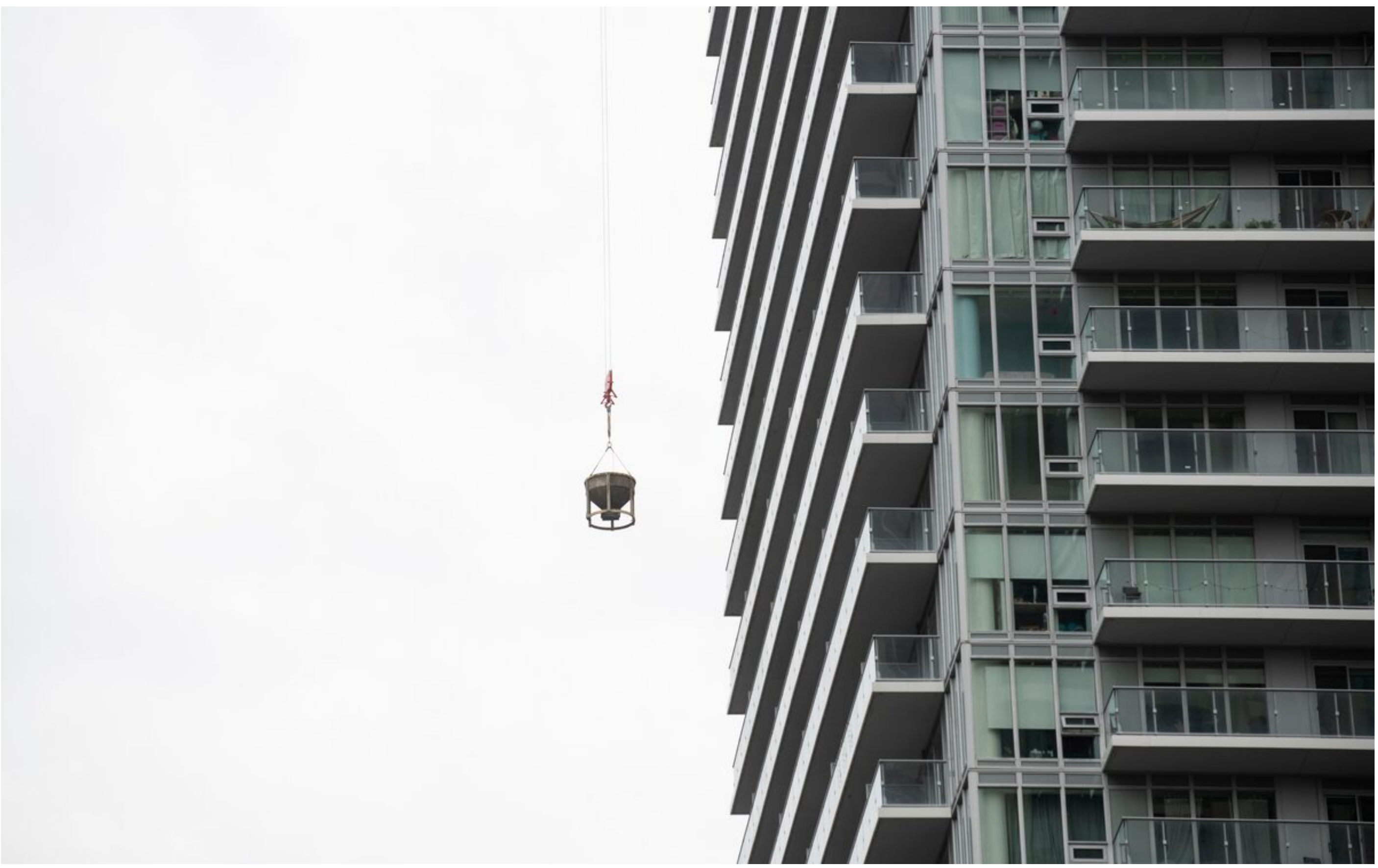

A concrete bucket is lifted up by a crane at a condominium under construction on Broadway Ave. in north Toronto, on Oct 5.

FRED LUM/THE GLOBE AND MAIL

Rental housing builders are warning they may need still more financial incentives from government to help tackle the housing crisis even as provinces are joining Ottawa to remove sales taxes from new-build rental projects.

"There are other headwinds," warned Adrian Rocca, chief executive officer of Fitzrovia Real Estate. "It's not unlocking immediately a lot of the supply." Mr. Rocca's company has four recently completed rental buildings and five in progress or in planning. He said, in the face of rising construction costs and more expensive rates from lenders, the sales tax waivers at best bring things back to the neutral point of two years ago, when the country still was building enough rental. "It was a big first step, no bones about it," he said.

On Sept. 13, the federal government announced it would remove the 5 per cent Goods and Services Tax from the construction of new rental projects, and on Nov. 1, Ontario followed suit removing the provincial portion, or the remaining 8 per cent, of the Harmonized Sales Tax.

The moves come as an October report from Urbanation Inc. warns the level of rental building in the Toronto region has fallen 9 per cent from the beginning of 2022 with only 18,267 purpose-built rentals under construction in the third quarter of this year. That fallback was tied directly to rising interest rates: Urbanation found just 2,938 new construction starts in rental so far in 2023, a 54-per-cent decline compared to the first three quarters of 2021. The report noted there are 41,034 approved units in the planning pipeline waiting to begin building.

"If it's more rentals that we want, we have to prioritize policies that ensure developers can build them," said Shaun Hildebrand, president of Urbanation, who also suggested higher density allowances and faster approvals are needed at the municipal level.

"We're finding the HST has not been able to tip the scales for us," said Bryan Levy, the CFO of Preston Group and CEO of its development arm, DBS Developments. "We'd love to do rental, [but] more times than not, it's not feasible."

Developer says it's planning to build 5,000 rental units across Canada because of Liberals' GST break

DBS Developments has two condo launches planned and is currently leasing up its luxury Forest Hill rental building at 215 Lonsdale Rd. in Toronto. Mr. Levy said the federal and provincial governments should consider extending the HST exemptions retroactively to companies such as his that are building much-needed rentals right now. "[100 Eastdale, a 400-unit rental tower] started before Sept. 14. In good faith we started building that during the pandemic – and went through 50 per cent escalation of costs."

Mr. Rocca said Toronto should consider policies like a property tax abatement or holiday, where a new rental building could avoid paying property taxes for its first decade or two. Such abatement policies have been a popular tool for economic development in the United States, but the research suggests at best tenuous links to spurring growth.

"I don't think it all needs to be tax incentives," said Joseph Feldman, executive vice-president and chief operating officer at Camrost Felcorp Inc. "I think there are construction conversations that can happen province-wide." Camrost Felcorp is currently leasing up a recently finished rental building at 36 Brentcliffe Rd. "There are some things only Ontario does that New York doesn't do, and elsewhere in Canada doesn't happen."

Among the potential changes to the Ontario Building Code Mr. Feldman thinks could deliver savings for high-rise developers he mentions hood fans for stove-tops. In Ontario, it is required that these be ducted to the exterior, a considerable expense in a tall building. Another area he suggests could be looked at is reducing sprinkler coverage. "Sprinklers drive up insurance costs and they are very expensive to install," he said. Sprinklers are also a source of costly water damage in many high-rises due to leaks and accidental activations.

Mike Tsourounis, managing partner and head of real estate at Hazelview Investments, which operates 24,000 rentals across 25 cities in Canada, said that while the HST changes are welcome, other development charges from municipal or provincial governments can account for 25 to 30 per cent of a new development's budget.

Hazelview is building new rental towers in Brampton, Ont., and Ottawa. Mr. Tsourounis isn't calling for an across-the-board cut to all types of development fees. He suggests instead that cities could try to apply some nuance to what fees should be charged based on whether the building is built as condominium units or as rental.

"We have sort of homogeneous fees on the supply, whether that is high-end super-luxury or market rental apartment," said Mr. Tsourounis. "Solutions that link development charges to what that building tenure is going to be, those would be the right steps."

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