



SOUTHERN ONTARIO'S DEVELOPMENT FEASIBILITY CRISIS.

What the last cycle revealed
about a market that
stopped pencilling

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What the last cycle revealed about a market that stopped pencilling

Abstract — 100 words

Southern Ontario did not run into a classic demand problem over the last few years. It ran into a feasibility crisis. As interest rates rose, construction costs stayed high, presale absorption collapsed, development charges surged, approval timelines stayed slow, and immigration-related rental demand assumptions softened, project economics were hit from every direction at once. Other North American markets felt some of these pressures too. What made Southern Ontario distinctive was the stacking effect: too many headwinds landing on a market unusually dependent on condo presales, expensive land, and municipal cost layers. The result was not a lack of need, but a breakdown in the machinery that turns need into housing. (cmhc-schl.gc.ca)

There is a temptation to describe Southern Ontario's recent development slump as a cyclical pause: rates went up, buyers stepped back, developers waited. That explanation is too thin. What happened between 2022 and 2025 was more severe and more structurally revealing. Southern Ontario entered a market condition in which even projects backed by real demand increasingly failed the basic test of feasibility. In Toronto especially, the region remained short of housing in the long run while the projects needed to close that shortage became harder to finance, harder to launch, and harder to deliver profitably. That is the paradox at the centre of this cycle: the market was undersupplied and unfinanceable at the same time. [1][2][3] (cmhc-schl.gc.ca)

Other North American markets experienced parts of this story. Vancouver also saw weak presales and project cancellations as financing thresholds became harder to meet. In the United States, multifamily starts fell as higher debt costs, expensive materials, and tighter capital markets made projects more difficult to finance. Calgary, by contrast, also dealt with labour and capacity pressures, but it continued to produce record housing starts, helped by stronger rental demand, lower relative municipal cost burdens, and more supportive supply conditions. Southern Ontario's problem was therefore not unique in category, but it was unusually severe in composition. It faced the same macro pressure as peers, but with heavier local frictions layered on top. [4][5][6] (cmhc-schl.gc.ca)

What made Southern Ontario distinctive was the stacking effect. In many markets, one or two variables broke. In Southern Ontario, almost every line of the pro forma moved the wrong way at once. The cost of debt rose sharply. Construction costs stayed elevated. Skilled labour remained tight. Condo presales fell below the thresholds lenders typically require. Development charges in major municipalities rose to levels that became impossible to ignore. Approval timelines remained slow enough to increase carry risk just when carry risk mattered most. And by late 2024 and 2025, even the rental story became less straightforward as federal policy moved to reduce temporary resident inflows, including study permits, softening demand in student-heavy submarkets. [7][8][9][10] (bankofcanada.ca)

The cost of money broke the model first

The Bank of Canada's tightening cycle reset the economics of development faster than most underwriting models could adapt. The policy rate rose from 0.25% before the tightening cycle to 2.5% by July 2022, reached 3.75% by October 2022, and climbed to 5.0% by July 2023. It then began to ease, falling to 4.75% in June 2024 and to 2.25% by March 18, 2026. But by then the damage to project feasibility had already been done. Land bought under low-rate assumptions suddenly carried very different financing costs. Construction loans became more expensive. Equity demanded higher returns. End-buyers, especially investors, became far more rate-sensitive. [11] (bankofcanada.ca)

For Southern Ontario, where a large share of urban supply depends on leveraged condo presales, that mattered more than in markets less reliant on the pre-construction ownership model. CMHC reported that in Toronto, 55% of pre-construction units were unsold in the first quarter of 2025, only slightly below the record 56% at the end of 2024. Lenders typically require about 70% presales before releasing construction financing. Once the market slipped materially below that threshold, the pipeline stopped behaving like a pipeline. It started behaving like a bottleneck. [12] (cmhc-schl.gc.ca)

Costs did not come down enough

The feasibility squeeze would have been survivable if construction costs had fallen materially as demand cooled. They did not. Statistics Canada reported residential building construction costs in the 15-CMA composite were still up 3.0% year over year in the fourth quarter of 2025, with builders continuing to cite higher material prices, labour shortages, and wage pressures. CMHC has also pointed to weak construction productivity since the pandemic and estimated that lost productivity from 2019 to 2024 added billions to housing construction costs nationally. [13] (assets.cmhc-schl.gc.ca)

That mismatch was fatal to many projects. In a normal downturn, lower land bids, lower input costs, or faster approvals can help restore viability. In Southern Ontario, the market instead saw a combination of softer revenue assumptions and stubborn cost structures. Prices that buyers would pay were falling or flattening, but all-in development costs did not adjust enough to match. [14] (cmhc-schl.gc.ca)

The condo machine stalled

No part of the market better captures the severity of the slowdown than the collapse in GTHA condo presales. Urbanation reported that projects in pre-construction were on average 50% presold in Q1 2024, down from 61% a year earlier and 85% two years earlier. In Q2 2024, only 17% of launched units sold in their opening quarter. In Q4 2024, the opening-quarter sales rate dropped to 10%. In 2025, annual new condo sales in the GTHA fell to 1,599 units, the lowest since 1991, while condo starts fell 63% year over year to 3,272 units. [15] (urbanation.ca)

This is where Southern Ontario's dependence on the condo model became its weakness. In cities where purpose-built rental is the dominant institutional product, developers can sometimes ride through a for-sale slowdown by relying on stabilized-income underwriting. In Southern Ontario, especially the GTA, condo presales have long performed a quasi-financing function. Once that market froze, it did not just affect unit sales. It affected land values, lender confidence, mixed-use intensification, municipal growth assumptions, and future construction volumes. [16] (cmhc-schl.gc.ca)

The municipal cost layer made a bad cycle worse

Macro conditions alone do not explain why Southern Ontario was hit so hard. The local cost stack matters. CMHC's 2025 development-charge comparison showed estimated 2025 charges for a large apartment unit at approximately \$130,200 in Toronto, \$121,491 in Markham, \$100,660 in Brampton, and \$97,676 in Mississauga. For single-detached homes, the figures were even higher, including \$180,600 in Toronto and \$180,303 in Markham. [17] (cmhc-schl.gc.ca)

These charges are not merely political talking points. In a market with strong pricing power, some of the burden can be passed through. In a market where absorption is weak and debt is expensive, they come straight out of land residuals and project returns. The result is that a market already stressed by rates and costs becomes less capable of resetting through price discovery. The bid for land falls, but not always enough. The end price falls, but often faster than input costs. Municipal charges then act less like friction and more like a hard feasibility wall. [18] (cmhc-schl.gc.ca)

Immigration policy became a rental-market variable

For much of 2022 through 2024, the strongest argument for new rental development was demographic: population growth, international migration, and especially student demand were assumed to absorb a large wave of new supply. By late 2024 and 2025, that assumption became less secure. The federal government announced a broader strategy to reduce the temporary resident share of Canada's population, and the 2025–2027

Immigration Levels Plan set lower targets for new temporary resident arrivals. IRCC also confirmed a 10% reduction in study permits for 2025 relative to the 2024 cap, followed by a further reduction for 2026. [19] ([canada.ca](https://www.canada.ca))

CMHC's 2025 Rental Market Report shows how quickly that mattered on the ground. In the GTA, vacancy in purpose-built rental rose to 3.0%, with post-secondary neighbourhoods in Mississauga and Brampton climbing above 4%. In London, CMHC explicitly linked higher vacancy rates in zones associated with Western University and Fanshawe College to a sharp drop in enrolment over the prior two years. Even where long-term rental demand remained healthy, the short-term underwriting case for some projects weakened because the renter pool was no longer expanding as quickly as many pro formas had assumed. [20] ([cmhc-schl.gc.ca](https://www.cmhc-schl.gc.ca))

What comes next, 2026–2028?

Some conditions are improving. Borrowing costs are materially lower than at the 2023 peak. CMHC expects a temporary pickup in Ontario resale demand, and the province announced in March 2026 that it would remove the full 8% provincial portion of the HST on qualifying purpose-built rental housing. That measure follows the federal removal of the GST/federal HST portion for qualifying purpose-built rental projects and should improve rental feasibility at the margin. [21] ([bankofcanada.ca](https://www.bankofcanada.ca))

But the outlook is not a simple recovery story. CMHC's 2026 Housing Market Outlook says Ontario housing starts are projected to fall to near two-decade lows in 2026, driven by very weak condo presales, with only a modest rebound expected by 2028. The reason is straightforward: rate cuts help, but they do not instantly revive buyer psychology, erase expensive land basis, lower municipal charges, or reverse softening rental absorption in every submarket. [22] ([cmhc-schl.gc.ca](https://www.cmhc-schl.gc.ca))

A meaningful recovery between 2026 and 2028 likely requires four things to happen together. First, rates must remain lower long enough to restore confidence, not just arithmetic. Second, condo presale pricing must reconnect with what end-users and investors will actually pay. Third, the municipal cost stack must come down, or at least become more defensible and predictable. Fourth, approval timelines must improve enough to reduce carry risk. Southern Ontario is unlikely to "build its way out" of shortage if the machinery of delivery still depends on a financing model that only works in boom conditions. [23] ([cmhc-schl.gc.ca](https://www.cmhc-schl.gc.ca))

Conclusion: a shortage does not build itself

Southern Ontario's recent development slump should change how the industry talks about housing. The region did not stop needing homes. It stopped being able to deliver enough of them, reliably and profitably, under the combined pressure of higher rates, weak presales, elevated costs, high municipal charges, slower approvals, and softer short-term rental assumptions. That is a more serious diagnosis than a cyclical slowdown, because it suggests that even when demand is strong, supply can fail if too many constraints accumulate in the same place at the same time. ([cmhc-schl.gc.ca](https://www.cmhc-schl.gc.ca))

That is the larger lesson of this cycle. Southern Ontario is one of North America's deepest housing markets, yet it still demonstrated how fragile the development model can become when financing, approvals, municipal charges, construction costs, and absorption all deteriorate together. The question for 2026–2028 is not simply whether demand will improve. It is whether the region will restore the conditions that allow demand to become supply: lower and steadier borrowing costs, more realistic land pricing, faster approvals, a lighter and more predictable municipal cost stack, and a capital structure less dependent on boom-era presale assumptions. Until those conditions change in a durable way, the market may remain long on need and short on deliverability. ([cmhc-schl.gc.ca](https://www.cmhc-schl.gc.ca))

Notes / source guide for publication footnotes

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2. CMHC, *Condominium apartment market risks in Toronto and Vancouver*, June 10, 2025, section “Project cancellations have increased.” (cmhc-schl.gc.ca)
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4. CMHC media release, *Slowdown in Toronto, Vancouver leave national housing starts flat in first half 2025*, Sept. 9, 2025, Vancouver bullet on weak presales and 70% financing threshold. (cmhc-schl.gc.ca)
5. Fannie Mae, *Multifamily Economic and Market Commentary*, July 2024, opening section on slowdown in starts due to higher rates and financing conditions. (fanniemae.com)
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11. Bank of Canada sources for selected rate dates: Mar. 2022 move to 0.50; Jul. 2022 move to 2.50; Oct. 2022 move to 3.75; 2023 Annual Report noting 5.0% by July 2023; Jun. 2024 cut to 4.75; Mar. 18, 2026 maintained at 2.25. (bankofcanada.ca)
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13. Statistics Canada daily release on residential building construction costs, Jan. 27, 2026; CMHC *Housing Supply Report / Spring 2024* discussion of productivity and delivery. (assets.cmhc-schl.gc.ca)
14. CMHC, *Housing Market Outlook 2026*, Ontario section; CMHC *Housing Supply Report – Fall 2025*, Toronto discussion. (cmhc-schl.gc.ca)
15. Urbanation releases: Q1 2024, Q2 2024, Q4 2024, and 2025 annual survey. (urbanation.ca)
16. CMHC, *Housing Market Outlook 2026* and *Spring 2026 Housing Supply Report*; Urbanation annual 2025 release. (cmhc-schl.gc.ca)
17. CMHC, *We built this city on development charges...*, Dec. 4, 2025, Figure 1 and Figure 2. (cmhc-schl.gc.ca)
18. Same as note 17, combined with CMHC Ontario outlook context. (cmhc-schl.gc.ca)
19. IRCC study-permit cap notices and temporary-resident reduction announcements, 2024–2026. (canada.ca)
20. CMHC, *2025 Rental Market Report*, Dec. 11, 2025, GTA and London sections. (cmhc-schl.gc.ca)
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22. CMHC, *Housing Market Outlook 2026*, Ontario section. (cmhc-schl.gc.ca)
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