



**BY EMAIL** ([consultation-legislation@fin.gc.ca](mailto:consultation-legislation@fin.gc.ca))

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Office of the Deputy Prime Minister and Minister of Finance  
Department of Finance Canada  
90 Elgin Street  
Ottawa, Ontario  
K1A 0G5

**RE: BUDGET CONSULTATION 2024 – CAPITAL GAINS INCLUSION RATE**

The Canadian Real Estate Association (CREA) represents more than 160,000 REALTORS® who contribute to the economic and social well-being of communities across Canada. We would like to express our collective concern regarding Budget 2024's increase to the Capital Gains inclusion rate.

Canada is in the midst of a generational housing affordability crisis, largely driven by a lack of housing supply. Resolution of the housing crisis will require a concerted, whole of government approach, in partnership with the private sector that builds and finances housing supply. Raising the capital gains inclusion rate will make resolution of the crisis more difficult. Increasing government taxes, fees, and charges on housing and those who invest in housing development is counterproductive.

**Canada needs massive private investments in housing**

The CMHC calculates that the country needs to build 5.8 million new homes by 2030 to solve the housing crisis. This will require a significant, unprecedented amount of private investment.

If a metric of \$500K of investment per housing unit is assumed, it will require \$3 trillion in investment to solve the housing supply crisis. Or roughly, 36 times more than the Government of Canada has invested through the National Housing Strategy (\$82 billion as of Budget 2024). The housing crisis in Canada simply cannot be addressed without private partners being the majority stakeholders in this project.

All housing supply development requires investment. The developer needs capital to acquire lands and prepare them for development, to fund zoning applications and procure engineering plans. The builder needs funds to purchase materials, pay wages, and market the homes for sale. Such intensive capital projects carry an inherent risk and are sensitive to market



conditions, as was experienced through the rapid increase of interest rates in recent years. Raising the capital gains inclusion rate adversely impacts the risk-reward calculus in the real estate market.

We believe the Government of Canada's first priority should be to foster an economic environment that can unleash the potential of massive private investments into the housing sector. Increases to the capital gains inclusion rate will do the exact opposite, potentially exacerbating and prolonging our national housing crisis.

### **Supply comes from density and private development**

In urban cities like Toronto and Vancouver, where housing affordability challenges are most acute, urban development mainly involves redeveloping underutilized properties. This is often referred to as densification. However, existing properties retain their value in their current use, so redevelopment will only occur if the owner has the opportunity to realize a financial gain by selling.

Simply, densification is largely driven by the potential to realize a financial gain. If more of the prospective gain will be taxed or at a greater rate, the incentive is lessened, and the appeal of densification is diminished. Supply through density cannot happen if current landowners do not sell.

While the Government of Canada has rightly begun to condition federal spending transfers on local zoning changes to enhance density, a zoning change alone cannot ensure an increase in housing supply. Current owners must be incentivized to sell their land and developers must have a sound business case to develop new housing units. Densification requires a strong investment environment that does not punitively tax development and housing supply growth.

### **Canadians rely on secondary properties for their retirement**

Property ownership has long been a retirement savings plan for those who are not endowed with a public sector pension. Many Canadians have purchased a second property as an investment, either for their extended family to live in or to rent out. This has served the non-pensioned well for generations, and it has had a positive knock-on effect for the housing market – having produced a steady supply of rental units.

In the near term, the proposed increase to the capital gains inclusion rate, will lessen the return that owners had expected and planned for. This means that for many, their retirement savings will be diminished while they are already experiencing the pinch of the greater affordability crisis.



In the longer term, the increase to the Capital Gains inclusion rate will make real estate investments less attractive as a long-term savings vehicle for individuals. This means that fewer everyday Canadians will be investing in secondary properties to maintain or expand rental supply. This is counterproductive at a time in which we Canada already has an imbalance in the supply and demand of the rental market.

### **Policy Recommendations**

Seeing that the Capital Gains inclusion rate increase will work at cross-purposes to the governments ambitious and necessary Housing Plan, CREA proposes the following policy recommendation for consideration:

1. Extend the ability to defer capital gains tax when selling a rental property and reinvesting the gain into rental housing.

The new Capital Gains inclusion rate will set us even further back in resolving the housing crisis and preserving the Canadian dream of homeownership. The policy change will negatively affect builders, housing developers, and everyday Canadians who have invested in real estate. At this time, the government ought to be fostering an investment climate in which private capital is attracted to flood into the housing sector, not drain out from it.

CREA and its members across the country are committed to being a part of the solution to the housing crisis and remain available to you and your colleagues. We would be delighted to meet with you at your earliest convenience to further discuss and collaborate on solutions to the housing crisis.