

### Implications of Incentives on Housing Market

In order for a residential development to proceed, a number of factors need to be in place, including:

- Available land
- Zoning
- Financial capacity via financing and/or equity components
- Market demand that justifies the investment (customers at a price that makes the building profitable)
  - Purchasers of condo units
  - Renters of rental units

Ultimately, a proposed development has to anticipate a large enough financial return to attract investors and secure construction financing. The expected return on investment in real estate development needs to be higher than other types of investments given the risks involved. Typically, lenders will require at least a 15 to 20 per cent projected return on investment. Although all developers are different and have their own risk/reward tolerances, developer interest and investment tends to flow toward areas and projects that offer the greatest risk-adjusted returns.

The development community told Administration that a financial incentive for housing makes it more likely that qualifying projects will achieve profitability thresholds for investment and financing, and therefore proceed to construction. As a result, more housing will get built in that location (or of that type) than otherwise would have been built.

There are a number of reasons a municipality would choose to incentivize housing. These include encouraging:

- more housing to be built in a particular location (eg. to support a dense, urban, mixed-use or transit-oriented community)
- housing for a particular demographic (eg. student, senior, artist housing)
- construction of affordable, below market rate housing
- construction of housing that meets higher sustainability standards

Municipalities also have non-financial tools that can influence the market for new housing. Zoning enables what land uses can be located in a site and the amount of density that can be built. Investment in civic infrastructure (roads, transit, pipes) and amenities (parks, libraries, recreation centres) will also influence where housing is developed.

Where municipal actions are aligned and focused, the result can be transformative. For example, starting in about 1999, the City constructed a new streetscape on 104 Street, adopted new zoning regulations and offered a financial incentive for new units. As a result, in just a few years multiple old warehouses were converted to residential and several new residential towers were built. Development momentum has continued to the present day.

### Effect of Incentives on Downtown

In the current market, industry told Administration land and development rights are not barriers to downtown development. The primary issue, identified by developers, is that the revenue new developments are anticipated to generate are not sufficient to qualify for lending or attract investment. In the absence of a financial incentive, residential development downtown is likely to be slow in the coming years.

Housing market data supports the conclusion that it is currently a challenging environment for developing new housing downtown. According to the CMHC's 2025 Rental Market Report (RMR), the rental market in Edmonton softened in 2025, with the vacancy rate for purpose-built rental apartments rising to 3.8 per cent in October 2025 from 3.0 per cent in 2024. The increase in vacancies was driven by supply expansions while demand growth slowed. Key findings from this report for the Downtown zone are as follows:

- The purpose-built apartment vacancy rate in the Downtown zone remained high at 5.4 per cent in October 2025, virtually unchanged from 5.3 per cent in 2024. This was among the highest rates across all zones in Edmonton and exceeded the city-wide average in both 2024 and 2025.
- The Downtown zone vacancy rate held steady despite a nearly 10 per cent expansion in its purpose-built rental apartment stock between 2024 and 2025. In contrast, the overall Edmonton rental apartment stock expanded 5.5 per cent, but the city-wide vacancy rate increased from 3.0 per cent to 3.8 per cent.
- The overall average apartment rent in the Downtown zone was \$1,483 monthly in October 2025. The average rent for new rental stock (row and apartment structures completed between July 2022 and June 2025) was \$2,000.
- The average rent for new rental stock in the Downtown zone was the highest when compared to averages of similar new units in other Edmonton zones.

- Average rent increased by 2.2 per cent between 2024 and 2025, which was a slower pace than the 5.7 per cent increase recorded between 2023 and 2024.

In the 2025 RMR, the CMHC noted local market intelligence that suggested the demand for high-end rentals has declined. Despite these units offering modern features, renters may have been discouraged by higher costs, especially with more affordable options available on the market.

These developments suggest rental vacancies may remain elevated in the Downtown zone, particularly in newly constructed units as they tend to command higher rents. Between 2021 and 2025, the cost of constructing a high-rise residential building in the Edmonton census metropolitan area increased 32 per cent on a cumulative basis. These inflationary pressures are likely being reflected in rental rates of structures that were constructed over that time frame, which can help to explain some of the level difference between rental rates for newly constructed units and the overall average. At the same time, the rental apartment stock is expected to continue expanding as units under construction reach completion. As of December 2025, there were 7,741 rental apartments under construction in Edmonton. Of these, 3.6 per cent were under construction in the Downtown zone. The highest proportion of rental apartments under construction was in the South West zone at 26 per cent. As these units reach completion, they will not only offer renters more choice, but also increase competition for renters to locate outside the Downtown zone.

In 2018, building permits were issued for 548 new units in the Downtown neighbourhood, without any financial incentive. Since then, more than 90% of the new units completed or under construction Downtown have received some sort of incentive, such as the 2021 Edmonton Economic Recovery Construction Grant, Infill Infrastructure Fund, Downtown Student Housing Incentive, or Affordable Housing Investment Program.

In order for the pace of development to accelerate, some of the following factors would need to change.

- Significant increases in average rental rates for new downtown units
- Significant increases in sales prices for new downtown condominium units
- Reduction in interest rates
- Reduction or stabilization in construction costs (and operating costs for rental buildings)

The City has no influence on interest rates, and it has little influence on construction costs. Market rental rates and sales prices are fundamentally a

result of supply and demand. As a result, a financial incentive to offset construction or operating costs will be the most effective short-term incentive in the current market.

Incentivizing new residential development will introduce competition to the downtown and Edmonton multi-unit residential markets, which should slow the pace of rental rate increases. While this contributes to an affordable city, there is a risk of overstimulation.

In the long term, the market for downtown development will be sustainable when rents or sales prices rise to cover costs of construction and generate adequate returns for investors. The City's commitment to the Downtown Action Plan, including investments in new amenities (e.g. O-Day'min Park), vibrancy (e.g. festivals and events and the Entertainment District), LRT expansion and ongoing efforts to improve safety and security are intended in part to increase demand for downtown living and bolster rents and sales prices that can be achieved.

Incentivizing accelerated housing development may distort the market by adding supply and competition, so that it takes longer for prices to adjust to an equilibrium. However, a significant financial incentive could support a critical mass of downtown residents that has a palpable effect on downtown vibrancy. In turn, this could in turn attract more retail and services, making downtown a more appealing neighbourhood. What that critical mass is, is not known.

Since 2021, most residential projects Downtown have received or applied for a municipal funding program such as the Infill Infrastructure Fund, Brownfield Redevelopment Grant, Downtown Student Housing Incentive or specific infrastructure support like the Village at Ice District or the Station Lands Pedway and amenity spaces. Of the more than 1800 units that are under construction or that have an approved development permit, more than 90% are supported by one of these programs.

### Effect on Broader Residential Development Market

The total number of households in Edmonton is growing due to in-migration and natural population growth, but is fundamentally finite. Residential developments are therefore in competition with each other for a limited set of households that are looking for somewhere to live. The subset of households considering living in the core of the city is smaller still.

Since the city-wide pool of housing units is finite, when a municipality takes steps to encourage housing in one location, that means that over time, fewer units will be built in other locations than otherwise would have. Giving one building or

## Attachment 1

area a competitive advantage in the market will disadvantage other buildings or areas.

When implemented strategically, this can help achieve the objectives of The City Plan. But when a municipality takes actions (both financial and non-financial) to incentivize housing development in too many places at the same time, it is less likely to have a focused, transformative effect as those incentives effectively cancel each other out and those developments still compete with one another.