Canada’s home building industry says tariff chaos will slow new investment

Canada's housing development industry is concerned about the impact tariffs will have on costs to build new homes. Townhouses are under construction in southwest Calgary on March 11.Amir Salehi/The Globe and Mail

The housing development industry says the uncertainty brought on by the global trade war will slow new investment in Canada’s housing market.

The Trump administration’s fast-changing trade policy is shaking investor confidence, with the U.S. President repeatedly announcing and delaying plans for steep tariffs on Canadian goods.

“All of the uncertainty is generally unwelcome and makes it difficult to underwrite new investments,” said Michael Waters, chief executive of Minto Group, a major housing developer with about 3,000 housing units under construction across the country.

The growing global trade war has been blamed for a slump in land acquisitions and home resales. Colliers commercial real estate firm said momentum had been growing late last year for land purchases and housing development after about two years of low activity.

“There was a lot of good sentiment heading into this year,” said Steve Keyzer, an executive vice-president with Colliers Canada who leads the firm’s housing redevelopment advisory team for the Toronto region.

But Mr. Keyzer said that has changed and investors have pulled back. “If this goes on for a long time and tariffs do come into effect for the medium term, then we’re going to see less confidence in all aspects of investment in the economy, and definitely, housing will be affected.”

There were $2.29-billion in land sales across seven major Canadian regions in the last quarter of 2024, according to data from Colliers Research and Altus Group. That was up 44 per cent from $1.59-billion in the third quarter, but was still much lower than the peak of $5.21-billion in the second quarter of 2022.

In January, the national real estate group had also forecast a significant unleashing of pent-up demand for homes across the country. But last month’s sales in Toronto, Calgary and Vancouver were down from February, 2024.

Shaun Hildebrand, president of Urbanation Inc., said: “100 per cent this uncertainty around a trade war will impact new development.”

“You can see how it’s already affecting the resale market as buyers are moving to the sidelines. This is on top of unknown implications for construction costs and supply chains,” he said.

Home builders have been dealing with rising construction costs for years.

Government shutdowns during the pandemic led to project delays and material shortages. Then central banks, including the Bank of Canada, quickly raised interest rates to cool runaway inflation.

The spike in borrowing costs made it harder for prospective homebuyers to qualify for a mortgage. It also increased borrowing expenses for developers and throttled investor interest in new homes.

Individual investors, who used to account for at least 70 per cent of buyers, have disappeared from the preconstruction condo market. And longer-term investments into rental-only apartment buildings may soon feel the pinch.

“Capital flows to where certainty lies,” said Mazyar Mortazavi, CEO of TAS, an Ontario home builder that has been building homes for 40 years. The CEO said the tariff war and economic turmoil are affecting both the capital that would be invested in new home-building as well as the developer’s own costs.

“It just becomes that much harder to budget, that much harder to then give the investor any sense of confidence in terms of how we’re going to manage costs versus revenue,” he said.

TAS, like other private-sector developers, relies on institutional investors to help fund their projects. Mr. Mortazavi said TAS raised capital last year but it was less than normal.

“It’s nowhere close to what we’ve historically done,” he said. “We’ve been able to raise that capital, but it’s at a fraction of what we would be expected to be doing and at the pace at which we expected to do that.”

Donald Trump announced early Tuesday that tariffs on Canadian steel and aluminum would double to 50 per cent instead of the original 25 per cent, and were due to take effect on Wednesday. But after Ontario said it would temporarily suspend its surcharge on U.S. electricity exports, the administration appeared to suggest it may revert to the 25-per-cent metal tariff. The latest back and forth comes a week after Mr. Trump’s administration imposed 25-per-cent tariffs on most Canadian goods before temporarily suspending them until April 2.

Meanwhile, Canada has imposed retaliatory tariffs on $30-billion worth of U.S. goods. And over the weekend, China announced new taxes coming March 20 on $3.7-billion worth of Canadian agricultural and food products, including canola oil and Canadian pork.

“The worst part is not even the tariff. It is the disruption and uncertainty,” said Ted Betts, a partner with Gowling WLG who has worked in construction law for more than 25 years. “The uncertainty is what kills projects,” he said.