

MURB 2.0: Lessons Learned From History

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Key Findings

- Examining the details of the Multi-Unit Residential Building (MURB) incentive program of the 1970s shows that it was not as effective as some policy advocates had hoped it would be. While the program funded almost 350,000 housing units, some have argued that roughly half of those units would have been built without the program. The program generated an additional 122,000 net new units between 1974 and 1987;
- The MURB program effectively reinstated the tax incentives that had been in place prior to the income tax reforms of the early 1970s, which had generated substantial volumes of rental housing. The primary objective of the MURB initiative was to expand the overall rental supply; notably, it did not explicitly address the provision of “affordable housing.” Any assessment of its effectiveness and cost, therefore, must be considered within this broader context of rental market expansion rather than affordability;
- When paired with the Assisted Rental Program (ARP), however, the outcomes shifted more directly toward affordability. In practice, nearly all ARP projects were also structured as MURBs, thereby ensuring that the combined effect of the two programs yielded a significant portion of more affordable housing; and
- If the federal government reintroduces the MURB program (MURB 2.0), a refined implementation structure and stronger policy design are needed to address affordability. A cost-effective alternative policy should be considered before implementing MURB 2.0. Funding can also be better allocated to supporting the addition of secondary suites to existing houses, expanding rental supply more quickly and at lower cost and improved affordability.

The Policy Context

The Canadian federal government has decided to take a page from history to address the country’s housing challenges. It started in 2017 with the launch of the National Housing Strategy, which introduced direct funding and low-interest and forgivable loans for various types of new housing developments. More recently, Prime Minister Mark Carney's Liberal election platform promised to revive the Multi-Unit Residential Building (MURB) personal income tax provision -

a 1970s accelerated capital cost allowance (CCA) put in place to attract long-term private investments in rental properties

The tool was a “tax expenditure” that provided a tax incentive to private investors who would invest in MURBs through accelerated capital depreciation that could be deducted from personal income.

Now that the election has been won, Prime Minister Carney is getting ready to release his first budget on November 4, 2025. It's worthwhile to delve back into the details of the original MURBs incentive to understand better how to structure and implement an updated, more effective incentive that may better target the affordable housing issue, while also increasing the supply of rental units.

In this blog, we highlight a series of questions that should be addressed to develop a successful policy given the current market and political context. We hope to shed some light on what the structure should be for a new MURB policy in 2025, based in part on an analysis of the original. We look at how the original policy was designed and structured, what the successes and pitfalls were and, more importantly, why it was eventually terminated.

The MURB Provision Was a Tax Expenditure, But What Does That Really Mean?

The Multi-Unit Residential Building (MURB) incentive program was introduced in 1974 as a federal tax expenditure policy tool, meaning it operated by foregoing government tax revenue, and was not an actual cash outlay. Dowler quotes R.S. Smith, defining a tax expenditure as, “Government revenues forgone through special provisions in the tax system which are specifically designed to provide incentives or tax relief to certain activities or individuals”.¹

To incentivize private investment, rather than providing direct cash subsidies, investors in MURB-certified buildings could deduct depreciation expenses (CCA) against their personal income from all sources. Previously, capital cost allowance could only be deducted from rental income.

Who were the investors that qualified for the tax relief?

There were virtually no restrictions on the type of investor eligible for the MURB provision. Both individuals and corporations not directly engaged in the real estate business could participate, often through syndicates or limited partnerships. Program evaluations noted three common ownership structures: undivided ownership, divided (unit-title) interest, and limited partnership, and emphasized that “there were virtually no restrictions on who could qualify as MURB investors”². Earlier assessments similarly stated that the program allowed “individuals

¹ Dowler, R. G. (1983). Housing-related tax expenditures: An overview and evaluation (Major Report No. 22). Centre for Urban and Community Studies, University of Toronto. Reprinted 1984.

² Program Evaluation Division, Canada Mortgage and Housing Corporation. (1988). Assessment report: Evaluation of federal rental housing programs. Canada Mortgage and Housing Corporation.

and corporations not in the business of real estate” to deduct MURB-related capital cost allowance losses against other income.³

How did a property get certified?

As a prerequisite, units had to be certified by Canada Mortgage and Housing Corporation (CMHC) to receive the incentive. Revenue Canada (now the Canada Revenue Agency) administered the program through standard tax filings.

To qualify for CMHC certification, buildings had to meet several criteria:

- Contain two or more self-contained residential units;
- Have at least 80% of floor space allocated for residential rental use; and
- Begin construction within eligible timeframes (1974–1978; later extended to 1980–1981).

How was the incentive structured?

The MURB program identified two classes of buildings - wood frame and steel/concrete. The allowable depreciation rate was dependent on the building class.

The program offered two key incentives:

- It allowed for more of the costs to be deducted upfront (so-called soft costs); and
- It allowed investors to deduct depreciation across all income earned, whereas prior tax rules allowed depreciation to only be deducted against rental income. Prior to the tax reforms in the early 1970s, investors could use depreciation deductions to reduce taxable income.

When first introduced, the policy allowed for two categories of allowable depreciation rates:

- Class 32 (wood frame): allowed for a 10% depreciation rate per year; and
- Class 31 (steel/concrete frame): allowed for a 5% depreciation rate per year.

The program also aimed to limit the sale of units funded through the program by implementing a differentiated tax treatment at the time of sale;

- If a unit funded under the MURB incentive program was sold individually, a capital gains tax would apply as per the regular tax treatment of rental apartment sales; or
- If the entire building were sold, depreciation would then be recaptured as income.⁴

³ Clayton Research Associates. (1981). Tax expenditures - housing. Canada Mortgage and Housing Corporation.

⁴ Clayton Research Associates. (1981). Tax expenditures - housing. Canada Mortgage and Housing Corporation.

This structure disincentivized full-building sales and encouraged long-term holding or unit-by-unit turnover to defer tax liabilities.

By 1978, policy changes restricted both classes to a 5% depreciation rate. This adjustment addressed concerns that both developers were manipulating building designs to maximize tax benefits and that wood-frame buildings had longer lifespans than implied by a 10% depreciation schedule.

How many rental units did the program incentivize? How many were affordable?

Some might argue that the answer to the number of affordable rental units was small, as there were no income or affordability targets or requirements for units to be eligible for the MURBs incentive. However, others might point out that as the supply of rental units increased, some renters may have been inclined to rent the new units, thus potentially resulting in a trickle-down effect. This would mean that some lower priced, more affordable units were vacated and made available to lower income households.

Other recent sources have credited the program with encouraging the development of over 346,000 new rental units between 1974 and 1981. However, as many as 224,000 units may have been built even without the incentive, according to a 1981 CMHC review.⁵ In other words, the program only incentivized an additional 122,000 units over a 7-year period. This still represents a 35% increase in rental units.

In combination with other federal rental programs, the MURB incentive produced only modest market-wide effects. By 1987, average rents were estimated to be just 3.3 percent lower than they would have been otherwise, and the vacancy rate only about 1 percentage point higher.⁶

Certification did not require rent ceilings to encourage affordable units, nor tenant income requirements. As such, a majority of the 346,000 units were priced towards a high-end market. The MURB incentive has often been debated in terms of cost and effectiveness. While some evaluations raised concerns about its expense and efficiency, the program nonetheless met its central objective of expanding the rental housing supply (as previously noted, CMHC estimated it generated an additional 122,000 net new units)

Why was the program terminated?

The program was never intended to be long term; it had a limited life which was extended several times. Ultimately, the overall fiscal impact was high relative to the number of units produced. Between 1974 and 1987, the program cost the federal government \$680 million in tax

⁵ Program Evaluation Division, Canada Mortgage and Housing Corporation. (1988). Assessment report: Evaluation of federal rental housing programs. Canada Mortgage and Housing Corporation.

⁶ Fallis et al. (1989). Final Report The Economic Impact of Federal Rental Housing Program. Institute for Policy Analysis University of Toronto.

expenditures and \$340 million for the provinces. Many of the buildings receiving this benefit up to 2010. It was also estimated that the economic benefits (activity generated by increased rental construction) were far outstripped by the costs (loss in government tax revenues)⁷.

The policy was also criticized for other shortcomings, including:

- Affordability outcomes were limited, as the program did not include explicit requirements around income levels or rent thresholds;
- It didn't address the underlying factors behind a reduced rental supply: high construction costs⁸;
- High-income investor bias: Most benefits accrued to top-bracket individuals, such as professionals and executives⁹;
- Units supported through the program were generally priced at the higher end of the rental market. This was not unusual, as new rental construction is typically more expensive than existing stock; and
- The program's regressive distributional impacts, as it disproportionately benefited high-income individuals who used the MURB incentive as tax shelters to offset non-rental income.¹⁰ The Department of Finance noted that many investments were made purely for tax advantages rather than profitability, resulting in uneconomic projects.¹¹

Overall, the incentive was criticized as fiscally costly and opaque, with high federal tax losses and limited long-term affordability outcomes. These concerns culminated in the removal of the program in the November 1981 federal budget, alongside other indirect housing subsidies, as part of a broader move to reduce reliance on hidden tax expenditures.¹²

Creating MURB 2.0

There is no doubt that financial incentives, such as low-cost financing, interest-free loans and tax incentives, work to boost housing supply. However, any reprise of the MURB incentive must avoid the speculative behaviour and fiscal leakage that impacted the original program. A modern MURB program can effectively contribute to rental supply if it is better structured, if paired with other incentives to encourage the development of affordable units.

⁷ Fallis et al. (1989). Final Report The Economic Impact of Federal Rental Housing Program. Institute for Policy Analysis University of Toronto.

⁸ Clayton Research Associates. (1981). Tax expenditures - housing. Canada Mortgage and Housing Corporation.

⁹ Clayton Research Associates. (1981). Tax expenditures - housing. Canada Mortgage and Housing Corporation.

¹⁰ Dowler, R. G. (1983). Housing-related tax expenditures: An overview and evaluation (Major Report No. 22). Centre for Urban and Community Studies, University of Toronto. Reprinted 1984.

¹¹ Dowler, R. G. (1983). Housing-related tax expenditures: An overview and evaluation (Major Report No. 22). Centre for Urban and Community Studies, University of Toronto. Reprinted 1984.

¹² Dowler, R. G. (1983). Housing-related tax expenditures: An overview and evaluation (Major Report No. 22). Centre for Urban and Community Studies, University of Toronto. Reprinted 1984.

Based on the review of the original MURB program, the following recommendations are proposed for a MURB 2.0

- Pair the incentive with other programs to support the development of affordable units;
- **Monitor and report outcomes:** introduce transparency requirements, including public reporting of rents, unit counts, and geographic distribution;
- **Coordination with other federal housing tools:** the program should be coordinated with other federal housing tools to maximize impact. This could include integration with the Assisted Rental Program (ARP) in its early stages, alignment with the Housing Accelerator Fund, Initiatives taken on by Build Canada Homes, or other existing National Housing Strategy initiatives.
- **Stabilize approvals and permitting:** Reduce project costs and uncertainty by aligning tax incentives with clear eligibility, municipal cost reductions, and faster approvals; and
- **Create a strong and adaptive financial incentive:** a critical consideration in designing a modern MURB incentive is the rate and structure of capital cost allowance (CCA) depreciation. The original MURB program allowed investors to claim a 5% annual CCA deduction, which front-loaded tax benefits and significantly reduced taxable income in the early years of ownership. While this enhanced the program's appeal to high-income investors, it also contributed to high upfront fiscal costs and encouraged short-term tax-driven investment behaviour.
- It is important to consider how depreciation rates interact with today's economic conditions, including interest rates, construction costs, and the typical life cycle of rental buildings. The objective should be to provide a financial incentive that is strong and adaptive enough to attract private capital, while ensuring that the structure does not result in disproportionate early tax expenditures or speculative use.
- The federal government should consider expanding MURB 2.0 to secondary units built in existing and new single-detached, semi-detached houses and townhouses. This would not only provide relatively affordable rental units, but would result in increased densities in existing and new low-density neighbourhoods.

Conclusion

The original Multi-Unit Residential Building (MURB) incentive program was a broadly applied tax expenditure with limited oversight and no clear affordability objectives. While it was successful in stimulating an increase in rental supply, there are concerns that it did not address the provision of affordable housing units and was costly. Our current proposal seeks to layer tax incentives with regulatory reform and capital investment. Successful outcomes for the policy can be encouraged through integration with other programs or initiatives, including the provision of operating subsidies, prefabrication investments and municipal zoning alignment.

Presently, thanks to CMHC support there is a large number of new rental units coming on the market. There is a critical need for more affordable units, which we believe MURB 2.0 should address. We also suggest that a cost-effective way to provide more affordable rental units is to include its application to the construction of secondary suites in existing and new low-density homes.

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