CANADIAN RENTAL HOUSING PROVIDERS FOR AFFORDABLE HOUSING

Brief to the House of Commons' Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities (HUMA) regarding their study of the financialization of housing

May 28, 2023

Canadian rental housing providers for affordable housing is a group made up of the five publicly-traded real estate investment trusts (REITs) primarily operating in Canadian residential rental accommodation. We are Canadian Apartment Properties REIT (CAPREIT), Boardwalk REIT, Killam Apartment REIT, InterRent REIT and Minto Apartment REIT. Combined, we own and manage 120,501 apartments and 18,311 land lease sites in manufactured home communities across Canada, in every province except Manitoba.

We previously provided a copy of our 2023 pre-budget submission to FINA for context, and are also represented by the Canadian Federation of Apartment Associations (CFAA) and the Federation of Rental-housing Providers of Ontario's (FRPO) combined submission. This document makes up our official submission to HUMA for the purpose of your study of the financialization of housing and aims to be complementary to the combined CFAA/FRPO submission, as the motion for the study made specific mention of the REITs sector.

Introduction

Canada is in a housing crisis, with Canadians of all income levels finding it increasingly difficult to find suitable housing at prices they can afford. One's home is highly personal, and difficulties with housing are too.

For us, rental housing is much more than a business, and we deeply appreciate that every suite or site is someone's home and a part of a community. It's important. That's why it's critical that when we speak about housing, we rely on facts and make recommendations using the best data and evidence available, including from providers of housing.

We believe in the progressive realization of the right to adequate housing as set out in the *National Housing Strategy Act*. We also believe, as outlined in the United Nations' Fact Sheet 21, "*The Human Right to Adequate Housing*,"[1] that the private, for-profit, sector has an important role to play in the provision of housing. In fact, in Canada, over 96 per cent of all housing is provided this way.[2]

[1] Fact Sheet No. 21 (Rev. 1): The Human Right to Adequate Housing | OHCHR
[2] Canada needs ambitious, urgent strategy for social housing: Scotiabank report | Perspectives

Origins of the REITs

The REIT group members have been providing rental housing to Canadian families for decades. Minto Group was started by the Greenberg family in 1955. InterRent's partner CLV Group was founded in 1969. Boardwalk was started by the Kolias family in 1984. CAPREIT was founded in 1997. Killam was founded in 2000. That's a combined 210 years of experience providing quality rental housing in Canada.

The REIT framework

REITs were created in Canada in the 1990s, decades after they were created in the United States. REITs are now in place in over 40 countries around the world.[3] They were created to democratize investment in large-scale real estate. While REITs are a flow-through entity that pays no tax directly on their income (so long as it is distributed to unitholders), they are not a corporate loophole, as some have suggested.

There are approximately 40 publicly-traded Canadian REITs today. REITs are a significant and well-regarded source of capital for development and investment in real estate of all types: residential, commercial, retail and industrial. The REIT sector has an aggregate market capitalization of approximately $70 billion and allows millions of Canadian workers and retirees the opportunity to invest in this sector and earn a modest but steady return.

Unlike individual shareholders in a corporation, unitholders in a REIT have many more protections over how their investment dollars are spent. REITs must return their income to their unitholders as distributions, whereas corporations are generally free to use that income any way they see fit. The unitholders must then pay income tax on the income amount of their distributions, paying personal income taxes at applicable rates, which are higher than corporate income tax rates. By contrast, a corporation has no such requirement and is highly unlikely to pay out all of its taxable income as dividends. They can choose to pay none out, thereby reducing tax revenue for the government. REITs have built-in governance structures as they must go to the market to secure capital for new investments, whereas corporations can retain and re-deploy profit at management's discretion.

A study completed by EY in September 2022 concluded that the residential REITs, via their unitholders, ultimately pay approximately the same amount of taxes as they would if taxed as corporations.[4,5] However, changing the tax regime of REITs risks jeopardizing an important source of capital needed for the creation of new housing.

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[3] Global Real Estate Investment | Nareit
[4] Analysis and commentary on the tax treatment of residential Real Estate Investment Trusts (REITs) | EY
[5] A recent PBO report estimated a tax lift of $53.6 million per year for the entire $70 billion REIT sector. The $17 billion residential REITs sector would amount to $13 million per year.

Financialization

The financialization of housing was defined by Dr. Martine August in her oral testimony to the committee of May 9, 2023, as “the treatment of housing as an investment vehicle.[6]” It’s clear that in a market-based economy like Canada’s, housing is both a social good and an investment.

We are investors, not speculators. We do not buy single-family houses, nor individual condominium units. We are proud to invest in providing quality purpose-built rental housing to Canadians of all stripes from coast to coast in nine provinces. Producing and maintaining rental homes is capital-intensive. Rental rates paid by residents provide the necessary funds to finance the capital needed to build, maintain and provide a modest return to attract the investors providing the capital.

Our distributions currently provide approximately a three percent annual return to our investors. That is lower than many no-risk, high-interest savings accounts’ posted rates offered by banks today.[7]

Some advocates and academics have repeatedly stated that the financialization of housing is causing harm, and is actually causing the housing crisis. We have yet to see any data that confirms this statement. In fact, evidence shows the opposite – that investments in building more housing are essential to meet the demands of our growing population. Canada’s rental housing market is not the wild west. It is a market that is highly competitive, responsive to the needs of residents, and highly regulated by the provinces and municipalities. Price increases follow a lack of supply in the rental market, not the ownership structure of the REITs.

REITs operate as professional housing providers working at scale, which allows for better and more responsive service for our residents. Unlike individual condominium investors, we are stable property owners, investing at scale in our properties and maintaining them for people to call home and build a community over the long term.

During his testimony before the House of Commons’ Standing Committee on Finance on January 21, 2022, CMHC’s Chief Economist Bob Dugan said, in answer to a question from NDP finance critic Daniel Blaikie, that:

“It's not clear to us that the average rents are trending very differently for REITs versus other kinds of owners…There's not a lot of evidence there.[8]”

Moreover, many of the headline-grabbing rents in Canada’s cities reflect rates for rental condominiums, which have higher rates than purpose-built rentals – almost $700 more, on average.[9] REITs don’t invest in these higher-priced individual condominium units.

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[6] HUMA Meeting 67 - May 9, 2023 | Parliament of Canada
[7] Best High-Interest Savings Accounts in Canada for 2023 - NerdWallet
[8] Evidence - FINA (44-1) - No. 13 - House of Commons of Canada
[9] CMHC Rental Market Report - January 2023

Affordability

Nearly every week, Canadians are faced with headlines of rapidly increasing rental housing prices. What these headlines miss is that for the majority of renters in Canada, their rent went up a small percentage, likely less than the rate of inflation. Renters are protected by formal rent control regimes in Ontario, Quebec, British Columbia and Manitoba and by administrative rent caps in other provinces including Nova Scotia, New Brunswick and Prince Edward Island. In Ontario this year, for example, the guideline increase is capped at 2.5 per cent, compared to inflation as high as 8.1 per cent[10] during the previous twelve months. In Prince Edward Island, the maximum allowable rental price increase was zero.

The most recent data on median renters' household income is from 2019, at $46,900.[11] Using data on wage growth from the Labour Force Survey, it is reasonable to extrapolate this figure to over $56,000 today. Our average rent across the group as of March 31 is $1,394 per month. As such, we estimate that our national average rent is affordable for the national median renter household in Canada. We urge the CMHC to provide an update on this data.

Looking at rents on a local basis, our analysis of 2022 rental data found that nearly 53 per cent of our homes were rented at affordable rates when assessed against the 2019 local median renter household income. If more recent local median renters' household income data were available, we are confident that even more of our rental homes would qualify as affordable.

Market Share, Competition and Resident Satisfaction

According to Statistics Canada, there are approximately five million renter households across Canada. Our 120,501 rental apartments represent just 2.4 per cent of the rental home market in Canada. Looking just at the 2,450,000 purpose-built rentals,[12] we represent 4.9 per cent. We are simply too small a player to have pricing power in the market, where we compete against 97 per cent of the market. As noted above, CMHC's chief economist testified last year that REITs were too small to affect prices, and that he saw no difference in the pattern of rental rate growth among REITs compared to the wider rental housing sector. CMHC has the best and most comprehensive data set in Canada to make this conclusion.

This competitive environment means we are competing against each other, and against all other property owners for tenants. We win their business by taking their feedback seriously, maintaining our buildings, offering competitive rents and ultimately outperforming our competitors. That's why we all survey our residents regularly, and many of us tie our executive compensation to the results.

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[10] Consumer price index - Bank of Canada
[11] MLI Select - Affordability Criteria | CMHC
[12] StatsCan - The Daily - To buy or to rent

Evictions and "Renovictions"

There is very limited data on evictions in Canada, but a recent StatsCan report says 63 per cent of evictions from 2016-2021 were 'no-fault' evictions where the owner was either selling the home vacant or taking over the home for their own use.[13] By definition, REITs cannot perform such evictions.

The United Nations Fact Sheet 21 outlines that evictions may be justifiable, "because the tenant persistently fails to pay rent or damages the property without reasonable cause, the State must ensure that it is carried out in a lawful, reasonable and proportional manner, and in accordance with international law."[14] As a group, we are adherents to this rights framework and only seek to evict a tenant if they pose a threat to the health and safety of our communities, persistently fail to pay rent, cause unjustifiable damage to the property, or interfere with rights of others to the reasonable enjoyment of their homes.

Some who speculate in rental properties seek to evict tenants to renovate and increase the rent – so-called "renovictions." The REIT group does not do this, and we support regulations that enforce existing laws and punish property owners that do. We are long-term investors in providing high-quality, purpose-built rental homes, not flippers.

New Construction and Acquisitions

REITs have been accused of not contributing to the supply of new purpose-built rental housing. This is simply false. This REIT group has approximately 10,000 new homes in our development pipeline. Across the entire REIT sector, the group has more than 230,000 homes in development.[15] That is equivalent to a full year of Canada's housing construction industry output, and a meaningful contribution towards the 5.8 million homes CMHC says Canada needs by 2030 to restore housing affordability.[16]

Who is contributing more to the supply of purpose-built rental housing?

We are converting office buildings, redeveloping malls and parking lots, and making better use of our existing land to add new rental housing supply. We're also acquiring new construction purpose-built rentals from merchant builders and stabilizing the building with tenants, incentivizing the construction of new rental supply.

New construction, however, is expensive and only viable if and when the rental rates cover the costs to finance the project. As such, it is not possible to build new affordable rental homes without some form of subsidy. A recent report[17] from the *Starts With Home* coalition of affordable housing advocates and providers put the cost of providing new housing at $352,000-560,000

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[13] StatsCan - Evictions in Canada, 2021
[14] OHCHR - The Right to Adequate Housing
[15] TD Securities - Why REITs' Development Potential Merits More Attention
[16] CMHC - Housing Shortages in Canada: Solving the Affordability Crisis
[17] Report - Starts With Home

per home, *even assuming the land was provided at no cost*. In larger urban centres like Toronto and Vancouver, the construction cost is even higher. From their analysis, all of these projects would either require direct government rental subsidy (above and beyond the provision of free land) or cross-subsidy from high-income market-rate rentals. As market-rate housing providers, we must add the cost of land to our calculations.

Currently, we are net-sellers of older rental properties with in-place affordable rents, as we seek to re-invest in the construction of new housing. It's why we're big supporters of a national affordable acquisition program. Our preference when selling buildings with affordable rental rates would be to sell these buildings to non-profits, making these homes affordable in perpetuity. We are working with the Government of British Columbia as they develop their provincial program, and have pledged to do so nationally if given the opportunity.

Collaborative Partners for the Progressive Realization of the Right to Adequate Housing

Canadian rental housing providers for affordable housing, the publicly-traded residential REIT group, are committed to working with everyone to address Canada's housing supply and affordability crisis. We recognize and embrace Canada's rights-based approach to ensuring that in a country as rich as ours, no one is homeless, and everyone can choose a home that suits their needs at a price they can afford.

A rights-based approach requires governments to ensure that sufficient housing is created to meet the needs of its growing population. In a market-based economy like Canada's, that means creating the rules, tools and incentives to encourage a robust supply of market-rate housing for the middle class, and the government providing support to provide for those who cannot afford to find a home in the marketplace. The better that governments do the former, the less they will have to spend on the latter.

Conclusion

Over the last four decades, successive governments have raised taxes and implemented policies that limited support for purpose-built rental housing. The result has been far less housing built, absolutely and per capita, than in the 1950s, 60s or 70s. Today, we Canadians find ourselves in a housing crisis. We're ready to take an all-hands-on-deck approach to tackle it, with tried-and-tested, proven policy and the supports that encourage investment in the supply of middle-class and affordable purpose-built rental housing.

Canadians deserve a home that suits their needs, where they want to live, at a price they can afford. Let's work together to deliver it.