



Submission to the House of Commons' Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities

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Introduction

Who We Are

Founded in 1970, REALPAC is the national industry association dedicated to advancing the long-term vitality of Canada's real property sector.

Our members represent over \$1 trillion CAD in assets under management across Canada.

REALPAC's 130+ members include publicly traded real estate companies, real estate investment trusts (REITs), pension funds, private companies, fund managers, asset managers, developers, government real estate agencies, lenders, investment dealers, brokerages, consultants/data providers, large general contractors, and international members.

Our members represent all asset classes in Canada – office, retail, industrial, apartment, hotel, seniors residential – from coast, to coast, to coast.

This submission focuses on our members who own, manage and develop purpose-built rental buildings. They are critical to the development of Canadian rental supply and as contributors to the Canadian economy.

What We Believe

REALPAC has actively engaged the public, residents, government, the private sector, and activists around rental housing issues. We have held roundtable discussions to better understand the concerns being voiced across the sector, engaged with individual experts, and even conducted a "cluster" process within the Canada Mortgage and Housing Corporation's (CMHC) Innovation Lab to find solutions to Canada's supply issues.

REALPAC and our apartment members believe that everyone in Canada deserves a safe, dignified, and secure place to live. We are committed to building a healthy rental housing system, with housing of all types, for the benefit of existing and future residents.

We believe it is imperative to repair, maintain and upgrade the existing purpose-built rental stock across Canada and to support the acceleration of new purpose-built rental supply in all market segments.

Government, housing advocates, non-profits, cooperatives, and the private sector must work together. REALPAC is prepared to work with everyone to be part of the solution – for the benefit of existing and future residents of Canada.

For more information on our evolving plan to work together for housing solutions, please visit our website: www.realpac.ca/morehousing/.

Current State

The Problem

Canada's housing system is not currently meeting the needs of Canadians. Multi-family building residents in major cities in Canada are faced with rising rents and the loss of affordable housing. Apartment buildings are aging and are in constant need of repairs and upgrades and there is an acute shortage of rental housing of all types.

Canada's housing system fails to facilitate and encourage the development of adequate housing to match the pace of its rapidly growing population and immigration targets.

Housing activists have pushed the Federal Housing Advocate and the Parliamentary Budget Office (PBO) to single out REITs as the cause of Canada's housing problems. Their arguments are flawedⁱ and fail to address the core problems preventing Canadians from accessing affordable housing.

Issue Environment

Negative Macro-economic conditions

Housing providers face the same external pressures felt by Canadians across the country. As the cost of construction materials, contractors, staff wages, utilities, interest rates, taxes, and other inflationary costs rise, so do the day-to-day costs of owning and operating purpose-built rentals.

Further, many apartment buildings are aging and require vital repairs and upgrades. Occasionally, returning an apartment building to a state of good repair cannot be completed safely with tenants in the unit, and these repairs can never occur without access to capital.

While the cost of creating housing has increased significantly, federal funding has not kept pace, and rising interest rates have impacted developers' ability to secure financing and ultimately, create new housing supply.

Pending Labour shortages

The rising cost of creating housing is impacted by labour shortages observed across the country. This issue is particularly acute in the construction and manufacturing sectors, where 49% and 47% of businesses, respectively, are expected to have difficulty recruiting skilled labour (Q2 2022).ⁱⁱ

Heavy Regulatory and taxation burden

Moreover, the process and requirements implemented by provincial and municipal authorities have contributed to lengthy approval and development wait times in Canada's housing system preventing housing supply from responding to increases in demand.

A recent study by the Altus Group revealed these delays are responsible for a cost escalation of \$2.60 to \$3.30 per square foot per month for new housing. This translates to an approximate increase of \$18,000 per unit over a six-month period, costs which are also ultimately borne by tenants.ⁱⁱⁱ

In addition, development charges, GST, and other **taxes and upfront fees can contribute up to 30% of the cost of rent.**^{iv}

Increasing demand

Housing providers operate in this macro-economic environment while the country is simultaneously observing its highest population growth rate since the baby boom. Immigration, Refugees and Citizenship Canada projects 465,000 new permanent residents in 2023, with this number increasing over the next few years.^v With temporary residents, 2022 saw a record population growth of one million people.^{vi}

CMHC has found that supply growth has been weak to respond to the recent period of demand growth in some of Canada's large urban areas, resulting in the loss of affordability.

CMHC estimated that to restore affordability to similar levels in 2003 and 2004, the country needs an *additional* 3.5 million affordable housing units by 2030– increasing Canada's total housing inventory needs to 22 million housing units by 2030. CMHC's Deputy Chief Economist stressed the need for an "all-hands-on-deck" approach to increasing housing supply^{vii}.

Investment in purpose-built rental housing is not increasing at a rate sufficient to meet current and future demand, and in turn, there is an acute shortage of rental housing of all types across Canada.

The Contribution of REITs

In Canada, there are six publicly traded residential REITs, accounting for approximately 6% of the Canadian primary rental universe (ie. apartment buildings), after 30 years of operation.^{viii} This is less than 3% of the primary and secondary market for rental accommodation in Canada.

The multi-family REIT sector is responsible for operating over 130,000 residential units in the country.

Despite its small share of the Canadian rental market, an economic impact analysis report concluded that in 2021, the residential REIT sector was responsible for:

- \$5.6 billion in total economic activity;
- 20,750 jobs (person-years of employment) across the economy;

- \$1.2 billion in labour earnings;
- \$3.3 billion contribution to Canada's GDP; and
- \$685.9 million in government revenues.

In the same year, the sector distributed over \$400 million in dividends to unitholders, all of which was taxable^{ix} at the household and corporate levels.^x

Ask and Rationale

The Ask

The assistance of government partners to reduce regulatory uncertainty to increase investment in adequate rental housing that is safe, secure, and affordable.

The Rationale

REALPAC members believe that everyone in Canada deserves a safe, dignified, and secure place to live.

The foundation of a healthy Canadian real estate environment is the ability to attract investment to maintain and update existing buildings, and to build new rental stock. Through taking a few fundamental steps, we can regenerate the rental apartment sector in a way that protects those who need it most, while allowing the growth needed to build-up Canada for generations to come.

Recommendations

REALPAC has identified four key opportunities to achieve this objective.

1. Introduce a Canadian low-income housing tax credit

What: The Low-Income Housing Tax Credit (LIHTC), a sustainable and competitive funding model implemented in the United States in 1986, subsidizes the acquisition, construction, and revitalization of affordable rental housing for low- and moderate-income individuals. It has been amended numerous times since then to keep up with the state of the market.

Why: The LIHTC keeps rents locked in at affordable levels for both new and renewing residents while providing a path to fund deferred maintenance or renovations, which tackles underfunded upkeep and housing inadequacies. Since the mid-1990s, the LIHTC program has supported the construction or rehabilitation of about 110,000 affordable rental units each year, and over two million units overall.^{xi}

How: Owners or developers of projects receiving the LIHTC agree to meet an income threshold for tenants and a gross rent test. The following are the US parameters, which could be adjusted for the Canadian context:

- At least 20% of the project's units are occupied by tenants with an income of 50 per cent or less of area median income adjusted for family size (AMI).
- At least 40% of the units are occupied by tenants with an income of 60% or less of AMI.
- At least 40% of the units are occupied by tenants with income averaging no more than 60% of AMI, and no units are occupied by tenants with income greater than 80% of AMI.^{xii}

2. Build on existing rental support programs

What: Like the Canada Housing Benefit, REALPAC recommends an expansion or amendments to direct rental subsidies to renters to ensure long-term stability and provide greater security for low-income Canadians across the country.

Why: These supports need to be jointly administered by all levels of governments or done in coordination with the various programs in place to ensure the longevity of an effective mechanism to support tenants on fixed incomes left behind by rent increases, or in difficult economic circumstances.

How: REALPAC is a willing partner at the table, and would support the government, including provincial and municipal counterparts, in consultations with industry and non-profit partners, to ensure these targeted supports take into consideration the various realities Canadians face across the country.

3. Introducing an Industry Code of Conduct

What: A co-developed Industry Code of Conduct which would bring together key public and private players with the objective of putting in place industry standards that expand lifespan of existing multi-family buildings and improve security of tenure for residents.

Why: REALPAC is aware some landlords are renovating in bad faith, or unnecessarily evicting their tenants to undertake renovations. With that said, some renovations cannot be completed with the tenant in the unit, and failing to update old buildings is not a solution.

Affordability and security of tenure are important to residents and are important to REALPAC and its members. Our members pride themselves on the affordable housing they provide residents. No responsible Canadian professional apartment landlord wants residents unfairly treated.

We believe that work must be done to prevent bad actors from performing illegal renovictions. The industry needs to be a part of the solution. By incenting participation in a code of conduct with agreed on targets and mechanisms, long-term results can be achieved which ultimately support tenants.

How: From banking to grocery stores, our country is witnessing more and more industry-wide collaboration. REALPAC recommends following the government's most recent initiative and creating an industry-led working group across the sector to develop a code of conduct submission to deliver to the government within the next year. Ensuring proper voices are consulted along the way remains a priority and the code would be reflective of the current issue environment and tenant needs.

4. Establishing an Industry Round Table

What: By putting in place an Industry Round Table that reports directly to the federal government, important feedback and advice can be provided directly to decision-makers to provide an environment where meaningful action can be taken through direct and expert-level consultations.

Why: Government-led initiatives and programs serve an important purpose, but don't always hit the mark. Recently, the Canada Housing Benefit One-Time Top-Up^{xiii} was introduced to give renters a financial boost and help alleviate pressures. However, many low-income Canadians who were targeted by this benefit didn't know how to receive it, were not able to understand program requirements limiting their ability to access it easily or were simply unaware. By consulting and informing industry experts, the Canadian government will have a strong expert voice at the table sharing important considerations and broadening the government's network and direct reach to Canadians who would benefit most from these measures.

How: REALPAC would nominate key private sector representatives, and to work directly with the federal government on establishing a mandate that allows the Council to not only provide reactive consultative advice when requested by the government, but to provide regular reports and studies by its members to help inform potential future programs through the National Housing Strategy, or beyond.

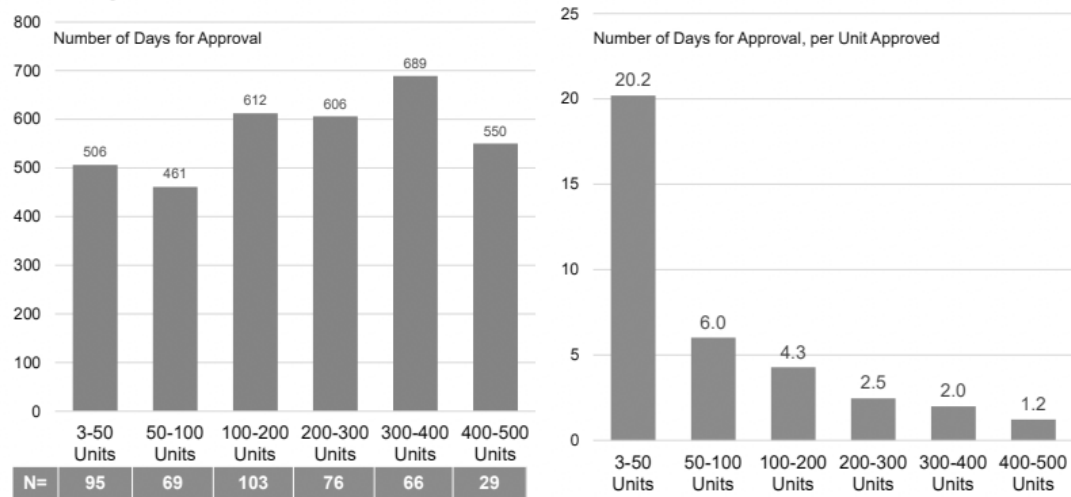
Conclusion

We thank you for taking the time to consider our recommendations and acknowledge the effort and dedication of the Committee in its review. If you have any further inquiries, please do not hesitate to contact us. Thank you once again for your consideration.

About REALPAC. REALPAC is the leading national association representing Canada's commercial real estate industry. Our 130+ members include publicly traded real estate companies, real estate investment trusts ("REITs"), private companies, pension funds, fund managers, banks, and life insurance companies, with cumulative real estate assets under management of around \$1 trillion CAD. In over 50 years of existence, we have provided policy background and advice to governments at all levels. We pride ourselves on being well researched, respectful, and thoughtful.

Annex A

Average Timelines for Approvals, High-Density Development Projects, Ontario Municipalities



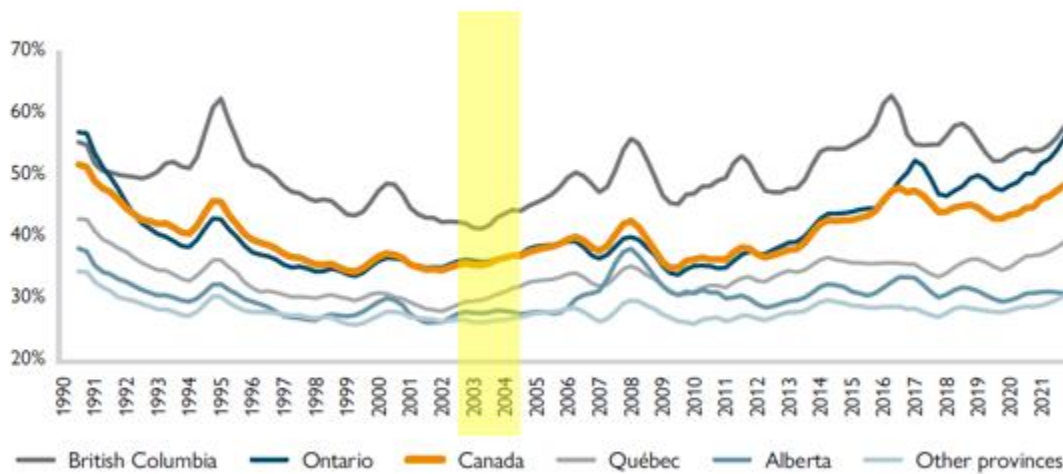
Source: Altus Group Economic Consulting

Source: CHBA National Municipal Benchmarking Study.” Canadian Home Builders' Association (CHBA). Altus Group, October 17, 2022. <https://www.chba.ca/>.

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Annex B

Figure 1: Shelter cost as a share of disposable income when the average household buys the average house (based on MLS® prices)



Source: CMHC calculations based on data from CMHC, Statistics Canada, Conference Board of Canada, CREA, Bank of Canada and Altus

Source: *Canada's Housing Supply Shortage: Restoring affordability by 2030*. Canada Mortgage and Housing Corporation (CMHC). (n.d.). Retrieved April 25, 2023, from <https://www.cmhc-schl.gc.ca/en/blog/2022/canadas-housing-supply-shortage-restoring-affordability-2030>

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