Study of the Financialization of Housing - Submission by Ian Robertson

I would like to start by acknowledging the main contributors to unaffordable housing:

1. Guaranteed demand (everyone NEEDS housing)
2. Low supply (simply not enough existing housing per the amount of people)
3. Low density zoning (difficult to get housing near the source of jobs and amenities)
4. High immigration (higher than supply and infrastructure can keep up with)
5. Housing market speculation and “investing”
6. Conflict of interest (policy makers receiving income from investment properties)

As this study relates to the financialization of housing, the submission will focus on the 5th and 6th contributing factors.

<u>Housing market speculation and “investing”</u>**:** This is when additional housing is purchased for the purpose of making money, not for the purpose of living in.

The purpose of housing is to provide shelter for yourself and potentially others, and to have a safe place to store your possessions. Without these basic supports it’s very difficult to contribute to the economy or have a reasonable quality of life. Furthermore the absence of housing leads to the absence of the ability to get housing, creating systemic poverty.

Recommended Policy: **“No person or corporation may purchase an <u>existing</u> residential property resulting in the ownership of 3 or more residential properties”**

The goal of this policy is to remove non value-creating demand from the housing market, in turn lowering the overall price of housing. The specific transaction that needs to be deterred is when an existing residential property is purchased and resold, or purchased and converted to a rental property. The buyer in this scenario is not creating value but they are contributing to higher housing costs and making money at the expense of others.

This business strategy is particularly effective because during a supply shortage (right now), <u>somebody</u> must pay whatever price the “investor” is asking for, or be homeless, or be displaced. People will be forced to make sacrifices such as nutritional food, recreation, the ability to have kids, the ability to save for retirement, or the ability to save for a down payment (rent-trapped).

There are multiple feedback loops in place because of speculators and “investors” that are contributing to ever-increasing prices:

- When an investor competes with a regular buyer for a residential property there are 2 outcomes. **a)** The investor wins and increases the price or converts it to a rental, charges the maximum possible amount while operating as a business. Or **b)** The regular buyer wins but had to pay more because they had to compete with the investor’s offers, contributing to a higher “market price” and a higher sale price for the regular buyer

- When the “market price” increases, it attracts more “investors” to participate in the same activity, further contributing to higher prices. “Herd mentality”

- An investor is incentivized to continue buying because each time they successfully purchase a property or make a regular buyer pay more in a bidding war, it increases the “market price” for the rest of their properties and limits the options of regular people.

- An investor will target specific towns, cities, or communities because this forces regular buyers and renters to weigh the losses associated with personal or professional displacement (being forced to move and incur moving expenses / job loss or change) against the higher requested price, often resulting in the higher price being paid

- An investor targets affordable housing first because it has the shortest supply, the lowest risk (price can’t fall as far), and the largest potential customer base ensuring the unit can be resold or rented. The investor again gets to take advantage of the lack of options and the buyer/renter’s desire to not be personally or professionally displaced as people searching for the affordable housing don’t have the downsize option, they are already at the bottom

<u>Conflict of interest from policy makers:</u>

This policy would not discriminate against any individual or corporation. Many question the ability of a policy maker to act in the interest of the public at the expense of their own financial wellbeing. This policy would limit the amount a policy maker would have to lose or gain when making decisions about housing, a fundamental pillar of a functioning economy.

<u>Economic benefits of affordable housing:</u>

Affordable housing has compounding upsides such as a stronger small business economy. Small business owners and startups would have more time to build momentum and reach a profitable stage where the income from their business sustains their own housing costs and that of their employees. This leads to more innovation, more diversity, more employment, higher wages, and the voluntary forgoing of employment and higher wages.

<u>Foreign buyers:</u>

Non-Canadian residents should not be able to purchase Canadian real estate. Immigrants should first rent, or once the immigration process is completed be granted access to the real estate market. This is to prevent non-Canadian residents, corporations, or foreign governments from contributing to the unhealthy demand we seek to deter, demand that weakens and destabilizes the economy. This would prevent foreign criminals from laundering money through our real estate market. It would not be possible or cost effective to “KYC” foreign buyers and ensure compliance with the policy. We should not give non-Canadians a competitive advantage against Canadians in our own real estate market, making a complete ban our best option.

What will happen when the policy is introduced:

Non value-creating demand from speculators and “investors” will be significantly reduced causing housing prices to either increase at a slower pace, flatten, or begin to lower. This policy should create a relatively “soft landing” because none of the existing property owners will be forced to sell any of their properties, they will be “grandfathered”. This means no current renters will get evicted and a “selling frenzy” is unlikely to ensue. Investors will have incentive to hold their rentals and may wish to further add to their rental supply before the policy is introduced.

Incentive will shift from (buy/resell/rent) to (build/sell/rent). To obtain additional rental properties a person or corporation will need to build them. This will create more incentive to build supply and contribute to solving the supply shortage rather than incentive to buy existing supply and exploit the supply shortage. Builders will get a competitive advantage, causing more people to become builders and receive rewards for a value creating job.

There will be a reduction in the growth rate of wealth inequality. As more renters are able to become buyers at a better price, they will be able to build equity and eventually complete full ownership of their property, eliminating a never-ending (and currently very large) recurring payment to a passive “investor”. Since people would be allowed to purchase a second property, there will still be rental supply from small-time landlords and the money and wealth generated from those properties will be spread wide across the economy.

More dignity will be restored to crucial value creating jobs such as health-care workers, teachers, engineers, energy sector workers, construction workers, retail workers, entertainers, truckers, transit operators, and military members, knowing that “investors” are not passively collecting more money than them while concurrently hindering their ability to generate and maintain wealth.

FAQ and common arguments:

“Lowering housing prices will hurt homeowners”

- If home prices were to fall, the homes will still produce the same *value* (shelter / security of assets) regardless of the *market price*. The price paid to buy a home is a **sunk cost**, it was already paid. If a homeowner wants to sell and move, the market price will be lower when they buy or rent their next place. As mentioned above I expect a “soft landing” which will limit or avoid mortgages going “underwater” (less leverage during rate negotiation at the 5 year renewal)

“This will stifle investment in the housing market and we need that the most”

- The type of investment we need is in building, not buying existing supply and raising the price for profit. For the reasons mentioned above I believe this specific type of “investment” being stifled is a good thing for the greater economy. I see no need for additional middle-men in the housing market, we should not keep a problem around (high housing prices) in order to generate incentive for a solution to that problem

“Why 2 maximum?”

- It’s natural to buy a second home during the moving process.
- It’s natural to buy a second home or cottage for vacationing or “snowbirding”. .
- Evasive investors looking to dodge this policy would attempt to open multiple corporations or recruit family members to purchase those properties for them. The multiple of 2 vs. 3 compounds significantly depending how many family members and corporations they can each open.
- Work should be done to regulate the opening of corporations for the purpose of purchasing residential properties in an attempt to dodge this policy
- This will spread the ability to profit from housing wider across the economy, and may be a worthy substitute for wealth taxes which have proven difficult to enforce

“What if I want 3 homes for personal living”

- Get 2, get the rest in another country, or use rentals, hotels, and AirBnB
- Get a family member to buy a second one and share it within the family
- The greater economic trade-off is worth this inconvenience to the few

“How can a company buy a building to tear down and build a bigger building?”

- Buying a single family house, tearing it down and building more units counts as building and falls within the policy
- Buying a larger building with many units happens infrequently enough that the project can be approved by a governing body at the city or provincial level, and penalties or repossession can occur if the buyer fails to execute on the promised build plan

“This should only be applied to single family homes”

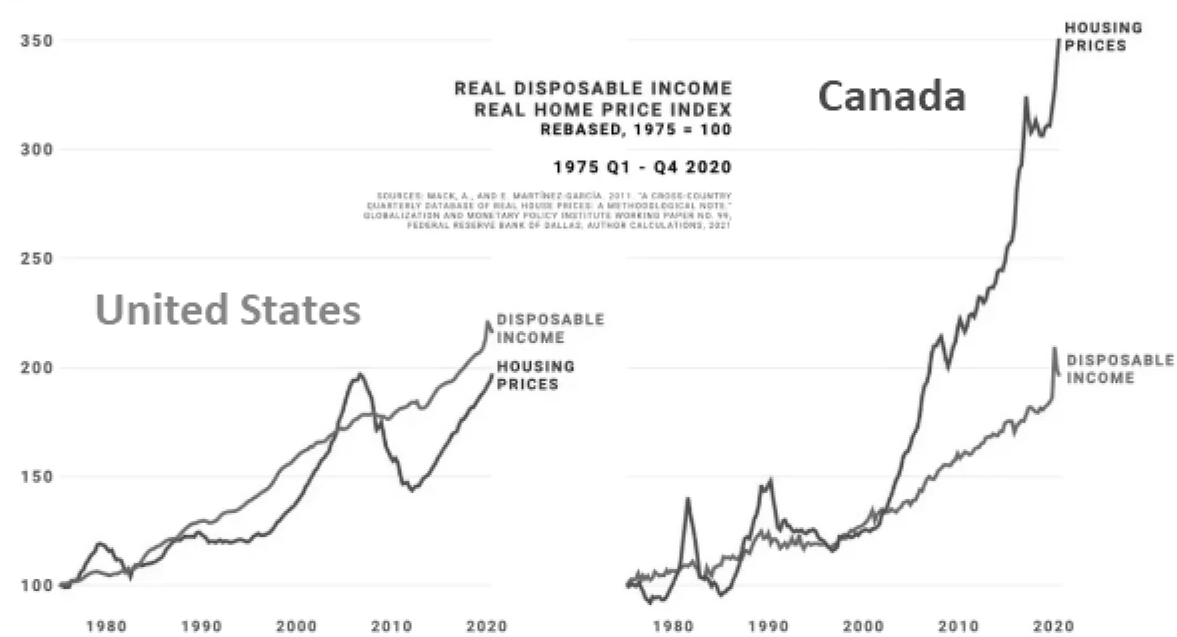
- I don’t see why the concept changes based on the size or density of the housing

“But investors often renovate these additional properties”

- Small-time investors and primary residence owners can do the renovating. This lowers the entry point and brings back the strategy of buying your first starter home as a “fixer-upper”
- Renovation and trade skills will become more wide-spread as people renovate and upgrade their own homes, or their second homes
- This is not trackable, an investor may or may not have renovated a unit
- The reward of eliminating all purely speculative demand is worth this trade-off

To conclude, I believe the financialization of housing to be the root cause of many unnecessary challenges including unaffordable housing and we should introduce this policy to reduce unhealthy demand and work towards a stronger and more fair economic system.

<u>Graph that clearly shows a problem exists and has been progressing for decades:</u>



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