Brief to the The House of Commons Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities (HUMA)

Re: **Study on the Financialization of Housing**
Attn: **Bonita Zarrillo**

Submitted by: Andrea Nemtin, CEO, **Social Innovation Canada**

May 26, 2023

Dear Committee Members,

Please accept our brief for your study regarding the financialization of housing and our suggested amendments to the current motion M-81 Financialization of Housing.

For the last three years, Social Innovation Canada has been working to understand the impact of the financialization of housing on housing affordability in Canada and identify solutions. We began by identifying the macro-trends related to financialization and then completed a deeper analysis in the areas of mortgages, home ownership and rental markets. We published the preliminary findings of this work in our research report Financialization and Housing - a social innovation approach to a better housing system.[1]

This work included the issues of this committee: corporate ownership of single-family homes, rent gouging, renovictions, and the impact of 'real estate investment trusts' on the rental housing market. We also looked at increased rental rates, the loss of affordable housing units, the tax treatment of real estate investment trusts, and more.

Taking a systems approach we broadly defined "financialization of housing" as "the application of financial instruments by institutions and investors in local housing markets." We determined that when people speak about financialization, they are typically referring to one of three trends or dimensions:

- The financialization of mortgages: The structural transformations of residential mortgage markets associated with the development of mortgage-backed securities, the growth of the mortgage market and the rise of household debt.
- The financialization of home ownership: The rise of domestic and non-resident retail investors in housing markets and the growing reliance on these investors for new rental supply.
- The financialization of rental markets: The growth of institutional investors (facilitated by private equity funds and REITs) in purpose-built rental markets.

Our research showed that financialization had brought both benefits and drawbacks. It has facilitated raising home ownership rates, increased the financial well-being of many Canadians, stabilized the economy, brought investments and improvements to aging purpose-built rental stock; some maintain it increased capital for affordable housing development.

However, it has also contributed to unintended and detrimental impacts. These have included rising real estate prices driving wealth inequality between renters and owners. The growth of the secondary rental market[2] and the inclusion of institutional investors in

[1] Nemtin, Markis, Bure, Roberts, Ahmed, Cheng, Financialization and Housing a social innovation approach to a better housing system, Toronto, SI Canada, 2021,
[2] Rental dwellings that were not originally purpose-built for the rental market, including condominiums and other property types that are rented out by retail investors.

the rental market has contributed to reduced security of tenure for renters and the growth of REITS, the decline of new purpose-built rental stock, and the withdrawal of federal government funding for and direct provision of social housing units has led to a dramatic and devastating decrease in the supply of affordable and below-market rental units in Canada[3].

It is from this perspective that we have included our comments on the Bill's recommendations below.

(i) adopt a human-rights based approach to housing, as enshrined under the National Housing Strategy Act,

> We agree that a human-rights based approach to housing is essential to the well-being of our country and is the only way to address the root causes of the challenges we face.
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> To further this, we recommend that the government mandate disclosure from private and public real estate investment funds and REITs and the development of a social finance taxonomy which would investigate expanded regulation on corporate disclosure and data standardization on material risks related to social impacts, including the right to housing. This could be achieved by expanding the terms of reference for the existing Sustainable Action Finance Council[4] or through the creation of a Social Action Finance Council. The recent Shareholder Association for Research and Education's "SHARE" report has already defined a set of disclosures for REITs and other real estate funds. This would allow the Government to create a standardized approach measuring the "Social" in ESG and benchmark economic activities consistent with domestic goals and obligations.

(ii) place a moratorium on the acquisition of affordable homes by financialized landlords, including REITs and corporate firms who are making massive profits while driving up costs,

> We agree that real estate investment funds, REITs, equity funds and others who pursue "value add" strategies and speculatory investing require more stringent rules and regulations to protect the integrity of the market, but we do not believe a moratorium would have the desired effect.
>
> Although the involvement of private funds and REITs' in the Canadian Rental Market has grown, and there are definitely bad actors among them, they still

[3] Nemtin, Markis, Bure, Roberts, Ahmed, Cheng, Financialization and Housing a social innovation approach to a better housing system, Toronto, SI Canada, 2021, pg 11

[4]https://www.canada.ca/en/department-finance/programs/financial-sector-policy/sustainable-finance/sustainable-finance-action-council.html

control a relatively small percentage of rental units. The most recent data showed in 2011 retail investors were providing almost 50%[5] of the rental stock, and in 2016 REITS owned just under 8% of the purpose built market[6].

Instead of a moratorium, we would support strategies that create greater incentives for non-profits, co-ops and land trusts, greater alignment regulation, education and enforcement of rental policies, and standardized disclosure around rental rates for all landlords incorporated into the tax filing process.

(iii) change the federal tax code to end the preferential tax treatment of REITs in Canada by applying the corporate tax rate and investing that money into affordable housing,

We do not believe it is in the public interest to keep REITs as the one remaining category of income trusts that are able to pay distributions before they pay tax, a regulation that only benefits investors. Unless the individual REITS were mandated to create affordable housing (more than 10%) in their trust documents or structured to benefit nonprofits, co-ops or land trusts, we would support ending the preferential tax treatment.

However, rather than redistributing future tax dollars from this change, we suggest amending the federal tax code to incentivize the donation of real estate assets for affordable housing.

Currently, Canadians can receive a capital gains exemption when they donate any of the following properties to a qualified donee:

- a share of the capital stock of a mutual fund corporation
- a unit of a mutual fund trust
- an interest in a related segregated fund trust
- a prescribed debt obligation that is not a linked note
- ecologically sensitive land, including a covenant, an easement, or in the case of land in Quebec, a personal servitude (when certain conditions are met), or a real servitude donated to certain qualified donees other than a private foundation
- a share, debt obligation, or right listed on a designated stock exchange

We propose that Including real estate and land in this list, explicitly allowing for the charitable receipt to be for the present and total value of the property and having

[5] 48 CMHC, 2011 Census/National Household Survey Housing Series: Issue 11 — The Secondary Rental Market in Canada: Estimated Size and Composition, pg. 1, https://assets.cmhc-schl.gc.ca/sf/project/cmhc/pubsandreports/pdf/68565.pdf?rev=960c40f1-b6d7-4cf0-ae6a-a832159ee503.
[6] Nemtin, Markis, Bure, Roberts, Ahmed, Cheng, Financialization and Housing a social innovation approach to a better housing system, Toronto, SI Canada, 2021, pg 11

the disposition of the assets be exempt from capital gains tax would greatly increase the amount of real estate available for affordable housing development.

(iv) create a federal non-profit acquisition fund to allow non-profit, co-op, or land trust organizations to purchase at-risk rental buildings when they come on the market to protect and expand Canada's affordable housing supply,

We agree that the affordable housing sector, specifically non-profits, co-ops and land trusts, requires access to funding and financing for the acquisition of at-risk buildings. And, our research showed that there is also a need for efficient, flexible and affordable capital for retention, development and management of purpose-built rental projects.

Affordable housing providers we spoke to needed financing for different reasons; some could not access capital quickly enough and were losing deals, some had the income to service debt but could not meet the financiers or CMHC's required ratios, many working in deep affordability did not have the income to service debt and others faced liquidity challenges, millions of dollars tied up in shared equity second mortgages or existing property.

Given the size of the challenge in Canada and the sheer amount of financing needed to create the number of affordable and below market units required, we do not believe a single fund making direct investments solely for acquisitions would be effective in creating lasting change. Instead, we suggest that a large fund be made available to intermediaries who can leverage private capital. This model has been designed for the current social finance fund, informed by successful Affordable Housing Funds in the US, Australia, and Denmark.

(v) tie Canada Mortgage and Housing Corporation backed financing, funding, or insurance to private landlords to specific criteria, including below-market affordability thresholds, ensuring affordability remains in perpetuity, no displacement guarantees, and minimum maintenance and energy efficiency standards,

Given that current CMHC backed financing, funding and insurance to private landlords already have quite complicated criteria for private landlords and that the Auditor General's Chronic Homelessness Report found that:

- Currently, most of the housing built under the National Housing Strategy is not affordable to people at risk of or experiencing homelessness.
- Canada has lost over 552,000 low-cost rental units since 2011, yet the federal National Housing Strategy only promises to produce 160,000.[7]

7 https://www.oag-bvg.gc.ca/internet/English/att__e_44159.html

We, conclude that the current programs may actually deliver undue private benefit to private landlords and that if the CMHC is to continue to be accountable for the delivery of the National Housing Strategy, it must adapt its programs to ensure that public dollars are being used to further its goals more effectively. We would suggest that this would be most easily achieved through simplifying programs rather than increasing their complexity.

(vi) require progressively larger down payments for buyers purchasing multiple properties, to disincentivize the treatment of housing as a stock market,

Although we are not against this, we believe stronger tenancy legislation would be more impactful.

(vii) mandate landlords to disclose property ownership and work with the provinces and territories to establish a national rental registry.

Our research showed that the erosion of security of tenure through both the growth of the secondary market and institutionalized landlords have had a major negative impact of financialization. Security of tenure is a key component of the right to adequate housing - without it; renters experience instability, uncertainty, and even eviction (lawful or unlawful), which can negatively impact mental health, well-being, and community cohesion. We would support a national rental registry, as well as revision and alignment of tenancy regulations, improved education and enforcement to protect renters' right to housing that applies to both the primary and secondary rental market.

In summary, we suggest the committee require the following amendments to the motion.

- Include mandatet disclosure from private and public real estate investment funds and REITs and the development of a social finance taxonomy which would investigate expanded regulation on corporate disclosure and data standardization on material risks related to social impacts, including the right to housing.
- Remove the moratorium on the acquisition of affordable homes by financialized landlords; instead, support strategies that create greater incentives for non-profits, co-ops and land trusts, greater alignment regulation, education and enforcement of rental policies, and standardized disclosure around rental rates for all landlords incorporated into the tax filing process.
- Change the federal tax code to end the preferential tax treatment of REITs in Canada by applying the corporate tax rate but amend that recommendation to include changing the federal tax code to exempt the donation of real estate assets from Capital Gains.

- Amend the motion for a federal non-profit acquisition fund to a create large federal non-repayable social infrastructure fund for the acquisition, development and retention of purpose built real estate available to intermediaries, including municipalities, to use it leverage private capital.
- Streamline CMHC programs to provide increased preferential support to non-profits, co-ops and land trusts.
- Rather than increase down payment requirements for buyers purchasing multiple properties, we suggest that you focus on creating stronger tenancy legislation.
- Amend the motion for a national rental registry to include revision and alignment of tenancy regulations, improved education and enforcement to protect renters' right to housing that applies to both the primary and secondary rental market.

It was clear from our research that a strong, affordable housing sector comprised of nonprofits, co-ops and land trusts is key to growing and sustaining the supply of affordable and below-market housing, and that preserving existing naturally occurring affordable housing is essential to addressing the crisis.

Founded in 2017, Social Innovation Canada is an independent national charitable organization working to address complex social and environmental challenges and create systemic change. We would welcome the opportuinty to expand upon this brief with the committee.