CANADIAN RENTAL HOUSING PROVIDERS FOR AFFORDABLE HOUSING

Submission to the Review Panel on the Financialization of Purpose-Built Rental Housing

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Canadian rental housing providers for affordable housing comprise 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. We own and manage approximately 120,000 apartments and 18,000 land lease sites in manufactured home communities across Canada, in every province except Manitoba.

We are pleased to submit to the Review Panel for your consideration our brief on the role of Canada's public apartment REITs in our housing sector. In short, we operate as businesses within the rights-based framework for the right to adequate housing as laid out in the United Nations (UN) Fact Sheet 21. We proudly report our results publicly; this transparency is unique in the rental housing industry. Over the past year, we have engaged with a wide variety of smart, compassionate and dedicated people working to deliver the housing we need as a country to grow and prosper. We would be pleased to participate in your planned oral hearings to further the conversation and find workable solutions to deliver results for all Canadians.

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 housing providers.

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

Origins of the REITs

The public apartment REIT group members have provided 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 more than 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 where it is taxed in their hands), they are not a corporate loophole, as some have suggested.

REITs uniquely provide the opportunity for those who do not own their own home or real estate directly to invest in the real estate sector by purchasing units (similar to shares in a corporation) of a REIT. Without the publicly traded REITs, Canadians would lose an accessible path to real estate investment without owning properties directly.

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. It 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 however 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 generally 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. A corporation can choose to pay none

[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
[3] Global Real Estate Investment | Nareit

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 public apartment REITs, via their unitholders, ultimately pay approximately the same amount of taxes as they would if taxed as corporations.[4,5] There have been calls from certain voices to change the taxation of REITs. Still, any such change would generate little, if any, incremental tax for the government but would almost certainly jeopardize an important source of capital needed for the creation of new housing at a time when we desperately need it.

The human right to adequate housing and the *National Housing Strategy Act*

We believe in the progressive realization of the right to adequate housing as set out in the *National Housing Strategy Act*. However, the Act and UN Fact Sheet 21 set out obligations for the state, rather than for private property owners, with respect to housing. How does that square with a housing sector that is 96 per cent market-rate? Our review of the literature and legislation suggests two roles for the state in addressing the right in the context of market-rate housing. The first is to create a robust and functioning housing market that ensures availability, abundance and affordability. The second is to regulate matters such as the setting of rents, providing tenure for residents and rules related to evictions. In Canada, these regulations are the purview of the provinces, and provincial regulatory frameworks are robust. We firmly believe that property owners not following the relevant laws and regulations should be prosecuted and that compliance with laws should be strongly enforced.

Financialization

The financialization of housing was defined by the Federal Housing Advocate in her call for this Review Panel as "the growing dominance of financial actors in the housing sector, which is transforming the main function of housing from a place to live into a financial asset and a tool for investor profits."

As noted in Ms. Roy's presentation for the ECOH Webinar "Renewing Canada's National Housing Strategy," only 3.8 per cent of housing in Canada is non-market housing. As such, it's clear that almost all housing in Canada has a dual function as both a place to live and a financial asset. Whether an owner-occupied home, a basement rental suite, a "mom and pop"-owned triplex or a REIT-owned apartment building, all homes are financial assets, and all owners of such rental properties are investors.

Are financial actors 'dominating' the housing sector in Canada? Of the approximate 15 million homes in Canada, 10 million are owner-occupied, and five million are rental homes,

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[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 public apartment REITs group would amount to $13 million per year.

according to 2021 Census data[6]. The rental market is about half primary market (purpose-built rentals of three or more units) and half secondary market (condominiums, single-family houses, and doubles/duplexes/row houses in about equal measure.[7]) Canada's five principal public residential REITs (i.e. *Canadian rental housing providers for affordable housing*) own a combined 120,000 homes, approximately or less than 2.5 per cent of the overall rental market and less than five per cent of the primary rental market.

According to research commissioned by the Federal Housing Advocate, approximately 340,000 homes are owned by "financialized" players in the housing market[8]. That would amount to 6.8 per cent of the overall market and 13.6 per cent of the primary market[9]. These figures suggest that the market is highly disparate in ownership and that no actor dominates. From 2008 to 2020, the number of families declaring rental income grew by 335,850[10], far eclipsing the "financialized" sector. Moreover, there are more than *1.3 million* families that reported rental income in 2020, a figure that far exceeds the five public apartment REITs and the handful of other property owners that are characterized by some as "financialized," demonstrating that not only is there no concentration of real estate ownership, but rather that the residential rental real estate sector is highly fragmented and competitive.

Are financialized landlords "transforming the main function of housing from a place to live into a financial asset and a tool for investor profits?" As stated earlier, in a market economy like Canada's, every market-rate home is both a place to live and a financial asset for its owner. Every purpose-built rental building is a financial asset, including for social, supportive and cooperative housing providers. Buildings require capital to build and maintain, and the rents (and other sources of income like subsidies for non-market housing providers) pay down the capital costs and current expenditures. All market-rate housing providers seek a gain from the enterprise of providing housing, and even non-market housing providers need to at least break even, whether through rental revenues alone or with the addition of subsidies.

What about profits? Our distributions currently provide approximately a three per cent annual return to our investors. That is lower than many no-risk, high-interest savings accounts' posted rates offered by banks today[11].

The Review Panel defines the financialization of purpose-built rental housing as "the acquisition of purpose-built rental housing (housing built with the intention of renting it out) by financial firms and institutional investors. These may include asset management companies, hedge funds,

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[6] Structural type of dwelling by tenure: Canada, provinces and territories, census divisions and census subdivisions
[7] Statistics Canada, Housing Stock (2016) — Canada
[8] August, 2022, The Financialization Of Multi-Family Rental Housing In Canada
[9] Such research suggests that this could represent as high as 30 per cent of the primary market, but this figure appears to be grossly overstated based on the figures contained in the report itself.
[10] The Daily — A portrait of landlords and their rental income: A tax data perspective
[11] Best High-Interest Savings Accounts in Canada for 2023 - NerdWallet

pension funds, private equity funds, real estate investment trusts (REITs), real estate operating companies and sovereign wealth funds."

What is missing in this definition is an understanding of the dynamics of the purpose-built rental housing sector. The financial firms and institutional investors referenced in the definition acquire purpose-built rental properties from individuals, families, private companies, other financial firms and institutional investors, or merchant builders. By definition, a purpose-built rental property (such as an apartment building or a series of rowhomes) is a financial asset and an investment to its owner. The rental properties acquired by financial firms and institutional investors were financial assets providing market-rate rental homes before the acquisition, and they serve the exact same role once acquired. Acquisitions by REITs of *new* construction purpose-built rental properties actually *create* a market for merchant builders, stimulating the supply of new housing.

The Review Panel asserts that the "financialization of purpose-built rental housing has been linked to a range of negative impacts for renters, such as evictions, rising rents and reduced building services and maintenance."

These 'linked outcomes' are suggested without evidence, though this claim is often repeated in research and reports on housing in Canada. Reviewing all research commissioned by the Federal Housing Advocate, we have yet to find proof that purpose-built rental housing owned by financial firms and institutional investors has higher eviction rates, faster-rising rents or lower service and maintenance standards. The Canadian Mortgage and Housing Corporation (CMHC) has the best data on housing available in Canada. During his testimony to the House of Commons Standing Committee on Finance (FINA) on January 21, 2022, Bob Dugan, the CMHC's Chief Economist, stated:

"We haven't been able to identify any significant difference between REITs, corporate ownership versus individual investors, or other investors in the rental market."

With regard to evictions, 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[12]. By definition, REITs (and institutional investors) cannot perform such evictions.

Some who speculate in rental properties seek to evict tenants to renovate and increase the rent – so-called "renovictions." The StatsCan report says a further 10 per cent of evictions were for such renovations. The public apartment REIT group does not do this, and we support regulations that enforce existing laws and punish property owners who do. We are long-term investors in providing high-quality, purpose-built rental homes, not flippers.

We are adherents to a rights-based approach to evictions. The UN Fact Sheet 21 on the right to adequate housing outlines that evictions may be justifiable, "because the tenant persistently

[12] StatsCan - Evictions in Canada, 2021

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[13].” As such, we only seek to evict a tenant if they threaten the health and safety of our communities, persistently fail to pay rent, cause unjustifiable damage to the property, or interfere with the rights of others to the reasonable enjoyment of their homes. When required in these unfortunate situations, we only seek to evict a tenant by following the laws and regulations in the particular jurisdiction.

Evictions, particularly “renovictions,” for the economic benefit of the investor, without regard to the tenant’s and their community’s well-being, are a problem in the housing market. They are *not*, however, caused by acquisition or ownership by public apartment REITs.

With regard to rental increases, despite dramatic headlines fuelled by the secondary condominium rental market in large centres like Toronto and Vancouver, our rental rate increases were far more modest. At CAPREIT, for example, for those residents who remained in their rental homes, their rent increased by an average of 1.4 per cent in 2022. Even including all turnovers, CAPREIT’s average rental rate increase was 3.4 per cent[14], while wage growth nationally was 4.2 per cent[15] and inflation was 6.8 per cent during the same time period[16]. Meanwhile, Boardwalk REIT has provided residents with more than $200 million in voluntary rental discounts over the last six years. Quoting again Bob Dugan during his witness testimony to FINA, “It's not clear to us that the average rents are trending very differently for REITs versus other kinds of owners.”

As public apartment REITs, 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.

Can sustained investment by “financialized” housing providers deliver housing supply and lower rental rates? Data from rental markets in the United States suggest that with the right mix of support and incentives, it can. Nationally, thanks to sustained investment in rental housing from institutional investors and other large sources of capital, rents peaked in August 2022 in the United States, and year-over-year growth in rents has tumbled from nearly 18 per cent in March 2022 to just 0.31 per cent in July 2023.[17] Zooming in, a number of major metropolitan areas in the United States have seen absolute reductions in median rents from July 2022 to July 2023: down about 13 per cent in Austin and New Orleans, around 10 per cent reductions in rent in

[13] OHCHR - The Right to Adequate Housing
[14] CAPREIT 2022 Annual Report
[15] Statistics Canada, Employee wages by industry, annual
[16] The Daily — Consumer Price Index: Annual review, 2022
[17] August 2023 Rent Report - Rent. Research (USA)

Seattle, Portland and Las Vegas, eight per cent drop in Chicago, and down six per cent in the San Francisco metro area.

With regard to accusations of reduced building services and maintenance, when it comes to the public apartment REITs, this is categorically false. Over the last 10 years, our group has invested an average of more than $40,000 per unit in major maintenance and capital expenditures to make our rental homes safer and more comfortable for our residents while reducing greenhouse gas emissions. Our scale allows us to provide 24/7 service calls, online portals and dedicated full-time maintenance crews to address residents' issues promptly. This is all verifiable through our required public reporting standards.

The competitive and dispersed rental market means we are competing against each other and all other property owners for residents. 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.

With regard to members of communities that experience vulnerability and marginalization in the housing system, professional housing providers are best suited to preventing discrimination in rental housing. Unlike individual investor landlords in the secondary market, our organizations have professionally trained leasing agents with a mandate from a publicly accountable business to offer housing services free of discrimination.

We're the largest private-sector providers of affordable housing in Canada

Nearly every week, Canadians face headlines of rapidly increasing rents. What these headlines miss is that for the majority of renters in Canada, their rent went up a small percentage, less than the inflation rate and, in most cases, in the two-to-three per cent range. Renters are protected by formal rent control regimes in Ontario, Quebec, British Columbia and Manitoba and by administrative rent caps or remedies 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 of 6.8 per cent experienced in 2022. In Prince Edward Island, the maximum allowable rental price increase is zero.

CMHC defines rental affordability as a household paying less than 30 per cent of its gross household income on rent. The most recent median renters' household income data is from 2019, which was $46,900[18] nationally. This CMHC/StatCan data sheet also provides local median rental rates. Looking at rents locally, in 2022, we compared our rental data to the 2019 local median renters' household income. We found that nearly 53 per cent of our homes were rented at affordable rates.

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[18] MLI Select - Affordability Criteria | CMHC

Using data on wage growth data from the Labour Force Survey and the StatsCan wage tables[19], we can extrapolate the national median renters' household income to $57,875 today, taking into account the 23.4 per cent growth in wages in Canada since 2019. That income would support an affordable monthly rent of up to $1,447. Our average rent across the public apartment REIT group as of March 31, 2023, was $1,394 monthly, making our national average rent affordable for Canada's national median renter household. We have urged the CMHC to provide updated data on renters' household incomes, which we are confident will confirm that the majority of our rental homes are affordable.

We're building and acquiring new construction homes to increase the housing supply

REITs have been accused of not contributing to the supply of new purpose-built rental housing. This is simply false. The public apartment 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[20]. 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[21].

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

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 newly constructed purpose-built rental buildings from merchant builders and stabilizing the building with tenants, incentivizing the construction of new rental supply.

But make no mistake, new construction is expensive and only viable if and when the rental rates cover the costs to finance the project. One of our members recently estimated the construction cost of a new purpose-built rental in Toronto at more than $700,000 per home. Absent incentives for affordable housing, such a project will only be developed by charging market-rate rents for these homes.

As such, it is not possible to build new affordable rental homes without some form of subsidy. A recent report[22] from the *Starts With Home* coalition of affordable housing advocates and providers put the cost of delivering new housing at $352,000-560,000 per apartment, *even assuming the land was provided at no cost*. Construction costs are even higher in larger urban centres like Toronto and Vancouver. Drawing from the analysis, 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

[19] Statistics Canada. Employee wages by industry, annual
[20] TD Securities - Why REITs' Development Potential Merits More Attention
[21] CMHC - Housing Shortages in Canada: Solving the Affordability Crisis
[22] Report - Starts With Home

add land costs to our calculations. Please see an analysis of development finance and the barriers to affordability in Annex 1.

Currently, the public apartment REITs 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. You can read our discussion paper on how such a program could work in Annex 2. We are working with the Government of British Columbia as they develop their Rental Protection Fund and have pledged to do so nationally if given the opportunity.

The focus on "financialization" is misdirected. Rather than fixating on an arbitrary term, the Review Panel should focus on behaviours and outcomes. As stated above, there is no evidence that purpose-built rental housing owned by financial firms and institutional investors has higher eviction rates, faster-rising rents or reduced building services and maintenance. The public apartment REITs operate as professional and responsible housing providers in a highly competitive market, which results in better and more responsive service to residents. REITs are a significant source of capital, providing the financial strength to invest significantly in maintaining and improving properties to ensure residents' safety and comfort and address sustainability initiatives. As public reporting entities, REITs' financial and operating results are transparent and include commitments to and reporting on an array of environmental, social and governance (ESG) metrics. Indeed, as Michael Brooks, CEO of REALPAC, testified at the recent HUMA Committee hearings, the REITs are "the best class of landlord in Canada[23]."

Collaborative partners for the progressive realization of the right to adequate housing

The public apartment REIT group, *Canadian rental housing providers for affordable housing*, 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, including the federal government, 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, including purpose-built rentals, and the government providing support to provide for those who cannot afford a home in the marketplace. The better governments do at the former, the less they will need to spend on the latter.

[23] Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities ("HUMA Committee"), Parliament of Canada, Meeting 72, June 6, 2023.

The most critical aspect of addressing the right to adequate housing is ensuring sufficient supply in Canada for all types of housing required by households with all types of needs. The federal government can create a stable and predictable regulatory environment and incentivize new market-rate rental housing construction through tax measures such as eliminating GST/HST on new purpose-built rentals and accelerated tax depreciation. The government can incentivize the construction of new affordable housing through CMHC programs. Increasing the supply of housing of all kinds will improve affordability for Canadians and provide more options to ensure that everyone can enjoy adequate housing. In our brief to FINA, we provide our suggestions for federal policy changes to further the right to adequate housing as part of its 2024 budget study. You can review this submission in Annex 3.

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. It's why we're proud to endorse the National Housing Accord, spearheaded by the Canadian Alliance to End Homelessness, REALPAC, and the Place Centre at the Smart Prosperity Institute.

Canadians deserve a home that suits their needs, where they want to live, at a price they can afford. Working together, Canada can deliver it.

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Annexes

Annex 1: Minto's Brief on Development Finance
Annex 2: Discussion Paper For An Affordable Housing Fund
Annex 3: 2024 Pre-Budget Submission to FINA