Canadian Federation of Apartment Associations

2022 PRE-BUDGET SUBMISSION

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Canadian Federation of Apartment Associations
Fédération canadienne des associations de propriétaires immobiliers

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The Canadian Federation of Apartment Associations (“CFAA”) represents the owners and managers of close to one million residential rental suites across Canada, through 12 provincial and regional apartment associations, and direct memberships.

The private (for-profit) rental housing sector provides close to 4.5 million rental homes for ten million people of all ages, incomes and situations. CFAA and our members believe that a healthy rental market contributes greatly to Canada’s national well-being and economic prosperity. We believe that the policies we advocate will benefit not only rental housing providers, but also taxpayers and renters at all income levels, including low-income renters and vulnerable populations. CFAA advocates reasonable government support for those who cannot adequately address their own housing needs.

Introduction

CFAA supports the desire of the government to ensure Canada experiences a robust economic recovery from the negative effects of the pandemic. We support the plan to build out more infrastructure. We applaud the goal of increasing diversity, inclusion and equity. In the long term, we support the plan to welcome more immigrants to Canada.

CFAA strongly supports the plan to create the Housing Accelerator Fund (HAF) to enable the building of more housing, and denser housing faster. We believe that more housing supply is a critical piece of the solution to the current problems in the housing market. We have made detailed submissions to CMHC to support the optimal design of the HAF.

CFAA has worked with the Canadian Association of Rent to Own Professionals to make detailed submissions to CMHC to support the optimal programming to expand the availability of rent to own programs to enable more people to become homeowners. **CFAA supports the expansion of rent to own programs.**

This submission provides background on the rental housing industry, and then specific recommendations besides the two recommendations above.

Advantages of rental housing

CFAA supports a strong, vibrant and growing rental housing sector. Rental housing offers many advantages, including:

- In many circumstances, rental housing is more affordable than owner-occupied housing, especially for the first 10 or 15 years.
- Rental housing allows people more mobility and choice than they have with home ownership.
- Rental housing provides convenience and hassle-free living for many people.
- Rental housing is more accessible than home ownership for many vulnerable populations
- Rental housing brings environmental benefits.
- Rental housing makes the unemployment rate lower.

What makes up the rental housing supply:

The rental housing industry is diverse with some large rental housing providers, and many mid-sized and small rental housing providers. See Table 1, which reports Canada-wide figures actual figures for 2016 and estimated figures for 2021, including rented condos, rented single family homes, doubles, duplexes and accessory suites.

TABLE 1: RENTAL MARKET COMPONENT				
Tier	**Per entity unit count**	**Per building typical size**	**Total Unit count - 2016**	**Total Unit count – 2021 (estimated)**
1.REITs & large corporations	5,000 to 60,000	50 to 300	700,000	800,000
2.Mid-size rental providers	50 to 4,999	20 to 200	600,000	650,000
3. Small investors	3 to 50	3 to 19	800,000	850,000
CMHC Rental "Universe" aka "the primary rental market"		**3+**	2,100,000	**2.300,000**
4. Moms-and-Pops	1 to 5	1's, and 2's	2,000,000	2,200,000
Secondary market			2,000,000	**2,200,000**
Total for-profit rental housing supply			4,100,000	**4, 500,000**

Ownership in the rental housing industry is fragmented. Almost everywhere in Canada no single rental provider owns more than 10% of the rental units, and the 90% is divided among hundreds or thousands of other owners. Rental housing providers have no market power. Rents are determined by the balance between demand and supply in the rental market at any given time.

Among rental customers, tenants, renters or residents, one usually finds many:

- Young professionals
- Students
- Seniors
- Recent immigrants
- Disadvantaged and racialized people
- Low income working people
- Low and moderate-income families
- People with mental health issues
- People on social assistance

Besides the rental housing providers who provide their housing, those who seek to support tenants include:

- Social service agencies

Real Estate investment Trusts (REITs) are owned by a broad swath of Canadian citizens, residents and institutions. Many REIT units are owned by pension plans, and life and disability insurance companies, which serve hundreds of thousands of ordinary Canadians. Many other REIT units are found in the investment portfolios of tens of thousands of other ordinary Canadians.

- City housing staff
- Social housing agencies
- Mental health workers and agencies
- ACORN and like-minded advocates who oppose the free-market system.

The tax issue

ACORN and other like-minded housing advocates have taken aim at the REITs and at large real estate corporations. The advocates state that the REITs do not pay taxes, implying that means no taxes are paid on their operations. The fact that REITs do not pay tax is true in a highly technical sense, but the implication is completely false. While the REITs do not pay taxes, they must distribute all their taxable income, and the owners of the REIT units (shares) pay taxes on the income in the year the income is earned, just as other real estate investors do. The REIT income is flowed through to the owners, who pay tax at their marginal rate, which is now often over 50%.

The renoviction issue

ACORN and other like-minded housing advocates also allege that the REITs make enormous profits by raising rents dramatically on turnover. The facts are otherwise.

Royal Bank Capital Markets produces a daily report on the yields achieved by the REITs. In its report for February 9, 2022 (the latest we have at hand), RBC reported the average yield for Canadian residential REITs at 2.5% (with a range of 1.8% to 3.8%). In contrast, the commercial (office or industrial) REITs were yielding 4.5% on average, with the hotel REIT at 5.6%, and the Seniors Living REIT at 4.8%. CAPREIT is the largest residential REIT in Canada. Its yield was 2.6%.

As to increases on turnover, here are the figures from their most recent CAPREIT annual Report, the Report for 2020. At December 31, 2020, CAPREIT owned 45,887 rental apartments and townhouses across Canada (p.74 of the report). See Table 2 for the capital investments in the various units.

Table 2: CAPREIT capital investments in various units 2020

	Total expenditure	Units	Average per unit
Suite improvements	$57,876,000	8,581	$6,745
Building capital work	$150,127,000	45,887	$3,272
Total applicable to turnover suites			$10,016
Average monthly increase in rent			$107

Of those 45,887 units which CAPREIT owned, 18.70% turned over (p. 30), which implies that 8,581 units turned over. $57,876,000 was spent on suite improvements for those units, or $6,745 per suite on average.

The other capital investments were $150,127,000, which benefited all the suites in the portfolio generally. The average of that capital spending per suite was $3,272 per suite. Taking the two figures together, the average turnover suite received work which cost $10,016.

What was the average rent increase on turnover? It was $107 per month, 7.9% of the average rent of $1,351 before turnover (p. 30).

Assuming a 2% rent increase as a normal Guideline increase to cover operating cost increases, the extra 5.9% can be considered the extra return from renovations and turnover. Allowing interest at 4% would mean that **the renovation cost will be recovered over 14 years**. That is hardly an excessive profit on the renovations made to improve and update the suite and the property.

For each example the tenant advocates bring forward of an increase in rent of $200 per month, there must be two others with a rent increase of only $60 per month.

For each example the tenant advocates bring forward of an increase in rent of $300 per month, there must be four others with a rent increase of only $60 per month.

The REIT issue generally

The government should not be misled by the misleading information and horror stories that those with extreme or highly political perspectives often put forward. In a fragmented, competitive industry that provides housing for 10 million Canadians, there will always be isolated horror stories, but much damage can be done to the rental supply, and by extension, to the housing supply generally, by legislating as if the isolated horror stories represented the norm.

New rental housing supply is desperately needed to ensure the availability of housing for recent immigrants, workers and others in growing communities and all the renters listed on page 3. REITs and other major rental housing providers are the largest source of that new rental supply.

When it comes to questions surrounding financialization in the housing market, popular conceptions and assumptions often do not accord with reality. Specifically, many people are surprised at the overall makeup of the rental housing industry, where less than one fifth of rental units are owned by large corporations or REITs. Moreover, when it comes to large corporations and REITs, the level of taxation paid is often highly mischaracterized, just as is the correlation between rent-increases (which are largely modest and transparently justifiable) and renovation costs (which are generally not fully recouped through modest rent increases for well over a decade).

Before the Government takes any action targeting supposed issues in these areas, it is critical that very careful and objective studies and analysis are undertaken. It is also critical the rental housing industry is provided with an opportunity to submit facts and perspective for the Government’s consideration.

CFAA Recommendation: Avoid measures that target rental housing providers until the rental housing industry has been appropriately consulted, and very

careful, objective studies have been done to determine whether any such measures are justified.

Financial support for low-income renters

Portable housing benefits (like the Canada Housing Benefit) are a great way to help people with their housing needs, because they support renters' autonomy, allow them to move, without forcing them to move, and can be provided quickly to any chosen groups of vulnerable people, or to low-income people generally.

Portable housing benefits are not only supported by rental housing providers. Portable housing benefits are also supported strongly by advocates for a human rights approach to housing. For example, at the National Housing Summit held on February 24, the idea of expanding the Canada Housing Benefit was warmly endorsed by Leilani Farha, former Executive Director of Canada Without Poverty and former UN Special Raporteur on Affordable housing, and by Kaitlin Schwan, National Director of the Women's National Housing and Homelessness Network, who spoke on the plenary panel with Housing and Diversity and Inclusion Minister Hussen.

CFAA Recommendation: Increase funding for the Canada Housing Benefit and other income support targeted to low-income renters.

Immigration

For the last two decades or more, the federal Finance Department was convinced that when rental housing demand rose, rental supply would rise to meet the need. Thirty years ago, that would have been true, but the municipal development approval processes are currently so slow that the housing supply response is now delayed for years. The Accelerator Fund recognizes that problem.

Rents rose substantially over the last five years when immigration rose substantially. Rents stabilized when immigration fell off because of the pandemic. CFAA believes that if immigration is ramped up again substantially, market rents will again rise substantially. Rent increases are not due to market power among landlords, because we have virtually no market power. Rents are driven by supply and demand. Until supply can catch up to demand reliably and quickly, increased rental demand will drive up rents. Increased housing demand generally will drive up house prices.

On a temporary basis, the government should cut back on the increase in immigration. Once the housing supply problem is better addressed and housing supply has largely caught up to the current demand, then immigration can sensibly be increased for the long-term good of the economy and Canada's place in the World.

CFAA Recommendation: On a temporary basis, cut back on the increase in immigration until the housing supply problem is better addressed.