

Canadian Federation of Apartment Associations

**PRE-BUDGET SUBMISSION TO  
THE FEDERAL FINANCE COMMITTEE**

**October 7, 2022**

Canadian Federation of Apartment Associations

Suite 640 – 1600 Carling Avenue

Ottawa, Ontario

K1Z 1G3

John Dickie, President

[jdickie@dickieandlyman.com](mailto:jdickie@dickieandlyman.com)

## **RECOMMENDATIONS**

- 1) Avoid new taxes on REITs and real estate corporation, to avoid deterring investments in existing stock and new supply.
- 2) Avoid taxes on renovations since there are better ways to address the issues in that area, and the government cannot afford to deter investments in Canada's rental supply.
- 3) Before taking any measures that could discourage new housing, conduct robust consultations that collect valid statistical evidence about issues, and enable the creation of evidence-based policies.
- 4) Focus immigration on construction tradespeople and construction labour, to help housing supply increase to house the renewed influx of immigrants and non-permanent residents.
- 5) Build on the Canada Housing Benefit.
- 6) Cancel the announced changes to RCFI, or replace RCFI with a new program focused exclusively on rental supply.
- 7) Advance the Housing Accelerator Fund.
- 8) Support Rent-to-own in the private market.

## INTRODUCTION

The Canadian Federation of Apartment Associations (“CFAA”) represents the owners and managers of close to 1.5 million residential rental homes and apartments across Canada, through 13 provincial and regional apartment associations, and direct memberships.

In total, the private rental housing sector provides 4.5 million rental homes for more than ten million people of all ages, incomes and situations. That includes two-thirds of the renters in core housing need each year (versus one-third in community housing).

CFAA’s concern is the housing measures to be included in Budget 2023.

## INDUSTRY STRUCTURE AND CONCENTRATION

Almost half the private rental supply consists of rented single family homes, two-unit buildings and rented condos, owned by “Mom and Pop” owners with just a handful of rental units. There are hundreds of thousands of Mom and Pop rental owners, with thousands in every riding

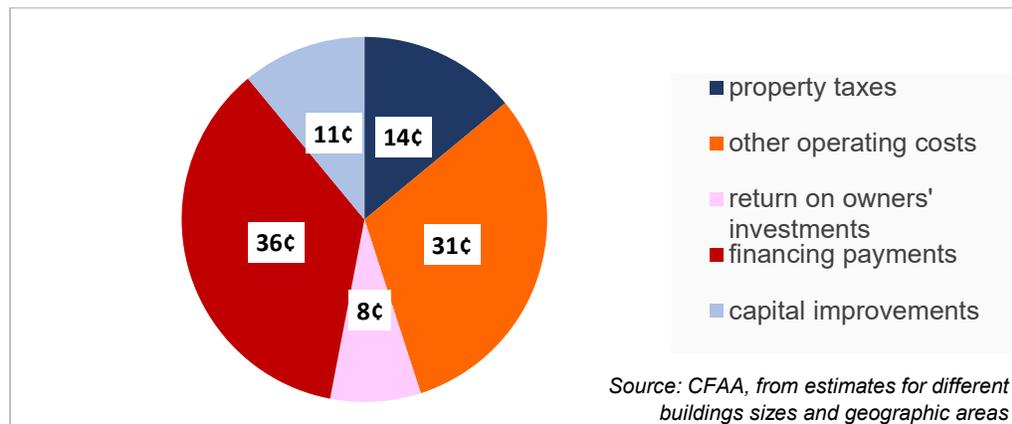
The rest of the rental housing supply is owned and operated by investors with holdings ranging from dozens or hundreds of units (often in scattered buildings), through mid-sized operations, to large corporate owners and the private and publicly traded multi-family Real Estate Investment Trusts (REITs). In turn, the REITs and large corporations are primarily owned by individuals with a range of wealth, and by life insurance companies and pension funds, who hold the rental assets for the benefit of millions of ordinary Canadians.

While tenant advocates say rental housing is concentrated, and large landlords have market power to set rents, the reality is that rental housing is fragmented and very competitive, and rental providers cannot set their rents above the market level determined by supply and demand.

## THE USUAL PROFIT IN RENTAL HOUSING

Many people have the impression that all, or almost all, of the rent which people pay ends up in the pockets of landlords as profit, but the reality is that a relatively small portion of the rent ends up as profit (i.e. return on investment.) See Figure 1.

**Figure 1: Where \$1.00 of rent typically goes**



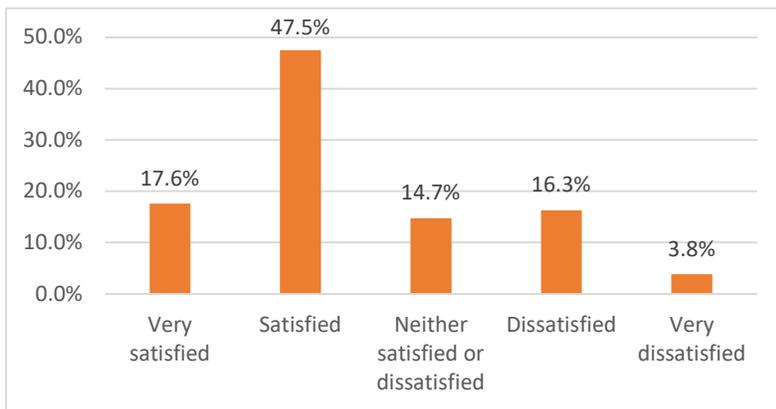
It is not legitimate to translate 8 cents of “profit” on \$1.00 of rent into a profit rate of 8 per cent. That 8 per cent would be an expression of profit as a percentage of gross revenue. However, among industries and businesses, the percentage that profit is of gross revenue varies widely. The standard comparison

for rates of profit across industries is a comparison of profit as a percentage of equity or capital invested. Currently, the 8 cent profit on \$1.00 of rent translates to a typical profit of 3 per cent of invested equity, which is at the low end of profit on equity across industries.

### TENANT SATISFACTION

Some tenant advocacy groups say that large landlords deliver poor service, based on surveys of their members. Since such groups largely consist of tenants who are unhappy with their landlords, that produces a **highly biased sample**. For the vast bulk of tenants, the reality is otherwise. The Canadian Housing Policy Roundtable consists of leaders from associations of social housing providers, housing consultants and one person from CFAA. CHPR and the Canadian Housing Evidence Collaborative, an academic group, organized a survey by Vox Pop in January and February 2020 of a **random sample** of 1,846 renters, stratified to match the whole population of renters across Canada, giving the survey a high level of accuracy. Figure 2 shows the results of that random survey

**Figure 2: Tenant satisfaction with their housing**

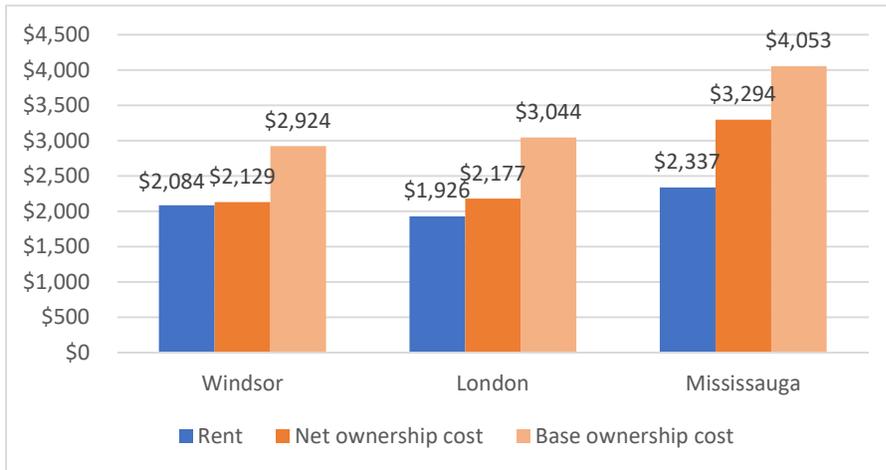


Tenants who were very satisfied outnumbered tenants who were very dissatisfied by more than four to one. Tenants who were satisfied outnumbered tenants who were dissatisfied by almost three to one. In fact, Leilani Farha, a leading housing rights advocate, acknowledges that most tenants would rather live in ordinary, private market rental housing, rather than in community or social housing. As she says, “Low-income tenants just want help to pay their rent.”

### RENTING IS MORE AFFORDABLE THAN HOMEOWNERSHIP

Some people have the impression that home ownership is better than renting for almost everyone. People speak of tenants throwing away their rent, while homeowners build equity. In a recent study of Ontario cities, Altus Group found that “the monthly costs of renting is lower than the total monthly costs of homeownership for both housing types modelled and all interest rate scenarios.” Figure 3 shows key representative figures at an interest rate of 4%.

**Figure 3: Monthly rents in the purpose-built rental sector compared ownership costs<sup>1</sup>**



### SECURITY OF TENURE

Some tenant advocates and human rights advocates allege that REITs and rental housing corporations often deny tenants their right to housing by pushing tenants out of their rented homes, by taking rent increases when tenants vacate, and by modernizing suites, taking them out of the price range of ordinary tenants.

To CFAA, the allegation that tenants are being pushed out of their homes is a matter of serious concern. CFAA condemns any action to push people out of their homes, which is, in any way, a violation of the applicable provincial law (enacted by the provinces under their constitutional responsibility to regulate property and civil rights).

However, in addition to condemning illegal action, CFAA believes that such illegal action is very limited in extent, taking place only in isolated cases; and that federal income tax law is not a suitable tool to use to address that behaviour. More appropriate and effective remedies are available to the provinces. Likewise, rent increases are a matter of provincial jurisdiction, and subject to a much broader range of policy considerations than those which the advocates focus on.

The size and sophistication of rental housing providers varies greatly, but virtually all private rental housing providers want to earn a reasonable net income and raise the value of their buildings. They do that by providing good value for money, and efficiently managing costs. Rental housing providers of all sizes seek to operate buildings at the optimum level of service and cost. That includes improving rental buildings to meet higher and higher environmental, accessibility and other standards (as mandated by governments and wanted by many tenants), and modernizing units when tenants' demand for modernized units makes that productive. It also includes satisfying tenants' legitimate requests for repairs, and minimizing turnover costs.

<sup>1</sup> Base ownership cost includes the principal payment on a standard mortgage. Net ownership cost excludes the principal portion of payment since that payment builds the homeowner's equity. However, that payment needs to be made, and if the tenant cannot afford it, they cannot make it, and thus cannot buy the housing.

## AFFORDABILITY

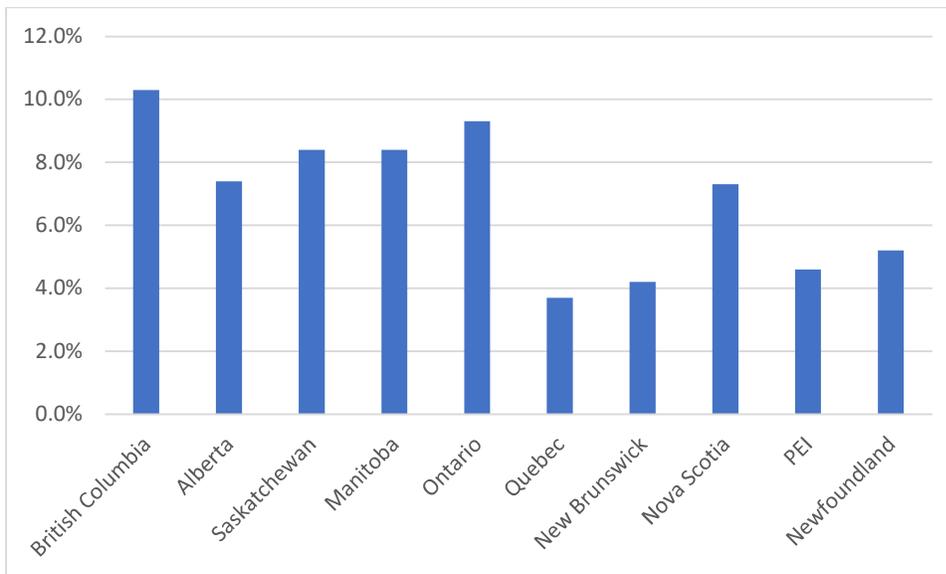
Under the current regulatory system, the housing market provides good housing to the vast bulk of the population at rents (or prices) which they can afford. The current problem of affordability faced by some tenants arises from the low incomes received by some people, at the same time as all housing demand is up, and housing supply cannot keep up with demand. The confluence of those three factors is not the fault of rental housing providers, who should not be blamed for the effect of the factors coming together.

The impact of excess demand was made abundantly clear during the pandemic. Market rents rose steadily from 2015 to 2020. Yet in city centres and areas serving universities, rents fell significantly from early 2021 to 2022, because the influx of immigrants and non-permanent residents stopped.

On September 21, 2022, Statistics Canada released the housing portion of the results of the 2021 Census. It showed a substantial decrease in the proportion of Canadians in core housing need. (Core housing need is primarily the result of lack of affordability.) The prevalence of core housing need did not change between 2011 and 2016, but it fell from 10.6 per cent of the population in 2016 to 7.7 per cent in 2021, a decrease of more than one quarter.

As shown in Figure 4, core housing need is most prevalent in provinces with strong economies, which are growing in population, and least prevalent in provinces with weak economies which are not seeing population growth. That reinforces the view that lack of affordability comes from growing housing demand in the face of supply which does not keep pace.

**Figure 4: Core Housing Need by Province - 2021**



## THE BENEFITS OF REITS AND OTHER LARGE RENTAL HOUSING PROVIDERS

From rental housing corporations and REITs generally, renters receive the following advantages:

- professional property management
- a formal organization, which operates on a standardized basis through the turmoil that can affect individuals

- large buildings or rental complexes, where renters can access and share a range of amenities
- large buildings or rental complexes, which justify, and usually include, on-site staffing
- owner access to capital to perform major repairs and upgrades in a timely manner.

Publicly traded REITs and corporations add the benefit of scale, justifying internal specialization and access to personnel in different fields, such as engineering, finance and employee training, as well as regular and timely reporting on their financial results and ESG results.

### **MORE HOUSING SUPPLY IS NEEDED**

In Budget 2022, the Minister of Finance said: “There are a number of factors that are making housing more expensive, but the biggest issue is supply. Put simply, Canada is facing a housing shortage ....”

In its report entitled “Canada’s Housing Supply Shortage: Restoring affordability by 2030”, CMHC has estimated that Canada needs to increase housing supply by 437,000 dwellings per year, double recent figures.

Instead, the tax changes for rental housing providers which were put forward in Budget 2022 could well have widespread and serious unintended consequences, decreasing the supply and decreasing affordability of rental housing. Budget 2023 should reverse the plan to advance those tax changes.

### **RENTAL CONSTRUCTION FINANCING INITIATIVE**

Another issue facing rental housing developers is the recently announced changes to the Rental Construction Financing Initiative (RCFI), namely that the rents of 40% of the units be set at 80% of average market rent (for existing rental supply). Those changes would mean RCFI will not encourage housing supply. The changes would compound the effect of increased interest rates and construction costs, which are already causing rental housing development to pull back.

### **MAIN CONCLUSION**

The problems alleged to exist in the financialized rental housing sector are overblown. The solutions which were proposed in Budget 2002 are

- disproportionate to the limited problems that exist,
- not effective solutions, and
- liable to have negative impacts on rental supply and affordability, thus hurting the very people they are supposed to help.