KRISH VADIVALE

SKYLINE APARTMENT REAL ESTATE INVESTMENT TRUST

OPENING REMARKS TO THE HUMA COMMITTEE, June 9, 2023

The Financialization of Purpose-built Rental Housing

Good Morning,

My name is Krish Vadivale. I am the Vice President of Finance, for Skyline Apartment REIT ("Skyline"), which owns and operates over 22,000 apartment units, and employs over 1,000 Canadians from coast to coast. Skyline is also a direct member of the Canadian Federation of Apartment Associations ("CFAA"), of which I have been a member of the board since 2019, and in the most recent year, served as its chair.

I also happen to be the Chair and President of Victoria Park Community Homes – one of Ontario's largest privately run non-profit housing providers, which owns and manages over 3,000 affordable homes across Southern Ontario, and is currently endeavouring to build an additional 200+ affordable homes in Hamilton, Ontario.

I would like to begin by addressing, what in our opinion, is a fundamental truth to the landscape of rental housing in Canada: in that the rate at which rents are increasing today is largely driven by demand for rental housing, outpacing its supply. Before contemplating solutions to this problem, I think one must first understand the causes:

On the demand side, you have a growing population, driven largely by immigration, dovetailed with stricter rules for mortgage qualification that came into force over the past decade, which make home ownership less attainable to first-time buyers, and so they rent.

On the supply side, which is where we operate, you have increasing costs of operation, increasing costs to build, you have growing not-in-my-backyard syndrome ("NIMBY-ism") with respect to new developments (especially for affordable housing), and you have increasingly hostile sounding political rhetoric aimed at the largest providers of rental housing. To unpack these points further:

With regards to operating costs: the breakdown of how $1 of rent is allocated by cost, as presented in brief submitted to this committee by CFAA's is largely consistent with our own financial measurements. Additionally, over the past three years we have seen double-digit % increases in insurance costs, increases in the cost of labour, and mortgage rates have almost doubled. In contrast, over those three years the maximum allowable rent increase for most units in Ontario has totalled just 4.3%.

These factors make building new rental housing projects less attractive, which results in less new rental supply. Over time, that lack of supply drives up market rent at all price points. If the goal is to increase supply, one must either incentivize new housing supply, or remove or reduce current disincentives (including the risk of negative outcomes, like vacancy control, which would surely dry up supply).

Conclusion

I'd like to conclude with four points:

Firstly, to address the concept of "financialization":

Skyline's investors currently receive a 4.00% yield on their investment; some of our public market peers, pay out less than this. By comparison, for the past few months, the 5-year government of Canada bond (a near risk-free investment) has been hovering around 3.50%.

Said more simply, rental housing providers are not more "financialized" than any other investment; especially when evaluated on the trade off of risk for return.

Moreover, if we were truly over-earning in economic terms, the rental housing market would already be saturated to a point of economic equilibrium – which it clearly is not.

My second point: At the end of our last fiscal year, Skyline's in-place average monthly rent was $1,276 per unit, which on an annualized basis would be just over $15,300. CMHC's definition of "affordable" housing is rent that costs less than 30% of a household's pre-tax income; this would mean that the average Skyline unit would be considered affordable to households earning a little more than $51,000. According to StatsCan, the average renter household had an income of $54,800 in 2021. That would mean that many of Skyline's units are affordable to many renters.

Thirdly, at Skyline, we value our tenants. We do not conduct "renovictions" and never have. Conversely, in recent years, Skyline has gone as far as to create a Tenant Relief Program, that provides rent relief to tenants in our portfolio that have fallen on hard times.

In 2022 alone, our Tenant Relief Program has saved over 200 tenancies.

Finally, at 22,000+ rental units, Skyline would qualify as one of Canada's largest landlords, yet of the 5 million rental units[1] available in Canada, we own only four tenths of 1% – not 4 out of every 100 units, but 4 out of every 1,000 units.

If the end goal is to have a rental housing landscape that is dynamic – that provides Canadians with choice, both in terms of location and amenities – but is also largely affordable, then large operators like Skyline Apartment REIT should be part of the solution – and we want to be.

Thank you for your time.

---

[1] Total rental units is based on total renter households (4,953 835) plus 2.5% for vacancies, and rounded. Statistics Canada. Table 98-10-0231-01 Age of primary household maintainer by tenure: Canada, provinces and territories, census metropolitan areas and census agglomerations.