# Financialization of Housing

Submission to the Government of Canada’s Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities

May 26, 2023

Canadian Centre for Housing Rights

192 Spadina Ave Suite 427
Toronto, ON, Canada M5T 2C2
housingrightscanada.com
T: 1-800-263-1139

To the Members of the Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities:

**Re: Financialization of Housing**

On behalf of the Canadian Centre for Housing Rights (CCHR), I am writing to inform the HUMA Committee's study on the financialization of housing in Canada. CCHR is Canada's leading non-profit organization working to advance the right to adequate housing. For over 35 years, we have worked tirelessly at the intersection of human rights and housing, providing free services to renters facing evictions and human rights violations to remain housed, providing education and training about housing rights across Canada, and advancing rights-based housing policy through research, policy development, and law reform.

## The Problem with Financialization

The chronic nature of the housing crisis in Canada suggests that the problem is a systemic issue. To this end, the phenomenon of financialization has been increasingly used as a way to understand the nature and complexity of our housing problems today. Indeed, the Office of the Federal Housing Advocate has identified the financialization of housing as the first systemic issue that needs to be investigated. The concept was first used by academics to make sense of how political and socio-economic systems have been transformed over the last half-century. In the housing sector, the process of financialization is characterized as one where financial actors have increasingly played a dominant role in generating wealth and by extension, acquired a more prominent position in the housing market given the lucrative potential in real estate.

It is this investment potential that has drawn criticism in public discourse, taking to task how the process of financialization treats housing as an investment vehicle as opposed to a home. However, housing had a dual function long before this phenomenon emerged. Since the 1930s and 1940s, the Canadian government has actively promoted homeownership to function both as a roof over a family's head as well as a form of long-term financial security.

What is problematic about financialization, in general and in housing, is that its process of generating wealth incentivizes practices that can have harmful social and economic consequences. In addition, the wealth that is generated is only accessible to a few, fueling disparities and inequities that can be extremely detrimental to social stability. In this environment, people who do not own homes, like renters and unhoused people are impacted disproportionally. In effect, their right to access adequate, secure, and affordable housing is compromised.

## Financialization and Rental Housing

Real Estate Investment Trusts (REITs) constitute some of the large financial entities that have made their presence felt in the rental market. Such groups allow investors to pool their money into a trust to reap returns on housing investments. They are structured as vehicles that channel investments with the purpose of rapidly generating wealth for their investors through rental markets. The demand for higher returns on investment, against more stringent fiduciary standards than what a typical landlord would have to abide by, potentially spurs a variety of practices that can inhibit the ability of the residents of these homes to live with dignity and stability.

### Financialized Landlords

The following examples can help shed some light on the negative impacts of the financialization of housing on residents. A business model for real estate investors may involve finding various cost efficiencies to generate higher returns, which in practice, could consist of cuts in personnel. In a building that a REIT has acquired, this could mean reduced staff to help with maintenance and day-to-day upkeep, risking the quality of tenants' living conditions. In older buildings that REITs have purchased, and where rents are affordable and regulated, the potential to generate more rents through attracting newer tenants can also inspire questionable tactics to push out existing tenants. For instance, intentionally neglecting maintenance-related issues and work order requests can eventually leave the quality of a unit in such an unhabitable condition that the tenant has to move out. These tenants would now be left to search for a place in a rental market that does not have any affordable housing options, forcing them to live in unaffordable homes where they may eventually fall into rent arrears or worse yet, experience homelessness. In jurisdictions where substantial rent hikes are permitted to allow for renovations, REITs can liberally take advantage of these exemptions to "renovict" tenants to make way for new tenants who may find themselves in a unit that has only received cosmetic upgrades. In jurisdictions where rents are not regulated, tenants are forced to move out of their homes because of rent hikes that are too costly to pay for.

Affected tenants may also face greater difficulties trying to resolve disputes and other issues with these larger corporate entities. This is because, as opposed to the traditional landlord-tenant business model, various other intermediaries tend to manage interactions with the tenant, in effect, rendering the landlord absent in this new arrangement and making it more difficult to hold them to account to meet their obligations.

While some skepticism has been expressed regarding how widespread such behaviours are on the part of REITs, especially since they still constitute a small share of the overall rental market, CCHR's interactions with tenants and organizations serving tenant communities have revealed examples of such transgressions. In addition, REITs are starting to play a more prominent role in specific regions such as the Prairies, and in sectors such as seniors' housing where there is evidence to suggest that the quality of care in such settings are poorer than the typical long-term care home. What is particularly concerning is the lack of data to systematically account for the extent to which tenants' rights are being violated.

Smaller investors and landlords

The process of financialization must not only be understood through the actions of large financial actors. This lucrative potential from real estate has created an incentive for a wider pool of actors to trade the asset more frequently. For example, smaller, individual investors buy up multiple properties, driven by speculation that housing prices will keep rising and in effect, their return on investment will be larger. In some instances, where the property is rented, they may deploy rent gouging tactics akin to the behaviours of large financialized actors like REITs. In other scenarios, units can be purchased and left vacant, purely for the purpose of selling at a time when prices have risen substantially, effectively removing it from the homeownership or rental housing market. Other entities may find it more profitable to purchase properties and leave them vacant, occasionally renting them out as a short-term rental on online platforms such as Airbnb as ghost hotels.

The impact on renters

Taken together, the incentive structures to rapidly generate profits through real estate are set up in a way that makes renters' lives more precarious. In fact, the process of generating wealth through housing has never benefited renters. However, in today's financialized environment, more expensive mortgages have only raised the barriers for such households to build any equity through homeownership. While it is beyond CCHR's expertise to delve into the impact of financialization on homeownership, it is worth noting that financialization has deepened indebtedness for mortgage holders, making the journey to homeownership a precarious one as well.

## The Role of Public Policy

Public policy has actively contributed to our current financialized way of life. Waves of deregulation in the 1970s and 1980s effectively gave more room to financial markets to spur economic growth. As a result, financial institutions benefited significantly. It is their modes of generating wealth, disproportionately through financial assets, that is characterized as the process of financialization.

In addition, governments increasingly relied on the markets to develop housing. A regulatory environment was created to encourage more private investments in housing. This ranged from lax rent regulations in many provinces to allowing the creation of new financial entities such as REITs to induce more capital into the rental housing market. At the same time, the federal and provincial governments retreated from investing in and creating new housing, especially the deeply affordable rental options that lower income residents rely on.

Unfortunately, relying primarily on the markets has barely produced any new affordable housing. In fact, Canada has progressively seen its older stock of affordable housing disappear because of poor rent regulations that allow rent increases to push out lower income residents, redevelopment of older buildings that have displaced long-term residents from their communities, and acquisitions of existing rental housing by larger financial entities. Indeed, the strategy of investment vehicles like REITs is to exploit supply-constrained rental environments by purchasing rental homes and using various tactics to raise rents beyond what the current long-term residents can pay, while doing little to add to the rental stock. To the extent that new housing has been built through the private sector, they are largely in the form of condominiums and single-family homes, housing options that do not benefit renters, particularly those living on low- to moderate-incomes.

Way forward

Clearly, there is a need for governments to play a more proactive role in the housing market. To this end, the federal National Housing Strategy has potential but must be refined to direct investments and introduce programs that first and foremost benefit renters most impacted by the housing crisis. Additionally, the federal government must work collaboratively with the provinces to ensure that rent regulations are in place across the country to guard against the potentially exploitative practices of landlords, both large and small. Indeed, every renter in Canada should be protected not only through rent regulations but programs that prevent evictions and help stabilize their housing. All levels of government must work together to adopt rights-based policies that ensure those most impacted by the housing crisis have access to adequate, secure, and affordable homes.

**CCHR's Recommendations**

1. **Strengthen the Co-Investment Fund and the Rental Construction Financing Initiative**

A recent review of National Housing Strategy (NHS) initiatives such as the National Co-Investment Fund (NCIF) and the Rental Construction Financing Initiative (RCFI) found that the quality and effectiveness of spending were poor. The RCFI showed little evidence of producing affordable rental housing while private developers benefited most from the program. Meanwhile, the NCIF, which is designed to help make more non-profit and social housing projects viable, appeared to primarily benefit one major repair initiative in Toronto. Broadly, studies have shown that the funding allocations were not sufficient to meaningfully build the capacity of the non-profit housing sector. The application process to receive funding also appears to be laborious. Meanwhile, few people in core housing need have benefited from the program.

It is therefore imperative that the design of both the NCIF and RCFI programs are strengthened in a way that produces more affordable housing for those who need it the most. Specifically, the RCFI must have more stringent affordability requirements that are defined based on income. For the NCIF, more funds must be allocated in a way that meaningfully strengthens the capacity of the non-profit housing sector. It is also worth convening such organizations to share their challenges and support them so that funds can be targeted efficiently and effectively. The application process should also be made more flexible and simpler to minimize their administrative burden.

To ensure funding is sufficient for both programs, the amounts must be calculated based on need. As of now, Core Housing Need is the most readily available metric to use although it remains a conservative estimate, and ought to be revised to better capture the housing market and household need beyond the current use of the shelter-to-income ratio. In fact, this principle should be applied to determine funding for the entire suite of programs in the National Housing Strategy. In addition, setting such targets should be a condition for provinces that receive funding from NHS programs. Finally, given the federal government's decades-long retreat from housing, these funding commitments must be in place for the long term.

**2. Develop a standalone Acquisition Program in the National Housing Strategy**

Canada can more effectively preserve its affordable housing stock and potentially increase its rental supply in a cost-effective way through setting up an Acquisition Program. Such an initiative would support provincial and local governments and non-profits to purchase existing rental housing and other properties that may be at risk of getting converted by a prospective owner for purposes that may only benefit wealthier households. A federal Acquisition Program would instead empower affordable housing providers to operate these buildings in a way that remains affordable for low- and moderate-income households. In fact, a well-designed program would benefit a broader cross-section of Canada's income spectrum given how the housing affordability crisis has impacted many communities across the country. Indeed, it is time the federal government started treating tenants not as a transient population, moving through a housing spectrum towards homeownership, but rather as a population in need of adequate rental housing for the long term.

A workable program should have flexible conditions that give municipalities, provincial agencies as well as non-profit housing providers the option to take advantage of the program. Timelines should be accommodating enough to facilitate a successful acquisition. Existing initiatives at the municipal level, such as Toronto's Multi-Unit Residential Acquisition (MURA) program, and at the provincial level, such as British Columbia's Rental Protection Fund, offer worthwhile models to replicate or support. The federal government should also work with provinces and local governments to give priority to beneficiaries of the program to acquire buildings before other prospects put in a bid. In addition, there is room for such a program to target units that are currently owned by REITs and other financial entities. Repurchasing such buildings and removing them from the market could be one of the most effective ways to curb financialization.

**3. Support local eviction prevention measures while topping up the Canada Housing Benefit and tying it to rental housing guidelines**

Eviction prevention measures are crucial interventions to guard against rising rents and increasing housing precarity, all of which have partly resulted from the growing financialization of housing in Canada. Such financial supports significantly minimize the risks of people experiencing housing precarity and homelessness. Indeed, the cost of emergency shelter is considerably higher than this upstream intervention.

To this end, the federal government's Canada Housing Benefit (CHB) has been a useful initiative to help ensure a degree of tenure security for many households. There is likely room to widen eligibility criteria and enhance program spending. Several provinces and municipalities also offer a mix of targeted supports to households, such as those who are in receipt of disability or unemployment benefits, and more generalized funding for those who are experiencing financial difficulties. The federal government can support these initiatives given that they are already operational and could function more effectively if it has more capacity to do so.

At the same time, demand for the CHB is likely to increase if rent regulations are weak or absent across the country. In provinces such as Alberta where there is no rent regulation or in Ontario, where units occupied after November 2018 are exempt from the regulation, room for escalating rents will keep adding to households' financial burdens. By extension, the federal government will need to keep increasing its spending on the CHB to counteract the negative effects of lax rent regulations. The federal government should therefore consider tying housing benefits to guidelines or requirements for provinces to institute rent increase guidelines to regulate arbitrary rent increases.

4. **Facilitate the collection of more data about property owners, house prices, tenure details and evictions**

To address the impacts of financialization of housing with evidence-based solutions, more information needs to be collected by governments. For example, it is still unclear the extent to which REITs file for evictions compared to smaller landlords. CCHR's interactions with several tenants and community organizations have given us a bleak picture where displacement is a very real experience for many. However, in the absence of centralized data systems that are regularly updated and open to the public, we have to develop creative workarounds to paint a picture of this trend across the country. We also do not have a clear picture of the nature of ownership amongst larger financial entities. Capturing and making such proprietary information available to the public may help bring about more transparency and accountability into the financialized housing market.

Given that provinces and municipalities have a responsibility to document various property and tenancy related information, the federal government must work with other orders of government to create guidelines and incentives to develop this much-needed evidence base. Otherwise, there will be limited room to create lasting solutions that sustainably guard against housing precarity, unaffordability and the loss of our existing affordable housing stock.

5. **Engage with financialized actors and impacted communities around the Right to Housing**

Financialized actors will likely remain a prominent actor in the housing market even if governments spend more on housing. It is therefore important for the federal government to proactively acquaint financialized actors with the principles of the right to adequate housing. Given the federal government's own commitment to advance the right to adequate housing over time through international treaties and the National Housing Strategy Act, it must leverage its convening powers to inform and encourage larger financial actors to treat housing as a home and a fundamental human right for its inhabitants.

Finally, advancing the right to housing will require the federal government and other orders of government to prioritize the needs of those most impacted by the housing crisis. As such, the experiences of communities impacted by the negative effects of financialization must inform and influence policy development processes and any refinements to NHS programs.

Sincerely,

Bahar Shadpour
Director of Policy and Communications
Canadian Centre for Housing Rights (CCHR)