CANADIAN RENTAL HOUSING PROVIDERS FOR AFFORDABLE HOUSING

October 31, 2022
The Rt. Hon. Justin Trudeau
Prime Minister of Canada
Office of the Prime Minister
80 Wellington Street
Ottawa, ON K1A 0A2
pm@pm.gc.ca

By email.

RE: Urgent action needed to avoid unintended consequences of federal government's planned rental housing taxation review

Dear Prime Minister,

I am writing to you today on behalf of *Canadian rental housing providers for affordable housing*. We are made up of Canada's five largest publicly-traded residential real estate investment trusts (REITs): Canadian Apartment Properties REIT (CAPREIT), Boardwalk REIT, Killam Apartment REIT, InterRent REIT and Minto Apartment REIT.

Our concerns are two-fold. First and foremost, the planned review of taxation treatment of rental housing and of REITs is creating market uncertainty, limiting our ability to raise capital to construct new housing. Delays to this review deepen the severity of this unintended consequence. Two, private sector for-profit housing providers are being excluded from consultation and policy making by the Federal Housing Advocate (FHA) and the National Housing Council (NHC).

As you know all too well, we find ourselves in the worst housing supply and affordability crisis in over a generation. We take the CMHC's call to build 5.8 million more homes by 2030 seriously. We know this is an enormous challenge but we see an opportunity to bring about a long overdue alignment of Canada's housing policies to deliver results.

As you are aware, the federal government has announced a plan to review and consider changes to certain taxation rules related to rental housing. The December 2021 mandate letters to the Minister of Finance and the Minister of Housing and Diversity and Inclusion referenced possible amendments to the *Income Tax Act* in connection with rental rate increases as well as a review of the tax treatment of REITs. Further, Budget 2022 announced a federal review of housing as an asset class, including possible changes to the tax treatment of large corporate investors in residential real estate. Since then, the House of Commons Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities (HUMA) has decided to study the "financialization" of housing and the FHA has issued a formal request to the NHC to review the human rights impacts of financialization.

Unfortunately, the impending federal review has brought about considerable market and economic uncertainty. This uncertainty has pushed down the value of the REITs, making it next to impossible to raise new capital. This caps our ability to contribute to new housing supply, at a time when Canada needs it the most. We know that limiting supply of new housing is antithetical to the government's intentions.

These depressed values have also exposed us to the risk of takeover and/or privatization by private and/or foreign players, such as private equity funds. As publicly-traded entities with public financial reporting requirements, we are unique in the Canadian housing space for having ESG reporting commitments, good governance protocols, and accountability for operating in a fair and responsible manner. We are Canadian owned and operated, mostly from individual small investors saving for retirement. That's why we're committed to building more of the homes Canadians need. If privatized, this transparency, accountability and commitment to doing right by Canada will be lost.

We believe that no changes should be introduced related to the taxation of REITs. We have commissioned a study by EY, showing that changing REIT taxation to be equivalent to the corporate model would not generate significant new revenue and may even mean lower government revenue. A copy is attached for your consideration. Regardless of our views on the outcome of these processes, we must stress that the mere prospect of these reviews has created significant market uncertainty and risk to our continued existence. That's why we're requesting that the government expeditiously provide some comfort, in the form of a letter or statement from the government, that there will be no changes to the taxation of REITs. This would significantly alleviate consequences of the uncertainty hanging over the Canadian rental market.

While clarity around the issue of taxation changes is our immediate concern, we are also awaiting the commencement of the above-referenced reviews, and will be active participants. We will be part of the solution and we're actively engaging with advocates, experts and officials to find ways to work creatively and collaboratively to achieve the progress we all want for Canadian families. The good news is, we're finding common ground.

However, we must express our deep concern that despite over 90% of housing in Canada being provided by the private sector, our voices have been shut out of the policy development process to date. We requested to meet with the FHA in August and just this past week were informed that consultation with housing providers would only be "in the coming months" — meaning the Advocate will be in office almost a year before her first meeting with housing providers. Moreover, we were informed that "to help manage and address the many invitations to speak and engage with provincial, municipal and industry groups, the Advocate will be broadcasting a speech about advocating for housing as a human right, and other key themes and systemic housing issues" on November 22. This is not consultation in good faith.

We are equally concerned that the NHC has no representation from the for-profit private sector. Our concerns were only heightened by the September 23 announcement by the FHA that she had tasked the NHC to launch a public hearing on the impact of corporate investment in housing. The FHA doesn't even have a public phone number, email address or directory. Prime Minister, this is no way to approach a problem as serious as our national housing crisis.

Without the voices of those that provide housing, the work of the FHA and NHC will be for naught. We have eight years to build 3.5 million additional homes for Canadians. Earlier this year, Aled ab Iorwerth, CMHC's Deputy Chief Economist said, "*there must be a drastic transformation of the housing sector, including government policies and processes, and an 'all-hands-on-deck' approach to increasing the supply of housing to meet demand."*
We agree, without reservation. This is why we have also been speaking about our policy solutions related to funding for more affordable housing, and creation of additional housing supply, among others. We've submitted these recommendations to the House's Standing Committee on Finance (FINA) as part of their pre-budget consultation, and posted them on our website, ForAffordable.ca.

Achieving workable solutions that can deliver on Canada's ambitious and necessary housing affordability goals require the private sector being at the table. As some of the largest owners and managers of affordable market rentals in Canada, we have insight into what is needed to deliver the housing Canada needs. We're ready to work together, each doing our part, to meet the moment. We just need a seat at the table.

Yours sincerely,

Mark Kenney

President & CEO
CAPREIT

CC: The Hon. Chrystia Freeland
Deputy Prime Minister and Minister of Finance

The Hon. Ahmed Hussen
Minister of Housing and Diversity and Inclusion

Ben Chin, Senior Advisor, PMO
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