Written Submission for the Pre-Budget Consultations in Advance of the Upcoming Federal Budget

CANADIAN RENTAL
HOUSING PROVIDERS
FOR AFFORDABLE HOUSING

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List of Recommendations

Recommendation 1: That the government create a fund and financing program to allow nonprofits, cooperatives and community land trusts to cost-effectively acquire existing rental housing properties, making them permanently affordable.

Recommendation 2: That CMHC adjusts and expands qualifications for the MLI Select program in order to protect more affordable housing in more communities, and to make building and preserving affordable housing the preferred investment versus building and operating with conventional financing and market rents.

Recommendation 3: That the government expand the Canada Housing Benefit to help more low-income families and introduce an emergency support benefit to prevent homelessness.

Recommendation 4: That the government incentivize new housing construction in all submarkets through the creation of national standards for land use and housing policy, and use all funding tools at its disposal to encourage the delivery of the supply required to restore affordability by 2030. This includes, but is not limited to:

- Reforming how infrastructure is funded to reduce upfront costs
- Creating land-use regulations that are consistent with national housing and immigration goals
- Prioritizing approval of affordable purpose-built rental housing
- Ending discriminatory policies against manufactured home communities

Recommendation 5: That the government remove the HST from new capital investments in purpose-built rental housing; work with provinces, territories and municipalities to eliminate tax surcharges on purpose-built rental housing property, and support long-term reductions in municipal property taxes in exchange for long-term commitments to maintain affordable rental rates.

Recommendation 6: That the government maintain the existing tax-neutral treatment of REITs to promote investment in expanding residential supply.

Introduction

We are Canada's five largest publicly-traded residential real estate investment trusts (REITs): Boardwalk, CAPREIT, Killam, InterRent REIT/CLV Group & Minto.

We understand that housing is about people.

We are proud to provide over 120,000 rental homes to Canadians, more than half of which meet the government's definition of affordable (less than 30% of the local median renters' household income).

It is critically important for us to both maintain these units and keep them affordable. That's why we're investing in our buildings and communities through energy retrofits, as well as major lifecycle and safety upgrades, to the tune of over $30,000 per home over the last 10 years. Over the same period, average rents in our portfolio have increased by 2% per year, mirroring Canada's target rate of inflation.

Today, Canadians face twin housing crises: supply and affordability. Canada has the fewest homes per capita in the G7. CMHC has called for 5.8 million homes to be built by 2030 in order to restore housing affordability in Canada.

Canada's housing shortfall requires an all-hands-on-deck approach.
We're up for the challenge.

We want to partner with government and civil society to make the investments and changes required to deliver more affordable housing.

What follows are recommendations that would help preserve Canada's current stock of affordable housing and deliver the new supply Canadians need.

Proposals

1. **Fund affordable housing acquisition**

The most affordable housing is the housing that is already built. New construction is necessary to deliver more housing supply, but it can be two to three times the cost of acquiring existing properties. Large foreign investors such as private equity funds scoop up property portfolios around the world for a reason: it's a cost-effective way to invest in real estate.

Delivering newly-constructed affordable housing is not viable without significant subsidies. A recent Altus report analyzing construction costs in Ottawa and Toronto found that new construction cannot break even with any affordable units without subsidies and/or density bonuses.

Today, more than half of our suites meet CMHC's definition of affordable housing and many more are just above the margin. We want to be able to make more of these homes affordable. Here are two ways to do so:

The first is to adjust the formula of CMHC's Mortgage Loan Insurance (MLI) Select program for existing buildings by lowering the affordability threshold, reducing rates and fees, and/or decreasing debt service coverage requirements for these loans. This would make investing in affordable housing a better return on investment than using traditional financing and charging market rents. It would increase the supply of affordable homes just as the Multi-Unit Residential Building program did from 1979 to 1984 when we last faced such a crisis in housing supply.

The second is to create supportive financing and a funding program for cooperatives and non-profits to acquire existing market-based affordable housing from REITs and others at market prices, and preserve affordability through community land trusts. We agree with the Canadian Housing and Renewal Association (CHRA) that this solution should be added to the National Housing Strategy.

2. **Expand income-based rental supports**

In a country as rich as Canada, everyone should be able to afford a place to call home. We are firmly supportive of the means-tested Canada Housing Benefit (CHB) and the recent one-time top-up, benefiting 1.8 million low-income families who rent their homes.

We are supportive of expanding the CHB to help more families make ends meet, and of developing emergency supports to help people avoid losing their homes in times of crisis.

3. **Create a national standard to align land-use policies with housing and immigration policies**

Canada's population is growing, but housing isn't keeping up. We need to continue to welcome immigrants from around the world as our population ages and our labour market tightens. To do so successfully, we need to dramatically increase housing supply.

As Ray Sullivan, CHRA's Interim Executive Director said recently, "There's one housing market…what happens on one end of the spectrum affects the other." We need to improve the whole housing market by reforming how we regulate housing to deliver more homes for more Canadians.

The federal government must use every tool at its disposal to bring disparate, contradictory, and often counterproductive local regulations in line with the national objective of increasing our population, ensuring that all Canadians can be housed with dignity so that they can lead stable, meaningful and productive lives.

What follows are some proposed changes that would incentivize more housing supply and greater affordability, and could form part of a national standard. The federal government should use the Health and Social transfers, infrastructure and other funding streams to nudge provinces, territories (PTs) and municipalities to adopt best practices to heed CMHC's call.

a. Fund infrastructure differently to drive affordability

Many municipalities, as empowered by their PTs, use development charges (DCs) and other upfront fees to fund infrastructure growth. These charges on new residential construction hurt affordability by adding tens of thousands of dollars to the cost of each new home. As these costs rise, fewer projects are viable. Those that are viable are less likely to include affordable homes, as only the high end of the market can cover the higher costs. These large upfront costs also discourage entry to the market by smaller builders with limited means, reducing competition and diversity.

Compare, for example, the DCs charged for a new 650-square-foot apartment in Montreal ($28,000) and Vancouver ($106,000). That extra $78,000 per home at today's rates adds over $300 per month in additional financing costs and negates the possibility of that unit being rented at an affordable rate.

PTs and municipalities have greater buying power and access to lower borrowing costs than individual builders. Whether through general operations or bonds, governments at all levels can support the development of more affordable homes by reducing the upfront costs of building.

b. Create predictable and consistent land use regulations to drive down costs and speed up construction

Across the country, planning and building departments are understaffed and overburdened with complicated and often conflicting regulations. Jurisdictions can have regional and local governments, as well as conservation authorities, all of which have their own standards in addition to overarching PT policies.

Service standards for approvals are illusory. It is not uncommon for an ordinary residential project to take years or even a decade to be approved. Such delays discourage activity in the sector and compromise projects, creating unnecessary uncertainty, costs and risk. This problem is worsening. Processing times are up 40% over the last two years in the Greater Toronto Area, and costs are up 30%. Without addressing these delays, CMHC's call to build 5.8 million homes by 2030 will go unheeded.

PTs must create clear overarching land use regulations and require municipalities to develop pro-housing policies and zoning that make it easy to build sustainable, mixed-use communities with affordable homes. Planning and building departments must be properly funded, offering market-competitive salaries to keep them fully staffed.

In the meantime, as departments ramp up, priority must be given to projects that include purpose-built rental housing that meets affordability criteria.

c. End discrimination against manufactured homes

Manufactured homes are built faster, cheaper and more energy-efficiently off-site in factories, than conventional homes. Manufactured home communities (MHCs) offer some of the most affordable market housing in Canada.

Unfortunately, MHCs have a negative perception, a sentiment reinforced by restrictive legislation, including provincial regulations and municipal zoning by-laws that block manufactured homes from being built in existing residential areas, prevent new or expanded communities entirely, or have outdated performance standards. In addition, provincial regulations generally cap land leases at 21 years, placing buyers at a disadvantage when seeking mortgages.

Lifting these discriminatory regulations would scale up the delivery of manufactured homes dramatically.

4. Don't tax what you want more of

Just as putting a price on carbon reduces greenhouse gas emissions, taxes on housing, and affordable housing in particular — whether in the form of the HST, development charges or municipal property taxes — disincentivizes the construction of much-needed housing supply, both affordable and market-rate.

In order to incentivize the construction of new housing supply to address the twin crises of supply and affordability, all governments must align their taxation policies with Canada's national housing needs. In this vein, the federal government should reconsider its decision and remove the HST from new capital investments in affordable rental housing, and go even further by exempting the HST on all rental housing, as it does for other essentials like non-processed food and children's clothing. This would immediately reduce costs and incentivize more affordable and market-rate housing.

Property taxes are the main funding mechanism for municipalities, but they are an ongoing additional cost and barrier to affordability in rental housing. Moreover, municipalities often charge as much as 250% of the property tax rate for purpose-built rentals compared to owner-occupied housing. This represents about 11 cents out of every dollar of rent paid. Long-term reductions in municipal property taxes, in exchange for long-term commitments to maintain affordable rents, would make hundreds of thousands of apartments more affordable for Canadians.

REITs were introduced in Canada to promote investment in Canadian real estate. In the 2007 Specified Investment Flow-Through rules, REITs were excluded, and since then have been successful in promoting investment while resulting in overall tax revenue being approximately the same as what would be received through a corporate structure. A 2022 study by EY found that changing the tax treatment of REITs would disincentivize needed investment in residential supply, put upward pressure on rents, and have a marginal — and possibly negative — impact on government revenues.

Conclusion

Today, we find ourselves in the worst housing affordability and supply crisis in a generation. We need a new plan to deliver supply and restore affordability to the Canadian housing market.

We urge the federal government to lead the charge, using every tool at its disposal to drive the required transformation. Working with PTs and municipalities, the federal government must use infrastructure funding, social and health transfers, and new financing and funding models to align housing policies with our national ambitions.

Canadian rental housing providers for affordable housing want to work together, each doing our part, to change policies and invest capital in order to deliver the housing that Canada needs and the homes that Canadians want.