Canadian Housing and Renewal Association
CHRA ACHRU
A Home for the Housing Sector

# Submission to the House of Commons Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities (HUMA) on the Financialization of Housing

*By The Canadian Housing and Renewal Association*

info@chra-achru.ca
www.chra-achru.ca
(613) 594-3007
(613) 594-9596
75 rue Albert Street, Suite 90
Ottawa, ON, K1P 5E7

## Introduction

The Canadian Housing and Renewal Association (CHRA) represents the community housing sector in Canada. Collectively, our members house, shelter, and support hundreds of thousands of Canadians in communities across every province and territory.

We are proud to respond to HUMA's call for submissions on the financialization of housing: a crucial topic to not only solve the housing crisis, but to make Canada a more fair, inclusive, and affordable place to call home.

Like many, CHRA and our members have been confronted by an undeniable reality: that Canadians from all walks of life feel life is becoming increasingly unaffordable, that they aren't being given a fair deal, or that they are falling behind. A key driver of this situation is the financialization of housing.

There is consensus among housing professionals and academics that financialization is a significant threat to housing affordability and community housing in Canada. In the context of community housing, the financialization of housing ("financialization") can be defined as the erosion of private market affordable housing stock caused by the treatment of housing as a financial commodity. Financialization has led to wealthy investors buying up housing stock to increase profits, removing stock suitable for low-to-moderate income households. It leads to a business model based on displacing long-term tenants and rapidly increasing rent, with the goal of rapidly increasing the real estate asset value. This trend continues to worsen, requiring a coordinated response to ensure vulnerable individuals remain housed.

Unlocking a Canada that is fairer, more inclusive, and affordable for everyone starts at home, and affordable housing is the key. To this end, CHRA is recommending that HUMA endorse the following recommendations:

**Recommendation 1a**: CHRA recommends that the government work in partnership with the community housing sector to co-develop a national rental preservation program to support community housing providers to acquire existing rental properties and preserve affordability, removing these properties from the cycle of financialization.

**Recommendation 1b**: CHRA further recommends that the government direct Canada Mortgage and Housing Corporation to revise existing National Housing Strategy programs to make acquisition and preservation of rental housing an eligible activity.

**Recommendation 2**: CHRA recommends that the government work with the community housing sector to curb the financialization of housing by devising an Affordable Housing Investment Tax Credit to incentivize private sector investment in affordable housing projects, while maintaining non-profit and municipal management.

## 1. A Property Acquisition Program

CHRA members firmly believe there needs to be permanent, ongoing federal support to allow non-profits and co-ops to preserve affordable rental housing through acquisition. Acquisition is currently not eligible for funding or financing under National Housing Strategy (NHS) programs, such as the National Housing Co-Investment Fund (NHCF) and Rental Construction Financing Initiative (RCFI). Newer programs like the Rapid Housing Initiative (RHI) specifically exclude acquisition of existing residential properties.

The Canadian Housing Policy Roundtable (CHPR), among others, have also called for a national acquisition program to supplement existing NHS programs. CHPR calculates that from 2010-2020, an estimated 60,000 affordable units (with monthly rents below $750, affordable to annual incomes under $30,000) were lost every year, while the NHS aims to create an average of 16,000 affordable units annually. This means that for every one unit of affordable housing created through the NHS, four are lost. Other research calculates that between 2011 and 2016, before the National Housing Strategy, the ratio was 1:15 - for every one home created with federal assistance, fifteen affordable homes are lost.

The supply of rental housing affordable to low-income households is shrinking – we're actually falling behind.

Government and community housing providers need to work together to stop the loss of affordable market housing. Community housing organizations can preserve affordability, interrupting the cycle of financialization that has inflated rents and contributed to a national housing crisis.

Facing a housing supply crisis, Scotiabank, in a recent economic report, called on Canada to double the relative share of community housing. An acquisition-preservation program is the quickest and most cost-effective way to do that. Community housing stabilizes the rental market, and moving a greater number of rental homes from the speculative, and often financialized, for-profit market, will ensure a stable supply of homes for low and moderate income households.

Canada's community housing sector is ready to work with the Government of Canada to create a national acquisition and preservation fund that supports community housing providers to purchase and preserve existing modest rent properties – preserving affordable rents and interrupting the cycle of financialization.

British Columbia has shown leadership in creating their Rental Protection Fund. An acquisition and preservation initiative at a national scale can have an even more significant impact. If we support community housing providers to purchase and renovate existing, older rental stock, Canada's housing supply can be more inclusive and affordable for everyone.

Although we must continue working together to create a new supply of affordable non-profit housing, we must simultaneously work to address the loss of existing affordable housing in the private rental market.

Acquisition is:

- Less expensive than new construction, at less than half the cost;
- Less risky, since operating costs are known and there is an existing rental income stream; and
- Much faster – with Government of Canada support, community housing providers can secure affordable housing in just a few months, rather than the 3–5-year timeline of new construction.

An acquisition and preservation program also creates an opportunity to invest in energy efficiency and other building improvements, addressing climate change and improving quality of life for low-income renters.

To compete in the private marketplace, community housing providers need fast-acting capital and quick turn-around on loans. CHRA recommends a pre-approval process, where qualifying non-profits and co-ops can secure up-front commitments based on their capacity – similar to homebuyers getting a pre-approved mortgage.

The community housing sector also able to use federal investments to leverage private investment from foundations and other impact investors.

**CHRA recommends that the government work in partnership with the community housing sector to co-develop a national rental preservation program to support community housing providers to acquire existing rental properties and preserve affordability, removing these properties from the cycle of financialization.**

**CHRA further recommends that the government direct Canada Mortgage and Housing Corporation to revise existing National Housing Strategy programs to make acquisition and preservation of rental housing an eligible activity.**

## 2. An Affordable Housing Investment Tax Credit

The federal government cannot fully address financialization without a suite of policy responses. In addition to a property acquisition program, the federal government must also use tax measures to incentivize private investment in affordable housing while maintaining non-profit control to ensure units are maintained at truly affordable levels in perpetuity.

Current federal tax policies effectively incentivize financialization. This has created an environment that encourages for-profit entities to treat housing as a financial commodity, thereby eroding the stock of homes available at affordable rents, rather than increasing it.

Altering tax policy can incentivize the private sector to invest in community housing, and curb financialization while also maintaining non-profit leadership in the community housing sector. This can be done by creating a tax incentive to create or renew affordable rental housing for low-to-moderate income households.

A highly successful version of this was introduced in the United States in 1986 in the form of the Low-Income Housing Tax Credit (LIHTC). The federal government issues tax credits which are awarded to sponsors of affordable housing projects through a competitive process. Sponsors then sell the credits to private investors to obtain funding. Once the housing project is made available to rent, investors can claim the LIHTC over a 10-year period. All LIHTC projects must comply with tests to guarantee affordability for 15 years, or credits are recaptured. Most projects have an extended compliance period of 30 years imposed. The LIHTC is used in more than 90% of American affordable housing projects and has been praised for maintaining affordability and making affordable housing providers stronger and more financially stable.

Tax incentive programs like LIHTC can align the missions of the private and community housing sectors because the private sector would literally be invested in maintaining affordable housing. This helps curtail financialization by making investments more attractive, with risk and return profiles more comparable or better than market-rate projects.

Designed effectively, a Canadian LIHTC – an Affordable Housing Investment Tax Credit – could be a powerful tool to shape the tax policy environment in a manner that would make private investment in affordable rental housing comparable to other market-based forms of housing. In effect, this would increase Canada's proportion of affordable rental housing stock, curb financialization, and support a current federal priority to explore ways to incentivize private sector investment in affordable housing.

**CHRA recommends that the government work with the community housing sector to curb the financialization of housing by devising an Affordable Housing Investment Tax Credit to incentivize private sector investment in affordable housing projects, while maintaining non-profit and municipal management.**