Hi, I’m Steve Pomeroy, a housing policy researcher in Ottowa, and I’m going to speak about recent trends in Canada’s housing market and potential impacts of the COVID pandemic in this sector.

**SLIDE: COVID effects - silver lining?**

- Weaker demand = less appreciation and capital gains
- Will stressed investors seek to exit?
  - Potential cooling of ownership and investor market
  - Stagnating or declining prices/rents?
- Positive for vacancies and rent pressure

By way of context, given it’s an international audience, Canada’s tenure system: we’re about two-thirds home ownership; the social rented sector is very small, about 5% and the private rented sector just over a quarter of or total housing stock, And that’s split between what we call purpose built rentals, which are built intended as rentals, and additional rentals which occur in the marketplace as a result of people renting houses and recently a growth in investor-purchased condominiums which are then made available into the rental market.

**SLIDE: Large Private Rental Sector (PRS) - Purpose built vs secondary**

Pie chart showing:

- Home ownership 68%
- PRS secondary market 22%
- PRS purpose built 14%
- 5% social rented

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![Graph showing rental share of all housing starts from 1990 to 2018](image.png)
Our rental housing construction has been very low for 20 years, 1995-2015. Purpose built rental housing was only responsible for about 11% of total housing stocks. In recognising that a third of us are renters you would think this would create some constraints in supply in the rental market. That didn’t happen mainly because over this period, the home ownership rate grew quite dramatically and many renters were leaving the rental market and moving into the home ownership market and leaving vacancies which helped to address the lack of rental supply.

We have seen however in the last census, for the first time ever, a decline in the home ownership rates, which means there are now more renters or the rental sector is growing again for the first time ever and we see that a little bit in the increase in rental stocks particularly in the last couple of years.

**SLIDE: Key Trends**

- Concern over household debt - financial system stress
- Macro-prudential regs;
- Implications for rental part of system (including affordable) – increased residual demand and rent pressures;
- Substantial rise in rental demand and in rent levels
But it’s also, the reason for the decline in the home ownership rate is mainly because of rising home prices creating constraints and macro prudential policies that have made it harder to borrow for home purchase and therefore demand has remained in the rental part of the housing system.

And a consequence of that is increased pressure on rents, low vacancy rates. We’ve seen the rent levels across the country and particularly in our metropolitan regions increase at two to three times the rate of inflation in the last few years.

SLIDE: Financialization

- Increased rental demand, lower vacancies, pressure on rents
- Exacerbated by rent regulation, which permits “vacancy decontrol”
  - E.g. Ottawa 2018-19 average rent up 8%
  - Increase in vacated units = 18%

= Enhanced yields

- Increasingly attractive asset class
- Also impacts of STR (Airbnb)

So that is obviously creating some significant challenges in terms of affordability. The fact that our rent regulation system, its regulated at the provincial level but all provinces have a regulation that allows for vacancy decontrols, so whenever a unit is vacated the rent can be re-set to whatever the market will bear today so you kind of have a catch-up in these rents. And you can see that reflected in the recent data from Ottawa where in the last rent survey I identified a rent increase of 8% year over year for all rental units, and more particularly those that had been vacated and re-tenanted had actually gone up about 18% so very dramatic increase in the rent levels. The result of this is that rental investment has been identified increasingly as a very attractive asset class for major institutional and equity fund investors but it’s also attractive to small scale investors as well, people buying a single unit as a rental or a property. And that’s been further exacerbated by the expansion of the short term rental market and people buying properties with the intention of making them available through AirBnB rather than long-term rental properties.

SLIDE: Drastic erosion of “naturally occurring affordable housing” (NOAH)
One of the consequences of this and it’s been going on for 20 years or more, but we can see here in the last 5 years is a dramatic erosion of the naturally-occurring affordable housing, or lower properties across Canada in total. We lost 300,000 units renting below $750 a month, to be affordable at 30% of income. And that’s happened both in terms of absolute terms – some of these units have been lost as I mentioned to the short-term rental market. Some have been lost in absolute terms by demolition as the result of intensification policies. They tend to focus intensification and redevelopment in the older city areas which is where the lower cost rental properties used to be, or still are, and the other phenomenon is simply just the increase in rents. The units still exist but they’ve moved up to a higher rent band and these particularly would be units that are being acquired by capital investment funds and [inaudible] which have an express objective to increase yield for investors and so try to maximise increase in rents where-ever they can within the regulatory environment that exists. So is a very significant impact on the rental market; 300,000 units lost in stock of 3.9 million so that’s about 10 % of the stock.

SLIDE: Bad news for affordability

- Lack of new rental, very small volume of new affordable
- For every 1 new affordable; lost 15 existing NOAHs
  - (rents under $750/month affordable to $30,000 income)
  - Nowhere to place those exiting homeless via Housing First
  - Increasing homelessness, especially families

The lack of new rental, the erosion of the existing, is a dramatic effect. In fact in the last 5 years for every new affordable unit we have built under our government funded programmes we’ve lost 15 of these existing lower units so we’re really going backwards in terms of making progress despite all our investments. And this is particularly problematic at the lower end of the rental market where there is very little stock available for individuals we are trying to exit homelessness and move out of the shelter. There simply isn’t housing available to enable the Housing First process to work.
Then comes Covid… oh oh!

- Lost jobs and income = rent challenges
- Wage replacement programs (and additional rental subsidy in some provinces) worked reasonably well
- Minimal reporting of non-payment or reduced payment
- Moratorium on eviction - but what happens when moratorium lifted for those with large arrears

So that’s kind of by way of context. And now we arrive at the current situation with the COVID pandemic. I think the most notable effect of that is the loss of jobs, the loss of income and challenges in paying the rent.

We have in Canada, however, a number of wage replacement programmes and rental assistance subsidy as well, and I think the general reporting suggests that non-payment or reduced payment of rent is not a major catastrophic problem. It is occurring to varying degrees, and I’m sure John Dickie, can elaborate on this a bit, but it’s not as bad as people thought it might be, and in additional all provinces have adopted regulations to put a moratorium on evictions for those who are racking up arrears as a result of lack of income they cannot be evicted. That is raising some concerns, what happens when that moratorium is lifted for five months down the road and people have accumulated significant arrears, and how will that issue be managed? On balance I think most landlords would prefer not to evict but there may be some consequences.

SLIDE: Covid effects – weakening demand

- Reduced rent revenue – impact on smaller landlords (secondary market)
- Concurrently lack tourist impacting STR operators (already impacted by new regs)
- Student rentals a significant driver of low vacancies in mid-size “university cities”
  - especially foreign students
- Most universities to remain closed + reduced demand

I think the other thing that we’ve seen happening is, as a result of COVID in particular, the reduction in rent revenues, and especially on smaller landlords. If you have a few hundred properties and you have a few, or 10 tenants not paying the rent, it’s not as serious as if you’ve got one or two units and one or two tenants are not paying the rent so clearly the smaller landlords and particularly those in the secondary market are the ones that are going to impacted by this. For those that had invested in the short-term rental investment properties, individual units or smaller multiple unit properties, they will be getting no revenues from the AirBnB and in addition, many of them were already being impacted by the adoption of new bylaws and regulations to restrict the use of the short term rental product to extra rooms within a principal residence as opposed to renting out self-contained units – condominium units and or rental units – so there’s already been an impact there on the short term rental operators, so they are really get a sort of double impact.

In addition another factor that’s going to have an impact on demand, in many of our cities, the student population re a significant part of rental demand particularly in the smaller mid-sized cities where there are two or three post-secondary institutions, they can be quite a significant part of the population. And particularly in the last few years we’ve seen universities react to government cutbacks and proactively go and recruit foreign students
because their fees are higher and the university can generate more revenue, and we’ve seen a significant uptick in the number of non-permanent residents in migration data particularly in those towns, so your cities like Kingston, Peterborough, Guelf. But even in mid-sized cities with decent-sized populations of students – Victoria, Halifax for example – this part of the market is very important, and with universities now announcing plans to not re-open fully in the fall term many will continue to provide online delivery of education services and therefore there will be no necessity for students to return to that particular city, and in the case of foreign students I suspect travel restrictions may lessen the number of those students that are coming into the market as well.

SLIDE: Covid effects – silver lining?

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All of which is going to have a weakening effect on demand, and with weak demand you would expect there to be less pressure for that significant, two to three times inflation rate on rents, to abate, and property values which are obviously valued on the basis of their income gains would tend to go down unless capital gains exist for the owners. In the case of smaller investors that are stressed by lack of collection of rents and by lack of collection of AirBnB type revenues we may see some of those investors seek to exit the market, which could, as a result of that, may provide some cooling of the ownership and investment market, stagnation in asset values and home values, and potentially a decline in rents, which I think overall would be positive in terms of bringing up vacancies a little, softening demand and taking the rent pressure off, which is ultimately good for the affordable part of the market. It’s not necessarily creating new products but it is taking away some of those negative pressures that we saw were very acute in the last 2 or 3 years prior to the current pandemic.

SLIDE: Stem financialization

- Risk of “predatory” acquisitions by capital funds with cash
- Advocacy to regulate – sales, rent controls or lending constraints?
- Complementary option to enable and encourage non-profit acquisition (NOAH properties)
- Currently no programs to facilitate this

The issue of financialisation. There have been a number of calls that this is a serious, serious problem, undermining the supply of affordable housing and a number of advocates have suggested that we need regulate and stop the sale to these investment funds and/or bring back things like more stringent rent control, vacancy de-control, and just have a limit on the rent increase, and potentially lending constraints for investors.

The other side of it, you know, we can stop it from happening, or if it is difficult to stop it from happening, if you can’t beat them join them. Can the non-profit sector housing providers start to emulate the behaviour of these investment funds and actually intervene to acquire these existing moderate rate rental properties? The NOAH properties, that are
already renting at rents less than the median rate which is what we’re trying to build with new programmes. Can we capture some of those properties and move the units sideways into the non-market sector where we can preserve the affordability over the longer term? That would be a very effective mechanism however the current programming available, the funding and financing vehicles available in the national housing strategy really don’t support an acquisition approach and indeed, in many respects, they actually make it very difficult to do that so I think we need to have some correction and refinement with additional funding streams to enable acquisition.

**SLIDE: Stimulus options**

- Residential construction and renovation- high employment multipliers
- Expand general and affordable rental construction (accelerate NHS) and PSH (homeless)
- Transformational opportunity for the Canadian NP sector to diversify into intermediate market
  - Favourable features of the RCFI- and apparent low private sector interest
  - Opportunity to be active in the intermediate market (affordable = <80% median rent; market + >140% median).

The other piece of this is as we come out of it, we are in a recession and in the past recessions have tended to be good for the affordable housing sector because of the high economic multiplier effects on residential construction and renovation: the million dollars invested, how many jobs are created? And we certainly saw that in the 2009-2011 economic stimulus programming and I suspect we may see that kind of thing being pursued again. Ideally we can combine the intent to increase residential construction employment with eh more acute need in the homeless population and build in permanent housing so that individuals who are being temporarily housed in motels and other temporary accommodations to avoid them being in congregate shelters and/or back on the streets, can we actually, you know, accelerate the rate at which we are actually housing the homeless and ending homelessness so if and when another pandemic comes along and we’re saying ‘go home and stay home’ people actually have homes to go to.

The other opportunity that is actually coming out of this, is the opportunity for the non-profit housing provider sector to diversify itself and not just build for the most vulnerable and most needy. But in the way that I think the UK housing associations have done is to seek to diversify their business products into some more profitable areas. I think Paul Tennant from Chartered Housing used to say, ‘profit for purpose’. There’s nothing wrong with making a profit, it’s how you spend it that’s important.

So the opportunity that really presents itself in Canada is the rental construction financing initiative, probably the single largest steam of the national housing strategy, $13.75 billion, out of $55billion, providing very favourable lending terms. And while its notionally intended to stimulate private markets and rental supply and production there’s been a very low take-up from the private sector despite rental construction bumping up dramatically from less than 20,000 units a year in 2016 to now, almost 60,000 in 2019. Only 4% of that new construction is attributable to the RCFI so for various reasons features of that programme are less attractive the private sector who are not taking it up and that leaves an opportunity
for the non-profit sector to backfill into that space, particularly given that the new market production tends to build with rents at the upper end of the market, certainly 140, 150% of the median and up while the non-profit sector is focused on addressing affordability issues and building the products that are renting at median rent, 805 of the median rent and below. And therefore there’s this gap in the intermediate market between 80% and 140% of the median market that could well serve demand and is not currently being met. And it’s an opportunity for the non-profits to become active in that areas, generate significant revenue to subsidise their social mission and social purpose, diversify their activities, straighten their balance sheet and make them much more financially sustainable in the long run and those assets ultimately, once they pay them down, can be transformed into more affordable products as time goes on, in addition to generating revenues in the short term.

SLIDE: Conclusions

- Covid - not overly negative?
- Has exposed vulnerabilities (especially homeless and seniors care)
- Potential for healthy market correction and sustained lower appreciation
- May stall or reverse some negative pre-covid trends
  - New stimulus related opportunities to
  - Expand non-market sector via acquisitions
- Build both targeted affordable and in intermediate market
- BUT is Canada’s NP sector ready?

So, by way of conclusion, I guess my general feeling is that if anything the COVID pandemic probably has a positive longer-term effect on the rental housing system, as opposed to negative effect. It certainly has exposed some vulnerabilities and some things we need to address, seniors care home in particular, but also the homelessness issue and we need to get ahead of that and accelerate responses to ending homelessness. I think there is potential for a healthy market correction and ideally a more balanced market with sustained lower levels of appreciation that makes it possible for individuals to access home ownership and take pressure off the rental demand. And for the non-profit sector opportunities through using stimulus-type programmes both to expand the scale and the scope of the non-market sector through acquisition, and to add to stock both by building in the affordable space and in the intermediate space, as I have noted.

I think the real challenge for Canada is, is it ready to diversify into that more entrepreneurial space and we could have an interesting discussion with our colleagues from the UK who I think have been a bit more proactive in that area and what can we learn from their experience as we move forward.

So I look forward to the discussion, thank you very much.