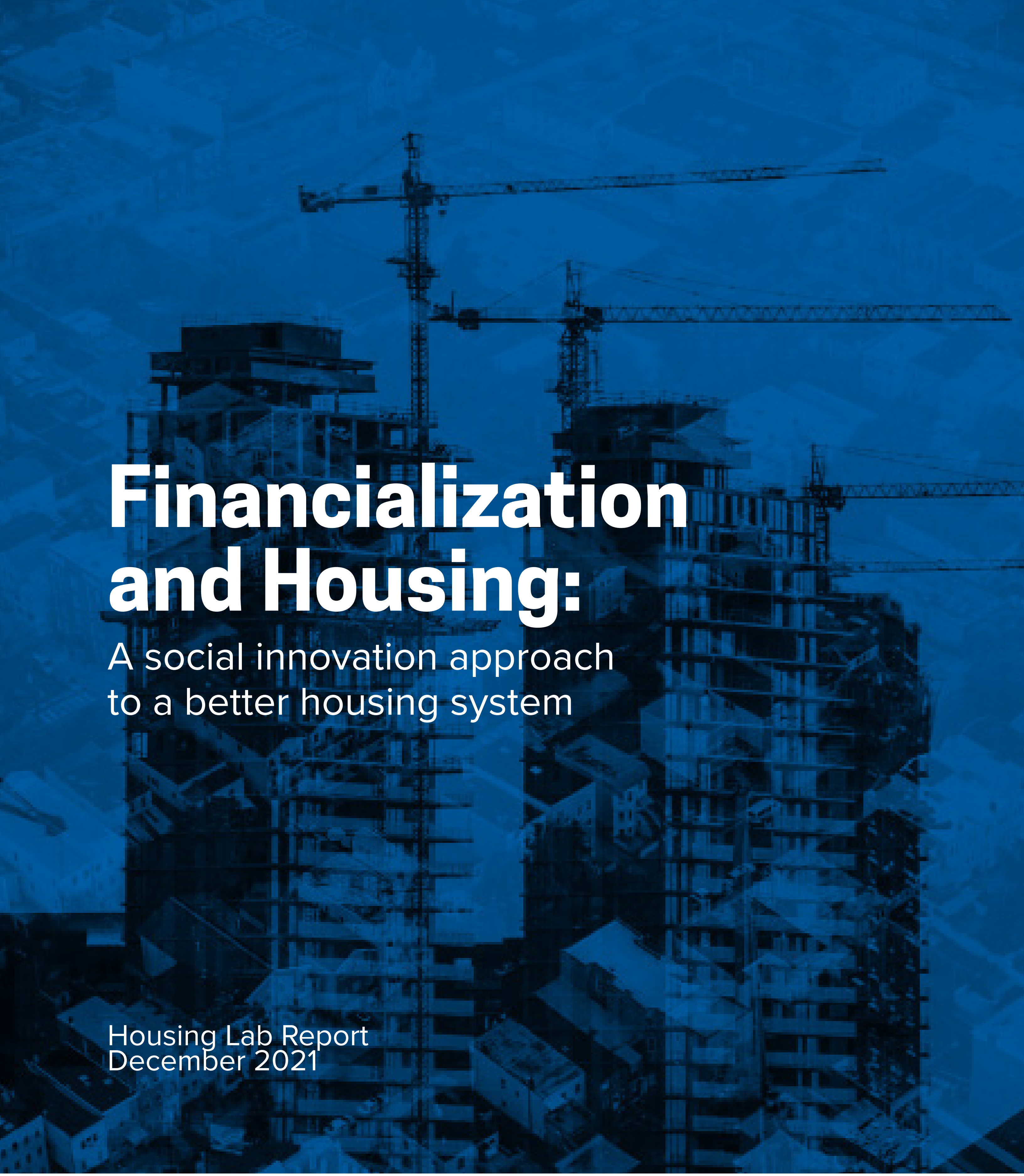

Financialization and Housing:

A social innovation approach to a better housing system

Housing Lab Report
December 2021

SOCIAL INNOVATION CANADA

CENTRE FOR SOCIAL INNOVATION

MaRS

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A number of CMHC employees took part in the lab as independent participants, providing technical expertise and advice throughout the Discovery phase of the lab process. The views expressed are those of lab participants and should not be attributed to CMHC or to the Government of Canada.

About the Partners

Centre for Social Innovation (CSI)

The Centre for Social Innovation (CSI) creates coworking spaces and communities that catalyze and inspire. It is a workplace, community and launchpad for social innovation and social entrepreneurship. We work with entrepreneurs, innovators, governments, corporations, foundations, community organizations and program partners to develop and implement Next Economy solutions. These are solutions that address social and environmental challenges - shifting markets, policy and culture - and are giving rise to an economy that is regenerative, equitable and prosperous for all.

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MaRS

Created in 2013, MaRS Solutions Lab is a public and social innovation lab that brings together governments, foundations, corporations, non-governmental organizations, academia, and the greater community to help unravel complex problems from the citizen’s perspective.

Social Innovation Canada (SIC)

Social Innovation Canada (SI Canada) is an emerging pan-Canadian initiative to connect social innovation practitioners, build the capacity of our sector, and elevate this work in Canada and beyond. SI Canada empowers people, organizations and systems with the tools, knowledge, skills, connections and resources they need to solve real and complex problems.

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Foreword

What is housing?

It's a home, shelter and human right providing safety and comfort necessary for individuals and families to thrive. Housing is essential for social and economic wellbeing and one of the most powerful drivers of our economy.

The National Housing Strategy (NHS, or the Strategy) is a $70 billion 10-year commitment to bring together the public, private and non-profit sectors to re-engage in affordable housing and drive the success of Canada's housing sector. Canada has committed, through the 2019 *National Housing Strategy Act (NHSA),* to implement the human right to housing through its housing policies. As the organization chiefly responsible for delivering the Strategy, Canadian Housing and Mortgage Corporation (CMHC) has identified a corporate goal of ensuring that every Canadian has a home they can afford that meets their needs by 2030.

To help reach this goal, in December 2019 CMHC's Innovation team convened more than 100 housing stakeholders for a dialogue to discuss:

- **Canada's existing housing innovation "ecosystem";**
- **How parties within that system can collaborate in support of achieving CMHC's aspiration.**

One of the most striking findings was the broad - and at times, polarizing - spectrum of beliefs regarding the housing finance system held by various housing stakeholders. **This is in spite of a common, unifying agreement, intention and interest amongst participants to be part of solutions to Canada's housing affordability challenges.**

Stakeholders agreed there was a clear need to bring finance experts and housing providers together to better define the problems in order to work on solutions that could help with the housing affordability gap so many Canadians face for themselves and their families.

It’s through these discussions that a partnership between CMHC, CSI and MaRS was born and this lab was initiated. This project was created through the shared desire to bring social innovation practices and principles to help address the challenge of housing affordability. Through the lab process, which began in 2020, the partners set out to understand how the housing finance system could be improved to support housing affordability for all Canadians.

For CSI and MaRS, adequate and affordable housing is essential to building community wealth and shifting to the Next Economy, where equitable, regenerative and prosperous communities are able to thrive. CMHC has the dual priority of supporting the growth and health of the housing sector and its contribution to Canada’s economy while also supporting the right to housing by finding solutions to housing affordability.

This project is one of 48 housing labs across the country. Specifically, it is part of the NHS Solutions Lab Program’s ‘directed labs’ stream, which addresses complex housing problems of high priority that are not being covered through a competitive open call. The Discovery phase of this Lab engaged with over 100 participants from multiple sectors where we conducted individual and group interviews, and conducted secondary research including a comprehensive literature review of policy and academic documents, and historical datasets.

The social innovation lab approach provides a framework for addressing a complex problem through a systems lens, understanding the constraints and imperatives for different actors. The financial system that surrounds housing affordability is a complex system. It includes renters and owners, developers, investors, financiers and policy makers. It is influenced by market forces, economic policies, and individual beliefs and behaviours.

To understand the impact of financialization on housing affordability in Canada we had to first articulate:

» What do we mean by the 'financialization of housing'?

» What do we mean by 'affordability'?

» Who in Canada is facing affordability challenges?

» Is financialization linked to affordability? If so, how?

» What are the possible levers for change?

We began by identifying the macro-trends and then completed a deeper analysis in the areas of mortgages, home ownership and rental markets. Our scope did not include exploring the added complexity of on-reserve housing, assisted and supportive housing or homelessness.

The goal of this report is to present our findings from the intitial, or 'Discovery' phase of the lab process and identify areas for further exploration and collaboration. It focused on research and problem definition, setting the stage for the next phase of the lab where we will turn to finding workable solutions that promote new or different approaches to financialization for affordable housing.

A spirit of co-creation is central to helping drive solutions to Canada's housing affordability challenges. We hope this report provides a call to action, a sense of urgency, and a foundation for the development of innovative solutions that we can work on together.

We are very grateful to the many individuals who shared their time and knowledge with us. Although there were many perspectives on the cause of the increase in core housing need, there was unanimous agreement that bold solutions must be found so that everyone in Canada can have a home they can afford that meets their needs.

Steffan Jones, Vice President of Homeowner Business Transformation, Canada Mortgage and Housing Corporation

Alex Ryan, SVP Partner Solutions, MaRS Discovery District

Tonya Surman, CEO, Centre for Social Innovation

THE HOUSING CONTINUUM

Source: Canada Mortgage and Housing Corporation

Key Terms and Definitions

The following list of terms and definitions are presented to provide the reader with a consistent and clear framework in which to read, assess and contribute to their understanding of the report and future lab activities.

Affordable housing

Affordable housing generally refers to housing units where households spend less than 30% of their gross income on shelter costs.[1]

Core housing need

A household is considered to be in 'core housing need' if it spends more than 30% of its before tax income on housing, or if the housing fails to meet adequacy or suitability standards.[2]

Financialization of housing

The application of financial instruments by institutions and investors in local housing markets.

Retail investor

Individuals or households who purchase housing units designed for owner-occupation as investment properties.

Institutional investor

An entity which pools money to purchase securities, real property, and other investment assets or to originate loans. Institutional investors include commercial banks, central banks, credit unions, government-linked companies, insurers, pension funds, sovereign wealth funds, foundations, hedge funds, real estate investment trusts (REITs), endowments, and mutual funds.

Mom and pop landlord

A small, local landlord that owns and manages one or multiple properties.

Primary rental market (a.k.a. purpose-built rental)

Privately owned rental apartment buildings containing at least three rental units.

REIT

A Real Estate Investment Trust is a company that owns, operates, or finances income-producing properties.

Secondary rental market

Rental dwellings that were not originally purpose-built for the rental market, including condominiums and other property types that are rented out by retail investors.

Securitization

The process of creating a marketable financial instrument by merging or pooling various financial assets into one group, which can then be repackaged and sold by the issuer to investors.[3]

Shelter costs

The average monthly total of all shelter expenses paid by households that own or rent their dwelling. For owners, this includes (where applicable) mortgage payments, property taxes and condominium fees, along with the costs of utilities and other municipal services. For renters, shelter costs include rent, utilities and other municipal services (where applicable).[4]

Mortgage-backed securities (MBS)

A class of assets created by pooling mortgages.

1 "Identifying Core Housing Need," CMHC, August 14, 2019, https://www.cmhc-schl.gc.ca/en/professionals/housing-markets-data-and-research/housing-research/core-housing-need/identifying-core-housing-need.
2 Ibid.
3 James Chen, "Securitization," Investopedia, last modified November 7, 2020, https://www.investopedia.com/terms/s/securitization.asp
4 "Dictionary, Census of Population, 2016," *Statistics Canada*, last modified January 3, 2019, https://www12.statcan.gc.ca/census-recensement/2016/ref/dict/households-menage033-eng.cfm

Summary of Findings

What do we mean by "Financialization of Housing" ?

Over the course of the Discovery phase, we asked participants to define the financialization of housing in their own words in order to better understand how it is or isn't being used.

We found the term held a range of meanings and referred to different things depending on who we asked. These meanings included (but were not limited to):

» securitization of mortgages;

» rising household indebtedness;

» growing reliance on rising home equity to substitute for stagnant wages;

» the inclusion of 'real estate' as an asset class in the diversified portfolios of institutional investment funds ;

» non-resident and resident investors in local housing markets.

Through these discussions, it became evident that many believed that the financialization of housing is a contributing factor in rising housing prices, which impacts housing affordability and access. It is important to acknowledge however, that the concept of financialization is highly contested. Some participants in our lab argued that it lacks analytical clarity, that housing has always been a financial asset of sorts, and that the real drivers of a lack of affordability are rooted elsewhere, including:

» supply and demand mismatch (driven largely by rising immigration and slow; government approvals);

» rising construction costs and construction labour shortages;

» rent controls and evictions moratoria;

» onerous government regulations around zoning.

These supply-side issues are undoubtedly important, and though they were not the focus of this lab, they have shaped our understanding of the context.

In the end we define "financialization of housing" very generally as "the application of financial instruments by institutions and investors in local housing markets." We determined that when people speak about financialization, they are typically referring to one of three trends or dimensions:

1. The financialization of mortgages:

The structural transformations of residential mortgage markets associated with the development of mortgage-backed securities, the growth of the mortgage market and the rise of household debt.

2. The financialization of home ownership:

The rise of domestic and non-resident retail investors in housing markets and the growing reliance on these investors for new rental supply.

3. The financialization of rental markets:

The growth of institutional investors in purpose-built rental markets.

Although there are certainly other elements to the story of the financialization of housing in Canada, we believe these are the most relevant to understanding the overall issue of housing affordability. This report therefore analyzes these dimensions in depth.

What do we mean by "Affordability"?

For the purpose of this report we have prioritized the shelter-to-income ratio (STIR) approach to measuring affordability, and focused on those in core housing need due to affordability conditions.[5] "Affordable" is therefore defined as households which spend 30% or less of their income on shelter costs.

Who in Canada is facing affordability challenges?

As of 2018 more than 1.6 million households in Canada—11.6% of the total population[6] - are in core housing need, almost one-eighth of the population. The majority of these are renters. On a national basis, 26% of all renter households are in need, compared to only 6% of homeowners. Renters represent 66% of all households in need.[7]

Data from the 2018 Canadian Housing survey[8] shows that many demographic groups are overrepresented in the population who live in unaffordable or inadequate housing, including:

» **22%** of lone-parent households (mostly single-mother households)

» **13.9%** of visible minorities;

» **13.5%** of Indigenous peoples[9];

» **16.6%** of 'sexual minorities'[10] ;

» **28%** of those with a long-term disability.

CMHC data also shows that low-income households, particularly those requiring one bedroom, are the most impacted by the chronic undersupply of affordable rental housing in the country.[11]

5 Over 90% of the households in core housing need to cite affordability as a factor. However, core housing need data also includes households who live in a home that is not suitable for them, or that is in disrepair: https://www.cmhc-schl.gc.ca/en/data-and-research/core-housing-need

6 Jeannie Claveau, *The Canadian Housing Survey, 2018: Core Housing Need of Renter Households Living in Social and Affordable Housing*, 2020, Catalogue no. 75F0002M, Ottawa: Statistics Canada, pg 6, https://www150.statcan.gc.ca/n1/en/pub/75f0002m/75f0002m2020003-eng.pdf?st=ledH475k.

7 Source census of populations, 2006, 2011, 2016 - chart 1.1 core housing need by tenure

8 Claveau, T*he Canadian Housing Survey*, 2018, pg 3-9.

9 Indigenous peoples include First Nations who live off-reserve, Inuit and Métis

10 Sexual Minorities include all those who do not identify as heterosexual

11 CMHC, *Is Rental Housing Affordable to Low-Income Households? A Supply-Side Perspective*, 2021, Ottawa: CMHC, pg 6, https://assets.cmhc-schl.gc.ca/sites/cmhc/data-research/publications-reports/research-insight/2021/research-insight-rental-housing-affordable-low-income-households-69724-en.pdf?rev=87045966-45d0-4c8a-930a-929a2fd89b5.

Is the increased financialization of housing linked to affordability challenges? If so, how?

We found that financialization has brought both benefits and drawbacks. It has facilitated raising home ownership rates, increased the financial well being of many Canadians, stabilized the economy, brought investments and improvements to aging purpose-built rental stock and, some would maintain, increased capital for affordable housing development.

It may, however, have also contributed to market changes that have led to unintended and detrimental consequences, including rising house prices - a driver of wealth inequality between owners and renters; reduced security of tenure arising in part from the growth of the secondary rental market; and a decrease in the supply of affordable and below-market rental units.

These tensions must be understood and addressed to create a fair, equitable and affordable housing system that is also efficient and financially sustainable for both market and non-profit housing providers.

What are the possible levers for change?

The lab identified a number of possible levers for potential solutions that can be explored further. One thing was clear: increasing the supply of affordable, secure housing that addresses the right to housing and core housing need will require an innovative, all hands-on-deck approach that brings together financial institutions, governments, investors, and private and nonprofit housing providers[12].

Levers for change include:

01

Innovative shared equity, co-housing models and emerging community land trust models could make the financial benefits of home ownership accessible to a broader spectrum of people in Canada.

- Homeownership is an important driver in wealth creation, but it is increasingly inaccessible to most Canadians.
- Shared equity and co-ownership models could help to level the playing field and expand the number of people benefiting from the financial uplift it provides

02

A regulatory tool to collect information about rental markets across Canada, potentially combined with updated tenant regulations, education and enforcement to better protect the security of tenure for renters

- We heard that renters face increasing precarity of tenure due to weak and unknown or unenforced tenant regulation in the secondary-rental market.
- We also heard that the lack of information about the rental market makes policy recommendations difficult.

12 Examples of innovative approaches: Hamilton Community Land Trust is pioneering a model which allows for home ownership on Trust-owned land - a model which has been successfully used in the U.S. but is only now being tried in Canada.; Prairie Sky in Alberta ian innovative model combining co-housing and cooperative homeownership.

03

Policies aimed at non-resident ownership may be an option for addressing speculation-fueled price increases.

- Some suggested regulations aimed at limiting speculative activity, non-resident ownership and money laundering.
- The federal government recently announced plans to introduce a tax on non-resident buyers, not unlike policies already in place in British Columbia, Ontario and Prince-Edward Island.

04

Rethink programs designed to incentivize the creation of rental housing that is affordable and improve alignment of municipal, provincial, and federal programs.

- Participants felt strongly that current programs designed to incentivize affordable housing supply are not working as efficiently as they could.
- We need targeted efforts and interventions to promote a greater supply of affordable and below-market, purpose-built rental housing in particular.
- All levels of government have opportunities to better and more innovatively utilize their real estate assets and policy and regulatory tools.
- We need more effective collaborations between government and both non-profit and private market developers to develop methods to incentivize and increase the supply of long-term affordable housing.

05

Innovative financial models, products, and services could be powerful tools to enable the increase in supply of affordable and below-market housing.

- We heard from banks and investment funds that they are happy to provide capital to affordable housing developments if the risk and return profiles are competitive.
- There may be innovative approaches to underwriting and securitization for affordable housing development that could be further explored.

Finally, a rights-based framework often prioritizes the role of governments in ensuring access to the basic right of housing. Conversations emphasized the importance of not only addressing the private sector's role, but also scaling up other mission-oriented housing providers to work with governments in guaranteeing the right to housing. These providers included non-profits and social-enterprise developers, land trusts, and co-ops.

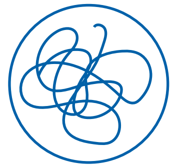
About the Lab

The purpose of a social innovation lab is to develop innovative, collaborative solutions to complex social issues. It starts from the premise that only through engagement from a variety of stakeholders and experts can we properly understand and address an issue. The financialization of housing is undoubtedly a complex social issue. The term itself refers to a variety of phenomena involving multiple actors. Although there is disagreement around the relationship between financialization and affordability, there is widespread recognition that the current housing system is not working for those in the greatest need. Moreover, in our increasingly interconnected world, it is becoming clear that only through cross-sectoral collaboration can we devise innovative solutions.

Our approach included a collaborative and iterative research process, with stakeholders examining and refining our initial hypothesis that “the financialization of housing is creating barriers to housing affordability and access to affordable housing.”

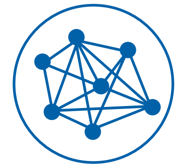
We invited people from a range of sectors within the system to work with us to create a working definition of the financialization of housing. We conducted 34 semi-structured interviews with a variety of experts and stakeholders including:

- Financial institutions and investment funds;
- Market-based and affordable housing developers;
- Policy experts and academics;
- Federal, provincial and municipal governments;
- Advocates, nonprofits and associations;
- Owners, renters and real estate agents.



Problems are increasingly complex

Traditional approaches are not working



We need to work together

This wide range of expertise helped us to understand the issue from a systems lens. Secondary research included a comprehensive literature review of policy and academic documents, and gathering historical datasets to aid in our analysis.

We then convened over a hundred participants in four discussions where we shared, refined, and tested our findings. The feedback from these discussions fed into an additional round of research and revisions which were again shared with numerous stakeholders for further feedback.

This first step has allowed us to better understand and define the problem's parameters and identify potential levers for solutions. The next phase of the lab will focus on convening sessions for ideation and the co-development of solutions that ultimately aim to contribute to greater housing affordability in Canada.

We are grateful to the many people who shared their time and input with us including:

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Gavin Bailey, Tridel

Gracen Johnson,
Incremental Development Alliance

Graham Cubitt, Indwell

Ian Bird, The Hynes Group

Irene Gannitsos,
Vancity Community Foundation

Indy Johar, Dark Matter Labs

James Hughes,
Old Brewery Mission

Jeff Neven,
Indwell Community Homes

Joanna Reynolds, CSI

John Pasalis,
Realosophy Realty Inc.

Julieta Perucca, The Shift

Kalen Taylor,
Purpose Construction Inc.

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Shacha Investments

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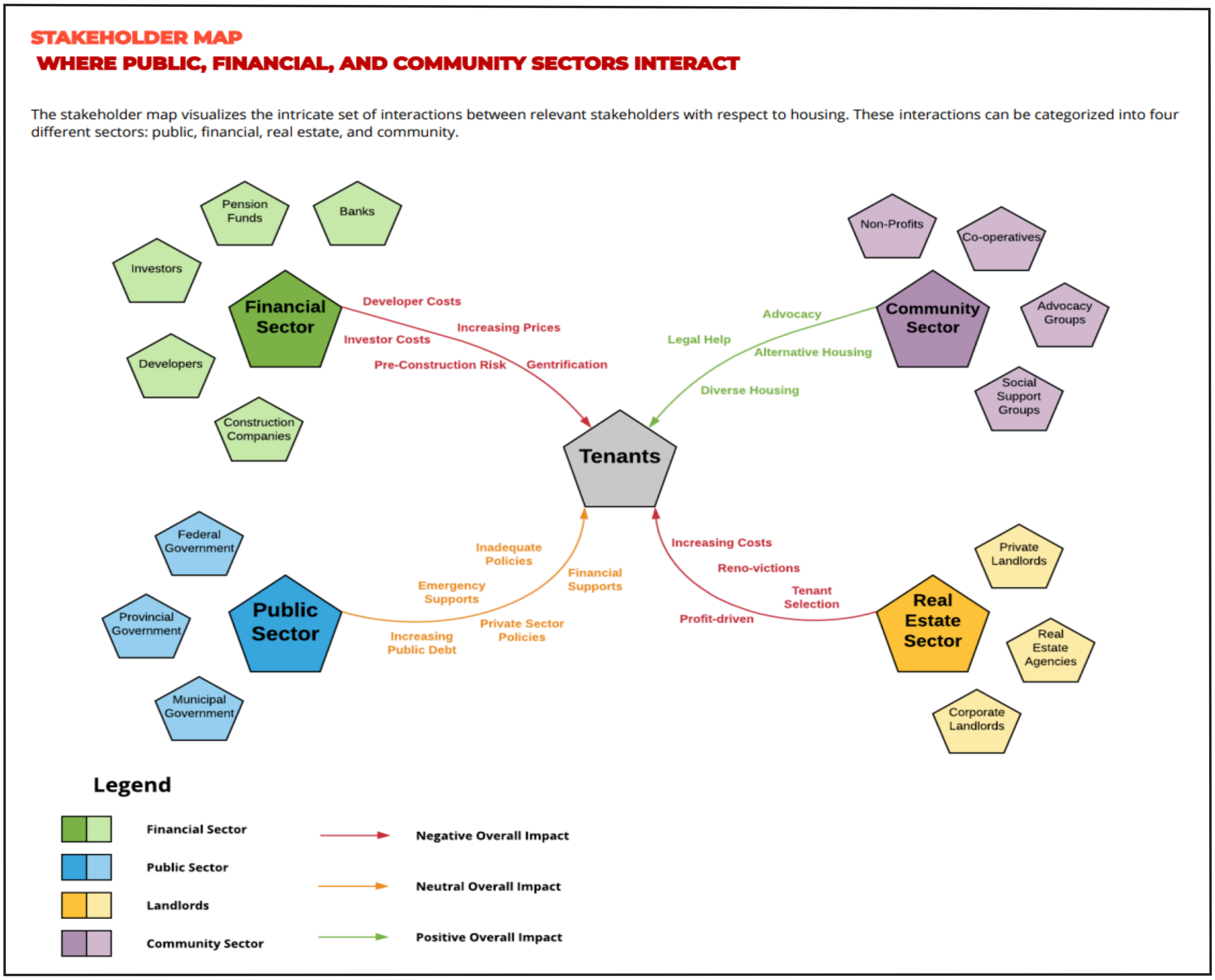
Vijai Singh

Aboriginal Savings Corporation of Canada

Waterstone Strategies Inc.

Housing stakeholders and what we heard



Source: Ryerson University - Map the System 2020

Understanding the viewpoints of different actors in the housing system helped identify potential problem sets to explore further. Below are selected insights from some of the participants in the lab.

Mainstream Housing Developers, who provide the bulk of housing supply in its various forms, struggle with rising construction costs and what they describe as constraining zoning regulations. They shared that condominium development was lower risk and higher return than the development of purpose-built rental. Many are looking for innovative ways to generate positive impact in communities and are interested in ways that financial incentives and policies could support developers to build appropriate housing and rental stock for those in core housing need.

“In addition to rising building costs we are seeing increasing development charges ranging from 4 - 34%”
- Gavin Bailey, Tridel

Affordable Housing Providers operate on a large spectrum, creating both rental and ownership units for those in core housing need. Issues identified included access to affordable capital, "making the numbers work" for lenders, and HST. Like mainstream developers, they also face rising construction and property costs but have less capacity to address them. We also heard that federal (CMHC) and municipal incentives and programs are key, but timelines are challenging as are inconsistencies between definitions of "affordable". Despite the clear need for their product, they are struggling to scale.

"There is no way to meet people's right to housing within the current economic model that seeks to maximize returns on investments, while also working within the current market costs for construction, land, and other development costs."
- Graham Cubitt, Indwell

Lenders - i.e. financial institutions (FIs) banks, credit unions, and other mortgage providers are central to the housing system, as they provide the credit needed to leverage both the development of new housing and the acquisition of housing assets.[13] The FIs that we spoke to would like to lend more to affordable housing developments but struggle with deal flow (i.e. the number and size of projects to lend to).

Institutional investors including pension funds, sovereign wealth funds and endowments have increasingly incorporated real estate as an essential asset class. These long term investors shared that they are looking for long term stable investments as a hedge to the market, they will trade high returns for lower risk, and would be happy to invest more in affordable projects if their risk and return thresholds could be met.

Private real estate representatives look to advance the long-term vitality of Canada's real estate property sector. Members of these organizations include publicly traded real estate companies, REITs, private companies, pension funds, banks and life insurance companies. They expressed concern around zoning, rent control and the ability of the supply to keep up with immigration. They also spoke to the need for government policy and regulations to provide more clarity around development of more housing that is affordable.

"There is no alternative to private sector (including financialized) supply of rental housing in Canada, given [the] huge supply shortages of purpose-built rental across Canada. The gap between new demand [and supply] was large and growing in major cities before the pandemic, and it will re-accelerate coming out of the pandemic. We need capital and sophisticated management to build and manage these new rental housing units, whether that capital is from a pension fund, a fund manager, a private owner or a REIT."
- Private real estate representative

13 Banks use underwriting criteria and risk assessment tools to guide their interactions with clients. This directly impacts the size of mortgages as well as the types of projects and development models that can be funded based on the uncertainty and risk assessment. We have not fully engaged retail mortgage providers but see them as key stakeholders in exploring alternative ownership models.

Introduction

What is the financialization of housing?

Despite its growing popularity, there is considerable ambiguity surrounding the term 'financialization of housing.' With its roots in academia, the term was most recently popularized by Leilani Farha, the United Nations's Special Rapporteur on adequate housing from 2014 - 2020, and the Global Director of The Shift—a global network geared to securing housing as a human right.

In a report to the UN Human Rights Council, Farha defines financialization as the "structural changes in housing and financial markets and global investment whereby housing is treated as a commodity, a means of accumulating wealth and often as security for financial instruments that are traded and sold on global markets".[14]

In our interviews with experts and stakeholders, we discovered that the term invoked a variety of responses. For some, the term financialization refers to the fact that houses are increasingly valued as investment opportunities rather than as places to live. For others, it refers more specifically to the development of mortgage-backed securities, or to the rise of pension funds and other 'financialized' investors in rental markets. Finally, many dismiss the concept altogether by arguing that "there is nothing new about financialization": landlords have always looked to generate a return on their investments; homebuyers have always thought of their home as both a place to live and as a means to accumulate wealth, and mortgages have always been about turning a profit.

We define 'financialization of housing' very generally as "the application of financial instruments by institutions and investors in local housing markets." We determined that when people speak about financialization, they are typically referring to one of three trends or dimensions:

1. The financialization of mortgages

Structural transformations of mortgage markets associated with the development of mortgage-backed securities, the growth of the mortgage market and the rise of household debt.

2. The financialization of home ownership

The rise of domestic and non-resident retail investors in the local residential real estate market and the growing participation of these investors in supplying rental stock.

3. The financialization of rental markets

The increased involvement of institutional investors in purpose-built rental markets.

Although there are certainly other elements to the story of the financialization of housing in Canada, these are the elements we have chosen to focus on in this report.

14 Leilani Farha, *Report of the Special Rapporteur on Adequate Housing as a Component of the Right to an Adequate Standard of Living, and on the Right to Non-discrimination in This Context* (Geneva: United Nations, 2017), pg 4, https://undocs.org/A/HRC/34/51.

Notes on housing affordability

As we started to conduct research on the links between financialization and affordability, we found that just as the term financialization itself is debated, so too was the idea that it has worsened affordability. Through interviews and research, we soon discovered that part of the problem was that even the term 'housing affordability' could be conceptualized and measured in different ways.

In our research, we prioritized the shelter-to-income (STIR) approach to affordability while exploring the links between shelter costs and house prices. We chose this approach primarily because it forms the basis of CMHC's 'core housing need data' -- a widely cited measure on affordability pressures in ownership and rental markets.

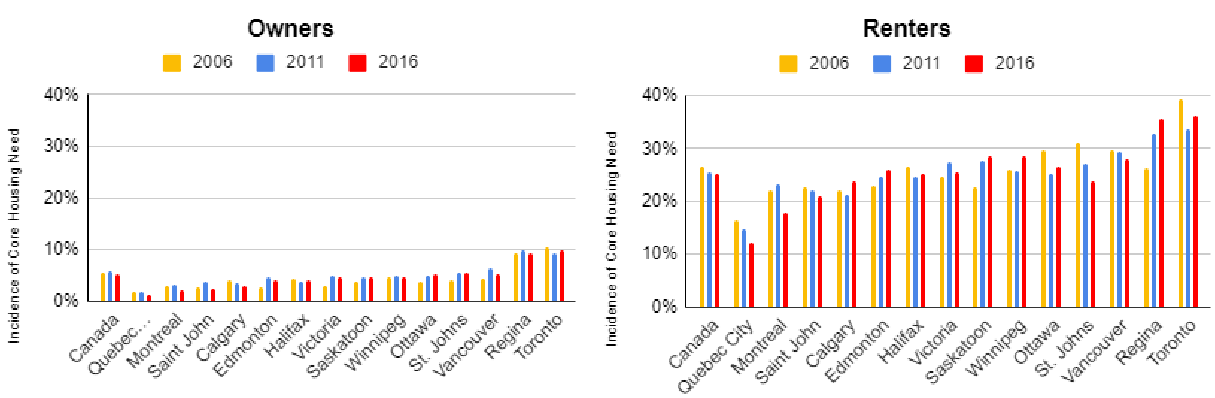
If the goal of the National Housing Strategy is to "ensure that every Canadian has a home they can afford and that meets their needs", then our goal is to understand and address affordability from the perspective of 'core housing need'.

According to CMHC, households that spend 30% of their income on shelter costs, and cannot afford an alternative (based on local median rents), are in core housing need due to affordability conditions.[15]

Understanding core housing need for renters is simple. It is based on calculating renters' shelter cost (rental payments and utilities) as a proportion of their income. Calculating the shelter costs for homeowners, however, is much more complicated. Because homeowners own houses instead of renting them, the 'costs of ownership' can be thought of as the cost of owning any asset.[16] Based on the core housing need methodology, the cost of homeownership includes mortgage payments, insurance, utilities, property taxes, and maintenance. In Section 2 of the report, we will also explain how the affordability of homeownership is connected to house prices and regulations that impinge on the accessibility of credit.

Chart 1. provides a breakdown of core housing need by tenure, and by large census metropolitan areas (CMAs)

Chart 1.: Core Housing Need by Tenure



Source: Census of Population, 2006, 2011, 2016.

15 Over 90% of the households in core housing need to cite affordability as a factor. However, core housing need data also includes households who live in a home that is not suitable for them, or that is in disrepair: https://www.cmhc-schl.gc.ca/en/data-and-research/core-housing-need

16 The idea that homes are assets is well established in the literature on housing economics (Poterba 1984, Miles, 1984), but it is often overlooked in conversations about house prices. Homes and the land they stand on are very durable structures, and this means they provide benefits now and well in the future. In determining the price or value of a home, buyers (either households and investors) therefore make calculations (however rudimentary) about what these future net benefits are worth today.

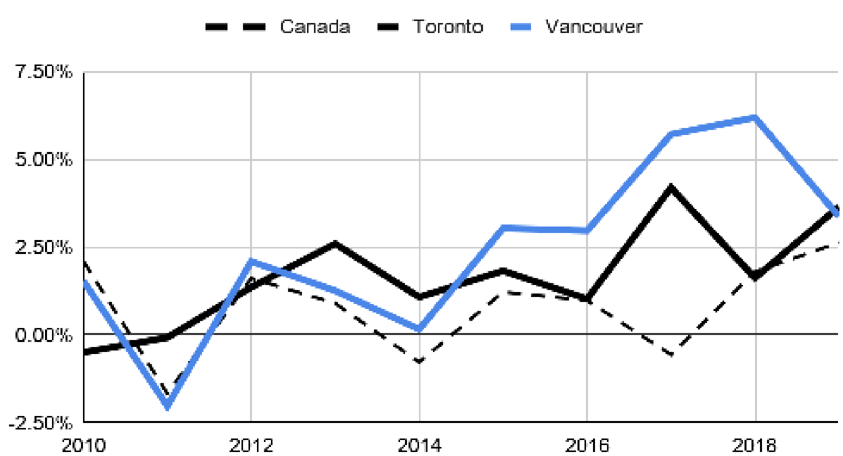
Three initial facts stand out. First, the data reminds us that our housing system is divided into two, sharply unequal sectors: the home ownership sector and the rental sector. On a national basis, 26% of all renter households are in need, compared to only 6% for homeowners. Even though renters only make up 32% of the population, they represent 66% of all households in need. The overrepresentation of renters in core housing need is mostly due to the fact that on average, renters have significantly lower incomes than homeowners.[17] CMHC data also shows that low-income households, particularly those requiring one bedroom, are the most impacted by the chronic undersupply of affordable rental housing in the country.[18]

Second, housing outcomes tend to vary considerably based on the local context. In cities like Vancouver, Regina, and Toronto, core housing need for renters is notably higher than it is in Quebec City or Montreal. Affordability conditions are specific to local geographies, and aggregated data can conceal local realities. Where possible, our research tries to identify common trends across CMAs.[19]

But in this report we will also zero in on important trends in Toronto and Vancouver, where core housing needs (in terms of absolute numbers) are greatest.

Finally, the number of both renters and owners in core housing need fell slightly between 2011 and 2016 on a national basis. This could be interpreted as a sign that affordability is improving. However, data on affordability trends since 2016 (when the last batch of core housing need data was published) cautions us against an optimistic outlook. Chart 2 shows that in 2018 and 2019, rents in purpose-built markets increased at their fastest rate in over a decade, with rents in Toronto and Vancouver outpacing inflation by 2 to 6%. Moreover, data provided by RBC on affordability of ownership shows that as a proportion of pre-tax income, the cost of owning a single-detached home (monthly mortgage payments, property taxes, utilities, and maintenance) has increased by 5% nationally in the last four years. At the same time, new records of unaffordability have been set in Toronto and Vancouver.

Chart 2: Year Over Year % Rent (adjusted for inflation)



Source: Author's calculation from CMHC data.

17 Pomeroy, 2001
18 CMHC, *Rental Housing*, Ottawa: CMHC, pg 6.
19 Because of constraints related to time, resources, and a lack of expertise, the report does not cover affordability conditions in rural areas, or on Indigenous lands.

It is impossible to know how the COVID-19 pandemic will affect the housing and rental markets yet, but we do know that it has increased economic pressures for low-income and racialized households. With unemployment rates at record high levels, many tenants in working class households are engaging in rent strikes and resisting tenant evictions.[20] Meanwhile, homeless encampments in city parks across the country are swelling. Prior to the pandemic, the Canadian Observatory on Homelessness reported that at least 235,000 Canadians experience homelessness every year.[21] In 2020, CMHC committed $1 billion to emergency housing, but without significant governmental and nongovernmental collaborative interventions, the crisis of homelessness could become even more severe.

The need for bold and creative solutions to the lack of housing affordability is therefore as urgent as ever. But meaningful intervention first requires a firm grasp of the problem at hand. To meet the National Housing Strategy's goal of ensuring that all Canadians have a home that they can afford and that meets their needs, we need a better understanding of the ways in which financialization is impacting our housing system.

20 The unemployment rate peaked at 13.7 percent in May 2020, which is the highest it has been since the early 1980s. The annual unemployment rate in 2020 was 9.5 percent, the highest since the recession of the early 1990s. In June 2021, the unemployment was still high at 7.8 percent, but more in line with historical trends. Suggested further reading: https://www150.statcan.gc.ca/n1/daily-quotidien/200605/dq200605a-eng.htm?HPA=1.

21 Stephen Gaetz, Erin Dej, Tim Richter, and Melanie Redman, *The State of Homelessness in Canada 2016*, 2016, Canadian Observatory on Homelessness, COH Research Paper #12, pg 5, https://homelesshub.ca/sites/default/files/SOHC16_final_20Oct2016.pdf.

Dimension 1: The Financialization of Mortgages

In our conversations with lab participants, many raised the topic of mortgage-backed securities (MBS) as a key structural change in Canada's housing finance system. The interest in MBS is in part due to their association with subprime mortgage lending and the 2008 financial crisis in the United States. However, Canada has a very specific mortgage securitization system. In this section, we provide a brief introduction on the history of residential mortgage securitization in Canada and insights into its potential impacts on the housing system.[22]

Mortgage-backed securities in Canada

Prior to the development of MBS, lenders (such as banks or insurance companies) provided mortgage loans to borrowers and kept these assets on their balance sheets. Under this structure, the amount of mortgage debt that enders could issue was limited by traditional sources of funding and federally mandated capital and liquidity requirements.

Lenders bypassed this limitation through the development of MBS. By bundling thousands of individual mortgages into standardized financial securities that could be sold off to investors, such as pension funds, hedge funds and private equity groups, they expanded the secondary mortgage market. The development of MBS securities thus widened the financial sector's participation in mortgage markets and provided mortgage originators with a new source of funds to expand their mortgage lending business.[23]

Although MBS are often associated with the 'deregulation' of mortgage markets, in Canada they emerged through policy shifts in the 1980s and 1990s that led to more, not less, government intervention in mortgage markets. These policies were adopted at a time when rising interest rates were throwing many existing homeowners into arrears and making it more difficult to buy a home. Academics also argue that the turn to securitization coincided with a policy shift that prioritized affordable homeownership over support for social and affordable rental programs.[24]

Three federal programs are crucial for understanding mortgage securitization in Canada today:

- **The National Housing Act Mortgage-Backed Securities (NHA-MBS) program, introduced in 1987;**
- **The Canadian Mortgage Bond (CMB) program, introduced in 2001;**
- **The Insured Mortgage Purchase Program (IMPP).**

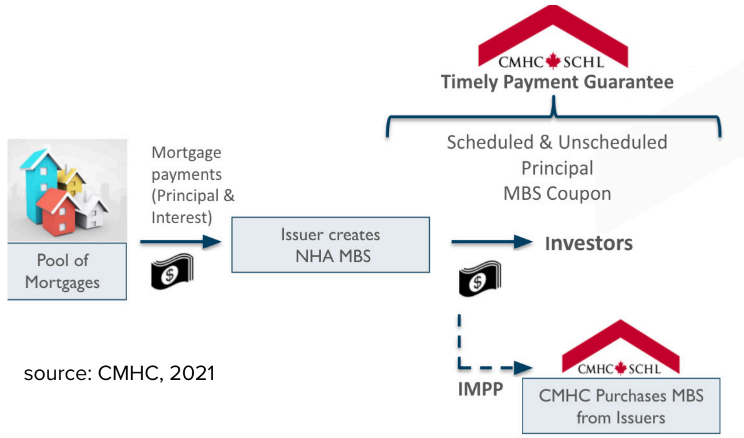
Through the NHA-MBS program, approved lenders bundle CMHC-insured mortgages into MBS, and investors who purchase those securities receive an additional government guarantee of principal and interest for the underlying mortgages. Under the CMB program, a special purpose vehicle overseen by CMHC -- called the Canadian Housing Trust -- also raises funds for the NHA-MBS program by issuing Canada mortgage bonds to investors (often the banks themselves). These are especially attractive to investors due to their low risk and predictable bond-like payment structure.

22 This paper does not deal with commercial MBS, only residential.

23 Manuel B. Aalbers, "The Financialization of Home and the Mortgage Market Crisis," *Competition & Change* 12, no.2 (2008): 148-166; Manuel B. Aalbers, "The Potential for Financialization," *Dialogues in Human Geography* 5, no. 2 (2015): 214–219; Alan Walks, "Canada's Housing Bubble Story: Mortgage Securitization, the State, and the Global Financial Crisis," *International Journal of Urban and Regional Research* 381 (2014), 256-284; Alan Walks and Brian Clifford, "The Political Economy of Mortgage Securitization and the Neoliberalization of Housing Policy in Canada," *Environment and Planning* A 47 (2015): 1624-1642.

24 Walks, "The political economy of mortgage securitization and the neoliberalization of housing policy in Canada" 1624-1642

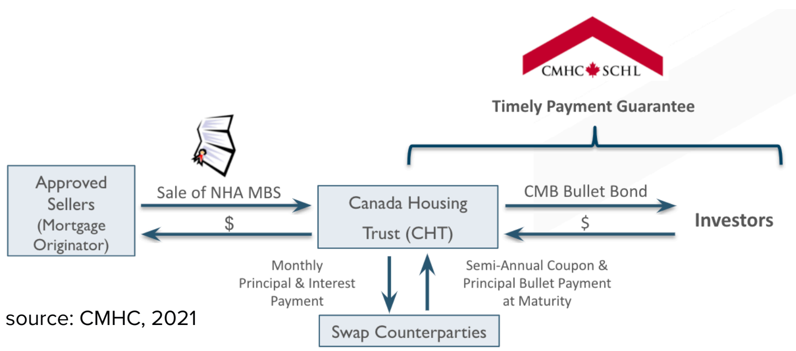
Chart 3: NHA MBS (and IMPP when applicable)



source: CMHC, 2021

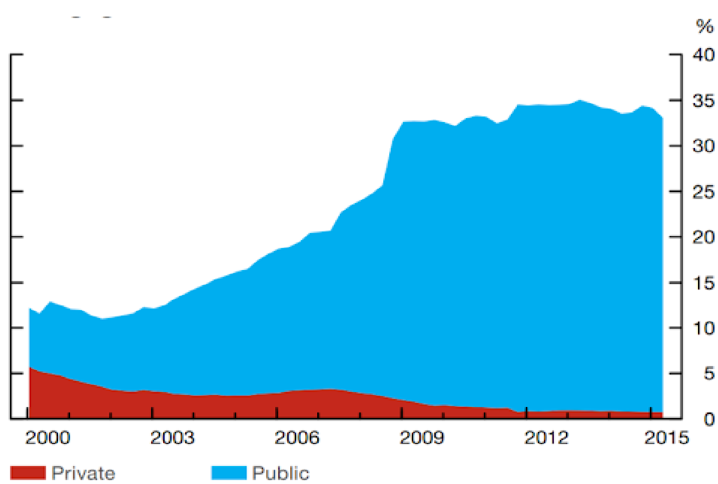
Finally, under the IMPP, the Bank of Canada -- through CMHC-- purchases NHA-MBS to provide stability in times of crisis. This program was introduced during the 2008 financial crisis and was renewed during the COVID-19 pandemic. In 2008, the federal government spent $69 billion through the IMPP, and in March of 2020 they authorized spending of up to $50 billion to stabilize markets in the context of the pandemic.[25] As a result of the provision of government support through these programs, almost all mortgage-backed securities in Canada are insured by the government. As shown in Chart 5, private MBS (represented by the red line) is a negligible segment of the total market.

Chart 4: Canada Mortgage Bond structure



source: CMHC, 2021

Chart 5: Mortgage Securitization in Canada as a % of total residential mortgage debt



source: Reprinted from Mordel & Stephen 2015

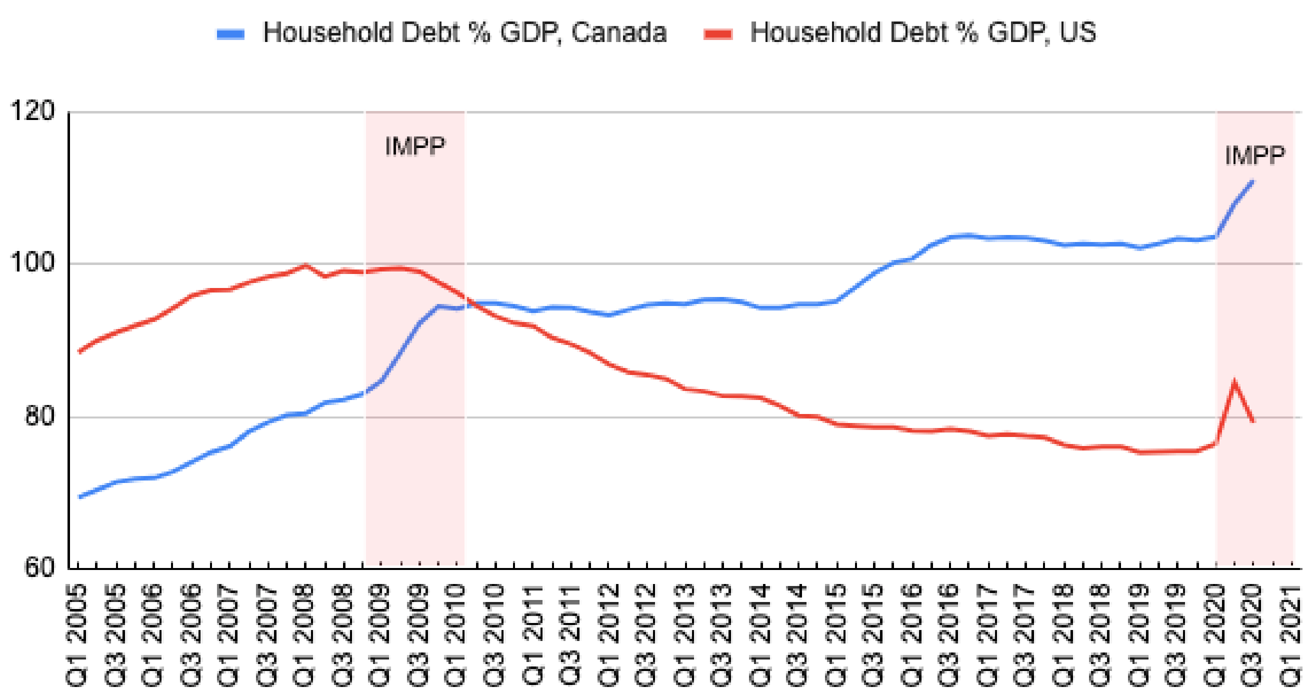
25 Walks, "Canada's Housing Bubble Story," 256-284; Neville Arjani and Graydon Paulin, Lessons from the Financial Crisis: Bank Performance and Regulatory Reform, Bank of Canada Discussion Paper 2013-4, 2013, https://www.bankofcanada.ca/wp-content/uploads/2013/12/dp2013-04.pdf.

Potential Impacts of Securitization on the Housing System

Although MBS are often associated with lower lending standards, risky subprime mortgages and rising house prices[26], we found that the situation in Canada today is rather different. A 2018 report by the Chartered Professional Accountants of Canada shows, for instance, that due in part to CMHC's insurance and oversight of the mortgage market, as well as Canada's highly concentrated banking system, Canada has a well-regulated mortgage market with few of the principal-agent problems that plagued the U.S. subprime market.[27] Moreover, since 2008, average credit scores have been rising, and the implementation of mortgage stress tests have helped ensure that borrowers can respond to rising interest rates.

The government's extensive role in insuring mortgage-backed securities may be incentivizing lenders to expand their mortgage lending, and contributing to the rise of household debt. However, the IMPP program provides stability in times of crisis, with important implications for debt levels, buyer expectations and house prices. In sharp contrast to the U.S., where debt levels (and house prices) fell in the wake of the 2008 financial crisis, Canada's household debt to GDP ratio jumped notably in the period after 2008. The resilience of the Canadian mortgage market in this period was due in part to the fact that CMHC purchased $65 billion worth of government-insured mortgages under the IMPP program. The chart also shows a jump in household debt levels since the COVID-19 pandemic, a period that coincides with the revival of the program.

Chart 6: Household Debt % GDP



Source: Federal Reserve Economic Data, FRED

26 Manuel B. Aalbers, "The Financialization of Home and the Mortgage Market Crisis," *Competition & Change 12*, no.2 (2008): 148-166; Manuel B. Aalbers, "The Potential for Financialization," *Dialogues in Human Geography* 5, no. 2 (2015): 214–219

27 Francis Fong, "The Real Story Behind Housing and Household Debt in Canada: Is a Crisis Really Looming?", *Chartered Professional Accountants Canada*, 2018, https://www.cpacanada.ca/-/media/site/operational/sc-strategic-communications/docs/01956-sc_cpa-canada-housing-and-household-debt-report_final_eng.pdf?la=en&hash=42EF8A2C16BED1A856D7194798BB2041BE781790.

Interest Rates, House Prices, and the Affordability of Homeownership

Although Canada's MBS market is not associated with subprime lending, mortgage rates and interest rates more generally are still crucial for understanding the question of house prices and affordability. Rates on 5-year conventional mortgages in Canada have declined significantly from the early 1980s, when they peaked at over 20 percent.

Mortgage rates have crucial effects on house prices. Falling rates expand purchasers' borrowing capacity, which is then promptly priced in by the market. Put differently, as mortgage rates fall, buyers can afford to pay more for the principal value of the house.

According to in-depth reports by both the International Monetary Fund and CMHC, falling interest rates can explain the majority of the growth in house prices relative to incomes in most Canadian cities, with the exceptions of Vancouver and Toronto, where it is said that prices have exceeded fundamentals.[28] This evidence is further validated through some of the work of Generation Squeeze, specifically relating to income levels.[29] Falling interest rates are therefore an important backdrop to financialization; in a low-yield environment, housing has become an increasingly attractive investment.

Interest rates are also important for understanding the affordability of homeownership. On the one hand, falling interest rates worsen affordability conditions because they contribute to rising house prices. As shown in Chart 7, house prices have increased dramatically relative to incomes in recent decades. On the other hand, falling interest rates lower the monthly costs of homeownership (which includes payments to principal and interest, maintenance, property taxes and utilities). Due to several decades of falling interest rates, ownership costs relative to income have not risen to the same extent (Chart 7). And although ownership costs have been at elevated levels in recent years, a growing portion of these costs are payments to principal. So long as houses retain their value,payments to principal are more akin to 'forced savings' than a cost, per se.[30]

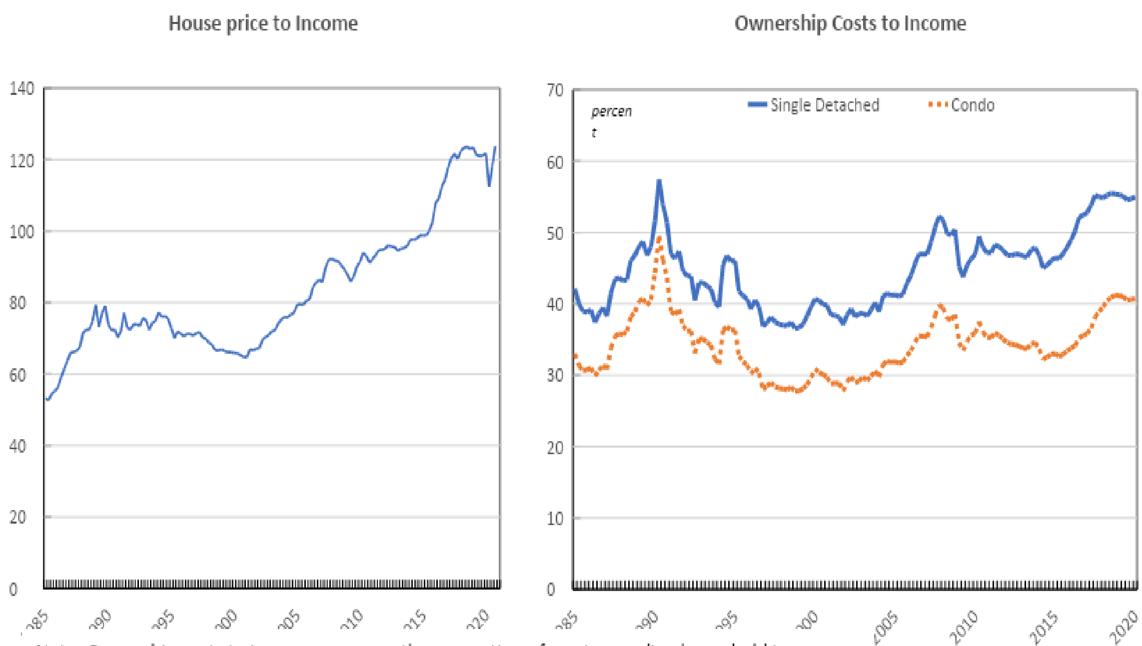
There are real challenges with the cycle of offsetting rising house prices through lower mortgage rates. Rising house prices means it takes longer to save for a downpayment. For younger generations, the ability to buy a house is increasingly determined by the Bank of Mom and Dad. In addition, rising house prices means that buyers are taking out ever larger mortgages. The ability for first-time buyers to pay off these mortgages is increasingly out of reach, even despite record low interest rates.

28 Michal Andrle and Miroslav Plašil. *Assessing House Prices in Canada: Borrowing Capacity and Investment Approach,* International Monetary Fund, Working Report No. 19/248, 2019, https://www.imf.org/en/Publications/WP/Issues/2019/11/15/Assessing-House-Prices-in-Canada-48777; CMHC, Examining Escalating House Prices in Large Canadian Metropolitan Centres, 2018, https://www.cmhc-schl.gc.ca/en/data-and-research/publications-and-reports/examining-escalating-house-prices-in-large-canadian-metropolitan-centres.

29 Generation Squeeze, *Straddling the Gap: 3 Indicators of BC's Ongoing Housing Affordability Crisis*, 2020, https://d3n8a8pro7vhmx.cloudfront.net/gensqueeze/pages/6279/attachments/original/1602189949/Straddling_the_Gap_Oct_2020_%281%29.pdf?1602189949.

30 Payments to principal increase the homeowner's equity portion. So long as prices continue to rise, these payments offer good returns.

Chart 7 : House Prices and Ownership Costs relative to Income



Note: Ownership costs to income measures the proportion of pre-tax median household income needed to cover the mortgage payment (principal + Interest) property taxes, and utilities for median priced single-detached houses and condo units

The fact that, with the exception of Toronto and Vancouver, ownership costs have remained relatively stable helps to explain why homeownership rates have grown considerably since the 1990s despite continually rising real house prices (Chart 8). This notable uptick in homeownership rates reflects, among other potential factors[31], the success of Canada's securitization program.

In the 1990s, the minimum down payment required for a CMHC insured mortgage was lowered from 10 to 5%. In 2006, the federal government made zero-down payment mortgages and interest-only mortgages eligible for CMHC insurance, and extended amortization periods from 25 to 40 years, significantly lowering monthly costs.[32] In so doing, Walks argues that MBS and CMHC insurance, combined with increasing household mortgage debt, shifts risk from investors to households.

Further Research

What is the role that mortgage insurance plays in the system with regards to expanded access to credit, shifting of financial risk, and corresponding price impacts?

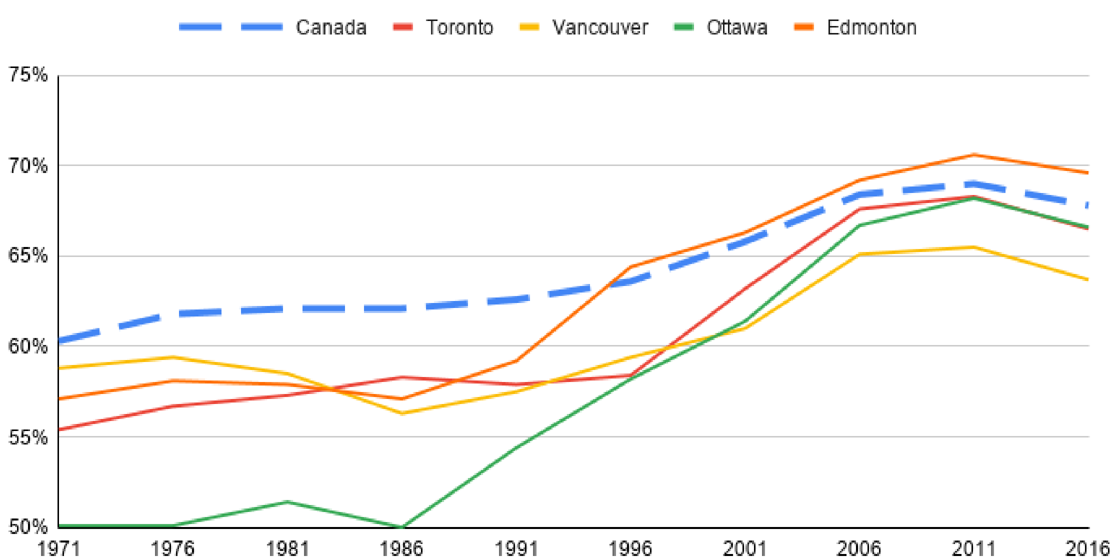
31 For example, personal preferences and behaviours, and the decrease in the supply of affordable rental housing as discussed below.
32 Walks, "Canada's Housing Bubble Story," pg 262.

Since the 2008 financial crisis, the federal government has tightened mortgage restrictions in order to more prudently manage credit risk. For example, since 2016, homebuyers have been required to pay 10% down on the portion of the house price over $500,000.

Over the years, the government has also shortened the amortization period back to the 25 year standard, and introduced stress tests to lower credit risk. Although the federal government has supported first time homebuyers through new programs such as the First-Time Homebuyers Incentive, the Home Buyers Plan and other tax incentives, for many households it has become more challenging to qualify for a mortgage.

The tightening lof ending standards, combined with continually rising house prices, help to explain an important turning point in Canada's housing system: between the 2011 and 2016 census periods, homeownership rates (both nationally and across major cities) fell for the first time on record (Chart 8).

Chart 8: Homeownership Change by CMA



Source: Census of Population.

Further Research

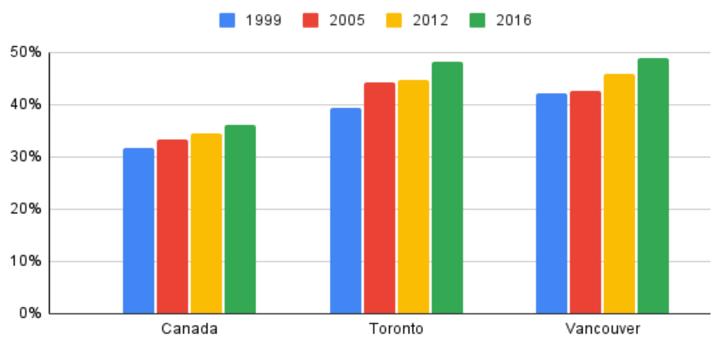
Are falling homeownership rates signaling that the model of offsetting rising house prices through more accessible credit conditions is coming up against its limits?

Rising inequality between homeowners and renters

Rising house prices matter for another reason: they contribute to rising wealth inequality between renters and owners.

Since the 1990s, the value of real estate as a share of total household assets has steadily increased, especially in expensive cities like Toronto and Vancouver where real estate accounts for almost 50% of the total (Chart 9).

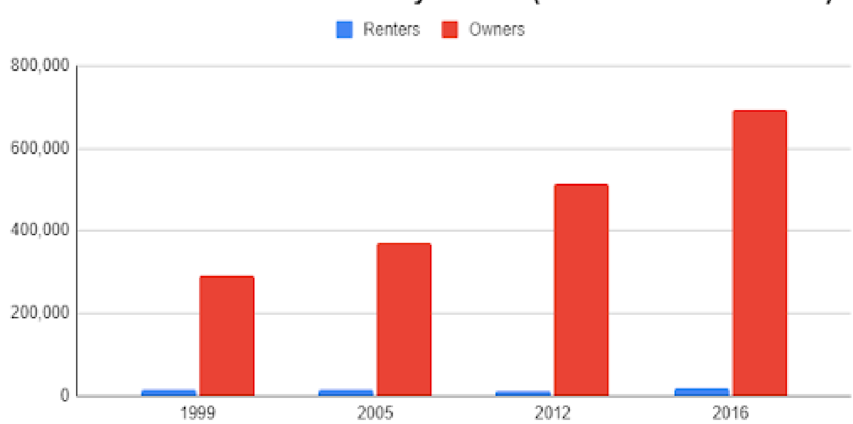
Chart 9: Real Estate as a Share of Total Household Assets



Source: Survey of Financial Security.

Renters, who in most cases do not own housing assets, have not generally benefited from this increase in value. From 1999 to 2016, the median net worth of homeowners (measured in constant dollars) more than doubled, whereas the median net worth of renters remained negligible.

Chart 10: Median Net Worth by Tenure (2012 Constant Dollars)



Source: Survey of Financial Security.

Rising house prices benefit homeowners in a number of ways. Homeowners can extract their home equity by:

» selling their primary residence (tax free) and downsizing;

» refinancing their mortgage;

» obtaining home equity lines of credit; or

» purchasing additional income properties.

The advantages of home ownership are also reflected in tax policies. There are numerous incentives for owning a home relative to renting.[33] But, the inequality between owners and renters is not simply financial in nature. As discussed in the next section, security of tenure - a key component of the right to adequate housing - is not always available to renters who may face housing precarity for a variety of reasons outside their control.

33 Including such programs as the federal Home Buyer's Plan and tax credits for first time home buyers.

Dimension 2: The Financialization of Homeownership

Preliminary evidence on the trend of retail investing

Homeownership rates, which represent the percentage of people in Canada that own a home, may be falling across the country, but the demand for local residential real estate is still strong.

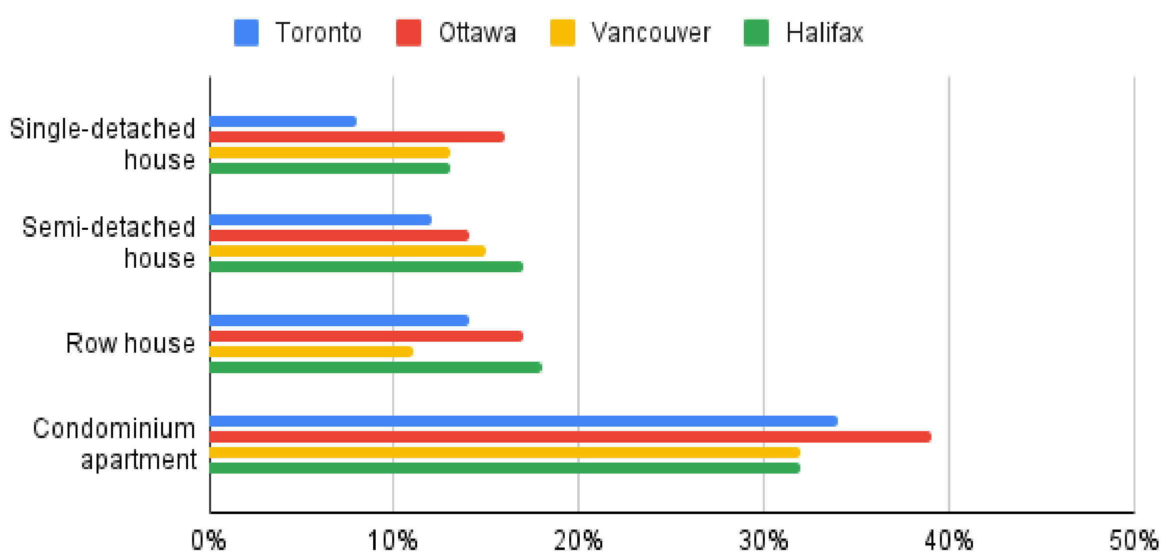
Demand is, in part, being driven by a group we call "retail investors." Retail investors are individuals or households who purchase multiple residential properties (sometimes by refinancing their primary residence) as investment opportunities. The growth in this segment of the market reflects the financialization of home ownership.

Anecdotally, the popularity of the "income property" has been on the rise for the last two decades. One way to gauge the growing significance of retail investing is by tracking the percentage of housing units that are not occupied by their owners.

If a home is officially designated as 'not-owner occupied', then the owner is either holding the unit vacant or renting it out (through short-term rental agencies like Airbnb, or on a longer-term basis). In either case, it is reasonable to assume that the owner of the property does not value it as a place to live, but rather for the rental revenues or future capital gains it is expected to generate. For this reason, official data on 'not owner occupied' can serve as a reasonable proxy for the extent of retail investing.

Chart 11 shows that retail investors operate across the spectrum of housing types.

Chart 11: Housing Units (by Property Type) Not Occupied by Owner



Source: Canadian Housing Statistics Program, 2018.

In Toronto, Ottawa, Vancouver and Halifax (where data is available), units that are "not owner occupied" range from:

- » **7-13%** for single detached homes;
- » **12-17%** for semi-detached;
- » **11-18%** for row houses;
- » **32-39%** of condo units.

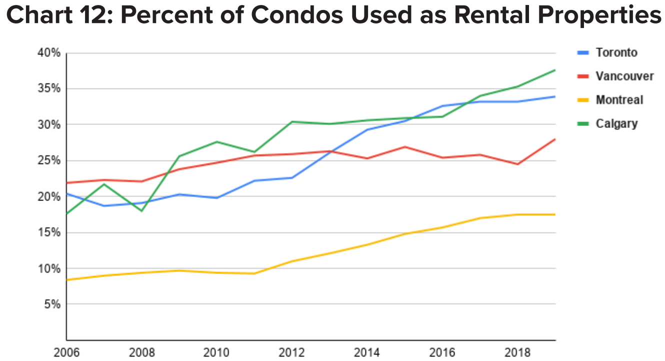
A lack of historical data makes it difficult to draw any firm conclusions about how the trend of retail investing has changed over time. However, there are two key data points which suggest that it has proliferated in recent decades:

1. Historical data on the percentage of condominium stock used as rental properties shows that the presence of investors has grown considerably in the condo market. Chart 12 shows that between 2006-2018, the proportion of condo stock used as rental properties increased from:

- » **21 to 28%** in Vancouver;
- » **20 to 34%** in Toronto;
- » **8 to 17%** in Montreal;
- » **17 to 37%** in Calgary.

It's important to remember that this data reflects total ownership, not current market activity. According to a report by Urbanation[34] on the Greater Toronto Area's (GTA) condo market, *investors' purchases made up half of all condominium sales in 2017.*

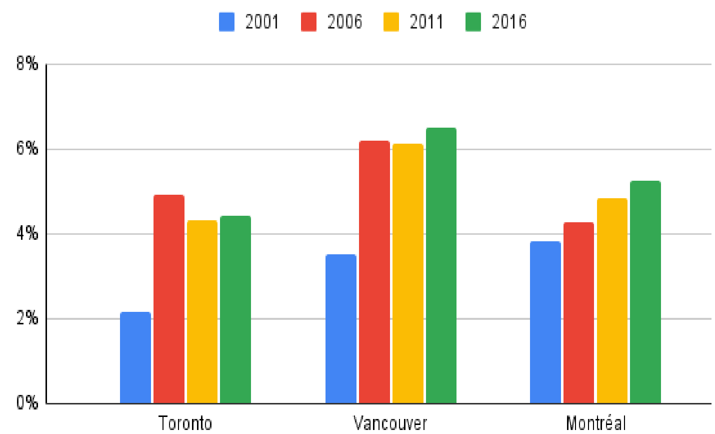
Chart 12: Percent of Condos Used as Rental Properties



Source: CMHC Canadian Housing Observer, various years.

2. The rise of retail investors can be gleaned from data showing an increase in 'home vacancy rates', or the number of properties that sit empty. Chart 13 shows that in Canada's three largest cities—Toronto, Montreal, and Vancouver—the number of vacant homes has steadily grown.

Chart 13: Property Vacancy Rate



Source: CMHC Canadian Housing Observer, various years.

Further Research

Does this growth reflect investor property flipping, the use of properties as short-term rentals, an increase in non-resident ownership, or other factors?

Given the unmet demand for adequate and affordable housing, increasing vacancy rates are a cause for concern. If they do in fact represent the prioritizing of homes as a financial asset rather than places to live, a range of policy and financial solutions may be required to ensure housing supply is aligned with needs.

34 Shaun Hildebrand and Benjamin Tal, *A Window into the World of Condo Investors*, 2018, Urbanation, pg 2, https://www.urbanation.ca/sites/default/files/Urbanation-CIBC%20Condo%20Investor%20Report.pdf.

Understanding Investor Demand

One way to consider the impact of retail investors on house prices is by focusing on the way they value homes.

Survey evidence indicates that owner-occupiers decide to buy homes because they want to live there and feel financially ready.[35] This is in contrast to retail investors, who by definition value homes for the financial returns (rents or capital gains) they generate.

Once we recognize that homes are increasingly valued as financial assets—not unlike bonds or equities—a new driver of housing demand comes into perspective. Today, the demand for housing is not simply driven by income, population growth, credit conditions or demographic factors; it is also connected to how housing assets are valued compared to alternative investments.

Our research suggests that one major driver of demand for housing assets is a "global search for yield." This was supported by interviews with investors and stakeholders. A search for yield refers to the fact that returns on low-risk investments such as government bonds have fallen considerably over the decades, incentivizing investors of all types to place their money in riskier investments such as stocks, bonds, private equity or real estate. Since housing has always been considered a lower risk alternative investment, given low interest rates and attractive financial environments alongside slower potential GDP growth, it has become more attractive over time.

As a report by Royal Bank of Canada puts it, *"the available condominium rental yield of between 1% and 5% (on levered and unlevered investments alike) is hardly compelling. However, in the current environment of ultra-low bond yields, such returns are frankly not a bad substitute for the bond market".*[36]

Reports by the Bank of England, Bank of International Settlements, and IMF[37] illustrate the importance of thinking about house prices in this way. Using asset pricing models, the reports document how falling 'risk-free rates' increase the present value of future rental payments, leading to higher housing valuations.

Further Research

The relationship between falling bond yields and rising house prices in Canada has not been adequately explored in the existing literature, and could prove a fruitful avenue for further investigation.

The impact of speculation

Discussions highlighted the importance of non-resident capital and speculation in local housing markets.

For some participants, non-resident buying was perceived as the single most important factor for why house prices have risen so dramatically in Toronto and Vancouver. These participants often referred to the fact that Toronto and Vancouver have become **'global hedge cities.'** This is in reference to their status as hot spots for wealthy non-resident buyers looking to park their money in a 'safe' investment like real estate. Participants claimed that the presence of non-resident

35 For more information on the motivation of buyers, see CMHC's 2018 mortgage consumer survey results: https://www.cmhc-schl.gc.ca/en/data-and-research/consumer-surveys/mortgage-consumer-survey

36 Eric Lascelles, *Canadian Housing in Six Questions*, 2014, Royal Bank of Canada Global Asset Management, Economic Compass Volume 33, pg 11, https://ca.rbcwealthmanagement.com/delegate/services/file/257132/content.

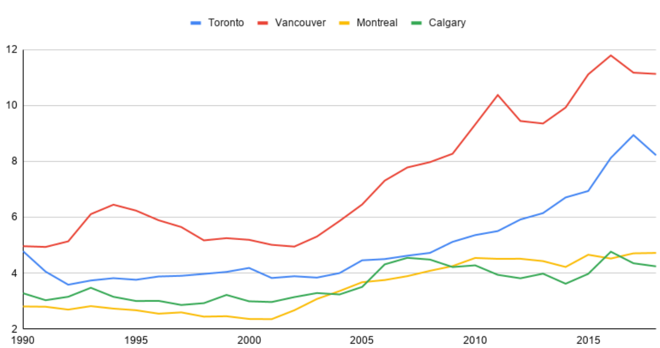
37 David Miles and Victoria Monro, *UK House Prices and Three Decades of Decline in the Risk-free Real Interest Rate*, 2019, Bank of England, Staff Working Paper No. 837, https://www.bankofengland.co.uk/working-paper/2019/uk-house-prices-and-three-decades-of-decline-in-the-risk-free-real-interest-rate; Gregory Sutton, Dubravko Mihaljek and Agnė Subelytė, *Interest Rates and House Prices in the United States and around the World*, 2017, Bank of International Settlements, Working Papers No. 665, https://www.bis.org/publ/work665.htm; Andrle and Plašil, Assessing House Prices.

buyers could explain why house prices have detached from local incomes.

House prices have risen exceptionally in Toronto and Vancouver over the last decade (as shown in Chart 14)—prices are eight times average annual incomes in Toronto, and 11 times average incomes in Vancouver. In cities like Montreal and Calgary, average house prices are approximately four times annual incomes.

Reports by CMHC and IMF[38] conclude that rising prices in Toronto and Vancouver cannot be entirely explained by credit conditions (interest rates and mortgage regulations are similar from coast to coast), income growth, or demographic factors. This leaves either a chronic lack of supply or non-resident buying and financial speculation as primary variables to consider. In this section, we consider the latter variable.[39]

Chart 14: House Price to Income Ratio, by CMA

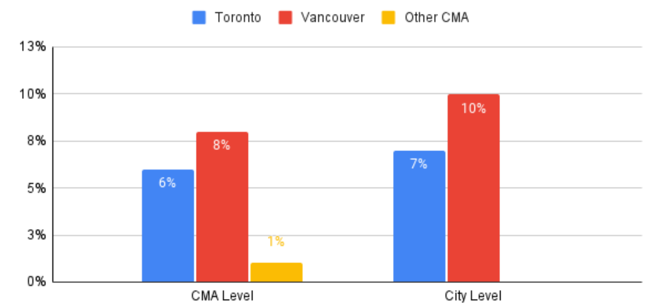


Source: Author's calculation based on data from Statistics Canada and Teranet House Price Index.

Compared to other Canadian cities, the official data shows that Toronto and Vancouver are hot spots for non-resident investors looking to buy real estate.

Chart 15 shows that in their wider metropolitan areas, non-resident buyers own about 6% and 8% of the condominium market in Toronto and Vancouver respectively, compared to only 1% on average for all other CMAs where data is available.

Chart 15: Share of Non-Residents in Condo Market in 2018



Source: Authors' calculation from CMHC and Statistcs Canada data.

Although Toronto and Vancouver attracted a large number of non-resident buyers in relative terms, overall, these buyers own a relatively small portion of the housing stock. A report by Statistics Canada[40] showed that across all housing types (not just condominiums), non-resident buyers own 5.1% of the housing stock in the Vancouver Census Metropolitan Area, and just 3% of the stock in the Toronto Census Metropolitan Area, leading many to argue that the impact of non-resident investing has been significantly exaggerated.

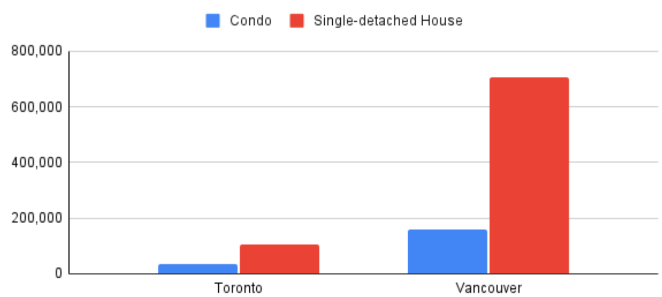
In recent years, however, a number of scholars, including Gordon, Ley, and Moos & Skaburkis[41], have argued that mainstream measures underestimate the extent to which money earned abroad is being used to drive up local house prices. They provide three central arguments to make their case:

38 CMHC, Examining Escalating House Prices; Andrle and Plašil, Assessing House Prices.
39 For an in-depth analysis of supply-side factors, please see CMHC (2018) report.
40 Guy Gellatly and René Morissette, *Non-resident Ownership of Residential Properties in Toronto and Vancouver: Initial Data from the Canadian Housing Statistics Program*, 2017, Statistics Canada, Catalogue No. 11-626-X - No. 078, pg 1, https://www150.statcan.gc.ca/n1/en/pub/11-626-x/11-626-x2017078-eng.pdf?st=VFFsebmP.
41 Josh Gordon, *Vancouver's Housing Affordability Crisis: Causes, Consequences and Solutions*, 2016, Simon Fraser University School of Public Policy, Center for Public Policy Research; Josh Gordon, "Vancouverites Don't Need "Re-education" about Foreign Ownership and Housing Affordability," The Georgia Straight, November 13, 2018, https://www.straight.com/news/1162801/josh-gordon-vancouverites-dont-need-re-education-about-foreign-ownership-and-housing; David Ley, "Global China and the Making of Vancouver's Residential Property Market," *International Journal of Housing Policy* 17, no. 1 (2017): 15–34; Markus Moos and Andrejs Skaburski, "The Globalization of Urban Housing Markets: Immigration and Changing Housing Demand in Vancouver," *Urban Geography* 31, no.6 (2010): 724-749.

1. The official data shows that non-resident buyers purchase homes at much higher prices than domestic buyers (Chart 16). In Vancouver, the single-detached homes owned by these buyers are assessed at $707,000 more than local owners on average. In Toronto, the difference is about $100,000 on average.

By setting prices at high levels, non-resident buyers may be pulling up the price on all 'comparable' properties. By pulling up prices in one segment of the market, households who are priced out of luxury units may start to bid up prices elsewhere, generating a ripple effect 'downmarket'.

Chart 16: Difference in Average Assessment Value between Residents and Non-residents



Source: Canadian Housing Statistics Program, 2018.

2. Data on non-residential buyers only measures the number of non-citizens who own property. It doesn't include:

» Non-resident students attending Canadian universities;

» new immigrants who arrive with substantial amounts of wealth earned abroad;

» residents who live in a 'satellite' family situation[42]; or

» foreign money that is laundered in local real estate through shell companies.[43]

Further Research

Although we cannot be sure, there is considerable evidence that these factors, omitted in the official data, may be significant.

Regardless of the true extent of non-residential buyers in local housing markets, their mere presence may be fueling speculative activity by domestic buyers. The perceptions that these buyers are driving up prices could be influencing domestic investors and owner-occupiers to rush into the market out of fear of being priced out (regardless of the true extent to which money earned abroad is being used to bid up local house prices). The significance of these expectations can be gleaned in part through CMHC 2018 homebuyer surveys, which reported that 52% of buyers who had recently purchased a home believed that non-residential buyers were influencing prices.[44]

In an analysis of Toronto's 2017 housing bubble, real estate agent and analyst John Pasalis argues that the 34% increase in house prices was driven not by a lack of housing supply, but instead by investor activity in areas known for the presence of non-resident buyers. By tracking rent on investor properties and estimating their monthly mortgage costs, he also concludes that almost all the investors were losing money on an ongoing basis:

"95% of the investment properties purchased [in 2016] were not making enough money in rent to cover the operating costs and projected mortgage payments for the property. The average investment property was short $1,121 each month, a figure which ballooned to $1,650 in the first quarter of 2017 due to the rapid increase in house prices with little change in rents earned".[45]

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42 A 'satellite family' is a household where the breadwinners live permanently abroad.

43 Gordon, *Vancouver's Housing Affordability Crisis*; Gordon, "Vancouverites Don't Need "Re-education"; Ley, "Vancouver's Residential Property Market"; Maureen Maloney, Tsur Somerville and Brigitte Unger, *Combatting Money Laundering in BC Real Estate*, 2019, Expert Panel on Money Laundering in BC Real Estate, https://www2.gov.bc.ca/assets/gov/housing-and-tenancy/real-estate-in-bc/combatting-money-laundering-report.pdf.

44 Marguerite Simo and Jia Qi Xiao, *Homebuyers' Market Perceptions and Risk Attitudes: Results from the 2018 Homebuyers' Motivations Survey*, 2019, CMHC, pg 5, https://assets.cmhc-schl.gc.ca/sf/project/cmhc/pubsandreports/housing-market-insight/2019/housing-market-insight-canada-68469-m06-en.pdf?rev=b64d1b87-1b0b-4f4a-874b-71b03b6b7ad5.

45 John Pasalis, *A Sticky End: Lessons Learned from Toronto's 2017 Real Estate Bubble*, 2017, Realosophy, pg 16-17, https://www.movesmartly.com/

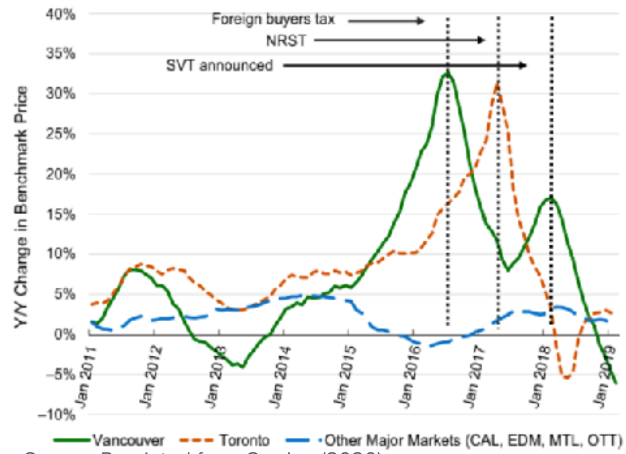
A report by Urbanation on investors in the GTA condo market comes to similar conclusions regarding the extent of investor speculation in a market that is perceived to be influenced by the presence of non-resident buyers. Its study found that in 2017, half of all new condo closings across the GTA involved investors (fewer than 10% of whom were non-resident buyers) and that 44% of all investors who entered the market during this period could not cover their mortgage payments with rents.[46]

Given the significance of the inter-related forces of non-resident buying and local speculation, it isn't surprising that in recent years the BC and Ontario provincial governments have imposed new tax policies designed to address these issues.

The BC government introduced a Foreign Buyers Tax in 2016, and then a Speculation and Vacancy Tax (SVT) in 2018 respectively. The Ontario government followed suit with the adoption of a non-resident speculation tax (NRST) in 2017. Chart 17 shows the efficacy of these tax policies, as the yearly rate of price growth dropped significantly in both cities in response to the new rules. The success of these policies help explain why the federal government announced a commitment to implement its own, national tax on non-resident buyers.[47]

The significance of the financialization of homeownership does not simply matter in terms of how it is shaping the affordability of homeownership. In the following section, we explore how this dimension of financialization is connected to the shifting terrain of rental markets.

Chart 17: Year over Year Trends in Teranet House Price Index, January 2011–January 2019



Source: Reprinted from Gordon (2020)

The shifting ownership of rental supply

Because retail investors usually rent their properties to tenants, the rise of investor demand has accompanied the rise of the secondary rental market. The secondary rental market refers to rental units found in housing types initially designed for owner-occupation (like single and semi-attached homes, row houses or condo units). Secondary rental units are different from purpose-built rental markets, which historically consisted of multi-unit residential buildings.

Like many aspects of the housing system, there is a lack of comprehensive data on the size of the secondary rental market and how it has changed over time. A report by CMHC in 2016 reported that the secondary rental market increased between 2006 to 2011 as a percentage of the rental market from 45.2% to 49.5 %.[48] We have not found a similarly comprehensive dataset covering recent years. However, based on the data cited earlier, there is strong reason to believe that the secondary rental market has continued to grow.

hubfs/A%20Sticky%20End%20Report%20April%202018.pdf.

46 Urbanation, https://www.urbanation.ca/urbanrental-report

47 Julie Gordon, "Canada Plans to Clamp New Tax on Foreign Home Buyers," Reuters, December 1, 2020, https://www.reuters.com/article/us-canada-economy-housing-idCAKBN28B61W.

48 CMHC, 2011 *Census/National Household Survey Housing Series: Issue 11 — The Secondary Rental Market in Canada: Estimated Size and Composition, pg. 1*, https://assets.cmhc-schl.gc.ca/sf/project/cmhc/pubsandreports/pdf/68565.pdf?rev=960c40f1-b6d7-4cf0-ae6a-a832159ee503.

A recognition of the growing importance of secondary rental units for the rental market overall has two important implications for how we think about housing policy:

1. The rise of the secondary rental market reminds us that 'ownership units' and 'rental units' increasingly come from the same housing stock. In the post-war period renters primarily lived in apartment buildings and owners in single-detached homes. Today, both owners and renters increasingly live in condo units. Depending on market conditions, units can be converted to rental tenure or ownership tenure.

2. The fact that a growing portion of the housing stock is used for both rental and ownership tenure has important policy implications. Policy experts often argue that falling homeownership rates worsens affordability in rental markets, as it limits the supply of new rental vacancies. As Pomeroy and Lampert explain:

"As young households (and recent immigrants) remain in the rental market (rather than purchase a home), this will increase demand in that part of the system. Due to the stalling of the normal upward movement of young households into homeownership, vacancies will not be created for newly forming households and immigrants. This will place pressure on rents and the availability of moderate prices".[49]

The implication of this analysis is that policies that support first-time buyers and rising homeownership rates are good for renters, by creating new rental vacancies and lower rental prices.

Yet this ignores the fact that renters may be purchasing units that were previously being rented. For this reason, *we should not assume that policies designed to support first-time buyers necessarily improve affordability conditions in rental markets.*

Further Research

How do rising homeownership rates affect the demand and supply of rental stock?

3. A recognition of the importance of secondary rental units as a source of rental supply runs counter, in some ways, to the widely held view that for many decades Canadians cities 'stopped building' rental.[50] Although it is true that Canadian cities stopped building 'purpose-built' rental units back in the 1990s (though there has been a recent uptick[51]), the same cannot be said of secondary rental units.

Chart 18 shows that between 2006-2019, the stock of purpose-built rentals (represented by the blue line) remained virtually unchanged (and even declined in some cases as demolitions exceed new builds).

In contrast, the red line estimates the addition to the rental stock accounted for by a rising proportion of condo rental units. From 2006-2018, these three cities' collectively added 158, 000 condo rental units to the rental stock.

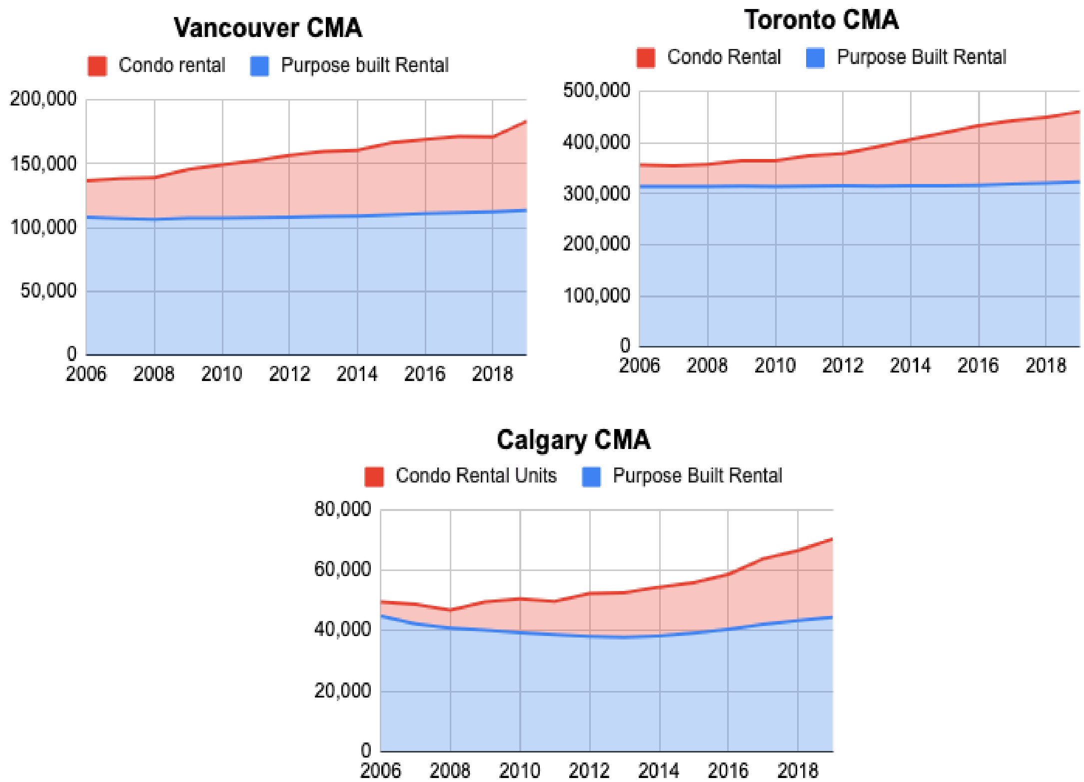
By including additions to condo rentals in our estimates of new supply, it is no longer obvious that the problem of rental affordability can be reduced to a 'lack of rental supply' in general. The problem is more specific: **we have a lack of supply of affordable, purpose-built rental units.**

49 Steve Pomeroy and Greg Lampert, *Examining the Dynamics of Canada's Housing Tenure System: Implications for a National Housing Strategy*, 2017, Canadian Housing and Renewal Association Background Working Paper, pg 45, https://chra-achru.ca/examining-the-dynamics-of-canadas-housing-tenure-system-implications-for-a-national-housing-strategy/.

50 Tax deductions (i.e. capital cost allowances) that encouraged the development of purpose-built rental units were phased out in the early 1970s. See Lampert, G. and Focus Consulting, *Encouraging Construction and Retention of Purpose-Built Rental Housing in Canada: Analysis of Federal Tax Policy Options*, Prepared for the Canadian Home Builders' Association and Greater Toronto Housing Action Lab, January 2016 at 8.

51 Pomeroy, 2019, p. 14-15

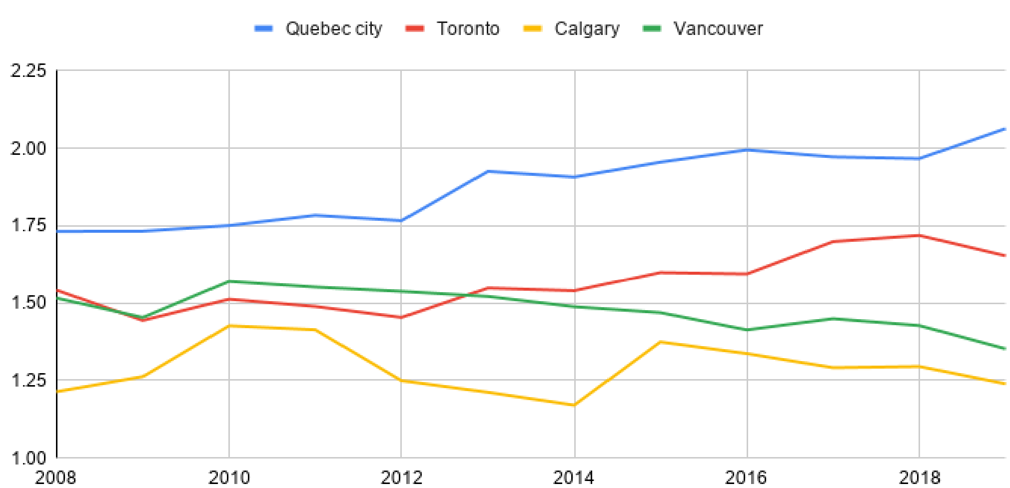
Chart 18: Comparison of Condo and PBR Rental Stock



Source: Calculator by author from CMHC primary and secondary rental market surveys

As shown in Chart 19, average condo rents are 25 to 100% more expensive than average rents in the purpose built market across Canadian cities.

Chart 19: Ratio of Condo Rents to Purpose Built Rents



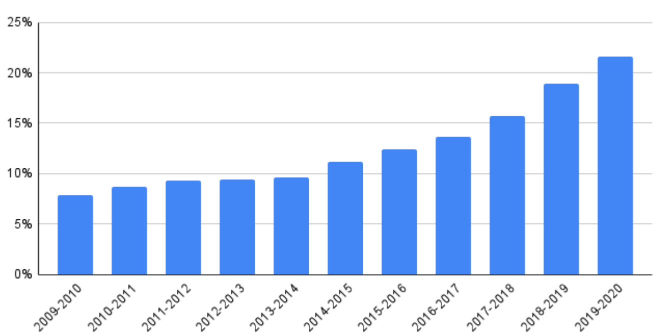
Source: CMHC.

In addition to having higher average rental costs, condo rental units—like all secondary rental units—also offer fewer protections for tenants. Secondary rentals, including but not limited to condos, are designed for owner-occupation, which makes them an inherently unstable source of rental supply.

Unlike tenants in purpose-built rental markets, tenants who live in secondary rental units face the unique possibility that their owners will evict them on the ground that they are taking 'personal use' of the property. The growing reliance of secondary rental units for new rental supply thus reduces tenant security.

Charts 20 and 21 provide preliminary evidence that the growth of the secondary rental market in Ontario has led to an erosion of tenant protections. Chart 20 shows that eviction applications linked to factors besides the non-payment of rent (which include personal use, demolitions or major repairs, complaints or illegal activity, etc) have more than doubled since the 1990s as a proportion of the total.[52]

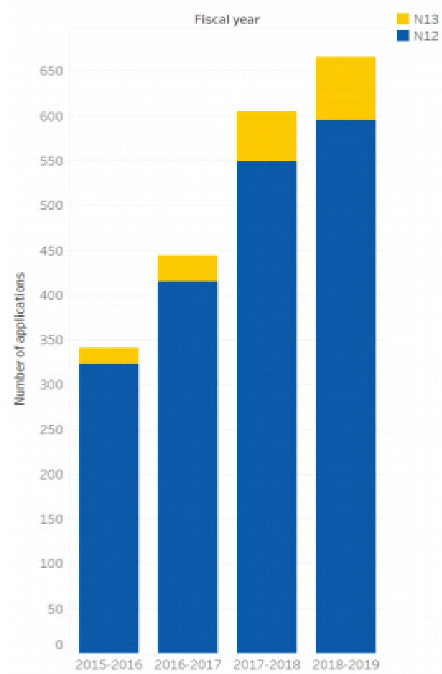
Chart 20: Evictions Applications Unrelated to Non-payment of Rent (%)



Source: Ontario's Landlord and Tenant Board, various years.

Chart 21 provides further information on eviction trends by disaggregating the number of 'no fault eviction' by N13 (demolitions and major repairs) and N12 (personal use) eviction applications. Since 2015, both N13 and N12 eviction applications have increased dramatically, and N12 evictions constitute the bulk of 'no-fault' evictions.[53]

Chart 21: Non-fault Evictions at the LTB



Source: Advocacy Centre for Tenants Ontario, 2019[54]

52 Note that Chart 20 is based on applications to evict, which are different from adjudicator decisions to evict, and from actual, enforced evictions. There can be great differences in application and decision numbers in any jurisdiction, so it is not a 1:1:1 ratio. These charts nonetheless illustrate a trend.
53 Data on N12 evictions are used as a proxy for evictions in the secondary market here, since evictions for personal use would not apply to large rental buildings. However, we do not have a breakdown so this data could conceivably include some rentals in the primary market.
54 Advocacy Centre for Tenants Ontario, *We Can't wait: Preserving Our Affordable Rental Housing in Ontario*, 2019, pg 18, https://www.acto.ca/production/wp-content/uploads/2019/11/FINAL_Report_WeCantWait_Nov2019.pdf.

The rise in personal use evictions represents a key tension emerging from the financialization of housing. Although 'personal use' evictions may be legitimate, our discussions with experts, including legal advocates, suggest that a significant portion of these evictions may be fraudulent.

If this is the case, fraudulent evictions on the basis of 'personal use' are an opportunistic move by landlords to raise rents. Because the burden of proof is placed on tenants, risks of legal reprisals for landlords are low. Moreover, in the context of rising rents, the reward of higher rental revenues starts to outweigh the risks of legal reprisals.

The rise of retail investors has meant that the lines between homeownership markets and rental markets are increasingly blurred, as a greater proportion of rental units are drawn from housing units designed for owner-occupation. By centering the secondary rental market within our analysis, it becomes clear that the growing reliance on these units for new supply has worsened both affordability conditions and security of tenure.[55]

This data suggests that efforts to improve conditions in rental markets should focus specifically on increasing the supply of affordable purpose-built rental units and adjusting the policy framework for the secondary rental market, among other solutions.

55 Own-use evictions are an example of the diminished tenant protections that result from over-reliance on secondary rental. Other examples exist, such as non-representation of tenants on condo boards, and inability of tenants to organize collectively in relation to a single landlord as they can in purpose-built rental. These combine with risk of eviction to increase overall precarity of housing for these tenants.

Dimension 3: The Financialization of Purpose Built Rental

The rise of institutional investors in residential real estate

Residential real estate has become an increasingly popular asset class for institutional and qualified investors. Participating in joint ventures, private equity funds, or investing directly to build their own real estate portfolios allows such investors to balance risk and return in a low yield environment. Traditionally, households or companies who wanted to invest in residential real estate had limited options— for example, they could buy real estate or directly invest in one of the few publicly traded development firms. Today, due to the creation of MBS, investors can easily purchase publicly traded shares in Real Estate Investment Trusts (REITS), which own residential real estate assets—primarily multi-residential apartment buildings.

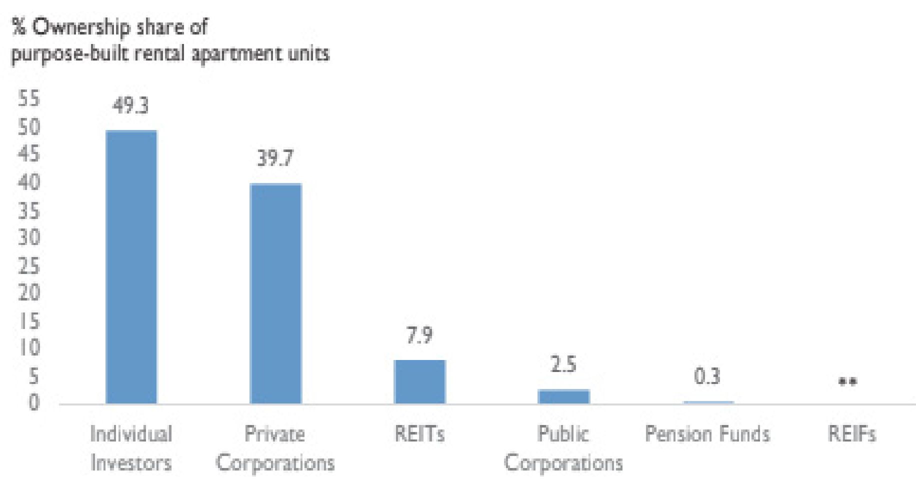
The recent increase of institutional investors' participation in purpose-built rental markets was a key topic in our solutions lab.[56] It was also the most controversial. In this final section of the report, we seek to understand how the ways in which purpose-built rental is financed has impacted affordability.

Critically, there is no comprehensive data set that tracks ownership shares of institutional investors over time. The data we do have shows that individual owners ('mom and pop') and investors, alongside private corporations, control approximately 90% of units in purpose built rental buildings (Chart 22).

Further Research

How can we address the lack of reporting and transparency of all landlords? How do we collect more specific data as it relates to rent and affordability across the country?

Chart 22: Rental Ownership Structure in 2016

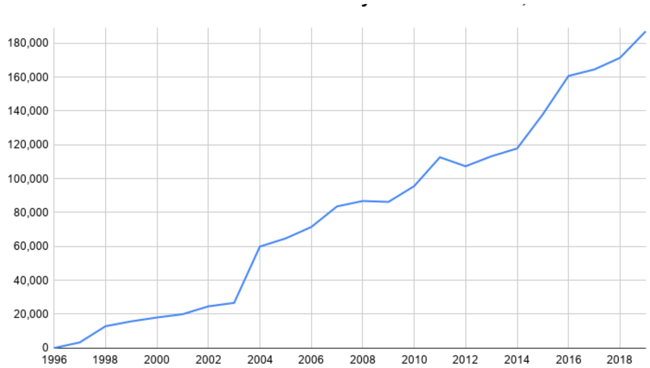


Source: 2016 CMHC Rental

56 We use the term 'Institutional investors' to refer to a variety of financial actors in purpose-built rental markets. It is not limited to REITS, but includes pension funds, endowments, private equity groups, asset management firms etc.

They do not own the majority of units, but data from publicly traded REITs shows their ownership over purpose-built apartment units increased from 0 in 1996 to over 180,000 rental suites by 2019 (Chart 23). Although still a small portion of the total number of units, the trend is upward. Finally, although institutional investors own a relatively small portion of the rental stock, they dominate the list of Canada's largest landlords.[57]

Chart 23: Number of Suites Owned by REITs in Canada, 1996-2019



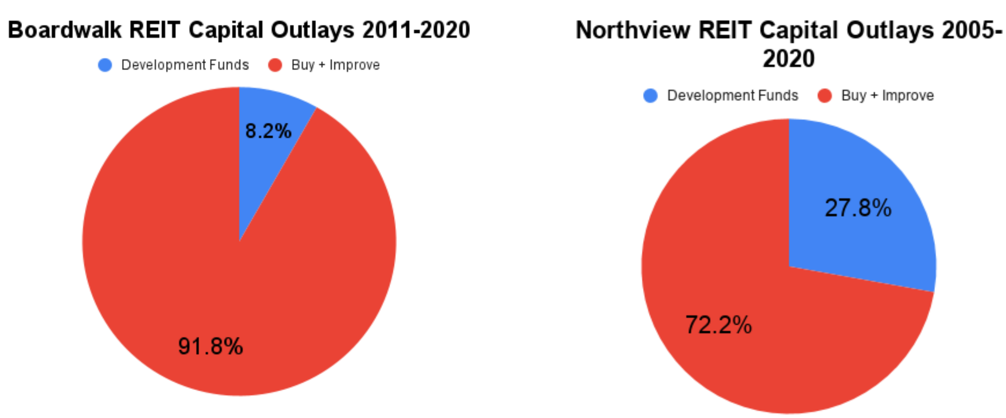
Source: 1995 to 2017: Calculation by Martine August[58]; 2018-2019: Author's calculation.

Pathways to expansion: real estate acquisitions and 'value add'

Although many institutional investors have property management divisions and some engage in new developments, they are generally designed as investment vehicles and not mandated to develop new affordable housing stock. This means that the growth of financialized landlords has primarily occurred through the acquisition of existing properties, rather than the development of new supply.

While we do not have data for private institutional investors, a review of a sample of publicly available financial statements for a few large REITS shows that they have allocated the majority of their capital investments towards acquisition and improvements. This trend of growth through acquisition may have changed somewhat in recent years, however, as REITs and other institutional investors have been contributing more actively to funding new supply by partnering with developers.[59]

Chart 24: Capital Outlay of REITs [60]



Source: Historical annual reports from Northview REITs and Boardwalk REIT.

57 Martine August, "The Financialization of Canadian Multi-family Rental Housing: From Trailer to Tower," *Journal of Urban Affairs* 42, no.7 (2020):pg. 7, https://www.tandfonline.com/doi/abs/10.1080/07352166.2019.1705846.

59 Martine August, "The Financialization of Canadian Multi-family Rental Housing: From Trailer to Tower,"*Journal of Urban Affairs* 42, no.7 (2020):pg. 7, https://www.tandfonline.com/doi/abs/10.1080/07352166.2019.1705846.

59 https://www.theglobeandmail.com/business/industry-news/property-report/article-institutional-investors-and-developer-partnerships-increasing-in/ In recent years there has been a notable uptick in new purpose-built rental construction in cities across the country. However, research by housing experts Pomeroy and Maclennan (2019), shows that the new supply of purpose built rental is mostly taking the form of luxury rentals, with rental costs at 150% market rents on average (Pomeroy & Maclennan, p. 17).

60 Note: Northview REIT is now privatized, it was acquired in November 2020; a transaction approximately valued at $4.9 billion including net debt.

It is difficult to generalize the unintended impacts of institutional capital investments in purpose-built rental markets on affordability and tenant outcomes. Based on our discussions, most of the controversy surrounding institutional investors was related to their 'value add' projects, where they purchase 'underperforming' buildings, 'reposition them' (through upgrades or renovations), and then recoup their investments by raising rents often upon tenant turnover. As shown in Chart 25, the rent increases due to tenant turnover can be quite dramatic.[61] Because of their ability to raise funds through private and public markets, institutional investors are able to pursue value-add projects on a large scale.

Further Research

Not all institutional investors are required to disclose financial information relevant to this inquiry, Thus more research is required to understand if, and to what degree, these owners may be undertaking "value add" projects as well.

Institutional investors and others in the real estate industry who participated in the lab shared that:

» Canada's rental stock has fallen into disrepair;

» higher rents are a necessary consequence of capital improvements;

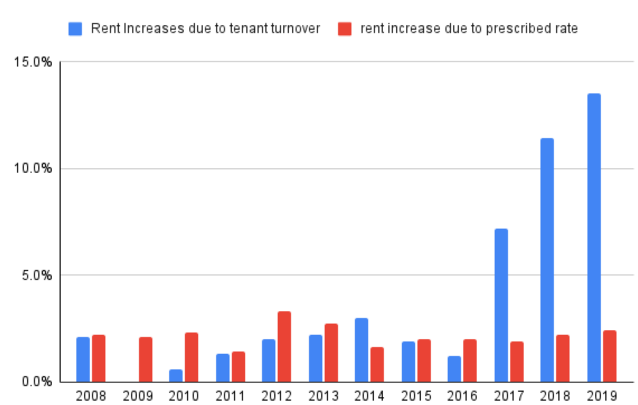
» often tenants appreciate the capital upgrades and 'modernized' property management practices[62].

Canada's purpose-built rental stock is aging and in need of maintenance and capital improvements. Capital from institutional investors is helping to revitalize this long-neglected segment of the housing market, creating environmental benefits by improving building efficiencies. From the perspective of the investors we spoke to, rising rental rates are simply a result of the returns for those capital investments. Moreover, these developers and investors are working in good faith within existing legal frameworks.

On the other hand there are also concerns around the impact on supply and access to affordable housing. For example, the literature notes that the process of acquiring apartments built in the 1970s, where rent was below AMR because of age and conditioning, and upgrading them to extract higher rents, is contributing to the disappearance of Canada's affordable rental stock.[63] This undersupply affects not just those in core housing need, but also those of moderate incomes.

On the supply-side it is difficult for nonprofit providers to compete with private sector providers, as they often lack the investment capital to renovate older rental stock and maintain its affordability.

Chart 25: Sources of Rent Increases



Source: CAPREIT annual reports.

61 The right of landlords to raise rents upon tenant turnover is based on legislation referred to as 'vacancy de-control'.
62 This is also substantiated by research: see, e.g. James, 2009, Wu et al., 2019
63 The average age the buildings owned by REITS is 1974 (CMHC, 2017 "*Rental Ownership Structure in Canada*")

These factors, when combined with the shift from purpose-built rental to condo development, created a perfect storm. According to Steve Pomeroy,[64] Canada's stock of affordable rental units is disappearing at an alarming rate (Chart 26). Between 2010-2016, the number of rental units with rents below $750 declined by over 300,000 units (due to demolitions and rent increases), while the number of units with rents above $1000 grew substantially.

Chart 26: Change in Rental Distribution, 2011-2016

Source: NHS 2011 and Census 2016.[65]

From the perspective of housing advocates who adopt a human rights-based approach to housing, the expansion of institutional investors in rental markets is undermining access to housing as a basic human right. By pursuing 'value add' projects and other strategies to increase financial returns, they believe these companies are having an unintended impact on affordability conditions and undermining tenant security through 'renovictions' (where landlords evict tenants to initiate major renovations or demolitions), in order to drive greater dividends to shareholders.

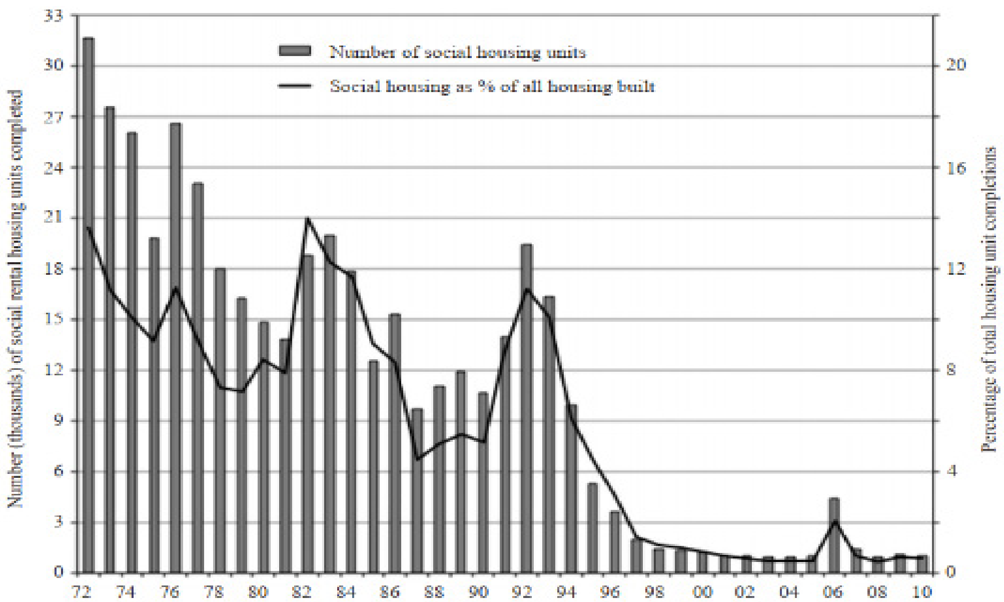
The problem of ensuring all Canadians have affordable, secure housing cannot be solely attributed to the expansion of financialized investors in purpose-built rental markets. Changes in government policies have also contributed to the issue.

The policy shift to promote access to homeownership and the rise of securitization in the 1980s-90s corresponded to the withdrawal of the federal government from directly engaging in housing provision. In 1993 the federal government ended all new funding for social housing units (with the exception of funding for on-reserve housing). And in 1996 it began the process of transferring the management of social housing units to the provinces (with the exception of Quebec and Prince Edward Island) as stipulated in bilateral agreements.[66]

This shift supported the continuation of the long-term decline in the building rates for social housing units. Research by Walks and Clifford[67] shows that in the early 1970s new completions of social housing represented 12-15% of new builds. Over the decades, these numbers declined, and by the early 2000s new social housing builds accounted for less than 1% of the total..[68]

64 Steve Pomeroy, *Augmenting the National Housing Strategy with an Affordable Housing Acquisition Program*, 2020, Focus Consulting Inc, pg 1.
65 Census data as cited in Steve Pomeroy, *Augmenting the National Housing Strategy*, pg 1.
66 Office of the Parliamentary Budget Officer, *Federal Program Spending on Housing Affordability*, 2019, pg 15, https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2019/Housing_Affordability/Federal%20Spending%20on%20Housing%20Affordability%20EN.pdf.
67 Walks and Clifford, "The Political Economy of Mortgage Securitization", pg 1632.
68 CMHC data as cited in Walks and Clifford, "The Political Economy of Mortgage Securitization", pg 1632.

Chart 27: Social housing Units Built, 1972–2010



A lack of affordability in rental markets today is the outcome of a broader shift in Canada's housing system that has included a focus on promoting homeownership, as described above. While the financialization of purpose-built rental housing has helped revitalize existing housing stock, it has also reduced affordable supply. The tension between revitalization and affordability is what urban geographers often refer to as gentrification, an issue that long predates the arrival of institutional investors on the scene.

Conclusions, possible pathways forward and next steps

The Discovery phase of this social innovation lab set out to create a greater understanding of how the “financialization of housing” was impacting housing affordability for those in core housing need, bring clarity to the problem and identify levers for change. We defined financialization of housing as “the application of financial instruments by institutions and investors in local housing markets” and looked at its impact on mortgage markets, homeownership and rental markets.

We found that financialization has brought both benefits and drawbacks. It has facilitated raising home ownership rates; increased the financial well being of many Canadians; stabilized the economy; brought investments and improvements to aging purpose-built rental stock; and, some would maintain, increased capital for affordable housing development.

It may, however, have also contributed to market changes that have led to the current housing affordability crisis. Rising house prices, the growth of the secondary rental market, “value-add” strategies, a withdrawal of the federal government from direct provision of social housing and other factors discussed in this report have all played a role in driving wealth inequality between owners and renters, reducing security of tenure for renters, and decreasing the supply of affordable and below-market units. We found that renters make up the majority of those who do not have a home they can afford that meets their needs, and low-income and single family households, people with long-term disabilities, Indigenous people and visible minorities are most impacted. And we found there are major data gaps that need to be filled to give us a full understanding of the impact of financialization.

There is no debate that we are in a housing affordability crisis. To address the crisis, lab participants suggested we explore critical gaps and key questions, including:

- **How can government policies link investments such as low-cost loans to specific social and environmental outcomes?**
- **What financial products and services could be added to incentivize investment in affordable rental property that might require levels of affordability to be maintained?**
- **How can existing affordable rental stock be maintained or replaced at a similar level of affordability following capital improvements?**
- **How can government investments be most effectively used to help fill this gap?**

A rights-based framework often prioritizes the role of governments in ensuring access to the basic right of housing. Conversations emphasized the importance of not only addressing the private sector’s role but also scaling up nonprofit or mission-oriented housing providers to work with governments in guaranteeing the right to housing. These providers include nonprofits and social enterprises, such as developers, land trusts, and co-ops.

Possible levers for change:

The lab identified some levers within the housing system that are potential areas for future solutions. We have shared a selection of them below to offer a launch pad for future work. In the coming year we will continue to explore these and other possibilities through the collaborative lab process to work towards a housing finance system that works for everyone.

01

Innovative shared equity, co-housing models and emerging community land trust models could make the financial benefits of home ownership accessible to a broader spectrum of people in Canada.

- Homeownership is an important driver in wealth creation, but it is increasingly inaccessible to most Canadians.
- Shared equity and co-ownership models could help to level the playing field and expand the number of people benefiting from the financial uplift it provides

02

A regulatory tool to collect information about rental markets across Canada, potentially combined with updated tenant regulations, education and enforcement to better protect the security of tenure for renters

- We heard that renters face increasing precarity of tenure due to weak and unknown or unenforced tenant regulation in the secondary-rental market.
- We also heard that the lack of information about the rental market makes policy recommendations difficult.

03

Policies aimed at non-resident ownership may be an option for addressing speculation-fueled price increases.

- Some suggested regulations aimed at limiting speculative activity, non-resident ownership and money laundering.
- The federal government recently announced plans to introduce a tax on non-resident buyers, not unlike policies already in place in British Columbia, Ontario and Prince-Edward Island.

04

Rethink programs designed to incentivize the creation of rental housing that is affordable and improve alignment of municipal, provincial, and federal programs.

- Participants felt strongly that current programs designed to incentivize affordable housing supply are not working as efficiently as they could.
- We need targeted efforts and interventions to promote a greater supply of affordable and below-market, purpose-built rental housing in particular.
- All levels of government have opportunities to better and more innovatively utilize their real estate assets and policy and regulatory tools.
- We need more effective collaborations between government and both non-profit and private market developers to develop methods to incentivize and increase the supply of long-term affordable housing.

05

Innovative financial models, products, and services could be powerful tools to enable the increase in supply of affordable and below-market housing.

- We heard from banks and investment funds that they are happy to provide capital to affordable housing developments if the risk and return profiles are competitive.
- There may be innovative approaches to underwriting and securitization for affordable housing development that could be further explored.

Conversations with participants emphasized the importance not only of addressing the private sector's role, but also of scaling up non-profit or mission-oriented housing providers to work with governments in guaranteeing the right to housing. These providers included non-profits and social enterprises developers, land trusts, and co-ops.

One thing is clear: in order to meet the National Housing Strategy's goal of ensuring that all Canadians have access to a home they can afford and that meets their needs, we need to revisit the current system. Accomplishing this goal will require innovative solutions, systems-level thinking, and collaboration across the governmental, nonprofit, and the private sectors.

The Discovery phase of this Solutions Lab has led to a much deeper understanding of financialization and how it has shaped the Canadian housing system. It is evident that there is a diverse range of opinions on the issue, and it affects Canadian society in multiple ways.

This research reflects our learning to date and will be adapted as we continue to learn more. Our process has captured a diverse and balanced perspective from a group of over one hundred stakeholders and experts within the Canadian housing ecosystem. This report seeks to more clearly define the problem, share what we heard, and provide some suggested pathways forward. The next phase of the lab will focus on engaging a wide variety of actors, including housing finance and not-for-profit sector leaders, to generate solutions that unlock the power of financial markets to generate more affordable housing.

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