THE FINANCIALIZATION OF MULTI-FAMILY RENTAL HOUSING IN CANADA

A Report for the Office of the Federal Housing Advocate

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The opinions, findings, and conclusions or recommendations expressed in this document are those of the author and do not necessarily reflect the views of the Canadian Human Rights Commission or the Federal Housing Advocate.

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Executive Summary

1. The Financialization of Rental Housing

The financialization of rental housing refers to a process in which rental housing properties are transformed into a product for financial investors. This occurs when buildings are acquired by financial firms such as real estate investment trusts (REITs), real estate operating companies (REOCs), private equity firms, asset managers, and institutions. Financial ownership subjects rental units to the priorities of finance capital, leading to management decision-making that structurally prioritizes profit-making for shareholders above other objectives (such as security of tenure, affordability, environmental goals, tenant quality of life). Globally, the financialization of multi-family housing is a recent trend, observed by researchers in the late 1990s and early 2000s, in Canada, the United States, Japan, Germany, and Ireland. Because the profits for shareholders and executives are achieved by extracting more from tenants (through higher rents, and often reliant on displacement), the financialization of rental housing works against the realization of the right to adequate housing.

2. The Financialization of Rental Housing in Canada

Financial firms have consolidated a growing amount of rental apartment suites in Canada in recent decades. From 1996 to 2021, REITs alone grew from holding zero to nearly 200,000 suites. Financial firms comprise 17 of the top 25 largest landlords in the country, with those largest financial firms alone holding over 344,000 suites—about 20% of the nation's purpose-built rental housing stock. Because there is a lack of transparent ownership data in Canada, these figures are estimates, and they likely underestimate the true ownership by financial firms, which one industry leader puts as high as 30%.

Canadian policies that have catalyzed financialization: As in other nations, the financialization of rental housing in Canada has been catalyzed by three broad trends in state policy:

- *Welfare state withdrawal and the cancellation of social housing:* Federal withdrawal from social housing in the 1990s eliminated the development of new affordable housing supply, abandoning affordable housing provision to the private sector and creating a supply imbalance that has been profitable for finance capital.
- *Deregulation of rent controls and tenant protections:* The weakening of tenant protections and especially the introduction of vacancy decontrol has made it very profitable for firms to acquire rental housing, remove existing tenants, and profit from the massive increases in rents allowable in deregulated regimes that lack rent control.
- *A focus on finance:* State policies have enabled the creation of financial vehicles for real estate investment, including legislation that enabled the creation of "tax-efficient" REITs in 1993. A state focus on monetary policy solutions for crises have strengthened the power of finance, as has the deregulation of public pension fund investments in the 1990s.

The Evolution of Financial Firms in Canadian Rental Housing:

Beginning in the late 1990s, the financialization of rental housing in Canada began as domestic real estate firms began to raise capital on public markets and to evolve into sophisticated and larger-scale vehicles for investors to access profits from multi-family real estate. This trend has begun to reshape the rental housing sector across the country, in red-hot housing markets in Canada's biggest cities, from suburban peripheries to secondary- and tertiary-tier cities, towns, and villages, and even in rural mobile home parks.

Post-COVID consolidation: After the initial economic shocks in the early months of 2020, the COVID-19 pandemic has not had a negative effect on the earnings of financial firms. In fact, the monetary stimulus program launched by the government and Bank of Canada has created a low-rate environment that has acted like rocket fuel for financial firms acquiring apartments.

Geographic patterns of investment and the importance of rent controls: Nationwide, there is a pattern in which REITs invest more in provinces with weak or no rent controls than in provinces with stronger rent controls.

Financialization and new supply: Financial firms in Canada have largely grown by consolidating ownership of existing rental housing properties and have described how their profits come from capitalizing on the limited supply of existing stock. In recent years, some firms have begun to invest in the development of new purpose-built rental, although this is still a minor trend. While many industry players claim that new supply will lower rents and improve problems with affordability, financial firms do not create affordable rental housing.

3. Business Strategies of Financial Firms in Rental Housing

In operating rental housing, financial firms often use an approach called "value-add repositioning," in which "underperforming" apartment buildings are acquired and efforts are made to increase their profitability by increasing revenues and reducing expenses.

Firms **reduce expenses** by capitalizing on economies of scale, harmonizing property management, investing in energy efficiency upgrades, and reducing staffing costs (by firing superintendents, for example). Tenants may be negatively affected by these strategies, for instance, by a loss of on-site service and by experiencing reductions in maintenance and upkeep.

Firms **increase revenues** by charging more to tenants. This can be done by charging more ancillary fees for parking, storage, party room access, utilities, and so on. Revenues are also raised through rent increases, which make housing less affordable. Firms do this by applying for regular rent increases, by applying for "above guideline" increases (AGIs) after completing eligible major capital repairs, and by pursuing "unit turnovers" to increase rents maximally on units that become vacant. These strategies are sometimes associated with renovations to upgrade common areas and suites in order to charge higher rents to new residents, particularly in gentrifying areas where firms can gain maximum profits by capitalizing on the "rent gap" between existing and potential rents.

Financial firms operate on a **spectrum of value-add repositioning strategies**, ranging from (1) barebones effects to "squeeze" new value from old buildings by raising rents and fees and cutting maintenance. This approach is often used in weaker real estate markets and targets lower-income renter populations. At the other end is (2) gentrification-by-upgrading, which is used in stronger markets facing gentrification pressures, where firms invest in luxury upgrades and renovations to maximally raise rents.

4. Impacts of Financialization

Impacts on Tenants: Tenants are negatively affected by the cost-cutting and under-maintenance strategies of financialized landlords through worsened living conditions and the negative impacts of construction and renovation when landlords engage in repositioning. In addition, strategies to increase revenues generate economic hardship as well as physical and mental health impacts, including stress and anxiety around displacement pressure, increased costs, eviction, and loss of home. Tenants are also affected by the harassment tactics that are sometimes used by landlords to promote attrition among long-standing tenants.

Impacts on neighbourhoods and patterns of socio-spatial inequality: The systematic efforts to raise rents in buildings leads to the displacement of lower income and racialized renters, reinforcing existing patterns of spatial inequality in cities and urban regions. Rent increases also exclude low-income renters from accessing housing formerly in their price range.

Impacts on the multi-family sector and affordability: The aggressive property management strategies of financial firms are catalyzing change across the multi-family sector by inspiring other operators to extract maximum profits from their holdings. These practices are also increasing rental housing costs and decreasing affordability.

5. Recommendations

Track ownership and measure the impacts of financialization:

1. Governments should collect and share beneficial ownership data.
2. Governments should hold public hearings on financialization.

Definancialize ownership:

3. Prevent monopolies of ownership and place upper limits on ownership per firm.
4. Expropriate housing owned by financial firms that violate human rights.
5. Prevent the sale of housing to financial firms.
6. Prevent lending to financial landlords who engage in predatory practices.

Suspend state subsidies and support to financialized landlords:

7. Stop subsidizing financial landlords with NHS funds.
8. Stop subsidizing financial landlords with CMHC preferred lending.
9. Regulate lending institutions to suspend lending to entities that contravene human rights, including the right to adequate housing.
10. Eliminate tax incentives and institute capital gains taxes for REITs.
11. Build, acquire, and subsidize the operation of social non-market housing.

Pension fund legislation:

12. Require public pension funds to promote the social good.

Rent controls and tenant protections:

13. Provinces must establish strong rent controls, including vacancy control.

14. Provinces must eliminate above guideline increases (AGI) to rents.
15. Provinces must limit annual rent increases to the cost-of-living.
16. Provinces must apply rent control equally to all buildings and all rental housing types.
17. Strengthen tenant protections and prevent evictions.
18. Revise landlord-tenancy legislation to protect against renoviction.

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Introduction

Canadian tenants are facing a mounting housing affordability crisis. Over 40% of tenants pay more than they can afford for housing, and nearly half of working renters do not have backup savings to last them even one month (Tranjan, 2020). Across Canada, full-time, minimum-wage workers can only find affordable rents in three% of the country's neighbourhoods (McDonald, 2019). The COVID-19 pandemic has intensified this crisis for renters, who are more likely to be affected by the economic and social dislocations caused by the virus and who face continuously rising rents. These issues are related to the financialization of rental housing, in which rental apartments are treated as assets for financial investment and managed to generate maximum profits for investors. In Canada, financial firms have increasingly consolidated ownership of rental housing nationwide, and systematically raise rents and costs in order to deliver returns to shareholders and company executives (August, 2020). This trend is intensifying hardship for renters in Canada, while posing a challenge to ensuring the right to adequate housing (UN-HCR, 2019). In international human rights law, the right to adequate housing recognizes that everyone has the right to live in security, peace, and dignity in housing that is accessible, adequate, and affordable (Leitjen & Bel, 2020). In 2019, the Canadian government recognized this right in law, with the passage of the *National Housing Strategy Act*, which commits governments at all levels to the progressive realization of the right to housing. The financialization of rental housing in Canada is undermining the realization of the right to housing. To make good on its commitments, Canada must prioritize the social function of housing over its value to investors as a profit-generating asset.

This report discusses the financialization of rental housing in Canada, beginning with a definition of this process (Section 1) and its evolution in Canada (Section 2). This is followed by a discussion of the business strategies of financial firms in rental housing (Section 3) and the impacts of this process (Section 4). The report concludes with recommendations (Section 5).

1. The Financialization of Rental Housing

The financialization of rental housing refers to a process in which rental housing properties are transformed into a product for financial investment. In practice, this refers to the acquisition of multi-family rental buildings by financial firms that make it possible for investors to access an income stream derived from tenants' monthly rent payments. Investors can do this by investing privately or by purchasing shares on a stock exchange.

Financial firms that acquire multi-family real estate have been called "financialized landlords" (August & Walks, 2018), and include the following types of firms and financial vehicles:

- Private Equity funds
- Publicly listed real estate companies (sometimes called REOCs, or Real Estate Operating Companies)
- Real Estate Investment Trusts (REITs)
- Asset Management Companies
- Institutions (such as pension funds, insurance companies, or endowment funds)
- Hedge funds and Sovereign Wealth Funds

What these types of firms have in common is that they acquire and operate rental housing as a product for investors. This differs from previous forms of ownership, in which rental housing was owned by a combination of small-scale (“mom and pop” landlords), private rental housing companies, syndicates of owners, and larger corporate landlords. While the practices of these types of firms often align with those of financial landlords, a key difference exists: when financial firms acquire rental housing, their owned properties are subject to new priorities, namely, the priorities of shareholders and company executives. This means that these properties will be managed in ways that prioritize their goals. But what are their goals? Financial firms often have an obligation—a fiduciary responsibility—to maximize value for shareholders. Canadian multi-family REITs, for example, commonly list the following as their priorities: (1) provide stable and growing monthly distributions to shareholders, and (2) maximize the net asset value of the REIT. In addition, executive compensation is typically tied to a company’s financial performance, meaning that management has a vested interest in driving growth and faces penalties if growth targets are not achieved. This reality structurally prioritizes investor gains above other objectives for rental housing operations, including environmental or social priorities. Alternative priorities—for example, tenant quality-of-life, affordability, accessibility, community building, or environmental quality—are necessarily subordinated by financial operators of multi-family housing. In fact, the IPO prospectuses and founding documents of Canadian multi-family REITs do not tend to mention tenant-centred priorities at all.

The financialization of rental housing is a relatively recent trend, with researchers pointing to its emergence in the late 1990s (August, 2020) and the 2000s. In New York City, researchers Desiree Fields (2014) and Ben Teresa (2015) documented the entry of private equity funds into the city’s rent-stabilized multi-family housing sector in the early 2000s. In just four years, from 2005 to 2009, private equity acquired an estimated 10,000 units—or 10% of New York’s rental stock. In Germany, Gertan Wijburg and colleagues (2018) reported that private equity companies began to acquire massive portfolios of social housing units that were privatized and sold “en bloc” on the market in the 2000s. In the city of Berlin, one American firm acquired 95,000 units, becoming the city’s largest landlord almost overnight. After the Global Financial Crisis (GFC) in 2007–2008, REITs and publicly listed firms gained a dominant position in Berlin’s private rental sector, where four firms now have “quasi-monopoly status.” The early 2000s also saw the financialization of Japanese rental sector, with the establishment of a new national regime enabling the launch of REIT vehicles for rental housing investment (Aveline-Dubach, 2020). In Ireland, REITs began to play a significant role in the rental market after they were established by 2013 legislation (Lima, 2020). In these and other countries, “global corporate landlords” have emerged during this time and become major players in the rental housing sector (Beswick, et al., 2016).

The financialization of multi-family rental housing is carried out by firms whose profit-making strategies are based on things like rent increases (and other increased charges), reduced maintenance or cost-cutting, displacement, eviction, and capitalizing on gentrification (August, 2020). These strategies are at odds with a human rights-based approach to housing, and these practices are understood to be challenging the right to adequate housing on a global scale (UN-HCR, 2019), including in Canada.

2. The Financialization of Rental Housing in Canada

Since the 1990s, there has been incredible growth in the portfolios held by financial firms in Canada. As shown by Martine August (2020), REITs alone grew from owning zero multi-family suites in 1996, to nearly 200,000 in 2020, accounting for about 10% of Canada's total stock (See Figure 1).[1] In total, the largest financial landlords (see Table 1)—which include not only REITs but other types of financial firms as well—held over 340,000 suites nationwide, or approximately 20% of the Canada's purpose-built rental apartments.

This represents a change from the past. Three decades ago, Canadian multi-family rental housing existed without financial landlords, while today they have consolidated a substantial portion of overall units, and their holdings continue to grow.

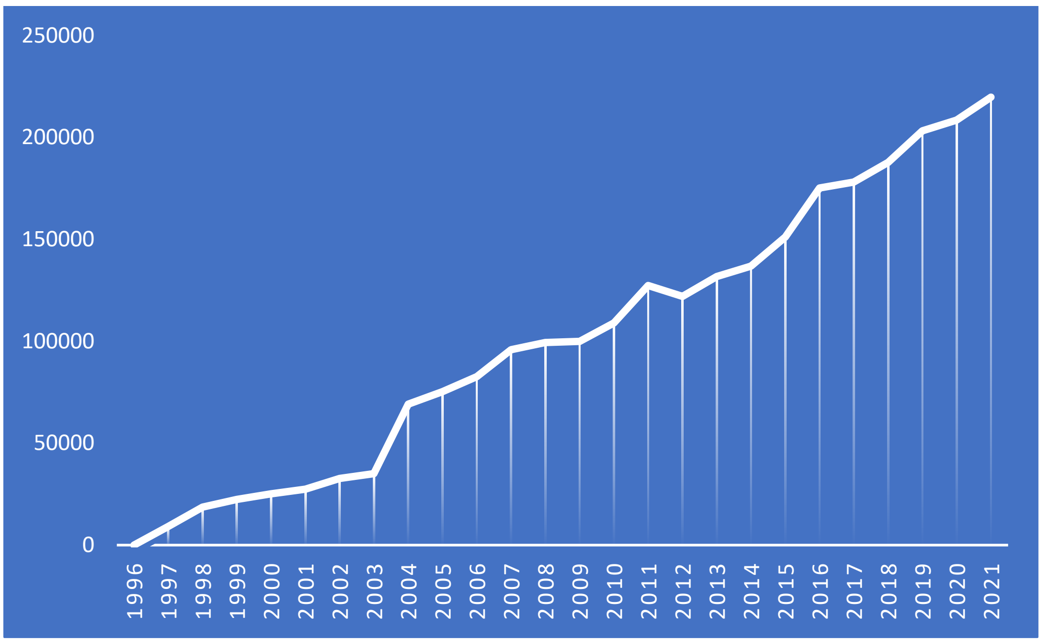

Figure 1: Canadian suites owned by REITs and certain REOCs, 1996–2021[2]

Actual ownership by financial firms is likely much higher than cited figures suggest, since this estimate only includes those financial firms that are among the top 25 biggest firms. There are many smaller financial owners whose portfolios would collectively amount to many more suites.

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1 This refers to the total purpose-built private rental stock with six or more units.

2 Data compiled by the author based on publicly filed data in REIT and certain REOC Annual Reports. This does not include suites owned by other financial firms (such as private equity funds, asset managers, and institutions).

Includes CAPREIT (apartment suites and MHCs), ResREIT, Northern Property REIT, Lanesborough REIT, Boardwalk REIT, Interrent REIT, Transglobe REIT, True North REIT, Morguard Corporation (including Morguard Residential REIT), Northview REIT (and Northview High Yield Fund post-2019), Killam REIT (apartment suites and MHCs), Skyline REIT, Centurion REIT, Minto REIT, Mainstreet Equity Corporation.

In addition, property ownership data in Canada is neither transparent nor publicly available—making it difficult for researchers and policy-makers to grasp the full extent of this trend. Industry experts predict a higher figure—Starlight Capital CEO Dennis Mitchell estimated that “institutional ownership of apartment buildings in Canada is probably around 20 to 30%” (Doherty, 2021).

Table 1 includes a list of the top 25 biggest landlords in Canada and their holdings as of 2021. Financial firms make up the majority (17 of 25) of the companies on this list and make up nine of the top ten firms.

Canadian Policies That Have Catalyzed Financialization

In Canada and elsewhere, three broad trends in housing and state policy catalyzed the rise of financialization in the rental housing sector. First, there has been a shift away from state-supported affordable housing since the early 1990s, when the federal government cut funding and downloaded responsibility for social housing to the provinces, essentially ending the development of social housing in the country (Suttor, 2016). This effectively turned over responsibility for low-cost rental housing to the private sector. Second, deregulation of rent controls and tenant protections has opened the door to expanded private profit-making in the rental housing sector. Third, legislative reforms have enabled financialization via the creation and legalization of new financial vehicles, the deregulation of financial markets, and related changes that have made it possible for investors to capitalize on real estate in new ways.

(i) Withdrawal of the Welfare State: Cancellation of Social Housing

Canadian housing policy since the postwar period has focused largely on promoting homeownership. Key to this has been CMHC’s mortgage insurance program, which stimulates private mortgage lending by removing risks for lenders. In addition, Canada’s postwar housing policy provided residual support for a social housing program, funding capital and operating costs for public, co-operative, and non-profit housing, in partnership with provincial and territorial governments. Prior to 1993, these programs funded the development of very affordable “rent geared to income” (RGI) housing, in which tenants paid only 30% of their income towards rent. Today, about 6% of Canada’s housing stock is social housing.

In the 1980s and 1990s, the federal government began to cut back on social housing programs (Suttor, 2016; Hulchanski & Shapcott, 2004). In 1993, under the Chrétien Liberal administration, the federal government withdrew completely from the field, cancelling future developments and downloading responsibility for existing stocks to provincial governments. This effectively put an end to new construction and reduced the supply of affordable housing going forward (Suttor, 2016). In the province of Ontario, social housing was further downloaded in 1995 by the Harris Progressive Conservative administration, which saddled municipalities with the responsibility to fund and then operate a costly and aging portfolio of properties.

	Company	Headquarters	Company Type (shaded if financial)	Suites*
1	Starlight Investments	Toronto, ON	Asset Management	61,000
2	CAPREIT	Toronto, ON	REIT	59,620
3	Boardwalk REIT	Calgary, AB	REIT	33,264
4	Realstar Properties	Toronto, ON	Asset Management	*28,328*
5	Homestead Land Holdings	Kingston, ON	Private real estate company	*27,471*
6	Killam REIT	Halifax, NS	REIT	18,685
7	Hazelview (Timbercreek)	Toronto, ON	Asset Management	*21,580*
8	Skyline REIT	Guelph, ON	REIT (private)	21,463
9	Mainstreet Equity Corporation	Calgary, AB	Public Real Estate Co.	15,074
10	Minto Properties Inc	Ottawa, ON	REIT	*11,764*
11	Quadreal (BCIMC)	Vancouver, BC	Pension fund	12,100
12	InterRent REIT	Ottawa, ON	REIT	11,896
13	Societe Gestion Cogir	Brossard, QC	Partner with financial firms	*10,000*
14	Drewlo Holdings Inc	Komoka, ON	Private, family-run company	*9,338*
15	Morguard Corporation	Mississauga, ON	REIT and public company	8,816
16	Park Property Management	Toronto, ON	Private real estate company	9,138
17	Centurion REIT	Toronto, ON	REIT (Private)	9,387
18	Conundrum Capital (Q Res)	Toronto, ON	Private Equity	7,418
19	Akelius Canada	Sweden	Foreign investment vehicle	7,909
20	Globe General Agencies	Winnipeg, MB	Private real estate company	*7,200*
21	Oxford (OMERS)	Toronto, ON	Pension-fund owned	*6,403*
22	Berkley Property Management	Toronto, ON	Private real estate company	*5,817*
23	Hollyburn Properties	Vancouver, BC	Private, family-run company	*5,143*
24	Osgoode Properties	Ottawa, ON	Private, family-run company	*5,125*
25	M & R Holdings	Toronto, ON	Private, family-run company	*4,810*
	Total Holdings of **Financial** Firms within Top 25			**344,707**
	*Suite totals are for 2021, unless *italicized*, in which case total is for 2020			

Figure 2: Canada's Biggest Landlords, 2021[3]

Federal and provincial withdrawal from social housing has had a dramatic impact on housing affordability in Canada. For over two decades, there has been little to no expansion in state-supported housing to meet the needs of low-income Canadians. This has contributed to the nation's crisis of affordability, and the private sector has been left to house people with low incomes. The country's rising homelessness crisis, which began in the 1980s and ratcheted up in

[3] Data compiled by author based on firm annual reports, websites, and *Canadian Apartment Magazine*'s annual list of top landlords. Due to poor data availability, there may be additional financial (and other) firms with large holdings that are not included here.

the 1990s and 2000s, is related to the cancellation of social housing and the related withdrawal of the welfare state.

The federal government stepped back into the housing realm in 2001 with very minimal funding provided through the Affordable Housing Initiatives (AHI) and Investments in Affordable Housing (IAH) programs. In 2017, the federal Liberal government launched the National Housing Strategy, confirmed in law as the *National Housing Strategy Act* (NHSA) 2019. The NHSA has inspired hope among advocates for the right to housing, as it affirms Canada's commitment to this right in law. In terms of funding, the strategy promised a 10-year, $40 billion investment, although Canada's parliamentary budget officer's analysis revealed that only $16 billion was new funding and that the commitment is actually a reduction in funding for housing when compared to the past (Campion-Smith & Mathieu, 2019). The NHSA directs much funding to private actors and largely continues with the neoliberal approach to housing policy of past eras.

For financial firms, state withdrawal from social housing has been seen as an opportunity. In 1997, the first multi-family REITs to launch in Canada considered the cancellation of social housing advantageous, as it reduced competition and constrained choice among renters, particularly new immigrants (August & Walks, 2018). Canadian Apartment Properties REIT (CAPREIT), for example, outlined in its Initial Public Offering (IPO) prospectus how the withdrawal of government programs to fund the construction of non-profit residential properties would ensure an advantageous supply-demand imbalance. Underlining the value of this lack of supply, Daniel Drimmer, the CEO of Canada's largest financial landlord Starlight Investments, explained how crisis works to his industry's benefit: "We think there is a definite shortage, or almost a crisis level in Canada … and that is good news for investors as there is no easy solution in sight. That is not good news for consumers" (August, 2020, p. 5).

(ii) Deregulation of Rent Control and Tenant Protections

In many jurisdictions, rent control deregulation was initiated in the 1980s and 1990s, creating an incentive for financial investors in rental housing. In New York City, for example, private equity investors flooded the sector after deregulation in 1997 made it easier to raise rent levels on "rent-stabilized" units (Fields & Uffer, 2014). Similarly, the deregulation of rent control in Ontario in 1997 catalyzed the entry of REITs into multi-family investment. In 1997, Ontario passed the *Tenant Protection Act (TPA)* which scrapped the former rent control program. The act introduced "vacancy decontrol"—allowing rent increases of any amount upon "turnover"—when a unit becomes vacant between tenancies. In strong markets, this incentivizes landlords to remove existing tenants and raise the rent level substantially.

In addition, legislation continued to allow landlords to charge rent increases on "sitting" tenants (those who continued to occupy an apartment) above cost-of-living ("guideline") amounts. Called "above guideline increases" (AGIs), these allow landlords to charge higher increases if they have undertaken certain major capital repairs or experienced cost increases. In Ontario, researchers identified immediate, negative impacts of deregulation on tenants. After the legislative reform, between 1997 and 2000, rents in Toronto increased by 20% (for 1–2 bedroom units) and by 23% for bachelor units (Mahoney, 2001). The TPA's changes were also linked to a rapid increase in evictions, often for inability to pay rent (Mahoney, 2001; Shapcott, 2002).

This deregulation made multi-family housing newly attractive to financial investors. Ontario's first multi-residential REITs launched with the express goal of capitalizing on the new opportunity to raise rents in this decontrolled environment. In 1997, CAPREIT's prospectus noted that, "Proposed changes to Ontario's landlord and tenant legislation, expected to come into effect later this year, should improve the business conditions for CAPREIT," owing to "higher maximum allowable rent increases for existing tenants" and higher market rents for new tenants in units subject to vacancy decontrol. Residential Equities REIT (ResREIT), launched in 1998, identified plans to "benefit from the anticipated relaxation of rent controls," and to apply for AGIs in which "the cost of certain capital expenditures, which otherwise would be borne by ResREIT be passed through to tenants" (ResREIT, 1998). Notably, ResREIT was actually launched by Ontario's Assistant Deputy Minister in the housing ministry, Dino Chiesa, who left government after ushering through the TPA to capitalize on the new profit-making potential created by this deregulation (Shapcott, 2002).

(iii) Enabling Financialization

Federal government policies have also enabled financialization by creating new ways for investors to access gains from real estate. In the 1980s–2000s, as withdrawal from social housing was underway, efforts were made to financialize homeownership, via Canada Mortgage and Housing Corporation (CMHC) initiatives to securitize and guarantee mortgage loans with risk-free returns for finance capital (Walks A. , 2014; Kalman-Lamb, 2017; Walks & Clifford, 2015). These policies resulted in more liquidity in mortgage markets, driving higher home price increases.

Of relevance for rental housing, REITs were enabled in Canadian legislation in 1993. Publicly traded REITs are closed-end trusts that allow investors to access shares (called "units") in a real estate company on a stock exchange, which gives them access to a stream of payments derived from tenants' monthly rent payments. REITs were attractive to investors because they gave investors novel access to real estate income, and because of their "pass through" tax structure, in which tax is paid only by investors, not by the REIT as a whole—leading to attractive tax savings. The first rental housing REITs were launched in 1997 in Ontario.

Deregulation and legislative reform regarding pensions also opened the door to increased real estate investment in the 1990s. These reforms removed restrictions on the type and location of assets that pension plans could hold, the amount of risk they could take on, and included new statutory requirements to maximize shareholder returns (Parrish, 2019; Skerrett, Weststar, Archer, & Roberts, 2017). Illustrative of these changes, for example, is the legislation regarding the Canadian Pension Plan Investment Board (CPPIB) passed in 1997, which removed the limitation to invest only in state infrastructure projects and allowed the pension fund to invest in financial markets and instruments. In 2005, further reforms removed restrictions on foreign investment. The result of these and other reforms has been a massive expansion of pension fund capital into "alternative investments" including private equity, infrastructure, and real estate (Parrish, 2019; Skerrett, Weststar, Archer, & Roberts, 2017). According to the Shareholder Association for Research and Education [SHARE], Canada's largest pension funds have exposure to $313.6 billion in real estate (Herman & Ruiz, 2021).

The Evolution of Financial Firms in Canadian Rental Housing

The financialization of rental housing in Canada began in the late 1990s. At this time, several domestic real estate companies began to evolve into large-scale financial vehicles for real estate investment. Of note is that the rapid growth of financialized apartments in Canada has occurred not through new construction, but from the consolidation of existing housing stock. Only in recent years, and in certain very "hot" real estate markets, are financial firms turning to the development of new, purpose-built rental properties (discussed at the end of this section).

Prior to the 1990s, the apartment landscape in Canada was characterized by diverse and fragmented ownership, with properties owned and often also managed by individuals, small companies, or real estate corporations. Larger owners included long-standing family-run companies or partners who syndicated to build and acquire apartments, including Greenwin, the Meridian Group, and Cadillac Fairview (before it was acquired by the Ontario Teacher's Pension Plan in 2000).

The first wave of financialization was initiated in the late 1990s to capitalize on profit-making opportunities created by rent control deregulation, cuts to social housing, and reforms enabling financialization. Canada's first multi-family apartment REITs were launched, including Canadian Apartment Properties REIT (CAPREIT) in 1997 and Residential Equities REIT (ResREIT) in 1998. Other firms went public, including Calgary-based Mainstreet Equity in 1998, InterRent in 1999 (which became InterRent REIT in 2007), and Goldlist in 1997 (which was absorbed by Morguard North American Residential REIT in 2001). Great West Life, an insurance company, was one of the only institutional investors in the multi-family space in the early 1990s. While financial firms initially emerged in Ontario (with investments in the Greater Toronto Area), investment across Canada followed quickly, with Northern Properties REIT in 2002 (which focused on Alberta and the North), Lanesborough REIT in 2002 (Western Canada), Boardwalk REIT in 2004 (Western Canada), and Skyline REIT (Ontario secondary markets) in 2006. Over the next decade, these firms grew by consolidating ownership of apartments—sometimes buying up buildings one-by-one, and sometimes via large portfolio acquisitions, such as CAPREIT's 2004 purchase of ResREIT's entire 11,000-suite portfolio.

After the 2007–2008 Global Financial Crisis, investment in Canada's multi-family housing picked up steam. Many more multi-family real estate firms launched IPOs, including TransGlobe REIT in 2010, Centurion REIT in 2010, True North REIT in 2012, Northview REIT in 2015, Killam REIT in 2016, and Minto REIT in 2018. While Transglobe, Centurion, and Minto were focused on Ontario real estate, True North bought properties in Ontario, Quebec, Eastern Canada and Alberta; Northview's diversified portfolio included properties in northern and resource-oriented areas, and Killam focused initially on Atlantic Canada. Institutional investors (including pension funds and insurance companies) also acquired portfolios of apartments, via in-house real estate investment arms or joint ventures. Pension funds like BCIMC (British Columbia Investment Management Corporation, now Quadreal), AIMCo (the Alberta Investment Management company), and PSPIB (Public Sector Pension Investment Board) all acquired properties in these years. Industry watchers also noted the "aggressive" acquisition activity by many new players post-crisis, including Timbercreek Asset Management (whose rental operations have been rebranded as Hazelview) in 2007, private equity firm Conundrum Capital (Q Residential) in 2009, Starlight Investments in 2011, and Sweden-based Akelius Canada—the only foreign financial landlord discussed here—in 2012.

The financialization of rental housing is not just a big-city phenomenon—it has transformed the rental housing sector in cities all along the “urban hierarchy” (August, 2020). Financial firms have significant ownership interests in big cities like Toronto, Vancouver, Montréal, Ottawa, and Calgary, and also in secondary- and tertiary-tier towns and cities. REITs and other financial firms have amassed ownership in the country’s remote communities, including isolated communities economically dependent on resource extraction and the Canadian north. In fact, as of 2017, one firm (Northview REIT) owned 74% of all private rental housing in Yellowknife, Northwest Territories, and 85% in Iqaluit, Nunavut (these were since acquired in a 2020 joint venture between Starlight Investments and Kingsett Capital)—giving it effective monopoly control on those housing markets.

In rural areas and urban peripheries, financial firms have acquired another form of low-cost multi-family housing: the trailer park. Called manufactured home communities (MHCs) in the industry, they have been steadily acquired by firms as an investment product since the mid-2000s. Firms including Realstar, CAPREIT, Boardwalk, BCIMC, and Killam REIT have consolidated ownership of mobile home parks, which have been described as “recession proof” by industry insiders (August, 2020).

Post-COVID-19 Consolidation

During the COVID-19 pandemic, there was a moment of concern among rental housing operators. With economic hardship and job losses concentrated among lower-income households and renters, the income source for investors appeared to be threatened. With the launch of the Canadian Emergency Response Benefit (CERB) in April 2020, however, most landlords reported very little impact in their rent collections. By the end of 2020 and in 2021, financial firms were reporting record profits.

The trend towards consolidation by financial firms intensified during the pandemic. Apartment transactions slowed in early 2020, but then picked up quickly. By the end of the year, Canada-wide investments in multi-family housing had exceeded those made in 2019 by 14%. According to Mark Hetu of National Apartment Group, sales volumes in 2021 were poised to be even higher and dominated by financial firms. Hetu reported that institutional investors and REITs together capture about 75–85% of the market. As he explained it, “The Canadian market is becoming increasingly consolidated and increasingly institutional.”[4]

In BC, financial acquisition of apartment buildings went on a tear during the pandemic. According to Avison Young (2021) “There is no historical comparison for the deal and dollar volume generated by multi-family assets in the first half of 2021,” when sales “obliterated” past records, with a “greater consolidation of ownership among institutions and REITS.”

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4 Hetu is Senior Vice President, Capital Markets at National Apartment Group. These comments were made at the Canadian Apartment Investors Conferences, 2021 (held online).

Toronto multi-family sales data (from 1970 to 2021) analyzed for this report further demonstrate this dominance. In 2020, transactions by financial firms represented nearly all multi-family sales in the city (see Figure 2). Data for 2021 only include sales up to August 2021, but show that most properties were sold to financial firms. This aligns with reporting in early 2021 that a record number of multi-family properties were coming up for sale, with financial firms bidding against each other to capture post-pandemic growth (Kildaze & Younglai, 2021). In the city of Toronto, apartment transactions were not at record highs by the third quarter of 2021 (the full year is not included in this data), but as Figure 2 shows, the units that were sold were almost all acquired by financial firms. In addition, Figure 2 shows the general trend in which ownership of apartments by financial firms in Toronto has trended upward since the 1990s, with financial firms buying nearly every property that has come up for sale in recent years.

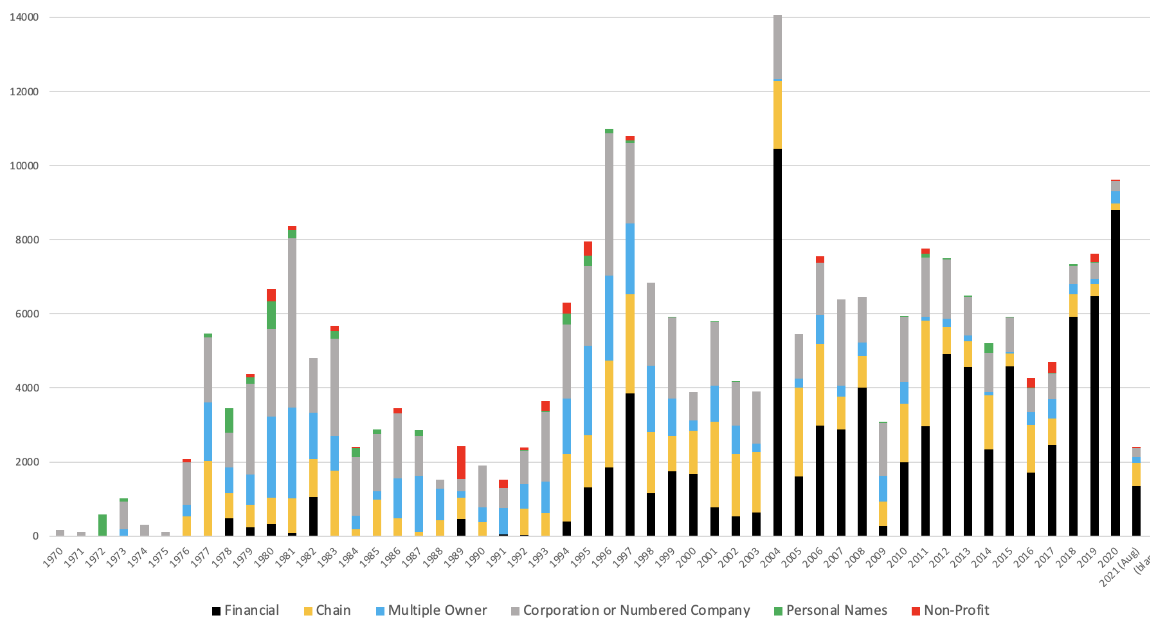

Figure 3: City of Toronto Multi-Family Apartment Suites Sold Per Year, by Type of Owner from 1970 to 2021[5]

The economic context brought on by the pandemic has been advantageous for financial firms. Macroeconomic policy levers have generated very low interest rates and stimulated liquidity, meaning that firms can borrow capital at very low rates. This has catalyzed dramatic price increases in the housing market generally, and after a brief dip in the early pandemic, has seen rent levels skyrocket as well. In a comment representing the spirit of industry leaders, Dale

[5] Source: Author's calculations from Urbanation Property Sales Database.

Noseworthy, CEO of Killam REIT, explained that “the pandemic is not significantly affecting our mandate,” noting that “rents are going up and financing is attractive.”[6]

Geographic Patterns of Investment and the Importance of Rent Controls

While there is a clear trend towards financial ownership of apartments Canada-wide, there are variations in these trends geographically. In Montréal, for example, REITs and similar firms are major buyers of large apartments (over 100 units), but smaller-scale investors tend to still dominate in the low-rise multi-family stock (with small unit sizes) in their rental housing market.

Variation also exists based on rent control regulations. As discussed, the deregulation of rent controls was a key policy change that catalyzed the financialization of multi-family rental in Canada, and the presence of rent controls is one factor that predicts the level of financial investment in a community. August (2020) found that REIT penetration was lower in provinces with stronger rent control regimes, and higher in provinces with weak or no rent control protections (see Figure 3). This aligns with comments from industry players. As Jim Costello of Real Capital Analytics explained it: “Where you have restrictive rent regulations, it does tend to limit investment activity… The more burdensome the regulatory environment, the less capital will flow into it.”[7] Even so, financial firms are skilled in raising rents and extracting value even where rent control regulations are in place. As Thierry Samial of PMML explained, “Investors are finding a way around these regulations,”[8] and in Montréal they are imposing “large-scale increases in rent even if there are regulations in place.” While regulations can be a deterrent to the financialization of rental housing, firms are still motivated to find loopholes or to flout regulations to generate higher profits for investors.

6 These comments were made at the 2021 Canadian Apartment Investment Conference (CAIC) held in Toronto (and online), Sept 22-23.

7 Costell is Senior Vice President at Real Capital Analytics. These comments were made at the CAIC, 2021 (held online).

8 Samial is a chartered real estate broker with PMML. These comments were made at the CAIC, 2021 (held online).

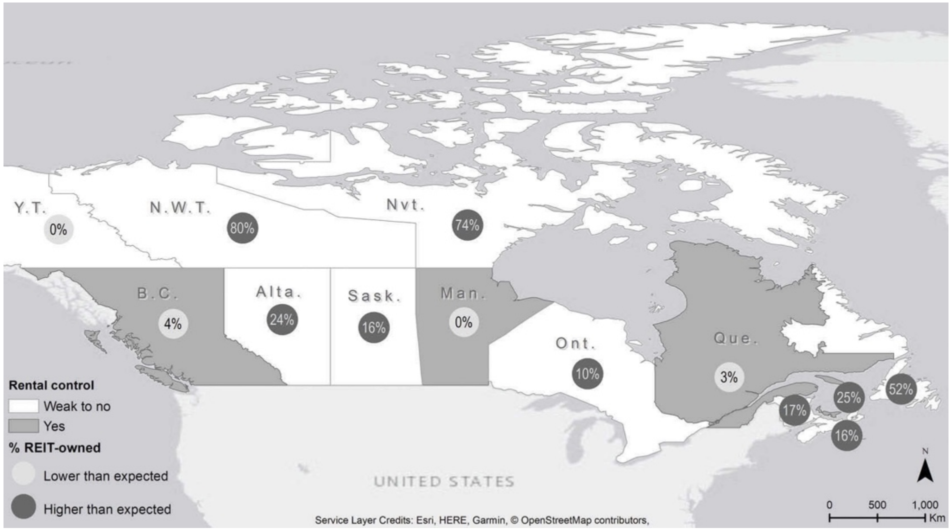

Figure 4: Uneven Geographies of Rent Control and REIT Penetration: REIT-owned suites as a percentage of suites in a given province/territory and patterns of rent control in Canada.[9]

Financialization and New Supply

In recent years, financial firms have expanded from acquiring existing multi-family buildings, to developing newly built projects. In 2021, Michael Tsourounis of Hazelview Investments discussed how institutional investors have increased the proportion of their portfolios with multi-family assets in recent years, but that "we're seeing buying but also development as well—purpose-built multi-family housing." This was a new trend, as he explained: "That market has been dominated by smaller investors for a long time."[10] At present, purpose-built rental is economically appealing to financial firms operating in very strong property markets and only favoured by some firms—many continue to focus exclusively on consolidating existing stock, which can be acquired well below replacement cost.

The role of financial firms in building new supply collides with contemporary discourse about housing supply as a solution to Canada's affordability crisis. Vocal proponents from the development and real estate industry have argued that if municipalities reduced regulation and development charges, the private sector would be free to build more housing, faster. Based on a simple application of economic theory of supply and demand, they argue that more privately built housing supply will lower costs and thus prices, increasing housing affordability across the board.

In practice, however, financial firms investing in purpose-built rental housing have been clear that they do not intend to offer low-rent housing or affordable housing. Indeed, a study by Steve Pomeroy and Duncan McLennan (2019) found that new purpose-built rentals tend offer units at 170% of average market rents. Far from aiming to provide affordable housing, financial firms by

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[9] Map created by Rob Feick and reproduced with permission from (August, 2020). Data for Yukon not available.

10 Tsourounis is Hazelview's senior managing director and co-head of Private Real Estate Investment Management. These comments were made at the CAIC, 2021 (held online).

their own admission are eager to exploit affordability problems. For example, Minto REIT's 2020 Annual Report clearly outlined how financial firms *want* an affordability crisis in Canada, for their bottom line. The firm assured shareholders that "the favourable fundamentals that existed pre-COVID will return," including "the housing crisis in Canada's major urban centres that existed pre-COVID will reassert itself" (p. 6). Firms that see the "housing crisis" as a "favourable fundamental" are not oriented towards enhancing affordability or working to ease the crisis, which is harmful to tenants.

3. Business Strategies of Financial Firms

Financial firms that acquire multi-family housing typically engage in repositioning as a strategy to generate more profits from rental housing. An industry term, it refers to "repositioning" a building in the market by increasing the value it generates from operations. The approach applied to a given building or portfolio differs according to where it is located (and what type of property it is) and also by type of firm, based on their appetite for risk and their time horizons for returning investment yields. For example, institutions (pension funds, insurance companies) and REITs often acquire multi-family housing as a long-term hold to provide steady and growing income. Private equity, on the other hand, typically operates with shorter-term time horizons, aiming to close funds and return investor capital within a one to seven-year time frame. A firm's treatment of the property and tenants is related to the role it plays in their overall business strategy.

The three basic investment strategies adopted by firms are referred to as core, value-add, and opportunistic (August, 2020; Herman & Ruiz, 2021).

- **Core investments** are low-risk and low-return, delivering consistent returns. In the multi-family sector, these are high-quality "stabilized" buildings, meaning that they are tenanted (often with high rent levels), and have often been recently renovated. In terms of location, these are likely to be found in primary markets (cities/regions with strong economic and population growth) and in pricier, well-located parts of those communities. Core investments are seen as "defensive" in a portfolio, and these are often held by risk-averse institutions.
- **Value-add investments** are higher risk and higher return. These investments will require "active" management to increase revenues and reduce expenses, often including renovation, to increase income and net asset value, called "value-add" repositioning. Properties targeted for "value-add" strategies may be in secondary and tertiary markets, or in parts of major market towns and cities with a lower-income renter profile. These include properties that have been poorly maintained, neglected, or subject to bad management. Value-add investors can also profit from repositioning a property, and then selling it as a "core" investment to an institution.
- **Opportunistic investments** are high risk and potentially high return. These investments require substantial effort to reposition and may target vacant, abandoned, or badly neglected properties, or properties in "untested" and peripheral markets. A classic target for opportunistic investors has been foreclosed properties in the United States. In Canada, one opportunistic strategy is to invest in resource-based and northern communities (August, 2020). Opportunistic strategies usually use leverage (debt), according to Herman and Ruiz (2021).

Strategies to Increase Operating Profits

Ultimately, firms have two options for increasing the profits from operating their buildings. They can (1) reduce their expenses and (2) increase their revenues. These are the basic elements of repositioning, and particularly of value-add repositioning, in which firms try to add significant value for investors by making big cuts in expenses and big increases in revenues.

Importantly, these efforts affect the lives of tenants living in buildings subject to repositioning. Cost savings (depending on the type) ultimately affect tenants. Revenue generation strategies directly extract more income from tenants, who experience increased costs and economic hardship. Efforts to redevelop a property can be very disruptive for residents, and efforts to attract tenants paying higher rents require the displacement of existing tenants from their homes, a process which systematically targets lower-income residents for dispossession.

Reducing Expenses: Financial firms reduce expenses in various ways. As large firms, they typically have advantages of scale over smaller firms and can immediately save on costs upon acquisition via things like bulk purchasing and harmonizing property management. Firms may invest in energy efficiency upgrades and other building improvements that save money. In addition, they may reduce spending on property maintenance and upkeep, and staff expenses. Firing live-in superintendents is a common strategy because it frees up a unit that can be rented out at a higher cost. For tenants, this replaces an on-site (often well-known and responsive) staff person with off-site property managers, or sometimes with a call centre.

Increasing Revenues: In addition, firms aim to increase revenues by imposing new costs and charges on tenants, and by increasing rents, whether on sitting tenants through guideline increases, AGIs, or by increasing rents substantially on unit turnovers. These can be raised even higher if apartments are renovated and marketed as luxury rentals.

- Imposing new costs and fees: Financial firms often add new costs (or increase charges) for building services. Called "ancillary fees"—these include charges for parking, laundry, storage, utilities, and the like. Firms also increase charges by sub-metering apartments to directly charge tenants for utility costs previously included in rent.
- Increasing Rents on Sitting Tenants: The biggest revenue gains come from increasing rents. In most jurisdictions, there are cost-of-living limits to the increase that can be applied to tenants who continue to occupy a unit. In Ontario, for example, firms can raise rents once per year by a guideline amount (in 2021 it was 0%). Financial firms systematically apply for guideline increases for existing tenants, but also often try to increase rents via AGIs.
- Increasing Rents through above guideline increases (AGIs): In addition, many financial firms strategically apply for AGIs, where local regulations allow for higher increases after landlords have undertaken major capital repairs or faced other eligible expenses. In Ontario, AGIs permit increases of up to 3% per year, for up to three years, for a total increase of 9% (on top of guideline increases). According to Zigman and August (2020), financial firms have clearly stated that they use AGIs as a "revenue generation" strategy to increase profits for investors. AGIs are not used because firms cannot afford to maintain their buildings.
- Unit Turnovers and Vacancy Decontrol: The biggest revenue gains—and therefore the biggest profits for financial firms—come from rent increases associated with unit turnovers.

> This is made possible by vacancy decontrol, which is the absence of rent controls on units once they become vacant. Vacancy decontrol incentivizes landlords to make units vacant to achieve a higher increase than is allowable in occupied suites. For this reason, August (2020) and August and Walks (2018) argue that the business strategies of financial firms are based on tenant displacement. Many financial firms keep track of how much they increase rent on "unit turns," and their increases tend to far exceed cost-of-living (guideline) increases. Speaking at an investment conference, an executive from Timbercreek explained how they execute increases on turnover in Vancouver: "The business plan is to *roll the tenants* in that market, we are seeing them take rents two or three times what existing rents are" (August, 2020, p. 13).

Financial Strategies

In addition to strategies that focus on generating profits from building operations, financial firms use purely financial strategies to generate investor value. In New York, Fields and Uffer (2014) described how private equity firms often used an arbitrage strategy, in which investments are pursued where the rate of return simply exceeds the cost of capital (the interest rate paid on loans). This is a strategy that works in a low-interest environment, and firms can generate returns even from very low-value buildings without an active management strategy.

A Spectrum of Value-Add Repositioning Strategies

In Canada, value-add repositioning strategies are common among financial firms investing in rental housing. These strategies exist on a spectrum, ranging from barebones efforts to (i) squeeze additional value from buildings to (ii) intensive renovation programs that remake buildings for a gentrified clientele (August, 2020). This section describes these strategies, illustrating with examples how they are executed by Canadian financial firms.

(i) Extracting New Value from Old Buildings

This approach, called "squeezing" by August and Walks (2018), is typically applied to properties in marginal parts of major-market cities and in secondary- or tertiary-market cities with slower economic and population growth. It is common for financial firms to acquire value-add properties in these types of areas and extract value through a combination of strategies to reduce expenses and increase revenues.

In some cases, landlords will increase ancillary charges and rents while simultaneously under-maintaining buildings. This saves money and help to push out long-standing tenants, so that their units can be re-rented at market rates. It also exploits a reality in which low-income tenants in marginal areas have few other choices but to absorb higher rents and accept reduced services—a strategy employed by private equity firms in New York, according to Ben Teresa (2015).

In Canada, many financial firms use these strategies. For example, Mainstreet Equity Corporation (TSX: MEQ), a publicly traded real estate company with over 15,000 suites, applies a value-add process to reposition "underperforming" buildings in Edmonton and Calgary. The firm "unlocks value" by finding operational efficiencies, such as energy and utility renovations that save on expenses. The company aims to attract "creditworthy" tenants and raise rents. While their annual reports boast increases for investors, Mainstreet's approach appears to embrace neglect—in 2015 they were issued the largest public health violation fine in Alberta's history, for "life threatening" risks at one Edmonton property, which suffered pest infestation, garbage issues, mould, faulty plumbing, broken windows and scattered glass, unlit stairwells, and a squatter staying in one suite (Blais, 2015). Mainstreet's leadership assured investors that the cost of this public health fine would be offset by the long-term benefits of their strategy (August, 2020).

CAPREIT, Canada's second-largest landlord, has adopted this strategy in Toronto, where many of the firm's acquisitions have been concentrated in postwar suburban locations with above-average poverty rates, racialized renters, and female lone-parent families (August & Walks, 2018, p. 8). In "stable" (but not "strong") markets, Canada's largest landlord, Starlight Investments, squeezes profits from buildings through cost reductions and increases in ancillary revenues and rents (Starlight Investments, 2016).

(ii) Gentrifying Old Buildings

In strong markets and areas facing gentrification pressure, firms have tended to adopt a repositioning strategy that squeezes more from properties while also investing in renovations to create a "condo-style" or luxury rental, followed by increases to top-of-market rents. August and Walks (2018) called this approach, "gentrification by upgrading." This approach typically involves landscaping, common area renovations (lobbies, hallways), aesthetic building improvements (painting, balcony upgrades), and in-suite renovations to remodel vacant suites. Tenants in buildings subject to this strategy often report that while vacant suites are updated, management ignores maintenance requests from existing residents. With this approach, "turning over" units and capitalizing on vacancy decontrol can be very lucrative—especially in buildings and neighbourhoods where long-standing residents are paying low rents, the payout for replacing them (called "uplift" in the industry) can be substantial. It is important to note that these profits rely on tenant displacement and particularly the displacement of low-income renters paying affordable rents. In addition, this intensifies and expands processes of gentrification.

August (2020) and August and Walks (2018) have detailed how firms in Canada have applied this approach. Starlight Investments, for example, has a "Canadian multi-family value-add program" that targets "underperforming and undercapitalized properties in strong rental markets" and has repositioned "more than 100 buildings" using a three-pronged approach: (1) capital investment in building upgrades, (2) "the application of rigorous operational standards and controls to reduce costs," and (3) "the pursuit of ancillary revenue opportunities and maximization of rental rates" (Starlight Investments, 2016). Pointing to the importance of removing existing tenants to achieve profits, CEO Daniel Drimmer explained that "the money and returns are made in the suites, when the suites turn over."[11]

Hazelview Investments (formerly called Timbercreek Asset Management) has a Canadian value-add strategy that "capitalizes on mismanaged/distressed" properties, by investing in "building

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11 Cited in August, 2020, p. 12.

envelope enhancements, suite renovations, repositioning in the marketplace, and sequential material increases to rental rates" (August & Walks, 2018). Timbercreek has articulated that their strategy is to acquire buildings in gentrifying areas. Their approach involves "improving the quality of tenant and tenant profitability" using "stronger disciplinary measures for problem tenants, including evictions." Examining eviction filings for certain Timbercreek buildings suggests that the firm ramps up evictions in newly acquired properties. At 4 Latimer Avenue, for example, a 56-unit building in Toronto, zero evictions were filed by former owners from 2010 to 2015, while Timbercreek filed fifteen in the five-year period after it was acquired. At 65 Dynevor Avenue in Toronto, the previous landlord filed for one eviction in the two years before selling. By comparison, Timbercreek filed eleven in the next two years, and a total of 75 by 2020.[12]

Akelius Canada Limited—which has been castigated by the United Nations Human Rights Office of the High Commissioner (UNHRC) for "abusing tenants' human rights" (Farha, 2020)—also uses this gentrifying by upgrading approach to drive profits. The firm focuses on smaller "boutique" apartments in gentrifying areas (in cities including Montréal, Toronto, New York) and aggressively renovates apartments to what they call "first class." In Toronto in 2013, the firm noted that on average they charge 39% higher rents after renovation. Their approach has attracted negative media attention and tenant resistance in response to the firing of superintendents, disruptive renovations, illegal unit entries, failure to do repairs, and issuing costly back-to-back AGIs (Gallant, 2014a; Gallant, 2014b; Spurr, 2014).

4. Impacts of Financialization

The financialization of multi-family housing has been criticized by academics, tenants, and housing advocates for its impacts on tenants, for its role in exacerbating socio-spatial inequality, and for contributing to Canada's crisis of rental housing affordability.

Impacts on Tenants

The business strategies used to generate maximum investor profits can have negative impacts on tenants living in multi-family buildings. Cost-cutting strategies harm tenants if these reduce the quality of maintenance or service in a building. In buildings that are neglected for upkeep (as a cost-saving strategy), tenants experience a lower-quality environment. When firms cut superintendents, tenants often experience reduced quality of service and the loss of established relationships. Under-maintenance and neglect are practices that work counter to the progressive realization of the right to housing.

Revenue generation strategies that enrich investors do so by extracting more from tenants. This increases economic hardship. Tenants are negatively affected by increased ancillary costs, rent increases, and above guideline increases. This is especially frustrating when these increases are paired with reduced service (cost-cutting or neglect), or if tenants are forced to live through disruptive building-wide renovations. In addition to economic impacts, tenants experience

12 Calculated by the author using Landlord and Tenant Board Eviction filing data from 2010-2020. These two buildings were selected because they were acquired by Timbercreek from a non-financial landlord.

physical and mental health-related impacts associated with the imposition of new charges and higher rents—including stress, anxiety, and illness. People are often worried how they will make ends meet and are afraid of losing their home.

Repositioning strategies are often achieved through legal and extralegal means. Tenants living in buildings that are being repositioned may live in active construction sites, where the actions of firms can make life miserable and stressful. In buildings owned by Akelius, for example, tenants experienced frequent illegal unit entries, constant water and electricity shutoffs, and extensive noise—even early in the morning, late at night, and on weekends. In one Toronto building, the company wrapped the entire apartment in a green tarp for months, cutting off tenants' access to sunlight and views (August & Walks, 2018). Removing tenants' balconies also affects their happiness, particularly in the summer. Tenants often speculate that firms use construction as a tool of harassment to push out long-standing tenants. At an apartment conference, one financial landlord admitted as much, noting that "one strategy is to create World War III in the lobby," to push out long-standing tenants who pay low rents.

Tenants are, furthermore, affected by eviction and displacement. Tenants are economically displaced if they cannot afford increases in charges. They may alternatively be displaced by the practices of landlords—if they cannot put up with renovations, harassment, or building-wide changes causing them stress. They may be displaced by direct pressure from the landlord, via threats of eviction or actual eviction notices.

Impacts on Neighbourhoods and Patterns of Socio-Spatial Inequality

The business strategies of financial firms are oriented to maximize value for investors and senior executives. At their root, these rely on charging higher rents and can catalyze or intensify processes of gentrification. Systematic efforts to raise rents and displace (lower income) residents from buildings in areas with rising property values leads to higher rent levels across a building and excludes lower-income tenants from living there in the future. At the scale of neighbourhoods, this pushes lower income and marginalized renters away from formerly affordable homes, from communities of support and sites of friendship, and from familiarity, work, school, and locally important relationships and connections. This can have devastating social impacts on displaced residents, while destabilizing broader communities. It also pushes people further afield, often to areas with lower-quality services, amenities, and opportunities.

Importantly, when rents are increased on a given apartment unit, it becomes out of reach for lower-income apartment seekers. While they are not physically displaced from that unit directly, they experience what's called *exclusionary displacement*, in that they are barred from accessing housing in that unit, building, and possibly even neighbourhood going forward. In this way, the systematic effort to raise rents excludes lower-income renters from buildings targeted by financial firms and others using these strategies.

Impacts on the Multi-Family Sector and Affordability

These patterns are reshaping the multi-family sector as a whole. As financial firms adopt more aggressive strategies of value-add repositioning, other actors in the sector take note and adopt them as well. As a result, these strategies are becoming more common among financial and non-financial landlords alike.

As major players seek to maximize investor gains by raising rents and fees, we are seeing rental housing prices reach new highs in Canada. The financialization of rental housing is contributing to this crisis of Canadian housing affordability. According to Steve Pomeroy and Duncan McLennan, for every new affordable unit created from Canada's national housing strategy, seven existing "modest rent" units in the country have been lost as a result of finance-driven rent increases in the multi-family sector (Pomeroy & McLennan, 2019). Importantly, business strategies that hinge on reducing affordability are working counter to the realization of the right to housing in Canada.

5. Recommendations

According to former UN Special Rapporteur Leilani Farha, "Upending financialization will require a significant shift in the way in which states engage with housing and housing-related finance." The recommendations in this report draw on many of those put forward by Farha in her 2022 draft set of *Directives on the Financialization of Housing* for states, written based on extensive consultations with housing scholars and advocates from around the world. The recommendations in this report engage seriously with critiques of financialization and propose meaningful (or even transformative) changes that would undermine the conditions that make financialization of rental housing profitable, that would reverse the policies that have catalyzed this phenomenon, and that challenge its political economic foundations. While many may not seem achievable in the current political and policy climate, these recommendations chart an aspirational path.

Track Ownership and Measure Impacts of Financialization

In Canada it is challenging to determine the beneficial ownership of multi-family buildings and other real estate. Even seasoned researchers are left guessing at who ultimately benefits from the ownership of rental housing, and who benefits from rent increases and tenant displacement associated with business practices of financial firms. In some cases, firms are operating with monopolistic ownership in local markets (for example in Iqaluit and Yellowknife). The responsibility for tracing patterns of financialization and its impacts has been left to tenants, housing advocates, and researchers. According to Farha's Directives on the Financialization of Housing, "States must undertake a good faith ongoing assessment of the impact of institutional investors and financial actors on the housing sector in light of their obligations with respect to the right to housing." This assessment must then inform legislation and policy aimed at the progressive realization of the right to housing.

> *1. Shine light on ownership:* States should collect and make public data on the beneficial ownership of multi-family housing. This should be truly public (and not simply available in databases that end users must pay to search). BC is the first province to require beneficial ownership data, which is still being collected. This is not publicly available. The UN Special Rapporteur's Directives recommend that "States should

ensure laws are in place to enable tenants to ascertain the beneficial ownership of the property in which they live."

2. Hold public hearings on financialization: The UN Special Rapporteur recommends that states hold public hearings on the financialization of housing and its impacts on the right to housing, in terms of affordability, security of tenure, habitability, and tenant participation in decision-making.

Definancialize ownership

Critics argue that financial firms invest in multi-family housing for what they can take from it (and from tenants) and not what they can contribute. Given that housing is an important social good, some argue that it should not be treated as a financial asset and product for investors. In line with these perspectives, financial firms should be disallowed from owning an important social good like housing. These recommendations are to limit, regulate, or prevent financial ownership of rental housing.

3. Prevent monopolies of ownership: Anti-trust laws protect consumers from predatory business practices and unfair competition. States should ensure that financial firms do not monopolize ownership of rental housing in any jurisdiction. The UN Special Rapporteur's Directives recommend that "States should prevent monopolies of ownership, placing reasonable limits on the number of units a single investor or their subsidiary may own in a manner that ensures consistency with international human rights obligations."

4. Expropriate housing owned by financial firms that violate human rights: States should expropriate housing owned by financial firms when their business strategies are known to violate human rights, including the right to adequate housing—whether via plans to raise rents, renovict, or reduce quality of housing. States should expropriate housing owned by financial firms above set maximums (as in recommendation #3).

5. Disallow ownership by and sale to financial firms: Farha's (2022) Directives recommend that "states must never sell social housing to institutional investors or other private sector actors," and that "States must prevent institutional investors from purchasing mobile/manufactured homes where such homes provide housing to residents, unless legislation is in place that strictly limits increases to land rental fees." In addition, states should prevent the sale of rental housing properties to financial firms unless tenants are similarly protected by legislation preventing rent increases and evictions.

6. Prevent lending to financial landlords who will engage in predatory practices.
The UN Special Rapporteur's Directives recommend that states should require banks to act in the public interest and uphold human rights, including the right to housing. This means "preventing banks from lending to institutional investors and corporate landlords to purchase residential real estate, particularly where rent increases or renovictions are anticipated."

Suspend State Subsidies and Support to Financialized Landlords

According to Farha's (2022) Directives:

> State financing, mortgage insurance, subsidies, or tax advantages for housing development must not be extended to institutional investors unless their investment demonstrably addresses housing need, commencing with priority groups, and where the rent in these units is geared to household income in perpetuity.

These recommendations point to ways that the Canadian federal government should suspend subsidies and support to financialized landlords.

7. Stop subsidizing financial landlords with National Housing Strategy funds: Canada's National Housing Strategy ostensibly aims to protect and expand affordable housing. Financial firms are invested in multi-family housing in Canada with the express goal of making it less affordable. This is a simple reality, as they are motivated (and obligated) to pursue rent increases to maximize investor gains and executive compensation. Pursuing rent increases (via ancillary costs, guideline increases, AGIs, and through vacancy decontrol) makes housing less affordable. The National Housing Strategy should make firms using these approaches ineligible for government housing programs, as their efforts are working in direct opposition to social goals of these programs.

8. Stop subsidizing financial landlords with CMHC preferred lending rates: Canada's financialized landlords routinely access low-rate financing from CMHC. This is a state subsidy that directly supports firms that are worsening affordability as their business strategy. There is no social justification for providing this subsidy.

9. Suspend lending to financial landlords: The Special Rapporteur's Directives on Financialization notes that "domestic law should prohibit banks and national home mortgage institutions from lending or providing mortgage insurance to corporate landlords or institutional investors where those loans result in contraventions of human rights, including the right to housing." In addition, the Directives recommend that "Banks and other financial institutions should suspend further lending to REITs for residential real estate, unless the REIT is clearly established for social purposes and can demonstrate its objective and outcome is to implement the right to housing."

10. Eliminate favourable tax incentives for REITs: Multi-family REITs currently benefit from tax advantages. There is no social justification for allowing these firms and their investors to have a tax benefit. The UN Special Rapporteur's Directives note that "governments must repeal tax exemptions or preferential tax status for existing profit-driven REITs and commence taxing them in a manner that is consistent with corporations. Taxes raised should be targeted toward housing that is affordable for those in need." In addition, the Directives recommend that states "institute a capital gains tax on properties distributed or transferred to REITs."

11. Subsidize and support construction, acquisition, and operation of non-market, co-op, and social housing: Federal subsidies (direct and indirect) should support genuinely affordable housing and build a more extensive supply of non-market housing that guarantees affordability in perpetuity. Prioritizing non-market providers for expanded levels of state support will address the negative impacts of financialization by providing more affordable rental housing with security of tenure. This is in line with the

Special Rapporteur's Directives, which recommend that "states must ensure an adequate supply of social housing with social supports, as necessary, that is genuinely affordable for those at the lowest end of the economic spectrum, including those living in homelessness and those with no income."

Pension Fund Legislation

Pension funds are involved in the financialization of rental housing, through direct investment in properties and indirectly through investments in other financial vehicles (REITs, funds, etc.) that have acquired multi-family portfolios. Farha's (2022) Directives include recommendations for pension fund managers, but also for governments:

> *12. Require public pension funds to promote social good:* The Directives note that governments should "adopt legislation requiring that public pension fund investments be consistent with all human rights including socio-economic rights," and that "states should regulate investment by pension funds into social housing to ensure it does not contribute to financialized housing development or schemes." Currently, public pension funds directly own substantial housing portfolios (e.g., Ontario Teacher's Pension Plan owns Cadillac Fairview and Amica Senior Living; the Public Sector Pension owns thousands of multi-family apartments in partnership with Starlight Investments and owns Revera Living, one of the largest seniors' housing operators in Canada). British Columbia Investment Management Corporation (BCIMC) owns substantial portfolios of housing, as does the Alberta Investment Management Corporation (AIMCO).

Rent Controls and Tenant Protections.

Deregulation in rent controls and tenant protections has been central to the rise of financialization in rental housing. Strengthening rent controls and tenant protections is one important piece in addressing the negative impacts of this trend. Such measures would not eliminate the profit-making opportunities that kick-started this phenomenon and guard against its negative impacts on tenants by protecting them from price gouging, economic hardship, and displacement.

In Canada, landlord-tenant legislation has traditionally been a provincial responsibility. However, the federal government has imposed rent controls in the past. Given the crisis of affordability in Canada, it is worth exploring federal-level responsibility for ensuring secure tenure and securing affordability in rental housing. According to the UN Special Rapporteur's Directives, "States must enact and strengthen legislation that provides adequate tenant protections, particularly in those areas required for the realization of the right to housing, such as: security of tenure, affordability, and habitability." According to the guidelines, these must include, among other provisions, "measures to control the increase in rent during and between a tenancy." Recommendations related to this include:

> *13. Establish vacancy control.* Governments should strengthen tenant protections between vacancies. Vacancy control ensures that rent rates are applied to a housing unit and can ensure that the unit stays affordable between tenants. This also eliminates the incentive to promote "unit turnover" in order to raise rents. There are precedents

for vacancy control—Ontario used to have vacancy control, until 1997, Manitoba has vacancy control in force today, and British Columbia just voted to control rents between vacancies in rooming houses.

14. Eliminate Above-Guideline-Increases (AGIs) to rent. AGIs are used as a loophole in rental tenancies legislation which allow landlords to strategically raise rents must faster than the increase of the cost of living. This is exploited by financial firms to deliver higher profits. Eliminating AGIs would eliminate a key tool used to generate profits for landlords at the expense of tenants.

15. Limit rent increases to the cost of living. In some jurisdictions, landlords can raise rent by any amount, without restriction. In these places, annual rent increases should be limited to the cost of living each year.

16. Apply rent control equally to all buildings and rental housing types: In many jurisdictions, newly built properties are exempt from rent control regulations to incentivize new construction. This policy creates a two-tier rental housing system, in which some tenants are protected from costly rent increases (and economic eviction brought on by high increases) and others are not. Tenants in all rental housing should be protected from rent increases.

17. Strengthen tenant protections and prevent evictions. Current rent regulation regimes prioritize a landlord's ability to make profits from a unit above the value of that unit in providing a safe and secure home for tenants. Tenure security should be prioritized, by prioritizing eviction prevention. According to the Special Rapporteur's Directives, governments should ensure legislation includes "a prohibition on legal eviction into homelessness," and "right to legal representation paid for by the state to defend against evictions and other housing-related matters."

18. Protections against renoviction: The UN Special Rapporteur's Directives recommend that legislation be enacted to "prohibit or deter against spurious renovations, and in this context that protects tenants against increased rent levels and eviction." In regard to properties undergoing renovation, legislation should be enacted to ensure that tenants are relocated, compensated, and given the right to return at the same level of rent. Moving costs should be paid by the landlord.

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