THE FINANCIALIZATION OF HOUSING IN CANADA

A Summary Report for the Office of the Federal Housing Advocate

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This report is part of a series of reports on the financialization of housing commissioned by the Office of the Federal Housing Advocate (OFHA). The other reports in the series can be found on the OFHA website and on the Homeless Hub at homelesshub.ca/OFHA.

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.

Le présent document existe également en version française sous le titre, La financiarisation du logement au Canada : Un rapport de synthèse pour le Bureau de la défenseuse fédéral du logement. *Elle est disponible sur le site du Bureau de la défenseure fédérale du logement et sur le Rond-point de l'itinérance.*

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Executive Summary

Introduction

Canada has lived with a perpetual affordable housing crisis, with cost-burdened tenants, debt-burdened new homebuyers, and rising inequality based on asset-ownership. These issues are related to the financialization of housing, in which mortgages, houses, apartments, and shelter are treated as assets for financial investment. According to a report by the United Nations, the financialization of housing poses a challenge to ensuring the right to adequate housing on a global scale. The Canadian government is obligated to address this problem. In 2019, Canada recognized the right to adequate housing in domestic law, building on its affirmation of this right in international law.

This report serves to introduce and summarize the findings from a series of reports commissioned by the Office of the Federal Housing Advocate on the financialization of housing. The full set of reports includes:

- *The Financialization of Housing in Canada (Summary Report)* by Martine August
- *The Financialization of Rental Housing in Canada* by Martine August
- *The Financialization of Seniors' Housing* by Jackie Brown
- *The Uneven Racialized Impacts of Financialization* by Nemoy Lewis
- *Impact of financialized housing on tenants: ACORN Housing survey report* by Bhumika Jhamb and Judy Duncan of ACORN Canada
- *Housing Financialization International Landscape* by Manuel Gabarre de Sus

1. The Value of Housing

Housing is a critically important social good and a key social determinant of health. Advocates for the right to housing argue that states should prioritize the social function of housing, meaning that its value as a home should be elevated over its value as a commodity.

The right to housing is a social right recognized in international law, including in the *Universal Declaration of Human Rights* and the *International Covenant on Economic, Social, and Cultural Rights*. The right to adequate housing has minimum criteria, including security of tenure; affordability; habitability; accessibility; a location proximate to opportunities and services and free from danger; cultural adequacy; and availability of services and infrastructure. According to international law, states are meant to progressively realize the right to housing—taking steps using maximum resources to realize this right—while also refraining from measures that prevent its realization.

Canada has ratified multiple international human rights treaties on the right to housing, which obligate all levels of government (federal, provincial/territorial, municipal) to progressively realize the right to adequate housing. Canada has also recognized the right to adequate housing in law, via the June 2019 *National Housing Strategy Act*, committing governments to the progressive realization of this right.

2. Financialization

Financialization is a process in which finance capital has come to dominate the economy and everyday life, and in which money is increasingly made through financial channels, rather than by making things (Krippner, 2004). Financialization is associated with growing social inequality worldwide (Piketty, 2014), and is connected to the rising influence of "neoliberal" ideologies and governance strategies. Neoliberal restructuring aims to prioritize the market and reduce the role of government in social redistribution. Financialization transforms practices of states, institutions, and society, in part through the mechanism of prioritizing "shareholder value" and other financial metrics. The structural prioritization of investor profits means that other objectives—including social, environmental, cultural, or other goals—are deprioritized by financial firms.

The state has played a fundamental role in catalyzing financialization, through policies to deregulate finance, increase the power of central banks, and expand the role of credit and of the financial sector.

3. The Financialization of Housing

The financialization of housing refers to the growing dominance of financial actors in the housing sector, which is transforming the primary function of housing from a place to live into a financial asset and tool for investor profits. The financialization of housing is recognized as a trend that is undermining the realization of the right to adequate housing. The financialization of housing includes the securitization of mortgages and the direct acquisition of housing by financial entities that turn it into a product for investors. These entities include private equity firms, real estate operating companies, real estate investment trusts (REITs), asset managers, and institutional investors.

Financial firms that invest in housing manage it for investors to produce maximum profits. In the industry, firms refer to "core," "value-add," and "opportunistic" investment strategies for real estate. For firms investing in rental apartments, a common strategy is to "reposition" buildings and "add value" for investors by driving up rental rates and other fees, cutting costs on staff and maintenance, and renovating common areas and vacant units. Profit-making strategies for financial firms investing in housing involve extracting more from residents, and often involve displacement.

Housing policy has opened the door to financialization in Canada. Federal withdrawal from social housing provision in the 1990s has left a void in affordable housing supply for decades. Similarly, policy support for the securitization of mortgages catalyzed financialization in the ownership sector, an approach that has completely unlinked housing price increases from income growth. Deregulation of rent control and the introduction of "vacancy decontrol" created a lucrative incentive for landlords to acquire buildings, remove tenants paying low rates, and increase rents to "market" levels. Legislation allowing for rent increases above the cost of living has also been used as a revenue-generating tool by financial firms. The 2019 *National Housing Strategy Act*, which explicitly recognizes the right to housing, has the potential to create systemic change.

4. Types of Financialization of Housing

Financialization of mortgages: Homeownership has been reshaped in recent decades by the securitization of mortgages, where home loans are packaged and traded as securities for global investment. This has catalyzed rising debt loads for borrowers, created more liquidity in markets, and driven high increases in home prices that are pushing homeownership beyond affordability for more and more people. The securitization of mortgages catalyzed the 2008–2009 Global Financial Crisis (GFC) and foreclosure crisis, which disproportionately harmed low-income and racialized homeowners in the US. Canada's state-driven mortgage securitization program, launched in the 1980s, has transformed Canada's housing system into an engine of accumulation for the financial sector, while deeply indebting Canadians (Kalman-Lamb, 2017).

Financialization of single-family homes: The financialization of single-family homes involves the direct purchase of homes by investors and financial institutions. In the US and other countries, crisis or mass sell-offs of housing portfolios have created ***Single Family Rentals (SFRs)*** as an asset class for investors. Tenants in these rentals face problems with affordability and security, and financial firms have been found to evict at higher rates than other landlords. ***Buy-to-Let (BTL)*** financialization refers to the acquisition of homes by investors (including retail investors and individuals) who intend to rent them out as investment properties. In Canada, this phenomenon has increased during the pandemic. In addition, the first institutional SFR vehicle was launched in Canada in 2021.

Financialization of multi-family rental housing: This refers to a process in which rental housing properties are purchased by financial firms, turned into products for financial investment, and managed to maximize profits for investors, shareholders, and executives. In Canada, REITs grew from owning zero rental suites in 1996, to nearly 200,000 last year, and financial firms hold 20–30% of the country's purpose-built rental housing stock. During the pandemic, financial firms have accelerated their consolidation of existing rental housing. This trend is associated with rising rent levels, displacement pressure, impacts on tenant quality of life, higher rates of eviction, and gentrification. Historically, financial firms have grown their holdings by buying existing stock, but there has been a small uptick in ***build-to-rent*** (BTR) financialization in Canada, where financial firms develop new properties. These properties have very high rents and do not contribute the stock of affordable housing. Much more affordable housing is lost in Canada to financialization than is built from new supply.

Financialization of seniors' housing: Since the 1990s, financial firms have grown to dominate in the seniors' housing sector, acquiring 22% of long-term care homes (LTCs) and 42% of retirement living properties in Canada. This trend is associated with neoliberal healthcare restructuring and the privatization of LTCs. The profit-making strategies of financial firms in seniors' housing rely on driving very high rents and raising fees for domestic services and privatized healthcare (in retirement homes), capitalizing on government redevelopment programs (in LTCs), and cutting costs, which affects the health and well-being of residents and the labour conditions of LTC workers, many of whom are racialized women.

Financialization of social housing: In many parts of the world, social housing has been privatized and sold to financial firms, leading to price increases, neglect, and property deterioration. This trend violates the right to adequate housing by removing deeply affordable, de-commodified housing and turning it over to firms that extract value by raising rental housing prices and cutting costs.

Financialization of student housing: The rise of the purpose-built student housing (PBSA) sub-market in Canada has been catalyzed by interest from financial firms seeking a new product for investors (Revington & August, 2020). Researchers link this trend to rising student housing costs and gentrification.

Financialization of short-term rentals: Financial investment in short-term rental platforms and the direct acquisition of properties to use as short-term rentals are reshaping rental housing markets. In the absence of regulation, this trend is generating gentrification, higher rental housing prices, and, in some places, the cultural reshaping of communities by tourism.

Financialization of mobile home communities: Mobile home parks, sometimes called Manufactured Home Communities (MHCs) have been targeted by Canadian REITs and institutions as a "recession proof" investment. Researchers have found this trend leads to increased utility and service costs for residents in traditionally low-cost communities.

5. Impacts of the Financialization of Housing

Financialization has been flagged as a driver of social inequality and is associated with the violation of the right to adequate housing. Financial firms drive value for investors using strategies that reduce affordability and that can compromise habitability, security of tenure, and other pillars of adequate housing. The impacts of financialization include the following:

Affordability: Financialization is associated with increasing costs of housing for homeowners and renters. Financialization of home and mortgage markets has contributed to house-price growth that is de-linked from wage growth in recent years, which intensifies inequality. Financial firms operate rental housing with a goal to increase rent levels, making it their business model to reduce affordability.

Harassment and reduced quality of life: The profit-making strategies of financial firms can negatively impact tenant quality of life. Tenants may be affected by disruptive construction in their building. In some properties owned by financial entities, firms neglect repairs and upkeep. In others, tenants may feel pressured to leave by firms that use legal and extralegal strategies to push out long-standing residents paying lower rents.

Displacement and eviction: Financial firms profit from driving up rental housing costs, which leads to direct and indirect displacement. Financial firms strategically pursue unit "turnovers" to capitalize on allowable rent increases between tenancies. Researchers in the US have found that financial operators use eviction as a revenue-generating tool, and that they evict tenants at higher rates than other types of owners.

Health impacts: Financialization has impacts on resident mental and physical health, resulting from coping with price increases, financial insecurity, threats of displacement, landlord harassment, and eviction. In seniors' housing, for-profit long-term care facilities ownership is associated with worse care outcomes in Canada. A US study showed that private equity ownership has been correlated with a 10% increase in patient death.

Uneven impacts disproportionately affect marginalized groups: Housing inequality is disproportionately experienced by people who are Indigenous, racialized, disabled, and newcomers to Canada, as well as those with low or fixed incomes.

6. Summaries of Reports in the Series

In addition to this summary report, this series on financialization for the Office of the Federal Housing Advocate includes reports that look in detail at:

- The financialization of rental housing (by Martine August)
- The financialization of seniors' housing (by Jackie Brown)
- The uneven racialized impacts of financialization (by Nemoy Lewis)
- Impacts of financialization on tenants (by Bhumika Jhamb and Judy Duncan of ACORN Canada)
- The international landscape of housing financialization: (by Manuel Gabarre)

7. Recommendations

Recommendations for all levels of government

- Track beneficial ownership of housing
    1. Require ultimate beneficial owner disclosure of all property owners
- Limit and prevent the financial ownership of housing
    2. Limit/cap ownership by firms that treat rental housing as an investment product
    3. Expropriate financialized housing in excess of reasonable minimums
    4. Disallow ownership and purchase of social housing by financial firms
    5. Disallow ownership and purchase of mobile homes to financial firms
- Measure the impacts of financialization
    6. Governments at all levels should measure the impacts of financialization and use the findings to inform policy aimed at the progressive realization of the right to housing
    7. Governments should hold public hearings on financialization to measure impacts
- Prevent displacement
    8. Government spending on infrastructure and other community upgrades should be combined with anti-displacement measures

Recommendations for the Federal Government (related to the CMHC and the NHS)

- Expand support for social and affordable housing to counter neoliberal policies that violate the right to housing
    9. Expand NHS support to increase construction of non-market housing
    10. Ensure federally funded housing remains affordable in perpetuity

11. Expand NHS funding to support the acquisition of existing rental housing properties
12. Provide funds to support the expropriation of certain kinds of financialized housing
13. Impose or incentivize the adoption of meaningful rent controls
14. Provide rent relief for tenants as an eviction prevention strategy

- Prevent the use of federal funding and support for actions that violate the right to housing

15. Do not extend state financing, mortgage subsidies, or tax incentives to financial firms unless their investment demonstrably addresses housing need
16. Eliminate provision of CMHC preferred financing to financial investors in multi-family housing, seniors' housing, student housing, and mobile homes
17. Limit CMHC preferred financing to borrowers who can guarantee affordable rents, zero displacement, and eviction prevention measures
18. Suspend provision of CMHC mortgage insurance to financialized investors in housing

- Suspend programs that promote indebtedness from home ownership and privilege home ownership over renting

19. Governments should not favour the access to a home property through mortgage insurance, the purchase of mortgage bonds, subsidies, or public incentives; and should not prioritize homeowner support over renter support

Recommendations for the Federal Government (related to taxation)

20. Eliminate federal tax incentives for REITs
21. Institute capital gains tax on properties transferred to REITs
22. Set higher targets for delivery of affordable units

Recommendations for the Federal Government (related to health)

23. Explore the legislation of criteria for provinces to receive LTC transfers
24. Push for and enforce national long-term care standards
25. Provide funding to build and operate public and non-profit seniors' housing
26. Invest in alternatives to long-term care

Recommendations for the Federal Government (related to competition)

27. Prevent monopolies in the ownership of rental housing by setting reasonable maximum limits on ownership by any given firm
28. Prevent oligopolistic and monopolistic rental market ownership via *The Competition Act*

Recommendations for the Federal Government (related to banking and financial regulation)

- Regulate banks to prevent lending to firms that profit from rent increases, displacement, and the violation of the right to adequate housing.

29. Regulate financial institutions to prevent lending for the purchase of residential real estate with plans to raise rents and violate the right to adequate housing

- Regulate public pension funds
    30. Prohibit public pension funds from providing private loans to facilitate housing acquisitions by financial operators
    31. Require public pension funds to make public their real estate investments
    32. Require public pension funds to promote the social good, consistent with human rights

Recommendations for the Provinces (related to housing)

- Strengthen tenant protections and rent control
    33. Provinces should put in place vacancy control to control the increase of rent between tenancies.
    34. Provinces should eliminate above guideline increases (AGIs) to rents
    35. Provinces should limit annual rent increases to the cost of living
    36. Provinces should prevent evictions and prohibit eviction into homelessness
    37. Provinces should create and enforce strong protections against renoviction
- Provide data and funding to support affordable housing
    38. Provinces should maintain an apartment unit registry with details on ownership and rent changes
    39. Provinces should fund social, co-op, and non-profit housing production and operation, and renew their historic role in meaningful support for deeply affordable housing

Recommendations for Provinces (related to long-term care)

40. Award long-term care licenses to public and non-profit operators and explore how to reallocate beds from financialized and for-profit operators
41. Support public and non-profit providers to take over for-profit and financialized homes when contracts expire
42. Establish an agency to support non-profit and public homes in development
43. Work with federal governments to build and operate public and non-profit retirement residences

Recommendations for Municipalities

44. Meaningfully enforce standards of maintenance by-laws
45. Develop landlord licensing to track renovictions and demovictions, identify bad landlords, and enable enforcement of building standards; revoke the licences of non-compliant actors
47. Acquire and/or expropriate existing affordable housing stock at risk of acquisition by financial firms to operate as social, co-op, or non-profit housing.
48. Expand social housing stocks using existing municipally owned properties for development
49. Support acquisition programs for affordable housing with capital grants and forgivable loans to non-profits and land trusts
50. Impose vacancy tax
51. Protect rental housing loss with anti-demolition, anti-conversion, and one-for-one unit-replacement requirements (at same size and rent levels