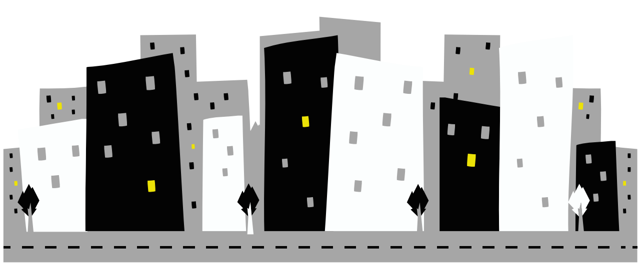
REIN IN THE REITS

ACORN Canada, is a multi-issue, membership based community union of low-and-moderate income people. We believe that social and economic justice can best be achieved by building community power for change. With 140,000+ members in 20+ neighbourhood chapters across 9 cities, our central purpose is to effectively represent and champion the interests of Canada's low-and-moderate income citizens on the critical issues of social and economic justice.



Key Highlights:

The rapid growth of Real Estate Investment Trusts or REITs is creating and fuelling the existing housing crisis. **Federal government should immediately re-evaluate this tax loophole and make the tax rate for REITs based on how much affordable housing they are providing / or destroying.**

6,000

FEDERAL GOVERNMENT SUPPORTED HOUSING UNITS

Each year the federal government's National Co-Investment Fund builds 6,000 units and CAPREIT alone flips approximately 14,000 to get the maximum rent possible, pulling them out of more affordable priced units.

$1.2B

AMOUNT LOST IN LAST 10 YEARS

Analysis of seven residential REITs shows that if they were taxed at the same rate as non-REIT Canadian corporations, they would have paid over $1.2 billion more in taxes since 2010.

$425M

TAX MONEY LOST THROUGH CAPREIT

CAPREIT would have paid over $425 million more in taxes, since 2010.

BACKGROUND

Housing is increasingly becoming a commodity or a financialized asset. One of the main factors leading to commodification of housing is the growing role of finance in traditionally non- financial sectors such as real estate where housing becomes a publicly traded commodity. In Canada, this phenomenon has resulted in what is known as Real Estate Investment Trusts or REITs. REITs pool the capital of multiple investors to own, operate or finance income-generating real estate. Investors can receive returns on their investments without needing the expertise to buy or manage any properties themselves.

As per recent research conducted[1], these financialized landlords or REITs have gone from owning zero to roughly 10% of purpose-built multi-family rental housing between 1996 to 2017. REITs make up 9 out of the top 10 Canada's biggest landlords and 18 out of top 25. The combined portfolio of REITs in the top 25 biggest landlords alone is 290,000 suites or 18% of all privately initiated apartments. Their growth has been extremely significant in just 5 years from 2011 to 2017 when the proportion of suites owned by the 20 biggest landlords rose from 15.8% to 20.2%. This is an increase of 27.8% while the number of apartments grew by only 6.5% over these years. All this when we are in a housing affordability crisis!

- Nationally, between 2006 and 2016, the number of actually affordable units on the market (renting below $750 a month) **declined by 830,000**, according to data from the Canada Mortgage and Housing Corporation (CMHC) Rental Market Survey and the 2011 National Household Survey[2].
- In a 2017 paper, Steve Pomeroy, a senior housing policy consultant, noted that new additions to Canada's rental stock over that same period were typically priced at 140% of the average market rent and therefore did not contribute to the affordable housing supply[3].
- **1.8 million** Canadian households are spending more than 30% of their income on housing. **Some 800,000 Canadian households spend more than 50% of their income on rent.**
- An estimated 2.4 million Canadian households experiencing core housing need in 2020.

The rapid growth of REITs is creating and fueling the existing housing crisis. ACORN recently conducted research[4] to investigate the business practices adopted by CAPREIT - Canadian Apartment Properties Real Estate Investment Trust - the largest REIT in Canada. The report shows that CAPREIT is making 14,216 units of their most affordable housing stock each year way less affordable by flipping the unit, essentially making it no longer affordable to many[5].

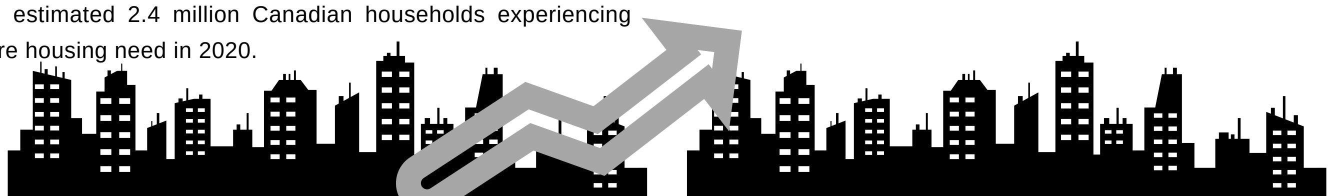
As compared to this, the National Co-Investment fund as part of the National Housing Strategy is investing $13.2 billion over 10 years to create 60,000 affordable housing units. This means that federal taxpayer money, through the National Co-Investment fund, will spend $13.2 billion to build 60,000 units of affordable housing in Canada, or $220,000 to create each unit. Each year the co-investment fund builds 6000 units and CAPREIT alone **flips approximately 14,000 units to get the maximum rent possible**, pulling them away from affordability.

REITs have eaten away much of the country's affordable housing stock – between 2011 and 2016 the number of private rental units affordable to households earning less than $30,000 per year declined by 322,600 units [6].

In fact, unlike so many businesses, the pandemic is not slowing down CAPREIT's profitability. **In the first six months of 2020, CAPREIT has made more money than during the same period in 2019.** Most importantly, the profits are made following extremely problematic business practices such as suite turnovers and pursuing above the guideline rent increases that is devastating for tenants.

Tax Loopholes[7]

- Analysis of seven large residential REITs shows that if they were taxed at the same rate as non-REIT Canadian corporations, they would have paid over $1.2 billion more in taxes since 2010. ·
- CAPREIT would have paid over $425 million more in taxes. In their annual report, CAPREIT boasts they turnover 19% of their portfolio annually. This equals 8,246 units. When you add that to the number of AGIs they applied for in 2019 (5,974) that equals 14,216 of CAPREIT's affordable market rental units being made unaffordable each year.



ACORN'S DEMANDS

The federal government must rein in REITs! Following are the measures that the federal government must take:

1.Plug the tax loophole by removing the REIT exemption.
CAPREIT is registered as a Mutual Fund Trust but it enjoys preferential tax treatment provided by the Federal Income Tax Act that exempts REITs from paying any tax at the corporate level or the entity level. As compared to REITs, other corporations pay not less than 27% federal taxes. As long as CAPREIT qualifies for the REIT exemption, billions of dollars will be foregone which could instead be used to provide affordable housing.

ACORN members demand:
Federal government should immediately re-evaluate this tax loophole and make the tax rate for REITs based on how much affordable housing they are providing / or destroying. **It makes no financial sense for the federal government to invest in affordable housing on one hand and then incentivise the reduction of it on the other.**

2. CMHC must stop financing REITsThe Canada Mortgage and Housing Corporation (CMHC)
Canada’s national housing agency aids and abets the process of financialization by offering its insured mortgage products to assist capital funds and REITs to secure the financing required to facilitate their acquisition programs. CAPREIT has been accessing government-backed mortgage insurance program through the National Housing Act since 2010. A CMHC insured mortgage is more favourable than a conventional mortgage.

ACORN members demand:

- CMHC stops these enabling activities as the housing that is built by these REITs are not affordable.
- Any CMHC backed financing should ensure that it has clear conditions laid out so that REITs such as CAPREIT do not displace tenants and provide affordable housing. The federal government agency could add a No Displacement Guarantee as a condition to provide any insurance to entities such as REITs.

3. Create a National Non-Profit Acquisitions Strategy
REITs or financialized landlords have already acquired what once used to be affordable housing. In fact, many of the buildings at risk of financialization were created through federal grants and tax incentives totalling $4 Billion Canada-wide. In fact, recently, In the federal government announced a new Rapid Housing Initiative (RHI), to create up to 3,000 new spaces for homeless persons displaced by COVID. However, the initiative is not designed to enable non-profit acquisition of modest rent properties[8].

ACORN members demand:
The Federal Government creates a National non-profit Acquisitions Strategy funded as part of the National Housing Strategy. -

- Create a CMHC acquisitions fund. CMHC should supplement the National Housing Strategy’s Co-Investment Fund with an Acquisitions Fund that would enable non-profit, co-op and land trust organizations to purchase at-risk rental buildings when they come on the market.
- Cities need to step in to provide expedited approvals. The City of Toronto pioneered a Small Sites Acquisition Pilot Program.
- Build capacity of non-profit and co-op sector to participate in the market, scan the market for opportunities, evaluate building condition and financial viability, submit a credible submission and take on the responsibilities of owning and operating the building.

4. Ban REITs to own certain types of multi-family residential buildings
In Berlin, a planned referendum proposed to ban rental housing ownership by large landlords and expropriate 200,000 units for conversion to social housing. ACORN members demand that the same should be pursued in Canada as well.

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6. Pomeroy, Steve. (2020). Why Canada needs a non-market rental acquisition strategy. May 2020. Available at https://www.focus-consult.com/why-canada-needs-a-non-market-rental-acquisition-strategy/
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ACORN CANADA

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We thank DT Cochrane at Canadians for Tax Fairness for the estimation of taxes foregone due to REIT Exemption.