



Rental Housing in Canada's Housing System

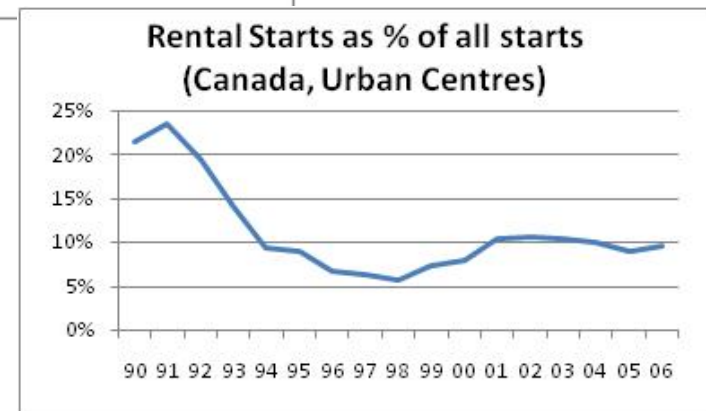
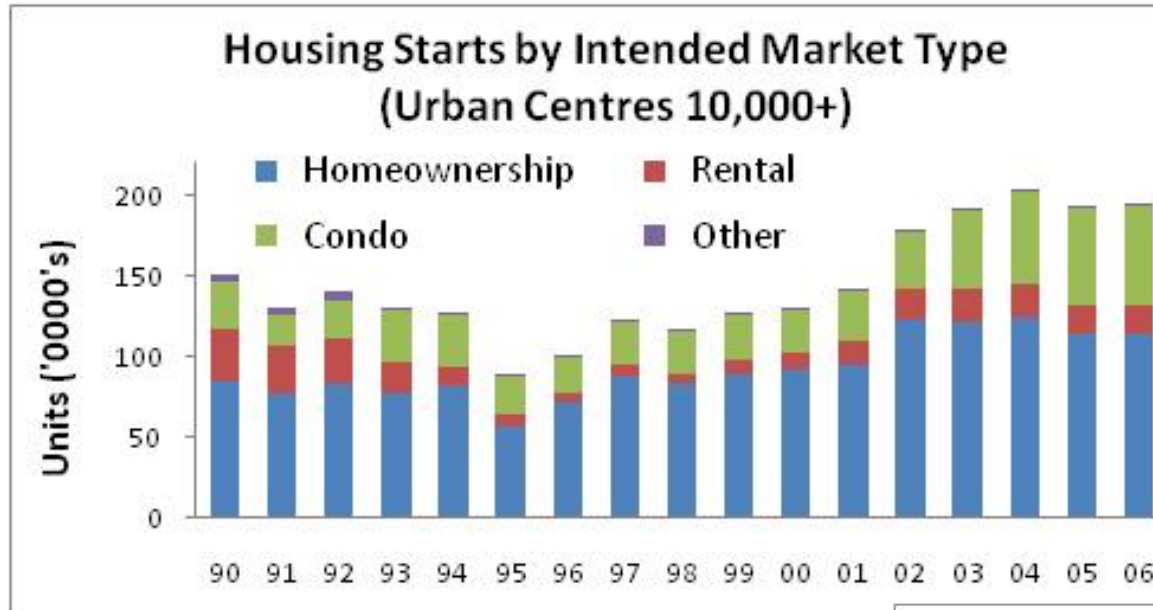
Steve Pomeroy, University of Ottawa

Australian National Housing Conference
Sydney 2008

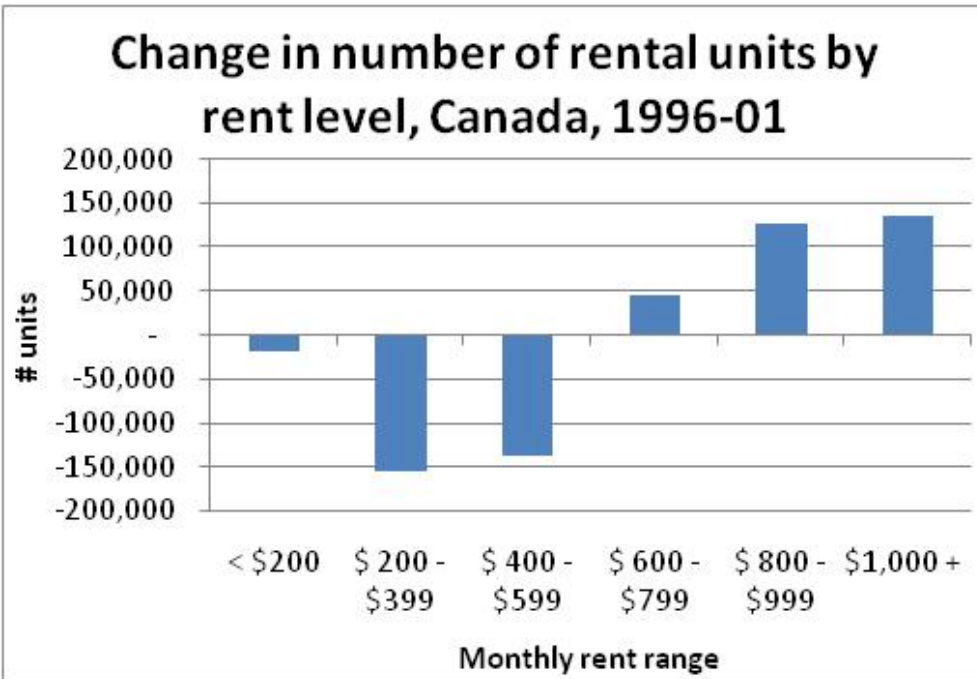
Canada's Rental Market

- Financing is NOT a serious issue
- Persistent low volume new rental construction
 - Unattractive tax regime for rental investors
 - Perceived over regulation
- Contracting and Eroding Rental stock
 - Causing affordability issues
- Shift in characteristics of investors

Most Starts for Ownership Market

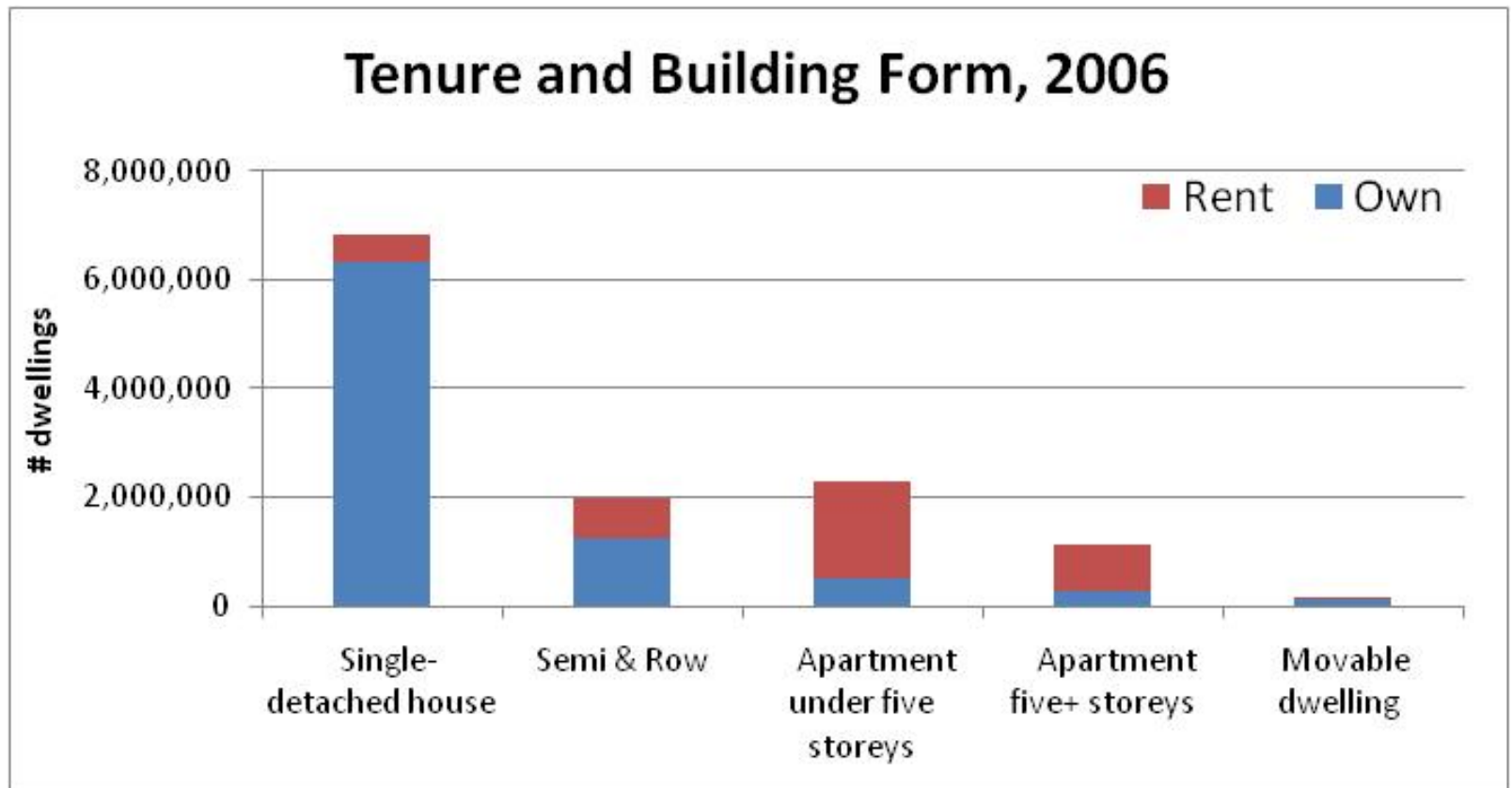


Low Rent Stock Eroding



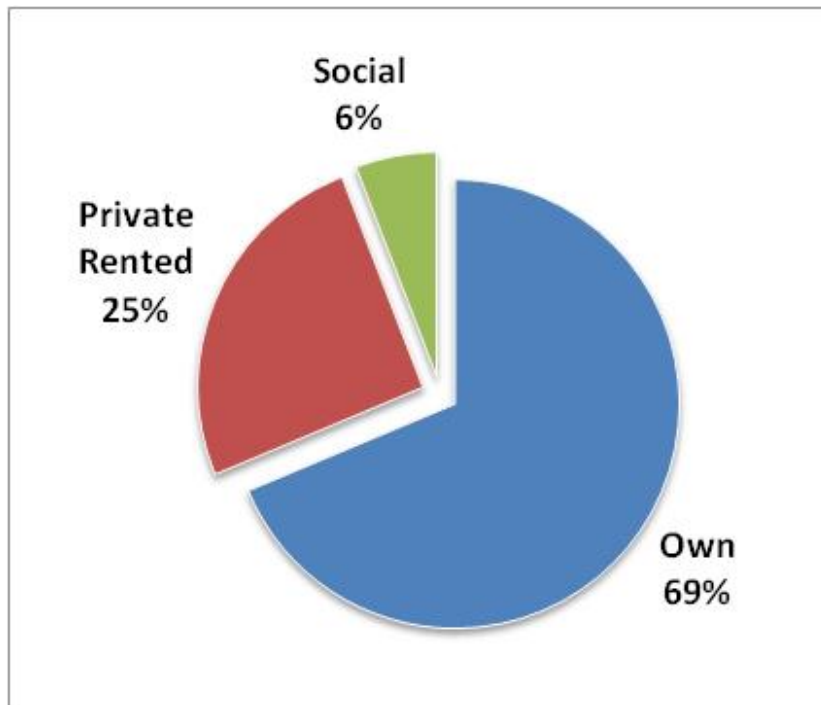
- Median renters income 60% those of owners
- 2006 Net Loss of 90,000 existing rental units since 2001
- Absolute shortage in low rent stock, increasing pressure on low rents (3x rate increase of top)
- H/O “release valve” may be closing down

Rental mainly in multi-unit bldgs

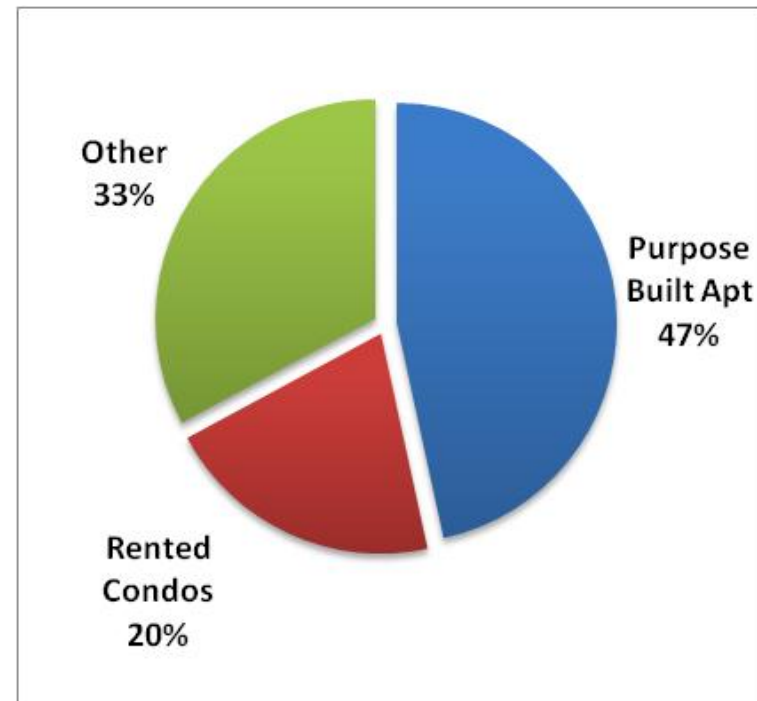


“Formal” purpose built private stock

Overall Tenure Mix



Types of Rental Housing



Characteristics of Investors

- Individual investors small part of market (but changing)
- Predominantly corporate (portfolio) developers
- Increasing Institutional/REIT

Financing Rental Housing

- Facilitated by Mortgage Insurance (CMHC)/Bank Act 75% max
 - Reduces lender risk, enhances security
 - Lower interest rates (80-100bps)
 - Important for social housing (100% private financed – back by Long term subsidy)
- Underwriting criteria – Loan-to value (85%); DCR 1.2/1.3;
- Flexibilities for affordable housing

Key question – this panel

- Is it desirable or necessary to attract private/institutional investment in order to expand supply of rental housing?
- What about supply of AFFORDABLE RENTAL housing?
 - Public return on investment vs. private return on equity

Canadian Experience

- Traditional role of private developer
 - Over time *relatively* affordable
- Supply stimulus programs
 - 1975-84 ARP/CRSP (loan/grant)
 - 74-81 MURB (Tax based)
- Objective: reduce developer equity; improve return on equity
- No affordability objective (supply only)

Canadian Experience

- New Policy Statement 1985 – stop intervening in market (disruptive)
- Now low levels rental construction
 - Unattractive tax treatment
 - Regulation/uncertainty (prov's)
- Institutional/REIT counter productive effect
 - Invest in EXISTING STOCK
 - Eroding affordability

Conflicting views

- Significant non-profit sector
 - opposes developer subsidies (want long term affordability – via NP)
- Private development Industry
 - also opposes supply subsidy. Prefers:
 - Tax reform
 - Shelter allowances

Possible Solution

- Need to separate two issues:
 - Rental Supply (private – tax based)
 - Affordability (non-profit - deep subsidy)
- NP's should emulate REIT/Institutional
 - Buy existing rental investment property (preserve affordability)
 - Price advantage exist vs. new (\$176k vs \$84k)

Prospect for Tax Credit Financing in Canada?

- Primary affordable housing program in neighbouring US – based on tax credits
- LIHTC generates equity investment, distinct from financing
- Current Canadian government floated idea in last platform (2006)
- Detailed analysis suggests not workable in Canada (RoE vs. Afford) – ok supply only

Lessons for Australia?

- Tax treatment of rental (negative gearing) important
- Minimize Regulatory sensitivities
- Separate supply vs. affordability – but work on both
- Key eye of existing stock (preserve affordability via NP/community ownership)

For more information of rental insurance and financing see CMHC website

www.cmhc--chl.gc.ca/en/hoficlincl/moloin/mupr/index.cfm

For description of financing for Affordable Rental housing see Securing Mortgage Financing For Affordable Housing A Guide For Non-Profit Providers Update July, 2005 at

http://www.onpha.on.ca/affordable_housing_initiatives/funding/

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