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Government of British Columbia
Rental Housing Task Force

RE: Comments on Creating a Fair and Balanced Rental Housing Policy

The Real Property Association of Canada ("REALPAC") is Canada's senior national industry association for owners and managers of investment real estate. Our Members include publicly traded real estate companies, real estate investment trusts (REITs), private companies, pension funds, banks and life insurance companies with investment real estate assets each in excess of \$100 million. The association is further supported by large owner/occupiers and pension fund advisors as well as individually selected investment dealers and real estate brokerages.

REALPAC has recently become aware of the ongoing conversation regarding legislative and regulatory strategies to bolster the British Columbia rental housing market. These conversations, as part of the Rental Housing Task Force's engagement strategy, have given rise to policy suggestions which REALPAC has found to be somewhat concerning for not only landlords, but residents as well.

Comments contributed by organizations to the task force's public engagement platform have raised the spectre of two changes to British Columbia's rent control scheme that, in our view, would adversely impact rental supply within the province. They are;

1. The combined impacts of reducing allowable rent increases, and,
2. Removal of vacancy de-control.

We identify below several policy considerations which we feel should be carefully weighed by the Taskforce. REALPAC fundamentally believes that the solution to affordability and availability challenges in B.C's rental housing market lies in improving supply of units, while ensuring that the business of renting residential properties remains attractive for investors, property owners, and leasing companies. It is our hope that our following analysis will contribute to meaningful and well-executed rental housing plans in B.C moving forward.

Maintaining B.C's CPI+2% Formula

To further support Landlord BC's arguments against lowering the allowable rent increases rate, REALPAC's own research into the subject of rent controls has found that restricting allowed increases to solely reflect the Consumer Price Index (the "CPI") can be damaging to affordability within the regulated area and is detrimental to the production rental supply. REALPAC has previously held up Vancouver's CPI+2% as an admirable example of balancing the financial needs of tenants against the increased costs of operating a building. Allowable rent increases that exceed the rate of inflation allow for ongoing cost recovery and ensure that costs such as maintenance, large repairs, and amenity improvements can be made as needed.

Lowering annual increases below the point where landlords are able to recover their costs will not only negatively impact existing rental operations but disincentivize the production of new purpose built rental.

The landlord community relies on long-term proforma projections to monitor the feasibility of their investments. Lowering the allowed rent increase would impact the financial performance of almost all purpose-built rental buildings on a ten-year timeframe. Property owners need to be able to trust government to decide a fair rate that they can depend upon when investing in British Columbia's communities. Enshrining a rate that is fair in policy, such as CPI+2%, and maintaining such a statute on a long-term basis, ensures a consistent and transparent rental climate for both tenants and property owners.

The Union of B.C. Municipalities (the “UBCM”), in their report *A Home for Everyone: A Housing Strategy for British Columbians*, advanced the argument that allowing property owners to raise rates beyond CPI+2% would be helpful for updating the existing rental stock being offered within many municipalities. The report suggested that to address affordability issues the province needed to;

“1.5 Work towards retention and renewal of existing privately owned purpose-built rentals- The most affordable rental housing is that which already exists. However, this needs to be maintained in order for it to not slide into inadequacy. It is recommended that the federal and provincial governments create a renewed residential rehabilitation program and that the provincial government allows a slightly higher allowable rate of rent increase to landlords under rent controls to provide both the:

- (a) basis for continued maintenance; and,
- (b) more substantial rehabilitation where required.

To balance this with the interest of renters, we recommend that these measures be combined with enhanced protection for tenants. This would be done through enabling local governments to refuse demovictions that result in evictions and to require replacement rental housing before allowing the demolition to proceed.

It is important that Government, in pursuit of affordability, acknowledge the needs of stakeholders when it comes to maintaining and improving supply. Increased rent flexibility would allow for tenants and landlords to find the best fit for their income, expected level of service, and desired building quality. The UBCM, in their submission, also stresses the need for government to balance the interests of renters and tenants. If government solely considers the rights of tenants when formulating new policy, without considering cost recover requirements for operators, *Rental Tenancies Act* amendments will negatively impact rental affordability and vacancy rates in British Columbia.

Rent De-Control: Vital for Landlords

Vacancy decontrol, or the returning of a unit’s asking rent to market rate upon vacancy, provides property owners with the ability to adjust their building’s revenues to better cover costs without impacting existing tenants. Where strict rent controls are in place opportunities to increase revenue through vacancy decontrol are important in order to fund much needed maintenance initiatives. Revenue increases fund unit and common space renovations, the rising costs of labour, and utilities not passed on to the tenants.

Stakeholder comments promoting to both reduce allowable rent increases and remove vacancy decontrol would substantially damage the relationship between property owners and tenants, disproportionately rebalancing the Residential Tenancies Act in the favour of tenants. Locking units into a rent control scheme in perpetuity will remove all incentives for developers to produce new supply and drastically reduce the willingness of property owners to lease their properties at all. A property subjected to rent controls on leased and vacant units can quickly find itself in a negative cash-flow position if expenses rise. Maintenance and repairs are one of the few discretionary expenses a building operator has. In suggesting that supply be locked into these policies, as put forward by various organizations, a fundamental misunderstanding of the market is being suggested that advances a demand-side argument without considering what forms of regulation are required to foster a healthy offering of supply.

If the combined suggestions of lowering allowable rent increases and removing vacancy decontrol are pursued, the government will risk compromising the landlord-tenant agreement through policy overreach. It is a fundamental expectation of Canadian rental markets that when one is leasing a property it is still wholly owned by the property owner from whom it was leased. A rental economy under the suggested policy changes would give tenants substantially more legal protection and rights to occupy a property than they should otherwise have. Whereas, under such policy,



property owners are being compelled by policy to provide for tenants who are not covering the full costs of operating the home in which they are living.

Changes to the Rental Tenancies Act made through Bill 12

To further comment on proposed changes to the rental markets in British Columbia, REALPAC is concerned with proposed amendments to the *Rental Tenancies Act* as proposed in Bill 12. Recent policy changes across Canada have lead REALPAC to question the relationship of trust between government and the land development industry. In further chipping away at the rights of property owners, policy amendments are promoting the agenda that rental properties should be regulated more like public utilities than the private real property assets that they are.

The erosion of an owner's fundamental property rights, as detailed in changes with regard to rent increases and vacancy decontrol, is further compounded by newly proposed policy under Bill 12 – 2018: Tenancy Statute Amendments Act. This policy places substantial requirements on a property owner to take their property back from tenants. In some cases, the proposed legislation requires up to twelve months of rent be paid to a tenant in order to evict them, if an approved "stated purpose for ending the tenancy" is not satisfied. The requirement for a "stated purpose for ending the tenancy" is a unique statutory clause. No other business contract requires the leasing party to state and satisfy a government-approved purpose for ending a financial relationship. If a particular venture is no longer viable, profitable, or necessary, in any other context, a party to a contract would not be required to disclose exactly how they would be planning to use their property moving forward.

The notion that government feels it is within their right to require a property owner to provide an approved reason for reclaiming their property constitutes, in our view, a gross overreach and infringement of the real property rights of the landlord. Likewise, this proposed legislation advances a rental climate that is completely out of balance. A tenant is not required to replace themselves if they choose to vacate a property; the cost of advertising, lost income during vacancy, and repair/renovation of a unit to return it to leasable condition all fall on the landlord. It is unconscionable that government would require landlords to pay their tenants up to twelve months rent in order to regain possession of their own property.

In totality, proposed changes to legislation and comments provided by tenant organizations advance the viewpoint that property owners should be restricted from deploying their property in a way that maximally capitalizes on its utility. Macro changes to the rental climate in British Columbia, especially ones which reduce an owner's ability to control their own asset, will be detrimental to long term development and rental supply in British Columbia.

We look forward to working with the Task Force on policy options which will further support a vibrant rental market in B.C. Please feel free to contact me at bbarnett@realpac.ca or 416-642-2700 ext. 224, should you have any questions about the comments contained within this submission.

Sincerely,

A handwritten signature in black ink, appearing to read "Brooks Barnett". The signature is fluid and cursive, written in a professional style.

Brooks Barnett
Manager, Government Relations and Policy