

REDBRICK

PROPERTIES

June 12, 2018

The Hon. Spencer Chandra Herbert
Chair
Rental Housing Task Force
923 Denman St.
Vancouver
British Columbia
V6G 2L9
Via email: RentalHousing.TaskForce@gov.bc.ca

Dear Mr. Herbert,

RE: Rental Housing Task Force Submission

Thank you for allowing us to opportunity to provide our submission to the Rental Housing Task Force with respect to proposed changes to the *Residential Tenancy Act* (the "RTA").

About Us

Redbrick Properties Inc. is a family-owned company based in New Westminster, BC. We have been in the business of owning, redeveloping and prudently managing purpose-built multi-family rental buildings for sixteen years. We have recently begun developing new purpose-built rental buildings. Our company is currently building the first market rental building in the City of Coquitlam in four decades¹.

We are long-time members of LandlordBC and are one of the first rental building companies in British Columbia to be certified under the new nation-wide Certified Rental Building Program (CRBP). Redbrick received certification under the CRB Program last June, 2017. We are also members of the newly initiated Landlord Registry (ID No.355006).

More details about Redbrick Properties can be found on our web site: <https://redbrickproperties.ca/>.

The Context of Our Submission

There is no question that Greater Vancouver is currently experiencing a rental housing crisis. A multitude of reports and analyses have demonstrated that the demand for rental housing far exceeds the supply. For example, recent news stories and headlines include the following:

¹ [New market rental housing project breaks ground in Coquitlam, globalnews.ca](http://globalnews.ca), March 17, 2018

- *Vancouver “rent tsunami” predicted by local realtor*, CBC News, July 28, 2015;
- *Vancouver faces growing rental crisis*, Global News, July 28, 2015;
- *Metro Vancouver’s rental stock reaching “crisis” point*, Metro News, November 17, 2014
- *Study puts grim numbers on B.C. rental crisis*, Vancouver Sun, November 18, 2014;
- *Rental Crunch: Battle for dwindling stock of available suites nears crisis levels in B.C.*, The Province, December 5, 2014.

The demand for rental housing is exploding. CMHC’s recent Rental Market Report for Greater Vancouver indicates that the percentage of renter households has increased dramatically. From 2006 to 2016, the share of new renter households as a percentage of all new households jumped from 32% to 59%². Rental vacancy rates for Greater Vancouver have been falling and recently hit lows of just 0.9%³. Metro Vancouver estimates 54,000 new rental apartments will be needed over the next 10 years or 5,400 per annum⁴.

While demand for rental housing continues to grow, the supply has not kept pace. The stock of purpose built rental housing in B.C. is nearing the end of its useful life having been built in the 1960s and 1970s. Table 1 in the Appendix shows Vancouver census metropolitan area (“Vancouver CMA”) housing starts from CMHC for the past 10 years. This data demonstrates that despite record low interest rates and more favourable municipal policies, new purpose built rental housing starts for the Vancouver CMA, have averaged less than 2,700 units per annum over the past 10 years while ownership condominiums have averaged 13,162 per annum; a ratio of nearly 5:1 of condominiums over purpose built rental⁵.

We have not seen significant new supply of rental housing for decades because the economics of building this form of housing is very challenging. Recent feedback from relevant stakeholders indicate how difficult it is to make the economics of rental housing feasible and compete with the more lucrative option to develop strata condominiums:

- “...if it were built there would not be a positive return on the rental of the building but over time there would be...” R.H. White, Director, Community Development, Public Hearing 175 W. 14th Street, City of North Vancouver, June 22, 2009;
- “...the economics to produce new rental housing simply don’t work under current market conditions...” Jonathan Cote, Mayor of New Westminster, Worth Saving: Changing the Economics of Rental Housing, April 2012;
- “...if I were to buy a piece of land, I would be hard pressed to say I’m going to do rental on it without some sort of inducement...it just wouldn’t work.” Hani Lammam, Vice

² CMHC Rental Market Report October, 2017, page 2

³ CMHC Rental Market Report October, 2017, page 1

⁴ <http://www.metrovancouver.org/metro2040/complete-communities/housing-affordability/rental/Pages/default.aspx>

⁵ CMHC Housing Now Vancouver and Abbotsford Tables January 2018 (pages 23 and 29)

President Development & Acquisitions, Cressey Development Corp., Business in Vancouver, December 3, 2012;

- “...Developers are not finding it easy to do rental...”Darrell Mussatto, Mayor of City of North Vancouver, Business in Vancouver, August 2006;
- “...The developer builds rental at cost and probably ends up almost losing money because it doesn’t work.” David Goodman, Realtor, MacDonald Commercial, Business in Vancouver, August 2006.

Moreover, the supply shortage of rental housing is exacerbated by the demolition of older buildings that have come to the end of their useful lives⁶ and the slow pace of completions due to significantly longer municipal approval times and other construction bottlenecks. As a result of demolitions and slow completions, the total stock of purpose built rental units has only grown by an average of 577 units per annum from 2008 through 2017⁷ which is only *one-tenth* of the 5,400 unit annual demand estimated by Metro Vancouver (see Table 2 in the Appendix).

In this context, we suggest that the Rental Housing Task Force should consider policies and changes to the RTA that encourage, rather than discourage, landlords to provide rental housing to the market to satisfy and alleviate the imbalance we see between the supply and demand for this very important form of housing.

Rent Controls Reduce the Quality and Quantity of Rental Housing

British Columbia has a rent control regime. The RTA stipulates that rents on existing tenants can only be increased by 2% plus CPI inflation for B.C.. For 2018 the total allowable rate is 4% based on CPI inflation of 2%. This rent control rate is woefully inadequate to compensate for the actual cost increases faced by landlords which are quite different than CPI inflation. For example, major operating expense line items such as water, sewer, electricity, insurance and property taxes have been increasing at *annual* rates of between 7% and 10% over the last 10 years. Also, due to huge increases in construction cost items such as trades wages, materials and appliances, costs to repair and maintain our buildings have increased at greater than 10% per annum. It is becoming extremely challenging for landlords to maintain their buildings adequately with such huge cost increases while rent control limits our ability to recoup those costs.

Economists are unanimous in their agreement of the destructive impact of rent controls. For example, Nobel Prize winning economist Paul Krugman stated that while economists disagree about many things, there is nearly universal agreement that rent control “reduces the quality and quantity of housing” and actually harms tenants⁸:

⁶ [Burnaby residents plan rally at city hall as rental apartment demolition rate accelerates, The Star Vancouver, May 29, 2018](#)

⁷ CMHC Vancouver Rental Market Reports, 2008-2017, Table 1.1.3

⁸ [Reckonings; a Rent Affair, NY Times, June 7, 2000](#)

"The analysis of rent control is among the best-understood issues in all of economics, and -- among economists, anyway -- one of the least controversial. In 1992 a poll of the American Economic Association found 93 percent of its members agreeing that "a ceiling on rents reduces the quality and quantity of housing." Almost every freshman-level textbook contains a case study on rent control, using its known adverse side effects to illustrate the principles of supply and demand. Sky-high rents on uncontrolled apartments, because desperate renters have nowhere to go -- and the absence of new apartment construction, despite those high rents, because landlords fear that controls will be extended? Predictable. Bitter relations between tenants and landlords, with an arms race between ever-more ingenious strategies to force tenants out -- what yesterday's article oddly described as "free-market horror stories" -- and constantly proliferating regulations designed to block those strategies? Predictable."

No other private sector industry faces such price controls. This fact is because governments have learned from experience that price controls do not work and only exacerbate supply shortages and distortions that actually harm the very consumers and tenants that governments seek to help. In all jurisdictions (from NY City to Ontario) that have tried rent controls, Paul Krugman's warning has been borne out. Recently in Ontario, developers announced abandoning 1,000 new rentals units and converting them to ownership condominiums following the Ontario Liberal government's new rent controls⁹.

B.C.'s immediate neighbours, Washington State¹⁰ and Alberta¹¹, have no rent controls and have much more balanced rental markets with higher vacancy rates and rents that stabilize as more supply gets built. A recent story from Seattle reports on a "flood" of new rental supply stabilizing rents¹². Recent vacancy rates in Calgary have been between 6% and 7% as a "glut" of rental supply has resulted in rents *falling* 7.5% in 2016 and another 1% in 2017¹³.

While landlords in B.C. can increase rents to market rents on tenant turnover, the level of tenant turnover has been falling and is less than 15% per annum due to a tight rental market with very low vacancy rates that has resulted from the very low new supply of purpose-built rental housing over the past four decades.

The current rent control regime in B.C. is significantly hindering the supply of new rental housing which is desperately needed. Any more rent controls will stop new market rental housing from being developed. Even the threat of more stringent rent controls (such as reducing the 2% plus CPI inflation formula or vacancy control) will have a chilling effect on plans for new rental housing. Our company, like other companies in the rental housing industry, has to manage risk. We are currently reconsidering our plans for future new rental housing projects until the current RTA review is completed and we have more certainty as to legislation on rent

⁹ [1,000 planned rental units convert to condos in wake of Ontario rent-control expansion, Globe & Mail, September 25, 2017](#)

¹⁰ [State Will Uphold It's Ban on Rent Control, Seattle Times, February 5, 2018](#)

¹¹ http://www.servicealberta.gov.ab.ca/pdf/tipsheets/Information_for_tenants.pdf, page 7.

¹² [As new apartments flood the market, Seattle area sees smallest spring rent hikes in a decade, Seattle Times, May 21, 2018](#)

¹³ [City rental vacancy rate expected to dip to 6%, Calgary Sun, February 10, 2018](#)

controls in B.C.. We can assure you that if rent controls become more stringent in B.C., we will abandon all future plans to develop new rental housing and switch our development plans to ownership condominiums.

Deposits, Fees and Pets

Besides rent control, there are other aspects of the RTA that are negatives for rental housing owners to provide quality rental housing. These are:

- **Security deposits:**
 - The RTA limits security deposits that landlords can collect to half month rent and an additional half month rent for a pet deposit. These amounts are far too low relative to the actual costs of damage landlords face on tenant turnover.
 - The RTA legislates punitive damages of double the security deposit payable to the tenant if the security deposit is not returned with 15 days of the later of receipt of the tenant's forwarding address or end of tenancy. This is a harsh punitive penalty for an overly strict 15 day deadline and a further financial burden imposed on landlords operations by the current legislation.
- **Other fees:** The RTA limits fees that landlords can charge which are also far below the actual costs landlords face. For example, we are only allowed to charge a maximum \$25 for late fees of NSF cheques. This is yet another example where landlords are financially penalized in our operations.
- **No Pets Clauses:** It is essential that landlords be allowed to have the option to prohibit pets in residential tenancies. Our experience has been that pets can cause thousands of dollars of damage that can not be recouped from tenants (either from the very low pet deposit allowed or otherwise).

In conclusion, we want to stress that the way to improve the rental market for tenants is to encourage much more supply of purpose-built rental housing. With that goal in mind, we hope that you will take into account the above points when considering changes to the RTA.

Thank you for allowing us to provide our submission to the Rental Housing Task Force.

Sincerely,



Aly F. Jiwan, MA (Economics)
CEO



Abdul Jiwan, MBA (Finance)
President

APPENDIX

Table 1

VANCOUVER CMA HOUSING STARTS 2008 - 2017						
YEAR	MULTI-FAMILY OWNERSHIP (freehold Row, Semi + Condos)	PURPOSE-BUILT RENTAL	TOTAL MULTI-FAMILY	OWNERSHIP (%)	PURPOSE-BUILT RENTAL (%)	NOTES
2008	15,228	748	15,976	95%	5%	
2009	4,982	447	5,429	92%	8%	
2010	7,837	1,054	8,891	88%	12%	1st year > 1,000 rental
2011	12,767	1,755	14,522	88%	12%	
2012	14,773	1,277	16,050	92%	8%	
2013	13,062	3,149	16,211	81%	19%	1st year > 3,000 rental
2014	11,953	3,286	15,239	78%	22%	
2015	12,956	3,810	16,766	77%	23%	
2016	16,444	6,841	23,285	71%	29%	1st year > 4,000 rental
2017	21,613	4,591	26,204	82%	18%	Still 4.6:1 Condos Over Rental
TOTALS	131,615	26,958	158,573	83%	17%	Overall 4.9:1 Condos Over Rental
ANNUAL AVERAGE(2008-2017)	13,162	2,696	15,857	83%	17%	

Source:
 CMHC Housing Now Vancouver & Abbotsford Tables January 2018 (pages 23 & 29)
https://www.cmhc-schl.gc.ca/odpub/esub/64175/64175_2018_M01.pdf

Table 2

VANCOUVER CMA STOCK OF PRIVATE PURPOSE-BUILT RENTAL UNITS 2008 - 2017			
YEAR	TOTAL STOCK OF PURPOSE-BUILT RENTAL UNITS	INCREASE IN STOCK OF RENTAL UNITS	% CHANGE IN STOCK OF RENTAL UNITS
2008	103,300		
2009	104,335	1,035	1.0%
2010	104,457	122	0.1%
2011	104,681	224	0.2%
2012	105,067	386	0.4%
2013	105,547	480	0.5%
2014	106,111	564	0.5%
2015	106,945	834	0.8%
2016	107,867	922	0.9%
2017	108,496	629	0.6%
AVERAGE ANNUAL CHANGE		577	

Source:
 CMHC Vancouver Rental Market Reports, 2008-2017, Table 1.1.3