

July 6, 2018

VIA EMAIL

BC GOVERNMENT RENTAL HOUSING TASK FORCE

Re: Submission by Anthem Properties in response to Rental Housing Task Force's public outreach on current review of the BC Residential Tenancy Act with the intention of creating a fair and balanced system for both renters and landlords alike

Anthem Properties would like to begin by thanking the BC Government and its Rental Housing Task Force for their efforts to date and more specifically, for implementing a thorough and balanced public outreach program with respect to the current issues facing the rental market in the province. It is encouraging to see this kind of due process and responsibility being applied to macro-issues such as these. In preparing for this submission, we have reviewed a summary of the issues at hand (while reconciling them with our own experiences as a landlord and developer), have re-reviewed the Residential Tenancy Act, have reviewed much of the online discussion and those submissions that have been made public, and finally, have reviewed the actions taken by the provincial government to date.

We commend the action taken already by the provincial government, including those actions outlined on the Rental Housing Task Force's website (\$116 Million over 3 years to expand eligibility and assistance, closing the loophole on fixed-term leases, the provision of nearly \$7 Million to the Tenancy Branch to reduce wait times and expedite conflict resolution, and the massive commitment to invest over \$1 Billion in affordable housing).

However, we are against any further rent controls for several reasons, all listed below with a full explanation. We strongly believe the core issue is not the RTA, which we believe is world class, but unbalanced market conditions and administration issues.

Rent

It is clear that there has been strong upward pressure on multifamily rents over the past years. Using basic economics, it is also clear that the reason for this has been an imbalance of supply to demand in the market. It seems that all stakeholders can agree that there is not enough supply to accommodate the current demand for rental housing in this province. Factors such as rising home ownership costs, regular in-migration, developing industries requiring a transient workforce and more have all contributed to this imbalance of supply to demand. We feel it is important to point out here that these factors, while creating the issues at hand, are not inherently bad in the long-term. BC is attractive to the rest of Canada and the world. Our political and economic stability, the high quality of our public services and infrastructure, the beautiful landscape and temperate climate, and our inclusive nature are things to be proud of and celebrated. These are some of the brightest lights in our provincial identity. Accordingly, it is critical that our public policy be designed with these positive factors in mind by creating a system that allows for healthy, sustainable growth. This includes providing a stable environment for renters where they get access to housing, and for developers where they feel they can invest safely and with confidence.

The obvious rental solution here is to increase the available supply of both market and affordable rental options throughout the province. For years, virtually no new rental supply was built because there were few economic or governmental incentives to build it. Development and construction costs were too high, achievable rent levels were too low, there was not enough pro-active planning at the municipal level, and so it simply didn't make sense.

That is beginning to change as cities such as Vancouver and Victoria designate certain nodes or parcels for strictly rental housing, allowing higher density and implementing incentive programs such as tax rebates, forgoing DCLs and CACs, relaxing restrictions on items like parking and height, and so on. Alternatively, we have experienced scenarios where a municipality might allow increased market housing (to own) on a site but only in the event that a rental component (be it affordable/social or market) be constructed as well. Often, especially if it's affordable, this will act as the CAC from the developer. Such is the case with the City of Vancouver's West End Plan for certain zones, where 20% of the floor area must be social housing that is gifted back to the city.

In any case, there needs to be an economic incentive for a developer to create the supply, and we are seeing that when that happens, through a combination of market conditions, thoughtful area planning, and cost-based incentives by government, the results can be quite promising. We strongly encourage the Task Force to consider even more ways in which the provincial government can work with our municipalities and the federal government, as well as the private sector, to continue to develop rental-only planning areas coupled with incentive programs to create new supply.

Now, it is important that we point out that in the case of certain pure market rental developments, even with cost-based incentive, certain rent levels need to be achievable in order for development to be considered feasible. While we understand that the current Rent Stabilization policies under the RTA are completely necessary to protect renters in this fast-changing environment, we do wish to emphasize that rent controls of any type – especially tying such controls to the unit and not the tenant - are a losing proposition for all stakeholders in the long run. While this sounds like something a developer or landlord might say out of self interest, there are numerous studies and examples, dating back decades, which prove that rent controls eventually harm all stakeholders. Some of the more important examples would be:

- **Decline in Supply:** as we've highlighted, supply comes with incentive, and if rents are controlled and incentive is depleted, there will be no more new supply. Developers will not build if they know they will lose money doing so. This will serve to exacerbate the current issues at hand.
- **Risk of Promoting Housing Discrimination:** with strict rent control, rent becomes a fixed value. Accordingly, rent gets removed as a factor in selecting tenants, and landlords may very well then see the opportunity for bias in the selection process. In cities such as New York and San Francisco, this has led to issues where precious rent-controlled rental stock is actually being completely occupied by the people who least need it (ie. People of means who see the benefit in paying little rent in a rent-controlled building, and have the easiest time securing access), while those who need it most are forced to continue their search
- **Reduced Property Tax Revenues:** Property Tax amounts are based on a variety of factors, but arguable the most prominent is the market value of the property. Market value for this type of property is often arrived at by dividing the property's income by a market-based capitalization rates. So, if the

rents are capped, so is the property value and thus the amount of tax that can be gained. Additionally, cap rates themselves are largely based off market demand, and if investors perceive there is no “upside” in a property, buyer demand will be reduced, and the cap rate will rise which will further devalue the property.

- **Undermines Private Property Ownership by Unfairly Burdening Owners:** Simply put, it is not fair that the public burden of subsidizing housing to those in need be placed completely on the shoulders of the landlord.
- **Decline in Property Quality:** this can happen in two ways. First, operating-expense-to-revenue ratios for apartment buildings typically fall between 25% - 60% depending on the age and quality of the building. This ratio does not take into account debt costs, capital expenditures, corporate taxes or other non-operating costs. Factoring those in, the ratio gets to the point where owning a building can be a tight squeeze (we often experience negative cashflow in our buildings). This will only become more true as interest rates rise. Accordingly, with revenues being capped, many owners may either have no incentive, or simply no ability to, reinvest in their assets. Second, and we are already seeing this now in British Columbia (it is in fact one of the main issues at hand), with tight supply comes renters highly motivated to find housing. They may be so motivated that things such as property quality fall by the wayside in their selection process. Landlords will notice that, and stop investing money into their buildings. If rents are controlled and supply gets even further restrained, this already topical issue may very well worsen.

The BC Residential Tenancy Act & Current Perceived Issues Beyond Rent

While reviewing the RTA against the online discussions we were able to view, we concluded that many of the main issues beyond rent were not actually RTA issues, but market-force and administration issues.

The RTA in its current form is, in our opinion, world class. While our current multi-family portfolio is mostly confined to BC, we have owned apartment buildings in Alberta, Texas, California, Louisiana, Colorado, Georgia, Nevada, and Arizona and can say that none of these jurisdictions had such a clear, articulate, and balanced set of laws for multifamily operations. BC’s tenancy laws are well thought-out, fair, and extensive by any measure: : application and processing fees are prohibited, there is an equitable deposit structure, rent increases are limited, there are well-defined rules around ending a tenancy, and a mechanism for dispute resolution is provided. Recent changes on fixed-term tenancies (limiting the use of the vacate clause) and eviction (increasing the notice period and providing tenants a right of first refusal) have further improved the Act.

While many landlords argue that the RTA favors the tenant too much, we would argue that this opinion is the result of dealing with the especially problematic tenants, or in some cases, the landlord feeling restrained from being able to do something that they probably shouldn’t be able to do in the first place (this is especially true with smaller landlords). We have been victims at times of problematic tenants manipulating the RTA, but find that the majority of our renters are good, honest people. Furthermore, we agree that our provincial citizens need term security, rental security (in the way of CPI+2% increases, despite our overall view of rent control), access to due process, and so on. We are more than happy to participate in this system where we and the renters are being treated on an equitable basis.

We then look at the issues being highlighted. Repairs and Maintenance, for instance, is similar to development in that it can be considered more of a market-force issue than an RTA issue. As new supply gets built out, renters of better means will flock to the new supply where they will pay higher rents, pressure on older stock will come off, and landlords will be naturally incentivized or forced to upgrade their buildings as they look to induce renters. The RTA also very clearly outlines the *lawful* standards for building quality. So if there are buildings that are not at a livable level, it then becomes more of an administration issue, where more resources should be allocated to the enforcement of these standards. There are also of course building code standards, fire safety standards etc which serve to protect renters from unlivable and unsafe living situations. We point to a well-publicized case where a private landlord in the Downtown Eastside of Vancouver spent years allowing marginalized tenants to live in squalor. This was not an RTA issue, but an enforcement issue.

This same logic applies to the list provided on your website about the most common disputes, being notices to end tenancy, unpaid rent, returns of security deposits, and repairs (which we have already gone over). The RTA clearly outlines the recourse available to both renters and landlords in such disputes. Again, it is more the administration that is being strained (and again, we applaud the efforts of the Province in allocating more resources to dispute resolution).

Finally, we will bring up the issue of pet restrictions. In theory, we believe that private property owners should not be told whether they can or cannot restrict pets from their buildings. Pets can be messy, noisy, disruptive, and at their worst, violent. It is reasonable that the owner of an asset prohibits pets from entry, especially when their assets are a basement suite in their home, or an single-unit investment property, or anything along those lines. We understand however that in today's supply crunch, people with pets may quite literally not be able to find a place to live, and that this is an issue. Furthermore, we think that pets in buildings are relatively small on the significance scale of everything else at play here. Accordingly, if there had to be a tweak of the RTA in this regard, we would recommend that it apply in a temporary fashion and ideally only in larger buildings.

Conclusion

Anthem Properties recognizes and appreciates the efforts of the provincial government in identifying the current issues facing the rental market and aiming to address those issues with extensive stakeholder consultation and proactive provincial resource allocation.

It is clear that a lack of available supply is not meeting demand, creating a shortage of available living options and driving rental rates upward. It is known that this supply/demand imbalance is being created by a number of factors, being rising home ownership costs, extensive in-migration, and a changing workforce profile. It is our opinion that these factors are inherently positive, and something to be celebrated, but we fully acknowledge that they have created significant short-term issues which must be addressed. We further point out the need to accommodate these factors by implementing policy which allows for sustainable growth, keeping renters satisfied and supplied, and also providing developers and landlords with a stable environment in which they can feel safe investing their capital.

New supply must be created, and for that to happen, there must be a joint effort between public and private enterprise, at all levels, to plan for purpose-built rental housing, allow market forces to dictate rents, and create incentives that allow for an economic case for the developer.

We are adamantly against any further rental controls, not because they mean less profit, but because they have been proven again and again over time to further reduce supply, promote housing discrimination, reduce property tax revenues, undermine private property ownership by unfairly burdening the owners, and cause declines in property quality.

We have reviewed the RTA to refresh our memories and have compared this legislation to the content in the online discussions, as well as the issues outlined on your website, and feel through both that process and our knowledge of other jurisdictions, that our RTA is extensive and balanced, and that many of the main issues come out of the administration of the RTA and not the RTA itself. We are strongly encouraged by the Province's recognition of this fact and their allocation of resources to the dispute resolution process.

Thank you again for your time and for the opportunity to be heard.

Anthem Properties Group Ltd.