

July 6, 2018

Mr. Spencer Chandra Herbert  
Chair, Rental Housing Task Force  
Government of British Columbia  
Legislative Buildings  
Victoria BC

BY EMAIL

Dear Mr. Chandra Herbert:

RE: Submission to the Rental Housing Task Force

I write on behalf of the Canadian Mortgage Brokers Association – British Columbia (CMBA-BC) regarding the government’s current public consultation on rental housing and the BC *Residential Tenancy Act* (RTA).

About CMBA-BC

By way of background, the CMBA-BC was chartered in 1990 and is the oldest mortgage broker association in Canada, representing over 1600 mortgage brokers and lenders in British Columbia. CMBA-BC advocates for its members on issues impacting the mortgage industry, which has a vested interest in ensuring that homes are affordable for both property owners and their tenants.

Mortgage Helpers – Secondary Suites

Secondary rental suites, which are commonly known as “mortgage helpers”, are essential in providing many prospective home buyers and mortgage borrowers with revenue to assist in qualifying for mortgages and making payments under those mortgages.

In addition, tenants benefit from secondary rental suites in houses as they provide a significant portion of the rental housing stock in the province of BC. The City of

Vancouver in its April 2017 “Housing Characteristic Fact Sheet”<sup>1</sup> advises that there were an estimated 30,125 secondary rental units within the City of Vancouver. Some estimate that as many as 40% of all detached homes in Vancouver contain rental suites.<sup>2</sup> Mortgage helpers are therefore vital in ensuring the affordability of homes for both owners and tenants.

### Impact of Financing Rules on BC Rental Stock

The Federal Government, in its quest to limit consumer debt, has put mortgage borrowers on a “debt diet”. This has changed how residential mortgages for homeowners and buyers are underwritten. Federal mortgage underwriting rules for residential properties are set out by the Office of the Superintendent of Financial Institutions in B-20. Chartered Banks used to be able to count all secondary suite income in underwriting mortgages. With recent B-20 changes, suite income is now capped at 80% of rental income added to qualifying income. Additional B-20 changes make it harder for individuals to qualify for mortgages for standalone rental properties as well. These rules have limited individual purchasers from fully contributing to our Province’s rental stock. Our members are advising most of their clients can qualify for only one or possibly two rental properties since B-20 changes were implemented. The message here is that most rental housing must now be supplied by commercial property owners, developers, and government; not by individual home buyers or investors.

The Federal Government through its B-20 changes has created tighter monetary policy, which directly limits the supply of rental housing. At the same time the Federal Government opened its doors widely to immigrants, fuelling the demand for rental housing in BC. The population in many Lower Mainland centers is forecast to grow by over 10% annually, with other province wide areas over 5% annually<sup>3</sup>. Federal B-20 mortgage underwriting policies that limit the supply of investor owned housing diametrically oppose an immigration policy that creates a constant demand for new

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<sup>1</sup> <https://vancouver.ca/files/cov/housing-characteristics-fact-sheet.pdf>

<sup>2</sup> <https://www.cbc.ca/news/canada/british-columbia/secondary-suites-most-common-in-b-c-says-study-1.3202889>

<sup>3</sup> <https://www.cbc.ca/news/canada/british-columbia/bc-census-data-1.3971999>

rental housing. A rental housing crisis is the perfect storm engineered, in part, by counterposing Federal policies.

### The Availability of Rental Housing – Vacancy Rates and Rent Controls

There can be little doubt that a severe shortage of rental housing exists in BC, with it being most extensive in the Greater Vancouver area. CMHC in its 2017 Rental Housing Market Report advises that vacancy rates have been dropping to almost crises levels and currently sit below 1%.<sup>4</sup>

The challenge of tinkering with the RTA and creating further rental restrictions or controls is that this will have an impact on the supply of rental housing. The Rental Housing Task Force should consider all options to increase the supply of rental housing, including a review of the rent control provisions contained in the RTA.

The RTA currently permits annual rent increases which amount to 2% plus the CPI for BC, which is also 2%. This 4% permitted rate of increase for residential rents is woefully inadequate to compensate homeowners with the myriad of costs attached to housing, which have been escalating at a much greater pace. For instance, over the last decade, costs relating to insurance, electricity, property taxes, and water and sewer services have increased on average at a rate of 7% to 10% per year. Construction costs related to labour, building materials, and appliances have also skyrocketed in excess of 10% per year.

Paul Krugman, a Nobel prize winning economist who has studied rent control issues on an international scale, explains:

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

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<sup>4</sup> <https://www.landlordbc.ca/app/uploads/2017/11/Vancouver.pdf>

Association found 93 percent of its members agreeing that "a ceiling on rents reduces the quality and quantity of housing."<sup>5</sup>

Being a landlord is not an easy task, especially for those homeowners who are financially dependent on rent to pay for monthly housing costs, including increasingly higher mortgage payments. Contrary to the perception of some, renting a part of one's home carries risk for the homeowner. Homeowners may be financially devastated when damage to the premises readily exceeds coverage provided by the tenant's damage deposit. Financial harm may also result when tenants fall into rent arrears, with unpaid rents and legal costs; they sometimes accumulate to tens of thousands of dollars.

Rent controls are at best reactionary and provide a disincentive for homeowners to rent their home or suite. Limiting cost recovery in an inflationary environment will be viewed by many as making the risk of renting property out not worthwhile. Price controls are not imposed on other private sectors – so why then impose price controls on homeowners who are simply trying to make ends meet in the midst of a housing affordability crisis?

As we all know, the solution to creating affordable rental housing is to create more housing, which should consist of both market housing and government-built housing for vulnerable sectors, such as low-income households. While supply is the answer, there needs to be an awareness that there is currently a construction trade shortage in BC. Any government focus on building social housing will strain the already limited supply of skilled construction trades and drive construction costs even higher, making it near impossible for the private development sector to churn out much needed rental housing.

### Comprehensive Housing Plan by all Levels of Government

There is a skyrocketing demand for rental housing, with few incentives for the private sector to provide it. To fix this problem, the Federal, BC and local governments must come together to develop a comprehensive housing plan. We recommend that:

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<sup>5</sup> <https://www.nytimes.com/2000/06/07/opinion/reckonings-a-rent-affair.html>

- Local governments:
  - provide an efficient, fast planning and approval process for all housing development, but especially rental housing development. Municipalities should be empowered to fast track to development of any crown or provincial lands in their municipalities for rental purposes.
- The Federal government:
  - should amend mortgage underwriting guidelines (B-20) to support the financing of rental housing by individual investors
  - create incentives, such as Federal income tax incentives, or fund job skills programs for the much-needed construction trades to build rental housing in BC,
  - taper immigration to allow housing supply especially in large urban centres such as the GVRD and Capitol Region to catch up to demand
- The BC government:
  - remove rent controls contained in the RTA, or at least, raise the rent increase caps to enable landlords to capture actual increases in the cost of providing housing.
  - collaborate with the private sector to ensure the pace of development does not strain labour or material resources and fuel increased housing costs its trying to prevent.

Thank you for providing us with the opportunity to make submissions to the Rental Housing Task Force.

Yours truly,

Samantha Gale

CEO, CMBA-BC