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HOUSING POLICY IN B.C. (NO. 2): THE RENTAL PROTECTION FUND

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INTRODUCTION

Canada has experienced an unprecedented housing crisis in recent years, placing tremendous pressures on local markets and households. The province of British Columbia (B.C.) is no exception: the cost of renting a two-bedroom condominium apartment in Vancouver, for example, has risen to $2,504 on average – a highly unaffordable cost for the average tenant. For the lowest 20% of households, just 1% of units on the market in Vancouver and Victoria are 'affordable' (CMHC 2023). Statistics Canada has concluded that B.C. is the most unaffordable place for housing in Canada due in part to the disproportionately high cost of housing in Vancouver, but also due to rising costs across the province – including on Vancouver Island, the Lower Mainland, and the Interior (Statistics Canada 2022).

Since the federal government disengaged from housing policy in the 1990s, B.C. has been one of the most interventionist provinces in Canada when it comes to housing policy, investing in the housing system for all but a few years (Smith 2022). There have been several housing plans since the 1990s, including *Homes B.C.* (under NDP Premier Mike Harcourt) and *Housing Matters* (under Liberal premiers Gordon Campbell and subsequently Christy Clark), marking an important cross-party consensus in B.C. on the leadership role of the province in housing policy. In 2018, under the leadership of the John Horgan NDP government, the province announced a 30-point, ten-year affordable housing plan called *Homes for B.C.*. The 2018 plan was "refreshed" under NDP Premier David Eby's leadership; now called *Homes for People*, the province's housing plan includes an even stronger role for the province in dealing with the housing crisis. In this policy brief, the second in a three-part series on housing policy in B.C. (Smith 2024; Smith and Naqvi 2024), we look at what the province has done regarding the rental housing crisis, specifically in terms of curbing – if not fully attacking the root causes of – the increasing role financialization plays in the housing crisis.

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WHAT IS FINANCIALIZATION?

Financialization can be described as a commodification of housing where housing has become viewed as a financial asset, rather than as a social good (CCPA 2023). In the context of the Canadian welfare state and the Canadian housing system, housing is both a financial asset and a social good; another way of looking at it is that financialization privileges the former role over the latter. In practice, this can mean many things, including a transfer of multi-family buildings from non-financial operators to financial investors (August 2020). In the context of a dearth of deeply-affordable rental units[1], financialization practices have further diminished affordable rental housing supply (CCPA 2023). In other words, in the process of financialization, financial actors – such as real estate investment trusts (REITs), private equity firms, and real estate operating companies – acquire buildings and then reposition them to maximize on their financial investments (August 2020). This may lead to an increased quality of housing as financial actors invest in buildings that are in need of repair, but it can also contribute significantly to the affordability crisis, resulting in the displacement of low-income and racialized individuals through formal (i.e., eviction filings) and informal means (e.g., harassment) (Lewis 2022; OHCHR 2019). Research has also found that financialized landlords have a poor track record (when compared to non-financialized landlords) when it comes to affordability and habitability of homes (ACORN Canada 2022).

This trend toward financialization in Canada has increased since the late 1990s, a pivotal era of deregulation that provided three main ingredients for, or causes of, a financialized rental market: a withdrawal of senior government investment in non-market housing (including federal and most provincial governments); deregulation of rent and vacancy controls in some provinces; and the inception of REITs and a broader focus on finance in the housing sector (August 2022). Coinciding with this period was an increase in population growth in Canada, with the population increasing by 20% from 1986-2001 – B.C.'s population, however, grew at twice that rate (Statistics Canada 2009). Toward the end of the 1990s, in the aftermath of a financial crisis in the 1980s, REIT legislation was born. REITs allowed for the pooling of capital to acquire real estate, reducing volatility (August 2020). In addition to the rise of REITs, provinces such as Ontario allowed for uncapped rent increases in vacated suites (August 2020).

As of 2020, rental units in B.C. were approximately 4% REIT-owned – a relatively low number compared to provinces such as Alberta, Saskatchewan, and Ontario, where financialized units make up 24%, 16%, and 10% of the rental market respectively (August 2020). Though the province has made efforts in the past to protect vulnerable buildings from financialization and gentrification (see Smith 2022), the effects of financialization continue to persist in municipalities across B.C. Considering the depth of the housing crisis, it is important to protect existing stock, including naturally occurring affordable housing, from financialization; throughout the province, it is estimated that approximately 100,000 units that were renting below $1500/month were lost in just five years (2016-2021) (Wilson 2023). Further, in the Lower Mainland, it is estimated that of the 175,000 units of affordable rental housing, 62% of them are at risk of financialization (*ibid*). The COVID-19 pandemic has merely intensified housing inequalities that have been perpetuated by financialized landlords, impacting the ability of tenants to pay rent in full (Mah and August 2022), which can lead to evictions.

SO, HOW DOES B.C. FARE IN ITS RESPONSE TO FINANCIALIZATION?

Leading expert on the financialization of housing in Canada, Martine August, has identified three root causes of financialization: divestment from social and non-market housing; vacancy and rent de-control; and a "focus on finance" that has allowed for real estate investment by financial vehicles (August 2022, iii). B.C.'s approach to rental housing financialization does not attack these root causes. Rather, they are taking some steps to *limit* financialization. This includes investing in new non-market housing and protecting vulnerable stock from financialization, but not anywhere near the structural or systemic scale necessary to tackle root causes of financialization. Further, while there is rent control in B.C., widespread vacancy control would appear to be a political non-starter. In 2018, John Horgan's NDP government led a review of tenancy laws in B.C. – though vacancy control was recommended by seniors, advocates, and tenants, it was opposed by landlords and developers. The task force did not recommend vacancy control (Jung 2022).

One recent exception to this resistance to enacting vacancy control is with respect to single resident occupancy hotels, or SROs. In 2021, the City of Vancouver attempted to implement vacancy control, which would tie rent to a unit as opposed to a tenant, for SROs. Two private SRO operators challenged the municipal bylaw, and the B.C. Courts ruled that the municipality had overstepped its authority and struck down the municipal bylaw (Kulkarni 2024). More recently, the City of Vancouver requested that the province formally grant the municipality authority to enact limited vacancy control for SRO units, a request that was granted by the province. Provincial, municipal, and tenant advocacy groups believe that this measure will prevent homelessness by further protecting affordable housing for people with very low incomes (Pandey-Kanaan 2024).

With respect to the third root cause of financialization – the focus on finance – provincial actions are again not structural, but rather more from the perspective of "if you can't beat them, join them" – or perhaps better phrased, "compete with them". Most notably, the province introduced an initiative designed to "emulate the behaviour of REITs and capital funds" in January 2023, called the Rental Protection Fund (RPF) (Gold 2023b). Aiming to protect tenants from financialized actors and housing speculators, the province introduced this $500 million Rental Protection Fund to safe-guard affordable rental housing. The money from this fund, in the form of a one-time capital grant, can be used by Indigenous, non-profit or co-op housing organizations to acquire rental housing that might otherwise be bought by speculators and corporations such as REITs (B.C. Gov News, 2023). This allocation of funds gives community and non-profit groups the opportunity to compete with financial actors at market-rate to protect housing stock from becoming financialized. Once this housing is moved into the non-market sector, it remains affordable over time because it is managed by non-profits or co-ops. By some estimations, approximately 2,000 to 3,000 units can soon be acquired using this fund (Gold 2023a). According to B.C. Housing Minister Ravi Kahlon, "our province is building more rental housing than ever, but we must also protect what we have" (Office of the Premier 2023).

The $500 million Rental Protection Fund (RPF) will be managed by the Rental Protection Fund Society. With a background in real estate and experience with cross-sector partnerships, Katie Maslechko was named CEO of the fund in April 2023. The society is comprised of three of the most salient housing organizations in the province: the Aboriginal Housing Management Association, the Co-operative Housing Federation of B.C., and the B.C. Non-Profit Housing Association. By November 2023, the fund had received dozens of applications from across the province (Wilson 2023). Fund CEO Maslechko has made it clear that acting quickly will be a priority; at a recent press conference, she noted that “every single one of these units, they may be the most affordable housing we currently have, but they’re also never going to be more affordable than they are right now” (Wilson 2024).

The first purchase made by the RPF was made in early 2024. The fund approved an application made by two housing co-ops in the Lower Mainland community of Coquitlam to protect 290 units of co-op housing; tenants of those units were at risk because the landlord had issued an eviction to the associations that were leasing the land (DeRosa 2024). The fund provided key capital, but not nearly the full cost to cover the purchase: with $71 million from the RPF, the co-ops were able to secure additional funding, including nearly $6 million from the city. The total cost of the purchase of the 290 units is $125 million. Additional purchases using the RPF have since been approved, including a grant of $24 million to facilitate the purchase of 108 apartments in two buildings in Langley, B.C.. Interestingly, these building were purchased from a REIT (CAPREIT) (Colpitts 2024). The total cost of these units is $35 million.

As these numbers make clear, the purchase of existing affordable housing is incredibly expensive, and the fund is often not able to cover the total cost of the purchase. The RPF certainly helps non-profits and co-ops with the purchase, including by providing significant funding that can be leveraged to attract additional investments, but the scale of the challenge is enormous compared to what the province is able to contribute. Recall that in the Lower Mainland alone, it is estimated that over 100,000 affordable housing units are considered to be at risk of financialization. The RPF, while an important intervention to rapidly protect this stock and increase the supply of non-market housing, is expected to be able to protect between 2,000-3,000 units.

The fund has been positively received throughout the province, but there are critics as well. On the one hand, some have noted that the province has also rezoned land, including allowing for very dense developments around transit stations. This land has increased in value to the point where it is unviable for non-profits to purchase it, even with the help of the fund (Gold 2023). A deeper criticism is that the fund does not address the root causes of financialization (such as attacking increasing rents more systematically through widespread vacancy control), and therefore is not as aggressive an intervention as some advocates would like to see (Jung 2022).

The model has nevertheless been influential, with the federal government adopting a similar approach in April 2024. Prime Minister Justin Trudeau framed the Canada Rental Protection Fund as a means of “protecting affordable housing and preserving rent prices” (Wilson 2024). Responding to questions about the initiative, Trudeau made clear that the RPF in B.C. had played a part in the federal decision to also invest in the protection of existing affordable rental housing, saying that the RPF is “proof of concept” for the federal version (Mallees 2024). The federal government has earmarked $1.47 billion, but importantly $1 billion of this funding is loans (unlike the B.C. fund where the full $500 million is grant funding). Some are concerned that this important design element will limit the extent to which purchased housing will remain affordable, as non-profits or co-ops will have a significant debt to repay. The use of loans versus grants is a common characteristic of the federal National Housing Strategy and is not unique to the rental protection initiative.

KEY TAKEAWAYS

Financialization inflicts complexities that housing policy cannot resolve easily, as interests of tenants, investors, and landlords each conflict with one another. Compared to the rest of Canada's rental market landscape, B.C.'s government has taken significant steps in limiting financialization, though the interventions are at the margins and do not attack root causes. Some cities, such as Toronto and Montréal, have dedicated small amounts of funding to purchase and protect affordable buildings, but cities in Canada lack the financial resources to enact this type of policy on a wider scale. Provincial funding was welcomed by community groups across the province, who have been eager to apply for funding to protect vulnerable or at-risk housing stock. The idea has proven so popular that it inspired a similar federal initiative. Of course, rent control and the Rental Protection Fund alone will not solve the affordability crisis in B.C. To date, several hundred units of housing have been protected, with many more under consideration for funding by the RPF society. While this is an important initiative, the rental housing crisis in B.C. has meant that tens of thousands of units of affordable housing are at risk of financialization or of becoming unaffordable through rent increases. Yet the allocation of $500 million for rental housing acquisition signifies a commitment by BC in protecting renters, expanding the portfolio of non-market affordable housing units, and protecting existing affordable housing from the many forces that might make it less affordable over time.

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ENDNOTES

1. According to CMHC, affordable housing describes units that require tenants to pay no more than 30% of their income on shelter costs. Deeply affordable units are affordable to people with very low incomes, including those who are receiving social assistance. The housing allowance for people receiving social assistance was $375 from 2007-2023. It was increased to $500/month in 2023.

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