ONTARIO NONPROFIT NETWORK

Attention: Review Panel on the Financialization of Purpose-Built Rental Housing
National Housing Council Secretariat
Canada Mortgage and Housing Corporation
700 Montreal Road
Ottawa, Ontario K1A 0P7
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June 5, 2023

Re: Nonprofits and the financialization of purpose-built rental housing

Dear Members of the Review Panel,

This letter is to ensure the Review Panel considers the vital distinction in the roles played by for-profits and nonprofits in the delivery of rental housing as it relates to financialization. ONN is uniquely positioned to provide this perspective as the independent nonprofit network for the 58,000 nonprofits and charities in Ontario, focused on policy, advocacy and services to strengthen the sector as a key pillar of our society and economy. We work to create a public policy environment that allows nonprofits to thrive. We engage our network of diverse nonprofit organizations across Ontario to work together on issues affecting the sector and channel the voices of our network to government, funders, and other stakeholders.

We thank you for the opportunity to be able to comment on the role financialization of purpose-built rental housing has on the right to housing.

Introduction

The State of Homelessness Canada Report (2016) estimates that 235,000 Canadians experience homelessness a year. The reasons for this are complex, but chief among them is that the market has no incentive to provide these individuals and families with housing. Simply put, it is either not profitable or not sufficiently profitable to offer these individuals and families housing at a price they can afford, along with the supports they might need to stay in that housing.

This is true, and is unlikely to change, because systems of oppression, including racism, colonialism, and patriarchy, mean that the costs of housing delivery are highest precisely for those who often have the least ability to pay even ordinary market rates. This is why ordinary for-profit housing providers have often failed to meet the needs of thousands of Canadians. The acquisition of housing by financial actors who hold those assets merely as an item in an investment portfolio (i.e. financialization) exacerbates this process because it puts people who have no stake and no interest in the well-being of the community in charge of some of its most vital assets.

What makes nonprofits different?

Throughout our society, systems we depend on for basic needs, such as food, housing, childcare, and healthcare, are increasingly owned and operated by investors (also known as "financial landlords"). Since 1990, financial landlords have grown from owning an estimated 0 units to over 200,000. Their ownership comes with a single-minded focus on profit that often means higher rents and greater tenant turnover.

	Non-Profit Housing Providers	**Small Landlords**	**Large Investors**
Purpose	Nonprofits exist to **meet a need for a public good/benefit**. Decisions must be made prioritizing this community need. As a result, a systems approach can be taken that finds and fills the gaps in our province.	Businesses exist to **make profit,** while this can incentivize initial capital investments, higher quality or quantity of services, it can also incentivize lower quality or quantity services where doing so is more profitable. It is rarely profitable to serve the most complex needs. Small investors can expect 6-8% returns.	While professional investors can provide more capital upfront, they also average higher returns (9.7%) putting further upward pressure on costs.
Governance	Nonprofits are accountable to community members and a volunteer board of directors often with direct tenant representation. This helps ensure **accountability and responsiveness to those served locally and beyond.**	Businesses are **accountable to shareholders** who may be directly involved in property management or may have delegated to professional property manager. Owners may have no lived experience in common with tenants facing systemic oppression.	Properties are subject to professional managers who are accountable to investors who are unlikely to have any ties to the community or indeed even have visited. Investors may have no experience of housing provision or lived experience in common with tenants.

Ownership	**Revenues are reinvested in services** and assets typically remain in the hands of a nonprofit if the nonprofit dissolves by giving to other nonprofits or government ("asset lock").	**The maximum amount of revenue possible goes to shareholders** and **key infrastructure may be sold** at any time it is profitable to do so.	**Investors may hold property with the specific intention of resale** resulting in a chain of purchase and sale, saddling the property with debt, and demanding higher returns. Profits often will flow out of the province/country.

How does the nonprofit difference impact housing service provision?
When it comes to providing housing, especially in times of crisis, decommodifying housing means:

- **Nonprofits will reinvest revenue in services that will result in safer, more reliable housing**. Over COVID-19 we saw over 4,500 seniors die in disproportionately financialized long-term care homes due in part to generational under-investment in the infrastructure.
- **Nonprofits collaborate to seek the innovations needed to reach those with the most complex needs**. Tenants with complex needs often need supports offered by multiple nonprofits in order to remain in stable housing. Mission-aligned nonprofits are better positioned and incentivized to collaborate with one another than investors who have no incentive to take on the risk of these tenants, particularly in a tight market.
- **Nonprofits won't simply leave when things get tough**. The right to housing is most at risk at the top and bottom of housing market cycles. While not totally insulated from costs of construction and borrowing, it stands to reason that nonprofit housing providers have significantly lower elasticity than multinational investors who have the flexibility to divest themselves of "assets" in distressed markets.

Government of Canada's current actions and inactions support financialization
We have heard from nonprofit housing providers in our network that the following aspects of policies designed to support nonprofit housing providers have failed to do so and therefore indirectly contributed to for-profit financial actors facing less competition in acquiring real estate.

- **Delays caused by poor coordination between different levels of government**. In order for nonprofits to be able to compete with financial actors to acquire real estate, they need to be able to act quickly. To meet federal funding criteria, they must finance some part of the project themselves, which often comes from provincial or municipal funding. Poor coordination between governments often means delays or ineligibility that make real estate acquisition impossible

- **The National Housing Strategy continues to emphasize for-profit developers**. When the Canadian Government provides financial assistance to for-profit actors who have the least incentive to meet the needs of those most at risk of lacking adequate housing, without supporting alternative models, it contributes to the financialization of housing.
- **The Government of Canada continues to under-utilize public land for affordable housing**. Public held assets continue to be sold off to highest bidders at a time when, the Infrastructure Institute of the University of Toronto reports that holding land is the crucial enabling factor for nonprofit actors to be able to develop housing.[1]

Recommendations on how governments can harness nonprofits to combat housing financialization

The Government of Canada can take the following steps to ensure that the nonprofit difference is integrated to achieve housing as a human right:

1. The Government of Canada can commit to revising existing policies that directly or indirectly contribute to housing financialization.
2. If organizations receive public funding to obtain real estate, the Government of Canada should either retain a property interest in the real estate or organizations should be prohibited from selling it to be used for other purposes.
3. The National Housing Strategy should prioritize investments in nonprofit housing by increasing funding to this cohort.
4. The Government of Canada should increase the amount of credit available to nonprofit housing developers through loan guarantees and work with private lenders on a risk assessment framework that allows lenders to more realistically assess the stability that comes with treating housing as a human right. There is particular promise in the large amount of real estate held in the faith sector.

In summary, achieving the right to housing for all depends on empowering public and non-profit actors to be able to provide housing at the scale required. There is simply no market incentive for financial actors to meet the needs of all, and even if such an incentive could be created, the very governance structure of for-profit financial institutions as providers of housing means the needs and active participation of individuals seeking housing are unlikely to be reflected in the design, delivery, and management of their homes.

Thank you for your serious consideration and we look forward to further engagement on this important issue.

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[1] This is sourced from a forthcoming paper from the Infrastructure Institute of the University of Toronto based on an interview with 32 social purpose real estate projects across Ontario.

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Sincerely,

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