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New Challenges in New Brunswick's Rental Housing Market

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Much of the current debate about the affordability of New Brunswick's housing stock has focused on large increases from corporate landlords, which have taken place since the start of the pandemic. Government responses to these evictions have focused primarily on the need to attract more private investment. The Premier and ministers have consistently been reluctant to put in place rules or regulations that might upset landlords, and draw regularly on assumptions about rent controls derived from neoclassical economics, the dominant approach at Canadian and American business schools. These assumptions do not, however, reflect the reality New Brunswickers are facing in their rental market.

This brief is meant as a corrective to neoclassical descriptions of the province's housing universe, with the aim of informing public policy in the public interest. It is a sociological analysis based on the changing institutional composition of the market. As we note below, corporate landlords are increasingly targeting New Brunswick's multi-family residential housing market, adopting income-generating strategies that deliberately 'reposition' affordable units towards the top-end of the rental market. These **affordable units are moving up-market much faster than they can be replaced, leading to an acute housing shortage amongst lower- and middle-income renters, even as the stock of rental housing expands**. While we also believe the federal government will have to take action, the province must act quickly to secure the public interest.

We focus special attention here on Killam REIT and its investment strategy, as outlined in its regular reports to investors. Killam became a real estate investment trust, recently, in January 2016. Since then, it has accelerated a corporate strategy aiming to increase revenue for 'unit-holder' investors. In March 2020, at the outset of the pandemic, the Board of Trustees voted to increase monthly distributions by 30%, according to its website. Killam REIT is based in Halifax, but is one of Canada's largest residential landlords, managing $3.8b in apartments and mini-homes.[1]

Corporate concentration of the rental market

According to CMHC data from October 2020, the 'rental universe' in New Brunswick is composed of 36,310 units, the vast majority of which are in Moncton, Fredericton and Saint John. Of these

[1] See Table 1, p. 7 in Martine August, 2020, The Financialization of Canadian Multi-Family Rental Housing: From Trailer to Tower, *Journal of Urban Affairs*, published online Feb 28, 2020: http://waterlooregion.org/sites/default/files/August2020.pdf, consulted March 29th, 2021. August ranks Killam REIT as 9th largest corporate landlord in Canada.

units, **just one company, Killam REIT owns 4,900 apartment units** (across 74 buildings) according to its own reports to investors[2]: 2,073 in Moncton, 1,529 in Fredericton, and 1,202 in Saint John. This corresponds to roughly 1 in every 6 apartment units in Fredericton and Moncton (see Table 1), according to data on the rental universe compiled from CMHC numbers. While these units represent only 18.9% of Killam REIT's total net operating income (NOI) for its total apartment portfolio, it is important to note that **these units represent 28.7% of its apartment portfolio**. This may indicate that there are significant income gains to be made, especially when revenues are compared with the firm's Halifax portfolio (5,814 units, the REIT's largest), which represents 34.1% of its NOI, nearly double the income generated from New Brunswick properties, despite a similar number of units.

Table 1: Killam REIT's share of NB's Multi-family residential sector

	Total apartments[3]	Killam REIT apts	% Killam REIT
Moncton	13,349	2,073	15.53%
Fredericton	8,485	1,529	18.02%
Saint John	9,903	1,202	12.14%

Thanks to a tightening rental market in the province, Killam REIT has reported steady growth rental increases since 2017, including increases of 3.6% in 2019 Q4, the last quarter unaffected by the Coronavirus pandemic. Rental increases on rental turnovers are considerably higher, steadily above 5% since 2018.[4]

Killam REIT's investment strategy, based on its own corporate reports

Killam REIT's core mission is to **maximize profits for investors**, an objective that may conflict with the province's interest in maintaining its stock of affordable housing. Killam REIT achieves its objectives at present, according to its reports, by managing its properties to **maximize net operating income (NOI) through 'continuous process improvement**.' In addition to adopting new technologies in their buildings and creating potential new data-driven revenue streams for corporate customers that may infringe on the privacy of tenants, **Killam REIT seeks to increase NOI through 'revenue optimization,' which includes maximizing mark to market opportunities, 'repositioning' units to meet market demand, raising rental rates, and aiming for 'strong occupancy.'**

We are concerned these strategies will erode the affordable rental stock in New Brunswick without significant new public investment. While many REITs hold portfolios that include lower-income rental properties, they are not building new affordable units for middle and lower-income

[2] Killam Apartment REIT, Investor Presentation, January 2021, p. 4: https://killamreit.com/sites/default/files/Financial%20Reports/Killam%20January%202021%20%28Condensed%20Appendices%29.pdf, consulted March 24th, 2021.
[3] Data from CMHC, Primary Rental Market Report, October 2020: https://www03.cmhc-schl.gc.ca/hmip-pimh/en/TableMapChart/Table?TableId=2.1.28.2&GeographyId=13&GeographyTypeId=2&DisplayAs=Table&GeographyName=New%20Brunswick#Apartment, consulted March 24th, 2021.
[4] Killam REIT, Investors Report, January 2021, p. 13.

earners. As David Campbell pointed out in a recent editorial in the Telegraph Journal,[5] New Brunswick is currently not seeing enough new housing starts to meet population growth. Part of the problem, in our view, is the over-reliance on market mechanisms in a context dominated by large corporate landlords, who stand to profit handsomely from the lack of government regulation and adequate public investment in affordable housing. Corporate landlords are concentrating their projects on servicing the top-end of the residential rental market. Without significant new state involvement in the housing market—especially the multi-family residential market—the housing crisis described by Mr. Campbell will get significantly worse.

'Repositioning' strategy

Killam REITs investment strategy hinges primarily on 'repositioned turns', that is the mark-up they are able to get from repositioning a building from lower- to higher-income markets, especially when vacancy rates are low—as they are now, since new-build is not keeping up with population growth. Repositioning occurs when older, often more affordable buildings are renovated as individual units become vacant. New Brunswick's affordable rental stock is especially vulnerable to repositioning, since existing tenants have no protections against eviction, and because government fiscal restraint has prevented adequate construction of new affordable units.

Renovations, however, are not always necessary for repositioning to take place. Several of the large rental increases reported on Highfield St. at Mountain Road in Moncton last fall, as well as in Saint John this winter were the result of corporate landlords' pursuit of a strategy of 'repositioning'. While not the only corporate landlord to pursue this strategy, Killam REIT has been at the forefront in New Brunswick. **Across their portfolio, Killam REIT has doubled the number of units repositioned every year since it became a REIT in 2016**. *The government of New Brunswick has an obligation to the public to demand explanations about this strategy, and to assess the impact it is having on housing affordability*.

According to its January 2021 report to investors, Killam REIT announced that over their entire portfolio, they had 'repositioned' 426 units in 2020 and planned to reposition a further 550 in 2021.[6] If the share of repositioning in New Brunswick corresponds to their share of the total portfolio (28.7%), that would equal about 122 units repositioned in 2020, and plans for a further 158 units this year. **That is a total of 280 units that were removed from the affordable housing stock** in favour of higher-income demand over the course of the pandemic. This is from just one firm in just two years. The provincial action plan on affordable rental housing called for construction of just 50 affordable units per year in 2019-2022.[7]

More alarmingly, **Killam REIT has identified 1300 New Brunswick units where there are opportunities to 'reposition' by renovating existing units**. While we support renovating existing units when needed, these renovations are not intended to improve our province's housing stock.

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[5] Campbell, David, "Clear-cut case for provincial action on housing crisis," *Telegraph Journal*, March 23rd, 2021: https://tj.news/story/101517175, consulted March 24th, 2021.
[6] Killam REIT, Investors Report, January 2021, p. 15.
[7] CMHC-New Brunswick, 2019-2022 New Brunswick Action Plan, p. 23: https://www2.gnb.ca/content/dam/gnb/Departments/sd-ds/pdf/Housing/2019-2022NewBrunswickActionPlan.pdf, consulted March 29th, 2021.

They are explicitly aimed at moving units up-market to 'optimize' income opportunities. This does not correspond to the public's interest in an affordable housing stock.

If successful, this one REIT will negate all of the New Brunswick Housing Strategy's goal of creating 1,262 new affordable units this decade.[8] As REITs expand in the aftermath of the Covid-19 stimulus packages and continued low-yield bond environment, the total number of units being repositioned may substantially increase—changing the way New Brunswickers' of all income-levels live. Continued housing cost inflation in New Brunswick would further exacerbate this problem. If all REITs treat significant portions of their portfolios as units to be repositioned, the government will have to significantly increase its commitments (currently at $72M) to make up the difference.

Because there is no or little private construction of affordable apartment units, repositioned units are not being replaced in response to neoclassical assumptions about supply and demand. Newbuild construction merely responds to the accelerating demand for higher-income units, especially amongst older adults seeking to downsize, or whose retirement depends on selling their previous homes. Housing stock for lower-income people, including seniors, is simply not being built, provoking a growing affordability crisis. **New Brunswick has an interest, therefore, in maintaining the overall affordability of its housing stock as a means of reducing overall costs to taxpayers.** Measures to restrain rent increases will not reduce private incentives to build new buildings at the top-end of the rental market. The social costs of increasing homelessness and housing precarity far outweigh cost-free inconveniences to a few landlords of implementing rental reforms that protect the affordability of the province's housing stock.

New Brunswick's Affordable Housing Stock: A Public Portfolio

Why is New Brunswick's housing stock relatively affordable, and why are there so many opportunities to 'reposition' apartment units? Partly because of lower overall incomes in New Brunswick, but also because, as elsewhere in Canada, the majority of the province's rental housing in its primary rental universe was built prior to 1980—approximately 20,000 units out of the current total of just over 36,000. The ageing stock and the lack of recent news-build is a product of government policy. Under the Federal Government's 1964 amendment to the National Housing Act, the CMHC was much more involved in financing multi-residential apartment buildings and providing subsidies to private developers. This role was curtailed after 1978, and further curtailed after 1993. It is our contention that most of the opportunities REIT's such as Killam have identified for 'repositioning' exist in this older housing stock, but this is also an empirical question that can be more readily verified by the ministry.

Corporate landlords are essentially gaming public policy. Realizing that there is no private market for constructing affordable housing, and that government's fiscal restraint has led to a shortage of new housing units entering the market, they understand that there are cheap profits to be made by buying buildings that will be marked-up later. But from the perspective of the public, the decline in the affordable housing stock will lead to other costs.

[8] New Brunswick Housing Strategy 2019-2029, Department of Social Development, Government of New Brunswick: https://www.bienvenuenb.ca/content/dam/gnb/Departments/sd-ds/pdf/Housing/HousingStrategy2019-2029.pdf, consulted March 24th, 2021.

TABLE 2[9]	BEFORE 1960	1960 - 1979	1980 - 1999	2000 OR LATER	TOTAL
New Brunswick	8,895	11,442	6,360	10,845	37,542
Bathurst	346	422	346	375	1,489
Campbellton	294	299	221	89	903
Edmundston	623	289	361	108	1,381
Fredericton	1,633	2,732	1,758	2,881	9,004
Miramichi	292	118	406	208	1,024
Moncton	1,390	3,852	2,601	5,745	13,588
Saint John	4,317	3,730	667	1,439	10,153

Currently, the Canada-New Brunswick Housing Agreement provides funding to expand housing affordability, but it is paltry compared to what has been done in the past, and the scale of the needs. Even if under the agreement New Brunswick manages to spend its allotment of $72 million to create affordable housing units, private investors are bidding on the opportunity to spend money repositioning older affordable units.

Conclusion

It is important to note, in conclusion, that Killam REIT's objectives are contrary to and compete with public objectives for maintaining housing affordability. In the absence of urgent provincial government action, the housing repositioning strategy alone has the potential to severely decrease the accessibility of affordable units for New Brunswickers, especially in our major urban markets.

The decline in affordability would have several deleterious effects on the province's economy:

- It will increase costs for our labour force, put pressure on government to increase minimum wage rates, and transfer more of our workers' hard-earned money to investors—most of whom do not pay taxes on that income in New Brunswick;

[9] CMHC, Primary Rental Market Universe, October 2020: https://www03.cmhc-schl.gc.ca/hmip-pimh/en/TableMapChart/Table?TableId=2.1.28.2&GeographyId=13&GeographyTypeId=2&DisplayAs=Table&GeographyName=New%20Brunswick#Apartment, consulted March 24th, 2021. The small discrepancy in the overall size of the universe is the result of small variations in different data sets used to compile the tables.

- It will increase social costs related to housing precarity and homelessness, which have risen in recent years as vacancy rates have dropped;
- It will undermine our province's demographic growth strategy, disincentivizing the relocation of retirees from other provinces, new Canadians, and skilled workers to our urban areas, who might otherwise be attracted by affordable housing options;
- It will reduce affordability for students in our major cities, potentially incentivizing them to leave the province to study, further decreasing already declining enrolments at NB universities;
- It will reduce urban affordability for workers in rural parts of the province, who might otherwise seek out employment in the more robust labour markets of our province's cities. This too may lead more young people to leave the province.

Recommendations

In short, we urge the government to act without delay to protect its interests and the interests of the public. To protect rental stock from new investment strategies of large corporate landlords, the province must:

1) Adopt an immediate **moratorium on evictions** during the pandemic. With mass vaccination in sight, we can hope that this measure may not need to last for too much longer.

2) **Legislate Rent Control**. In the past, Conservative governments have legislated rent control as a way to control housing cost inflation, as Bill Davis did in Ontario in 1975. Rent control alone, however, will not protect our affordable housing stock unless the province ties controls to individual units. This would protect the public from the repositioning strategies which are moving housing stock up-market. It will also protect tenants on fixed-incomes from rent gouging.

3) **Tenant eviction protection**. Alternatively, the province can put in place protections against tenant evictions to ensure that people are not being renovicted to make way for higher-income renters.

4) The government could explore **extending the provincial property tax rebate to owner-occupied duplexes**, which are currently taxed in full. This would have the effect of increasing the supply of affordable rental units and achieve objectives of supporting housing affordability, especially amongst homeowners who rely on rental income from suites attached to their primary residences.

5) The government must adopt a **broad ranging reform of the legislative framework** of the Landlord-Tenant Act, which would bring it up to date to current standards.