



Financialization and Housing:

A Social Innovation Approach

July 2021

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What is housing?

A home, shelter, safety and comfort necessary for individuals and families to thrive, a human right, essential for social and economic wellbeing, and one of the most powerful drivers of our economy.

For the last year we have been exploring the impacts of financialization on the housing system we have found that the term held a range of meanings and referred to different things depending on who we asked. We define “financialization of housing” very generally as:

“the application of financial instruments by institutions and investors in local housing markets.”

When we speak to people about financialization, they were typically referring to one of three trends or dimensions:



1. The financialization of mortgages:

Structural transformations of mortgage markets associated with the development of mortgage-backed securities and other complex mortgage derivatives, enabled by financial policies and instruments that expanded the size and reach of mortgage markets;



2. The financialization of home ownership:

The rise of domestic and foreign retail investors in the real estate market and the growing participation of these investors in supplying rental stock; and



3. The financialization of rental markets:

The increased involvement of institutional investors in purpose-built rental markets.

What do we mean by “Affordability”?

We have prioritized the shelter-to-income (STIR) approach to measuring affordability, and focused on those in core housing need due to affordability conditions.¹ “Affordable” is therefore defined as households which spend 30% or less of their income on shelter costs, and cannot afford an alternative (based on local median rents).

Who in Canada is facing affordability challenges?

As of 2018 more than 1.6 million households in Canada—11.6% of the population did not have a home they could afford that met their needs.

- » **22%** of lone-parent households (mostly single-mother households)
- » **13.9%** of visible minorities
- » **13.5%** of Indigenous peoples²
- » **16.6%** of ‘sexual minorities’³
- » **28%** of those with a long-term disability¹.

¹ Canadian Housing Survey (Claveau, 2020)

² Indigenous peoples include First Nations who live off-reserve, Inuit and Métis

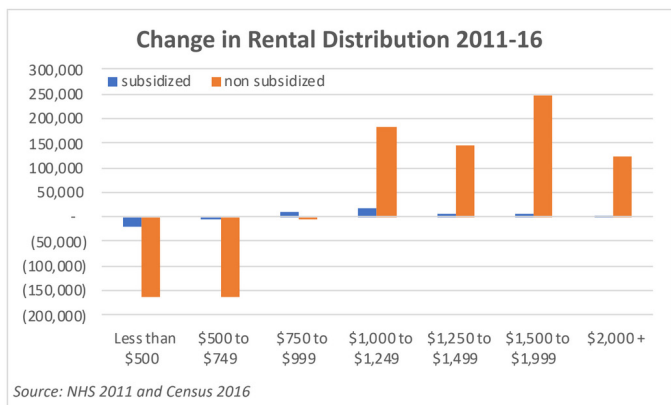
³ Sexual Minorities include all those who do not identify as heterosexual

Is the increased financialization of housing linked to affordability challenges? If so, how?

We found that financialization has brought both benefits and drawbacks. It has facilitated raising home ownership rates, increased the financial well being of many Canadians, stabilized the economy, brought investments and improvements to aging purpose- built rental stock and, some would maintain, increased capital for affordable housing development.

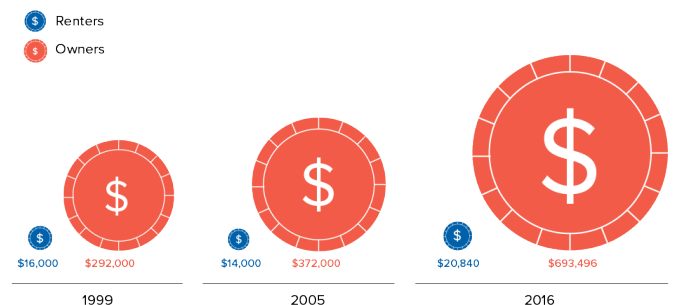
It may, however, have also contributed to market changes that have led to unintended and detrimental consequences, including rising house prices - a driver of wealth inequality between owners and renters; reduced security of tenure arising from the growth of the secondary rental market; and a decrease in the supply of affordable and below-market rental units.

There is a deficit of affordable and below market rental housing in Canada



Rising house prices have been a driver of wealth inequality between owners and renters.

Median Net Worth by Tenure (2012 Constant Dollars)

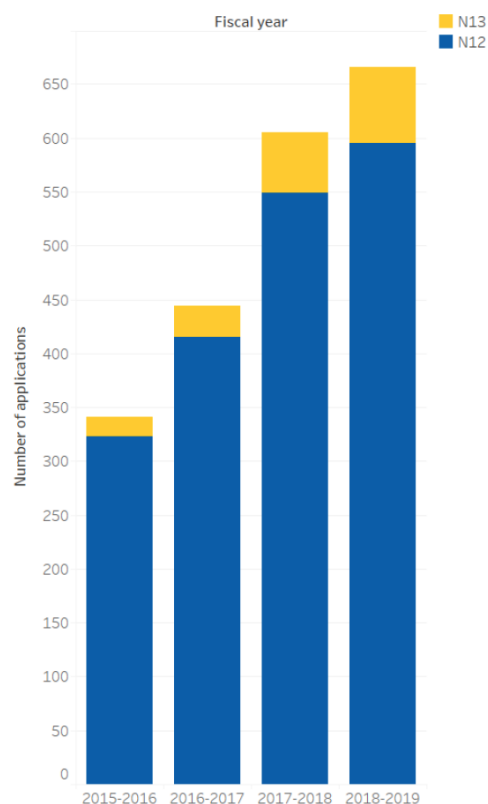


Source: Survey of Financial Security

Growth of the secondary market has reduced security of tenure for renters.

No-fault evictions at the LTB

TDCP Statistics, accessed October 2019



What are the possible levers for change?

The lab identified a number of possible levers for potential solutions that can be explored further. One thing was clear: increasing the supply of affordable, secure housing that addresses the right to housing and core housing need will require an innovative, all hands-on-deck approach that brings together financial institutions, government, private and nonprofit housing providers.

1. Innovative shared equity, co-housing models and emerging forms of community land trusts⁴ could make the financial benefits of home ownership accessible to a broader spectrum of Canadians

Home ownership is an important driver in wealth creation, but it is increasingly inaccessible to most Canadians. Shared equity and co-ownership models could help to level the playing field and expand the number of people benefiting from the financial uplift they provide

2. A regulatory tool to collect information about rental markets across Canada, potentially combined with updated tenant regulations, education and enforcement to better protect the security of tenure for renters in the secondary rental market.

We heard that renters face increasing precarity of tenure due to weak and unknown or unenforced tenant regulation in the secondary rental market. We also heard that the lack of information about the rental market makes policy recommendations difficult.

3. Policy aimed at non-resident ownership may be an option for addressing speculation-fueled price increases.

Some suggested regulations aimed at limiting speculative activity, non-resident ownership and money laundering. The federal government recently announced plans to introduce a tax on foreign buyers, not unlike policies already in place in British Columbia, Ontario and Prince-Edward Island.

4. Rethink programs designed to incentivise the creation of rental housing that is affordable, and improve alignment of municipal, provincial and federal programs.

Participants felt strongly that current programs designed to incent affordable housing supply are not working as efficiently as they could. We need targeted efforts and interventions to promote a greater supply of affordable and below-market, purpose-built rental housing in particular.

5. Innovative financial models, products and services could be powerful tools to enable the increase in supply of affordable and below market housing.

We heard from banks and investment funds that they are happy to provide capital to affordable housing developments if the risk and return profiles are competitive. There may be innovative approaches to underwriting and securitization for affordable housing development that could be further explored.

6. All levels of government own real estate assets and have jurisdiction over tools which could enable the increased provision of more affordable housing.

All levels of government should apply these assets and seek innovative ways to use their tools to incentivize and increase the supply of affordable housing, in collaboration with private and nonprofit developers.

⁴ Hamilton Community Land Trust, for example, is pioneering a model which allows for home ownership on Trust-owned land - a model which has been successfully used in the U.S. but is only now being tried in Canada. Prairie Sky in Alberta is a co-op ownership model to also be considered

Next Steps

We are currently finalizing partners, subject matter experts, and champions to join our Social Innovation Lab. This Lab will support the creation of prototypes that explore:

- » How might we forge innovative pathways to allow broader access to participation in the financial benefits of home ownership?
- » How might regulation, policy and education for retail investors improve security of tenure for renters?
- » How might we use the tools of financialization to shift capital to the affordable housing sector?

How might we ensure that everyone in Canada has a home they can afford that meets their needs?

The Prototyping Phase will take place from November 2021 – June 2022 and is funded in part by CMHC.

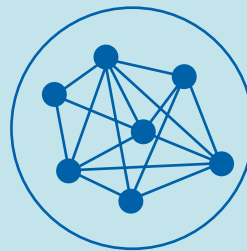
For more information please contact: hello@SICanada.org



Problems are increasingly complex



Traditional approaches are not working



We need to work together

“The purpose of a social innovation lab is to develop innovative, collaborative solutions to complex social issues. It starts from the premise that only through engagement from a variety of stakeholders and experts can we properly understand and address an issue.”