Hello All,

The Ontario Housing Action Plan meeting was held in the Great Hall at Hart House on Thursday, January 31, 2019, comprising 25 rectangle tables of ten seats each for a total of about 200 participants plus 25 moderators and 25 note takers. There were also 30 or so additional representatives from various ministries assisting in planning and managing the event.

Because of the (beautiful) high vaulted ceilings which are specifically designed to carry a person's voice over a large audience, it was a significant challenge when 25 or more people are speaking at once. The rectangular tables further contributed to the din as a person speaking at one end of the table had to be loud enough for the other end to hear but not so loud as to disrupt neighbouring tables. Some government planner didn't think that one through. Even putting in room dividers as baffles might have dampened the echoing.

I'll mention now that at the end of the day, every table was asked to present two key ideas that evolved from their all-day discussions (although, despite several reminders from the MC, quite a few tables went through every summary bullet they had anyway). I mention this because the summaries were dominated extensively by developer- and public sector-related interests. Consequently, I believe smaller landlords were significantly under-represented at this meeting, and this, despite an important piece of the meeting agenda guidelines that focused specifically on the 'Missing Middle' in the housing mix (see illustration at the end of this document).

The meeting agenda established four topics to be discussed—Speed, Mix, Cost and Rent. Unfortunately, Cost only discussed development charges. It did not mention operating costs, especially of the Missing Middle.

In fact, I made a point of requesting that a note be added to my table's notes that everything discussed at the meeting, in the initial presentations, and in the summaries, all focused solely on 'affordable housing' from the perspective of the tenant, that is, how can *we* provide housing that is less expensive for tenants.

No one (without exception, not even the non-profit housing developer sitting at my table), mentioned how to create housing that is <u>affordable to the landlord</u> (investor) so that the landlord has the financial model to offer an affordable housing option to tenants. While this may seem obvious, I've never heard anyone actually say that so it was an epiphany for me. It encapsulates a pivotal perspective that is at the root of the conflict between the private and public housing sectors as well as the thankless task government has in trying to find balance. Re-defining the affordable housing crisis to '*creating <u>sustainable</u> housing that is affordable for the tenant, landlord, developer and investor*' would instantly change the nature of the questions being asked and answers that could actually work.

I was first placed at a table that had four developers out of the eight seats so they choose Speed and Mix, to which I could contribute very little since the four were only interested in getting their agenda addressed. I raised this point but the reply was that the majority at the table had chosen the topics by consensus, so I sat for the first hour with little to contribute or present. And I had brought with me extensive notes and four landlord association MOH submissions to work from.

After lunch and with the permission of the meeting organizers, I moved to another table that chose Cost as their second topic. It comprised representatives for Indigenous Groups, Special Injuries, Non-Profit Federation, Land Lease expert, Real Estate Lawyer, one other who didn't say very much, and myself representing what turned out to be the 'Missing Middle" (smaller landlords).

I believe the missing middle as described in the MoH agenda document has evolved because single-family owners are able to pass on most costs (like retail, office, etc.) to their tenants combined with often more favourable property taxes, and hi-rises enjoy economies of scale and government attention and incentives (as witnessed at this event as well). The Missing Middle is by far the most difficult business model to manage well, offers the lowest investment returns relative to the other two, and is significantly more difficult to obtain mainstream lender financing than the other two (probably because the lenders know the difficulty of the missing middle's business and legislated model).

The missing piece of the topic of Cost was not 'discussable' at this event because few attendees appeared to understand the Missing Middle business model—in particular how interest rates and the direct capitalization method (driven by cap rate and net operating income) works in establishing property value and equity, and encouraging or discouraging re-investment.

I believe this because the summaries provided at the end of the meeting by each table reflected the housing interests represented at the event. None of the summary points, which would amount to at least 50 top-of-mind bulleted issues, discussed anything to do with the Missing Middle or 'actual' costs; only the odd one said this or that should be 'cheaper', etc.

I offered several suggestions related to Missing Middle costs and no one at my table asked for an explanation or commented. They just moved on to the next topic. For example, I asked that the note taker write down that the federal government review the potential to incentivize long-term landlords to sell their properties to new landlords who are statistically most likely to rejuvenate rental stock by reducing or 'forgiving' the Recoverable Capital Cost Allowance (RCCA). No one at my table knew what RCCA was nor did any of them ask.

One table member mentioned that the public sector could be 'rich' because a particular public sector fund (I don't remember which) had about $200 million in it. Three attendees spent a lot of time (we only had an hour) explaining what it was and why the funds should be released.

I suggested that there were literally billions of dollars locked in residential private sector equity that could *easily* be unlocked and become a significant source of funding for new housing projects as well as rejuvenate existing rental stock. I proposed that government develop incentives that encourage the rapid increase in private sector Missing Middle rental property equity for the express purpose of reinvesting that equity through re-financing. Equity that wasn't re-invested would be subject to the usual RCCA claw-back and Capital Gains. One example of this would be to allow capital cost items to be depreciated over, say two or three years rather than the usual 10 to 15 years. Tenant municipal property taxes should be the same as single family home owners, or even lower, since renters actually pay the property tax (and almost none of them know it).

I also stated that the rental condo market, which took up the slack in rentals in the mid-1970s when most developers stopped constructing purpose-built properties, would collapse within three years. The table attendees went silent momentarily but they didn't ask why and perhaps thought that they couldn't speak to the issue one way or the other so there was nothing to say or discuss.

While at the meeting I thought about the following as well but I felt I was already being seen as bringing up topics that no one could talk about so I didn't have the opportunity to offer them—related to encouraging the construction of purpose-built multiresidential housing:

- The government could issue a bond underwritten/insured by CMHC. The CEO of Greenwin, a large residential developer, proposed this in a TV interview but faltered when asked what the returns would be. He said it would take many years. I propose that some of the CMHC housing incentives be directed towards guaranteeing an attractive 5 to 10 year return. The bond funds would then be used by developers to build housing that is affordable to tenants and the final owner of the rental property.
- The government could encourage, partner with or create a crowd funding company to devise and promote a crowd-funded project that essentially asks a great many people for a small investment rather than a few people (a la developers and government) for a great amount of money. The crowd funded investment could be a tax deductible investment or even tax exempt, and eligible for RRSP and TFSA.
- The province should license landlords (like realtors and many other professions) who must prove their knowledge of basic tenancy law. The licensing fees go into the housing fund to

create a self-sustainable ongoing housing fund. The licensing fees should not be onerous since that would defeat the purpose of encouraging residential rental housing investment (just as the RTA does).

- Municipalities should be prevented from licensing any form of landlord because municipalities know nothing about being a landlord and are historically among the worst slumlords (not intentionally) of all landlords in the province. There are countless cases of municipalities abandoning the affordable housing business because they can't make it work except that taxpayers pay for the inevitable losses.
    - FRPO should NOT be the agency that manages licensing because it does not represent the Missing Middle or small landlords. Everything they are and do is targeted to large operators (and they're primarily financed by these large operators) so it's highly unlikely that they could speak informatively about the Missing Middle business model.
- Bond and crowdfunded projects (only) might pay an annual fee based on Missing Middle cash flow, not NOI or gross income. The fee ends when some portion of the funding is repaid. The balance is an incentive—a grant for encouraging construction AND maintaining affordability. MPAC already knows the NOI numbers so mortgage info would be all that was needed to complete the picture. This fee is directed back into the housing fund as well.

Our table did reach a consensus on the single most important point that our table presented at the 'summaries', which was "Social programs and policies must be built on a solid economic basis and the public and private sectors must work together if the housing crisis is to be successfully addressed." I felt that this was a victory even if it was more of a vision statement or operating principle rather than an actionable item.

A point that I raised and which did get attention from the table was the idea of rent (tenant cost) transparency. I've been actively working towards a 'triple net' lease arrangement, similar to commercial retail and office leases where tenants have two parts to their rent. The first is the basic rent for the space they are living in. The second rent is similar to commercial property TMI (Taxes, Maintenance & Insurance) or CAM (Common Area Maintenance). The tenants know the true source and amount of operating costs that are not within the control of the landlord such as property taxes, utility costs (especially municipal rates and provincial programs), property insurance and the like.

The table liked this idea although I think they were looking at it from the perspective of landlords being more transparent and accountable to tenants whereas I was thinking of the 'source agencies' of the costs being ultimately more accountable directly to tenants. Either way, it's a win:win for tenants and landlords although that means government would have to be more accountable and transparent, which could be a politically unappealing proposition. However, such transparency would substantially reduce the traditional tenant-landlord conflict.

I've already personally moved towards this model with my rents for some units in one of my rental apartment buildings being about 10% to 15% below 'market'. The tenants pay their own water/sewer, electricity, heating and hot water directly to the utility company or through a third party suite metering company. Eventually I hope to break the rent down further where tenants pay the TMI monthly, receive summaries of the tenants' proportionate share of building insurance, property tax, building maintenance, capital costs, etc., and an adjustment (hopefully small if properly managed) is made at the end of the year. Tenants could foreseeably have an active, direct and significant influence In the expenditure of funds since they're the ones that would actually be paying for it, while the landlord might be the facilitator and cash flow manager. There are issues still to be worked out such as what happens when a tenant moves out before the end of the year.

Perhaps it's too radical (or euphemistically, 'innovative') an idea but I'm proactively working to see how far I can take this concept in my own 'working class' property portfolio.

I also mentioned how the '4-Ss' vulnerable groups are financially the riskiest groups for landlords—Seniors, Students (including refugees and foreign students), Single Moms, and Social Assistance (especially the pervasive ODSP group). I used the Seniors group as an example: while they're arguably the best tenant a landlord could want, the RTA and rent control has made them a fatally-flawed risk. A senior will likely not move out voluntarily once they've moved in. They might rent today for example at $1,000/month. Ten years from now the market rent is $1,500 but they're paying $1,200 because of rent control. I explained to the table that the $300 difference could represent $72,000 in lost equity to the landlord/investor—for a *single* tenant. No one asked why or how this worked, or maybe they didn't care because that was a 'landlord problem', and the table just moved on to the next topic.

The principal point of all 4 'S' groups is that they all share a common thread and consequently the same high risk: no rent, work or credit histories so landlords have no credible independent, corroborative information on which to make an informed rental decision. And PIPEDA can make it considerably more difficult.

A bad rental decision *invariably* leads to lost rent income of 4 to 6 months (average LTB case) while some landlords lose tens of thousands of dollars because of the RTA and the broken LTB system.

One of the public sector attendees took a kind of indignant exception and lectured me in front of the group on how her challenged demographic group is very responsible. I don't know if she misunderstood me, was biased against landlords, possessed a sense of socialistic entitlement, or simply didn't like that anyone would reduce social responsibility to dollars and cents. I remained silent and after a momentary awkward silence, everyone moved on.

There's absolutely no doubt in my mind that there are some truly significant actions each level of government could take to alleviate the housing crisis, but the affordable housing crisis will *never* be resolved until the housing crisis is resolved. The massive construction of purpose-built rental housing in the late 1950s and early 1960s is proof of that. I also believe it's essential for anyone who wants to work with smaller landlords to build up the 'Missing Middle' property inventory that they have grass-roots understanding of the financial model and the legislative influences that govern how smaller landlords make a living. I think this is mostly lost on government and clouded by more powerful lobbying interests who suppress the smaller landlord's voice. Perhaps it's as simple as smaller landlords are just too busy providing residential housing and can't afford to invest their own time, while large landlords have the resources to hire others to represent them, and the public sector appears to have all the time they need to lobby for government funds.

I wrote some time ago that, "*Housing is the foundation of sustainable living without which any society cannot survive or develop. A shortage of housing in an established society represents a significant security threat to all denizens from myriad social ills that arise from homelessness and unfulfilled home ownership aspirations.*" If that premise was embraced in the true spirit of resolving the housing crisis, fundamentally disparate interests would quickly fade away.

Those are my recollections and reflections of the Housing Action Plan meeting—good, controversial and bad. A more diplomatic person might have danced to the meeting's tune but I'm comfortable that I was able to air some of the over-arching concerns of smaller landlords. Whether any of it was reinforced by other attendees and more importantly, whether any of it will make it to the ears of Minister Steven Clark and acts on any of it, remains to be seen.

Regards,

Chris

CHRIS SEEPE
President, Broker of Record (Commercial Realtor)
President, Landlords Association of Durham (LAD)
Member, RECO Industry Advisory Group
Author & Instructor, Landlording in Ontario (Canada)

vCard:	Outlook 2007 vCard	**Website:**	www.aztechrealty.com
Cell:	416.525.1558	**Website:**	www.landlordingcourse.ca www.landlordingbook.com www.standardlease.ca www.durhamlandlords.com
Tel:	905.738.0896	**Mail List:**	Join My Mailing List

Aztech Realty Inc., Brokerage
6 Riviera Drive
Concord, Ontario L4K 2J1

(Skill is knowledge and experience ably applied.)

(See also the 'Missing Middle' housing illustration on the next page)

2. Mix: There are too many restrictions on what can be built to get the right mix of housing where it is needed.

Many people have pointed out that the mix of housing types being built does not fully reflect what people are looking for, and certain types of housing are not being built where demand is greatest. For example, the government has heard that not enough housing appropriate for families and seniors wishing to downsize is being built near transit, schools, workplaces and amenities. ~ major expenses requires higher prices

Market conditions, provincial policies and plans, local planning priorities, and municipal zoning by-laws can all affect the type and location of housing.

Promoting "gentle" density and a mix of housing, and creative re-use of heritage properties and building design ideas can result in more housing, as well as economic and environmental benefits.

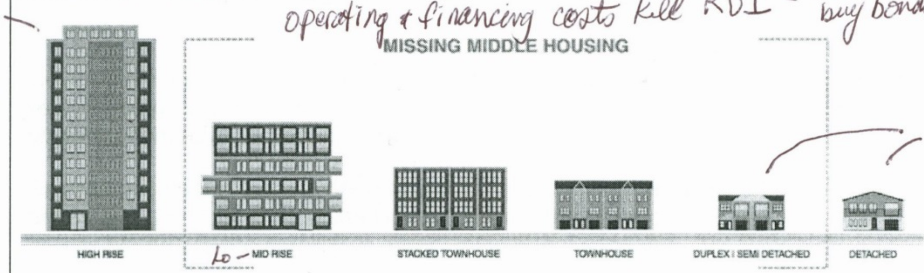
The character of some existing neighbourhoods will begin to change as new types of housing are built. The government has heard that plans to make more room for housing also need to respect the existing qualities of these neighbourhoods.

The 'Missing Middle' in New Homes

In recent years, there has been increasing public discussion about the lack of "missing middle" housing. This typically includes low-to-mid-rises, as well as ground-related housing types such as row/townhouses and semi-detached homes, located close to the services and amenities required for daily living (e.g., workplaces, schools and transit). "Missing middle" housing has also been used to refer to family-sized condo and apartment units and housing that is affordable to middle-income households, including non-luxury rental housing.

operating + financing costs kill ROI - better ROI to buy bonds

economies of scale + gov't incentives



all costs paid by tenants.

Figure 1 - Examples of different types of homes. 'Missing Middle' housing can come in the form of mid-rise buildings, stacked townhouses, townhouses, and semi-detached houses, and can be for sale or for rent.

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