

Promoting Investment in Private Rented Housing Supply: International Policy Comparisons

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1. Introduction

- 1.1 This report provides a summary explanation for the relatively large private rented sector in Canada. It shows that both individual and institutional investors are important. Given that policy measures vary by Province, national generalisations are of limited value.
- 1.2 The report has relied on secondary published material including academic and official sources.

2. Data and information

- 2.1 Tenure 2001 (Hulse, 2003):
- Owner occupiers 66.1 per cent
 - Private Renters 28.4 per cent
 - Social renters 5.6 per cent
- 2.2 In the decade to 2002 rental completions were 9 per cent of total output (Lampert & Pomeroy, 2002).
- 2.3 Over the past two decades, investment in maintaining or expanding the private rental sector has steadily declined from historical levels, raising concern about the future of the rental sector and the health of the overall housing system (CMHC, 2000).
- 2.4 The stock grew rapidly during the 1960s and 1970s, more moderately in the 1980s and even more slowly in the 1990s. Units built for private rental have played a declining role in the growth of the total rental stock since the 1970s (CMHC, 2001).
- 2.5 Small investors own almost half of the private rental stock. Medium and large investors also own almost half. The role of public real estate companies, real estate investment trusts (REITs), and pension funds has been growing rapidly; however, they still account for less than 5 per cent of the total stock. Most investors retain their holdings for at least ten years, although shorter periods (five to ten years) are common for pension funds.

3. Additional information on investment in PRS

- 3.1 Following a building boom in the late 1980s, the level of private rental development already had slowed by the early 1990s, and privately initiated development has continued to fall. New private rental housing construction fell from an average of well over 30,000 units annually in the 1980s to only 13,000 between 1990 and 1995 and subsequently to only 6,000 annually from 1995 to 1999 (Pomeroy, 2001).

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4. Policies towards the sector

Rent controls

- 4.1 Rent controls were introduced at a federal level in 1940 but abandoned soon after the war. Controls were reintroduced in each province in 1975 as part of anti-inflation packages. By 1994 rent regulation has been abandoned in four provinces (Miron, 1995). In terms of rent controls, many provinces have already deregulated or softened their policies, or are in the process of doing so (CMHC, 2000). However, six provinces still have some form of rent controls, although some are now less stringent. Such controls and provincial government policy shifts create uncertainty and are perceived as a major disincentive to investment.

Security of tenure

- 4.2 Variations by province – linked to rent controls.

Taxation/subsidy incentives

- 4.3 Canada at various times has used: low-interest loans, operating subsidies in the form of interest-free loans or grants to enhance the rate of return on investment, favourable tax provisions including accelerated depreciation and tax-induced investment funds (to the extent that tax provisions facilitated syndication) (CMHC, 2000). The detailed taxation advantages of private renting have changed considerably from time to time and have shifted between favouring individuals and favouring companies.

Incentives/disincentives for more overall investment in the sector

- 4.4 The income tax advantages which encouraged investment in rental housing in the 1960s and 1970s have changed, reducing the attractiveness of this form of investment. Other federal programs encouraging investment in new private rental (such as interest-free loans to private rental developers under the Canada Rental Supply Plan) have also ended (CMHC, 2001).

5. Summary: What are the key factors that influence investment in the PRS?

- 5.1 There is a strong demand for private renting linked to demographic changes. There are conflicting comments about how favourable the tax regime is to PRS investment. These may be a function of variations over time and between provinces. However, the tax regime does appear to be favourable compared to England.

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6. Reasons for selecting or not selecting Canada in the next stage of the research

6.1 Reasons for selecting Canada:

- There is a large PRS that has remained large by international standards, despite changes in tax regimes and what appears to be the relative attractiveness of the PRS in relation to other investments.
- There is significant institutional investment in the PRS.
- The complexities caused by variations linked to varying provincial and local policies (Crook, 1998) create both an opportunity and a barrier to the useful inclusion of Canada.
- The policy variations between the ten provinces create different sets of circumstances that can be compared.

6.2 Reasons for not selecting Canada:

- The complex variations mean that generalisations are difficult.
- A lack of distinctive policy initiatives.
- The relative paucity of recent academic material compared with some other countries.

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