CUPE

Canadian Union of Public Employees

Submission to the National Housing Council Review Panel on the financialization of purpose-built rental housing

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Introduction

The Canadian Union of Public Employees (CUPE) is Canada's largest union, with 715,000 members across the country. CUPE represents workers in sectors such as health care, emergency services, education, early learning and childcare, municipalities, social services, libraries, utilities, transportation, and airlines and more. CUPE members include workers at publicly owned housing corporations, homeless shelters, long-term care homes and other social and health care services who are at the frontlines of dealing with the housing crisis.

Our members see, every day, the toll that the housing crisis is taking on our communities. Many of our members are also suffering under the same crisis as wages fail to keep up with rising costs.

CUPE participated in the 2023 study on the financialization of housing conducted by the House of Commons Standing Committee on Human Resources, Skills, and the Status of Persons with Disabilities. In that submission, we noted that the federal government could immediately do three things to address the crisis:

1. End the preferential tax treatment for Real Estate Investment Trusts and use the over quarter billion in tax revenue over four years for investments in affordable housing;
2. Align the National Housing Strategy with the right to adequate housing so that billions in federal spending do not support the very actors who are causing the crisis, and
3. Ensure that public money is spent in the public interest by prioritizing non-market housing, including social housing.[1]

In this submission, however, we want to draw the National Housing Council's attention to a specific facet of the financialization of housing – retirement security. There are two aspects to this problem that we wish to address. The first is the impact that the reliance on homeownership to finance individual retirements is having on housing affordability. The second is the role of pension funds in the financialization of purpose-built housing.

We note with concern that public dialogue on the housing crisis in Canada remains focused on industry-led solutions which involve drastically increasing housing supply at all costs. While supply is needed, a supply-side approach blind to the impact that financialized landlords are having on the right to adequate housing has advocates increasingly concerned that a "*build more, faster*" policy is unlikely to make any progress on affordability.[2]

[1] CUPE, "Submission to House of Commons Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities," Parliament of Canada, 7 June 2023. CUPE has also called for Canada to double the public housing stock by increasing public investment to meet the OECD average. Canadian public housing stock is just 3.5%, which is half of the OECD average of 7%. See CUPE, "Canada's housing affordability crisis requires wartime public effort: CUPE," CUPE Newsroom, 23 August 2023.
[2] Ricardo Tranjan, "There is no housing crisis," The Walrus, 7 August 2023.

Canada's pension landscape

The Canadian model of retirement security is often described as a "three-legged stool." The key being: you need all three legs for the stool to be secure. Two of the pillars, Old Age Security (OAS) and the Canada Pension Plan (CPP) are public.

OAS is the basic universal public pension program for Canadian citizens and residents. We all contribute to OAS; it is funded by the federal government through general taxation. The value of your OAS pension depends on how long you have resided in Canada (e.g., at least 10 years as an adult, to a maximum benefit based on 40 years of residency). Very low-income seniors may also receive a Guaranteed Income Supplement (GIS) top-up. GIS is a means-tested program designed to keep seniors out of dire poverty.

The Canada Pension Plan (CPP) provides a lifetime pension to retirees who worked in Canada and made CPP contributions. CPP is funded equally by contributions from employers and from workers, in the form of payroll deductions. The value of our CPP in retirement depends on our earnings throughout our working life.

The system is described as a three-legged stool because the two public pension programs, OAS and CPP, do not provide an adequate retirement income on their own. An average couple, with average CPP benefits plus OAS/GIS would have a maximum combined annual income from the federal public programs of just under $35,000 per year starting at age 65.[3] This is nearly $8,000 below what Statistics Canada considers to be the Low-Income Measure-Before Tax for a two-person household.[4] This creates a need for workers to have workplace pension plans. Those without access to a workplace pension plan need to rely on personal savings and assets to piece together a decent standard of living in retirement.

Only 38 per cent of workers in Canada are covered by a workplace pension plan.[5] The workplace plans that do exist vary, ranging from more secure defined benefit plans to less adequate defined contribution plans. There has been a trend towards lower workplace pension coverage for the better part of two decades. There is no legal requirement that employers provide their workers with a pension plan. Where there are workplace pension plans, it is because unions like CUPE have fought for and safeguarded them.

There are also racial disparities in pension coverage. A 2021 report by the Canadian Centre for Policy Alternatives found that Indigenous and racialized seniors' incomes were 25 per cent and 32 per cent lower respectively than white seniors' incomes in Canada.[6]

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[3] Employment and Social Development Canada, "Monthly Statistical Bulletin," May 2023.

[4] Statistics Canada, "Table 2.4: Low-income measures thresholds (LIM-AT and LIM-BT) for private households of Canada, 2020," 13 July 2022.

[5] Statistics Canada, "Pension plans in Canada, as of January 1, 2022," 23 June 2023.

[6] Sheila Block, Grace-Edward Galabuzi and Hayden King, "Colour-coded retirement: An intersectional analysis of retirement income and savings in Canada," Canadian Centre for Policy Alternatives, 16 June 2021.

Rather than facilitate the expansion of workplace pension coverage or raising the floor for everyone by meaningfully enhancing our near-universal, publicly funded Old Age Security program, successive federal governments have adopted a "fend for yourself" approach to retirement security; an approach which increasingly promotes housing as a financial asset to fund retirement rather than its primary function as a place to live.

For example, on the Government of Canada website dedicated to retirement planning, home equity accumulation is explicitly included.[7] This government information source proposes selling your current home and buying a less expensive home, or getting a reverse mortgage, as options for improving retirement income.

Homeownership as retirement security

Federal retirement policy reflects the view of housing as an investment, rather than a right. For example, the Home Buyers' Plan program allows first time home buyers to make a withdrawal of up to $35,000 from their Registered Retirement Savings Plan (RRSP) to buy or build a home. The assumption is clear – an RRSP and the purchase of a home serve the same purpose, which is to build equity for retirement.

Federal tax policy also provides a substantial subsidy to individuals who rely on homeownership to fund retirement compared to renters who may only have access to a RRSP because equity gains in primary residences are not considered taxable income. While no tax is paid on the profits made from selling a primary residence (and there is no limit to this tax-free home equity payout), tax is paid when RRSP funds are withdrawn.

A 2017 survey by the Ontario Securities Commission found that 45 per cent of working Ontario homeowners are relying on the appreciation of their home to fund their retirement, particularly those without a workplace pension plan or RRSP.[8]

The 2023 Canadian Retirement Survey from Healthcare of Ontario Pension Plan (HOOPP) and Abacus Data found that 38 per cent of Canadian homeowners surveyed are relying on the sale of their home to fund their retirement; as are 56 per cent of respondents aged 18-34 and 43 per cent of respondents aged 35-54.[9] 44 per cent of respondents did not set any money aside for retirement in the past year.[10] The proportion of people making RRSP contributions has been on the decline overall.[11] With an increase in the cost of living and stagnating incomes, it is unsurprising that fewer people can put money aside.

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[7] Financial Consumer Agency of Canada, "Sources of Retirement Income," Government of Canada, 11 May 2021.
[8] Ontario Securities Commission, "Investing as we age: Pre-retirees relying on homes to fund retirement," News Releases, 26 September 2017.
[9] Healthcare of Ontario Pension Plan and Abacus Data, "Canadian Retirement Survey 2023," April 2023.
[10] *Ibid.*
[11] Statistics Canada, "Registered retirement savings plan contributions, 2020," 1 April 2022. According to Statistics Canada, the increase in contributions in 2020 can be attributed to more disposable income due to reduced consumer spending during the pandemic.

Relying on home value or equity growth to pay for retirement is a risky approach to retirement planning. It leaves people to fend for themselves against the booms and busts of financial markets and spikes in interest rates. Selling a house also does not generate a lifetime income stream in retirement. Even downsizing as a strategy to unlock home equity is deeply flawed as it is premised on the idea that a more affordable housing option is available.

On a macro level, relying on housing to fund retirement also creates an environment where improvements in housing affordability (e.g., reduced house prices) are perceived as harmful by individual Canadians who have been conditioned into thinking that the appreciation of their home will provide for retirement security. It is, therefore, no surprise that there is anxiety among homeowners whenever there is talk about efforts to reduce house prices.[12] This was most recently evident in Minister Sean Fraser's assertion that the government plans to make housing more affordable while simultaneously preventing the reduction of house prices.[13]

Opposition to increasing density with new purpose-built rental housing or social housing developments is also often rooted in a perceived threat of reduced property values, and therefore retirement savings. Even if these concerns are baseless, as some research suggests, this kind of NIMBYism can be and has been a substantial roadblock to new affordable housing developments.[14] Another consequence of housing speculation is the upward pressure it puts on the cost of land, which in turn can make it unfeasible for not-for-profit organizations to build new purpose-built rental buildings with affordable units in many Canadian cities.

Without steps taken to ensure universal and adequate pension coverage, it will remain difficult for policy makers to secure the support needed from Canadians to make inroads on housing affordability. We are concerned that interventions to improve housing affordability may be seen as indistinguishable from an attack on individual retirement plans. We strongly believe there can be no solution to the problem of housing financialization without ensuring universal retirement security.

Employment and Social Development Canada is currently engaged in a research study to explore the impacts of housing-backed debt on retirement planning among people in Canada.[15] CUPE encourages the NHC to gain early access to the data and findings, which purports to inform programs and policies aimed at promoting and strengthening income security of Canadians.

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[12] Tara Perkins, "How a housing market decline could put Canadian retirement savings at risk," The Globe and Mail, 8 October 2014.
[13] Randy Thanthong-Knight, "Canada wants to make homes more affordable without crushing prices," Bloomberg News, 10 August 2023.
[14] BC Housing Research Centre, "Exploring the impacts of non-market housing on surrounding property values – overview report," January 2020.
[15] Employment and Social Development Canada, "Study on home equity and retirement," 31 March 2023.

What about renters?

Home prices have far outpaced incomes across Canada. In 1980, the average home cost 2.5 times the average household income. Today, the average home in Toronto and Vancouver costs respectively 13.2 and 14.4 times the average income.[16] Young people are especially feeling the crunch. A quarter of Millennials surveyed felt that they would never own a home.[17] Taken together with Generation Z, 7 in 10 believe that homeownership is more out of reach than their parents' generation.[18]

On the other side of the housing equation, more people than ever before are renting in Canada. Over one-third of Canadian households are tenants.[19] The number of renters in Canada has increased at three times the rate of homeowners in the last decade.[20]

But renting is not accessible either, especially on minimum wage, even if you work full time. According to the Canadian Centre for Policy Alternatives, the rental wage —meaning how much people need to earn to pay rent without spending more than 30 per cent of their income on it – is higher than it should be nearly everywhere in Canada.[21] According to the report, only three Census Metropolitan Areas from among those studied have one-bedroom rental wages lower than the minimum wage.

With homeownership as an alternative to universal retirement security, we are poised to see an entire generation age into poverty, priced out of homeownership and without adequate pensions or independent wealth.

According to the 2023 Mercer Retirement Readiness Barometer, lifelong renters must save 50 per cent more than homeowners to have an adequate retirement income.[22] The key assumptions being that housing costs for homeowners decrease in retirement, and homeowners could cash out on the price appreciation of their home.

[16] Carolyn Whitzman and Alexandra Flynn, "Housing is a direct federal responsibility, contrary to what Trudeau said. Here's how his government can do better," The Conversation, 7 August 2023.
[17] Tom Yun, "One in four Canadian millennials believe they will never own a home, survey finds," CTV News, 27 August 2022.
[18] Sotheby's International Realty, "Two-thirds of Canadian Gen Z homebuyers say personal savings will be a primary source of down payment funds," 9 March 2022.
[19] Statistics Canada, "National Housing Day: A look at homeowners and renters," 22 November 2022.
[20] Robert Hogue and Rachel Battaglia, "Proof Point: Is Canada becoming a nation of renters?" RBC Proof Point, 7 December 2022.
[21] David MacDonald and Ricardo Tranjan, "Can't afford the rent – Rental wages in Canada 2022," CCPA Monitor, July 18, 2023.
[22] Mercer, "Millennials priced out of ownership must save 50 per cent more than homeowners to retire," 12 April 2023.

Role of pension funds

As researchers have extensively documented, workplace pension funds have played a significant role over the last half century in the privatization of public assets[23] and the erosion of human rights.[24] These funds are now some of the world's largest investors. The Canada Pension Plan Investment Board, for example, manages over half a trillion dollars.[25] Canadian pension funds, specifically, are now some of the world's most active entities looking to privatize public goods and services.[26]

Pension funds have become significant investors in the financialization of long-term care and seniors' retirement residential housing.[27] Two of the top five biggest owners of seniors housing in Canada are wholly owned by pension funds.[28] The failures of for-profit long-term care homes and retirement residences are well-documented – from fewer hours of direct care and lower staffing levels to higher mortality rates.[29] The financialization of seniors housing has also fuelled an increase in rents at private long-term care and retirement residences. This includes adding on private-pay healthcare and hospitality fees which increase costs for residents. [30]

Pension funds are also increasingly invested in the financialization of purpose-built rental housing whose business model relies on the displacement of lower income tenants in favour of higher income tenants through unaffordable rent increases and renovictions – a tactic known as "repositioning."[31]

For instance, the Manitoba Teachers' Retirement Allowances Fund partly owns Heron Gate, an Ottawa apartment complex that was at the centre of a controversial and rights-violating effort to

[23] For a thorough discussion of the role of Canadian pension funds in the privatization of public services, see Kevin Skerrett, "Pension funds, privatization, and the limits to 'Workers Capital,'" Studies in Political Economy: A Socialist Review, 99:1, 22 March 2018, pages 20-41.
[24] Joanna Chiu and Jeremy Nuttall, "Could your pension plan be funding human rights abuses in China?" Toronto Star, 21 November 2022.
[25] Benefits Canada, "CPPIB assets cross $500 billion – Report," 17 August 2021.
[26] CUPE, "Keep our pensions out of privatization – Toolkit," 29 October 2020.
[27] Marco Chown Oved, "Pension plans own millions of shares in Ontario long-term-care homes, where COVID-19 has killed thousands. Now, some are pulling their money out of the for-profit facilities," Toronto Star, 27 January 2021.
[28] Jackie Brown, "The Financialization of Seniors' Housing in Canada," Office of the Federal Housing Advocate, June 2022.
[29] Marco Chown Oved, "Pension plans own millions of shares in Ontario long-term-care homes, where COVID-19 has killed thousands. Now, some are pulling their money out of the for-profit facilities," Toronto Star, 27 January 2021.
[30] See Martine August, "Securitising seniors housing: The financialisation of real estate and social reproduction in retirement and long-term care homes," Antipode Vol 54 Issue 3, May 2022, Pages 653-680. See also Nicole Williams, "These seniors face a 20% rent increase – and Ontario rules make it legal," CBC News, 22 November 2022.
[31] Martine August, "The financialization of Canadian multi-family rental housing," Office of the Federal Housing Advocate, June 2022.

displace hundreds of low-income renters, the majority of whom were Black and racialized people, including refugees.[32]

In British Columbia, a co-operative with 224 affordable units was threatened when the pension plan that owned the properties decided to sell to the highest bidder to maximize its return on investment.[33] The residents, many on fixed incomes, were faced with evictions. It was not until the province stepped in, and the City of Burnaby took ownership of the property, that the eviction was averted.[34]

In Ontario, tenants of multiple rental buildings across the city are organizing against major above-guideline rent increases imposed by their pension fund landlord – PSP Investments[35] .

Even where unions and plan members have representation on pension boards, the constraints they are required to operate within are often too restrictive for these handful of representatives or trustees to make a difference. The laws governing pension investments make it difficult for workers' representatives on pension boards to prevent unethical and rights-violating investments. One issue is the interpretation of what it means to be a "fiduciary" in the context of financial investments. In the general absence of statutory guidance, this has been interpreted in ways that require workers' representatives to vote in favour of investment decisions that are most likely to maximize returns, regardless of what negative societal impacts this may have. As Skerrett (2018) notes:

> In effect, it holds that a trustee who believes that a certain plan investment will harm the public interest, increase social costs (or taxes), and undermine democratic control over public goods and services is legally prohibited to oppose it if that trustee understands the risk-return profile of the proposed investment to be otherwise attractive.[36]

In the endless search for higher investment returns, pension funds are increasing allocations to real estate as an "alternative asset class" because, in theory, pension funds can extract a stable income in the form of rent – on top of property value appreciation. Residential real estate is often considered by institutional investors to be inflation-resistant because rent and home prices tend to rise along with inflation, and even outpace it. The way pension funds view residential real estate is no different than global asset managers and hedge funds. If the statutory mandate for pension funds to maximize investment returns is maintained, pension fund investments in residential real estate will only continue to exacerbate the affordability crisis.

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[32] Neal Rockwell, "A public pension fund is Canada's newest mega landlord," The Breach, 30 March 2022.
[33] Co-operative Housing Federation of BC, "Burnaby Housing Co-op threatened by sell-off to private landlords," CHF BC News Releases, October 2021.
[34] Simon Little, "BC Housing, Burnaby reach financing deal to preserve threatened co-op housing," Global News, 11 July 2022.
[35] PSP Investments is a federal crown corporation that invests pension funds for federal public sector workers. The tenants at buildings owned by PSP Investments were threatened with evictions in May 2023 after they refused to comply with unaffordable rent increases. See Met Radio, "Starlight begins the eviction process for over 100 tenants on rent strike," 26 May 2023.
[36] Skerrett, 2018. *Supra* note 23, page 34.

What could the Government of Canada do to address the impacts of the financialization of purpose-built rental housing and advance the progressive realization of the right to adequate housing?

Simply put, we need a better public pension solution. Universal pension coverage is a component of the social security obligations under the *International Covenant on Economic, Social and Cultural Rights*, to which Canada is a state party. [37] Yet Canada's public pension spending among peer countries is quite low. The OECD average for public pension spending as a percentage of GDP is 7.7 per cent.[38] Canada ranks 28th among 38 OECD countries, spending only 5.3 per cent of GDP on public pensions. Canada spends less on public pensions as a percentage of GDP than the United States (7.5 per cent).

Old Age Security is a strong, non-financialized, indexed, universal public pension program financed through general taxation. But current rates are insufficient even with the recent 10 per cent boost to benefits at age 75 — far too late for many working-class retirees who need immediate support. Reports show that poverty among seniors is increasing,[39] and our union remains concerned that recent increases to CPP, OAS and GIS are not going to be enough to ensure all seniors can retire with dignity. With a direct correlation between lack of pension coverage and elderly poverty, there is an urgent need to raise everyone's retirement security by doubling the Old Age Security benefit.

Stronger regulations and legislative interventions are also needed to prevent workplace pension funds from intensifying the housing affordability crisis. A bold solution would be to restrict pension funds from holding investments in residential real estate. Regulating the type of asset classes our pension funds can invest in is not a novel concept. Significant deregulation in the 1990s unleashed pension funds from holding only certain asset class like government bonds. At the end of Q4 2022, Canadian trusteed pension funds held $266,257,000,000 in real estate investments, making them the country's largest real estate owners.[40]

Another example of governments regulating pension fund investments is found in Saskatchewan. In 2015 the Government of Saskatchewan tightened land ownership regulations to prohibit pension funds from acquiring farmland in response to overwhelming opposition by residents to a significant farmland purchase by the Canada Pension Plan Investment Board.[41] Like real estate, farmland is another "alternative asset class" that appeals to mega-institutional investors like pension funds, which can drive up rents and farmland prices.

[37] *International Covenant on Economic, Social and Cultural Rights*, 19 December 1966, 993 U.N.T.S. 3, Can. T.S. 1976 No. 46, 6 I.L.M. 360 (entered into force 3 January 1976) [ICESCR]. See also Office of the High Commissioner of Human Rights, "About the right to social security and human rights," United Nations, Retrieved on 25 August 2023.
[38] OECD, "Pension Data 2018-2021," Retrieved 10 August 2023.
[39] Statistics Canada, "Canadian Income Survey, 2021," The Daily, 2 May 2023.
[40] Statistics Canada, "Trusteed pension funds, value of assets by sector, quarterly," 14 June 2023.
[41] Jennifer Graham, "Saskatchewan bars pension plans from owning farmland," The Globe and Mail, 21 October 2015.

The federal government could begin by disincentivizing pension funds and other institutional investors from investing in residential real estate by making it an unattractive asset class for maximizing profit. For example, strengthening capital gains taxes, requiring minimum national standards for tenant protections tied to federal funding, placing limits on the number of units that institutional investors can own, ending tax loopholes for Real Estate Investment Trusts, requiring human rights outcomes from private sector investors in residential real estate,[42] and prohibiting public funding (e.g. public financing, subsidies, tax incentives) from being used to support pension fund investments in residential real estate.

In 2019, the federal government passed the *National Housing Strategy Act,* which enshrined in legislation the right to adequate housing. [43] Still, other federal legislation, regulations and policies routinely undermine the legislated obligation to uphold the right to housing. For example, National Housing Strategy funds continue to be awarded to actors for whom renovictions and unaffordable rent increases leading to forced evictions – violations of the right to housing – are the business model. Funds from the Canada Infrastructure Bank have been used to support a group of companies accused of unaffordable rent increases that risk pushing fixed-income seniors into homelessness.[44]

In sum, the retirement security regime in Canada is set up to further exacerbate rising home prices and the financialization of purpose-built rentals. Nobody's retirement security should be tied up in the financialization of housing, regardless of whether someone is a homeowner, or whether someone is a member of a workplace pension plan. Everyone has the right to live in dignity in retirement.

RECOMMENDATIONS

1. **Implement universal pension coverage:** The federal government should ensure universal pension coverage that will guarantee a dignified retirement for all. Without a strong, universal pension coverage, and with millions of Canadians relying on the appreciation of their home value to fund their retirement, efforts to address the financialization of housing that could result in the reduction of property values will fail to secure public support.
2. **Regulate pension fund investments in residential real estate, including purpose-built rental housing:** Solutions range from restricting pension funds from holding investments in

[42] Mariana Mazzucato and Leilani Farha, "The Right to Housing: A mission-oriented and human rights-based approach (working paper)," January 2023. Mazzucato and Farha, the former UN Special Rapporteur on the Right to Adequate Housing, advocate for an approach that requires human rights outcomes from private sector actors that seek to profit from housing. They note: "Governments must set conditionalities and design value-sharing mechanisms to ensure the progressive realisation of the right to housing."
[43] *National Housing Strategy Act*, SC 2019, c 29, s 313.
[44] The Canada Infrastructure Bank awarded $136.6 million to Dream Group of Companies for retrofits. The company was accused of increasing rents to unaffordable levels that could result in homelessness, including of seniors on fixed incomes – a violation of the right to housing. See Lane Harrison, "These Toronto tenants are sick of above-guideline rent increases. Now, they're taking action," CBC News, 1 June 2023. See also CUPE's submission to the five-year review of the Canada Infrastructure Bank, on page three: CUPE, "Infrastructure Bank review must be top-to-bottom overhaul: CUPE," 4 April 2023.

residential real estate, to disincentivizing pension funds and other institutional investors from investing in residential real estate by strengthening capital gains taxes, requiring human rights outcomes from private sector investment in residential real estate, placing limits on the number of units that institutional investors can own, and using a right to housing framework in all federal programs to make residential real estate investments less attractive.

3. **Use a right to housing framework**: The federal government should ensure that federal legislation, regulations, and policies do not undermine the right to adequate housing. This includes ensuring federal housing investments do not subsidize for-profit corporations building unaffordable housing; establishing minimum national standards for tenant protections; and refocusing federal money towards social housing, non-profit and co-operative housing.

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