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# **Beyond Simply Building More** Policy Options for Combatting the Financialization of Housing in Ontario

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## Policy Options for Combatting the Financialization of Housing in Ontario

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Tsahai Carter (she/her/elle) is a recent graduate of the University of Ottawa where she studied Political Science and Languages. As a student, Tsahai was active in her school community, promoting anti-racism and equity as a student mentor and a Deputy Director of her faculty's internship program. She is passionate about public policy and Anti-Racism, Equity, Diversity & Inclusion. Tsahai completed her 2022-23 Urban Alliance on Race Relations Youth Policy Fellowship placement with the Broadbent Institute.

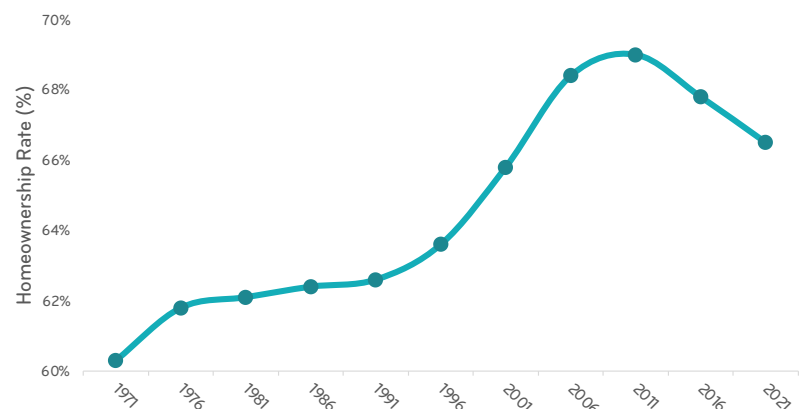
## Residential real estate as an investment vehicle

Although residential real estate investing has a long history in Ontario, [the pace of private investment has accelerated](#) in the past decade. A recent report [on landlords and their rental income](#) from Statistics Canada released in late 2022 explains that “[t]he almost constant rise of housing prices combined with low interest rates in recent years has contributed to a trend in individuals acquiring a secondary dwelling as an investment option.” As investor ownership of properties has been increasing, housing for the average Ontarian has become [increasingly unaffordable](#).

These trends are not unique to Ontario, or even to Canada. Across the globe, the portion of residential real estate owned by investors is growing, and [the average cost of housing is rising rapidly in tandem](#). While there are a number of factors that affect the cost of housing, many [Canadian economists](#) and [think tanks](#) are warning that the ever-growing presence of investors in housing markets is distorting costs and increasing housing unaffordability. As explained by the United Nations’ (UN) [Special Rapporteur on the right to adequate housing](#) in 2019: “housing and real estate markets worldwide have been transformed by global capital markets and financial excess. Known as the financialization of housing, the phenomenon occurs when housing is treated as a commodity—a vehicle for wealth and investment—rather than a social good.” These analyses of financialization are supported by emerging data indicating that investor ownership of housing is a major factor contributing to housing affordability crises across the globe.

A [report on residential real estate investment](#) published by Statistics Canada in February 2023

Canada's homeownership rate is declining



The homeownership rate is the proportion of all households that are owner occupied  
Source: Census of Population, 1971 to 2021, and National Household Survey, 2011.

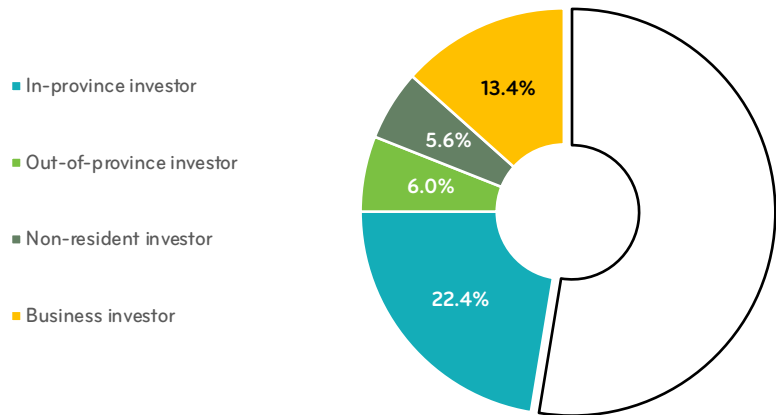
found that over 20 per cent of all owners in Ontario are investors. Further, it was found in a survey that 42 per cent of condominiums in Ontario [are being used as an investment](#). A consequence of these high rates of investor ownership is that [fewer Ontarians own their own homes](#), which is leading to growing competition for rental properties that is inflating the cost of housing.

Increased rents are not the only issues caused by growing investor ownership of residential real estate, in fact, the financialization of housing raises various flags that policymakers should be paying attention to. In the context of housing affordability in Ontario and concerns about housing supply, policymakers should be considering how the existing housing supply is distributed and being used, and how investor ownership distorts housing prices.

The [Statistics Canada report](#) distinguishes between different three types of homeowners. An “investor” is defined as “an owner who owns at least one residential property that is not used as their primary place of residence.” Investor-occupants are “owners that own a single property with multiple residential units, one of which is their primary place of residence.” Finally, the term “non-investors” or “owner occupants” is used to refer to owners who “live in the province where the property is located, who own a single property, and whose property does not have multiple residential units.” This paper is primarily concerned with owners in the first category of “investors”. While residential real estate being used purely as an investment vehicle is a concern, it must be acknowledged that homeownership provides Ontarians with the [ability to build equity in a safe and secure investment](#). For many Ontarians, owning a home provides both shelter and financial security. When examining affordability issues and financialization, policymakers must consider different types of homeowners and the many utilities of housing. Policies should account for the benefits that homeownership can provide to non-investors.

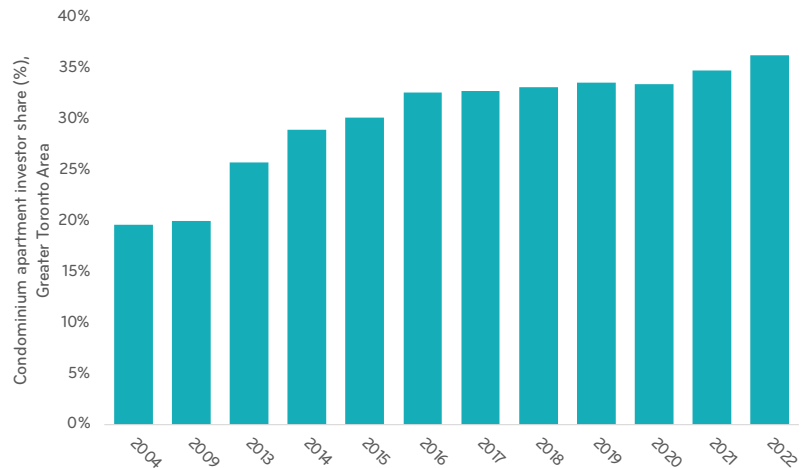
Shining a light on the rapid growth of investor ownership, this report suggests that simply building more homes faster is unlikely to meaningfully address Ontario’s housing affordability challenges. In the absence of additional policy measures to prevent the continued expansion of investor ownership, it is unlikely this housing will become affordable for most Ontarians. This report explores the consequences of increased investor ownership in residential real estate and some policy options for addressing housing affordability issues in Ontario, concluding that so long as the province’s housing system continues to prioritise housing as an investment vehicle rather than a basic human right, runaway housing prices will remain an issue in Ontario.

**Proportion of condominium apartments used as an investment in Ontario, by investor type**



Source: Statistics Canada, Canadian Housing Statistics Program (CHSP)

**The share of apartments held by long-term investors grew to 36.2 percent in 2022**



Source: Canada Mortgage and Housing Corporation, January 2023 Rental Market Report



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## Housing affordability in Ontario

Amid relentlessly increasing home buying and rental prices, the Doug Ford government established the Housing Affordability Task Force in 2021 which produced a [report](#) yielding recommendations to address the housing crisis with the key objective of keeping up with the demand for housing in Ontario. Specifically, the report recommended increasing the rate of housing construction to build approximately 1.5 million homes across the province over the next ten years. The task force report notes that house prices in Ontario have almost tripled in the past 10 years, outpacing income growth. It recognises housing affordability as a major issue facing the province as a whole. In response to the housing affordability issue, the report highlights a deficit in the housing supply as the main cause of Ontario’s housing crisis, stating that:

“For too long, we have focused on solutions to “cool” the housing market. It is now clear that we do not have enough homes to meet the needs of Ontarians today, and we are not building enough to meet the needs of our growing population. If this problem is not fixed – by creating more housing to meet the growing demand – housing prices will continue to rise. We need to build more housing in Ontario.”  
(2022)

The recommendations of the report have led to a push for new construction in the province. To achieve the goal of building more housing the Ford government introduced Bill 23, or the [More Homes Built Faster Act](#). This omnibus housing legislation imposes extensive changes to the land use regime in the province, setting building quotas for municipalities and making sweeping changes to environmental protections.

The legislation is primarily focused on support for developers and does not offer sufficient consideration for whom new development will serve and how the legislation will create sustainable change. Although increasing the housing supply is an important step towards creating affordability, current trends in Ontario real estate indicate that without broader policy changes, new construction is not enough to ensure reliably affordable housing in Ontario.

With the *More Home Built Fast Act* having received royal assent at the end of 2022, this paper will examine a variety of policy approaches that can be taken to ensure that new construction actually results in housing affordability. Going forward, it is crucial that the provincial government works closely with municipalities and community partners to carefully consider and plan what will be built, by whom, and for whom. If housing affordability is truly a priority, policymakers have a variety of proven methods at their disposal.

## Options Analysis

As the Ontario government begins to undertake the task of addressing housing affordability in the province, it is important to consider both long-term and short-term change. To relieve the current housing crisis, the government needs to take immediate action to curb real estate investment and limit the negative impacts of existing investors. However, to ensure that similar housing affordability crises do not reoccur in the long-term future, the Ontario government also needs to introduce new models of housing that decommodify affordable dwellings, rather than expecting for-profit actors to provide market-led solutions.

This paper will present a variety of solutions available to policymakers for combatting the financialization of housing. Rather than recommending one particular course of action, this paper will demonstrate how a suite of policies can be implemented jointly for the most effective results.

While this paper will focus on the provincial regulation of real estate investment and combating financialization, addressing the housing crisis and creating sustainable affordable housing in Ontario will require many considerations beyond increasing housing supply. The federal government and municipal governments are key partners in any housing initiatives. Further, zoning policies and the regulation of developers and construction practices all play a large role in the housing system.



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## Addressing real estate investment

There is an immediate need to eliminate unfair competition for housing by reducing demand from investors. Although efforts have been made to “cool” the housing market, rapid cost increases for both renters and buyers have persisted. At the provincial level, the government has made some efforts to address unaffordability by implementing policies and programs such as increasing the [Non-Resident Speculation Tax rate](#) (NRST) and the [community housing renewal strategy](#).

Nevertheless, as acknowledged by the 2022 report of the Ontario housing affordability task force, these measures have seen limited success and housing costs continued to rise in their wake. As such, the government has turned its focus towards [increasing the housing supply](#) to tackle Ontario’s affordability crisis. However, as mentioned above, creating new supply without additional demand-side regulations and consideration for equitable access to housing is unlikely to mitigate the rising trend of investors buying up these new properties and renting them out at high rates with low security of tenure. Investors can leverage their capital to acquire newly built housing, with over half of condominium apartments and close to a quarter of houses built over the 2010s being snapped up by investors in Ontario.

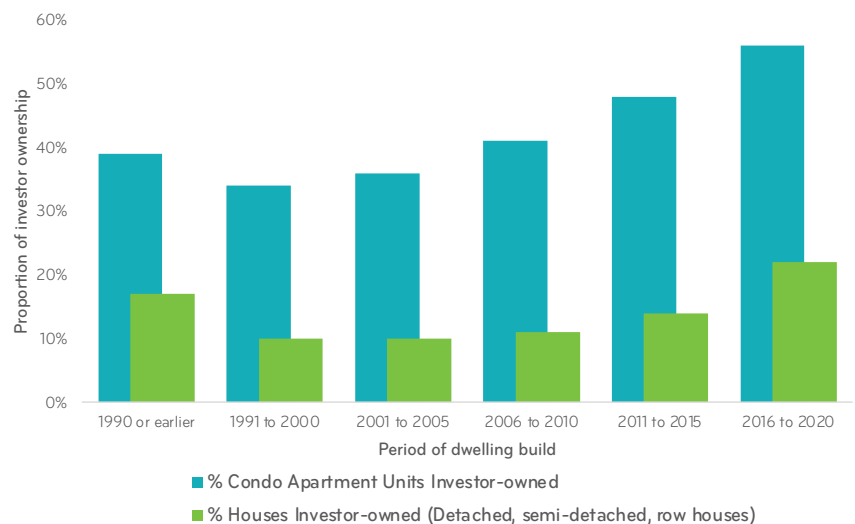
Broadly, policy actions taken across Canada to combat rapidly increasing housing prices target foreign buyers and non-residents. For example, the federal government has sought to combat foreign investor ownership, by taxing, and as of January 2023, [banning foreign investors](#) with the intent of limiting competition for housing to local residents. Although these policies are [generally well-received by Canadians](#), they do not always account for the diverse needs of local residents. In Ontario, non-residents own 13% of all investor-owned houses and condo apartment units. To create an immediate and significant impact, these policies should be extended, targeting not only foreign investors but also domestic investors, who constitute the vast majority of all investors.

Across Canada and globally, many jurisdictions are implementing a variety of new policies to reduce demand from investors. Ontario can look towards ongoing efforts elsewhere that curb investment demand to understand what effective policy to create housing affordability can look like.



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Percentage of condos and houses that are investor-owned by period built in Ontario, 2020



Source: Statistics Canada, Canadian Housing Statistics Program (CHSP); Calculations by Jeremy Withers, PhD Candidate, Housing Policy Researcher, Department of Geography and Planning, University of Toronto



Photo by Jay Eshie on Unsplash

## Tax policy

House prices increased substantially between 2020 and 2022 in the wake of the COVID-19 pandemic. Low interest rates from the Bank of Canada, first introduced in 2008 as a bailout policy for the Great Recession, and then [lowered even further during the pandemic](#), created a large incentive for new homebuyers and investors to purchase residential real estate. However, [sales data indicates](#) that home sales during the

pandemic era in Ontario were not driven by owner occupants, but rather by investors, who became the largest and fastest-growing type of buyer.

The one-size fits all approach to stimulating the economy did not benefit everyone equally. Investors with the ability to make large down payments [easily outbid](#) buyers looking for primary residences. Stories of houses selling for drastically above the asking price and first-time homebuyers being continually outbid by investors became commonplace for years, even ahead of today's unaffordable benchmarks. With cheap mortgage rates and few limits on asset accumulation in the form of residential properties, real estate was bought out by the highest bidders and became unattainable to those with lesser means.

The further commodification of housing during this time period was significant and had major consequences for housing affordability. For many analysts, it became clear that [curbing the use of residential real estate as an investment vehicle](#) is a necessary step towards affordability. In this context, the Ontario government has a variety of tax schemes that purport to curb housing speculation and support first-time homebuyers, including the Non-Resident Speculation Tax and [land transfer tax refunds for first-time homebuyers](#). However, the policies are limited and do not do enough to target domestic individual and corporate investors who make up much of the housing market in the province.

There is an immediate need for more robust tax schemes to ensure that housing is distributed to those with the greatest needs. Measures can include:

- Expanding taxes on investors to include domestic individuals and corporations purchasing properties they will not be using as a residence;
- Working with municipalities to introduce a separate land transfer tax for investors buying residential units;
- Working with municipalities to introduce a separate property tax rate for investor-owned residential units;
- Using revenue from these taxes to fund incentives for first-time homebuyers and the production of non-profit owned affordable rental housing.

Such measures would be designed as a disincentive to investors by making the purchase of residential real estate more expensive for them. It may also increase the housing stock by encouraging investors to sell properties that become less profitable. As a result, first-time homebuyers, and buyers looking for a primary residence can be prioritised in Ontario's housing markets.

## Vacant homes tax

As the purchase price of residential real estate has drastically risen in the past few years, [rental costs have risen simultaneously](#). The increase in rental costs has been attributed to low vacancy rates creating competition for units and driving up prices, [according to the CMHC's January 2023 report](#). To increase the rental stock among existing developments, many jurisdictions have begun to implement vacant home taxes. In Vancouver which had one of the [highest home vacancy rates](#) in Canada, the [City of Vancouver](#) and the [B.C. government](#) implemented taxes on vacant homes. These taxes which were introduced in 2017 and 2018 had the explicit goal of relieving pressure on Vancouver's rental housing market by increasing the supply of available rental units and therefore reducing competition for rentals that was driving up prices.

In the years following the implementation of the taxes, the percentage of vacant properties in Vancouver has decreased substantially. For example, 49% of properties declared, deemed or determined vacant in Vancouver in 2020 were converted to occupied in 2021, according to the [City of Vancouver](#). An additional benefit of vacant home taxes is that revenues collected by the government from the tax can be invested into other affordable housing programs such as social housing or rent relief projects. In Toronto, where the number of vacant units has been on the rise, the city has also recently introduced a [vacant homes tax](#). To meet its stated goal of increasing the housing supply, the Ontario government can continue to build on these efforts to reduce the number of vacant homes by introducing a provincial vacant homes tax.

One major limitation of vacant home taxes is that asking rents for converted units are often still set at very high prices. In 2022, asking rents for vacant units in Vancouver were, on average, [43% higher than those paid for occupied units](#). Although occupying vacant units is an important step towards affordability, vacancies usually represent a small percentage of overall units and the number of units actually converted to occupied is even lower. Converted units are generally not enough to meet demand and create affordability. Vacant home taxes are a useful tool, but alone are not enough to combat financialization and housing affordability. Policymakers must do more and consider a comprehensive and progressive approach to the housing crisis.



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## Broadening rent controls

In the current environment of rising rents, research from Statistics Canada indicates that [landlords' increasing revenues from renting far surpass costs](#). As a result of increased rents, landlords are making record profits while Ontarians are struggling to afford their housing. Considering that housing is not something that people can forego, the ability for landlords to profit off of competition at the expense of their tenants is unjust and should be curbed. The above-mentioned policies of decreasing vacancies to increase supply and disincentivising investor ownership with higher tax rates can go a long way towards expanding access to units that tenants could either rent or buy. Regardless, there is a clear need to regulate existing landlords more carefully to prevent them from taking further advantage of the current market.

Currently, in Ontario, rent control exists but is limited to regulating rent increases while a tenant remains in a dwelling and does not apply to units created for occupancy after 2018. Existing regulations on residential rent increases have been an effective tool for managing the cost of rent, protecting tenants against drastic rent increases as long as they remain in their unit. However, a lack of regulations on rent increases

more generally means that landlords can increase rents without restrictions in between tenants. In 2022, the [CMHC](#) found that “the average rent increase for 2-bedroom units that turned over to a new tenant was well-above increases of units that did not change tenants (18.3% compared to 2.9%).” According to the CMHC, “these higher rents increased affordability challenges for renters who are trying to enter the market or find new housing.” Furthermore, the lack of rent control for turnovers creates incentives for landlords to [evict](#) current tenants so that they can increase rent, creating precarious situations for tenants. To prevent dramatic surges in rental costs, rent control must be tied to units rather than tenants. Such policies already exist in some jurisdictions in North America. A great example is [Manitoba](#), where rent control is already partially tied to units instead of tenants. The effectiveness of these policies can be seen in Winnipeg where the average rent for a two-bedroom unit only increased by 1.5% in 2021 as compared to the 5.6% national increase. Although it is difficult to isolate the effect of the province’s rent control approach, the drastically lower increase in rent as compared to the national average and other similar Canadian cities indicates a positive impact.

One common argument against rent control is that it can lead to a lower rental supply and increased rents in the long run. A [2018 paper](#) published by the Brookings Institution explores how rent control leads landlords to sell their rental properties to owner-occupants or to redevelop their buildings to get exemptions from rent control. The paper suggests that to create and maintain affordable housing rent

control should be abolished and governments should offer subsidies or tax credits instead. Essentially, the paper suggests that governments should channel public money towards private landlords rather than having landlords receive reduced profits. What the Brookings paper and other similar publications fail to mention is that rent control does not prevent landlords from turning a profit—it reduces how much profit landlords make. Record rates of investor ownership of condos in Ontario, where provincial rent control is in place demonstrates that rent control does not prevent landlords from making profits. Regardless, there is [some evidence](#) that strict rent control taken alone without a comprehensive housing approach may lead to a decrease in the rental stock over time, eventually resulting in higher costs in the long run if left as the only policy tool in use.

## Going further

The Brookings Institution is not alone in its criticisms of rent control. In fact, there are a myriad of publications that call for the elimination of rent control, vacant home taxes, speculation taxes, and other measures designed to create and protect affordable housing. More importantly, [landlords themselves often raise a lot of criticism](#) towards any policies designed to provide affordable housing that may cut into their profits. The response of landlords to policies that protect affordable housing reveals that investors are not necessarily committed to the social well-being of tenants. Moreover, the substantial rise in investor ownership of housing over the past decade illustrates how investors can actively prevent the low- and middle-income working-class from accessing affordable housing.

Photo by Vincent Thomassen on Unsplash



All this being said, there is economic analysis that suggests that [in the most extreme cases, strict rent control and high taxes can lead to an exit of investors from the housing market](#). This is a potential outcome of housing affordability policies that should not be overlooked. Analysing the actions of investors and their responses to policies to create affordable housing should indicate to policymakers that the private sector alone cannot be entrusted with the responsibility of independently providing affordable housing to all citizens.

The policies explored above are necessary and important steps towards relieving some of the current pressure in the housing market. However, as long as access to housing is increasingly driven by investors' desire for wealth accumulation, housing unaffordability will remain an issue. Until housing is provided as a right and removed from the for-profit market, investors will find ways to take advantage of the fact that everyone needs housing and issues of housing unaffordability will likely reoccur.



## Social housing

Social housing, or public housing, tends to have [very negative connotations](#) in North America. In the United States and Canada public housing usually exclusively serves low-income residents with housing projects being constructed in the poorest neighbourhoods. However, at its most basic definition, social housing is simply housing that is owned publicly or cooperatively and not designed to make profits. When designed and implemented with care, large-scale social housing programs work to ensure that the housing needs of individuals and family households are met, while still providing quality housing and lifestyles to residents. Social housing has many dimensions and can be undertaken in a variety of ways. For large-scale social housing to be successful in Ontario, its purpose and occupiers need to be redefined. Social housing needs to not only be affordable, but also desirable. Residents of social housing should have a voice and a stake in their units and buildings. Additionally, It social housing should be built in accessible, mixed-use neighbourhoods and serve people of different income levels. Once again, Ontario can look towards various successful social housing programs across the globe for models of how high-quality social housing can be created and sustained.

### Singapore

The housing situation in Singapore is unique in that close to [90% of Singaporeans own their home](#), however, the majority of the homes were constructed and distributed by the Singaporean government. The Singaporean government employs an [integrated approach to social housing](#)—from planning and design, through land assembly and construction, to management and maintenance. In many ways, Singapore has managed to decommodify housing; [housing prices are income-adjusted, housing is built and sold by the government, and ownership of public housing is limited to one unit per owner](#). Since the 1960s, Singapore has developed a unique yet effective form of public housing that benefits all income segments of the country's citizenry. The state successfully created high-quality, stigma-free public housing.

However, Singapore is also home to a vastly different social and political context from that of Ontario. From the onset of Singapore's public housing initiatives, the Singaporean Housing Development

Board took actions that would [undermine principles of democracy and individual freedom](#) in Ontario, such as re-claiming land from individual citizens, denying housing rights for marginalized working non-citizens, and following ethnic quotas when assigning housing. While the Singaporean model has a lot to offer, it is built on undemocratic foundations that are not adaptable to the Ontarian context. Despite these contextual shortcomings, the model of housing in Singapore provides a template for what large-scale social housing can look like: positioning housing as a basic right and necessity that is available to everyone. For the North American context in particular, it offers a model that provides both social housing and homeownership. It enables the price appreciation that some homeowners depend on to supplement personal savings. However, were housing entrenched as a human right, robust social programs should also be considered to negate the need for price appreciation of housing to supplement savings and make new homeownership accessible.



## The Vienna Model

In Vienna, Austria, [more than 60 per cent of city residents live in city-built, sponsored, or managed housing](#). Social housing in Vienna is not the result of just one housing policy. Most of the social housing in Vienna is built on government-owned land, but housing is often owned and managed by private companies. The Vienna model encompasses municipal housing [built and managed by the city](#), and subsidised housing built and managed by non-profit corporations or co-operatives.

Vienna's social housing has a number of unique features that contribute to its success. Unlike public housing projects in the United States and Canada, Vienna's public housing serves both low-income and middle-income residents. Additionally, social housing in Vienna was integrated into existing neighbourhoods and built in desirable areas. This is in contrast to many public housing projects across Europe and North America, where social housing is built on the outskirts of cities or in the poorest neighbourhoods of cities. Furthermore, Viennese housing projects were built with careful consideration and consultation; public housing buildings were designed to be indistinguishable from private buildings, providing secure and aesthetically pleasing housing. Most importantly, the city made and maintained a commitment to prioritise the quality and affordability of housing.

Social housing in Vienna is widely available and accessible. As explained in a [POLITICO article](#) “[t]he only requirements for accessing social housing are meeting a cap on income that is so high that 75 per cent of the population qualifies, and having lived in the city for two years, meaning residents tend to be from diverse backgrounds and aren't segregated from one another.” Moreover, eligible residents are likely to have access to social housing since there is a large stock of available housing with 50 per cent of all housing in the city being public housing.

A key lesson that can be learned from Vienna is how to fund public housing. A combination of tax policy, rent control, and the need for reconstruction following the Second World War created the conditions for social housing in Vienna. In the modern Canadian context, the impacts of rent control present an especially interesting case study for building social housing. Vienna has had strict rent control since the early 20th century. These policies contributed to private developers pulling out of the rental market which spurred the development of sustainable public housing in Vienna.

[Professor Patrick Condon explains](#) how the rent control policies created the conditions for social housing, stating that “[b]ecause rent control disincentivized the private development of rental buildings, landlords were, for a time, removed from the market for urban land. Consequently, prices finally went down, allowing the city to buy land at a much reduced price; often it was the only buyer in the market.” Vienna took advantage of the consequences of rent control to vastly improve the housing situation in Vienna. Today, Ontario has the opportunity to enact similar policies. It is likely that combatting the financialization of housing in the province by implementing policies such as stricter rent control and taxes could result in investors gradually selling off their housing portfolios. A resulting decrease in housing prices and the cost of land would present an exceptional opportunity for the provincial government to purchase cheap land, or even cheap buildings, that can be converted into socially owned housing. In this way, the various housing policies proposed in this paper would work together to create a new housing system to provide high-quality, affordable housing for all Ontarians.

What the models discussed above demonstrate is that investment in public housing does not have to negatively affect a jurisdiction’s housing market, and can be advanced to mitigate boom bust cycles while improving affordability. Public housing can be affordable, economically sustainable, and advantageous to residents. In both Vienna and Singapore, social housing creates more vibrant cities, which serve all of their residents. While massive public investment may be required after decades of de-investment and neglect, the continued upward price trends coupled with monetary tightening in Canada means that most Ontarians cannot afford to wait any longer for action on social housing. With sufficient political will and policy planning, Ontario could also benefit from large-scale social housing.

## Recommendations

There is no single solution to create affordable housing in Ontario, however, tackling the financialization of housing is crucial to creating a financially sustainable housing system. While the government has proposed and enacted some measures to address the housing crisis, more must be done to ensure that an increased housing supply is distributed to those in need of affordable housing. The primary function of housing should be to provide shelter to residents, not to line the pockets of investors.

By introducing a combination of policies to limit the profits that investors can make from housing, the government can create the conditions for low- and middle-income Ontarians to be able to access affordable housing. It must be acknowledged that the result of broadened rent control and tax policies could be falling housing prices and an exit of investors from local real estate. While this could help expand access to ownership in the short term, it would also present an important opportunity for the public sector and non-profit organizations to become more involved in the acquisition and provision of housing. If the government can proactively purchase cheap land from investors, it would create the conditions for the establishment of a robust system of social housing. Additionally, removing the profit incentive from housing by transferring the control of housing to public entities would eliminate many of the housing affordability issues caused by investors seeking to squeeze as much profit as possible from housing investments.

The measures proposed in this paper are not new or unique. While they will need to be adapted to the local political and social context, Ontario can learn from the successes and failures of other jurisdictions to provide affordable housing to its citizens.