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How 'financialized' landlords may be contributing to rising rents in Canada

According to data from Rentals.ca, rents across the country have risen by 22% in 2 years

Angela Hennessy || September 9, 2024

Khalil Alibi, who lives with his wife and three children in Toronto, says the rent for his three-bedroom unit is now $1,761 per month, up from $1,472 in December 2019, the year Starlight Investments purchased the building. (CBC)

Khalil Alibi is facing his Goliath.

Starlight Investments is Canada's largest landlord, with more than 54,000 units nationwide and 68,000 globally. Starlight was granted approval by Ontario's Landlord and Tenant Board to raise the rent above provincial guidelines twice in the last two years. Alibi says this makes his unit no longer affordable for him.

"They should not be allowed to get away with this. They just keep coming to take and take and take," he said.

Alibi, who lives with his wife and three children, says the rent for his three-bedroom unit is now $1,761 per month, up from $1,472 in December 2019, the year Starlight purchased the building. One-bedroom units that have since become vacant are starting at $2,428 a month.

Alibi says he has to fight back.

He and dozens of other tenants from his and two adjacent buildings — including 71, 75 and 79 Thorncliffe Park Drive in north Toronto — have joined forces in a rent strike since May 2023 to protest the Above Guideline Increases (AGIs) after the second one was issued to tenants earlier that year.

What Alibi and the others are going through is hardly an anomaly. According to data from Rentals.ca, rents have risen across Canada by 22 per cent in just two years.

Starlight Investments is also part of a growing trend across Canada: the "financialized landlord," whose business model allows outside investors to share in the profit of rental housing.

Some tenants and housing experts believe this model is leading to higher rents across Canada, as the pressure to increase shareholder value becomes the top priority and these companies expand their share of the country's rental stock.

Rising rents

According to research by Martine August, a housing expert at the University of Waterloo, the biggest financial firms now collectively own close to 400,000 suites — nearly 20 per cent of the purpose-built multi-family rental units in Canada. That's up from zero in the mid-'90s.

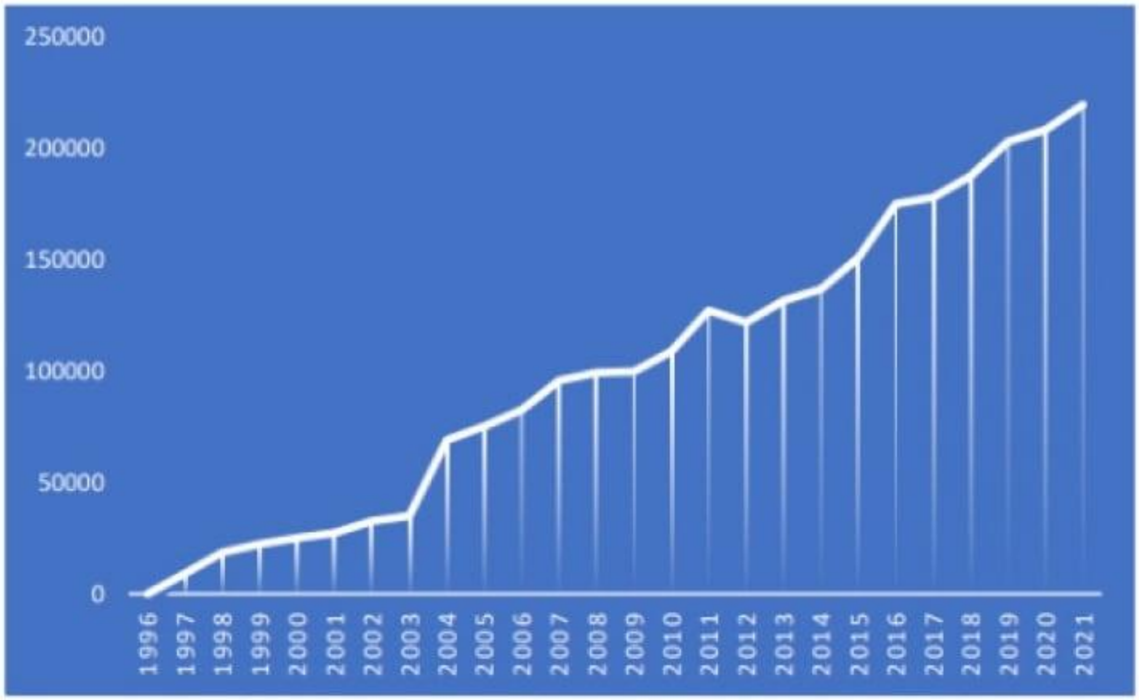


Figure 1: Canadian suites owned by REITs and certain REOCs, 1996–2021[2]

This chart demonstrates the extent to which financialized landlords have bought up apartment units in Canada since 1996. (Submitted by Martine August)

August says the business model often leads these landlords to cut costs on buildings and find ways to raise rents through AGIs or evictions. Because of vacancy decontrol rules, once a unit is vacant, the landlord can raise the rent as much as they want to.

"Financial firms are raising rents higher than other types of landlords. On average, after a financial firm acquires a building, they increase the eviction-filing rate by three," August said. "They triple it."

According to August's research, financialized landlords purchased 90 per cent of all rental stock that came up for sale in Toronto in 2020.

"They are really consolidating ownership. And as a result, rents are rising," she said.

In a statement, Penny Colomvakos, vice-president of residential operations at Starlight, said the company's units "account for only a fraction of the total of purpose-built rental market, and a majority of our suites are rented at or below [the Canadian Mortgage and Housing Corporation's] average rents for purpose-built apartments."

The industry says providing deeply affordable housing is not its job.

"We're not tasked with building deeply affordable or social housing. We can't be there. We're in business. Let's draw a line between these two," said Michael Brooks, president of Realpac, an organization that represents many of Canada's biggest landlords, including Starlight.

How it works

People can invest in companies like Starlight through pension funds, such as PSP Investments, and other private equity. Starlight owns a lot of commercial space across Canada and around the world, but most of its real estate business is in residential, so a large chunk of the profit comes from rental income.

August says these landlords often like to buy older buildings, because it's cheaper than new construction and the potential for profit is higher, especially if the buildings are full of tenants paying below-market rents.

Starlight's own literature for shareholders describes a model where they seek out "older stock" and in some cases have seen rents rise "up to $411 per unit."

According to research done by Steve Pomeroy, a professor and special advisor to the Canadian Housing Evidence Collaborative at McMaster University in Hamilton, between 2011 and 2021, Canada lost more than 550,000 affordable rental units.

Where did they go?

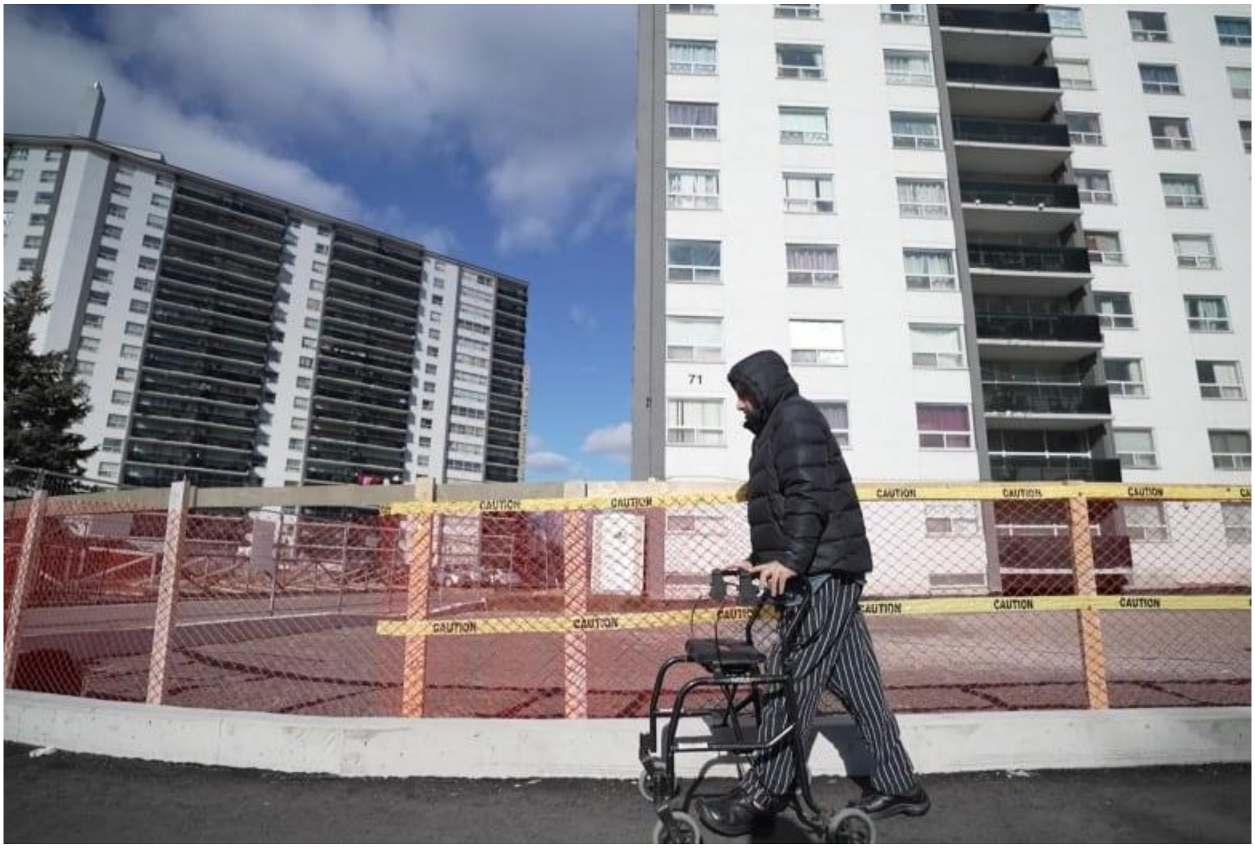
"They are still there, for the most part, but they are no longer affordable. The rents have just gone up beyond that affordability threshold," Pomeroy said.

This is what Alibi sees happening in his building.

"This building used to be affordable. It doesn't have anything, you know, special about it," he said. "It is not [affordable] anymore."

Last June, the Ontario Landlord and Tenant Board ruled in favour of Starlight Investments' application to raise rents above provincial guidelines, which currently permit a 2.5 per cent hike each year.

The company says it's following all provincial laws in pursuing the AGIs, which help cover costs related to combatting its buildings' aging infrastructure.



Khalil Alibi and dozens of other tenants from his and two adjacent buildings in north Toronto have joined forces in a rent strike since May 2023 to protest the Above Guideline Increases (AGI) after the second one was issued to tenants earlier that year. (CBC)

In an email to CBC, Starlight's Colomvakos wrote: "The AGI is limited to completed investments of a structural nature in balcony and building repairs, as well as lighting retrofits and booster pump replacements for the safety and comfort of residents."

The email also said: "Starlight Investments has made capital investments to ensure the aging infrastructure at 71, 75 and 79 Thorncliffe Park Drive can continue to be a safe and welcoming place for more than 1,000 residents to call home."

Alibi and his fellow rent strikers say they shouldn't be responsible for paying for the upkeep of the building at the cost of their own housing.

"Everything they do in our units is done cheaply — but they want us to pay more," Alibi said. "It doesn't make sense."

Many of the rent strikers in and around Alibi's building are now facing eviction applications from Starlight. These tenants say they're appealing the Landlord and Tenant Board ruling and will continue their rent strike until further notice.

"If we could just leave and find a cheaper and safe place to live, we would," said Alibi. "But there is nowhere to go. Nowhere at all."

Happening across Canada

Sandra McCrone, who rents in a Calgary building owned by another financialized landlord, Avenue Living REIT (which stands for real estate investment trust), said she has experienced some of those cost-saving management strategies first-hand.

"As soon as they bought the building, they got rid of the foot patrol security guard, stopped watering the plants and got rid of garbage bins when we actually needed more," McCrone said.

"But the first thing they did when they took over was raise the rents."

There are no rent controls in Alberta. McCrone said the rent for her unit went from $1,340 a month in January 2021 to $1,985 a month today. She lives with packed boxes, saying she's in constant fear the next hike will be the one that forces her out.

McCrone is trying to organize a tenants' union in hopes of getting Avenue Living REIT to stop the rent hikes.

Sandra McCrone, who rents in a Calgary building owned by Avenue Living REIT, is trying to organize a tenants' union in the hopes of stopping rent hikes. (Patrick Carroll/CBC)

In a statement to CBC, Avenue Living REIT said the building has video cameras in lieu of security foot patrols, reviewed by an operations team, and that waste removal has been added in high-traffic areas.

It also acknowledged the increased price pressure from supply and demand in Canada and the cost of maintaining older buildings.

"Maintaining existing, high-quality housing stock is essential to mitigating these pressures and this maintenance requires extensive capital investment to ensure we can extend the lifespan of existing housing stock, while also providing residents with homes that are up to current living standards."

The role of private sector

Brooks argues that without Canada's largest private landlords, buildings could be destined for disrepair.

"Ninety per cent of the buildings in [Ontario] are over 45 years old. If your house is 45 years old, you're on your second roof, your second set of windows, new door, new furnace, new air conditioner," said Brooks. "It's the same with apartment buildings.… They depreciate and it takes a lot of money [to fix them up]."

Brooks says that it's not the role of industry to ensure everyone is housed.

"The human right to housing is a government obligation at the federal level, and I've gone back to the UN source documents on this," he said.

"We've offered to engage with the federal housing minister: let's define this [the right to housing]," he said. "What does this mean for us in the private sector? We're not a social agency."

Pomeroy agrees with Brooks to some extent, and points out that most landlords — whether they're mom-and-pop operations or private equity firms — behave in the same way.

August argues the high cost of home ownership, and a general lack of supply of rental units, have helped make Canada a prime choice for rental investors. The growing rate of purchases is August's main concern.

"This consolidation gives them power and gives them the ability to own a scarce resource," she said.

She says that with vacancy decontrol across many parts of Canada, there's a big incentive to flip units for higher returns.

Brooks says this is totally legitimate.

"Of course you're going to do that … If you don't, you're subsidizing the market and your investors are saying, 'Where's my return that I thought I was getting from this?'"

Is there a solution?

Brooks acknowledges this can be a problem for the broader rental market, and advocates for rent support programs from the government.

"You need rent subsidies," he said.

Brooks, Pomeroy and August all agree on one thing: the Canadian government needs to do a better job of building and investing in social housing for the lowest-income Canadians.

As August put it: "To create real affordable housing, social housing, non-market housing, [they should] massively expand the stock of that."

Starlight says they have plans to build 28,000 units across Canada in the next 10 years. But the concern from Pomeroy and August is those units won't be affordable or built fast enough.

"These companies are really benefitting from the fact that we haven't had social housing construction in Canada since the federal government withdrew from social housing in the early '90s," August said.