NEW BRUNSWICK'S RENTAL HOUSING CRISIS: A CALL TO ACTION

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In the summer of 2020, in the midst of a global pandemic and emergency shut down of much of the world's economy, a new phase of capitalist accumulation came crashing down on the shores of New Brunswick.

The province is among Canada's poorest. Its median family income levels are the lowest among the provinces, more than 10 percent below the national average.[1] In addition, more of its population than any other province was defined as 'low-income' according to the 2016 census data (17.1 percent, compared to 14.2 percent nationally).[2] Despite a relatively sluggish labour market and wage rate, New Brunswick's housing sector suddenly took off beginning in June of 2020. This led to some of the fastest price inflation in the housing sector in Canada: rental price inflation increased 11 percent according to Statistics Canada, the highest in the country and highest recorded since the inflationary 1970s.[3] And it was not just multi-family rental housing. The province's housing market experienced vertiginous price inflation of 31 percent year over year in June 2021.[4] Some media outlets said it was because so many people were moving from Ontario, but it felt to others like the whole province had suddenly moved into the midst of the Toronto housing boom.

These sudden and massive price increases mark an important shift in how capital views and operates in New Brunswick, and it poses new and serious public policy problems that the provincial government must urgently address. This Invited Essay outlines the danger of further price inflation for New Brunswick tenants, drawing on activist work with the New Brunswick Coalition for Tenants' Rights. It argues for greater state intervention in the multi-family rental sector to protect New Brunswick workers from the potential devastating effects of real estate financialization.

Thus far, the inability or unwillingness of the Blaine Higgs government to take the necessary remediating action—fully a year on after the beginning of the inflationary cycle in housing—demonstrates either a failure of political elites to understand the challenge at hand or an unwillingness to act. The economic transformations now reshaping capitalism in New Brunswick will be as deep and lasting for workers as the disappearance of many of our pulp and paper mills were in the 1990s and 2000s.

Finance and Centrality of Mortgage Markets in Late Capitalism

The contemporary period of capitalism has often been characterized as 'neoliberalism' (Harvey 2005), marked by a return to free market principles of economic government in the 1980s, following five decades of consensus in Canada around expanding universal social services, organized by the state. The role of the state in neoliberalism has been to create favourable conditions for profitable private investment, drawing capital towards its territory and increasing employment. In New Brunswick, this approach was especially championed by Frank McKenna, who built a consensus around policies that would improve the province's "economic competitiveness," or the ability of provincial firms to better compete against international rivals. In practice, however, neoliberalism in New Brunswick has taken the form of tax cuts—especially the Shawn Graham tax cuts, which overwhelmingly benefitted the wealthy (Ruggeri and Bourgeois 2011). There were also subsidies and tax incentives that successive governments extended to private enterprise, especially pulp and paper firms (Parenteau 2013, 106–108), call centres (McFarland 2002), and Irving Oil.[5]

But neoliberalism has been marked by another, less often discussed process, which is most relevant to the current housing inflation. This is "financialization" (Durand 2017; Lapavistas 2013), the structural transformation of business enterprise in a historic period of "great gluts" and overproduction (Benanav 2020; Brenner 2006). Lacking profitable investment outlets in the productive economy, Durand notes that financial and non-financial firms have shifted their focus since the mid-1970s towards the financial sector and speculative profits, especially in real estate and real estate derivatives. As this scholarship has pointed out, offshoring production to low-wage countries produced huge corporate surpluses that could not be profitably redeployed in economies where working-class wages were stagnant or declining. High levels of consumption and private sector profitability became increasingly dependent on indebtedness, and innovative uses of finance to create new revenue streams and sources of profit.

As Manuel Aalbers points out in his work on the political economy of mortgage markets, mortgage debt played a central role in the financialization of the economy (Aalbers 2017; for an analysis of Canada, see Kalman-Lamb 2017). Increasingly, Aalbers argues, mortgage debt is used to keep financial markets operating, rather than financial markets serving the interests of mortgage holders. Financial deregulation in the 1980s permitted banks and non-bank financial firms to recycle corporate profits in the real estate sector, where real estate could be used as a store of wealth, capturing rental incomes and bidding up asset prices, all the while creating new urban spaces and lifestyles. Examples include mid-town Manhattan to the skylines of Vancouver and Toronto, which expressed the growth of the "real estate state" over the last few decades (see Stein 2019). By the time the financial crisis of 2008 was resolved through massive bank bailouts and an aggressive Chinese stimulus programme, the systemic risks of over-leveraged banks and corporations had become a key preoccupation for international financial policymakers (see for instance, International Monetary Fund 2021).

Public authorities at the nation-state level responded to these systemic risks by keeping interest rates at near zero for more than a decade leading up to the Coronavirus Crash (Blakeley 2020). Even before the pandemic lockdowns of March 2020, there were signs of weakness in the global economy. The shutdown of Hubei province, a region of forty-two million people over the Chinese New Year (23 January 2020) was a bad sign for global supply chains and razor-thin profit margins.

New Brunswick had weathered this period prior to the COVID-19 pandemic with difficulty. The process of financialization played out in the rationalization of the pulp and paper industry and the transformation of its manual working classes into a mobile work force commuting to far away work camps, where resource extraction continued apace, buoyed until 2014 by Chinese stimulus spending. The end of the resource boom in 2015 meant a loss of vitality for Canada's resource sector, and a sharp drop-off in jobs. Along with it, New Brunswick began to see fewer of its youth leave the province, and more of its work force slowly trickle back, unexpectedly boosting population growth after 2015, albeit modestly. Beginning in 2015 with the end of the resource boom, rental vacancy rates dropped to below 3 percent (as low as 1.4 percent in Fredericton),[6] and residential home inventories dropped with them.[7] New Brunswick's population appears to have suddenly experienced a modest upsurge from 2015 to 2020.[8] But this population growth had not altered the province's aging population demographics, nor its median family household income and labour market participation rates.

Financialized Housing Comes to New Brunswick

It was in this context that housing financialization arrived in New Brunswick with a vengeance. This was not a response to market demand, so much as a structural re-organization of the rental housing market in the province, as larger institutional investors began buying apartment buildings that appeared relatively cheap by national comparison. In a few short weeks, Real Estate Investment Trusts (REITs) and other private equity firms—most of them from out of province—outbid one another to buy up an important stock of New Brunswick rental housing—a sector over which New Brunswick has some of the most permissive laws (for landlords) anywhere in the country. Predictably, this was followed by rent increases, in a few cases topping 50 percent.[9]

Traditionally, institutional investors (e.g., pension funds, mutual funds, hedge funds) balance their investment portfolios by hedging riskier investments with safer ones: most often, US treasuries, government debt of core capitalist states, or blue-chip corporate debt. Historically, these offer the lowest interest rates, but at relatively low risk. The monetary policy of the 2010s, however, characterized by low growth and low interest rates, incentivized some large institutional investors to seek out alternative "safe haven" assets with higher yields. The asset of choice is real estate, especially rental real estate (commercial and residential). Though its value may fluctuate, rental income offers a solid rate of return at interest rates often several percentage points higher than the rate of return on government bonds. Moreover, because of the prolonged period of real estate inflation, the growth of equity in real estate offers even higher rates of returns for corporate landlords. This makes them a very attractive investment option.

Using real estate as a financial asset is relatively new. Banks have been making money on multi-family residential mortgage debt for decades, but government policy has been essential to transforming housing from homes for the masses into financial assets for investors. Financial deregulation in the 1980s and 1990s enabled firms to "innovate" new products that distribute rental and mortgage incomes to investors willing to assume higher risks. This allowed mortgage originators to move loans off their balance sheets, and thereby free up yet more capital for mortgage lending, making Canada's banking system "more competitive," the key aim of the 1990s reforms (Bienefeld 1992). It was the federal government that opened up investment in real estate by legalizing the real estate investment trust as a new corporate ownership vehicle in 1993 (August and Walks 2018). The launch of the first publicly traded REITs a few years later opened new avenues for investment in rental income, which expanded significantly in the low-interest rate environment of the 2000s and 2010s in Canada (August 2020, 981).

Backed by institutional money that evaluated New Brunswick multi-family housing in a national context, rather than in relation to local market conditions, corporate landlords are now reshaping the housing sector in New Brunswick to meet the expectations of investors, most of whom do not live here. They have moved into the province not because they have anything to add to or improve in the multi-family housing sector, but because there are higher returns to be earned here relative to areas closer to the centres of the Canadian housing boom of the 2000s and 2010s, namely Toronto and Vancouver, and the secondary cities within their orbits. In addition to relatively low real estate values, the lack of modern landlord-tenant legislation meant that the province was an almost completely unregulated market for landlords, low-hanging fruit for firms soaking in pandemic stimulus. The province was thus vulnerable to the newest extractive industry of late capitalism, with profound consequences for its residents' ability to access their right to housing (on the contradiction between housing markets and the right to housing, see Rolnik 2013).

Extracting Value

REITs and other corporate landlords operate by identifying properties that are relatively undervalued by local markets. By making quick renovations to an apartment building, they are often able to charge higher rents, increasing net operating income (NOI), a measure of cash flow in a rental business. Because New Brunswick has no rules in place limiting the amount or frequency of rental increases, private equity firms and REITs stood to make easy profits for investors located outside of the province.

Killam REIT, New Brunswick’s largest REIT and one of the top ten largest REITs in Canada, specifically mentions in its investment presentations that its strategy is to “reposition” newly renovated units towards higher income occupants.[10] The REIT, which owns over 4,900 units in New Brunswick across seventy-five buildings, announced plans in its January 2021 report to investors to reposition 1,300 units over the next few years—outpacing the New Brunswick Housing Strategy’s goal of creating 1,262 new affordable housing units before 2029.[11] The disconnect between corporate strategy and government policy on affordable housing will eventually force the public into much more radical investments in affordability, especially since existing public investments are in private projects for apartment units that are priced above $1,200—about 50 percent above the average rent in older apartment buildings, which are being repositioned. In the meantime, rental increases accrue to REIT unit holders (or private equity shareholders) most of whom are not located in New Brunswick. As a trust with a supposedly public interest, REITs also do not pay corporate taxes, providing significant additional savings to investors with surplus savings.

In the real estate world that opened up in the 2010s, increasing NOI was a nice sweetener for the REITs, but it was not the prize. Financialized landlords do not operate multi-family rental housing as a housing asset, meeting the public’s need for housing. It operates its housing portfolio as a financial asset, in order to extract the highest possible returns for investors. From a financial standpoint, cash flows in a property affect how appraisers and financial institutions value those properties. By increasing rents (and therefore NOI), corporate landlords can extract cash from a property simply by refinancing it to a new, higher valuation. As Price Capital, a private equity firm specializing in real estate, puts it on its website,[12] “forced appreciation” enables firms to extract significantly more capital from real estate than the initial rent increases on their own would suggest, while rental cash flow “builds equity” over time against the mortgage loan. The additional wealth extracted from properties through the new valuations saddles renters with higher long-term rents and distorts local land markets. In a world of excess production and few productive outlets for profits, the excessive concentration of financial power has generated continuous upward pressure on housing, at the expense of workers and low-income families.

Asleep at the Switch

New Brunswick now faces the fastest rental inflation in Canada, and a government that seems completely unwilling to address this growing crisis. During the pandemic election campaign, Premier Higgs promised landlords he would cut their taxes on rental incomes—a move that will further accelerate not just multi-family rental housing inflation, but also home price inflation, as private investors and corporate landlords buy up apparently under-priced New Brunswick homes in anticipation of future rental returns.[13] As more and more evidence of financialization and corporate landlord activity broke through to public consciousness, the Higgs government kicked the ball down the road, announcing a ninety-day study of the province's rental situation in early 2021. Its report, which was released on 7 May 2021, made no mention of financialization or real estate investment trusts. Instead, one of its main concerns, borrowed from the blog of a Conservative Party insider,[14] mentioned the lack of construction workers to sustain housing sector growth.

In response to the May inflation numbers, in early July, Bruce Fitch, Minister of Social Development, launched an online survey tool to consult with the public on housing needs.[15] It was so poorly designed (and unnecessary), that it was immediately taken down following social media criticism. The government's response seems impervious to the reality that the free market has never provided affordable housing, and that the new mode of real estate accumulation now taking shape across Canada risks putting housing costs out of reach for a growing segment of the population. Instead, local politicians and commentators seem to think that the boom will lead to more housing, which will devalue other housing stock. As Moncton Mayor Dawn Arnold cooed, the frothy demand for New Brunswick real estate was good, because the situation "is going to balance itself out" because of new development. "I believe the market will adapt," Arnold told the CBC in January 2021.[16]

What is to be done?

The market is adapting, but not in the way Moncton's mayor thinks. Free market forces will not resolve the growing housing crisis, it is just re-organizing the province's multi-family rental market so as to extract greater profit from it. That means that pro-active measures must be taken immediately to dampen speculative investment, rather than promoting it, as the deregulated environment currently does. Moreover, the province must begin to plan a more ambitious public housing policy. The province no doubt worries that in such a tight market, with so many older adults either moving to New Brunswick to rent, or selling their homes and moving into rentals, too much tampering will affect private sector investment in badly-needed new units. But this new construction is not in danger from rent control and eviction protection.

New Brunswick's primary rental market is composed of just over 36,000 units at time of writing, more than 20,000 of which were built prior to 1980, according to the Canada Mortgage and Housing Corporation—largely the result of federal government housing policies that created conditions for profitable investment in multi-family housing (August and Walks 2018). Many of these units are well maintained and located in increasingly desirable downtown neighbourhoods, with high walk scores and near urban amenities. Many of these older buildings also have affordable rents—below the $1,200 range of newly-build affordable units that private developers build with federal government financing. These are the units being repositioned by REITs like Killam, Metcalfe, and CAPREIT. These more affordable units are not being built, and once existing units are repositioned, they are also not coming back. They are in scarce supply, and in an unregulated market they will eventually disappear. Moreover, the availability of making a cheap buck by buying these low-rent buildings and repositioning them for a new market of older adults willing to pay well above $1,200 for rents is actually likely to decrease new investment in apartment buildings, since higher profits can be made by taking houses from lower-income renters instead. This form of investment is an example of "accumulation by dispossession," (Harvey 2003) which ultimately transfers the hard-earned savings of New Brunswick workers to wealthy families and out-of-province investors.

The danger to the public is clear. As lower-income renters are dispossessed of more and more of their savings in a real estate market that is increasingly difficult to enter as a homebuyer, a greater percentage of the province's population will be forced to rent for longer periods at higher prices. This will affect the local economies of the province, potentially diminishing small business income, but more importantly, it will also make New Brunswick a more expensive place to live for workers. This is a particularly acute problem for a province already facing labour shortages in key sectors such as nursing, long-term care, and construction.

There is a viable alternative to this, however, which must now be enacted quickly in a two-pronged approach. First, a responsible government for the people of New Brunswick would act quickly to enact rent control. This would allow rents to keep pace with inflation and remove incentives from speculative investors. Since most landlords already keep rental increases within the rate of inflation, this move will cost most landlords exactly nothing. Similarly, eviction protections that would prevent landlords from "renovicting" tenants and increasing rents is needed now more than ever given the new practices of corporate landlords. This measure would cost the vast majority of landlords and property owners absolutely nothing. So why not implement it? The answer lies in the view that any investment in New Brunswick is good. But this ideological perspective ignores the way capitalism has changed over the last decade and a half. New apartment construction is going to continue to take place because there is a market for it—higher income, older adults in particular are "downsizing" into apartment buildings, and willing to pay high rents. They are pushing the market to build new apartment buildings, albeit often on building sites that are remote from services, and unwalkable.[17] Reforms to the *Landlord and Tenant Act* will merely maintain the relative affordability of the existing stock of rental housing.

However, on its own, it is likely these changes will not be enough. New Brunswick's cities are changing, and as climate change mitigation becomes more important, more of our province's population is going to live in denser urban areas. We can already see some of the tensions this has produced around certain urban developments in our low-rise cities.[18]

Given the growing corporate concentration in the multi-family housing sector, one should wonder why we are relying at all on private firms who are beholden to investors for the provision of housing? Rather than allow these investors to dispossess us of a basic human need, why would our government not buy more rental properties itself, and maintain and rent them out on its own, for the public interest, as a way of promoting housing as a right? The needs of the public might be better served by a democratically responsive, public institution, like a New Brunswick Public Housing Corporation.

Such an initiative still appears utopian in the current political environment. But it is important to note that the finance sector is highly leveraged, and prone to another crisis if economic growth does not return quickly and robustly. A majority of the public may yet decide that it is better to own the assets of companies it is bailing out than to hand money over to private firms that fail to address public needs.

To comment on this essay, please write to editorjnbs@stu.ca. Si vous souhaitez réagir à cet essai, veuillez soit nous écrire à editorjnbs@stu.ca.

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Notes

[1] See Lucy Jeudy, *Statistica*, 21 July 2021, using 2018 data: https://www.statista.com/statistics/467078/median-annual-family-income-in-canada-by-province/, accessed 2 August 2021.

[2] Statistics Canada, Individual low-income status, Data Tables 2016 Census: https://www12.statcan.gc.ca/census-recensement/2016/dp-pd/dt-td/Rp-eng.cfm?TABID=2&LANG=E&APATH=3&DETAIL=0&DIM=1&FL=A&FREE=0&GC=01&GID=1160198&GK=1&GRP=1&PID=110266&PRID=10&PTYPE=109445&S=0&SHOWALL=0&SUB=0&Temporal=2016&THEME=119&VID=25543&VNAMEE=&VNAMEF=&D1=0&D2=0&D3=0&D4=0&D5=0&D6=0, accessed 2 August 2021.

[3] "May rent surge in N.B. was province's highest recorded in 43 years," *CBC New Brunswick*, 17 June 2021: https://www.cbc.ca/news/canada/new-brunswick/rent-housing-real-estate-1.6068501, accessed 2 August 2021.

[4] New Brunswick Real Estate Association: https://creastats.crea.ca/board/nbrea, accessed 2 August 2021.

[5] See "'Mind-boggling': Canaport LNG assessment slashed by nearly $202M after tax deal repealed," *CBC New Brunswick*, 1 May 2017: https://www.cbc.ca/news/canada/new-brunswick/irving-canaport-lng-tax-assessment-saint-john-1.4004495, accessed 2 August 2021.

[6] New study shows apartment vacancy rates falling across New Brunswick, *Global News*, 16 January, 2020: https://globalnews.ca/news/6421385/new-study-shows-apartment-vacancy-rates-falling-across-new-brunswick/, accessed 2 August, 2021.

[7] New Brunswick Real Estate Association, *ibid*.

[8] Quarterly demographic estimates, provinces and territories: Interactive dashboard, *Statistics Canada*: https://www150.statcan.gc.ca/n1/pub/71-607-x/71-607-x2019036-eng.htm, accessed 2 August 2021.

[9] "Moncton tenants face mid-winter move after rent hikes of almost 50%," *CBC New Brunswick*, 31 December 2020: https://www.cbc.ca/news/canada/new-brunswick/moncton-rent-increase-jones-1.5858075, accessed 2 August 2021.

[10] Investor Presentation January 2021, Killam REIT, see p. 11 and p. 15: https://killamreit.com/sites/default/files/Financial%20Reports/Killam%20January%202021%20%28Condensed%20Appendices%29.pdf, accessed 2 August 2021.

[11] New Brunswick Housing Strategy, 2019-2029, Government of New Brunswick: https://www2.gnb.ca/content/dam/gnb/Departments/sd-ds/pdf/Housing/HousingStrategy2019-2029.pdf, accessed 2 August 2021.

[12] See https://pricecapitalinvestments.com, accessed 3 August 2021.

[13] "Higgs sleepwalking into massive housing crisis," Matthew Hayes, NB Media Coop, 6 May 2021: https://nbmediacoop.org/2021/05/06/higgs-government-risks-blowing-housing-bubbles-with-rental-reforms/, accessed 2 August 2021.

[14] "How did I miss this? How did you? New Brunswick's Housing Crisis," David Campbell, It's The Economy, Stupid, 22 March 2021: https://davidwcampbell.com/2021/03/how-did-i-miss-this-how-did-you-new-brunswicks-housing-crisis/, accessed 2 August, 2021.

[15] "New Brunswick housing advocates blast government survey," *Global News*, 5 July 2021: https://globalnews.ca/news/8004025/new-brunswick-housing-advocates-blast-government-survey/, accessed 2 August 2021.

[16] "Mayors of Moncton, Dieppe say affordable housing will trickle down as new buildings open," *CBC New Brunswick*, 4 January 2021: https://www.cbc.ca/news/canada/new-brunswick/mayors-2021-year-ahead-pandemic-1.5860377, accessed 2 August 2021.

[17] The ability of property owners to develop "as a right" produces urban spaces that also influence the lifestyle of people and affect not only the collective life of the community, but also the health and welfare of individuals. Municipal councils should ensure that new apartment development occurs in an urban ecosystem that supports walkable, multi-use neighbourhoods. That too, requires greater public intervention to direct the market, or to take over market functions altogether.

[18] For instance, "Residents oppose apartment project in Fredericton's Waterloo Row area," *CBC New Brunswick*, 28 October 2019: https://www.cbc.ca/news/canada/new-brunswick/micro-boutique-apartment-concerns-1.5335914, accessed 2 August 2021.

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