The Economic Benefits of the Residential REIT Sector in Canada

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Altus Group

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THE ECONOMIC BENEFITS OF THE RESIDENTIAL REIT SECTOR IN CANADA

Multi-family rental buildings are critical to Canada's housing sector and contribute strongly to Canada's economy. Publicly-traded Real Estate Investment Trusts (REITs) provide an avenue for investment in the multi-family rental sector for millions of Canadians.

There are six (6) publicly-traded REITs focused on multi-family rental in Canada and collectively this group of REITs play an important role in the Canadian economy. Development and construction of multi-family rental buildings and subsequently their daily operations by Canada's publicly-traded REITs directly supports thousands of jobs, adds tremendous value to the Canadian gross domestic product (GDP) and revenues to government.

This report analyses the economic activities of the publicly-traded residential REITs in Canada (their Canadian operations) in 2021 and sets out the full array of economic benefits accrued to the Canadian economy from these operations. The analysis includes the operations of existing buildings, the capital investment and construction related to existing and new buildings and, importantly, the economic benefits of the interest and distribution payments by REITs to their unitholders.

Interest and distribution payments fuel significant additional spending and employment impacts. About three-quarters of distributions to unitholders flow back immediately in the economy through spending in the retail, services and hospitality sectors. Sectors that are critical to support during the current economic recovery.

The publicly-traded residential REIT sector in Canada accounts for some $2.1 billion in direct economic activity from operations. It directly employs some 4,300 employees and creates jobs for an additional 4,820 workers in supplier industries.

Key findings from the economic impact analysis include that in 2021, the publicly-traded residential REIT sector in Canada was responsible for the creation and support of:

- $5.6 billion in total economic activity;
- 20,750 jobs (person-years of employment) across the economy;

- $1.2 billion in labour earnings;
- $3.3 billion contribution to Canada's gross domestic product (GDP); and
- $685.9 million in government revenues.

In 2021, the sector contributed an estimated 600 new rental units to the stock of multi-family rental apartments in Canada and there are several hundred more units under construction that will come to market in the years ahead.

In 2021, the sector also distributed, adjusted to be attributable to Canadian assets, some $433.6 million in dividends to unitholders and $364.8 million in interest to lenders. This income was taxable at the household and corporate levels and contributed to the creation of some 2,800 jobs in Canada and some $350 million in GDP.

THE SECTOR

The publicly-traded residential REIT sector in Canada is composed of 6 companies. These include:

- Boardwalk REIT
- Canadian Apartment Properties REIT (CAPREIT)
- InterRent REIT
- Killam Apartment REIT
- Minto Apartment REIT; and
- Morguard North American Residential Real Estate Investment Trust.

Some of these entities have assets outside of Canada, for example, Morguard has a substantial portfolio in the U.S. and CAPREIT in Europe. In all cases the data used in this analysis are adjusted to reflect Canadian operations only.

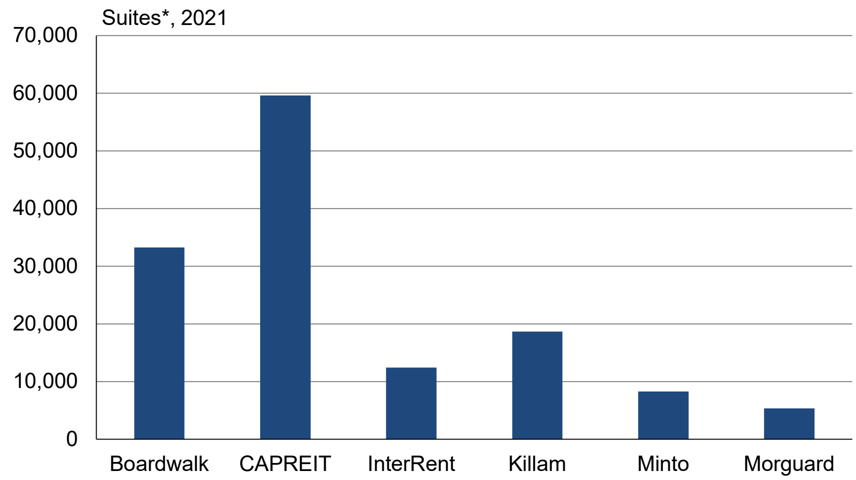
All told, the publicly-traded multi-family REIT sector operated some 137,621 residential units in Canada, accounting for about 6% of the primary rental housing universe, which Altus Group estimates to be 2.4 million units[i] (see Figure 1, next page).

Real Estate Investment Trusts

Canadian REITs were established in law in 1993 within the Income Tax Act (Canada) and are income trusts managed by trustees. REITs' net income flows from trust to unitholders, with taxation applying at the unitholder level. REITs mainly purchase or develop income producing assets, for example, offices, industrial buildings retail buildings, and residential buildings. They must hold only qualified REIT properties during a tax year[ii].

Figure 1

Residential REITs in Canada, Portfolio



* Canada only

Source: Altus Group based on Public Filings

A minimum of 75% of the REITs revenue must be from rent or mortgage interest, from real or immovable properties, or the capital gains from real property disposition.

REITs are required to circulate their profits back to unitholders through distributions. REITs are now evolving to take on more aspects of ESG goals within their portfolio. Many annual reports for major Canadian REITs include an ESG scorecard on such measures as the environmental efficiency of their buildings and the diversity of their staff. Modern investors seek out ESG prominent REITs.

There are currently about 39 REITs in Canada. This report focuses on one important component of the REIT sector, the six publicly-traded residential REITs focused on the multi-family property sector.

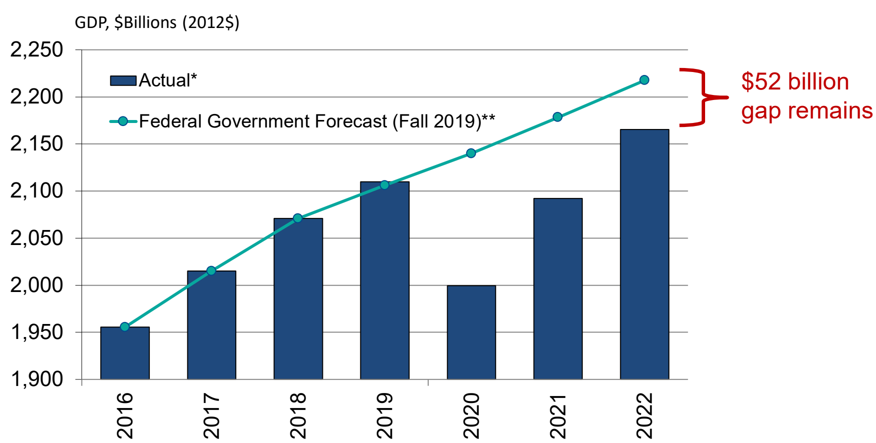
ECONOMIC CONTEXT

Supporting Canada's Economic Recovery

More than two years after the onset of the COVID-19 pandemic, Canada's economy continues to struggle with the impacts from that event. Gross Domestic Product (GDP) in Canada declined by 5.2% in constant dollar terms in 2020 related to shut-down measures enacted to control the pandemic (Figure 2). Although there has been relatively robust growth in GDP since 2020 as various sectors of the economy came back on line, GDP in 2022 is still over $50 billion lower than it would have been without the pandemic[iii]. Moreover, that pace of recovery is estimated to now be faltering, as higher inflation, higher interest rates, clogged supply chains and an adjustment in the housing market all present headwinds. Many economists are raising the risk of recession in Canada in late 2022 or 2023 related to these headwinds.

Figure 2

Gross Domestic Product, Canada



* Including a 2022 consensus forecast estimate

** Federal Government, Economic and Fiscal Update, Fall 2019

Source: Altus Group based on Statistics Canada, Finance Canada

Through all of this turmoil, Canada's publicly-traded residential REIT sector continues to contribute strongly and importantly to the Canadian economy. Because its contributions provide a direct boost to consumer spending on sectors such as retail, hospitality and services through the spending of unitholder distributions, this boost is particularly important now. The good stable jobs the REIT sector supports also provides critical stability to the Canadian economy at this important time.

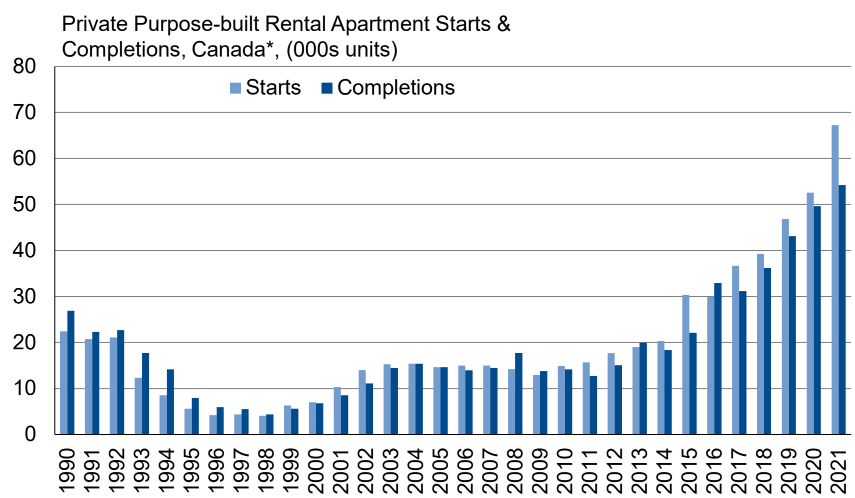
Supporting Canada's Rental Housing Supply

Some 33% of households in Canada live in rented accommodation and there are an estimated 2.4 million residential units in the primary rental housing universe, which is defined as professionally managed purpose-built institutional-grade buildings.

Rental housing has become a progressively more important component of Canada's housing system as deteriorating homeownership affordability, along-side a growing young demographic has led to robust demand for rental in recent years. In 2021 there were some 67,200 new purpose-built rental apartment completions in Canada, and 54,200 starts. In both cases, 2021 represented a high-water mark for new supply and continued a rising trend staring in about 2014 toward increased supply (see Figure 3).

Figure 3

New Rental Apartment Supply, Canada*



* Centres of 50,000+ population

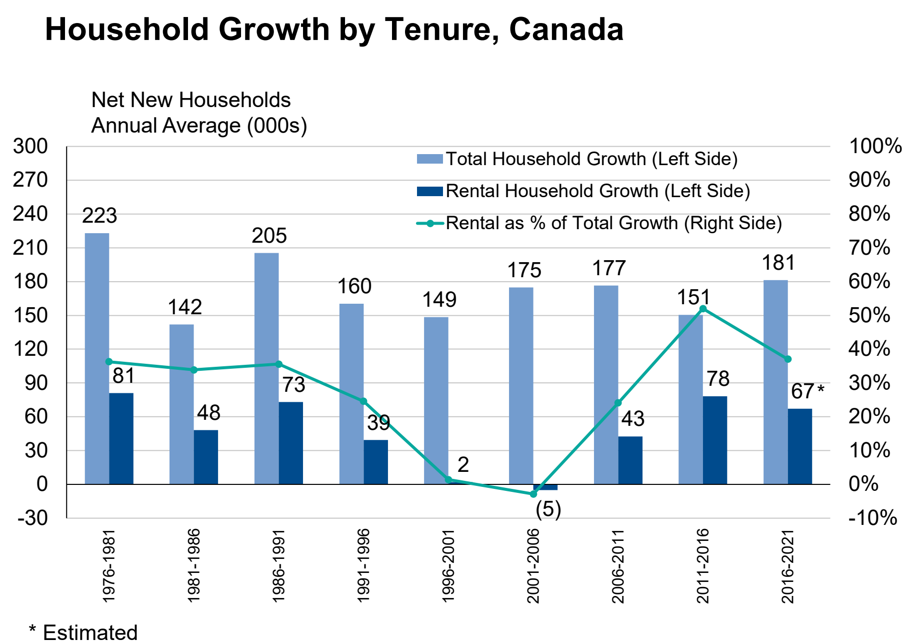
Source: Altus Group based on CMHC

While the supply of purpose-built rental units accelerated in recent years, the demand has been modestly waning. The recent high-water mark for overall rental household growth took place during the 2011-2016 period. Just over 50% of net new household growth in this period was composed of renters, which accounted for 78,000 net new rental households per year (Figure 4)

Rental household growth in 2011-2016 period was as high as it has been since the late 1970s, the share of total household growth was well above the underlying trend of about 30%.

Since 2016, both the pace of household growth and the share of total growth have moderated somewhat, based on Altus Group estimates, and are returning to norms from the 1970s and 1980s.

Figure 4



Source: Altus Group based on Statistics Canada and CMHC

An adequate supply of rental housing is critical not only for the health of the rental market, but also because a well-functioning rental market provides a bridge to homeownership. REITs provide safe well managed rental housing for younger households still saving for their down payment.

Canada's publicly-traded REITs play an increasingly important role in the provision of new rental housing to meet this demand.

ECONOMIC IMPACT

Data and Methodology

The data in this report are derived from internal and secondary sources:

- **Statistics Canada**: The data for the Input Output model used in this evaluation is sourced from Canada's national statistical agency, Statistics Canada, other data used by statistics Canada in the production of this report include data from Census of Canada (various years), the Survey of Household Spending, and the Investment in Building Construction data;

- **Sedar**: All data and information related to operations, investment and distributions by the REITs being studied is sourced through public filings from each company and retrieved from the website Sedar.com
- **Various Other Secondary Sources**: Components of the analysis rely on data and information sourced from a variety of sources such as Canada Mortgage and Housing Corporation (CMHC) and the federal government website canada.ca.

This report uses data relevant to the calendar-year 2021.

The methodology employed in this study has two major components:

- **Estimations**: Estimates are compiled for activity by different categories by publicly-traded residential REITs in Canada generally from data found within public filings. In some cases, Altus Group produced estimates of activity where needed; and
- **Economic Impact Multipliers**: The analysis with respect to the economic multipliers (the value-added activity, direct, indirect and induced jobs and employment income, etc.) involves applying multipliers derived from the Statistics Canada's Input-Output Model of the Canadian Economy to various activities associated with the REIT sector. The input-output approach is the most appropriate to undertake a study such as this, as it very carefully maps and tracks the detailed interrelatedness between all the sectors of the economy. In this way, the model is able to track the impact from spending on construction and building operation back to all aspects of the up-stream value chain.

This report analyzes economic benefits of the publicly-traded residential REIT sector in Canada. The benefits are generated by three major components of the sector:

- **The ongoing operations of residential properties**: The day to day operations of the REITs include all activities related to acquisition, disposition and management of residential buildings and the conduct of the Trust operations itself are included in the ongoing operations estimate.

- **Capital Expenditure (CapEx) and New Construction**: The development and construction of new residential properties and the capital expenditure related to upgrades to existing buildings is compiled and estimated construction expenditure; and
- **Interest and Dividend Income**: The interest and dividend income that REITs distribute to their lenders and unit holders goes directly to boosting the incomes of Canadian households. In terms of unitholders, Altus Group has estimated based on data from the Survey of Household Spending that once received as income by households, dividend income is allocated as 18% paid out as taxes, 74% for current household expenditure on retail, services and hospitality, and the final 8% on future expenditures (savings). Interest income by lenders is taxed corporately and then ultimately flows through to bank shareholders.

To quantify the economic benefits of the residential REIT sector, this report focuses on several economic parameters, including:

- **Economic Activity**: The volume of goods and services consumed in the economy related to the construction investment and ongoing operation of the residential REIT sector;
- **Contribution to GDP**: The value-added component of the economic activities, a measure of the contribution of the activities to Canada's gross domestic product (GDP);
- **Jobs**: The number of jobs directly and indirectly tied to activities of the residential REIT sector, including "induced" jobs (induced from the first two rounds, and induced by the spending by unitholders); and
- **Labour Income**: The volume of labour income generated through these various economic activities.

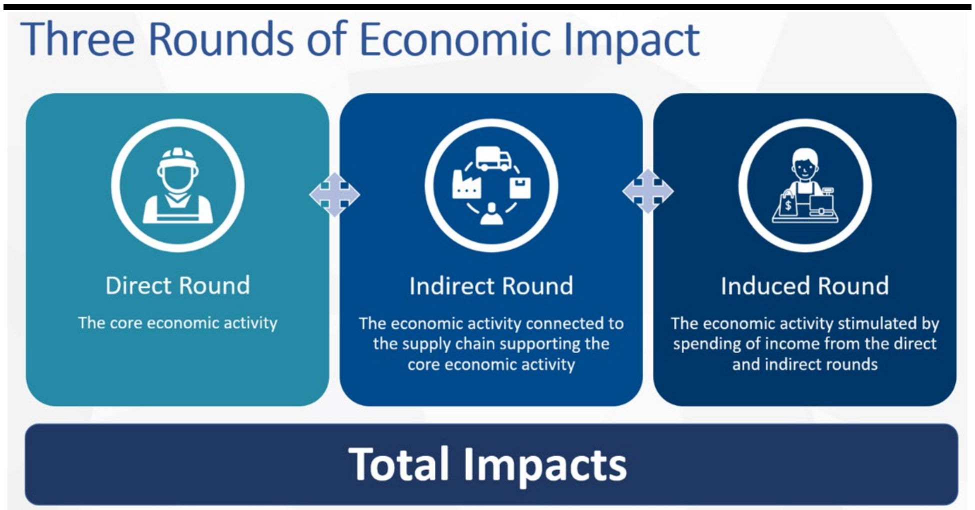
Context Behind Economic Impact Analysis

This report presents analysis on economic impacts of the development, construction and operations associated with the commercial real estate sector in Canada. These measurers are estimated using the Input Output Model of the Canadian Economy, which is maintained by Statistics Canada.

The impact of the construction and on-going operation of the CRE sector will take three principal forms:

- The **Direct Production and Jobs Generated** by expenditures on CapEx / construction investment and the on-going operation of the sector;
- The **Indirect Production and Jobs Generated** from the demand for materials and services used in the direct round of activities. These indirect impacts also include the subsequent rounds of indirect impacts [1]; and

Figure 5



- In addition to the direct and indirect economic production impacts, many economists point to a third round of **"Induced" Economic Impacts** from an economic event. This third round of impacts acknowledges that the increased production in the direct and indirect rounds will itself spur further positive economic effects through the labour income it creates that ultimately stimulates further economic activity through personal consumption. Included are the jobs and economic activity induced by the spending by unitholders. For example, people directly employed (such as construction workers)

[1] For example, related to operations activity – the first round of indirect impacts are jobs created by companies supplying goods or services to the REIT – such as a steel products fabricator (a good) or a property management firm (a service) – and the second round would be jobs created by companies supplying goods or services to these indirect suppliers – such as a steel producer supplying steel to the fabricator or a technology company supplying software to the property management firm. Subsequent rounds of impact would be those jobs generated even earlier in the production chain such as mining, smelting and transportation.

will spend part of their income on consumption items such as food, rent or recreation, thus supporting jobs in the economy.

SUMMARY OF ECONOMIC BENEFITS

Economic Activity

The publicly-traded residential REIT sector in Canada through its distributions, CapEx and new construction spending and ongoing operations, generated some $5.6 billion of economic activity in Canada in 2021.

- $3.6 billion in direct, indirect and induced economic activity from property and trust operations;
- $1.4 billion in direct, indirect and induced economic activity from CapEx and new construction investment; and
- $530 million in induced economic activity stemming from the spending related to interest and dividend distributions.

Figure 6

Total Economic Activity, Residential REITs in Canada *
Canada, 2021

($millions)	Direct	Indirect	Induced	Total
Property and Trust Operations	2,100	1,070	410	**3,580**
Property CapEx and New Construction Investment	690	490	260	**1,440**
Interest and REIT Distributions Payments	-	-	530	**530**
Grand Total Economic Activity	2,790	1,560	1,200	**5,550**

* Publicly traded multi-family residential REITs. Analsyis includes only properties located in Canada.

Source: Altus Group Economic Consulting based on Statistics Canada, public filings and internal databases.

1.1.1 Job Creation

The publicly-traded residential REIT sector in Canada through its distributions, construction spending and ongoing operations, generated some 20,750 jobs (person years of employment) in Canada in 2021.

- 11,290 direct, indirect and induced jobs from property and trust operations;
- 6,660 direct, indirect and induced jobs from CapEx and new construction investment; and
- 2,800 in induced jobs stemming from the spending related to interest and dividend distributions.

It is of note that there is a relatively high ratio of total jobs created from property and trust operations found in the indirect rounds, due to the high degree of outsourcing of services related to property management, leasing and brokerage in this sector.

Figure 7

Total Jobs, Residential REITs in Canada *
Canada, 2021

(persons years of employment)	Direct	Indirect	Induced	Total
Property and Trust Operations	4,300	4,820	2,170	**11,290**
Property CapEx and New Construction Investment	2,980	2,270	1,410	**6,660**
Interest and REIT Distributions Payments	-	-	2,800	**2,800**
Grand Total Jobs	7,280	7,090	6,380	**20,750**

* Publicly traded multi-family residential REITs. Analsyis includes only properties located in Canada.

Source: Altus Group Economic Consulting based on Statistics Canada, public filings and internal databases.

1.1.2 Labour Income

The publicly-traded residential REIT sector in Canada through its distributions, construction spending and ongoing operations, generated some $1.2 billion in labour income in Canada in 2021.

- $670 million in direct, indirect and induced labour income from property and trust operations;
- $420 million in direct, indirect and induced labour income from CapEx and new construction investment; and
- $140 million in induced income stemming from the spending related to interest and dividend distributions.

Figure 8

Total Labour Earnings, Residential REITs in Canada *
Canada, 2021

($millions)	Direct	Indirect	Induced	Total
Property and Trust Operations	270	280	120	**670**
Property CapEx and New Construction Investment	200	150	70	**420**
Interest and REIT Distributions Payments	-	-	140	**140**
Grand Total Labour Earnings	470	430	330	**1,230**

* Publicly traded multi-family residential REITs. Analsyis includes only properties located in Canada.

Source: Altus Group Economic Consulting based on Statistics Canada, public filings and internal databases.

1.1.3 Gross Domestic Product

The publicly-traded residential REIT sector in Canada through its distributions, construction spending and ongoing operations, generated some $3.3 billion in GDP in Canada in 2021.

- $2.2 billion in direct, indirect and induced GDP from property and trust operations;

- $720 million in direct, indirect and induced GDP from CapEx and new construction investment; and
- $350 million in induced GDP stemming from the spending related to interest and dividend distributions.

Figure 9

Total Gross Domestic Product (GDP), Residential REITs in Canada *
Canada, 2021

($millions)	Direct	Indirect	Induced	Total
Property and Trust Operations	1,340	610	270	**2,220**
Property CapEx and New Construction Investment	310	240	170	**720**
Interest and REIT Distributions Payments	-	-	350	**350**
Grand Total GDP	1,650	850	790	**3,290**

* Publicly traded multi-family residential REITs. Analsyis includes only properties located in Canada.

Source: Altus Group Economic Consulting based on Statistics Canada, public filings and internal databases.

GOVERNMENT REVENUES

REITs are an effective channel to invest in and operate quality multi-family rental housing in Canada bringing an array of benefits to the Canadian economy, in part because of employment and capital investments, and the fact that all income earned by the REITs is distributed to unitholders and taxable to the unitholders. REITs generate significant revenues for governments through many channels:

- Some $204.6 million in revenues for federal and provincial governments were generated in 2021 based on taxation of the earnings of the 20,750 jobs Canada's residential REIT sector creates through all rounds of economic impact (Figure 10);
- A further $84.7 million is collected through payroll taxes such as EI and CPP contributions made, again related to the 20,750 jobs;
- Canada's residential REITs paid out some $798.3 million in interest and dividend payments to lenders and unitholders in 2021 and this will have generated an estimated $146.2 million for federal and provincial governments in corporate and personal income tax revenue, assuming most unitholders are taxable within Canada;
- Some $221.8 million in property taxes were paid by Canada's residential REITs to municipalities across the county in 2021; and

Figure 10

Total Government Revenue, Residential REITs in Canada *
Canada, 2021

($millions)	Total
Income Taxes From Jobs Created Through All Rounds	**204.6**
EI and CPP Contributions from Jobs Created	**84.7**
Taxation of Lenders and Unitholders	**146.2**
Property Taxes	**221.8**
Other Government Imposed Costs on Development	**28.6**
Grand Total Government Revenues	**685.9**

* Publicly traded multi-family residential REITs. Analysis includes only properties located in Canada.

Source: Altus Group Economic Consulting based on Statistics Canada, public filings and internal databases.

- An estimated $28.5 million in government fees, taxes and levies were paid to municipalities by Canada's residential REITs related to new development projects.

All told, governments in Canada at all levels received an estimated $685.9 million in revenues in 2021 related to the activities of the publicly-traded residential REIT sector.

CONCLUSIONS

The publicly-traded residential REIT sector in Canada accounts for some $2.1 billion in direct economic activity from operations. It directly employs some 4,300 employees and creates jobs for an additional 4,820 workers in supplier industries.

Key findings from the economic impact analysis include that in 2021, the publicly-traded residential REIT sector in Canada was responsible for the creation and support of:

- $5.6 billion in total economic activity;
- 20,750 jobs (person-years of employment) across the economy;
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- $685.9 million in government revenues.

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In 2021, the sector also distributed, adjusted to be attributable to Canadian assets, some $433.6 million in dividends to unitholders and $364.8 million in interest to lenders. This income was taxable at the household and corporate levels and contributed to the creation of some 2,800 jobs in Canada and some $350 million in GDP.

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[i] Altus Group estimates the size of the multi-family apartment investible universe in 2021 to be some 2.44 million units. The estimate is based on the number of renter-occupied apartments not in condominium buildings drawn from the 2016 Census of Canada, and adjusted for vacancy rate assumptions, apartment completions of rental market type from Canada Mortgage and Housing Corporation between 2016 and 2021, and also adjusted to exclude publicly owned social and affordable housing assets.

[ii] Defining characteristics of REITs in Canada are found in the Income Tax Act. Relevant excerpts include:

> Pursuant to section 122.1 of the Income Tax Act, a REIT will be a Qualifying REIT if at all times throughout the taxation year:
>
> (a) not less than 90% of the fair market value of all non-portfolio properties held by the REIT are "qualified REIT properties";[7]
> (b) not less than 90% of the trust's revenues for the taxation year are derived from one or more of the following:
>
> (i) rent from "real or immovable properties,"[8]
> (ii) interest,
> (iii) dispositions of real or immovable properties that are capital properties,
> (iv) dividends,
> (v) royalties, and
> (vi) dispositions from the sale of "eligible resale properties";[9]
>
> (c) not less than 75% of the trust's revenues for the taxation year are derived from one or more of the following:
>
> (i) rent from real or immovable properties,
> (ii) interest from mortgages, or hypothecs, on real or immovable properties, and

(iii) dispositions of real or immovable properties that are capital properties;

(d) at no time in the taxation year is the total fair market value of all properties held by the trust, each of which is a real or immovable property that is capital property or an eligible resale property, cash, or certain government issued debt, less than 75% of the equity value of the trust at that time; and

(e) investments in the trust are, at any time in the taxation year, listed or traded on a stock exchange or other public market

7 Qualified REIT properties generally include Canadian real property and certain assets and investments used in connection with passively investing in Canadian real property.

8 Rent from real or immoveable properties generally includes rent, other similar payments and payments for services ancillary thereto, but excludes payments for services that are not ancillary to earning rent (or other similar payments), management fees, rent based on profits and payments for hotel rooms or other lodging facilities.

9 Eligible resale property includes certain non-capital real or immovable property (i.e., real estate inventory) in certain limited circumstances. Eligible resale property must be contiguous to a capital property of the Qualifying REIT and the holding of such property must be ancillary to the holding of such capital property. One example is where a portion of a commercial development is being severed for the ownership and use of an anchor tenant. The eligible resale property rules are technical and REITs must be careful to appropriately structure any holdings that are intended to qualify under such rules

[iii] This estimate is based on an , Altus Group analysis of the 2022 estimated GDP (consensus forecast of bank economists) and comparing it to the 2022 GDP forecast prepared by the Federal Government in the fall of 2019 and included in the Economic and Fiscal Update.