

Protecting the Housing Sector During the COVID-19 Pandemic

About CREA

The Canadian Real Estate Association (CREA) is one of Canada's largest single-industry associations. Our membership includes more than 135,000 real estate brokers, agents and salespeople, as well as 8,000 real estate brokers who are small to medium sized companies, working through 90 real estate Boards and Associations across Canada.

For more than three decades, our members have advocated on behalf of homebuyers, property owners and communities, and worked to promote policies that support a vibrant and sustainable housing sector.

CREA also proudly owns and operates Canada's No. 1 real estate website, REALTOR.ca, and sets high standards of professional conduct for REALTORS®, helping to protect Canadians' rights and interests through the REALTOR® Code.

Impact of COVID-19 on the Housing Sector

The spread of COVID-19 will have devastating impacts on REALTORS® and brokers during the busiest season of the year. Compared with the 5-year average, CREA Data showed that home sales were 60% below their five-year average for the month of April, while new listings were down 61%.

The work that elected and government officials have been doing to get help to both individuals and businesses during this challenging time has been remarkable. Canadians have been in desperate need of relief, and your collaborative efforts to roll out complex financial support programs in such a short period of time have gone a long way toward helping our country get through this crisis.

However, as these programs have been unveiled, it has become clear that broad eligibility criteria is required to capture the diversity of business and employment structures that drive the Canadian economy. These programs need to consider the millions of Canadians who aren't salaried, nine-to-five workers, through criteria that is inclusive of the way our members are hired, make transactions, and are compensated.

REALTOR® Recommendations

- 1) Leave no Canadian business behind by setting broad eligibility for financial support programs reflective of the diversity of business structures that drive the Canadian economy.**
 - a. Recognize that the Canadian economy is comprised of a range of business models through inclusive eligibility criteria for new and existing financial support programs.*
 - b. Ensure real estate business owners and brokerages are eligible for the Canada Emergency Wage Subsidy (CEWS) by:*



- i. Allowing them to prove loss of revenue through firm business written or deals closed; and/or*
 - ii. Adding June, July and August (all three) as periods of eligibility.*
- c. Expand Canada Emergency Business Account (CEBA) eligibility to:*
 - i. Include wages (T4), commission payments (T4A) and dividend payments (T5), reflective of the diversity of business models impacted by COVID-19.*
 - ii. Ensure it is available to all business structures, including sole proprietors who conduct their business through personal bank accounts.*
- d. Improve the Canada Emergency Commercial Rent Assistance Program (CECRA) by:*
 - i. Making the qualifying decline in revenue consistent with the CEWS (30%).*
 - ii. Provide funds directly to small businesses.*

Most real estate brokers and franchises employ REALTORS® whose incomes are commission-based. The structure of real estate transactions generally means payment arrives several months after work has been carried out. For example, many brokers are receiving income in March for January sales. By the same token, they will not be conducting business during what is traditionally the busiest residential resale period of the year, leaving them with no income well into the fall. This threatens the viability of many brokerages across the country, as well as the continued livelihood of their employees.

Tracking revenue from real estate transactions based on both when they are substantially complete (firm business written) and when they are finalized (deal closed) is normal business practice for real estate brokerages. They should consequentially be allowed to choose either method of accounting for commission revenue when applying for the CEWS, but not both.

In the absence of being able to secure the above written confirmation, the only other way brokers could use CEWS to maintain their workforce is if June, July and August (all three) become periods of eligibility.

Regarding the CEBA, it was intended to provide credit that would help small businesses pay immediate operating costs such as payroll, rent, utilities, insurance, property tax, or debt service. Unfortunately, only payroll is used to assess whether businesses can access funds that will help them cover the range of expenses they are expected to pay. Further to this, payroll must be verified by T4 summary of remuneration paid or T4SUM. This eliminates small businesses who pay owners through dividends or those who pay their employees as contractors and do not issue T4 tax slips.

Additionally, while the CEBA aims to keep small businesses afloat, it conversely boasts a requirement that eliminates applicants who conduct their affairs in a manner that is not uncommon among small businesses: using a personal bank account. Aspiring entrepreneurs who set off on their own frequently do so in the red, and consequentially forgo the convenience of a business account to give themselves every chance of surviving by keeping expenses to a minimum. Those who hire staff are certainly treated as businesses when their obligation to contribute to the Canada Pension Plan and Employment Insurance is concerned, but CEWS eligibility unfortunately reclassifies them as individuals due to a technicality. This double-standard must be addressed by revising eligibility criteria to make it more inclusive.



The CECRA is also a well-intentioned program that is hampered by restrictive eligibility. A 70% monthly decline in revenue is more than twice what is required to qualify for the CEWS, while alignment would no doubt be a more reasonable bar to set. Meanwhile, commercial property owners without a mortgage do not currently have recourse to means that would provide relief to their small business tenants. It has also been raised that relying on landlord participation with the expectation that they will forgive 25% of the rent is discouraging participation in the program. This could be resolved by providing funds directly to small businesses, which also eliminates the need to develop a separate mechanism for properties without a mortgage.

Economic Recovery

According to Statistics Canada, real estate comprised 12.82% of Canada's GDP in January 2020.¹ The housing sector makes a significant contribution to the Canadian economy; resale housing transactions through the Canadian MLS® Systems generated an estimated \$32 billion in spin-off spending and created an estimated 234,015 jobs in 2018.

The International Monetary Fund projects a 6.2% contraction in Canada's gross domestic product this year.² As the threat of COVID-19 subsides and businesses open their doors once again, **capitalizing on spin-off spending from housing transactions will be critical to Canada's economic recovery.**

There have also been learnings about the concept of home. As the situation evolved, increasing anxiety seemed to provide more insight into what truly did or did not feel like home. Many Canadians faced the possibility of eviction when rent was due, while financial institutions were able to quickly provide mortgage deferrals to homeowners. CREA continues to advocate for safe and affordable homes for Canadians across the housing spectrum. That said, it is important to recognize that homeownership provided peace of mind to many in a time of crisis.

Despite ongoing financial uncertainty, REALTORS® continue to participate in the effort to stop the spread of COVID-19. Just as they have played their part in flattening the curve, they stand ready to take on a leading role in Canada's economic recovery.

Canada's real estate entrepreneurs and business owners have proven, through many recessions and indeed through COVID-19, that they are key drivers of real estate based economic activity. These past weeks, the adoption of virtual showing technology has driven new sales, despite the inability of REALTORS® to interact with customers in person. This commitment to serving the customer and innovation will be critical to a return to economic prosperity, and cannot be done without the business owners underpinning this important sector.

¹ 'Gross domestic product (GDP) at basic prices, by industry, monthly, growth rates (x 1,000,000)', *Statistics Canada* [website], <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3610043402>, (accessed 26 April 2020).
² 'IMF sees 6.2% drop in Canada's 2020 GDP amid 'Great Lockdown'', Nicole Gibillini, *BNN Bloomberg* [website], 14 April 2020, <https://www.bnnbloomberg.ca/imf-sees-6-2-drop-in-canada-s-2020-gdp-amid-great-lockdown-1.1421246>, (accessed 26 April 2020).