Expert Report of Inez Hillel (M.A.), Nora Ottenhof (M.Sc.), & Professor David Wachsmuth (Ph.D., R.P.P.)

1. INTRODUCTION

1.01   Inez Hillel

Inez Hillel is an economist and co-founder of Vivic Research, an Ottawa-based economic consulting firm. She holds an MA from Simon Fraser University in Economics. Her expertise lies in housing policy and municipal finances.

1.02   Nora Ottenhof

Nora Ottenhof is an economist at Vivic Research. She holds a M.Sc. from the London School of Economics and Political Science in Environmental Economics and is currently a Ph.D. student in Social Policy at Toronto Metropolitan University. Her expertise lies in environmental policy and economics, and housing policy.

1.03   Professor David Wachsmuth

David Wachsmuth is the Canada Research Chair in Urban Governance at McGill University, where he is also an Associate Professor in the School of Urban Planning. He directs UPGo, the Urban Politics and Governance research group at McGill, where he leads a team of researchers investigating pressing urban governance problems related to housing markets, environmental sustainability and economic development. He is one of the country's leading housing experts; he consults widely with municipalities and community organizations on housing issues, and was recently awarded the President's Medal for Outstanding Housing Research from the Canada Mortgage and Housing Corporation. Dr. Wachsmuth has published widely in top scholarly journals in urban studies, planning and geography, and his work has been covered extensively in the national and international media, including the New York Times, the Wall Street Journal, the Associated Press, and the Washington Post. Dr. Wachsmuth is a Registered Professional Planner and a Member of the Canadian Institute of Planners.

2. ASSIGNMENT

2.01   Professor David Wachsmuth and Inez Hillel and Nora Ottenhof of Vivic Research have been retained by Avant Law to produce an expert report for the *application Yussuf et al. v. Timbercreek Asset Management and City of Ottawa.* The referral questions outlined by Avant Law are the following:

2.02   In general, what is the relationship, if any, between the racial and ethnic composition of an area, real estate value, and rents?

2.03   In general, what relationship is there, if any, between the racial and ethnic composition of an area and its appeal to developers for redevelopment?

2.04   What is the relationship, if any, between the racial and ethnic composition of Herongate, its real estate value and rents prior to redevelopment?

2.05 Assuming Timbercreek is a profit maximizing firm, what factors explain its choice of Herongate as a location for redevelopment?

2.06 How do incumbent tenants in Herongate factor into a profit maximization model? How do they affect the profitability of the project?

2.07 How would the displacement of incumbent tenants to areas outside the redevelopment affect the profitability of the redevelopment project?

2.08 How would the redevelopment as outlined above affect the racial and ethnic composition of Herongate, assuming Timbercreek attempts to maximize profit?

3. SUMMARY OF OPINIONS

3.01 A comparison of housing market outcomes in neighbourhoods with relatively high concentrations of racialized minorities and non-permanent residents and neighbourhoods with relatively low concentrations reveals evidence of systematic racial discrimination in the Canadian housing market.

3.02 Specifically, after controlling for other plausible factors, the concentration of racialized minorities and non-permanent residents has a clear negative relationship with dwelling values and rents, and with the rate of increase of dwelling values and rents.

3.03 These discrepancies in values and rates of appreciation create a profit-making opportunity whereby land in neighbourhoods with high concentrations of visible minorities or non-permanent residents can be purchased, and the value of the land holding increased with little or no capital investment, but rather through the facilitation of a demographic transition.

3.04 Timbercreek (now Hazelview) is an asset investment firm, and thus has a different profit-maximizing relationship with its portfolio from a traditional landlord.

3.05 While a traditional landlord may be motivated primarily to maximize rents, an asset investment firm such as Timbercreek will seek to maximize the value of its holdings.

3.06 Increasing asset value with little to no capital resource investment is listed as a priority in Timbercreek's own literature and is referred to as 'value-add repositioning'

3.07 The demographic characteristics of Herongate tenants (70% visible minorities, 52.3% immigrants) make it so that there is an incentive to conduct value-add repositioning as it is profit-maximizing.

3.08 Redevelopment that results in a smaller concentration of racialized or non-permanent-resident tenants would increase dwelling values more than if redevelopment occurred and tenant demographics remained unchanged.

4. DOCUMENTS REVIEWED

4.01 Howell & Korver-Glenn (2020):

4.01.1 Neighbourhood racial composition is a strong determinant of appraised property value. Holding all property characteristics constant, homes located in white neighbourhoods are appraised at higher values as compared to those located in Black neighbourhoods.

4.01.2   Racial composition as a determinant of property value is stronger today than it was 40 years ago in the United States housing market.

4.02   Perry (2019) & Gyimah, Walters & Phythian (2005):

4.02.1   On average, homes in Black neighbourhoods are undervalued by $48,000 USD per home, amounting to $156 billion USD in cumulative losses for Black homeowners in the United States. Similar patterns are observed in Canada.
4.02.2   The primary explanation for this is the advent of contemporary appraisal techniques which use sales comparisons as pricing indicators. These indicators allow the perpetuation of historic undervaluation attributed to policies such as redlining, de facto segregation, and lack of access to mortgage lenders in modern markets.
4.02.3   Another explanation is implicit and explicit discrimination from real estate agents and other housing professionals. Studies founds that real estate agents direct Black and white homeowners to different residential areas based on racial stereotypes, thus reinforcing patterns of racial segregation.
4.02.4   There is also evidence to suggest that Black home buyers face price discrimination in the housing market. In other words, they are charged higher rents and property prices for the same quality of home as compared to their white counterparts.

4.03   Moye (2013):

4.03.1   Predominantly white neighbourhoods that experienced a large increase in the percentage of Black residents had lower levels of home value appreciation as compared to similar white neighbourhoods *without* significant racial turnover.
4.03.2   These racially transitional neighbourhoods are less attractive to homebuyers as compared to majority white neighbourhoods not only because they are integrating, but because prospective homebuyers fear that transitional neighbourhoods will soon become predominantly Black.
4.03.3   Black neighbourhoods are considered less attractive to prospective homebuyers for a variety of reasons; namely, lower home value appreciation rates, and the *perception* of poorer quality schools and amenities, as well as higher crime rates.

5. DATA REVIEWED

5.01   In addition to our review of existing scholarly research, we conducted our own original analysis of Canadian housing markets.
5.02   Data used for this analysis are from the publicly available 2006 and 2016 Canadian census of population, which includes a 100% coverage "short-form" component and a 25% sample "long-form" component, at the census-tract scale. This data was obtained for the six largest census metropolitan areas (CMAs) in Canada: Montreal, Ottawa, Toronto, Calgary, Edmonton, and Vancouver.
5.03   Additional data pertaining to multi-family residential buildings with 7+ units in Ottawa were obtained from the Municipal Property Assessment Corporation (MPAC) and cover the 2008 and 2016 time periods.

6. KEY RESULTS

6.01   We find that the ratio of racialized minorities in a census tract relative to the racialized minority population in the CMA in 2016 significantly predicts lower 2016 owner-occupied housing value ($\rho < 0.001$).

6.02   A one-standard-deviation increase in the ratio of racialized residents in a census tract decreases the predicted value of housing in 2016 by 17%.

6.03   We additionally find that the ratio of the racialized minority population in a census tract relative to the racialized minority population in the CMA in 2016 strongly predicts a lower 2006-2016 increase in housing values ($\rho < 0.001$).

6.04   A one standard-deviation increase in the ratio of racialized residents in a census tract decreases the predicted increase in the value of housing between 2006 and 2016 by 25%,

6.05   Higher concentration of racialized residents in a census tract is associated with lower housing values and lower rates of housing value appreciation.

6.06   When regressed against the average rent paid by renter households, we find that the racial distribution ratio in 2016 is not statistically significant, however, the ratio of non-permanent residents is strongly significant with a p value smaller than 0.001.

6.07   When regressed against the percentage change in rent between 2006 and 2016, the racial distribution ratio negatively predicts an increase in rent and is statistically significant, $p = 0.0045$, and the ratio of non-permanent residents is also statistically significant, $p < 0.001$.

6.08   In Ottawa, greater presence of non-permanent residents in a census tract predicts lower per-unit assessed property values in multi-residential dwellings in 2016.

6.09   When regressed against per-unit assessed values in multi-residential dwellings in 2016, the ratio of non-permanent residents is statistically significant with a p-value of 0.0078.

6.10   The ratio of non-permanent residents in a census tract negatively predicts an increase in per unit dwelling values in multi-residential properties with more than 7 units.

7. CONCLUSIONS

7.01   The results of our research point strongly to the presence of racial discrimination within the Canadian housing market.

7.02   Across all major Canadian cities, neighbourhood racial composition and immigration status negatively predict dwelling values, residential rents, and appreciation rates.

7.03   Residential property owners who own property in neighbourhoods with a higher concentration of racialized minorities or non-permanent residents will be financially penalized as compared to counterparts owning property in neighbourhoods with fewer racialized minorities or non-permanent residents.

7.04   In our opinion these facts create a profit-maximizing opportunity whereby land and/or housing in racialized neighbourhoods can be purchased and the value of the asset increased with little capital investment through the facilitation of a demographic shift from relatively racialized and non-permanent resident inhabitants to predominately white and permanent-resident inhabitants.

7.05　　We believe that in the Ottawa context, there is a financial incentive to decrease the concentration of racialized minorities and non-permanent residents in order to maximize property values.

7.06　　It is our belief that the demographic characteristics of the tenants of Herongate, including race, immigration status, and housing tenure, incentivized evictions in the area.

7.07　　In our opinion, Timbercreek (now Hazelview) behaved in a profit maximizing way to facilitate a demographic transition in Herongate, Ottawa, resulting in the eviction and displacement of predominately Black and Middle Eastern residents.

APPENDIX