March 29, 2022

Dear Proxy Research Professional,

Re Royal Bank of Canada (TSX: RY) Shareholder Proposal: Financialization of Housing

The B.C. General Employees' Union (BCGEU) has submitted a shareholder proposal to be considered at Royal Bank of Canada's 2022 annual general meeting of shareholders. This letter provides supplementary information that is relevant to your review in formulating your organization's voting position.

As stated in the proposal, the U.S. model of converting single family residences to rental stock relies heavily on bank financing, both through syndicated loan facilities and mortgages. The syndicated facilities require banks to collaborate on due diligence matters and other aspects of loan assessment and administration.

Controversies

Controversies surrounding the financialization of housing have increased in the past year. In Schedule A to this letter, we have extracted some passages from recent articles relating to the financialization of housing, including the conversion of single-family residences into rental stock. BCGEU believes these articles contain significant controversies that could affect businesses involved in the financialization of housing, particularly banks who facilitate the business model described above.

RBC's Response to BCGEU's Proposal

RBC's response can be distilled into two arguments: 1) it already has human rights risk procedures; and 2) it cannot collaborate with other Canadian banks because of competition law concerns.

RBC's description of its human rights risk mitigation procedures is vague and general. Contrast RBC's response with Bank of Montreal's description of similar issues in its 2022 proxy circular, which is included in Schedule B to this letter. BCGEU filed the same financialization of housing proposal at BMO but withdrew it after BMO made certain acknowledgments and agreements. Specifically, BMO acknowledged the potential for the financialization of housing in the single-family residential sector in Canada. BMO also committed to evaluating and enhancing its due diligence processes and training that will address human rights due diligence considerations.

BCGEU headquarters
4911 Canada Way, Burnaby, BC V5G 3W3
Phone: (604) 291-9611 / 1-800-663-1674
Fax: (604) 291-6030 / 1-800-946-0244

Furthermore, the OECD has specifically and variously addressed competition law concerns arising from collaborations on human rights due diligence practices.[1] The OECD has stated:

> Competition law does not prohibit collaborative activities by companies, unless they affect important parameters of competition. For example, if RBC activities involve competitors' coordination of companies' independent decisions on prices, volumes or where to / whom to sell, they may be viewed as an infringement of competition law. Any other co-operation activity would have to be assessed to balance alleged pro- and anti-competitive effects.[2]

BMO clearly sees room for such collaborative discussions as it has agreed to "raise the topic of conversion of single-family residences into rental accommodation and related human rights due diligence considerations in discussions on environmental and social risk management with the appropriate industry group".

RBC's reluctance to be a leader in this area is disappointing, but as we have illustrated above, it cannot plausibly point to competition law concerns as a source of its reluctance.

Very truly yours,

Paul Finch
Treasurer

EP/LP
MoveUP

[1] https://mneguidelines.oecd.org/global-forum/2015GFRBC-Competition-Law-RBC.pdf (page 6)
[2] http://mneguidelines.oecd.org/due-diligence-for-responsible-corporate-lending-and-securities-underwriting.pdf

SCHEDULE A

Extracts from Recent Articles on the Financialization of Housing

February 18, 2022

https://www.bloomberg.com/news/features/2022-02-18/wall-street-banker-profits-off-phoenix-housing-inflation-and-soaring-rent-prices

But these new landlords were taking homes off the market and renting them back to people who would have otherwise been in a position to buy. He saw families getting outgunned by investment firms that could afford to pay $450,000 for a $400,000 house. Rents on single-family homes were also rising fast—up 19% in the Phoenix metro area during the pandemic, according to Rick Palacios, research director of John Burns Real Estate Consulting LLC. The result was that buyers could lose out on a home and see it resurface at a rent that was hundreds of dollars a month more than what they would have paid to own it with a mortgage. “The way I see it, they’re stealing from first-time homebuyers,” Vidana says. “They’re trying to push this idea that your first step is not to buy a house anymore, your first step is to rent.”

…

“Adding single-family rental or something tied to housing in your company name these days is akin to adding ‘dot-com’ back in 1999,” Palacios says.

…

These days it employs software that scans real estate listings every 15 minutes. When its acquisitions team sees a home it likes, it estimates rent and a repair budget and aims to get a cash offer out within hours of the home going on the market.

…

Housing activists contended the companies were following the private equity playbook of heaping on fees and cutting maintenance costs to boost their bottom line.

…

There are more than 4,000 members of a Facebook group called Victims of Progress Residential, where tenants complain about rent hikes and unexpected fees and trade tips on navigating the inevitable corporate bureaucracy that comes with being one of 75,000 customers.

…

But those aren’t the only complaints. At the beginning of the pandemic, an advocacy group called the Private Equity Stakeholder Project (PESP) began publishing research on eviction filings in two dozen counties where court data was easily available online. Mullen’s company, according to the group, filed more eviction cases in those counties during a period when a federal eviction ban was in place. In February, Minnesota Attorney General Keith Ellison filed a suit alleging that Pretium and Zoller’s landlord, HavenBrook Homes, had carried out a plan “to extract ever greater profits from their tenants by severely under-maintaining their homes.”

January 28, 2022

https://www.bloomberg.com/news/articles/2022-01-28/rental-home-demand-from-wall-street-has-land-prices-soaring

Finding tenants is the easy part, as millennials with children, dogs and the need for remote-work space outgrow the confines of apartment living. But to succeed, landlords and their backers have to outcompete homebuilders for labor, materials and, most of all, land.

That’s contributing to skyward costs that are rippling through the market — meaning prices for newly built homes may climb even further out of reach for would-be buyers.

December 5, 2021

This Block Used to be for First-Time Homebuyers. Then Global Investors Bought in.
https://www.washingtonpost.com/business/interactive/2021/investors-rental-foreclosure/

Rob Mitchell, the county property assessor, says nearly 1 in 10 homes there are now owned by a real estate investment trust, and that these investments are jacking up house prices.
These ventures are "equity-mining our community — removing generational wealth for an entire demographic of people," said Mitchell, a Republican elected official. "For the average person starting out wanting to start their family, the choice is no longer: Can I purchase a house? It's instead: Can I afford to rent a house?"
…
An executive at Pretium Partners dismissed the idea that owning and renting are significantly different. Whether they're renters or homeowners, people still must make a monthly payment — for rent or for a mortgage, Dana Hamilton, Pretium Partners' head of real estate, said on the real estate podcast.
"I laugh because when people try and distinguish owning a home from renting a home, the reality is most people don't own a home — they rent the home from the bank," Hamilton said. "From the outside, it really looks the same."

One key difference unacknowledged in her remark, however, is that a family's monthly mortgage payments can build equity in the home; rent payments have no such benefit.
…
The standard lease the firm uses across the country "is about as punitive as we've seen from the larger private equity landlords," said Lindsey Siegel, director of housing advocacy at Atlanta Legal Aid Society, which often helps Progress Residential tenants. "The leases are just another way to make money."

November 24, 2021

The millennial and Gen Z dream of home ownership is being exploited in ways that just make houses more expensive
https://www.theglobeandmail.com/investing/personal-finance/young-money/article-the-millennial-and-gen-z-dream-of-home-ownership-is-being-exploited-in/

This financialization of housing is a direct cause of unaffordable home prices for first-time buyers. Bank of Canada deputy governor Paul Beaudry made this point in a speech earlier in the week about stability of the financial system. It was the central bank's first direct mention of investors as a cause of rising prices.

October 22, 2021

A $60 Billion Housing Grab by Wall Street
https://www.nytimes.com/2020/03/04/magazine/wall-street-landlords.html

Wall Street's latest real estate grab has ballooned to roughly $60 billion, representing hundreds of thousands of properties. In some communities, it has fundamentally altered housing ecosystems in ways we're only now beginning to understand, fueling a housing recovery without a homeowner recovery.

But even at the time, some saw things differently. "Neighborhoods that were formerly ownership neighborhoods that were one of the few ways that working-class families and communities of color could build wealth and gain stability are being slowly, or not so slowly, turned into renter communities, and not renter communities owned by mom-and-pop landlords but by some of the biggest private-equity firms in the world," says Peter Kuhns, the former Los Angeles director of the activist group Alliance of Californians for Community Empowerment. Around Los Angeles, the companies scooped up properties in the majority-minority areas of South Los Angeles, the San Gabriel Valley, the San Fernando Valley and Riverside.

…

When credit was tight after the financial crisis, the acquiring firms, led by Blackstone, figured out a way to generate more of it by creating a new financial instrument: a single-family-rental securitization, which was a mix of residential mortgage-backed securities, collateralized by home values, and commercial real estate-backed securities, collateralized by expected rental income. … With the securitized homes, the rental income now needed to cover not only the mortgage but also the interest payments distributed to bondholders — creating an incentive to keep occupancy and rents as high as possible. In fact, Invitation Homes' securitized bond model assumed a 94 percent paying-occupancy rate, putting pressure on the company to evict nonpaying tenants right away.

…

Since a rebound in the real estate market made acquiring new properties more expensive, companies looked for growth from their tenants: i.e., by raising rents, cutting down operating costs and maximizing efficiencies. In a 2016 fourth-quarter earnings call, Tuomi, the chief executive of Colony Starwood (formerly Colony American), declared that "not getting every charge that you are legitimately due under leases" — termination fees, damage fees and the like — is "revenue leakage." In 2016, Colony made $14 million on fees and an additional $12 million on tenant clawbacks, like retaining security deposits, says Aaron Glantz, author of "Home-wreckers," a book on the single-family-rental industry.

…

Another common practice was charging burdensome fees. For each utility bill received by Invitation Homes — many single-family-rental companies, or S.F.R.s, put utilities in the company's name and then charge the utility back to the tenant — the company levies a $9.95 "conveyance" fee. The company also piled on landscaping fees, $100 monthly pool fees, a $50 monthly pet fee ("pet rents" were up 300 percent, Invitation Homes announced in 2017, accounting for additional gains of $1.5 million) and automatic enrollment in smart-lock services for $18 to $20 a month. The first month of the smart-lock service was free, so that by the time the charge appeared on the rent bill, it was too late to opt out, per the nearly 40-page lease.

…

According to Abood, neighborhoods in Los Angeles where at least 15 percent of homes are owned by the largest single-family-rental companies have an average black population of 30 percent. Neighborhoods where no homes are owned by large single-family-rental companies have an average black population of only 6 percent. Evictions are often higher in majority-minority neighborhoods.

SCHEDULE B
Extract from BMO Circular

Withdrawn Proposal

B.C. General Employees' Union General Fund and B.C. General Employees' Union Defence Fund, 4911 Canada Way, Burnaby, B.C. V5G 3W3 (BCGEU) has submitted a proposal which has been withdrawn based on the Bank's confirmation as described below.

As BCGEU outlined in its withdrawn proposal, in the United States, an increasing number of publicly traded and private entities are purchasing single family residences on a large-scale basis and converting them into rental accommodation. Groups such as the UN Special Rapporteur on the right to adequate housing have raised concerns about the potential for adverse human rights impacts stemming from this financialization of housing. The withdrawn proposal requested that the Bank, in collaboration with leading Canadian banks, develop a human rights due diligence tool to assess and mitigate the potential negative effects of the financialization of housing in Canada, particularly as it relates to single family homes.

As outlined in the Bank's Statement on Human Rights, the Bank has committed to embed the United Nations Guiding Principles on Business and Human Rights (UNGPS) into its policies and procedures. Among other things, the Bank

- has taken responsibility to respect human rights across all of its business activities, including its relationships with customers,
- has committed to implementing programs for robust 'human rights due diligence', including assessing actual and potential human rights impacts, and acting upon findings,
- has committed to tracking progress and performance, and providing best-in-class transparency and disclosure, and
- will develop mechanisms to remedy adverse human rights impacts, on its own and working with industry peers to enhance good practice.

The Bank currently carries out due diligence, including with respect to human rights as required by the UNGPS in various aspects of its business. The Bank acknowledges the potential for the financialization of housing in the single family residential sector in Canada, and consistent with the UNGPS, the Bank:

1. commits to evaluating and enhancing sector-specific due diligence training and processes for commercial real estate banking teams that will specifically address good practice including human rights due diligence considerations related to the purchase and conversion of single family residences into rental accommodation, by December 31, 2022, and
2. will raise the topic of conversion of single family residences into rental accommodation and related human rights due diligence considerations in discussions on environmental and social risk management with the appropriate industry group, sharing learnings from BMO's own training development and asking that industry group to facilitate discussions on potential enhancements to good practice in human rights due diligence for this sector, to the extent permitted by applicable laws that regulate anti-competitive behaviour.

The Bank has further agreed to periodically update BCGEU on progress on item 1 above and to continue good-faith dialogues with BCGEU on human rights risk.