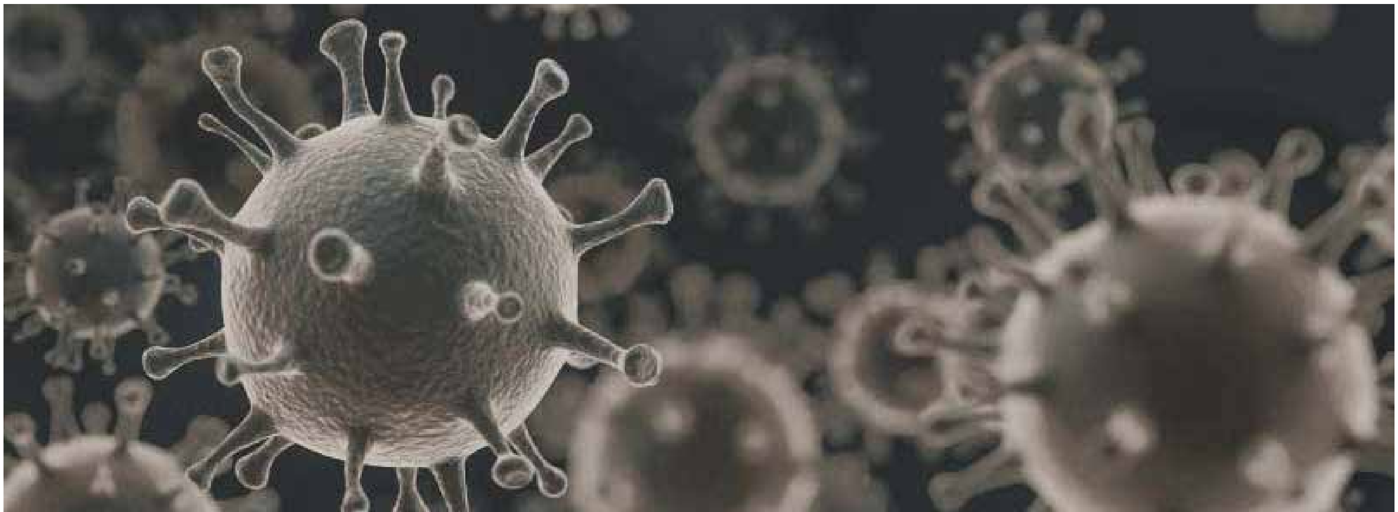
ECONOMIC EFFECTS OF COVID-19 RENTAL ASSISTANCE



Grant Alexander Wilson, Ph.D.
Faculty Member
Department of Management and Marketing
Edwards School of Business
University of Saskatchewan

Jason Jogia, MBA, M.Fin.
Chief Investment Officer, Avenue Living

Author Bio

Dr. Wilson is a faculty member of the Department of Management and Marketing at the Edwards School of Business, University of Saskatchewan. He teaches marketing, strategic management, entrepreneurship, and technology commercialization courses. His current research interests include marketing, consumer economics, entrepreneurship, and organizational learning.

Mr. Jogia is the Chief Investment Officer at Avenue Living and has over 15 years of experience in real estate capital markets, originating over $10 billion in real estate loans and $1 billion in equity. He has extensive experience in real estate investment analysis and capital structure across various real estate classes. In addition to holding 2 Masters' degrees in Finance, Mr. Jogia is pursuing his Doctorate of Business Administration and currently serves as an instructor at the University of Calgary, specializing in real estate finance.

COVID-19

The coronavirus disease 19 (COVID-19), classified as an infectious disease by the World Health Organization (2020), has caused a global pandemic. As of April 19, 2020, globally, there were 2.40 million confirmed cases and 165,154 deaths related as a result of COVID-19 (Center for Systems Science and Engineering, 2020). According to Centers for Disease Control and Prevention (2020), COVID-19 symptoms include fever, cough, and shortness of breath. Over 540,000 Canadians have been tested for CODV-19 due to symptoms or for precautionary purposes (Government of Canada, 2020a). Of the those tested, there have been 34,777 confirmed cases, nine probable cases, and 1,580 deaths (Government of Canada, 2020a). In addition to its devastating health outcomes, COVID-19 has caused significant economic turmoil.

ECONOMIC CONTRACTION

COVID-19 has caused the world's economies to contract. Economic contraction is most often measured by the decline of a country's gross domestic product (GDP), defined as the "total market value of all final goods and services produced within a nation's borders in a year" (Althouse, Allan, & Harrt, 2017, p.44). According to Lawder (2020), the global economy is on pace for the most dramatic contraction since the Great Depression. Others are expecting that the world's major economies are on track for the largest quarterly decline in history (Saltzman, 2020). The International Monetary Fund, an international organization that promotes trade, financial stability, economic growth, high employment, and reduced poverty, has predicted that the world economy will contract by 3% in 2020, a sharp contrast to its pre-COVID-19 predictions (Lawder, 2020). These predictions incorporate significant economic rebounding, as many countries have already experienced double-digit GDP declines in the first few months of COVID-19 (Shahine, 2020).

Canada's GDP has already declined by 9%, as many businesses have temporarily or permanently closed amid the global pandemic (Alini, 2020a). Maclean's (2020), reported on a study by the Canadian Federation of Independent Business that suggested one-third of Canadian small- and medium-sized businesses fear closure. Specifically, these businesses suggested that in the absence of financial assistance, they will be likely to close within a month (Maclean's, 2020). These effects are cascading, as 44% of Canadian households have experienced job losses or a reduction in the number of employment hours due to COVID-19 (Maclean's, 2020). In response to these unprecedented macroeconomic shifts, the Government of Canada has been prompt with industry and individual assistance programs.

FUNDING RESPONSE

To avoid layoffs and rehiring employees, the Government of Canada (2020b) intends to support businesses via the Canadian Emergency Wage Subsidy (CEWS) and the Temporary 10% Wage Subsidy. According to the Government of Canada (2020b), the CEWS supports businesses that have experienced a 15% decline in gross revenue in March and a combined 30% drop in April and May. The CEWS assists employers by covering 75% of an employee's wage up to $847 per week (Government of Canada, 2020). However, this program is not available yet, therefore more layoffs are expected. The Temporary 10% Wage Subsidy is "a three-month measure that will allow eligible employers to reduce the amount of payroll deduction required to be remitted to the Canada Revenue Agency." Although these relief programs will be highly beneficial for Canadian businesses, they unfortunately followed nation-wide layoffs.

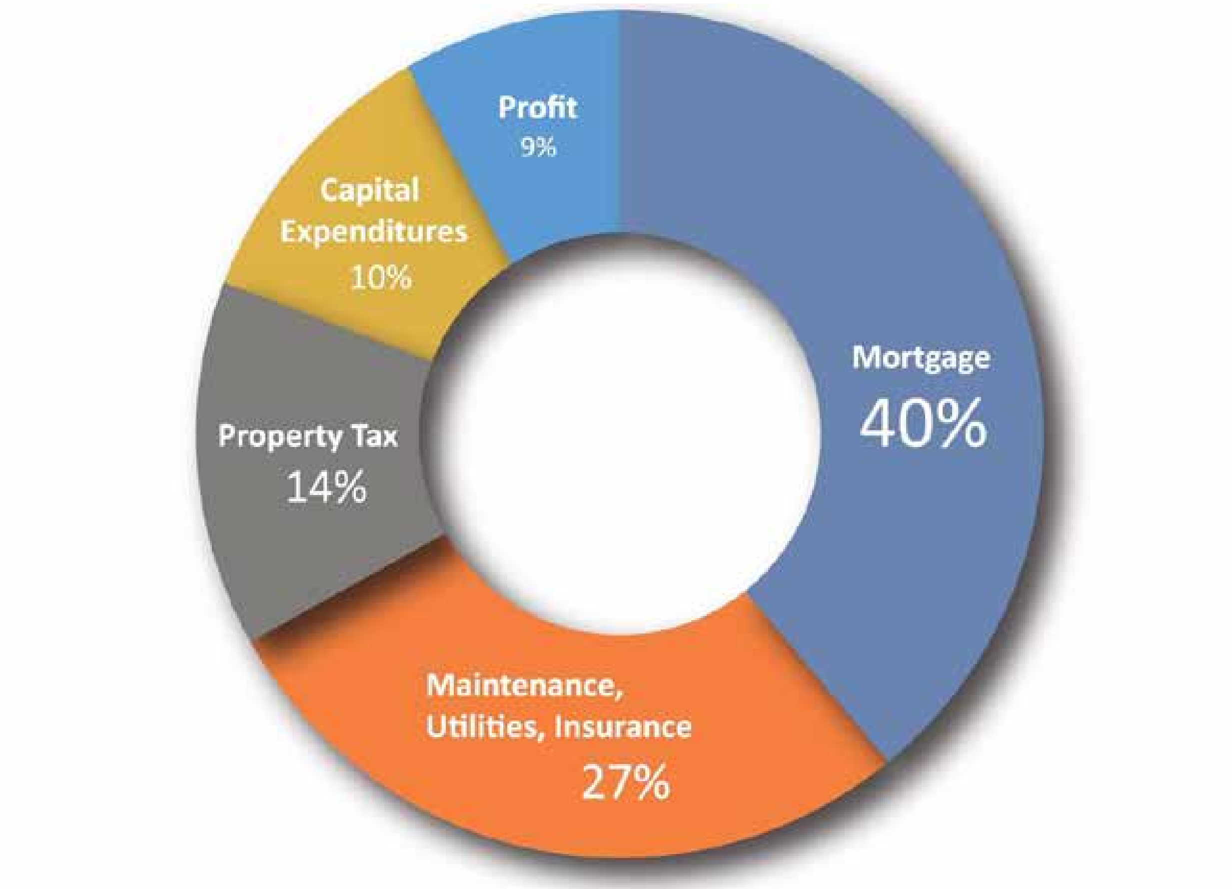
The week after initial layoffs, over one million Canadians filed for Employment Insurance (Alini, 2020b). Now, it is estimated that over six million Canadians have applied for individual COVID-19 emergency benefits (Harris, 2020). Among many new benefits, the federal government created the Canadian Emergency Response Benefit (CERB) for those that have had to stop work due to COVID-19 (Government of Canada, 2020). A number of specific and ancillary benefits have been created, however none of which address rent relief for individuals.

RENTAL ASSISTANCE

Despite the Government of Canada's (2020) commitment to supporting small businesses with commercial rent payments through the Canada Emergency Commercial Rent Assistance (CECRA) program (Breen, 2020; Government of Canada, 2020), there has been no federal action regarding assisting residential tenants. According to Alini (2020c), only British Columbia and Prince Edward Island have provided financial support to renters. British Columbia and Prince Edward Island have offered residential renters $500 and $250 per month, respectively (Alini, 2020; Wilson, 2020). It is curious why the federal government has offered a number of programs to businesses, individuals, and families but only provided rental support for small commercial tenants given over 30% of Canadian households do not own their own home (Statistics Canada, 2020).

The benefits of residential rent collection extend beyond owners, as it impacts the employees of residential properties, the banking system, supporting industries, and even the government. There is a misconception that residential property owners realize large profits, protecting them from non-paying tenants. According to the National Apartment Association (2020), 9% of rental revenue is returned to owners as a profit (Figure 1). Roughly 40% of rental income goes to mortgage payments on the property. Paying individuals that manage and perform maintenance on the properties as well as payments for utilities and insurance take away another 27% from rental revenue. Property taxes paid by the owners amounts to 14% of rental revenue. Capital expenditures such as building improvements and additions detract another 10% from rental revenue. As such, it is evident that residential revenue is widely dispersed into the economy, creating numerous positive externalities. Simply, when rent is paid, everyone wins because the money flow has a positive liquidity effect for individuals and businesses.

FIGURE 1
BREAKING DOWN $1 OF RENT



Created by the author based on the National Apartment Association (2020).

Not surprisingly, empirical evidence suggests that rental subsidies have immediate and long-term economic benefits (Cage, 1994; Opdyke, 2018; Sanz, 2017). Based on an American national housing study, Cage (1994) reports that rental assistance programs are effective at reducing tenants' shelter expense. Cage (1994) specifies that renters receiving assistance funding prioritized and allocated 30% of their income to shelter. As Wilson (2020) indicates, shelter is a non-negotiable need (Wilson, 2020) that is inelastic. An expenditure is deemed to be inelastic if changes to consumers' propensity to pay elicit minimal, if any, changes to their spending patterns (Lumsden, 2011). The remaining income was put back into the economy via other household expenditures. Similarly, Sanz (2017) found that U.S. families that received rental assistance met their basic needs and subsequently injected any remaining income into the economy, resulting in lasting positive externalities. Rental subsidies in times of crisis have also been shown to have long-term positive economic implications. In Opdyke's (2018) study of post-Typhoon Haiyan disaster rental relief programs in the Philippines, showed that subsidies supported long-term recovery. Specifically, Opdyke (2018) found that "the ability of households to negotiate rent and prioritise excess cash subsidies improved long-term recovery outcomes by filling gaps in education, food, and livelihood needs" (p. 1).

It is abundantly clear that the importance of rental payments extends beyond those making and receiving them. As the National Apartment Association (2020) shows, a multitude of stakeholders depend on, and are greatly impacted by, residential rent collations. Moreover, it is easy to see how rental assistance programs help individuals and families fulfill their basic needs. Less obvious is how additional income, ordinarily and in times of crisis, has wide-scale compounding economic benefits.

KEYNESIAN MULTIPLIER

John Maynard Keynes, one of the 20th century's most prominent economists and father of Keynesian economics, described how an increase in consumer spending, or money put into the economy, raises total GDP by more than the amount injected (Keynes, 1936; Corporate Finance Institute, 2020) (Figure 2). This compounding economic phenomenon is known as the Keynesian Multiplier (Keynes, 1936).

FIGURE 2
KEYNESIAN MULTIPLIER

Created by the author based on Keynes (1936).

In the case of a rental assistance subsidy, household income that is put back into the economy via private consumption positively influences GDP by more than the expenditure. For example, if after paying rent, a family spends $500 on products and services, there will be a positive economic effect that exceeds $500. Although multiplies vary depending on the purchase, the economic effects are always greater than the original amount. Applying the Keynesian Multiplier to COVID-19, additional assistance programs aimed at providing financial relief for individuals and families would also have macroeconomic benefits.

GDP EFFECTS & FURTHER CONSIDERATIONS

Although the Government of Canada has created, and continues to create, financial relief programming, the sharply declining GDP remains an economic reality. As Canada's macroeconomic indicators continue to fall and there remains uncertainty in the stock market, despite monetary policy efforts, no relief programming should be left unconsidered. Given the Government of Canada has pledged financial relief for commercial renters, it may be strategic to consider similar assistance programming for the equally, if not more, vulnerable group of Canadian renters. As supported by empirical evidence in both times of good fortune and crisis (Cage, 1994; Opdyke, 2018; Sanz, 2017), individuals and families utilize additional income primarily for essentials. Data further suggests that households receiving rental subsidies use excess income to purchase products and services, ultimately creating an economic multiplier.

A national residential subsidy, aimed at putting more income in the hands of Canadian renters, would directly benefit individuals and families and have equally notable cascading economic effects. After all, 90% of rental revenue goes back into the economy (National Apartment Association, 2020), helping all Canadians fulfil their basic needs.

While the federal government has unprecedented commitments to helping Canadians during COVID-19, in the words of John Maynard Keynes, "it would not be foolish to contemplate the possibility of far greater progress still."

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