1. INTRODUCTION

1.1. Professor David Wachsmuth

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2. ASSIGNMENT

2.1. Professor David Wachsmuth, the Canada Research Chair in Urban Governance at McGill University, Nora Ottenhof of Toronto Metropolitan University, and Inez Hillel 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:

2.1.1. In general, what is the relationship, if any, between the race, place of origin, skin colour, and/or ethnicity of residents in a given neighbourhood in Canada and real estate values and rents in that area?

2.1.2. How does the presence and concentration of people of African, Caribbean, and/or Middle-Eastern origin and/or descent in an area affect real estate values and rents in that area?

2.1.3. How does the race, place of origin, skin colour, and/or ethnicity of residents in an area affect its appeal for development to real estate developers in Canada? Please explain.

2.1.4. In light of the answers to the questions above, to what extent, if at all, do real estate developers in Canada have a business incentive to attempt to alter the demographic make-up of their properties? If such an incentive exists, please explain how it operates.

2.1.5. To what extent, if at all, do the answers to the questions above apply to or explain Hazelview's acquisition and development of Herongate?

3. SUMMARY OF OPINIONS

3.1. A comparison of housing market outcomes in neighbourhoods with relatively high concentrations of certain racialized and ethnic minorities[1] reveals evidence

[1] Racial and ethnic minorities were selected based on their vulnerability to housing precarity, as not all racial and ethnic minorities are equally vulnerable (Haan, 2007) (Choi & Samaj, 2023).

of a relationship between the racial and ethnic composition of a neighbourhood and real estate values in the Canadian housing market.

3.1.1. We test this relationship in the six largest CMAs in Canada, including Ottawa.

3.2. This relationship holds across three specifications of the independent variable:

3.2.1. Indigenous, Black, Arab, Latin American, Filipino, South Asian, and West Asian populations

3.2.2. African, Caribbean and Middle Eastern populations only

3.2.3. African immigrants only

3.2.4. For clarity, when referencing results that are consistent across all three specifications, we use the term *racialized and ethnic minorities*.

3.3. Specifically, after controlling for other plausible housing market factors including income, housing type, and distance from the city centre, we find a clear negative relationship between the concentration of racialized and ethnic minorities and the rate of increase of owner-occupied dwelling values.

3.3.1. Our results demonstrate that race and ethnicity are significantly associated with housing values, regardless of income levels and poverty rates.

3.4. The academic literature on housing highlights that housing in neighbourhoods with high concentrations of racialized and ethnic minorities can be purchased at a lower cost than if the concentration of racialized and ethnic minorities were equal to the demographics of the city average.

3.4.1. We refer to this potential cost savings as the r*ace discount.*

3.5. These discrepancies in rates of appreciation create a profit-making opportunity whereby real estate developers can increase the value of the land holding in areas with a higher concentration of racialized and ethnic minorities with no capital investment, but rather through the facilitation of a demographic transition.

3.5.1. We refer to this potential profit as the *race bonus*.

3.6. This mechanism can be represented by: *Profit = (Post−Displacement Property Value + Race Bonus) − (Purchase Price − Race Discount)*

3.7. A profit-maximizing real estate developer would have a strong incentive to pursue the race bonus based on the demographic characteristics of Herongate tenants.

3.7.1. Redevelopment that results in a smaller concentration of racialized ethnic minorities would be associated with higher dwelling values than if redevelopment occurred and tenant demographics remained unchanged.

4. DATA AND METHODOLOGY

4.1. In addition to our review of existing scholarly research, we conducted our own original analysis of Canadian housing markets.

4.2. 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.

4.2.1. This data was obtained for the 2,839 census tracts across the six largest census metropolitan areas (CMAs) in Canada: Ottawa, Montreal, Toronto, Calgary, Edmonton, and Vancouver.

4.2.2. We use census tracts as a proxy for neighbourhoods.

4.2.3. We use data from 2006-2016 in order to base our analysis on the information that Timbercreek would have had access to at the time of the evictions in 2018.

4.3. The outcome (dependent) variables are the 2006-2016 change over time of value and rent, respectively the per-census-tract average value of owner-occupied dwellings and the per-census-tract average rental price of tenant-occupied dwellings.

4.3.1. Neither of these is an exact match for the value of multi-family dwellings, but they offer two complementary and related data points which could collectively test the plausibility that property values have a systematic relationship with certain processes of socio demographic change.

4.4. The treatment (independent variables) are:

4.4.1. *p_rac*: the percentage of residents who identify as a member of a discriminated-against racial group (Indigenous, Black, Arab, Latin, Filipino, South Asian, or West Asian);

4.4.2. *p_eth*: the percentage of residents who identify as one of three ethnicities relevant to the Herongate case (Caribbean, African, Middle Eastern);

4.4.3. *p_afr*: the percentage of residents who are immigrants from Africa.

4.5. The control variables:

4.5.1. *Income:* median household income in 2016, in dollars

4.5.2. *Detached:* percent of dwellings that are detached houses

4.5.3. *Rooms:* average number of rooms per dwelling

4.5.4. *Children*: percent of the population that are under 18

4.5.5. *College:* percent of the population with college education or higher

4.5.6. *Poverty:* percent of the population who are low-income

4.5.7. *Rent:* average rent in dollars

4.5.8. *Rented:* percentage of the housing that is rented

4.5.9. *Employed:* percentage of the working-age population that is employed

4.5.10. *Physical Distance:* the distance to city center in kilometers

4.6. Because all variables are standardized, the regression coefficients reflect the change in the dependent variable in standard deviations, associated with a one standard deviation change in the independent variable.

4.6.1. We standardize the variables to allow for direct comparison of the strength of the comparison across variables.

4.6.2. The interpretation of the regression results are translated into natural units for clarity.

5. KEY RESULTS

5.1. A 1% increase in the share of census-tract residents who identify as a member of a discriminated-against racial group (Indigenous, Black, Arab, Latin, Filipino, South Asian, or West Asian) is associated with a -0.4% decrease in the rate of change of owner-occupied dwelling values between 2006 and 2016.

5.1.1. Given that 24.8% of residents in the average census tract identify as members of a discriminated-against racial group, and the average census tract experienced a 68.4% increase in dwelling values from $350,500 to $612,200 over the 2006 to 2016 period, we estimate that a one percentage point increase (i.e. from 24.8% to 25.8%) in the share of residents from these groups is associated, ceteris paribus, with a $5,150 decrease in owner-occupied dwelling values over the same period.

5.1.2. With an R-squared value of 0.469, the model explains approximately half of the variation in average value of owner-occupied dwellings between 2006 and 2016.

5.1.3. These relationships hold after controlling for other important housing market factors such as income, housing type, and distance to the city centre. These results apply to owner-occupied dwellings in the six largest CMAs in Canada, including Ottawa.

5.1.4. All the results are at the very highest level of statistical significance, meaning they demonstrate real relationships and not sampling error.

5.2. A 1% increase in the share of census-tract residents who identify as one of three ethnicities relevant to the Herongate case (Caribbean, African, Middle Eastern) is associated with a -0.5% decrease in the rate of change of owner-occupied dwelling values between 2006 and 2016.

5.2.1. Given that 14% of residents in the average census tract identify as Caribbean, African or Middle Eastern, and the average census tract experienced a 68.4% increase in dwelling values from $350,500 to $612,200 over the 2006 to 2016 period, we estimate that a one percentage point increase (i.e. from 14% to 15%) in the share of residents from these groups is associated, ceteris paribus, with a $13,640 decrease in owner-occupied dwelling values over the same period.

5.2.2. With an R-squared value of 0.469, the model explains approximately half of the variation in average value of owner-occupied dwellings between 2006 and 2016.

5.2.3. These relationships hold after controlling for other important housing market factors like income, housing type, and distance to the city centre. These results apply to owner-occupied dwellings in the six largest CMAs in Canada, including Ottawa.

5.2.4. All the results are at the very highest level of statistical significance, meaning they demonstrate real relationships and not sampling error.

5.3. A 1% increase in the share of census-tract residents who are immigrants from Africa is associated with a -1.3% decrease in the rate of change of owner-occupied dwelling values between 2006 and 2016.

5.3.1. Given that 3.2% of the residents of the average census tract are African immigrants, and the average census tract experienced a 68.4% increase in dwelling values from $350,500 to $612,200 over the 2006 to 2016 period, we estimate that a one percentage point increase (i.e. from 3.2% to 4.2%) in the share of residents who are immigrants from Africa is associated, ceteris paribus, with a $144,630 decrease in owner-occupied dwelling values over the same period.

5.3.2. With an R-squared value of 0.469, the model explains approximately half of the variation in average value of owner-occupied dwellings between 2006 and 2016.

5.3.3. These relationships hold after controlling for other important housing market factors like income, housing type, and distance to the city centre. These results apply to owner-occupied dwellings in the six largest CMAs in Canada, including Ottawa.

5.3.4. All the results are at the very highest level of statistical significance, meaning they demonstrate real relationships and not sampling error.

5.4. A 1% increase in the share of census-tract residents who identify as a member of a discriminated-against racial group (Indigenous, Black, Arab, Latin, Filipino, South Asian, or West Asian) is associated with a -0.1% decrease in the rate of rent growth between 2006 and 2016.

5.4.1. Given that 24.8% of the residents in the average census tract identify as a member of these groups, and average rents increased by 33.5% from $875 to $1,163 over the same time period, this implies that, at the mean, a one percentage point increase (from 24.8% to 25.8%) in the share of census-tract residents from discriminated-against groups is associated, ceteris paribus, with a $3.80 reduction in rents between 2006 and 2016.

5.5. For the other variables, *p_eth* (African, Caribbean, Middle Eastern) has a small and statistically insignificant effect on rent change over time and *p_afr* (African immigrants) also shows a small and statistically insignificant effect on rent change.

5.6. These results demonstrate that there is a negative relationship between race, place of origin, and ethnicity of residents in the six largest CMAs in Canada, including Ottawa and the real estate values in that area.

5.6.1. The presence and concentration of residents of African, Caribbean, and/or Middle-Eastern origin and/or descent is associated with a particularly sharp decline in housing value growth.

5.6.2. This suggests that these specific racial and ethnic groups are subject to especially strong racialized devaluation in the housing market, and this devaluation cannot be explained by income, housing characteristics, or location.

6. RESULTS ANALYSIS

6.1. Race, place of origin, and ethnicity of residents in an area affect the area's appeal for development to real estate developers in Canada.

6.1.1. The patterns observed in the analysis point to market mechanisms that create financial incentives for developers to target racialized neighbourhoods for redevelopment and demographic change. We describe this mechanism using two interrelated concepts:

- *Race discount*: The cost-savings from acquiring devalued properties in neighbourhoods with higher shares of racialized and ethnic residents relative to comparable white areas with all the same other characteristics

- *Race bonus:* The increase in property value that developers can extract by facilitating a demographic transition, generally through the displacement of racialized communities and the influx of white residents. This profit does not come from improving the physical condition of the housing stock, but rather from reshaping the racial makeup of the neighbourhood.

- This mechanism can be summarized as: *Profit = (Post-Displacement Property Value + Race bonus) - (Purchase Price - Race discount)*

- This mechanism shows how the racial composition of a neighbourhood can incentivize developer investment.

6.2. Real estate developers in Canada have a business incentive to attempt to alter the demographic make-up of their properties.

6.2.1. A rational real estate developer would seek to maximize the property values of their holdings in order to maximize the total value of their real estate portfolio (Fields, 2017).

6.2.2. There is a significant and growing body of literature which demonstrates that neighbourhood racial composition is a strong determinant of property values (Howell & Korver-Glenn, 2020). When an area is occupied by a visible proportion of racialized people, the area itself is viewed as racialized and subsequently devalued in the eyes of investors (Bauder, 2002; Pulido, 2016).

6.2.3. Real estate developers exploit the presence of racialized populations to acquire new assets and benefit from the depressed land values, only to later displace racialized residents as part of profit-maximizing redevelopment schemes (Rolnik 2013). These cycles of devaluation and revaluation are not race-neutral. They rely on the spatial concentration of racialized tenants and operate through the assumption that removing them will raise property values (Pulido, 2016).

6.2.4. Displacement in order to pursue profit-maximization is not a simple byproduct of market forces, but an intentional act. The racial and ethnic identity of the residents is what makes an area suitable for this type of redevelopment (Roy, 2017).

6.3. The conclusions drawn in the answers above apply to and can explain Hazelview's acquisition and development of Herongate.

6.3.1. ln Canada, August (2020) shows that firms like Timbercreek/Hazelview have actively pursued racialized enclaves as "underperforming" assets. In Parkdale and Weston, for example, financialized landlords targeted immigrant-majority buildings with long-term racialized tenants and low rents, carrying out capital upgrades in a manner that displaced incumbent tenants.

6.3.2. Our results show that Hazelview can increase the value of their asset in Herongate by effecting a demographic transition through displacement of racialized and ethnic minority tenants and attracting white tenants.

6.3.3. Increasing asset value with little to no capital resource investment is listed as a priority in Timbercreek's own literature.

6.3.4. Ultimately, Hazelview can pursue profit-maximization in Herongate by exploiting the *race discount* and *race bonus* by inducing tenant turnover, for example through mass evictions.

6.4. The demographics in the Herongate neighbourhood are consistent with the demographic profiles that real estate developers seek out, as described in the academic literature cited, to implement racialized real estate development.

6.4.1. The evictions occurred in 2018, so comparing demographics in the Herongate neighbourhood (census tract 5050007.02) between 2006-2016, allows us to analyze how the neighbourhood had been evolving during the time when Timbercreek would have considered evicting its tenants.

6.4.2. The share of census-tract residents who identify as Indigenous, Black, Arab, Latin, Filipino, South Asian, or West Asian increased by 6.9% from 57.6% in 2006 to 64.5% in 2016—a much larger increase than the 5.5% change Ottawa-wide in the same time period.

6.4.3. The share of census-tract residents who identify as one of three ethnicities relevant to the Herongate case (Caribbean, African, Middle Eastern) increased by 29.5% from 25.6% in 2006 to 55.2% in 2016—also a much larger increase than the 7.9% change Ottawa-wide in the same time period.

6.4.4. The share of census-tract residents who immigrated from Africa increased by 3.1% from 11.6% in 2006 to 14.7% in 2016—also a much larger increase than the 1.1% change Ottawa-wide in the same time period.

6.4.5. During the same time period, both owner-occupied dwelling values and rents increased by less than the Ottawa-wide average: in the former case by 6.9% compared to 49.2% Ottawa-wide, and in the latter case by 23.5% compared to 27.1% Ottawa-wide.

6.5. Real estate developers are not passive market actors, but active agents in reshaping neighbourhoods through racialized strategies of value extraction (Roy, 2017).

6.5.1. Real estate developers dismantle racialized communities whose presence impedes their profit-seeking goals. To reconstitute an area's demographic and economic profile, the developer must transform the area by displacing incumbent residents, often through evictions.

7. CONCLUSIONS

7.1. The answers above allow us to draw the following conclusions in response to the referral questions.

7.2. In general, what is the relationship, if any, between the race, place of origin, skin colour, and/or ethnicity of residents in a given neighbourhood in Canada and real estate values and rents in that area?

7.2.1. Neighbourhoods with higher concentrations of specific racialized and ethnic residents experience lower growth in property values, even after accounting for income, housing type, and location.

7.2.2. We estimate that a one percentage point increase in the share of residents who identified as Indigenous, Black, Arab, Latin, Filipino, South Asian, or West Asian) is associated, ceteris paribus, with a $5,150 decrease in owner-occupied dwelling values between 2006 and 2016.

7.3. How does the presence and concentration of people of African, Caribbean, and/or Middle-Eastern origin and/or descent in an area affect real estate values and rents in that area?

7.3.1. The presence and concentration of people of African, Caribbean, and Middle Eastern origin is associated with significantly reduced property value growth.

7.3.2. We estimate that a one percentage point increase in the share of residents who identified as African, Caribbean, or Middle Eastern is associated, ceteris paribus, with a $13,640 decrease in owner-occupied dwelling values between 2006 and 2016.

7.3.3. We estimate that a one percentage point increase in the share of residents who are immigrants from Africa is associated, ceteris paribus, with a $144,630 decrease in owner-occupied dwelling values between 2006 and 2016.

7.4. How does the race, place of origin, skin colour, and/or ethnicity of residents in an area affect its appeal for development to real estate developers in Canada? Please explain.

7.4.1. Developers are incentivized to target racialized areas due to depressed land values, with profits tied to demographic turnover rather than physical investment.

7.5. In light of the answers to the questions above, to what extent, if at all, do real estate developers in Canada have a business incentive to attempt to alter the demographic make-up of their properties? If such an incentive exists, please explain how it operates.

7.5.1. Developers have a clear business incentive to alter the demographic composition of their properties. This incentive operates through a racialized market logic in which neighbourhoods with higher shares of racialized tenants are devalued, allowing developers to acquire the property at a *race discount*. By displacing these residents and attracting white populations, developers can realize substantial gains in property value, not from physical improvements but from demographic transformation (*race bonus*).

7.6. To what extent, if at all, do the answers to the questions above apply to or explain Hazelview's acquisition and development of Herongate?

7.6.1. The presence of racialized tenants both demonstrates that a potential buyer could profit from the race discount, and that by specifically targeting them for eviction can ultimately benefit from the race bonus as well.

7.6.2. Hazelview exemplifies the dynamics outlined above. Herongate is a racialized community devalued by the market for displacement-driven profit through demographic change.

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