



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

Legislative Costing Note

Announcement date: 2020-04-16 (Canada's COVID-19 Economic Response Plan)
Publication date: 2020-05-27
Short title: Canada Emergency Commercial Rent Assistance
Description: Introducing rent assistance for small businesses.

The rent assistance will be provided through forgivable loans to property owners leasing property to eligible small businesses. In order to qualify for a forgivable loan in relation to the rent paid by an eligible small business, the property owners must have signed an agreement to lower the rent of a tenant small business by at least 75% and to not evict the tenant in April, May, or June of 2020. The loan will be forgiven if rents are in fact lowered by at least 75%.

Eligible small businesses are those who:

1. pay no more than \$50,000 in monthly gross rent per location;
2. generate no more than \$20 million in annual gross revenues, calculated on a consolidated basis; and
3. have temporarily ceased operations (i.e. generating no revenues) or have experienced at least a 70% decline compared to pre-COVID-19 revenues.

The loans will cover 50% of the gross rent owed by impacted small business tenants during the 3-month period of April, May and June 2020. Loans and loan forgiveness will be available retroactively, provided an application is made by 31 August 2020. Most provinces bear 25% of the cost of the program, up to a cap based on 25% of the initially estimated cost of the program; however, the cost of the program will not be shared in the territories or PEI.

Data sources:

<u>Variable</u>	<u>Source</u>
Expenditures on the rental of non-residential real estate by industry	Statistics Canada, Table 36-10-0478-01 Supply and use tables, detail level (2016)
Trends in non-residential real estate revenues	Statistics Canada, Table 21-10-0221-01 Real estate rental and leasing and property management, summary statistics (2018)
Rental expenditures and rental of non-residential real-estate expenditures, split by whether those expenditures exceed the gross rent threshold	Statistics Canada, Custom tabulation based on 2017 corporate tax filings.

Estimation and projection method:

A review of NAICS 4-digit industry group classifications was carried out with reference to the direct and indirect impacts of public health measures imposed in response to COVID-19. Industries with likely 70% decreases in revenue were flagged. Non-residential rent expenditures among industry groups with qualifying revenue declines were totaled by NAICS 3-digit subsector.

Qualifying corporations were identified in corporate tax filings by flagging corporations with less than \$50,000 in monthly rents per location and total revenues of less than \$20 million. The share of rental expenditures occurring among qualifying corporations was estimated based on corporate tax filings for each subsector. For the purpose of this calculation, monthly rents were approximated based on 1) rental operating expenditures on non-residential real estate as reported in corporate tax filings and 2) total rental operating expenditures apportioned in proportion to rental operating expenditures in the supply and use table. The average of the results from these two methods was ultimately used. The share of corporate non-residential rental expenditures occurring among qualifying corporations was discounted based on the share of non-residential rental expenditures attributable to corporations. All non-residential rental expenditures by unincorporated businesses were assumed to be expenditures by qualifying businesses.

To estimate annual rental expenses of eligible small businesses, the shares of expenditures occurring among qualifying businesses were applied to the subsector total non-residential rent expenditures among industry groups with qualifying revenue declines.

The annual expenditures were inflated from 2016 to 2020 based on revenue trends among non-residential lessors of real estate and converted to quarterly expenditures.

The rents expected to be subsidized through forgiven loans were derived from eligible rents by assuming 80% uptake. Forgivable loans were calculated as 50% of subsidized rents. The cost of loan forgiveness is expected to be equal to the value of loans provided because the conditions for loan forgiveness are essentially the same as the conditions to receive the loan. The federal share of the cost of loan forgiveness was calculated as 75% of the total cost of loan forgiveness.

Aggregate Results:

PBO estimates net federal cost of this measure to be \$520 million in 2020-21.

The time horizon for this costing is aligned to PBO's current Economic and Fiscal Scenario.

Source of Uncertainty:

Due to the lack of a clear historical or international precedent for this program, the assumptions made regarding industry eligibility and uptake by landlords rely heavily on judgement. Uncertainty also arises from the selection of data sources regarding expenditures on the rental of non-residential real estate, as expenditures reported in the supply and use tables differ significantly from other sources referenced. It was assumed that all lessors of non-residential real estate would have declared rental income on their personal or corporate tax returns in the prior year

and that corporate income tax implications would not be realized until after 2020-21. Analysis is ongoing to address non-response bias in T2 expenditure reporting and to apply the full methodology for incorporated businesses to expenditure reporting by unincorporated businesses. This estimate will be revised, if necessary, once this ongoing analysis is completed.

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Cost of proposed measure

\$ millions	2019-2020	2020-2021
Cost	-	520

Notes:

Estimates are presented on an accruals basis as would appear in the budget and public accounts.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

"-" = PBO does not expect a financial cost