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

# Legislative Costing Note

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| Announcement date: | 2020-04-16 (Canada's COVID-19 Economic Response Plan) |
| Publication date: | 2020-09-29 |
| Short title: | Canada Emergency Commercial Rent Assistance – As extended to September 2020 |
| 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 during the period of reduced rents. The loan will be forgiven if rents are in fact lowered by at least 75%. The loans cover 50% of the gross rent owed by impacted small business tenants during the 3-month period of April, May and June 2020, prior to any rent reductions.

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 over the period.

Forgivable loans are extendable to include July, August and/or September rent where landlords choose to grant rent relief for July, August and/or September to eligible tenants based on their revenue declines in April to June. Loans and loan forgiveness will be available retroactively. 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 Prince Edward Island.

Data sources:

| Variable | Source |
|---|---|
| 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 | Statistics Canada, Custom tabulation based on 2017 corporate tax filings. |

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| real-estate expenditures, split by whether those expenditures exceed the gross rent threshold | |
| GDP projections by industry | PBO Economic Model (as of June 2020) |
| GDP by industry | Statistics Canada, Table: 36-10-0434-01 Gross domestic product (GDP) at basic prices, by industry, monthly (up to June 2020) |
| Retail revenues by industry | Statistics Canada, Table: 20-10-0008-01 Retail trade sales by province and territory (up to June 2020) |
| Wholesale revenues by industry | Statistics Canada, Table: 20-10-0074-01 Wholesale trade (up to June 2020) |
| Manufacturing revenues by industry | Statistics Canada, Table: 16-10-0047-01 Manufacturers' sales, inventories, orders and inventory to sales ratios, by industry (up to June 2020) |
| Air Transport revenues | Statistics Canada, Table: 23-10-0079-01 Operating and financial statistics for major Canadian airlines, monthly (up to June 2020) |
| Revenue loss by number of employees | Statistics Canada, Table 33-10-0253-01 Business revenue from April 2020 compared with April 2019, by business characteristics |
| Historical revenues and analyst nowcasted revenues for a large sample of publicly traded firms | Capital IQ, custom query (extracted August 2020). |
| Value of loans issued, weekly | Canada Mortgage and Housing Corporation, IR0480 Measures taken in response to COVID-19 |

Estimation and projection method:

For retail, wholesale, manufacturing and air transport industries, the actual revenue data for April, May and June revenue shocks was available. Using the revenue and GDP data for these industries, a simple model was built of the relation between revenue and GDP shocks arising from COVID-19 by industry. This model was applied to the GDP shocks for all other industries to estimate revenue impacts over the projection period.

Using median analyst Q2 revenue projections from Capital IQ a model was built of the share of businesses experiencing a 70% revenue decline due to COVID-19 as a function of industry-wide revenue declines. This model was applied to the estimated April-June revenue shocks for industries with and without published revenue data to estimate the share of business with qualifying revenue declines by industry.

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 total rental operating expenditures apportioned in proportion to rental operating expenditures in the supply and use table. The same process was then applied for partnerships and sole proprietorships to calculate the share of expenditures at all businesses in each industry group.

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 discounted by the share of businesses in each industry group expected to have qualifying revenue declines. The Canadian Survey on Business Conditions was used to create a co-occurrence factor accounting for the higher probability of qualifying businesses having qualifying revenue losses.

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 total value of loans expected to be issued was projected based on the number and value of loans issued to date, the number of outstanding claims, and the number of new claims being submitted each week. An adjustment factor was set to produce the projected value of loans based on the operational data. It was assumed that all tenants granted rent relief for April to June would also be granted rent relief for July, August and September.

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 federal cost of this measure to be $1,516 million in 2020-21.

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

Source of Uncertainty: The estimate is grounded in empirical data regarding actual loans issued under this program assuming that those loans will be eligible for forgiveness. There is a risk that some applicants may have applied for tenants that are not small businesses with qualifying revenue declines. This would result in loans not being forgiven, thereby lowering the cost of the program.

Due to a lack of real-time revenue microdata for businesses, there remains uncertainty surrounding the projected GDP changes by industry, the aggregate revenue changes these GDP changes will entail, and how aggregate revenue changes will translate into firms with 70% revenue losses.

In addition, 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.

Prepared by: Ben Segel-Brown

## Cost of proposed measure

| $ millions | 2019-2020 | 2020-2021 |
|---|---|---|
| Cost | - | 1,516 |

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