RECOMMENDATION 3

DIRECT INVESTMENT IN AFFORDABLE HOUSING PROGRAMS

Summary:

620,000 units of social housing (including co-ops) were built in the 1970s and 1980s across Canada. The 25-40 year mortgages attached to these capital costs have been expiring and the savings realized by mortgage expiration has not been reinvested in housing. Ongoing support is needed to address maintenance and repair costs, rising utility costs and to support subsidies of rent for low-income tenants. In 2014 this line item cost the federal government $1.6 billion. That drops to $1.2 billion in 2020, $604 million in 2025 and $35 million in 2035.

By reinvesting this money in housing the government can rebuild and repair housing stock – Toronto alone has a $2.6 billion dollar estimate for repairs over the next ten years. Funds can also be devoted to subsidies targeting specific low-income tenants, and to support services.

RECOMMENDATION COST: $13.84 billion over ten years.

We also suggest renewing funding for the Investment in Affordable Housing Initiative (IAH). It is obvious that the private sector is not building sufficient affordable housing to meet demand. The IAH is a cost/shared funding program for affordable housing between the federal and provincial/territorial governments that has led to a the creation of tens of thousands of new affordable rental units across Canada. We recommend extending this program for ten years, to create 4,000 new affordable housing units annually, with a priority on housing chronic and episodically homeless people.

COST: $6.569 billion over ten years.

Recommendation Details:

PROPOSAL 3.1

REINVESTMENT IN FEDERAL FUNDING FOR SOCIAL HOUSING, CO-OPS AND NON-PROFITS, AS OPERATING AGREEMENTS WIND DOWN.

Many low-income Canadians live in public housing and/or co-ops and get by because they are paying rent-geared-to-income (RGI). The 620,000 units of social housing, including co-op housing, built across Canada in the 1970s and 1980s were made possible through an ongoing investment by the federal government and were covered by 25-40 year operating agreements to support capital costs and operating expenses. When administrative responsibility was devolved to the provinces and territories in 1993, the Government of Canada agreed to continue their share of funding only at 1994-95 levels and only until those agreements expired.

According to the Canadian Housing and Renewal Association (CHRA, 2014), an assumption behind the agreements was that federal funding could eventually end once mortgages on properties were paid off, with RGI rents covering the operating costs for these complexes. However, the reality is that rising utility costs combined with the increased costs that go with maintaining an aging housing stock mean that those rents no longer cover expenses and that providers would have to either raise rents substantially or otherwise come up with new funding. Because funding was not indexed to inflation and because of funding pressures experienced at other levels of government, in many communities there is a backlog of maintenance expenses. For instance, Toronto Community Housing, with over 58,000 units, projects delayed maintenance and repair costs will amount to $2.6 billion over the next ten years.

Unfortunately, for communities across Canada, the 25-40 year operating agreements are all coming to an end; by 2020 the majority will have expired. Moreover, there has been no indication to date by Canada Mortgage and Housing Corporation (CMHC) that these agreements will be renewed; in fact, CMHC budget projections show their funding commitments ending over time:

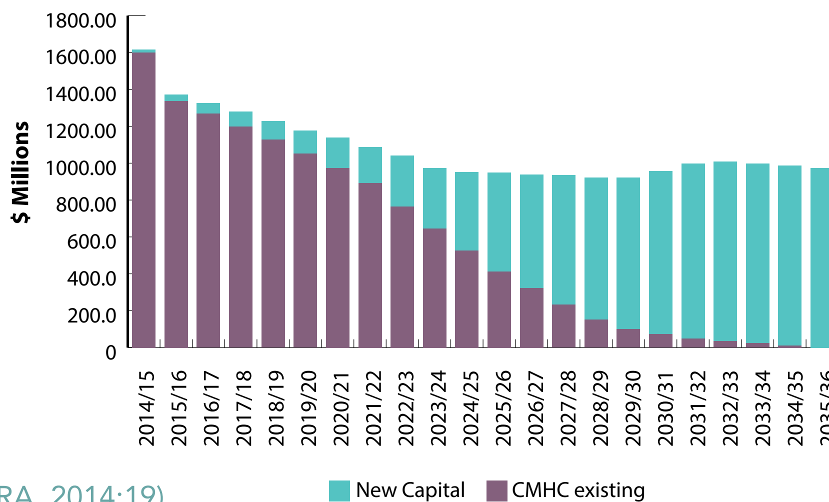
> **"When all new funding except for on-reserve social housing stopped in 1993 and existing agreements started to expire, total federal funding began its annual decline: to $1.6 billion this year, $1.2 billion in 2020, $604 million in 2025 and $35 million in 2035. By 2040, the federal investment in social housing will be zero"**
> (CHRA, 2014:6).

Without this funding, provinces/territories and municipalities will either have to compromise the principle of rent-geared-to-income housing by raising rents, or divert more government spending to cover the shortfall.

Our recommendation is that the operating agreements be renewed to cover shortfalls in ongoing operating and maintenance expenses and that these be indexed to inflation. Here, we are in support of the CHRA proposal for new agreements and reinvestment as outlined in their recent report: Housing For All: Sustaining and Renewing Social Housing for Low-Income Households. In that report they propose a "Housing For All Plan" that will be phased in to replace the existing operating agreements. The proposal includes three recommendations:

RECOMMENDATION: Maintaining Safe, Quality Social Housing Assets: "The 3R Capital Renewal Fund". This recommendation transfers monies currently used to pay mortgage costs or meet operating agreements into a new program to fund repairs and capital expenditures. As existing agreements wind down, this phased-in investment would increase annually over the ensuing years. They suggest a cost of $3,000 per unit for 320,000 total units, in order to maintain the safety and security of their occupants. They argue for a phased in approach so that as existing agreements wind down, new federal dollars would increase annually over the ensuing years, for an average annual capital expenditure of $969 million (see Figure 1).

FIGURE 1 Projected Spending with the new 3R Capital Renewal



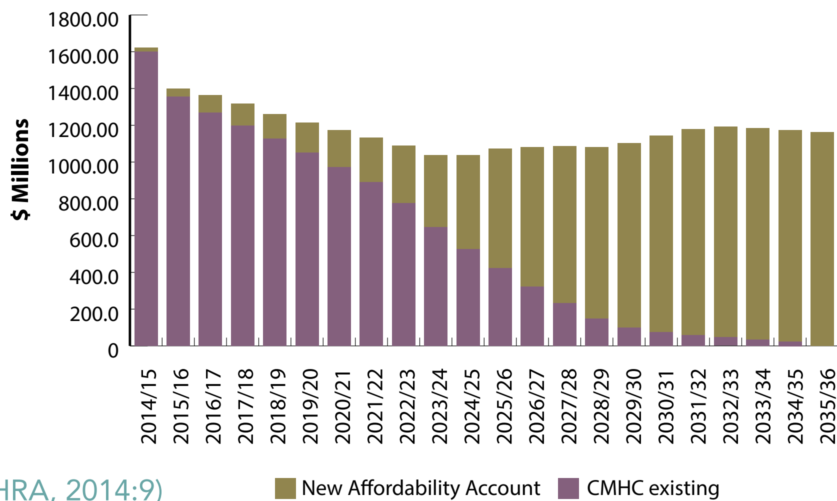
(Source: CHRA, 2014:19)

Their second recommendation is for the development of an "Affordability Account" for low-income households with special provisions for:

- Off-reserve Aboriginal households,
- Households in the Northern Territories, and
- Households in need of supportive housing.

This proposal is designed to ensure jurisdictions are able to continue to pursue their mission of providing rent-geared-to-income housing for low-income residents. The proposal outlines a flexible strategy whereby different jurisdictions can take into consideration current market rents, the configuration of units and the needs of different families. As with the previous proposal, funding will be phased in in greater amounts as current operating agreements expire, with spending at approximately $1.15B by 2040 (see Figure 2).

FIGURE 2 CMHC Projected Spending and new Affordability Account



(Source: CHRA, 2014:9)

The third recommendation is for a Sector Transformation Initiative. Budgeted at only $1.25 million annually over ten years, the initiative is designed to support providers, particularly smaller ones, as they make the transition to the post-operating agreements world.

The combined cost of the 3R Capital Renewal Fund would be $13.5 million in the first year, in addition to the existing CMHC commitment, making a total investment of $1.397 billion in 2015/16, and accumulating to $2.1 billion annually by 2044, an amount "considerably less than the $3.1 billion apportioned from today's federal-provincial-territorial budgets" (CHRA, 2014:21).

While we support this proposal, we would add the proviso that the renewed agreement requires that provinces/territories prioritize chronically and episodically homeless people for access to social housing.

RECOMMENDATION: $1.397 Billion (2015/16); $13.84 Billion over ten years.

PROPOSAL 3.2
RENEW FUNDING FOR THE INVESTMENT IN AFFORDABLE HOUSING INITIATIVE (IAH)

The Affordable Housing Initiative (AHI) was launched in 2001 as a cost/shared (50/50) funding program for affordable housing, involving the federal government and the provinces/territories. For the first eight years, the total investment was $125 million per year ($1 billion, total), to be shared amongst provinces and territories on a per capita basis. These funds were made available to both private sector and non-profit developers to build affordable housing, amongst other uses. Capital funds were provided for 'new builds', but not for ongoing operating expenses. To preserve affordability of these units (rent-geared-to-income, for instance) funds had to be provided by lower levels of government or other partners. Each province and territory developed its own implementation plan for the AHI.

During a period where there was a dearth of new privately built affordable rental housing, the AHI led to the development of 27,000 new units across Canada since 2001 (CHRA, 2014). This is arguably a small amount given the heyday of 20,000+ units annually in the 1980s, but as Londerville and Steele

point out, this was "better than no new units" (2014:39). Since that time, new AHI investments have included $418 million in 2012 and $298 million in 2013 (CMHC, 2013).

The Residential Rehabilitation Assistance Program (RRAP) is another federal government program designed to provide financial assistance to qualifying low-income homeowners, as well as owners of rental properties for renovations or repairs designed to bring housing up to basic health and safety standards and to convert non-residential properties into affordable housing. This is also a particularly important program given the state of disrepair of many private homes and rental units, which contributes to housing precarity across the country.

The Economic Action Plan 2013 announced the renewal of both plans under a re-titled and combined "Investment in Affordable Housing" (IAH) program, with a commitment of more than $1.25 billion over five years, beginning in April 2014, to extend the Investment in Affordable Housing to March 31, 2019. Agreements for this program are being negotiated with each province/territory to set goals, program criteria and funding commitments. As per the previous agreements, the provinces and territories design and implement these programs. However, as CHRA has pointed out: "While an important source of federal funding, the IAH is limited at $253 million annually – an amount unchanged since 2007 – compared to the much greater, but declining, $1.6 billion currently spent annually for social housing" (CHRA, 2014:5).

Much of the money in this program has been used for repairs and has not resulted in the building of new housing. Londerville and Steele recommend renewing and extending this agreement over ten years (an additional five years), at $253 million annually, adjusted for inflation. We recommend a ten-year renewal at $600 million annually, adjusted for inflation, recognizing that the current level of federal/provincial/territorial expenditures has not had any impact in reducing the percentage of the population of people living in core housing need.

This investment would produce 4,000 new units of housing annually, based on a cost estimate of $150,000 per unit.[1]

Funding should be prioritized so that chronic and episodically homelessness people have access to this housing. For deep subsidy and permanent supportive rental housing, the federal investment could be used for up to 75% of capital cost. The provinces/territories would be expected to contribute the remaining 25% so that 100% of capital cost is covered by public investment. Funding could also be used for the conversion of facilities like transitional housing and emergency shelters into permanent supportive housing. We also recommend that this funding be available to non-profit providers and municipal governments, as we are also proposing new incentives for the building of private rental housing later in the report.

RECOMMENDATION: $600 Million (2015/16); $6.569 Billion over ten years.

1. We recognize that it is difficult to calculate building costs as they vary depending upon dwelling type, size of individual unit, cost of land, municipal/provincial/territorial tax benefits and incentives, size of building (single home, multi-unit etc.), for-profit/non-profit developer, municipal fees and levies etc. Additionally, construction type is also an important factor – some builders, especially in BC and Ontario, are using wood frame construction which is 10-15% cheaper than traditional builds. Other communities, especially rural and remote locations, are using pre-fabricated and modular homes, which may also have cheaper construction costs. One hundred and fifty thousand dollars per unit is an average cost and may vary depending upon municipality.