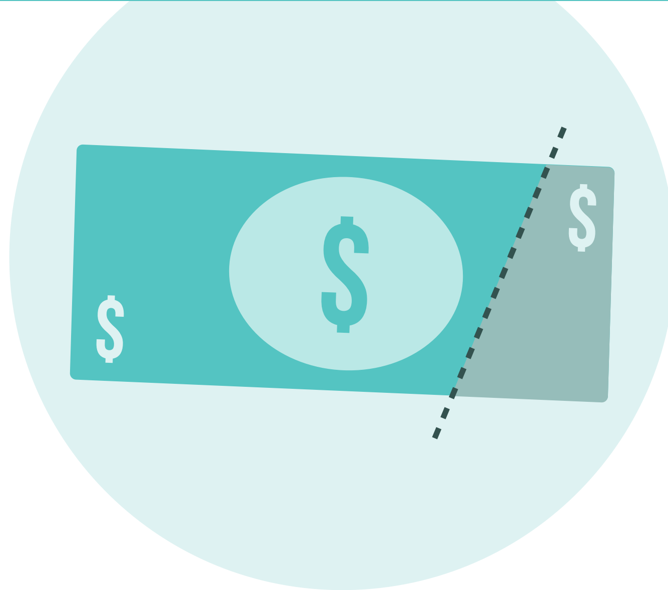
RECOMMENDATION 5



CREATE AN AFFORDABLE HOUSING TAX CREDIT

Summary:

There is a lack of housing stock development being undertaken by the private sector. We call for a housing tax credit that is paid to developers (both market and non-profit) who build mixed-income affordable housing. Affordable housing would be offered at less than 80% of market rent and occupied by tenants whose move-in income is less than 125% of CMHC's Household Income Limit. This recommendation is based on the Low Income Housing Tax Credit (LIHTC) in the U.S., which has successfully funded supportive housing and thousands of units of affordable for-profit housing in the past 30 years. We estimate that our proposal could generate 4,800 new housing units annually and 48,000 over ten years.

RECOMMENDATION COST: $6 billion over ten years.

Recommendation Details:

In order to encourage the creation of affordable housing by private and non-profit developers, we are proposing the creation of an affordable housing tax credit, modelled in major respects on the Low Income Housing Tax Credit (LIHTC) in the US (Steele & des Rosiers, 2009).

According to Steele and Londerville:

> **"The US credit has provided housing for a wide range of clients and tenants over nearly three decades, surviving different Administrations of both US political parties – proving to be remarkably robust. Among the developments it has helped fund is Anishinabe Wakiagun, a non-profit building providing supportive housing in Minneapolis for 45 chronically homeless alcoholic men.[1] The housing credit has also funded thousands of units of for-profit housing, often targeted at moderate-income families."**

Essentially, an affordable housing tax credit is designed to give private equity investors reductions in federal income tax for dollars invested in qualifying affordable housing projects. The credits awarded for successful applicant developers would apply only to construction cost; the developer would need to fund land, architect and planners fees and other soft costs separately.

Unlike most other incentives, the government would set a maximum amount of affordable housing tax credits awarded in each year so the government cost is known as soon as the amount is set. The credits would be allocated to provinces and territories based on CMHC's assessment of core housing need and a provincial or territorial body would take applications and award them according to set criteria.

It is likely, as is the case with the LIHTC in the U.S, that syndicators would be required to pool funding from a number of investors to fund individual projects, as few individuals or developers would have enough taxable income to allow them to use all the credits awarded to a project. Highly regarded Canadian firms have experience as syndicators in the US – for example RBC Capital Markets, through its Tax Credit Equity Group.

We recommend that at least half the credits be allocated to non-profit developers,[2] that rents for credit units be capped at no more than 80% of market rent and that occupants of the units, on entry, be required to have an income less than 125% of CMHC's Household Income Limit. All developments, except for those providing permanent housing for the chronically homeless, would be required to keep at least 15% of units in a primarily tax credit development as non-credit units. The motivation for this provision is twofold: to ensure the building has an income mix in its tenants; to provide units for those who initially meet the income requirement but whose income rises while they are sitting tenants so that they no longer qualify. Rising income would then not jeopardize a tenant's security of tenure. We also propose that the manager of a development with credit units, with some exceptions,[3] be required to accept up to 20% of tenants from Housing First programs.

Londerville and Steele estimate that this investment would produce an additional 4,800 new units of housing annually, for a ten-year total of 48,000 units.

RECOMMENDATION: $150 Million (2015/16); $6 Billion over ten years.

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1. Details of the funding are given in http://www.csh.org/wp-content/uploads/2013/11/AI_Anishinabe_F.pdf
2. This is a much higher minimum than for the LIHTC, but the Capital Cost Allowance deduction and other incentives outlined in Londerville and Steele will make it easier for profit-making developers to build without the help of the credit.
3. For example, if a tax credit project is a richly-funded building housing chronic homeless alcoholics, a heavily subsidized rent is already in effect so that it would be absolved from a redundant rent supplement contract.